
THE REAL ECONOMY BULLETIN

TRENDS, DEVELOPMENTS AND DATA

FIRST QUARTER 2018

Briefing Note: Challenges around the GDP data for first quarter 2018

The recent data on the GDP appear to overstate the economic slowdown, as shown among others by a comparison with longer-term trends and employment data. The data show that the economy contracted by just over half a percent (although the release only provides annualised data, showing a 2,2% fall, which is effectively four times the actual decline).

The data apparently overstate the slowdown for three reasons.

- There was an extraordinary and unexplained R10-billion export of crude petroleum in the fourth quarter of 2017. South Africa does not export substantial amounts of petroleum, and instead imports around R5 billion a month. This sale of petroleum in October and November 2017 led to a once-off spike in exports in the fourth quarter of 2017, followed necessarily by a decline when exports normalised in the first quarter of 2018.
- It appears that the seasonally adjusted figures for agricultural output did not adequately take into account the effects of the drought in the Western Cape. The result was a large correction in the first quarter of 2018, as the harvest data came in for the affected region.
- Generally, the seasonal adjustment of the GDP data has apparently become less consistent since 2014. As a result, the first quarter has become much more likely to show a growth slowdown than the other quarters – precisely the effect that seasonal adjustment should avoid.

These findings do not mean that the economy did not slow down in the first quarter, but rather that the data overstate the slowdown. The real concerns arising from the GDP data are:

- The long-term slowdown in the GDP since the end of the commodity boom in 2011, with South Africa falling substantially behind peer economies for the first time since 1994;
- The decline in investment across the private and public sectors; and
- Continued volatility in the mining value chain, with a crisis affecting the steel industry and a decline in platinum.

The TIPS Policy Brief *Challenges around the GDP data for first quarter 2018* assesses the GDP trends and why the latest quarter appears out of step; then reviews the factors that might lead to an overstatement of the slowdown; and finally outlines the areas of concern.