The good news ... and the bad news

By Maarten Ackerman

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South Africa's GDP numbers are much better than expected. In fact, the 66% quarter-on-quarter, seasonally adjusted, annualised figure is better than even the best industry expectation. It has definitely been a positive surprise which has been well received by the market as we can see from the positive movements in the rand exchange rates as well as the bond market.

Maarten Ackerman, chief economist and advisory partner, Citadel

However, it is important to understand that this number is the result of a very specific cocktail. Unpacking this, the first ingredient is obviously the fact that we are measuring the growth off a very, very low base because GDP more than halved in the previous quarter (quarter-on-quarter, seasonally adjusted, annualised). We are now measuring from that lockdown pullback and comparing it to the economy opening up. As a result, we see an extremely strong rebound number.

As an example, looking at restaurants over the period, the sector is up 7,000%, which clearly demonstrates the importance of putting the growth into perspective. Going from being closed and at rock-bottom, to suddenly reopening for business has resulted in a massive base effect, which is visible in these numbers.

The second ingredient in the cocktail lies the fact that not only has South Africa opened up but our trading partners and the rest of the world have too – a welcome tail wind for the SA economy to be sure. We can then drop into the cocktail the fact that we have been blessed with fewer load shedding days, which means no further hampering of the economy.

Each of these factors has played a role in contributing to the better-than-expected growth that we see today. We need to note, though, that 66% quarter-on-quarter annualised means that if we had four straight quarters like this, the GDP for the year would grow by 66%. This is, of course, unlikely so we should focus on each of the four quarters and the impact they will have on the growth for 2020 as a whole, which is much more important.

Currently, the year-on-year growth number is -6%, which still indicates the severity of Covid-19 and the impact of the lockdown. We can safely assume further positive growth – upper single digit is most likely – for Q4 2020, but with a far weaker base effect. This would result in a total number for 2020 of closer to -7.5% as a result of the earlier negative growth followed by the lockdown.

Every sector grew… Some more than others

All three super-sectors saw growth with the primary and secondary sectors, which were more constrained by the lockdown, seeing massive contributions to the growth of the economy (up 172.9% and 155.6% respectively). There was also a significant contribution by the tertiary sector (up 37.6%) although to a lesser extent, likely because this includes many of the essential services which were open during lockdown.

The best contributors were mining, manufacturing and trade, which is clearly a reflection of those industries getting back to business after the lockdown and the opening of the global economy. It is worth noting that there was a positive double-digit contribution from each and every industry. Only general government services posted a very modest growth rate, just shy of 1%.

Even agriculture which, as an essential service, had been the only sector to grow during the first two months of lockdown, posted a very creditable 18.5%. Coming off an already high base and with good crops being reported, it is comforting to see that agriculture can show such strong positive growth. An added bonus lies in its job creation ability.

Expenditure on GDP topping two-thirds growth

The consumption side of the economy was up almost 68% quarter-on-quarter, seasonally adjusted, annualised. Looking deeper, the biggest contributor was the export sector which is a reflection of the economy opening up, ports opening up and the rest of the world getting back to business. We expect that number will carry over into Q4, again given the massive base effect, but we need to bear in mind that in Q4 we have seen a second wave in many parts of the world with partial lockdowns having been implemented again, so some caution is advised.

It was encouraging to see household expenditure up almost 70%. Given the many job losses that the economy has suffered, it is comforting to see that consumers are also rebounding. Restaurants and hotels have performed particularly well as the economy has opened up. Alcohol and tobacco have also done extremely well as the ban on those products has been lifted. Most other consumer goods have generated solid numbers.

Those industries which were already positive in the second quarter have seen smaller increases in the third quarter – such as utilities, communication and education – but they remain in positive territory.

A very small contribution from government expenditure which will help address the fiscal situation is also pleasing in this environment.

Imports slipped by 1.6%, reflecting lower imports of textiles, chemical products, prepared food stuffs, beverages and tobacco products. To unpack that a little bit further, it’s not just a reflection of a weak consumer. Lower textile imports is a result of the push to bring textile manufacturing back home to South Africa. Many of the clothing retailers are pivoting towards locally produced clothes again, to diversify the supply chain and opting not to rely totally on Asia. This is therefore a positive, and more permanent, decline observed in that sector. The decline in imported tobacco products might be a consequence of excess inventory that resulted from the lockdown ban on the sale of tobacco products.

Gross fixed capital formation is up 26%, again coming off of a very low base of -59.8% in Q2. It is always encouraging to see a good number on this front because that is the first step that the economy needs to take to generate productive capacity which will pave the road for better growth in future.

This number has historically been more negative than positive, which is a reflection of the structural issues and policy uncertainty facing the country. One can only hope that by addressing corruption, paired with some policy reforms, this number will not be just a reflection of the base but rather that we are going to see more positive growth in quarters to follow.

It might look rosy, but don't be fooled

In summary, the print is positive and might help to generate a better growth rate for the whole year but, at -7.5%, we are still expecting a relatively high negative number for 2020 overall. What this does do is pave the way for rebuilding the economy, however we must not lose sight of the fact that we still need to see the structural issues being addressed. From the fiscal cliff that we are facing to the government wage negotiations, things continue to look bleak and policy reform remains as urgent as ever.

If we can address the structural issues, turn Eskom around and continue along this path, then 2021 can be a year when we produce at closer to potential capacity – maybe even above capacity – growth but it is all about the sustainability of that growth. We need to reach a point of positive, sustainable growth going into 2022, before we will be able to gather momentum to support and address issues such as the deficit and unemployment.

We are facing a crucial phase of executing reforms.

The good news is that the economy is doing better than we had hoped for. The bad news is that we still have an enormous way to go and a massive amount of work to do to get there. We cannot give up on addressing our structural issues, implementing policy reforms and rooting out corruption.

ABOUT THE AUTHOR

Maarten Ackerman is the chief economist and advisory partner at Citadel.