

■ BUSINESS

Hope on the horizon after shock GDP slide

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Picture: DAILY DISPATCH

South Africans learnt about the power of annualisation this week when Stats SA reported the latest economic numbers for the coronavirus lockdown quarter.

It was enough of a shocker that the economy contracted by 16.4% in the second quarter, in which SA experienced one of the world's most draconian lockdowns. But the optics weren't helped by SA being one of the few countries where the headline quarterly numbers the statisticians present are, inexplicably, the annualised version.

That amplifies the change from one quarter to the next by assuming the same trend prevails for the year as a whole. It doesn't matter much when the move up or down is small; it matters a great deal when it's as enormous as the lockdown quarter was.

On this annualised basis, SA's economy was contracting at a worse than expected 51% in the second quarter. Whichever number one chooses, we are among the economies worst hit by the economic fallout of the pandemic during the second quarter.

Stanlib economist Kevin Lings has calculated everyone else's second-quarter numbers on an annualised basis (see graphic). SA wasn't the worst, though doing less badly than countries with runaway Covid-19 infection rates such as the UK, India or Spain is hardly a subject for congratulation. We still rank near the bottom of Lings's table.

More frightening, many of the countries ahead and behind us were growing before the crisis. SA went into lockdown with three quarters of recession behind it and

several years of near economic flatlining.

Other economies on Lings's table are already bouncing back, helped in the case of Europe and the US by hefty fiscal and monetary stimulus packages.

The question is how far and how fast SA's economy will bounce back in the second half of this year. That will determine whether the outcome for the full year is better or worse than the 8.7% (non-annualised) contraction recorded for the first half of the year, with the headline numbers themselves affecting confidence and investment and therefore growth prospects in future years.

So far the signs are not bad, even if they're not unambiguously good. July and August indicators show SA's economy is bouncing back towards pre-lockdown levels, but it's not there yet.

BankservAfrica's analysts suggest that far from being a V- or even a U-shaped recovery, it might be a swoosh shape (as in the Nike logo), with the economy still picking up, but at a slower pace, reflected in the Beti economic transaction index gaining less in August than it did in July.

The latest weekly tracker from TIPS (Trade & Industrial Policy Strategies) says that overall, the available indicators suggest that economic activity, which enjoyed a fairly substantial boost with the move to level 2 in mid-August, has levelled out at about 10% below pre-pandemic levels.

The Western Cape continues to lag, likely because of its dependence on tourism. And the recovery has been hit by power cuts.

Interestingly, Google mobility data cited by TIPS shows travel to work in the second half of August remained virtually unchanged at around 75% of the January level, but retail and recreational trips increased.

Manufacturing data this week showed August was better than July but still 9% down on the level at the end of last year.

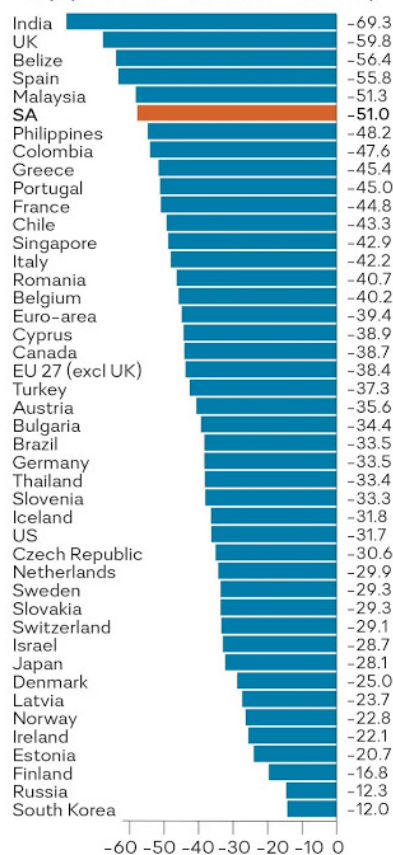
More useful indicators to look at are business and consumer confidence indices, which give a forward-looking sense of how businesses and consumers feel about prospects.

The third-quarter RMB/BER business confidence index, based on a survey conducted from August 12-31, showed business confidence rebounded to 24 from a record low of 5 in the second quarter, but sentiment remained heavily depressed with eight out of 10 business executives unhappy with business conditions.

The BER consumer confidence index improved from -33 to -23 in the third quarter, with consumers in slightly better shape but still unwilling or unable to spend.

GDP performance Q2 2020

% (q/q), annualised, real (local currency)



Graphic: Ruby-Gay Martin Source: Stanlib

Illustration: RUBY-GAY MARTIN

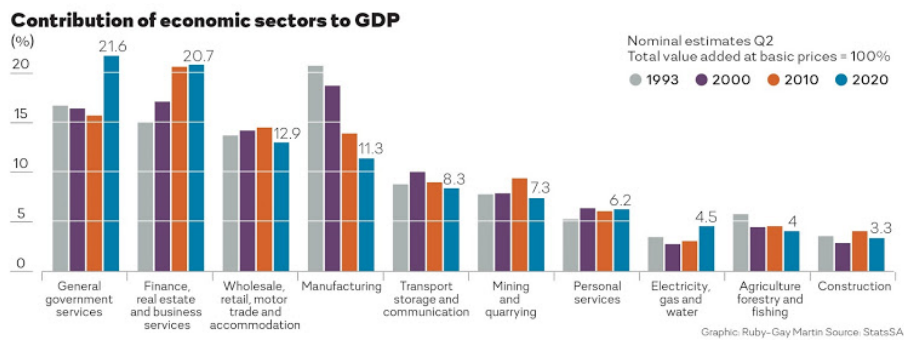


Illustration: RUBY-GAY MARTIN

Following this week's second-quarter gross domestic product numbers, economists will be revising their forecasts for the third and possibly fourth quarters.

We will have to watch out for annualisation again, but this time on the plus side because, even if the economy moves sideways, the third-quarter number could be a big bounce, on what economists call "base effects". Economists see an annualised jump of anything from 20% to over 30%, though this would still leave full-year forecasts deep in minus territory.

The Reserve Bank's growth forecasts will be closely watched when the monetary policy committee meets this week. It had a -7.3% forecast, which it might well revise down.

But one thing to watch is the composition of GDP on the production side. Notable in the latest figures is that for the first time the government has become the largest sector of the economy, with a share of 22% to the financial sector's 21%.

Long-term comparisons compiled for Business Times by Stats SA show how steeply the government has increased its share of the economy over the past decade. That has a lot to do with the fact that public spending, and particularly the public sector payroll, continued to grow in real terms while the rest of the economy was shrinking.

This is not a good sign for productivity or dynamism in the economy.

Nor is the fall in the contribution from sectors such as manufacturing and agriculture. Agriculture was the one and only bright spot in the second quarter, bouncing at 15% as weather and crops improved, but it's sadly too small to make much of a difference.

On the expenditure side of the economy, the really dire news was the 60% contraction in investment spending, deepening a multi-year negative trend that is severely hampering the economy's potential to sustain faster growth rates.

With private and public sector organisations looking to cut costs as they attempt to strengthen their damaged post-lockdown balance sheets, investment spending could continue to be the loser.

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