



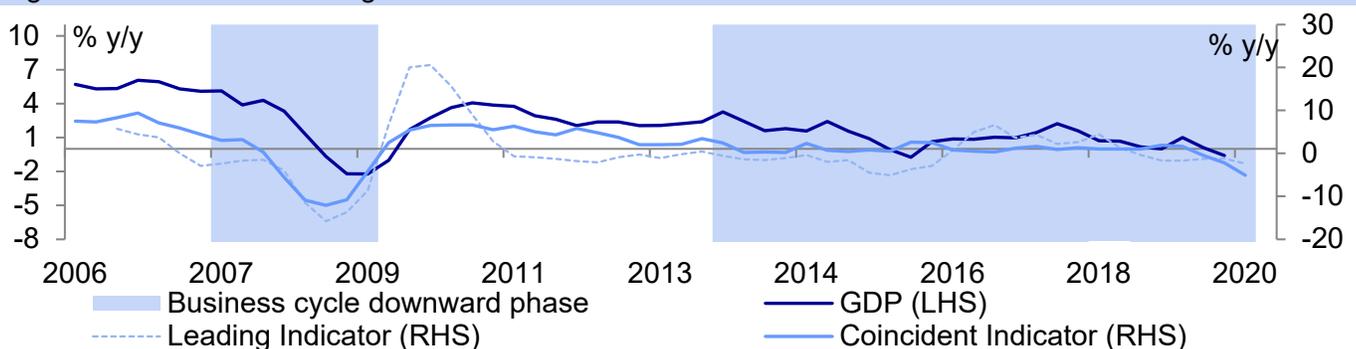
Figure 1: Summary of the composite business cycle indicators*

Indices 2015 = 100	2019					2020			
	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Leading indicator	104.1	103.3	103.9	104.3	103.8	102.9	103.0	102.4	97.2
12-month % ch	-1.0	-1.6	-1.7	-1.0	-0.9	-1.3	-2.9	-3.1	-8.2
Coincident indicator	104.1	104.0	104.1	103.6	102.6	102.8	102.3	99.7	-
12-month % ch	0.0	-0.5	-1.1	-1.9	-2.2	-1.9	-2.1	-5.1	-
Lagging indicator	96.3	95.6	95.5	95.6	95.3	94.6	94.4	93.0	-
12-month % ch	2.2	1.4	2.1	3.2	0.4	0.7	-0.7	-1.3	-

Source: SARB. The historical data is subject to revision

- April 2020's Reserve Bank leading business cycle indicator fell by -5.1% m/m, from 102.4 in March to 97.2 in April, the biggest collapse between months since 1960. The data provides the first month's reading for Q2.20 and captures the sharp fall across a broad-based range of components that were available in the first full month of lockdown.
- Indeed, April's leading indicator will likely fall further on revision when the data for the number of building plans approved is available, with March's leading indicator reading now revised to 102.4 from 104.0 as more data became available. Data collection continues to be affected by the lockdown, while revisions are usual as more data comes through from surveys sent to companies that were slow responders.
- The around six-month lead (between the leading indicator and GDP growth) saw the 2018 leading indicator readings signal much of the slowdown in the economy over 2019 that occurred. The leading indicator also highlights that a noticeable contraction in GDP is likely in Q1.20, given that it fell by -3.4% (annualised) between Q1.19 and Q2.19.
- The likely sharper contraction in Q2.20 GDP, of an expected -48.2% qsqaa due to the severe lockdown restrictions on economic activity over much of the period, would not have been predicted by the leading indicator. This is due to the sudden sharp shock of the Covid-19 health crisis, an unprecedented, non-economic event, which has then had dire economic consequences globally and domestically.
- However, with GDP growth of only 0.2% y/y in 2019, and worse leading indicator readings on the likely 2020 performance than on the 2019 performance, GDP was likely already at risk of contracting in 2020 even before Covid-19, although at a much less severe pace than the -10.1% y/y we now expect.

Figure 2: GDP vs the leading indicator



Sources: SARB, Stats SA

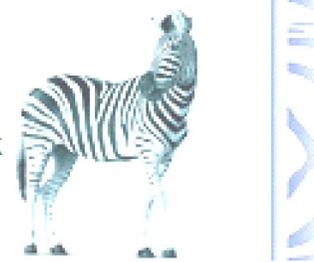
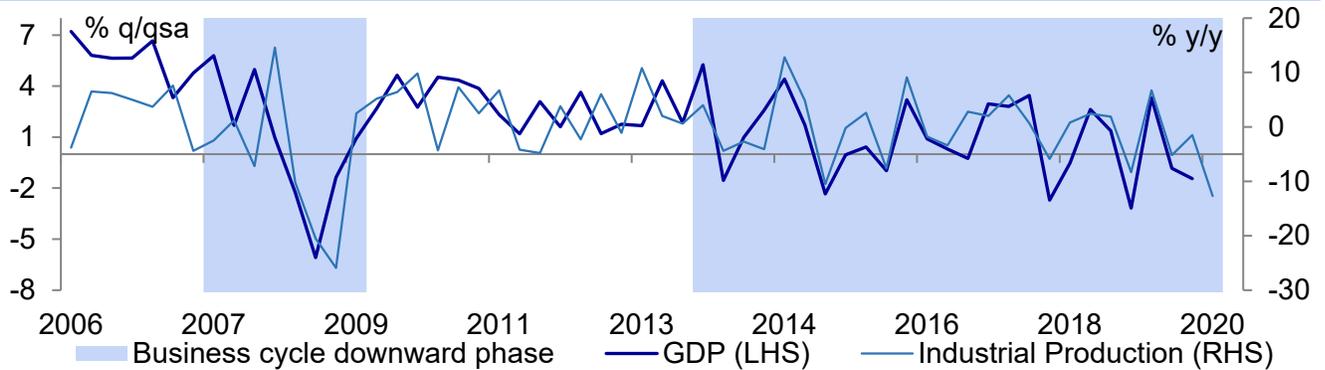


Figure 3: GDP vs Industrial Production



Sources: SARB, Stats SA

- Nevertheless, the leading indicator predicted some contraction in Q2.20 GDP, as it fell by -2.3% (annualised) between Q2.19 and Q3.19, evidencing the deteriorated economic environment even before Covid-19.
- Furthermore, the Q1.20 leading indicator highlighted the risk of contraction in Q4.20 GDP, falling -4.3% (annualised) between Q4.19 and Q1.20, further evidencing the weakness of the economic environment before Covid-19 fully struck South Africa.
- In April 2020's leading indicator, negative contributions came from seven of the available sub-components, namely the number of new passenger vehicles sold, job advertisements, the composite leading business cycle indicator for SA's major trading partners, BER's average hours worked per factory worker in manufacturing, the BER Business Confidence Index, the BER's volume of orders in manufacturing (half weight) and the commodity price index for SA's main export commodities.
- The interest rate spread (ten year government bonds less 91-day treasury bills), real M1 were positive.

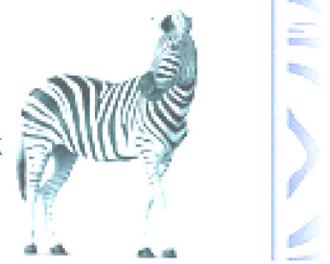
Figure 4: Business cycle phases of South Africa since 1945

Upward phase		Months	Downward phase		Months
Post war	- July 1946	7	August 1946	- April 1947	9
May 1947	- November 1948	19	December 1948	- February 1950	15
March 1950	- December 1951	22	January 1952	- March 1953	15
April 1953	- April 1955	25	May 1955	- September 1956	17
October 1956	- January 1958	16	February 1958	- March 1959	14
April 1959	- April 1960	13	May 1960	- August 1961	16
September 1961	- April 1965	44	May 1965	- December 1965	8
January 1966	- May 1967	17	June 1967	- December 1967	7
January 1968	- December 1970	36	January 1971	- August 1972	20
September 1972	- August 1974	24	September 1974	- December 1977	40
January 1978	- August 1981	44	September 1981	- March 1983	19
April 1983	- June 1984	15	July 1964	- March 1986	21
April 1986	- February 1989	35	March 1989	- May 1993	51
June 1993	- November 1996	42	December 1996	- August 1999	33
September 1999	- November 2007	99	December 2007	- August 2009	21
September 2009	- November 2013	51	December 2013	-	

Source: SARB

Business cycle: leading indicator readings show GDP was at risk of contracting in 2020 even before the full effects of Covid-19

Tuesday 23 June 2020



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