



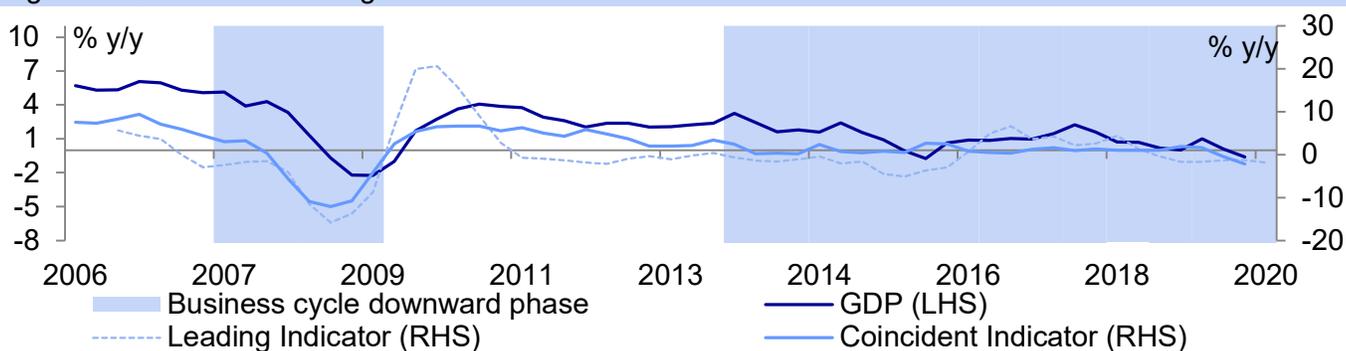
Figure 1: Summary of the composite business cycle indicators*

Indices 2015 = 100	2019						2020		
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Leading indicator	104.2	104.1	103.3	103.9	104.3	103.8	102.9	103.0	104.0
12-month % ch	-1.3	-1.0	-1.6	-1.7	-1.0	-0.9	-1.3	-2.9	-1.6
Coincident indicator	104.7	104.1	104.0	104.1	103.6	102.6	102.8	102.3	-
12-month % ch	0.9	0.0	-0.5	-1.1	-1.9	-2.2	-1.9	-2.1	-
Lagging indicator	95.6	96.3	95.6	95.5	95.6	95.3	94.6	94.4	-
12-month % ch	1.3	2.2	1.4	2.1	3.2	0.4	0.7	-0.7	-

Source: SARB. The historical data is subject to revision

- March 2020's leading business cycle indicator, released today by the Reserve Bank, lifted to 104 from 103.3 in February. The around six-month lead (between the leading indicator and GDP growth) indicates that with Q1.20 at 103.4, down on Q4.19's 104.0, Q4.20 GDP would be on track to see a contraction.
- However, the data used was for Q1.20 and does not capture the worsening conditions of the extended lockdown, globally or domestically. With the lengthening of the lockdown (May level 4, June level 3), from April's virtually total shutdown of level 5, Q2.20 GDP could see a sharp contraction of around -50% qqsaa or worse, while Q3.20 is likely to see less of a rebound than previously anticipated.
- With the current progression of one month for each level, July and August will see some continued restrictions on economic activity, and the recovery in Q3.20 is likely to be much more subdued than originally thought. Instead of a rebound of 40% qqsaa in Q3.20 it could instead be around 15% qqsaa.
- Furthermore, it is not certain that the levels will see a linear monthly progression, levels could go up as well as down, while companies themselves are at risk of temporary closures if infections occur.
- The use of the Q1.20 leading indicator (released today) as a pointer of future business activity has been dramatically diminished by the impact of the Covid-19 crisis.
- We previously expected economic growth of -4.8% y/y for 2020, but now believe it could come out closer to between -8.0% y/y to -10% y/y, if not worse. Much will however depend on the progression of opening up the economy. The very slow pace so far has driven our worsening forecasts, as has the sheer length of the lockdown to date, which has seen incomes fall (both due to rising unemployment and firms cutting back on staff remuneration versus last year), and demand to collapse.

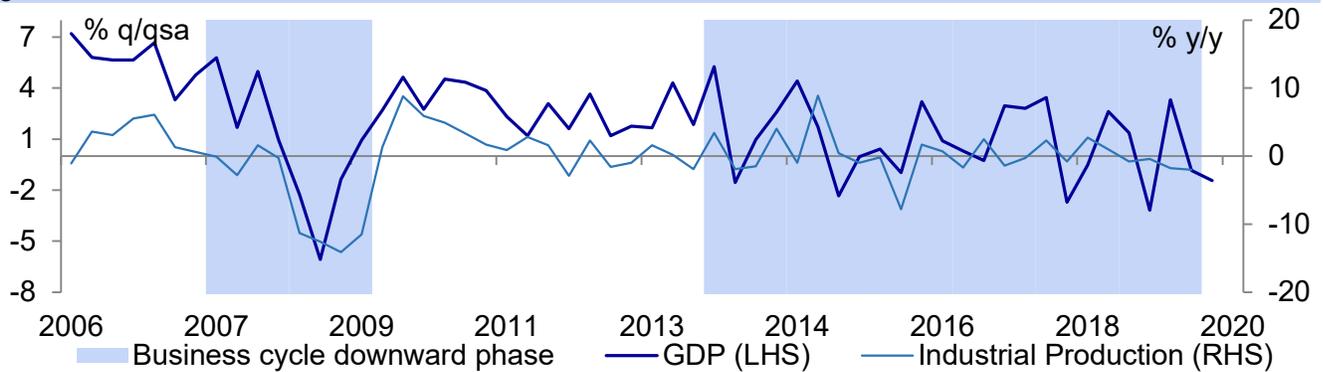
Figure 2: GDP vs the leading indicator



Sources: SARB, Stats SA



Figure 3: GDP vs Industrial Production



Sources: SARB, Stats SA

- For Q1.20 GDP, Q2.19's leading business cycle indicator is key. It contracted by -3.4% qqa (quarter on quarter, annualised), indicating that economic growth in Q1.20 could contract versus Q1.19.
- The first quarter of the year has seen a contraction in GDP qqsaa since 2016, and one in 2014, – an occurrence in SA which seems to have become a seasonal event.
- In March 2020's leading indicator, five of the available sub-components showed positive contributions, namely the interest rate spread (ten year government bonds less 91-day treasury bills), job advertisements, the real M1, the BER's volume of orders in manufacturing (half weight) and the BER's average hours worked per factory worker in manufacturing.
- Negative contributions in March came from the commodity price index for SA's main export commodities, the number of new passenger vehicles sold and the composite leading business cycle indicator for SA's major trading partners.

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: GDP is at risk of contracting by between -8.0% y/y and -10% y/y, if not worse this year, on the lengthy, severe lockdowns

Tuesday 26 May 2020



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Business cycle: GDP is at risk of contracting by between -8.0% y/y and -10% y/y, if not worse this year, on the lengthy, severe lockdowns

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