

Business cycle: South Africa's coincident indicator of economic activity shows the worst decline on record (-27% y/y) for the month of April



Tuesday 21 July 2020

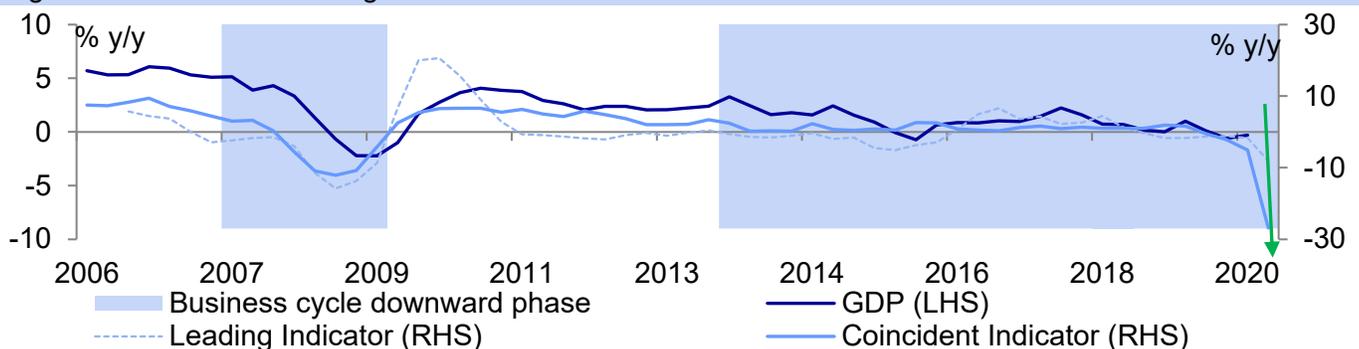
Figure 1: Summary of the composite business cycle indicators*

	2019					2020				
Indices 2015 = 100	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	
Leading indicator	103.3	103.9	104.3	103.9	103.5	104.1	103.3	96.3	95.7	
12-month % ch	-1.6	-1.7	-1.0	-0.9	-0.7	-2.1	-2.2	-9.0	-8.1	
Coincident indicator	104.0	104.1	103.6	102.6	103.0	102.5	99.1	77.3	-	
12-month % ch	-0.5	-1.1	-1.9	-2.2	-1.7	-1.9	-5.7	-26.8	-	
Lagging indicator	95.6	95.5	95.6	95.8	94.4	94.0	91.6	79.4	-	
12-month % ch	1.4	2.1	3.2	0.9	0.6	-1.1	-2.7	-16.3	-	

Source: SARB. The historical data is subject to revision

- The Reserve Bank's business cycle indicators out today showed that the co-incident indicator fell by -22% in April versus March, or by -26.8% y/y, the largest collapses on record, with the data going back to 1960. The April co-incident indicator indicates the level of economic activity experienced in April this year, the harshest month of lockdown, and gives an early reading on the likely impact on GDP in April.
- Contractions of worse than -20% m/m, or y/y, have never been recorded before for South Africa's co-incident indicator of economic activity, with the worst month in the 2008/2009 Great Recession only recording a -12.4% m/m contraction, or -0.7% y/y. We continue to expect that South Africa's GDP contraction this year (2020 y/y) will be the worst on record.
- Even in 1998, the Reserve Bank's co-incident indicator contracted by only -9.5% y/y in its worst month, while in 1983, in the run-up to SA's partial debt default in 1985 (on its foreign currency debt holdings), the co-incident indicator contracted by -15.2% y/y in its worst month in that period. The second worst contraction on record after today's outcome is now the -19.2% y/y drop recorded in March 1977.
- This indicator of economic activity in April this year has superseded all the worst months in these economic crises in its extent of collapse, with the lockdown a total shutdown of the economy, except for essential businesses and services in April 2020. While the economy saw some small opening in May, it was to a large extent still experiencing a harsh shutdown and the May co-incident indicator is likely to also experience a very large contraction year on year.
- We continue to expect a contraction of -48.2% qqsaa (quarter-on-quarter, seasonally adjusted, annualised) in Q2.20 in GDP, which is a fall of -15.2% qqsa (without annualization). For GDP for 2020 we forecast a contraction of -10.1% y/y, with marked load shedding of electricity a risk to recovery.

Figure 2: GDP vs the leading indicator

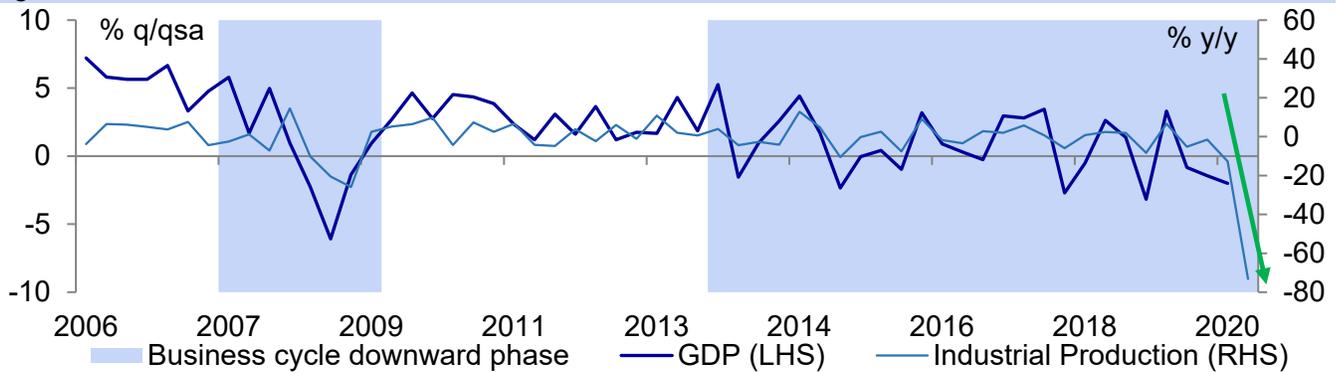


Sources: SARB, Stats SA



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Figure 3: GDP vs Industrial Production



Sources: SARB, Stats SA

- April's co-incident indicator was dragged down in particular by the substantial contraction in its industrial production index component not released by SARB, but Investec's industrial production index dropped by -45.7% y/y, and by -39.2% m/m in April not annualised. On an annualised basis, the collapse would be close to 100% as would be expected.
- Indeed, the first two months of Q2.20's mining and electricity production data are now available, along with only April's manufacturing production reading, which combined give an industrial production reading of -73.2% seasonally adjusted, annualised (saa) versus the first two months of Q1.20, if similar manufacturing output as in March is used for May, although Mays' outcome will likely be worse.
- This indicates likely another very poor reading for the co-incident indicator in May, and so another extremely poor performance in monthly economic activity. The other key influence on April's co-incident indicator reading was vehicles sales, plunging by -98.4% y/y in April, while in May the contraction was a still huge -68% y/y, further supporting a likely large contraction in the leading indicator in May y/y.

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

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