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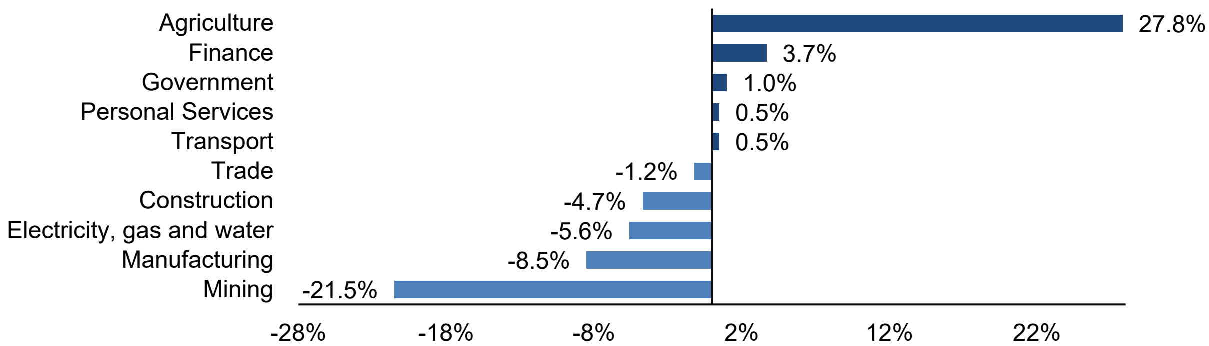
GDP Update: The economy remains in recession, as anticipated, contracting by a further 2.0% qqsaa in Q1.20

30th June 2020

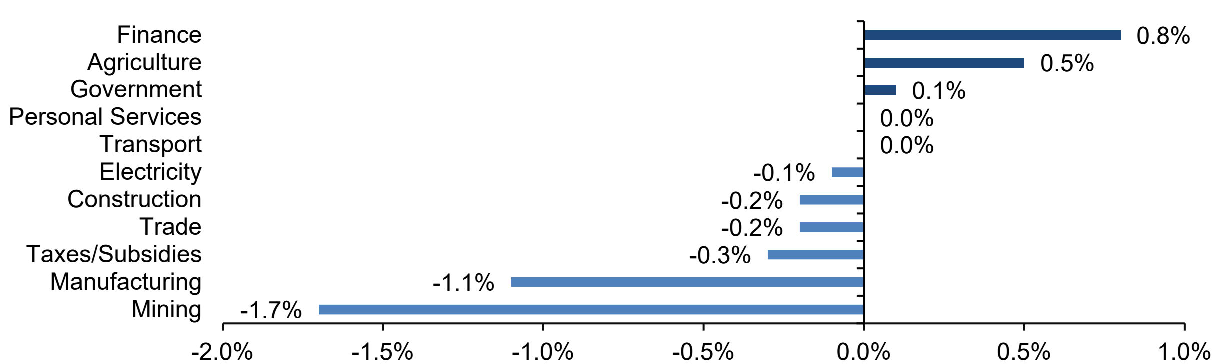
Figure 1: GDP sector performance in Q1.20 (production approach), qqsaa



Sources: Stats SA

- The South African economy remained in recessionary territory in Q1.20. Headline GDP fell by a further 2.0% on a quarter on quarter seasonally adjusted annualised basis (qqsaa), following contractions of 1.4% qqsaa and 0.8% in Q4.19 and Q3.19 respectively.
- Indeed, electricity supply challenges, persistent policy uncertainty and the slow implementation of crucial reforms continued to weigh on business and consumer confidence, inhibiting satisfactory growth.
- A disaggregation of the headline GDP reading indicates that the primary sector of the economy declined by a marked 11.8% qqsaa, after sliding only marginally (0.4% qqsaa) in Q4.19. Specifically Q1.20 saw mining activity slump by a massive 21.5% qqsaa, weakening the overall headline GDP reading by 1.7%. Global supply chain disruptions resulting from the global coronavirus outbreak and the consequent reduction in international trade likely weighed on March's performance. Indeed China, a key commodity export destination for South Africa had already shut down a large portion of its economy in early February.
- The agricultural (including forestry and fishing) sector conversely, grew by a notable 27.8% qqsaa in Q1.20, following a 7.6% qqsaa decline in Q4.19, in turn adding 0.5% to the headline outcome. "The increase was mainly due to increased production of field crops, horticultural products and animal products," according to Stats SA. Going forward, South Africa's agricultural prospects remain favourable. Indeed the crop estimates committee (CEC), suggests that the "(c)urrent maize harvest is up 38% from the 2018/19 harvest," and at around 15.6 million tonnes is the second-largest harvest on record.

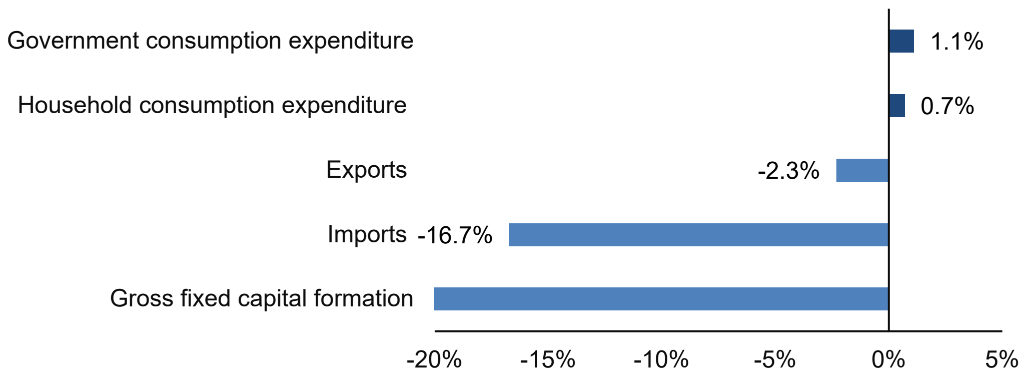
Figure 2: Contributions to Q1. GDP (Production approach)



Source: Stats SA

Lara Hodes • Investec Bank Limited • Tel (2711) 286 7257 • email: lara.hodes@investec.co.za •
http://www.investec.co.za/research-and-insights/economy/economic-research-v1.html •

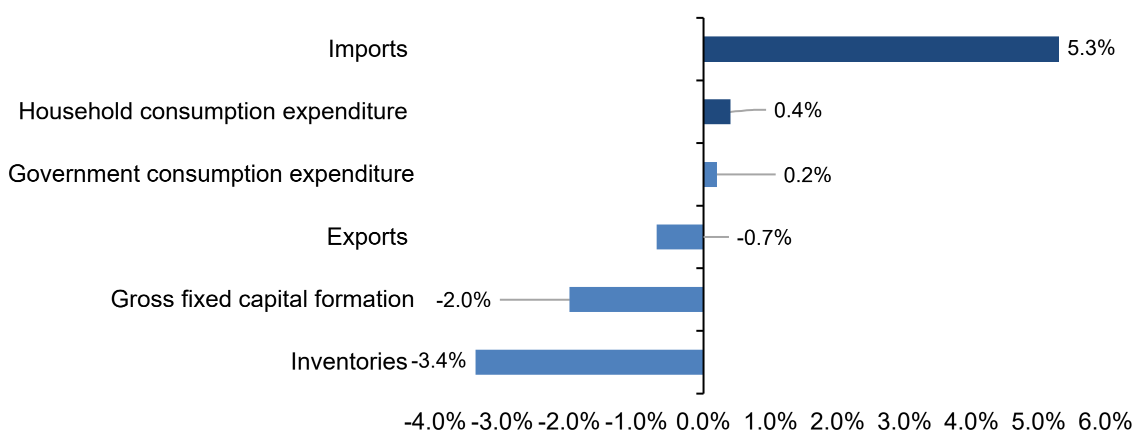
Figure 3: GDP sector performance in Q1.20 (Expenditure approach), qqsaa



Sources: Stats SA

- The secondary sector of the economy fell by 7.5% qqsaa in Q1.20, underpinned primarily by the 8.5% qqsaa decline in manufacturing sector production. Indeed, the manufacturing sector experienced its tenth consecutive monthly contraction (on a y/y basis) in March, reflective of SA's depressed economic situation, underpinned by weak demand. Electricity distribution and water consumption also declined as did the construction sector (-4.7% qqsaa), however owing to their relatively small weight in the overall GDP index, they sliced only a combined 0.3% off the topline reading.
- The finance, government, transport and personal services sectors grew by 3.7% qqsaa, 1.0% qqsaa, 0.5% qqsaa and 0.5% qqsaa respectively, offsetting the 1.2% qqsaa, fall in trade activity, thus the tertiary sector rose by a moderate 1.3% qqsaa. Within the trade sector, all "(a)ctivities reported a fall in activity, with the exception of retail." Retail sales were likely buoyed by increased stockpiling in the period before the enforcement of lockdown containment measures.

Figure 4: Contributions to Q1.20 GDP (Expenditure approach)



Sources: Stats SA

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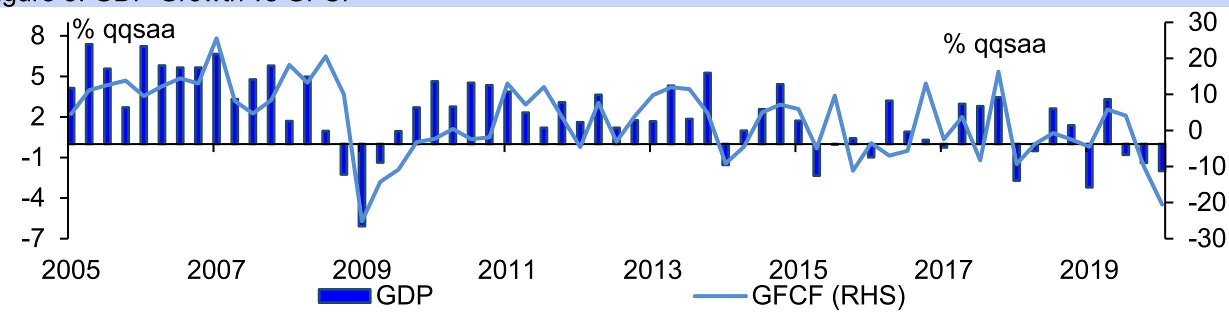
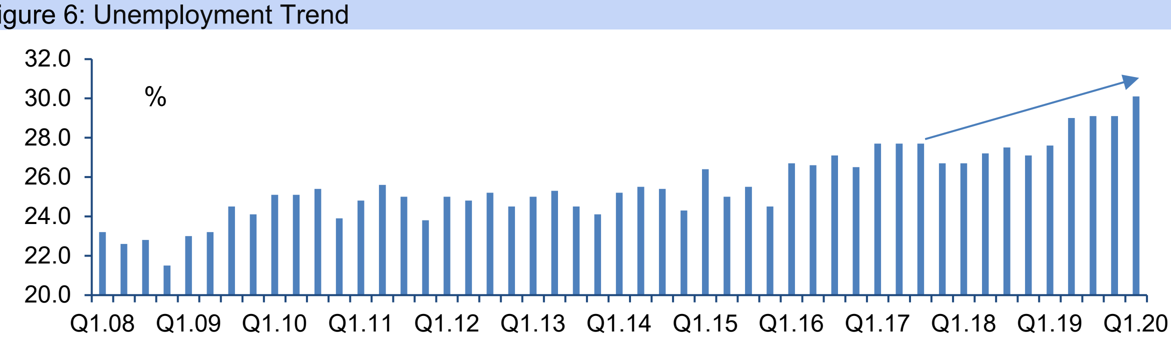
Figure 5: GDP Growth vs GFCF



Sources: Stats SA,SARB

- The expenditure approach to measuring GDP yielded an outcome of -2.3% qqsaa in Q1.20, following Q4.19's -1.2% qqsaa fall, dragged down predominantly by the performance of gross fixed capital formation and the changes in inventories segment, which together sliced a significant 7.6% off the quarterly headline outcome. Specifically, gross fixed capital formation plummeted by 20.5% qqsaa, following a 10.0% qqsaa drop in Q4.19. "Weak imports of machinery and other equipment and transport equipment contributed to the decrease in gross fixed capital formation," according to Stats SA.
- Conversely, net exports and household consumption expenditure contributed positively to growth. Net exports added 4.6% to the headline outcome, while household final consumption expenditure, which is a significant driver of growth (making up over 60%), increased by a marginal 0.7% qqsaa in Q1.20. In turn contributing 0.4% to total growth. Consumption growth however remains constrained by depressed confidence levels, low income growth and rising unemployment.
- Looking forward, the global crisis, caused by the Covid-19 pandemic has thrust world economies into deep recession. The domestic economy which was already in a very fragile position before the onset of the pandemic, is thus projected to contract by a marked 10.1% y/y this year. Treasury was very clear in its supplementary budget release last week that in order to avoid an uncontrollable debt spiral, fiscal consolidation together with the hastened implementation of a "(s)et of far-reaching reforms," is essential to "(f)ully restore economic activity to build confidence, increase investment and promote job creation."
- Indeed boosting "South Africa's competitiveness in a post-pandemic world" "will require a new social compact," according to Treasury

Figure 6: Unemployment Trend



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