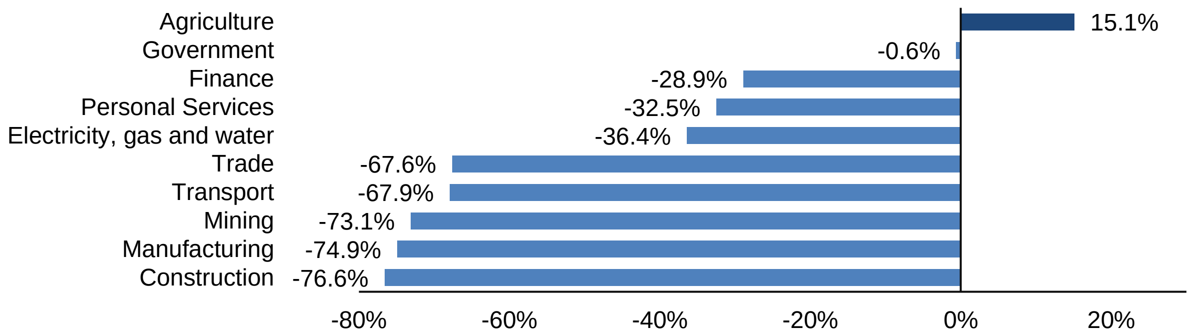
GDP Update: Economy contracts by -51% qqsaa on the severe effects of the economic lockdown in Q2.20, driven by a collapse in ability to invest and spend

Tuesday 8 September 2020

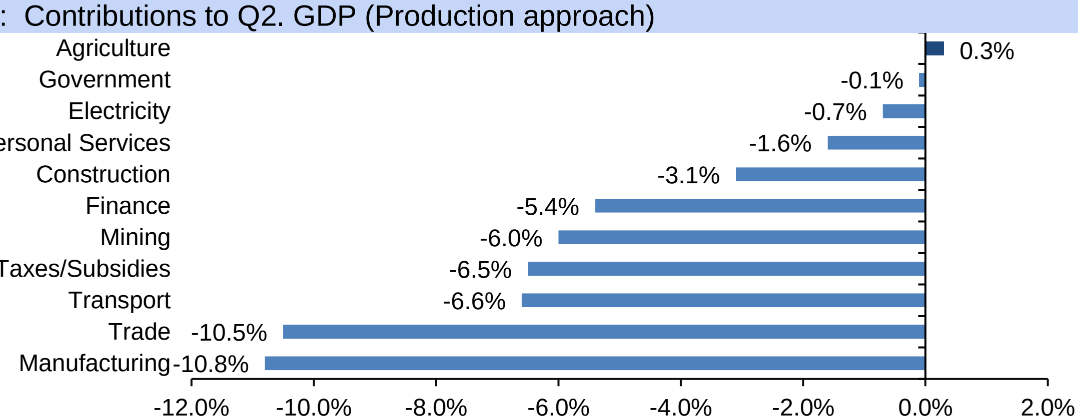
Figure 1: GDP sector performance in Q2.20 (production approach), qqsaa



Sources: Stats SA

- Government imposed lockdown restrictions have wreaked havoc on economies around the world and served to exacerbate the numerous challenges South Africa was already facing before the onset of the pandemic, including elevated unemployment and a highly constrained fiscus. Consequently, following a three quarter recession, Q2.20's GDP reading plunged by a further, unprecedented -51.0% on a quarter on quarter seasonally adjusted annualised (qqsaa) basis. The manufacturing, trade and transport sectors were among the biggest casualities of the pandemic and together they erased -27.9% off the headline GDP outcome.
- A sectoral breakdown of the GDP result reveals that the primary sector of the economy plummeted by -59.1% qqsaa, following Q1.20's -11.8% qqsaa slide. Specifically, mining and quarrying activity fell by a severe -73.1% qqsaa in Q2.20, weakening the overall headline GDP reading by a marked 6.0%. A near shut-down of most economies globally saw demand for commodities decline sharply, while supply side constraints continued to weigh on international trade even once restrictions were loosened.
- A positive performance by the agricultural (including forestry and fishing) sector helped moderate the severe plunge in primary sector activity only slightly, owing to its small weighting. It grew by a notable 15.1% qqsaa in Q2.20, following a 27.8% qqsaa rise in Q1.20. "The increase was mainly due to increased production of field crops, horticultural and animal products," according to Stats SA. Going forward, South Africa's agricultural prospects remain favourable and Agbiz still anticipates growth for the year to average approximately 10% y/y.

Figure 2: Contributions to Q2. GDP (Production approach)



Source: Stats SA

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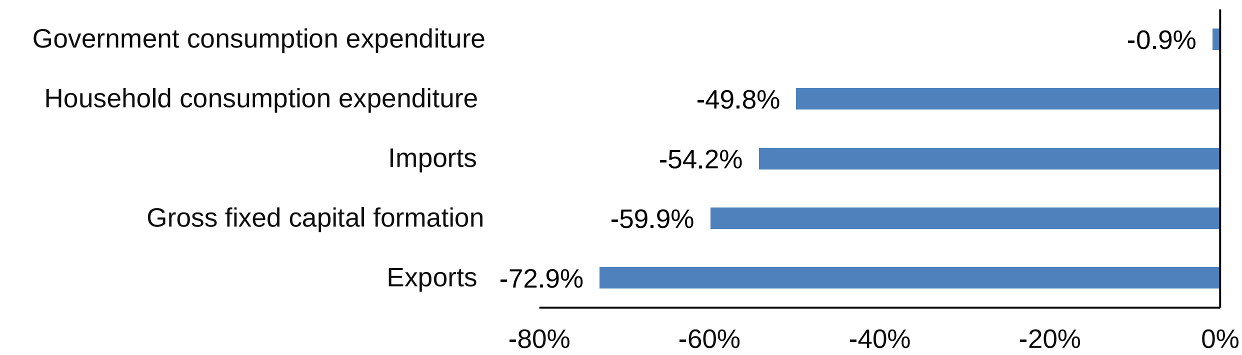
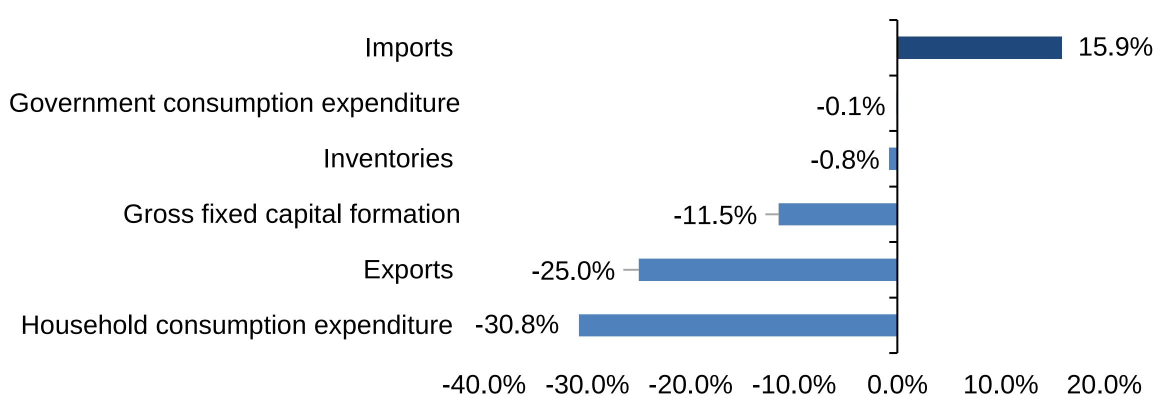
Figure 3: GDP sector performance in Q2.20 (Expenditure approach), qqsaa



Sources: Stats SA

- Sharp declines of -74.9% qqsaa, -36.4% qqsaa and -76.6% qqsaa in the manufacturing, electricity,gas and water and construction sectors respectively led to the unparalleled -72% qqsaa plunge in the secondary sector of the economy. Stringent lockdown measures enforced in April and to a lesser degree in May, prevented a large part of the economy from operating leading to significant demand and supply side shocks.
- A review of the tertiary segment of the economy indicates that government sector activity fell by a marginal -0.6% qqsaa, primarily "(a)ttributed to decreased employment numbers in the civil service," according to Stats SA. Furthermore, activity in the finance, real estate and business services sector declined by -28.9% qqsaa, while personal services fell by -32.5% qqsaa.
- The trade, accommodation and catering sector as well as the transport industry experienced unparalleled declines of 67.6% qqsaa and 67.9% qqsaa respectively, largely underpinning the -40% contraction in the tertary sectory. Indeed, barring those companies selling or involved in the provision of essential goods and services these industries were largely shut down during the initial lockdown period.

Figure 4: Contributions to Q2.20 GDP (Expenditure approach)



Sources: Stats SA

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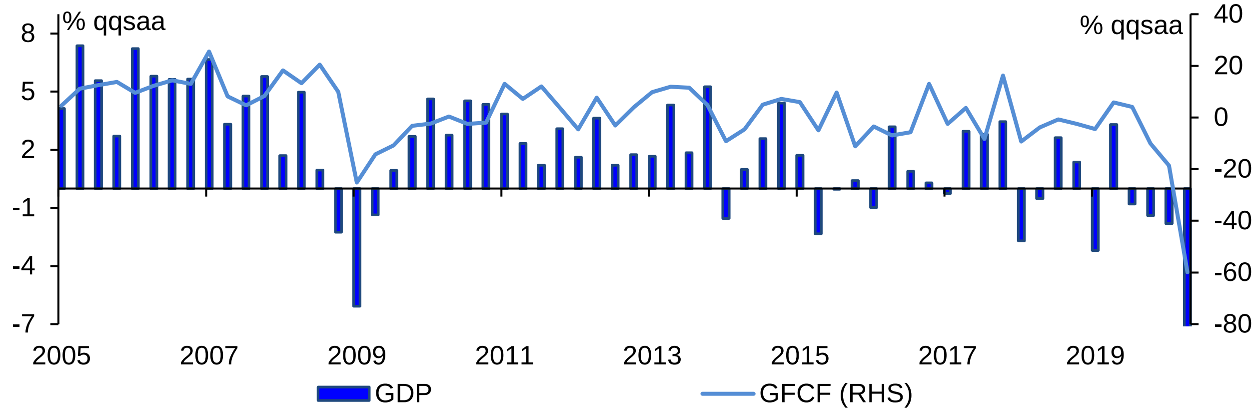
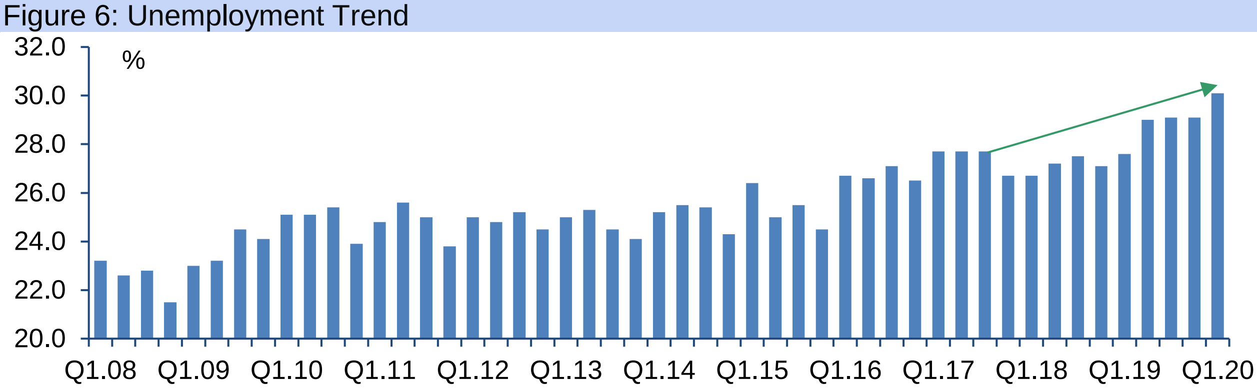
Figure 5: GDP Growth vs GFCF



Sources: Stats SA,SARB

- The expenditure approach to measuring GDP yielded an outcome of -52.3% qqsaa in Q2.20, following Q1.20's -2.1% qqsaa fall, dragged down predominantly by the household consumption expenditure (HCE) component. The COVID-19 crisis has had an unprecedented effect on already financially constrained households. The unemployment rate which climbed to 30.1% in the first quarter of the year is forecast to reach around 37.9% in Q2.20 (Stats SA data delayed) as many businesses have had to shut their doors permanently or downscale their workforce. However, the full effect of the pandemic on employment numbers will only be established over time as unemployment is a lagging economic indicator.
- Furthermore, gross fixed capital formation fell by a staggering 59.9% qqsaa, following a marked -18.6% qqsaa slide in Q1.20. Indeed, while the lockdown period impeded construction works, severely depressed business confidence continues to hinder private sector fixed investment.
- High frequency data releases for Q3.20 thus far point to modest signs of recovery, however the path to pre-covid levels is likely to be protracted and arduous. Electricity supply challenges, persistent policy uncertainty and the slow implementation of crucial reforms continue to weigh on business and consumer confidence, inhibiting growth. We are still anticipating a -10.1% y/y contraction in GDP for this year.

Figure 6: Unemployment Trend



Source: Stats SA

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