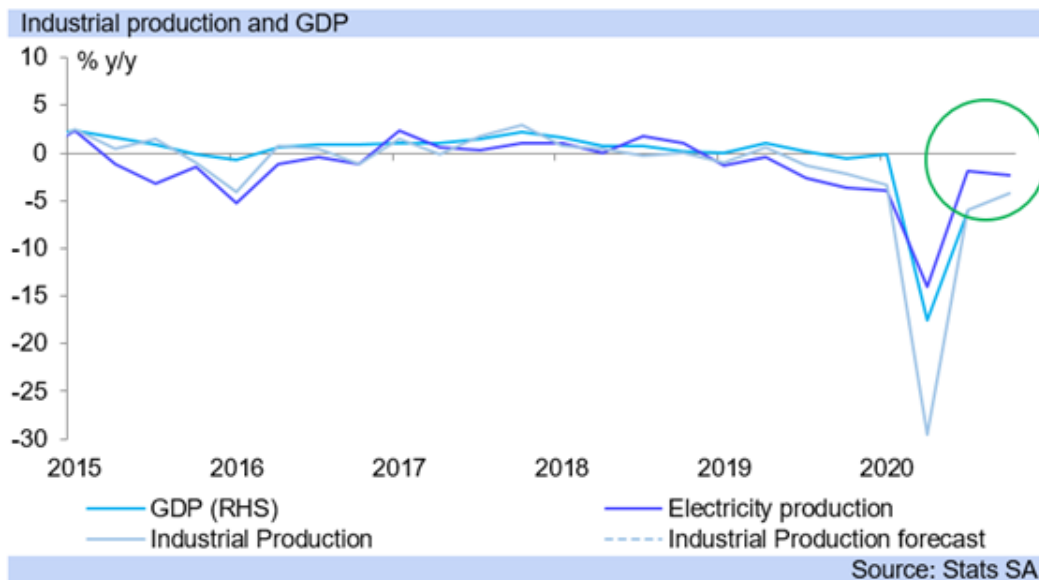


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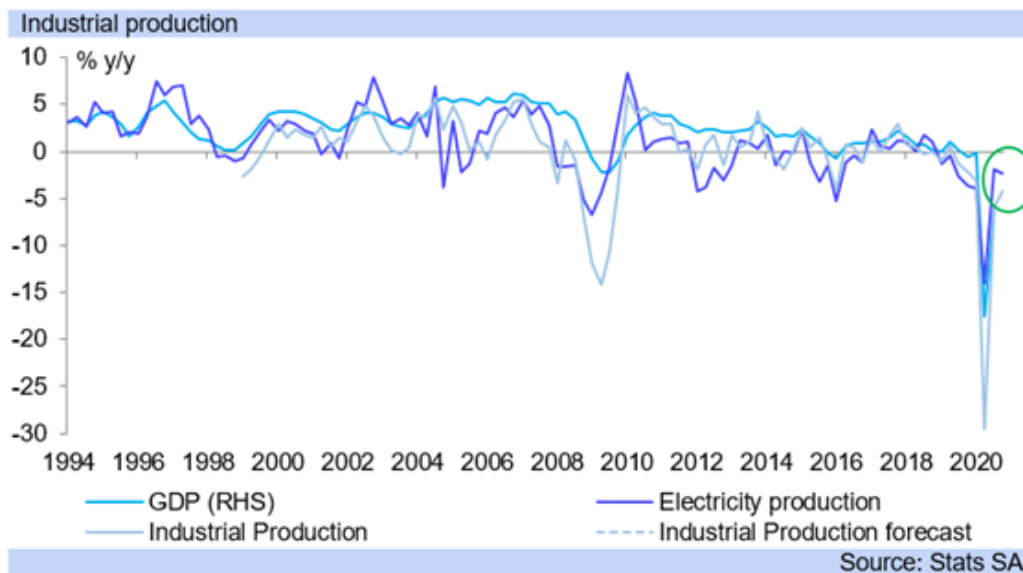


Tuesday 26 January 2021

Industrial production note: both GDP and industrial production are expected to fall by close to -5.0% y/y in Q4.20, evidencing no quick, V shaped recovery for SA, with all those who lost their jobs in Q2.20 still not likely re-employed either



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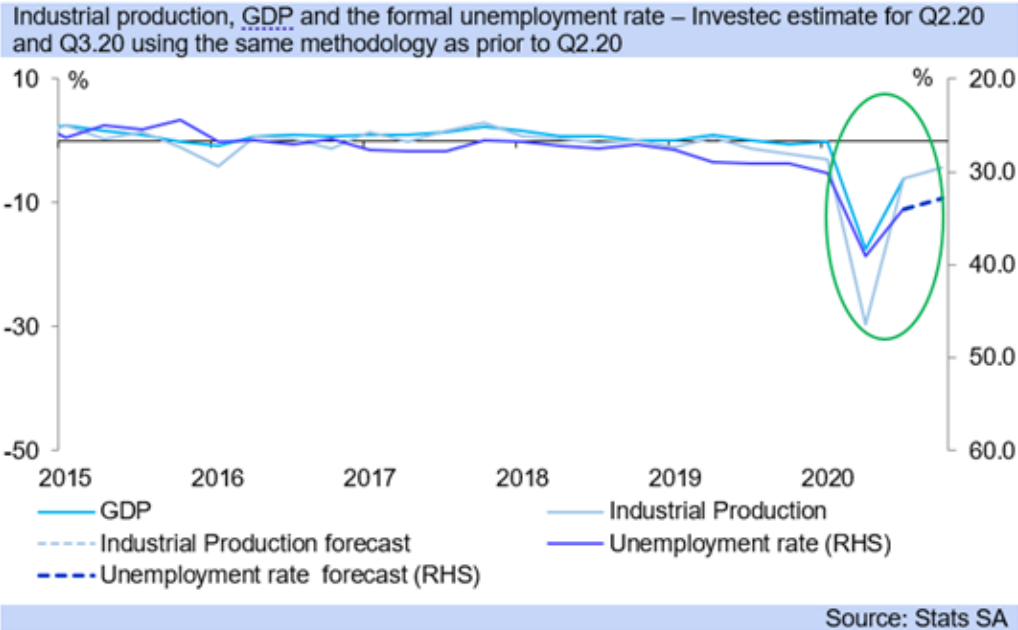


- Yesterday saw the release of the Bloomberg economic consensus, and incidentally showed that the expected GDP outcome for 2020 is -7.3% y/y, the same figure we published at the start of this month, although the expectation for 2021 is 3.5% y/y versus our 2.9% y/y.
- With three quarters worth of data already published for 2020, only the Q4.20 reading remains outstanding, and we forecast a lift of 2.5% qqsaa (quarter on quarter, seasonally adjusted, annualised), after Q3.20's 66.1% qqsaa rebound.
- While the incoming data for Q4.20 does indicate a lift over Q3.20, it is not showing a very strong rebound, as Q3.20's outcome occurred off the statistical lows of Q2.20, which is not occurring again in Q4.20.
- While Q2.20 GDP fell by -51.7% qqsaa (annualisation essentially gives you the growth outcome if the same level of GDP occurred for the whole year instead of one quarter), without annualisation it dropped by -16.6% between Q1.20 and Q2.20.
- The -16.6% drop in GDP in Q2.20, means the actual value of GDP in Q2.20 was 83.4% of the Q1.20 amount of R3.1trillion (in real terms), so Q2.20 came out at R2.6trillion, with a loss of R0.52trillion in production, or R520billion.
- Following on from this, Q3.20's annualised rise of 66.1% qqsaa sounds a lot, but it is only a lift of 13.5% q/q. Consequently, the Q3.20 GDP, at R2.96trillion, is only 94.6% the size of Q1.20 GDP and so the production lost in Q2.20 GDP was not fully recovered in Q3.20.
- With a lift of 2.5% qqsaa in Q4.20 expected, or about 0.7% q/q (not annualised), GDP only rises to R2.98trillion, again still not reaching the level of Q1.20's outcome of R3.1trillion and showing that there is no V shaped recovery for South Africa.

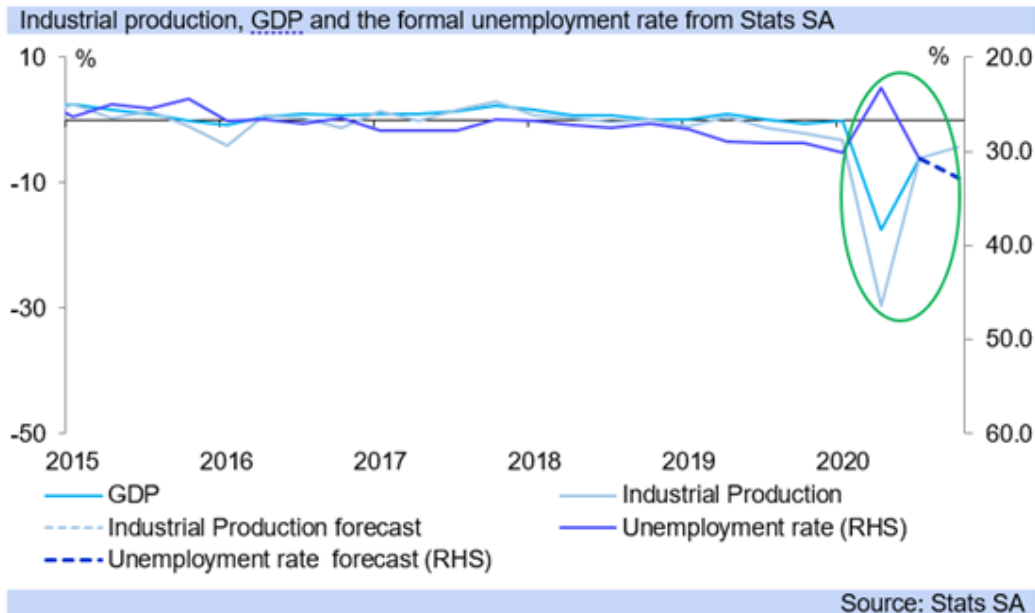
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- Even a lift of 3.5% qqsaa in Q4.20 GDP will still give you R2.99trillion, and so once again no return to the R3.1trillion level of production in Q1.20. This is the same for the components of GDP and indeed, GDP is only expected to reach R3.13trillion by the turn of the year into 2024.
- For Q4.20 only two months' worth of data is generally available, and industrial production is showing a lift of about 3.8% on the previous period, but is down -4.6% y/y for the first two months of Q4.20. This would tally with the drop of close to -5.0% y/y expected for Q4.20 GDP.



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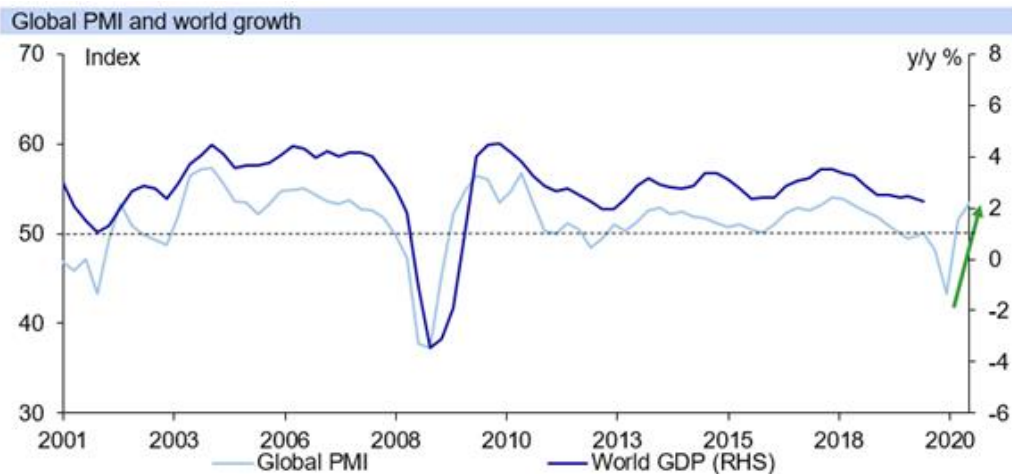


- South Africa's fourth quarter GDP figures will be published on the 9th of March, and the Q4.20 unemployment rate on 23rd February. Q2.20 showed 2.234million jobs were lost, with only 0.543million (543 000) regained in Q3.20, and Q4.20 will not see complete recovery.
- The South African economy has experienced deep scarring, and as a consequence it will be a lengthy recovery, both for overall (gross) domestic production (GDP), but also for the labour market, while new entrants continue to flood the labour market too.
- SA will see an uneven recovery, and this is likely to also be the case for the global economy, with uncertainty on the recoveries still very prevalent. The IMF warns that currently in Q1.21 global uncertainty is still 50% "above its historical average during the 1996–2010 period".
- The IMF adds that its "World Uncertainty Index—a quarterly measure of global economic and policy uncertainty covering 143 countries—shows ... uncertainty has come down by about 60 percent from the peak observed at the onset of the COVID-19 pandemic" in Q1.20.
- The IMF also found "uncertainty related to the United States has been a key source of uncertainty around the world since the past few decades" which would be expected. This week on the 26th the IMF will release its World Economic Outlook with global GDP forecasts.
- In the run-up to this the United Nations (UN) organisation said "(t)he world economy is expected to make a modest recovery of 4.7% this year after shrinking 4.3% in 2020 due to the pandemic - more than double the impact of the global financial crisis in 2009".

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- Adding that “developed economies shrank by 5.6% in 2020 are projected to recover 4%, while developing countries contracted 2.5% and are estimated to grow 5.7% in 2021. Massive and timely fiscal responses prevented a Great Depression-like economic catastrophe worldwide”.
- But that it "will remain critical that the G-20 economies return to the trajectory of growth, not only to lift the rest of the world economies but also to make the world economy more resilient to future shocks”, with “131m more people were pushed into poverty in 2020”.
- South Africa will remain influenced by the global economic recovery, which in turn will remain impacted by global sentiment. While financial markets are experiencing a bout of risk taking sentiment, this can change and the global recovery is not expected to be quick.



Source: Bloomberg, IHS Global Insight

Note: Monthly Global PMI data is converted to quarterly data. PMI reading for April and May 2020 is averaged to provide a Q2 2020 reading. The Global PMI readings for Q2 still shows a downward trend however the PMI

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