

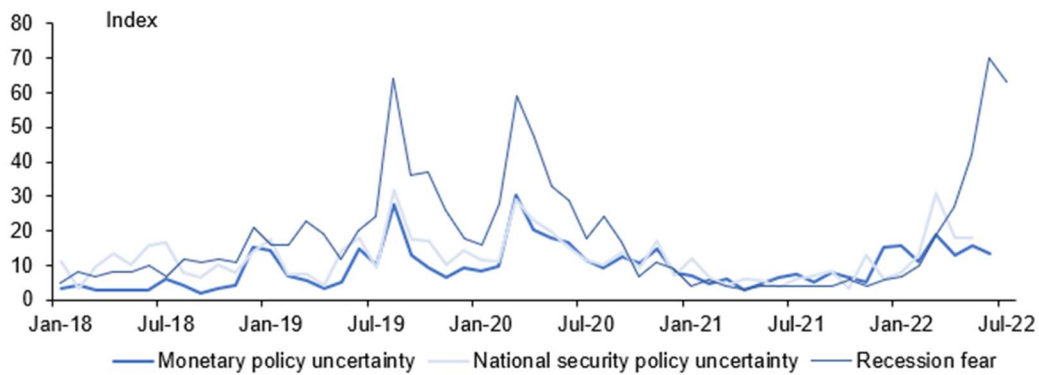


SA Economics

Tuesday 6 September 2022

Economic growth note: South Africa expected to see economic growth of 1.9% y/y this year, but risks abound

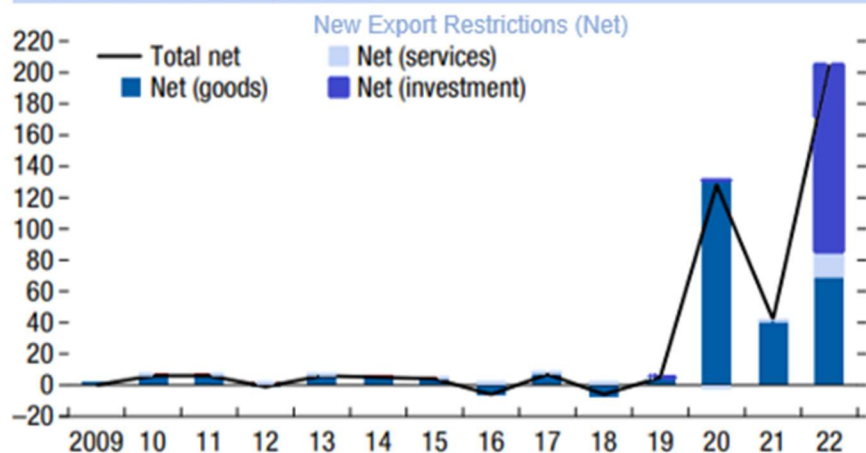
Rising Uncertainties and Risks



Sources: IMF WEO July 2022

Note: Monetary policy uncertainty is rescaled by 1/10 and is based on Baker, Bloom, and Davis (2011); national security policy uncertainty is rescaled by 1/10; recession fear is based on the volume of Google searches for the word "recession: worldwide with numbers representing search interest relative to the highest point since 2008

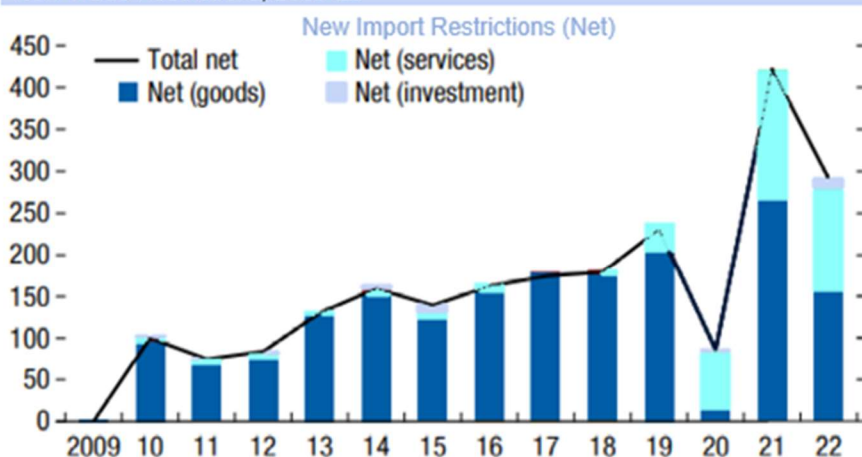
New Trade Restrictions, 2009-22



Source: IMF 2022 External Sector Report

Note: "Net" is defined as the difference between harmful and liberalizing interventions. Export controls includes export restricting measures, and import reforms includes import liberalizing measures in the medical goods and medicine sectors.

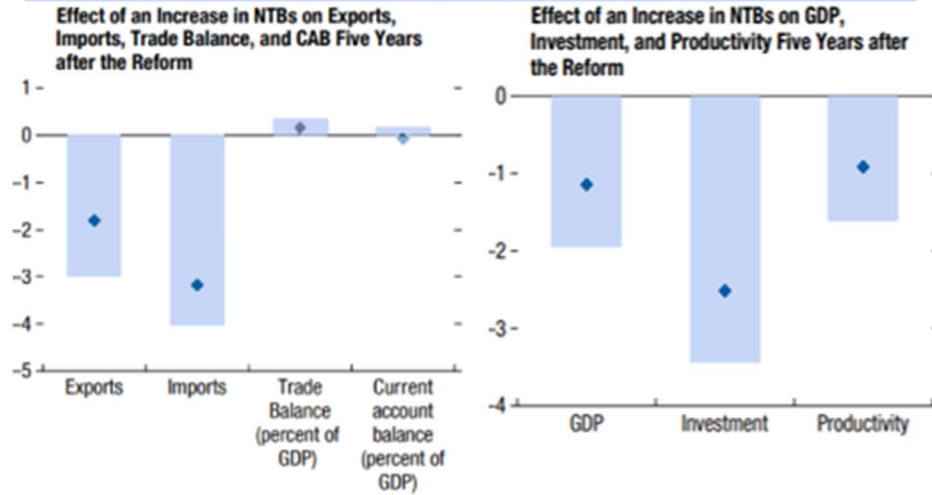
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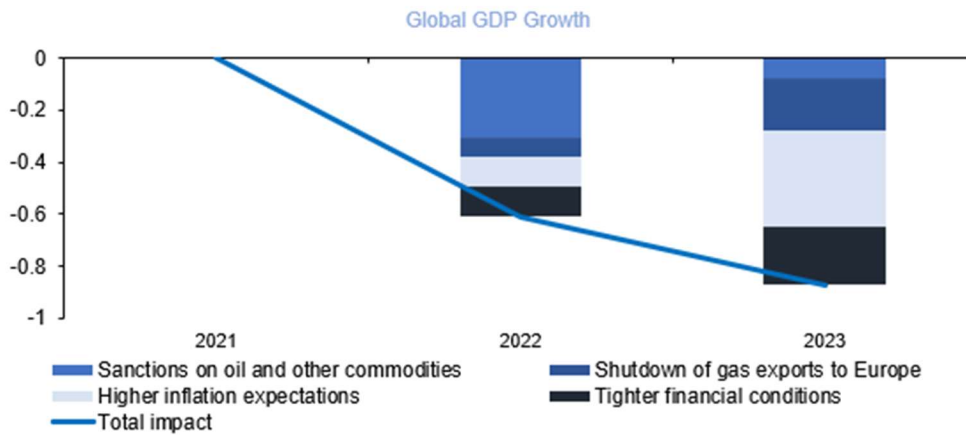
Effect of an increase in non-tariff barriers (%)



Source: IMF 2022 External Sector Report

Note: CAB = current account balance; NTB = nontariff trade barrier. Light shaded bars and dots represent nonstatistically significant estimations. The blue dots show the case of import nontariff restrictions only

Global Alternative Scenario (percentage point deviation from baseline)

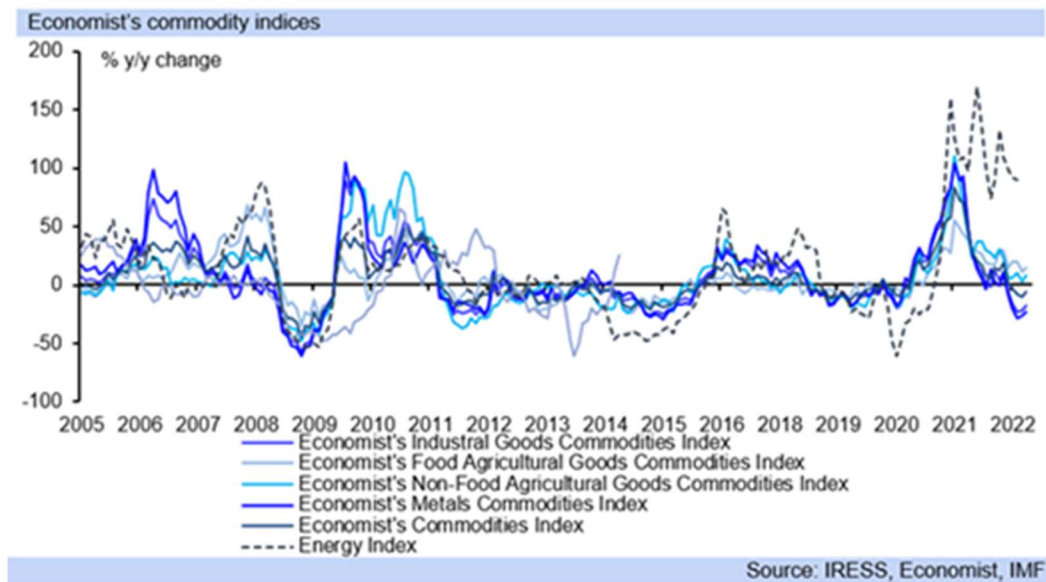


Sources: IMF WEO July 2022

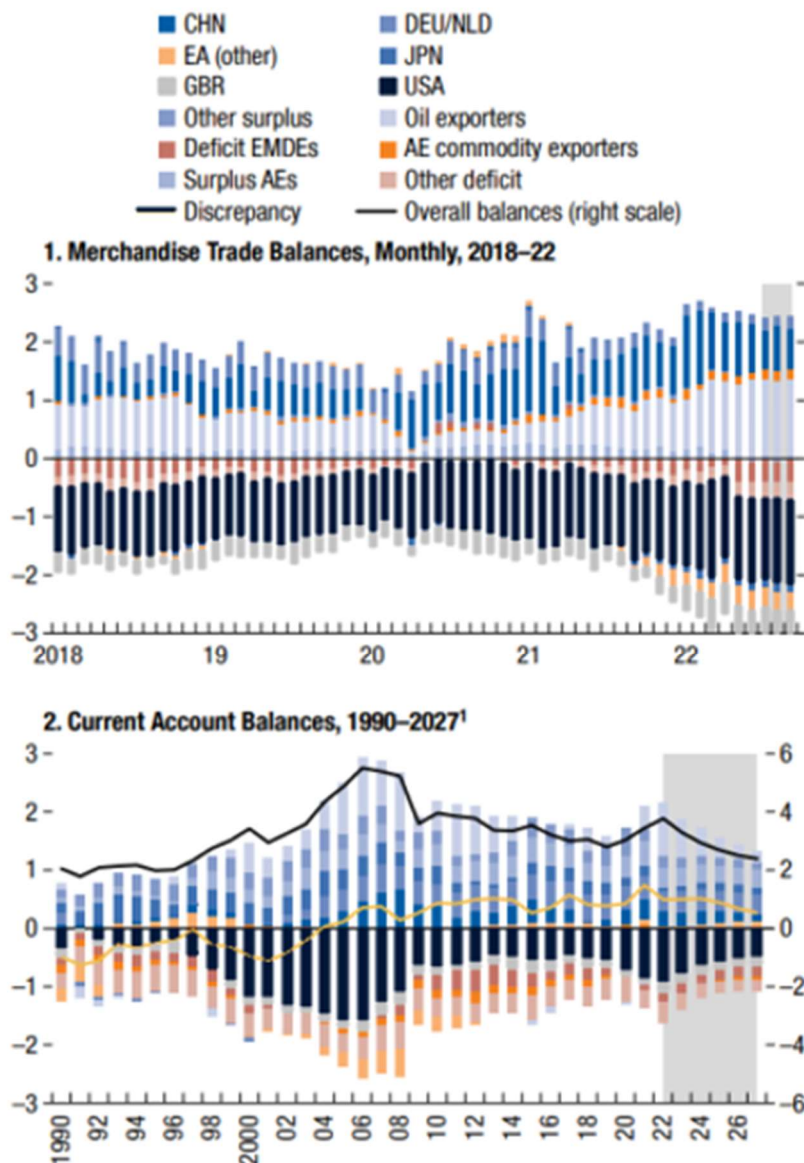
- South Africa remains on course so far for a GDP growth outcome of 1.9% y/y this year from the data published so far, but there is heightened uncertainty, given the persistence of the Ukraine war, supply chain pressures and slowing global growth.
- Escalating sanctions against Russia are having substantial spill over effects on the global economy, due to the highly connected nature of its external trade in commodities and some manufactured goods, which has substantially increased the economic risk.
- We continue to expect a low probability of a wider escalation of military conflict, into NATO regions given the strength of the NATO, alliance and so a large degree of unlikelihood of WWII, with the ‘weaponising of sanctions’ occurring instead.

- Russia is the 11th largest economy in the world, but the largest exporter of gas, and the second largest oil exporter. The globalisation (free trade) of the production and export of goods (and services) has been the major driver of low inflation and economic growth since the 1980s.
- Commodity prices then spiked up on the advent of the Russia/Ukraine war in February, but then subsided in most cases, with the exception of energy prices which have largely remained high, particularly the price of natural gas, as Russia reduces supply.
- Despite the lift in metals and minerals prices in Q1.22, and still high coal prices, South Africa's mining sector contracted by -2.1% qyqsa in Q1.22, and by -3.5% qyqsa in Q2.22, after dropping by -1.1% and -3.2% in Q3.21 and Q4.21 respectively (all in real terms).
- The contribution of SA's mining sector to GDP has been negative since Q3.21. SA's rail system has not coped with elevated demand, and even normal levels at times, with criminal activity noted in the stripping of rail infrastructure, particularly for scrap metal sale.
- The EU is at high risk of falling into recession already in H2.22, with the region the largest economic bloc in the world, as it grapples with energy shortages with Russia reducing supply, expected in retaliation to Western sanctions, and winter rapidly approaching for Europe.
- High inflation is also eating into disposable incomes around the world on the back of high inflation, reducing real expenditure and negatively affecting economic activity, as are higher interest rates, with H1.22 likely to prove better than H2.22 for the global economy.

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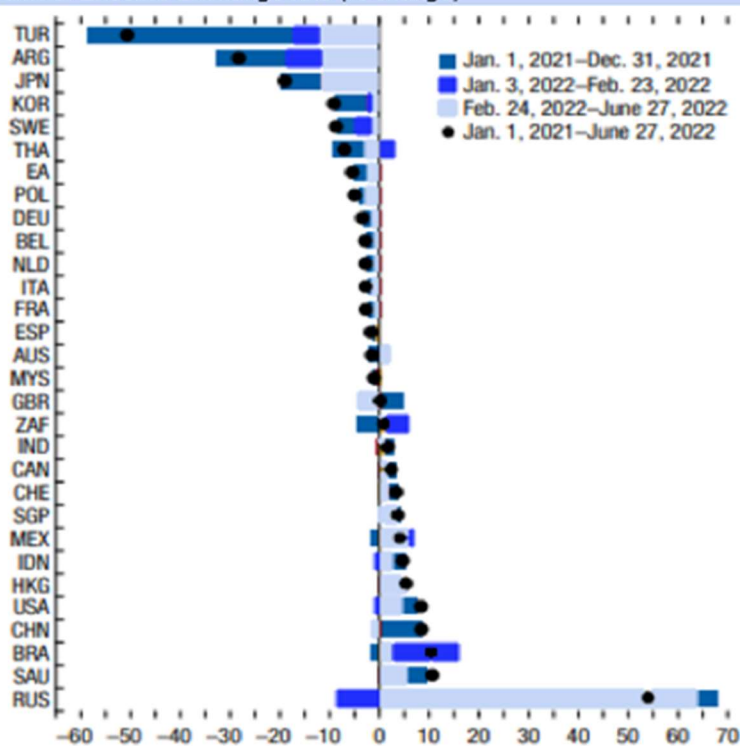
Merchandise and current account trade balances, 1990-2027 (% of world GDP)



Source: IMF 2022 External Sector Report

Note: AE = advanced economy; EA = euro area; EMDE = emerging market and developing economy. The shaded area indicates forecasts. Data labels use International Organization for Standardization (ISO) country codes. Overall balance is the absolute sum of global surpluses and deficits. AE commodity exporters comprise Australia, Canada and New Zealand; deficit EMDEs comprise Brazil, Chile, India, Indonesia, Mexico, Peru, South Africa, and Türkiye; oil exporters comprise World Economic Outlook definition plus Norway; surplus AEs comprise Hong Kong SAR, Korea, Singapore, Sweden, Switzerland and Taiwan Province of China. Other deficit (surplus) comprise all other economies running current account deficits (surpluses).

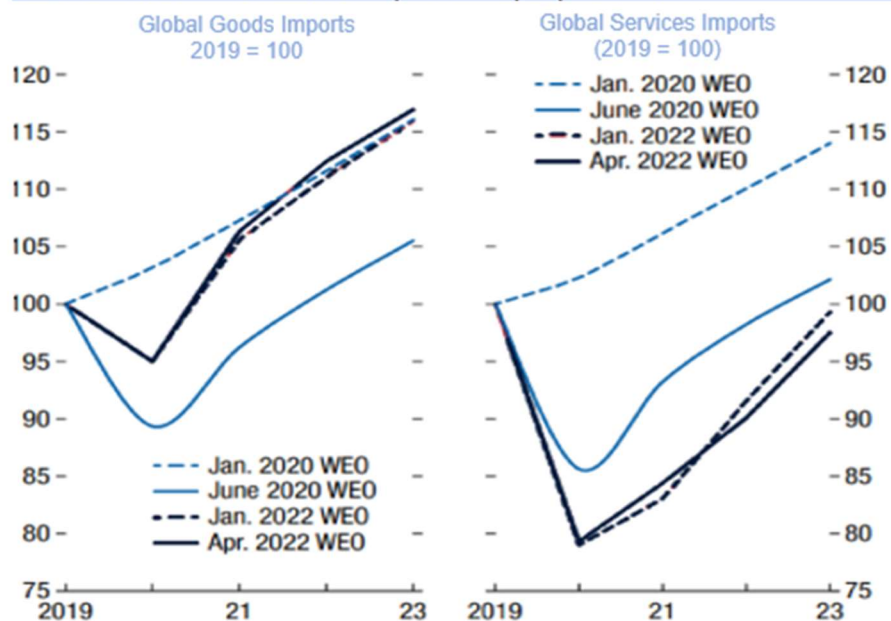
Nominal Effective Exchange rate (% change)



Sources: IMF 2022 External Sector Report

Note: EA = euro area. Data labels are International Organisation for Standardization country codes. An increase in nominal effective exchange rate corresponds to an appreciation.

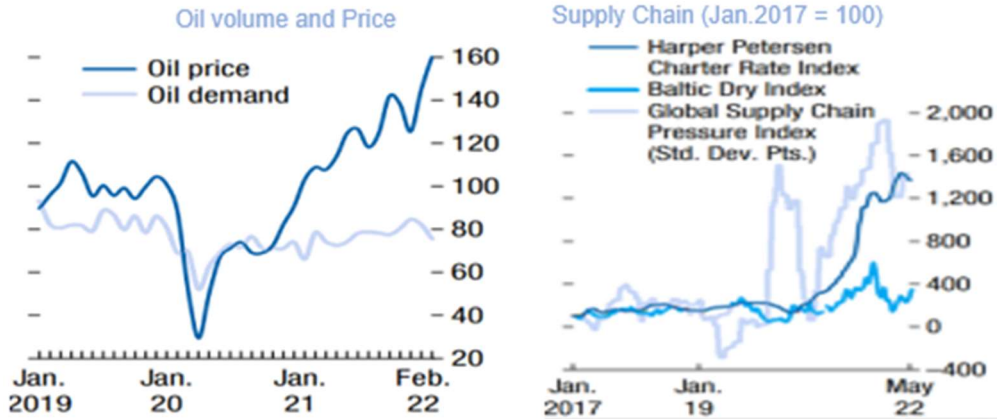
Trade in Goods and Services compared with pre-pandemic trends



Source: IMF 2022 External Sector Report

- The high prices of imported fuel for SA in Q2.22 as energy prices spiked, saw imports exert a substantial negative effect on GDP in Q2.22, with a -1.6% contribution to GDP, overshadowing the 1.1% lift excluding imports (and -0.1% from government consumption).
- High energy prices exert a particularly negative effect for importers, with the World Bank warning that “(t)he energy shock could sap global growth for years”, on “the biggest surge in crude-oil prices since the 1970s”.
- “The indirect effects (of energy price shocks) can occur through trade and other commodity markets, through monetary and fiscal policy responses, and through investment uncertainty ... (with) immediate repercussions ... on fiscal and external balances.”
- There is increased pressure on current accounts for net energy importers from these elevated prices, negatively affecting currencies. Most other commodity prices have not kept up with those of energy, and so there are reduced buffers for SA.
- South Africa remains a small, open economy, and as such, will be negatively affected by the weakening global economic environment. However, in the near term some bounce back is expected in Q3.22 off Q2.22’s low base for GDP, but this will likely be modest.
- The Q2.22 GDP print at -0.7% qqsa was essentially in line with consensus, and close enough to our own forecast of -0.8% qqsa not to require any adjustment to our outlook for the year as a whole on its own. However, a high degree of uncertainty exists on the global economic front.
- April’s flood damage to economic capacity, higher interest rates and slowing global growth all contributed to the poorer outcome for economic activity in Q2.22, while the high base on Q1.22’s economic activity also had a very suppressing effect.
- Indeed, for SA without the Q1.22 extremely strong growth rate of 1.7% qqsa, Q2.22 would have recorded a positive growth outcome if Q1.22 had seen GDP accelerate by 0.9% qqsa or less. 0.4% qqsa was the average quarterly growth rate over the 2010s, 0.9% for the 2000s.
- Q1.22 benefitted from the removal of lockdown restrictions, and expectations of strong global demand, with the latter boosting manufacturing production, while Q4.21 had low base effects on the lagged effects of the July riots, some lockdown restrictions in the face of Omicron.

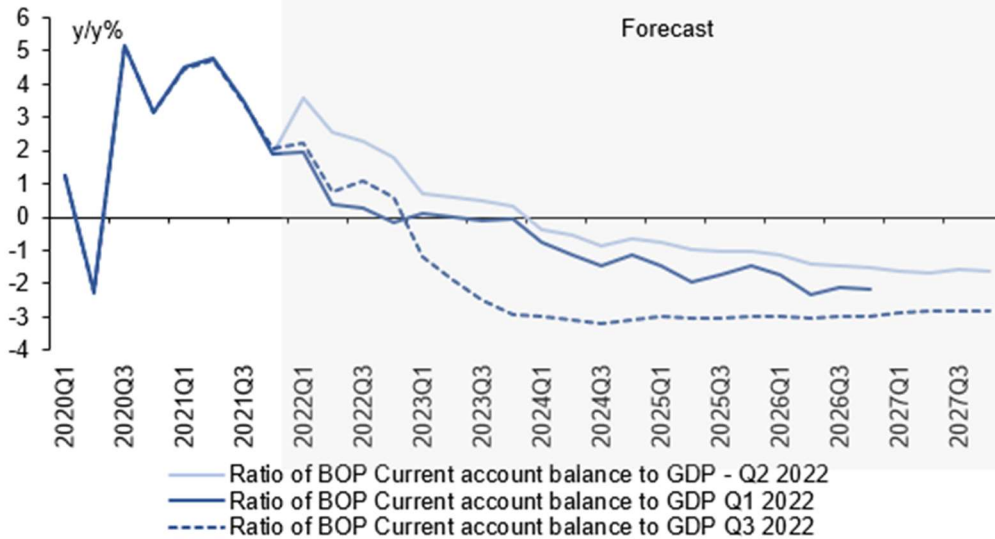
The Covid-19 crisis and the war in Ukraine



Source: IMF 2022 External Sector Report

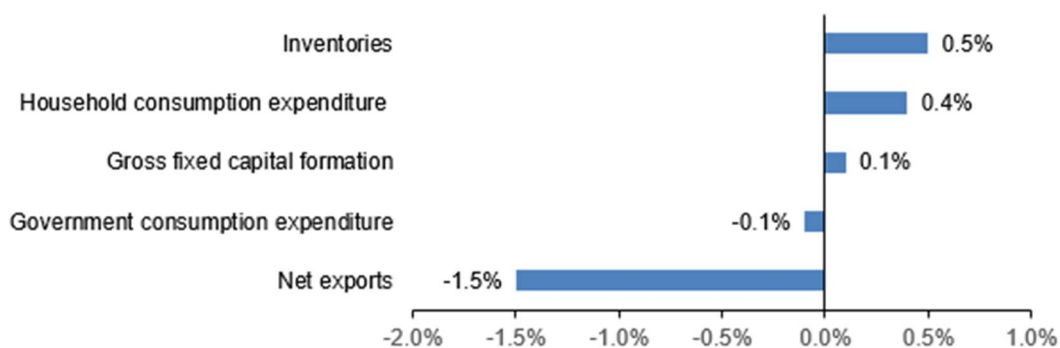
Note: Global imports in volumes

South Africa: Current Account forecasts - (% of GDP)



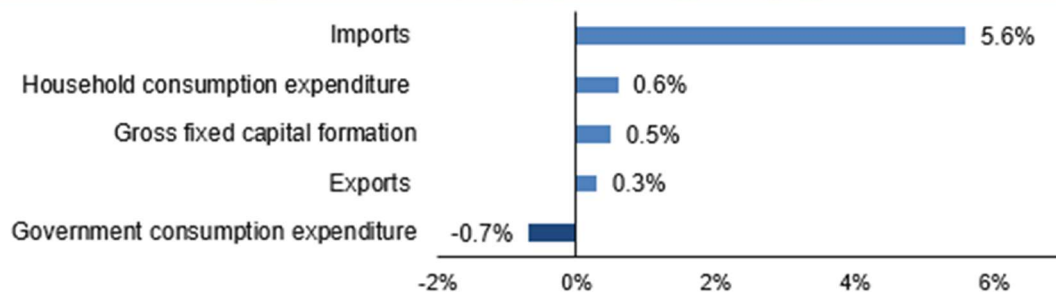
Source: Investec

South Africa - contributions to Q2.22 GDP (Expenditure approach)



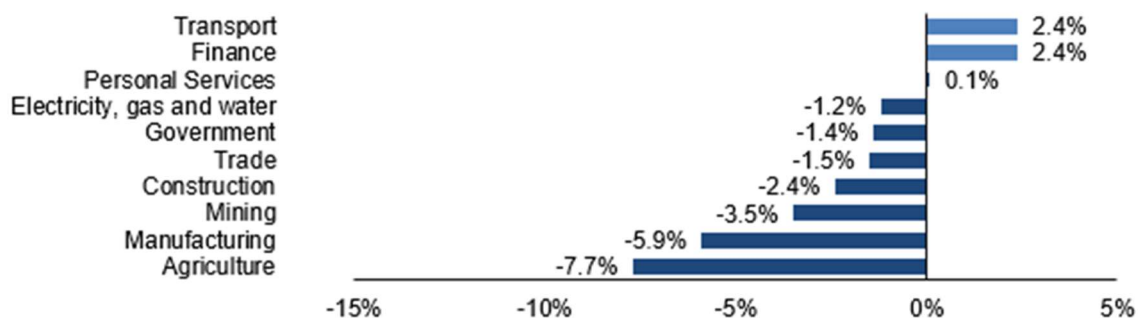
Sources: Stats SA

South Africa GDP sector performance in Q2.22 (Expenditure approach), qqaa



Sources: Stats SA

South Africa GDP sector performance in Q2.22 (production approach), qqaa



Sources: Stats SA