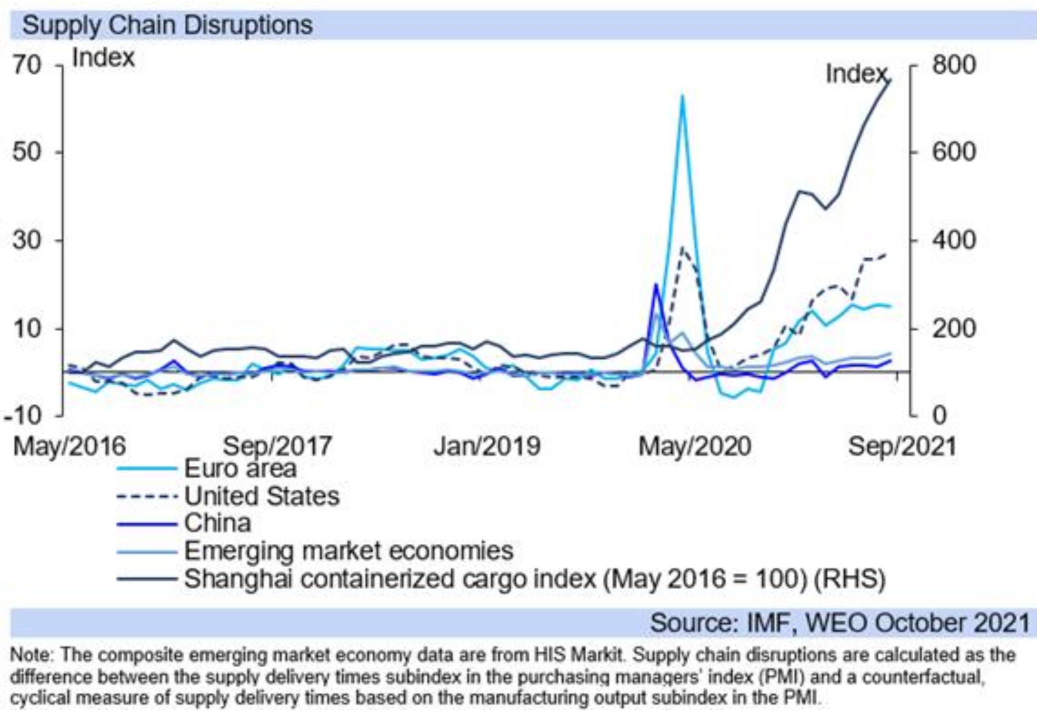
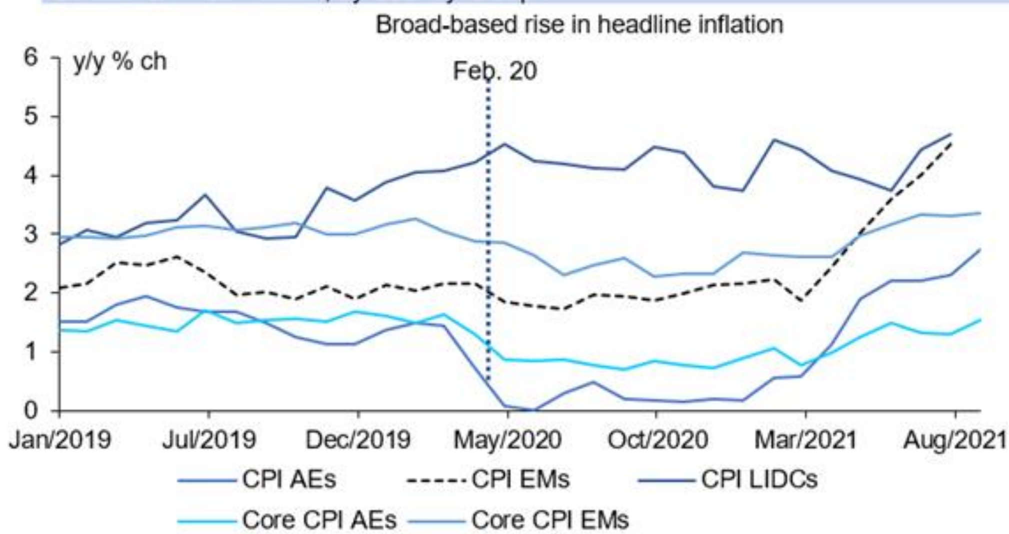
SA Economics

Friday 8 October 2021

Covid-19: while economies are in various stages of recovery from restrictions on their activity as the pandemic spread, high inflation is only expected to subside markedly in 2022, with pressure now on monetary policy



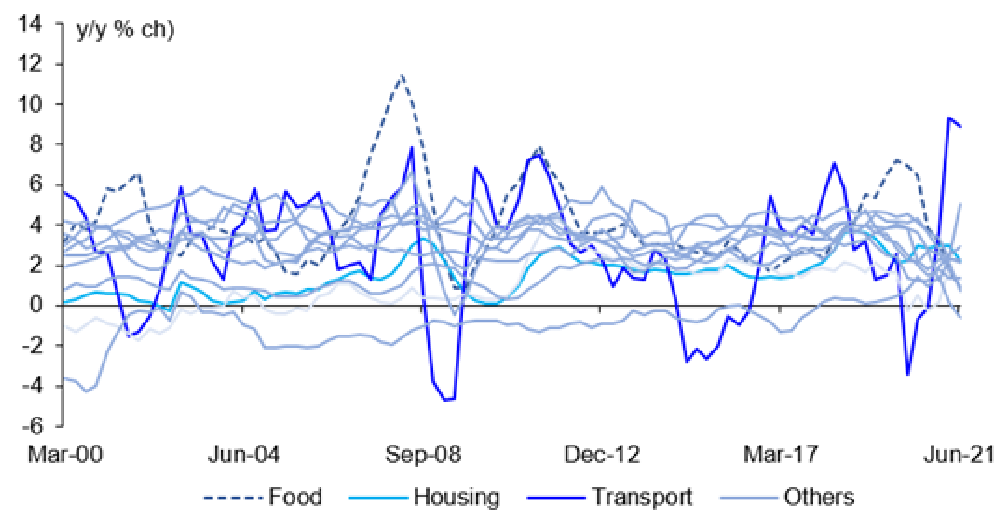
Consumer Price Inflation, by Country Group



Source: IMF, WEO October 2021

Note: The vertical line indicates February 2020. AEs = advanced economies; CPI = consumer price index; Ems = emerging market economies; LIDCs = low-income developing countries

Sectoral Inflation



Source: IMF, WEO October 2021

Note: Averages weighted by country's purchasing-power parity GDP

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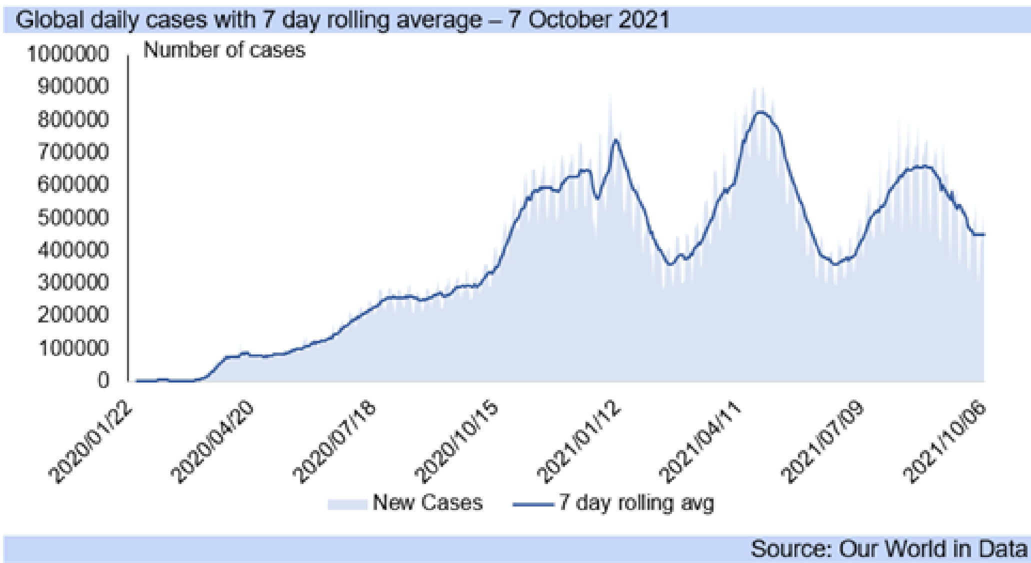

- Globally cases of COVID-19 have subsided in the third wave, although some countries such as the UK and Australia have yet to see this occur, with vaccination rates still uneven between economies; and the IMF believes risks to global recovery are increasing.
- In particular, it warns "(m)ost emerging and developing countries will take many more years to recover. This delayed recovery will make it even more difficult to avoid long-term economic scarring -- including from job losses" and cites the "vaccine divide" as a key concern.

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- “(T)he risks to a broad global economic recovery are rising due to a persistent divide in vaccinations, accelerating inflation and burgeoning debt that all threaten to leave developing countries far behind.”
- The sharp acceleration in inflation on restarting global supply chains as COVID-19 waves wane and high input prices, is only expected to decelerate markedly in 2022. The IMF warns of risks of even higher inflation, including the risk of a de-anchoring of inflation expectations.
- This later point is likely to be key in Central bank monetary policy considerations around the world as the pandemic is seen to have subsided. South Africa’s Reserve Bank (SARB) recently emphasised risks to domestic inflation in its October MPR (Monetary Policy Review).
- In particular, the SARB highlights that a stronger economic recovery than it anticipated occurred in H1.21, versus the lockdown impacts on 2020, and "underlying price pressures may be stronger than initially thought", with the medium-term inflation outlook rising sharply.
- The SARB adds that while SA’s “headline inflation remains contained and core inflation modest, there are several material upside risks. Global food prices look set to remain elevated, posing a risk to domestic inflation despite the expected bumper harvest in 2021.”
- “(R)ising global inflation and supply constraints could drive up imported inflation, with the impacts exacerbated potentially by rand depreciation.” The SARB particularly worries about inflation and points to a likely “earlier start to normalisation in the advanced economies”.
- Monetary policy authorities are generally sounding more hawkish and the SARB has been indicating it could hike rates by November already, which could tie in with US QE tapering, even though SA’s economy has not recovered to 2019 levels and unemployment is very high.

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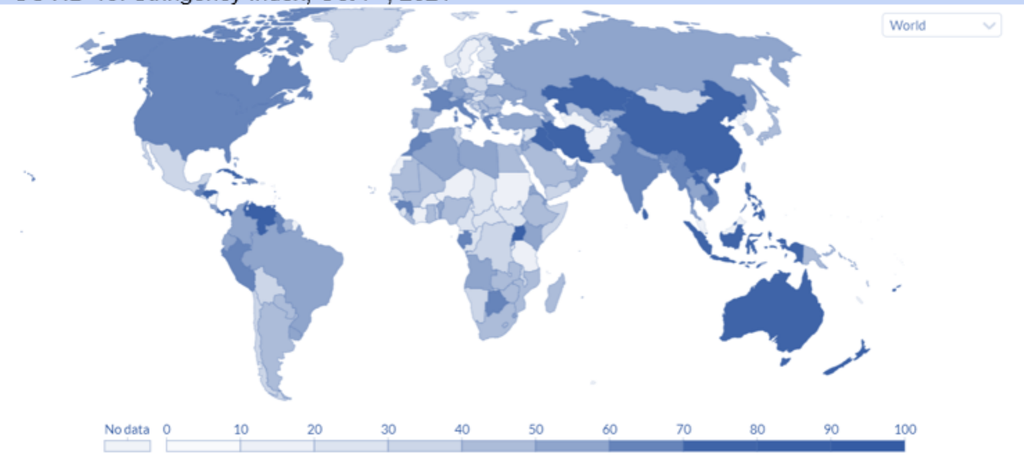
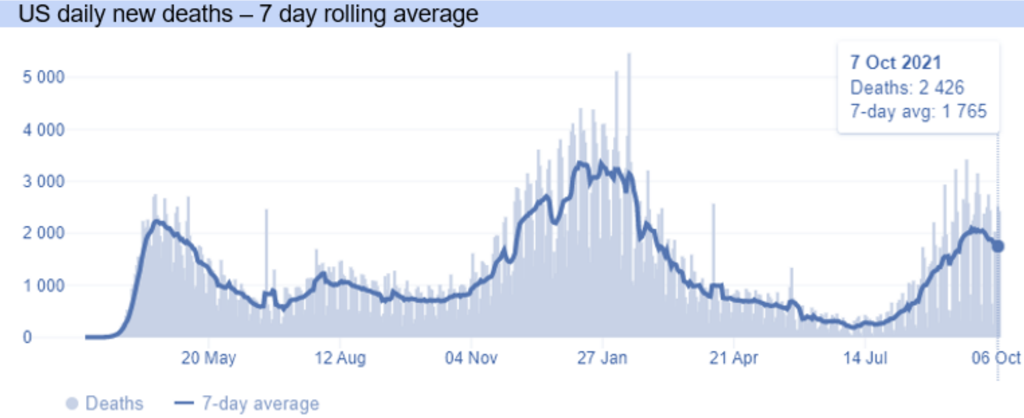
COVID-19: Stringency Index, Oct 7th, 2021



Source: Our world in data

This is a composite measure based on nine response indicators including school closures, workplace closures, and travel bans, rescaled to a value from 0 to 100 (100 = strictest). If policies vary at the subnational level, the index is shown as the response level of the strictest sub-region.

US daily new deaths – 7 day rolling average

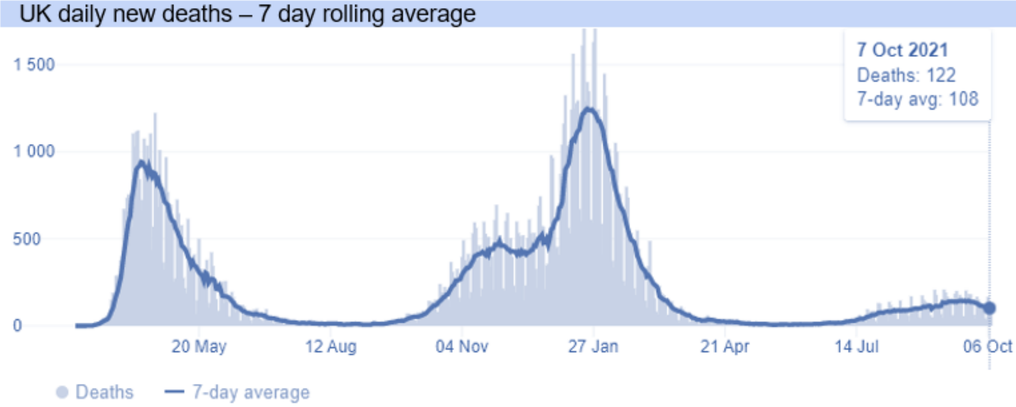


Source: The New York Times

Australia daily new deaths – 7 day rolling average

Source: The New York Times

UK daily new deaths – 7 day rolling average



Source: JHU CSSE

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Countries, territories and areas reporting variants Alpha, Beta, Gamma and Delta

Source: WHO

- South Africa’s Monetary Policy Review states quite a few times that the SARB’s quarterly projection model suggests normalisation of momentary policy (i.e. higher interest rates for South Africa) should begin this quarter (Q4.21). The next MPC meeting is in November.
- In particular, “risks to the inflation outlook have risen and become more broad-based, while real rates have become more negative as expected inflation has risen. These developments imply a need for interest rates to begin normalising.”
- The October MPR is very clearly indicating that the SARB is beginning to lean away from keeping the repo rate on hold at its low 3.50% it was cut to help the economy recover, and instead November’s MPC meeting could yield a 25bp repo rate hike on the 18th .
- The SARB is already evincing less concern about the economic recovery, emphasising that “GDP has largely recovered to the 2019 level” while “risks to the inflation outlook have risen and become more broad-based”.
- Furthermore, “(p)ermanently lower inflation would enhance South Africa’s competitiveness, and would raise the prospect of borrowing costs for households and firms being permanently lower.”
- "The MPC has repeatedly highlighted the importance of structural reforms, among them, providing sufficient energy for growth, lowering the impact of administered prices on overall inflation and further de-risking the economy by stabilising public debt.”
- “Reducing these constraints should bring about more dynamism in the economy, driving potential growth higher, reducing South Africa’s high structural unemployment and also lowering inflation.”
- It is quite clear SA’s and many other central banks are looking to withdraw accommodative monetary support to economies and move forward with returning to neutral levels of interest rates (which are seen to neither add to nor detract from economic growth).

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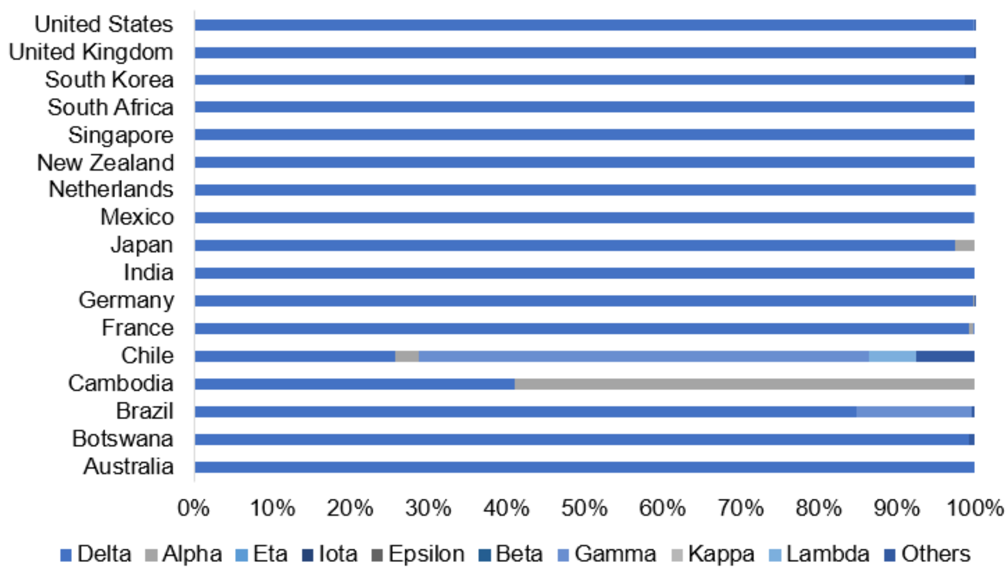
- However, the IMF highlights COVID-19 and other risks to the economic outlook still. Any premature withdrawal of monetary support will exacerbate the native impact on economies from a resurgence of COVID-19 with vaccination rates still low globally.

SARS-CoV-2 sequences by variant (06/09/2021)



Source: Our world in data

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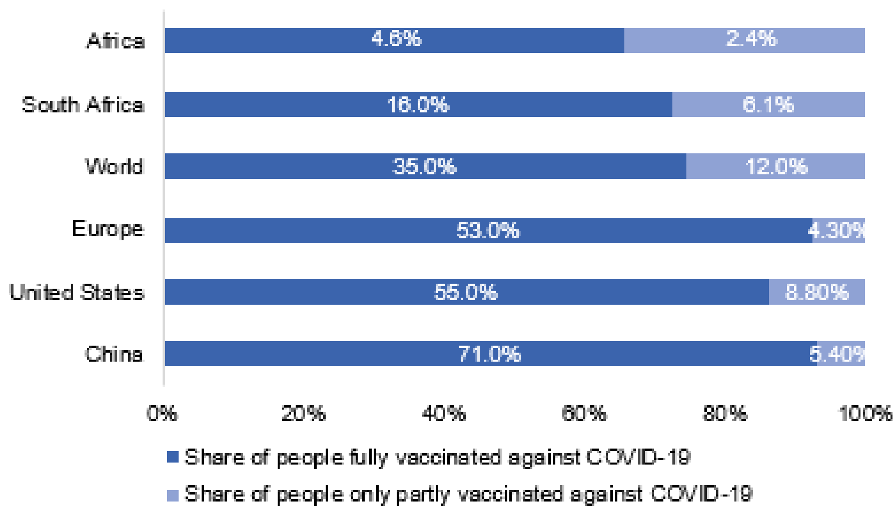
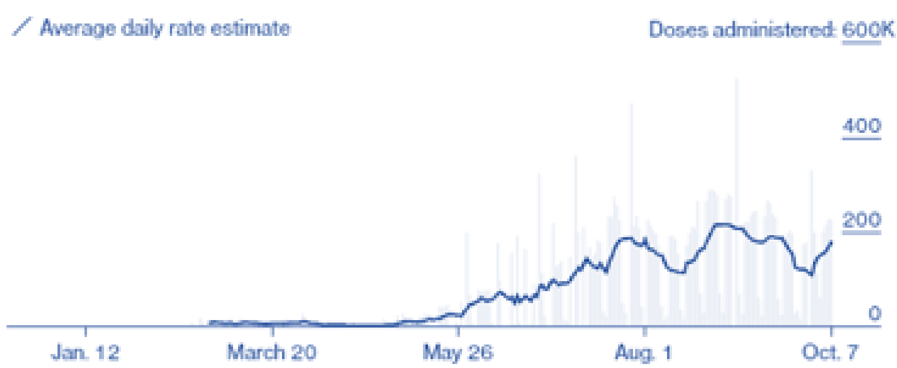
Share of people vaccinated against COVID-19 (07/10/2021)



Source: Our world in data

South Africa vaccination rate



Source: Bloomberg Vaccine Tracker, 8 October 2021

Note: Immunity calculations take into account the number of doses required and the current rate of administration for each vaccine type. The "daily rate estimate" is a seven-day trailing average; interpolation is used for countries with infrequent updates. Data from Bloomberg's Covid-19 Vaccine Tracker.

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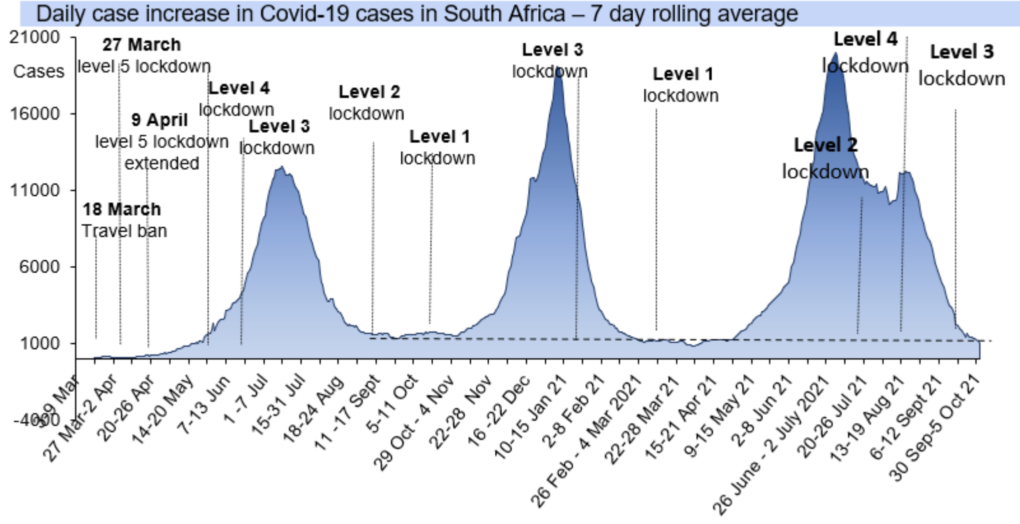
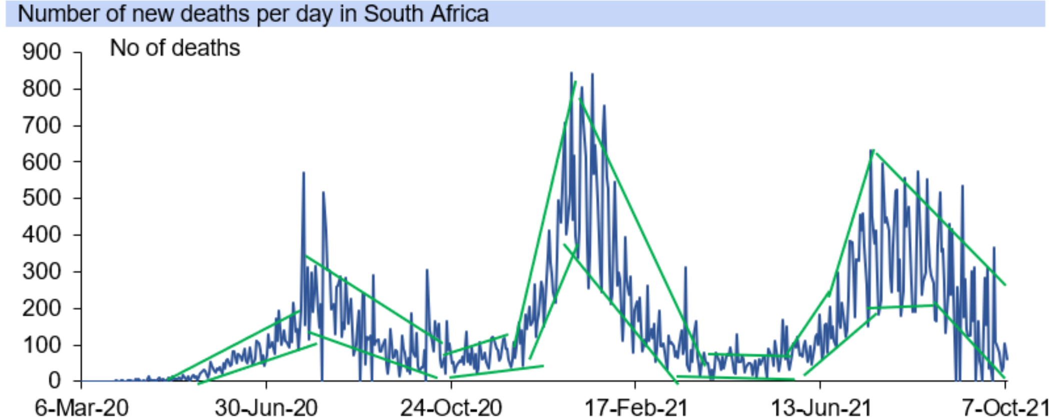
Daily case increase in Covid-19 cases in South Africa – 7 day rolling average



Source: National Department of Health

Number of new deaths per day in South Africa



Source: World Health Organization