Forecaster ECOSA

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Data Analysis

7 SEPTEMBER 2021

Q2 2021 SA GDP

HIGHLIGHTS

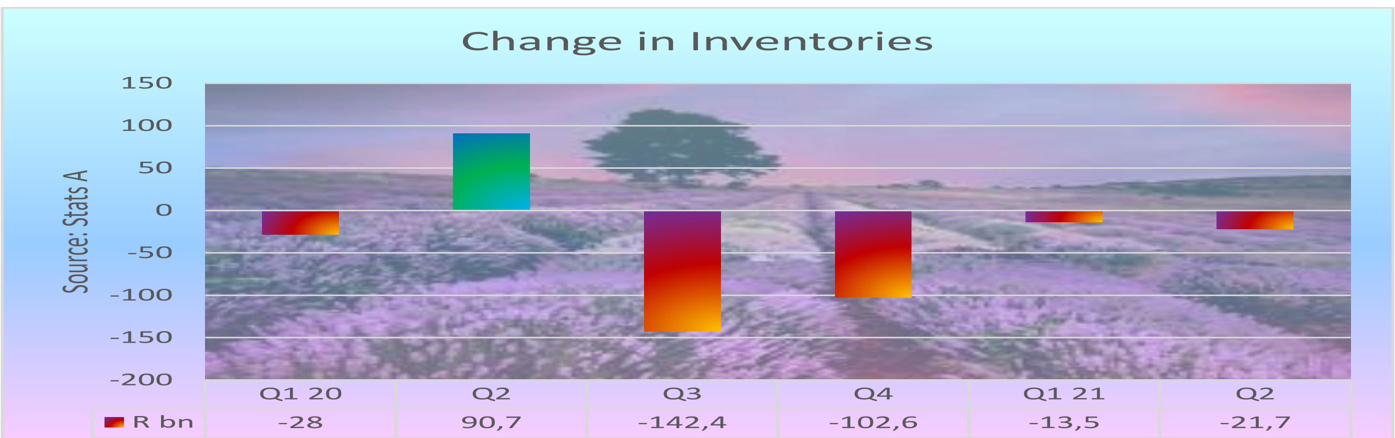
- SA GDP (production) grew by 19,3% y/y in the first quarter
- First y/y increase after five quarters of y/y declines
- The Bloomberg consensus was 17,8% y/y, while my forecast was 20% y/y
- Q2 2021 GDP is 1,4% less than Q1 2020 and 1,7% below peak of Q4 2018
- Q2 2021 GDP back at Q4 2017 level
- Quarterly growth figures are now reported as non-annualised
- The first quarter growth was revised lower to 1,0% from 1,1%
- Transport and communications grew by 6,9% q/q (my forecast 5,4%) and made the largest contribution to GDP growth, namely 0,5 percentage points (ppt).
- The mining and quarrying industry grew by 1,9% (1,8%) and contributed 0,1 ppt.
- The trade, catering and accommodation industry grew by 2,2% (2,1%) and contributed 0,3 ppt
- The personal services sector grew by 2,5% (2,6%) and contributed 0,4 ppt
- SA GDP (expenditure) grew by 1,2% q/q in the second quarter
- Although inventories were added to on a non-seasonally adjusted basis, after seasonal adjustment they were further depleted (R21,7bn), so the change in inventories subtracted 0,2 ppt from GDP growth
- ***Final sales, ie GDP excluding the change in inventories, rose by 1,4%***
- Gross domestic expenditure, which includes the investment in inventories, only grew by 0,3%
- Household consumption expenditure grew by 0,5% (0,5%) and contributed 0,3 ppt
- Government consumption expenditure fell by 0,1% (+0,1%) and subtracted 0,0 ppt
- Gross fixed capital formation rose by 0,9% (-0,3%) and contributed 0,1 ppt
- Net exports contributed positively to growth in expenditure on GDP in the second quarter
- Compensation of employees grew by 14,1% y/y in Q2 after a 0,7% y/y gain in Q1
- The Gross Operating Surplus of companies soared by 36,9% y/y after a 6,0% y/y jump

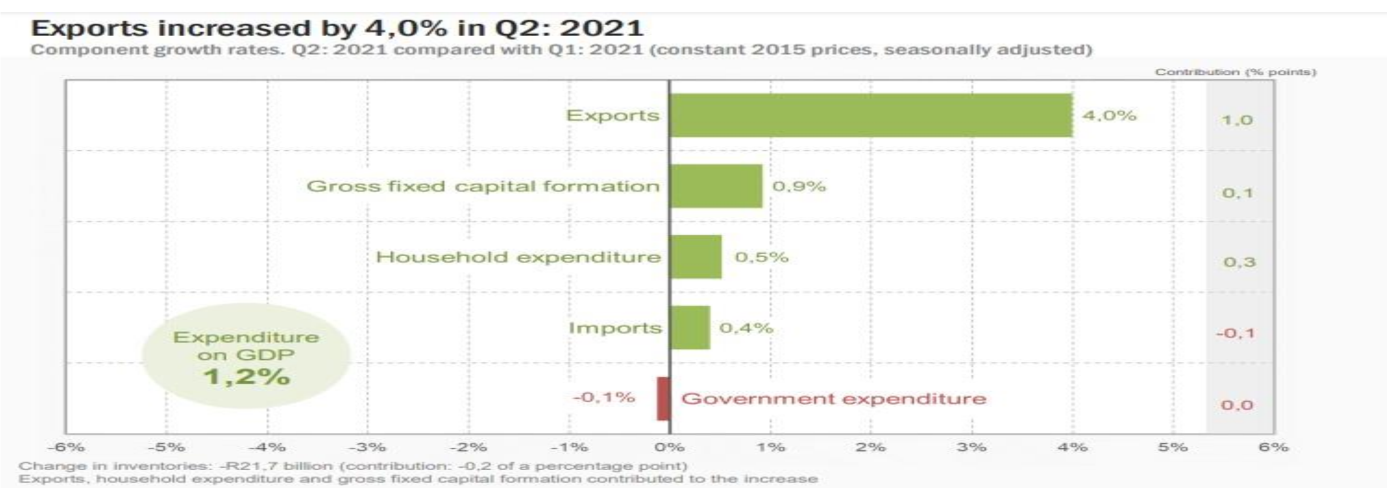
Data Analysis

1. GDP Expenditure Measure

As I reported in the first quarter 2021 Quarterly Bulletin, the impact of national lockdowns due to the Covid-19 pandemic was unprecedented, but the headline 7,1% plunge in gross domestic product (GDP) overstated the collapse, as final demand, that is GDP less the change in inventories, only fell by 4,5%. This is in line with the 4,5% drop in real household income, but unfortunately neither of these very important indicators of “real” economic activity were reported on by the media, so the broader public is unaware of the true state of affairs. Businesspeople on the other hand see robust demand, which had to be met by drawing down inventories to record low levels, so they are boosting orders and that is starting to be reflected in the surge of imports with full containers imported climbing by 29% y/y in March 2021.

Although businesses added to inventories on a non-seasonally adjusted basis in the second quarter, after seasonal adjustment we had the fourth consecutive quarter of inventory depletion. The inventory addition in the second quarter 2020 was “involuntary” as the liquor industry still had to process the wine crop, but could not legally sell it, so it had to be added to inventories.

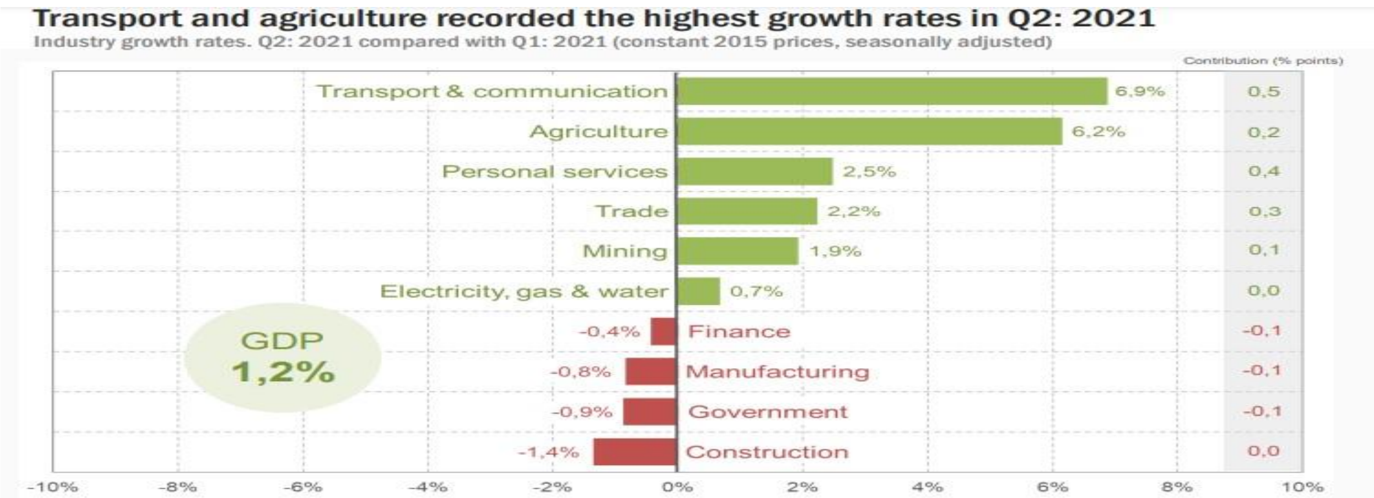




1. GDP Production Measure

The 43,0% y/y surge in exports, the 18,6% y/y increase in imports and more robust internal trade was reflected in the 23,2% y/y jump in the transport and communication sector, which was the strongest performer on a quarterly basis. This sector unfortunately would have been the sector most affected in the third quarter by the July insurrection and the Transnet cyber attack.

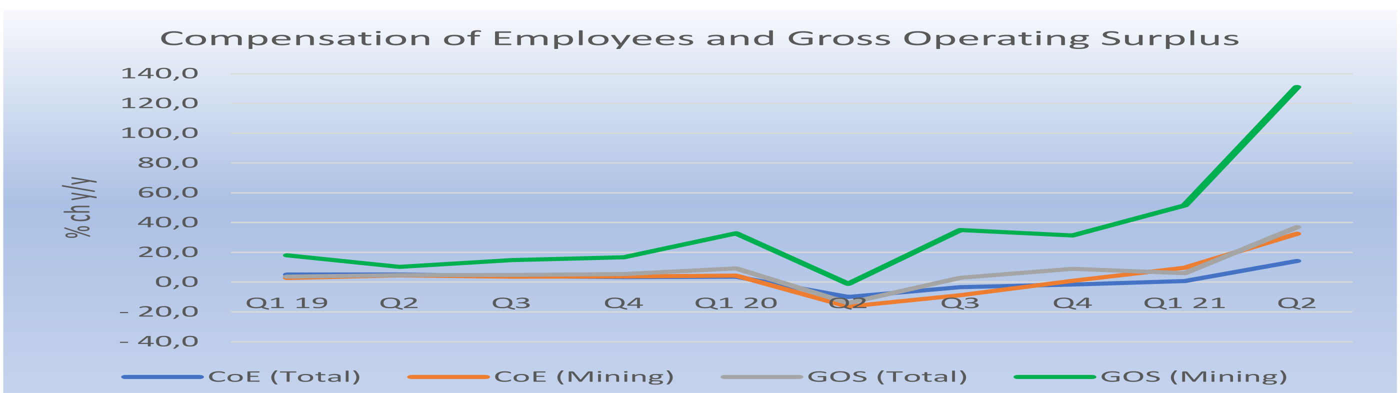
Data Analysis



2. Wages and Profits

The media tend to overlook the compensation of employees and the gross operating surplus as key components of national income, which in turn determines gross domestic product.

In the second quarter, wages grew by 14,1% y/y after a 0,7% y/y gain in the first quarter. This is why I remain confident of my 3,4% increase for the full year in household consumption expenditure. The gross operating surplus soared by 36,9% y/y after a 6,0% y/y increase in the first quarter. This is why I may have to change my view on gross fixed capital formation, which had a quarterly growth and is now up 16,1% y/y after 12 quarters of y/y declines.



3. Conclusion

The first quarter GDP growth was better than I expected, while the second quarter was slightly worse, but as yet does not warrant a change to my forecast of 5,1% growth for the full year, as the impact of the July insurrection still needs to be factored in. The 7,5% y/y increase in the first half gives me comfort that we can still achieve 5% growth this year.

The pace of vaccinations, the rhetoric around the local government elections, especially that on expropriation without compensation, and load shedding are the major risk factors on the downside, while the risk factors on the upside are stronger growth in manufacturing and mining on the production side and a faster replenishment of inventories on the expenditure side.