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Note: Shaded area in graphs denotes the downward phase of the business cycle.

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Highlights

Massive job losses counted in Q2

Stats SA reported that just more than 2.2 million workers lost their jobs during the second quarter, the peak of the COVID-19 lockdown. This amounts to 13.6% of all those who were employed in the first quarter. Among the main economic sectors, most losses occurred in community and social services, followed by the trade sector. Hardly any jobs were lost in the electricity, gas and water supply sector.

Mining and manufacturing continued to recover in July

Despite a third consecutive monthly increase, **manufacturing** production was still down by 10.6% y-o-y in July. The pace of recovery did slow somewhat from 30% m-o-m in May to 18% in June to 7.6% in July. The largest negative drags on the annual figure were the beverages as well as the motor vehicle parts and accessories and other transport equipment sectors. Despite a solid 20.1% monthly increase, **mining** production was still lower by 9.1% y-o-y in July. Total output was dragged down by the decline in other non-metallic minerals, coal, and iron ore. Meanwhile, higher prices for platinum group metals (PGMs) and gold drove mineral sales to an 11.3% y-o-y increase.

MPC on hold in September

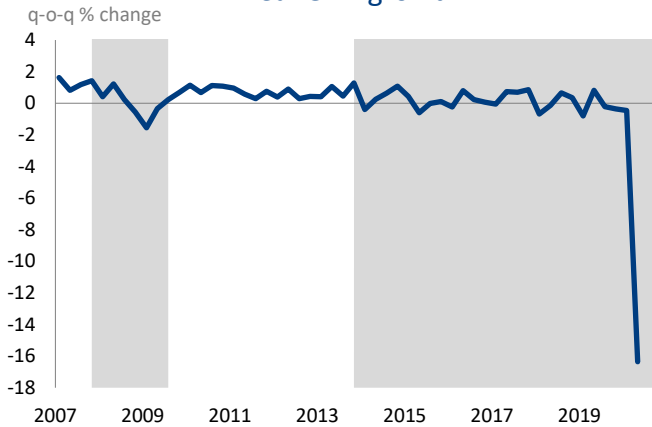
For the first time this year the Monetary Policy Committee (MPC) of the SARB decided to keep the repo rate unchanged at a multi-decade low of 3.5%. Of interest was that the statement mentioned that, in recent months, many fiscal and monetary authorities in other parts of the globe had opted to wait for new data. This is in order to gauge the speed of GDP recovery from the dramatic Q2 collapse before making further adjustments to policy settings. The MPC again emphasised that future interest rate decisions would remain data dependent.

Confidence data suggests economy improved in Q3

The RMB/BER Business Confidence Index (BCI) and the FNB/BER Consumer Confidence Index (CCI) provided more insight into the recovery prospects for 2020Q3. After falling from 18 to an all-time low of 5 in Q2, the **BCI** rebounded to 24 in Q3. From such a low base, when the strictest of lockdowns took effect, this improvement is not entirely unexpected. The **CCI** increased from -33 to -23 in Q3. The partial recovery can be ascribed to increases in the household finances and time-to-buy durable goods sub-indices.

Core indicators

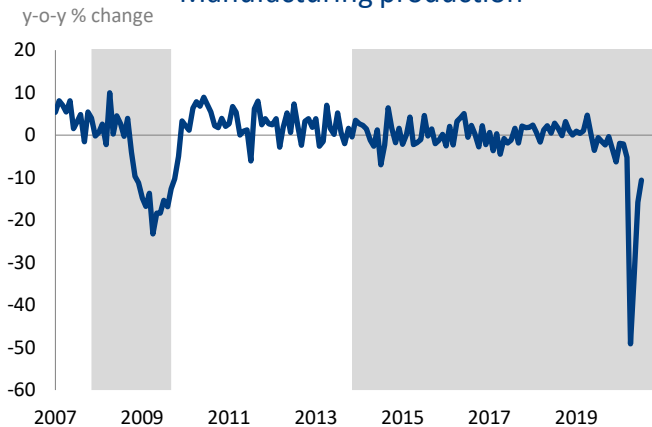
Real GDP growth



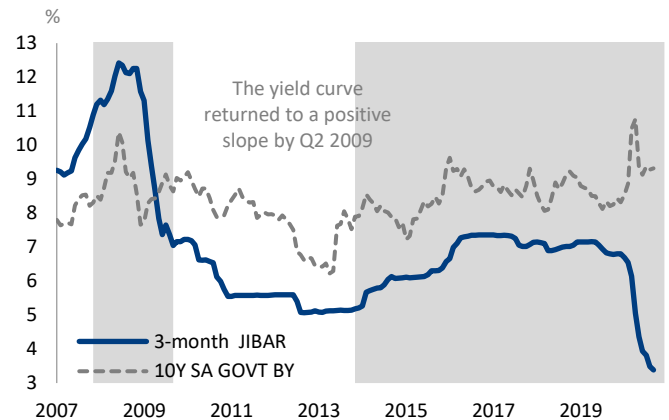
CPI inflation



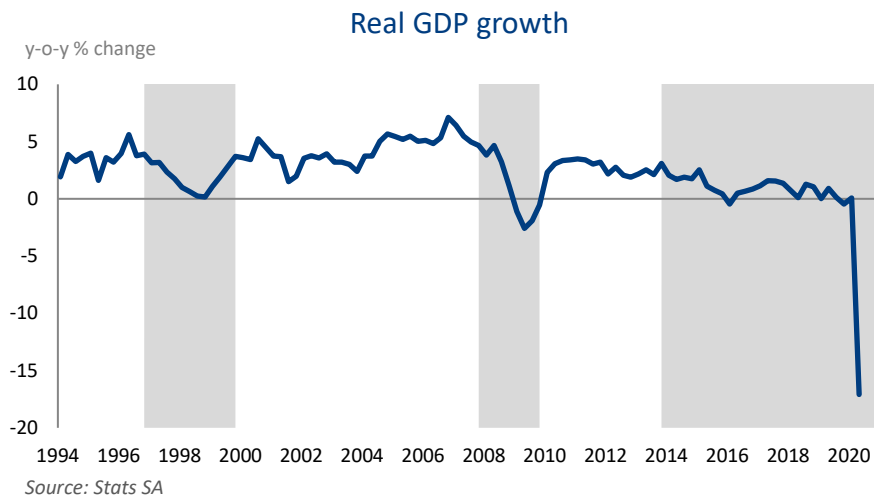
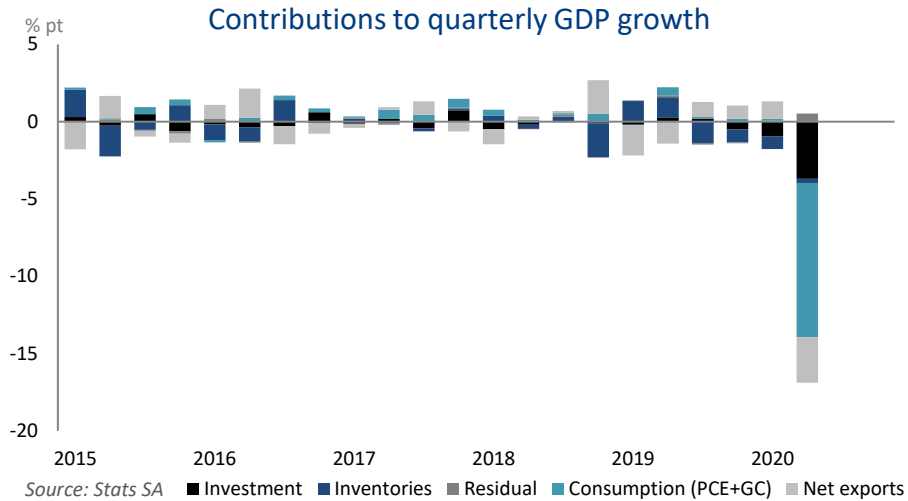
Manufacturing production



Interest rates

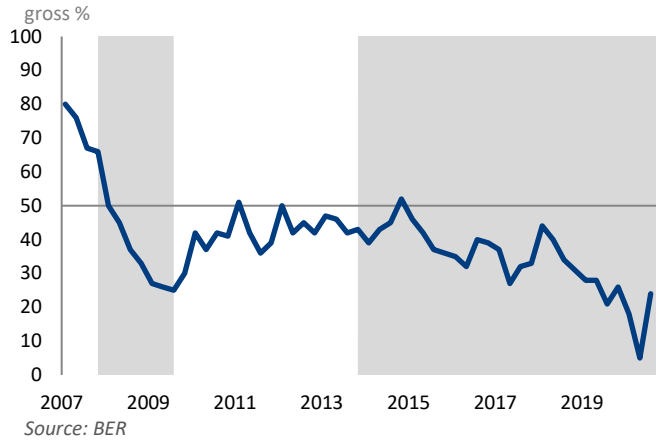


GDP growth

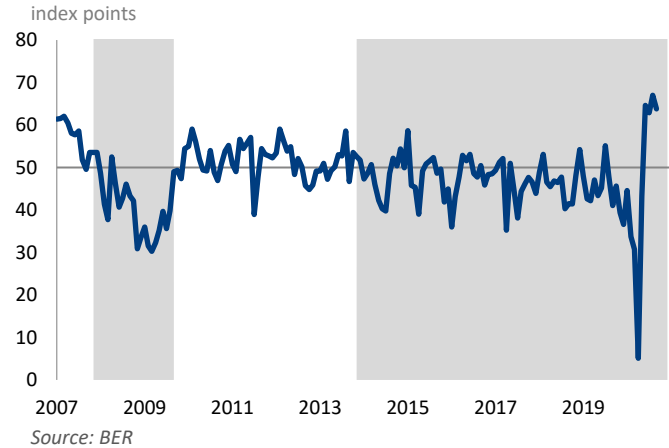


Business environment

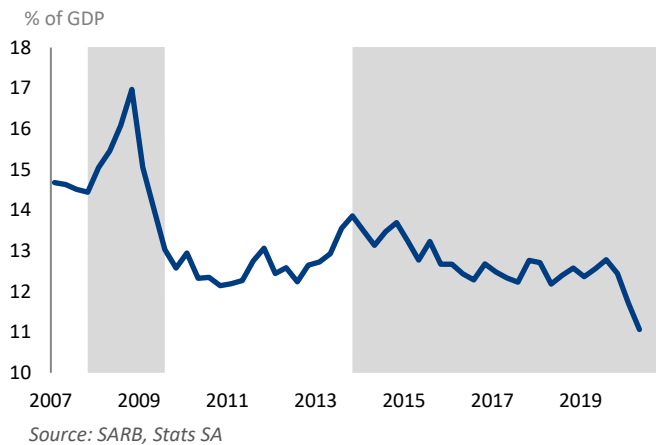
RMB/BER Business Confidence Index



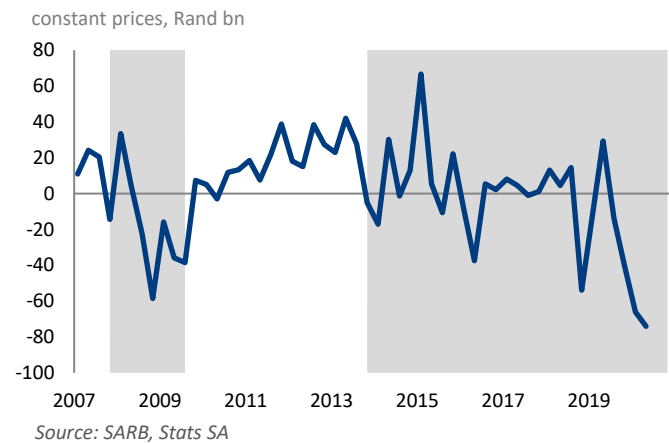
Absa PMI survey - business activity index



Private fixed investment

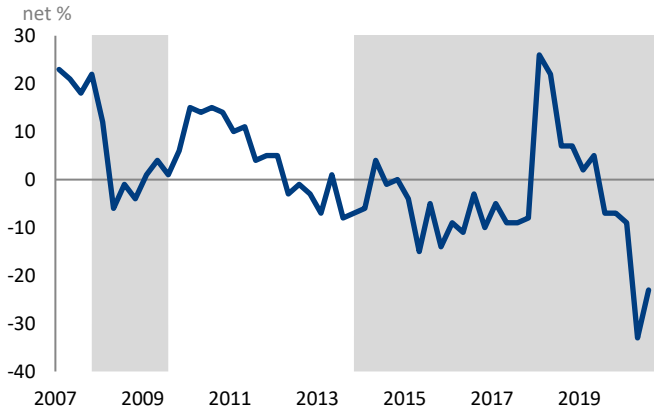


Changes in inventories



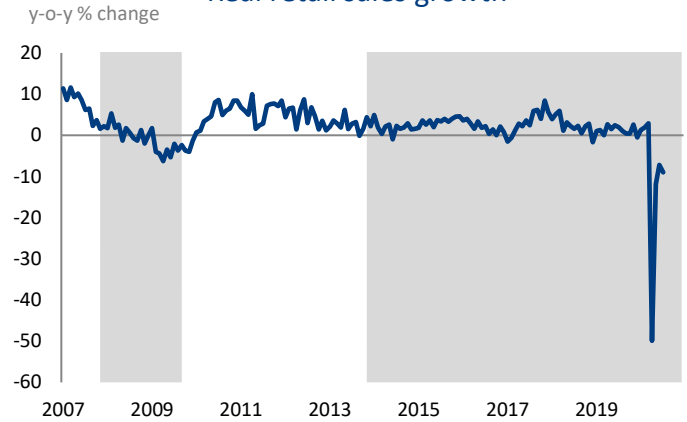
Household consumption

FNB/BER Consumer Confidence Index



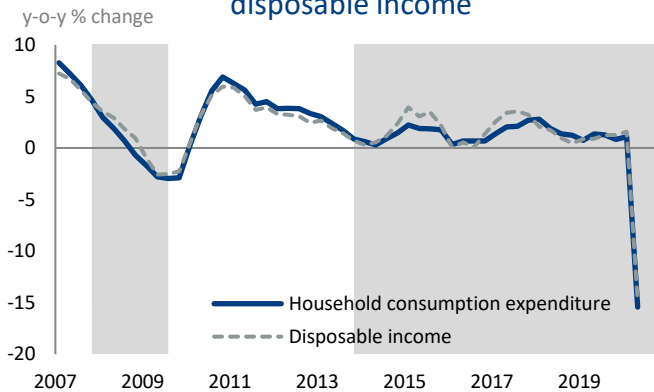
Source: BER

Real retail sales growth



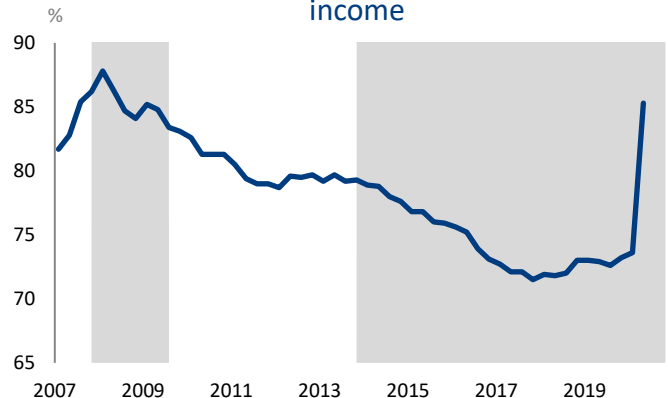
Source: Stats SA

Household consumption and real disposable income



Source: SARB, Stats SA

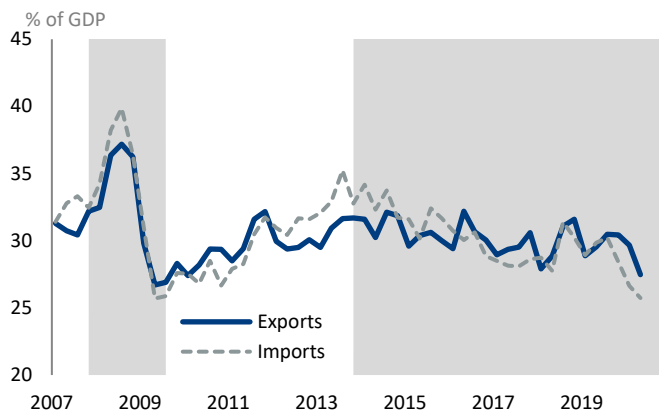
Ratio of household debt to disposable income



Source: SARB

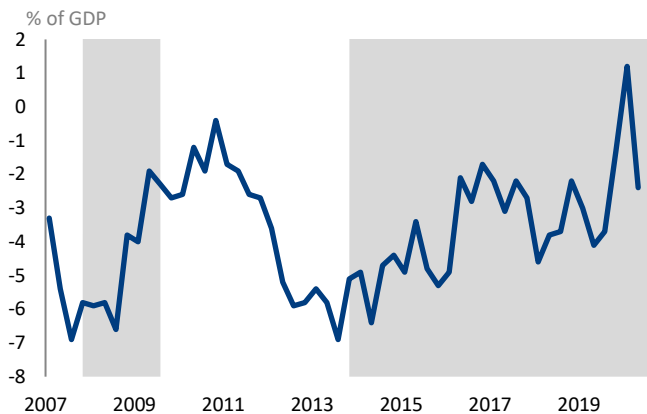
International trade

Imports and exports



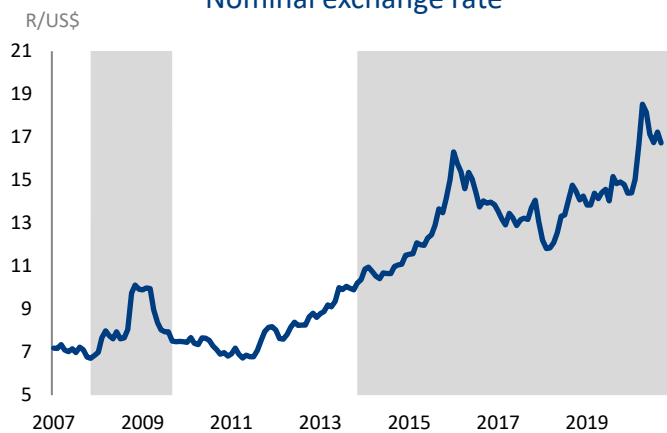
Source: SARB, Stats SA

Current account balance



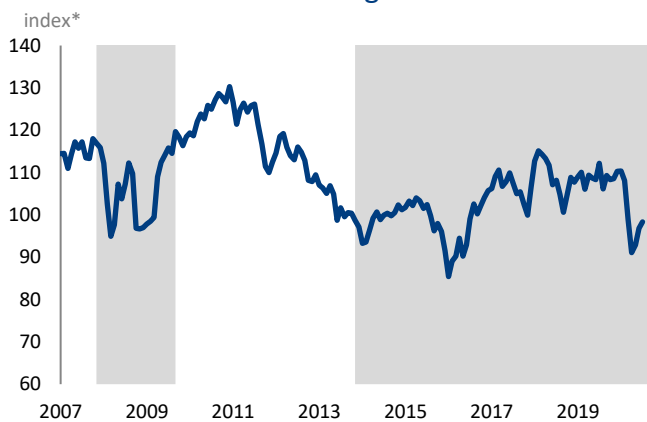
Source: SARB

Nominal exchange rate



Source: DataStream

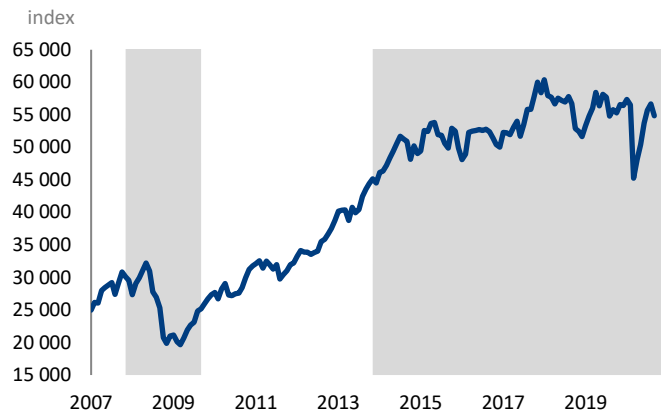
Real effective exchange rate of the Rand



Source: SARB *higher values denote a stronger rand

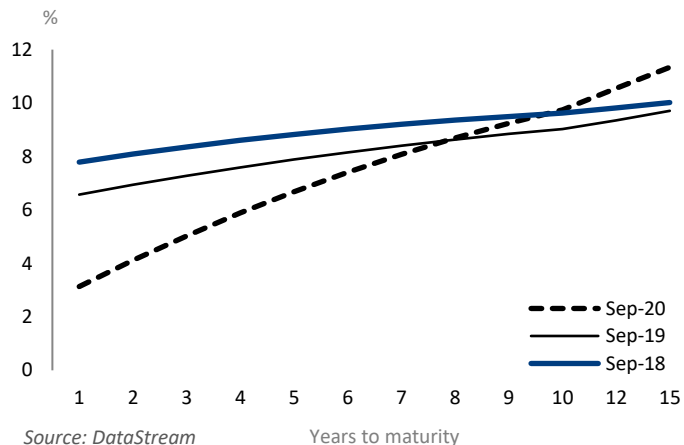
Financial markets

JSE all share index



Source: DataStream

Yield curve comparisons



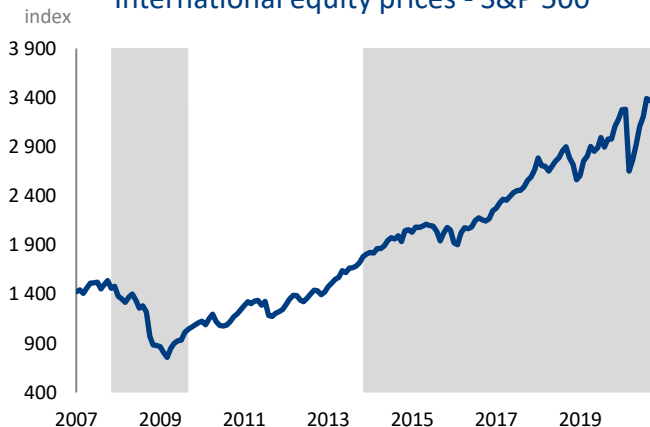
Source: DataStream

Economist all commodities index



Source: Economist

International equity prices - S&P 500

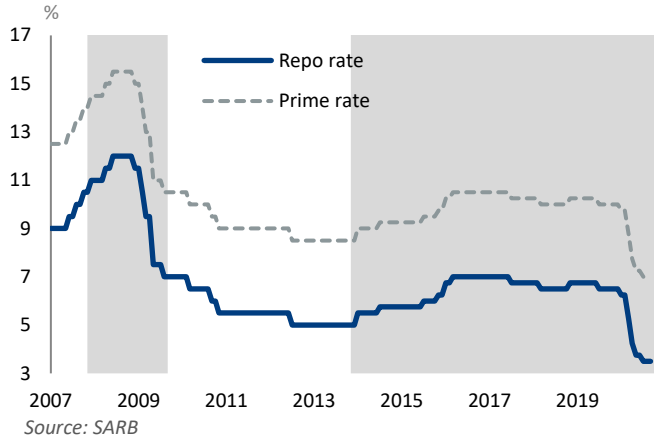


Source: DataStream

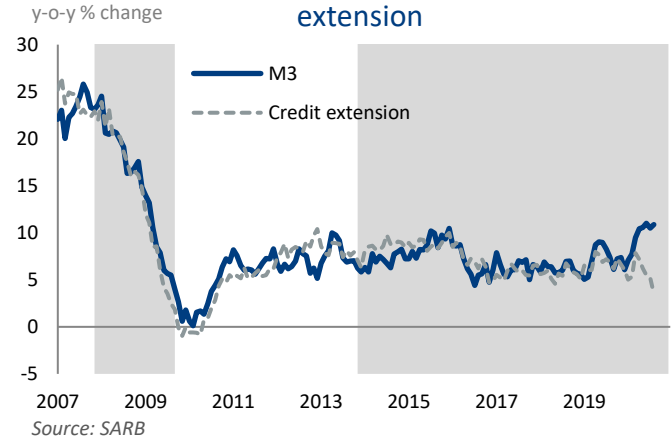
Please refer to the [glossary on the BER's website](#) for explanations of technical terms.
[Click here for more information about the BER's services.](#)

Money and prices

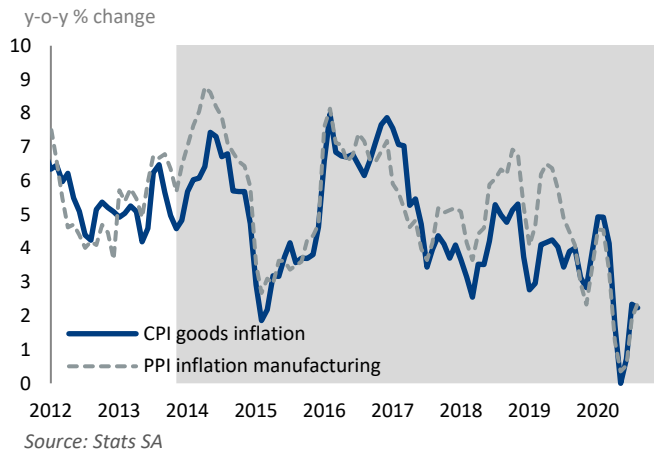
Repo and prime interest rate



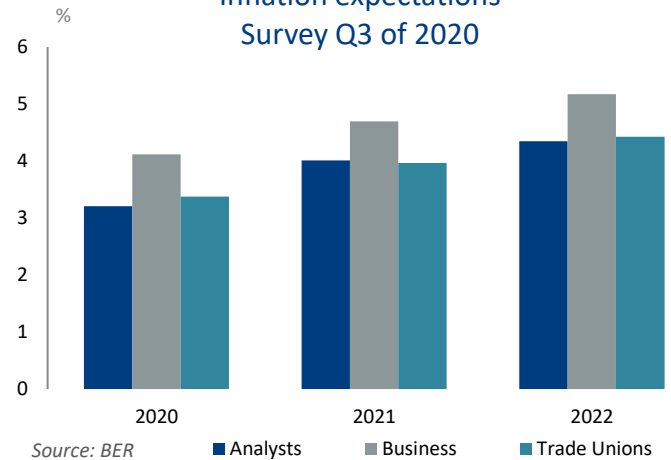
M3 monetary aggregates and credit extension



Consumer and producer prices

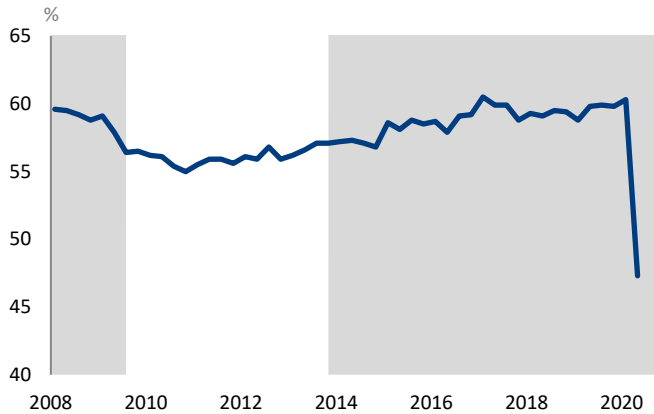


Inflation expectations Survey Q3 of 2020



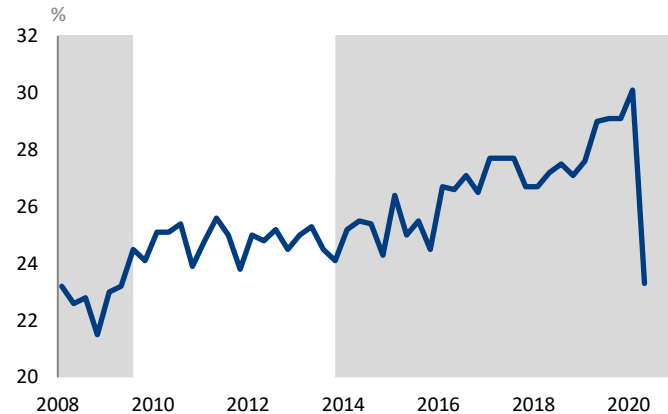
Labour

Labour force participation



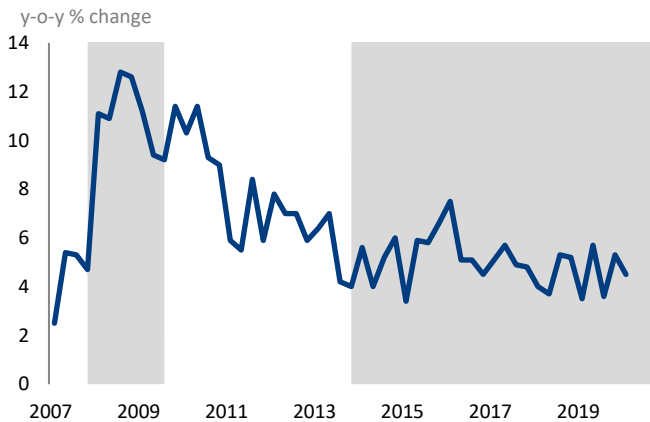
Source: Stats SA

Unemployment rate



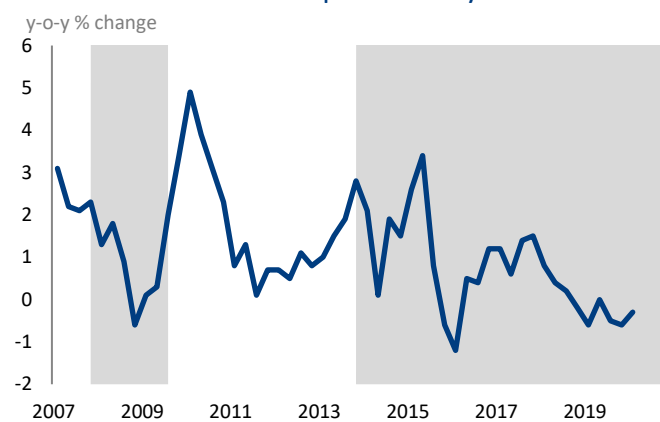
Source: Stats SA

Unit labour cost



Source: SARB

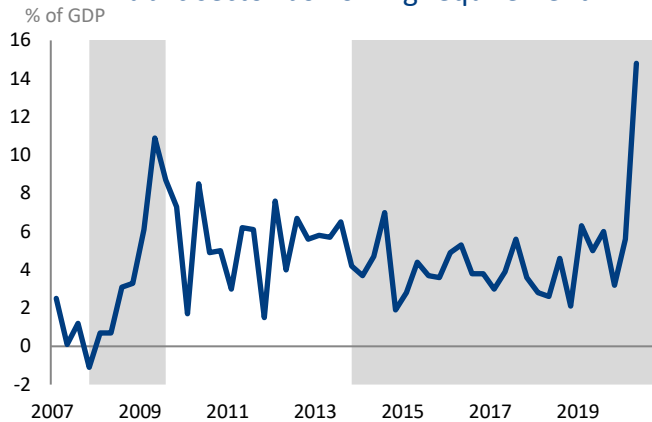
Labour productivity



Source: SARB

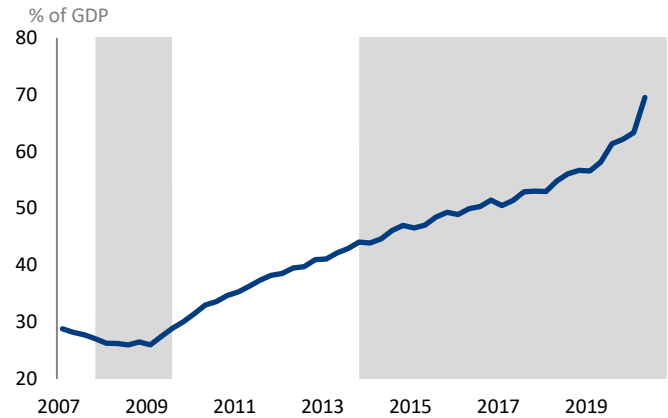
Government

Public sector borrowing requirement



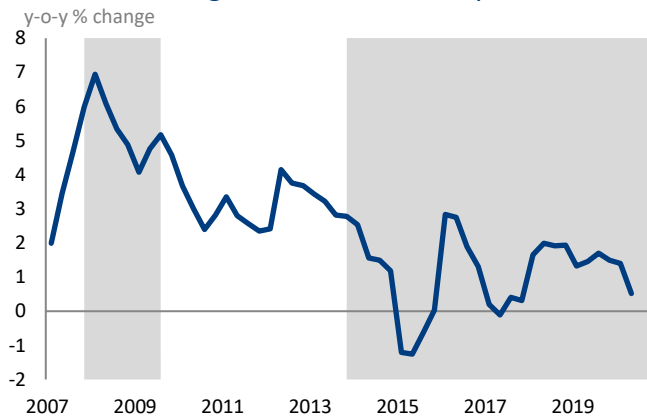
Source: SARB

Gross government debt



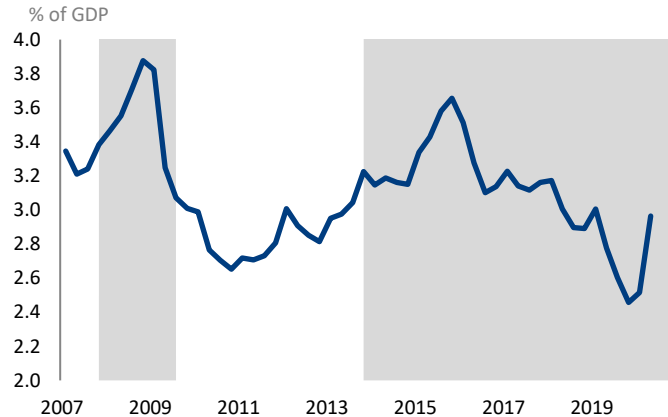
Source: SARB

Real government consumption



Source: SARB, Stats SA

Government fixed investment



Source: SARB, Stats SA

Recession algorithm¹

As expected, the sudden stop in real economic activity during the second quarter of 2020 was comprehensive and actually slightly worse compared to the already gloomy market expectations. Real domestic spending contracted by 14% compared to the first quarter. Real exports shrank by nearly 28%, which was significantly worse than expected, also explaining the sharper 16.4% contraction in overall GDP. The export slump is mirrored in the contraction of the mining (28%) and manufacturing (29%) sectors, supplying the bulk of SA's exports. (Though, these two sectors were also impacted by the domestic lockdown.) On the demand side, real household spending contracted by 16% and real gross domestic fixed investment by 20%. Real government spending remained virtually flat.

The only sector countering the contraction was agriculture that benefitted from beneficial climatic conditions. This sector expanded by 3.6%. The carnage in the other sectors, except public services, was dramatic – the secondary sector contracted by 27% and the services sectors by 12%. Even the financial & business services sector, which has been the source of growth in the economy over recent years, contracted by a larger-than-expected 8.2%.

From a business cycle perspective, the anticipated recovery from this deep trough is, of course, of utmost importance. The RMB/BER business confidence index recovered from an unprecedented low of 5 to 24 index points during the third quarter; the FNB/BER consumer confidence index improved from -33 points to -23. High-frequency data also point to a recovery in sales and business volumes as the hard lockdown measures were eased from the beginning of June.

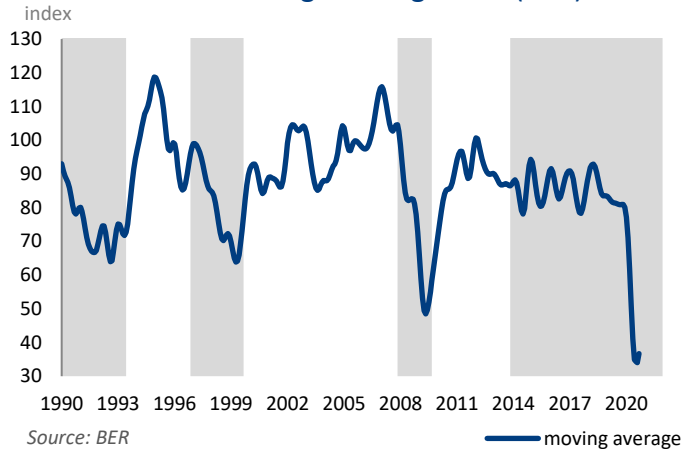
The silver lining regarding the foregoing gloomy picture is that the COVID-19 pandemic impact affords SA the opportunity to reset and adopt policies that will take the economy forward. The BER's recession-dating algorithm shows that a bottoming of the economic downturn since the end of 2013 looked possible/likely during the second half of 2016. This failed to materialise. From around August 2018, a clear downward inflection point was signalled. This resulted in an economic contraction from the middle of last year, then followed by the sudden stop due to the economic lockdown.

¹ Recession-dating algorithm for South Africa, which allows the BER to make accurate calls on business cycle turning points substantially sooner after the event than is the case with the official SARB determination. Read more at [this link](#).

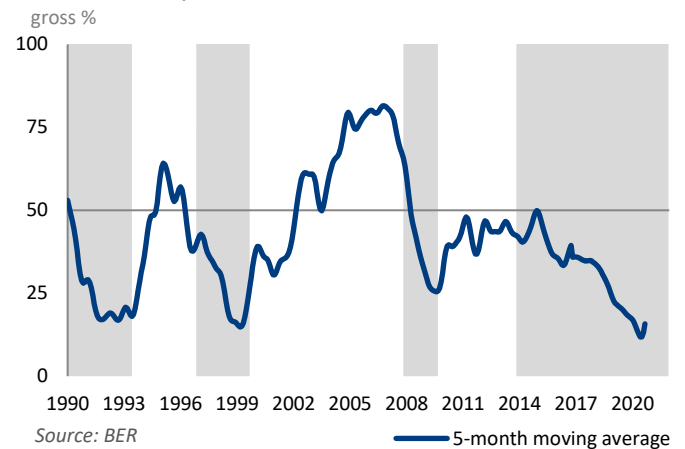
Public policies, aimed at creating a conducive environment for private initiative and entrepreneurship, with room for private-public sector cooperation, are urgently required. SA has to do both; it is not a matter of either/or. Many uncertainties remain regarding the pandemic. It is now well understood that, after the initial urgency to implement the economic lockdown, it had little influence on the epidemic's trajectory during subsequent stages. The economy should be freed up immediately so that the country can get back to work.

Recession algorithm

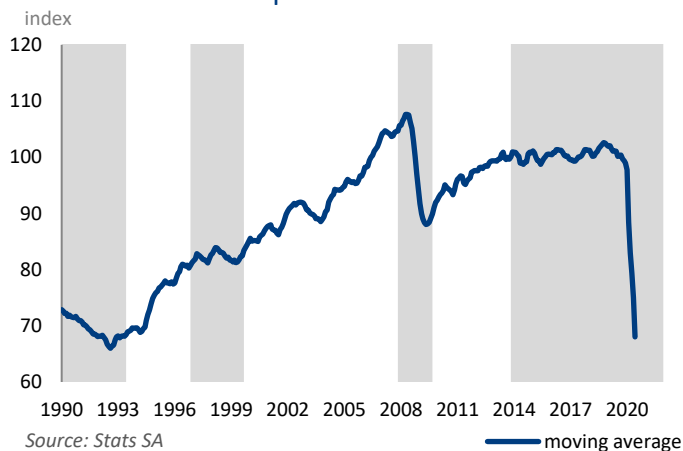
Manufacturing working hours (BER)



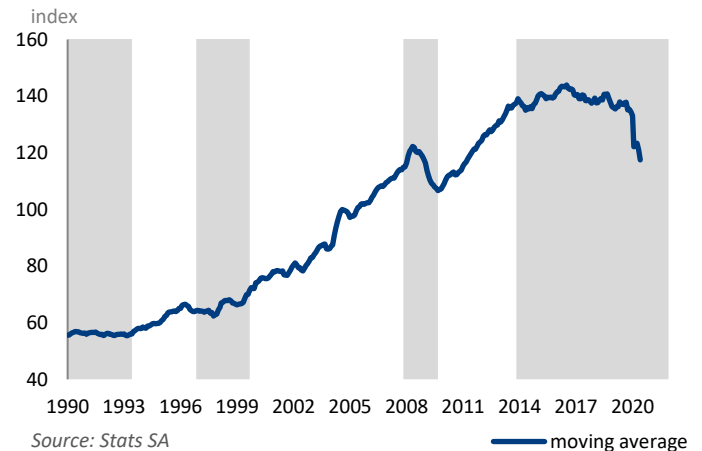
RMB/BER Business Confidence Index



Manuf. production volumes



Wholesale sales volumes



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