

## Contents:

Highlights

Core indicators

GDP growth

Business environment

Household consumption

International trade

Financial markets

Money and prices

Labour

Government

Recession algorithm

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

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Schepper

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## Highlights

### **Current account balloons to a record surplus in Q3**

On the back of still-depressed imports and a surge in exports due to higher commodity prices, the current account balance recorded a surplus of 5.9% to GDP in Q3, after a deficit of 2.9% was recorded in Q2 (see [here](#)). A continuation of these positive trade dynamics and favourable global market sentiment amid further positive news about effective COVID-19 vaccines meant that the rand exchange strengthened further against a generally weaker US dollar in December. Encouraging news on the vaccine front as well additional monetary and/or fiscal stimulus measures implemented in major advanced economies boosted equity markets.

### **High-frequency data points to continued recovery in Q4; clouds emerge for 2021 outlook**

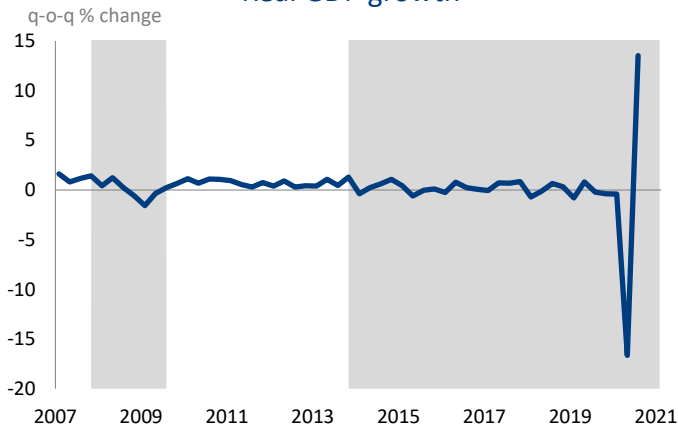
After real GDP recovered smartly in Q3 (click [here](#) for a more detailed discussion on the data), monthly activity data from Stats SA suggests that the economic recovery continued into the final quarter of the year. However, it seems like the pace of the recovery was losing some momentum. In October, the rate of annual contractions in both manufacturing ([here](#)) and mining accelerated, while real retail sales declined by 0.2% m-o-m (the first monthly downtick since April). Furthermore, the Absa PMI (see [here](#)) moved lower in November after reaching a record high in October. On a positive note, following the further uptick in the RMB/BER Business Confidence Index in Q4 to 40 points ([here](#)), the FNB/BER Consumer Confidence Index also rose further in Q4 ([here](#)). However, both these surveys took place before the second wave of virus infections took hold in SA and the subsequent reintroduction of some restrictions towards the end of 2020. While restrictions are currently much less severe than before, the recovery momentum likely stalled at the start of the new year. A return of load shedding and the possibility of even tighter lockdown restrictions further clouds the outlook at the start of the new year.

### **Consumer inflation moves lower after unexpected uptick in November**

After surprising on the upside at 3.3% in October, consumer price inflation slowed to 3.2% y-o-y in November ([here](#)). With a benign inflation outlook, an arguably poorer-than-expected start to 2021 for the economy and a sustained (relatively) stronger rand exchange rate, the SA Reserve Bank may find room to cut the policy interest rate somewhat further in January after staying on hold in November.

# Core indicators

## Real GDP growth



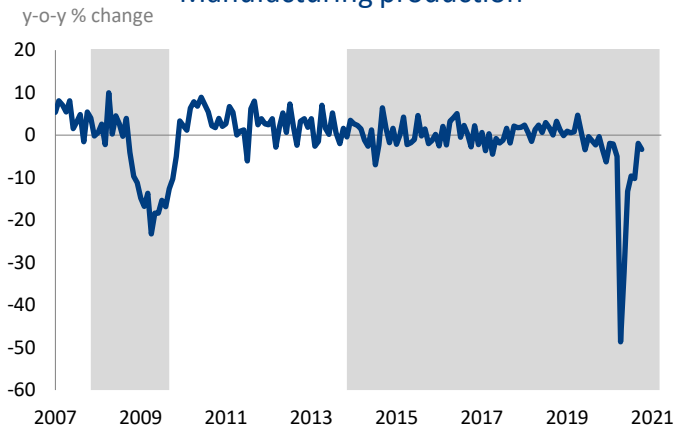
Source: Stats SA

## CPI inflation



Source: Stats SA

## Manufacturing production



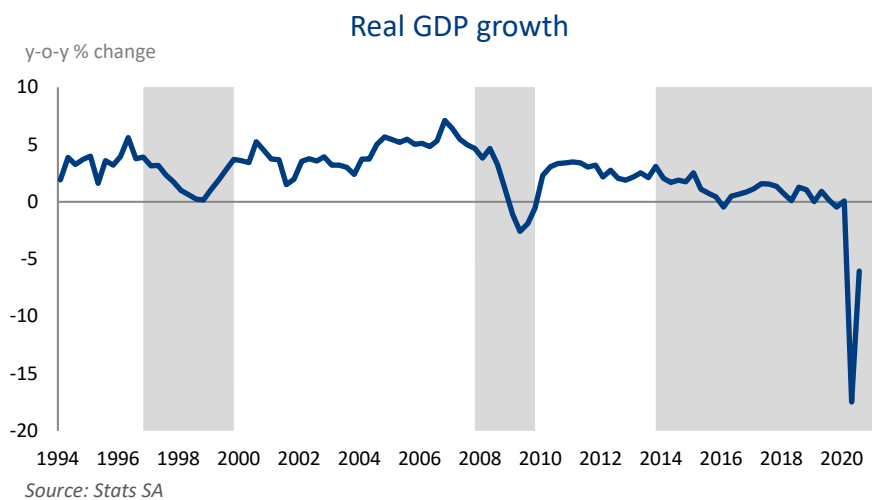
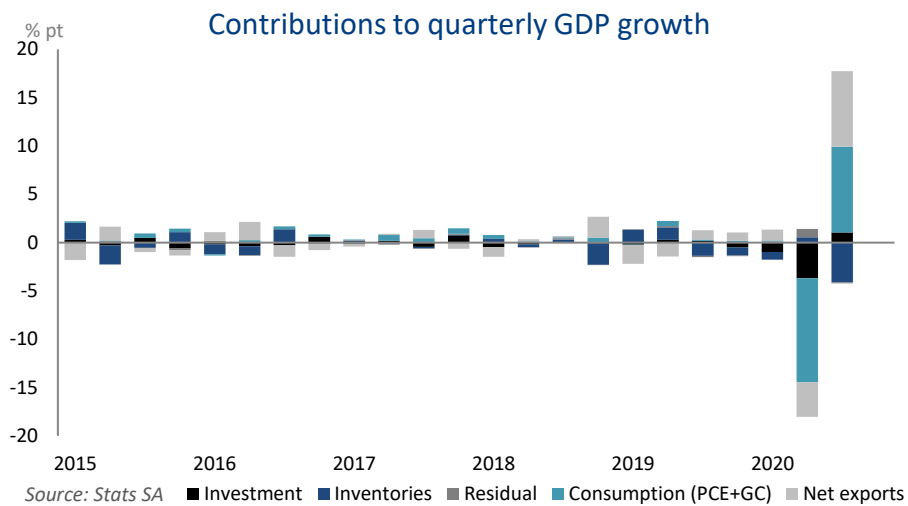
Source: Stats SA

## Interest rates



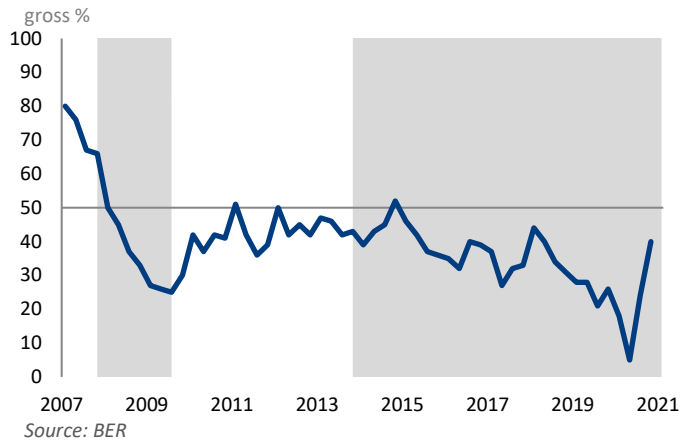
Source: DataStream

# GDP growth

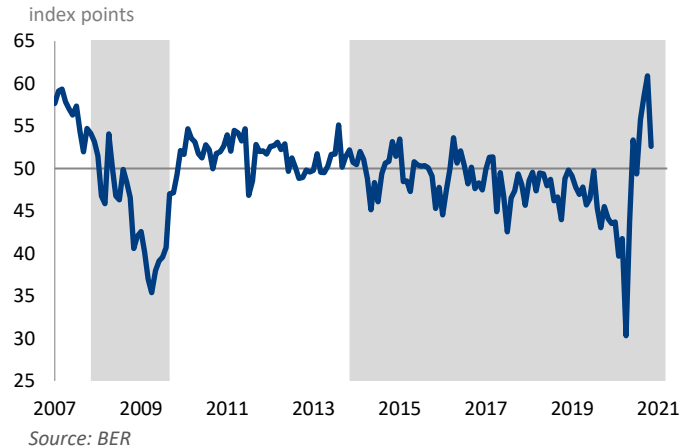


# Business environment

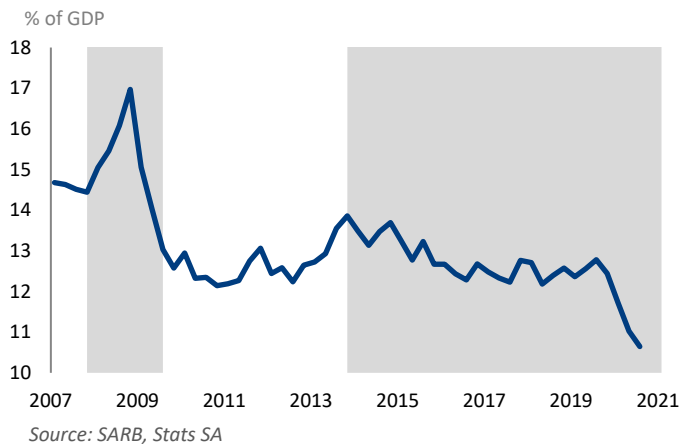
## RMB/BER Business Confidence Index



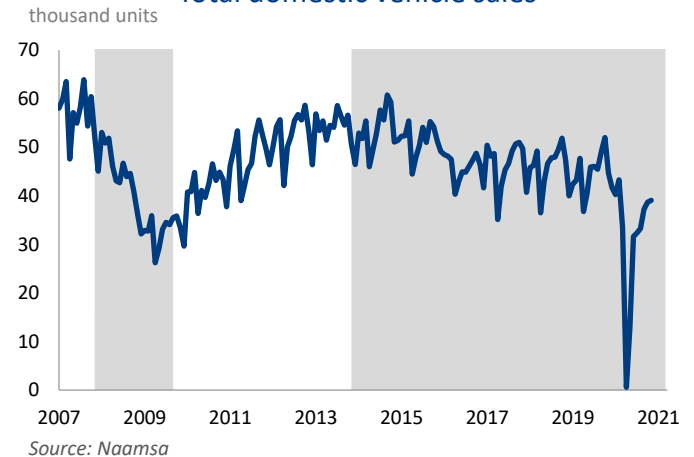
## Absa Purchasing Managers' Index



## Private fixed investment

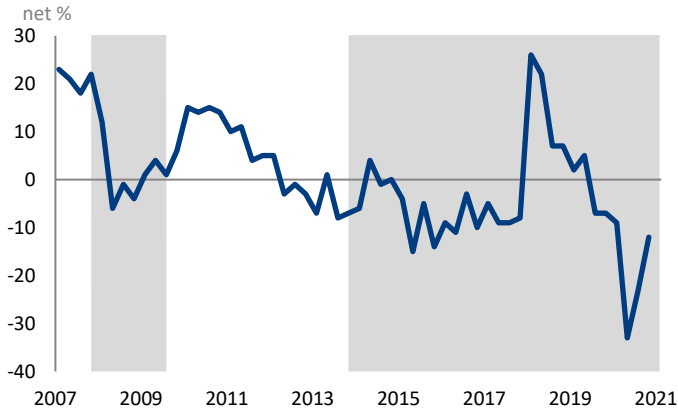


## Total domestic vehicle sales



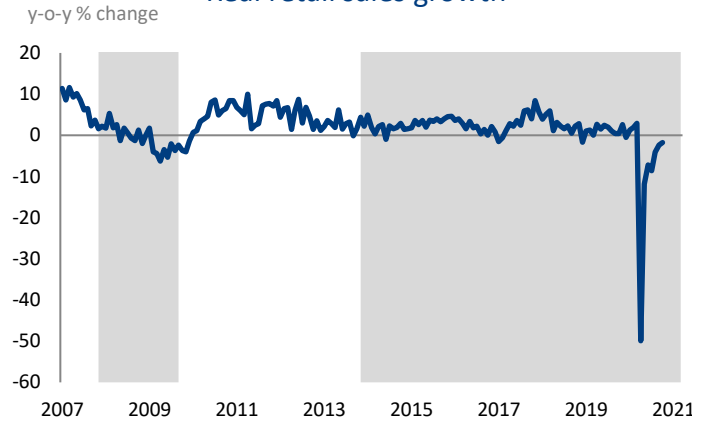
# Household consumption

## FNB/BER Consumer Confidence Index



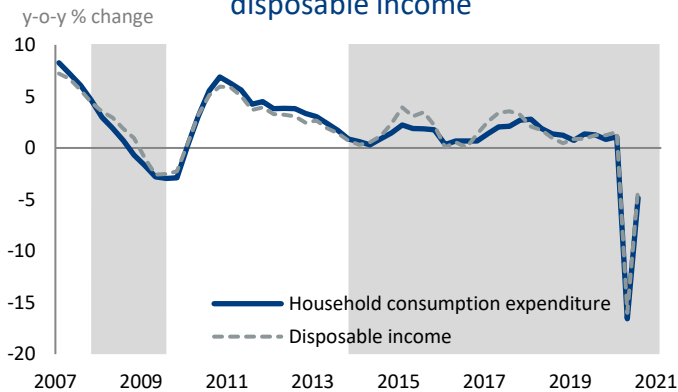
Source: BER

## Real retail sales growth



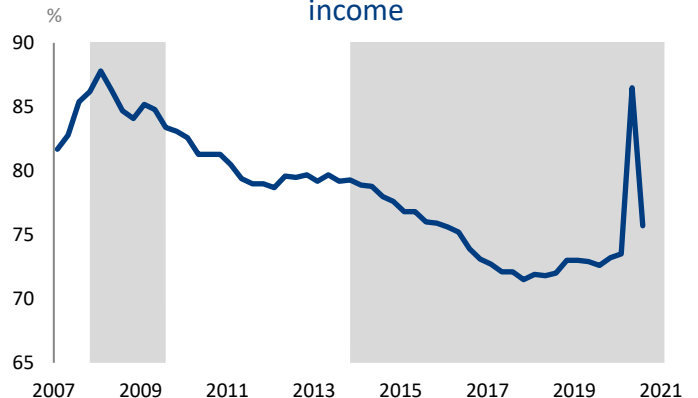
Source: Stats SA

## Household consumption and real disposable income



Source: SARB, Stats SA

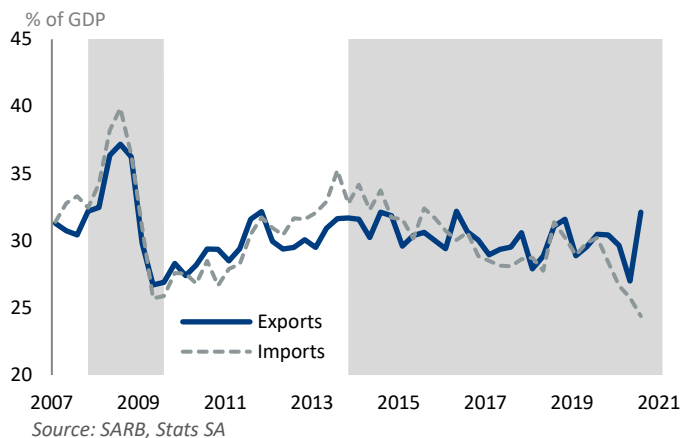
## Ratio of household debt to disposable income



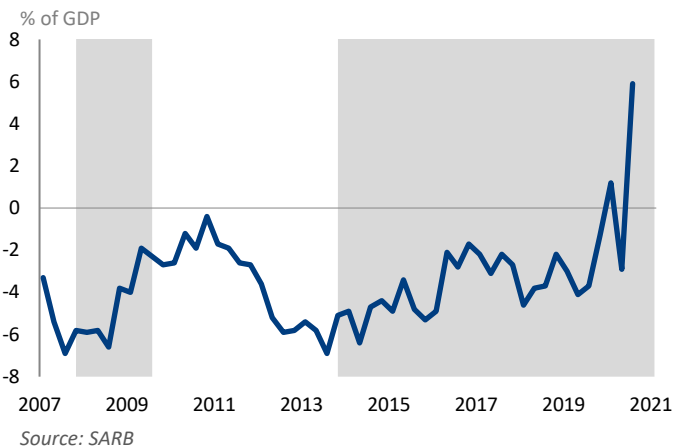
Source: SARB

# International trade

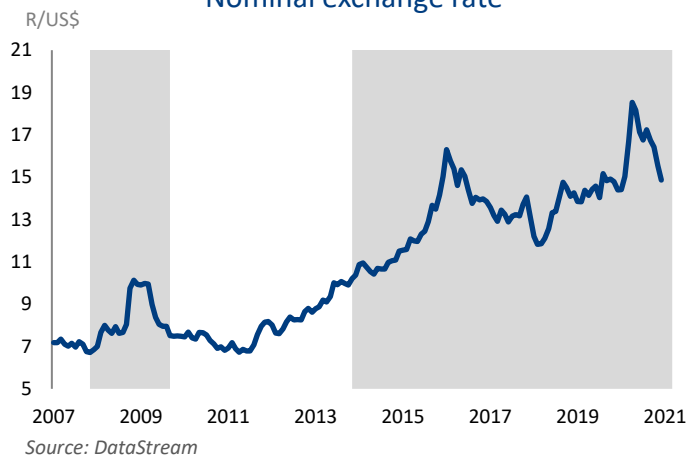
## Imports and exports



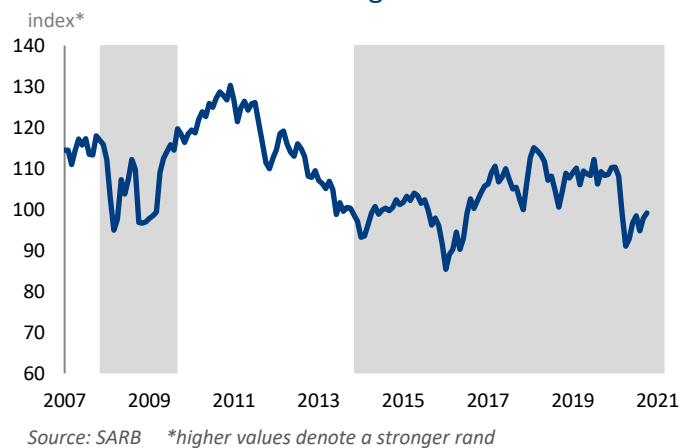
## Current account balance



## Nominal exchange rate

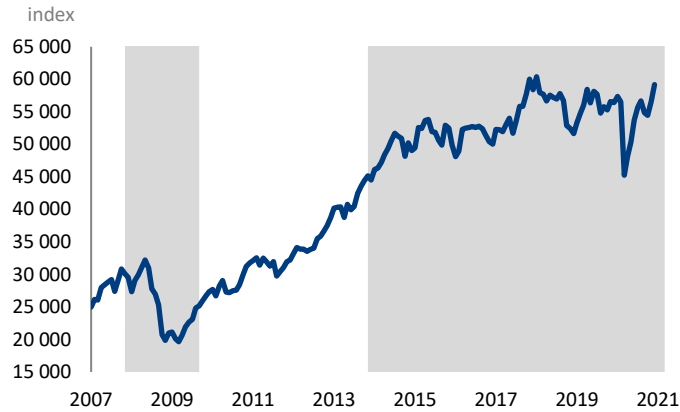


## Real effective exchange rate of the Rand



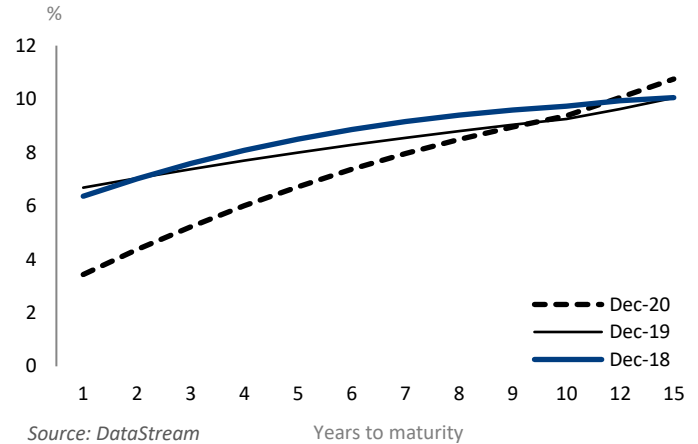
# Financial markets

### JSE all share index



Source: DataStream

### Yield curve comparisons



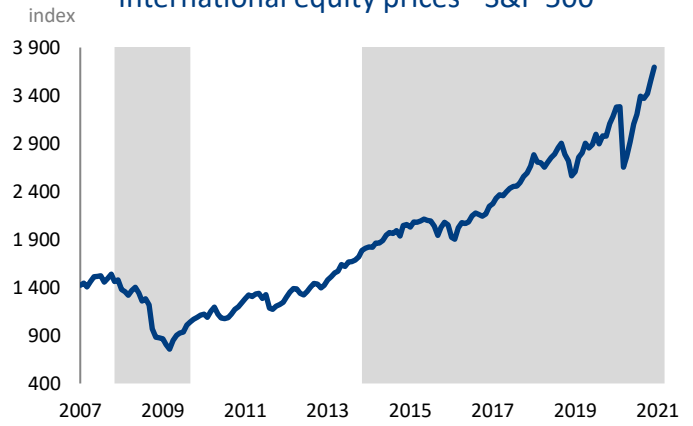
Source: DataStream

### Economist all commodities index



Source: Economist

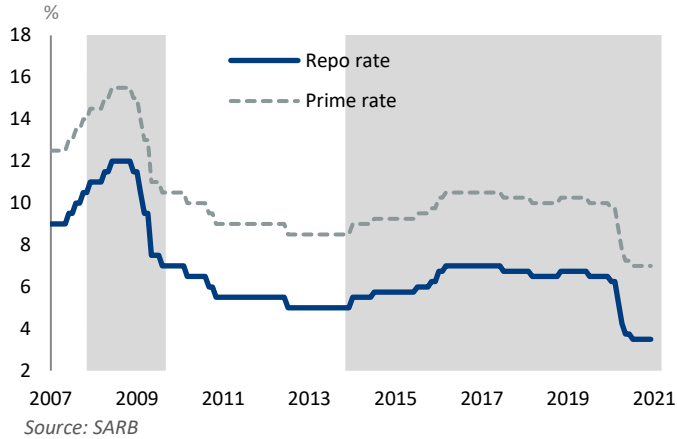
### International equity prices - S&P 500



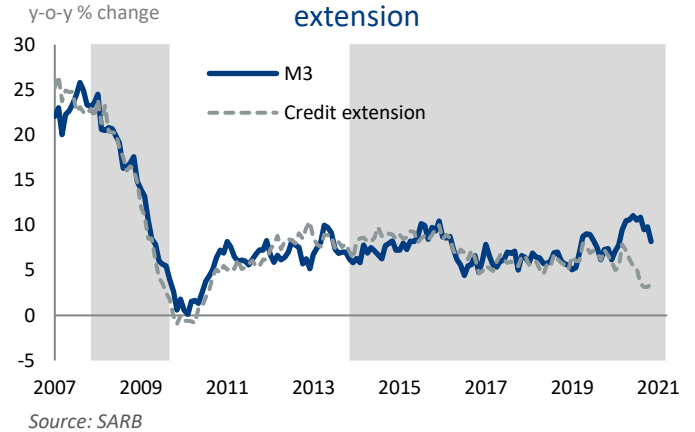
Source: DataStream

# Money and prices

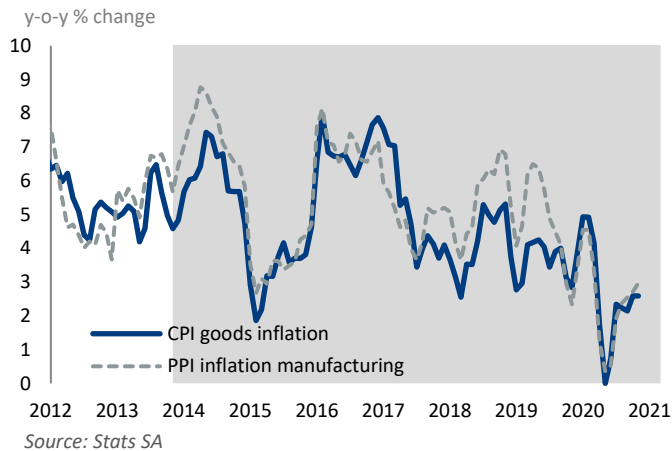
## Repo and prime interest rate



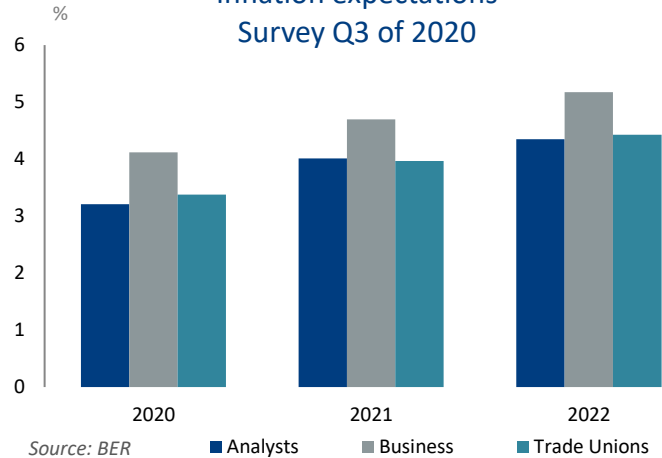
## M3 monetary aggregates and credit extension



## Consumer and producer prices



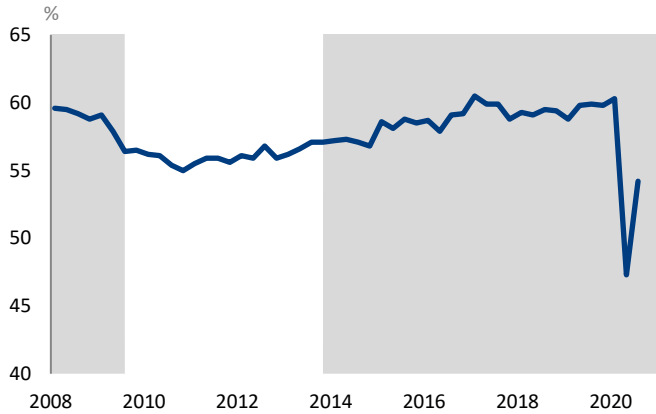
## Inflation expectations Survey Q3 of 2020





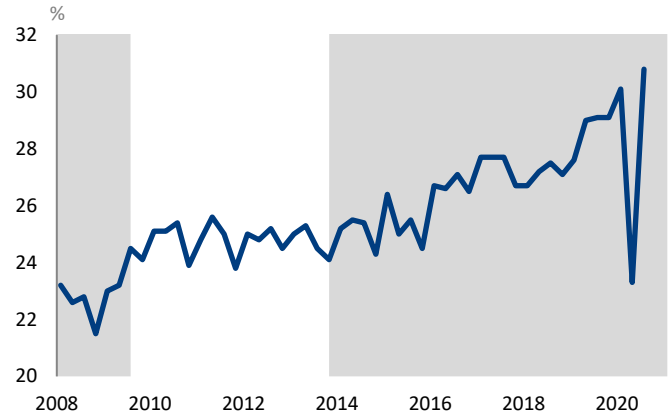
# Labour

## Labour force participation



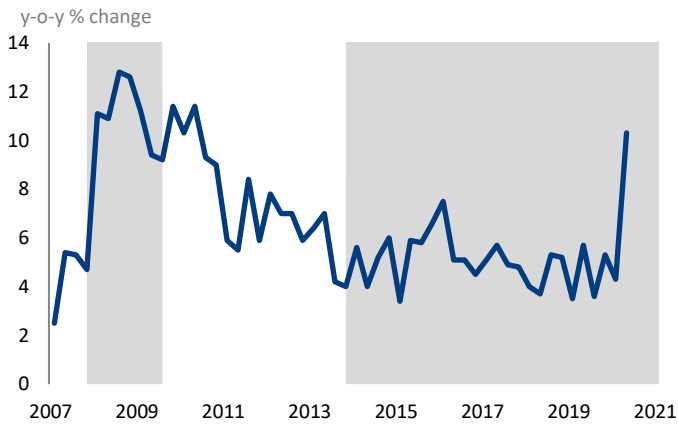
Source: Stats SA

## Unemployment rate



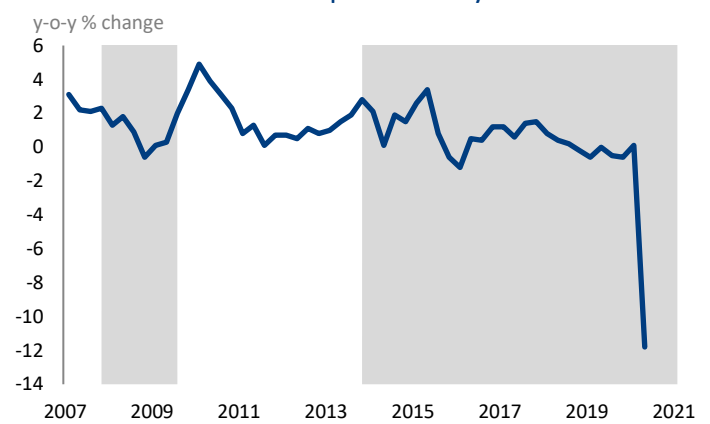
Source: Stats SA

## Unit labour cost



Source: SARB

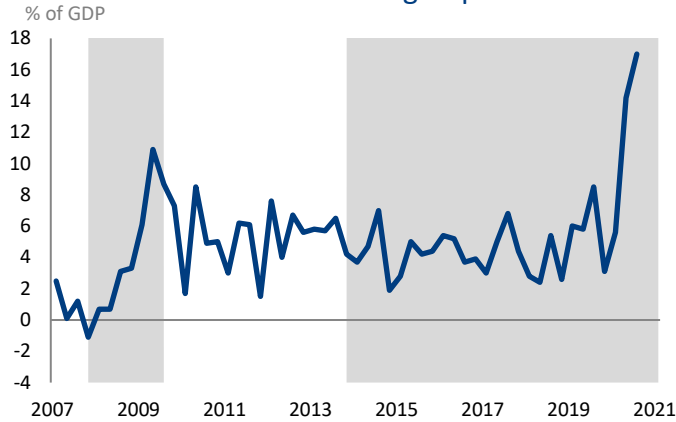
## Labour productivity



Source: SARB

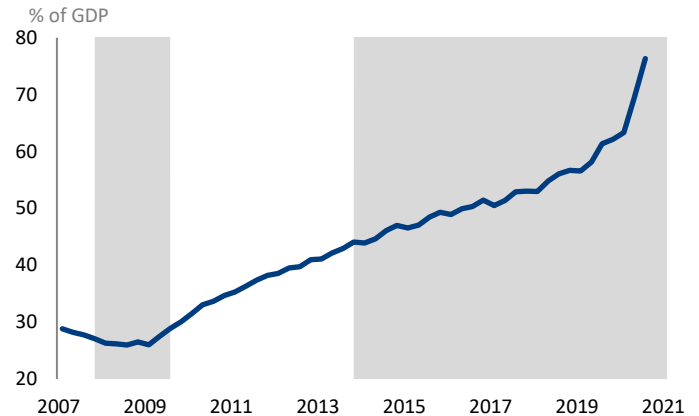
# Government

## Public sector borrowing requirement



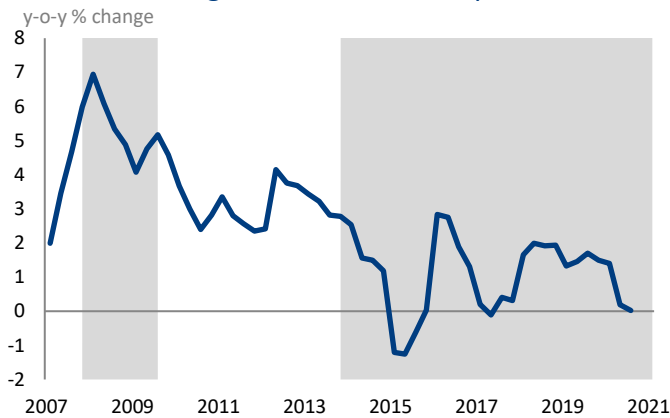
Source: SARB

## Gross government debt



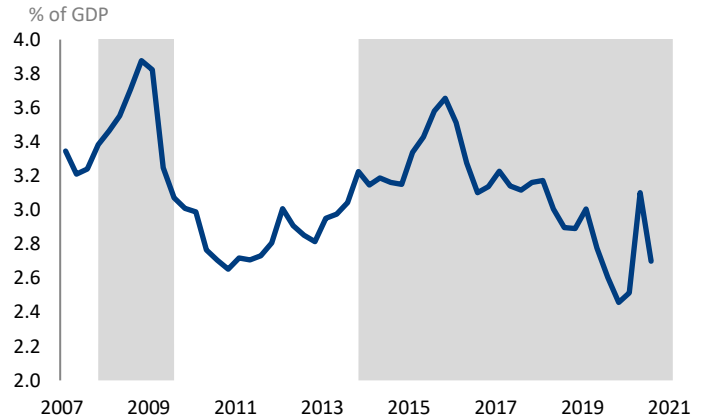
Source: SARB

## Real government consumption



Source: SARB, Stats SA

## Government fixed investment



Source: SARB, Stats SA

# Recession algorithm<sup>1</sup>

The economy experienced a welcome rebound during the third quarter of 2020. Following the precipitous fall in the second quarter, when the economy contracted by 16.6% quarter-on-quarter, real GDP recovered by 13.5%. In year-on-year terms, real GDP was still 6.0% down in the third quarter<sup>2</sup>. An analysis shows that a large improvement in net exports accounts for the bulk of this recovery. This is best reflected in the fact that (the export intensive) primary sector GDP was up during the third quarter compared to levels of a year ago, while real domestic expenditure was still 11.4% lower.

Firstly, the agricultural sector benefitted from favourable climatic conditions and was virtually unaffected by the economic lockdown as it supplies the food & beverage processing sectors. Secondly, export demand recovered faster, in turn, fuelled by the swift economic recovery in China and East Asian countries. The relatively strong rebounds in economic activity in the rest of the world, the increase in key SA commodity prices and the weaker currency all contributed. Thirdly, it is also encouraging to witness a positive response in the manufacturing sector, with exports recovering and importation being compressed (due to both weak domestic demand and a weaker rand exchange rate).

Unfortunately, the outlook is clouded by the resurgence of COVID-19 infection levels world-wide and the return to (refined) restrictive measures, adversely affecting economic activity. Domestically, the third quarter rebound may also have been supported, to an extent, by pent-up consumer demand, which may cool down again during the fourth quarter.

From a business cycle perspective, it is not clear what the future holds. The current recessionary conditions are not necessarily driven by endogenous propagating forces. The latter has been eclipsed by the discrete shocks related to the pandemic impact and policy responses. The economy began contracting in 2019Q3 as the lack of momentum deteriorated from the middle of 2018. By March 2020, all five components of the BER recession-dating algorithm were in recessionary territory. Subsequently, only business confidence (a good leading indicator) has shown a possible trough, though too early to call the end of the recession.

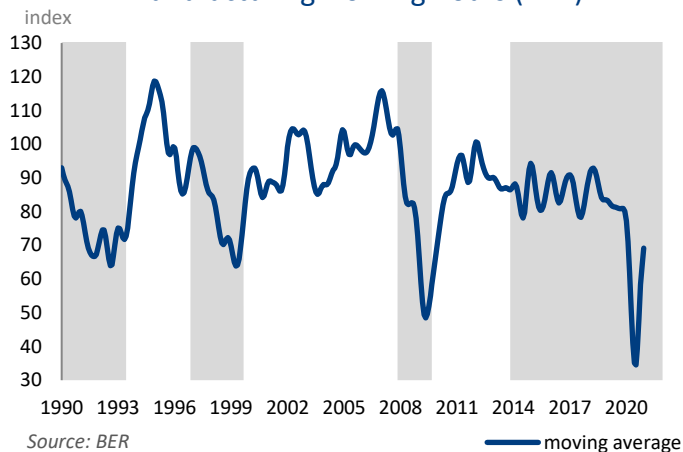
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<sup>1</sup> Recession-dating algorithm for South Africa, which allows the BER to make accurate calls on business cycle turning points substantially sooner after the event than is the case with the official SARB determination. Read more at [this link](#).

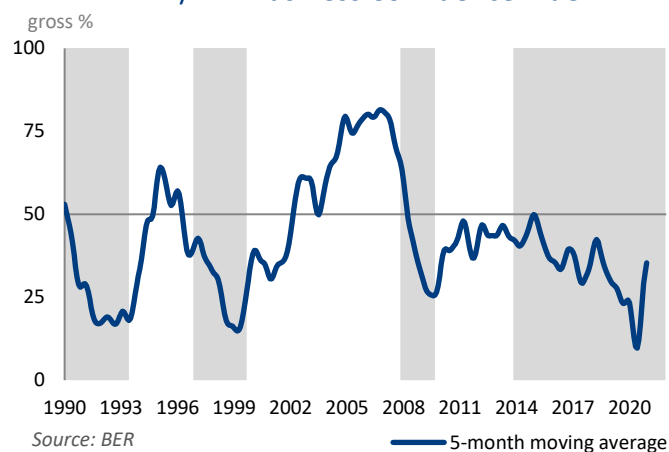
<sup>2</sup> For a short video explaining what the Q3 GDP bounce means for the level of GDP, click [here](#).

# Recession algorithm

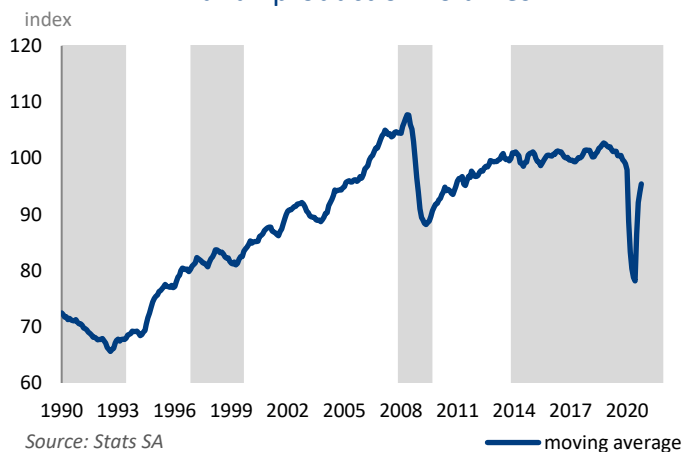
## Manufacturing working hours (BER)



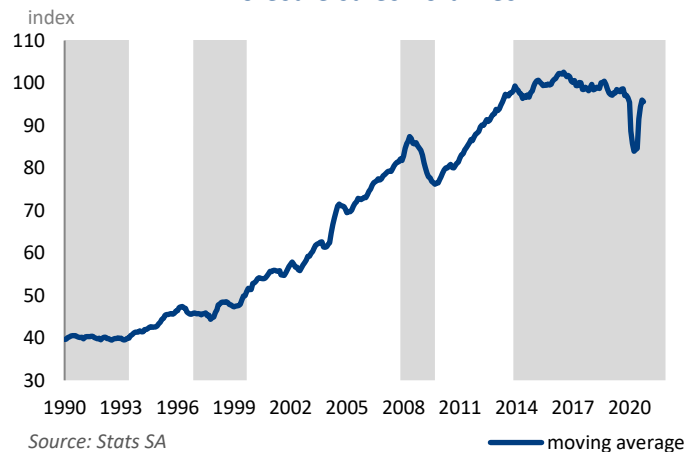
## RMB/BER Business Confidence Index



## Manuf. production volumes



## Wholesale sales volumes



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