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In this issue

Editor

Craig Lemboe

Contributors

Hugo Pienaar
Tracey-Lee Solomon
Mia Slabber
Nicolaas van der Wath

Contact us:

+27 (0)21 808 9755
www.ber.ac.za

BER app:

The week in perspective: Vaccine news dampens lifting of restrictions

Last week started off on a positive note domestically with Monday's arrival of the first 1 million dose consignment of the AstraZeneca **Covid-19 vaccine** in SA. Later on Monday, President Cyril Ramaphosa announced a lifting of some of the adjusted Level 3 lockdown restrictions. The easing, which included a partial lifting of the ban on alcohol sales and a shortening of the curfew, will provide much-needed relief to liquor retailers, wineries and the broader hospitality sector. Furthermore, the COVID-19 situation in SA continues to improve. As of yesterday, the 7-day rolling average of daily new positive cases declined further to about 3 200, more than halving from almost 8 000 a week ago. Indeed, in a presentation that formed part of a health ministry briefing on SA's vaccine plans, Prof Salim Abdool Karim said last night that the country was very close to the end of the second wave.

Unfortunately, for the most part the briefing was a sobering reminder of the continued downside risks associated with COVID-19 in SA. It confirmed concerns about whether the AstraZeneca vaccine is effective against the **COVID-19 variant (501Y.V2)** first identified in SA, which fuelled the local second wave. Trials with the AstraZeneca and Novavax vaccines in SA showed substantial diminished efficacy against mild/moderate infections of the 501Y.V2 strain. For the AstraZeneca vaccine, efficacy dropped from 68% in the case of the original COVID-19 strain to 22% for the 501Y.V2 variant, while for Novavax it went from 89% to 49%.

The studies did not test whether these vaccines prevent against hospitalisations/severe disease of the SA variant. Scientists are awaiting clinical information on this – the AstraZeneca vaccine could still be valuable for SA if the studies show that it protects against serious cases. However, there is some confusion of when the first 1 million doses that arrived last week will expiry. In the meantime, based on the low efficacy against mild infection, the full rollout of the AstraZeneca vaccine to health workers in SA has temporarily been put on hold. This is a further setback to SA's **inoculation drive**, which is already lagging behind especially advanced countries.

The positive news is that clinical studies showed that the **Johnson & Johnson** (J&J) vaccine, of which SA has secured 9 million doses, with expected delivery from 2021Q2, was highly effective (85%) to prevent severe disease and hospitalisations in people infected with the 501Y.V2 strain. The question is whether SA can secure more of the J&J vaccine in a timely manner. All of this emphasises the point made by the IMF recently that the world (SA in this case) is in a race between vaccines and virus mutations. In our case, it highlights a major downside risk to the pace of GDP recovery in 2021.

Structural reforms remain essential

There was further adverse news on Friday when Eskom implemented **stage 2 load-shedding** again. Fortunately, this was suspended early yesterday. We have flagged the adverse power situation as another downside risk to SA's GDP recovery prospects.

The return of power cuts again emphasised that, while the current government focus is (correctly) on dealing with the COVID situation and rolling out a vaccination strategy, we cannot afford to dither on addressing SA's pre-COVID growth constraints. These include the lack of a predictable supply of power. The importance of structural reforms was raised by the Minerals Council of SA last week before the start of the annual Mining Indaba, which reverted to a virtual format this year. The council was blunt in expressing disappointment at the lack of government movement on providing policy and **regulatory certainty** for the mining sector, but also for the economy in general.

In our view, a failure to, for example, timeously conclude the radio spectrum auction, embark on Bid Window 5 of the renewable energy programme and provide room for greater private sector participation in many other sectors of the economy, holds the risk that the economy will stagnate once again after an initial vaccine-induced boost in activity. It is worth remembering that SA **real GDP growth** averaged a paltry 0.9% between 2010 and 2019. In per capita terms, we were already going backwards before COVID struck (i.e. GDP growth was below population growth). SA cannot afford to go back to that economy. To prevent this, a concurrent process needs to be pursued where reforms are implemented and a vaccination programme rolled out.

Against this backdrop, President Ramaphosa's **State of the Nation** address (Sona) on Thursday will be watched for any updates on timelines for the execution of reforms, as well as possible further details on the (revised) vaccination strategy.

Company news last week emphasised the detrimental impact of the protracted return to normality amid the second COVID-19 wave, and by extension the need for reforms and vaccines. Movie operator **Ster Kinekor** announced that it was going into business rescue, while well-known bus operators **Greyhound** and **Citiliner** said that they are closing down in the next two weeks. Greyhound first started operating in SA as far back as 1984. Another bus company, Putco, has also fallen on hard times and announced that it would be laying off more than 200 workers. These unfortunate developments speak to a narrative that we are yet to see the full extent of the economic damage inflicted by the pandemic and the associated containment measures.

The first batch of SA data releases for January (see domestic section for details) confirmed that the economy started the year on the back foot.

Domestic: Electricity production improves in Dec, ABSA PMI edges higher in Jan

According to Stats SA, **electricity generation** (production) increased by 1.1% y-o-y in December 2020. Despite this, total electricity generation was 5.2% lower in 2020 compared with 2019. This followed a 1.5% decrease in 2019. On a monthly basis, electricity generation increased by 0.3% despite 4 days of load-shedding.

Early in the week, the **Absa manufacturing PMI** edged up slightly to 50.9 index points in January, from 50.3 in December 2020. Despite the slight uptick, the January reading is below the average recorded in 2020Q4. It is also worth noting that the supplier deliveries index rose sharply in January. This was likely due to frictions in the supply chain which inadvertently lifted the index. Indeed, the **business activity** index declined for the fourth consecutive month, suggesting that the deceleration in growth reflected in the official manufacturing production data (available up to November) continued in January. In addition, the seven days of load-shedding in January likely weighed on production.

The **IHS Markit South Africa PMI**, which measures business activity in both the manufacturing and non-manufacturing sectors, increased to 50.8 in January from 50.2 in December 2020. According to Markit, much of the rise in activity stemmed from the completion of outstanding business after delays caused by COVID-19. Meanwhile, employment fell as retrenchments continued. Overall sales remained flat for the second consecutive month as did purchasing activity, causing a slight decrease in inventories. Lastly, the outlook for business activity strengthened amid hopes of an easing in COVID-19 restrictions over the course of 2021.

Finally, data from Lightstone Auto revealed that aggregate domestic **vehicle sales** for January came in at 34 784 units. This translates to an annual decline of 13.9%. On a monthly basis, sales fell by 6.6%. In contrast, export sales grew for the second consecutive month in January and, at 22 771 units, reflected an annual increase of 39.7%. Sales of new passenger cars fell by 18% y-o-y in January.

International: US payrolls disappoint in Jan, EZ GDP contracted in Q4

In the **US**, the closely watched **nonfarm payrolls** report surprised on the downside. Only 49 000 jobs were added in January. Moreover, the December estimates were revised down significantly, now reflecting a loss of 227 000 jobs instead of the 140 000 job gains reported previously. Although the unemployment rate improved to 6.3% in January, from 6.7% in December, this was to some extent due to a lower labour force participation rate, i.e. more people gave up the search for work.

According to a preliminary estimate from Eurostat, the **Eurozone** (EZ) economy contracted by 0.7% q-o-q in 2020Q4. This was slightly better than expected and follows a downwardly revised growth rate of 12.4% in the third quarter. For the full year, the EZ economy shrank by 6.8%. Discouragingly, the short-term outlook remains uncertain due to continued restrictions aimed at curbing COVID-19 infections. The slow start to the vaccine rollout in the EZ exacerbates this uncertainty.

Also in the EZ, **consumer inflation** surprised on the upside in January. After five months of deflation, the flash estimate showed a rise of 0.9% y-o-y. The jump in consumer prices was largely driven by a reversal of a temporary reduction in the German value added tax rate and supply chain disruptions that have been pushing up container shipping prices.

As expected, the **Bank of England** (BoE) kept its official policy interest rate unchanged at a historic low of 0.1%. The BoE expects a rapid economic upswing in the second half of the year as the vaccination programme starts to have an effect. However, the possibility of negative nominal interest rates remains firmly on the table if the recovery disappoints.

Markets: Vaccines and fiscal stimulus remain supportive

Global financial market sentiment turned positive again last week. The optimism was driven by the progress of the vaccine rollout in the US and the UK, as well as more confidence of an uncompromised US fiscal stimulus package. In response, the yields on the US 10-year treasury bond lifted to its highest level since March 2020, while the S&P500 hit a new record of 3 887 points. The positive sentiment also lifted domestic share prices. The **ALSI** on the JSE was up by nearly 3% last week, taking the index closer to the 64 560 all-time high reached just three weeks ago. Banking shares increased by double digits while Sasol was up by 18%, stoked on by a surging oil price. The yield on the 10-year SA government bond was down by 28 basis points to 8.43%.

In commodity markets, the price of **Brent crude** oil increased by 5.3% last week to close above $59 per barrel on Friday. On

Wednesday, the Opec+ oil grouping affirmed supply despite an improvement in demand expectations. Overall, the price of oil is up 13.6% so far this year. The general positive sentiment also started to reverse some of the recent declines in the prices of **iron ore** and **coal** toward the end of last week. The **platinum** price was up by 1%, while rhodium surged by 13% to nearly $21 800 an ounce. The exception was the price of **gold**, being a risk hedge, which lost some of it shine last week.

In currency markets, emerging market currencies gained some favour amidst the improved global risk appetite. The **rand** appreciated by 1.1% against the US dollar to close at R14.89 on Friday, while the Mexican peso and Turkish lira gained 2.4% and 3.6% respectively. This was despite a slightly stronger US dollar over the week. Against the euro, the rand closed stronger than R18 for the first time since the start of the year.

Weekly Key Indicators		
	Close	w-o-w
R/$	R14.89	-1.1%
R/€	R17.91	-2.1%
R/£	R20.44	-1.1%
$/€	$1.20	-1.0%
Brent	$58.93	5.3%
Gold	$1 808	-2.7%
Platinum	$1 121	1.0%
JSE ALSI	64 289	2.9%
10y gov. bond	8,46	-28 bps
FRA (1x4)*	3.65	2 bps

*Forward rate agreement

The week ahead

Date	Event	Previous	Consensus
Wednesday (10 Feb)	UK: GDP (2020Q4)	16.0 % q-o-q, sa	0.5% q-o-q, sa
Wednesday (10 Feb)	US: Headline CPI (Jan)	1.4% y-o-y	1.5% y-o-y
Thursday (11 Feb)	SA: Mining production (Dec)	-11.6% y-o-y	-6.2% y-o-y
Thursday (11 Feb)	SA: Manufacturing production (Dec)	-3.5% y-o-y	-1.2% y-o-y

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