

EASED LOCKDOWN REGULATIONS LEAD TO PSEUDO ECONOMIC GROWTH SPURT IN Q3: 2020

MINING and **MANUFACTURING** drive Q3:2020 recovery

REMOTE WORK hampers **TERTIARY INDUSTRIES** growth spurt

BREAKFASTS, DINNERS & LUNCHES OUT dominate food spend during Alert Levels 3 & 4

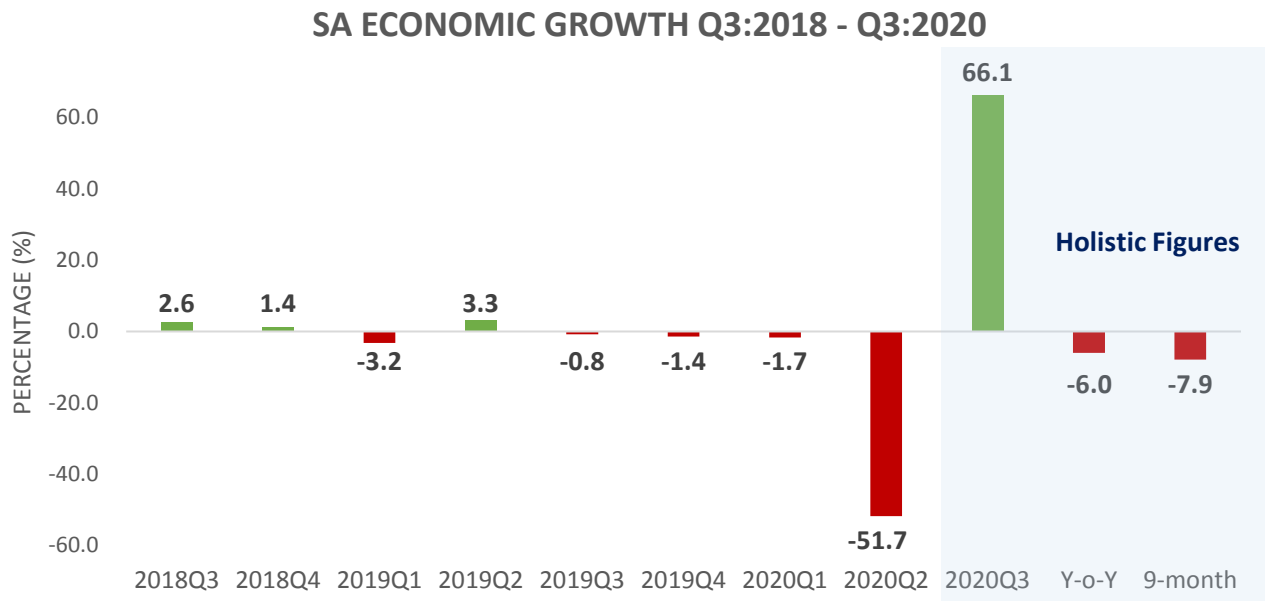


Enquiries

Economic Research and Knowledge Management | research.ded@gauteng.gov.za

SA RECORDS A BROAD-BASED IMPROVEMENT IN ECONOMIC ACTIVITY IN Q3:2020

After registering four consecutive contractions, the South African economy registered a 66.1% quarter-on-quarter (q/q) annualised increase in economic activity for the third quarter of 2020 (Q3:2020). Meanwhile, activity contracted by -6% (year-on-year, unadjusted) and -7.9% between the first three quarters of 2020 and the first three quarters of 2019. The growth spurt has largely been credited to eased lockdown regulations during the quarter, which aided a significant rebound in manufacturing and mining production activity.



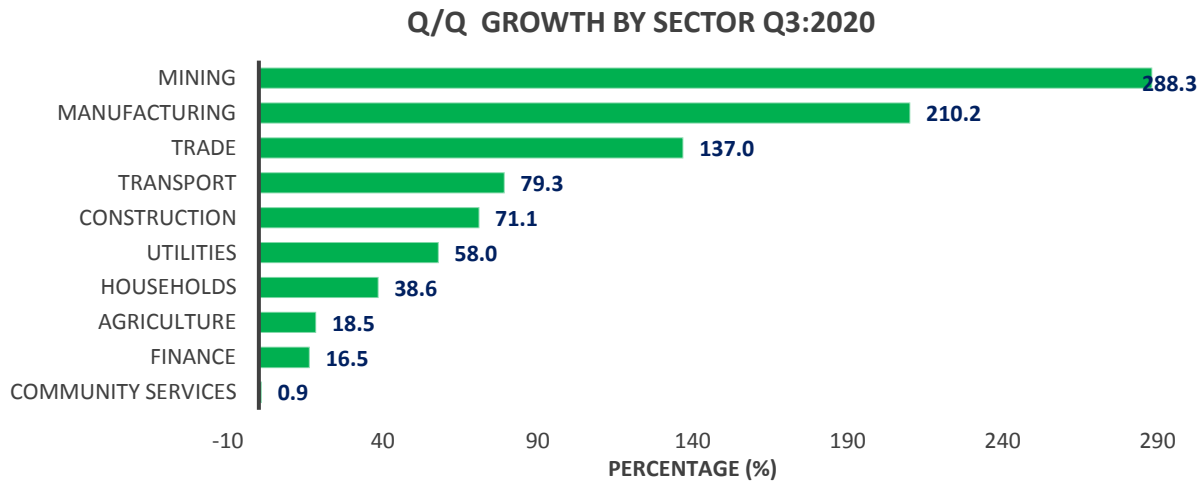
Data Source: Statistics South Africa

The domestic economy recorded a broad-based improvement with the largest growth recorded in the primary industries (172.9%), followed by secondary (155.6%) and tertiary (37.6%) industries. The high spread between tertiary industries and other industries was expected because much of the industry's core activities were still unrestricted during the hard lockdown, supported by employees working remotely. As such, the easing of lockdown regulations allowed for a moderated spike in activity, most likely from businesses that had halted production during the hard lockdown.

MINING AND MANUFACTURING ACTIVITY DRIVE GROWTH IN Q3:2020

In line with expectations, manufacturing and mining activity stole the show, increasing by 210.2% and 288.3% respectively during the quarter. The uptick in mining and manufacturing activity was chiefly spurred by the rally in base and industrial metals caused by an upturn in global manufacturing activity and the rise in the demand for gold as a second wave of the virus loomed. In addition, the fulfilment of delayed orders and pent-up demand by manufacturers also contributed to the surge. Despite the upturn in manufacturing activity and sentiment, the outlook for the sector remains precarious. The latest ABSA Purchasing Managers Index (PMI) indicates that the sector's upsurge is likely to wind down in the last quarter of 2020 - once manufacturing backlogs are cleared. PMI decelerated from 60.9 to 52.6 index-points between October and November 2020, owing chiefly to a decline in the new sales order sub-index to below the 50-midpoint at 49 index-points.

Correspondingly, increases in mining and manufacturing production was likely fundamental to the 58% expansion in utilities. During the hard lockdown utilities were mainly consumed at the household level, whilst commercial demand was muted due to limited or no economic activity in the production of non-essential goods and services. As a result, the easing of lockdown regulations induced an uptick in activity as the number of employees allowed back at work increased from 33% to 66% between Alert levels 4 and 3.



Data Source: Statistics South Africa

GROWTH IN CONSTRUCTION ACTIVITY | THE FIRST IN 8 QUARTERS

Construction activity increased by 71.1% in the third quarter of 2020, following eight (2 years' worth) uninterrupted quarterly contractions. The sudden surge was credited to increased residential building activity, non-residential buildings and construction works, all of which contributed to the 5 index-point escalation in the FNB/BER Building Confidence to 29 index-points for the fourth quarter of 2020. Owing to the much weaker performance of the sector prior to the third quarter of 2020, estimations predict that the surge is unlikely to be sustained. The latest reading is likely more of a pseudo increase incited by statistical bias. Going forward, activity is expected to somewhat recalibrate however, to levels below pre-COVID times. This is due to several factors including, the large exodus of firms during the hard lockdown, depressed domestic demand and changes in workplace dynamics driven by COVID-related uncertainties. Notwithstanding, the anticipated downturn could be cushioned by the public infrastructure projects that have been tabled over the medium-term.

WORKING FROM HOME AFFECTS TERTIARY INDUSTRIES GROWTH

Despite the 137% increase in trade activity, sectors in tertiary industries recorded relatively lower growth than primary and secondary industries activity, particularly community services which expanded by only 0.9%. The subdued growth in community services is attributed to slower activity in the sector following the rapid COVID relief-related interventions initiated earlier in the year such as increased employment in provincial governments and tertiary institutions. Likewise, the consequences of the lockdown were also felt in other sectors. For instance, growth in the finance sector was primarily attributed to COVID-related ramifications such as an increase in retrenchments (which may require pension pay-outs) and increased residential real estate activity as working remotely became the norm.

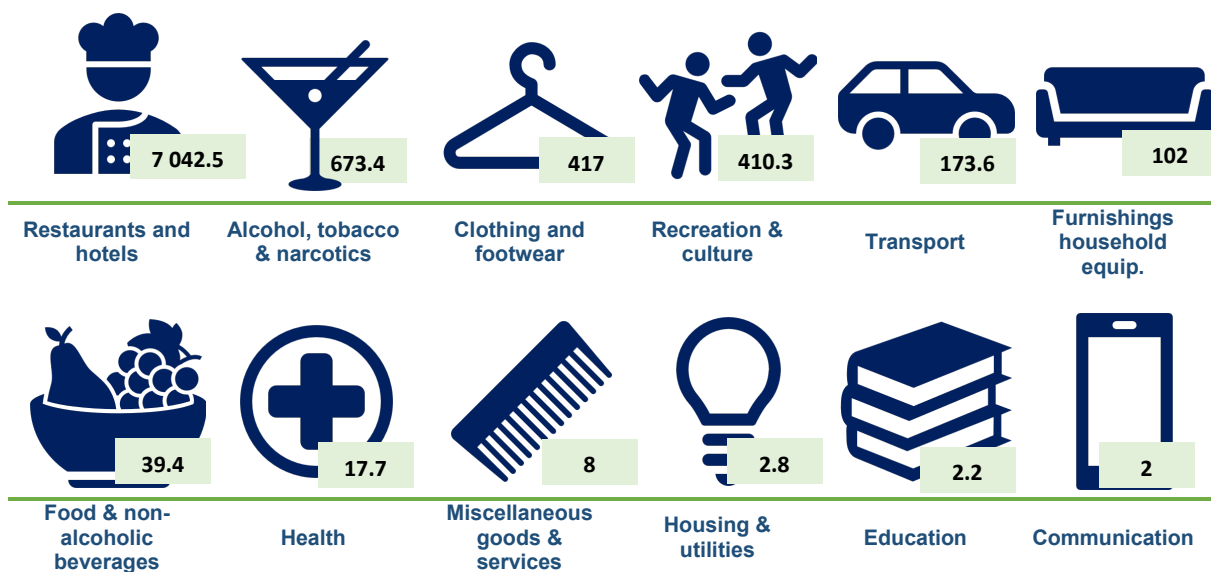
EATING OUT DOMINATES FOOD SPEND DURING ALERT LEVELS 3 AND 4

Akin to the uptick in economic production, Gross Domestic Expenditure (GDE) expanded by 67.6% in the third quarter of 2020. Delving further GDE decreased by -6.4% (y/y) and -8.5% for the year to date. Expenditure growth for the period was ascribed to widespread increases. Specifically, the

unprecedented 201.4% increase in exports which overwhelmingly dwarfed the -1.6% decline in imports that led to protracted trade surpluses since the lockdown began.

In the same tune, household expenditure was up 69.5%, underpinned by astonishing increases in restaurants and hotel figures (7 042.5%) and alcohol beverages, tobacco and narcotics (673.4%) which were 178,7 and 17 times higher than the growth in food and non-alcohol beverage spend. Furthermore, expenditure on recreation and cultural activities grew by 410.3% during the quarter likely due to the allowance of intra-provincial travel during the Heritage Day long weekend which also marked the end of Alert Level 3. Looking ahead, expenditure on travel and leisure activities is envisioned to continue increasing as we approach the festive season as both domestic and international travellers head to various holiday destinations.

PERCENTAGE CHANGE IN HOUSEHOLD FINAL CONSUMPTION EXPENDITURE BY PURPOSE



Data Source: Statistic South Africa

Notwithstanding the extraordinary growth recorded for the quarter, the economic outlook for the country remains grim. Analyst indicate that year-to-date and year-on-year figures are not a true reflection of the state of the real economy and that the current tally is merely a confidence rather than an economic recovery as lockdown regulation eased. A closer look reveals sentiments continue to be reserved with FNB/BER Business Confidence Index having increased gradually since the hard lockdown but, remains below the 50-midpoint mark. In addition, although Consumer Confidence recuperated to -23 index-points, it remained in the red for the third quarter of 2020. Given these observations, it is estimated that the current growth will not continue in the near term but will follow a J-shaped confidence-based recovery and then a U-shaped economic-based repossession in the medium term.

WHAT DOES THIS MEAN FOR GAUTENG?

The latest national growth figures signal lower growth for the province during the third quarter of 2020. This is due to the province's significant tertiary base and dwindling manufacturing sector. Growth is expected to be underpinned by strong trade figures with subdued increases in mining and manufacturing activity which were the largest contributors to 66.1% annualised increase recorded at national level.