Another recession unlikely for now, but we still need to take our medicine to achieve sustainable growth

By Maarten Ackerman

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The GDP print for the fourth quarter of 2020 has come in better than expected, seeing markets respond positively in terms of rand strength and bond yields. Year-on-year GDP fell by 4.1% compared to the expected 4.6% decline, while on a quarter-on-quarter, annualised basis we saw a very strong 6.3% versus an expected 5.6%. The annual number, at -7%, was also slightly better than National Treasury's forecast last month of -7.2% and was significantly better than the -8% to -9% that most pundits expected towards the middle of last year.

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Clearly, these numbers show that the recovery continued in the final part of the year, in line with the economy opening up further. Additionally, these figures show the benefit of the global economy also opening up, paving the way for better growth entering into 2021.

Looking at the quarter specifically, 6.3% is very strong growth and much better than expected. But note that we are measuring off the third quarter which was itself a revised +67.3% quarter-on-quarter annualised growth in GDP. So all-in-all, these numbers are very positive.

No double dip

To place these numbers in context, consider that we were already in a recession when we entered the pandemic, with four quarters of negative growth which caused the 7% decline – the biggest contraction in a century. The last time we saw a similar number was in the 1920s.

These latest figures mean that we have now seen our second positive quarter following 12 months of economic contraction, meaning that fortunately, we have remained in expansion mode. We, therefore, expect positive figures for each quarter for the rest of the year, especially coming off a low base.

This means that, for now, we should be able to avoid a second-dip recession, despite our structural issues largely still unaddressed.

Mining off, but manufacturing positive

Most industry sectors made a positive contribution, but, unfortunately, mining still came under pressure during the quarter with a small decline. This, despite the fact that the global economy is picking up and we are exporting more, but the sector remains under pressure as a result of structural issues.

Most positively, manufacturing was up 21%, a significant step forward given that this is one of the key job-creating sectors within the economy. Second to that was the construction sector which grew some 11% and then trade which was up around 9%. Agriculture also rose another 6% after an already solid year, and it's good to see its recovery continuing into this quarter.

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Government addicted to employment, which is still growing

The government increase of 0.7%, resulting largely from an increase in employment in civil services, remains an issue because it's out of line with the February Budget Speech's tone and talk of addressing the public sector wage bill, the public sector head count and government's self-stated commitment to aggressively cut back expenditure. So despite that, every time we look at the GDP numbers, we notice that nothing has been done to that effect and the bulk of the increase in government expenses is, in fact, a result of an increase in employment in the public sector.

In terms of expenses, there was a massive 52.4% rise in imports, which indicates an economy which is getting back to business. We typically run a current account deficit, and last year's surplus was an exception rather than the rule because of the substantial increase in exports as the global economy reopened and a significant decline in imports given the local economic lockdown.

Additionally, South Africa exported products to new markets within countries in Europe, as these countries looked to diversify away from a reliance on Asia. Many of South Africa's agricultural products in particular went to Europe, owing to the region's high demand for citrus and vitamin C given the pandemic background. Australia's trade tension with China also created the opportunity for us to export more wine and raw components to the Asian market.

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The rand may come under pressure

In line with the finance minister's Budget comment that our current account surplus was likely to be short lived, imports were higher than exports for the quarter. While exports remain healthy, we are likely to return to a current account deficit this year, which will see the currency come under pressure.

It is encouraging to see household expenditure rise by 7.5%, indicating that the housing sector is also getting back to business. Gross fixed capital formation also came in at a very strong 12% growth. We often say that we need to see that number turn positive and remain positive to pave the way for future growth and, looking at the trend, there have been three very poor quarters on this front followed by two very strong quarters now.

This is certainly part of the economic recovery and, while there is some way to go before we return to earlier levels, we are heading in the right direction as we lay the foundation for more infrastructure development.

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The annual picture shows a challenging environment

If we look at the 2020 year as a whole, then only the agriculture and government sectors made a positive contribution to the economy. Agriculture contributed a robust 13% to the economy given that the severe drought is behind us, the record crop seasons, and huge demand for some of our agricultural products. The government also gave a positive contribution of 0.7% but then for the balance of the sectors, it was not such a pretty picture with many industries being locked down. 2020 was quite a challenging environment – to say the least.

We will carry on muddling along until we take our medicine

Looking ahead to 2021, it is clear that the dramatic base effect of Level 5 lockdown should support above-capacity growth this year. Q1 2021 will see some headwinds return including load shedding and Level 3 lockdown restrictions in place from 29 December 2020 to 1 March 2021, but despite these, the first quarter should still print a healthy positive number, paving the way for the recovery to continue throughout 2021. So we are likely to get to a 3.5% growth number for 2021.

Unfortunately, most of that is a base effect that's coming through. And, as a result, we shouldn't get too excited about this number because it won't be sustainable. As the minister also pointed out in the Budget Speech, that number will revert back to about 1.6% in three years' time. And this, unfortunately, is simply not enough to fix our structural issues.

It's hard to believe that I am still saying the same thing, but so much work still needs to take place from a reform point of view in order to realise growth north of 3% on a sustainable basis.

Some baby steps have taken place, which hopefully will lead us to the big steps towards the kind of growth this country needs in the years to come. Many of the reforms and infrastructure programmes that have been addressed at this point will take time to filter into the economy – it doesn't happen overnight or over quarters, and we will only see the benefit of these decisions playing out over a number of years. We, therefore, need to be patient and to realise that these actions will only be reflected in the data in years to come – and only if we continue down the right path.

ABOUT THE AUTHOR

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