EFFICIENT GROUP

ECONOMIC COMMENTARY

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Newsletter

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BOTTOMING-OUT, THE TURN OF THE CENTURY

In the previous week, South Africans were confronted with the shocking news that our economy contracted by 51% during the second quarter of this year. An astronomical amount. Not only the largest in our history but most likely the largest quarterly contraction any country will experience in 2020. We, therefore, conclude that the government did close the economy too severely and for too long. Especially if one considers that the active COVID-19 cases and the rolling three-day positive rate has been in decline since the beginning of July, despite the relaxation of restrictions which allowed widespread interaction. Among the poorest performing industries were the "manufacturing" and "trade, catering, and accommodation" industries who contracted 74.9% and 67.9%, respectively. If one considers that this second quarter contraction marks the fourth consecutive quarter South Africa has been contracting, the picture becomes even bleaker. This implies that the South African economy has been contracting for a full year, which is also likely the longest ongoing contraction in our history. Consequently, about 1 million jobs will be lost, pushing unemployment as high as 38%, and the average South African household, measured in GDP per capita levels, will be set back to 2003 levels, unable to sustain their current living expenses.

For the first time, in a long time, we finally seem to have reached a bottom. Business confidence measures that survey 1,800 directors and business owners in South Africa improved markedly from a low of 5 to 24. A trend which analysts expect will continue. An even more engaging indicator, the BankservAfrica Economic Activity Indicator (BETI) also shows that economic activity has been increasing exponentially. Previously this indicator showed that the economy would contract by as much as 58% in the second quarter, excluding agriculture. Now, BETI is telling us that the third quarter will be a whopper! The current consensus of market participants expects a rebound around 20% during the third quarter of 2020. As the recovery departs rapidly it is expected to extend into 2021, during which time we might see a growth of 4% or even 6%. But what then? Then we enter murky waters.

Our read of the matter is that President Ramaphosa is coming out of this pandemic with more power. However, it is still too early to act. Any cabinet reshuffle or an actual attempt at eradicating corruption will most likely lead to a bad break-up in the ANC. This is something an ideologically confused party with a mindset of "party-first", will not be able to stomach. By implication, following the rebound in 2021, we will see more of the same. Incompetence, inefficiencies, and lower-for-longer, until accountable leaders can finally introduce the needed structural reforms.

But this does not mean that our markets will do the same. For those of you with an eye for technicals, and an appetite for risk and endurance, many stocks on the JSE are screaming buy. From a fundamental perspective, global investor sentiment continues to favour and shift towards emerging markets, which will probably disproportionately benefit the JSE. For the simple reason that local companies have been producing profits over the last couple of years, yet their share prices have remained muted, at best. If anything, this trend and its persistence are even more unprecedented than the oddities of 2020.