EFFICIENT GROUP

ECONOMIC COMMENTARY

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Newsletter

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GDP WOWS US: GOVERNMENT CONCERNS US

"Wow" was the overall impression we had when Statistics South Africa announced the third quarter 2020 GDP figures. South Africa's (SA) economy recovered at a much more rapid pace than anyone was expecting. I previously said: we are happy to have been wrong. On an annualised and seasonally adjusted basis the economy grew by 66%, compared to the lockdown-induced contraction of -55% we experienced during the second quarter. Manufacturing, trade, and mining contributed the most to this increase. There were a couple of factors that worked in their favour. The lower base caused by the lockdown contributed its fair share to the rapid recovery, but the mining and manufacturing industries were struggling even before the lockdown. In addition to the base-effects, strong foreign demand (driven by a healthy global growth-story) also did its bit to support third quarter growth.

Like us, analysts expect that the fourth quarter will be another positive quarter, probably high single-digits around 8%. Consequently, annual growth expectations have been revised towards a contraction closer to -8%. This means that although our lockdown was too hard and too long, the resilient nature of our economy saved us. A smaller contraction might not sound like much, but the difference between -8% and an initial expectation of closer to -15%, is enormous: roughly R230 billion. What makes this even more impactful is that the brunt of the lockdown fell on lower-income households, in which case R230 billion makes a substantial difference. Roughly R15 000 per person, which quickly adds up in large poorer households. News of our rapid recovery was also welcomed by local markets, especially the rand, which appreciated to levels below R15.00 against the United States dollar (USD).

We are a bit concerned about the increase in coronavirus cases in SA because our government has shown that they are quick to implement unnecessarily tough restrictions, which, if done again, will force us into a double-dip recession. Currently, the rolling three-day positive rate is up to 14%, and has been on the rise since early November. Although the total active cases are still well below its July peak, the daily new cases are following the same trend we saw leading up to the July peak. We are hoping that the government can keep calm and rather lend support to those impacted by the virus (by ensuring that vaccines arrive as soon as possible) than forcing us into another lockdown.

Over in the United States (US), the silly Democratic Party seem to be supportive of a $900 billion COVID-19 relief package. This will be the second one of its kind in relief that lawmakers want to use to pull the US economy through 2020. Silly, because the same party is now settling for $900 billion, but did not want to accept Trump's $1.3 trillion proposal when Americans needed it. They did this at the cost of the average American , to spite the (almost) former president. Research done by JP Morgan suggests that even in a worst-case scenario, where new coronavirus cases continue to skyrocket and vaccines take a longer than anticipated time to be implemented, the pandemic should come to an end in the US in October 2021. In a similar vein, the United Kingdom became the first country to administer a clinically approved vaccine to patients. Markets reacted positively to the news despite two healthcare workers with a history of allergies developed symptoms of anaphylactoid reaction after receiving the vaccine. It is, however, common that people with allergies are advised not to take new vaccines.