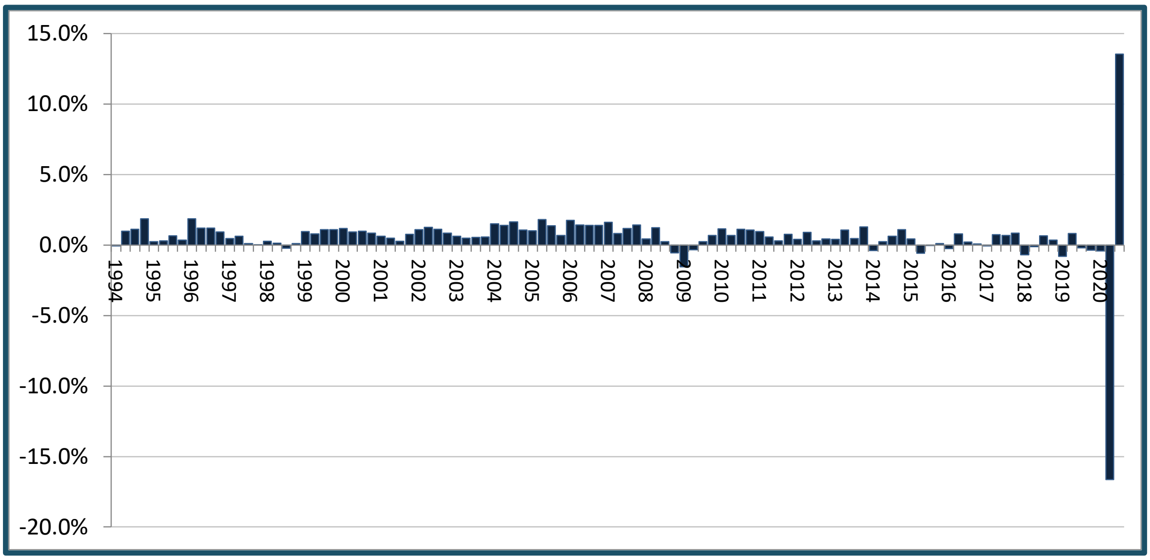
Gross domestic product

In the third quarter of 2020, the GDP recovered 13.5% after the extraordinary downturn in April that led to an overall decline of 16% in the second quarter. As a result, although quarterly output was still at levels last seen in 2016, it was on track to do better than most forecasts. The biggest risk to the recovery in the short run remains a second wave of COVID-19 as a result of socialising and travel over the holiday season.

In the third quarter of 2020, the GDP grew by 13.5% over the second quarter, in seasonally adjusted terms. It regained three quarters of the losses suffered in the second quarter, when the GDP shrank by 16%. Still, the economy was 8% smaller than in the final quarter of 2019, before the pandemic began to affect the national and the global economy. Graph 1 underscores the extraordinary swings in production as a result of the pandemic.

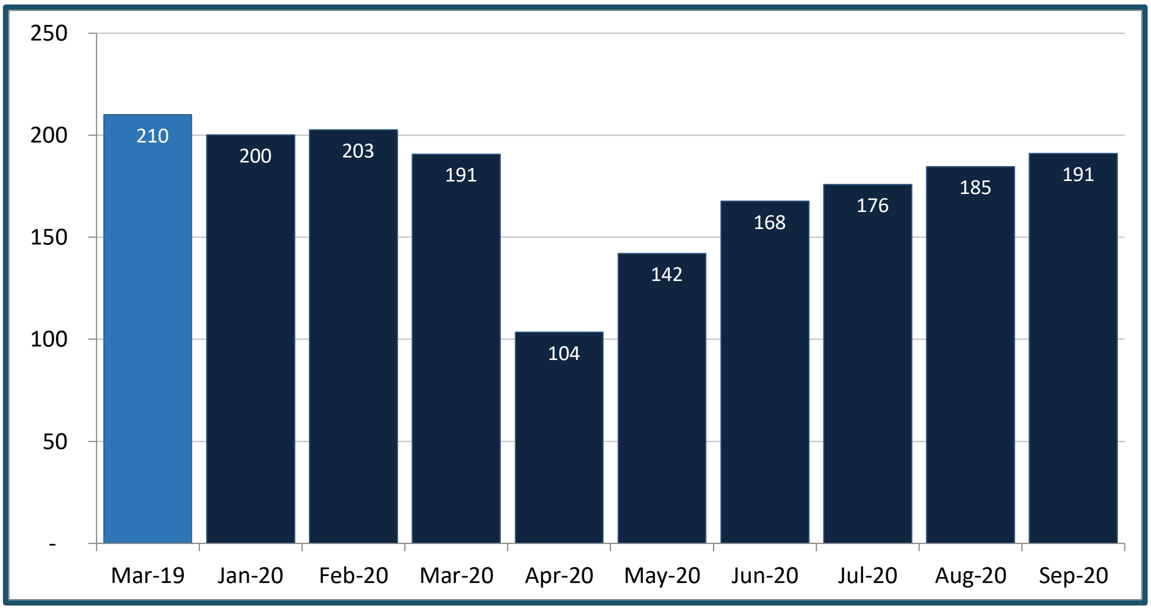
Graph 1. Quarterly change in GDP, seasonally adjusted, 1994 to third quarter 2020



Source: Calculated from Statistics South Africa. GDP quarterly figures. Excel spreadsheet downloaded from www.statssa.gov.za.

The quarterly GDP data conceal large month-on-month changes that result from the pandemic. The extent of these changes can be seen in monthly and weekly indices. For instance, monthly manufacturing sales in constant rand fell 46% in April compared to March; recovered by 62% in June; and grew 14% through September. As a result, they returned to March 2020 levels in September – but that was 10% below March 2019. That is, manufacturing growth appeared to be levelling out below 2019 levels, despite the significant rebound from April to September.

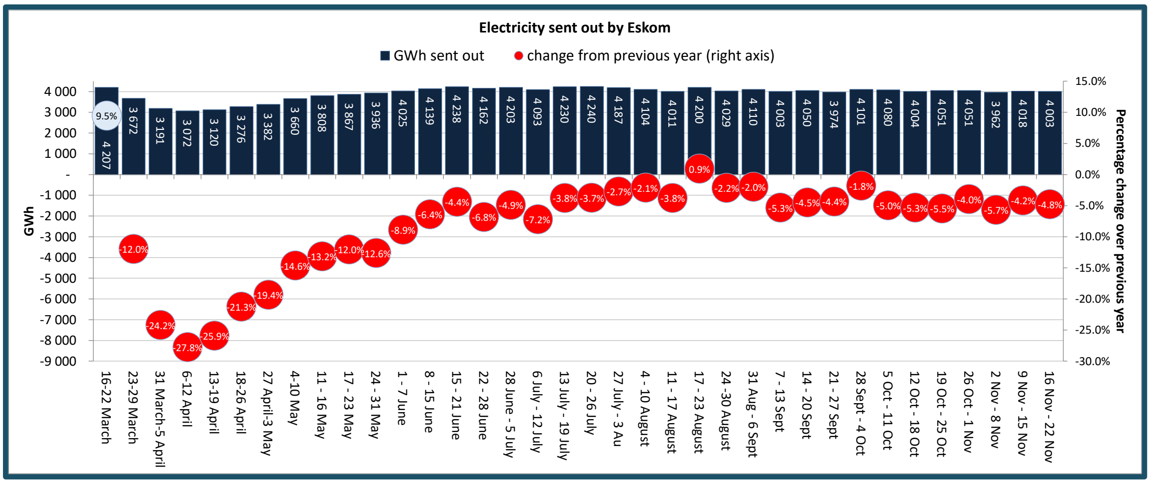
Graph 2. Monthly manufacturing sales in billions of constant (2020) rand (a), seasonally adjusted



Note: Deflated with CPI rebased to September 2020. *Source:* Calculated from Statistics South Africa. Manufacturing: Production and Sales. Excel spreadsheet downloaded from www.statssa.gov.za.

Eskom's weekly data on its electricity sales show a similar pattern. They fell 25% in April, followed by a significant rebound to 5% below 2019 levels at the end of June, but then stagnated.

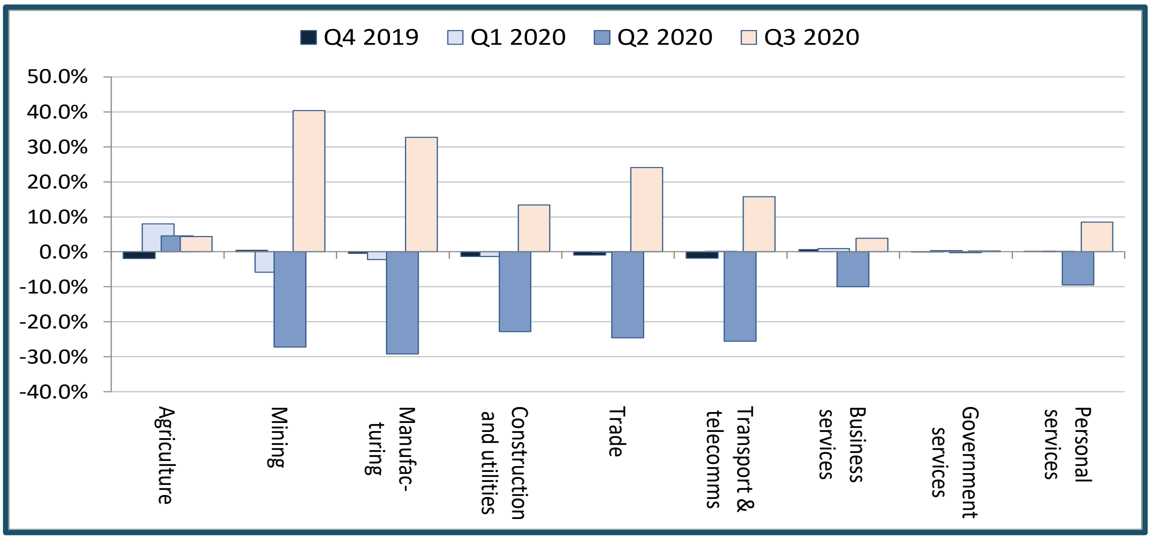
Graph 3. Electricity sent out by Eskom in GWh and compared to the same period in 2019, mid-March to mid-November



Source: Calculated from Eskom. Weekly System Status Reports. Downloaded at www.eskom.co.za.

In sectoral terms, only agriculture had higher value added in the third quarter than a year earlier. Mining and manufacturing declined sharply in the second quarter, but rebounded 40% and 33% respectively in the third quarter. Construction saw a weak 14% recovery, following on a 23% contraction in the second quarter and a much longer but more gradual decline that started in 2015. In contrast, services outside of logistics proved relatively resilient. These figures obscure substantial differences between industries. Accommodation and catering saw a sharp decline, as discussed below, but other services fared better. Professional services appear to have weathered the storm relatively easily because they can usually be managed from home; security and commercial cleaning counted as essential; and the public services saw a substantial redistribution toward health and security, but essentially remained stable throughout the past year.

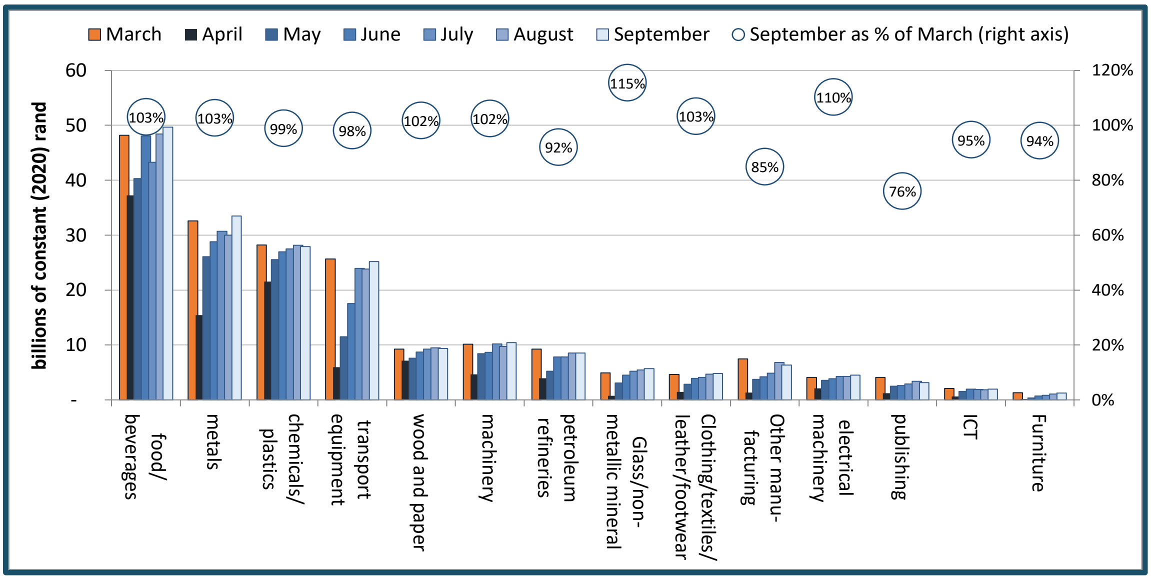
Graph 4. Quarterly growth by sector, fourth quarter 2019 to third quarter 2020



Source: Calculated from Statistics South Africa. GDP quarterly figures. Excel spreadsheet downloaded from www.statssa.gov.za.

Within manufacturing, the largest industries had all returned to March sales levels by September. For most, however, sales essentially stabilised in the third quarter after a sharp rebound in May and June.

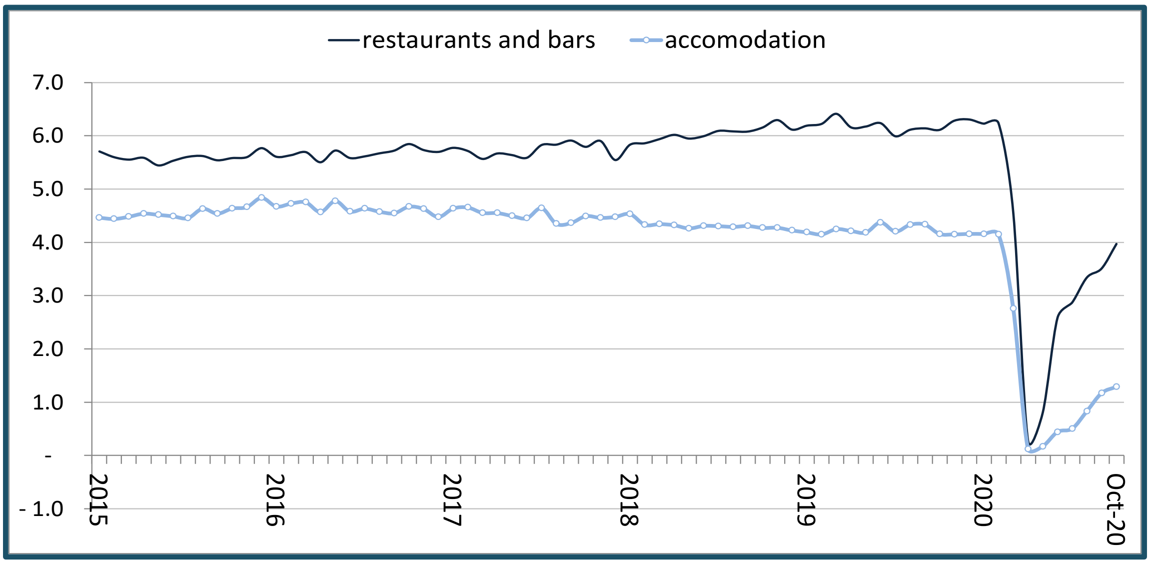
Graph 5. Monthly sales by manufacturing industry in billions of constant (2020) rand (a), seasonally adjusted and September sales as percentage of March sales



Note: Deflated with CPI rebased to September 2020. *Source:* Calculated from Statistics South Africa. Manufacturing: Production and Sales. Excel spreadsheet downloaded from www.statssa.gov.za.

Within the services sectors, the pandemic had an extraordinary impact on high-risk entertainment activities, including bars, restaurants and clubs, which form part of the much larger trade and personal services sectors. Monthly figures on accommodation and catering illuminate trends in two of the hardest-hit industries. Together, they directly contributed around 1.5% of the GDP and close to 3% of formal employment in 2019, according to Quantec estimates. Both industries saw their aggregate income fall to near zero in April. The decline started in March when people began to stay home voluntarily to avoid the contagion. The industries recovered significantly through October, but remained far behind January levels. Restaurant income was still 35% lower in September than in January; bars 60% lower; and accommodation 70% lower.

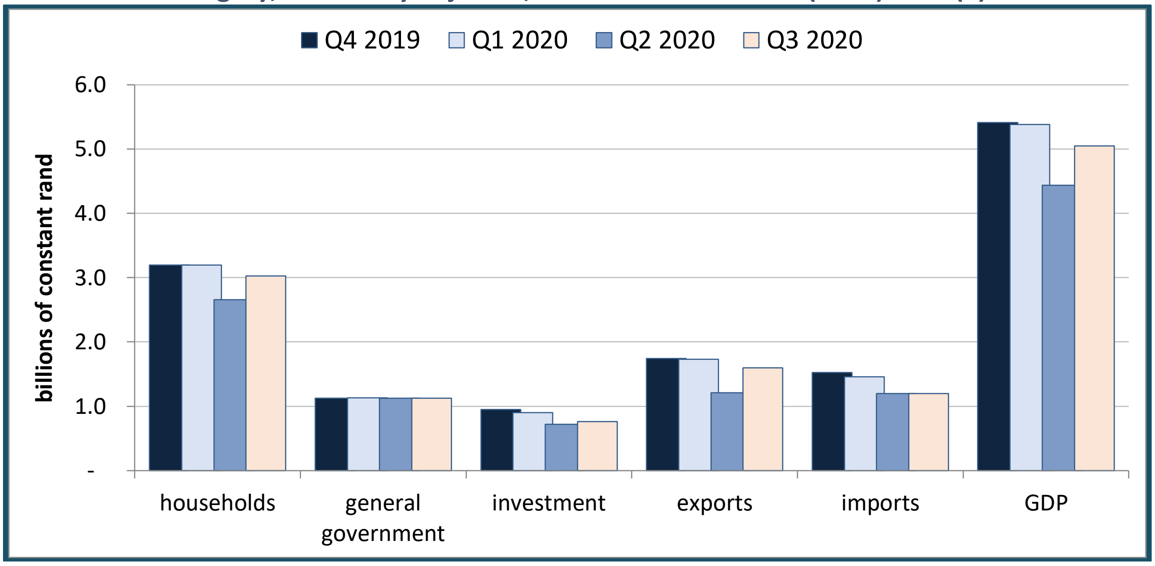
Graph 6. Income from accommodation and from restaurants and bars, monthly, from 2015 to October 2020 in billions of constant (2020) rand (a)



Note: (a) Reflated with CPI rebased to October 2020. *Source:* Calculated from Statistics South Africa, Food and Beverages, and Tourist Accommodation. Excel spreadsheets downloaded from www.statssa.gov.za.

On the expenditure side, the recovery was driven by household consumption and a surge in exports. Household consumption, which accounts for two thirds of spending on the GDP, dropped to 83% of its first quarter total in the second quarter, but recovered to 92% in the third. Exports fell 30% in the second quarter, then grew by a third off the much lower second quarter base. As a result, despite the rebound, household consumption in the third quarter was 5% below first quarter levels, and exports 8% lower. In contrast, investment fell by 20% in the second quarter and grew only 6% in the third quarter. It ended up 18% below its first-quarter level. Government consumption was essentially flat, which meant it did not provide a significant stimulus in this period.

Graph 7. Quarterly expenditure on GDP, fourth quarter 2019 to third quarter 2020, by category, seasonally adjusted, in billions of constant (2020) rand (a)

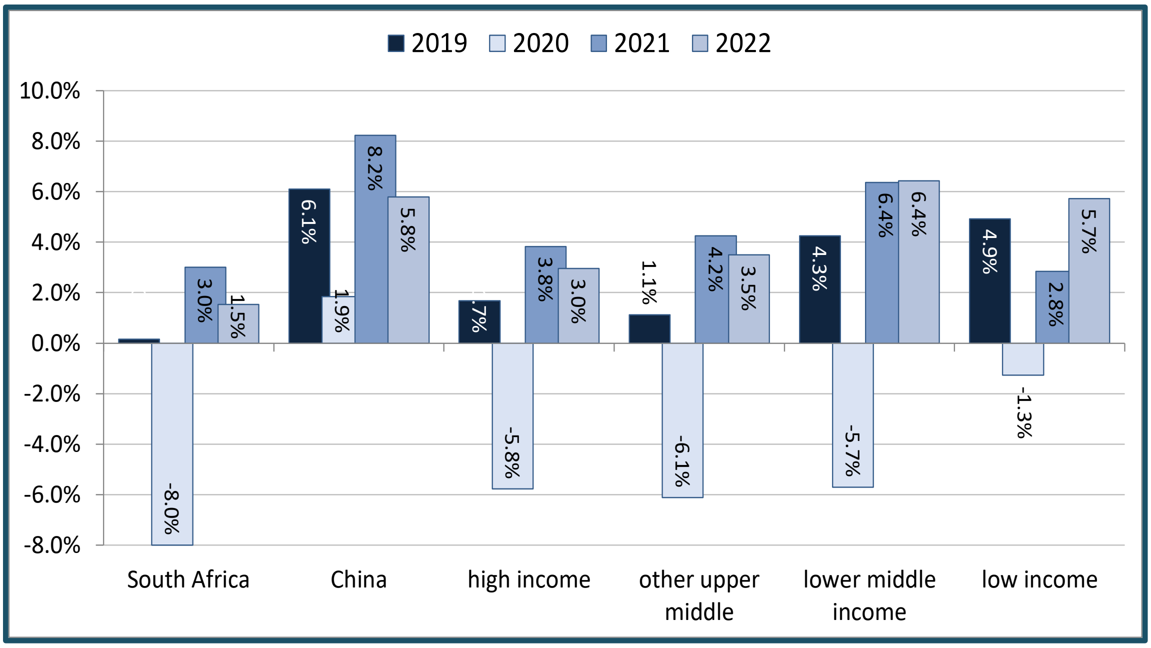


Note: Reflated using implicit deflator rebased to third quarter 2020. Source: Statistics South Africa. GDP quarterly figures. Excel spreadsheet downloaded from www.statssa.gov.za.

As of October, the International Monetary Fund (IMF) forecast that South Africa's GDP would shrink by 8%, compared to a 6% decline in other upper-middle-income countries excluding China. In the year to the third quarter, however, South Africa out-performed this forecast, with a year-on-year decline of 5.8%. Of all major economies, only China was expected to expand in 2020.

More worryingly, the IMF projected that the South African economy would only expand by 4,5% through 2022, making up only just over half of the loss in 2020. In contrast, other upper-middle-income economies, outside of China, were expected to grow some 8% by 2022, climbing to 2% above their pre-pandemic size. Obviously, the forecast for South Africa depended on a range of assumptions around global and national trends as well as the impact of policy decisions.

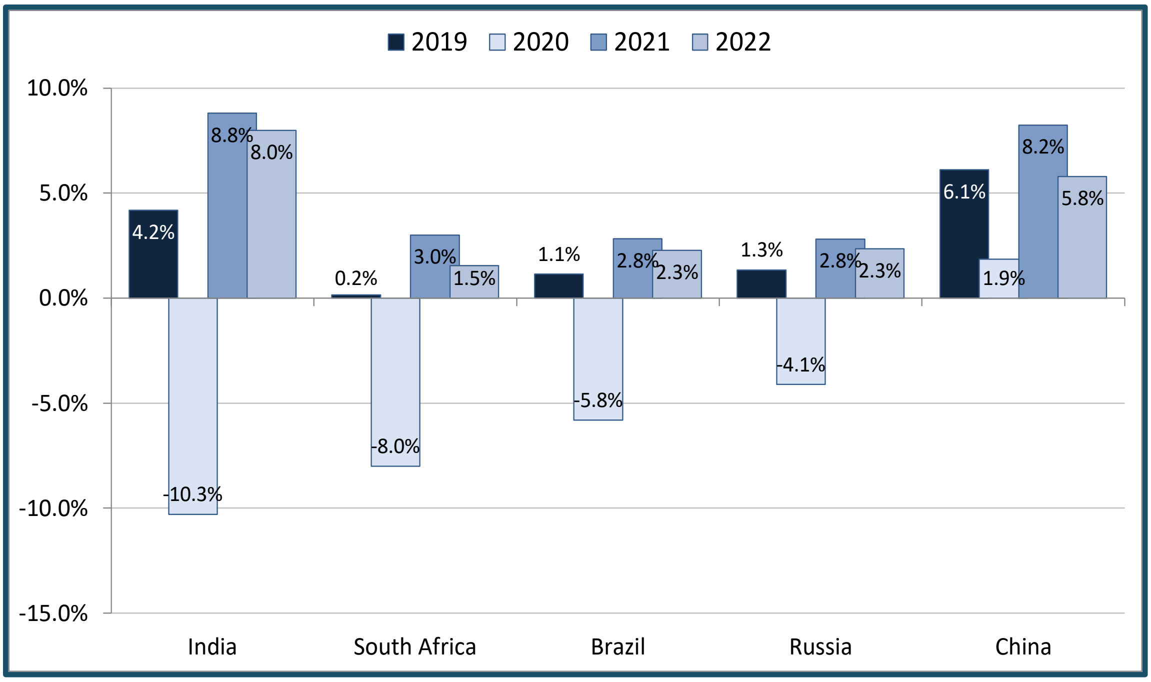
Graph 8. IMF forecasts for growth by World Bank country income group through 2022 (a)



Note: (a) Calculated by weighting country projections by the share of each country's GDP in current US dollars for the year. *Source:* Calculated from IMF. World Economic Outlook Database October 2020. Downloaded from www.imf.org.

A comparison with the other BRICS countries underscores the relatively slow recovery expected for South Africa. The IMF forecasts an even sharper decline for India than for South Africa, but a much faster rebound. Brazil and Russia look more like South Africa. (see Graph 9).

Graph 9. IMF forecasts for the BRICS economies through 2022

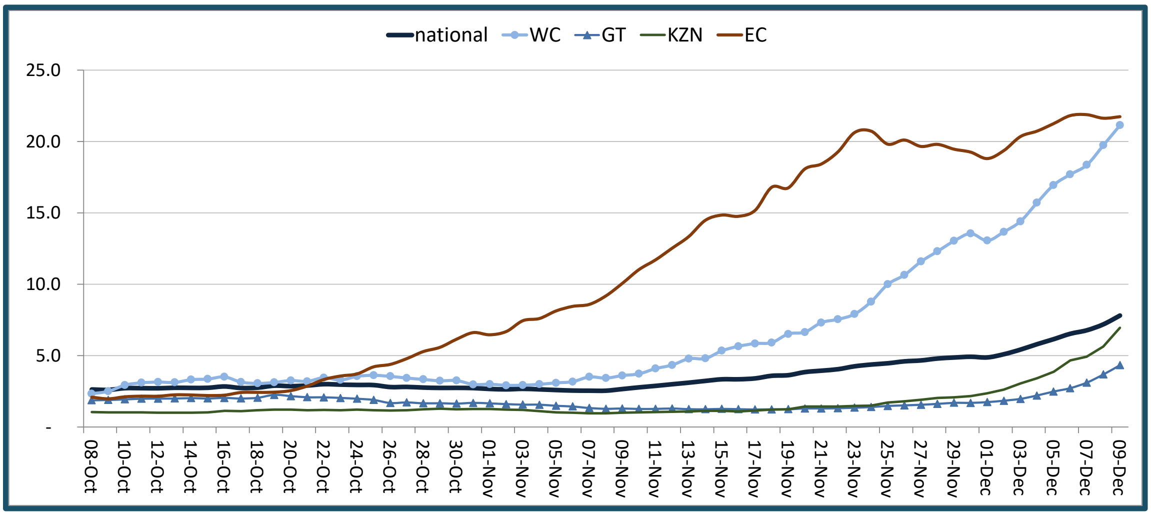


Source: Calculated from IMF. World Economic Outlook Database October 2020. Downloaded from www.imf.org

The main threat to recovery in South Africa is the effect of the second wave of COVID-19. The country officially entered a second wave on December 9 as new reported cases breached 6 000. Unless behavioural changes limit the contagion, the number is expected to grow rapidly over the Christmas and New Year holiday season.

In the global North, socialising and travel over their summer holidays fuelled a surge that has resulted in an economic slowdown. In the case of the United States and the United Kingdom, it appears that growth over the past quarter has been partially reversed. In South Africa, as the following graph shows, cases began to surge especially in the coastal provinces after the move to Level 2 of the disaster regulations in mid-August. They have also begun to rise exponentially in Gauteng. In this context, efforts to avoid further restraints on tourist facilities and inter-provincial travel risk setting back the rebound in the rest of the economy in the first half of 2021.

Graph 10. New COVID-19 cases per 100 000 residents by province, 8 October to 7 December



Source: Calculated from SACoronavirus. Updates on COVID-19 for relevant dates. Accessed at www.sacoronavirus.org.za