

THE REAL ECONOMY BULLETIN

TRENDS, DEVELOPMENTS AND DATA

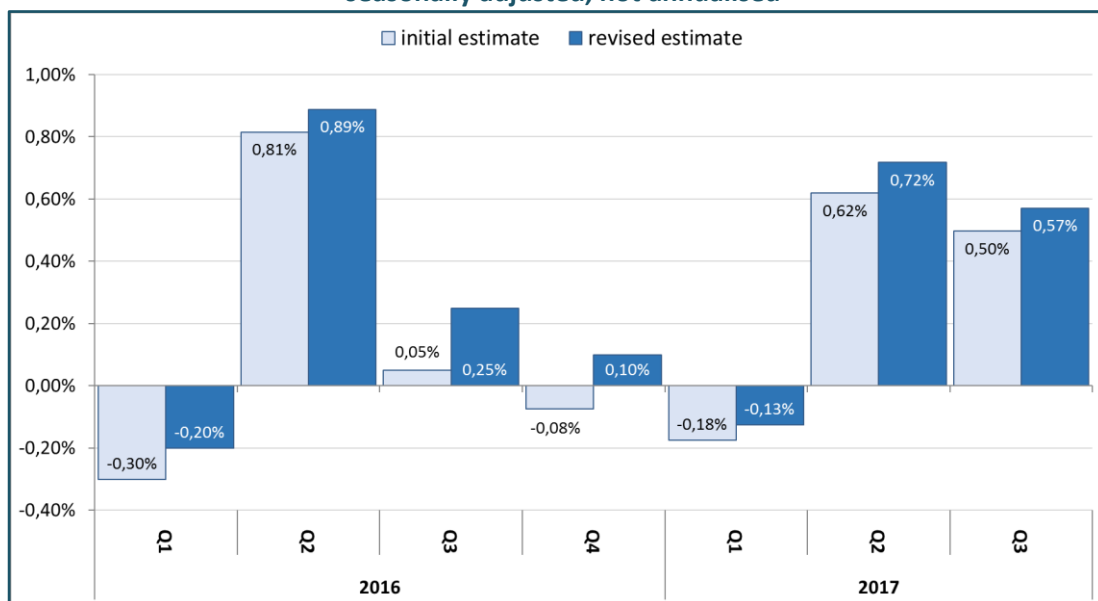
FOURTH QUARTER 2017

Briefing Note: What happened to the recession?

Revisions in the latest GDP data effectively wiped out a technical recession initially reported for the fourth quarter of 2016 and the first quarter of 2017. So what happened to the recession that was initially announced, and what do these revisions mean for our understanding of the GDP data?

Data revisions are a normal part of the statistical process. For most quarters (unfortunately not for the final quarter of 2016), Stats SA publishes the revisions with a brief explanation of the changes. The following graph indicates the revisions to GDP data from the first quarter of 2016 to the final quarter of 2017. In virtually every quarter in this period, the GDP figures were ultimately revised upward. For a discussion on why revisions happen, as well as findings on revisions to South Africa's quarterly GDP estimates see TIPS policy brief *Revisions to South Africa's Gross Domestic Product*.

**Growth rates in gross domestic product, 2016-2017,
seasonally adjusted, not annualised**



Source: Stats SA GDP quarterly figures. Excel spreadsheet downloaded www.statssa.gov.za in March 2018.

The revisions can have important implications for economic policy and investment decisions, which in turn may shape subsequent economic trends. First, because of time constraints, policy decisions typically have to rely on initial published estimates. These estimates typically feed into choices around interest rates and budget limits. Second, the reported recession was a major concern for investors, whose planning takes national economic prospects into account.

The initial reports of a recession also fuelled commentary that now turns out to have been largely unfounded. Analysts attributed the (non-existent) recession to unconducive economic policies; the global economic slowdown; and political instability, corruption and even the president.

Stats SA has not explained what led to the changes in the estimates, which are based on a blending of information. For example, the quarterly estimates are obtained by interpolating in, and extrapolating from, the most recent annual estimates, and from quarterly and monthly indicators based largely on sample surveys.

The takeaways for data users include:

- It makes more sense to focus on long-term trends than to attribute great significance to quarterly changes, especially as reflected in initial GDP estimates. Policymakers, investors and commentators should rather focus on the full range of available evidence when evaluating overall economic performance
- South Africa needs greater transparency and accountability from Stats SA about its revisions policy and the reliability of initially published estimates. Stats SA generally provides an extraordinary array of information, but it could do more to report clearly and timeously on the strengths and shortcomings of the data.
- Strong statistics require that Stats SA develop a genuine and accountable engagement with its many users and supporters in government, the research community, and the media. Oversight and consultation processes need to reach most users, who now at best may be invited to comment on specific series at infrequent workshops.