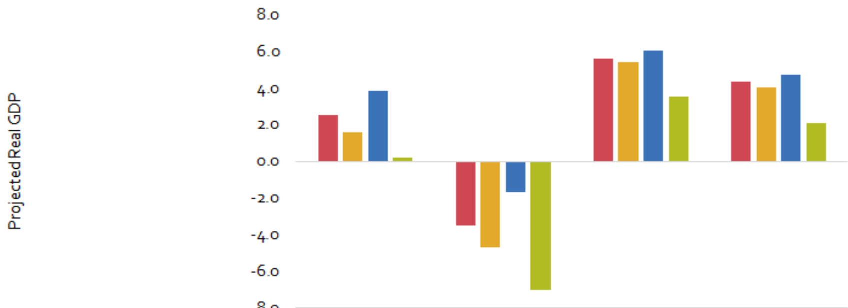
Global Economy Shows Strong but Unequal Post-recession Recovery

Global Economic Expansion Shows Strong but Unequal Post-recession Recovery

Recovery underway but...

Data released by the World Bank during the week ending 11 June 2021 shows that the covid 19 pandemic induced a contraction of 3.5 per cent in the global economy during 2020. However, the impact of the pandemic was uneven across different regions of the world. *Advanced Economies* contracted by 4.7 per cent. In aggregate Emerging *Markets* contracted by 1.7 per cent. However, economies in *East Asia* grew by 1.2 per cent led by a 2.3 per cent expansion in China. In contrast, *Sub-Saharan Africa* contracted by 2.4 per cent weighed down by negative growth from Nigeria, Angola and South Africa which respectively contracted by 1.8, 5.2 and 7.0 per cent.

Figure 1: World Bank Global GDP Forecasts June 2021

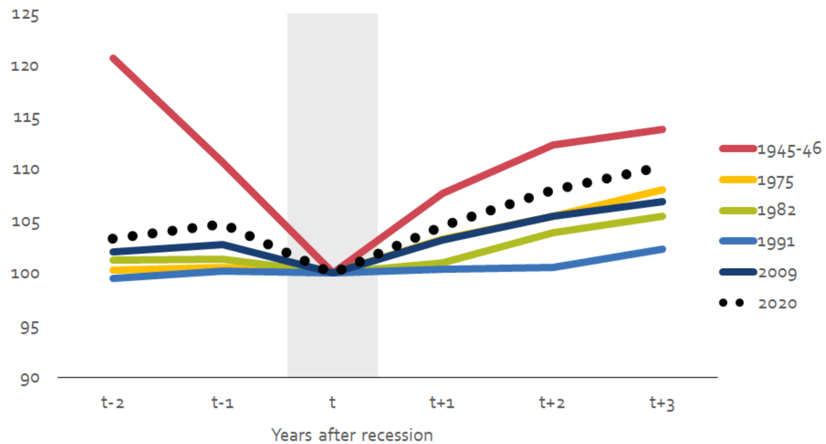


	2019	2020e	2021f	2022f
Global Economy	2.5	-3.5	5.6	4.3
Advanced Economies	1.6	-4.7	5.4	4
Ermeging Markets & Developing Economies	3.8	-1.7	6	4.7
South Africa	0.2	-7.0	3.5	2.1

Source: World Bank, GGDA BI

Looking forward the global economy is expected to expand by 5.6 per cent in 2021 and 4.3 per cent 2022 both estimates are significantly higher than what was previously published in January 2021. Exceptionally, this represents the strongest % growth post a major recession since World War 2. The figure below assesses the pace of recovery after every major recession since 1945.

Figure 2: Post Recession Rebound Since 1945



Source: World Bank, GGDA BI

Unevenly Distributed Across Income

However, recovery is driven, and consequently skewed, towards recovery in *Advanced Economies*. Data released by the World Bank shows that 40 per cent of *Emerging Economies* will have exceeded pre-recession per capita income by 2022. In contrast, 94.4 per cent of *Advanced Economies* will have exceeded pre-covid per capita incomes by 2022. This pace of recovery represents a post-recession growth

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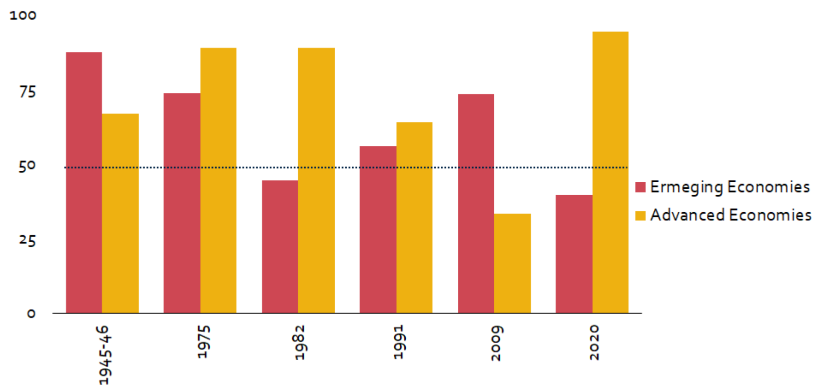
dominated by *Advanced Economies*. In many *Emerging Economies*, however, limited vaccination has contributed to downward revisions to growth. Per capita income in most *Emerging Economies* is projected to remain below pre-pandemic peaks for an extended period, and progress to catch up with advanced economies is expected to slow or even reverse in many poorer countries. In summary, the uneven pace of recovery from Covid 19 has exacerbated global inequality.

Figure 3: Progress to Recovery by per capita Income

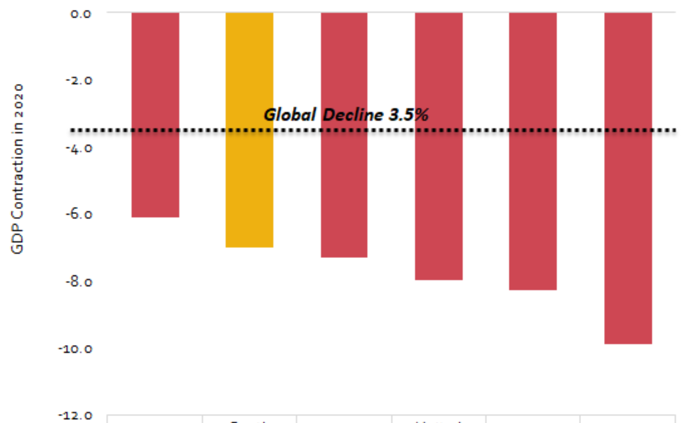


Source: World Bank, GGDA BI

South Africa Disproportionately Burdened by Covid

Unfortunately, data indicates that the local economy, alongside *Thailand, India, United Kingdom, Mexico and Argentina*, contracted much deeper than the rest of the World.

Figure 4: Major Economies Disproportionately Impacted by Covid 19



	Thailand	South Africa	India	United Kingdom	Mexico	Argentina
Severely Affacted Major Economies	-6.1	-7.0	-7.3	-8.0	-8.3	-9.9

Source: World Bank, GGDA BI

Additionally, the local economy is expected to grow at an average pace of 2.4 per cent per annum between 2021-2023will recover at a much slower pace than the rest of the world.

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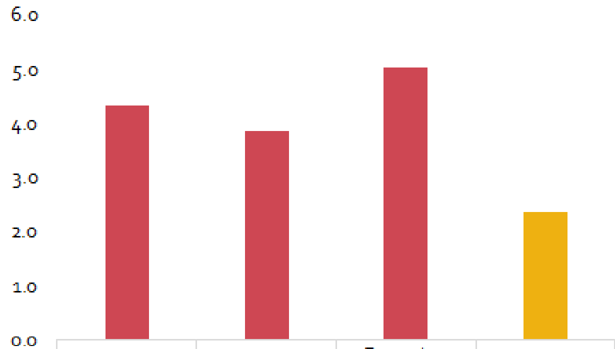
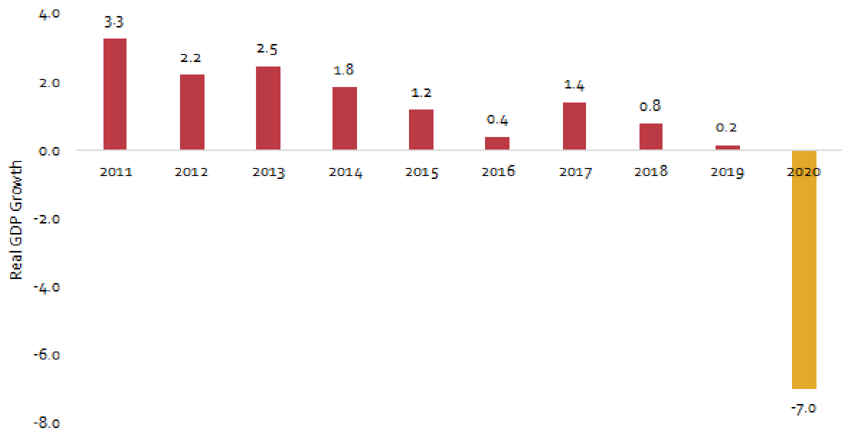
Figure 5: Projected Recovery South Africa vs Peers



	Global Economy	Advanced Economies	Ermeging Markets & Developing Economies	South Africa
Average GDP Growth (2021-2023)	4.3	3.9	5.0	2.4

Source: World Bank, GGDA BI

Figure 6: Annual GDP growth 2011-2020



Source: Statistics SA, GGDA BI

Household Spending Lifts Domestic GDP But Headwinds in the Horizon

Covid-19 asteroid leaves behind a massive crater

Data released by Statistics SA on 9 June 2021, confirms that during Jan2020-Dec 2020 the South African economy contracted by 7.0% The largest annual contraction in recorded history.

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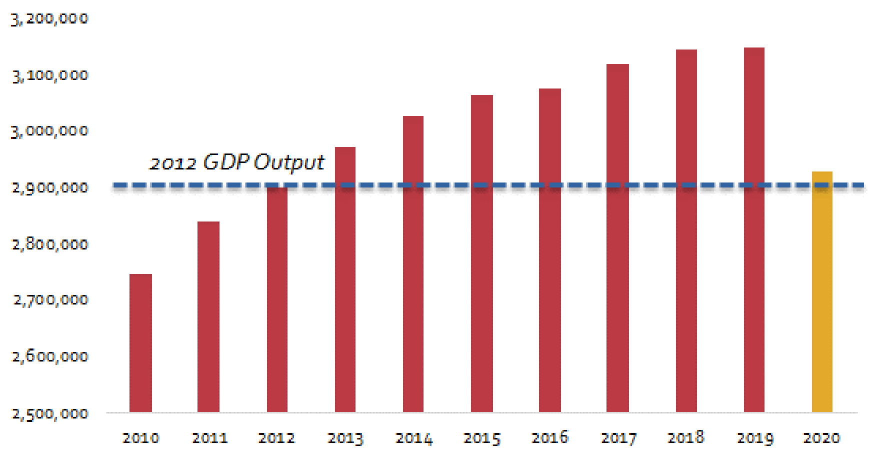
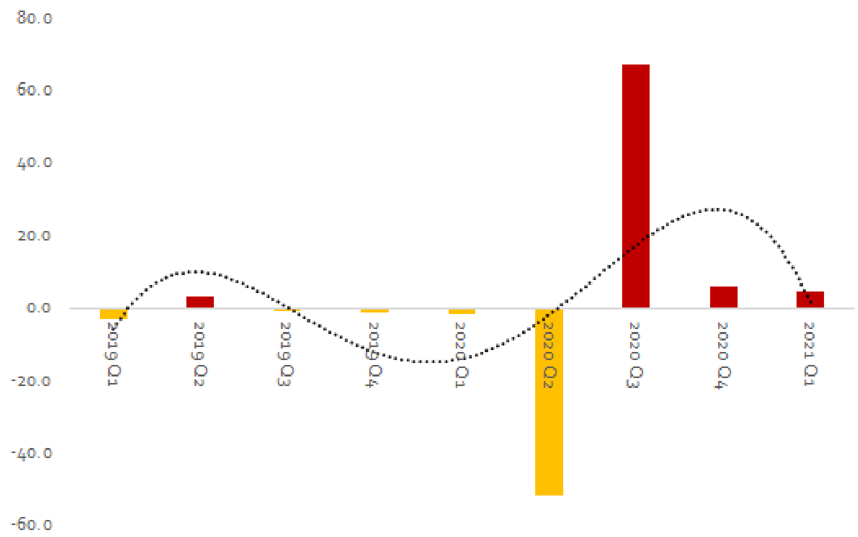
Figure 7: Annual GDP Output of 2010-2020



Source: Statistics SA, GGDA BI

For the first 90 days (January–March) of the calendar year, the local economy grew by 1,1%. In annualised seasonalised quarter-on-quarter GDP this translates to a growth of 4.6%. This growth in the first quarter was largely a result of limited restrictions and increased production between January and March.

Figure 8: Annualised GDP quarterly GDP Performance (2019Q1-2021Q1)



Source: Statistics SA, GGDA BI

In constant 2010 prices, the country generated almost R740.6 billion in 2021Q1. This marks a recovery from R648 billion produced at the height of covid 19 restrictions in 2020Q2.

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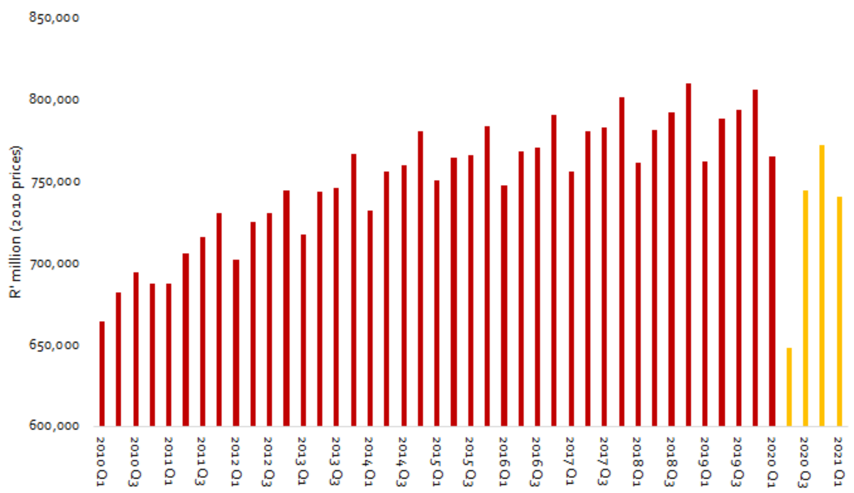
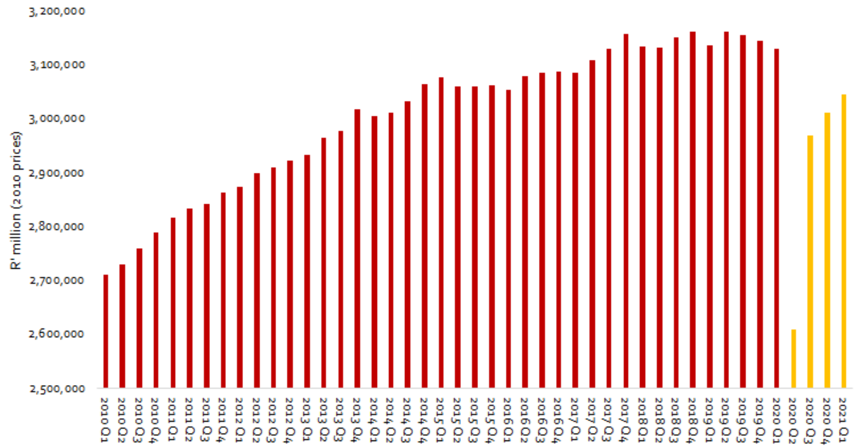
Figure 9: South Africa real GDP Output (2010Q1-2021Q4)



Source: Statistics SA, GGDA BI

However, in annual terms, the country produced R 3.0 trillion of GDP. Its lowest output in the last 8 years (2014Q3). Effectively COVID 19 has reset production to 2014 levels.

Figure 10: South Africa real GDP Annualised Output (2010Q1-2021Q4)



Sectoral Contribution to GDP decline

Eight out of ten industries reported growth rates in the first quarter, *Mining* grew by 18.1% boosted by the production of Platinum Group Metals, Iron Ore, Gold, And Chromium. Labour-intensive sectors such as *Finance*, *Real Estate & Business Services* grew by 7.4% due this was mostly driven by increases in mortgage advances and bond registrations and the banking sector registering a rise in the number of credit extensions. *Trade* grew by 6.2% on the back of strong wholesale and retail activity. Additionally, *Manufacturing* grew by 1.6% and *Transport and Communication* grew by 1.5% on the back of increased restriction-free logistics activity. Meanwhile, contractions were seen in *Agriculture* (-3.2%), dragged lower by weaker production figures for field crops and animal products. Intuitively,

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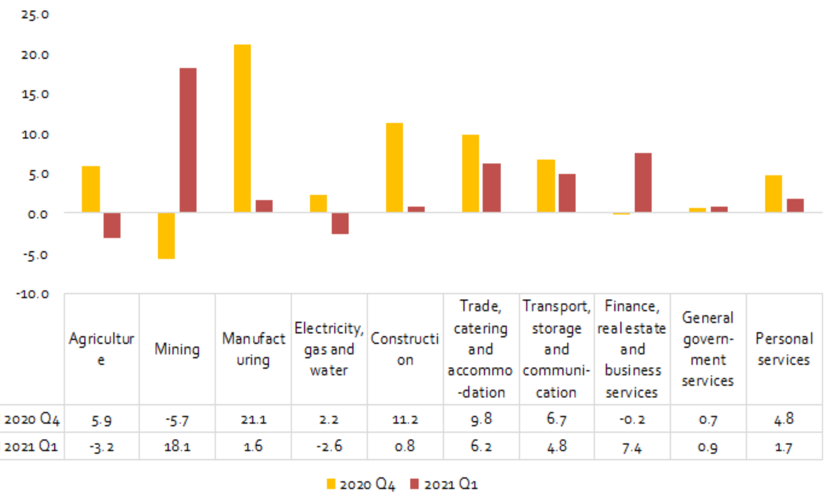
Electricity, Gas & Water contracted by -2.6%, due to weak electricity output *(pronounced as load shedding).*

Figure 11: Growth by production (sector)

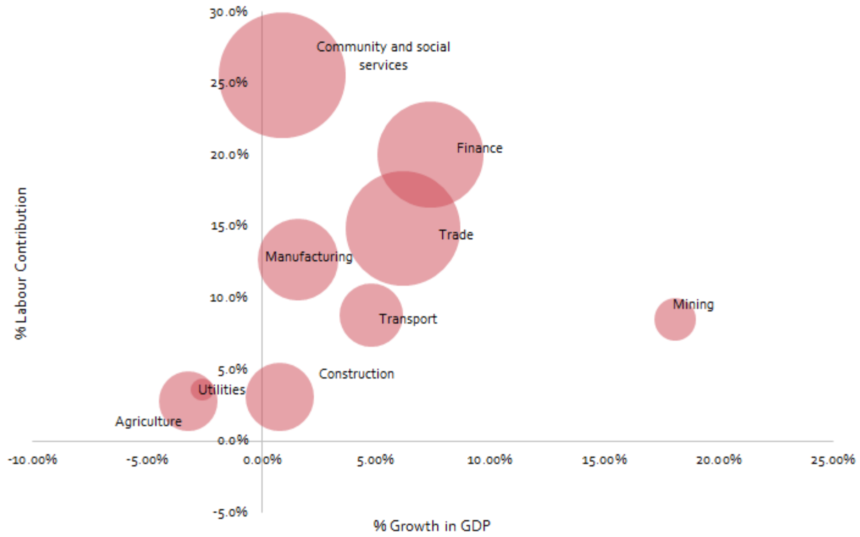


	Agriculture	Mining	Manufacturing	Electricity, gas and water	Construction	Trade, catering and accommodation	Transport, storage and communication	Finance, real estate and business services	General government services	Personal services
2020 Q4	5.9	-5.7	21.1	2.2	11.2	9.8	6.7	-0.2	0.7	4.8
2021 Q1	-3.2	18.1	1.6	-2.6	0.8	6.2	4.8	7.4	0.9	1.7

Source: Statistics SA, GGDA BI

On a positive note, data released by Statistics SA over the past two weeks shows that GDP growth has been skewed positively towards labour bearing sectors of the economy.

Figure 12: GDP growth alignment to Employment by Sector



Source: Statistics SA, GGDA BI

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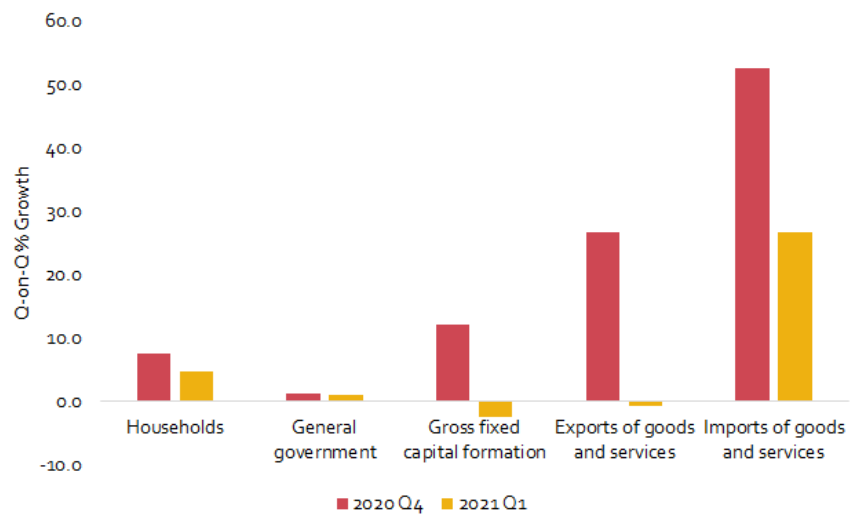
Figure 13: GDP Performance by Sector (2020Q1-2020Q4)

PRIMARY 11.9%	SECONDARY - 1.0%	TERTIARY 4.6%
• In the primary sector, mining recorded the highest growth rate of 18.1 in Q1: 2021. • Agriculture declined by 3.2% and the decrease was mainly attributed to by decreased production of animal products and field crops. • While in mining, increase of production was recorded for PGMs, iron ore and gold	• In the secondary sector, which saw a decrease in production mainly attributed to electricity and water (-2.6%), manufacturing recorded a modest growth of 1.6% in Q1 2021. • automotive sector, as well as by manufacturers in wood, paper & publishing • Electricity, gas & water: The decline was largely due to a decrease in electricity distributed and water consumption. • There was notable growth in the Construction industry following several quarters of recession of 0.8% which was driven by increase in non-residential buildings and construction works.	• All industries of the tertiary sector recorded growths in Qi 2021, with finance recording the highest growth of 6.2% driven by financial intermediation, auxiliary activities, real estate activities and business services. • In Trade, wholesale and retail trade recording a rise in economic activity while in Transport, there was an increase in economic activity related for transport and communication services. • The increase in Personal services was largely due to for community and other producers. • Government's contribution was only buoyed by increased employment in the civil service

Source: Statistics SA, GGDA BI

Figure 14: GDP Performance by Expenditure (2020Q4-2021Q1)



Source: Statistics SA, GGDA BI

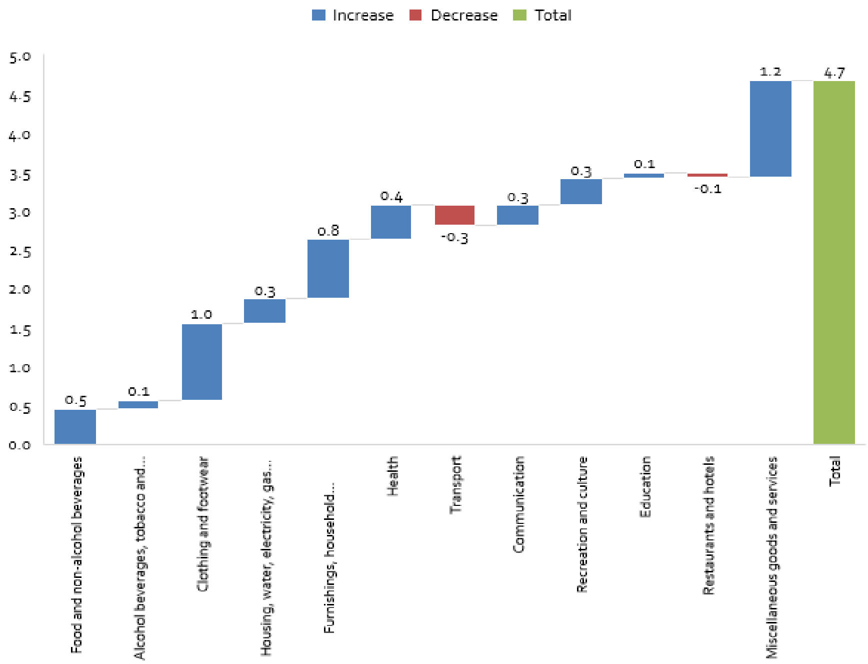
Expenditure by the GDP for Q2 2020

GDP by expenditure or demand measures economic output by adding up *consumer spending, investment, government expenditure, and net exports*. During the quarter under review. GPD growth was driven by increases in *Household expenditure* (4.7%) and *Government Spending* (1.0%). However, *Exports* and Investments *(Gross Fixed Capital Formation)* respectively fell by 0.9% and 2,6%. Additionally, *Imports* grew by 26.5% significantly weighing down on growth

Positive Increase in Household Spending

According to Statistics SA, strong growth in Household Expenditure was driven by growth in the following categories: were in the following expenditure categories: *Clothing and footwear* (grew by 22.2 % and contributing 1,0 percentage points), consumption in *Miscellaneous goods and services* (grew by 9.8 % contributing 1.2 percentage points), consumption in *Furnishings, household equipment, maintenance* (grew by 8.9% and contributing 0.8 percentage points). There were notable increases in *Recreation & Culture*, *Healthcare spending and Communication* which cumulatively added 1.1 percentage points to Household expenditure growth. Declined were observed in *Transport* spending and *Restaurants & Hotels*, declines in these expenditure categories indicate that the labour-intensive *Tourism sector* still faces significant headwinds toward recovery.

Figure 15: Contribution to Household Expenditure 2021Q4



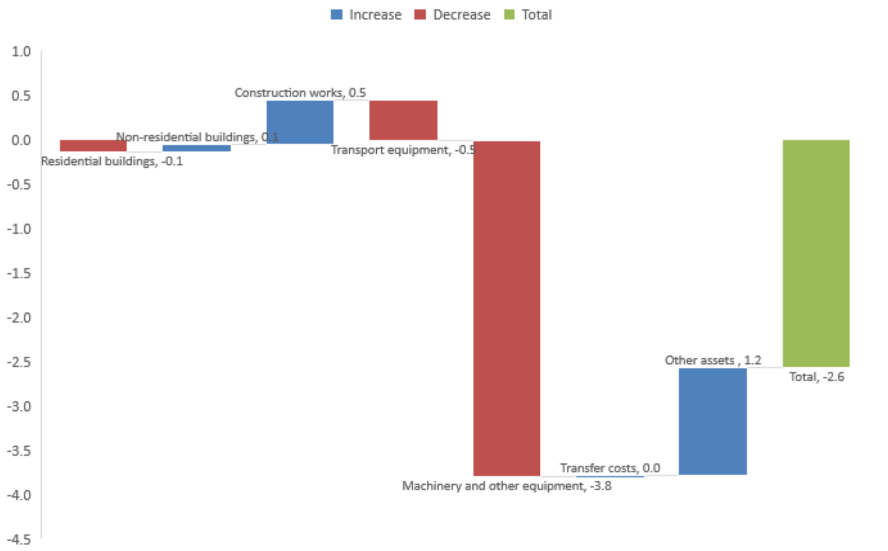
Source: Statistics SA, GGDA BI

Declines in Domestic Investment Spending

Private Domestic Investment (*Gross fixed capital formation*) decreased 2.6%. The main contributors to the decrease slowdown in investment in *machinery and other equipment* (contracted by -10.1% contributing -3.8 percentage points to investment growth). Domestic investment in *Transport equipment* (contracted by -4.2% contributing -0.5 percentage points to investment growth). Investment growth in *Non-Tangible Assets*[1] grew by 16.6% positively contributing 1.2 percentage points to investment growth. Additionally, investment in *Construction works* grew by 1.9% contributing 0.9 percentage points to domestic investment growth.

[1] Non tangible assets include research and development, computer software, mineral exploration and cultivated biological resources

Figure 16: Contribution to Investment Growth by Category 2021 Q4



Source: Statistics SA, GGDA BI

Looking Forward…

The Absa Manufacturing Purchasing Managers index PMI rose to 57.8 index points rose to a solid 57.8 points in May 2021 from 56.2 the month before. Firmly positioned above the 50-point mark (expansion/contraction divide). In aggregate, the average level of the PMI recorded in the first two months of the second quarter of 2021 (57 points) is well above the first quarter's average (53.8), which suggests that the sector is on track to record another quarterly expansion. A significant annual expansion is effectively guaranteed given the extremely low base set in the second quarter of 2020. While current business conditions improved in May, purchasing managers turned slightly less optimistic about the trading environment going forward. The index tracking expected business conditions in six months' time dipped to 63.5 in May, down from 67.9 in April. This could be as a result of concerns over a COVID-19 third wave. Even though government has to date adopted a softer touch to lockdown restrictions. However, the slow traction in the COVID 19 vaccination and a renewed virus-induced change in spending behaviour by consumers and firms could still hinder domestic demand. The ever-present possibility of disruptive load-shedding remains a major cause of pessimism for most producers.