GDP SNAPSHOT Q2:2021

SA GDP ADVANCES BY 1.2%

EASED RESTRICTIONS ON TRAVEL BOOSTS ECONOMIC GROWTH

GLOBAL ECONOMIC UPSWING BODES WELL FOR PRIMARY INDUSTRIES

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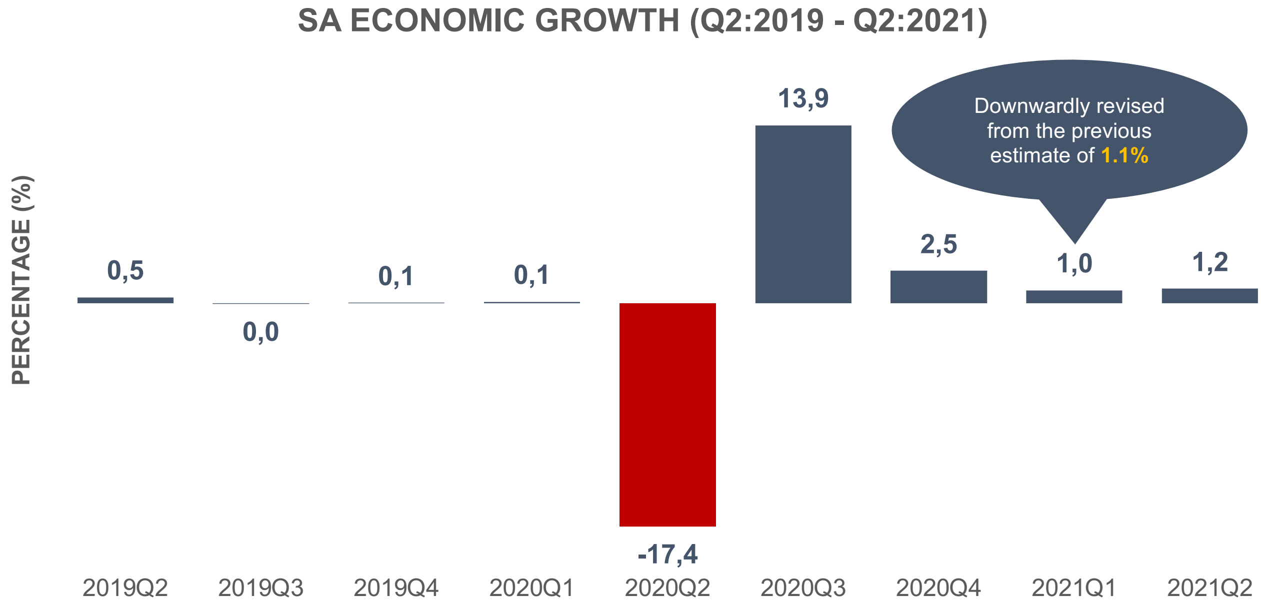
GAUTENG PROVINCE
ECONOMIC DEVELOPMENT
REPUBLIC OF SOUTH AFRICA

The South African economy expanded by 1.2% quarter-on-quarter (q/q) in the second quarter of 2021, up from a downwardly revised 1.0% in the first quarter. Meanwhile, economic activity improved by 19.3% year-on-year (y/y) in comparison to the same period last year and by 7.5% for the first half of 2021 compared to the same period in 2020. The official quarterly GDP figure falls below the consensus of 2%. Conversely, the annual growth rate is 1.5% above the consensus estimate of 17.8%.



Data Source: Statistics South Africa

EASED RESTRICTIONS ON TRAVEL BOOST ECONOMIC GROWTH

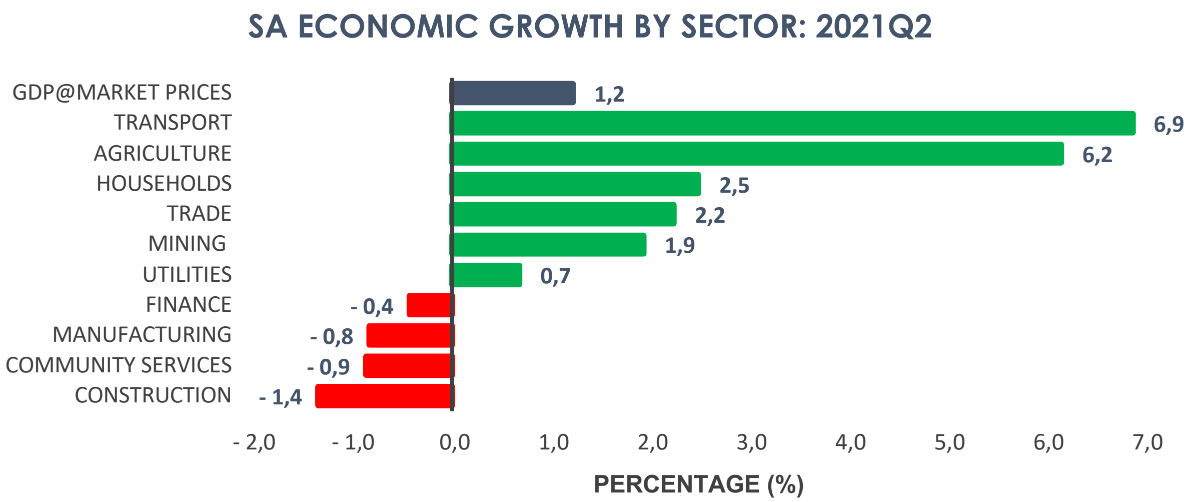
In an unexpected turn of events, the transport and communications sector, which contributes 7% to Gross Domestic Product (GDP) led growth for the period. The transport sector improved by 6.9% on the back of eased restrictions on travel, following the second COVID-19 wave. Despite upbeat transport output, tertiary industries improved by 1.5%, trailing behind primary industries activity at 3.4%.

RISE IN TRADE ACTIVITY CORROBORATES IMPOVED CONSUMER SENTIMENT

Tertiary industries registered divergent results with three (3) of the five (5) sectors improving during the period. Aside from the transport sector, increased activity was recorded in the household (2.5%) and trade (2.1%) sectors. The rise in trade activity was expected given encouraging interim results for industry giants such Mr Price, Tiger Brands, Shoprite group and RCL Foods. This is supplemented by the continued improvement in the Consumer Confidence Index (CCI) to -13 for the second quarter of 2021 and up again to -10 for the third quarter of 2021. Interestingly, finance activity moved into negative territory at -0.4% following three consecutive buoyant readings since its last dip of -10.5% (q/q) for the second quarter of 2020. Finance activity is slated to moderate further due to fewer COVID-19 related claims following the second wave.

GLOBAL ECONOMIC UPSWING BODES WELL FOR PRIMARY INDUSTRIES

On the other hand, there was a broad-based improvement across primary industries. Agricultural production increased by 6.2% due to favourable yields as well as higher commodity prices on the back of increased Chinese demand and drought in parts of South America. Meanwhile, the improvement in mining activity (of 1.9%) was underpinned by stellar volumes in Platinum Group Metals (PGMs), gold and coal which was attributable to elevated global commodity prices. As a result, the mining sector recorded the highest nominal increase of R21 billion contributing R126 billion to aggregate economic growth. Furthermore, the appreciation in domestic terms of trade is evidenced in the export performance during the period. Export for goods and services improved by 4% (q/q) primarily due to increased demand for mineral products, pearls, precious and semi-precious stones, precious metals, and vehicles and other transport equipment.



Data Source: Statistics South Africa

COVID-19 INDUCED MANUFACTURING ACTIVITY GROWTH SLOWS IN Q2:2021

Conversely, secondary industries contracted by 0.7% (q/q) in the second quarter of 2021. The descent was credited to declines in construction and manufacturing activity. Construction registered the largest contraction in the second quarter of 2021 at -1.4%. Nonetheless, the construction sector is expected to rebound in the third quarter owing to restoration projects following the July unrest. Manufacturing activity tallied at -0.8%, mainly as a result of lower petroleum, chemical and plastics production volumes. The latest figure indicates the normalisation of the sector to pre-COVID levels when the sector recorded muted growth owing to structural bottlenecks. The outlook for the manufacturing sector remains on the downside due to rising petrol prices, import cost inflation and electricity price hikes in the third quarter of 2021. This corroborated the acceleration in the Producer Price Index (PPI) for intermediate manufactured goods (17.6%) as well as electricity and water for July 2021. Moreover, the implications of the July unrest and the force majeure at Transnet is anticipated to weigh heavily on oil processing and automotive sales volumes. In addition, the rise in delta variant COVID-19 cases in key international supply chain nodes such as China and the US could add further downside risk.

ECONOMIC OUTLOOK

At this vantage point, the domestic economic growth forecast remains conservative, owing to the transitionary effects of the July unrest and Transnet force majeure at the beginning of the third quarter of 2021. In addition, the rise in administered prices is likely to hamper growth in key sectors including mining; construction and manufacturing which are crucial to South African value chains. Nonetheless, the trade surplus rally and increased domestic COVID-19 vaccinations are likely to promote economic growth in future. The trade surplus will support a moderation in import cost inflation as well as increase net foreign exchange which is crucial for servicing public debt. Meanwhile, increased domestic vaccinations will limit COVID-related disruptions to economic activity through the resumption to full economic activity, in turn speeding up economic recovery.

WHAT DOES THIS MEAN FOR GAUTENG?

As the transport nexus of South Africa, the Gauteng economy is likely to benefit from the upbeat transport activity, with improved provincial growth prospects likely for the third quarter of 2021. However, the contraction in finance activity (the bedrock of the Gauteng economy) may somewhat dampen quarterly performance.