



South African Economic Outlook

UPDATE 2021: *Be wary of the consensus*



1 July 2021

Economic Association of Namibia

Outline

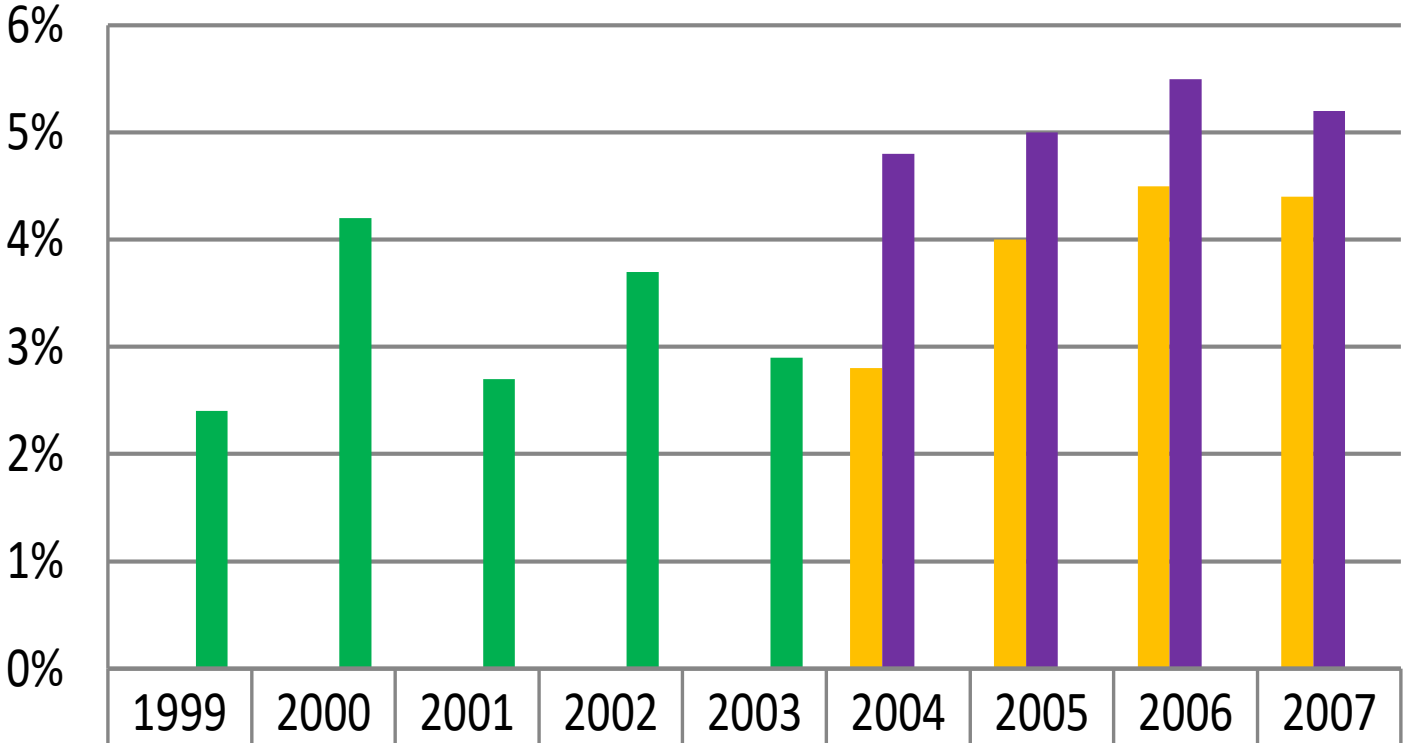
- Why you should be wary of the consensus
- Consensus and alternate 2021 SA GDP forecasts
- Q1 GDP surprise and impact on consensus
- Global trends
- Conclusion

Why you should be wary of the consensus

- SA GDP consensus forecasts failed to take into account fixed investment boom and rise of the black middle class
- 2016 Brexit consensus failed to look at second place gains for “independence” in previous general election
- 2016 US Presidential election consensus failed to take account of the poor employment recovery of uneducated whites
- 2021 SA GDP consensus fails to factor in export boom and inventory replenishment as major GDP growth drivers

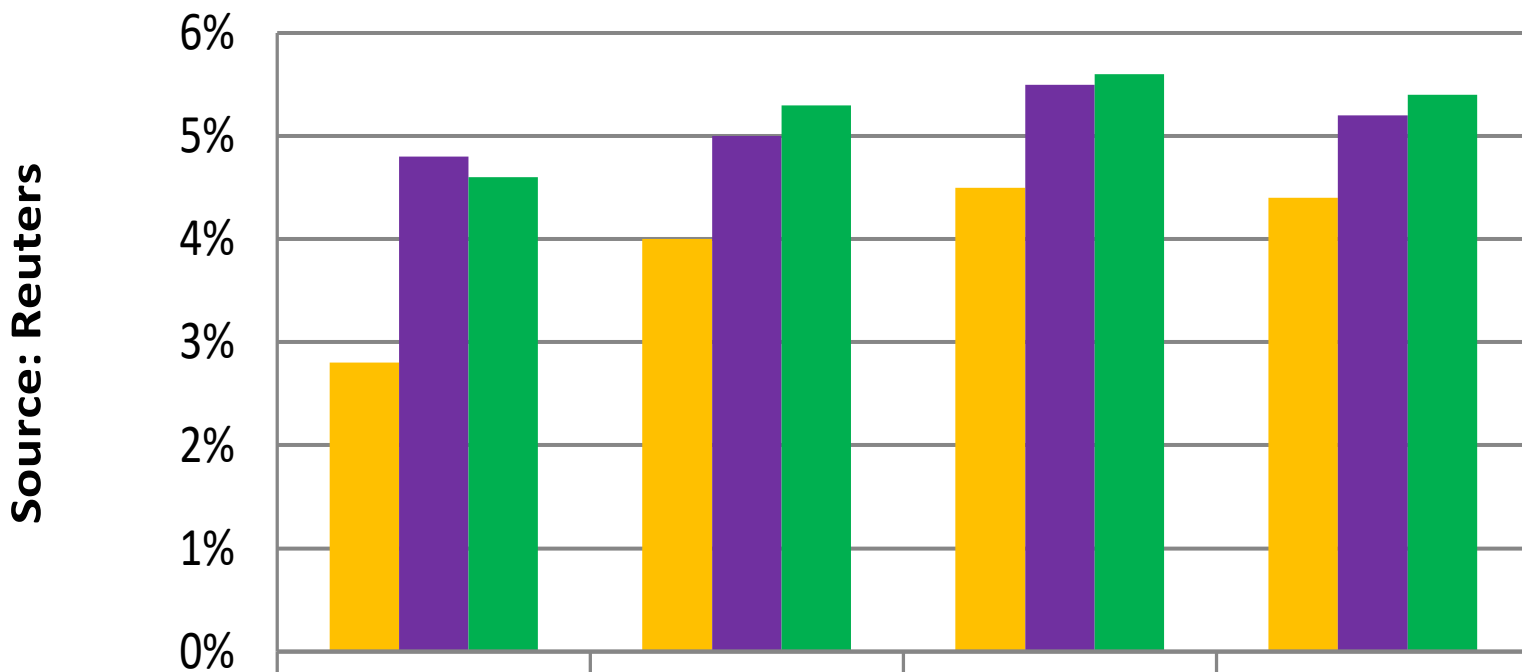
SA GDP Forecasts

Source: Reuters



■ Consensus						2.8%	4.0%	4.5%	4.4%
■ Forecaster						4.8%	5.0%	5.5%	5.2%
■ Actual	2.4%	4.2%	2.7%	3.7%	2.9%				

Forecasts vs Actual



■ Consensus

2.8%

4.0%

4.5%

4.4%

■ Forecaster

4.8%

5.0%

5.5%

5.2%

■ Actual

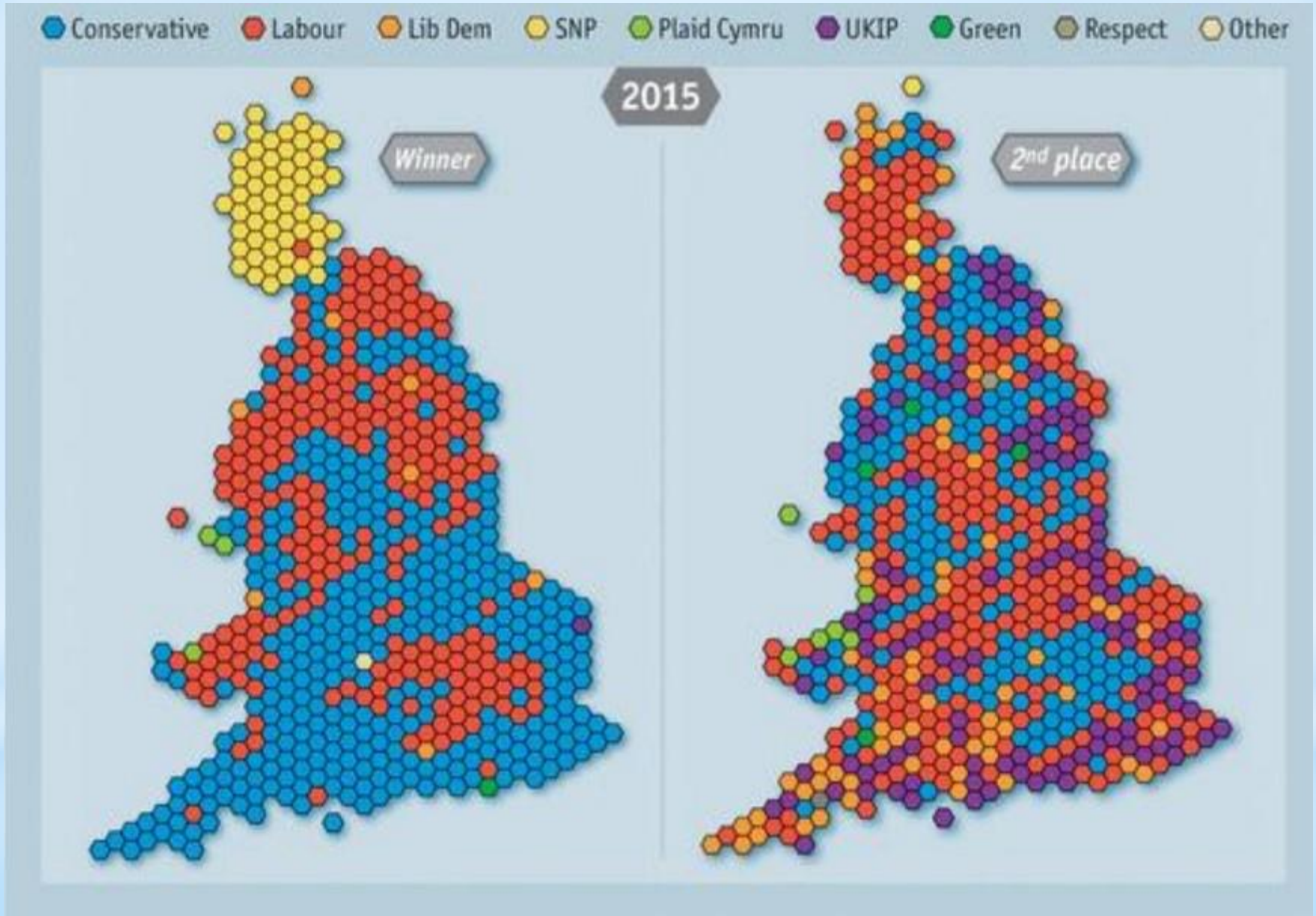
4.6%

5.3%

5.6%

5.4%

UK Brexit referendum

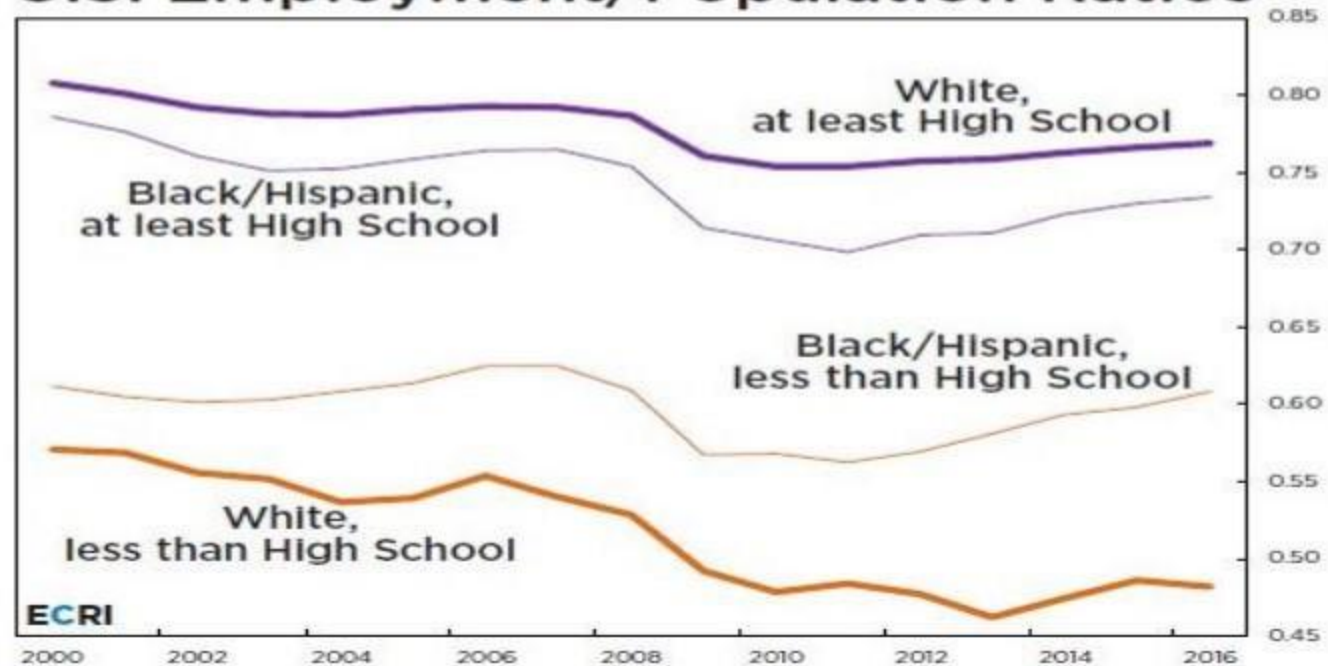




helmo preuss @helmopreuss · Nov 6

The politics of despair - why some uneducated Whites may vote for Trump. The majority of this group have been without a job for seven years

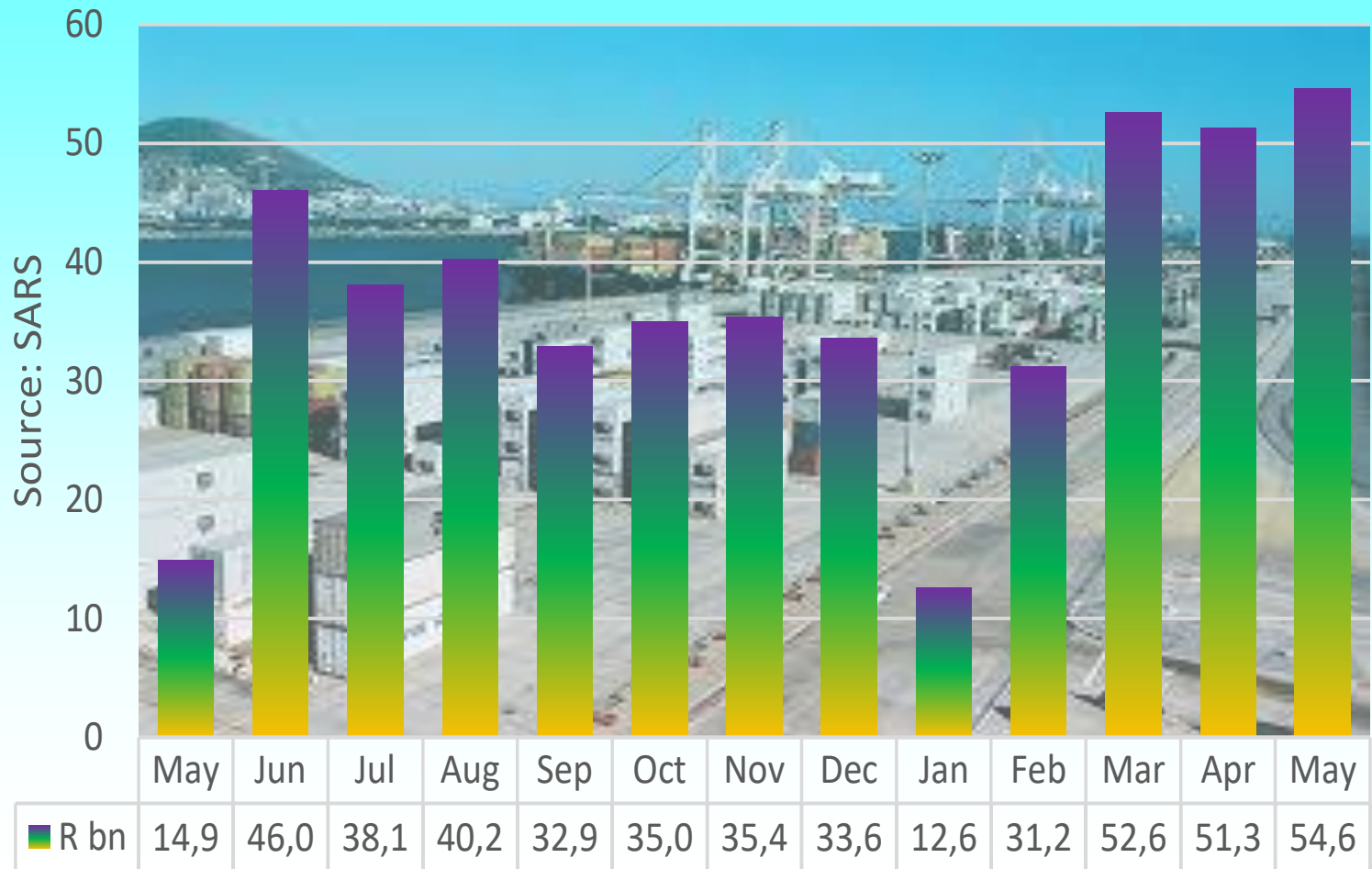
U.S. Employment/Population Ratios



Consensus and alternate 2021 SA GDP forecasts

Expenditure on GDP	2020	2021	2021	2021	2021	2021	2021	2020
Constant 2010 prices		Rm			% change			
R million	Actual	Forecaster	Treasury	Old Mutual	Forecaster	Treasury	Old Mutual	Actual
Final consumption expenditure by households	1 851 300	1 914 244	1 904 988	1 925 352	3,4%	2,9%	4,0%	-5,4%
Final consumption expenditure by general government	654 482	651 210	653 828	655 136	-0,5%	-0,1%	0,1%	0,5%
Gross fixed capital formation	498 530	510 993	486 565	503 515	2,5%	-2,4%	1,0%	-17,5%
Change in inventories	-89 797	5 000	-28 857	-9 190				
Gross domestic expenditure	2 914 515	3 081 447	3 016 523	3 074 813	5,7%	3,5%	5,5%	-9,0%
Exports of goods and services	813 265	884 832	859 621	890 525	8,8%	5,7%	9,5%	-10,3%
Less: Imports of goods and services	803 784	892 200	854 422	901 846	11,0%	6,3%	12,2%	-16,6%
Expenditure on gross domestic product	2 923 996	3 074 079	3 021 722	3 063 493	5,1%	3,3%	5,0%	-7,1%
<i>Final Sales</i>	3 013 793	3 069 079	3 050 579	3 072 683	1,8%	1,2%	2,0%	-4,5%
<i>Final Domestic Demand</i>	3 004 312	3 076 447	3 045 380	3 084 004	2,4%	1,4%	2,7%	-6,5%

SA Foreign Trade Surplus



The number of full containers

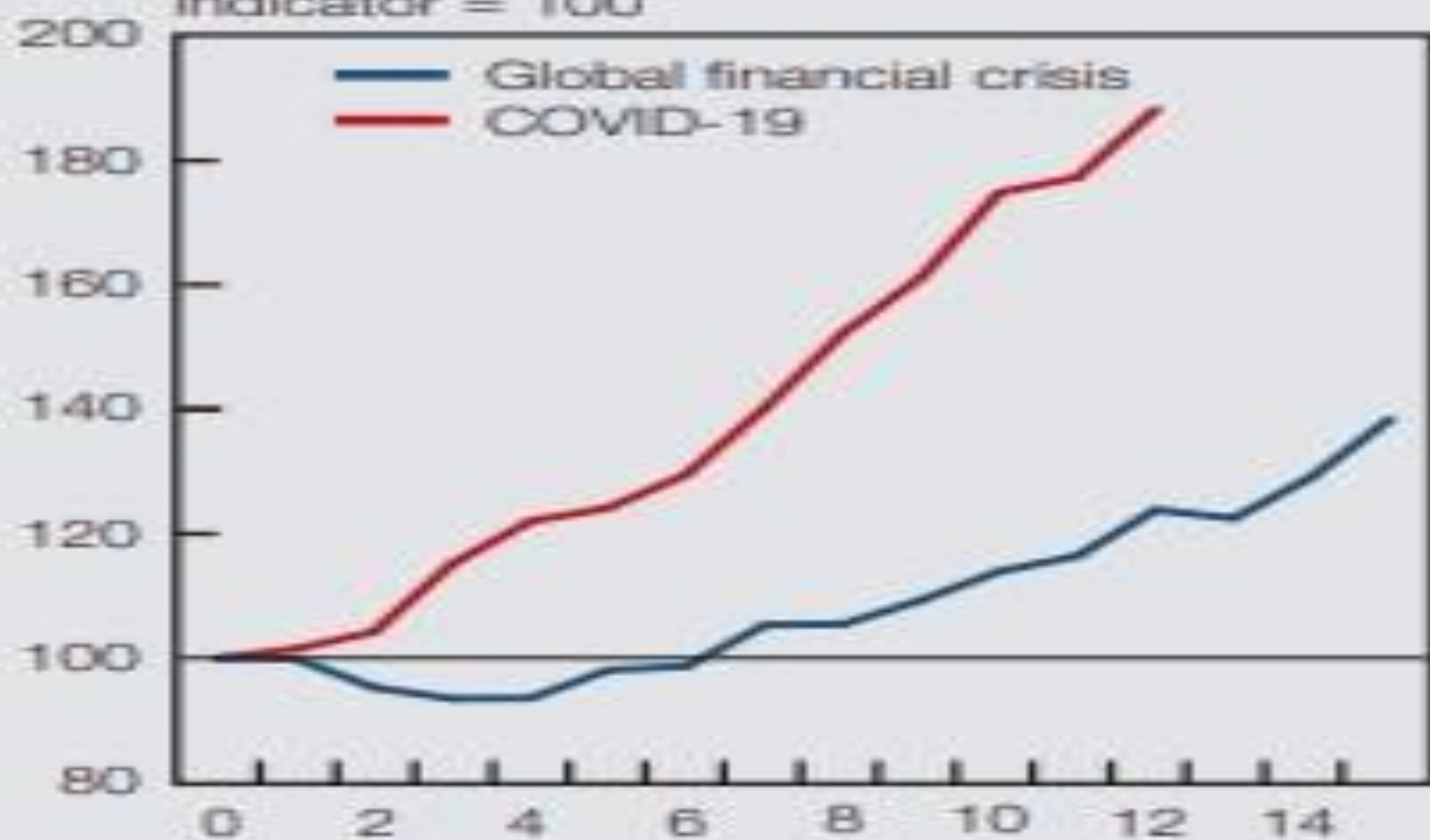


Source: TPNA

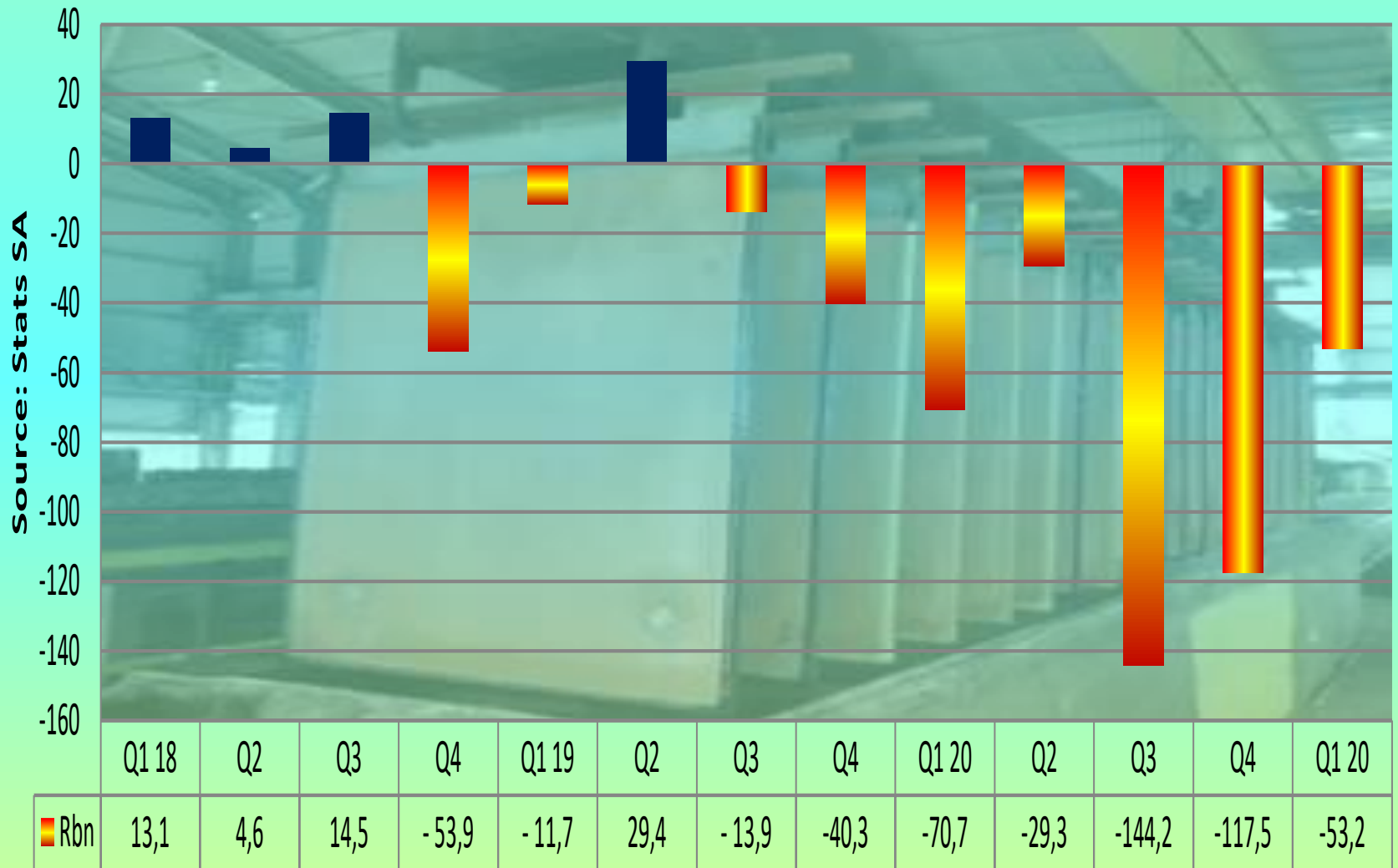
— Imports — Exports

South African export commodity price index

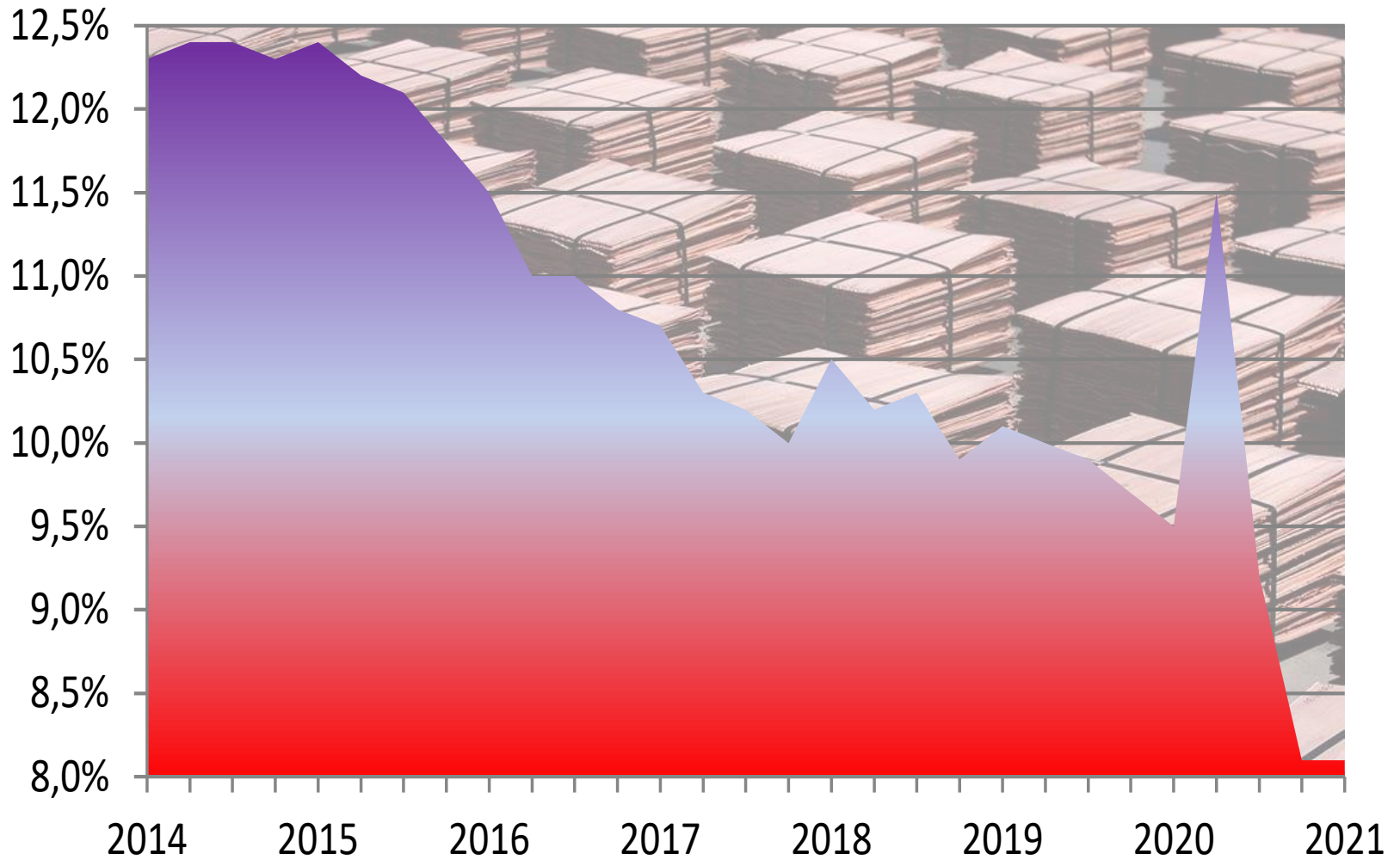
Index: month of trough in leading indicator = 100



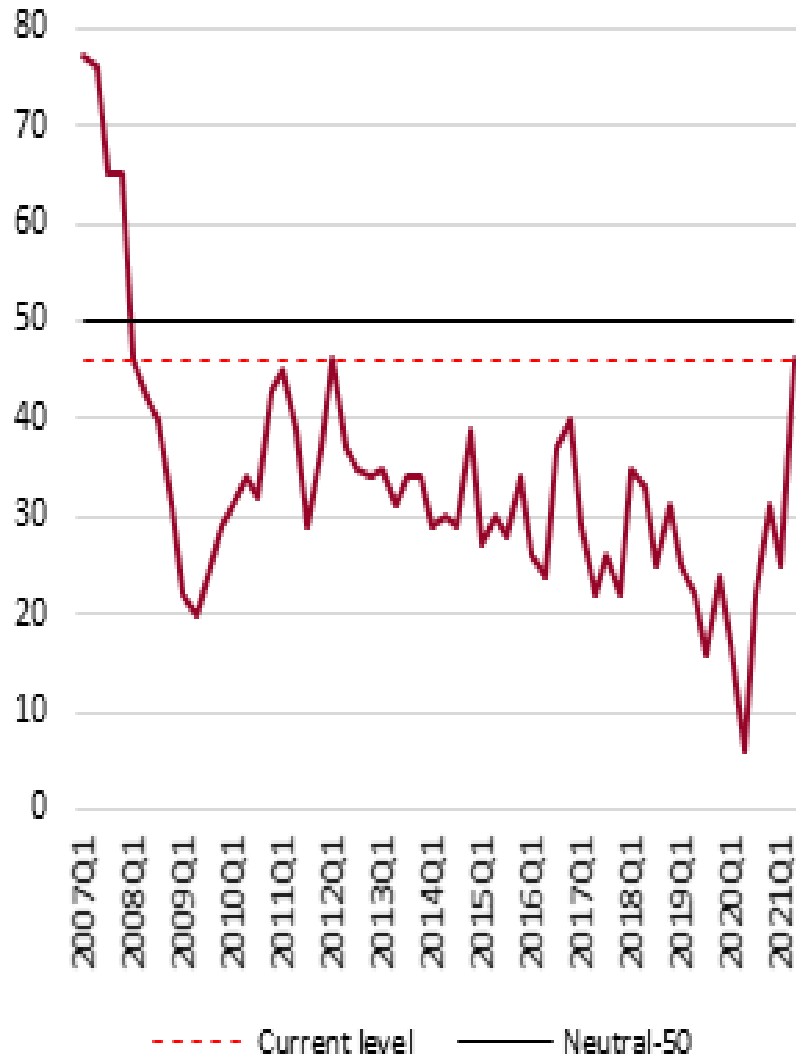
SA Change in inventories in 2010 rand



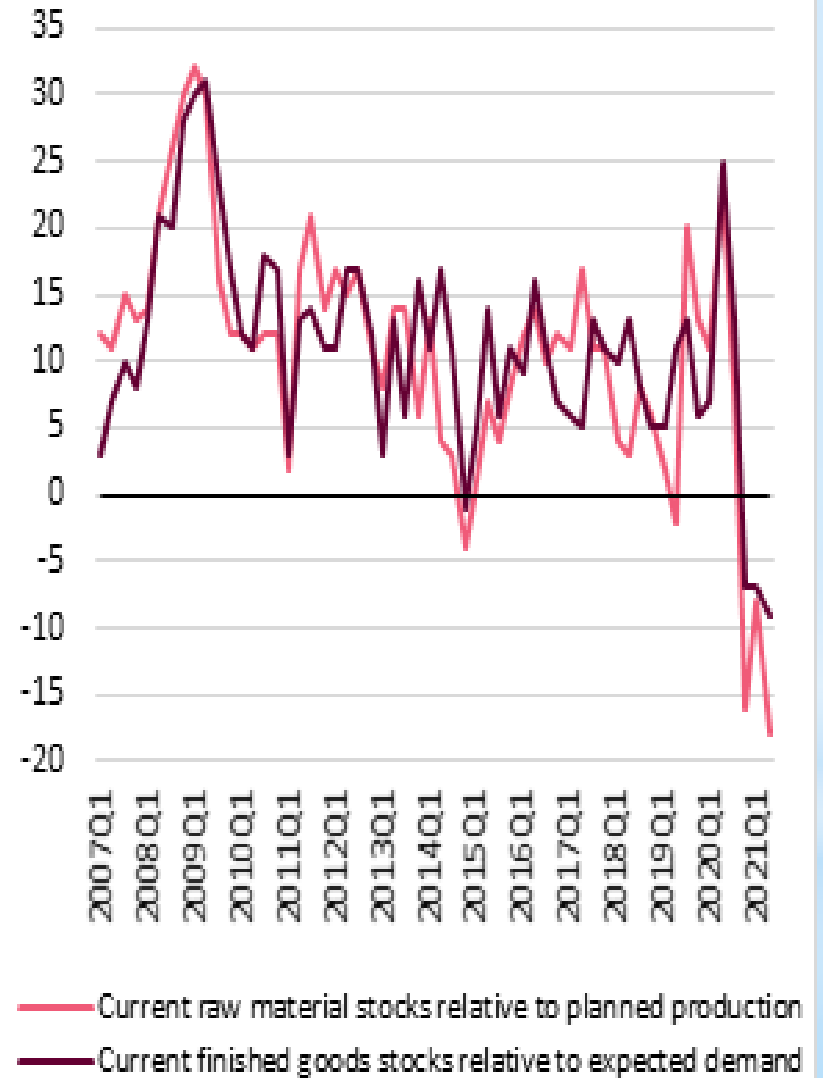
SA Inventory to GDP Ratio



Business Confidence (%)

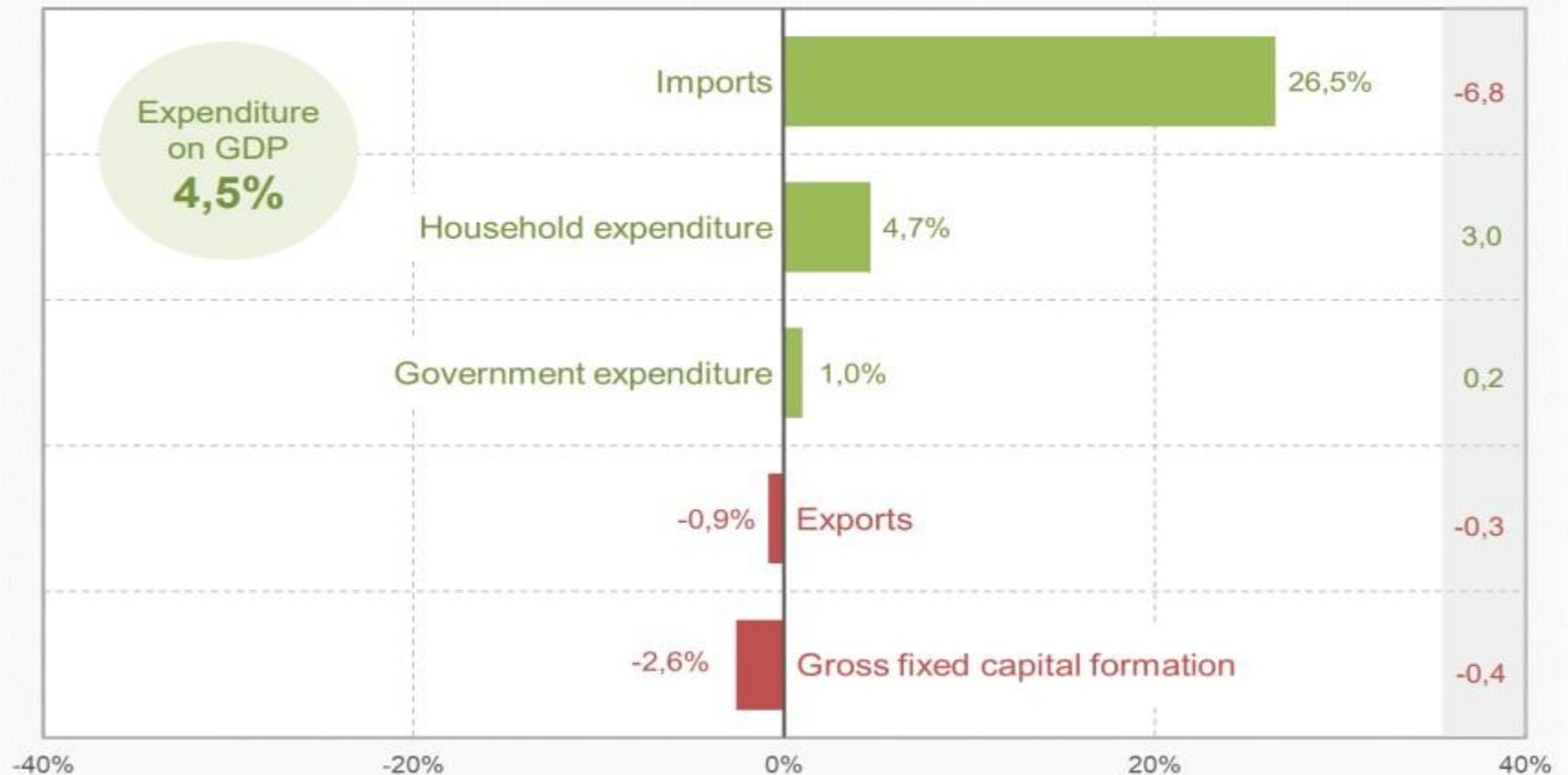


Stock levels (Net %)



Q1 GDP surprise and impact on consensus

Contribution (% points)



Change in inventories: -R53,2 billion (contribution: 8,7 percentage points)

Change in inventories and household expenditure were the most significant contributors to growth

	May 2021 Survey	
	2021 GDP	2022 GDP
Consensus:	3.81	2.72
High:	5.10	5.88
Low:	2.00	1.90
Standard dev.	0.89	1.07

	June 2021 Survey	
	2021 GDP	2022 GDP
Consensus:	3.95	2.70
High:	5.10	5.86
Low:	2.40	1.98
Standard dev.	0.88	1.10

Source: Consensus Economics

Netwerk24/Beeld Consensus poll: March 2021*

	<u>2021</u>
Real FCE growth (% for the full year)	3.3
Real GDP growth (% for the full year)	3.6
R/US\$ exchange rate (average SA rand per US dollar for the last quarter)	15.58
Gold price (average US\$ per ounce for the last quarter)	1720.5
10-year government bond yield (average % for the last quarter)	9.80
CPI inflation (average % for the year)	4.2
Prime lending rate (average % for the last quarter)	7.30
Brent crude oil price (average US\$ per barrel for the last quarter)	63.0

Netwerk24/Beeld Consensus poll: June 2021*

	<u>2021</u>
Real FCE growth (% for the full year)	5.0
Real GDP growth (% for the full year)	4.6
R/US\$ exchange rate (average SA rand per US dollar for the last quarter)	15.16
Gold price (average US\$ per ounce for the last quarter)	1735.0
Long-term government bond yield (average % for the last quarter)	9.93
CPI inflation (average % for the year)	4.3
Prime lending rate (average % for the last quarter)	7.10
Brent crude oil price (average US\$ per barrel for the last quarter)	64.0

Global trends

- Global growth rates are being revised higher after years of being lowered at updates
- This means consensus has been behind the curve resulting in a mismatch between supply and demand
- Supply disruptions and “bullwhip” effect are exacerbating inventory drawdown so that a third of US consumer demand is being met out of inventories
- Localisation and move to “just-in-case” inventory control system will provide medium term (5 years) support to manufacturing

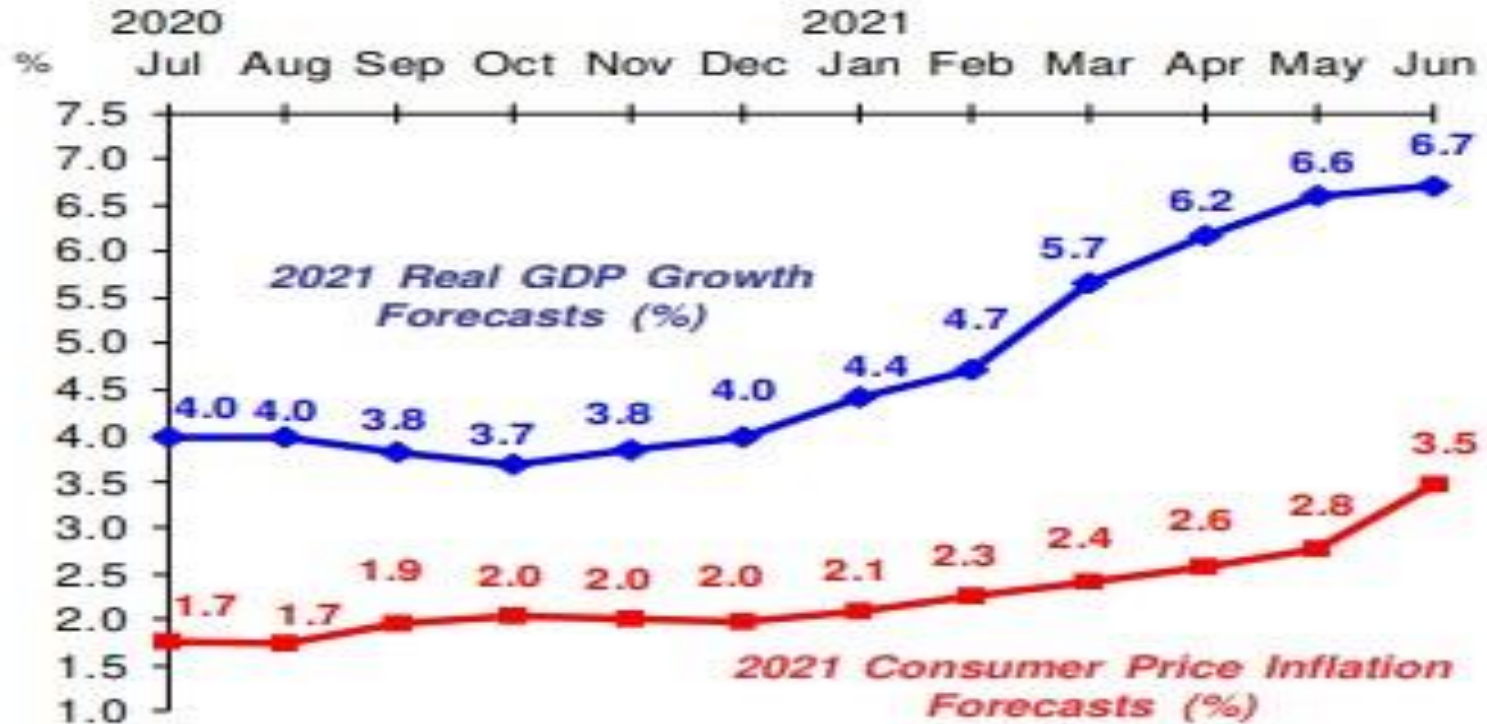
	<i>Revisions to 2021 GDP growth</i>		
	World	China	US
Jun-20	5,4%	8,2%	4,5%
Oct-20	5,2%	8,2%	3,1%
Jan-21	5,5%	8,1%	5,1%
Apr-21	6,0%	8,4%	6,4%
FE Jun 21	6,4%	8,5%	7,2%

Source: IMF World Economic Outlook

USA

2021 GDP Growth and Inflation Forecasts

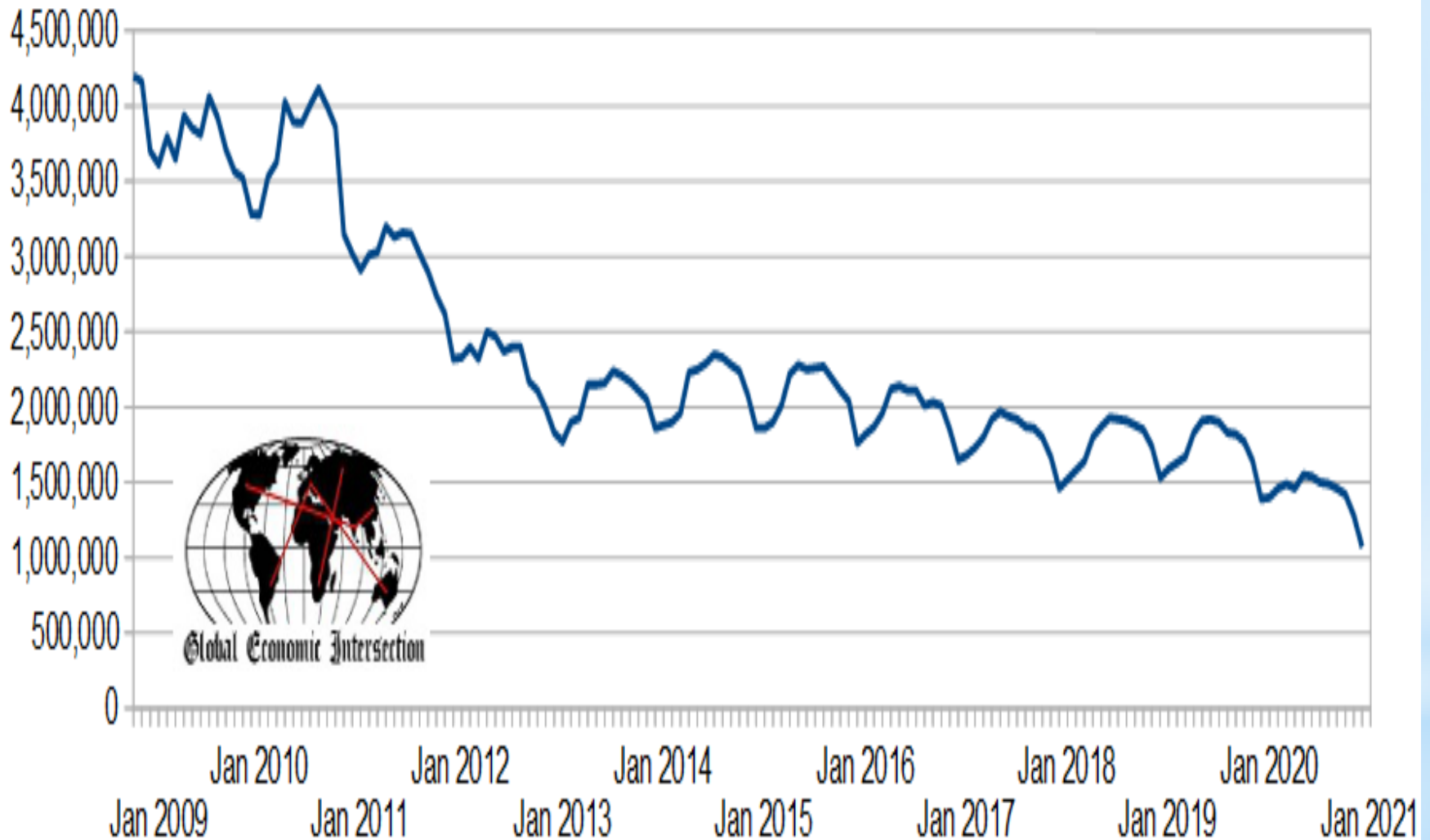
Consensus Forecasts from Survey of:



Source: Consensus Economics

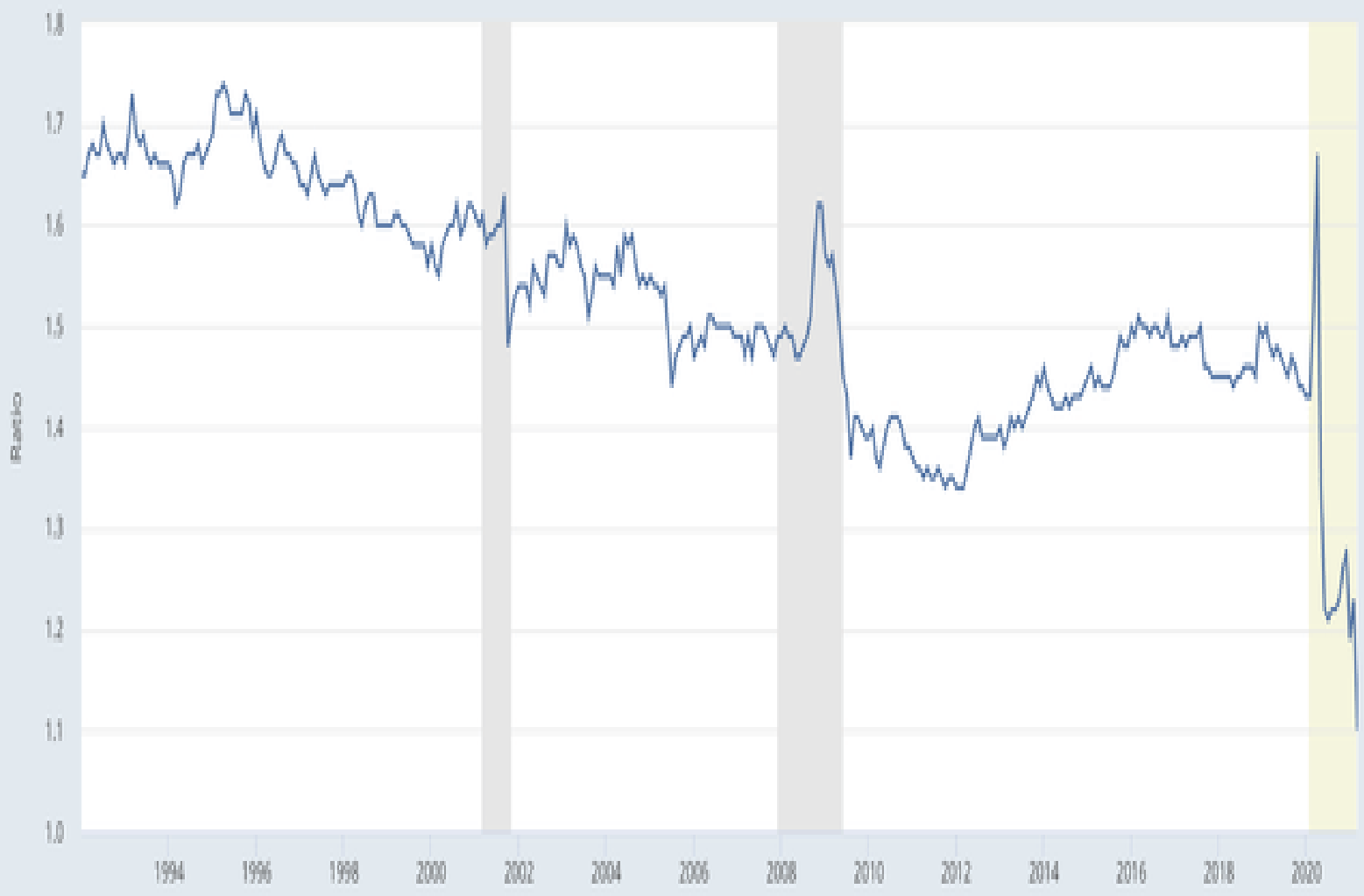
USA

Unadjusted Home Inventory For Sale

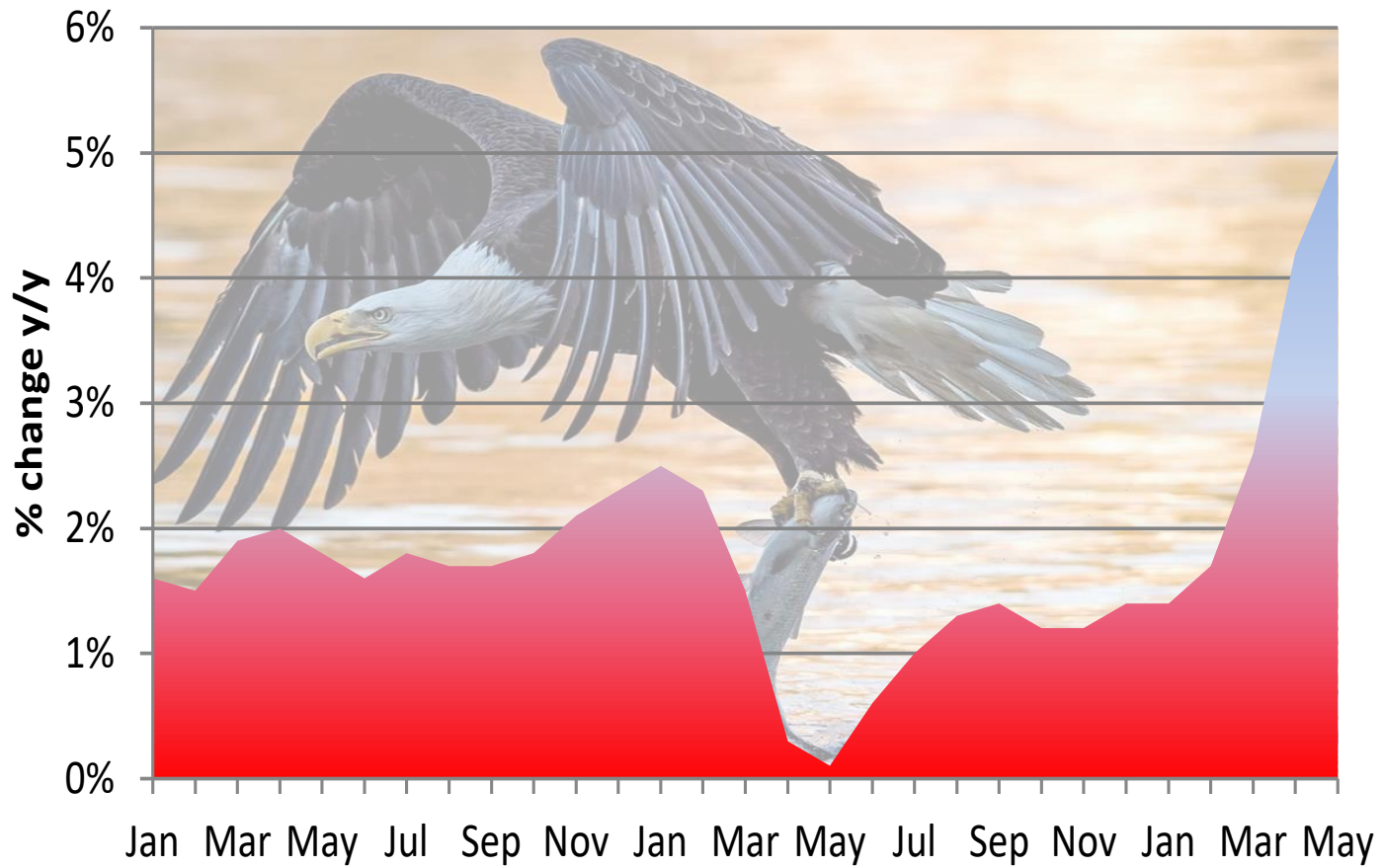


USA

FRED  — Retailers: Inventories to Sales Ratio

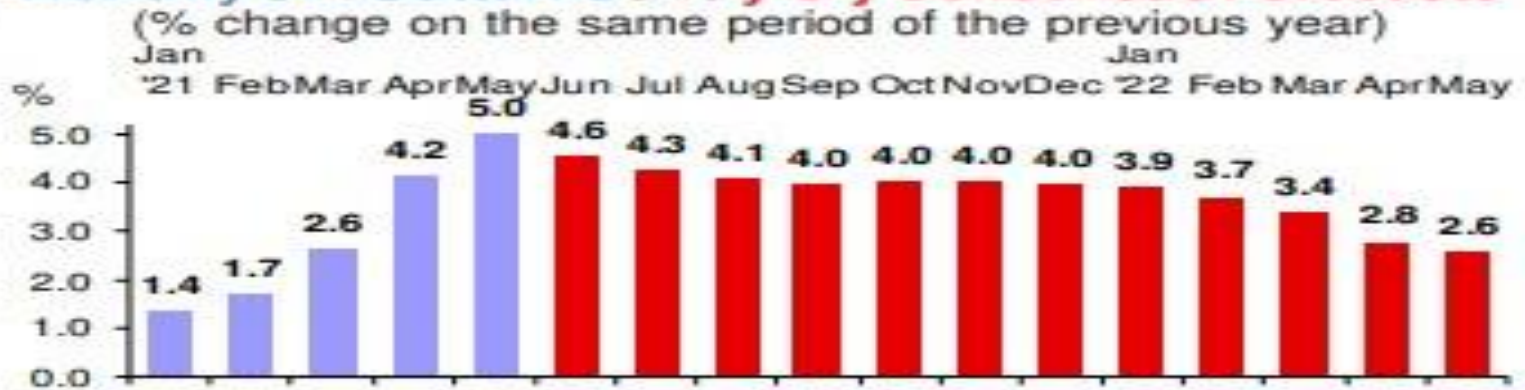


US Consumer Inflation



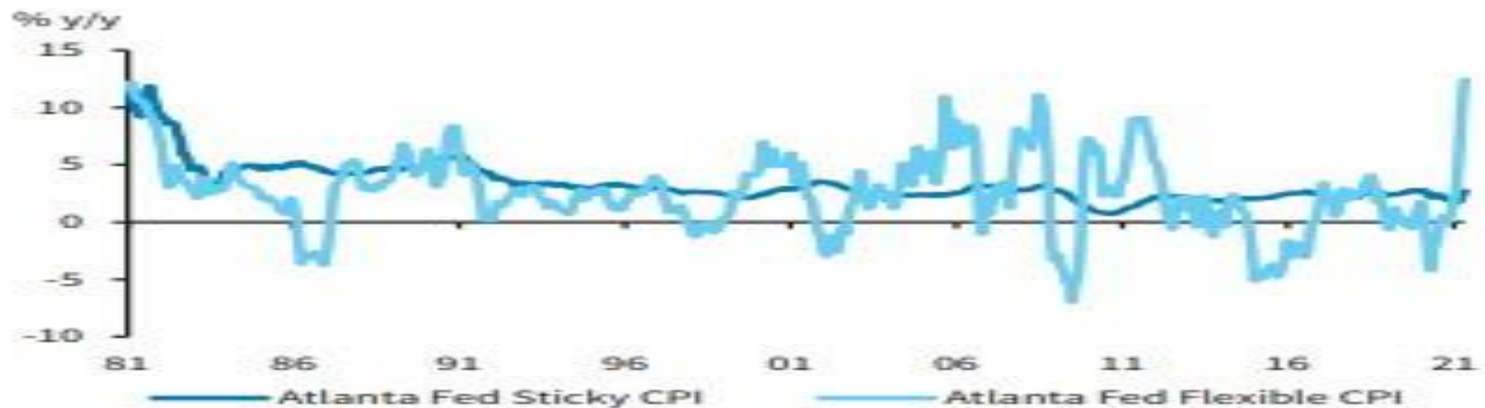
USA

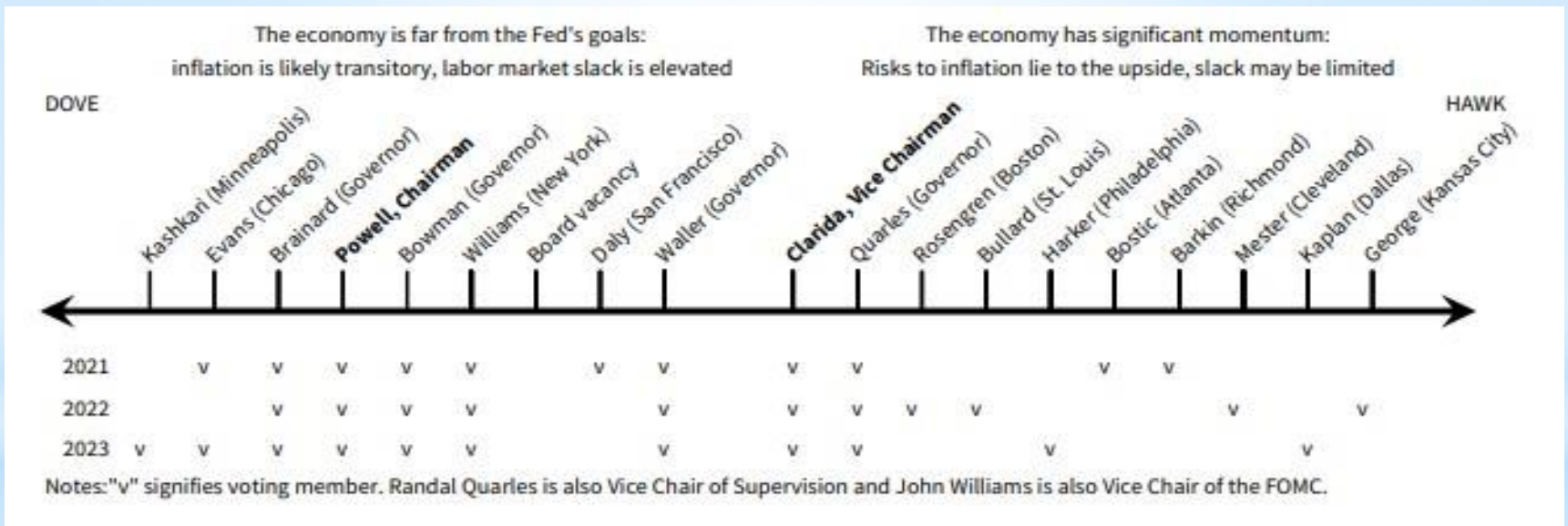
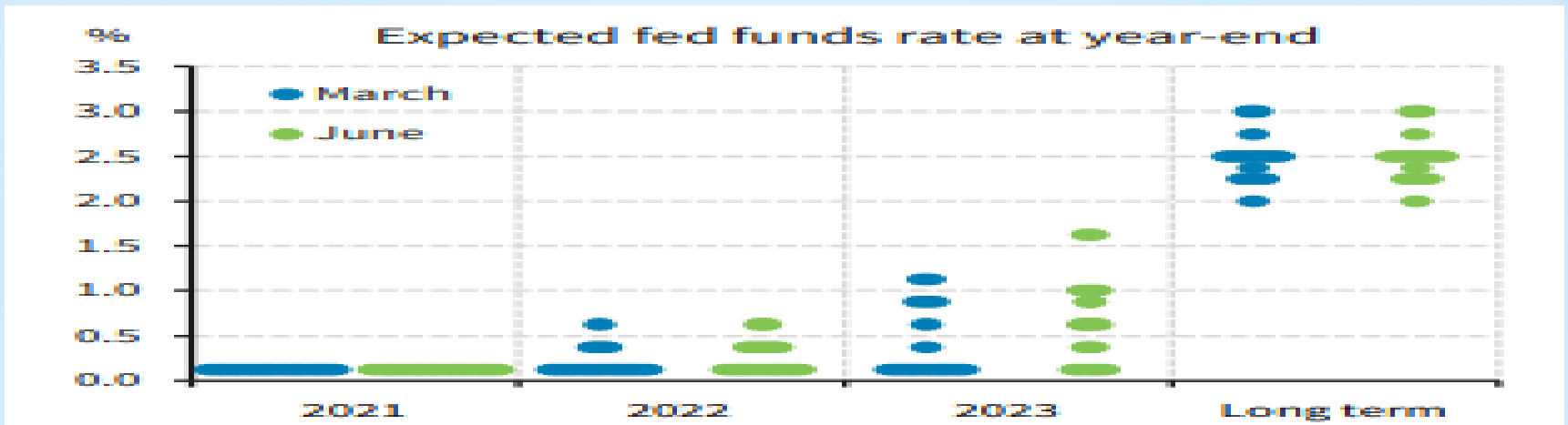
Monthly CPI Outturns and y-o-y Consensus Forecasts



Source: Consensus Economics

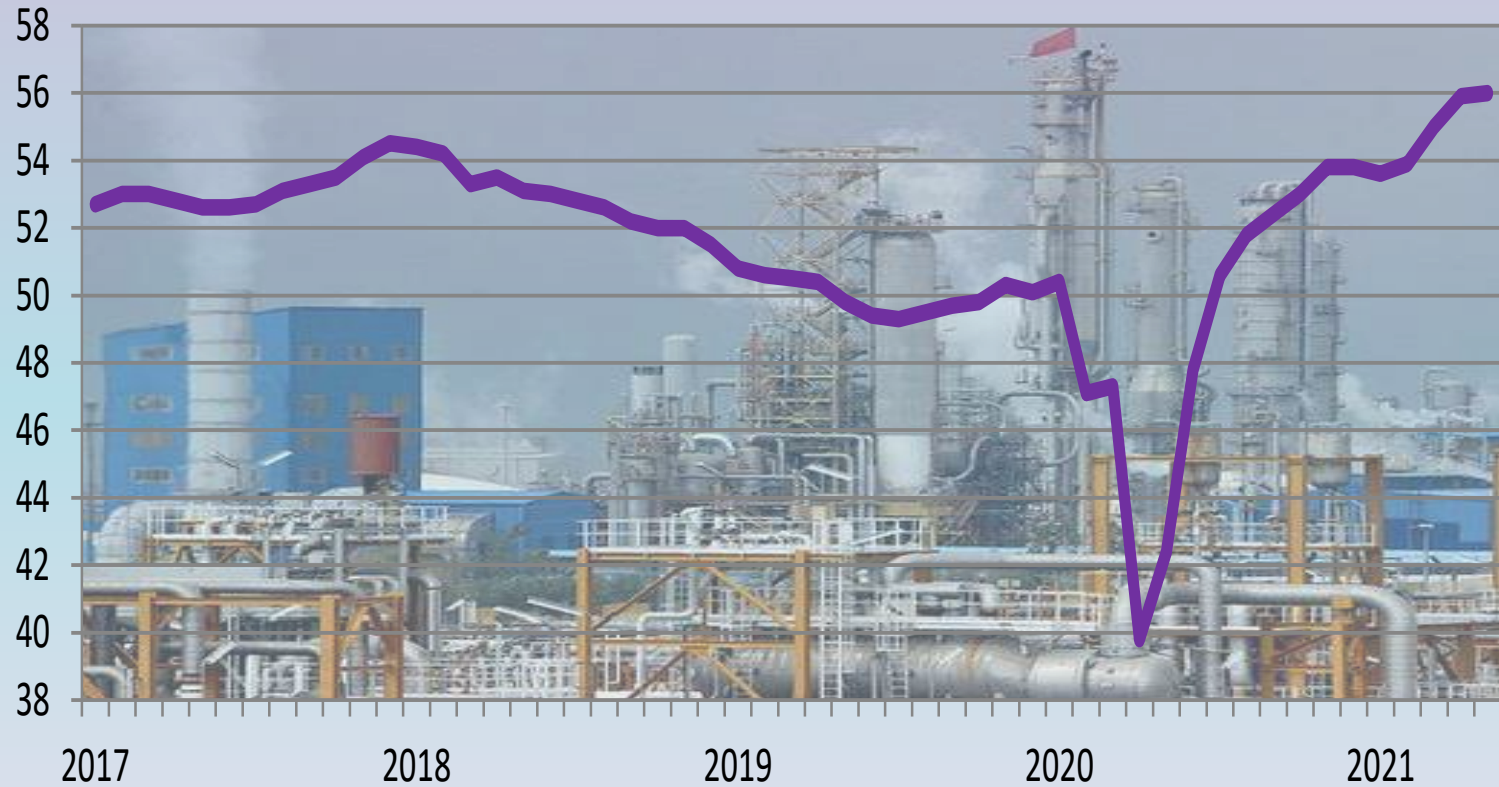
FIGURE 9. Flexible CPI versus Sticky CPI





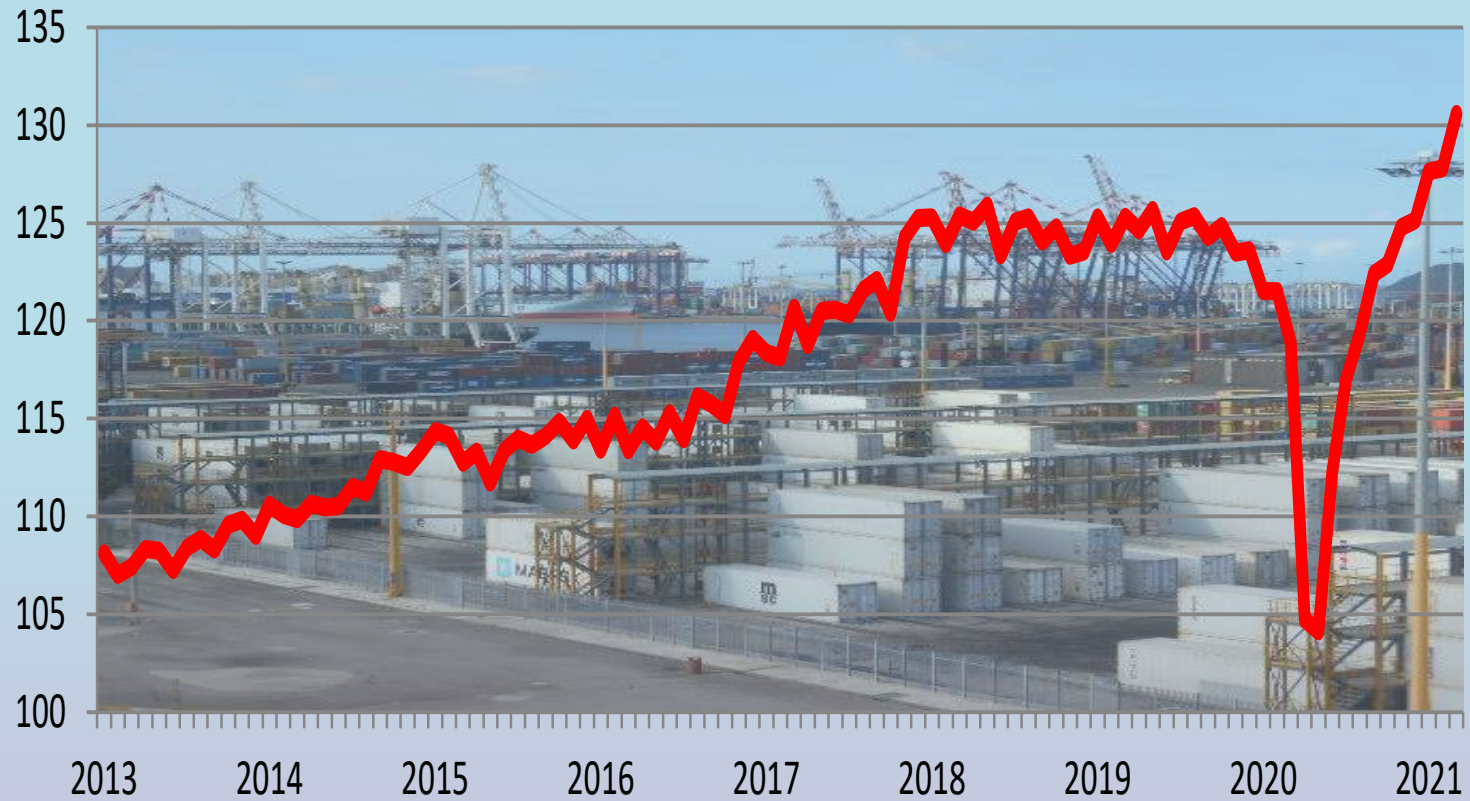
The FOMC is composed of humans and the shift will be to the hawks in 2022, so I expect the first rate increase at the end of 2022

Global Manufacturing PMI



Source: JP Morgan, Markit

World Trade Index



Source: CPB Netherlands Bureau for Economic Policy Analysis

Conclusion

- Global and South African GDP growth will be higher than the consensus in 2021
- This above consensus growth will continue for a number of years due to localisation and move to “just-in-case” inventory control
- Embedded power generation, Wild Coast highway and Durban “Big Dig” port expansion are major infrastructure projects

- Namibia will benefit from growth in its neighbours (Angola, Botswana, South Africa and Zambia)
- The benefits of the African Free Trade Agreement will only be felt in 2022 as vaccine rollouts will smooth the current supply chain disruptions
- Global pandemic response means that the IMF and World Bank will support Africa with transfers for many years to come

“An allocation of IMF Special Drawing Rights (SDRs) would help build reserve buffers, smooth adjustments, and mitigate the risks of economic stagnation in global growth. Importantly, it could also enhance liquidity for low-income and developing countries to facilitate their much-needed health recovery efforts. Containing the pandemic across the globe is paramount to a robust economic recovery. To this end, Treasury is working with IMF management and other members toward a \$650 billion general allocation of SDRs to IMF member countries. Addressing the long-term global need for reserve assets would help support the global recovery from the COVID-19 crisis.”

US Treasury April 2021

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