BIZCOMMUNITY

Latest GDP shocker the straw that will break the camel's back?

By Maarten Ackerman

9 Sep 2020

Latest GDP figures have laid bare the grim reality of Covid-19's economic effects, revealing an unprecedented 51% decline in economic activity in the second quarter of this year (quarter-on-quarter, seasonally adjusted and annualised). In context, this number is hardly surprising given the impact of the virus and lockdowns on economies around the world. Of far greater concern is the fact that South Africa was already battling a recession before the pandemic hit, meaning that the virus may finally have tipped the economy over the edge into a depression - with alarming implications for the country's fiscal health.

Maarten Ackerman, chief economist and advisory partner, Citadel

South Africa already printed two quarters of negative economic growth in the second half of 2019, and this declining trend unfortunately carried on into the first quarter of 2020. In fact, the year-on-year figure revealing a 17.1% decline in GDP over the 12 months to the end of June 2020 is perhaps even more telling than the quarterly figure.

GDP contracts by 51% under lockdown

8 Sep 2020

So, even without the burden of Covid-19, the economy would likely have continued to decline in the second quarter of 2020. Arriving on top of these pre-existing structural issues, the pandemic was simply the straw – or rather the sledgehammer – that broke the camel's back, resulting in these shocking Q2 figures. And while we can expect a sharp rebound in the third and fourth quarters of this year with the gradual reopening of the economy (especially coming off a low base), the reality is that we can still expect the economy to shrink some 8% in 2020 – worse even than the 6% decline recorded during the depression years of the 1930s.

Again, the extent of this decline is arguably more attributable to the action taken to close down the biggest part of the economy rather than a result of economic factors. But ultimately, until the country implements the reforms already on the table and successfully addresses the structural issues keeping economic growth below capacity, we will continue to see increasing unemployment, inequality, and poverty.

Alarm bells for the fiscus

Of additional concern is the impact of this economic shock on the fiscus – a 51% drop in the second quarter's economic activity will immediately raise the alarm for revenue collection. Given the fact that most public service workers received salaries during the lockdown, and that government expenses have continued to rise even as revenue has fallen, it was inevitable that government would need to seek additional funding. And although we received a loan from the International Monetary Fund (IMF), government is now looking to borrow even more just to cover the gap for this short period of time.

In other words, the shock isn't so much the -51% figure itself, but the implications of this for turning South Africa's economy around. The reality, once again, is that we need to address the massive challenge of the crocodile jaws closing around the economy by reigniting growth – an underlying challenge made even more difficult by the burden of Covid-19. This, in turn, will grow revenue collection and help to reduce the budget deficit.

Covid-19 toll revealed across sectors

A closer examination of the impact of Covid-19 on various industries reveals that the primary and secondary sectors declined far more than 51% over the quarter, recording -59.1% and -72.0% growth for Q2 respectively. This underscores the impact of the lockdown on industries that were forced to close or limit operations during lockdown, such as mining (-73.1%), manufacturing (-74.9%), and construction (-76.6%).

The tertiary sector, on the other hand, recorded only a 40% decline (quarter-on-quarter, seasonally adjusted and annualised), largely as a result of the contribution of essential services which continued to function even during the level five lockdown. Industries that contributed to this number included personal services (-32.5%), finance (-28.9%), and electricity, gas and water (-36.4%). Significantly, the only positive contributor for the quarter was the agricultural industry, which (coming from a low base in the first quarter) printed 15.1% growth.

In terms of expenditure, government expenditure actually declined slightly by 0.9% quarter-on-quarter, remaining almost flat, while households and exports saw expenditure down by 49.8% and 72.9% respectively. Again, these are shocking numbers, but hardly surprising within the context, given that restaurants and hotels were forced to close (seeing a 99.9% decline for the quarter), and the sales of alcoholic beverages and tobacco was banned, resulting in a 92.4% drop in consumption.

As we reopen these parts of the economy, this means that we may see the V-shaped recovery analysts have spoken of in other countries in the third and fourth quarters. This will then pave the way for a slow upturn in 2021. But at the risk of sounding repetitive, now more than ever, government urgently needs to turn its attention to removing the structural impediments strangling growth if we are ever to achieve above capacity growth and create a more inclusive economy.

ABOUT THE AUTHOR

Maarten Ackerman is the chief economist and advisory partner at Citadel.