

3rd Quarter GDP provides some cheer

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GDP data can reflect a quite divergent picture when viewed from two different perspectives, each being 100% accurate, but one representing the reciprocal of the other.

On 8 December, Statistics SA released South Africa's GDP figures for the third quarter of 2020. The results were widely anticipated, namely a pronounced V-shaped recovery from the disastrous second quarter, when the stringent lockdown regulations of April caused record declines in the level of economic activity in all sectors except for agriculture.

According to the official data, the growth of the so-called "annualised" and seasonally adjusted GDP for the third quarter amounted to 66%, after declining by 52% in the second quarter.

This method of calculation has its merits for large and highly diversified economies, but for an economy like South Africa, the recommended manner to report on GDP is simply to compare the relevant quarter's data to the same quarter a year earlier.

This method reveals a year-on-year decline of 17.5% for the second quarter and a much smaller decline of 6% in the third quarter. However, when calculating third quarter GDP from the perspective of the year-on-year rate of recovery, the remarkably swift rebound from the pandemic shines through.

Year-on-year rate of recovery in real GDP by major sector of economic activity - 3rd quarter 2020

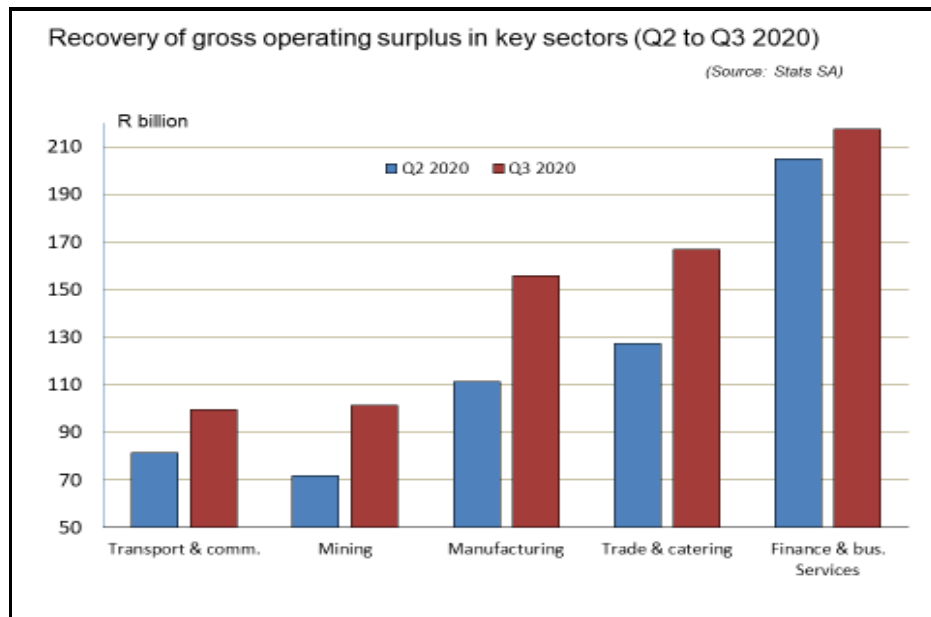
	%
Agriculture	120
Government	101
Mining	98
Manufacturing	97
Retail and wholesale trade & hospitality	96
Personal services	95
Total GDP	95
Electricity, gas & water	94
Finance, insurance & business services	94
Construction	88
Transport and communication	86

Sources: Stats SA; own calculations

Note: Nominal GDP deflated by the CPI

Except for construction and transport & communication, all the other key sectors of economic activity had recovered to 94% or above during the third quarter, with agriculture, mining and manufacturing the stand-out performers. The data in the table reflect the third quarter output levels as a percentage of output in the third quarter of 2019 (based on nominal figures that have been deflated by the consumer price index as at the end of September 2020).

The fact that it took only one quarter for GDP to recover to a level of 95% of the output achieved a year ago (pre-Covid) is ample proof of the resilience and diversified nature of the South African economy. At current prices, third quarter GDP amounted to R1.27-trillion, which is 99.5% of the output value recorded in the first quarter of 2020.



Gross operating surplus rebounds

Closer scrutiny of the third quarter GDP data reveals good news for shareholders of JSE-listed equities, namely a resounding improvement in the gross operating surplus (GOS) of the five largest key sectors of the economy.

Between the second and third quarters, the ratio of GOS to GDP for the economy as a whole increased from 43.7% to 47.6%, its highest level in 18 quarters. In value terms, GOS amounted to R543-billion in the third quarter, the second highest figure ever and at a level of 99.7% of the previous record, set in the third quarter of 2019 (in nominal terms).

The quarter-on-quarter increase in GOS amounts to R112-billion, which suggests that many companies that had deferred dividend payments to conserve cash and to retain as many staff as possible due to the pandemic, should be in a position to resume dividend payments in 2021.

Shareholders of several stocks in the resources sectors, especially gold, platinum and iron ore, have already been rewarded for their patience over the past couple of years with handsome dividends flowing this year on the back of higher prices for metals and minerals.

This has played a major role in sustaining positive returns on well-balanced investment portfolios during a challenging year for the savings and investment industry.