

COMPLETE RECOVERY FOR GDP

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In a previous column by the author, published on the website of the Optimum Group on 19 August, a forecast was made for 2nd quarter GDP growth of around 7% in nominal terms (quarter-on-quarter), based on a sector-specific forecasting model.

It turned out that total value added at basic prices (before taxes and subsidies on products) of R1.39-trillion was generated in the 2nd quarter, representing a nominal growth rate of 6.6% - not too far off the forecasting mark.

As usual, some anomalies were contained in the latest GDP data published by Statistics SA, particularly with regard to the calculation of the value added by the agriculture sector. In a research report submitted to the SA Veterinary Sciences Council in June by the author and an associate, Keith Lockwood, it was calculated that the output value of the country's top-ten crops and horticulture products could increase by more than 20%, driven by bumper crops for maize, oranges, grapes, soya beans, sunflower seed and other citrus.

Bumper harvest

This estimate seemed to have been vindicated after the publication of increased preliminary harvesting figures for virtually all of the key crops, combined with rising prices for agricultural commodities. Furthermore, the value of the country's agriculture exports for the first six months of the year recorded an increase of 7% over 2020's figure.

According to Stats SA, however, the value added by agriculture declined by 13% (year-on-year) during the 2nd quarter. The period between April and June traditionally accounts for more than a third of the annual output value of the sector and there seems to have been a significant undercount for the value added by agriculture in the latest GDP data.

It also remains a mystery why Stats SA insists on publishing a benchmark quarter-on-quarter growth rate that has been seasonally adjusted and deflated by other price indices than the consumer price index (CPI). In the process, various formulae are applied to the GDP data that often contradict the underlying economic growth trend. A simple year-on-year calculation is sufficient to neutralise seasonal effects.

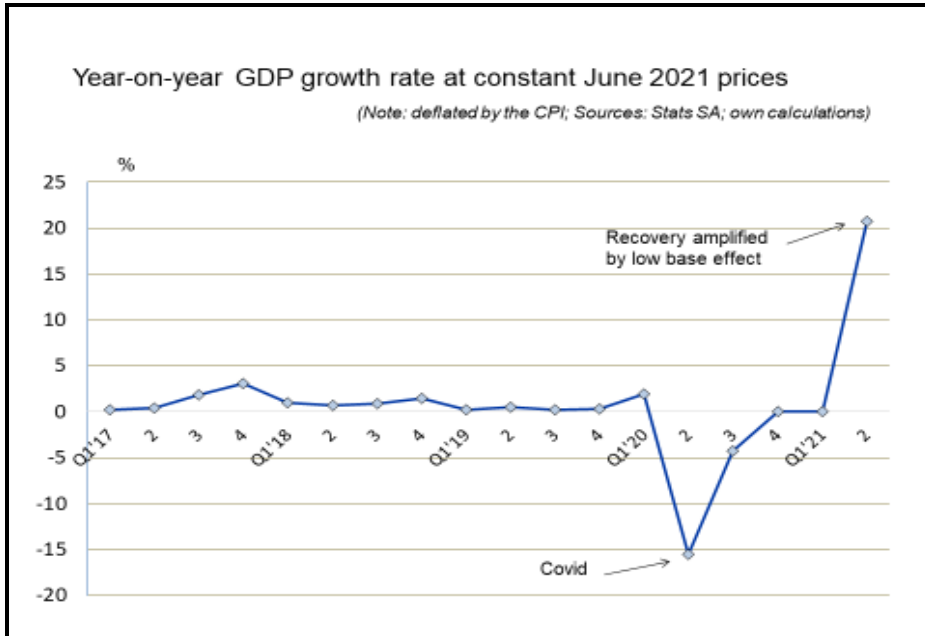
Differences in methods of measuring the % change in South Africa's GDP during the 2nd quarter of 2021

Measure	Description	Quarter-on quarter (%)	Year-on year (%)
1	Total value added at basic prices (nominal)	6.6	24.4
2	Total value added at basic prices (real)	5.6	18.6
3	GDP at market prices (nominal)	5.2	26.6
4	GDP at market prices (real)	4.2	20.7
5	Seasonally adjusted & annualised GDP (real)	1.2	19.4

Notes:

1. Measures numbers 1 & 2 exclude taxes less subsidies on products
 2. Measures numbers 2 & 4 have been calculated at constant Q2/2021 prices, based on the CPI
 3. Measure number 5 has been obtained from the Statistics SA GDP data for Q2/2021
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An array of data sets are contained in the official GDP publication, which can create confusion, as illustrated by the table. The exceptionally high year-on-year growth rates for the 2nd quarter GDP are the result of the Covid-19 pandemic and strict lockdown regulations that erupted at the end of March last year and led to a sharp contraction of GDP in the 2nd quarter of 2020. This has resulted in an extraordinary low base for the calculation of the year-on-year growth rate.



Ultimately, the good news is that, whichever way one approaches the country's 2nd quarter GDP, there is no doubt that the economy is on a growth trajectory. It has also resumed the traditional trend to build up steam from the second quarter onwards, with a peak in the 4th quarter of each year (mainly due to holiday bonuses and the Christmas shopping season), but then taking a dip in the subsequent quarter.

It is also encouraging to note that the value of economic production in the 2nd quarter was 2% higher, in real terms, than the figure for the same quarter in 2019 (pre-Covid), proof of a full recovery for most key sectors of the economy.

Lockdown regulations are bound to be relaxed soon, which could pave the way for a revival of the hospitality sector. With summer around the corner, the timing is good!