

THE ECONOMY IS ALIVE & KICKING

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Literally hundreds of jokes exist on statisticians and statistics. There are good reasons why hardly any of them are flattering, as once again demonstrated by the GDP data for the 3rd quarter of 2021, published by Statistics South Africa (StatsSA).

The statement that the South African economy contracted by 1.5% during the 3rd quarter is misleading, as this figure has been subjected to a calculation of quarterly GDP data that has been annualised and adjusted for inflation via a variety of deflators.

When following the good advice contained in the *Glossary of Statistical Terms* published by the Organisation for Economic Cooperation & Development (OECD), namely to simply calculate real quarterly GDP growth rates on a year-on-year basis, deflated by a benchmark deflator such as the consumer price index (CPI), a much rosier picture of the South African economy emerges.

During the 3rd quarter, total economic output at market prices amounted to R1,566 billion. The figure for the same quarter in 2020, adjusted by the CPI, was R1,474 billion. This represents a healthy real growth rate of 6.2% - not half bad when considering the shenanigans of the looters that hit parts of KwaZulu/Natal and Gauteng in July! In nominal terms, the year-on-year growth rate was very impressive, namely 11.5%.

The table illustrates the substantial difference between the growth rate calculation that is always highlighted by StatsSA and the one recommended by the OECD (measure no.4, printed in bold).

Methods of measuring the GDP growth rate for the 3rd quarter of 2021

Measure	Quarter-on quarter (%)	Year-on year (%)
1. Total value added at basic prices (nominal)	0.9	10.5
2. Total value added at basic prices (real)	-0.8	5.3
3. GDP at market prices (nominal)	1.5	11.5
4. GDP at market prices (real)	-0.3	6.2
5. Seasonally adjusted & annualised GDP (real)	-1.5	3

Notes:

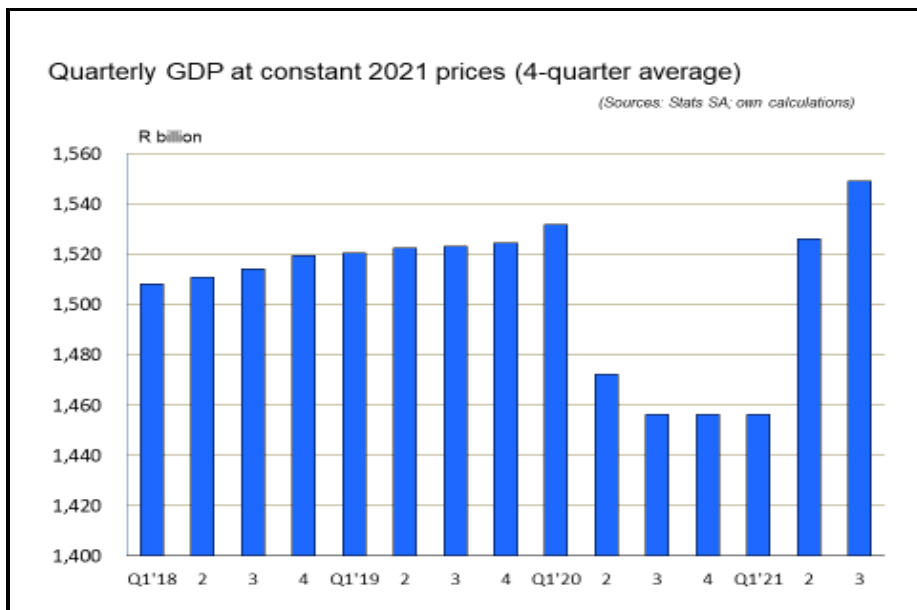
1. Measures numbers 1 & 2 exclude taxes less subsidies on products
 2. Measures numbers 2 & 4 have been calculated at constant Q2/2021 prices, based on the CPI
 3. Measure number 5 is the one preferred by Statistics SA for its GDP media statements
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Two significant advantages of utilising year-on-year comparisons of quarterly GDP data rather than a quarter-on-quarter approach are, firstly, the avoidance of magnifying irregular economic phenomena, such as harvesting seasons for agriculture and chance events, such as a natural disaster or a health pandemic.

Secondly, it obviates the need for complicated formulae aimed at eliminating seasonality. As such, the year-on-year approach is more objective.

Justification for a belief that the economy did not contract meaningfully during the 3rd quarter is provided by several key indicators, including the following:

- It is abundantly clear from the 2021 Medium-Term Budget Policy Statement (MTBPS) that government's taxation revenues have outperformed February's budget estimates by a considerable margin. Tax revenues are, in virtually all instances, directly and indirectly correlated with some form of economic activity, especially value added, consumption expenditure and labour remuneration.
- Total salaries and wages amounted to R714 billion in the 3rd quarter of 2021, an increase of 2.4% in real terms over the figure for the same quarter last year. Labour remuneration represents more than 50% of value added in the economy and, with South Africa's very high consumption propensity, this growth rate should be highly correlated with the growth of GDP.
- Wholesale sales, which represents more than 40% of GDP, increased by 5.3% in the 3rd quarter of 2021 (quarter-on-quarter), and by almost 11% year-on-year (in real terms)
- South Africa's leading business cycle indicator reached a new record high in May 2021 and the September reading of 125 was 13% higher than the figure for a year earlier



There is no doubt that the South African economy underperformed during the 3rd quarter, mainly as a result of the July unrest. It is disingenuous, however, to create the impression that economic activity is in decline when exactly the opposite is true, as vividly illustrated by the increase in the four-quarter moving average for quarterly GDP to a new all-time record high (in real terms).