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## South Africa Economic Activity Tracker

# Gradual recovery is still underway

Economic activity has continued to improve on the back of easier lockdown restrictions and possibly some return in confidence, given the sharp slowdown in the spread of the pandemic in recent weeks. Seasonally adjusted personal income taxes rose slightly on a m/m basis in July, while rising VAT collections suggest a further improvement in spending. Exports, measured in rand terms, had its best month so far this year in July. The further easing of lockdown restrictions in mid-August appears to have significantly benefitted small businesses where turnover reached its highest levels since the start of the lockdown. The Google Mobility data also continued to improve. That said, across most of the high frequency indicators that we track, activity still appears to be somewhat below pre-lockdown levels, and many parts of the economy will struggle to fully recover from the pandemic lockdown.

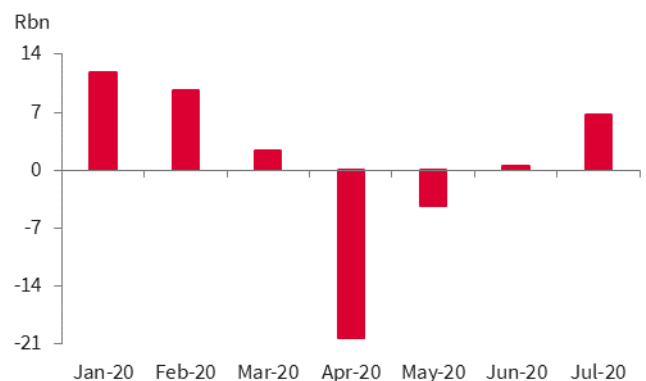
**Domestic economic activity continued to pick up in July.** Ahead of the release of the Q2 20 GDP print next Tuesday, which we expect to show a contraction of 44% q/q saar, the recent data show some encouraging signals into Q3. In particular, tax collections showed some improvement across different categories in July. Most notably, seasonally adjusted PAYE receipts increased on a m/m basis for the first time since February (Figure 1). While this is obviously a welcome development, employment is of course a lagging indicator and firms may still need to downsize or close in the future. Meanwhile, seasonally adjusted VAT receipts in July posted a second consecutive month of double-digit increases. Households also appeared to be coming back into the credit market with net lending to household rising by R6.7bn in July, largely driven by instalment sales credit and mortgages (Figure 2). With respect to international merchandise trade, exports rose further in July and in rand terms exceeded the January and February average before the lockdown. Meanwhile, although most of the increase in imports in July was driven by Brent crude oil, other merchandise imports, such as ‘machinery and equipment’, in particular, which has a strong positive correlation with investment, also increased in July.

Figure 1: PAYE income tax collections increased in July



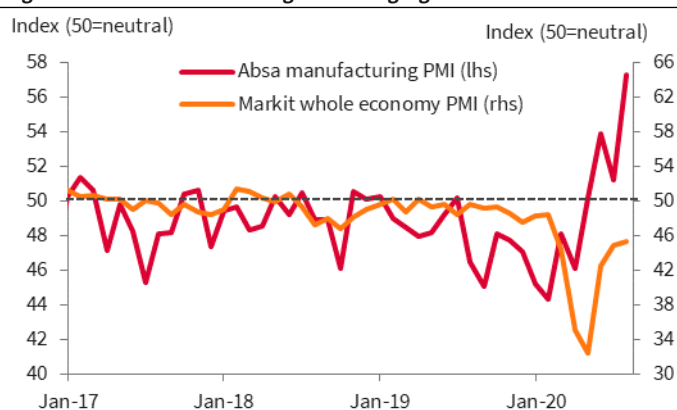
Source: IHS Markit, BER, Absa Research

Figure 2: Bank lending to households picked up in June

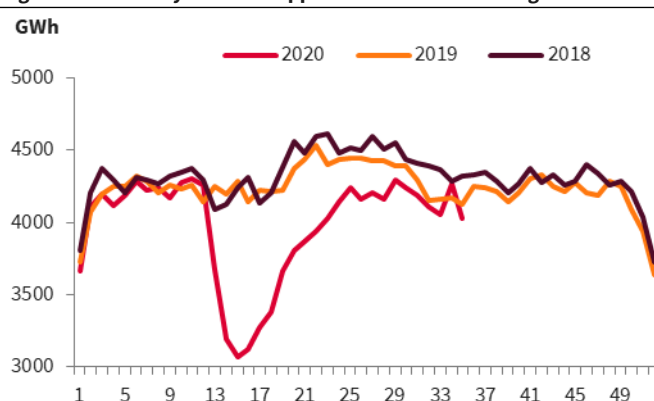


Source: SARB, Absa Research

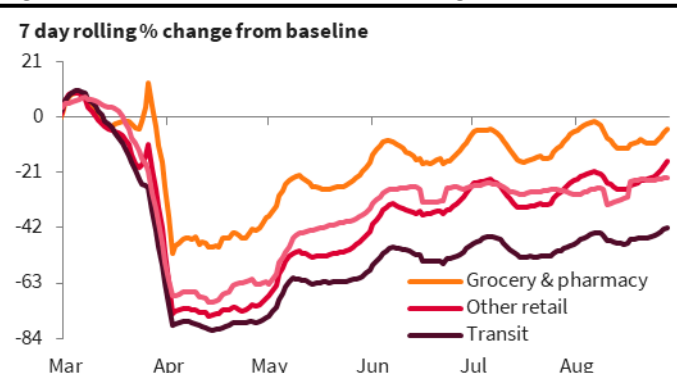
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**Figure 3: Two PMIs are sending conflicting signals**

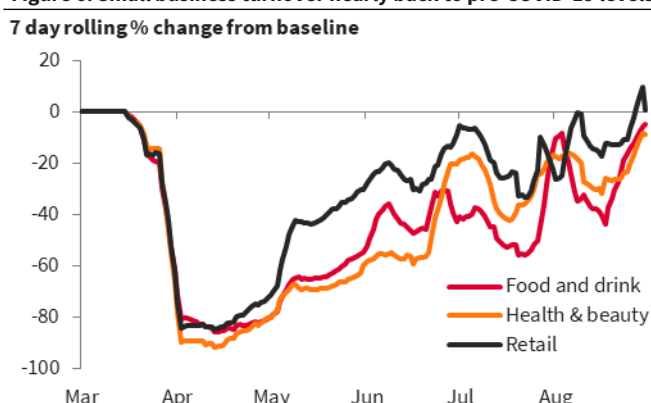
Source: Markit, BER, Absa Research

**Figure 4: Electricity demand dipped in the week to 30 August**

Source: Eskom, Absa Research

**Figure 5: Foot traffic continued to improve in August**

Source: Google Mobility, Absa Research

**Figure 6: Small business turnover nearly back to pre-COVID-19 levels**

Source: Yoco, Absa Research

**The positive recovery momentum continued into August.** The government's decision to relax lockdown restrictions further on 17 August to Level 2, which permitted interprovincial travel and the sale of tobacco and alcohol, appears to have provided a further boost into August. Of course, the formal lockdown restrictions are probably only one part of the story. The recent slowdown in the spread of the pandemic in South Africa is likely to have buoyed up household confidence somewhat, thereby encouraging more spending. The business activity component of the Absa manufacturing PMI printed at 67.0 in August, hinting a strong month-on-month increase in output, taking the overall PMI up to new highs (Figure 3). In contrast, however, the Markit economy-wide PMI printed at 45.3 in August from 44.9 in July, still well below the neutral level of 50 and thus signalling a further shrinkage in economic activity. Given that PMIs are supported to measure changes in activity from one month to the next, we find it surprising that the Markit index has not printed above the 50-point neutral mark in any month since the beginning of the easing of lockdown restrictions. Therefore, while it is certainly a key index to watch, we are somewhat inclined to discount its robustness at this stage. Similarly, although the 5.6% week-on-week decline in electricity demand in the week ending 30 August is notable (Figure 4), the ongoing implementation of load shedding means that this series will be slightly distorted in weeks when the utility implements its demand management policies. With respect to people's movement, foot traffic to places of economic activity improved further in the week ending 28 August compared with the previous week, although in general, it still remains below pre-COVID-19 baseline levels (Figure 5). Interestingly, consumers' visits to supermarkets and pharmacies (which probably reflects fairly essential retail spending) are nearly back to normal, but footfall in 'other' retail establishments, has further to go. People's visits to workplaces also improved as more businesses re-opened. Small businesses appear to have benefitted strongly from these recent developments. In the week from 24 to 30 August, the average turnover of small businesses in the 'food and beverages' and 'healthcare and beauty' sectors was just 4.7% and 8.7% lower than the pre-lockdown baseline. For small businesses in retail, the turnover deviation from the pre-lockdown baseline was even smaller at 0.7% over the same week (Figure 6).

**Figure 7: Improving trend sustained in latest data releases**

Monthly indicators	Aug	Jul	Jun	May	Comment
<b>Tax data (National Treasury)</b>					
Domestic VAT collections, % m/m sa	--	13.5	22.0	-23.8	The second month of Level 3 lockdown...
PAYE collections, % m/m sa	--	2.7	-6.6	-6.5	... saw increased tax receipts which suggests...
Fuel levy collections, % m/m sa	--	162.1	-49.0	-36.0	... that economic activity picked up further
<b>Purchasing manager business activity reports</b>					
Absa PMI business activity, level	67.0	62.9	64.6	43.2	Activity in the manufacturing sector rose...
Absa PMI new orders, level	71.1	53.4	60.3	41.2	...in August as SA moved to Level 2 of...
Absa PMI employment, level	39.0	33.0	32.7	26.8	... lockdown but employment still lags
Markit PMI, level	45.3	44.9	42.5	32.5	The Markit PMI is printing implausibly weak
<b>Domestic vehicle sales and registrations</b>					
NAAMSA new vehicle sales, % m/m sa	-26.0	25.0	76.2	910.9	Vehicle export volumes lost momentum in August
<b>Trade (SARS &amp; NAAMSA)</b>					
Exports value, % m/m sa	--	8.2	7.7	82.9	Exports continued to rise strongly...
Import value, % m/m sa	--	10.5	-17.2	-5.6	...while higher imports suggest an increase...
Import value machinery & equipment, % m/m sa	--	6.2	-2.9	11.0	... in domestic demand
<b>Credit indicators (SARB)</b>					
Bank lending to households, % m/m sa	--	0.5	0.1	-0.2	Lending to households picked up in July but ...
Bank lending to corporates, % m/m sa	--	-0.2	-0.4	-0.8	...corporate credit extension remained subdued.
<b>Bank transactions (Bankserv)</b>					
Value of bank transactions, % m/m sa	--	9.6	3.9	-3.7	Value of bank transactions continued to recover in the second month of Level 3 lockdown
<b>Stats SA's monthly releases</b>					
Mining output, % m/m sa	--	--	-1.4	46.6	The mining and manufacturing output...
Manufacturing output, % m/m sa	--	--	16.8	30.4	... fell sharply on a quarter-on-quarter basis.
Real retail sales, % m/m sa	--	--	6.4	68.7	The trade sector was also...
Real wholesale sales, % m/m sa	--	--	9.7	29.6	... weak in Q2 due to a...
Motor trade sales, % m/m sa	--	--	56.3	166.8	... constrained consumer.
Nominal accommodation income, % m/m sa	--	--	201.2	-4.3	Accommodation and food & beverages incomes benefited...
Real food and beverages income, % m/m sa	--	--	333.8	175.8	...from notably less restrictive Level 3 of lockdown
Real value building plans passed, % m/m sa	--	--	130.1	-27.9	Building activities boosted by easing lockdown...
Real value buildings completed, % m/m sa	--	--	515.7	206.4	... restrictions but still sit below pre pandemic levels
Passenger journeys, % m/m sa	--	--	23.2	55.3	Transportation income rose in June...
Freight transport, % m/m sa	--	--	2.2	33.7	... economic activity under Level 3 of lockdown.
<b>Weekly indicators</b>					
<b>Google mobility reports for SA, % deviation from January baseline</b>	<b>Aug 22 - 28</b>	<b>Aug 15 - 21</b>	<b>Aug 8 - 14</b>	<b>Aug 1 - 7</b>	
Retail & recreation	-16.9	-24.0	-27.1	-20.9	Foot traffic to shopping locations..
Grocery & pharmacy	-4.3	-9.1	-11.7	-2.0	... and workplaces continued...
Transit stations	-42.0	-45.9	-47.9	-43.9	... to rise in the last week of August.
Workplace	-22.9	-23.6	-31.3	-26.9	Therefore, people visited transit stations more.
<b>Yoco SME turnover, % deviation from pre-COVID baseline</b>	<b>Aug 24 - 30</b>	<b>Aug 17 - 23</b>	<b>Aug 10 - 16</b>	<b>Aug 3 - 9</b>	
Retail	0.7	-10.7	-17.3	-0.9	Small business turnover improved...
Food, beverage & hospitality	-4.7	-18.7	-40.3	-33.7	... under Level 2 of lockdown.
Health care, beauty & fitness	-8.7	-23.9	-31.6	-19.6	This is particularly true for retailers.
<b>Eskom data on electricity demand</b>	<b>Aug 24 - 30</b>	<b>Aug 17 - 23</b>	<b>Aug 10 - 16</b>	<b>Aug 3 - 9</b>	
% w/w	-5.6	5.3	-1.2	-2.1	Electricity demand is more or less back to normal
<b>Much weaker</b>	<b>Somewhat weaker</b>	<b>Unchanged</b>	<b>Somewhat stronger</b>	<b>Much stronger</b>	

Source: StatsSA, SARB, SARS, National Treasury, BER, Markit, Bankserv, Google, Yoco, NAAMSA, Eskom, Absa Research

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