South Africa

Tracking economic activity under COVID-19

- **In this publication, we highlight a range of indicators that we believe can provide a partial but timely picture of what is happening to economic activity. Weekly indicators on electricity demand and human mobility will be of particular interest, but various timely monthly indicators like the PMIs, car sales, tax receipts, merchandise trade, credit extension and bank transactions are also useful.**

- **The available monthly data for both March and April so far paint a pretty negative picture of economic activity, especially the Bankserv data on the value of transactions in the banking system, which is down 12.3% m/m sa, the largest ever fall. This gloomy picture is hardly surprising, given that the economy was already shuttering even before the formal lockdown was implemented at the end of March. However, more recent data from the end of April on both electricity demand and mobility of South African residents are slightly more encouraging in terms of the very recent trend at end April.**

- **The lockdown response to the COVID-19 pandemic is clearly hitting South Africa's economy hard, but quantifying the likely magnitude of this shock is challenging. Different productive sectors within the economy are differentially suited and/or regulated to continue operating during the five lockdown phases, and an unknown number of firms in a variety of sectors will close as demand evaporates. Traditional forecasting models are ill-suited to capture the unprecedented nature of this shock. Thus, there is exceptional uncertainty about how these different responses aggregate into an outlook for the economy as a whole.**

- **Against this backdrop of both exceptional economic weakness and heightened uncertainty, tracking the performance of the South African economy has become more important than ever for investors, corporates and policymakers. The traditional indicators are usually published with too long a lag to be of much use for the current need for a real-time assessment. Moreover, the COVID-19 lockdown has delayed the publication of many indicators from StatsSA. For example, the release of mining and manufacturing output during February will now only be published next week.**

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With this publication, Absa Research launches its Economic Activity Tracker (Figure 1). Essentially, this is a suite of timely indicators to help investors, corporates and policymakers assess the pulse of the domestic economy as it suffers under the immediate and longer-run consequences of the COVID-19 containment measures and the knock-on effects from a weaker global economy.

Figure 1: Monthly data have mostly painted a negative picture but recent weekly data have been more encouraging in terms of the trend

Monthly indicators	Apr.	Mar.	Feb.	Jan.	Comment
Electricity supplied (StatsSA), % m/m sa	--	-1.8	-0.2	0.9	Load shedding featured in early March
Tax data (National Treasury)					
Domestic VAT collections, % m/m sa	--	-1.7	-0.1	1.8	VAT receipts suggest lower consumption
PAYE collections, % m/m sa		-2.0	1.4	0.2	Poor March data suggest pay or payroll cuts
Fuel levy collections, % m/m sa	--	3.7	6.4	6.7	One mildly encouraging indicator
Purchasing manager business activity reports					
Absa PMI business activity, level	5.1	30.7	33.7	44.6	Worst ever print during April's full lockdown
Markit PMI, level	35.1	44.5	48.4	48.3	Bad performance across whole economy
Domestic vehicle sales and registrations					
NAAMSA new vehicle sales, % m/m sa	-97.7	-27.6	9.8	-12.0	Car sales dropped to near zero in April
eNatis used vehicle registrations, % m/m sa	-100.0	-14.1	-0.6	3.3	Car registrations stopped during lockdown
Trade (SARS & NAAMSA)					
Export value, % m/m sa	--	-0.4	-0.6	12.7	Signs of moderately soft external demand
Import value, % m/m sa	--	-2.7	-0.1	3.8	Imports showing weak domestic demand
Import value machinery & equipment, % m/m sa	--	-7.1	6.5	-2.4	Big drop in capex imports
Vehicle exports, % m/m, sa	-96.0	-16.4	38.6	25.6	Vehicle exports near zero in lockdown
Credit indicators (SARB)					
Bank lending to households, % m/m sa	--	0.4	0.3	0.4	Modest borrowing by households
Bank lending to corporates, % m/m sa	--	5.4	0.4	-0.2	Possibly precautionary borrowing by firms
Bank transactions (Bankserv)					
Value of bank transactions, % m/m sa	-12.3	-3.1	-0.3	0.6	A record monthly drop in April
Weekly indicators					
Google mobility reports, % deviation from January	**May 1-7**	**Apr 24-30**	**Apr 17-23**	**Apr 10-16**	
Retail & recreation	-52.7	-69.0	-73.6	-74.9	Much more retail traffic…
Grocery & pharmacy	-24.1	-38.1	-46.0	-49.3	…especially for essential goods
Transit stations	-62.6	-76.3	-78.1	-80.7	More travel in the first week of Stage 4…
Workplace	-49.4	-62.4	-62.9	-69.6	…and more people at work…
Residential	25.3	31.0	32.4	34.9	…with less time at home
Eskom data on average electricity demand	**May 4-10**	**Apr 27-May 3**	**Apr 20-26**	**Apr 13-19**	
% y/y	-15.0	-19.7	-22.4	-24.6	Electricity demand is improving

Much weaker | Somewhat weaker | Unchanged | Somewhat stronger | Much stronger

Source: National Treasury, BER, Markit, NAAMSA, eNatis, SARS, SARB, Bankserv, Google, Eskom, Absa Research.
Note: Colour coding for each cell indicates our judgement as to the signal provided by the latest datum in relation to its immediate prior value

South Africa's lockdown response to COVID-19 has sharply curtailed many kinds of economic activity

As the COVID-19 pandemic has spread and intensified across the globe, governments have responded in varying degrees with social distancing measures that have had a devastating effect on economic activity. South Africa's initial lockdown measures have been some of the strictest in the world. Moreover, in contrast to early expectations, the lockdown was not substantially lifted at the end of April, but rather merely segued into a slightly less draconian phase, with many types of economic activity continuing to be either banned outright or limited (Figure 2).

Figure 2: Economic activity is restricted to different degrees as South Africa proceeds to Stage 1 of lockdown strategies

Stage	Activity allowed by government regulation
5	Only essential services
4	Manufacturing of autos phased up to 50% employment, cement and construction material scaling up to 50%, 30% for others Food retail to sell full product line; Hot cooked food for home delivery Sale of winter clothes allowed All agricultural production, processing and exporting Mining: open cast at 100%, others at 50% Restaurants only for food delivery Essential imported goods to be prioritised through ports
3	Most manufacturing to 100%, though some limited to 50% Alcohol retail and off-premise consumption; Clothing retail allowed Motor vehicle sales Commercial building projects; commercial real estate permitted Limited domestic air travel Mining scaled to 100%
2	Construction, including private residential All other retail All other manufacturing All manufacturing scaling up towards 100% employment All retail permitted, subject to directions All automobile repairs
1	Most sectors allowed to resume with health guidelines

Source: SA government, Absa Research.

The economy's performance as it proceeds through the phased relaxation is exceptionally critical for investors and policymakers but highly challenging

As the phased relaxation of the lockdown continues, with South Africa currently in Stage 4 after Stage 5 for the last few days of March and all of April, it will be important to track how the economy is performing. This will remain true even once South Africa surfaces into Stage 1, whenever that may be, given that the pandemic will have lasting negative economic consequences beyond the immediate public health crisis, from permanent firm bankruptcies and worker layoffs to impaired balance sheets and shattered confidence. The questionable ability of the South African economy to reboot itself will be of critical importance for investors, companies and policymakers, but uncertainty is higher than ever.

There have been developments since we published our forecast that GDP would contract by 6.4% in 2020, but little hard data

Our macroeconomic forecast currently projects real GDP to contract 6.4% in 2020, but with risks tilting to the downside. Since we published this forecast in mid-April, there have been little new hard data, but three developments are worth noting:

- Increased negative anecdotal news, both domestically and globally;
- The extension of fairly strict social distancing measures beyond end-April; and
- The announcement of a R500bn economic support package from the government as well as 100bp of further rate cuts from the SARB.

However, there are no real data to know where this all nets out. Indeed, data to support or adjust this view will be slower than ever to emerge, especially given the impairment of Stats SA's ability to gather and process the necessary data. Currently, even Q1 GDP data will not be published until 30 June, and even the February prints for high frequency indicators, such as mining and manufacturing production, and retail sales, will not be published until next week; and these are all still from the period before COVID-19 hit.

Still, there are some data that can provide an impressionistic insight into activity levels, even where they do not directly measure output or demand

With such challenges in mind, we have thought long and hard about what hard data are available that can provide an objective and timely insight into economic activity. We present our selection of data in Figure 2. None of the data are perfect, and even when taken all together, they provide only a partial window into the South African economy. The data may not perfectly correlate with output, and big parts of the South African economy will not reflect in the available data set. Still, we believe that a useful triangulation on South Africa's economic pulse can be gleaned by synthesising the timely data. We aim to update our economic activity tracker weekly, just after Eskom publishes its weekly electricity data on Wednesday, and to expand the set of data that we track as new sources of information come to light.

Weekly data on average electricity demand will provide valuable insights on the state of industry, while data on movements and bank payment volumes will be an important signal for broader economic activity

In the interests of having as 'real time' an assessment as possible, we are particularly interested in the weekly data on average, as opposed to peak; electricity demand will provide valuable information on the state of energy-intensive industrial activity, with very roughly half of South Africa's electricity usage accounted for by mines and a few large corporates like smelters and paper production. Additionally, weekly readings of daily Google data on the mobility of South Africa's residents and the Bankserv bank payments data, which come out less than two weeks after month end, will provide a signal on what is going on in the broader economy.

Monthly data from SARS and the National Treasury are also worth watching

We also like the data from the South African Revenue Service (SARS) on merchandise trade, which is published reliably just one month after month end. Not only are SARS's data on exports and imports useful information on external and domestic demand and of themselves, but some components, such as machinery and equipment imports, give a read on capex spending. Similarly, the National Treasury's monthly tax collections data, also published one month in arrears, merit heightened scrutiny. Trends in PAYE receipts offer some line of sight on employment trends, though the data will be complicated by pay cuts and tax deferrals allowed under the government's economic support plan. Similarly, domestic VAT receipts will provide a timely read on household consumption spending, and fuel excise taxes may also provide clues. We also will report the NAAMSA new car sales, as well as data from eNatis on used car registrations for this timely and important pro-cyclical signal of household spending on big ticket durable goods. Finally, both Absa's manufacturing sector PMI and Markit whole economy PMI, each released just a few days after month end, are key, though the challenge of discerning signal from noise in these survey-based and sentiment-heavy metrics, is a factor. For the Absa PMI, the recent move to weigh more heavily the suppliers' delivery times subcomponent in the overall PMI has complicated interpretation of the headline index. For this reason, we prefer to focus on the 'business activity' subcomponent, which is roughly analogous to current output.

Monthly data present a negative picture about economic activity in March and a very gloomy picture for April, which was under Stage 5 lockdown for the entire month

The available monthly data for both March and April so far paint a pretty negative picture of economic activity. Of particular note, in our view, are the Bankserv data on the value of transactions in the banking system, down 12.3% m/m sa in April, the largest ever fall, and the two PMIs, which also reported record drops. This gloomy picture is hardly surprising, given that the economy was in full lockdown during April and was already shuttering in March even before the formal lockdown was implemented.

Weekly data suggest a modestly improving picture over the course of April, with big gains in early May, despite a fairly restrictive Stage 4

Notwithstanding the negative monthly data for April, we are struck by the nuances provided by the (admittedly limited) weekly data on electricity demand and South African residents' movements. Both sets of weekly data show an improving trend over the course of April, with big improvements in the most recent data from the beginning of May, when the lockdown moved from Stage 5, under which only ostensibly essential economic activities were allowed, to Stage 4, when a wider range of productive activities and demand expression was allowed. This ought to reflect in actual output but of course the exact degree of correlation will only become evident over time. Nonetheless, we are somewhat encouraged by the trend.

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