



Quantifying Risk, Enabling Opportunity.

SA economic prospects in the midst of a global pandemic

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Background

- Initially the economic impact of the COVID-19 pandemic was compared to that of the Great Financial Crisis (GFC) of 2008/09, this was incorrect
- One key difference is the process:
 - GFC was an exogenous financial shock which affected demand (i.e. credit availability, HH wealth, business confidence)
 - Current crisis an exogenous shock to firstly the **supply side** with production brought to a halt by almost economy-wide lockdowns, then to **demand** as business and consumer income falls (and business confidence).
 - Institutional interventions arguable less effective to address supply shocks (think interest rate reduction) with less “ammo” than in 2008/09. In fact, could be inflationary with income rising without higher production
- In all, the process, along with the lack of information on important aspects of COVID-19 will undoubtable lead to significantly worse economic outcomes than the GFC



Quantifying Risk, Enabling Opportunity.

Lessons from the global economy on the economic impact of COVID-19

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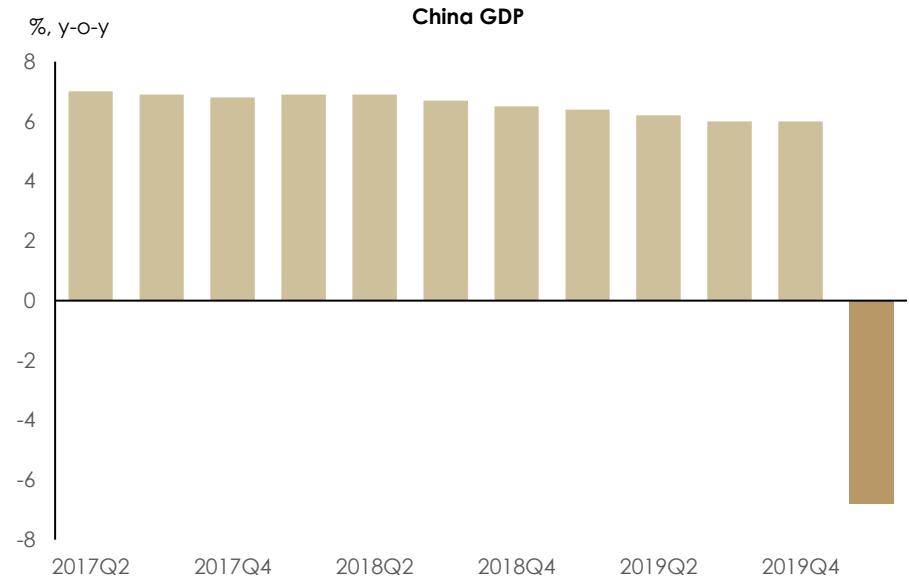
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Lessons from the global economy on the economic impact of COVID-19: China

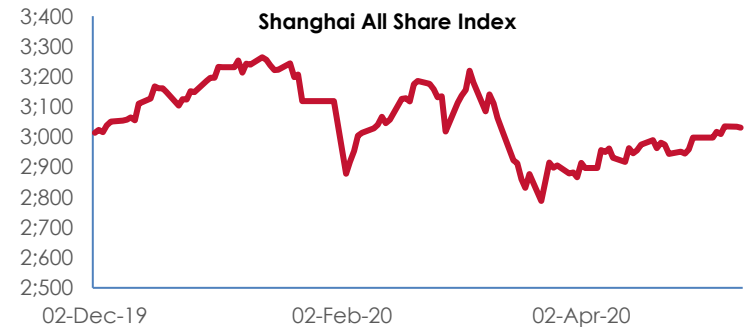
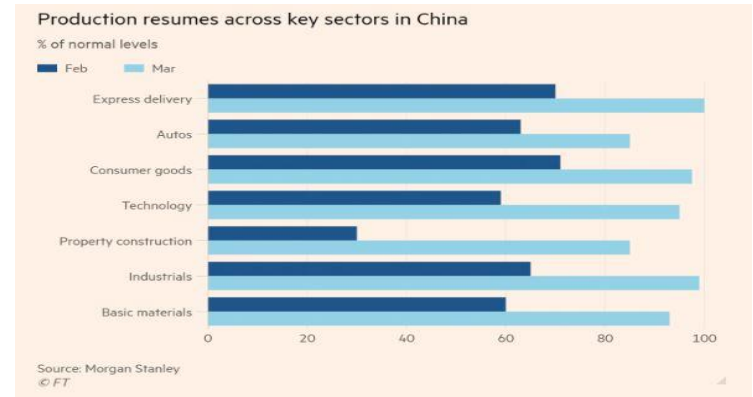
- First case reported in **China** in December 2019 (although evidence shows that the virus was already around in 2019Q3)
- The Hubei province went into “lockdown” on 23 January followed by large-scale mobility restrictions and social distancing at the national level
- GDP contracted by 6.8% y-o-y in 2020Q1



Source: National Bureau of Chinese Statistics

Lessons from the global economy on the economic impact of COVID-19: China

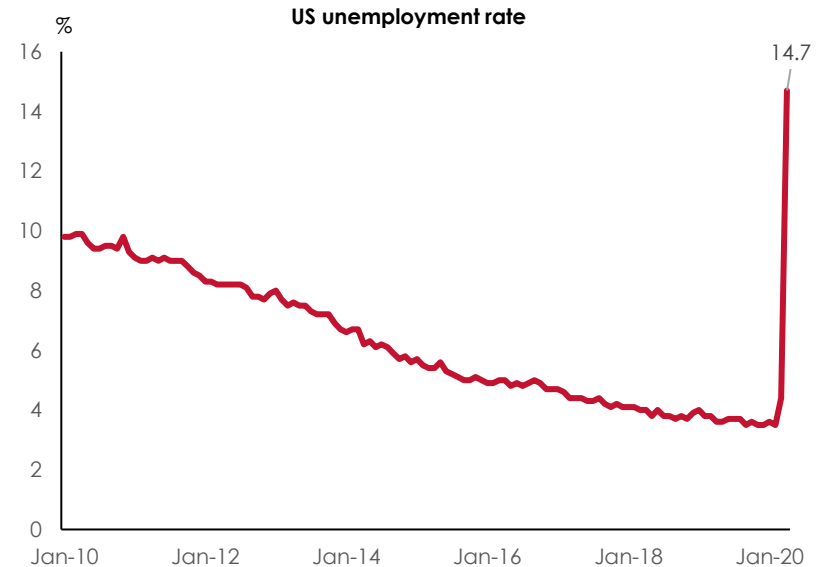
- China stated easing restrictions in mid-February. Most businesses and schools are open but social distancing rules remain. Despite this, new cases have risen only moderately and are mostly linked to imported cases.
- Significant rebound in Chinese economic activity in March
- Expected to be back at pre-crisis GDP in Q3



Source: Reuters

Lessons from the global economy on the economic impact of COVID-19: US

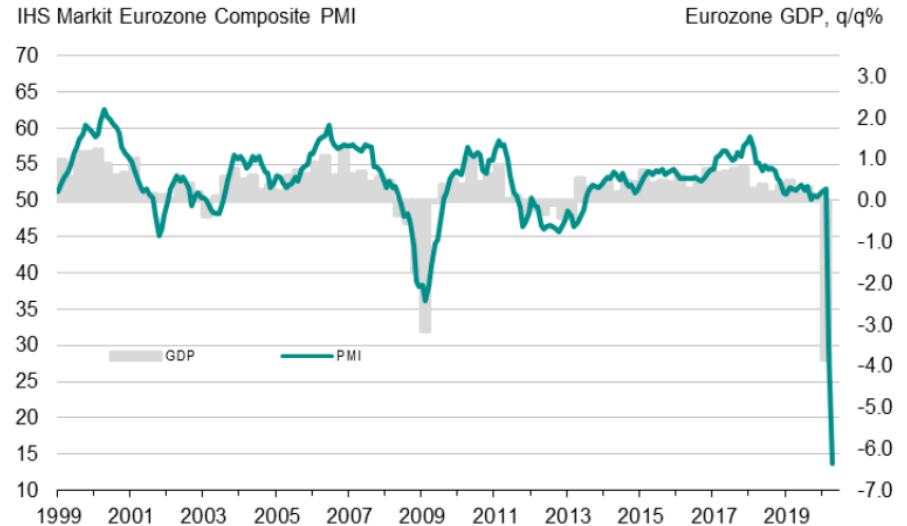
- The US reported its first case on 21 January 2020. Since then more than 1.3 million Americans have tested positive with the state of New York accounting for more than 50% of all cases.
- National Emergency declared on 13 March
- Q1 GDP contracted by 4.8% q-o-q (advanced estimate)
- US policy response (monetary and fiscal) of the most ambitious internationally. The IMF estimates the Coronavirus Aid, Relief and Economy Security Act ("CARES Act") at around 11% of GDP



Source: BLS

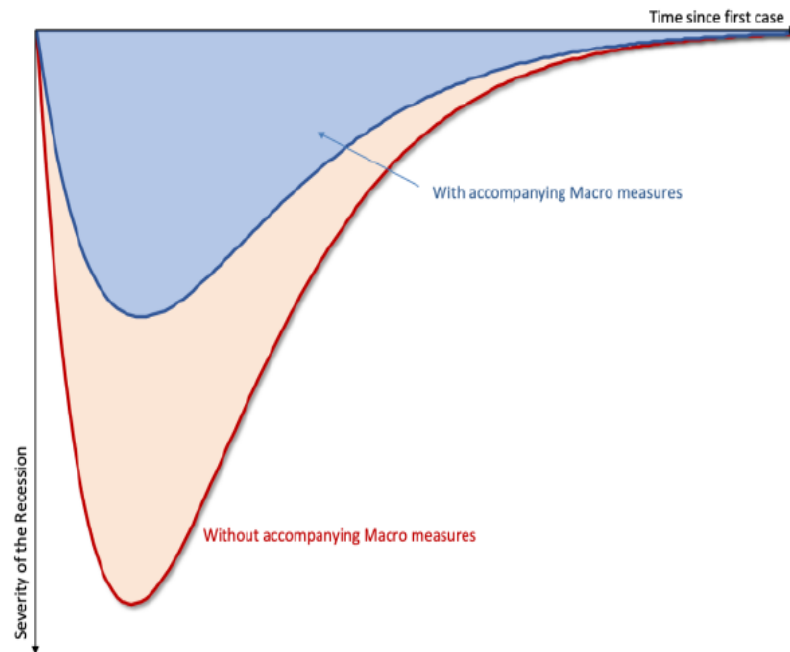
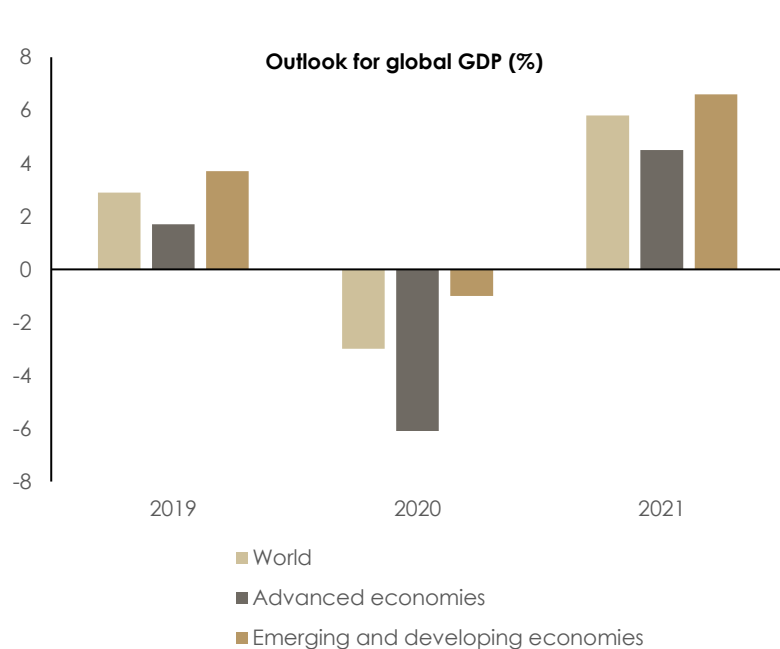
Lessons from the global economy on the economic impact of COVID-19: Europe

- A number of hard-hit European countries have started to ease lockdown restrictions
 - **Italy** reopened on 4 May
 - Phased in reopening plan in **Spain** started on 4 May
 - Gradual easing of some restrictions in **France** from 11 May



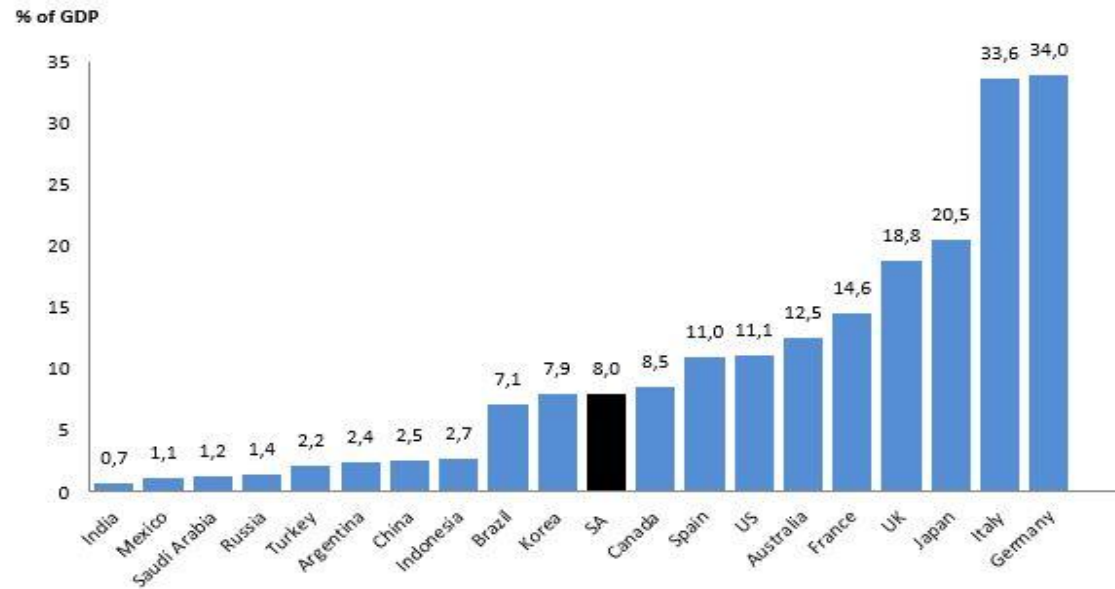
Sources: IHS Markit, Eurostat.

Global stimulus lessens economic pain, but not enough to avoid a recession



Source: IMF

SA stimulus measures high by emerging market standards



Source: IMF, BER calculations

SA economic prospects

2020 - 2021

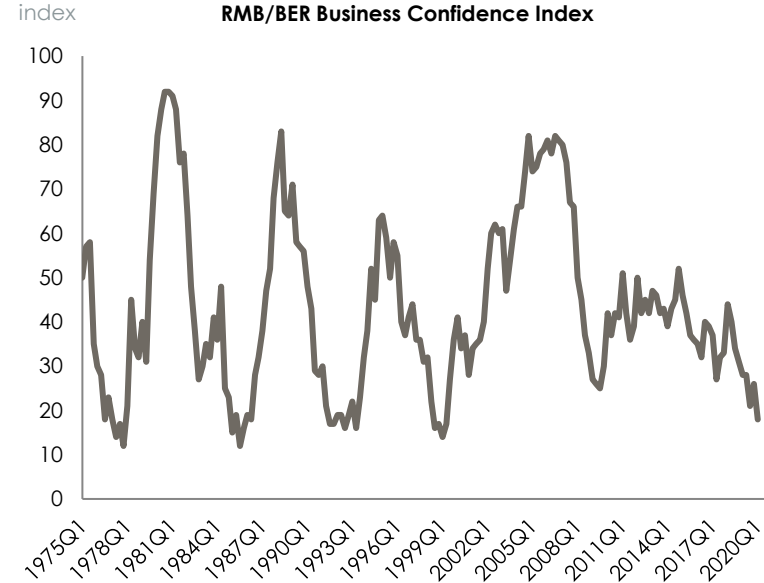
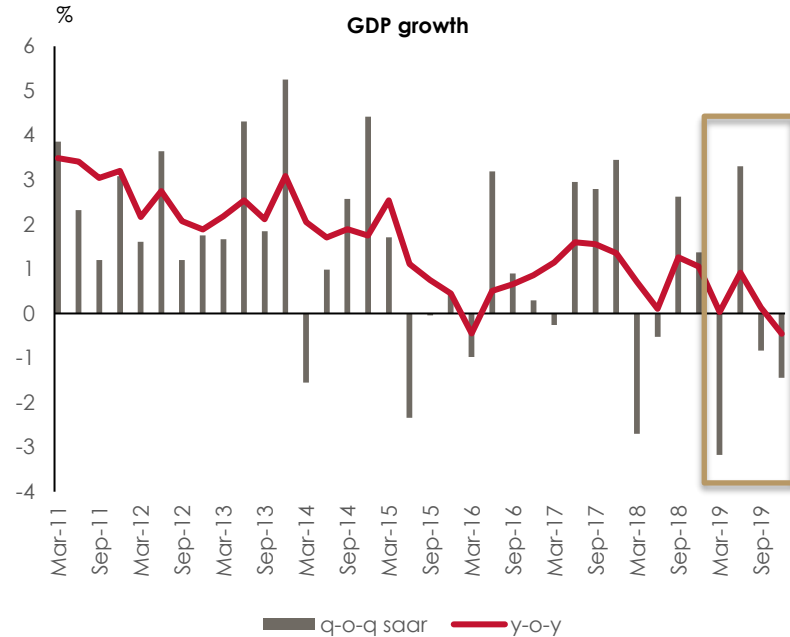
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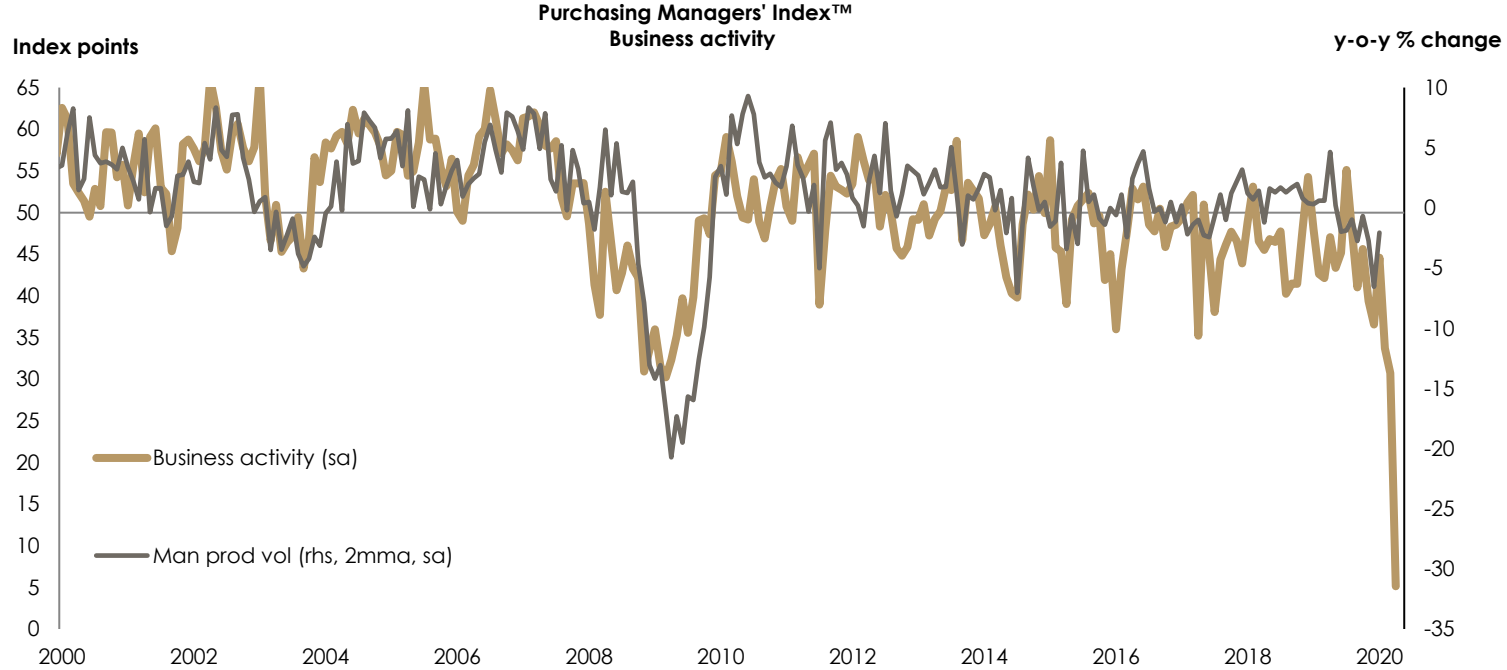
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SA already in technical recession in 2019H2



Source: Stats SA, BER

Data for Q2 very disheartening thus far



Source: BER

Slightly more than 50% of “normal” economic activity at lockdown level 4

%	Operational	GDP weights	Weighted average
Government	100	15.57	10.4
Other manufacturing	75	12.3	6.2
Wholesale and retail (Inc. deliveries)	90	7.9	4.8
Agriculture & food services	90	7.6	4.6
Mining	83	6.9	3.8
Transport	60	6.2	2.5
Financial intermediation	80	5.5	2.9
Insurance	58	5.4	2.1
Construction (Inc. electr. & plumbing)	80	5	2.7
Professional services	70	4.9	2.3
Real estate	30	4.1	0.8
Automotive	80	4	2.1
Telecom and postal	100	2.5	1.7
Electricity	100	2.3	1.5
Health & social work	98	2.2	1.4
Petroleum ref	76	1.9	1.0
Pharmaceuticals	80	1.6	0.9
Chemicals	52	1.3	0.5
Hotels & restaurants	30	1	0.2
Water	100	0.8	0.5
Recreation, cultural & sporting	21	0.5	0.1
Forestry	60	0.2	0.1
Radio, TV, comm. equipment	20	0.2	0.0
Fishing	75	0.1	0.1
Sewerage & waste disposal	45	0.03	0.0
Total operational GDP activity		100	53.2

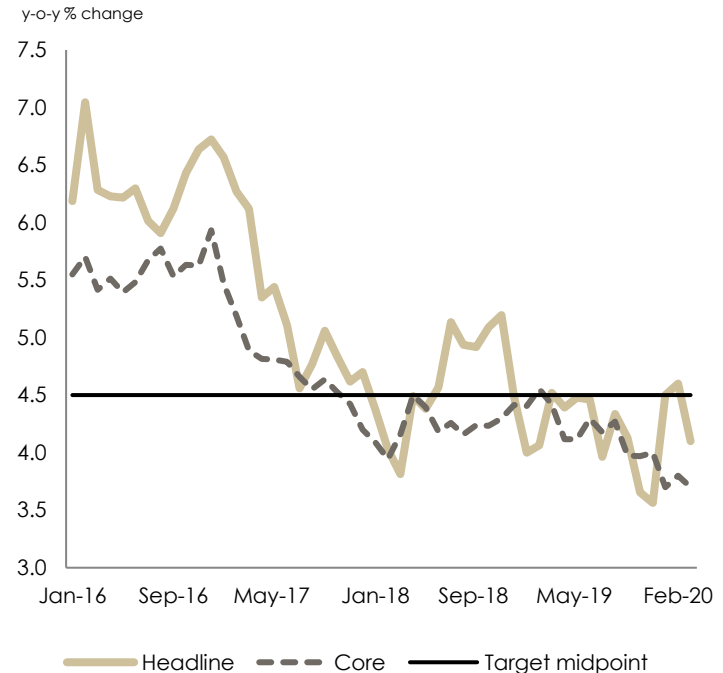
Source: StatSA, DTI, J.P. Morgan

Consumer spending to suffer significantly

Real disposable income under pressure due to:

- Salary cuts
- Lower or no bonuses
- Steep job losses (our estimates are for at least **1.4 million** jobs lost till mid-2021)
- Wealth impacts (rental income, equity returns etc.)

This is set to outweigh the effect of benign inflation
(and prospects for even lower inflation going forward)
and lower policy interest rate



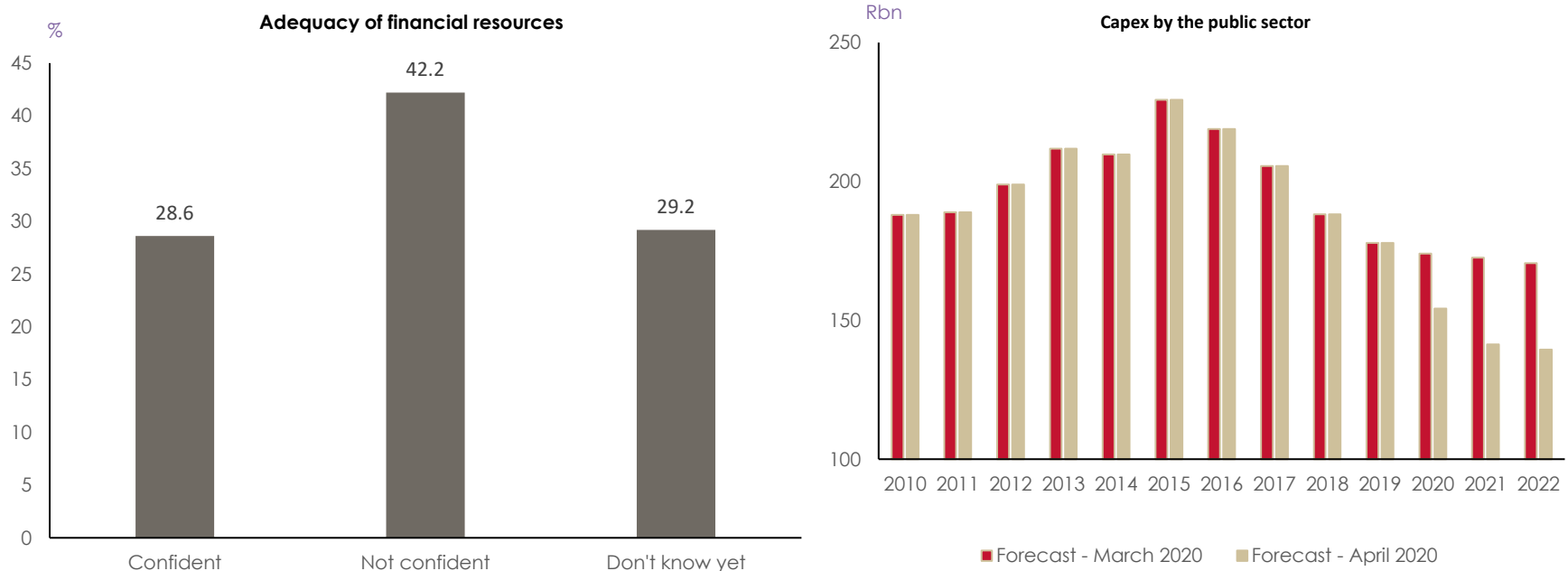
Source: Stats SA

Indeed, impact of COVID-19 on HH spending worse than other crises



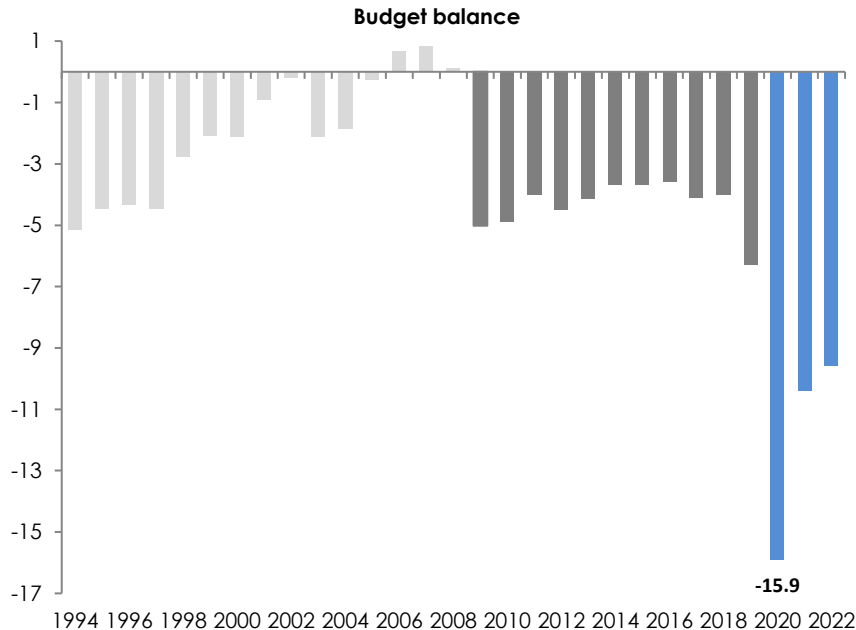
Source: BER

Fixed investment to be held back as focus turns to economic (and firm) survival



Source: Stats SA, BER

Fiscal position to sour dramatically as tax revenue drops and spending is accelerated

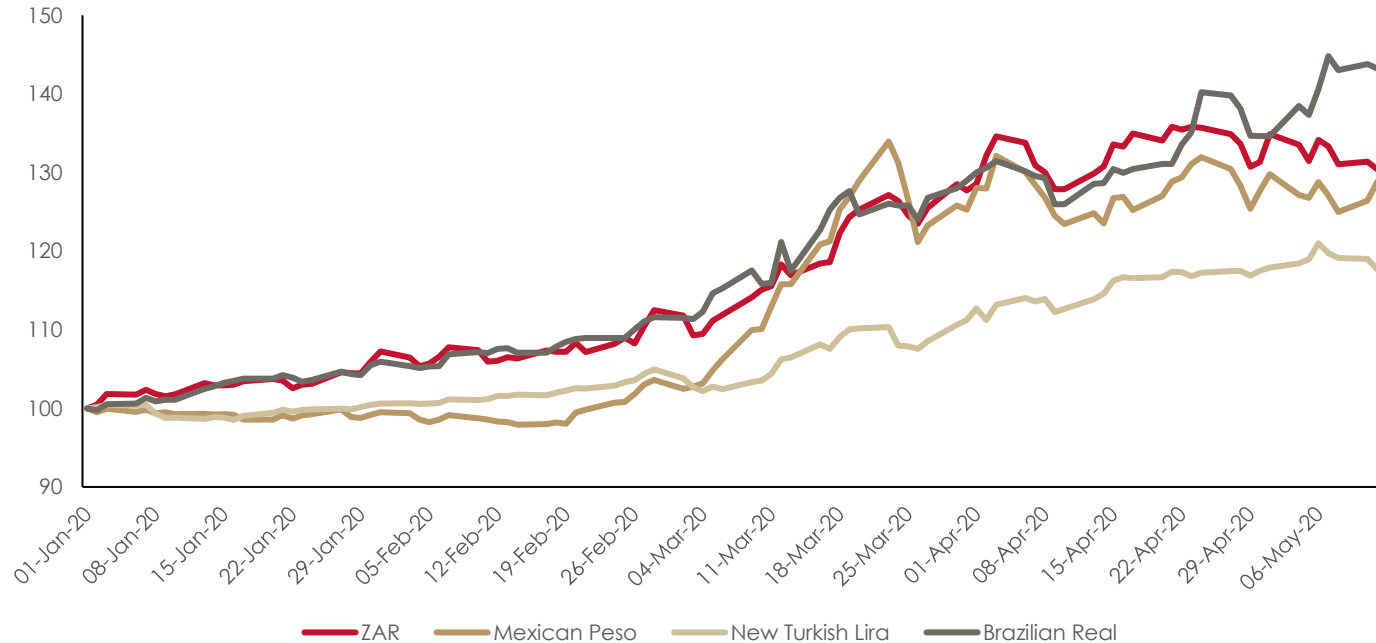


	Foreign currency	Local currency	Outlook
S&P Global	BB-	BB	Stable
Fitch	BB	BB	Negative
Moody's	Ba1	Ba1	Negative

- Pandemic response could see fiscal position remain permanently weaker
- This means that an upgrade in credit ratings is becoming increasingly unlikely
- In fact, 2/3 major agencies have a negative outlook which suggests that credit rating(s) could decline further

Source: National Treasury, BER

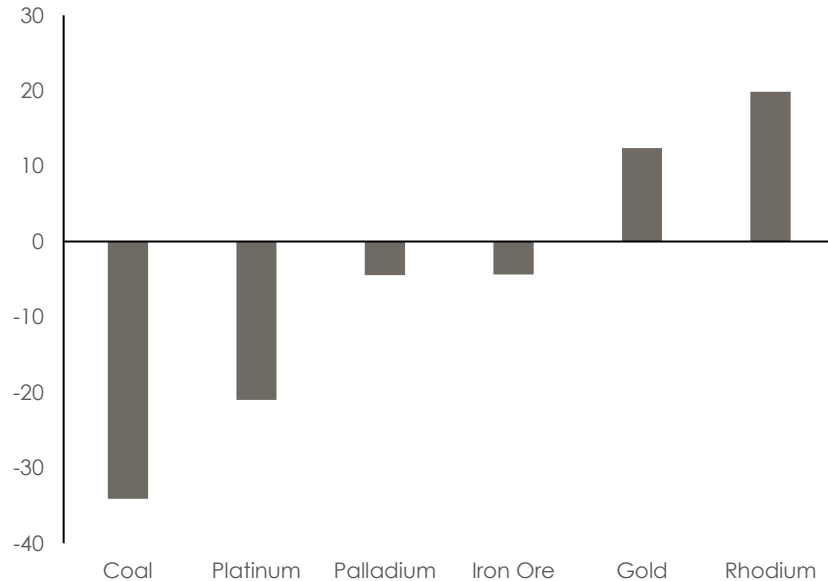
However, pandemic, rather than credit position weighing on ZAR



Source: Reuters, own calculations

Faltering global demand weighing on commodity prices

Change since 1 Jan '20, %



\$/barrel

Brent crude oil



Source: Reuters

Forecast summary

y-o-y % change (real) unless stated otherwise	2018	2019	2020	2021	2022
Consumer spending	1.8	1.0	-11.0	9.5	1.1
Govt consumption	1.9	1.5	2.1	-1.6	-1.3
Fixed investment	-1.4	-0.9	-19.5	-11.4	1.7
Private	2.1	1.1	-22.1	-12.8	3.2
Gross domestic expenditure	1.0	0.7	-9.9	3.2	1.4
Exports	2.6	-2.5	-12.6	5.2	2.5
Imports	3.3	-0.5	-13.9	5.5	2.5
GDP (real)	0.8	0.2	-9.5	3.1	1.4
CPI (ave)	4.7	4.1	2.8	3.9	4.8
Dollar/rand (Q4 average)	14.39	13.98	18.05	16.50	17.15
Prime rate (eop)	10.25	10.25	7.25	7.25	8.0
Main budget (fiscal years, % GDP)	-4.7	-6.9	-15.9	-10.4	-9.6
Current account (% GDP)	-3.6	-3.6	-0.1	-0.4	-1.7

Post COVID-19 growth set to remain subdued as underlying constraints persist



Source: Stats SA, BER



Economic information that works for you

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