CAMuniqué

CADIZ ASSET MANAGEMENT INVESTMENT UPDATE

cadiz ASSET MANAGEMENT

Invest For The Future

SEPTEMBER 2021

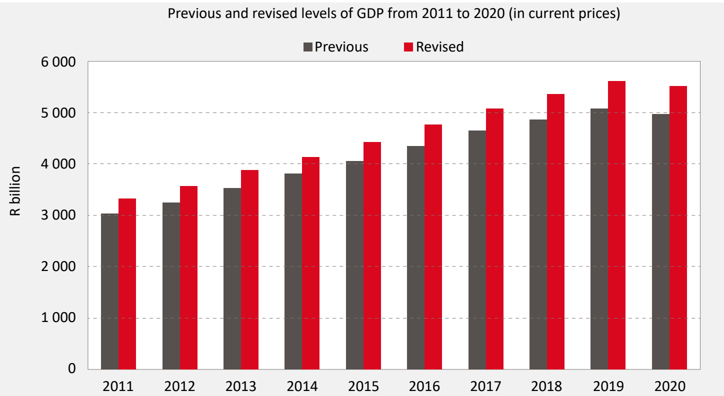
A look at the revisions made to South Africa's Gross Domestic Product

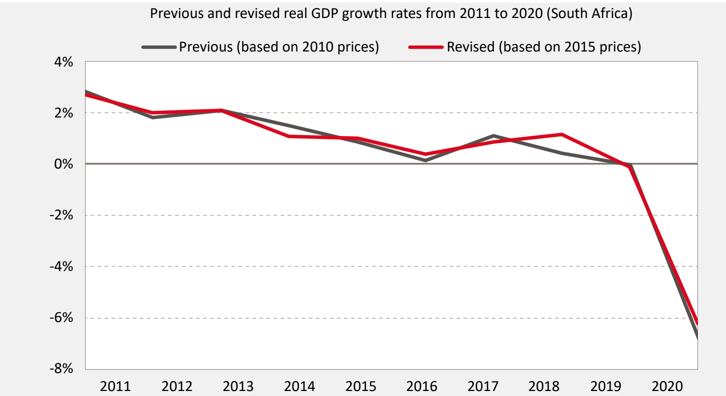
In August 2021, Statistics SA announced the results of its reweighting and rebasing exercise for South Africa's Gross Domestic product (GDP). This exercise has resulted in an upward revision in the size of the economy, as well as changes to the composition of the supply and demand sides of economic activity.

Statistical agencies across the globe periodically revisit the way in which they measure their economies. Economies are dynamic, shifting and changing over time. New industries rise to dominance while others fade away. Consumer tastes wax and wane, and new technologies replace the old. Rebasing and benchmarking exercises ensure that the tools used to measure the economy take these changes into account. They can only be performed every few years as many data sources are only available periodically.

South Africa has revised its entire set of GDP-related time series by adopting and instituting a new base year and employing more reliable methods of measuring the underlying components that make up the GDP figure. The new base year has now been set at 2015 from 2010 previously.

At current prices, the revised GDP is 11.0% larger in 2020 than previously estimated.





Source: STATS SA

GDP growth rates have also shifted with the largest difference occurring in 2018. As expected, both the revised and previous figures show the harsh impact of the Covid-19 pandemic on the economy in 2020. The revised GDP growth rate for 2020 is -6.4%, whereas the previous rate was calculated to be -7.0%.

The composition of the demand and supply sides of the economy have also been revised, showing an increase in household consumption inferring that the economy's structure is more biased towards consumption than the productive sectors of the economy. On the other hand, the fixed investment's share in the economy has moderated to 14% from 16%, tempering the revisions to GDP.

The positive take from this exercise is that key economic ratios such as the budget deficit, gross debt and the current account balance have now all improved. This improvement in the fiscal ratios will go a long way in reducing the risk of potential sovereign rating downgrades in the near term.

One needs to be careful when extrapolating these revisions into the future, however. Reviving the underlying growth trend is heavily dependent on the successful implementation of structural economic reform. We are still saddled with high unemployment rates, struggling state-owned enterprises, the after effects of Covid-19 and depressed business confidence.

Although positive signs in the economy remain few and far between, we are hopeful of the impact that the vaccination programme will have and the resilience of the marketplace to return to some semblance of normality. It is, therefore, imperative that we are not fooled by the numbers, but rather look through them and search for the factors that will enhance and grow the real economy over time. Support from monetary policy, fiscal policy and rising commodity prices may be temporary, emphasising the need to overcome the headwinds facing economic growth with sustainable measures.