

*Economic highlights for business strategy*

FEBRUARY 2021



SAKELIGA

SELFSTANDIGE SAKEGEMEENSKAP

# Executive Summary

- **The lockdown risk we warned about in November was unfortunately realised in December and January, globally and also domestically.** Global economic restrictions have caused renewed disruptions to production and trade activity. Combined with domestic restrictions to the tourism, restaurant, entertainment, and alcohol sectors, foreign restrictions have caused the domestic recovery from H2 2020 to stall into early 2021.
- **To be clear, economic activity has improved considerably since Q2 2020 when the hard lockdown put over 2 million people out of work.** Moreover, the easing of restrictions in early February 2021 and moving to the end of the northern hemisphere winter should begin to support improvements in business conditions once again.
- **However, much economic damage and disruption has occurred in the past year,** and adjusting to this reality will entail lasting economic hardship, resource reallocation, and repairing of savings.

## Considerations for corporate strategy

---

### SA lockdown:

Lockdown restrictions have eased in February, but the risk of renewed measures will persist well into 2021. We advise using better trading conditions from Feb-June 2021 to build up buffers and remain defensive, and only attack opportunities that are largely immune from renewed lockdowns.

### Rand:

As we said in November 2020, do not be too negative on the rand. The currency is resilient in the face of pressures on the dollar and reasonably well-managed SARB monetary policy. We regard fair value USDZAR at roughly R14.50/15.00/\$.

### Interest rates:

For now, expect rates to remain low and fairly stable.

### Inflation:

Officially, inflation seems like a low risk, but there is building evidence of price pressures in supply chains. Stay vigilant and consider securing inventories ahead of new price hike rounds.

### Asset expropriation:

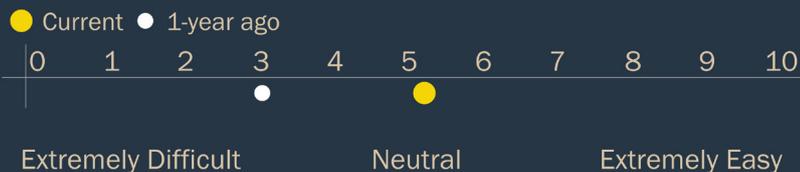
The Expropriation Bill remains front and centre for civil society. Sakeliga will continue to update members.

### Opportunities:

Lockdown restrictions could well lift globally and domestically between February and June 2021. This trading opportunity must be used to the full. Commodity resilience also stands to benefit SA mining and logistics. South African retail and financial services may be more resilient than expected given low interest rates, employment recovery, and higher household savings in certain income segments.

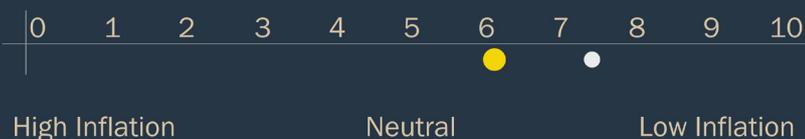
## South Africa Business and Economic Dashboard February 2021

### How Easy/Difficult Are SA Business Conditions?



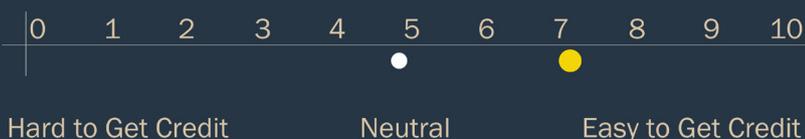
Business conditions had become considerably easier by the end of 2020 compared to Q3, but economic and social restrictions in January caused renewed slowdown and commercial frictions. The lifting of some restrictions will allow activity to improve again.

### Is Price Inflation Low or High?



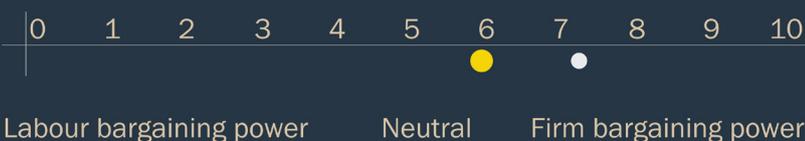
Inflation risks intensified somewhat in recent months as spending recovered amid lingering problems in supply, logistics and delivery.

### Is it Easy/Hard to get Consumer & Business Credit?



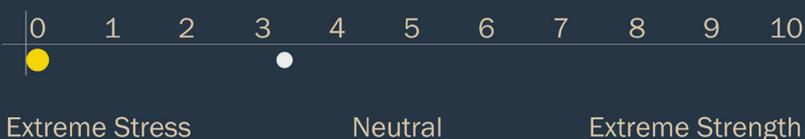
As business conditions eased and job markets recovered, so credit markets have begun to thaw somewhat into early 2021, making borrowing somewhat easier.

### How Easy/Hard Is It To Find & Hire Staff?



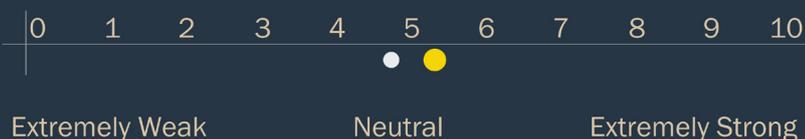
With employment having recovered, wage bargaining power shifted away slightly from firms, but the job market overall remains weak.

### How Financially Stressed Is Government?



Fiscal stress remains considerable. Tax revenues appear to be recovering with the bounce back in economic activity, which should begin to alleviate some pressure in 2021.

### Is the Rand Strong or Weak?



The rand is roughly fairly valued at current levels, neither over- nor under-valued. This means there is no glaring value opportunity for importers or exporters.

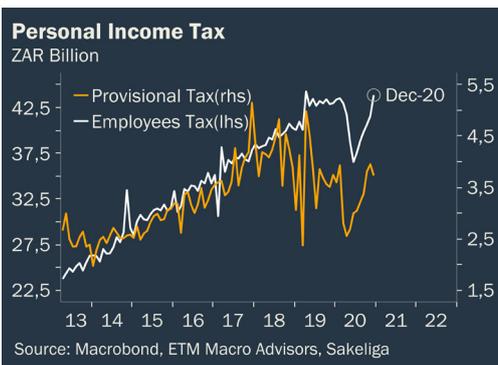
# South Africa Economic Summary

## BOTTOM LINE

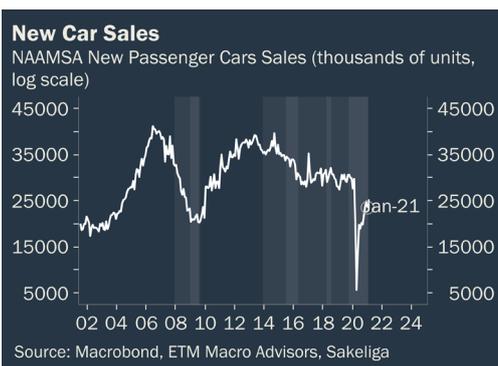
Business conditions improved in Q4 before worsening again in Dec and Jan on renewed lockdown restrictions. Credit markets have thawed somewhat, but car demand remains weak. Covid deaths are declining.



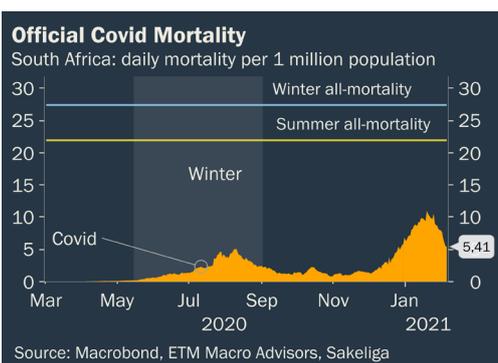
South Africa's **Composite y/y Activity Index** (CAI) combines various key activity indicators for SA. Recovery seemed to stall somewhat in December. This very likely carried through into January as some lockdown restrictions were reinstated. Lockdown impacted savings and supply chain integrity, both crucial to ensuring productivity. **Additional lockdown measures now take place against a backdrop of depleted reserves for many companies and households. With restrictions easing somewhat in February, composite activity may stabilise in Q1.**



The adjacent chart shows **personal income tax revenue** (PIT) from National Treasury data. PIT recovered impressively toward the end of 2020 as incomes recovered back toward their levels of late 2019. In December, personal and provisional tax income had recovered to pre-Covid levels. This data will come as a significant relief to SARS and National Treasury, desperate as they are for income to help plug gaping deficits. **However, given local and global lockdown restrictions and slowing recovery in December and January, one would expect tax receipts to struggle to keep rising and possibly tail off again.**



**Passenger car sales** volume growth lost momentum in December and January and remains around 85% of pre-Covid volumes. Rental fleet buying probably came under pressure due to new Covid restrictions on tourism. Household credit health has improved on the back of employment and income recovery, extremely low interest rates, greater financial caution, and prudent lending and loan restructuring by credit providers. **However, many more people are less mobile than before Covid, and this lower mobility will take its toll on new car demand.**

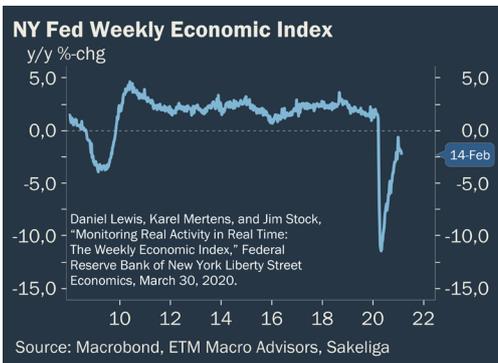


**Covid mortality** ramped higher from early December due to a second wave of infections and disease complications. Government data shows this unusual summer wave was larger in magnitude than the first wave in winter 2020. Reported deaths with SARS-CoV2 infection are now falling, causing the state to ease lockdown restrictions in early February. **Government officials remain extremely cautious and may institute further lockdown restrictions should the picture appear to worsen. Given events of the past year, additional restrictions into winter 2021 remain a risk.**

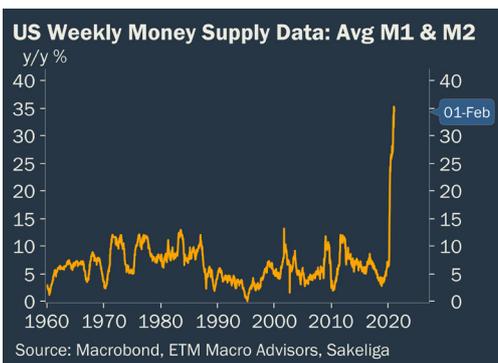
# Global Economic Summary

## BOTTOM LINE

Recovery from deep slumps of mid-2020 stalled into Q4 2020 and early 2021 as lockdowns retook hold. Inflation risks continue to build, and the dollar is under some pressure. China appears resilient.



The recovery in the **US weekly economic index (WEI)** has stalled in recent weeks and shows lingering economic hardship as large parts of America remain in various degrees of lockdown. Stock markets are soaring due to ultra-loose monetary policy, but underlying real economic conditions remain challenging for millions. By the end of 2020, around 12 million Americans who would have had jobs without severe lockdowns were still unemployed. **Conditions are highly uneven, with some sectors experiencing rapid growth and others not – a function of immense money printing distortions.**



**Dollar money supply growth** has continued to soar at unprecedented rates, fuelling rampant stock market speculation and raising inflation concerns. Money printing has put the dollar under pressure and is one reason behind rand resilience. We believe this monetary policy action has set in motion a new boom-bust cycle which will be both a substantial money-making opportunity and will be fraught with the risk of investment error and extreme losses for some. **We maintain that this is setting up the US for inflation risks and is doing damage to real productivity in the long run.**



Chinese **car sales** seem to have stabilised around pre-Covid levels, indicating overall demand resilience as China ramps up bank and shadow bank credit creation again. The Chinese yuan remains resilient in the face of dollar weakness and due to far less aggressive money printing than the US. Real estate transactions are also rising strongly in major urban areas. Industrial production data is generally improving, though headwinds remain due to weaker global trade flows. Electricity output is increasing strongly. **All things considered, China has so far managed to avoid the worst of the rest of the world's economic pain.**



Our global **Lockdown-Fear Index** has risen since October as renewed Covid fears hit and have intensified into 2021. These global restrictions across major economies, and severe travel restrictions, have hampered tourism, trade, and cross border business activity, while also hurting domestic economies. The initial sharp recovery from Q2 2020 hard lockdowns has certainly lost momentum in most of the world, impacting the South African recovery. **As the northern hemisphere summer approaches, global restrictions should ease somewhat.**

# South Africa: Presidential Policy Scorecard

Current score: 30/100

The South African government exhibits conflicting policy positions that leave businesspeople wondering whether or not the administration will reduce the burden of state control and regulation on the economy. Promised reform appears to be slow in coming, whether due to inability or unwillingness to reform, or both.

Against this confusing and conflicting policy backdrop, it is crucial to determine how existing policy affects measurable macroeconomic indicators. **In this way, we hope to track a scorecard of the administration's policy progress in terms of real-world effects rather than merely conjecture, promises, and wishlists.**

Our scorecard comprises 10 factors, each scored out of 10 to make a score out of 100. We show an unadjusted and business cycle-adjusted index (using the ETM business cycle indicator). The adjusted index diminishes the effect of business cycle booms and recessions.

## The 10 factors:

- The ETM labour market composite index (Stats SA, BER, SACCI)
- The rand vs emerging market currency basket exchange rate (Macrobond)
- South African bond yields relative to offshore bond yields (Macrobond)
- Political constraints on business survey (BER)
- ETM SA Fiscal Stress Index (Stats SA, National Treasury)
- Manufacturing fixed investment confidence (BER)
- SA vs emerging markets small & mid-cap equity performance (MSCI)
- Energy production (Stats SA)
- Net private investment/consumption ratio (SARB, Stats SA)
- Net international investment position/GDP ratio (SARB, Stats SA)

## Sakeliga-ETM South Africa Presidential Policy Scorecard



Source: Macrobond, ETM Macro Advisors, Sakeliga



**REPORT COMPILED BY:**

---

*Russell Lamberti (Head - ETM Macro Advisors) & Gerhard van Onselen (Senior Researcher - Sakeliga)*