

Economic Highlights for Business Strategy

MAY | JUNE 2021



SAKELIGA

SELFSTANDIGE SAKEGEMEENSCHAP

Executive Summary

- Following the shock lockdown in January 2021 which put many industries back into a state of revenue stress, restrictions have been lifted and **SA continues to experience an economic recovery**.
- However, this recovery comes against a **very weak structural economic backdrop** where poor policy and failing state capacity pose significant risks to business operations.
- Despite this, short-term conditions are leading to **impressive rand strength and a sharp improvement in mining sector turnover**. Retail conditions seem fairly buoyant.
- **Global conditions also show a strong cyclical upswing** and strong Chinese import demand is good news for South Africa, but this comes with rising inflation risks. SA businesses also need to be on the alert for a resumption of load-shedding and Covid lockdown restrictions.

Considerations for Corporate Strategy

SA Lockdown:

“Wave 3” Covid concerns are building in the popular press following India’s recent surge in Covid-related deaths and a reported uptick in SA cases. Unfortunately, SA businesses need to be on the alert for possible renewed lockdown restrictions. At this stage, the official Covid death-toll remains low, but as winter conditions arrive, respiratory-related deaths are expected to increase. It may be that this seasonal surge is used as a pretext for more restrictions.

Rand:

The rand has strengthened impressively in 2021 so far. We regard the currency as fairly- to slightly over-valued against the dollar. Global conditions are largely rand-supportive, despite a poor domestic policy environment.

Interest Rates:

For now, expect rates to remain low and fairly stable, but there is rising concern that inflation pressure will force the SARB to hike rates later in 2021.

Inflation:

Offshore inflation risks are building, but these are being mitigated somewhat by rand strength. Rand weakness would expose local businesses and consumers to significant price increases.

Asset Confiscation:

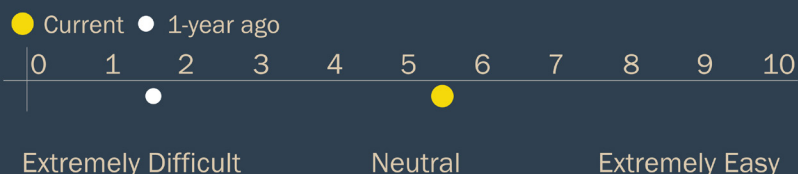
Expropriation remains front and center for civil society. Sakeliga will continue to update members.

Opportunities

SA businesses should continue to take advantage of strong-rand benefits to retail markets. Mining-related industries are also set to keep doing well heading towards the second half of the year. Exporters are likely to benefit from strong global demand which can offset the revenue disadvantages of rand strength. Low interest rates are seeing strong activity in certain residential real estate segments.

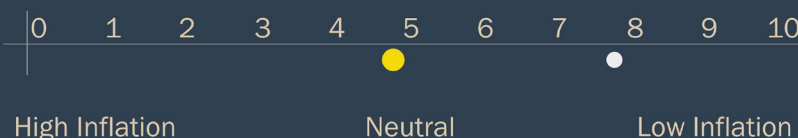
South Africa Business and Economic Dashboard May/June 2021

How Easy/Difficult Are SA Business Conditions?



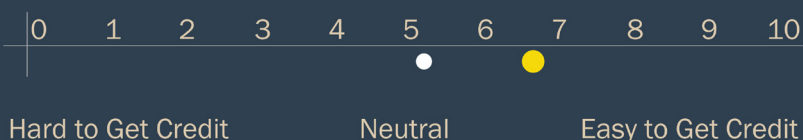
As expected, business conditions continue to improve in the first half of 2021. This time last year, conditions were dire as the country was stuck in full lockdown. The stock market is performing exceptionally well for the year to date. Inflation risks may scupper recovery in the second half of 2021.

Is Price Inflation Low or High?



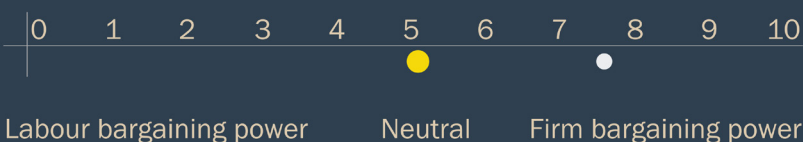
Inflation risks are intensifying as 2021 unfolds. Commodity prices are rising quickly, there are supply constraints, and far more newly printed money is in the hands of people and companies.

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



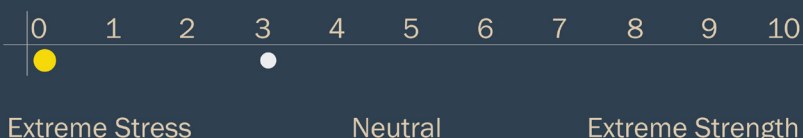
Conditions remain largely supportive of banks making it relatively easy to borrow, though lingering banking risks will keep banks cautious.

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



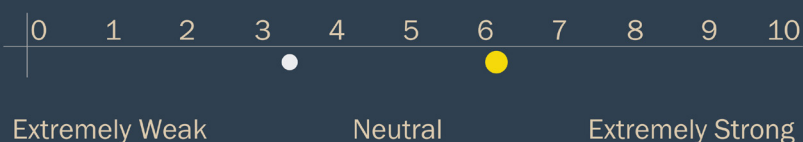
Employment data is steadily recovering from the mass layoffs of 2020, and this is causing some shift towards more labor bargaining power.

How Financially Stressed Is Government?



Fiscal stress remains considerable. Tax revenues recovered in the late part of 2020 and have stabilised in early 2021. Economic recovery should keep supporting tax revenues.

Is the Rand Strong or Weak?

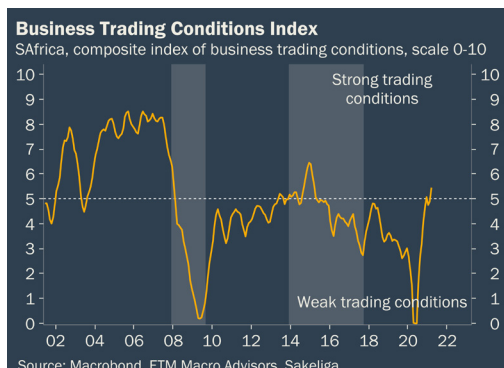


The rand's strength has been impressive as global commodity prices recover. On a broad basis, the rand is becoming strong, but historically it has shown the ability to become even stronger in such recovery cycles.

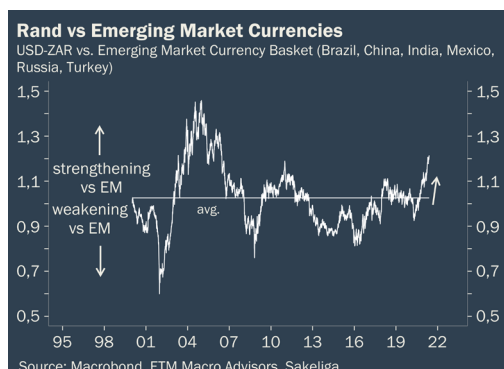
South Africa Economic Summary

BOTTOM LINE

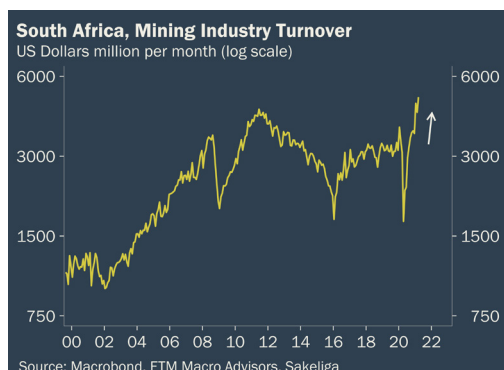
There is a robust recovery in economic activity due to strong commodity prices, low interest rates, and a build-up of savings among some households. This supports the rand, mining, agriculture and retail.



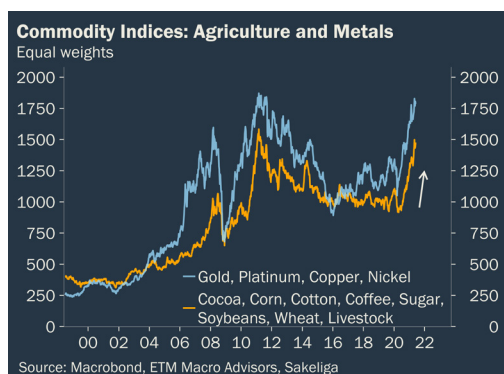
South Africa's **Business Trading Conditions Index** has recovered significantly over the past year since the depths of the hard lockdown in Q2 2020. Turnovers have recovered, and this has translated into higher VAT receipts for SARS. Consumer spending and household credit health data are recovering as employment returns and interest rates remain low. **The mining sector upswing (see below) is playing an important role in downstream revenue improvement in several sectors. A notable feature of the recovery is the improvement in JSE returns and firming rand.**



Since being one of the worst performing currencies in the world in April 2020, the **rand** has made a big comeback, not just against the dollar and other major currencies, but also against other emerging markets. The rand is now the strongest it has been against emerging market currencies since 2006, which may also imply degree of medium-term overvaluation. **This reflects South Africa's commodity price dependency, relatively easy Covid restrictions since hard lockdown, and a relatively disciplined central bank which has maintained tighter monetary policy than most foreign peer central banks.**



The surge in global commodity prices has seen **mining industry** turnover rise rapidly in 2021 after recovering in the second half of 2020 from lockdown lows. Denominated in dollars, mining turnovers are now their highest on record (since 1980) and are up around 60% since pre-Covid levels. This is contributing to strong exports and foreign currency earnings, aiding in the highest trade surplus since the 1980s and contributing to the rand strength which has surprised many. **Strong mining revenues also aid tax receipts, mitigating somewhat the state's unfolding budget crisis.**

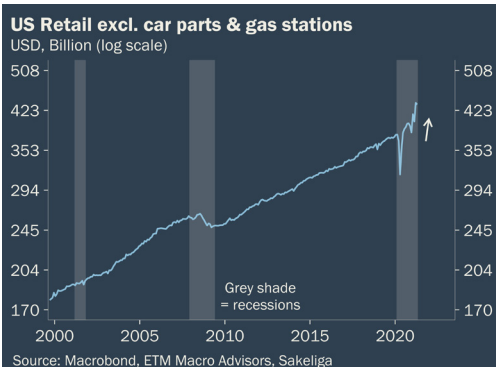


The reason for the surge in mining turnovers and a significant contributor to rand strength is rising global commodity prices. For South Africa, **higher metals and agricultural commodity prices** feed into stronger mining activity but also farm turnovers. This comes at a time when 2020 and 2021 has seen the breaking of several droughts across South Africa. **High crop output and international prices are creating significant windfalls for well-run farming operations. Better mining and farming turnovers are creating benefits for downstream and linked sectors.**

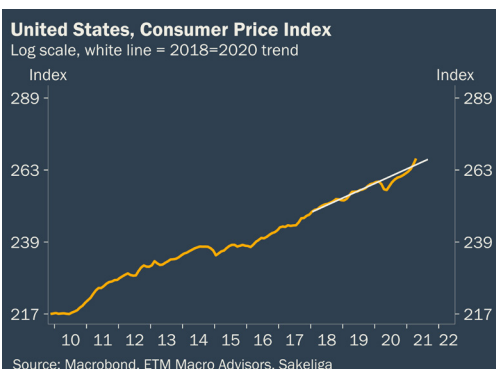
Global Economic Summary

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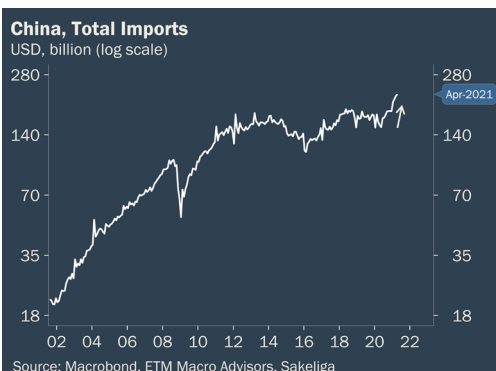
The strong global business cycle after hard Covid lockdowns brings with it rising inflation risks seen in consumer prices and logistics costs. Strong Chinese import demand supports SA exports.



US retail sales have raced higher in 2021 as lockdown restrictions ease in several states and households take advantage of extreme fiscal income transfers, low interest rates, and retained income from 2020 uncertainty. Retail turnovers have surged above the long-term trend and in April were around 15% higher than pre-Covid levels. **Although many put this surge down to catch-up buying after a suppressed 2020, the strength nonetheless is evidence of money printing and also of the growing ability of retailers to pass on input cost increases to customers, risking a more general inflation problem.**



Consumer price inflation in the United States accelerated quite sharply in April, taking prices above their 2018-2020 (pre-Covid) trend. Prices have been pushed 3% above pre-Covid levels which is around 2.6% at an annualised rate. This compares to an annualised average pre-Covid inflation rate of 1.8% from 2010-2020. Higher inflation is being driven by the extreme pace of money printing by the Federal Reserve, sharp increases in commodity prices, and an increasing willingness among households to spend. **If it is not fleeting, this upsurge in inflation can damage the post-Covid recovery.**



Chinese imports have surged higher in 2021 and are now 55% above pre-Covid levels in dollar terms. This highlights robust Chinese demand for goods, services and commodities, fueling a global demand recovery. China's import levels have benefited from a strong Chinese yuan exchange rate, which has been firm in the face of dollar weakness. Most Chinese economic indicators have been fairly strong since the middle of 2020. **South Africa tends to benefit from exports to China, so strong Chinese import demand will be helping support the domestic South African recovery.**



South African businesses involved in imports and exports will be well aware of the surge in **world shipping** prices since the Covid-lockdown crisis in 2020. The Baltic Dry Index (yellow line) is up strongly, indicative of demand for dry bulk raw materials. The Harper Petersen Index (blue line) has surged even more, reflective of container shipping in more finished goods. The surge in the Harper Petersen Index not only reflects rising demand, but also shipping container availability constraints. **The implication for importers and exporters is much higher transport costs and longer lead times.**

South Africa: Presidential Policy Scorecard

Current Score: 30/100

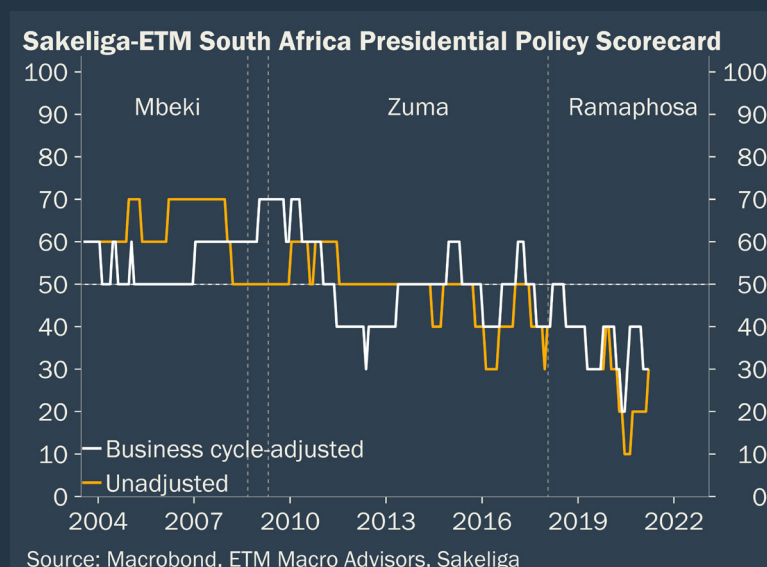
The South African government exhibits conflicting policy positions that leave business people wondering whether or not the administration will reduce the burden of state control and regulation on the economy. Promised reform appears to be slow in coming, whether due to inability or unwillingness to reform,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

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)





REPORT COMPILED BY:

Russell Lamberti (Head- ETM Macro Advisors) & Gerhard van Onselen (Senior Analyst)