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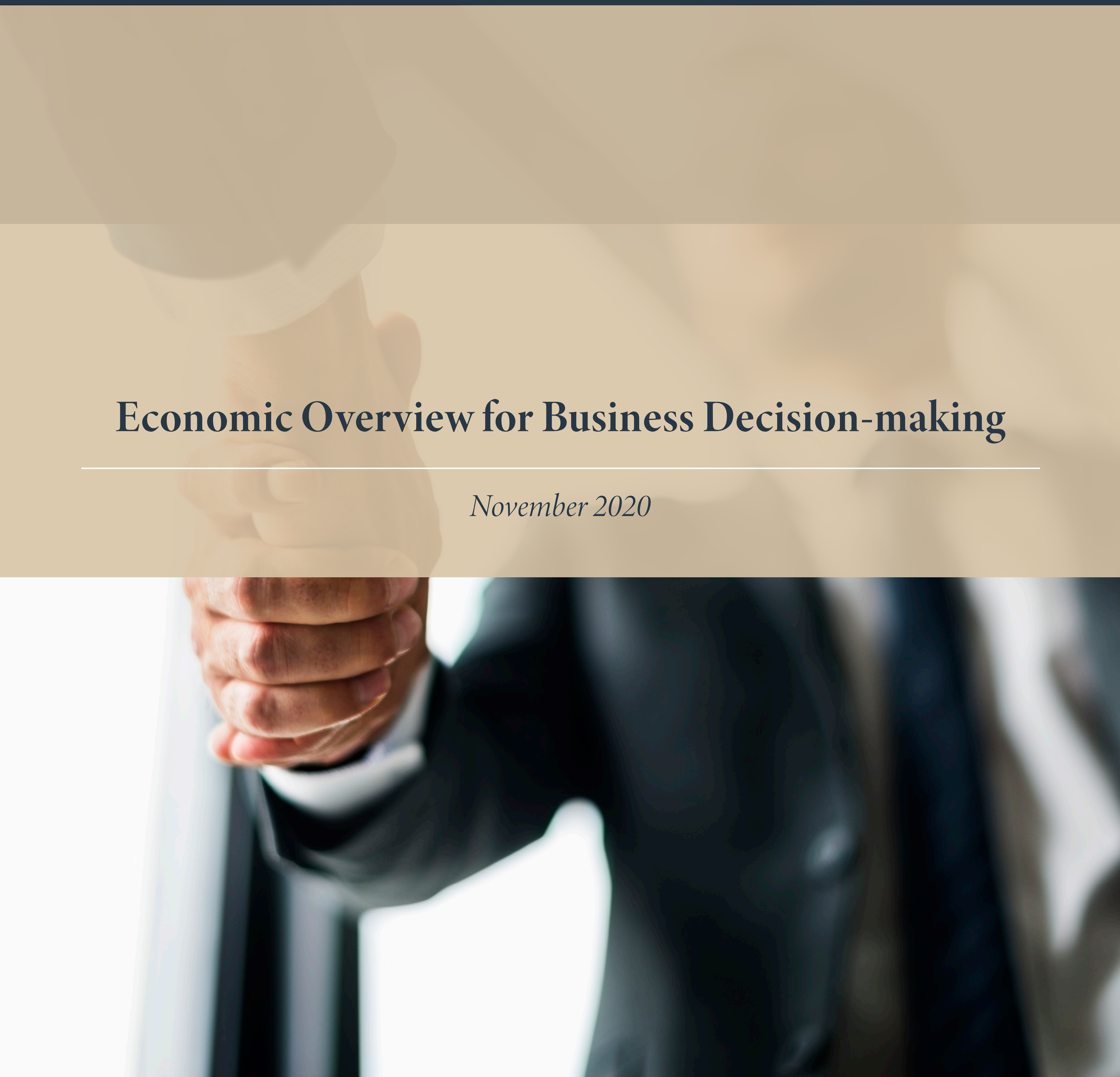


Economic Overview for Business Decision-making

November 2020

Executive Summary

- **The last few months have revealed how unwilling global governments are to end lockdown restrictions and relinquish lockdown powers.** The world is struggling to get back to normal and this will have a negative impact on South Africa's fragile recovery.
- **While SA production is recovering, household incomes remained under strain in Q3.** Spending activity is partially supported by extreme low interest rates and large government deficits, neither of which reflect long-term economic health.
- **Despite enormous fiscal pressure, our SA policy scorecard has improved somewhat.** This largely reflects continued relative SARB prudence, recovering electricity output with more grid stability, and better job market indicators since the Q2 employment slump.

Considerations for Corporate Strategy

SA lockdown:
International travel remains subject to unpredictable restrictions and comes with extra costs and hassles. This is remains a drag on SA tourism, hospitality and adjacent industries. It seems unlikely that international travel will recover fully any time soon. The state is playing down talk of a tighter lockdown, but businesses must remain vigilant to the possibility of more restrictions in line with international trends.

Rand:
Do not be too negative on the rand. The currency is firming and has the potential to be resilient due to the relative prudence of the SARB, stronger commodity prices, and dollar vulnerability.

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

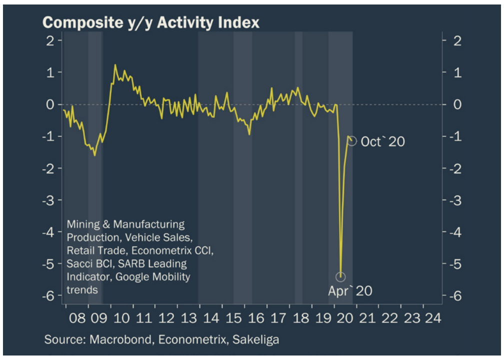
Asset Expropriation:
Despite a higher SA policy scorecard, fiscal and economic pressure leave assets exposed to state policy predation.

Global:
Global commodity markets remain resilient due to supply constraints and large-scale money printing. SA mining sector opportunities should improve and this supports the rand.

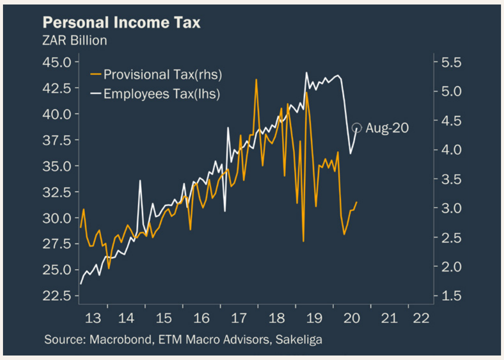
Source: Macrobond, ETM Macro Advisors, Sakeliga

South Africa Economic Summary

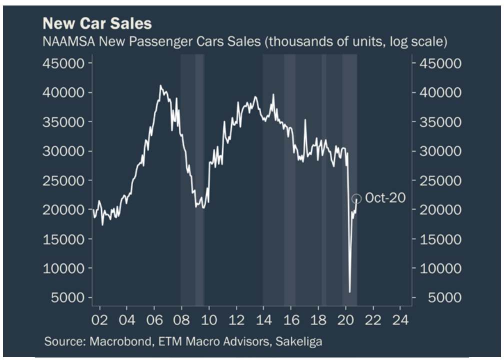
Bottom Line:
Business activity has recovered as lockdown rules eased. Income and consumer confidence are only recovering slowly. More lockdowns remain a risk as offshore “second wave” Covid fears sway policy.



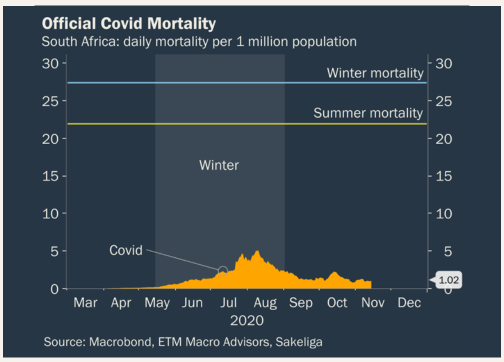
South Africa’s **Composite y/y Activity Index** (CAI) combines various key activity indicators for SA. After rising sharply off the lockdown lows, the index has levelled off in September and October, suggesting after the immediate boost from a return to some degree of normality that additional recovery will be much more difficult to achieve. Lockdown impacted savings and supply chain integrity, both crucial to ensuring productivity. **Data will likely show a strong recovery in GDP in Q3 2020, but after that, the economy is likely to settle at a notably lower level than pre-Covid output.**



The adjacent chart shows **personal income tax revenue** (PIT) from National Treasury data. PIT slumped as lockdown hit and only recovered slowly in Q3 as formal employment conditions likely remained dire. PIT will only recover with rising incomes, but these, in turn, need a more sustained improvement in production. **Production is being retarded by lockdown-induced investment uncertainty, Covid fear, ongoing restrictions to travel, tourism and entertainment sectors, irresponsibly large state deficits, and restrictive government economic policy.**



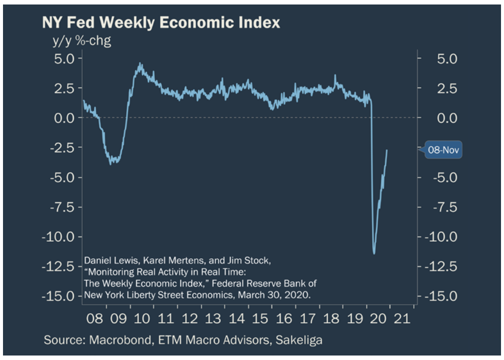
Although **passenger car sales** improved somewhat in October, they remain at volumes similar to the levels of the early 2000s and, despite very low interest rates, have been sluggish since mid-year. The October pick-up may be a function of low interest rates beginning to entice buyers back into the market where vehicles are likely being discounted to clear stock. **There may also be a pick-up in rental fleet buying as domestic travel volumes pick up and tourism slowly recovers. However, for now, sales remain around two-thirds of pre-Covid levels.**



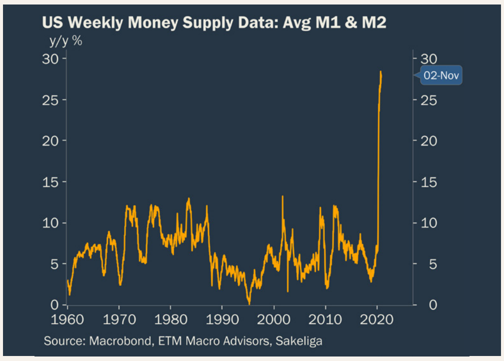
Covid mortality has been in a general downward trend since it peaked in early August 2020. Covid mortality at around 1.2 daily deaths per million people is currently about 5% of total spring mortality (roughly 25 daily deaths per million). Nonetheless, Covid fears in Europe, leading to new lockdowns, and an erroneous global focus on ‘cases’, has led to an increased risk of stricter lockdown measures being imposed again. **With South Africa’s recovery already fragile, renewed lockdown measures would be a significant blow to revenues, jobs, livelihoods, and health.**

Global Economic Summary

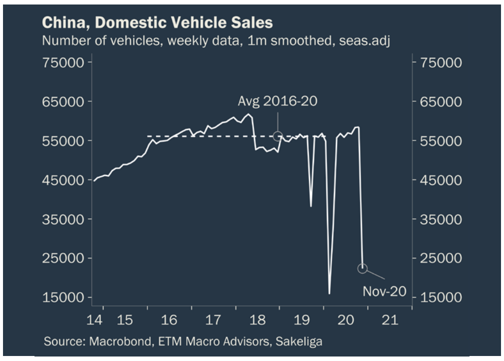
Bottom Line:
Sharp recoveries in Q3 were expected, but the challenge for the global economy now is dealing with longer-term growth risks of lingering Covid fears. Recoveries are uneven and potentially unsustainable.



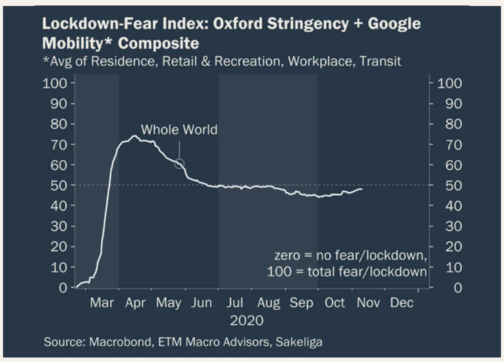
The **US weekly economic index (WEI)** has continued its recovery since April. Still, it remains at levels in line with the depths of the 2008/09 financial crisis, indicating the severity of this event. US official GDP for Q3 expanded 7.4% q/q, a 'par' recovery given the 10% slump in Q2. More interesting will be seeing where activity begins to stabilise. **Renewed lockdowns in Europe and ongoing restrictions in many parts of the US portend lingering economic pain. Conditions are highly uneven, with some sectors experiencing rapid growth and others not – a function of the distortions of immense money printing.**



The state of **Dollar money supply growth** remains a key factor to watch, which is why we include it again in this report. Zero-% interest rates and intense money printing is spurring credit risk-taking activity and supporting a surge in US retail sales. Sales revenues are now 5% HIGHER than pre-Covid levels, even as many sectors remain in a deep slump. **This is a function of the enormous fiscal deficits and money printing intended to maintain consumption levels. We maintain that this is setting up the US for inflation risks and is doing damage to real productivity.**



Chinese economic indicators are relatively buoyant at present as credit conditions have loosened up. **Car sales** have recovered impressively in the last three months, and leading industrial and business indicators are back to relatively neutral levels after the H1 2020 slump. Very notable is the strength of the Chinese yuan. **This is partly a function of dollar weakness but underscores the resilience brought about by relatively less aggressive money printing in China through the Covid crisis. The Chinese stock market, however, shows investors remain cautious, and global investor sentiment toward China appears to be still very weak.**



The last few months have revealed how unwilling governments are to end lockdown restrictions and relinquish lockdown powers. There is also a lingering degree of fear of Covid as evidenced by such narratives as rising cases and second waves. Our global **Lockdown-Fear Index** is now trending sideways, suggesting that there is no quick return to normal. **Businesses should brace for lower economic activity and generally disrupted supply chains. As mentioned in the South Africa section, global fears and new lockdowns threaten to prompt renewed restrictions in South Africa.**

South Africa: Presidential Policy Scorecard

Current score: *40/100*

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.

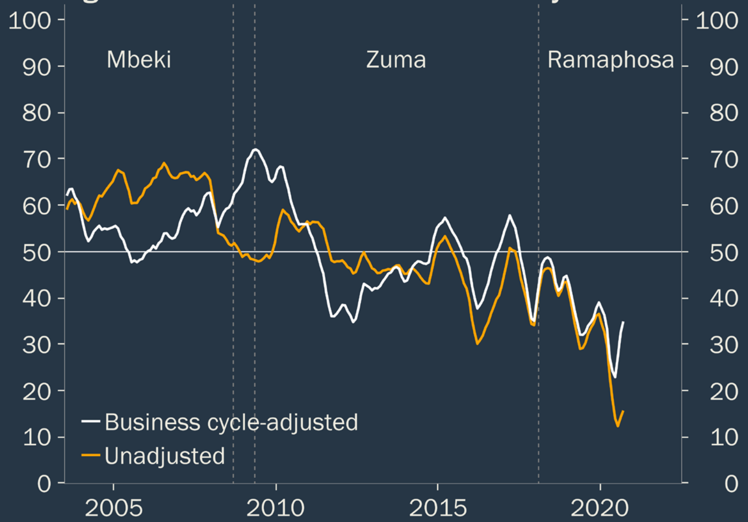
Against this confusing and conflicting policy backdrop, it is especially important to determine how de facto existing policy is affecting measurable macroeconomic indicators. **In this way, we hope to track a scorecard of the administration's policy progress in terms of real-world effects rather than 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

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