

Confidence translating into reality – is it real?

Confidence indicators, especially from the business community, have drawn our attention. Is the latest round of optimism as expressed by survey data justifiable? Alternatively, can it be backed up by evidence from the real economy? We explore some statistics around these questions.



**Willie
Pelsner**

“Reports that say that something hasn’t happened are always interesting to me because as we know, there are known knowns; there are things we know we know. We also know there are known unknowns; that is to say, we know there are some things we do not know. But there are also unknown unknowns- the ones we don’t know we don’t know.” - Donald Rumsfeld

“Facts are stubborn things, but statistics are pliable.” - Mark Twain

You might ask why I have started this article with these quotes? Hopefully, the reasons will become obvious as you continue to read. Disasters or Black Swan events are always followed by a period when every statistic is scrutinized to the nth degree to try and make sense of what we think we thought we knew. The economic impact of Covid-19 is still affecting every economic statistic we can think about and will perhaps continue to have an impact for longer than we think. However, some data series are translating into a positive mood swing. One thing we know that we know is that confidence - especially relating to financial markets and economic statistics - can lead to an increase in investment and production – something we desperately need now.

A few upbeat comments and statistics have lit up the news wires over the past 10 days. The power generation announcement by Cyril Ramaphosa, the sale of a stake in SAA, the release of business confidence indicators and the latest GDP numbers were just some of these positive threads.

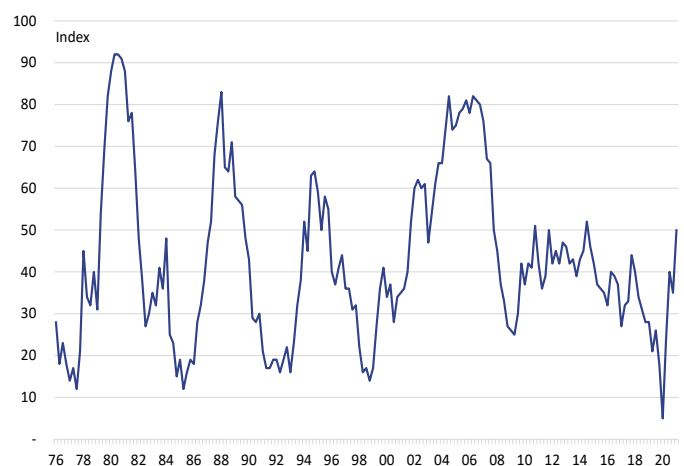
We will start with a statistic that is not easily manipulated. If you are asked if you are confident, you either are or you are not – statistical “manipulation” cannot change that. Business confidence (as measured and published by RMB and the Bureau for Economic Research) for the second quarter of 2021 came in at a level of 50. The reading for the first quarter of this year was 35. Refer to the chart below for

SPEED READ

- Two interesting quotes by well-known people made us think about the latest economic statistics.
- South African business confidence is at a level last seen in 2014.
- The latest release of GDP statistics and analysis of confidence indicators once again bring some hope to financial markets.

a longer-term perspective on this measurement. The current reading is the highest since 2014. What does a reading of 50 mean? Simply that the number of respondents satisfied and optimistic with the prevailing business conditions now equals those who are not.

SA BUSINESS CONFIDENCE



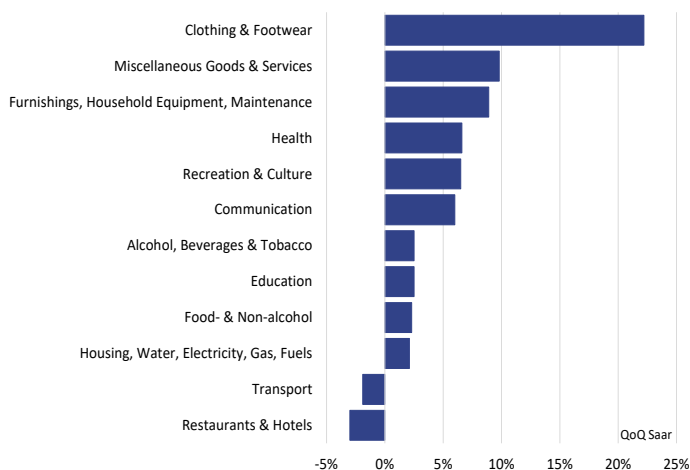
Confidence has recovered to satisfactions levels last experienced after the Global Financial Crisis.

This is an outcome we have not seen for several years. Analyzing these results further based on the responses from various spheres of the economy tells some interesting stories. Those surveyed in the manufacturing sector remain somewhat hesitant. Although that sub-index rebounded

from 25 to 46, there are still some concerns. The building sector remains the most downtrodden. Confidence edged up only marginally from 20 to 22 despite seemingly good news on some large infrastructure projects. Those concerns were echoed in the GDP data release. We previously wrote about the “value-add” by sectors in the economy as a more realistic measure of genuine economic activity. The latest print for the manufacturing and construction sectors’ value-added growth rates in Q1 of -1.1% and -17% respectively is proof of why confidence is not yet above the 50 levels.

However, one sector of the economy that keeps on surprising, despite everything that we read about a distressed consumer, is the wholesale and retail sector. The BER measure for this came in at 63. Turning again to the GDP release, the statistics dealing with consumer expenditure trends (see chart below) confirms this positive sentiment. Furthermore, an area in the shopping basket that keeps on surprising us is clothing and footwear. Given a growth rate of 22%, no wonder the likes of Mr Price and Foschini are smiling despite the threat of a 3rd Covid wave keeping us homebound.

HOUSEHOLD CONSUMPTION EXPENDITURE PER SECTOR

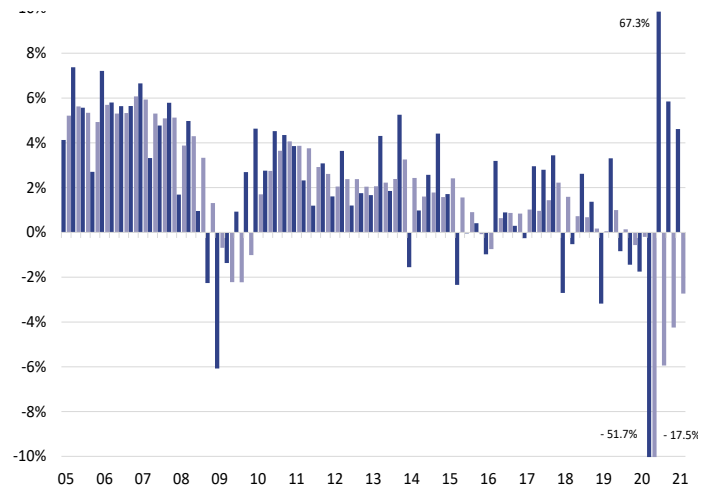


Despite what we hear about a depressed consumer, spending is buoyant on selected consumer goods.

Mark Twain said that statistics were pliable. Here is an example of his scepticism. As mentioned previously, Statistics South Africa released GDP statistics for the first quarter. The published headline number of 4.6% quarter-on-quarter, an annualized number, came in well above the consensus expectations of 3.8%. What an annualized rate implies is that this is the rate at which the economy will grow for the whole year should the growth rate achieved in Q1 be sustained. That would be quite a sentiment booster – the highest annual growth rate since the mid-2000s.

However, statistics can also be calculated in other ways which can lead to a different perspective, depending on who you want to impress or what story you want to tell.

SA GDP GROWTH

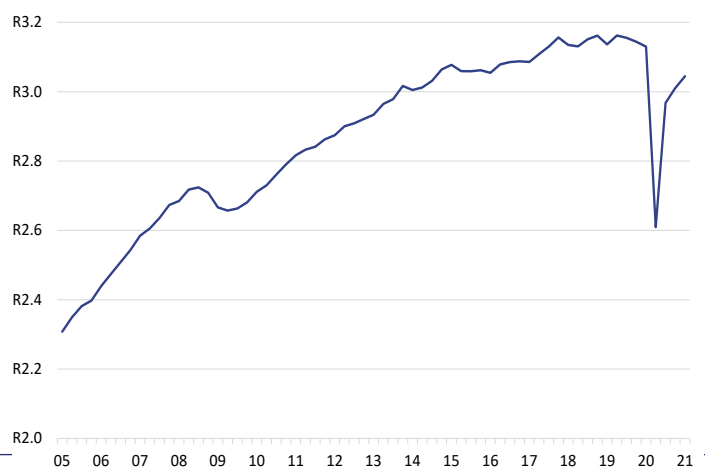


Statistics can be calculated in various ways which can lead to different perspectives.

Expressing the growth rate for Q1 2021 relative to Q4 2020 shows a growth rate of only 1.1%. However, if you prefer to compare it to the same quarter in the previous year (i.e. Q1 in 2020), then growth was a negative 3.2%. The chart above shows the data based on both the quarterly seasonal adjusted annualized basis and on a year-on-year basis. The severity of the negative impact of 2020 as well as the subsequent recovery is evident in the chart, regardless of which calculation method you prefer. Fortunately, the main conclusion is that after the substantial collapse in Q2 last year, economic activity appears to be rebounding, albeit that the recovery is not evenly spread across the economy. The mining sector was mostly behind the recovery last quarter.

Nonetheless, despite this being the third consecutive quarter of growth, the South African economy is still 2.7% smaller than it was at the end of Q1 last year. We are hopeful that the various announcements from the government over the past few days, together with the recovery in business confidence, will result in accelerating investment and consumer spending in the year ahead which will finally allow the economy to break the shackles of the past ten years and move decisively forward.

THE IMPACT OF COVID-19 ON OUR ECONOMY



The SA economy is still smaller than it was at the start of 2020.



Please note, due to the concerns over the 3rd wave of Covid, Harvard House has decided to cancel our Insight presentations until further notice.



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