



THE POWER
OF INDEPENDENT ADVICE

IN THIS ISSUE

Global lockdowns and the Covid-19 pandemic will enter the history books for many reasons. One of the most sobering for South Africans is the severe contraction of Gross Domestic Product. The key economic indicator reflected the devastation that lockdowns caused when the country's economy ground to a halt. Award-winning economist Mike Schussler and economic consultant Elize Kruger explain what led to the worst contraction in the nation's GDP in a century.

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**BRENTHURST RANKED TOP
BOUTIQUE WEALTH MANAGER
IN SA 2020 INTELLIDEX
PRIVATE BANK AND
WEALTH MANAGER AWARD**

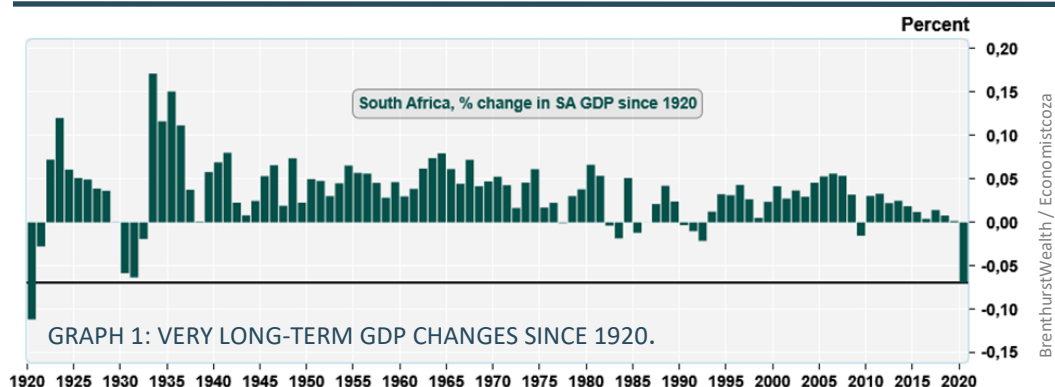
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A GDP DECLINE NOT SEEN IN 100 YEARS!

By Brenthurst Consulting Economist Mike Schüssler and Elize Kruger

The final GDP outcome of 2020 will be recorded in history books... the worst contraction since 1920. Although South Africa was not alone, as all major developed and emerging economies (except for China that managed to record a 2.3% growth rate) contracted at unprecedented levels following the outbreak of the Covid-19 pandemic, the South African economy was already in recession when the trouble struck. With the weakness in the economy quite broad-based prior to the strict lockdown imposed in Q2 2020, the pain inflicted on the economy resulted in 1.4 million job opportunities lost and many businesses closing down during the year a dire scenario, which will take SA many years to recover from.

SOUTH AFRICA, % CHANGE IN SA GDP SINCE 1920

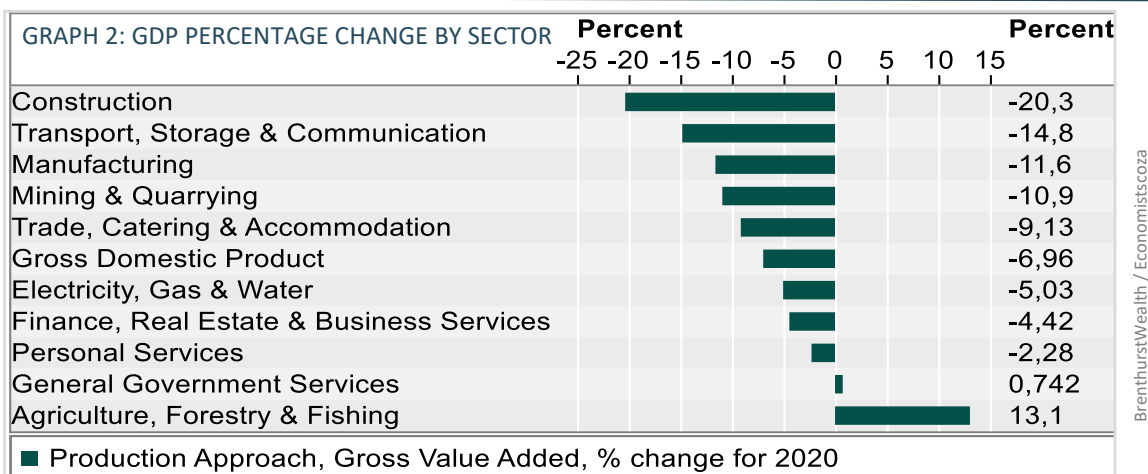


Note on graph: This data is the longest available, but the 1918 to 1933 data was only created in the late 1930's. While it is probably not 100% robust it is the best data available. GDP as an accounting standard was only started in the mid 1930's and was further developed fully only later in 1950's. However, SA did measure mining and agriculture since before 1900 and from 1910 inflation was measured in some cities. Manufacturing was also measured from around the 1st world war as were some retail and wholesale sales. This means that the data were not fabricated but assembled after the fact.

SECTORAL PERFORMANCE IN 2020

Eight of the ten economic sectors contracted in 2020, with only government services and the agricultural sector managing to post positive growth rates. The primary and secondary sub-sectors were hardest hit (construction, transport, manufacturing & mining), as not only the local economy grinded to a halt, but major disruptions to the global supply chain also hit the export-focused sectors, in particular. The services sector was not spared and also contracted notably.

GDP SECTOR PERFORMANCE 2020

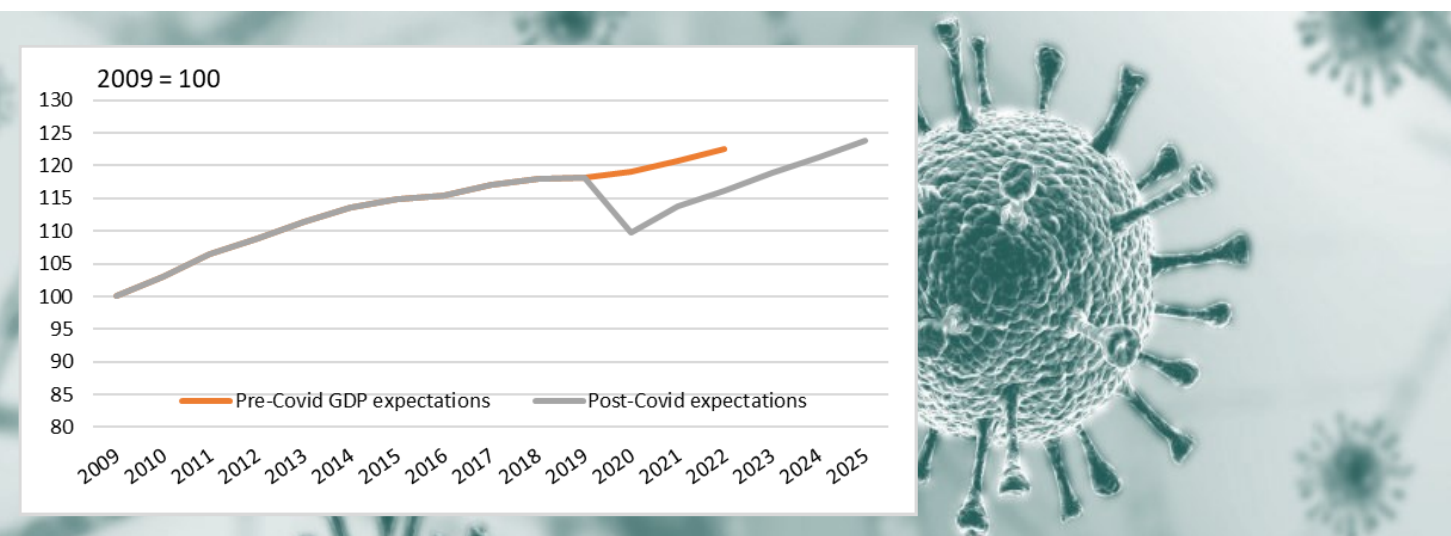


ECONOMIC RECOVERY TO REMAIN FRAGILE AT BEST

With 2020 behind us now, the question begs, what will 2021 bring? While we expect the economy to recover somewhat in 2021, it is mostly due to the low base that was created by the notable contraction in 2020 and the recovery is likely to be uneven and subdued. Actually, based on the latest Reuters consensus forecasts (published on 18 March 2021), a real economic growth rate of 3.6% is forecast for 2021 and 2.1% in both 2022 and 2023. Assuming this mediocre pace implies that real GDP will take about four years to recover to pre-Covid-19 levels.

PRE AND POST-COVID ECONOMIC RECOVERY EXPECTATIONS

PICTURE 1: GDP EXPECTATIONS HAVE CHANGED POST COVID.



THE LETHARGIC RECOVERY IS SUBJECT TO NOTABLE RISKS AND ONGOING HAMPERING FACTORS:

- **Slow vaccine rollout implying an almost inevitable third wave, which could potentially result in renewed restrictions on the economy, at a time when even less fiscal support would be possible given fiscal strain.**
- **Ongoing electricity supply issues resulting in intermittent periods of load shedding, with Eskom indicating recently that South Africa should prepare for 5 more years of regular load shedding.**
- **Further strain on household finances due to rising fuel prices, rising administered prices (notably the 15.6% increase in electricity tariffs effective 1 July for municipal users) and phasing out of Covid-19 related fiscal support.**
- **High unemployment with little prospect of a notable turnaround amid the mediocre recovery. Youth unemployment (15-24yr) at a staggering 63.1% in Q4 2020 vs total economy unemployment of 32.5%.**
- **Low confidence levels among consumers and businesses.**
- **Slow progress on structural reforms that could lift the potential growth rate of the economy. The further delay on the long-awaited spectrum auction is another example of South Africa's "hurry-up-and-wait" approach that has become the norm in many of the stated plans.**

While the Q4 GDP outcome was slightly better than expected, with quarterly growth of 6.3% (seasonally adjusted & annualised), early indications suggest that growth momentum faltered somewhat in Q1 2021. Restrictions were still in place under adjusted lockdown level 3, the return of regular load shedding as well as the realisation that the pain inflicted on households and businesses in 2020 has left scars which will take time to heal.

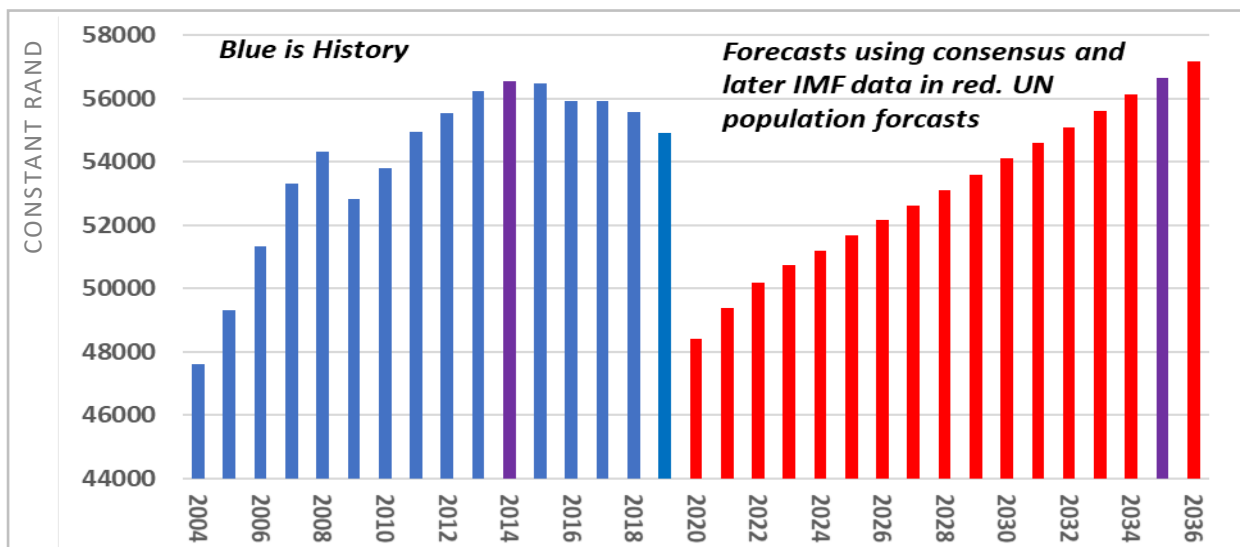
However, there are also some potential upside risks that could materialise and offset some of the negativity. Should the commodity cycle continue to power ahead, in-line with a stronger than expected global economic recovery, the South African mining and related sectors (eg manufacturing, transport) could outperform, boosting GDP via higher exports, adding handsomely to the fiscus and hopefully also create some job opportunities. If the vaccination drive speeds up, that could also boost confidence and add to growth momentum

GDP PER CAPITA PROSPECTS

It is no secret that all South Africans have become poorer in the last few years, as economic growth has been lower than population growth for each of the past six years. However, a positive real GDP per capital growth rate is on the table for 2021, as GDP growth (forecast at 3.6%) should exceed population growth (assumed at 1.4%) with some margin. Unfortunately, South Africans will hardly experience any prosperity as the actual level (GDP per person) will still be close to what it was in 2006, some 15 years ago! Still a dismal story!

SOUTH AFRICA GDP PER CAPITA AND LT FORECAST

PICTURE 2: LONG-TERM GDP PER CAPITA AND A LONG-TERM FORECAST



A THOUGHT OR TWO ON GDP CHANGES THIS COMING YEAR

After thought...StatsSA, in collaboration with the South African Reserve Bank, indicated that they are finalising a comprehensive benchmarking and rebasing of South Africa's national accounts. Values at constant prices will change from 2010 prices to 2015 prices, but values at current prices will also be affected as a result of benchmarking. The revised estimates for gross domestic product and related values will be published before the next quarterly GDP statistical release, no later than the end of May 2021. The benchmarking process is a standard practice which incorporates new information about the economy and will in all probability result in an upward adjustment to the size of the South African economy. This development will result in many of the important economic ratios looking better than previously thought, for example Budget Deficit/GDP and Debt/GDP ratios, which could provide some relief from the pressure of potential further credit rating downgrades. However, as long as the structural problems that are depressing South Africa's potential GDP is not addressed, this "technical adjustment" will only give a very short-term reprieve.

The GDP size will also be impacted as StatsSA is also doing a review of the informal sector. This is likely to increase the size of the GDP for SA and may also have a small positive impact on debt to GDP ratios etc. But the difference is likely to be a few percent and therefore not meaningful in the overall picture.

HOW DID THE SOUTH AFRICAN ECONOMY PERFORM WHEN COMPARED TO OTHERS?

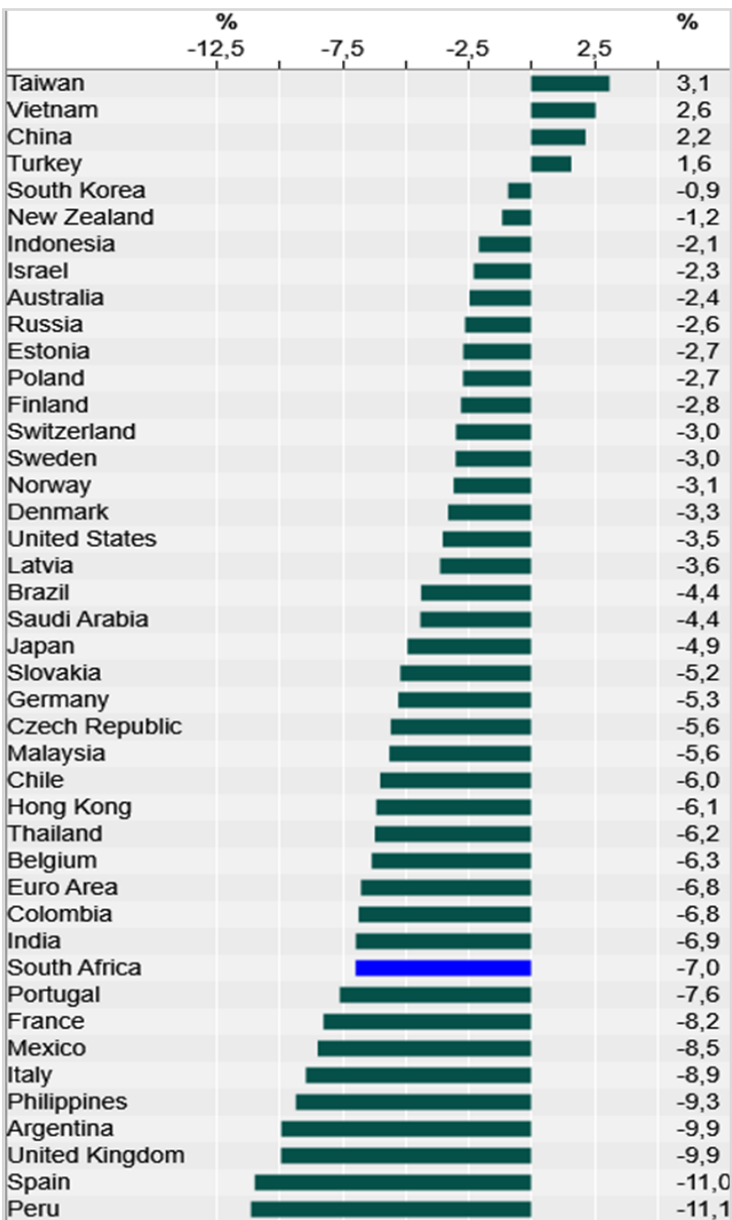
THE PANDEMIC HURT EVERY COUNTRY IN THE WORLD. China did grow for example but not at the estimated 6,5% expected at the end of 2019. Some countries did post growth but most economies in the world shrunk.

Without going into Covid or lockdown strategies much there is a clear picture forming that harder lockdowns outside of isolated countries impacted the value a country added in 2020 negatively.

Four countries recorded growth (although some suspect Turkey of manipulating its numbers a little).

Countries that had small declines of say not more than 3% were either more isolated or more relaxed about their pandemic regulations.

CHANGE IN GDP FOR 2020



BrenthurstWealth / Economistscoza

The Nordic countries did not do too badly, while Latin America, South Africa, and the hard lockdown countries in Europe such as Spain, Italy and the UK did badly.

South Africa did not escape as mentioned above and its GDP decline put it in the bottom 10 countries or bottom 25% of countries for which data is available at present.

Without too much detail the three worst hit developing countries outside of Latin America were the Philippines, South Africa and India. All three are considered hard lockdown countries which did little to stop the spread in poor areas in these countries. The same applies to Peru and Argentina.

The other impact that we believe markets will now watch is the speed of the recovery in these developing markets with India now forecast to grow 13% in 2021 and China with 8,5%! South Africa here is seen as a laggard but I suspect SA will grow closer to 4% but that is not enough!

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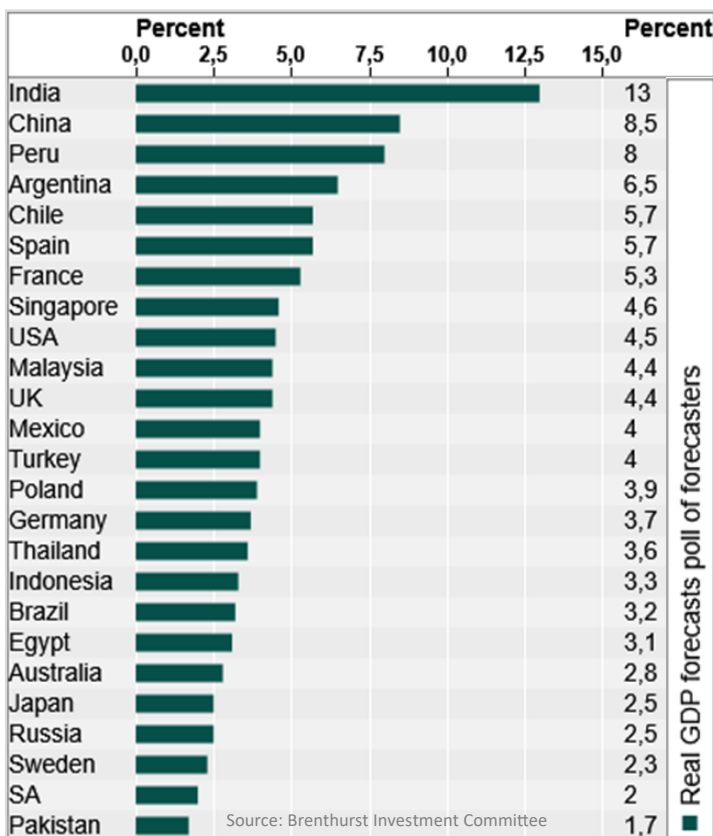


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**CREATING WEALTH
WITHOUT BORDERS**

2021 GDP FORECASTS: THE ECONOMIST—POLL OF FORECASTERS

GRAPH 4: GDP FORECAST FROM THE ECONOMIST POLL OF FORECASTERS



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WEBINAR INVITATION: INVESTING IN A POST COVID-19 WORLD

Markets have recovered from the worst fall-out after the lockdowns introduced globally in March 2020, which drove stock prices down. Some economies have started to recover but in South Africa, the economic climate remains depressed. WHAT ARE THE THREATS AND OPPORTUNITIES INVESTORS SHOULD BE AWARE OF?

MAGNUS HEYSTEK, Brenthurst investment strategist, **MIKE SCHÜSSLER**, Brenthurst consulting economist and **TONY BELL**, Raging Bull Award winner Mi-Plan Fund Manager will review the current climate and share their insights about investing in a post COVID-19 world.

Reserve your spot now: [BRENTHURST WEBINAR REGISTRATION](#)

 Magnus Heystek INVESTMENT STRATEGIST	 Tony Bell FUND MANAGER IP OPPORTUNITY FUND RAGING BULL WINNER FOR 5 YRS	 Mike Schüssler AWARD WINNING ECONOMIST	 WEBINAR 21 APRIL 2021 14:00 - 15:30
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