FNB Economics
May 2021

Macroeconomic outlook

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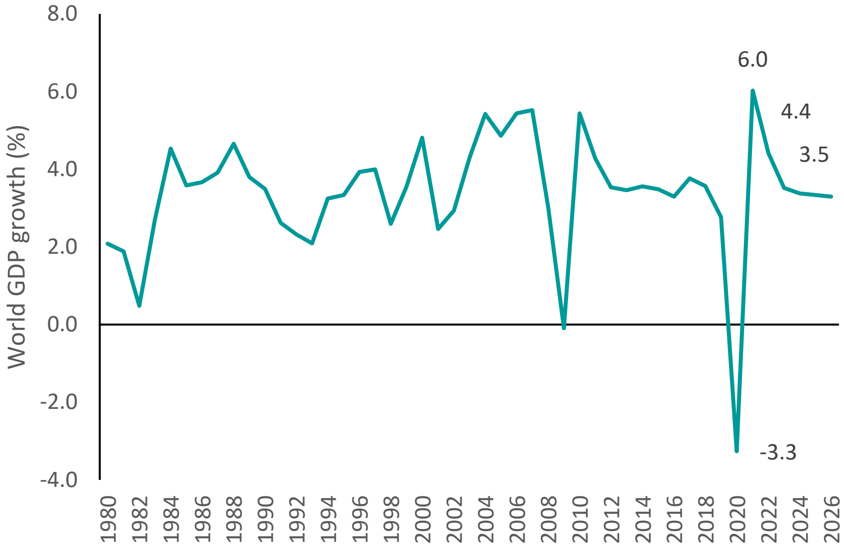
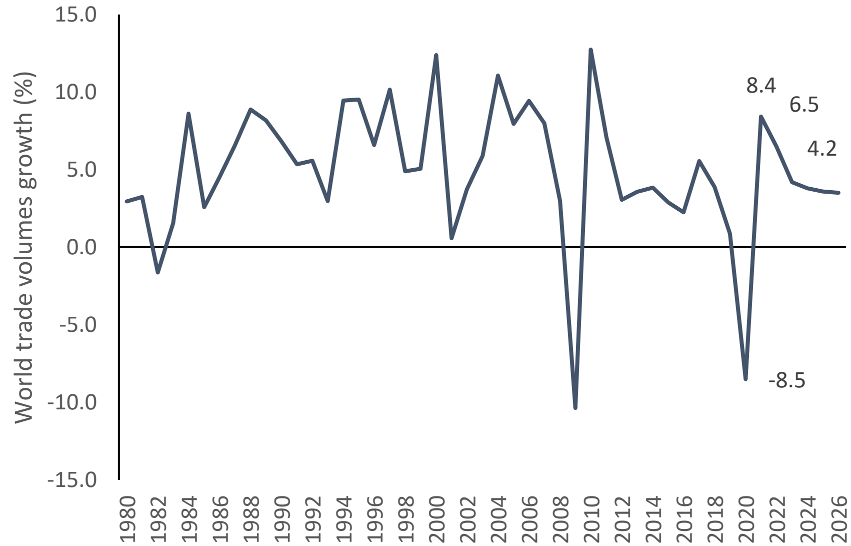
Broad-based global economic contraction in 2020

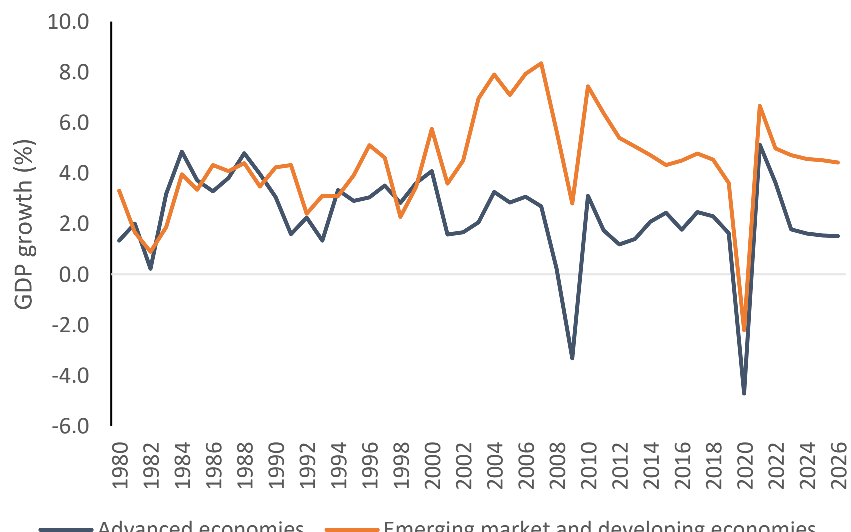
Source: IMF, FNB Economics

Global growth to strongly recover after deeply hit by the pandemic in 2020





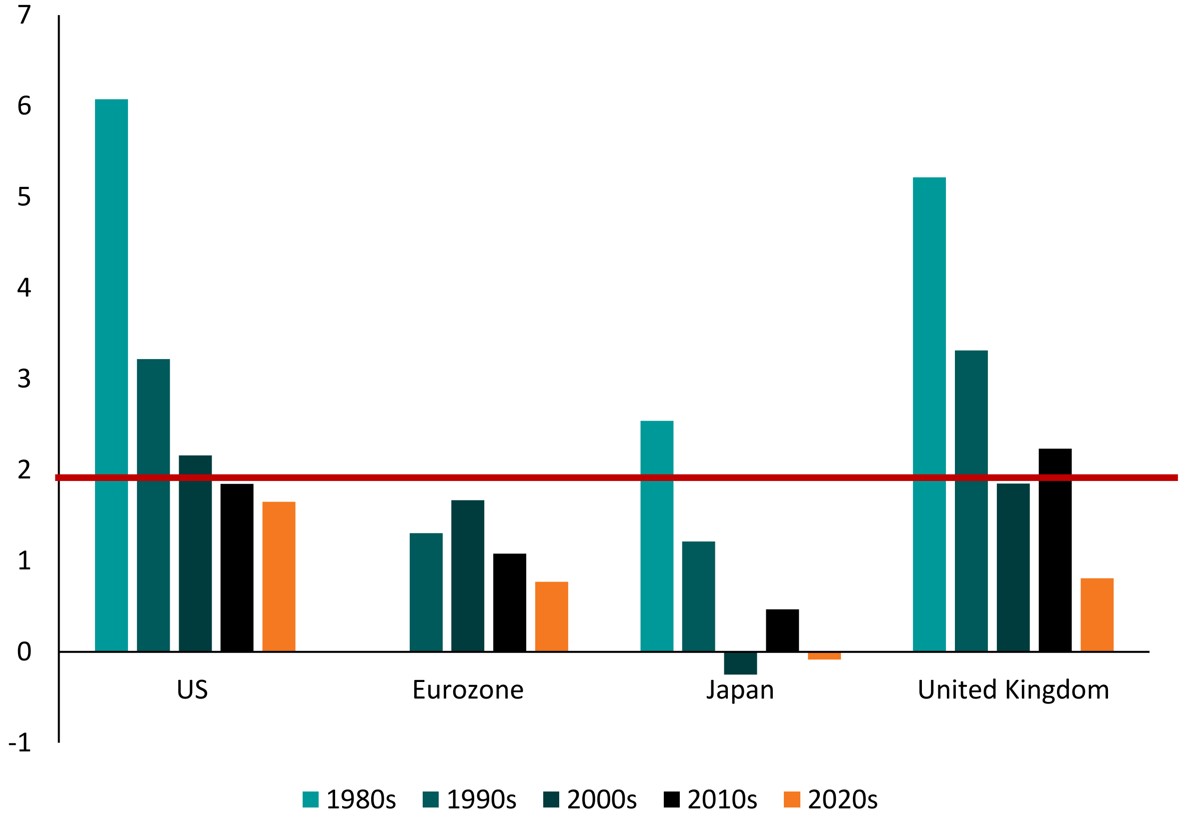
	2020	2021	2022	2023	2024	2025	2026
World GDP growth	-3.3	6.0	4.4	3.5	3.4	3.3	3.3
Advanced economies	-4.7	5.1	3.6	1.8	1.6	1.5	1.5
EMs & DEs	-2.2	6.7	5.0	4.7	4.6	4.5	4.4
World trade	-8.5	8.4	6.5	4.2	3.8	3.6	3.5



Source: IMF, FNB Economics

Policy makers are focusing on avoiding a deflationary trap

Inflation rates: decade averages: US, Eurozone, Japan, United Kingdom



Sharp cyclical rebound fuelled by:

- Base effects
- Pent-up demand
- Commodity price spike

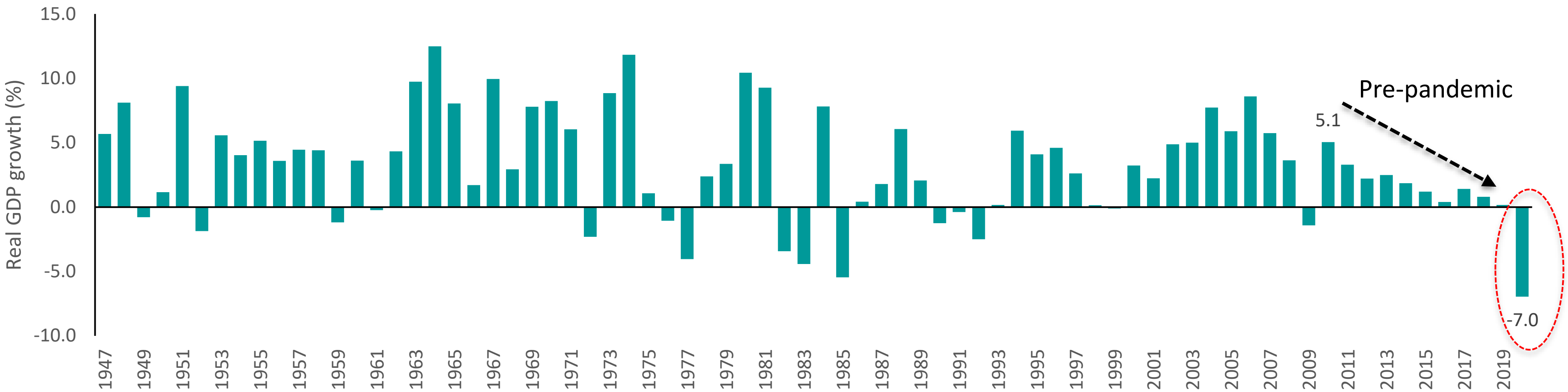
Question marks over long-term trend:

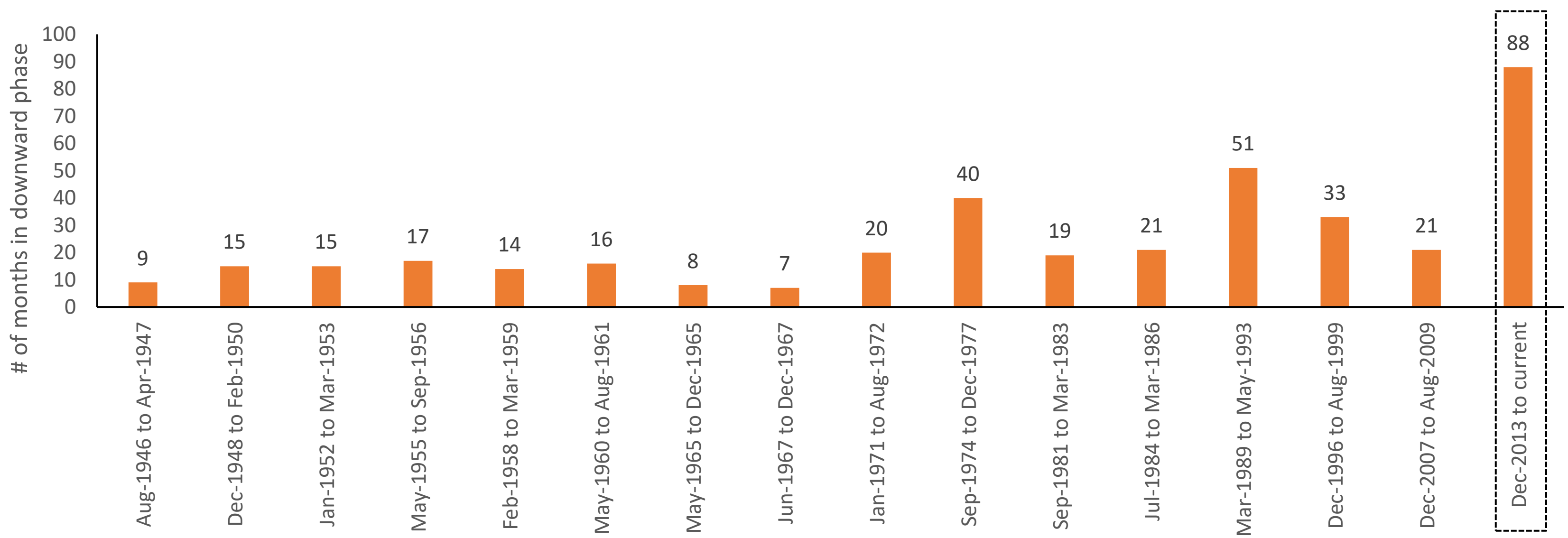
- Technology
- Demographics
- Debt levels
- Policy setting

Balance of risks have shifted sharply towards a balanced long-term outlook

Policy setting is an attempt to reverse decline in the secular inflation trend

SA economy contracted 7.0% in 2020, the deepest contraction in decades

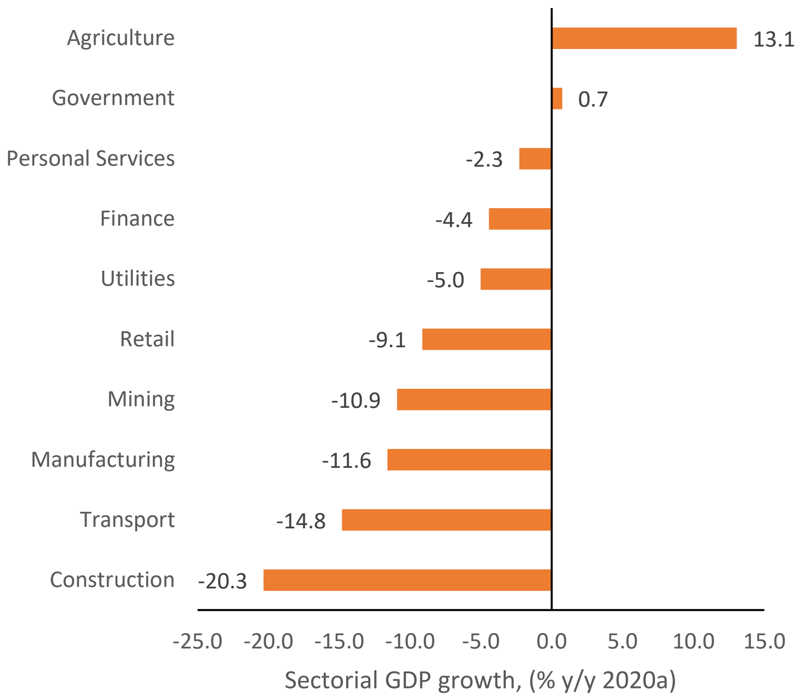


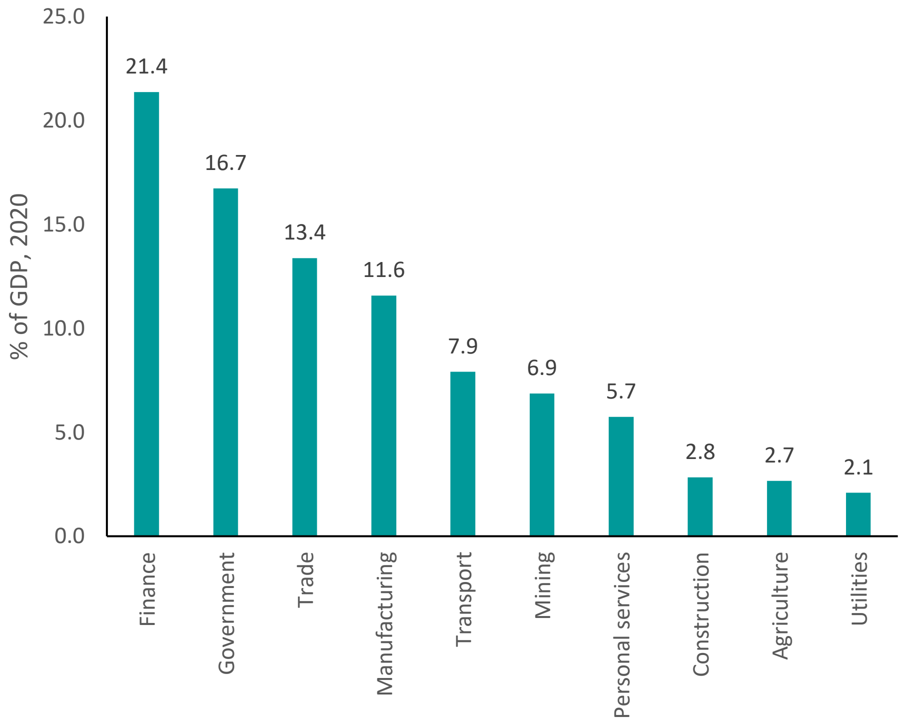


1920: -11.9%

Source: Stats SA, SARB, FNB Economics

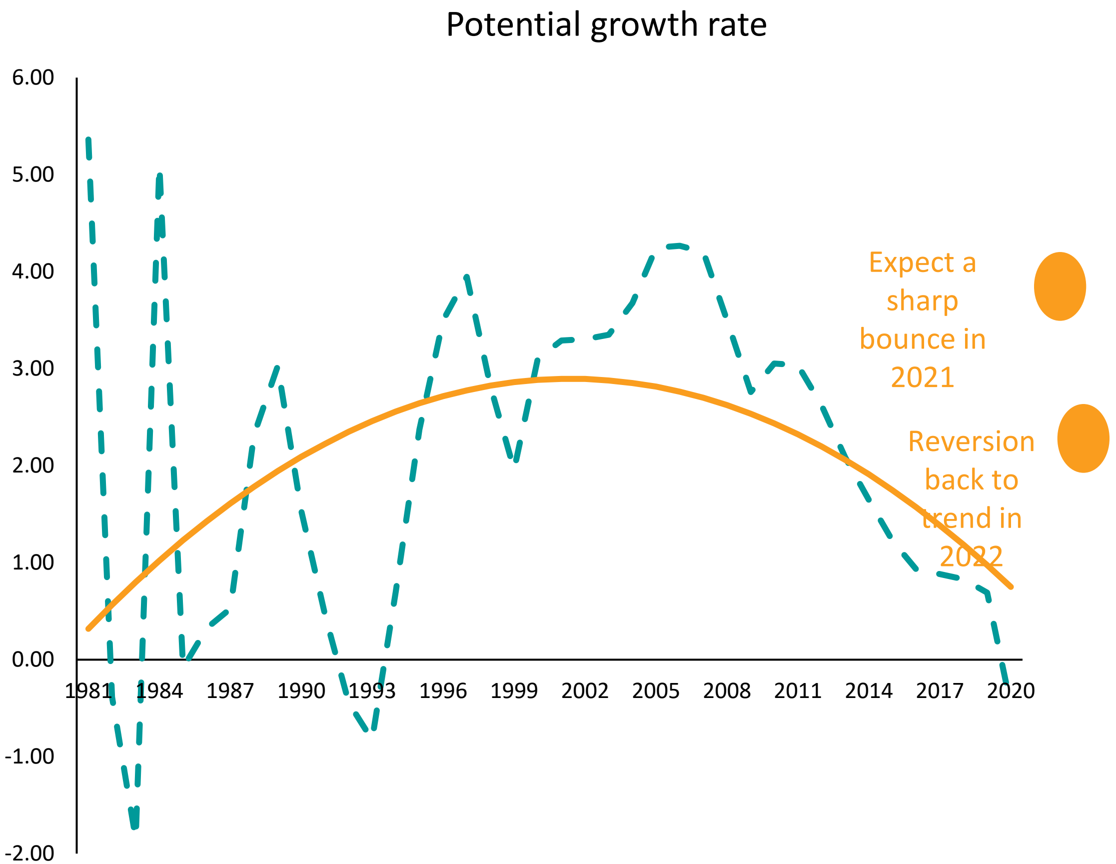
Broad-based contraction in 2020, but agriculture fared better

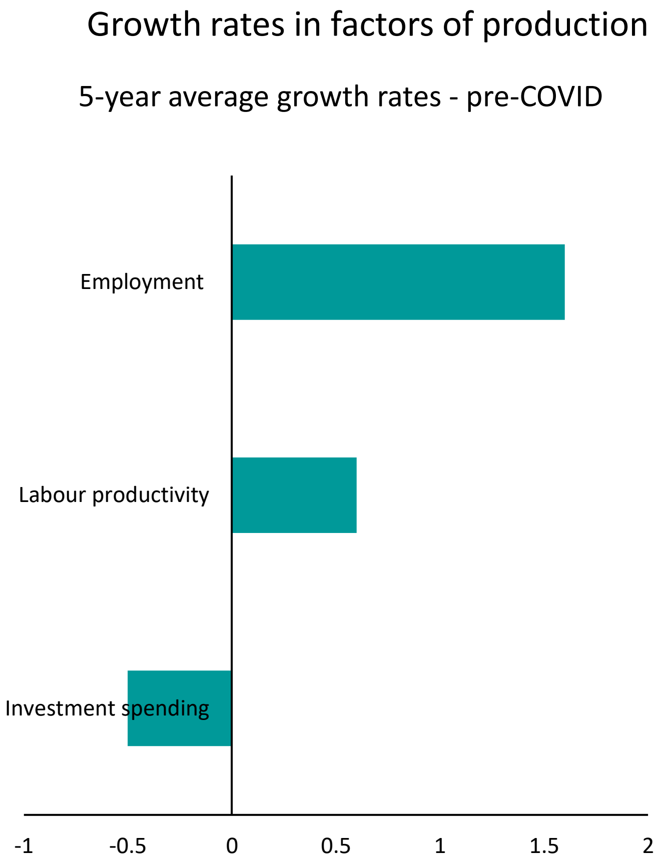




Source: Stats SA, FNB Economics

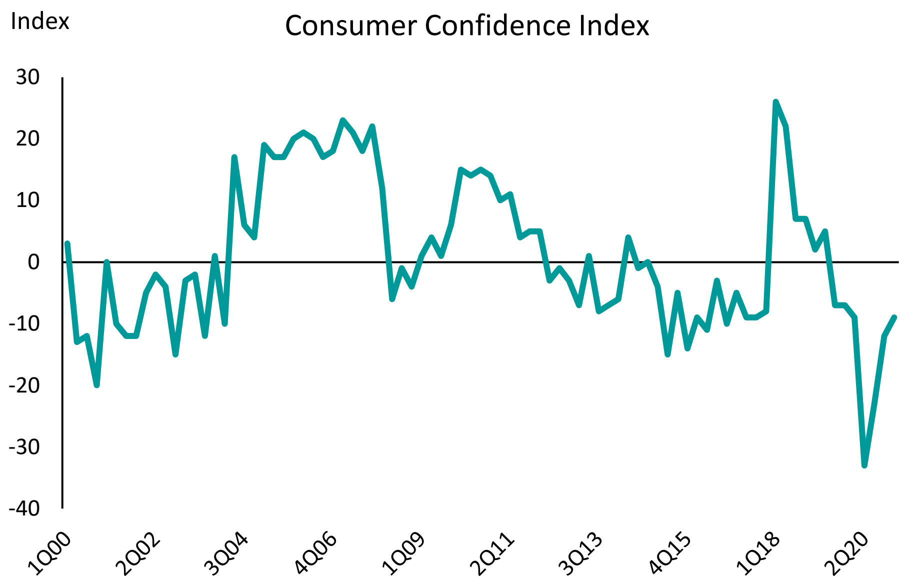
Potential growth rate continues to trend lower



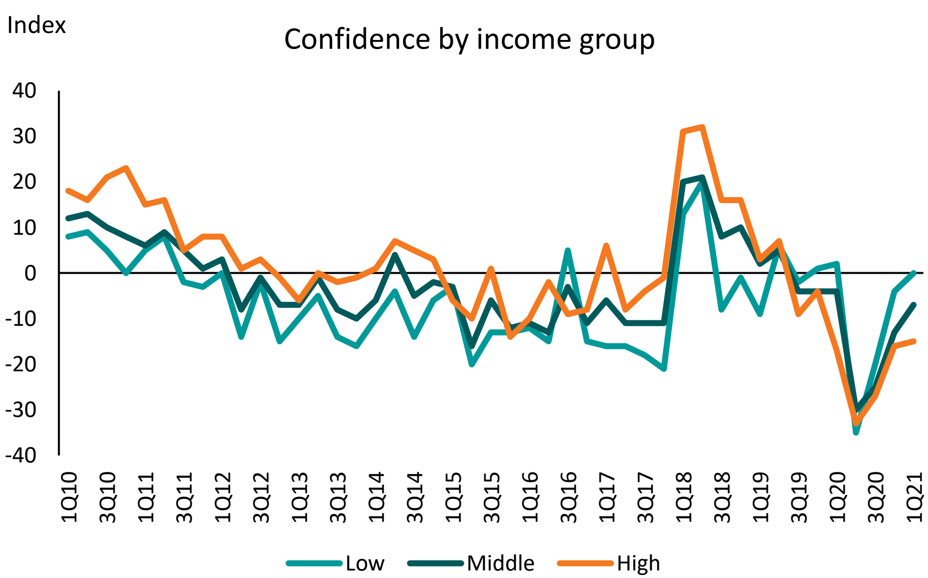


An increase in investment spending growth will go a long way in lifting potential growth

Consumer sentiment improving, mainly among low- and middle-income households



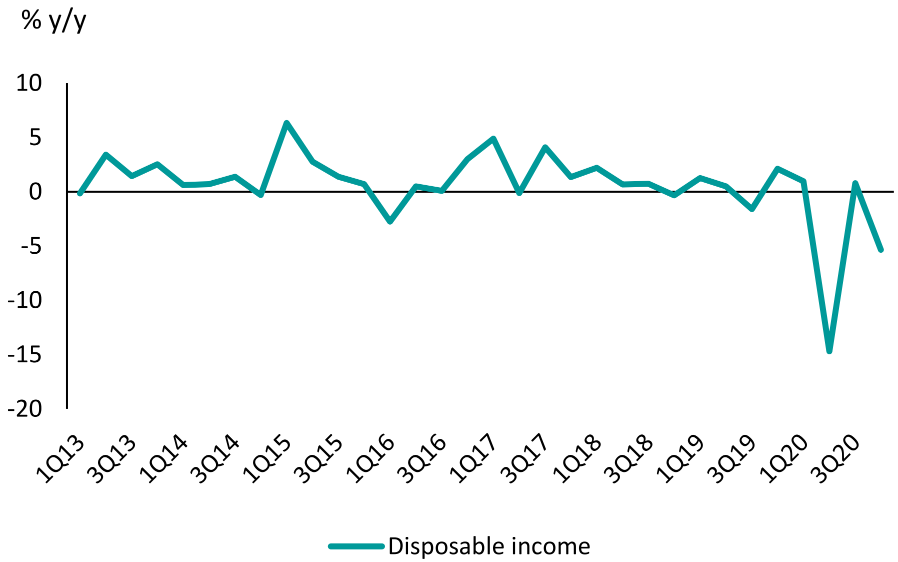
- The FNB/BER Consumer Confidence Index (CCI) continues to improve and is now back in line with the reading recorded in March 2020.
- Nevertheless, improvements in sentiment so far are driven by forward-looking indicators (economic and household financial standing), and the relative despondency in engaging on durable goods persist.



- Sentiment is strongest among low- and middle-income earners; as stock market recovers, we could expect confidence of high-income households to lift.

Source: BER, FNB Economics

Household income: Non-labour income sources worst hit , but recovery underway

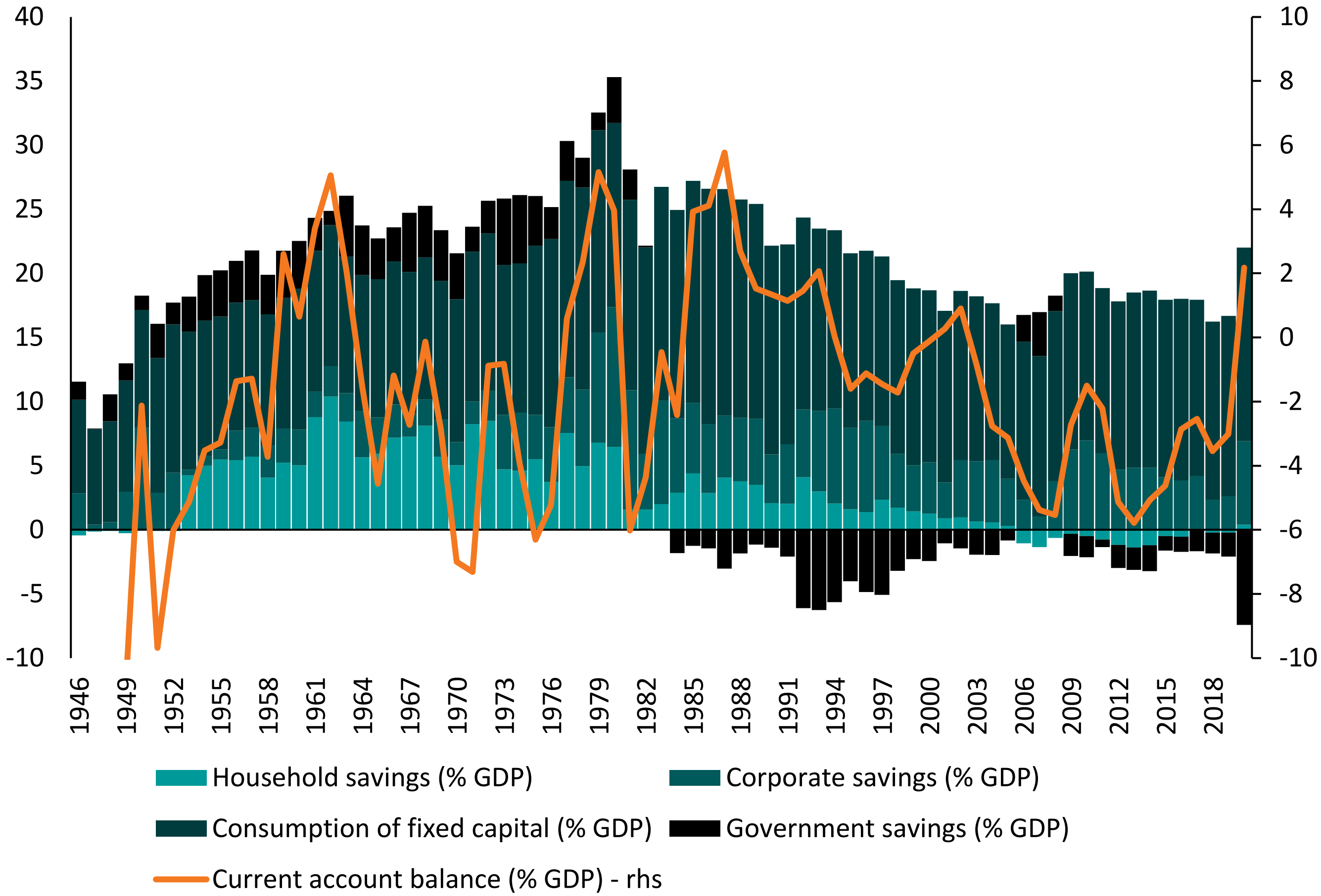


- Real disposable income down by approximately 4.7% in 2020.
- Decline largely driven by non-labour income sources.
- While still in a negative territory, income had started recovering in 2H20, driven by:
  - Social benefits
  - Wage income (recovery)
  - Dividend income (recovery)

Household income statement (R, m)	2019	2020	% y/y
Wage income	2 416 194	2 388 216	-1.2
Business income	664 033	622 572	-6.2
Property income	547 688	371 331	-32.2
Interest	106 759	93 675	-12.3
Dividends	187 731	37 074	-80.3
Insurance and pension	252 737	240 187	-5.0
Rent	461	395	-14.3
Property income paid	-247 552	-213 316	-13.8
Gross balance of primary income	3 380 363	3 168 803	- 6.3
Social benefits	478 911	594 897	24.2
Other transfers	241 129	243 863	1.1
Gross income before taxes	4 100 403	4 007 563	-2.3
Taxes and transfers paid	1 032 422	984 638	-4.6
Gross disposable income	3 067 981	3 022 924	-1.5

A unique cyclical backdrop – lower macro vulnerability

South Africa savings and investment to GDP ratios (difference = current account balance (% GDP))

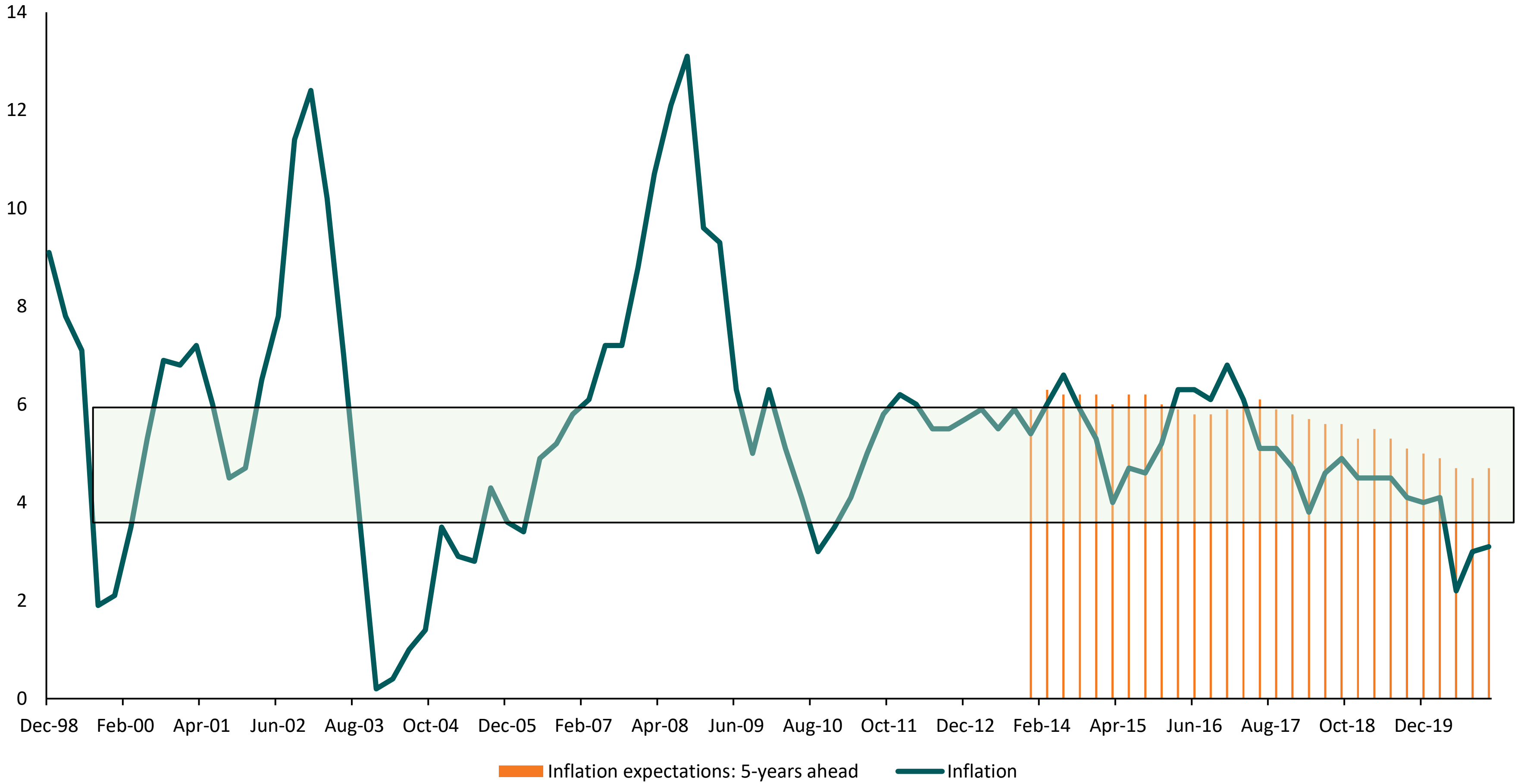


Cyclical vulnerability has *fallen:*

- SA private sector is funding government dissaving
- Global growth backdrop is supportive
- Commodity cycle is supportive

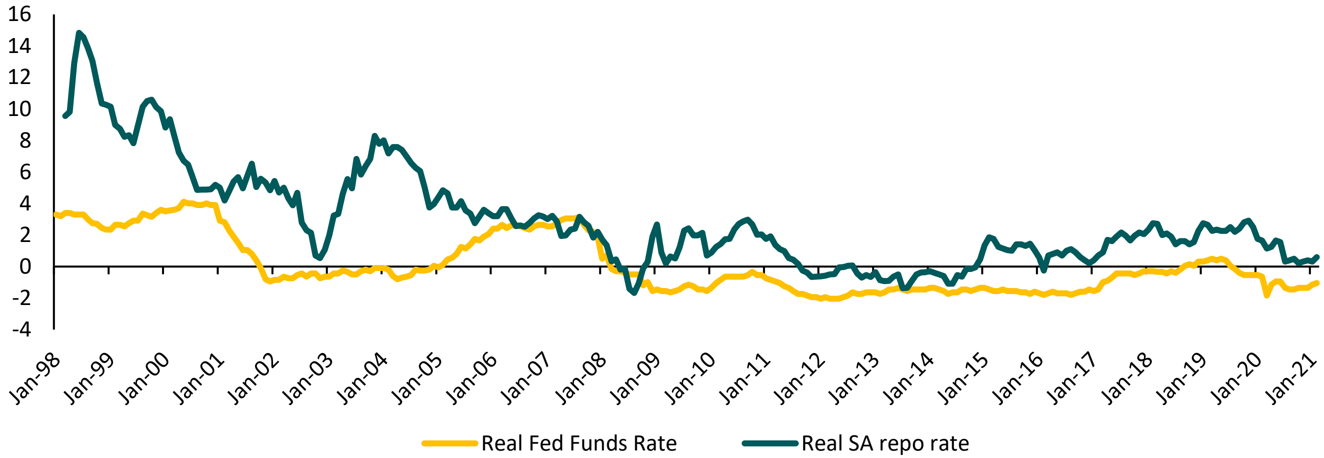
SA is in a less vulnerable cyclical position

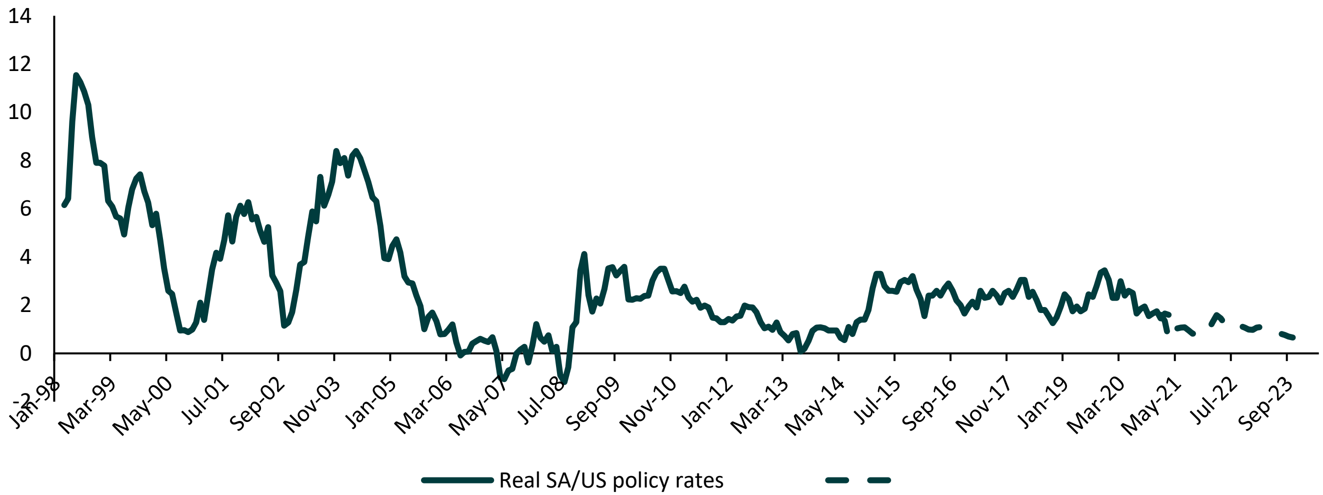
Inflation anchored around the mid-point of the target range



Easy global policy backdrop should anchor SA policy rates

Real policy rates: South Africa and the US

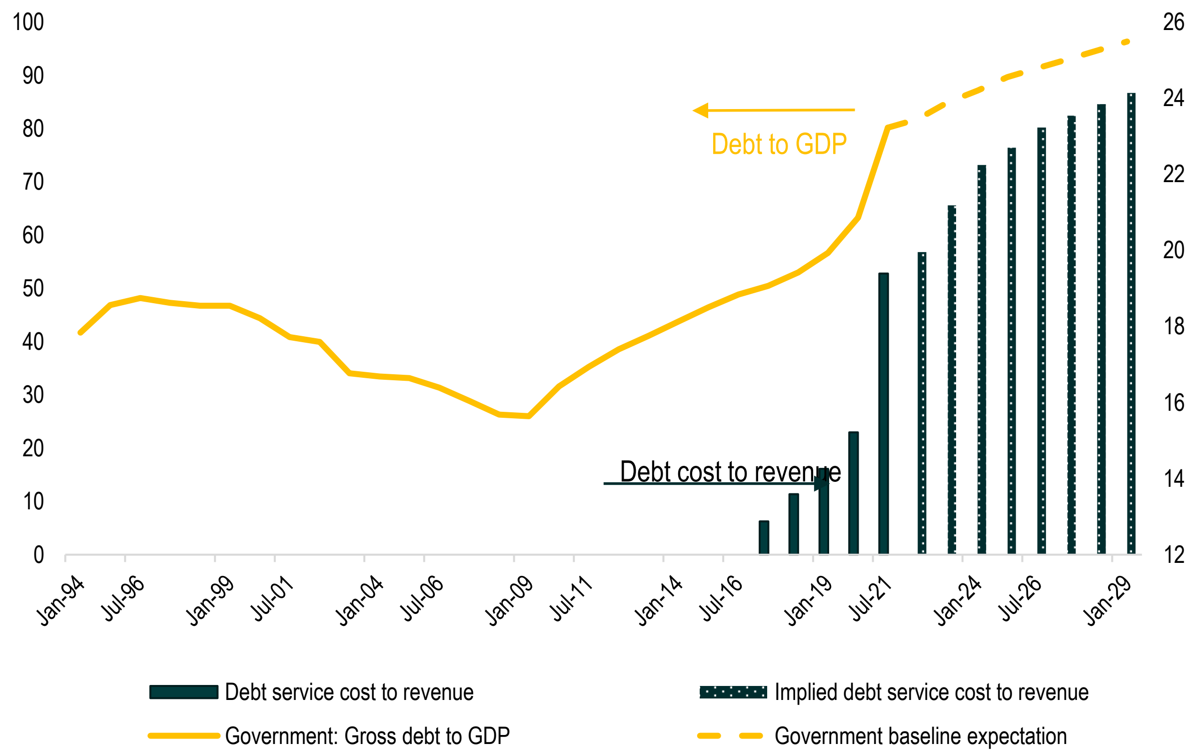




- SA imports (very easy) global monetary policy
- Deteriorating fiscal metrics prevent a more aggressive drop in the real policy rate
- Falling US real policy rates should support a shallow SA hiking cycle

Important risk factor(s) - government debt and social inequality

Government debt to GDP and debt costs *without debt management*



Fiscal trajectory without any debt management strategy	Annual average: 2021/22 – 2023/24	Annual average: 2024/25 – 2029/30
GDP growth	3.0%	1.0%
Inflation	4.0%	4.5%
Real spending growth	-4.6%	1.4%
Additional tax incentives	No	No
Nominal interest rate	7.0%	7.0%
Real interest rate	3.0%	2.5%

Government is pursuing a strategy of structural growth reform and fiscal restraint

FNB macroeconomic forecast

Indicator	2020	2021	2022	2023	Average (2021-2023)
Real GDP (%)	-7.0	3.7	1.7	1.3	**2.2**
HCE (%)	-5.4	2.5	1.5	0.8	1.6
GFCF (%)	-17.5	-3.0	3.2	3.2	1.1
Consumer Inflation (%)	3.3	4.2	4.4	4.8	4.5
Repo rate (%, eop)	3.50	3.50	3.75	3.75	3.66
USDZAR (avg)	16.50	14.71	15.22	15.92	15.28

Source: Stats SA, SARB, FNB Economics


Thank you