Making sense of the GDP data

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Statistics SA has not done the mood in the country any favours by choosing a totally unrealistic method to portray the GDP data for the 2nd quarter.

The statement that the South African economy contracted by more than 50% during the 2nd quarter is woefully misleading. Whilst Stats SA has every right to calculate an annualised & seasonally adjusted rate of contraction, it is based on a comparison with the first quarter of the year, before the lockdown was implemented.

The upshot of the way in which the GDP data has been presented to the media is an underlying assumption that lockdown will continue for a full year, which is absurd. In the process, Stats SA has fallen into the trap that statistical agencies are warned against by none other than the Organisation for Economic Cooperation & Development (OECD).

In its *Glossary of Statistical Terms*, the OECD emphasises that extrapolating quarter-on-quarter data on an annualised basis "magnifies the irregular". Against the background of one of the most irregular events in the world's modern history, it is extremely frustrating that South Africa's official statistical agency has not heeded the OECD's advice.

The recommended method

It does not require any particular acumen in statistics or economics to appreciate the vastly more suitable method of determining a country's economic growth trend, namely plain and simple year-on-year comparisons.

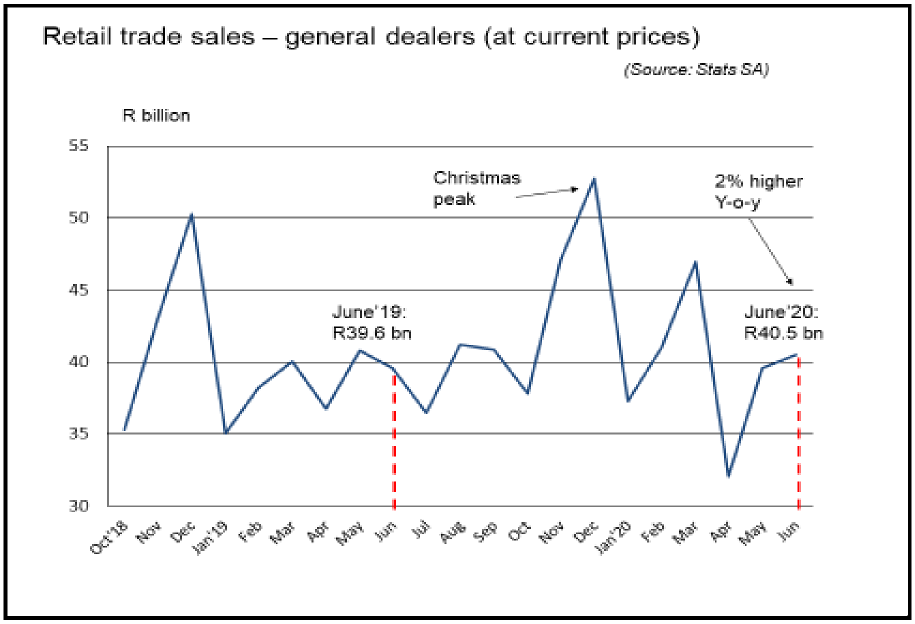
The result of this realistic perspective is as follows: During April to June, South Africa produced goods and services to the value of R1,076-billion. During the same three months last year, the value was R1,263-billion. This translates into a decline in GDP of 14.8%. When adjusted for the effect of inflation, the decline is 17.1% - a sharp contraction, no doubt, but not the ridiculous figure of more than 50% that has been proclaimed by Stats SA.

If ever there was a time for Stats SA to reconsider the way in which it highlights GDP rates of growth or contraction in its media statements, it is now, because the rebound that is on the cards for the 3rd quarter will repeat the exaggeration that is inherent in the current method – only this time in the other direction.

The contradictions between the unrealistic GDP decline announced by Stats SA and a number of other key indicators (some of which are also published by Stats SA) are a cause of embarrassment, especially with regard to the annualised calculations of exports and imports and retail sales.

Shoppers have returned

Retail trade sales traditionally provide a useful short-cut to any assessment of the state of an economy, due to the sheer size of this indicator and the fact that consumers spend the bulk of their income in shops, whether physically or via the internet. Annual retail trade sales in South Africa has been above R1-trillion every year since 2017.



One of the clearest indications of a return to a pre-pandemic economic environment can be found in the stellar performance of sales figures for general dealers, which represent close to 50% of total retail trade sales. At current prices, the figure for June 2020 (in the midst of fairly strict lockdown regulations) was 2% higher than in June 2019.

When business owners witness media headlines erroneously stating that the economy has halved in size, confidence levels are bound to decline, which could serve to delay new investment in productive capacity. Negative false news can therefore operate as a form of economic sabotage.

Someone in the Presidency needs to have a discussion with the Head of Stats SA to consider a more objective way in reporting on GDP data.