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WEEKLY REPORT

OVERBERG MARKET REPORT
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Global Report
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The World Bank Global Economic Prospects

The World Bank Global Economic Prospects report, released earlier this month, paints a bleak picture of the global economy more than three years after the onset of the COVID-19 pandemic. The global economy finds itself in a precarious state as it grapples with the prolonged effects of multiple negative shocks. The COVID-19 pandemic, the Russian Federation's invasion of Ukraine, and the tightening of monetary policy to curb high inflation have collectively contributed to a significant slowdown in global growth.

The report warns of additional threats that could exacerbate the current situation. Despite the implementation of the steepest global interest rate hikes seen in four decades, inflation remains stubbornly high. This poses a significant challenge for policymakers who must navigate the risks associated with such rate increases. These high interest rates not only impede growth in emerging market and developing economies (EMDEs), but also dampen investment enthusiasm and heighten the risk of financial crises. The situation could further deteriorate if banking sector strains in advanced economies spread to EMDEs.

The baseline scenario anticipates a slowdown in global growth from 3.1 percent in 2022 to 2.1 percent in 2023, inching up slightly to 2.4 percent in 2024. It is important to note that these modest growth expectations assume that the banking sector stress observed in advanced economies does not spill over to EMDEs. Compared to previous projections in January, the outlook for 2023 has improved by 0.4 percentage points, while the forecast for 2024 has weakened by 0.3 percentage points. This adjustment is primarily attributed to the stronger-than-expected resilience exhibited by major economies towards the end of 2022 and the beginning of 2023.

Advanced economies are expected to fare much worse than their developing counterparts, expanding by only 0.7% in 2023 and 1.2% the year after compared to 4% and 3.9% for EMDEs. China (5.6% in 2023 and 4.6% in 2024) and India (6.3% and 6.4%) are expected to lead the global economic growth in the next two years, while the US (1.1% and 0.8%) and Euro Area (0.4% and 1.3%) are expected to feel the effects of higher interest rates filtering through.

Despite initial hopes of recovery, EMDEs are struggling to cope with the challenges at hand. Growth in EMDEs, excluding China, is projected to significantly slow down from 4.1 percent in 2022 to a meagre 2.9 percent in 2023. This slump can be attributed to factors such as high inflation, tight global financial markets, and mounting debt levels, pushing many countries into a state of economic deterioration.

Furthermore, the report also underscores the weakening of crucial drivers of global growth, including productivity, trade, labour force, and investment growth. This downward trend is projected to continue throughout the rest of the decade, with potential growth forecasted to hit a three-decade low. Such a bleak outlook necessitates immediate action if the world is to have any chance of achieving its ambitious development goals, such as combating climate change, eradicating extreme poverty, and rebuilding post-conflict nations. These endeavours heavily rely on substantial financial resources, which can only be generated through faster growth and a revitalized private sector.

To prevent such dire outcomes and steer the global economy back on track, the report presents a roadmap for policymakers. It outlines five crucial steps that need to be taken promptly: mitigating financial contagion by clear and early communication from central banks, reducing domestic vulnerabilities through prudent policies and strengthened financial institutions, restoring fiscal sustainability by improving tax collection and administration, reinvigorating long-term growth through productivity-enhancing measures and increased investment, and finally, alleviating debt distress and fortifying the global financial safety net through adequate funding for international financial institutions and expedited debt restructuring mechanisms.

Local Report
Gielie Fourie

GDP figures - Quarter 1 of 2023

GDP INCHED HIGHER IN THE FIRST QUARTER OF 2023 (Q1 2023): In line with consensus expectations the SA economy avoided a technical recession in Q1 2023. The economy experienced a 0.4% Quarter-on-Quarter (QoQ) (seasonally adjusted) Gross Domestic Product (GDP) expansion in Q1 2023 after the (upwardly revised) 1.1% QoQ contraction in Q4 2022. Year-on-Year (YoY) GDP growth was 0.2%. The, albeit small, expansion in the first quarter was a welcome relief, considering the significant deterioration in electricity availability during that time. The initial concerns among investors about a possible technical recession (two consecutive quarters of contraction) were eased by this positive growth. However, there are still downside risks to the economy. Increased political uncertainty and other factors continue to affect the growth outlook and sentiment. Despite these challenges, there is growing support for the expectation that the expansion of private sector electricity generation capacity will help mitigate the negative impact of loadshedding on economic growth.

From a sectoral perspective, growth was broad-based, with most sectors increasing on a quarterly basis. Eight of the ten industries recorded growth in the first three months of the year. Two industries, Agriculture and Utilities, returned negative figures. Overall, while the first quarter's GDP expansion brought some relief, ongoing risks and uncertainties persist, emphasizing the need for measures to address the challenges and sustain economic growth.

WINNERS AND LOSERS: The best performing industries was Manufacturing, up 1.5%, and the worst performing industry was Agriculture, down 12.38%. GDP is computed from data gathered from ten industries. The ten industries are grouped into three sectors. The three-sector model consists of the Primary Sector, the Secondary Sector, and the Tertiary Sector. To remove the effect of inflation, GDP is measured at constant 2015 prices.

THE PRIMARY SECTOR: This sector represents companies that are engaged in extracting natural resources. There are only two industries in this sector namely agriculture, and mining. (1) Agriculture, forestry, and fishing - QoQ growth, seasonally adjusted, decreased by 12.3%. Agriculture’s slump was weighed down by a decline in the production of field crops and animal products. Agriculture was the largest negative contributor in the first quarter, subtracting 0.4 of a percentage point from GDP growth. (2) Mining - QoQ growth, seasonally adjusted, increased by 0.9%. After a disappointing end to 2022, mining activity turned positive in the first quarter. The rise in production was led by platinum group metals and gold.

THE SECONDARY SECTOR: This sector covers all those activities consisting of the processing of raw materials, like the manufacturing and construction industries. Three industries are active in this sector. (3) Manufacturing - QoQ growth, seasonally adjusted, increased by 1.5%. Manufacturing was one of the main drivers of growth. The production of food and beverages was the main catalyst behind the industry's positive showing. (4) Utilities - QoQ growth, seasonally adjusted, decreased by 1.0%. Electricity, gas & water registered its fourth consecutive quarter of decline, dampened by weaker electricity production and lower water consumption. The decline in utilities in the first quarter was an improvement from the decrease recorded in the previous quarter. (5) Construction - QoQ growth, seasonally adjusted, increased by 1.1%. Increases were reported for residential, non-residential buildings and construction works.

THE TERTIARY SECTOR: This sector consists of the provision of services instead of end products. (6) Trade, catering, and accommodation - QoQ growth, seasonally adjusted, increased by 0.7%. The trade industry also registered upward growth, with positive results from wholesale trade, retail trade and catering & accommodation. Motor trade was not as lucky, however, recording a decrease in economic activity. (7) Transport and communication - QoQ growth, seasonally adjusted, increased by 1.1%. A rise in rail freight and rail passenger transport helped the transport, storage, and communication industry to expand. Air transport, transport support services and communications also witnessed stronger economic activity, contributing to the industry's positive reading. (8) Finance and business services - QoQ growth, seasonally adjusted, increased at a rate of 0.6%, mainly driven by financial intermediation, insurance & pension funding, real estate, and business services. This sector is the largest sector in the economy. (9) Personal services - QoQ growth, seasonally adjusted, increased by 0.8%, driven by increased activity in community services. (10) Government - QoQ growth, seasonally adjusted, increased by 0.2%.

BOTTOM LINE: In the long-term, the South Africa GDP Growth Rate is projected by Stats SA to trend around 1.20% in 2024 and 1.60% in 2025. The International Monetary Fund (IMF) is more negative. An IMF team led by Mr Papa N'Diaye, Division Chief in the African Department, visited South Africa in March 2023 to hold meetings with the economic authorities and other counterparts from the public and private sectors. They painted a bleak picture. They found South Africa's economic and social challenges are mounting, risking stagnation amid an unprecedented energy crisis. The near-term growth outlook has deteriorated. Real GDP growth is projected to decelerate sharply to 0.1% in 2023, lower than the 1.20% projection of Stats SA, mainly due to a significant increase in the intensity of power cuts. Source: Stats SA, IMF.

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