OPINION / COLUMNISTS

NEVA MAKGETLA: Skew first-quarter GDP data needs straightening

Stats SA's gloomy figures for this period have caused angst and a flawed perception of the bigger picture

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An aerial view of the car terminal at the Durban harbour. Picture: 123RF/CHRIS VAN LENNEP

GDP data is taken as a sign for investors and some consumers. When news comes out that the economy has nosedived, few people stop to ask if the reports are accurate. They just start to worry, which can in itself deter investment and put the brakes on growth. That's why we expect the statistical authorities to take extreme care to ensure the data are reliable.

In practice, however, since 2015 SA's quarterly — but not annual — GDP data has gone haywire. The problem is a proudly new SA tradition of economic downturns reported in nearly every first quarter, followed as regularly by recovery in the rest of the year. This kind of quarterly cycle should be eliminated by the seasonal adjustment process; its emergence suggests that process needs urgent review.

For five out of the past six years, including in 2019, Stats SA reported that the economy shrank in the first quarter. Predictably, the newspapers responded with headlines on the "shock" decline, "alarming" rate of shrinkage, "knock" to confidence, and "fears of a recession". Yet, while growth has slowed since 2015, the economy as a whole has expanded every year. In the past six years the economy reportedly grew in every quarter, save for two cases in the second quarter and one in the third.

If properly managed, GDP data should not show this kind of predictable quarterly pattern because, in line with global practice, the figures are adjusted to offset predictable seasonal changes. The process should compensate for fluctuations arising from the growing cycle in agriculture, holiday sales for retail, and close-down periods in mining, manufacturing and construction. This seasonal adjustment means that over time average growth rates per quarter should be more or less the same.

The model only failed recently. From 1995-2013, the seasonally adjusted data behaved as expected, showing almost the same average rate of growth across the four quarters. Seasonally adjusted growth for each quarter, averaged over the years, came to between 0.7% and 0.8%. In contrast, from the first quarter of 2014 to the second quarter of 2019, the economy reportedly shrank 0.1% on average in the first quarter, then grew by 0.3% in the second quarter, 0.4% in the third, and 0.5% in the fourth.

The new weakness in the seasonal adjustment of GDP data may arise because seasonal production patterns in major industries have changed. That evolution has been most obvious for agriculture, but has also emerged in mining, manufacturing, logistics and retail. These industries show significant modifications in their actual (not seasonally adjusted) quarterly average growth rates from 2014-2019 compared to 1995-2013.

Specifically, in the past six years, actual growth in agriculture has been slower in the first quarter and faster in the second than it was over the preceding two decades. Mining, manufacturing, retail and logistics have all seen a sharper fall in the first quarter than they used to, with a stronger recovery in the second quarter. To take these new trends into account, the formula for adjusting the GDP needs adjustment itself.

It doesn't help that Stats SA always reports quarterly figures at an annualised rate, which is about four times the actual change. That approach translates a worrying but modest quarterly contraction of 0.8% in the GDP to a screaming fall of 3.2% at the annual rate. Statistical releases and screaming headlines rarely pause to explain that the larger figure is purely fictional, representing how much the economy would shrink if the quarterly decline continued, improbably, for the full year.

Reporting a regular GDP decline in the first quarter has the advantage of giving everyone an opportunity to vent their anger at economic mismanagement. But it causes unnecessary uncertainty and ultimately obscures real trends in the GDP.

Stats SA should move soon to revise its GDP models to reflect the new realities.

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