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Quarterly Economic Brief

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The PBO provides quarterly analysis of economic developments for Members of Parliament following the release of quarterly economic data by Stats SA, the South African Reserve Bank and the National Treasury.

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This report incorporates data available up to and including the 10 June 2021, and was released on the 17 June 2021. Stats SA only releases Quarterly Employment Survey for the first quarter at the end of June.

Overview

Following large contractions in 2020 due to the Covid-19 global pandemic, and measures instituted to curb its spread, the South African economy, along with the global economy, has begun to show signs of a nascent recovery. The South African economy's performance exceeded expectations in the first quarter, growing by 4.6 per cent compared with the previous quarter. An uptick in global demand for South African exports, favourable commodity prices, and modest growth in household consumption have supported the nascent recovery. However, despite the quarterly rebound in growth, the economy continues to shed jobs, investment continues to contract, whilst government's decision to provide only modest fiscal support to the economy weighs-down short-term growth prospects.

GDP Production

South Africa's gross domestic product (GDP measured by production value-added) increased at an annualised rate of 4.6 per cent in the first quarter of 2021 compared with the previous quarter. This marks the third-consecutive quarterly expansion since the contraction of the second quarter of 2020. The increase in GDP of the first quarter of 2021 exceeded expectations (Bloomberg: 3.2%).

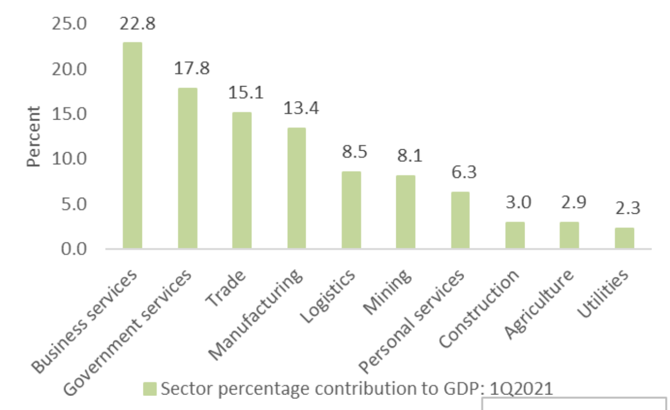
Eight of the ten industry sector categories made positive contributions to GDP in the first quarter of 2021. The better performers were mining (driven by an increase production in platinum group metals, iron ore and gold), business services (increased economic activity was reported in financial intermediation, auxiliary activities, real estate activities and other business services), and trade (Increased economic activity from wholesale trade and retail trade). The agriculture and utilities sectors were the two industries that recorded a decline in economic activity in the first quarter of 2021.

Table 1: Quarter-on-quarter percentage change in sectoral value-added performance

%change q/q	Agriculture	Mining	Manufacturing	Utilities*	Construction	Trade	Logistics**	Business services***	Government services	Personal services	GDP
2020 - Q1	38.8	-22.1	-8.2	-5.6	-5.9	-0.7	0.8	3.1	1.4	0.6	**-1.8**
2020 - Q2	22.0	-70.8	-74.7	-36.4	-76.8	-67.6	-69.5	-35.7	-1.0	-31.7	**-51.7**
2020 - Q3	20.1	271.2	212.9	58.0	73.6	137.0	78.1	17.0	1.0	38.7	**67.3**
2020 - Q4	5.9	-5.7	21.1	2.2	11.2	9.8	6.7	-0.2	0.7	4.8	**5.8**
2021 - Q1	-3.2	18.1	1.6	-2.6	0.8	6.2	4.8	7.4	0.9	1.7	**4.6**

Source: StatsSA (data is seasonally adjusted and annualised)
*Utilities includes electricity, gas and water
**Logistics includes transport ,storage and communication
***Business services includes finance, real estate and business services

Figure 1: Sector shares of GDP - first quarter of 2021

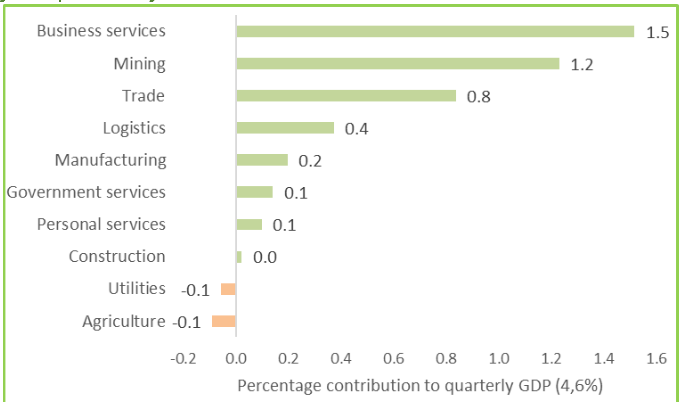


*data is seasonally adjusted and annualised
Source: StatsSA

Business services (22.8%) was the largest sector component of GDP, contributing almost a quarter of the country's total output. Government services (17.8%) and trade (15.1%) were the second and third largest contributors to GDP, respectively. The construction (3%), agriculture (2.9%) and utilities (2.3%) sectors each contributed below 5 per cent to GDP.

The three main contributors to the increase in GDP in the first quarter of 2021 were business services, mining, and trade industries. The business services sector grew by 7.5 per cent in first quarter of 2021 from the previous quarter. This relatively large quarter-on-quarter growth in the sector translated into a 1.5 percentage point contribution to GDP growth during the first quarter of 2021. The mining sector grew by 18.1 per cent, adding 1.2 percentage points to GDP growth in the first quarter of 2021. The trade sector grew by 6.2 per cent, and contributed 0.8 percentage points to GDP growth over the quarter. Small positive contributions to GDP came from the logistics (0.4%) and manufacturing (0.2%) sectors, while the agriculture (-0.1%) and utility (-0.1%) sectors made negative contributions to GDP growth.

Figure 2: Sector percentage contribution to GDP growth in the first quarter of 2021



Note: sectors contibutions in the graph do not add up to 4.6% increase in GDP value-added because it shows total value-added at basic prices and not at market prices. Market prices includes any taxes and minus any subsidies on products in the value of their outputs.

*data is seasonally adjusted and annualised

Source: StatsSA

Expenditure on GDP

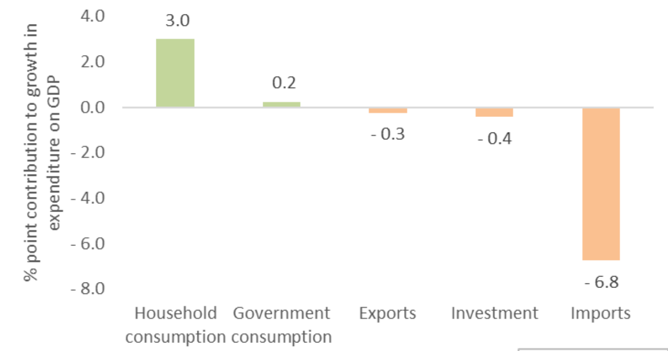
South Africa's expenditure on GDP increased by 4.5 per cent in the first quarter of 2021, after a 6.1 per cent increase in the previous quarter. This increase was the third consecutive quarter of expanding GDP. The largest contributor to economic growth in the first quarter of 2021 was household consumption which grew by 4.7 per cent, continuing its recovery. Investment fell by 2.6 per cent in first quarter of 2021, after a 12.1 per cent increase in the previous quarter.

Table 2: Quarterly component share of GDP

%change q/q	Household consumption	Government consumption	Investment*	Exports	Imports	Exp on GDP
2019 - Q3	0.3	1.4	4.1	3.5	-8.9	**-0.4**
2019 - Q4	1.4	-0.2	-10.0	2.3	-8.5	**-1.2**
2020 - Q1	0.0	1.8	-18.7	-0.9	-18.2	**-1.7**
2020 - Q2	-52.0	-2.1	-59.4	-76.7	-52.8	**-52.4**
2020 - Q3	75.3	0.8	26.9	194.3	-1.9	**68.1**
2020 - Q4	7.5	1.1	12.1	26.6	52.4	**6.1**
2021 - Q1	4.7	1.0	-2.6	-0.9	26.5	**4.5**
Source: StatsSA (data is seasonally adjusted and annualised)						
*Investment refers to gross fixed capital formation						

The largest contribution to first quarter growth in expenditure on GDP was from household consumption (3%), while the negative contribution of net exports caused the largest decline. The largest contributors to household consumption in the first quarter of 2021 were expenditure on 'other' (9.8%) which contributed 1.2 per cent, followed by clothing and footwear that grew by 22.2 per cent and added 1 percentage point to GDP growth. Household expenditure in the first quarter of 2021 on furnishing, household equipment, and maintenance grew by 8.9 per cent and contributed 0.8 per cent to GDP growth. The 6 per cent negative contribution of net exports (imports minus exports) was as a result of a large increase in the volume of imports (26.5%) and a marginal decline in exports of goods and services (0.9%). The increase in imports was largely driven by increases in mineral products, machinery and equipment, and vehicles and transport equipment. Whilst the decline in exports was largely influenced by decreased trade in mineral products and vehicles and other transport equipment.

Figure 3: Quarterly contributions of expenditure components to GDP growth in the first quarter of 2021



*data is seasonally adjusted and annualised

Source: StatsSA

Employment

The effects of the Covid-19 crisis on the economy have been acutely felt in the labour force. According to the Quarterly Labour Force Survey, which measures formal and informal employment, the official unemployment rate rose to 32.6 per cent (7.2 million people) in the first quarter of 2021, despite an up-tick in overall economic activity quarter-on-quarter.

Compared with the previous quarter, the size of the labour force declined by 0.1 per cent (19 709), while the number of people employed also declined by 0.2 per cent (28 207). The result was a 0.1 per cent (8 497) increase in the number of unemployed people in the same period.

Compared with the first quarter of 2020 - before the full-effects of the Covid-19 crisis were experienced - the number of people employed declined by 8.5 percent (1 387 211). The official unemployment rate increased by 2.5 percentage points compared with a year ago.

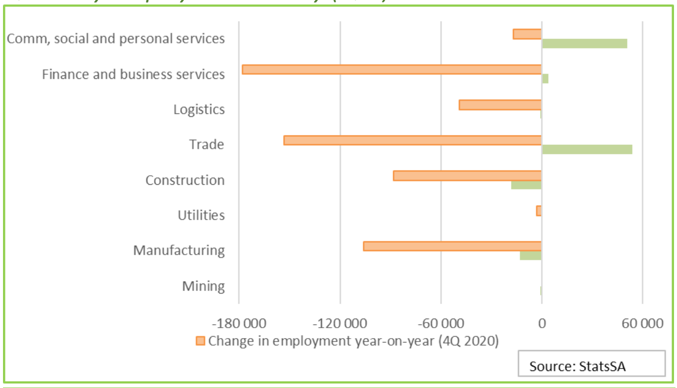
The broad unemployment rate, which includes discouraged job-seekers, increased by 3.5 percentage points in the first quarter of 2021 compared with a year ago. Quarter-on-quarter, the broad unemployment rate increased by 0.6 percentage points to 43.2 per cent in the first quarter of 2021 compared with the previous quarter. The unemployment rate for men (31.4%) increased while that of women (34.0%) decreased in the first quarter of 2021 compared with the previous quarter. The long-term trend of the female unemployment rate exceeding the rate for males continued in the first quarter of 2021.

Table 3: Key labour statistics – Quarterly Labour Force Survey

	1Q 2020	4Q 2020	1Q 2021
Labour force ('000s)	**23 452**	**22 257**	**22 237**
Employed	**16 383**	**15 024**	**14 995**
Unemployed - official	**7 070**	**7 233**	**7 242**
Unemployed - broad*	**10 797**	**11 156**	**11 422**
Not economically active ('000s)	**15 422**	**17 054**	**17 218**
Discouraged job-seekers	2 918	2 930	3 131
Other (not economically active)	12 504	14 124	14 086
Unemployment rates			
Official unemployment rate (narrow)	30.1%	32.5%	32.6%
Broad unemployment rate*	39.7%	42.6%	43.2%
Unemployment Rates - Gender			
Male - official	28.3%	31.0%	31.4%
Female - official	32.4%	34.3%	34.0%
Unemployment Rates - Race			
Black African - official	33.8%	36.5%	36.7%
Coloured - official	24.0%	25.7%	25.2%
Indian/Asian - official	13.0%	11.8%	14.9%
White - official	8.1%	8.8%	8.1%
Youth**			
Unemployment rate - official	43.2%	46.1%	46.3%
Unemployment rate - broad*	53.8%	56.6%	57.5%

* The broad unemployment rate includes discouraged job seekers
** Youth is defined as age 15 - 34
Data: Quarterly Labour Force Survey, Stats SA

Figure 4: Sector contributions to changes in employment – Quarterly Employment Survey (QES)



Exchange rate

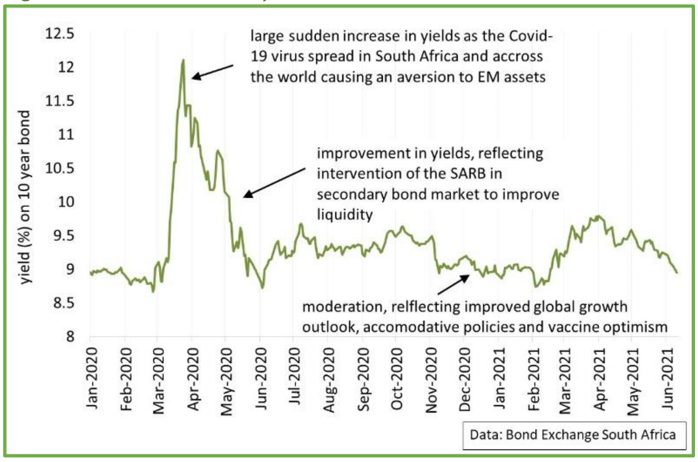
Over the first half of 2021 the rand continued strengthening against the US dollar and other currencies following its deprecation over the first half of 2020. Between January and June 2021 the rand appreciated almost 10 per cent against the US dollar. An increase in exports, rising commodity prices, as well as buoyant demand for emerging market assets supported by accommodative monetary policies in advanced economies, have contributed to the strengthening on the rand. Whilst a stronger rand reduces inflationary pressure, costs faced by society and the fiscus, sustained appreciation of the rand will place pressure on the overall competitiveness of South Africa's exports.

Figure 5: Rand strengthens since April 2020

Sovereign risk and debt outlook

The yield on South Africa's 10-year rand-denominated government bond (benchmark bond) – an indicator of market sentiment about the riskiness of South African government debt – after improving since April 2020, increased since the beginning of 2021. It has been trading about 50 basis points higher than in January. Accommodative monetary policy (low policy rates) in developed countries and the tentative improved global growth outlook, combined with better-than-expected growth and low inflation, have supported sustained demand for emerging market assets. Despite this, additional "waves" of Covid-19 infections and uncertainties around the ability of countries to successfully roll-out vaccines has increased volatility in bond markets.

Figure 6: Yield on SA 10-year bond



The yield curve for South African government debt, presents borrowing costs at different maturities. This yield curves steepened in the wake of the first domestic wave of Covid-19 in 2020. The higher yield curve in early-2020 reflected negative sentiment amongst traders in global financial markets who expected a worsening in South Africa's economic and fiscal outlook (a larger gross borrowing requirement). The yield curve has shifted downwards over the last 12 months. The downward shift represents lowering costs across different maturities. It reflects improved sentiment amongst traders in global financial markets, probably due to the higher-than-expected economic growth, as well as an improved economic and fiscal outlook and sustained lower domestic inflation.

Figure 7: Improving yield curve

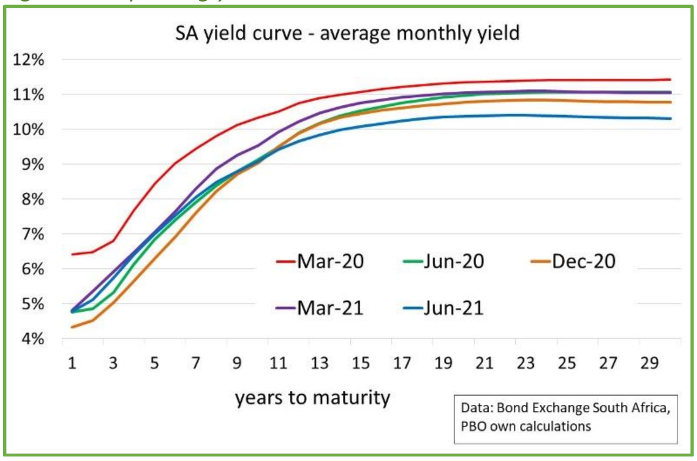
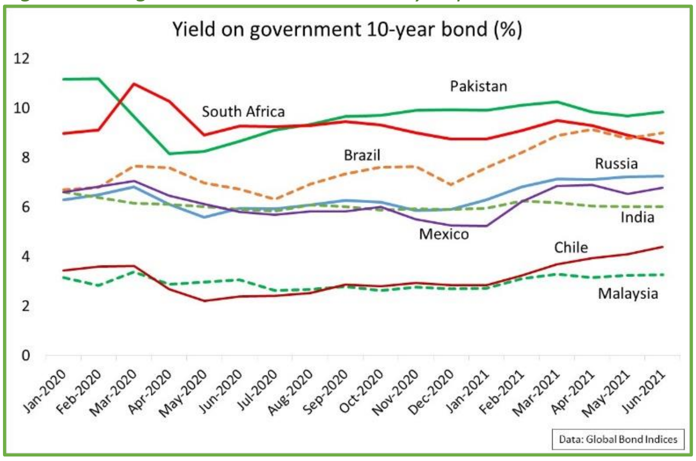


Figure 8: SA government debt relatively expensive



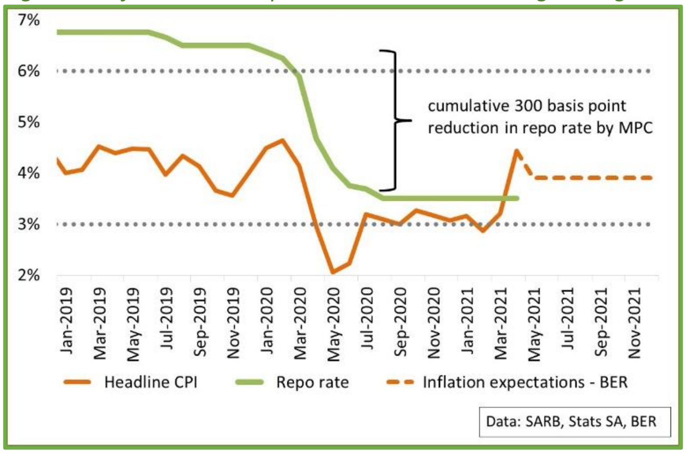
The results from government bond auctions since the beginning of the year reflect sustained demand for South African government debt, however, at relatively high borrowing costs. When compared with peer emerging-market economies, the South African government has to pay more in interest for every rand borrowed to fund its budget deficit.

Inflation and monetary policy

Headline inflation – as measured by the consumer price index (CPI) for all urban areas – continued moving sideways at the lower-bound of the South African Reserve Bank's 3 to 6 per cent target range over the first three months of the year. The continuation of the record low inflation from 2020, reflects depressed domestic and international demand, a stronger exchange rate, buoyant crop production, and an overall moderation in labour costs. CPI inflation for April 2021, the most recent data available, was recorded close to the mid-point of the Monetary Policy Committee's target range (4.4%) - a large increase compared with March 2021 (3.2%).

After a cumulative 300 basis points reduction to repo rate at its January, March, April, May and July 2020 meetings, the Monetary Policy Committee has chosen to keep the repo rate at 3.5 per cent. The Monetary Policy Committee noted that whilst inflation has been at record-lows, close to the bottom of its target range, with inflation forecast to be beneath the mid-point of its target range, its current policy rate is "accommodative".

Figure 9: Inflation and expectations within the target range



Outlook

Since the beginning of the year, the prospects for global and South African growth over the medium term have improved. Despite an overall improvement to the global growth outlook, which is expected to continue supporting domestic exports and commodity prices, several vulnerabilities presenting down-side risks are present. These risks include continued spreading of existing and new variants of the coronavirus, inadequate vaccine roll-out in many countries, and increasing variance between countries' economic performance and prospects. Domestically the extent and duration of the current "third-wave" and additional possible "waves" along with attendant mitigation measures, and the roll-out of vaccines present notable downside risks to the nascent recovery of the South African economy.

Table 4: Improving growth outlook

GDP growth outlook - calender year*	2021	2022	2023
National Treasury - Budget 2021	3.3%	2.2%	1.6%
South African Reserve Bank - January 2021	3.6%	2.4%	2.5%
South African Reserve Bank - May 2021	4.2%	2.3%	2.4%
World Bank - Global Economic Prospects - January 2021	3.3%	1.7%	-
World Bank - Global Economic Prospects - June 2021	3.5%	2.1%	1.5%
IMF - World Economic Outlook - January 2021	2.8%	1.4%	-
IMF - World Economic Outlook - April 2021	3.1%	2.0%	-

*Growth projections correspond to publication date and not forecast date