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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 8 March 2021, and was released on the 16 March 2022. Stats SA only releases Quarterly Employment Survey for the fourth quarter at the end of March, and the release of the fourth quarter Quarterly Labour Force

Introduction

This edition of the QEB provides updated quarterly economic information and an overview of economic performance for 2021 as a whole based on recently released data on the fourth quarter of 2021 (except for the Quarterly Labour Force Survey, which has been delayed). We write this QEB at a time when there is concern and uncertainty about the geopolitical and economic impacts of the Russian invasion and war in Ukraine as well as other risks to domestic and global economic performance. Therefore, after an overview of the key macroeconomic information taking into account data for the last quarter of 2021, we conclude this bulletin with sections on the outlook for the domestic economy and global economy.

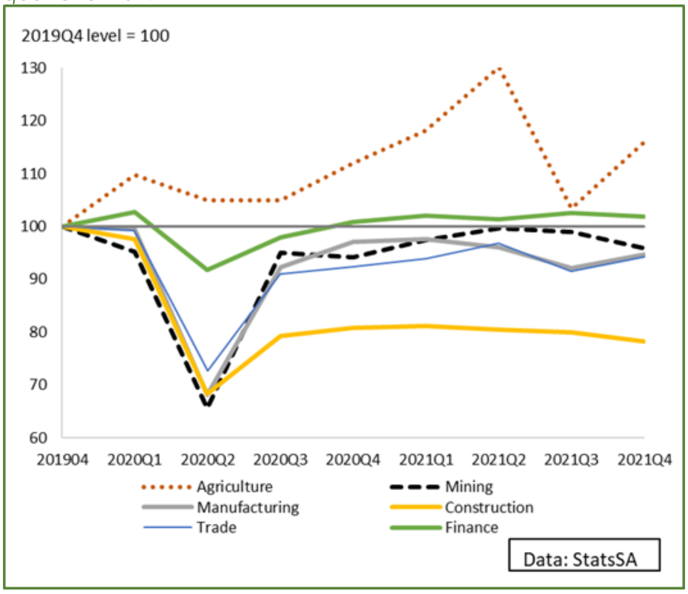
Gross domestic product[1]

The South African economy grew by 1.2 per cent on a quarter-on-quarter seasonally adjusted (qqsa) basis in the fourth quarter of 2021. This growth came on the heel of a quarterly contraction in GDP during the third quarter, which was marked by load-shedding, a third wave of the COVID-19 pandemic and the July 2021 social unrest. On a year-on-year basis, real GDP expanded by 1.7 per cent in the fourth quarter, slowing from 2.9 per cent in the third quarter.

Economic growth for the 2021 calendar year was 4.9 per cent compared to a sharp 6.4 per cent contraction in 2020. Compared with 2019, real GDP and real GDP per capita were down by 1.8 per cent and 4.3 per cent in 2021, respectively.

Real GDP in the fourth quarter of 2021 was 1.7 per cent below the pre-COVID-19 level in the fourth quarter of 2019. Economic performance differs across sectors. Value-added for all sectors of the South African economy, except for agriculture and finance, remains below pre-pandemic levels. Compared to other sectors, activity in the construction sector remains markedly depressed.

Figure 1: Performance of key economic subsectors since the fourth quarter of 2019



Growth over the fourth quarter was not broad-based. Only five of the ten economic subsectors recorded positive growth.

Strong economic growth was registered for the agriculture, trade, personal services and manufacturing sectors. While, the mining, construction, finance and utilities sectors experienced contractions in economic activity.

The agriculture sector grew by 12.2 per cent qqsa and contributed 0.3 percentage points to GDP growth. This growth was driven by increased production of animal products.

The primary sector still registered a 2.1 per cent qqsa growth rate in the fourth quarter despite mining production having declined by 3.1 per cent. This decline in mining production was mostly due to disrupted operations at opencast mines due to heavy rains.

[1] All expenditure/growth data is seasonally adjusted and annualised unless otherwise stated

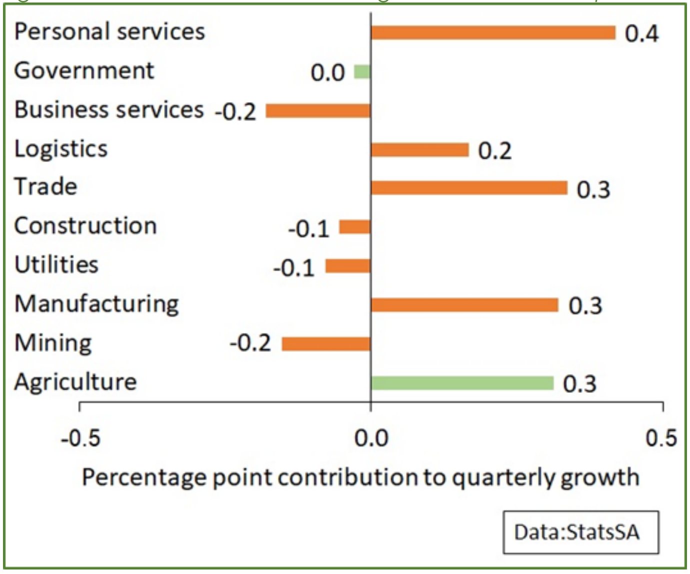
Table 1: Quarterly economic performance by sector

% change q/q	Agriculture	Mining	Manufacturing	Utilities*	Construction	Trade	Logistics**	Business services***	Government	Personal services	GDP
2021Q4	12.2	-3.1	2.8	-3.4	-2.2	2.9	2.2	-0.8	-0.4	2.7	1.2
2021Q3	-20.6	-0.6	-4.2	0.3	-0.6	-5.5	-1.7	1.1	0.3	0.5	-1.7
2021Q2	10.1	2.5	-1.5	0.7	-0.8	3.2	6.3	-0.6	-0.5	2.5	1.3
2021Q1	5.6	3.3	0.4	-0.3	0.5	1.7	-1.1	1.2	0.2	0.6	1.0
2020Q4	6.6	-0.9	5.3	-0.1	1.9	1.5	2.9	2.9	0.2	1.7	2.5
2020Q3	-0.1	45.0	35.3	12.6	16.0	25.1	17.3	6.6	0.2	4.1	13.9
2020Q2	-4.3	-31.1	-31.4	-11.6	-29.9	-26.7	-26.7	-10.5	-0.3	-5.9	-17.4

Source:StatsSA

*Utilities includes electricity, gas and water
**Logistics includes transport ,storage and communication
***Business services includes finance, real estate and business services

Figure 2: Sector contribution to GDP growth in the fourth quarter



The secondary sector posted a mixed performance, resulting in a modest increase of 1.2 per cent qqsa. Value added in the manufacturing sector recovered with eight of the ten manufacturing divisions reporting positive growth rates. In contrast, weakness persisted in the electricity and construction sectors. The load-shedding in October and November weighed-on electricity value added. Meanwhile, weaker activity for residential and non-residential buildings, as well as construction works hampered the construction sector's contribution to GDP in the fourth quarter.

The tertiary sector expanded by 1.1 per cent qqsa, supported by strong growth in the trade, transport and personal services industries. Government and the financial sector contracted in the fourth quarter. The personal services sector contributed the most to overall real GDP (0.4 percentage points).

Expenditure on GDP

South Africa's expenditure on GDP increased by 1.3 per cent in the fourth quarter of 2021, following a 1.7 per cent contraction in the previous quarter. The improved performance over the quarter was largely due to increased household consumption and a strong recovery in exports. Government consumption was relatively flat, while total fixed investment (gross fixed capital formation) reversed some of its third quarter losses.

Consumer spending grew by 2.8 per cent qqsa in the fourth quarter, contributing 1.8 percentage points to GDP. All major consumer spending categories grew in the fourth quarter of 2021, with outlays on non-durable goods (food and beverages) contributing most to the increase in total consumer spending.

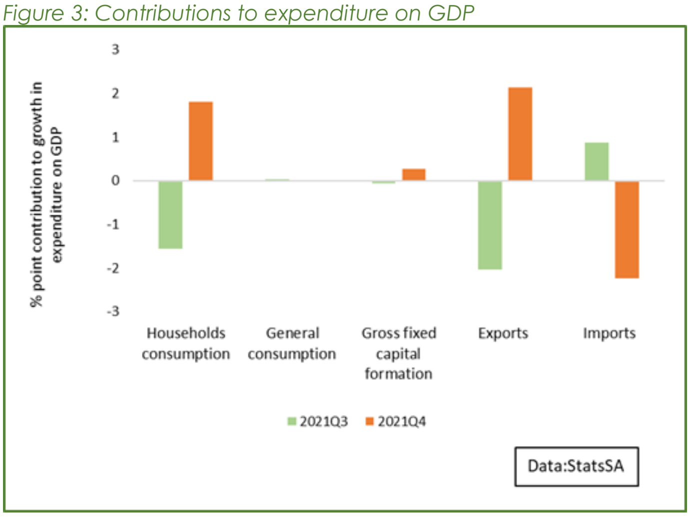
Table 2: Quarterly sector performance of expenditure components of GDP

% change q/q	Household consumption	Government Consumption	Invesment*	Exports	Imports	Exp on GDP
2021Q4	2.8	0.1	1.9	8.5	8.9	1.3
2021Q3	-2.4	0.2	-0.4	-7.6	-3.4	-1.7
2021Q2	0.9	-0.1	1.4	3.0	-0.1	1.3
2021Q1	1.0	-0.4	-2.6	2.2	6.7	1.0
2020Q4	3.1	0.6	5.3	6.0	11.2	2.8
2020Q3	18.1	0.1	12.8	27.9	-0.8	13.6
2020Q2	-20.7	-0.2	-21.8	-29.8	-18.4	-17.4

Source:StatsSA
*Investment refers to gross fixed capital formation

Exports, which had qqsa growth of 8.5 per cent, made the largest contribution to the quarterly real GDP growth in the fourth quarter of 2021. It contributed 2.1 percentage points to growth in GDP. This growth in exports was mainly due to precious metals and stones, base metals, and motor vehicles, parts, and accessories. The July 2021 social unrest and a cyber-attack on Transnet that disrupted port operations are deemed to have negatively affected exports during the third quarter of 2021. Net exports made a negative contribution to GDP because there was a large increase of 8.9 per cent qqsa for imports. The increase in imports was caused by increased demand for machinery and equipment, motor vehicles and other transport equipment.

Figure 3: Contributions to expenditure on GDP



Employment[2]

According to the Statistics South Africa's Quarterly Labour Force Survey, which measures formal and informal employment, the official unemployment rate rose by 0.5 per cent points in third quarter of 2021. The official unemployment rate of 34.9 per cent was the highest rate reported since the commencement of the QLFS in 2008. It pointed to the severe impact of COVID-19 on South Africa's already struggling economy. Special tabulations done by Stats SA to ascertain the movements between labour market status categories revealed that a large number of persons moved from the "employed" and "unemployed" statuses to the "not economically active" categories between the second and third

[2]The QLFS Q4 2021 results were supposed to have been published on 22 February 2022, but the publication is delayed. The data will be published by end of March.

quarter of 2021. A consequence of these movements was that the labour force participation rate declined by 2.3 percentage points to 55.2 per cent in third quarter of 2021. According to the third quarter 2021 Quarterly Employment Statistics survey released by Statistics South Africa (Stats SA), year-on-year, formal sector jobs increased by 54 000.

Table 3: Key labour statistics – Quarterly Labour Force Survey

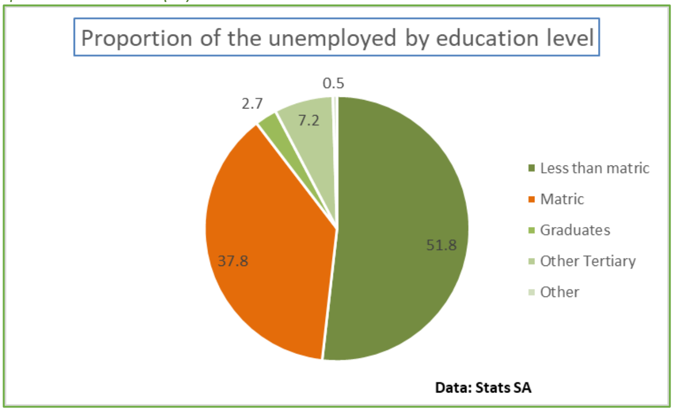
	3Q 2020	2Q 2021	3Q 2021
Labour force ('000s)	**21 224**	**22 768**	**21 925**
Employed	14 691	14 942	14 282
Unemployed - official	6 533	7 826	7 643
Unemployed - broad*	11 145	11 923	12 484
Not economically active ('000s)	**17 944**	**16 832**	**17 820**
Discouraged job-seekers	2 696	3 317	3 862
Other (not economically active)	15 248	13 515	13 958
Rates			
Official unemployment rate (narrow)	30.8%	34.4%	34.9%
Broad unemployment rate*	43.1%	44.4%	46.6%
Youth unemployment** (narrow)	43.2%	48.1%	49.3%
Youth unemployment** (broad*)	56.3%	58.5%	61.3%

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

Formal sector, non-agricultural employment fell by 5.6 per cent measured on a quarter-on-quarter basis. Specifically, 571 000 formal sector jobs were shed during the quarter as social unrest in parts of the country, coupled with stringent 2021 lockdown measures hindered economic activity, weighing on already struggling businesses. While the informal sector of the economy registered a marginal gain of 0.3 per cent quarter-on-quarter, total employment (incl. agriculture and private households) fell by 4.4 per cent quarter-on-quarter.

A disaggregation of the data by industry sector, indicates that the decrease in formal sector (non-agricultural) employment was broad based, with seven out of the eight industry categories surveyed having reported declines. The trade sector recorded the largest number of job losses at 272 000 over the quarter, followed by the community and social services sector (226 000).

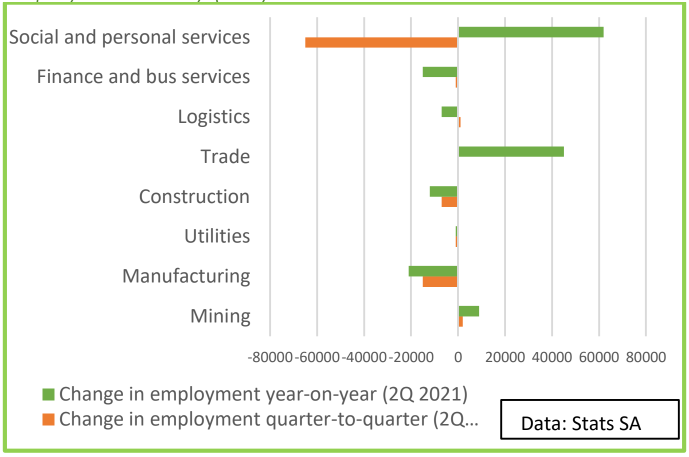
Figure 4: Proportion of the unemployed by education level – third quarter of 2021 (%)



The broad unemployment rate - which includes discouraged job-seekers and individuals who desire employment regardless of whether they are actively seeking work) - climbed by 2.2 percentage points in the third quarter of 2021 to 46.6 per cent, from 44.4 per cent during the previous quarter. This level is a marked 17.1 percentage points higher than the rate logged during the same period in 2008.

The youth category (15-24 years), a priority area of government, has been particularly affected by the country's mounting unemployment problem. It rose to 66.5 per cent in the third quarter of 2021 from 64.4 per cent in the second quarter of 2021. According to Stats SA, of the 7.6 million unemployed persons in the third quarter of 2021 "as many as 51.8 per cent had education levels below matric".

Figure 5: Sectoral contributions to employment – Quarterly Employment Survey (QES)

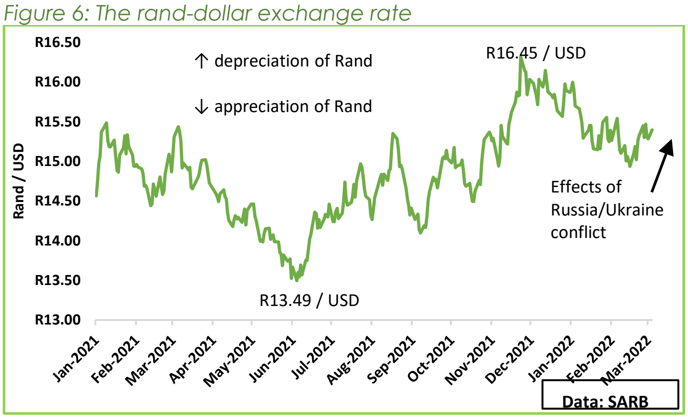


According to the Quarterly Employment Survey, which reports formal non-agricultural sector employment, employment increased by 60 000 jobs (a 0.6% decrease in employment) in the second quarter of 2021 compared to the same quarter in 2020. A majority of sectors continued to experience job losses in 2021 with the exception of, Community, social and personal services, and Trade and Mining, which both increased. Total employment decreased by 86 000 (a 0.9% decrease in employment) quarter-on-quarter, from 9 652 000 in the first quarter of 2021 to 9 566 000 in the second quarter of the same period. This was largely due to increases in community, social and personal services (65 000 or 2.3%), manufacturing (15 000 or 1.4%) and construction (7 000 or 1.4%).

Exchange rate

The rand strengthened 13 per cent against the US dollar over the first half of 2021, reflecting an improved trade balance, including higher commodity prices. The rand could have also benefited from increased demand for emerging market assets as stimulus spending from advanced economies provided liquidity for emerging market assets. During the middle of the year the rand weakened against the US dollar, possibly associated with lower demand for emerging market assets amidst signs of the US federal reserve moving towards a more aggressive monetary policy stance. The rand continues to benefit from a continued rally in commodity prices. The rand remains amongst the top five emerging markets (EM) in terms of performance since the beginning of the year 2022. The US Federal reserve may delay hiking interest rates because of Russia's war on Ukraine and increasing tensions with Western countries. The war has increased uncertainty with regard to key macroeconomic variables, including the exchange rate, and volatility in financial markets.

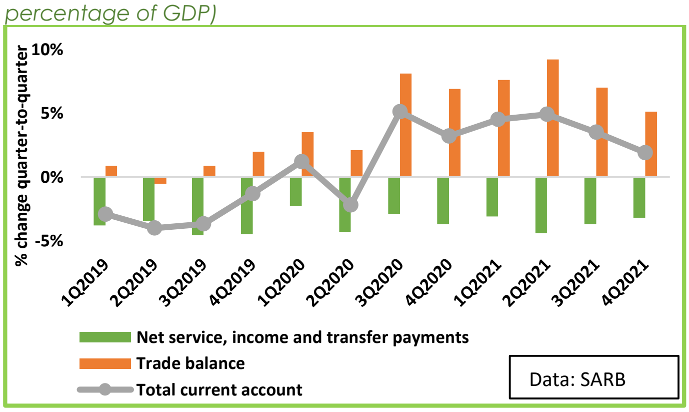
Figure 6: The rand-dollar exchange rate



Current account

The surplus on the current account of the balance of payments narrowed to R120 billion in the fourth quarter of 2021 from R216 billion in the third quarter

Figure 7: Change in the balance of the current account (as a percentage of GDP)

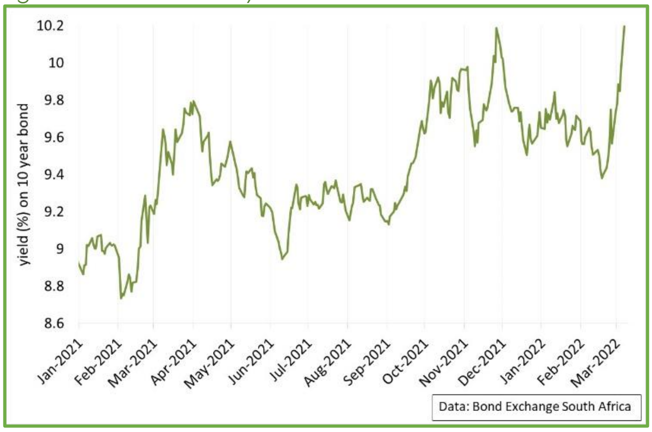


As a ratio of gross domestic product (GDP), the current account surplus narrowed to 1.9 per cent in the fourth quarter of 2021 from 3.5 per cent in the preceding quarter. On annual basis, the current account surplus increased from 2 per cent in 2020 to 3.7 per cent in 2021. The current account consists of the trade balance (which is the difference between exports and imports) and financial transfers, including net service, income and transfers payments. South Africa's trade surplus while remaining positive narrowed from R439 billion in the third quarter of 2021 to R324 billion in the fourth quarter as the value of merchandise imports increased substantially in volumes and prices -than the value of merchandise exports.

Sovereign risk

The yield on South Africa's 10-year benchmark bond – an indicator of market attitudes about the riskiness of South African government bonds – has trended upwards (worsened) from the beginning of 2021 along with other emerging market economies.

Figure 8: Yield on SA 10-year bond



During the first quarter of 2021, the yield increased by more than 80 basis points reflecting global aversion to emerging-market assets as the second wave of Covid-19 intensified globally, and lock-down measures took their toll on economies.

Yields moderated and improved during the middle of the year, as non-resident demand for SA government bonds increased with increased liquidity arising from the effects of a large US fiscal stimulus, and optimism around vaccine roll-outs.

The yield on the country's 10-year bond subsequently increased in the fourth quarter of 2021 reflecting higher consumer price inflation, a weaker rand, net sales of domestic government bonds by non-residents and concerns over an immanent tightening of monetary policy in advanced economies. After moderating since the beginning of the year, yields have increased significantly as global risk aversion returned with the Russian invasion of Ukraine.

South Africa's bond performance since the beginning of 2021 indicated increased risk perception at the beginning of the year, followed by a period of moderation, and a subsequent return to heightened risk perception. Whilst bond auctions have remained fairly well subscribed, average clearing yields (the interest government has to pay to finance the budget deficit and refinance maturing debt) remained high, which means that there are higher debt service costs for a given level of issuance.

Figure 9: Comparing yields on 10-year bond

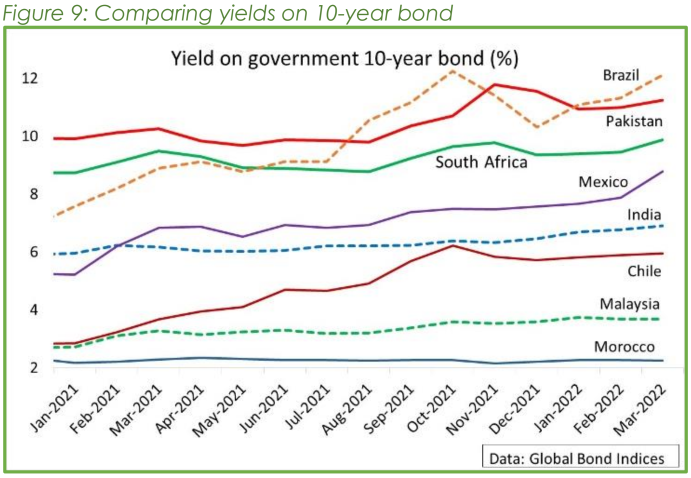
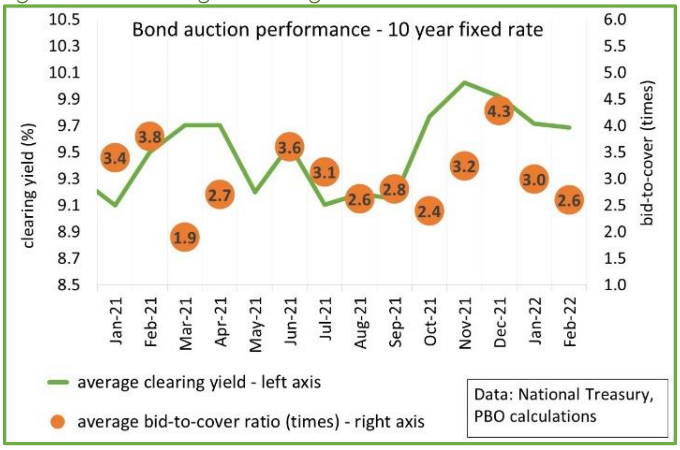


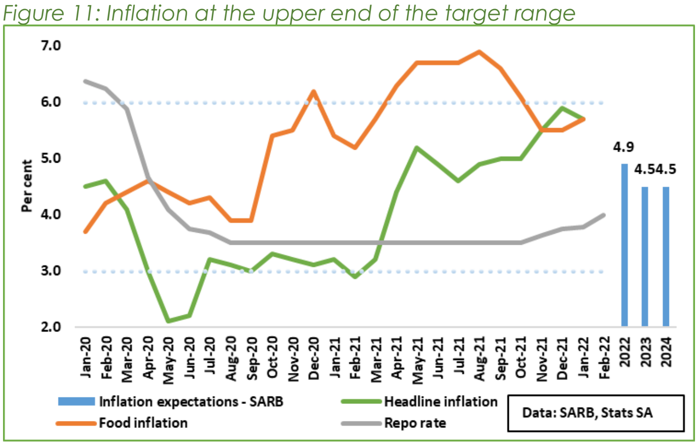
Figure 10: Increasing borrowing costs



Inflation and monetary policy

Headline consumer price inflation (CPI) for all urban areas, resurged from 4.6 per cent in July 2021 to reach the upper-end of the Bank's inflation target band of 3 to 6 per cent at 5.9 per cent in December 2021.

Figure 11: Inflation at the upper end of the target range



The headline inflation rate decreased marginally to 5.7 per cent in January 2022, remaining within the target band for 11 consecutive months since March 2021. Inflationary pressures have increased gradually since the beginning of the year in the wake of geopolitical conflicts between Russia and Ukraine, which resulted to disruptions in supply chain and higher crude oil prices. After keeping the repo rate at 3.5 per cent for 14 months since July 2020, the SARB's Monetary Policy Committee (MPC) has since chosen to increase the repo rate by 25 basis points in November 2021 and January 2022.

Domestic Outlook

Following early signs of a recovery in the domestic and global economy, government presented a slightly improved outlook for the South African economy over the medium-term in the 2021 Medium Terms Budget Policy Statement (MTBPS) as well as the 2022 Budget, compared to the 2021 Budget. Stronger-than-expected revenue collection over the 2021 fiscal year, largely due to higher commodity prices, combined with constraints on expenditure, contributed to a projected primary surplus. However, economic growth and investment are expected to remain lower than the average for developing countries. Levels of unemployment and inequality, which are already unbearably high, and associated with social, political and economic instability, may very well worsen over the MTEF. Therefore, while the government expects fiscal consolidation to draw to a close during the current MTEF there are several downside risks to this outlook, which are worsened by the negative economic effects of the Russian invasion of Ukraine.

Table 4: Revised SA growth outlook

GDP growth outlook - calender year*	2022	2023	2024
National Treasury - MTBPS 2021	1.8%	1.6%	1.7%
National Treasury - Budget 2022	2.1%	1.6%	1.7%
South African Reserve Bank - November 2021	1.7%	1.8%	2.0%
South African Reserve Bank - January 2022	1.7%	1.8%	2.0%
World Bank - Global Economic Prospects - June 2021	2.1%	1.5%	
World Bank - Global Economic Prospects - January 2022	2.1%	1.5%	
IMF - World Economic Outlook - October 2021	2.2%	-	
IMF - World Economic Outlook - January 2022	1.9%	1.4%	-
*Growth projections correspond to publication date and not forecast date			
Data: National Treasury, South African Reserve Bank, World Bank, International Monetary Fund			

Global outlook[3]

The World Economic and Social Prospects (WESP) publication of the United Nations Department of Economic and Social Affairs estimate in January 2022 for global GDP growth in 2021 was 5.5 per cent, and they forecasted that this growth would slow to 4 per cent this year and 3.5 per cent in 2023. They forecast a wide divergence of growth performance across the world. Problems in global value chains and associated increases in inflation, particularly higher food prices, is estimated to negatively impact on growth in 2022 and 2023. Increases in commodity prices during 2022 may offset some of these negative factors in some developing countries. The WESP growth forecast for Africa for 2022 and 2023 is lower than for the average of developing countries. The forecast growth for South Africa for 2022 and 2023 is even lower than that for Africa.

The UN forecast for recovery in global labour markets is that it will be inadequate to offset job losses during the pandemic. While they expect developed countries to return to full employment during 2023 and into 2024, the labour market recovery is expected to be much slower for developing countries. They project that the number of people living in extreme poverty globally will decrease to 876 million in 2022, but expect that poverty in many developing countries, particularly Africa will increase in 2023 because of pressure to limit fiscal expenditure and slow recovery in employment. The UN also expects that inequality between and within countries will continue to increase and be exacerbated by the different pace of recoveries across regions and countries.

Table 5: GDP for the world and regions

Annual percentage change	2020	2021 estimate	2022 forecast	2023 forecast
World	-3.4	5.5	4.0	3.5
Developed economies	-4.8	4.8	3.7	2.5
United States of America	-3.4	5.5	3.5	2.4
European Union	-6.0	4.7	3.9	2.6
Economies in transition	-2.6	4.4	3.2	2.9
Developing economies	-1.6	6.4	4.5	4.7
Africa (excl. Libya)	-2.2	3.8	4.0	3.6
South Africa	-7.0	3.8	2.3	2.1
East and South Asia	0.0	6.8	5.0	5.4
China	2.3	7.8	5.2	5.5
Western Asia	-3.4	4.7	4.8	3.5
Latin America and the Caribbean	-7.4	6.5	2.2	2.5
Least developed countries	0.8	1.4	4.0	5.7

United Nations Department of Economic and Social Affairs, January 2022

Since the publication of the 2022 WESP in January 2022, there has been the invasion of Ukraine and war by Russia. This war has already caused many deaths, injuries and the largest number of people fleeing war in a country since WW2. As long as the war continues there will be much economic and environmental damage. The extent to which the war will affect the global

[3] All expenditure/growth data is seasonally adjusted and annualised unless otherwise stated

economy is uncertain at the moment. International agencies have not published updated estimates and forecasts yet. However, the impact on global growth is expected to be negative with large negative impacts on the Ukrainian and Russian economies and neighbouring countries. The impact is also being felt as the war and sanctions against Russia already lead to sharp increases in oil and food prices.

The impact on oil prices over 2022 is likely to be large because it will take time to increase global oil production. Developed countries are expected to rapidly buy what is available. Saudi Arabia, the United Arab Emirates and Kuwait have spare capacity approaching 2.5 million barrels a year and Iran and Venezuela have spare capacity of approximately 1.5 million barrels a year. However, given recent tensions between the US and Saudi Arabia and the disruption of sanctions by the US and some western countries on production potential in Venezuela and Iran, there is uncertainty about how fast these countries may ramp up to full production. Europe is dependent on natural gas from Russia but the extent to which shortages in natural gas will affect the European economies over 2022 will depend on the length of Russia's war in Ukraine and the sanctions these countries impose on Russia. Natural gas prices have increased over the past two weeks, but since demand is seasonal and should spike later in the year, during the northern winter months, the outlook for these prices is uncertain.

Over the two weeks since Russia's invasion of Ukraine, wheat prices have increased from US$8 to US$13 per bushel. Ukraine and Russia accounted for more than 25 per cent of the world's exports of wheat before the war. This sharp increase in wheat prices will likely have a negative impact on global inflation and a particularly negative impact on developing and low income countries.

All of this is happening at a time when Covid-19 infection have declined across many countries. Several countries have eased restrictions. However, Covid-19 vaccination tracking reported in early March 2022 by the Our World in Data Project at Oxford University was that approximately 14 per cent of people have received one dose of the vaccine in low income countries. They report that vaccination rates have been slowest in Africa where only about 18 per cent of the population has received one dose of the vaccine. They say that in high and middle income countries about 79 per cent of the population has received at least one dose of the vaccine. Therefore, while a number of countries are talking about downgrading the pandemic to endemic, the risk associated with low rates of vaccination in low income countries remain. The possibility also remains that new strains of Covid-19 could spread across the world, including the possibility of new strains that are more resistant to vaccines.

The possibility of disruptions in the global financial system remains a risk and raises uncertainty with regard to short to medium-term prospects for the global economy. There was large scale asset purchase programmes (generally referred to as quantitative easing) by central banks of developed countries after the global financial crisis of 2008 and these were rapidly expanded to respond to the negative economic impact of the pandemic. The 2022 WESP reports that since March 2020, the central banks of Japan, the United Kingdom, the United States and the euro area added roughly $10.2 trillion in security assets to their balance sheets. The result was that these central banks' balance sheets have greatly expanded as their total assets sky-rocketed to over $25.9 trillion by the end of September 2021. While these APPs have helped developed countries temper the impact of the pandemic the longer-term impact is uncertain and pose a serious potential risk to global recovery and growth.

The increase in financial liquidity has led to much growth in corporate debt in developed countries, but relatively little fixed investment. Instead there has been share buybacks and much speculative behaviour in those financial markets. The WESP reports that the result has been asset price inflation in almost all asset classes (such as bonds, equity and real estate) in developed countries, particularly the USA where valuations are approaching levels before the bursting of the dot-com bubble in 2001. The large increases in financial liquidity in developed countries also contributed to increases in public and publicly guaranteed debt of low- and lower-middle income countries that is owed to private creditors, which increased by 264 per cent during 2010 to 2019. Therefore, the responses of private actors in financial markets to central banks' measures to curb rising inflation, including tapering asset purchase programmes, raise serious concerns for global financial stability.