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Introduction

This Quarterly Economic Bulletin (QEB), provides an update of the performance on the South African economy for the first quarter of 2022. The QEB provides economic updates, particularly with regard to macroeconomic performance, based on the most recent quarterly and monthly data releases from organisations such as Statistics South Africa (StatsSA) and the South African Reserve Bank (SARB).

Global outlook

Geopolitical conflict continues to have an important economic impact, not only within countries where conflict occurs, but at a regional and global level. There have been six coup de tats in 5 African countries in the last two years in Mali, Chad, Guinea, Sudan and Burkina Faso. The widespread poverty and poor governance and rise of extremist armed groups such as Boko Haram and ISIS have added to instability on the continent. Citizens across the continent are angered by ongoing poverty, efforts to steal elections and the lack of resilience in their communities to natural and human made disasters.

The civil war in Syria has entered its twelfth year with unimaginable human and economic devastation that has affected the region. According to the World Bank, more than half of the country's pre-conflict population of 21 million people have been displaced by the war and the verified death toll is over 350 000, but the true extent of casualties of the war is certainly much higher.

Russia invaded Ukraine on 24 February 2022 and since then an estimated 40 000 people have been killed and 15 million people of the pre-conflict population of 44 million have been displaced. Of the displaced, almost 7.5 million fled the country causing Europe's largest refugee crisis. The estimated damage of the war after about 100 days was US$ 600 billion.

Since both Russia and Ukraine are large commodity exporters, the war in Ukraine has worsened fuel, fertiliser and food shortages globally and exacerbated supply chain disruptions that developed over the past two years due to the Covid-19 pandemic. It has contributed to sharp rising inflation and worsened economic uncertainty across the globe. According to a UN Report in June 2022 on the global cost of the Ukraine War, the economic impact of the war (on fuel, food and fertiliser costs at a time when much of the world is still struggling to recover from the economic devastation associated with the Covid-19 pandemic) is "the largest cost-of-living crisis of the twenty-first century".

The estimated global growth for 2022 has been revised downwards by the major international economic and financial organisations. The United Nations Department of Economic and Social Affairs (UNDESA) re-estimated global growth down from 4.0 per cent in January 2022 to 3.1 per cent in June 2022. The Organisation for Economic Cooperation and Development also lowered their global economic growth estimate from the January 2022 estimate of 4.5 per cent to 3.0 per cent in June 2022. The World Bank estimated global GDP growth of 4.1 per cent in January and revised it to 2.9 per cent in June 2022. The World Bank forecast of 2.1 per cent for South Africa's GDP growth for June 2022 was not revised down from its January 2022 estimate. The OECD June 2022 and IMF April 2022 estimates for South Africa's GDP growth in 2022 was 1.8 per cent and 1.9 per cent respectively.

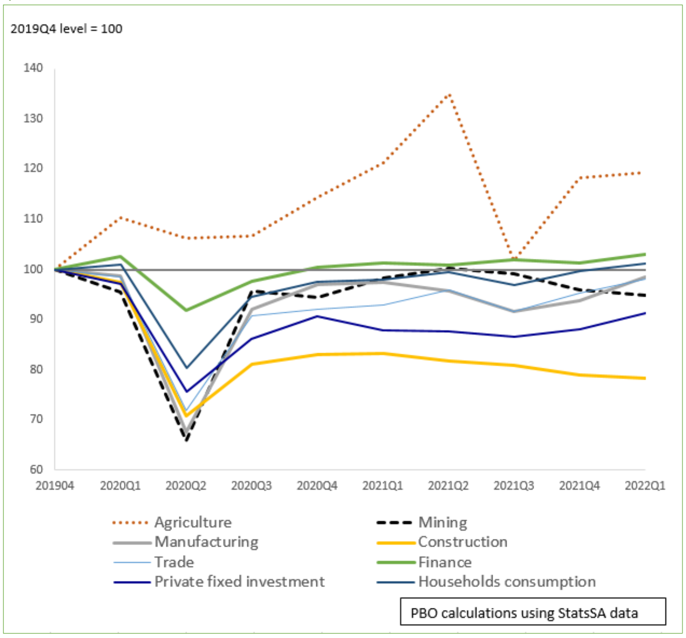
The International Labour Organisation (ILO) reported in May 2022 that the number of hours worked in the first quarter of 2022 deteriorated and that it was 3.8 per cent lower than it was in the fourth quarter of 2019 before the pandemic. They say that if one assumes a 48-hour work week, this number of fewer work hours translates into 112 million full time jobs. They said that the Covid-19 associated lockdowns in China account for most of the recent decline in global hours worked and caused a large increase on the ILO's estimates in January 2022 of 70 million fewer jobs.

The ILO estimates that global unemployment numbers for 2022 will be 207 million people, up from 186 million in 2019 before the pandemic. The view of the ILO is that, while some developed countries' employment levels had recovered to pre-Covid-19 levels by the end of 2021, many middle income and poorer countries will struggle to get back to pre-pandemic levels over the next few years.

Gross domestic product[1]

South Africa's gross domestic product (GDP) increased by 1.9 per cent on a quarter-on-quarter seasonally adjusted (qqsa) basis in the first quarter of 2022, following the upwardly revised growth of 1.4 per cent in the previous quarter. This marks the second consecutive quarterly expansion since the contraction of the third quarter of 2021. The better-than-expected growth in early 2022 and the slight revision to some of the historic GDP data meant that the reported size of real GDP has returned to its pre-COVID level (fourth quarter of 2019).

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



Although, the GDP has returned to its pre-pandemic level, there has been a stark divergence in economic performance of value added by the different sectors of the economy and the expenditure on the different demand-side components of GDP. Notably, the construction sector and private fixed investment remain below pre-pandemic levels.

Value added by eight of the ten industry sector categories made a positive contribution to GDP in the first quarter of 2022. Relatively strong growth in value added was recorded for the manufacturing and trade sectors. Whereas, value added by the mining and construction sectors declined during the quarter.

Value added by the primary sector decreased by 0.4 per cent in the first quarter of 2022, due to a contraction in mining production. The decline in mining output was driven by reduced production of platinum group metals, iron ore and gold. Heavy rainfall at opencast mines and industrial action disrupted mining production in the first quarter of 2022. By contrast, value added by the agriculture sector grew by a modest 0.8 per cent qqsa in the fourth quarter.

Table 1: Quarterly economic performance by sector

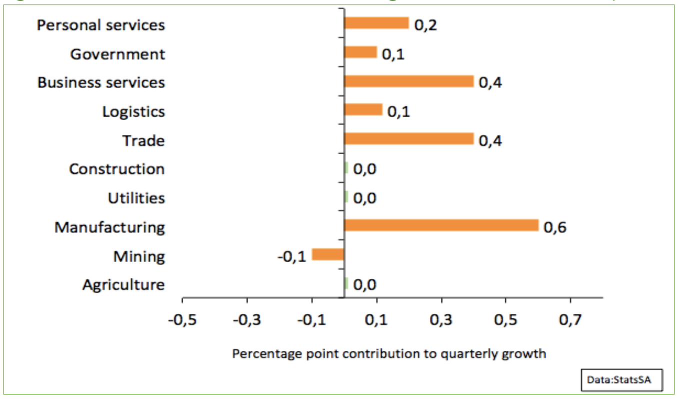
% change q/q	Agriculture	Mining	Manufacturing	Utilities*	Construction	Trade	Logistics**	Business services***	Government	Personal services	GDP
2022Q1	0.8	-1.1	4.9	2.0	-0.7	3.1	1.8	1.7	1.4	1.1	1.9
2021Q4	16.4	-3.2	2.4	-3.1	2.6	3.9	2.9	-0.7	-0.3	2.5	1.4
2021Q3	-24.7	-1.1	-4.3	0.3	1.1	-4.4	-1.6	1.2	0.3	0.3	1.8
2021Q2	11.3	2.0	-1.8	0.6	-1.6	3.2	6.7	-0.5	0.5	2.7	1.4
2021Q1	6.1	4.1	0.4	-0.6	0.2	0.9	-2.8	0.9	0.2	1.0	0.8
2020Q4	7.1	-1.3	5.5	0.5	2.3	1.5	4.6	2.8	0.2	1.6	2.7
2020Q3	0.5	45.1	36.1	12.7	14.7	26.2	13.2	6.5	0.3	4.6	13.8
2020Q2	-3.8	-31.0	-31.5	-12.2	-27.4	-27.0	-22.8	-10.6	-0.3	-6.7	-17.1

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

With the exception of the construction sector, which suffered a fourth consecutive quarterly decline in value added, the secondary sector performed better in the first quarter of 2022. Value added in the sector rose by 3.7 per cent qqsa, following a 0.8 per cent gain in the previous quarter. Improved production in the manufacturing and electricity sectors made up for the decline in value added in the construction industry. Value added by the manufacturing sector registered a 4.9 per cent qqsa growth rate. It made the largest contribution to real GDP growth (0.6 percentage points).

All tertiary sectors reported positive growth rates in value added during the first quarter of 2022. Consistent with increased final household consumption expenditure, the trade sector recorded the highest growth rate in value added of all the tertiary sectors (3.1%). Meanwhile, value added by general government services increased by 1.4 per cent qqsa, mainly attributable to increased employment and spending on goods and services.

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



Expenditure on GDP

South Africa's expenditure on GDP increased by 1.9 per cent in the first quarter of 2022, following an upwardly revised 1.5 per cent expansion in the previous quarter. Except for net exports, all other expenditure components added positively to growth in real GDP in the first quarter of 2022.

Net exports made a negative contribution to GDP due to an increase of 4.9 per cent qqsa for imports. The increase in imports was caused by increased demand for mineral products, machinery and equipment, motor vehicles and other transport

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

equipment. The quarterly growth rate of exports slowed to 3.9 per cent in the first quarter of 2022 from 8.5 per cent in the previous quarter. Exporters of South Africa's key commodities (mainly coal) are facing huge challenges meeting export demand due to disruptions at Transnet's export rail lines and port facilities.

Table 2: Quarterly sector performance of expenditure components of GDP

% change q/q	Household consumption	Government Consumption	Invesment*	Exports	Imports	Exp on GDP
2022Q1	1.4	1.0	3.6	3.9	4.9	1.9
2021Q4	3.0	0.2	1.6	8.3	8.4	1.5
2021Q3	-2.8	0.5	-1.1	-6.9	-3.4	-1.8
2021Q2	1.6	-0.4	-0.3	3.0	0.2	1.4
2021Q1	0.5	-0.6	-3.1	1.7	6.7	0.6
2020Q4	3.1	0.7	5.3	6.1	10.9	2.8
2020Q3	17.8	0.3	14.1	28.5	-0.6	14.0
2020Q2	-20.5	-0.5	-22.1	-29.9	-18.2	-17.0

Source: StatsSA
*Investment refers to gross fixed capital formation

Although the household consumption expenditure declined relative to the fourth quarter, consumer spending grew by 1.4 per cent qqsa in the first quarter and contributed 1.0 percentage point to the quarter's GDP growth rate. Despite the higher price of food and petrol, outlays on transport, food and restaurants still made up the largest portion of the overall rise in consumer spending.

Gross fixed capital formation rose by 3.6 per cent qqsa in the first quarter of 2022, boosted by both the private sector and general government. Notably, private sector capital expenditure rose by 4.1 per cent driven by outlays on machinery and equipment, as well as transport equipment. Even after the growth in the last two quarters, private fixed investment remains almost 9 per cent below pre-pandemic levels.

Figure 3: Contributions to expenditure on GDP

Employment

According to the Statistics South Africa's Quarterly Labour Force Survey, which measures formal and informal employment, the official unemployment rate declined to 34.5 per cent in the first quarter of 2022, from the record high of 35.3 per cent in the fourth quarter of 2021.

During the first quarter of 2022, the number of unemployed persons decreased by 60 000 to 7.9 million. The labour force increased by 310 000 to 22.8 million. At the same time, employment rose by 370 000 to 14.9 million; hence the 60 000 person decrease in unemployment.

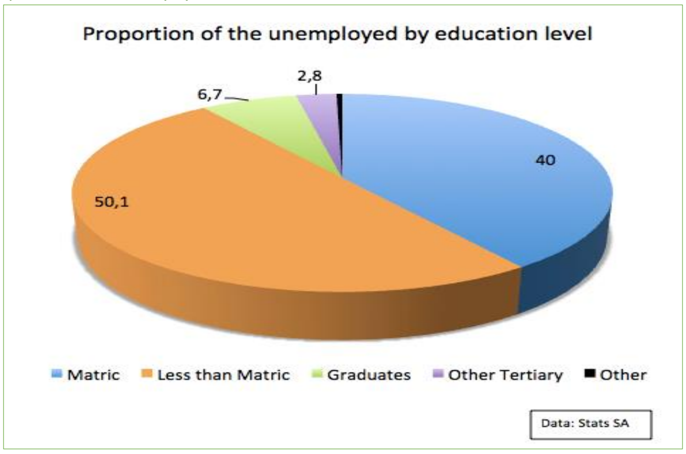
Employment numbers in both the formal (non-agriculture) and informal (agriculture) sectors of the economy increased on a quarter-on-quarter basis, by 4.2 per cent and 6.5 per cent respectively. When measured on a year-on-year basis informal sector employment grew by 12.7 per cent, perhaps indicating re-employment of some people who lost their formal sector jobs or businesses during the severe lockdown restrictions.

Table 3: Key labour statistics – Quarterly Labour Force Survey (QLFS)

	3Q 2021	4Q 2021	1Q 2022
Labour force ('000s)	**21 925**	**22 466**	**22 776**
Employed	14 282	14 544	14 914
Unemployed - official/strict) definition	7 643	7 921	7 862
Unemployed - *broad/expanded definition	12 484	12 492	12 445
Not economically active ('000s)	**17 820**	**17 423**	**17 257**
Discouraged job-seekers	3 862	3 806	3 752
Other (not economically active)	13 958	13 617	13 505
Rates			
Official unemployment rate (official/ strict definition)	34.9%	35.3%	34.5%
Broad unemployment rate*	46.6%	46.2%	45.5%

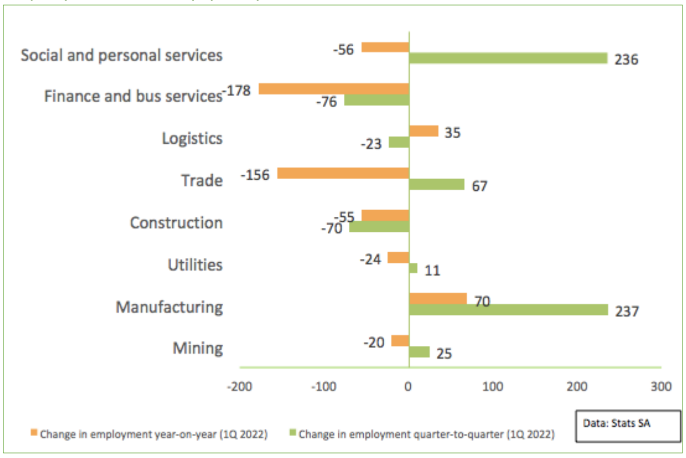
* The broad unemployment rate includes discouraged job seekers
Data: Quarterly Labour Force Survey, Stats SA

Figure 4: Proportion of the unemployed by education level – first quarter of 2022 (%)



The expanded unemployment rate, which includes respondents who have given up looking for work, stood at 45.5 per cent. While youth unemployment remained elevated at 63.9 per cent. According to Stats SA, of the 7.9 million unemployed persons in the first quarter of 2022, as many as 50.1 per cent had education levels below matric, followed by those with matric at 40 per cent.

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

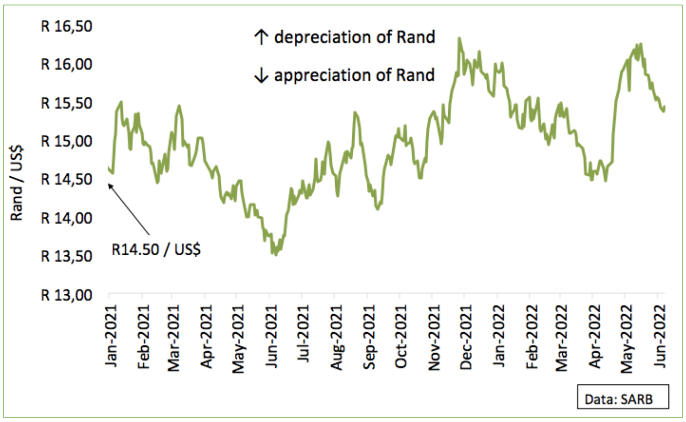


According to the Quarterly Employment Survey, which reports formal non-agricultural sector employment, employment increased by 154 000 jobs (a 1.6% decrease in employment) in the fourth quarter of 2021 compared to the same quarter in 2020. On a quarterly basis, total employment increased by 62 000 (a 0.6% increase in employment), from 9 953 000 in the third quarter of 2021 to 10 015 000 in the fourth quarter of the same period. This was largely due to increases in the trade (48 000 or 2.3%), community services (45 000 or 1.6%) and manufacturing (1 000 or 0.1%) sectors.

Exchange rate

After strengthening to an average of R15.22/$ in the first quarter of 2022 (from around R15.44/$ in the fourth quarter of 2021), the rand moved even firmer towards R14.50/$ in April. The local currency could have benefitted from elevated commodity prices and improved market sentiment towards South Africa relative to other emerging market currencies. First quarter net purchases of stocks and bonds by non-residents was positive after two years of negative net portfolio flows. Since the beginning of the second quarter, the rand along with other emerging market currencies weakened against the US dollar. The key factor behind this was the broad-based strengthening of the US dollar amid expectations that the US central bank will raise interest rates aggressively in order to curb increasing inflation. In the case of South Africa, slighter lower commodity prices combined with the devastating floods in KwaZulu-Natal and stage 4 load-shedding in April, may also help to explain the sudden and sharp weakening of the rand exchange rate in recent months.

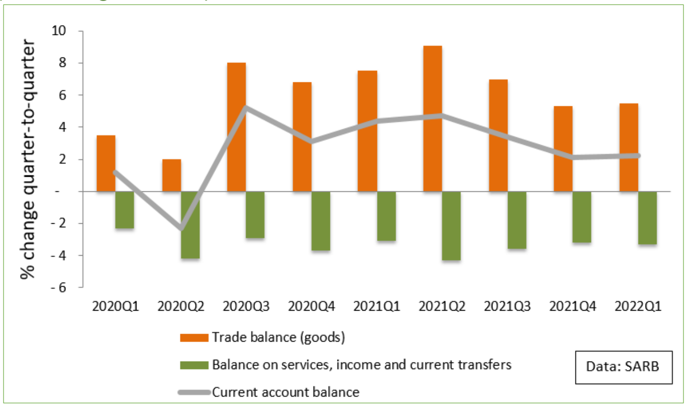
Figure 6: The rand-dollar exchange rate



Current account

The surplus on the current account of the balance of payments rose to R143 billion in the first quarter of 2022 from R132 billion in the fourth quarter.

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



Expressed as a percentage of GDP, the current account surplus widened to 2.2 per cent in the first quarter of 2022 from 2.1 per cent in the preceding quarter. The current account consists of the trade balance (which is the difference between exports and imports) and financial transfers, including net service, income and transfer payments. South Africa's trade surplus widened from R336 billion in the fourth quarter of 2021 to R360 billion in the first quarter of 2022. The value of merchandise exports increased substantially in volumes and prices than the value of merchandise imports.

Capital flows

The UNDESA reported that capital flows to emerging economies have declined since September 2021. They mention that net portfolio outflows from these economies were down $9.8 billion in March 2022 compared to the average net monthly inflows of about $30 billion over 2021 into emerging countries. Unlike other emerging economies, South Africa had net portfolio outflows in 2021. The size of these net portfolio flows amounted to R809 billion in 2021. These net portfolio flows were to some extent offset by an unusually large inflow of direct foreign investment (DFI) of R604 billion. However, the SARB reports that the bulk of this DFI could be attributed to non-resident investors exchanging shares held in Naspers for Prosus shares. It is unlikely that DFI will offset potential net portfolio outflows over the next few years.

The performance in net portfolio flows was better for the first quarter of 2022 as the SARB Monthly Releases showed net total purchases of shares and bonds by non-residents for January 2022 at R11 billion, February 2022 at R24 billion, March 2022 at R2 billion as well as April 2022 at R2 billion. However, the potential for large net outflows on the balance of payments has increased because of the change in asset allocation limits announced by the Minister of Finance in the 2022 Budget. Local asset managers warn that as much as R800 billion could leave South Africa in the next 3 to 5 years as a result of this exchange control liberalisation. The result would be less capital for investment and job creation in South Africa. The potential pressure on the balance of payments could force the SARB to adjust the economy downward, exacerbating existing constraints on economic growth and potentially worsening unemployment further. These potential negative impacts of further exchange rate liberalisation will probably be in addition to the likely negative consequences of the SARB's decision to increase interest rates in response to inflation rising, even though it is due largely to external factors and domestic aggregate demand levels remain low due to high unemployment and poverty levels.

Sovereign risk

The yield on South Africa's 10-year benchmark bond – an indicator of market sentiment about the riskiness of South African government bonds – has remained volatile and continued to trend upwards (worsened) from the beginning of 2021.

Over the first half of 2022, the yield increased by more than 60 basis points. The increasing yield reflects a general tightening of global credit conditions, as advanced-economy central banks hiked policy rates in response to increasing inflation in their own economies. This has resulted in a general increase in yields across most emerging market economies. The increasing yield also reflects higher domestic inflation in South Africa.

Figure 8: Yield on SA 10-year bond

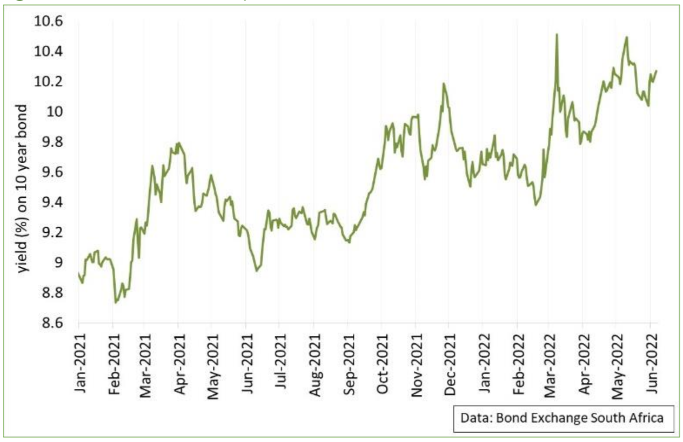
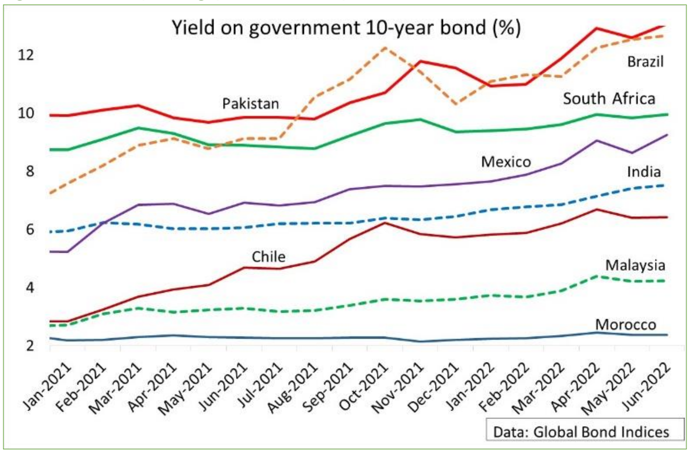
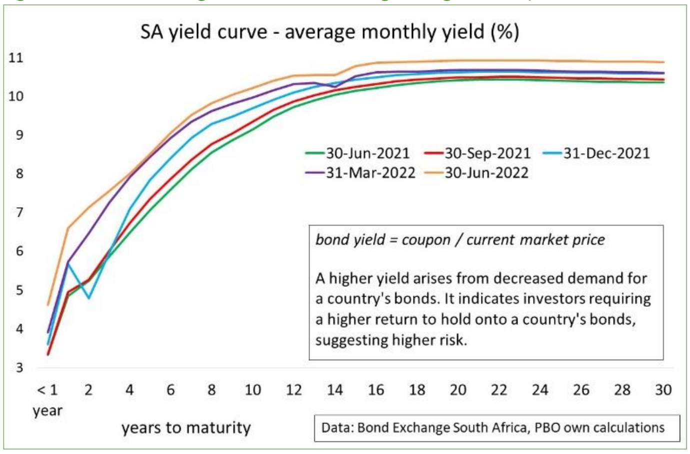


Figure 9: Comparing yields on 10-year bond



South Africa's yield curve– which presents borrowing costs across different maturities – has shifted upwards since the beginning of the year, reflecting higher perceived risk over the short to the long term. This is despite an improved fiscal outlook presented in the February 2022 Budget compared with the 2021 Medium Term Budget Policy Statement (MTBPS).

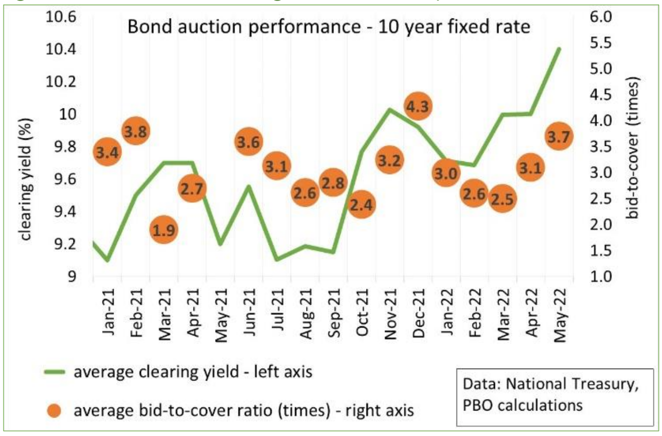
Figure 10: Increasing risk since the beginning of the year



South Africa's bond action performance since the beginning of 2021 reflects increasing risk perception. Whilst bond auctions have remained fairly subscribed, average clearing yields (the interest government has to pay to finance the budget deficit and refinance maturing debt) remained high, resulting in higher debt service costs for a given level of issuance.

Over May 2022, government issued its most expensive 10-year fixed rate bond in two years, with an average clearing yield of 10.4 per cent.

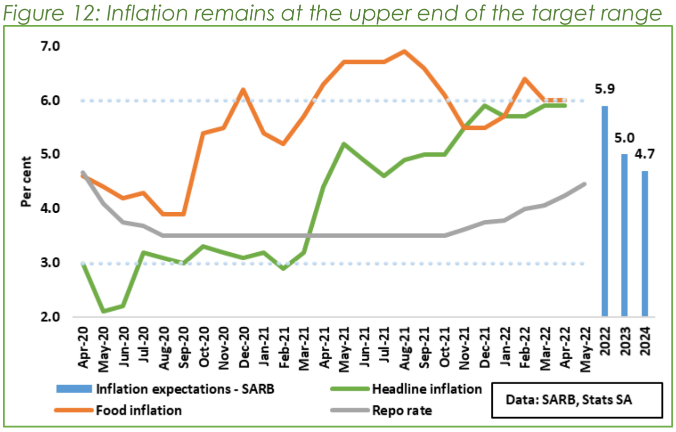
Figure 11: Performance of government 10-year bond auctions



Inflation and monetary policy

Headline consumer price inflation (CPI) for all urban areas was 5.9 per cent in April 2022, which is at the upper-end of the South African Reserve Bank's inflation target band of 3 to 6 per cent. 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 continued to gradually increase due to ongoing problems in global supply chains and geopolitical conflicts, particularly Russia's war on Ukraine. Supply chain disruptions and higher crude oil prices have affected all countries. The South African Reserve Bank's forecast for (SARB) headline inflation for 2022 was revised upward to 5.9 per cent (from 5.8%), primarily due to the higher food and fuel prices. The SARB's Monetary Policy Committee (MPC) increased the repo rate by 50 basis points or half a percentage point to 4.75 per cent in their May 2022 meeting. This is the fourth consecutive hike and the largest increase in over six years (after increasing it by 25 basis points in the previous three meetings). The reason given for the relatively large increase is heightened inflation risks stemming from geopolitical tensions.

Figure 12: Inflation remains at the upper end of the target range



Public finance

The Budget Review tabled in February presented key macroeconomic and fiscal projections for the 2021/22 fiscal year. Since its tabling, the data for the full fiscal year have been released. The complete data show a notably better-than-projected performance of the economy and public finances over the 2021/22 fiscal year.

Table 4: 2021/22 macro-fiscal outcomes

	2021/22	
(R billion)	Budget Review 2022 - projection	Outcomes
Real GDP growth (%)	6.0%	6.3%
Nominal GDP growth (%)	12.3%	13.2%
GDP at current prices	6251.49	6348.27
Main budget revenue	1549.10	1561.27
Non-interest expenditure	1627.65	1618.87
Debt-service costs	268.31	268.07
Main budget expenditure	1895.95	1886.94
Main budget balance	-346.89	-325.67
Main budget balance (% of GDP)	-5.5%	-5.1%
Primary balance	-78.58	-57.60
Primary balance (% of GDP)	-1.3%	-0.9%

Data: Stats SA, National Treasury

Higher real GDP growth combined with higher GDP inflation, compared with projections from the Budget Review, resulted in nominal actual output of almost R100 billion larger than projected. Over the year, main budget revenue was R12 billion larger than projected in the Budget Review, whilst main budget expenditure was R9 billion lower than projected, which allowed for a main budget deficit of R21 billion less than projected over the 2021/22 financial year.

The lower main budget deficit, combined with a larger nominal GDP, resulted in improved main budget and primary balance deficits as a share of GDP, compared with projections from the Budget Review.

Domestic outlook

The stronger-than-expected performance of the South African economy over the first quarter of 2022 bodes well for the economy over the current year. Household spending, private investment, and the tourism, hospitality and construction sectors are likely to support the economy going forward.

However, there are several downside risks to the outlook, including the economic effects of increasing policy rates by the SARB and advanced economy central banks, the continued Russian-Ukraine war, the effects of flooding in KZN as well as load-shedding.

Table 5: Revised SA growth outlook

GDP growth outlook - calender year*	2022	2023	2024
National Treasury - Budget 2022	2.1%	1.6%	1.7%
South African Reserve Bank - January 2022	1.7%	1.8%	2.0%
South African Reserve Bank - May 2022	1.7%	1.9%	1.9%
IMF - World Economic Outlook - January 2022	1.9%	1.4%	-
IMF - World Economic Outlook - April 2022	1.9%	1.4%	

*Growth projections correspond to publication date and not forecast date

Data: National Treasury, South African Reserve Bank, International Monetary Fund

The revised forecasts available at the time of publication of this brief show a marginal downward revision to the growth outlook for the South African economy since the tabling of the February Budget Review.