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The PBO provides a 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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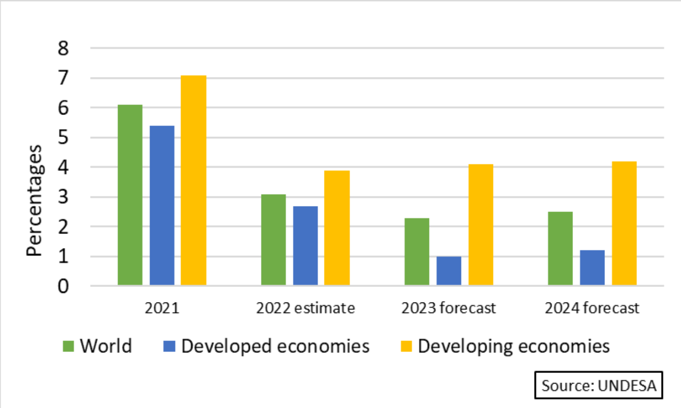
Introduction

This Quarterly Economic Bulletin (QEB), compiled by the Parliamentary Budget Office (PBO), provides an update on the performance of the South African economy for the first quarter of 2023. The QEB provides economic updates, particularly on macroeconomic performance, based on the most recent quarterly and monthly data releases from organisations such as Statistics South Africa (Stats SA), the South African Reserve Bank (SARB) and the United Nations Department of Economic and Social Affairs (UNDESA).

Global economic outlook

The global economy is experiencing many difficulties as countries attempt to rebuild and recover from the Covid-19 pandemic. Geopolitical conflicts, including the conflict in Sudan and the ongoing war in Ukraine, increasing economic impacts of global climate change and continued increases in interest rates all point to slow recovery during the rest of 2023 and 2024. The financial sector seems to have returned to business as usual after the collapse of banks in the US and the need for the Swiss Government to broker a takeover of Credit Suisse Bank earlier this year. However, there is much unease because of the potentially major and negative consequences associated with interest rate hikes.

Figure 1: UN projections for global economic growth



Many financial, real estate and industrial businesses in developed countries borrowed heavily during the period of quantitative easing (QE) when interest rates were very low. Concerns exist that the fallout of higher interest rates across businesses has yet to occur. The global business media have been speculating about the next 'shoe to drop' in terms of strained economic sectors and potential dangers to banks. They have been pointing to risks of higher interest rates in the US$5.6 trillion commercial real estate markets in the USA (Financial Times, 23 March 2023). There is a possibility that the slow recovery of developed countries, since the pandemic, may falter if financial conditions become increasingly volatile.

Many developing countries, including countries in Africa, were recipients of increased capital flows from developed countries during the period of quantitative easing. Quantitative easing in the developed countries led to increased liquidity in their financial sector, and some financial institutions explored developing countries for higher short-term returns on some of their funds. In many cases, increased capital flows into developing countries did not support economic activity outside of their financial sectors. The absorption of increased capital inflows into developing countries caused their exchange rates to appreciate and increased inflation. The stronger currencies suppressed exports from many countries.

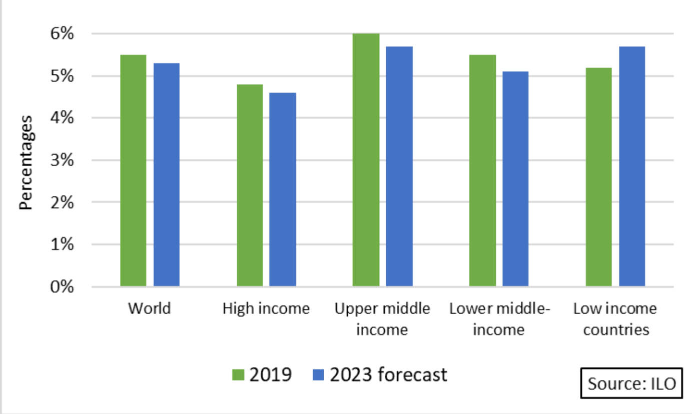
The response of many developing countries' central banks to higher inflation was to keep interest rates high. The recent rise in inflation and the end of quantitative easing have led to developing countries' central banks increasing their interest rates. These interest rate increases have been aimed not only at fighting inflation but also at keeping up with developed countries' rate increases. Overall, the impact of QE and the monetary policy choices of developing countries have suppressed development and growth in developing countries over the past decade.

In many developing countries, private companies increased debt during the COVID-19 pandemic. Their public sectors also increased expenditure and debt in response to the pandemic. The potential damage of the rising interest rates since the end of quantitative easing in developed countries on developing countries is not yet clear.

The adoption of fiscal consolidation over the past decade has also been a damper on economic growth in many developing countries. The possible intensification of fiscal consolidation by developing countries in response to higher debt levels incurred during the pandemic will likely present an obstacle to development and growth. In general, fiscal consolidation over the past decade has been negative for delivering services and extending social security to poor households in the developing world. It is also associated with increased inequality. The impact of rising interest rates and fiscal consolidation has caused a slower recovery in employment levels in much of the developing world after the pandemic.

Developed countries have experienced some rebound in employment, although it has not yet fully returned to pre-pandemic levels. While unemployment levels have decreased compared to the peak of the pandemic and the pace of recovery has been faster than during previous crises, the global estimated unemployment levels are still slightly lower than before the pandemic.

Figure 2: Unemployment rates for the world and different country income groups



South African economic situation: Gross domestic product[1]

The South African economy avoided a technical recession in the first quarter of 2023 despite a further worsening in the power constraint. With a cumulative 5 751 gigawatt-hours (GWh) shed in the first quarter of 2023, load-shedding was significantly more intense than the 3 934 GWh shed in the fourth quarter of 2022. Gross domestic product (GDP) increased by 0.4 per cent on a quarter-on-quarter seasonally adjusted (qqsa) basis in the first quarter, following a 1.1 per cent contraction in the previous quarter.

Table 1: Quarterly economic performance by sector

% change q/q	Agriculture	Mining	Manufacturing	Utilities*	Construction	Trade	Logistics**	Business services***	Government	Personal services	GDP
2020 Q3	1.5	45.5	35.5	12.6	14.8	26.0	13.1	6.2	0.3	4.6	**13.7**
2020 Q4	8.1	-1.3	5.5	0,5	2.0	1.3	4.6	2.9	0.2	1.4	**2.7**
2021 Q1	5.0	4.1	0.1	-0.8	0.3	0.8	-2.5	0.6	0.1	1.0	**0.6**
2021 Q2	10.1	2.0	-1.3	0.6	-1.3	3.3	6.6	-0.9	-0.5	2.5	**1.3**
2021 Q3	-25.8	-1.2	3.7	0,3	-1.1	-4.6	-1.5	0.8	0.3	0.2	**-1.9**
2021 Q4	15.3	-3.2	1.9	-3.1	-2.7	4.0	2.6	-0.5	-0.2	2.6	**1.4**
2022 Q1	0.9	-2.6	4.3	2.5	-0.6	2.9	.1.3	1.9	1.3	0.2	**1.5**
2022 Q2	-11.8	-3.1	5.6	-1.4	-2.6	-1.1	2.7	2.1	-1.5	0.3	**-0.8**
2022 Q3	31.4	1.9	1.6	-2.6	4.1	1.2	3.4	1.1	0.4	-1.0	**1.8**
2022 Q4	2.4	-3.0	-1.2	-2.0	0.4	-2.2	0.9	-1.6	-0.7	-0.1	**-1.1**
2023 Q1	-12.3	0.9	1.5	-1.0	1.1	0.7	1.1	0.6	0.2	0.8	**0.4**

Source:StatsSA

*Utilities includes electricity, gas and water

**Logistics includes transport, storage and communication

***Business services includes finance, real estate and business services

Eight of the ten economic sectors recorded positive growth rates in the first quarter, with manufacturing, finance, real estate and business services making the biggest contribution to growth.

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

The positive performance of manufacturing and mining may suggest that these energy-intensive sectors are building resilience to operate under the current conditions of intense power cuts. However, sustaining operations through alternative energy provision comes at excessive costs and will likely have a negative effect on the profitability of these economic sectors.

In contrast, value added by the agricultural sector decreased by 12.3 per cent, weighing most of the first quarter GDP. The combination of flooding in parts of the country in early 2023, struggles by irrigation and poultry farmers amid more intense load-shedding, as well as foot and mouth disease hampering cattle slaughtering activity, may help to explain the large

decline.

Expenditure on GDP

South Africa's expenditure on GDP increased by 0.4 per cent in the first quarter of 2023, largely boosted by higher exports. According to Stats SA, export growth was mainly driven by increased trade in base metals, food as well as machinery and electrical equipment. However, imports rose faster (4.4%), affecting net trade negatively.

Table 2: Quarterly sector performance of expenditure components of GDP

% change q/q	Household consumption	Government Consumption	Invesment*	Exports	Imports	Exp on GDP
2020 Q3	17.9	0.2	13.6	28.3	0.7	**13.7**
2020 Q4	3.5	0.4	4.8	5.6	11.2	**2.7**
2021 Q1	0.5	-0.6	-2.7	1.2	6.6	**0.6**
2021 Q2	1.7	0.5	-0.2	3.1	0.3	**1.3**
2021 Q3	-2.9	0.6	-0.1	-6.8	-3.4	**-1.9**
2021 Q4	2.9	0.2	1.5	8.3	8.5	**1.4**
2022 Q1	1.2	0.9	2.9	3.7	6.2	**1.5**
2022 Q2	0.1	-0.9	0.4	0.2	4.9	**-0.8**
2022 Q3	-0.1	0.5	0.4	2.0	0.2	**1.8**
2022 Q4	0.7	-0.7	1.5	-3.2	-0.9	**-1.1**
2023 Q1	0.4	1.2	1.4	4.1	4.4	**0.4**

Source:StatsSA

*Investment refers to gross fixed capital formation

Household consumption spending also contributed positively to GDP. However, the performance was not broad-based across the major consumer spending components. Consumer outlays on restaurants made the biggest contribution to total consumer spending. Looking ahead, elevated food prices and further hikes in borrowing costs will likely reduce disposable income and spending in the coming quarters.

Gross fixed capital formation rose by 1.4 per cent in the first quarter, primarily driven by a 7 per cent increase in general government capital expenditure. While the private sector and public corporations made smaller positive contributions, their impact was not on the same scale as the general government capital expenditure.

Employment

The official unemployment rate increased to 32.9 per cent in the first quarter of 2023 from 32.7 per cent in the fourth quarter of 2022. Stats SA indicated that a large number of people moved from the "not economically active" category to "employed" and "unemployed" between the two quarters, which resulted in an increase of 0.2 per cent in the unemployment rate. The number of unemployed people increased by 17 000 while those employed increased by 258 000 in the same quarter.

The expanded unemployment rate (which includes individuals who desire employment regardless of whether they actively seek work) increased by 0.5 per cent to 39.9 per cent in the first quarter of 2023 compared to the fourth quarter of 2022.

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

	1Q 2022	4Q 2022	1Q 2023
Labour force ('000s)	**22 766**	**23 688**	**24 125**
Employed	**14 914**	**15 934**	**16 192**
Unemployed - official	**7 862**	**7 753**	**7 933**
Unemployed - broad*	**12 445**	**11 849**	**11 937**
Not economically active ('000s)	**17 257**	**16 774**	**16 479**
Discouraged job-seekers	3 752	3 363	3 276
Other (not economically active)	13 505	13 412	13 202
Unemployment rates			
Official unemployment rate (narrow)	34,5%	32,7%	32,9%
Broad unemployment rate*	37,3%	39,4%	39,9%
Labour Force Participation Rate	56,9%	58,5%	59,4%

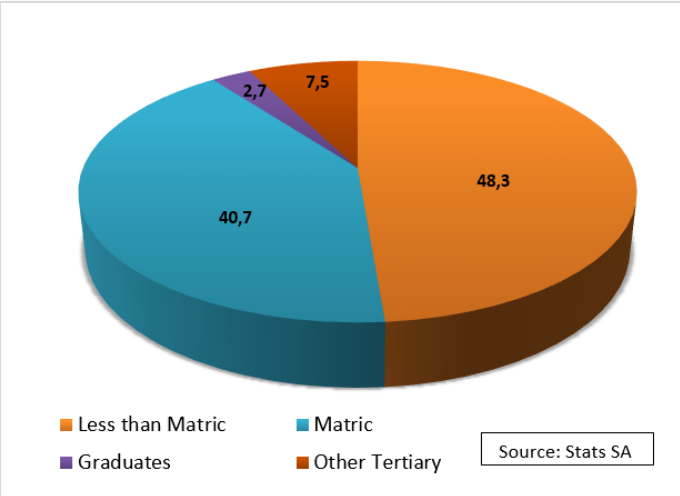
* The broad unemployment rate includes discouraged job seekers
**Data Source: Quarterly Labour Force Survey, Stats SA

At a provincial level, the largest employment increases were recorded in Gauteng (80 000) and Limpopo (7 100), while Mpumalanga (-45 000), Free State (-4 000) and Northwest (-4 000) recorded the largest job losses.

Gender disparities persist in South Africa's labour market, with the proportion of men in employment higher than that of women and the unemployment rate among men lower than amongst women. According to the official definition of unemployment, the unemployment rate for women in the first quarter of 2023 was 35.4 per cent, compared to 30.7 per cent for men.

The youth in South Africa continue to be disadvantaged in the labour market, with an unemployment rate higher than the national average. According to the Quarterly Labour Force Survey (QLFS), South African youth aged 15-24 years and 25-34 years recorded the highest unemployment rates of 62.1 per cent and 40 per cent respectively, while the current official national rate is 34.5 per cent. In the first quarter of 2023, up to 48.3 per cent of the 7.9 million unemployed had education levels below matric, followed by those with matric at 40.7 per cent.

Figure 3: Proportion of the unemployed by education level – first quarter of 2023 (%)

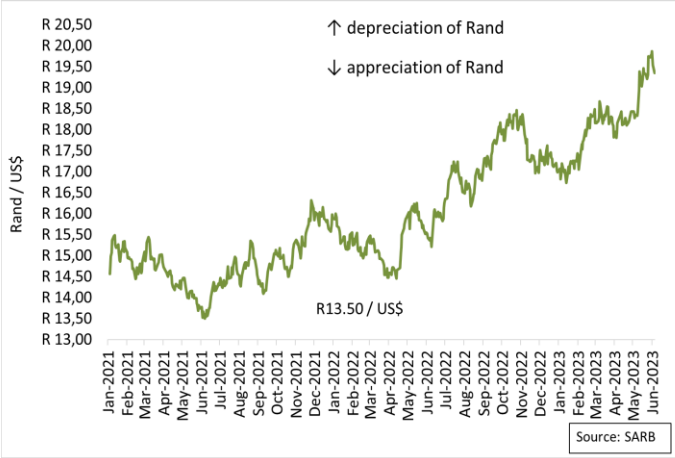


According to Stats SA, five of eight industries surveyed in the formal sector (non-agriculture) reported job losses. The formal sector job losses were mainly driven by trade at 44 000 followed by mining and manufacturing at 25 000 and 17 000, respectively.

Exchange rate

The South African rand has depreciated by 13.4 per cent against the dollar over the first half of 2023. The weakness in the rand largely reflected a stronger US dollar amid market speculation that the interest rates will remain higher for longer in the US economy. While it is often the case that international developments largely drive rand movements, however, the recent rand weakness can also be attributed to unique SA developments. In May 2023, the rand exchange rate fell to R19.52 against the US dollar, its weakest level ever following concerns about intensified load-shedding as well as accusations by the US embassy that SA supplied weapons to sanctioned Russia.

Figure 4: The rand-dollar exchange rate weakens in 2023



Current account

The current account deficit narrowed to R66.2 billion (1.0% of GDP) in the first quarter of 2023 from a revised R155 billion (2.3% of GDP) in the fourth quarter of 2022. This was the lowest current account gap since the second quarter of 2011, as the trade surplus widened from R34.2 billion in the fourth quarter of 2022 to R103 billion in the first quarter of 2023. The value of exports increased more than that of merchandise imports. Meanwhile, the shortfall in the services income and current account transfer narrowed for a third consecutive quarter to R169 billion in the first quarter of 2023 from R190 billion in the previous quarter. While the secondary and primary income deficit increased, the first quarter deficit was lower due to noticeably smaller deficits on the services account.

Figure 5: Change in the balance of the current account (as a percentage of GDP)

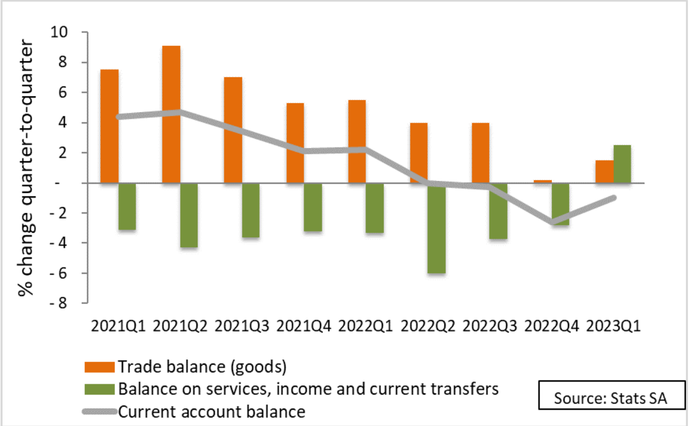
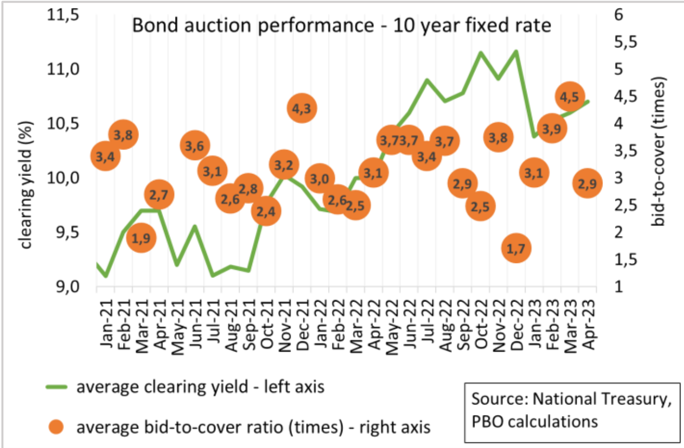


Figure 7: Increasing cost of issuing government debt



Sovereign risk

The yield on the country's 10-year bond increased throughout the first half of 2023, reflecting the impact of the war in Ukraine on global inflation and the subsequent monetary policy tightening by most central banks in advanced economies. Higher interest rates in advanced economies often trigger capital outflows from emerging economies such as South Africa. The increase in domestic bond yields also reflected domestic factors such as higher inflation, the weaker exchange value of the rand and the impact of intensified electricity load-shedding on domestic economic activity.

Figure 6: Yield on SA 10-year bond

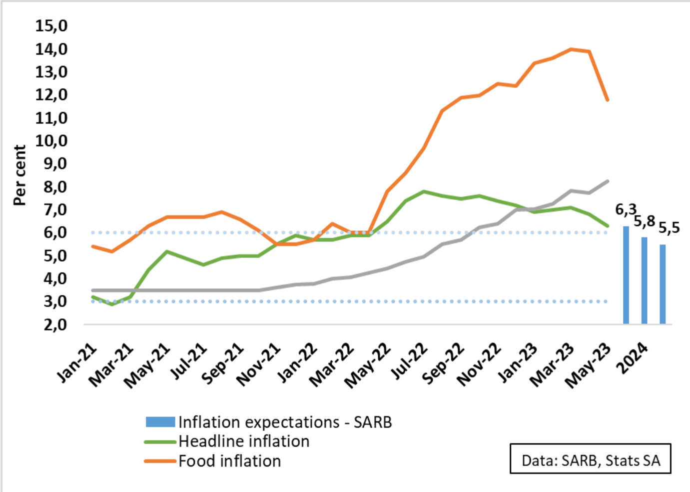
Reduced tax revenue amid weaker economic growth prospects and declining commodity prices will likely place additional pressure on rand-denominated bond yields. In April 2023, the average clearing yields (the interest government has to pay to finance the budget deficit and refinance maturing debt) increased whilst the demand for domestic bonds declined at the government's weekly bond auctions.

Inflation and monetary policy

Headline consumer price inflation (CPI) for all urban areas declined to 6.3 per cent in May 2023 from 6.8 per cent in April 2023. The largest contributors to the deceleration of inflation were food and transport prices. Food prices decreased from 13.9 per cent in April 2023 to 11.8 per cent in May 2023. Transport prices declined from 7.6 per cent to 7 per cent over the same period. Although headline inflation has slowed, it remains well above the upper limit of the SARB'S inflation target range of 3-6 per cent. In response to the inflationary pressures, the SARB's Monetary Policy Committee increased the repurchase rate by 50 basis points to 8.25 per cent in their May 2023 meeting.

Borrowing costs are now at their highest level in 14 years, straining household budgets. The cumulative 475 basis points increase in the repurchase rate since November 2021 is going to further weaken an already struggling economy. Interest rates are a blunt tool to employ when much of the current inflation is driven by supply-side factors (i.e. the impact of the Russia-Ukraine war on food prices, higher fuel and electricity prices as well as a weaker exchange rate). There is also increasing evidence which suggests that much of the inflation, including food prices – globally and in South Africa – is driven by excessive corporate profit margins. In this regard, monetary policy needs to be complemented by fiscal and industrial policy interventions to effectively address these supply-side risks to inflation and to shelter the poor.

Figure 8: Inflation remains above the SARB's target range



Domestic economic outlook

Domestic growth forecasts show weakened growth expectations for 2023, given much uncertainty in both the global and domestic economy. Estimates by the SARB, UNCTAD and IMF for 2023 growth indicate that the economy is barely growing and expected GDP per capita is negative. Economic activity is expected to be constrained by fiscal consolidation, load-shedding, a deceleration in commodity prices, higher interest rates, bottlenecks at Transnet's ports and lower global demand and growth in some of the country's major export markets.

An important strategy to kick-start growth in the face of these problems is to build household resilience through fiscal expansion on services, grants and infrastructure investment. Spending on households can boost aggregate demand in the economy.

Table 4: Revised SA growth outlook

GDP growth outlook - calender year*	2023	2024	2025
National Treasury - MTBPS 2022	1.4%	1.7%	1.8%
National Treasury - Budget 2023	0.9% ↓	1.5% ↓	1.8%
South African Reserve Bank - January 2023	0.3%	0.7%	1,0%
South African Reserve Bank - March 2023	0.2% ↓	1,0% ↑	1.1% ↑
IMF - World Economic Outlook - January 2022	1.1%	1.3%	
IMF - World Economic Outlook - April 2023	0.1% ↓	1.8% ↑	
Bureau for Economic Research - January 2023	0.5%	1.4%	1.8%
Bureau for Economic Research - April 2023	0.2% ↓	1.4%	1.8%
UNCTAD - January 2023	1.3%		
UNCTAD - April 2023	-0.3% ↓		

*Growth projections correspond to publication date and not forecast date

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

Box 1: The impacts of load-shedding on the South African economy

Load-shedding continues to have negative ramifications for South Africa's economy. In a contractionary macroeconomic (fiscal and monetary) environment, the impacts of load-shedding are more pronounced. According to the South African Reserve Bank's (SARB), May 2023 Financial Stability Review, load-shedding is "expected to detract two percentage points from overall growth this year (assuming 280 days of load-shedding at varying stages, but predominantly at stage 4)".

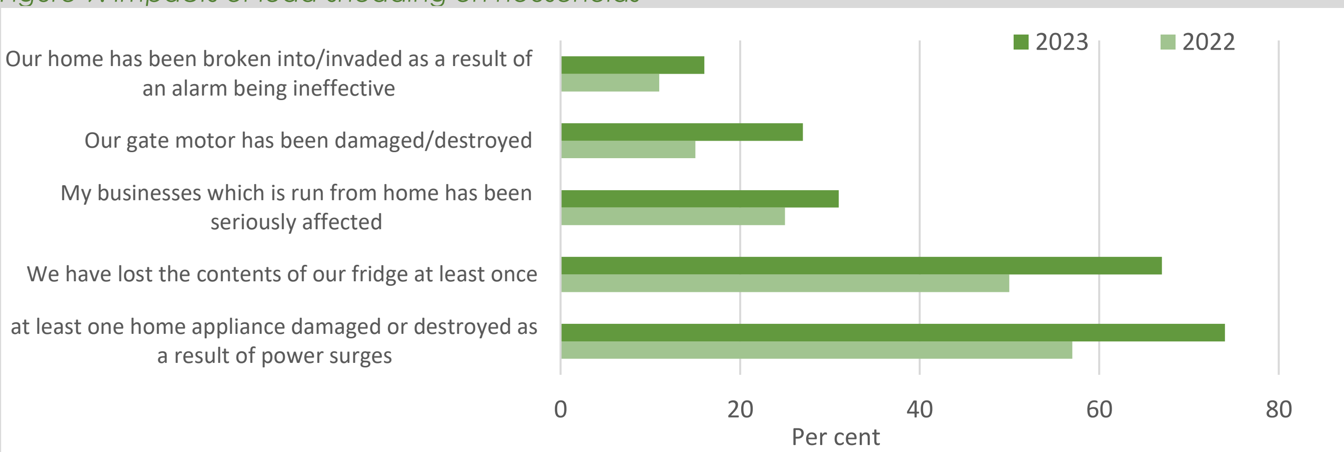
Load-shedding has caused widespread disruptions to productivity, business closures and job losses. The impacts of load-shedding on business, particularly small, micro and medium enterprises (SMMEs), has been widely documented. In recent remarks, the Electricity Minister, Kgosientsho Ramokgopa, stated that "In 2022, we lost more than 650 000 jobs as a result of load-shedding. The projection, at the current rate of load-shedding, is that SA might lose 850 000 plus jobs". In a context of high unemployment, poverty and inequality, load-shedding continues to exacerbate the already dire macroeconomic conditions.

According to the SARB, load-shedding may increase headline inflation by 0.5 per cent in 2023. They attribute the inflationary impact to the high operational costs driven by powering of diesel generators. The SARB states that these costs are passed on to customers. Increasing inflation remains a concern given the protracted cost of living crisis that South African citizens have endured. In addition, the SARB suggests that high levels of load-shedding lead to higher rates of wastage and spoiling, particularly throughout food value chains, which might result in shortages of certain items. Although it is unknown how likely this is, the prospect should cause alarm.

Households are bearing the brunt of load-shedding. In 2022, labour union Giwusa's president, Mamatlwe Sebei stated that "Stage 6 load-shedding means that in addition to load reduction programmes, black working-class communities are forced to stretch the incomes already burdened by intolerable levels of inflation, to survive another week under load-shedding. This occurs in households that are already struggling to meet their daily needs, where savings are a luxury and every source of income is essential". These households have to resort to firewood to cook. This points to the crisis of social reproduction that working-class households are facing, particularly women who disproportionately bear the burden of care work. A 2022 report by the University of Johannesburg (UJ) Centre for Sociological Research and Practice (CSRP) titled "Energy Racism: South Africa's electricity crisis in Black working-class communities" showed that load reduction disproportionately affects impoverished black areas. Load-shedding exacerbates these conditions.

Load-shedding has also had ripple effects on safety, appliance durability, wastage and spoilage for households and home-based businesses. A small study (300 people sample) by TrendER/infoQuest in 2023, shows increases in the negative impacts to households. While this study has a small sample, it gives insight into some of the issues facing households. The figure below summarises their findings.

Figure 9: Impacts of load-shedding on households



For the majority, sustainable alternatives are still not attainable. The SARB states that "[t]here is growing evidence to suggest that households and firms are investing in alternative energy sources to mitigate the effects of more severe load-shedding, although at the expense of other priorities". However, there is a significant inequality gap between those who can afford these alternatives and those who cannot. The Budget 2023 proposed R13 billion in tax relief, of which, 69 per cent of the proposed tax relief is from renewable energy incentives. Studies show that clean energy subsidies disproportionately go to higher-income and wealthier people. The bottom 50 per cent of the South African population has negative wealth, which the National Treasury acknowledged in its response to the public hearings. Similarly, with businesses, those with greater access to capital will likely be able to take greater advantage of the solar panel tax incentives than small and micro businesses.

Load-shedding continues to be a significant threat to South Africa's socioeconomic system. Concerted efforts to mitigate the impacts of load-shedding as well as to resolve the issues Eskom faces remain more urgent than before as load-shedding continues to rage on at higher levels and for longer periods.

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