March 2022 Quarterly Economic Brief highlights: analysis and context

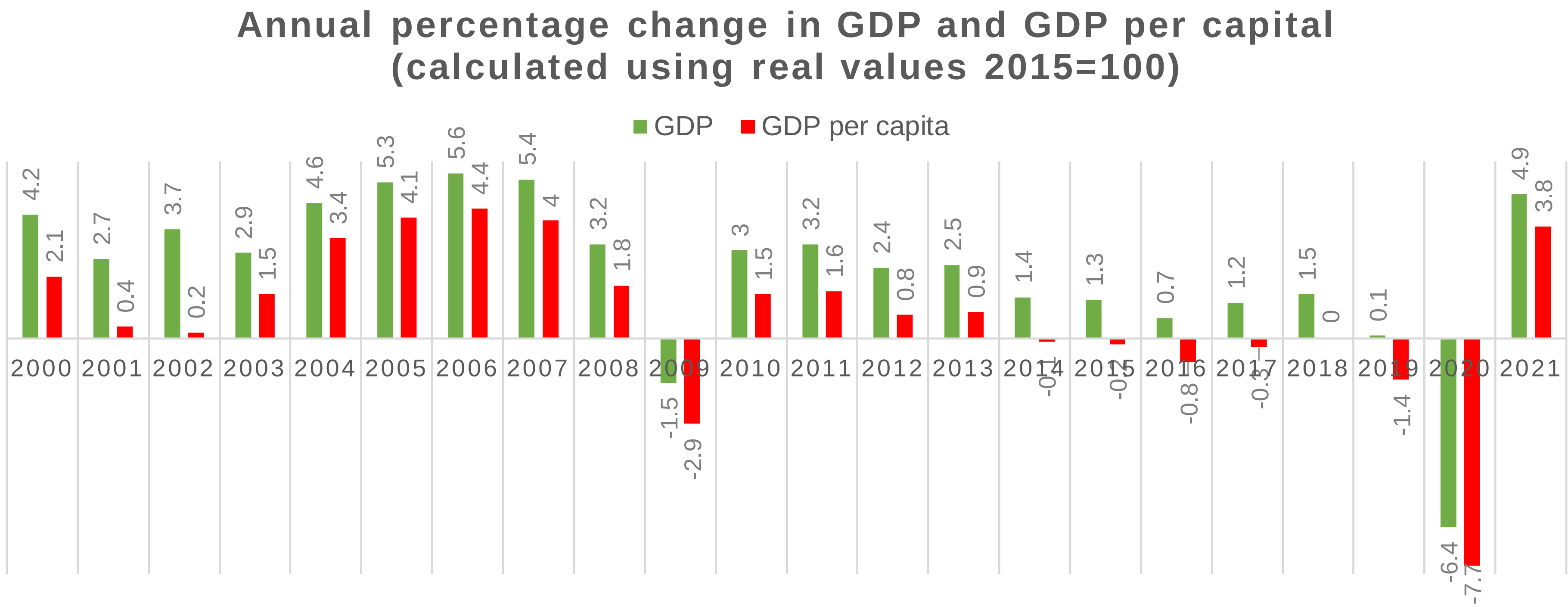
Parliamentary Budget Office

PARLIAMENT
OF THE REPUBLIC OF SOUTH AFRICA

Introduction

- This presentation aims to introduce the PBO's Quarterly Economic Bulletin (QEB) and the content therein
- The QEB has been developed to support MPs with macroeconomic updates and analysis
- The QEB could be a useful source of regular economic information and analysis for all people in the legislative environment, particularly those dealing with public finance responsibilities
- This presentation draws from the PBO's March 2022 QEB plus it updates data where possible
- Since most of the data for the March QEB was from recently released reports for the 4th quarter of 2021, we are able to provide an overview of full year performance for 2021
- To further add value to this presentation we will show certain relevant long-term macroeconomic trend and analysis

Economic growth (annual percentage change in real gross domestic product)



- Note that since 2014, except for the 2021 bounce back from the sharp decline due to the pandemic in 2020:
    - real annual GDP growth has been low (1.5% and less)
    - real annual GDP growth per capita has ben negative (except for when it was 0 per cent in 2018
- Next we look at the quarterly changes to GDP presented in the March 2022 QEB.
- We show GDP measures in terms of value-added by economic sectors (supply-side of goods and services) and by expenditure of different groups (demand-side)

Sector value added contributions to GDP

Quarterly changes in contributions by sectors to GDP

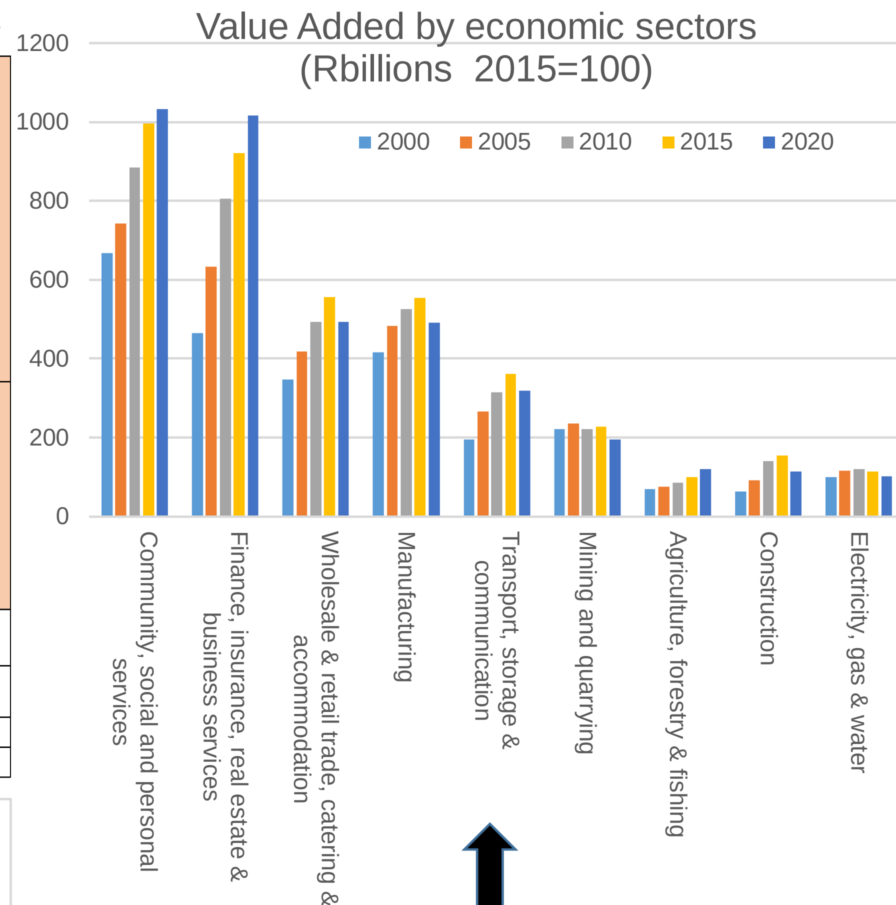
% change q/q	Agriculture	Mining	Manufacturing	Utilities*	Construction	Trade	Logistics**	Business services***	Government	Personal services	GDP
2021Q4	12.2	-3.1	2.8	-3.4	-2.2	2.9	2.2	-0.8	-0.4	2.7	1.2
2021Q3	-20.6	-0.6	-4.2	0.3	-0.6	-5.5	-1.7	1.1	0.3	0.5	-1.7
2021Q2	10.1	2.5	-1.5	0.7	-0.8	3.2	6.3	-0.6	-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

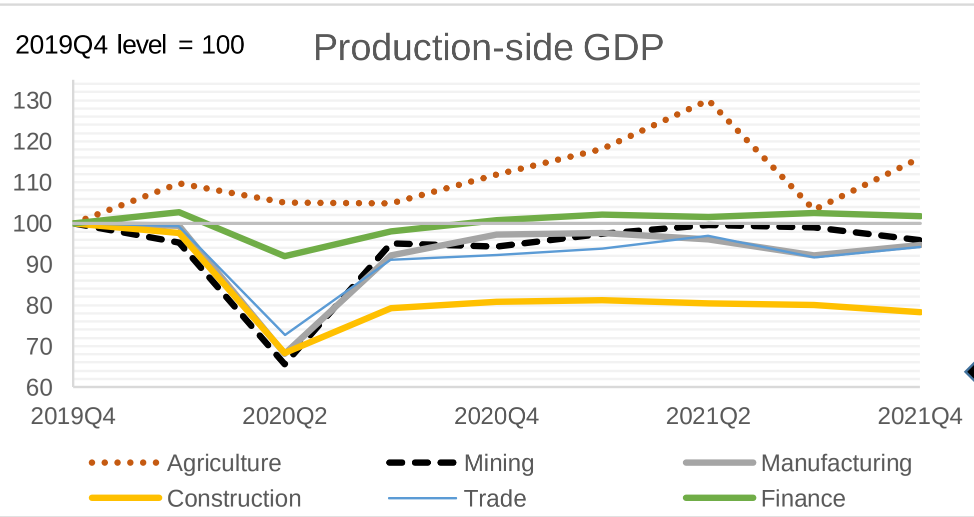
*Utilities includes electricity, gas and water

**Logistics includes transport ,storage and cor

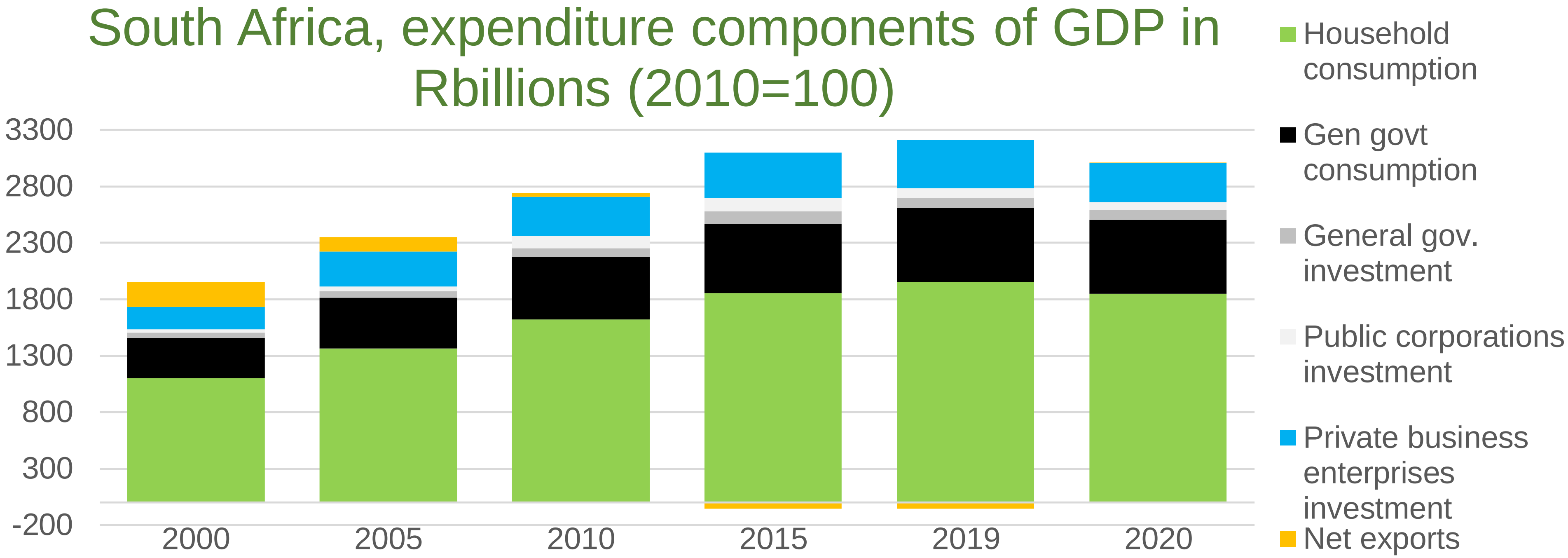
***Business services includes finance, real est

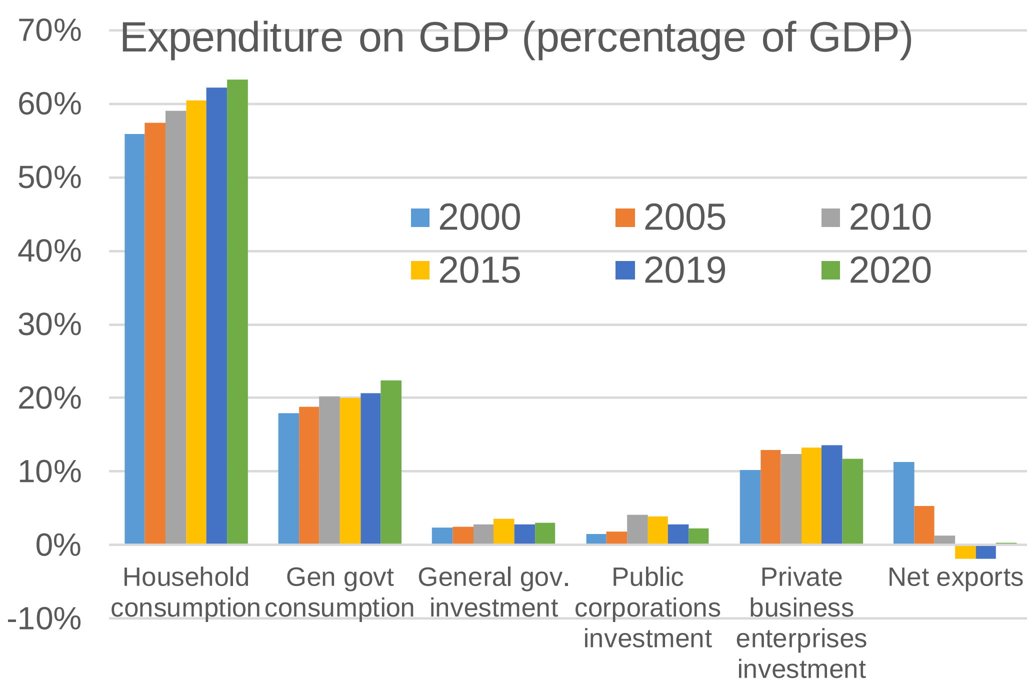


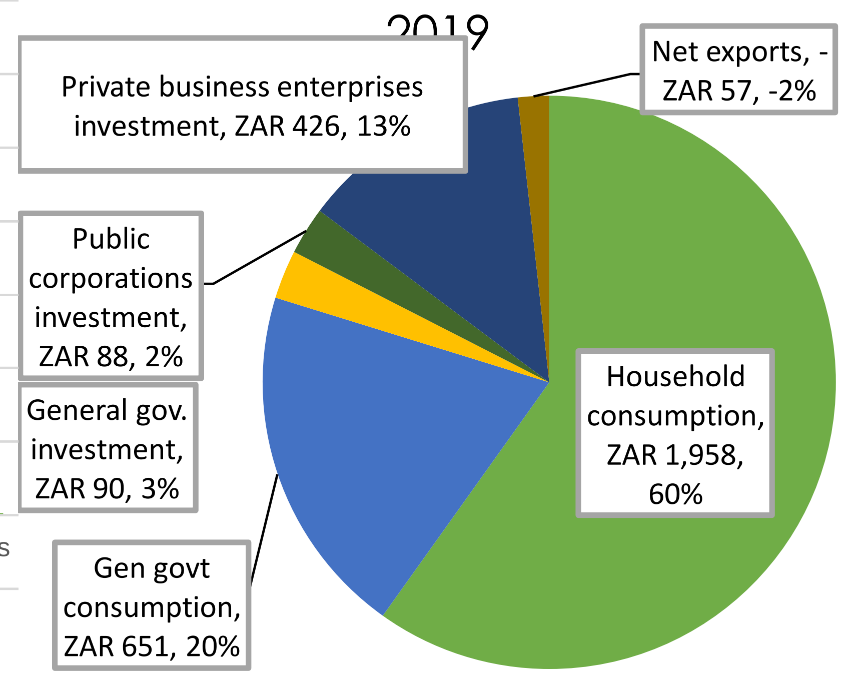
Over the long run sector value-added provides a sense of economic structure and how it is changing



Value added for only 2 sectors have recovered above their 2019Q4 level by end of 2021

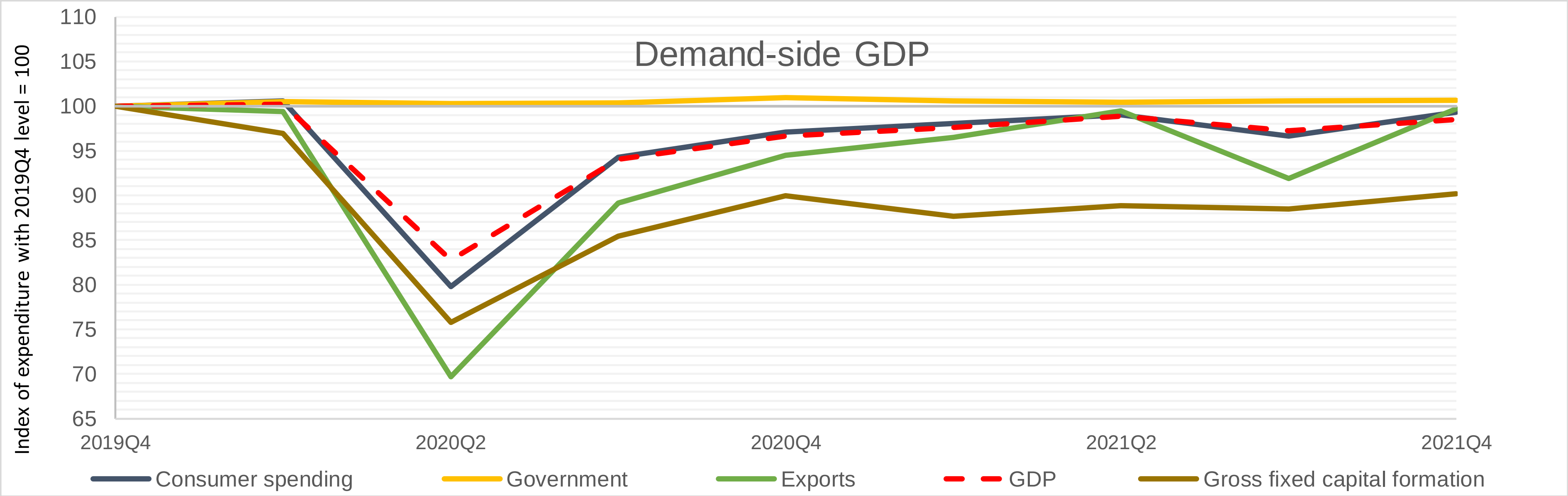

South Africa, expenditure components of GDP in Rbillions (2010=100)
3300
2800
2300
1800
1300
800
300
-200
2000
2005
2010
2015
2019
2020
Household consumption
Gen govt consumption
General gov. investment
Public corporations investment
Private business enterprises investment
Net exports


Expenditure on GDP (percentage of GDP)
70%
60%
50%
40%
30%
20%
10%
0%
-10%
2000
2005
2010
2015
2019
2020
Household consumption
Gen govt consumption
General gov. investment
Public corporations investment
Private business enterprises investment
Net exports

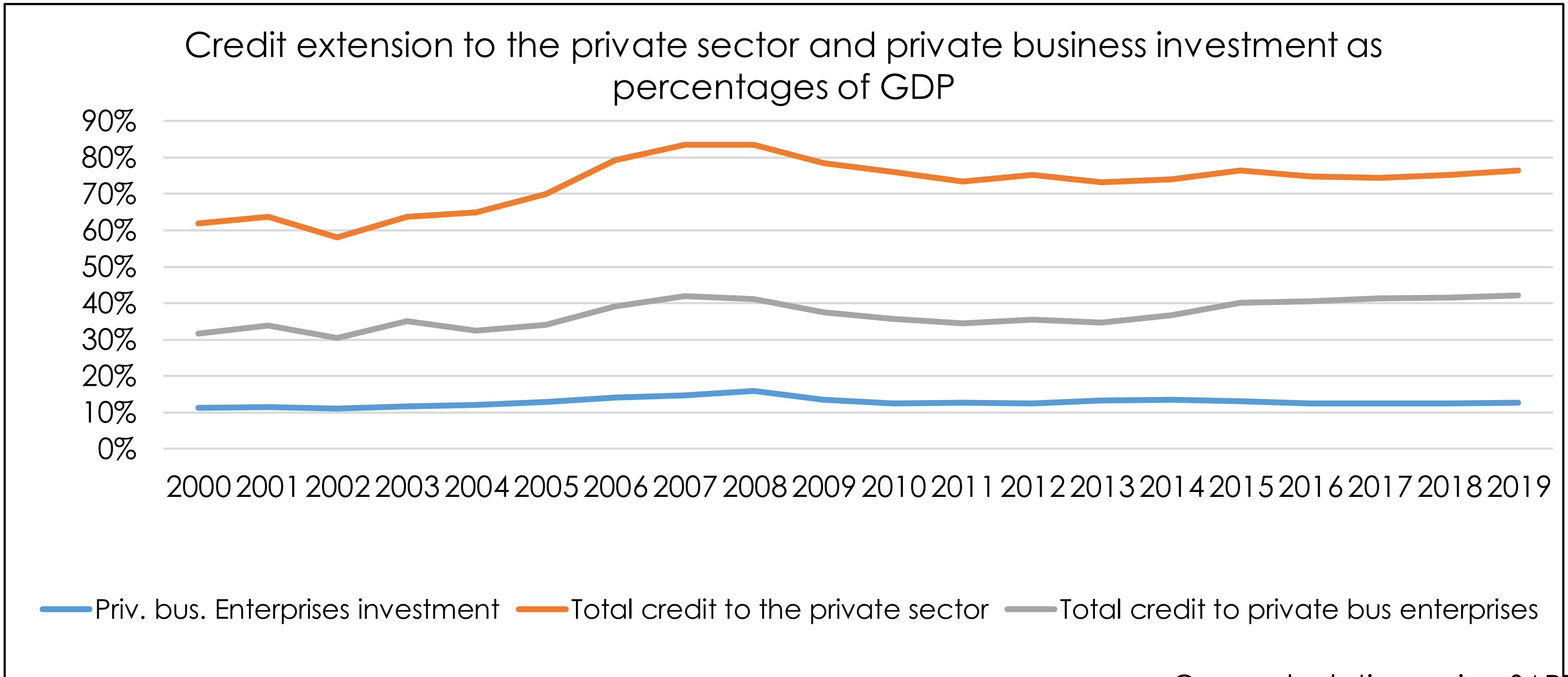

2019
Private business enterprises investment, ZAR 426, 13%
Net exports, -ZAR 57, -2%
Public corporations investment, ZAR 88, 2%
General gov. investment, ZAR 90, 3%
Gen govt consumption, ZAR 651, 20%
Household consumption, ZAR 1,958, 60%

Expenditure contributions to GDP growth

- Graphs on the previous slide shows long-term expenditure contributions to GDP. Note that:
  - consumption and investment are often counter posed but the ability to sustain consumption of many goods and services by households and governments can have long-term positive benefits. (it is important to consider what is being consumed and invested in).
  - Aggregate household consumptions has been around 60 per cent of GDP over the long-term. The impact of inequality and differential access to credit should be considered when considering household consumption
  - Private investment levels have been below 15 per cent of GDP
  - The general government and public corporations contribute much to GDP through consumption and investment (and are important employers and job creators in the economy)
- The graph below shows annual quarterly changes to expenditure contributions to GDP: it shows that
  - Except for government consumption all other expenditures have been below pandemic levels.
  - It shows the importance of government expenditure to stimulate the economy and reduce economic pain in down turns



Private investment and credit

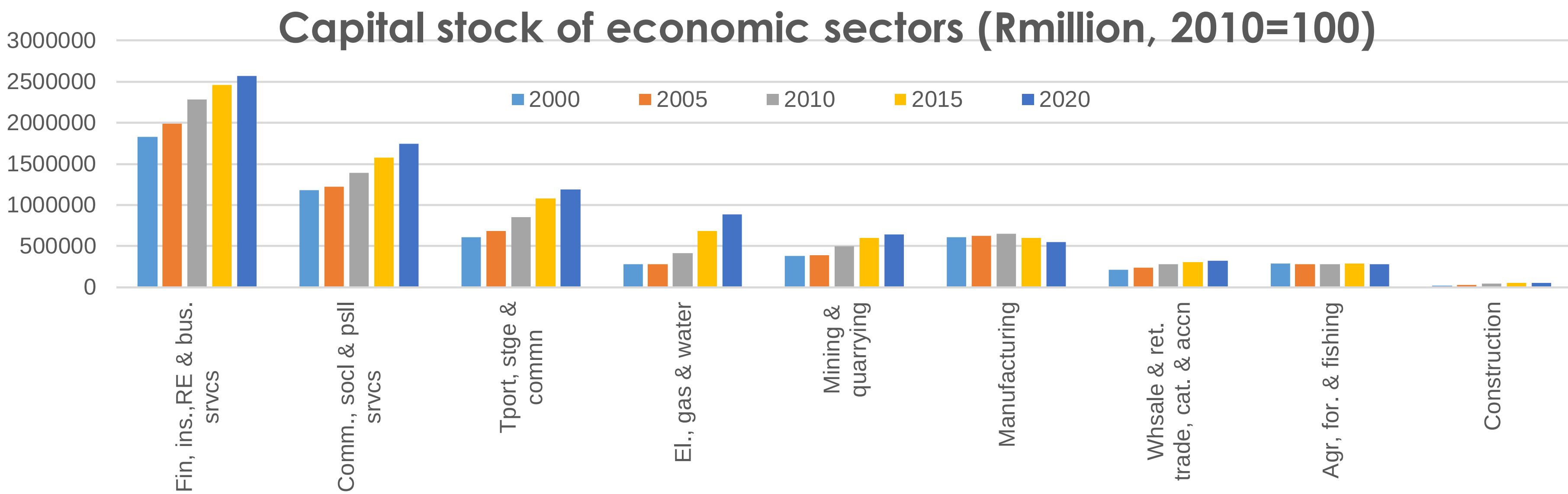


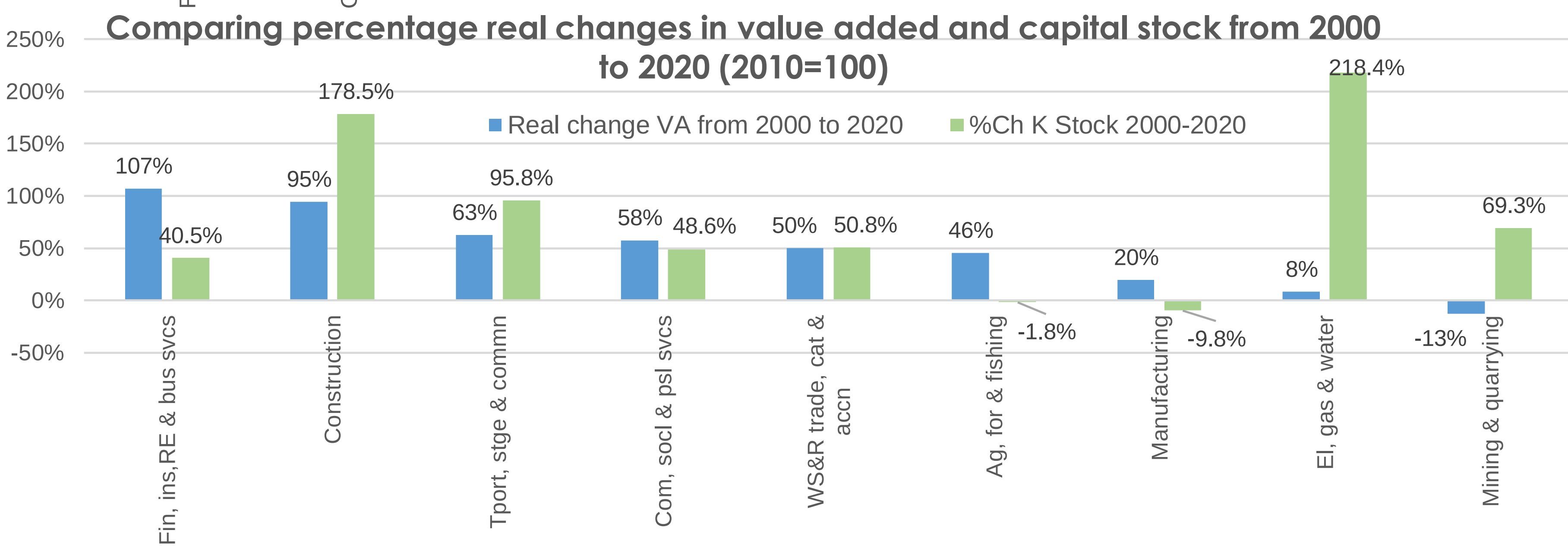
Own calculations using SARB data

- 2000-04 average credit to priv. bus. was 32.7% of GDP and investment was 11.5%
- 2015-19 average credit to priv. bus. was 41.2% of GDP and investment was 12.6%
  - Average Cred. extension increased 8% of GDP but investment only 1% of GDP
- Total credit extended to the priv. sector increased 2.4% of GDP from 2013-19
- Total credit extended to private businesses increased 7.6% of GDP from 2013-19
- In that period, gross fixed capital formation by private businesses decreased by 0.7%
- Government debt is not 'crowding out' private borrowing for investment (nor is household debt). Growth in government consumption and investment could 'crowd in' private investment

Capital stock and capacity across the economy

- Economic transformation of South Africa requires more investment in manufacturing and associated productive services





The fourth industrial revolution (4IR)and inadequate structural transformation

- Structural regression linked to inadequate industrial transformation is likely to mean that technology and innovation required for South Africa's leap into 4IR will be severely constrained
- South Africa has had declining investment in manufacturing causing capital stock to age and decline
- The technology for 4IR is introduced as manufacturing and productive services grow through investment and addition of new capital stock
- Learning and innovation for 4IR occurs cumulatively though applying labour to new technologies embedded in new capital stock
- The new investments for 4IR platforms across sectors have to occur within value chains and throughout economic infrastructure

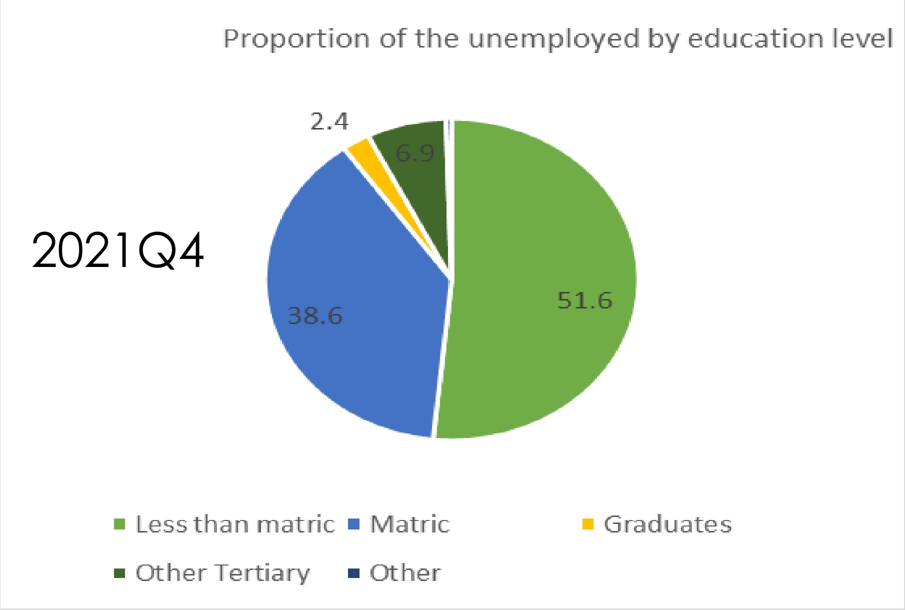
Unemployment

Unemployment levels '(000) and rates	2Q 2021	3Q 2021	4Q 2021
Economically Active Population – labour force	22 768	**21 925**	**22 466**
Not Economically Active Population	16 832	17 820	17 423
Employed	14 942	14 282	14 544
Unemployed (official/ strict definition)	7 826	7 643	7 921
Unemployment rate (official/ strict) definition)	34.4%	34.9%	35.3%
Unemployed (expanded definition)	11 923	**12 484**	**12 492**
Unemployment rate (expanded definition)	44.4%	46.6%	46.2%

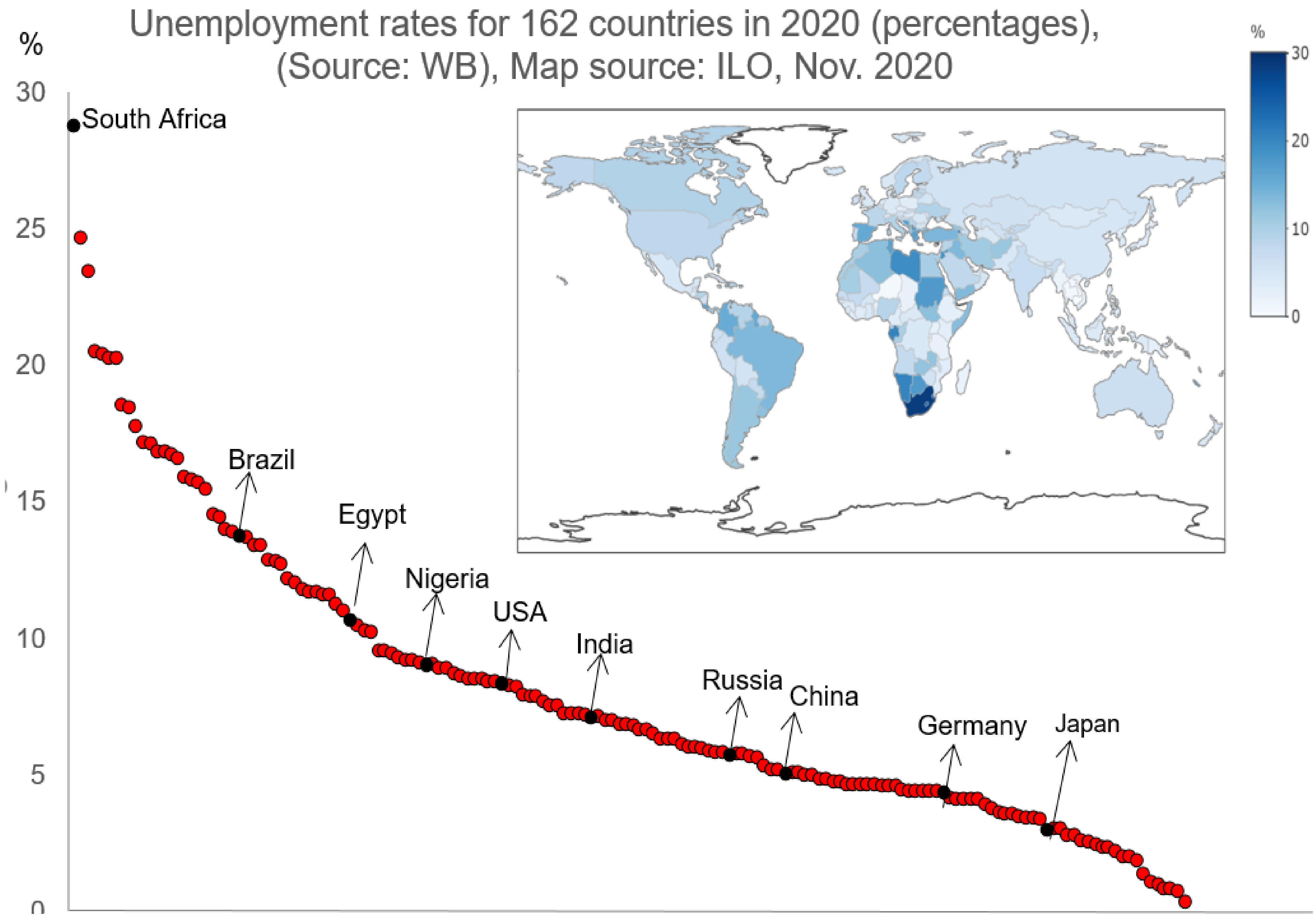
* The broad unemployment rate includes discouraged job seekers

** Youth is defined as age 15 - 34

Data: Quarterly Labour Force Survey, Stats SA

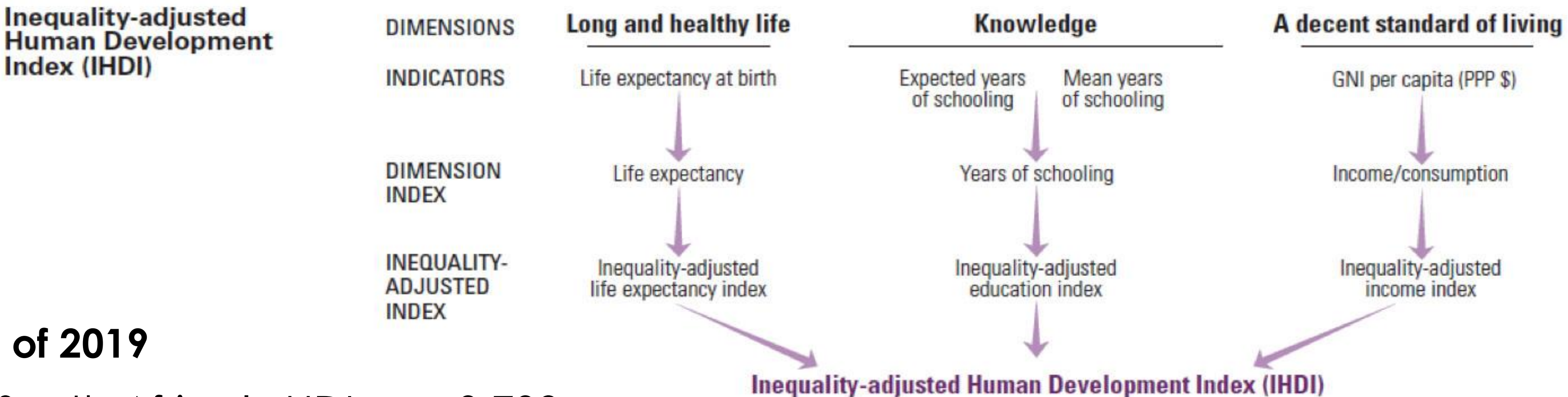


- Add graph of long term (2000 to 2021 unemployment rates – narrow and broad


Unemployment rates for 162 countries in 2020 (percentages),
(Source: WB), Map source: ILO, Nov. 2020
%
30
25
20
15
10
5
0
South Africa
Brazil
Egypt
Nigeria
USA
India
Russia
China
Germany
Japan
%
30
20
10
0

The Human Development Index (HDI)

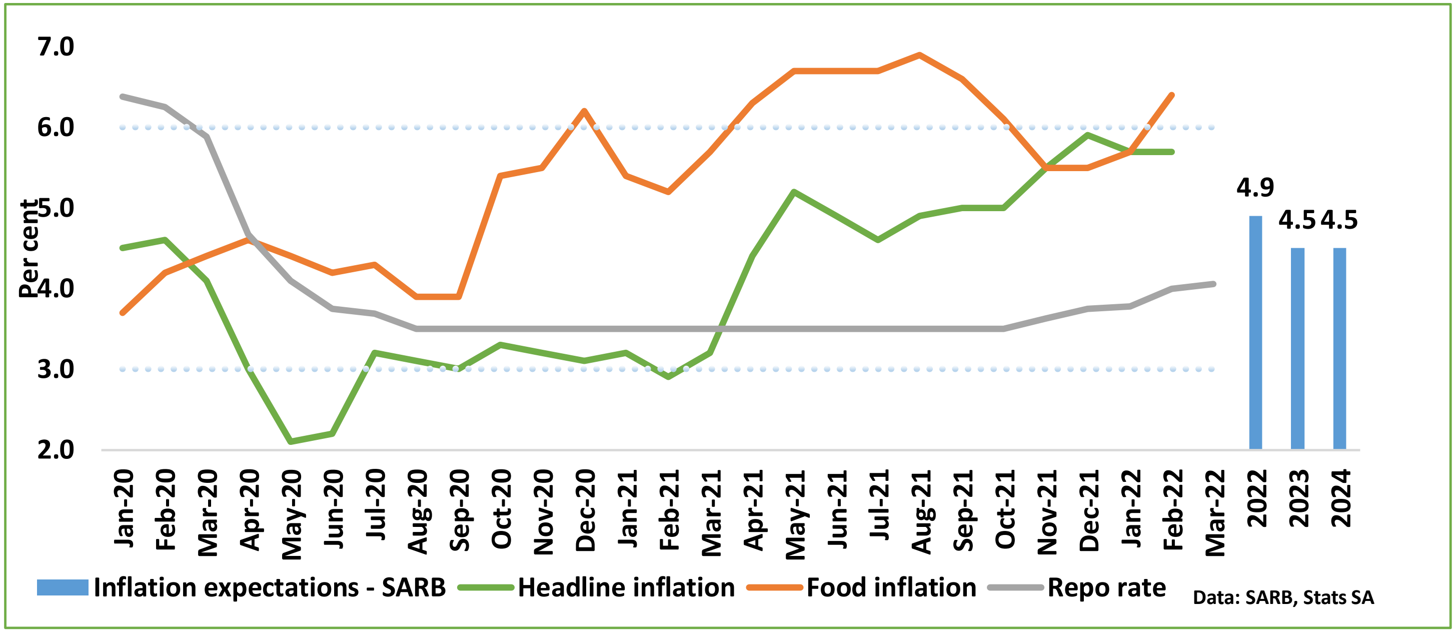
- GDP is an inadequate measure for assessing economic performance and wellbeing
- We require an alternative measure. One alternative is the United Nation's Development programme's HDI and inequality adjusted HDI



As of 2019

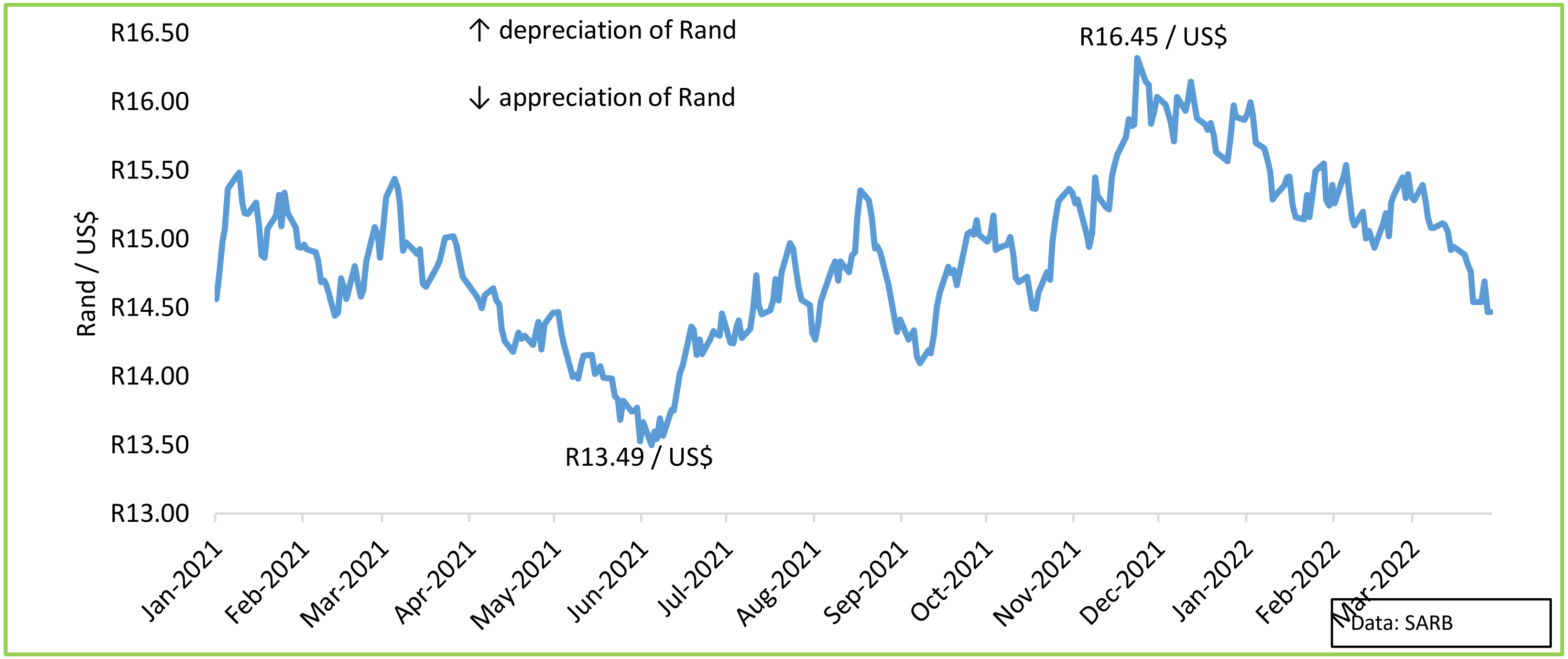
- South Africa's HDI was 0.709
- The IHDI was 0.468
- SA HDI was ranked 114 out of 189 countries
- Between 1990 and 2019:
  - South Africa's HDI value increased from 0.627 to 0.709
  - Life expectancy at birth increased from 63,3 to 64,1 years
  - Expected years of schooling increased from 11,4 to 13,4
  - Mean years of schooling increased from 6,5 to 10,2
  - GNI per capita (2017 PPP$) increased $9,975 to $12,129

Inflation at the upper end of the target range



- 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.
- 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 repo rate by 25 basis points in both November 2021 and January 2022 meetings.

The rand-dollar exchange rate

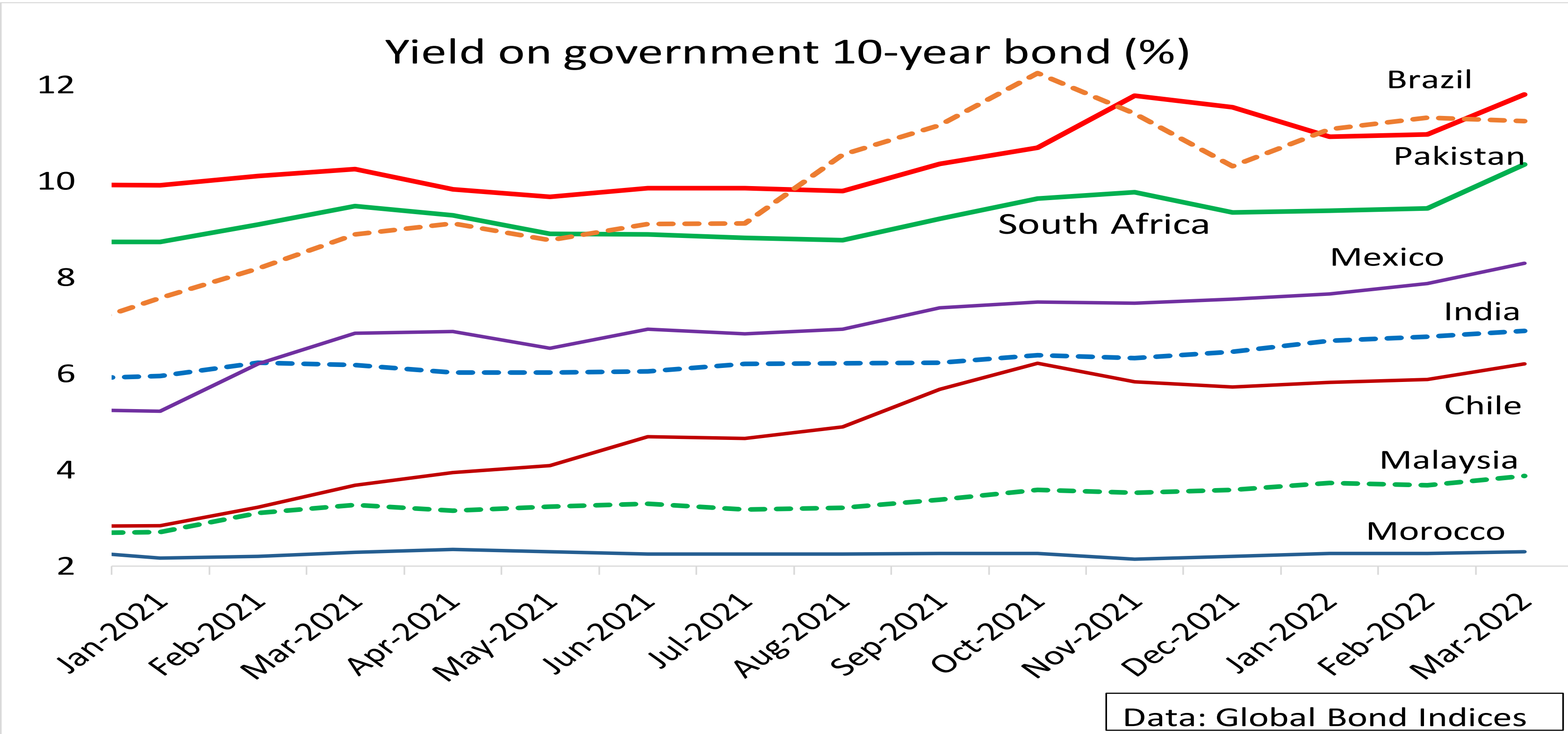


- The rand strengthened 13 per cent against the US dollar over the first half of 2021, reflecting an improved trade balance, including higher commodity prices
- The rand could have also benefited from increased demand for emerging market assets as stimulus spending from advanced economies provided liquidity 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

Yield on SA – 10 year benchmark bond

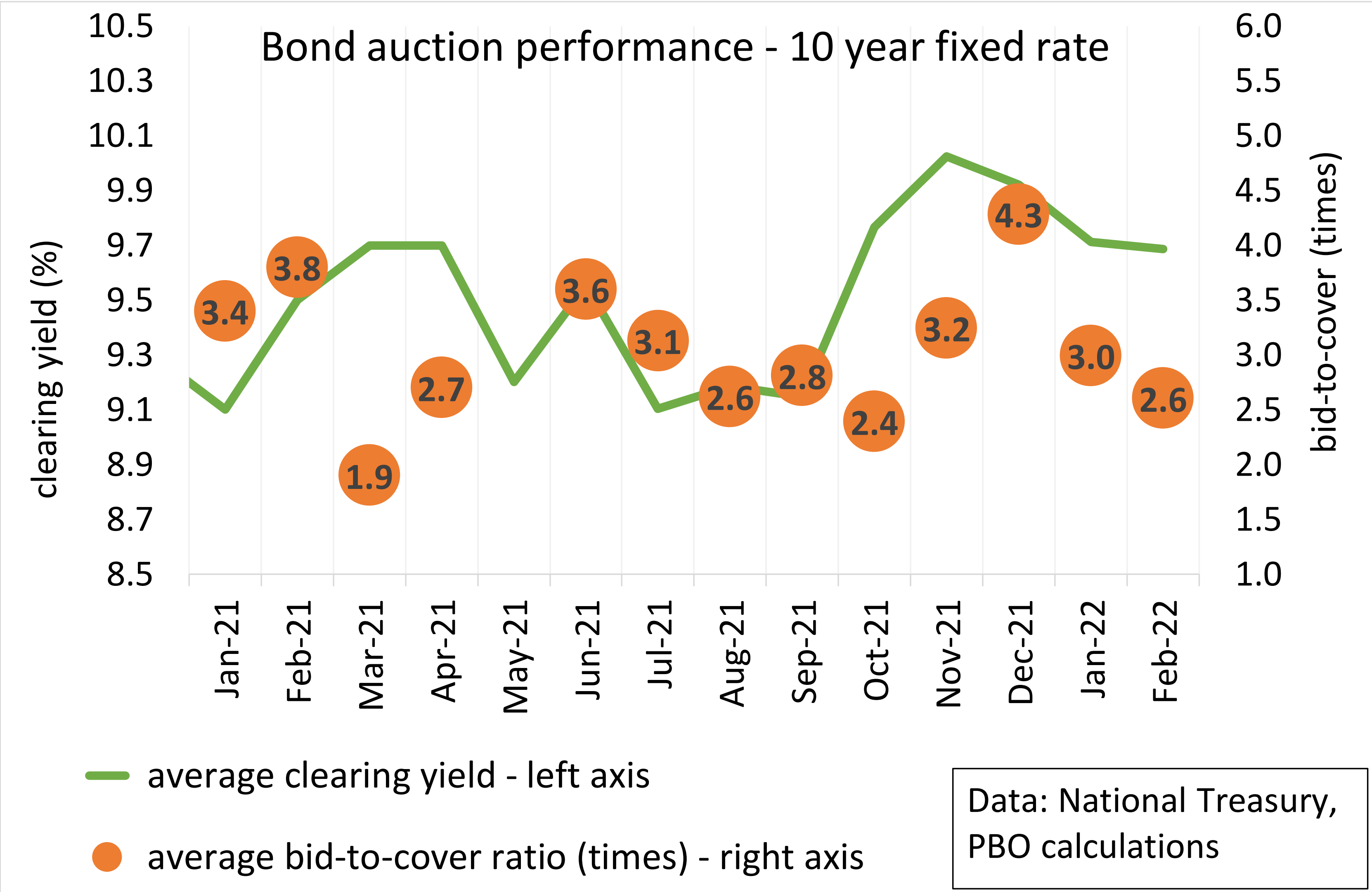
- The yield on South Africa's 10-year benchmark bond – an indicator of market attitudes about the riskiness of South African government bonds – has trended upwards (worsened) from the beginning of 2021 along with other emerging market economies
- The rate on the 10-year has declined a bit since early March 2022

Comparing yields on 10-year bond



- 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,
- The result has been higher debt service costs for a given level of issuance.

Government's increasing borrowing costs



Global and 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			

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

- Recent updates to South Africa's growth outlook: NT's re-estimates an increase for 2022 to 2.1 per cent but IMF a decrease to 1.9 per cent
- The NT forecasts for 2023 (1.6 per cent) and 2024 (1.7 per cent) respectively
- The UN forecast for recovery in global labour markets is that it will be inadequate to offset job losses during the pandemic.
- 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