Parliamentary Budget Office

PARLIAMENT
OF THE REPUBLIC OF SOUTH AFRICA

Quarterly Economic Brief

September 2022
No. 34

The Parliamentary Budget Office (PBO) has been established in terms of the Money Bills Amendment Procedure and Related Matters Act (Act no. 9 of 2009). The PBO provides independent, objective and professional advice and analysis to Parliament on matters related to the budget and other money bills. The PBO supports the implementation of the Act by undertaking research and analysis for the finance and appropriations committees. 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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This report incorporates data available up to and including the 6 September 2022 and was released on the 14 September 2022. Stats SA only releases Quarterly Employment Survey for the second quarter at the end of September.

Introduction

This Quarterly Economic Brief (QEB), compiled by the Parliamentary Budget Office (PBO) provides an update on the performance of the South African economy for the second quarter of 2022. The QEB provides economic updates, particularly about macroeconomic performance, based on the most recent quarterly and monthly data releases from organisations such as Statistics South Africa (Stats SA) and the South African Reserve Bank (SARB).

Global outlook

According to the June 2022 QEB, major international economic and financial organisations revised global growth estimates for 2022 downwards. The outlook for the global economy has worsened since then. The global economy is expected to perform poorer than expected because of widespread aggressive monetary responses to rising inflation, climate change events and continued impacts of geopolitical conflict. At the same time, the impact of COVID-19 and disrupted value chains continue to play a role in poor performance.

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 International Monetary Fund revised its April 2022 forecast from 3.6 per cent down to 3.2 per cent in July 2022. 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 Jun 2022 and its September 2022 forecast of between 2.5 and 2.8 per cent is even lower.

The United States of America (USA) is also expected to have lower growth in 2022. This lower growth is expected despite large government stimulus to the economy in response to the COVID-19 pandemic. It is, however, expected that interest rate increases will suppress economic activity, particularly household consumption, which contributes approximately 70 per cent to the USA's gross domestic product (GDP). According to the United Nations Department of Economic and Social Affairs (UNDESA), average inflation during the first half of 2022 was 8.3 per cent while average private sector wages in the USA have increased by 5.4 per cent. Therefore, the average USA household's spending power was eroded during 2022 at a time when rising interest rates have increased debt service costs, including mortgage costs.

The Chinese economy recorded 0.4 per cent year-on-year quarterly economic growth from the second quarter of 2021 to the second quarter of 2022. The Chinese economy is now expected to grow at only 4 per cent in 2022. This could be attributed to the impact of new COVID-19 lockdowns in large cities, continued supply chain and freight difficulties and droughts. Rainfall in the Yangtze River basin has led to severe, record-breaking drought during the biggest heatwave recorded in China since records began in 1961. The drying up of parts of the Yangtze river has affected shipping and hydropower, which has caused severe economic constraints. Sichuan Province relies on 80 per cent of its electricity from hydropower and had to restrict power to businesses at the end of August. Major industrial firms such as Foxconn, Toyota and Tesla were reported to have temporarily suspended operations at the end of August 2022.

The climate change weather events have not been limited to China. There have also been heat waves and rivers drying up across Europe, where the Rhine and Rhone were affected, and parts of the USA, where parts of the Colorado River have dried up. The prospects for countries in Europe appear increasingly gloomy for the rest of 2022. In addition to summer heat waves and drought, the war in Ukraine has particularly affected energy security with gas prices estimated around 10 times higher in September 2022 than the average gas price over the past 10 years. The prices are expected to rise further during the Northern Hemisphere Winter months. Britain has imposed price caps and the European Union is expected to announce price caps in September 2022.

Overall, there is a realisation across the world that corporations and banks have used the era of high inflation and shortages to boost their prices and profits. Even though there are so many problems facing Europe at present, the European Central bank has increased interest rates to fight inflation. The GDP growth of the European Union is expected to be lower at 2.5 per cent in 2022, according to UNDESA.

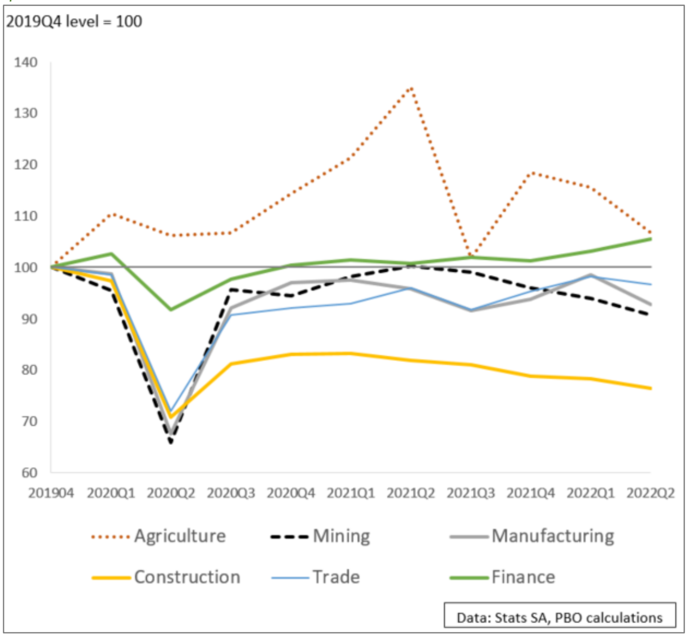
The performance of developing countries remains much affected by the impact of COVID-19 and higher interest rates on public and private debt. While some developing countries, in Africa and Latin America, have benefited from rising oil and commodity prices, the poor performance of developed countries is expected to affect their exports and prices for commodities. At the same time, recoveries in many developing countries, including South Africa, are hampered by fiscal consolidation and debt reduction, (despite not recovered enough from COVID-19) ongoing supply chain problems, and much higher energy and fertiliser prices.

Food insecurity has increased across several African countries, including Ethiopia, Nigeria and South Sudan. Restrictions on exports of food have been announced and are being considered in some developing countries, including India, Indonesia and Malaysia. Pakistan already had protests because of rising food prices before the devastating floods. These protests caused thousands of deaths, evicted hundreds of thousands from their homes and affected up to 33 million people, in early September 2022. Iran, Lebanon, Sri Lanka and Sudan are amongst the other countries that experienced protests about high food prices and shortages during 2022. At the same time, many developing countries have increased interest rates to suppress inflation increases, even though, the cost of doing so will very likely contribute to lower economic growth, declining investment and job losses. Higher interest rates are unlikely to stem the inflationary pressures arising from geopolitical conflicts, value chain problems, rising global fuel, fertiliser and food prices, profiteering by large corporations with oligopoly power, and intensified climate change events around the world.

Gross domestic product[1]

South Africa's quarter-on-quarter seasonally adjusted (qqsa) GDP fell by 0.7 per cent in the second quarter of 2022 after it had been revised upwards to 1.7 per cent in the previous quarter. A decline in seven of the ten industry sectors contributed to the decline in the GDP in the second quarter of 2022. The transport and finance sectors were the only sectors to make a positive contribution to GDP during the quarter.

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



The performance of primary and secondary sectors was negatively affected by the triple shock of prolonged industrial action in the mining sector, extensive load-shedding during the quarter and the devastating floods in Kwa-Zulu Natal in April 2022.

Value added in both the agricultural and mining sectors declined for a second consecutive quarter. The overall value added by the primary sector decreased by 5.1 per cent during the second quarter of 2022. The decline in mining output was driven by reduced production of platinum group metals, gold, iron ore and coal. In the case of agriculture, the decline was largely attributed to decreased production of animal products. The foot-and-mouth disease outbreaks and rising feed costs may also have contributed to the second quarter decline.

The secondary sector performance was poor across the board in the second quarter. The construction sector posted a fifth consecutive quarterly decline as decreased activity was reported for residential buildings and construction works. According to Stats SA, there was broad-based weakness across the major subcomponents of manufacturing. Value added by the manufacturing sector was adversely impacted by output disruptions due to load-shedding and the KZN floods, with the latter in particular weighing on vehicle production.

Value added by the tertiary sector increased by 0.7 per cent in the second quarter of 2022, due to the expansion in the financial and transport industries. According to Stats SA, growth in the financial sector was driven by increased activity in the banking sector, as well as in insurance and pension funding.

In contrast, value added by the trade sector and general government services declined relative to the first quarter. Statistics South Africa attributes the decline in value added by government services to decreases in employment headcounts in national government, local government and extra-budgetary institutions.

Table 1: Quarterly economic performance by sector

% change q/q	Agriculture	Mining	Manufacturing	Utilities*	Construction	Trade	Logistics**	Business services***	Government	Personal services	GDP
2022Q2	-7.7	-3.5	-5.9	-1.2	-2.4	-1.5	2.4	2.4	-1.4	0.1	-0.7
2022Q1	-2.4	-2.1	5.0	2.0	-0.8	3.1	1.8	1.8	1.4	0.8	1.7
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

Source:StatsSA

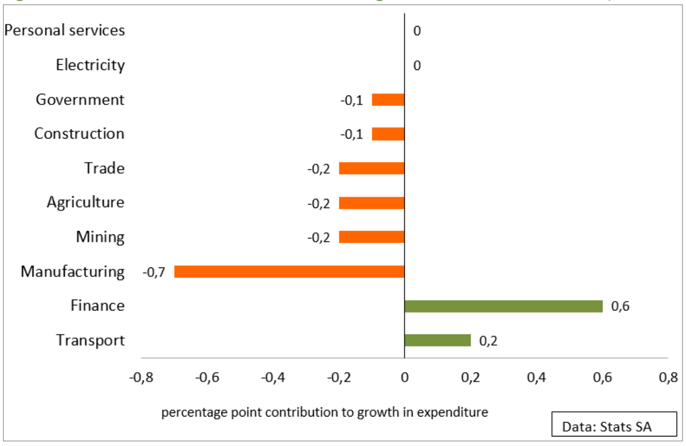
*Utilities includes electricity, gas and water

**Logistics includes transport ,storage and communication

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

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

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



Expenditure on GDP

South Africa's expenditure on GDP decreased by 0.7 per cent in the second quarter of 2022, after an upward revision to 1.8 per cent in the previous quarter. The biggest drag on gross domestic expenditure was net exports. Real import growth vastly outpaced the rise in export volumes. The import gain was largely driven by global price increases in chemical and mineral products (oil and refined oil products).

Table 2: Quarterly sector performance of expenditure components of GDP

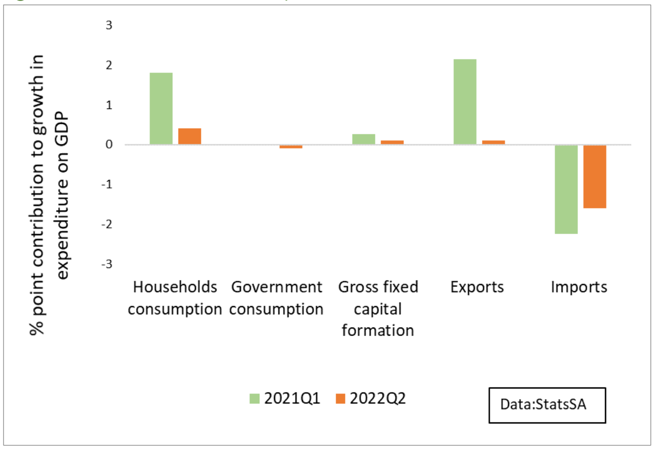
% change q/q	Household consumption	Government Consumption	Invesment*	Exports	Imports	Exp on GDP
2022Q2	0.6	-0.7	0.5	0.3	5.6	-0.7
2022Q1	1.2	1.1	3.4	3.8	5.1	1.7
2021Q4	3.0	0.2	1.6	8.3	8.4	1.5
2021Q3	-2.8	0.5	-1.1	-6.9	-3.4	-1.8
2021Q2	1.6	-0.4	-0.3	3.0	0.2	1.4
2021Q1	0.5	-0.6	-3.1	1.7	6.7	0.6
2020Q4	3.1	0.7	5.3	6.1	10.9	2.8
2020Q3	17.8	0.3	14.1	28.5	-0.6	14.0

Source:StatsSA
*Investment refers to gross fixed capital formation

Household consumption expenditure, which makes up 67 per cent of GDP, grew by 0.6 per cent. A rise in consumer spending on services outweighed the declines in the other three major spending categories (durable, non-durable and semi-durable). Notably, the restaurants and hotels sub-category increased by 6.3 per cent in the second quarter of 2022. The lifting of the National State of Disaster in April, which has been in place since the onset of the pandemic was certainly positive for the South African tourism sector and related industries. Moreover, the removal of international travel bans coupled with pent-up demand also supported the entire services sector. However, given the reality that many consumers are financially constrained due to higher interest rates and food and fuel prices, the outlook for household consumption expenditure remains uncertain.

Gross fixed capital formation increased by 0.5 per cent in the second quarter, following a 3.4 per cent rise recorded in the previous quarter. Private sector capital expenditure rose by 0.8 per cent. This increase was 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 10 per cent below pre-pandemic levels. Meanwhile, public sector capital spending remained volatile, declining by 0.6 per cent during the second quarter of 2022.

Figure 3: Contributions to expenditure on GDP



Employment

The official unemployment rate declined to 33.9 per cent in the second quarter of 2022, from 34.5 per cent in the first quarter. According to Stats SA, a large number of individuals moved from the "not economically active" category to the "employed" and "unemployed" statuses between the two quarters. The number of employed persons increased by 648 000, higher than the uptick in the number of unemployed persons (132 000). As a result, the unemployment rate declined by 0.6 per cent.

Despite this decline, the unemployment rate remains unacceptably high, demonstrating the fragility of the South African economy, which was aggravated by the effects of COVID-19, the July 2021 social unrest, load-shedding as well as the floods in KZN.

The number of people employed in all categories surveyed increased on a quarterly basis, including the formal (non-agriculture) and informal (non-agriculture) sectors. When measured on a year-on-year basis, informal sector employment increased by 279 000 individuals, perhaps indicating the re-employment of some people who lost their formal sector jobs or businesses during the severe lockdown restrictions.

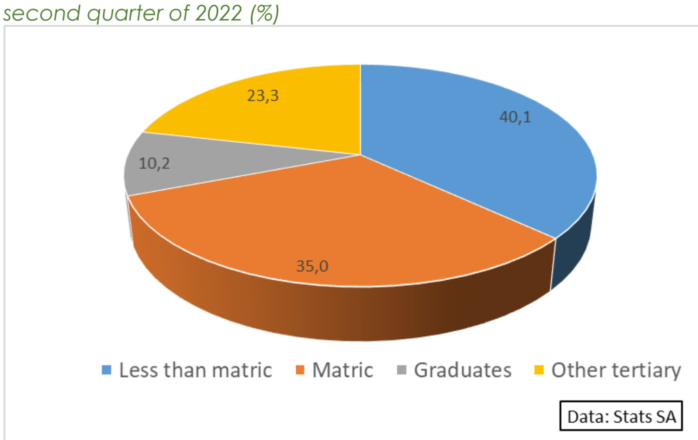
The expanded unemployment rate, (which includes individuals who desire employment regardless of whether they are actively seeking work) declined to 44.1 per cent (from 45.5 per cent in the first quarter of 2022). Youth unemployment remained elevated at 61.4 per cent. According to Stats SA, of the 8 million unemployed individuals in the second quarter of 2022, as many as 51.3 per cent had education levels below matric.

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

	4Q 2021	1Q 2022	2Q 2022
Labour force ('000s)	**22 466**	**22 776**	**23 556**
Employed	14 544	14 914	15 562
Unemployed - official/strict) definition	7 921	7 862	7 994
Unemployed - *broad/expanded definition	12 492	12 445	12 282
Not economically active ('000s)	**17 423**	**17 257**	**16 621**
Discouraged job-seekers	3 806	3 752	3 568
Other (not economically active)	13 617	13 505	13 053
Rates			
Official unemployment rate (official/ strict definition)	35,3%	34,5%	33,9%
Broad unemployment rate*	46,2%	45,5%	44,1%

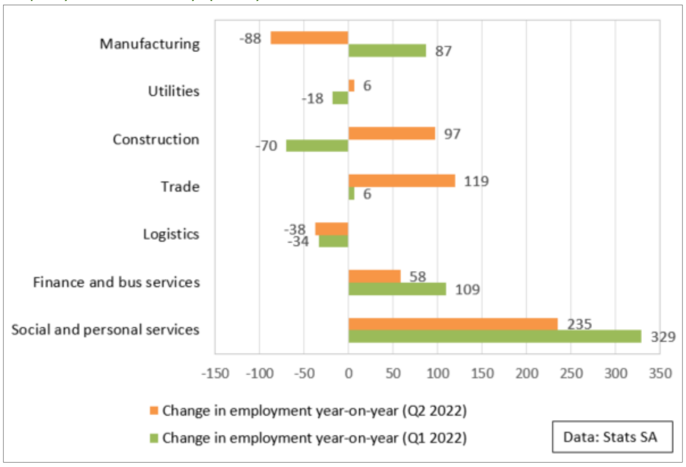
* The broad unemployment rate includes discouraged job seekers
Data: Quarterly Labour Force Survey, Stats SA

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



A disaggregation of the data on an industry basis indicates that six of the eight industries surveyed within the formal sector (non-agriculture) reported a rise in employment. The community and social services sector recorded the largest number of job gains over the quarter at 235 000, followed by the trade and construction sectors at 119 000 and 97 000 respectively.

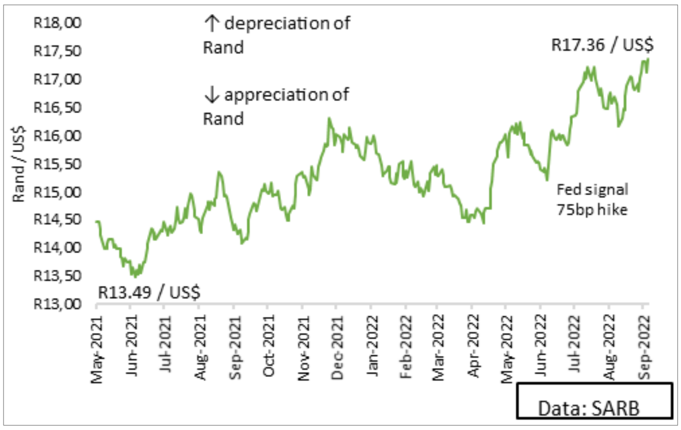
Figure 5: Sectoral contributions to employment – Quarterly Employment Survey (QES)



Exchange rate

During the second quarter of 2022, the rand weakened against the US dollar reaching R17.23 to a US dollar. The weakness in the rand reflected a general tightening of global financial conditions, as advanced-economy central banks increased policy rates in response to increasing inflation in their economies. This increase has resulted in a general depreciation in the currencies of most emerging market economies. The rand is expected to remain under pressure in the third quarter of 2022 amid expectations that the US central bank will further raise interest rates by 75 basis points in their September meeting. According to the World Bank, aggressive interest rate hikes in the US could plunge their economy into a deep recession. The International Monetary Fund (IMF) also noted that the magnitude of the inflation surge has been a surprise to central banks and markets, and there remains substantial uncertainty about the outlook for inflation and economic growth.

Figure 6: The rand-dollar exchange rate

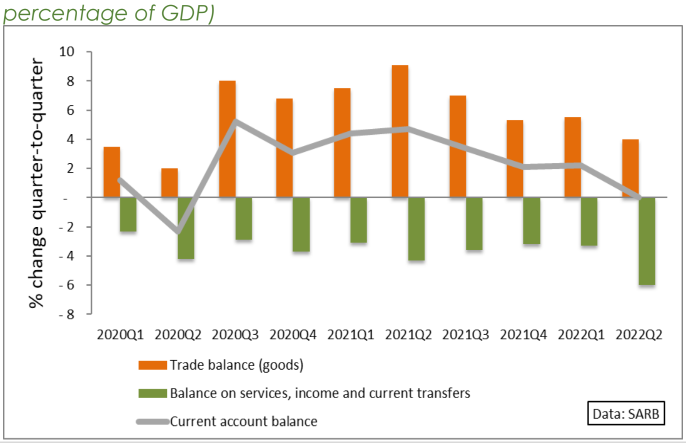


Current account

The current account reverted to a deficit in the second quarter of 2022. According to the SARB, the current account recorded a deficit of R87 billion in the second quarter, equivalent to -1.3 per cent of GDP, after posting a surplus of R157 billion in the first quarter of 2022. Although the deterioration in net exports that drove the trade surplus down contributed to the overall current account shortfall, the biggest factor was the significant dividend payments by SA companies to large offshore shareholders who own more than 10 per cent of these firms. This is reflected in the shortfall in the services, income and current transfers account, which widened to R358 billion (-5.5% of GDP) in the second quarter of 2022 from R216 billion (-3.4% of GDP) in the first quarter.

South Africa's trade surplus decreased from R372 billion in the first quarter of 2022 to R272 billion in the second quarter. The narrowing trade surplus was due to the greater rise in the value of both merchandise imports and exported goods. The higher value of exports of goods and services mainly reflected an increase in prices while that of imports of goods and services reflected both higher volumes and prices.

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



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 trended upwards (worsened) in the third quarter of 2022, reaching a 10-year high of 11.4 per cent in July 2022. Domestic bond yields were largely impacted by global events over this period, notably rising global inflationary pressures and the subsequent tightening of monetary policy by most advanced-economy central banks. Higher interest rates in advanced economies often trigger capital outflows from emerging market economies such as South Africa.

Figure 8: Yield on SA 10-year bonds

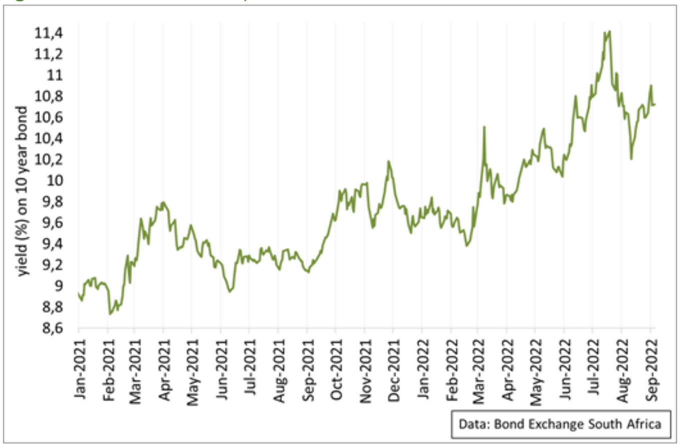
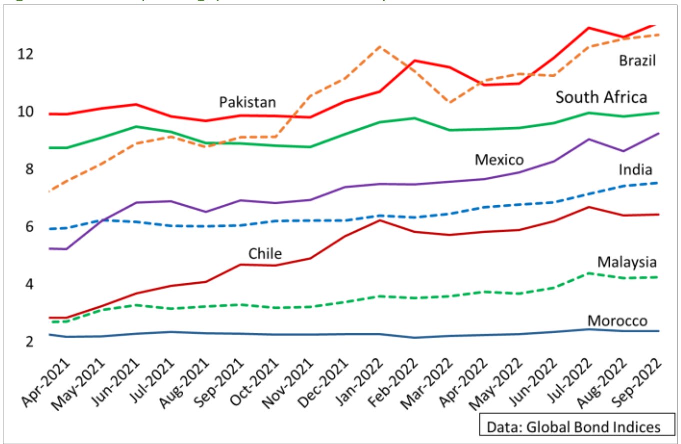
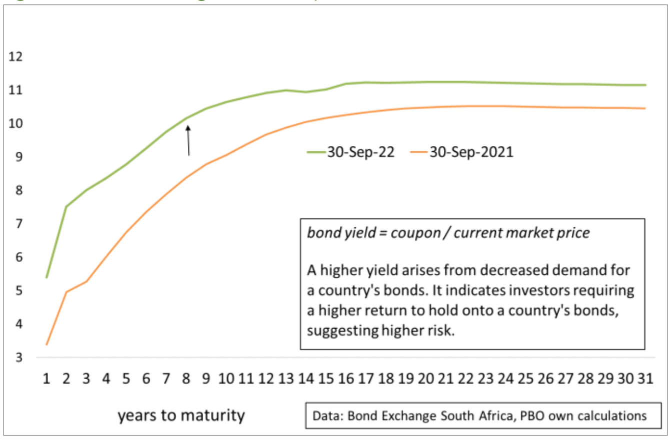


Figure 9: Comparing yields on the 10-year bond



The yield curve for South African government debt presents borrowing costs across different maturities. Over the last 12 months, the yield curve shifted higher and steepened at the short end of the curve. The steeper yield curve reflected, among other factors, the depreciation in the exchange value of the rand and domestic inflation concerns as international crude oil and food prices increased sharply in the wake of Russia's invasion of Ukraine.

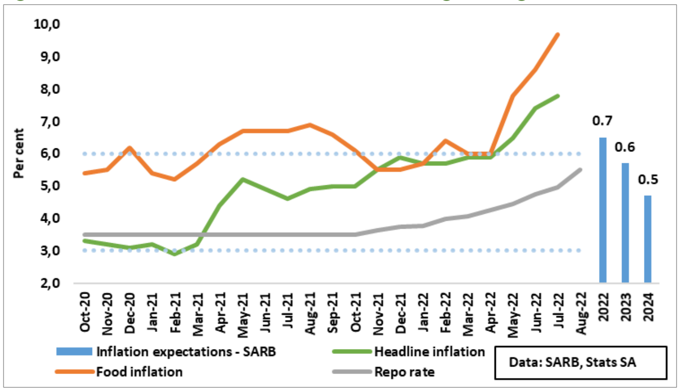
Figure 10: Increasing risk in the past 12 months



Inflation and monetary policy

Headline consumer price inflation (CPI) for all urban areas rose to 7.8 per cent in July 2022. This was the highest level since May 2009 when CPI was 8 per cent during the global financial crisis. The largest contributors to the acceleration of inflation were transport and food prices. Transport costs increased by 25 per cent year-on-year and contributed 3.4 percentage points to the headline number. Food prices increased by 9.7 per cent year-on-year and contributed 1.7 percentage points. Inflationary pressures continue to be fuelled by the ongoing geopolitical conflicts between Russia and Ukraine, which resulted in supply chain disruptions and higher crude oil prices. In response to the higher inflation, the SARB's Monetary Policy Committee (MPC) decided to increase the repurchase rate by 75 basis points to 5.5 per cent in their July 2022 meeting.

Figure 12: Inflation breached the SARB's target range



Domestic outlook

Despite the contraction in GDP growth in the second quarter of 2022, the revised forecasts available at the time of publication of this brief show that the South African economy remains on course so far for a GDP growth outcome of roughly 2.0 per cent. However, there is heightened uncertainty, given the persistence of the Russia-Ukraine war, supply chain pressures and slowing global growth.

Domestically, several constraints add additional downward pressure to key macroeconomic variables, such as inequality, unemployment, inflation and growth. These include increased incidences of load-shedding, poor service delivery, sustained fiscal consolidation and the erosion in consumer spending power due to weaker labour markets, public sector wage freezes, higher inflation and interest rates.

Table 4: Revised SA growth outlook

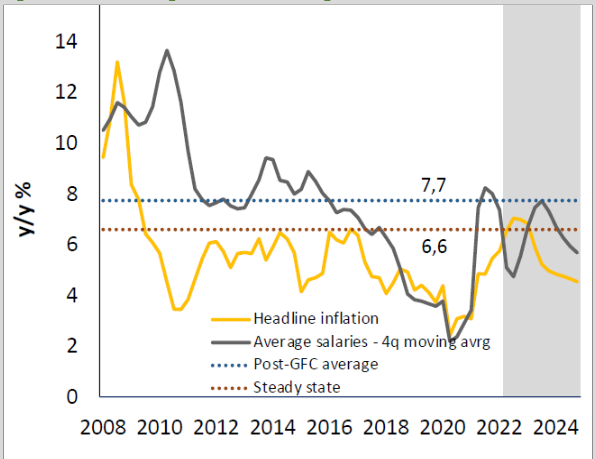
GDP growth outlook - calender year*	2022	2023	2024
National Treasury - Budget 2022	2.1%	1.6%	1.7%
South African Reserve Bank - January 2022	1.7%	1.8%	2.0%
South African Reserve Bank - July 2022	2.0%	1.3%	1.5%
IMF - World Economic Outlook - January 2022	1.9%	1.4%	-
IMF - World Economic Outlook - July 2022	2.3%	1.4%	
Reuters Consensus Forecast - January 2022	2.0%	1.8%	2.0%
Reuters Consensus Forecast - August 2022	2.0%	1.5%	1.8%
*Growth projections correspond to publication date and not forecast date			
Data: National Treasury, South African Reserve Bank, IMF, Reuters			

Box 1: Cost of living crisis

Globally, and in South Africa, millions of households are experiencing a cost of living crisis as a result of high inflation. According to the United Nations Development Programme, an additional 71 million people could be pushed into poverty. With 55 per cent of South Africa's population living below the Upper Bound Poverty Line (UBPL), a significant proportion of the population has been experiencing a protracted cost of living crisis. Vulnerability to hunger has increased from 10.3 per cent in 2019 to 11.6 per cent of households in 2021. This data reflects the context before the invasion of Ukraine by Russia and the supply shocks that have since followed.

Real wages are declining, and as a result, so are household disposable incomes. Data from the 2021 General Household Survey had already shown that vulnerability to hunger is increasing.

Figure 11: Average nominal wages and headline inflation



Source: Stats SA

The current crisis worsens the socioeconomic conditions of households. It highlights the failure to address unemployment, poverty and inequality to build household resilience against economic, social, and climate shocks. Current shocks to households will have long-term, cumulative negative impacts on households, communities, and society.