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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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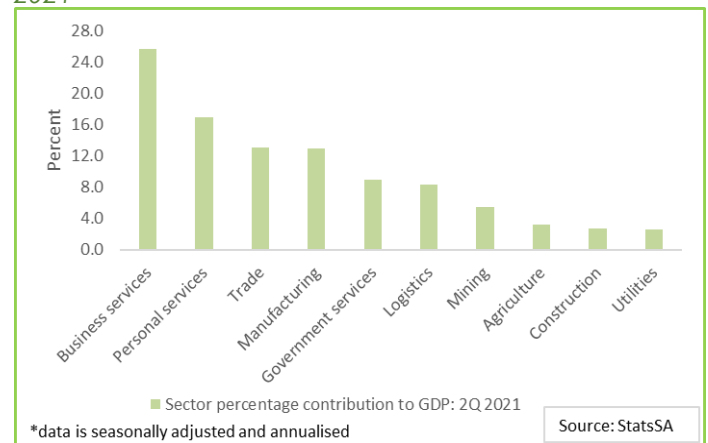
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This report incorporates data available up to and including the 10 September 2021, and was released on the 16 September 2021. Stats SA only releases Quarterly Employment Survey for the second quarter at the end of September.

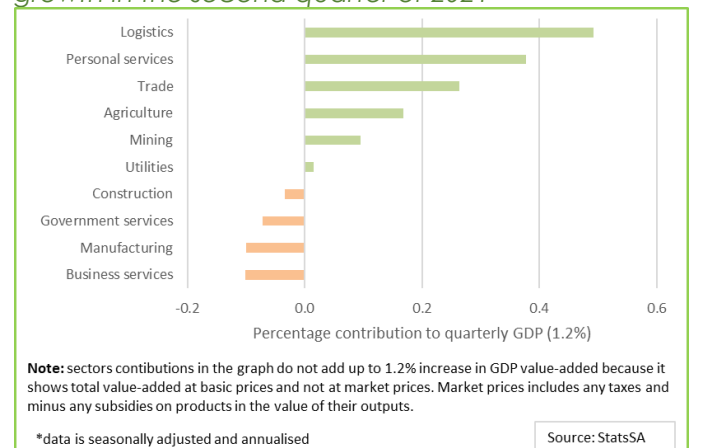
services), agriculture (increased production of field crops, horticulture and animal products), and personal services. The construction, government services, manufacturing, and business services sectors were the four industry sectors that recorded declines in economic activity in the second quarter of 2021.

Figure 1: Sector shares of GDP - second quarter of 2021



Business services (25.7%) contributed more than a quarter of the country's total output. Personal services (17.0%) and trade (13.1%) were the second and third largest contributors to GDP, respectively. The agriculture (3.2%), construction (2.7%), and utilities (2.5%) sectors each contributed less than 5 per cent to GDP.

Figure 2: Sector percentage contribution to GDP growth in the second quarter of 2021



GDP Production

South Africa's gross domestic product (GDP) increased at a seasonally adjusted, non-annualised rate of 1.2 per cent in the second quarter of 2021, following an increase of 1 per cent in the first quarter of 2021. This marks the fourth-consecutive quarterly expansion since the contraction in the second quarter of 2020. The increase in GDP of the second quarter of 2021 exceeded expectations (Reuters: 0.7%).

Table 1: Quarterly growth by sector

% change q/q	Agriculture	Mining	Manufacturing	Utilities*	Construction	Trade	Logistics**	Business services***	Government services	Personal services	GDP
2020 - Q1	9.8	-4.7	-0.6	-0.9	-2.5	-0.8	-1.3	2.7	0.2	-0.3	0.1
2020 - Q2	-4.3	-31.1	-31.4	-11.6	-29.9	-26.7	-26.7	-10.5	-0.3	-5.9	-17.4
2020 - Q3	-0.1	45.0	35.3	12.6	16.0	25.1	17.3	6.6	0.2	4.1	13.9
2020 - Q4	6.6	-0.9	5.3	-0.1	1.9	1.5	2.9	2.9	0.2	1.7	2.5
2021 - Q1	-1.0	4.3	0.5	-0.3	0.5	2.6	-1.1	1.3	0.3	0.6	1.0
2021 - Q2	6.2	1.9	-0.8	0.7	-1.4	2.2	6.9	-0.4	-0.9	2.5	1.2

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

Six of the ten industry sector categories made positive contributions to GDP growth over the second quarter of 2021. The better performers were logistics (driven by land transport and communication

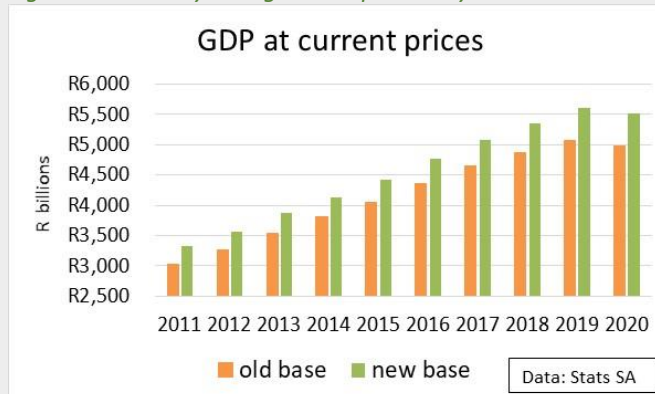
The main contributors to GDP growth in the second quarter of 2021 were logistics, personal services, trade, agriculture and mining. The logistics sector grew by 6.9 per cent in the second quarter of 2021, from a contraction in the previous quarter. This relatively large quarter-on-quarter growth in the sector added 0.5 percentage points to GDP growth over the quarter. The personal services sector grew by 2.5 per cent, adding 0.4 percentage points to GDP growth. The trade sector grew by 2.2 per cent, and contributed 0.3 percentage points to GDP

growth. Small positive contributions to GDP came from the agriculture (0.2 percentage points) and mining (0.1 percentage points) sectors. Negative contributions to the second quarter GDP growth rate were from business services (-0.1 percentage points), manufacturing (-0.1 percentage points), and government services (-0.1 percentage points) sectors.

Rebasing of Gross Domestic Product

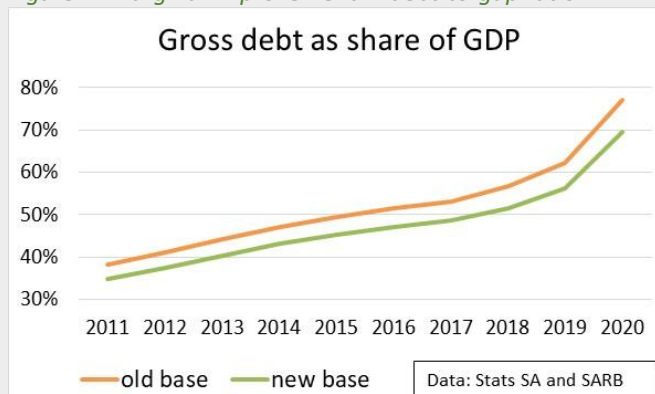
Statistics South Africa, like other statistical offices, produces estimates of the size of the economy. These estimates are updated periodically to reflect changes in the economy, and to include additional data and methodologies, allowing for updated and more accurate estimates of GDP. In August 2021 Stats SA published updated estimates of GDP, including updating the base year from 2010 to 2015. This edition of the PBO's Quarterly Economic Brief uses the rebased GDP figures.

Figure 3: Economy is larger than previously estimated



The updated estimates of GDP indicate that the economy was on average 10 per cent larger over the last ten years than previously estimated. The upward revision to nominal GDP implies a revision to the country's public finance metrics. For example, the country's debt to GDP as well as revenue to GDP ratios decrease due to a larger denominator.

Figure 4: Marginal improvement in debt-to-gdp ratio



Expenditure on GDP

South Africa's expenditure on GDP increased at a seasonally adjusted, non-annualised rate of 1.2 per cent in the second quarter of 2021, after a 0.8 per cent increase in the previous quarter. This increase was the fourth consecutive quarter of expanding GDP. The largest contributors to economic growth in the second quarter of 2021 were exports, which grew by 4.0 per cent, and investment which grew by 0.9 per cent. Government consumption fell by 0.1 per cent in the second quarter of 2021, the second contraction following a 0.4 per cent decline in the previous quarter.

Table 2: Quarterly sector performance of expenditure components of GDP

%change q/q	Household consumption	Government consumption	Investment*	Exports	Imports	Exp on GDP
2020 - Q1	0.6	0.5	-3.1	-0.6	-4.4	0.2
2020 - Q2	-20.7	-0.2	-21.8	-29.8	-18.4	-17.4
2020 - Q3	18.1	0.1	12.8	27.9	-0.8	13.6
2020 - Q4	3.1	0.6	5.3	6.0	11.2	2.8
2021 - Q1	1.0	-0.4	-3.1	1.0	6.5	0.8
2021 - Q2	0.5	-0.1	0.9	4.0	0.4	1.2

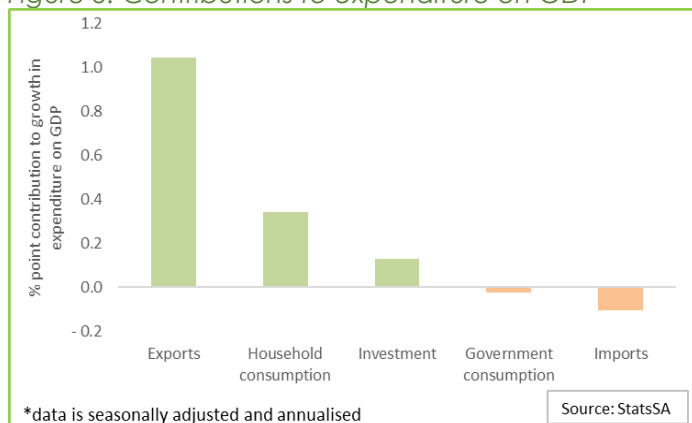
Source: Stats SA

*Investment refers to gross fixed capital formation

The largest contribution to second quarter growth in expenditure on GDP was from exports (1 percentage point) and household consumption (0.3 percentage point), while a negative contribution was recorded in government consumption. Positive contributions in household consumption were due to increased expenditure on transport (2.7%), followed by health (2.5%) which added 0.2 percentage points to GDP growth, and restaurant and hotels (2.4%) which translated into a 0.1 percentage point contribution to GDP in the second quarter of 2021. The negative contribution from government consumption (0.1 percentage points) was as a result of decreases in

compensation of employees, and spending on goods and services.

Figure 5: Contributions to expenditure on GDP



Employment

The effects of the Covid-19 crisis on the economy have continued to be felt in the labour force.

Table 3: Key labour statistics – Quarterly Labour Force Survey

	2Q 2020	1Q 2021	2Q 2021
Labour force ('000s)	18 443	22 237	22 768
Employed	14 148	14 995	14 942
Unemployed - official	4 295	7 242	7 826
Unemployed - broad*	10 259	11 422	11 923
Not economically active ('000s)	20 578	17 218	16 832
Discouraged job-seekers	2 471	3 131	3 317
Other (not economically active)	18 107	14 086	13 515
Unemployment rates			
Official unemployment rate (narrow)	23.3%	32.6%	34.4%
Broad unemployment rate*	42.0%	43.2%	44.4%
Unemployment Rates - Gender			
Male - official	22.1%	31.4%	32.4%
Female - official	24.8%	34.0%	36.8%
Unemployment Rates - Race			
Black African - official	26.3%	36.7%	38.2%
Coloured - official	19.0%	25.2%	28.5%
Indian/Asian - official	14.4%	14.9%	19.5%
White - official	6.1%	8.1%	8.6%
Youth**			
Unemployment rate - official	34.1%	46.3%	48.1%
Unemployment rate - broad*	55.2%	57.5%	58.5%

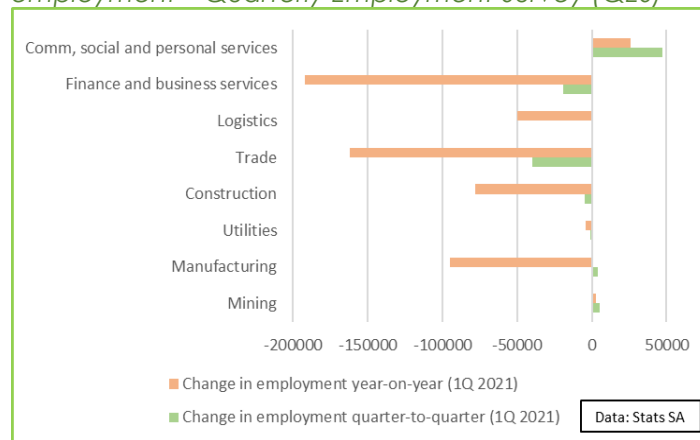
* The broad unemployment rate includes discouraged job seekers
** Youth is defined as age 15 - 34
Data: Quarterly Labour Force Survey, Stats SA

According to the Quarterly Labour Force Survey, which measures formal and informal employment, the official unemployment rate rose to 34.4 per cent

(7.8 million people) in the second quarter of 2021, despite a continuous up-tick in overall economic activity on a quarter-on-quarter basis. Compared with the previous quarter, the size of the labour force increased by 2.4 per cent (530 348) in the second quarter of 2021, while the number of people employed declined by 0.4 per cent (53 772). The result was 8.1 per cent (584 120) increase in the number of unemployed people in the same period. Compared with the second quarter of 2020 – during the strict nationwide lockdown level five as a result of the Covid-19 pandemic - the number of people employed increased by 5.6 per cent (793 357). The official unemployment rate increased by 11.1 percentage points compared with a year ago.

The broad unemployment rate, which includes discouraged job-seekers, increased by 2.4 percentage points in the second quarter of 2021 compared with a year ago. Quarter-on-quarter, the broad unemployment rate increased by 1.2 percentage points to 44.4 per cent in the second quarter of 2021 compared with the previous quarter. The unemployment rate for women (36%) increased by 2.8 percentage points while that of men (32.4%) rose by 1 percentage point in the second quarter of 2021 compared with the previous quarter.

Figure 6: Sector contributions to changes in employment – Quarterly Employment Survey (QES)



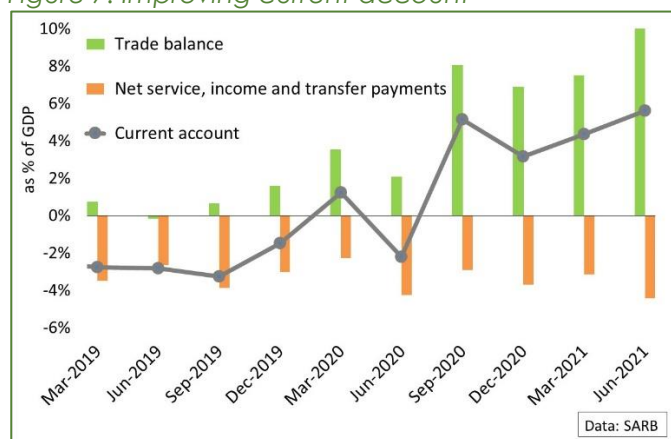
According to the Quarterly Employment Survey, which reports formal non-agricultural sector employment, employment decreased by 552 000 jobs (a 5.4% decrease in employment) in the first quarter of 2021 compared to the same quarter in 2020. A majority of sectors experienced job losses because of the country-wide lockdown as a result of the “second wave” of the Covid-19 pandemic. Total employment decreased by 9 000 (a 0.1% decrease in employment) quarter-on-quarter, from 9 653 000 in the fourth quarter of 2020 to 9 644 000 in the first quarter of 2021. This decrease was largely due to lower employment in trade (40 000 | 1.9%), and finance and business services (19 000 | 0.9%) while

community services experienced an increase in employment (47 000 | 1.7%).

Current Account

South Africa's current account, which records the country's net trade, earnings and transfers payments with the rest of the world, recorded its fourth consecutive surplus in the second quarter of 2021 - a record of R343 billion surplus (5.5% of GDP). The larger deficit on the net service, income and transfer payment account was exceeded by the increase in the trade surplus, as the prices and volume of exports increased faster than the price of imports.

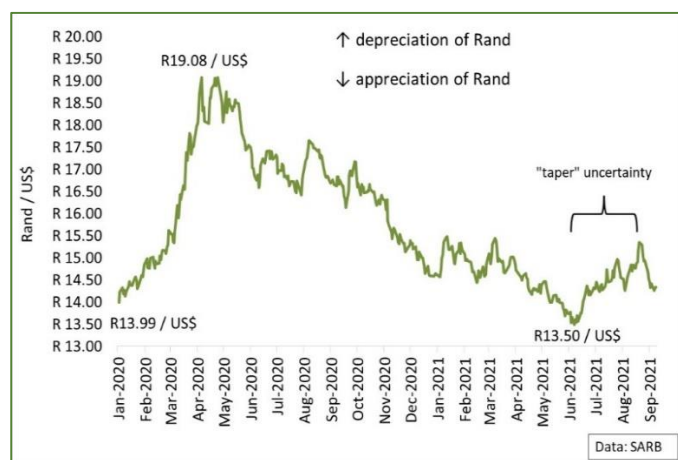
Figure 7: Improving current account



Exchange rate

The rand, after strengthening against the US dollar over the half of the year due to better export performance, buoyant demand for emerging-market assets and rising commodity prices, depreciated during July and August over uncertainty related to the "tapering" of US stimulus to its economy.

Figure 8 "Taper" uncertainty interrupts gradual recovery of rand



Uncertainty over the timing of the tapering of US stimulus, and increase of its policy rates has increased volatility and depreciated most emerging market

currencies against the US dollar (higher US policy rates generally trigger a sell-off of EM assets which causes a depreciation of the EM currency). The rand, along with the currencies of other emerging-market economies, strengthened against the US dollar towards the end of August and September following the US Federal reserve indicating that tapering would be delayed, and its accommodative monetary stance would continue for the foreseeable future.

Sovereign risk and debt outlook

The yield on South Africa's 10-year rand-denominated government bond (benchmark bond) – an indicator of market sentiment about the riskiness of South African government debt – after worsening over the first quarter, improved and stabilised over the second and third quarters of 2021. Accommodative monetary policy (low policy rates) and fiscal stimulus in developed countries, and the tentative improved global growth outlook, combined with better-than-expected growth and low inflation, have supported sustained demand for emerging market assets. However, additional "waves" of Covid-19 infections and uncertainties around the ability of countries to successfully roll-out vaccines has increased volatility in bond markets.

Figure 9: Yield on SA 10-year bond

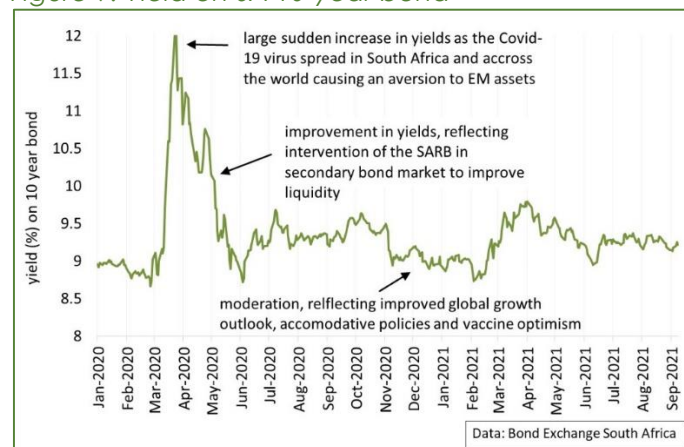
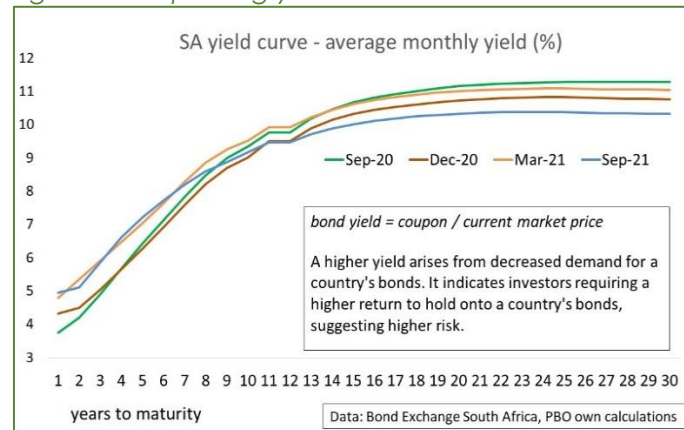


Figure 10: Improving yield curve



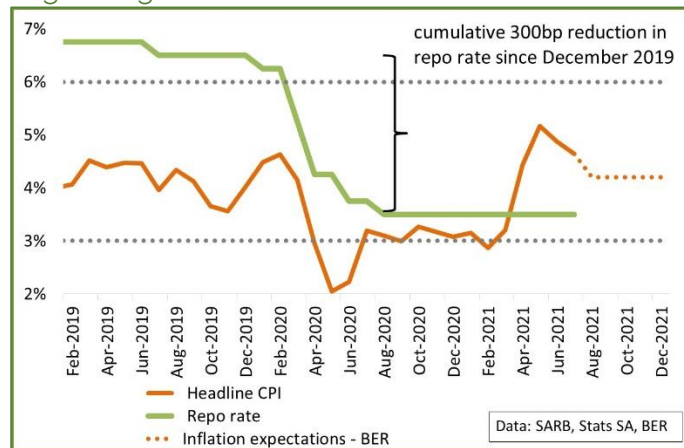
The yield curve for South African government debt, presents borrowing costs at different maturities. The

yield curve has shifted downwards over the last 12 months. The downward shift represents lowering costs across different maturities. It reflects improved demand for South African government debt, in part, due to increased liquidity arising from stimulus in advanced economies, as well as higher-than-expected domestic economic growth and moderate inflation.

Inflation and monetary policy

Headline inflation – as measured by the consumer price index (CPI) for all urban areas – after moving sideways along the lower-bound of the South African Reserve Bank’s 3 to 6 per cent target range since April 2020, began picking up from March 2021, passing the mid-point of the range in May 2021. The increase in inflation reflects, in part, higher food and fuel prices, as well as the base-effects from record low inflation recorded in 2020.

Figure 11: Inflation and expectations (still) within the target range



After a cumulative 300 basis points reduction to the repo rate between January and July 2020, the Monetary Policy Committee has since chosen to keep the repo rate at 3.5 per cent, whilst inflation has increased towards the mid-point of the target range. The effects on consumer prices from the ongoing economic recovery, as well as potential rate hikes from advanced economies may necessitate increases to the repo rate over the immediate future.

Outlook

Since the beginning of the year, the prospects for global and South African growth over the medium term have improved. Despite an overall improvement to the global growth outlook, which is expected to continue supporting domestic exports and commodity prices, several vulnerabilities presenting down-side risks are present. These risks include continued spreading of existing and new variants of the coronavirus, inadequate vaccine roll-out in many countries, and increasing variance between countries’ economic performance and

prospects. Domestically, the effect of the civil unrest experienced in July, as well as the extent and duration of the current and additional possible Covid-19 “waves”, and the roll-out of vaccines present notable downside risks to the nascent recovery of the South African economy.

Table 4: Improving growth outlook

GDP growth outlook - calendar year*	2021	2022	2023
National Treasury - Budget 2021	3.3%	2.2%	1.6%
South African Reserve Bank - January 2021	3.6%	2.4%	2.5%
South African Reserve Bank - July 2021	4.2%	2.3%	2.4%
World Bank - Global Economic Prospects - January 2021	3.3%	1.7%	-
World Bank - Global Economic Prospects - June 2021	3.5%	2.1%	1.5%
IMF - World Economic Outlook - January 2021	2.8%	1.4%	-
IMF - World Economic Outlook - July 2021	4.0%	2.2%	-

*Growth projections correspond to publication date and not forecast date