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PARLIAMENT OF THE REPUBLIC OF SOUTH AFRICA

Quarterly Economic Brief

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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 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 twentieth edition of the PBO's *Quarterly Economic Brief* (QEB) forms part of the regular outputs of the PBO based on its ongoing research and analysis. The purpose of the QEB is to support Members of Parliament and Committees in their oversight work. This QEB focuses on the key macroeconomic trends of the third quarter of 2019.

Global economy

The outlook for global economic growth continues to disappoint. The Organisation for Economic Cooperation and Development's November 2019 publication '*OECD Economic Outlook*' revised their estimate for global growth in 2019 down to 2.9 per cent. They predict global growth to be around 3.0 per cent for 2020 and 2021. This is a downward revision from their estimate of 3.5 per cent earlier this year. The OECD's revised global growth estimate for 2020 is also lower than the International Monetary Fund's (IMF) revised estimate of 3.4 per cent in their '*October 2019 World Economic Outlook*'. According to the he OECD says that their current estimates for the 2019, 2020 and 2021 growth rate for the global economy is the lowest level of global economic growth since the global financial crisis of 2008.

The contribution from developed economies to global growth was strengthened by increased consumer spending in the US during 2019 while the rest of the developed world seemed mired with low levels of aggregate demand. Levels of economic growth at one per cent or less as a result of low levels of demand and household consumption in the developed world is expected to continue next year. Lower consumption is expected in the US as well. The performance of the largest developing country economies, China and India, has declined as lower global demand has affected their exports and combined with domestic challenges have also hurt domestic economic activity. The OECD predicts that China's economic growth will slow to 5.7 per cent in 2020 and 5.5 per cent in 2021 down from 6.6 per cent in 2018 and a 2019 forecast of 6.2 per cent. India has had six consecutive quarters of declining economic growth and third quarter 2019 economic growth was reported at 4.5 per cent. The OECD estimate for India's 2019 full year economic growth is 5.8 per cent down from 6.8 per cent in 2018. The OECD predicts that India's economic growth will resume in 2020 to 6.2 per cent and in 2021 to 6.4 per cent. It is important to note that both China and India are routinely accused of inflating their GDP and other macroeconomic numbers.

Much of the underlying reasons for this poor growth are still due to the fallout from the global financial crisis of 2008 and measures to stimulate recovery from the 'great recession' thereafter. The period before the global financial crisis was marked by widespread increased levels of debt in many countries that drove increased household consumption, booms in construction, real estate and financial asset markets and increased demand for automobiles and other consumer goods. The efforts at recovery across the world were largely based on increasing liquidity in financial markets and the use of monetary policy to keep interest rates low and to allow households and businesses to keep borrowing. However, the expected recovery did not occur as the availability of more credit did not lead to the anticipated levels of investment, employment and economic growth around the world.

The continued high levels of debt are now part of the problem causing global demand to decline. There are very high levels of corporate debt in the US, a resurgence of subprime lending to households, high levels of risky automobile loans and a social problem related to the student debt levels. India and China. which have been the engines of global growth over the recent past, are also showing many signs of financial market stress with failures of lenders and shadow banking problems. Both households and corporations in India and China have accumulated high levels of debt and now have to reduce investment and consumption levels to deleverage private debt.

Overall, efforts to address high global levels of private debt contribute to the problems emerging around the world, including declining levels of household consumption and declining demand for automobiles and other consumer goods, lower levels of global investment and trade, declining house prices, and problems in the construction industry. At the same time, the use of tariffs by the United States to reignite their domestic industries and retaliation to these tariffs have contributed to the large downturn in global trade. The seemingly unsystematic manner in which the US is implementing these changes to trade arrangements and the related trade conflicts is causing uncertainty within economies around the world that translate into lower levels of aggregate demand as consumption, investment and trade plans get put on hold or cancelled. The continued uncertainty around Brexit and whether an election in Britain will resolve this uncertainty is also taking a toll on the global economy.

Unfortunately, these private debt and trade problems are made worse because of political and social protests and unrest across the world. This unrest is occurring not only in developing countries, such as Algeria, Argentina, Chile, Bolivia, Iran, Iraq, Hong Kong, Indonesia, Lebanon, Sudan and Zimbabwe, but also in developed countries such as France where the yellow vest protests have continued for more than a year, the Netherlands, Spain and the United Kingdom. The rise in social protests and unrest may in part be caused by the effect of local domestic economic problems in a worsening global economy. However, the growth of inequality around the world and the erosion of public provision leading to unaffordability of housing and basics such as healthcare, has fuelled unhappiness and protests. The impact and fears associated with global warming and environmental concerns should also not be underestimated. Furthermore, the effects of the fourth industrial revolution and fears related to it may also be a factor contributing to the rise in social protests and unrest.

Gross domestic product[1]

With three quarters of macroeconomic data on South Africa's economic position for 2019, one can safely assume that South Africa is no exception to what other countries are experiencing across the globe. Domestic structural issues still persist and have contributed to weak domestic growth, while low levels of global demand, among other factors, have added extra external pressure on the economy.

Table 1: Quarter-on-quarter percentage change in sectoral performance

% change q/q (saar)	Agriculture	Mining	Manufacturing	Utilities	Construction	*Trade	**Logistics	***Business services	Government	Personal services	GDP
2018 - Q1	-33.7	-9.1	-8.4	1.0	-2.3	-3.0	1.4	1.0	2.1	1.2	**-2.7**
2018 - Q2	-42.3	8.1	1.4	0.7	1.5	-1.2	-3.8	1.7	0.2	0.8	**-0.5**
2018 - Q3	13.7	-8.9	7.5	0.8	-1.7	3.4	6.8	2.1	1.9	0.6	**2.6**
2018 - Q4	7.9	-3.8	4.5	0.2	-0.7	-0.7	7.7	2.7	-0.6	1.7	**1.4**
2019 - Q1	-16.8	-10.8	-8.8	-7.4	-2.0	-3.6	-4.4	1.1	2.4	1.1	**-3.1**
2019 - Q2	-4.2	17.4	2.1	3.2	-1.4	3.4	-0.3	4.1	3.2	0.8	**3.2**
2019 - Q3	-3.6	-6.1	-3.9	-4.9	-2.7	2.6	-5.4	1.6	2.4	0.4	**-0.6**

*Trade refers to Trade, catering and accommodation
**Logistics refers to Transport, storage and communication
***Business services refers to Finance, real estate and business services

Source: StatsSA

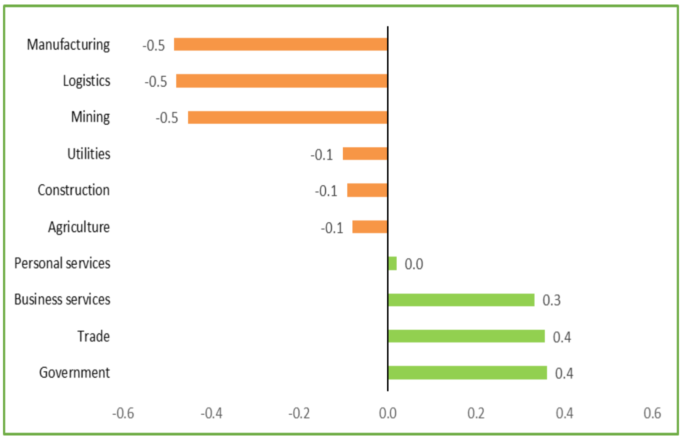
The above table shows that South African real gross domestic product (GDP) declined by 0.6 per cent in the third quarter of 2019 after growing by 3.2 per cent in the second quarter. An overview of GDP performance in the last seven quarters shows a period of low but volatile growth. The performance of six of the ten industries declined in the third quarter of 2019. These sectors include mining (-6.1%), logistics (-5.4%), utilities (-4.9%), manufacturing (-3.9%), agriculture (-3.6%) and construction (-2.7%).

A total of three industries - manufacturing, agriculture and logistics - experienced negative growth in the third quarter of 2019. Agriculture and logistics registered a third consecutive decline in value added in the third quarter of 2019 joining construction, which has been in recession from third quarter of 2018, resulting in a smaller value added contribution from the logistics sector to GDP. Lower

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

aggregate demand appears to have negatively affected the land transport and transport support services subsectors. The manufacturing sector also reported sluggish production of basic iron and steel, non-ferrous metal products, metal products and machinery; and petroleum chemical products, rubber and plastic products divisions.

Figure 1: Sector percentage contribution to the third quarter GDP decrease



Source: StatsSA

Positive contributions to third quarter GDP growth were mainly derived from three sectors: trade, government and business services. The value added of trade and government to GDP increased by 2.6 per cent and 2.4 per cent respectively, and both added 0.4 percentage points to third quarter 2019 GDP growth. Government sector growth has been attributed to a rise in employment numbers in provincial governments and higher education institutions, while in the trade industry growth in wholesale, motor trade, and accommodation had contributed to the sectors growth. The business services industry contributed 0.3 percentage points to third quarter GDP growth and 1.6 per cent to growth in terms of value added.

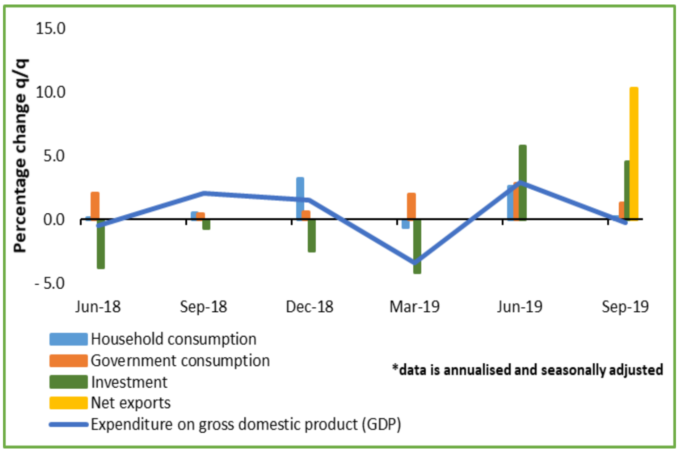
Expenditure on GDP

Expenditure on real gross domestic product (GDP) fell by 0.3 per cent in the third quarter of 2019. South Africa's household and government consumption grew by 0.2 per cent and 1.3 per cent respectively. This decline in GDP follows relatively larger positive growth in the second quarter of 2019, when both household and government consumption each grew by 2.8 per cent. Expenditure on gross fixed capital formation (GFCF) in South Africa grew by 4.5 per cent in the third quarter of 2019. The main contributors to the increase were machinery and equipment, other assets and transport equipment. Large imports of machinery and equipment were reported to have supported the increase in gross fixed capital formation.

There was also a large decline in inventories in the third quarter, amounting to R9.5 billion (a 4.7% change for the third quarter). The drawdown of inventories was reported from manufacturing, trade and mining industries.

Net exports contributed positively to growth in expenditure on GDP in the third quarter of 2019. Exports increased by 3.5 per cent and imports declined by 6.8 per cent due to a decrease in the imports of mineral products.

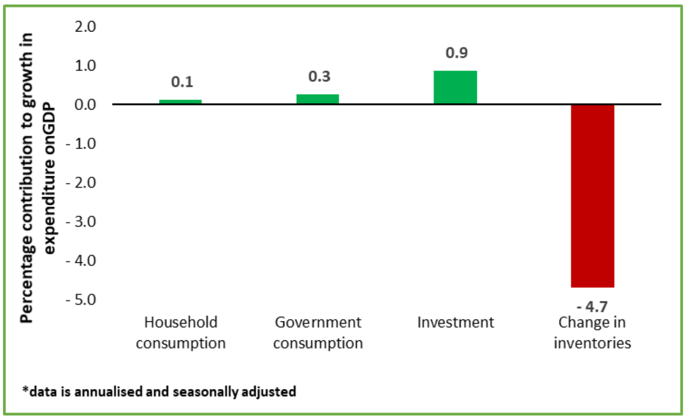
Figure 2: Quarterly sector performance



Source: StatsSA

Figure 3 shows the percentage contribution of different expenditure categories to the 0.3 per cent decline in gross domestic expenditure (GDE) in the third quarter of 2019. Household consumption contributed 0.1 per cent to total growth in the third quarter. The main contributors to household consumption were food and non-alcoholic beverages and restaurants and hotels. The largest drag on consumption came from low expenditures on clothing, housing, furnishings and recreation. Government consumption and investment contributed 0.3 per cent and 0.9 per cent respectively. Change in inventories was the largest contributor to the decline in GDP having experienced a 4.7 per cent decrease.

Figure 3: Sector contribution to negative third quarter GDP

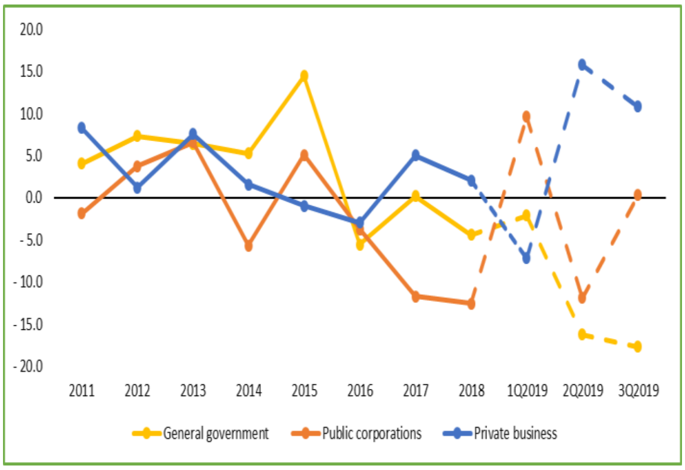


Source: StatsSA

Investment

Real gross fixed capital formation (GFCF) increased by 4.5 per cent in the third quarter of 2019 from a 5.8 per cent increase in the second quarter in the same. The 2019 third quarter increase in real GFCF was largely influenced by increased investment in machinery and equipment (i.e. computer equipment), other assets (i.e. computer software) and transport equipment.

Figure 4: Percentage change in real gross Fixed Capital Formation as per organisation



Source: StatsSA

Real GFCF by organisation shows that general government investment has been declining at an increasing rate for the fourth consecutive quarter in a row, starting from the fourth quarter of 2018. General government capital investment recorded a 17.8 per cent decline in the third quarter of 2019, down from a 16.2 per cent decrease in the second quarter.

Non-residential buildings investment has been spiralling downwards over the past five consecutive quarters. Relative to other assets, non-residential buildings registered the largest decline of 18.5 per cent in the third quarter of 2019. after a second quarter decline of 9.4 per cent.

Private business gross fixed capital investment increased by 10.8 per cent in the third quarter of 2019 from a 15.8 per cent increase in the second quarter. The increased investment by private business added 7.4 per cent to real GFCF in the third quarter while the decline in general government investment subtracted 2.9 per cent in the same quarter.

Employment

According to the Quarterly Labour Force Survey, which measures formal and informal employment, the estimated official unemployment rate rose to 29.1 per cent (6.7 million people) in the third quarter of 2019 – a 0.1 percentage point increase from the second quarter data. Whilst the number of people employed increased by 0.4 percentage points (62

TEXTBOX: The state of inequality in South Africa

Inequality in South Africa has long been recognized as one of the most pernicious problems facing our society. Despite many efforts by government to reduce inequality since the democratic transition in 1994, progress has been limited. South Africa is consistently ranked as one of the most unequal countries in the world. The roots of inequality lie in the history of colonisation and apartheid. The National Development Plan (NDP) prioritises reducing inequality as key objectives. One of the NDP targets is to reduce income inequality (measured by the Gini coefficient) from 0,70 to 0,60 by 2030.

*Table: Inequality measures based on per capita expenditure by population group**

Population Group	Year	Gini Coefficient	Palma Ratio		
			Bottom 40%	Top 10%	Ratio
Black African	2006	0.54	11.4%	44.9%	4
	2009	0.57	10.0%	46.8%	4.7
	2011	0.55	10.4%	44.9%	4.3
	2015	0.57	9.6%	46.2%	4.8
Coloured	2006	0.56	9.9%	44.2%	4.5
	2009	0.53	10.1%	38.7%	3.8
	2011	0.53	10.5%	40.3%	3.8
	2015	0.56	9.2%	42.2%	4.6
Indian	2006	0.52	11.2%	40.6%	3.6
	2009	0.5	11.4%	38.4%	3.4
	2011	0.45	12.9%	32.8%	2.5
	2015	0.45	13.5%	32.7%	2.4
White	2006	0.43	14.7%	31.5%	2.1
	2009	0.39	16.3%	28.3%	1.7
	2011	0.41	15.4%	30.4%	2
	2015	0.41	15.4%	29.8%	1.9
Total	2006	0.67	6.6%	57.2%	8.6
	2009	0.65	6.5%	53.3%	8.1
	2011	0.65	6.8%	53.3%	7.9
	2015	0.65	6.6%	52.6%	7.6

Source: StatsSA "Inequality in South Africa"

The Gini coefficient ranges from 0 to 1, where 0 indicates perfect equality (all individuals have the same income) and 1 indicates perfect inequality (where one person has all the income and the rest have none). The Palma ratio is defined as the ratio of national income/expenditure shares of the top 10 per cent of the population relative to the bottom 40 per cent.

The table shows inequality within population groups over time. The Gini coefficient based on per capita expenditure was the highest for black Africans compared to the other three population groups since 2009. Meanwhile, coloureds had the highest Gini coefficient in 2006. From 2006 to 2015, the Gini coefficient increased for black Africans while it remained constant for coloureds and decreased for Indians/Asians and whites. The Palma ratio provides the same conclusion as the Gini coefficient, in particular that there is increasing inequality among black Africans.

The coloured population had their lowest Gini levels in 2009 and 2011 at 0,53. In 2006 and 2015, the Gini coefficient for coloureds was at 0,56. In terms of the Indian population, the Gini coefficient has declined from 0.52 in 2006 to 0.45 in 2015, the largest decline in the inequality measure across all population groups. Meanwhile, whites had a Gini coefficient of 0,43 in 2006, 0,39 in 2009, and 0,41 in both 2011 and 2015, a minor decline in generally lower Gini coefficients in comparison to other population groups.

303) in the third quarter of 2019, the labour force grew faster at 0.6 per cent (140 706). The broad unemployment rate, which includes discouraged job-seekers, increased by 8.4 per cent (524 322) compared to a year ago and remained at 38.5 per cent in the third quarter of 2019.

The unemployment rate for females decreased by 0.4 percentage points in the third quarter of 2019 from 31.3 per cent in the second quarter but remains higher than that of males. The unemployment rate for males increased by 0.6 per cent in the third quarter of 2019 from 27.1 per cent in the second quarter.

Table 2: Key labour statistics – Quarterly Labour Force Survey

	3Q 2018	2Q 2019	3Q 2019
Labour force ('000s)	**22 589**	**22 968**	**23 109**
Employed	**16 380**	**16 313**	**16 375**
Unemployed - official	**6 209**	**6 655**	**6 734**
Unemployed - broad*	**9 759**	**10 226**	**10 272**
Not economically active ('000s)	**15 395**	**15 465**	**15 474**
Discouraged job-seekers	2 733	2 749	2 793
Other (not economically active)	12 662	12 716	12 681
Unemployment rates			
Official unemployment rate (narrow)	27.5%	29.0%	29.1%
Broad unemployment rate*	37.3%	38.5%	38.5%
Unemployment Rates - Gender			
Male - official	25.9%	27.1%	27.7%
Female - official	29.4%	31.3%	30.9%
Unemployment Rates - Race			
Black African - official	31.1%	32.7%	32.8%
Coloured - official	21.8%	22.5%	23.5%
Indian/Asian - official	10.1%	11.2%	13.3%
White - official	7.1%	7.4%	7.4%
Youth**			
Unemployment rate - official	39.0%	41.1%	41.9%
Unemployment rate - broad*	50.2%	52.0%	52.5%

* The broad unemployment rate includes discouraged job seekers
** Youth is defined as age 15 - 34

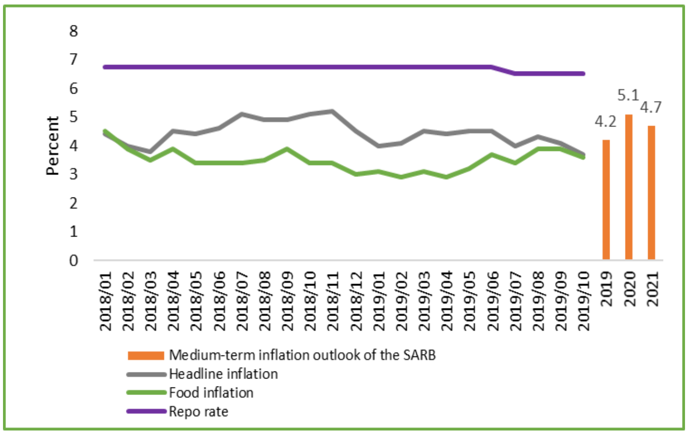
Source: StatsSA

Inflation and monetary policy

Headline consumer price inflation (CPI) for all urban areas was 3.7 per cent in October 2019, down from 4.1 per cent in September 2019. October 2019 CPI was the lowest since February 2011. At present, the recorded monthly inflation is lower than the mid-point of the Reserve bank's inflation target range of 3-6 per cent. Inflation on food and non-alcoholic beverages slowed to 3.6 per cent in October 2019, down from September's 3.9 per cent. The inflation forecast generated by the South African Reserve Bank has indicated that the medium term inflation outlook remains largely unchanged since September 2019. The inflation outlook for 2019 is currently at 4.2 per cent, 5.1 per cent for 2020 and 4.7 per cent for 2021. The overall risks to the inflation outlook remains balanced, however uncertainty over inflation risks is unusually high. Demand side pressures are low, while house rental prices are only expected to increase at a moderate rate. Global inflation is also expected to remain low. Food inflation has continued to decrease but rising imported food prices and uncertainty around domestic weather patterns present its own risks to the price trajectory. Other upside risks to inflation include wage growth, and fuel, electricity and water prices. The risk of greater capital flow volatility could also put pressure on the exchange rate.

Against this backdrop, the South African Reserve Bank's Monetary Policy Committee (MPC) has decided to keep the repo rate unchanged at 6.5 per cent.

Figure 5: Inflation beneath mid-point of the target range



Source: SARB

Conclusion

International organisations have made several downward revisions to their estimates for global economic growth for 2019 to 2021. In fact, there have been several episodes of downward revision to global growth forecasts over the past few years. There have been similar episodes of revisions over many years in individual countries, including South Africa.

It has taken economists in international institutions and individual countries a long time to realise that the global economy and many individual countries would not bounce back to the relatively high levels of economic growth experienced before the global financial crisis.

South Africa's third quarter economic growth was -0.6 per cent and growth projections and downward revisions agree that estimates made earlier this year were too optimistic. The economy is facing significant demand problems going forward.