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Quarterly Economic Brief

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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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This report incorporates data available up to and including the 8 December 2021, and was released on the 13 December 2021. Stats SA only releases Quarterly Employment Survey for the third quarter at the end

Gross domestic product[1]

The South African economy contracted by 1.5 per cent, on a quarter-on-quarter seasonally adjusted (qqsa) basis in the third quarter of 2021, following the modest growth of 1.1 per cent in the second quarter. Reasons for the contraction include the July social unrest, stronger measures to curb the spread of Covid-19, and increased load-shedding. The full extent of the effect of the July unrest on the quarter's performance as well as on future economic performance is not fully known - the South African Special Risks Insurance Association (Sasria) estimates the unrest cost the economy more than R50 bn over that period.

A deceleration in global growth, following a strong rebound last year, has also reduced commodity demand, weighing on SA's exports, while global supply chain bottlenecks continue to hinder output.

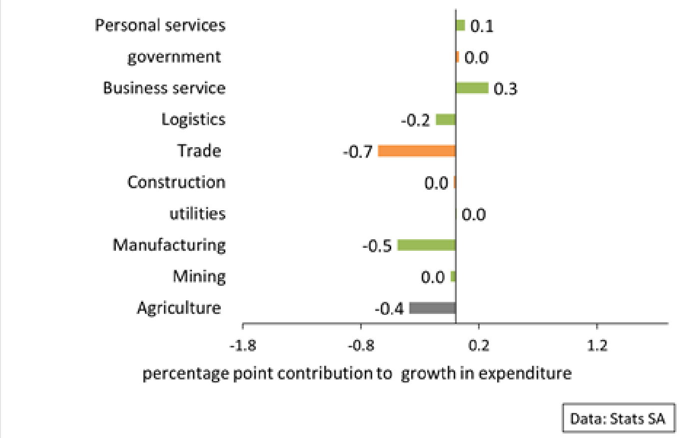
Table 1: GDP sector performance in the third quarter

%Change q/q	Agriculture	Mining	Manufacturing	utilities	Construction	Trade	Logistics	Business service	government	Personal services	GDP
2021 Q3	-13.6	-0.9	-4.2	0.4	-0.5	-5.5	-2.2	1.2	0.4	0.5	-1.5
2021 Q2	6.2	1.0	-1.0	0.7	-1.2	2.2	6.9	-0.7	-0.4	2.5	1.1
2021 Q1	-1.0	2.2	0.5	-0.3	0.5	2.6	-1.1	1.3	0.3	0.6	0.9
2020 Q4	6.6	-0.9	5.3	-0.1	1.9	1.5	2.9	2.9	0.2	1.7	2.5
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 Q2	-4.3	-31.1	-31.4	-11.6	-29.9	-26.7	-26.7	-10.5	-0.3	-5.9	-17.4
2020 Q1	9.8	-4.7	-0.6	-0.9	-2.5	-0.8	-1.3	2.7	0.2	-0.3	0.1

Data: Stats SA

Contractions in value-added were experienced in six of the ten sectors in the third quarter. The largest negative contributors to growth in GDP over the quarter were the trade, manufacturing, and agriculture industries. The trade industry contracted by 5.5 per cent, the manufacturing sector contracted by 4.2 per cent and the agriculture sector contracted by 13.6 per cent.

Figure 1: Sector contributions to GDP growth



The manufacturing sector has been plagued by electricity supply constraints and supply chain disruptions caused by the pandemic, hindering access to essential inputs. Moreover, the destruction caused by the social unrest in July 2021, resulted in billions of rands of damage to businesses and infrastructure and disrupted economic activity, forcing many manufacturing plants to close. As a result of the manufacturing sector's 4.2 per cent qqsa contraction, the secondary sector of the economy contracted by 3.0 per cent qqsa.

The trade sector, in which tourism and hospitality activity is recorded, was largely responsible for the tertiary sector's contraction. The tourism sector has been one of the worst affected sectors, with restrictions on travel and alcohol having weighed heavily on its performance, and ability to generate employment. The finance sector, government and personal services all grew modestly over the quarter.

The primary sector contracted by 5.6 per cent qqsa, underpinned by a sharp fall in agricultural activity of 13.6 per cent qqsa, as a result of diminished production of field crops and animal products.

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

Expenditure on GDP

Measured from the expenditure side, GDP contracted by 1.6 per cent over the third quarter of 2021, following growth of 1.1 per cent qqsa (revised[2]) in the second quarter of 2021.

The contraction was due to a decline in export activity and household consumption expenditure of 5.9 per cent qqsa and 2.4 per cent qqsa respectively, in turn subtracting a combined -3.2 percentage points from GDP.

Figure 2: Sectors contributions to third quarter GDP

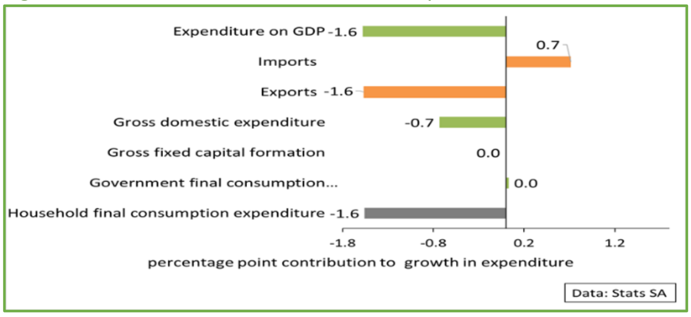
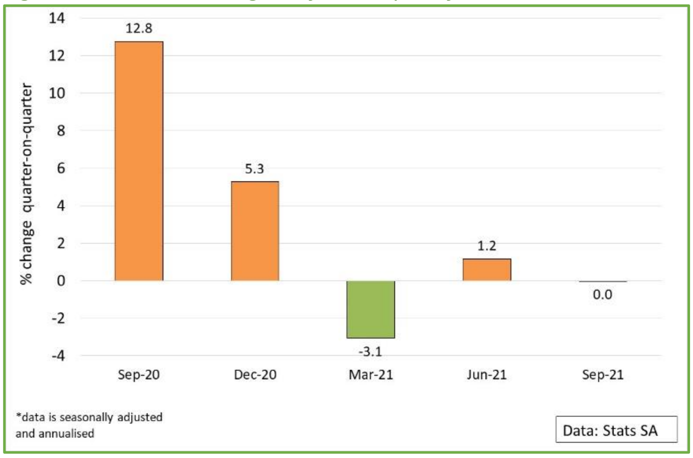


Figure 3: Investment – gross fixed capital formation



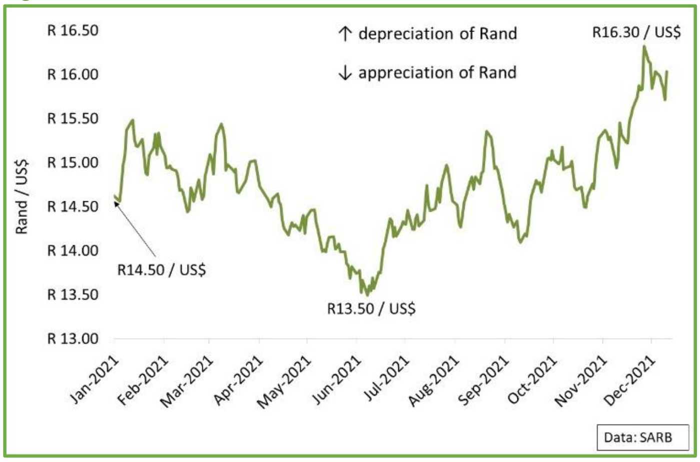
All categories of household consumption expenditure declined notably (except for services which remained flat) led by the durable goods category, which contracted by 9.3 per cent qqsa. Gross fixed capital formation experienced no growth in the third quarter, following an increase of 1.2 per cent qqsa last quarter.

On the production side of the national accounts, six sectors shrank, while four (including business services and finance) grew. On the expenditure side of the national accounts, both household consumption and net exports were a major drag on growth.

Exchange rate

The rand strengthened by 6 per cent against the US dollar over the first half of 2021. Sentiment in currency markets towards the rand may have been influenced in part by stronger exports, higher commodity prices, and an improved global growth outlook. The gains in the value of the rand have reversed since the middle of the year as global growth slowed. The rand depreciated by 20 per cent against the US dollar since June 2021. Sentiment in currency markets with regard to the rand may have been negatively affected by the slow pace of the SARB's interest rate increase compared to other emerging markets (EMs) in the current cycle, with some EMs having started hiking much earlier this year.

Figure 4: Rand vs US dollar



Current Account

The current account surplus narrowed notably to R226bn in the third quarter from R311bn (revised) in second quarter of 2021. Expressed as a percentage of GDP, the surplus narrowed to 3.6 per cent from 5.1 per cent previously. The narrowing of the surplus position was largely a function of the decrease in the trade surplus to R455bn in third quarter from a marked R582bn in the second quarter (7.3 per cent of GDP from a prior 9.5 per cent of GDP). The value of South Africa's exports of goods decreased by 6.7 per cent in the third quarter of 2021, while the value of merchandise imports remained broadly unchanged. However, the financial transfers measured on the current account continue to be an important negative influence on the size of the current account balance.

Table 2: Balance of payments on current account

	2019	2020	Q1.21	Q2.21	Q3.21
Merchandise exports	1 236	1 286	1 614	1 796	1 665
Net gold exports	67.0	108.0	107.0	100.0	105.0
Merchandise imports	-1 264	-1 105	-1 270	-1 315	-1 316
Trade balance	39.0	289.0	451.0	582.0	455
Income and current transfer payments	-183.0	-180.0	-190.0	-271.0	-228
Balance on current account	-145	110	261	311	226
As % of GDP	-2.6	2.0	4.3	5.1	3.6

R'bn seasonally adjusted and annualised **Data:SARB**

SA's terms of trade (including gold) worsened in the third quarter as the rand price of import of goods and services increased more than the price of exports. Looking ahead, import growth is likely to remain restrained by weak domestic economic activity, while risks to the global growth trajectory could weigh on SA's export potential.

The deficit on the services, income and current transfer account declined in the third quarter to R228bn (3.7% of GDP) from R271bn (3.7% of GDP) in the previous quarter. While it has narrowed, SA's service account deficit remained relatively large

[2] Stats SA revises GDP estimates after every quarter if necessary as new data becomes available

at -1.0 per cent of GDP in third quarter (-1.1 per cent previously). The deficit on the income account narrowed to -2.2 per cent of GDP from a prior -2.7 per cent of GDP (revised).

Employment

According to the Quarterly Labour Force Survey, which measures formal and informal employment, the estimated official unemployment rate reached 34.9 per cent (7.6 million people) in the third quarter of 2021 – a new record high since the launch of the Survey in 2008. Compared with the third quarter of 2020, unemployment levels increased by a staggering 17 per cent (1 110 606 persons). Over the year, the labour force expanded by 3.3 per cent (701 744), and the number of people employed declined by 2.8 per cent (408 862). Compared with the second quarter of 2021, the number of unemployed persons increased by 0.5 per cent (182 548), while the labour force shrunk by 3.7 per cent (842 114 people).

Table 3: Key labour statistics – Quarterly Labour Force Survey

	3Q 2020	2Q 2021	3Q 2021
Labour force ('000s)	**21 224**	**22 768**	**21 925**
Employed	**14 691**	**14 942**	**14 282**
Unemployed - official	**6 533**	**7 826**	**7 643**
Unemployed - broad*	**11 145**	**11 923**	**12 484**
Not economically active ('000s)	**17 944**	**16 832**	**17 820**
Discouraged job-seekers	2 696	3 317	3 862
Other (not economically active)	15 248	13 515	13 958
Unemployment rates			
Official unemployment rate (narrow)	30.8%	34.4%	34.9%
Broad unemployment rate*	43.1%	44.4%	46.6%
Unemployment Rates - Gender			
Male - official	29.6%	32.4%	32.9%
Female - official	32.3%	36.8%	37.3%
Unemployment Rates - Race			
Black African - official	34.6%	38.2%	38.6%
Coloured - official	23.5%	28.5%	30.5%
Indian/Asian - official	18.4%	19.5%	22.0%
White - official	8.6%	8.6%	9.2%
Youth**			
Unemployment rate - official	43.2%	48.1%	49.3%
Unemployment rate - broad*	56.3%	58.5%	61.3%

* The broad unemployment rate includes discouraged job seekers

** Youth is defined as age 15 - 34

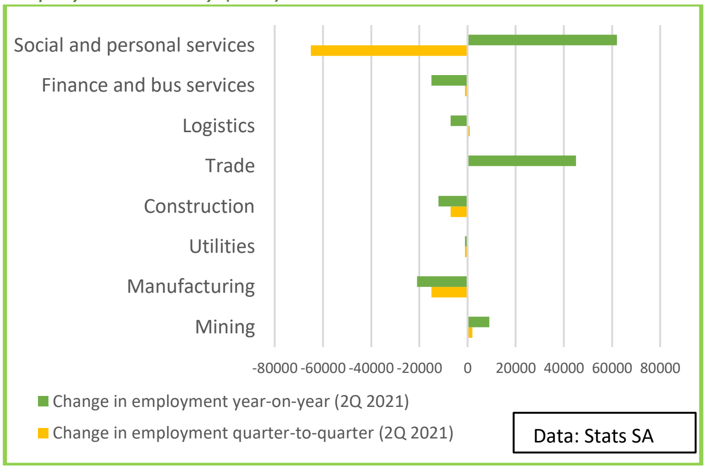
Data: Quarterly Labour Force Survey, Stats SA

The increase in unemployment is in part due to the massive loss of jobs as a result of the July unrest and the Covid-19 restrictions. The number of people employed declined by 4.4 per cent (659 566) during the third quarter.

The broad unemployment rate, which includes discouraged job-seekers, increased by 12 per cent (1 339 355 people) in the third quarter of 2021 compared to a year ago. Quarter-on-quarter, the broad unemployment rate increased by 2.2 percentage points to 46.6 per cent in the third quarter of 2021. The unemployment rate for men (32.9%) and women (37.3%) increased in the third quarter of 2021 compared to the previous quarter.

According to the Quarterly Employment Survey, which reports formal non-agricultural sector employment, employment increased by 60 000 jobs (a 0.6% increase in employment) in the second quarter of 2021 compared to the same quarter in 2020. Most of the sectors continued to experience job losses in 2021, except for community, social and personal services, and Trade and Mining. Total employment decreased by 86 000 (0.9% decrease in employment) quarter-on-quarter, from 9 652 000 in the first quarter of 2021 to 9 566 000 in the second quarter of the same period. This was largely due to increases in community, social and personal service (65 000 or 2.3%), manufacturing (15 000 or 1.4%) and construction (7 000 or 1.4%).

Figure 5: Sector contribution to employment – Quarterly Employment Survey (QES)



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 worsened (increased) since the beginning of the year, especially over the second half of the year, losing over 100 basis points since June.

The yield curve for South African government debt – presenting borrowing costs at different maturities shows an increase in borrowing costs since the beginning of the year, with a notable increase in debt maturing within three to ten years. This increase occurred even though domestic inflation remained close to the mid-point of the target range and government's indication in the MTBPS that it will continue to attempt to lower government debt as a share of GDP.

Figure 6: Yield on SA 10-year bond

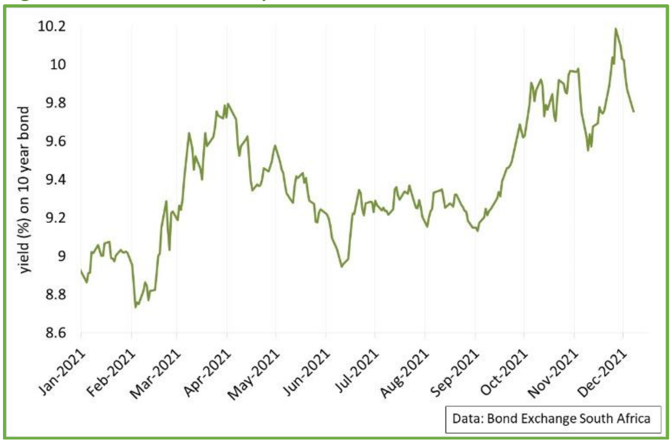


Figure 7: Increasing risk since the beginning of the year

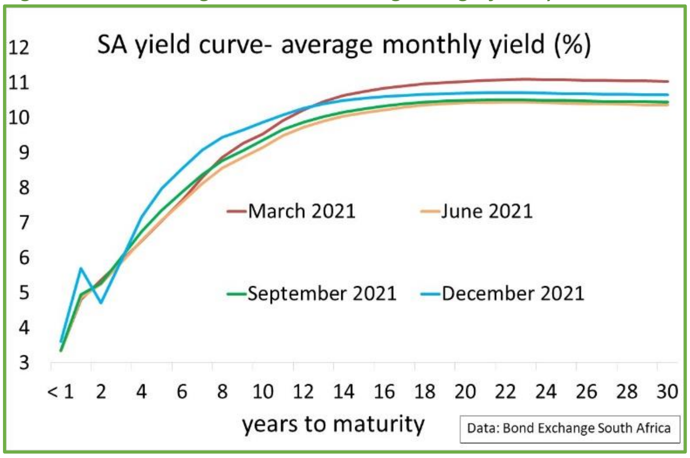
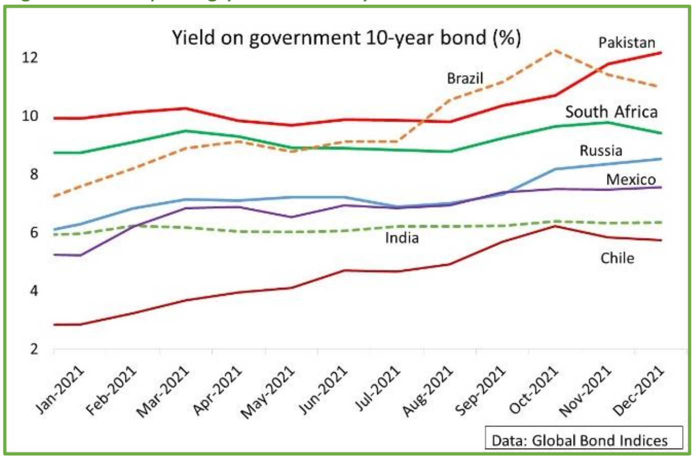


Figure 8: Performance of government 10-year bond auctions

The yields on sovereign bonds since the beginning of the year indicate the same pattern of increased 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 and increased further over the last quarter. This increase results in higher debt service costs for a given level of issuance.

Most emerging-market economies have seen the yields on their bonds increase. This increase may reflect concerns of bond traders about the effects of the dampening outlook for the global economy, specifically poor Chinese growth, that may reduce demand for commodities and concerns about an imminent tapering of stimulus by the US Federal Reserve on EM asset prices. South Africa's financial asset prices may remain particularly vulnerable, within the emerging market group of economies, due to its export dependence on China, as well as its reliance on international financial inflows.

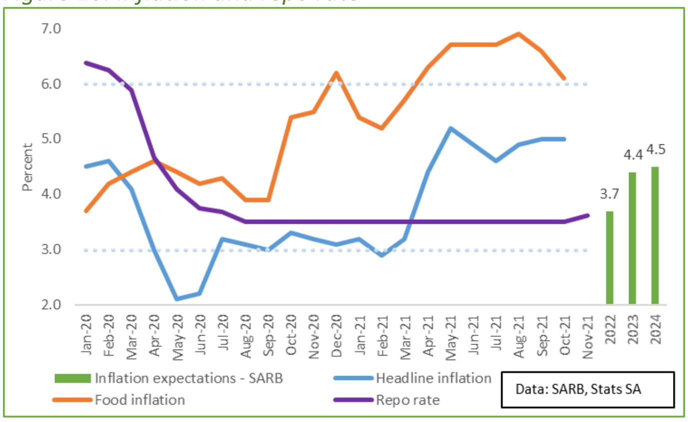
Figure 9: Comparing yields on 10-year bond



Inflation and monetary policy

Headline consumer price inflation (CPI) for all urban areas was 5.0 per cent in both September and October 2021. Inflation on food and non-alcoholic beverage prices increased by 0.9 per cent between September 2021 and October 2021 and 6.1 per cent year-on-year.

Figure 10: Inflation and repo rate



The South African Reserve Bank's Monetary Policy Committee (MPC) decision to increase the repurchase rate by 25 basis points to 3.75 per cent per annum highlighted confidence sustained by vaccination rates and recovery of global economic indicators after the disruption in global economic activities caused by the Covid-19 pandemic. The annual inflation rate has remained above the 4.5 per cent midpoint of the South African Reserve Bank's monetary policy target range of between 3 and 6 per cent for six consecutive months since May 2021, whilst the food inflation has been above 5 per cent for more than a year since October 2020. Since September, the rand has depreciated by about 5.9 per cent against the US dollar. The MPC noted that Covid-19 remains one of a series of current risks to South Africa's economic growth outlook. Risks include rising inflation, stagnant investment, weaker commodity export prices and the impact resulting from the July unrest.

Outlook

Following a stronger-than-expected rebound in the domestic and global economy over the first half of the year, the October MTBPS presented a significant improvement in the outlook for the economy compared with the 2021 Budget Review in February. The stronger-than-expected performance of the economy translated into revenue collections also exceeding expectations, with government proposing part of the revenue windfall be used to reduce the country's borrowing requirements (a smaller budget deficit of R409 bn).

Table 4: Revised SA growth outlook

GDP growth outlook - calender year*	2021	2022	2023	2024
National Treasury - Budget 2021	3.3%	2.2%	1.6%	
National Treasury - MTBPS 2021	5.1%	1.8%	1.6%	1.7%
South African Reserve Bank - January 2021	3.6%	2.4%	2.5%	
South African Reserve Bank - July 2021	5.2%	1.7%	1.8%	2.0%
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 - October 2021	5.0%	2.2%	-	

*Growth projections correspond to publication date and not forecast date

Since the tabling of the MTBPS there have been increased concerns about the downside risks to the domestic and global economy due to the Omicron variant of the coronavirus, an immanent tapering of stimulus by the US Federal Reserve, as well the effects of the slowdown of the Chinese economy. Domestically, the July social unrest – which cost the economy over 60 000 jobs, weighed heavily on the economy, as did the increased frequency of electricity load-shedding.