Draft for Review

Issue # 02

February 2022

Economic and Employment Indicators & Trends in South Africa

National Economic Development and Labour Council

Contents

The Month in Review

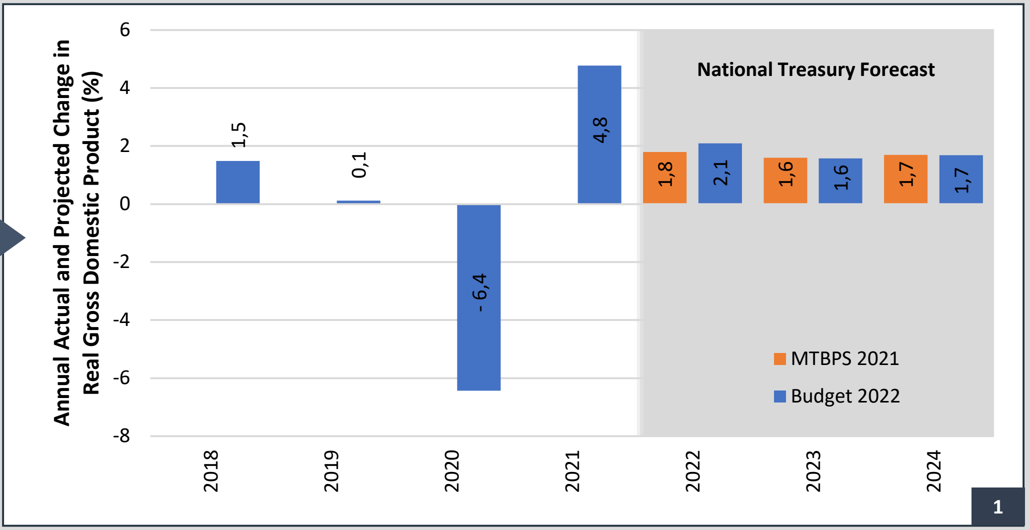
- The 2022 Budget provided some evidence of economic and fiscal stabilisation and limited tax increases on individuals and reduced the corporate income tax rate in line with commitments made in the previous Budget in order to give some impetus to the recovery. Tax windfalls arising from the impact of high commodity prices on mining profits provided some fiscal space to stabilise government debt – with the debt to GDP ratio now expected to peak at around 75% over the medium term – compared with the close to 79% expected at the time of the 2021 Budget. Better-than-expected tax collections also mean that the fiscal deficit will be lower than previously expected – dropping from 7.4% of GDP to 6.2% in 2022/23 and from 6.5% to 4.2% in 2023/24.
- The TransUnion Consumer Pulse Study for Q4 2021 also points to signs of limited improvement in the financial position of households, with more households anticipating that they will be able to at least preserve their incomes under COVID, and relatively fewer expecting lasting damage to their financial position.
- Although no new employment data was released during February, the Q3 2021 data reflects increased informalisation of the non-agricultural labour markets. Informal employment's share of total employment varies widely across different sectors: there is no informal employment in the general government sector, but it accounted for 0.7% of total mining employment in Q3 2021, 36% of construction employment and 41% of community, social and personal services (excluding general government). Between Q3 2020 and Q3 2021, informal employment increased by 10% while formal employment declined by 7%

The Month in Review (continued)

- A recently-released analysis of the causes for the slow-down in South Africa's economic growth and rapid increase in government debt levels (see Section C) finds the causes to be largely microeconomic in origin. The failure to achieve significant productivity improvements in network industries such as utilities, transport and communication, combined with heighted policy uncertainty have contributed to lower growth and investment in other sectors of the economy. The latest Budget signals an intention to start reversing the long-term decline in public sector investment in infrastructure by projecting real growth in infrastructure investment of around 4.2% a year over the medium term (i.e. till 2024/25).
- Recently released high-frequency data reflecting the performance of individual sectors of the economy provides a mixed picture. There is high variability in performance across different sub-sectors and activities and between the different sectors of the economy. For example, in mining, PGM sales increased by 81% in 2021, but coal sales only rose by 14% and manganese ore sales decreased by 1%. While manufacturing production volumes declined by 7% overall between 2015 and 2021, food and beverage production increased by 11% and petroleum, chemical, rubber and plastic production volumes contracted by 22%. Similarly, construction activity is now weighted towards the building of flats, townhouses and warehouses and away from shopping centres, banks and offices.

Gross Domestic Product

In the 2022 Budget presented to Parliament, National Treasury raised its economic growth forecast for the current year to 2.1% - 0.3 percentage points higher than the growth projected in October 2021 when the Medium-Term Budget Policy Statement was released. The growth forecasts for 2023 and 2024 remained unchanged at 1.6% and 1.7% respectively and are in line with those of the International Monetary Fund's World Economic Outlook January 2022 Update.



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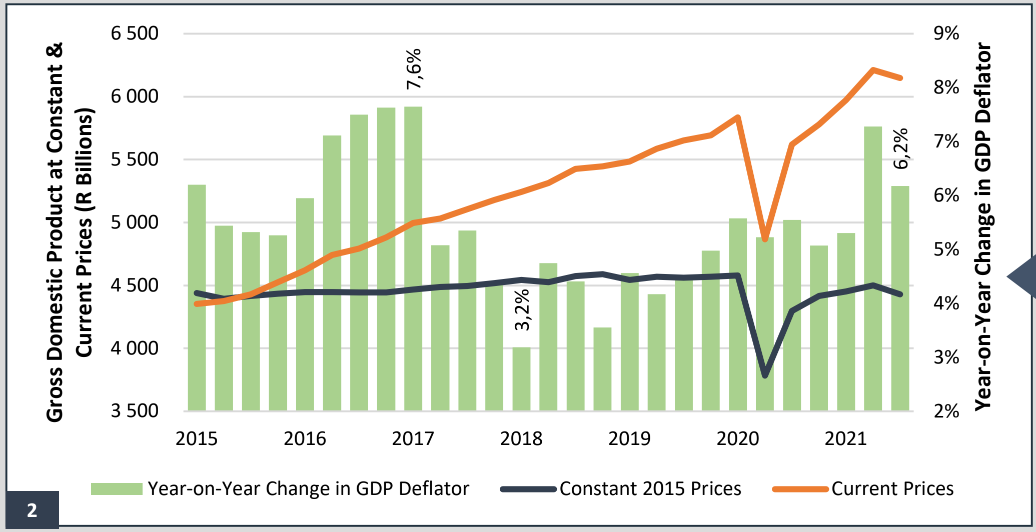

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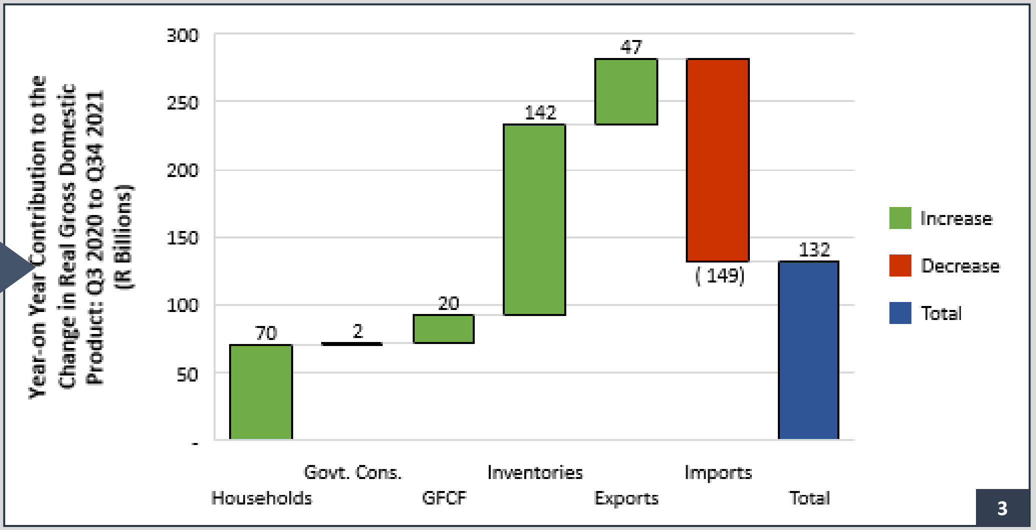
The GDP deflator is the broadest measure of price changes in the economy and accounts for the difference between GDP at current and constant prices. Between 2015 and Q3 2021 the prices of goods and services produced within the economy increased by 39%. The year-on-year change in the GDP deflator in Q3 2021 was 6.2% in 2021 – down from 7.3% in the previous quarter.

Between Q3 2020 and Q3 2021 the value of South Africa's GDP increased by R132 billion in constant 2015 price terms. This increase was the result of a reduction in the rate at which inventories were reduced (R142 billion), increased household consumption expenditure (R70 billion), higher exports (R47 billion) and a R20 billion rise in gross fixed capital formation. These increases were offset by higher imports of R149 billion.



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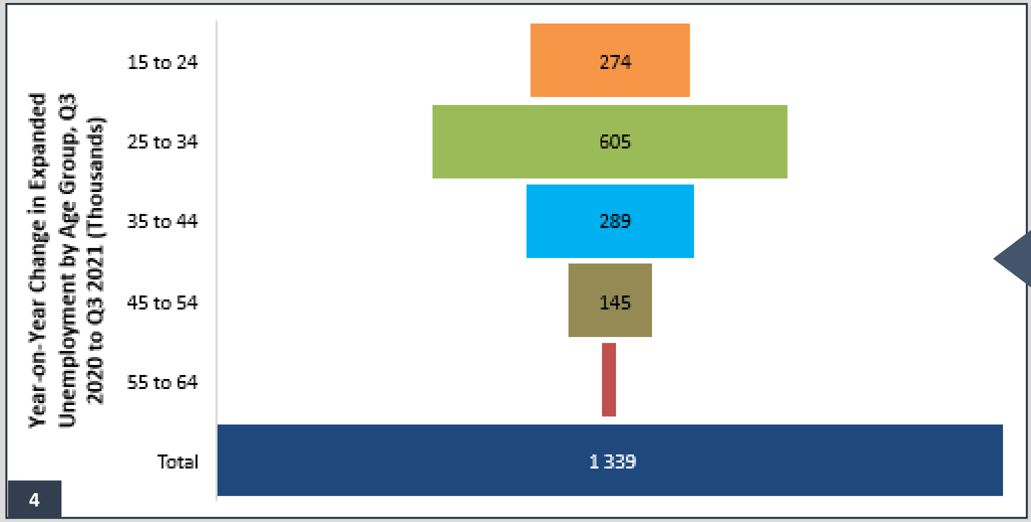
The South African economy's growth prospects for 2022 were lifted slightly in National Treasury's latest forecasts, but the outlook for 2023 and 2024 remain muted and unchanged. Broad inflationary pressures decreased slightly in Q3 2021 and higher imports offset growth in other expenditure areas.

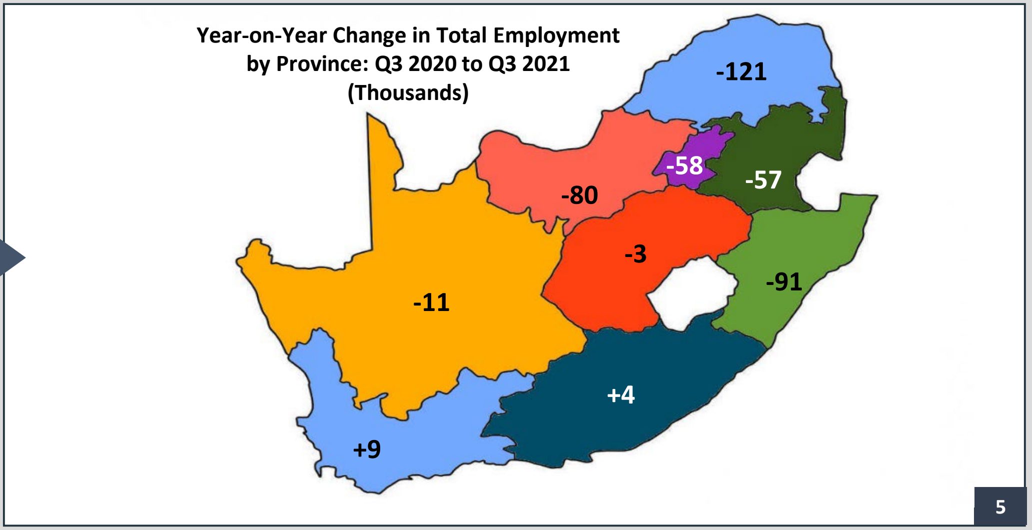
Employment

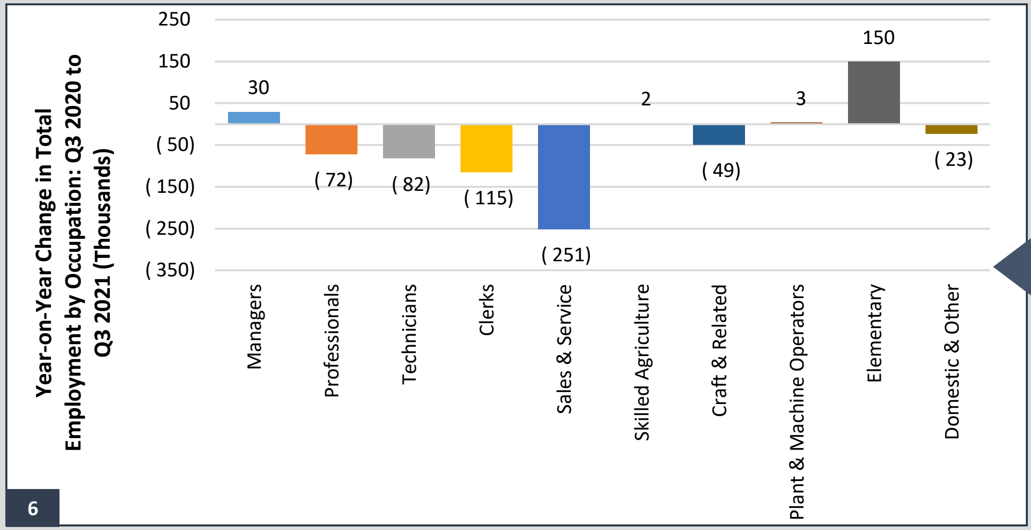
Of the additional 1.3 million people who were unemployed in the year to Q3 2021, more than half were under the age of 35. Employment losses were skewed towards to northern and eastern provinces and to the sales and services and clerking occupations. More managers and elementary workers were employed.



The number of people unemployed according to the expanded definition increased by 1.34 million between Q3 2020 and Q3 2021. Of this increase, 274,000 were people aged 15 to 24, 605,000 were in the 25 to 34 age group and 289,000 were between 35 and 44 years of age. In Q3 2021 there were more than 7.4 million people aged 15 to 34 wanted to work but were unable to find employment. A further 5.1 million people aged 35 to 64 were also unemployed but wanted employment.

Only two provinces – the Western Cape (+9,000) and the Eastern Cape (+4,000) - experienced an increase in the total number of people employed between Q3 2020 and Q3 2021. Limpopo experienced the biggest decline in employment (-121,000), followed by Mpumalanga (-91,000), the North West (-80,000) and Gauteng (-58,000). The Northern Cape (-11,000) and the Free State (-3,000) experienced smaller declines in employment.

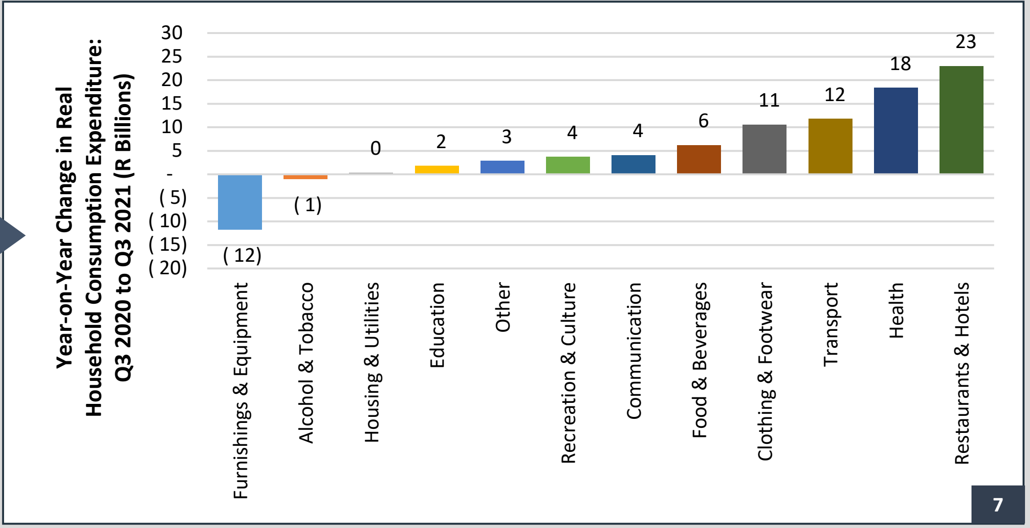




People in sales and service jobs experienced the biggest decline (251,000) in employment between Q3 2020 and Q3 2021. Other occupational categories to experience a reduction in the number of jobs were clerks (115,000), technicians (82,000), professionals (72,000) and craft and related workers (40,000). Domestic and other workers also experienced a small decline (23,000). The number of people employed in elementary occupations increased by 150,000 and the number of managers rose by 30,000 over the same period.

Households

Between Q3 2020 and Q3 2021 household consumption expenditure increased by R70 billion in constant 2015 price terms. Households spent R12 billion less on furnishings and equipment and their expenditure on housing and utilities remained unchanged. They spent R23 billion more on restaurants and hotels as the lockdown restrictions due to COVID-19 were eased. Significant portions of the additional spending were also allocated to health (R18 billion), transport (R12 billion) and clothing and footwear (R11 billion), while R1 billion less was spent on cigarettes and tobacco.



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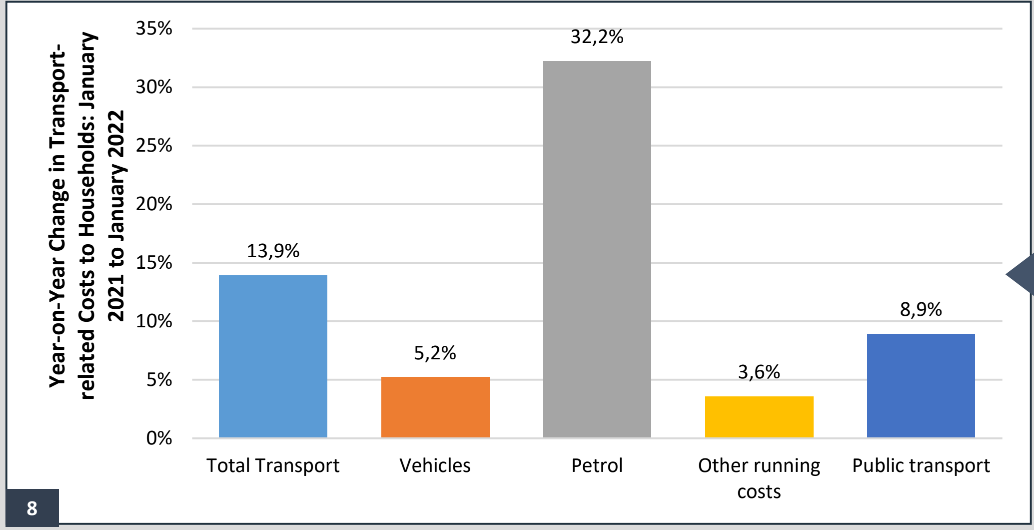

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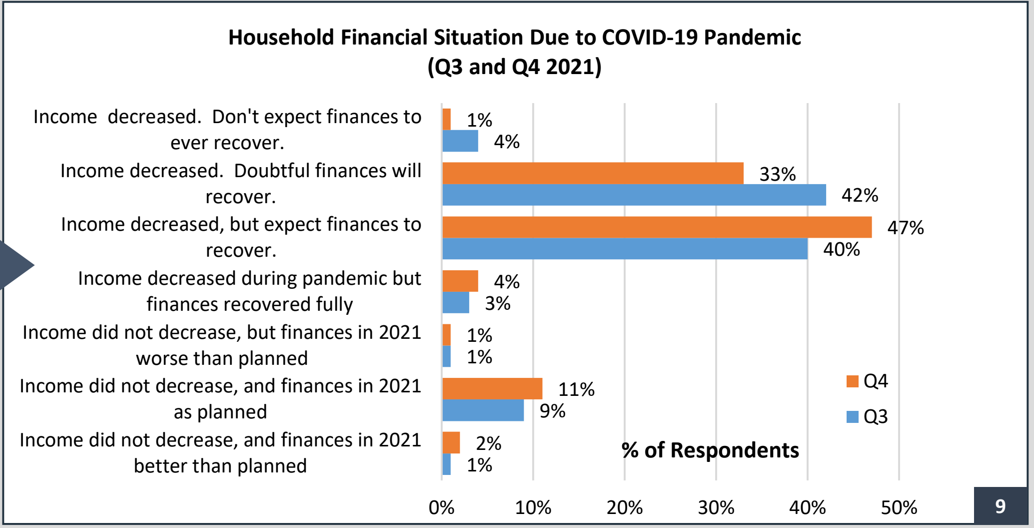
Between January 2021 and January 2022, the price of household transport increased by around 14%. Higher petrol and fuel costs (+32%) were – by far – the biggest contributor to this increase. The cost of public transport costs rose by almost 9% over this period, while vehicles (5.2%) and other running costs (3.6%) experienced comparatively smaller increases in prices.

The TransUnion Consumer Pulse Study for Q4 2021 reflects a slight improvement in the state of household finances over the preceding quarter. Relatively more households did not experience a decline in incomes during 2021, while of those that did, a higher proportion expect their financial position to recover. In Q4 2021, 47% of respondents indicated that they experienced a decrease in incomes during the COVID-19 pandemic but expect their financial position to recover. The share of respondents that experienced a decline in income but don't expect to ever recover dropped from 4% to 1%. Fourteen percent of respondents did not experience a decrease in their incomes during the pandemic.



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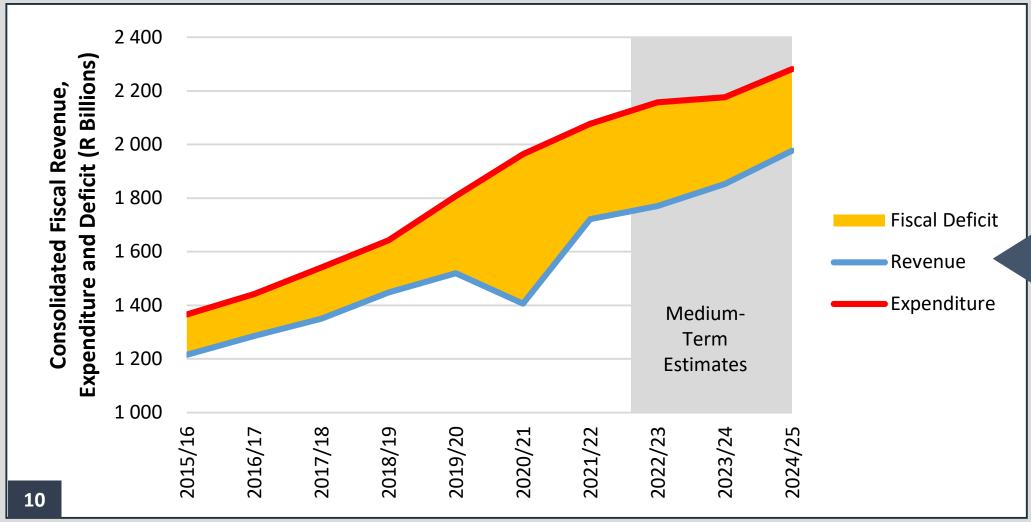
The financial position of many households appears to have at least stabilised, or improved. This has enabled an increase in spending focused on eating out and travelling away from home, as well as accessing health services. Significant increases in fuel costs have, however, caused transport costs to rise sharply.

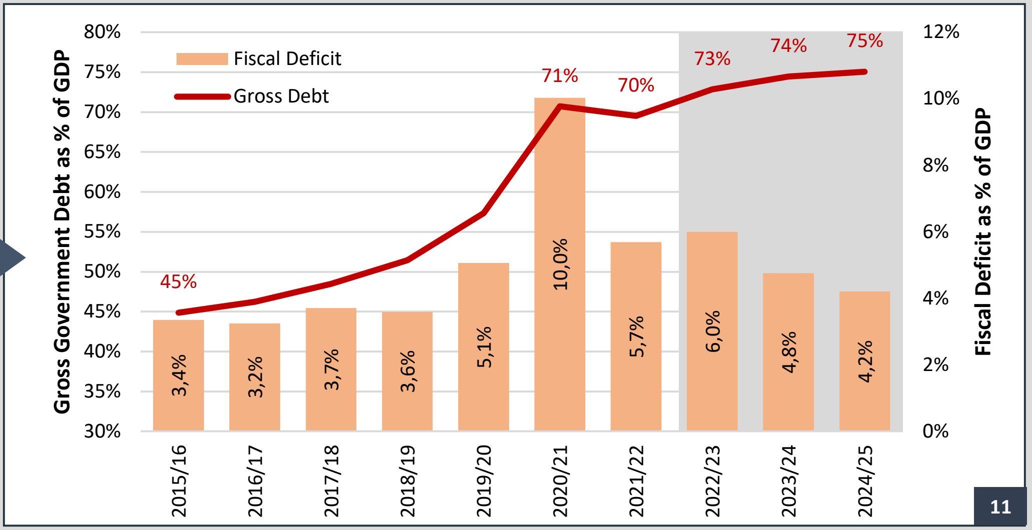
Government

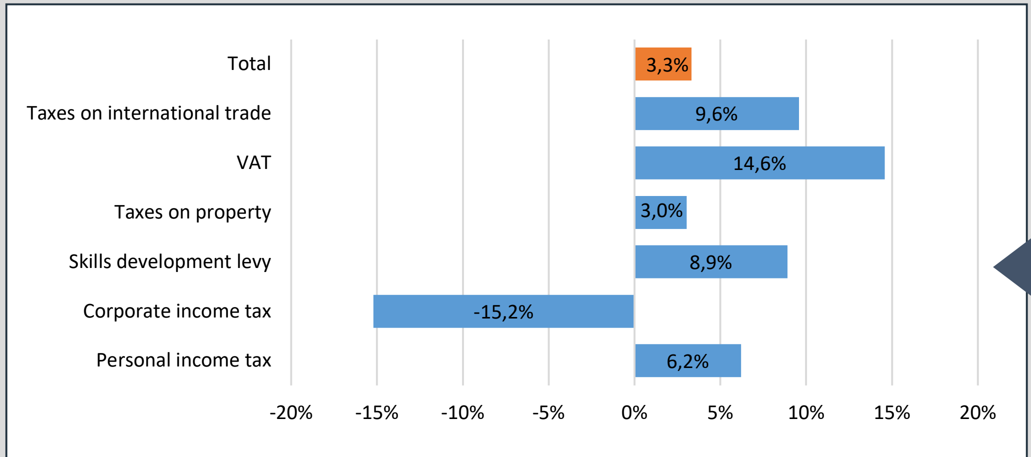
The 2022 Budget presented a slightly more favourable outlook for government finances than was evident at the time of the previous Budget – allowing for a narrowing of the fiscal deficit and stabilisation of the debt position. The expected normalisation of economic activity should support tax collections in the years ahead.



Higher commodity prices boosted mining profits and corporate tax collections – resulting in government revenue R182 billion higher than originally budgeted in fiscal 2021/22. These revenue "windfalls" are expected to flow through to 2023/24 and 2024/25, with tax collections projected to be R141 billion and R146 billion higher than projected in the 2021 Budget. In 2022/23 expenditure is budgeted to exceed revenue by R387 billion. The deficit is projected to narrow to R304 billion in 2024/25.

After a record deficit of 10% of GDP in 2020/21, the shortfall between revenue and expenditure is expected to narrow to 4.2% of projected GDP in 2024/25. The relative improvement in government's financial position means that the debt trajectory has flattened slightly, with the ratio of gross debt to GDP expected to level-off at 75% in 2024/25.





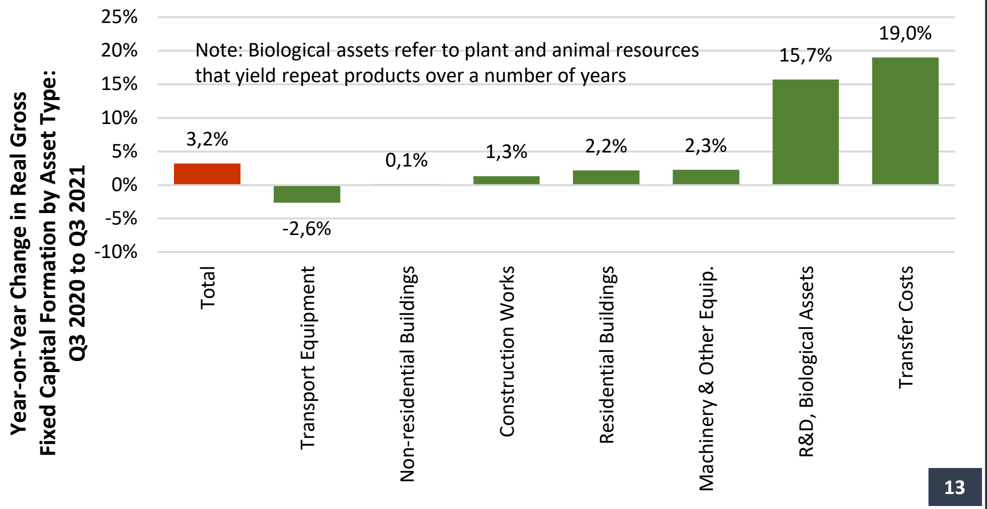
Estimated Year-on-Year Change in Tax Collections: 2021/22 to 2022/23

Overall government expects to only collect around 3.3% more in taxes during the 2022/23 fiscal year. An anticipated decline in corporate tax collections of 15% – linked mainly to the 1% reduction in the corporate tax rate – will be offset by modest nominal increases in property taxes and personal income tax and stronger recoveries in skills levy collections (linked to higher employment) and VAT and taxes on international trade (linked to higher levels of spending).

Investment

The modest increase in gross fixed capital formation between Q3 2020 and Q3 2021 was due primarily to increased investment in R&D and biological assets, and higher transfer costs. Projected increases in public sector infrastructure spending are to be focused on water and sanitation and transport and logistics.

The biggest contributor to the 3.2% year-on-year increase in real gross fixed capital formation between Q3 2020 to Q3 2021 was spending on R&D and biological assets. Investment in these assets increased by 16% (R10 billion) over this period whereas expenditure on transport equipment contracted by 2.6% (-R2 billion). Despite a 19% increase in transfer costs, this form of spending only accounted for 10% (R2 billion) of the R20 billion increase in real gross fixed capital formation over this period.



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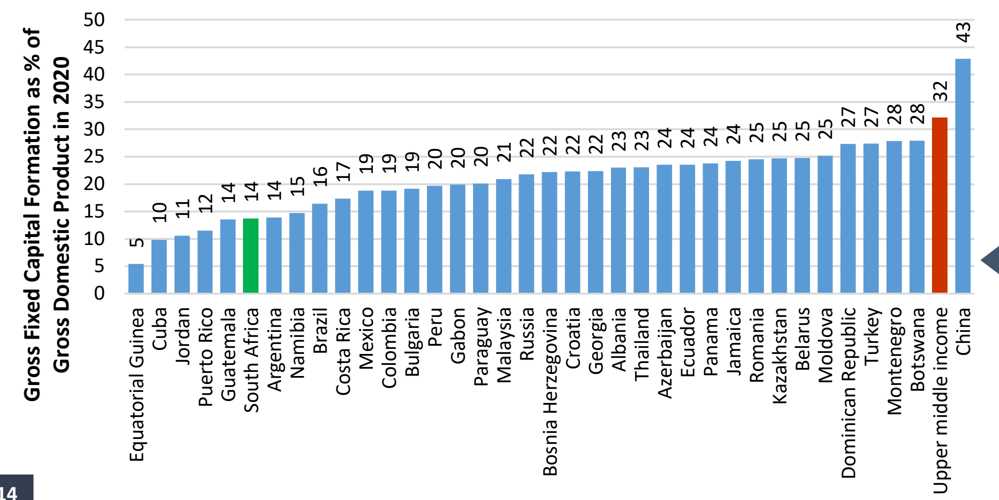
In comparison with most other Upper Middle Income (UMI) countries in the world, South Africa compared quite poorly in relation to the ratio of gross fixed capital formation to GDP. In 2020 – when the COVID-19 pandemic started - the country only invested 14% of its GDP in fixed assets. The weighted averaged for all UMI countries – which was significantly influenced by China – was 32%, while the median value was 22%.



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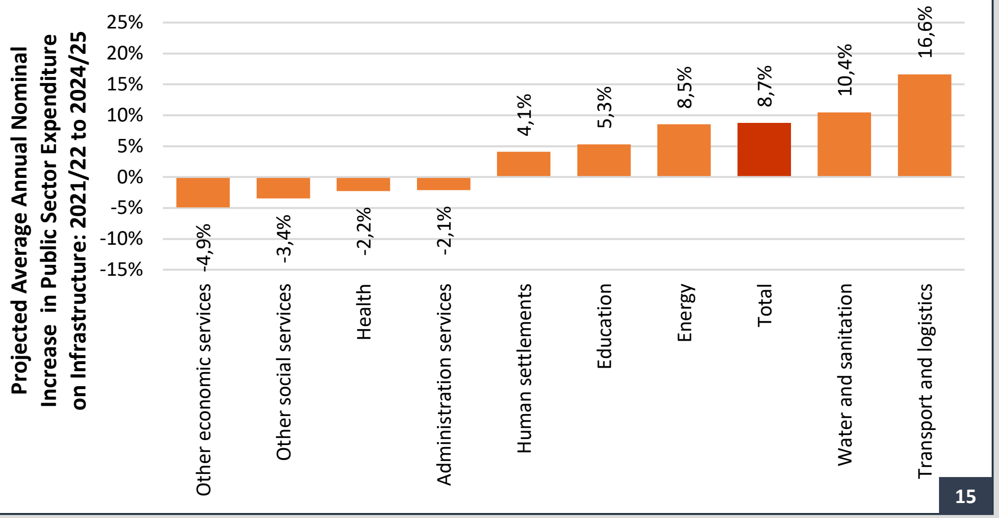
According to the 2022/23 Budget, public sector spending on infrastructure is projected to increase by an average of 8.7% a year over the medium term. With inflation expected to average around 4.5% p.a. over this period, this equates to an average real increase of around 4.2% a year. The increase in spending will be focused on energy (+8.5% p.a.), water and sanitation (+10.4% p.a.) and transport and logistics infrastructure (+16.6% p.a.). Investment in other economic services (-4.9% p.a.), other social services (-3.4% p.a.) health (-2.2% p.a.) and administration services (-2.1% p.a.) infrastructure are all projected to decline in nominal terms in coming years.



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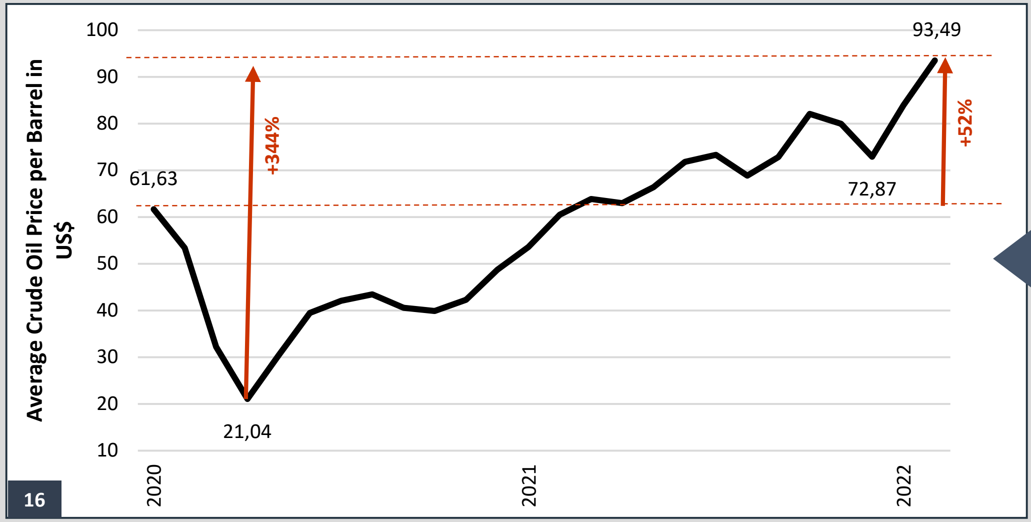
International Trade

Russia's invasion of the Ukraine caused a further increase in crude oil and related energy prices at the end of February. Exports are a more significant contributor to South Africa's GDP than is the case in other BRICS countries, but the country's share of world transport and travel exports was more adversely impacted by COVID-19.



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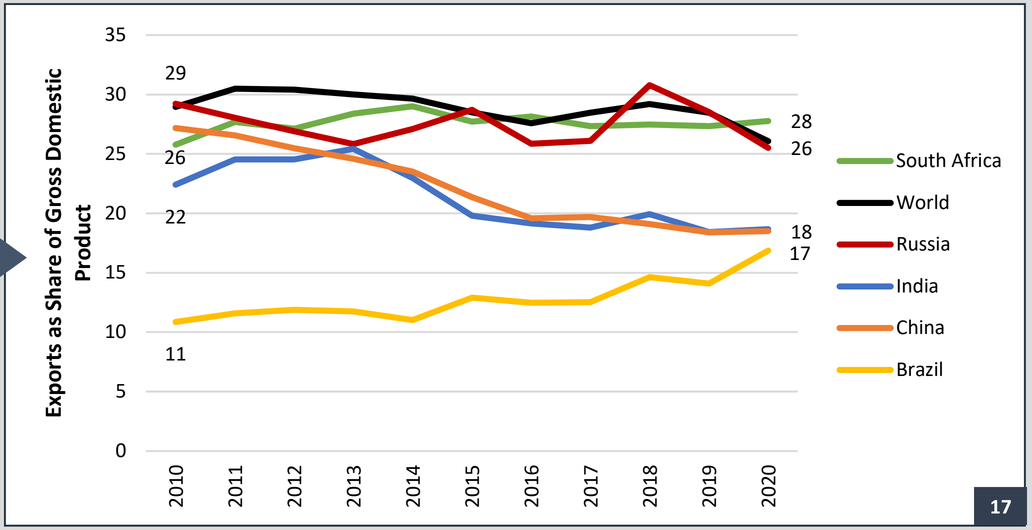
The crude oil price rose to its highest levels on global markets since September 2014 in February 2022. It was 52% above January 2020 levels and 344% higher than the US$21/barrel in April 2020 - at the height of the COVID-lockdown. The price of Brent crude breached the US$100/barrel on 28 February amid concerns over disruptions to global oil markets arising from Russia's invasion of Ukraine. The increase in crude oil prices spilled over to other energy-related commodities such as coal (up 17% between 21 and 28 February). In rand terms crude oil averaged R1,423/barrel in February – 60% higher than its levels at the start of 2020.

South African exports of goods and services were equivalent to 28% of its GDP in 2020 – higher than all the other BRICS members and above the world weighted average of 26%. In 2020 both China and India only exported 18% of their GDP and Brazil had exports equivalent to 17% of its GDP. Between 2010 and 2020 the contribution of exports increased in both Brazil and South Africa, but declined in China, India and Russia.



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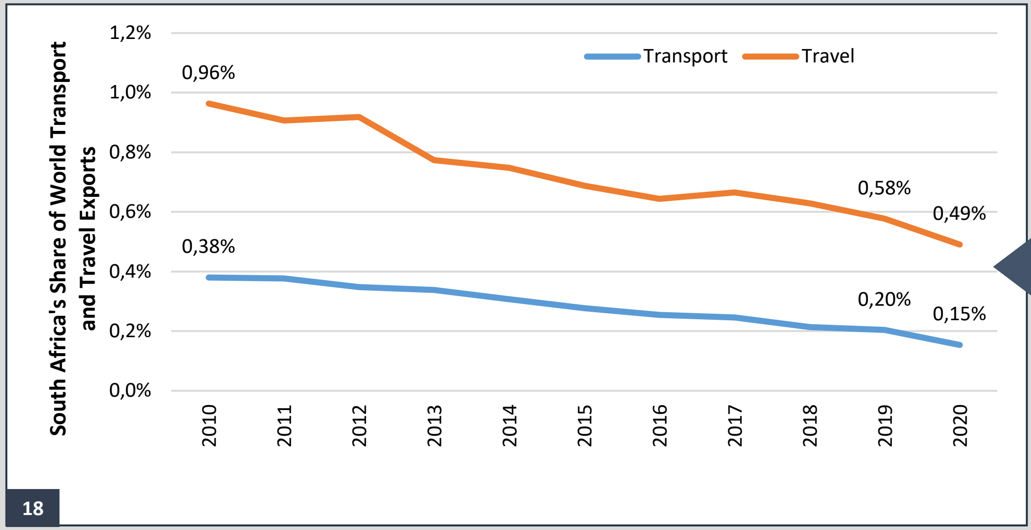

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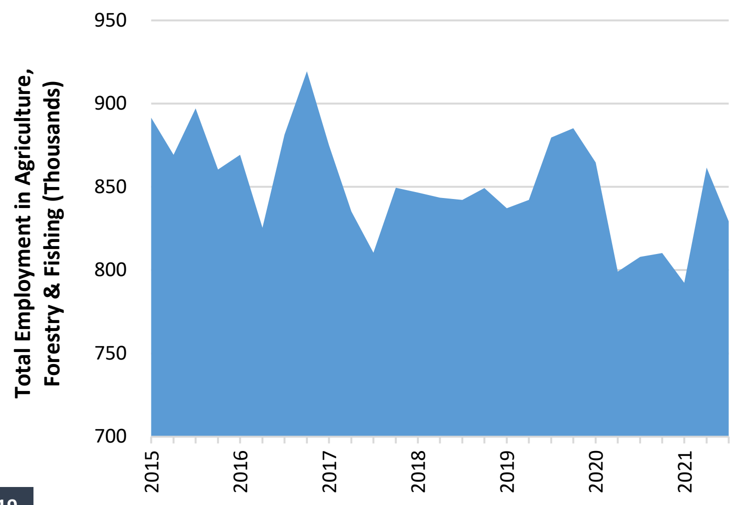
Although South Africa experienced a steady decline in its share of world transport and world travel exports between 2010 and 2020, the pace of this decline accelerated in 2020 as a result of the COVID-19 pandemic. Between 2019 and 2020 the country's transport exports decreased by 40% compared with a global decrease of 21%, while travel exports declined by 69% compared with a global drop of 63%. This indicates that South Africa was more adversely affected by COVID-related disruptions of transport and travel activities than the average of other countries.

AGRICULTURE, FORESTRY & FISHING



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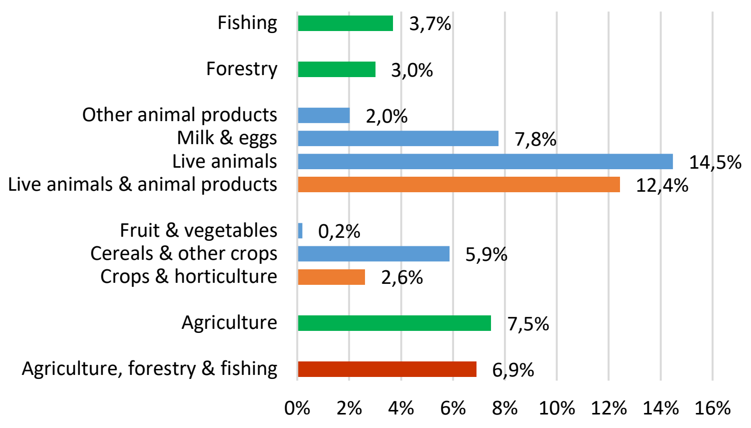

Year-on-Year Changes in Production Prices: January 2021 to January 2022

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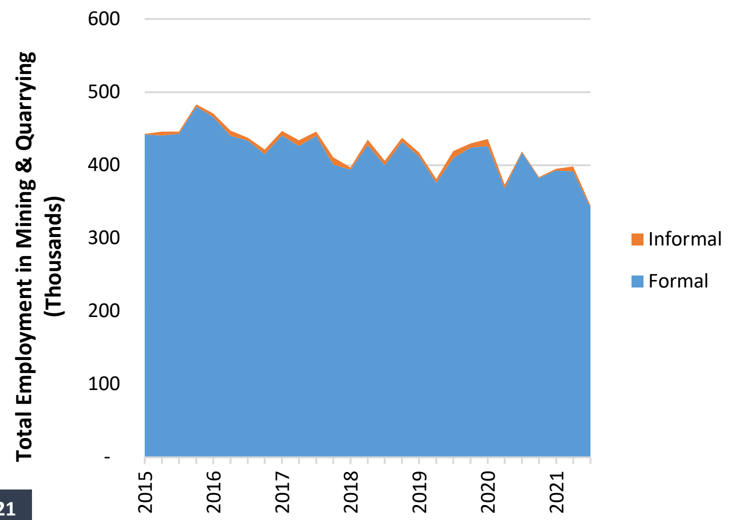
While total employment in the agriculture, forestry and fishing sector declined by 32,000 between the second and third quarters of 2021, it was up 3% on a year-on-year basis to 829,000.
Production costs in the sector rose by 6.9% between January 2021 and January 2022. This was due largely to higher production costs in agriculture generally, and live animals and animal products in particular. The cost of producing live animals rose by 14.5% and milk and egg production costs rose by 7.8% over this period. By contrast the cost of producing fruit and vegetables only increased by 0.2%.

MINING & QUARRYING

Informal employment in the mining and quarrying sector only accounted by 0.7% of total employment in Q3 2021. Formal employment decreased by 18% between Q3 2020 and Q3 2021 - from 417,000 jobs to 342,000 jobs.
Total mining sales increased by 39% in 2021 – thanks largely to an 81% rise in platinum group metal (PGM) sales. PGM sales accounted for 41% of total mining sales in 2021, followed by coal (18%) and iron ore (14%). Gold was the fourth-largest contributor to mining sales, accounting for 12% of the total.
Manganese ore sales were the only mineral to experience a decline in total sales value in 2021 – dropping by less than 1%.



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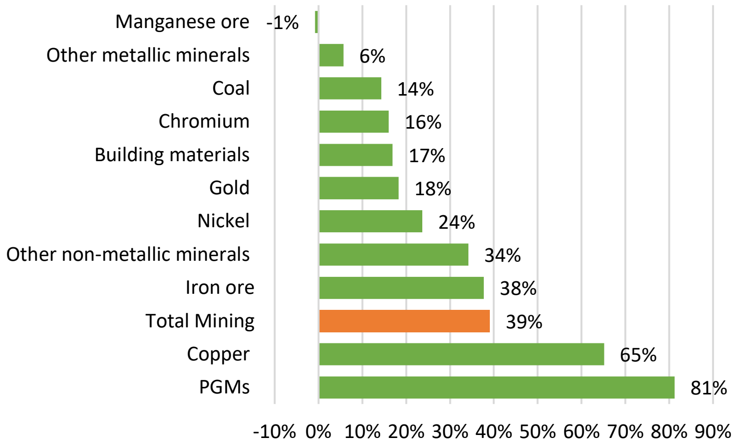

Annual Change in Mining Sales: 2020 to 2021

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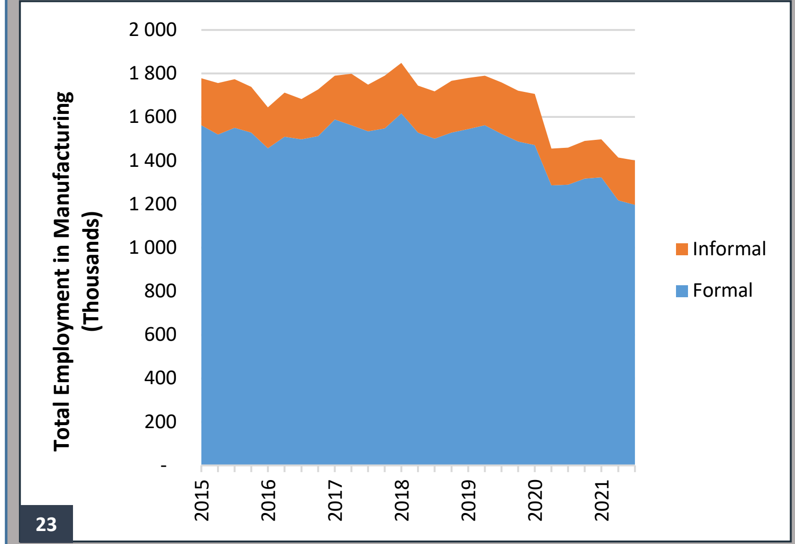
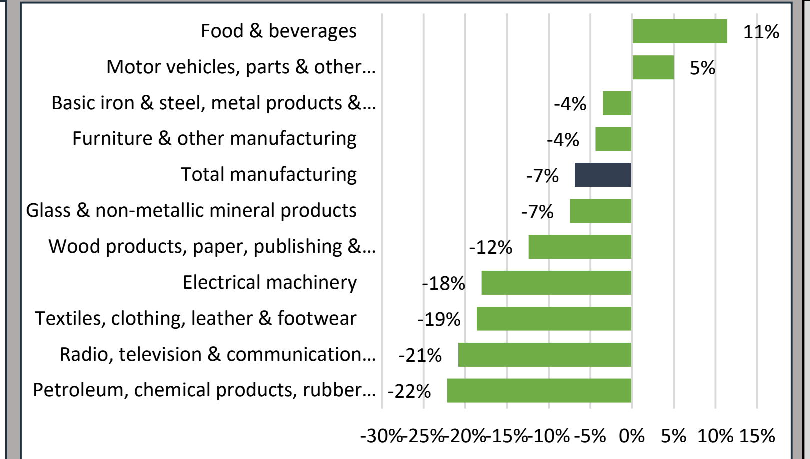
MANUFACTURING



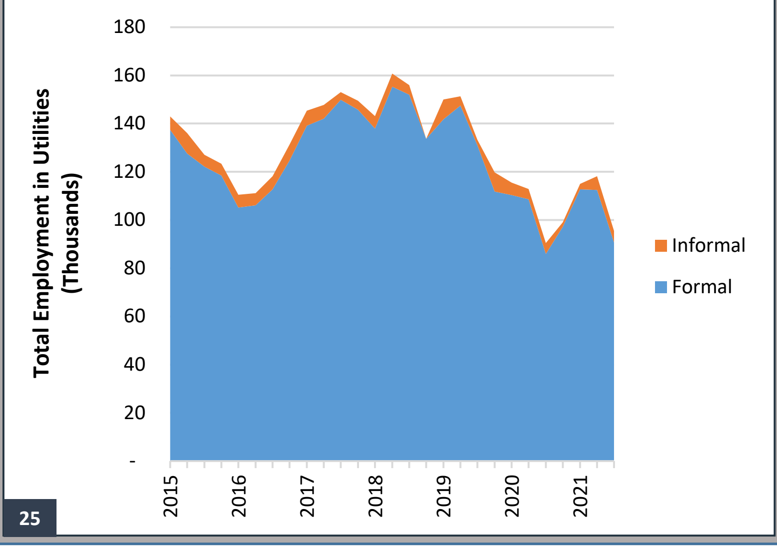


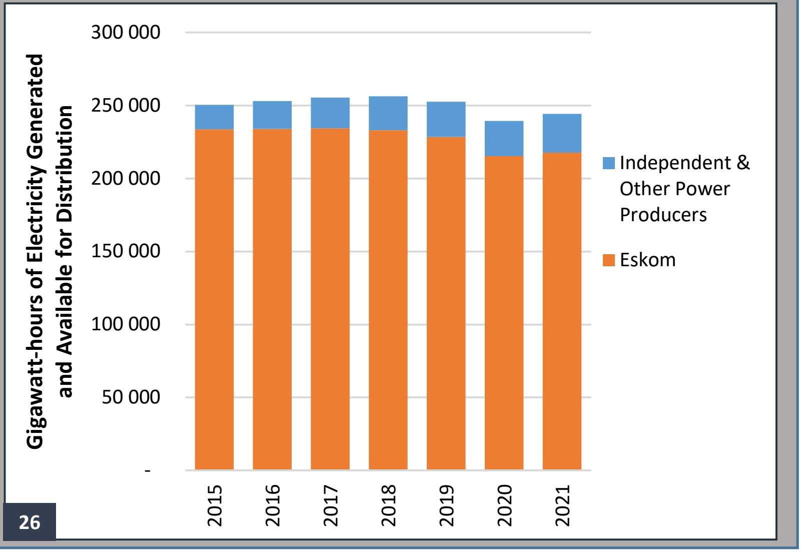
Change in Manufacturing Production Volumes: 2015 to 2021

In Q3 of 2021, informal employment accounted for 14.6% of total manufacturing employment. Between Q3 2020 and Q3 2021 it increased by 20% to 205,000. Over the same period, formal employment in manufacturing declined by 7% to 1.2 million.
Over the six years from 2015 to 2021, total manufacturing production declined by 7%. This contraction was the result of falls in production volumes in eight of the ten manufacturing sub-sectors, most notable the petroleum and chemical products sector (-22%), radio and communication equipment (-21%) and textiles and clothing (-19%). By contrast food and beverage manufacturing volumes increased by 11% and motor vehicles by 5% over this period.

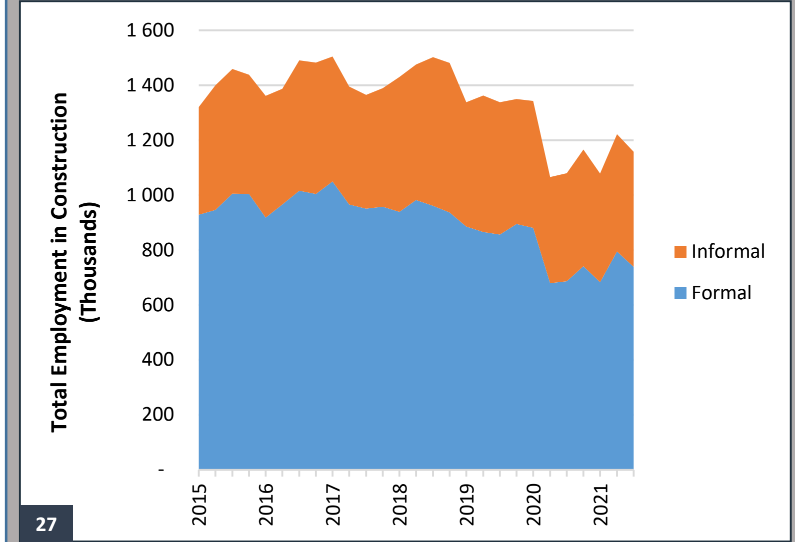
ELECTRICITY GAS AND WATER

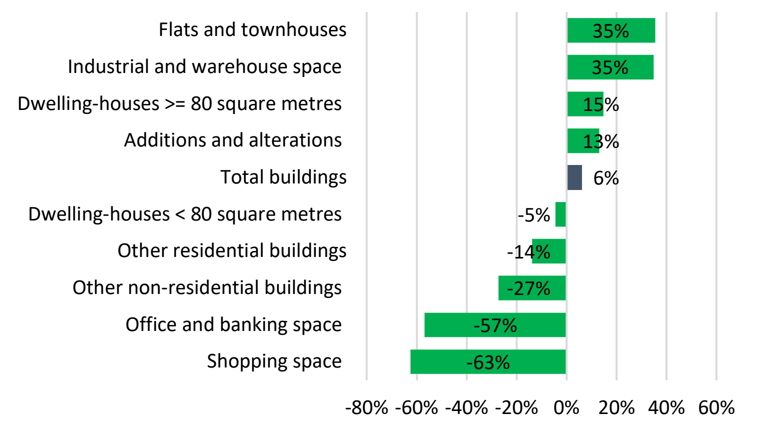
Informal employment accounted for 5% of total employment in the electricity, gas and water sector in Q3 2021. Between Q3 2020 and Q3 2021 it increased by 9% compared with a 6% increase in formal employment to 91,000.
Between 2015 and 2021, the electricity produced by independent and other power producers increased by 59%. However, this was not sufficient to offset a 7% decrease in electricity generated by Eskom. As a result, the electricity generated and available for distribution in South Africa was 2% lower in 2021 than in 2015.





CONSTRUCTION





Change in the Nominal Value of Building Plans Passed: 2015 to 2021

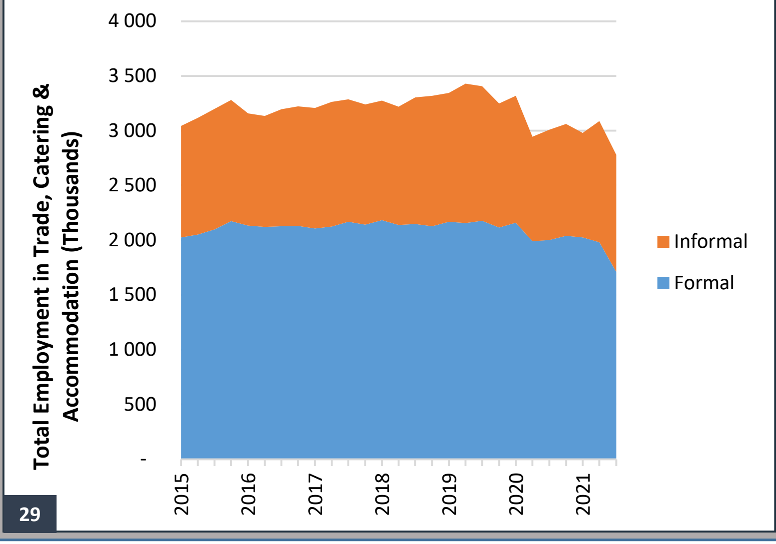
In Q3 2021 informal employment accounted for over 36% of total employment in the construction sector. Between Q3 2020 and Q3 2021 this form of employment increased by 6% while formal employment in the sector rose by 8%.

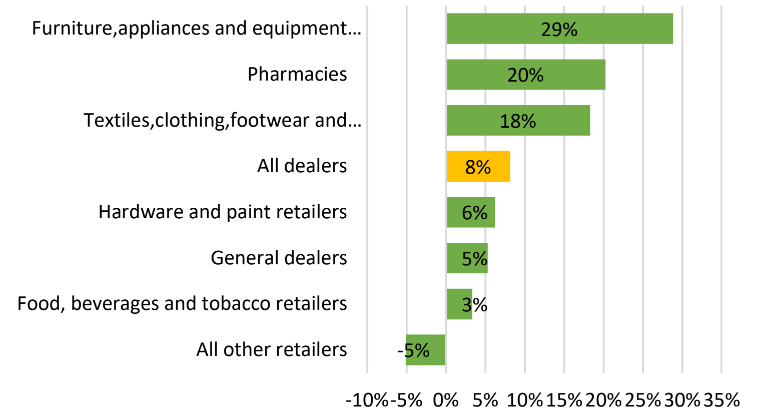
The nominal value of building plans passed rose by 6% between 2015 and 2021. Since the building construction price index increased by 31% over the same period this suggests a contraction of 25% in real terms. The value of plans passed for shopping space decreased by 63% and that of office and banking space by 57% - pointing to changes in the way that these services are delivered.

TRADE, CATERING AND ACCOMMODATION

Informal employment contributed over 38% of total employment in the trade, catering and accommodation sector in Q3 2021. Between Q3 2020 and Q3 2021 this form of employment increased by 6% to almost 1.1 million. Over the same period formal employment in the sector dropped by 15% to 1.7 million.

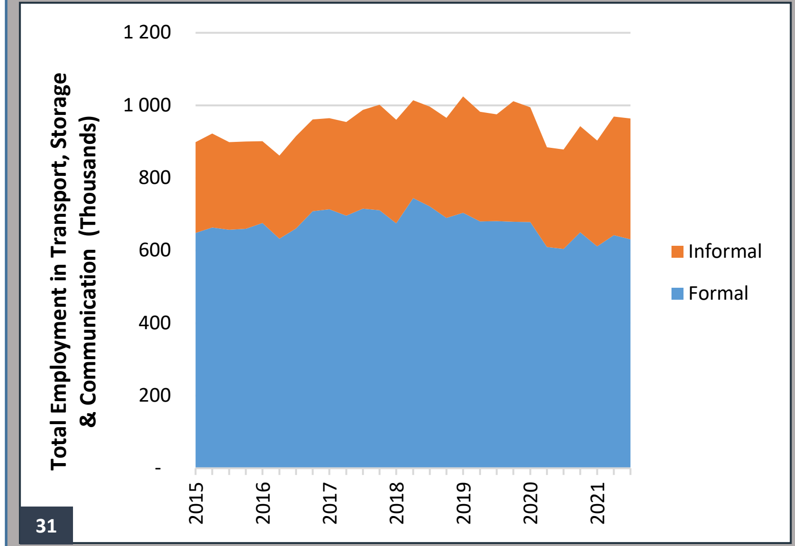
Between 2015 and 2021 the value of retail sales at constant prices increased by 8% overall. The increase was driven by a 29% increase in sales by furniture, appliance and equipment retailers, a 20% rise in sales by pharmacies and an 18% increase in clothing retail. There were smaller increases in sales by other types of retailers.

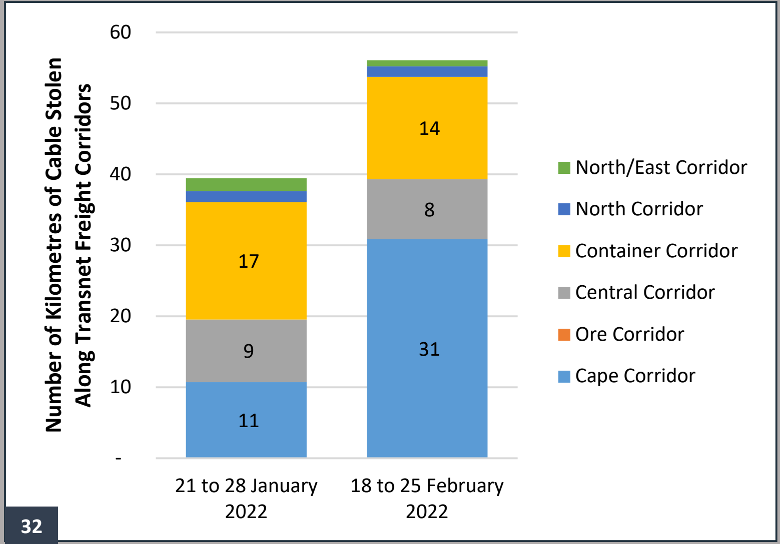




Change in Retail Sales at Constant 2015 Prices: 2015 to 2021

TRANSPORT, STORAGE AND COMMUNICATION

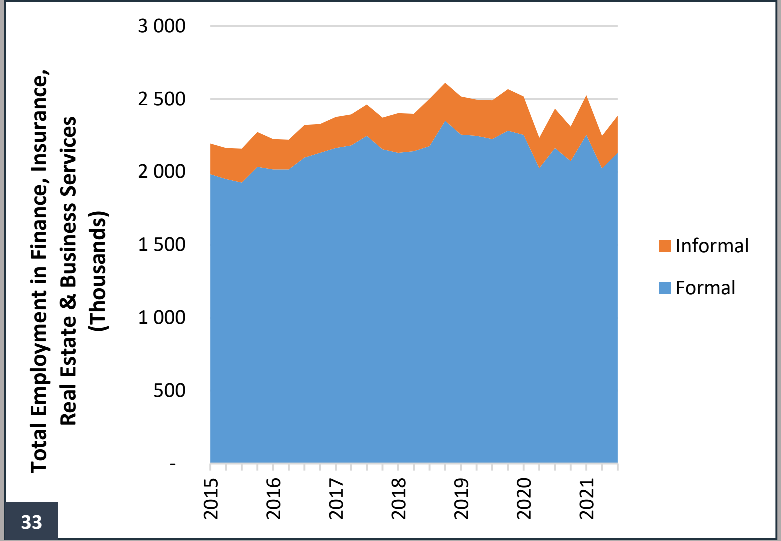


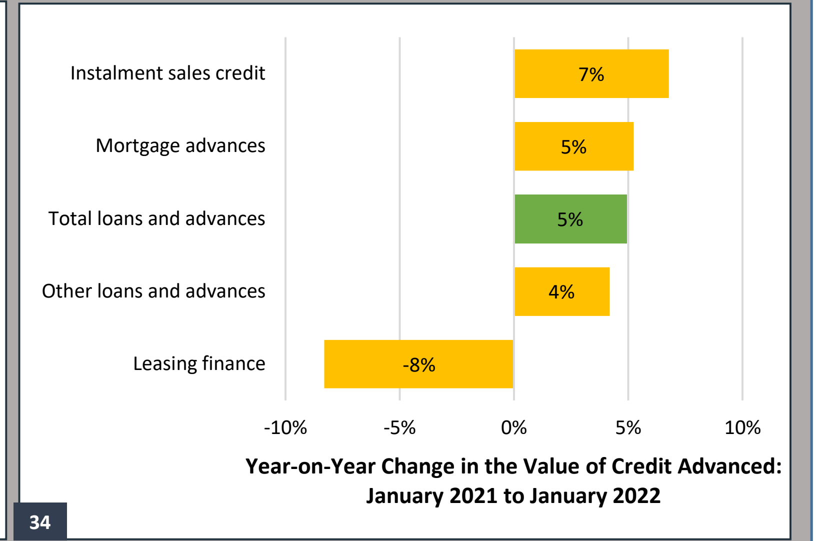


Informal employment accounted for 34% of total employment in the transport, storage and communication sector in Q3 2021. It increased by 22% in the year to Q3 2021 while formal employment rose by 4% to 631,000.
Copper cable stolen along Transnet freight corridors increased by 42% - from almost 39.5km in the week ending 28 January 2022 to over 56km in the week ending 25 February 2022. The number of cable theft incidents rose by 18% over this period – from 112 to 132. The Cape Corridor experienced the biggest increase in theft, with 31km of cable stolen. There was a reduction in the quantity of cable stolen along other corridors.

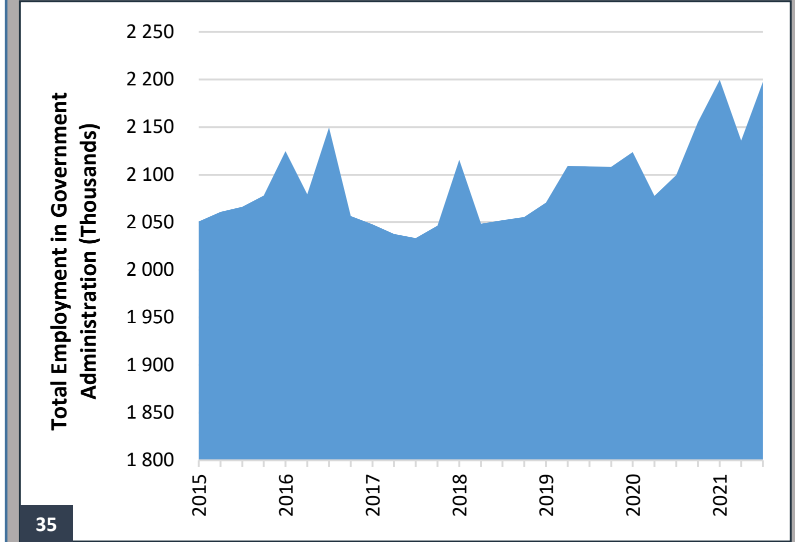
FINANCE, INSURANCE, REAL ESTATE AND BUSINESS SERVICES

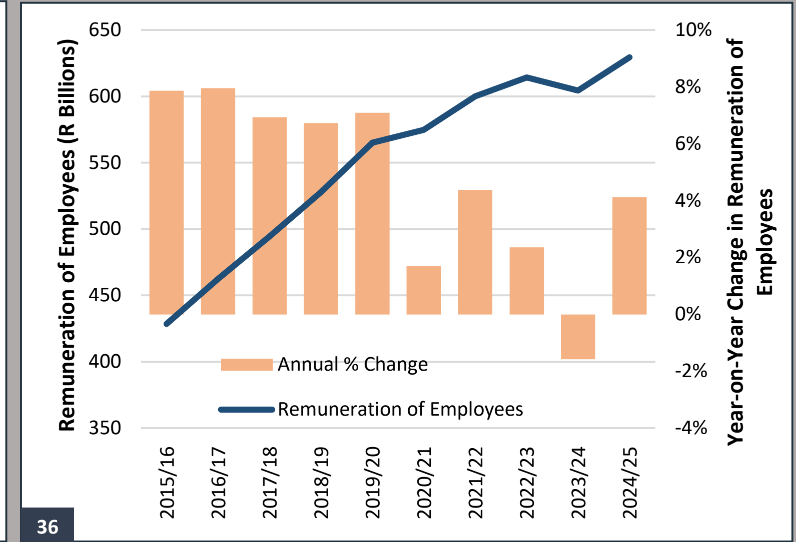
Informal employment accounted for almost 11% (256,000) of total employment in the finance, insurance, real estate and business services sector in Q3 2021. This was down 5% on a year earlier, while formal employment decreased by 2% to 2.13 million over the same period.
In the year to January 2022 the value of credit advanced by monetary institutions increased by 5%. This rise was supported by a 7% increase in instalment sales credit and a 5% increase in the value of mortgages advanced. The value of leasing finance advanced declined by 8% over this period.





GENERAL GOVERNMENT

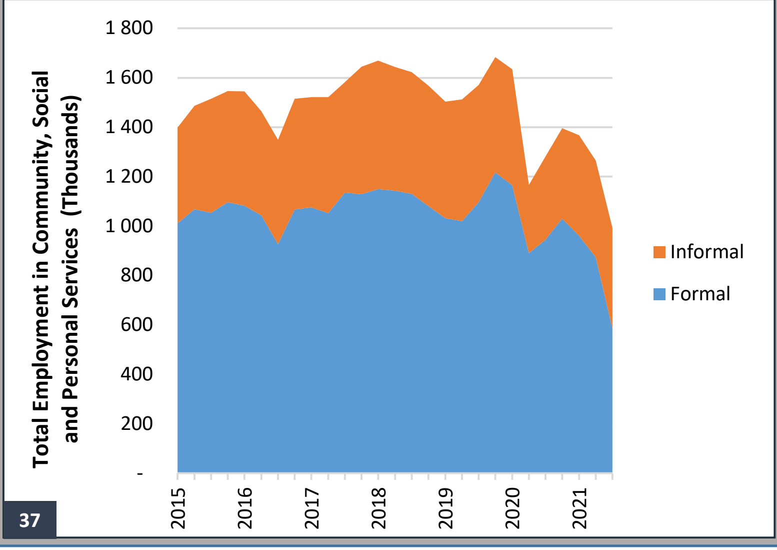


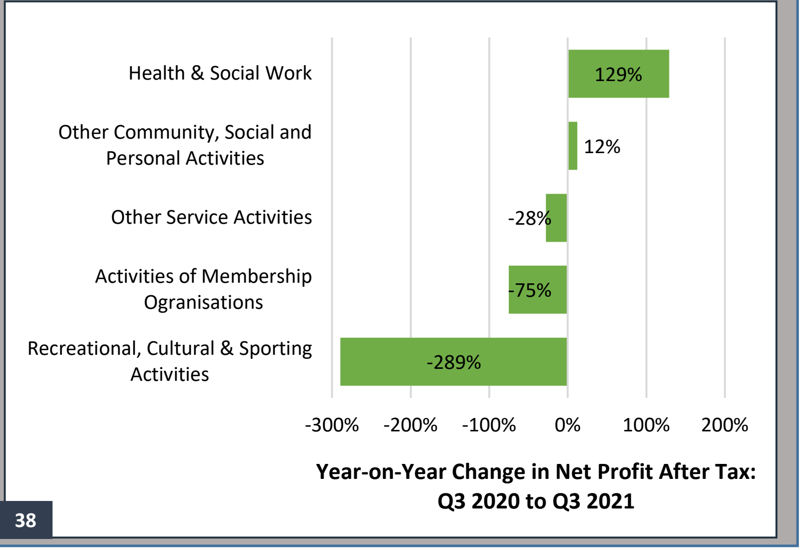


Employment by general government rose by 5% between Q3 2020 and Q3 2021 to almost 2.2 million. This is close to its highest levels since 2014 One of the assumptions of the 2022 Budget is that growth in the public sector wage bill can be contained to an average of 1.8% a year over the medium term (i.e., till 2024/25)

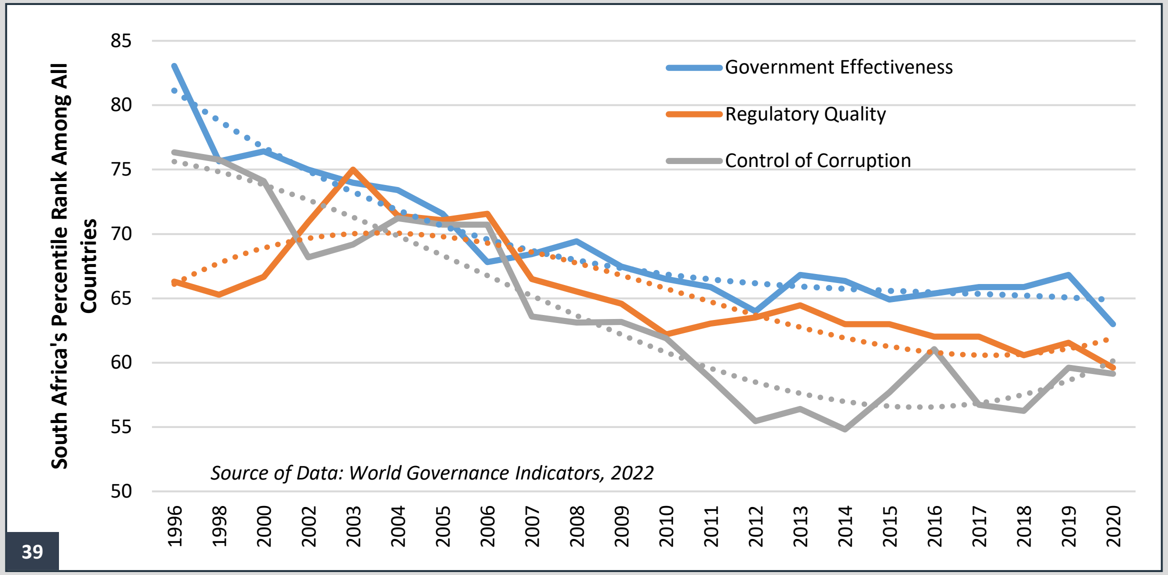
COMMUNITY, SOCIAL AND PERSONAL SERVICES

Forty-one percent (407,000) of people in the community, social and personal services sector in Q3 2021 were informally employed. This was 21% up on a year earlier. By contrast formal employment in the sector dropped by 38% to 586,000 over the same period.
Between Q3 2020 and Q3 2021 the after tax profitability of health and social work activities recovered nicely, but other types of activities in this sector – particularly recreational, cultural and sporting activities (-289%) saw a significant decrease in after tax profits. Membership organisations also struggled, with after tax profits down 75% over the same period.





UNU WIDER - MACROECONOMIC RISKS AFTER A DECADE OF MICROECONOMIC TURBULENCE: SOUTH AFRICA 2007–2020
HAUSMANN, R., F. STURZENEGGER, P. GOLDSTEIN, F. MUCI AND D. BARRIOS (2022)



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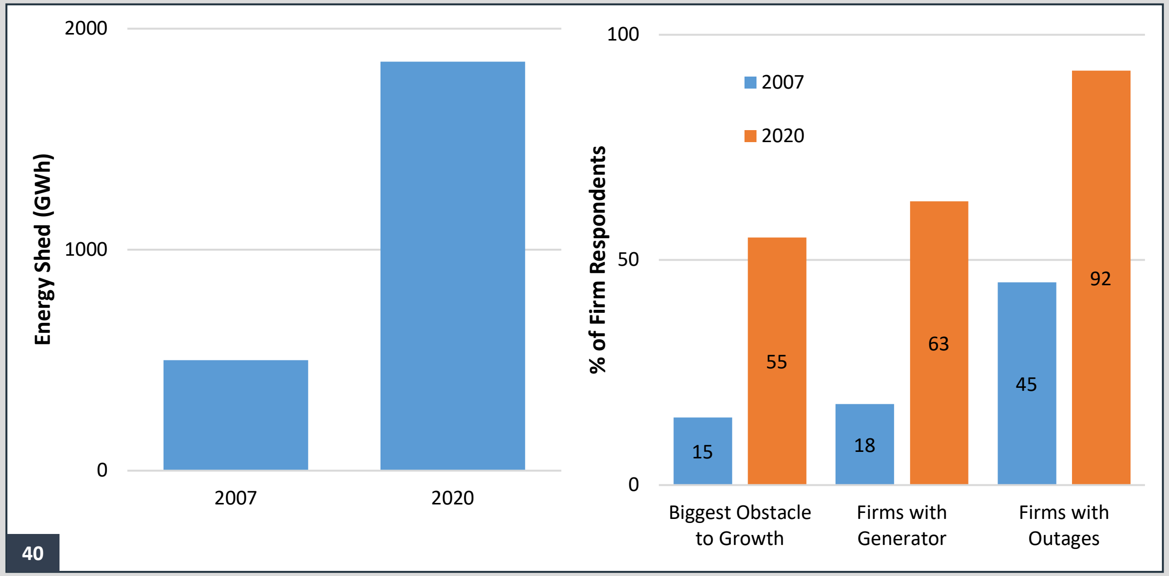

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A study by Hausmann et al released under the auspices of UNU-WIDER in January 2022 highlights the macroeconomic risks that have emerged in South Africa as a consequence of various economic developments and policy choices made between 2007 and 2020. It identifies two particularly significant macroeconomic developments since 2007:

i. a dramatic slowdown in economic growth after the 2008 Global Financial Crisis; and
ii. a more than doubling of the ratio of government debt to GDP coupled with deteriorating creditworthiness.

The study examines various hypotheses that have been advanced for these developments. It concludes that microeconomic developments linked to a significant productivity slowdown – particularly in the utilities, mining, construction, transportation and ICT sectors - and political factors that heightened policy uncertainty and caused an investment slowdown – provide a more accurate (and plausible) explanation for the observed macroeconomic performance than other hypotheses, such as the commodity price cycles and external developments and macroeconomic policy choices.

The study notes that there is little disagreement that the main objectives of macroeconomic policy in the next decade need to be creating the conditions for reigniting growth and leading the economy to a sustainable debt path. The authors argue that "economic policy needs to directly tackle the microeconomic roots of the growth slowdown and fiscal challenge". Major challenges in network industries as well as high levels of economic policy uncertainty are at the root of these microeconomic impediments to productivity growth. Targeted microeconomic reforms that address these constraints will not only enhance economic growth prospects and fiscal sustainability but will also be socially inclusive. The authors note that a "significant share of society is currently being excluded from access to services and technologies that could not only improve their livelihoods but allow them to better participate in the more productive parts of the economy".

In addition to addressing obstacles to productivity growth arising from network industries, the authors also identify the need to improve the productivity of South Africa's public sector as well. The need for greater efficiency goes beyond the need to control the public wage bill and contingent liabilities from state-owned enterprises. South Africa needs to increase the productivity of public expenditures and the quality of spending. To do so will probably require a change in how public-public coordination takes place in the country.

Data sources used in this document

Section A

Graph	Source of data
1	National Treasury Budget 2022
2	Statistics South Africa GDP (P0441)
3	Statistics South Africa GDP (P0441)
4	Statistics South Africa QLFS (P0211)
5	Statistics South Africa QLFS (P0211)
6	Statistics South Africa QLFS (P0211)
7	Statistics South Africa GDP (P0441)
8	Statistics South Africa CPI (P0141)
9	TransUnion Consumer Pulse Study Q4 2021
10	National Treasury Budget 2022
11	National Treasury Budget 2022
12	National Treasury Budget 2022
13	South African Reserve Bank Quarterly Bulletin, December 2021
14	World Bank World Development Indicators, January 2022
15	National Treasury Budget 2022
16	World Bank Commodity Price Data, February 2022
17	World Bank World Development Indicators January 2022
18	TradeMap (using COMTRADE data)
19	Statistics South Africa QLFS (P0211)
20	Statistics South Africa Producer Price Index (P0142.1)
21	Statistics South Africa QLFS (P0211)
22	Statistics South Africa Mining Production and Sales (P2041)
23	Statistics South Africa QLFS (P0211)
24	Statistics South Africa Manufacturing Production and Sales (P3041.2)

Section B

Graph	Source of data
25	Statistics South Africa QLFS (P0211)
26	Statistics South Africa Electricity generated and available for distribution (P4141)
27	Statistics South Africa QLFS (P0211)
28	Statistics South Africa Selected building statistics of the private sector as reported by local government institutions (P5041.1)
29	Statistics South Africa QLFS (P0211)
30	Statistics South Africa Retail Trade Sales (P6242.1)
31	Statistics South Africa QLFS (P0211)
32	Transnet
33	Statistics South Africa QLFS (P0211)
34	South African Reserve Bank Monthly Release of Selected Data
35	Statistics South Africa QES (P0277)
36	National Treasury, Budget 2022
37	Statistics South Africa QLFS (P0211)
38	Statistics South Africa Quarterly Financial Statistics (P0044)

Section C

Graph/ Table	Source of data
39	Hausmann, R. et al. (2022) Macroeconomic risks after a decade of microeconomic turbulence: South Africa (2007–2020). WIDER Working Paper 2022/3. Helsinki: UNU-WIDER.
40	Hausmann, R. et al. (2022) Macroeconomic risks after a decade of microeconomic turbulence: South Africa (2007–2020). WIDER Working Paper 2022/3. Helsinki: UNU-WIDER.

Economic and Employment Indicators and Trends in South Africa

Issue # 02 (February 2022)

Purpose of this Report

This report has been prepared in support of the NEDLAC Social Partners' Economic Recovery Action Plan.

The report provides a snapshot of key macro-economic and employment trends based on official statistics and other relevant sources of data.

Disclaimer

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