Draft for Review





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Economic and Employment Indicators & Trends in South Africa

National Economic Development and Labour Council

Contents

The Month in Review

- A recently-released study by the World Bank on inequality in Southern African Customs Union (SACU) countries concludes that the region is the most unequal in the world and indicates that race remains the biggest contributor to inequality in South Africa, followed by educational attainment and access to labour markets. Location has become a relatively less significant contributor to inequality.
- An examination of the contributions to longer-term growth on both the expenditure and production sides of the economy highlight some critical structural weaknesses. On the expenditure side the significant negative contribution made by gross capital formation more than offset positive contributions by household and government consumption. The other positive – a decline in imports – is largely a consequence of these lower fixed capital formation and inventory levels.
- While all types of organisations contributed to the decline in gross fixed capital formation, public corporations made the largest negative contribution. Between 2015 and 2021 their spending on fixed assets halved. As a share of GDP, gross fixed capital formation dropped to its lowest level ever recorded (13%) in 2021. The next lowest (13.3%) was in 1946.
- On the production side, negative contributions by mining and all the secondary sector, as well as trade and transport were offset by relatively strong growth in many of the services sectors – particularly finance, insurance, real estate and business services – and agriculture. The performance of mining and manufacturing can be linked to declining exports.

The Month in Review (continued)

Summary

- The employment picture remains bleak with record high official and expanded unemployment rates being reached in Q4 2021. Relative to pre-COVID (Q4 2019) levels the proportion of the officially-unemployed (i.e. those actively seeking employment) with matric increased from 35% to 39% in Q4 2021 and while the share of those with tertiary qualifications remained static at 9% the number of unemployed graduates increased by 152,000.

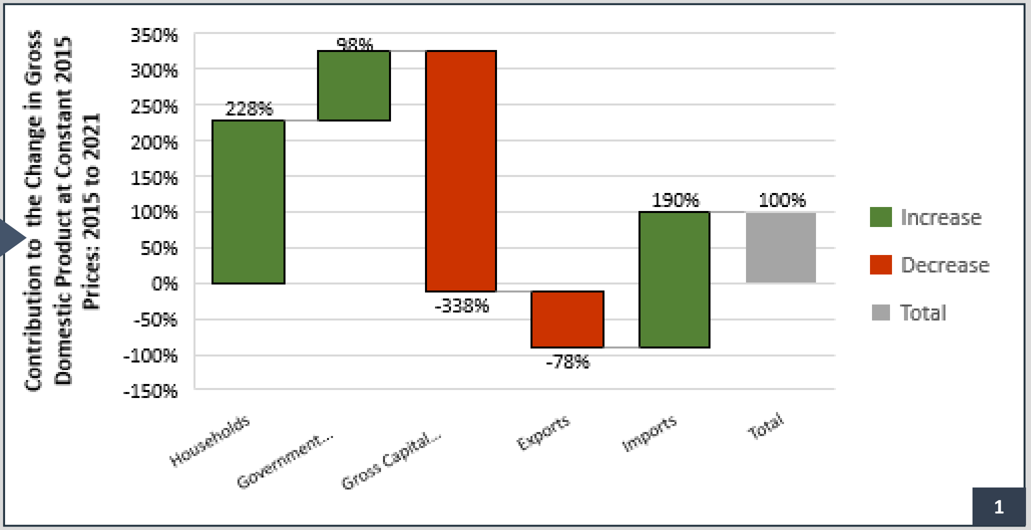
- An analysis of the contributions to the change in real household consumption expenditure shows a greater emphasis on services, non-durable goods and durable goods (particularly recreational and entertainment goods) and less emphasis on semi-durables – particularly clothing and footwear.

- At the sectoral level, most sectors of the South African economy were still operating below their pre-COVID levels in Q4 2021. Agriculture, forestry and fishing, finance insurance, real estate and business services and community, social and personal services were the notable exceptions, while general government administration remained flat at pre-COVID levels.

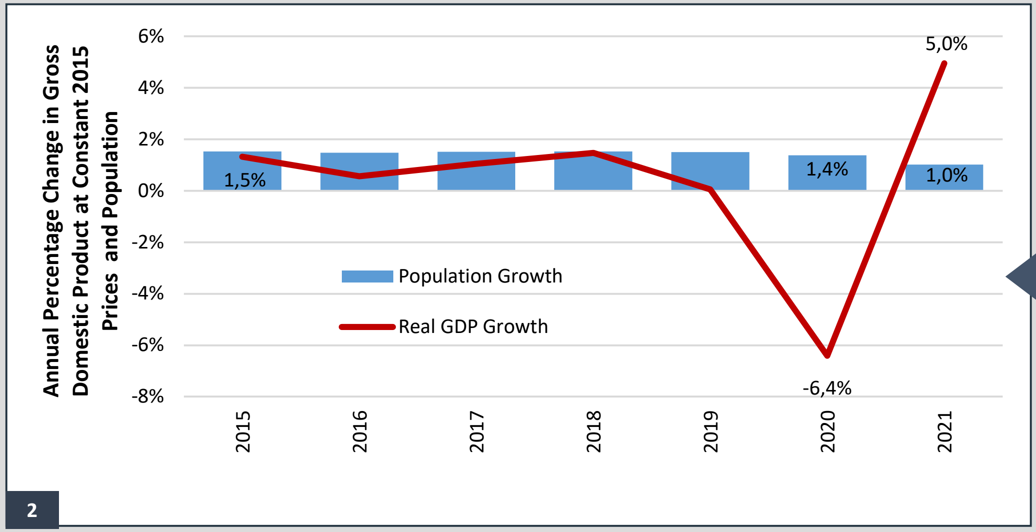
- Despite the disruptions caused to key commodity markets by Russia's invasion of Ukraine – which resulted in a 20% increase in crude oil prices, a 25% increase in wheat prices and a 56% increase in the price of natural gas in Europe in March 2022 - South Africa is relatively insulated from the direct fallout of the conflict. Russia purchased only 0.3% of the country's exports and supplied 0.7% of its imports in 2021. Ukraine is a significantly smaller trading partner.

Gross Domestic Product

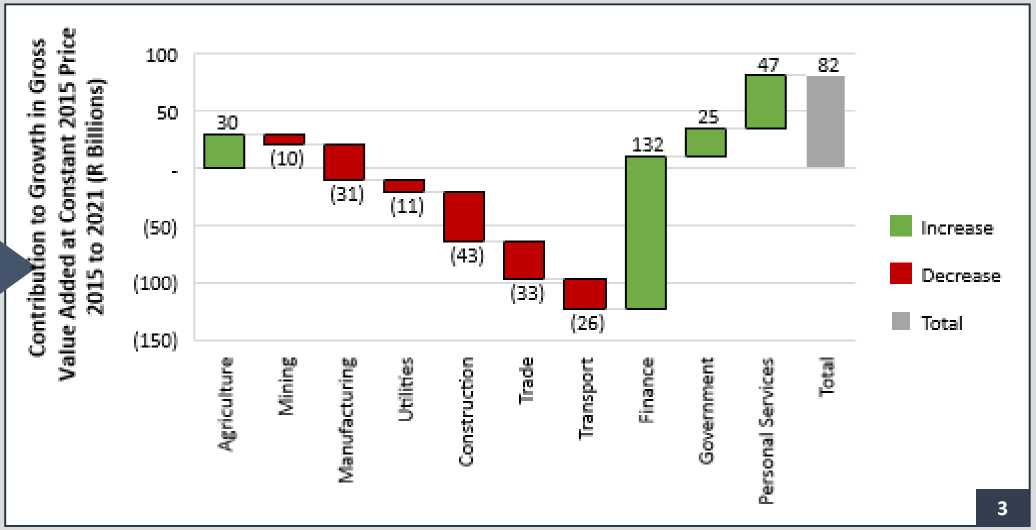
Between 2015 and 2021 South Africa's GDP at constant 2015 prices increased by R59 billion. Growth in the real value of household consumption expenditure accounted for 228% of this increase, higher government consumption spending a further 98% and declining imports accounted for an additional 190% of the rise. These positive contributions were offset by negative contributions from gross capital formation (-338%) and exports (-78%).



Between 2015 and 2020, South Africa's population generally grew at higher rate than the annual change in real GDP – signaling declining real GDP per capita. In 2021, higher mortality due directly and indirectly to the COVID-19 pandemic saw the population growth rate slow to just 1% - from 1.4 percent in 2020. This, together with the recovery in real GDP contributed to the first increase in real GDP per capita since 2013



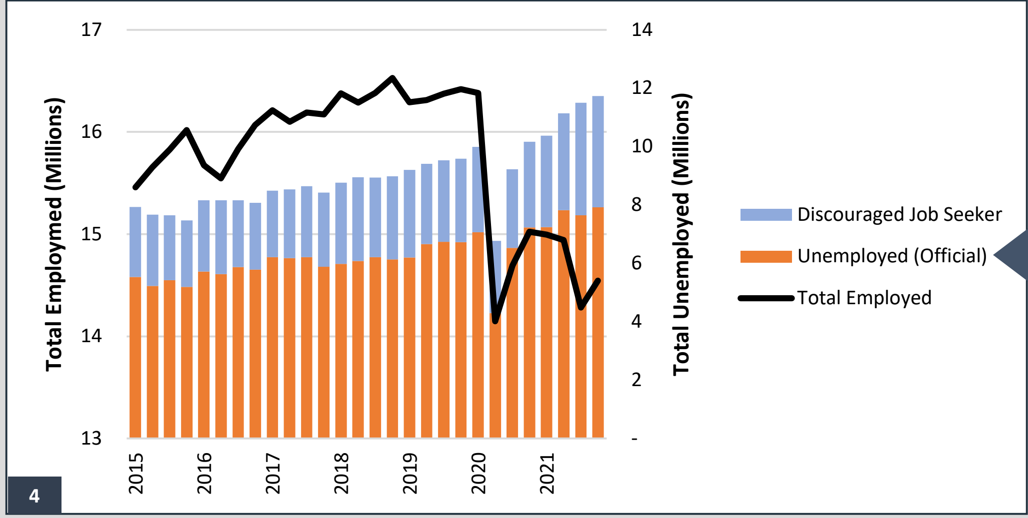
Between 2015 and 2021 the value of national GVA increased by R82 billion in constant 2015 price terms. This increase was the largely the result of positive contributions from tertiary sectors of the economy, including finance (R132 billion), personal services (R47 billion), and government administration (R25 billion). Apart from a positive contribution from agriculture, forestry and fishing (R30 billion), the primary and secondary sectors contributed negatively to the growth in real GVA over the period. There were also negative contributions from the trade and transport sectors.



2021 saw the first annual increase in real GDP per capita since 2013. On the expenditure side, the contraction in gross capital formation curtailed growth. On the production side, tertiary sectors performed relatively better, while mining, all the secondary sectors and trade and transport made negative contributions to growth.

Employment

Compared with a year earlier there were close to 480,000 fewer people employed in the economy in Q4 2021. Over the same period the number of people unable to find employment rose by more than 1.5 million. Of those actively looking for work, the proportion of matriculants increased and 152,000 more graduates could not find employment.



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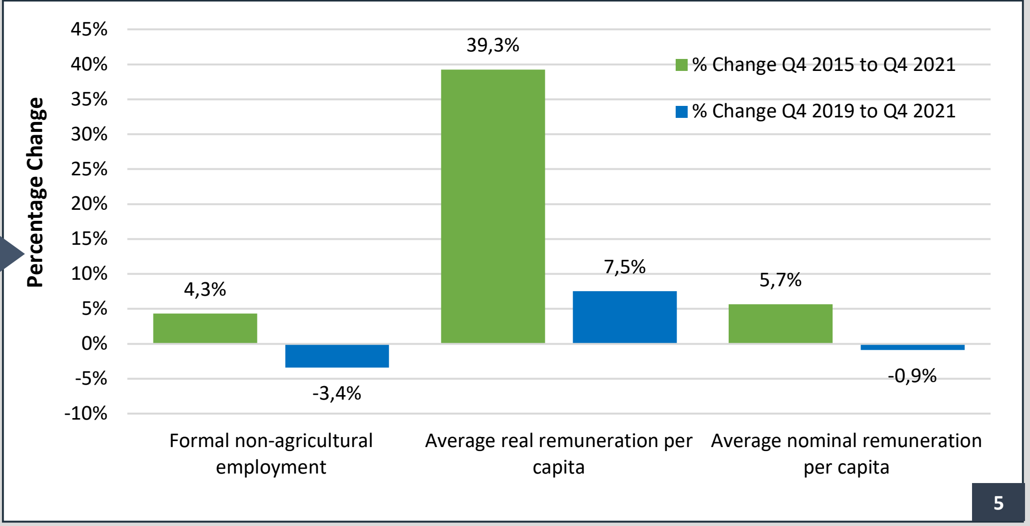
Despite an increase in total employment of 262,000 between Q3 2021 and Q4 2021, there were still over 1.8 million fewer people employed in the South African economy than before the COVID-19 pandemic began and 479,000 fewer than a year earlier. At the same time the total number of unemployed – both officially and on an expanded basis - increased to more than 11.7 million people. In the year to Q4 2021 the number of unemployed that continued to actively look for employment rose by 9.5% to 7.9 million, while the number of discouraged job-seekers who wanted employment but had given up looking increased by 30% to 3.8 million.

The COVID-19 pandemic has had a negative impact on formal employment and the real remuneration per capita of those in formal employment – reducing the scale of the modest gains made since 2015. While formal employment in the non-agricultural sectors increased by 4.3% between Q4 2015 and Q4 2021, it would have been at least 3.4 percentage points higher without the impact of the pandemic.



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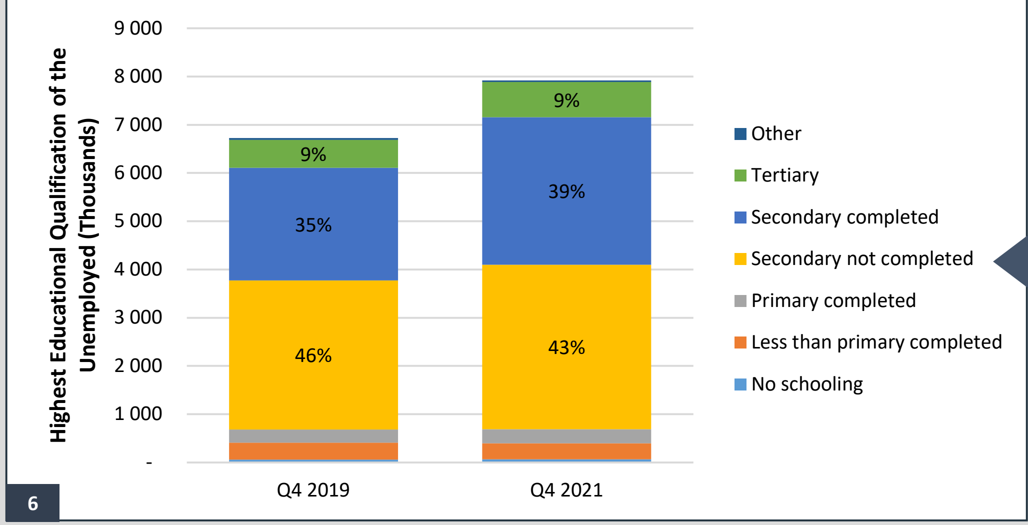

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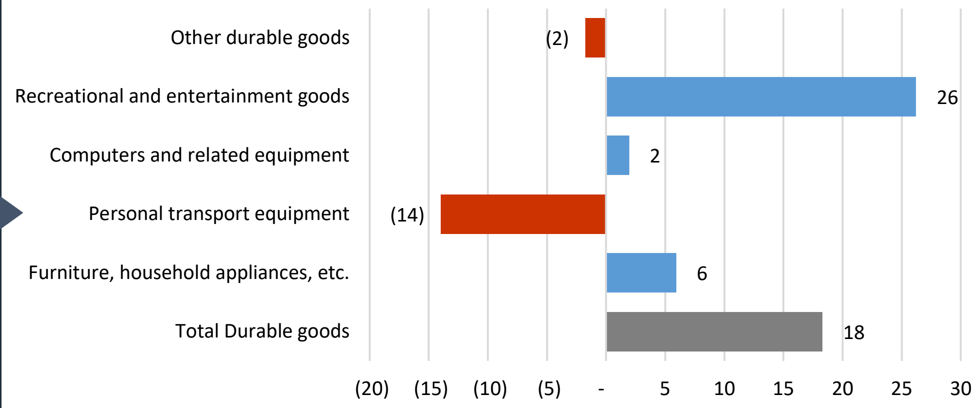
The education profile of the officially-unemployed shows that the share with tertiary education remained the same (9%) between 2019 Q4 and 2021 Q4 – even though the number of graduates unable to find employment increased from 579,000 to 731,000. The share of those with a matric increased from 35% to 39% over the same period, but there was a relative decline in the proportion of the unemployed that had completed primary education but not secondary education – from 46% to 43%.

Households

A decomposition of the contributions to the change in real household consumption expenditure shows a greater emphasis on services, non-durable goods and durable goods (particularly recreational and entertainment goods) and less importance ascribed to semi-durables – particularly clothing and footwear

Real household consumption expenditure on durable goods increased by R18 billion between 2015 and 2021. Significantly higher spending on recreational and entertainment goods (+R26 billion) and higher spending on furniture and appliances (+R6 billion) and computer and related equipment (+R2 billion) were offset by much lower spending on personal transport equipment (-R14 billion) and other durable goods (-R2 billion).



Change in Household Consumption Spending on Durable Goods at Constant 2015 Prices: 2015 to 2021 (R Billions)

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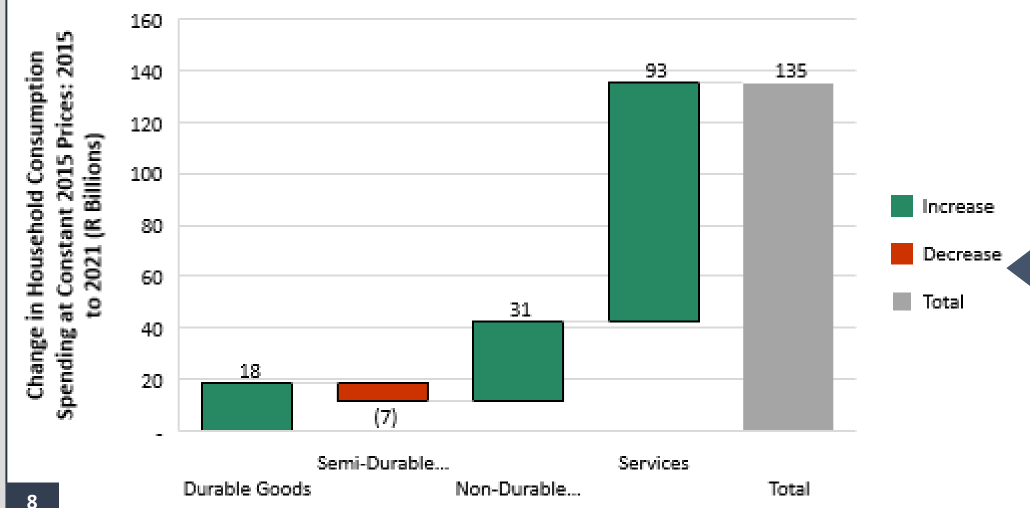
Between 2015 and 2021 total household consumption expenditure in constant 2015 price terms increased by R135 billion. Higher spending on services (+R93 billion) was the main contributor to this increase, with smaller positive contributions from non-durables (+R31 billion) and durables (+R18 billion). Spending on semi-durables declined by R7 billion over the same period.



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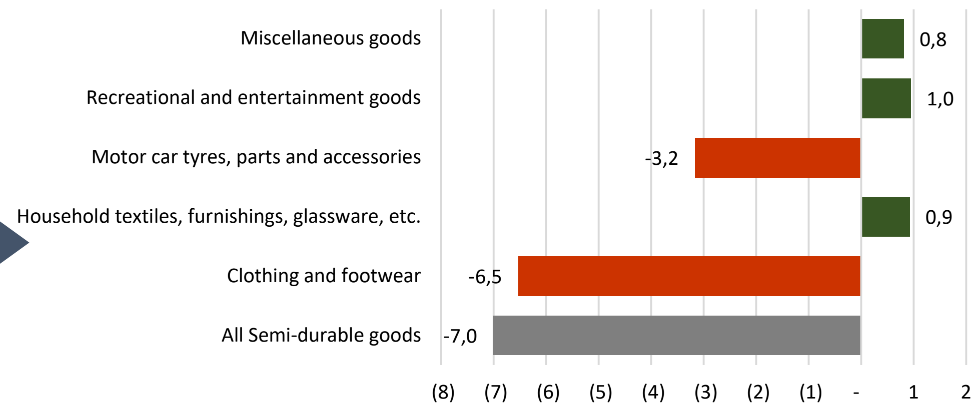
The R7 billion decline in real spending on semi-durable goods between 2015 and 2021 consisted of a R6.5 billion cut in spending on clothing and footwear and a R3.2 billion cut in spending on car tyres, parts and accessories. These decreases were partially offset by increases of close to R1 billion each in household textiles, recreational and entertainment goods and miscellaneous goods.



Change in Household Consumption Spending on Semi-durable Goods at Constant 2015 Prices: 2015 to 2021 (R Billions)

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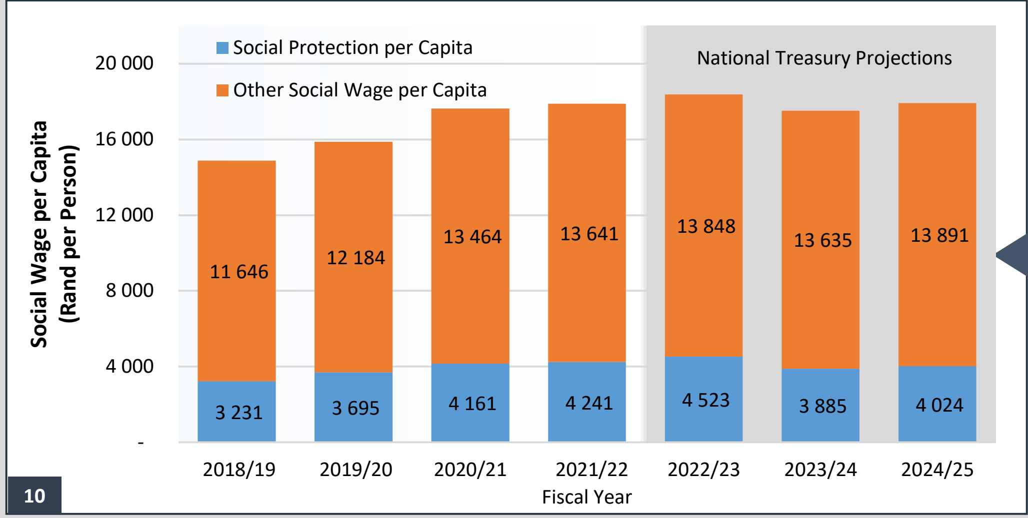
Government

On a per capita basis the social wage is projected to decrease over the medium term, but gross government debt per capita will continue to rise – albeit at a slower pace than previously projected. The cost of this debt – as reflected in prevailing yield curves – indicates a relative increase in risk and uncertainty over the medium term.



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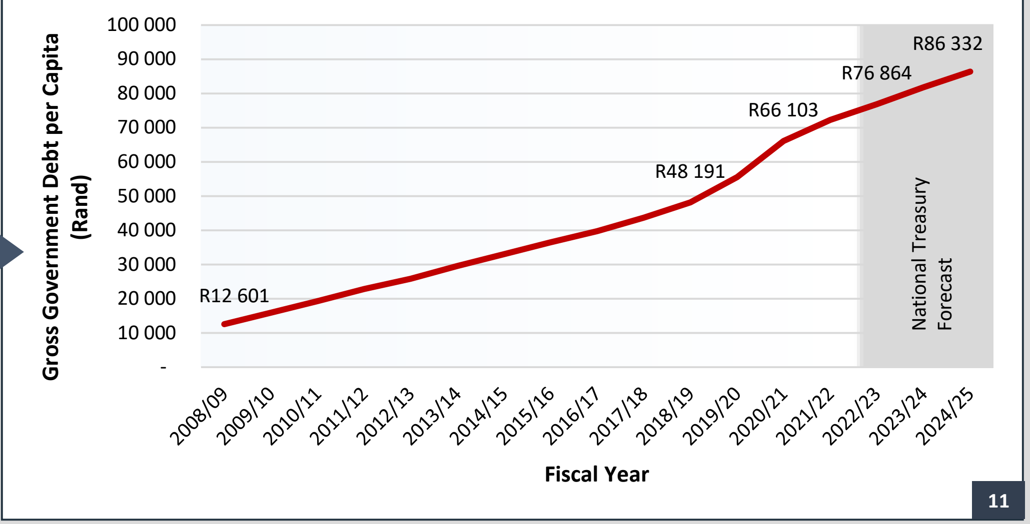
The social wage consists of both explicit income transfers (grants) and other forms of social protection, as well as "in-kind" benefits that are targeted at individuals and households. It is a measure of how much better off individuals are with the provision of publicly funded welfare services than they would be without these benefits. On a per capita basis, social protection spending (including grants) rose by 31% - from R3,231 to R4,241 between fiscal 2018/19 and 2021/22 – while other social wage benefits increased by 17% from R11,646 to R13,641 over the same period. Combined this translates into an average annual increase of 6.3%. The Budget projects a decline in the social wage per capita over the medium term.

In the 2008/09 financial year, gross government debt per capita amounted to R12,601. By fiscal 2021/22, it had increased to around R72,250 per person - an average increase of 14% per year. National Treasury's projections in the 2022 Budget suggest that this upward trend will continue, with debt per capita set to exceed R86,300 by 2024/25. This nevertheless represents a relative improvement when compared with the previous Budget.



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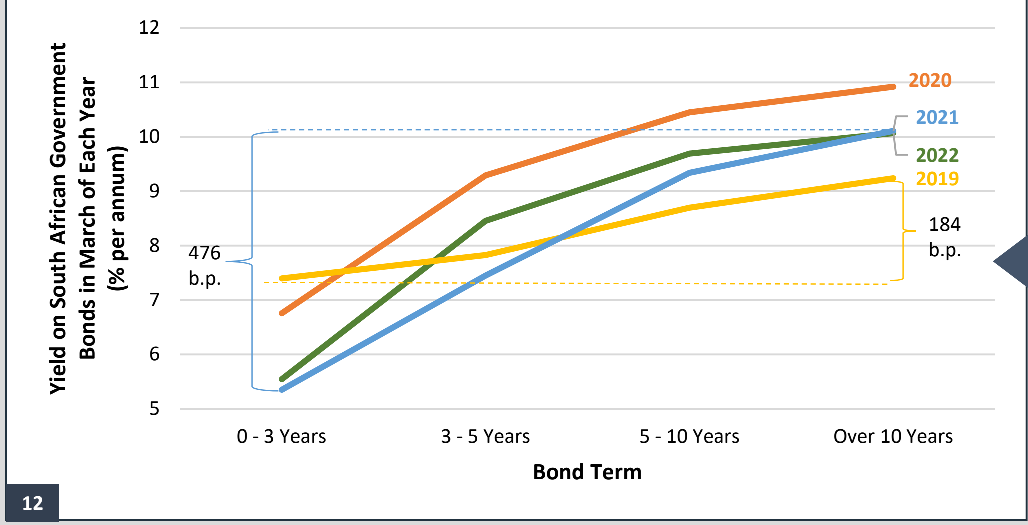

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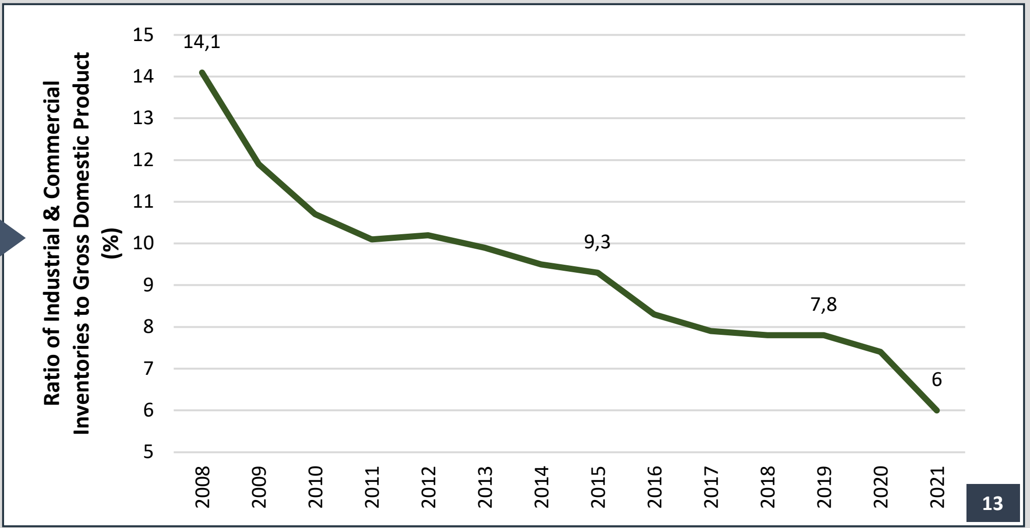
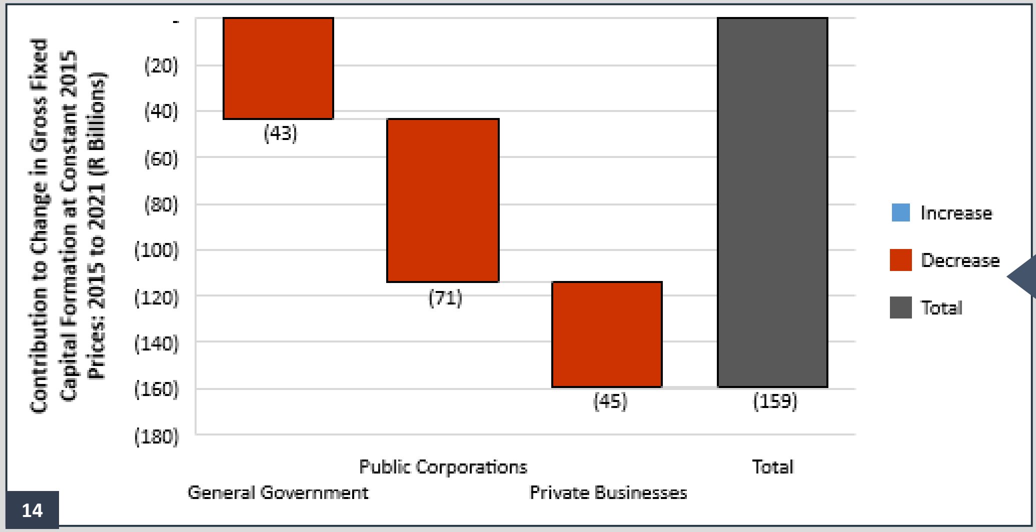
Between 2019 and 2021 the spread between the yields on shorter-term bonds (0 to 3 years) and longer-term bonds (over 10 years) increased from 184 basis points to 476 basis points – reflecting increased uncertainty about the future as a result of the COVID-19 pandemic. The spread narrowed slightly between March 2021 and March 2022 to 453 basis points. The change in the shape of the yield curve between 2021 and 2022 reflects increased uncertainties and risks over the medium term (the next 3 to 10 years).

Investment

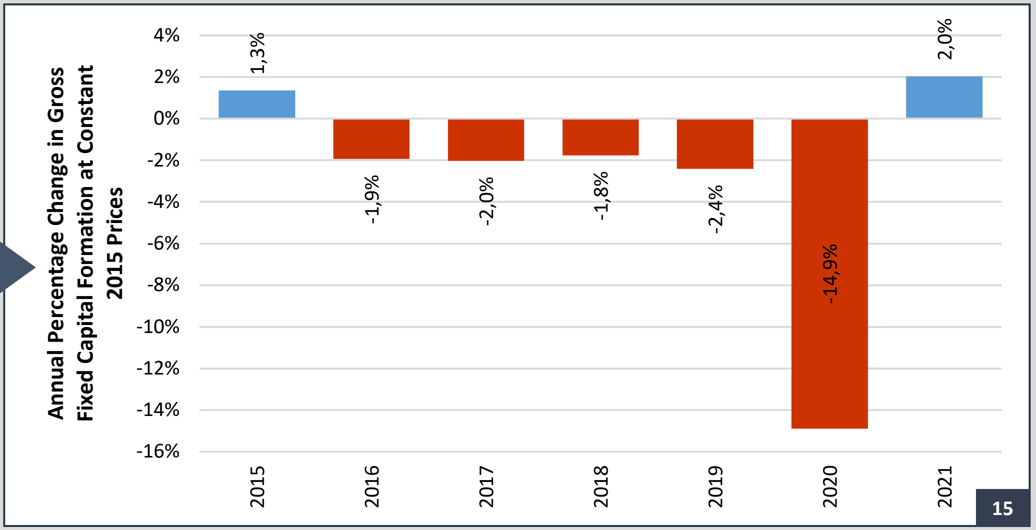
A steady decline in the ratio of industrial and commercial inventories reflects structural shifts in the economy but also carries risks. Although contractions in gross fixed capital formation spending were spread across all types of organisations, they were most pronounced in respect of public corporations.

In 2008, the ratio of industrial and commercial inventories to GDP was estimated at 14.1%. This declined steadily to just 6% in 2021. The decline is a reflection of greater stock management efficiency, the move to online platforms and purchasing that has reduced the scale of stock required at retail outlets and the adjustment of businesses to the lower growth trajectory. The latter has resulted in reduced risks of being unable to supply an unexpected uptick in demand.





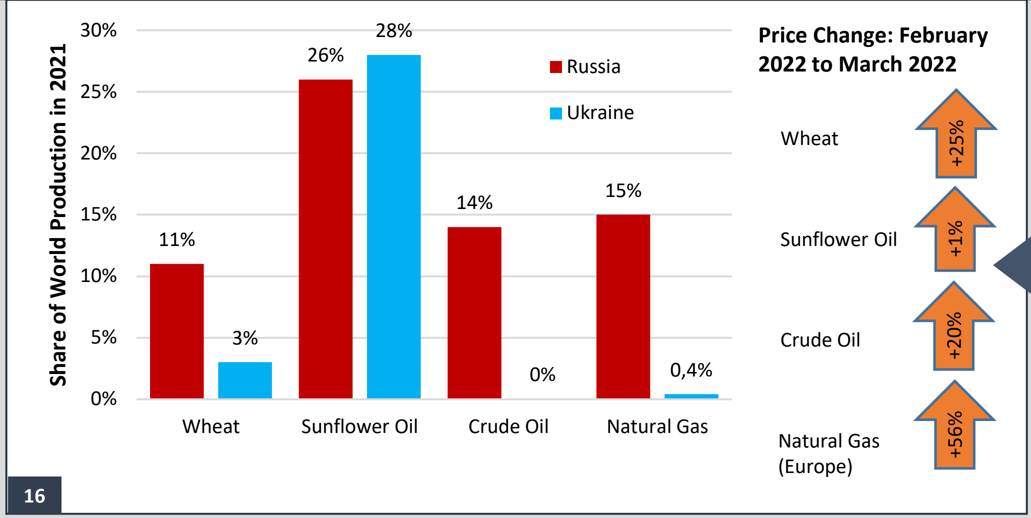
The value of gross fixed capital formation declined by R159 billion (20%) at constant 2015 prices between 2015 and 2021. Over this period, levels of fixed investment dropped across all organisation types – but the percentage decline was most pronounced in respect of public corporations (-51%), followed by general government (-28%) and private businesses (-9%).



Real gross fixed capital formation experienced five consecutive years of contraction and declined by almost 22% between 2016 and 2020 – before recovering slightly by 2% in 2021. Despite this recovery the ratio of gross fixed capital formation to GDP dropped to 13% in 2021 - its lowest level on record. Prior to this the previous lowest ratio was 13.3% in 1946. The National Development Plan argues that a ratio of 30% of GDP is required to sustain economic growth at more than 5% a year.

International Trade

Despite the disruptions caused to key commodity markets by Russia's invasion of Ukraine, South Africa is relatively insulated from the direct fallout of the conflict. Russia accounts a very small share of both exports and imports and Ukraine is a relatively minor trading partner.



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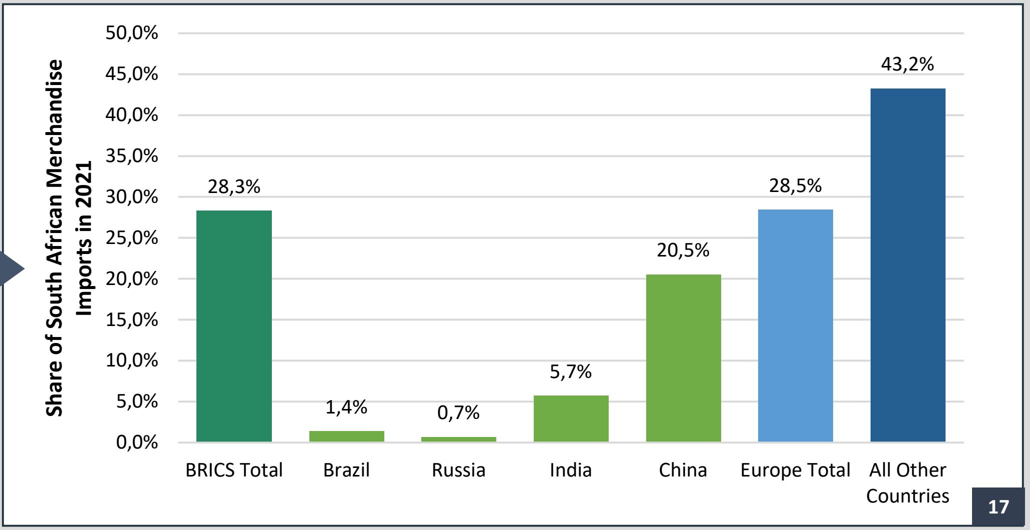
Jointly, Russia and Ukraine accounted for more than half (54%) of the share of the world's production of sunflower oil in 2021. Sunflower oil is one of the most commonly used cooking oils in South Africa and many other countries across the world. Russia is also a significant producer of wheat, crude oil and natural gas, where it accounted for between 11% and 15% of world production in 2021. Threats to international supply as a result of Russia's invasion of Ukraine caused the price of these commodities to increase by between 1% (in the case of sunflower oil) and 56% (in the case of European natural gas) in March 2022.

While other BRICS countries were the source of 28.3% of South Africa's merchandise imports in 2021, Russia only accounted for 0.7% - half the share of Brazil. India provided 5.7% and China 20.5% of goods imports. European countries other than Russia accounted for 28.5% of imported goods and other non-BRICS and non-European trading partners the remaining 43.2%. South Africa sourced 0.05% of its goods imports from Ukraine.



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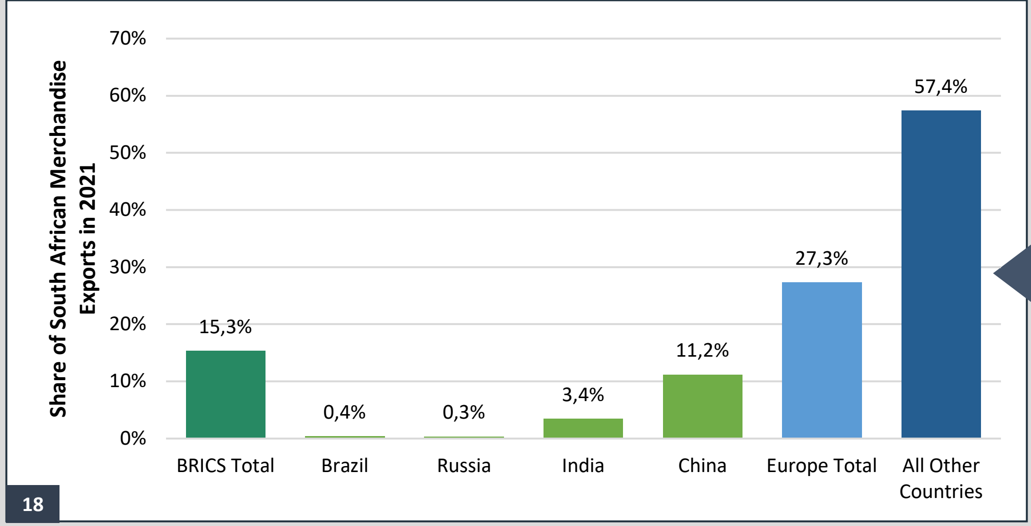

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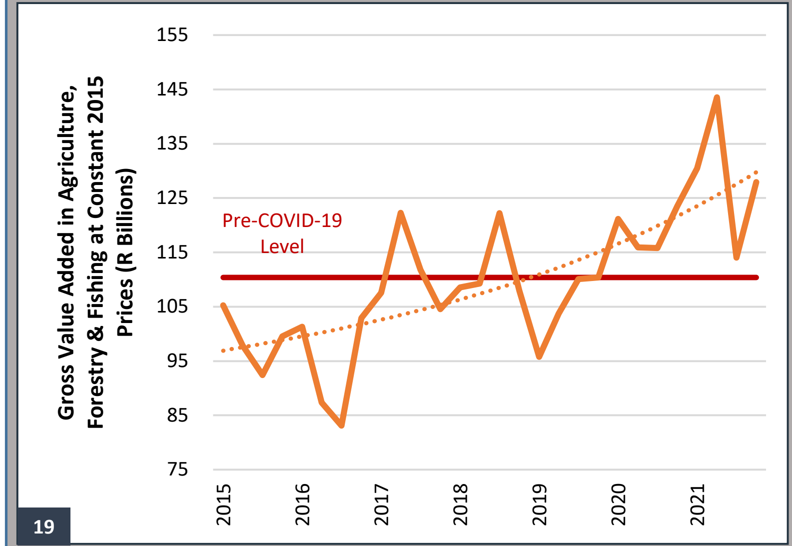
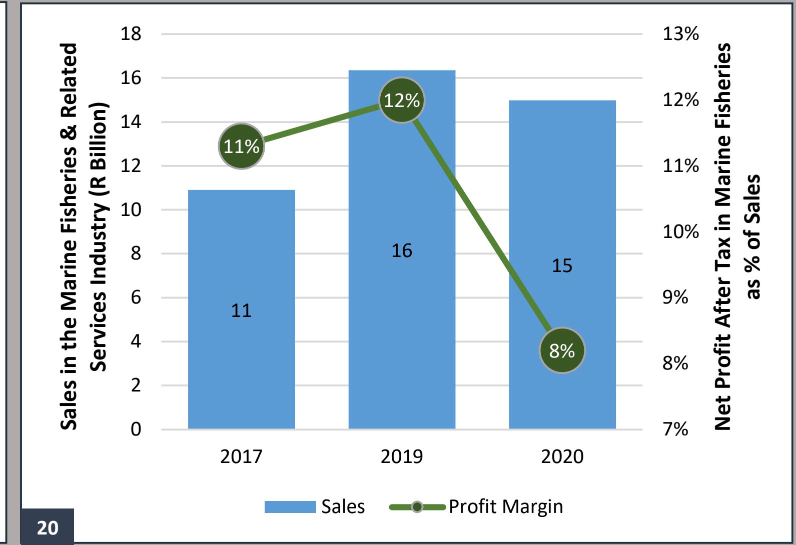
In 2021, over 57% of South Africa's merchandise exports were to trading partners other than BRICS and European countries. Europe (excluding Russia) purchased 27% of South Africa's exports and other BRICS countries the remaining 15%. Of the latter, Russia was the smallest market for South African goods – accounting for 0.3% of total merchandise exports. China was the largest single export market – purchasing more than 11.2% of South African exports. It was followed by the United States (10.6%) and Germany (9%). Ukraine only accounted for 0.02% of South Africa's merchandise exports in 2021.

AGRICULTURE, FORESTRY & FISHING

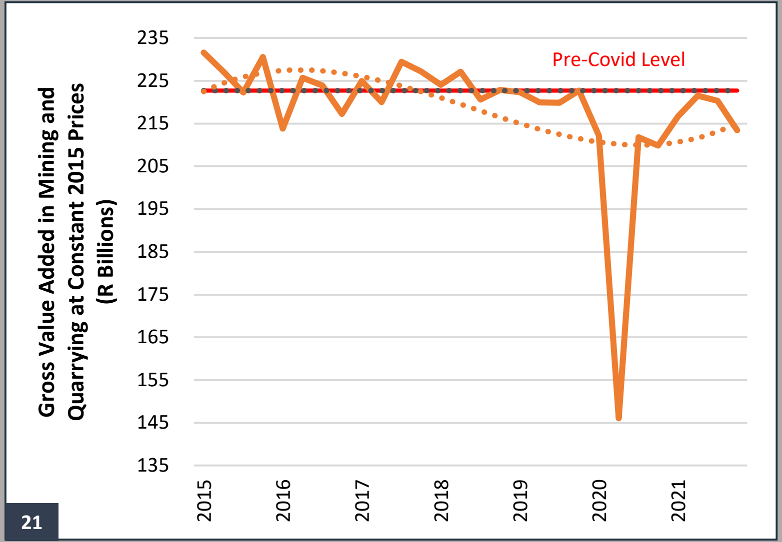


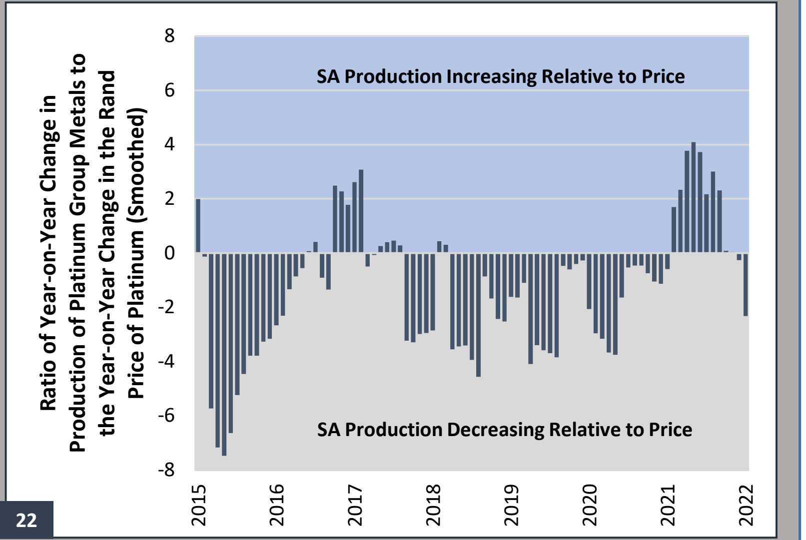


The real GVA for agriculture, forestry and fishing rebounded in the fourth quarter of 2021 after a decline in the 3rd quarter. Despite the volatility, output has consistently been above pre-COVID-19 levels and has been trending higher.
Sales in marine fisheries declined by 6% in 2020 – from R16 billion to R15 billion. This followed a sharp rise in sales in 2019. Relatively higher production costs saw after tax profits decline from 12% in 2019 to 8% in 2020.

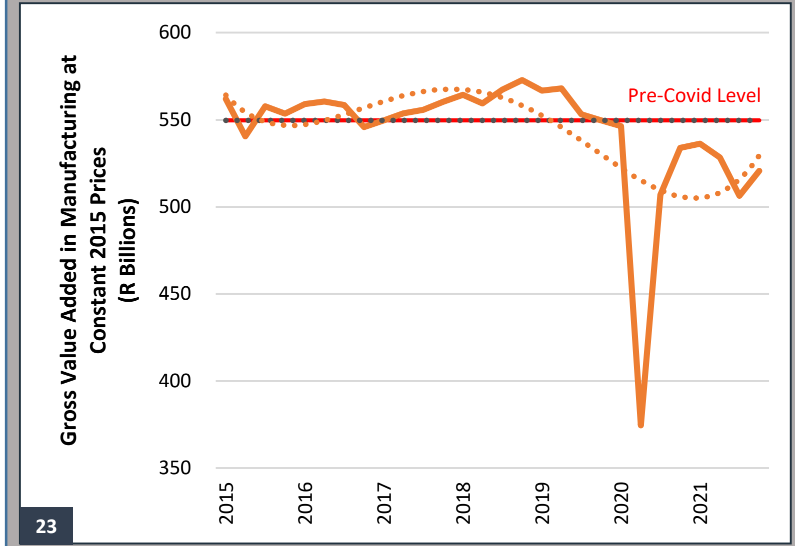
MINING & QUARRYING

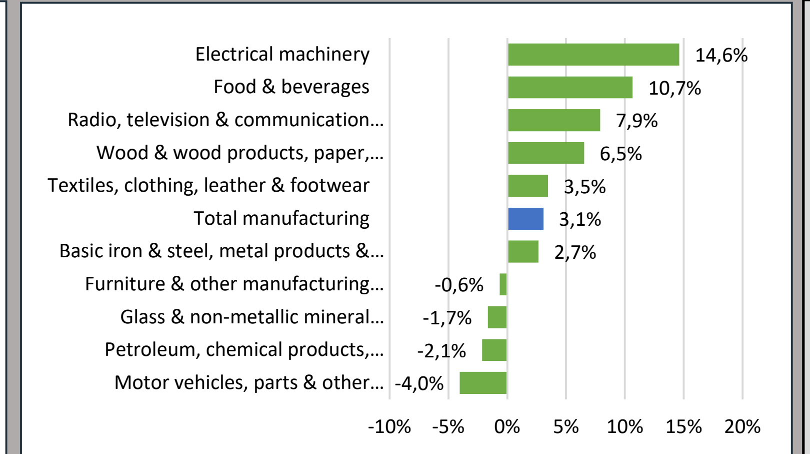
The real GVA of the mining and quarrying sector dipped again in Q4 2021. The output of the sector remains below pre-COVID levels.
Since 2015 South African production volumes in the platinum group metals (PGM) sub-sector have generally risen at a slower rate, or declined at a faster rate, than the rand price of platinum. Production volume increases rose relative to the rand price of platinum in 2016/17 and for much of 2021





MANUFACTURING





Year-on-Year Change in Production Volumes: January 2021 to January 2022

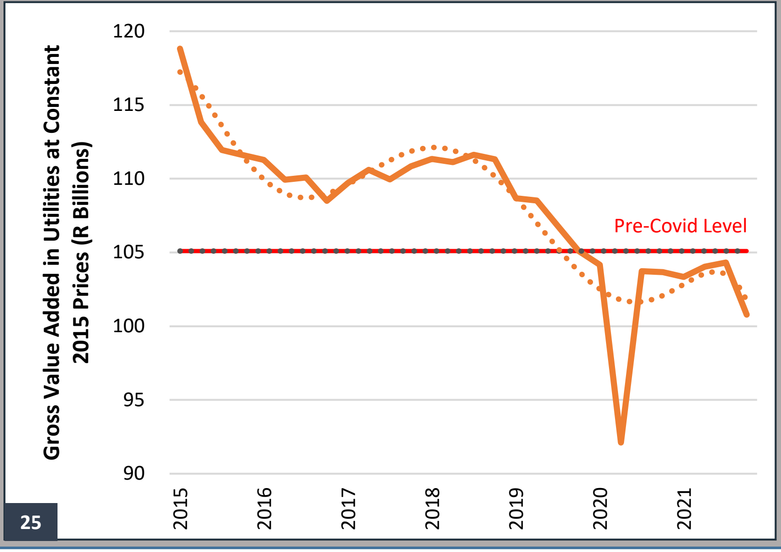
Despite a slight recovery in Q4 2021, the real GVA of the manufacturing sector remained well below its pre-COVID levels.

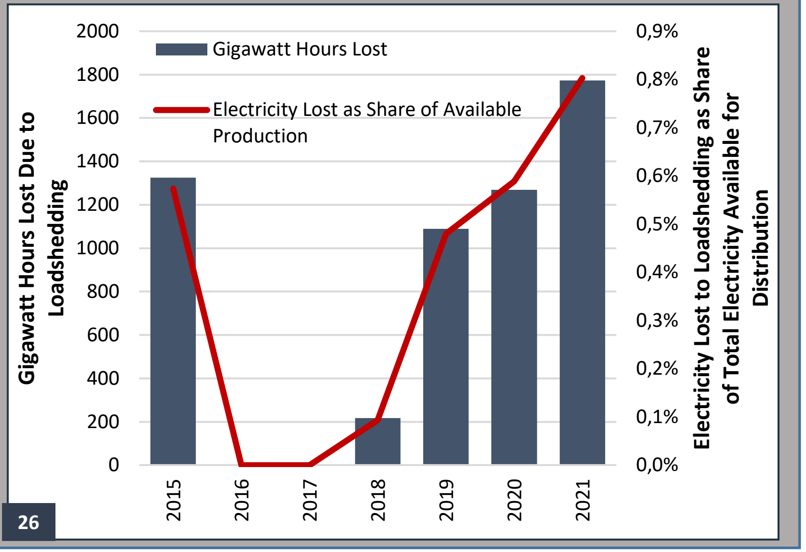
In the year to January 2022, total manufacturing productions rose by 3.1% on the back of fairly strong increases in the production of electrical machinery, food and beverages , communications equipment and wood and wood products, paper and printing. These gains were offset by contractions in production volumes in motor vehicles, parts and accessories and petroleum and chemical products (among others).

ELECTRICITY GAS AND WATER

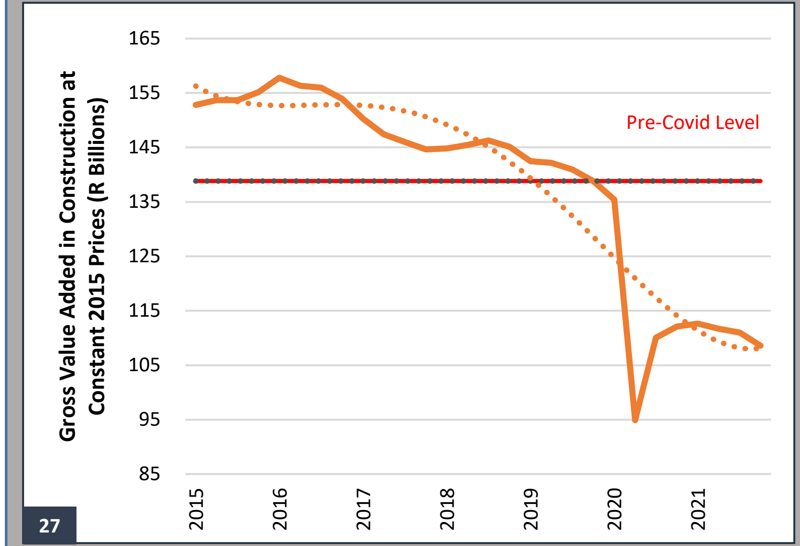
The utilities sector experienced a further decline in real GVA in Q4 of 2021 – a continuation of a longer term trends which has seen the sector fail to recover to pre-COVID levels.

2021 saw a sharp increase in the number of gigawatt hours lost to loadshedding – from 1,269 in 2020 to 1,773 in 2021. As a share of the total electricity available for distribution, loadshedding losses rose to 0.8% - up from 0.6% in 2020.





CONSTRUCTION



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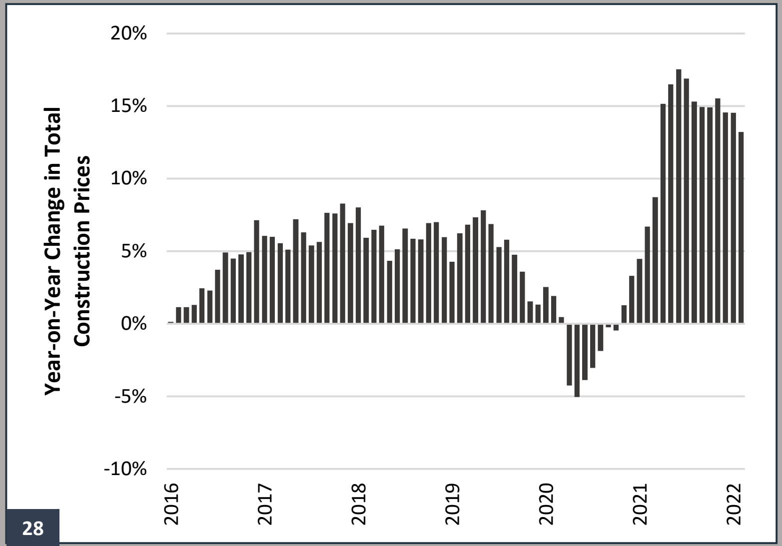

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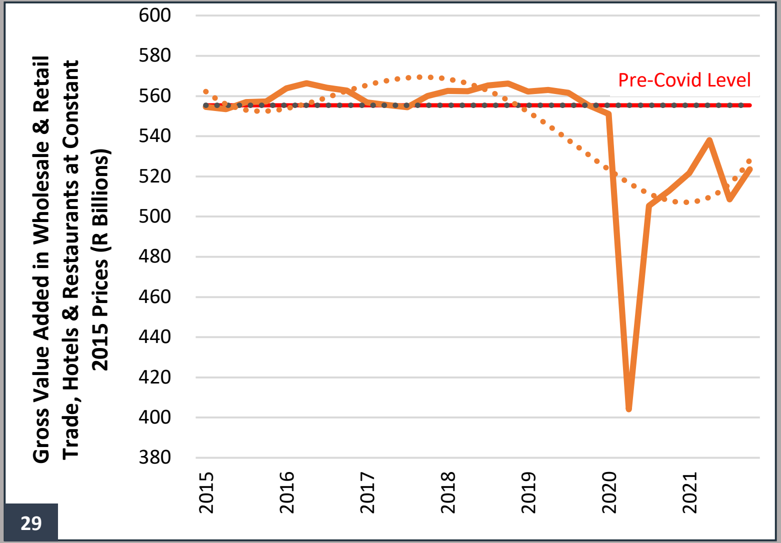
The real GVA of the construction sector dipped slightly in Q4 2021. The slight recovery that accompanied the easing of lockdown restrictions in Q3 2020 has failed to gain momentum and output remains well below pre-COVID levels.

Following a fall in construction prices in 2020, inflationary pressures rose sharply in 2021 with year-on-year increases above 15% for much of the year. In February 2022, construction price inflation decreased slightly to 13.2%, from 14.5% in January.

TRADE, CATERING AND ACCOMMODATION

The real GVA for the trade, catering and accommodation sector showed some signs of recovery in Q4 2021, but remains well below its pre-COVID levels. Prior to the pandemic the output of the sector had trended flat for a number of years.

Average occupancy rates in the accommodation sector rose to 29% in December 2021/January 2022, up from 23% a year earlier. This is still significantly below pre-COVID occupancy levels, which were usually in the 45% to 52% range over the December-January high season. With the exception of other accommodation – all types of stay units experienced some improvement in occupancy rates during the latest holiday season.



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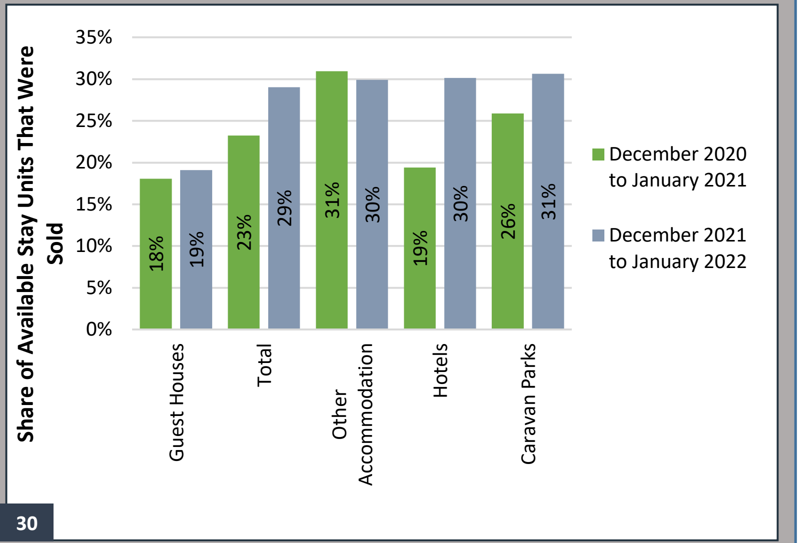

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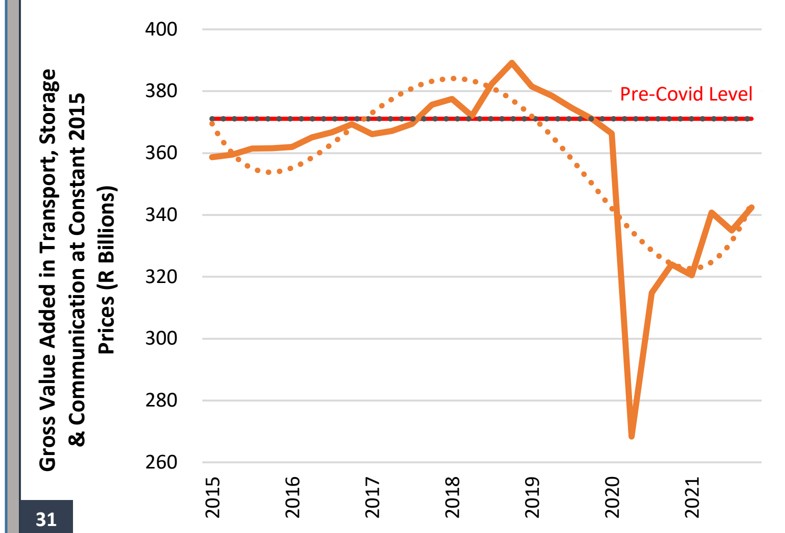
TRANSPORT, STORAGE AND COMMUNICATION



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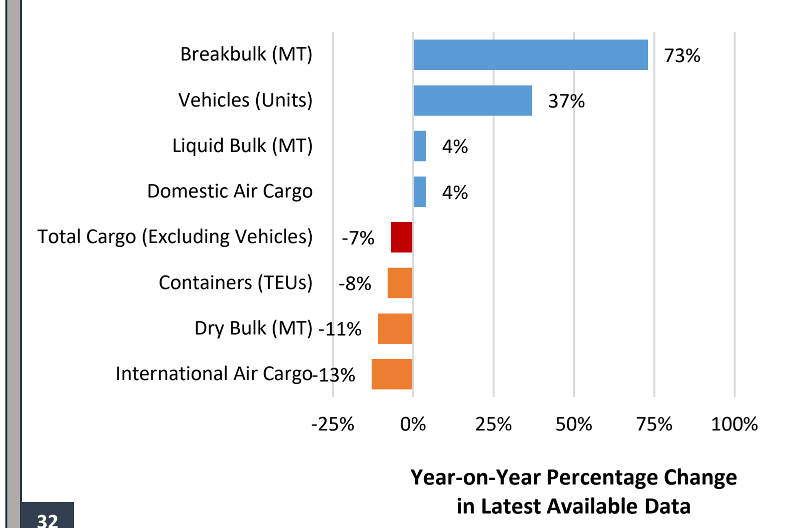

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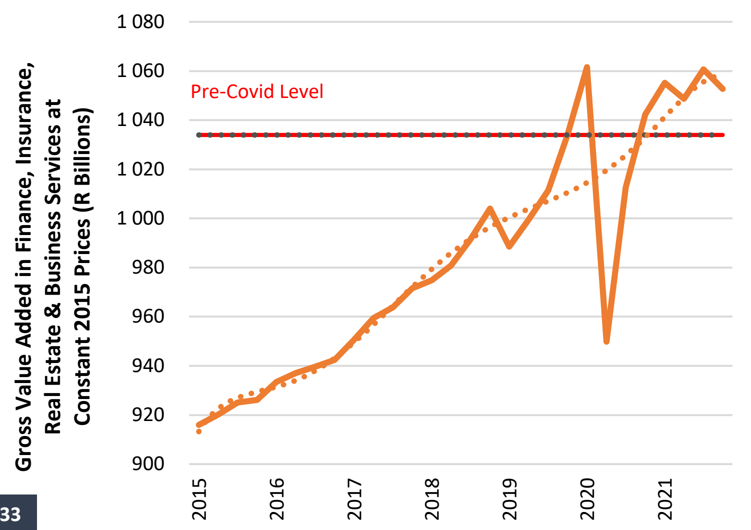
Real GVA in the transport, storage and communications sector trended higher in Q4 2021 but the recovery still has some way to go before output is back to pre-COVID levels.

According to the latest available data transport volumes (excluding vehicles) were down 7% on their levels of a year earlier. Strong growth (+73%) in the volumes of breakbulk transported was offset by reductions in containers (-8%), dry bulk (-11%) and international air cargo (-13%). The number of vehicles transported rose by 37%.

FINANCE, INSURANCE, REAL ESTATE AND BUSINESS SERVICES

The real GVA of the finance, insurance, real estate and business services sector decreased slightly in Q4 2021, but remained above pre-COVID levels. The rising trend remained intact but appears to have lost some momentum.

Non-life business claims as a share of premiums were highest (59%) in 2017, but rose steadily in recent years – from 50% in 2018 to 53% in 2021. The latter increase is likely to have been impacted by the rioting and looting in KZN and Gauteng in July 2021. Increased mortality associated with the pandemic contributed to the sharp increase in the claims against life-insurers – which rose from 30% in 2020 to 41% in 2021.



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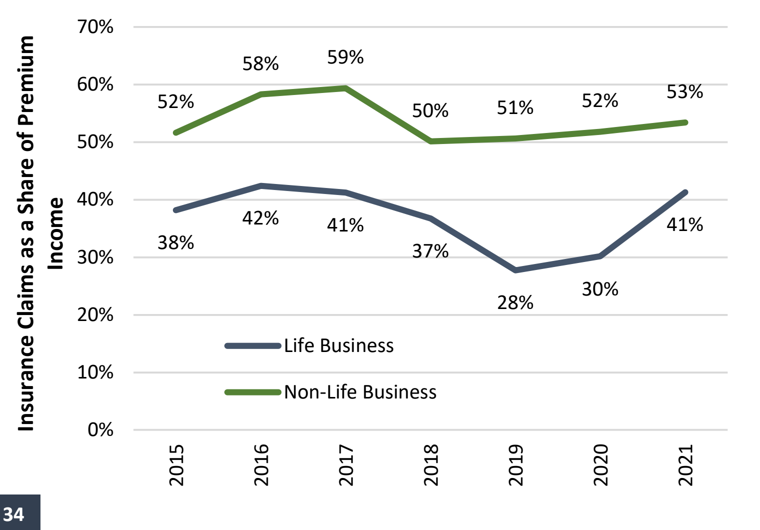

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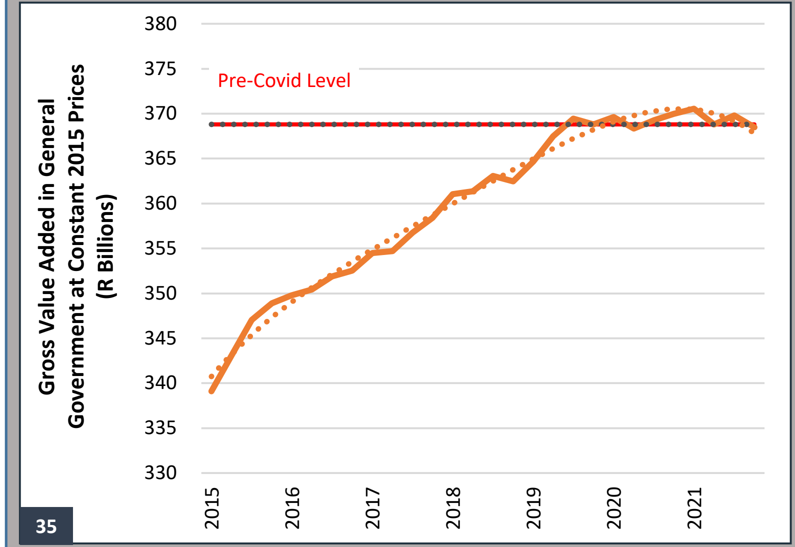
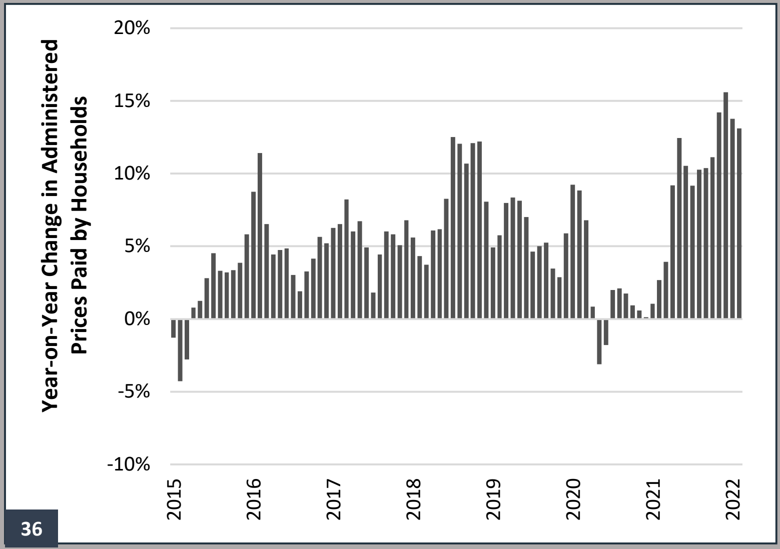
GENERAL GOVERNMENT



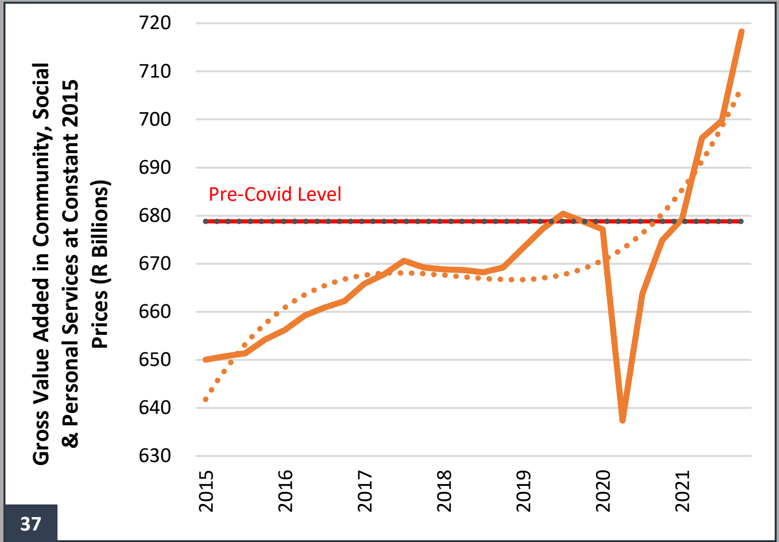


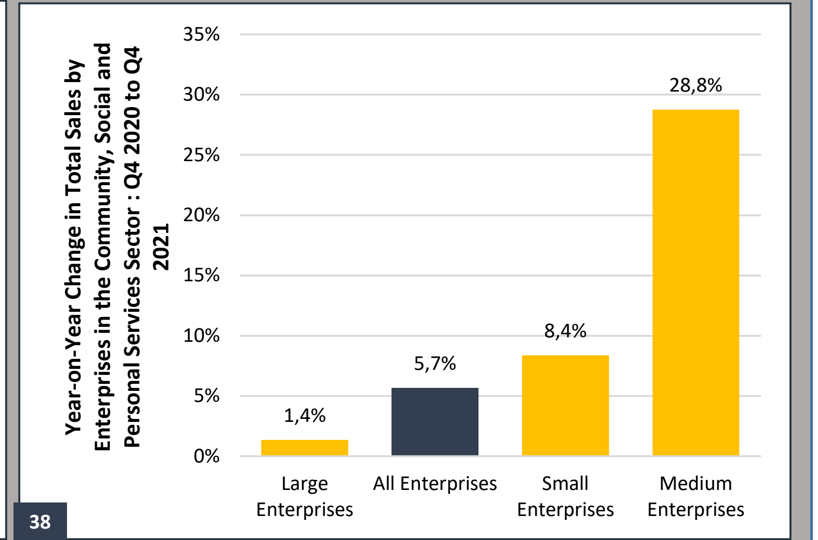
The real GVA of general government has trended flat since mid-2019, after rising strongly before then. Prices administered by government increased on a year-on-year basis by between 10% and 15% for most of 2021. Between January and February 2022 the rate of increase slowed from 14% to 13% - but administered prices (which include fuel prices set by government) remain a significant source of upwards pressure on consumer inflation.

COMMUNITY, SOCIAL AND PERSONAL SERVICES

The real GVA of the community, social and personal services sector rose sharply in Q4 2021 – accelerating the recovery. Output is now well above pre-COVID levels.

Despite the easing of many lockdown restrictions that had limited operations of parts of the sector, nominal sales in the year to Q4 2021 only increased by 5.7%. The increase was driven by an almost 29% increase in the sales of medium-sized firms – suggesting that entities of this size have some advantage in both scale of operation and flexibility. By contrast, the sales of large enterprises only rose 1.4% and that of small enterprise increased by 8.4% over the same period.





Inequality in Southern Africa: An Assessment of the Southern African Customs Union
World Bank Report published in March 2022

Sources of inequality in household income generation	SACU-wide drivers	Country-specific drivers
Pre-income distribution: Inequality of opportunity	• Place-based disadvantages: rural-urban, subnational regions • Low intergenerational mobility	South Africa: race, legacy of apartheid
Primary income distribution: Inequality of pre-tax income	• Poor functioning of urban labour markets • Dominant role of educational attainment • Large gender gaps in earnings • Constrained rural land markets	• South Africa: "missing middle" in wage distribution • Namibia and South Africa: historically high inequality of land ownership
Secondary income distribution: Inequality after taxes and transfers	Lower inequality because of: • Progressive personal income tax • Wide coverage of social transfers	Targeting needs to improve in countries besides South Africa
Tertiary income distribution: Inequality after social services	• High spending on education and health • Outcomes worse than expected given level of spending	

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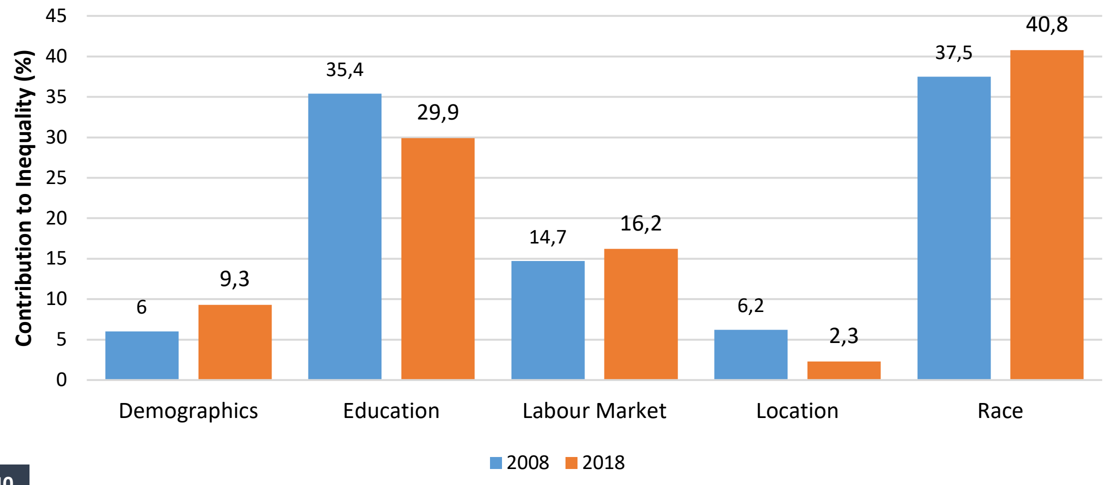
Decomposition of Inequality in South Africa



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- According to a recently-published World Bank report, Botswana, Eswatini, Lesotho, Namibia, and South Africa – which collectively make up the Southern African Customs Union (SACU) - is the world's most unequal region. Based on Gini coefficients of consumption (or income) per capita, South Africa, is the most unequal country in the world, ranking first among 164 countries in the World Bank's global poverty database. Botswana, Eswatini, and Namibia are among the 15 most unequal countries, and despite recent improvements, Lesotho still ranks among the top 20 percent.
- The report examines the process of household income generation to identify the sources of high and persistent inequality. The framework is organized into four components (see Table). These are:
  1. the **pre-income distribution, or the inequality of opportunity** that arises from differences in circumstances at birth and during childhood, such as gender, race, location, parental education, and family wealth;
  2. the **primary income distribution, or how inequality is affected by access to factor endowments (or assets),** such as education, skills, land ownership and capital, as well as their use and returns from interaction with markets;
  3. the **secondary income distribution,** or the remaining inequality after taxes and government transfer payments have been deducted from, or added to, primary incomes**;** and
  4. the **tertiary income distribution,** or disparities that remain after imputed benefits from social spending in the form of public goods (such as education, health, and infrastructure services) have been added to income after taxes and subsidies.

- Graph 40 shows that racial differences were the largest contributor to income inequality in South Africa in 2008, with a share of 38%. This was followed by a 35% contribution by educational attainment and 15% for labour market functioning. According to the analysis, the contribution of race to inequality increased to 41% by 2018, whereas that of education fell to 30 percent; the functioning of labour market increased slightly. Location has become a relatively less significant contributor to inequality, but demographics – particularly age - have become more significant.

Data sources used in this document

Section A

Graph	Source of data
1	Statistics South Africa GDP (P0441)
2	Statistics South Africa GDP (P0441)
3	Statistics South Africa GDP (P0441)
4	Statistics South Africa QLFS (P0211)
5	Statistics South Africa QES (P0277)
6	Statistics South Africa QLFS (P0211)
7	South African Reserve Bank Quarterly Bulletin, March 2022
8	South African Reserve Bank Quarterly Bulletin, March 2022
9	South African Reserve Bank Quarterly Bulletin, March 2022
10	National Treasury Budget 2022, Statistics South Africa Mid-year Population Estimates (P0302)
11	National Treasury Budget 2022, Statistics South Africa Mid-year Population Estimates (P0302)
12	South African Reserve Bank Quarterly Bulletin, various
13	South African Reserve Bank Quarterly Bulletin, March 2022
14	Statistics South Africa GDP (P0441)
15	Statistics South Africa GDP (P0441)
16	World Bank Commodity Price Data, February 2022, Commodity production data by country (various)
17	TradeMap (using COMTRADE data)
18	TradeMap (using COMTRADE data)
19	Statistics South Africa GDP (P0441)
20	Statistics South Africa, Ocean (marine) fisheries and related services industry, Report No. 13-00-00 (2020), Released March 2022
21	Statistics South Africa GDP (P0441)
22	Statistics South Africa Mining Production and Sales (P2041), World Bank Commodity Prices, South African Reserve Bank Monthly Release
23	Statistics South Africa GDP (P0441)
24	Statistics South Africa Manufacturing Production and Sales (P3041.2)

Section B

Graph	Source of data
25	Statistics South Africa GDP (P0441)
26	National Treasury Budget 2022, Statistics South Africa Electricity generated and available for distribution (P4141)
27	Statistics South Africa GDP (P0441)
28	Statistics South Africa Construction Materials Price Indices (P0151.1)
29	Statistics South Africa GDP (P0441)
30	Statistics South Africa Tourism Accommodation (P6410)
31	Statistics South Africa GDP (P0441)
32	BUSA COVID-19 Cargo Movement Update, 25 March 2022
33	Statistics South Africa GDP (P0441)
34	South African Reserve Bank Quarterly Bulletin, March 2022
35	Statistics South Africa GDP (P0441)
36	Statistics South Africa, CPI (P0141)
37	Statistics South Africa GDP (P0441)
38	Statistics South Africa Quarterly Financial Statistics (P0044)

Section C

Graph/ Table	Source of data
39	The World Bank. 2022. Inequality in Southern Africa: An Assessment of the Southern African Customs Union. Available at: https://documents.worldbank.org/en/publication/documents-reports/documentdetail/099125303072236903/p1649270c02a1f06b0a3ae02e57eadd7a82
40	The World Bank. 2022. Inequality in Southern Africa: An Assessment of the Southern African Customs Union. Available at: https://documents.worldbank.org/en/publication/documents-reports/documentdetail/099125303072236903/p1649270c02a1f06b0a3ae02e57eadd7a82

Economic and Employment Indicators and Trends in South Africa

Issue # 03 (March 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.

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The facts, estimates and opinions are taken from sources believed to be reliable but which we cannot guarantee.

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