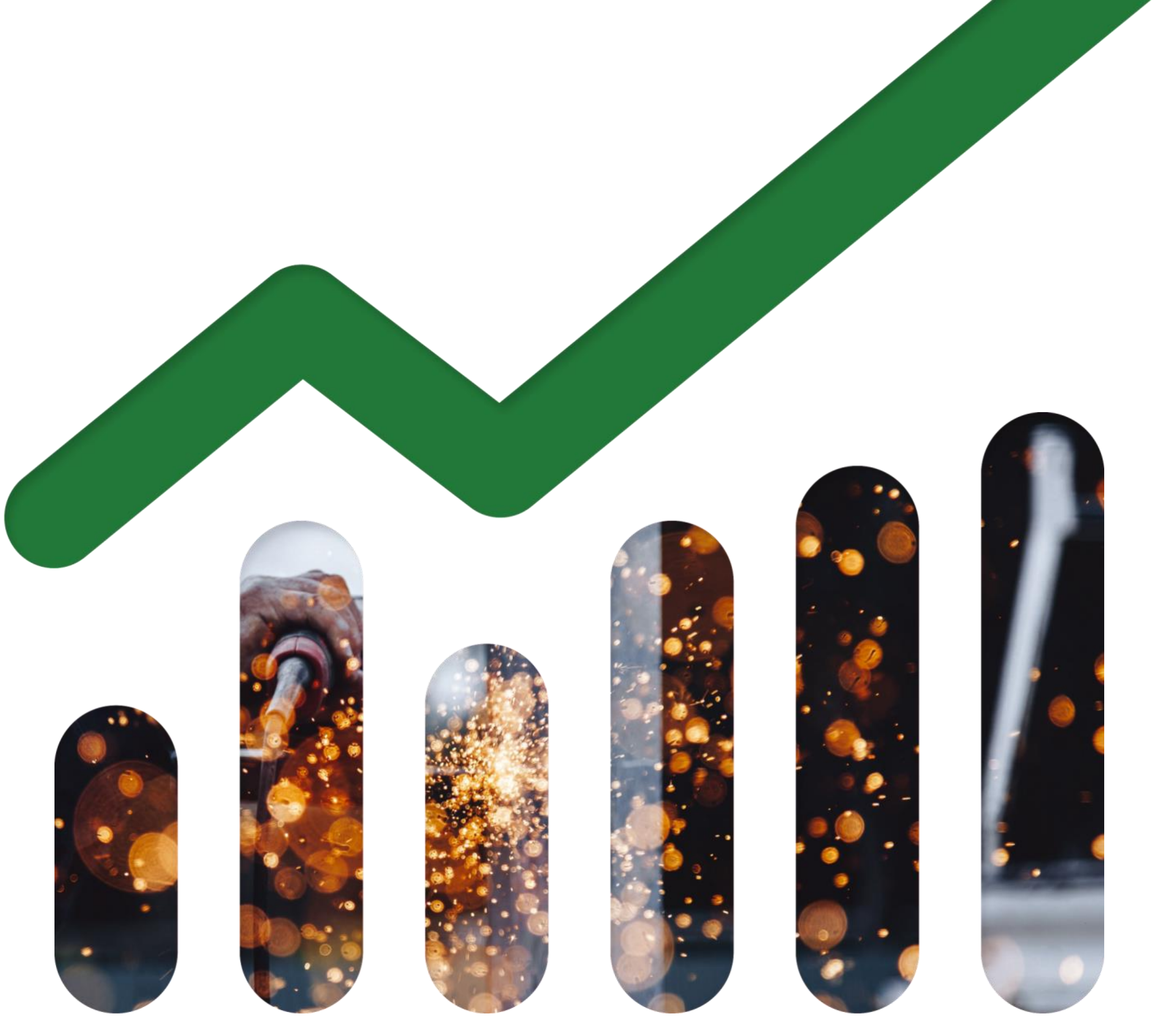
National Economic
Development and
Labour Council



Economic and Employment Trends in South Africa

April 2023 | Issue 1

Summary

- **South Africa's GDP has fallen back to below pre-pandemic levels.** The contraction reflects ongoing weakness in several industries, specifically mining, manufacturing and construction. The outlook for growth remains weak due to worsening power availability constraints and weak global demand. National Treasury predicts real economic growth of 0,9% in 2023, which is optimistic considering SARB's prediction of 0.2% and the IMF's of only 0.1% (IMF, Concluding Statement of the 2023 Article IV Mission).

- **Despite poor economic growth, South Africa's unemployment rate has decreased over the last year.** South Africa's unemployment rate dropped 0.2 percentage points over the last quarter, and 2.6 percentage points over the year. Unfortunately, the outlook remains poor. The World Economic Forum recently published countries' unemployment forecasts for 2023, in which they predict a 35.6% unemployment rate for South Africa by the end of 2023 – the highest rate in the world. The weak labour market is also reflected in low growth in compensation of employees across most industries.

- **Household spending remains under pressure.** An unemployment rate of 32.2%, annual consumer inflation increasing to 7% in February 2023, and higher interest rates combine to put significant downward pressure on household spending. The SARB increased the repo rate by an additional 50 basis points in March specifying loadshedding and global financial market turmoil as the primary risks to price stability.

- **Declining levels of gross fixed capital formation have been a persistent drag on economic growth.** Gross fixed investment and GDP growth have fallen from an average of 7.6% and 3.6%, respectively between 1994 and 2008, to -0.9% and 1.2% between 2009 and 2022. The slowdown in investment has been most severe in public corporations and government, although the level of private investment has also not recovered post-pandemic.

- **The low investment levels are also illustrated by declining construction activity in South Africa.** Afrimat has noted that there has been a 2.2% quarter-on-quarter decline in construction activity for the fourth quarter of 2022. Load shedding, rising interest rates and low levels of public sector infrastructure spending, especially at the municipal level, are among the primary driving factors of this result.

- **National Treasury's fiscal outlook has improved since the 2022 budget review.** Higher-than-expected tax revenue from the mining, manufacturing and finance sectors has improved National Treasury's projection of South Africa's fiscal position. Nevertheless, the budget review highlighted significant risks to the fiscus including lower-than-expected economic growth, borrowing costs, contingent liabilities and the public sector wage bill.

- **South Africa's trade balance during the final quarter of 2022 was negative for the first time since 2018.** Import and export values fell, partly reflecting a global slowdown in trade activity. An expected re-opening of the Chinese economy, an easing of the spill overs from the Russia-Ukraine conflict, and improvement in global economic growth will bolster South African trade in 2023. If such a trade recovery is combined with favourable terms of trade, the broader economy will also benefit even further.

- **Bank transactions have grown rapidly**, up 12.2% in February 2023 compared with a year earlier. While the number of banking transactions has increased strongly in South Africa since the COVID-19 pandemic, the value of transactions has not increased strongly.

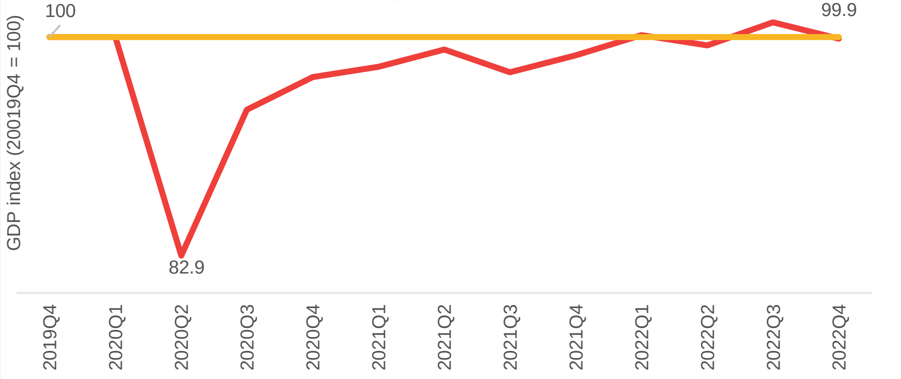
Gross Domestic Product

South Africa's GDP has fallen back to below pre-pandemic levels.

The outlook for growth has weakened on the worsening power availability and global economic conditions.

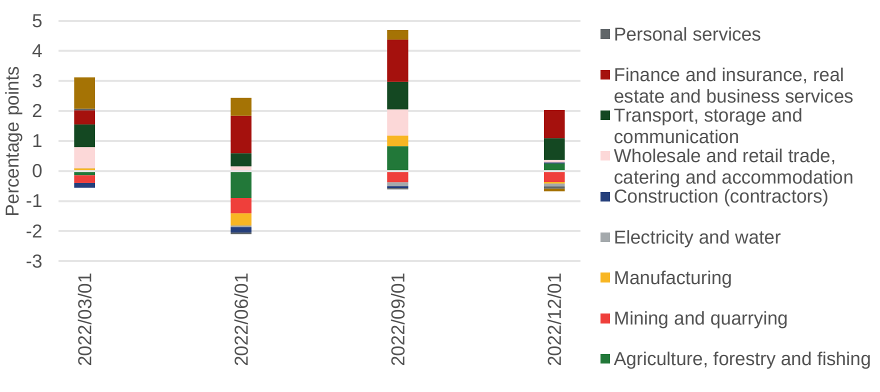
South Africa's level of GDP has fallen back to below pre-pandemic levels. Although real GDP grew 2% in 2022, it is down 1.3% quarter-on-quarter in the fourth quarter. The outlook remains weak. National Treasury predicts real economic growth of 0,9% in 2023, which is optimistic considering SARB's prediction of 0.3% and the IMF's only 0.1% (IMF, Concluding Statement of the 2023 Article IV Mission). Power availability and weak global economic conditions are considered the most significant growth impediments.

Real GDP index since the COVID-19 pandemic



Source: Statistics South Africa, Gross Domestic Product, P0441 , EconData

Contribution to value-added growth (year-on-year)

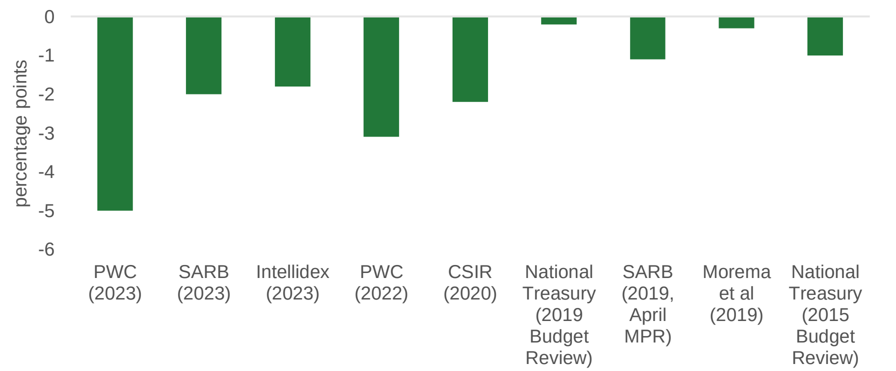


Source: Statistics South Africa, Gross Domestic Product, P0441 , EconData

Several industries experienced negative growth in 2022, weighing on overall growth in the economy, with the largest drag from the mining and quarrying industry. Growth in value added was buoyed by growth in business services, transport, storage and communication, as well as government services,

Estimates of the GDP growth impact of load-shedding range between -0.2 and -5 percentage points. It is difficult to compare estimates of load-shedding impacts because of differences in assumed electricity production losses and assumed economic costs of electricity shortages.

Estimated impact on GDP growth from load-shedding



Employment

Although there has been improvements, the outlook for South Africa's labour market remains poor. The World Economic Forum recently published countries' unemployment forecasts for 2023, in which they predict a 35.6% unemployment rate for South Africa by the end of 2023 – the highest rate in the world (WEF, Mapped: Unemployment Forecasts, by Country in 2023)

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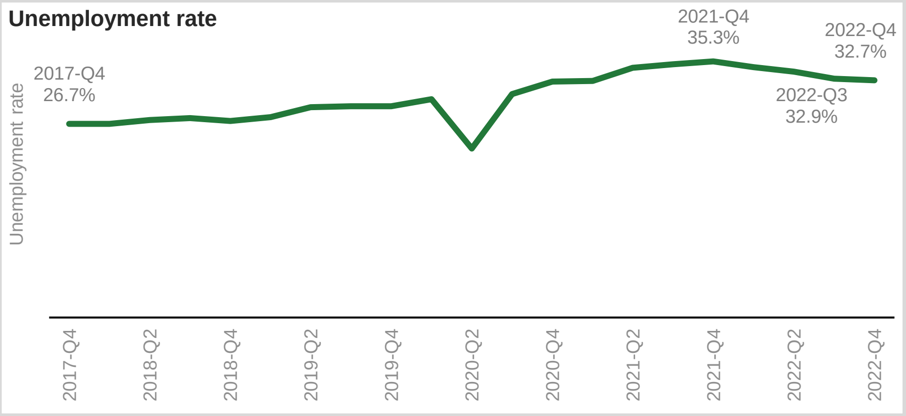
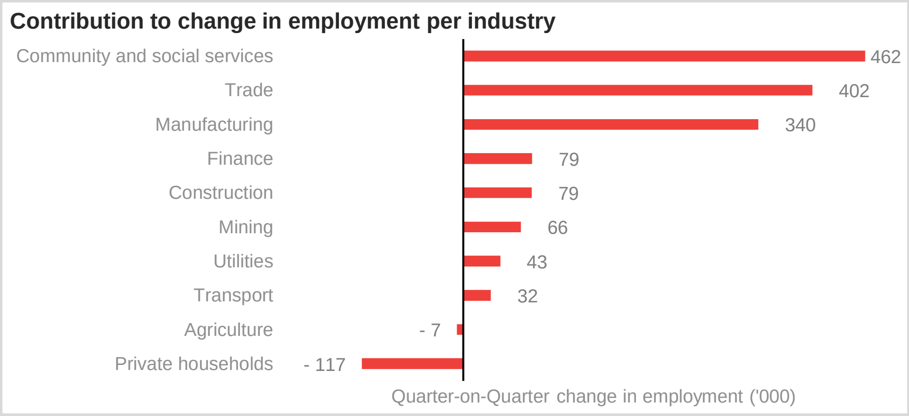
South Africa's unemployment rate has improved over the last year. Besides the artificial improvement during the Covid-19 pandemic (caused by a decline in job-seeking behaviour), until the 4th quarter of 2021, the unemployment rate has been on a resilient upward trend. This upward trend accelerated from 0.4 percentage points per quarter pre-pandemic to 0.7 percentage points per quarter post-pandemic. Fortunately, the unemployment rate has now started decreasing. South Africa's unemployment rate dropped 0.2 percentage points over the last quarter, and 2.6 percentage points over the last year.



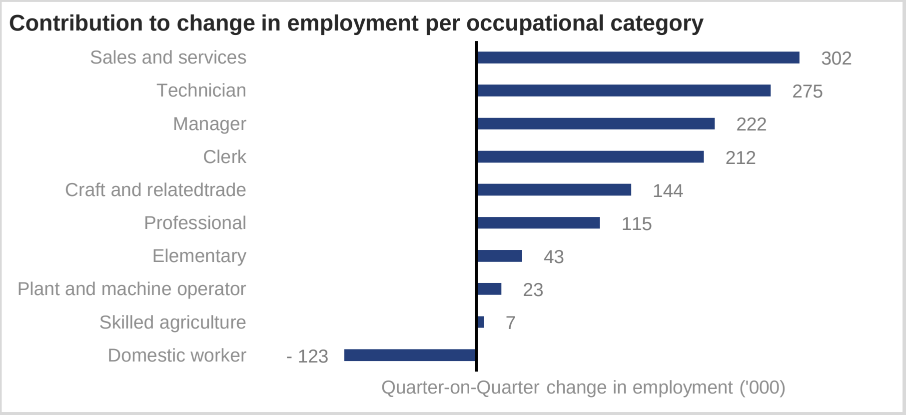
Source: Statistics South Africa, Quarterly Labour Force Survey, P0211



Source: Statistics South Africa, Quarterly Labour Force Survey, P0211

Besides private household and agriculture, all other industries contributed to employment increases over the last year. The improvement has been mostly driven by the Community and Social Services (CSS), Trade and Manufacturing industries. These three industries increased their labour force by 14.2%, 13.9%, 25.8%, respectively. Relative to their labour market size, the improvements in the mining and utilities industries are also significant. The number of employed in these industries increased by 17.9% and 52.8% respectively.

Domestic workers were the only occupational group that experienced decreased employment over the last year. Sales workers (medium-skill) and technicians (medium-high skill) saw the highest increase, likely related to the labour market improvements in the trade and manufacturing industries. Employment of managers (high-skill) and clerks (medium-skill) also increased. Overall, labour market demand tended towards medium to high-skilled employees over low-skilled.



Source: Statistics South Africa, Quarterly Labour Force Survey, P0211

Households

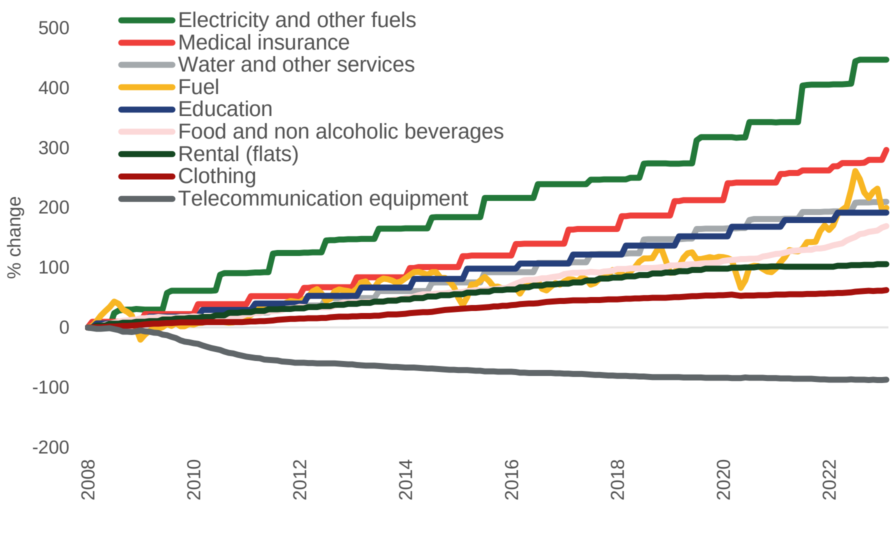
Higher inflation has increased pressure on household disposable income.

Key components that have been driving consumer prices over the long term have been administered prices such as electricity and water and other services.

Household expenditure has been under significant pressure from higher inflation, slower income growth and recently also from higher interest rates.

Higher inflation has increased pressure on household finances. Consumer price inflation was 7,0% in February 2023. Taking a long-term view, administered prices such as electricity and water have been among the consumer price categories that have experienced the largest increases in prices, while goods such as telecommunication equipment have become more affordable over time. Electricity and other fuels prices, for example, are now almost 450% higher than in January 2008, compared to almost 300% for medical insurance, 210% for water and other services, 170% for food and non-alcoholic beverages, and about 60% for clothing.

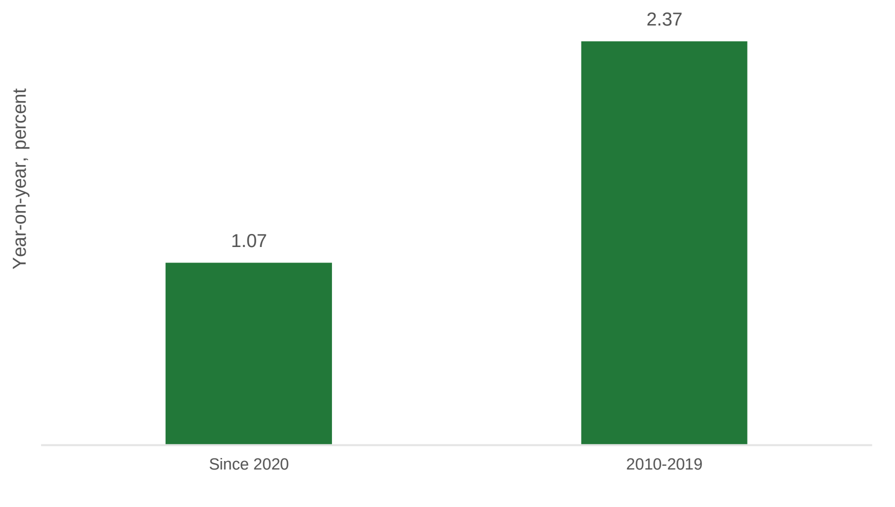
Change in prices of selected consumer prices



Source: Statistics South Africa, Consumer Price Index, P0141, EconData.

Household consumption spending has slowed since the COVID-19 pandemic. Household consumption growth has been very slow since 2020, with growth averaging only around 1%, compared to 2.4% between 2010 and 2019. Slower income growth, higher inflation and higher interest rates are the main spending constraints.

Average growth in final consumption expenditure by households



Statistics South Africa, Gross Domestic Product, P0441 , EconData

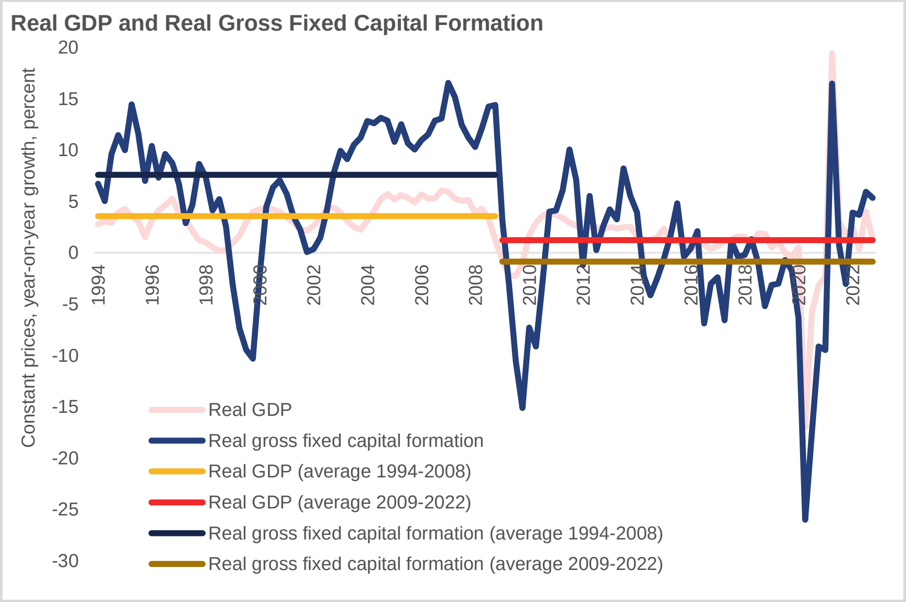
Investment

Declining levels of gross fixed capital formation have been a persistent drag on economic growth.

The slowdown in investment has been most severe in public corporations and government, although private investment has also not recovered post-pandemic.

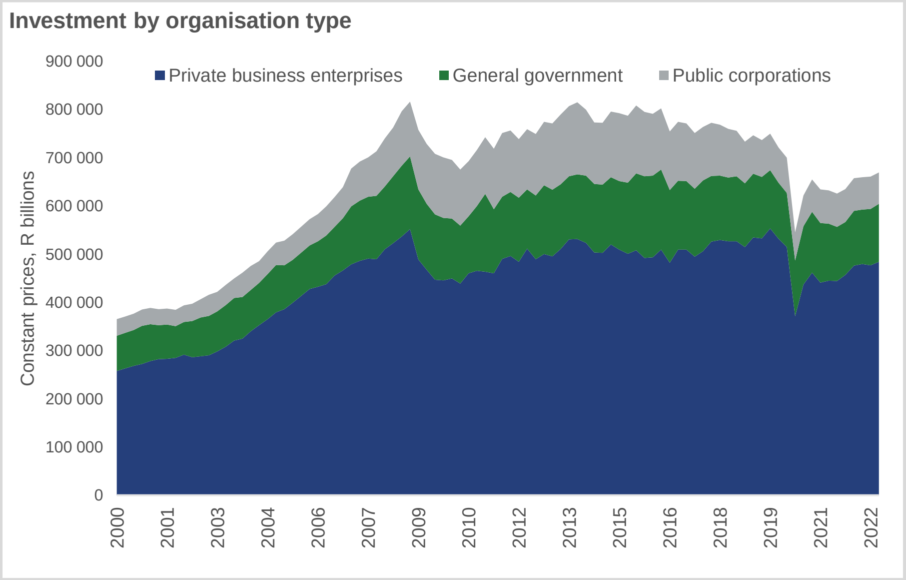
Consumer, business and building confidence indicators continue to signal downbeat sentiment.

Investment growth slowed after the global financial crisis of 2008 and the level of investment fell strongly during the COVID-19 pandemic. Gross fixed investment and GDP growth have fallen from an average of 7.6% and 3.6%, respectively between 1994 and 2008, to -0.9% and 1.2% between 2009 and 2022.



Source: Statistics South Africa, Gross Domestic Product, P0441 , EconData

Investment has still not recovered from its COVID-19 decline. Although private, government and public corporation investment have all been weak, the decline has been largest for public corporations. As a result, the share of investment by public corporations has declined over the last decade, while the share of private investment has increased. Load-shedding and cost-of-living concerns have seen business and consumer confidence decline, weighing on investment. According to the BER, consumer confidence is at the third lowest reading since 1994. The BER has noted that their business confidence and building confidence surveys are in net negative territory, signaling downbeat sentiment.

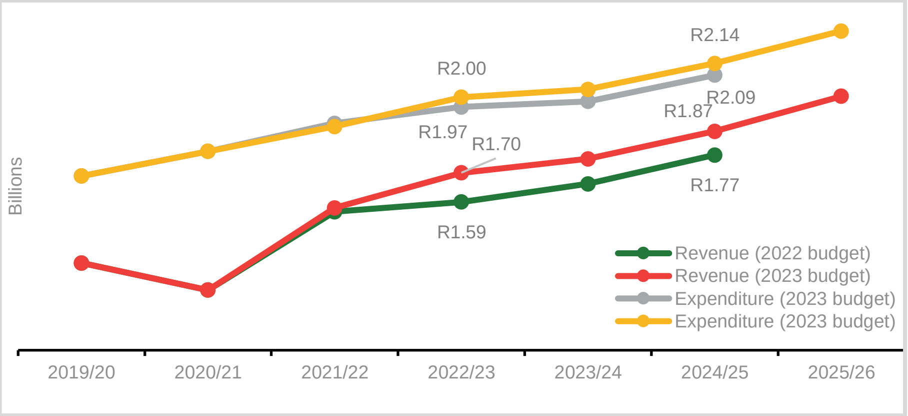


Source: Statistics South Africa, Gross Domestic Product, P0441

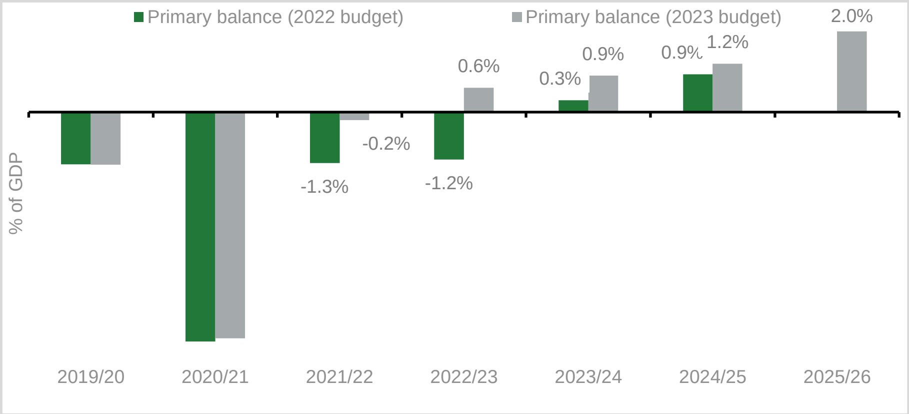
Government

Lower-than-expected spending, and higher-than-expected revenue has improved National Treasury's outlook of South Africa's fiscal position.

Compared to the 2022 budget, the 2023 budget indicates a more optimistic view of government finances over the medium term. The 2022/23 main budget revenue is expected to be R210 billion more than previously expected. The improved revenue outlook is expected to continue: in 2024/25: Revenue is predicted to exceed previous expectations by R100 billion. Revenue has been driven by higher than expected tax revenue from the mining, manufacturing and finance sectors. There has also been improvement in tax collection efficiency.



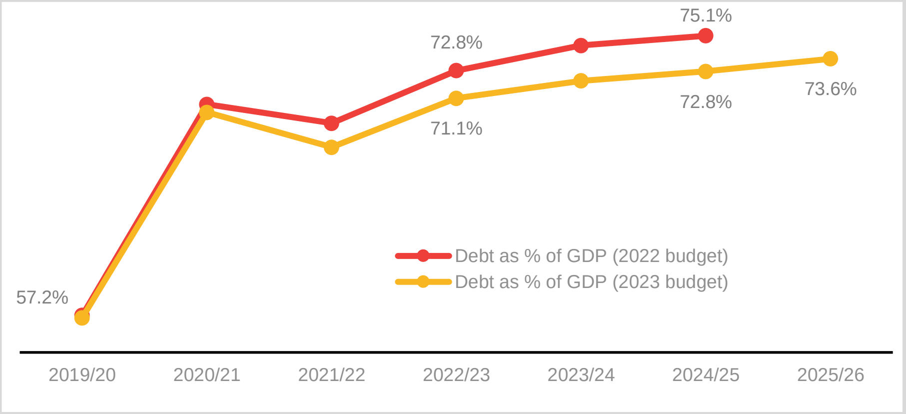
Source: National Treasury, National Budget Review



Source: National Treasury, National Budget Review

The improved revenue expectations leads to South Africa's first primary surplus in 15 years in 2022/23. The primary surplus is planned to increase over the medium-term to reach 2% of GDP by 2025/26. If National Treasury wants to stabilise debt in the current low growth environment, a primary surplus is a prerequisite.

The larger-than-expected primary surpluses lead to the debt-to-GDP ratio more rapidly than previously expected. The current expectation of the 2025/26 ratio is still lower than what was expected in 2022 of the 2024/25 debt level.



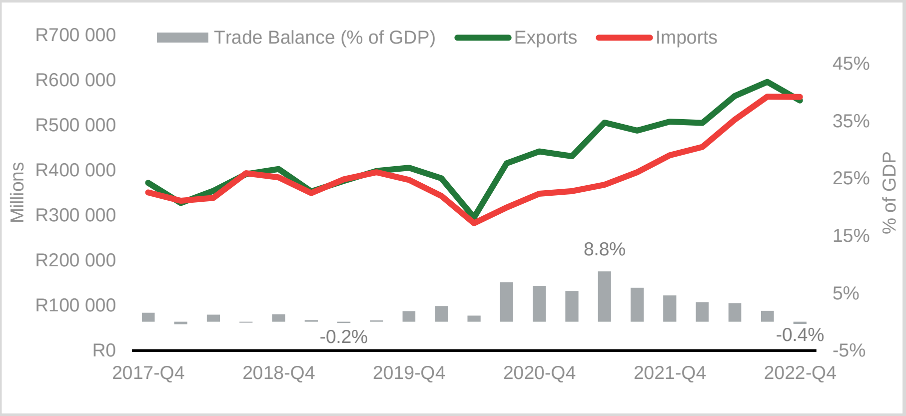
Source: National Treasury, National Budget Review

International Trade

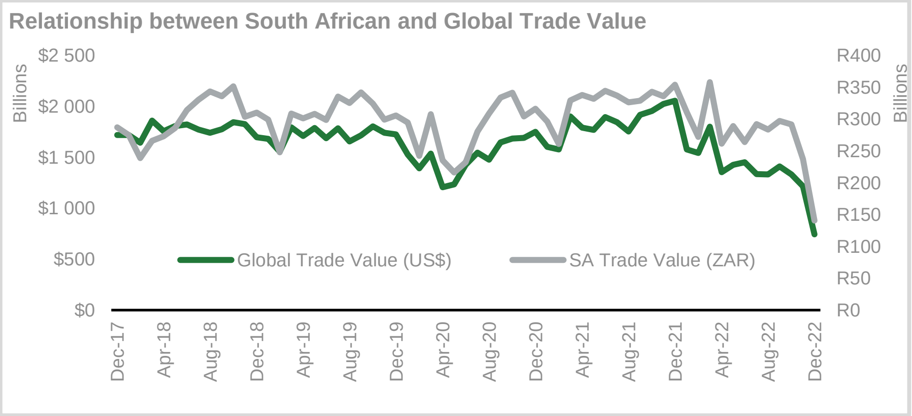
South Africa's trade balance during the final quarter of 2022 was negative R7.2 bn – the first quarterly trade deficit since 2018.

Import and export values fell between quarter 3 and 4 of 2022. This is partly reflective of a global slowdown in trade activity. An expected re-opening of the Chinese economy, an easing of the spillovers from the Russia-Ukraine conflict, and improvements in global economic growth may be expected to bolster South African trade in 2023.

For the first time since the second quarter of 2018, South Africa's imports exceeded it exports in the fourth quarter of 2022. Since the pandemic, South Africa's total trade value increased rapidly. Exports increased at a faster rate which led to a consistent trade surplus reaching a maximum of 8.8% of GDP in the second quarter of 2021. Since then the surplus has gradually narrowed so that, by the end of 2022, the trade deficit as a percentage of GDP was 0,4%.



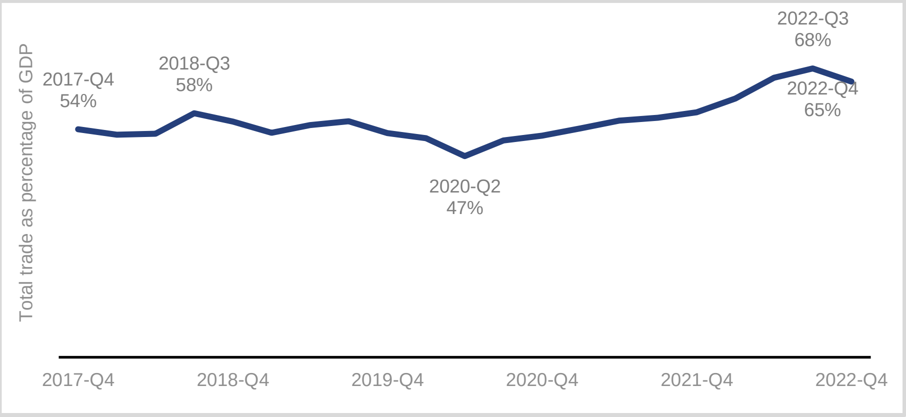
Source: Statistics South Africa, Gross Domestic Product, P0441



Source: UN Comtrade Database

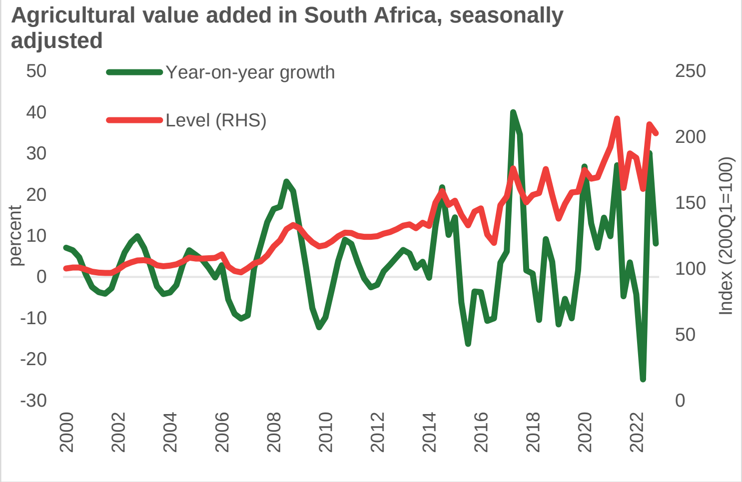
South Africa's trade activity is closely associated with world trade. The chart to the left compares South Africa's monthly trade value movements with world trade value movements. Although South Africa's trade values are more volatile (associated with exchange rate volatility), there is a nearly 80% correlation between South African and world trade. The decreased trade in the fourth quarter of 2022 in South Africa (see chart above) is associated with a decrease in worldwide international trade.

South Africa's trade openness (total trade as % of GDP) has increased rapidly since the COVID-19 pandemic. The increase has potential implications for economic growth. South Africa's trade openness is closely associated with GDP growth: Trade openness drives GDP growth through export expansion and GDP growth drives trade openness through increased imports. (Stern, M., & Ramkolowan, Y. 2021).

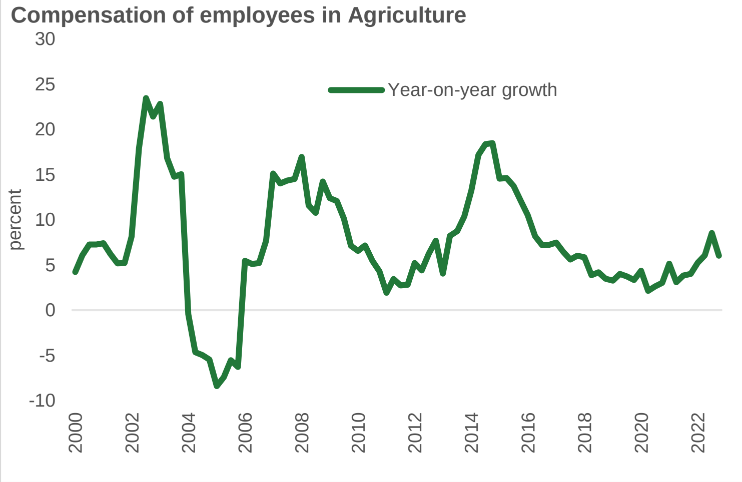


Source: Statistics South Africa, Gross Domestic Product, P0441

Agriculture, forestry & fishing



Source: Statistics South Africa, Gross Domestic Product, P0441

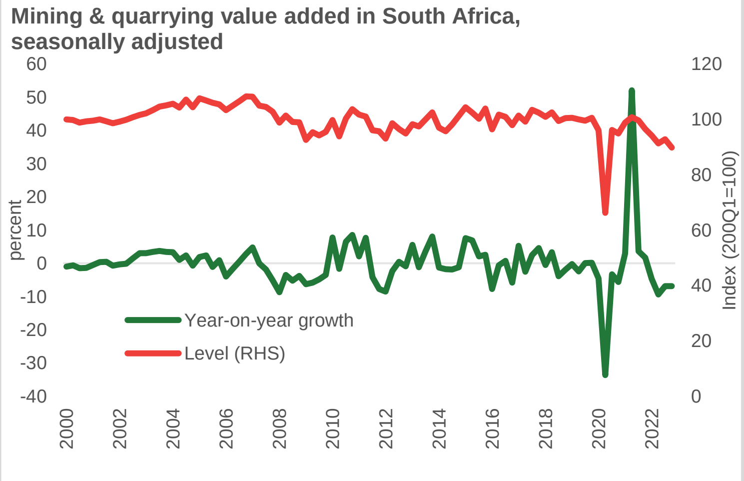


Source: Statistics South Africa, Gross Domestic Product, P0441

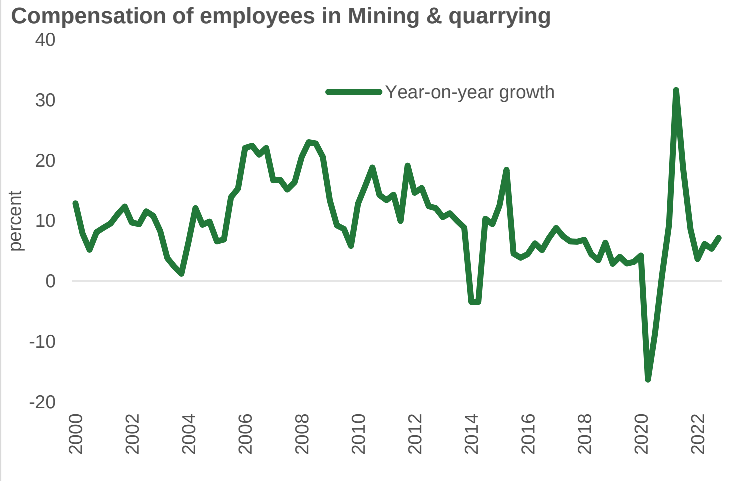
The agriculture industry bounced back rapidly in 2002Q3 and 2022Q4.

Compensation of employees captures the combined effects of changes in employment and nominal wages. In agriculture, growth in compensation of employees averaged 6.9% in 2022.

Mining & quarrying



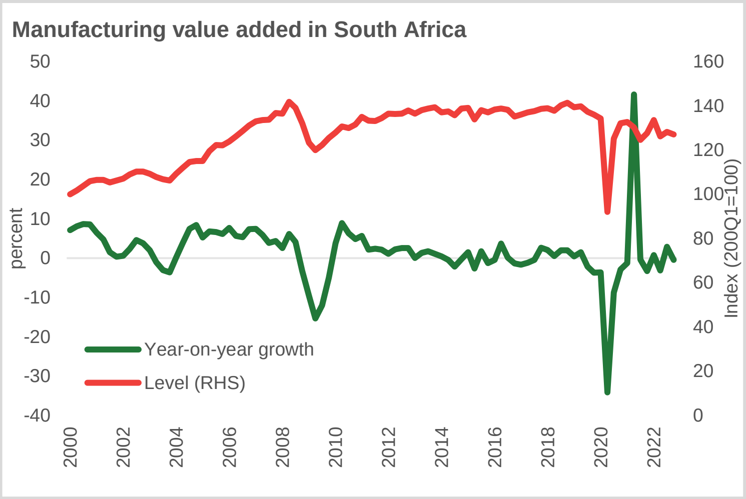
Source: Statistics South Africa, Gross Domestic Product, P0441



Source: Statistics South Africa, Gross Domestic Product, P0441

The mining & quarrying industry experienced negative year-on-year growth in value added in all quarters of 2022, while compensation of employees grew at 8.1% for the year.

Manufacturing



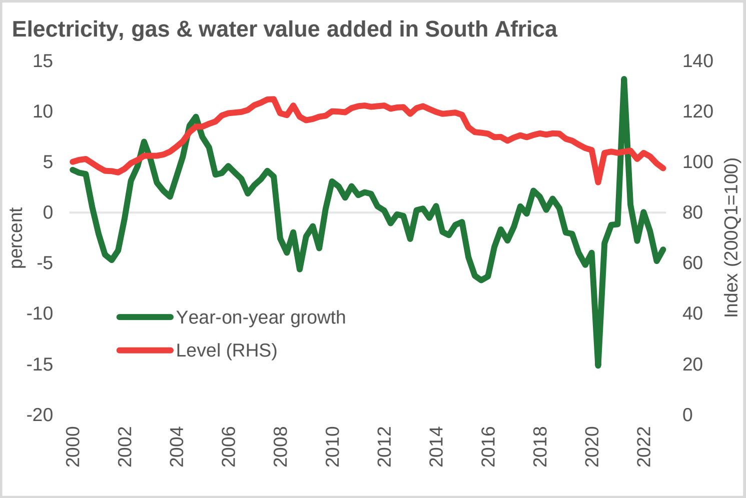
Source: Statistics South Africa, Gross Domestic Product, P0441

Source: Statistics South Africa, Gross Domestic Product, P0441

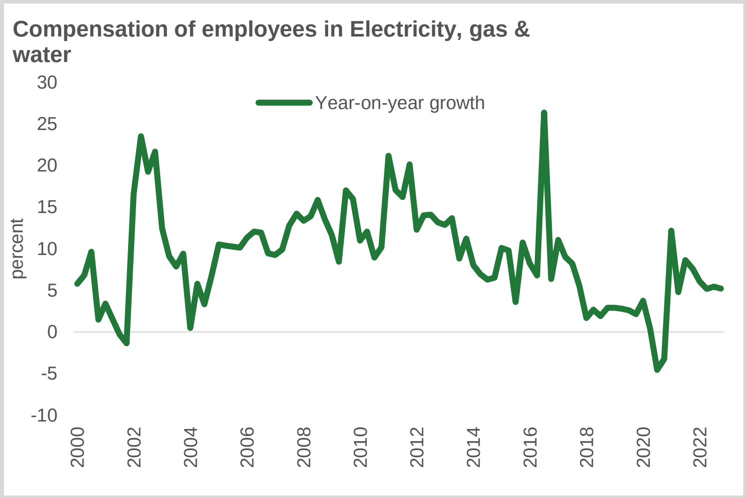
The manufacturing industry has been badly affected by loadshedding and has not recovered from the pandemic. Manufacturing output fell by 0.5% year-on-year in 2022Q4.

Growth in compensation of employees averaged 6.2% in 2022

Electricity, gas & water



Source: Statistics South Africa, Gross Domestic Product, P0441



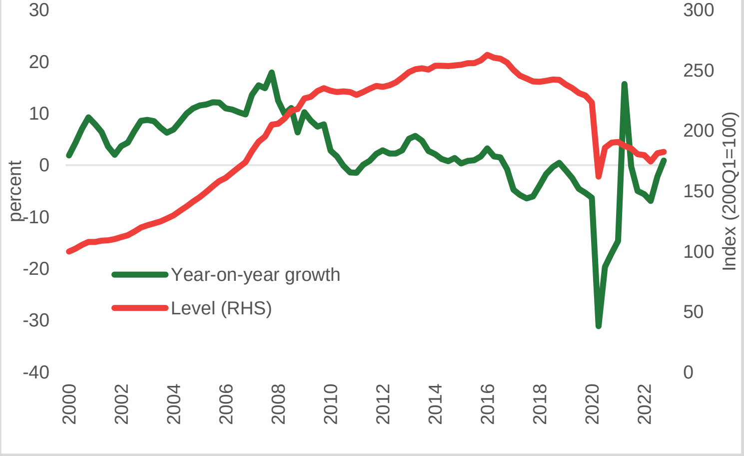
Source: Statistics South Africa, Gross Domestic Product, P0441

Output in the electricity, gas and water industry decreased by 3.7% year-on-year in the fourth quarter (and 2.6% for 2022) from lower electricity and water consumption.

Compensation of employees averaged 5.5% in 2022.

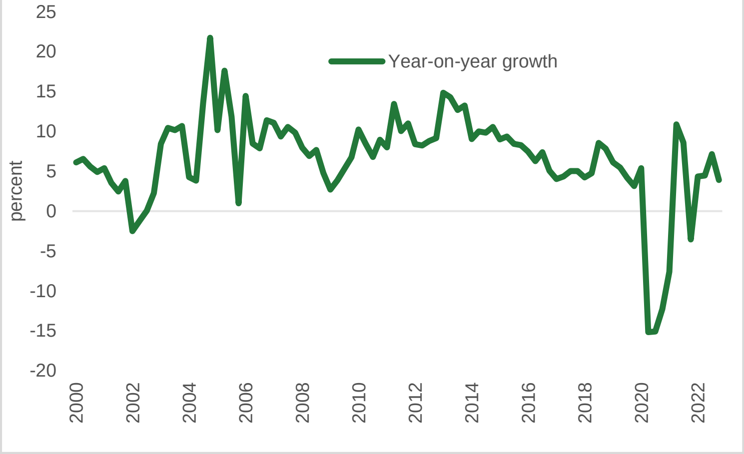
Construction

Construction value added in South Africa



Source: Statistics South Africa, Gross Domestic Product, P0441

Compensation of employees in Construction



Source: Statistics South Africa, Gross Domestic Product, P0441

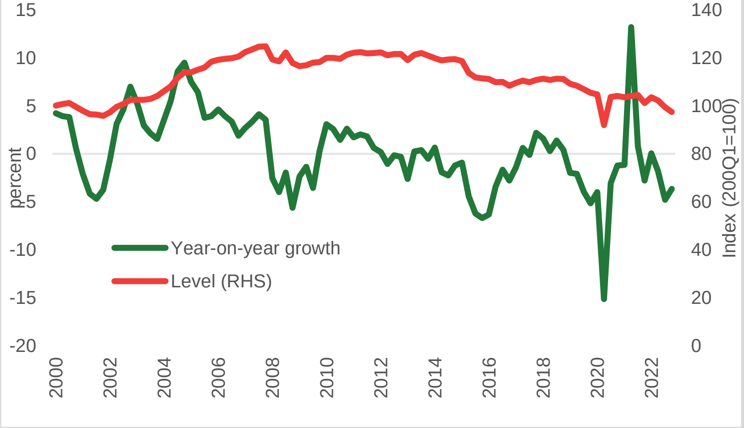
The construction industry has also not recovered from the pandemic. Value added in the industry is still down more than 20% compared with pre-COVID-19 levels.

Construction recorded the lowest growth in compensation of employees for any industry in 2022 at only 1.7%.

Afrimat has noted that there has been a 2.2% quarter-on-quarter decline in construction activity for the fourth quarter of 2022. Load shedding, rising interest rates and low levels of public sector infrastructure spending, especially at the municipal level, are among the primary driving factors of this result.

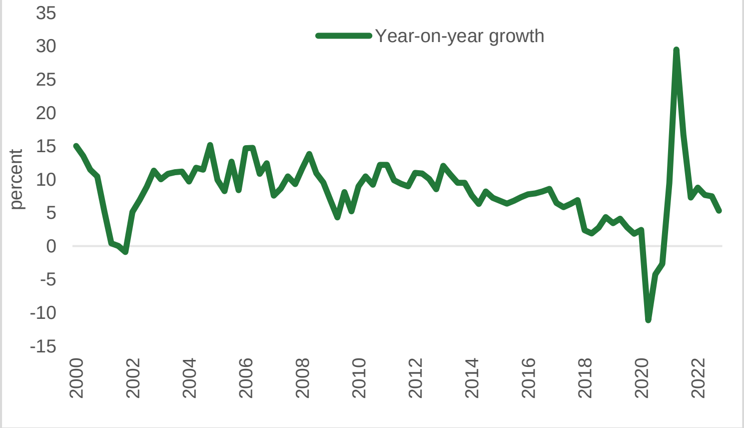
Wholesale & retail trade, catering & accommodation

Wholesale & retail trade, catering & accommodation value added in South Africa



Source: Statistics South Africa, Gross Domestic Product, P0441

Compensation of employees in wholesale & retail trade, catering & accommodation

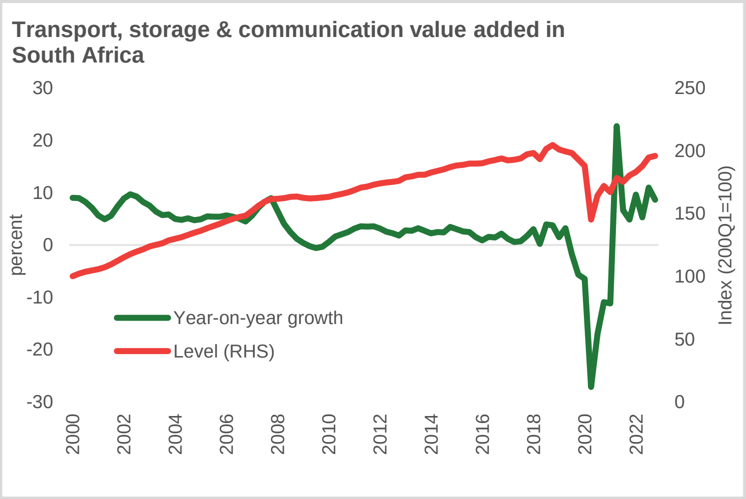


Source: Statistics South Africa, Gross Domestic Product, P0441

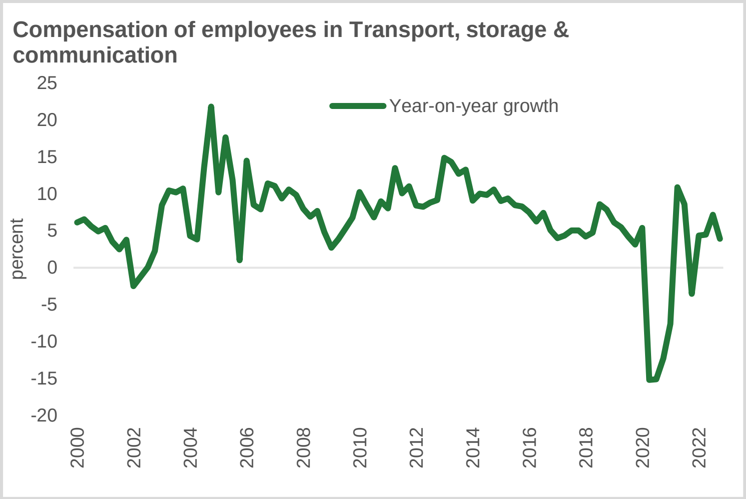
Output in the wholesale and retail trade, catering and accommodation industry rose by around 3.6% in 2022, but is still below pre-COVID 19 output levels.

Compensation of employees rose by 7.3% in 2022.

Transport, storage & communication



Source: Statistics South Africa, Gross Domestic Product, P0441

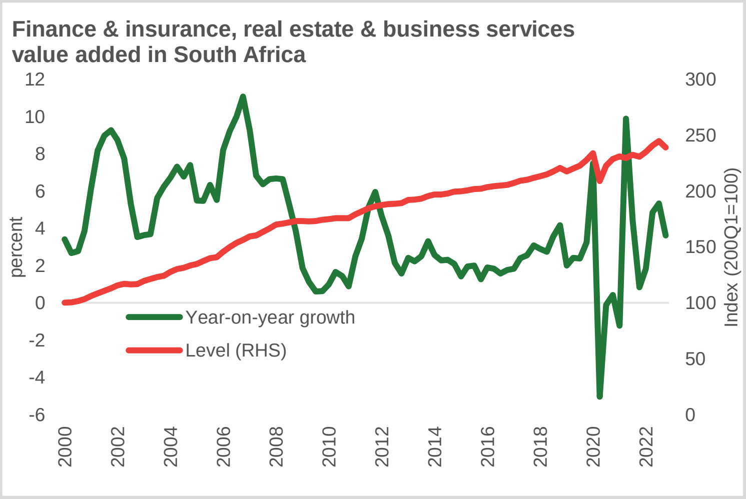


Source: Statistics South Africa, Gross Domestic Product, P0441

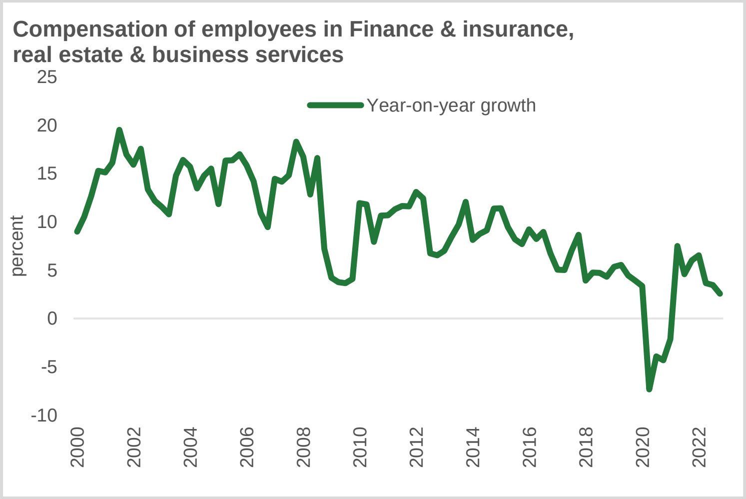
The transport, storage and communication industry has showed a strong recovery since the pandemic and robust growth in 2022 with output up over 8.6%.

Growth in compensation of employees averaged 5.0% in 2022

Finance & insurance, real estate & business services



Source: Statistics South Africa, Gross Domestic Product, P0441



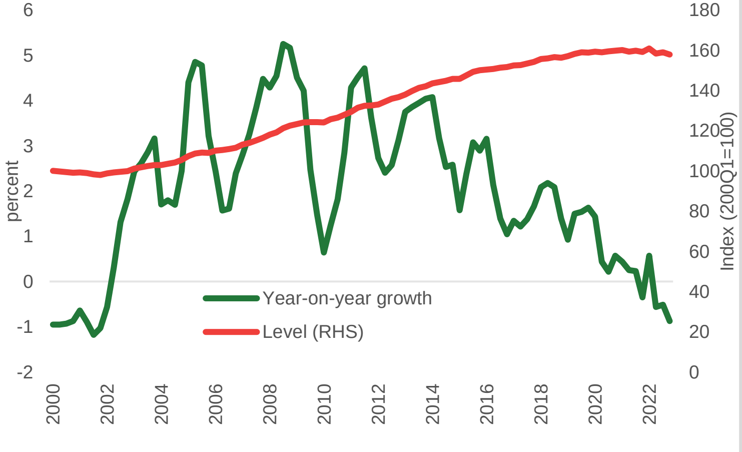
Source: Statistics South Africa, Gross Domestic Product, P0441

Output growth in the Finance & insurance, real estate & business services industry also recovered rapidly after the pandemic, up 3.9% in 2022.

Average growth in compensation of employees was 4% in 2022

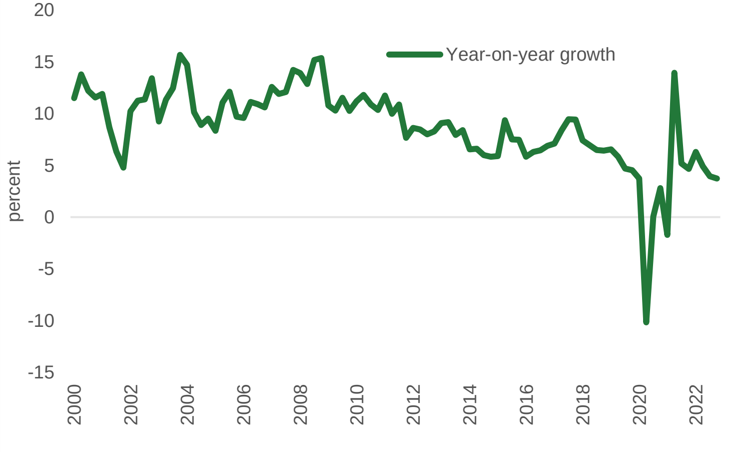
Personal services

Personal services value added in South Africa



Source: <u>Statistics South Africa, Gross Domestic Product, P0441</u>

Compensation of employees in Personal services



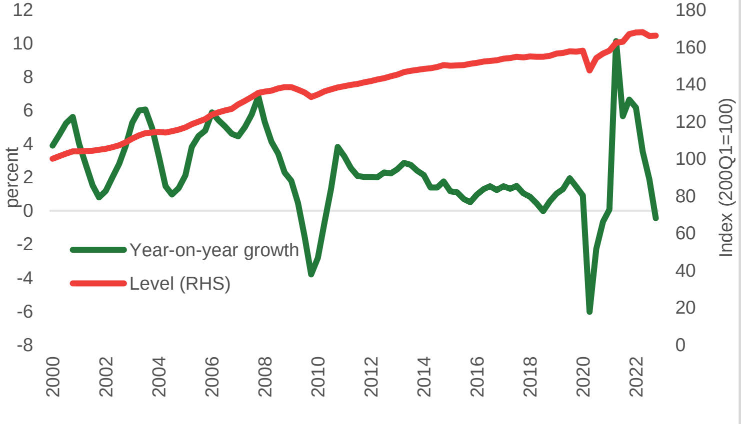
Source: <u>Statistics South Africa, Gross Domestic Product, P0441</u>

Value added in the personal services industry fell by an average of -0.3% across the quarters of 2022.

Growth in compensation of employees averaged 4.7% in 2022, down from 5.5% in the previous year.

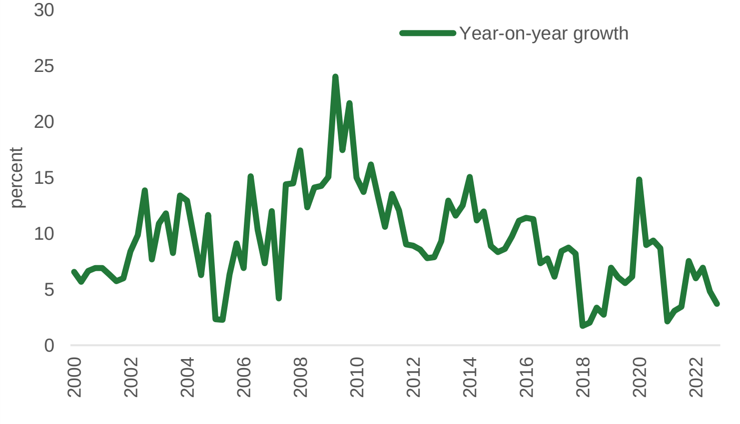
General Government Services

General Government Services value added in South Africa



Source: <u>Statistics South Africa, Gross Domestic Product, P0441</u>

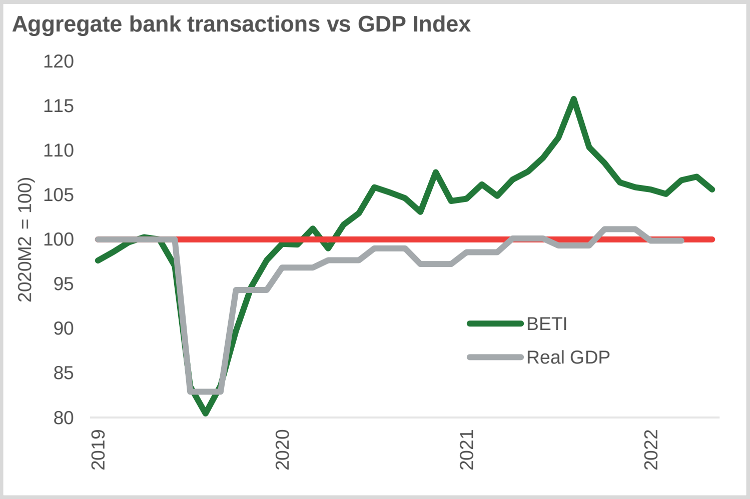
Compensation of employees in General Government Services



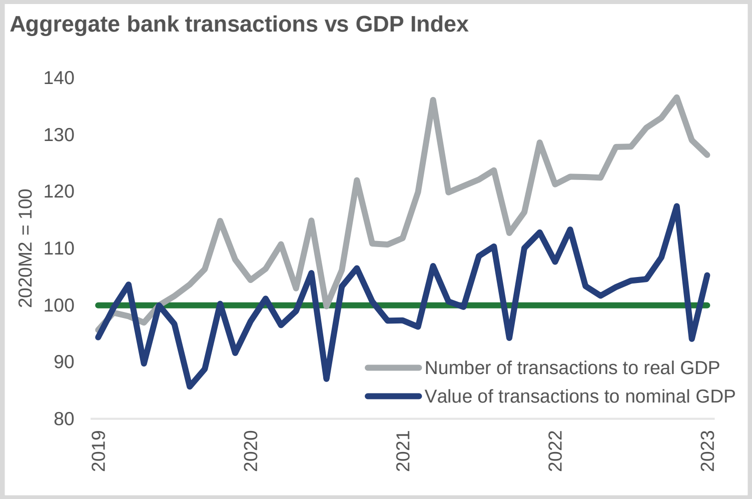
Source: <u>Statistics South Africa, Gross Domestic Product, P0441</u>

Value added grew by 2.8% in 2022 in General government services. Average growth in compensation of employees was 5.4% in 2022 compared to 4% in 2021.

Banking Transactions A summary of recent BankServ data



Source: BankservAfrica, EconData, Statistics South Africa
Note: GDP data has been seasonally adjusted. BETI backdated using historical BankServ reports.



Source: BankservAfrica, EconData, Statistics South Africa
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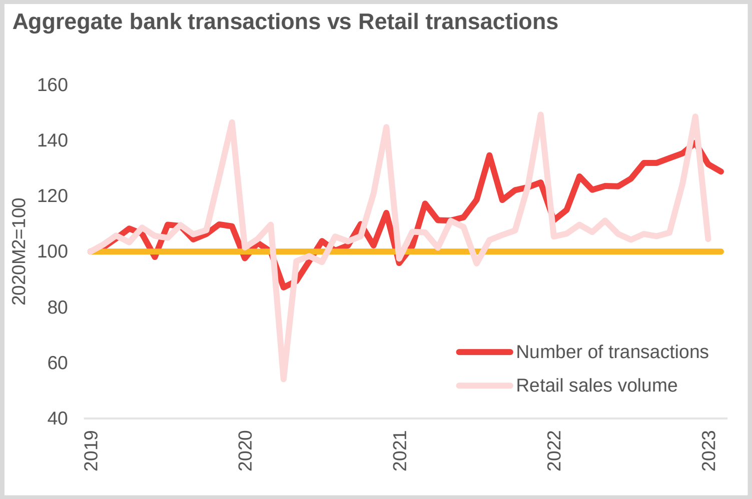

Source: BankservAfrica, EconData, Statistics South Africa P6242.1
Note: Neither series have been seasonally adjusted.

- BankServ Africa is the clearing house for transactions between payment institutions. They publish monthly statistics on payments in the South African economy.

- **Left chart:** The BankservAfrica Economic Transactions Index (BETI) captures the value of economic transactions in the South African economy at seasonally adjusted real constant prices. The BETI fell 1.9% in February compared to a year earlier. While the impact on BETI and GDP look very similar, the impact of load-shedding on the economy is more clearly visible in GDP, which has dipped back below its pre-COVID-19 level.

- **Middle chart:** Bank transactions however grew rapidly, up 12.2% in February 2023 compared with a year earlier. Bankserv notes that electronic payments, particularly the DebiCheck and Real-Time Clearing payment streams, have been key drivers of a greater number of monthly transactions. It is interesting that relative to overall economic activity, the number of banking transactions has increased strongly in South Africa since the COVID-19 pandemic, but the value of transactions has not increased as strongly. This might reflect the impact of stronger inflation or that the average size of transactions has declined.

- **Right chart:** It is also interesting that the increase in transaction volumes has been larger than what has been observed in retail volumes. Similar to what is observed in the middle chart, this may reflect the impact of consumer and firm payment behaviour or differences in how these indicators are constructed.

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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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