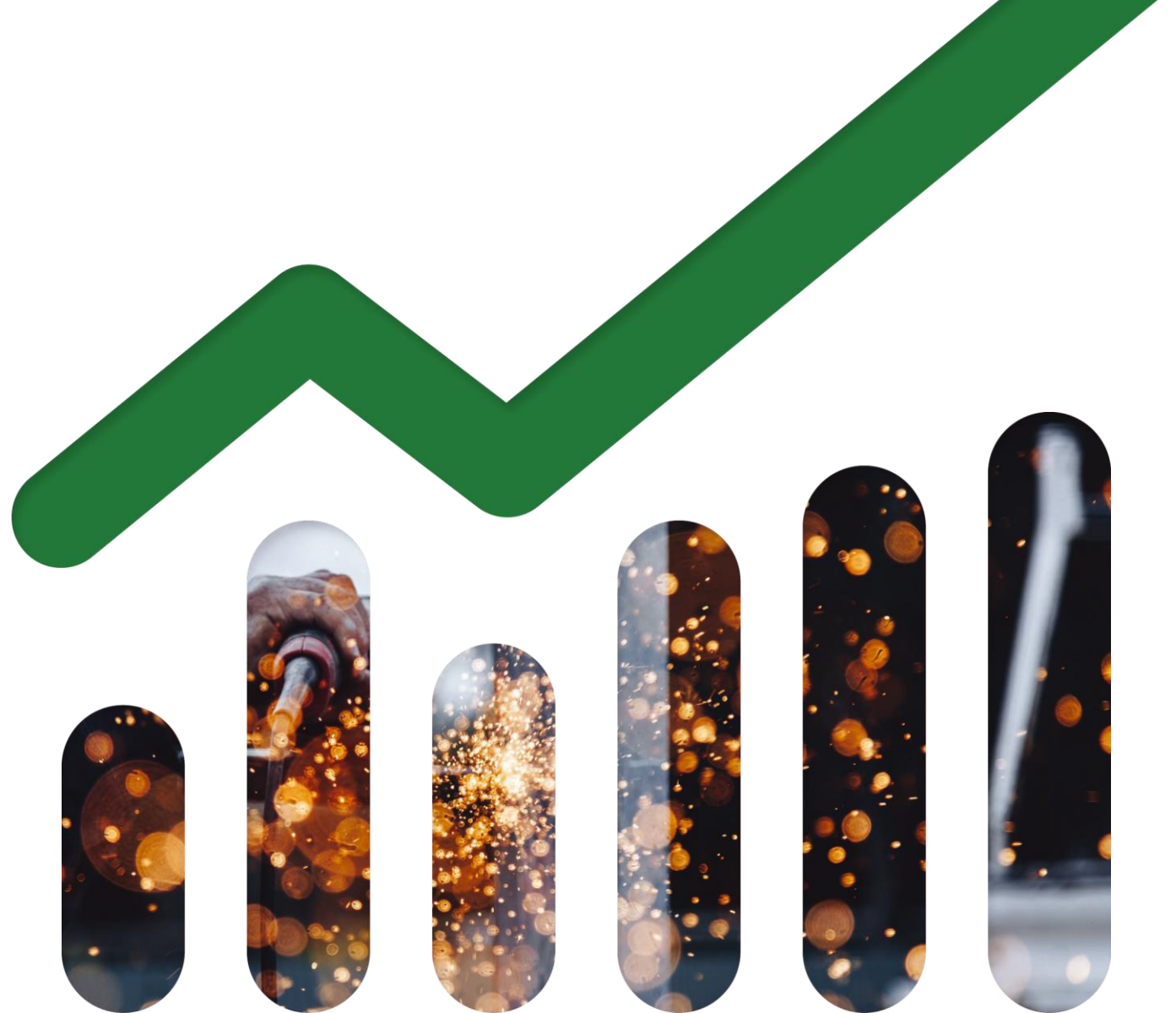




**National Economic
Development and
Labour Council**

Economic and Employment Trends in South Africa

August 2023 | Issue 5





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Summary

- **Low investment and GDP growth have seen capital accumulation slow dramatically since 2019.** The recent decade has also been marked by lower labour and multifactor productivity.
- **Over the last decade, informal sector employment has grown faster than the formal sector.** Over the same period, the prevalence of certain employment benefits has decreased, while the tendency towards partial employment has become more pervasive.
- **Large metros account for most formal job opportunities.** Approximately one in three people in metros have a formal job, while the ratio drops to below one in six in small towns and only around one in twenty in rural municipalities.
- **Inflation fell in June on the back of lower fuel and food prices by almost a full percentage point to 5.4% year-on-year.** Some categories of food have seen particularly high price increases.
- **Withdrawal of investment from South Africa and heightened investor caution.** This trend is reflected in the NWU Business School Policy Uncertainty Index (PUI), which spiked to a record level in 2023:Q2. Non-residents have sold almost R750 billion of South African equities and over R100 billion since 2015.
- **Spending on public order and safety has declined, resulting in, among others, a decrease in the number of police officers relative to population size.** During this period, the number of murders and attempted murders increased.
- **In 2022, 8.1% of South Africa's export value was directed to the United States.** 20.7% of those exports received the tariff-free benefits granted under the AGOA agreement, which indicates the South African economy's vulnerability to exclusion. Since 2019, 66% of South African exports to the USA were comprised of minerals and metals.
- **Estimates of industries' return on equity have declined over time, as have estimated net profit margins.** The financial intermediation and real estate industry has been the industry with the highest profit margin since 2010, while the community service industry has had the highest average return on equity.
- **Returns on equity have been highest for small firms in the forestry and fishing industry, reflecting some years of unusually high returns after the global financial crisis.** The net profit margins for the industry have averaged around 6%, slightly higher than the average across all industries.
- **In South Africa, commercial crops cover approximately 10% of the land, while subsistence crops and timber account for 1.5% and 1.7% of land cover, respectively, according to Statistics South Africa.** In the South African Strategic Water Source Areas, mines occupy a relatively small portion of the total land, but their usage has grown by about 50% in the past three decades.

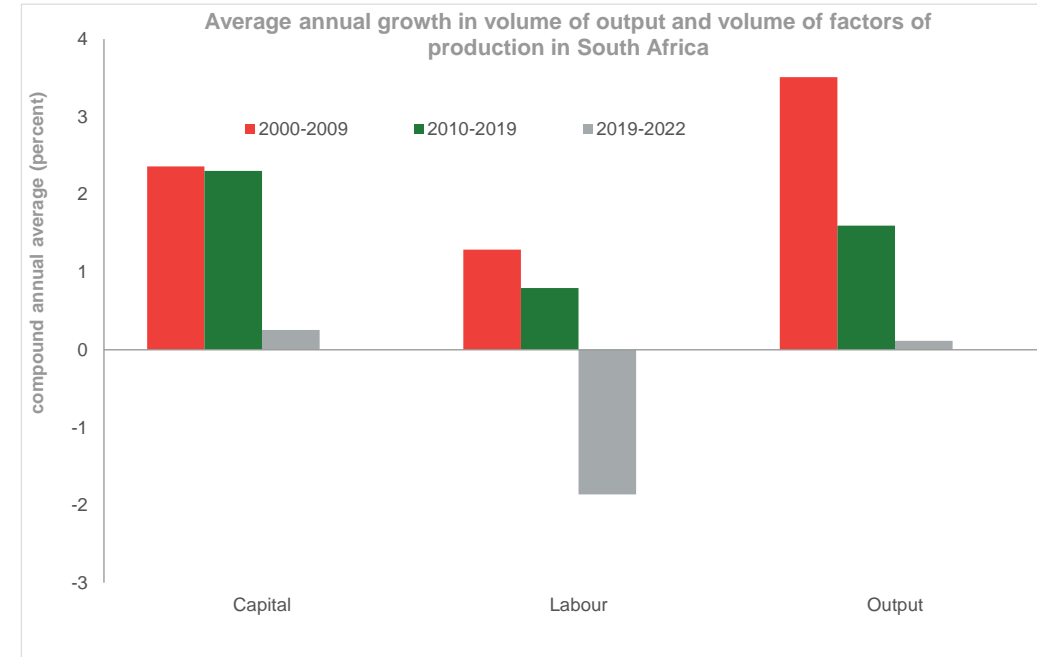
Gross Domestic Product

Low investment and GDP growth have seen capital accumulation slow dramatically since 2019.

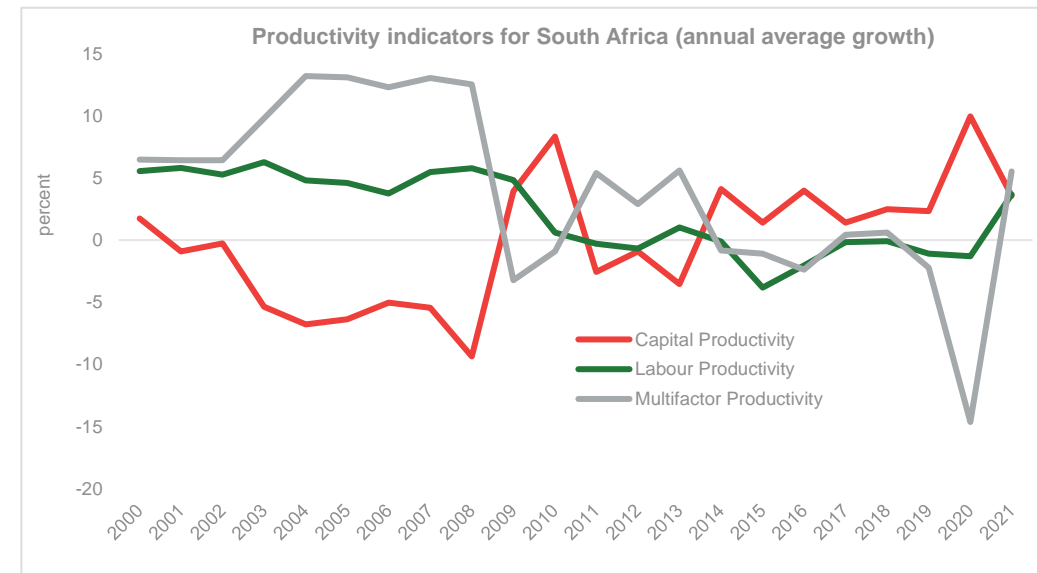
The recent decade has also been marked by lower labour and multifactor productivity.

Accumulation of capital and employment growth has slowed since 2019, as has growth in the volume of output produced by the economy.

According to estimates from Productivity South Africa, South Africa's labour- and multi-factor productivity growth have slowed down since the global financial crisis. Capital productivity, on the other hand, is estimated to have picked up. The decline in multi-factor productivity suggests that output fell by even more than can be explained by developments in employment and investment.



Source: SARB Quarterly Bulletin

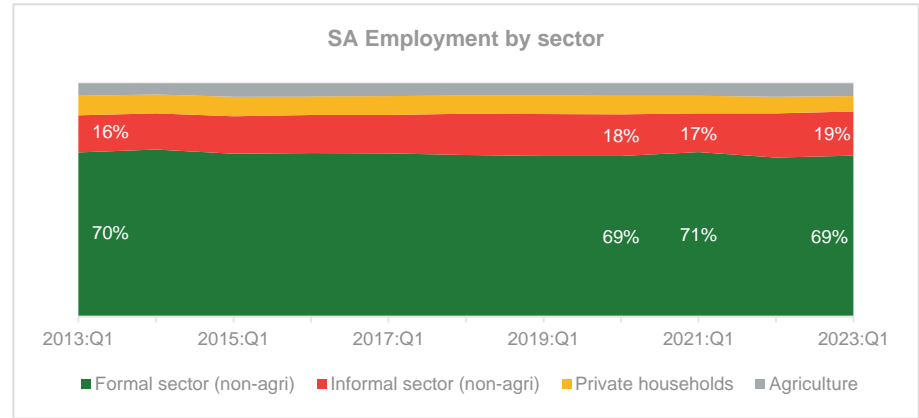


Source: Productivity South Africa

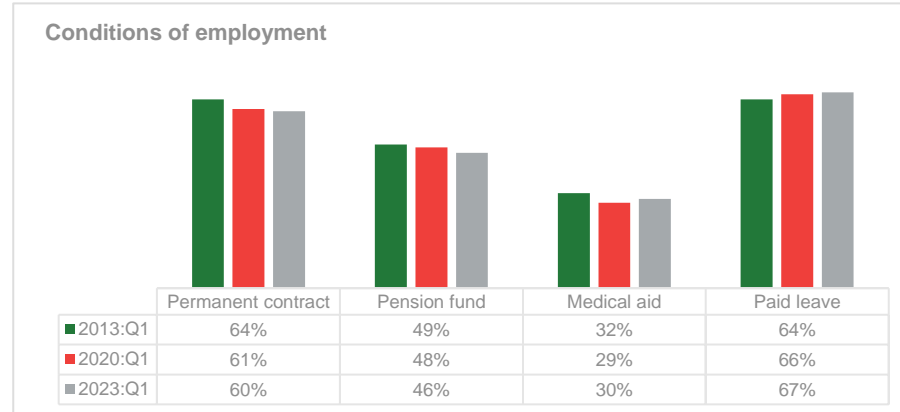
Employment

Over the last decade, informal sector employment has grown faster than the formal sector. Over the same period, the prevalence of certain employment benefits has decreased, while the tendency towards partial employment has become more pervasive.

The informal sector was impacted comparatively more by Covid-19 than the formal sector, but the informal market's recovery post-pandemic has been stronger. During the pandemic, the formal sector's labour market share increased from 69% to 71% and returned to 69% in 2023:Q1. During the same period, the informal sector went down from 18% to 17% and is now the highest it has been in 10 years at 19%.



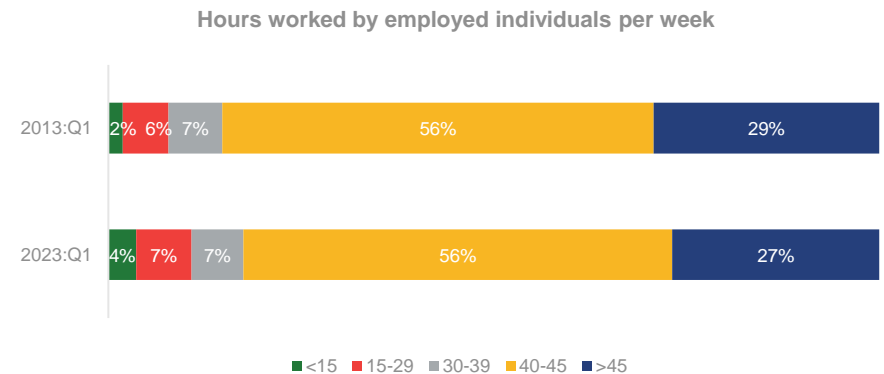
Source: Statistics South Africa, Quarterly Labour Force Survey, P0211



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

The labour market has proportionally shifted from overtime to more partial employment. Over the past decade, a greater proportion of individuals worked less than 30 hours a week, while a much smaller proportion worked more than 45 hours a week.

Some indicators of employment conditions have deteriorated over time, while others have improved. Permanent employment has shown a steady decline over the past decade, with only 60% of individuals employed on permanent contracts in 2023:Q1. Pension fund and medical aid membership have also declined over the period, although medical aid membership has seen an uptick since the pandemic. Encouragingly paid leave seems to be on a long-term upward trend.



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

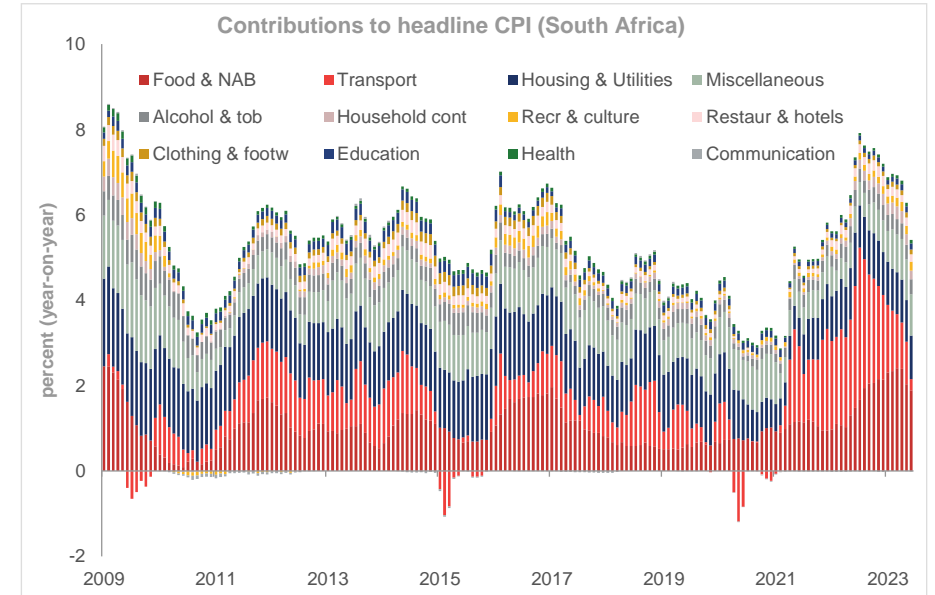
Households

Inflation fell in June on the back of lower fuel and food prices.

Some categories of food have seen particularly high price increases.

South African headline inflation dropped to 5.4% year-on-year in June from 6.3% in May, driven by a drop in the contribution from transport inflation (from lower fuel prices).

Several food category items have seen large increases in prices over the last year. The most shocking increase has been in onion prices, that increased by 63% over a single 12-month period.



Source: Statistics South Africa P0044

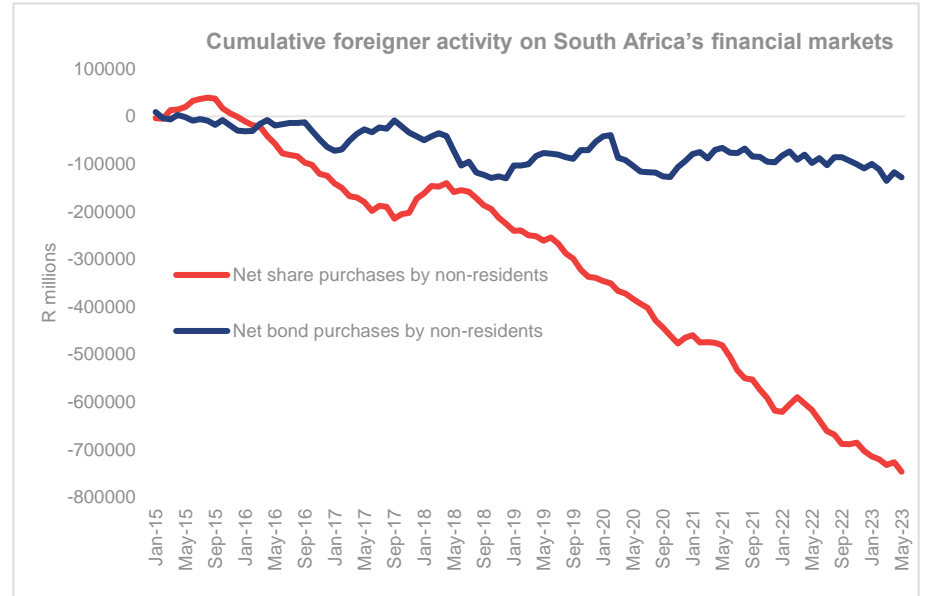


Source: Statistics South Africa

Investment

Withdrawal of investment from South Africa and heightened investor caution.

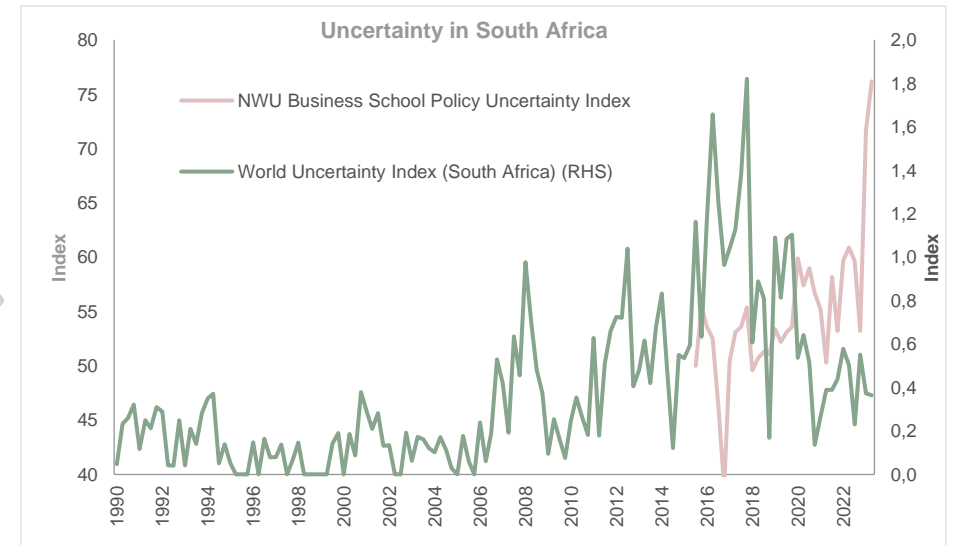
Non-residents have sold almost R750 billion of South African equities and over R100 billion since 2015, according to data from the South African Reserve Bank (SARB).



Source: SARB Quarterly Bulletin

The NWU Business School Policy Uncertainty Index (PUI) spiked to a record level in 2023:Q2. The PUI is a composite of a news-based uncertainty measure, a survey of economists and their views on policy uncertainty, and inputs from manufacturers surveyed by the BER. An increase beyond 50 reflects heightened policy uncertainty.

The World Uncertainty Index measures the number of times 'uncertainty' appears in country reports on the economy, policies, and politics. Surprisingly, the latest value of the World Uncertainty Index for South Africa is down from its 2017 highs.

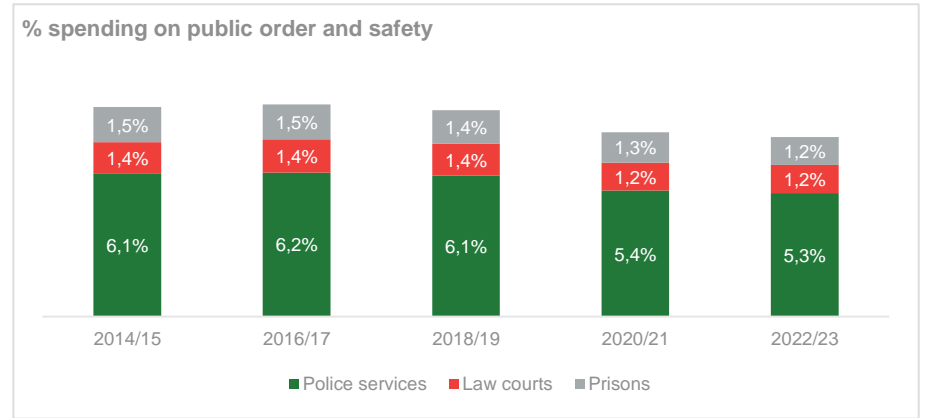


Source: FRED, Parsons, R., & Krugell, W. 2022 Sep 9. Policy uncertainty, the economy and business. South African Journal of Economic and Management Sciences.

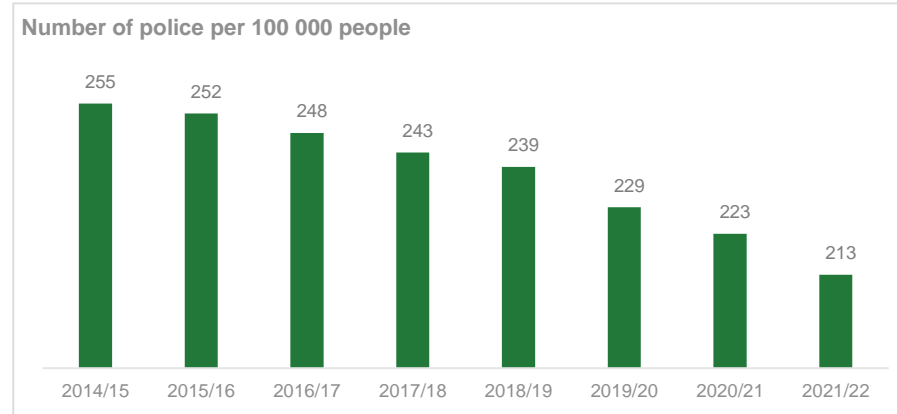
Government

Spending on public order and safety has declined, resulting in, among others, a decrease in the number of police officers relative to population size. During the same period, the number of murders and attempted murders increased.

Real expenditure on public order and safety and its share of total government spending has decreased over time. Between 2014/15 and 2022/23, real expenditure on the function decreased by 2.7%. Police services declined from 6.1% to 5.3% of the government's budget, law courts from 1.4% to 1.2%, and prisons from 1.5% to 1.2%.



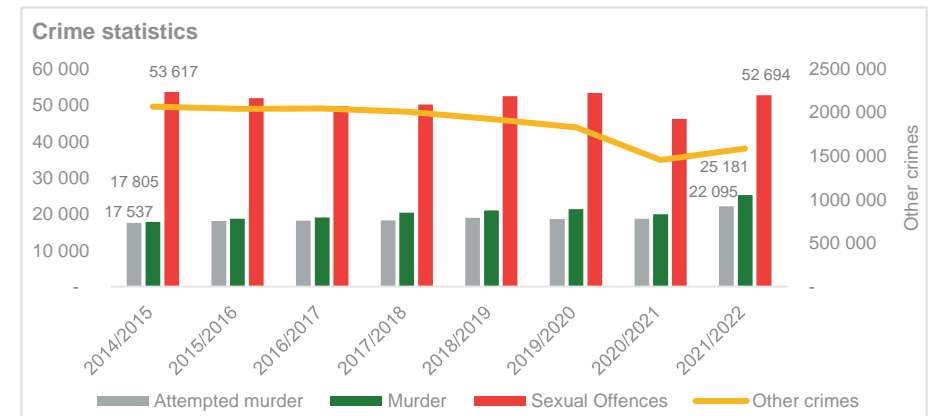
Source: National Treasury, National Budget



Source: South African Police Service, Annual Reports

Although there has been an overall decrease in criminal cases over the period, there has been an increase in murder and attempted murder cases. The number of murders and attempted murders rose by 7 376 and 4 558 respectively between 2014/15 and 2021/22, while sexual offenses and other crimes, including assault, robbery, and property-related crimes, have steadily declined, despite the declining budgetary constraints in the sector.

One of the consequences of the decrease in the budgetary priority of the police service is the decrease in the size of the police force. Due to budget constraints, there has been a decrease in the number of police officers over the years relative to the population. For every 100 000 people in South Africa, there were 32 fewer police officers in 2021/22 than in 2014/15.

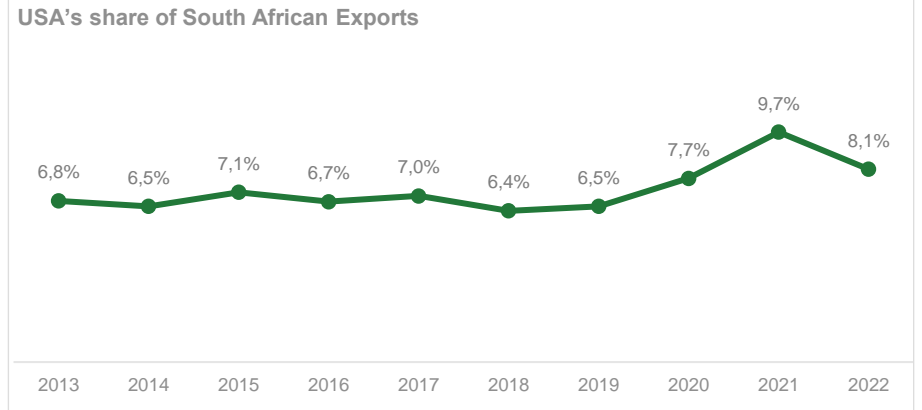


Source: South African Police Service, Crime Statistics

International Trade

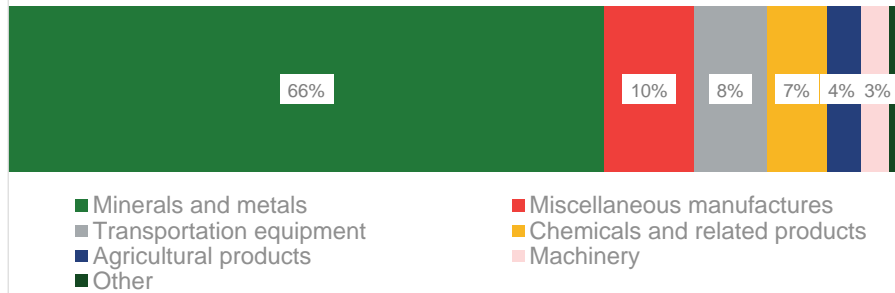
In 2022, 8.1% of South Africa's export value was to the United States. 20.7% of those exports received the tariff-free benefits of the AGOA agreement, which indicates the South African economy's vulnerability to exclusion.

The United States is a long-standing significant destination of South African export products. After hovering between 6% and 7% during the first seven years of the last decade, the USA's share of South African exports increased significantly during the Covid pandemic and remained comparatively high at 8.1% in 2022.



Source: [UN Comtrade Database](#)

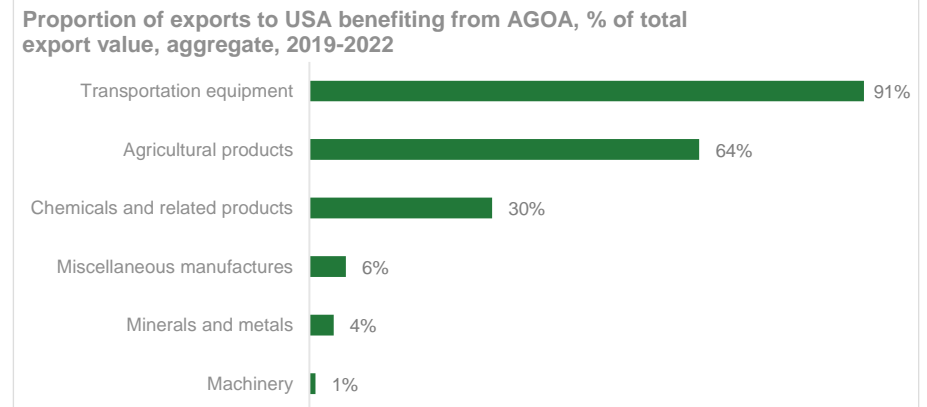
Composition of South Africa's exports to USA, by product, aggregate, 2019-2022



Source: [AGOA.info: South Africa](#)

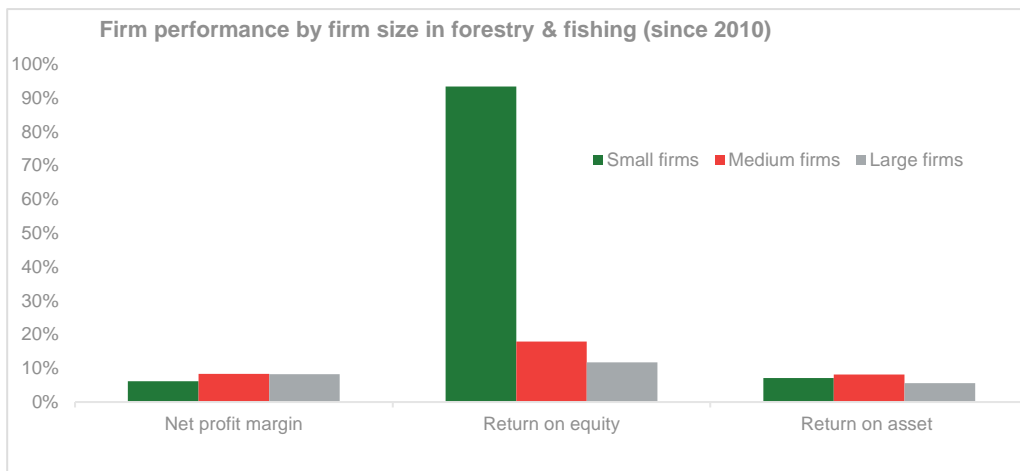
66% of South African exports to the USA since 2019 were comprised of minerals and metals. The remaining significant export products fall within the categories of manufacturing, transportation equipment, chemicals, agricultural products, and machinery.

Transportation equipment, agricultural products, and chemicals benefit significantly from the AGOA agreement. These products constitute 19% of South African exports to the USA. Losing the advantages afforded by AGOA will impact these industries significantly.



Source: [AGOA.info: South Africa](#)

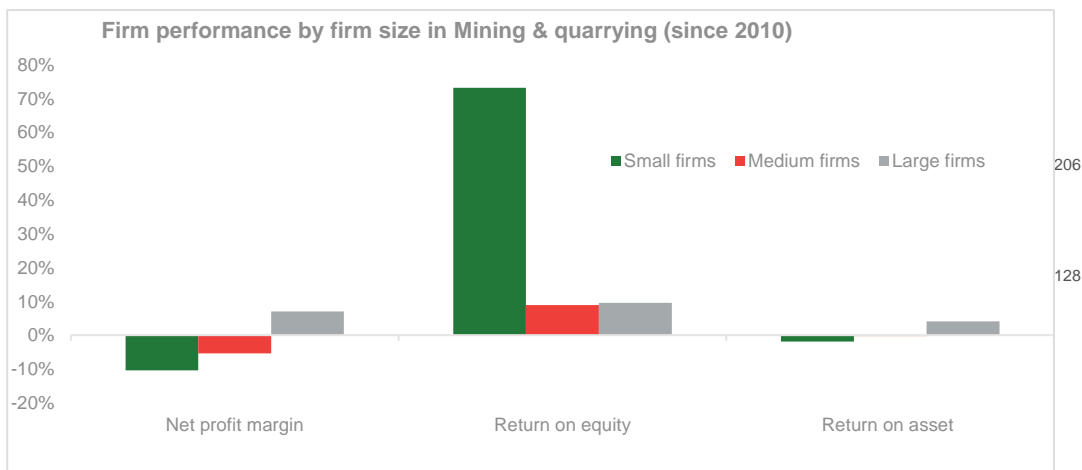
Agriculture, Forestry & Fishing



Source: [Statistics South Africa AFS P0021](#). Profit margin is net profit after company tax over turnover.

Profit margins have been strong in forestry and fishing since 2010, at 6.2% for small firms and 8.3% for medium and large firms. Returns on equity have been highest for small firms in the industry, reflecting some years of unusually high returns after the global financial crisis.

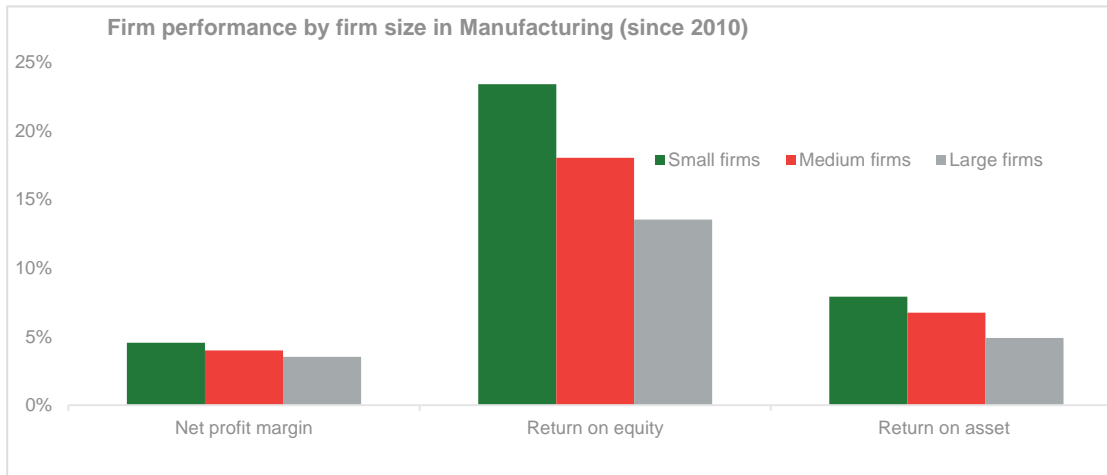
Mining & quarrying



Source: [Statistics South Africa AFS P0021](#). Profit margin is net profit after company tax over turnover.

The same is true for the mining & quarrying industry, with returns highest for small firms, again because of high returns relative to equity in 2010. Small firms in the industry have a turnover of less than R75 000 000.

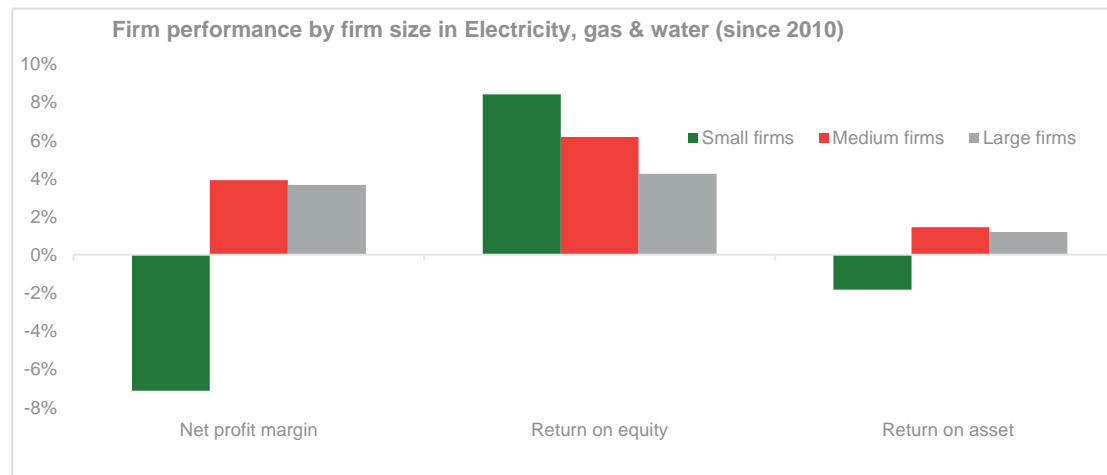
Manufacturing



Source: [Statistics South Africa AFS P0021](#). Profit margin is net profit after company tax over turnover.

Margins have not varied meaningfully across firm size in the manufacturing industry, while there have been larger differences in return on equity and assets.

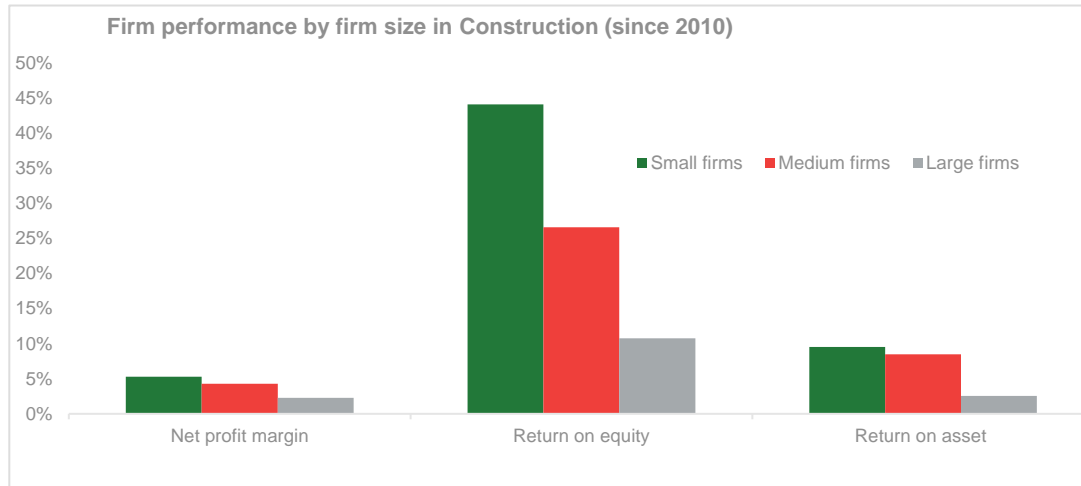
Electricity, gas & water



Source: [Statistics South Africa AFS P0021](#). Profit margin is net profit after company tax over turnover.

Since 2010, returns have been relatively low in the electricity, gas & water industry. For small firms, returns on assets and net profit margins have had a negative average level since 2010.

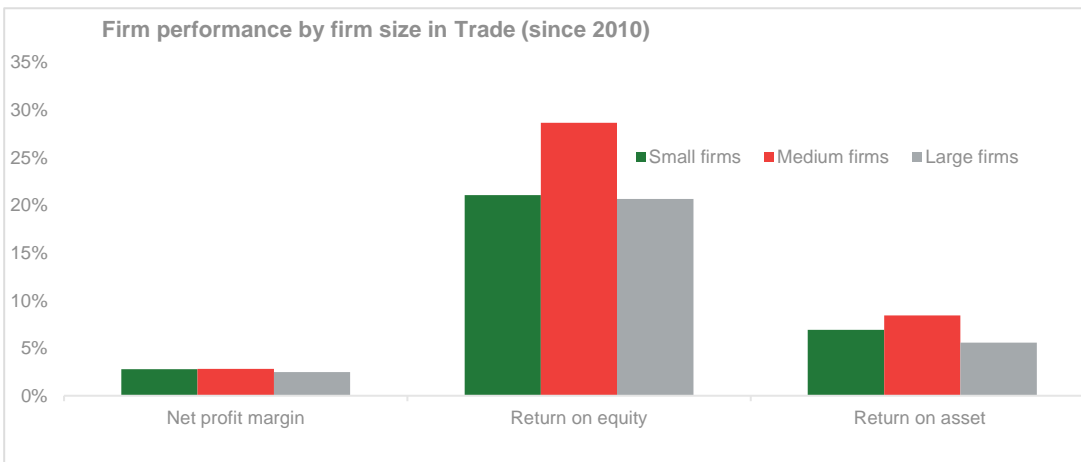
Construction



Source: [Statistics South Africa AFS P0021](#). Profit margin is net profit after company tax over turnover.

Construction returns have been relatively high historically but have declined post-COVID pandemic, while margins have been quite low, especially for large firms.

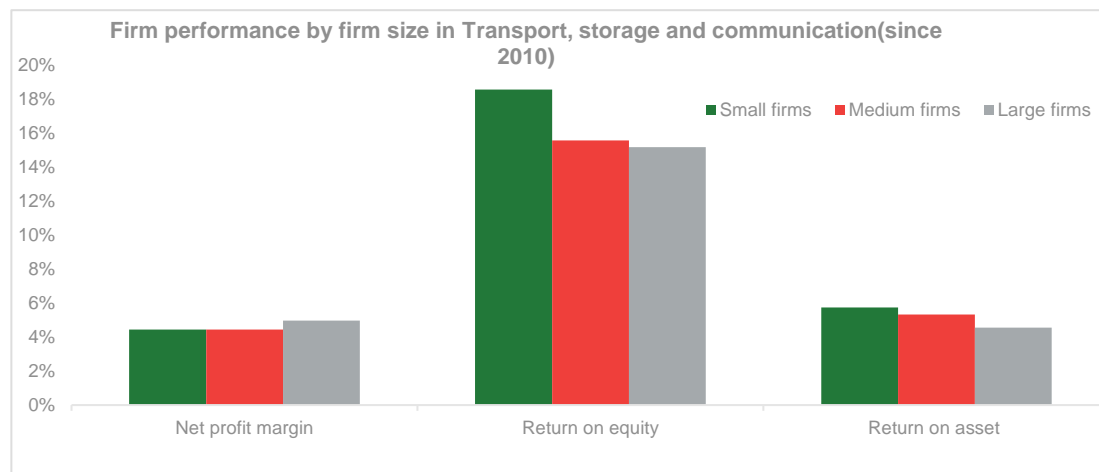
Wholesale & retail trade, catering & accommodation



Source: [Statistics South Africa AFS P0021](#). Profit margin is net profit after company tax over turnover.

Medium-sized firms have had the highest returns in the trade industry, and margins have been low and under pressure.

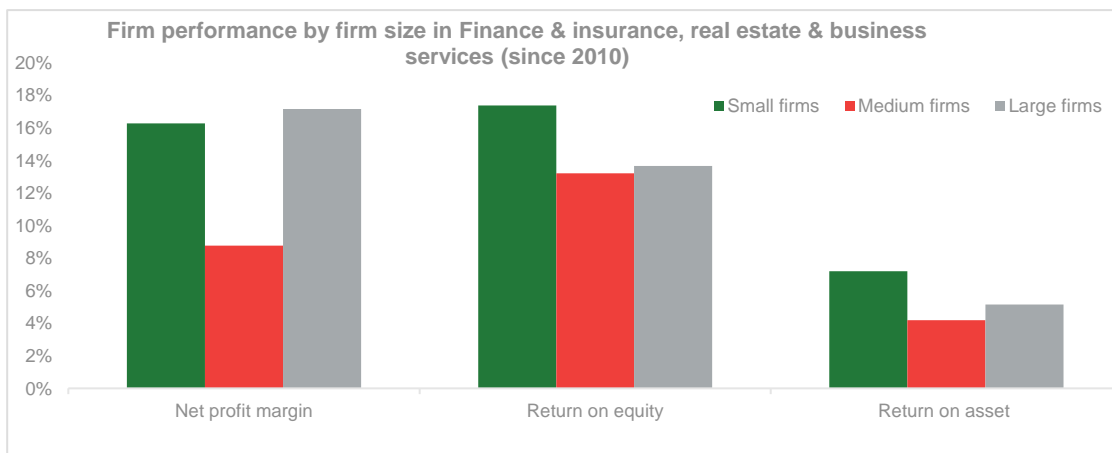
Transport, storage & communication



Source: [Statistics South Africa AFS P0021](#). Profit margin is net profit after company tax over turnover.

Returns in the transport, storage, and communication industry have been strong since 2010, but have not varied meaningfully across firm size.

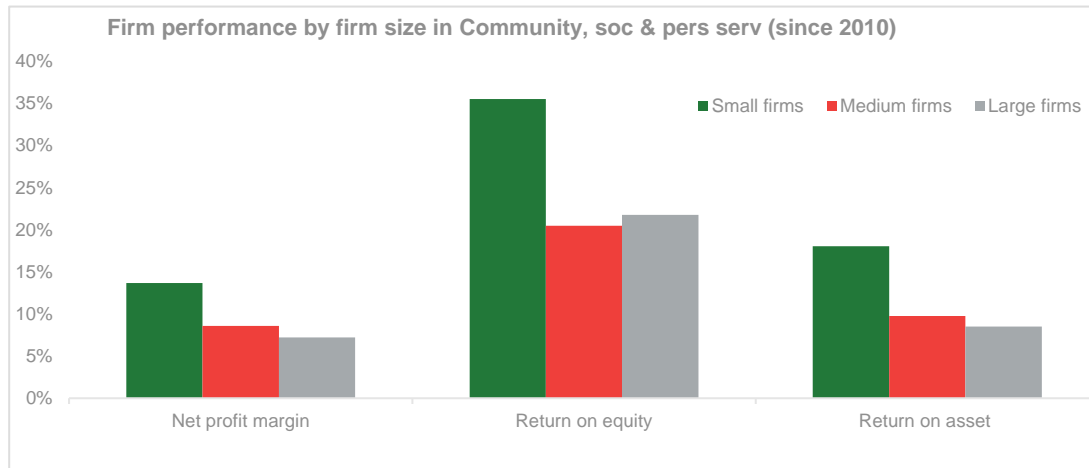
Finance & insurance, real estate & business services



Source: [Statistics South Africa AFS P0021](#). Profit margin is net profit after company tax over turnover.

The financial intermediation and real estate industry has had the highest margins (at over 17% for large firms, and 16% for small firms). Returns have also been relatively high.

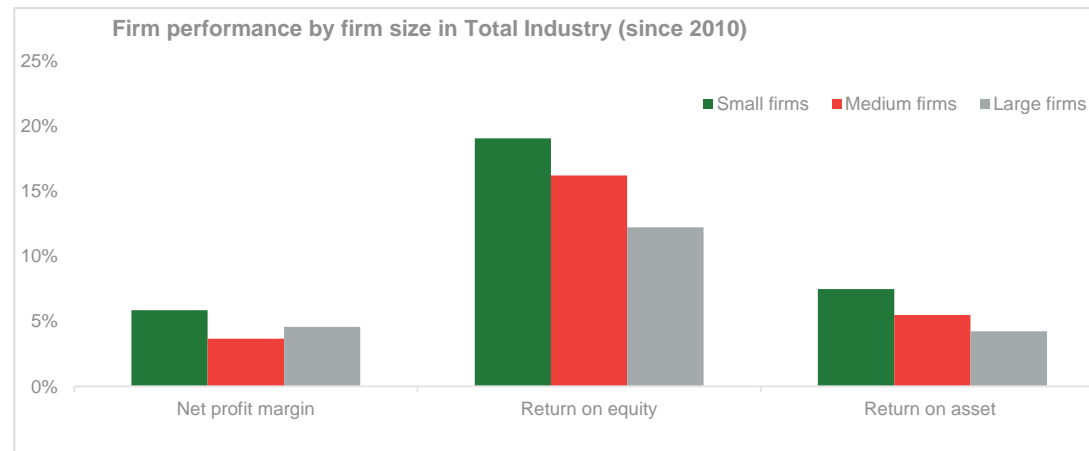
Community, social and personal services



Source: [Statistics South Africa AFS P0021](#). Profit margin is net profit after company tax over turnover.

Community, social and personal services (which include health care and entertainment) showed the highest return on equity and assets across all firm sizes and had relatively high margins for small firms.

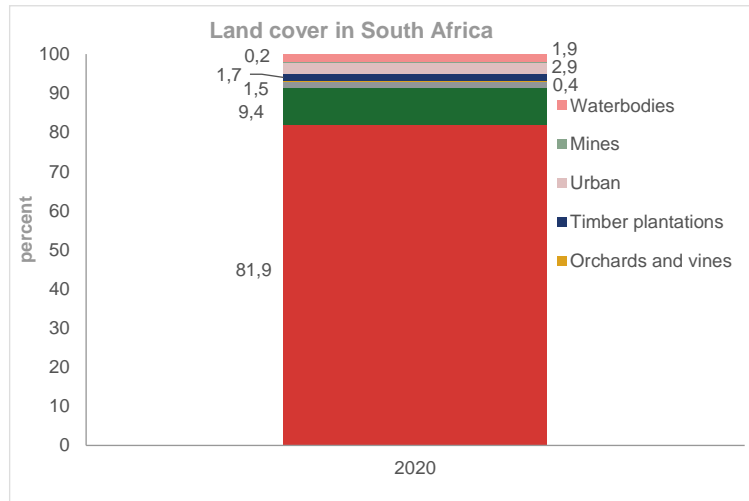
Total industry



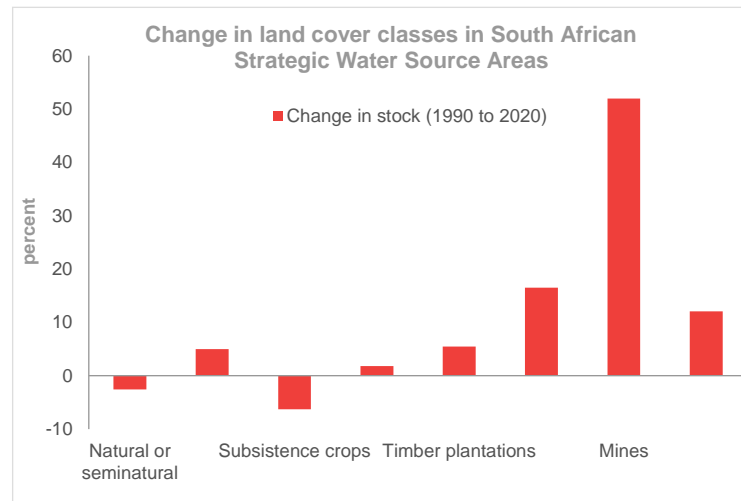
Source: [Statistics South Africa AFS P0021](#). Profit margin is net profit after company tax over turnover.

Large companies achieved the highest net profit margins since 2010 at an average of almost 6%. Returns have been highest for small firms, reflecting some years of unusually high returns after the global financial crisis (particularly in forestry and fishing). Small firms have had an average return on equity of over 35% (i.e. firms generated over R35 net profits for every R100 invested by shareholders) and a return on assets of almost 7%. For large firms, the return on equity averaged over 13%, and the return on assets was almost 5%.

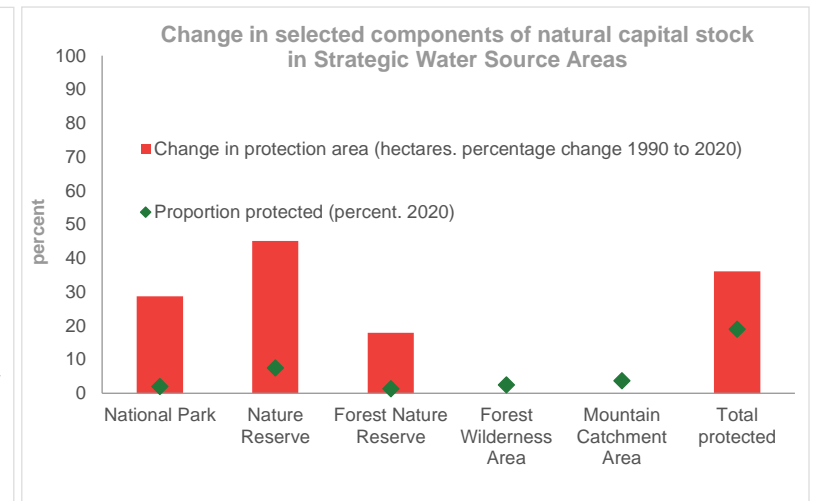
Land use in South Africa Key insights from surveys of land use changes



Source: Stats SA Land and terrestrial ecosystem accounts.



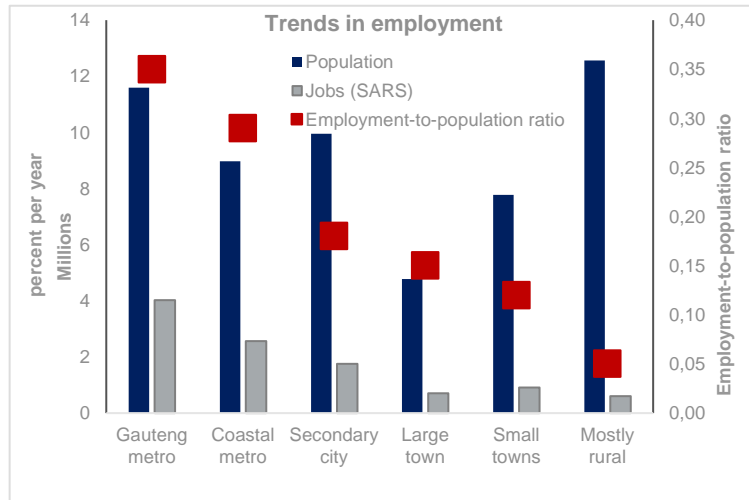
Source: Stats SA Accounts for Strategic Water Source Areas



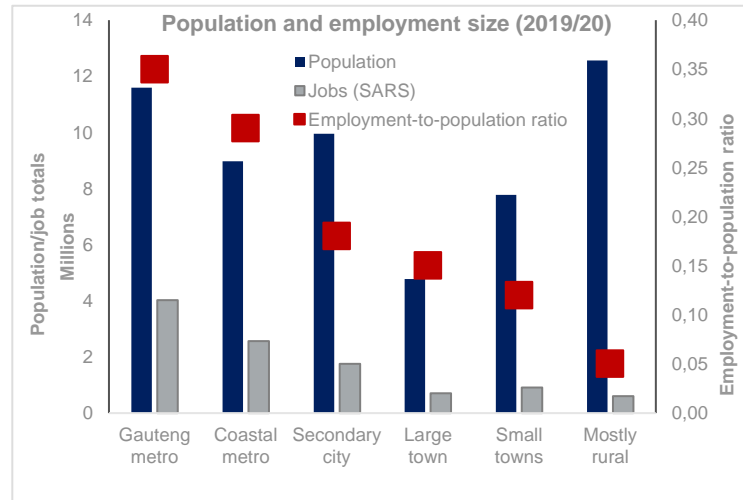
Source: Stats SA Accounts for Strategic Water Source Areas

- Commercial crops make up around 10% of land cover in South Africa, with subsistence crops representing a further 1.5% and timber another 1.7%, according to Statistics South Africa.
- Mines make up a small proportion of the total land stock in the South African Strategic Water Source Areas, but the area used has increased by around 50% in the last 30 years.
- There has been a 5% increase in the share of these areas that are protected since 1990 (an over 35% increase in the area protected).

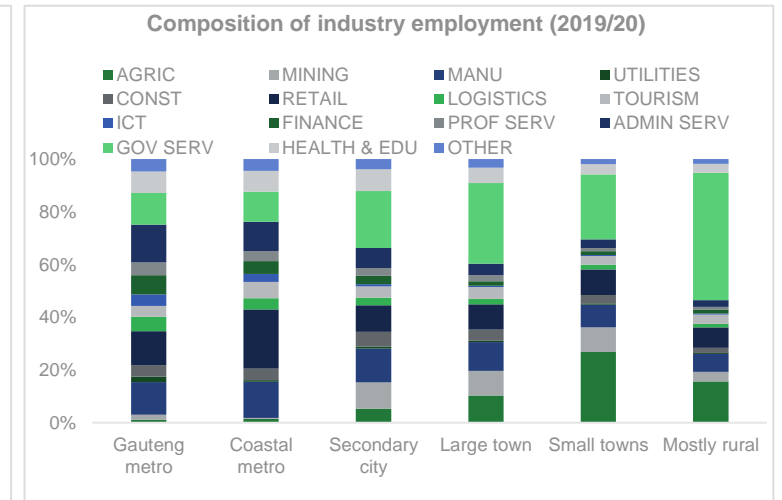
Regional employment insights from spatial tax data



Source: *Cities Economic Outlook 2023*, Source Nell, A. and Visagie, J. 2023. Spatial Tax Panel 2014–2022: version 3. *Cities Economic Outlook 2023*, SEAD-SA (2023).



Source: *Cities Economic Outlook 2023*, Source Nell, A. and Visagie, J. 2023. Spatial Tax Panel 2014–2022: version 3. *Cities Economic Outlook 2023*, SEAD-SA (2023).



Source: *Cities Economic Outlook 2023*, Source Nell, A. and Visagie, J. 2023. Spatial Tax Panel 2014–2022: version 3. *Cities Economic Outlook 2023*, SEAD-SA (2023).

- Large metros account for most formal jobs. About one in three people in metros have a formal job, while the ratio is below one in six in small towns and only around one in twenty in rural municipalities
- Job creation over recent years has differed markedly across regions, with the largest cities lagging in job creation compared to small towns since the 2013/14 tax year.
- The composition of employment also differs a lot across regions. Rural areas and small towns have higher proportions of jobs in agriculture, mining, and government. Metros have larger proportions of jobs in business and consumer services.

Economic and Employment Trends in South Africa

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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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