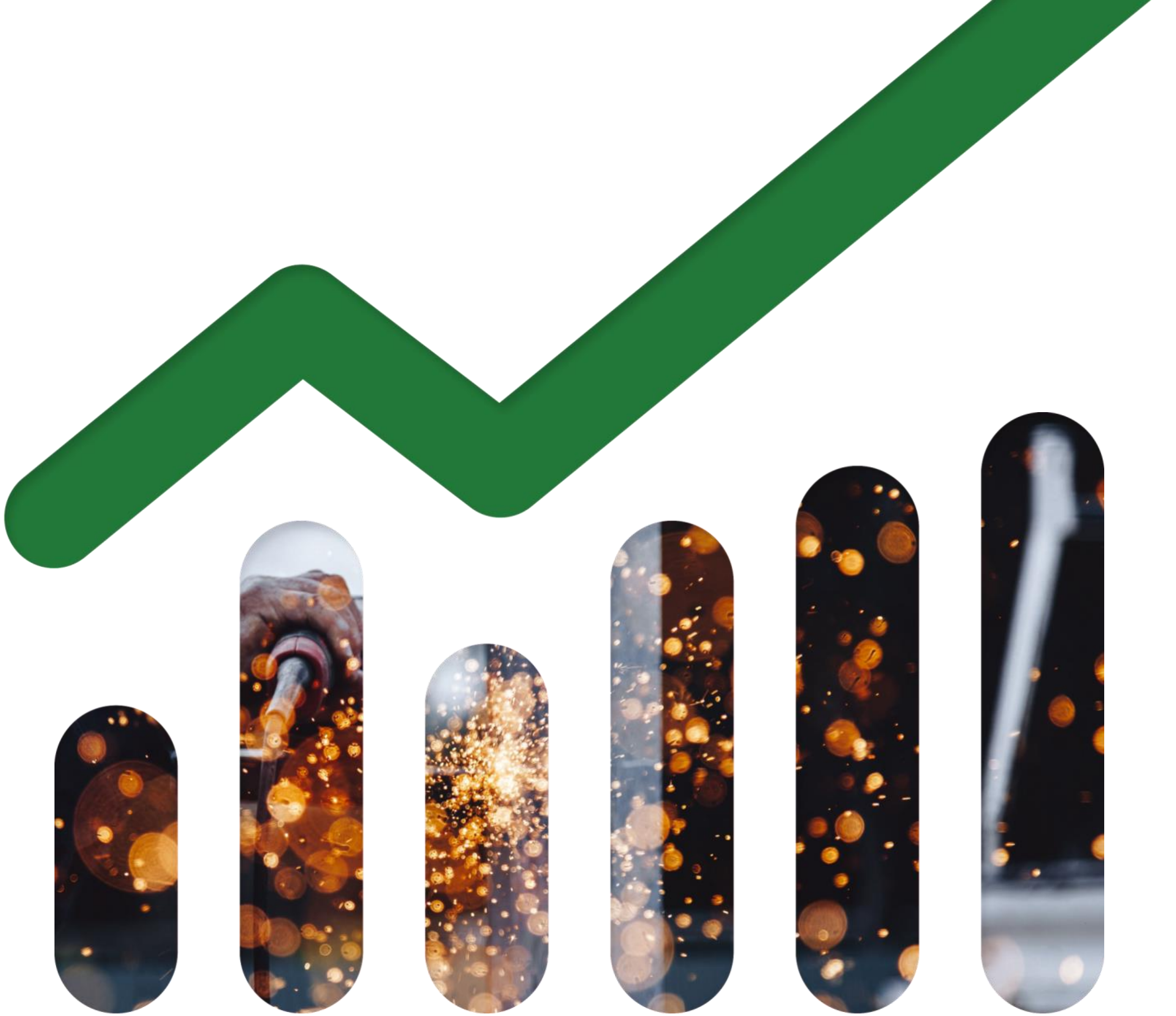
National Economic
Development and
Labour Council

Economic and Employment Trends in South Africa



December 2023 | Issue 9

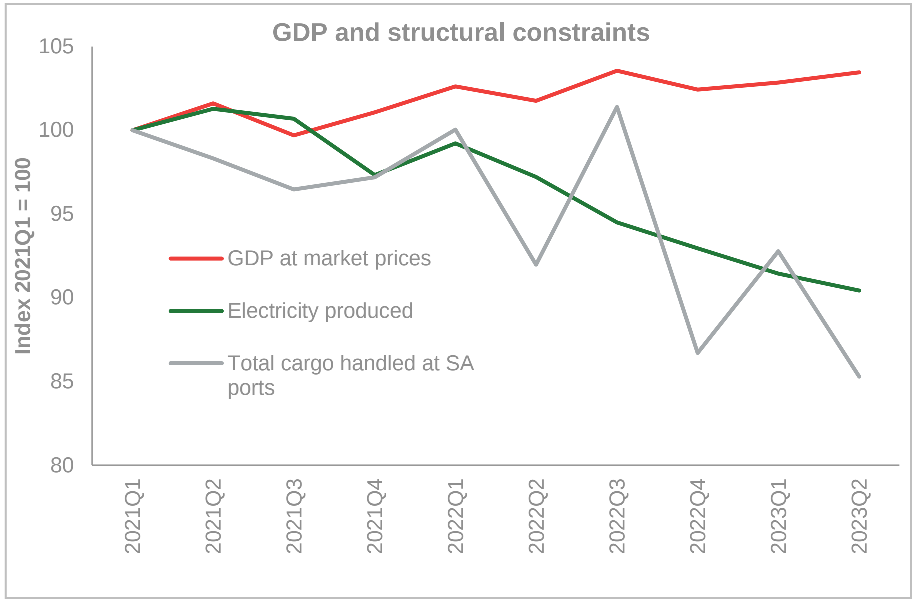
Summary

- Potential growth estimates for South Africa remain low, with load-shedding and capacity constraints weighing on the outlook.
- South Africa has returned to pre-Covid levels of unemployment, recording an unemployment rate of 31.9% in the third quarter of 2023. Notably, this marks the lowest unemployment rate since the third quarter of 2020.
- Household finances remain under pressure from higher consumer prices and interest rates.
- Investment has slowed over recent years. Capital has also depreciated faster since 2010 than has been the case over the long term. In contrast, there has been a significant increase in private sector energy investment.
- In the MTBPS, the main budget deficit expanded compared to the February budget estimates primarily due to the revenue shortfall. Consequently, both gross loan debt and debt-service costs have risen. Gross loan debt is expected to stabilise in 2025/26 at a higher level than projected in the February budget.
- African exports lack diversity, with more than 50% of the export value concentrated in only 7 primary sector products. The same is true for South Africa. This supports the Minister of Trade, Industry and Competition Ebrahim Patel's comments at the AGOA summit that Africa needs to industrialise, beneficiate, and diversify its export market.
- In terms of industry output growth, the Agriculture, forestry and fishing; Transport, storage and communication; and Finance and insurance, real estate and business services industries all experienced strong growth since 2022. In contrast, the Mining and quarrying; Construction; Wholesale and retail trade, catering and accommodation industries have not recovered from the pandemic, with output levels still below pre-Covid levels.
- The construction industry recorded the lowest growth in compensation of employees compared to other industries, averaging only 1.5% since 2022. Comparatively, other industries have seen higher average growth rates in compensation of employees, ranging between 5% and 6.5%. Exceptions include the Finance and insurance, real estate and business services industry, along with personal services, which both experienced an average growth in compensation of employees of 3.8% since 2022.
- With regard to the tourism industry, tourism accommodation has yet to recover fully from the pandemic. The industry experienced its first negative trade balance with the rest of the world in 2021. Expenditure on inbound tourism by non-resident visitors continued to decline in 2021, led by a decline in international visitors.

Gross Domestic Product

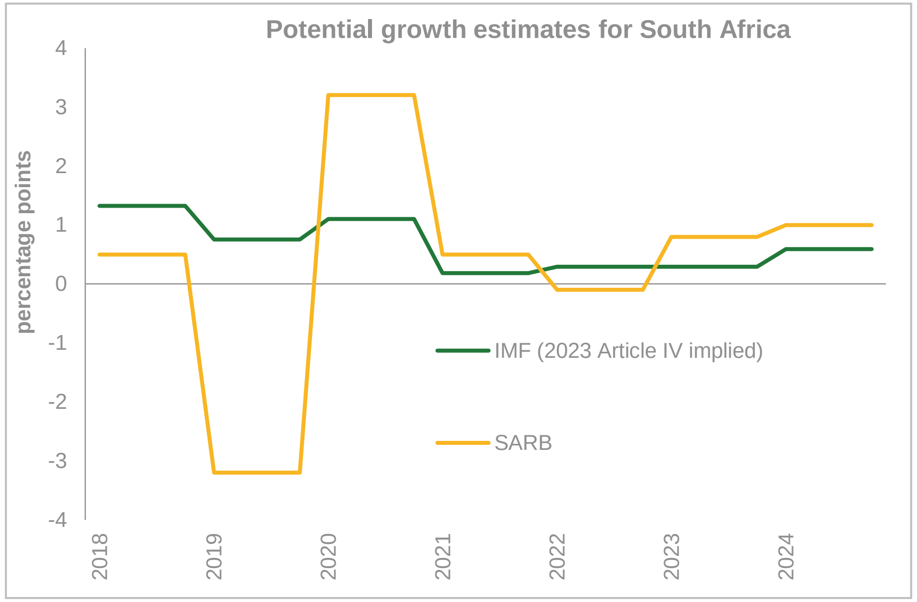
Potential growth estimates for South Africa remain low, with load-shedding and capacity constraints weighing on the outlook.

Constrained electricity supply and logistical bottlenecks continue to represent a drag on growth.



Source: SARB, Stats SA, Transnet

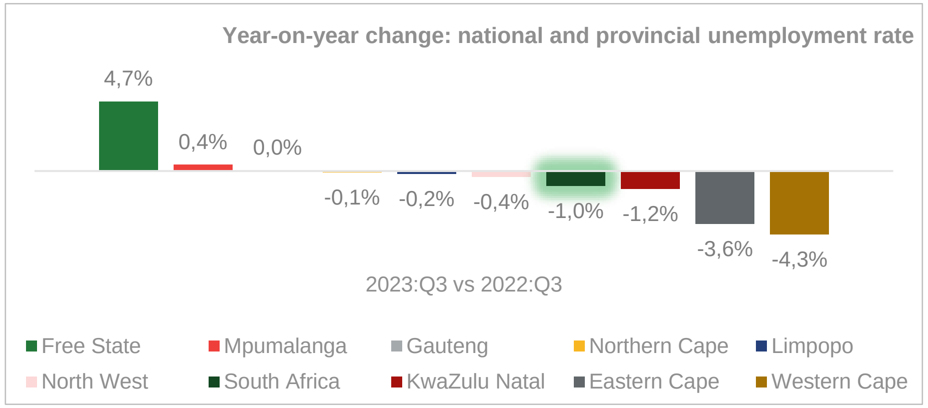
SARB and IMF projections imply that the outlook for potential growth (the highest growth rate the economy can sustain without creating excess inflation) is 1% or lower.



Source: StatsSA, SARB, EconData, IMF Article IV reports, IMF WEO, Codera Analytics.

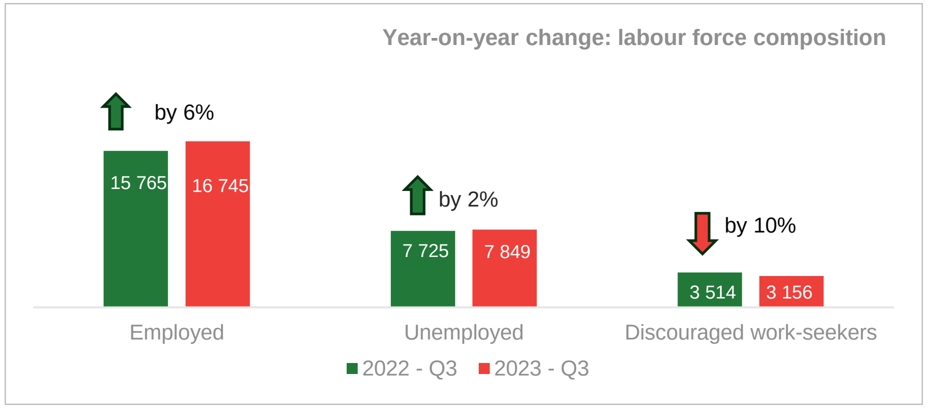
Employment

South Africa has returned to pre-Covid levels of unemployment, recording an unemployment rate of 31.9% in the third quarter of 2023. Notably, this marks the lowest unemployment rate since the third quarter of 2020.



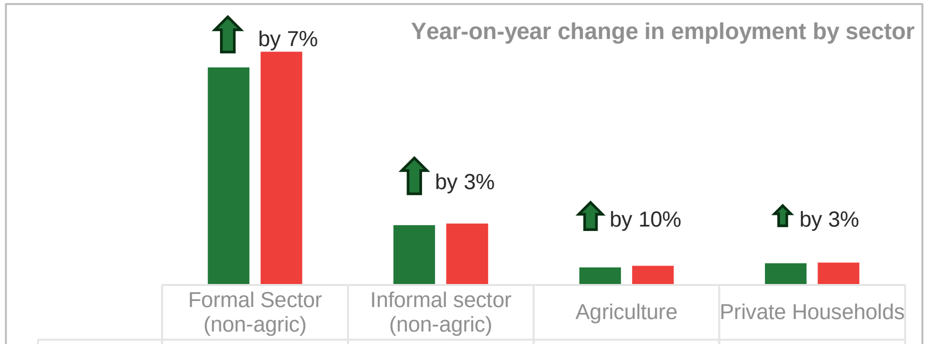
Source: Stats SA, Quarterly Labour Force Survey, P0211

South African unemployment rate decreased by a percentage point from 32.9% in 2022:Q3 to 31.9% in 2023:Q3. The Western Cape and Eastern Cape have driven a substantial portion of this labour market improvement. Over the past year, unemployment rates in the Western Cape and Eastern Cape declined by 4.3 and 3.6 percentage points, respectively. In contrast, the Free State increased by almost 5 percentage points. South Africa's biggest employer, Gauteng, remained unchanged.



Source: Stats SA, Quarterly Labour Force Survey, P0211

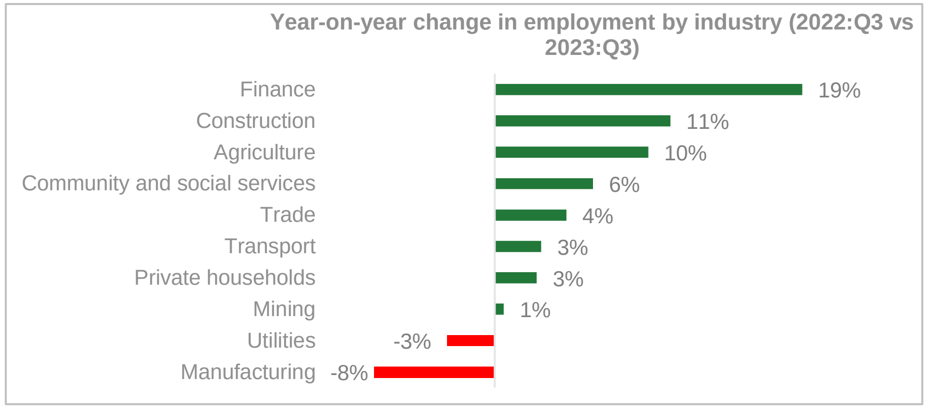
A decrease in the number of discouraged work-seekers over the last year contributed to the increased labour force population. South Africa's labour force population increased by 5% mainly driven by a decrease in the economically inactive population. A large portion of this decrease was due to discouraged worker-seekers entering the labour market, which led to an increase in the number of employed and unemployed. The improvement in the unemployment rate is due to the number of employed increasing by more than the number of unemployed.



	Formal Sector (non-agric)	Informal sector (non-agric)	Agriculture	Private Households
2022 - Q3	10 835	2 971	873	1 088
2023 - Q3	11 616	3 058	956	1 116

Source: Stats SA, Quarterly Labour Force Survey, P0211

Over the past year, all sectors experienced an increase with the non-agriculture sector contributing the most to employment. Compared to other sectors, agriculture saw a significant employment increase of 10%. The formal sector continues to account for a significant share of South Africa's total employment. Formal sector employment increased by 7%, equivalent to 781 000 new jobs, while both the informal sector and private households saw a 3% increase in employment.



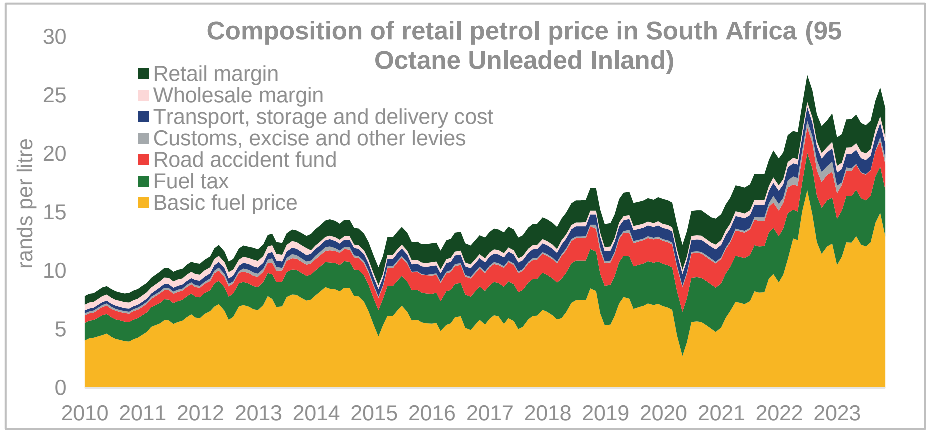
Source: Stats SA, Quarterly Labour Force Survey, P0211

Employment gains were mainly recorded in the Finance, Construction, and Agriculture industries. Employment increased by 19% in the Finance industry, followed by Construction (11%) and Agriculture (10%), while job losses were mainly in the Manufacturing (-8%) and Utilities (-3%) industries. Smaller increases were also recorded in Community and Social Services, Trade, Transport, and Private households' industries.

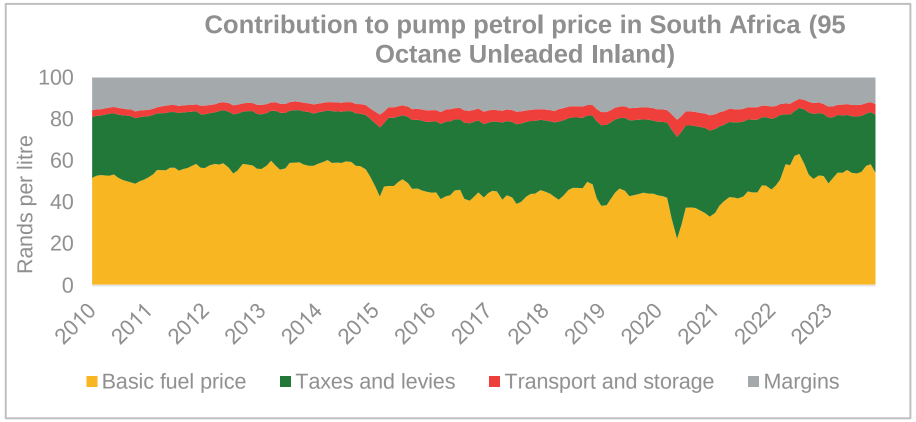
Households

Household finances remain under pressure from higher prices and interest rates.

The petrol price increase since 2020 has reflected a big increase in the basic fuel price. Fuel tax currently adds around R4 or so to the retail price, with the road accident fund and other duties and levies adding another R2.2 per liter.



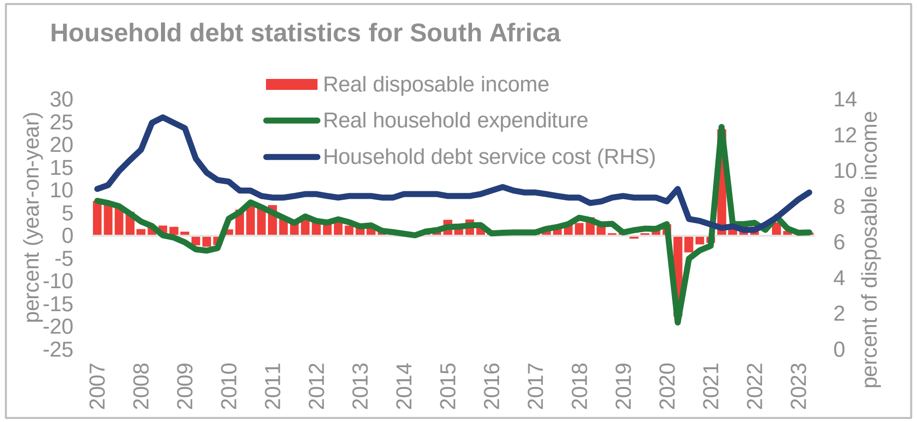
Source: Department of Mineral resources and Energy, Codera Analytics.



Source: Department of Mineral resources and Energy, Codera Analytics.

Together, taxes and levies represent just below 30% of the retail price of petrol.

Household finances remain under pressure. Higher interest rates and higher consumer prices have seen disposable income come under increased pressure.



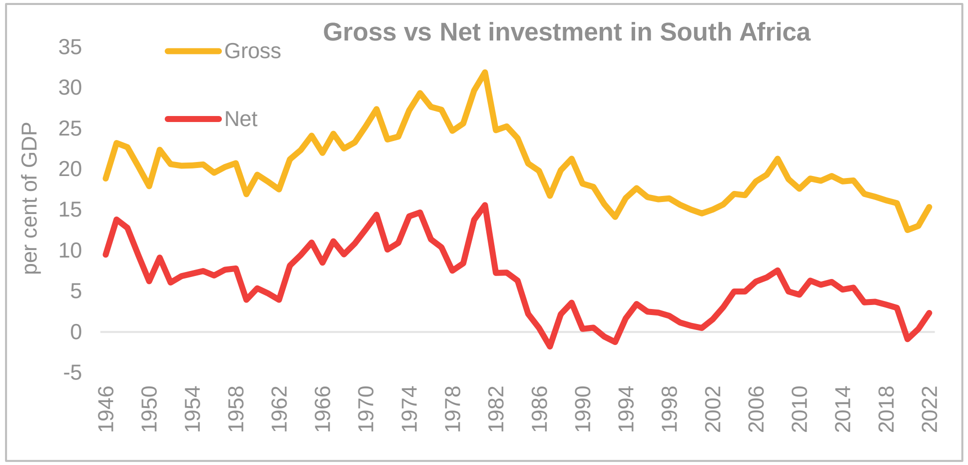
Source: SARB, Stats SA, Codera Analytics.

Investment

Investment has slowed over recent years. Capital has also depreciated faster since 2010 than has been the case over the long term.

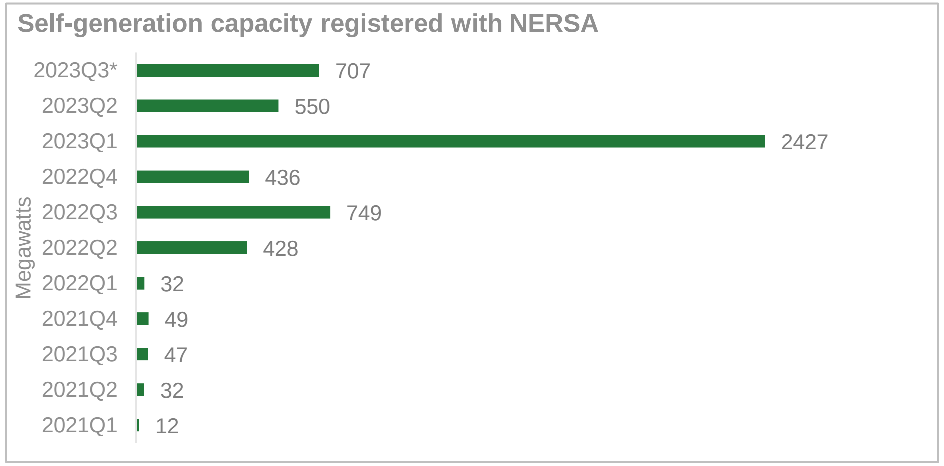
There has been an increase in private energy investment.

The gap between gross and net investment captures depreciation. Since the global financial crisis, there has been a steady decline in investment. Since 2010, gross investment averaged below 17% of GDP, compared to below 4% for net investment. This suggests that capital depreciation has accelerated. One possible reason for this is that investment in software and computers has become more important over time, and these tend to have shorter average service lives than other forms of capital such as machinery. Another possibility is that South Africa's fixed investment in water and electricity production has become less efficient.



Source: SARB, EconData

There has been a big increase in private sector energy investment. Embedded generation projects registered with the National Energy Regulator of South Africa (NERSA) have increased by almost 4000 megawatts for the year (up to August), compared to around 1650 megawatts for 2022.

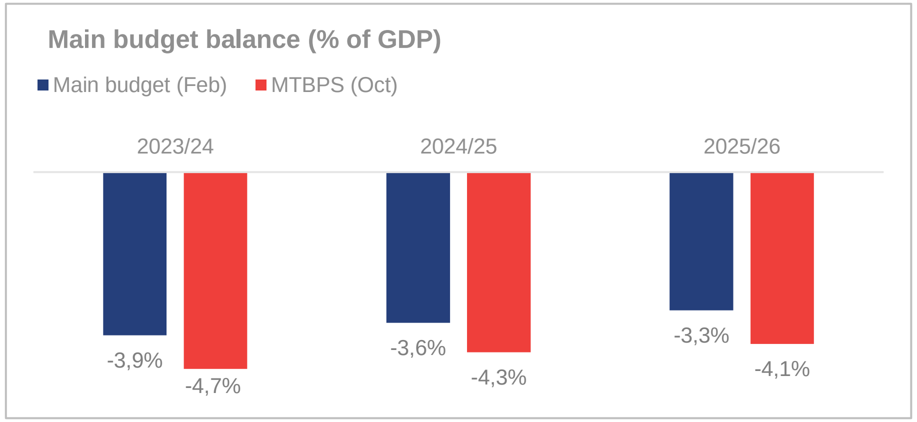


Source: SARB, Monetary Policy Review, NERSA, July-August

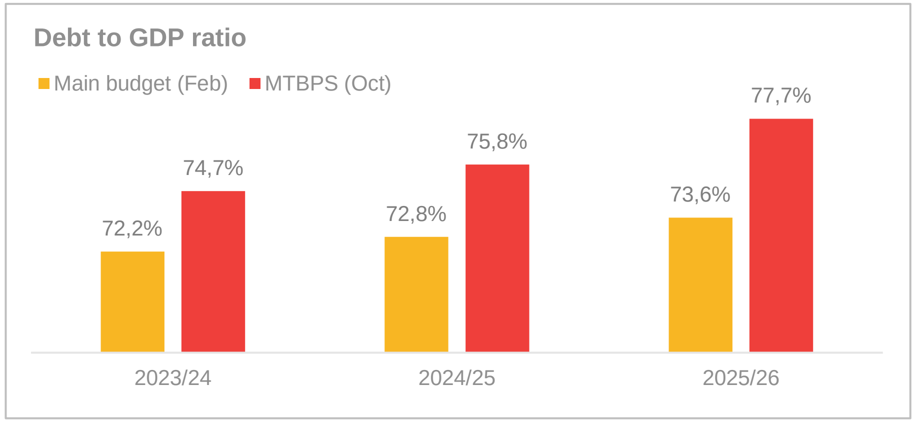
Government

In the MTBPS, the main budget deficit expanded compared to the February budget estimates primarily due to the revenue shortfall. Consequently, both gross loan debt and debt-service costs have risen. Gross loan debt is expected to stabilise in 2025/26 at a higher level than projected in the February budget.

Following the downward revision in revenue estimates, the main budget deficit has widened. In comparison to the February budget estimates, the deficit has increased from 3.9% of GDP to 4.7% in 2023/24. Although a gradual decline is estimated over the next two years, the deficit is expected to remain wider than the initial February budget estimate, at 4.3% and 4.1% of GDP, respectively.



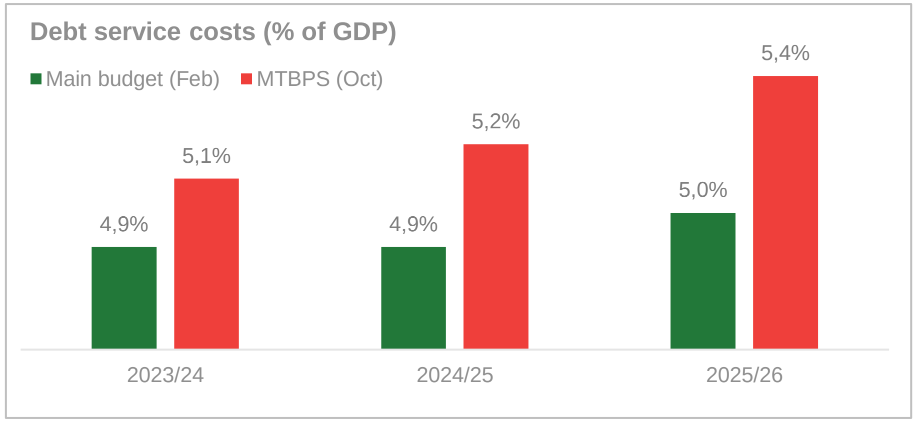
Source: National Treasury



Source: National Treasury

Due to the widening deficit, gross loan debt has increased. The debt-to-GDP ratio is expected to be 2.5 percentage points higher than the 2023/24 February budget, with estimates for 2024/25 and 2025/26 increasing by 3 and 4.1 percentage points, respectively. The growing debt is concerning given that it is not directed toward investments that support faster, job-creating growth, as highlighted in the MTBPS.

Rising debt has resulted in increased debt-service costs. Relative to the February budget estimates, debt service costs are expected to increase by 0.2 percentage points in 2023/24, with estimates for 2024/25 and 2025/26 increasing by 0.3 and 0.4 percentage points, respectively. Factors driving this increase include the widening budget deficit and fluctuations in interest rates, inflation, and exchange rates. As debt service costs rise, they make up a larger share of the budget, crowding out spending on other core expenditure items. As a share of main budget expenditure, debt-service costs are projected to increase from 17.3% in 2023/24 to 18.9% in 2025/26.

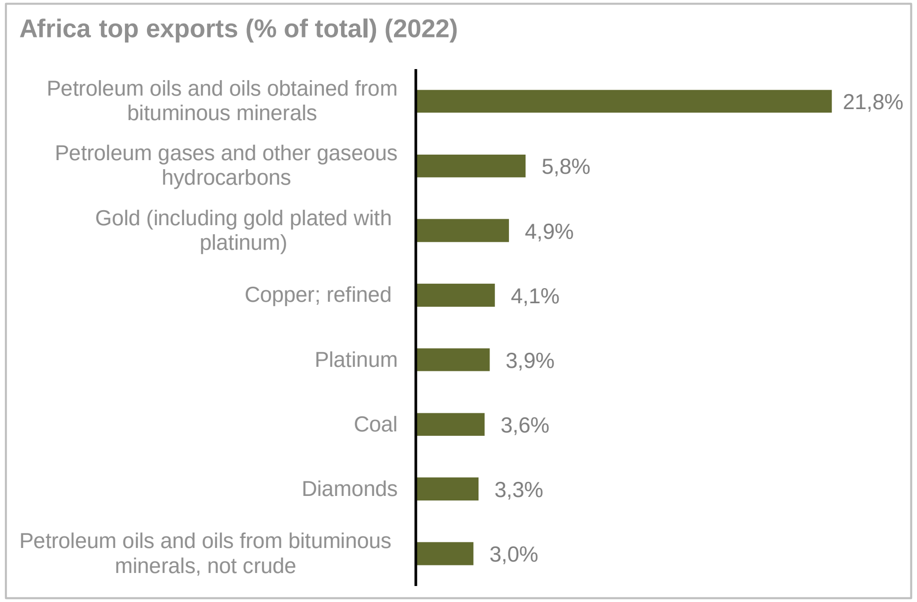


Source: National Treasury

International Trade

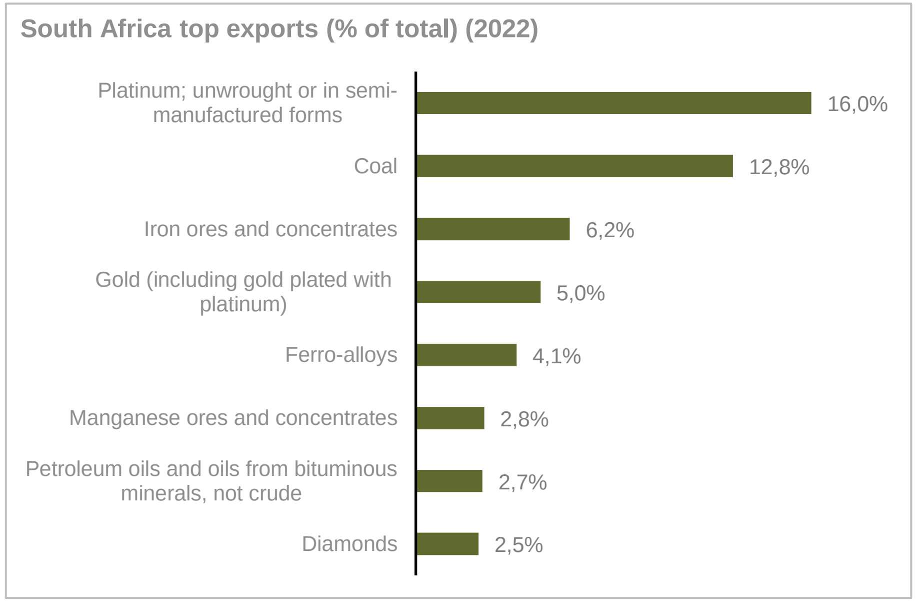
African exports lack diversity, with more than 50% of the export value concentrated in only 7 primary sector products. The same is true for South Africa. This supports the Minister of Trade, Industry and Competition Ebrahim Patel's comments at the AGOA summit that Africa needs to industrialise, beneficiate, and diversify its export market.

Africa's exports are focused on minerals, mineral fuels, and mineral oils. The top 7 export products from Africa to the world make up 50.4% of the continent's total exports in 2022. There is a clear focus on primary sector products, particularly mineral oils (with petroleum oils making up 21.8%), as well as metals and rocks, which make up 19.8% of Africa's top exports.



Source: UN Comtrade

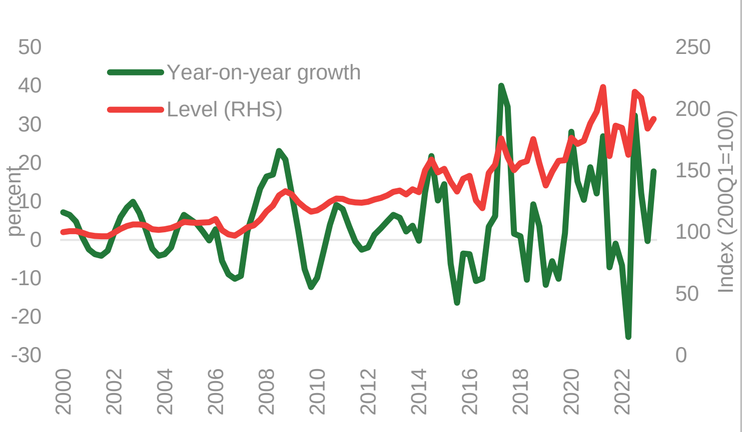
Similarly, South Africa's exports are highly concentrated and focused on primary sector products. The top 7 export products from South Africa to the world in 2022 make up 52.1% of its total exports and are also concentrated on metals, rocks, and mineral fuels (with platinum and coal making up 28.8%).



Source: UN Comtrade

Agriculture, forestry & fishing

Agricultural value added, seasonally adjusted



Source: Statistics South Africa, Gross Domestic Product, P0441

Compensation of employees in Agriculture

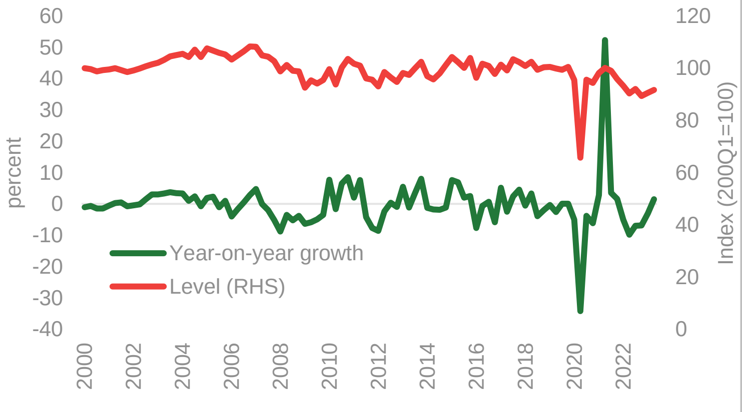
Source: Statistics South Africa, Gross Domestic Product, P0441

The agriculture industry has experienced strong growth over the last two quarters.

Compensation of employees captures the combined effects of changes in employment and nominal wages. In agriculture, growth in compensation of employees averaged 6.5% since 2022.

Mining & quarrying

Mining & quarrying value, seasonally adjusted



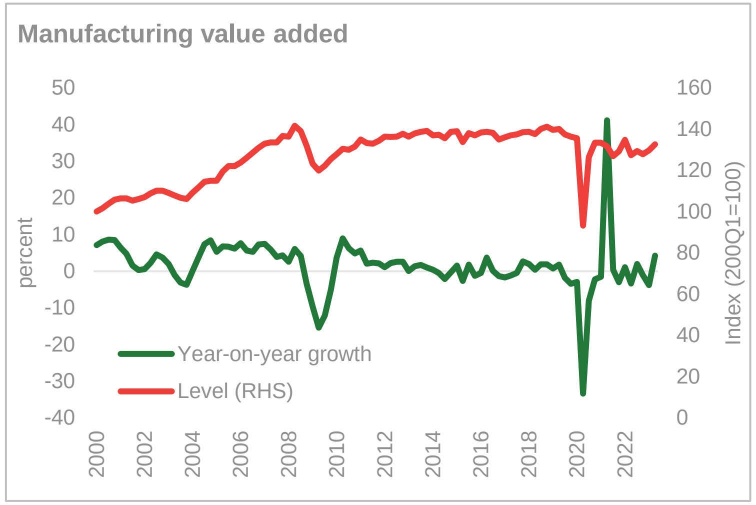
Source: Statistics South Africa, Gross Domestic Product, P0441

Compensation of employees in Mining & quarrying

Source: Statistics South Africa, Gross Domestic Product, P0441

The mining & quarrying industry experienced negative year-on-year growth in value added since 2022, while compensation of employees grew at an average of 6%.

Manufacturing



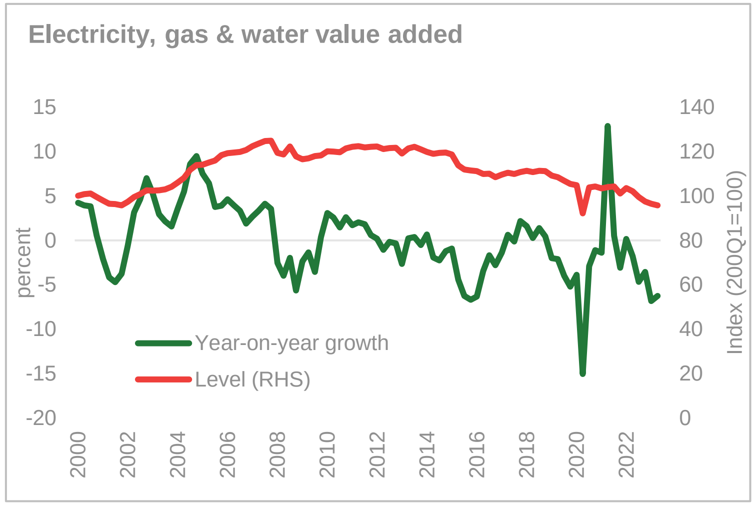
Source: Statistics South Africa, Gross Domestic Product, P0441

Source: Statistics South Africa, Gross Domestic Product, P0441

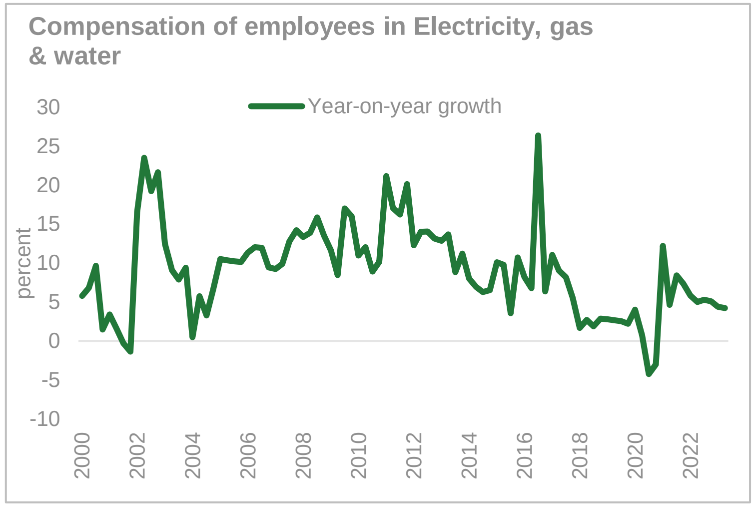
The manufacturing industry has been badly affected by loadshedding and has not recovered from the pandemic. The left chart shows that the level of output remains lower than before the pandemic in March 2020

Growth in compensation of employees has been elevated in 2022 relative to the pre-pandemic level, averaging 6.4% since 2022.

Electricity, gas & water



Source: Statistics South Africa, Gross Domestic Product, P0441



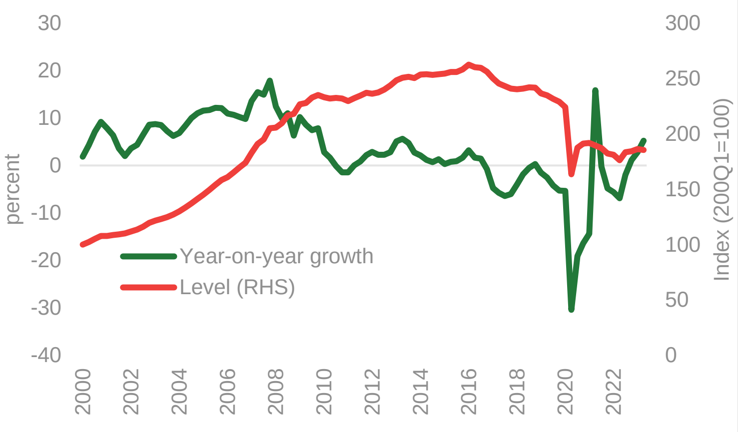
Source: Statistics South Africa, Gross Domestic Product, P0441

Output in the electricity, gas and water industry has experienced five quarters of declining output.

Growth in compensation of employees for the electricity, gas and water industry also remains elevated relative to the period immediately before the pandemic, averaging 5.0% since 2022.

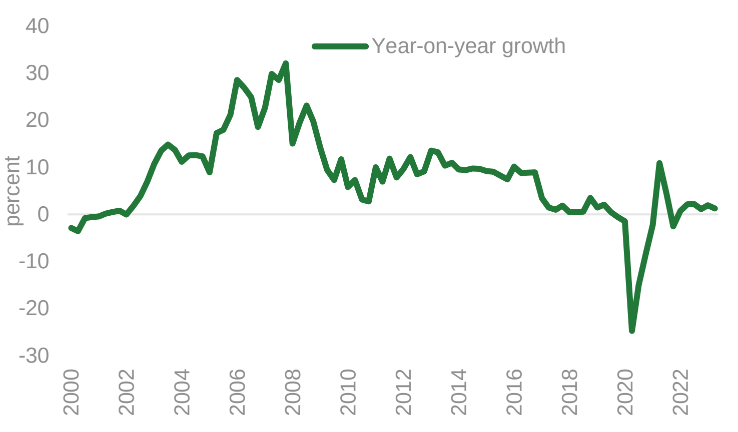
Construction

Construction value added in South Africa



Source: Statistics South Africa, Gross Domestic Product, P0441

Compensation of employees in Construction



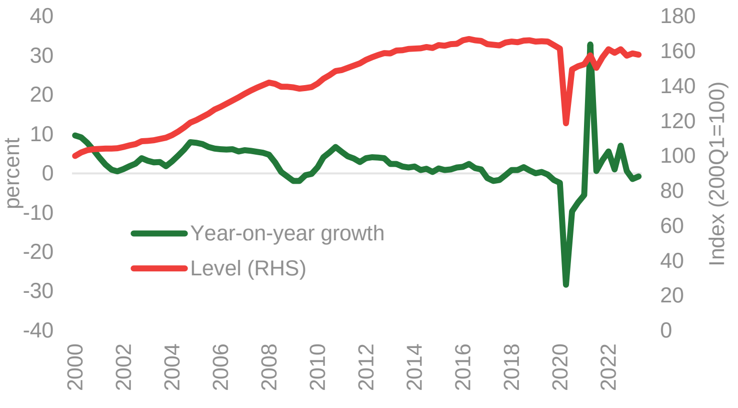
Source: Statistics South Africa, Gross Domestic Product, P0441

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, although output levels in the industry have been in decline since approximately 2017.

One can also see the pressure the industry has been under reflected in wage growth. Construction recorded the lowest growth in compensation of employees for any industry, averaging only 1.5% since 2022.

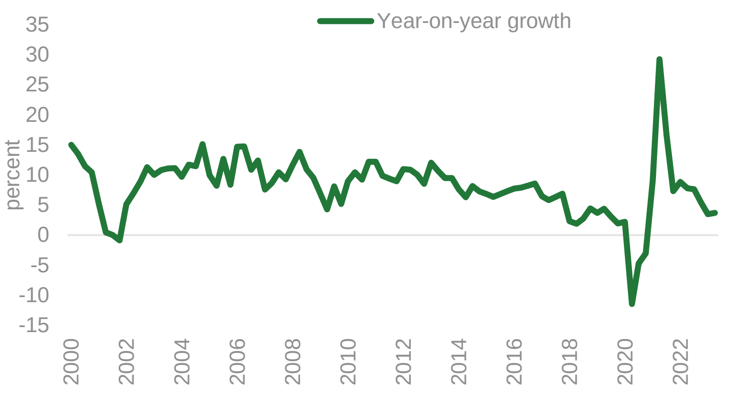
Wholesale & retail trade, catering & accommodation

Wholesale & retail trade, catering & accommodation value added



Source: Statistics South Africa, Gross Domestic Product, P0441

Compensation of employees in Trade, catering and accommodation

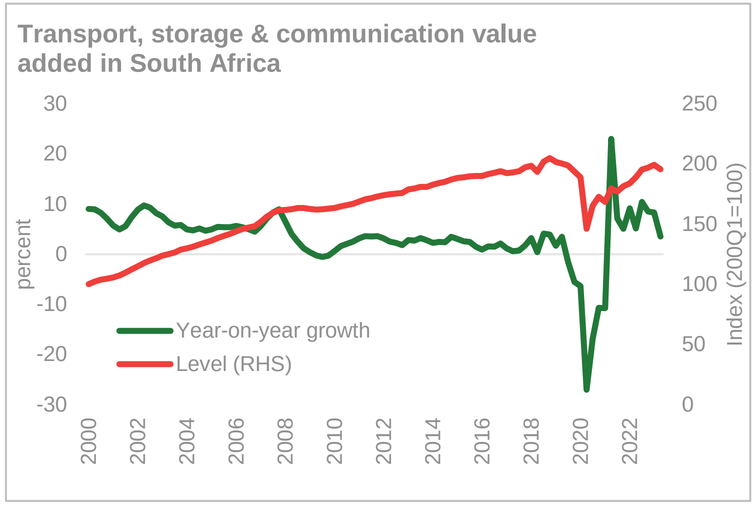


Source: Statistics South Africa, Gross Domestic Product, P0441

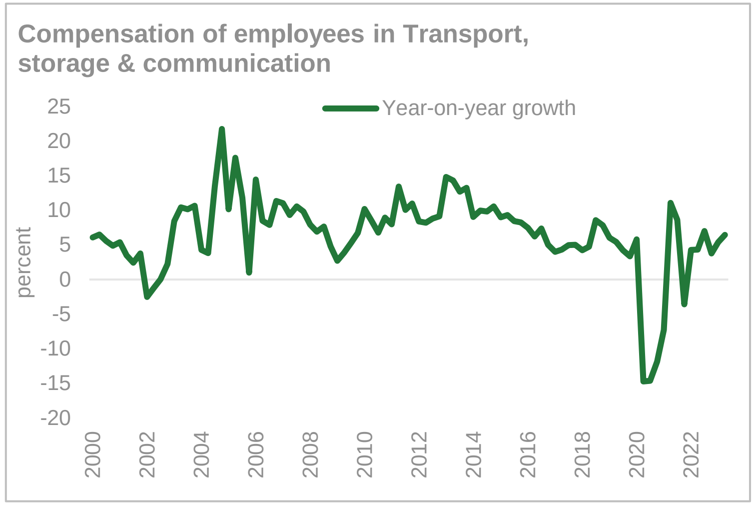
Output in the wholesale and retail trade, catering and accommodation industry is still below its pre-COVID 19 output levels.

While output growth has been low in the industry, wage growth has been relatively high, averaging 6.1% since 2022.

Transport, storage & communication



Source: Statistics South Africa, Gross Domestic Product, P0441

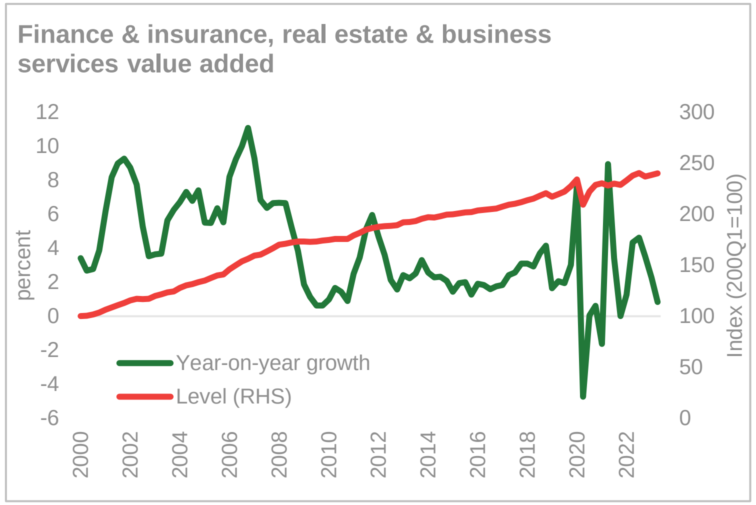


Source: Statistics South Africa, Gross Domestic Product, P0441

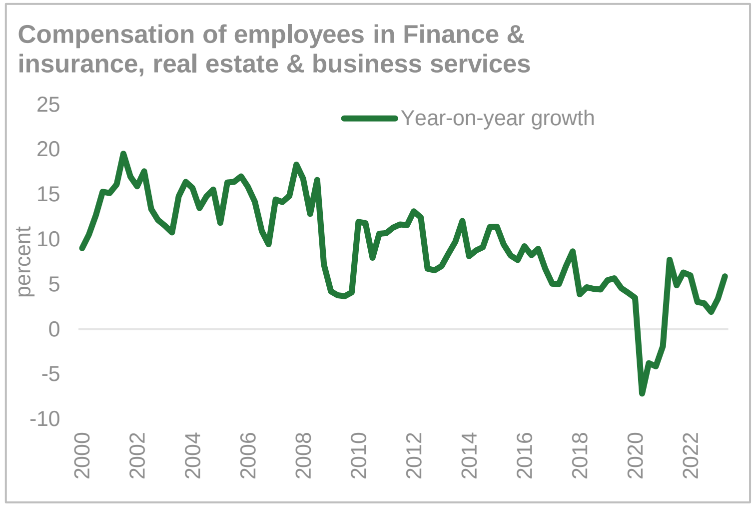
The transport, storage and communication industry has showed a strong recovery since the pandemic and robust growth since 2022 with output up over 7.5%.

Growth in compensation of employees has averaged 5.2% since 2022.

Finance & insurance, real estate & business services



Source: Statistics South Africa, Gross Domestic Product, P0441



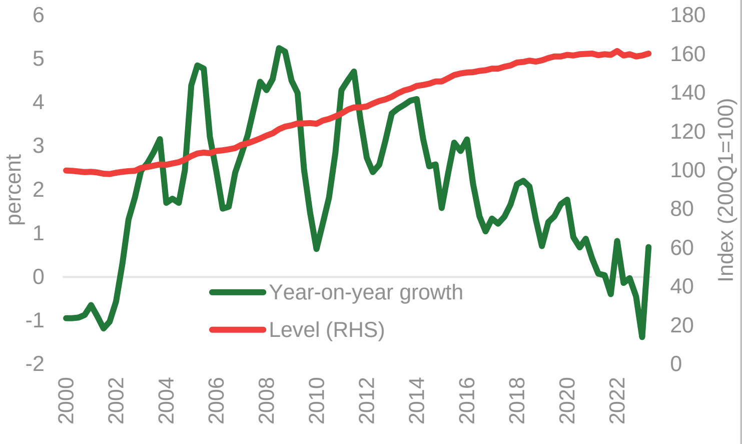
Source: Statistics South Africa, Gross Domestic Product, P0441

Output growth in the Finance & insurance, real estate & business services industry also recovered after the pandemic, up 2.8% since 2022.

Average growth in compensation of employees was 3.8% since 2022.

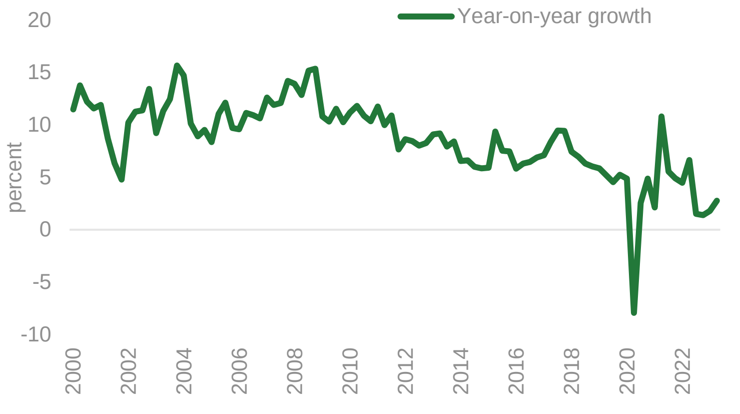
Personal services

Personal services value added



Source: Statistics South Africa, Gross Domestic Product, P0441

Compensation of employees in Personal services



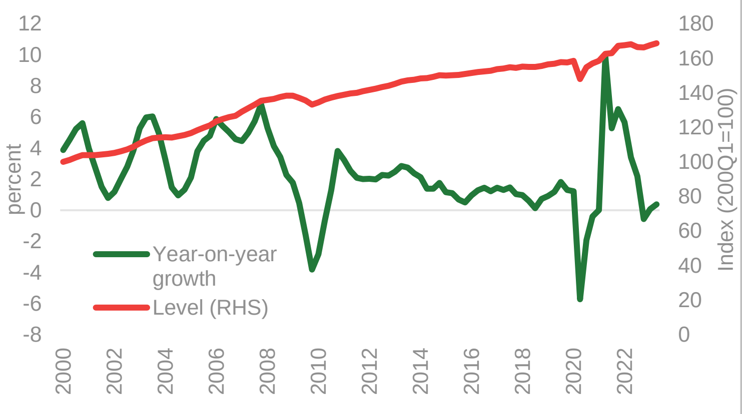
Source: Statistics South Africa, Gross Domestic Product, P0441

Value added in the personal services industry has stalled, falling by an average of -0.1% across the quarters since 2022Q1.

Growth in compensation of employees averaged 3.8% since 2022.

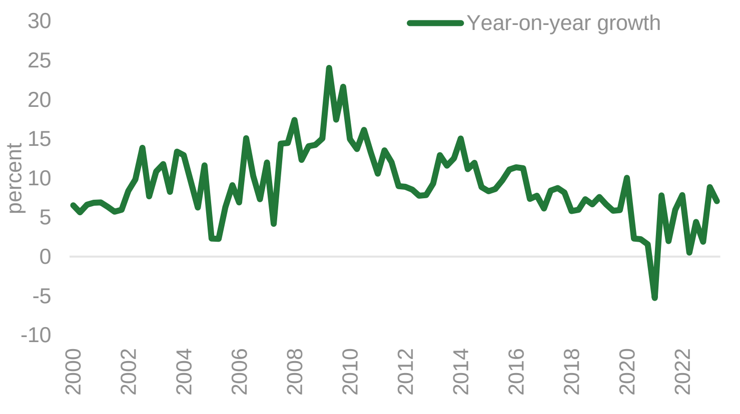
General Government Services

General Government Services value added



Source: Statistics South Africa, Gross Domestic Product, P0441

Compensation of employees in General Government Services

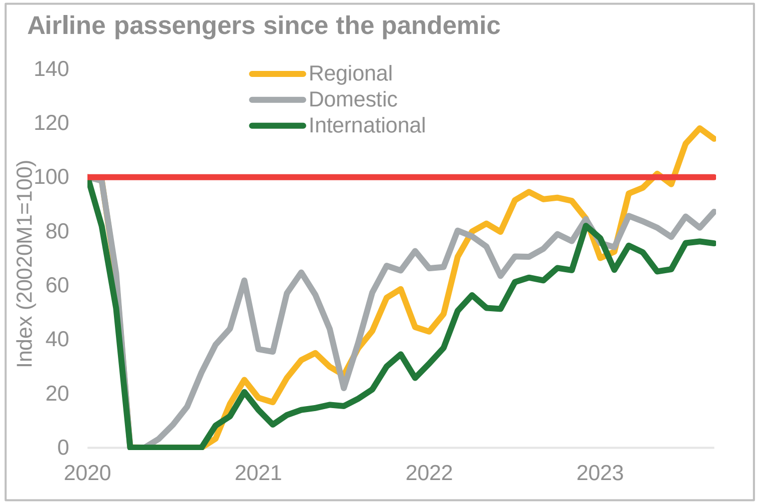


Source: Statistics South Africa, Gross Domestic Product, P0441

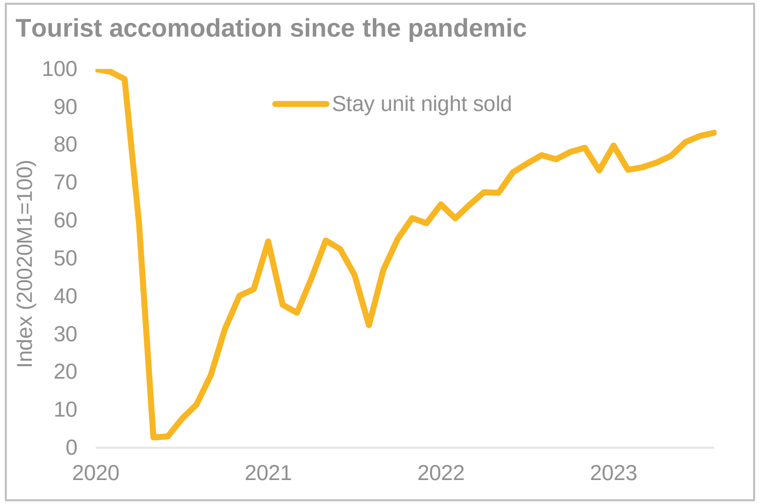
Value added in general government services grew by 1.9% since 2022Q1.

Average growth in compensation of employees was 5.1% since 2022.

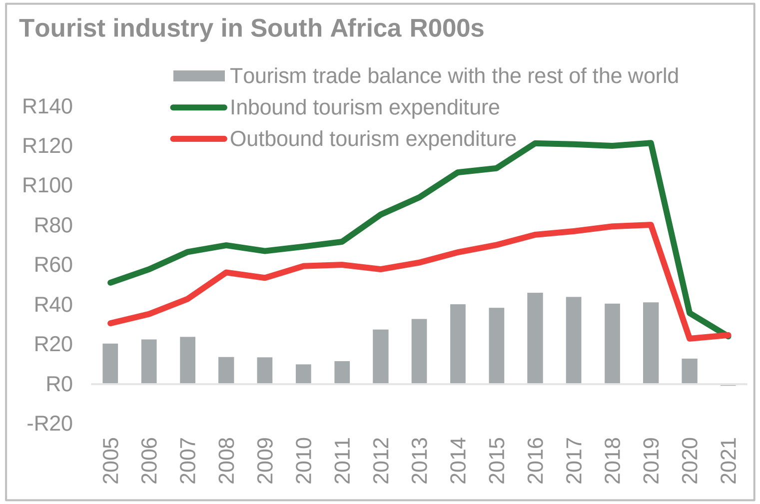
Tourism developments since 2020 Tourism is still struggling from the COVID-19 related-lockdowns



Source: SAA, Codera Analytics. Arrivals plus departures, excl unscheduled flights.



Source: Statistics SA, EconData, Codera Analytics. Total Industry, seasonally adj.



Source: Statistics South Africa.

South African flight passenger figures have shown signs of recovery. However, with the exception of regional flights, passenger numbers remain below the levels observed before the onset of the pandemic.

Tourism accommodation remains 15% below its pre-pandemic level. Since the onset of the pandemic, tourism accommodation has experienced a decline of over 15%. The most recent overall occupancy rate stands at 37%, a notable decrease from the pre-COVID level of approximately 45%.

The tourism industry experienced its first negative trade balance with the rest of the world in 2021. According to historical data dating back to 2005, expenditure on inbound tourism by non-resident visitors continued to decline in 2021, led by a decline in international visitors. As inbound tourism expenditure weakened, outbound tourism expenditure abroad by South African residents increased.

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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