Macroeconomic Trends in South Africa

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This note highlights the latest trends in the country's fiscal situation, annual inflation, the interest rate, GDP Growth, and the unemployment rate in Q2 of 2023.

I. Introduction

Despite global economic instability and the persistent electricity crisis, the South African economy was able to beat the odds and expand for two consecutive quarters since the beginning of 2023. The economy is now larger than it was before the pandemic with the 2 million jobs that were lost largely recovered. Although modest, the slow growth expansion has helped bring unemployment rates down in the second quarter of the year. However, unemployment remains extremely high and a major source of policy concern as South Africa enters a critical electoral period. Annual inflation, in turn, had a hiccup in August 2023, but this has not been strong enough for the South African Reserve Bank (SARB) to increase the repurchase rate in its latest Monetary Policy Committee meeting, on 21 September. The decision was to keep interest rates constant while maintaining caution in face of potential shocks, both external and of domestic nature.

For the government, the most challenging development has been a proposal by the National Treasury to pare down public expenditure, as the electoral cycle starts. The National Treasury proposal particularly emphasises the need to counteract revenue shortfalls caused by subdued commodity prices and respond to a higher than anticipated budget deficit, of nearly R300 billion – mainly driven by the 7.5 per cent payment increase for public servants. A main concern is with the impact of a large deficit on the trajectory of public debt – already over 70 per cent of the country's GDP, and the sustainability of the public finance. The proposed National Treasury plans are under consideration by President Cyril Ramaphosa, who is not keen on not cutting social spending. The ruling party – the ANC – recently reaffirmed its commitment to expand social protection coverage and is concerned about the potential loss of popular support and possible social unrest in the event of spending cuts, with labour unions also threatening to strike.

II. A Treasury Proposal to Reduce Government Expenditure

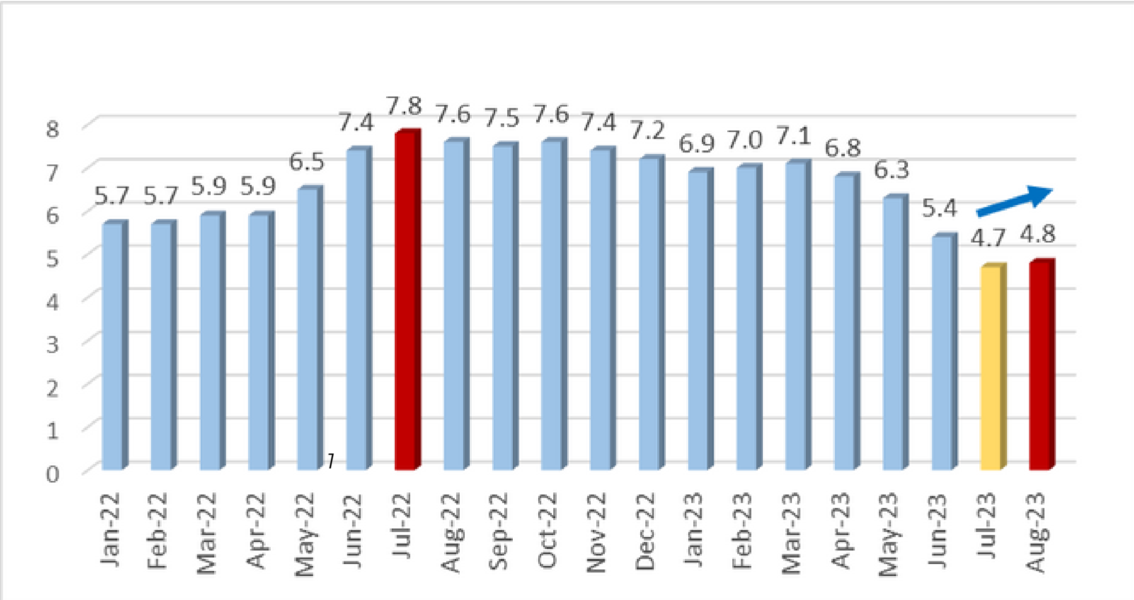
Early in September, the National Treasury presented a plan to cut the R350 ($19) Social Relief of Distress (SRD) Grant, introduced during the Covid-19 pandemic. However, the government is looking at the National Treasury to extend the programme beyond March 2024. The Treasury recommended budget cuts to span over four key areas: capital spending, recruitment (tighter hiring), conferences and catering, and travel. Other suggested measures include the possibility of a new fiscal anchor; increasing value-added tax (VAT) by 2 per cent; closing programmes; reducing/merging the number of government departments and state-owned enterprises; and managing the public-sector wage bill.

While discussions are still underway and no final decision has been announced, the National Treasury has nonetheless reactivated a heated debate over the future of country, the fiscal responsibility of the government, and the impact it has on its people. South Africa expects Finance Minister Enoch Godongwana to announce the medium-term budget outlook on November 1, detailing the full extent of the country's fiscal restraint for the upcoming financial year.

III. Annual Inflation in August 2023

Following four months of a downward path, the annual consumer inflation surged upwards, increasing from 4.7 per cent in July to 4.8 per cent in August (see Figure 1). The inflation on food and non-alcoholic beverages (NAB) continued to slow down, from 9.9 per cent in July to 8.0 per cent in August, putting less pressure on the headline rate. Housing and utilities, and miscellaneous good and services both increased by 5.5 per cent and 6.2 per cent, respectively. However, the declined annual inflation on food and non-alcoholic beverages could not to offset the rise in fuel prices and municipal tariffs (Stats SA, 2023a).

Figure 1: Annual Inflation in South Africa – End of Period %



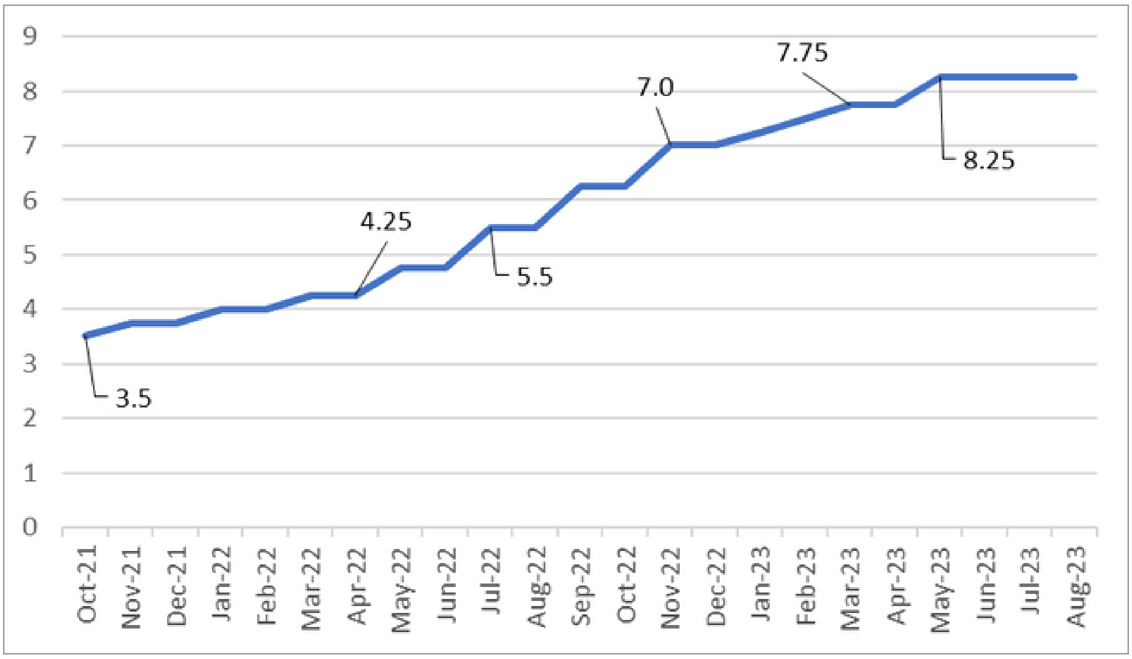
Source: Stats SA (2023a)

The annual producer price inflation increased from 2.7 per cent in July 2023 to 4.3 per cent in August 2023. The main drivers of this rise include metals, machinery, and equipment; food products; paper and printed products.

IV. SARB's Interest Rate in Q2: 2023

The SARB Monetary Policy Committee in its latest meeting on 21 September 2023 made no change in the repurchase rate, currently at 8.25 per cent per year (see Figure 2) – a rate it has maintained since May 2023. The MPC concluded that at the current repurchase rate level, the policy is both restrictive, and compatible with the inflation outlook and any risks associated with it. The Committee remains cautious and prepared to act in response to any potential shocks

Figure 2: South Africa’s Repurchase Rates Oct 2021-Sep 2023



Source: SARB (2023).

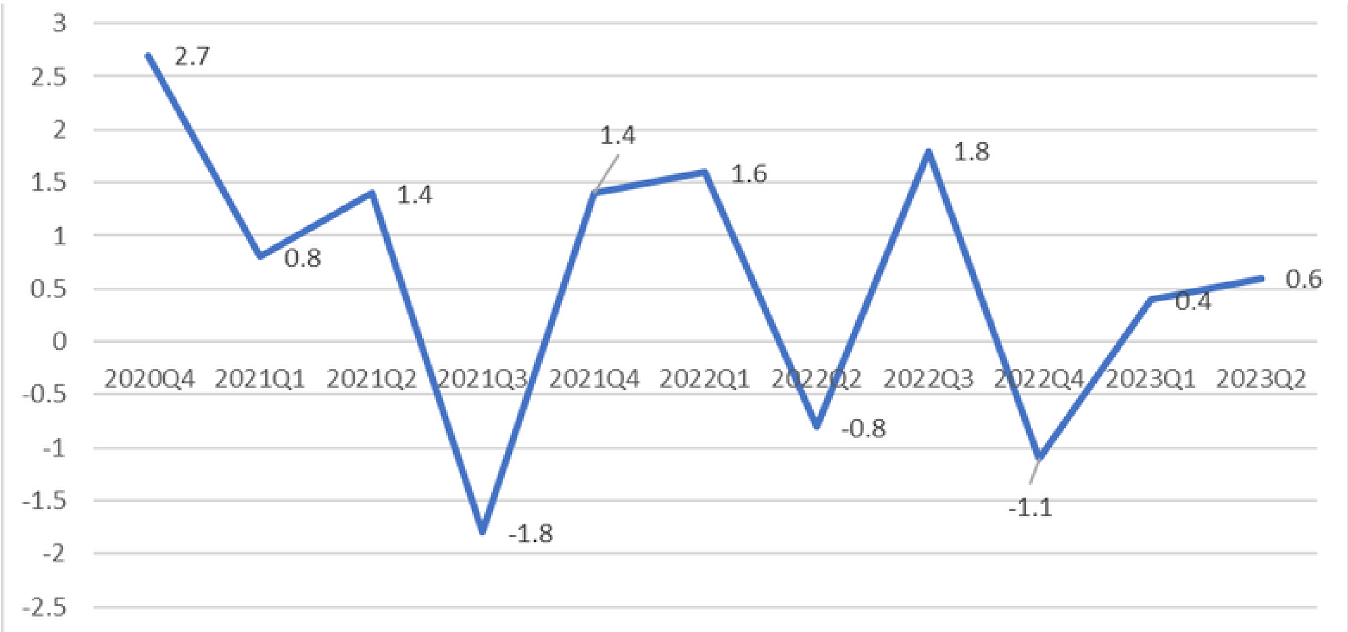
While it remains unclear how long inflation will continue to slowdown, the MPC has further noted the relatively unchanged prospects of the global economy. SARB’s forecast for global growth in 2023 is largely the same, at 2.6 per cent (from 2.5 per cent in the previous forecast) and 2.7 per cent in 2024. However, the longer-term economic outlook is overshadowed by the unwavering risks to the inflation trajectory, adverse effects of climate change and the high geopolitical tensions (SARB, 2023). The financing conditions, in much of the developing world, are anticipated to stay tight. Globally, monetary policy is expected to remain focused on ensuring that inflation continues to fall. The country’s electricity loadshedding continues to weigh on business costs. In addition, SARB anticipates that a combination of stronger El Niño conditions and global climatic events will pose additional risks to and threaten the country’s agricultural outlook.

To strengthen the effectiveness of South Africa’s monetary policy, the Committee recommends expanding the supply of energy, having a firm hand on administered prices, and maintaining a real wage growth consistent with productivity gains.

V. GDP Growth in Q2:2023

In Q2 of 2023, South Africa’s GDP increased by 0.6 per cent, following a 0.4 per cent rise in Q1:2023 (see Figure 3). Of the ten industries recorded, six of them expanded in Q2, with the manufacturing and finance industries leading the expansion by a 2.2 per cent and 0.7 per cent increase, respectively. Manufacturing production was largely driven by petroleum, chemical products, rubber plastics, metal, machinery, and equipment. The growth of finance was explained by financial intermediation, insurance, and real estate services.

Figure 3: South Africa Quarterly GDP Growth Q4 2020 – Q2 2023 %



Source: Stats SA (2023b).

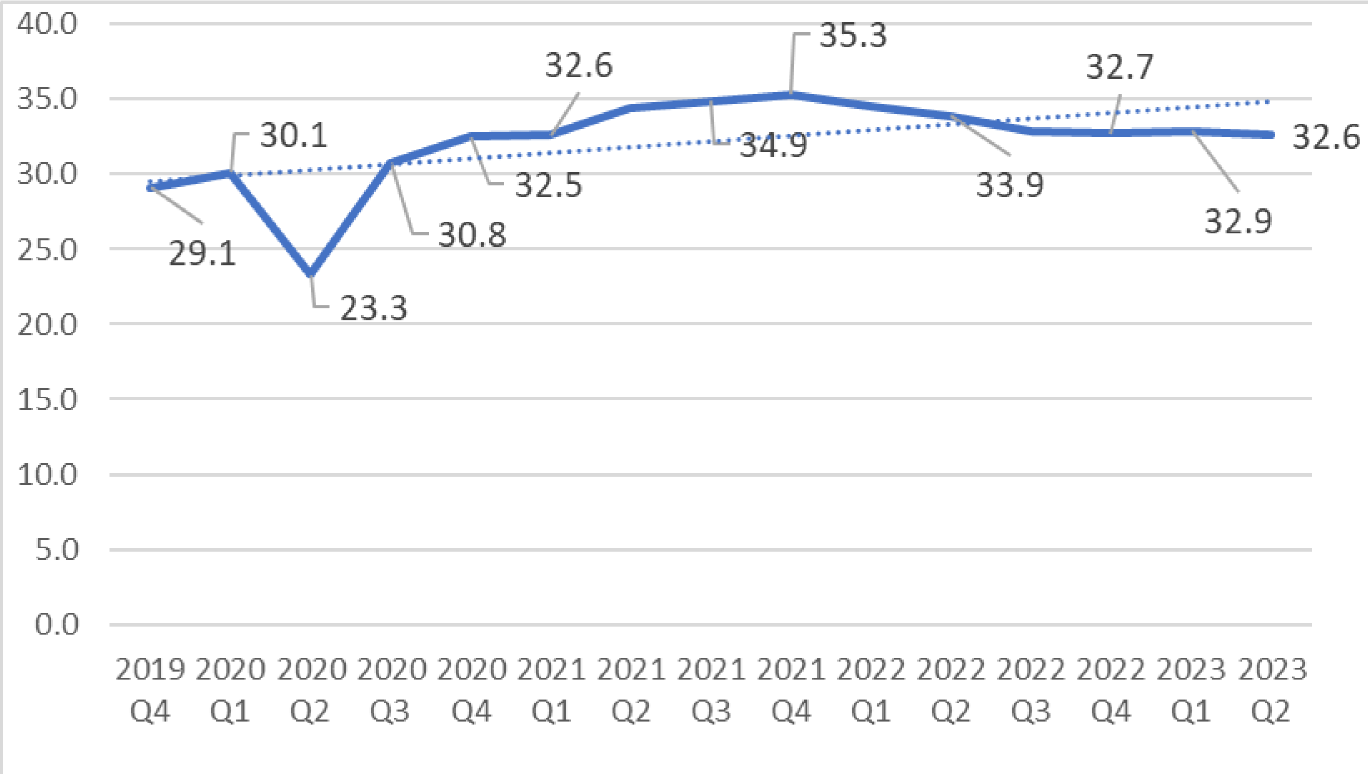
In terms of demand, a substantial increase in investment in machinery and equipment, mainly for electricity infrastructure, pushed gross fixed capital formation up. Although consumers continued to spend more on restaurants and hotels, overall household consumption is on a decline. With advantageous weather conditions, better cultivation and an increase in export demand, the agriculture industry grew by 4.2 per cent – a feat achieved after two back-to-back quarters on a downward trend. This was primarily driven by the rise in production of field crops and horticulture products. By contrast, transport and storage, trade and construction all lost momentum in the second quarter – reporting declines across the board (Stats SA, 2023b, c and d).

The SARB Monetary Policy Committee press release statement also noted that GDP growth forecast for 2024 and 2025 will remain unchanged from its previous forecast, at 1.0 per cent and 1.1 per cent, respectively (SARB, 2023).

VI. Unemployment rate in Q2: 2023

The latest Quarterly Labour Force Survey (QLFS) conducted between April to June 2023 (Q2:2023) shows a slight decrease in the official unemployment rate, from 32.9 per cent in Q1: 2023 to 32.6 per cent in Q2 (see Figure 4). This is the lowest reading in unemployment rate since Q1: 2023.

Figure 4: Unemployment Rates – South Africa Q4: 2019 – Q2: 2023

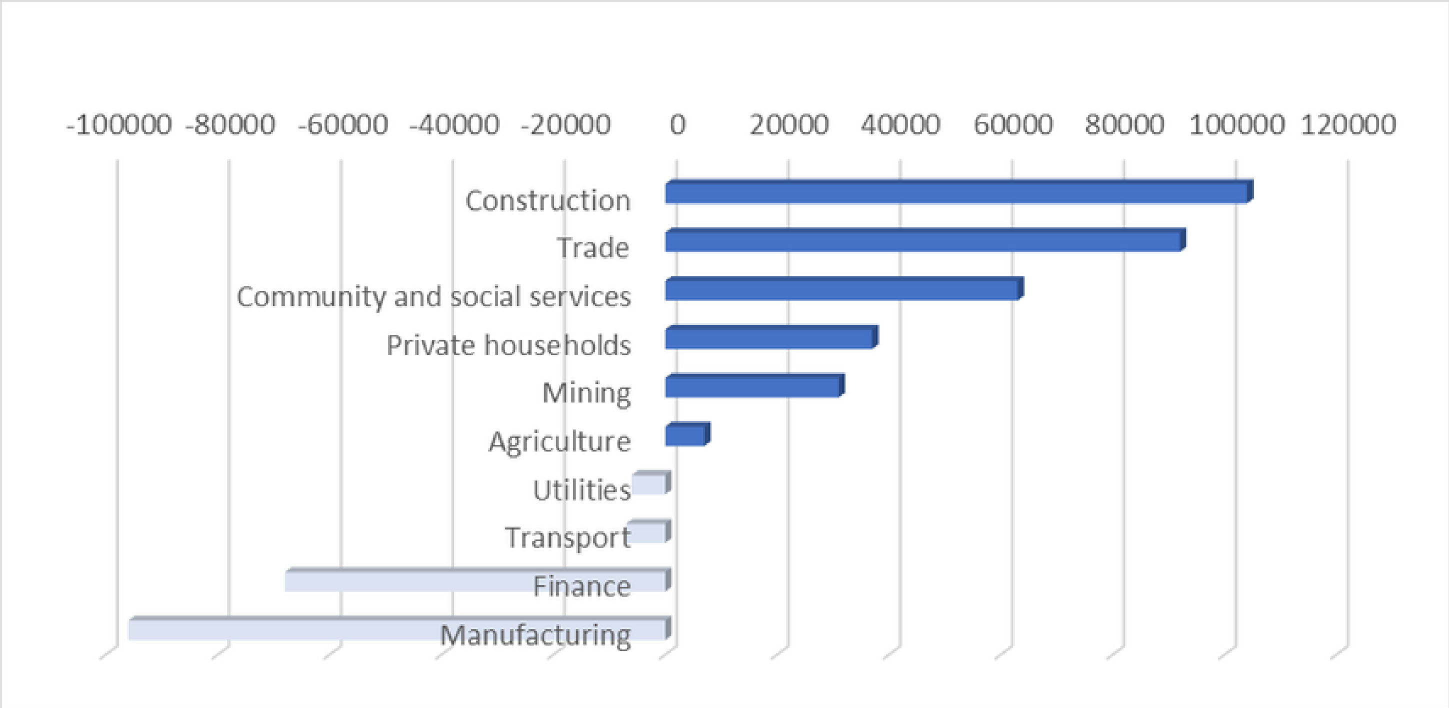


Source: Stats SA (2023d)

The total number of employed persons reached 16.3 million in Q2:2023 from 16.2 million in Q1:2023, reflecting a 154 000 increase in jobs created during the quarter (Stats SA, 2023e). Unemployed persons decreased to 7.9 million, down by 11 000 in comparison to the first quarter. Between the two quarters, there was a 2.9 per cent decline in the number of discouraged worker-seekers and a 0.7 per cent increase amongst those who were not economically active for reasons besides discouragement.

While the informal sector experienced an employment increase of 107 000 in Q1: 2023, it was, unfortunately, followed by a 33 000 decrease in employment in the second quarter. Losses in this sector were mainly driven by transport, manufacturing and finance. In contrast, a 143 000 increase in employment was observed within the formal sector. Five industries within this sector contributed towards this increase, including construction and trade (see Figure 5).

Figure 5: Number of Workers hired/shed in South Africa – By Industry Q1: 2023 – Q2: 2023



Source: Stats SA.

At the provincial level, seven provinces improved the number of persons employed including the Limpopo province which recorded the largest quarter-to-quarter change with a rise of 5.8 per cent. It was followed by the Western Cape (up by 48 000) and Eastern Cape (up by 23 000). Decreases in employment were observed in the Free State (down by 59 000) and Northern Cape (down by 17 000).

Amongst the youth, 34.2 per cent of 10.2 million young people aged 15–24 years were recorded as not in employment, education, or training (NEET), resulting in a NEET rate 1.5 per cent lower than Q2:2022.

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