Macroeconomic Trends in South Africa

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SUSTAINABLE DEVELOPMENT GOALS

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This note highlights the latest trends in the country's fiscal situation, annual overview, inflation, the interest rate, GDP Growth, and the unemployment rate in Q3 of 2023.

I. Introduction

In a year of intense electricity rationing (loadshedding) and inflationary pressures, South Africa's economy contracted in the third quarter of 2023, after two consecutive quarters of expansion. It is anticipated that if power cuts ease in 2024, economic growth stands to improve. Projected growth rates by the South African Reserve Bank (SARB) of 1.2 and 1.3 per cent in the next two years and of 1.4 per cent on average over the next three years forecast by the National Treasury, are still too low.

In the next seven years, South Africa will need significantly higher growth rates and greater investment focus on the six transitions identified by the UN Secretary-General and the UN Sustainable Development Group. These are on food systems, energy access and affordability, digital connectivity, education, jobs and social protection, and climate change, for true catalytic, interlinked, and transformative effects across the 17 SDGs by 2030.

The good news is that, despite growth contraction in the third quarter of 2023, the unemployment rate continued on a gentle declining trajectory, reporting the lowest reading in three years. This reflects some improvements to the labour market and overall recovery in employment levels equal to the ones observed before COVID-19. Despite this lower rate, South Africa remains one of the leading countries with the highest level of unemployment in the world.

Annual inflation, though still sensitive to shocks, has been rising more gradually compared to several emerging and advanced economies. This has allowed South African Reserve Bank to leave the repurchase rate unchanged in its recent Monetary Policy Committee meeting, even while remaining vigilant towards potential risks.

II. Annual overview: 2023 at a glance

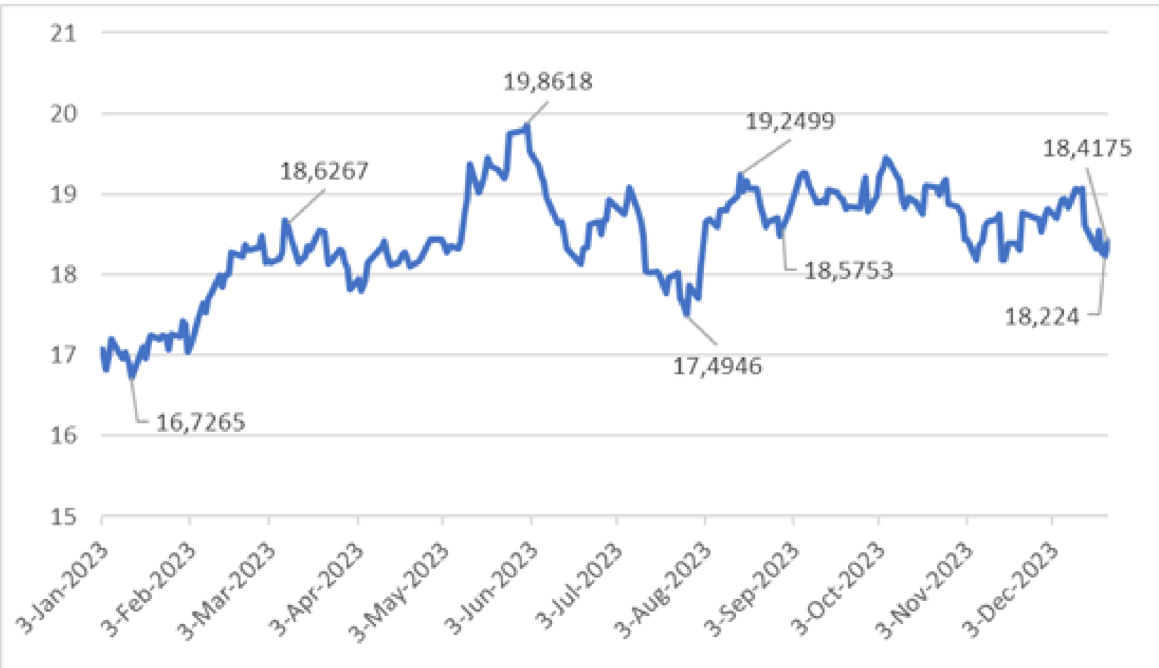
An overall review of 2023 indicates a slightly adjusted annual GDP growth of 0.8 per cent from 0.7 per cent reported in September. Growth forecast for 2024 and 2025 are at 1.2 per cent and 1.3 per cent, respectively (SARB, 2023). Although power cuts in South Africa have somewhat diminished in intensity in recent months, energy and logistical constraints continue to impact economic activity and increase costs to GDP. In addition, El Niño conditions still pose longer-term concerns.

Even with a low growth rate in 2023, unemployment has been positively declining since 2022, with the year 2023 contributing greatly to this trend. However, it remains open whether this pattern will continue for the next quarter or into the rest of 2024. Without sustained activity expansion in key labor-intensive industries and growth acceleration more generally, a floor to unemployment rates should be reaching soon. With a year of general elections ahead of us, a high unemployment rate and inadequate job opportunities will be sources of contention, affecting social cohesion across the country.

While interest rates remain elevated, they are expected to decline. But this depends on both the internal and external factors. The headline inflation for 2023 has been revised from 5.9 per cent to 5.8 per cent, with 2024 forecast at 5.0 per cent, and expected to stabilize at 4.5 per cent in 2025 and 2026. These rates are within SARB's inflation target range of 3-6 per cent. While inflation projections have improved, SARB remains cautious against risks to the inflation outlook. With a still fragile global economy and elevated interest rates, SARB anticipates persistent volatility across international financial markets and asset prices, resulting in suppressed investor demand and capital flows. SARB's forecast for global growth in 2023 is at 2.7 and 2.6 per cent in 2024. However, because of weaker household consumption, declining property prices, climate change and geopolitical tensions, the long-term economic outlook remains uncertain.

In an environment marked by uncertainty, another key variable is the exchange rate. The rand has weakened over the last year, depreciating by 7.1 per cent against the US dollar (IMF database).[1] The rand fluctuated all year, with the lowest rate recorded in January at R16.72 and the highest in June 2023 at R19.86 (see Figure 1). This volatility reflects, among other factors, high risk aversion by international investors in a year marked by continued global risks.

Figure 1: Rands per US$ Dollar: 01 January 2023 – 31 December 2024



Source: IMF Database (2023).

[1] End of period.

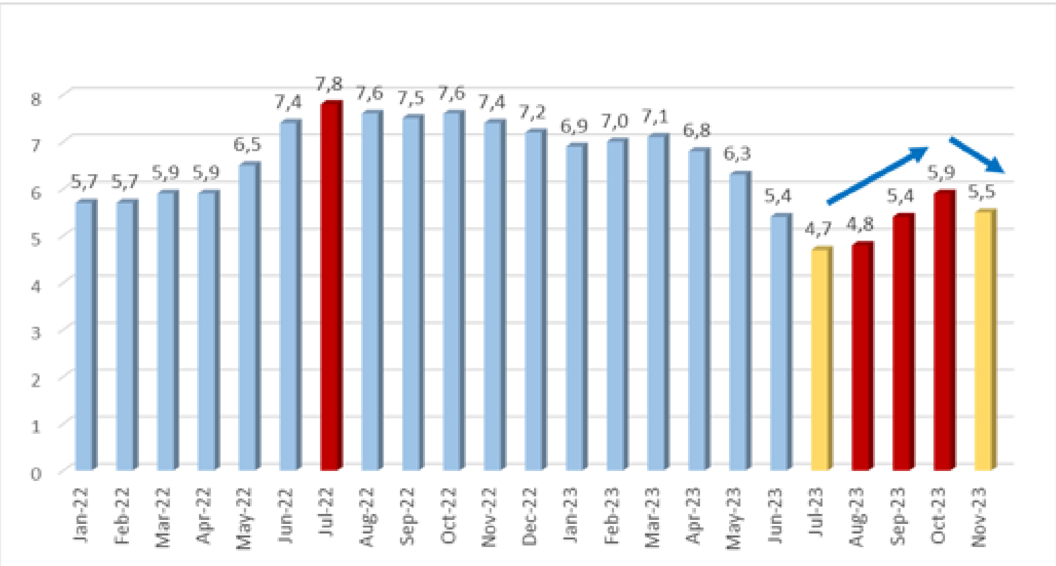
South Africa's fiscal position deteriorated in the second half of 2023, with projected public debt for the financial year 2023/24 growing from 72.2 per cent of GDP in the 2023 Budget Review of February 2023 to 74.7 per cent of GDP in the 2023 Medium-Term Budget Policy Statement (MTBPS) of November 2023. Following the Eskom debt relief arrangement, first announced in the 2023 Budget Review, and a year of lower tax revenues than initially projected, higher employee compensation and rising borrowing costs, gross public debt is expected to stabilize only in 2025/26 at 77.7 per cent of GDP. The February 2024 Budget Review will introduce reforms to address challenges and economic constraints, but the extent to which they will be accepted is yet to be determined given the political concerns and the upcoming 2024 elections. The country's external financial needs will escalate as the current account deficit expands from a projected 1.3 per cent of GDP this year to 2.6 per cent of GDP in 2024.

In an already tense and competitive political landscape, the combination of a slowly growing economy, high unemployment rate and rolling blackouts affecting the cost of living and doing business, the market remains uncertain – particularly amongst investors. On a positive note, the government is undertaking measures to reform the energy sector, with the country witnessing a growing trend in a pipeline of private investment in renewables. What is needed is that this growing investment spreads across different sectors, including in social infrastructures such as water, sanitation and transport so that progress on key SDG indicators can be made and urgent societal demands for better public services are met.

III. Annual Inflation

Following three months of an upsurge, the annual consumer inflation slowed to 5.5 per cent in November 2023 from 5.9 per cent in October 2023 (see Figure 2). The annual inflation rate on food and non-alcoholic beverages (NAB) continued its four-month rise to 9.0 per cent in November 2023. With the avian flu outbreak in the first half of the year, the poultry market has faced considerable disruptions and shortages, thus affecting the price of meat and eggs.

Figure 2: Annual Inflation in South Africa – End of Period %



Source: Stats SA (2023a).

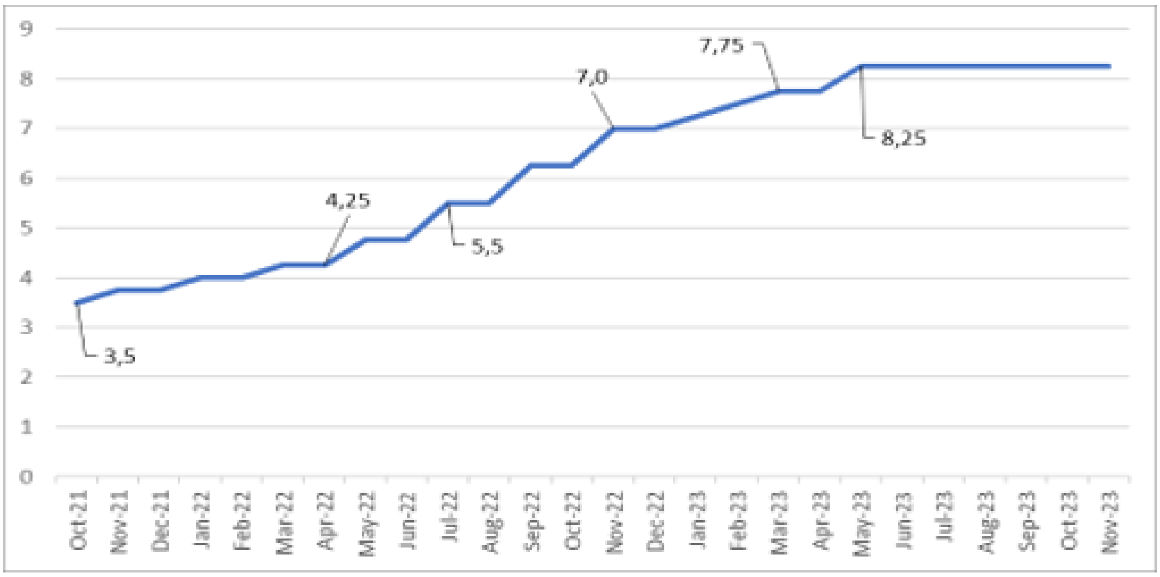
Housing and utilities, and miscellaneous goods and services increased by 5.5 per cent, and 5.3 per cent, respectively. The annual rate for fuel declined to 1.8 per cent from 11.2 per cent in October 2023, resulting in a decline in the annual growth rate for the price of transport from 7.4 per cent to 4.3 per cent during the same period.

The annual producer price inflation declined from 5.8 per cent in October 2023 to 4.6 per cent in November 2023, breaking a three-month consecutive rise in PPI (Stats SA, 2023b). The main contributor of this decrease includes food products and beverages, metals and machinery, coke, petroleum, chemical, rubber and plastic products.

IV. SARB's Interest Rate in Q3: 2023

In its latest meeting on 23 November 2023, the SARB Monetary Policy Committee (MPC) made no changes to the repurchase rate, currently at 8.25 per cent per year (see Figure 3), a rate it has maintained since May 2023. The MPC concluded that at the current repurchase rate level, policy is restrictive, aligned with the inflation outlook and projections. The Committee remains alert and prepared to act in response to potential upside risks stemming from the still uncertain world economic outlook.

Figure 3: South Africa's Repurchase Rates Oct 2021 – Nov 2023



Source: SARB (2023).

To support a declining inflation trajectory and achieve lower interest rates, the Committee recommends attaining a prudent public debt level, expanding the supply of energy, having a firm hand on administered prices, and maintaining a real wage growth that is consistent with productivity gains.

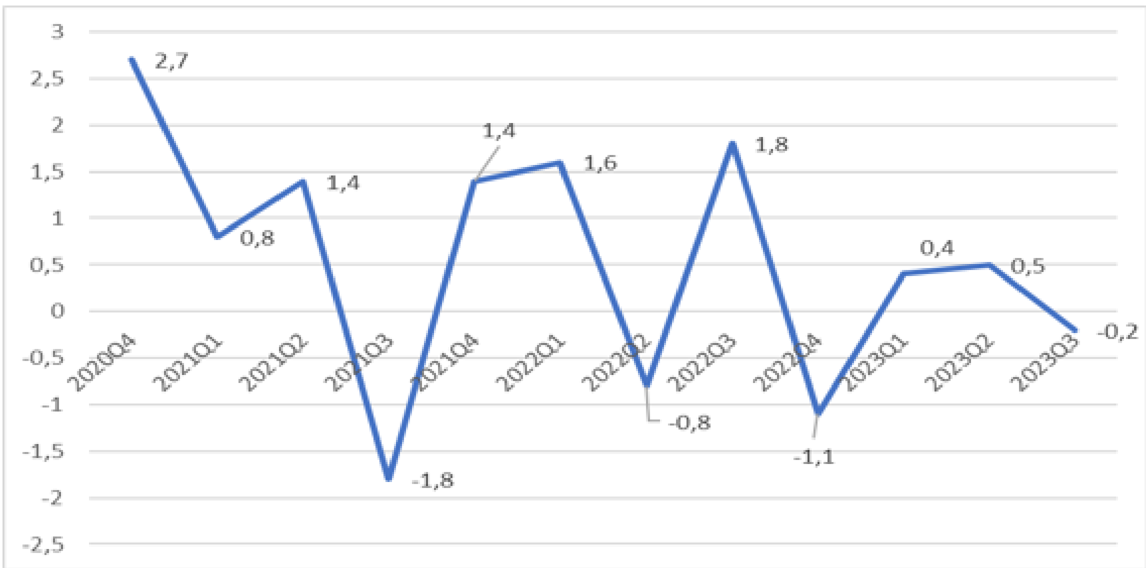
V. GDP Growth in Q3: 2023

In Q3 of 2023, South Africa's GDP decreased by 0.2 per cent, following an increase of 0.4 per cent in Q1 and 0.5 per cent in the Q2 of 2023 (see Figure 4). Of the ten industries recorded, five of them decreased in Q3:2023, with the agriculture, construction and manufacturing industries leading the decline by 9.6 per cent, 2.8 per cent and 1.3 per cent, respectively.

The fall within the agriculture industry is partly due to the reduction in economic activities observed across field crops, animal, and horticulture products. Moreover, with the avian flu outbreak adversely impacting production, both the agricultural and manufacturing industries experienced weaker demand.

In contrast, the electricity, gas, and water industry grew by 0.2 per cent in Q3:2023, driven up by increased electricity generation and consumption.

Figure 4: South Africa Quarterly GDP Growth Q4 2020 – Q3 2023 %



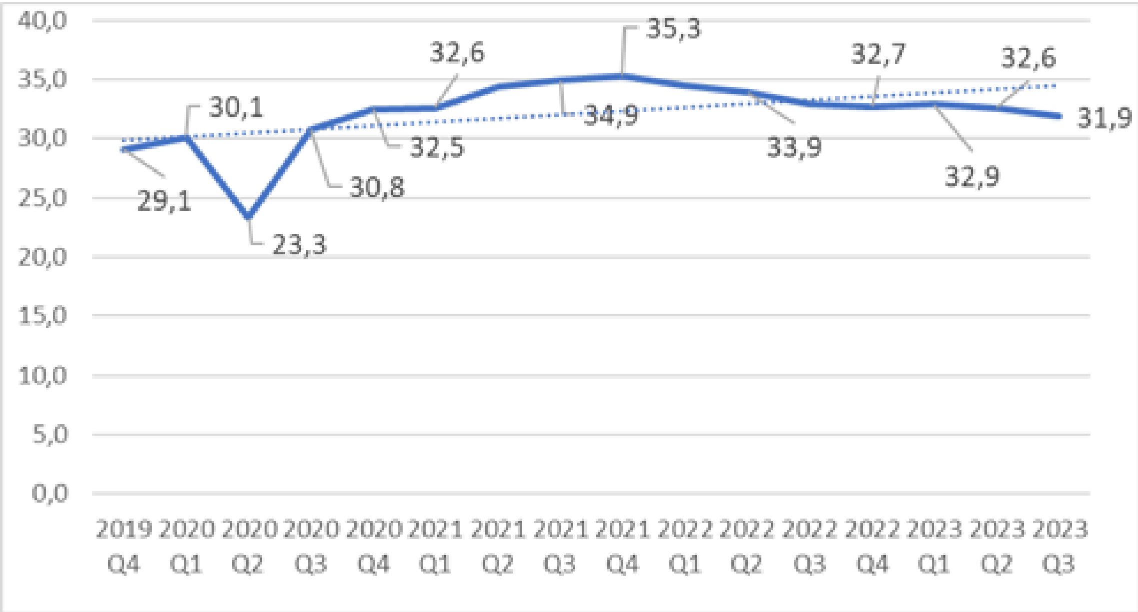
Source: Stats SA (2023d).

In terms of expenditure on GDP, both the household final consumption expenditure (HFCE) and Gross fixed capital formation (GFCF) faced a decrease in Q3: 2023 of 0.3 per cent and 3.4 per cent, respectively. Household consumption declined for another quarter, with consumers preferring to spend more on clothing, restaurants, and hotels, while lowering their expenditure on transport, recreation, and housing utilities. There was a lower demand for machinery, electrical and transport equipment; chemical products; and vegetable products. Consequently, the country's import of goods and services fell by 8.6 per cent in Q2: 2023. Net exports, mainly driven by improved trade in vehicles and transport equipment and precious metals, increased slightly by 0.6 per cent from the previous quarter.

VI. Unemployment rate in Q3: 2023

The latest Quarterly Labour Force Survey (QLFS), conducted between July and September 2023 (Q3: 2023), indicates a decrease in the official unemployment rate, from 32.6 per cent in Q2: 2023 to 31.9 per cent in Q3: 2023 (see Figure 5). This is the lowest reading since Q3: 2020 which reported an unemployment rate of 30.8 per cent.

Figure 5: Unemployment Rates – South Africa Q4: 2019 – Q3: 2023

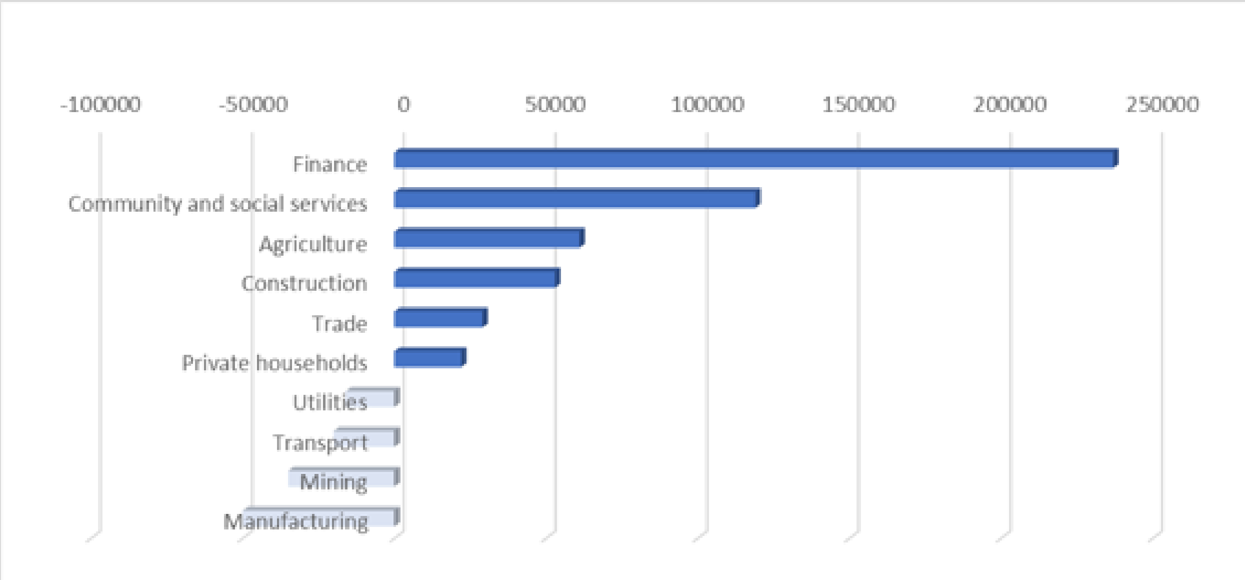


Source: Stats SA (2023e).

The total number of employed persons increased by 399 000 to 16.7 million in Q3:2023 from 16.3 million in Q2:2023. This creation of jobs in the economy has surpassed pre-COVID levels of employment. Unemployed persons decreased by 72 000, from the 7.9 million reported in Q2: 2023, to 7.8 million. This resulted in a 1.3 per cent increase in the number of people in the labour force. During Q2 and Q3 of 2023, the number of discouraged work-seekers and people who were not economically active for reasons besides discouragement declined by 0.8 per cent and 1.2 per cent, respectively. This shift in the status of persons from "not economically active" and "unemployed" to the "employed" category ultimately resulted in a 0.7 percentage point decrease in the official unemployment rate between Q2 and Q3 of 2023.

In contrast to Q2 of 2023, growth in employment is positively reported across all sectors in Q3 of 2023, with the highest observed gains in the formal sector (287 000), followed by agriculture (61 000), informal sector (29 000) and private households (22 000). Six industries within these sectors contributed towards this increase, including finance, and community and social services (see Figure 6).

Figure 6: Number of Workers hired/shed in South Africa – By Industry Q2: 2023 – Q3: 2023



Source: Stats SA (2023e).

Eight provinces increased the number of persons employed in Q3: 2023 including Kwazulu-Natal (up by 152 000), Limpopo (up by 70 000), and the North West province (up by 61 000); which recorded the largest quarter-to-quarter change in employment with a rise of 6.9 per cent. Decreases in employment were only observed in Free State (down by 3 000), reflecting a quarter-to-quarter trend in employment losses of 0.4 per cent, 7.5 per cent, and 0.6 per cent recorded in Q3: 2023, Q2: 2023 and Q1: 2023, respectively.

Amongst the 10.2 million young people aged 15 – 24 years, 32.7 per cent were recorded as not in employment, education, or training (NEET), a slight fall from the 34.2 per cent observed in Q2 of 2023. This quarter's NEET rate is 1.8 percentage points lower than Q3 of 2022.

In terms of unemployment rate by sex, in Q3: 2023, 34.0 per cent of women were unemployed compared to 35.7 per cent in Q2: 2023 while men reported a rate of 30.1 per cent and 32.6 per cent for Q3: 2023 and Q2: 2023, respectively. Although the rate has declined, women in South Africa are systematically more likely to be unemployed than men.

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