Macroeconomic Trends in South Africa

May 2023 - Edition

UNITED NATIONS
SOUTH AFRICA

Macroeconomic Trends in South Africa

This note gives the highlights of South African unemployment rates Q1 2023, inflation in April 2023, the latest interest rate change in May 2023 and the rand depreciation.

I. Introduction

In a context of still very volatile external environment, uncertainties surrounding the domestic economy and elevated inflation expectations, on 23 May 2023 the South African Reserve Bank (SARB) increased the benchmark rate once again, to 8.25 per cent per year. At the same time, SARB revised projected annual GDP growth upward from 0.2 to 0.3 per cent for the year 2023. SARB also expects the rand to further depreciate following a decline observed in the past several months, as well as a progressively larger current account deficit, to reach 2.5 per cent in 2023, and 3.1 and 3.6 per cent in 2024 and 2025, respectively.

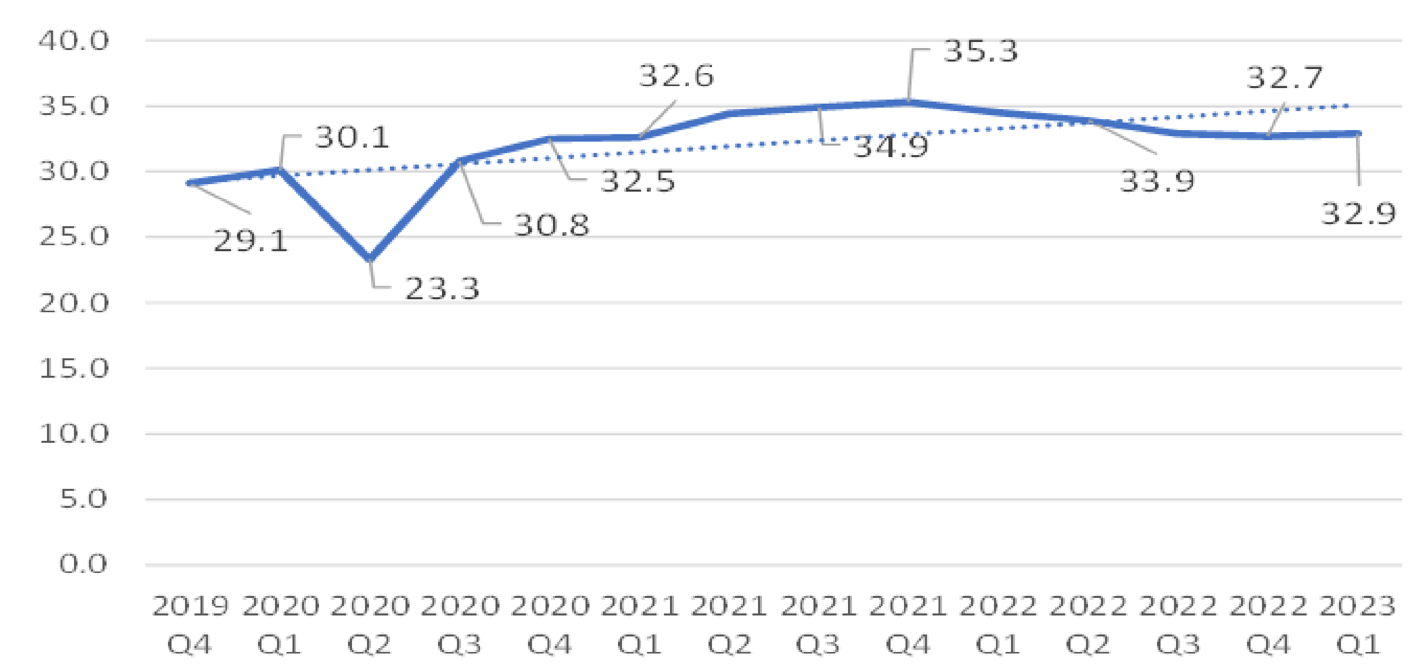
Despite expectations that the economy may have contracted in the first quarter of 2023 (mainly because of loadshedding), employment in South Africa expanded in the quarter. However, the unemployment rate, which measures the share of unemployed people in the total labour force, increased by 0.2 percentage points to 32.9 per cent.

II. Unemployment rates Q1 2023

In the first quarter of 2023, unemployment rate in South Africa increased to 32.9 per cent from 32.7 per cent in the fourth quarter of 2022 (see Figure 1). This increase occurred despite employment expanding between 2022Q4 and 2023Q1 by 258 thousand to 16. 2 million people. The rise in the unemployment rate mainly reflected a migration of a portion of the population from the status of not economically active to the country's labour force – the sum of those employed and unemployed. The consequence of this move was the increase in the number of unemployed persons by 179 thousand to a total of 7.9 million people (Stats SA, 2023a). The rise in the unemployment rate in 2023Q1 was the first registered since 2021Q4, when it peaked at 35.3 per cent and declined gradually to 32.7 per cent a year later

[1] These IMF figures in the text are based on PPP for the calculation of country weights, while the figures on Table 1 below, country weights are based on market exchange rates, unless otherwise indicated.

Figure 1: Unemployment Rates – South Africa
Q4:2019-Q1-2023

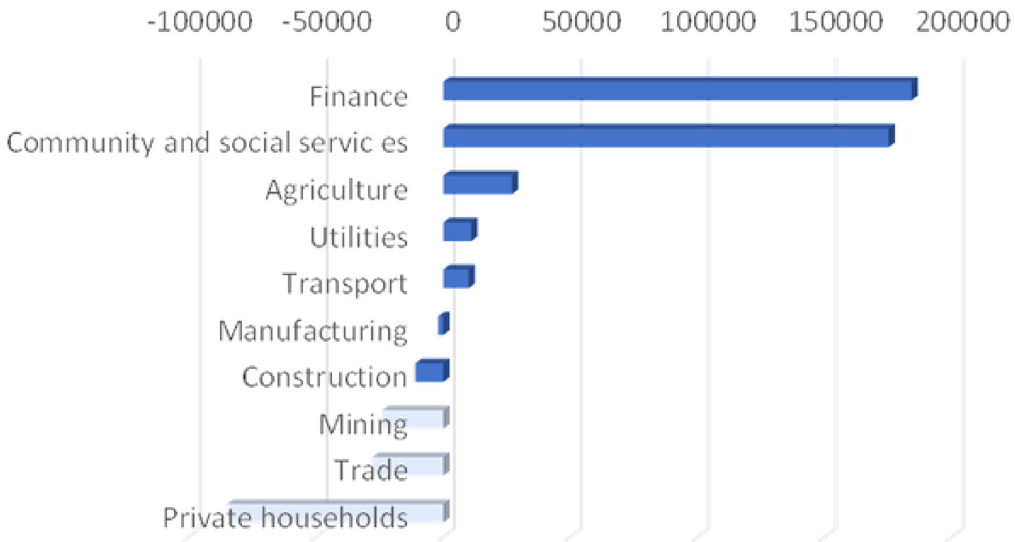


Sources: *Source: QLFS, Stats South Africa.*

The rise in employed people was observed both in the formal and informal sectors. By industry, employment expansion was observed in finance, community and social services, agriculture, utilities and transport, while a contraction was observed in private households, trade, mining and manufacturing (Stats SA, 2023a; see Figure 2). Whilst there is a general expectation that economic activity has been impacted adversely by the energy crisis since late 2022, it is not entirely clear from the above trends what the intensity of this impact has been or to what extent it has been felt across different industries – it possibly has affected mining and manufacturing more strongly, and less so finance and some other service-related activities.

The rate of young people aged 15-34 years who were not in employment, education or training (NEET) decreased from 46.3 per cent to 44.7 per cent between 2022 Q4 and 2023Q1. This gentle decline may be reflecting government's push for upscaling training programmes targeting the youth.

Figure 2: Number of Workers hired/shed in South Africa – By Industry From Q4:2022 to Q1:2023



Source: Stats South Africa.

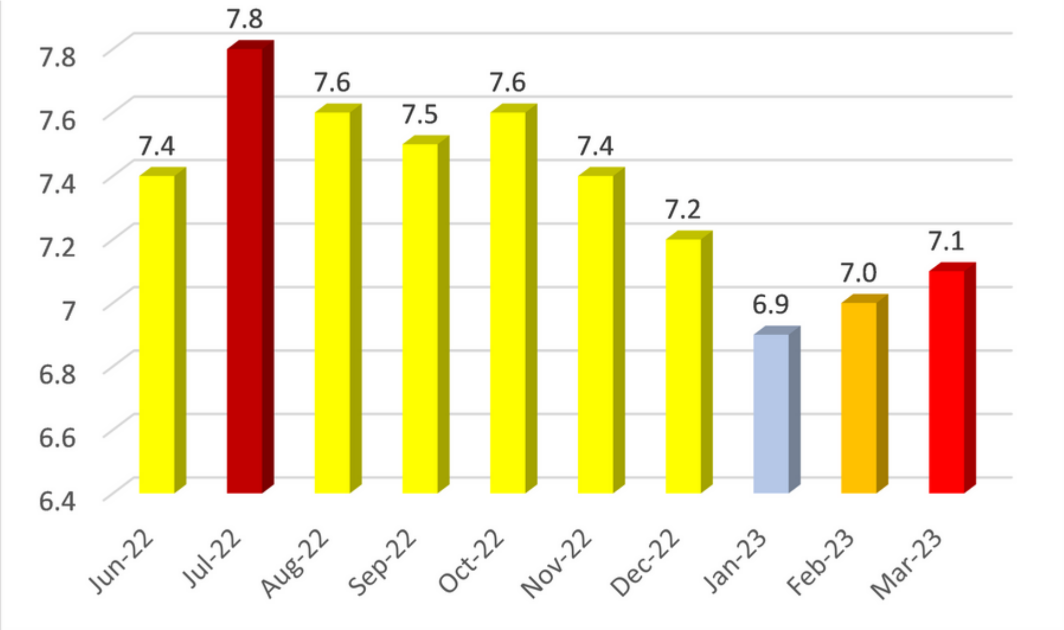
III. Annual inflation receded in April 2023

.

Annual inflation reversed course again, declining between March and April 2023 from 7.1 per cent to 6.8 per cent, after it had picked up for two consecutive months. It is the lowest rate since April 2022 when it registered 5.9 per cent. In April, a slight decline in annual inflation for food and non-alcoholic beverages was observed – to 13.9 per cent against 14.0 per cent in March 2023.

While bread and cereals' prices increased by 20.8 per cent – thus higher than 20.3 per cent registered in March, prices of dairies milk, eggs and cheese increased 14.5 per cent which, according to Stats SA, was "the highest in 14 years".At the same time, inflation for transport has been declining successively, reaching 7.6 per cent in April, reflecting the ongoing decline in fuel inflation, which in the same month reached 5 per cent (Stats SA, 2023b; see Figure 3).

Figure 3: Annual Inflation in South Africa –End of Period %

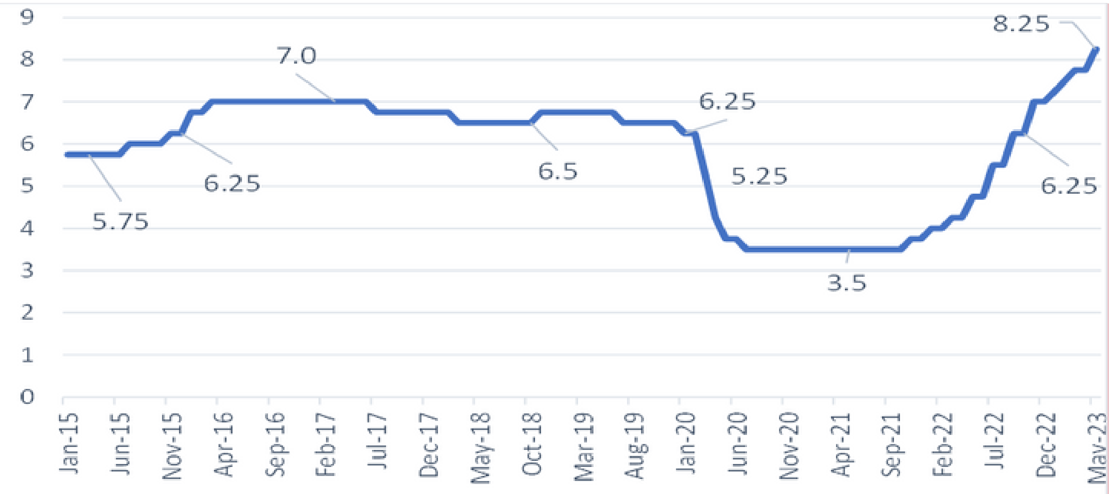


Source: Stats SA.

IV. SARB's interest rate increase in May 2023

Despite a decline in annual inflation registered in April, on 25 May 2023, the SARB Monetary Policy Committee voted unanimously for another rise in the benchmark rate, this time by 50 basis points to 8.25 per cent per year (SARB, 2023; see Figure 4). It is the tenth consecutive rate rise since November 2021. The factors SARB listed as justifying this latest increase include the elevated global inflation, higher domestic inflation expectations based on domestic market surveys, predicted further weakening of the rand, and larger financing needs, both domestic and external, the latter due to projected deterioration of the country's current account. Continuing loadshedding is an additional factor creating upside risks to inflation.

Figure 4: South Africa's Repurchase Rates – Jan 2015-May 2023

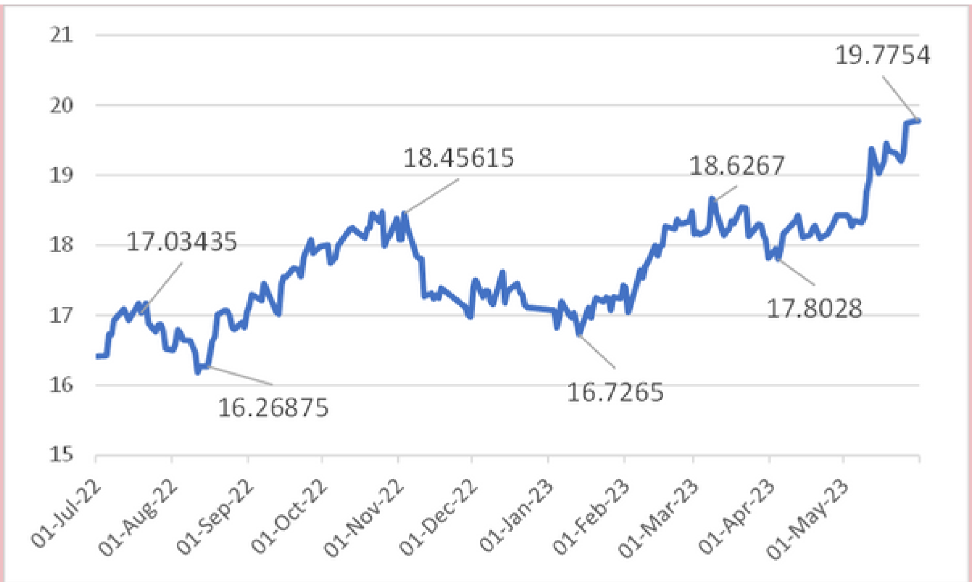


Source: South African Reserve Bank (https://www.resbank.co.za/en/home/what-we-do/statistics/key-statistics/selected-historical-rates

V. The latest depreciation of the rand.

The rand has been on a depreciating trajectory, which seems a major factor behind the SARB's decision to raise interest rates. Soon after the SARB monetary policy decision, the rand depreciated further immediately, registering "its biggest single-day fall in more than a year" (Mukherjee, 2023); according to Mukherjee from Reuters, an explanation given by financial analysts to this reaction is that markets read the statement released by the SARB's Monetary Policy Committee as indicating that the rand will probably continue depreciating in the next months due to the expected deterioration of South Africa's current account – see above.

Figure 5: Rands per US$ Dollar: 01 Jul 2022-31 May 2023



Source: IMF database

References

Mukherjee, P. (2023). South African rand plummets as 50 bps rate hike fails to impress traders. Reuters. 25 May. Available at: https://www.reuters.com/world/africa/us-debt-ceiling-concerns-hurt-south-african-rand-before-rate-decision-2023-05-25/

SARB (2023). Statement of the Monetary Policy Committee. Press Statement. South African Reserve Bank. 25 May.

Stats SA (2023a). Quarterly Labour Force Survey Quarter 1: 2023. Statistical Release P0211. Stats South Africa. 16 May.

Stats SA (2023b). Inflation eases to 11 month low. Stats South Africa. Available at: https://www.statssa.gov.za/?p=16337

Macroeconomic Trends in South Africa

CONTACT US:
United Nations Resident Coordinator's Office
UN House, Metro Park Building,
351 Francis Baard Street, Pretoria, South Africa
Telephone: +27 12 354 8504
Email: unic-pretoria@un.org

Facebook: @UNinSouthAfrica
Twitter: @UNinSouthAfrica
Instagram: @UNinSouthAfrica
Website: https://southafrica.un.org/