



Economic trends:

Key trends in the South African economy

April 2023

Department of Research and Information

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World economy

Grappling with adverse developments on various fronts, the world economy's expansion momentum slowed significantly in 2022. These developments included the negative repercussions of the military conflict between Russia and Ukraine, continued challenges in global supply chains, sharply slower economic growth in China, extraordinarily high and persistent inflation in numerous economies and, consequently, aggressive tightening of monetary policy by many central banks.

Global output expanded by 3.4% in real terms, according to International Monetary Fund (IMF) estimates. This followed a robust 6.2% rebound in 2021 as the world recovered from the economic downturn induced by the Covid-19 pandemic and associated lockdowns.

The United States (US) economy performed reasonably well despite higher inflation and interest rates, recording 2.1% growth in its real GDP in 2022. Facing serious energy-related challenges and weakening demand, the Eurozone's expansion momentum moderated to 3.5% in 2022. China's economic performance, in turn, was highly affected by its government's zero-Covid policy and efforts to deleverage the property sector, with real GDP growth amounting to only 3.0% in 2022.

World trade expanded by 5.4% in 2022, compared to 10.4% in 2021 (IMF data), affected by weakening demand conditions and the imposition of sanctions by several countries on Russian exports.

The slower pace of economic activity, including more subdued fixed investment, placed downward pressure on the prices of several industrial commodities in the second half of 2022, although the energy crisis kept crude oil and thermal coal prices at elevated levels. Although the prices of certain agricultural commodities declined on the back of resumed exports out of Ukraine, they remained relatively high.

Global inflation abated to some extent towards the latter part of 2022 but remained well above targeted levels in many countries. Inflationary pressures have remained quite strong in the food, non-alcoholic beverages and energy categories, but some tapering in energy inflation was witnessed in recent months.

Softer commodity prices, relatively weak demand partly due to substantially higher interest rates, and the normalisation of supply-chains are starting to support a gradual moderation in headline inflation in many countries, although core inflation has tended to remain at elevated levels. This is of concern for central banks, implying that monetary policy may remain in tightening mode for some time. High inflation, monetary policy tightening and heightened geopolitical uncertainty have been reflected in increased volatility in financial markets.

The world economy is expected to experience a significant slowdown in 2023, with real GDP forecast by the IMF to expand by 2.8%. The advanced economies as a group may witness a considerable slowdown, but growth may be marginally higher in emerging market and developing economies. However, downside risks abound, which may limit the projected global growth trajectory over the medium-term.

South African economy

South Africa's economic recovery also suffered significant setbacks in 2022 due to adverse developments both of a global and domestic nature.

External factors included the impacts of the Russia-Ukraine conflict, global supply-chain constraints, rising inflation and interest rates, as well as weakening global demand. These affected developments domestically regarding prices, monetary policy, financial markets, production activity, export performance and investment spending.

Domestically, severe loadshedding, transport and logistical challenges, the devastating floods in KZN, industrial actions in several sectors and low business and consumer confidence, adversely impacted the economy's performance as operating and trading conditions worsened.

The pace of expansion thus moderated to 2% in 2022, following a 4.9% rebound in 2021.

The manufacturing sector was under significant pressure as power supply interruptions along with transport and logistics constraints, supply chain challenges, weak demand globally and domestically, and rising operating costs underpinned yet another poor performance in 2022. The mining sector's performance was also detrimentally affected by electricity supply interruptions, inadequate operational capacity and efficiency challenges in the rail network and bottlenecks at ports, but also by industrial action and a lack of investment in the sector per se. The agricultural sector's performance did not match the previous year's but some of its segments posted strong output growth, such as those producing vegetables, fruits and field crops.

Households saw their purchasing power being gradually eroded by rapidly rising costs of living and progressively higher debt servicing costs due to interest rate hikes. Consumer sentiment consequently fell to the third lowest level on record. Household consumption expenditure increased by 2.3% for the year but a declining trend was evident on a quarterly basis.

Fixed investment spending rose by 4.7% in 2022, supported by private sector capital outlays. However, the quantum of fixed capital formation in the economy was still well below pre-crisis levels in real terms.

Public finances improved relative to previous expectations due to large tax revenue collections from the mining sector as favourable commodity prices boosted profitability, but also due to a degree of restraint with regard to government spending. Although the fiscal deficit narrowed compared to Budget projections, the sizeable and rising debt burden (71.1% of GDP in 2022/23) remains of concern.

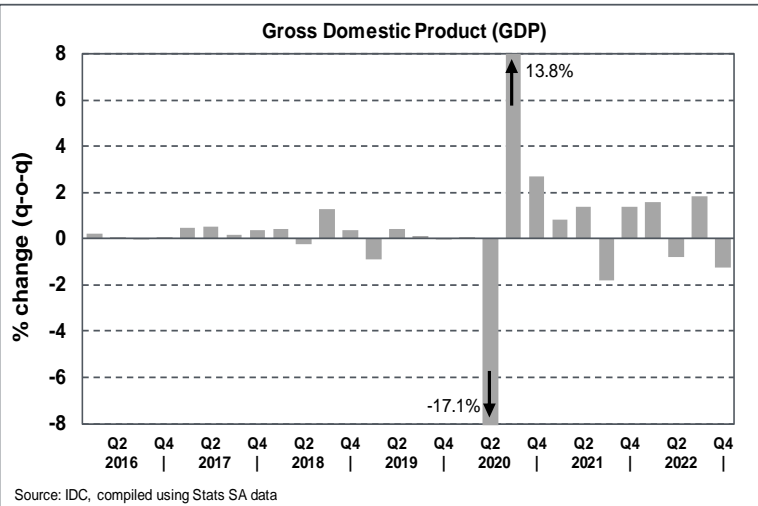
South Africa's export performance was affected by weaker global demand and softer commodity prices, with merchandise exports having increased by 11.1% in nominal terms in 2022. Imports, on the other hand, rose sharply (+31.8%) due mainly to a steep rise in imported refined petroleum products. Hence, the trade surplus narrowed to R221.6 billion for the year, from a record high of R448.1 billion in nominal terms in 2021.

Despite the modest growth and challenging business conditions, overall employment in the formal and informal sectors of the economy increased by 1.39 million over the year to the fourth quarter of 2022. Nevertheless, the economy still employed approximately 485 000 fewer people than in Q4 2019 (pre-pandemic). The unemployment rate edged lower to 32.7% by Q4 2022, from an all-time high of 35.3% a year earlier, but some 7.8 million people found themselves without a job.

Consumer price inflation rose steeply towards a recent peak of 7.8% in July 2022 but subsequently moderated to some extent, measuring 7.0% in February 2023. To contain inflation expectations, the South African Reserve Bank has raised the repo rate by a cumulative 425 basis points since November 2021, to 7.75% presently.

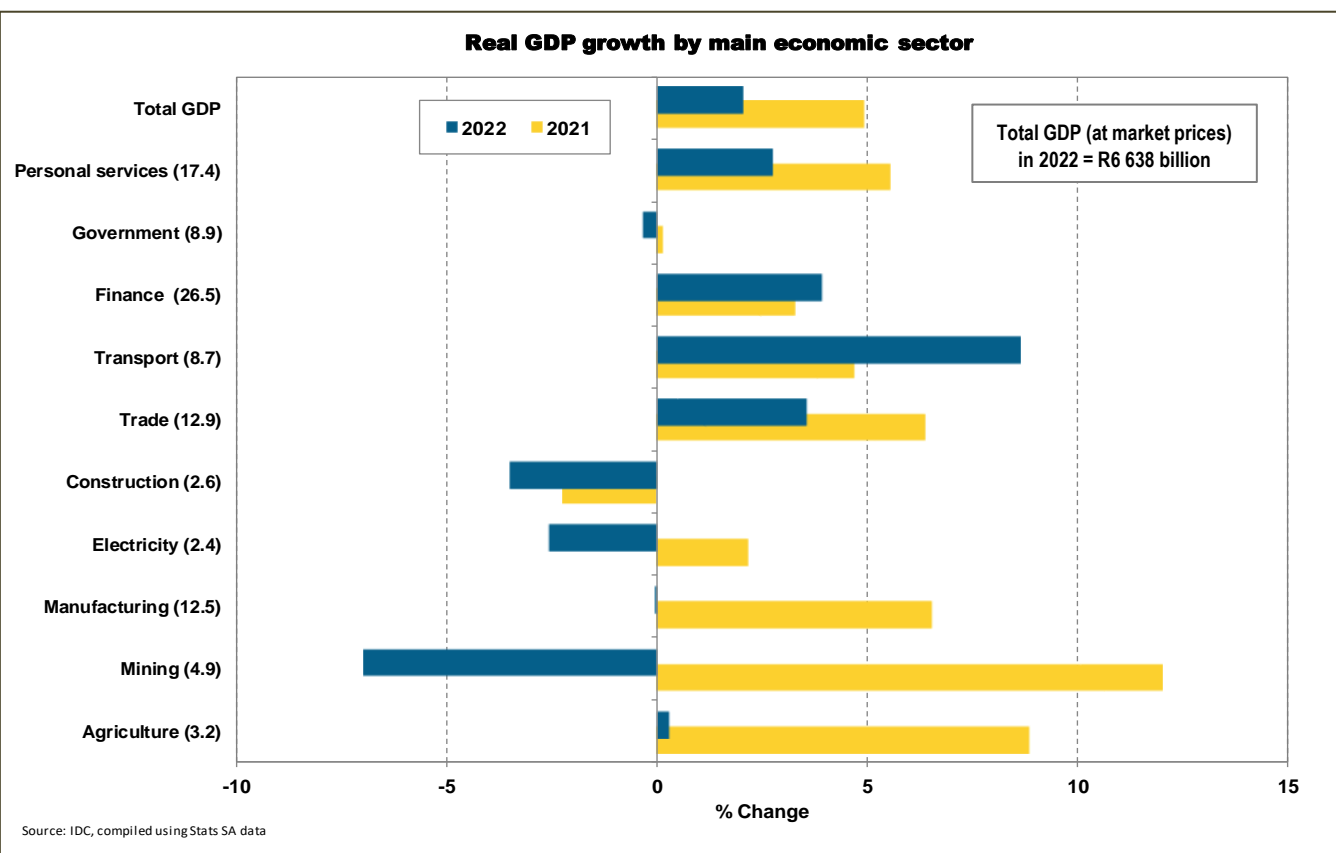
The South African economy entered 2023 facing major challenges, some of which will take time to resolve. Very weak economic growth is thus anticipated in the current year. The implementation of crucial structural reforms and gradually improving economic conditions globally should support faster rates of expansion in the medium-term.

Gross domestic product



- The South African economy recorded a modest expansion in 2022, with real GDP increasing by 2% (4.9% in 2021).
- Adverse developments of a global and domestic nature contributed to the slowdown. Local factors included recurring electricity supply interruptions, transport & logistics challenges, inflationary pressures and sharply higher interest rates.
- Although the services-related sectors of the economy recorded comparatively stronger performances (with a few exceptions), the goods-producing sectors generally stumbled in a difficult operating environment.
- Mining output declined considerably, with weaker global demand, softer commodity prices and operational constraints having weighed on the sector's performance. The manufacturing sector recorded a marginal contraction (-0.1%) but remains under significant pressure, facing weak domestic and external demand and several operational constraints.

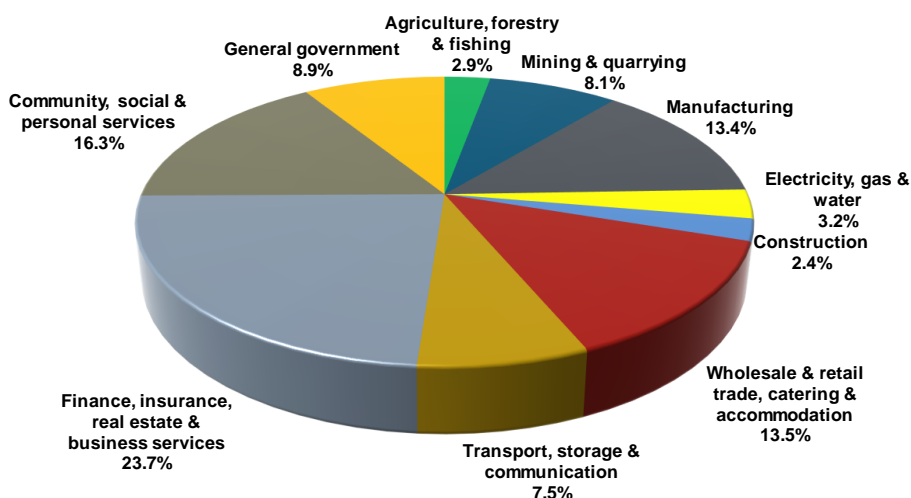
GDP growth at the sector level



Notes:

- (i) Figures in brackets in the above graph refer to the sector's percentage share of total GDP at basic prices (constant 2015 prices) in 2022

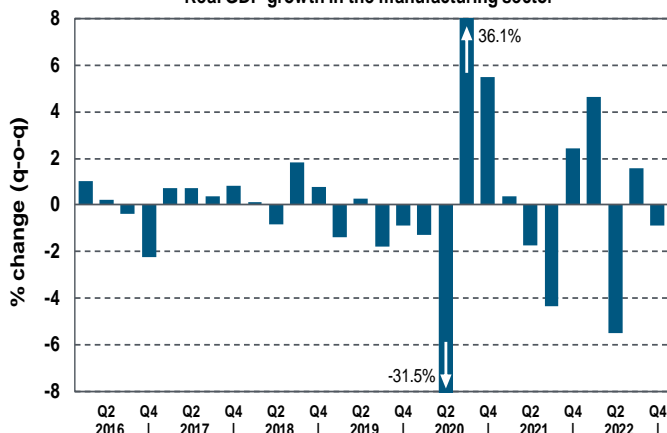
Sectoral composition of the South African economy in 2022



Source: IDC, compiled from Stats SA data

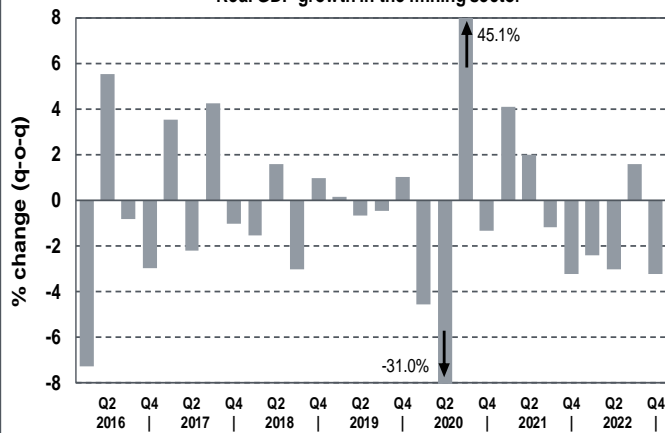
Note: Sector share according to GDP at basic prices (current prices)

Real GDP growth in the manufacturing sector



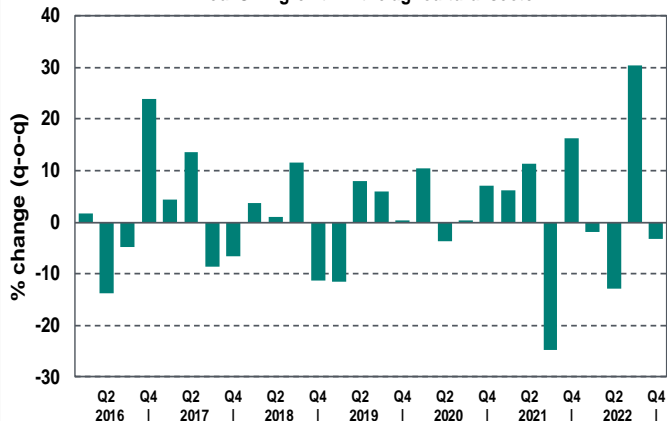
Source: IDC, compiled using Stats SA data

Real GDP growth in the mining sector



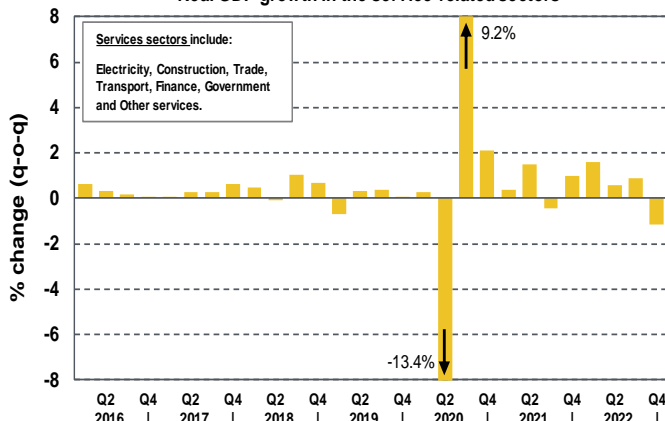
Source: IDC, compiled using Stats SA data

Real GDP growth in the agricultural sector



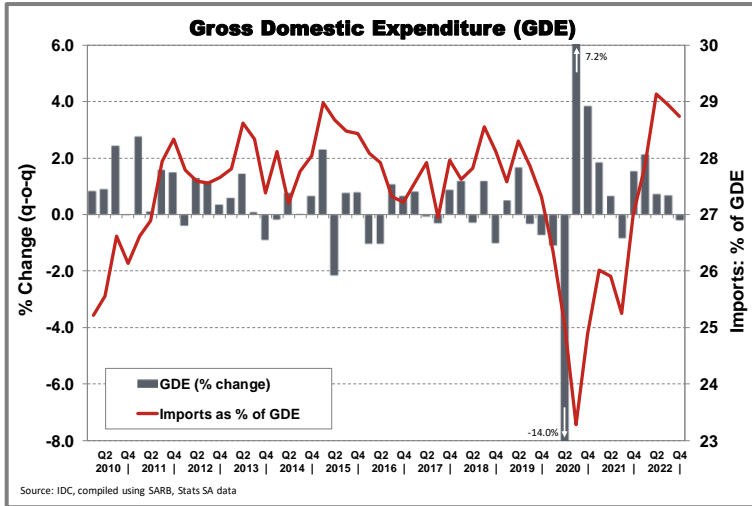
Source: IDC, compiled using Stats SA data

Real GDP growth in the service-related sectors



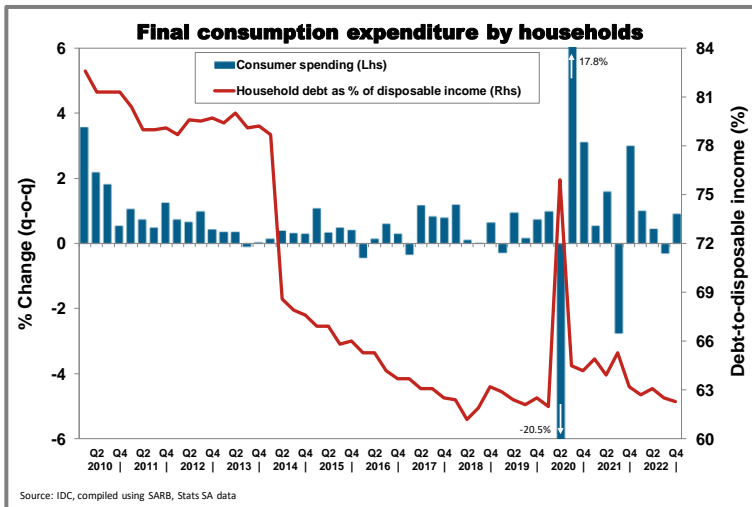
Source: IDC, compiled using Stats SA data

Gross domestic expenditure



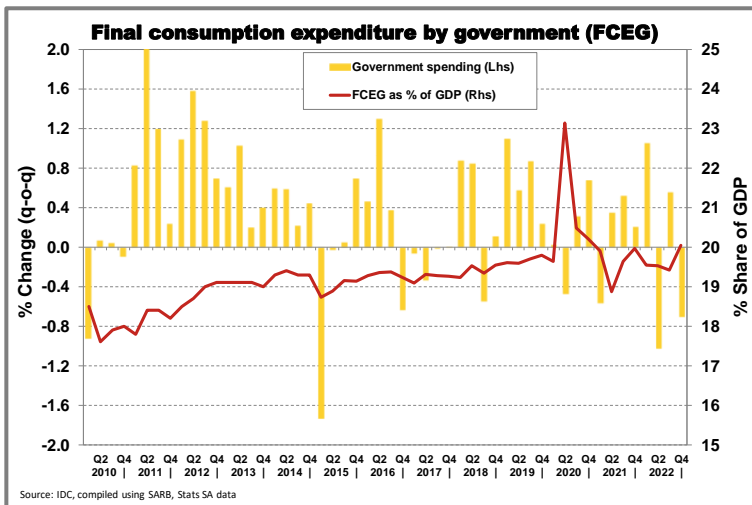
- Despite a worsening economic environment, overall domestic spending increased by a surprisingly strong 3.8% in 2022, following a robust 4.7% expansion in 2021.
- Although fixed investment was the fastest growing expenditure item in 2022 (+4.7% off a low base), household spending (+2.6%) accounted for most of the increase given its 66% weight in total domestic expenditure.
- After two challenging years in which inventory levels declined as companies opted to reduce stocks, 2022 witnessed a turnaround as inventory holdings increased by R36 billion in real terms, compared to the R20.6 billion decline recorded in 2021.
- The increased reliance on imports to meet domestic demand was reflected by a sharply higher import intensity (i.e., real imports of goods and services as a ratio of GDE), which averaged 29% in 2022, the highest of the past 30 years.

Final consumption expenditure by households

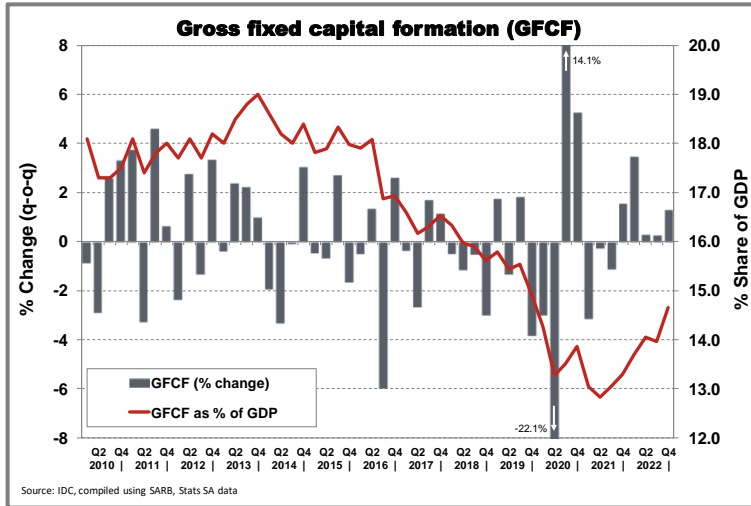


- Growth in household consumption expenditure slowed to 2.6% in 2022, following a 5.6% rebound in 2021, as an increasingly challenging environment weighed on the ability and willingness of households to raise spending.
- In light of rising inflation (e.g. food, fuel, energy) and sharply higher interest rates, along with a relatively high debt burden and very high levels of unemployment, it was not surprising that sentiment among consumers remained low and fell to one of its worst readings on record in Q1 2023.
- Spending on durable goods was most affected, posting marginal growth of 0.3% in 2022, with spending on furniture and household appliances (-13.7%) having been the worst performing item in this category.
- Growth in expenditure on semi-durable goods (+1.7%), non-durables (+2.1%) and services (+3.5%) was substantially slower than in 2021.

Final consumption expenditure by government



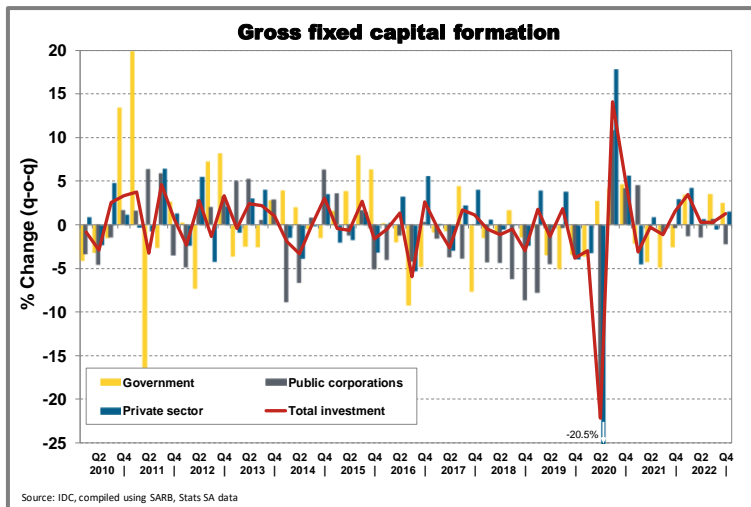
- Cognisant of strained public finances and the need to focus on fiscal consolidation and debt sustainability, the South African government has reined in its consumption expenditure in recent years.
- In 2022, government consumption spending increased by only 0.9% in real terms, following modest rates of expansion in the previous two years.
- The share claimed by final government consumption expenditure (FCEG) in national GDP was circa 20% in 2022 (nominal terms), with a rising long-term trend clearly evident.
- Even though government re-affirmed its commitment to rein in spending in its Budget 2023, the 7.5% wage increase for public servants subsequently agreed with the unions for the 2023/24 fiscal year is of concern as it may risk the credibility of government's efforts to curtail expenditure.



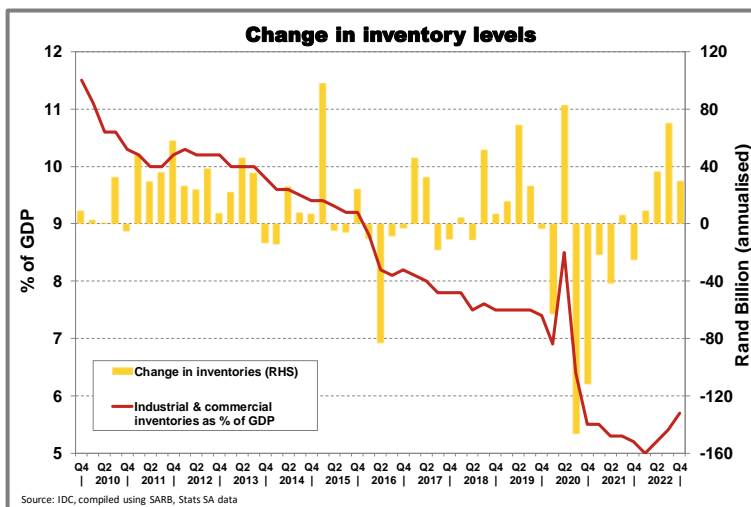
Gross fixed capital formation

- Fixed investment expenditure rose by a strong 4.7% in real terms in 2022, following a marginal 0.2% increase in 2021. The total quantum of capital spending, at R662 billion in real terms, was 10.4% lower than in 2019 (pre-pandemic).
- Reflecting a challenging economic environment, including weak domestic demand, infrastructure-related challenges and surplus production capacity in many industries, rates of expansion in overall fixed investment expenditure have been weak over the years.
- Consequently, the relative share of fixed investment in overall nominal GDP has been declining. This ratio stood at only 14.1% in 2022, compared to 22% in 2008 and well below the 30% envisioned in the National Development Plan.
- Subdued business conditions presently do not augur well for a meaningful and sustained rebound in fixed investment activity over the short-term, affecting the economy's future expansion potential.

Fixed investment by type of organisation



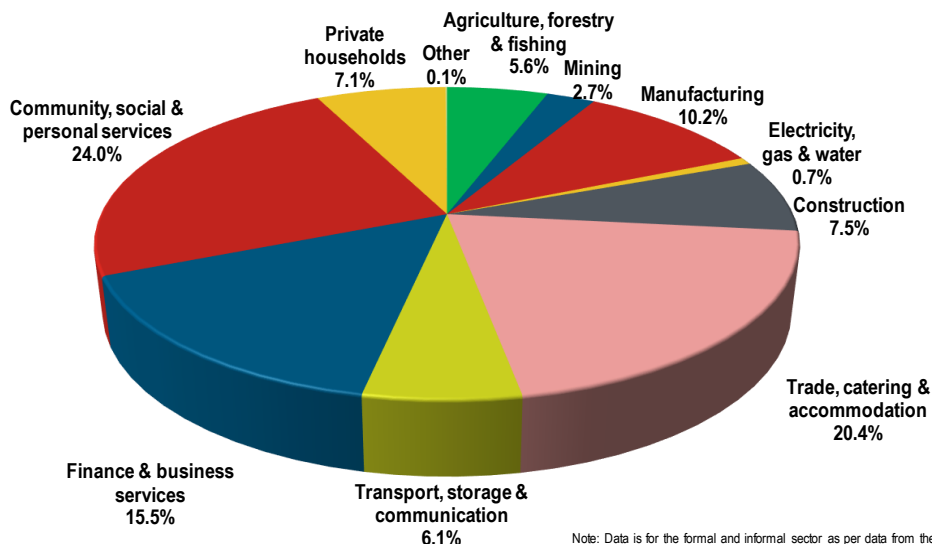
- Higher investment spending in 2022 was underpinned by a rebound in private sector capital outlays, albeit from a very low base, whereas investment expenditure by the public sector fell in real terms.
- Private sector investment increased by 7.3% in 2022 (0.1% in 2021), largely due to higher capital outlays in the transport, storage and communication, as well as in trade, catering and accommodation sectors. Its share of total nominal gross fixed capital formation stood at 72.6%.
- Financial and other constraints continued to curtail investment spending by both general government and public corporations.
- Government's capital outlays remained relatively unchanged in 2022 at R116 billion (in real terms), while investment spending by public corporations declined by 3.6% (5.6% in 2021).



Inventories

- Inventory accumulation in the order of R29.4 billion was recorded in the final quarter of 2022. Inventory holdings were R36 billion higher in real terms for the year as a whole, largely due to insufficient demand.
- The following sectors were key contributors to the accumulation of inventory holdings: wholesale and retail trade, catering and accommodation, with an increase of R33.7 billion; mining and quarrying (+R4.7 billion); financial intermediation, insurance, real estate and business services (+R3.3 billion); transport, storage and communication sector (+R3.0 billion); and manufacturing (+R1.5 billion).
- The electricity, gas and water sector reduced its inventory holdings by R7.9 billion, while those of the agriculture, forestry and fishing sector declined by R2.3 billion.
- The ratio of industrial and commercial inventories to GDP decreased to 5.3% in 2022.

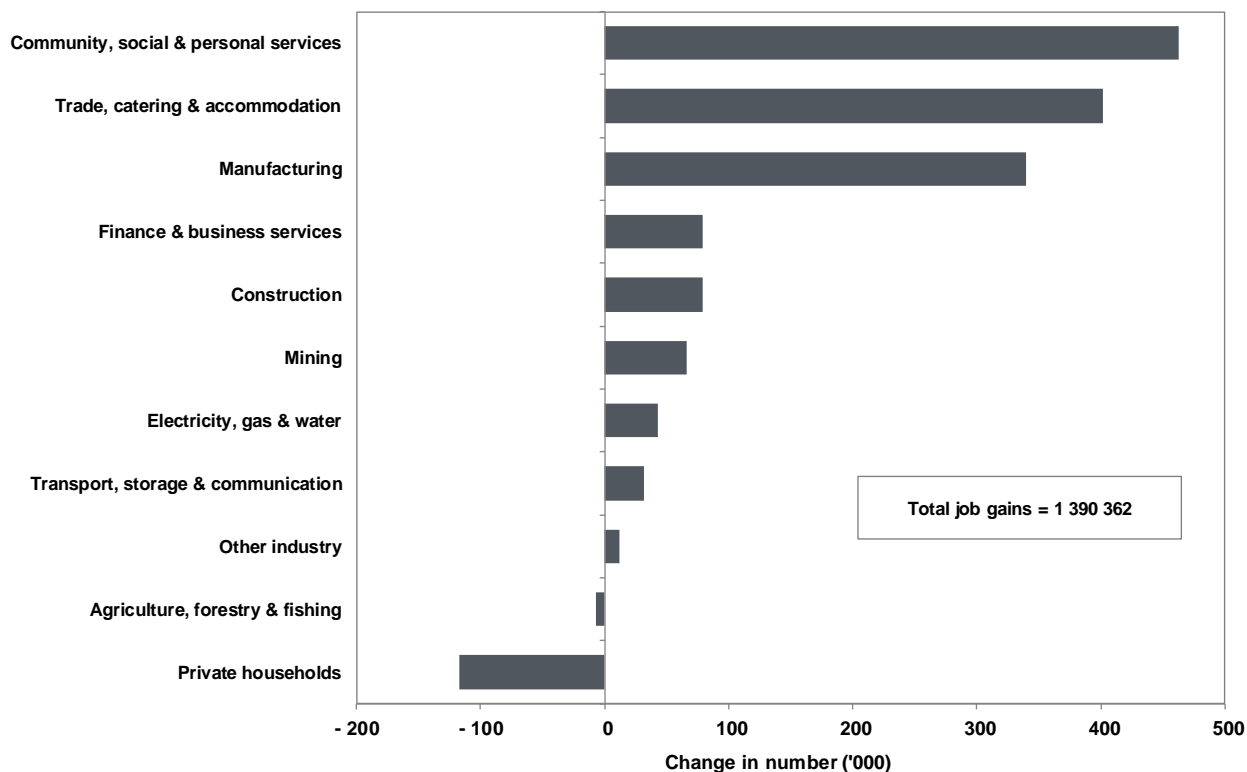
Sectoral composition of employment in South Africa in 2022



Source: IDC, compiled using Stats SA data

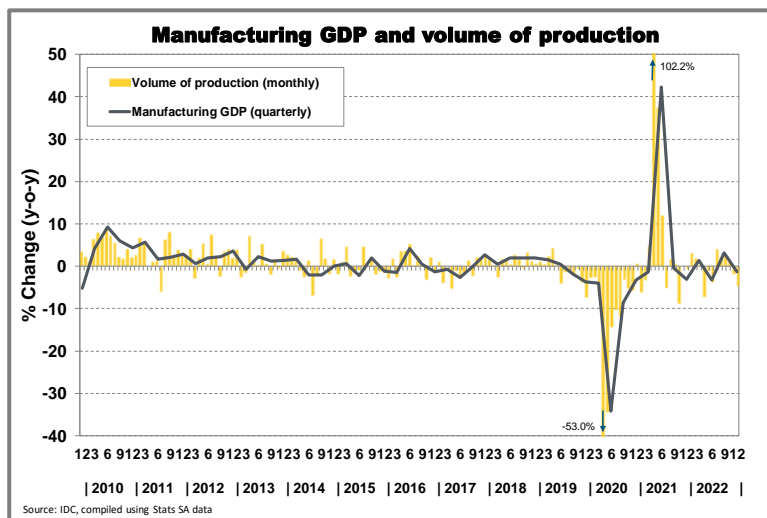
Employment according to main economic sector

Change in employment : Q4 2022 vs Q4 2021



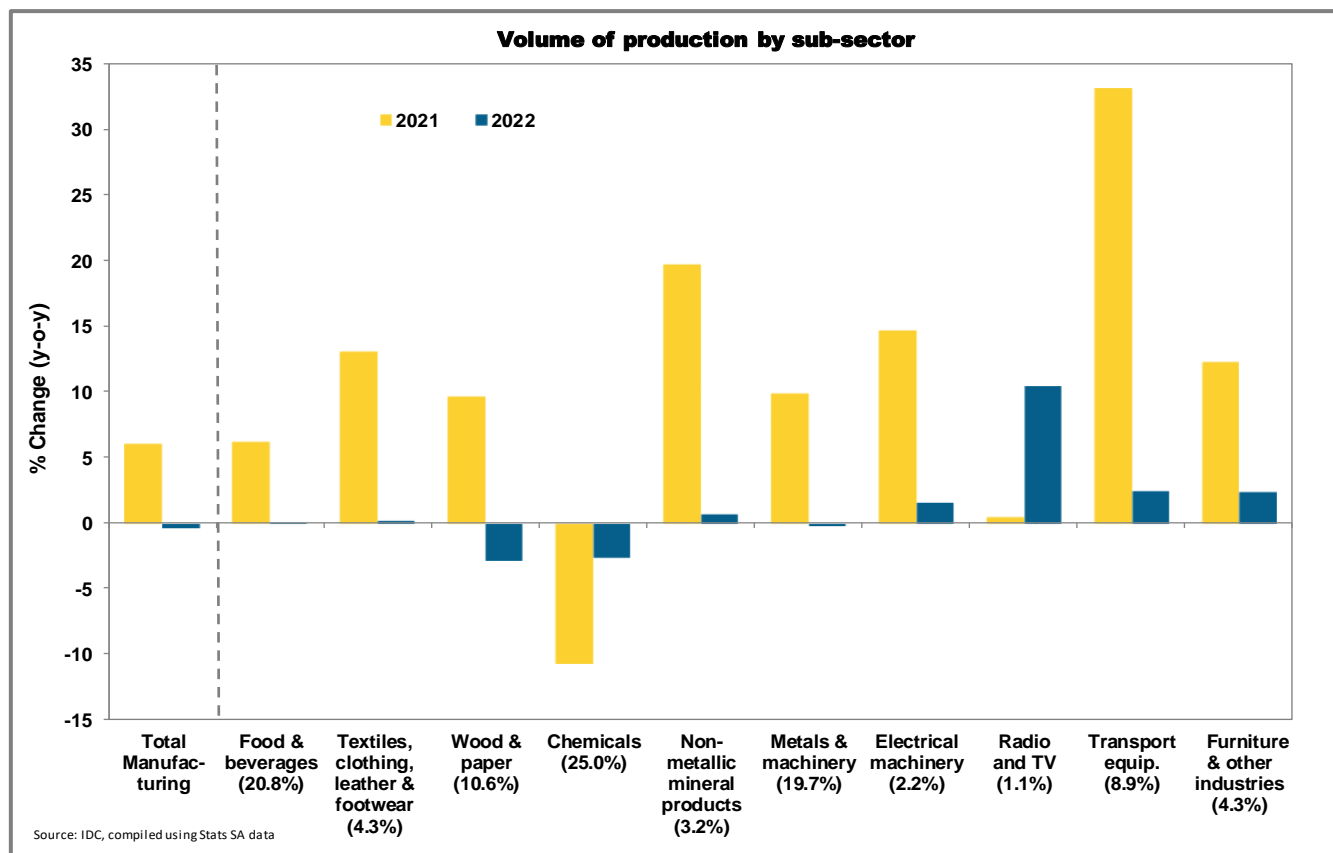
Source: IDC, compiled from Stats SA data

Manufacturing GDP and volume of production



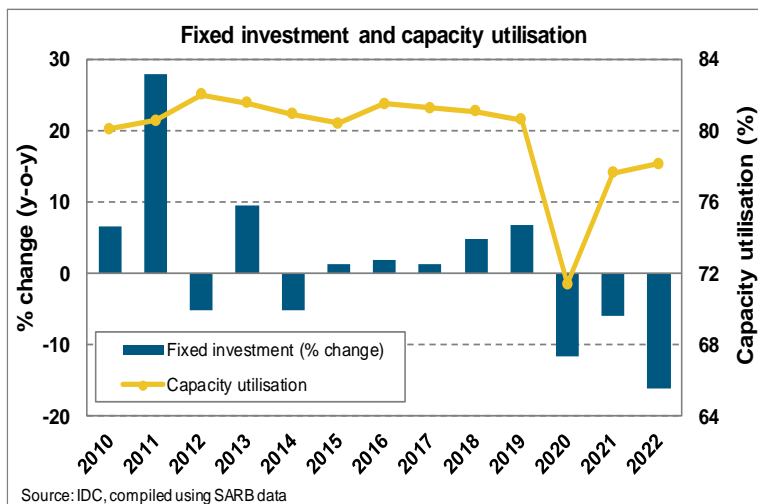
- Manufacturing GDP fell marginally (-0.1% in real terms) in 2022. Several factors underscored the sector's poor performance, including more frequent and prolonged interruptions in electricity supply, rising input costs, transport and logistics constraints, supply chain disruptions, generally weak demand locally and slowing demand in world markets.
- Production volumes fell in various manufacturing sub-sectors, including those producing petroleum and chemical products; metals and machinery (including basic iron and steel); and wood and wood products.
- On the other hand, modest increases in output levels were reported by sub-sectors such as those producing transport equipment; furniture and other industries; electrical machinery; textiles and clothing; and radios and televisions.
- The manufacturing sector's poor performance resulted in its relative share of overall GDP dropping to 13.4% in 2022. Ongoing challenges are likely to continue constraining manufacturing activity at least in the short-term.

Physical volume of production per sub-sector of manufacturing



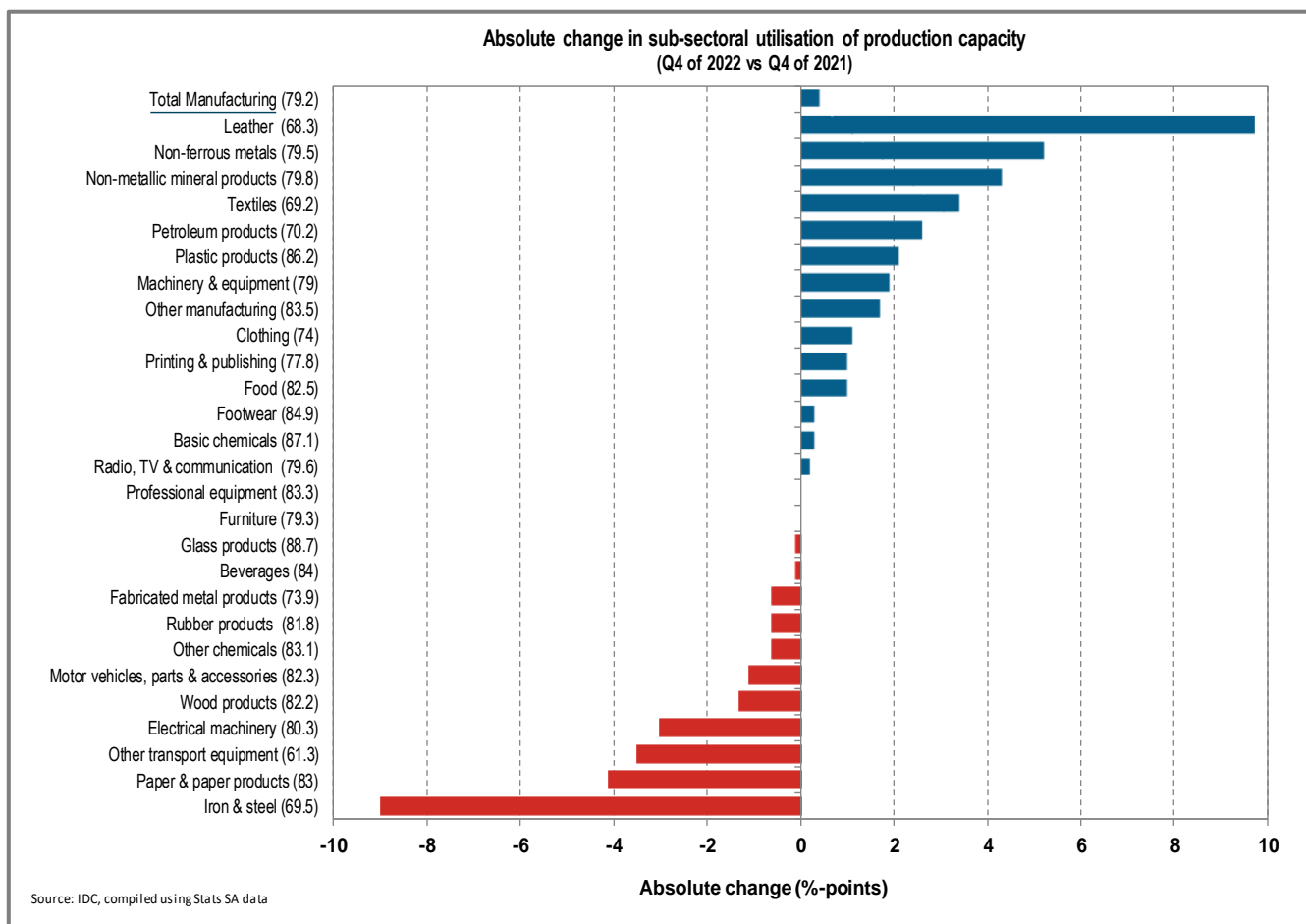
Note: Figures in brackets refer to the sub-sector's percentage share of total manufacturing production.

Fixed investment and capacity utilisation

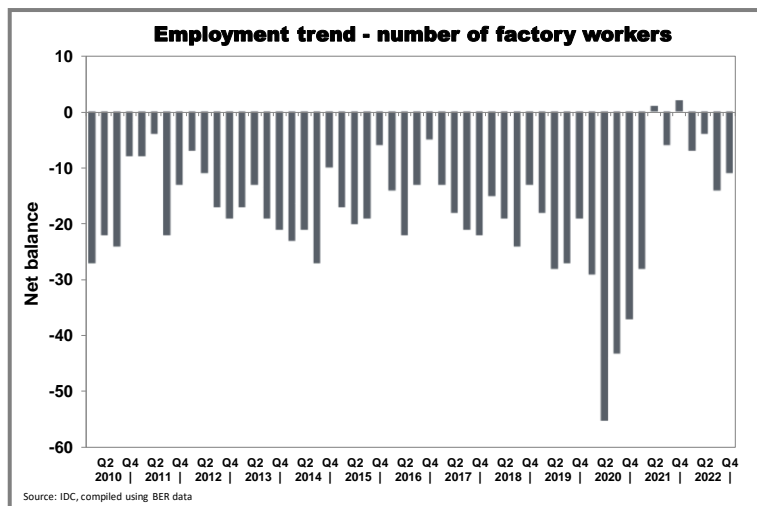


- Fixed investment in manufacturing declined by 16.1% in 2022, reflecting the challenging conditions facing the sector in general, both on the demand and production fronts, and, consequently, relatively low business and investor sentiment.
- Although utilisation of production capacity in the broader sector increased to 79.2% in Q4 2022 (77.6% a year earlier), sub-optimal production activity in several manufacturing sub-sectors resulted in relatively low rates of capacity utilisation, thus obviating the need for expansionary capital spending.
- Over the year to Q4 2022, manufacturing sub-sectors such as other transport equipment, iron and steel, and fabricated metal products, experienced substantial declines in capacity utilisation and are currently operating well below design capacity. The other transport equipment industry reported the lowest utilisation of production capacity at 61.3%.

Utilisation of production capacity per sub-sector of manufacturing



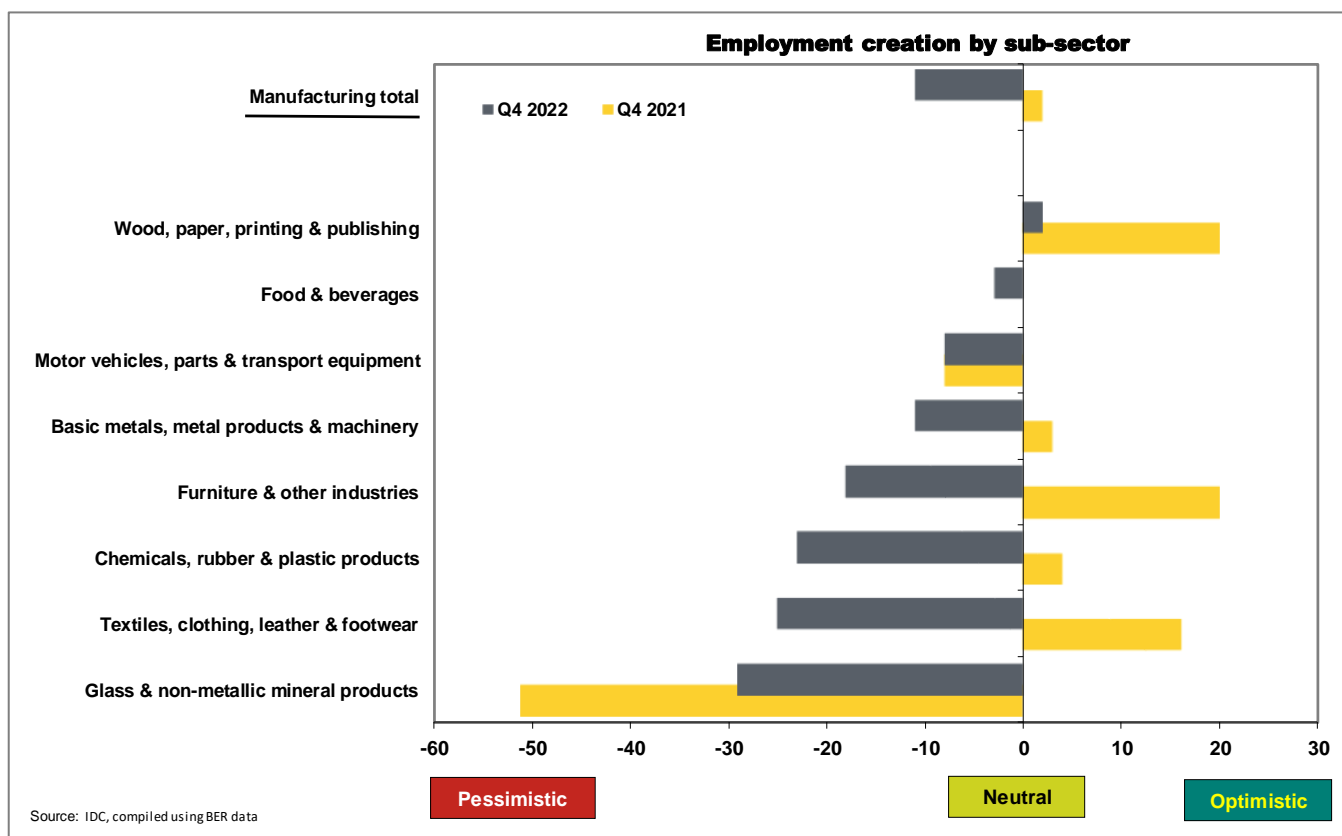
Note: Figures in brackets refer to the sub-sector's percentage utilisation of production capacity in the fourth quarter of 2022.



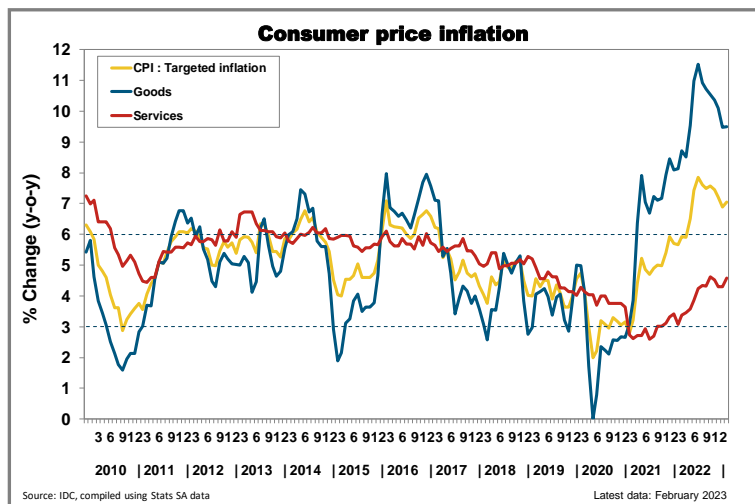
Expectations regarding employment creation

- The long-term decline in manufacturing employment is expected to continue. Surveys undertaken by the Bureau for Economic Research (BER) throughout 2022 revealed that manufacturers anticipated lower employment going forward. However, the degree of pessimism was, on a net basis, not as pronounced as in the pre-2021 period.
- At the sub-sector level, in Q4 2022 only respondents in the wood, paper printing and publishing sub-sector had positive expectations regarding future employment levels. In contrast, employment expectations in the glass and non-metallic mineral products sub-sector remained the most pessimistic, although significantly less than in Q4 2021.
- An improvement in employment prospects could emerge should the major challenges being experienced in the energy and transport and logistics infrastructure be gradually addressed.

Expectations regarding employment creation per sub-sector of manufacturing

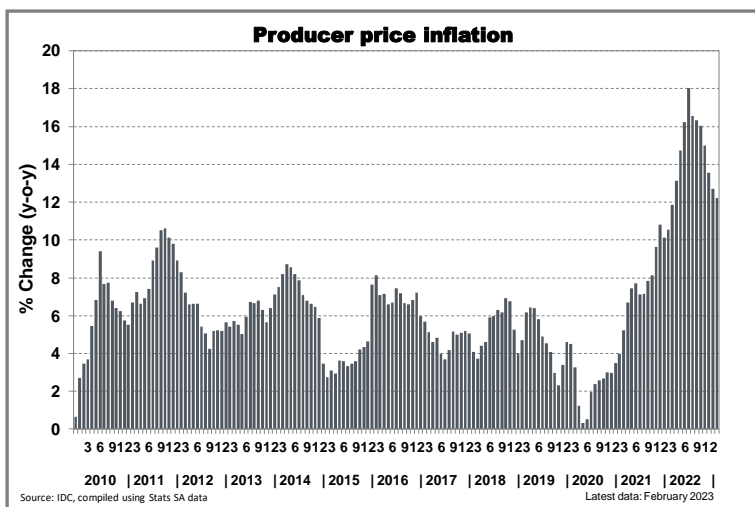


Consumer price inflation



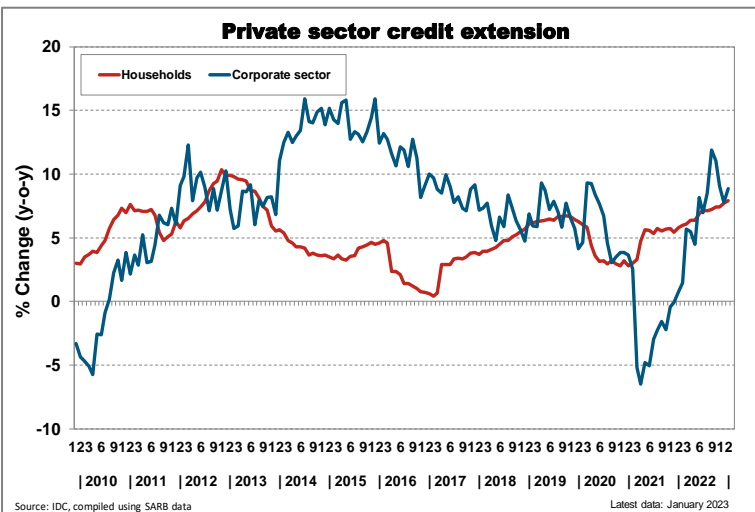
- After having been on a steep upward trend over the previous 18 months, consumer inflation peaked at 7.8% (year-on-year) in July 2022, the highest inflation rate in 13 years.
- The major contributors to the sharp rise in domestic inflation were fuel, food and electricity prices. Substantially higher crude oil prices following Russia's invasion of Ukraine, along with a much weaker Rand exchange rate, exerted upward pressure on domestic fuel prices. In July 2022, petrol inflation stood at 56.2% (year-on-year) but moderated more recently.
- Goods inflation reached a high of 11.5% in July 2022 but subsided to 9.5% by February 2023. Services inflation has been at lower levels compared to goods inflation.
- Although headline inflation has moderated to some extent, core inflation (i.e., excluding volatile items such as food and energy) rose to 5.4% in February 2023, being of concern from a monetary policy perspective.

Producer price inflation



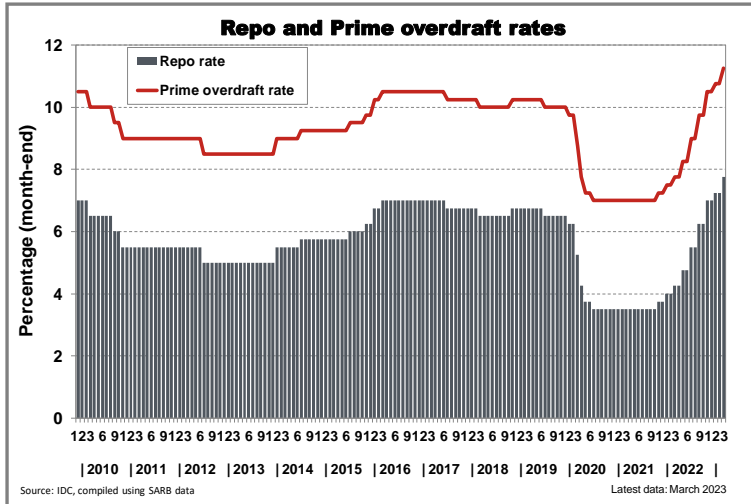
- Price increases at the factory gate are receding but remain at elevated levels.
- This was reflected in producer price inflation for final manufactured goods declining from 18% (year-on-year) in July 2022 to 12.2% by February 2023.
- The rate of increase in prices of intermediate manufactured goods, in turn, eased substantially to 5.0% by February 2023, compared to the 23.1% recorded in December 2021.
- Softer prices of crude oil and other commodities, including agricultural commodities, are likely to contribute towards a further gradual moderation of producer inflation in the months ahead, filtering through to lower consumer inflation over time.

Credit extension to the private sector



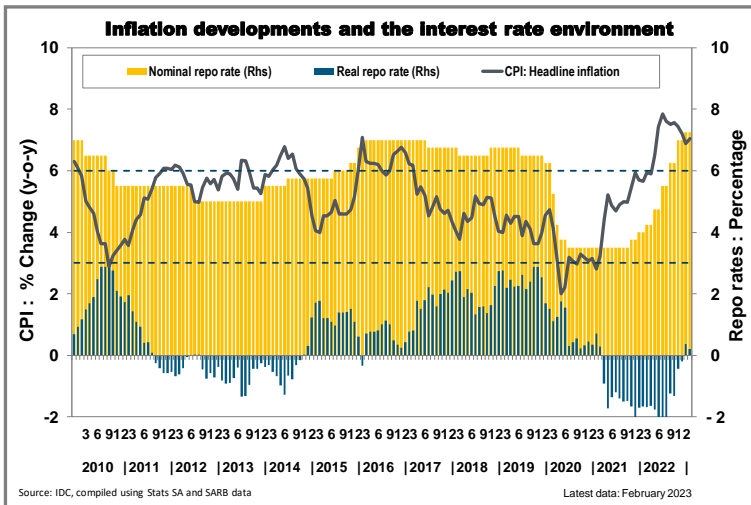
- Growth in household demand for credit continued to accelerate in 2022 despite rising interest rates.
- The corporate sector, in turn, increased its demand for credit following the sharp contraction recorded in 2021, seemingly breaking the downward trajectory witnessed between 2014 and 2020.
- Such increases in household and corporate demand for credit, in a period characterised by relatively subdued consumer spending and fixed investment activity, reflects a degree of financial stress.
- A difficult consumer environment, particularly due to high levels of unemployment, inflationary pressures and relatively high interest rates, is anticipated to impact negatively on the ability and willingness of households to increase their borrowings at least in the short-term.

Repo and prime overdraft rates



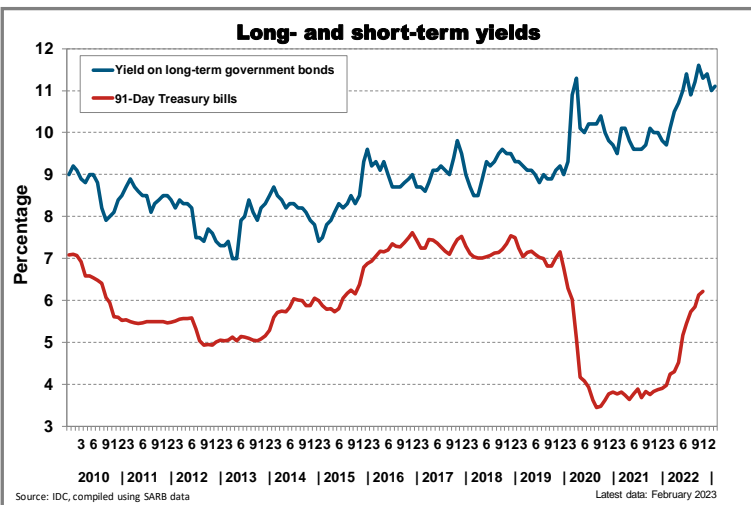
- The Monetary Policy Committee (MPC) of the South African Reserve Bank (SARB) raised the repurchase (repo) rate by 425 bps over the period November 2021 to March 2023, specifically from 3.5% to 7.75% and taking the prime overdraft rate to 11.25% presently.
- Although the principal drivers of inflation were largely of an external nature (imported inflation), the MPC deemed it essential to raise interest rates to anchor inflation expectations.
- Furthermore, monetary policy action in South Africa has been generally aligned to the tightening cycle of major central banks in an effort to contain inflationary pressures across the world.
- Sharply higher interest rates will impact negatively on the economy's already weak growth fundamentals, reinforcing expectations of a very poor performance in 2023. Some interest rate relief may be anticipated in 2024, depending on the inflation trajectory.

Inflation and interest rates



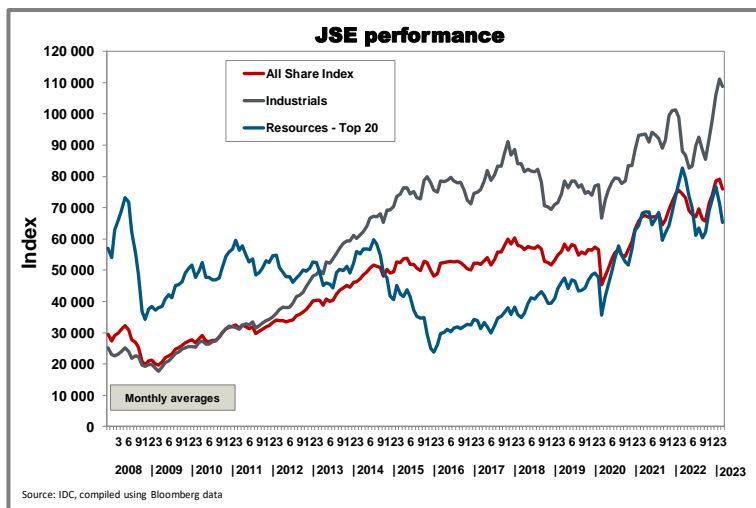
- In real terms, the repo rate remained in negative territory throughout 2022 despite the sharp increases in interest rates, indicating that the SARB maintained a supportive monetary policy stance during the year.
- The real repo rate turned positive in January 2023 as inflation moved lower from its July 2022 peak. Nevertheless, it remains below the 1% to 3% range that generally prevailed in the years prior to 2020.
- A continued moderation in inflation during 2023 should result in a rising real repo rate. However, it is anticipated that monetary policy will remain accommodative as the SARB would seek to support economic growth to the best possible extent in the prevailing inflation environment.

Long- and short-term yields



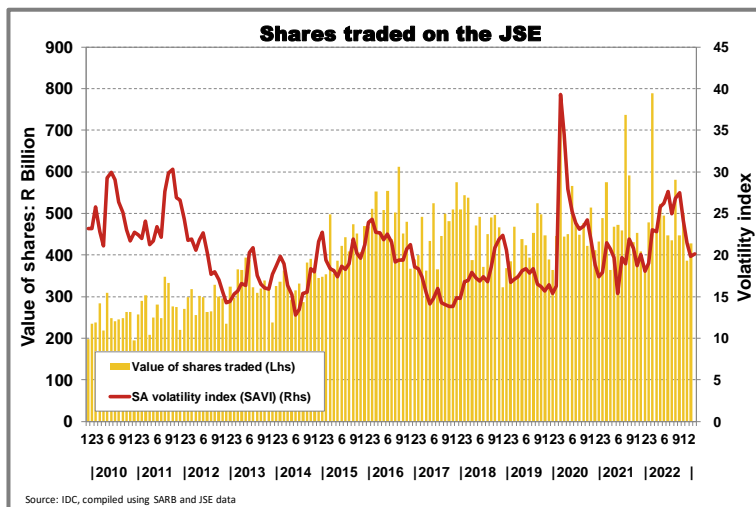
- Short-term interest rates increased substantially during 2022, as the SARB embarked on its interest rates hiking cycle. Long-term rates also moved higher, although to a lesser extent, with the differential narrowing from 617bps in November 2021 to 450bps in February 2023.
- Long-term government bond yields have been on an upward trajectory since 2013, highlighting investor concerns relating to the health of government finances and long-term inflation expectations.

Johannesburg Stock Exchange performance



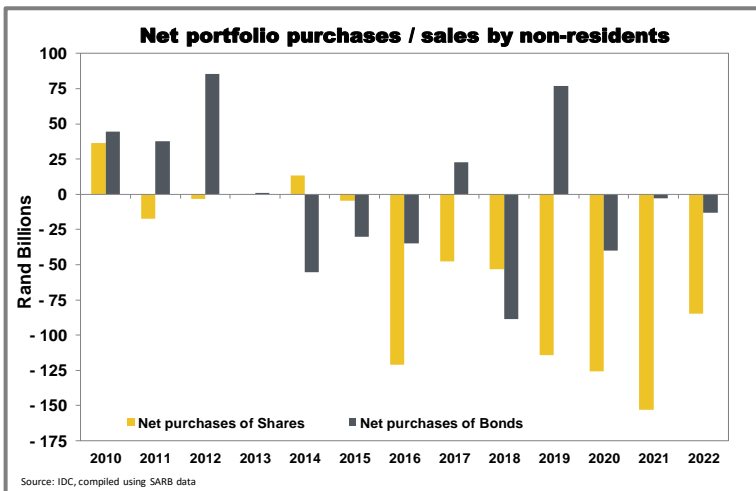
- 2022 was a tumultuous year for global equity markets, with the Johannesburg Stock Exchange (JSE) being no exception.
- The JSE All Share Index declined by 5.4% over the first semester of the year, highly affected by the geopolitical instability brought about by the Russia-Ukraine war and its economic implications, as well as by monetary policy tightening around the globe.
- A recovery (+8.9%) ensued in the second half of 2022, taking the full year growth to 3.0%. Nonetheless, the investment climate remained fragile due to more frequent and prolonged interruptions in electricity supply, interest rate hikes and a degree of political uncertainty towards the latter part of the year, among other developments.
- Commodity prices remained relatively sturdy in 2022, especially in the first half. Alongside a weaker ZAR, this supported the Resources index, which rose by 5.8% over the year.

Shares traded on the JSE



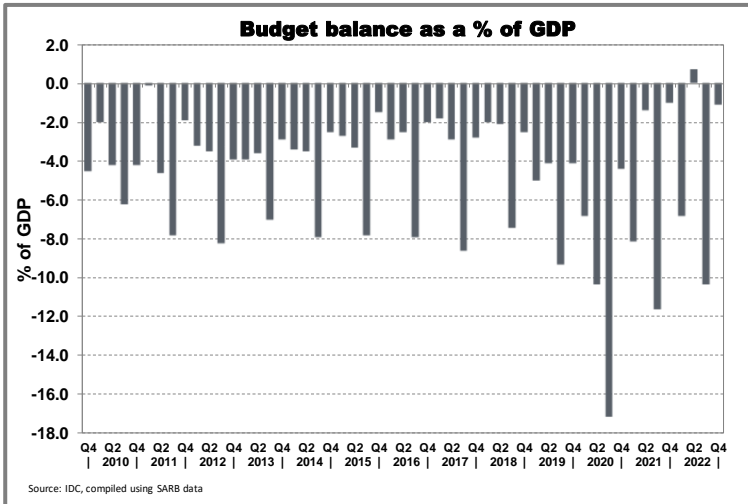
- The geopolitical uncertainty brought about by the war between Russia and Ukraine and the consequential impacts on commodity markets and the growth performance of several economies, particularly in Europe, were reflected in the sharp upturn of the SA Volatility Index (SAVI) in the first half of 2022.
- The SAVI moderated during the second semester as investor anxiety over the impact of the military conflict and efforts (especially in Europe) to mitigate its adverse effects, subsided to some extent. Nevertheless, aggressive monetary policy tightening around the globe continued to underpin a relatively high degree of volatility.
- The total value of shares traded on the JSE increased by 0.4% in 2022 to R5.9 trillion. This increase in the value of shares traded occurred despite the steep 33.3% drop in the volume of shares traded.

Net portfolio purchases/sales by non-residents



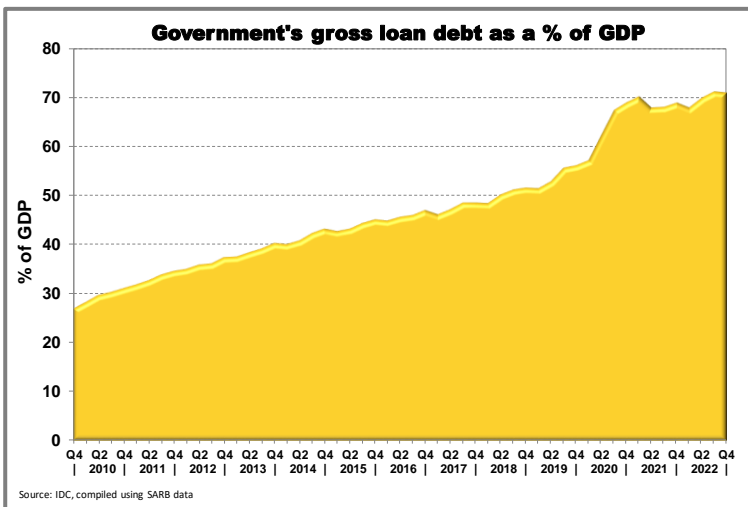
- The first semester of 2022 reflected the risk-on sentiment and continued search for yields among the global investor community, as foreign investors purchased R26.3 billion worth of South African bonds over the first 8 months of the year.
- However, consecutive increases in interest rates, especially in the USA in the latter part of 2022, contributed to a reversal later in the year, with non-residents selling bonds collectively valued at R28.9 billion in the last 4 months of the year.
- Improved yields globally on the back of rising interest rates, alongside concerns over the performance of local corporates due to adverse developments in South Africa, particularly the impact of loadshedding on their performance, resulted in further divestment from local equities. Foreign investors sold R152.6 billion worth of shares during 2022, R112 billion of which in the second semester.

Budget balance



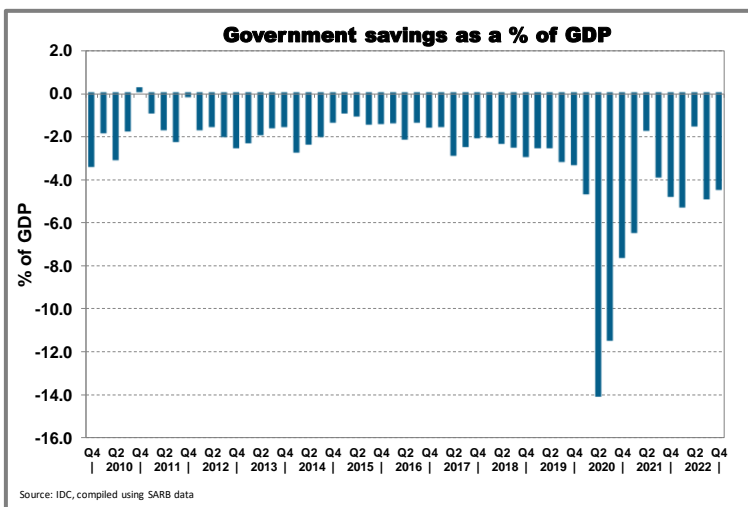
- In Q2 2022, the fiscal balance recorded a quarterly budget surplus for the first time since the opening quarter of 2008. This was due to robust tax collections as mining companies benefitted from high commodity prices in the opening half of 2022.
- The budget deficit averaged 4.4% of GDP during 2022, an improvement from the 5.5% average deficit recorded over the corresponding period a year earlier.
- The decline in commodity prices during the second half of 2022 and early in 2023 will result in tax receipts from mining companies moderating. The economy's generally weak performance will add further strain to public finances, thus affecting government's efforts to narrow the budget deficit as set out in the 2023 Budget.

Government debt



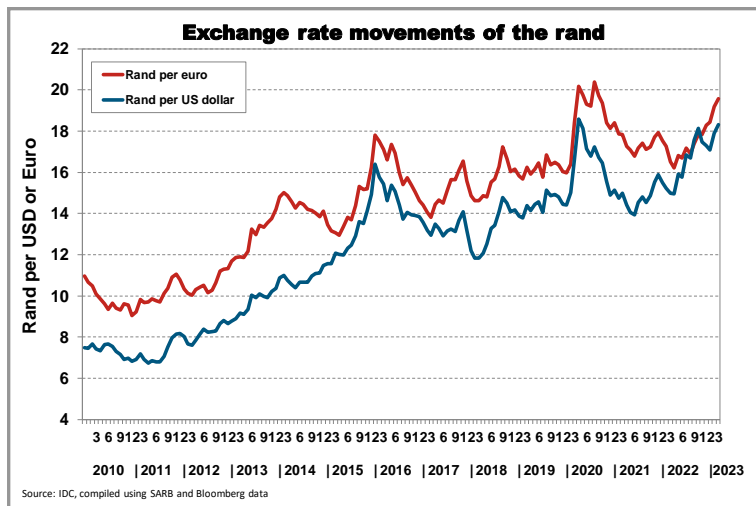
- The ratio of overall gross loan debt of government to GDP stabilised around the 70% mark over the past two years, reflecting its efforts to rein in the rate of increase in public spending but also windfall tax receipts from the mining sector.
- Overall government debt amounted to R4.7 trillion in the final quarter of 2022, representing 71% of GDP.
- Given the magnitude of the outstanding debt, debt servicing costs are the fastest rising expenditure item on government's budget, crowding out spending on other priorities.
- Considerable debt relief to Eskom, the power utility, as announced in the 2023 Budget, combined with the economy's weak growth prospects, will likely result in the ratio of gross loan debt of government to GDP rising in the coming years.

Government savings



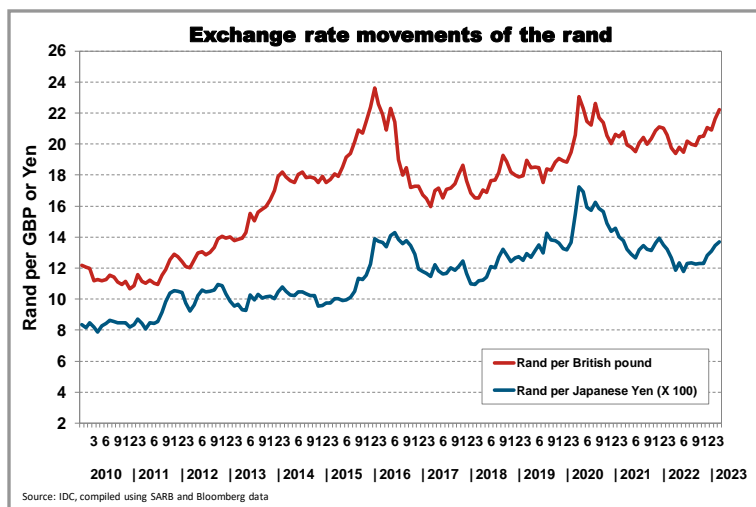
- Government is unable to contribute to national savings due to persistent fiscal deficits. The pace of dissaving by government increased to R270.6 billion in 2022, up from R262.6 billion in 2021.
- Efforts by government to achieve a primary surplus in coming years should provide scope for lower levels of dissaving.

The ZAR vis-à-vis the USD and EUR



- After posting a strong recovery in 2021 and in early 2022, largely on the back of a solid export performance and improving terms of trade, the ZAR subsequently came under serious pressure as interest rates increased substantially in the United States and the European Central Bank started its tightening cycle.
- The impacts of adverse geopolitical developments, persistent inflationary pressures and concomitantly tighter monetary policy on the world economy's performance and prospects, raised uncertainty levels and risks. This has been reflected in currency markets, including the highly traded ZAR.
- Higher bond yields in advanced economies have been drawing in capital flows, exacerbating the pressure on the ZAR in the first quarter of 2023, which weakened by 4.9% against the USD and by 5.5% against the EUR.

The ZAR vis-à-vis other foreign currencies

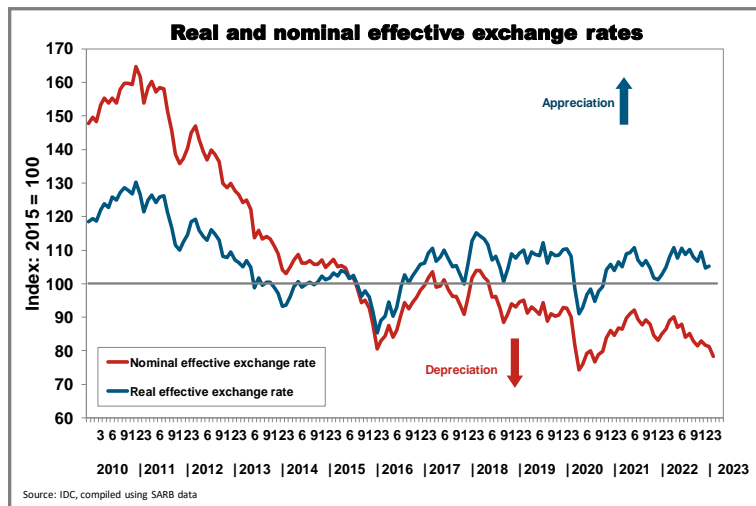


- The following table illustrates the extent of appreciation (+) or depreciation (-) of the rand against select currencies over the period March 2021 to March 2022*:

– Australian dollar :	-9.6%
– Brazilian real :	-14.2%
– British pound :	-11.2%
– Chinese renminbi :	-11.1%
– Eurozone euro :	-15.7%
– Indian rupee :	-11.6%
– Japanese yen :	-7.6%
– US dollar :	-18.2%

* The above % changes are all based on monthly average exchange rates.

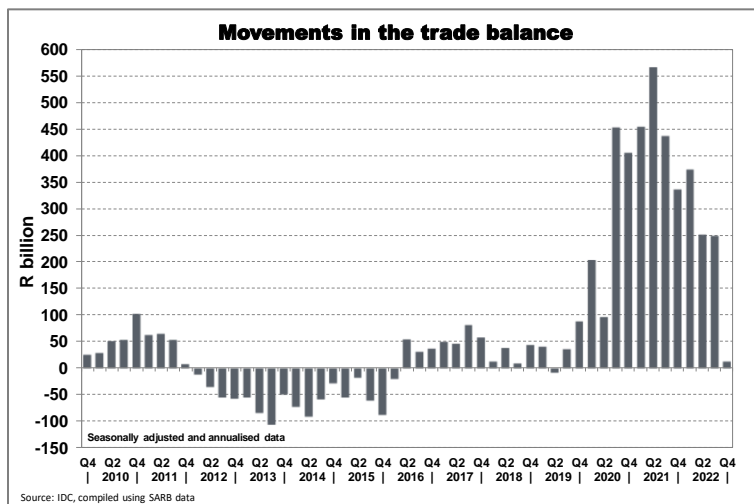
Effective* exchange rates of the ZAR



- The trade weighted nominal effective exchange rate* of the ZAR appreciated by 4.7% in the first 4 months of 2022 but depreciated by 9.4% in the subsequent 8-month period. The weakening trend continued in the first two months of 2023, with the ZAR depreciating by 4.3% over this period.
- The real effective exchange rate* of the ZAR appreciated by 6.5% in the first 4 months of 2022, subsequently moving sideways. Its relative stability towards the latter part of 2022 was largely due to the inflation rates prevailing in major trading partners, particularly the Eurozone, the United States and the United Kingdom, being significantly higher than in South Africa.

* Basket of currencies: EUR (30.68% weight); USD (10.56%); CNY (24.53%); JPY (4.95%); and INR (4.85%), among others.

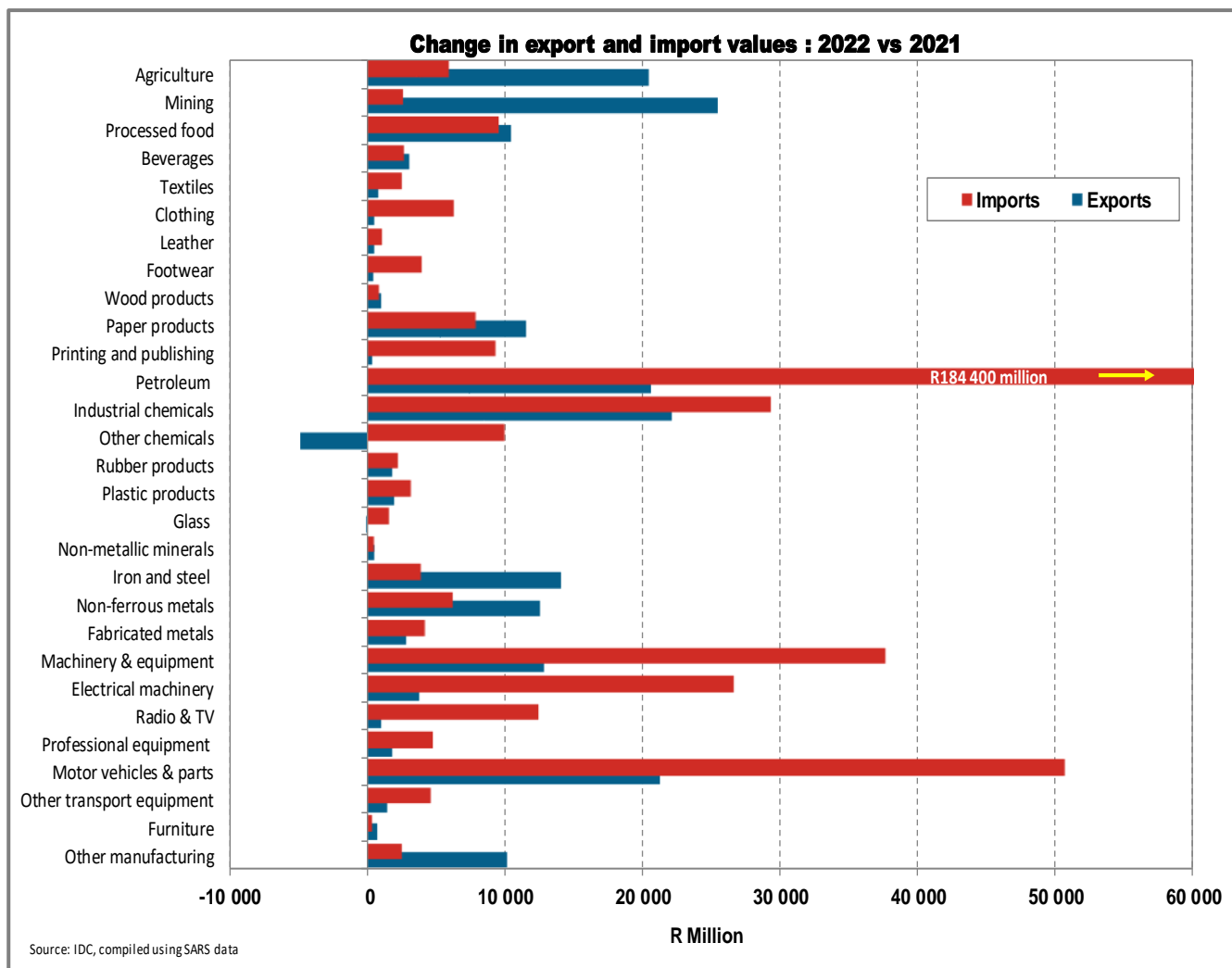
Balance of trade*



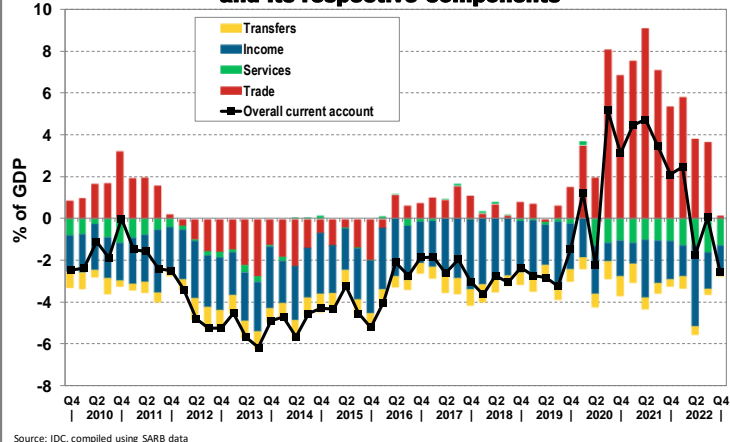
Note: * Trade data as reported by SARB differs from that reported by SARS due to the use of different methodologies.

- Moderating prices for commodities that South Africa exports, together with significantly higher imports of petroleum and certain manufactured products, resulted in the surplus on the balance of trade narrowing to R221.6 billion in 2022, from a surplus of R448.1 billion in 2021.
- Export receipts increased by 11.1% year-on-year in 2022, supported by agricultural exports (20.9% higher) as well as by manufactured exports, which rose by 18.2%.
- On the import front, sharp increases were recorded in refined petroleum imports (+137.7% or R184 billion higher), and, to a lesser extent, imported motor vehicles and parts (+24.6% or R49.3 billion higher) in 2022. The considerably larger value of petroleum imports was mainly associated with higher oil prices and a weaker ZAR exchange rate, but also due to increased demand to run generators at Eskom and private businesses as loadshedding intensified.

Trade performance per sector



Current account of the balance of payments and its respective components



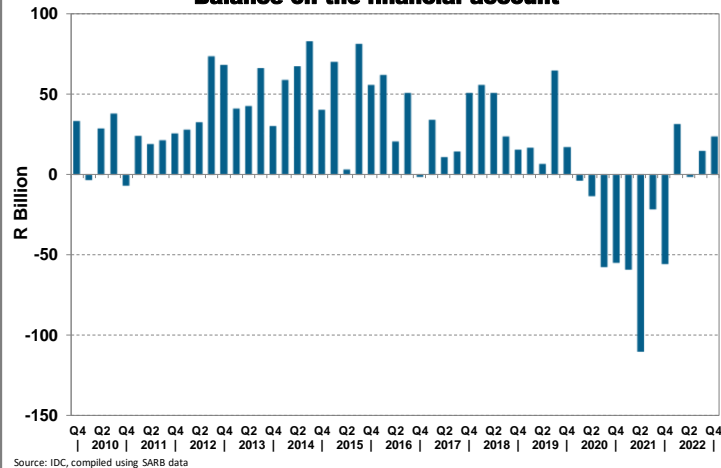
Note: Seasonally adjusted and annualised data; trade data as reported by SARB differs from that reported by SARS due to the use of different methodologies.

Current account of the balance of payments

- In the second quarter of 2022, the current account of the balance of payments moved once again into deficit territory, after having recorded surpluses for almost two years.
- The deficit for 2022 amounted to R31.8 billion, compared to a surplus of R227.7 billion in 2021.
- A key contributor was the sharp narrowing of the surplus on the trade account, from R448.1 billion in 2021 to R221.6 billion in 2022.
- The services account, in turn, reported a larger deficit, reflecting the still weak inbound foreign tourism activity.
- The deficit on the income account (dividends and interest received from foreigners less that paid by South Africans to external parties) increased in 2022, as improved corporate performances in 2021 permitted higher dividend pay-outs to shareholders.

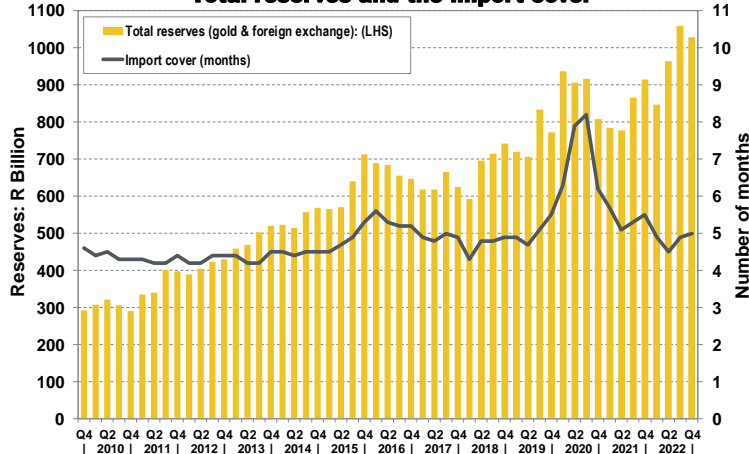
Balance on the financial account

Balance on the financial account



- The financial account of the balance of payments recorded a surplus amounting to R67.9 billion in 2022, compared to a R244.5 billion deficit in 2021.
- This account captures flows of direct investment (generally of a longer-term nature), portfolio investment (typically of a short-term duration) and other (smaller) financial transactions.
- Net direct investment recorded an inflow of R104.8 billion as the outflow of foreign direct investment (-R40.1 billion) was more than offset by South African investors divesting (+R144.9 billion) from foreign investments.
- On the portfolio account, the outflow of foreign investor funds amounted to R107.1 billion, while South African investors divested from overseas investments to the tune of R42.4 billion, resulting in a net overall portfolio outflow of R64.8 billion.

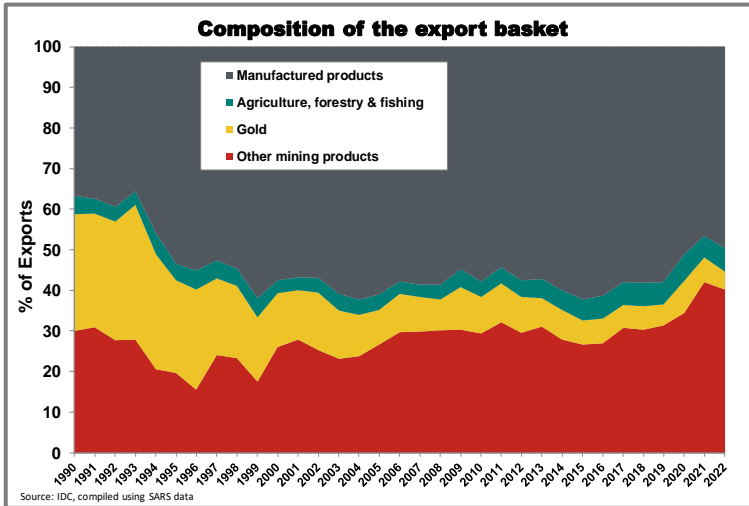
Total reserves and the import cover



Total reserves and import cover

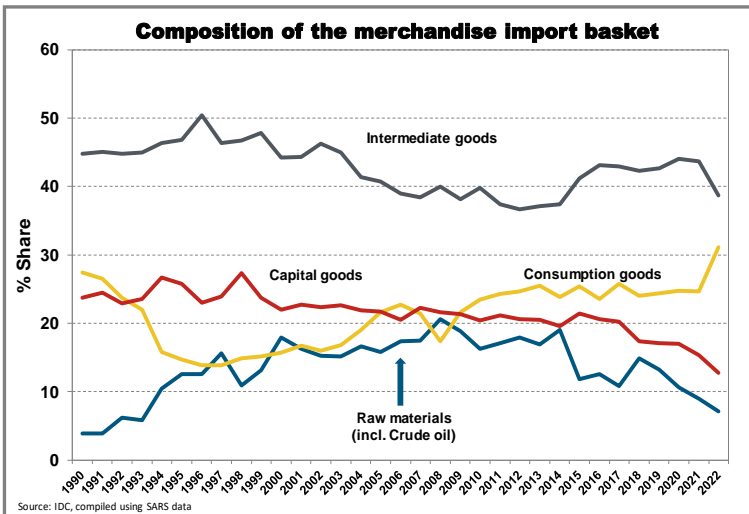
- The value of South Africa's total reserves increased substantially during 2022, with a weaker exchange rate counter-balancing the decline in commodity prices.
- Total gold and foreign exchange reserves increased to R1 029.0 billion in Q4 2022, compared to R915.4 billion a year earlier.
- Despite the considerable increase in South Africa's reserves, the import cover declined from 5.5 months in Q4 2021 to 5 months by Q4 2022. This reflects the increased cost of imports over the same period due to higher import prices in foreign currency terms aggravated by the currency's depreciation.

Composition of the export basket



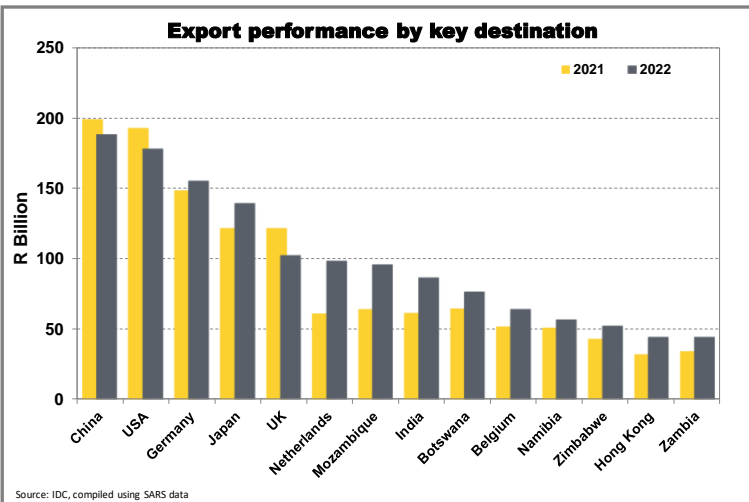
- World trade continued to recover during 2022 as certain supply chain challenges eased, supporting global demand for South African products.
- The nominal value South Africa's merchandise exports increased by 11.1% year-on-year in 2022, totaling R2 013.6 billion. This was supported by a 20.9% increase in agricultural exports (mainly maize, grapes, citrus and apples), an 18.2% rise in manufactured exports (primarily motor vehicles, parts and accessories; machinery and equipment; iron and steel products) and a 6.3% increase in non-gold mining exports.
- The value of gold exports declined by 20.2% despite the 10.1% rise in the price of gold in rand terms, thus reflecting the impact of lower production on exports in 2022.

Imports according to broad category



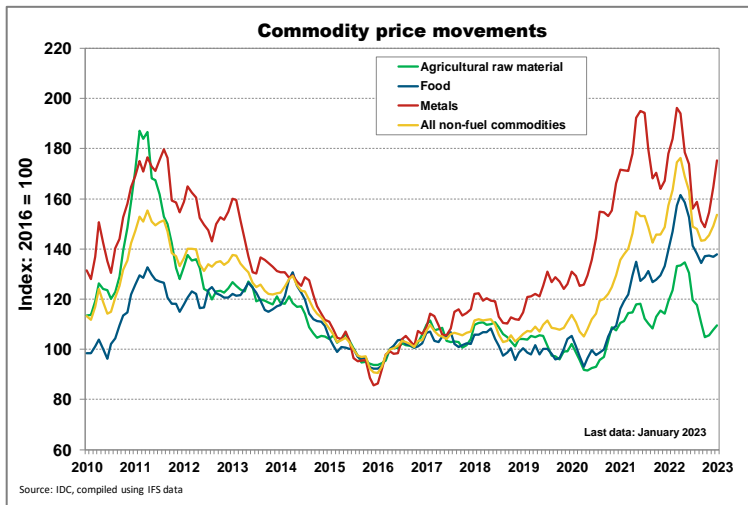
- Strong inflationary pressures globally, partially due to considerably higher prices of energy commodities coupled with sharply higher imports of refined petroleum products, largely underpinned the 31.8% increase in the overall value of imports in 2022.
- The import basket is still dominated by intermediate goods used in local manufacturing, notably the motor vehicle sector.
- The steep increase in the share of consumption goods in the import basket in 2022 was primarily driven by higher imports of refined petroleum products as domestic production was negatively affected by the closure of some of the country's refineries.
- Limited fixed investment activity, which has tended to be more of a maintenance nature in recent years, was reflected in the 1.3% decline, year-on-year, in import demand for capital goods in 2022.

Key export destinations



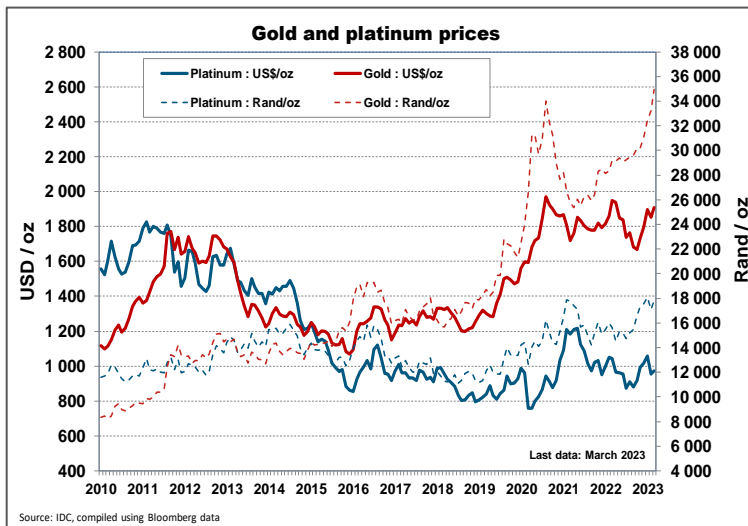
- Exports to China, South Africa's largest trading partner at the individual country level (accounting for 9.4% of total merchandise exports), declined by 5.6% in 2022 as the re-imposition of strict lockdowns by the Chinese authorities to contain the spread of Covid-19 affected economic activity in the country and, by implication, import demand.
- The value of exports to the US (8.8% of SA's merchandise exports) decreased by 7.8% in 2022, partly due lower exports of platinum group metals (PGMs).
- Exports to the EU, the largest regional destination (27.3% share of merchandise exports), increased in 2022, led by countries such as the Netherlands and Germany.
- Other African markets collectively accounted for 24.4% of South Africa's merchandise exports last year. These are particularly important markets for manufactured exports, having claimed nearly 40% of the total in 2022.

Commodity prices



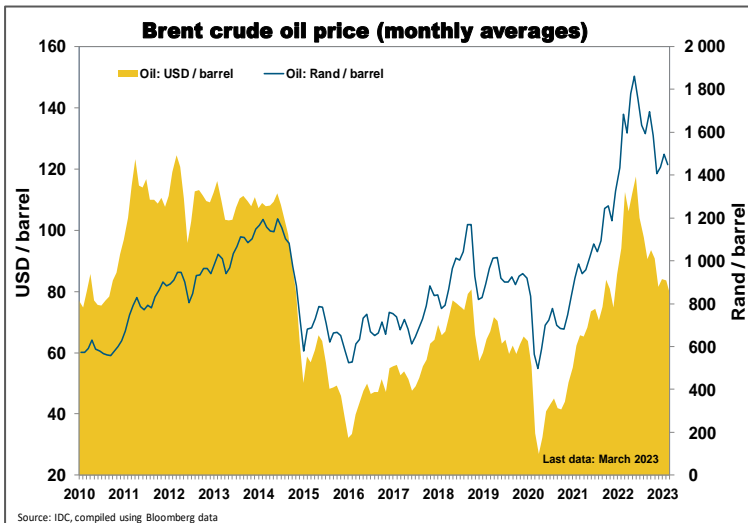
- Slower economic growth globally, and particularly in China as the world's largest consumer of industrial commodities, saw commodity prices generally easing during the second half of 2022.
- The opening-up of China's economy, as Covid-related restrictions were eased, lifted metal prices more recently, since China accounts for around 50% of the world's consumption of industrial commodities. Iron ore prices, in particular, recovered considerably from their November 2022 lows (albeit still well below the levels witnessed early in the year), while platinum prices also gained some ground.
- Agricultural commodity prices declined sharply in the second half of the year, partly due to the resumption of exports out of Ukraine.
- Commodity prices in general are likely to be adversely affected by the global economic slowdown during 2023.

Gold and platinum



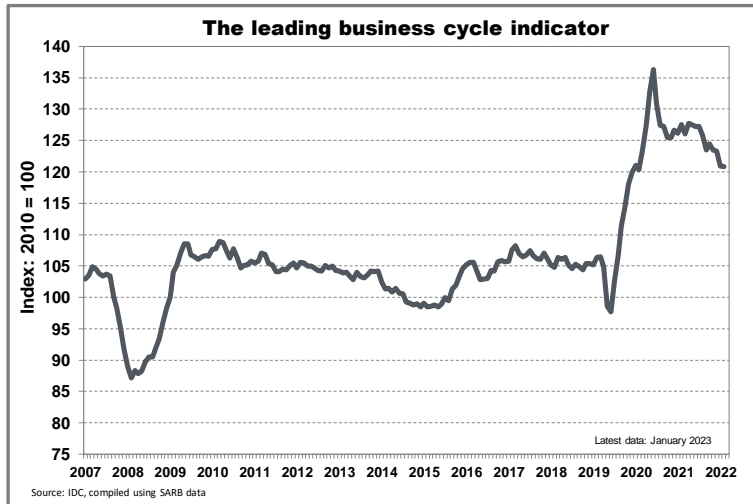
- Increased uncertainty and risk aversion in a global environment characterised by geopolitical conflict and a general tightening of monetary policy to counter extraordinary inflationary pressures, have been reflected in higher gold prices. A normalisation of economic activity over the medium-term could, however, weigh on the outlook for the gold price.
- Following a steep downward trend in 2021 and in the first half of 2022, platinum prices recovered on the back of tight market conditions. The easing of supply chain challenges led to some recovery in the global automotive industry, in the process lifting demand for auto catalysts and thus platinum intake.

Brent crude oil



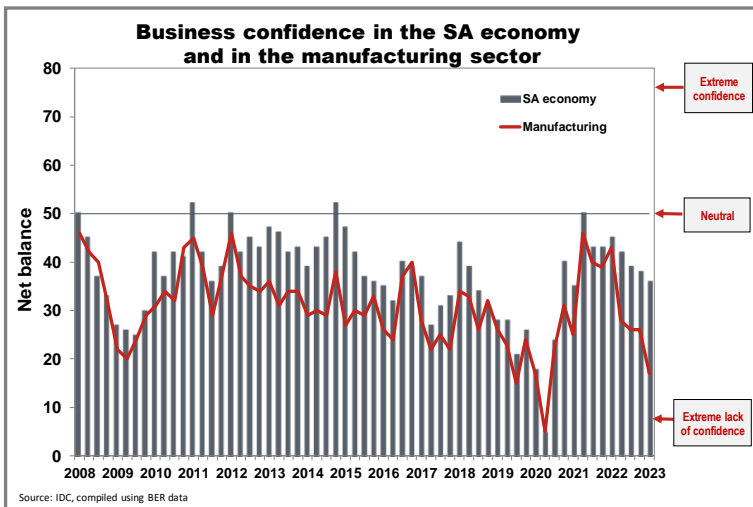
- After having spiked extraordinarily due to Russia's invasion of Ukraine in February 2022 and the subsequent turmoil in global energy markets, crude oil prices in USD terms have since moderated to some extent.
- In ZAR terms, however, oil prices remain at relatively elevated levels largely as a result of currency depreciation. To illustrate, the Rand price of crude oil in May 2022 was 86% higher year-on-year. By year-end, it was still 18.5% higher on the same basis.
- Developments that are likely to exert downward pressure on oil prices in 2023 include the anticipated ramping up of non-OPEC crude oil production along with the general slowdown in global economic activity. On the other hand, demand from India and China is expected to increase as their growth momentum accelerates, while OPEC+ producers recently announced a significant cut in daily oil output. Considerable volatility in crude oil prices is thus expected from time to time.

SARB leading business cycle indicator



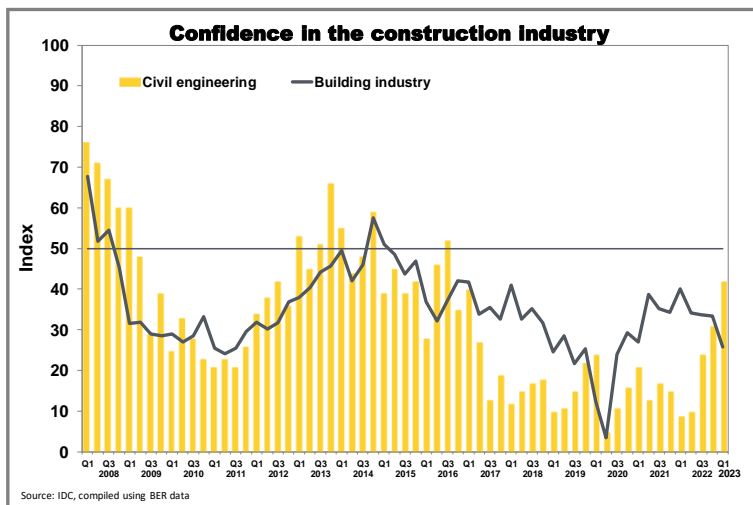
- The leading business cycle indicator (BCI) of the SA Reserve Bank was on a declining trend throughout 2022.
- Its reading of 120.8 points in January 2023 was the lowest in two years, reflecting the challenging domestic economic environment and forewarning of a weak growth performance during 2023.
- The decrease in the latest BCI was broad-based, as 8 out of the 10 categories measured posted declines in January 2023.
- The BCI trend ties up with other concerning developments that are putting a damper on economic activity, particularly frequent and prolonged loadshedding, constraints in the country's transport and logistics infrastructure, rising costs of living, sharply higher interest rates, and a challenging economic environment globally.

RMB/BER business confidence index



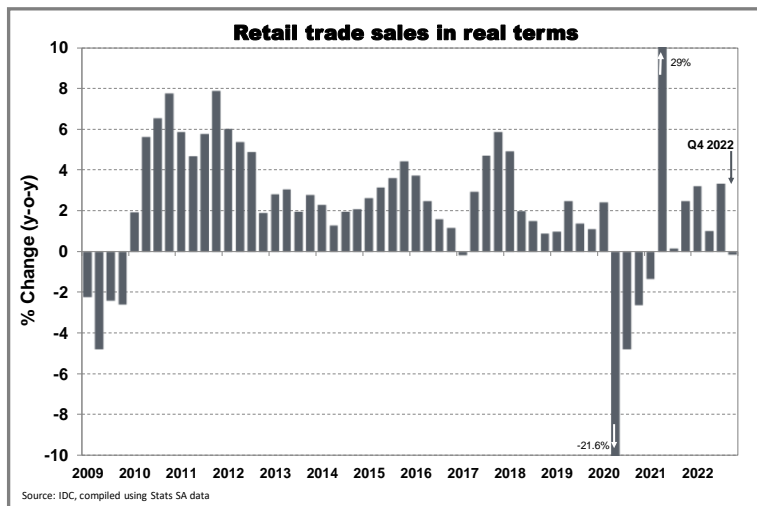
- Business confidence in the South African economy remained at low levels in 2022 and in Q1 2023. Sentiment has been particularly affected by factors such as frequent electricity supply interruptions over prolonged periods; inadequate and costly provision of transport and logistics services; rising input costs; and, among others, weaker demand conditions both domestically and internationally.
- Confidence levels have fallen steeply in the manufacturing sector, to a reading of only 17 points in Q1 2023, with more than 80% of survey respondents being unhappy with current operating conditions.
- Sentiment among retailers also fell sharply in Q1 2023, from 42 to 34 points, reflecting difficult trading conditions as business activity was affected by loadshedding while consumers faced increased adversity.

FNB/BER construction industry confidence indicators



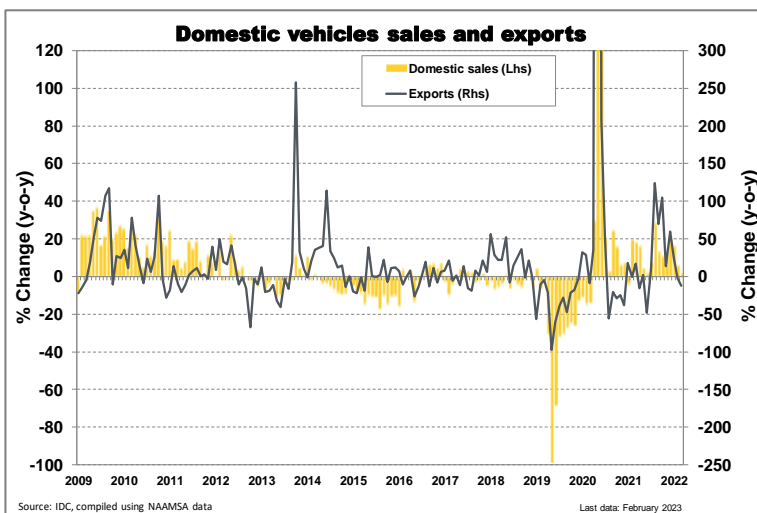
- The up-tick in fixed investment activity (off a low base) in 2022, primarily due to higher capital expenditure by the private sector (+7.3% year-on-year), provided some relief to the civil engineering industry. The respective confidence index thus recovered from a mere 9 points in Q1 2022 to 31 points by the end of the year, and further to 42 points by Q1 2023, reflecting improving business conditions for this sector.
- The building construction industry, on the other hand, continued facing difficult conditions as investment activity in the non-residential and residential building segments remained subdued.
- Going forward, however, the broader construction industry could benefit from increased demand for its services should a considerable portion of the public sector's infrastructure development plans be implemented over the MTEF period, while private sector investment may continue to recover.

Retail trade sales



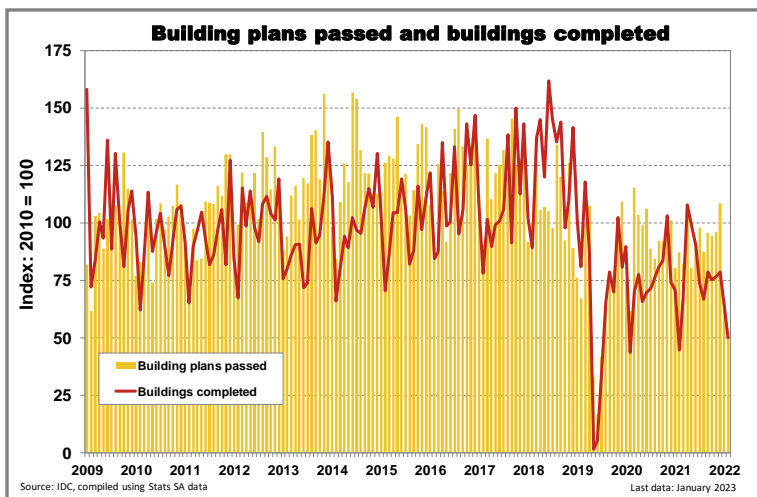
- South African households have been feeling the impact of rising costs of living and higher interest rates, while remaining highly affected by excessive rates of unemployment, which stood at 32.7% in Q4 2022.
- Debt-servicing costs increased further to 8.1% of disposable incomes in Q4 2022, from a recent low of 6.8% in Q4 2021, reflecting the impact of rising interest rates and debt levels.
- Consumer confidence consequently plummeted in Q1 2023 to a reading of -23, from -8 in Q4 2022, being the third lowest reading on record.
- In real terms, retail trade sales are well below pre-pandemic levels and are likely to remain under pressure in 2023 as deteriorating household budgets and subdued credit demand under trying conditions are likely to impact adversely on the ability and willingness of households to spend in the months ahead.

New vehicles sales and exports



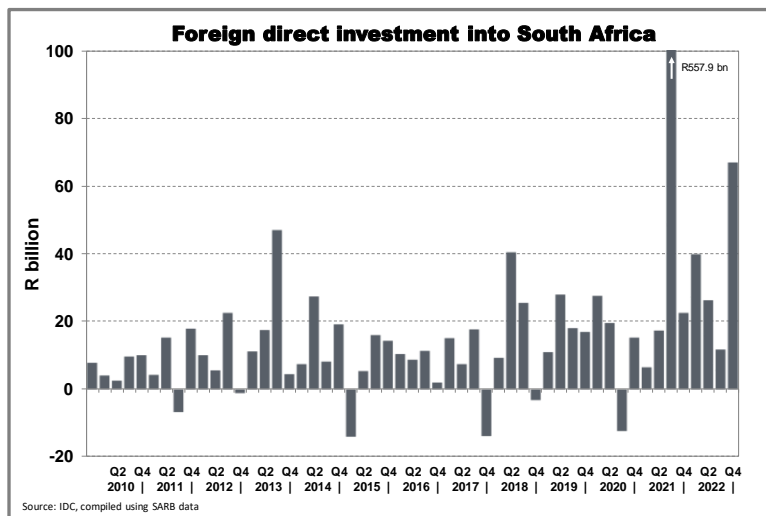
- The rate of increase in total sales of motor vehicles in the domestic market slowed to 14% in 2022, from 22.2% in 2021. Export sales, however, increased strongly (+18% in 2022, compared to +9.9% in 2021).
- The up-tick in passenger vehicle sales (+19.5%) in the local market in 2022 was somewhat surprising considering the difficult consumer environment. This followed 23.4% growth in the previous year. Nonetheless, the 363 697 passenger vehicles sold locally in 2022 fell slightly short of the 365 247 recorded in 2018. With household budgets under strain and interest rates at substantially higher levels, passenger vehicle sales locally are likely to be subdued in 2023.
- According to Naamsa, almost 352 000 units were sold in external markets in 2022 and export sales are expected to increase further in 2023 and 2024 to around 380 000 and 400 000 units, respectively.

Building plans passed and buildings completed



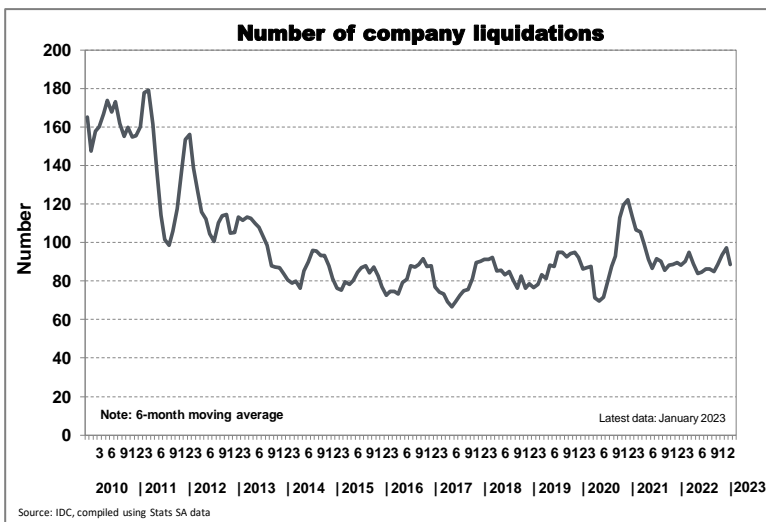
- Following a sharp rebound in 2021, as building plans passed (+28.4%) and buildings completed (+8.9%) recovered from the economic downturn of the previous year, activity levels in the building industry came under renewed pressure in 2022.
- Although the real value of buildings completed rose further (+3.9%), this trend may not be continued considering that building plans passed declined marginally in real terms.
- Given strained household budgets and significantly higher interest rates, the residential building sector is likely to remain under pressure in 2023.
- Activity levels in the non-residential building sector (i.e., office blocks, shopping centers, etc.), in turn, are also anticipated to be quite subdued due to generally difficult business and trading conditions during 2023.

Foreign direct investment



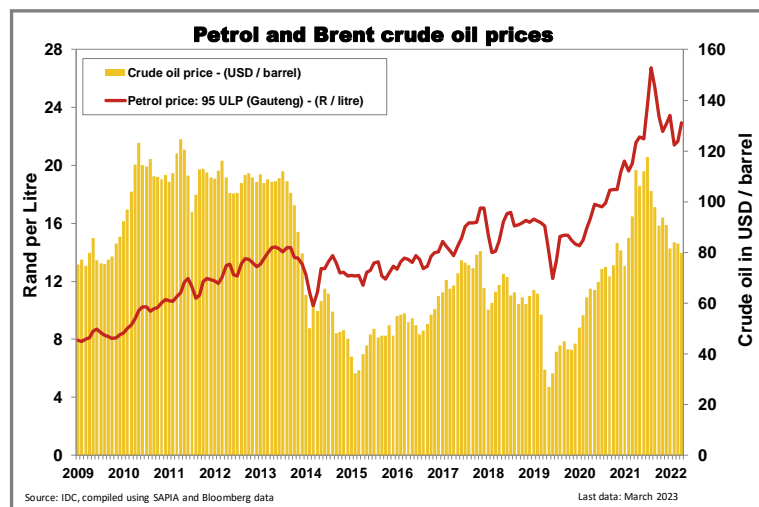
- Foreign direct investment (FDI) flows weakened globally in 2022 as increased uncertainty and risk considerations, largely underpinned by adverse developments in the geopolitical, financial and economic spheres, affected investor decisions.
- Regarding South Africa, FDI inflows rebounded to R67 billion in Q4 2022, from R11.9 billion in the previous quarter. This was mainly due to an increased equity investment by a global parent company in the local commerce sector.
- According to UNCTAD, global FDI flows are expected to be under pressure in 2023, considering the weaker growth prospects for many economies around the globe and a more challenging financial environment.
- Domestically, several adverse factors highlighted earlier in this publication, together with the recent greylisting of South Africa by the Financial Asset Task Force, may constrain FDI inflows in 2023.

Liquidations of companies



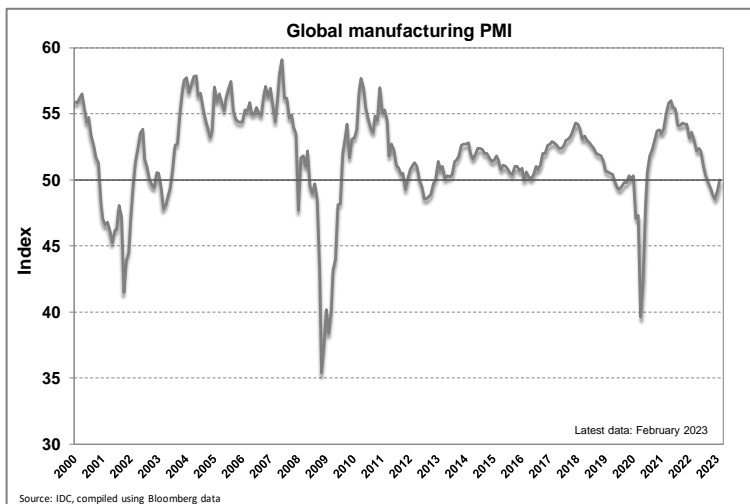
- The number of company liquidations increased by 3.2% in 2022 to 1 091. This was the highest number in 9 years, except for 2020, reflecting the difficult operating and trading environment faced by numerous business enterprises, which is likely to persist in 2023.

Petrol price and crude oil prices



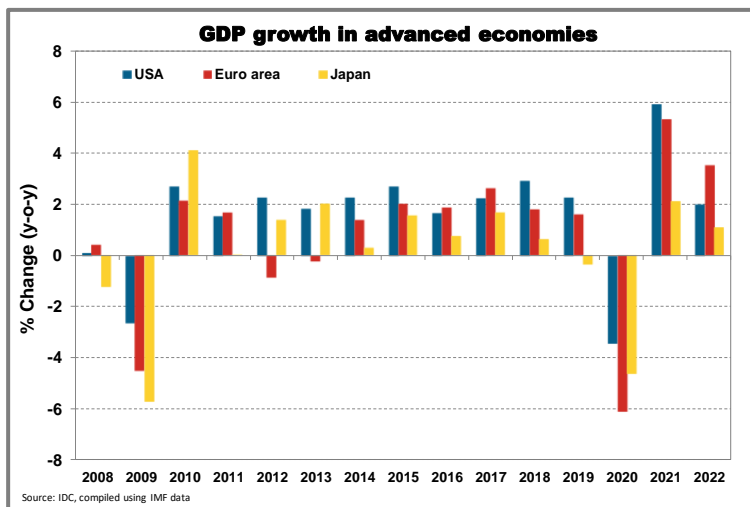
- The price of Brent crude oil rose sharply (+41%) in 2022. In the second quarter, it averaged almost USD112 per barrel, the highest in 9 years. Although prices declined to an average of USD88 bbl in Q4 2022, they remain at elevated levels.
- Higher crude oil prices coupled with substantial Rand weakness resulted in the price of 95 octane petrol in the province of Gauteng rising to an all-time high of R26.74 per litre in July 2022, although a gradual decline ensued.
- Substantially higher petrol prices lay at the core of the steep rise in consumer inflation to an average of 6.9% in 2022 (+4.6% in 2021), the highest in 14 years.

Global manufacturing PMI



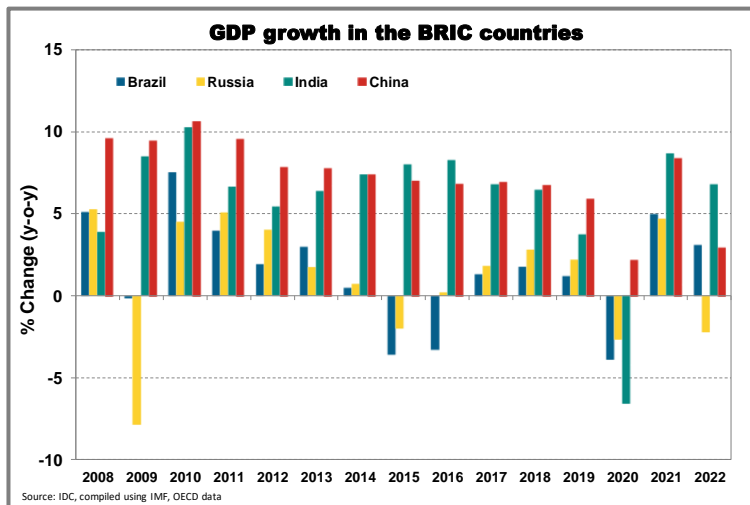
- Globally, manufacturing activity in 2022 and early in 2023 has reflected the difficult prevailing environment. This was captured in the global purchasing managers' index (PMI), which dipped below the crucial 50-point mark for the 5 months to January 2023, before edging marginally higher to a reading of 50 points in February.
- The easing of supply chain constraints and the re-opening of China's economy underpinned February's improvement.
- Excluding the Covid-pandemic period, the global manufacturing PMI has been at its lowest since 2012, with major economies such as China, the US, Eurozone and Japan recording lower output levels in recent months.

GDP growth in advanced economies



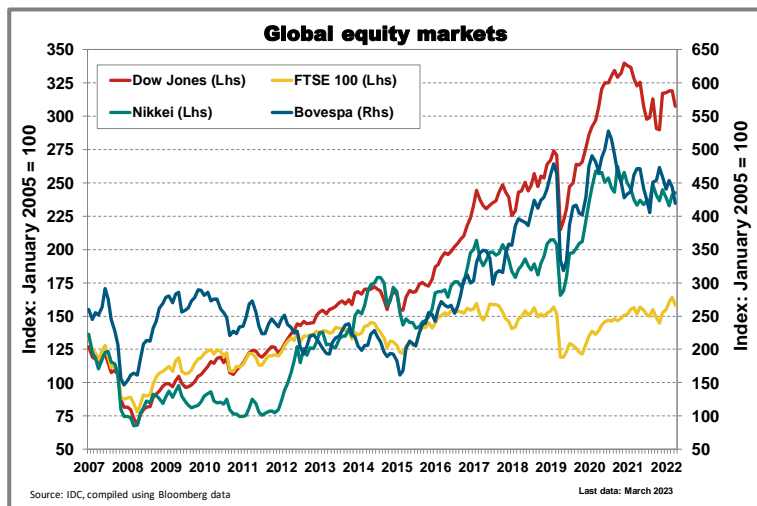
- The world economy has been grappling with major challenges on several fronts, which have been visibly slowing its expansion momentum. Global output increased by 3.4% in 2022, according to the latest estimates from the International Monetary Fund, after having expanded by 6.2% in 2021.
- The US economy performed reasonably well despite rising interest rates, recording a 2.1% increase in its GDP in 2022 (5.9% in 2021).
- The Eurozone, in turn, has been particularly exposed to the adverse impacts of the prolonged and devastating war between Russia and Ukraine, including sharply higher prices for, and supply shortages of energy resources and key agricultural inputs. Persistent inflationary pressures and concomitantly rising interest rates have been compounding the challenges faced by the regional bloc, whose GDP expanded by 3.5% in 2022 (+5.3% in 2021).

GDP growth in emerging economies



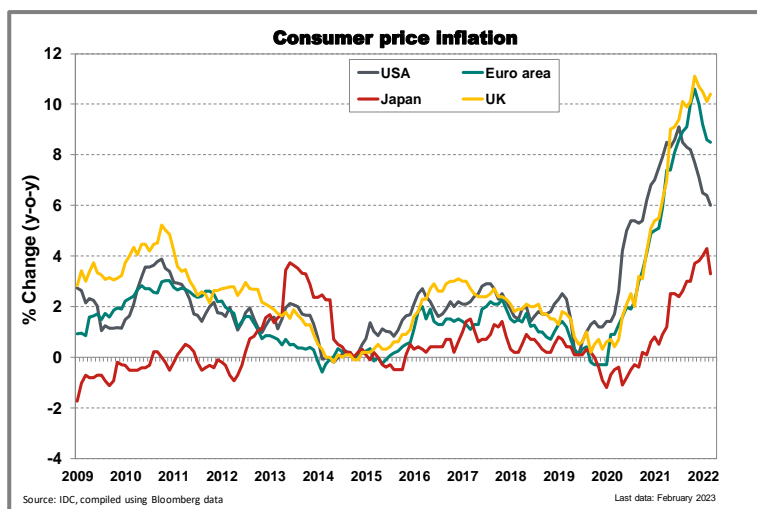
- China's economic performance in 2022 was seriously affected by its government's zero-Covid policy and by efforts to deleverage the property sector. Consequently, real GDP increased by a modest 3%, the lowest expansion rate in about 50 years.
- India's GDP expanded by 6.8% in 2022, with its services sectors having been key contributors. Higher interest rates (currently at 6.50%) affected household spending, while the manufacturing sector came under pressure
- Impacted by its war with Ukraine and the sanctions consequently imposed by various countries, Russia's economy contracted by 2.2% in 2022 (+4.7% in 2021).
- Brazil's economy recorded 3.1% growth in its GDP in 2022 (+5.0% in 2021), boosted by the performance of its services sectors. However, high interest rates (policy rate at 13.75% presently) may result in a sharp growth moderation in 2023.

Equity market performance



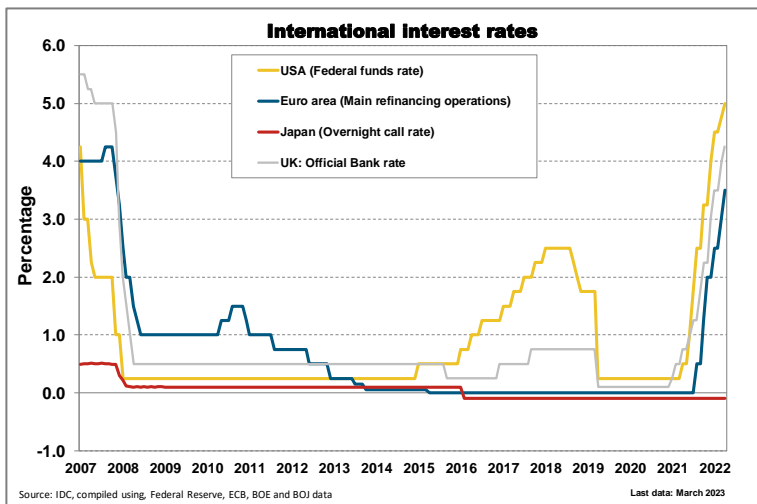
- Extraordinarily high inflation, aggressive monetary policy tightening and serious geopolitical concerns, among other factors, were reflected in heightened volatility in equity markets since the start of 2022.
- After peaking at 35 846.6 points in November 2021, the Dow Jones (US) suffered a significant downward correction in 2022. Although some recovery was experienced towards the end of the year and at the start of 2023, equity markets came under renewed pressure in recent weeks.
- The FTSE 100 (UK) remained on a steady uptrend for most of 2022 but saw a reversal from mid-February 2023, with large losses in mid-March due to concerns over potential contagion effects linked to bank failures in the US and Switzerland.
- Considering the relatively weaker growth prospects for the world economy in 2023, and the prevailing uncertainty on the financial and geopolitical fronts, the probability of sharp corrections in equity markets should not be underestimated.

Consumer price inflation



- After reaching extraordinary levels from June to October 2022, global inflation abated towards the latter part of the year. However, it is likely to remain well above targeted levels in many countries for quite some time.
- In the US, UK and Eurozone, central banks are targeting inflation of around 2% but this is unlikely to be achieved before 2025. Price pressures remain strong in the food, non-alcoholic beverages, energy and services categories, but some tapering off in energy inflation has been witnessed in recent months.
- Softer commodity prices and a relative normalisation of supply chain activity globally may support a gradual moderation in consumer prices in the months ahead. Although expected to decelerate from 8.8% in 2022 to 6.6% in 2023, according to the latest IMF projections, world inflation remains at elevated levels.

Interest rates



- Rapidly rising inflation in numerous economies forced central banks to tighten monetary policy quite aggressively throughout 2022 to contain inflation expectations.
- The US Federal Reserve raised the federal funds rate to 5.0% at its March 2023 meeting, the highest since September 2007, with further hikes expected in coming months.
- The European Central Bank and the Bank of England also raised their policy rates by 25 and 50 basis points, respectively, at their March 2023 meetings. Inflation remains at elevated levels in the Eurozone and UK, implying that interest rates could be raised even further.
- In contrast, the Bank of Japan kept its key short-term interest rate at -0.1% at its March 2023 meeting, despite consumer inflation having risen progressively throughout 2022 and measuring 3.3% in February 2023.

Balance of payments: Consists of three main accounts : (1) the **current account**, which is made up of visible trade (i.e. merchandise exports and imports) and invisible trade (i.e. payments and receipts for services such as transportation, travel, etc; income, including compensation of employees, investment income and current transfers); (2) the **transfer account**, which reflects net capital transfer receipts; and (3) the **financial account**, which consists of direct investment, portfolio investment (i.e. the selling and purchasing of assets such as shares and stocks) and other investment flows.

Bond: A fixed interest-bearing security issued by the central government. Its **yield** to redemption is an arbitrary rate which reflects market conditions, including participants' expectations.

BER: Bureau for Economic Research at the University of Stellenbosch

Effective exchange rate: Obtained by weighting the exchange rate between the rand and the currencies of major trading partners. The weights of the five major currencies are the following: Euro (30.68%), US dollar (10.56%), Chinese renminbi (24.53%), Japanese yen (4.95%) and the Indian rupee (4.85%).

FCEG: Final consumption expenditure by general government includes spending on individual goods and services (e.g. education, health and social services), as well as expenditure on collective goods and services to the benefit of the community as a whole (e.g. maintenance of law and order, public administration and defence).

FCEH: Final consumption expenditure by households measures the sum of outlays on new goods and services by resident households, including private non-profit organisation.

FDI: Foreign direct investment.

GDE: Gross domestic expenditure is the total value of the expenditure by households, the corporate sector and general government on final goods and services. It differs from expenditure on GDP in that it includes imports but excludes exports.

GDP: Gross domestic product is the total value of all final goods and services produced within the economy.

GFCF: Gross fixed capital formation represents total spending by both the private and public sectors on tangible and intangible assets which have been produced and are themselves used continuously in product processes for more than a year (i.e. investment goods or articles which yield future benefits).

General government: Central, regional and local authorities and extra-budgetary funds.

Growth rates: Unless otherwise specified, these are obtained by calculating the percentage change between the figure for the current period and that of the corresponding period in the previous year.

IFS: International Financial Statistics

IMF: International Monetary Fund

Import cover: Refers to the number of months' worth of imports which current reserves can cover.

Interest rates: The **prime rate** is the lowest rate at which a clearing bank will lend money on an overdraft facility; the **repo rate** replaced the Bank rate as the benchmark interest rate in the economy on 9 March 1998 – this is the rate at which the central bank makes cash available to banks on a tender basis through repurchase agreements; banks that experience difficulties in obtaining cash can borrow from the central bank at the penalty rate, which is known as the **marginal lending facility rate**.

JSE: Johannesburg Securities Exchange

LHS: Left hand scale

Money supply: **M1** = the sum of coins and banknotes in circulation, cheque and transmission deposits plus other demand deposits; **M2** = M1 plus other short-term deposits and medium-term deposits held by the domestic private sector; and **M3** = M2 plus long-term deposits held by the domestic private sector.

MPC: Monetary Policy Committee of the South African Reserve Bank

Price indices: The consumer price index (**CPI**) represents the prices of a basket of consumer goods and services, whereas the production price index (**PPI**) represents the prices of a basket of producer goods, including capital and intermediate goods.

Public corporations: Government-owned businesses which are formally established and regulated by an enabling Act of Parliament, or companies wholly or mainly owned by public authorities.

QE: Quantitative Easing, is a programme by central banks in which they purchase debt instruments, mainly government debt, to increase liquidity in the economy and thereby stimulate economic activity and support inflation.

Real terms: A variable is "in real terms" when its value has been adjusted for changes in the purchasing power of money. This is carried out by deflating by an appropriate price index, with the resulting value being in "constant prices".

RHS: Right hand scale

SARB: South African Reserve Bank

Seasonal adjustment: Refers to the elimination of the seasonal variation in a time series.

Stats SA: Statistics South Africa

Trade balance: The difference between the exports and the imports of goods (excluding services).

ULP: Unleaded petrol

UNCTAD: United Nations Conference on Trade and Development.

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