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Note: Shaded area in graphs denotes the downward phase of the business cycle.

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Highlights

MPC on hold for fifth meeting as inflation risks increase

The Monetary Policy Committee (MPC) of the SA Reserve Bank (SARB) kept the repo rate unchanged at multi-decade low of 3.5% in May – see [chart](#). While the SARB slightly lowered its inflation forecast for 2021, the MPC deemed that risks to the inflation outlook have increased. The upside risks mentioned included the recent upward move in global and [domestic producer inflation](#). Other risks include a possible weaker currency, higher domestic import tariffs and sustained upside pressure from electricity tariffs and other administrative prices. The SARB is expected to start a modest hiking cycle in 2022. However, should these upside risks materialise, the SARB could already start normalising (i.e. hiking) the policy interest rate in the latter part of 2021.

Unemployment rate edges up to record-high in 2021Q1

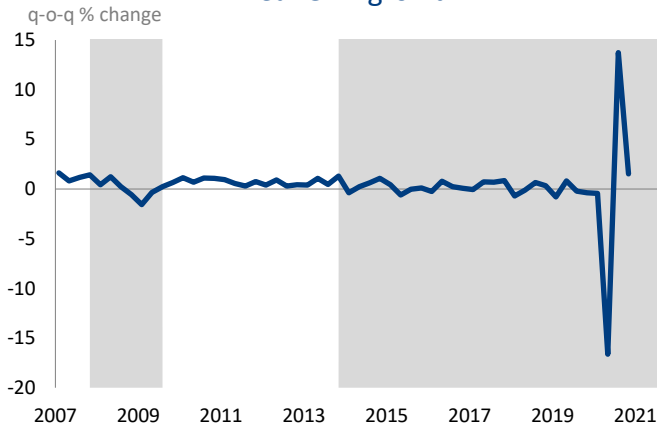
The official [unemployment rate](#) edged up to 32.6% in 2021Q1 and is now 2.5% points higher than in the same quarter last year. Indeed, on an annual basis, the total level of employment was down by 1.39 million with employment even edging down slightly (-28 000) compared to 2020Q4. Including people that technically could work if offered employment, but that either gave up looking for work or were not able to look for work due to coronavirus concerns, the expanded unemployment rate rose to 43.2% in 2021Q1. This translates to more than 11 million people being unemployed, which is more than the number of people employed in the formal (non-agricultural) sector. Another worrying statistic was the youth unemployment rate which climbed to 63.3% in Q1 (or a staggering 74.7% using the expanded definition of unemployment).

Absa PMI suggests recovery momentum was maintained in Q2

High frequency data released for the month of March – see for example [retail trade sales](#) and [manufacturing production data](#) – confirms that the economy likely recorded another quarterly expansion in the first quarter of 2021. The Absa PMI for April and May suggests that at least manufacturing production could have recorded another quarterly uptick in the second quarter. A significant annual expansion is effectively guaranteed given the extremely low base set in 2020Q2. If the (fairly) light touch from government on lockdown restrictions continues, and if the intensity as well as the duration of the third wave can be contained, the associated setback to the domestic GDP recovery should be relatively limited. Even so, an intense third wave where daily new infections equal or rise above the peak of the second wave remains a key downside risk to the GDP recovery.

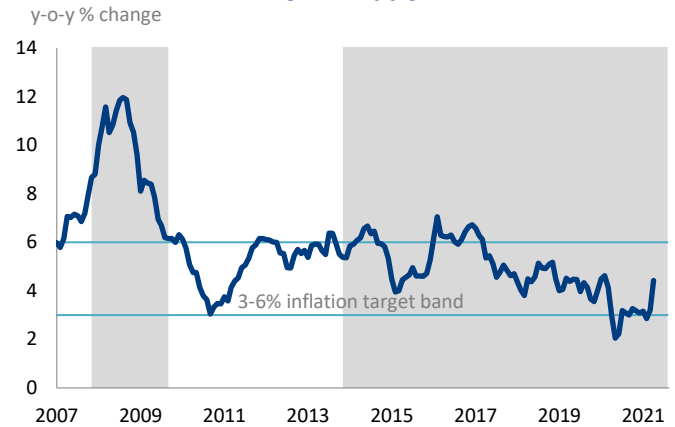
Core indicators

Real GDP growth



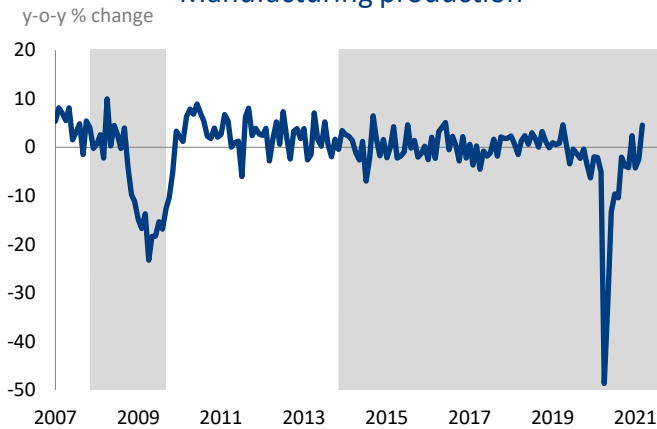
Source: Stats SA

CPI inflation



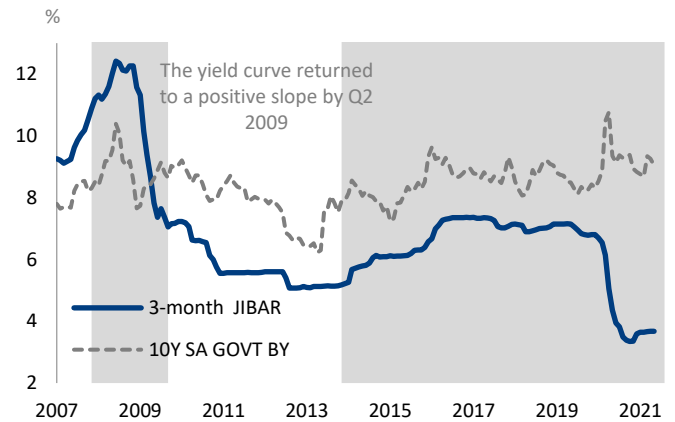
Source: Stats SA

Manufacturing production



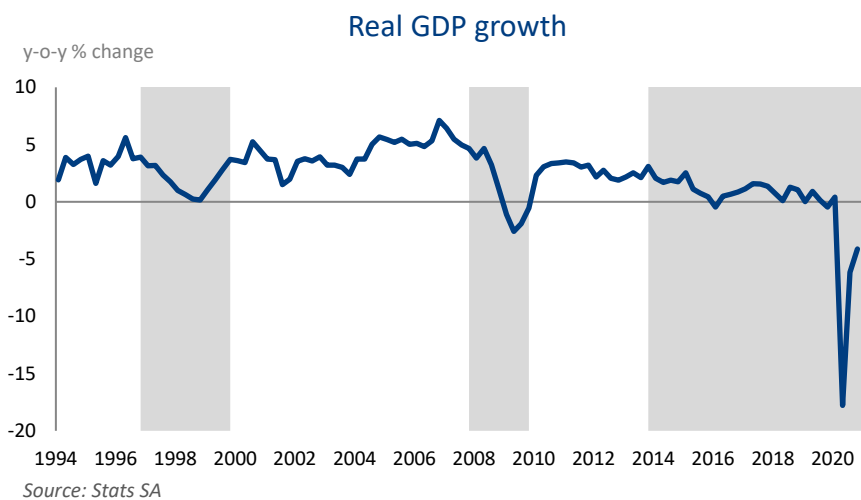
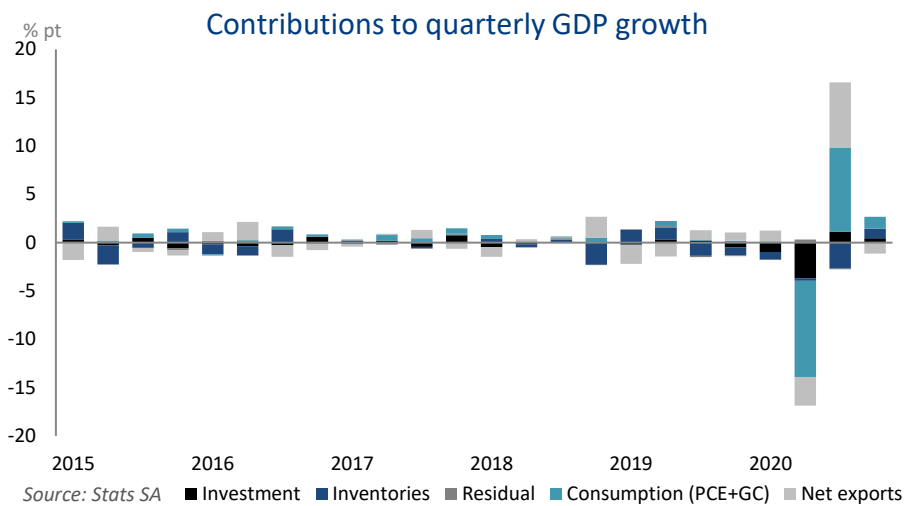
Source: Stats SA

Interest rates



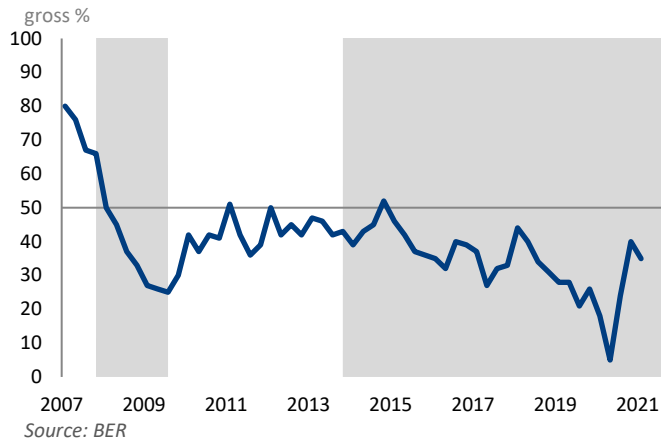
Source: DataStream

GDP growth

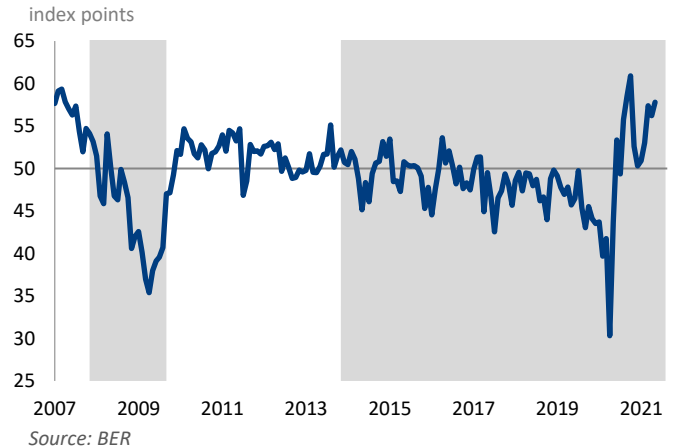


Business environment

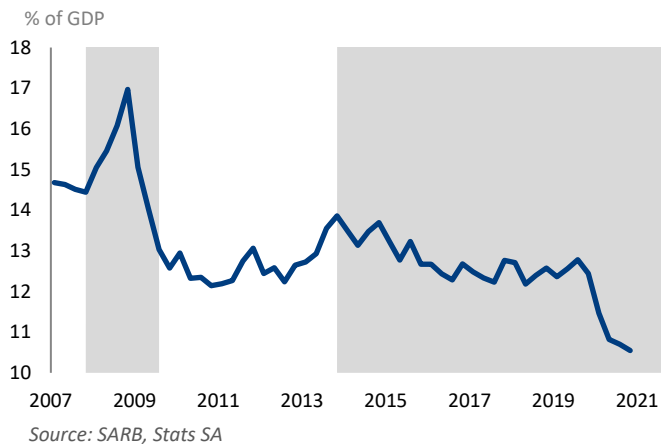
RMB/BER Business Confidence Index



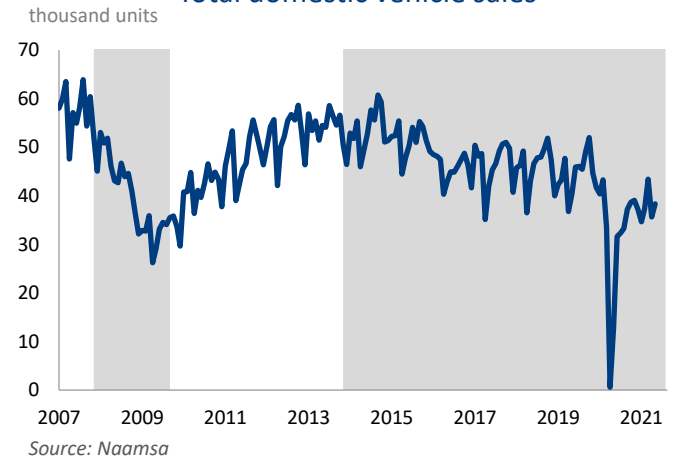
Absa Purchasing Managers' Index



Private fixed investment

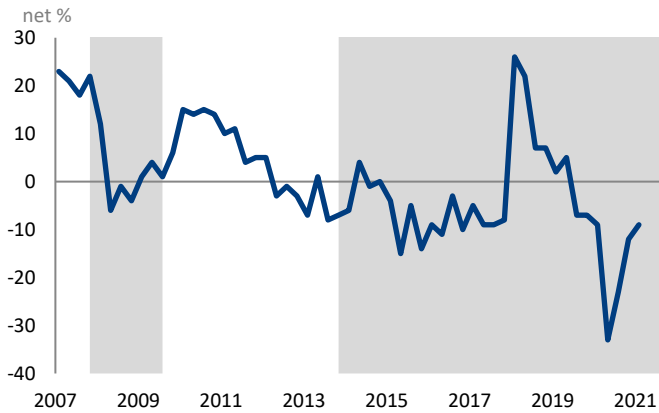


Total domestic vehicle sales



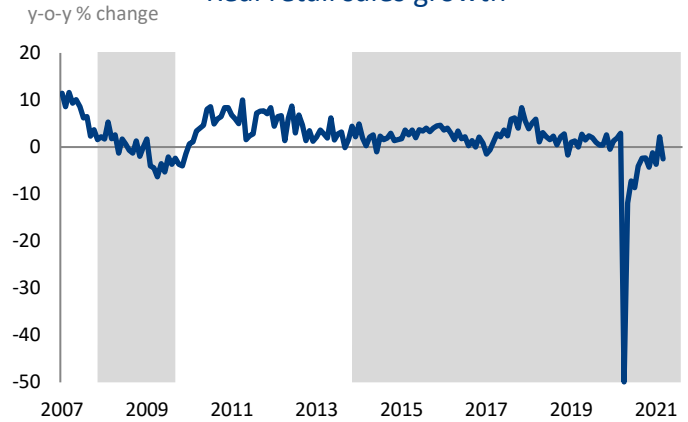
Household consumption

FNB/BER Consumer Confidence Index



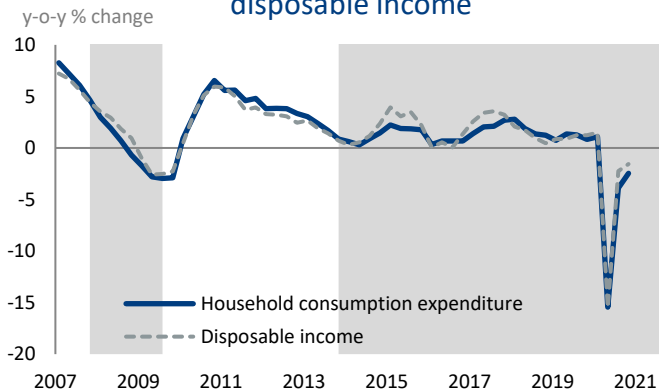
Source: BER

Real retail sales growth



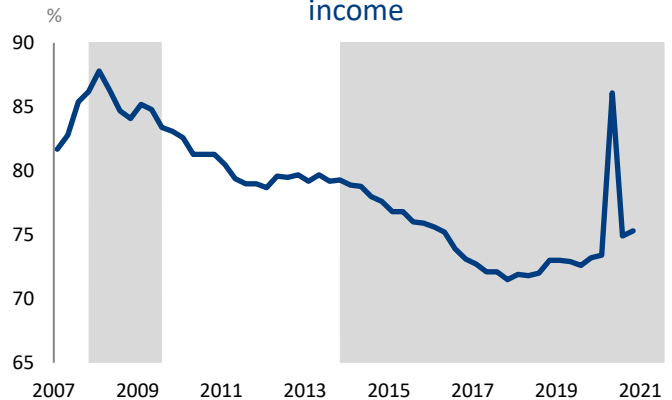
Source: Stats SA

Household consumption and real disposable income



Source: SARB, Stats SA

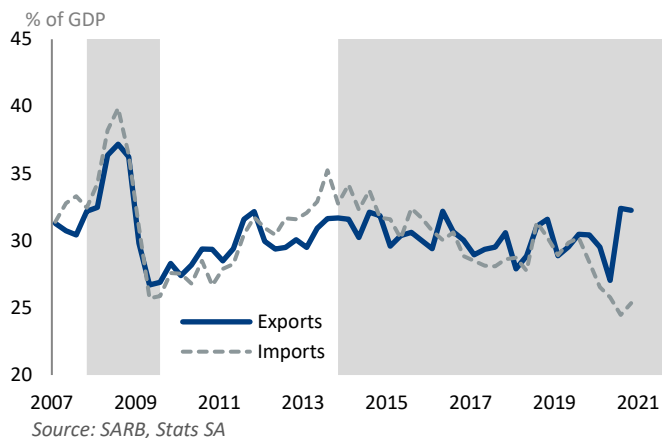
Ratio of household debt to disposable income



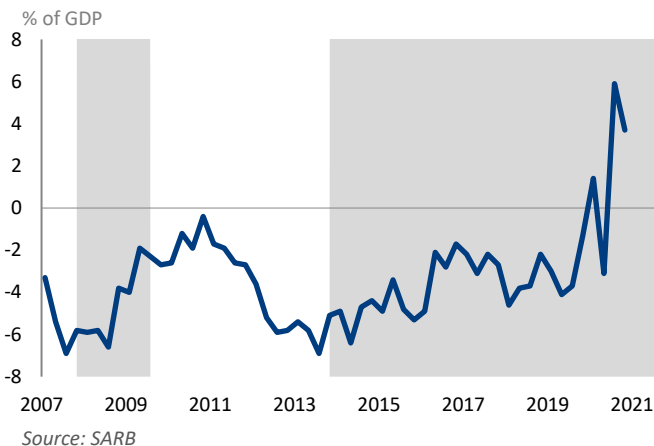
Source: SARB

International trade

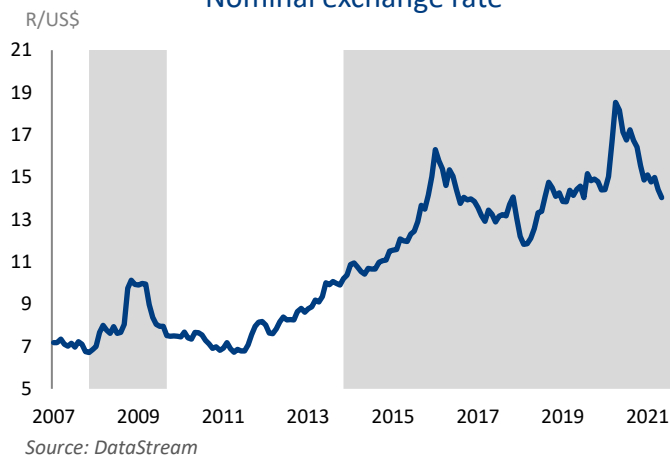
Imports and exports



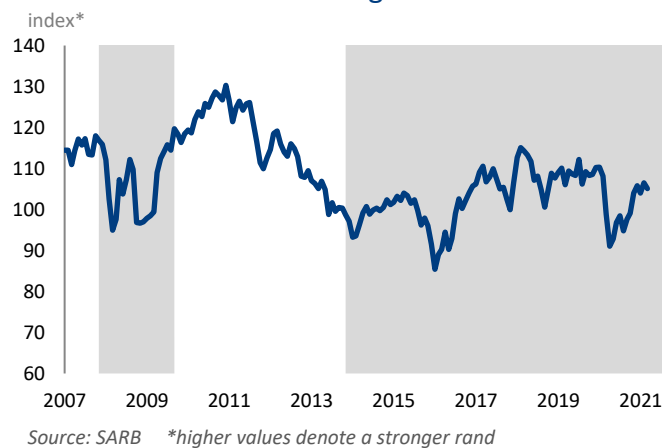
Current account balance



Nominal exchange rate

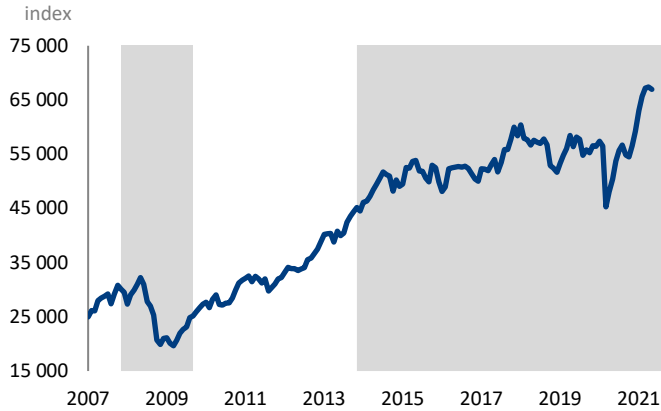


Real effective exchange rate of the Rand



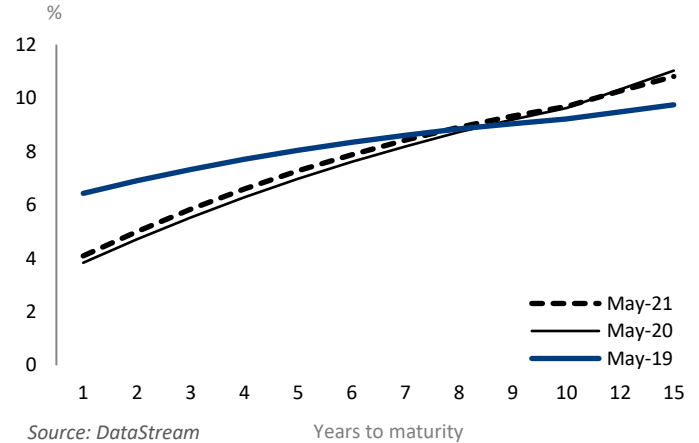
Financial markets

JSE all share index



Source: DataStream

Yield curve comparisons



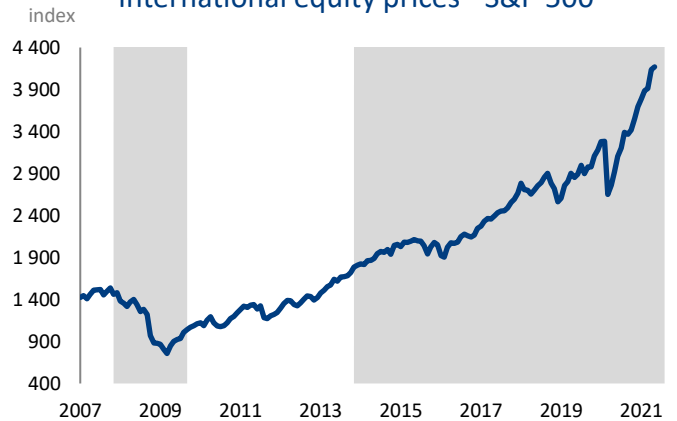
Source: DataStream

Economist all commodities index



Source: Economist

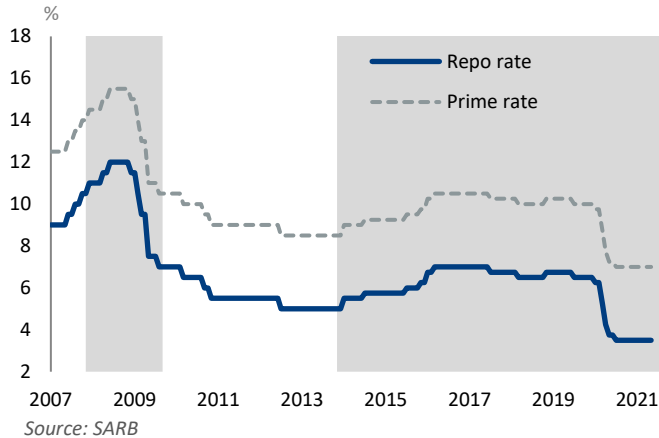
International equity prices - S&P 500



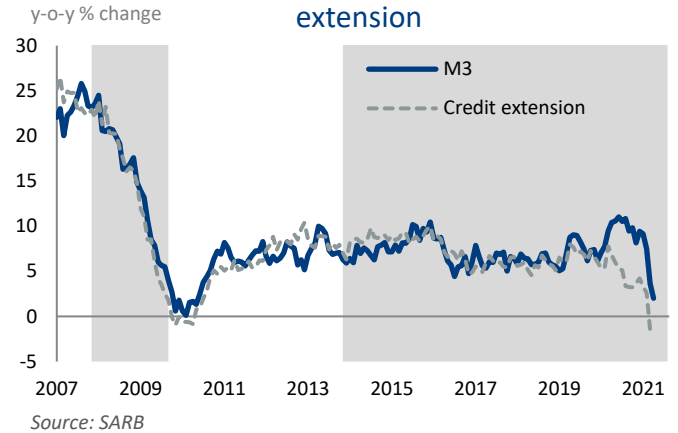
Source: DataStream

Money and prices

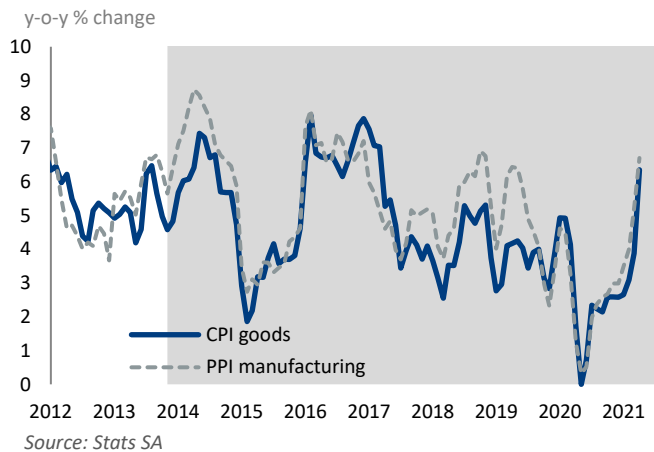
Repo and prime interest rate



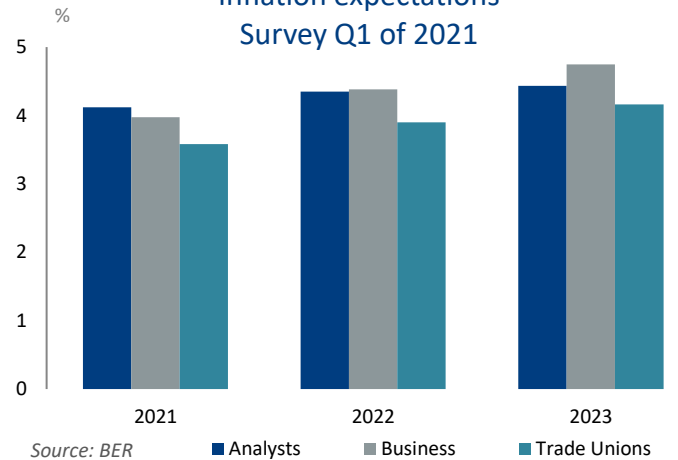
M3 monetary aggregates and credit extension



Consumer and producer prices

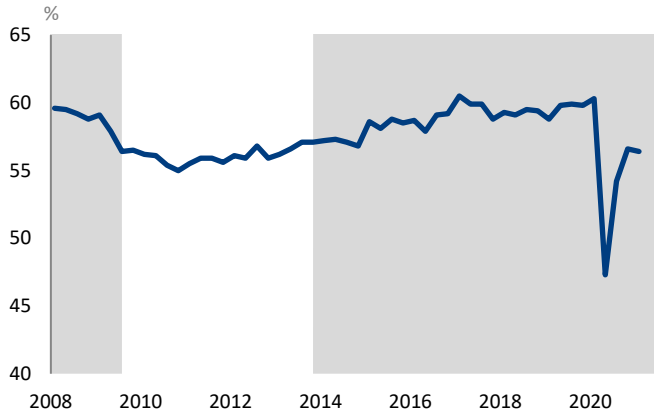


Inflation expectations Survey Q1 of 2021



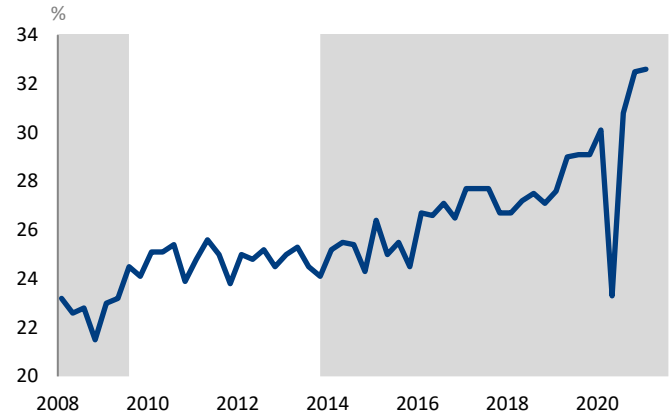
Labour

Labour force participation



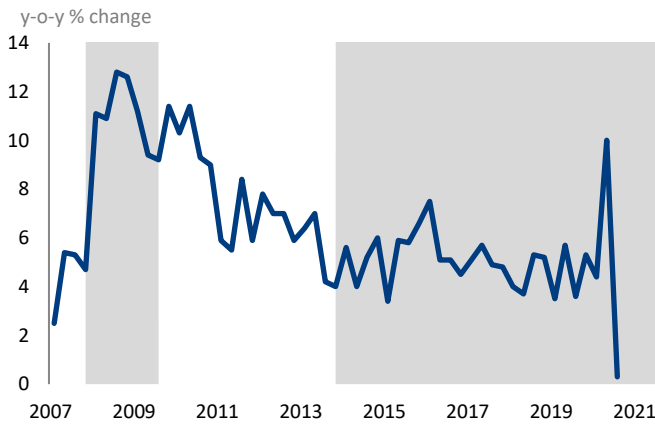
Source: Stats SA

Unemployment rate



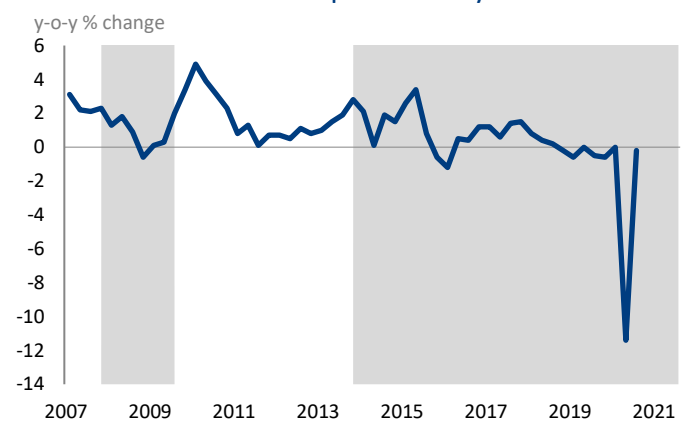
Source: Stats SA

Unit labour cost



Source: SARB

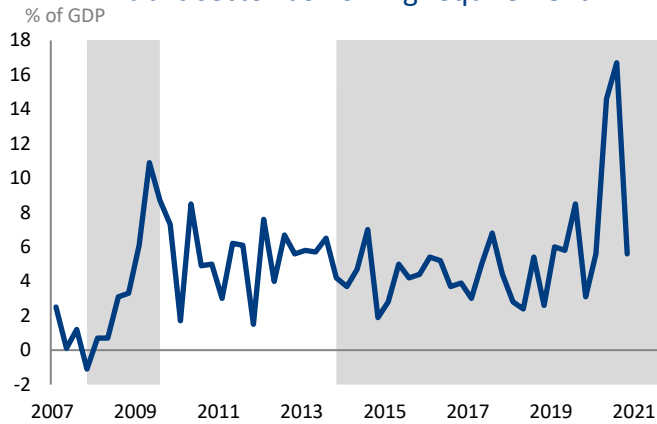
Labour productivity



Source: SARB

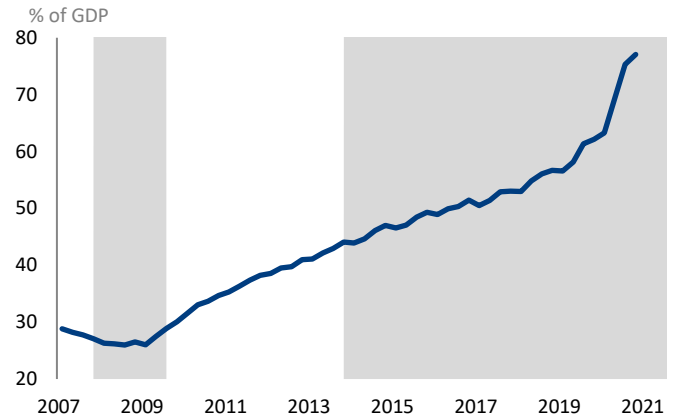
Government

Public sector borrowing requirement



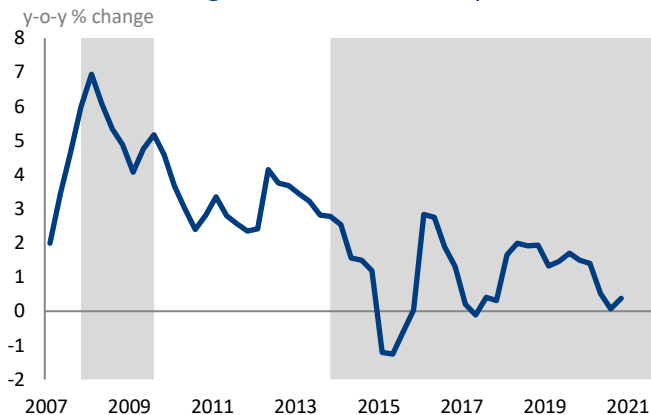
Source: SARB

Gross government debt



Source: SARB

Real government consumption



Source: SARB, Stats SA

Government fixed investment



Source: SARB, Stats SA

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