

Contents:

Highlights

Core indicators

GDP growth

Business environment

Household consumption

International trade

Financial markets

Money and prices

Labour

Government

Recession algorithm

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

Compiled by Nicolaas vd Wath
Email: wnwath@sun.ac.za
Phone: 021 808 9755

Highlights

Third wave and unrest-shock derail GDP recovery

Following a better-than-expected performance in the first half of 2021, the economic recovery experienced a significant setback in the third quarter of 2021. Against the backdrop of several well-documented domestic shocks, including the Delta-driven third wave of COVID-19 infections and stricter lockdown restrictions, as well as the civil unrest in July, real GDP contracted by 1.5% q-o-q in 2021Q3. Read more in our section on the [Recession algorithm](#).

More unemployment woes in Q3

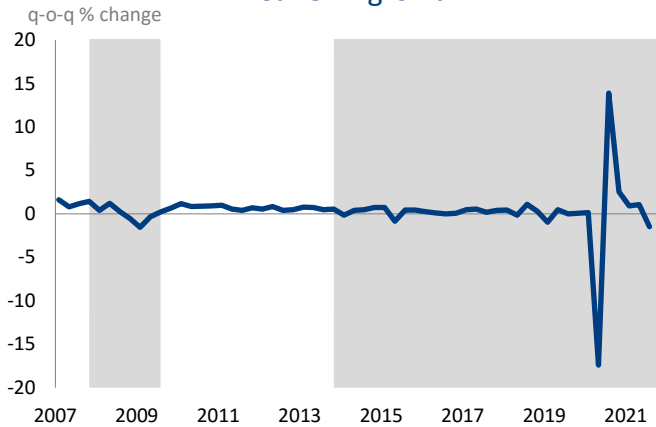
The SA economy shed more jobs in the third quarter of 2021. This continues the trend of quarterly job losses in 2021 after the initial post-lockdown employment bounceback in the second half of 2020. Of the 660 000 jobs lost in the third quarter, 571 000 were in the formal sector, with some jobs also lost in agriculture and the private household sector. Consequently, only 9.63 million people were employed in the formal sector in 2021Q3, down by 1.7 million (or 15%) from the pre-pandemic level of 11.33 million in 2019Q4. Among the key economic sectors, the most jobs were lost in the trade sector (-309 000), followed by the community services sector (-210 000). The only sector to gain jobs was finance and business services (+138 000). The unemployment rate is now at yet another all-time high of 34.9%, surpassing the previous record of 34.4% in 2021Q2 ([see graphs](#)).

Manufacturing production off to a terrible start in Q4

After a poor Q3, the further setbacks to the economic recovery in early 2021Q4 were emphasised by the 5.9% m-o-m (seasonally adjusted) slump in **manufacturing** production during October ([see graph](#)). This was mainly due to the prolonged strike in the metal and engineering sector in addition to bouts of load-shedding. Indeed, output of basic iron, steel and metal products plunged by 14.1% m-o-m. Besides the steel component, the majority of the key subcomponents saw monthly declines. With a 6.9% m-o-m fall, vehicles and transport equipment were particularly hard hit. In contrast, the **mining** sector performed better in October. On a monthly, seasonally adjusted basis, total mining production was up by 3.4% in October, after declining by 4.4% in September.

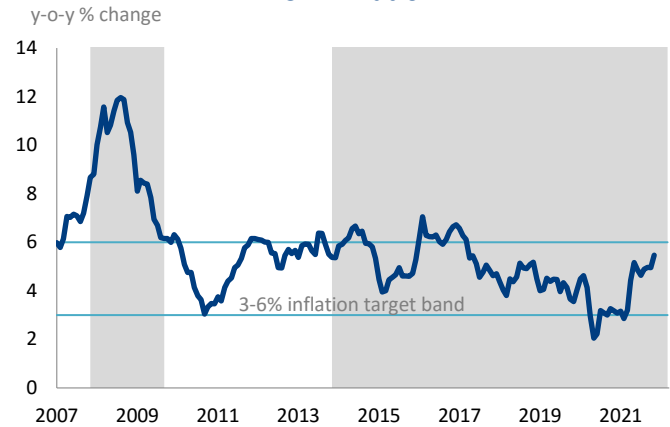
Core indicators

Real GDP growth



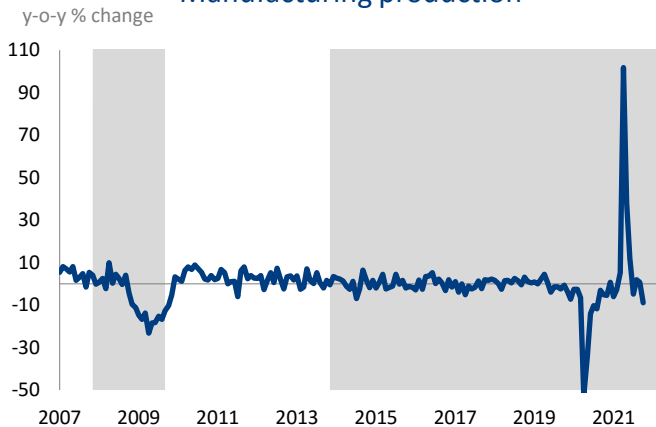
Source: Stats SA

CPI inflation



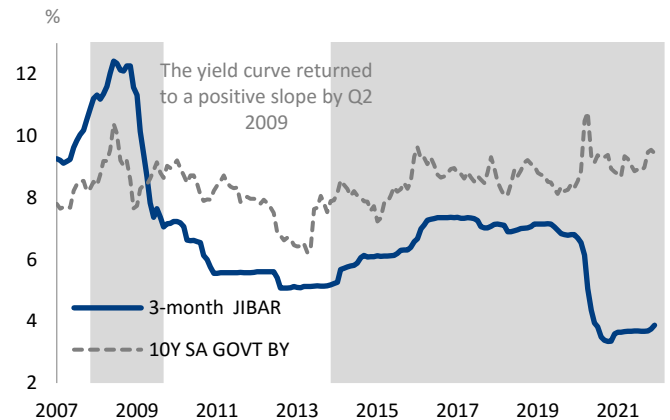
Source: Stats SA

Manufacturing production



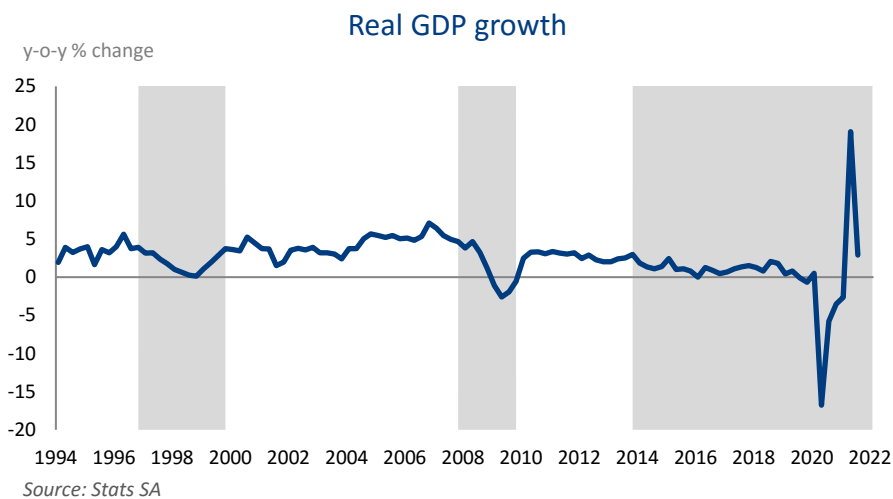
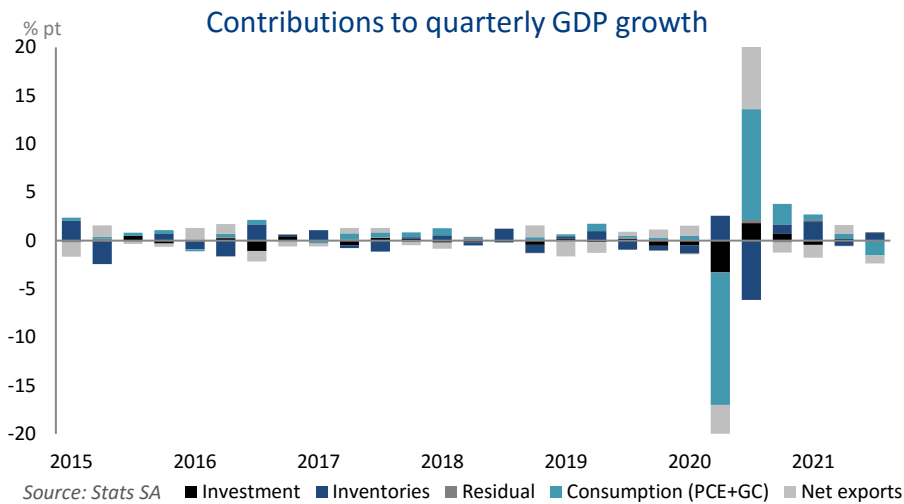
Source: Stats SA

Interest rates



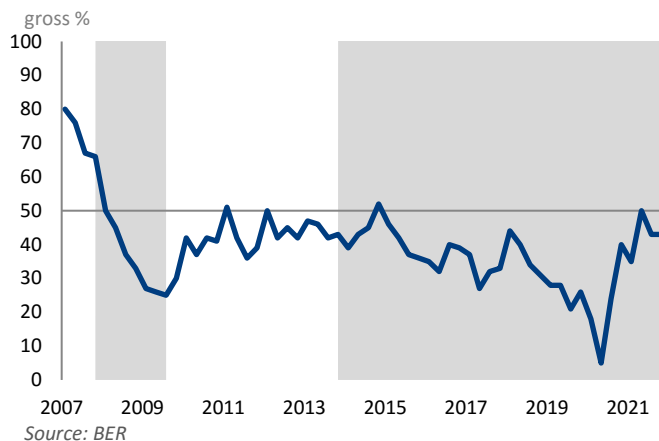
Source: DataStream

GDP growth

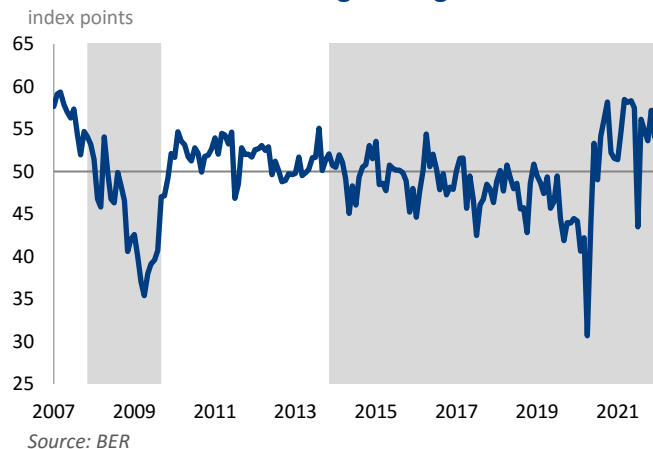


Business environment

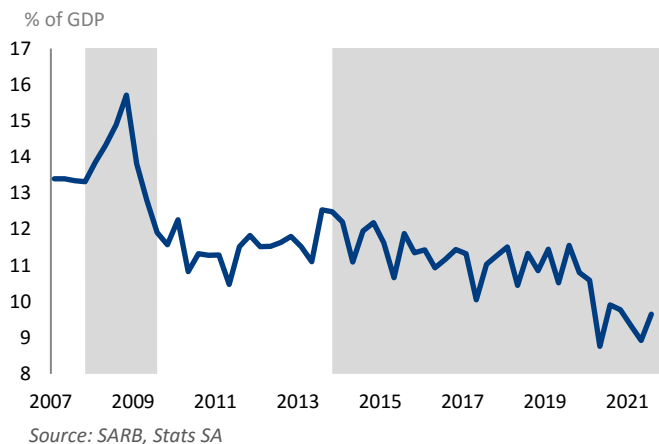
RMB/BER Business Confidence Index



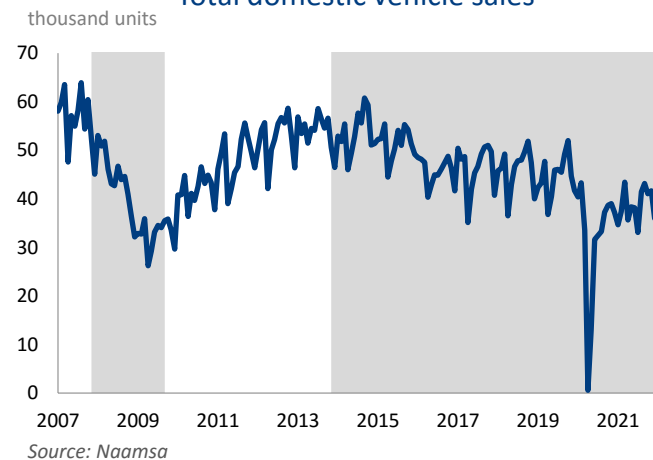
Absa Purchasing Managers' Index



Private fixed investment

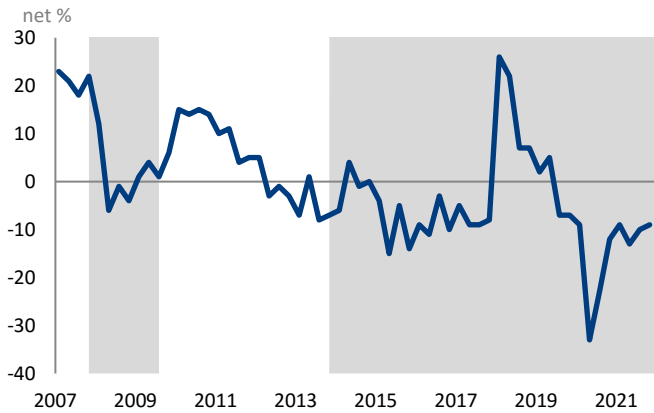


Total domestic vehicle sales



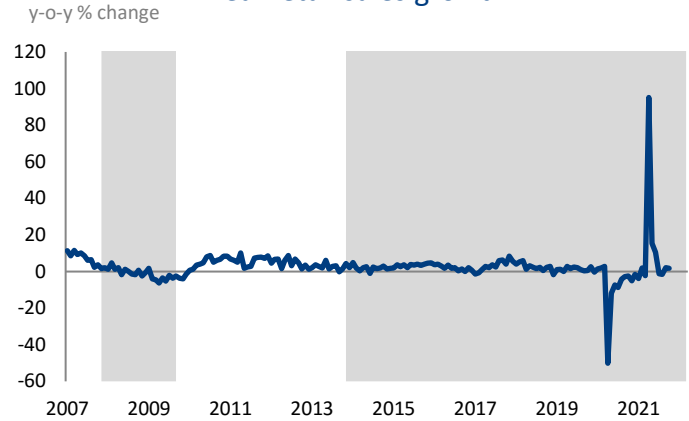
Household consumption

FNB/BER Consumer Confidence Index



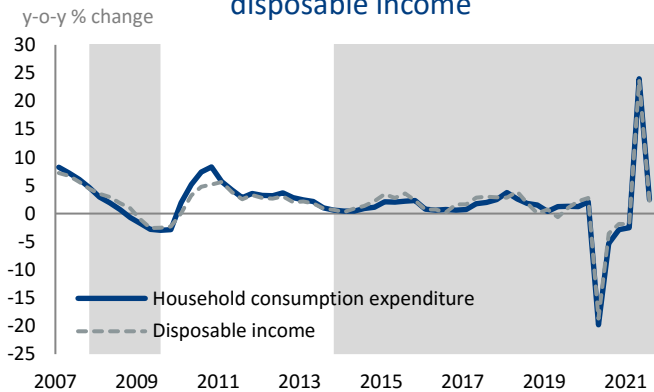
Source: BER

Real retail sales growth



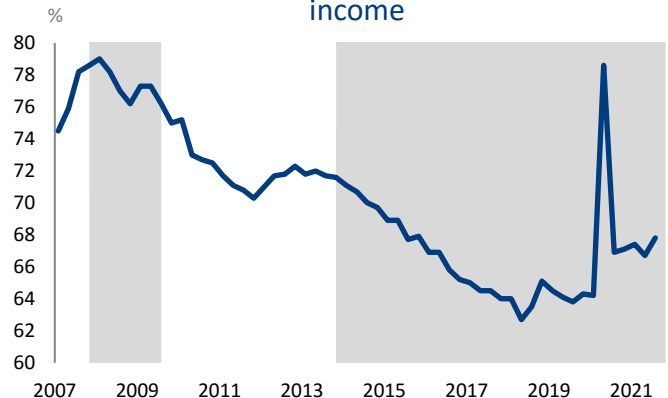
Source: Stats SA

Household consumption and real disposable income



Source: SARB, Stats SA

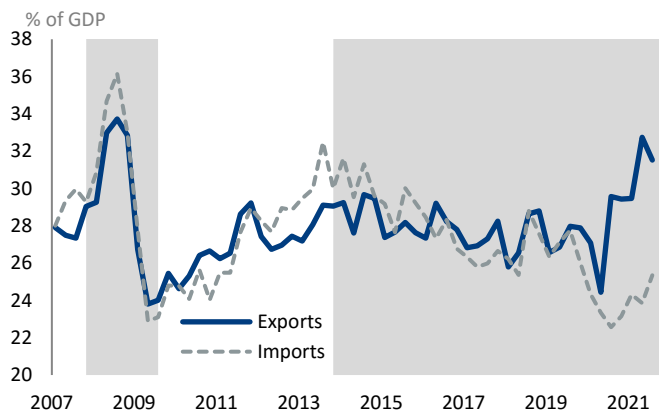
Ratio of household debt to disposable income



Source: SARB

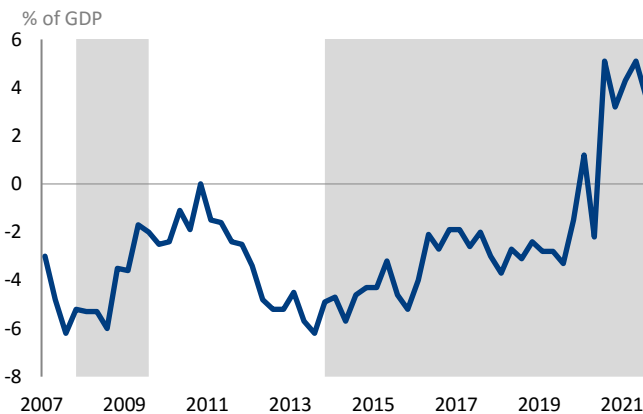
International trade

Imports and exports



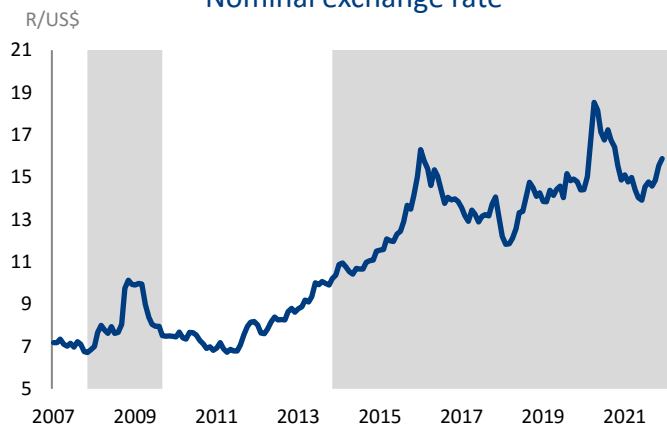
Source: SARB, Stats SA

Current account balance



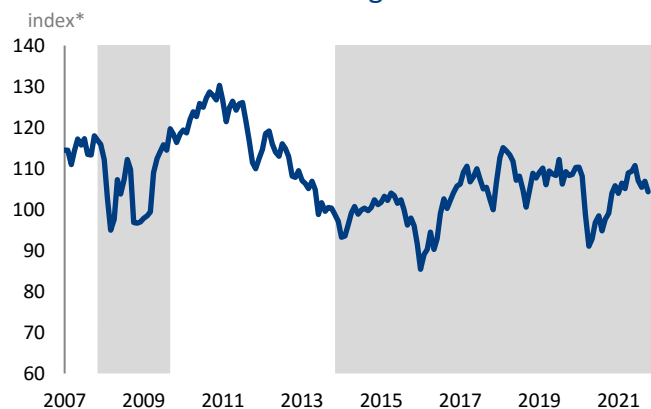
Source: SARB

Nominal exchange rate



Source: DataStream

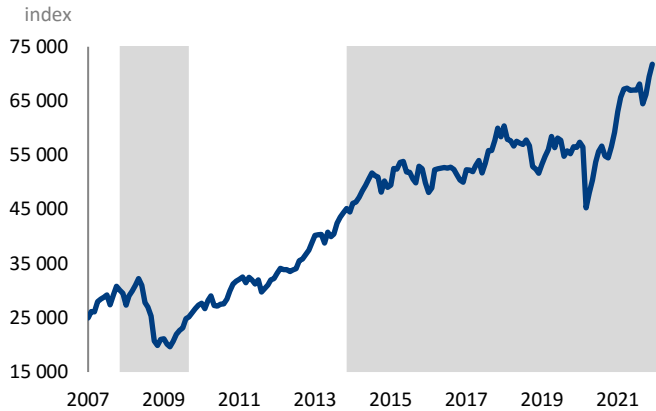
Real effective exchange rate of the Rand



Source: SARB *higher values denote a stronger rand

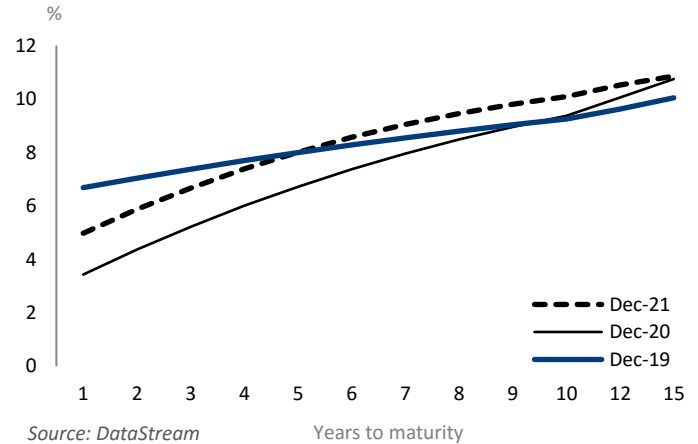
Financial markets

JSE all share index



Source: DataStream

Yield curve comparisons



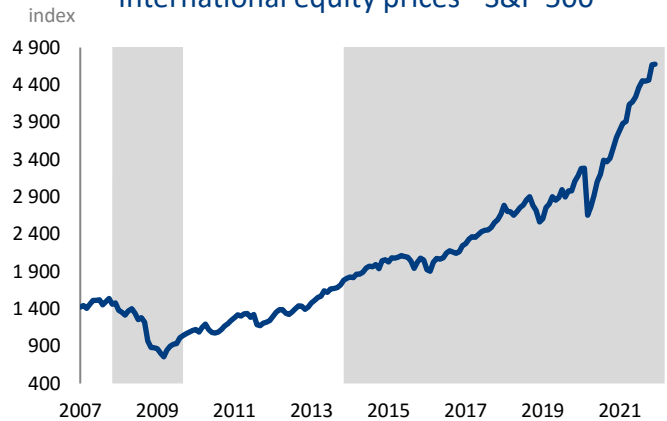
Source: DataStream

Economist all commodities index



Source: Economist

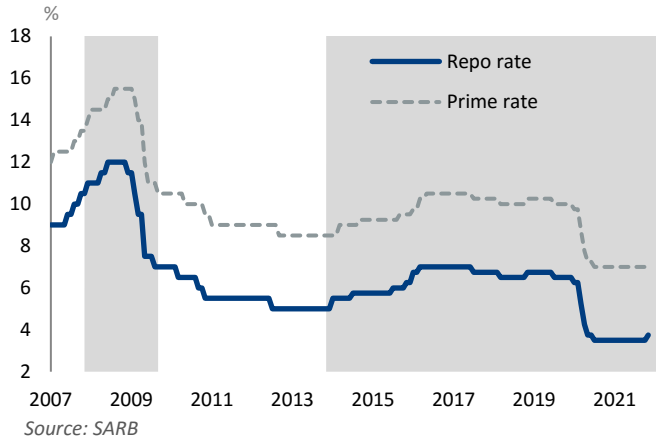
International equity prices - S&P 500



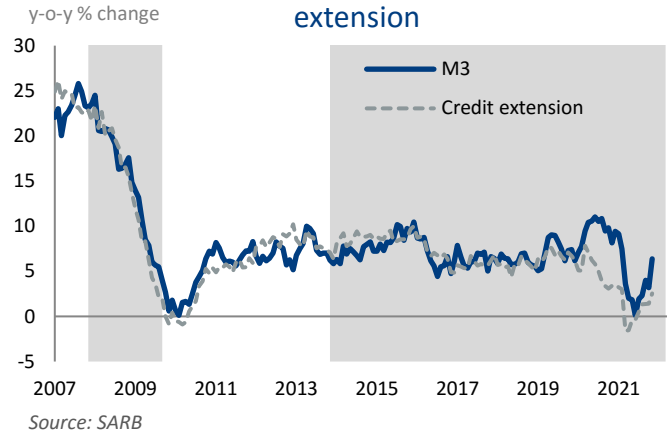
Source: DataStream

Money and prices

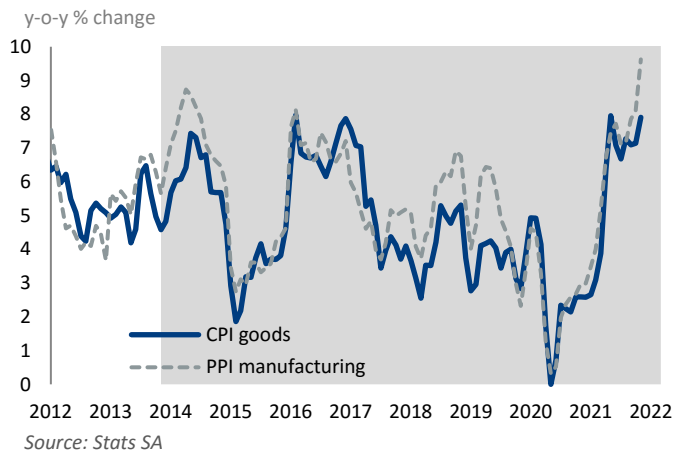
Repo and prime interest rate



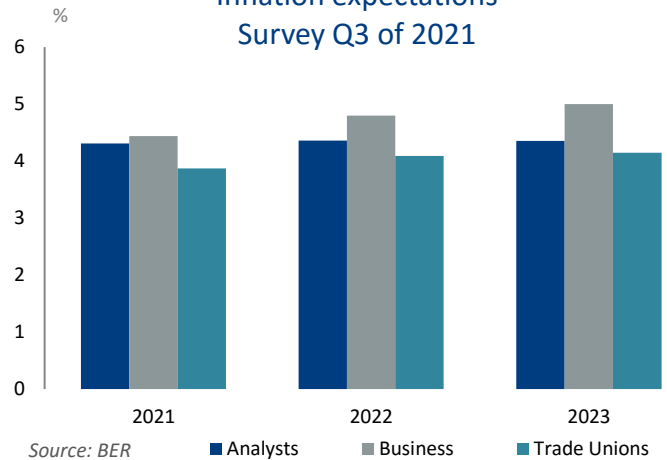
M3 monetary aggregates and credit extension



Consumer and producer prices

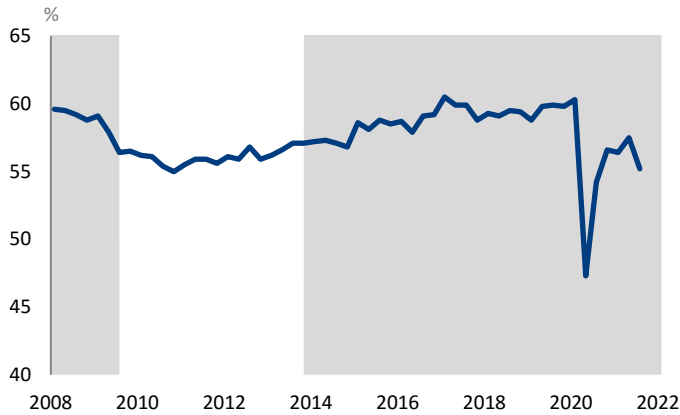


Inflation expectations Survey Q3 of 2021



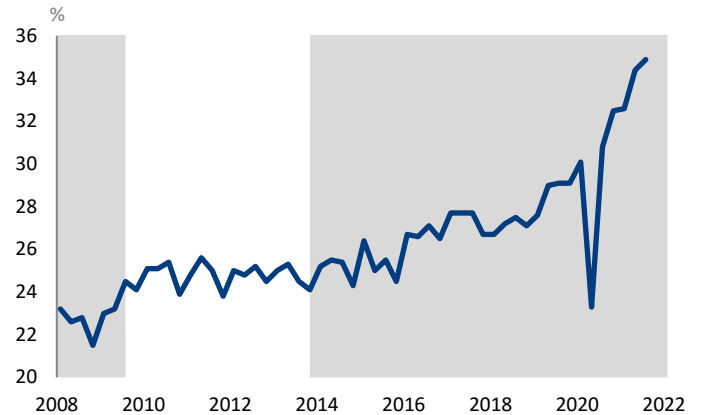
Labour

Labour force participation



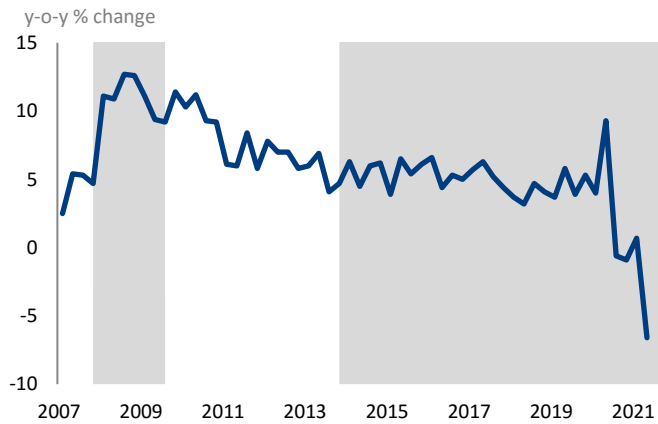
Source: Stats SA

Unemployment rate



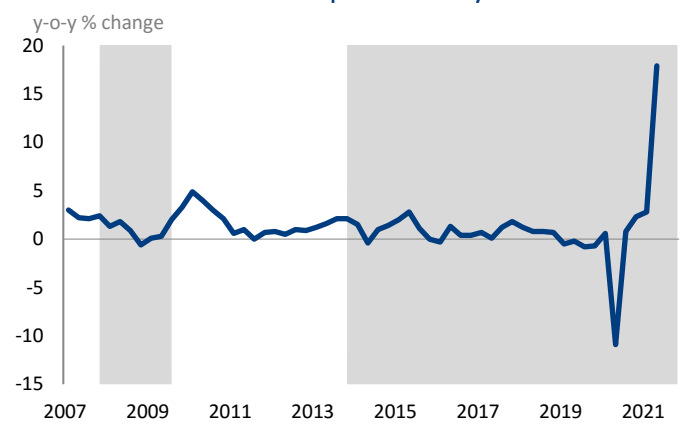
Source: Stats SA

Unit labour cost



Source: SARB

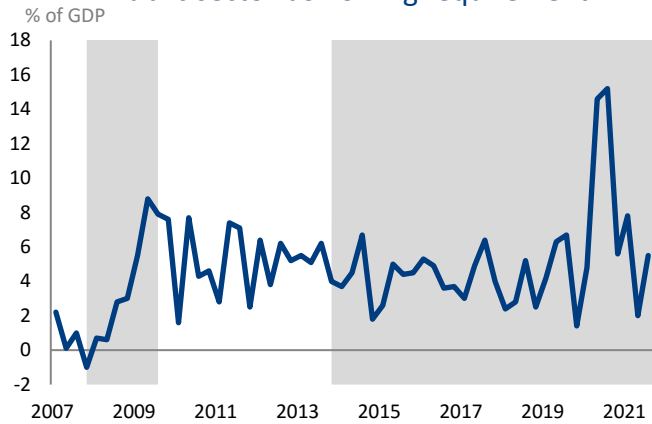
Labour productivity



Source: SARB

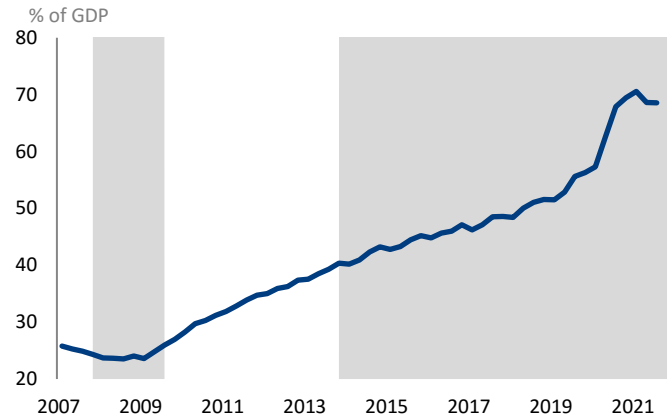
Government

Public sector borrowing requirement



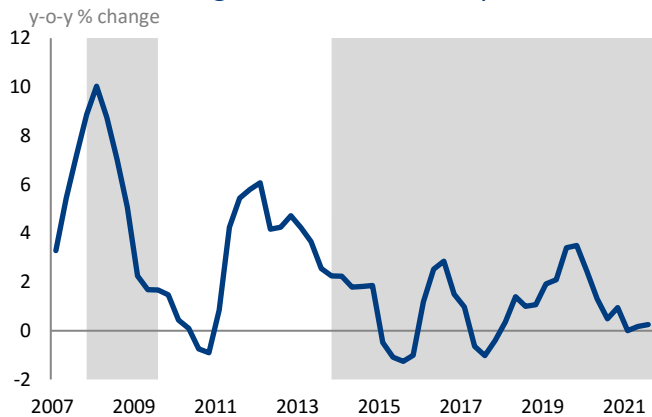
Source: SARB

Gross government debt



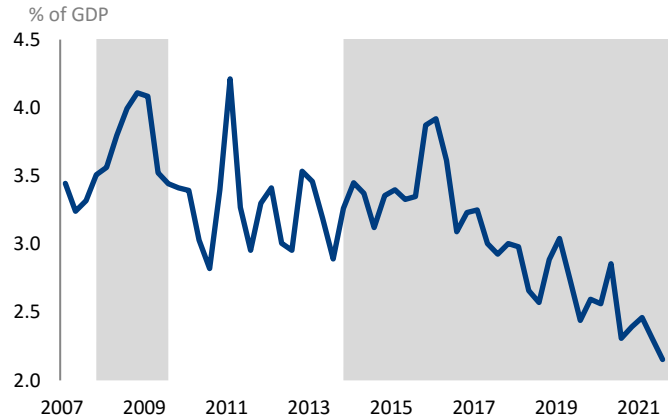
Source: SARB

Real government consumption



Source: SARB, Stats SA

Government fixed investment



Source: SARB, Stats SA

Recession algorithm¹

Real GDP contracted by 1.5% (seasonally adjusted) during the third quarter of 2021 compared to the second quarter. A contraction was expected in view of the confidence-shattering civil unrest in KwaZulu-Natal (KZN) and – to a lesser extent – Gauteng in July. However, the contraction was larger than expected. It appears manufacturing and retail, wholesale & accommodation activity were hit hardest, contracting by 4.2% and 5.5% respectively. The large contraction in agricultural GDP (13.6%) reflected lower production of field crops and animal products, exacerbated by the riots and plundering in KwaZulu-Natal in July.

Real GDP also contracted in the transport & communication sector (2.2%), mining (0.9%) and construction (0.5%). Sectors where activity remained well below pre-COVID levels in 21Q3 include construction (-20.2%); transport & accommodation (-9.7%); retail, wholesale & accommodation (-8.4%); and manufacturing (-7.4%). Three sectors that contracted the least during 20Q2, at the time of the COVID-induced economic lockdowns, and that have been recovering/growing consistently since, include: financial & business services (real GDP 2.6% above pre-COVID levels in 21Q3); personal services (3.1%) and the general government (0.6%).

On the demand side of the economy, the hit to retail & wholesale during 21Q3 is evident in a 2.4% contraction in real household consumption expenditure. Gross domestic fixed investment remained flat, continuing to hover close to 12% below pre-COVID levels. Inventory disinvestment also continued during the third quarter, although some bottoming appears to be underway. The export sector was also hit, with volumes contracting by a massive 5.9%.

The overall decline in business confidence during 21Q3 was relatively contained as the plunge was limited to KZN. The RMB/BER confidence index remained flat during the fourth quarter of the year. While building & construction activity is benefitting from reconstruction efforts in KZN, the economic outlook has been clouded by developments in the tourism sector following the identification of the Omicron variant of COVID-19. Intermittent electricity load-shedding also continues to bedevil economic growth and the outlook.

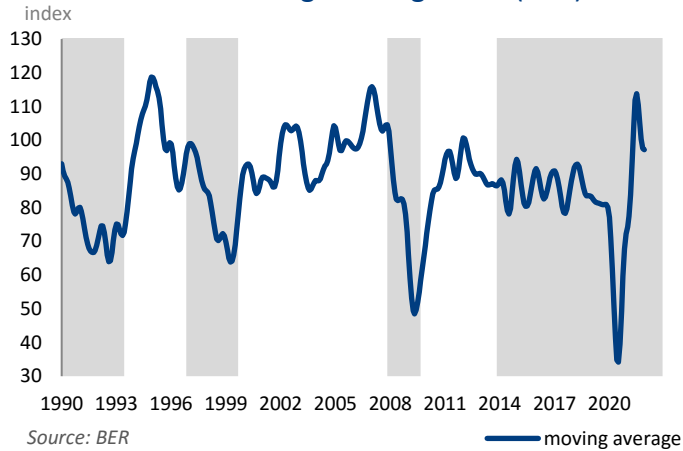
Whilst the economy continues to recover from the COVID-19 shock, the third quarter unrest in KZN and Gauteng was a setback – overall GDP remained 2.9% below pre-pandemic levels during 21Q3. Excluding external trade, real

¹ Recession-dating algorithm for South Africa, which allows the BER to make accurate calls on business cycle turning points substantially sooner after the event than is the case with the official SARB determination. Read more at [this link](#).

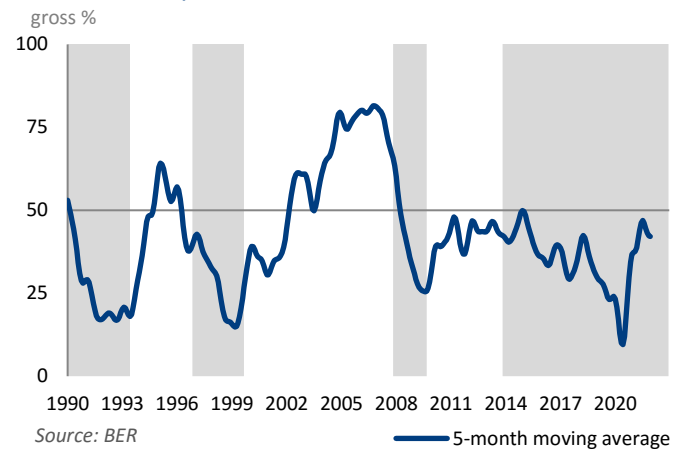
domestic spending was 4.2% below pre-pandemic levels. The fourth COVID-19 wave will likely dampen activity, but the scope remains for the economy to continue recovering – it has some way to go to enter an expansion phase. The likely lower turning point was August/September 2020 according to the recession-dating algorithm.

Recession algorithm

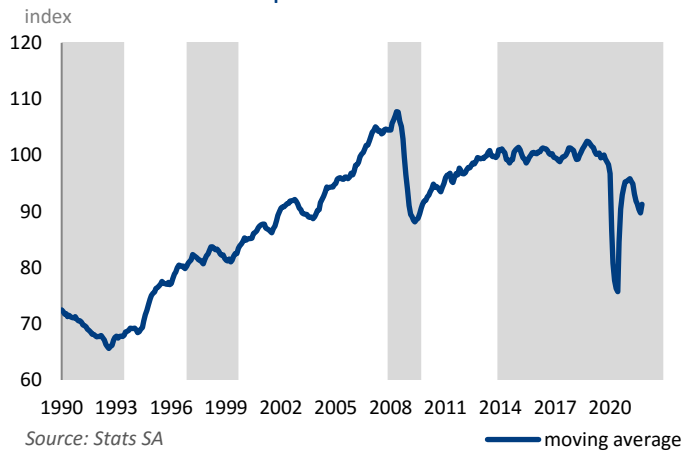
Manufacturing working hours (BER)



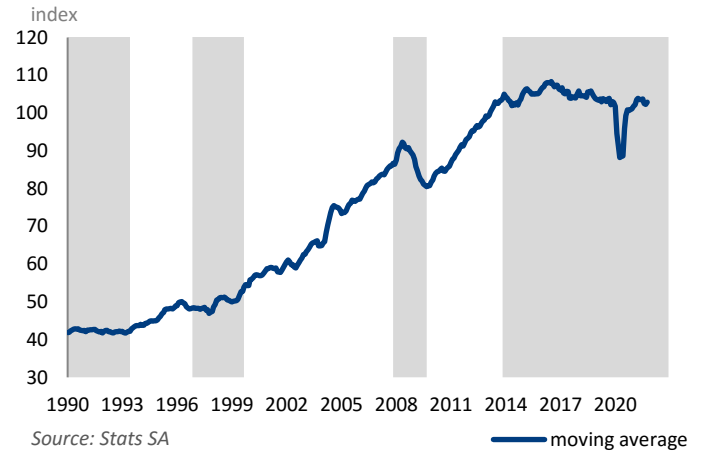
RMB/BER Business Confidence Index



Manuf. production volumes



Wholesale sales volumes



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