THE REAL ECONOMY BULLETIN

TRENDS, DEVELOPMENTS AND DATA

FOURTH QUARTER 2021

*The Real Economy Bulletin is a TIPS review of quarterly trends, developments and data in the real economy, together with a comprehensive analysis of the main manufacturing industries and key data in Excel format.**

Trends in GDP growth

The GDP expanded by 1.2% in the fourth quarter of 2021, bringing growth for 2021 as a whole to 4.9%, despite the 1.7% contraction in the third quarter and the COVID-19 surge in December.

Revived growth in the fourth quarter of 2021 meant the year saw the fastest economic expansion since the commodity boom that ended in 2011, as Graph 1 shows. Despite the sharp downturn in the third quarter, which most observers attributed to the July violence, the economy grew faster in 2021 than in any calendar year since 2007.

Even with the strong showing for 2021, the steep contraction from the pandemic in 2020 and, to a much lesser extent, the July 2021 unrest meant the GDP remained 1.8% lower than in 2019.

The annual data underscore the extraordinary impact of the pandemic depression, which capped a decade of slowing growth. (Graph 2)

*Available at www.tips.org.za/the-real-economy-bulletin

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EDITORIAL TEAM

The Real Economy Bulletin

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Editor

Mbofholowo Tsedu

Contributors

Neva Makgetla

Itumeleng Mokoena

Kelello Mashiane

Lesego Moshikaro

Gaylor Montmasson-Clair

Muhammed Patel

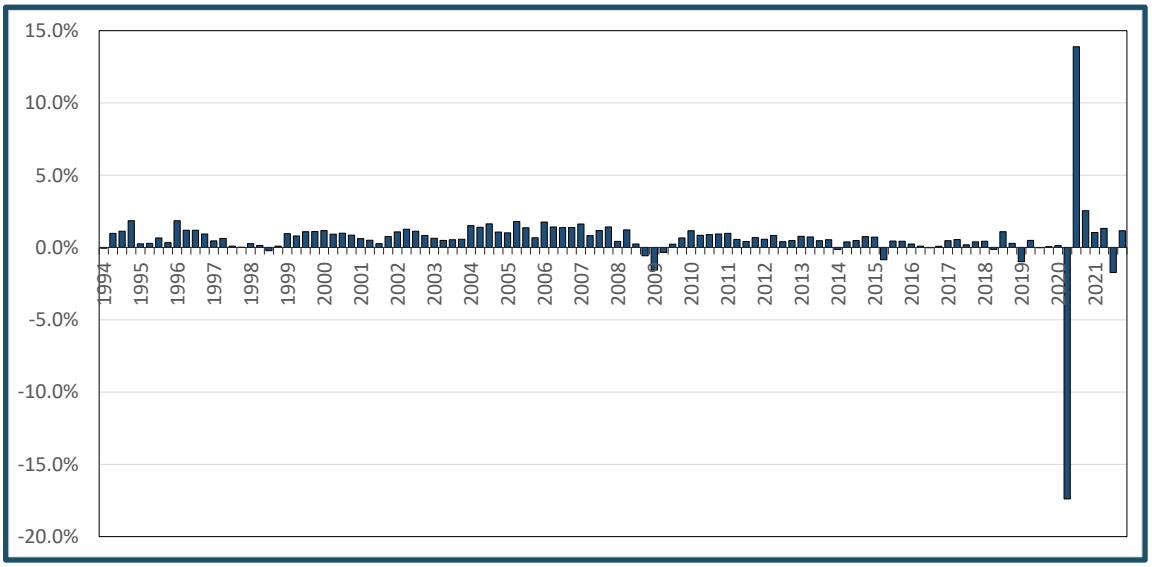
TRADE & INDUSTRIAL POLICY STRATEGIES

+27 12 433 9340

info@tips.org.za

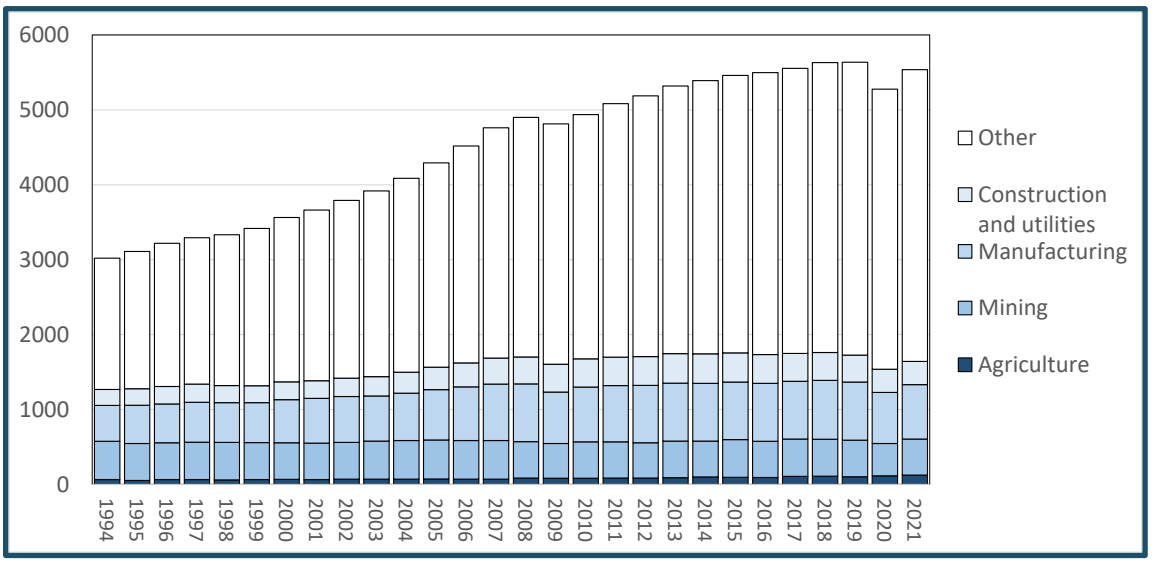
www.tips.org.za

Graph 1. Quarterly change in GDP, seasonally adjusted, 1994 to fourth quarter 2021



Source: Calculated from Statistics South Africa. GDP quarterly figures. GDP P0441 – 2021Q2. Excel spreadsheet downloaded from www.statssa.gov.za.

Graph 2. Value added by sector in billions of constant (2021) rand (a)

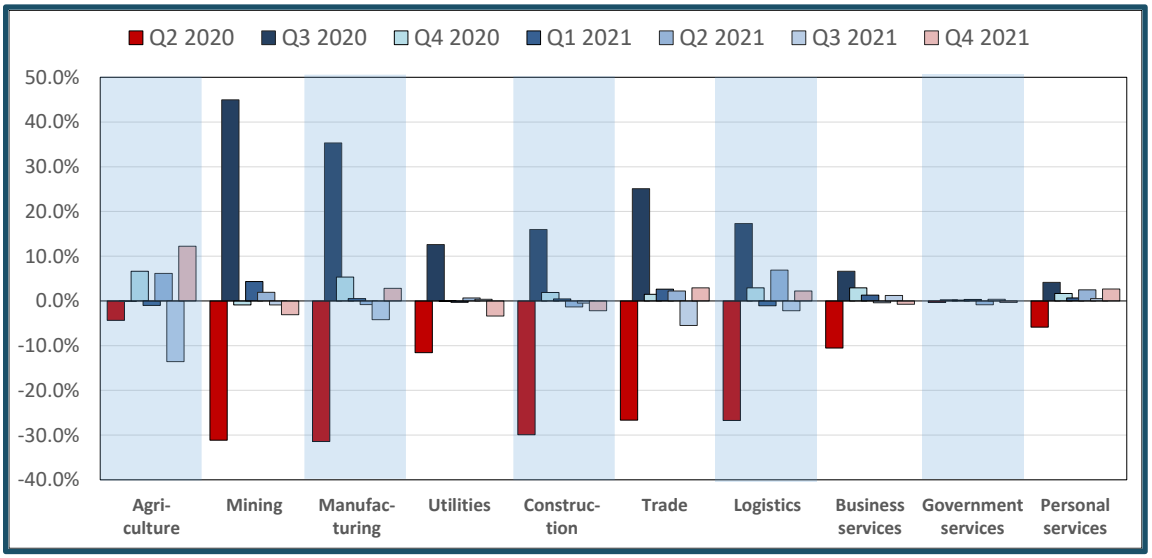


Note: (a) Reflated using implicit deflator for GDP rebased to 2021. *Source:* Calculated from Statistics South Africa. GDP annual current and constant figures. GDP P0441 – 2021Q2. Excel spreadsheet downloaded from www.statssa.gov.za.

Growth rates in the fourth quarter of 2021 varied substantially by sector. Agriculture, manufacturing, trade, transport and communications and personal services expanded comparatively quickly. Manufacturing climbed 7% over the year.

In contrast, mining production shrank in real terms in the fourth quarter of 2021, but very strong earlier growth meant it expanded over 10% for the year as a whole. Construction declined for the fourth quarter in a row, for an annual contraction of 2%.

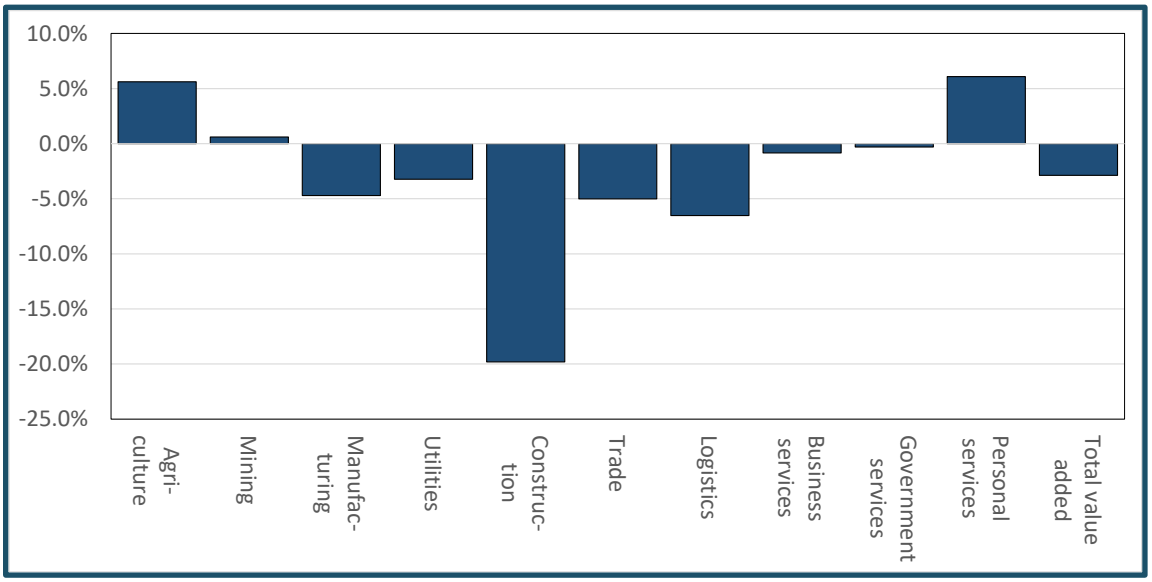
Graph 3. Quarterly change in contribution to GDP by sector, second quarter 2020 to fourth quarter 2021



Source: Calculated from Statistics South Africa. GDP quarterly figures. GDP P0441 – 2021Q2. Excel spreadsheet downloaded from www.statssa.gov.za

Only agriculture, mining and personal services exceeded pre-pandemic production levels by the fourth quarter of 2021. Construction lagged far behind the rest of the economy, at 20% below pre-pandemic levels with very little signs of recovery in 2021.

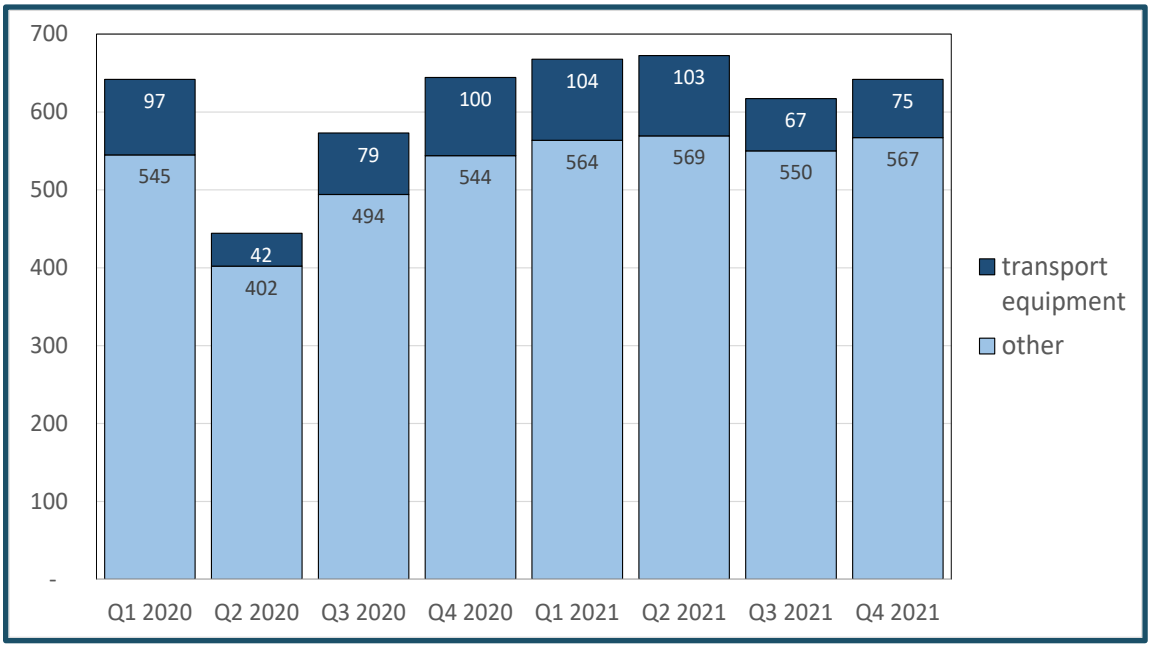
Graph 4. Change in GDP from first quarter of 2020 (pre-pandemic) to third quarter 2021 by sector



Source: Calculated from Statistics South Africa. GDP quarterly figures. GDP P0441 – 2021Q2. Excel spreadsheet downloaded from www.statssa.gov.za.

Manufacturing sales recovered by 4% in constant rand in the fourth quarter of 2021 after shrinking 8% in the third quarter. (Graph 5) The auto industry largely drove the swing. Its sales plummeted 35% in the third quarter, almost entirely in July, then rebounded 12% in the fourth quarter. The rest of manufacturing shrank 3% in the third quarter, but regained almost all of the lost ground over the next three months.

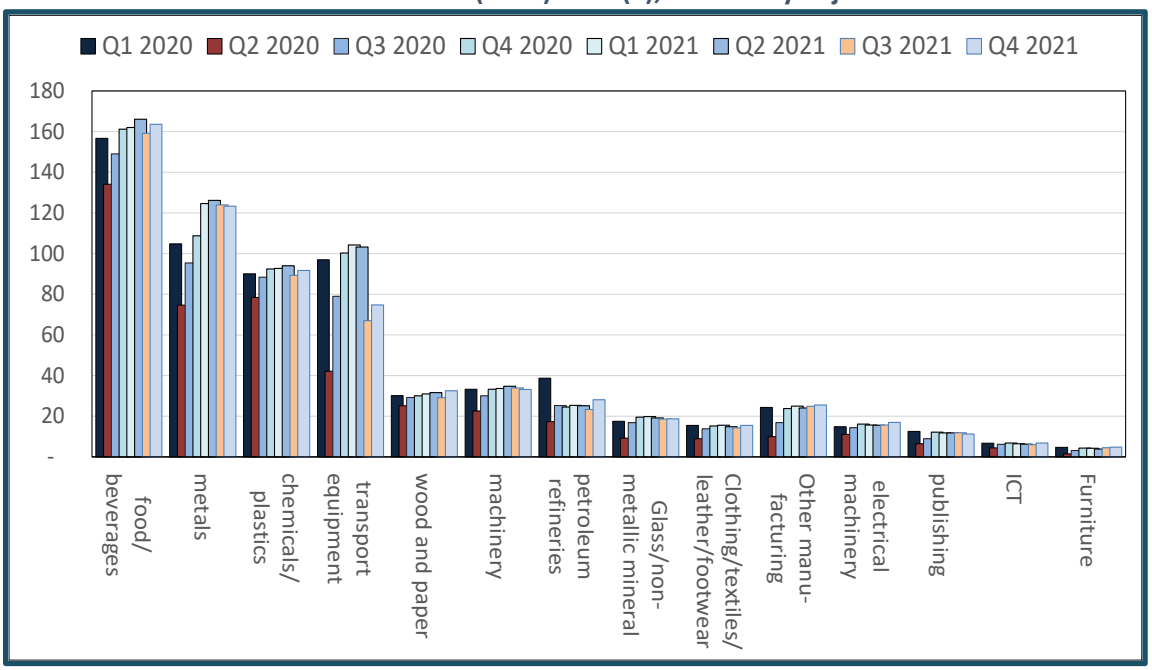
Graph 5. Quarterly manufacturing sales in auto and in the rest of manufacturing in billions of constant (2021) rand (a), first quarter 2020 to last quarter 2021



Note: (a) Figures revalued with CPI. Not seasonally adjusted. *Source*: Calculated from Statistics South Africa. Manufacturing: Production and sales, December 2021. P3041.2. Excel spreadsheet (202112).

While auto sales remained far below pre-July levels, other industries regained most of the ground they lost in the third quarter of 2021. Still, only petroleum refineries, electrical machinery and clothing saw higher sales in the fourth quarter than in the second quarter in constant rand terms. (Graph 6)

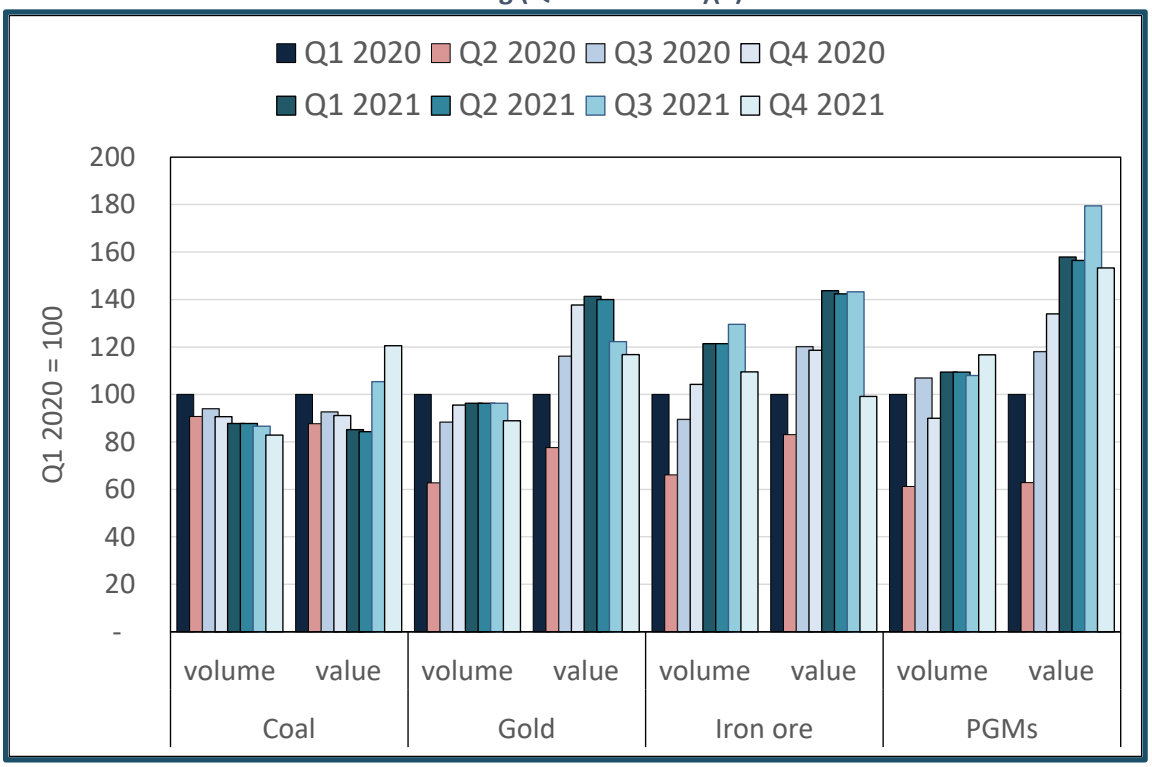
Graph 6. Quarterly sales by manufacturing industry in billions of constant (2021) rand (a), seasonally adjusted



Note: Reflated with CPI. *Source:* Calculated from Statistics South Africa. Manufacturing: Production and Sales. Excel spreadsheet downloaded from www.statssa.gov.za.

The fourth quarter of 2021 brought a sharp decline in international metals prices, which had escalated during the pandemic in response to the combination of economic uncertainty and low interest rates. Iron ore was hardest hit, with a 15% fall in output by volume but a 30% fall in sales in constant rand terms. Platinum sales dropped 15% and gold 4%. In contrast, although coal production declined steadily over the past two years, the value of sales climbed 14% from the third to the fourth quarter of 2021, reflecting soaring global and domestic prices. (Graph 7)

Graph 7. Indices of seasonally adjusted quarterly production and sales (in constant rand) in mining (Q1 2020 = 100)(a)

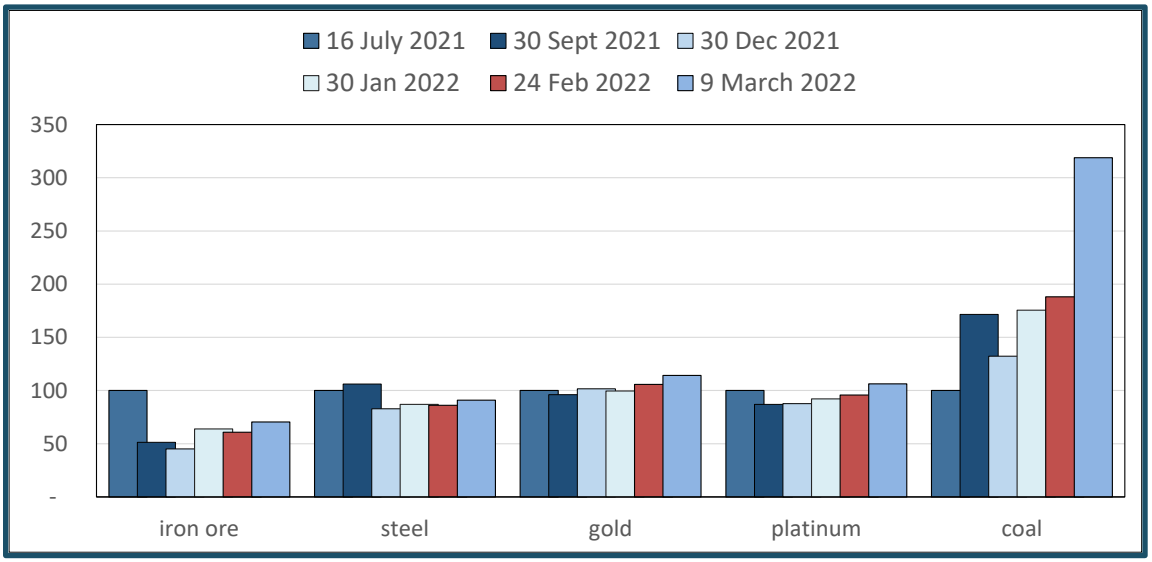


Note: (a) Production volume indices rebased to first quarter of 2020; sales are deflated with CPI. *Source:* Calculated from Statistics South Africa. Mining Production and Sales. Excel spreadsheet downloaded from www.statssa.gov.za.

From early 2022, the threat of a Russian invasion of Ukraine, which became a reality on 24 February, reversed the downward trend in metals prices that had marked the fourth quarter of 2021 (Graph 8). As a result, prices for energy and precious metals climbed to near-historic highs in the second week of March. Steel and iron ore also saw higher prices, but remained below their 2021 spikes as prospects for the global real economy darkened. Because the markets were mainly responding to speculative pressures rather than actual developments, it remained hard to determine how the war would affect South African mining in the longer run.

Briefing Note 1 provides more detail on the implications for the economy of the Russian attack on Ukraine.

Graph 8. Index of global US dollar prices for South Africa's major mining exports from July 2021 to early March 2022 (16 July 2021 = 100)

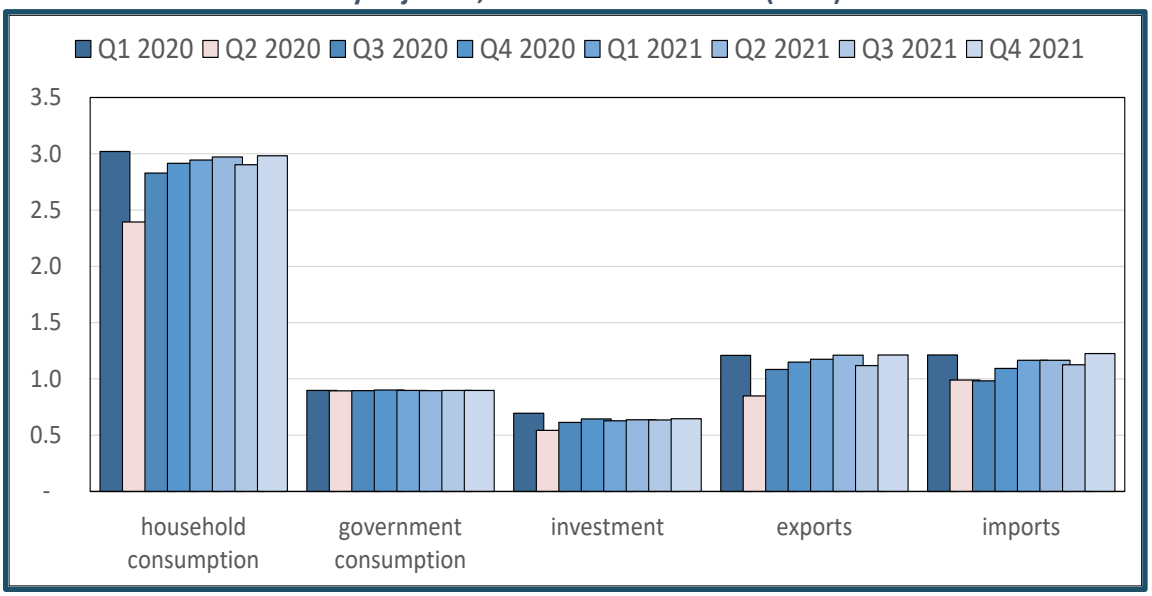


Source: Calculated from Trading Economics. Commodity prices. Interactive dataset. Accessed on 9 March 2022 at https://tradingeconomics.com/commodities.

In expenditure terms, a 2.8% jump in household spending accounted for most of the GDP growth in the fourth quarter of 2022. That was a rebound from the sharp fall in the third quarter, thanks mainly to the continued recovery from the pandemic and July violence. Still, household consumption remained 1% below pre-pandemic days.

As the richest 20% of households account for over half of all household spending, the implications for overall socio-economic well-being are hard to determine. Private investment also increased, as detailed in the Investment section. In contrast, government consumption remained virtually unchanged, and public investment shrank.

Graph 9. Quarterly expenditure on GDP, first quarter 2020 to fourth quarter 2021, seasonally adjusted, in trillions of constant (2015) rand



Source: Statistics South Africa. GDP quarterly figures. Excel spreadsheet downloaded from www.statssa.gov.za.

Employment

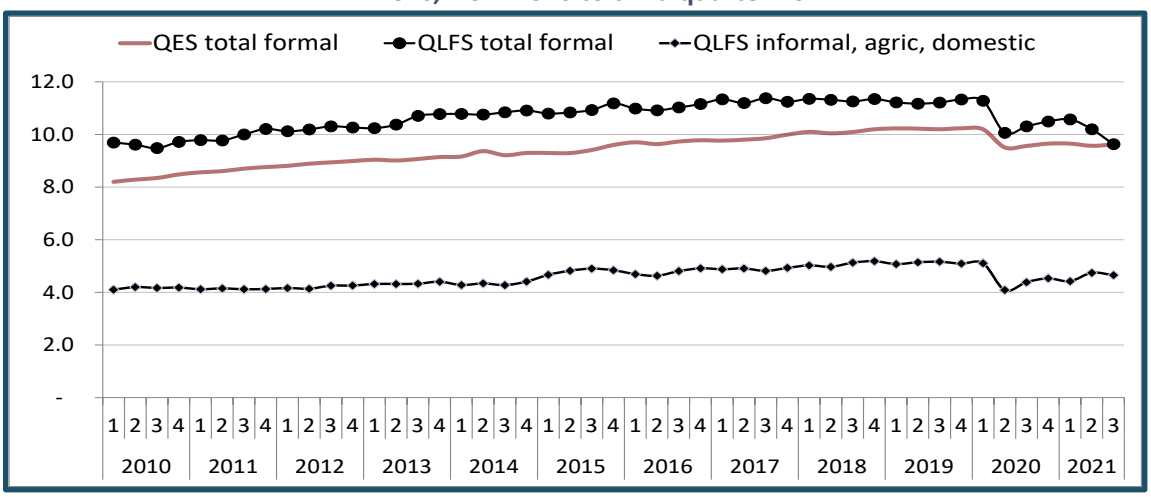
Statistics South Africa has delayed publication of the Quarterly Labour Force Survey (QLFS) for the fourth quarter of 2021 indefinitely because of a low response rate. The alternative source of information on formal employment, the Quarterly Employment Survey (QES), has since reported a 0.5% increase for the third quarter of 2021. The QES provides far less information than the QLFS on employment by industry, region, race and gender, so the resurrection of the QLFS, based on in-person interviews, is crucial for economic decision-making and monitoring in the future.

The QES reported that formal employment climbed by 50 000, or 0.5%, in the third quarter of 2021. That finding flatly contradicted the sharp fall reported by the QLFS for the quarter. As noted in the last edition of the Real Economy Bulletin, the QLFS findings were also out of line with other economic trends. They appeared to be distorted by a shift from in-person to telephone interviews due to pandemic restrictions, which in turn resulted in a much lower response rate and a less representative sample. The QLFS for the fourth quarter of 2021 has been delayed indefinitely as a result, which hopefully means the methodological challenges are now being tackled.

The QES is a survey of 20 000 VAT-registered businesses that relies on email and telephone interviews with business owners. It publishes its results around three months later than the QLFS and only provides information on the number employed in the formal sector and their total compensation by industry. The QLFS surveys 30 000 households. Its 150 variables include, among others, informal and domestic work, occupation, location, race, gender and education, and in the case of the jobless reasons for not working, actions to find work, and sources of support.

As the following graph shows, the two surveys showed the same long-run trends in formal employment before the pandemic. Since the pandemic began in early 2020, however, they have increasingly diverged, with a particular sharp gap between their findings in the third quarter of 2021.

Graph 10. Formal employment according to the QES and QLFS, in millions, from 2010 to third quarter 2021

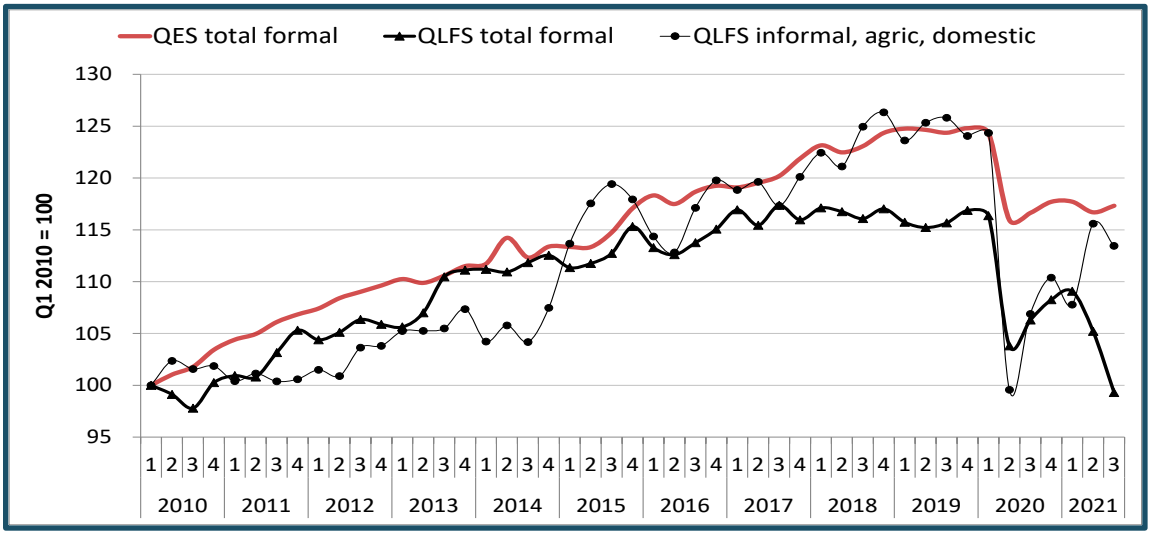


Source: Calculated from Statistics South Africa. QES Details Breakdown 200909_202103 and QLFS Trends 2008-2021Q3. Excel workbooks. Downloaded from www.statssa.gov.za in March 2022.

Graph 11 shows the divergence in growth rates by indexing figures from the two surveys from the first quarter of 2010. The trends are similar until 2017, when the QLFS began to show slower formal employment growth than the QES. Bigger differences emerged from the second quarter

of 2020, when the pandemic started. In addition, the QLFS findings on formal employment growth are almost twice as volatile as the QES (based on the standard deviation for growth rates). Its findings for employment outside the formal sector – that is, for informal, domestic and agricultural work, which account for around a third of all jobs – are three times as volatile as the QES.

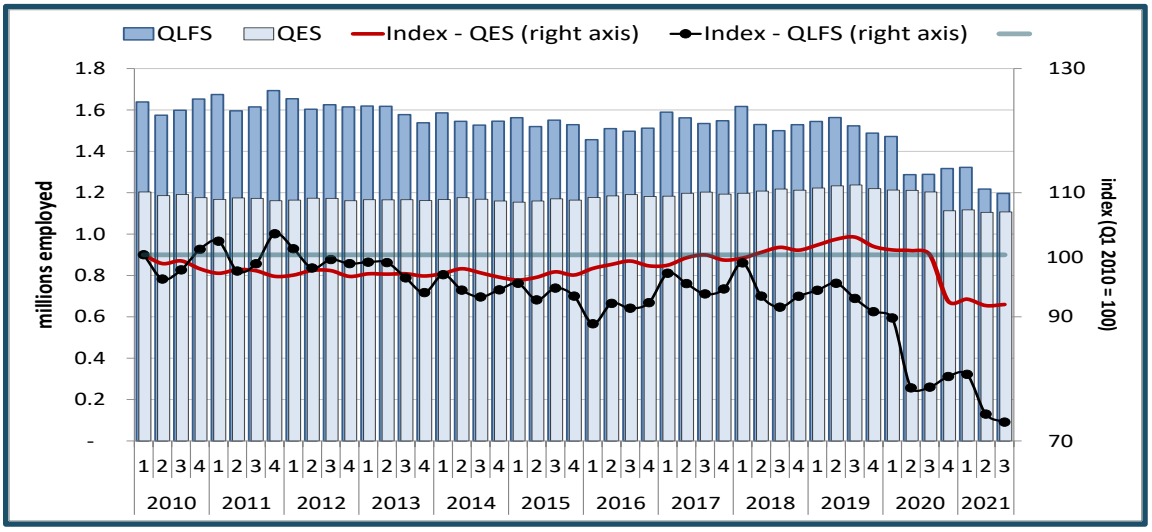
Graph 11. Indices of employment in the QES and the QLFS, Q1 2010 = 100



Source: Calculated from Statistics South Africa. QES Details Breakdown 200909_202103 and QLFS Trends 2008-2021Q3. Excel workbooks. Downloaded from www.statssa.gov.za in March 2022.

While both the QLFS and QES report disappointing results for formal manufacturing over the past decade, they differ strongly on the details. (Graph 12) The QLFS shows a long-run 6% decline in manufacturing employment from 2010 to 2019, followed by an almost 20% crash during the pandemic. In contrast, the QES found the formal manufacturing jobs grew 2% through the 2010s, with most of the improvement toward the end of the decade. For the pandemic, it reported a 9% fall – still a depression-level fall. Again, the indices underscore the very different growth rates the two surveys give for formal manufacturing jobs in the third quarter of 2021.

Graph 12. Formal manufacturing employment in millions and indexed from the first quarter of 2010 according to the QES and the QLFS.

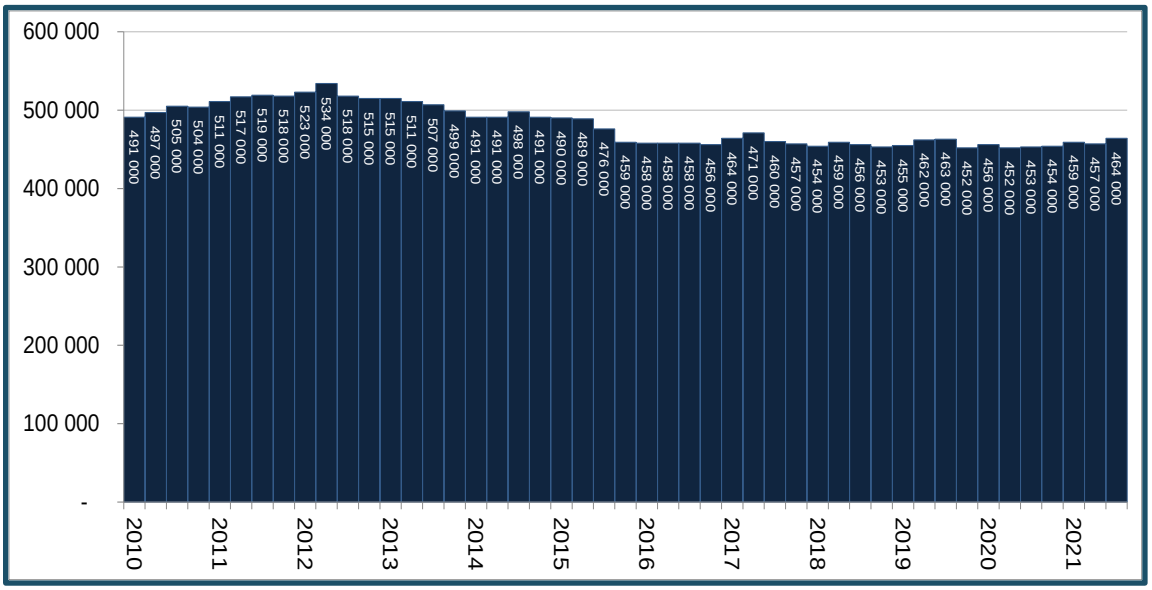


Source: Calculated from Statistics South Africa. QES Details Breakdown 200909_202103 and QLFS Trends 2008-2021Q3. Excel workbooks. Downloaded from www.statssa.gov.za in March 2022.

Statistics South Africa has long argued that analysts should rely on the QES for mining employment data rather than the QLFS because household surveys, even large ones, cannot easily weight mining towns appropriately.

As Graph 13 shows, in the third quarter of 2021 employment in mining maintained a two-year trend of incremental growth, following a decade of shrinkage.

Graph 13. Mining employment, Q1 2010 to Q3 2021



Source: Stats SA. Quarterly Employment Survey. QES Details Breakdown 200909_202103 Downloaded from www.statssa.gov.za in March 2022.

The QLFS remains a critical instrument for industrial policy, as it is the only regular and current source on employment and incomes by industry, region, race and gender and skills level, among others. The challenge is to return as soon as possible to in-person interviews.

Unfortunately, the 2022 budget cuts Statistics South Africa's budget for labour surveys by around 25% compared to its pre-pandemic level (measured as an average from 2014 to 2018). But the amounts required to maintain Statistics South Africa's critical work, and specifically the QLFS, are trivial compared to the benefits this rich resource brings by helping policymakers and economic stakeholders make better decisions.

International trade

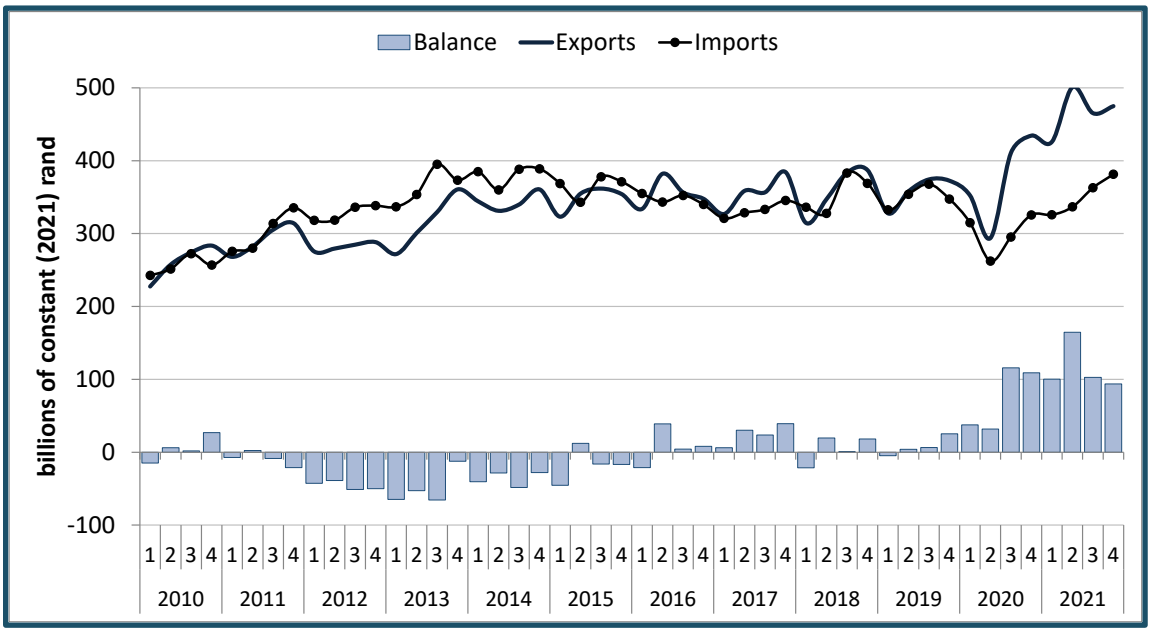
The surplus on the balance of trade for goods continued to drift downward as commodity prices flattened out and the cost of petroleum climbed in the fourth quarter of 2021. The impact of the Russian invasion on commodity prices may disrupt these trends in 2022.

The past year saw the highest balance of trade surplus in a decade, mostly due to higher prices on exports rather than increased volumes.

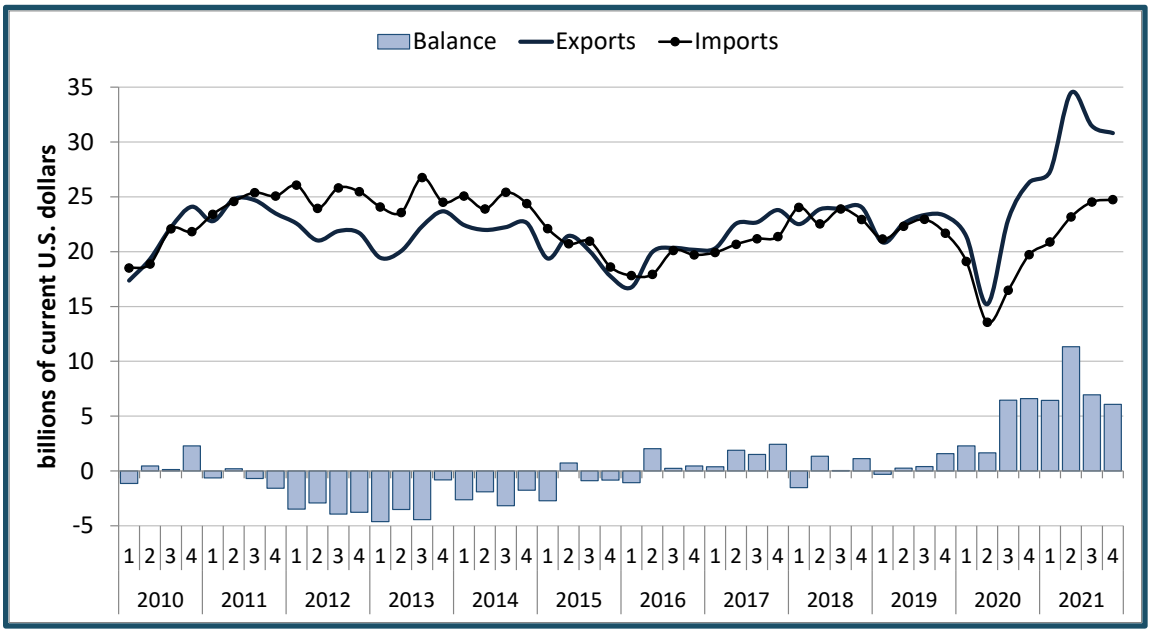
The surplus drifted down through the year, however, as rising petroleum prices increased import costs while export prices began to fall in the second half of 2021. The fourth quarter of 2021 showed a R94 billion (US$6 billion) surplus, down 14% from a year earlier.

Graph 14. Fourth quarter exports, imports and balance of trade in billions of constant rand and current US dollars

A. Billions of constant (2021) rand (a)



B. Billions of current US dollars

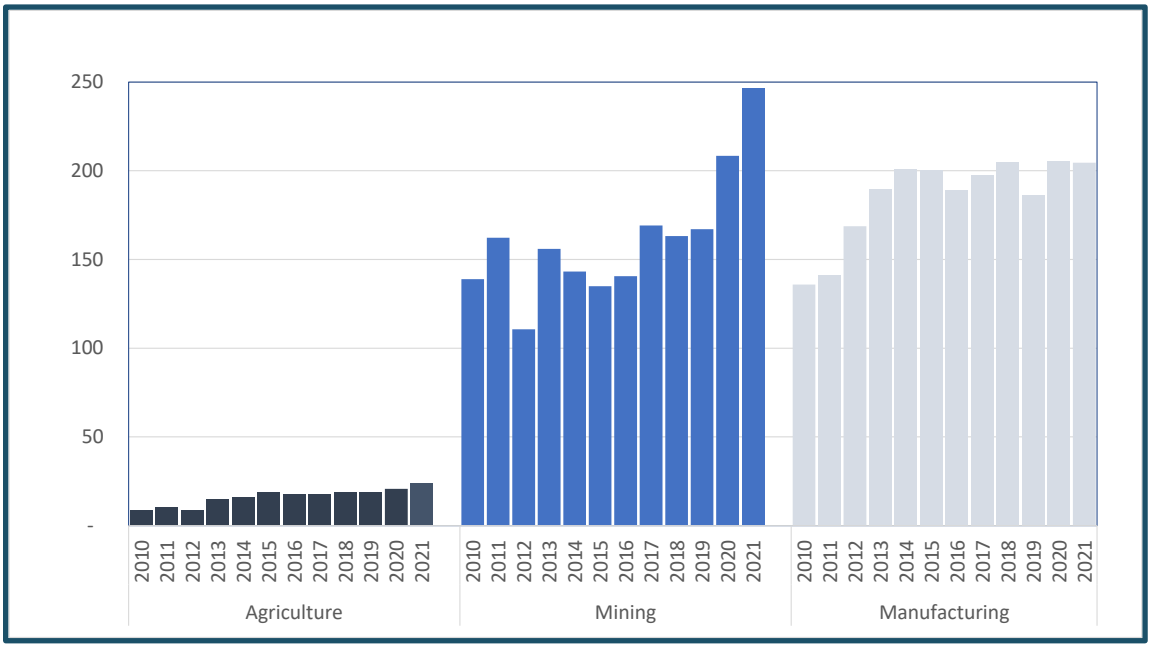


Notes: (a) Deflated with CPI. *Source:* Calculated from South African Revenue Service data.

The value of mining exports increased 18% above inflation in the fourth quarter of 2021, far surpassing the 2011 peak at the height of the commodity boom.

Agricultural exports were also up 15% from the fourth quarter of 2020 due to improved logistics, higher output and prices and strong demand from Africa and Asia.

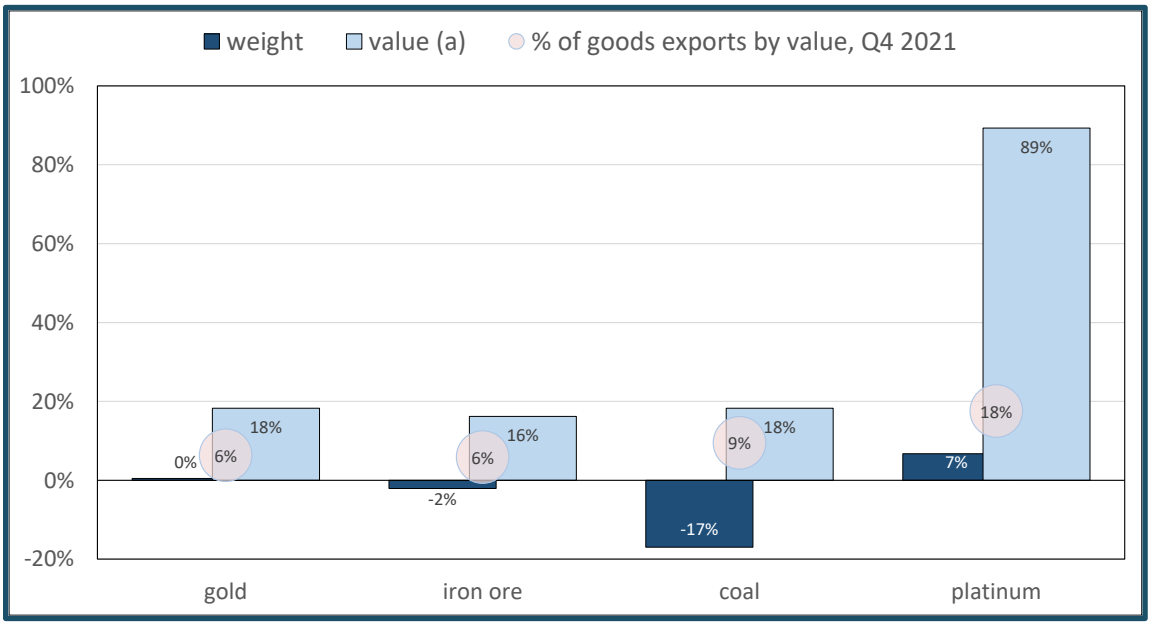
Graph 15. Fourth-quarter goods exports in billions of constant (2021) rand (a), by sector, 2010 to 2021



Note: Deflated with CPI. *Source:* Calculated from South African Revenue Service data.

The increase in mining exports resulted mostly from higher prices rather than increased quantities exported. Sales of iron ore and coal actually declined in volume terms, even though revenues climbed more than 15% above inflation.

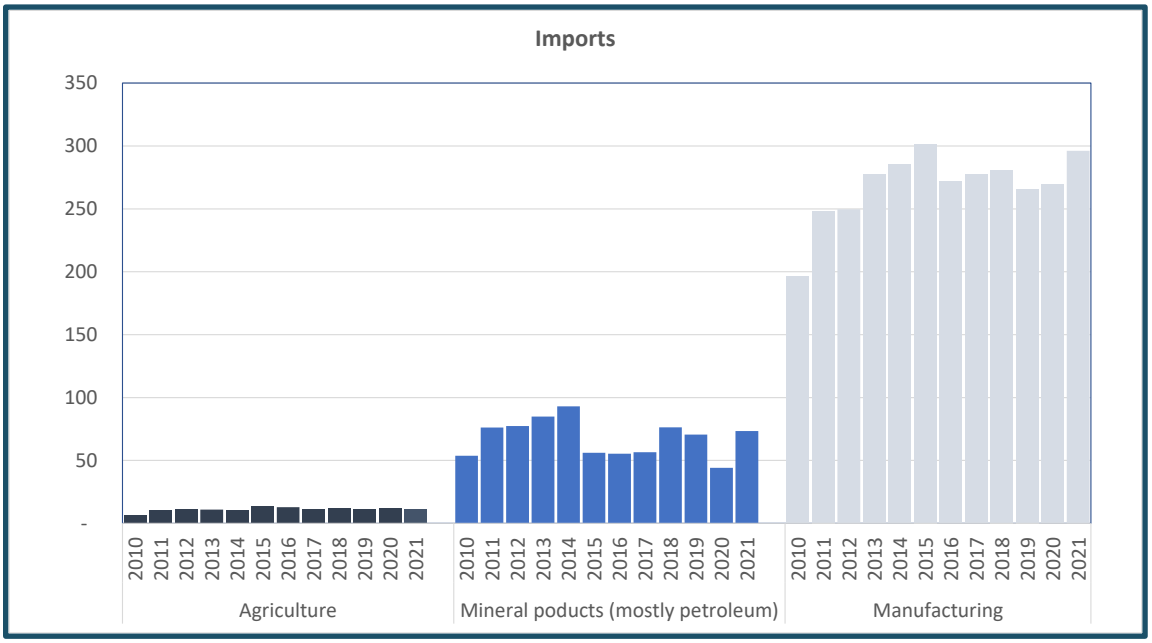
Graph 16. Percentage change in major mining exports by weight and in constant rand (a), fourth quarter 2019 to fourth quarter 2021



Note: (a) Deflated with CPI. *Source:* Calculated from South African Revenue Service data.

Imports increased faster than exports in the fourth quarter of 2021, mostly due to higher petroleum prices. Petroleum makes up a fifth of all imports but accounted for half of the growth in the value of foreign purchases in constant rand.

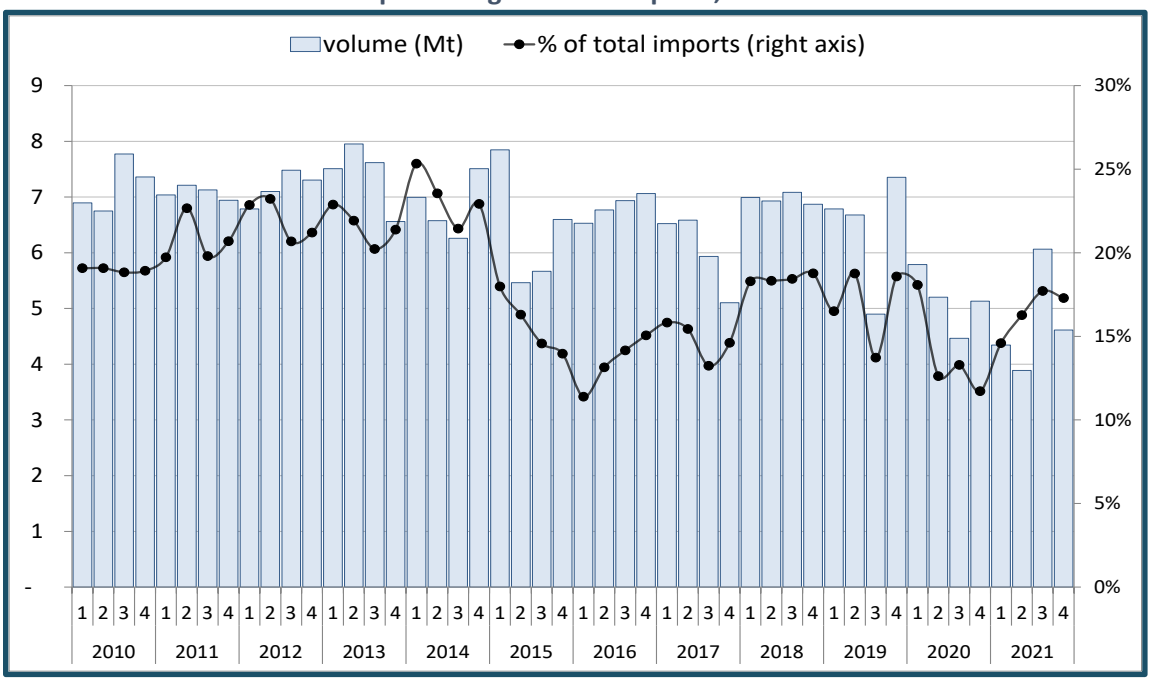
Graph 17: Fourth-quarter goods imports in billions of constant (2021) rand (a), by sector, 2010 to 2021



Note: (*a) Deflated with CPI. Source:* Calculated from South African Revenue Service data.

Petroleum prices climbed from around US$50 a barrel in December 2020 to US$75 a year later. The result was a 66% increase above inflation in rand terms. As a result, petroleum rose from 12% of total imports in the fourth quarter of 2020 to 17% a year later, even though South Africa did not import more by volume. (Graph 18) As of early March 2022, Russia's invasion of Ukraine in the first quarter of 2022 boosted petrol prices to over US$125, the highest level in over a decade.

Graph 18. Quarterly petroleum imports in millions of tonnes and as a percentage of total imports, 2010 to 221



Source: Calculated from South African Revenue Service data.

Manufactured exports improved 15% in the fourth quarter of 2021 compared to the same period in 2020. Most of the increase occurred in commodity-based products, with metals and paper climbing around 30% in constant rand terms, and wood by 19%. In contrast, transport equipment fell some 21%, and machinery and appliances by 10%. (Table 1)

Manufactured imports increased 23% in the period, with the largest increases in metals and chemicals. Low investment levels resulted in stagnant imports of capital equipment, with growth in machinery imports almost entirely due to a jump in cellphone purchases. In constant rand, machinery and equipment imports excluding cellphones rose 4% over the year, or less than half the rate of imports overall.

Table 1. Trade by manufacturing subsector

	Value (billions)		% change from Q4 2020		Change in Billions	
Industry	**US$**	**Rand**	**US$**	**Rand**	**US$**	**Rand**
EXPORTS						
Food and beverages	1.23	18.9	10.6%	2.9%	0.12	0.54
Clothing and footwear	0.53	8.2	14.0%	6.5%	0.07	0.51
Wood products	0.16	2.4	27.6%	18.9%	0.03	0.38
Paper and publishing	0.46	7.1	40.0%	31.7%	0.13	1.70
Chemicals, rubber, plastic	2.36	36.4	11.0%	3.9%	0.23	1.35
Glass and non-metallic mineral products	0.13	1.9	4.2%	-2.9%	0.01	-0.06
Metals and metal products	3.28	50.6	38.5%	29.5%	0.91	11.53
Machinery and appliances	2.21	34.1	-3.6%	-10.1%	-0.08	-3.81
Transport equipment	2.69	41.4	-15.6%	-21.6%	-0.50	-11.42
IMPORTS						
Food and beverages	1.00	15.4	12.6%	4.8%	0.11	0.71
Clothing and footwear	1.29	19.9	13.5%	5.4%	0.15	1.02
Wood products	0.11	1.7	16.8%	9.0%	0.02	0.14
Paper and publishing	0.74	11.3	16.8%	8.3%	0.11	0.87
Chemicals, rubber, plastic	4.22	65.0	25.1%	16.6%	0.85	9.26
Glass and non-metallic mineral products	0.24	3.7	0.1%	-6.7%	0.00	-0.27
Metals and metal products	1.55	23.9	40.9%	31.4%	0.45	5.71
Machinery and appliances	6.24	96.0	15.9%	8.1%	0.86	7.22
Transport equipment	3.41	52.3	11.8%	3.4%	0.36	1.72

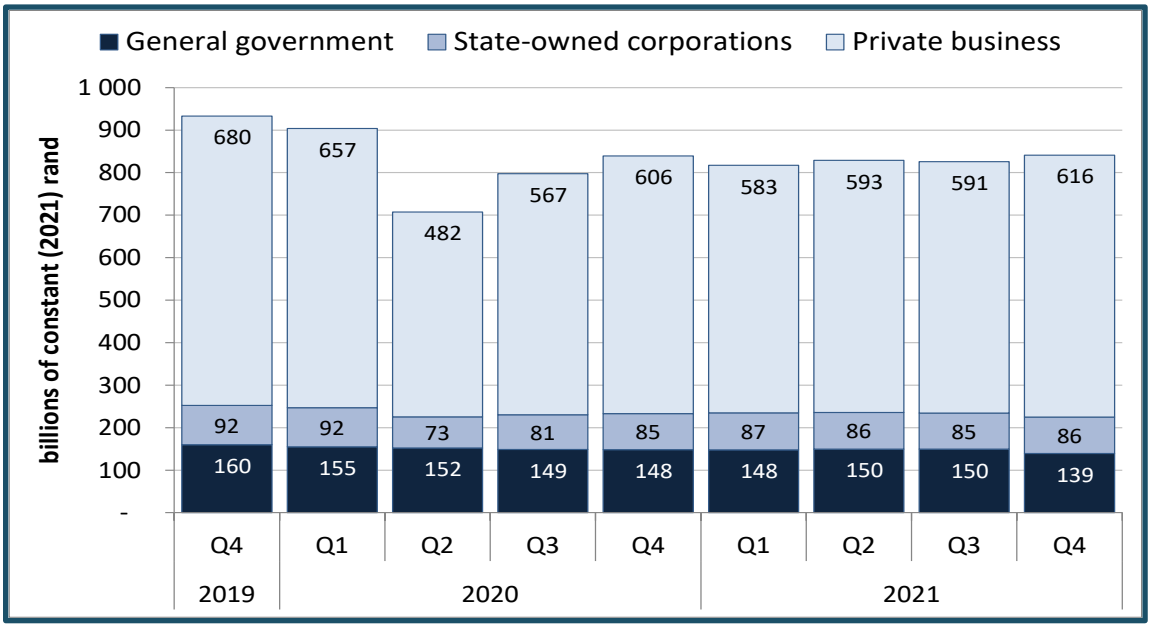
Source: SARS monthly data.

Investment

Private investment climbed 4.2% in the fourth quarter of 2021, although it remained 9% below pre-pandemic levels. Public investment declined, ending the year 10% lower than before the pandemic.

Total investment has essentially plateaued since the fourth quarter of 2020, after a significant rebound in the first six months after the lockdown. Private investment grew 4.2% in the quarter, but state-owned companies saw virtually no increase and general government investment shrank 7%. Increasingly, the stagnation in government spending contrasts with its strategic commitment to crowding in investment through infrastructure spend. (Graph 19)

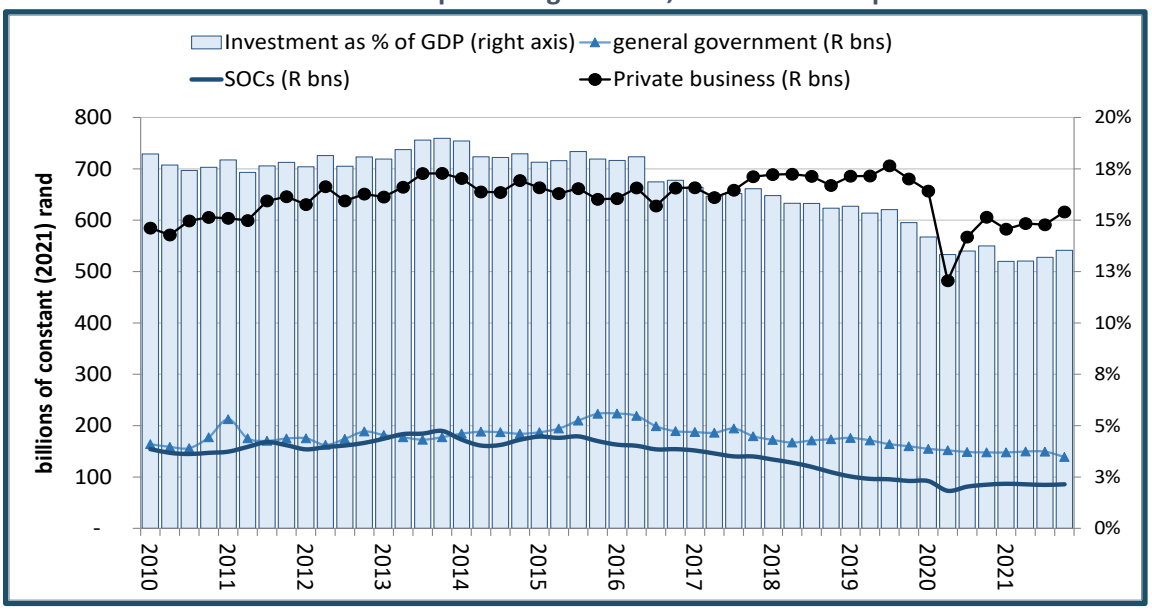
Graph 19. Quarterly seasonally adjusted investment by type of organisation, fourth quarter 2018 to fourth quarter 2021, in billions of constant (2021) rand (a)



Note: Reflated with implicit deflator rebased to second quarter 2021 *Source:* Calculated from Statistics South Africa. GDP quarterly figures. Excel spreadsheet downloaded from www.statssa.gov.za.

The increase in private investment over the year raised the investment rate from 13% in the first quarter to 13.5% in December, following a sharp fall a year earlier. If general government investment had not fallen, the investment rate would have returned to the level seen in the fourth quarter of 2020.

Graph 20. Quarterly investment by type of organisation in billions of constant (2021) rand, and total investment as a percentage of GDP, 2010 to fourth quarter 2021

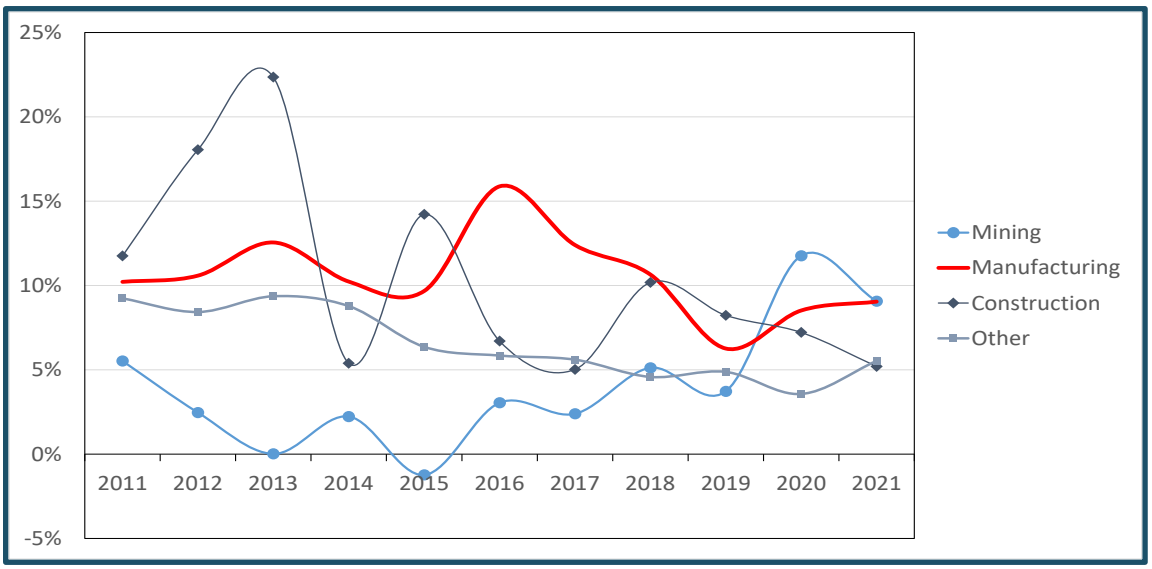


Note: Reflated with implicit deflator rebased to second quarter of 2021. *Source:* Calculated from Statistics South Africa. GDP quarterly figures. Excel spreadsheet downloaded from www.statssa.gov.za.

Data on profitability by sector are available only through the third quarter of 2021 (see Graph 21). High prices boosted mining profits above the pre-pandemic era, although the return on assets

fell compared to a year ago. Manufacturing also showed a strong recovery since the pandemic. Profitability in the rest of the economy outside of construction is lower but improved over the past year. In contrast, construction continues to face falling returns.

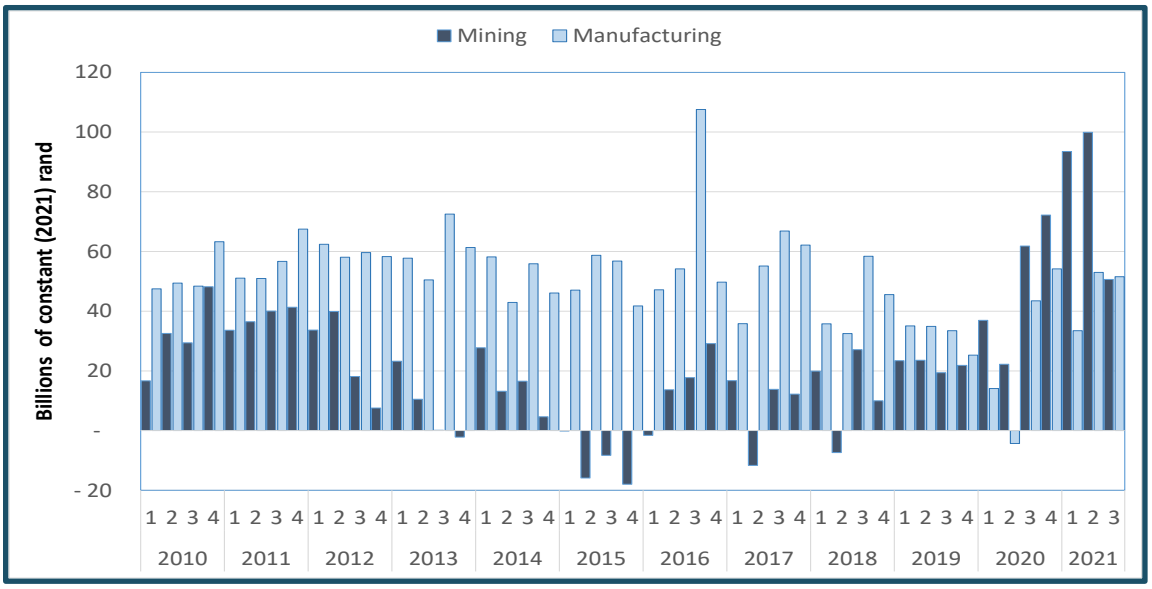
Graph 21. Return on assets by sector, third quarter, 2011 to 2021



Source: Stats SA, Quarterly Financial Statistics adjusted to constant rand. Excel spreadsheet downloaded www.statssa.gov.za.

A similar pattern emerges from Graph 22, which shows profits for mining and manufacturing in constant rand. Mining profits fell by a fifth in the past quarter as commodity prices declined, but remained high compared to the rest of the decade. They are likely to spike again in the first quarter of 2021, however, as international markets have surged. Manufacturing profits were lower than 10 years ago, but exceeded the slow years just before the pandemic. They rose 18% in the year to the fourth quarter of 2021, from R43 billion to R52 billion.

Graph 22. Quarterly profits in manufacturing and mining in billions of constant 2021 rand (a), 2010 to 2021.



Note: (a) Deflated with CPI rebased to September 2021. *Source:* Calculated from Statistics SA, Quarterly Financial Statistic. Excel spreadsheet downloaded www.statssa.gov.za.

Foreign direct investment projects

The TIPS Foreign Direct Investment Tracker monitors FDI projects, on a quarterly basis, using published information. It identified 24 new projects in the fourth quarter of 2021. The 24 projects reported entailed a total investment value of approximately R126 billion. The bulk came from a single manufacturing project, a US$4.6 billion (R70.5 billion) green ammonia export plant. Most of the other projects fall under the fifth window of the Renewable Energy Independent Power Producer Procurement Programme (REIPPPP).

Table 2. FDI projects captured in the fourth quarter of 2021

	Announced	Project preparation	Construction/ Implementation
Number of projects	21	1	2
Value	R39 billion	R70.5 billion	R16.1 billion
Sector	19 Utilities 2 Manufacturing	1 Manufacturing	1 Mining 1 Services
Type	19 Greenfield 2 Upgrade	1 Greenfield	1 Brownfield 1 Greenfield
Company	Tetrapak Ford EDF Renewables Mainstream Renewable Power (Ikamva) ENGIE Africa; Pele Green Energy Mulilo Renewable Energy; TotalEnergies	Hive Hydrogen (Hive Energy and Built Africa) and Afrox (Linde subsidiary)	West Wits Mining Vantage Data Centers

Source: TIPS FDI Tracker database.

New and existing projects

Manufacturing

Hive Hydrogen – a partnership between United Kingdom-based Hive Energy and South Africa's Built Africa – together with Afrox (a subsidiary of Ireland-based Linde plc) plan to establish a green ammonia export facility. The plant will be developed for an estimated US$4.6 billion (R70.5 billion) at the Coega Special Economic Zone in the Eastern Cape. The facility is expected to produce approximately 780 000 tonnes per year of green ammonia from hydrogen through a process using renewable energy and nitrogen extracted utilising an air separation unit. The first phase should start operation in 2025 with full operation planned for 2026.

Ford announced a R600 million investment towards upgrades at its Struandale engine plant in the Eastern Cape. The bulk of the investment will be committed to the modernisation and expansion of the plant's current assembly line, which supplies the 2.0L Single Turbo and 2.0L Bi-Turbo diesel engines. Ford will also introduce production for a 3.0L V6 turbodiesel engine to power selected Ranger models. The project is in addition to an investment of R15.8 billion in the firms' Silverton assembly plant.

Tetra Pak is a firm that processes and packages food and fruit juices, headquartered in Sweden. The company announced plans to invest R500 million to upgrade and expand the firm's factory in KwaZulu-Natal. The plant will shift to green energy sources and introduce a new packaging technology that uses less energy and water.

Mining

An Australian exploration and development mining firm, West Wits Mining, is developing the Witwatersrand Basin Project, an underground gold mine in Gauteng. The Department of Mineral Resources and Energy (DMRE) approved the mining right application in July 2021.

A scoping study estimates total mine resources at about 29.1 million tonnes, an average steady-state annual production of 80 000 ounces for 18 years and a 22-year life-of-mine. The project will be implemented in five stages. The first, development of the Qala Shallows mining area, is underway following the completion of a feasibility study in September 2021. It is expected to provide an estimated 40% of the total output. Estimated peak funding requirement for this stage is US$50 million (R767 million).

Utilities

The REIPPP projects account for all of the utilities investment captured in this quarter. The DMRE announced 25 projects as preferred bidders, of which 19 projects are led by or include foreign investors. These projects have a total estimated investment value of R38 billion[1] and involve four major foreign firms.

The Ikamva consortium, led by Mainstream Renewable Power, will develop 12 of the projects. It will deliver 1.27 gigawatts (GW) from six onshore wind projects and six solar photovoltaic projects. Collectively, the projects are expected to produce about 4 500 GW hours of renewable power. The onshore wind projects will be located in the Northern Cape, the Western Cape and KwaZulu-Natal while all the solar projects will be in the Free State.

EDF Renewables will be developing three wind energy facilities, the Coleskop, San Kraal and Phezukomoya projects. The first two are located in the Eastern Cape and the third in the Northern Cape. Each has an installed capacity of 140 megawatts (MW).

French renewables developer ENGIE and Pele Green Energy partner as the preferred bidders for three solar projects, each with 75-MW installed capacity. Two are in the Northern Cape, and the third in the Free State.

Mulilo Renewable Energy and TotalEnergies were awarded preferred bidder status for the 75 MW Du Plessis Dam solar project in the Northern Cape.

[1] The total investment value is R50 billion from all 25 projects. The value quoted for the 19 projects captured as FDI is based on estimates calculated for purposes of analysis in the Tracker. A full analysis of the projects will be provided in the fourth quarter 2021 FDI Tracker report.

Services

American information technology firm Vantage Data Centers plans to invest US$1 billion (R15.2 billion) in developing a data-centre campus at Waterfall in Gauteng with capacity for 80 MW of critical information-technology load. Construction of the facility is underway, with completion of the first phase planned for 2022. Once fully built, the campus will comprise three facilities over 12 hectares with 60 000 square meters of data-centre space. Vantage plans strong security for the site, and will obtain power from Eskom.

Updates

Toyota has launched the new Toyota Corolla Cross hybrid vehicle range following a R2.6 billion investment in the Prospecton plant in KwaZulu-Natal.

The Competition Commission prohibited the sale of Sasol's sodium cyanide business to Draslovka, a Czech Republic-based specialty chemicals company, at the end of November 2021. Draslovka had announced plans for a US$50 million expansion of the facility if the sale were approved. With Sasol, it plans an appeal to the Competition Tribunal.

A 10 MW solar farm commissioned by Amazon in the Northern Cape is complete. It was developed by the SOLA Group. Other investors include African Infrastructure Investment Managers, through the IDEAS Fund. The project will wheel 28 GWh of solar energy annually through the national electricity grid to Amazon's facilities.

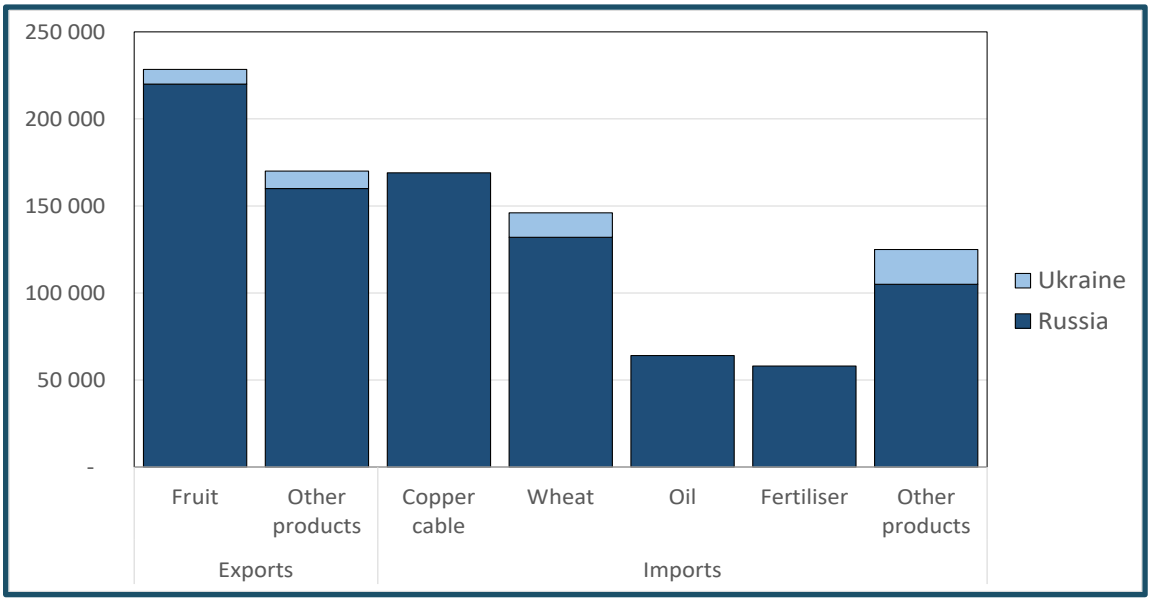
Briefing Note 1: The Ukraine war and the South African economy

The war in the Ukraine has vastly increased uncertainty for the global economy, and consequently for South Africa.

The war itself will have limited impact on trade because South Africa has only very limited economic ties to Russia and Ukraine. But it has already led to extreme volatility in commodity prices, affecting both export products and as well as petroleum, wheat and fertiliser imports. It seems likely to disrupt international capital markets as well. In the longer run, it may prove a significant drag on growth in the global North, which is still South Africa's main export market.

Direct trade with Russia and Ukraine together accounted for less than 1% of South Africa's total imports and 0.5% of exports in 2020. A third of imports from Russia were copper cable in 2020, with wheat, petroleum and fertilisers making up most of the remainder. South Africa accounted for 0.16% of Russian exports, but 3% of its exports of copper cables. South African imports from Ukraine were far smaller, and consisted principally of wheat and other agricultural products. South Africa bought less than 0.1% of Ukrainian exports. It exported mostly fruit to both countries, with capital equipment for mining and mineral products (mostly manganese to Russia and chrome to Ukraine) following at a considerable distance. (Graph 23)

Graph 23. South African trade with Russia and Ukraine by major commodity in thousands of US dollars in 2020



Source: Calculated from ITC. Trade Map. Interactive dataset. Accessed at www.trademap.org in March 2022.

The data on trade understate the impact of the war on South Africa because Russia and, to a lesser extent, Ukraine account for a significant share of trade in some major commodities.

Russia produces over 10% of world petroleum exports, with a slightly higher share for fertiliser. Russia and Ukraine together supply around a fifth of international wheat exports. If the war cuts into their ability to produce or trade in these products, international prices could rise substantially. That would ultimately affect both economic growth and household consumption in South Africa.

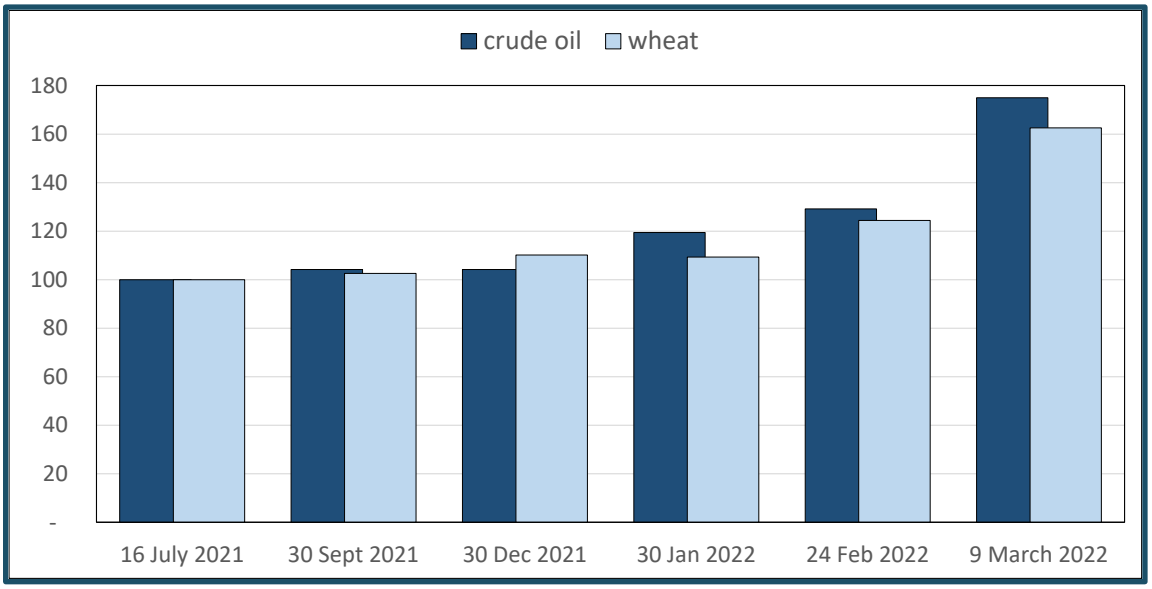
In 2021, oil comprised 17% of all South African imports. Wheat and fertiliser were much smaller, but higher prices could disproportionately affect food security and production. Foreign wheat meets around 40% South African demand, but in most years makes up less than 1.5% of total imports.

South Africa also imports around half of all the fertiliser used, although it contributes only 0.7% of all imports. In the past year the unit price of imported fertiliser already doubled, even before the invasion. Fertiliser accounts for around a tenth of production costs in local agriculture, so rising prices can have significant implications for food prices.

A more immediate impact has occurred through the destabilisation of global commodity prices. As noted (see Graph 8), all of South Africa's main mineral exports have seen an extraordinary spike in prices since the rumours of war began.

A similar hike also affected petroleum and wheat, as the following graph shows. Prices have risen particularly quickly since the initial attack on 24 February. That said, the war itself has not yet significantly constrained supply of any of these commodities. The increases reflect uncertainty about the potential impacts of the war much more than actual changes in market supply and demand.

Graph 24. Indices of international prices of petroleum and wheat from 16 July 2021 to 9 March 2022 (16 July 2021 = 100)



Source: Calculated from Trading Economics. Commodity prices. Interactive dataset. Accessed at https://tradingeconomics.com/commodities on 9 March 2022

The panic and speculation due to the war have disrupted already extraordinarily volatile commodity and capital markets. The war profoundly intensified global economic uncertainty from the pandemic, which had already caused huge price swings over the past two years. More fundamentally, over the past 15 years or so commodity markets have been enveloped in the asset bubble that emerged from persistent low interest rates and the shift to defined-contribution retirement saving in the global North. These developments have been associated with increased synchronisation across commodities. Even after less than three weeks, the war in Ukraine has deepened both the ups and the downs.

As of mid-March, the ratings agencies had begun to warn that Russia might be unable to meet its debt. Sanctions have cut it off from its reserves, held predominantly in Western currencies, as well as major global payments mechanisms and financial institutions. If Russia defaults, it could lead to higher interest rates for all emerging economies, including South Africa. Foreign debt already absorbs a significant share of South Africa's budget, so that could mean an even starker squeeze on government spending.

In the longer run, if the war expands to Europe or interrupts its energy supplies, global growth will slow down. That will inevitably undermine South Africa's recovery from the pandemic. The European Union remains South Africa's largest market, absorbing almost 20% of exports in 2021. Moreover, both the United States and China rely on it for both export demand and high-tech inputs. As a result, a serious European slowdown will constrain virtually all of South Africa's trade and financial relations.

Hopefully, Russia will realise the immense costs of continuing with the conflict and withdraw sooner rather than later. In that case, the damage to the global economy will remain moderate – although the people of Ukraine will still face the pain of reconstructing their shattered cities and their lives.

Briefing Note 2: Towards an inclusive rollout of electric vehicles in South Africa

The world is rapidly moving towards e-mobility. Pushed by environmental regulations, support programmes and improving economics, electric vehicles (EVs) that is traditional hybrid (HEV), plug-in hybrid (PHEV) and battery electric (BEV) vehicles, are set to become dominant in the coming decades. Yet this electric revolution risks leaving many commuters behind, further deepening inequalities between and within countries. The risk of an exclusionary, elitist transition to e-mobility is high.

Achieving a socially progressive development of e-mobility requires pro-active interventions. This is particularly true in South Africa, given the high levels of inequality overall and differences in access to transport. Only a third of South African households own a car and over half of the population relies on public transport, primarily minibus taxis (MBTs) and buses.

A dual strategy is necessary. It concerns fostering the overall uptake of EVs as well as incentivising an inclusive rollout that benefits all in society.

First, the strategy involves promoting the purchase of entry-level EVs in the passenger car market. A temporary cash grant or innovative financial arrangement, pegged at R80 000 for BEVs, R40 000 for PHEVs and R20 000 for HEVs, is recommended as the main instrument to incentivise prospective buyers. This level of support can bridge the gap between electric and petrol-fuelled cars for the first two quintiles of the market.

Second, the strategy should foster the introduction of EVs in public transport. The rollout of e-MBTs should be supported through a temporary, enhanced Taxi Recapitalisation Programme scrapping allowance for EVs (around R162 000 for BEVs) and low-cost finance. The shift of bus fleets to EVs should be supported through a set of grants and innovative financial arrangements and business models, like Pay-as-you-Save.

The “electric revolution” will make transportation more environmentally sustainable. It also provides a unique opportunity to make it more socially inclusive. It should not be missed.

The TIPS Policy Brief Towards an inclusive rollout of electric vehicles in South Africa provides more detail.