

# THE REAL ECONOMY BULLETIN

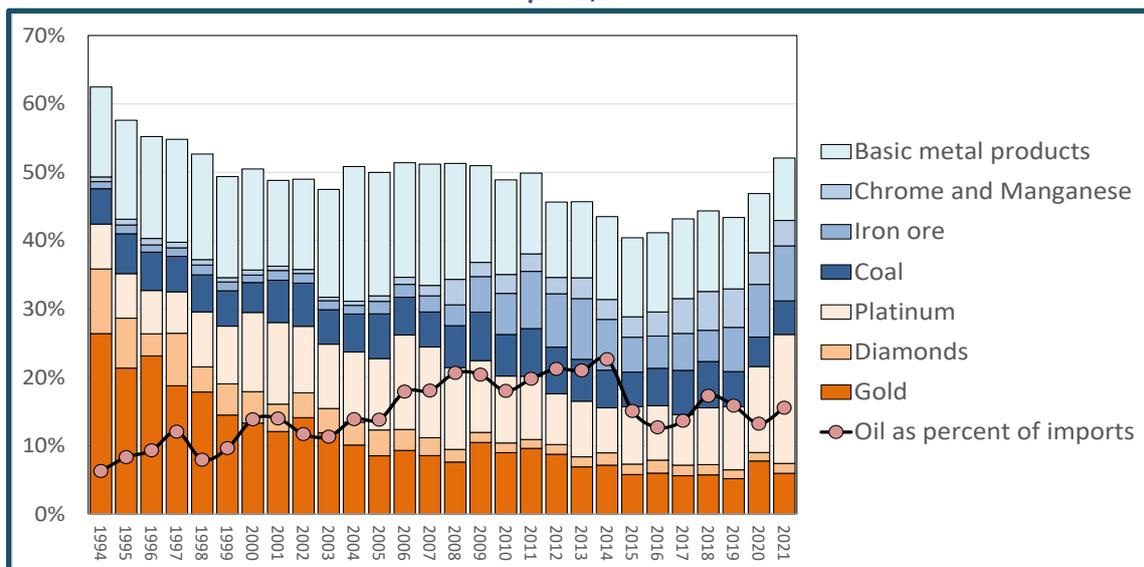
TRENDS, DEVELOPMENTS AND DATA

SECOND QUARTER 2022

## Briefing Note 1: Global commodity prices and the South African economy

Commodity prices have soared to the highest level in two decades due to supply constraints driven by the COVID-19 pandemic and the war in Ukraine. South Africa's major export prices have risen in tandem. South Africa remains heavily dependent on exports from the mining value chain, including precious metals and stones as well as coal, ores and basic metal products. Taken together, these commodities account for between 40% and 60% of total exports. The actual share depends primarily on the level of international prices. Petroleum products account for between 10% and 25% of imports, with fluctuations again largely dependent on world markets. (Graph 23)

**Graph 1. Mining and metals exports as percentage of South African exports and petroleum share in imports, 1994 to 2021**



Source: Calculated from SARS data accessed via Quantec EasyData. Interactive dataset.

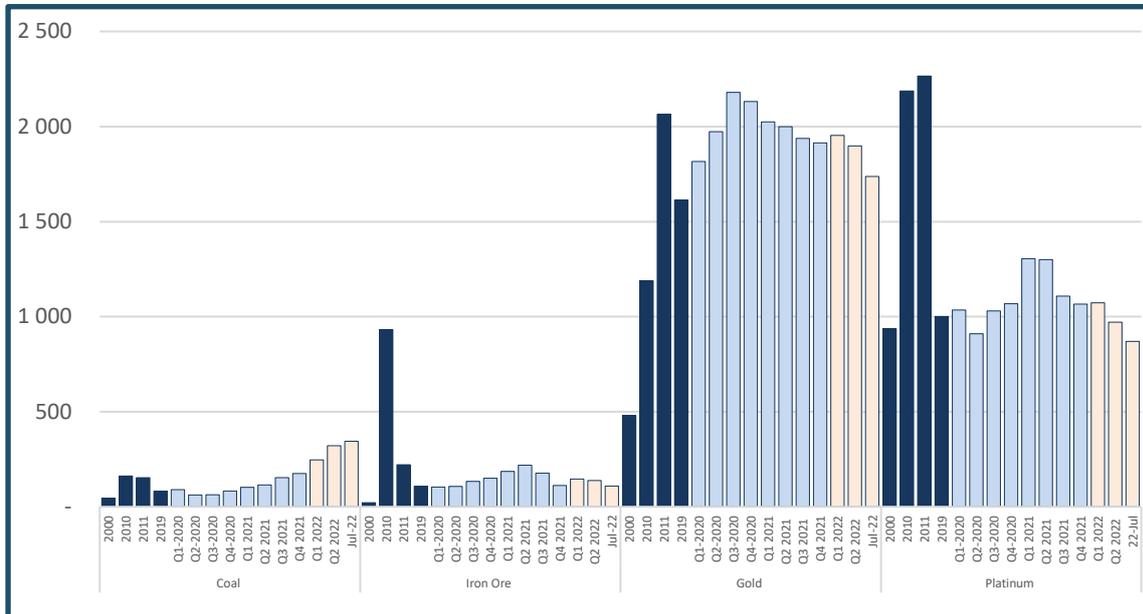
During the pandemic, coal and gold prices exceeded their 2010/11 peak and reached a historic level. While gold prices began to fall after the temporary spike due to the war in Ukraine, coal prices are still soaring. This rise comes from increased demand for coal as a substitute for natural gas in electricity generation.<sup>1</sup> Most of Europe relied extensively on Russian gas for electricity, leading to a speculative run-up in prices for substitutes when the invasion led to disruptions in supply.

Aside from coal, the prices of all major export commodities for South Africa have begun to fall, highlighting that the boom has largely speculative roots. Between March 2022 and July 2022, iron ore prices declined by 28%, platinum by 19%, and gold by 13%. In this perspective, the

<sup>1</sup> World Bank. 2022. Commodity Markets Outlook April 2022. Available from [www.worldbank.org](http://www.worldbank.org). Accessed in September 2022

invasion of Ukraine provided a speculative boost to prices that were already winding down. This is evident in Graph 2, which shows that the prices of iron ore, gold and platinum began to fall shortly after the spike that followed the Russian attack on 24 February 2022.

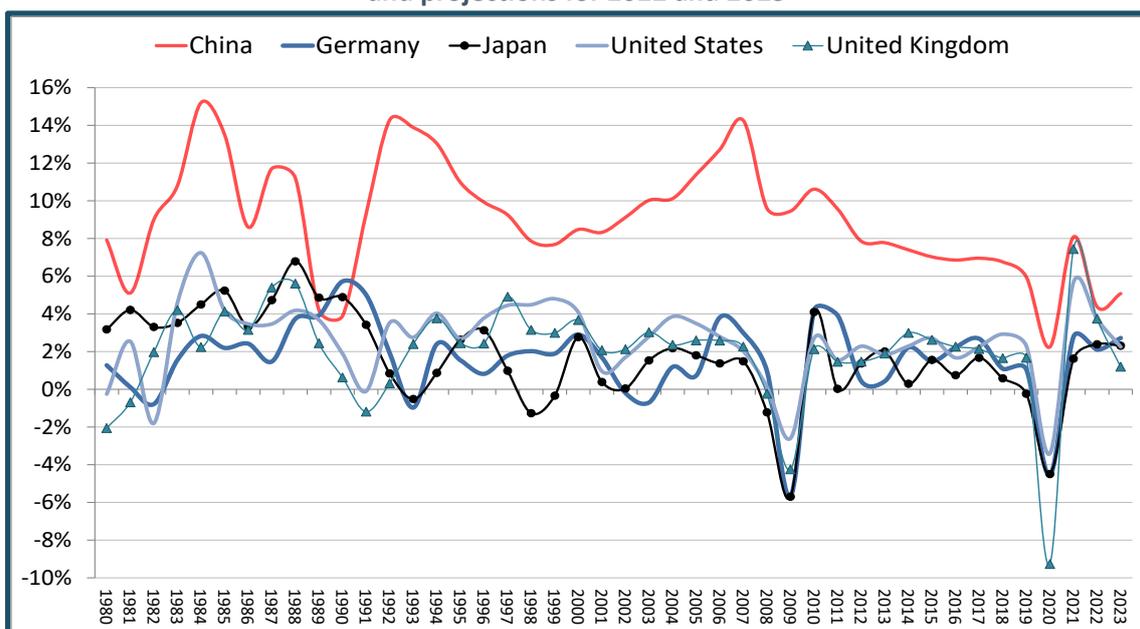
**Graph 2. South Africa's major commodity exports in constant US dollars, from 2000 to July 2022**



Source: IMF primary commodity prices. Downloaded from [www.imf.org](http://www.imf.org). Accessed in September 2022.

Commodity prices face further downward pressure as China's economy, the largest single consumer of metals and ores, slows as a result of its battle with the Omicron variant, high levels of domestic debt, and a variety of other structural challenges. China's GDP growth fell below 0.5% in year-on-year terms in the second quarter of 2022, a rate that would have been unthinkable a few years ago. It is projected to remain below 4% for 2022 and 2023. As Graph 3 shows, growth has slowed gradually in all of South Africa's main trading partners. Taken together, these countries account for around 40% of South Africa's total exports.

**Graph 3. Growth rates in South Africa's main trading partners, 1980 to 2021 and projections for 2022 and 2023**



Source: IMF. *World Economic Outlook*. Accessed via *Our World In Data*. Interactive dataset.

The decline in commodity prices will worsen South Africa's terms of trade and fiscal position. As noted in the REB, the trade surplus is narrowing as export prices and imports increase with the economic recovery. The spike in oil prices after the invasion of Ukraine aggravated these trends. In the second quarter of 2022, South Africa's trade surplus stood at R71 billion, 58% below the peak surplus of R171 billion a year ago.

Lower export prices generally mean slower growth, hitting tax revenues both directly and indirectly. The Reserve Bank warns that the fiscal deficit will increase sharply if the revenue boost from the trade surplus declines before private sector spending and growth accelerate.<sup>2</sup> South Africa's recovery from the pandemic is likely to remain volatile as the country's growth rate, investment and job creation all tend to track world commodity prices, particularly for metals and coal.<sup>3</sup>

<sup>2</sup>Loewald, C., 2022. South African Reserve Bank Occasional Bulletin on Economic Notes. Available from [www.resbank.co.za](http://www.resbank.co.za). Accessed in September 2022

<sup>3</sup> Makgetla, N., 2021. Mining and Minerals in South Africa in Oqubay et al (ed), *The Handbook of the South African Economy*. Oxford Academic.