QUARTERLY ECONOMIC UPDATE

Q3:2021

JULY UNREST DAMPENS QUARTERLY PERFORMANCE

ENQUIRIES: Economic Research and Knowledge Management | research.ded@gauteng.gov.za

GAUTENG PROVINCE
ECONOMIC DEVELOPMENT
REPUBLIC OF SOUTH AFRICA

GGT2030
GROWING GAUTENG TOGETHER

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1. INTRODUCTION

Following four consecutive economic expansions, South Africa's economic growth slipped into negative territory in the third quarter of 2021 (Q3:2021). The domestic economy was struck by a trio of crippling circumstances that resulted in a broad-based decline in the economic climate. These included, a third COVID-19 outbreak wave; the civil unrest and looting activity in parts of KwaZulu-Natal and Gauteng as well as the cyber-attack at Transnet ports in KwaZulu-Natal. These events significantly shook domestic economic and industrial activity and have notably dampened the prospects of an aggregated improvement in economic output for 2021. During the quarter (Q3:2021), unemployment edged higher at both the national (34.9%) and provincial (37%) levels to reach their highest levels on record. Furthermore, the domestic economy contracted by 1.5% quarter-on-quarter (5.8% annualised) in Q3:2021 as six of the ten sectors, led by the agriculture, trade and manufacturing sectors, registered negative growth.

Globally, the resurgence of COVID-19 infections in parts of Europe and growing risks and uncertainties in Asia and North America, were a damper on overall sentiment and output. Global supply chain disruptions coupled with rising inflationary pressure and conservative investment flows across the globe severely impacted economic performance during the quarter (Q3:2021). However, the rollout of vaccination programmes offered some much-needed relief and somewhat supported an improvement in sentiment.

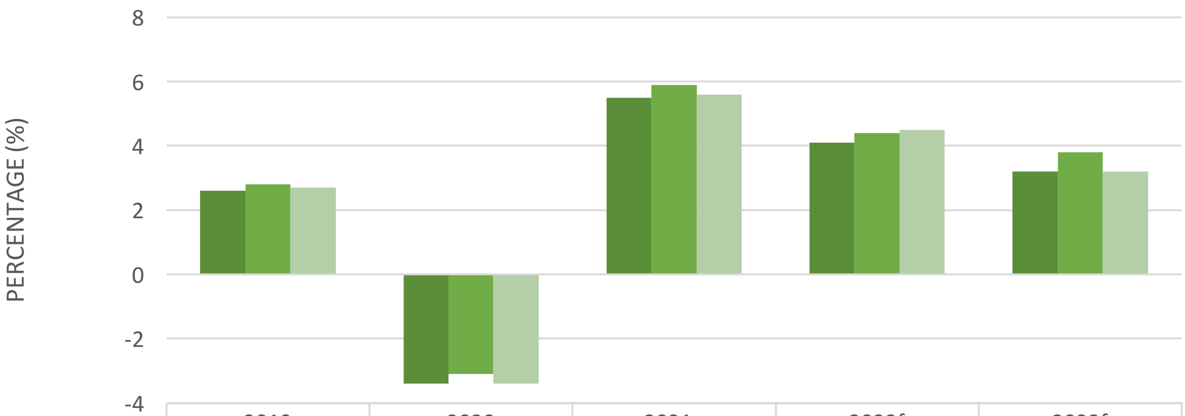
These key developments in the economy are outlined in more detail in this GDED Quarterly Economic Update.

2. GLOBAL ECONOMIC DEVELOPMENTS

2.1. INTERNATIONAL MONETARY FUND UPDATES GROWTH FORECASTS

According to the World Bank's January 2022 Global Economic Prospects Report, the global economy is estimated to have rebounded by 5.5% in 2021 and is forecast to slow to 4.1% and 3.2% in 2022 and 2023, respectively. This comes after much weaker economic output in the preceding two years, as the COVID-19 pandemic debilitated economic and industrial activity. Meanwhile in its latest World Economic Outlook (released on 25 January 2022), the International Monetary Fund (IMF) indicated that it estimates global economic output to have advanced by 5.9% in 2021 and has forecast slightly slower growth for both 2022 and 2023, at 4.4% and 3.8% respectively. According to both institutions, the global economy has entered the new year (2022) on a slightly weaker footing than previously expected. The widespread incidence of Omicron COVID-19 variant infections in late 2021 and into 2022 has forced several countries to reimpose restrictions. This, coupled with rising energy and food prices, global supply chain disruptions and the decline in China's real estate sector (which is a key source of metals demand), have resulted in increasing inflationary pressures and are limiting global growth prospects for the coming year.

Figure 1: Global economic growth projections



	2019	2020	2021e	2022f	2023f
World Bank	2,6	-3,4	5,5	4,1	3,2
IMF	2,8	-3,1	5,9	4,4	3,8
OECD	2,7	-3,4	5,6	4,5	3,2

Data source: World Bank, IMF, OECD (2022)

In the coming year inflation is expected to continue on an upward trajectory even though growth will be weaker as lingering supply chain bottlenecks, higher food and energy prices and COVID-19 variant uncertainty weighs on input costs and selling/export prices. Global growth is forecast to decrease further to 3.2% in 2023, and this is attributable to the waning of pend-up COVID-related demand and as central banks unwind supportive macroeconomic policies.

Although growth and investment in advanced economies are expected to return to pre-COVID levels by 2023, the road to recovery will be a lot more testing for Emerging Market and Developing Economies (EMDEs) – which include South Africa, with the World Bank expecting to see trends markedly lower than the global trend due to various reasons including; sub-optimal vaccination rates, tighter fiscal and monetary policies; and sustained after-effects from the pandemic.

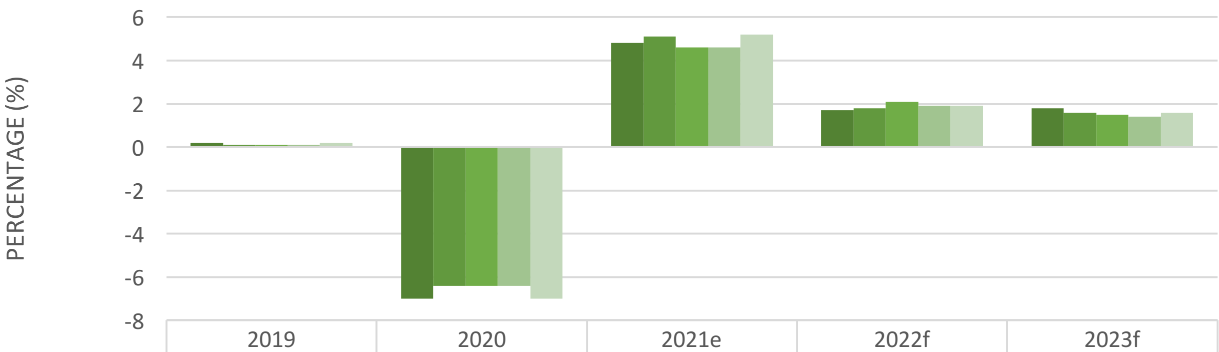
Downside risks to the outlook include new COVID-19 driven economic disruptions, further supply chain disruptions, worse-than-expected inflation outcomes, financial/fiscal stress and a further weakening of long-term growth drivers. As such, EMDEs will need to support growth by undertaking decisive policy actions, specifically those aimed at mitigating vulnerabilities to commodity price shocks – through export diversification – as well as ensuring the reduction of income and gender inequalities.

2.1.1. Key considerations for South Africa

As outlined in the World Bank report, commodity prices soared in 2021 following the broad-based decline in early 2020, with prices of several commodities reaching all-time highs. In part, this reflected the strong rebound of demand from the 2020 global recession. Energy and metal prices generally move in line with global economic activity, and this tendency has strengthened in recent decades and offered a much-needed bump in national revenue for South Africa in 2021. Looking ahead however, global macro-economic developments and commodity supply factors will likely continue to cause recurring commodity price swings and thus uncertainty which the country will need to prepare for.

Over the medium and long term, growing inflationary pressure, especially for food and fuel coupled with pandemic-related disruptions to education may further raise the level of inequality. As such, policymakers will need to prioritise health and social spending while directing support specifically to the worst affected.

Figure 2: South Africa growth projections



	2019	2020	2021e	2022f	2023f
SARB	0,2	-7	4,8	1,7	1,8
Treasury	0,1	-6,4	5,1	1,8	1,6
World Bank	0,1	-6,4	4,6	2,1	1,5
IMF	0,1	-6,4	4,6	1,9	1,4
OECD	0,2	-7	5,2	1,9	1,6

Data source: SARB (2022), Treasury (2021), World Bank, IMF and OECD (2022)

Both the World Bank and IMF estimate that the South African economy expanded by 4.6% in 2021 – higher than earlier projections. This is likely to be supported by the strong rebound in mining, manufacturing and services sectors, despite the much slower recovery registered in the second half of 2021. However, the second half of the 2021, was riddled with the devastating civil unrest that took place in parts of KwaZulu-Natal and Gauteng in July 2021; increasing COVID-19 outbreaks, electricity supply challenges and a further rise in inflation. The latter resulted in a narrowing of policy space with the Reserve Bank's Monetary Policy Committee deciding to increase the repo rate by 25 basis points to 3.75%. Monetary conditions have tightened globally amid rising inflationary risks during the last half of 2021, with several central banks (particularly in advanced economies) having taken steps towards policy normalisation.

Growth is forecast to gradually return to pre-pandemic levels, with the World Bank projecting that the domestic economy will grow by 2.1% in 2022 and 1.5% in 2023. Similarly, the IMF expects a weakening in economic growth over the next two years, with forecasts of a 1.9% and 1.4% expansion in 2022 and 2023, respectively. However, downside risks fuelled by unremedied structural impediments including – rising unemployment, inequality, weak public finances (amongst others) are likely to dampen outcomes.

The pandemic has reversed at least a decade of gains in per capita income in some countries and in almost a third of Sub-Saharan African economies – including Angola, Nigeria, and South Africa – per capita incomes are forecast to be lower in 2022 than a decade ago. In fact, South Africa's per capita income is projected to remain over 3% below the pre-pandemic level in 2023.

2.2. PANDEMIC DAMPENS FOREIGN DIRECT INVESTMENT FLOWS INTO AFRICA

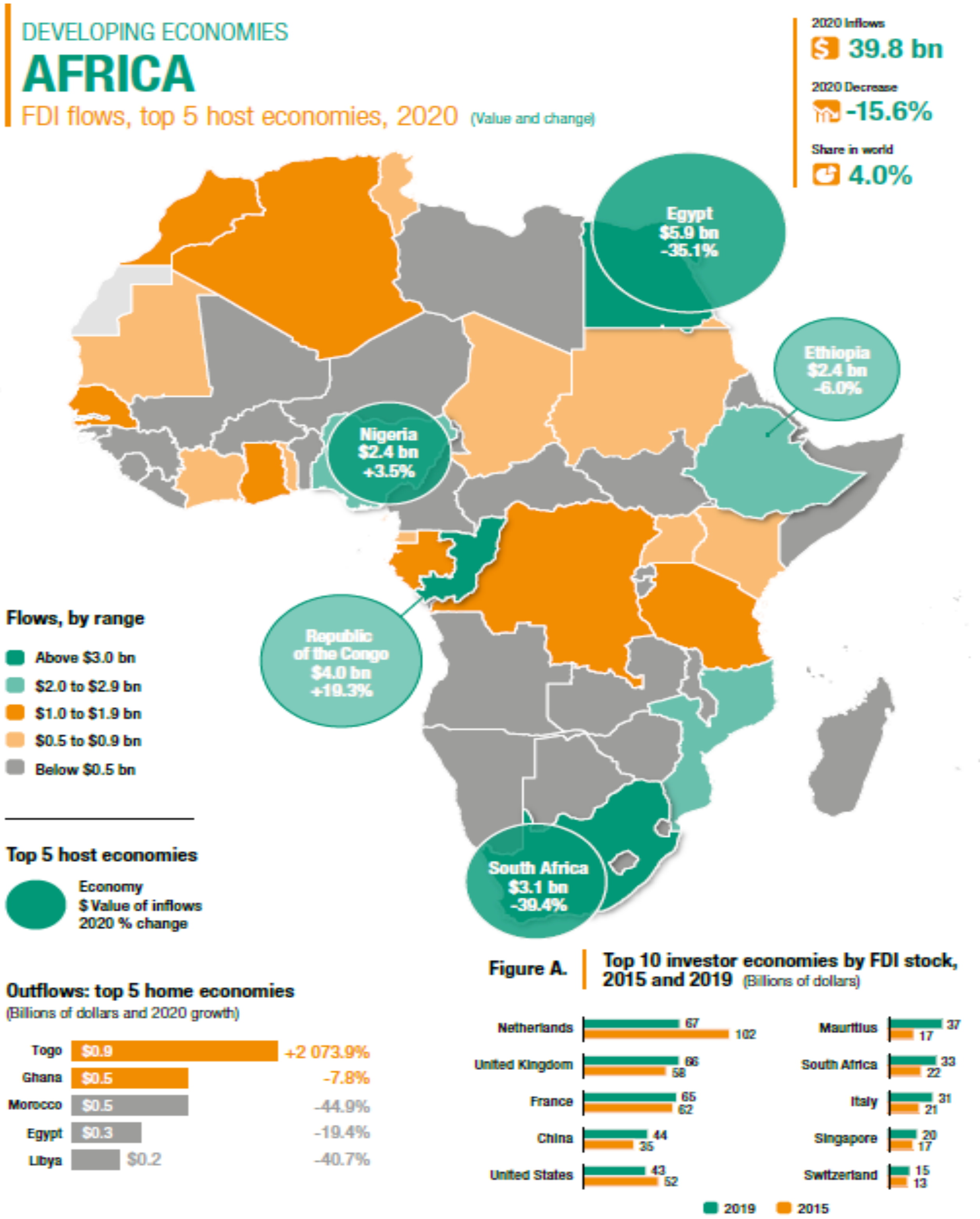
The pandemic has also had a significant impact on Foreign Direct Investment (FDI) flows into Africa, which declined by 16% from $47 billion in 2019, to $40 billion in 2020. According to the UNCTAD's World Investment Report 2021, widespread economic and health challenges caused by the pandemic, coupled with weak commodity prices, all weighted heavily on FDI flows to the continent in 2020. Specifically, commodity dependent economies were more severely affected than non-resource-based economies.

The challenging environment affected all aspects of foreign investment with greenfield project announcements (a measure of investor sentiment and future FDI trends) declining by 62% to $29 billion in 2020, from $77 billion in 2019. Cross-border mergers and acquisitions (M&As), fell by 45% to $3.2 billion, from $5.8 billion in 2019 and international project finance announcements, especially relevant for large infrastructure projects, plunged by 74% to $32 billion.

At the continental level, FDI inflows to North Africa decreased by 25% to $10 billion, down from $14 billion a year earlier. However, Egypt remained the largest FDI recipient in Africa, despite seeing a drastic reduction of 35% to $5.9 billion in 2020. Meanwhile, FDI inflows to sub-Saharan Africa declined by 12% to $30 billion with Mozambique and South Africa accounting for most of the inflows. Further West, FDI flows to Nigeria improved slightly from $2.3 billion in 2019 to $2.4 billion. However, on aggregate, flows to West Africa declined by 18% to $9.8 billion in 2020. Interestingly, Senegal was among the few nations on the continent to receive higher inflows in 2020, increasing by 39% to $1.5 billion, mainly driven by investments in the energy sector. FDI flows to Central Africa increased to $9.2 billion in 2020 (from $8.9 billion) while flows to East Africa slipped by 16% to $6.5 billion.

UNCTAD expects FDI in Africa to recover in 2021 however, slow economic recovery and delayed vaccine roll-outs could dampen the scale of recovery. FDI to the continent is projected to increase by 5% in 2021

Figure 3: Foreign Direct Investment Flows into Africa (2020)



Source: UNCTAD.

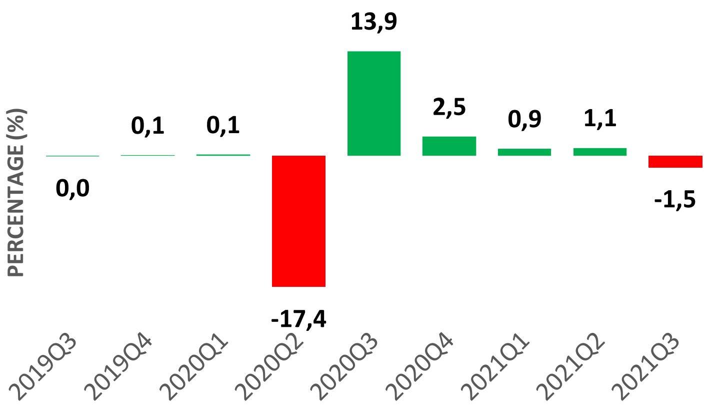
Note: The boundaries and names shown and the designations used on this map do not imply official endorsement or acceptance by the United Nations. Final boundary between the Sudan and South Sudan has not yet been determined. Final status of the Abyei area is not yet determined.

3. DOMESTIC ECONOMIC DEVELOPMENTS

3.1. Triple crisis halts economic recovery

The disappointing performance of the domestic economy in the third quarter (Q3:2021) illuminates the devasting second-round effects of the triple crisis experienced during the quarter. The period observed three consecutive blows that compounded pre-existing weaknesses in the economy, halting the domestic economic recovery that began in the third quarter of 2020. The South African and Gauteng *economies contracted by 1.5% and 0.8%*[1] *respectively (quarter-on-quarter)* due to a combination of factors that include the 3rd COVID-19 wave, the July unrest and the cyber-attack at Transnet ports.

Figure 4: South Africa Economic Growth (Q3:2019– Q3:2021)



Data source: Statistics South Africa

The latest reading highlights South Africa's high dependency on international trade and reliable local supply value chains. Meanwhile, *Gross Domestic Produced (GDP) expanded 5.8% for the three quarters ending September 2021 and is 2.9% (year-on-year), higher than a year ago.*

SECOND-ROUND EFFECTS LEAD TO BROAD-BASED INDUSTRY CONTRACTION

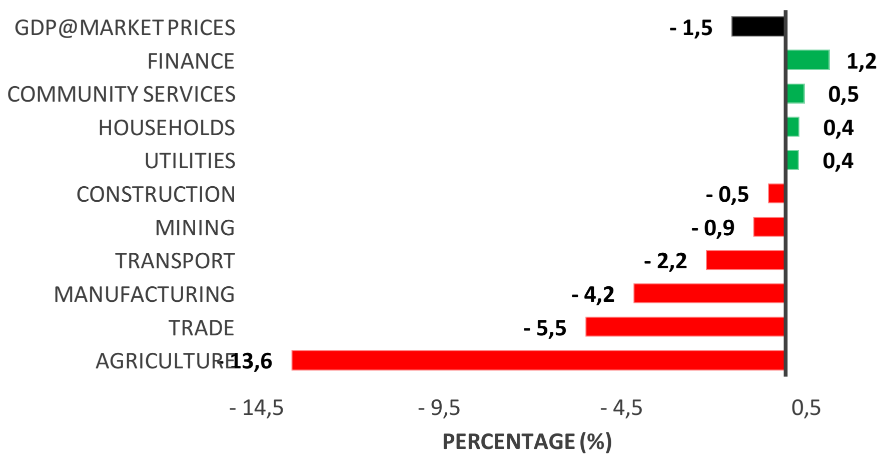
Although the economic shocks were concentrated in Gauteng and KwaZulu-Natal, with specific sectors being hardest hit, the secondary effects had an adverse effect on aggregate output. Specifically, *six (6) of the ten (10) sectors declined in the third quarter of 2021*, leading to a broad-based industrial contraction. Primary industries led the decline at -5.6%, mainly due to global and domestic logistics challenges due to the July unrest and Transnet cyber-attack. The Secondary and Tertiary industries trailed at -3 and -0.6%, respectively.

At a sectoral level, supply chain challenges were the main reason for declines in output in agriculture (-13.6%), manufacturing (-4.2%), and transport (-2.2%). Agricultural production decreased, owing to reduced field crops and animal products, despite elevated commodity and desirable weather conditions. Manufacturing contracted chiefly due to lower automotive, food and beverages and machinery production levels on the back of factory closures and supply chain disruptions, particularly in KwaZulu-Natal. Notwithstanding, the manufacturing sector grew in nominal terms to R188 billion in

[1] Economic Planning calculations from Quantec data

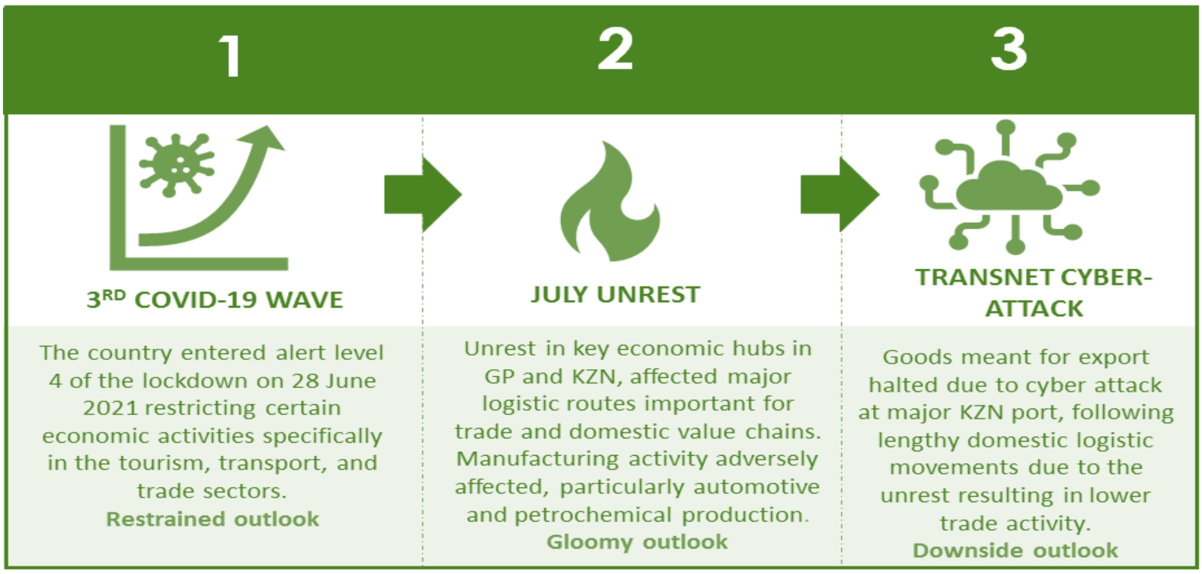
the third quarter of 2021. The decrease in the transport sector was credited to reduced land and air transport activity.

Figure 5: South Africa Economic Growth by Sector (Q3:2021)



Data source: Statistics South Africa

The extent of the supply chain challenges on economic activity is evidenced in unchanged (0%) growth in Gross Fixed Capital Formation growth as well as fewer exports (-5.9%) and imports (-2.8%) for the period.



Trade activity decreased by 5.5% in the third quarter of 2021. The weaker quarterly reading was expected given subdued domestic activity amid the 3rd COVID-19 wave and the mass looting of semi-durable and durable goods that cost much more than non-durable goods such as food. The demand for food spiked due to panic buying at the height of the July unrest. The price variance between the goods categories resulted in mixed results, with durable goods wholesalers and retailers worse off than non-durable good merchants. Income losses among durable goods wholesalers and retailers due to lower or depleted inventory levels are somewhat explained in muted (0%) fixed capital formation growth for the period. Durable goods recorded the largest contraction of -9.3%, followed by semi-durable goods (-5.2%) and non-durable goods (-3.1%). Consequently, household consumption expenditure registered -2,4%, lower than the previous quarter (Q2:2021).

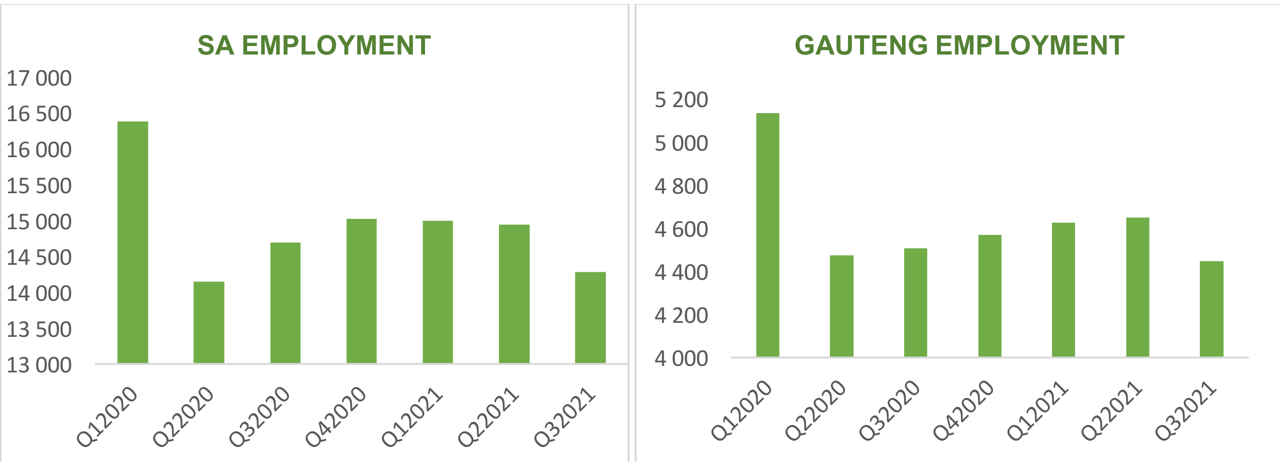
Notwithstanding the aftermath of the unrest, the financial sector grew by 1.2%, at the back of increased insurance claims which led to increased financial mediation, auxiliary activities, and other business services.

3.2. Labour market developments | July unrest a damper on Q3 job numbers

The third quarter of 2021 kicked off on a back footing. The civil unrest and looting across several shopping centres in parts of KwaZulu-Natal (KZN) and Gauteng in July severely dampened the jobs recovery and contributed significantly to the weaker Gross Domestic Product reading during the quarter. While the unrest mostly affected the retail trade sector, other associated sectors did not go unscathed, with the manufacturing sector suffering significant losses following the destruction of several factories in KZN.

In line with expectations, the Q3:2021 Quarterly Labour Force Survey (QLFS) reported national employment at 14.3 million, down by 660 000 jobs relative to the previous quarter. This marked the largest quarterly decline in job numbers since 2008 (excluding COVID-19 associated job losses), far worse than the job losses reported during the 2009 financial crisis (-527 000 in Q3:2009).

Figure 6: South Africa and Gauteng Employment (Q1:2020 – Q3:2021)



Data Source: Stastistics South Africa

The number of unemployed individuals declined by 183 000 to 7.6 million as 842 000 individuals exited the labour force, leaving it at 21.9 million. As a result, the national unemployment rate increased slightly by 0.5 percentage points to 34.9% in Q3:2021 from 34.4% in Q2:2021. Relative to the previous year, the unemployment rate has increased by 4.1 percentage points and the number of unemployed individuals has increased by 1.1 million.

GAUTENG UNEMPLOYMENT REACHES RECORD HIGH OF 37%

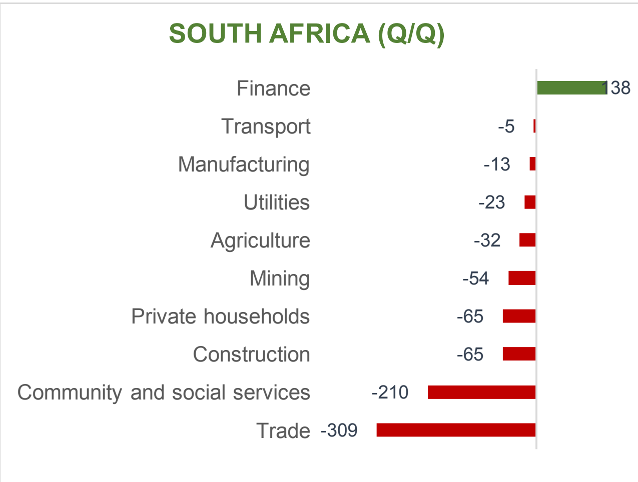
Likewise, the Gauteng employment fell by 200 000, to register at 4.4 million. Meanwhile, the informal sector gained 31 000 jobs, which highlights the significant role of the informal economy in supporting struggling households. The number of unemployed individuals in Gauteng increased by 59 000 to 2.6 million, while the labour force declined by 141 000 to 7.1 million. Following from this, the provincial unemployment rate increased by 1.6 percentage points to 37% in Q3:2021, from 35.4% in the previous quarter. Relative to a year ago, employment has declined by 58 000 whilst the number of unemployed individuals increased by 317 000, which makes the unemployment rate 3 percentage points higher.

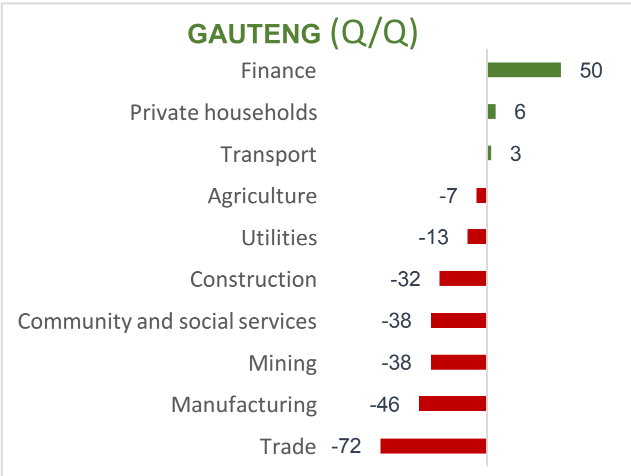
LOOTING ACTIVITY DEVESTATES RETAIL TRADE JOB NUMBERS

Nationally, the quartely employment numbers declined in all but one (1) industry – Finance. Job losses were highest for the Trade sector (-309 000) as employment declined in both the formal (-272 000) and informal sectors (-37 000). Community services also recorded massive job losses of 210 000.

In Gauteng, employment declined in seven (7) of the ten (10) sectors. Like the national trend, these were Trade led the job losses at -72 000, followed by the manufacturing sector which shed 46 000 jobs and mining and community services sectors which shed 38 000 jobs each.

Figure 7: Change in Employment by Industry ('000)





Data Source: Stastistics South Africa

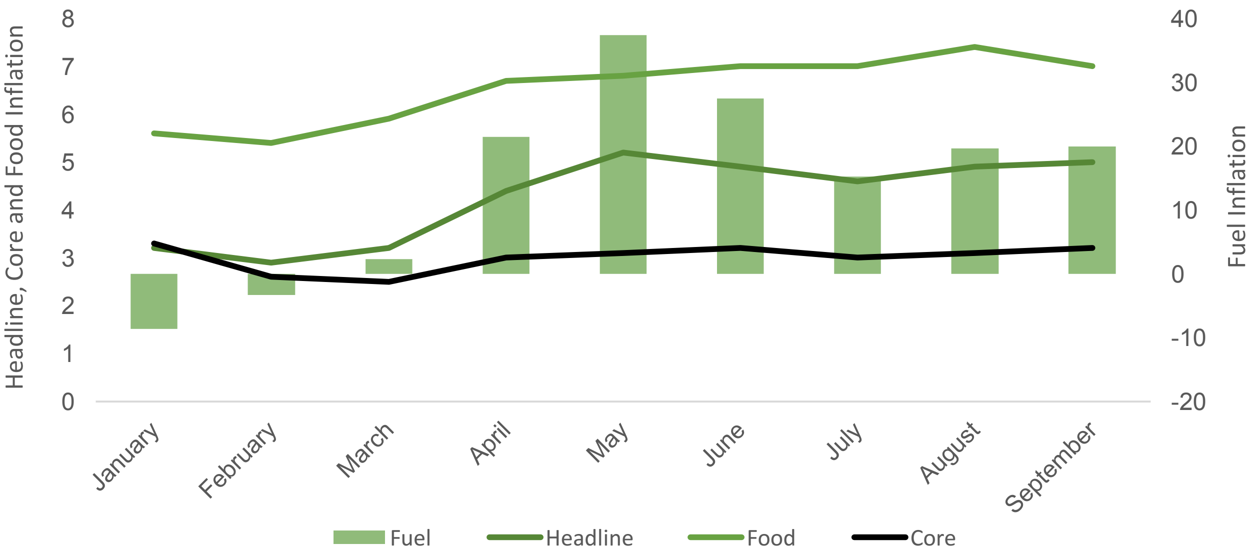
The impact of the July civil unrest has not only reversed the jobs rebound post the first lockdown, but it has been so dire that the recent job losses exceeded the quartely job losses during the 2009 financial crisis. This highlights the severe impact of the two-week-long disruption on economic activity and the resultant effect on the labour market. The long-term effects of such incidents on the economy should not be taken lighly. The unprecedented increase unemployment in Gauteng implies that the province needs to find innovative ways to support job growth across all sectors if it is to see any recovery in 2022 and beyond in line with GGT 2030 interventions.

3.3. Inflationary pressure on the rise a fuel and food prices edge higher

Consumer prices averaged at 4.8% in the second quarter of 2021 (Q2:2021) as inflation gradually increased from 4.6% in July 2021 to 4.9% in August 2021, settling in at 5% in September 2021 and breaching the South African Reserve Bank (SARB) inflation target midpoint. The rise in inflation in the third quarter was largely due to the rise in fuel inflation which averaged 18.2% as it progressively increased from 15.2% in July 2021 to 19.6% in August 2021 to 19.9% in September 2021. Fuel inflation was driven by the approximately R3/l increase in the price of petrol between Q2:2021 and Q3:2020.

Likewise, elevated food prices contributed to the rise in consumer prices, where food inflation measured at 7% in July 2021, 7.4% in August 2021 and 7% in September 2021. Globally, food prices are on the rise underpinned by higher fuel prices - which has raised the cost of fertilisers and transport costs; resulted in stockpiling by some countries; and export restrictions imposed being by some countries.

Figure 8: South African Inflation



Data Source: Statistics South Africa

Taken together, food and fuel inflation have added around 2 percentage points to the headline reading in each month in Q3. This suggests that about half of the changes in inflation was due to supply side dynamics. This does not bode well for the lower income households that spend a larger portion of their budget on food and transport costs.

On the demand side, core inflation (which measures prices changes excluding volatile items) remained stable, measuring at 3% in July 2021, 3.1% in August 2021 and 3.2% in September 2021. Overall, core inflation remained mostly unchanged throughout the year, echoing the muted rebound in the level of aggregate demand. Depressed demand comes on the back of high levels of joblessness, low rate of private sector credit extensions as well as subdued consumer confidence.

Petrol price per litre: 2021 vs. (2020)

July R17.39 (R15.12)

Aug R18.30 (R15.17)

Sep R18.34 (R15.18)

Private sector credit extension

0.68% [July]; 1.21% [Aug]; 1.6% [Sep]

Consumer confidence index

-10 [Q3] -13[Q2]

Repo rate

3.5% [July]; 3.5% [Sept]

The underlying global inflationary pressures have pushed Central and Federal Banks across the globe, including the SARB, to begin the monetary policy position normalisation cycle. The SARB increased the repo rate by 25 basis points in November 2021 and is expected to implement a few more increases throughout 2022, as the inflation outlook remains on the upside. Higher food and possibly fuel prices are expected to continue into 2022. However, unlike in other (advanced) countries where aggregate inflation is driven by a rebound in demand, the inflationary pressures might require the calibration of unique responses, particularly for a country characterised by subdued levels of demand and rising unemployment.

4. RESEARCH NOTE: UNLOCKING THE GAUTENG CANNABIS ECONOMY

4.1. Introduction and background

In July 2019, the South African government announced the need for a national plan for the industrialization and commercialization of cannabis in order to increase economic growth, create jobs and alleviate poverty. Outlined in the Cannabis National Plan is the key objective to turn cannabis into a viable business sector for the country, which will be achieved through commercializing South Africa's cannabis industry— which includes both dagga and hemp. The Department of Agriculture, Land Reform and Rural Development (DALRRD) Minister Thoko Didiza said as of October 2021, the department will begin issuing and monitoring permits for the production of hemp in South Africa.

Furthermore, the Cannabis National Plan seeks to provide policy direction and guidelines that will increase opportunities for South Africa to become an active and innovative player in this growing market. Over the past two years, there has been extensive consultation with various stakeholders in the industry. Additionally, one of the outcomes of these consultations established that it is important for cannabis to be reclassified as an agricultural crop. In addition, more research is needed to establish where cannabis can be best grown, processed, and transported successfully in Gauteng. However, there are issues around the legislative and policy framework that are hampering progress in the sector.

The Gauteng provincial government has identified 10 high growth sectors to facilitate and promote economic growth and development throughout the province, one of the sectors that have been identified by the GGT2030 is the cannabis industry. The cannabis industry has been identified as an industry that can boost job creation, economic development and poverty alleviation in the province. Additionally, together with the proven health benefits the plant, the economic impact of the cannabis industry is expected to see an industry that is worth an estimated R28 billion in South Africa and could create 25,000 jobs across the sector.

It is in this context that, The Gauteng Department of Agriculture and Rural Development (GDARD) in partnership with the Gauteng Department of Economic Development (GDED) has been undertaking research and consultations (through webinars) to unpack and better understand the provincial cannabis environment with a special focus on the regulatory framework.

4.2. Defining cannabis and arising challenges

There is a strong contention on the definition of cannabis as per the Medicine Act noting that currently, cannabis is regulated by two pieces of legislation, the Medicine Act and the Drugs Act. Notwithstanding the definition by SAHPRA, there remains no formal definition of cannabis/hemp despite the amendments to the Medicine Act. Previously the Medicine Act of 1965 made no distinction between marijuana and hemp. Following numerous revisions, uncertainty still prevails, particularly on which part of Tetrahydrocannabinol (THC) is considered and scheduled under the Medicine Act. Furthermore, the current definition remains misaligned with the provisions of the UN Convention where:

- Industrial hemp has never been scheduled.
- The Convention 61 states that marijuana is scheduled for medical purposes but remains restricted in South Africa. Marijuana is described as the fruiting and flowering top of the Cannabis plant, excluding the seeds and the leaves, unless they accompany the top.

Still, another obstacle is that the amended Medicine Act has provided less strict regulation on THC that falls below 0.02% (Schedule 0) in a substance or its finished products. However, cultivating such a product is considered to be unfeasible given the country's weather conditions. Additionally, importing such a product has proven to be arbitrary.

One more challenge lies with the Drug Act which still criminalises cannabis. This regulation is a fundamental block in the advancement of the industry. Consequently, standing criminalisation poses a big challenge with regards to accessing finance.

On the 22nd May 2020, SAHPRA together with the minister of health published amendments to the regulations in terms of the Medicine Act whereby hemp was handed over to the department of agriculture. The Drug and Drugs Trafficking Act responsible for cannabis regulation has also made amendments and successfully developed a cannabis bill, which is still under review to address the constitutional court judgement.

However, in terms of the Medicine Act, SAHPRA has no authority to regulate hemp since the department of agriculture is best suited for this purpose. SAHPRA has been engaging with the Department of Health, Agriculture, IDC, SAPS, Department of Science and Innovation, Department of Small Business Development, department of justice and constitutional development to ensure that the regulation is effective and a non-barrier in the industry.

Furthermore, SAHPRA has limited the regulation of cannabis for medical purposes and scientific use under certain specifications requirements such as the content of Tetrahydrocannabinol (THC) and Cannabinoid (CBD). In addition, SAHPRA has received over two hundred licensing applications and issued over 29 licensing to date. The cost of an application is R25 200.00, which many be considered to be very expensive for their budget but there is a number of mechanisms being drafted to accommodate farmers and address the issue of affordability. To add more, of the 29 licenses issued, 11 are located in Gauteng and there are also over 58 applications received from the province.

Overall, the current regulations have damning consequences on the regulations proposed by the GDARD (guiding principles outlined below) such that the regulations proposed by the Department are not supported by any legislation.

4.3. Status of Hemp in South Africa and proposed regulatory framework

The commercial cultivation of hemp in South Africa is contained in the Drugs and Drug trafficking Act, 1992 which classifies hemp as dagga and prohibits its possession and transportation. This will be enforced by South African Police Services (SAPS). Changes were made to the schedule of the Medicines and Related Substances Act, 1965, by changing the classification of Cannabis plant, THC, CBD and other related matters. This will be enforced by the Department of Agriculture land Reform and Rural Development, which started issuing permits for hemp in October 2021.

The proposed regulatory framework will be based on the following key principles:

- All farmers will need a permit to participate in the hemp industry

- There are two types of permits that people and companies can apply for: primary production and manufacturing
- All fields planted for hemp must always be fenced off the property and be locked and keyed
- All Departments that will be affected by the hemp industry will form part of the Steering Committee
- The hemp application form will be available on the DALRRD website and walk-in centres
- All permit applications will be assessed
- Monitoring and assessment will be done by SAPS

4.4. Key considerations going forward

The use of cannabis for recreational purposes currently remains a challenge. With the passing of the Private Use Bill coming into law, this segment of the industry has the potential of being the low hanging fruit. Private clubs can create the platform for recreational use, however, currently, the sale of cannabis remains restricted in terms of the Drugs Act. As such, working in partnership with the Justice Department on this aspect would be crucial.

The industry has massive potential for growth, however, the biggest stumbling block is on the regulations front. Thus, it is imperative that the Gauteng government use its networks to expediate the amendment of regulations that lie at a national level. As the GPG establishes a foothold within the industry, it stands a great chance of being the Industrial Cannabis Hub not only South Africa but the whole continent. It is within this context that the Departments of Economic Development, Agriculture, Environment, and Rural Development in partnership are in the process of developing two business cases to explore the economic viability of the establishment of industrial hemp hubs in Sedibeng & the West Rand Region. Furthermore, the development of a Gauteng Cannabis Masterplan and continuous stakeholder consultations are being undertaken in the form of quarterly Seminars hosted by the departments.

LOOKING AHEAD

What does this mean for the economy?

5. ECONOMIC OUTLOOK

5.1. GLOBAL ECONOMIC OUTLOOK

The International Monetary Fund (IMF) expects global GDP to have increased by 5.5% in 2021 and forecasts a moderation to 4.1% global growth in 2022. Meanwhile, the World Bank estimates that the global economy expanded by 5.9% in 2021 and forecasts global growth to register at 4.4% in 2022. However, the outlook remains highly uncertain as economic outcomes continue to rely on the speedy recalibration of economic activity following the notable supply chain disruptions witnessed during the last half of 2021. The COVID-19 pandemic has continued to weigh on global growth despite the support offered by the additional fiscal measures and improved control of new infections through broad-based vaccination programmes. Although major commodity exporters, including South Africa, have benefited from higher global demand and an improving outlook, low-income countries face worsening COVID-related dynamics.

The global growth outlook is heavily dependent of several factors, including the global rollout of vaccines, reformulation and sustained monetary and fiscal policy support as well as the gradual stabilisation of inflationary pressures. Downside risks to the outlook include further inflationary pressure to levels above expectations and forecasts; reduced effectiveness and scale of monetary and fiscal support measures as well as the resurgence of COVID-19 infections. Specifically, further increases in inflationary pressures could result in the swift tightening of monetary policy, which could dampen sentiment and prospects for aggregate 2021 economic outcomes.

5.2. SOUTH AFRICA ECONOMIC OUTLOOK

Preliminary high-frequency data suggested that the domestic economy had begun to recover from the triple crisis in the fourth quarter of 2021. The rebound is likely to have been supported by festive season activity, and supply chain normalisation. However, growth prospects could be hampered by unprecedently high fuel prices, weak domestic demand, protracted manufacturing labour unrest, load shedding, inflationary pressures, and the 4th COVID-19 wave, slowing the pace of economic recovery. The South African Reserve Bank (SARB) estimates the domestic economy to have improved by 4.8% in 2021 (based on January MPC statement) but forecasts lower growth of 1.7% in 2022. The National Treasury projects real economic growth of 5.1% in 2021 and 1.8% in 2022, compared with 2021 Budget estimates of 3.3% and 2.2% respectively. The 2022 projection will depend heavily on supportive global growth, favourable export commodity prices and the further easing of COVID-19 lockdown restrictions both domestically and globally. Furthermore, real GDP growth is forecast to moderate to 1.6% in 2023 and 1.7% in 2024. The National Treasury expects domestic GDP to return to pre-pandemic levels in late 2022, supported by the stronger-than-expected GDP performance in the first half of 2021.

As the triple crisis was more pronounced in Gauteng, downbeat provincial economic activity is expected in the last half of 2021. Weak manufacturing production due to the steel and engineering labour strike and the disruption in transport activity (particularly air travel) will underpin the disappointing figures and will likely damper growth prospects in the last quarter of 2021.

On the labour front, national employment is forecasted to decrease by 2.5% to reach 14.6 million in the fourth quarter of 2021. The finance sector is forecast to shed additional jobs in the fourth quarter whilst the trade sector is forecast to create additional jobs, following the notable job losses in the third quarter. At the provincial level, total employment is expected to decrease by 2.5% in 2021 compared to 2020 to reach 4.6 million. For the fourth quarter of 2021, employment is expected to decline by 1.7% year-on-year with job losses forecast for the Agriculture (-2 241), Mining (-13 126), Manufacturing (-62 223), Construction (-16 799), Community and Social Services (-28 275) and Private Households (-11 783) sectors. Employment gains are expected in the Utilities (691), Trade (8 496), Transport (22 127) and Finance (31 770) sectors and could offset some of the forecasted job losses.

6. CONCLUSION

The COVID-19 pandemic has highlighted South Africa's social and economic challenges and shortcomings, and efforts to alleviate the resultant effects of the pandemic have further stained public finances. The worsening of COVID-19 conditions coupled with the July riots and cyber-attack at Transnet ports during the third quarter of 2021 only added to the prevailing unfavourable socioeconomic conditions. The South African economy contracted for the first time following four consecutive quarters of favourable growth, and joblessness increased yet again to the highest levels on record.

Despite all this however, the medium-term economic outlook has improved since February 2021 forecasts, and this is largely due to improving global conditions. However, momentum is slowing as a result of domestic and global factors – including continued structural constraints and the crippling impact of the pandemic on jobs and investment – that will adversely affect GDP growth. A sustainable recovery and growth in jobs will require urgent implementation of reforms to improve competitiveness, and as well as easing and reducing the cost of doing business.

At the provincial level, continued efforts to support businesses that have been negatively affected by the July riots and the pandemic are key. Programmes and initiatives aimed at promoting and supporting the creation of jobs, particularly in key sectors such as manufacturing, construction, finance and trade (including tourism) remain imperative. As households continue to grapple with rising inflationary pressures, declining job prospects and growing uncertainty, collaborative efforts remain key in ensuring that the most vulnerable groups are protected from further harm.

We are likely to see a broad-based improvement in the economic performance for the fourth quarter due to COVID-19 vaccination roll-outs lax lockdown restrictions. Increased spending and travel activity associated with the holiday season is likely to support this improvement, however ongoing pressures have likely dampened the extent of spending activity.