Gauteng Province

ECONOMIC UPDATE | JUNE 2023

GAUTENG
PROVINCIAL GOVERNMENT
REPUBLIC OF SOUTH AFRICA

GGT2030
GROWING GAUTENG TOGETHER

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1. Introduction

Economic momentum has proved resilient in the United States even amid significant tightening of monetary and fiscal policy. While core and headline personal consumption expenditure (PCE) inflation are expected to continue falling this year, they will remain above the Federal Reserve Banks (FED) 2 percent target throughout 2023 and 2024. The United Kingdom is forecast to mildly avert a recession however economic performance is expected to loose momentum.

In the Eurozone, after a consecutive quarter of negative growth during the first quarter of 2023, a moderate pick up in real incomes is forecast to cushion economic growth throughout the remainder of the year, amid tight financial conditions.

In Asia an accommodative monetary policy stance is aiding the recovery. The People's bank of China (PBOC) has lowered interest rates and the Bank of Japan has maintained its ultra loose policy stance.

Against a challenging global backdrop South Africa's economic output remains constrained by power supply and logistical challenges. The International Monetary Fund (IMF) forecasts economic growth to slow 0,1 percent this year from 2 percent in the last.

Persistently high food and energy prices have kept inflation above the South African Reserve (SARB) target for a prolonged period, and this has elevated expectations requiring the SARB to continue raising interest rates also. The fiscal position is burdened by elevated debt levels and associated rising debt servicing costs limiting the governments ability to respond to unexpected external shocks and the countries developmental priorities.

2. Global Economic Review and Outlook

The global economy had challenges since 2020 due to COVID-19. That impact lingered in 2021 and 2022 as the recovery from that impact created global supply chains disruptions resulting in high inflation and slow recovery. The recovery was further impacted by the war in Ukraine, which compounded the supply disruptions and resulted in high global prices of essential commodities, such that inflation in most countries in 2022 reached record highs.[1] The Global economy is estimated to have grown by 2.4 per cent in 2022 after the 6.3 per cent growth in 2021. Global economic activity continued to be depressed throughout 2022, with

[1] International Monetary Fund. (2023). *World Economic Outlook, A Rocky Recovery April 2023.*

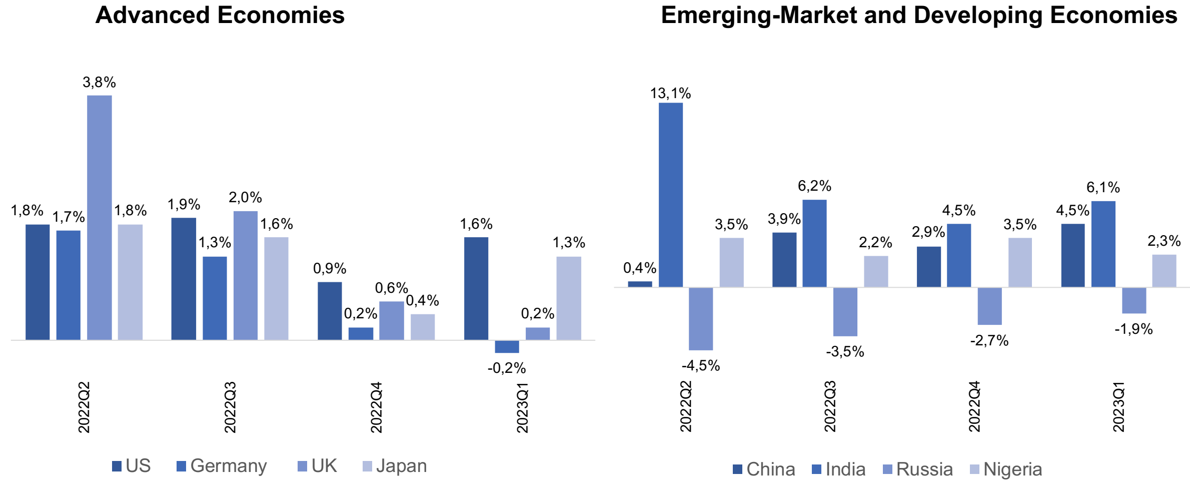
added negative impact from the slowdown in China's economy, owing to China's battle with the COVID-19 pandemic in 2022.

The impact of 2022 developments had a spillover effect to 2023 and the aggregate of all these issues has manifested in a slower 2023 global growth projection of 2.8 per cent. Inflation is expected to slow down in 2023. Still, it will remain high as the war in Ukraine remains active, and the side effects of the tighter monetary policies have started to create negative sides on economic growth and financial markets, which is expected to continue until 2024.

2.1. GDP growth

Economic growth within the major advanced economies and Emerging-Market and Developing Economies (EMDEs) have shown different trends in recent quarters. Still, most of these economies have recovered from the impact of COVID-19. Growth in advanced economies and the EMDEs has slowed compared to a more robust recovery in the first half of 2022. The slower growth was experienced from the second half of 2022, owing to the contraction of economic activity in China. This was due to the COVID-19 pandemic forcing prolonged restrictions on economic activity in China, and high inflation arising from supply chains disruptions ensued by the war in Ukraine, creating the implementation of tight monetary policy measures. These factors have led to a decline in investment and general expenditure and thus affecting economic growth in most economies.

Figure 1: GDP Growth - Selected Economies, 2022Q2-2023Q1



Source: Bloomberg, 2023.

Some economies have continued to experience a slowdown in economic growth through the 2023Q1, both in the advanced economies and EMDEs. Slower growth was more evident in the advanced economies, with major economies such as Japan, the United Kingdom, and

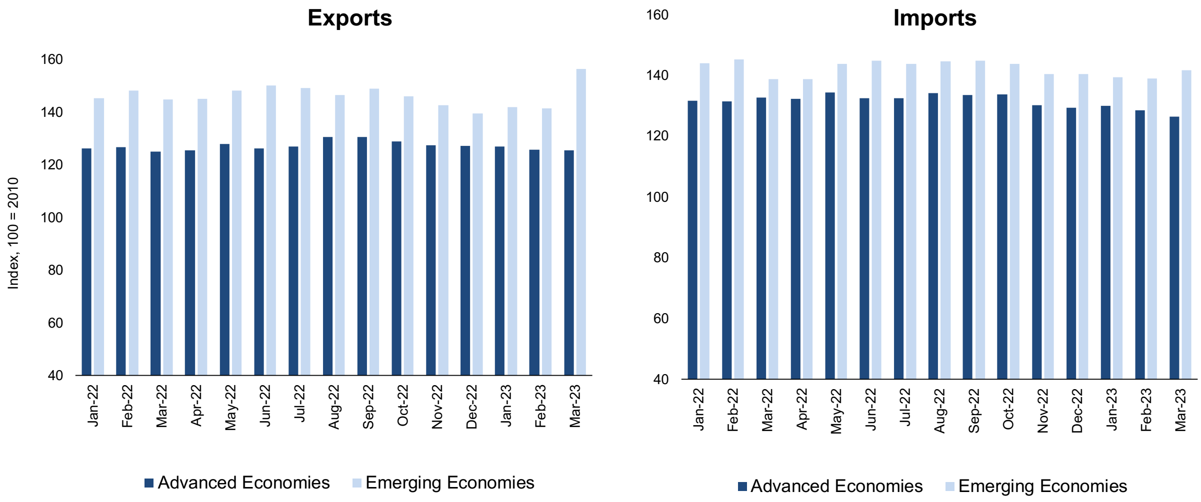
Germany continuing to grow slower. However, the US economy rebounded from a 0.9 per cent year-on-year (y-o-y) growth in the last quarter of 2022 to 1.6 per cent in 2023Q1.

While in the EMDEs, the Russian economy, the centre of global trade disruptions caused by the war in Ukraine, continued to contract in the 2023Q1, a fourth consecutive contraction since the second quarter of 2022. Whereas other major EMDEs all experienced growth in the first quarter, Nigeria experienced a slower growth of 2.3 per cent y-o-y compared to an increase of 3.5 per cent y-o-y in the last quarter of 2022. Moreover, the Indian economy grew the most among the major EMDEs in 2022. In the first quarter of 2023, it remained high at 6.1 per cent year-on-year, despite its growth losing a 0.1 percentage point compared to the last quarter of 2022. China is recovering from the negative impact of 2022; growth improved from 2.9 per cent y-o-y in the last quarter of 2022 to 4.5 per cent in the first quarter.

2.2. Trade Activity

The overall global trade subsided after it had performed relatively well in the first three quarters of 2022, which made the annual trade growth of 5 per cent in 2022.[2] However, in the last quarter of 2022, it had an annualised quarterly decline of 7 per cent. This was a reflection of tight monetary policy, slowing down industrial output, and slower trade activity in Asia due to the high resurgence of COVID-19 infections in China. Nonetheless, the global trade volumes partially recovered with an annualised growth of 1.8 per cent in 2023Q1. As China increased its participation in the global economy by lifting COVID-19-related restrictions, merchandise trade remained weak.

Figure 2: Global Trade Activity, January 2022 - March 2023



Source: CPB Netherlands Bureau for Economic Policy Analysis, 2023.

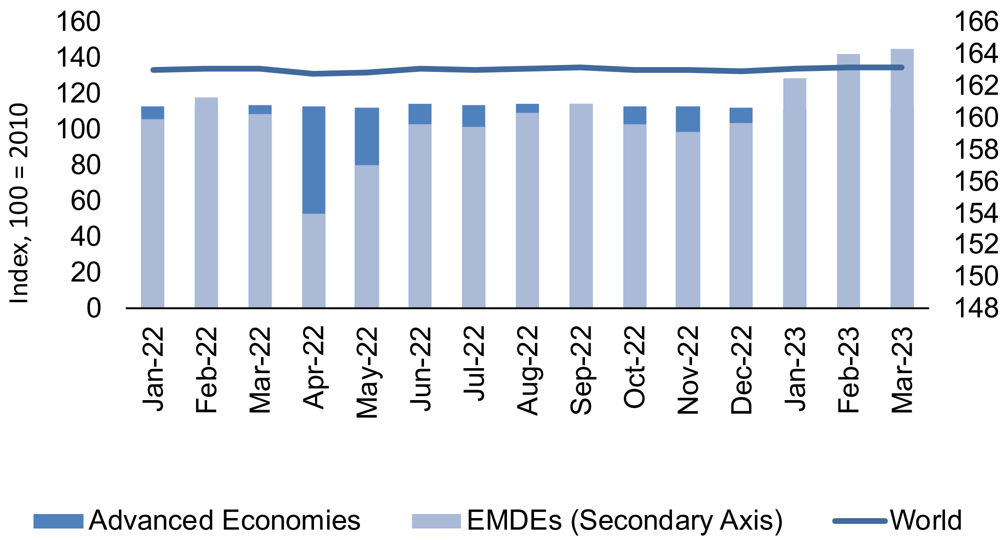
[2] Organisation for Economic Co-operation and Development. (2023). *OECD Economic Outlook, Volume 2023 Issue 1.*

Figure 2 which shows increased exports from EMDEs during 2023Q1, especially in March 2023. Export volume in EMDEs increased from 141.4 index points (ip) in February to 156.2ip in March. While there were increases in export volumes of the EMDEs, the imports volume slowed to an average of 140ip during the 2023Q1, compared to an average of 141.5ip in the last quarter of 2022. In the advanced economies, both exports and imports have slowed in 2023Q1. Advanced economies' imports declined with a larger magnitude compared to EMDEs; imports declined from an average of 131.1ip in 2022Q4 to 128.4ip in 2023Q1, and exports declined from an average of 127.8ip in 2022Q4 to 126ip in 2023Q1.

2.3. Manufacturing Activity

The global manufacturing activity has marginally improved from 133.3ip in 2022Q4 to 134.7ip in 2023Q1, reflecting mixed effects of a positive effect of China's moving towards full-scale economic activity post-lockdown and the negative effect of subdued global demand.[3]

Figure 3: Global Industrial Output, January 2022 - March 2023



Source: CPB Netherlands Bureau for Economic Policy Analysis, 2023.

During 2022 manufacturing activity was at its lowest in April 2022 when it was 131ip as output fell slightly in the advanced economies and relatively large in the EMDEs. The decline was due to the lockdown restrictions and the war in Ukraine.[4] In 2022Q4, global activity started to pick up as fewer restrictions were imposed in China, which boosted industrial output, mainly

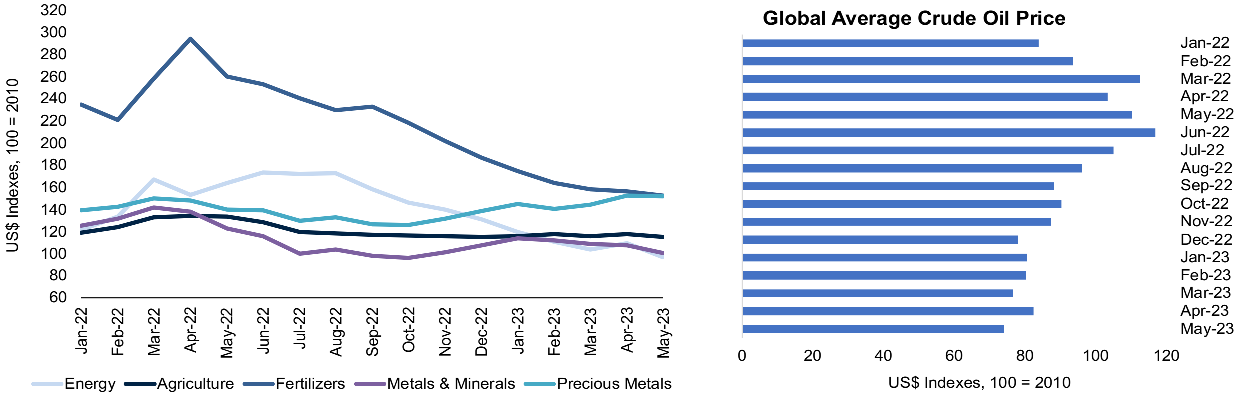
[3] Organisation for Economic Co-operation and Development. (2023). *OECD Economic Outlook, Volume 2023 Issue1*.
[4] Organisation for Economic Co-operation and Development. (2022). *OECD Economic Outlook, Volume 2022 Issue1*

in EMDEs. The complete lifting of China's restrictions and reduced inflation supported global demand for manufactured exports, which supported an increase in EMDEs industrial output in 2023Q1. However, the industrial output growth in the advanced economies remained soft.

2.4. Commodity Prices and Inflation

Given the slowdown in global demand since the second half of 2022, which has led to a decrease in prices of primary commodities by 28.2 per cent, between August and February 2023.[5] Energy commodity prices mainly led to the fall in the general commodity prices; commodities such as natural gas have declined by 76.1 per cent between August and February 2023 in Europe due to high inventory caused by low demand.

Figure 4: Global Commodity Prices, January 2022 - May 2023



Source: World Bank, 2023.

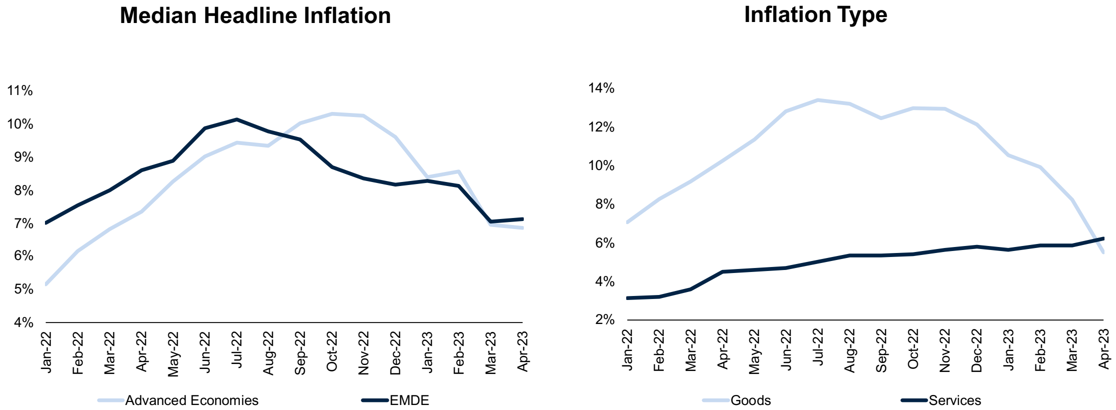
Despite the war in Ukraine, which led to high crop, fertilisers and food prices since 2021, in May 2022, prices for these commodities started to decline. The decline was primarily significant for fertilisers, and there was a gradual decline for agricultural products, which reverted to a marginal increase at the beginning of 2023. Still, the prices of agricultural commodities remains on a downward trend. The price has remained lower than their peak in 2022Q2 when it was 134.1ip in April 2022, and in 2023Q1, it was at an average of 116.8ip. Within the energy commodities, prices have decreased despite the ongoing war in Ukraine affecting the supply of energy commodities such as crude oil, the effect of the war was active primarily in the first half of 2022. However, even though the impact of the war continues to disrupt the oil supply and its prices, oil prices have declined since mid-2022; between June 2022 and May 2023, crude oil prices have declined by 37 per cent.

Metals and minerals prices have recovered from prices below 100ip registered in the third quarter of 2022, although the gains it made in the last quarter of 2022 and at the beginning of

[5] International Monetary Fund. (2023). *World Economic Outlook, A Rocky Recovery April 2023.*

2023 have marginally retracted; the metal and mineral prices were 100,5ip in May 2023. Precious metals prices have had a steady upward trend since the last quarter of 2022 up to May 2023, with an increase of 20.4 per cent. The global commodity prices, amongst other factors, influenced global inflation.

Figure 5: Global Inflation, January 2022 - April 2023



Source: Organisation for Economic Co-operation and Development, 2023.

Inflation in most economies has eased but remains relatively high. The global median headline inflation for April 2023 was 7.2 per cent year-on-year, which was lower when compared to the peak of 9.4 per cent in July 2022.[6] The lower inflation mainly reflects the decline of commodity prices and the easing global trade supply challenges. Inflation in most economies has eased due to the fall in commodity prices. The easing of energy prices led to a decline in global inflation. Still, inflation remains relatively high due to rising food and service prices prompted by excess demand from advanced economies. A decline in goods inflation dominated the easing in global inflation, but services inflation was on an upward trend due to the normalisation of economic activity post-COVID-19 constrained environment. The global service inflation in 2023 has been above the 2022 average of 4.7 per cent; in April 2023, it increased to 6.2 per cent. Whereas the goods inflation averaged 11.3 per cent in 2022 and, during April, eased to 5.5 per cent.

2.5. Monetary Policy In Light of High-Inflation Rate

The unprecedented high inflation in many economies in 2021 and 2022 forced robust monetary policy tightening by monetary authorities in many economies, mostly in the form of interest rate hikes.[7] The prominent interest hikes were from the advanced economies, especially the US. The prominence of the hikes is that they also influence economic variables linked to the interconnectivity of economies, leading to other economies having to respond by hiking interest rates further than the point of simply just dealing with inflation. Notably, EMDEs

[6] World Bank. (2023). *Global Economic Prospects, June 2023.*
[7] World Bank. (2023). *Global Economic Prospects, June 2023.*

were the ones most affected by the hiking cycles from advanced economies, and most EMDEs had to respond with even tighter measures of interest rate hikes with more frequent and high magnitude.

On the one hand, EMDEs like Nigeria have a cumulation of 7pp since their hiking cycle started, Argentina had 61pp, and Brazil had 11.8.[8] On the other hand, large advanced economies, such as the US, have only had a cumulative interest rate hike of 5pp, and the UK, 4.4pp. Consequently, the tighter monetary policy environment globally impacted the global demand and economic growth in the second half of 2022 and the first quarter of 2023, and it is forecasted to impact growth for the entire of 2023.[9]

3. South African Economic Review and Outlook

The South African economy is recovering following the COVID-19 pandemic but the recovery is slow and punctuated by short periods of declining economic activity. This is due to both international factors, such as the war and drought, domestic challenges are, electricity supply. These international concerns have also led to higher levels of inflation, which has prompted the South African Reserve Bank (SARB) to raise interest rates. Despite low and erratic economic growth, employment in South Africa has expanded and the unemployment rate has marginally fallen. However, the unemployment rate remains high, with the youth still facing the brunt of the unemployment challenge. Government is committed to assist business and households with these challenges, despite its fiscal position remaining relatively tight following efforts to provide support during the pandemic.

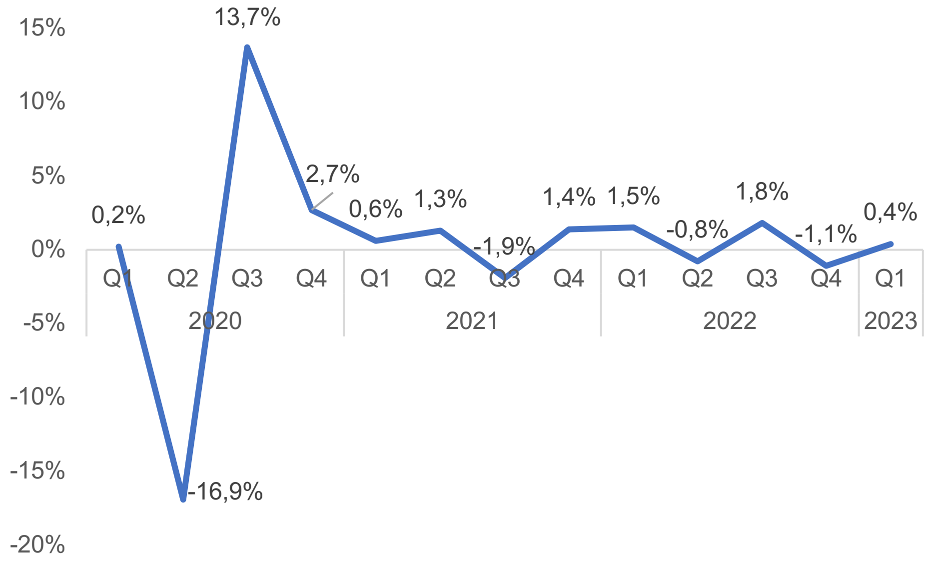
3.1. Economic Growth

Figure 6 shows that in the first quarter of 2023, the Gross Domestic Product (GDP) of South Africa increased by 0.4 per cent, quarter-on-quarter (q-o-q) and seasonally adjusted. This was primarily driven by growth in the manufacturing and the finance and business services industries, as detailed in Figure 7 below. This followed a decrease of 1.1 per cent in the fourth quarter of 2022, which was unusual as it occurred despite the festive season increase in household spending.[10] This decrease in economic activity was due to labour action at Transnet and an increase in load shedding.[11] These factors combined to reduce the country's capacity to produce and provide transport for export goods, which outweighed the increase in domestic demand.

[8] Bloomberg. (2023). *World Economic Statistics.*
[9] Organisation for Economic Co-operation and Development. (2023). *OECD Economic Outlook, Volume 2023 Issue1.*
[10] Additional information from Statistics South Africa.
[11] South African Reserve Bank. (2023). *Quarterly Bulletin – No 307 – March 2023.* Accessed (in June 2023) at www.resbank.co.za

These growth rates were in line with South Africa's economic growth following the trough caused by the pandemic in the second quarter of 2020, and the spike as the economy recovered in the third quarter, as growth has been low and relatively volatile since then. The largest decline since the pandemic was the 1.9 per cent q-o-q decrease in the third quarter of 2021. This was due to civil unrest in KwaZulu-Natal and Gauteng, an increase in the oil price, a decrease in the prices of commodities that South Africa exports and a cyberattack on Transnet.[12] The highest post-2020 growth rate was the 1.8 per cent recorded in the third quarter of 2022. This was driven by the agriculture, mining, construction and manufacturing industries.[13] The growth rate of manufacturing in particular was supported by operations being progressively restored at a large vehicle manufacturing plant that had previously been damaged by severe flooding.

Figure 6: Gross Domestic Product, growth rate, 2020Q1-2023Q1



Source: Statistics South Africa, 2023

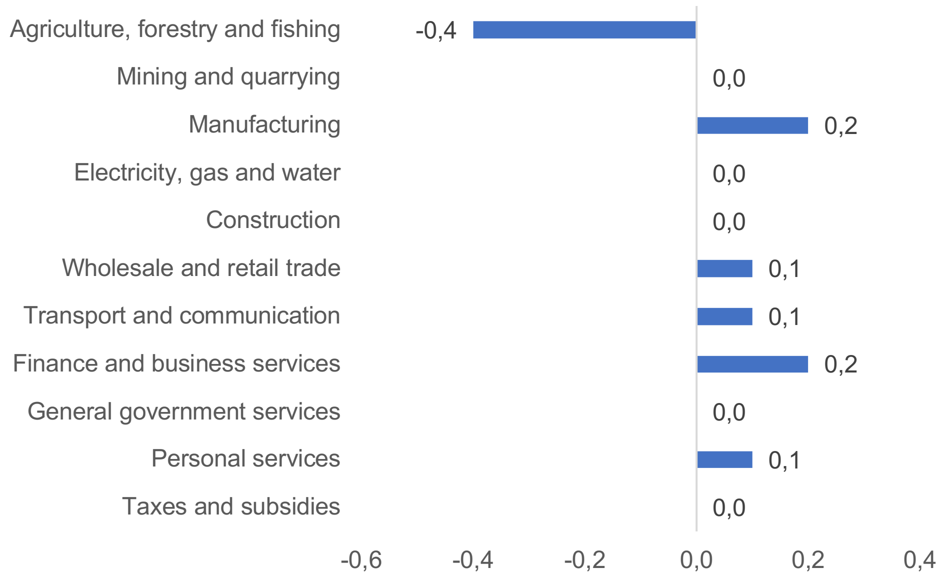
The Figure 7, shows the 0.4 per cent GDP growth rate in the first quarter of 2023 which was a result of the large contributions by the manufacturing and the finance and business services industries, which contributed 0.2 percentage points each. The growth of manufacturing was primarily driven by the food and beverages sub-category while the growth in finance and business services was more even attributed across financial intermediation, insurance and

[12] South African Reserve Bank. (2021). *Quarterly Bulletin – No 302 – December 2021*. Accessed (in June 2023) at www.resbank.co.za

[13] South African Reserve Bank. (2022). *Quarterly Bulletin – No 306 – December 2022*. Accessed (in June 2023) at www.resbank.co.za

pension funding, real estate and business services.[14] The only industry which declined was agriculture, forestry and fishing, which offset the overall increase by 0.4 percentage points. This was due for the most part to decreases in the field crops and animal products sub-categories.

Figure 7: Sectoral Contributions, 2023Q1

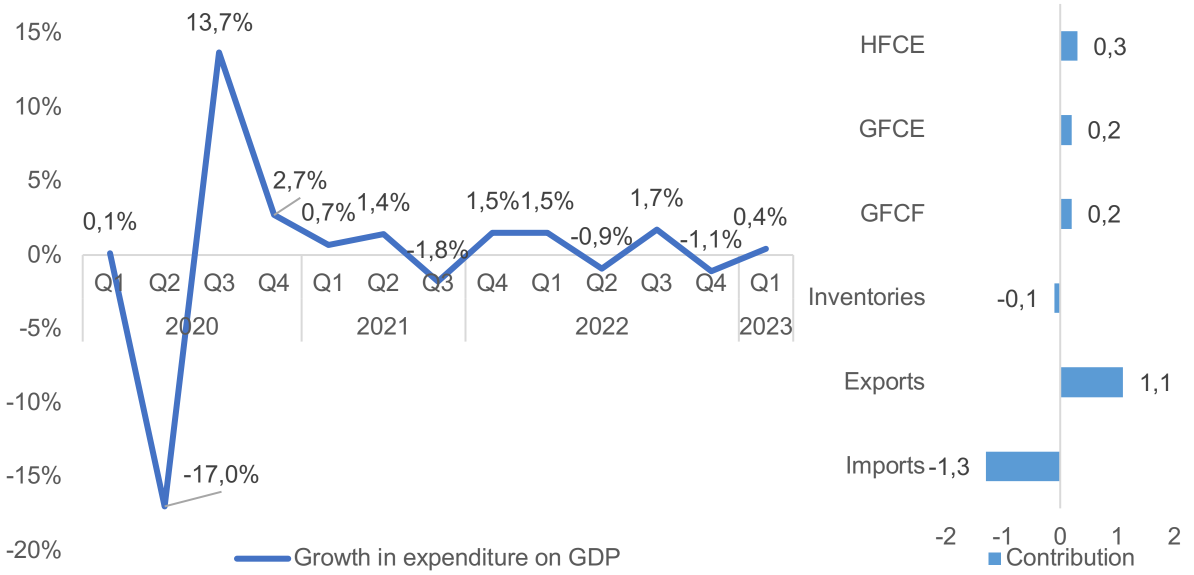


Source: Statistics South Africa, 2023
Note: Totals do not necessarily add up due to rounding.

Figure 8, shows that expenditure on GDP has a strong tendency to have the same growth rate as GDP measured by production, the latter shown in Figure 6. The difference between the two growth rates has been 0.1 percentage points or less throughout the period under review. As with GDP by production, expenditure on GDP increased by 0.4 per cent in the first quarter of 2023 following a decrease of 1.1 per cent in the fourth quarter of 2022. The 0.4 per cent increase was primarily driven by an increase in expenditure on South African exports, which contributed 1.1 percentage points to the overall increase.

[14] Additional information from Statistics South Africa.

Figure 8: Expenditure on GDP, growth rate and sectoral contributions, 2020Q1-2023Q1

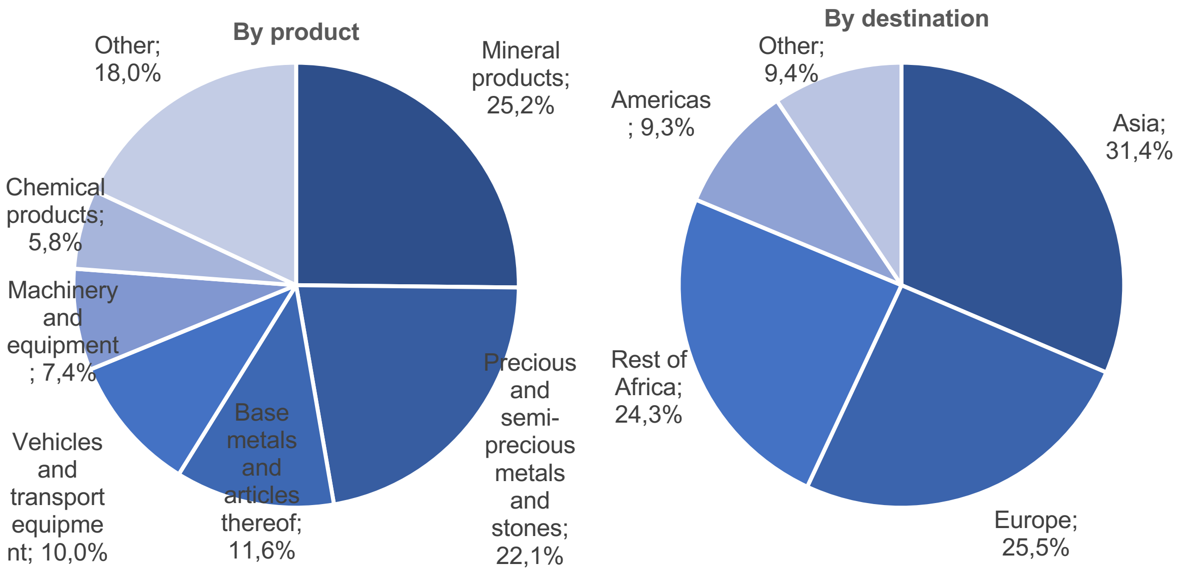


Source: Statistics South Africa, 2023
Note: Totals do not necessarily add up due to rounding.

Expenditure by South Africans on imported goods and services increased as well and more than offset the increase in expenditure on exports, subtracting 1.3 percentage points from the overall increase. The overall change was positive due to a contribution of 0.3 percentage points from household final consumption expenditure and contributions of 0.2 percentage points each from government final consumption expenditure and Gross Fixed Capital Formation (GFCF).

While the mining and quarrying industry does not account for a particularly large share of the GDP, Figure 9 shows that it does account for a very large share of the country's exports. The three product categories which make the greatest contributions to the value of South Africa's exports are mineral products, at 25.2 per cent, precious and semi-precious metals and stones, at 22.1 per cent, and base metals and articles thereof, at 11.6 per cent. Manufactured goods account for a more modest share of South Africa's export value, with categories such as vehicles and transport equipment accounting for 10 per cent, and machinery and equipment at 7.4 per cent.

Figure 9: Exports by product and destination, March 2023



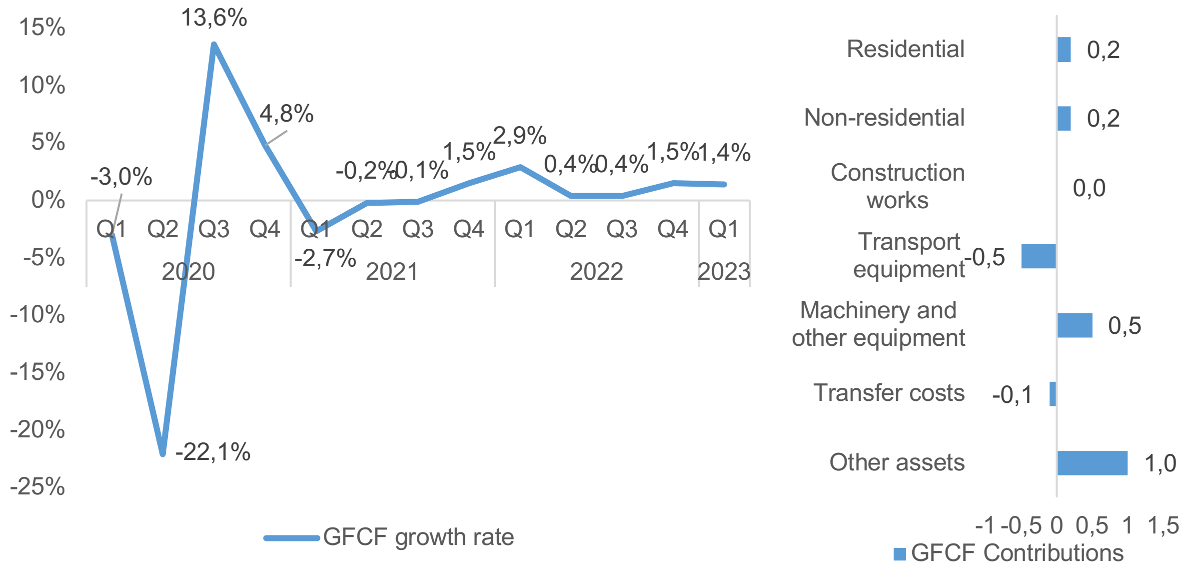
Source: South African Revenue Service, 2023
Note: Totals do not necessarily add up due to rounding.

At 31.4 per cent, more of South Africa's exports by value are sold in Asia than any other continent. Much of this is raw materials such as coal and iron ore that are bought by China for use in its own production processes. Europe is South Africa's second-largest export destination, at 25.5 per cent, and also buys significant quantities of raw materials, in their case, precious and semi-precious metals and stones for the making of jewellery and platinum-based catalytic converters to reduce vehicle emissions. The rest of Africa is close behind Europe at 24.3 per cent but is more of a market for South Africa's manufactured goods. Expanding trade with Africa could be a useful objective for South Africa as this would likely expand the market for South African manufacturing and thereby support the industrialisation of the country.

GFCF is a common measure of investment and is defined as "the acquisition of produced assets (including purchases of second-hand assets), including the production of such assets by producers for their own use, minus disposals".[15] As shown in Figure 10, in the first quarter of 2023 GFCF increased by 1.4 per cent q-o-q. This was the sixth consecutive month of rising investment, though the increases in the second and third quarters of 2022 were a modest 0.4 per cent each.

[15] Organisation for Economic Co-operation and Development. (2023). *Investment (GFCF) (indicator). doi: 10.1787/b6793677-en*. Accessed (in June 2023) at https://data.oecd.org

Figure 10: GFCF, growth rate and contributions, 2020Q1-2023Q1



Source: Statistics South Africa, 2023

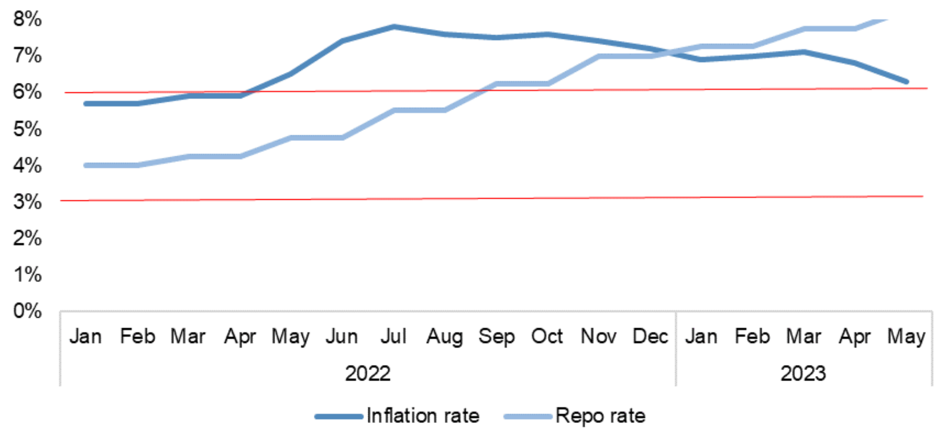
The 1.4 per cent growth in GFCF was primarily driven by the 'other assets' category, which contributed 1 percentage point. Of the specific categories, the largest contribution was the 0.5 percentage points from machinery and other equipment. The category which most offset the overall increase was transport equipment, at 0.5 percentage points.

3.2. Inflation

As shown by Figure 11, in May 2023, the Consumer Price Index (CPI) increased by 6.3 per cent y-o-y. This was the 13th consecutive month that CPI inflation has been above the SARB target band of 3 to 6 per cent. This was primarily driven by food and non-alcoholic beverages; transport; and housing and utilities.[16] Food prices are still elevated due to the supply chain disruption brought on by Russia's invasion of Ukraine and several droughts that have occurred since then. Transport costs have increased primarily due to higher prices of purchasing vehicle and using public transport. Fuel price increases are still significant but have been eclipsed for now by these two categories. The increase in the housing and utilities category was driven largely by an increase in the electricity and other fuels sub-category.

[16] Additional information from Statistics South Africa.

Figure 11: CPI and repurchase rate, January 2022 – May 2023



Sources: SARB and Statistics South Africa, 2023

The Monetary Policy Committee (MPC) of the SARB has responded to these sustained high levels of CPI inflation by raising the repurchase (repo) rate to 8.25 per cent in May. The repo rate is the rate that the SARB charges when it lends money to banks and the banks in turn base their own lending rates on the repo. As such, when the MPC raises the repo rate this makes credit more expensive, which puts downward pressure on inflation by reducing the speed with which private banks add money to the economy through issuing loans and by reducing aggregate demand. While reducing demand reduces economic growth in the short-term, long-term growth requires keeping inflation under control. Although inflation has fallen since its peak of 7.8 per cent in July 2022, it remains above the target band, which led to the MPC raising the repo rate to 8.25 per cent in May[17] and will encourage them to raise the repo rate again in their next meeting.

3.3. Labour Market

Table 1 shows that the working-age population of South Africa increased by 571 000 persons, y-o-y, to 40.6 million in the first quarter of 2023. The country's labour force increased by an even larger amount, 1.3 million persons, over the same period and reached 24.1 million. This was possible because 778 000 persons left the ranks of the Not Economically Active (NEA) and joined the labour force. This left 16.5 million NEA persons in the country. The number of workers employed in South Africa increased by 1.3 million, to 16.2 million. The number of unemployed persons also increased, 71 000 to 7.9 million, but this increase was much smaller than the increase in employment and the unemployment rate therefore fell by 1.6 percentage points to 32.9 per cent. Of those who left the NEA classification, 476 000 were former discouraged work-seekers. Since the number of unemployed persons increased by only

[17] South African Reserve Bank. (2023). *Statement of the Monetary Policy Committee – May 2023.* Accessed (in June 2023) at www.resbank.co.za

71 000, this means that approximately 405 000 previously discouraged work-seekers got employed.

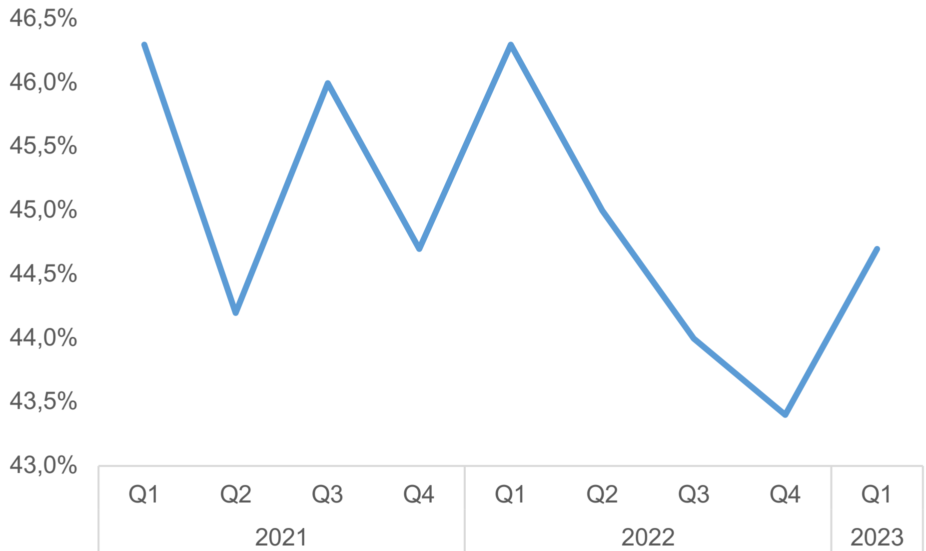
Table 1: Labour Force Characteristics, 2023Q1

('000)	2022Q1	2023Q1	Change y-o-y	Change y-o-y (%)
Working-age population	40 033	40 604	571	1.4
Labour force	22 776	24 125	1 349	5.9
Employed	14 914	16 192	1 278	8.6
Formal sector (non-agricultural)	10 179	11 186	1 007	9.9
Informal sector (non-agricultural)	2 818	3 062	244	8.7
Agriculture	844	888	43	5.1
Private households	1 072	1 056	-16	-1.5
Unemployed	7 862	7 933	71	0.9
Not economically active	17 257	16 479	-778	-4.5
Discouraged work-seekers	3 752	3 276	-476	-12.7
Unemployment rate (%)	34.5	32.9	-1.6	N/A

Source: Statistics South Africa, 2023

The unemployment rate among South Africa's youth is higher than the country's overall unemployment rate. Figure 12 shows that from the first quarter of 2021 to the first quarter of 2022, the percentage of those between the ages of 15 and 35 who are Not in Employment, Education or Training (NEET) has fluctuated between 46.5 per cent and 44 per cent. Thereafter, it decreased and reached 43.4 in the fourth quarter of 2022. The first quarter of 2023, saw an increase again, to 44.7 per cent. It remains to be seen whether the NEET percentage of the youth will trend downward, fluctuate within a new lower band or if the decrease in 2022 was a temporary anomaly.

Figure 12: Youth NEET, 2023Q1

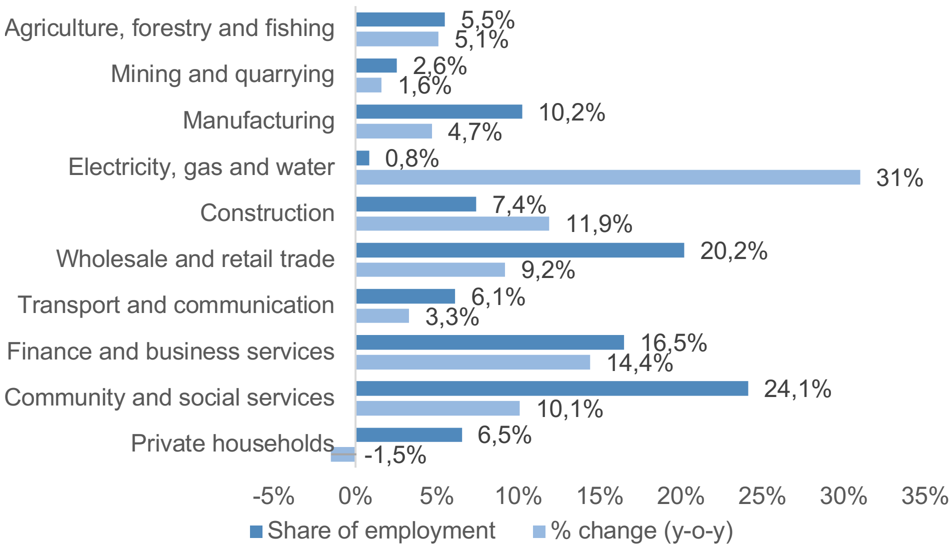


Source: Statistics South Africa, 2023

As shown in Figure 13, the sector of the economy that employs the largest share of South Africa's workers is community and social services, the sector that includes government. In the first quarter of 2023, the sector employed 24.1 per cent of the workers and was 10.1 per cent more people than in the first quarter of 2022. The second-largest employer was the wholesale and retail trade, with a share of 20.2 per cent and a growth rate of 9.2 per cent y-o-y. The highest employment growth rate was recorded by the electricity, gas and water sector, at 31 per cent. However, this sector employs the smallest share of workers, at 0.8 per cent. The second-highest growth rate was the 14.4 per cent recorded by the finance and business services sector, which is a more substantial employer with a share of 16.5 per cent.

The only sector where employment fell was private households, with a decrease of 1.5 per cent. However, with a share of 6.5 per cent, relatively more workers in are employed by private households than by the agriculture, forestry and fishing, mining and quarrying or electricity, gas and water sectors.

Figure 13: Sectoral breakdown, employment, 2023Q1



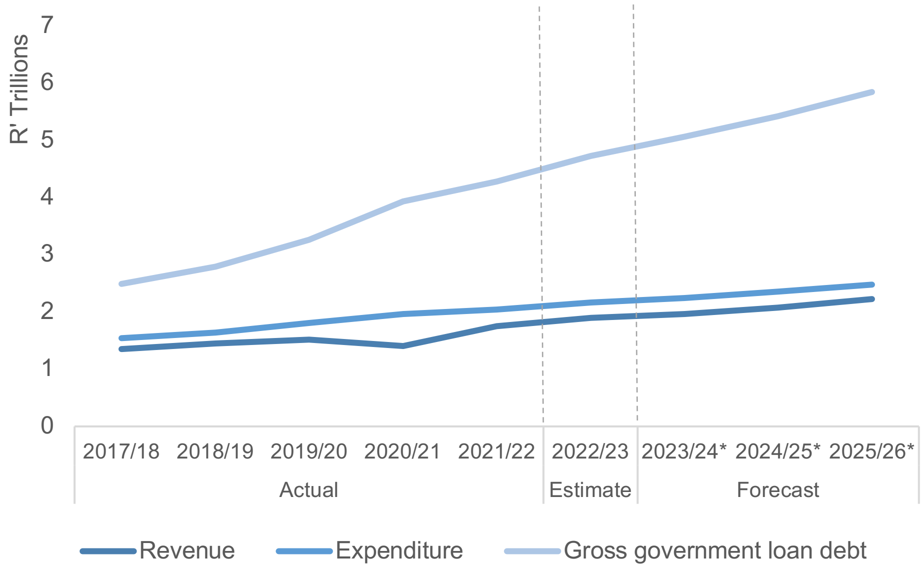
Source: Statistics South Africa, 2023
Note: Totals do not necessarily add up due to rounding.

3.4. Fiscal Position

Figure 14 shows that in the 2020/21 financial year government revenue fell from 1.5 trillion South African Rand (ZAR) to ZAR1.4 trillion due to the economic impact of the pandemic and the lockdowns. Expenditure increased from ZAR1.8 trillion to ZAR2 trillion in the same period, as government instituted programmes to lessen the economic harm and support affected households. Since then, revenue has bounced back as the economic performance improved and expenditure growth slowed as government restrained spending where it can without neglecting service delivery. Revenue for the 2023/24 financial year is forecasted to reach ZAR1.9 trillion and expenditure at ZAR2.2 trillion. This is an estimated budget deficit of

ZAR282.7 million, equal to 4 percent of GDP. Government aims to improve this further, with a deficit of ZAR252.1 million forecast for the 2025/26 financial year.

Figure 14: Government revenue, expenditure and gross loan debt, 2017/18-2025/26*



Source: National Treasury, 2023
Note: * indicates forecasts.

While progress has been made in narrowing budget deficits, until a surplus is achieved government debt will continue to grow. In 2020/21, gross government loan debt increased by ZAR674.4 million to ZAR3.9 trillion, due to the pandemic related expenditure. In 2023/24 it is estimated that the increase was substantially smaller, at ZAR332.8 million, but this was still an increase and gross government loan debt was estimated at ZAR5.1 trillion. The forecast for 2025/26 is an increase of ZAR419.3 million, reaching a total of 5.8 trillion. This will result in government debt to GDP stabilising at a 73.6 percent during that year. This is higher and later than forecasted in the 2021/22 medium term expenditure framework, mainly because of Eskom's debt relief programme which amounts to ZAR245 billion.

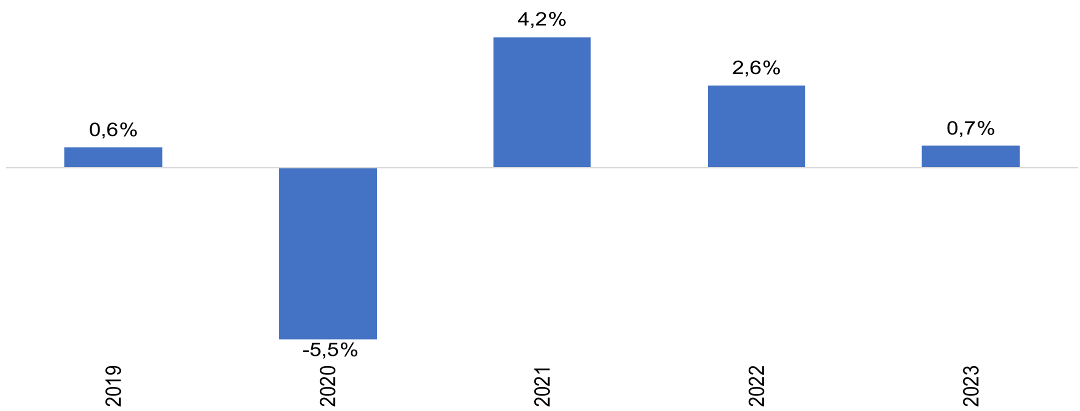
4. Gauteng Economic Review and Outlook

Also severely constrained by rolling power cuts, Gauteng’s economic output shrunk by 1.3 percent during the fourth quarter of 2022. Output is expected to have rebounded similarly to national output during the first quarter of 2023. The year 2022 was a significant one for the Gauteng economy as it recovered from the impact of COVID-19. The pandemic resulted in a substantial contraction in 2020, and in 2021 there was growth; however, not enough to grow Gauteng to a level it was at before the impact in 2020. Moreover, the recovery was accompanied by external and domestic shocks challenges, which have persisted up to the first half of 2023, and they projected downward risks to economic growth for 2023.

4.1. GDP-R Marginally Trending Upward

The Gauteng economy grew by 4.2 per cent in 2021, and in 2022 it grew by 2.6 per cent. These growths were amidst external negative factors such as the war in Ukraine and the slower economic activity in China during 2022. The war in Ukraine affected the both the national and the Gauteng economies through subdued growth globally and high inflation in which the remedy of the high inflation itself had a negative impact on economic growth. Thus domestically, the economy experienced high inflation, which induced a contractionary monetary policy that negatively impacted consumption and investment expenditure and, thus, contracted economic activity. Furthermore, the electricity shortage hindered Gauteng's economic prospects, which affected economic activity as the power cut intensified.

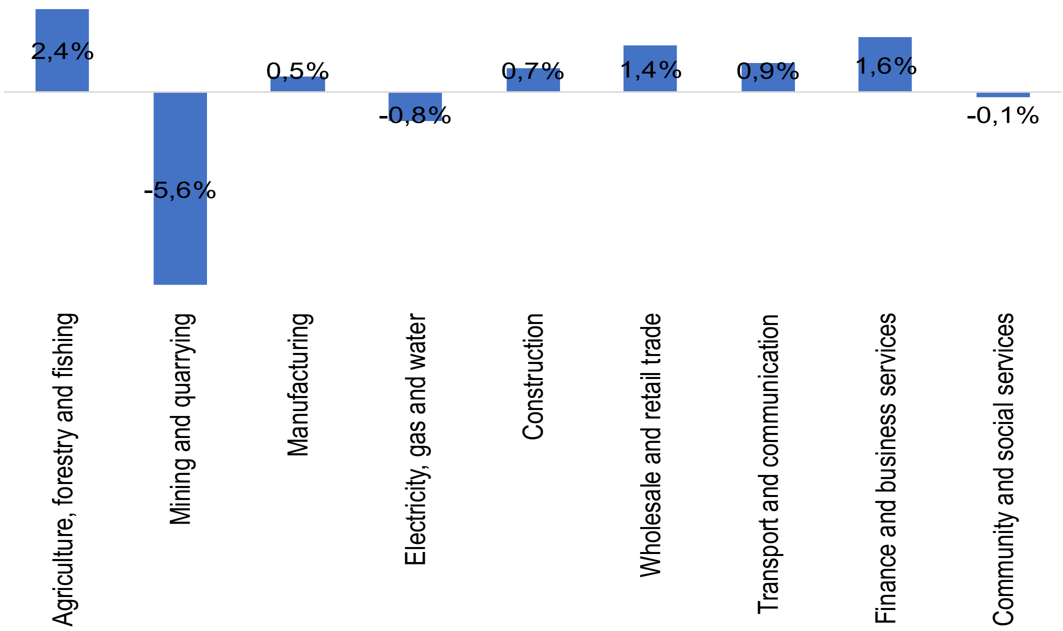
Figure 15: Gauteng Economic Growth, 2019 – 2023*



Source: S&P Market Intelligence, 2023.
Note : Estimate

As a result of negative factors, the South African economy grew marginally by 0.4 per cent q-o-q in the first quarter of 2023, and this subdued growth is expected to persist in 2023. As a result, the Gauteng economy is estimated to slow to 0.7 per cent in 2023. The four top economic sectors, namely; finance, government, trade and manufacturing, reflected slower economic growth, having grown less than they did in 2022, in addition to a contraction of three sector

Figure 16: Gauteng Economic Sectorial Growth Forecasts, 2023.



Source: S&P Market Intelligence, 2023.

Mining is forecast to have the most significant decline among the three declining sectors in 2023, followed by the electricity, gas & water sector and community and social services. Still Mining's contraction will be less than its 10 per cent decline of 2022, as it is forecast to decline by 5.6 per cent in 2023. The sector expected to decline the least is community services and is estimated to decrease by 0.1 per cent after it had grown by 1.7 per cent in 2022. Nonetheless, other significant sectors in Gauteng are forecast to grow in 2023 though lesser when compared to 2022. The transport sector is one of the sectors which are projected to grow in 2023, but significantly lower, as its growth is estimated to be 7.8pp lower. Other sectors are finance and trade, which are forecast to grow less by 2.5pp and 2.3pp, respectively.

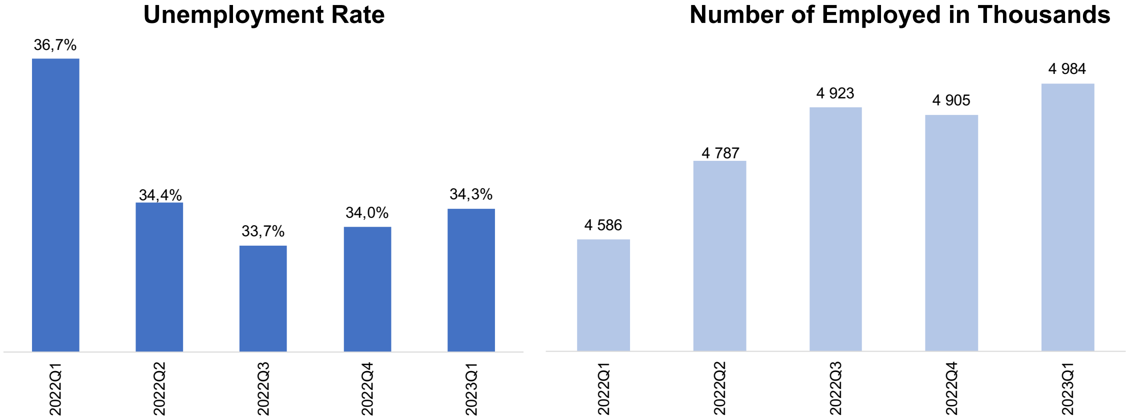
4.2. Labour market

South Africa's unemployment rate was recorded at 32.9 percent in the first quarter of 2023 and is among the highest in the world. Gauteng attracts a large portion of the working age population and as such has a relatively higher unemployment rate. Although unemployment remains high in Gauteng, the jobs created in 2022 managed to marginally reduce it.

The unemployment rate remained high at 34.3 per cent during 2023Q1, which increased from 34 per cent in 2022Q4, despite the number of employed increasing.

The number of those who are unemployed increased by 81 100 in 2023Q1. The 2023Q1 Gauteng unemployment rate was 1.4pp above the national unemployment rate.

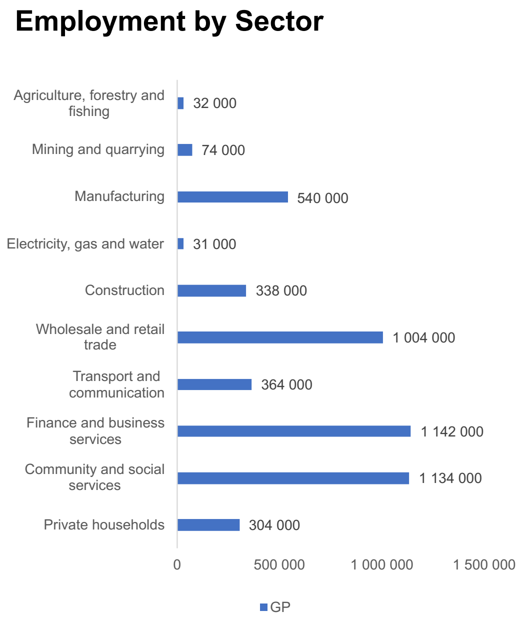
Figure 17: Gauteng Unemployment Rate and Employment, 2022Q1-2023Q1

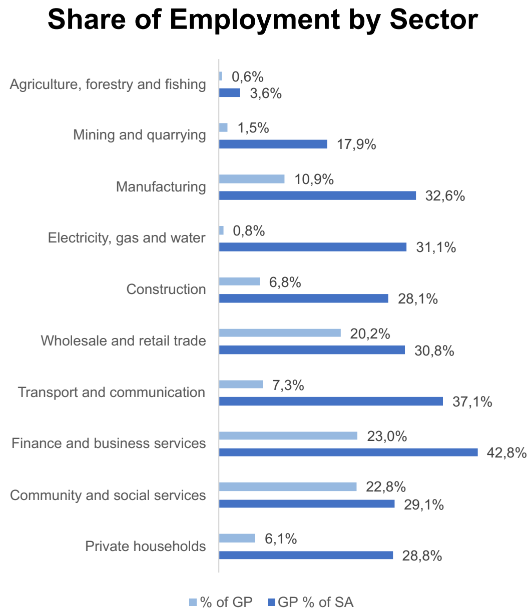


Source: Statistics South Africa, 2023.

The number of people that are not economically active decreased by 117 200, and those discouraged from participating in the labour market decreased by 17 300. The number of discouraged work seekers and the 'not economically active' increases the labour force and unemployment, especially when the absorption rate is relatively low. The absorption rate, which measures the rate at which the labour market absorbs the working-age population into the employed population, increased by 0.6pp to 45.1 per cent.

Figure 18: Gauteng Sectorial Employment, 2023Q1





Source: Quantec Reserach, 2023.

According to the 2023Q1 employment numbers, the finance sector had the largest number of jobs in Gauteng, 1.08 million, a share of 42.8% of national jobs. The other sectors with a significant number of jobs were community and social services and the trade sectors, at 22.8 per cent and 20.2 per cent share of the total jobs in Gauteng, respectively.

5. Conclusion

Economic growth is forecast to moderate globally,nationally and provincially. Stubbornly high food prices have kept inflation high although headline numbers are receding, despite remaining above central bank targets currently. This may allow central banks room to pause as the effects of previous tightening affects output and inflation. Against a fragile global outlook weighed on by high inflation, tighter financial conditions and geoeconomic fragmentation, some of the major domestic risks are a weaker currency, more pronounced loadshedding, logistical infrastructure issues and a deterioration in the fiscal environment. Noteably , the level of employment in the province continues to increase as output recovers.

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