Gauteng Province

ECONOMIC UPDATE | SEPT 2023

GAUTENG PROVINCE
TREASURY
REPUBLIC OF SOUTH AFRICA

GGT2030
GROWING GAUTENG TOGETHER

Table of Contents

Table of Figures

1. Introduction

The recovery of the global economy following the COVID-19 pandemic has lost momentum. This chapter examines the reasons why this has occurred, and the obstacles faced by the governments of the world as they attempt to support their economies. High inflation, high debt levels, low trade growth and rising unemployment are among the challenges considered here.

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 lose 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 despite accommodative monetary policy stance, the economic growth outcomes are not meeting expectations in China while India is forecast to be world's fastest growing regions.

Against a challenging global backdrop South Africa's economic output remains constrained by power supply and logistical challenges. Economic growth in the second quarter outpaced expectations.

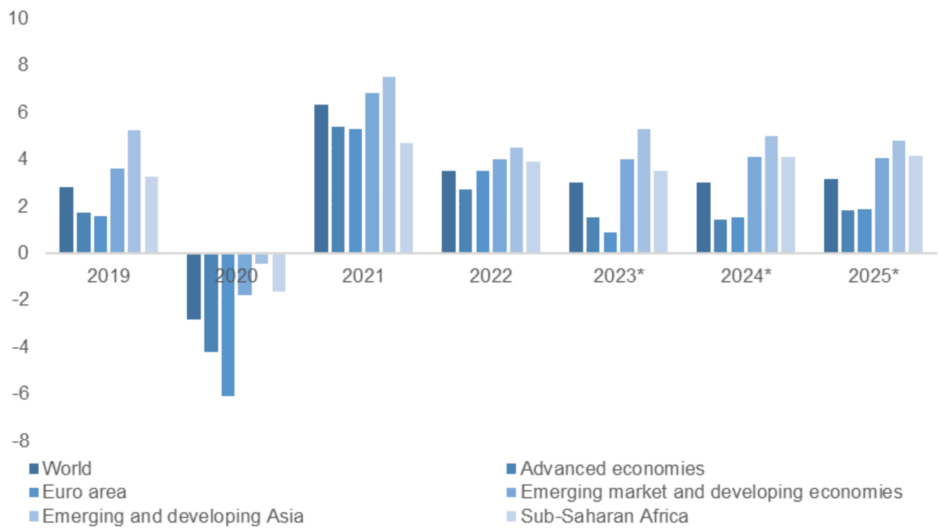
Headline and core inflation in South Africa has returned within the South African Reserve Bank (SARB) target. The fiscal position is burdened by lower revenue growth projections amid increased spending pressures, elevated debt levels and associated rising debt servicing costs, which are exacerbated by low economic growth forecasts.

2. Global Economic Review and Outlook

International Monetary Fund (IMF) data shows that, in 2020, the collective output of the advanced economies fell by 4.2 per cent. The global economic recovery saw the advanced economies recover with a growth rate of 5.4 per cent in 2021, which moderated to 2.7 per cent in 2022 and is forecast to moderate further, to 1.5 per cent, in 2023. The Euro Area, a major trading partner of South Africa, recorded even larger losses during the pandemic, with a decrease in output of 6.1 per cent in 2020. Although the region's 2022 growth rate was higher than average for the advanced economies, at 3.5 per cent, the supply chain disruption of

Russia's invasion of Ukraine has led to a lower 2023 forecast of 0.9 per cent.

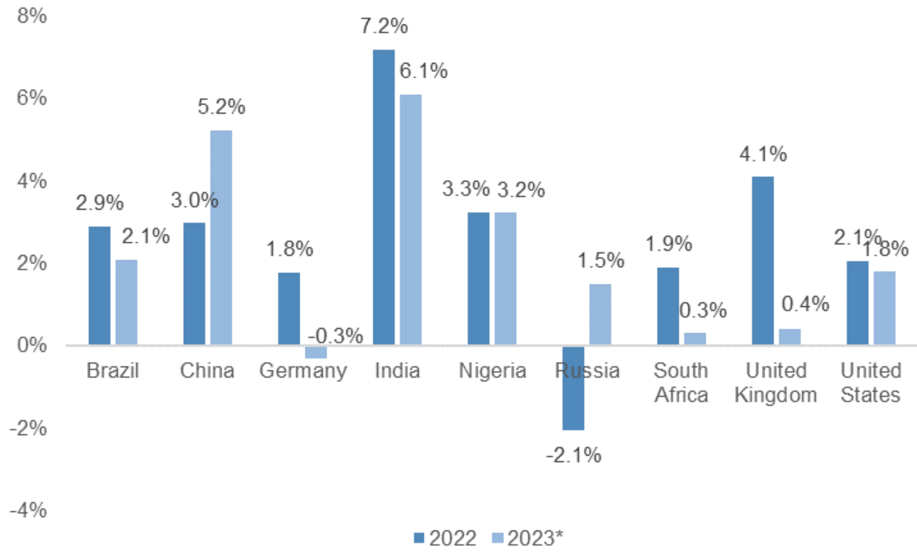
Figure 1: GDP growth, world and selected regions, 2019-2025*



Source: Bloomberg, 2023.

The Emerging Market and Developing Economies (EMDEs) group recorded a 1.8 per cent loss of output in 2020 before the 2021 recovery led to an economic growth rate of 6.8 per cent. The estimated growth for the group in 2022 is 4 per cent and this is currently forecast to remain the same in 2023. In Sub-Saharan Africa (SSA), economic activity decreased by 1.7 per cent in 2020, recovered in 2021 with an increase of 4.7 per cent, moderated to 3.9 per cent in 2022 and is forecast at 3.5 per cent for 2023. This forecast was made before the coup in Niger, an event which may put downward pressure on the new forecast in the next IMF data release in October. Another risk to the global growth outlook is the elevated debt levels recorded by governments and private agents around the world. Global debt was at 238 per cent of world output in 2022, 9 percentage points higher than in 2019.[1] Despite government winding down pandemic support programmes, they have had to spend to counteract war-induced cost of living increases. This has slowed debt clearance and debt levels remain above their pre-pandemic figures. Debt levels need to be reduced to free up fiscal space for governments to react to future challenges.

Figure 2: GDP growth, selected countries, 2022 and 2023*



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

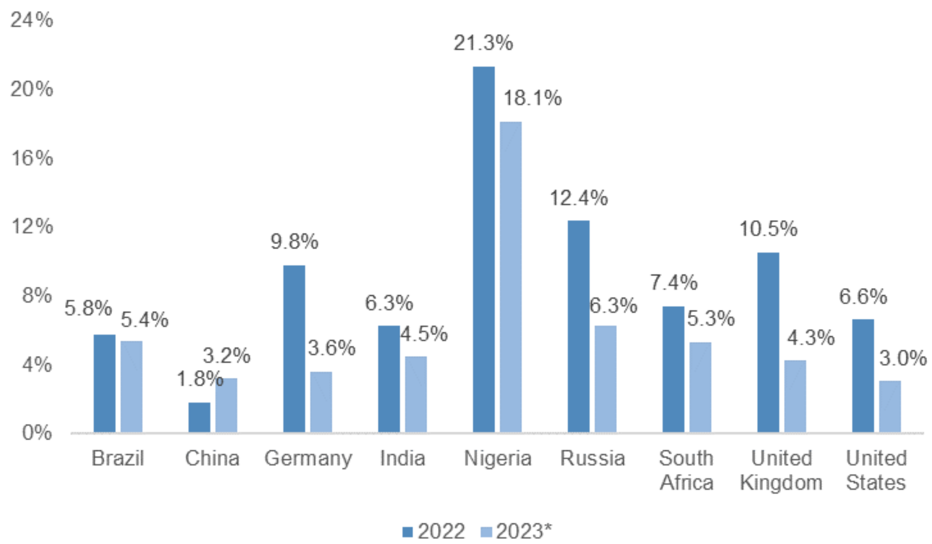
Figure 2 shows the estimated Gross Domestic Product (GDP) growth rates for selected countries. The economy of South Africa is examined in detail in Chapter 2 of this publication. The GDP of China is estimated to have increased by 3 per cent in 2022 and is currently forecast to increase by a further 5.2 per cent in 2023. This is due in large part to manufacturing and domestic demand both increasing because of the end of COVID lockdowns. Furthermore, the inflation rate in China is lower than the target set by their central bank, and this led to the bank lowering interest rates. The forecast of negative 0.3 per cent for Germany in 2023 is largely because of a decrease in their manufacturing sector. The economic growth of India in 2022 is estimated at 7.2 per cent. While this is forecast to slow to 6.1 per cent in 2023, this forecast is 0.2 percentage points higher than the 5.9 per cent predicted by the IMF in April, with the difference being the result of more domestic investment than previously anticipated.

In Nigeria, Gross Domestic Product (GDP) decreased by 1.8 per cent in 2020, recovered by 3.6 per cent in 2021, moderated to 3.3 per cent in 2022 and is forecast at 3.2 per cent in 2023. Nigeria's gradually declining GDP is due to problems in its oil industry, such as theft of oil and vandalism of pipelines. Workers being sent to invade a neighbouring country and retaliatory sanctions for that invasion led to the economy of Russia contracting by 2.1 per cent in 2022. The forecast for 2023 is 1.5 per cent, with a large stimulus package from the government driving a recovery, though with output remaining below pre-war levels. The 0.4 per cent forecast for the United Kingdom (UK) in 2023 is an upward revision of 0.7 percentage points from the previous forecast of a 0.3 per cent decline. It was expected that the large banking industry of the UK would be negatively affected by the international banking crisis that occurred earlier in 2023, but that crisis was swiftly contained by world governments and had a far smaller effect than had been feared. GDP growth in the United States (US) is expected to slow to 1.8 per cent in 2023 and to 1 per cent in 2024 as US consumers have almost depleted the savings, they accumulated during the COVID pandemic, and the Federal Reserve Bank is predicted to continue to raise interest rates to contain inflation.

2.1. Inflation

The 2022 invasion of Ukraine, and the retaliatory sanctions placed upon Russia for invading, induced an increase in general price level around the world.[1] Russia is a significant exporter of gas and oil while both countries are major exporters of grain, so these were the prices that were most affected. In 2023, food and energy inflation have been brought back under control in most of the world. However, core inflation remains elevated and there are risks to the outlook such as reduced output of oil by the Organization of the Petroleum Exporting Countries (OPEC) for the purpose of raising the price or a potential intensification of the war on Ukraine.

Figure 3: Inflation rate, selected countries, 2022 and 2023*



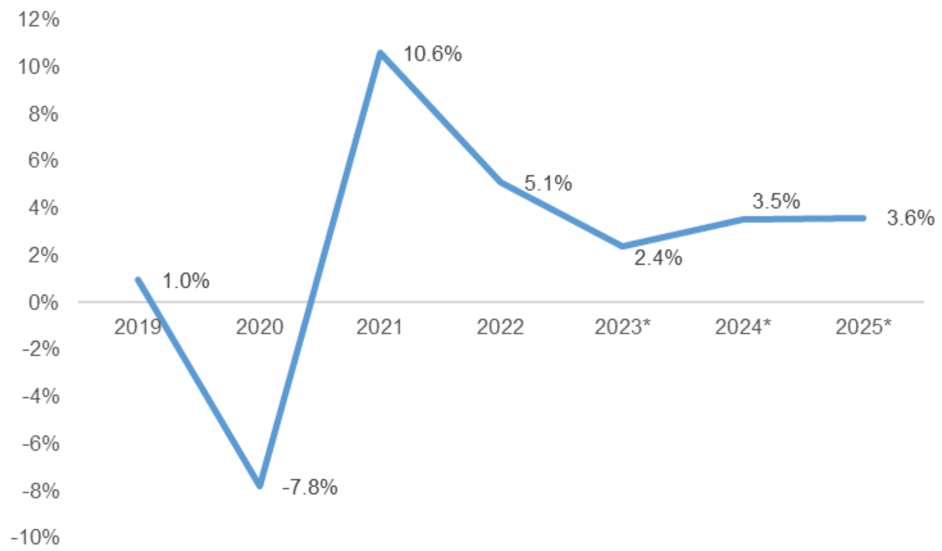
Source: CPB Netherlands Bureau for Economic Policy Analysis, 2023.

In China, inflation was at 1.8 per cent in 2022 due to lower demand caused by repeated COVID lockdowns. But it is forecast to increase to 3.2 per cent in 2023, which may prompt the central bank to reverse the interest rates cuts that contributed to the country's higher growth rate in the first half of 2023. The forecast decreases in inflation in Germany from 9.8 per cent to 3.6 per cent coincides with the forecast that the country's GDP will contract slightly in 2023. India's forecast of 4.5 per cent inflation in 2023 is under threat from recent increases in the price of vegetables and sustained high domestic cereal prices.[1] The Indian consumer inflation rate is particularly sensitive to vegetable prices as a substantial percentage of the population is vegetarian. In the UK and US, efforts to rein in inflation are expected to be make progress, reflected in lower rates being forecast for 2023.

2.2. International trade

The volume of international trade declined by 7.8 per cent in 2020 because of pandemic-induced economic lockdowns and travel restrictions. In 2021, consumers bought significant quantities of products they had not been able to acquire during lockdown and this combined with the effect of growing from the lower base of the previous year to result in a growth rate of 10.6 per cent. These factors were of course temporary and global trade recorded a smaller growth rate of 5.1 per cent in 2022. This slowing of the growth rate was also driven by a resurgence of COVID lockdowns in China, the disruptions caused by the invasion of Ukraine and the appreciation of the US Dollar (USD), which increases the price of importing products from the US and of importing oil for most countries.

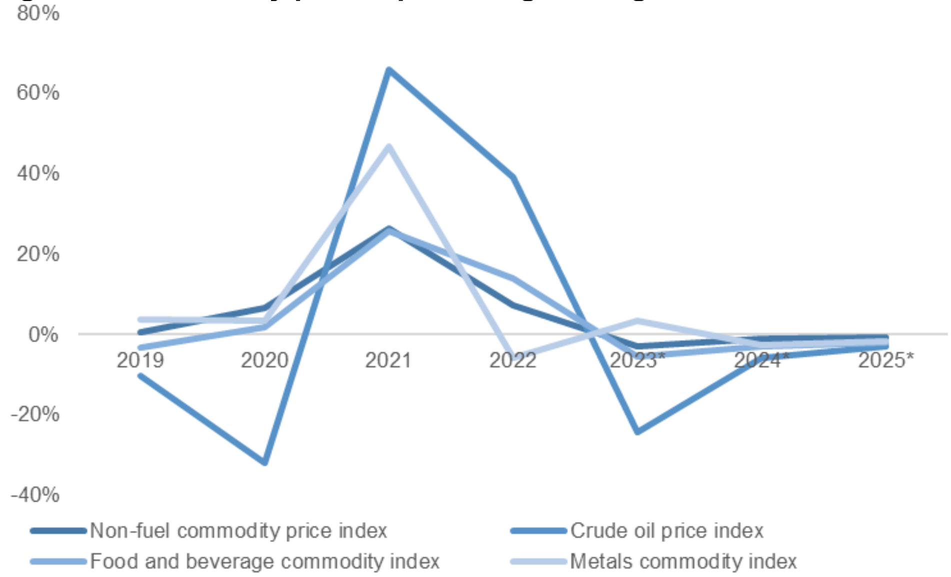
Figure 4: Trade volumes, percentage change, world, 2019-2025*



Source: World Bank, 2023.

Factors such as monetary tightening in many countries and a possible increase in the oil price have led to an even lower forecast for trade growth in 2023 at 2.4 per cent before rising again to 3.5 per cent in 2024.

Figure 5: Commodity prices, percentage change, selected indices, 2019-2025*



Source: International Monetary Fund, 2023

Reduced demand, particularly for travel, caused oil prices to decrease by 32 per cent in 2020. Prices increased by 65.8 per cent in 2021 as demand increased again, while oil-producing countries reduced production. However, the largest reason for the size of this increase was the effect of growing from a much lower base in 2020, making a return to a more typical price level into a large increase. This is illustrated by the fact that oil prices were only 12.7 per cent higher in 2021 than in 2019. In 2022, the price of oil increased significantly, at 39.2 per cent, due to the disruption caused by the retaliatory sanctions levied against Russia for their invasion of Ukraine. This increase had a large speculative component, however, as investors had bought oil and related financial instruments in anticipation of shortages. These shortages were not as large as expected because countries that were not participating in the sanctions took the opportunity to purchase Russian oil at a discount and those countries reduced their purchases from the wider international oil market by a similar amount, keeping the overall market in a similar balance. Thus, a market correction is expected in 2023, with a decrease of 24.1 per cent forecast.

Food prices increased significantly in 2021, by 25.9 per cent, due to reduced production in 2020, which in turn was caused by the pandemic and several droughts. In 2022, food prices rose by a further 14.1 per cent due to the invasion of Ukraine, as Ukraine and Russia are both major grain exporters. Again, this price increase was partly speculative, and the disruption was again smaller than initially expected, as Russia participated for most of 2022 in an agreement to export grain despite the war. Thus, a decrease of 5.6 per cent is predicted for 2023. However, Russia has since withdrawn from this agreement and Ukraine has been rerouting as much of its grain exports as possible along the Danube River into neighbouring Romania. However, the river ports along the Danube cannot transport as large a volume of grain as Ukraine's seaports and the costs are higher as well.[1] Furthermore, Russia has been targeting port infrastructure along the Danube with drone strikes. Russia called for a Russia-Africa summit in July to discuss the grain situation with some of the countries most affected by the reduction in exports.[2] At the summit, the Russian delegation offered to ship 25 000 to 50 000 tons of grain each to six African countries for free. However, this is much less than the quantity of grain that had been entering these countries previously, whether through imports or food aid. President Cyril Ramaphosa stated, "We would like the Black Sea initiative to be implemented and that the Black Sea should be open. We are not here to plead for donations for the African continent." The forecast of lower food prices is at significant risk due to this complex political landscape, as well as drought conditions in several parts of the world.

2.3. Labour market

The unemployment rate of China fluctuates around 4 per cent and even the stringent lockdowns caused by the COVID-19 pandemic did little to affect this, with a rate of 4.2 per cent recorded in 2020. It was at 4.2 per cent in 2022 as well and is forecast at 4.1 per cent in 2023. Germany recorded a larger pandemic-induced increase, from 3 per cent in 2019 to 3.6 per cent in 2020 and 2021. This decreased to 3.1 per cent in 2022 and is forecast to rise again to 3.3 per cent in 2023 due to the continued disruption of the European economy caused by the invasion. In Germany's case, reduced supply of Russian natural gas is a particularly relevant challenge until they can finish transitioning to other sources of energy. .[1]

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[1] [1]

[1] Associated Press. (2023). African leaders leave Russia summit without grain deal or a path to end the war in Ukraine. Accessed (in August 2023) at https://apnews.com

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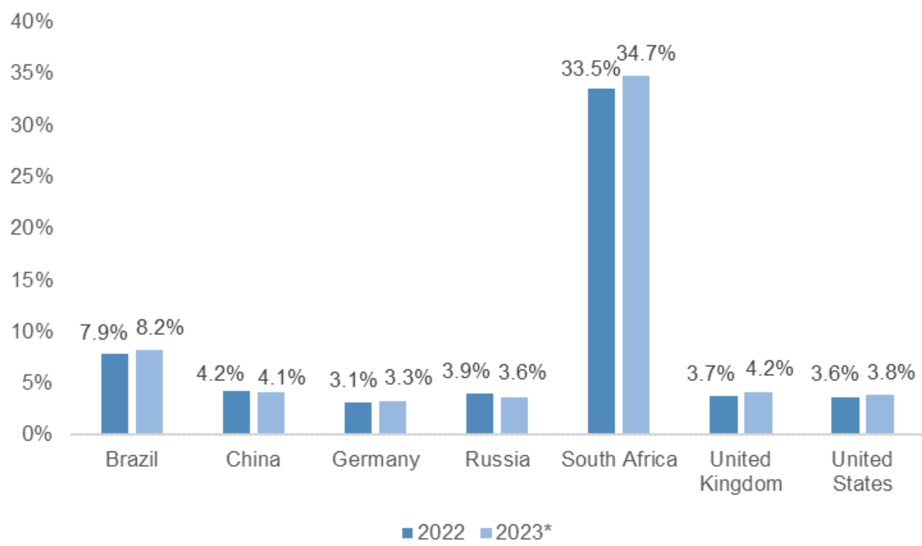
Figure 6: Unemployment rate, selected countries, 2022 and 2023*



Source: Statistics South Africa, 2023

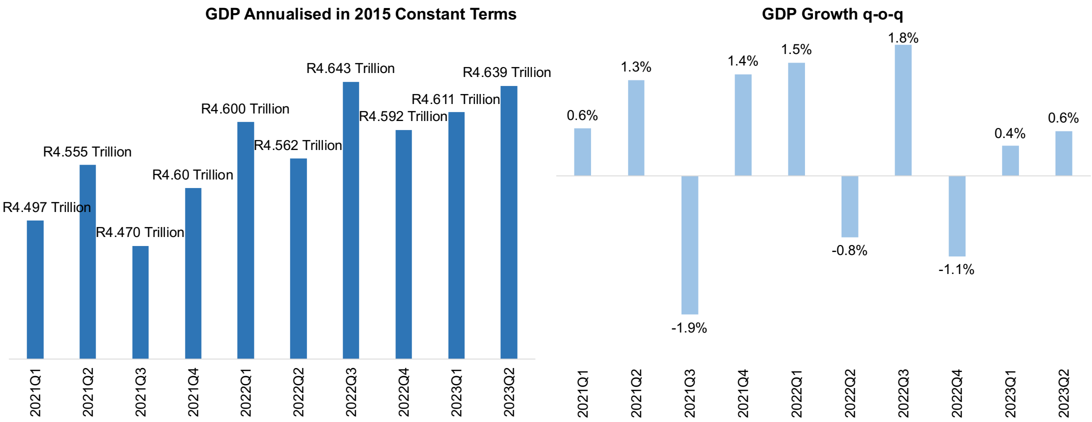
3. South African Economic Review and Outlook

The South African economy in 2023 had growth in the first two quarters which is still considered as recovery following the COVID-19 pandemic and after short periods of economic activity declines and growths between 2020 and 2022. The factors for fluctuations in the economic activity stems from both domestic and international factors. The international factors include the war in Ukraine, subdued global activity due to high interest rates, subdued economic activity in China, and lower commodity prices. The domestic economy is challenged by domestic electricity supply, and inefficient infrastructure that amongst other factors has resulted in slower logistical operations. Domestic inflation has eased significantly from the peaks in 2022. Although, consumer expenditure was resilient in the last quarter of 2022 and the first quarter of 2023, in the second quarter it declined, and the economy was spurred on by stronger investment performance. The South African Reserve Bank (SARB) expects the South African economy to grow at 0.4 per cent in 2023, meaning the remaining two quarters will grow by less than 1 per cent.

3.1. Economic Growth

South Africa's economic growth has been volatile and relatively low since the pandemic, with the 1.8 per cent recorded in the third quarter of 2022 being the highest quarter-on-quarter (q-o-q) growth rate in the last eight quarters, primarily due to increased agricultural output and improvements in the equity and real estate markets.[1] The contrasting 1.9 per cent contraction in the third quarter of 2021 was caused by the civil unrest in July 2021 and higher fuel prices.[2]

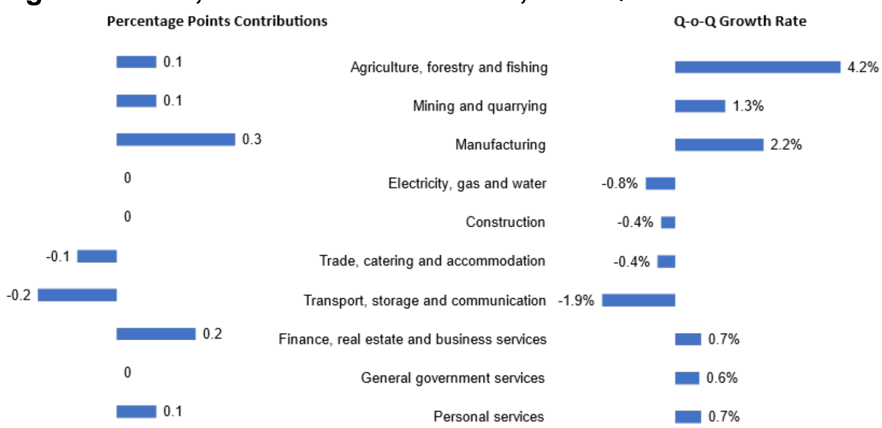
Figure 7: Real GDP growth, q-o-q, 2021Q2-2023Q2



Source: Statistics South Africa, 2023

In the fourth quarter of 2022, GDP decreased by 1.1 per cent as agricultural output contracted, load shedding intensified and the usually resilient finance and business services industry declined due to contractions in banking and insurance activity.[1] This was followed by a modest recovery in the first half of 2023 as manufacturing expanded but the amount by which it could expand was limited by load-shedding, while the finance and business services industry rebounded .

Figure 8: GDP, sectoral contributions, 2023Q2



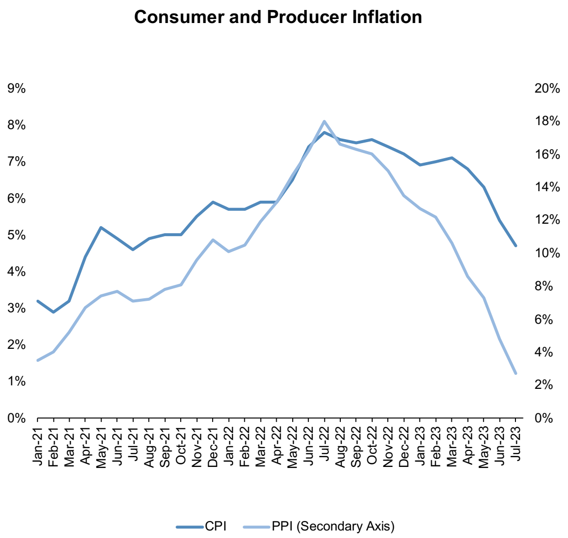
Sources: SARB and Statistics South Africa, 2023

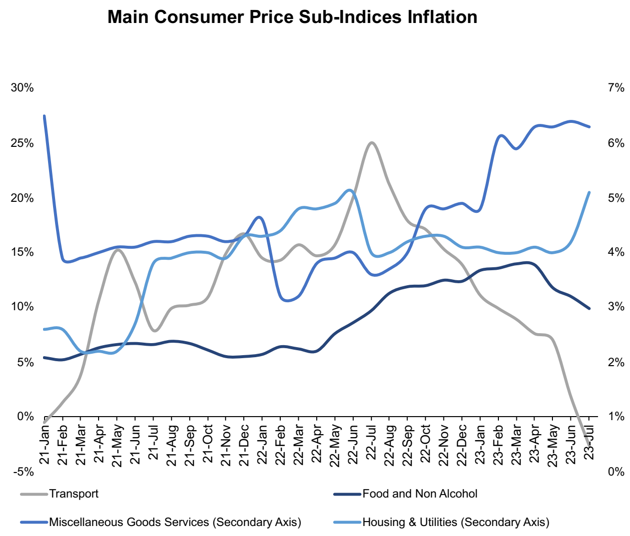
The largest contribution to the overall 0.6 per cent increase in South Africa's GDP in the second quarter of 2023 came from the manufacturing industry, at 0.3 percentage points. The second largest came from finance and business services at 0.2 percentage points. The only two industries which noticeably offset the overall increase were transport and communication, at 0.2 percentage points, and the wholesale and retail trade, at 0.1 percentage points.

3.2. Inflation

Most of the goods and services prices have eased in South Africa, shown by Figure 8 the gradual decline in consumer and producer inflation in the last two quarters of 2022, and the declining trend became more significant in the first two quarters of 2023. In June 2023, consumer inflation decreased to 5.4 per cent y-o-y, the first since April 2022, below the upper target of 6 per cent as per the SARB's inflation targeting policy. Moreover, consumer inflation continued to decline in July when it reached 4.7 per cent y-o-y, the lowest in two years. The producer inflation reached a record low in July, 2.7 per cent, the lowest since October 2020.

Figure 9: Consumer and Producer Inflation





Sources: SARB and Statistics South Africa, 2023

The high consumer inflation levels experienced in the second half of 2022 were primarily driven by high food and fuel prices. Similarly, the decline in inflation is attributed mainly to lower fuel and food prices, with fuel prices being the most significant driver. The effect of fuel prices was visible as the transport sub-index inflation peaked towards its contribution to the consumer inflation in July 2022 when 44 per cent of the high consumer inflation of 7.8 per cent y-o-y was attributed to the transport sub-index. In July 2023, the Transport sub-index inflation significantly declined to -2.6 per cent y-o-y, as the fuel inflation rate decreased by 16.8 per cent y-o-y. The food and non-alcoholic beverages sub-index have declined relative to the July

2022 peak. On the other hand, housing & utilities spiked in July, mainly due to higher electricity prices and the prices in other utilities such as water to a lesser extent.

3.3. Labour Market

Table 1 shows that the working-age population of South Africa increased by 568 000 persons, y-o-y, to 40.746 million in 2023Q2. Given the increase in the working-age population and the decrease of 306 000 y-o-y in the Not Economically Active (NEA)[2] country's labour force increased by 711 000 y-o-y and reached 24.268 million in 2023Q2. The number of workers employed in South Africa increased by 784 000 y-o-y to 16.346 million in 2023Q2. The increase in the number of employed had an impact in reducing the number of those who are unemployed; the number of unemployed persons decreased to 7.921 million, which was a decrease of 73 000 y-o-y.

Table 1: Labour Force Characteristics, 2023Q2

('000)	2022Q2	2023Q2	Change y-o-y	Change y-o-y (%)
Working-age population	40 177	40 746	568	1.4
Labour force	23 556	24 268	711	3.0
Employed	15 562	16 346	784	5.0
Formal sector (non-agricultural)	10 559	11 329	730	6.9
Informal sector (non-agricultural)	2 965	3 029	64	2.2
Agriculture	874	894	64	2.4
Private households	1 124	1 093	-30	-2.7
Unemployed	7 994	7 921	-73	-0.9
Not economically active	16 621	16 478	-143	-0.9
Discouraged work-seekers	3 568	3 182	-386	-10.8
Unemployment rate (%)	33.9	32.6	-1.3	N/A

Source: Statistics South Africa, 2023

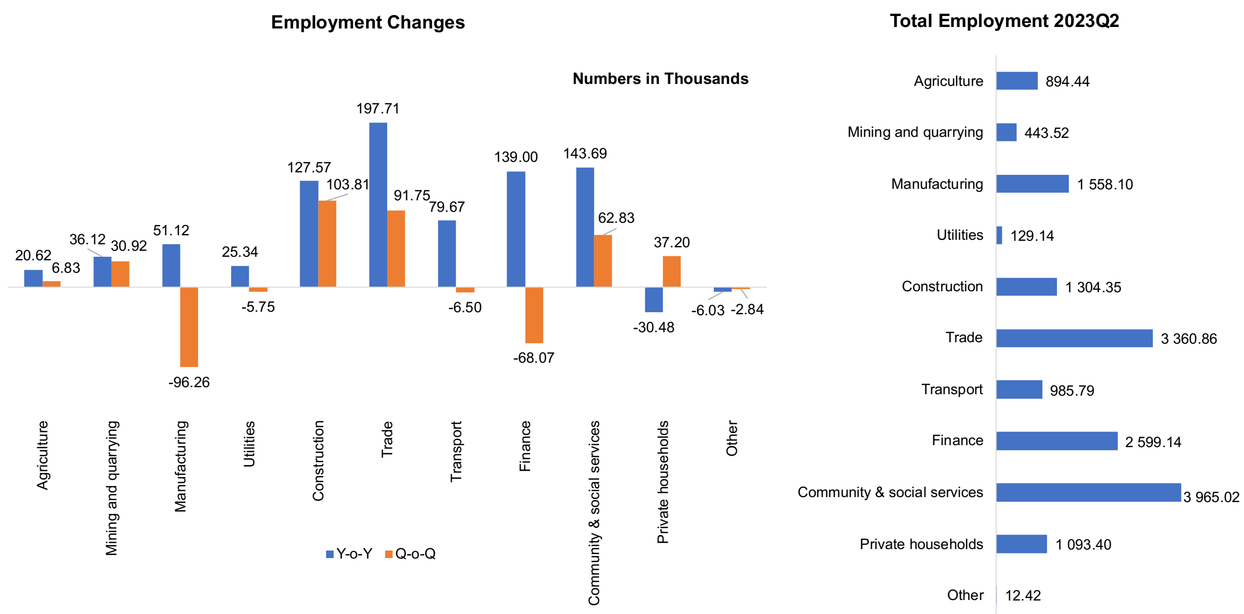
As a result of a decrease in the number of unemployed persons and a reduction in the number of employed persons in 2023Q2, the unemployment rate decreased to 32.6 per cent, a 1.3pp y-o-y decrease. When compared to the previous quarter, it fell by 0.3pp.

The reduction in overall unemployment has also positively impacted youth unemployment (aged 15 to 34 years). The youth in South Africa have the highest unemployment rate among other groups in the labour market. The youth unemployment rate was 45.3 per cent in 2023Q2, a decrease of 1.2pp y-o-y and the same decrease compared to the previous quarter. The decline in the youth unemployment rate was due to having better prospects in getting employed, as the number of employed youths increased by 105 000 and the number of unemployed decreased by 131 000 in 2023Q2. These movements amounted to 5.7 million employed youth and 4.7 million unemployed youth.

[2] The decrease in the number of discouraged workers it is highly likely to increase the labour force because of discouraged workers re-entering the labour through either employment or actively looking for work.

As shown in employer is the trade sector, which employed 3.3619 million people (20.6 per cent), and this sector also had the most significant job gains of 197 714.2 y-o-y, the economic sector that employs the largest share of South Africa's workers is community and social services, including government. In the 2023Q2, the sector employed 3.965 million people, 24.3 per cent of the total employment. The community and social services sector employed an additional 143 687.70 y-o-y and 62 830 q-o-q. The second largest employer is the trade sector, which employed 3.3619 million people (20.6 per cent), and this sector also had the most significant job gains of 197 714.2 y-o-y, and q-o-q it had 917 455.81 jobs

Figure 10: South African Employment 2023Q2.



Source: Quantec Research, Statistics South Africa, 2023

The third largest sector in employment in 2023Q2 was the finance sector. This sector had the third largest job gains of 139 003.96, but compared to quarter two, there were 68 065.75 jobs lost in this sector. On a q-o-q comparison, the construction sector had the most significant additional jobs of 103 814.69 in 2023Q2 and was also the fourth largest with y-o-y job gains of 127 572.25. The manufacturing sector, the fourth most prominent host of employment in 2023Q2, host of 9.5 per cent, gained 51 124.35 jobs y-o-y but lost the most significant jobs 96 260.30 jobs q-o-q. The only sectors with declines in y-o-y employment were the private households and the 'other sector', with job losses of 30 478.33 and 6 034.51, respectively. Moreover, private households gained 37 201.66 q-o-q and 'other sector' lost 2 842.02 q-o-q. There were more sectors with job losses in 2023Q2 compared to 2023Q1, but the labour market has improved when comparing 2023Q2 with the same quarter in 2022, as eight out of ten sectors had more jobs than they had last year.

3.4. The Fiscal Outlook

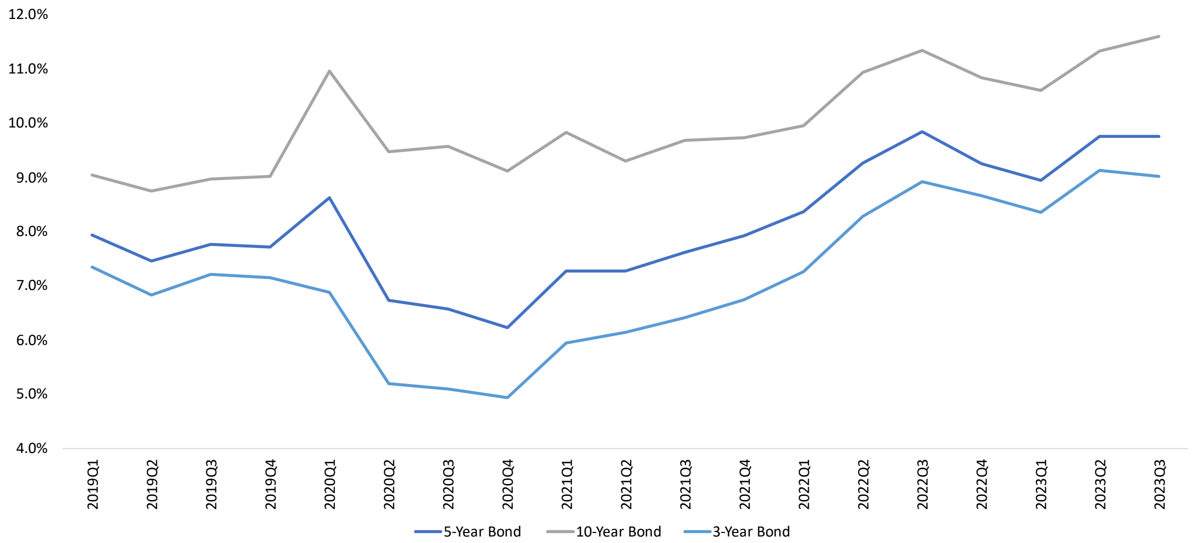
In the 2022/23 Budget in February, the National Treasury expected the domestic economy to grow by 0.9 per cent this year. However, a range of issues, including intensifying domestic constraints, lower commodity prices, and subdued global demand already point to a lower economic growth outcome for 2023. The weak economic performance has led to significant shortfall in revenue collection in the first five months of the final year and a lower revised projection for annual 2022/23 collection, and thus risks to the fiscal outlook have increased.

As of July 2023, tax revenue under-collection worsened, resulting in a lower projection of revenue estimate for 2023/24. The year-to-date budget position of government was a R191 billion deficit (compared to a deficit of R118 billion at the same time last year). If collection trends continue at the current rate, tax revenue is likely to undershoot by about 8 per cent for the current financial year, resulting in a much higher-than-expected budget deficit (vs. 4 per cent of GDP projected in the 2023 Budget). As it stands, government gross loan debt for 2023/24 is estimated to rise to R5 trillion (or 72.2 per cent of GDP) from R4.7 trillion, increasing to R5.8 trillion in the outer year of the MTEF. Debt service costs are also expected to rise over the medium term, from R307 billion (or 4.6 per cent of GDP) to R397 billion (or 5 per cent of GDP) in 2023/26. Government can borrow more to fund its programmes. However, the National Treasury has outlined its limited ability to raise funding through debt markets as demand for government bonds has been poorer than anticipated. With the 10-year government bond yielding in excess of 10 per cent, many investors cannot afford such interest rates and are likely opting for other funding. This leaves little room for the government to meet its debt stabilisation targets and thus would have to cut spending to prevent a total collapse of public finances.

Factors that could improve the trajectory of public finances over the medium term include higher economic growth, continued efforts to carefully contain public spending and enhanced revenue administration to address tax gaps and non-compliance.

Long-term bond yields have been on a rising path between 2013 and 2018, which reflected an increased risk for South African bonds associated with increased government debt in a low economic growth environment and resulted in a series downgrading of South African sovereign credit standing.[3] During 2020 and 2021, the risk for South African bonds heightened, but the demand and holdings of bonds were fairly maintained. However, the risk further increased in 2022 and the first quarter of 2023, resulting in yield ranging from 9.5 per cent and 10 per cent during 2021 and early 2022 to 11.5 per cent in April-May 2023. The higher risk was due to high levels of inflation, infrastructure collapse, load-shedding, and corruption. Figure 1 shows that the yield for the long-term 10-year bond further increased in the 2023Q3, while the medium-term 5-year and short-term 3-year bond yield declined. In the 2023Q3 the 10-year bond yield reached 11.6 per cent.

Figure:11 South African Government Bond Yields.



Source: Bloomberg, 2023.

In the overall South African bond primary market, the total nominal value of outstanding rand-denominated listed and unlisted debt securities was R5.8 trillion issued by residents and non-residents, an increase of 10.5 per cent compared to 2021.[4] Nonetheless, the National government's net bond issuance was R350 billion in 2022, a 13.6 per cent decrease compared to 2021. 58.5 per cent of the total public sector debt of R5 trillion was held by the non-monetary sector (including private pension funds but excluding banks). Banks owned 22.3 per cent of this debt, while the government's asset manager, the PIC (Public Investment Corporation), and the SARB, CPD & others, held 8.7 per cent of the public sector's debt. Foreigners' share amounted to 10.5 per cent.

The state's weaker financial position, evidenced by the multiple downgrades by credit agencies over the past decade, has resulted in bond investors requiring higher yields to

[3] Quantec Research. (2023). *Bond Market Quarterly*. South Africa. Pretoria
[4] Quantec Research. (2023). *Bond Market Quarterly*. South Africa. Pretoria

compensate for the increased credit risk. More recently, the higher inflation and rising bond yields of developed nations have also put further upside pressure on South Africa's bond yields to maintain their relative risk premium. As a result, foreign investors have reduced their investment; in the last five years, the participation of foreign investors in South African Bonds has decreased from 42 per cent to 25 per cent.[5]

4. Gauteng Economic Review and Outlook

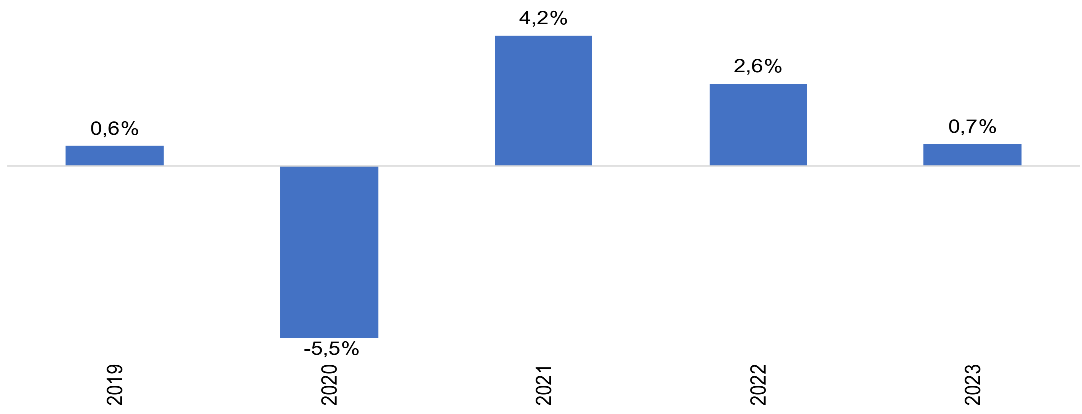
Domestic national constraints which are inhibiting export growth are severely constraining economic output in the province, these include amongst others the intensified loadshedding. Gauteng's economic output shrunk by 1.3 percent during the fourth quarter of 2022, and it is expected to have rebounded similarly to national output during the first half of 2023. The pandemic resulted in a substantial contraction in 2020, which was followed by a recovery during 2021 which was however insufficient to grow the province back to pre-pandemic levels of output. The year 2022 marked the return to pre-pandemic levels of production.

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.

[5] Investec. (2023). *SA Bond note: yields rise as SA's health of state finances expected to Deteriorate.*

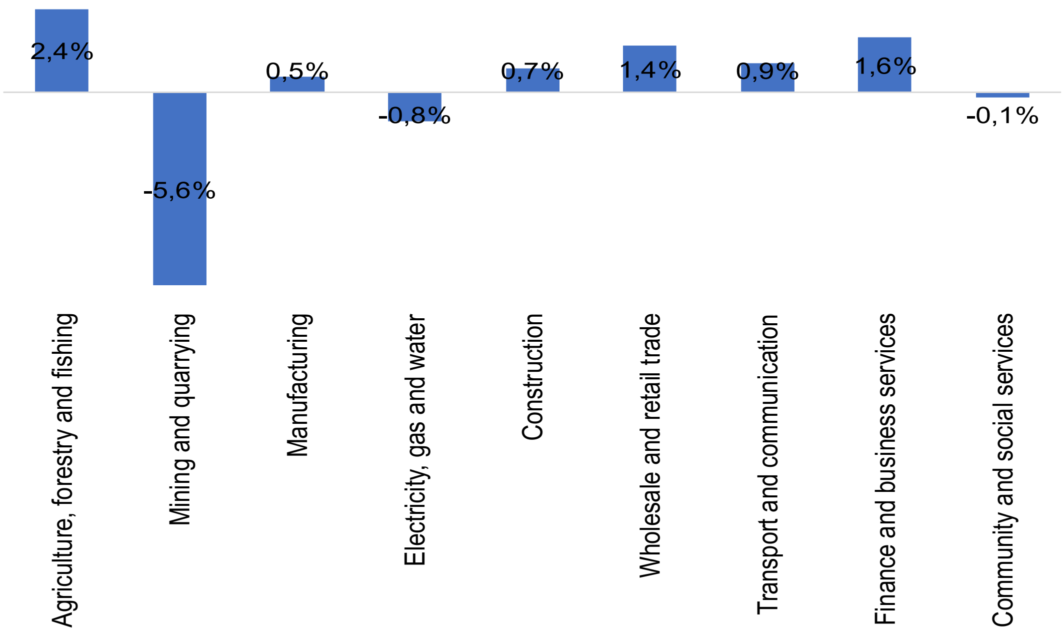
Figure:12 Gauteng Economic Growth, 2019 – 2023*



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:13 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

The working-age population of Gauteng increased by 44 000 persons q-o-q in the second quarter of 2023. Both the labour force and the number of NEA persons increased in the province. The labour force by 16 000 and the NEA by 27 000. There was a 4 000, or 0.1 per cent, increase in number of people employed. The number of unemployed persons increased by 13 000. As the increase in the unemployed persons was larger than the increase in the employed, the unemployment rate rose, but only by 0.1 percentage points to 34.4 per cent.

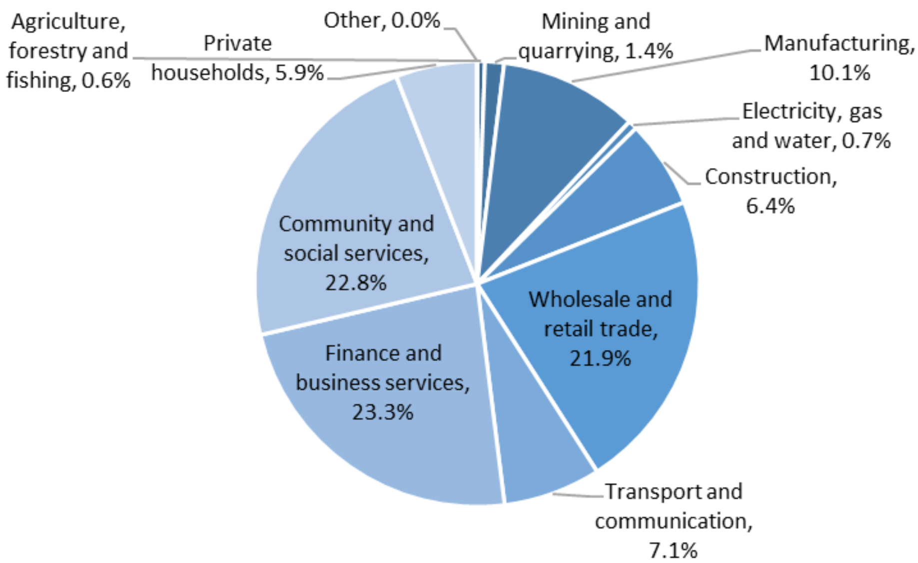
Figure:14 Labour force characteristics, 2023Q1-2023Q2

('000)	2023Q1	2023Q2	Q-O-Q change	% change
Working-age population	11 060	11 104	44	0,4
Labour Force	7 589	7 605	16	0,2
Employed	4 984	4 988	4	0,1
Unemployed	2 604	2 617	13	0,5
Not Economically Active	3 472	3 499	27	0,8
Discouraged work-seekers	582	527	-55	-9,4
Unemployment rate	34,3	34,4	0,1	n/a

Source: Statistics South Africa, 2023.

The number of discouraged work-seekers decreased by 55 000 or 9.4 per cent. Combined with the substantial increase in the overall number of NEA persons, it appears that many discouraged work-seekers in Gauteng may have joined one of the other NEA categories instead. It is also likely that some of the previously discouraged work-seekers have begun actively looking for employment again, contributing to the increase in unemployment by the narrow definition. Lastly, while Gauteng usually records substantial net in-migration, it is possible that some of the discouraged work-seekers left the province.

Figure:15 Gauteng Sectorial Employment, 2023Q2



Source: Quantec Research, 2023.

Accounting for 23.3 per cent of the persons employed in Gauteng, the finance and business services sector was the largest employer in the province because much of South Africa's finance industry is located in the province. Similarly, the administrative capital of the country is the city of Tshwane and thus community and social services, the sector that includes government, accounts for the second-largest share of Gauteng's employed, at 22.8 per cent. The wholesale and retail trade sector are the third-largest employer in the province, at 21.9 per cent. It was also the sector that recorded the largest job gains by far, with an increase of 86 000 jobs q-o-q. The low overall increase in employment was primarily due to job losses in the manufacturing and construction sectors, at 40 000 and 21 000 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 has allowed 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. Notably, the level of employment in the province continues to increase as output recovers.

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