VINDILAC ANALYTICS

QUARTERLY ECONOMIC CHRONICLES

2021/Q1

South African youth accounted for 63.2% of the total unemployed population in the fourth quarter of 2020 **01**

The Repo rate remained unchanged at 3.5% during March 2021 **02**

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ABOUT THIS PUBLICATION

The Quarterly Economic Chronicles is Vindilac Analytics' economic flagship, highlighting a series of economic events taking place at the national, regional and global levels. It is highly driven by the need for economic literacy and financial journalism on the African continent. By providing an economic report that is clear to a non-economist, we unintentionally create an enabling environment for citizens to make informed economic decisions. Our report is unique for it is now compiled and published in several official languages spoken in South Africa. This enables readers to understand economic chronicles in their mother tongues. It is worth noting that this report aims to complement existing economic reports in South Africa.

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The whole team would like to give thanks to the Almighty God, for the strength and guidance throughout this work.

1. EXECUTIVE SUMMARY

It has been over a year since South Africa recorded its first Covid-19 case and subsequent national lockdown. Since then, the lives of many South Africans have changed drastically. Most businesses closed down while some are still trying to stay afloat. March, however, turned out to be a fairly good month for the South African economy. Daily new Covid-19 infections remained well contained, while the second batch of 80 000 Johnson & Johnson vaccines arrived. Additionally, relative to the October 2020 budget statement, the 2021 budget outlined a much-improved debt trajectory. According to Stats SA, the post-lockdown recovery in the labour market continued in the fourth quarter of 2020. Of the initial 2.2 million jobs lost during the strict lockdown in the second quarter of 2020, 543 000 returned in the third quarter of 2020 and a further 333 000 in the fourth quarter of 2020. Total employment now stands at 15.2 million, still 8.5% down compared to 2019Q4. Although this may be the case, South Africa remains faced with the world's deepest unemployment and inequality crisis.

The World Bank 2020 data shows that more than 50% of the South African population are poverty stricken and the majority of them live in rural areas and townships with limited access to economic opportunities in the formal sector. A great proportion of them are formally unemployed and/or self-employed in the informal sector. One of the main drivers of poverty in South Africa is the increasing inability of the labour market to create enough opportunities for the less skilled segment of the population. As noted in our previous report (2020Q4), they were hit hard by the Covid-19 induced national lockdown since March 2020 and they continue to bear the brunt of worsened poverty and unemployment conditions, to date.

In an attempt to stabilise the economy, the South African Reserve Bank (SARB) in its latest meeting reiterated that monetary policy remains accommodative (SARB, 2021). The Monetary Policy Committee unanimously left the repo rate at 3.5%. Meanwhile the Quarterly Projection Model exhibited some changes – the second 25 basis points rise was pushed to 2021Q4. Central banks of advanced economies share the SARB's sentiments. The central banks of the United Kingdom and United States kept key monetary policy rates the same. The Bank of England (BOE) also left other monetary settings as was unlike the European Central Bank which sped up its quantitative easing programme. Perhaps, somewhat interesting was the general shift away from discussions of negative interest rates where market participants and the BOE are concerned.

The pandemic delivered a significant shock to global trade, restricting cross-border travel, disrupting international production networks and depressing demand worldwide. Global trade is estimated to have shrunken by 7.6% in 2020 (United Nations, 2021). While international travel remains at only a fraction of its pre-crisis level, global merchandise trade started recovering in mid-2020 on back of strong demand in electric and electric equipment, pharmaceuticals as well as personal protective equipment (PPE). The recovery was led by China and some East Asian economies which were relatively successful in containing the spread of the virus and expected rebound in economic activity (UN 2021). In line with the improvement in global trade patterns, South Africa's trade numbers have also improved since mid-2020 through to the first quarter of 2021.

2. COMMUNITIES AND LIVELIHOODS

- Mongi Tshaka

2.1.Introduction

In South Africa and other parts of the developing world, poverty remains a challenging problem. The World Bank 2020 data shows that more than 50% of the South African population are poverty stricken (Meyer, 2016) and the majority of them live in rural areas and townships with limited access to economic opportunities in the formal sector. A great proportion of them are formally unemployed and/or self-employed in the informal sector. One of the main drivers of poverty in South Africa is the increasing inability of the labour market to create enough opportunities for the less skilled segment of the population. As noted in our previous report (2020Q4), they were hit hard by the Covid-19 induced national lockdown since March 2020 and they continue to bear the brunt of worsened poverty and unemployment conditions, to date. Our previous report primarily focused on how communities coped with the Covid-19 effects as they strive to build and secure livelihood. Further, we interrogated the bailout measures taken to cushion the vulnerable households and businesses from the adverse impact of the pandemic. The current report gives an update on whether the conditions have since gotten better, worse or remained the same for the poor. In particular, this report focuses on how employment and unemployment as well as hunger and food insecurities have changed since the pandemic erupted. Last, recommendations are provided on how these may be improved going forward.

2.2.Employment and Unemployment

With unemployment rate currently standing at a high of 32,5%, the youth (aged 15-24) remain vulnerable as they accounted for 63.2% of the total unemployed population in the 4th quarter of 2020 (Stats SA, 2021). Although the pre-pandemic unemployment level coupled with poor jobs' quality were already dire, it was exacerbated by the hard lockdown restrictions resulting from the pandemic. This raises concerns given that 10.3% of the employed youth in South Africa are in vulnerable employment, according to the World Bank 2020 data. Related, the latest Quarterly Labour Force survey statistics released by Stats SA show that unemployment is also extremely high among females and blacks/Africans. Generally, these are contributing family workers whose poor skills and education levels often condemn them to low and unstable earnings jobs in the informal sector. In this vein, table 1 shows that more than 16% of employment in the 4th quarter of 2020 came from non-agriculture informal sector.

Table 1: South African Labour Force Characteristics 2021

	Oct-Dec 2019	**Jan-Mar 2020**	**Apr-Jun 2020**	**Jul-Sep 2020**	**Oct-Dec 2020**
Thousands					
Total Working age Population (15 to 64 years)	38727	38874	39021	39 167	39 311
Total Labour Force	23146	23452	18443	21 224	22 257
Total Employed	16420	16383	14148	14 691	15 024
• **Formal Sector (Non-Agriculture)**	11331	11282	10064	10 306	10 495
	2918	2921	2280	2 456	2 521
	885	865	799	808	810

• **Informal Sector (Non-Agriculture)** • **Agriculture** • **Private Households**	1286	1316	1005	1 121	1 197
Unemployed	6726	7070	4295	6 533	7 233
Not Economically Active	15581	15422	20578	17 944	17 054
Rates (%)					
Unemployed	29.1	30.1	23.3	30,8	32,5
Employed	42.4	42.2	36.3	37,5	38,2
Labour Force Participation Rate	59.8	60.3	47.3	56,6	2,4

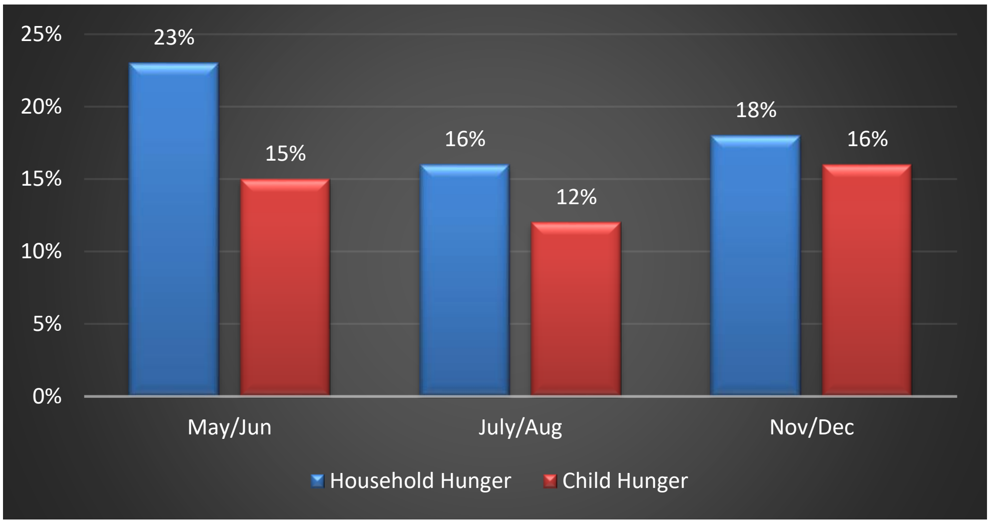
Source: Stats SA (2021)

Table 1 further shows that the South African labour market was hit hard by the pandemic and the resultant lockdown which saw a substantial decline in employment in the 2nd quarter of 2020 when the lockdown regulations were new and relatively stricter. With more relaxed regulations, there was evidence of a substantial jobs market recovery as employment figures gravitated towards their February pre-pandemic levels in the 3rd and 4th quarters of 2020 (Bassier et al., 2021). Despite these gains in the form of job creation, the unemployment rate continued to increase in tandem with substantial increases in the working age population as well as the labour force. This means that the economy has succumbed to the negative impact of the pandemic and accordingly failed to generate enough jobs to keep pace with new entrants into the labour force. However, it is important to note that this trend became visible following the 2008/09 great recession, and the Covid-19 pandemic only worsened it. The disturbingly high and rising unemployment figure have dire implication on hunger and food insecurity which were already high pre-pandemic.

2.3.Hunger and Food Insecurity

Like other countries globally, South Africa faces high and increasing food insecurity owing to rising food prices and climate change, inter alia. To date, much of the gains in reducing food insecurity and poverty since the inception of a democratic government in 1994, can be ascribed primarily to social grants as well as the use of wild food (Chakona & Shackleton, 2019). Unfortunately, these gains were reversed almost entirely after the Covid-19 pandemic erupted in February 2020. In addition to the pandemic, the deteriorating food security can be attributed inter alia, to droughts, high food prices and economic downturn. As noted in our previous report (2020Q4), this was largely driven by the jobs' losses and reduced income and hours of work for many South Africans in the initial stage of the national lockdown. To evidence this, the proportion of households who reported running short of money to buy Food stood at a high of 47% in the 2nd quarter of 2020 (van der Berg et al., 2021). Consequently, the household hunger and child hunger reported in May/June 2020 (the initial stage of the lockdown) escalated to 23% and 25%, respectively. This means that many South Africans whose conditions were beginning to look up pre-pandemic were tipped over the edge by the pandemic and ensued lockdown restrictions.

Figure 1: Trends in Household and Child Hunger in 2020



Van der Berg et al., (2021)

The government, in a bid protect livelihood and food security, introduced a top-up to the existing social grants as well as the Employee/Employer Relief Scheme (TERS) and Social Relief Distress (SRD) grant. These interventions boosted the households' income and saw a decrease in the number of people who reported running out of money to buy food to 38%. In turn, this reduced the household hunger and child hunger to 16% and 12% in July/August 2020, respectively. This improvement coincided with the easing of the lockdown restrictions during this period. Conversely, these gains were reversed as the household hunger and child hunger both increased to 18% and 16% in November/December 2020, respectively. The worsening of the food insecurity and hunger conditions happened despite further easing of the lockdown restrictions. This is perhaps due to the phasing out of some social grant top-ups since Novembers 2020. Evidently, the social grants relief interventions remain necessary to preserve food security even under more relaxed lockdown regulations. This is because some households may take time to recover from the negative effect of the pandemic. Therefore, the looming wave 3 of Covid-19 infections may necessitate a further extension of the SRD grant on its expiration in April 2021.

2.4.Conclusion

The outbreak of the Covid-19 pandemic has brought changes and devastating effects to South Africa and the world in many ways. It offers an opportunity for policy makers to reconsider their approach to development issues such as unemployment and poverty. In this vein, the focus should be on growing the economy sustainably. Historic evidence suggests that a considerable annual growth may create enough additional jobs to substantially reduce the currently high unemployment rate. For example, unemployment was falling during the period between 2003 and 2007 when the economy was growing by approximately 5% according to the Word Bank data. Therefore, bold measures are required to take South Africa back into high growth trajectory with particular focus on labour intensive industries such as manufacturing, agriculture, mining and construction. This is necessary more so because these industries are generally more labour absorptive and accommodative to unskilled, low-skilled and semi-skilled job seekers which account for a considerable proportion of the South African labour force. However, given that the economy is becoming less labour intensive and more capital-intensive overtime, it may not be enough to turn the tide on the weak economy. There is a need for structural adjustments geared towards improving the quality of education, governance, as well as labour market flexibility and competitiveness to align with the emerging modern economic developments amid 4th Industrial Revolution. However, the role played by and significance of the informal sector in addressing poverty and the formal labour market inadequacies may not be undermined as it currently accounts for over 16% of the total number of employed persons in the 4th quarter of 2021 (Stats SA, 2020). Therefore, while the government is still working on a permanent solution to poverty and unemployment, deliberate measures are necessary to support and promote the informal but legal business activities as a form of job creation and livelihood strategy in the interim.

3. EDUCATION AND HEALTH

- Chwayita Mkrola

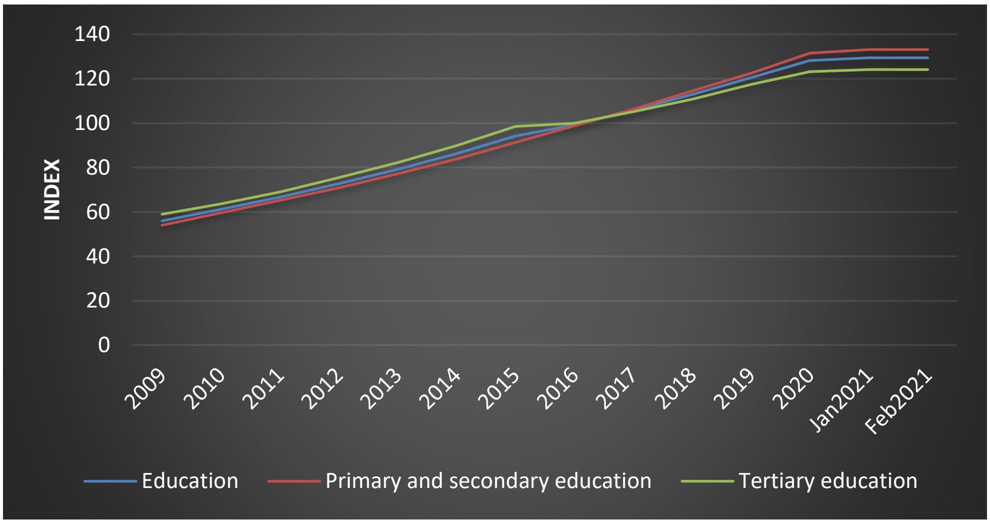
3.1.Introduction

Education and Health are sources of human capital with notable positive economic impact, hence government expenditure on health and education is often on the rise. Worth questioning is whether the rise in health and education expenditure is an attempt to improve outcomes or a result of surging prices in these sectors. The sections below review trends in consumer prices as measured by Consumer Price Index (CPI) and inflation in the education and health sector.

3.2.EDUCATION

Goal 4 of the sustainable development goals include ensuring completion of free primary and secondary education as well as ensuring "equal access for all to affordable and quality tertiary education. Mlachila & Moeletsi (2019) ascribe S.A's improved access to education to continuous increase in education expenditure by government, among other factors. Increasing prices in education remain a threat to maintaining and achieving this outcome. Figure 2 below shows consumer prices for education, as measured by Consumer Price Index (CPI) at annual averages, for the period starting 2009 to February 2021. As shown in the graph, education prices at all levels show a consistent upward trend throughout the observed period. These prices increased from a CPI of 55.93 in 2009 to 128.12 in 2020; January and February 2021 both recorded a CPI of 129. The CPI for tertiary education increased from 58.9 in 2009 to 123.18 in 2020 (Calitz & Fourie, 2018) associated with higher university prices as a result of a lack of government spending, prompting institutions to raise prices. Primary and secondary education recorded a similar trend, with CPI increasing from 53.98 in 2009 to 131.55 in 2020.

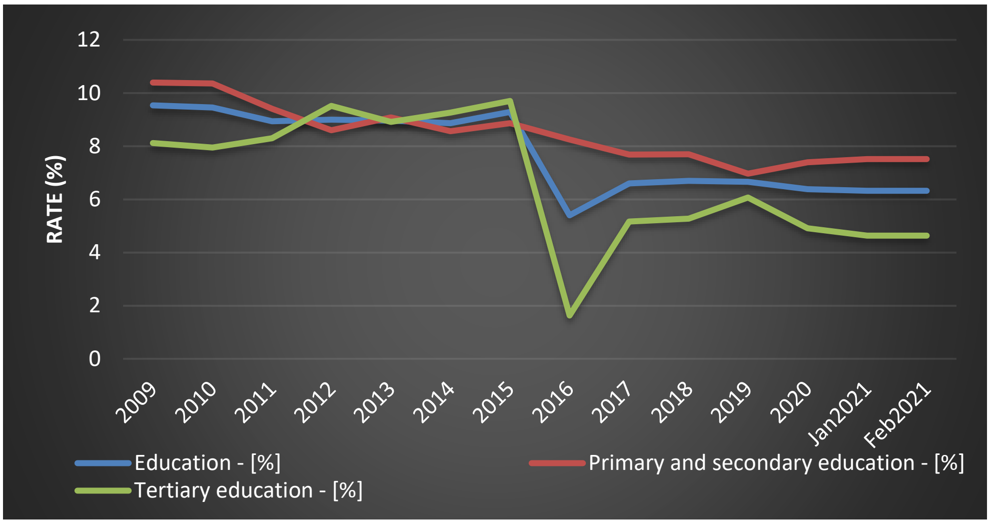
Figure 2: CPI Education



Data source: authors' calculations

Tertiary education prices remained above those in primary and secondary education between 2009 and 2016. From the year 2017, however, the primary and secondary education prices remained higher as tertiary education increased at lower rates. Although education prices continued to rise, the rate at which they rose decreased from 9.5 percent in 2009 to about 6.3 percent in 2020, as shown by inflation rate in Figure 2E below. Education inflation from year 2016 remained lower than the pre-2016 levels throughout the observed period, the decrease in inflation for Tertiary education contributed to this. For tertiary education, inflation increased from 8.12% in 2009 to 9.7 % in 2015. However, in 2016, prices of tertiary education increased at lower rates as inflation sat at 1.6 percent. This can be attributable to the 2015 fees must fall movement, which led to an announcement of Zero fee increment for university fees for 2016 (South African Government News Agency , 2015). Inflation on tertiary education remained lower than pre-2016 levels, political pressures from students and the call for free higher education might have been a contributing factor. For primary and secondary education, prices continued to rise at a lower rate as per 10.39 percent inflation rate in 2009 and 7.51 percent inflation rate in February 2021.

Figure 3.: Inflation Education

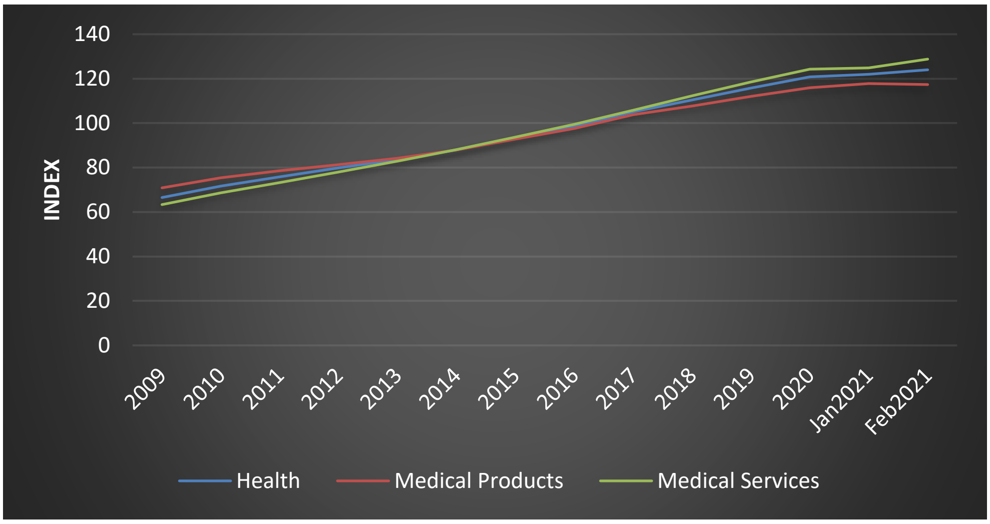


Data source: authors calculations

3.3.HEALTH

Similar to education, the health sector receives a significant amount of expenditure from the government and its prices continue to rise. Figure 4. below shows the trends of consumer prices in health as measured by the annual average of CPI. Health recorded a CPI of 66.52 in 2009, which increased to 120.75 in 2020. January and February 2021 recorded an index of 121 and 124, respectively. Between 2009 and 2014, medical products were more expensive than medical services. However, from 2015 to the end of February 2021, medical services recorded a higher CPI. Erasmus & Fourie (2014) document that input costs such as salaries, electricity, and import of medical equipment play a role in determining prices for health services.

Figure 4: CPI Health

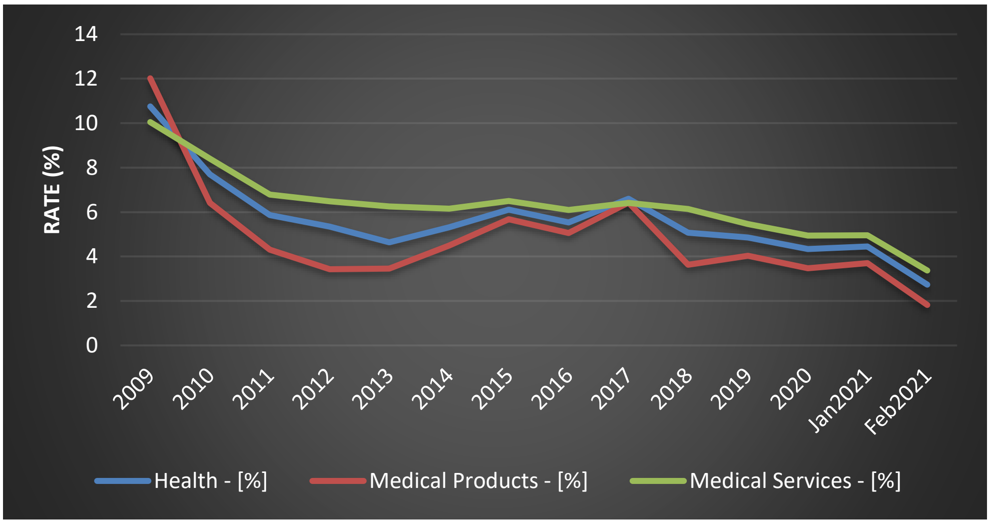


Data source: authors calculations

Although consumer prices for health continued to surge, the rate at which they increased showed a decline, as showed in the inflation rates on Figure 5. The overall inflation at annual average was around 10.75 percent in 2009 and 4.9 percent for 2020. January and February 2021 recorded monthly inflation of 45 percent and 2.7 percent, respectively.

Medical products contributed to decreasing inflation rate as their inflation decreased by more than half, from around 12 percent in 2009 to around 4.93 percent in 2020. January and February 2021 recorded inflation rates of 3.7 and 1.8 percent, respectively.

Figure 5: Inflation Health



Data source: authors calculations

Inflation on medical services also showed a decreasing trend. In 2009, inflation was sitting at an annual average of around 10 percent and decreased by almost half to 4.9 percent in 2020. January and February 2021 recorded inflation of 4.96 and 3.37 percent, respectively.

3.4.Conclusion

South Africa is experiencing some fiscal pressures and an average South African is becoming poor (National Treasury, 2021). Given this, ring prices indicate that an average South African will not afford education and health services. This prompt the need to regulate prices in these sectors to avoid compromising health and education outcomes. In addition, regulating these prices would allow fiscal space for government to allocate in other productive sectors, and would ensure human capital is not threatened by the rising cost of building it. The first step would be to investigate the main drivers of prices in the health and education sector, and devise policies that address the challenge at the root cause. Additionally, South Africa needs to devise competition enhancing policies in the health sector, regulate compensation of employees in health and education sector, and increase transparency in the health market to allow users to respond to prices and service quality from different medical providers.

4. FISCAL POLICY AND GOVERNANCE

- Thabang Kumalo

March turned out to be a fairly good month for the South African economy. Daily new Covid-19 infections remained well contained, while the second batch of 80 000 J&J vaccines arrived. Additionally, relative to the October 2020 budget statement, the 2021 budget outlined a much-improved debt trajectory. According to Stats SA, the post-lockdown recovery in the labour market continued in 2020Q4. Of the initial 2.2 million jobs lost during the strict lockdown in Q2, 543 000 returned in Q3 and a further 333 000 in Q4. Total employment now stands at 15.2 million, still 8.5% down compared to 2019Q4.

More people re-entered the jobs market in Q4 which meant that the labour force participation rate increased from 54.2% to 56.6%. This in turn impacted the official unemployment rate, which rose to a record 32.5%. Given the impact of the second wave of Covid-19 infections at the start of 2021, the labour market recovery might have stalled in the first quarter of this year. Table 2 shows that total employment increased by 76 000 or (0,8%) quarter-on-quarter, from 9 564 000 in September 2020 to 9 640 000 in December 2020. This was largely due to increases in the following industries: trade (54 000 or 2,6%), community services (51 000 or 1,9%) and business services (4 000 or 0,2%). However, there were decreases in the following industries: construction (-18 000 or -3,5%), manufacturing (-13 000 or -1,2%), transport (-1 000 or -0,2%) and mining (-1 000 or -0,2%). This led to total employment decreasing by 594 000 or (-5,8%) year-on-year between December 2019 and December 2020.

Table 2: Employment by Industry

Industry	Dec 2019	Sep* 2020	Dec 2020	Q/Q Change	Q/Q Change	Y/Y Change	Y/Y Change
	Thousand				%	Thousand	%
Mining	452	453	452	-1	-0,2	0	0,0
Manufacturing	1 211	1 118	1 105	-13	-1,2	-106	-8,8
Electricity	61	58	58	0	0,0	-3	-4,9
Construction	580	510	492	-18	-3,5	-88	-15,2
Trade	2 308	2 101	2 155	54	2,6	-153	-6,6
Transport	500	452	451	-1	-0,2	-49	-9,8
Business services	2 349	2 167	2 171	4	0,2	-178	-7,6
Community services	2 773	2 705	2 756	51	1,9	-17	-0,6
Total	**10 234**	**9 564**	**9 640**	**76**	**0,8**	**-594**	**-5,8**

Source: StatsSA (2021)

Meanwhile, student protests against university funding issues continued. Government made an additional R6.3bn available to the National Student Finance Scheme (NSFAS). However, higher education minister Blade Nzimande announced that more than half of this would come from funding initially allocated to the National Skills Fund, admitting that this was essentially "robbing Peter to pay Paul". This is just another example of the execution risks to National Treasury's expenditure-based fiscal consolidation plans. In 2021, a projected strong rebound in the international economy, specifically the United States, would support economic growth in South Africa, but unique local obstacles, such as a possible third Covid-19 wave, and the dire outlook for the income of poorer households, are likely to act as dampers. Under these circumstances, the other services sector is unlikely to be an additional growth stimulus. At best, this sector will merely be dragged along by the rest of the economy. Even worse, Eskom confirmed that it will forge ahead with its much-needed maintenance plans, even though it will likely result in (more) load-shedding until at least September 2021. According to Eskom, up to 6 000MW of its available capacity is unreliable at any given time due to years of deferred maintenance. The goal of the reliability maintenance programme is to increase Eskom's energy availability factor (EAF) to 70%. On a positive note, energy minister Gwede Mantashe announced the eight preferred bidders for the procurement of 2 000MW of emergency power (RMIPP). The bidders will make use of a variety of energy solutions (incl. three LNG power ships) with 1 845MW of energy supplied at an average weighted price of R1 575 per MWh. The energy is only expected to come online in August 2022. A private-sector capital injection of R45 billion is expected to accompany the rollout. Therefore, while confirmation of the preferred bidders is good news, this will do little to mitigate SA's power woes over the short term.

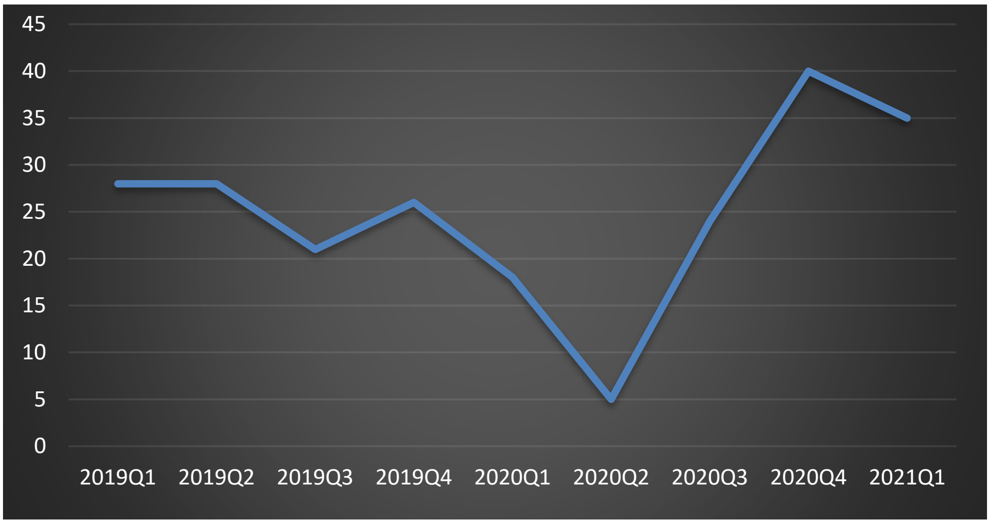
5. BUSINESS AND FINANCE

- **Zaziwe Maluleke**

5.1.Introduction

It has been over a year since South Africa recorded its first Covid-19 case and went into a hard lockdown. Since then, the lives of many South Africans have changed drastically. Most businesses closed down, while some are still trying to keep their businesses afloat. Covid-19 has induced businesses to be proactive and innovative in order to survive. The question that remains is if business activity will recover to pre-Covid levels or will reach new highs post the pandemic. Figure 6 below shows trends in the business confidence index.

Figure 6: RMB/BER BCI



Source: BER, 2021

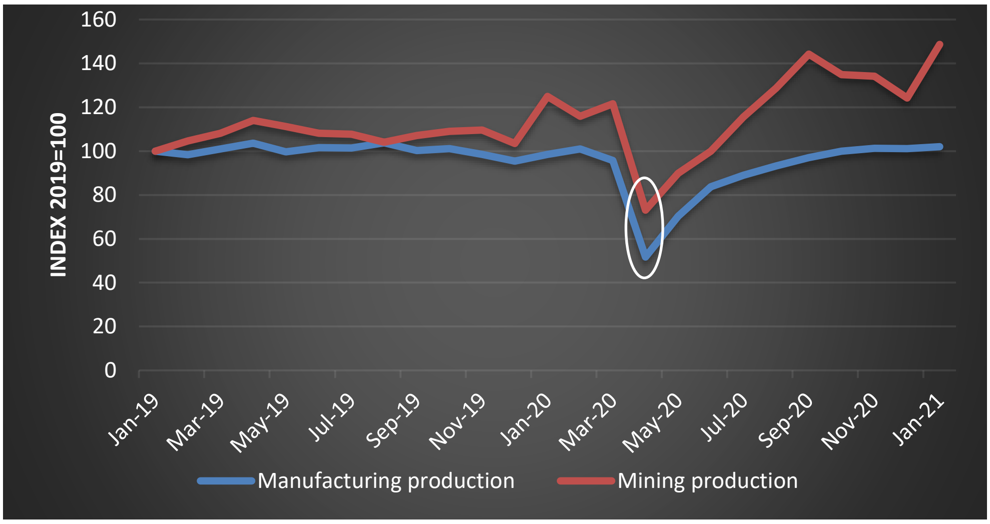
Following a rapid recovery in the fourth quarter of 2020, the RMB/BER Business Confidence Index (BCI) fell by five index points to 35 in the first quarter of 2020, indicating a marginal dissatisfaction in business conditions. All components that make up the RMB/BER BCI showed a decline, with retail declining by 13 percentage points.

5.2.Will business activity return to pre-Covid levels?

Figure 7 below shows the indices[1] for mining and manufacturing production. It is evident that production has shown a rapid recovery after reaching a record low in April 2020. The recoveries in global demand have pushed up the demand for these goods. Although the indices have risen significantly, they have not recovered to pre-Covid levels in nominal terms. Mining production data has been led by iron ore and chromium ore which have recorded the highest growth between November 2020 and January 2021, rising by 25.4 per cent and 16.3 per cent, respectively. Mining production will continue to grow above manufacturing due to rising metal prices contributing to the high index of 148.6. Manufacturing production is slowly recovering with Food and beverages and Motor vehicles(-0.4%), parts and accessories and other transport equipment(17.4%) keeping manufacturing afloat consistent with motor trade sales. With an index of 101.9 in January 2021.

[1] *An index less than 100 is said to indicate a percentage decrease from the base year, while an index of more than 100 shows a percentage increase from the base year. Base year = January 2019*

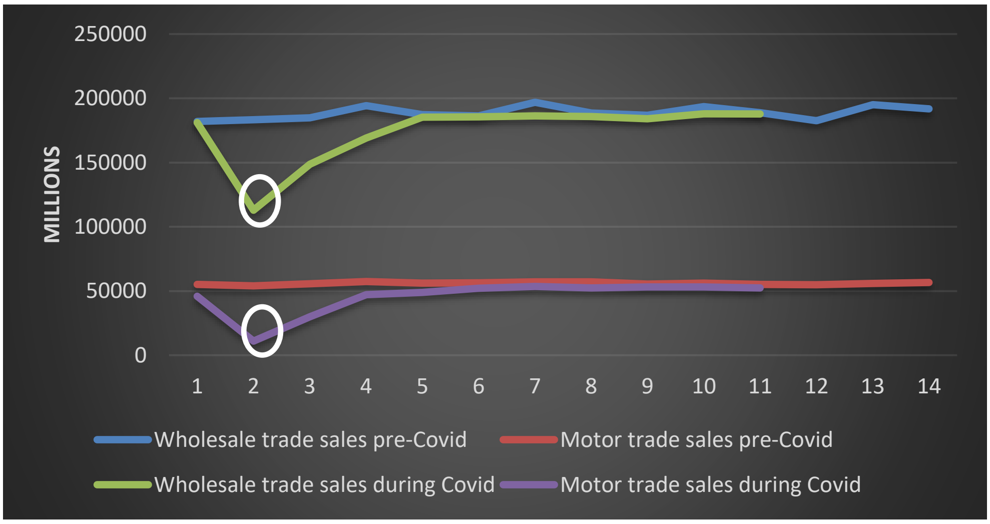
Figure 7: Manufacturing production and sales Mining production[2] and sales



Source: StatsSA

Figure 8 below, compares the wholesale trade and motor sales and production between January 2019 and when covid-19 started in March 2020. Wholesale and motor sales and production have seemed to follow a similar recovery trend. They are both slowly returning to pre-Covid levels. Motor sales and wholesale trade are important for business activity as it shows the trend in production and if there are able to sell what they produce. Motor trade sales decreased due to the number of new car sales declining by 2 billion between November and January with a 4 per cent decrease. While the sale of used vehicles have kept sales stable. Income from fuel sales also contributed to 17.5 per cent decrease with approximately 9 billion lost. On the other hand, wholesale trade sales have shown recovery from sectors in agricultural raw materials and livestock; Other household goods except precious stones which rose by 13.2 per cent and 31.7 per cent.

Figure 8: Wholesale trade sales vs Motor trade sales



Source: StatsSA

[2] *Mining production excludes gold production.*

5.3.Economic outlook

Positive scenario- If majority of the population is being vaccinated before winter, then the risks from a third wave will be eliminated and production will resume without any disruptions.

Negative scenario – The possibility of a third wave, and stricter restriction that will result in a restricted mobility and disrupt production.

A worst-case scenario- If a third wave strikes more than the second wave, productivity will be affected due to closed port entry and working on a rotational basis. Slow vaccination programmes may still be a concern.

5.4.Conclusion

Given the above outputs, risks remain well balanced. It is evident that indicators for business activity has shown a V-shaped recovery as expected by many analysts anticipated. Business confidence started off a bit higher this year and we can expect recoveries as the trend is upward. Businesses in wholesale trade; motor trade and mining production can expect to see recoveries this year, given better economic conditions in 2021, if rapid vaccination programmes are undertaken. Rapid vaccination programmes will ensure that production and business activity continues without any disruptions. Businesses must continue to operate with caution and also include the possibility of having a hybrid business model where businesses, especially in production sectors where machinery dominates more than labourers. E-commerce businesses should also be considered.

6. MONETARY FRAMEWORK

- **Mulalo Sehlako**

6.1.Latest Domestic Stance

In its latest meeting the South African Reserve Bank (SARB) reiterated that monetary policy remains accommodative (SARB, 2021). The Monetary Policy Committee unanimously left the repo rate at 3.5%. Meanwhile the Quarterly Projection Model exhibited some changes – the second 25 basis points rise was pushed to 2021Q4.

6.2.International Developments

Central banks of advanced economies share the SARB's sentiments. The central banks of the United Kingdom and United States kept key monetary policy rates the same. The Bank of England (BOE) also left other monetary settings as was unlike the European Central Bank which sped up its quantitative easing programme. Perhaps, somewhat interesting was the general shift away from discussions of negative interest rates where market participants and the BOE are concerned. Notably, the United States Fed upwardly revised its 2021 economic growth baseline to 6.5% from 4.2% projected in December (Federal Reserve, 2021). The revision was mainly informed by the nearly $2 trillion stimulus package underway and speedy vaccination rollout in the US.

On the other hand, some emerging economies strayed from advanced economies wait and see monetary policy stance. The Turkish central bank increased their policy rate given rampant inflation. The move saw the dismissal of yet another central bank governor. In response, the Turkish lira plummeted.

6.3. Real GDP Trends

Led by manufacturing production and trade, the economy continued recovering in the last quarter (Stats SA, 2021a). According to Stats SA, the economy grew by 6.3% q-o-q saar following an upsurge of 67.3% in 2020Q3. Overall, economic activity contracted by 7% in 2020 compared to 2019. Despite the contraction, the agriculture sector thrived.

Indeed, the COVID-19 shock laid waste to the economy. In modern perspective, the economy contracted by 1.5% in 2009 - around the global financial crisis (Stats SA, 2021a). Nearly a decade's worth of growth was lost in 2020 and the standard of living is comparable to that of 2005 (Stats SA, 2021a).

As numerous nations began rolling out vaccinations, optimism reigned in the first few months. The SARB, like many central banks and analysts, upwardly revised their 2021 real global growth forecast to 5.8% from 5% (SARB, 2021). Despite the stronger global outlook, the local narrative is mostly unaffected. The South African economy is now expected to grow by 3.8% - a slight improvement from the 3.6% projected earlier (SARB, 2021). This reflects South Africa's unfortunate context. So far, the domestic vaccination programme has been sluggish, and load-shedding remains a constraint.

6.4.Inflation

According to Stats SA (2021b), the inflation rate remained below the midpoint target of 4.5%. It was 3.2% in January. In February the inflation rate fell (below the 3% lower boundary) to

2.9%. In contrast, the consumer price index rushed by 0.7% m-o-m. The BER's 2021Q1 Inflation Expectations Survey indicated that on average analysts, business people and trade unions expect slightly eased inflation this year and the next (BER, 2021). Meanwhile, the SARB bumped up this year's inflation forecast to 4.3% from 4%. Now, the central bank estimates that inflation will reach 4.5% in 2023.

Since the beginning of the year global bond yields incessantly rose. South Africa's long-term bond yield was not spared. Internationally, there are concerns about inflation resulting from overstimulation – especially given the massive $1.9 trillion stimulus package in the United States. Should central banks react and risk prematurely tightening financial conditions? Should central banks patiently wait and risk rampant inflation?

6.5.Conclusion

Looking ahead, our vaccination programme will seemingly pick up speed later on in the year. This somewhat makes a third COVID-19 wave likely. Load-shedding is the norm. Despite slight progress in some structural reforms, pre-pandemic structural issues continue weighing down economic activity. Rapidly rising oil prices mean a weaker terms of trade (SARB, 2021). Combined, these factors suggest a bumpy economic recovery ahead.

7. TRADE & FINANCIAL MARKETS

- Bekithemba Qeqe

7.1.Introduction

2020 was a turbulent year for the global economy. While it took massive and timely government action to prevent a total collapse of the world economy, the pandemic delivered a server blow to economic activities as well exposed sever vulnerabilities of the world economy. For international trade, one lesson learnt from the crisis is that current challenges including creating a more resilient supply chain and expanding opportunities for developing countries can be addressed through strong global partnerships and multilateral frameworks. For financial markets, one lesson drawn is that liquidity or the amount of cash injected by governments into their financial system to stimulate their economies can play a role in building resilient financial markets going forward. Furthermore, sustainable recovery path for South Africa and other developing economies will require amongst other things the strengthening public finances, improving debt sustainability, combating inequality and expanding social protection. This section provides an overview of recent developments trade and financial markets.

7.2.International trade

The pandemic delivered a significant shock to global trade, restricting cross-border travel, disrupting international production networks and depressing demand worldwide. Global trade is estimated to have shrunken by 7.6% in 2020 (United nations (UN), 2021). While international travel remains at only a fraction of its pre-crisis level, global merchandise trade started recovering in mid-2020 on back of strong demand in electric and electric equipment, pharmaceuticals as well as personal protective equipment (PPE). The recovery was led by China and some East Asian economies which were relatively successful in containing the spread of the virus and expected rebound in economic activity (UN 2021). In line with the improvement in global trade patterns, South Africa's trade numbers have also improved since mid-2020 through to the first quarter of 2021.Table 3 below shows the international trade statistics of South Africa during the first two months of the year.

TABLE 3: SA TRADE STATISTICS FOR FEBRUARY 2021

World Zone	Exports			Imports		
	January 2021	February 2021		January 2021	February 2021	
	Rm	Rm	% Change	Rm	Rm	% Increase
Africa	23 095.5	27 615.7	19.6%	8 287.5	10 447.5	26.1%
America	12 161.0	13 198.8	8.5%	10 396.8	8 196.6	-21.2%
Asia	38 822.3	42 779.7	10.2%	47 576.6	49 475.1	4.0%
Europe	28 935.0	34 633.7	19.7%	30 158.4	29 775.1	-1.3%
Oceania	594.4	1 068.2	79.7%	1 113.3	967.5	-13.1
Other unclassified	6 030.7	8 518.6	41.3%	158.5	427.2	169.5%
Ship/Aircraft	473.9	434.5	-8.3	-	-	0.0%
Total	110 112.8	128 249.2	16.5%	97 691.1	99 289.1	1.6%

Source: South African Revenue Services (SARS) 2021.

South Africa's trade surplus rose to R 28.96 billion in February of 2021 from an upwardly revised R 12.42 billion in January 2021 and beating market consensus of a R 19.5 billion surplus (SARS, 2021; Trading Economics. 2021). Exports increase by 16.5% to R 128.25 billion, mainly boosted by sales of vehicles & transport equipment (73%); machinery & electronics (26%) and base metals (25%) (SARS, 2021; Trading Economics, 2021). Imports on the other hand advanced at a much slower pace (1.6 %) to R 99.29 billion, as higher purchases of mineral products (32%) and original equipment components (16%) were partly offset by declines in those of machinery & electronics (-9%); vehicles & transport equipment (-14%) and chemical products (-12%) (Trading Economics, 2021).

7.3.Financial Markets

7.3.1. Equity Markets

Equity markets around the world started the year quite strongly, with indices very close to record highs. Some of the major factors supporting the performance of markets include vaccination progress, low interest rates, a larger than expected fiscal stimulus from the US as well as a recovering world economy. By the end of March 2021, the Chicago Board Options Exchange Volatility Index (CBOE VIX) had declined significantly to its lowest level(19.40%) since early last year. This was evident on the Johannesburg Stock Exchange (JSE).

TABLE 4: OVERVIEW SOUTH AFRICAN STOCK MARKET PERFORMANCE ON 31 MARCH 2021

Indices	**Value**	YTD%
JSE ALSI	67291,7	13,27%
Top40	61589,9	13,26%
Financial15	12550,3	4,06
Industrial 25	88705,4	13,87
Resource 10	66869	16,14
Mid Cap	70945,8	10,42
Small Cap	54045,1	21,57
Gold	3702,6	-3,51
Platinum	116,2	25,61
Banks	7151	4,41
General Retailers	5913,3	27,15
Property	1324,6	7,73

Source: Sanlam (2021)

The JSE All Share Index (JSE ALSI) closed at 67291,7 points on the 31st of March 2021, gaining 13, 27% overall in the first three months of the year. The top 40 index closed at 61589,9 on 31 March 2021, up by 13,26% since the start of the year. Amongst the best performs in the first quarter of the year was indices was retail index (27,15%), Platinum (25,61%), Small Cap index (21,57%), Resource 10 index (16,14%) and Industrial 25 Index (13,875) (Russel Investments 2021).

7.3.2. Currency exchange rate

In the first few months of 2020 the US dollar index surged to an all-time high as the first wave of the coronavirus (Covid-19) pandemic prompted a flight to safety and a shortage of US dollar liquidity. The currencies that fell most were those of emerging markets and commodity exporters (including advanced economies, such as Australia, New Zealand, Canada and Norway) that experienced particularly sharp depreciations amid collapsing commodity prices (Reuters, 2021). The US dollar gave up most of these gains in the second quarter, when the Federal Reserve injected about US$3trn of liquidity in financial markets and concerns that the pandemic would spark a financial crisis eased, reducing precautionary demand for dollars (Reuters, 2021). By the end-2020 the US dollar index had fallen by more than 5% compared with a year earlier (Reuters, 2021). Against a backdrop of recovering global demand and ample liquidity, many emerging-market currencies that depreciated significantly in 2020 performed reasonably well in the first quarter of 2021.

TABLE 5: CURRENCY EXCHANGE RATE MOVEMENTS

Currency Exchange	31 March 2020	31 March 2021
Rand to US Dollar	R17.98/$	R14.84/$
Rand to Euro	R19.77/€	R17.42/€
Rand to British Pound	R22.18/£	R20.43/£

Source South African Reserve Bank (SARB) (2021)

As can be seen on table 5, the rand was sitting at R14,84 against the dollar on the 31 of March 2021 as compared to the R17,98/$ observed on the last day of March 2021. The rand closed at around R17,42 against the Euro on 31 March 2021 as comparted to the R19, 77/€ observed on the same day last year. The rand was sitting at around R20, 43 against the British Pound on 31 March 2021 as compared R22, 18/ £ observed on the same date last year.

7.3.3. Bond Market

In March 2020, the yield on SA's benchmark 2030 government bond hit a record-high above 13% amid the height of the financial crisis triggered by the coronavirus pandemic (Reuters 2021). Foreign investors have avoided the country's bonds or demanded a high premium, or yield. Non-residents had sold R74.6bn of bonds in 2020(Reuters, 2021). Yields on SA government bonds started to decline in the second quarter of 2020 as the central bank decreased lending rates to record lows and engaged in a bond-buying programme. The yields started to increase again in 2021 as climbing treasury yields in the US combined with uncertainty about the SA government's debt management strategy post the February 2021 budget, lured lenders away. (Business Insider 2021). The daily average yield on government bonds with maturity of 10 years and longer was sitting at around 10.35% by the 31st of March 2021 as compared to the 8.73% observed at the end of December 2020.

7.3.4. Commodity markets

Oil prices have been on the rise since the 2nd half of 2020 following the recovery in economic activity and lifting of restrictions. From just over $50/barrel at the end of December 2020, Brent crude oil had increased to around $64/barrel by 31 March 2021. Brent crude oil prices increased by 23.84% in the first three months of 2021(Sanlam, 2021). The recent surge in oil prices was mainly influence by hopes of investors that OPEC and alliances will agree to extend their supply cuts into May 2021 (Sanlam, 2021). Gold prices inched lower on 31 March 2021 as data showing a faster-than-expected growth in China's factory activity weighed on the metal's safe-haven appeal, while a surge in US treasury yields added further pressure (Sanlam 2021). The price of gold fell by 11.22% in the first three months of the year while the prices of silver fell by more than 8% during the same period. Platinum was sitting at $1158.10 on 31 March 2021 and was up by 8.03% since the start of the year.

TABLE *6*: COMMODITY PRICES DURING FIRST QUARTER OF 2021

Commodity	Price	YTD%
Brent Crude Oil	$64.10	23.84%
Gold	$1685,10	-11.22%
Silver	24.0	-8.99%
Platinum	$1158.10	8.03%

Source: Sanlam (2021)

7.4.Summary and Recommendations.

The 2020 year was characterised by unprecedented socio-economic and market conditions. The ordinary way of doing business was challenged and this necessitated a well-considered and pragmatic approach. From the financial market's perspective, a sustainable recovery path for South Africa and other emerging countries will require strengthening public finances and improving debt sustainability. From the international trade point of view, strong partnerships and multilateral frameworks is important for creating more resilient supply chains which can withstand crises.

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