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Quarter two 2021 in perspective:

Global Economic Review

The expectation is for global economic activity to generally continue to recover post the peak of the pandemic, buoyed by robust performances from advanced economies and emerging markets and developing economies (EMDEs). Sub-Saharan Africa (SSA) is also showing encouraging signs, with growth projections expected to gradually improve in the short term and peak in the medium term. However, despite general growth optimism, risks to growth remain in most EMDEs with the potential of limiting benefits from the continuous strengthening of global demand and rebounding of commodity prices.

Existing constraints include risks from unequal access to vaccines, bottlenecks to the widescale administration of vaccines, pandemic contagion from emerging new virus variants, risks from the third wave of the pandemic, and budget deficits and financial pressure including high debt levels. To ensure continuous improvement, policy makers and stakeholders need to continue with efforts aimed supporting economic reforms towards speedy recovery, better management of public finances, containing inflation and achieving the sustainable development goals, including the promotion of a green economy, inclusive development and the creation of decent work.

The latest prognosis from the World Bank is for the global economy to grow at 5.6 percent in 2021 (4.3 percent in 2022), with supercharged growth from the United States (6.8 percent), China (8.5 percent), and India (8.3 percent). Sub-Saharan Africa - including South Africa and Nigeria - will rebound from an estimated decline of -2.4 percent in 2020 and is projected to grow at 2.8 percent in 2021 (3.3 percent in 2022), with amplified growth from Botswana (6.9 percent), Cote D'Ivoire (5.7 percent) and Guinea (5.5 percent).

World trade volume (goods/services), and specifically imports by advanced economies and key South African and KwaZulu-Natal (KZN) trading partners will rebound from an abysmal -8.3 percent in 2020 to a healthy 8.3 percent in 2021, while non-energy commodity price index will increase from 3 index points to 22.5 index points, further providing impetus for exports.

We reiterate prevailing risks to these projections ranging from the pandemic persistence to the effectiveness of vaccines in containing emerging new COVID-19 strains and the slow progress in administering widescale vaccination. Also, the effective implementation of policies to limit persistent economic damage, and the continuous improvement of commodity prices, trade, and investment are key to the delineated scenarios.

KwaZulu-Natal Office
Trade & Investment House, 1 Arundel Close, Kingsmead Office Park, Durban, 4001, South Africa
PO Box 4245, Durban, 4000, South Africa
+27 (0) 31 368 9600
+27 (0) 31 368 5888

Gauteng Office
Financial Place, 99 George Storrar Avenue, Groenkloof, Pretoria, 0181
+27 (0) 12 346 4386/6763
+27 (0) 12 346 4774

info@tikzn.co.za
www.tikzn.co.za / www.exportkzn.co.za

Domestic Economy Review

Domestic economic activity slightly weakened further in quarter one of 2021 following a sharp rebound in quarter three of 2020, with the base effects more visible. Growth in the real gross domestic product (GDP) moderated to an annualized rate of 4.6 percent in the first quarter of 2021 from 6.3 percent recorded in quarter four of 2020, following a revised growth of 67.3 percent in the third quarter. Despite the sustained positive trajectory, the level of the real GDP in quarter one 2021 was still 3.2 percent lower than a year earlier.

Provincial economic activity was also encouraging (although lower) in quarter one of 2021 when compared to the previous quarter, with KZN's headline Seasonally Adjusted Annualised quarter-on-quarter GDP remaining positive for the second consecutive quarter, putting the province on a firm path to recovery. The province recorded a positive estimated growth rate of 3.7 percent q-o-q (or an improvement of R4,4 billion) in quarter one of 2021, building on the revised 7.5 percent q-o-q in quarter four of 2020. The continuous improvement in economic activity is key towards offsetting the devastating impact of the pandemic also aligning with the KZN 2030 vision to be a prosperous province with a healthy, secure and skilled population, living with dignity and harmony, and acting as a gateway to Africa and the world. The general slowdown in quarter one 2021 economic activity was underpinned by renewed lockdown restrictions following the second wave of COVID-19 infections, as well as existing structural impediments heightened by the epidemic.

Real output growth of the secondary sector dipped in quarter one of 2021, due to the moderation of real gross value added (GVA) by both manufacturing and construction sectors, alongside the contraction of GVA by the electricity, gas and water sector. Low volume of electricity produced and consumed, and erratic electricity supply and power outages further constricted economic activity in manufacturing, compounded by the scarcity of key inputs and raw materials. Growth in real construction activity remained slow and well below pre-lockdown levels and was still 25.3 percent below its most recent peak in quarter four of 2016.

Real GVA by the tertiary sector expanded in quarter one of 2021, as the real output of the finance, insurance, real estate and business services sector rebounded from a contraction in quarter four 2020. Disconcertingly, growth in the real GVA by the commerce, transport, storage and communication services sectors weakened over the period, with implications on employment. There was an equal slowdown in real retail and motor trade activity, while real wholesale trade activity rebounded from a contraction in quarter four of 2020 to an expansion in quarter one of 2021.

In terms of aggregate new investment, there was contraction in real gross fixed capital formation in quarter one of 2021 due to a deceleration in fixed investment by private business enterprises, as they invested significantly less in transport equipment as well as in machinery and other equipment. Real capital outlays by the public sector grew at a sluggish pace in quarter one of 2021, reflecting the marked slowdown in fixed investment growth by State-Owned Enterprises, while outlays by the general government encouragingly increased at a slightly faster pace.

Key Economic Indicators

The recovery in employment has been much weaker when compared to economic activity, following sharp contractions in both employment and output in the second quarter of 2020. Total household-surveyed employment decreased slightly in the first quarter of 2021 and was still 1.4 million below that of a year earlier. The number of unemployed persons remained almost unchanged at just over 7.2 million in quarter one of 2021. Resultantly, the official unemployment rate increased marginally from 32.5 percent in the fourth quarter of 2020 to a new record high of 32.6 percent in the first quarter of 2021. The expanded unemployment rate correspondingly increased from 42.6 percent to 43.2 percent over the same period.

Although still within the target range, headline consumer price inflation accelerated to 4.4 percent in April following a notable quickening in goods price inflation, largely due to the marked acceleration in fuel price inflation and, to some extent, in certain durable and semi-durable goods.

South Africa’s trade surplus with the rest of the world widened slightly in quarter one of 2021, as the increase in the value of net gold and merchandise exports marginally outpaced the increase in the value of imports. The higher value of exported goods reflected an increase in prices with positive effects on the terms of trade. Unfortunately, this was not the case for the KZN province, which recorded a relative dip in exports in quarter one of 2021, compared to imports, leading to a negative trade balance for the first time, over a defined period.

High frequency indicators show purchasing executives perception of the economy slowing down, with the Absa PMI edging down slightly to 57.4 index points in June from 57.8 points the month before, in May. However, the average reading of both the headline PMI as well as the business activity index during quarter two of 2021 was higher than recorded in quarter one of 2021, suggesting that the manufacturing sector is on a path to output recovery.

The preceding global and domestic review is generally good for the KZN provincial economy, also supporting the activities of all designated industrial hubs in the various district municipalities, spanning the electronics, automotive supplier park, renewable energy, wood processing, leather processing, agricultural mechanization, coal beneficiation, clothing and textile and agri-processing industrial hubs, with extended benefits for trade and investment.