VINDILAC ANALYTICS

QUARTERLY ECONOMIC CHRONICLES

2021/Q3

01 The weeklong looting of retail stores and malls are expected to cost the economy about R50 billion in lost output, placing 150 000 jobs at risk

02 The South African unemployment rate stood at 34.4% during the second quarter of 2021 while the economy grew by 1.2% during the same period

Read More ->

Vol.3 | Issue.03 www.vindilac-analytics.co.za ISSN: 2706-896X

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.

ISSN: 2706-896X

All queries should be addressed to info@vindilac-analytics.co.za

For more information on Vindilac Analytics' services, please visit the website below:

www.vindilac-analytics.co.za

Table of Contents

ACKNOWLEDGEMENTS

We would like to acknowledge and give special thanks to our team members who contributed significantly to this project. The contributors to this project are as follows:

Team Leader
Mr Baneng Naape

Full-time Writer
Mr Marius Masoga

Seasonal Writer
Ms Mulalo Sehlako

Seasonal Writer
Ms Tumelo Matlhako

Full-time Writer
Mr Bekithemba Qeqe

Seasonal Writer
Mr Thabang Kumalo

Full-time Writer
Ms Mkrola Chwayita

Seasonal Writer
Mr Thabang Serobe

Seasonal Writer
Ms Zenande Sangoni

Seasonal Writer
Ms Katlego Mphahlele

Full-time Writer
Ms Zaziwe Maluleke

Seasonal Writer
Mr Mongi Tshaka

Seasonal Writer
Mr Caleb Qoyo

Seasonal Writer
Ms Lebo Siboyi

isiXhosa Translator
Ms Sinesipho Ndlovu

Setswana Translator
Ms Tebogo Tau

Tshivenḓa Translator
Ms Mosibudi Munyadziwa

Editor
Mr Ndivhuwo Doctor Sundani

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

1. EXECUTIVE SUMMARY

In the third quarter of 2021, the South African economy was faced with numerous setbacks. This was in the form of the third wave of Covid-19 infections and the social unrest which affected Kwa-Zulu Natal and parts of Gauteng. The social unrest was an illustration of dissatisfaction by local citizens following the arrest of the former president Jacob Zuma as well as the poor state of public services. This saw one of the largest claims in history due to the South African Special Risks Insurance Association (SASRIA). The weeklong looting of retail stores and malls has left 1787 retail stores damaged, over 50 000 informal traders targeted, 40 000 businesses affected, and approximately 1 227 ATMs damaged. The riots are expected to cost the economy about R50 billion in lost output with 150 000 jobs at risk.

In its August statement of the monetary policy committee, the South African Reserve Bank (SARB) indicated that growth experienced in the first quarter of the year might somewhat be reversed by the social/economic unrests thereof. While the global economy is still battling the Covid-19 pandemic, South Africa (in abreast with other countries) seems to be progressive in its vaccine roll-out project. According to the statistics pertaining to Covid-19 domestically, the peak of third-wave infections became evident in the third quarter of the year. Hence, the country was moved from adjusted alert level 4 to adjusted alert level 3 on the 25th of July 2021. Additionally, as the number of new Covid-19 cases continued to decline, restrictions on economic activities were eased further noting a move to adjusted level 2 around mid-September (13 September 2021) and ultimately to adjusted level 1 in the dawn of October 2021.

Nevertheless, economic performance measured through the key macroeconomic objectives (such as employment stability, economic growth, and price stability) reveals some unbalances. For instance, the rate of unemployment according to Statistics South Africa (Stas SA) sits at 34.4% for the second quarter of the year. Also, the Quarterly Labour Force survey indicated a 2.2 million deterioration in the number of employed persons during the quarter thereof. On a positive note, the economy grew by 1.2% (its fourth consecutive monthly growth) in the second quarter of 2021. Meanwhile, the inflation rate rose from 4.6% in July to 4.9% in August, major contributions being food and non-alcoholic beverages (an increase by 6.9%).

In line with the above, there has been a considerable increase in government revenue in the first quarter of the 2021/22 fiscal year. Tax instruments performed significantly well and outperformed the projected amounts. National government revenue increased by 53.8% year on year during the first quarter of the 2021/22 fiscal year. Likewise, national government expenditure increased although below projections by an amount equal to 11.7 per cent during the same period. Cash deficit narrowed as a result of the good performance of both national government revenue and expenditure. The amount of R22.7 billion was recorded as cash deficit in the first quarter of the 2021/22 fiscal year which is R103 billion less than in the same period of the 2020/21 fiscal year.

Notwithstanding, the pandemic has compromised the health care system as more patients had to be treated for Covid-19. Similarly, it has severely impacted the educational system as primary and secondary school learners in most parts of the country are only allowed to attend school two to three days per week. Furthermore, the outbreak of the riots in July 2021 also had an impact on learners' attendance and also increased the number of casualties. Given the vaccination rollout, it is expected that the impact on these two sectors will be eased. Covid-19 and the related measures likewise affected global co-operation in the goods market and therefore trade patterns. Lockdown and quarantine measures disrupted production processes, ultimately affecting supply and export capacity; while Covid-19 induced reduction in income affected import demand.

In the domestic equity markets, retail and bank stocks came under pressure in July 2021 as businesses were affected by the looting and riots that took place in some parts of the country following the arrest of the former president. More than 200 shopping centres were affected, and thousands of retail stores were impacted and damaged. Although, the benchmark all-share index dropped by 0.53% to 67.539 points on 15 July 2021, the reaction was not as negative as initially anticipated. Food and drug retailers' stocks fell by -2.7% while general retailers fell by 4.7% in response to the looting. First Rand slumped 6.7%, followed by Absa Group Ltd -5.7%, Nedbank -5,2% and Standard Bank Group Ltd -5%.

2021 Energy sector headlines have been dominated by both troubles at Eskom and continued rise in fuel prices. Eskom's woes exacerbated by increasing energy demand have given birth to new opportunities in the electricity space for both new and old players. Moreover, government's regulatory amendments in the electricity space have sent a strong signal to the markets about government's seriousness to accommodate all players in the industry. In the short run, the developments around Eskom, Sasol's green hydrogen and fuel prices remain the main focal points. Meaningful analysis in the beginning of the fourth quarter of 2021 on the outlook of oil prices towards year end suggests high probability of prices of petrol and oil related products to hike. Petrol price hikes come as a result of global oil price increase due to the growing global oil demand. Recent weaker rand also contributes significantly to this estimated petrol price hike.

Given the interconnectedness of countries and how the Covid-19 spreads, equal distribution of vaccines is necessary to ensure recovery in global movements and therefore trade. If the world is not fully vaccinated, progress in globalisation will be sabotaged and countries may involuntarily move toward economic deglobalisation. This may have negative implications such as shortages of production inputs and consumption goods, and ultimately inflation.

2. EDUCATION AND HEALTH

- **Lebo Siboyi**

2.1. Introduction

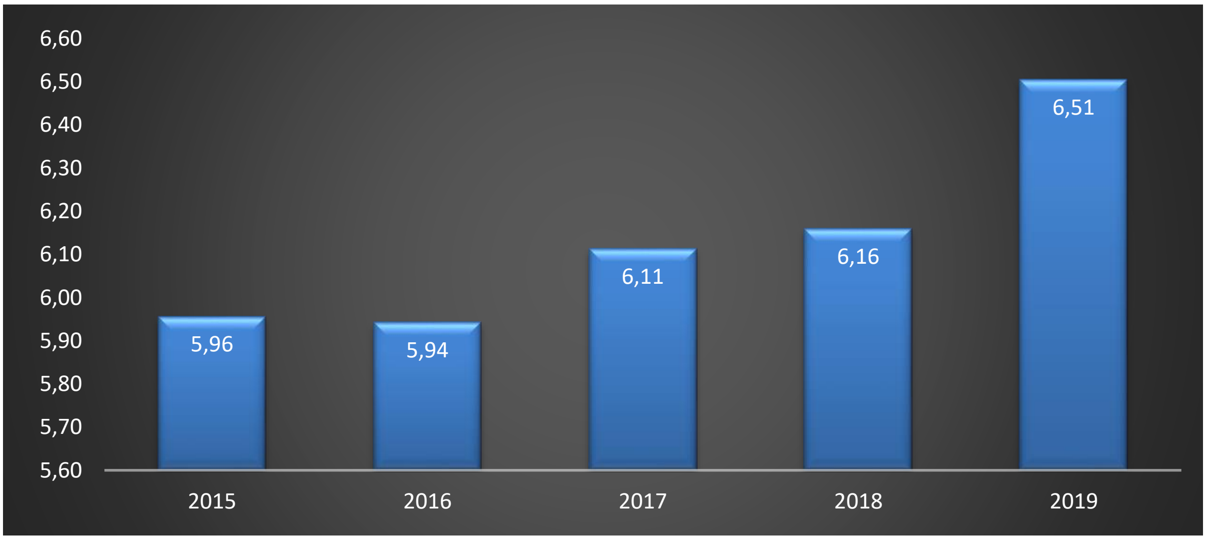
The pandemic has compromised the health care system as more patients had to be treated for Covid-19. Similarly, it has severely impacted the educational system as primary and secondary school learners in most parts of the country are only allowed to attend school two to three days per week. Furthermore, the outbreak of the riots in July 2021 also had an impact on learners' attendance and also increased the number of casualties. Given the vaccination rollout, it is expected that the impact on these two sectors will be eased.

2.2. Education – School fees increase rate has declined amid the pandemic

Education is one of the main contributors to sustainable growth and development. For this reason, it remains necessary for economies, including South Africa, to invest a substantial number of resources in education. Through education, a skilled labour force can be created, the employability status of citizens can be improved, and innovation and entrepreneurial activities can be encouraged. This will also aid in increasing productivity and improving the quality of life for South African citizens. Furthermore, given the impact that the pandemic has had on the educational system and the way of learning, it is then important that sufficient funding is dedicated to education to ensure that the educational standards are not compromised.

In acknowledging its importance, South Africa spends significant amounts on education. Figure 2.1 below shows government expenditure on education as a percentage of GDP for the period 2015 to 2019. As seen in figure 2.1, there has been a persistent rise in education expenditure as per increase from 5.96 per cent in 2015 to 6.51 per cent in 2019. This reveals the government's dedication to improving education outcomes and increasing access to quality education and training as envisaged in the National Development Plan (NDP) Vision 2030 (National Planning Commission, 2017).

Figure 2.1: Government Expenditure on Education

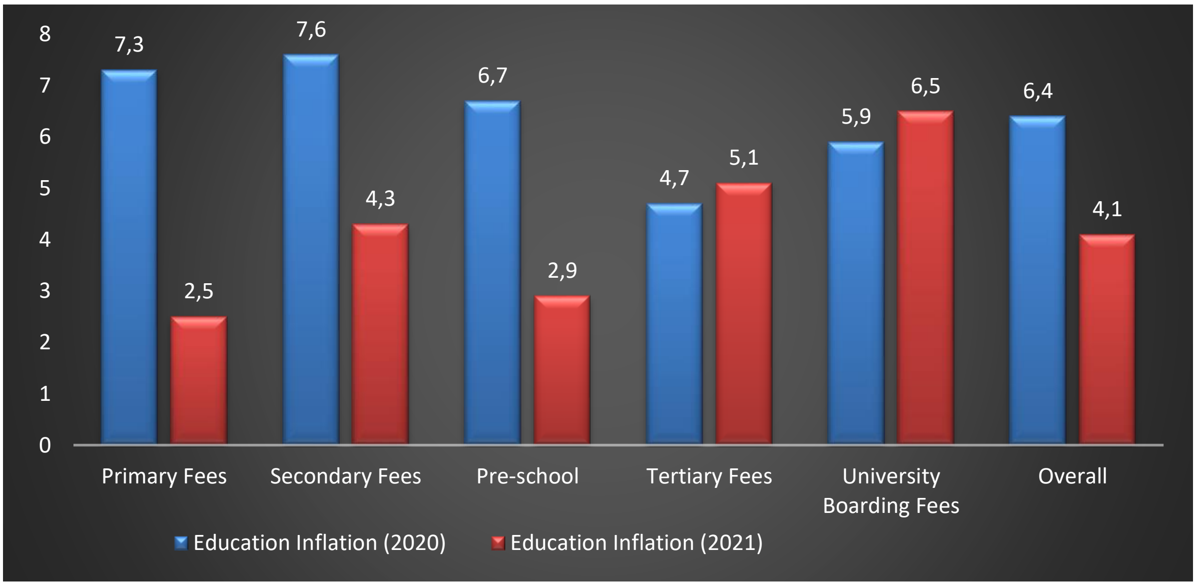


Data Source: Author's own computation using data from the World Bank (2021)
**2020 and 2021 not included due to data unavailability*

The increase in education expenditure has been accompanied by an overall decline in education inflation, as shown in figure 2.2 below. The overall education inflation as of 2021 is 4.1 percent. According to Stats SA (2021), this is the lowest education fees increase since at least 1991. The decline from 6.4 per cent in 2020 to 4.1 per cent in 2021 was due to concerns by schools on the impact of higher education costs on families during the Covid-19 pandemic. Therefore, the fee increase had to be moderate given the pandemic and its impact on people's livelihoods. The primary fees had a significant reduction from 7.3 per cent to 2.5 per cent, the secondary fees decreased from 7.6 per cent to 4.3 per cent, and the pre-school fees decreased from 6.7 percent to 2.9 percent during the period 2020 and 2021. However, the tertiary and university boarding fees had a 2021 fee increase that was greater than the 2020 fee increase. The university boarding fees increased from 5.9 per cent to 6.5 per cent while the tertiary fees increased from 4.7 per cent to 5.1 per cent.

The increase in tertiary fees could lead to a reduction in the number of students enrolling for tertiary education amid already high tuition fees. Notably, a majority of the previously disadvantaged students rely on the National Student Financial Aid Scheme (NSFAS) to cover their tertiary education costs. The reduction in primary and secondary school fees should also be further encouraged given that one of the key reasons given by young people aged 7-18 years for not attending school is the lack of money for fees as was noted in our previous report (2021Q2).

Figure 2.2: Education Inflation



Data source: Author's own computation using data from Stats SA (2021)

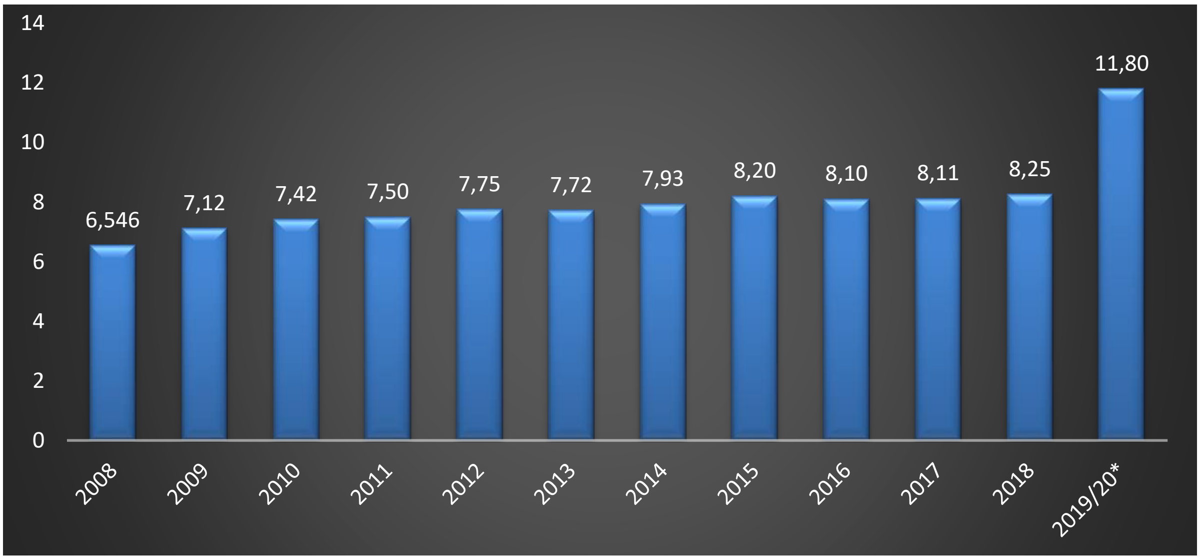
Given the realized and potential impact of covid-19 on education, a continued increase in education expenditure can be expected and remains necessary to protect education outcomes. For example, the rollout of digital tools for learning and the recruitment of assistant teachers reveals the government's willingness to dedicate more funds to education despite unfavourable fiscal and economic conditions. The pre-covid period, if it will exist, will require an even greater commitment if the country is to ensure inclusive quality education that leaves no learner behind.

2.3. Health – There has been a decline in the life expectancy at birth due to the COVID-19 pandemic

Similar to education, health is an important determinant of development and growth. According to Monjarás-Ruiz and Limón (2005), good health allows individuals in a country to reach their full potential. It increases productivity and also improves future earnings as there is reduced absenteeism in the workplace. Therefore, to stimulate the development and growth of South Africa, the government must inject sufficient money into the health care system to ensure that South African citizens have access to quality universal and affordable health care.

Figure 2.3 below shows the health expenditure as a percentage of GDP. For the past 10 years, there has been a consistent increase in public health expenditure. For example, public health expenditure increased from 7.42 per cent in 2010 to 8.25 per cent in 2018. According to Unicef (2020), the South African government was estimated to have spent 11.8 percent of GDP on health care in 2019/2020. Given the pressure that the pandemic had on the health system, it is estimated that health expenditure as a ratio of GDP in 2020 and 2021 was higher than in the previous years. The increased expenditure was to ensure that the health system is equipped enough to handle the pressure of the increased number of admitted patients. Furthermore, South Africa is one of the most unequal countries in the world, therefore, health expenditure must be kept high so that affordable and quality health care is provided to the most vulnerable citizens. This will also allow for a healthier society that can contribute to the country's development.

Figure 2.3: Public Health Expenditure (%GDP)

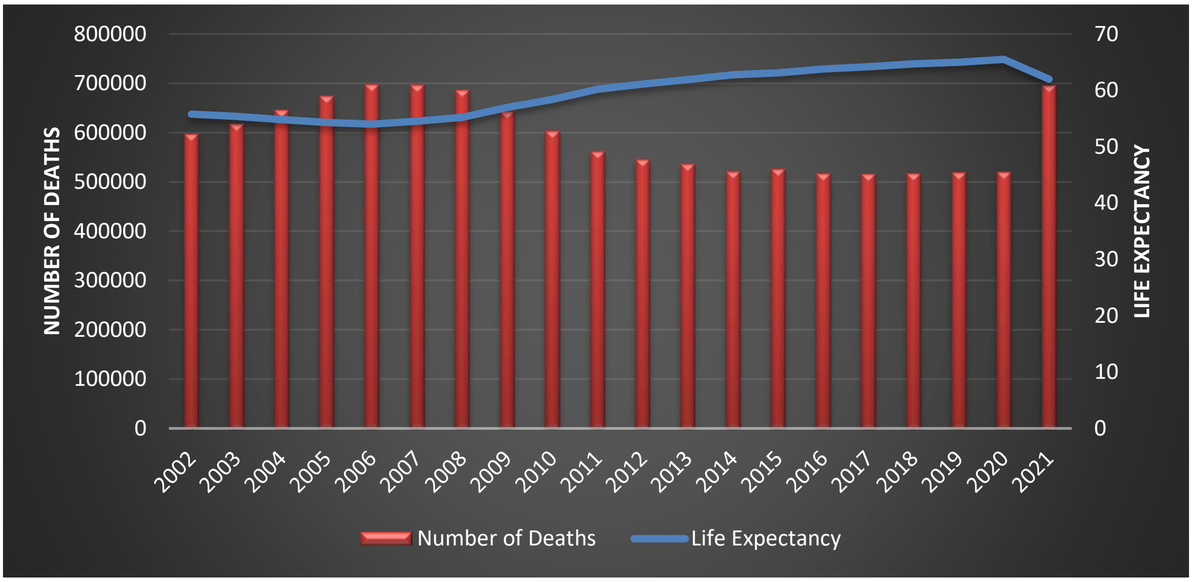


*Data Source: Author's own computations using data from the World Bank (2021). *2019/20 is an estimate from Unicef (2020), and 2021 is not included due to data unavailability.*

The 1st and 2nd waves of Covid-19 resulted in a sharp increase in the number of deaths in 2021 as shown in figure 2.4 below. The number of deaths in 2021 was recorded as 695 913 and this resulted in a decline in life expectancy at birth. The total life expectancy at birth declined from 65.5 years in 2020 to 62 years in 2021. The male life expectancy at birth decreased from 62.4 years to 59.4 years while the female life expectancy at birth decreased from 68.4 years to 64.6 years during the same period. Given the vaccine rollout and the compliance in terms of Covid-

19 regulations, it is expected that these figures will return to normal. Furthermore, better, and affordable health care needs to be provided by the government to ensure that life expectancy at birth improves.

Figure 2.4: Total Life Expectancy at birth and the Number of Deaths



Data source: Stats SA (2021). Note: The flow data is for 12-month period (1st July to 30th June)

2.4. Forward-Looking Statements: Economic Outlook

Below is a brief description of the best, worst, and base case scenarios.

Best Scenario:

- The massive vaccination rollout will put less pressure on the health care system and allow the government to ease spending on the health sector while focusing on developing other aspects/sectors of the country such as education and infrastructure.
- School will operate at full stream, and this will aid in increasing school attendance and consequently reducing poor education outcomes.

Worst Scenario:

- As we approach the festive and election season and with the ease of the lockdown regulations, there might be an increase in Covid-19 cases and that will put more strain on the health sector.
- There is a possibility of an emergence of new strains of the Covid-19 and that will put more pressure on the educational sector and further compromise the standards of educations as school children will be forced to stay out of school for most parts of the year.

Base Case:

- The country remains on lockdown level 1 and there is a moderate increase in the number of casualties during the festive and election season.

2.5. Conclusion and Recommendations

Overall, despite the fiscal pressure to continuously fund the education and health sector, the results have to a certain extent been poor. The impact of the pandemic on these sectors has also compromised the development and growth path of South Africa. The following is suggested to enhance development in the health and educational sector:

- More support should be given to the public school in terms of teaching and fees to allow for accessibility and increased possibility of completing school.
- Access to proper and affordable healthcare should be made easy to improve the health care of the citizens
- Vaccination rollout should be extended to primary and secondary school learners so that they can attend more days per week at school.

3. FISCAL POLICY AND GOVERNANCE

- Katlego Mphahlele

3.1. Introduction

South Africa is currently at 6 per cent of its peak of the Covid-19 infection curve and deaths are at 12 per cent of the death rate curve peak. Limited availability of vaccines led to South Africa implementing a three-vaccination phase strategy to prioritize groups that are most vulnerable to Covid-19 complications. Although numerous efforts have been undertaken by the government to acquire Covid-19 vaccines, vaccine hesitancy remains a big issue as citizens are reluctant to take the vaccine for many reasons. The pace at which the Covid-19 vaccine was developed remains the primary reason for reluctancy as well as the safety and efficacy of the vaccine. To date, only 10 million people (22.3%) of the population having received at least one dose of the Covid-19 vaccine. The slow pace of the vaccination roll-out program is alarming, and health professionals have raised concern about an evident drop in the demand for vaccines. This poses a potential threat to South Africa's plan to vaccinate at least 67% of the population by the end of 2021 in order to achieve herd immunity[1].

3.2. Governance

Good governance and financial systems contribute immensely towards an equal, and sustainable growth path (SARB, 2021). Negative systematic events are less likely to occur when these two factors are put in place. However, in the case of South Africa, consequences of poor governance and high corruption are slowly becoming more prevalent as there has been an increase in riots between local citizens and the government amid poor service delivery and the ruling of the constitutional court. During July 2021, riots broke out in Kwa-Zulu Natal and parts of Gauteng following the imprisonment of the former President of South Africa, Mr Jacob Zuma, for contempt of court.

It is worth noting that both the Kwa-Zulu Natal and Gauteng provinces keep the South African economy afloat as they account for more than 50% of the country's GDP. Although attempts were made by the government to calm the situation, the combination of massive lootings and Covid-19 pandemic have put a huge strain on the South African economy. The retail sector was hit the hardest with over 1787 retail stores damaged, and up to 40 000 businesses impacted. In Rand terms, this costed the Kwa Zulu Natal province R20 billion. Moreover, this exacerbated unemployment as more than 150,000 jobs were at risk. In overall, actual tax revenue collected is expected to fall below projections, considering that most companies operated at economic loss for most parts of the year amid the Covid-19 pandemic and a series of other events such as the riots.

The likelihood of investors being scared off remains very high amid social unrest, political instability and high corruption levels. This further poses a threat to the South African economy given that debt financing is used to fund current expenditure by government.

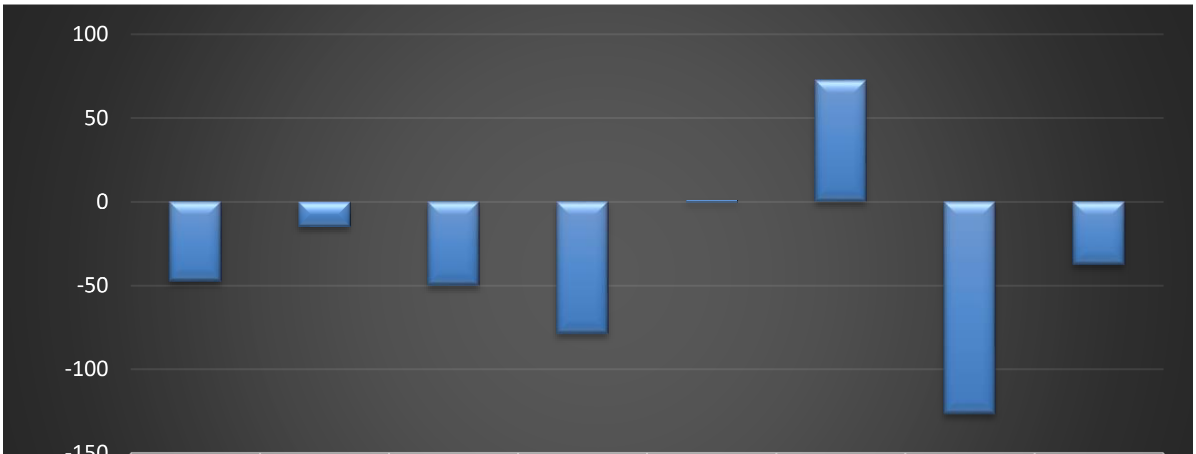
[1] *Herd immunity occurs when a significant portion of a community becomes immune to a disease and decreasing the likelihood of the disease spreading.*

3.3. Fiscal position

South Africa's net borrowing requirement decreased tremendously, from R163 billion in the fiscal year 2020/21 to R27.2 billion in 2021/22. This decrease can be attributed to lesser cash shortfalls of the national government as lockdown restrictions were lifted. More people were back at work and more revenue was collected, and overall increased economic activity with a moderate decrease in government expenditure.

The figure below reflects the monthly fluctuations of South Africa's net borrowing requirement. The net borrowing requirement decreased from R-126.67 in July 2021 to R-37.57 million in August 2021 and this can be expected to decrease even further in the next quarter as more people get vaccinated and South Africa reaches herd immunity. The economy is only expected to recover and reach pre-pandemic levels in 2022/23.

Figure 3.1: Monthly trends in National Net borrowing requirement (R Million)



	Jan, 2021	Feb, 2021	Mar, 2021	Apr, 2021	May, 2021	Jun, 2021	Jul, 2021	Aug, 2021
Series1	-47,513	-14,4	-49,954	-78,798	1,054	72,639	-126,67	-37,568

Source: (South African Reserve Bank, 2021)

3.4. Government revenue and expenditure

There has been considerable increase in government revenue in the first quarter of the 2021/22 fiscal year. Tax instruments performed significantly well and outperformed the projected amounts. National government revenue increased by 53.8% year on year during the first quarter of the 2021/22 fiscal year. Likewise, national government expenditure increased although below projections by an amount equal to 11.7 per cent. Cash deficit narrowed as a result of the good performance of both national government revenue and expenditure. The amount of R22.7 billion was recorded as cash deficit in the first quarter of the 2021/22 fiscal year which is R103 billion less than in the same period of the 2020/21 fiscal year.

3.5. Forward-Looking Statements: Economic Outlook

Positive case

If effective measures are put in place to reduce vaccine hesitancy such as sharing positive information regarding the efficacy and most importantly the safety of the vaccines, South Africa's plan to reach at least 62% herd immunity by the end of 2021 will be successful, fiscal shortfalls will lessen and this will have a positive impact on the South African economy.

Negative case

Inability to reach herd immunity only derails growth and might lead to a spike in Covid-19 infections. South Africa's net borrowing will increase amid efforts to combat new mutations of the Covid-19 virus.

Worst case

If governance and service delivery in South Africa are not re-evaluated, riots will occur more frequently, and the public will resort to looting. Unemployment will remain high and foreign investors will be hesitant to invest in South Africa and this will lead to overall poor economic growth.

3.6. Conclusion

The Covid-19 pandemic did not only worsen the pre-existing socio-economic issues South Africans face but exacerbated even further the inequalities between civils. Good governance in South Africa remains a myth, the gap between the rich and poor is disheartening and could be avoided under good ethical practices by government officials. Although South Africa's fiscal position rapidly strengthened in the last quarter of 2020, it remains paramount to focus on reaching herd immunity to avoid the fourth wave of the Covid-19 virus striking.

4. BUSINESS AND FINANCE

- **Zaziwe Maluleke**

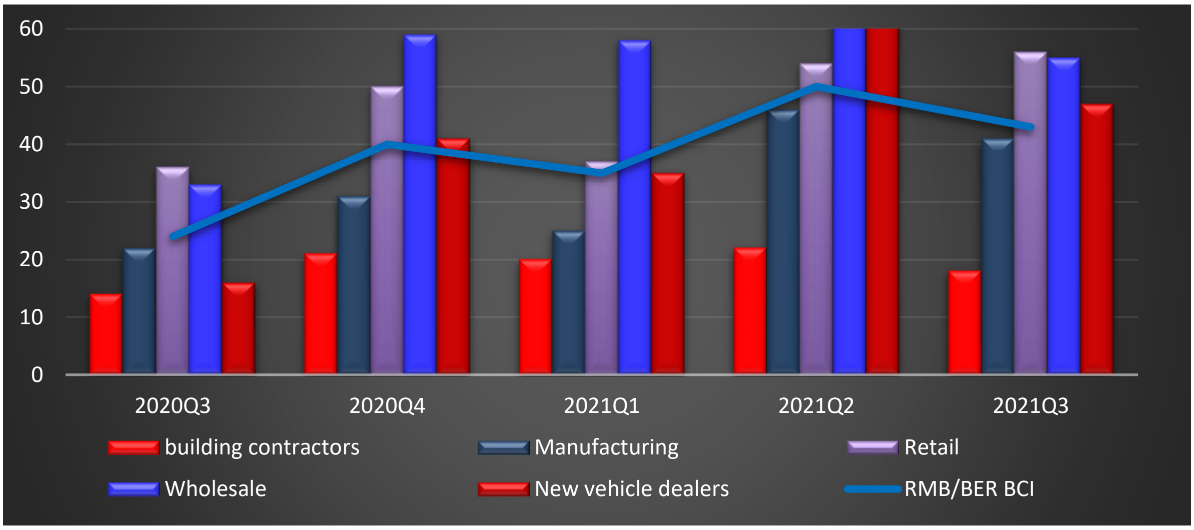
4.1. Introduction

In the third quarter of 2021, the South African economy was faced with numerous setbacks. This was in the form of the third wave of Covid-19 infections and the social unrest which affected Kwa-Zulu Natal and parts of Gauteng. The social unrest was an illustration of dissatisfaction by local citizens following the arrest of the former president Jacob Zuma. This saw one of the largest claims in history due to the South African Special Risks Insurance Association (SASRIA). Business confidence has also fallen below the neutral point of 50. Contrastingly, the pace of vaccinations is picking up in South Africa with over 19 million vaccines administered. This constitutes approximately 34.4% of the adult population (SA coronavirus, 2021).

4.2. Business Confidence Index (BCI)

The RMB/BER BCI has fallen below the neutral point of 50, to 43 in the third quarter of 2021. The BCI has since recovered following a record low of 5 when the Covid-19 crisis began in the second quarter of 2020. The BCI was driven by a fall in the confidence of wholesale and new vehicle dealers, which slowed from 63 to 55 and 47, respectively. Meanwhile, manufacturing confidence decelerated to 41 from 46 given a bleak picture of South Africa's manufacturing sector accompanied by high input costs and less participation in manufacturing. This is an indication that the unexpected looting in July, together with tighter lockdown restrictions have had adverse impacts on the confidence of business survey groups.

Figure 4.1: RMB/BER BCI[2]



Source: BER, 2021

4.3. The impact of riots on businesses

The Retail Sector

The weeklong looting of retail store and malls has left 1787 retail stores damaged, over 50 000 informal traders were targeted, 40 000 businesses were affected by the protest, and

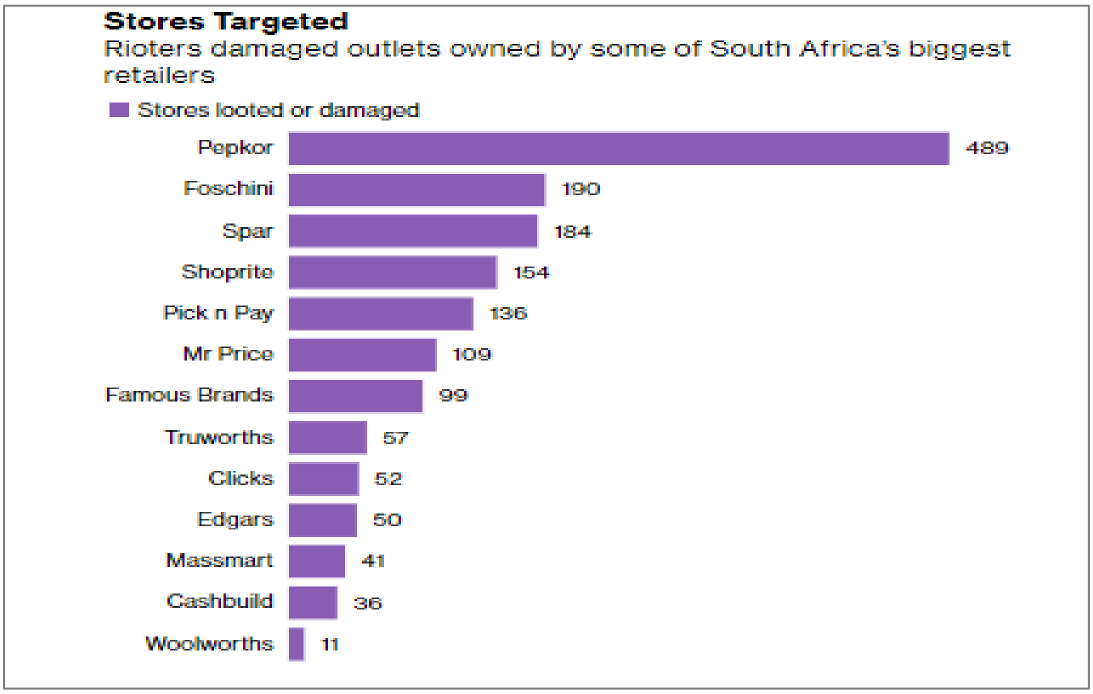
[2] An index less than 50 is said to indicate a loss of confidence, while an index more than 50 shows increased confidence

approximately 1 227 ATMs were damaged (South African Property Owners Association, 2021). The riots are expected to cost the economy about R50 billion in lost output with 150 000 jobs at risk (Bloomberg, 2021). Figure 4.2 below illustrates the number of stores damaged during the riots. Pepkor Group Ltd, which includes stores such as PEP and Ackermans have been affected the most with 489 stores damaged followed by The Foschini Group stores with 190 damaged stores. Retail sales for the month of July 2021 were on the downside, because of closures and damage to property.

The Insurance Companies

Insurers were faced with one of the largest claims over a short period. SASRIA, which is a state-owned company, is the only non-life insurer that provides special risk cover to all individuals and businesses that own assets in South Africa as well as government entities. This is unique cover against risks such as civil commotion, public disorder, strikes, riots and terrorism, making South Africa one of the few countries in the world that provide this insurance, particularly at affordable premiums (SASRIA, 2021). Thus far, SASRIA has paid over R5.8 billion in claims and has reached an agreement with industry partners to help rebuild properties than do cash in lieu payments (SASRIA, 2021). The recent social unrest remains the worst in history for insurers but has made insurers aware of such situations when modelling the claim risk.

Figure 4.2: Stores looted/damaged during riots



Source: Bloomberg

4.4. Forward-Looking Statements: Economic Outlook

Positive scenario - More people are getting vaccinated; this may lead to less disruptions for businesses as economic activity eases. Businesses need to continue to be proactive in their strategy and making use of a well-built digital infrastructure.

Negative scenario – If load-shedding continues into the year, business activity will remain below potential. The uneven access to digital infrastructure and renewable energy will continue to put small businesses at risk of closure.

Worst-case scenario- The festive season is approaching; this means that more social gatherings will take place. The fourth wave of the coronavirus may come about. Sectors that produce and sell liquor may be at threat of lower-than-expected sales.

4.5. Conclusion

Given the assessed scenarios, the risks remain well balanced into the fourth quarter of 2021. The pace of vaccinations has picked up but there are concerns about the fourth wave, which may disrupt economic activity. Some business in KZN and Gauteng may suffer from losses from the social unrest and an unfavourable economic condition amid Covid-19.

5. MONETARY FRAMEWORK

- **Marius Masoga**

5.1. Latest Domestic Stance

The third quarter (July) of 2021 has embarked on a negative trajectory noting events (of social unrest/riots) that disrupted economic activities in major provinces of South Africa, i.e., Gauteng and Kwazulu-Natal. Thus, reducing investor confidence and levitating economic uncertainties. In its August statement of the monetary policy committee, the South African Reserve Bank (SARB) indicated that growth experienced in the first quarter of the year might somewhat be reversed by the social/economic unrests thereof. While the global economy is still battling the Covid-19 pandemic, South Africa (in abreast with other countries) seems to be progressive in its vaccine roll-out project. According to the statistics pertaining to Covid-19 domestically, the peak of third-wave infections became evident in the third quarter of the year. Hence, the country was moved from adjusted alert level 4 to adjusted alert level 3 on the 25th of July 2021. Additionally, as the number of new Covid-19 cases continued to decline, restrictions on economic activities were eased further noting a move to adjusted level 2 around mid-September (13 September 2021) and ultimately to adjusted level 1 in the dawn of October 2021.

Nevertheless, economic performance measured through the key macroeconomic objectives (such as employment stability, economic growth, and price stability) reveals some unbalances. For instance, the rate of unemployment according to Statistics South Africa (Stas SA) sits at 34.4% for the second quarter of the year. Also, the Quarterly Labour Force survey indicated a 2.2 million deterioration in the number of employed persons during the quarter thereof (Stat SA, 2021). On a positive note, the economy grew by 1.2% (its fourth consecutive monthly growth) in the second quarter of 2021. Meanwhile, the inflation rate rose from 4.6% in July to 4.9% in August, major contributions being food and non-alcoholic beverages (an increase by 6.9%). Internationally, the statistics are almost similar in terms of inflation rate and economic growth. For example, in the United States (US) inflation rate has been on the upwards trajectory in 2021 (ranging from 1.4% in January to 5.4% in July), though it slightly fell by a percentage to 5.3% in August. The European Central Bank (ECB) reported a rise of inflation by 2.2% in July (up from 1.9% recorded in June), which sits above the 2% target of the ECB (Bureau of Economic Research, 2021).

The economic trends reflected via the macroeconomic variables (objectives) mentioned above can be attributed to policies aimed to manage the demand for goods and services in the economy. Notably, the implementation of expansionary monetary policy (i.e., decrease in interest rate and purchases of financial securities) had a major impact on the rate of inflation, GDP growth and somewhat on the exchange rate. Major central banks (such as Federal Reserve Bank and European Central Bank) have indicated the intensions to cut back on their bond purchases programmes (implemented to boost economic activities during the pandemic) amid concerns of soaring general level of prices. Meanwhile interest rates are kept unchanged in many central banks including South Africa - there is a possibility of an increase in the upcoming meetings of monetary policy committee.

The second monetary policy review of the SARB released in October 2021 have shown the trajectory of growth and inflation rates in South Africa and globally. Therefore, indicating that global and domestic economic conditions favoured the economic growth in our country. Also, the impact of accommodative policies (expansionary fiscal and monetary policies) has transmitted significantly to the key macroeconomic variables. In the previous publication of the Vindilac Analytics quarterly economic report, the "Positive scenario" under "Forward-Looking Statement" section of the monetary framework posited that, increase in expenditure by consumers and businesses bodes well for the GDP growth. As per the report of the Q2 GDP growth by the Stats SA, consumption expenditure (spending by households) and gross fixed capital formation (spending by firms/businesses) increased by 0.5% and 0.9% respectively.

5.2. Forward-Looking Statements: Economic Outlook

Against the background pertaining to key economic data highlighted, the forward-looking statements are made to demonstrate the likely results, based on the current economic prospects.

Positive scenario – While sustainable economic recovery remains uncertain, expenditure by households as mentioned by the SARB, see Monetary Policy review (2021), proved to be resilient. Therefore, accommodative policies remain strong pillars for major spending entities in the economy, and such a momentum would likely be sustained in the medium-term.

Negative scenario – the hesitancy of taking vaccines by certain citizens would likely set back the economic momentum and induce uncertainties at the policy front. As a result, some economic activities might be restricted depending on the number of reported Covid-19 cases.

Worst case scenario – It has been over a year since the implementation of expansionary monetary policy by various central banks globally. Therefore, considering the extent to which such policies have impacted on the economy, inflation rate might get out of control if some of the policies are not reversed (i.e., if contractionary monetary policy is not partly implemented).

6. FINANCIAL MARKETS

- Bekithemba Qeqe

6.1. Introduction

Market performance in the third quarter reflected continued improvement in the macroeconomic outlook as society, the economy, and risk assets showed resilience in the face of another wave of Covid-19, while corporate earnings were better than expected. Most recently, the main concerns in the financial market have been about what happens next particularly around monetary policy and the outlook for inflation. Another market concern is the possibility of new waves of Covid-19 infections and its potential impact on the speed of global economic recovery. Although South Africa has passed the third wave, there is still a real risk of a fourth wave of infections and the biggest mitigation would be to get as many people as possible vaccinated before the arrival of the fourth wave. Vaccination hesitancy amongst the people remains a serious impediment to achieving this as the percentage of fully vaccinated people was only 16.4% by 30 September 2021 (Investec, 2021).

6.2. Trends in Financial Markets

In the domestic equity markets, retail and bank stocks came under pressure in July 2021 as businesses were affected by the looting and riots that took place in some parts of the country following the arrest of the former president. More than 200 shopping centres were affected, and thousands of retail stores were impacted and damaged. Although, the benchmark all-share index dropped by 0.53% to 67.539 points on 15 July 2021, the reaction was not as negative as initially anticipated. Food and drug retailers' stocks fell by -2.7% while general retailers fell by 4.7% in response to the looting (Bloomberg, 2021). First Rand slumped 6.7%, followed by Absa Group Ltd -5.7%, Nedbank -5,2% and Standard Bank Group Ltd -5% (Bloomberg, 2021). The JSE ALSI still managed to increase 4.1% in July 2021, supported by strong corporate earnings as well as an increase of 11% in the prices of resource shares. The ALSI increased further by 0.9% to an all-time high of 69 617 index points on the 10th of August 2021 before declining to 64 296 index points by 10th September 2021 (South African Reserve Bank,2021). The cumulative sales of non-resident sales increased from R31.5 billion to R45 billion in July and August 2021, reflecting weak domestic demand as well the impact of Chines economic troubles on emerging market equity index.

Higher commodity prices have partially shielded SA against the devastating effect of Covid-19 pandemic through a higher trade balance, which has supported the rand over the past year. The nominal effective exchange rate (NEER) increased by 1.1% between 30 June and 10 September 2021, despite the domestic civil unrest in July as well as rising concerns about the impact of new Covid-19 outbreaks on the global and domestic economic recovery (SARB, 2021). These events were countered by the depreciation in the US dollar following comments by the US Federal Reserve that although asset purchases could slow down in 2021, interest rates would not be raised soon. Although the rand has been volatile against the US dollar thus far in 2021, it still significantly outperformed other emerging market currencies such as the Brazilian real and Russian Rouble, while tracking the Mexican peso following the initial impact of Covid -19 (SARB, 2021). The Rand closed at around R15,14 against the US dollar, R20,34 to the British pound, R17,56 to the Euro and R0,13 to the Japanese Yen on 30 September 2021(SARB, 2021).

Commodities posted strong gains in the third quarter. Major commodity indices were led higher by a late-quarter rally in oil prices as members of “OPEC+” maintained a historically high compliance rate to self-imposed production targets while easing Covid-19 cases around the globe in September bolstered the demand outlook for refined petroleum products. Price of Brent crude oil increased above $80/barrel for the first time in three years during September 2021. Brent crude oil settled at $78.17/barrel on 30th September while the West Texas Intermediate (WTI) was trading at around $74.25/barrel. Furthermore, there was no progress on nuclear negotiations between the U.S. and Iran, and sanctions remained in place preventing Iran from selling oil on the global market. Gold on the other hand, posted a small loss in the third quarter as a firming dollar and rising interest rates helped offset still stubbornly elevated inflation metrics (Financial Synergies, 2021).

For most of the quarter, longer-term bonds outperformed shorter term bonds on the growing but the late-September rise in global bond yields resulted in a moderate drop in longer-dated bonds, which erased the earlier outperformance over short-duration bonds. The yield on South African government bonds with a maturity of 10 years or longer increased from around 8.89% at the end of June 2021 to around 9.25% by the 30th of July 2021. The yield on SA government 10 years bonds closed at around 9.91% on the last day of the third quarter. Notwithstanding the above, the cumulative net purchases of JSE-listed bonds by non-residents amounted to R26.2 billion in the first eight months of 2021 as opposed to the net sales of R64.2 billion in the corresponding period of 2020 (SARB, 2021). Non-resident net purchases of bonds increased from R4.8 billion in the first quarter of 2021 to R12.4 billion in the second quarter and amounted to R9.1 billion in July and August respectively. This reflected, among other things, movements in the exchange value of the rand, continued rollout of vaccines and expectations that major central banks will keep interest rates at current levels in the short term (SARB, 2021).

Effective vaccines have allowed policymakers to avoid re-implementing more stricter economic lockdowns that could hurt corporate earnings and the economy. New Covid-19 variants could still render the vaccines less effective and that would put the economic recovery in jeopardy. Inflation also remains elevated and that combined with supply chain disruptions, due to the ongoing pandemic, may impact corporate margins and profitability going forward. If an increasing number of companies start to raise concerns about future profitability due to these factors, it will negatively impact markets. However, while risks remain, macroeconomic fundamentals are still decidedly positive and it is important to remember that a well-executed and diversified, long-term financial plan can make it possible overcome bouts of even the most intense volatility such as we’ve seen over the last year.

7. INTERNATIONAL TRADE

- Chwayita Mkrola

7.1. Introduction

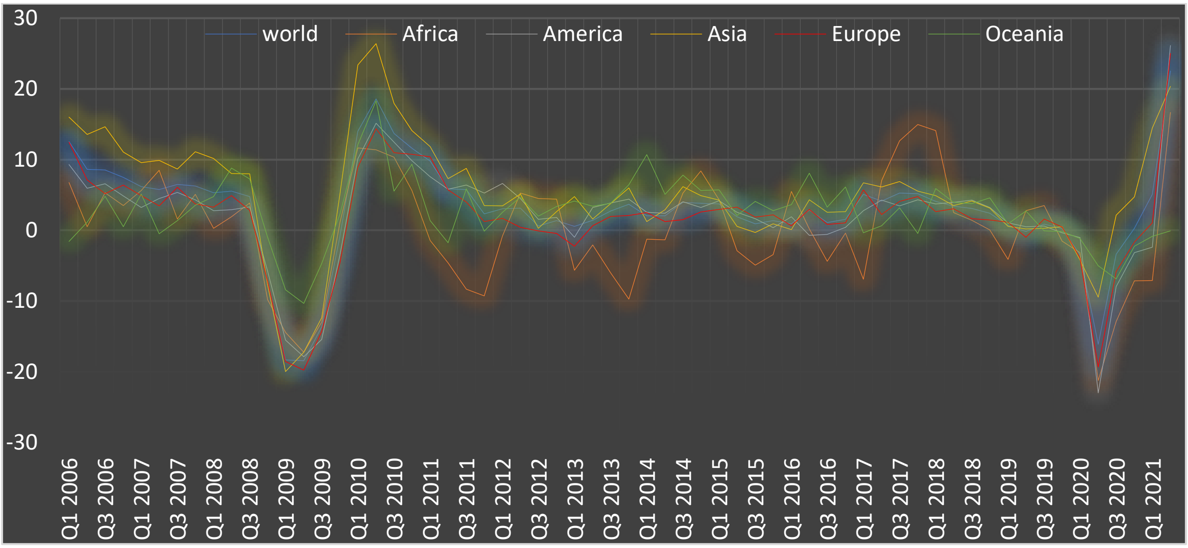
Covid-19 and the related measures affected global co-operation in the goods market and therefore trade patterns. Lockdown and quarantine measures disrupted production processes, ultimately affecting supply and export capacity; while Covid-19 induced reduction in income affected import demand.

7.2. International Trade

This section reviews trends of merchandise and services trade amid the two global crises namely, the global financial crisis and the Covid-19 pandemic, to understand how global shocks affect trade flows. Merchandise trade is reviewed across continents while a sectoral review for services trade is performed. Approach and observation periods are chosen according to data availability.

7.3. Merchandise Trade

Figure 7.1: Merchandise exports

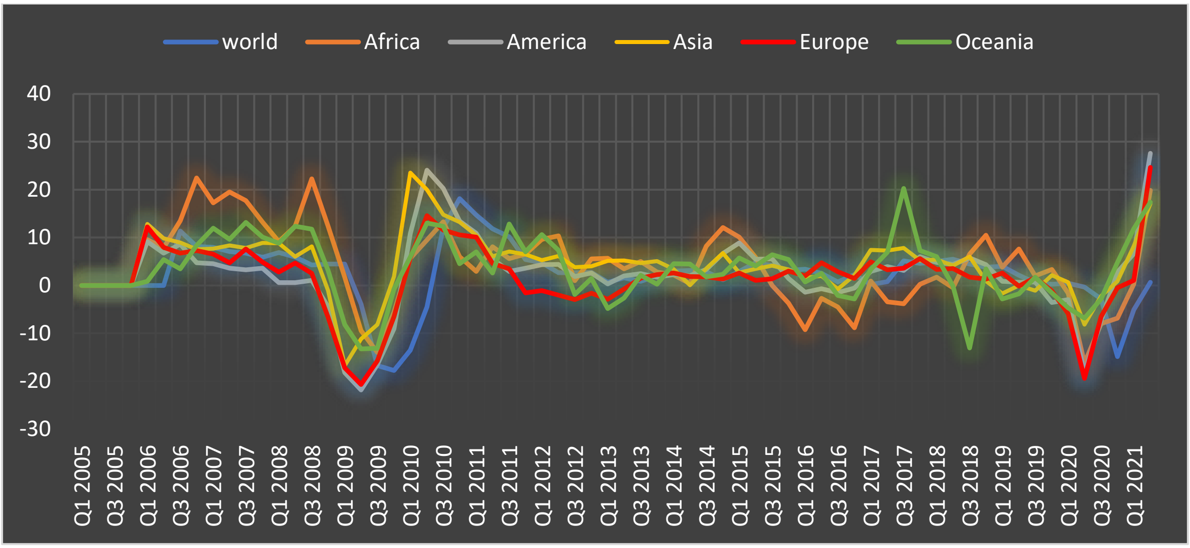


data source: (United Nations Conference on Trade and Development, 2021)

Figure 7.1 above shows growth rates of merchandise exports from the first quarter of 2006 to the second quarter of 2021. The global financial crisis caused a decline in merchandise exports for 5 consecutive quarters, from Q4/2008 to Q4/2009. Q2/2009 recorded a largest drop of 18%, with Asia and Europe hardest hit as per the 20% trough. World exports grew by a significant 14% in Q1/2010 and peaked at 19% in Q2/2010. Asia contributed largely to the peak despite being hardest hit, growing by 23% in Q1/2020 and 26% in Q2/2010.

Post- financial crisis period displayed irregular fluctuations until the Covid-19 global pandemic outbreak, which saw exports decline in the first three quarters of 2020. World exports troughed to 16% in Q2/2020; with America and Africa showing the largest drop of about 23%. On the other hand, Asia and Oceania troughed at respective rates of 9% and 5%. World exports recovered in Q1/2020 and peaked at 23% in Q2/2020. America recorded the highest growth of 26% while Africa peaked at 17%. On the contrary, Oceania continued to decline by 0.1% despite recording the lowest drop during trough period.

Figure 7.2: Merchandise imports



data source: (United Nations Conference on Trade and Development, 2021)

Figure 7.2 above shows quarterly growth rate of merchandise imports. During the observed period, world imports showed unstable patterns before dropping by18% in Q2/2009, in the wake of the global financial crisis. America had a largest decline of 22% while Africa recorded the lowest drop by 9.5%. Q2/2010 saw world imports growing higher than pre-crisis rates, peaking at 18%. Asia and America recorded highest peaks of 24% in Q1/2010 and Q2/2020 respectively. Africa was the last to peak at 13% in Q3/2010.

Global imports after the financial crisis were characterised by irregular fluctuations, although at rates slightly lower than pre-crisis period. Global imports grew lower than 1% in the first three quarters of 2019, this was followed by a persistent decline from Q4/2019 to Q3/2020, owing to the covid-19 pandemic. Q4/2020 recorded a trough of 15% in world merchandise imports, America had the largest drop of 18% while Oceania troughed at 7%. Q2/2021 saw merchandise peak to 22%, America's peaked to 28% despite showing largest drop during trough.

The effect of the two global shocks on merchandise trade proved momentary as per return to positive rate at most three quarters after trough, and as per return to pre-crisis levels in the case of the global financial crisis. Furthermore, slumps during crisis do not determine post-crisis trade performance of continents, continents with the largest drops are able to rebound to rates higher than that of continents that were least hit. Crises do not reshuffle continent's position in world trade, productive capacity remains one of the determinants of trade performance.

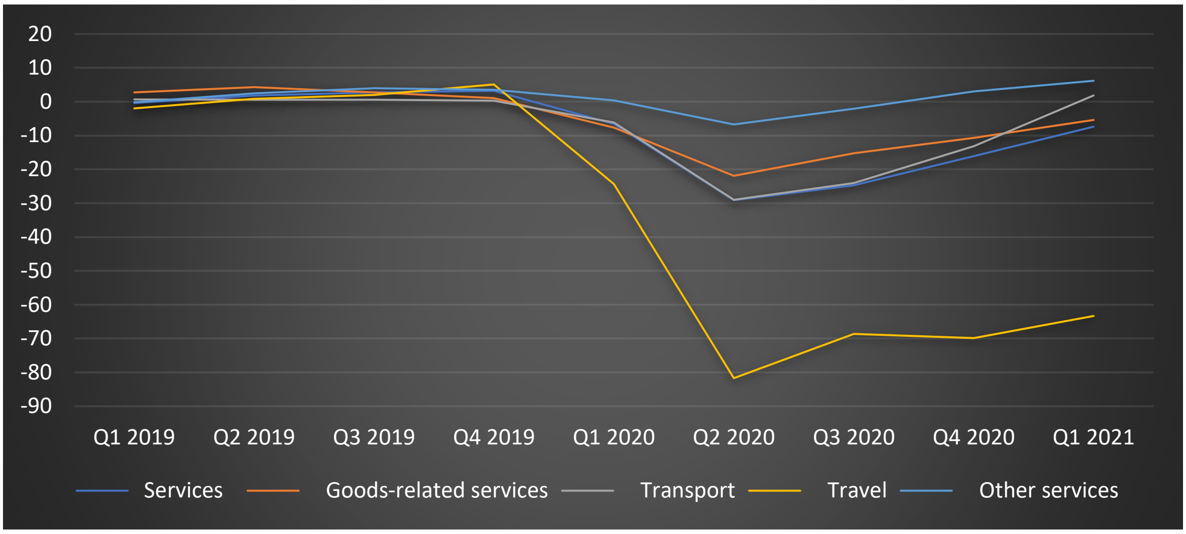
7.4. Services Trade

World Service Exports by category

World service exports opened with a decline of 0.34% in the first quarter of 2019 but closed on a positive note as per increase of 3.2% in the fourth quarter of 2019. This was followed by collapse throughout the year 2020, due to Covid-19, sinking by a huge 29% in Q2/2020.

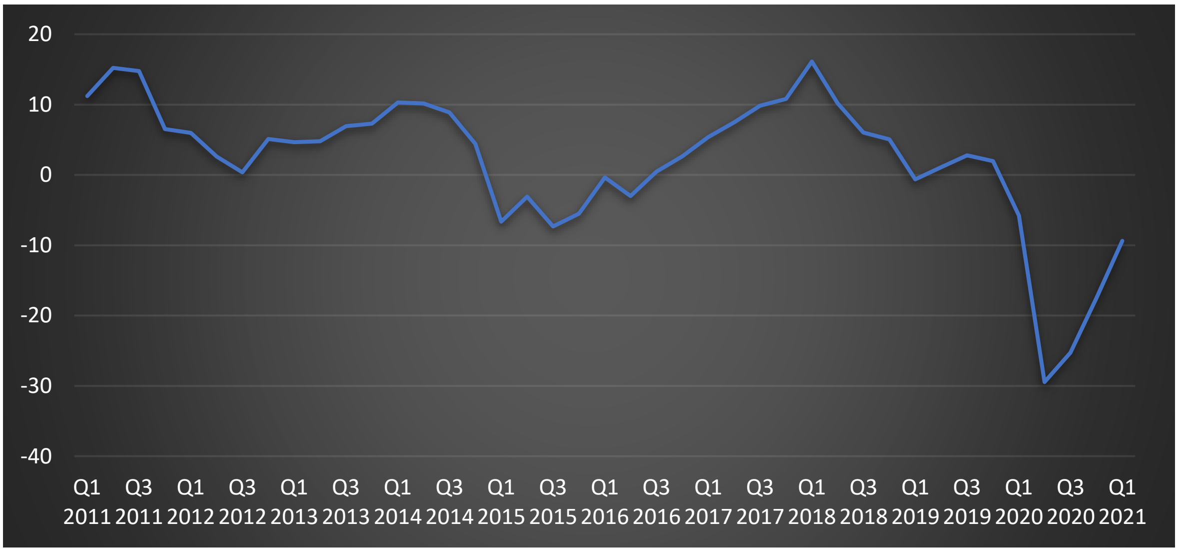
Transport services troughed at 29% in Q2/2020 after a decline of 6.5% in the previous quarter. The travel sector was most affected, plummeting to 82% in the trough period, followed by transport services at 29% due to restricted human mobility during the Covid-19 period. Goods related services recorded trough of almost 22%.

Figure 7.3: World Exports



data source: (United Nations Conference on Trade and Development, 2021)

Figure 7.4: World Imports



data source: (United Nations Conference on Trade and Development, 2021)

World services imports fluctuated inconsistently but remained positive, before declining consistently by an average of 4% between Q1/2015 and Q2/2016. Recovery followed and a spike to 16% in Q1/2018 was recorded before a downswing and a decline of 0.63% in the first quarter of 2019. Although the Q2/2019 and Q3/2019 signalled recovery, Covid-19 led to further declines and led to a trough of 29.5% in the second quarter of 2020. Although still negative, the upward trend observed from the Q3/2020 and Q1/2021 indicates potential for increased world service imports.

7.5. Conclusion

While trade returned to pre-crisis fluctuations after the effect of global financial crisis, the same cannot be anticipated about the Covid-19 pandemic. This is because containment of the virus depends on many variables including vaccine rollout, control of covid-19 variant, and the efficacy of the vaccine whose long-term effectiveness remains under study. Additionally, the global financial crisis was economic in nature and required focus on economic measures. Covid19, on the other hand is a medical disaster with severe economic effects such as loss of human capital and reduced productivity, economic measures alone are not sufficient.

Given the interconnectedness of countries and how the Covid-19 spreads, equal distribution of vaccines is necessary to ensure recovery in global movements and therefore trade. If the world is not fully vaccinated, progress in globalisation will be sabotaged and countries may involuntarily move toward economic deglobalisation. This may have negative implications such as shortages of production inputs and consumption goods, and ultimately inflation.

8. ENERGY & TECH

- Thabang Serobe

8.1. Introduction

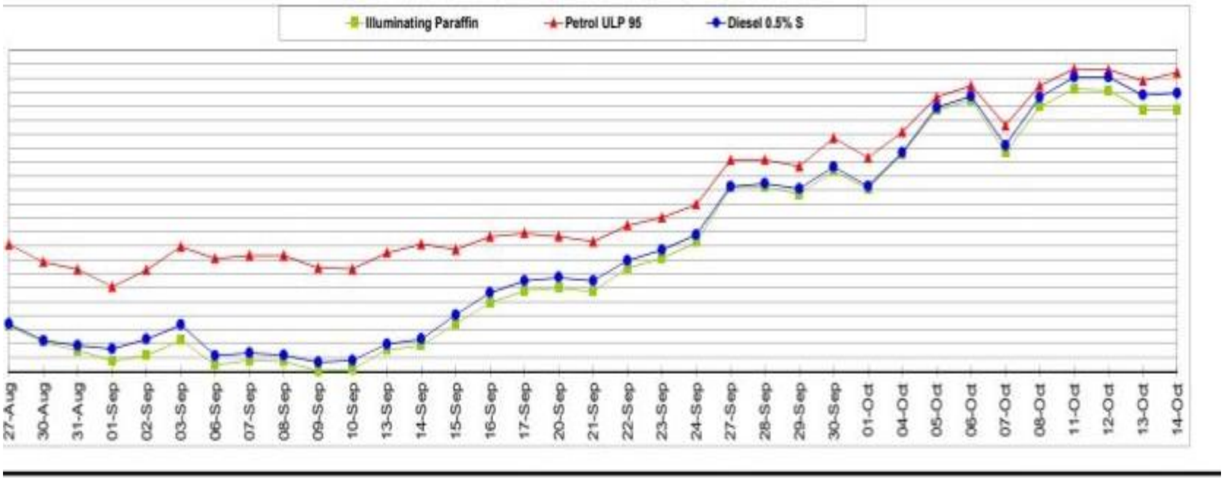
2021 Energy sector headlines have been dominated by both troubles at Eskom and continued rise in fuel prices. Eskom's woes exacerbated by increasing energy demand have given birth to new opportunities in the electricity space for both new and old players. Moreover, government's regulatory amendments in the electricity space have sent a strong signal to the markets about government's seriousness to accommodate all players in the industry. In the short run, the developments around Eskom, Sasol's green hydrogen and fuel prices remain the main focal points.

8.2. Trends in Energy and Tech

Petrol

Meaningful analysis in the beginning of the fourth quarter of 2021 on the outlook of oil prices towards year end suggests high probability of prices of petrol and oil related products to hike. Petrol price hikes comes as a result of global oil price increase due to the growing global oil demand. Recent weaker rand also contributes significantly to this estimated petrol price hike. Reports[3] suggests that economic recovery (having more participation in the economy), easing of Covid-19 restrictions causing high demand, shortage of natural gas and high coal prices are some of the biggest contributors to this estimated oil price increase. Meanwhile, OPEC + has been urged to increase production so as to stabilize prices. In the South African context, this will result to food price increase, higher logistics costs (including public transportation) and a generally higher cost of living.

Figure 8.1: Basic Fuel Price in SA (Cents per litre)



Source: Central Energy Fund

Figure 8.1 above, on a 'best fit line', depicts a gradual increase in fuel prices since August 2021. A wider gap between petrol and diesel prices (together with paraffin) in August 2021 going through September 2021. However, the gap diminishes towards the end of September 2021.

[3] https://www.reuters.com/business/energy/oil-prices-climb-highest-years-covid-recovery-power-generators-stoke-demand-2021-10-18/

Various factors contribute to fuel prices and these factors might change, hence the change in outlook. Meanwhile, fuel prices remain volatile in the short term.

Electricity

There has been progress in regulatory reforms around electricity generation which signifies a milestone in energy industry and attracts private investment. Mineral Resources and Energy department amended schedule 2 of Electricity Regulation Act 4 of 2006, hence allowing 'self-generation' of up to 100MW with no need to apply for a license. Of course, this new threshold is of greater benefit to IPPs and offers choice to entities with the desire to seek private generation.

Despite the progress, Eskom still grapples to keep the lights on with frequent occurrence of loadshedding and continued 'load reduction' program. In detail, load shedding occurs when there is an inadequate electricity supply mostly due to generation problems while load reduction is implemented to reduce the increasing demand for electricity.[4] Load reduction often gets implemented in areas with high density population.

In the short term, loadshedding is unlikely to be out of the cards as the utility giant struggle with several generation units and aging power stations. Increased competition, especially in generation, is and will be of high interest to investors. Meanwhile, the unbundling process and regulatory amendments continues to draw attention in the short-to-medium term.

Green hydrogen

Sasol announced a lead role in feasibility study for the Boegoebaai Green hydrogen project. This development has been well received that it enjoyed much attention at the Sustainable Infrastructure Development Symposium South Africa 2021 (SIDSSA 21). Sasol announced that it has been engaging with the Infrastructure and Investment Office (IIO) of the Presidency to develop a hydrogen economy in South Africa.

In their announcement, Sasol made mention of a signed Memorandum of Agreement (MOA) with the Northern Cape Development Agency (NCEDA) to lead the feasibility study to explore the potential of Boegoebaai (green hydrogen) as an export hub for green hydrogen and ammonia. The study is expected to continue for about 24 months. Therefore, the results of the feasibility study will determine the next step of development for Sasol.

In support of this, Sasol has taken initiatives to ensure a conducive business environment for domestic use of Boegoebaai. Green hydrogen economy continues to attract much attention from domestic investors with much anticipation on its role in the energy industry[5].

[4] *https://www.schindlers.co.za/news/is-it-lawful-for-eskom-to-implement-load-reduction/*
[5] *https://www.sasol.com/media-centre/media-releases/sasol-announces-lead-role-feasibility-study-boegoebaai-green-hydrogen*

Consulted Sources

Bloomberg. (2021). South Africa Economy Set to Take $3.4 Billion Hit from Riots. Retrieved from https://www.bloomberg.com/news/articles/2021-07-20/south-african-economy-set-to-take-3-4-billion-hit-from-riots

Bloomberg. (2021). South African Stocks Drop as Protests Weigh on Banks, Retailers. Retrieved August 22, 2021, from https://www.bloomberg.com/news/articles/2021-07-13/south-africa-stocks-edge-higher-as-government-seeks-to-end-riots

Financial Synergies. (2021). Third Quarter 2021 Market Review and Commentary. Retrieved September 2021, from https://www.finsyn.com/third-quarter-2021-market-review-and-commentary/

Investec. (2021, September). SA Economy. Retrieved October 2, 2021, from https://www.investec.com/content/dam/south-africa/content-hub/annabel-bishop/sa-economics/documents/Covid-19-Note-30-September-2021.pdf

SA coronavirus. (2021). Latest vaccine statistics. Retrieved from https://sacoronavirus.co.za/latest-vaccine-statistics/

South African Property Owners Association. (2021). Counting the cost. Retrieved from https://www.sapoa.org.za/media/5941/190821.pdf

Sasria is making significant progress in paying eligible claims. Retrieved from https://www.sasria.co.za/sasria-is-making-significant-progress-in-paying-eligible-claims/

SARB. (2021). Quarterly Bulletin: September 2021. Retrieved October 5, 2021, from https://www.resbank.co.za/en/home/publications/publication-detail-pages/quarterly-bulletins/quarterly-bulletin-publications/2021/FullQuarterlyBulletinNo301September2021

United Nations Conference on Trade and Development. (2021). Data Center: United Nations Conference on Trade and Development. Retrieved from United Nations Conference on Trade and Development Web site: https://unctadstat.unctad.org/wds/TableViewer/tableView.aspx?ReportId=99