strategy&

South Africa Economic Outlook

A challenging time for consumers

26 January 2022

pwc

About this document

This document reports on PwC South Africa's core macroeconomic forecasts for the country as of 25 January 2022, based on different forward-looking scenarios. The projections are updated on a monthly basis though revisions could occur more frequently due to major economic data releases or key influential events. Our economic model has been updated and recalibrated following the comprehensive revision of national accounts data as released by Statistics South Africa (Stats SA) in August 2021.

This edition of our South Africa Economic Outlook provides a perspective on key data highlighting a challenging situation for the country's consumers. We look at the following:

- Decline in jobs during 2021 that took employment back to levels seen in 2012 (page 3)
- Loss of semi-skilled jobs – many in the retail and hospitality sectors (page 4)
- PwC's EMEA Private Business Heatmap 2021 report reflecting on the challenging domestic business environment for entrepreneurs (page 5-6)
- Under-pressure household spending and economic growth forecasts (page 7)
- From pandemic to endemic: the post-lockdown economy is almost here (page 8)
- Rising cost of living, including petrol costing more than R20/litre (page 9)
- A potential trajectory for the upward trend in interest rates over the next few years (page 10)
- Where we are now: progress in getting economic activity back to pre-pandemic levels (page 11)

The report also provides some contextualised ideas on how South African businesses could approach some of these challenges.

This document is produced by the PwC South Africa Strategy& Economics team. The content reflects publicly on some of our key forecasts while other data is reserved for internal purposes and client services. For more information on the team and its services, see the last page of the document.

Back to the future as 2021Q3 employment numbers feel pressure from July unrest.

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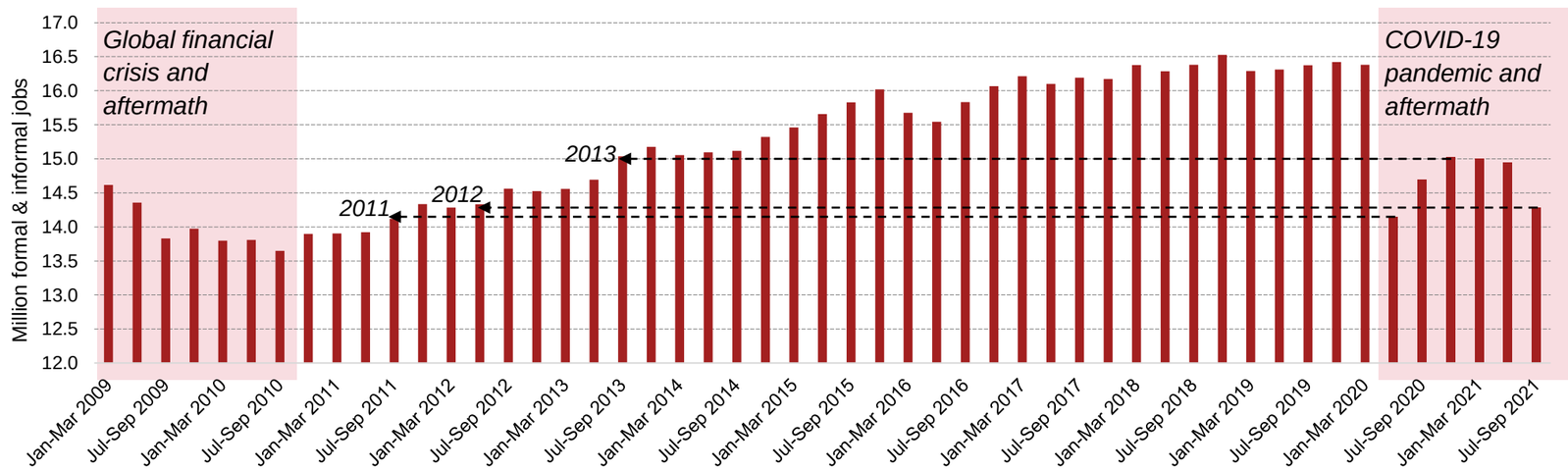
July 2021 unrest took a toll on third-quarter employment in KwaZulu-Natal and Gauteng.

Statistics South Africa (Stats SA) recorded the liquidation of 982 companies and 828 close corporations during the first 11 months of 2021. This added to a total of 2,035 liquidations in 2020. The closure of companies (due to the pandemic, load-shedding and other factors) and scaling down of activities by others have had a big negative impact on South Africa's employment over the past two years. Furthermore, following the week-long unrest in July 2021, and the adverse impact that this had on economic activity and physical infrastructure, Gauteng and KwaZulu-Natal lost a combined 323,000 jobs during 2021Q3. This contributed to a total loss of 660,000 employment opportunities in the third quarter of 2021. This, in turn, reduced total (formal and informal) employment to 14.28m — similar to levels seen in 2012.

Total employment is almost back to lockdown level 5 levels after 742,000 jobs were lost in 20212Q1–2021Q3.

To recap: Data from the Quarterly Labour Force Survey (QLFS) shows that South Africa lost 2.24m jobs during 2020Q2 due to the adverse impact of local and international lockdowns on the domestic economy. As lockdown measures eased, the country recovered 876,000 lost jobs during the second half of 2020, ending the year with 15.02m formal and informal jobs. However, due to a combination of factors, South Africa again lost a net 742,000 jobs during the first three quarters of 2021. As at September 2021, the country had 14.28m employed people. This was just 134,000 jobs (1%) more than seen in the depths of level 5 and 4 lockdown (2020Q2). In short: South Africa has again lost nearly nine out of every ten jobs recovered in 2020H2. This reflects poorly on the employment impact of the country's Economic Reconstruction and Recovery Plan.

Figure 1: Absolute number of jobs in South Africa

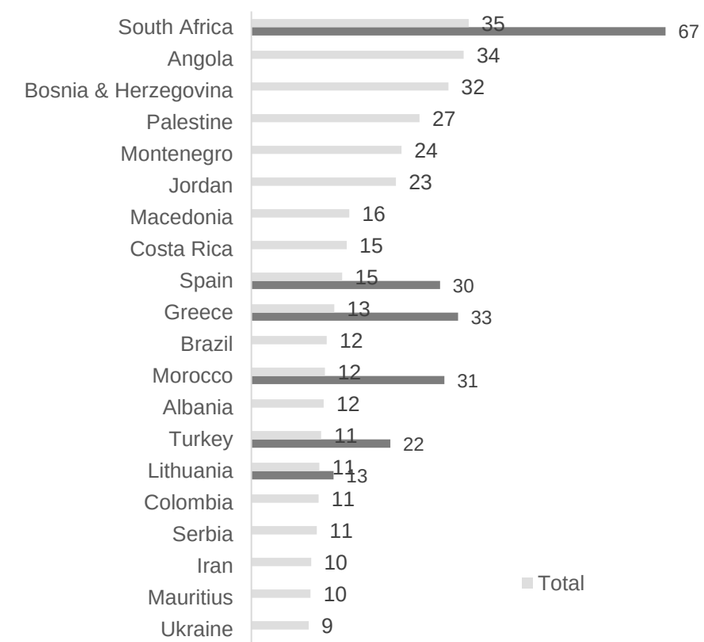


Source: Stats SA

Jobless economic growth: South Africa climbs to the top of the global unemployment charts.

South Africa is experiencing jobless growth. Unsurprisingly, the country now tops the global charts for both aggregate unemployment as well as youth unemployment.

Figure 2: Global unemployment and youth unemployment rates (%)



Source: Trading Economics

Countries included in this figure have published unemployment data since September 2021. Youth unemployment rate (aged 15-24 years) data included where available.

Loss of semi-skilled services employment contributes to jobless growth trend.

Semi-skilled employment is nearly 19% lower compared to before the COVID-19 pandemic.

Stats SA's latest QLFS shows that nearly 19% (i.e. almost one out of every five) of semi-skilled jobs that existed before COVID-19 are currently lost. Semi-skilled jobs include the aggregates for sales staff, craft and related trades, clerks, plant and machine operators, as well as skilled agricultural workers. The biggest number of jobs lost (a net 600,000 between 2019Q4 and 2021Q3) is in the category for sales and services. This group includes, among others, jobs like travel attendants, restaurant service workers, shop salespersons and demonstrators.

Table 1: Jobs by skills level (millions)

Occupation	2019Q4	2021Q3	% change
Elementary	3.76	3.53	-6.1%
Domestic worker	1.01	0.86	-15.5%
Un-skilled total	***4.77***	***4.39***	***-8.1%***
Sales and services	2.74	2.15	-21.5%
Craft and related trade	1.91	1.53	-20.0%
Clerk	1.73	1.41	-18.6%
Plant and machine operator	1.37	1.22	-11.3%
Skilled agriculture	0.08	0.06	-20.1%
Semi-skilled total	***7.83***	***6.37***	***-18.7%***
Technician	1.40	1.24	-11.9%
Manager	1.44	1.34	-6.8%
Professional	0.97	0.95	-2.5%
Skilled total	***3.81***	***3.52***	***-7.6%***
Grand total	**16.42**	**14.28**	**-13.0%**

Source: Stats SA

It is understandable how these jobs have declined over the past two years given how COVID-19 — and the July 2021 unrest — has impacted retail and hospitality. For example, Stats SA data shows that inflation-adjusted restaurant sales were nearly 25% below pre-pandemic levels by October 2021. Not surprisingly, employment in sales and services is down 21.5% compared to 2019Q4.

There were 2.7m South Africans working in the informal sector during the third quarter. Informal employment includes workers who are not entitled to, or receive, basic benefits (e.g. pension or medical aid contributions) from their employers and who do not have a written contract of employment. These jobs carry a greater risk of income variability than formal jobs. Even where people have contracted jobs, some are working less than what would be considered full-time. In 2021Q3, there were 846,000 underemployed workers in South Africa, defined as persons who were willing and available to work additional hours but whose actual total time worked was below 35 hours per week.

As reported in our September 2021 edition, the private sector is facing a myriad of local uncertainties that are keeping it from retaining workers or utilising them at 100% of available capacity. Companies build relationships with employees, partners, regulators, and the public on a foundation of trust, and if that foundation is shaken by job cuts, these relationships can risk losing investors and customers – and more talent. While organisations can rarely reduce their people risks (e.g. reducing staff) to zero, many struggle with the speed and nature of response to risks that arise. Stakeholder communication, active change management, and embedding a people-centric approach to workplace culture can help organisations gain clarity around specific aspects of their people risks, including the human resources function, policies, procedures and processes.

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MSMEs need to drive job creation - but it's hard being an entrepreneur in South Africa.

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PwC research reiterates that South Africa has a poor business environment for private businesses and entrepreneurs.

For many of those struggling with employment — whether not having a job at all, working in the informal sector, or being underemployed — 'plan B' could be to create your own job. However, it is hard being an entrepreneur in South Africa.

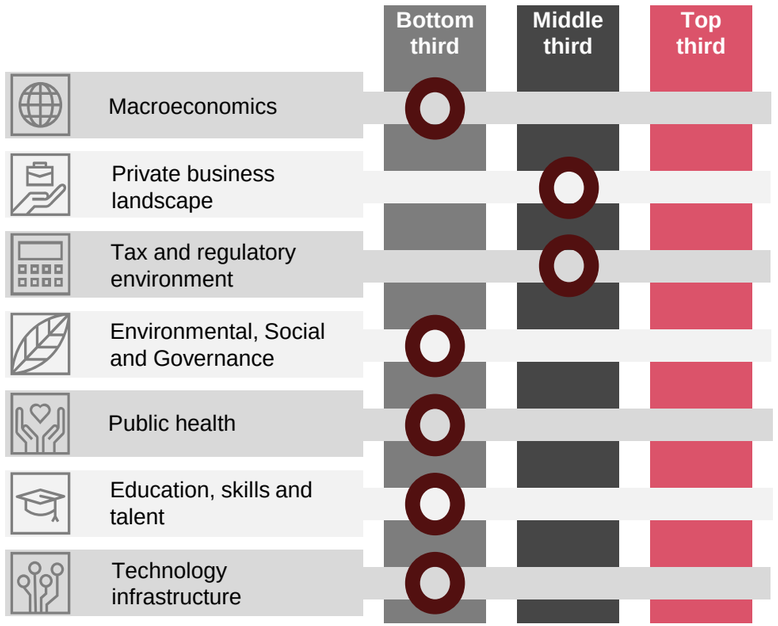
With 11.5m unemployed and discouraged adults in South Africa, it would be highly beneficial for the country to have a business environment that is supportive of entrepreneurs. Entrepreneur-ship is the driving force behind the micro-, small- and medium-sized enterprises (MSMEs) that create more than two-thirds of all jobs worldwide. Based on the latest international research findings, South Africa underperforms in creating an environment for entrepreneurship. Its key rankings include:

- 57th out of 137 countries in the Global Entrepreneurship & Development Index (GEDI) 2020. This index measures the health of entrepreneurship ecosystems.
- 84th out of 190 countries in the World Bank Doing Business 2020 report. This report provides measures of business regulations relevant to SMEs.

From a regional perspective, PwC's EMEA Private Business Heatmap 2021 provides an overview of the relative attractiveness of 34 jurisdictions in Europe, the Middle East and Africa (EMEA) as locations to foster private businesses and entrepreneurship. The attractiveness rankings are based on scores obtained across 37 metrics within seven different categories.

Unfortunately, South Africa ranks poorly in an EMEA context, with an aggregate score of 33.6 out of 100 placing it in the bottom third of territories. South Africa ranks 32nd out of 35 countries, placing below Croatia and Kenya and ahead of Greece and Nigeria. The accompanying diagram highlights where South Africa is placed based on component scores.

Figure 3: South Africa heatmap component scores



Source: PwC's EMEA Private Business Heatmap 2021

Based on the seven categories included in the heatmap calculations, we highlight some of the challenges to fostering private businesses and entrepreneurship in South Africa. (These lists are far from exhaustive).

Macroeconomics

- Long-term low GDP growth (often below the population growth rate) even before COVID-19 arrived. This limits market growth potential for a new business.
- High producer and consumer price inflation compared to many other countries included in the analysis.

Private business landscape

- South Africa performs poorly on many of the key metrics that reflect a strong private business landscape. This includes the availability of equity capital, the percentage of global multinational corporations (MNCs) registered in the territory, the number of mergers and acquisitions deals recorded, the proportion of large businesses that are privately owned and the value of inward direct investment.

Tax and regulatory environment

- While South Africa has a low tax rates and micro enterprises (SMMEs) to for indirect tax, total tax and contribution rate (as percentage of profit), tax compliance is onerous. According to the World Bank, the time (days per annum) it takes small, medium prepare, file and pay corporate income tax, value-added tax (VAT) and labour taxes is 30% longer than the average for Organisation for Economic Co-operation and Development (OECD) countries.

32nd

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Weak environmental and health indicators contribute to a challenging business environment.

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As an entrepreneur and private business owner, building a long-term strategy to drive and manage growth involves many aspects. PwC’s Owner’s Agenda framework looks at aspects like talent and skills as essential to developing SMEs. Attracting, retaining and developing high-quality talent that can drive the business forward is a key challenge.

ESG (environmental, social and governance) metrics

- PwC’s Net Zero Economy Index 2021: South Africa viewpoint found that for the third consecutive year — and contrary to what was seen globally — South Africa’s carbon intensity saw a 0.9% increase in 2020. The longer the country delays taking action to reduce emissions, the greater the costs will be for society, the economy and the environment.
- South Africa ranked 69th out of 180 countries in Transparency International’s Corruption Perceptions Index (CPI) 2020. While this is slightly better than a position of 73rd in 2018, it is much worse than rankings in the 30s and 40s that were seen during the early 2000s.

Public health

- South Africa’s life expectancy (average of 65 for males and females combined) is among the bottom 20% of countries globally. Low life expectancy is caused by a combination of factors, including:
  - an epidemic of infectious diseases (historically HIV/AIDS and tuberculosis, and now also COVID-19)
  - death due to violence and crime
  - Death of babies and mothers from perinatal and maternal conditions
  - prevalence of non-communicable diseases like cardiovascular disease and cancer.

Education, skills, talent

- Alongside the highest unemployment and youth unemployment rates in the world, South Africa’s employment and labour absorption rates are among the lowest measured in this EMEA report.
  - As analysed in the September edition of our economic outlook report, South Africa’s education system produces hundreds of thousands of high school graduates each year with skill sets that are not competitive in a global context .

Technology and infrastructure

- As the global labour market embraces the Fourth Industrial Revolution (4IR), only 56% of South African adults use the Internet. On this metric, the World Economic Forum (WEF) ranks South Africa 92nd out of 141 countries, i.e. in the bottom 40% of economies. Unsurprisingly, South Africa is lagging behind many other emerging markets in digitalising small businesses — a critical step towards elevating customer experiences, fuelling innovation, and advancing brands.

These seven factors imply that South Africa is a slow-growing market with challenges to accessing finance and private investment, as well as healthy and skilled workers. This situation discourages private businesses and entrepreneurship development — resulting in the MSME sector being constrained in creating new jobs. Unsurprisingly, the Business Partners SME Index 2021Q3 reported that only one in three local SMEs expect their businesses to grow in the next 12 months.

As an entrepreneur and private business owner, building a long-term strategy to drive and manage growth involves many aspects. Relating to the education, skills and talent aspects covered in our EMEA report, PwC’s Owner’s Agenda framework looks at aspects like talent and skills (amongst many other factors) as essential to developing SMEs. Attracting, retaining and developing high-quality talent that can drive the business forward is a key challenge. This requires business owners to invest in performance management, compensation and rewards, talent development, as well as diversity and inclusion.

Household spending increased in 2021 as consumers' outlook for their finances continue to recover.

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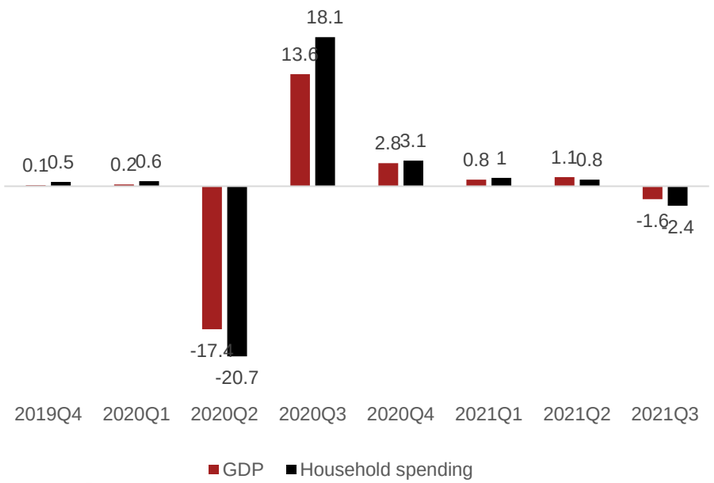
Outlook for household finances return to pre-pandemic levels as monetary policy and TERS support sentiment.

With the jobs dilemma comes reduced household spending — until recently, it accounted for more than 60% of GDP. Stats SA reported a 2.4% q-o-q (seasonally adjusted and annualised) decline in real household final consumption expenditure during 2021Q3. This was the first q-o-q decline in this GDP component since the imposition of lockdowns in 2020Q2. It signals that household spending had run into headwinds once more. These include, among other factors, income losses due to a further decline in employment, the negative impact of load-shedding, and the rising cost of living. Unsurprisingly, activity in the trade, catering and accommodation industries declined by 2.2% q-o-q in the third quarter of 2021. Admittedly this period included heightened lockdown restrictions, which negatively impacted hospitality spending in particular.

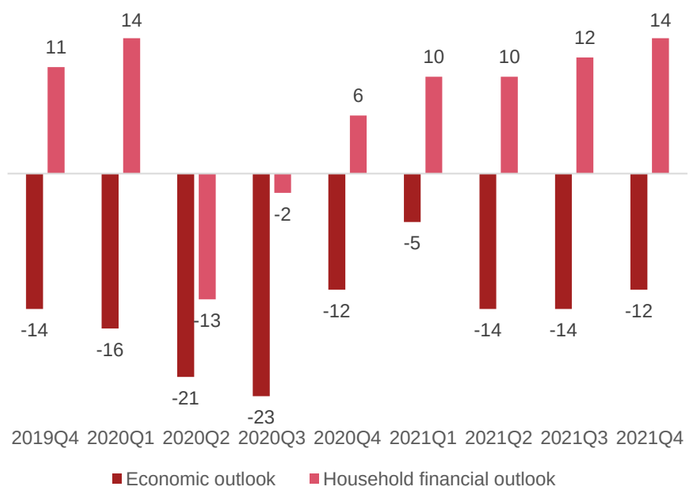
Figure 4: GDP growth vs household spending growth (real %, seasonally adjusted & annualised)



Source: Stats SA

On a positive note, real household expenditure increased by an average of 6.8% y-o-y during the first three quarters of 2021. To be fair, this somewhat belies the unemployment challenge, due in part to the impact of base effects on the y-o-y calculation. However, there were certainly some supportive factors for consumer spending during 2021. These included, for example, still-accommodative monetary policy (interest rates were still at the lowest level in five decades by 2021Q3) and the payment of around R11bn in Temporary Employer/Employee Relief Scheme (TERS) payments during the calendar year. This supported a recovery in consumer sentiment. In the fourth quarter, the FNB/BER Consumer Confidence Index (CCI) reported that South Africans' outlook for household finances was at the same level seen in 2020Q1, i.e. before the pandemic hit the local economy. .

Figure 5: Economic outlook and household financial outlook



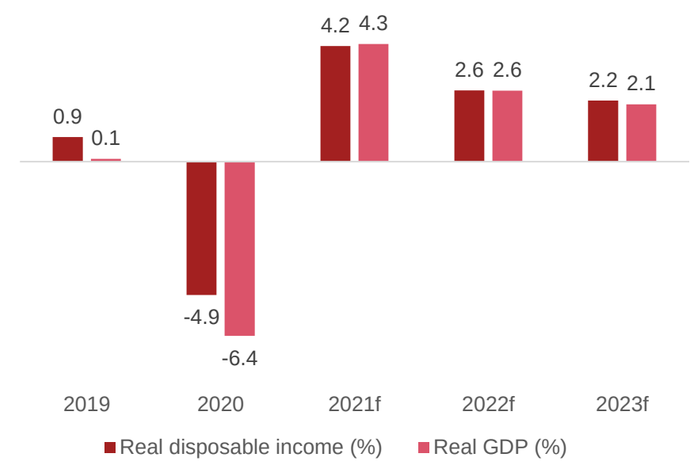
Source: Bureau for Economic Research (BER)

A reading below 0 indicates net negative sentiment.

Real disposable income is expected to grow by 2.6% this year alongside 2.6% real GDP growth.

We expect real disposable income to grow by 2.6% this year compared to an estimate of 4.2% in 2021. Following last year's catch-up growth in the wake of the 2020 recession, the slowdown projected for 2022 accompanies a decline in real GDP growth. We estimate that real GDP increased by 4.3% in 2021 and that the South African economy will grow by 2.6% in 2022. In PwC's recently released 25th Global CEO Survey, 70% of South African CEOs polled expect local economic growth to improve slightly (27%), moderately (40%) or significantly (3%) this year. This is close to the global total of 75%.

Figure 6: GDP and real disposable income forecasts



Source: PwC

From pandemic to endemic: the post-lockdown economy is almost here.

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The fact that December closed—and January has continued — with no increase in lockdown rules, suggests that South Africa entered 2022 en route to a new post-lockdown era. In this paradigm, COVID-19 has moved from being a pandemic to being endemic. As such, it is highly unlikely that the economy will again see significant lockdown restrictions...

8 out of 10 South Africans are now either fully or partially vaccinated against COVID-19.

There was always a risk that the recent holiday period could see stricter lockdown rules to combat the impact of the fourth wave of COVID-19 infections. Our baseline scenario for the final month of 2021 planned for stricter regulations during the second half of December as Omicron infections accelerated and family gatherings increased. However, in light of low volumes of hospital admissions, the government decided to not make any adjustment to the level 1 restrictions already in place. (This outcome was suggested by our upside scenario and certainly welcomed by the hospitality industry.) In fact, on December 30, restrictions were eased with the recall of the nightly curfew for the first time since March 2020. The fourth wave peaked in mid January.

The large volume of vaccines administered in 2021 certainly contributed to the significant reduction in pressure felt by hospitals over the past two months. At present, around 41% of adults are fully vaccinated, with another 46% partially vaccinated. Only 170,000 vaccines were administered in the week ending 17 January. We estimate that, at a pre-holiday average rate of 65,000 vaccines a day (recorded in the week ending 5 December), it will take another four months for the government to reach its goal of vaccinating 70% of the population. At a faster rate of, for example, 100,000 doses per day, this period would reduce to two-and-a-half months.

The fact that December closed — and January has continued — with no tightening of lockdown rules, suggests that South Africa entered 2022 en route to a new post-lockdown era. In this paradigm, COVID-19 has moved from being a pandemic to being endemic. As such, it is highly unlikely that the economy will again see significant lockdown restrictions outside of broader social distancing and other medical steps to combat virus transmission.

Nonetheless, a level 1 lockdown is likely to continue in the short term until legislation is in place to cope with the challenges of COVID-19 outside a state of emergency. This 22-month old state of emergency provides the government with powers to quickly respond to any adverse developments around COVID-19; alternative mechanism would have to be legislated allowing for quick reaction. .

Table 2: Lockdown levels

		Upside	Baseline	Downside
2021	January	3	3	3
	February	3 lite	3 lite	3 lite
	March-May	1	1	1
	June	3 lite	3 lite	3 lite
	July	Adj. 4	Adj. 4	Adj. 4
	August	3 lite	3 lite	3 lite
	September	3 lite	3 lite	3 lite
		2	2	2
	October	1	1	1
	November	1	1	1
	December	1	1	1
2022	January	1	1	1
	February	1	1	1
	March	*	1	1

Source: PwC

** Lockdown restrictions lifted but some requirements – e.g. social distancing and wearing of masks in public areas – remain in place*

The post-lockdown economy’s key pandemic-related challenge is no longer domestic policies but those abroad. At present, 100 countries still have total travel bans in place against South Africa, with another 123 applying specific restrictions like quarantines upon arrival.

Rising cost of living: petrol price temporarily edges back from R20/litre.

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Headline inflation reaches 5.9% y-o-y in December 2021 as petrol price jumps by more than 40% y-o-y.

A recent Ipsos survey found that 73% (nearly three out of four) of South Africans believe that prices seem higher than six months ago. This is in the upper range among the 30 countries polled (global average = 59%) when considering the average response to questions about the cost of transportation, housing, food and drink, utilities, clothing and shoes, medical and health care, and entertainment.

Globally, seven out of ten survey respondents noted that the cost of transportation (fuel, vehicle payments and maintenance, parking, public transit, etc.) was somewhat or a lot higher compared to six months ago. Fuel prices increased significantly on 1 December due to a weaker exchange rate as well as the annual adjustment to wholesale and retail margins. A weaker rand contributed around 37c/litre to the upward adjustment in fuel prices. An additional 75c/litre on petrol and 72.5c/litre on diesel was added by the increase in wholesale and retail margins, secondary storage and distribution allocations, as well as the slate levy. As a result, the cost of petrol increased to above R20/litre in Gauteng.

At the start of January, the cost of 95 unleaded petrol declined by 68c/litre as upward pressure from a weaker exchange rate was more than countered by lower international fuel prices. However, the nature of fuel price fluctuations suggest that it is only a matter of time before the R20/litre barrier is breached again. In the third week of January, international oil prices climbed to a seven-year high, suggesting fuel prices will again increase in early February.

Fuel costs form part of a larger challenge faced by companies to optimise their energy usage and supply chains. With fuel prices set to continue rising in 2022, South African companies must raise the bar on supply chain efficiency, agility, and resilience to meet customer demands in the most cost-effective manner.

Government is looking at options to lower the cost of fuel to consumers – all eyes on the budget speech.

When the R20/litre threshold was first seen on the horizon in 2021Q3, there were renewed calls for a review of the fuel price structure. At present, only about 45% of the price paid at forecourts goes towards funding the actual liquid fuel received by the buyer. The remainder is divided between wholesale, retail and distribution margins (~15% of the total cost) as well as a list of taxes, levies and duties (~40%). This includes a fuel levy of nearly R4/litre that is not directly allocated to transport-related functions — the money goes into the general government revenue pool.

Finance minister, Enoch Godongwana, and energy minister, Gwede Mantashe, both confirmed in December 2021 that the government is looking at options to lower the cost of fuel to consumers. Progress could be slow, however — updates on a potential fuel price cap first investigated in 2018 have quietly evaporated. The upcoming budget speech will hopefully provide more information.

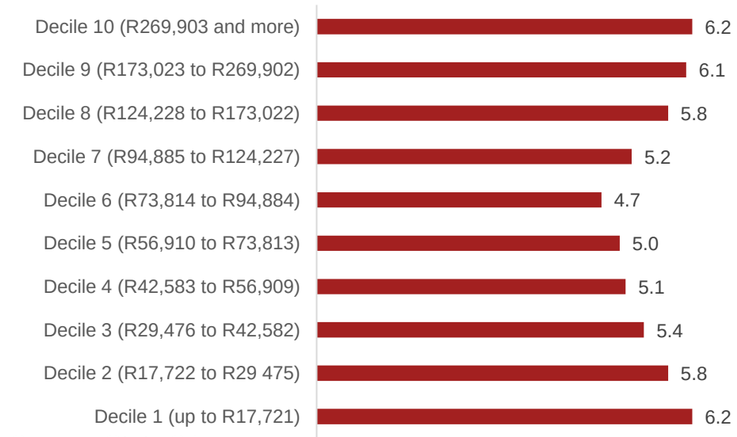
Headline inflation increased from 5.3% y-o-y in November to 5.9% y-o-y in December. Fuel costs jumped by 40.5% y-o-y in December and contributed 1.9 percentage points to the headline 5.9% number. Transport was responsible for 2.3 percentage points of December's headline inflation, followed by the two categories of housing & utilities and food & non-alcoholic beverages, which each contributed another percentage point.

Stats SA data shows that low- and high-income households experienced the highest inflation rates in December, with those closer to the middle of the income decile range seeing more moderate inflation. Low-income households are feeling pressure from elevated inflation on, for example, unprocessed food (+6.4% y-o-y) and public transport (+9.9% y-o-y). In turn, high-income households have seen significant price increases on private transport operation (+32.4% y-o-y).

Figure 7: Contributions to inflation in Dec. 2021 (percentage points)

Source: Stats SA

Figure 8: Inflation rate (% y-o-y) per income decile



Source: Stats SA

SARB MPC will increase interest rates several times this year and again in 2023-2024.

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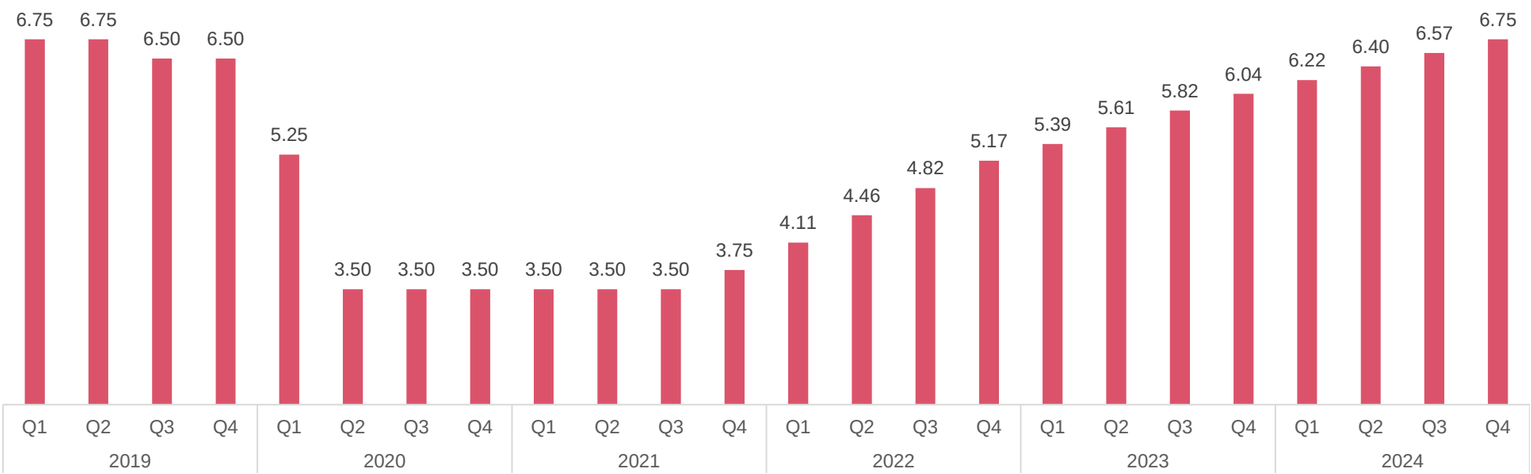
Following another rate hike in January, the MPC will continued with monetary policy tightening towards 2024.

The South African Reserve Bank (SARB) Monetary Policy Committee (MPC) announced on 19 November that it decided by a 3:2 vote to lift the repurchase (repo) rate by 25 basis points (bps) to 3.75% (prime rate = 7.25%). This was the first upward adjustment since November 2018 and follows a cumulative reduction of 325 basis points in the year ending July 2020. The MPC had warned for some time that interest rates would increase in 2021 and decided at its final meeting last year to follow guidance from the SARB's internal Quarterly Projection Model (QPM) to make a start to monetary policy normalisation. At the time, forward guidance suggested a 25 basis points interest rate hike was possible at each of the six MPC meetings scheduled for this year.

The MPC meets again on 25-27 January to review forecasts for inflation and interest rates — we expect them to hike lending rates by another 25 bps. In November, policymakers again made it clear they are planning to increase the repo rate to pre-pandemic levels by around mid-2024. The MPC has given guidance that the repo rate should rise to 5.17% by December 2022, increasing to 6.04% by the close of 2023 and 6.75% at end-2024. The accompanying graph shows indicative estimates of end-of-quarter interest rates along this trajectory. The upward trend in interest rates is unlikely to be as linear as our estimates currently point to. Nonetheless, the suggested upward trajectory offers businesses and consumers the opportunity to plan for likely interest rate levels in the short- to medium-term. What is more certain at this stage is that the upward trend in lending rates will be much slower compared to the pace of monetary policy easing seen at the start of the pandemic.

Figure 9: Potential repo rate trend (%, end of period)



Source: PwC estimates based on SARB QRM guidance

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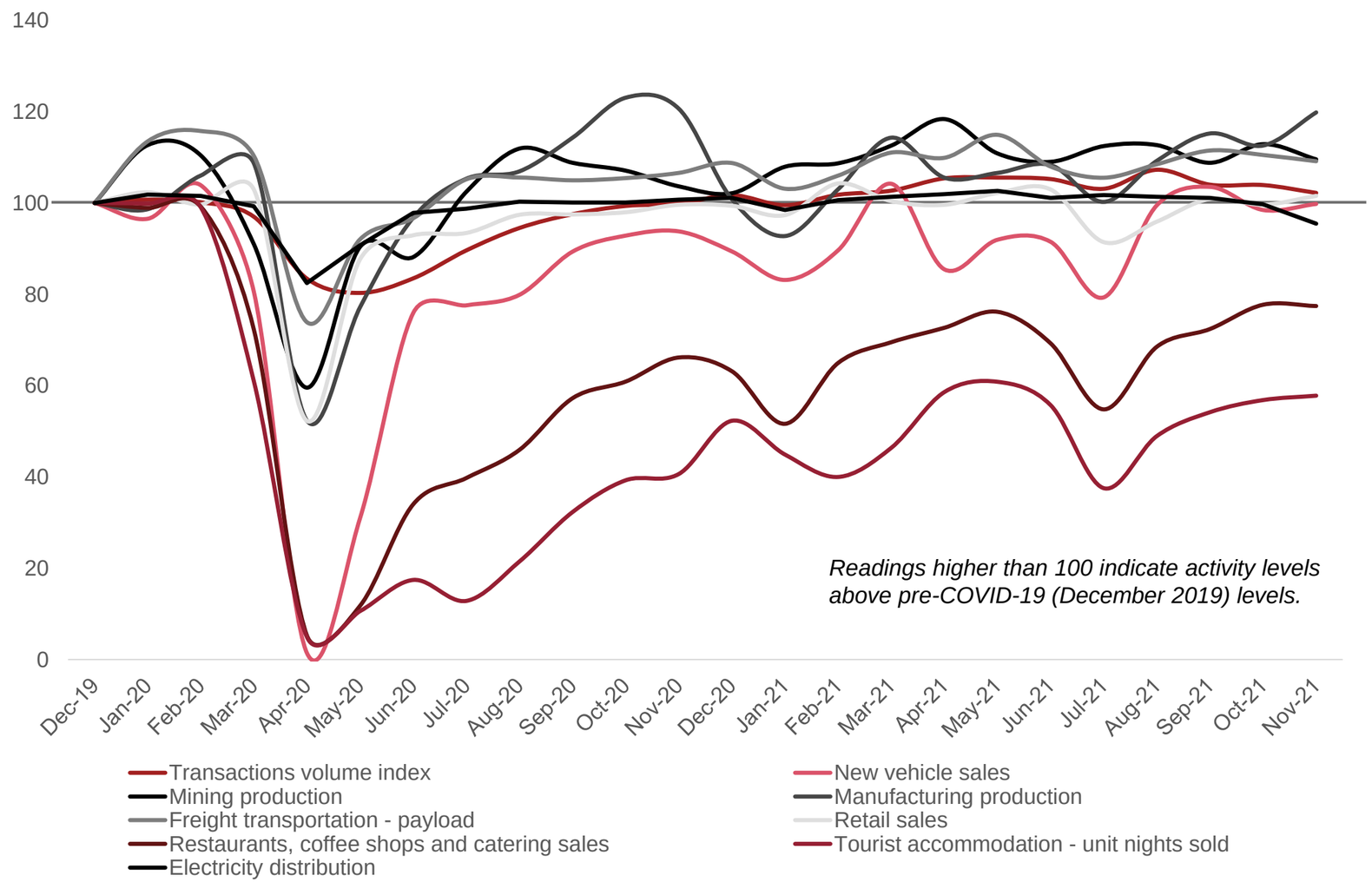
Where we are now: progress in getting economic activity back to pre-pandemic levels.

Figure 10: Industry activity compared to pre-pandemic levels



Source: PwC calculations based on data from Stats SA, Trading Economics, BankservAfrica

Table 3: Sector indices – pre-pandemic versus now

Sector index	Dec-19	Oct-21	Nov-21
Manufacturing production	100.0	112.6	119.8
Mining production	100.0	112.9	109.6
Freight transportation - payload	100.0	110.5	109.2
Transactions volume index	100.0	103.9	102.2
Retail sales	100.0	**99.6**	101.5
New vehicle sales	100.0	**98.4**	**99.8**
Electricity distribution	100.0	**99.7**	**95.5**
Restaurants, coffee shops and catering sales	100.0	**77.7**	**77.4**
Tourist accommodation - unit nights sold	100.0	**56.8**	**57.8**

Source: PwC calculations

A large number of industries are currently seeing activity levels above those seen prior to COVID-19. For example, the index for manufacturing production was 19.8% higher in November compared to the seasonally adjusted level recorded for the last month of 2019. This reflects an improvement in demand conditions both locally and abroad. Elsewhere, the value of seasonally adjusted real (i.e. inflation-adjusted) retail sales was marginally higher in the most recent month. In turn, the value of real spending at restaurants and coffee shops is only 77.4% of the pre-pandemic level. The number of unit nights sold in tourist accommodation is just more than half that seen prior to the arrival of COVID-19.

Macroeconomic forecasts

Baseline	2020	2021f	2022f	2023f
Consumer price inflation (%)	3.3	4.6	4.6	4.9
Repo rate (end-of-period)	3.50	3.75	4.83	5.68
Real GDP (%)	-6.4	4.3	2.6	2.1
Unemployment rate (%)	32.5	33.9	33.6	33.5
ZAR/USD	16.46	14.78	15.05	15.42

Probability weighted average	2020	2021f	2022f	2023f
Consumer price inflation (%)	3.3	4.6	4.5	4.8
Repo rate (end-of-period)	3.50	3.75	4.75	5.50
Real GDP (%)	-6.4	4.2	2.5	2.0
Unemployment rate (%)	32.5	34.0	33.7	33.7
ZAR/USD	16.46	14.78	15.28	15.78

Source: PwC

PwC's economic scenarios for 2021 are strongly influenced by different perspectives about the severity of a third wave of COVID-19 infections. The severity of the mid-year and year-end waves, and the accompanying strictness of associated lockdowns, will play a significant role in shaping the nature of the economic recovery. Additionally, we also consider the adverse effect of ongoing electricity load-shedding and the lingering impacts of localised social unrest during July. On a positive note, our scenarios also take into account the impacts of fiscal spending (e.g. TERS payments) and monetary stimulus (i.e. lower interest rates) on the economy.

These considerations provide us with a baseline outlook as well as upside and downside scenarios. The weighted average forecasts are based on the probabilities of the alternate scenarios playing out.

To estimate the economic impact of lockdown levels, PwC used its Economic Impact Assessment (EIA) scenario tool. We used a Social Accounting Matrix (SAM) methodology to estimate how lockdown restrictions affect various sectors of the economy. This scenario tool helps us understand the direct, indirect and induced impacts of the specific shock on the local economy. Our economic model has been updated and recalibrated following the comprehensive revision of national accounts data as released by Statistics South Africa (Stats SA) in August 2021.

PwC Economics services and contacts.

South Africa Economic Outlook January 2022

Featured PwC research.

PwC's December 2021 Global Consumer Insights Pulse Survey polled 9,370 people in 26 countries. From an international perspective, six of the most significant findings are:

- Vaccination status and flexible workstyles influence consumer optimism.
- Smartphone shopping is at a historic high.
- Data privacy is key to consumer trust.
- Consumers care more about sustainability than ever before.
- Price and convenience still matter the most.
- Consumers are venturing out more for both work and play.

The latest iteration of the survey also answers specific questions about South Africans' changing shopping behaviour. Focus areas, among others, include:

- factors influencing trust in brands (e.g. customer service, personal data protection, etc.)
- importance of ESG factors in buying decisions
- impact of deals and delivery/collection services on shopping decisions.

The results show that 83% of South Africans are always, or very frequently, seeking the best deal when shopping in-store. This is not surprising given the challenging situation consumers find themselves in. Three out of four survey respondents also noted that they are buying from a variety of retailers to meet their needs; this undoubtedly includes consideration of price differentials between shops. However, consumers are also concerned about their neighbourhoods, with 57% of respondents noting that they buy from retailers that support their local community.

About the Strategy& Economics team.

The PwC South Africa Strategy& Economics team is a specialised unit of economists who serve our clients in a variety of ways. Our services include:

Measure your impact on the economy and society

- Environmental, Social and Governance (ESG) and Just Transition
- Economic Impact Assessment (EIA)
- Socio-Economic Impact Assessment (SEIA)
- Regulatory Impact Analysis (RIA)
- Total tax contribution
- Localisation calculations

Make decisions about risk and investment

- Macroeconomic research
- Market entry analysis
- Country and industry risk assessments
- Commercial due diligence assistance

Plan for future economic scenarios

- Economic and political scenario planning
- ESG scenario planning
- Industry and macroeconomic modelling
- IFRS 9 audit assist

Please visit our website to learn more:
https://www.pwc.co.za/en/issues/economy.html

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