South Africa Economic Outlook

A consumer-led recovery?

13 July 2021

About this document

This document reports on PwC South Africa’s economic forecasts for the country as of 13 July 2021, based on different forward-looking scenarios. The report and associated projections are updated on a monthly basis though revisions could occur more frequently due to major economic data releases or key influential events. The content reflects publicly on some of our key forecasts while other data is reserved for internal purposes and client services.

In this edition, we focus on trends pointing to an improvement in consumer spending as a potential driver of the overall economic recovery. This includes data from PwC publications highlighting improved consumer confidence in the economy, increased spending on durable goods and media and entertainment, as well as intentions to spend on hospitality (hotels and restaurants). We also update our economic scenarios based on our team’s expectations of potential COVID-19 lockdown restrictions – a key component in our economic modelling - over the next few months as well as the impact of load-shedding and recent unrest on business activity.

This document is produced by the PwC South Africa Strategy& Economics team. For more information on the team, its services and publications, see the last page of this document.

PwC survey indicates rising consumer optimism about the South African economy

South Africa Economic Outlook July 2021

Local consumers are now more optimistic about the economy than they were during March 2021.

PwC's June 2021 Global Consumer Insights Pulse Survey found that 41% of South Africans* were optimistic about the economy ahead of the recent escalation of national lockdown restrictions. While the 41% figure might not appear high, it is better than a figure of 36% recorded in the March edition of the survey. South Africa's June reading is also above the global average of 36%, based on the 8,681 consumers polled across 24 of the world's largest economies. South Africans' optimism about their economy is stronger than in some other upper-middle income economies – including Malaysia and fellow BRICS member Russia.

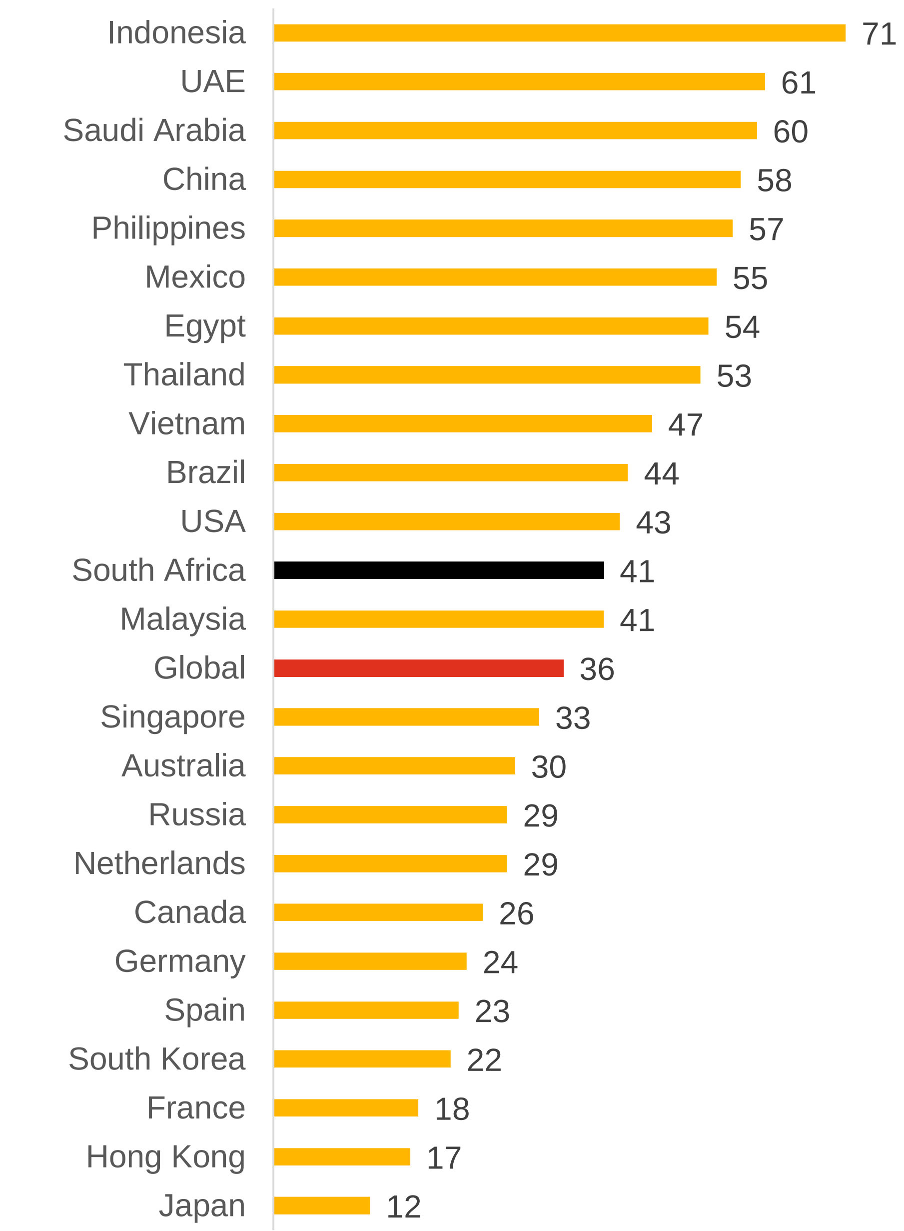
of South African consumers are optimistic about the economy in March 2021.

of South African consumers are optimistic about the economy in June 2021.

With this improving consumer sentiment about the economy, the question is: Will South Africa's economic recovery be driven by consumer spending? In the following pages, we reflect on available data that suggests a consumer recovery – and consumer-driven economic recovery – is underway.

* Respondents were at least 18 years old and were required to have shopped online at least once in the previous year.

Figure 1: Percentage of survey respondents who are optimistic about their economy.



Source: PwC

Retail confidence rises to a six-year high in 2021Q2 as analysts and retailers look to a consumer spending recovery.

The Netwerk24/Beeld Consensus poll for June 2021 found that local economists expect real final consumption expenditure (basically inflation-adjusted household spending) to increase by 5.0% this year. Given the survey panel's 4.6% median forecast for real GDP growth in 2021, the results indicate that economists expect that household expenditure to grow by a higher rate compared to – and, importantly, act as a driver of – overall economic growth.

The household financial outlook index of the FNB/BER Consumer Confidence Index (CCI) was in positive territory during 2021Q2, indicating that the majority of South African consumers expect their household finances to improve over the next 12 months. The Bureau for Economic Research (BER) noted in the CCI publication that *"the majority of middle-income consumers anticipate a further improvement in their household finances".* PwC expects a 6.3% increase in nominal disposable income this year following a decrease of 1.6% in 2020. This will be supported by a projected 1.9% increase in employment: Our forecasts suggest that South Africa will recover 290,000 jobs this year.

Overall, we are currently seeing rising consumer optimism about the economy, positive household income and spending forecasts, expectations of employment growth, as well as consumers having a positive outlook on their finances. Unsurprisingly, retailers are also more positive about consumer spending. The BER recently noted that retailer confidence rose to a six-year high in the second quarter of 2021. *"Retailers were simply optimistic about better trading conditions and higher profitability on the back of improved sales volumes and strengthened pricing power. Among the three retail categories, durable goods retailers (e.g. hardware, furniture, electronics and household appliances) recorded the highest level of confidence",* noted the BER.

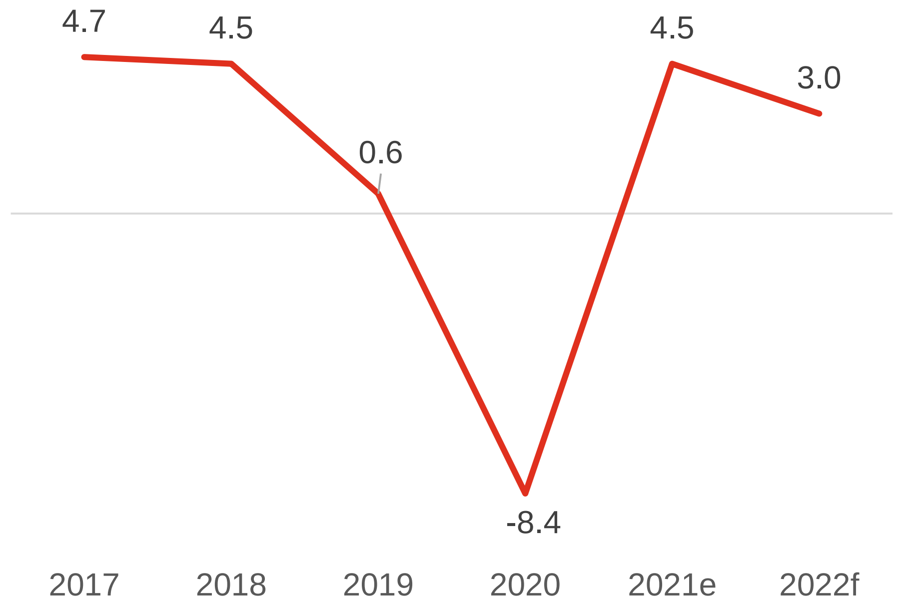
Recent data shows increasing expenditure on durable goods and digital media & entertainment

South Africa Economic Outlook July 2021

Spending on durable goods expected to increase by 4.5% this year after an 8.4% decrease in 2020.

South Africans have significantly increased their spending on durable household goods – and many retailers expect this to continue in the months ahead. Statistics South Africa (Stats SA) previously reported that local shoppers spent R14.8 bn on household furniture, appliances and equipment during the January-April period. This expenditure was on average 18.9% y-o-y higher during the first quarter. (A spike of 738.8% y-o-y in April is due to the base effects caused by almost no sales in the same month last year when shops selling these goods were closed by local lockdown regulations.) PwC expects spending on durable goods to increase by an average of 4.5% this year after a decline of 8.4% last year.

Figure 2: Change in durable goods spending (%)

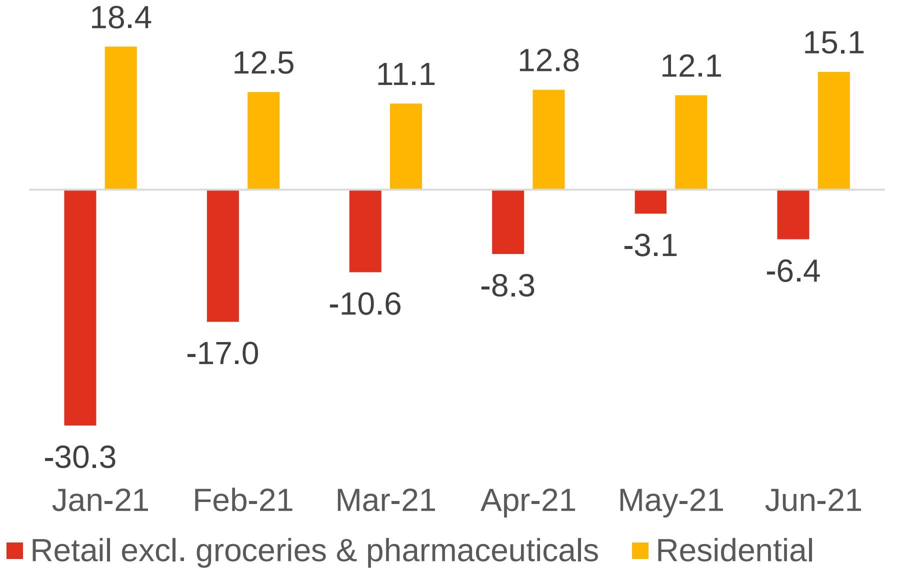


Source: PwC

As lockdown continued, South Africans spent 13.7% more time at home during the first half of 2021

Increased expenditure on durable goods is strongly driven by people spending more time at home. Data from Google indicates that South Africans spent 13.7% more time at home during the first half of 2021 compared to the pre-COVID-19 period. They were also spending less time (-12.6%) at places classified as providing entertainment and non-essential retail services – these include restaurants, shopping centres, museums, libraries and cinemas.

Figure 3: Change in location-based activity compared to pre-COVD-19 period (%)



Source: PwC

Increased residential and reduced retail activity were again more visible in the latter half of June and July so far as lockdown restrictions intensified alongside a significant increase in new infection cases. Many are also hesitant to venture out due to localised unrest.

Consumers' digital media and entertainment expenditure is forecast to grow by 9.8% in 2021.

Stricter lockdown regulations combined with earlier and extended school holidays will now see South African families spend more of their leisure time at home. Last year, lockdown-hit South African consumers spent 5.6% more on digital media and entertainment compared to 2019. Considering a 4.2% decline in consumer retail spending, this was a sizable reallocation of household budgets towards in-home entertainment. PwC's Global Entertainment & Media Outlook 2021-2025 determined that local data consumption increased by a significant 33.3% last year on the back of increased home-based family time as well as work-from-home arrangements.

Our calculations point to a further 9.8% increase in digital media and entertainment expenditure during the consumer-driven 2021 economic recovery. This even-faster growth (compared to 2020) is grounded in changes in consumer behaviour that appeared as a result of the pandemic, some of which will endure and accelerate. A significant proportion of South Africans' new stay-at-home habits – like increased consumption of digital entertainment - will likely endure. We are of the view that many of the local shifts that were at play before COVID-19, including the move towards digital products, online sales and streaming services, are poised to continue growing this year.

14.8

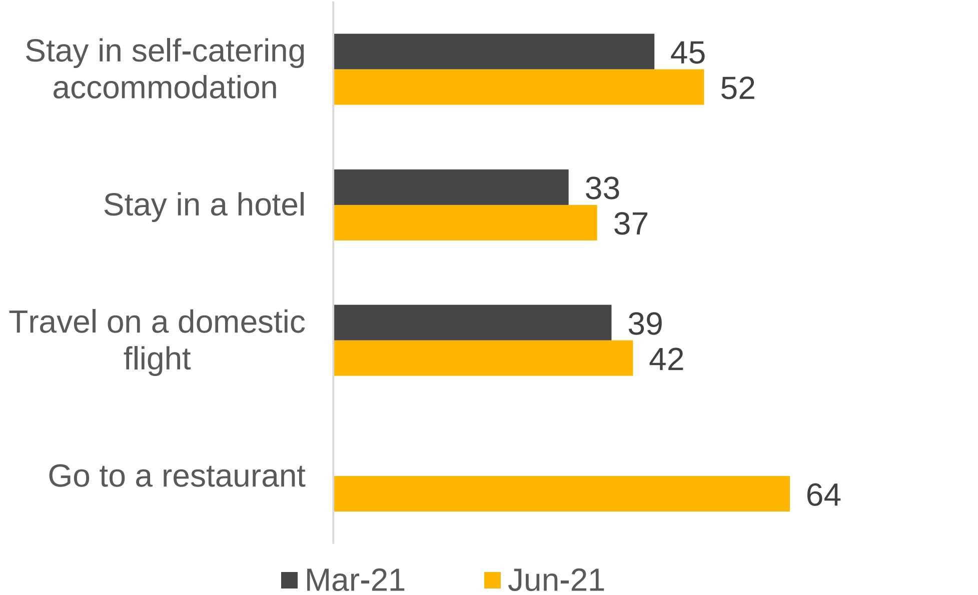
South African shoppers spent R14.8 billion on household furniture, appliances and equipment during the January-April 2021 period

South Africans have become more comfortable with spending time in hotels and restaurants

Over the next six months, more South Africans intend eating out and travelling locally.

Since our March consumer survey, South African consumers have also become increasingly comfortable with the idea of spending more time away from home. The poll shows that, over the next six months, more South Africans are likely to travel on a domestic flight (42% in June versus 39% in March) and stay in a hotel (37% versus 33%) or self-catering accommodation (52% versus 45%) compared to the results of the first survey. Nearly two out of three respondents also indicated in the June results that they would go to a restaurant - this question was not surveyed in the March edition. (We are cognisant that this survey was conducted before the current restrictions placed on the restaurant industry.)

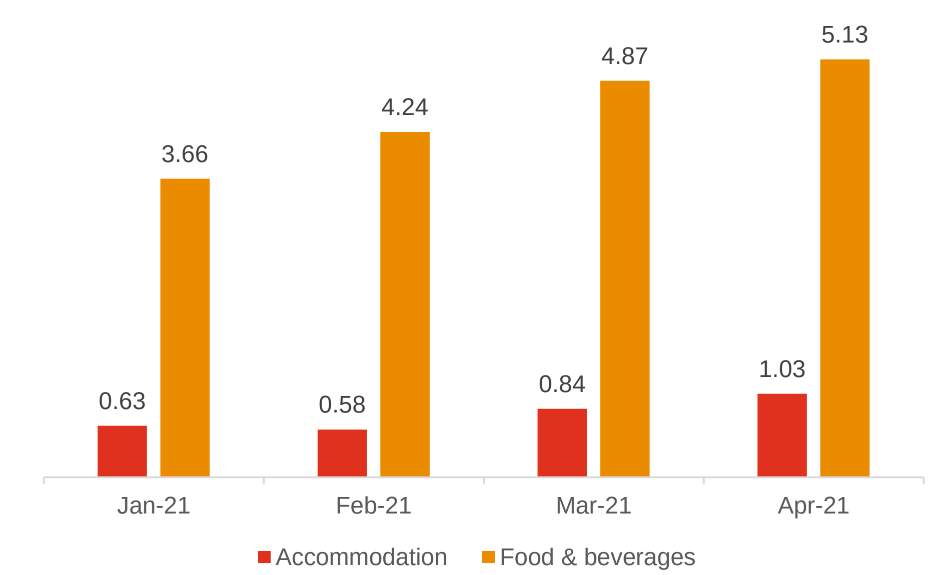
Figure 4: Likelihood in the next six months (%)



Source: PwC

South Africans are certainly travelling more and increasingly staying in tourist accommodation. Data from Stats SA indicates that hotel occupancy increased from 14.8% in January to 26.8% in April. In other words, 17 out of 20 hotel beds stood empty in January, declining to 15 out of 20 in April. The total hospitality industry occupancy rate increased from 18.5% in January to 29.1% in April – i.e. six out of 20 beds, caravan and campsites were occupied.

Figure 5: Hospitality revenue (R billion)



Source: Stats SA

Stats SA also reported that the combined sales of food and beverages at restaurants, coffee shops, takeaway and fast-food outlets, as well as by catering establishments, increased from R3.66 bn in January to R5.13 bn in April – a growth of nearly 40%. Furthermore, the April number was similar to the monthly readings seen in 2020Q1, i.e. before the introduction of the national lockdown. Admitted, current stricter lockdown measures will put pressure on these numbers during the winter months.

Amidst a consumer recovery, shoppers' buying motivations and brand loyalty decisions are evolving.

In the consumer-led economic recovery, it is important for consumer-focussed companies to consider how shoppers are making buying decisions. PwC's June 2021 Global Consumer Insights Pulse Survey found that brand loyalty in South African is driven by reliability (48% of respondents ranking this in their top three attributes), loyalty programmes (36%), widespread availability of the brand's products (35%), and exceptional customer service (30%). PwC's 'What's next: How consumer goods leaders envision tomorrow' report found that many consumers will continue to be highly attuned to what brands stand for, and they want words to be backed up with sincere actions. This is especially true for today's younger, more socially conscious consumers.

Figure 6: Factors that influence the likelihood to remain loyal to a brand (% of respondents ranking feature in their top three choices)

Source: PwC

Price-sensitive consumers will find some comfort as interest rates are unlikely to rise this year

South Africa Economic Outlook July 2021

PwC has maintained for some time that the South African Reserve Bank (SARB) Monetary Policy Committee is unlikely to raise interest rates until early in 2022. Our downwardly revised economic growth projections reinforce this view.

Three out of four South Africans identify as being price oriented and are now more focussed on saving.

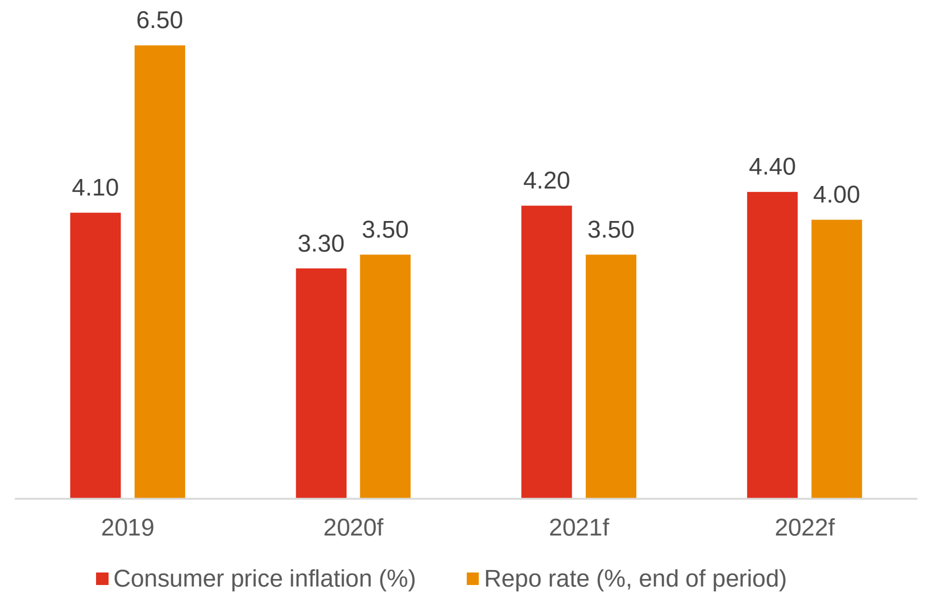
PwC's June 2021 Global Consumer Insights Pulse Survey found that three out of four (73%) South Africans identify themselves as being price oriented compared to a global average of 56%. Even though there are signs of recovery in the local economy, with employment recovering and interest rates at a multi-decade low, consumers' money anxieties have certainly not yet eased. Unsurprisingly, seven out of ten local respondents to the June survey said they are more focused on saving than they were previously.

From a global perspective, consumers are particularly likely to say they are focused on saving and on prices if they live in countries (like South Africa) that have been hard hit by the pandemic. Price is the dominant reason for these consumers to shop online more or to have maintained their previous level of online shopping. Price outpaces quality and convenience by wide margins in every category except groceries where it still prevails.

Given this sensitivity to price, South Africans would have been concerned with recent consumer price inflation data. Headline inflation increased from 2.9% y-o-y in February to 5.2% y-o-y in May, rising from below the central bank's 3%-6% target to near the top of this range. Food inflation increased from 5.2% y-o-y in February to 6.7% y-o-y in May, with categories such as tomatoes and potatoes seeing significant supply-side price increases due to adverse weather conditions in key local growing areas.

However, inflation data did carry some base effects in April and May due to strong disinflation in 2020Q2, with most analysts expecting headline inflation back near the middle of the SARB target range by June. PwC expects inflation to average 4.4% in 2021 and close the year at a level of 4.6% y-o-y. These forecasts do not currently incorporate any additional price pressures emanating from the disruption in supply chains caused by the recent unrest (see next page).

Figure 7: Inflation and interest rates (%)



Source: PwC

The South African Reserve Bank (SARB) MPC meets again on July 20-22 to consider inflation dynamics and their monetary policy stance. At their previous meeting, the five members of the MPC decided unanimously to keep lending rates on hold, based on a view that inflation and economic growth risks were broadly balanced. SARB Deputy Governor Kuben Naidoo commented on June 28 that stricter lockdown regulations may slow – but will not derail - South Africa's economic recovery. Furthermore, the central bank will keep monetary policy accommodative to support the economic recovery.

The SARB has also warned since late last year that it will at some stage need to start with monetary policy normalisation, i.e. increasing interest rates from the current five decade low. While the SARB's internal modelling suggests a need for a start to the rate hiking cycle in 2021 already, PwC has maintained for some time that the MPC is unlikely to take this step until early in 2022. Our revised economic growth projections (see below) reinforce this view.

Unrest placed the Gauteng and KwaZulu-Natal economies in a virtual level 5 lockdown

South Africa Economic Outlook July 2021

Retail and transport industries were disrupted in some of South Africa's key economic hubs.

As South Africa struggles with deeper poverty, unemployment and inequality following last year's recession, social unrest is a real concern. The Euler Hermes Social Risk Index (SRI) 2020 ranked South Africa 79th out of 102 countries (i.e. in the bottom 25%) - identifying the country as having a 'significant to high' systemic social risk. PwC's 24th Annual Global CEO Survey (released earlier this year) found that 51% of South African CEOs are concerned with social instability compared to a global average of just 28%. Amidst COVID-19, business leaders have to deal with a multitude of social risk trends – as analysed by PwC's ADAPT framework – that are being accelerated by the pandemic. These include, amongst others, rising youth unemployment, increasing wealth disparity, failure of small businesses, and distrust in institutions.

South Africa experienced a significant increase in unrest in the week following the incarceration of ex-president Jacob Zuma on July 7. These disruptions had been most prevalent in Gauteng (the country's largest regional economy) and KwaZulu-Natal. The coastal province is home to the Port of Durban which handles 65% of the country's container traffic. The two provinces account for more than half of South Africa's GDP. The retail and transport industries were the hardest hit. With dozens of shopping malls and smaller retail outlets closed (either due to looting or as a precaution) and a multitude of trucks burned (forcing a closure of the important N3 route), it was not business-as-usual.

From our perspective, these events essentially placed key areas of the Gauteng and KwaZulu-Natal economies in a virtual level 5 lockdown: Many retail shops were closed, inter-provincial transport ground to a halt; diverse places of work were unable to open as normal; and citizens (afraid for their safety) stayed at home. Data from Google indicates that workplace activity in KwaZulu-Natal was 21% lower on Friday, July 9 compared to the pre-pandemic period, versus a figure of just 14% a week earlier before protests started. Residential activity was 24% higher on protest-hit July 9 versus the pre-pandemic period compared to a figure of 20% on July 2 as more people stayed home amidst transport and commercial disruption.

Our baseline forecasts for 2021 now take into account the adverse impact of this unrest during the second week of July. To model this, we considered the impact of a one-week level 5 lockdown on the retail and transport industries of Gauteng and KwaZulu-Natal. Our calculations show that national GDP growth could be 0.4 percentage points lower this year due to this week of significant disruption. Given the loss in potential economic growth, we estimate up to 50,000 jobs could be at risk under the baseline scenario.

We have not attempted to forecast the near-term trend around this situation and have not incorporated any forward-looking impact beyond what is described above. As such, we have not attempted to model the impact of, for example, the adverse effect on business confidence and investor sentiment – and how this could impact investment and employment decisions in coming quarters. Our modelling also does not consider the impact of threats to food and transport security due to disruption in food and fuel supplies.

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> Economic growth could be 0.4 percentage points lower in 2021 due to the impact of unrest in Gauteng and KwaZulu-Natal during the second week of July. This adverse effect on regional business activity and supply chains has put up to 50,000 jobs at risk.

Economic forecasts for 2021 are directly based on different lockdown scenarios

South Africa Economic Outlook July 2021

Our economic model considers the varying impacts of lockdown restrictions on different segments of the economy.

By July 10, South Africa had 1.36 million fully vaccinated adults – equal to 2.3% of the adult population. This included nearly 480,000 medical personnel given the one-shot Johnson & Johnson and the remainder having received both doses of the two-shot Pfizer-BioNTech vaccine. A further 3.78 million adults had received one of their Pfizer doses as the country ramped up its vaccine rollout. At the time of writing, South Africa was administering vaccines at an average rate (seven-day rolling mean) of 145,000 shots a day. Adults aged 50-59 years will officially start their vaccinations from July 15 while those in the 35-49 years bracket start on August 1.

However, despite the accelerated vaccine roll-out over the past two months, including the opening of 314 privately-operated vaccine facilities to augment 2,283 public sites, the third wave remains severe. By July 13, South Africa had 192,726 active COVID-19 cases, of which around 40% were in Gauteng. On a positive note, the number of active cases was down from a peak of 211,052 on July 11. The country's seven-day new infection rate peaked on July 7 and has since trended lower.

PwC's economic scenarios for 2021 are strongly influenced by different perspectives about the third wave of COVID-19 infections. The severity of the mid-year wave, and the accompanying strictness of associated lockdowns, is primarily determining the nature of the economic recovery. In addition, our economic forecasts also consider the adverse effect of unrest (see previous page) and load-shedding (see next page), as well as the positive impacts of fiscal and monetary stimulus on the economy.

To estimate the economic impact of lockdown levels, an Economic Impact Assessment (EIA) scenario tool was development. PwC used a Social Accounting Matrix (SAM) methodology to estimate how lockdown restrictions affect the interaction of various sectors of the economy. This scenario tool helps us understand the direct, indirect and induced impacts of this specific shock on the economy.

2021 lockdown level assumptions

	Upside	Baseline	Downside
January	3	3	3
February	3 lite	3 lite	3 lite
March	1	1	1
April	1	1	1
May	1	1	1
June	3 lite	3 lite	3 lite
July	Adj. 4	Adj. 4	Adj. 4
August	2	3 lite	3
September	1	1	2
October	1	1	2
November	*none*	1	1
December	1	2	2

Source: PwC

After growth in 2021 so far, private sector output declined in June following the reintroduction of stricter lockdown rules.

Considering recent economic trends, the IHS Markit Purchasing Managers' Index (PMI) was above the breakeven 50 level during the first six months of the year, signalling positive growth in private sector activity during 2021H1. However, IHS Markit reported that output declined in June for the first time this year due to the reintroduction of stricter lockdown measures.

President Cyril Ramaphosa announced on June 15 that South Africa would move to level 3 lockdown on the following day. Changes to existing regulations included an earlier curfew (22:00), a limit on indoor (50 people) and outdoor (100 people) gatherings, as well as restrictions on the sale of alcohol for off-site consumption from Friday to Sunday.

Respondents to the latest PMI poll (surveyed during June 11-28) indicated that increased curfew hours and bans on gatherings and alcohol sales under level 3 lockdown resulted in weaker client demand. Furthermore, raw material shortages caused an increase in order backlogs, with these supply issues combining with salary adjustments to increase input prices. Metals, chemicals and fabric prices were up alongside higher international commodity prices, while increased staff demand translated into higher salaries.

On June 27, the president announced a move to lockdown level 4 for a period of two weeks. Stricter regulations included, amongst others: Curfew starting at 21:00, earlier closing of schools for mid-year holidays, and the banning of alcohol sales, social gatherings (excluding funerals), and leisure travel to and from Gauteng. On July 11, President Ramaphosa extended the level 4 lockdown for a further two weeks. While there was some easing in restrictions on restaurants, other restrictions remained in place – while school holidays were extended to July 25. On a positive note, the Temporary Employer-Employee Relief Scheme (TERS) will be extended to support affected individuals and households.

Our baseline scenario expects 2.3% GDP growth in 2021 with a big negative impact from load-shedding

South Africa Economic Outlook July 2021

Economic impact of the current level 4 lockdown restrictions are less severe compared to May 2020.

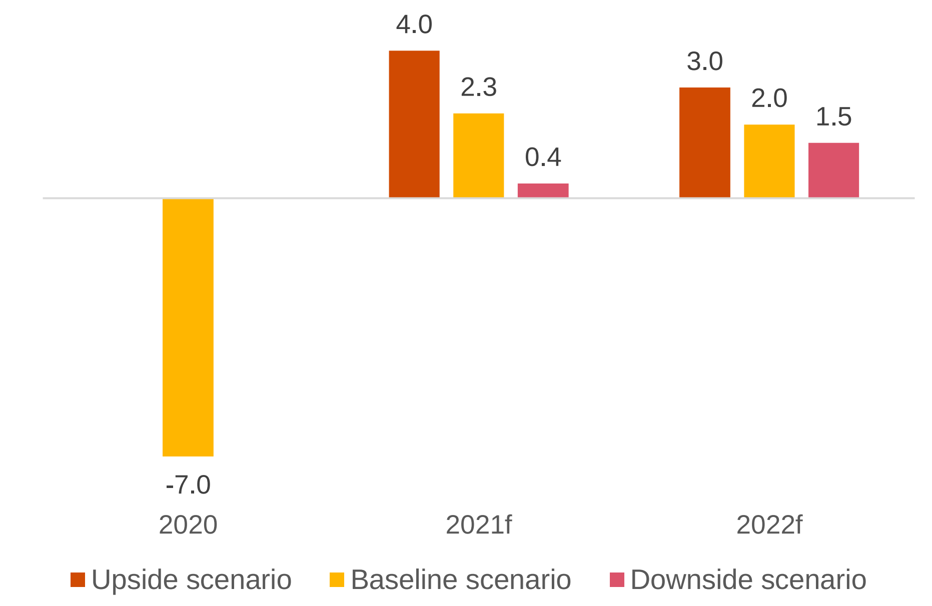
It was previously expected that, with the vaccine rollout gaining some momentum, South Africa would be able to avoid a return to level 4 lockdown restrictions. However, due to social distancing fatigue, the more infectious Delta variant of the virus, and only 2.3% of adults fully vaccinated, the third wave of infection is currently worse than previously anticipated – and in particular within Gauteng. It is worth noting that the current level 4 restrictions are less strenuous compared to the rules enforced during May last year when level 4 was introduced for the first time. We estimate that the negative impact of current level 4 restrictions on the economy is only two-thirds as severe as last year's original level 4 rules.

Our scenarios (see previous page) assume that lockdown restrictions will ease from August although they will remain a burden on the economic recovery. The country is expected to be back at lockdown level 1 by September under our baseline scenario as the third wave passes – thought we are also vigilant about the risk of a fourth (less severe) wave over the December holidays. Combined with other considerations, this outlook would result in economic growth of 2.3% this year. The estimate is 1.4 percentage points lower than what we published a month ago. The key factors behind this big change is 1) the move to lockdown level 4 which was not previously envisaged, 2) a slower anticipated easing of post-peak restrictions as winter moves to spring, and 3) the impact of recent unrest on regional business activity.

4.6%

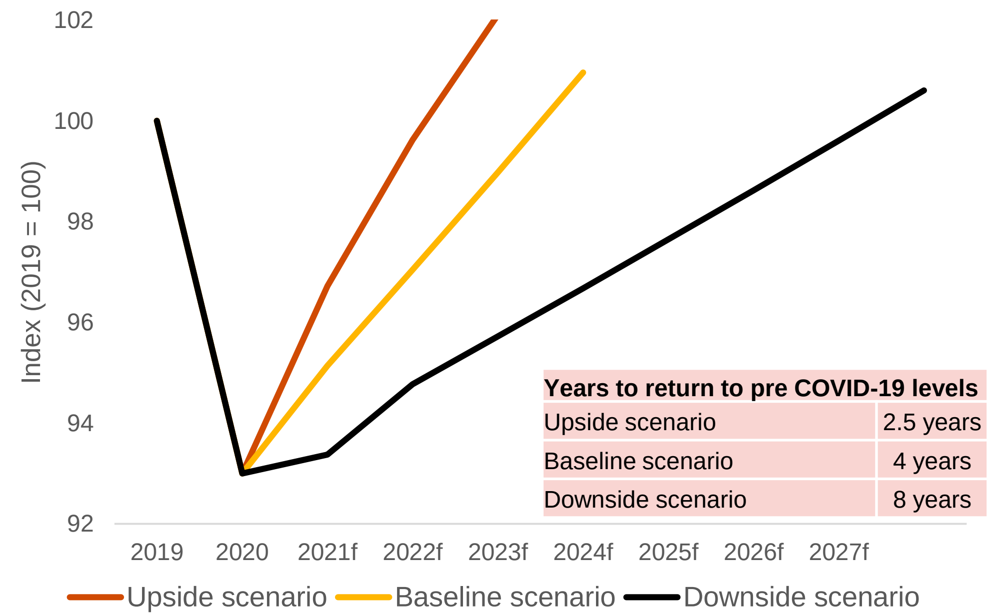
If South Africa did not experience load-shedding this year, real GDP growth could have been 4.6% in 2021 under our baseline scenario.

Figure 8: Change in real GDP (%)



Source: PwC

Figure 9: Return to pre-COVID-19 real GDP levels



Years to return to pre COVID-19 levels	
Upside scenario	2.5 years
Baseline scenario	4 years
Downside scenario	8 years

Source: PwC

Electricity load-shedding will halve GDP growth this year and cost the country 275,000 in potential jobs.

Another key factor in our economic modelling is the adverse impact of Eskom load-shedding. In 2020, South Africa experienced 859 hours of load-shedding. According to PwC calculations, this cost the country an estimated R75 bn in lost GDP and an additional 450,000 in job losses. Put differently, last year's 7.0% decline in real GDP could have been limited to around 4.7% were it not for Eskom power delivery failures.

In recent months, our baseline scenario included an assumption that the economy will face a similar volume of load-shedding hours this year compared to 2020. This assumption still appears valid: electricity outages totalled 560 hours in 2021H1 which was close to the 576 hours recorded in the first half of last year. While a notable proportion of the recent power outages were experienced outside of business hours, the number of load-shedding hours in 2021H1 can be equated to the loss of 70 (eight-hour) working days.

576 vs 560

Hours of load-shedding in the first half of 2020.

Hours of load-shedding in the first half of 2021.

PwC estimates that load-shedding will reduce real GDP growth by 2.3 percentage points in 2021. This could cost the country 275,000 in potential jobs. In other words, if South Africa did not experience, load-shedding, real GDP growth could have been 4.6% under our baseline scenario, with up to 565,000 jobs recovered.

Forecast table, our team in the news, and contacts

South Africa Economic Outlook July 2021

Summary of baseline forecasts

	2019	2020	2021f	2022f
Consumer price inflation (%)	4.1	3.3	4.2	4.4
Repo rate (end-of-period)	6.50	3.50	3.50	4.00
Real GDP growth (%)	0.2	-7.0	2.3	2.0
Unemployment rate (%)	28.1	32.5	32.4	32.5
ZAR/USD	14.50	16.46	14.50	15.00

Source: PwC

Our team in the news

Speedy vaccine rollout could be major boost for SA economy:
https://www.news24.com/fin24/companies/speedy-vaccine-rollout-could-be-major-boost-for-sa-economy-discovery-study-20210625

Job stats show need for reform action:
https://www.businesslive.co.za/bt/business-and-economy/2021-06-06-job-stats-show-need-for-reform-action/

Johannesburg is 'losing its shine' - but still central to South Africa's economic recovery:
https://www.news24.com/fin24/Opinion/lameez-omarjee-johannesburg-is-losing-its-shine-but-still-central-to-sas-economic-recovery-20210624

Unpacking the African economy: A story of growth or decline?:
https://www.businesslive.co.za/bd/economy/2021-06-11-podcast-unpacking-the-african-economy-a-story-of-growth-or-decline/

About the 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:

1. 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
2. Make decisions about risk and investment
   - Macroeconomic research
   - Market entry analysis
   - Country and industry risk assessments
   - Commercial due diligence assistance
3. Plan for future economic scenarios
   - Economic and political scenario planning
   - ESG scenario planning
   - Industry and macroeconomic modelling
   - IFRS 9 audit assist

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