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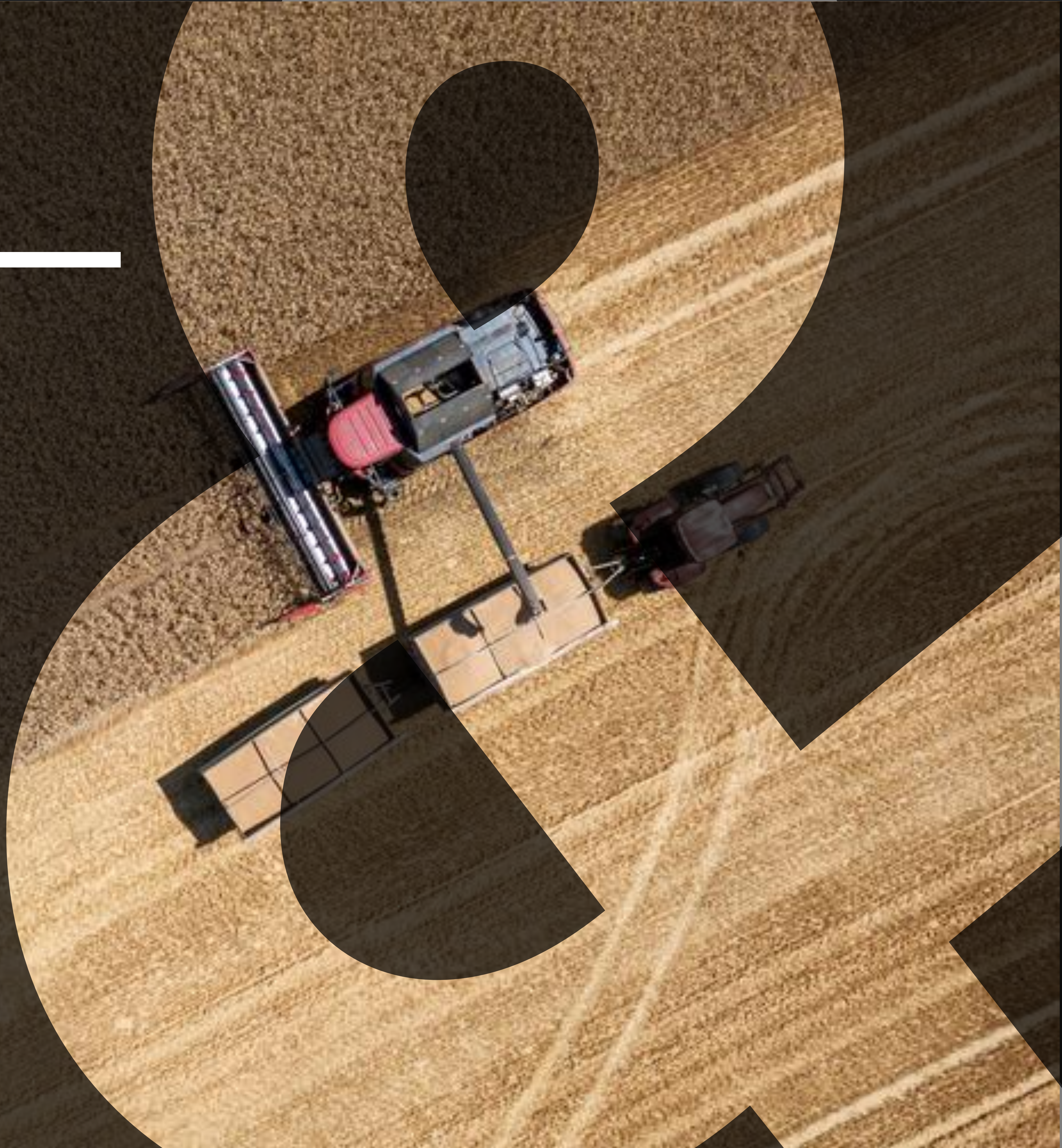
South Africa Economic Outlook
Local impacts from disruption in Central and Eastern Europe

28 March 2022



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About this document

This document reports on PwC South Africa's core macroeconomic forecasts for the country 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.

This edition of our South Africa Economic Outlook provides a perspective on the local impact — specifically on inflation and economic growth — of disruption stemming from the Russian invasion of Ukraine. We look at the following:

- Interest rates continue to climb as SARB signals upside risk to inflation outlook. [page 3].
- Low-income households are the most vulnerable to higher food prices [page 4].
- Primary and secondary sectors are highly exposed to fuel costs [page 5].
- Final 2021 GDP data show an uneven recovery as agriculture and financial services shine [page 6]
- Where we are now: Progress in getting economic activity back to pre-pandemic levels [page 7].
- Global economic environment deteriorates as conflict in Central and Eastern Europe disrupts supply chains [page 8].
- A weaker outlook for the South African economy as global growth slows and load-shedding increases [page 9].
- Levers that travel and tourism companies can pull to preserve or improve their value [page 10].

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 this document.

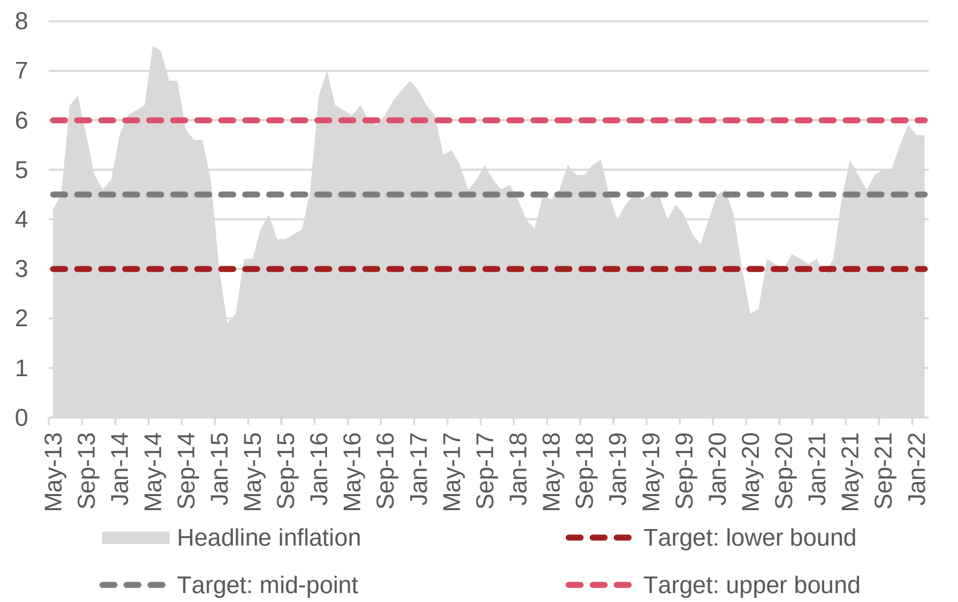
SARB MPC: Interest rates continue to climb as central bank signals upside risk to inflation outlook.

South Africa Economic Outlook March 2022

Local inflation outlook deteriorates as international commodity prices rise following invasion of Ukraine.

Consumer price inflation moderated from 5.9% y-o-y in December 2021 to 5.7% y-o-y in both January and February 2022 — though the latest numbers remained near the top end of the 3%-6% range targeted by the South African Reserve Bank (SARB).

Figure 1: Monthly consumer price inflation (% y-o-y)

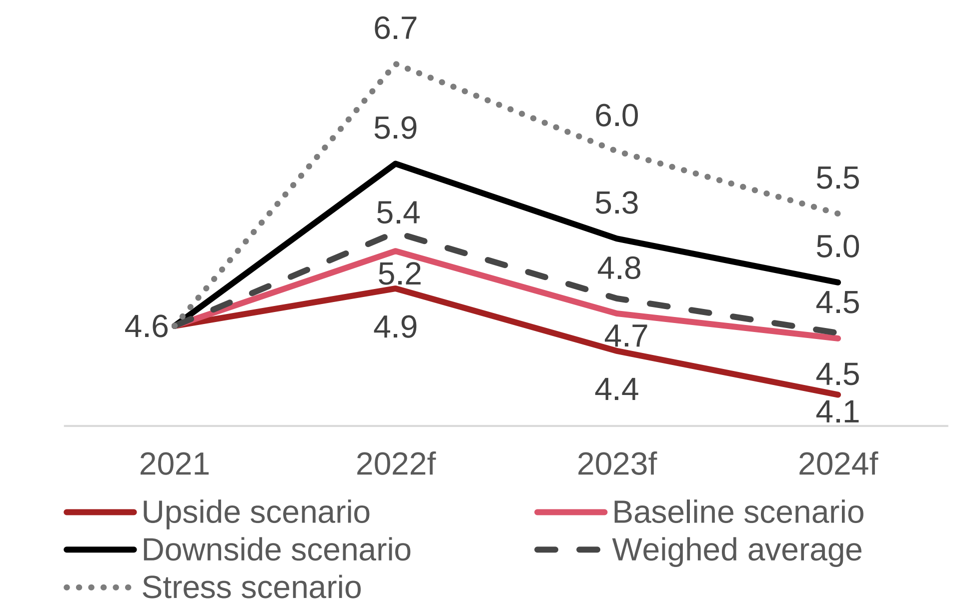


Source: Stats SA, SARB

Inflation risks have escalated over the past month given global commodity market developments. Global wheat prices, for example, have increased to a 14-year high. Apart from developments in Central and Eastern Europe (see pages 8-9), Argentina and Brazil have been facing abnormally dry conditions linked to the La Niña pattern. On the energy front, South Africans already paid R1.46/litre more for petrol this month, with the risk of a similar increase in April.

We expect inflation to average 5.2% this year under our baseline scenario from a mean of 4.6% in 2020. However, if international market developments remain unfavourable deep into 2022H2, this year's average could increase to 5.9% during the current calendar year. If, under a hypothetical (but not impossible) stress scenario, food inflation climbs to 10% y-o-y (from 6.7% y-o-y in February) and transport inflation rises to 20% y-o-y (from 14.3% y-o-y in February) for a period of four to six months, the headline inflation number could be 1.5 percentage points higher than the baseline during 2022H2 and heading into 2023. This will likely result in inflation breaching the upper limit of the SARB's target range over the short term.

Figure 2: Average consumer price inflation (%)



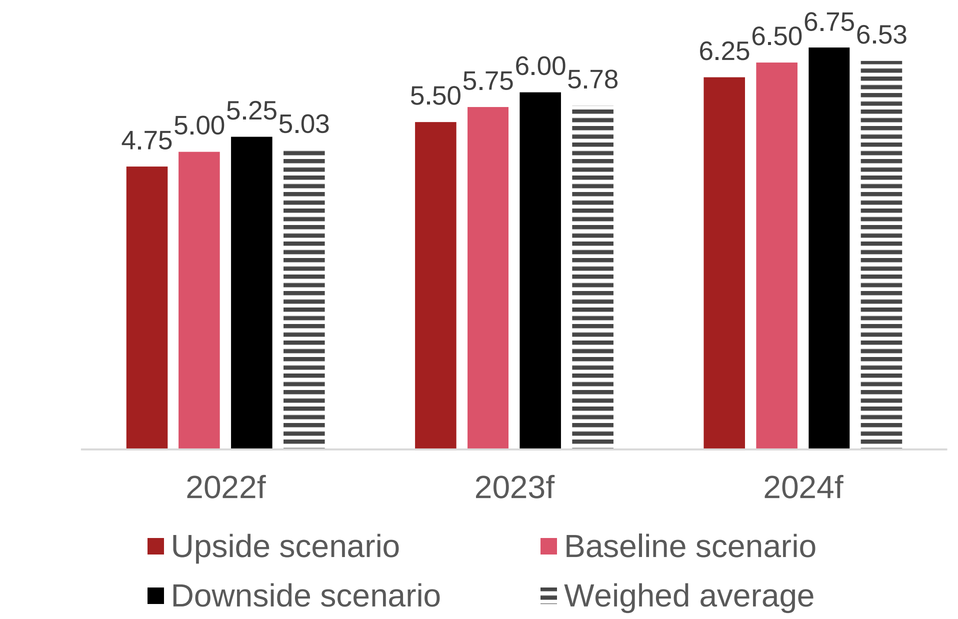
Source: PwC

The SARB Monetary Policy Committee (MPC) warned on March 24 that South Africa's commodity price basket is forecast to rise by 8% for the year as a whole. This is a sharp departure from import deflation seen in recent years.

After raising interest rates in November, January and March, the upward trend is set to continue over the remainder of 2022.

The MPC decided this month to lift interest rates by another 25 basis points – three of the committee members favoured this increment while the other two actually called for a 50 basis point increase. The SARB's forward guidance currently suggests a year-end repo rate of 5.06% compared to a projection in January of 4.91%. There is not much difference in these two forecasts; this suggests that the SARB has not significantly altered its planned path of monetary policy tightening over the short- to medium-term. As such, we still expect the repo rate to close this year at 5.00% and return to its pre-pandemic level of 6.50% by the close of 2024. For now, with a repo rate at 4.25%, monetary policy is still very accommodative.

Figure 3: Year-end SARB repo rate (%)



Source: PwC

Consumer price inflation impact: Low-income households are most vulnerable to higher food costs.

The upward pressure on food, fuel and electricity prices will adversely impact all households during 2022. However, due to different spending abilities and priorities, households in different expenditure deciles will be impacted differently. For example, low income households (deciles 1 & 2, based on Stats SA's latest consumer basket and income surveys) spend more than half of their money on food and non-alcoholic beverages. This includes grain products (like bread and maize) which in coming months will cost significantly more due to higher international commodity prices. In turn, higher income households spend a significantly smaller proportion of their money on foodstuffs.

Households from decile 3 upwards will feel direct pressure on food budgets as well as rising electricity and transport costs.

There will also be second- and third-round effects from higher electricity and fuel tariffs impacting on the cost of producing/delivering other goods and services. As seen on the next page, the input costs for producing primary and manufactured food is highly exposed to higher fuel prices. Furthermore, once non-fuel prices are adjusted upwards due to an increase in fuel costs, these prices are sticky downwards and are unlikely to decline if fuel prices moderate in the future. .

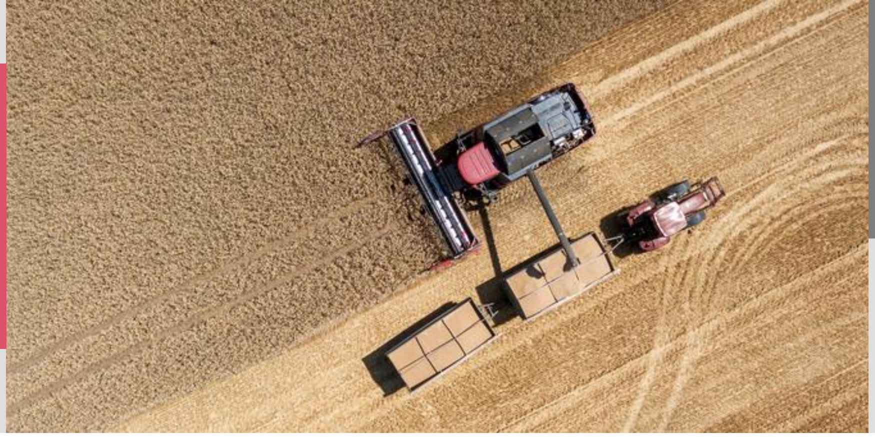
Table 1: Household budget breakdown (% of total spending) by expenditure decile

	Decile 1	Decile 2	Decile 3	Decile 4	Decile 5	Decile 6	Decile 7	Decile 8	Decile 9	Decile 10
Annual expenditure	up to R20,140	R20,141 up to R33,619	R33,620 up to R48,673	R48,674 up to R65,213	R65,214 up to R84,698	R84,699 up to R109,163	R109,164 up to R143,174	R 143,175 up to R199,920	R199,921 up to R312,246	R312,247 and more
Food and non-alcoholic beverages	**50.31**	**50.20**	**43.80**	**37.73**	**33.61**	**28.07**	**25.26**	**21.91**	**16.84**	**10.62**
Alcoholic beverages and tobacco	3.65	3.82	4.52	5.57	5.14	6.29	6.78	7.07	7.49	5.88
Clothing and footwear	8.67	8.06	7.33	5.91	6.01	5.07	4.69	4.49	3.69	2.52
Housing and utilities (incl. electricity)	16.12	12.78	19.74	26.96	29.89	34.09	33.52	29.77	25.12	15.97
Household contents, equipment and maintenance	3.34	3.58	3.26	3.26	3.09	2.86	2.76	3.01	3.87	5.73
Health	0.68	0.72	0.59	0.58	0.57	0.55	0.59	0.70	0.77	2.13
Transport (incl. fuel, vehicle purchases, public transport)	**1.40**	**2.09**	**2.91**	**3.45**	**4.36**	**6.54**	**8.05**	**10.74**	**13.85**	**21.71**
Communication	5.85	4.63	3.89	3.06	2.75	2.52	2.34	2.34	2.34	2.15
Recreation and culture	1.98	2.30	2.40	2.78	2.89	3.32	3.57	4.44	4.56	6.26
Education	0.33	0.40	0.46	0.59	0.86	0.90	1.36	1.82	2.80	3.39
Restaurants and hotels	3.34	5.67	5.21	4.87	4.47	3.65	3.24	3.14	2.70	3.49
Miscellaneous goods and services	4.33	5.75	5.89	5.24	6.36	6.14	7.84	10.57	15.97	20.15

Source: Stats SA

Producer price inflation impact: Primary and secondary sectors are highly exposed to fuel costs.

South Africa Economic Outlook March 2022



The upward pressure on commodity prices will adversely impact all industries during 2022. However, due to varying production cost breakdowns, individual industries will be impacted differently. For example, primary and secondary sectors have a very high exposure to fuel and transport costs in delivering their goods and services, with less dependence in the services sector.

The factory sector has the highest exposure to elevated prices on agricultural products like wheat and maize. These soft commodities are key inputs in the production of food (e.g. cereals) for both human and animal consumption. In turn, the agriculture, forestry and fishing industry have a very high exposure to the cost of these manufactured feeds to produce meat and fish products.

The recent upward revision in headline inflation forecasts will impact wage settlements in the short to medium term. Higher overall inflation due to elevated food and fuel costs will translate into increased demands for remuneration adjustments. This would be especially challenging for the mining, construction, trade, business and public services sectors who have a very high exposure to the cost of labour.

Table 2: Estimated impact of increased input costs

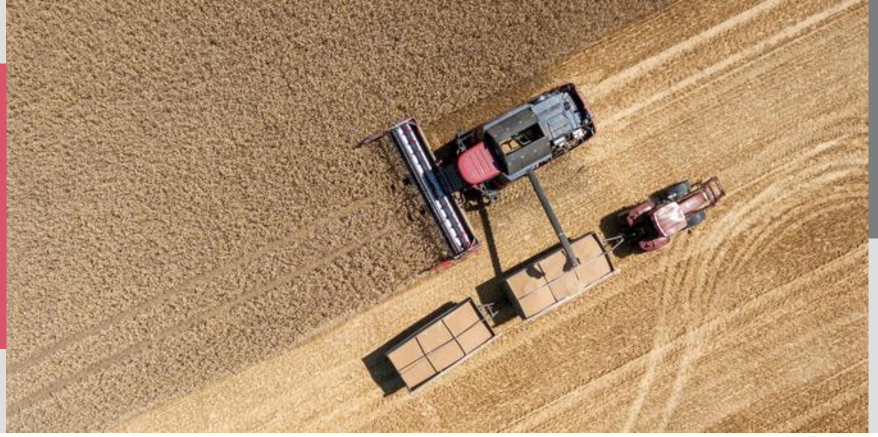
Production input costs

Producing sector	Agriculture, forestry and fishing	Mining and quarrying	Manufacturing	Electricity, gas and water	Construction	Wholesale and retail trade, catering and accommodation	Transport, storage and communication	Finance, insurance, real estate and business services	Community, social and personal services
Agriculture products	**Low**	**Very low**	**Moderate**	**Very low**	**Very low**	**Very low**	**Very low**	**Very low**	**Very low**
Mining products	Very low	Very low	Very high	Very high	Low	Very low	Very low	Very low	Very low
Manufactured & processed food & beverages	**High**	**Very low**	**Moderate**	**Very low**	**Very low**	**Low**	**Very low**	**Very low**	**Low**
Light manufacturing	Low	Very low	Moderate	Very low	Low	Very low	Very low	Very low	Low
Chemicals, petroleum & rubber products	**Very high**	**Very high**	**Very high**	**Very high**	**High**	**Low**	**Very high**	**Very low**	**Moderate**
Metal & steel products	Very low	Low	High	Very low	Very high	Very low	Very low	Very low	Very low
Machinery & equipment	Moderate	Moderate	High	Very low	High	Very low	High	Very low	Low
Other manufacturing & recycling	Very low	Very low	Very low	Low	Very low	Very low	Very low	Very low	Very low
Electricity	Very low	Moderate	Very low	Very high	Very low	Low	Low	Very low	Low
Water	Very low	Very low	Very low	Low	Very low	Very low	Very low	Very low	Very low
Building & construction	Very low	Low	Very low	Very low	Very low	Very low	Very low	Low	Low
Trade	Very low	Very low	Very low	Very low	Very low	Very low	Very low	Very low	Very low
Accommodation	Very low	Very low	Very low	Very low	Very low	Very low	Very low	Very low	Very low
Transport	**Very high**	**Moderate**	**Low**	**Very low**	**Low**	**Moderate**	**High**	**Moderate**	**Low**
Communication	Very low	Very low	Very low	Very low	Very low	Low	High	Low	Low
Finance & insurance	Low	Very low	Very low	Very low	Low	Moderate	Low	Very high	Low
Real estate	Low	Very low	Very low	Very low	Very low	Moderate	Low	Moderate	Moderate
Business services	Very low	Very high	Moderate	Very high	Moderate	Very high	High	Very high	High
Community, social and personal services	High	Moderate	Very low	Very low	Very low	Low	Low	Moderate	Low
Labour cost	Moderate	Very high	Moderate	High	Very high	Very high	High	Very high	Very high

Source: PwC research

Final 2021 GDP data: An uneven recovery as agriculture and financial services shine.

South Africa Economic Outlook March 2022



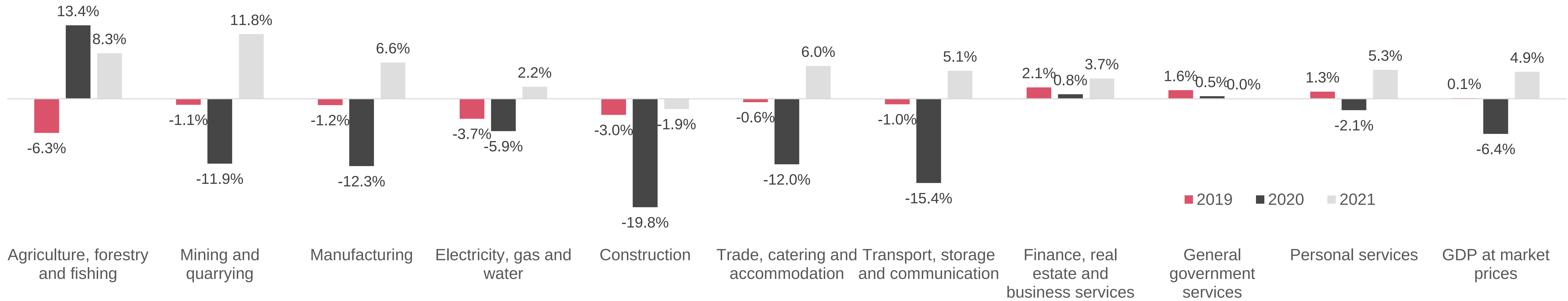
South African economy expanded by 4.9% in 2021 following the deep recession in pandemic-hit 2020.

Statistics South Africa (Stats SA) reported on March 8 that real gross domestic product (GDP) increased by 1.2% q-o-q and 1.8% y-o-y during the fourth quarter of 2021. This was in line with expectations. The latest data indicated that real GDP increased by 4.9% last year following the pandemic-induced 6.4% decline in activity during 2020. This was a healthy bounce-back — and the highest annual growth number since 2007 — due to the base effects from the 2020 recession. Following the 2021 expansion, the South African economy entered 2022 at about 1.7% smaller compared to the end of 2019. However, over the same period, the local population also increased by 2.5% — resulting in a net decline of 4.2% in real GDP per capita during 2020-2021.

On an industry level, the recovery has been uneven. Agriculture, forestry and fisheries is now substantially (+22.9%) larger than in 2019, though this is largely due to weather phenomena and not related to COVID-19. Real activity in the construction sector is still significantly smaller (-21.4%) compared to end-2019 due to the lack of private investment spending at present. Electricity, gas and water was somewhat smaller (-3.9%) at the close of 2021 versus two years earlier as a result of the ongoing supply challenges at Eskom — this includes challenges in performing adequate amounts of investment and maintenance. Mining activity, in turn, performed well over the past 18 months and the sector was only slightly smaller (-1.5%) at the close of 2021 compared to two years earlier. This helped the manufacturing sector – a key supplier to and client of mining – also narrow its deficit (-6.5%) with 2019 activity levels.

On the services front, transport, storage and communication were notably smaller (-11.1%) at the close of 2021 compared to the end of 2019, due to the dependency of these sectors on other industries and consumers making use of their services. In turn, general government services grew marginally (0.5%) larger than before the pandemic, with pressure on fiscal revenues capping any additional growth in public sector activity. On a positive note, the value added by private sector services — finance, real estate and business services (+4.6%) and personal services (+3.1%) — was larger than seen before COVID-19. Over the past two decades, private sector services (and banking in particular) have been reliable growth drivers for the South African economy. For example, PwC's SA Major Bank Analysis March 2022 found that major banks delivered strong results in 2021 on the back of a rebound in economic activity as well as increased client engagement levels and gains made through the execution of digitally-centric strategies.

Figure 4: Sectoral real GDP growth (%)



Source: Stats SA

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

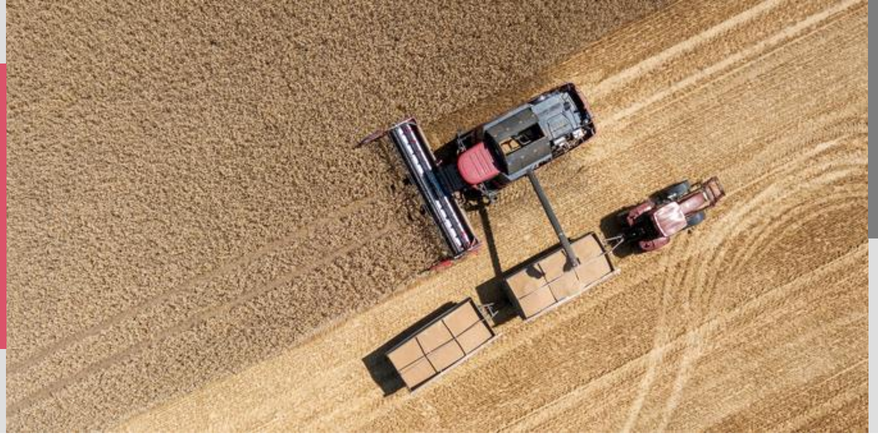
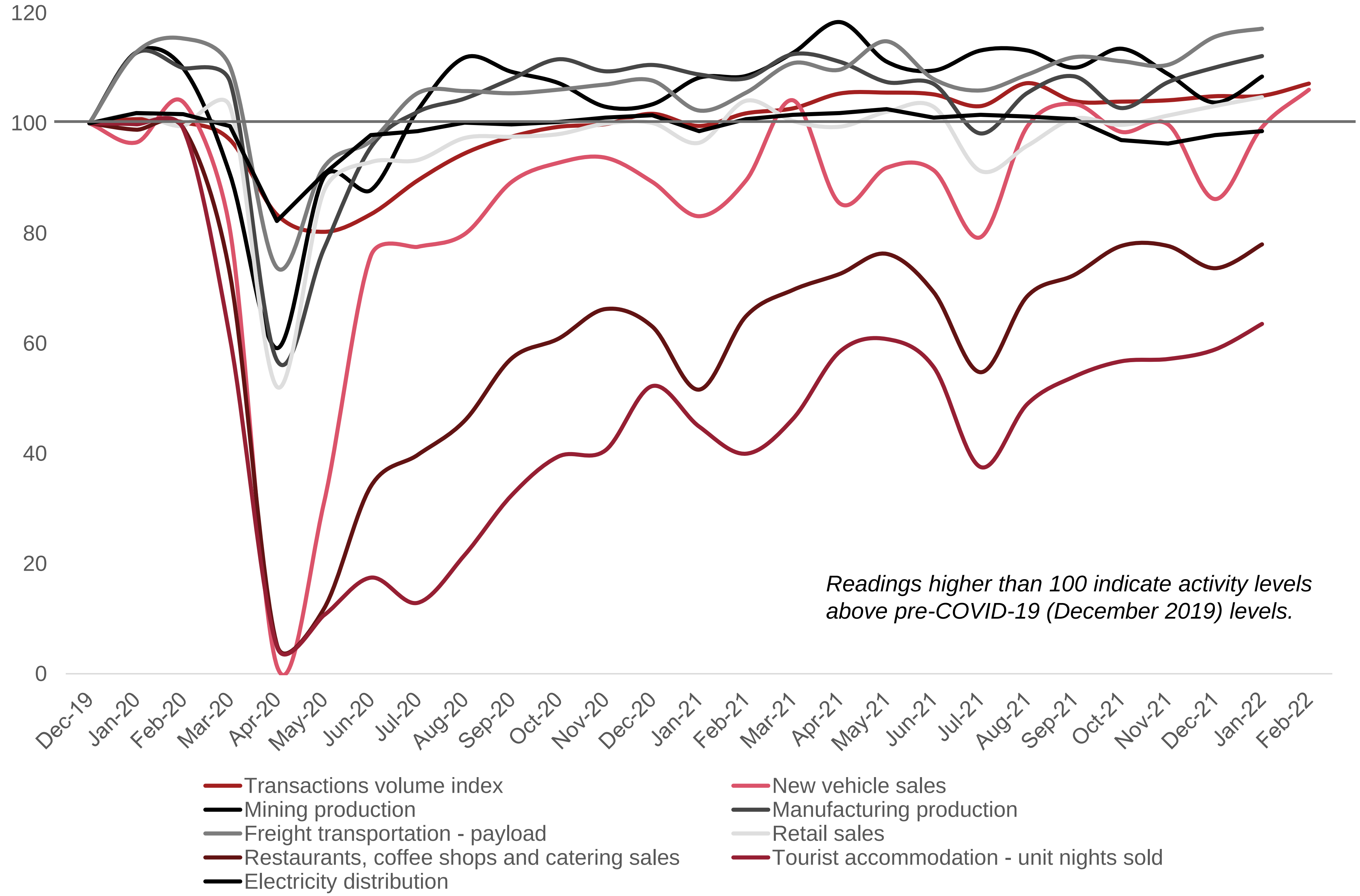


Figure 5: Industry activity compared to pre-pandemic levels



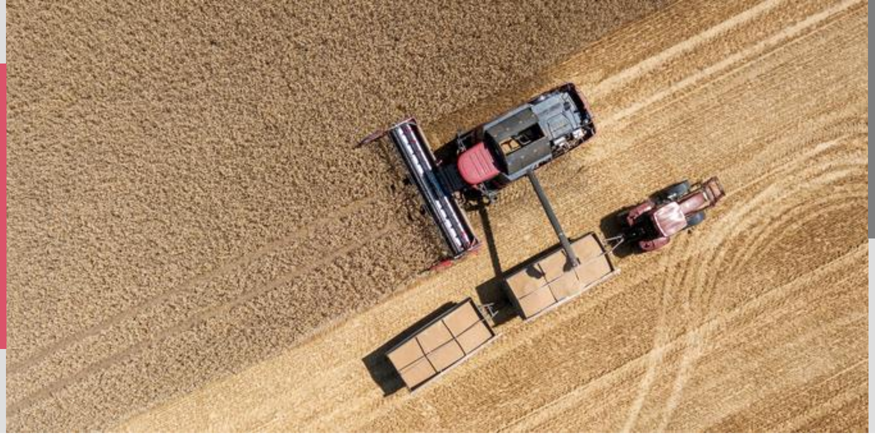
Source: PwC calculations based on data from Stats SA, Trading Economics, BankservAfrica

Table 3: Sector indices – pre-pandemic versus now

Sector index	Dec-19	Jan-22	Feb-22
Transactions volume index	100.0	105.0	107.2
New vehicle sales	100.0	99.3	106.1
Freight transportation - payload	100.0	117.2	
Manufacturing production	100.0	112.2	
Mining production	100.0	108.5	
Retail sales	100.0	104.7	
Electricity distribution	100.0	98.6	
Restaurants, coffee shops and catering sales	100.0	78.0	
Tourist accommodation - unit nights sold	100.0	63.6	

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 freight payload transported was 17.2% higher in January 2022 compared to the 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 4.7% higher during the first month of this year. In turn, the value of real spending at restaurants and coffee shops was still 22% lower versus December 2019. The number of unit nights sold in tourist accommodation was less than two-thirds the level seen prior to the arrival of COVID-19.



Disruption in Central and Eastern Europe: Global economy deteriorates as conflict hits supply chains.

Global shipping costs surge and commodity prices jump as conflict constrains exports.

For some years there has been concern about increasing polarisation in society. In our view, polarisation is characterised by a breakdown in the global consensus and a fracturing world, with growing nationalism and populism. In this environment, a new nationalism is taking hold, with many countries prioritising their own interests. As seen in Central and Eastern Europe right now, there could be an accompanied increase in international conflict, insecurity, migration, and tensions in cross-border business. The World Economic Forum (WEF) Global Risks Report 2022 reflected that in 23 out of 124 economies (18.5%) surveyed, interstate conflict was identified by business executives amongst the top five risks that pose a critical threat to their country in the next two years. For Ukrainian business leaders, this factor placed joint third on the list, while it was the number one factor for Russian businesses.

The Russian invasion of Ukraine has disrupted production activity in Ukraine and surrounding countries, while economic sanctions impact on the ability of Russian and Belorussian companies to trade goods and services across borders. As a result, global supply chains have been further disrupted, with hundreds of multinational companies shutting their operations in Russia and experiencing impacts further afield. The automotive industry, for example, which has already been hit for some time by a global shortage in semiconductor supply, is seeing pressure on its supply chains. Automotive giants Volkswagen Group and Renault paused production in the early days of the conflict at some of their factories in Germany due to cross-border logistical bottlenecks.

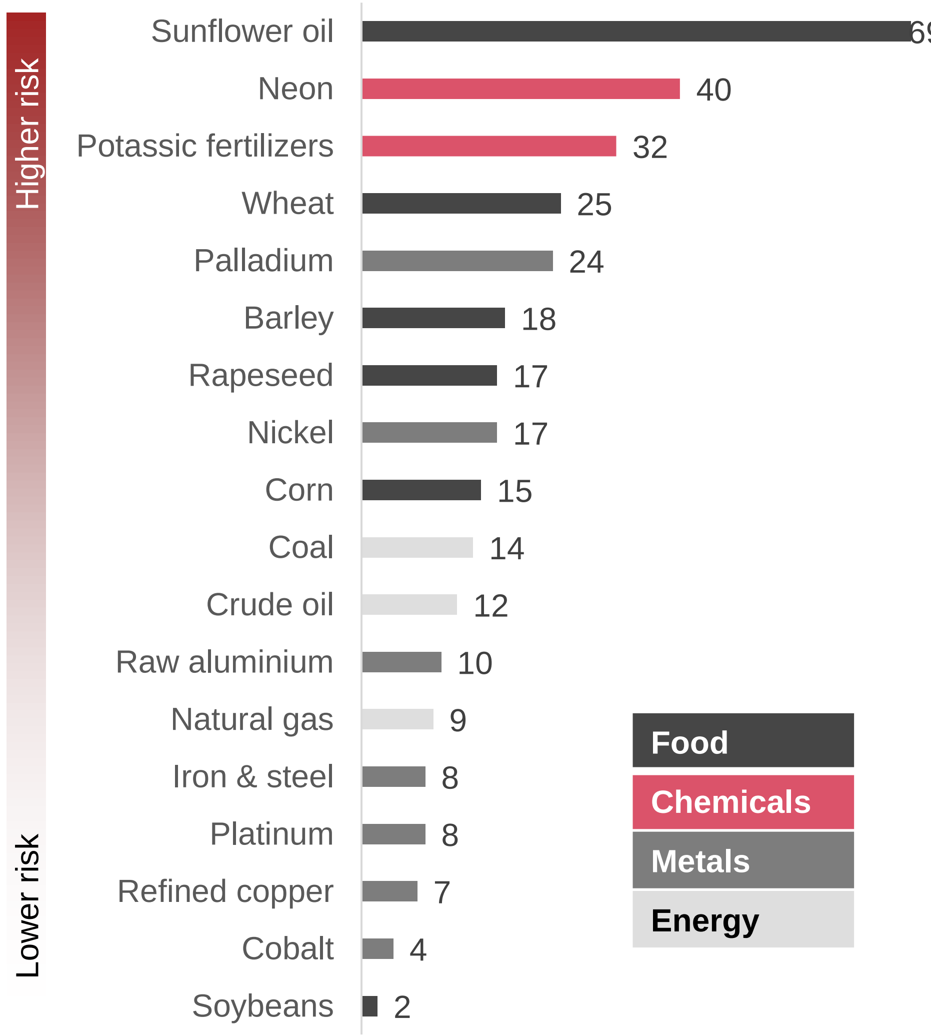
From a food security perspective, Ukraine is known as the ‘Breadbasket of Europe’. The country is home to a quarter of the world’s super-fertile chernozem (black) soil and 32m hectares of Ukraine land is cultivated annually. With a population of 45m residents, Ukraine produces enough food annually to feed 600m people — it is the sixth-largest producer of corn, the seventh largest producer of wheat, and the world's largest grower of sunflowers. In turn, Russia is one of the biggest players in the global energy (oil and gas) market. The country supplies about 40% of European Union countries’ natural gas needs — some of which flows through pipelines that cross Ukraine. With dozens of refineries, Russia is the world’s third largest oil producer behind the United States and Saudi Arabia. Russia is also the world’s largest exporter of oil to global markets and the second largest crude oil exporter behind Saudi Arabia.

600m

Ukraine is known as the ‘Breadbasket of Europe’: the country is home to a quarter of the world’s super-fertile chernozem soil and produces enough food annually to feed 600 million people.

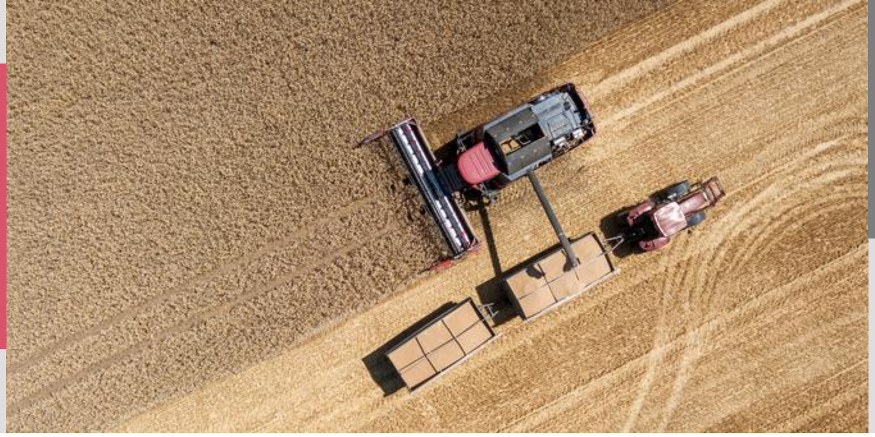
International commodity prices have reacted to the disruption in key supply chains of wheat and fertiliser, amongst other soft commodities. Energy prices (oil and gas) have also spiked on concerns around supply shortages to major economies. The S&P GSCI Commodity Index (consisting of 24 commodities across energy products, industrial metals, agricultural products, livestock and precious metals) increased by 18% in the month ending March 27 and was 75% higher compared to a year earlier. In addition, the Baltic Exchange Dry Index (a benchmark for the price of moving major raw materials by sea) increased by 24% in the month ending March 27. Many insurers are either refusing to cover vessels sailing into the Black Sea or demanding huge premiums to do so. These developments are contributing to even greater concern over producer and consumer price inflation after the global economy entered 2022 with heighted inflation rates.

Figure 6: Ukraine, Russia and Belarus share of global supply (%)



Source: FrontierView

South African economy: Weaker outlook as global growth slows and load-shedding increases.



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Global GDP growth could be one percentage point lower this year versus projections made before the conflict.

The International Monetary Fund (IMF) noted on February 24 that high-frequency economic indicators showed global growth momentum slowed at the start of 2022. Given the context provided on page 8, it is not surprising that the global economic outlook deteriorated further in the weeks after this IMF comment. In a report published on March 15, the Organisation for Economic Co-operation and Development (OECD) noted that global GDP growth could be more than one percentage point lower this year than was projected before the Ukraine conflict. The OECD also warned that the magnitude of the economic impact "is highly uncertain" and will depend in part on the duration of the conflict and the policy responses.

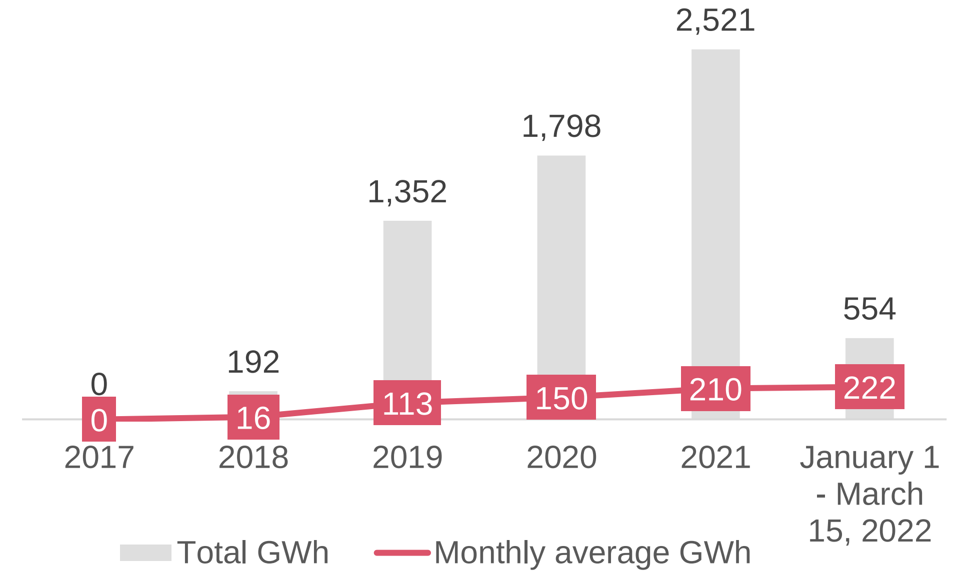
South Africa has some industry-specific exposure to trade with Ukraine and Russia. For example, wheat purchased from Russia and Ukraine account for almost a quarter of South Africa's total wheat imports. Supply of this grain from Ukraine and Russia therefore accounts for about 10% of local wheat consumption. Unfortunately, on March 8, Ukraine banned the export of wheat, corn and sunflowers. On the export side, two-thirds of South African exports to Ukraine and Russia are in the fruit category. Russia buys around 7% of South Africa's citrus exports in value terms and 12% of apple and pear exports — the country's second-largest market for these fruits.

The economic outlook for South Africa in 2022 is certainly murkier than it was just a month ago due to this deterioration in global economic prospects. While the latest RMB/BER Business Confidence Index (BCI) noted that local sentiment measures were back to the long-term average during the first quarter, the survey for the 2022Q1 edition of the report was completed ahead of the invasion of Ukraine and renewed disruption in global supply chains. The survey was also completed before commodity prices started rising, and also prior to the return of load-shedding level 4 in the second week of March. In turn, the survey for the FNB/BER Consumer Confidence Index (BCI) 2022Q1 was completed on March 4, i.e. eight days after the war in Ukraine started. The BER noted that consumer sentiment deteriorated compared to 2021Q4 as "the unfolding humanitarian crisis and the economic ramifications" of the conflict shook consumer confidence levels around the globe.

When taking into account the final GDP data for 2021, as well as the deteriorated global economic outlook over the past month, we now forecast a real GDP growth rate of 2.0% this year (from 2.3% previously) with continued downside risk. The downside scenario of higher inflation, weaker external demand and elevated levels of load-shedding is now much more likely to materialise. Unreliable power supply remains the country's largest growth inhibitor: we estimate that load-shedding reduced real GDP growth by three percentage points last year. According to the Council for Scientific and Industrial Research (CSIR), Eskom shed 554 gigawatt hours (GWh) of energy in the first two-and-a-half months of 2022, equal to 261 hours of outages. On a monthly average basis, that was already 5% higher compared to 2021.

Alongside this weaker economic outlook is even greater concern about the speed of the country's jobs recovery: there is little scope for South Africa's unemployment rate to improve (decline) this year if local business sentiment is weighed down by these international factors. Furthermore, as economic growth moderates back towards 1.5% over the long term, the unemployment rate is likely to continue higher. A higher long-term average growth rate is needed to arrest this continued deterioration. As analysed in the February 2022 edition of this report, a substantial and sustainable increase in economic and jobs growth is only possible if South Africa can improve on three key growth constraints: electricity reliability, workforce skills, and private sector investment.

Figure 7: Gigawatt hours (GWh) of load-shedding



Sources: CSIR, PwC

Table 4: Macroeconomic forecasts

Baseline	2020	2021	2022f	2023f
Consumer price inflation (%)	3.3	4.6	5.2	4.7
Repo rate (end-of-period)	3.50	3.75	5.00	5.75
Real GDP (%)	-6.4	4.9	2.0	1.7
Unemployment rate (%)	32.5	34.0	34.0	34.2
ZAR/USD	16.46	14.78	15.30	15.80
Probability weighted average	**2020**	**2021**	**2022f**	**2023f**
Consumer price inflation (%)	3.3	4.6	5.4	4.8
Repo rate (end-of-period)	3.50	3.75	5.03	5.78
Real GDP (%)	-6.4	4.9	2.0	1.6
Unemployment rate (%)	32.5	34.1	34.0	34.1
ZAR/USD	16.46	14.78	15.38	15.92

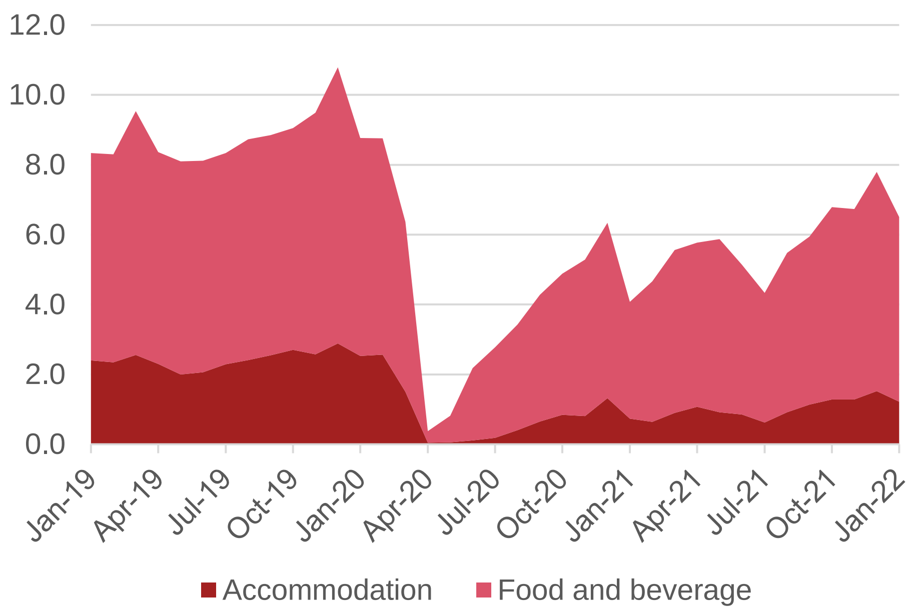
Source: PwC

Industry focus: Protecting the value of travel and tourism companies while hospitality recovers.

Food and accommodation spending is currently 25% lower compared to the pre-COVID-19 period.

As noted on pages 6-7, activity in South Africa's hospitality sector is still significantly below the levels seen before COVID-19. The accompanying graphs show that the combined income of the food and beverage industry (i.e. sales at restaurants, coffee shops, takeaway and fast-food outlets, as well as catering services) and the accommodation sector (hotels, caravan parks, camping sites, guest-houses, guest-farms and other accommodation) peaked at R9.5bn in November 2019 just before the global arrival of COVID-19. Three years later, in November 2021, total income was only 74.8% of this peak value at R6.7bn. Most recently, income in January 2022 was 74.1% of the January 2020 value.

Figure x: Hotel bookings and restaurant spending (R billion)



Source: Stats SA

This revenue situation (both recent income and a subdued outlook) has put the value of travel and leisure companies under significant pressure. The Johannesburg Stock Exchange (JSE) Travel and Leisure Index was 40% lower in March 2022 compared to three years earlier. This has significantly eroded the financial value of listed hospitality companies.

On a positive note, the PwC Global Consumer Insights Pulse Survey December 2021 found that 48% of South African respondents intended to stay in a hotel during 2022H1 — up from 37% recorded in the March 2021 edition of the survey. Some 53% of respondents also indicated that they intended staying in self-catering accommodation in the six months ahead compared to 45% polled in March last year. These latest numbers, which we surveyed in October 2021, would have encouraged sentiment amongst hoteliers and restaurateurs. Indeed, research by the Bureau for Economic Research (BER) found that confidence at hotels and restaurants surged during November 2021 on the back of bumper reservations from local and foreign visitors. However, this boost in sentiment was largely overturned with the announcement of the Omicron variant of COVID-19 late in the month and subsequent cancellation of international tourist bookings for the recent summer holidays.

At the time of writing, 62 countries were still closed for travel from South Africa with another 151 having varying degrees of restrictions in place — including vaccine requirements, negative COVID-19 PCR or antigen tests, and/or quarantine upon arrival. Given that these restrictions change slowly, travel and tourism activity will likely not return to pre-pandemic levels anytime soon. As such, it is important for companies in the industry to understand the staggered nature of the recovery and to adapt to it. Matching supply of and demand for their services is a fine balancing act which must be underpinned by smart analytics to manage cash flow and scale workforce and service capacity.

Taking action: Four levers that travel and tourism companies can pull to preserve or improve their value.

According to Strategy& experts in the hospitality industry, there are four key levers that travel and tourism companies can pull to preserve or improve their value:

Matching portfolio to demand: As travel markets adapt to a 'new normal,' a robust portfolio review is necessary in order to optimise operations, sharpen focus on core activities and consider divestment or retrenchment in others. For those companies with funding, it may be the right time to pick up distressed assets.

Greener growth: Ensuring that travel and tourism has a positive impact on the natural environment is a complex and growing priority in the industry. Amid developing regulatory requirements and an increasing focus on sustainability by consumers, setting ESG (environmental, social and governance) targets and building the capabilities to track and report performance are important — and often overlooked — value levers.

Managing cash flow: A laser-like focus on liquidity must continue, and that includes making the most of your working capital. As travel bookings return, securing financing to fund growth should also be a priority. In current market conditions, this may call for additional debt, equity investments or strategic disposals.

Being agile in turbulent times: In travel markets that are increasingly defined by new rules and disruption, it is imperative to understand where customers are migrating and build your organisation's reactivity to short shifts in demand. Robust data-driven reporting will enable a fast response to changes and prevent profit leakage.

PwC Economics services and contacts.

South Africa Economic Outlook March 2022

How can we help you manage the impact of rising inflation on your business?

As discussed earlier in this report, upward pressure on producer and consumer price inflation has intensified over the past month. We have been speaking to clients to help them understand and address their input cost challenges. Two of our initiatives are 1) developing inflation scenarios and 2) cost reduction steps.

Inflation scenarios

The table on page 5 reflects a broad overview of our detailed quantitative analysis of the cost to deliver goods and services in different industries. The cost breakdown — and exposure to varying inflation pressures — vary from one industry to the next. We are helping clients understand their cost structures, how this compares with industry benchmarks, what these costs could look like under different macroeconomic scenarios, and how their suppliers and consumers could be impacted.

Cost reduction

PwC does not believe in making slash and burn cuts. Instead, we differentiate between 1) good costs that are necessary for the current and future growth of a business, and 2) bad costs which are superfluous. In this regard, we highlight five actions that can help organisations manage costs in the right way.

- Connect costs and strategy
- Rethink costs in terms of capabilities
- Park-and-ride expenses
- Make the cost-management plan sustainable
- Be proactive and fix the roof while the sun is shining

Featured PwC research.

In a year where local municipalities are establishing the next cycle of their five-year plans, the insights offered by last month's State of the Nation Address (SONA) into the local government sector have a particular resonance: municipalities and metros are responsible for 10% of consolidated government expenditure and are the front-line providers of services to the citizenry.

While a number of areas discussed in the SONA are applicable to the municipal sector, there are five key areas that are especially relevant for the success of local government in the coming years. The key areas that PwC has identified and analysed are:

- Energy - Just transition for energy and the role that municipalities will play in resolving the energy crisis and addressing climate change.
- Infrastructure - Delivery of infrastructure at all levels of the state.
- Communication - Greater permissions for broadband in municipalities.
- Water - Reviewing water boards to ensure better water quality for municipalities, including attention to monitoring standards.
- Economic development - District Development Model (DDM) linked to local economic recovery and growth.

These elements will require implementation plans in order to affect the necessary pace of municipal service delivery. The issues faced by local government have a particular immediacy to them as failures in this sector have a direct and immediate impact on ordinary lives. The longer the failures continue, the more difficult it is to address them. The macro challenges identified in this year's SONA require a focus at the level of policy and implementation concurrently to ensure a level of change and impact in the country's municipalities.

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