



National Agricultural
Marketing Council
Promoting market access for South African agriculture

Markets and Economic Research Centre

Macroeconomic Digest



*An Update on Selected
Macroeconomic Indicators*

Economic Growth and other Indicators – September 2022

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EXECUTIVE SUMMARY

- ***Real Gross Domestic Product (GDP) and Growth Rates***

South African gross domestic product (GDP) decreased by 0.7% in the second quarter (April to June) of 2022, this follows an increase of 1.7% in the first quarter (January to March) of 2022. Seasonally adjusted figures show that seven industries recorded negative growth between the first quarter of 2022 and the second quarter of 2022.

- ***Crude Oil and the Exchange Rate***

On an annual basis (August 2021 to August 2022), crude oil prices increased by 49.3% while the exchange rate (R/\$) depreciated by 14.2%. From July 2022 to August 2022, crude oil prices decreased by 9.3% and exchange rates depreciated by 7.0%.

- ***Average Prime Interest Rate***

The prime interest rate is currently 14.3% lower than during August 2016. The prime interest rate reached a peak of 10.5% during the period March 2016 to June 2017. Due to the increase of the Repo rate, the prime interest rate increased to 9.0% since July 2022.

- ***Farm Income and Expenditure***

Comparing the second quarter (April to June) of 2022 to the second quarter of 2021 (y-o-y), the real net farm income real and real gross income decreased by 14.4% and 5.8%, respectively, while the real expenditure on intermediate goods and services increased by 3.7% y-o-y.

Comparing the second quarter (April to June) of 2022 to the second quarter of 2021, both the real net farm income real and real gross income decreased by 14.4% and 5.8%, respectively, while the real expenditure on intermediate goods and services increased by 3.7%.

1. Introduction

The aim of this publication is to report on key economic indicators such as the real Gross Domestic Product (GDP), crude oil, exchange rate, average prime interest rate and farm income. The data for this publication was obtained from Statistics South Africa (Stats SA), the South African Reserve Bank (SARB) and the Department of Agriculture, Land Reform, and Rural Development (DALRRD).

2. Real Gross Domestic Product (GDP) and Growth Rates

Figure 1 presents the real GDP for selected South African industries from the second quarter of 2019 to the second quarter of 2022 and their contributions to the overall economy. According to the data from Stats SA, South Africa's GDP decreased at a seasonally adjusted and annualised rate of 0.7% in the second quarter (April to June) of 2022. This follows an increase of 1.7% in the first quarter (January to March) of 2022. Seasonally adjusted figures show that seven industries recorded negative growth between the first quarter of 2022 and the second quarter of 2022.

Between the first quarter of 2022 and the second quarter of 2022, the annualised and seasonally adjusted figures show that the Manufacturing industry was the main driver of the decrease in the GDP growth rate, followed by the Agriculture, Forestry and Fishing (AFF) industry and Mining industry. While the Finance industry and Transport industry were the only industry showing positive growth.

AFF industry decreased by 7.7% mainly due to decreased production of animal products (Stats SA, 2022).

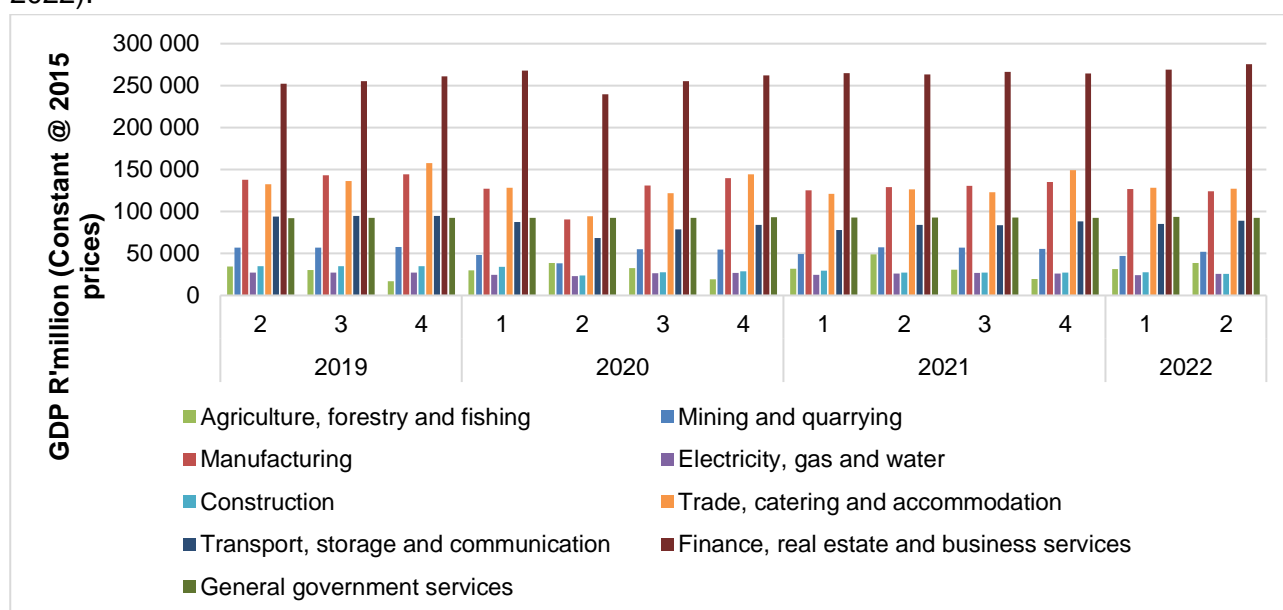


Figure 1: Quarterly GDP of selected industries, at constant 2015 prices, seasonally adjusted and annualised

Source: Stats SA, 2022

Figure 2 shows a year-on-year (y-o-y) percentage change in the GDP for AFF, at constant 2015 and seasonally unadjusted prices. Between the second quarter of 2015 and the second quarter of 2022, the GDP growth rate of AFF decreased from (-6.2%) in the second quarter of 2015 to (-20.9%) in the second quarter of 2022. The decrease in GDP growth rate in AFF might be attributed to severe drought conditions and disease outbreaks during the reviewed period.

For the same period, the AFF GDP peaked at 33.9% during the third quarter of 2017. Comparing the first quarter of 2022 to the second quarter of 2022, the AFF GDP growth declined from -1.7% to -20.9%.

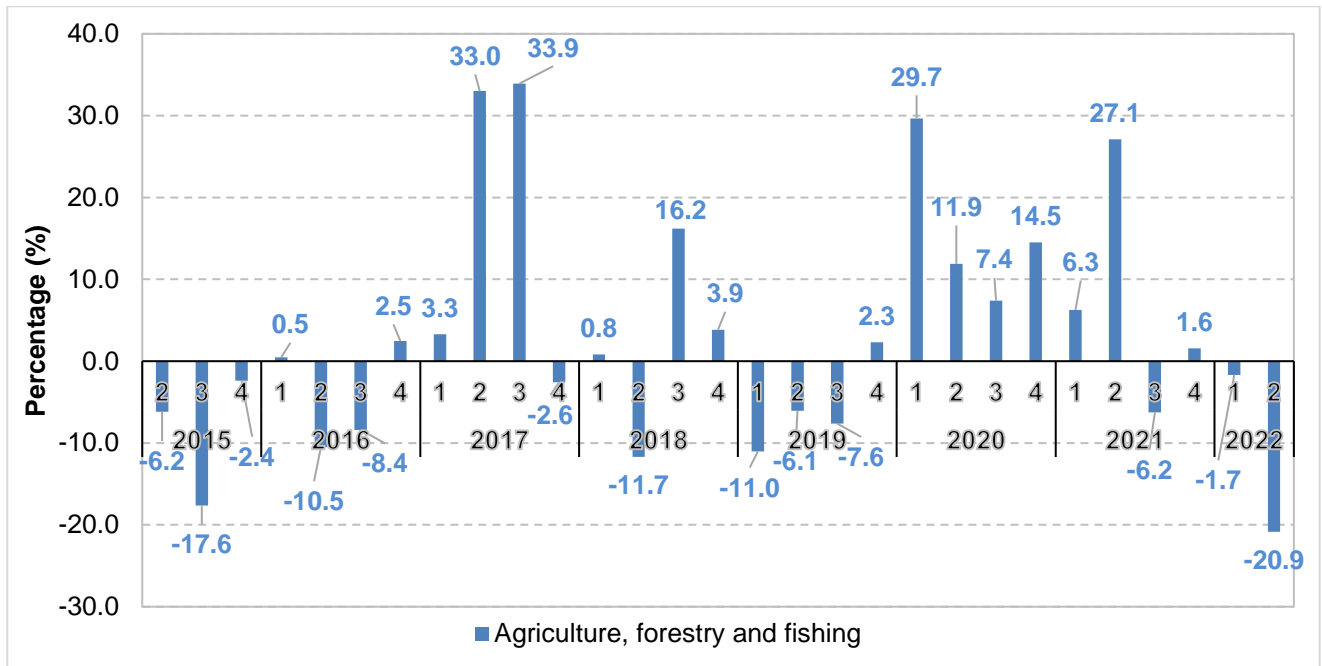


Figure 2: Percentage changes in AFF GDP, at constant 2015 prices
 Source: Stats SA, 2022

3. Comparison of Crude Oil and Exchange Rate

Figure 3 shows crude oil price (US\$/barrel) trends and the Rand/Dollar (R/\$) exchange rate from August 2014 to August 2022. For the observed period, crude oil prices increased by 1.5% while exchange rates depreciated by 58.1%. On an annual basis (August 2021 to August 2022), crude oil prices increased by 49.3% while the exchange rate (R/\$) depreciated by 14.2%. With lower international oil inventories, a gradual but limited increase in production and the geopolitical tension between Russia and Ukraine as well as between the United States and Russia, oil prices escalated at the end of 2021 and the beginning of 2022.

From July 2022 to August 2022, crude oil prices decreased by 9.3% and exchange rates depreciated by 7.0%.

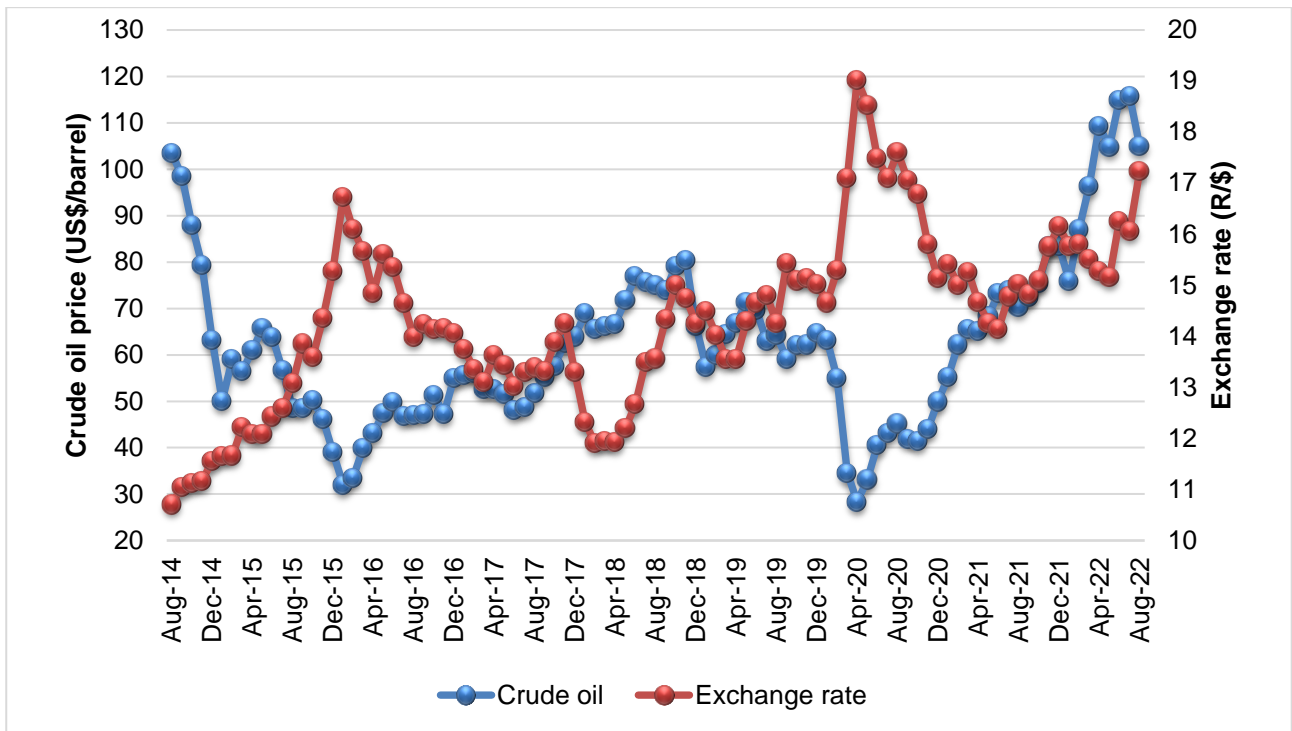


Figure 3: Crude oil and the exchange rate

Source: Department of Mineral Resources and Energy, 2022

4. Average Prime Interest Rate

The South African Reserve Bank (SARB) uses interest rates to influence the level of inflation and to protect the value of the rand. The SARB aims to maintain consumer price inflation between 3% and 6%. According to the Monetary Policy Committee (MPC) of the SARB, the risks to the inflation outlook are assessed to more likely to increase. Global producer price and food price inflation continued to surprise higher in recent months and may do so again. Russia’s war in Ukraine is likely to persist for the rest of this year and may have significant further effects on global prices. Oil prices increased strongly from the start of the war and may rise further as stresses in energy markets intensify. Electricity and other administered prices continue to present short- and medium-term risks.

The prime interest rate is used as a reference or benchmark rate for loan pricing. The prime rate is the lending rate at which a bank will provide credit facilities to their most creditworthy clients. **Figure 4** illustrates the average monthly prime interest rate for the period of August 2016 to August 2022. The prime interest rate is currently 14.3% lower than during August 2016. The prime interest rate reached a peak of 10.5% during the period March 2016 to June 2017. Due to the increase of the Repo rate, the prime interest rate increased to 9.0% since July 2022. The large rate hike adds more pressure on many South African households, who are already facing a high cost of living.

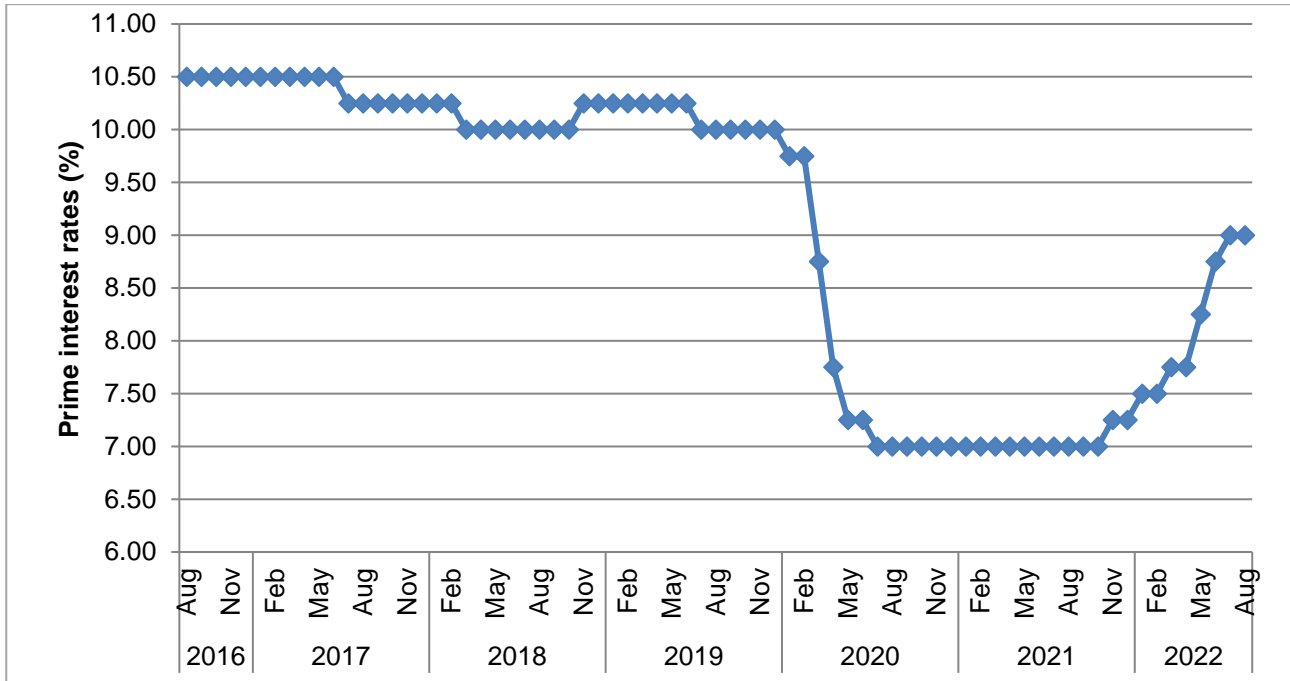


Figure 4: Average monthly prime interest rate
 Source: South African Reserve Bank (SARB), 2022

5. Farm Income and Expenditure

Figure 5 shows the quarterly real gross income, real expenditure on intermediate goods and services and the real net farm income from 2012 to 2022, at December 2022 prices. The real gross income, real expenditure on the immediate goods and services and real farm reflect highly seasonal trends reflecting the seasonal production patterns of agriculture. The gap between real gross income and real net income is expanding due to cost pressures.

Comparing the second quarter (April to June) of 2022 to the second quarter of 2021 (y-o-y), the real net farm income real and real gross income decreased by 14.4% and 5.8%, respectively, while the real expenditure on intermediate goods and services increased by 3.7% y-o-y. When comparing the second quarter (April to June) of 2022 to the first quarter of 2022, the real net farm income, real gross income and the real expenditure on intermediate goods & services increased by 316.9%, 61.7% and 3.4%, respectively.

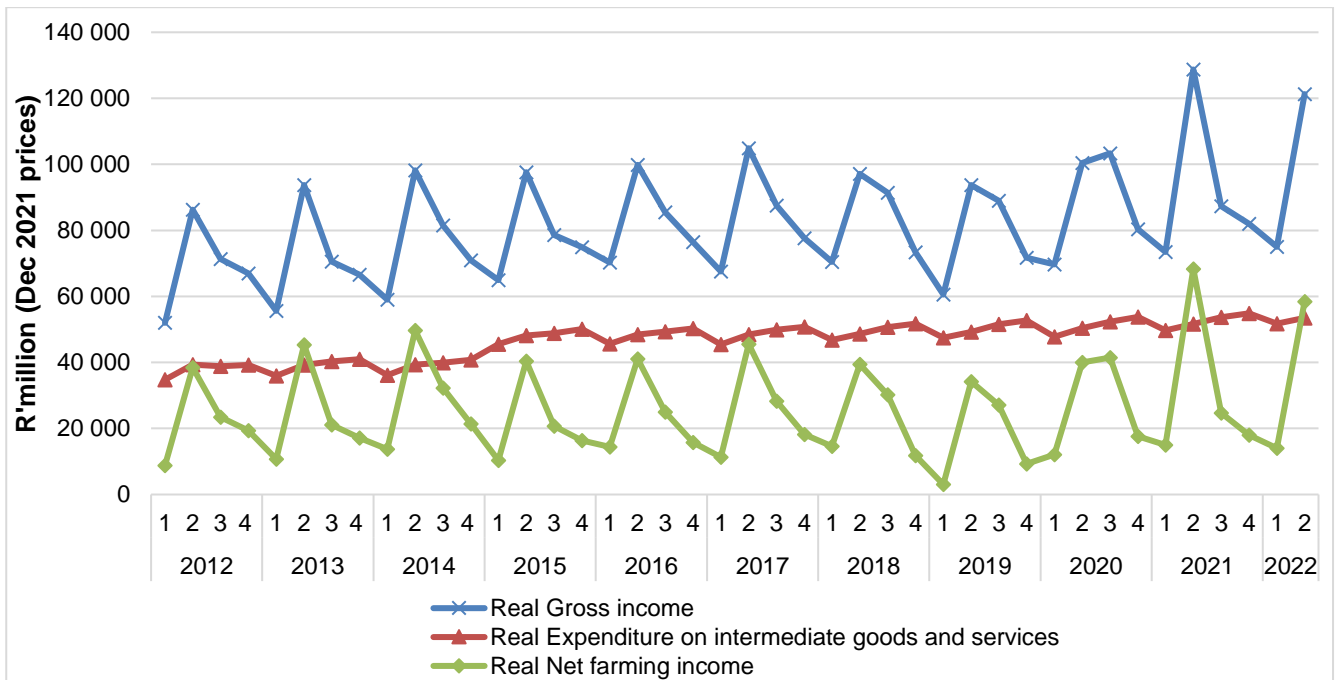


Figure 5: Real gross income, real expenditure on intermediate goods and services and real farm income

Source: Department of Agriculture, Land Reform and Rural Development (DALRRD), 2022

Conclusion and key policy messages

South Africa's economy declined by 0.7% in the second quarter of 2022, following an increase of 1.7% in the first quarter of 2022. AFF industry also decreased by 7.7% in this quarter. Although the sector is set for one of the best years on record due to the expansion of area planted for crops, the persistence of disease outbreaks such as Foot and Mouth disease on the back of a wet season might be attributed to the performance of the sector.

In terms of crude oil, crude oil prices have witnessed a noticeable increase that started at the end of 2021 in response to low global inventories and inadequate growth in supply as well as geopolitical situations. Although most forecasts predicted that oil prices will keep rising given the ongoing geopolitical tensions, the Organisation of the Petroleum Exporting Countries (OPEC) and its allies have agreed to increase the output of crude oil from 432 000 barrels/day to 648 000 barrels/day in July and August 2022.

The government and relevant key stakeholders are encouraged to solve the nation's energy crisis as it negatively affects the GDP growth rate. This will assistance to cushion South Africans against the rising cost of living and the government's spending plans. In a nutshell, global uncertainties and an uneven domestic recovery/events should be dealt with and will weigh on the future of the country's economy.

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