



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 – June 2023

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EXECUTIVE SUMMARY

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

South Africa's Gross Domestic Product (GDP) increased at a seasonally adjusted and annualised rate of 0.4% in the first quarter (January to March) of 2023. This follows a revised decrease of 1.1% in the fourth quarter (October to December) of 2022. Seasonally adjusted figures show that eight industries recorded positive growth between the fourth quarter of 2022 and the first quarter of 2023. The Agriculture, Forestry and Fishing (AFF) industry decreased by 12.3%, contributing -0.4 of a percentage point to GDP growth. This was primarily due to decreased economic activities reported for field crops and animal products.

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

On an annual basis (June 2022 to June 2023), crude oil prices decreased by 34.0% while the exchange rate depreciated by 19.1%.

Between May 2023 and June 2023, crude oil prices decreased by 7.7% while the exchange rate depreciated by 4.7%.

- ***Average Prime Interest Rate***

Due to the increase of the Repo rate, the prime interest rate was increased by 0.50 percentage points from 11.25% to 11.75% since May 2023, a rate similar to what was last seen in 2009.

1. Introduction

The aim of this publication is to report on key economic indicators such as the real Gross Domestic Product (GDP), crude oil prices, exchange rate (Rand per United States Dollar – R/\$), and average prime interest rate. 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 GDP and Growth Rates

Figure 1 presents the real GDP for selected South African industries from the first quarter of 2020 to the first quarter of 2023, and their respective contributions to the overall economy. According to the data from Stats SA, South Africa’s real GDP increased at a seasonally adjusted and annualised rate of 0.4% in the first quarter (January to March) of 2023. This follows a 1.1% decrease in the fourth quarter (October to December) of 2022. Seasonally adjusted figures show that eight industries recorded positive growth between the fourth quarter of 2022 and the first quarter of 2023.

Between the fourth quarter of 2022 and the first quarter of 2023, the annualised and seasonally adjusted figures show that the Agriculture, Forestry and Fishing (AFF) industry decreased by 12.3%, contributing -0.4 of a percentage point to GDP growth. This was primarily due to decreased economic activities reported for field crops and animal products (Stats SA, 2023).

The manufacturing industry and the transport industry increased by 1.5% and 1.1%, respectively.

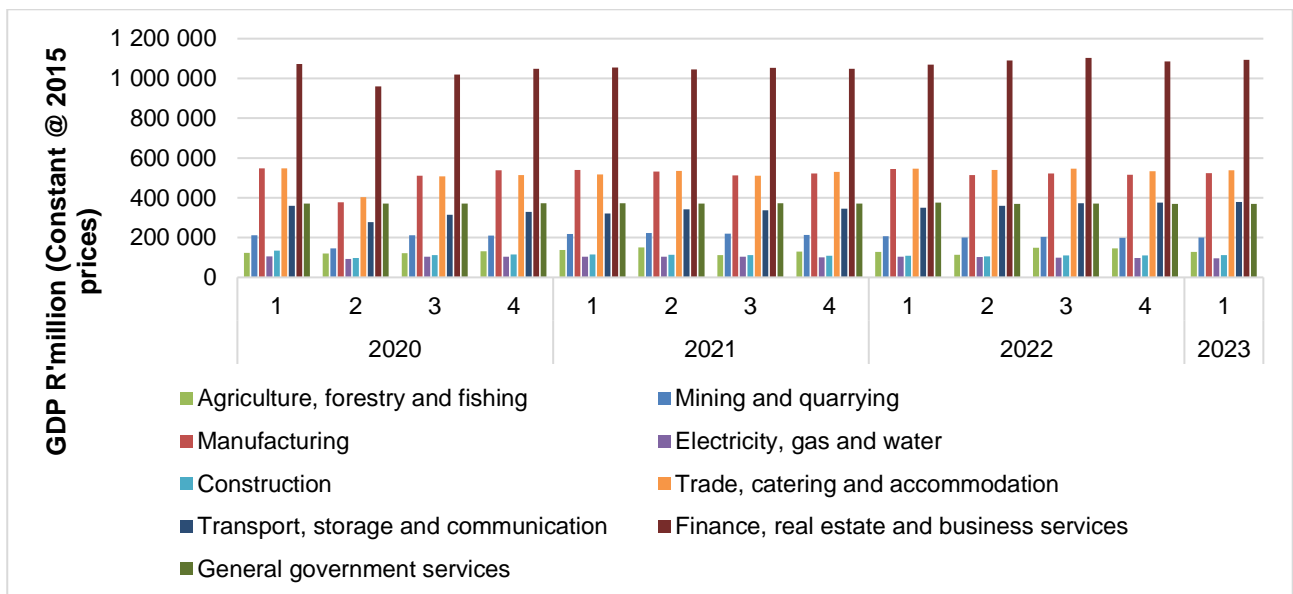


Figure 1: Quarterly GDP of selected industries, at constant 2015 prices, seasonally adjusted and annualised

Source: Stats SA, 2023

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 first quarter of 2016 and the first quarter of 2023, the GDP growth rate of AFF decreased from 0.5% to -5.4%.

During the review period, the AFF GDP peaked at 33.9% during the third quarter of 2017. Comparing the fourth quarter of 2022 to the first quarter of 2023, the AFF GDP decreased from 8.8% to -5.4%.

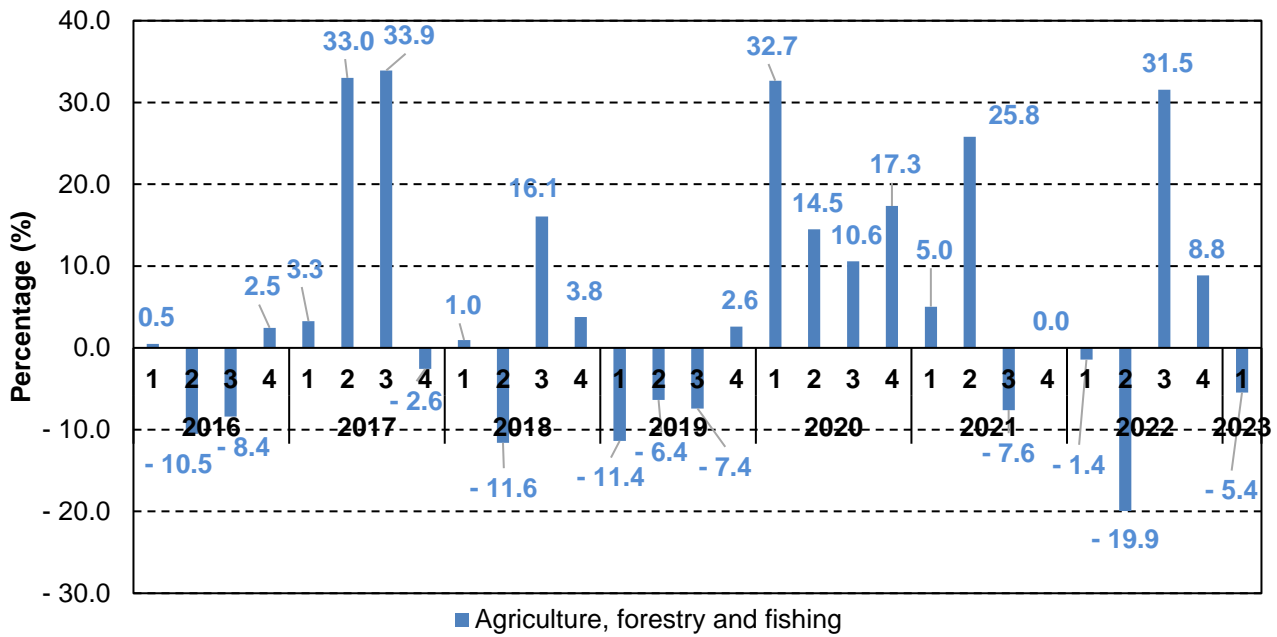


Figure 2: Percentage changes in AFF GDP, at constant 2015 prices

Source: Stats SA, 2023

3. Comparison of Crude Oil price and Exchange Rate

South Africa's fuel prices are influenced by international and local factors. International factors include South Africa's dependency on imported commodities such as crude oil at a price set at the international level. For net importing countries, such as South Africa, macroeconomic factors such as the exchange rate play a crucial role in the volatility of prices since crude oil is priced in foreign currency. **Figure 3** shows trends in crude oil price (US\$/barrel) and the exchange rate (R/\$) between June 2012 to June 2023. For the observed period, crude oil prices decreased by 20.8% while exchange rates depreciated by 129.5%. On an annual basis (June 2022 to June 2023), crude oil prices decreased by 34.0% while the exchange rate depreciated by 19.1%.

Crude oil prices started to decrease since August 2022 and on average for the first six months of 2023, it was 16.6% lower than the average for the first six months of 2022. Between May 2023 and June 2023, crude oil prices decreased by 7.7% while the exchange rate depreciated by 4.7%.

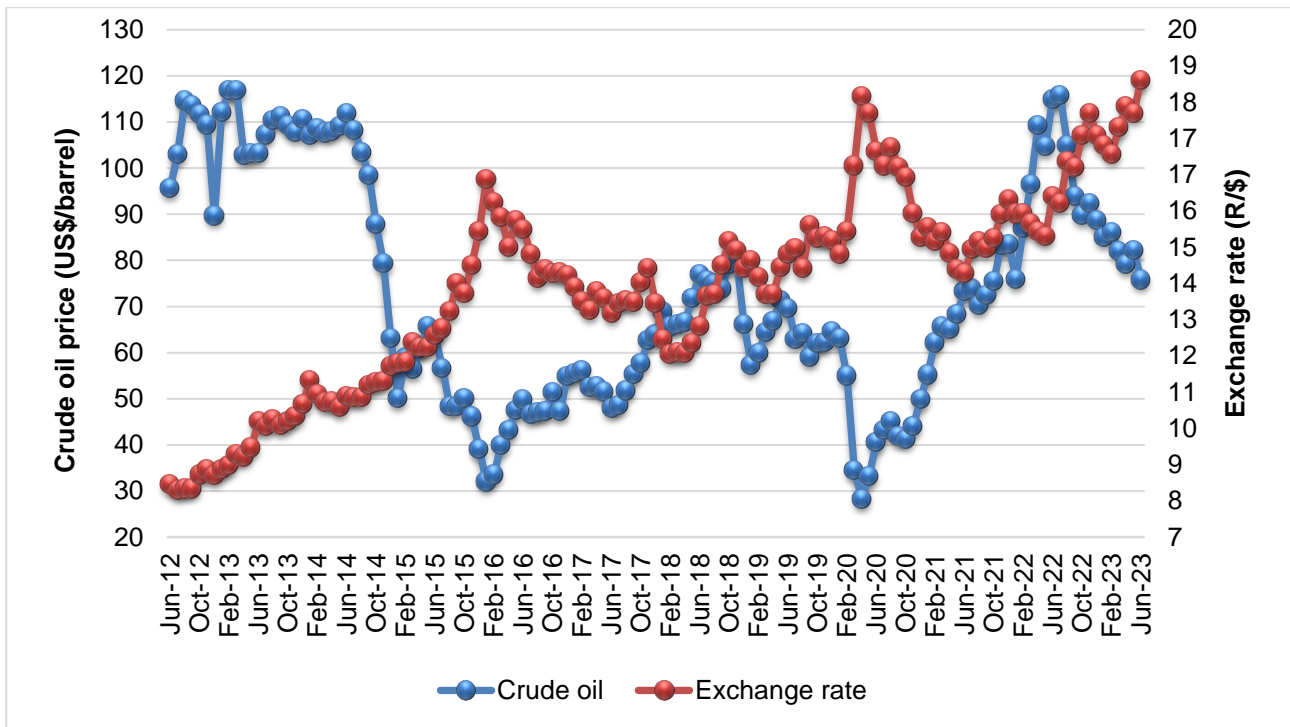


Figure 3: Crude oil price and the exchange rate
 Source: Department of Mineral Resources and Energy, 2023

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 annual headline inflation for 2023 is forecasted to be 6.2% and 5.1% for 2024. Headline inflation is forecast to remain above the upper end of the inflation target range until the third quarter of this year, and will only sustainably revert to the mid-point of the target range by the second quarter of 2025. The forecast for annual food inflation is 10.8% for 2023 and this is mainly attributable to the lagged impact of the weaker exchange rate and despite global food prices decreasing in dollar terms.

The Reserve Bank intends to guide inflation back towards the mid-point of the target band (3% to 6%) to reduce the economic costs of high inflation and enable lower interest rates in the future. Achieving a prudent public debt level, increasing the supply of energy, moderating administered price inflation and keeping wage growth in line with productivity gains could enhance the effectiveness of monetary policy and its transmission to the broader economy (MPC, 2023).

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 its most creditworthy clients. **Figure 4** illustrates the average monthly prime interest rate for the period of June 2012 to June 2023. Due to the increase of the Repo rate, the prime interest rate was increased by 0.50 percentage points from 11.25% to 11.75% since May 2023, a rate similar to what was last seen in 2009. The increase in the rate adds more pressure on many South African households, who are already facing a high cost of living.

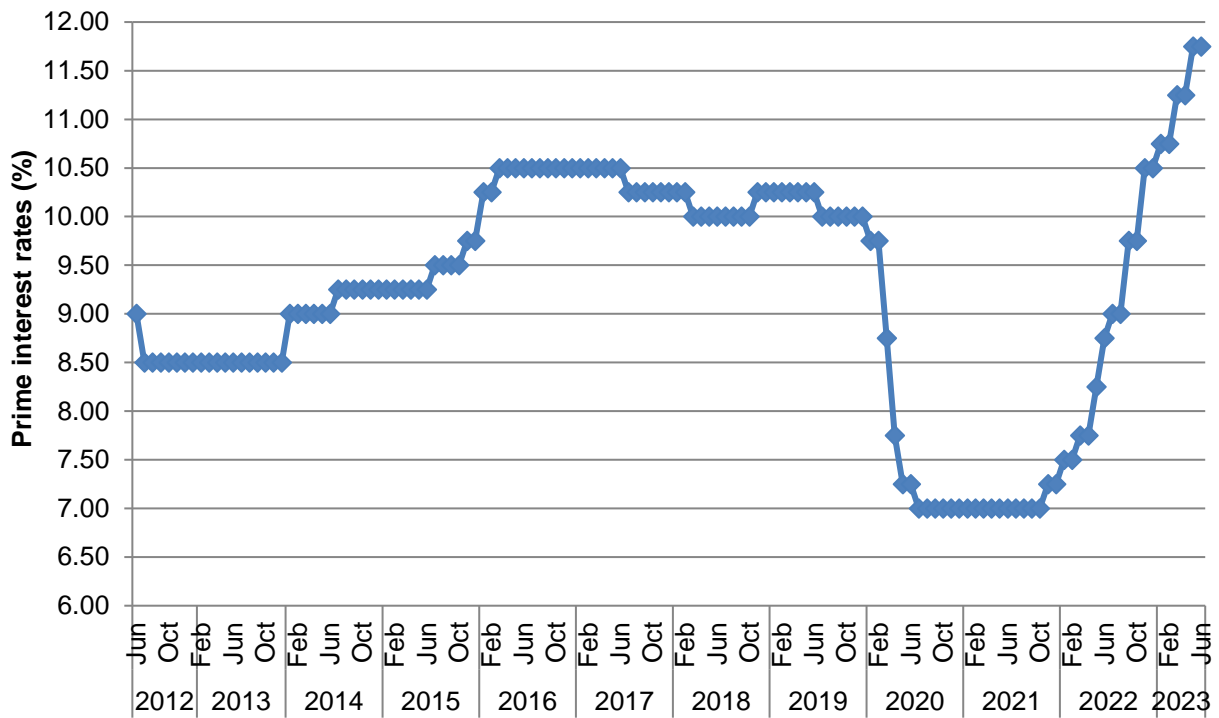


Figure 4: Average monthly prime interest rate
 Source: South African Reserve Bank (SARB), 2023

Conclusion

South Africa's GDP increased at a seasonally adjusted and annualised rate of 0.4% in the first quarter (January to March) of 2023. This follows a revised decrease of 1.1% in the fourth quarter (October to December) of 2022. The AFF industry decreased by 12.3%, this was due to decreased economic activities reported for field crops and animal products.

In terms of crude oil, prices noticeably decreased starting from August 2022 and on average for the first six months of 2023, it was 16.6% lower than the average for the first six months of 2022. The average price decreased from US\$98.10/barrel to US\$81.79/barrel.

Given the increase of the Repo rate, the prime interest rate increased by 0.50 percentage points from 11.25% to 11.75% since May 2023, a rate similar to what was last seen in 2009. The rate hike adds more pressure on many South African households, who are already facing a high cost of living.

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