

**Quarterly
Economic
Bulletin
2021/22
Q3**

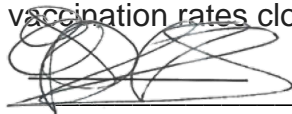
Foreword

The 2020/21 quarter three Quarterly Economic Bulletin is presented during the continuing mist of Covid-19, which is accompanied by the new waves of infections and the recent emergency of the new omicron variant. The COVID-19 pandemic continues to force government to act in a context of great uncertainty and under heavy economic, fiscal and social pressures. Both the national and provincial government are continuing to protect the health of the citizens and to limit the impact of the crisis on the already ailing economy.

The global economic recovery continues amid a resurging pandemic that poses unique policy challenges. Meanwhile, inflation has increased markedly in the United States and some emerging market economies including South Africa. As restrictions are relaxed, demand has accelerated, but supply has been slower to respond. Although price pressures are expected to subside in most countries in 2022, inflation prospects are highly uncertain. These increases in inflation are occurring even as employment is below pre-pandemic levels in many economies, forcing difficult choices on policymakers.

The International Monetary Fund (IMF) recently upwardly revised South Africa's GDP outlook from 4 percent to 5 percent. But the country is unlikely to sustain this pace of recovery beyond 2021, with growth expected to slow to 2.2 percent in 2022. In Limpopo, the provincial economy is expected to realize a rebound from the 2020 negative growth, stimulated by the international demand for minerals.

Vaccination efforts in South Africa and the Sub-Saharan region are slower than others in the world, this is largely due to hoarding by advanced economies, export restrictions by major vaccine manufacturing countries and demands for booster shots in advanced economies. Only 3 percent of the population in Sub-Saharan Africa has been vaccinated, compared to advanced and many emerging market countries which have vaccination rates close to 60 percent.



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1.1 Introduction

Global economic recovery is continuing, but the momentum has weakened and uncertainty has increased with the recent resurgence of Omicron Covid-19 virus variant. The greater sub-Saharan Africa region is expected to grow by 3.7 percent in 2021, the slowest recovery in the world compared to advanced markets and other emerging markets and developing economies. Despite possibly achieving growth of 5 percent in 2021, South Africa is unlikely to maintain this momentum into 2022 according to the International Monetary Fund (IMF). The upward revision to South Africa's 2021 growth outlook is largely linked to better than expected growth during the first half of the year before the unrest, as well as the impact of its improved national accounts position, which has been helped by a stronger trade account bolstered by the commodities boom.

However, the South African Reserve Bank (SARB) has warned that the country can't solely rely on upbeat commodities for the economic recovery, especially as commodity prices are cyclical. There risks being a downturn in commodities. The Reserve Bank has noted that the climb in commodity prices is starting to slow, and this can have a negative impact on the growth prospects of the country and the province due to over reliance on commodity exports.

Despite recent increases in headline inflation in both advanced and emerging market economies, long-term inflation expectations remain anchored. Looking ahead, headline inflation is projected to peak in the final months of 2021 but is expected to return to pre-pandemic levels by mid-2022 for most economies. But given the recovery's uncharted nature, considerable uncertainty remains, and inflation could exceed forecasts for a variety of reasons.

Strong policy effort at the multilateral level is needed on vaccine deployment, climate change, and international liquidity to strengthen global economic prospects. National and provincial policies to complement the multilateral effort will require much more tailoring to country and region specific conditions and better targeting, as policy space constraints become more binding the longer the pandemic lasts.

1.2 World Economic Outlook

The World economic recovery is continuing, even as the pandemic resurges. The fault lines opened up by COVID-19 are looking more persistent near-term divergences are expected to leave lasting imprints on medium-term performance. Vaccine access and early policy support are the principal drivers of the gaps.

Table 1: World Economic Outlook Real GDP, annual percent change

Country Group Name	2020	2021	2022
<i>World</i>	-3.1	5.9	4.9
<i>Advanced economies</i>	-4.5	5.2	4.5
<i>Emerging market and developing economies</i>	-2.1	6.4	5.1
<i>Sub-Saharan Africa</i>	-1.7	3.7	3.8
<i>South Africa</i>	-6.4	5.0	2.2

Source: International Monetary Fund, WEO, October 2021

The World economy is projected to grow by 5.9 percent in 2021 and 4.9 percent in 2022, 0.1 percentage point lower for 2021 than in the July forecast. Beyond 2022 global growth is projected to moderate to about 3.3 percent over the medium term. The downward revision for 2021 reflects a downgrade for advanced economies in part due to supply disruptions and for low-income developing countries, largely due to worsening pandemic dynamics. This is partially offset by stronger near-term prospects among some commodity-exporting emerging market and developing economies. Rapid spread of the Delta strain of the COVID-19 virus and the threat of new variants such as Omicron have increased uncertainty about how quickly the pandemic can be overcome. Policy choices have become more difficult, with limited room to maneuver.

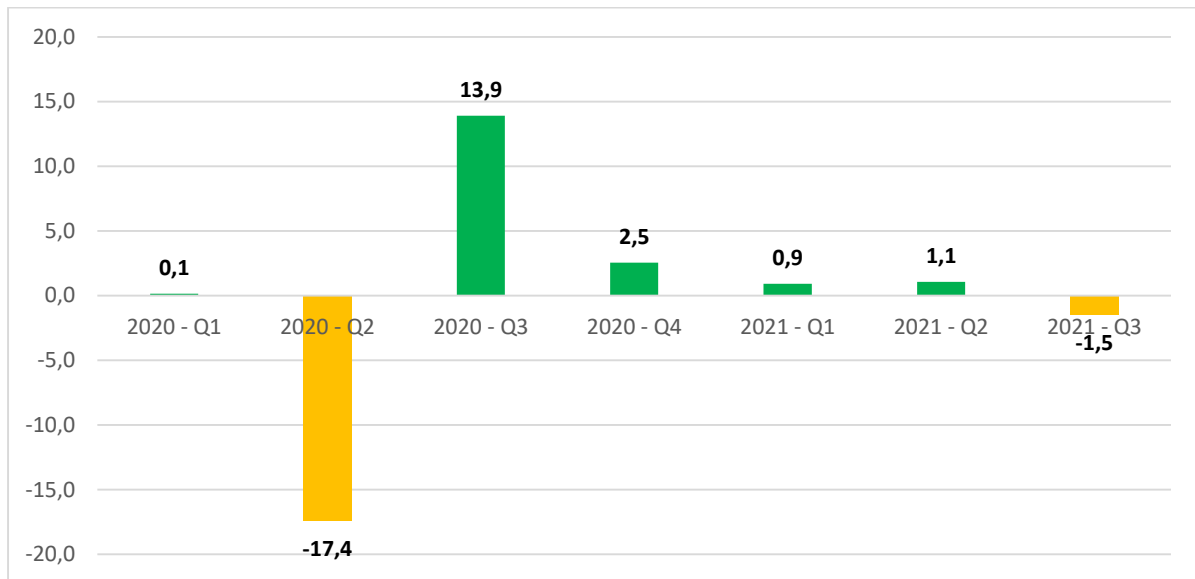
Advanced economy output is forecast to exceed pre-pandemic medium-term projections, largely reflecting further sizable anticipated policy support in the United States that includes measures to increase potential. By contrast, persistent output losses are anticipated for the emerging market and developing economy group due to slower vaccine rollouts and generally less policy support compared to advanced economies.

Headline inflation rates have increased rapidly in the United States and in some emerging market and developing economies. In most cases, rising inflation reflects pandemic-related supply-demand mismatches and higher commodity prices compared to their low base from a year ago. Price pressures are expected to subside in 2022. In some emerging market and developing economies, price pressures are expected to persist because of elevated food prices, lagged effects of higher oil prices, and exchange rate depreciation lifting the prices of imported goods. However, great uncertainty surrounds inflation prospects, primarily stemming from the path of the pandemic, the duration of supply disruptions, and how inflation expectations may evolve in this environment. Overall, the balance of risks for growth is tilted to the downside. The major source of concern is that more aggressive SARS-CoV-2 variants could emerge before widespread vaccination is reached.

1.3 SA Economic Overview

The South African Real Gross Domestic Product (measured by production) decreased by 1.5 percent in the third quarter of 2021, following an increase of 1.1 percent in the second quarter of 2021.

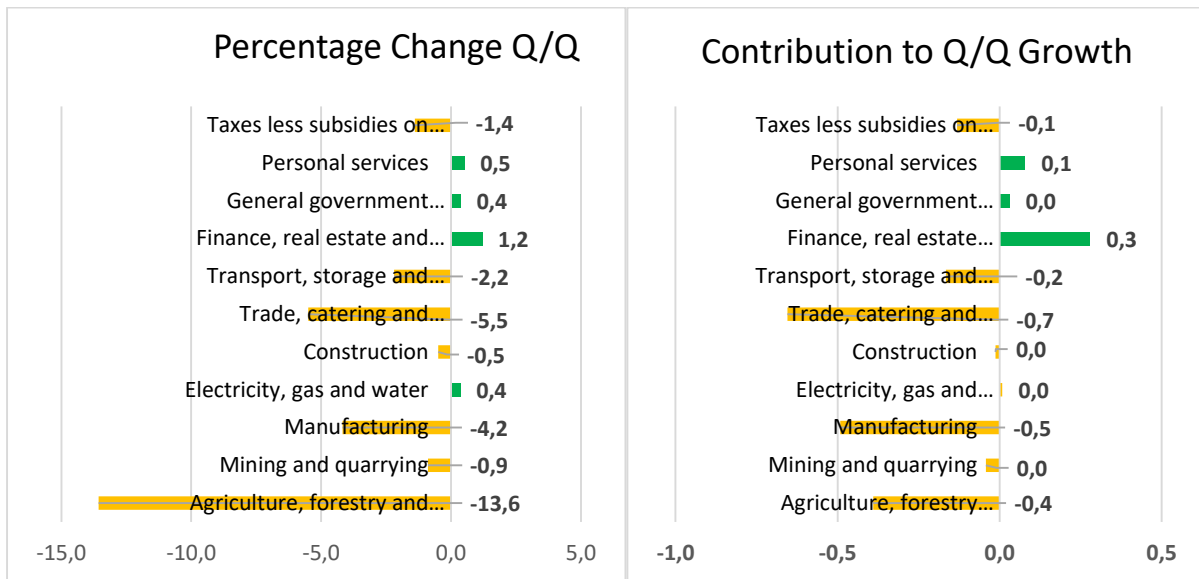
Figure 1:SA GDP growth in expenditure (constant 2015 prices seasonally adjusted percent change Q on Q)



Source: StatsSA, Gross Domestic Product, Q3 2021

Six industries recorded negative growth between the second quarter of 2021 and the third quarter of 2021. The largest negative contributors to growth in GDP in the third quarter were the trade, manufacturing and agriculture industries. The trade industry decreased by 5.5 percent and contributed -0.7 of a percentage point to GDP growth, with the manufacturing industry decreased by 4.2 percent and contributed -0.5 of a percentage point to GDP growth. The agriculture industry decreased by 13.6 percent and contributed -0.4 of a percentage point to GDP growth.

Figure 2:SA Industries growth and Contributions to growth in GDP, Q3 2021 (percent points)



Source: StatsSA, Gross Domestic Product, Q3 2021

Primary Sector

The agriculture, forestry and fishing industry decreased by 13.6 percent and contributed -0.4 of a percentage point to GDP growth. The decrease was mainly due to decreased production of field crops and animal products.

The mining and quarrying industry decreased by 0.9 percent in the third quarter. Decreased production was reported for platinum group metals (PGMs), coal, other metallic minerals and gold.

Secondary Sector

The manufacturing industry decreased by 4.2 percent in the third quarter, contributing -0.5 of a percentage point to GDP growth. Eight of the ten manufacturing divisions reported negative growth rates in the third quarter. The motor vehicles, parts and

accessories and other transport equipment division made the largest contribution to the decrease in the third quarter. The food and beverages division and basic iron and steel, non-ferrous metal products, metal products and machinery division also made noteworthy contributions to the contraction.

The electricity, gas and water industry increased by 0.4 percent in the third quarter, largely due to higher electricity consumption.

The construction industry decreased by 0.5 percent in the third quarter. Decreases were reported for non-residential buildings and construction works.

Tertiary sector

The trade, catering and accommodation industry decreased by 5.5 percent, contributing -0.7 of a percentage point to GDP growth. Decreased economic activities were reported for wholesale, retail and motor trade; and catering and accommodation services.

The transport, storage and communication industry decreased by 2.2 percent, contributing -0.2 of a percentage point. Decreased economic activity was reported for land transport and air transport.

Finance, real estate and business services increased by 1.2 percent in the third quarter. Increased economic activity was reported for financial intermediation, auxiliary activities and business services.

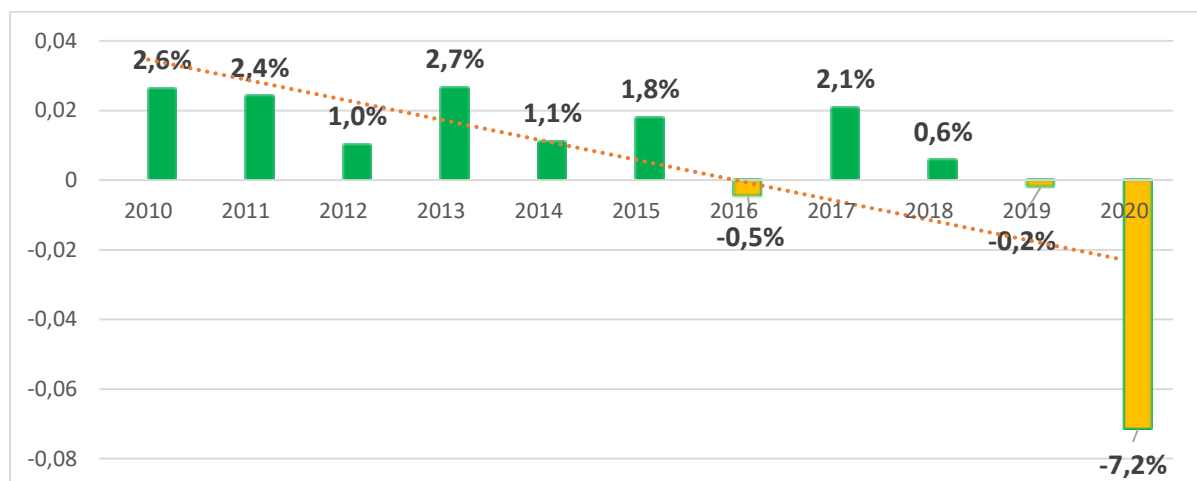
General government services increased by 0.4 percent, mainly attributed to increased employment in extra-budgetary accounts and local government.

The personal services industry increased by 0.5 percent in the third quarter. Increases were reported for community services and other producers.

1.4 Limpopo Economic Growth

The Limpopo province, the GDP growth has been facing a decline in recent years, growing well below the 3 percent as aspired in the Limpopo Development plan. From 2018 the provincial economy grew by 0.6 percent, from the 2017 2.1 percent growth. The provincial GDP further declined to negative 0.2 percent in 2019 and to negative 7.2 percent in 2020. It is expected that as the mining and other industries recover the provincial economy will also recover in 2021.

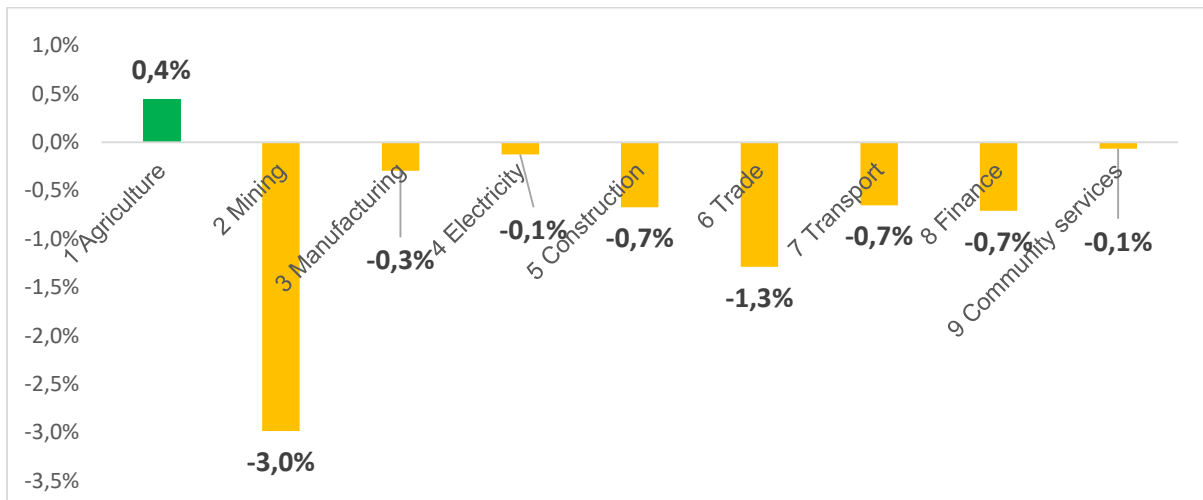
Figure 3: Limpopo GDP Constant 2010 prices percent change year-on-year



Source: IHS Regional Explorer, 2021

In 2020 the industry that contributed positively towards the provincial gross domestic product was agriculture sector with 0.4 percent point.

Figure 4:Contribution to total economic growth (percent point, Constant 2010 prices)



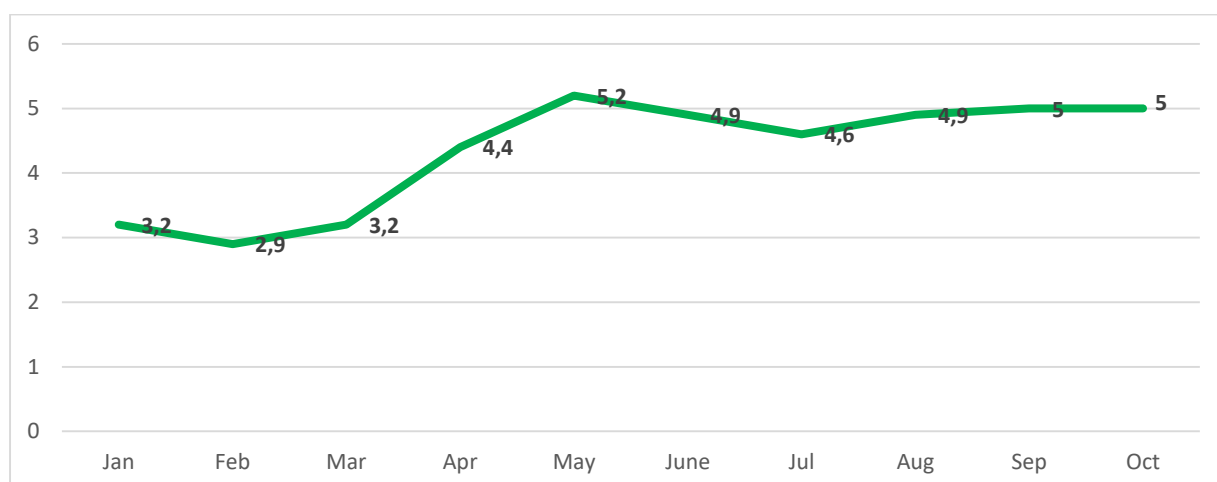
Source: IHS Regional Explorer, 2021

Due to the complications caused by the deadly Corona virus other industries contributed negatively towards the economic growth in Limpopo province. Mining industry recorded the highest negative point of 3.0 percent followed by trade with negative 1.3 percent.

1.5 Headline Consumer Price Index (CPI)

The inflation rate is the change in the CPI for all items of the relevant month of the current year compared with the CPI for all items of the same month in the previous year expressed as a percentage, while the annual inflation rate is the change in the index of the relevant month of the current year compared with the index of the same month in the previous year expressed as a percentage. The headline inflation mainly covers price information for categories of products typically purchased in retail outlets. The annual consumer price inflation was recorded at 5.0 percent in October 2021, which was unchanged from September 2021, while the consumer price index increased by 0.2 percent month-on-month in October 2021.

Figure 5: SA 2021 CPI headline year-on-year rates



Source: StatsSA, Consumer Price Index, October 2021

The main contributors to the 5.0 percent annual inflation rate were food and non-alcoholic beverages; housing and utilities; transport; and miscellaneous goods and services.

Table 2: Consumer price indices for all urban areas

Group	Weight	Percentage Change	
		Oct 2021 vs Sep 2021	Oct 2021 vs Oct 2020
Food and non-alcoholic beverages	17,24	0,9	6,1
Alcoholic beverages and tobacco	5,82	0,4	4,0
Clothing and foot wear	3,83	0,1	1,9
Housing and utilities	24,62	0,0	4,0
Household contents and services	4,35	0,1	1,8
Health	1,4	0,2	3,8
Transport	14,28	0,5	10,9
Communication	2,63	-0,1	-0,6
Recreation and culture	5,16	0,2	1,4
Education	2,53	0,0	4,1
Restaurants	0,99	1,2	4,1
Miscellaneous goods and services	15,05	0,3	2,3
All Items (CPI Headline)	100	0,2	5,0

Source: StatsSA, Consumer Price Index, October 2021

Food and non-alcoholic beverages increased by 6.1 percent year-on-year, and contributed 1.1 percentage points to the total CPI annual rate of 5.0 percent. Housing and utilities increased by 4.0 percent year-on-year, and contributed 1.0 percentage point. Transport increased by 10.9 percent year-on-year, and contributed 1.5 percentage points. Miscellaneous goods and services increased by 4.3 percent year-on-year, and contributed 0.7 of a percentage point. In October the annual inflation rate for goods was 7.1 percent, unchanged from 7.1 percent in September; and for services it was 3.0 percent, up from 2.9 percent in September.

1.6 The race to vaccinate Sub-Saharan Africa fall behind in the wake of Omicron virus

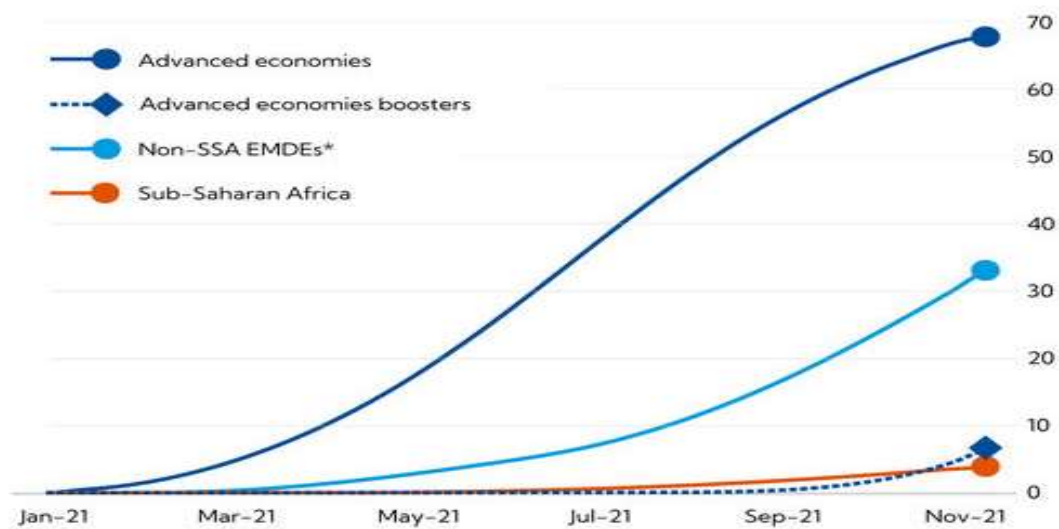
The first Omicron mutations were detected in South Africa and neighbouring Botswana last month, with its discovery formally announced on 25 November 2021. The variant is now the overwhelmingly dominant one in South Africa. South African hospitals are bracing for a surge in admissions as the new Omicron variant drives a sharp rise in coronavirus infections since its discover in the country. As more evidence emerges about the severity of the illness caused by the strain, the seven-day moving average of daily new cases in the country rose to around 10 thousand in the first week of December 2021, from less than 300 three weeks earlier. Hospitalizations also picked up but remain relatively low, with admissions standing at 3,268 on Sunday the 05 December 2021. Whether there will be a deluge of new patients is the biggest question.

Severe symptoms in patients who contracted earlier variants typically developed between one and three weeks after they were diagnosed, according to the National Institute for Communicable Diseases. While circumstantial evidence and initial data analysis from hospitals suggests that Omicron may cause milder illness, especially among those who've been vaccinated or previously infected.

It seems like the Sub-Saharan Africa is losing the race to vaccinate its population against COVID-19. As of November 15, only about 4 percent of the population in sub-Saharan Africa has been fully vaccinated, up from merely 1 percent three months ago. It took 27 and 56 days to achieve the same milestone in advanced economies and other emerging markets and developing economies, respectively.

The World Health Organization’s target of vaccinating 10 percent of population by end-September 2021 was reached by only 5 sub-Saharan African countries. Only a handful of countries in the region are expected to reach a target set by the IMF, World Health Organization, World Trade Organization and World Bank to vaccinate 40 percent of the population in all countries by the end of 2021.

Figure 6: 2021 World vaccination outlook (percentage of population)



Source: Our World in Data, and IMF Staff calculations

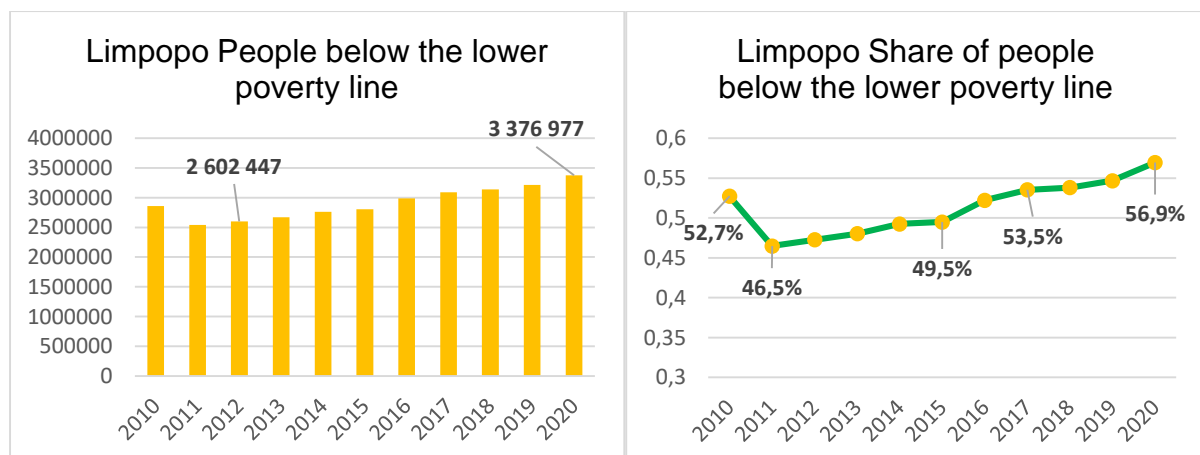
Sub-Saharan Africa vaccination is stalling even as advanced economies has started ramping up booster shots. The lack of vaccines weighs on the region’s growth outlook, contributing to the dangerous divergence with advanced economies. Sub-Saharan Africa is projected to be the world’s slowest growing region in 2021, with a permanently lower path of real GDP that could have long-lasting consequences for

social and political stability in the region. Furthermore, continued delays to the vaccine rollout leave sub-Saharan Africa and the rest of the world exposed to new, more virulent strains of the virus. Thus, it is essential that the international community step up a concerted effort to ensure that the global supply of vaccines is distributed swiftly and fairly to achieve herd immunity in all the regions.

1.7 Limpopo Poverty indicators

Poverty is more than lack of income and productive resources to ensure sustainable livelihoods. It includes hunger and malnutrition, limited access to education and other basic services as well as lack of participation in decision making, therefore poverty continues to be a prevalent issue. People living in poverty come across challenges of meeting their basic need, most of them experience different types of health problems. Poverty eradication is a long-standing policy priority for various government programs with the aim to ensure an equitable society characterized by broad-based development. The number of people in poverty is anticipated to rise because of the consequences of COVID 19 where many people lost income streams from employment and business failures (particularly informal traders). The lockdown also highlighted the extreme plight of the poor with hundreds of people joining queues to get food.

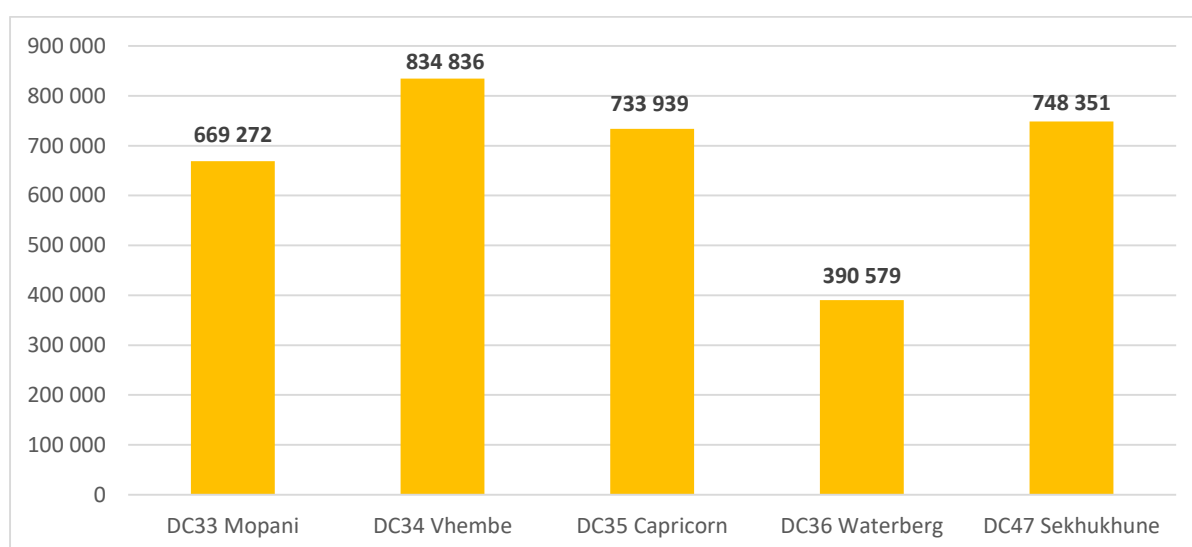
Figure 7: Limpopo people living below the lower poverty line and share of people living below the poverty line



Source: IHS Markit- Regional Explorer

The number of people living below the lower poverty line has been increasing since 2012 to 2020. The Covid-19 pandemic has contributed in this increase as many people have lost their jobs and some businesses closed down. Limpopo province recorded a significant increase in the number of people living below poverty line from 2.6 million in 2012 to 3.3 million in 2020, which equates to about 56.9 percent of the population in Limpopo. The percentage of people living below the lower poverty line increased by 10.4 percent from 46.5 percent in 2011 to 56.9 percent in 2020.

Figure 8: Limpopo people living below the lower poverty line per district



Source: IHS Markit- Regional Explorer

Vhembe district had the highest number of people living below the poverty line of 834 thousand followed by Sekhukhune district. Waterberg district recorded the least number of 390 thousand.

1.8 Conclusions and recommendations

The world remains in the grip of the COVID-19 pandemic, which highlight the need for increased global cooperation and dialogue. Solutions to these global problems must involve all countries and all regions, especially sub-Saharan Africa, with the world's least vaccinated population. In particular, the economic outlook points to divergences at three levels: between sub-Saharan Africa and other regions, within sub-Saharan

Africa, and within countries. These divergences reflect the region's slower vaccines rollout, more limited fiscal space, and regional disparities in resilience. The outlook remains extremely uncertain, and risks are tilted to the downside. In particular, the recovery depends on the path of the global pandemic and the regional vaccination effort, food price inflation, and is also vulnerable to disruptions in global activity and financial markets.

The pandemic has regressed the gains made by governments in restructuring economies, curbing unemployment, reducing poverty and inequality. On average, living standards of the population has regressed as many had to contend with high electricity and fuel prices, reduced wages and totally losing their jobs. The most noticeable impact of Covid-19 was also felt by households who experienced an average decline in household income. This implied high cost of living for many who have lost their jobs or had their income reduced.

As the fourth wave is widely expected to arise in South Africa, it is more likely that the covid-19 pandemic will shut down business and entrepreneurial ventures. The Province and the Country will need to gear up the vaccination programs so that herd immunity can be achieved to allow the country and the province to return to normal operations as soon as possible, as well as reducing the pressure to the health facilities.

A fundamental approach is needed for the province to move from an extractor of raw material and to become a processor and add value through manufacturing and processing. This will help creating industries and employment in the province. Investments in green infrastructure, climate-smart agricultural technologies, and climate resilience combined with sustainable energy policies can play a pivotal role. A comprehensive set of policies will be required to promote a strong recovery that mitigates inequality and enhances environmental sustainability. The province will need to gear up in terms of planning and implementation of infrastructure projects so that the intended benefits to the communities are achieved.

Policy makers will need to promote growth-enhancing reforms and steer the economy on to a green, resilient, and inclusive development path as guided by the National Economic Reconstruction and Recovery Plan, the Limpopo Socio Economic Recovery Plan and the 2020-2025 Limpopo Development Plan. The province will also need to position itself as an investment designation of choice to both foreign and local investors, as this will help to create employment for the youth and allow the government to focus on service delivery issues.