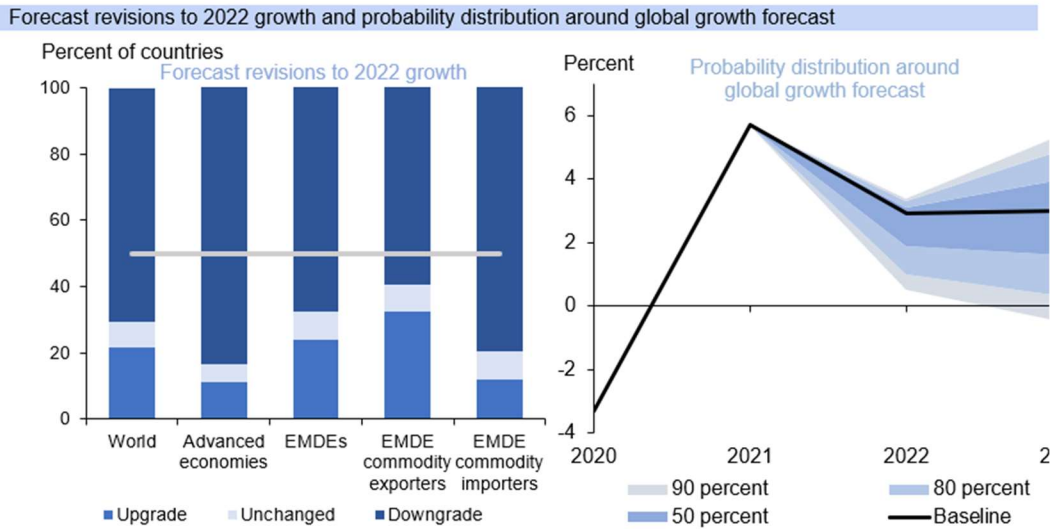




SA Economics

Wednesday 8 June 2022

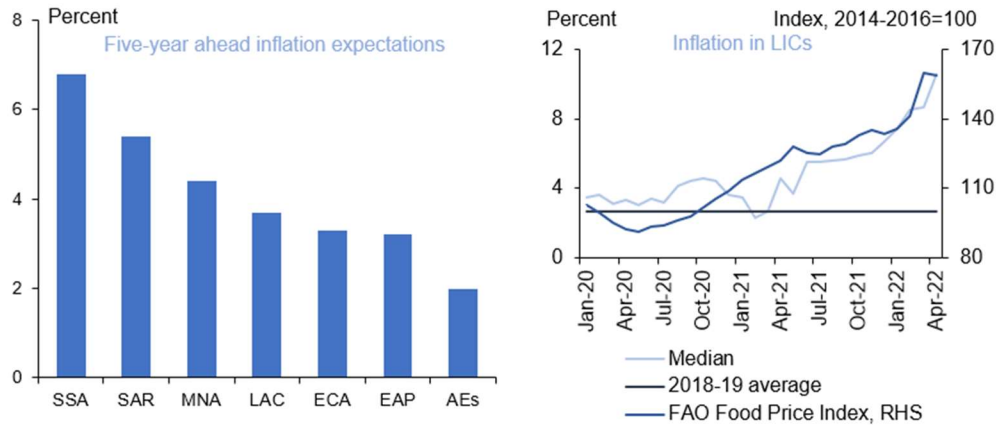
Economic growth note: Q2.22 is showing strong evidence of a materially weaker growth than Q1.22 but overall 2022 should near 3.0% y/y



Sources: The World Bank, Global Economic Prospects June 2022

Note: LH chart: EMDEs = emerging market and developing economies. Forecast revisions are the change in 2022 growth forecasts between January 2022 and June 2022 editions of Global Economic Prospects. Data for 2022 are forecasts. RH chart: Probabilities for the forecast distribution of global growth are generated using time-varying estimates of the standard deviation and skewness extracted from the forecast distribution of oil price futures, S&P 500 equity price futures, and term spread forecasts, as described in Ohnsorge, Stocker, and Some (2016). Values for 2022 and 2023 are based on 6-month-ahead and 18-month-ahead forecast distributions, respectively. Last observation for S&P 500 and oil price futures is May 31, 2022, whereas term spread

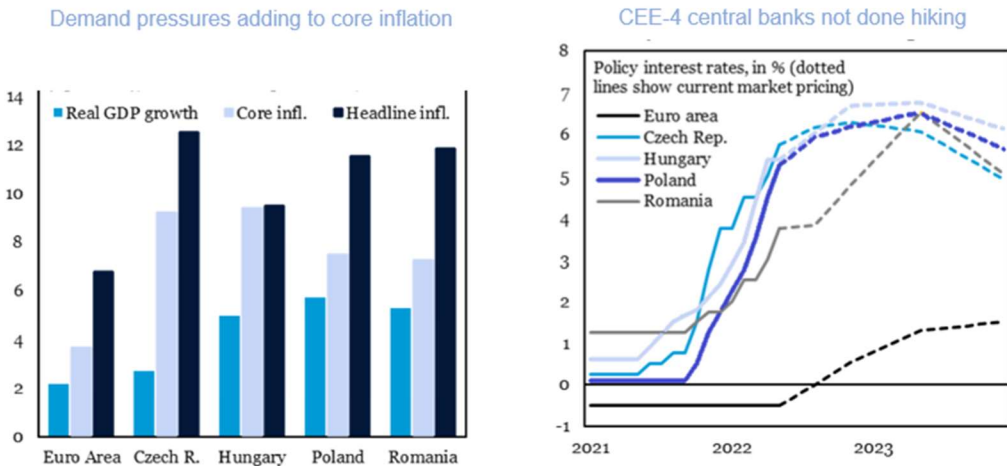
Five-year-ahead inflation expectations and inflation in LICs



Sources: The World Bank, Global Economic Prospects June 2022

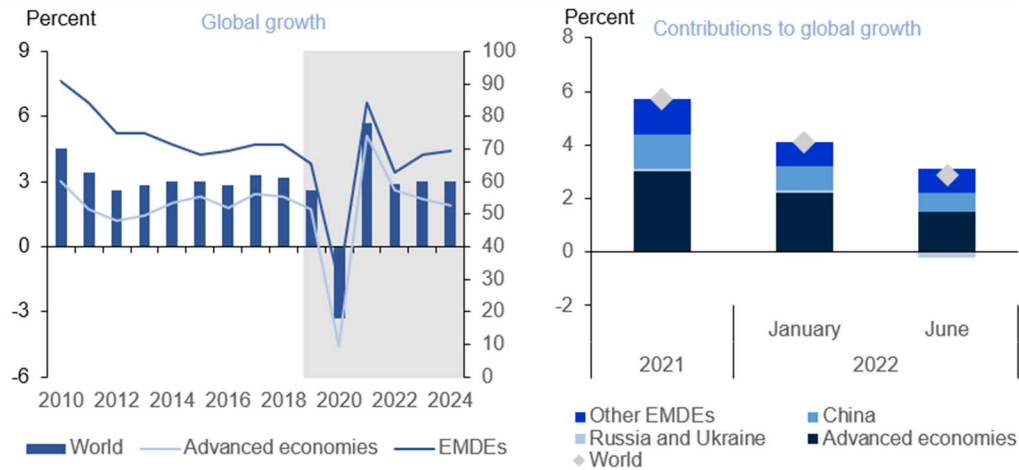
Note: AEs = advanced economies; EAP = East Asia and Pacific, ECA = Europe and Central Asia, LAC = Latin America and the Caribbean, MNA = Middle East and North Africa, SAR = South Asia, SSA = Sub-Saharan Africa. Chart shows the median inflation expectations for 2027 based on Consensus Economics April 2022 Survey data. Sample includes 33 AEs, 7 EAP, 19 ECA, 18 LAC, 2 MNA, 3 SAR, and 2 SSA economies.

Demand pressures adding to core inflation and CEE-4 central banks not done hiking rates



Sources: IIF

Global growth and contributions to global growth

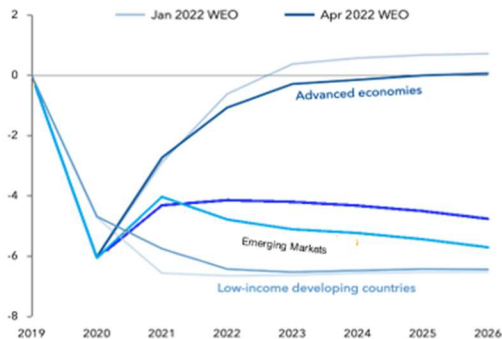


Sources: The World Bank, Global Economic Prospects June 2022

Note: LHS chart: EMDEs = emerging market and developing economies. Shaded area indicates forecasts. Aggregate growth rates are calculated using real U.S. dollar GDP weights at average 2010-19 prices and market exchange rates. RH chart: EMDEs = emerging market and developing economies. Figure shows the contributions to global growth forecasts in the January 2022 and June 2022 editions of Global Economic Prospects. Aggregate growth rates are calculated using real U.S. dollar GDP weights at average 2010-19 prices and market exchange rates. Data for 2022 are forecasts.

Persistent scarring and shaken by war - global growth revised down for 2022 and 2023

Sustained divergence between advanced and emerging market and developing economies is expected in the medium term. (percent deviation from January 2020 WEO forecasted level)



Total annual revision (percentage points; relative to Jan 2022 WEO)



2022 Real GDP growth (percent; year over year)



Sources: IMF

- 2022 is on track for a stronger outcome than anticipated, with the 1.8% growth rate forecast at the start of this year potentially too weak, although April's flood damage to economic capacity, higher interest rates and slowing global growth will provide some limitations.
- Yesterday's GDP print surprised on the upside at 1.9% y/y, versus expectations closer to 1.0% y/y, and raises the base substantially from which the following quarters for 2022 will roll off, allowing for a faster GDP growth reading for 2022 than previously forecast.
- Electricity outages will however eat into the economy's growth potential to a degree in Q2.22 and Q3.22, with Eskom exceeding its previous worst case scenario. The energy availability factor was at 61% of total capacity at the end of May and is expected to average 59% in 2022.

- May saw significant loadshedding, with its operational reserve margin severely eroded in the second half, although the start of May also suffered supply constraints, as did parts of April. Q1.22 had less loadshedding in comparison, and electricity production rose 2.0% qqsa.
- Data on electricity production from Eskom for April and May show that electricity production will be significantly lower in Q2.22, which will also adversely affect manufacturing output, a heavy user of electricity. Q1.22 saw a 4.9% qqsa expansion in manufacturing production.
- With lockdown restrictions lifted in Q1.22, and expectations of strong global demand in January, manufacturing ramped up, with Q1.22 also gaining from base effects as Q4.21 was still weaker than activity before the July riots, as the sector took six months to recover.
- The destructive nature of the floods in April this year in KZN saw some warehouses, factories and distribution hubs damaged, impacting supply chains, and economic activity will be negatively impacted in Q2.22, but not to the extent of the July 2021 riots' effect.
- Globally, economic recovery aided GDP growth in SA in 2021, led by China and the US, key trading partners of SA along with Europe. However, slowing global growth, particularly in 2023 on the lagged effects of higher interest rates, is expected to impact SA's performance.
- 2022 is likely to see better growth in H2.22 than in Q2.22 (with demand also impacted by China's lockdowns), but the high base of Q1.22 will still push up GDP for the rest of this year significantly, and H2.22 will benefit from the weak base of H2.21 caused by the period's riots.

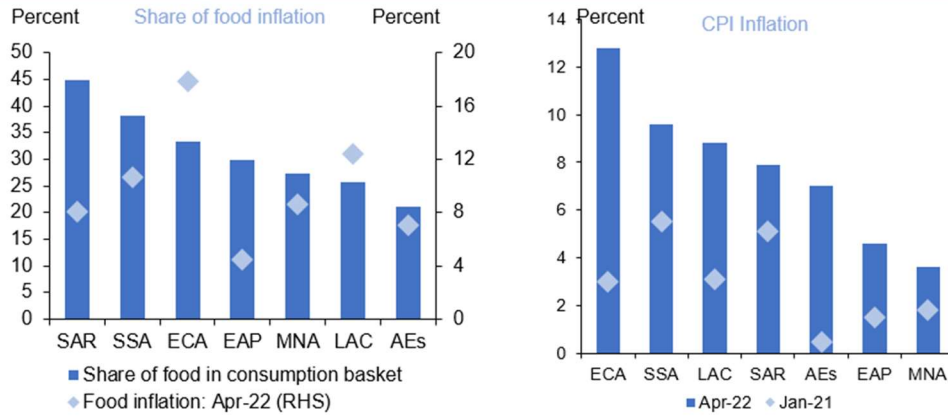
Please scroll down to the second section below



Sources: The World Bank, Global Economic Prospects June 2022

Note: EMDEs = emerging market and developing economies. Consensus forecast for median headline CPI inflation for 2022-23 based on May 2022 surveys of 50 EMDEs. 2020-2021 numbers are based on actual inflation.

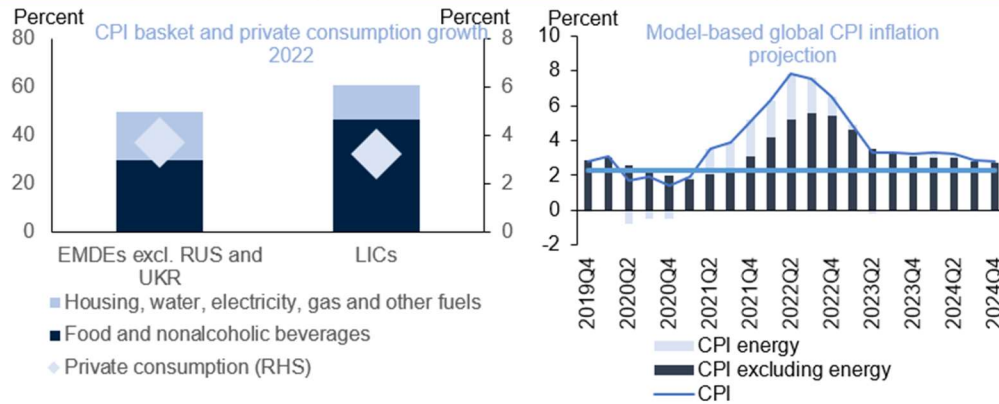
Food share in consumption basket and food inflation



Sources: The World Bank, Global Economic Prospects June 2022

Note: AEs = advanced economies; EAP = East Asia and Pacific, ECA = Europe and Central Asia, LAC = Latin America and the Caribbean, SAR = South Asia, SSA = Sub-Saharan Africa, MNA = Middle East and North Africa. Blue bars show median food share in consumption basket. Sample includes 8 advanced economies, 10 EAP, 13 ECA, 19 LAC, 11 MNA, 6 SAR, and 25 SSA economies. Light blue diamonds show median food inflation. Sample includes 33 advanced economies, 8 EAP, 19 ECA, 18 LAC, 9 MNA, 3 SAR, and 22 SSA economies.

CPI basket and private consumption growth, 2022 and model-based global CPI inflation projection

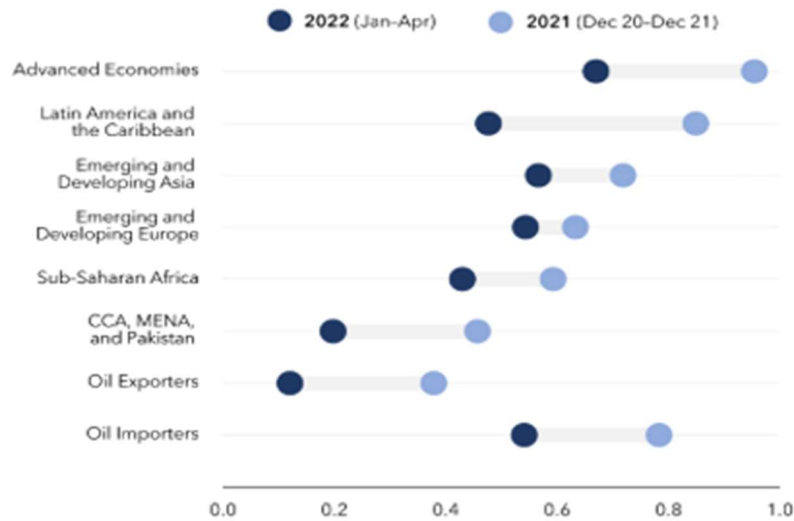


Sources: The World Bank, Global Economic Prospects June 2022

Note: Model-based projection of quarterly global year-over-year CPI inflation using Oxford Economics Global Economic Model.

Limited pass-through

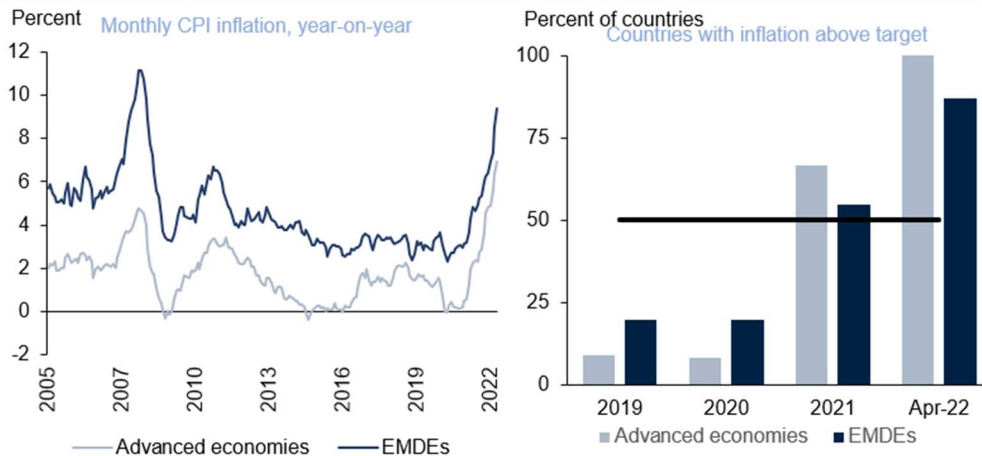
Governments aren't letting international fuel prices pass through to domestic prices as much as they did last year.



Sources: IMF

Note: the dots represent estimates of average pass-through for each group of countries for diesel for Jan-Apr 2022 (dark blue) and Dec 2020-Dec 2021 (light blue). Pass-through is defined as the change in retail fuel prices divided by the change in international fuel prices over the same period with one month lag, both expressed in US dollars per litre.

Monthly CPI inflation, year-on-year and countries with inflation above target



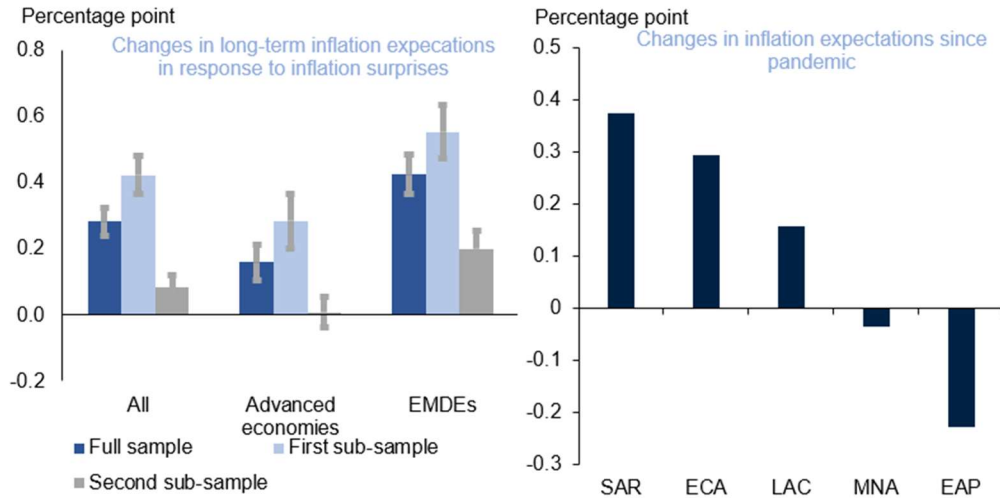
Sources: The World Bank, Global Economic Prospects June 2022

Note: EMDEs = emerging market and developing economies. Bars show the share of inflation-targeting economies with average inflation during the course of the year (or month) above the target range. Sample includes 12 advanced economies and 31 EMDEs.

- KwaZulu Natal has the second largest GDP contribution, at 15.9% (after Gauteng's 34.5%, Western Cape 13.6% and the other provinces each below 10%) and April is likely to see slower growth, already reflected in the trade figures following the floods.

- Damage to infrastructure from the KZN floods is in the process of being assessed, cleared and restored, but this will not happen rapidly, nor immediately, and some businesses need to restock and repair from the harsh impact.
- KwaZulu Natal is the second most populous province, at 11.5m people (Gauteng is the most populous at 15.8m), with the floods particularly damaging to lives. Business confidence eased in KZN in Q2.22 (reported today), to below the neutral 50 mark.
- KwaZulu Natal has been popular as a lifestyle choice and the coastal regions in particular have benefitted, boosting the economy particularly on the north coast, but the recent damaging weather, exacerbated by climate change will lead to some reassessment.
- The impact of climate change, which tends to significantly worsen weather patterns, in itself is also supposed to get stronger. That is, adverse weather conditions caused by climate change are expected to worsen over the next few decades.
- This means that severe weather conditions will happen with increased regularity, both droughts and floods, along with destructive winds and precipitation (which includes hail, snow and sleet), while sea levels will rise.
- The damage from climate change is expected to increase (with various scenarios depending on how rapidly the world heats by the end of this century, and concomitant efforts to reduce carbon emissions), and this will have a negative effect on economic growth.
- Today's business confidence reading ties in with other early data on Q2.22, indicating that the economy will see a much slower pace of economic growth in Q2.22 than in Q1.22. For 2023, economic growth could prove lower than previously expected on higher interest rates.
- With economic growth expected around 2.0% y/y for 2022 (Bloomberg consensus 1.9% y/y) prior to the release of the Q1.22 GDP figures yesterday, expectations will now rise to likely closer to 3.0% y/y for the 2022 GDP growth outcome.

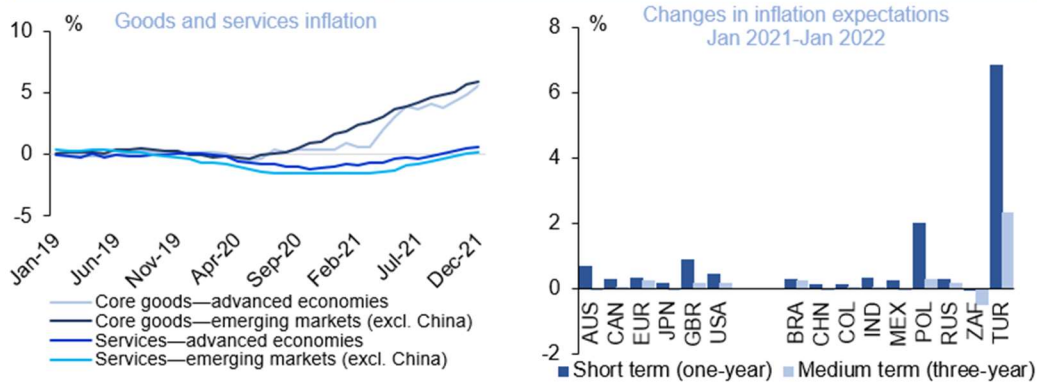
Changes in long-term inflation expectations in response to inflation surprises and changes in inflation expectations since pandemic



Sources: The World Bank, Global Economic Prospects June 2022

LH chart: Note: EMDEs = emerging market and developing economies. Inflation expectations are five-year-ahead expectations of annual inflation. Inflation surprises are defined as the difference between realized inflation and short-term inflation expectations in the previous period (that is, six months prior). Sensitivity is estimated using a panel regression of the change in five-year-ahead inflation expectations on inflation shocks. Bars denote medians and vertical lines denote 90 percent confidence intervals of the regression coefficients. The regression is based on a sample of 24 advanced economies and 23 EMDEs. Full sample refers to 1990-2018, divided into first (1990-2004) and second (2005-2018) sub-samples. RH chart: Bars show changes in five-year-ahead inflation expectations in 20 EMDEs since the beginning of the COVID-19 pandemic, by five EMDE regions. EAP = East Asia and Pacific, ECA = Europe and Central Asia, LAC = Latin America and the Caribbean, MNA = Middle East and North Africa, SAR = South Asia.

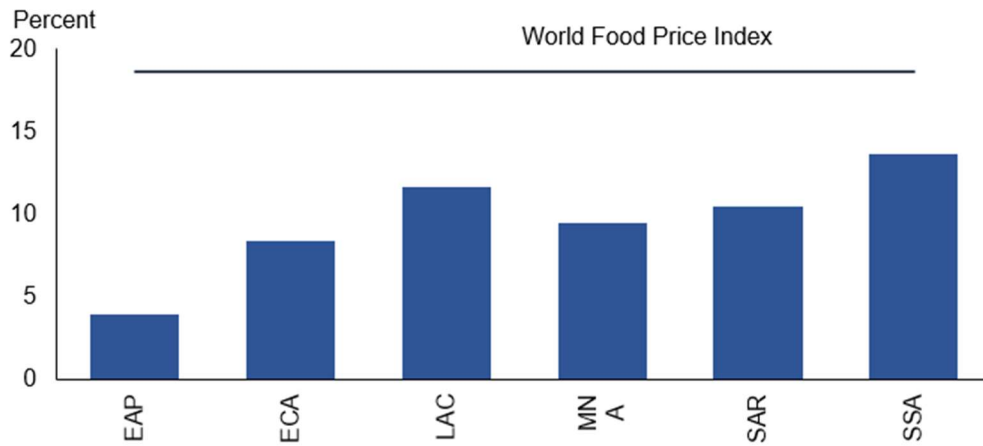
Goods and services inflation and changes in inflation expectations: January 2021 – January 2022



Sources: IMF World Economic Outlook April 2022

Note: RH chart – CAN, JPN, USA: Advanced economies
CHN, IND, POL, ZAF: Emerging market and developing economies

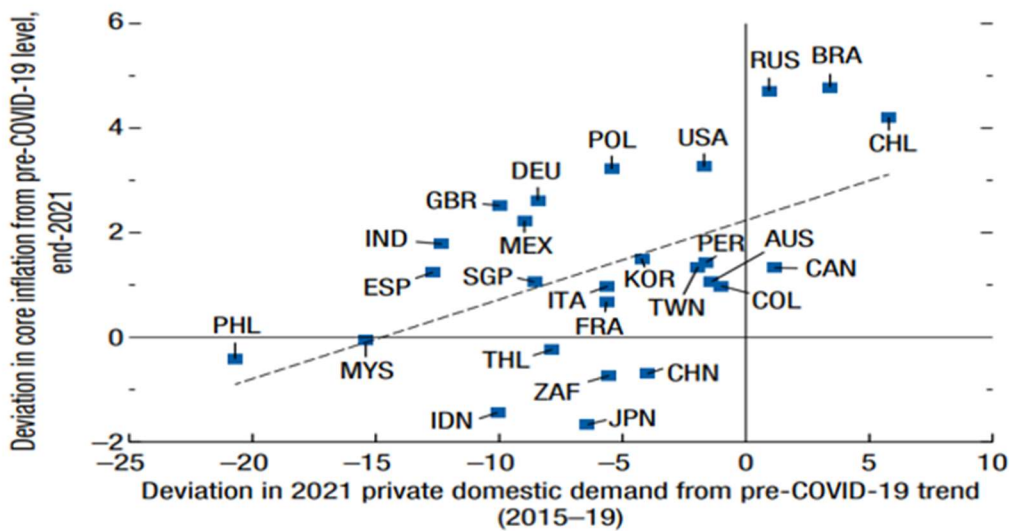
Domestic food price inflation and world food price index



Source: World Bank, Commodity Outlook April 2022

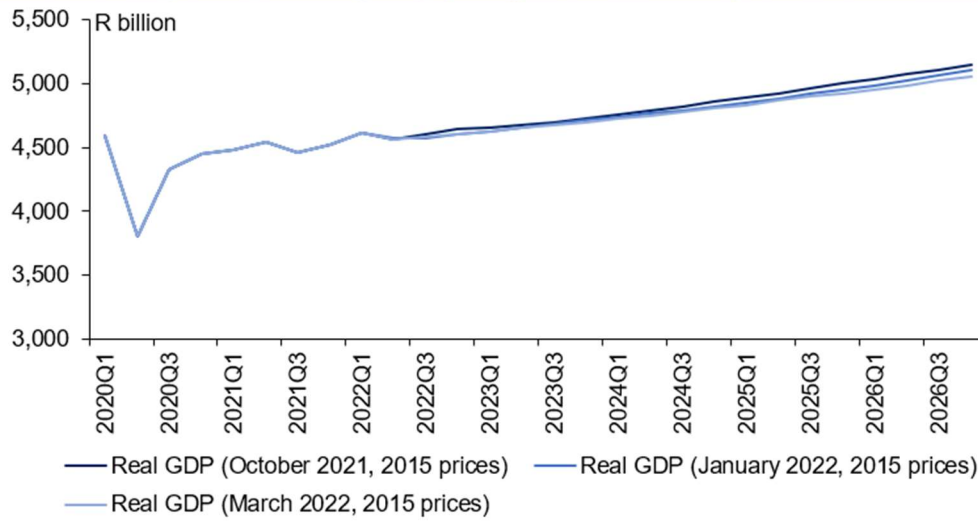
Note: EAP = East Asia and Pacific, ECA = Europe and Central Asia, LAC = Latin America and the Caribbean, MNA = Middle East and North Africa, Sar = South Asia, SSA = Sub-Saharan Africa. Charts shows y/y inflation, as of February 2022.

Core inflation versus private domestic demand



Sources: IMF

South Africa GDP (R billion, constant prices) quarterly – SA GDP reaches pre-COVID levels



Source: Investec