Industrial Development Corporation

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Economic overview:

Recent developments in the global and South African economies

July 2024

Department of Research and Information

Contents

Highlights i

Implications for South African businesses ii

Introduction 1

Global developments 2

Recent developments in, and outlook for sub-Saharan Africa 5

South African economy – ongoing challenges but reason for optimism 8

External trade analysis 12

Highlights

- **The challenging operating environment in 2023 resulted in a 2% decline in foreign direct investment (FDI) flows.** Once the data is adjusted for conduit flows, FDI declined by 10% in 2023. Weaker economic growth, rising trade and geopolitical risks, investor uncertainty, volatility in financial markets and tighter global financing conditions including interest rates remaining higher for longer than initially expected have collectively weighed on FDI flows in 2023.

Global FDI flows in 2023:
Total: USD1.33 trillion
Gross: -2% y-o-y
Less conduit flows: -10% y-o-y
(UNCTAD)

- **Geopolitical tensions and the resurgence of industrial policy use in developed countries are starting to result in a shift in FDI flow patterns.** An increase in competition for FDI in developed countries has been observed with the large incentives offered by the US attracting more FDI at the expense of the EU. The changes in flows between 2022 and 2023 indicate a shift from developing countries (-7%) to developed countries (+9%).

- **The strategies of advanced countries to attract foreign investment are anticipated to have a muted impact on the Chinese economy's ability to sustain its investment levels**. China has high levels of household savings, thereby reducing the need for FDI inflows as substantial funding is available within the country.

- **Global FDI inflows may remain subdued in 2024.** Nonetheless, going forward **some improvement in foreign investment activity in Africa is expected** on the back of the gradual implementation of certain key announced projects, increased mining investment activity related to critical minerals and metals, as well as enhanced regional integration efforts under the AfCFTA.

FDI flows in 2023:
Africa: -3.4% y-o-y to USD52.6 billion
SSA: +0.1% y-o-y to USD39.2 billion
SA: -43.3% y-o-y to USD5.2 billion
(UNCTAD)

- **The total value of greenfield FDI projects announced in Africa** declined by 11% year-on-year to USD175 billion in 2023. Greenfield projects in electricity and gas supply continued to dominate at USD88 billion, while an increase in the share of manufacturing greenfield projects was recorded in 2023.

- **South Africa's economy continues to face ongoing challenges as indicated by the weak performance over the first four months of 2024.** High frequency data for select economic indicators reflects the effect of binding constraints on activity levels across various sectors and segments of the domestic economy. Output for the manufacturing and non-gold mining sub-sectors has been marginally positive (on a year-on-year basis), however, retail and wholesale trade, as well as new vehicle sales have recorded lower levels over the period January to April 2024.

South Africa:
Real growth (Jan to April 2024; y-o-y):
Manufacturing: +0.8%
Mining (total): -0.1%
Retail trade: -0.3%
Vehicle sales: -5.2%
(Stats SA; SARB)

- **The operating environment is showing gradual signs of improvement, however, it may take some time to be reflected in higher activity.** Reduced loadshedding (with more than 100 days without electricity supply interruptions), along with improvements in the efficiencies on the rail network and at ports and harbours, is providing a degree of optimism, which is starting to filter through to improving business sentiment. Over time, this is expected to translate into higher levels of fixed investment, production, consumption and much needed employment creation.

- **Financial markets have reacted positively to peaceful elections and the appointment of the Government of National Unity Cabinet.** The JSE All Share Index appreciated to a 5 year high, bond yields declined by 162 basis points by 17 July and the Rand appreciated. The responses are largely reversals of the declining performance observed pre-election but bode well for business and the state.

CPI and interest rates:
CPI in May 2024: 5.2% (y/y change)
Repo rate: 8.25%
Prime rate: 11.75%
(Stats SA; SARB)

- **Even though inflation remains sticky, for now, a disinflation trend is expected in the coming months, paving the way for an easing of monetary policy.** At 5.2% in May 2024, consumer price inflation remains above the mid-point of the inflation target band, as such the South African Reserve Bank (SARB) is likely to keep interest rates at

multi-year highs for the time being. Nonetheless, as inflationary pressures subside, the SARB is likely to start lowering the repo rate, albeit quite gradually, with an expected drop of 25 basis points (bps) at the September 2024 Monetary Policy Committee meeting, followed by another 25 bps cut in November. By Q2 2026 the repo rate is forecast to stand at 6.50%, being the end of the easing cycle.

- **Merchandise trade was under pressure at the start of 2024, with contractions in both exports (-1.7%) and imports (-5.2%) over the period January to May 2024, on a year-on-year basis.** On the global front, weaker demand in key external markets for South Africa's exports and lower commodity prices, along with internal infrastructure related challenges (e.g. rail network, port inefficiencies) have impacted the export performance. Weak domestic economic conditions have resulted in demand for imported goods being under pressure. Although a trade surplus was recorded over this reference period, it was on the back of lower exports and imports, and therefore not reflective of positive economic developments.

Merchandise trade for January to May 2024 % change (y/y):
Exports = -1.7%
Imports = -5.2%
(SARS)

- **South Africa's merchandise exports to countries elsewhere in Africa are making a significant contribution to our economy.** Considering that exports to African countries amounted to R546.9 billion in 2023, it was estimated that these exports have a sizeable impact on the South African economy. The direct and indirect contributions to national GDP were calculated at R560.6 billion, or 8.0% of total GDP, whereas the overall employment impact was estimated at 957 880 jobs, equivalent to 7.5% of all formal sector employment in the country in 2023.

Implications for South African businesses

Potential implications of global economic developments

- **The roll-out of significant industrial support measures and increased tariff and non-tariff barriers will intensify competition in the domestic and international markets.** To remain internationally competitive, South African businesses need to keep up with technological changes and comply with emerging environmental and social governance regulations. To reduce vulnerability to policy decisions, South African businesses will increasingly need to diversify export markets.

  Given that South Africa may not have the fiscal space to roll-out significant industrial incentives (financial) to compete with the scale of support provided by the developed countries such as the US and the EU, it will be important for the country to adopt a more strategic approach. This could be targeted support to specific priority value chains/activities and deepening of policy coordination activities

- **The global trading environment is anticipated to remain challenging, although overall export volumes are projected to recover from the weak levels reported in 2023.** In such a challenging and dynamic environment, it is important that South African companies continuously improve their competitiveness, both in the domestic as well as the global markets.

Potential implications of regional economic developments

- **The anticipated improvements in foreign investor activity in Africa in the short- to medium-term should have positive implications for South African businesses.** Several economies present major investment opportunities across various sectors, as evidenced by continued FDI inflows and increased project activity. These include countries such as Ethiopia, Uganda, Senegal, Mozambique, Namibia, Nigeria, Côte

d'Ivoire, Democratic Republic of Congo, Kenya, Ghana, Tanzania, amongst others, which have continued to attract relatively sizeable FDI inflows. Some are also the locations for large greenfield projects recently announced.

- **The FDI sector flows into the continent align with some of the policy priorities in South Africa, creating opportunities for developing and or deepening regional value chains.** The growing importance of manufacturing subsectors and clean energy value chains including electric vehicles, critical minerals, and green hydrogen in FDI greenfield projects is indicative of attractive investment opportunities proliferating not only in exploration and extractive mining activities, but also in activities that can support industrialisation/re-industrialisation on the continent.

- **The 2023 AfCFTA Investment Protocol is expected to contribute to increasing intra-Africa FDI**. South Africa is the only African economy that still features in the top 10 investor economies by FDI stock. However, there is likely to be opportunities to raise intra-regional investment in processing industries and cross-border infrastructure as the share of intra-regional projects underpinned by the drive to increase value addition rises.
- **Together with the development of the value chains (agriculture and agro-processing, automotive, pharmaceuticals, as well as transportation and logistics) identified and prioritised** under the African Continental Free Trade Area's Private Sector Engagement Strategy, these should result in opportunities for the development of investment pipelines, while also opening up opportunities for South African businesses to partake in the development of the associated cross-border value chains.

Potential implications of domestic economic developments

- **The weak performance of the South African economy at the start of 2024 is reason for concern, as such weakness is widespread across several key indicators.** Lower output and sales volumes in sectors such as mining, the retail and wholesale trade sectors, a drop in vehicle sales and the sharp decline in the building sector are testimony to ongoing challenges affecting business enterprises and households.

  Those companies targeting the consumer market may experience yet weak demand for their goods over the foreseeable future as households are struggling with a high debt burden and not being able to meaningfully raise consumption spending under difficult conditions.

  Companies focusing on the mining sector as a key market for their products could face challenges as this sector's operations are affected by global and domestic factors, with only a modest recovery anticipated in the months ahead.

  Businesses reliant on activity in the property market (i.e. residential and non-residential buildings), may encounter challenging operating conditions as weak investment activity in this sector could affect many supplier industries for some time.

- **The poor performance of the manufacturing and mining sectors is of concern as activity is impacted by a combination of global and domestic factors.** Considering the strong linkages with supplier and supporting industries, the subdued performance by these two key sectors has adverse implications across the South African economy.

  In addition, exports may be under pressure, with balance of payments implications, whereas a loss in competitiveness and continued deindustrialisation is resulting in the country increasingly relying on imports to meet domestic demand. This not only aggravates the position on the balance of payments but also replaces local

productive capacity. South African businesses should take due note of these developments and a rather modest performance anticipated in the short-term, with the focus on measures to minimise the potential negative impacts on their operations and balance sheets.

- **Nevertheless, operating conditions are starting to improve**, with substantial alleviation of loadshedding and ongoing efforts to address the logistics challenges seemingly starting to bear fruit. **Positive financial market sentiment, following the national elections and the formation of a Government of National Unity, could have spin-offs throughout the domestic economy.** Business enterprises **should take note of these developments and take full advantage thereof.**

  This not only provides investment and business opportunities for the private sector, but a gradually improving operating environment should also unlock the potential to raise production for domestic and global markets, as the cost of doing business eases over time. The stability of the GNU will create more certainty, and in the process lifting confidence among investors (global and local), businesses and consumers. Increased investor appetite should result in higher capital inflows into the local equity and bond markets.

  Expectations of improving investor sentiment could result in increased risk appetite for South African equities and bonds, while foreign capital inflows may be reflected in a firmer Rand exchange rate. Lower bond yields may alleviate pressure on public finances and reduce the overall cost of capital, whereas a strong Rand should be reflected in cheaper imports and eventually also filter through to lower consumer price inflation.

- As inflationary pressures subside, this should provide an opportunity for the South African Reserve Bank to start lowering the repo rate. Hence, household finances are set to improve and consumption spending increase as consumers adapt to such improving conditions. Moreover, the private sector will react by raising fixed investment and production, albeit gradually at the beginning, as surplus production capacity still exists in many sectors, but gaining a stronger momentum over the medium-term. Business enterprises should **take note of these expected developments and strategise accordingly to be prepared to take advantage of such improving operating and trading conditions.**

- Though South Africa maintains a trade surplus, there are indications of a loss of international competitiveness including in the African continent where a significant portion of manufactured exports are destined. **Business enterprises need to benchmark their competitiveness to identify the factors leading to these losses and invest in the required capabilities for improvements.**

Introduction

Globally, 2024 is a record-breaking year for the number of elections, with 50 countries expected to elect their political leaders. In Africa alone, 19 countries, including South Africa and 5 of its SADC counterparts, are holding elections. In the global context of geopolitical tensions, the 2024 elections are drawing attention and causing noise in some economic indicators as markets are pricing in uncertainty of the outcomes of the elections and the subsequent policy decisions that may be taken.

Private investment decisions are sensitive to the internal and external environment within which companies operate. A country's policy environment, the global context, and shareholder interest, amongst other factors influence investment and broader company strategies. In so far as election outcomes have implications for the above factors, investors, companies, and markets have been watching developments with a keen eye. With this background, the July 2024 instalment of the Economic Overview is organised around an investment theme, with each regional section focusing on key factors driving investment levels.

The global developments section abstracts from the noise of the first half of the year and reflect on the June 2024 release of foreign direct investment data for 2023. At a global level, the United Nations Conference of Trade and Development (UNCTAD) reported a 2% decline in foreign direct investment (FDI) flows in 2023, year on year. When the data is adjusted for conduit flows, FDI declined by 10% in 2023. This reflects the challenges faced. UNCTAD attributes the decline to weaker economic growth, rising trade and geopolitical risks, investor uncertainty, volatility in financial markets and tighter global financing conditions including interest rates remaining higher for longer than initially expected. These factors are not only undermining FDI but also have implications for investment more broadly. Given, the questions on the implications of geopolitical tensions and the resurgence of industrial policy use by developed economies on investment and production patterns, the section explores the implications for global FDI patterns.

At the Sub-Saharan level, the fiscal challenges experienced by several countries in the region and relatively low levels of savings mean that the quantum and patterns of FDI are important for supporting economic growth. This section assesses the FDI trends by quantum, region, and sector. Unfortunately, the FDI flows to Africa declined by 3% in 2023, while remaining stable as a share of the global total at only 4% in 2023. However, there are positive developments from a sectoral perspective, including the growth of greenfield manufacturing FDI and investments in green value chains of the future – critical minerals, electric vehicles, green hydrogen etc.

The South Africa section explores a range of factors that influence investment decisions. It starts with an analysis of economic performance based on high frequency data, which indicates that the economy continues to be under strain. On the upside, the operating environment is starting to show signs of improvement. The section assesses the extent of the improvements by considering electricity availability; progress on addressing the logistics challenges; financial markets' response to the May elections outcomes; changes in business sentiment, which are typically correlated with changes in gross fixed capital formation; and developments in inflation and interest rates. Given the subdued domestic economy, the section closes off with an analysis of trade as an alternative source of demand for South Africa's output.

Though there are ongoing challenges, the improvements in the operating environment taken together with the forecasted disinflation trend to be accompanied by interest rate cuts in the second half of the year, are reason for optimism for the rest of 2024.

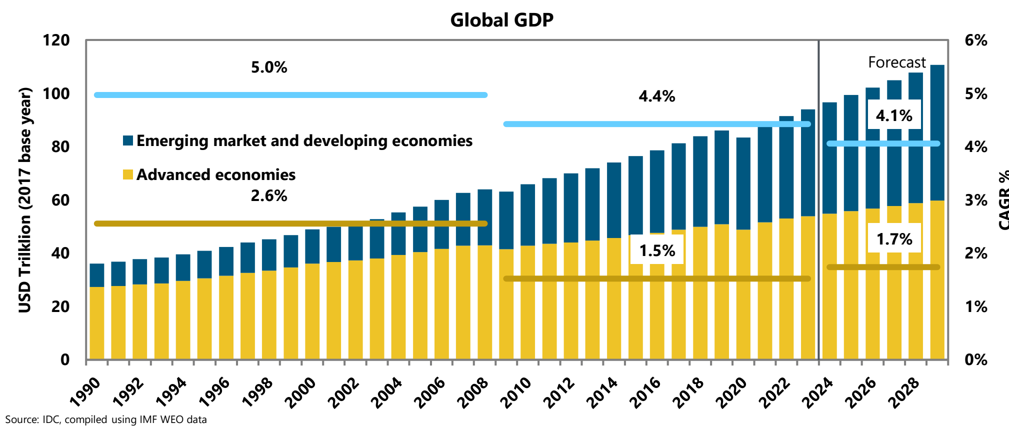
Global developments

Global macro flows of foreign direct investment

Economic performance across the globe is increasingly diverging, with world growth anticipated to stagnate

Global growth has slowed to a compound annual growth rate (CAGR) of 3.1%, since the onset of the global financial crisis (GFC) in 2008. This compares to 3.7% over the period between the end of the Cold War to 2008, according to the International Monetary Fund (IMF) data shown in Figure 1 below. The slowdown in growth performance has been most keenly felt in advanced economies where CAGR slowed to 1.5% after the GFC compared to the 2.6% recorded in the preceding 18 years, while developing and emerging markets largely sustained their growth rate over these periods. This period of relatively weaker growth has also coincided with rising outsourcing linked to the globalisation of production and inequality within developed countries. Though correlation does not imply causation, lower to semi-skilled workers in advanced economies have attributed the growing inequality to outsourcing.

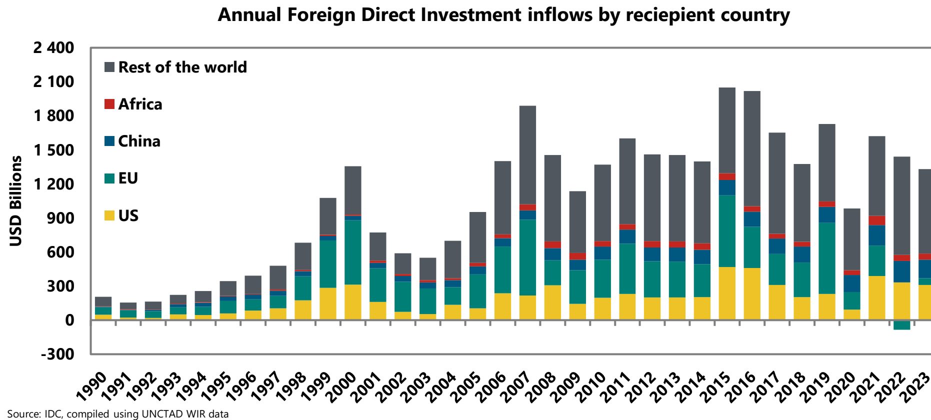
Figure 1: Advanced economies experienced a sharp slowing in growth momentum since the global financial crisis



Source: IDC, compiled using IMF WEO data

The perception that developing economies were able to maintain their economic growth momentum in the last 15 years at the expense of especially manufacturing workers in advanced economies, has become entrenched, particularly in the United States (US). The response has been a growing call for re-shoring manufacturing investment and its associated employment opportunities. US efforts to support its manufacturing base started with the imposition of import duties, with the most notable from this period being on all steel and aluminium imports and these import duties have been expanded to include a greater number of goods, especially those originating from China while significant government funded industrial development programmes were introduced through the CHIPS Act and the Inflation Reduction Act (IRA), among others.

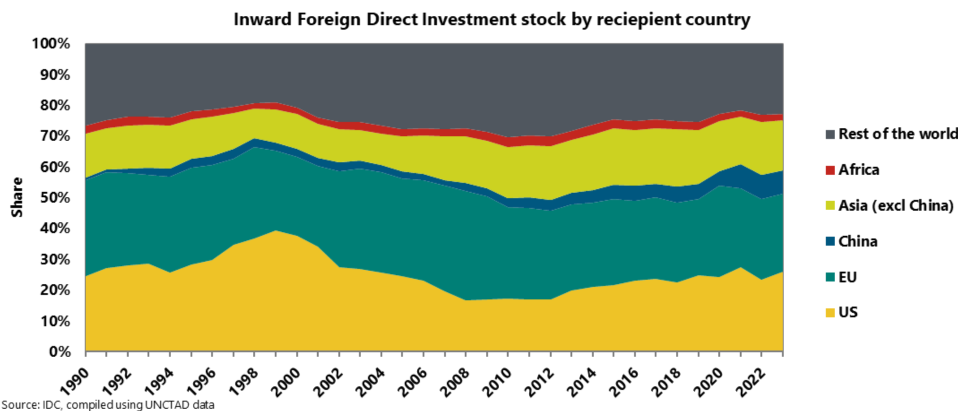
Figure 2: The US has been able to attract FDI inflows seemingly at the expense of the EU countries



These policy interventions by the US are having the desired impact with significant advanced manufacturing capacity having been announced or under construction. This adoption of significant government funded industrial policy has increased fears that this could result in substantial divergence of investment funds towards the US. FDI data reported by the United Nations Conference on Trade and Development (UNCTAD) in its latest World Investment Report (WIR) indicates that since 2021 the US did indeed attract an increase in FDI relative to preceding years, to the seeming detriment of the European Union (EU) countries. Though FDI flows to the rest of the world appear to be largely similar, when the data is disaggregated by income group, the 2023 flows indicate a shift from developing countries to developed countries.

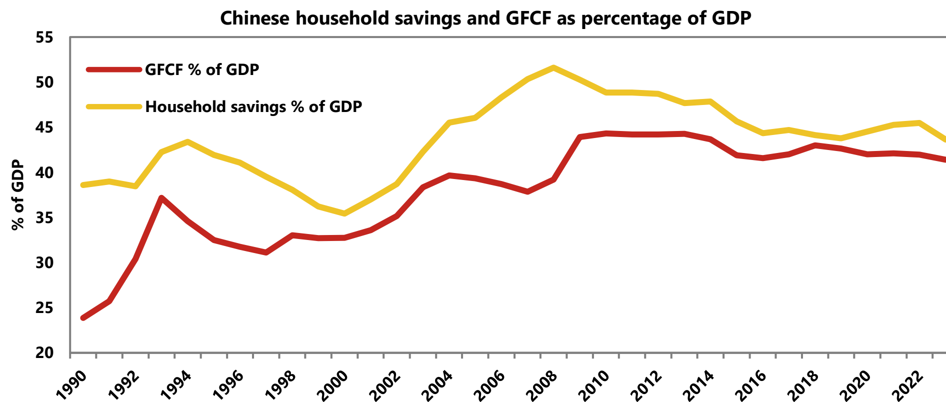
According to UNCTAD, the investment behaviour of the top 100 non-financial multinational companies since 2019 indicates a geographic shift of manufacturing projects (particularly in strategic sectors) closer to multinational companies' home countries in Europe and the US. The Chinese economy has been able to sustain relatively high economic growth rates over a prolonged period, making it an attractive market for multinational companies. Despite the significant investments taking place within China by domestic and international companies, the country attracts a relatively smaller share of global FDI flows, as shown in figure 2. This is also highlighted in figure 3 where the overall inward FDI stock in China stood at only 7.4% of global FDI stock in 2023, compared with the US which had a 26.1% share and the EU, 25.3%.

Figure 3: Chinese share of global FDI stock, although increasing, remains relatively small



Investments in China have been funded largely through domestic funding, using the very high savings rate of Chinese households, which has averaged 43.8% of GDP between 1990 and 2023.

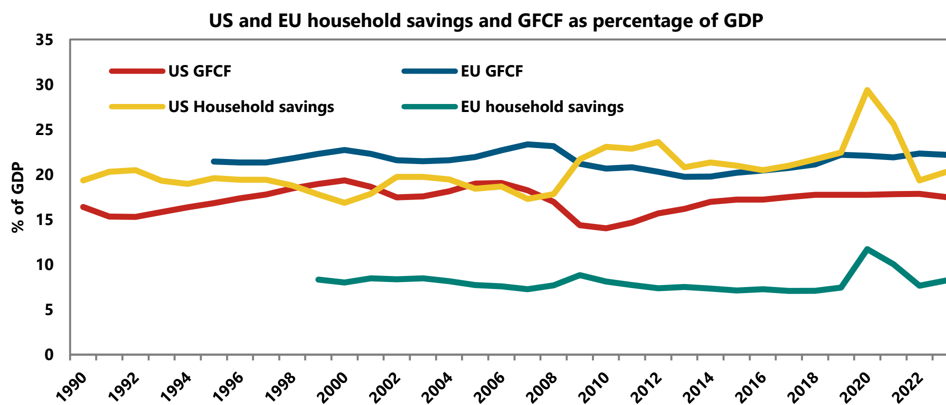
Figure 4: Households savings reduce the need for FDI to fuel investment growth in China



Source: IDC, compiled using China's National Bureau of Statistics data

The fixed investment ratios for the US and EU, at around the 20% of GDP mark and as shown in Figure 5 below, are substantially lower relative to that of China (illustrated in Figure 4 above). The US household savings ratio is slightly higher than the fixed investment ratio, making it less reliant on FDI inflows. However, the strong social safety net and provision of free or highly subsidised public services in most EU countries result in a much lower household savings ratio, making FDI inflows more important for the region to sustain its investment capacity.

Figure 5: The EU utilises more foreign direct investment to sustain its investment activity



Source: IDC, compiled using US St Loius Fed and Eurostat data

As highlighted above, increased nationalism exhibited by the US and the roll-out of industrial policy support are mostly impacting the EU negatively in terms of FDI flows, while China can draw on its domestic savings to propel its investments.

With global growth forecasted to be increasingly multi-speed, countries and/or regional partners will have to increase the competitiveness of their industries, both in domestic markets and globally, to encourage growth in order to improve the economic well-being of its citizens. Geo-political tensions and the rise of nationalism in certain parts of the world will make the global trading environment more challenging. With the US elections scheduled for later in the year, there remain uncertainties on its outcome and the implications for US trade and investment policies. A change in the US's foreign policy stance regarding the provision of security to allies could prompt significant increases in defence spending in various countries, especially the EU and South East Asia, impacting on the support and funding available for non-defence investments.

Recent developments in, and outlook for sub-Saharan Africa

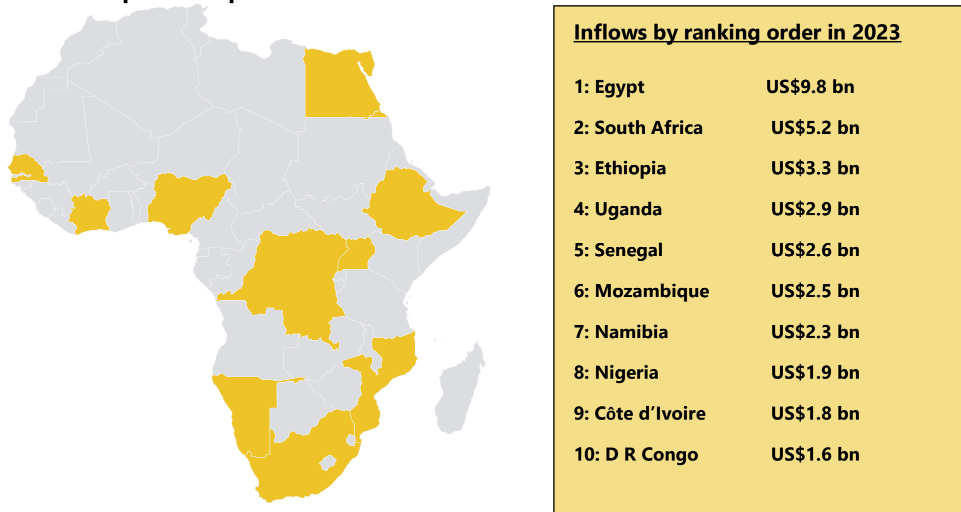
Foreign direct investment activity in Africa

Africa's share of global FDI inflows steady at 4% in 2023

Foreign investor interest in Africa weakened modestly in 2023, with foreign direct investment (FDI) inflows falling by 3.4% year-on-year to USD52.6 billion (sub-Saharan Africa's remained relatively flat at USD39.2 billion), according to the latest UNCTAD figures. This was largely driven by substantially lower FDI flows into Egypt (-13.7% to USD9.8 billion), South Africa (-43.3% to USD5.2 billion) and Morocco (-51.6% to USD1.1 billion) compared with 2022.

Albeit relatively low, Africa's share of global FDI inflows was steady at about 4% in 2023, largely unchanged from 2022. At the individual country level, FDI inflows remained concentrated in a few economies, with the top 10 recipients accounting for about 65% of total FDI to the continent.

Figure 6: Relatively strong FDI flows into some of Africa's larger economies, albeit lower than in 2022



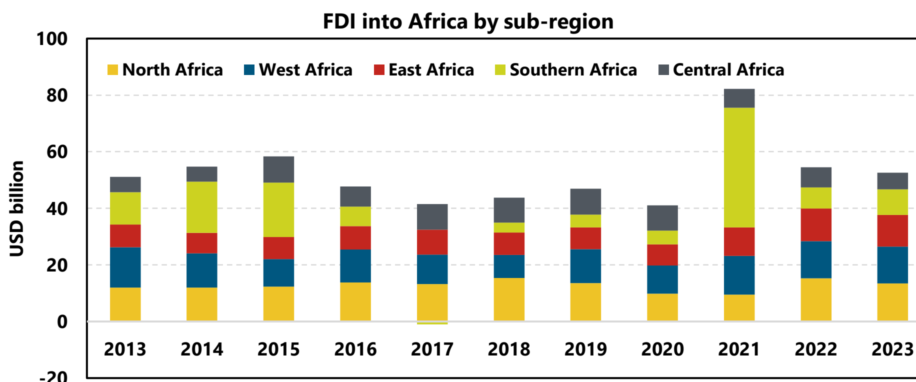
Inflows by ranking order in 2023

1: Egypt	US$9.8 bn
2: South Africa	US$5.2 bn
3: Ethiopia	US$3.3 bn
4: Uganda	US$2.9 bn
5: Senegal	US$2.6 bn
6: Mozambique	US$2.5 bn
7: Namibia	US$2.3 bn
8: Nigeria	US$1.9 bn
9: Côte d'Ivoire	US$1.8 bn
10: D R Congo	US$1.6 bn

Source: IDC compiled, using UNCTAD WIR 2024 data

With the exception of Southern Africa, all the other sub-regions in Africa, namely North Africa, East Africa, Central Africa, and West Africa recorded lower FDI inflows compared to 2022, as shown in Figure 7 below. Rising trade tensions, geopolitical risks and tighter financing conditions globally have been cited among the factors which constrained foreign direct investment flows in 2023.

Figure 7: FDI flows into Africa slightly down in 2023



Source: IDC, compiled using data from UNCTAD's World Investment Report of June 2024

Although the value of announced greenfield FDI projects in Africa declined by around 11% to USD174.7 billion in 2023, down from USD196 billion in 2022, the actual number of announced projects rose to 830 from 775 in 2022, with the potential to create thousands of additional jobs if implemented. Despite a decline at the continental level, the value of announced greenfield FDI projects in Sub-Saharan Africa increased significantly to USD109.3 billion in 2023 from USD65 billion. Critically for the region, this underlines the continued interest by the foreign investor community and the encouraging outlook for investments in its future productive capacity and general FDI activity in the short-term.

USD175 billion worth of greenfield FDI projects announced in 2023

Even though, the service-oriented sectors dominate the sectoral/industry distribution of the announced greenfield FDI projects in terms of value, at about two-thirds of the total, the share claimed by manufacturing projects rose significantly from 5.1% of the total in 2022 to 23.8% in 2023. This is a positive development for Africa's industrialisation and re-industrialisation goals. The notable manufacturing investments that were announced, were directed towards chemicals (USD12.5 billion), electronics and electrical equipment (USD7.6 billion), coke and refined petroleum, non-metallic mineral products, and automotive industries. The sectoral/industry distribution of these projects is shown in Table 1 below.

Rising share of manufacturing greenfield projects

Table 1: Although services-oriented investments dominate greenfield projects, manufacturing investments increased significantly

Sectoral distribution of announced FDI greenfield projects by value (USD million)			
Sector/industry	**Value (USD million)**		**%**
	2023	**2022**	**Change**
Total	**174 745**	**195 957**	**-11%**
Primary	16 657	22 195	-25%
Manufacturing	41 590	9 985	317%
Services	116 499	163 777	-29%
Top 10 industries by value in 2023			
Electricity and gas supply	87 993	120 656	-27%
Extractive industries	16 554	22 160	-25%
Chemicals	12 500	1 649	658%
Information and communication	9 200	6 913	33%
Electronics and electrical equipment	7 588	699	986%
Transport and storage	7 547	7 161	5%
Construction	6 369	23 522	-73%
Coke and refined petroleum	6 191	-	-
Non-metallic mineral products	5 268	1 868	182%
Automotive	3 335	1 749	91%

Source: UNCTAD World Investment Report 2024

Data from UNCTAD shows that the continent attracted an estimated USD226.2 billion in renewable energy investments (announced greenfield projects) between 2021 and 2023, with these investments driven by an increasing number of green hydrogen projects across Africa. In 2023 alone, leading the list was Mauritania's USD34 billion green hydrogen project, while several such projects were announced in South Africa (USD7.1 billion), Egypt (USD10.8 billion) and Morocco.

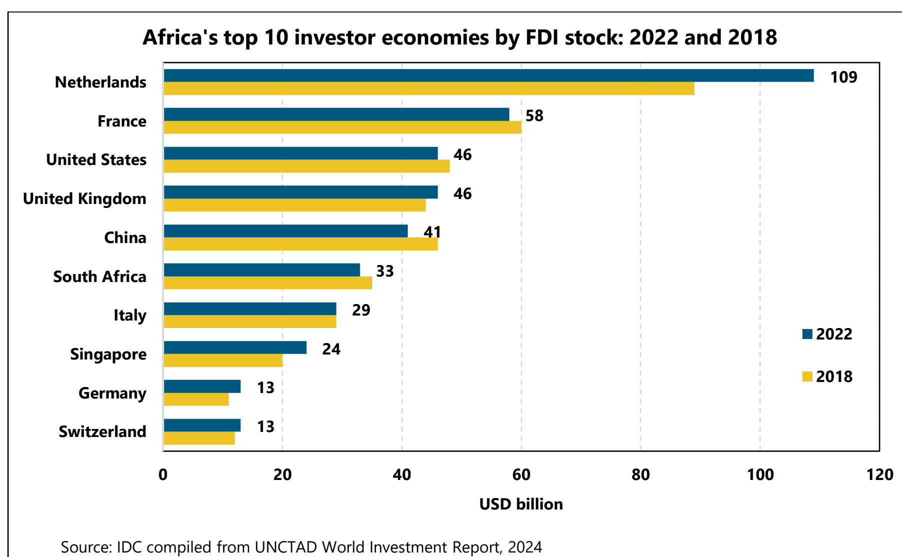
UNCTAD also notes the rising greenfield FDI announcements in global value chain-intensive industries, including on the continent, with those linked to the production of electric vehicles, as an example, attracting foreign investments. A Chinese firm announced plans to build a USD6.4 billion facility for manufacturing electric vehicle batteries in Morocco. At the same time, the GVCs associated with the green energy transition and production of electric vehicles (EVs) are also driving up investments in mining and critical minerals (including processing). Zambia and Botswana were among the countries that announced large international project finance deals in copper mining, valued at about USD2 billion and USD1.9 billion respectively in 2023.

Some of these investment trends and patterns are indicative of the rising sustainability and supply chain resilience imperatives globally in the face of not only fulfilling the commitment to climate change adaptation and mitigation efforts but also intensifying geopolitical and trade tensions. Considering its abundant mineral and renewable energy resources, the continent has a great role to play in the global green energy transition, with substantial investments expected to flow into these sectors.

Investors from Europe remain the largest holders of FDI stock in Africa, The Netherlands was the most dominant FDI investor (in terms of stock) in 2022, followed by France at USD58 billion and the United Kingdom (USD46 billion) as indicated in Figure 8 below. However, there have been divestments over the years as some investors from advanced economies have been selling their fossil fuel assets.

The Netherlands, France, and UK investors lead in terms of FDI stock holdings in Africa

Figure 8: South Africa among the key direct investors in the rest of Africa



Source: IDC compiled from UNCTAD World Investment Report, 2024

The 2023 AfCFTA Investment Protocol is expected to contribute to increasing intra-Africa FDI. South Africa is the only African economy that features in the top 10 investor economies by FDI stock. However, there is likely to be opportunities to raise intra-regional investment in processing industries and cross-border infrastructure as the share of intra-regional projects underpinned by the drive to increase value addition rises.

Persistent uncertainty globally in the face of weakening growth prospects as well as continuing trade and geopolitical tensions is anticipated to constrain global FDI activity in the very short-term at least. Nonetheless, going forward some improvement in foreign investment activity in Africa is expected on the back of the gradual implementation of certain key announced projects, increased mining investment activity related to critical minerals and metals rises, as well as enhanced regional integration efforts under the AfCFTA.

FDI activity likely to gradually improve in Africa over the next few years

South African economy – ongoing challenges but reason for optimism

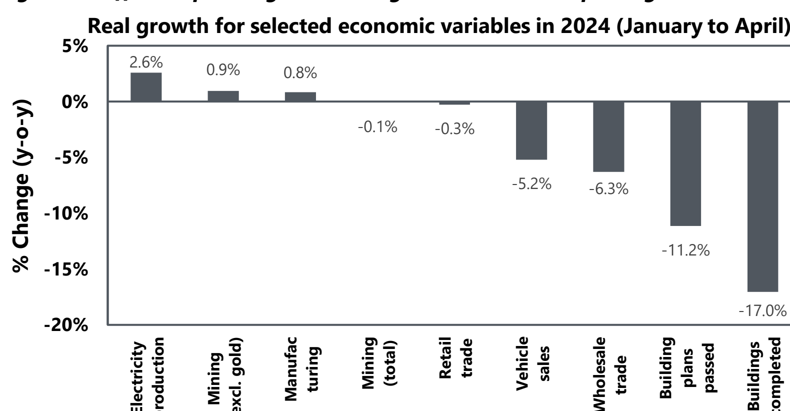
Recent economic performance

SA economy still taking strain as global and domestic factors take a toll on activity

South Africa's economy was under renewed pressure at the start of 2024, following modest growth of just 0.7% in real GDP during 2023. Economic activity is plagued by several global and domestic factors that continue to undermine production, fixed investment, and consumption, albeit at varying degrees.

Over the January to April 2024 period, several key sectors of the economy have seen subdued growth or a contraction in output, compared to the same period in 2023. Factors at play include relatively weak global demand from some of South Africa's key external markets, lower commodity prices and challenging global trading conditions. Domestically, ongoing infrastructure-related bottlenecks, insufficient demand, rising operating costs, as well as high inflation and interest rates are taking a toll on economic activity.

Figure 9: Difficult operating and trading conditions are impacting economic activity



Source: IDC, compiled using SARB data

Mining activity is impacted by declining gold production and logistics challenges

Total mining output, which declined modestly by 0.1% on a year-on-year basis over the first four months of 2024, was adversely affected by a sharp drop in gold production (-6.1%), while non-gold output recorded growth of 0.9% over this reference period. Lower output was also recorded in the case of manganese (-14.5%), diamonds (-7.9%) and coal (-1.9%). In turn, chrome (+15.7%), copper (+12.6%), iron ore (+7.6%) and PGMs (+5.4%), were among those sub-sectors which recorded higher output.

Manufacturing output is a testimony of challenging operating conditions

The modest increase in manufacturing output (+0.8%; year-on-year)] was negatively impacted by sharply lower production volumes from the transport equipment sector (including motor vehicles and parts), with a drop of 7.5% in output over the review period. Lower output was also reported for general and special purpose machinery and equipment; as well as for rubber products; glass and glass products; footwear; other textiles and dairy products, among others. However, several sub-sectors managed to increase production volumes including electrical machinery and equipment; petroleum products; paper and paper products; non-metallic mineral products; fabricated metal products, as well as wood and wood products.

Difficult consumer environment affecting household expenditure

A challenging consumer environment is reflected in the poor performance of the retail trade sector and even more so by the steep drop in new vehicle sales. Several consumer related indicators are still reflecting ongoing challenges, including high costs of living pressures; multi-year high interest rates; subdued growth in real disposable incomes; high levels of indebtedness and elevated unemployment. Low consumer sentiment at present is testimony to such adverse conditions and affects the willingness and ability of households to raise consumption expenditure. Nonetheless, household finances and consumption expenditure are set to improve in the months ahead on the back of lower inflation and interest rates.

Weak fixed investment activity in the building industry (especially the residential property segment) is being reflected in the substantial decline in buildings completed and the number of building plans passed. However, as household and business finances adjust to a lower inflation and interest rate environment, this should bode well for a gradual rise in consumer spending (also on residential property), as well as for investment activity, with the latter likely to be seen in higher capital spending in the residential and non-residential building sectors.

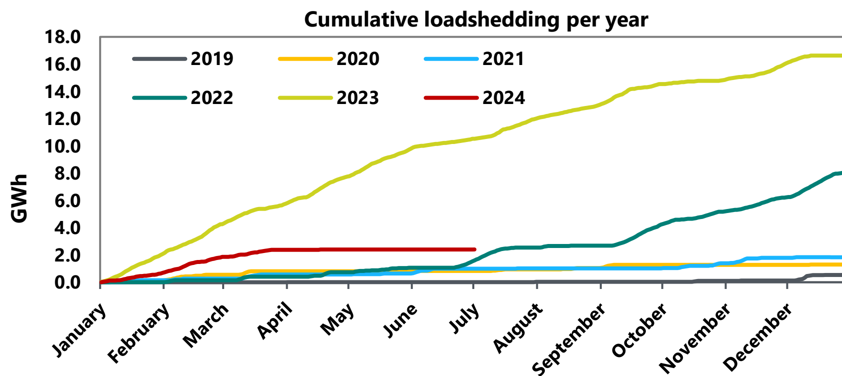
Building activity impacted by subdued investment spending under challenging conditions

Operating environment starting to show a gradual improvement

Although challenges remain, operating conditions are showing signs of improvement, albeit gradually. Electricity supply constraints have been substantially alleviated since the start of this year, with more than 100 days without loadshedding (i.e. since April 2024), with reduced electricity demand along with the benefits of ongoing maintenance resulting in improved grid-stability and reliability. In addition, increased private sector investment in own-generation to reduce grid-reliance, along with a substantial increase in roof-top solar installations by households have all helped to alleviate pressure on Eskom. Business activity and consumer spending stand to increasingly benefit from improved electricity supply.

Operating conditions are improving as key binding constraints are being addressed

Figure 10: Electricity supply interruptions significantly reduced in 2024



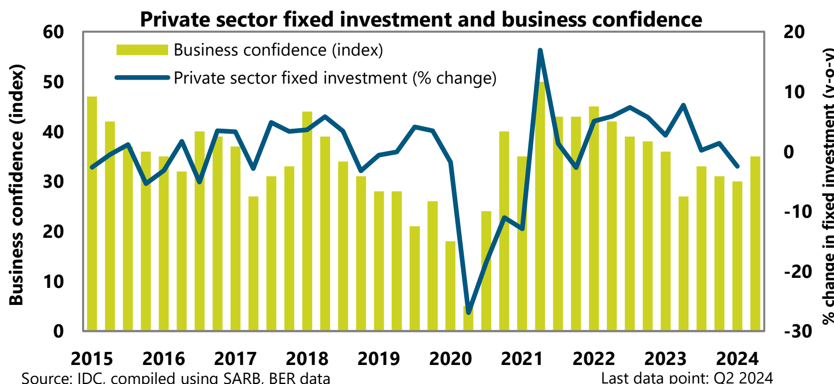
Source: IDC, compiled using Eskom data

Moreover, interventions to address logistics challenges in the country are starting to bear fruit, as reflected in some improvements in volumes being handled at domestic ports, although a long way still to go to reach activity levels recorded in 2019 and to significantly improve port efficiencies. Furthermore, overall supply-chain disruptions also appear to be alleviated slightly, easing pressure to trade and to do business.

Business confidence in South Africa edged slightly higher in Q2 2024 to a reading of 35 points (from a recent low of 27 in Q2 2023). Higher sentiment among manufacturers is indicative of businesses being more optimistic about future growth prospects and improving operating, trading, and investment conditions.

Rising business sentiment to result in higher investment and production

Figure 11: Rising business sentiment could translate into increased investment



Source: IDC, compiled using SARB, BER data

Last data point: Q2 2024

Considering the strong correlation between business confidence and private sector fixed investment spending (refer to chart above), the up-tick in sentiment, if sustained over a longer period, could eventually result in increased capital outlays. This should bode well for higher output and supporting faster rates of economic growth over the medium-term.

Political stability to translate into increased certainty and improving sentiment

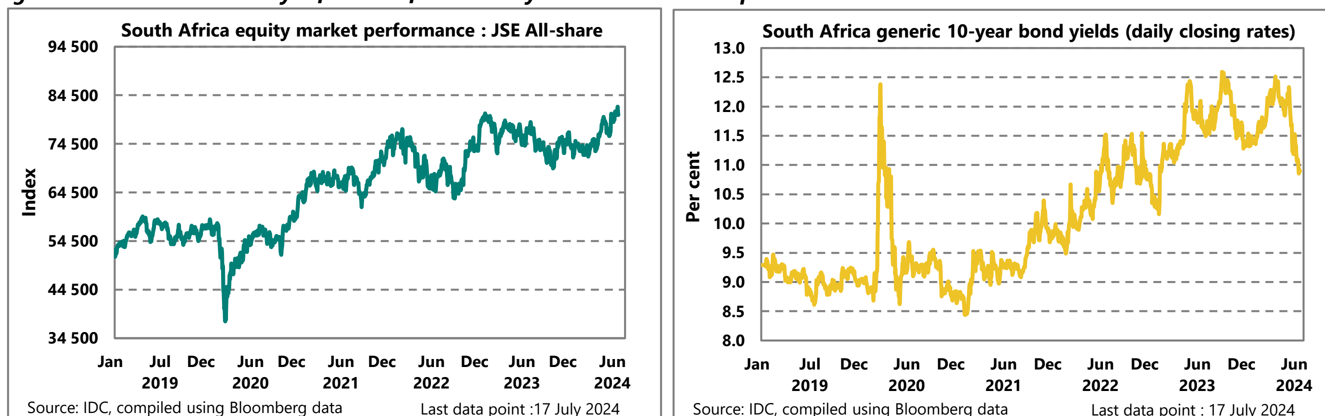
The peaceful election and the forming of the Government of National Unity (GNU) have been welcomed by the business community and financial markets. Government's focus on growth-enhancing policies will further lift sentiment, among local and foreign investors, which should bode well for fixed investment and economic growth going forward. In addition, prudent fiscal policies, should further contribute to investor confidence and supporting economic growth and development.

Financial markets

High volatility in equity and currency market pre-elections on the back of increased uncertainty

Financial markets have been volatile since the beginning of the year, reflective of global and domestic challenges, such as economic performances and growth prospects, sticky inflation, and tight monetary policies in various parts of the globe, including South Africa. Domestically, the run-up to the National elections on 29 May 2024 has seen increased uncertainty and nervousness, as reflected by the performance of the JSE ALSi, a depreciating Rand and rising long-term government bond yields, all being indicative of the risk premium associated with doing business in South Africa.

Figure 12: Increased volatility reflective of uncertainty and associated risk premium



Financial markets reacted positively to recent political developments

However, financial markets reacted positively to the GNU, while the business community and society in general, have welcomed recent political developments and the new Cabinet as certainty on the political front. Political certainty is crucial for policy coherence and implementation. More recently, the JSE All-share index recorded a new all-time high, while bond yields have fallen by as much as 162 basis points to 10.89% by 17 July 2024 (refer to the adjacent chart), compared to the recent high of 12.51% in the middle of April. This should bode well for government finances as interest payments on public debt will be reduced, while also alleviating pressure on the cost of capital.

The Rand appreciated markedly, auguring well for inflation prospects

Having depreciated sharply to R19.30 per USD in April 2024, the local currency remained quite volatile and dipped briefly below the R18.00 mark in mid-June on positive sentiment aligned to South Africa's political developments and increased risk appetite for emerging market assets. The Rand has been quite strong more recently, compared to pre-election levels and traded between R18.00 and R18.30 against the US dollar. The stronger Rand could have beneficial implications on the inflation and interest rate front, providing much needed relief to households and businesses alike.

Inflation and interest rates

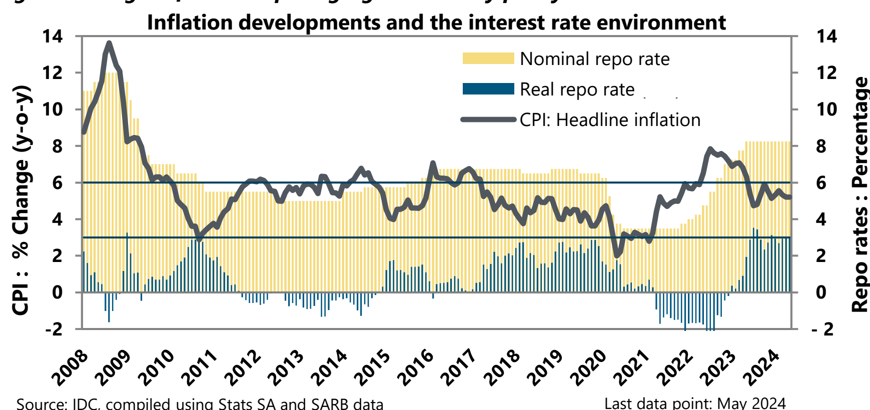
After a strong disinflation trend since the recent peak in consumer price inflation of 7.8% in July 2022, inflation remained sticky above the 5.0% mark since September 2023 and measured 5.2% in May 2024. Price pressures emanated largely from key items such as food, fuel, and electricity, which have a combined share of 23.8% in the consumer basket. However, food prices have moderated from 14.4% in March 2023 to 4.3% by May 2024. Petrol inflation, however, increased sharply in recent months to 9.3% in May 2024, from a decline of -2.5% in December 2023. Electricity prices remained elevated at 15.3% in May 2024, compared to 8.0% a year ago.

Inflation remaining at elevated levels, affecting the spending ability of households

The high costs of living are impacting household disposable incomes and limiting discretionary spending by consumers, especially those in the low- to middle-income categories. Consumers may refrain from spending on luxury items (e.g. motor vehicles, furniture) especially in the short-term, as they struggle to cover their day-to-day expenses as many households are buckling under a high debt burden. However, price pressures are expected to subside in the months ahead, paving the way for a gradual easing in monetary policy.

Inflationary pressures expected to subside in coming months

Figure 13: High inflation requiring tight monetary policy



The South African Reserve Bank's Monetary Policy Committee (MPC) is anticipated to start lowering the repo rate at its September 2024 meeting with a 25-basis points (bps) reduction, followed by another 25 bps at the November meeting. In 2025, the MPC is expected to cut interest rates by a cumulative 100 bps and by Q2 2026 the repo rate is projected to measure 6.50%, which is likely to be the end of the easing cycle.

Easing of monetary policy is expected as inflation declines

Continued Rand-strength could play an important role in the inflation trajectory going forward, as cost pressures on imported items may be reduced. In this regard, it is not only lower cost for directly imported consumer goods, but lower input costs for raw materials (e.g. crude oil); intermediate goods to be used in local production, as well as due to lower prices for imports capital goods (e.g. machinery and equipment). All such lower import costs contribute to reduced costs of production, with beneficial implications for the South African economy at large and for consumers.

If the Rand appreciates by 5.0% on a sustained basis over one year, this could meaningfully lower consumer prices. By utilising the IDC's *Sectoral Price Model*, it was estimated that this may translate into inflation being reduced by between 0.38 and 0.74 of a percentage point (directly and indirectly), everything else being equal.

Cheaper imports to be reflected in lower domestic inflation, with positive implications for consumers

A stronger Rand will not only result in directly imported refined petroleum being cheaper, but due to lower crude oil prices, production costs for locally refined petroleum products and a wide range of chemicals and related products will also decline. Lower fuel prices could have spill-over effects throughout the economy as transport costs are reduced. Similarly, price pressures may also subside along entire supply chains in the domestic economy, with local

costs of producing motor vehicles benefiting from cheaper imported parts and accessories as another example.

Though a stronger Rand is expected to harm exports, as they become relatively more expensive to international buyers, the impact may not be substantive given the confluence of factors undermining exports.

External trade analysis

Recent trade performance

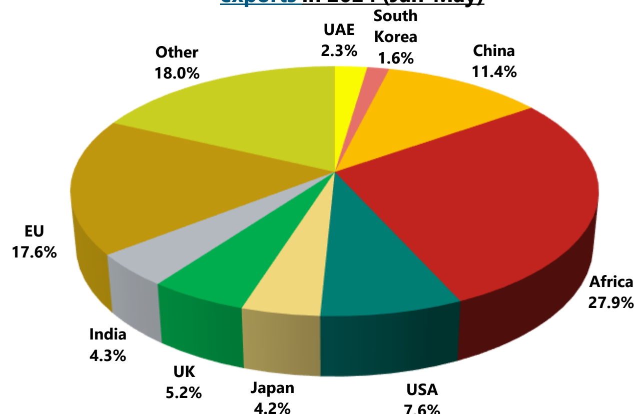
Exports and imports under pressure on the back of global and domestic factors

South Africa's external trade performance over the first five months of 2024 reflects the challenging global and domestic economic conditions. Overall **merchandise exports** were marginally lower (-1.7%; year-on-year) as exports declined by R14.3 billion over this reference period. Exports to some of South Africa's key destinations such as the European Union (EU), with a 10.0% decline, China (-2.4%), the USA (-6.4%) and Japan (-27.4%), among others, all recorded lower exports in nominal value terms.

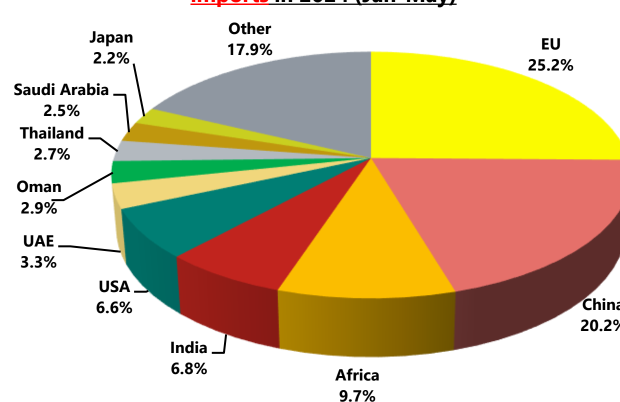
Africa is a key destination, with a rising share in SA's exports

However, exports to Africa, which accounted for a sizeable 27.9% of South Africa's merchandise exports over the period January to May 2024, saw an increase of R17.8 billion (+8.5%), whereas exports to the United Kingdom were 11.1% higher, with an increase of R4.2 billion. It should be noted that exports to Africa may have been distorted by a strong increase in commodity exports such as iron ore (+40.2%) and other mining (e.g. manganese and chrome), which were 37.7% higher, with such exports most likely having been shipped via the port of Maputo in Mozambique to destinations elsewhere in the world.

Figure 14: Regional composition of South Africa's exports and imports



Source: IDC, compiled using SARS data



Source: IDC, compiled using SARS data

Weak domestic demand reflected in lower imports

Subdued economic growth in the South African economy has been mirrored by a 5.2% decline on an annual basis in **merchandise imports** (in nominal value terms) over the period January to May 2024. At R767.1 billion in total, imports were down by R41.9 billion as demand fell sharply for goods from China (-11.4%), which has been the source of 20.2% of all South Africa's merchandise imports, while demand for imported goods from the EU (with a 25.2% share in the import basket) were some 1.9% lower, compared to the same period in 2023. In turn, South Africa's imports from countries elsewhere in Africa increased by 5.8%, with higher import demand for crude oil (+16.7%) and other chemical products (+17.6%) key in this regard.

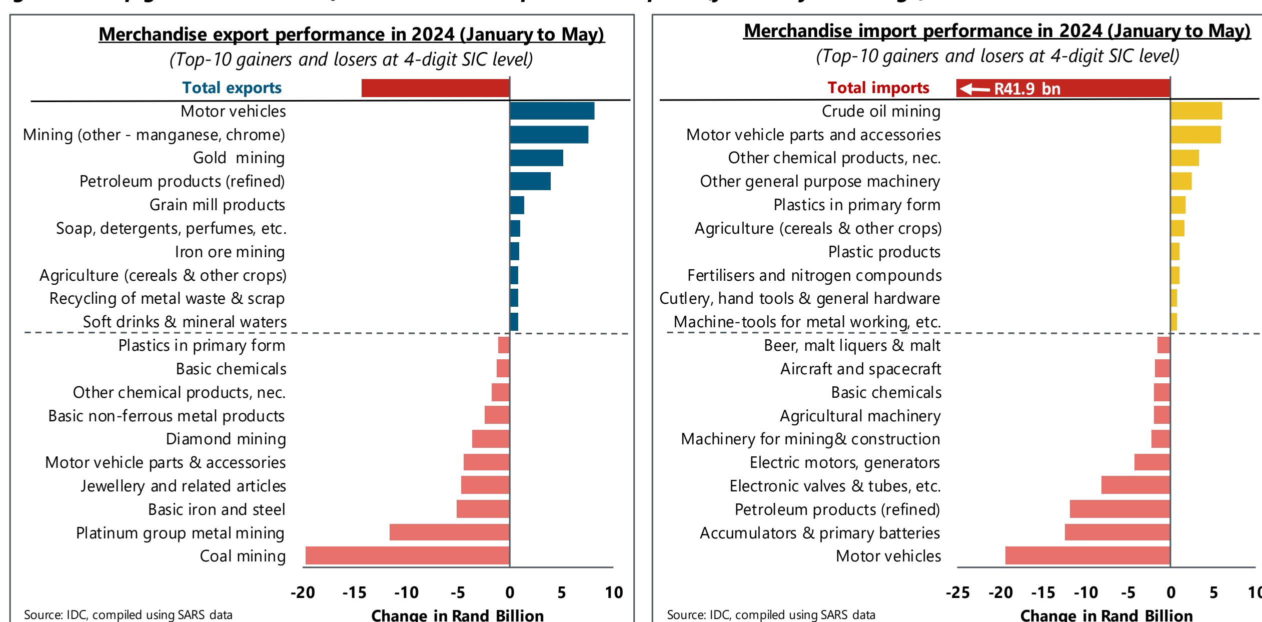
Although a trade surplus of R46.7 billion was recorded over the first five months of 2024, this was on the back of both lower exports and imports and therefore reflecting the challenging global trading conditions and weak domestic demand.

Exports being largely adversely impacted by lower mining and mineral exports

From a **sectoral perspective** (i.e. trade data at a 4-digit SIC level), the decline in exports over the review period was due to a 6.1% drop in mining and mineral exports to R322.9 billion. This was mainly due to sharply lower coal exports, with a drop of R19.7 billion (or -29.2%), a decline of R11.6 billion (-13.4%) in PGM exports, while diamond exports fell by 21.4% or by R3.5 billion. These declines were largely due to significant price weakness experienced by these commodities. In addition, manufactured exports such as basic iron and steel, parts and accessories for motor vehicles, basic non-ferrous metal products, chemicals and related products, and jewellery all recorded lower exports (refer to table below).

On the positive side, exports of motor vehicles (+11.4%) increased by R8.2 billion, while higher exports of other mining (e.g. manganese, chrome) increased by 10.8% or R7.6 billion, over this period. The chart below illustrates the top gainers and losers for both exports and imports over the period January to May 2024.

Figure 15: Top gainers and losers for merchandise exports and imports (year-on-year change)



Demand for imported crude oil was 15.9% higher, with an increase of R6.1 billion to R44.1 billion year on year, likely due to the reopening of the Astron Refinery in Cape Town. The increase in the demand for imported crude oil was accompanied by a decline in imports of refined petroleum products, signifying an increase in the operating capacity of refineries in South Africa. Import demand for parts and accessories for motor vehicles, other chemical products, general purpose machinery, agricultural products, plastics and plastic products, as well as for fertilisers, among others, were also higher (see chart above).

Weak domestic demand impacting imports of consumer items and capital goods

In turn, import demand for both consumer related goods and capital equipment was adversely impacted by challenging domestic conditions. Imports of motor vehicles fell by R19.3 billion or by 39.1% to R30.0 billion, while lower demand for capital goods such as agriculture and mining machinery, as well as electric motors and generators were reported over this period.

The significance of Africa as a key market for South Africa's merchandise exports

Africa remaining a key market for SA's merchandise exports

The relative share claimed by countries elsewhere on the African continent for South Africa's overall merchandise exports stood at 26.8% in 2023 (valued at R546.9 billion) and increased to 27.9% (at R227.1 billion) for the period January to May 2024. Moreover, the continent is a significant market for South Africa's manufactured exports, having accounted for 41.1%, or

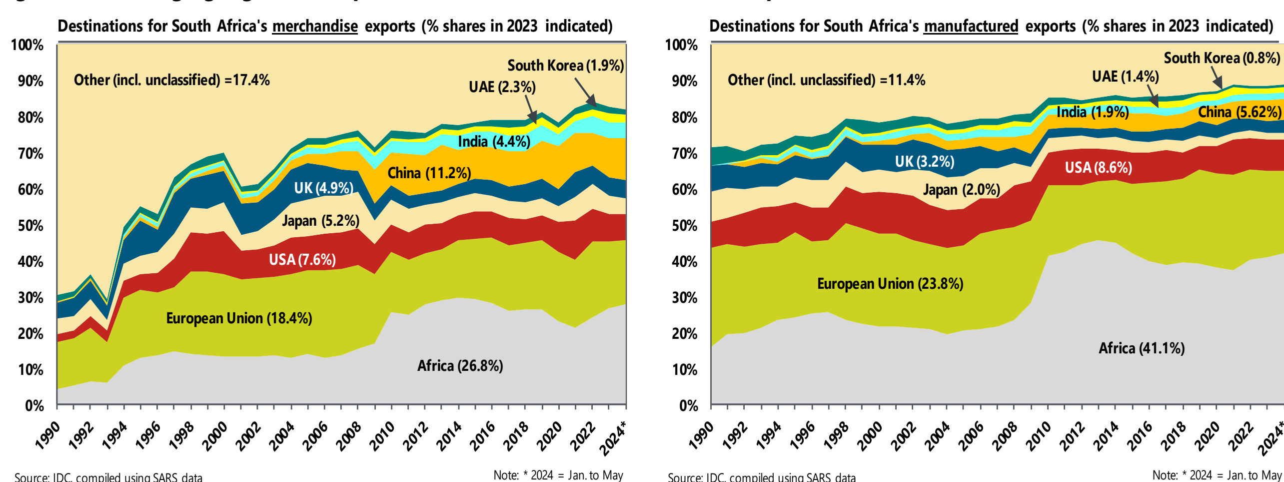
R446.7 billion of all manufactured exports in 2023, while this ratio increased to 42.2% (and measured R181.6 billion) over the first five months of 2024.

However, the export destinations to countries in Africa is highly concentrated, with South Africa's immediate neighbours in the SACU region (i.e. Botswana, Eswatini, Lesotho and Namibia), among the largest recipients of such exports, followed by countries within the SADC region (e.g. Zimbabwe, Mozambique, Zambia, and the DRC).

During the first five months of 2024, SACU countries accounted for 36.0% of South Africa's exports to Africa, while SADC countries (excluding SACU) took a 54.2% share. Thus, approximately 90% of all merchandise exports from South Africa to the rest of the continent is within the SADC region. SACU countries accounted for 40.4% of the manufactured export basket to Africa during the five months to May 2024, while SADC countries (excluding SACU) claimed a 49.6% share, with the remainder having been destined to several countries beyond the SADC region, such as Kenya, Nigeria, Ghana, Senegal, and Côte d'Ivoire.

The vast majority of SA's exports to Africa are within the SADC region

Figure 16: A changing regional composition of South Africa's merchandise exports



At a broad sectoral level, South Africa's export basket to Africa during 2023 was dominated by non-electrical machinery and equipment (e.g. mining and agriculture machinery), with a 12.2% share of overall exports; processed food (9.9%); basic iron and steel (7.8%); chemical products (e.g. pharmaceuticals; soap and detergents), with a 7.6% share, as well as motor vehicles, parts and accessories, which claimed a 7.5% share in the exports basket. Most of these sectors have relatively higher value addition, are more labour absorbing and have stronger linkages in the domestic economy, all contributing to economic growth and improved socioeconomic outcomes.

However, what is alarming is that if basic iron and steel and other mining are excluded as these were likely deep-sea exports going through Mozambique, South Africa's top 10 exports into the continent have largely been declining. Given the relatively higher growth estimates for Sub-Saharan Africa, it is unlikely a result of a fall in demand but rather a fall in the competitiveness of South African products.

Figure 17: Composition of the export basket to Africa at a broad sectoral level

South Africa's merchandise exports to Africa in 2023

Rank	Total merchandise exports: R546.9 billion or 26.8% of SA exports		
	Sector	**% share**	**CAGR* (2013 to 2023) in USD**
1	Non-electrical machinery (e.g. mining, agriculture)	12.2	0.4%
2	Processed food	9.9	0.8%
3	Basic iron and steel products	7.8	5.1%
4	Chemical products (e.g. pharmaceuticals)	7.6	1.0%
5	Motor vehicles, parts and accessories	7.5	-3.0%
6	Petroleum and petroleum products	7.3	-1.7%
7	Other mining (e.g. chrome, manganese)	6.8	13.4%
8	Industrial chemicals	4.6	0.6%
9	Agriculture, forestry & fishing	4.3	2.0%
10	Fabricated metal products	3.5	-2.6%
11	Electrical machinery	3.3	-0.6%
12	Beverages	3.1	3.4%
13	Other	22.2	-0.2%
	Cumulative %	**100.0**	

Source: IDC, compiled using SARS data
Note: * Compound average growth rates calculated in USD terms to eliminate Rand volatility and depreciation, as well as South Africa's high inflation

Export-related benefits for SA emanate from direct and indirect exports

The significance of South Africa's exports to countries elsewhere in Africa and its role in supporting economic activity (GDP) and the creation of employment opportunities can be derived through both direct, as well as indirect exports. **Direct export** related benefits (or known as the Initial[1] impact) refer to GDP and jobs that are associated with the exports of a particular sector, for example, machinery and equipment; motor vehicles; petroleum products; chemicals and chemical products; fabricated metal products; basic iron and steel; processed food or agricultural products.

Indirect exports are playing an important role through sustaining activity across many supplier industries

Regarding **indirect exports**, these refer to the inter-industry linkages (or multiplier effects) in the South African economy between various sectors of economic activity along entire supply chains. Exports of motor vehicles, for example, have a meaningful impact on supplier industries, such as fabricated metal products; the leather industry (e.g. car seats); glass; rubber (tyres); plastics; electronics, the paint industry, as well as several other component manufacturers whose production activities are dependent on the domestic automotive sector. Hence, through the exports of motor vehicles, production activity is stimulated in these supplying sectors (via indirect exports), with the associated contributions in terms of the generation of GDP and employment opportunities.

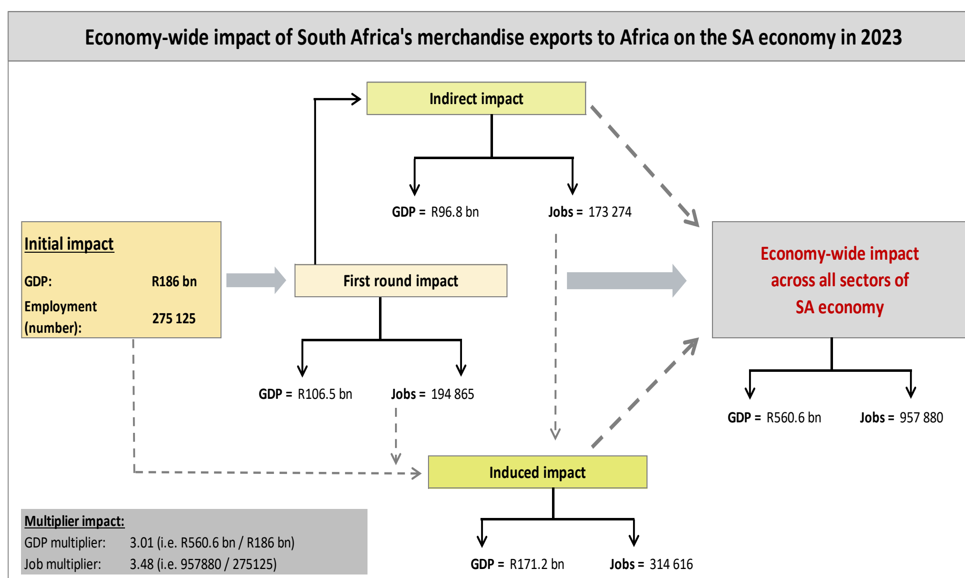
In 2023, merchandise exports to Africa measured R546.9 billion and contributed an estimated R186.0 billion directly (i.e. the Initial impact) to overall GDP across all exporting sectors to the continent, while having created/sustained 275 125 employment opportunities within the various exporting sectors themselves.

[1] **Note**: **Initial impact** refers to the impacts (e.g. GDP and employment) associated with exports of the particular sector itself. The **First-Round** impact refers to all economic impacts at all supplier industries who deliver goods and services to the exporting sectors and whose own activities are directly associated with the export sectors. Those companies supplying goods and services to the First-Round suppliers are referred to as the **Indirect impact**. The **Induced impact** captures additional economic benefits by means of household income generation through payments for labour services (salaries and wages) that are linked to employment creation at the Initial, First-Round and Indirect impacts, and the associated private consumption expenditure on goods and services.

Including all linkage effects across entire supply chains, merchandise exports were ultimately responsible for GDP of R560.6 billion (or 8.0% of national GDP in 2023), while 957 880 jobs in the formal sector may have been associated with merchandise exports (directly and indirectly), representing 7.5% of all formal sector employment in 2023. Hence, the impact on the South African economy due to merchandise exports to Africa is quite significant.

SA exports to Africa contribute meaningfully to GDP and employment

Figure 18: Substantial benefits for the South African economy associated with exports to Africa



Source: IDC calculations

From a sectoral perspective, South Africa's merchandise exports to Africa of R546 995 million in 2023, comprised of the following (refer to table below):

- Agriculture (including forestry and fishing: R23 676 million;
- Mining and mineral products: R65 176 million;
- Manufactured goods: R446 790 million, and
- Unclassified (mainly electricity): R11 353 million.

It should, however, be noted that merchandise exports to Africa may be distorted by mining and mineral exports (e.g. chrome, coal, iron ore), with local mining companies having exported increasing volumes via the port of Maputo in Mozambique to countries elsewhere in the globe due to challenges on South Africa's rail network and port inefficiencies. In addition, exports of primary manufactured goods, such as basic iron and steel, have also been increasingly exported via Maputo.

Agriculture exports to Africa were responsible for an estimated 36 255 direct employment opportunities within the agriculture sector itself (i.e. the Initial impact) and R7 576 million of direct impact on GDP in the agriculture sector. However, via strong backward linkages with suppliers of goods and service providers, the overall formal sector employment benefits associated with agriculture exports were estimated at 72 594 jobs in several sub-sectors in manufacturing, mining, and services, but also in agriculture itself. In terms of GDP, the overall impact was estimated at R25 363 million across entire supply chains, whose production activities are associated, directly and/or indirectly, with that of agriculture.

Table 2: Economy-wide benefits for the SA economy associated with exports to Africa

Estimates of South Africa's potential GDP (direct, indirect & induced) associated with merchandise exports to Africa in 2023					
NR	**INDUSTRY**	**Exports in Rand million**	**GDP estimates (Rand Million)**		
			Direct*	**Indirect**	**Total**
1	**Agriculture**	**23 676**	**7 576**	**17 787**	**25 363**
	Mining	**65 175**	**29 658**	**41 861**	**71 519**
2	Chrome	30 272	15 109	18 776	33 885
3	Coal	16 898	7 301	10 514	17 815
4	Iron ore	11 097	5 488	6 710	12 198
5	Other mining	6 908	1 760	5 861	7 622
	Manufacturing:	**446 790**	**143 420**	**307 586**	**451 006**
6	Food, beverages & tobacco	69 108	21 187	56 809	77 996
7	Textiles, clothing, footwear & leather goods	18 783	6 894	12 401	19 294
8	Wood, paper, publishing & printing	16 521	6 208	11 660	17 867
9	Petroleum products, chemicals, rubber & plastic	123 016	40 929	70 199	111 128
10	Non-metallic mineral products	7 901	2 503	6 307	8 810
11	Base metals and fabricated metal products	63 518	15 660	52 241	67 901
12	Machinery and equipment (non-electrical)	66 462	23 518	46 702	70 220
13	Electrical machinery & apparatus	17 907	8 297	13 066	21 364
14	TV, radio & communication apparatus	6 233	1 247	4 097	5 344
15	Motor vehicles, parts and accessories	40 792	9 192	22 418	31 611
16	Transport equipment (other, e.g. locomotives)	3 662	1 485	2 701	4 186
17	Furniture & other manufacturing	12 888	6 299	8 986	15 284
18	**Unclassified (incl. electricity)**	**11 353**	**5 362**	**7 301**	**12 662**
	Total	**546 995**	**186 015**	**374 535**	**560 551**

Source: IDC calculations

Note: * Direct impact refers to the value added (GDP) pertaining to the respective sector only, whereas the indirect impact includes all First round, Indirect and Induced impacts in various supplying and supporting sectors, whose activities are associated with the exports of the particular sector under consideration

Estimates of South Africa's potential employment (direct, indirect & induced) associated with merchandise exports to Africa in 2023					
NR	**INDUSTRY**	**Exports in Rand million**	**Employment estimates (number)**		
			Direct*	**Indirect**	**Total**
1	**Agriculture**	**23 676**	**36 255**	**36 339**	**72 594**
	Mining	**65 175**	**18 946**	**77 832**	**96 778**
2	Chrome	30 272	7 276	35 209	42 485
3	Coal	16 898	8 138	19 252	27 390
4	Iron ore	11 097	1 657	12 662	14 319
5	Other mining	6 908	1 876	10 708	12 584
	Manufacturing:	**446 790**	**218 460**	**556 413**	**774 873**
6	Food, beverages & tobacco	69 108	30 953	122 295	153 247
7	Textiles, clothing, footwear & leather goods	18 783	16 946	24 310	41 256
8	Wood, paper, publishing & printing	16 521	7 955	23 499	31 454
9	Petroleum products, chemicals, rubber & plastic	123 016	33 876	123 514	157 390
10	Non-metallic mineral products	7 901	4 885	11 262	16 147
11	Base metals and fabricated metal products	63 518	25 372	78 251	103 624
12	Machinery and equipment (non-electrical)	66 462	47 294	82 389	129 683
13	Electrical machinery & apparatus	17 907	24 848	23 364	48 211
14	TV, radio & communication apparatus	6 233	2 249	6 680	8 928
15	Motor vehicles, parts and accessories	40 792	10 504	39 873	50 376
16	Transport equipment (other, e.g. locomotives)	3 662	2 583	4 880	7 463
17	Furniture & other manufacturing	12 888	10 996	16 097	27 092
18	**Unclassified (incl. electricity)**	**11 353**	**1 464**	**12 171**	**13 635**
	Total	**546 995**	**275 125**	**682 755**	**957 880**

Source: IDC calculations

Note: * Direct impact refers to the number of jobs pertaining to the respective sector only, whereas the indirect impact includes all First round, Indirect and Induced impacts in various supplying and supporting sectors, whose activities are associated with the exports of the particular sector under consideration

Manufactured exports make a sizeable contribution to national GDP and jobs

In terms of the manufacturing sector, overall exports amounted to R446 790 million, with that of motor vehicles, parts and accessories at R40 792 million. Thus, the direct number of jobs linked to exports of this particular sector was calculated as 10 504 jobs, whereas exports of motor vehicles, parts and accessories was ultimately responsible for creating/sustaining 50 376 employment opportunities in many sectors that are directly and/or indirectly impacted by the motor vehicles, parts and accessories sector.

Similarly, the GDP impacts associated with the motor vehicles, parts and accessories sector have been estimated at R9 192 million (directly or Initial impact) or at R31 611 million across many supplier and supporting industries.

In total, the number of employment opportunities in the South African economy that were estimated to be directly and indirectly associated with exports of manufactured goods to Africa amounted to 774 873 formal sector jobs across many sectors. Regarding the impact on national GDP, it was estimated that a total of R451 006 million of GDP may have been linked to manufactured exports to countries elsewhere in Africa in 2023.

Of the 556 413 indirect jobs associated with manufactured exports in total, some 85 128 jobs were in several manufacturing sub-sectors themselves, via inter-industry linkages with the manufacturing sectors across entire supply chains throughout the domestic economy.

Interesting, however, is that by isolating the economy-wide impact on a sectoral level, it was determined that in total some 303 587 jobs were created within the manufacturing sector itself in 2023, both directly (218 460) and indirectly (85 128). Overall jobs in the agriculture sector totaled 114 985, with 37 851 mining jobs and a total of 501 457 jobs across all services-related sectors.

Substantial impact on services sectors via strong inter-industry linkages across entire supply chains

Even though the analysis focused on merchandise exports, it is worthwhile pointing out that services sectors also benefit quite substantially. Of the 957 880 employment opportunities linked to exports to Africa, 501 457 jobs are within services sectors. This is due to the linkages between the various sub-sectors and the requirements of service, such as transport services,

business services (e.g. engineering; audit; legal, other services), as well as through retail trade and wholesale trade, communication services and a wide range of personal services.

Table 3: Economy-wide impacts at the broad sectoral level

Potential impacts associated with South Africa's merchandise exports to Africa in 2023

Sector	GDP (R Billion)	Employment (number)
Agriculture	24.0	114 985
Mining	52.6	37 851
Manufacturing	221.6	303 587
Services	262.3	501 457
Total	**560.6**	**957 880**

Source: IDC calculations

Similarly, the economy-wide impact in terms of GDP at the broad sector level shows that total manufacturing value added associated with South Africa's merchandise exports to Africa amounted to R221.6 billion, while that for mining was estimated at R52.6 billion. Once again, services-related sectors accounted for the majority share of the estimated GDP impact at R262.3 billion in 2023.

Department of Research and Information

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