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Real economic activity in South Africa contracted by 0.7% in the second quarter of 2022 following two successive quarters of expansion. The contraction in real gross domestic product (GDP) was broad-based, with activity declining in both the primary and secondary sectors and increasing, albeit at a slower pace, in the tertiary sector. Despite the contraction, the level of real GDP was still 1.4% higher in the first half of 2022 than in the corresponding period a year earlier, but 0.3% lower than the average level in 2019 before the onset of the coronavirus disease 2019 (COVID-19) pandemic.

The real output of the primary sector contracted by a further 5.1% in the second quarter of 2022, along with lower production in both the agricultural and mining sectors. The decrease in output in the agricultural sector emanated mainly from the lower production of animal products on the back of the outbreak of foot and mouth disease, and the sharp increase in input costs. The real output of the mining sector contracted further by 3.5%, marking a fourth successive contraction as production decreased across a number of subsectors.

Real economic activity in the secondary sector contracted by 4.8% in the second quarter of 2022. Following two quarters of expansion, the real gross value added (GVA) by the manufacturing sector contracted sharply by 5.9% in the second quarter as production declined in 8 of the 10 subsectors, most notably in that producing petroleum, chemical, rubber and plastic products. Petroleum production was weighed down by the closure of some domestic refineries, while severe flooding in KwaZulu-Natal (KZN) in April 2022 adversely affected the production of motor vehicles, parts and accessories. Real economic activity in the sector supplying electricity, gas and water contracted by 1.2% in the second quarter, with the decline reflecting suppressed activity in the energy-intensive mining and manufacturing sectors as well as the impact of stage 6 load-shedding. Real GVA by the construction sector contracted further due to lower civil construction and residential building activity within an environment of rising interest rates and weak investor sentiment.

Real output of the tertiary sector increased further by 0.7% in the second quarter of 2022 as growth accelerated in both the transport, storage and communication as well as in the finance, insurance, real estate and business services sectors. The increase in real output in the finance, insurance, real estate and business services sector reflected increased monetary intermediation as well as increased insurance, pension funds and equity market activity over the period. The increase in monetary intermediation was corroborated by an increase in banking activity as the fee income of commercial banks expanded in the second quarter. However, consistent with subdued business and consumer confidence, the real GVA by the commerce sector contracted by 1.5% in the second quarter as real wholesale and retail trade activity declined. By contrast, motor trade activity increased as both new and used vehicle sales increased. In addition, the GVA by the catering and accommodation subsector was supported by an increase in domestic and international tourism.

Consistent with the contraction in real GDP, growth in real gross domestic expenditure (GDE) slowed notably to 0.8% in the second quarter of 2022. Both real final consumption expenditure by households and gross fixed capital formation expanded at a slower pace in the second quarter, while real final consumption expenditure by general government contracted. However, real inventory holdings accumulated at a faster pace over the same period.

Growth in real final consumption expenditure by households lost further momentum as it halved to 0.6% in the second quarter of 2022, consistent with a deterioration in consumer confidence and the slower pace of increase in the real disposable income of households alongside higher consumer price inflation. Real outlays on durable, semi-durable and non-durable goods declined, while real spending on services increased at a faster pace. Real outlays on personal transport equipment moderated and were adversely affected by the unavailability of some inventories following the flooding in KZN in April 2022. Outlays on computers and related equipment also slowed in the second quarter. Three large fuel price increases during the second quarter, which reflected the pass-through of higher international crude oil prices as a result of the war in Ukraine, severely affected household spending patterns.

The debt burden of households rose further in the second quarter of 2022 as their exposure to most categories of credit increased. The further increase in both household debt and debt-service cost as a percentage of nominal disposable income to 64.6% and 7.5% respectively in the second quarter reflected a combination of increased debt levels in a higher interest rate environment.

Households' net wealth declined in the second quarter of 2022 as total assets decreased while total liabilities increased. The lower market value of assets reflected a decrease in equity holdings along with a substantial decrease in share prices, while the value of housing stock increased. Consequently, the ratio of net wealth to nominal disposable income decreased to 359% in the second quarter of 2022.

Growth in real gross fixed capital formation moderated to 0.5% in the second quarter of 2022 from 3.4% in the first quarter as capital spending by private business enterprises increased at a slower pace, while fixed investment by general government and public corporations decreased. The higher capital outlays by private business enterprises reflected increased investment on computer equipment and non-residential buildings, which were partly offset by reduced outlays on residential buildings as well as machinery and equipment. The private sector's share of total nominal gross fixed capital formation remained unchanged at 72.1% in both the first and second quarter of 2022. Despite the moderation in growth, the level of real gross fixed capital formation was 3.7% higher in the first half of the year than in the corresponding period of 2021.

Total household-surveyed employment increased further by 648 000 jobs in the second quarter of 2022. The broad-based increase in employment was largely supported by higher employment in the formal sector, which was boosted by strong job growth in the community, social and personal services sector. The official unemployment rate declined from 34.5% in the first quarter to 33.9% in the second quarter as the increase in employment outpaced the increase in the number of unemployed South Africans.

Enterprise-surveyed formal non-agricultural employment increased further by 91 000 jobs to an estimated 10.1 million persons in the first quarter of 2022, mainly driven by public sector employment which increased to an all-time high of 2.46 million. Although broad-based, national departments recorded substantial employment gains with the appointment of temporary census workers by Statistics South Africa (Stats SA), while employment related to the Presidential Youth Employment Initiative lifted the number of provincial and local government employees. However, private sector employment increased only marginally in the first quarter of 2022 to slightly above the COVID-19-induced lows. Encouragingly, employment in the services sectors increased by 24 700, mostly in the trade, catering and accommodation services sector. However, about 6 400 jobs were lost in the goods-producing sectors, driven primarily by persistent job-shedding in the construction sector.

The pace of increase in formal non-agricultural nominal remuneration per worker moderated slightly to a year-on-year rate of 5.2% in the first quarter of 2022 as the acceleration in remuneration growth per worker in the private sector was offset by a slowdown in that of the public sector. Remuneration growth per worker in the public sector was weighed down by the significant number of low-earning temporary census workers employed by Stats SA, which resulted in a sharp contraction in remuneration per worker at national departments. The average wage settlement rate in collective bargaining agreements rose sharply to 6.1% in the first half of 2022.

Labour productivity growth in the formal non-agricultural sector of the economy accelerated to 1.5% in the first quarter of 2022 as year-on-year output growth exceeded that in employment. Consequently, the rate of increase in nominal unit labour cost in the formal non-agricultural sector moderated to 3.6% in the year to the first quarter of 2022.

The further acceleration in both headline consumer and producer price inflation in the second quarter of 2022 resulted primarily from higher energy and food prices, consistent with the surge in global inflationary pressures. The headline consumer price inflation rate accelerated to a 13-year high of 7.8% in July 2022 along with an increase in headline producer price inflation to a record high of 18.0%. The acceleration in producer price inflation reflected the impact of disruptions in global supply chains and the shortages of raw materials, which had been exacerbated by the war in Ukraine. Most measures of underlying inflationary pressures accelerated further in the second quarter of 2022, although they remained within the inflation target range. Inflation expectations also adjusted upwards closer to the upper limit of the inflation target range.

South Africa's trade surplus with the rest of the world decreased noticeably by R100 billion to R272 billion in the second quarter of 2022 as the value of merchandise imports increased at a faster pace than that of net gold and merchandise exports. The increase in the value of imports reflected higher prices and volumes, while the value of exports reflected only higher prices. South Africa's terms of trade deteriorated slightly in the second quarter as the rand price of the imports of goods and services increased slightly more than that of exports.

The value of merchandise exports increased further by 3.9% in the second quarter of 2022 as the exports of mining products surged. The exports of mineral products were underpinned by the higher prices of coal, manganese and chromium, which fully compensated for the lower volumes. The bulk of the coal exports was destined for Europe, mainly to replace imports from Russia. The slowdown in the pace of increase in the exports of manufactured goods reflected the impact of the April floods in KZN, which weighed down the exports of vehicles and transport equipment.

The value of merchandise imports increased for an eighth consecutive quarter, with the increase of 12.0% in the second quarter of 2022 mainly attributable to the increased values of mining and manufactured goods. The value of mining imports was buoyed by a substantial increase in the importation of mineral products, which continued to reflect the surge in the imports of refined petroleum products due to the earlier closure of some domestic refineries.

The narrowing in the trade surplus, combined with a substantially larger shortfall on the services, income and current transfer account, caused the balance on the current account of the balance of payments to switch from a surplus of 2.4% of GDP in the first quarter of 2022 to a deficit of 1.3% of GDP in the second quarter. The deficit on the income account widened markedly in the second quarter after narrowing for three consecutive quarters. Gross income receipts declined from a relatively high base in the first quarter of 2022, while gross income payments increased significantly due to extraordinary large gross dividend payments.

The net flow of capital on South Africa's financial account of the balance of payments (excluding unrecorded transactions) reverted to an outflow of R1.4 billion in the second quarter of 2022 from a revised inflow of R31.3 billion in the first quarter. On a net basis, direct and other investment recorded inflows, while portfolio investment, financial derivatives and reserve assets registered outflows. Net financial account flows as a ratio of GDP switched to an outflow of 0.1% in the second quarter from an inflow of 2.0% in the first quarter.

South Africa's total external debt increased from US$160.5 billion at the end of December 2021 to US$173.8 billion at the end of March 2022. However, expressed in rand terms, South Africa's total external debt decreased from R2 551 billion to R2 516 billion over the same period as the rand appreciated against the United States (US) dollar over this period.

South Africa's positive net international investment position (IIP) decreased significantly from a revised R1 666 billion at the end of December 2021 to only R310 billion at the end of March 2022. The decrease reflected a substantial decline in foreign assets and an increase in foreign liabilities. The exchange value of the rand had a significant effect on foreign assets and, to a lesser extent, on foreign liabilities, as the nominal effective exchange rate (NEER) of the rand increased, on balance, by 10.8% in the first quarter of 2022.

The NEER of the rand then decreased by 6.2% in the second quarter of 2022 and by a further 3.6% from the end of June to 9 September. The decrease in the NEER resulted from renewed bouts of risk aversion by global financial markets as inflation concerns prompted monetary policy tightening. The NEER was also weighed down by the strengthening in the US dollar during this period. Currency volatility reflected uncertainty regarding global economic growth prospects in response to China's reimplementation of strict COVID-19 lockdown measures and the ongoing war in Ukraine. Domestically, severe bouts of electricity load-shedding from the end of June 2022 also weighed on the NEER as it negatively impacted investor sentiment and the domestic economic outlook.

South African bond yields have fluctuated along an upward trend thus far in 2022, tracking movements in the exchange value of the rand within an environment of persistently higher inflation outcomes. Global events were paramount in this outcome as bond yields increased globally following Russia's invasion of Ukraine in February 2022. Higher bond yields reflected the effect of the war on international energy and food prices which drove global inflation higher which, in turn, resulted in a tightening of monetary policy by most central banks.

Share prices of JSE Limited (JSE)-listed companies declined in the second quarter of 2022 following increases in the previous two quarters. The FTSE/JSE All-Share Index (Alsi) declined by 12.3% in the second quarter – its worst quarterly performance since the outbreak of COVID-19 in the first quarter of 2020. The decline was in line with the trend on international bourses.

Interest rates in the domestic money market continued to increase in the course of 2022 as monetary policy responded to domestic inflationary pressures. Increases in short-term rates were less pronounced than that in the longer-term rates. Rates on forward rate agreements (FRAs) continued to trend higher in recent months alongside higher-than-expected domestic inflation outcomes and fluctuations in the exchange value of the rand.

Growth in the broadly defined money supply (M3) fluctuated between 7.2% in May 2022 and 8.2% in July, following a post-COVID-19 high of 8.4% in March. At these rates, the growth in M3 was again more aligned with that in nominal GDP in the first two quarters of 2022. Stronger year-on-year growth in M3 in the early months of 2022 reflected the rebound in growth in the deposit holdings of financial companies from a low base in 2021, and later also dividend receipts. Growth in the deposit holdings of households slowed in the first half of 2022 as spending increased with the further relaxation of the COVID-19 restrictions but also because of higher food and fuel prices.

Growth in credit extension by monetary institutions to the domestic private sector quickened in the first half of 2022, with loans to companies increasing at a faster pace than those to households. Year-on-year growth in total loans and advances accelerated from 4.8% in January 2022 to 8.3% in both June and July – its fastest pace of increase since March 2016.

The preliminary non-financial public sector borrowing requirement reverted to a surplus in the first quarter of fiscal 2022/23 from a deficit in the same period of the preceding fiscal year. The turnaround emanated from significant surpluses recorded by national government, extra-budgetary institutions, social security funds and consolidated provincial government. National government's surplus could be attributed to significantly higher cash receipts from operating activities due to strong revenue collections along with a moderate increase in expenditure. By contrast, local governments and the non-financial public enterprises and corporations, or state-owned companies, recorded cash deficits for the period under review.

National government's cash book balance switched from a deficit of R22.7 billion in the first quarter of fiscal 2021/22 to a surplus of R11.5 billion in the first quarter of fiscal 2022/23, as revenue continued to increase at a much faster pace than expenditure. The year-on-year increase in revenue of 10.0% in the first quarter of fiscal 2022/23 reflected significant increases in all tax categories, except for the fuel levy. Revenue, expressed as a percentage of GDP, amounted to 25.6% in the first quarter of fiscal 2022/23 and exceeded that of 24.4% in the same period of the previous fiscal year. National government's net lending position of R30.4 billion in the first quarter of fiscal 2022/23 reflected a turnaround from a net borrowing requirement of R5.1 billion over the same period a year earlier. However, national government's gross loan debt still increased by 10.1%, or R410 billion, year on year to R4 461 billion as at 30 June 2022, representing 70.1% of GDP.

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