



**Quarterly Economic  
Bulletin  
2020/21  
Q 4**

## Foreword

The fourth quarter Quarterly Economic Bulletin is presented at a time when the country is geared up for economic recovery after the devastating effect of COVID-19 in 2020, with developmental agendas have been set out to take the country out of the tough prevailing economic conditions. Generally, many economies are devising coping mechanisms and introducing policy adjustments to cope with the tough and challenging economic times.

The global economic landscape is shifting from traditional based activities to more refined service orientated economic activities embracing the fourth industrial revolution. However, this shift is proving be challenging as most of the developing economies are still primary sector orientated economies relying on extraction and exportation of raw material- with less value adding activities. Developing, open economies such as South Africa, have even a more difficult task to stabilise the economy which is periodically shaken by external forces.

The COVID-19 crisis has negatively affected the levels of employment in South Africa and in other countries in the World. Unemployment increased to a high of 32.5 percent in South Africa during 2020. The increases in unemployment also had a negative impact on the level of poverty. It is estimated that 23 million South Africans were pushed into poverty during last year. Covid-19 has also impacted negatively to the provincial revenue collection, and the crisis lead to a need to reprioritize the budget towards COVID -19 related expenditure.



**PHUKUNTSI .MJ**  
**DDG: SRM**

31 March 2021

---

Date

## Table of Contents

Foreword .....	i
1. Introduction.....	1
2. Economic Overview.....	2
2.1. World Economic Overview .....	2
2.1.1 World output .....	2
A. Advanced Economies.....	3
B. Emerging market and developing economies.....	3
2.2. South African Economic Overview .....	3
2.5. Limpopo economic overview .....	6
3. Unemployment and COVID .....	8
3.1. Introduction.....	8
3.2. SA unemployment .....	9
3.3. Limpopo unemployment .....	11
3. Estimating of the potential growth rate in the Limpopo economy .....	12
3.1. Overview.....	12
3.2. Economic growth performance in the South African- and provincial economies .	14
3.3. Estimating the potential growth rate for the Limpopo economy.....	16
3.4. Results .....	17
3.5. Recommendations.....	18
4. Conclusion and recommendations .....	18

## Table of figures

Figure 1: World Real GDP growth (Annual percent change) .....	2
Figure 2: SA percentage change in the quarterly gross domestic product by industry at constant 2010 prices.....	4
Figure 3: SA annualized percentage change in the seasonally adjusted quarterly gross domestic product by industry at constant 2010 Prices .....	5
Figure 4: Contributions to growth in GDP, Q4 2020 (% points).....	6
Figure 5: GDP Average annual growth (Constant 2010 Prices).....	7
Figure 6: Limpopo Sector's contributions to regional total (%), 2019 .....	8
Figure 8: Aggregate Demand and Aggregate Supply .....	13
Figure 9: South African Growth performance.....	15
Figure 10: Limpopo growth performance .....	16
Figure 11: HP Filter.....	18

**Table of tables**

Table 1: SA Labour force characteristics – All population groups ..... 9

Table 2: SA Quarterly Labour Force Survey ..... 10

Table 3: Limpopo labour force characteristics –population (Thousands) ..... 11

## **1. Introduction**

The fourth Quarterly Economic Bulletin is presented a year after South Africa has reported the presence of COVID-19 in the country. As this was the first of its kind virus, many countries had no counter combating vaccines to curb the spread of the virus. Many countries had to resort to lockdown measures to preserve lives, however this has proven to be at the cost of dampened economic activity and social outcomes such as unemployment and poverty.

According to the International Monetary Fund (IMF), the global economy contracted by 3.3 percent during 2020 and it expects the global economy to recover by 5.2 percent in 2021. The pace of global economic recovery of countries will depend on the depth of the impact of COVID-19 on each country, the attitude of citizens in employing precautionary measures to limit the spread of the virus, and most importantly the speed in which countries roll out the COVID-19 vaccine to achieve herd immunity. South Africa is anticipated to experience the third wave towards the Easter season and winter season, which may further aggravate economic and social impacts of the virus.

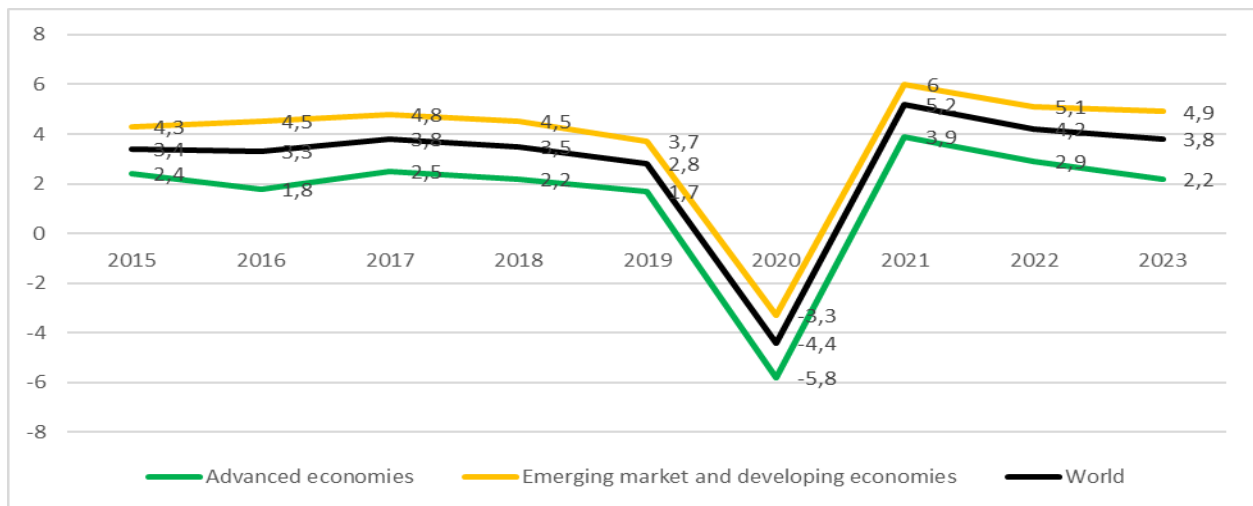
The Limpopo provincial government plans to stimulate and support development and economic activity in the province through small business support. The expanded infrastructure rollout has been slow due to the budget cuts of the Provincial Equitable Share to the province in the medium term. This was due to the national government's fiscal policy trying to achieve its fiscal consolidation, and finding a balance between supporting social services and economic growth enhancers, as well as dealing with the impact of reduced revenue due to the impact of Covid-19.

## Economic Overview

### 2.1. World Economic Overview

The growth performance of the World economy is indicated in figure 1 below.

**Figure 1: World Real GDP growth (Annual percent change)**



Source: IMF Real GDP growth 2021

#### 2.1.1 World output

The International Monetary Fund (IMF) expects the Global growth to rebound to 5.2 percent in 2021, due to the rollout of the Covid-19 vaccines and further policy support in large economies. It is noted that renewed waves and new variants of the coronavirus still pose negative risks to the outlook. Amid exceptional uncertainty, the Global economy is projected to grow by 5.2 percent in 2021 and 4.2 percent in 2022.

## **A. Advanced Economies**

The advanced economies declined significantly in 2020 from 1.7 percent in 2019 to -5.8 percent. The economy is expected to recover in 2021 by 3.9 percentage points.

## **B. Emerging market and developing economies**

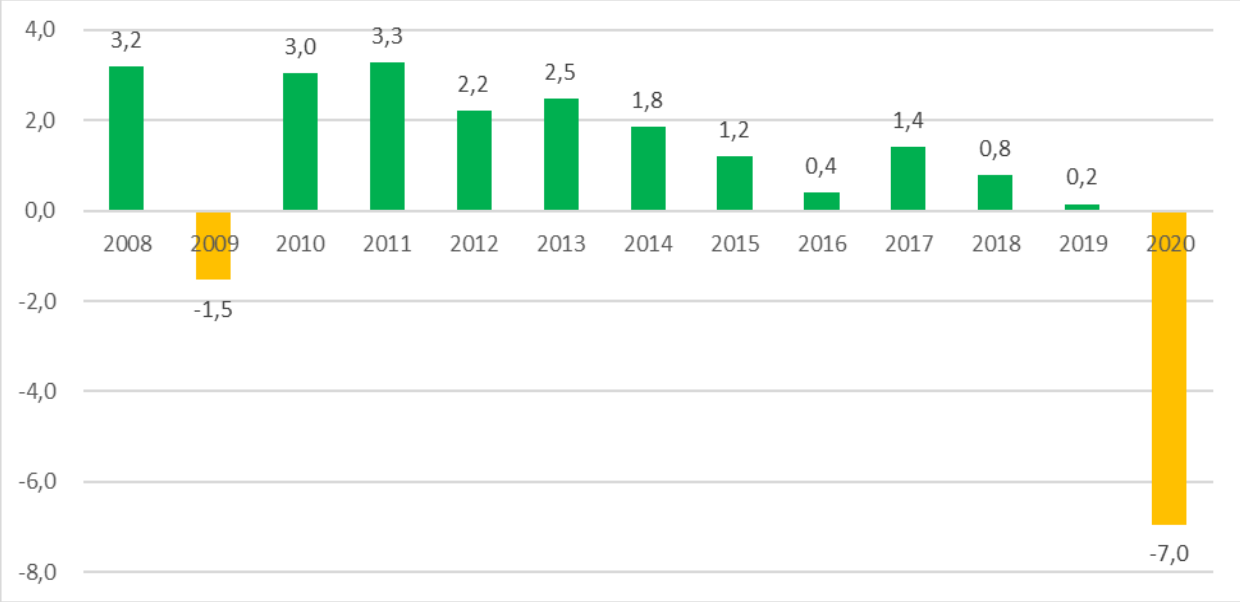
The economy of the emerging market and developing economies recorded a negative growth of -3.3 percent in 2020, a decline from 3.7 percent in 2019. It is projected to increase in year 2021 by 6 percent and 5.1 percent in 2022.

## **2.2. South African Economic Overview**

South Africa's Real Gross Domestic Product (GDP) (measured by production) decreased at an annualised rate of -7.0 percent in 2020. The decline was largely as a result of COVID-19 lockdown restrictions in the country, which has negatively affected South African economy. Easing the lockdown restrictions to Level 1 assisted the recovery for industries such as Agriculture, Mining and Quarrying, Manufacturing, and Trade, Catering and Accommodation.



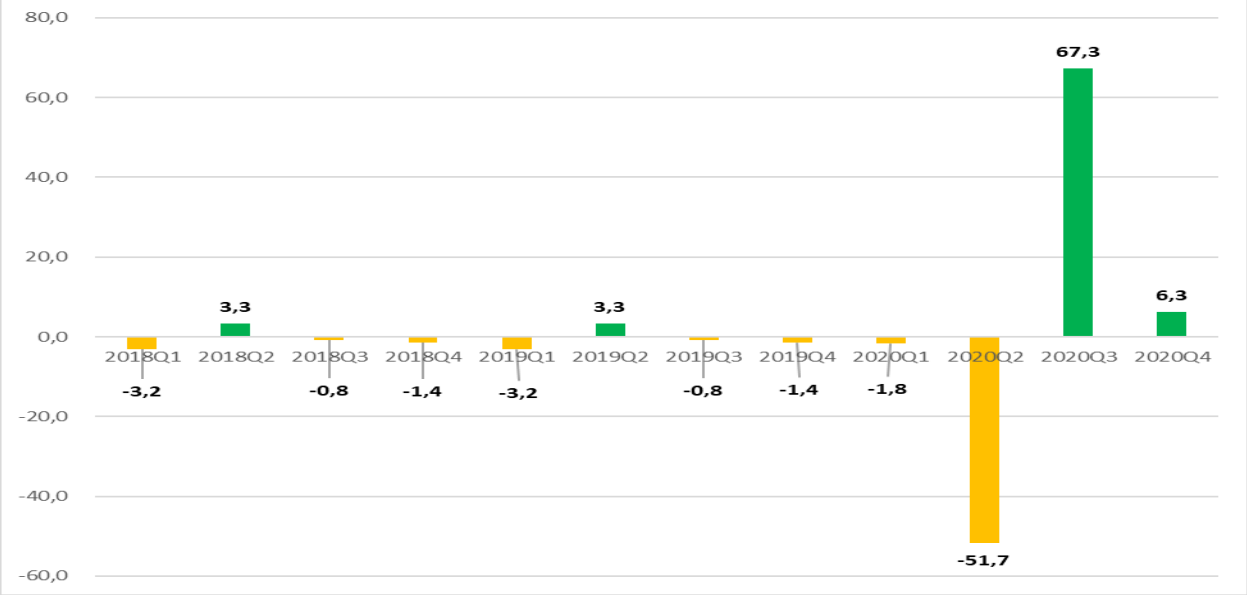
**Figure 2: SA percentage change in the quarterly gross domestic product by industry at constant 2010 prices**



Source: StatsSA GDP 2021

The annual real GDP growth rate of -7.0 percent in 2020 was primarily led by decreases in manufacturing, which contributed -1.4 percentage points based on growth of -11.6 percent; trade, catering and accommodation, which contributed -1.3 percentage points based on growth of -9.1 percent; and transport, storage and communication, which contributed -1,3 percentage points based on growth of -14.8 percent. The Agriculture, forestry and fishing industry increased by 13.1 percent in 2020, and General Government increased by 0.7 percent in 2020. It should be noted that the excellent performance in the Agricultural sector is from a low base, after declines in the preceding period.

**Figure 3: SA annualized percentage change in the seasonally adjusted quarterly Gross Domestic Product by industry at constant 2010 Prices**



Source: StatsSA GDP 2021

Real gross domestic product (measured by production) increased at an annualized rate of 6.3 percent in the fourth quarter of 2020, largely as a result of further easing of COVID19 lockdown restrictions. The largest positive contributors to growth in GDP in the fourth quarter were the manufacturing, trade and transport industries.

**Figure 4: Contributions to growth in GDP, Q4 2020 (% points)**



Source: StatsSA GDP 2021

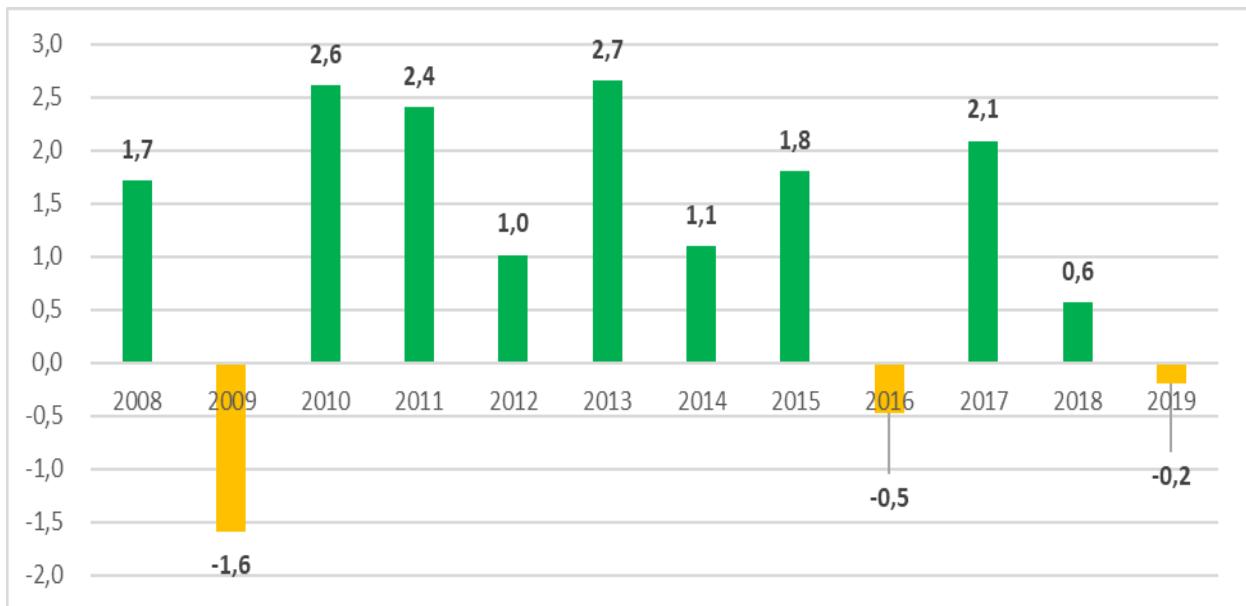
The Manufacturing industry increased at a rate of 21.1 percent and contributed 2.4 percentage points to GDP growth in the fourth quarter. The Trade, Catering and Accommodation industry increased at a rate of 9,8 percent and contributed 1,3 percentage points in the same period. The Transport, Storage and Communication industry increased at a rate of 6,7 percent and contributed 0,5 of a percentage point. Finance and Mining are the only two sectors that contributed negative to the economic growth in the fourth quarter with a -0.1 percent contribution respectively.

## 2.5. Limpopo economic overview

Limpopo province has been experiencing a significant slow economic growth performance from 2008, as the provincial economy has been growing below 3 percent during the period. In 2017 the provincial economy grew by 2.1 percent and in 2018 the

economy contracted to 0.6 percentage, again in 2019 the economy contraction was 0.2 percentage points. The provincial economy is still very much dependent on the mining- and agricultural sectors, which were found to be not doing well in recent years. The real mining output has been stagnant in the province since 2007.

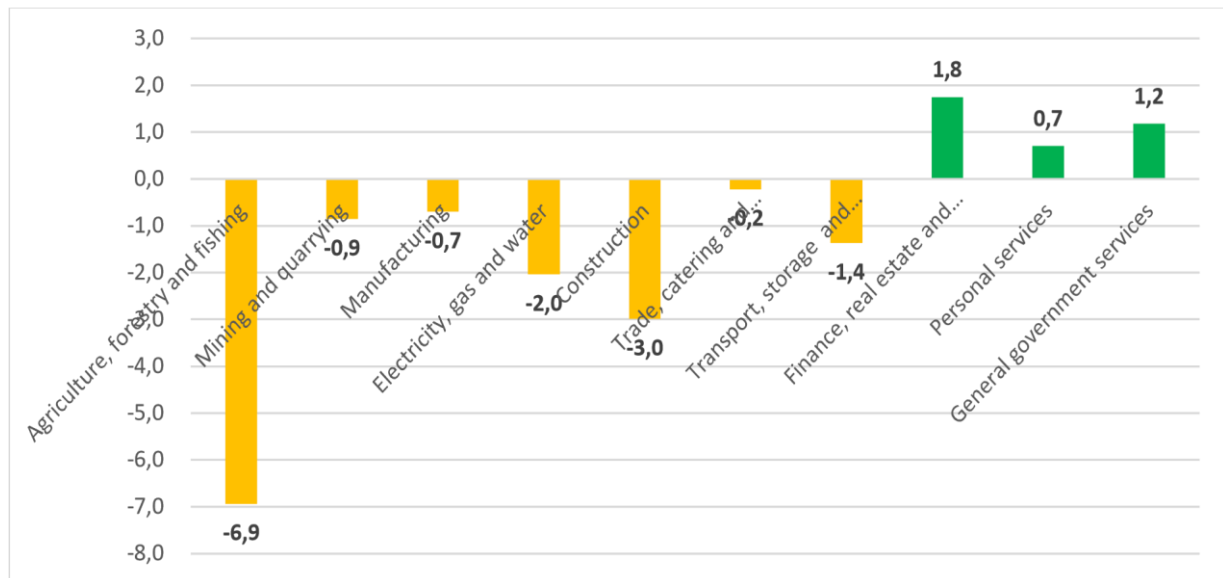
**Figure 5: GDP Average annual growth (Constant 2010 Prices)**



Source: StatsSA GDP 2021

The Agriculture sector recorded a negative contribution of -6.9 percent to the provincial economy in 2019, with the mining sector recording a contribution of -0.9 percent in the same period. With both primary sectors of the province recording a negative growth an alarm is raised on the heavily dependence of the provincial economy on the primary sector.

**Figure 6: Limpopo Sector's contributions to regional total (%), 2019**



Source: StatsSA GDP 2021

Finance, Personal services and Government services are the only sectors that contributed positive to the provincial economic growth in 2019 at 1.8, 0.7 and 1.2 percent respectively.

## 2. Unemployment and COVID

### 2.1. Introduction

The COVID-19 outbreak lead to huge job losses in the South African economy and in Limpopo specifically. On a national level, unemployment has increased to the highest recorded level since the new labour force surveys started. The situation however improved in the third and fourth quarters, with some of the jobs that were lost previously, being created again,

There was a large movement between the labour categories of employment during the third and fourth quarter of 2020 . Nationally about 14.7 million people were employed in the third quarter, this number expanded in the fourth quarter of 2020 to 15 million. Therefore about 333 thousand people were employed in the fourth quarter. The number of employed persons in Limpopo Province tanked in the second quarter from 1.3 million to 1.1 million as a result of level 3 lockdown. Many businesses shut down after the implementation of government lockdown restrictions which also led to many employees losing their jobs. Other businesses such as restaurants, saloons, cinemas, were closed to keep the social distancing regulations in order. The Tourism industry was especially hard hit by the travel ban on foreigners. In the third quarter of 2020 the government eased the restrictions and the employment numbers started to recover as many companies were back on business.

## 2.2. SA unemployment

**Table 1: SA Labour force characteristics – All population groups**

	Oct- Dec 2019	Jan- March 2020	April- June 2020	Jul-Sep 2020	Oct- Dec 2020
<b>Unemployment rate</b>	29,1	30,1	23,3	30,8	32,5
<b>Employed/population ratio (absorption rate)</b>	42,4	42,1	36,3	37,5	38,2
<b>Labour force participation</b>	59,8	60,3	47,3	54,2	56,6

Source: StatsSA QLF 2020

According to the Quarterly Labour Force Survey (QLFS), there was an increase of 333 thousand in the number of employed persons, an increase of 701 thousand in the number of unemployed persons and a decrease of 890 thousand in the number of people who are out of the labour force, in the 4<sup>th</sup> quarter of 2020 compared to the previous quarter. These changes resulted in increases in all key labour market rates. The unemployment rate increased from 30.8 percent in quarter 3 of 2020 to 32.5 percent in quarter 4 of 2020, the highest unemployment rate recorded since the start of the QLFS in 2008. The absorption rate (employment-to-population ratio) increased from 37.5 percent to 38.2 percent and the labour force participation rate increased from 54.2 percent to 56.6 percent during this period, indicating that more people were participating in the labour market.

**Table 2: SA Quarterly Labour Force Survey**

	<b>Employed</b>	<b>Unemployed</b>	<b>Discouraged work-seekers</b>	<b>Other Economically Active</b>	<b>Not</b>
<b>Q3 2020</b>	14,7 M	6,5 M	2,7 M	15,2 M	
<b>Q4 2020</b>	15 M	7,2 M	2,9 M	14 M	

Source: StatsSA QLF 2020

The number of the unemployed people in the third quarter was 6.5 million which expanded in the fourth quarter to 7.2 million. About 701 thousand more people were unemployed in the fourth quarter, more people were even discouraged to look for jobs during the time of COVID-19 at peak. The number of discouraged workers increased

from 2.7 million to 2.9 million. About 890 thousand people were no longer falling under not economically active category between the third and fourth quarter, since some of them become employed and other formally unemployed.

### 2.3. Limpopo unemployment

The below table indicates the Limpopo labour force characteristics. The total working population was recorded at 3 864 Million in quarter 4 of 2020, while the provincial labour force was at 1 762 Million during the same period. The number of employed persons was recoded at 1 281 Million in quarter 4 of 2020, while those of unemployed was at 481 thousand.

**Table 3: Limpopo labour force characteristics –population (Thousands)**

	<b>Oct- Dec 2019</b>	<b>Jan- March 2020</b>	<b>April- June 2020</b>	<b>Jul-Sep 2020</b>	<b>Oct- Dec 2020</b>
<b>Population 15-64 yrs</b>	3 804	3 8 16	3 829	3 841	3864
<b>Labour force</b>	1 821	1 816	1 474	1 719	1 762
<b>Employed</b>	1 400	1 387	1 151	1 266	1 281
<b>Unemployment</b>	421	429	323	452	481
<b>Not economical active</b>	1 984	2 000	2 355	2 122	2 102
<b>Discouraged work seekers</b>	554	557	388	527	573
<b>Unemployment rate</b>	23,1	23,6	21,9	26,3	27,3



<b>Employed/population ratio (absorption rate)</b>	36,8	36,3	30,1	33,0	33,1
<b>Labour force participation</b>	47,9	47,6	38,5	44,7	45,6

Source: StatsSA QLF 2020

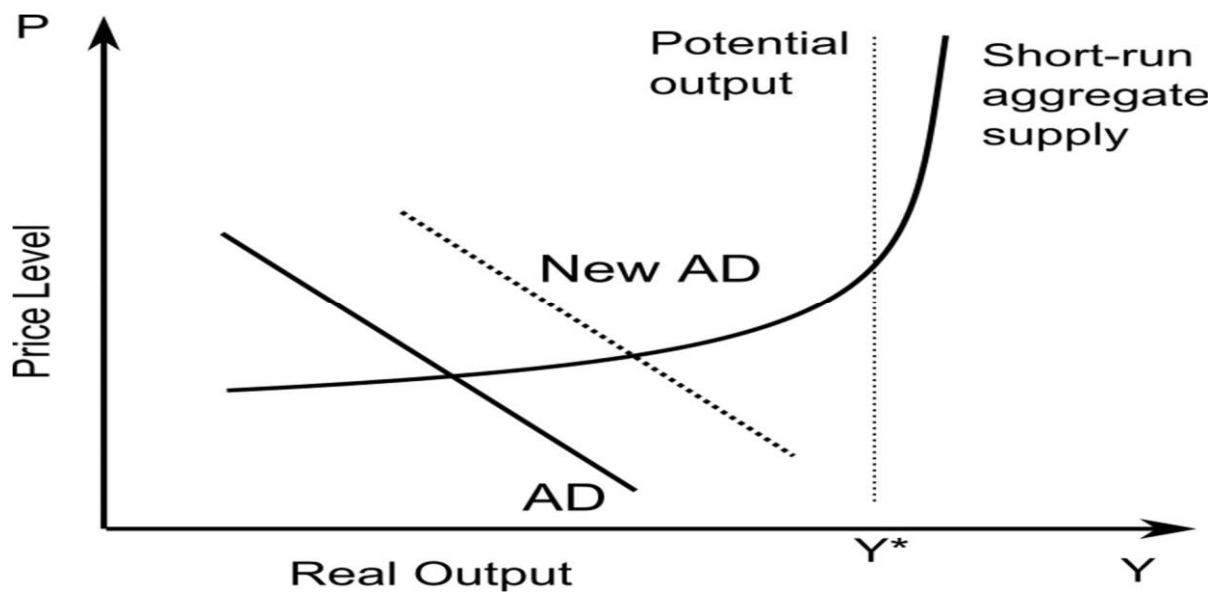
The provincial unemployment rate has consecutively increased in the last three quarters of 2020, increasing from 21.9 percent in the second quarter to 26.3 percent in third quarter and further increasing to 27.3 percent in fourth quarter. Although the unemployed only marginally increased the number of discourage work seekers also increased during the same period.

### **3. Estimating of the potential growth rate in the Limpopo economy**

#### **3.1. Overview**

In terms of economy theory, the Aggregate Demand is represented by the expenditure side of the economy and comprises of Consumption expenditure, Investment expenditure, Government expenditure and nett exports (Exports minus imports). The aggregate supply (AS) represents the production side of the economy. The economy will be in equilibrium where  $AD = AS$ . If government increases its expenditure the AD curve will shift to the right until we reach the maximum potential output  $Y^*$ , where all the resources in the economy are in productive use, without leading to higher levels of inflation. If the aggregate demand continues to increase beyond the maximum output level, the impact will mainly be an increase in the general price level (Inflation), with limited impact of the real output. A case in point is the situation in 2007 where the economy was overheating and inflation increased to 15 percent and the Balance of Payment deficit increased to 8 percent of GDP.

**Figure 7: Aggregate Demand and Aggregate Supply**



Source: Wikipedia, 2021

The estimation of the output gap is often combined with estimating the potential growth rate in the economy. Various studies have been conducted over time to estimate the potential growth rate of the national economy. To date limited studies have been done on a provincial level due to the data challenges that is being experienced. A Hodrick Prescott filter was however used to estimate the long term growth rate for the Limpopo economy during the process of drafting the 2014 – 2019 Limpopo Development plan. The conclusion was that the maximum potential growth rate was 2.2 percent at that stage. A study was conducted by Du Toit et al estimating the potential growth rate of the South African economy to be 4.3 percent. Since the Limpopo economy is usually growing slower than the national economy by approximately 1 percentage point a target growth rate of 3 percent was recommended for the Limpopo development plan target.

The South African Reserve bank also conducted a study to determine the potential growth rate and they concluded that the growth rate is approximately 2 percent, but with

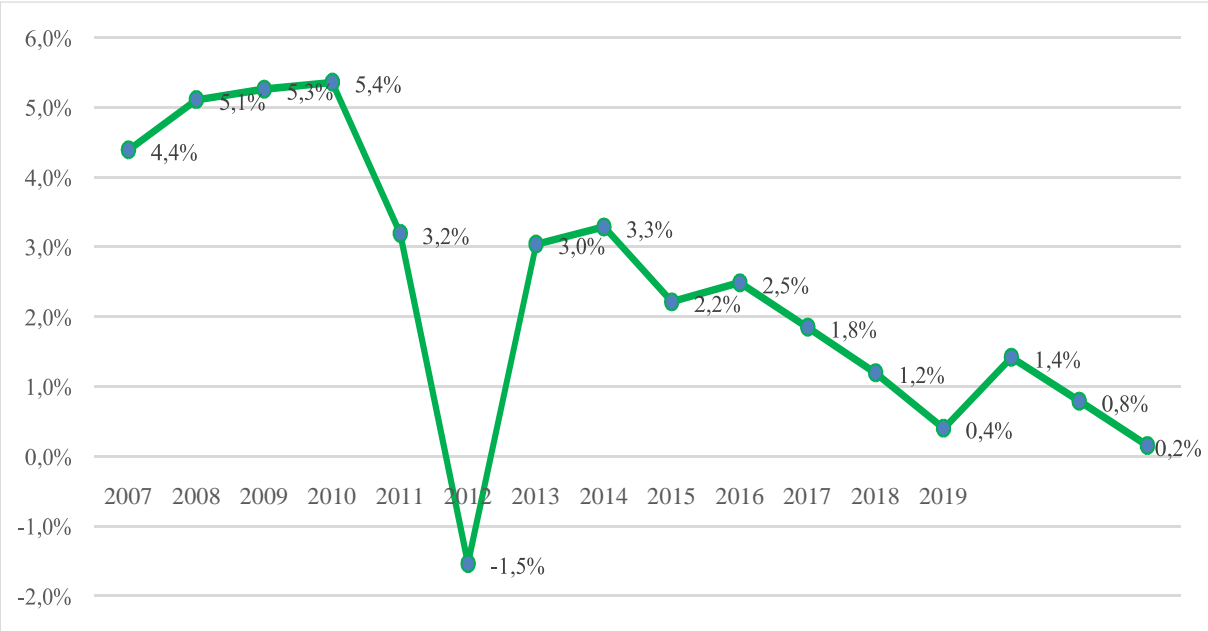
a proviso that the standard deviation of the estimate to be fairly substantial, implying that the actual potential growth rate can even be lower than indicated.

Fedderke and Mengisteab (2017) conducted a study using the Hodrick-Prescott, Christiano-Fitzgerald, and a Kalman filters to observe the natural growth rate of the South African economy from 1960 to 2015. Their estimates of the natural growth rate fell into the 1.9 - 2.3 percentage range. However, there is also evidence to suggest that the rate is under considerable downward pressure in the post-2010 period. The strongest decline is in the real sectors of the economy (Manufacturing, Mining), and the greatest resilience in the service sectors (financial in particular). It should be noted that the average growth rate in the South African economy used to be between 3 – 3.5 percent in the last 100 years, with the odd exception like in the 1960's and 2004 -2007 were the long term average growth rate was exceeded. The estimate from Fedderke and Mengisteab, is an indication that the growth potential of the South African economy is on average on the decline.

### **3.2. Economic growth performance in the South African- and provincial economies**

The growth performance of the South African economy is indicated in Figure 9

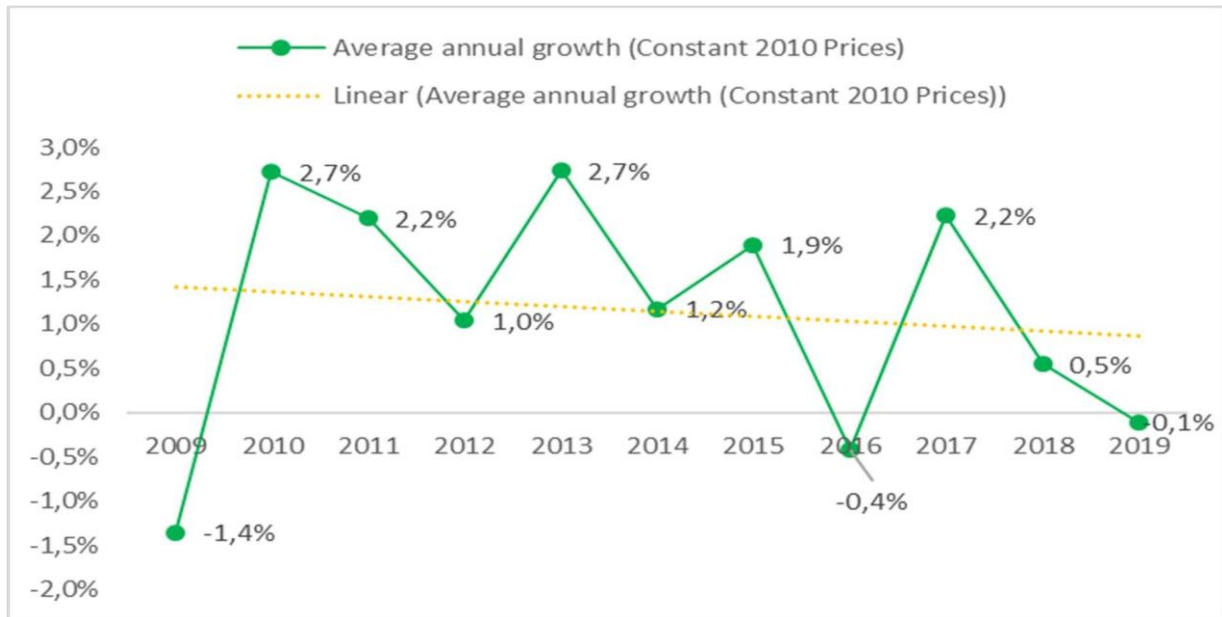
**Figure 8: South African Growth performance**



Source: HIS Global Insight

The South African economy experienced exceptional growth in the period between 2004 and 2007, but already started to experience structural constraints in terms of increasing inflation and a negative Balance of Payment. The economy was then hit by the global financial crisis in 2008 and 2009. The impact of the global crisis was less severe due to the increase expenditure on hosting the FIFA 2010 and the resultant boost in tourism. Since 2014 the national economy continued to grow at below 3 percent, not even exceeding 2 percent since 2017. Some of the structural constraints experienced is the electricity situation, decaying infrastructure and cost pressure from the railway and harbours in South Africa. The country also faces a serious skills challenge.

**Figure 9: Limpopo growth performance**



Source: HIS Markit

The growth performance of the provincial economy was also volatile over the period from 2009 to 2019, with the average annual growth rate on a decline.

### **3.3. Estimating the potential growth rate for the Limpopo economy**

Various methodologies are found in the literature to estimate the growth potential of the economy. The most common ones are to estimate a Cobb Douglas production function or using the Hodrick Prescott filter.

In its most standard form for production of a single good with two factors, the function is

$$Y = A.K^{\beta}.L^{\alpha}$$

where:

- $Y$  = total production
- $L$  = labour input
- $K$  = capital input
- $A$  = total factor productivity
- $\alpha$  and  $\beta$  are the output elasticities of capital and labour, respectively. These values are constants determined by the available technology.

Since the values for  $K$  and  $L$  is not available on provincial level it was decided to use the Hodrick Prescott filter.

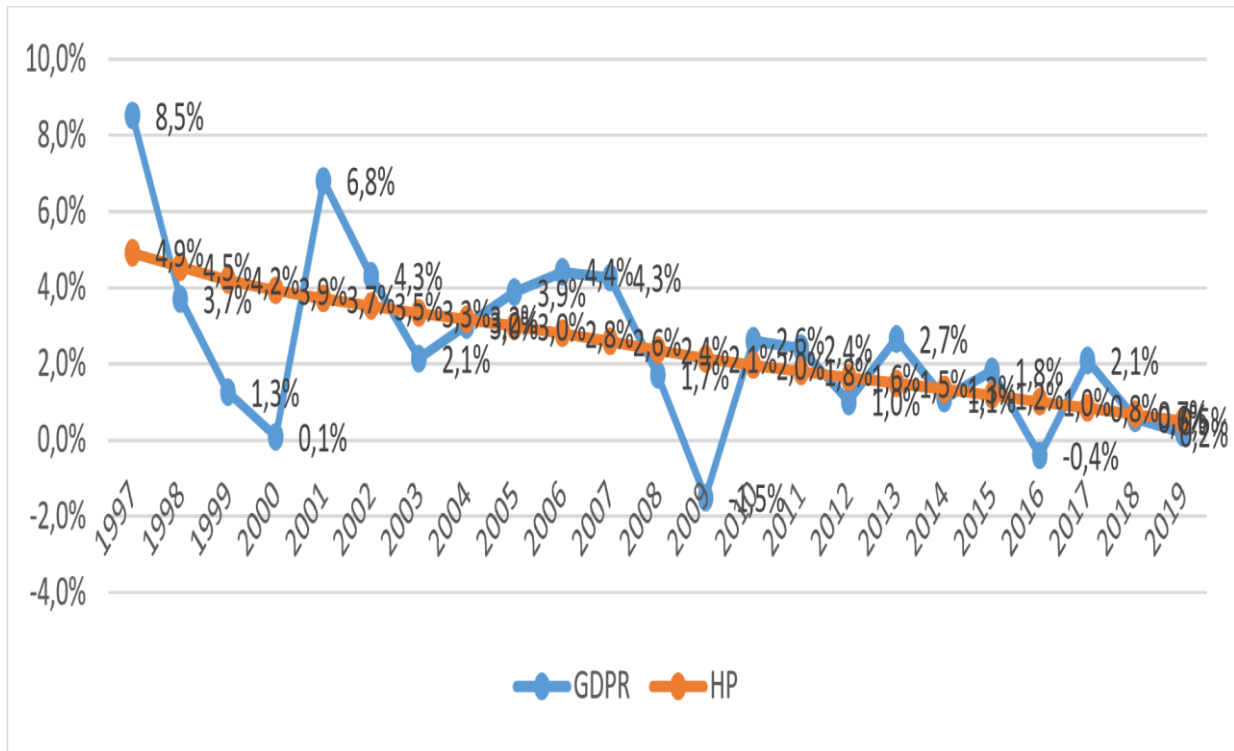
The Hodrick Prescott filter is a statistical methodology that splits the actual growth performance into a long term trend and short-term fluctuations in the growth rate. In the analysis the short-term fluctuations associated with the business cycle is removed, revealing the long-term trends.

The ideal situation would be to have at least 30 quarterly observations available for the estimation, but Statistics SA only releases annual GDP data for the province. This limits the statistical validity of the result. It should also be noted that the method is prone to end point bias, meaning the relatively poor economic performance in the last few years will tend to have a relatively bigger impact on the estimation of the long term trend than earlier observations.

### **3.4. Results**

The smoothed GDP series indicates that the current long term growth potential of the provincial economy declined over time to 0.5 percent.

**Figure 10: HP Filter**



### 3.5. Recommendations

## 4. Conclusion and recommendations

South Africa economic growth has been sluggish in recent years, mainly because of the slow global demand for primary commodities. In fact, South Africa’s economic growth has failed to generate many decent jobs to the benefits of the large working-age population. The country and the province need to free up resources that can be devoted to inclusive growth and development and invest in industries that can create jobs and assist the unemployed. The high reduction in equitable share to the province due to the pandemic and its effect to the provincial citizens is going to be felt for a long time as the national government continues with its fiscal consolidation.

The COVID-19 pandemic, despite all the economic and social devastation it has caused, provides an opportunity for the South African and Limpopo province to innovate and go digital as the economy is being rebuilt. This requires the country not to merely try to recover the economy, but it should review the structural constraints hampering the economy, with digitalization leading the way. There is a high need for policymakers to embrace digital technology and with the help from government, the digital technology industry can grow in the country through incubators and start-ups, tech hubs and data centres. Information and communication technology (ICT) activities are spreading across the country, and young people are responding with digital technology to the challenges posed by COVID-19.

As the third wave is widely expected to arise in South Africa, it is more likely that the COVID-19 pandemic will shut even more of the small business and entrepreneurial ventures. Many stores and factories will close down due to corona virus whereas some will permanently shut down due to failure by owner to pay the monthly expenses while demand has fallen. Almost all businesses are not immune to negative impacts of social distancing policy mandate, therefore if the COVID-19 keep COVID-19 in the same format in the document induced recession is prolonged, possibilities are that many businesses won't survive for a long time and this will have a major impact on the government plans to create employment.

The country will need to deal with some of the structural constraints experienced, such as the electricity situation, decaying infrastructure and cost pressure from the railway and harbours as this has a major role to drive the country to a speedy recovery from the effect of COVID-19.

In terms of addressing the growth potential in the province the following is recommended:

- The structural constraints in the provincial economy should be addressed. This includes the availability of water and electricity and improved skills



- The economy should be diversified away from its dependence on the primary sector.
- It is important that some of the growth constraints on national should also be solved, since the Limpopo province will most probably not outperform the national economy over the short run.