

# Regional eXplorer (ReX) update

IHS Markit is glad to announce the third quarter update of [Regional eXplorer \(ReX\)](#) – the South African knowledge base of municipal level insight. Each quarter, data from a vast number of sources are incorporated into the ReX database to provide users with the most up-to-date statistics.

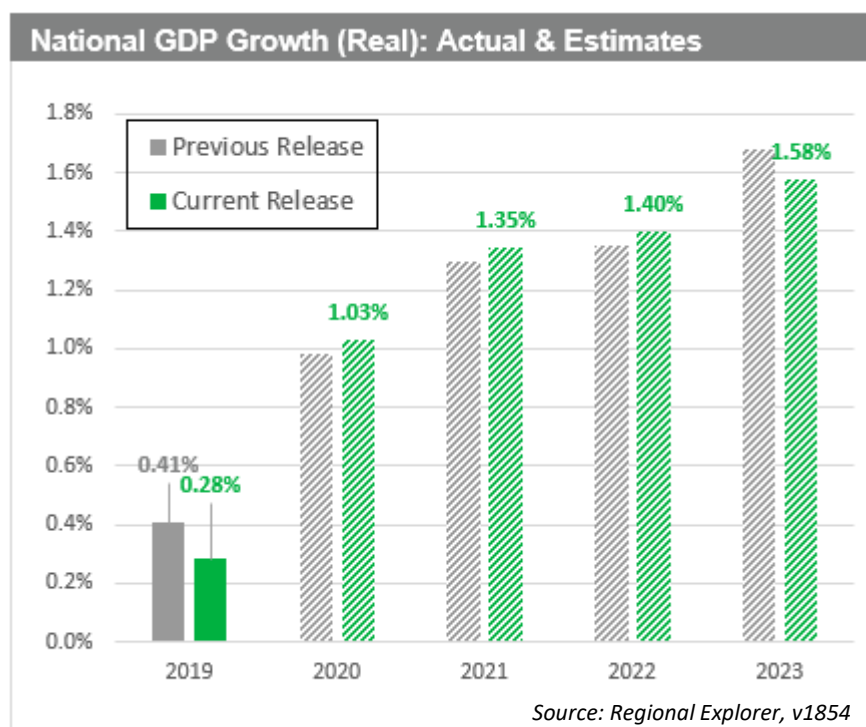
In this newsletter:

- A. South African Macroeconomic Outlook
- B. Labour Module update: Youth Unemployment
- C. Quarterly GDP: Extra Derived Statistics
- D. ReX Interface – selecting years

## SOUTH AFRICAN MACROECONOMIC OUTLOOK

**IHS Markit lowers South Africa growth expectations for 2019 and 2020 as electricity disruptions intensify**

IHS Markit has lowered South Africa's growth expectation for 2019 to 0.28% (from 0.41% previously) and 2020 to 1.03% (from 0.98% previously). We now find it highly unlikely that South Africa will exceed its potential growth rate of 1% as electricity disruptions intensify in 2019-2020.



Local uncertainty, dominated by a possible downgrade in South Africa's local-currency denominated credit rating to sub-investment status by Moody's, combined with fears over the removal of President Cyril Ramaphosa during the ruling African National Congress (ANC)'s National General Council (NGC)

meeting held in June 2020 is expected to dominate sentiment in the first half of 2020. Rand exchange rate volatility is expected to increase over the period.

IHS Markit is of the view that a 25-basis point cut in the South African Reserve Bank's policy rate could be forthcoming in May 2020 soonest as inflationary risk increases during the first half of 2020.

Escalating and extended periods of electricity disruptions during the fourth quarter of 2019 is likely to push the economy back into recession. Estimates suggest that Stage 6 load shedding, with 6,000 megawatts removed from the grid on 9 December, could cost the economy an estimated USD204–340 million per day. Power shortages forced large-scale mining operations such as Harmony Gold, Impala Platinum, and Sibanye-Stillwater to scale back operations due to safety concerns. Commodities still account for roughly 40% of South Africa's export earnings. For small and medium-sized enterprises (SMEs) severe load shedding inhibits the ability to trade and/or manufacture goods and increases companies' cost structure due to a higher reliance on expensive back-up electricity infrastructure.

These infrastructural deficits, particularly in electricity supply, will in IHS Markit's view deter fixed investment spending moving into 2020. The strained investor backdrop is exacerbated by uncertainty over future property rights, high real interest rates and a weak global and local demand backdrop. Public sector investment is increasingly "crowded-out" by financial bail-outs to struggling State Owned Entities such as electricity provider Eskom and the national airline South African Airways. A rising interest rate bill, now the fastest growing spending component in the national budget adds to the limited public sector investment space. Gross fixed capital formation, nonetheless, increased by 5.8% quarter-on-quarter at an annualised rate during the third quarter of 2019, boosted primarily by the importation of machinery and transport equipment.

Household spending is unlikely to mitigate the lacklustre growth expected in fixed capital formation during 2020. A significant slowdown in private sector wage increases combined with a rising tax burden is expected to leave real disposable income levels under pressure. Sticky unemployment at roughly 30%, widening income inequality and weak consumer confidence add to the expectation. The FNB/BER Consumer Confidence Index slipped deep into negative territory during the third quarter of 2019 with a reading of -7 index points, the lowest index reading since the fourth quarter of 2017.

South Africa has not yet benefited consistently from an export-related manufacturing or mining sector boom as a step back in business policy reforms; high unit labor cost, sporadic electricity disruptions, and disruptive strike actions continue to impede the country's international competitiveness. A weaker rand exchange rate could nonetheless mitigate the effect of some of these factors and increase overall export earnings during the second half of the year.

#### **Domestic uncertainty expected to keep the Rand exchange rate vulnerable during the first half of 2020**

South Africa's headline inflation, averaging 3.6% in November 2019 is now solidly within the South African Reserve Bank's (SARB) inflation target range of 3%-6%. For 2020 headline inflation is expected to pick-up modestly to an estimated 4.5%-4.7% opening-up the opportunity for the SARB to lower its policy rate during 2020. IHS Markit is of the view that a 25-basis point cut could be forthcoming in May 2020 soonest. The first half of 2020 could be marred by local uncertainty which could result in Rand exchange rate weakness and inflation risks. The highly anticipated February 2020 National Budget and possible local-currency denominated debt downgrade by Moody's shortly afterwards combined with fears over the removal of President Cyril Ramaphosa during the ruling African National Congress (ANC)'s National General Council (NGC) meeting held in June 2020 is expected to dominate sentiment in the first half of 2020.

A local-currency denominated debt downgrade by Moody's to sub-investment status could trigger an estimated USD8-billion capital outflows from South Africa's local bond market SARB estimates show. This accounts for roughly one-fifth of South Africa's foreign exchange reserve holdings. A spike in the rand exchange rate to ZAR15.00/USD1.00 levels and above is possible as a result. IHS Markit is of the view that foreign interest in the local bond market will return shortly thereafter depending on foreign investor sentiment towards emerging markets at the time, steered by US-China trade war developments, Brexit and global economic growth and commodity price environments. The Rand exchange rate is expected to recover to around ZAR14.50-ZAR14.80/USD1.00 during the second half of 2020.

In the medium term, price differentials with the rest of the world, movements in commodity prices, the current-account deficit, and the level of international reserves will determine the rand's level. South Africa has a high import propensity, which, along with slow-developing and relatively fragile export markets, should keep external accounts in the red and place downward pressure on the rand. Furthermore, inflation is expected to stay at about 5.0–5.5%, with global inflation around 2.0–2.5%. This leaves the inflation differential at approximately 3.0%, which is also the expected rate of depreciation for the South African rand in the longer term. Upside pressures on the rand, which are expected to cushion the currency's longer-term depreciating bias, include a relatively sustained upswing in foreign investor interest toward emerging markets and upwardly trending commodity prices as global growth gradually improves.

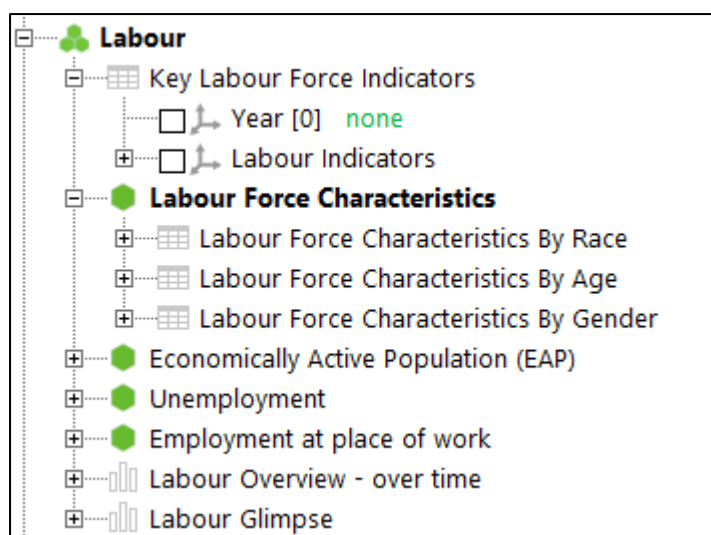
South Africa's fiscal backdrop has become significantly more precarious. In October 2019, South African Minister of Finance Tito Mboweni presented the 2019 Medium-Term Budget Policy Statement (MTBPS). The highly anticipated revised mid-year fiscal update showed South Africa's budget deficit as a percentage of GDP widening to 5.9% in fiscal year (FY) 2019/20 (from 4.5% of GDP projected in the February 2019 budget) and 6.5% of GDP in FY 2020/21 (from 4.3% of GDP projected in the February 2019 budget). The sharp deterioration in South Africa's fiscal backdrop leaves the gross public debt-to-GDP ratio at 71.3% by FY 2022/23. International ratings agency Moody's responded by changing South Africa's local-currency denominated debt rating outlook from stable to negative. The outlook changes by Moody's incorporated the material risk that the authorities will not be able to reverse the fiscal slide and the slump in economic activity over the medium term, despite ongoing policy reforms. Furthermore, no credible fiscal plan was presented to rein in government spending or place Eskom's massive debt load of ZAR450 billion (USD30 billion) on a more stable trajectory.

### **Upside potential is dependent on a potential investment rebound**

An aggressive drive by new ruling president Cyril Ramaphosa to secure USD100-billion local and foreign investment in the next five years could be the swing factor in near-term growth prospects. Strong private-sector fixed capital formation spending could leave South Africa's growth rate closer to 3.5% in the near term. Important binding constraints, including a high dependency on investment-related imports, higher inflation, inadequate infrastructure, and disruptive domestic political and labor market developments, will nonetheless continue to prevail within the assumed higher private-sector investment scenario.

## **LABOUR MODULE UPDATE: YOUTH UNEMPLOYMENT**

With this release, we are proud to introduce two improvements on the labour module due to popular demand. The one includes an expansion of the labour force status to now include both the official and the expanded definition of unemployment and to further breakdown unemployment by age category, enabling users to extract youth unemployment for each municipal region over the full-time span of the ReX model. These were highly sought-after client requests and we are happy to finally provide our clients with these two additions.



The labour model also features two new datasets:

- **Key Labour Force Indicators:** This variable allows users quick access to several variables explaining the labour composition of any region.
- **Labour Force Characteristics:** This is a group variable containing the same “Key Labour Force Indicators” as above but allows the user to select one of three demographic dimensions as a filter on the data. The options include population group, gender and age (10-year age bands).

Key Labour Force Indicators 2018: Northern Cape					
2018	National Total	Northern Cape	DC09 Frances Baard	DC45 John Taolo Gaetsewe	
Working Age Population	37 757 662	858 679	282 097	155 564	
Labour Force	22 411 459	477 222	156 456	85 326	
Employment (at place of residence)	16 281 696	341 358	106 600	62 608	
Commuters (nett)	0	3 290	4 764	-3 892	
Employment (at place of work)	16 281 696	344 649	111 364	58 716	
Employment - Formal sector non-agricult	11 250 164	231 783	87 044	39 975	
Employment - Informal sector non-agricu	2 880 639	37 355	10 779	5 068	
Employment - Agriculture	863 932	47 365	5 170	8 079	
Employment - Private Households	1 286 961	28 146	8 372	5 594	
Unemployment - official definition	6 129 762	135 863	49 856	22 718	
Not Economically Active - official definition	15 346 204	381 457	125 641	70 238	
Not Economically Active - expanded definition	12 628 505	306 685	99 377	56 284	
Discouraged work seekers	2 717 699	74 772	26 264	13 954	
Unemployment Rate - official definition	27.4%	28.5%	31.9%	26.6%	
Unemployment Rate - expanded definition	35.2%	38.2%	41.7%	36.9%	
Labour absorption rate	43.1%	39.8%	37.8%	40.2%	
Labour force participation rate	59.4%	55.6%	55.5%	54.8%	
Discouraged Rate	7.2%	8.7%	9.3%	9.0%	
Regional eXplorer 1823 (2.6i)					

The table above illustrates an extraction of the new labour indicator for 4 regions: South Africa, the Northern Cape Province, Frances Baard District Municipality (DM)) and the John Taolo Gaetsewe DM. The blue section of the tables shows actual number of people for each indicator while the orange part at the bottom shows derived statistics such as the unemployment rate which now includes both official and expanded definition. For more details on the definitions used in this table, select the variable within ReX and press F1 to access the definitions section of the Helpfile.

Youth Unemployment rate 2018: Northern Cape, by Gender & by Race.				
Total	National Total	Northern Cape	DC09 Frances Baard	DC45 John Taolo Ga
<b>2018</b>				
Male	49.5%	45.8%	58.3%	45.3%
Female	58.8%	58.2%	66.9%	63.8%
<b>2018</b>				
African	59.2%	51.3%	69.1%	62.2%
White	21.0%	18.5%	15.8%	18.4%
Coloured	43.4%	55.0%	60.9%	42.1%
Asian	26.7%	39.4%	41.8%	20.5%

Under the “Unemployment” folder within ReX, users will now also see that they can extract Youth Unemployment data (number of people and rates).

## QUARTERLY GDP: EXTRA DERIVED STATISTICS

Under the Quarterly GDP variable, three new datasets are available to extract two derived statistics that the user will not need to calculate on their own. ReX now calculates “Contribution to growth in Quarterly GDP (% point)”, “Sector’s share of regional total” and “Region’s share of national total” (%).

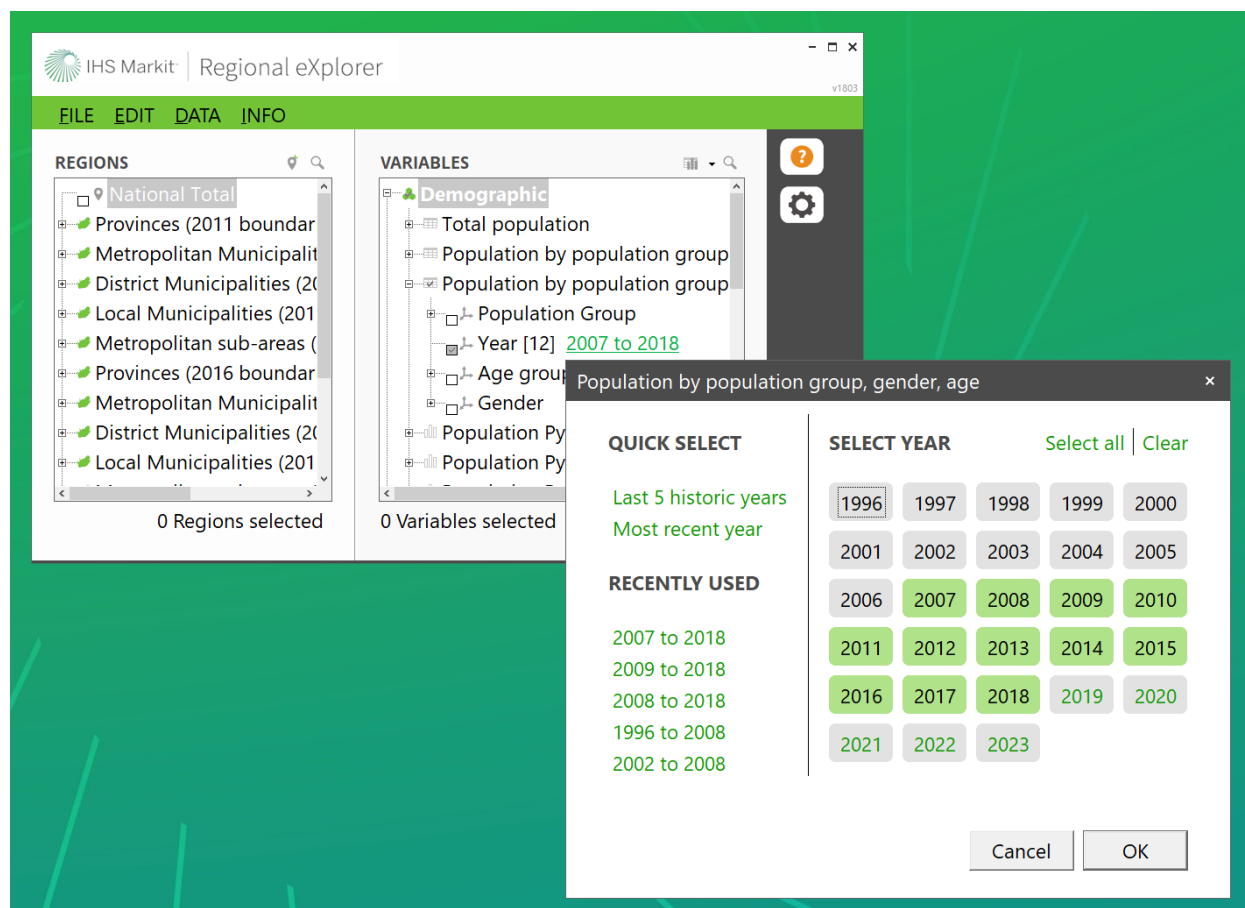
Quarterly GDP by Region		J091
Constant prices, seasonally adjusted and annualised (R 1000)		NC091 Sol Plaatje
% change quarter-on-quarter (seasonally adjusted and annualised)		
Contribution to growth in Quarterly GDP (% point, Constant prices)		
Sector's share of regional total (%)		
Region's share of national total (%)		
2019q2		
1 Agriculture		-0.1%
2 Mining		0.4%
3 Manufacturing		0.0%
4 Electricity		-0.1%
5 Construction		-0.1%
6 Trade		0.2%
7 Transport		-0.3%
8 Finance		0.7%
9 Community services		0.0%
Total Industries		0.6%
Taxes less Subsidies on products		-0.1%
Total (Gross Domestic Product - GDP)		0.6%
Sector's share of regional total (%)		
2019q2		
1 Agriculture		1.2%
2 Mining		5.8%
3 Manufacturing		2.9%
4 Electricity		2.3%
5 Construction		2.6%
6 Trade		13.9%
7 Transport		14.6%
8 Finance		20.3%
9 Community services		26.4%
Total Industries		89.9%
Taxes less Subsidies on products		10.1%
Total (Gross Domestic Product - GDP)		100.0%
Region's share of national total (%)		
2019q2		
1 Agriculture		0.3%
2 Mining		0.4%
3 Manufacturing		0.1%
4 Electricity		0.6%
5 Construction		0.4%
6 Trade		0.5%
7 Transport		0.9%
8 Finance		0.5%
9 Community services		0.7%
Total Industries		0.5%
Taxes less Subsidies on products		0.6%
Total (Gross Domestic Product - GDP)		0.5%

The following ReX extraction shows these three variables in action for the Sol Plaatje LM (NC). For more details on the definitions used and how to interpret this data, select the variable within ReX and press F1 to access the definitions section of the Helpfile:

## REX INTERFACE – SELECTING YEARS

The ReX team has also spent some time to enhance the way you select the years. Up to this version, the years were displayed in the tree-structure like all the other variable dimensions. Regular users will know that the 20+ year history resulted in a lot of scrolling up and down to select the years you were interested in, which was far from ideal.

The new interface moved this to a separate popup window that offers users the option to select pre-defined selection or re-use previously used selections with a single click. You can also use the drag-and-drop function to select a range of years. IHS Markit is continuously looking at ways to improve the user experience and would value your feedback in this regard.



Enjoy the update!

*The IHS Markit ReX team*