



### The economy

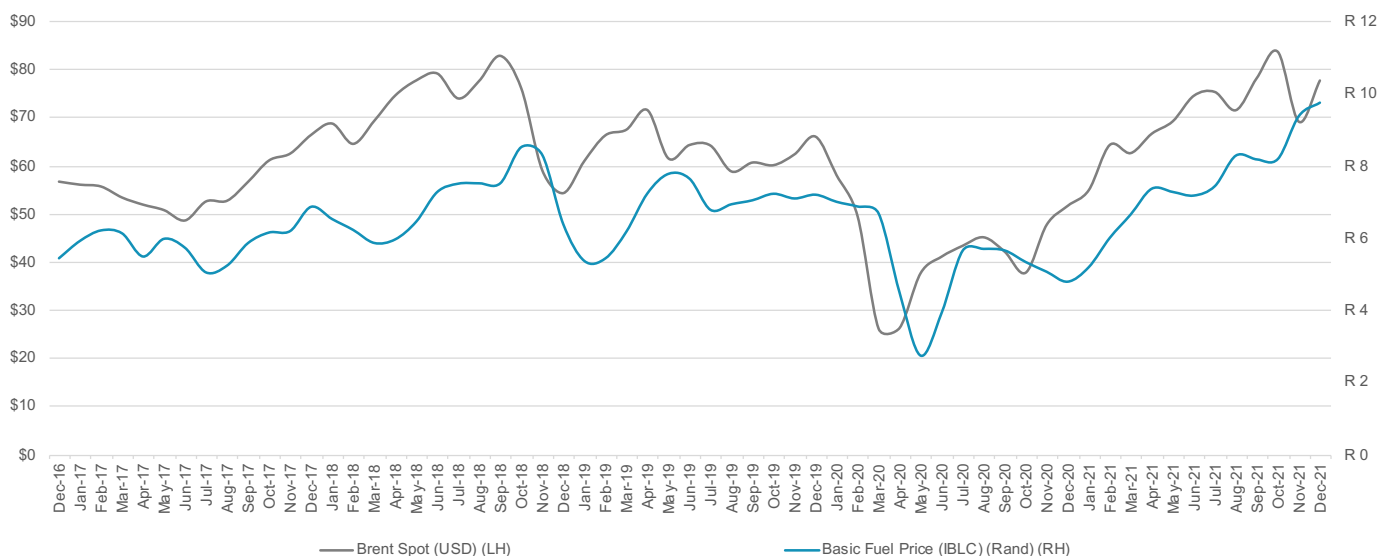
Developed economies continued their strong performance in 2021. The US economy expanded by 2.3% quarter on quarter (Jun 2021 to Sept 2021) and 4.9% year on year (Sept 2020 to Sept 2021). Similarly, the Euro area grew by 2.2% quarter on quarter and 3.9% year on year. The strong recovery resulted in close to full employment in these economies (e.g. 3.9% unemployment in the US and 7.5% in the Euro area). The downside of the robust economic growth is higher inflation experienced in the face of supply shortages and supply chain constraints. In December 2021, inflation was 7.0% in the US and 5.0% in the Euro area.

The performance of the domestic economy continued its uneven path towards the end of 2021. The damage caused by the riots and looting in July 2021 set the economy back, and commodity prices rolling over since May 2021 contributed to the economic output growing at a slower rate. Measured quarter on quarter (Jun 2021 to Sept 2021) South Africa's economy contracted by 1.5%, but measured year on year (Sept 2020 to Sept 2021) it still expanded by 2.9%.

South Africa's biggest export commodities remain platinum group metals (platinum, palladium and rhodium), coal, iron ore and gold. The volume of platinum group metals mined is up more than 20% and iron ore more than 10% year on year, while the volume of coal mined is down approximately 10% from last year. The prices of platinum group metals have declined approximately 33% on average since May 2021 (in US dollar and in rand) while the iron ore price has dropped by 40% since July 2021 (in dollar and in rand) and coal by 20% since October 2021 (in dollar and in rand). It should be noted that the prices of these commodities are down from the high levels experienced during the global economic recovery, but that commodity prices are still higher than pre-Covid levels.

South Africa's biggest import commodity remains crude oil. According to BP Plc's Statistical Review of World Energy 2021 (70th Edition), South Africa consumed 490 000 barrels of oil per day in 2020 (1 barrel of oil = 159.8 litres of product – when refineries operate at perfect efficiency, and that depends on the quality of crude oil used). Before the Covid-driven economic restrictions, South Africa's oil consumption stood at approximately 570 000 barrels per day. The in-bond landed cost of fuel in South Africa (also referred to the Basic Fuel Price) has reached an all-time high in December 2021 (refer to chart below). Excluding the wholesale and retail margins, distribution costs and charges, taxes and government levies, the basic price of fuel is up more than 14% compared to the previous highest prices in 2018.

Fuel price



Sources: IRESS, Department of Mineral and Energy Affairs

The conclusion drawn from the movement in commodity prices and volumes is that the surplus on the current account experienced in 2021 and the underlying strength of the rand came under pressure towards year-end.

An important feature that manifested in 2021 is that inflation rose sharply around the world, on the back of rising food and energy prices and supply chain constraints – e.g. the delays in imported goods moving through ports and the semiconductor shortage in the motor manufacturing industry during 2021.

### United Nations Annual FAO Food Price Indices (2014-2016 = 100)

Year	Food Price Index	Meat Price Index	Dairy Price Index	Cereals Price Index	Oils Price Index	Sugar Price Index
2017	98.0	97.7	108.0	91.0	101.9	99.1
2018	95.9	94.9	107.3	100.8	87.8	77.4
2019	95.1	100.0	102.8	96.6	83.2	78.6
2020	98.1	95.5	101.8	103.1	99.4	79.5
2021	125.7	107.6	119.0	131.2	164.8	109.3

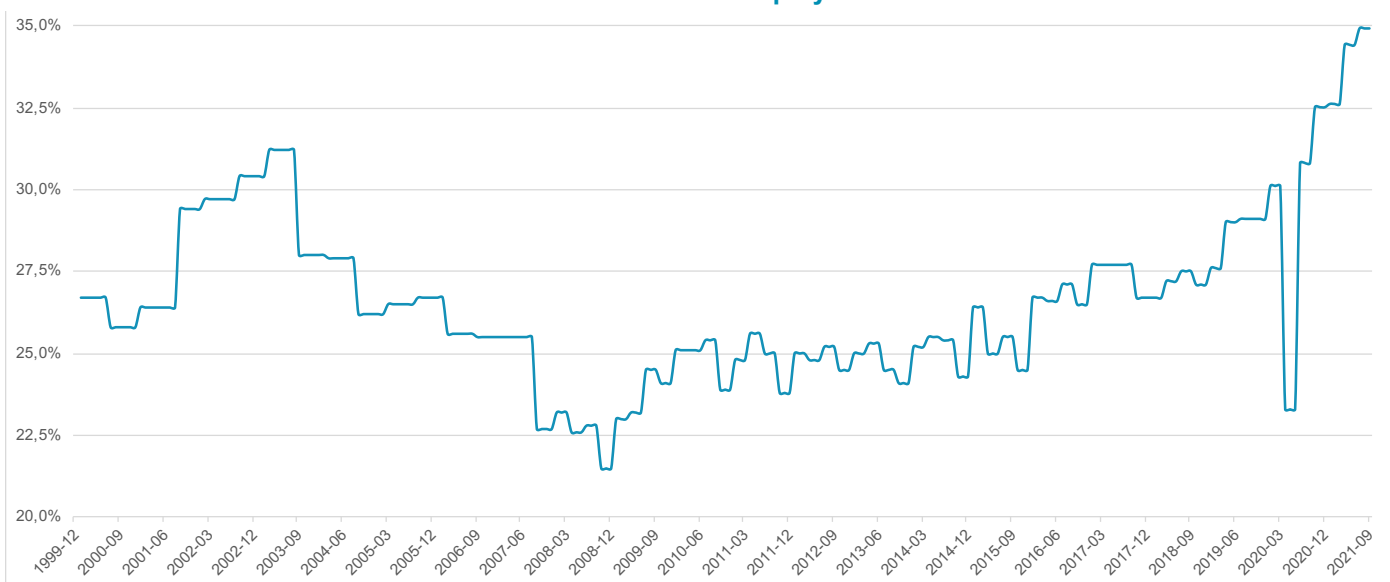
Source: [www.fao.org/worldfoodsituation/foodpricesindex/en/](http://www.fao.org/worldfoodsituation/foodpricesindex/en/)

In South Africa, the Monetary Policy Committee (MPC) of the SA Reserve Bank hiked the repurchase rate by 0.25% in November 2021, and it is expected to increase further in 2022. The purpose of the rate increases is to protect the purchasing power of the rand by keeping domestic inflation at acceptable levels and to maintain the stability of the rand against the currencies of South Africa's major trading partners.

Through the first half of the year, the rand exchange rate strengthened to R13.42 in June and then weakened to R16.30 in November 2021. After the MPC increased the repurchase rate, the rand strengthened to close at R15.94. Since year-end, the rand has continued to strengthen to approximately R15.50. It is believed that at R15.50 the rand is at a sustainable level.

According to the Quarterly Labour Force Survey Q3 of 2021 released by Stats SA on 30 November, South Africa's official unemployment rate stands at 34.9%, the worst level ever. According to the expanded definition of unemployment (unemployed job seekers plus discouraged job seekers), unemployment now stands at 44.6%. This means that only 11 out of every 20 people who are economically active have jobs, and only 7 out of every 20 people of working age in South Africa have jobs. It is evident that the social support structures (child support grants, social relief of distress grants etc.) are critical to support the South African population.

### South African unemployment



Source: Stats SA

## Financial markets

The FTSE/JSE All Share Index ended 2021 on a high note at 73 709, up 5.2% in the last eight trading days. The All Share Index posted a return of 29.2% for the year and the dividend yield on the index closed at an attractive level of 3.79%. The TOPI40 Index was up 23.3% for the year and the Small Cap Index added 59.1% over the same period (8.8% for the quarter). Mining shares continued to do well (up 32.3% for the year and 22.2% for the quarter), industrial shares added 24.4% for the year and 16.8% in the last quarter, and financial shares grew by 27.4% for the year but only by 2.2% in the last quarter. Listed property performed well during 2021 adding 36.9%, and 8.3% in the last quarter of 2021.

The BEASSA All Bond Index grew by 8.4% in 2021 (2.9% in Q4 2021). Inflation-linked bonds performed particularly well, up 15.5% in 2021 (5.1% in Q4 2021).

Nominal bonds in the 12 years plus maturity bucket were the best performers (12.6% for the year and 4.1% for Q4 2021).

Offshore shares achieved a US dollar-based return of 15.5% in 2021 (5.1% in Q4 2021). Measured in rand, the returns were 29.2% for the year and 13.0% for the quarter. Offshore bonds struggled, achieving a dollar-based return of -5.0% for the year and -0.9% for the last quarter. When measured in rand, the returns for offshore bonds were 3.1% for the year and 4.8% for the last quarter.

At US\$1 829 at year-end, the gold price was down \$65 (-3.4%) for the year, but because of the weakening rand, the rand gold price was up R1 332 (4.8%) for the year. The performance of financial markets to December 2021 was as follows:

% Change December 2021	Most recent quarter (%)	1 year (p.a.)	3 years (p.a.)	5 years (p.a.)
All Share Index	15.1%	29.2%	18.3%	14.3%
Listed Property	8.3%	36.9%	-2.9%	-4.0%
STeFI Composite	1.0%	3.8%	5.8%	7.1%
BEASSA ALBI	2.9%	8.4%	10.0%	10.8%
MSCI All Country World ZAR	13.0%	29.2%	25.3%	18.5%
Barclays Global Aggregate ZAR	4.8%	3.1%	7.2%	6.5%
Rand (+ strengthening, - weakening)	-5.5%	-7.8%	-3.3%	-2.8%
Inflation	1.2%	5.9%	5.9%	4.5%
Gold ZAR	12.1%	4.8%	16.6%	13.1%


Source: IRESS

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Information for this article obtained from several sources:  
IRESS, Stats SA, FAO, Department of Mineral and Energy Affairs,  
[tradingeconomics.com](http://tradingeconomics.com), Simeka Consultants and Actuaries

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