

Q1_2022



EASTERN CAPE
ECONOMIC
REVIEW & OUTLOOK



EXECUTIVE SUMMARY

- More than two years of the pandemic and spillovers from the Russian Federation's invasion of Ukraine are set to sharply hasten the deceleration of global economic activity, which is now expected to slow to 2.9% in 2022 and forecasted to grow by 3% in 2023.
- South Africa registered an estimated growth of 4.9% in 2021. Risks to the outlook are predominantly to the downside emanating from a prolonged disruption to global trade in cereals and fertilizers due to the war in Ukraine which would significantly worsen affordability and availability of staple foods. Growth is forecasted to reach 2.1% in 2022, 1.5% in 2023 and 1.8% in 2024.
- South Africa posted a growth of 1.9% in 2022Q1, an upsurge from a low growth of 1.4% recorded in 2021Q4. All provinces in SA experienced an increase in GDP growth in 2022Q1, from a low growth recorded in 2021Q4, except for one province. This is due to relaxation of lockdown restrictions in SA which enabled economic activities to resume at full capacity.
- Business confidence in SA for wholesale improved from 53 index points to 57 index points in 2022Q1. This improvement indicates the amount of optimism that businesses have on the prospects of their businesses post relaxation of lockdown restrictions in SA at alert level 1. The retail sector posted a decline of 49 index points in 2022Q1 from a high 52% in 2021Q4. The manufacturing sector improved to an index of 43 from 38 index points posted in 2021Q4, while building and construction sector experienced a decline of 25 index points from 30 index points registered in 2021Q4.
- The Eastern Cape was in the 5th position with a GDP growth of 8.0%, improving from the 6.1% posted in 2021Q4. The provincial real GDP growth was mostly driven by secondary sector as it grew by 15.6% mostly supported by growth in the manufacturing sector.
- SA posted a CPI of 6.5% in May 2022, up from 5.9% registered in April 2022. EC registered a CPI of 6.8% in May upsurge from 6.2% recorded in April 2022.
- IMF-World Economic Outlook forecasted that SA unemployment rate would hit 37% in 2023. The unemployment rate declined to 34.5% in 2022Q1 from 35.3% in 2021Q4.
- EC unemployment rate improved to 44% based on the narrow definition in 2022Q1 from 45% in 2021Q4 and to 52.6% based on the expanded definition.
- SA trade activities with the rest of the world in 2022Q1 deteriorated to R373.4 billion from R466.5 billion posted in 2021Q1.
- EC was a net exporter of commodities with the world between 2021Q1 and 2022Q2. The province registered a trade surplus of R2.9 billion in 2022Q1 from R1.4 billion in 2021Q4 which can be attributed to the improvement in the value of export commodities by 5.9% (posted R14.3 billion in 2022Q1 from R13.5 billion in 2021Q4). The top four export commodities were: motor vehicles, wool, fine or coarse animal hair, nuclear reactors, boilers and rubber and articles thereof.
- The EC was also a net exporter to Africa and posted R896.3 million trade surplus in 2021Q1 improving to R901.0 million in 2022Q1. The top four exports were: motor vehicles, electrical machinery and equipment, iron and steel, rubber and articles thereof. Exports to the following regions improved despite the covid-19 pandemic and conflict between Russia and Ukraine which affected trade globally: Eastern Africa (R233 million) and Northern Africa (R35 million). Top countries were Namibia, Zimbabwe, Kenya & Egypt.
- Cargo handled by six of the eight SA ports improved from 54.0 million metric tons in 2021Q4 to 55.6 million metric tons in 2022Q1 as lockdown restrictions were relaxed. Cargo handling largely took place in Kwa Zulu Natal, Western Cape and Eastern Cape. EC handled about 5.2 million metric tons of cargos which amounts to 9.3% share, with the Port of Gqeberha and the Port of Ngqura being the busiest ports in the province. Furthermore, the EC ports experienced an increase in cargo handling compared to other provinces, except Port of Ngqura.
- SA FDI reached R27.2 billion (US\$1.7 billion) in 2022Q1 compared to R22.7 billion in 2021Q1.
- EC FDI from the world, between 2021Q2 and 2022Q1 posted US\$ 207.3 million resulting in the creation of 606 jobs by two companies; US\$ 206.00 million investment and 600 jobs created by Mercedes-Benz at ELIDZ in East London in the automotive sector, and US\$ 0.90 million investment and six jobs created by Consultive Utilities in Gqeberha contributed to the provincial economy in the Business Services Sector.

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1. South Africa Economic Performance

Global economic activity is set to decelerate to 2.9% in 2022 following the two years of the pandemic and spillovers from the Russian Federation's invasion of Ukraine. The war in Ukraine is leading to high commodity prices, adding to supply disruptions, increasing food insecurity and poverty, exacerbating inflation, contributing to tighter financial conditions, magnifying financial vulnerability, and heightening policy uncertainty. Growth in emerging markets and developing economies (EMDEs) in 2022 has been downgraded to 3.4%, as negative spillovers from the invasion of Ukraine offset any near-term boost to some commodity exporters from higher energy prices.

Despite the negative shock to global activity in 2022, there is essentially no rebound projected next year: global growth is forecasted to edge up only slightly to a still subdued 3% in 2023, as many headwinds, particularly, high commodity prices and continued monetary tightening are expected to persist. Moreover, the outlook is subject to various downside risks, including intensifying geopolitical tensions, growing stagflation headwinds, rising financial instability, continuing supply strains, and worsening food insecurity. These risks underscore the importance of a forceful policy response. The global community needs to ramp up efforts to mitigate humanitarian crises caused by the war in Ukraine and conflict elsewhere, alleviate food insecurity, and expand vaccine access to ensure a durable end of the pandemic.

Emerging markets and developing economies' (EMDEs) growth is projected to roughly halve this year, slowing from 6.6% in 2021 to 3.4%, well below its annual average of 4.8% between 2011 and 2019 despite a still incomplete recovery from the pandemic. The slowdown, in part, reflects the spillovers from the war in Ukraine, which led to commodity price volatility, higher input costs, trade disruptions, and weaker confidence. These spillovers are also magnifying the effects of preexisting headwinds to growth, including rising inflationary pressures, tightening financial conditions, continued withdrawal of macroeconomic policy support, and softening external demand. Since EMDE households devote a relatively large proportion of their spending to basic necessities, the war's impact on food and energy prices is also weighing markedly on consumption. This is especially true among commodity importers, whereas energy exporters are benefitting from higher global energy prices and easing oil production cuts.

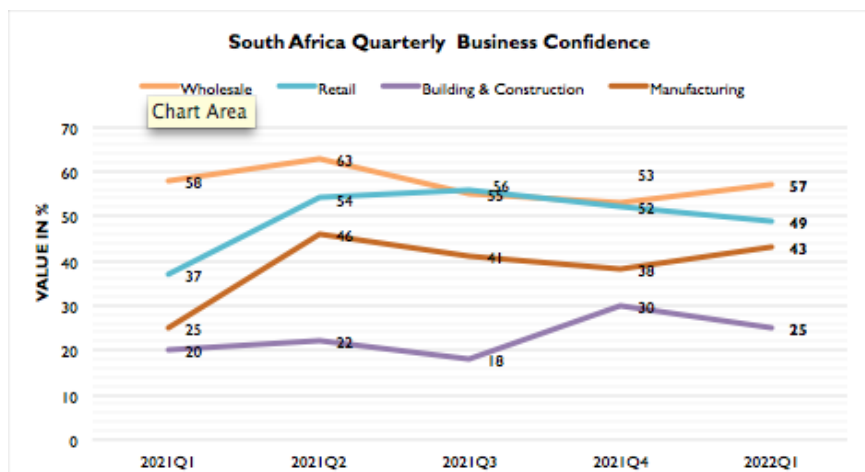
Following a rebound of 4.2% in 2021, growth in Sub-Saharan Africa (SSA) has weakened this year (2022) as domestic price pressures, partly induced by supply disruptions owing to the war in Ukraine, are reducing food affordability and real incomes, especially in low-income countries (LICs). Limited direct trade and financial linkages with Europe and Central Asia have helped contain some of the negative effects of the war in Ukraine on SSA. However, the sharp deceleration of global growth and war related shortages of food and fuel are creating substantial headwinds for the region, even more so in countries reliant on wheat imports from Russia and Ukraine (Democratic Republic of Congo, Ethiopia, Madagascar, Tanzania). Growth in SSA is projected at 3.7% in 2022 and 3.8% in 2023, on par with January projections. Yet, excluding the three largest economies, growth was downgraded by 0.4% both in 2022 and 2023. Although elevated commodity prices would underpin recoveries in extractive sectors, in many countries rising inflation would erode real incomes, depress demand, and deepen poverty.

South Africa registered an estimated growth of 4.9% in 2021. Risks to the outlook are predominantly to the downside emanating from a prolonged disruption to global trade in cereals and fertilizer due to the war in Ukraine which would significantly worsen affordability and availability of staple foods across the region. South Africa's growth is forecasted to reach 2.1% in 2022, 1.5% in 2023 and 1.8% in 2024.

Business Confidence

The Bureau of Economic Research survey expressed that business confidence in South Africa for wholesale improved to 57 index points in 2022Q1 from 53 index points registered in the preceding quarter, 2021Q4, indicating the amount of optimism that businesses have on the prospects of their businesses emanating from further relaxation of lockdown restrictions on alert level 1 in South Africa. Once again, the retail sector posted a decline of 49 index points in 2022Q1 from a high of 52 in 2021Q4. The manufacturing sector on the other hand improved to 43 index points in 2022Q1, from 38 in the preceding quarter, showing high optimism by industries as the economy widely opened from full two years of various levels of restrictions. Building and Construction sector experienced a decline of 25 index points from 30 index points registered in the fourth quarter of 2021 (see figure 1 below).

Figure 1: South Africa Cape Business confidence, 2021Q1 - 2022Q1



Source: Quantec EasyData and Own Calculation, 2022

Source: [www.worldbank.org/global-Global Economic Prospects,2022](http://www.worldbank.org/global-Global-Economic-Prospects,2022)

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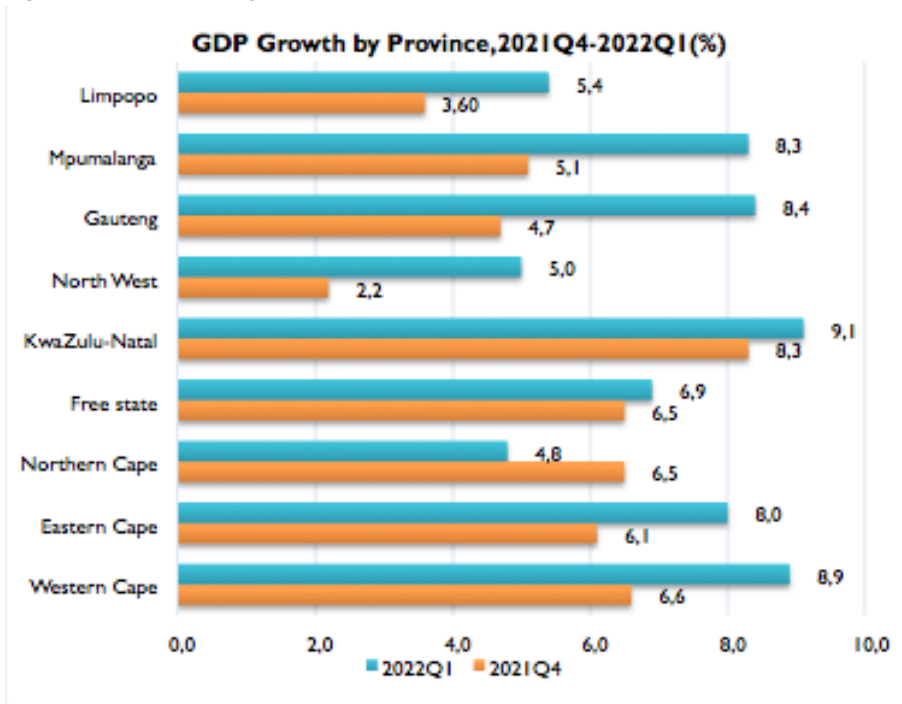
Source: [worldbank.org/Global-Economic-Prospects/Sub-Saharan Africa,2022](http://worldbank.org/Global-Economic-Prospects/Sub-Saharan-Africa,2022)

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1.1 Eastern Cape Quarterly Performance

Figure 2 below depicted the GDP growth rate per province in South Africa between 2021Q4 and 2022Q1. The data displayed that all provinces in South Africa experienced an upsurge in GDP growth in 2022Q1 from low growth recorded in 2021Q4 with the exception of one province, which is as a result of further easing of lockdown restrictions in South Africa that enabled economic activities to resume at full capacity. South Africa recorded a growth of 1.9% in 2022Q1, an upsurge from a low growth of 1.4% recorded in 2021Q4. The highest provincial real GDP growth in 2022Q1 was recorded by KwaZulu Natal with 9.1% (improved from 8.3% recorded in 2021Q4), trailed by Western Cape which recorded 8.9% (a significant increase from 6.6% recorded in 2021Q4), trailed by Gauteng with 8.4 % (a significant increase from 4.7% posted in 2021Q4), and Eastern Cape taking the fifth position with 8.0% (improved from 6.1% recorded in 2021Q4). Northern Cape was the only province that recorded a decline in GDP growth rate of 4.8% in 2022Q1 down from 6.5 posted in 2021Q4. The real GDP growth in the Eastern Cape was mostly driven by secondary sector as it grew by 15.6%, mostly supported by growth in the manufacturing sector.

Figure 2: GDP Growth by Province, 2021Q4-2022Q1 (%)



Source: Quantec estimates

Analysis of the sectorial performance of the Eastern Cape GDP contribution by economic sector disclosed that most of the provincial economy’s productive activities in the first quarter of 2022 were supported by the secondary sector which grew by 15.6%, mostly driven by growth in the manufacturing sector. The tertiary sector was the second highest contributor to provincial GDP growth in 2022Q1 with 6.9% driven by improvement in wholesale and retail trade and transport and communication. Primary sector grew by 0.4% taking a knock from the preceding quarter which posted a growth of 70.4% mostly supported by agriculture, forestry and fishing sector (see figure 3 below).

Figure 3: Eastern Cape Sectorial Performance, 2021Q1 – 2022Q1 (%)

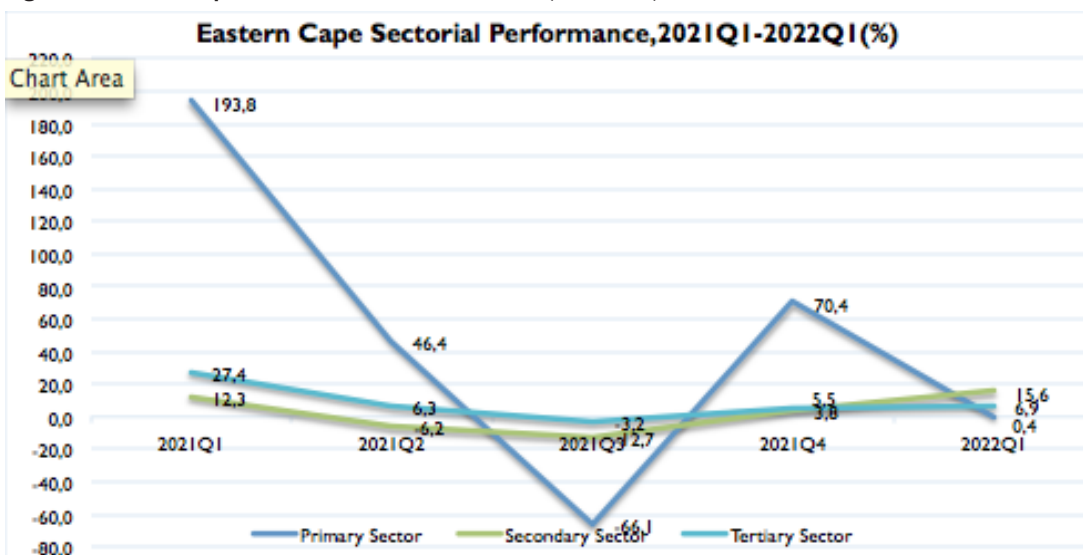


Table 1 below demonstrates a detailed breakdown of industry performance in the Eastern Cape between quarter three of 2021 to quarter one of 2022. It is evident that the agriculture, forestry and fisheries, manufacturing, electricity and water, wholesale and retail trade, transport, communication and community, finance, real estate, and business services social and other services were the sectors that contributed to the provincial growth rate of 8.0% in the first quarter of 2022. Nevertheless, the impact of corona virus pandemic perseveres with the continuous loadshedding and conflict between Russia and Ukraine presenting uncertainty in the future growth of the global economy.

Table 1: Eastern Cape Industry GVA Growth, 2021Q3-2022Q1 (Values in %)

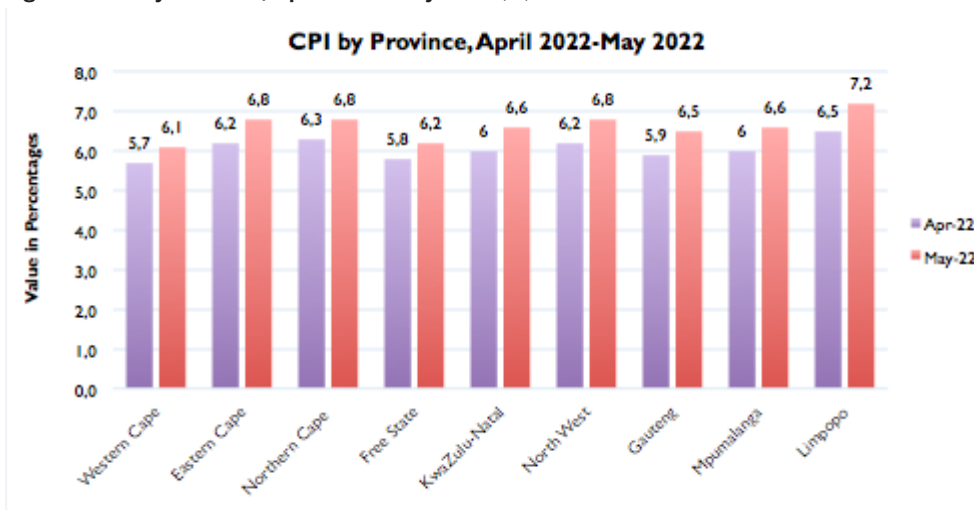
Industries	Quarter-on-Quarter Change			Year-on-Year Change		
	2021Q3	2021Q4	2022Q1	2021Q3	2021Q4	2022Q1
Agriculture, forestry and fisheries	-68.4	80.2	1.1	-6.3	1.8	-3.5
Mining and quarry	-13.9	-19.1	-9.9	-13.7	-15.4	-12.1
Manufacturing	-16.4	9.9	21.2	-0.9	-3.7	0.8
Electricity and water	1.1	-11.7	8.7	-0.2	-3.9	-0.2
Construction	-4.1	-9.7	-2.3	-0.2	-4.7	-5.6
Wholesale and retail trade	-18.2	14.4	10.7	-1.5	0.5	3.6
Transport and communication	-6.6	12.1	7.9	5.5	3.8	9.8
Finance, real estate and business services	3.9	-3.3	7.0	2.9	-0.4	1.0
Community, social and other services	1.1	10.3	4.3	5.0	6.1	6.5
General government services	1.3	-1.4	5.4	0.8	0.1	0.9

1.2 Consumer Price Index (CPI) Trends

The annual consumer price index measures a basket of goods and services consumed by households at a certain point in time, with the target band for South Africa being set between 3% and 6% by the South African Reserve Bank (SARB). The continuous war between Russia and Ukraine spillover effects cause cost push inflation from the supply side of the market and as a result, oil prices keep on rising. The country experienced high pressure on inflation, which made the SARB to raise repo rate by 50 basis point in the last MPC meeting in May 2022 and the uptrend started in November 2021.

Annualised consumer price inflation was 6.5% in May 2022, up from 5.9% recorded in April 2022. The consumer price index increased by 0.7% month-on-month in May 2022. The main contributors to the 6.5% annual inflation rate were food and non-alcoholic beverages, housing and utilities, transport, and miscellaneous goods and services. Provincial annual inflation rates ranged from 6.1% in Western Cape and to 7.2% in Limpopo. Based on the May CPI figures, six provinces in the country posted a CPI value higher than that of national (6.5%) as follows: Limpopo posted highest of 7.2%, Eastern Cape, North West and Northern Cape with a tie of 6.8% and Mpumalanga and KwaZulu-Natal with a tie of 6.6%. All nine provinces experienced an increase in CPI, this reflects the fact that the inflation is cost bush and the continuous increase in interest rates inflicted by South African Reserve Bank Monetary Policy Committee is not effective (figure 4 below).

Figure 4: CPI by Province, April 2022- May 2022 (%)



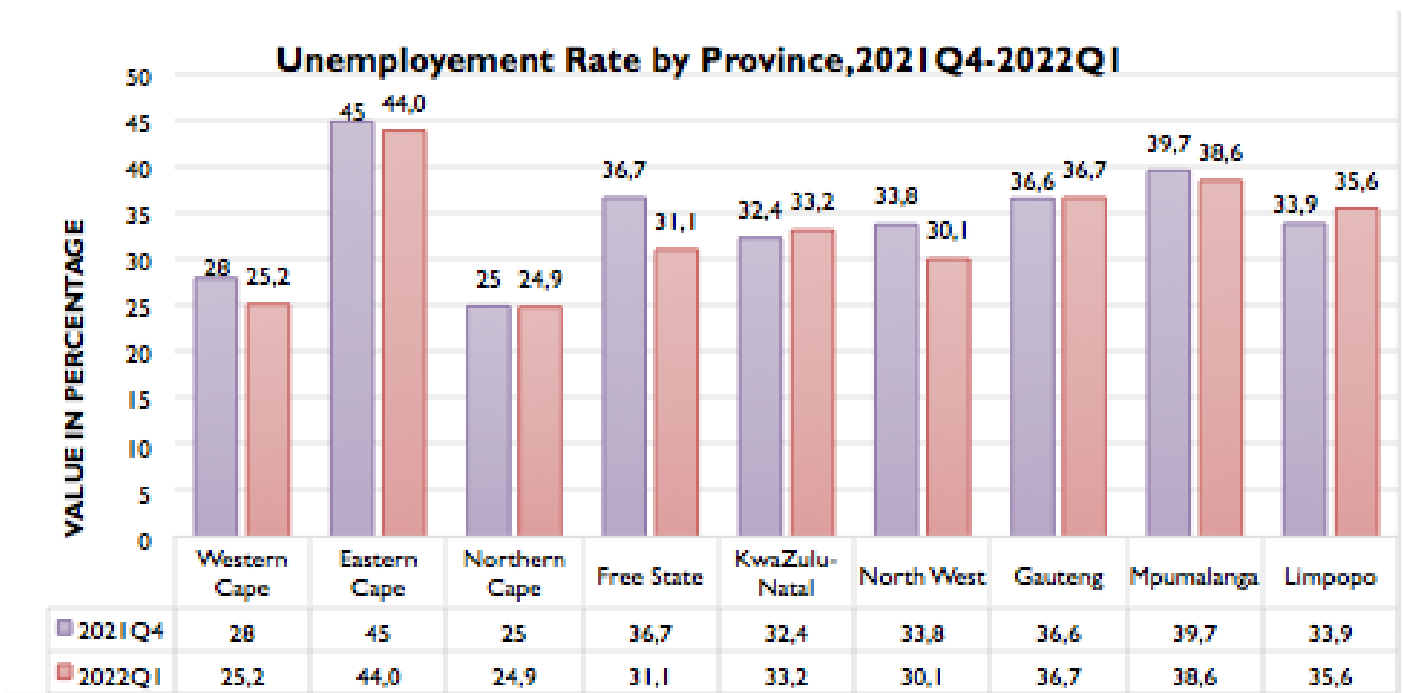
Source: Stas SA

1.3 Quarterly Labour Force Developments

The April release of the International Monetary Fund-World Economic Outlook forecasted that South Africa’s unemployment rate would hit 37% in 2023. Persistent load shedding, elevated inflation, as well as higher interest rates are set to dampen economic growth in 2022, exerting a negative effect on employment. The effect of April’s devastating floods in KwaZulu-Natal, a province which has historically generated about 16% of the money in South Africa’s economy, is not reflected in the first quarter’s unemployment statistics.

The relaxation of lockdown restrictions under alert level 1 in South Africa in the first quarter of 2022 resulted into a drop in the unemployment rate as the economic activities resume to full capacity. The official unemployment rate in South Africa dropped by 0.8% to 34.5% in 2022Q1 compared to the rate posted in 2021Q4 of 35.3%. The official rate only tells part of the story of a country with one of the highest levels of unemployment in the world. The expanded unemployment rate which also counts job seekers who have given up on the search was 45.5% in the first quarter of 2022, down from 46.2% in the previous quarter. South Africa, which recorded an annual GDP growth rate of 4.9% in 2021, has struggled to claw back jobs after Covid-19’s economic onslaught which caused the country’s employed labour force to shrink by 2.2 million in the second quarter of 2020. The economy had only recovered a net 396 000 jobs by the fourth quarter of 2021. The 2022Q1 unemployment statistics indicate that 370 000 jobs were gained between the fourth quarter of 2021 and the first quarter of 2022.

Figure 5: Unemployment Rate by Province, 2021Q4–2022Q1



Source: Stats SA

The unemployment rate in the Eastern Cape has deteriorated to 44% based on the narrow definition (improved by 1% compared to 45% recorded 2021Q4) in the first quarter of 2022 and to 52.6% based on the expanded definition. This is attributable to a decrease in the number of unemployed people across the province from 1 019 million in the fourth quarter of 2021 down to 1 014 million in the first quarter of 2022, emanating from the relaxation of lockdown restrictions in the country during the first quarter of 2022, which aided the uptrend in economic activity as businesses started to operate at full capacity resulting to businesses employing more people. The Eastern Cape Province continues to be number one in South Africa in terms of high unemployment rate (see figure 5 above). The high unemployment phenomenon in South Africa is becoming a pandemic and it is exacerbated by covid-19 pandemic that constrained economic growth, persistent load shedding and spillover effect of the war between Russia and Ukraine.

1.4 Employment Trends in the Eastern Cape

The Eastern Cape employment levels improved in the first quarter of 2022, due to the easing of lockdown restrictions and resumption of the country’s economic activity. Even so, employment opportunities in the Eastern Cape continue to stay low compared to other provinces in the country, causing a population emigration to other provinces to seek for a better life. The Eastern Cape is amongst the six provinces in the country that experienced an increase in employment with the following job gains in these sectors: community services sector recording a highest job increase of 56 000, trailed by the manufacturing sector with 26 000, agriculture 15 000, private households with 11 000 and trade with 1 000.

The sectors in the Eastern Cape Province that registered a deterioration in employment despite relaxation of lockdown restrictions which enabled economic activity to fully resume were as follows: construction and transport registered the highest job losses of 12 000 in 2022Q1 and followed by Finance at 1 000 in the period under review (see table 2 below).

Table 2: Employment Trends by Industries in the Eastern Cape, 2021Q1 – 2022Q1 (narrow definition)

	2021Q1	2021Q2	2021Q3	2021Q4	2022Q1	Quarter-on-Quarter Change
Values in thousands						
Agriculture	101	82	107	108	93	15
Mining	1	1	1	1	.	.
Manufacturing	108	115	126	115	141	26
Utilities	10	4	5	5	6	1
Construction	120	112	122	128	116	-12
Trade	244	252	198	228	229	1
Transport	81	70	78	84	72	-12
Finance	157	118	133	147	139	-7
Community services	365	376	367	333	389	56
Private households	111	105	79	97	108	11

2. Eastern Cape International Trade Developments

The global economy continues to experience disruptions caused by the war between Russia and Ukraine and covid-19 pandemic which still poses adverse impact. The trade activities in South Africa with the rest of the world deteriorated to R373.4 billion in the first quarter of 2022 from fourth quarter's R466.5 billion. Whereas the value of Eastern Cape exports of commodities to the rest of the world improved in 2022Q1 from the prior quarter in the period under study.

The Eastern Cape trade flows with the rest of the world between 2021Q1 and 2022Q1 are exhibited in figure 6 below. The province registered a trade surplus of R2.9 billion in 2022Q1 from R1.4 billion registered in 2021Q4. In 2022Q1 the Eastern Cape total export commodities increased from R13.5 billion posted in 2021Q4 to R14.3 billion, an improvement of 5.9%. On the other hand, the value of import commodities registered R11.3 billion in 2022Q1, declining from R12.2 billion registered in 2021Q4.

Figure 6: Eastern Cape Trade Flows with the World, 2021Q1-2022Q1 (Values in R-millions)

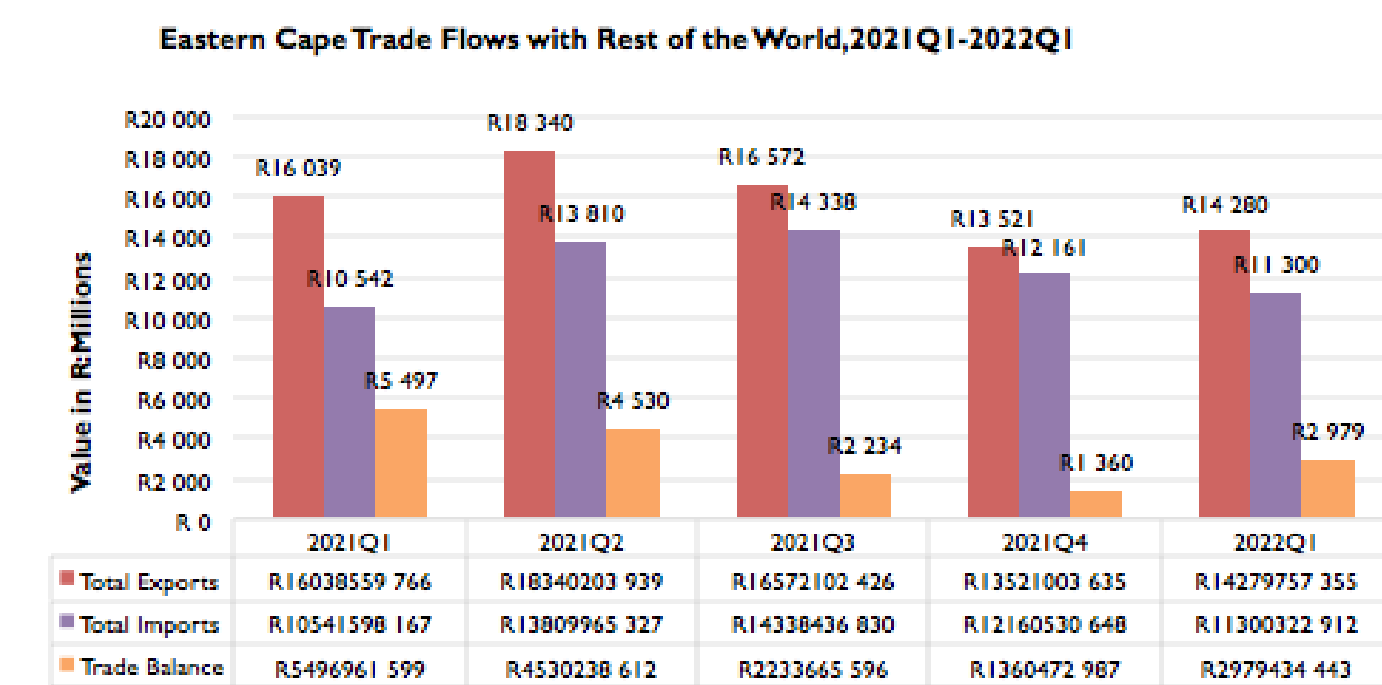


Table 2 below illustrates the Exports and Imports value by Sector in the Eastern Cape between 2021Q4 and 2022Q1. Manufacturing exports increased by 6.7% to R12.5 billion (particularly that of transport equipment), trailed by agriculture, forestry and fisheries sector which declined by 1.8% to R1.7 billion and mining and quarry substantially improved by 365%, also a contributor to the improvement in trade activities in the province in quarter one of 2022.

Table 3: Value of Exports and Imports by Sector, 2021Q4-2022Q1 (Value in R-million)

Sector	Value of Exports		Value of Imports		Trade balance
	2021Q4	2022Q1	2021Q4	2022Q1	2022Q1
Agriculture, forestry and fisheries	2 042.3	1 715.0	183.6	183.4	1 519.8
Mining and quarry	8.3	38.6	22.21	19.6	19.1
Manufacturing	11 470.4	12 526.2	11 954.7	11 085.6	1 440.6

Source: Quantec and own calculations

2.1 Eastern Cape Exports and Imports Commodities by Product to the World

Table 4 below illustrates the Eastern Cape Exports and Imports with the rest of the World and the share contribution between 2021Q4 and 2022Q1. Looking at the provincial export commodities in 2022Q1, it is apparent that the demand and value of motor vehicles improved to R5.4 billion (from R4.6 billion in 2021Q4) and accounted for 53.6% of the Eastern Cape's total exports value to the rest of the world in the period under study. Similarly, the Motor vehicle imports improved from R2.8 billion in 2021Q4 to R3.9 billion in 2022Q1, with a share of 46.2% to the total imports from the rest of the world. Trailed by exports of wool, fine or coarse animal hair totaling R1.5 billion (14.7% share), nuclear reactors, boilers amounting to R1.2 billion (11.8% share) and rubber and articles thereof posted at R480.9 million (4.8%). On the other hand, imports of electrical equipment was a second most imported commodity posting R1.2 billion in 2022Q1 with a share of 14.5% to the total imports value from the rest of the world.

Table 4: Top 10 Exports and Import of Eastern Cape with World and Share, 2021Q4-2022Q1.

Exports	2021Q4	2022Q1	Share	Imports	2021Q4	2022Q1	Share
Products	Values in R-million			Products	Values in R-million		
			%				%
1. Motor Vehicles	R4 632.2	R5 388.9	53.6	1. Motor Vehicles	R2 782.5	R3 918.3	46.2
2. Wool, fine or coarse animal hair	R1 969.9	R1 481.6	14.7	2. Electrical equipment,	R1 163.3	R1 228.3	14.5
3. Nuclear reactors, boilers,	R3 119.9	R1 189.8	11.8	3. Nuclear reactors, boilers	R1 155.4	R927.3	10.9
4. Rubber and articles thereof	R576.9	R480.9	4.8	4. Rubber and articles thereof	R600.9	R693.6	8.2
5. Railway or tramway locomotives	R349.9	R396.6	3.9	5. Plastics and articles thereof	R469.1	R464.1	5.5
6. Edible fruit and nuts; peel of citrus	R400.8	R316.1	3.1	6. Meat and edible meat offal	R417.8	R346.9	4.1
7. Raw hides and leather	R232.5	261.2	2.6	7. Articles of iron or steel	R278.1	R279.4	3.3
8. Miscellaneous edible preparations	R104.6	R179.3	1.8	8. Ceramic products	R219.1	251.1	3.0
9. Electrical machinery and equipment	R189.9	R178.3	1.8	9. Inorganic chemicals; organic	R197.6	R18939	2.2
10. Fish and crustaceans, molluscs & etc.	R152.0	R173.6	3.2	10. Mineral fuels	R334.6	R181.1	2.1

Source: Quantec and own calculations

2.2 Destination Markets for Eastern Cape Exports and Imports

The analysis that will follow will be looking at Eastern Cape trade flow with various regions in the world economy. The Eastern Cape exports only expanded to one region, such as the Europe which recorded R8.7 billion with a market share of 60.8% and the rest of the regions experienced a deterioration.

However, on the imports side, three regions experienced an improvement in import commodities such as: Europe which recorded R5.5 billion with a high of 49.4% market share, improved imports by 16.9%, followed by Africa which recorded R 824.9 million with a market share of 7.4% and Antarctica growing by 14.4% with a market share of 7.4%. The Eastern Cape Province disclosed to be a net exporter of commodities to the world regions in the period under review, with a trade surplus of R3.2 billion with Europe, followed by Africa (R901.0 million) and only recorded deficit with Asia of R1.4 billion (see table 5 below).

Table 5: Eastern Cape Exports and Imports Share Per Region and Trade Balance, 2021Q4-2022Q1

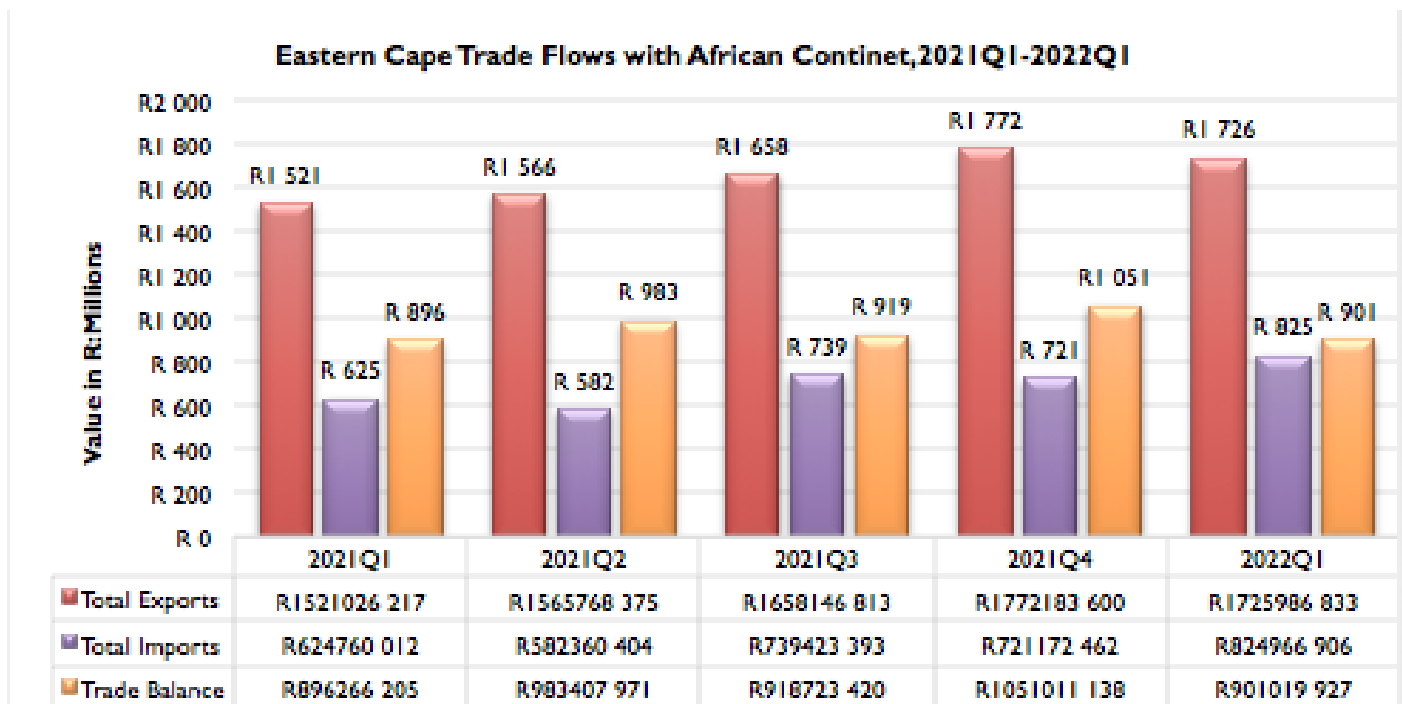
Regions	IMPORTS				IMPORTS				Trade bal.
	2021Q4	2022Q1	Growth	Market Share 2021Q4	2021Q4	2022Q1	Growth	Market Share 2022Q1	2022Q1
	Values in R-million		%	%	Values in R-million		%	%	Values: R-million
AFRICA	R1 772.2	R1 725.9	-2.6	12.1	R721.2	R824.9	14.4	7.4	R901.0
AMERICAS	R2 094.9	R1 979.3	-5.8	13.9	R1 630.8	R1 513.7	-7.7	13.6	R465.6
ASIA	R2 103.8	R1 801.9	-16.8	12.6	R4 959.9	R3 242.8	-52.9	29.2	-R1 440.8
EUROPE	R7 331.3	R8 671.1	18.3	60.8	R4 696.4	R5 488.2	16.9	49.4	R3 182.9
OCEANIA	R207.1	R93.3	-122	0.7	R84.6	R42.2	-100	0.4	R51.0
ANTARCTICA	R0	R0	0.0	0.0	R721.2	R824.9	14.4	7.4	R0

Source: Quantec and own calculations

2.3 Eastern Cape African Continent Trade Developments

Trade with the African continent is one of the key objectives of the African Union and the introduction of Africa’s Free Trade Agreement (AfCFTA) which will enhance trade among African countries. The Exports and Imports of Eastern Cape with the African continent between 2021Q1 and 2022Q1 are exemplified in figure 7 below. The province is a net exporter of commodities to the African continent in the period under review. The province registered trade surplus in the balance of trade amounting to R896.3 million in 2021Q1 increased to R901.0 million in 2022Q1. The provincial exports increased from R1.5 billion in 2021Q4 to R1.7 billion in 2022Q1. Contrary, the commodity imports fluctuated from R624.8 million in 2021Q1 to R824.9 million in 2022Q1.

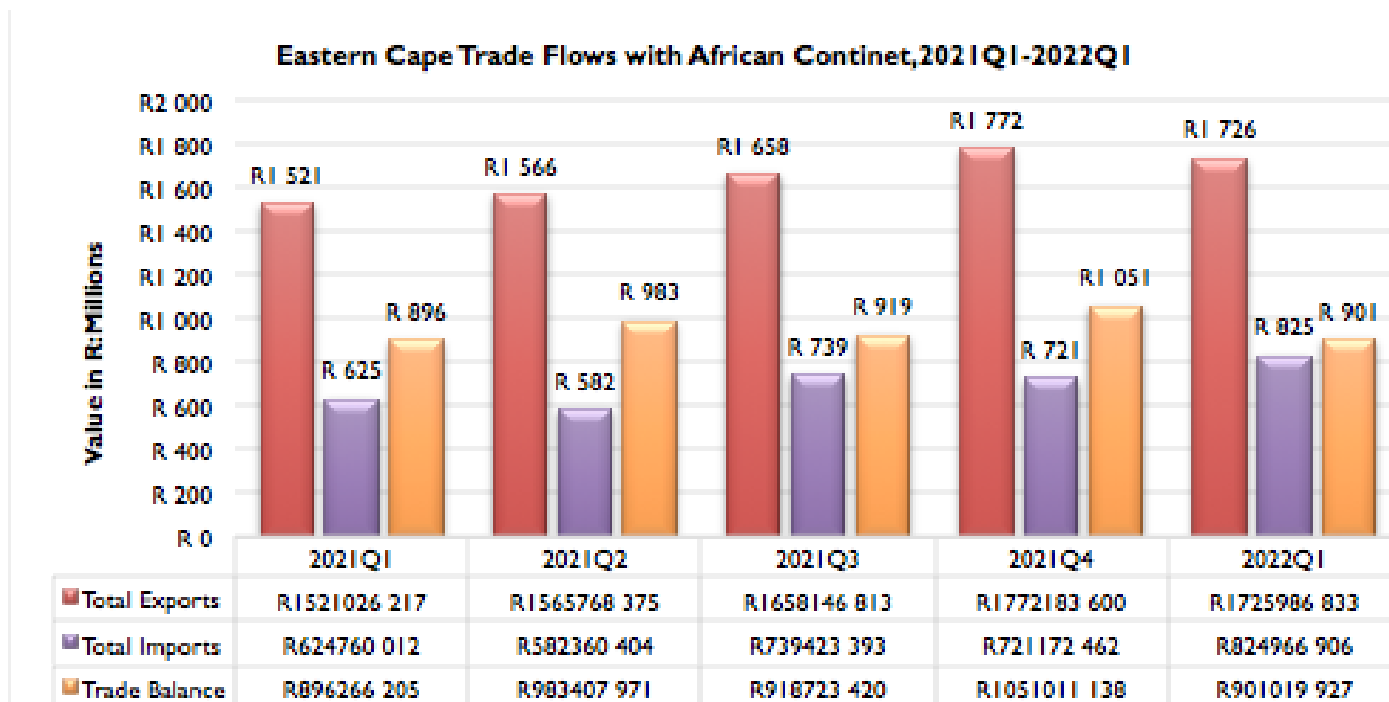
Figure 7: Eastern Cape Trade Flows with African Continent, 2021Q1-2022Q1



Source: Quantec and own calculations

Table 6 below shows Exports and Imports of the Eastern Cape with the African continent and share contribution between 2021Q4 and 2022Q1. Analysing the provincial export commodities in 2022Q1, the value of motor vehicles upsurged to R650.0 million (from R585.8 million in 2021Q4) and accounted for 50.1% of the Eastern Cape’s total exports value to the African continent in the period under review. Trailed by electrical machinery and equipment which posted R139.2 million (10.7% share), iron and steel recording R125.7 million (9.7% share) and followed by rubber and articles thereof at R121.9 million with a market share of 9.4%. On the same token, electrical equipment imports improved from R221.5 million in 2021Q4 to R454.4 million in 2022Q1 with a market share of 57.7% of the total imports value from the African continent and wool, fine or animal hair in the second place posted R110.3 down from the previous quarter with a 14.0% market share.

Table 6: Top 10 Exports and Import of Eastern Cape with Africa and Share, 2021Q4-2022Q1

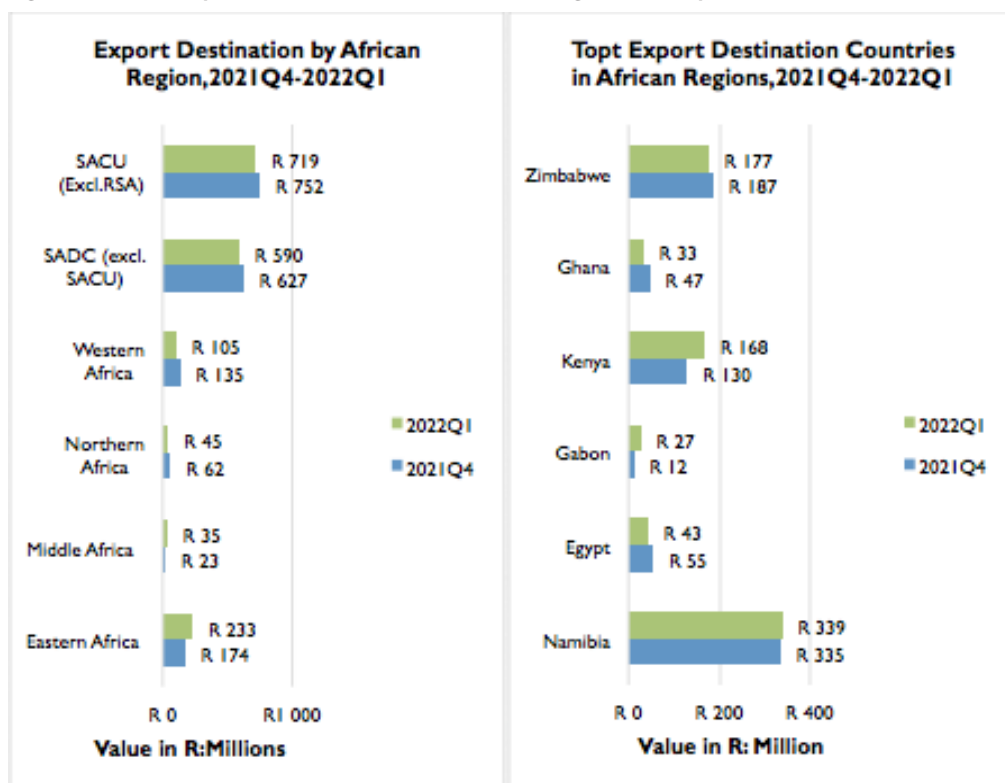


Source: Quantec and own calculations

2.3.1 Eastern Cape Exports by Destination African Region and by Country

Figure 8 shows the Eastern Cape Destination Markets in African Regions and top Countries between 2021Q4 and 2022Q1. The Eastern Cape exports to the following regions in Africa in 2022Q1 improved despite the covid-19 pandemic and Russia and Ukraine conflict which affected trade globally: the Eastern Africa posted R233 million, and Middle Africa posted R35 million. In terms of countries that absorbed the Eastern Cape exports in each of the African regions in 2022Q1, Namibia (top country from SACU) took the leading position and absorbed about R339.5 million worth of the provincial exports of merchandise, followed by Zimbabwe (SADC) with exports valued at R176.9 million, Kenya (Eastern Africa Region) with R167.8 million and Egypt (North Africa) with R43.0 million.

Figure 8: Eastern Cape Destination Markets in African Regions and Top Countries, 2022Q4-2022Q1

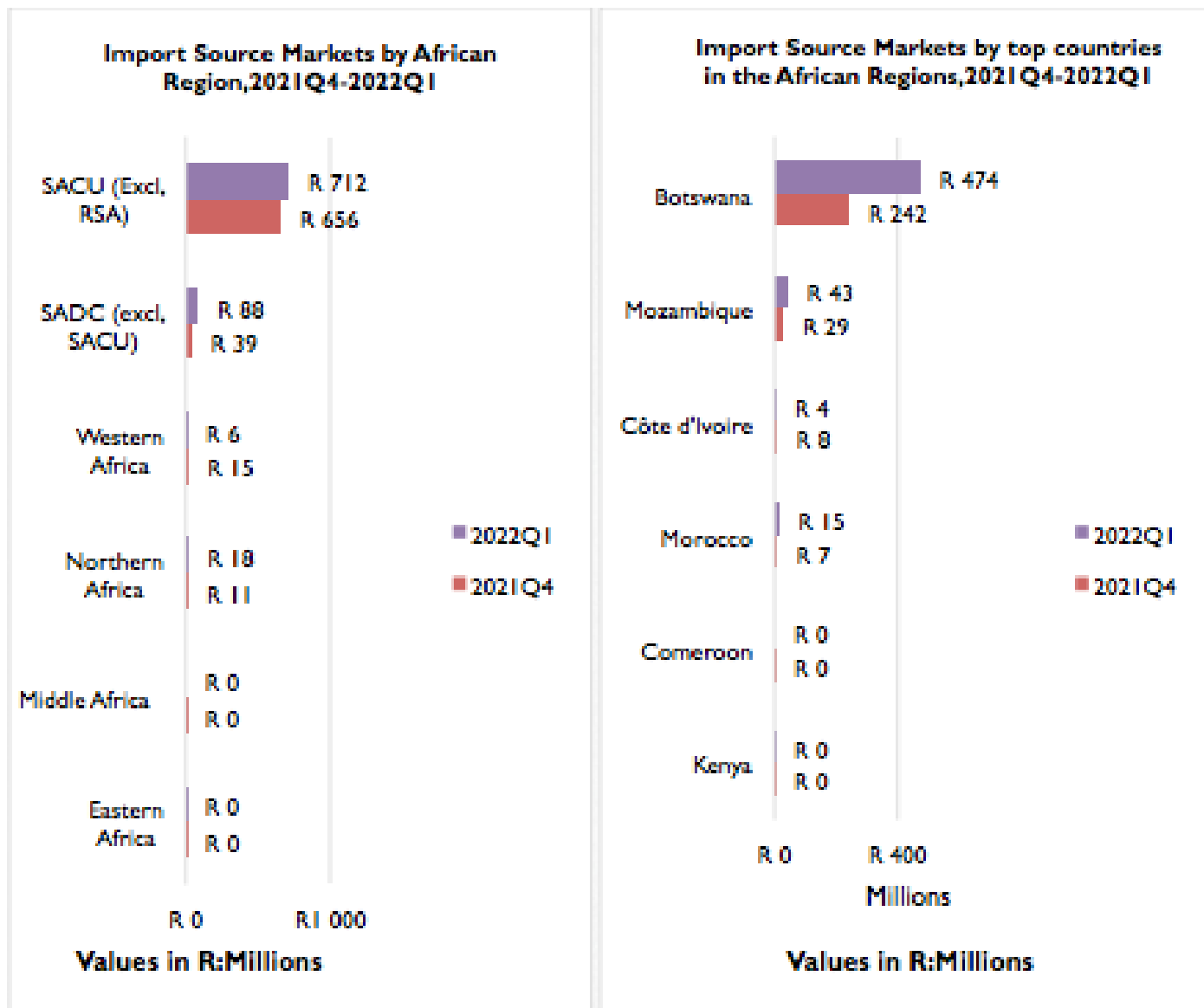


Source: Quantec and own calculations

2.3.2 Eastern Cape Imports by African Region and by Country

Figure 9 below depicted the Eastern Cape Source Markets in African Regions and top Countries between 2021Q4 and 2022Q1. The Eastern Cape source markets for imports, showed that the majority of imports into the province were from the SACU region and recorded R712.4 million, followed by SADC which posted R88.5 million and Northern Africa R18.0 million in 2022Q1. In terms of countries that the province sourced its imports from in 2022Q1, in each of the African regions: Botswana is the top country from SACU region which recorded R473.6 million imports, tailed by Mozambique from SADC with imports amounting to R43.3 million, Morocco (North Africa) registered R14.8 million and Cote d'Ivoire recorded R3.8 million from Western Africa.

Figure 9: Eastern Cape Source Markets in African Regions and Top Countries, 2021Q4-2022Q1

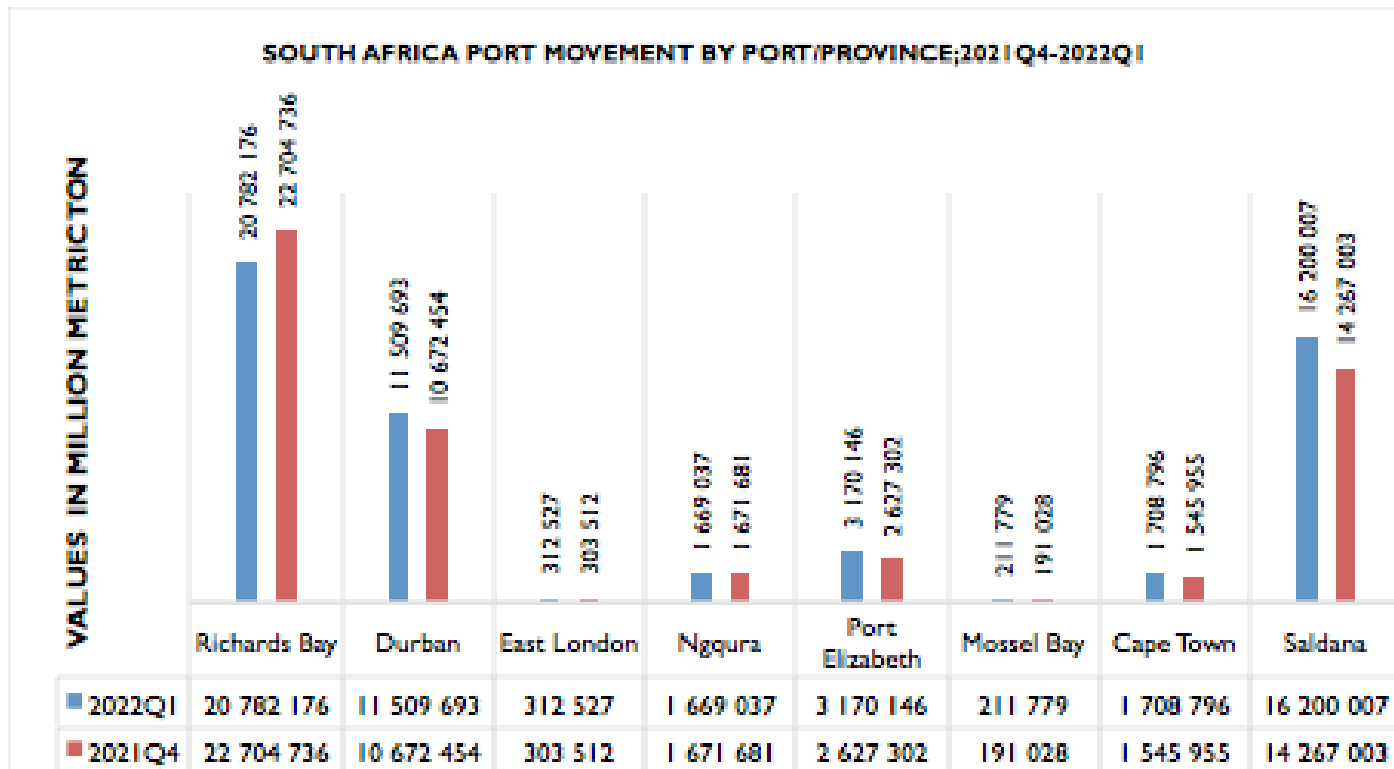


Source: Quantec and own calculations

2.4 National Port Movements

South Africa moved to alert level 1 and more restrictions relaxed during the first quarter of year 2022. The economic activity improved in South Africa resulting to six of the ports across the country in quarter one of 2022 handling more cargo than in the preceding quarter. Cargo handled by six of the eight national ports experienced a slight improvement from 54.0 million metric tons in the fourth quarter of 2021 up to 55.6 million metric tons in the first quarter of 2022. Cargo handled in KwaZulu-Natal was over 32.2 million metric tons in 2022Q1, accounting for the largest share of 59.1%. The Western Cape is the second largest cargo handling province with 18.1 million (32.6% share) metric tons of cargos in the first quarter of 2022 and the Eastern Cape handled approximately 5.2 million metric tons of cargos which equal to 9.3% market share, an improvement from 4.6 million handled in 2021Q4 (with the Port of Gqeberha and the Port of Ngqura being the busiest ports throughout the province). All the Eastern Cape ports experienced an increase in cargo handling compared to other provinces, except Port of Ngqura where the cargo handled slightly decreased (figure 10).

Figure 10: South Africa Port Movements by Port/Province, 2021Q4-2022Q1 (Values in million metric tons)



Source: Transnet Port Authority and own calculations

3. Foreign Direct Investment Trends

Global foreign direct investment (FDI) flows in 2021 were US\$1.58 trillion, up by 64% from the exceptionally low level in 2020. The recovery showed significant rebound momentum, with booming merger and acquisition (M&A) markets and rapid growth in international project finance because of loose financing conditions and major infrastructure stimulus packages. However, the global environment for international business and cross-border investment changed dramatically in 2022. The war in Ukraine on top of the lingering effects of the pandemic is causing a triple food, fuel and finance crisis in many countries around the world. Investor uncertainty could put significant downward pressure on global FDI in 2022. The 2021 growth momentum is unlikely to be sustained. Global FDI flows in 2022 will likely move on a downward trajectory, at best remaining flat. New project activity is already showing signs of increased risk aversion among investors: preliminary data for 2022Q1 show greenfield project numbers down by 21% and international project finance deals down by 4%.

FDI flows to developing economies grew more slowly than those to developed regions yet still increased by 30% to US\$837 billion. The increase was mainly the result of strong growth performance in Asia, a partial recovery in Latin America and the Caribbean, and an upswing in Africa. The share of developing countries in global flows remained just above 50%. FDI flows to Africa reached US\$83 billion in 2021, from US\$39 billion in 2020. Most recipients saw a moderate rise in FDI. The total for the continent was inflated by a single large intrafirm financial transaction. In developing Asia, despite successive waves of Covid-19, FDI rose to an all-time high for the third consecutive year, reaching US\$619 billion. Asia is the largest recipient region, accounting for 40% of global FDI. FDI in Latin America and the Caribbean rose by 56% to US\$134 billion. Most economies saw inflows rebound, with only a few experiencing further declines, caused by pandemic induced economic crises. Total inflows remained about 15% below the pre-pandemic level. FDI flows to the structurally weak, vulnerable and small economies rose by 15% to US\$39 billion. Inflows to the least developed countries (LDCs), landlocked developing countries (LLDCs) and small island developing States (SIDS) combined accounted for only 2.5% of the world total in 2021, down from 3.5% in 2020.

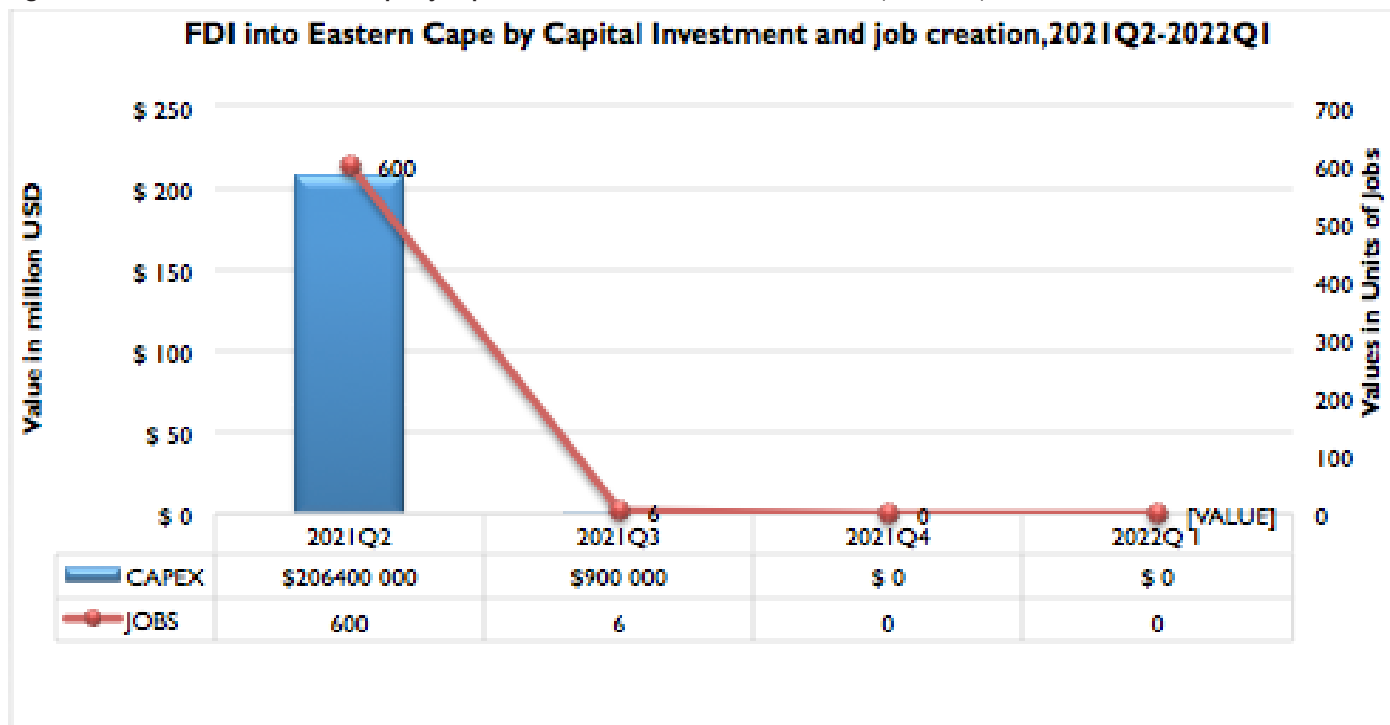
Foreign direct investment (FDI) flows to South Africa reached R27.2 billion (US\$1.7 billion) in the first quarter of 2022 compared to R22.7 billion in the fourth quarter of 2021, which represents a rise of 26.2% quarter-on-quarter. The SARB also specified, in its quarterly bulletin, that this increase is mainly due to the increase in capital investments and loans granted by foreign companies already present in South Africa to their subsidiaries.

Portfolio investment also recovered markedly in the first quarter of 2022, to stand at R64.2 billion, after revised outflows of R40 billion in the previous quarter, coming from acquisition of shares and debt securities by non-resident investors, according to the South African Reserve Bank. Traditionally, European countries (UK, Netherlands, Belgium, Germany and Luxembourg) are the most active investors in South Africa, alongside the US, Japan, China and Australia. Most investments are directed to the financial, mining, industrial, transport and retail sectors.

Source: www.unctad.org/ world investment report,2022

Source: www.sarb quarterly bulletin, 2022

Figure 11: FDI Inflows into Eastern Cape by Capital Investment and Job Creation, 2021Q2 – 2022Q1



Source: FDI Intelligence Market

The Eastern Cape attracted a total of US\$ 207.3 million Foreign Direct Investment that created 606 job opportunities into the provincial economy between the period 2021Q2 and 2022Q1. The highest capital investment of US\$ 206.4 million was attracted by the province in 2021Q2 and created a highest of approximately 600 total job opportunities into the provincial economy at the back of the corona virus pandemic which negatively impacted investments attractions worldwide. In 2021Q3 the Eastern Cape attracted second highest investment of US\$900 thousand capital investment and created second highest of approximately six job opportunities. From 2021Q4 to 2022Q1, the Eastern Cape Province attracted zero FDIs from the world this is partly attributable to the covid-19 pandemic impact and global economic unrest brought by the war between Russia and Ukraine (see figure 11 above).

Table 7: FDI Inflows into Eastern Cape by Quarter, 2021Q2– 2022Q1

FDI Inflows into South Africa by Months, 2021Q2 – 2022Q1					
Month	Number of projects	Jobs created		Capital investment	
		Total	Average	Total (USD million)	Average (USD million)
2022Q1	0	0	0	R0	R0
2021Q4	0	0	0	R0	R0
2021Q3	1	6	6	0.90	0.90
2021Q2	1	600	600	206.40	206.40
Total	2	606	303	207.30	103.65

Source: FDI Intelligence Market

Table 7 above tabulated the number of Foreign Direct Investment into the Eastern Cape by quarters, project number, jobs created and capital investments between the 2021Q2 and 2022Q1 period. The Eastern Cape attracted high capital investment of US\$ 206.4 million and an estimated total job opportunities of 600 and the investment by this project equates to 99% of total capital investment in the period under review. The second highest capital investment of US\$ 900 thousand with second highest number of six jobs were recorded in 2021Q3. There were no foreign direct investments tracked between 2021Q4 and 2022Q1.

Table 8: FDI Inflows into Eastern Cape by Source Country, 2021Q2 – 2022Q1

FDI Inflows into Eastern Cape by Source Country, 2021Q2 – 2022Q1						
Source country	No of projects	No of companies	Jobs Created		Capital investment	
			Total	Average	Total (USD million)	Average (USD million)
Germany	1	1	600	600	206.40	206.40
United Kingdom	1	1	6	6	0.90	0.90
Total	2	2	606	303	207.30	103.65

Source: FDI Intelligence Market

Table 8 shows the Eastern Cape Foreign Direct Investment trends from the world by source country between 2021Q2 and 2023Q1. Out of a total of 2 source countries, Germany accounted for 50% number of projects. Yet again, Germany is the top source country responsible for 99% of total capital investment amounting to US\$206.40 million and the highest total number of 600 jobs. Germany, once more, has the largest project size on average in terms of investment (US\$ 206.40 million) and in terms of job creation (600). United Kingdom on the other hand, is a country that has attracted the second biggest capital investment of US\$ 900 thousand and created second highest number of six total job opportunities in the province.

Table 9: FDI Inflows to Eastern Cape by Region, 2021Q1–2021Q4

FDI Inflows into Eastern Cape by Source Country, 2021Q2 – 2022Q1						
Source country	No of projects	No of companies	Jobs Created		Capital investment	
			Total	Average	Total (USD million)	Average (USD million)
Germany	1	1	600	600	206.40	206.40
United Kingdom	1	1	6	6	0.90	0.90
Total	2	2	606	303	207.30	103.65

Source: FDI Intelligence Market

Table 9 depicted the Eastern Cape Foreign Direct Investment from the world by destination region/metro between 2021Q2 and 2022Q1. Out of a total of the two destination regions, Nelson Mandela Bay Metro and Buffalo City Metro are both the top destination regions, accounting for the equal number of projects tracked. Buffalo City Metro has welcomed the biggest investment amounting to US\$ 206.40 million (from one project: Mercedes-Benz in East London at East London Special Economic Zone in the Automotive sector in a Manufacturing project) and highest number of 600 jobs created in the metro during the 2021Q4. Moreover, Buffalo City Metro has the biggest project size on average in terms of investment amounting to US\$ 206.40 million and jobs totalling to 600. The Nelson Mandela Bay Metro is the second region that attracted the highest investment amounting to US\$ 0.90 million in the Business Services sector by Consultiv Utilities landed in Gqeberha and second highest number of six job opportunities at the back of the corona virus pandemic which impacted the FDI's flow in the global economy.

4. Conclusion Remarks

More than two years of the pandemic and the spillovers from the Russian Federation's invasion of Ukraine are set to sharply hasten the deceleration of global economic activity, which is now expected to slow to 2.9% in 2022. The war in Ukraine is leading to high commodity prices, adding to supply disruptions, increasing food insecurity and poverty, exacerbating inflation, contributing to tighter financial conditions, magnifying financial vulnerability, and heightening policy uncertainty. South Africa and Eastern Cape are also adversely affected by the exogenous causes emanating from the global challenges aforesaid. The GDP is projected to decline, unemployment to continue to rise, government debt to rise, and continuous increase in inflation from the supply side cause cost push inflation as oil prices persist to rise due to the conflict between Russia and Ukraine. The interest rate is projected to hike, even in the next MPC that convened in July making it the fifth consecutive rate hike as the inflation exceeded the 6% upper band set by SARB and currently at 6.5%. All these factors paint a gloomy economic prospect for the country and means the triple challenges (poverty, inequality, and unemployment) will be exacerbated.

The Eastern Cape economy shows promising results as it registered a growth of 8.0% in 2022Q1 from a low growth in the preceding quarter of 6.1% supported by the secondary sector which grew by 15.6%, mostly driven by growth in the manufacturing sector; trailed by the tertiary sector with 6.9% driven by improvement in wholesale and retail trade and, transport and communication; and lastly primary sector as it grew by 0.4% taking a knock from preceding quarter which posted a growth of 70.4% (mostly supported by Agriculture, forestry and fishing sector). This growth shouldn't be celebrated yet as the effects of the continuous load shedding and floods in this quarter and second quarter of 2022 will have adverse impact on the economic outlook.

The April release of the International Monetary Fund-World Economic Outlook forecasted that South Africa's unemployment rate would hit 37% in 2023. Persistent load shedding, elevated inflation, as well as higher interest rates are set to dampen economic growth in 2022, exerting a negative effect on employment. The effect of April's devastating floods in KwaZulu-Natal, a province that has historically generated about 16% of the money in South Africa's economy, is not reflected in the first quarter's unemployment statistics. Although the relaxation of lockdown restrictions under alert level 1 in SA resulted into a drop in the unemployment rate to 34.5% and in the Eastern Cape (44%), this must be viewed as temporal, considering the abovementioned factors forecasted. The high unemployment phenomenon in South Africa is becoming a pandemic and it is exacerbated by covid-19 pandemic that constrained economic growth, the Eskom load shedding and spill over effects of the war between Russia and Ukraine. The Eastern Cape remained number one in South Africa in terms of high unemployment rate compared with other provinces which is a disturbing fact.

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