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South Africa Economic Outlook
Export prospects and import disruptions

30 May 2022

pwc

About this document

This document reports on PwC South Africa’s core macroeconomic forecasts for the country based on different forward-looking scenarios. The projections are updated on a monthly basis though revisions could occur more frequently due to major economic data releases or key influential events.

This edition of our South Africa Economic Outlook provides a perspective on the current macroeconomic environment, with a key focus on export and import dynamics:

Macroeconomic environment

- Progress in getting economic activity back to pre-pandemic levels (page 3).
- Updated forecasts as the rand weakens and interest rates continue higher (page 4).

Exports

- Top sellers have a strong GDP impact but offer limited support for job creation (page 5).
- Weaker global economic outlook weighs on the outlook for South African exports (page 6).
- Rising commodity prices provide opportunities, but production costs are also increasing (page 7).

Imports

- Supply chain pressures are now higher than during the worst of COVID-19 (page 8).
- In a world of disruption, food and energy products see the biggest cost increases (page 9).
- Actions to bolster supply chain resilience during times of disruption (page 10).

We also look at some featured PwC research about economic crime and fraud (page 11), and highlight two surveys that PwC South Africa is currently conducting (page 12).

This document is produced by the PwC South Africa Strategy& Economics team. The content reflects publicly on some of our key forecasts while other data is reserved for internal purposes and client services. For more information on the team and its services, see page 13 of this document.

Macroeconomic environment: Progress in getting economic activity back to pre-pandemic levels.

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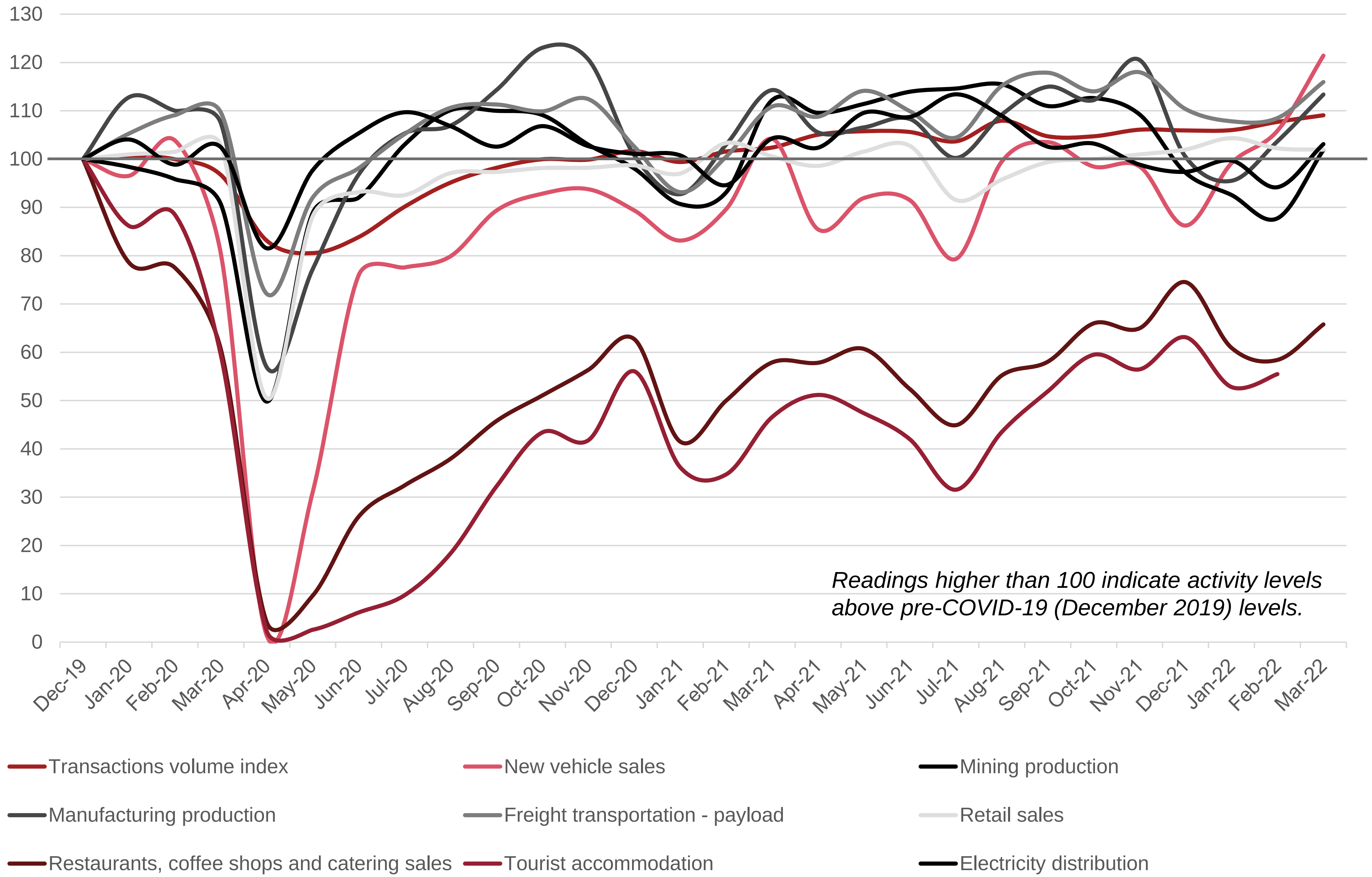
Figure 1: Industry activity compared to pre-pandemic levels



Source: PwC calculations based on data from Stats SA, Trading Economics, BankservAfrica

Table 1: Sector indices – pre-pandemic versus now

Sector index	Dec-19	Feb-22	Mar-22
New vehicle sales	100.0	105.9	121.4
Freight transportation - payload	100.0	108.5	116.0
Manufacturing production	100.0	103.7	113.4
Transactions volume index	100.0	107.7	109.1
Electricity distribution	100.0	94.2	103.1
Retail sales	100.0	102.2	102.0
Mining production	100.0	87.7	101.9
Restaurants, coffee shops and catering sales	100.0	58.4	65.8
Tourist accommodation	100.0	55.5	

Source: PwC calculations

Manufacturing and mining — both industries with a significant export focus — have shown some positive trends of late. Factory output increased by 4.7% q-o-q during 2022Q1 on a seasonally adjusted basis as volumes of motor vehicles produced jumped 25.4% q-o-q. Data from the National Association of Automobile Manufacturers of South Africa (Naamsa) shows that the country exported 119,151 vehicles during the first four months of 2022, an increase of 2.7% y-o-y. On the mining front, mineral sales increased 6.6% y-o-y in March to reach a record-high monthly value of R82.9bn.

Macroeconomic environment: Updated forecasts as the rand weakens and interest rates continue higher.

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The rand depreciated in May to its weakest level in 2022 so far.

The rand traded at its weakest level in more than six months during the middle of May, trading at R16.30/litre and valued around 11% weaker against the US dollar compared to a month earlier. In turn, the dollar was at a 20-year high against a basket of other major currencies. Sentiment towards the rand (and other emerging market currencies) was weakened by a myriad of factors, including weakening local economic growth prospects, escalating domestic inflation, fast-rising interest rates in the US, as well as a slowdown in China (a key global growth driver) due to COVID-19 lockdowns, amongst other factors. On the local front, the adverse impact of April's flooding in KZN and the continued implementation of electricity load-shedding weighed on the outlook for local economic activity. We expect the rand to average R15.38% this year from a mean of R14.78/$ in 2021.

Inflation remains at the top end of the SARB target range.

Headline inflation was measured at 5.7% y-o-y in January and February, and 5.9% y-o-y in March and April. The weaker rand is amplifying the impact of higher commodity prices on imported costs and, ultimately, local inflation. As analysed on page 9, the cost of imports increased notably during March. For example, the cost of fats and oils (a category including sunflower products, a key export from Ukraine) increased by 9.4% m-o-m. While the transmission of these higher prices from portside to shop shelf will take some time, we can already see the impact from fuel prices on transport costs. For example, the cost of public transport increased by 12.6% y-o-y in April, up from a reading of 10.0% y-o-y in January before the Russian invasion of Ukraine. We expect inflation to average 6.0% this year before moderating to a mean of 5.0% in 2023. This would be the highest two-year average since 2007-2008.

SARB MPC hikes repo rate by the largest margin in six years.

The South African Reserve Bank (SARB), alongside many other central banks globally, was already on a path of monetary policy normalisation before the inflation outlook deteriorated. The Monetary Policy Committee (MPC) started lifting interest rates in November 2021 with the intention of getting the repo rate back to its pre-pandemic level (6.50%) by the close of 2024. Most recently, policymakers increased interest rates by 50 basis points on May 26. This was the biggest upward adjustment in six years; 25 basis points changes has been the norm since 2016. The MPC noted that it expects headline inflation to breach the upper end of the 3%-6% target range during 2022Q2; this would be the first above-6% reading since early-2017. Based on its revised forward guidance, the SARB plans to increase the repo rate by another 50 basis points this year to around 5.25% and to 6.00% by the end of next year. The pre-pandemic 6.50% level is now likely to be seen by mid-2024 again.

Softer GDP growth outlook as economic headwinds continue.

Economic growth is facing a myriad of headwinds this year, including a weaker global environment weighing on export potential, a tightening of domestic monetary policy, a further rise in electricity load-shedding, and the adverse impact of local and foreign factors on business supply chains, amongst other factors. Our baseline scenario now forecasts real GDP growth of 1.8% in 2022 compared to an estimate of 2.5% at the start of the year. This is certainly not an isolated deterioration with a wide-spread decline in economic momentum across the globe. As discussed on page 6, PwC's global economic growth forecast for 2022 is now 1.3 percentage points lower than in January. On the local front, the slowdown in economic growth will result in fewer jobs being created. This, in turn, will likely take the unemployment rate to new highs in 2022.

Table 2: Macroeconomic forecasts

Baseline	2020	2021	2022f	2023f
Consumer price inflation (%)	3.3	4.6	6.0	5.0
Repo rate (end-of-period)	3.50	3.75	5.25	6.00
Real GDP growth (%)	-6.4	4.9	1.8	1.6
Unemployment rate (%)	32.5	35.3	35.6	36.0
ZAR/USD	16.46	14.78	15.30	15.80
Probability weighted average	**2020**	**2021**	**2022f**	**2023f**
Consumer price inflation (%)	3.3	4.6	6.1	5.1
Repo rate (end-of-period)	3.50	3.75	5.28	6.05
Real GDP growth (%)	-6.4	4.9	1.7	1.6
Unemployment rate (%)	32.5	35.3	35.6	36.1
ZAR/USD	16.46	14.78	15.38	15.92

Source: PwC

Exports: Top sellers have a strong GDP impact but offer limited support for job creation.

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Biggest export multiplier impact on employment comes from agriculture and forestry goods.

The value of South Africa's exports reached a record-high in March 2022 of nearly R170bn, rising 10% from the previous month and more than 30% from March of the previous year on the back of higher international commodity prices. The S&P GSCI Commodity Index — a composite indicator consisting of 24 commodities across energy products, industrial metals, agricultural products, livestock products and precious metals — climbed by a third between the start of January and the end of March due to the impact of disruptions in Central and Eastern Europe. Data from Statistics South Africa shows that prices received on South Africa's coal exports increased by more than 20% during 2022Q1. (Export volumes of coal have also increased significantly — see page 6).

Historically, South Africa's trade deficit has resulted in net exports (exports minus imports) being a drag on GDP. In 2017-2019, GDP growth was on average 0.6 percentage points smaller due to the negative impact of this deficit. In 2019, when overall GDP growth was just 0.1%, net exports subtracted 1.1 percentage points from the growth figure. In 2020, as the local economy was locked down and imports declined by 12% in value, export revenues increased by 7% as local miners and farmers benefited from high internal commodity prices. This resulted in net exports reducing the size of the recession (a 6.4% decline in real GDP) by 1.7 percentage points. Most recently, net exports contributed 0.1 percentage points to economic growth in 2021.

The production and export of different commodities have varying impacts on the economy. Our analysis shows that for every R1m spent in different industries to produce exported goods, the biggest multiplier impact on GDP comes from the export of services, in particular: personal, cultural and recreation services; Business services; as well as finance and insurance. This is followed by merchandise exports from the fishing and mining sectors. The top ten accounted for 58% of export revenues in 2021. What this tells us is that increasing the exports of these services and goods will have the biggest positive multiplier impact on the local economy. Conversely, reducing import demand for these categories by increasing domestic production would also have a beneficial impact on the economy.

While the positive impact of exports on the GDP calculation is often overturned by the negative impact of imports, export revenues are an important contributor to the local economy. Exports create jobs locally while imports are essentially the offshoring of jobs to another country where goods and services are produced for local consumption. Our analysis shows that for every R1m spent in different industries to produce exported goods, the biggest multiplier impact on employment comes from the export of goods related to agriculture and forestry, in particular: vegetables; citrus fruit; furniture; wood and wood products; and livestock. The top ten exports by multiplier impact accounted for 7.6% of export revenues in 2021. This indicates that, while exports play an important role in the local economy, the most impactful export products from a job creation perspective accounts for only a small share of total export revenues. Conversely, non-metallic mineral products account for a quarter of export revenues, but falls outside the top 15 job creators per R1m spent.

An increase in exports with a high jobs impact can make an important contribution to help solve South Africa's unemployment conundrum. What is needed to achieve this? In the case of agriculture, which produces high-impact products like vegetables, citrus fruit and livestock, some of the solutions are well known. In the case of state-controlled network industries, the sector requires improved electricity supply reliability (Eskom), increased efficiency in port operations (Transnet National Ports Authority), and more reliable rail services (Transnet Freight Rail), amongst other factors.

This list is relevant to many other export-oriented industries, including mining and forestry, and speaks to a broader set of challenges faced by the South African economy. The challenges are, however, not insurmountable, and solutions not necessarily expensive. For example, as discussed in the February 2022 edition of this report, a revised regulatory framework could enable at least 450MW of a required 4,000MW increase in power generating capacity to become available immediately, with a further 4,000MW coming online over the short to medium term.

Table 3: Exports with biggest multiplier impact on GDP and jobs

Rank	Commodity	% of exports	Commodity	% of exports
	GDP		Jobs	
1	Personal, cultural, recreational and government services	0.37%	Forestry	0.09%
2	Business services	1.35%	Vegetables	0.20%
3	Finance and insurance	0.78%	Citrus fruit	3.37%
4	Fishing	0.40%	Furniture	0.23%
5	'Other' mining*	22.21%	Wood and wood products	1.14%
6	Transport	3.24%	Livestock	0.05%
7	Non-metallic mineral products	26.83%	Personal, cultural, recreational and government services	0.37%
8	Wood and wood products	1.14%	Meat, fish, fruit, vegetables, oils and fat products	1.38%
9	Beverages and tobacco products	1.19%	Grain mill, bakery and animal feed products	0.52%
10	Paper and paper products	0.50%	Dairy products	0.20%

Source: PwC

**This category includes extraction of minerals via dredging of alluvial deposits, rock crushing, and the use of salt marshes. The products are used most notably in construction (e.g. sands, stones, etc.), the manufacture of materials (e.g. clay, gypsum, calcium, etc.), and the manufacture of chemicals.*

Exports: Weaker global economic outlook weighs on the outlook for South African exports.

South Africa Economic Outlook May 2022

Our global economic growth forecast for 2022 is down 1.3 percentage points from January.

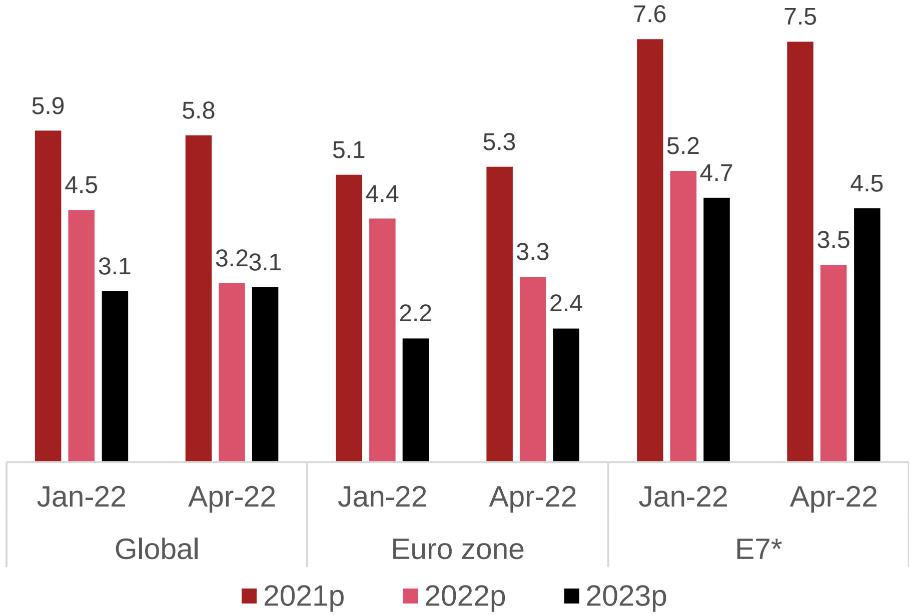
In January, PwC's Global Economy Watch was bullish about the year ahead: "As we usher in the new year, our clients and the wider business community will be refreshing their business plans in the hope that the year ahead is less eventful than the last." The report also noted that commodity prices were expected to remain steady. The rapid growth in energy prices, and natural gas in particular, in 2021 was expected to ease during 2022H1 based on futures prices. However, PwC also warned that this outlook assumes no major geopolitical developments, which are a key driver of short-term prices of natural gas — particularly in Western Europe which has limited energy-related commodities.

Fast-forward four months to the present, and this factor — major geopolitical developments — has somewhat derailed this optimism. Our global economic growth forecast for 2022 is now 3.2%; down 1.3 percentage points from January. The key driver in this decline is the much weaker growth prospects for Europe which is South Africa's largest regional buyer of exported goods. We now expect the euro zone economy to grow by only 3.3% this year compared to a more optimistic number of 4.4% forecast in January this year. This is, quite obviously, blamed on the adverse economic impact of disruption in Central and Eastern Europe on business activity in the rest of the continent. Also, the Chinese economy is now expected to grow by just 5.0% compared to an earlier projection of 5.5% as COVID-19 lockdowns bite into the country's output potential

Growth in key export markets has similarly been revised lower. We forecast GDP growth of 3.7% in South Africa's key trading partners during 2022, down from our January projection of 4.7%.

This cohort includes some of the world's largest economies (e.g. China and the euro zone) who are currently facing a multitude of headwinds, including rising interest rates, supply chain disruption, resurging COVID-19 waves, as well as inflation at the highest levels in decades. The IMF expects the volume of South African goods and services exports to increase by 6.9% this year; while this is a nice number, it is down from a growth of nearly 10.0% in 2021.

Figure 2: Global and regional real GDP growth (%)

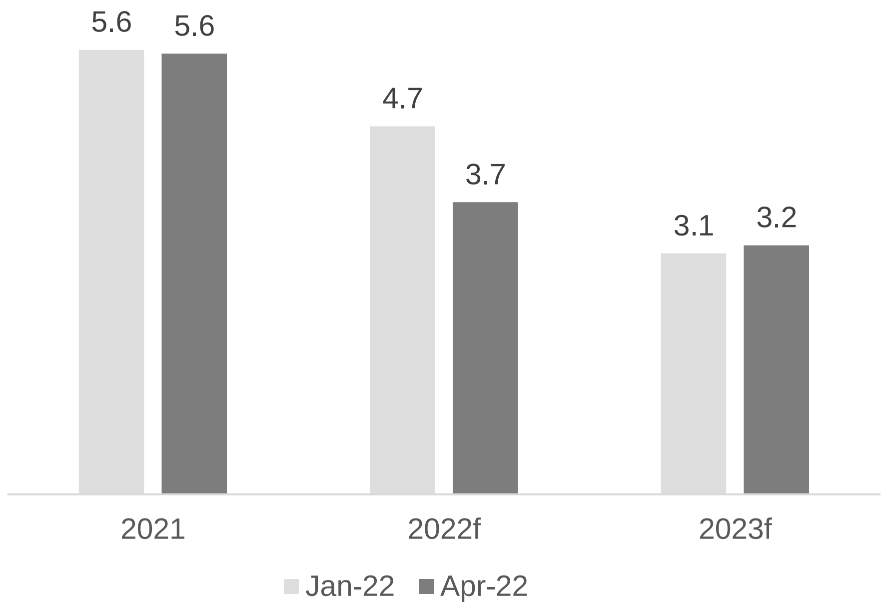


Source: PwC

**E7 = Brazil, China, India, Indonesia, Mexico, Russia, Turkey*

On a positive note, some South African exporters are benefitting from a disjointed global geopolitical situation. Coal exports to Europe jumped significantly during April 2022 compared to the same month last year as European power utilities ramp up purchases as part of their efforts to wean economies of Russian supplies. Data from VesselsValue shows that, despite challenges with Transnet rail capacity between the coal mines and Richard Bay Coal Terminal (RBCT), some 560,000 tonnes of coal was exported to European destinations during the first three weeks of April, compared to just 60,000 tonnes (carried on one vessel) sent to France during the same month of 2021. Members of the European Union have stopped new purchases of Russian coal; and must halt all inward shipments by mid-August as part of the bloc's fifth package of sanctions against Moscow.

Figure 3: Real GDP growth in SA's key trading partners (%)



Source: PwC

3.7%

We forecast GDP growth of 3.7% in South Africa's key trading partners during 2022, down from our January projection of 4.7% and last year's estimated 5.6%.

Exports: Higher commodity prices provide opportunities, but production costs are also increasing.

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Agriculture production costs increase 17.8% y-o-y in April as fuel and fertilizer costs inflate farming costs.

While the global economic outlook has dimmed somewhat over the past three months, the outlook for many commodities has improved. Based on price forecasts from the World Bank and our own projections for the rand, global prices for some food products and certain metals could increase by more than 20% this year when measured in the South African currency. This is good news for the country's farmers. The Western Cape government said in late-April that the province — which contributes more than half of the country's agricultural exports — expects to see a 6% increase in apple exports this year, 12% more pears, and an extra 26% of nectarines.

At the same time, with the local inflation environment intensifying, the cost of producing goods-for-export is also an important consideration. For example, while the prices of agricultural commodities are forecast to climb 22.4% this year, the local cost of producing agricultural goods increased by 17.9% y-o-y during April 2022. The strong recent rise in fuel and fertiliser costs have inflated farm production costs. As reported in the March 2022 edition of this report, the agriculture and transport industries are the most exposed to higher costs of products like fuel, chemicals and fertilisers.

13.1%

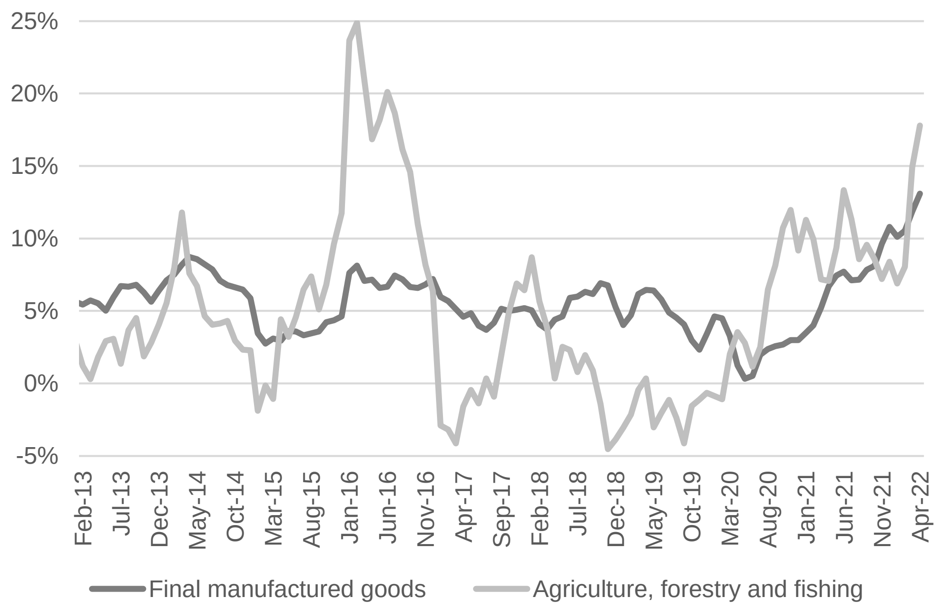
The producer price index (PPI) increased by 13.1% y-o-y in April - 0.8 percentage points higher than economists had expected and the highest reading since the current PPI series began in 2013.

Table 4: Forecast change (%) in rand commodity prices

	2021	2022f	2023f	2024f
Energy (coal, crude oil, natural gas)	62.5%	56.6%	-9.3%	-8.9%
Non-Energy Commodities	19.2%	24.0%	-5.6%	0.1%
Metals and Minerals	32.1%	20.5%	-7.4%	-3.9%
Base Metals	31.8%	27.2%	-5.1%	-2.9%
Precious Metals	-5.7%	7.2%	-5.7%	-0.1%
Agriculture	11.5%	22.4%	-4.5%	3.2%
Beverages	4.4%	15.2%	-0.3%	3.9%
Food	17.5%	27.9%	-7.2%	2.9%
Oils and Meals	27.1%	35.0%	-10.9%	2.5%
Grains	16.6%	25.2%	-7.2%	2.6%
Other food	6.3%	19.9%	-0.8%	3.7%
Raw Materials	-2.2%	7.4%	4.2%	4.1%
Timber	-6.0%	-0.6%	7.2%	4.9%
Other Raw Materials	3.2%	17.5%	0.9%	3.4%
Fertilizers	62.2%	76.0%	-8.2%	-12.1%

Source: PwC

Figure x: Producer price inflation (%)



Source: Stats SA

Production costs in general are a point of concern for South African companies: the producer price index (PPI) on final manufactured goods increased by 13.1% y-o-y in April. The latest reading was 0.8 percentage points higher than economists had expected and it was also the highest reading since the current PPI series began in 2013. The price indicator of the ABSA Purchasing Managers' Index (PMI) March 2022 climbed to its highest since the Bureau for Economic Research (BER) started publishing the series in 1999 as a result of a surge in prices of raw materials like food products and oil. With supply chains strained, there were also physical shortages of inputs. The price index moved lower in April but remained elevated — suggesting that input costs continued to increase rapidly.

Imports: Supply chain pressures are now higher than during the worst of COVID-19.

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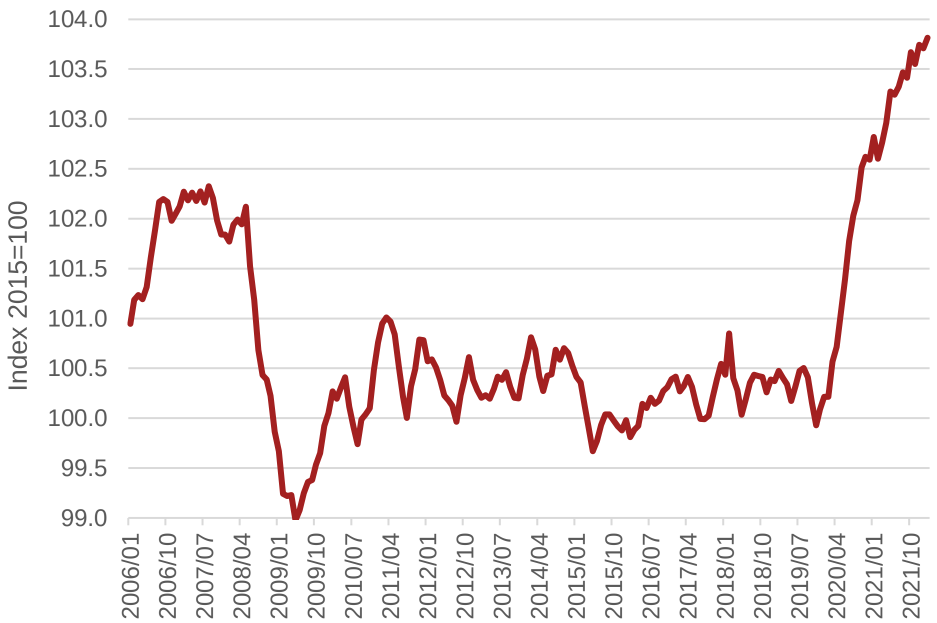
Imports disrupted by Russian invasion of Ukraine, COVID-19 lockdowns in China, floods in KZN, local power load-shedding.

On April 24, United Airlines cancelled a flight from New Jersey to Johannesburg (and its corresponding return flight) due to fuel shortages at OR Tambo International Airport. To avoid similar cancellations around this time, Lufthansa, Swiss International Air Lines and Virgin Atlantic had to include refuelling stops at King Shaka International Airport in KwaZulu-Natal as part of their operations for flights returning to Europe. The airport (Africa's busiest flight hub) was experiencing lower-than-usual jet fuel stocks due to a combination of factors, including global supply chain disruption (three-quarters of jet fuel used in South Africa is imported) and local problems caused by flooding in KwaZulu-Natal. In an early-May shipment, OR Tambo was expecting 67 rail tanks of fuel from Durban. However, due to flood-caused damage to Transnet freight rail lines, only 11 tanks arrived at the airport. In the second week of May, the Airports Company of South Africa (ACSA) said the transport of fuel by rail from Durban will only be 100% restored by end-October.

More generally, how serious are current import supply chain pressures for South African companies? Well, serious enough for the SARB to include a note on supply chain pressures in its Quarterly Bulletin published in March 2022. The central bank created a new composite index to measure supply chain pressures in order to determine whether these pressures are intensifying or easing. Some of the indicators used include data on port volumes, delivery times, and shipping and production costs, amongst other factors. The results showed that domestic supply chain pressures were higher in February 2022 (latest available month) than seen during the worst of the COVID-19 pandemic (2020) and the global financial crisis (2008-2009).

Figure 4: Composite supply chain pressure index



Source: SARB

It is important to note that this was before the adverse impact of the Russian invasion of Ukraine and the latest COVID-19 lockdowns in China on global logistics. It is quite certain that, when all sub-component data is available for March and April, this will further increase the reading on the composite index. The S&P Global South Africa PMI April 2022 noted that South African businesses continued to face supply constraints due to local and international factors. These shortages resulted in another sharp lengthening in delivery times during the month. From a manufacturing perspective, the supplier deliveries index of the ABSA PMI April 2022 was very elevated compared to the long-term average - this means delivery times were still unusually slow.

Over the past three months, the main factors disrupting import supply chains were:

- Russian invasion of Ukraine — The ongoing disruption to business activity in Central and Eastern Europe continues to affect global supply chains. Ukraine and Russia are amongst the world's largest exporters of soft commodities and energy products, respectively. The Black Sea is closed to merchant shipping and Ukraine's grain exports fell by nearly 70% y-o-y in April to 923,000 tonnes. By implication, supply chain disruption caused by the conflict has a large bearing on other countries' import supply. Historically, South Africa purchased 10% of its wheat requirements from Ukraine and Russia.
- COVID-19 lockdowns in China — The Asian economy is the world's largest exporter and South Africa's largest supplier of imports. Shanghai, the country's leading industrial and manufacturing centre, recorded a 7.5% y-o-y decline in industrial output in March due to stringent lockdown measures. Movement restrictions due to the country's zero-COVID-19 policy also prevented ships from picking up cargo destined for shipping to countries like South Africa. Some companies are looking at (costly) air freight to improve delivery of critical items.
- Floods in KwaZulu-Natal — The heaviest rains in more than six decades caused significant disruptions to logistics feeding to and within the Port of Durban. The harbour handles 60% of the country's imports and exports and is a direct route for shipments to and from the country's commercial hub Gauteng. While normal harbour operations resumed within days of the worst flooding, and the clearing of food, fuel and medical supplies were prioritised, the processing of incoming containers was strained towards May due to significant backlogs.
- Electricity load-shedding — Power outages adversely impact a myriad of business operations surrounding imports. During the January-April period, Eskom implemented load-shedding on 25 days. While this was fewer than the 29 days recorded in the first four months of 2021, the total intensity of the rolling blackouts (including two days at stage 3, and four days at stage 4) was worse. A total of 1,054 GWh was shed during these four months: at an average of 263.5 GWh per month, this was 25% higher compared to the same period of 2021.

Imports: In a world of disruption, food and energy products see the biggest cost increases

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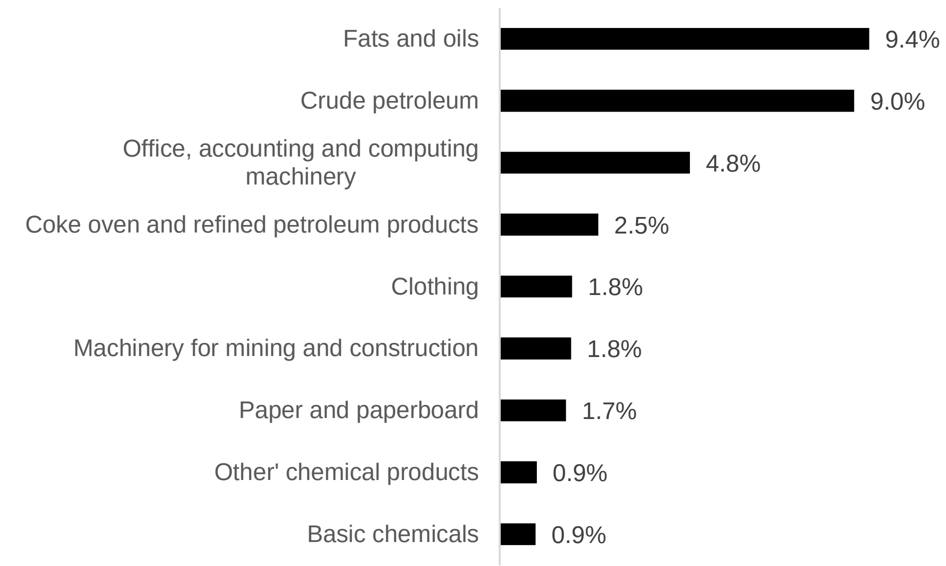
Local cooking oil prices jump 30% from January, with 27 million tonnes of grain stuck in Ukraine.

By now, South Africans have noticed the shelf price of many goods increasing. For example, the cost of cooking oils have increased significantly in response to higher internal commodity prices and supply scarcity as exports from Ukraine dropped. An estimated 27 million tonnes of grain (e.g. sunflowers and soya) is stuck in the country, with up to four million tonnes sitting in terminals and on ships stranded in ports. With the ports of Mariupol, Berdiansk, and Kherson under Russian control, harbour infrastructure at Mykolaiv severely damaged, and three ports in the greater Odessa area either blocked or with mined waterways, exports have declined significantly. Furthermore, Ukraine's other ports on the Danube River (in the far west) cannot handle more than 300,000 tonnes of grain per month.

Statistics South Africa (Stats SA) reported that the cost of fats and oils (a category including sunflower products) increased by 9.5% m-o-m in March due to this supply constraint. (Globally, sunflower prices are now 45% higher compared to as year ago.) South Africa's imported food products cost 5.0% m-o-m more due in part to the increase in food oil prices: sunflower oil is used in the manufacturing of diverse products, including margarine, ice-cream, chocolate, canned goods and breakfast cereals, amongst many others. The food oil product is also used in the production of medicine and other health products.

Figure 5: Change in import prices between Feb '22 and Mar '22

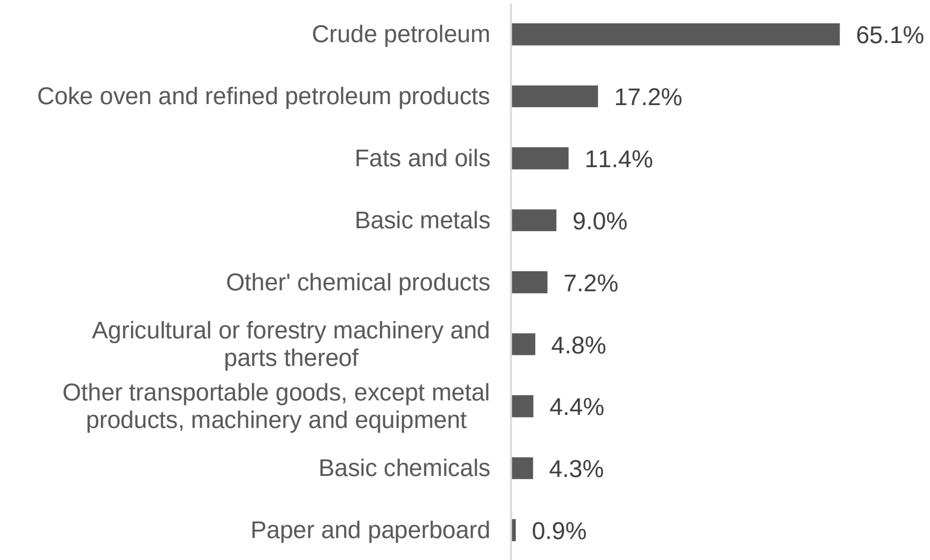


Source: Stats SA

Many grain products produced locally (like sunflowers) follow international price trends. As a result, even the prices of locally produced soft commodities have increased significantly since February. Unsurprisingly, some retailers are limiting the number of products in the cooking oil category that shoppers can buy. According to a survey by the Pietermaritzburg Economic Justice & Dignity (PMBEJD) group, the cost of buying a five litre bottle of cooking oil in Johannesburg increased by 20% from February to April, and jumped by 30% in Durban over the same period.

The other major import price shock has been the jump in energy prices. Crude petroleum cost 9.0% m-o-m and 65.1% y-o-y more to import in March due to higher international commodity prices. Motorists would have felt this at the pumps: despite some welcome tax relief implemented by the government, the Gauteng price for 95 octane unleaded petrol increased from R19.61/litre in January to R21.84/litre at the start of May. South Africans were set to see a further R4/litre increase in the petrol price at the start of June due to as weaker rand, higher oil prices, and the end of the two-month tax relief of R1.50/litre. Officials from the National Treasury and the Department of Minerals and Energy met on May 29 to discuss various options for extending the relief, thought at the time of writing, no decision had yet been announced.

Figure 6: Change in import prices between Mar '21 and Mar '22



Source: Stats SA

Imports: Actions to bolster supply chain resilience during times of disruption.

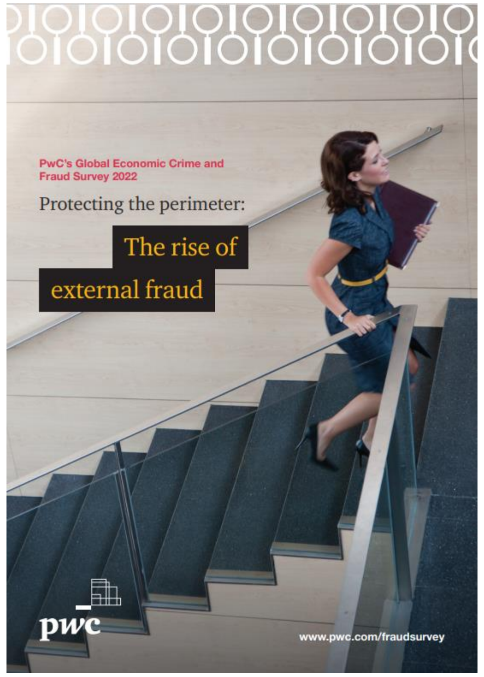
South Africa Economic Outlook May 2022

A multitude of factors — including the Russian invasion of Ukraine, the COVID-19 pandemic, and flood damage to infrastructure in KwaZulu-Natal — has brought about multiple challenges that South African businesses must evaluate and solve to ensure effective service delivery and sustainability. One of these areas is the procurement of goods and a resilient supply chain to continuously provide goods and services to the organisation. These tips are specifically focused on assessing your supply chain during and after challenging times.

Table 5: Actions for greater supply chain resilience

1. Identify and prioritise your critical products, services and suppliers	**2. Identify alternative supply chain scenarios**	**3. Review your demand planning for increased volumes**	**4. Monitor costs of impacted products closely and develop pricing strategies**	**5. Maintaining contact through continuous supplier management**	**6. Localising supply chain components by increasing domestic sourcing**
The resilience of your sourcing and supply chain is heavily reliant on your critical products, services and suppliers. With these changing times, it is necessary to identify and/or review what are considered critical products and suppliers. This identification will assist in assigning resources for planning, sources, scenario planning and supplier management. Additional items that might be considered critical at this time are cross-border, non-essential goods, services provided by third parties, and continuously changing regulatory requirements.	The supply of products (be it availability from your supplier, the logistics to get it to you, or storage of your inventory) might be fragile during this time. Additional scenarios can include a) looking for alternative suppliers that can provide critical items to ensure you are able to source the products; b) understanding the lead times and identifying measures to reduce the lead time; c) increasing the critical inventory on-site to ensure availability; and d) splitting storage between traditional and alternative storage areas. All these areas should be considered with different scenarios.	Demand planning needs to be reviewed for both the current disruption and business-as-usual scenarios. Linking with the identification of critical products and any associated products and services, the demand drivers and sensitivity of the demand will feed into the supply chain scenarios for during and after the current situation. The ramp-up and potential ramp-down of volumes needs to be identified and communicated to suppliers and the supply chain.	The costs and cost drivers of products and services are ever changing during times of crisis. To ensure costs do not run out of control, close monitoring of pricing is required and needs to be locked into supply contracts where necessary to remove unnecessary volatility. Budgets will have to be reviewed and aligned accordingly. Pricing strategies with cost drivers, market availability and volume requirements are crucial to make informed decisions. This will impact margins, cash flow and other obligations where visibility to pricing is important.	Supply chain disruption brings the risk of unintended reputational damage. A clear strategy for transparent communication with customers, external stakeholders and employees, as well as along the supply chain, is critical and can become a competitive advantage in these situations. For the supply chain, continuous supplier management will ensure awareness of any changes and will provide the ability to make quick and agile decisions.	Localisation refers to the local assembly or manufacture of commodities, components and systems, and is aimed at increasing local manufacturing capacity and capabilities. Localisation can help build resilience in the local supply chain: by increasing the local component of the supply chain, companies reduce their import dependence. Organisations focus on developing the necessary competencies and competitive advantages locally, including assisting the development of local suppliers.

Featured PwC research: Global Economic Crime and Fraud Survey 2022



Globally, fraud, corruption and economic crime rates show no real increase compared to the pre-COVID-19 levels. Despite supply chain issues, environmental and geopolitical instability, an uncertain economy, a talent shortage, and many other emerging risks, PwC's Global Economic Crime and Fraud Survey 2022 shows that the proportion of organisations experiencing fraud has remained relatively steady since 2018. It appears that years of effort to combat fraud through policies, training, internal controls and monitoring have helped to tamp down internally driven misconduct, even in a volatile risk environment.

However, the survey of 1,296 executives across 53 countries and regions found a rising threat from external perpetrators — bad actors that are quickly growing in strength and effectiveness. Nearly 70% of organisations experiencing fraud reported that the most disruptive incident came via an external attack or collusion between external and internal sources. Hackers and organised crime rings are among the most common external perpetrators. Their activity rose substantially in the last two years: 31% of external perpetrator cases were the result of hackers, and 28% were conducted by organised crime. Both numbers reflect increases from our 2020 survey.

Organised crime groups are becoming more specialised and professional, with goals, incentives and bonus structures. Bad actors are also collaborating, which increases both the volume and sophistication of attacks. Thanks to chat rooms, the dark web and crypto currency, specialists in data breach, false ID creation, attack methodology, and other nuanced areas can connect, coordinate and transact within a growing criminal economy. Across organisations of all sizes, cybercrime poses the biggest threat, followed by customer fraud and asset misappropriation.

The outlier to the dominance of cybercrime is the energy, utilities and resources (EU&R) sector, where procurement fraud is the biggest threat. Of the 31% of EU&R companies experiencing economic crimes, nearly half reported procurement fraud. With a smaller digital footprint and fewer customer interactions than many other sectors, it makes sense that this industry's fraud profile would be different than that of other sectors.

The pandemic created unsettling vulnerability as organisations accelerated the shift to digital operations. One bright spot is that asset misappropriation, while still a top category of fraud, was down in the last 24 months — perhaps, in part, because more employees are now working remotely, with limited access to company assets. At the same time, remote working increased risks beyond just digital security. For example, some companies experienced increased risks to employee safety; there was a heightened risk of blackmail or physical harm to employees working from home with access to valuable corporate data.

Figure 7: Types of economic crime by industry

Industrial manufacturing	Financial services	Energy, utilities and resources	Retail and consumer	Government and public sector	Health industries	Technology, media and telecommunications
Cybercrime	Customer fraud	Procurement fraud	Customer fraud	Cybercrime	Cybercrime	Cybercrime
32%	44%	45%	37%	36%	40%	50%
Asset misappropriation	Cybercrime	Cybercrime	Asset misappropriation	Asset misappropriation	Asset misappropriation	Customer fraud
28%	38%	29%	31%	33%	30%	35%
Accounting/ financial statement fraud	Know-your-customer failure	Supply chain fraud	Cybercrime	Customer fraud	Customer fraud	Procurement fraud
24%	29%	29%	27%	28%	27%	26%

Source: PwC

Featured PwC surveys: Taxing Times 2022, Employee Expectations Survey 2022

Taxing Times 2022

Export revenues have made a considerable contribution to South Africa's economic and fiscal recovery from the COVID-19 pandemic. In February this year, finance minister Enoch Godongwana reported that tax revenues during the 2021/2022 fiscal year were forecast to come in more than R180m higher than the National Treasury expected a year earlier. This was mainly attributed to mining companies paying a lot more corporate tax on the back of higher profits from elevated international commodity prices. According to the Minerals Council South Africa, the value of mineral production exceeded R1trn (for the first time) in 2021

Ultimately, the South African Revenue Service (SARS) collected R1.56trn in tax revenue during the 2021/2022 financial year. With this record high collection, and considering the agency's drive to enhance compliance levels as well as regaining trust among taxpayers, PwC believes that now is the appropriate time to take stock of how South African organisations and their tax functions are operating, responding to, and coping with SARS audits, collections, Voluntary Disclosure Programme (VDPs), as well as the agency's overall service delivery.

We are asking corporate tax practitioners to take part in our revamped Taxing Times Survey. The survey was launched for the first time in 2018 and has gained considerable interest amongst corporate taxpayers, other stakeholders and SARS in particular. The survey is available here until July 17.

One of the questions we are asking is whether the quality of the service delivered by SARS to taxpayers has improved since 2018. Also, we are asking respondents if, in their experience, it has become easier to comply with tax obligations to SARS. The results to these and other questions will be used to robustly engage across a range of stakeholders, taxpayers, regulatory bodies, as well as SARS. The main aim is to highlight key areas of success and possible improvement in the public sector to assist in uplifting public confidence in order to, ultimately, restore the credibility of the tax authority.

Employee Expectations Survey 2022

In the April 2022 edition of this report, we looked at the challenge of rising salary and wage demands. Within the current environment of elevated consumer price inflation, workers are setting their sights on substantial cost-of-living adjustments to their remuneration. At the same time, many employers are still adapting to new ways of remote working and associated management requirements for employees working offsite. These are two key factors currently shaping the local employer-employee relationship. South Africa has historically been ranked poorly from a global perspective in the area of cooperation in employer-employee relations.

An organisation's Employee Value Proposition (EVP) is a big driver of why people choose to work there. It is the combination of 1) what an employee gets in terms of salary and benefits as well as other factors (e.g. meaningful and challenging work, learning and development opportunities, etc.), and 2) what the worker gives to the organisation in terms of knowledge, skills, experience and job performance.

In a highly competitive talent market, the EVP – that is the 'understanding' between an employer and an employee which lays out what each can offer and expect in return – and the employer brand has become an important negotiating tool. PwC's Employee Expectations Survey 2022 intends to gain insight into what employees would like most from their employers. The survey is available here until June 3.

In this survey, we ask employees for their preferences grouped under the following themes:

- Salary and benefits
- Work life integration
- Career and development
- People and culture
- Organisational characteristics.

The results will equip companies to keep up with the evolving needs of the workforce. Many organisations don't have a clear view of why employees should work at their company rather than a competitor – whether that be for reputation, better pay, inspirational leadership and more career growth, as well as other benefits and incentives. A strong EVP enables organisations to be more competitive in the marketplace, increases the retention of talent, and enables the company to successfully execute its business strategy.

PwC Economics services and contacts.

South Africa Economic Outlook May 2022

How can we help?

Inflation scenarios: Upward pressure on producer and consumer price inflation has intensified over the past three months. We have been speaking to clients to help them understand and address their input cost challenges, specifically looking at inflation scenarios from both the producer and consumer sides. We are helping clients understand their cost structures, how this compares with industry benchmarks, what these costs could look like under different macroeconomic scenarios, and how suppliers and consumers could be impacted. This includes remuneration considerations. Not too long ago, salaries and wages were expected to increase only moderately during 2022. However, survey data shows that, alongside a recent deterioration in South Africa's overall inflation environment, expectations have grown for more substantial increases in remuneration. This will have a varying impact on different industries and sectors depending on their overall exposure to labour as an input cost.

Supply chain optimisation: With global supply chains under immense pressure, organisations need to re-evaluate their strategies, agility and capabilities to respond to risk. Our key focus is helping our clients better position themselves to identify and mitigate the impact of potentially negative events affecting their supply chain. With rapid response procedures and processes, enabled by leading technology, companies are able to build supply chain resilience without impacting business as usual, thus achieving their sustainability goals. Re-evaluating sourcing options can often bolster companies against challenging external environments. Through careful consideration of key business areas, market dynamics and internal alignment, we are able to co-create leading sourcing strategies fit for resilience. We support our clients by refocusing the supply chain towards their business needs, including cost, resilience, ethical and responsible sourcing, operational efficiency and local transformation targets.

Our services

The PwC South Africa Strategy& Economics team is a specialised unit of economists who serve our clients in a variety of ways. Our services include:

Measure your impact on the economy and society

- Environmental, Social and Governance (ESG) and Just Transition
- Economic Impact Assessment (EIA)
- Socio-Economic Impact Assessment (SEIA)
- Regulatory Impact Analysis (RIA)
- Total tax contribution
- Localisation calculations

Make decisions about risk and investment

- Macroeconomic research
- Market entry analysis
- Country and industry risk assessments
- Commercial due diligence assistance

Plan for future economic scenarios

- Economic and political scenario planning
- ESG scenario planning
- Industry and macroeconomic modelling
- IFRS 9 audit assist

Please visit our website to learn more:
https://www.pwc.co.za/en/issues/economy.html

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