THE REAL ECONOMY BULLETIN

TRENDS, DEVELOPMENTS AND DATA

FIRST QUARTER 2021

The Real Economy Bulletin is a TIPS review of quarterly trends, developments and data in the real economy, together with a comprehensive analysis of the main manufacturing industries and key data in Excel format.*

Gross Domestic Product

GDP grew by 2.7% in the first quarter of 2021. High mining prices continued to boost growth above initial expectations. Still, the economy was 2.9% smaller than in the first quarter of 2019, before the pandemic.

As Graph 1 shows, the GDP climbed 2.7% in seasonally adjusted but not annualised terms in the first quarter of 2021. In normal times, that would be extraordinarily rapid growth, surpassed only at the height of the minerals boom in 2006/7. It represented a further slowdown in the rebound from the 17% downturn in the second quarter, however. As a result, GDP was still 2.9% lower than in the first quarter of 2019.

By sector, mining showed the fastest growth (see Graph 2). As discussed in the section on international trade, it benefited from export prices, which for platinum, gold and iron ore exceeded the earlier 2011 peaks in constant rand terms. Manufacturing saw a sharp deceleration in the quarter in seasonally adjusted terms. Construction actually shrank slightly, which was worrying because it had already shed a disproportionate number of jobs during the pandemic.

*Available at www.tips.org.za/
the-real-economy-bulletin

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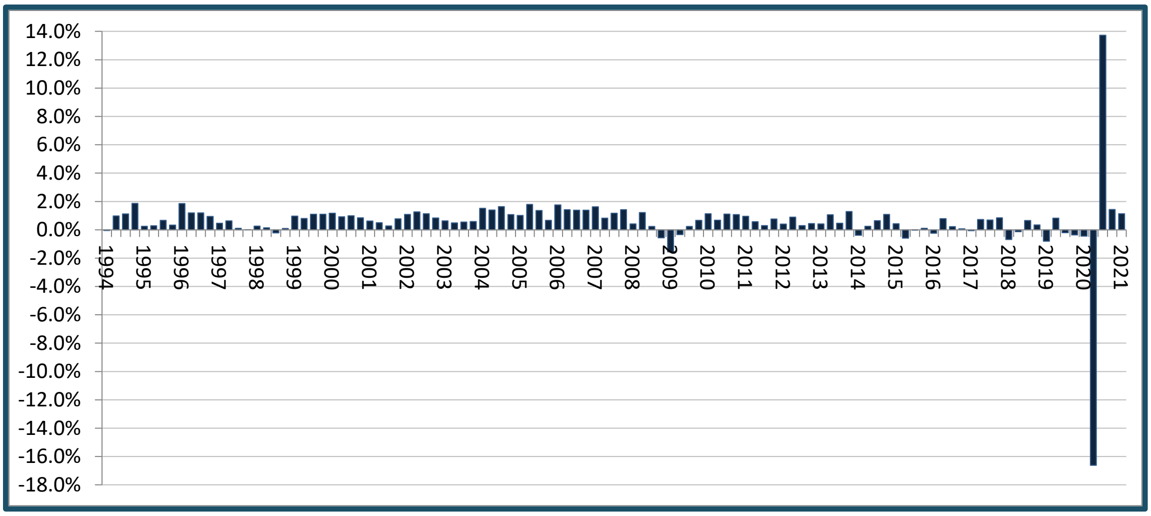
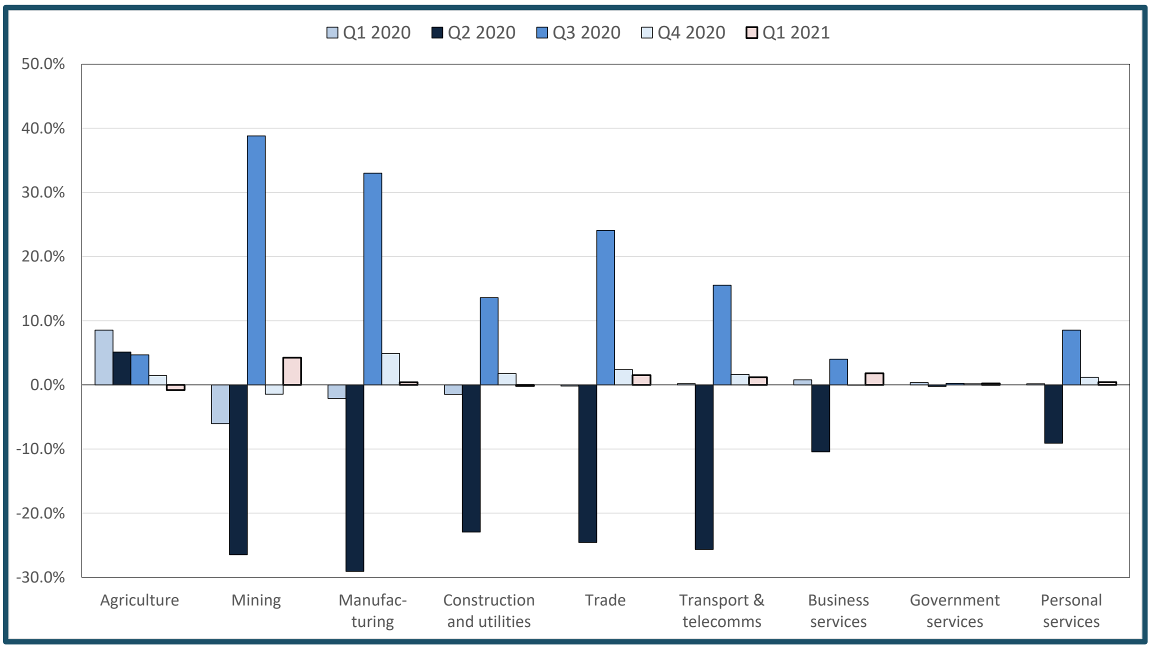
Graph 1. Quarterly change in GDP, seasonally adjusted, 1994 to first quarter 2021



Source: Calculated from Statistics South Africa. GDP quarterly figures. Excel spreadsheet downloaded from www.statssa.gov.za.

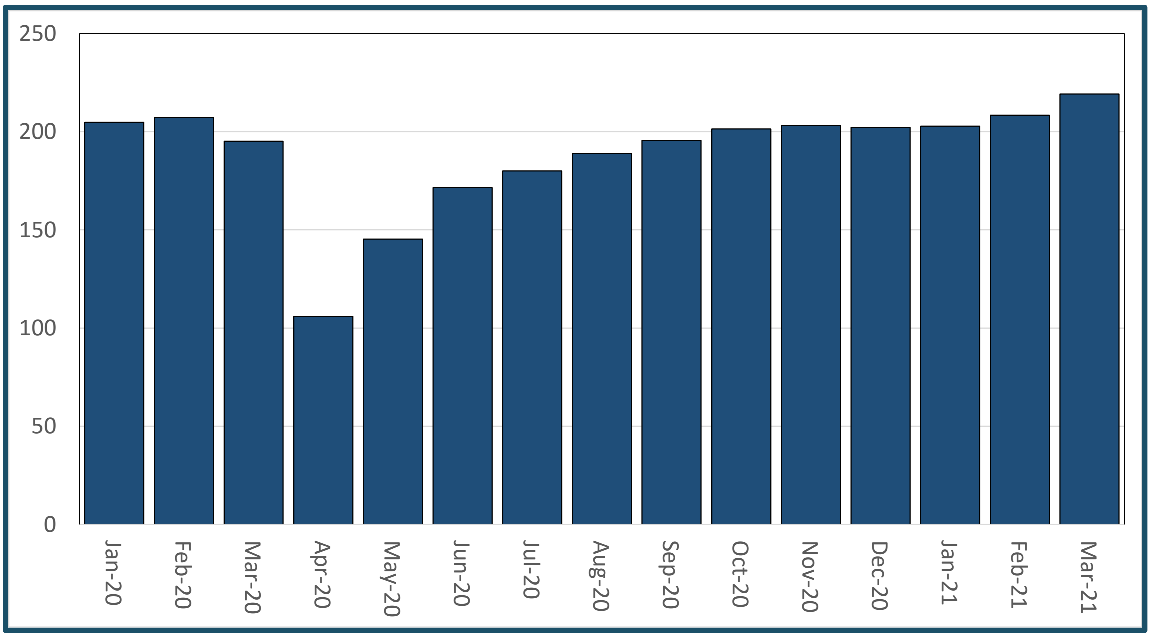
Graph 2. Quarterly and annual change in contribution to GDP by sector, first quarter 2020 to first quarter 2021



Source: Calculated from Statistics South Africa. GDP quarterly figures. Excel spreadsheet downloaded from www.statssa.gov.za.

For manufacturing as a whole, sales in constant, seasonally adjusted rand appeared to pick up during the first quarter of 2021. In March, they exceeded sales a year earlier. Progress could, however, be undermined by the resurgence of the pandemic, which affects manufacturing primarily through the impact on some kinds of consumer demand, especially food and alcohol prepared for restaurants, and through the pressure of absenteeism as workers have to quarantine or isolate.

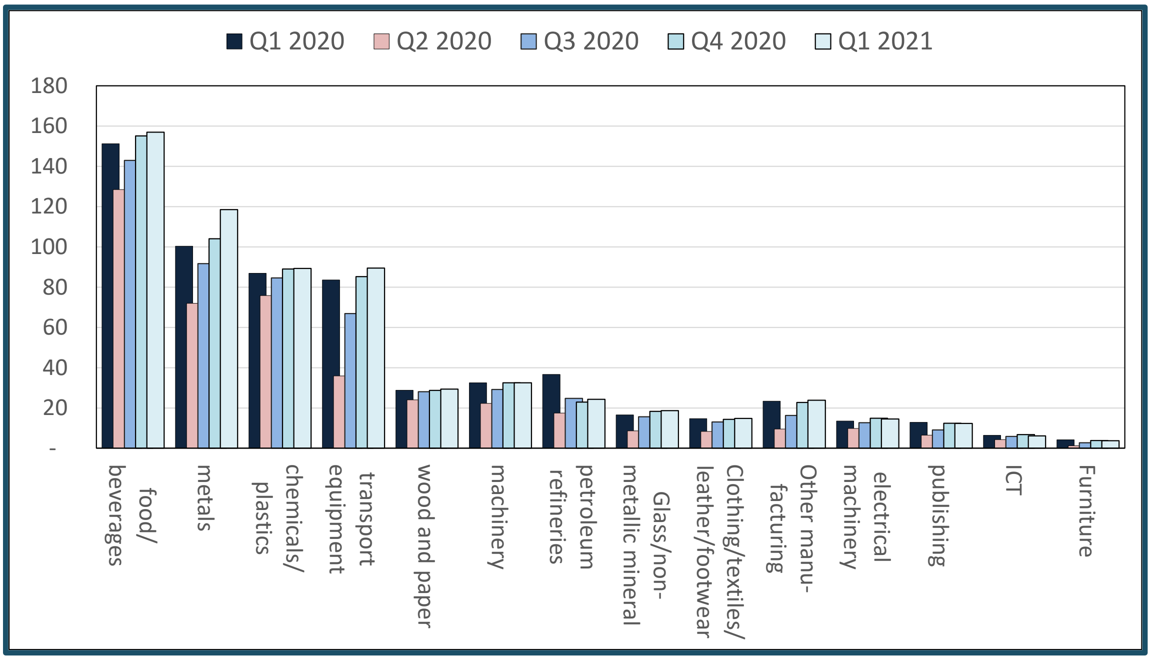
Graph 3. Monthly manufacturing sales in billions of constant (2021) rand (a), seasonally adjusted



Note: (a) Reflated with CPI rebased to December 2020. *Source:* Calculated from Statistics South Africa. Manufacturing: Production and Sales. Excel spreadsheet downloaded from www.statssa.gov.za.

The recovery in sales from the April low point was particularly marked in metals and auto.

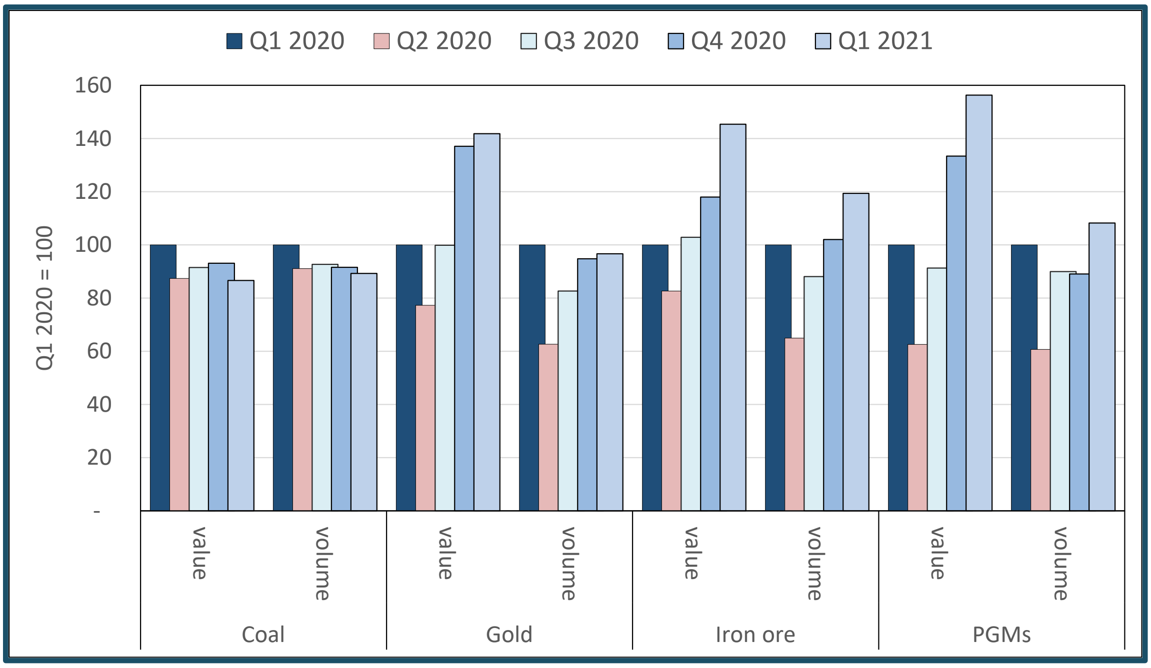
Graph 4. Quarterly sales by manufacturing industry in billions of constant (2021) rand (a), seasonally adjusted



Note: (a) Reflated with CPI rebased to December 2020. *Source:* Calculated from Statistics South Africa. Manufacturing: Production and Sales. Excel spreadsheet downloaded from www.statssa.gov.za.

In mining, all of South Africa's major exports except coal showed a strong recovery in sales in constant rand terms, mostly because of soaring export prices. Production also more than recovered in iron ore and platinum, although gold output was still slightly lower than before the pandemic and coal was around 10% behind.

Graph 5. Index of seasonally adjusted quarterly production and sales (in constant rand) in mining (Q1 2020 = 100)(a)

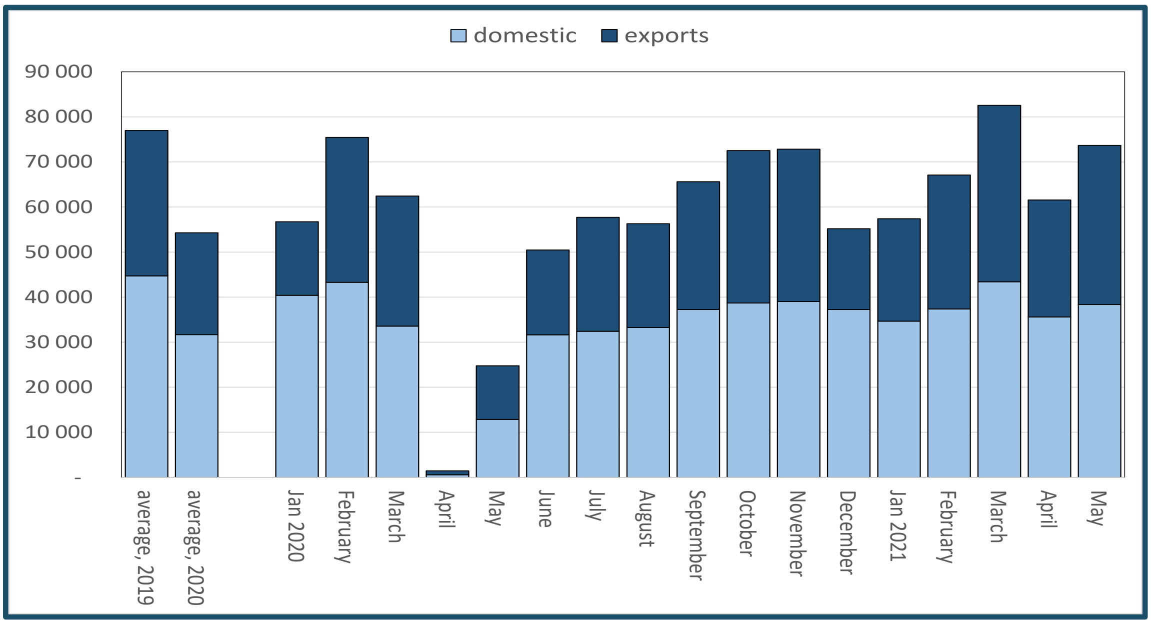


Note: (a) Production volume indices rebased to first quarter of 2020; sales are deflated with CPI. *Source:* Calculated from Statistics South Africa. Mining Production and Sales. Excel spreadsheet downloaded from www.statssa.gov.za.

Because the pandemic was not under control, with a marked surge in January, bars and restaurants remained the hardest hit industry in the economy. In the first quarter of 2021, their sales were down by 30% compared to the first quarter of 2020, when travel had already started to slow as a result of fears of COVID-19. They were 35% lower than in the first quarter of 2019. The figures indicated that the industry had not recovered at all from the last quarter of 2020 in seasonally adjusted terms.

The auto industry is South Africa's largest manufactured export outside of the mining value chain. Both domestic and export sales recovered strongly after collapsing in April 2020. Domestic sales levelled out from October 2020, however, export sales fluctuated but remained fairly strong. In May 2021, exports were 17% higher than in May 2019, before the pandemic, but domestic sales were 5% lower than two years earlier.

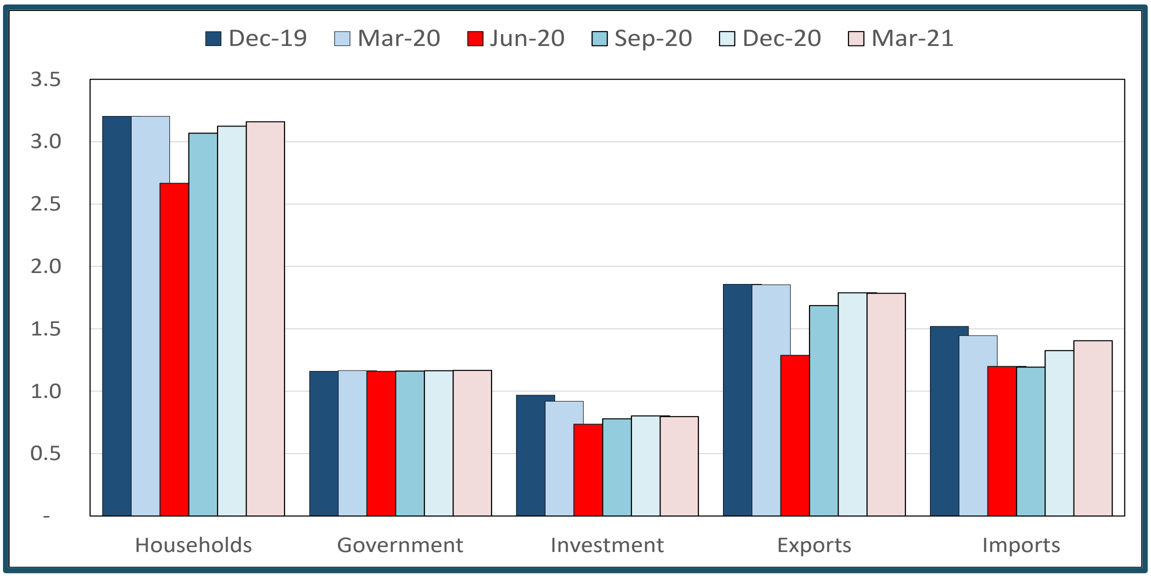
Graph 6. Domestic and export auto sales, averages for 2019 and 2020 and monthly from January 2020 to May 2021 (number of vehicles)



Source: Calculated from NAAMSA data published by Quantec. EasyData. Downloaded from www.quantec.co.za.

In expenditure terms, recovering household consumption continued to drive growth, although it remained lower than before the pandemic. In contrast, as discussed more in the section on investment and profitability, capital formation declined marginally in the first quarter of 2021. Government sustained its consumption during the sharp downturn in the second quarter of 2020, but it has not increased it since then. Exports of goods and services in seasonally adjusted terms were also flat in the past quarter, as Graph 7 shows, although goods alone climbed quite sharply in actual (not seasonally adjusted) terms.

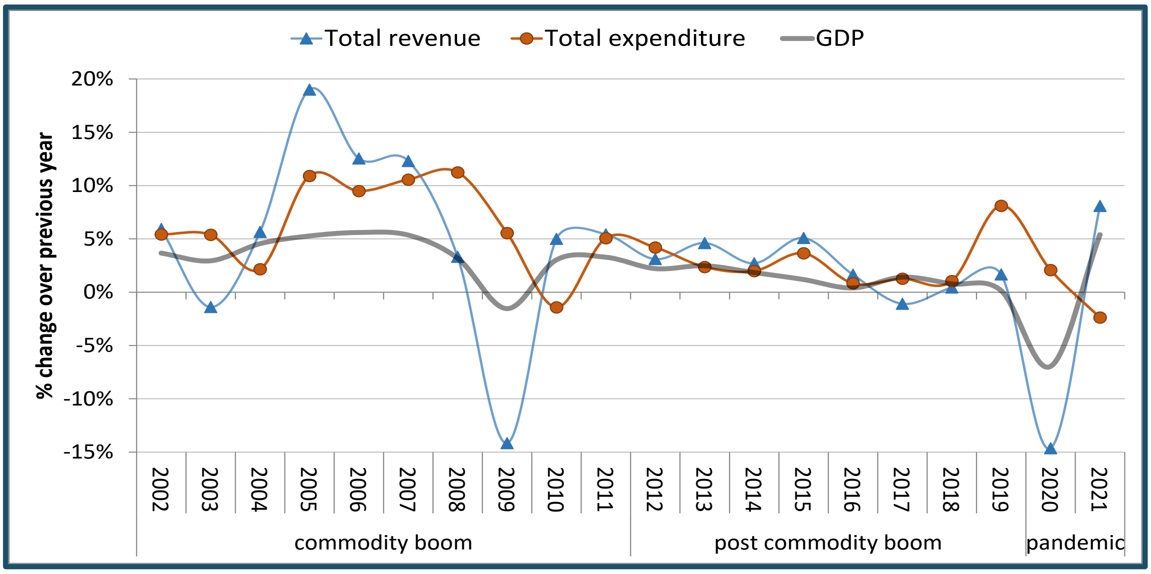
Graph 7. Quarterly expenditure on GDP, fourth quarter 2019 to fourth quarter 2020, by category, seasonally adjusted, in billions of constant (2021) rand (a)



Note: (a) Reflated using implicit deflator rebased to fourth quarter 2020. *Source:* Calculated from Statistics South Africa. GDP quarterly figures. Excel spreadsheet downloaded from www.statssa.gov.za.

South Africa's fiscal response to the COVID-19 crisis aligned with a long-term inclination toward pro-cyclical strategies. As Graph 8 shows, the 2008/9 global financial crisis and the end of the global commodity boom in 2011 brought first a sharp dip and then a sustained decline in both GDP growth and government revenues. In response, the government consistently cut spending in real terms. The 2019/20 budget reversed this trend due in large part to a R23 billion investment in Eskom. In 2020, in constant rand, South Africa's main budget revenue fell by 15% while spending climbed 2%. As a result, the deficit increased from 7% of the GDP in 2019/20 to 12% in 2020/21. In 2021/22, however, the government aimed to reduce the deficit to 9% of GDP. To that end, it planned to cut its spending by 2% in real terms, despite an anticipated 4% expansion in revenues.

Graph 8. Growth in GDP and government revenues and expenditure in South Africa, 2002 to 2021 (a)



Note: (a) Calendar year for GDP; year from March for revenues and expenditure. Revenues and expenditure deflated with March CPI. *Source:* Calculated from National Treasury. Budget Review data in excel format. Table 1. Downloaded from www.treasury.gov.za in April 2021; and South African Reserve Bank. Interactive dataset. Series on GDP in constant rand. Accessed at www.resbank.co.za in April 2021.

The 2021/22 pullback was even stronger if measured through the consolidated account that combined the budget with the accounts of state-owned companies and social protection funds. By this measure, government expenditure was expected to decline by 5.5% from 2020 to 2021, while revenue climbed by 7.1%. In real terms, that would leave spending including debt service some 2.2% higher than it was before the pandemic, in 2019/20, with revenue still down by 8.4%. Excluding debt costs, however, consolidated state spending was expected to drop 0.2% below 2019/20 levels in real terms.

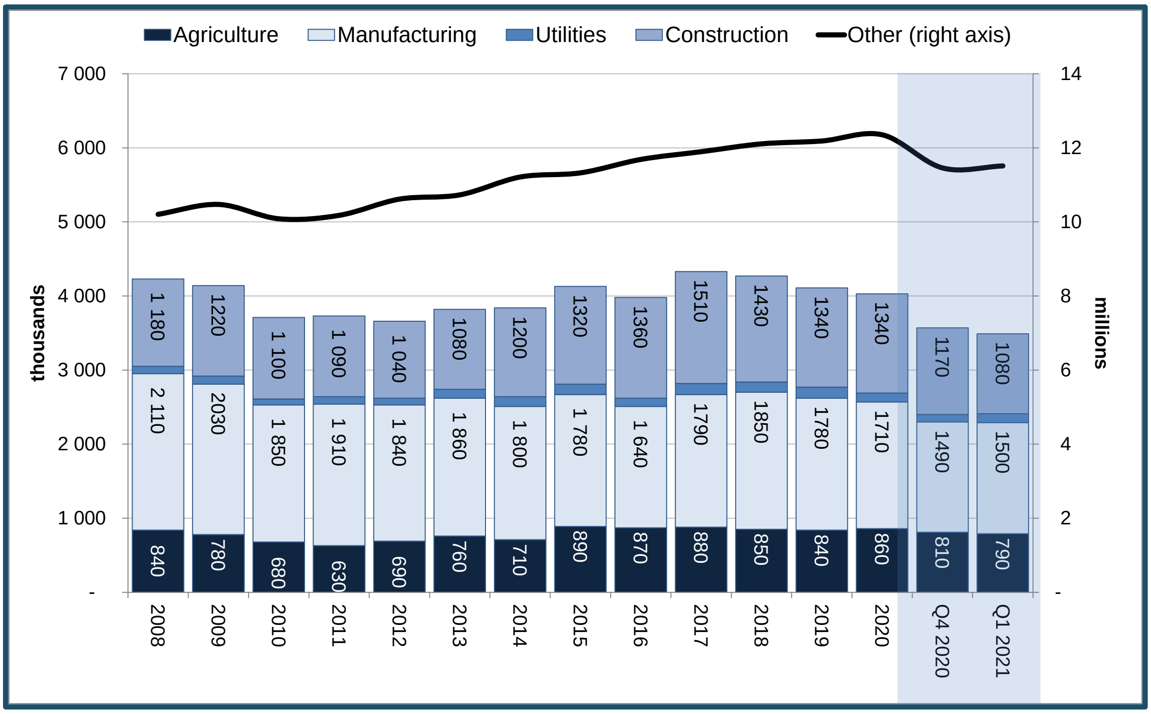
South Africa's comparatively limited leverage with international creditors made it difficult for it to continue borrowing on the levels initiated at the start of the pandemic. As a result, it was effectively dependent on stimulus packages in the global North and China to boost its recovery. Moreover, the resulting restrictions on spending led to a sharp cut off to aid for workers and the jobless in the 2021 budget. Yet neither the GDP nor, as discussed in the following section, employment had fully recovered from the pandemic, and a third wave of COVID-19 began in June. In this context, the decision to free up electricity generation, discussed in the briefing note, represented a critical move toward accelerating the economy recovery.

Employment

Employment continues to recover more slowly than the GDP, with the worst hit among lower-level workers. As of the first quarter of 2021, South Africa had recovered almost 800 000 jobs, but total employment was still 8% below the first quarter in 2020, just before the pandemic hit South Africa. The figures show no significant change in employment from the fourth quarter of 2020. They are not seasonally adjusted, however, so they understate the recovery to some extent.

The recovery in employment continued to lag behind growth in the GDP in the first quarter of 2021, in common with the experience internationally. As of March 2021, South Africa still had 1.4 million fewer jobs than a year earlier, when the pandemic was just starting. It had recovered 790 000 jobs, or 6%, from the second quarter of 2020. As Graph 9 shows, however, the rate of improvement had slowed to a crawl.

Graph 9. Employment by sector, not seasonally adjusted, fourth quarter 2008 to 2019 and fourth quarter 2020 to first quarter, 2021

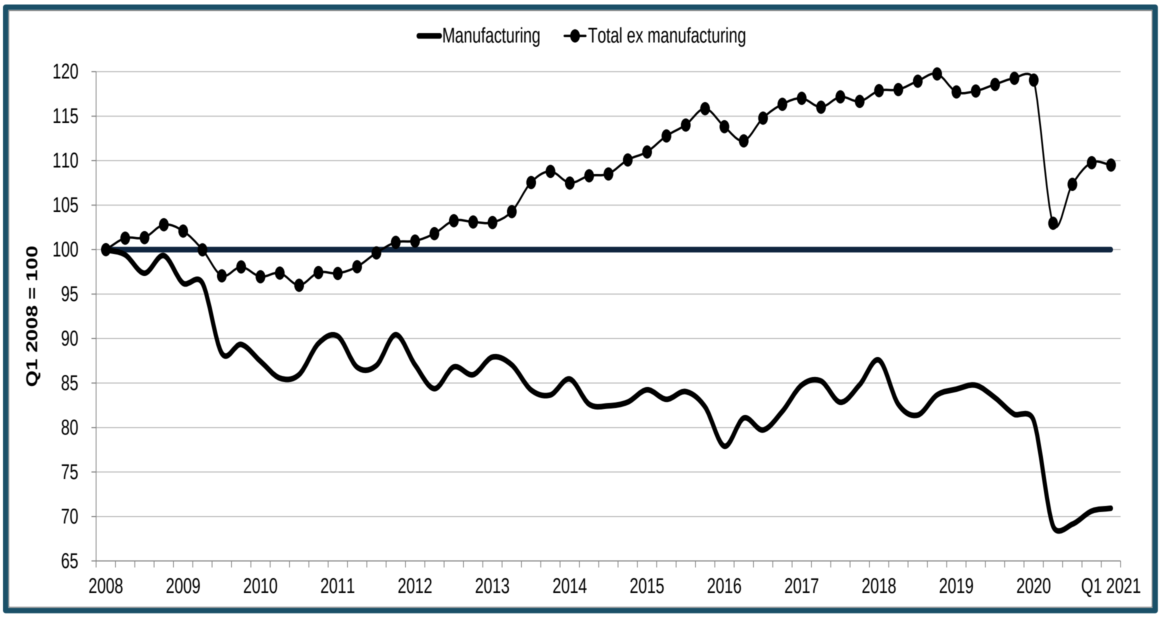


Source: Calculated from Stats SA. QLFS 2008-2021 Q1. Electronic database. Downloaded from www.statssa.gov.za.

The situation may be somewhat less bleak than the raw data indicate. Employment figures are not seasonally adjusted. As a rule the economy loses jobs from the fourth to the first quarter of the following year. From 2008 to 2019, employment fell an average of 0.26% in the first quarter, with job creation almost entirely concentrated in the third and fourth quarters. In 2021, a loss of 0.26% of total employment would translate into more than 40 000 jobs. From this standpoint, the fact that no jobs disappeared in January represents a slight improvement over historic trends. But South Africa needs to accelerate jobs far above past levels to compensate for the positions lost during the pandemic.

As Graph 10Graph 10 shows, employment in manufacturing did not grow significantly in the first quarter of 2021. As a result, it was still 12% lower than a year earlier, having recovered only 3% from the low point in the second quarter of 2020. While the data are not seasonally adjusted, manufacturing has not historically shown the same cyclical variations as the rest of the economy, especially agriculture, construction and retail.

Graph 10. Indices of employment in manufacturing compared to the rest of the economy (first quarter 2008 = 100), first quarter 2008 to first quarter 2021

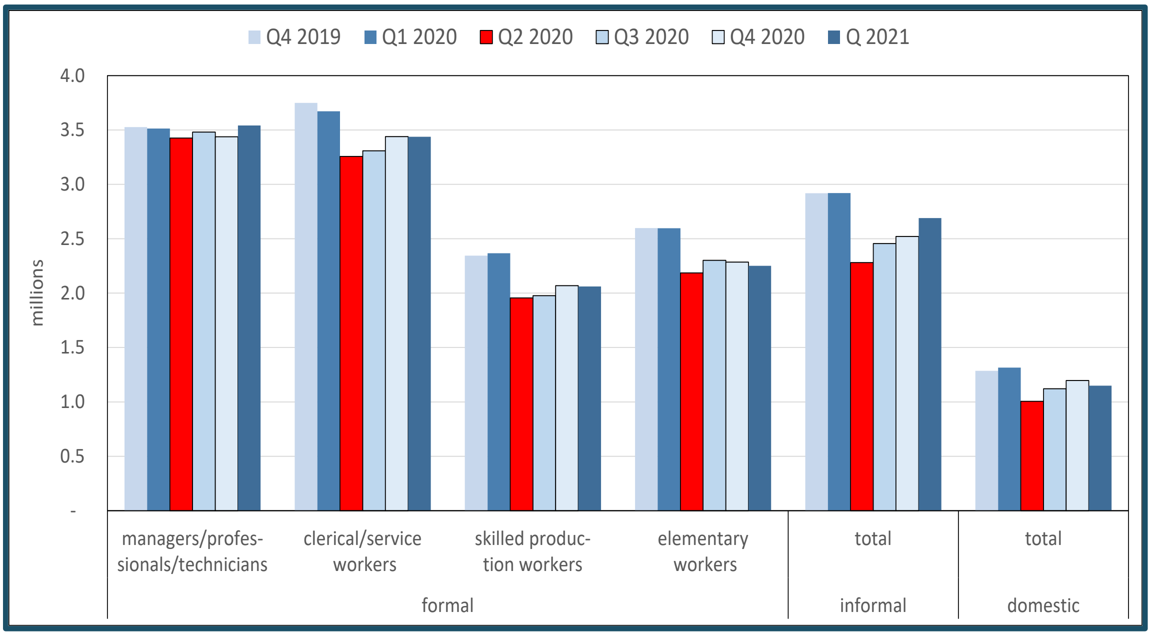


Source: Calculated from Stats SA. QLFS 2008-2021 Q1. Electronic database. Downloaded from www.statssa.gov.za.

The pandemic downturn has tended to deepen South Africa's already profound inequalities, driven largely by differences in job loss by occupation.

Managerial, professional and semi-professional employment in the private sector remained essentially unchanged over the year to the first quarter of 2021. In contrast, lower-level workers have lost livelihoods on a massive scale. In the formal sector, 6% of clerical, service and retail jobs disappeared, as well as some 13% of skilled production and elementary positions. Compared to the worst point in the second quarter of 2020, service and retail jobs had recovered by around half, skilled production by around a quarter, and elementary workers only a seventh. Informal employment was 8% lower in the first quarter of 2021 than a year earlier, having regained two thirds of the jobs lost in the second quarter of 2020. Domestic work was down by 13% over a year earlier, but had recovered half the positions that initially disappeared.

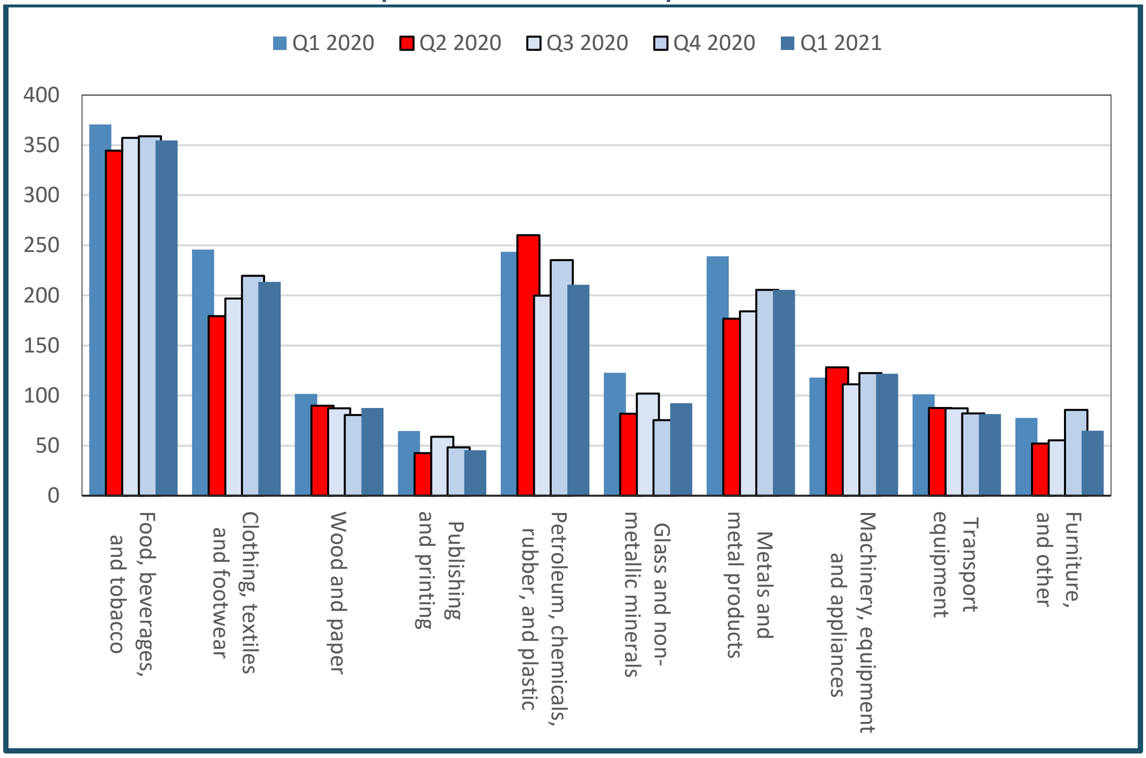
Graph 11. Employment by occupation and sector, Q4 2019 to Q4 2020



Source: Calculated from Stats SA. QLFS 2008-2021 Q1. Electronic database. Downloaded from www.statssa.gov.za.

Within manufacturing, only machinery and equipment had returned to pre-pandemic levels as of the first quarter of 2021. Food processing was relatively unaffected. In contrast, employment in the rest of manufacturing remained around 15% lower than a year earlier.

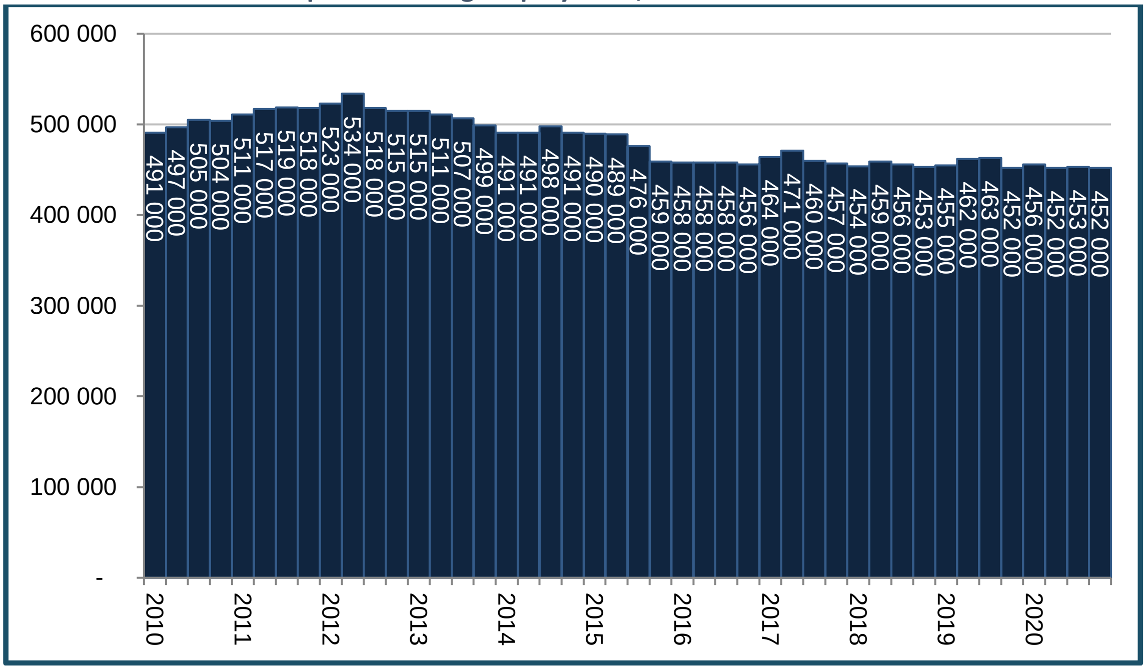
Graph 12. Employment by manufacturing industry per quarter, first quarter of 2020 to first quarter of 2021



Source: Calculated from Stats SA. QLFS for relevant quarter. Electronic databases. Downloaded from Nesstar facility at www.statssa.gov.za.

Employment in mining continued to be flat in the fourth quarter of 2020 (the latest available data), with only 1% job losses since the beginning of 2020. The industry was largely shielded from the employment impacts of the pandemic by the rapid recovery in export prices from May 2020 combined with arrangements to continue production through most of the lockdown periods.

Graph 13. Mining employment, Q1 2010 to Q4 2020



Source: For quarters through second quarter 2020, Stats SA. Quarterly Employment Survey. Excel spreadsheet. Downloaded from www.statssa.gov.za in June 2020.

International trade

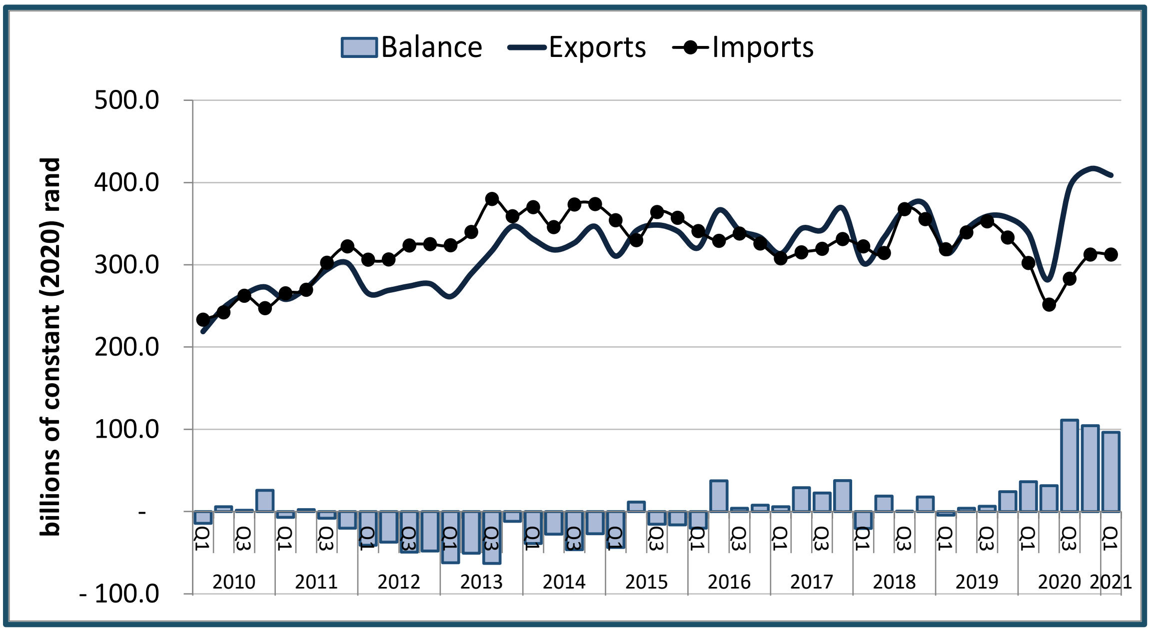
As it has throughout the pandemic, South Africa ran a near-record balance of trade surplus in the first quarter of 2021, despite some decline over the previous two quarters. The surplus mostly reflected continued high prices for metals exports, with a spike in platinum over the past six months. Manufacturing exports almost reached pre-pandemic peaks, with growth across most industries. Manufacturing imports also rebounded, although less strongly, with rising demand for capital and transport equipment and for chemicals.

Analysis of trade trends this quarter was complicated because international trade declined sharply a year ago, in the first quarter of 2020, even before the wave of lockdowns in the second quarter. The decline means that year-on-year comparisons exaggerate the growth in exports because they reflect a depressed baseline. It resulted from the outbreak of COVID-19 in China and the associated lockdown, which disrupted international supply chains.

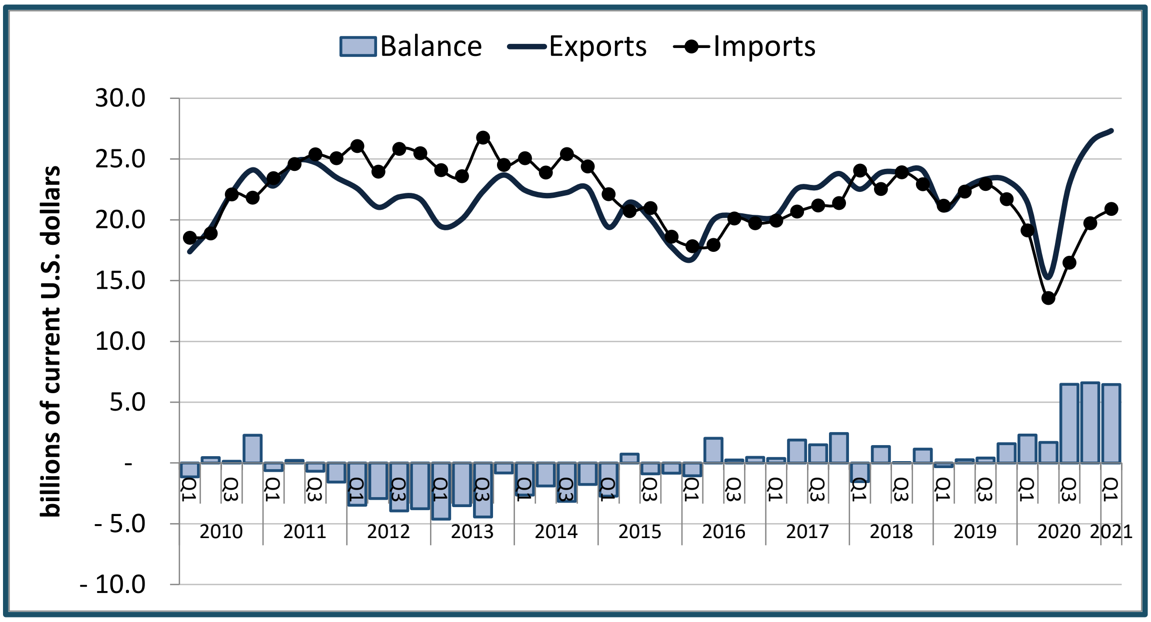
Exports remained well above earlier highs in both US dollar and constant rand terms. They declined somewhat compared to the fourth quarter of 2020, but that was in part because of standard seasonal trends. Imports were flat, and still below pre-pandemic levels.

Graph 14. Exports, imports and balance of trade in billions of constant rand and current US dollars (a)

A. Billions of constant (2021) rand



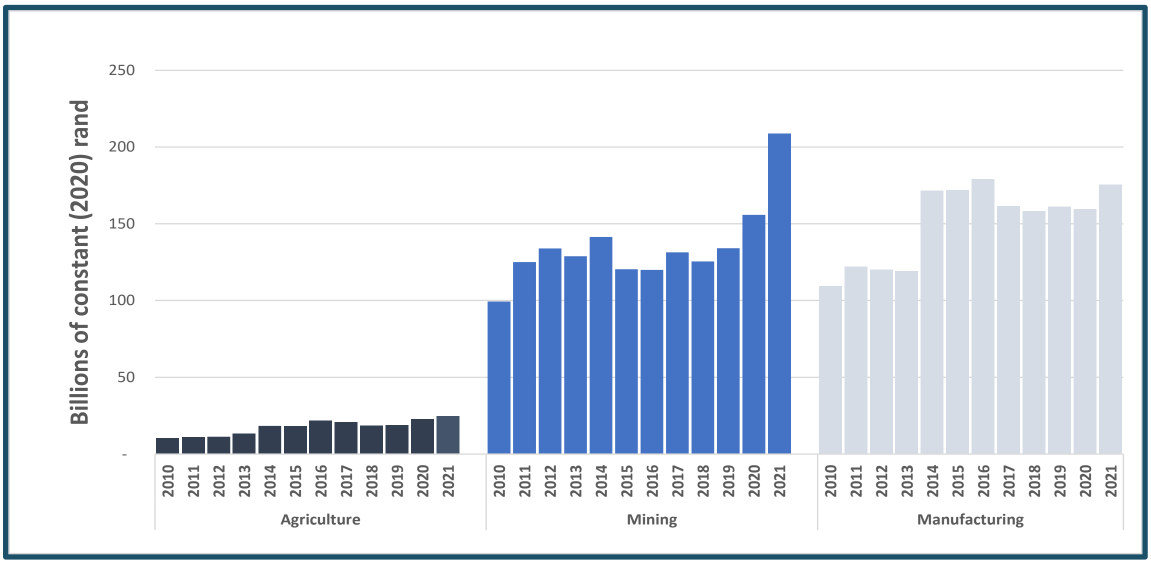
B. Billions of US dollars



Note: (a) Constant rand values reflated using CPI rebased to January 2021; US dollar values calculated with trade-weighted exchange rate from the Reserve Bank. *Source*: Calculated from South African Revenue Service data.

The rebound in industrial production in the global North and China brought an extraordinary spurt in mining exports in the first quarter of 2021, mostly due to soaring metals prices. In constant rand, manufacturing exports also improved, reaching their highest first-quarter level since 2015, while agriculture reached record heights.

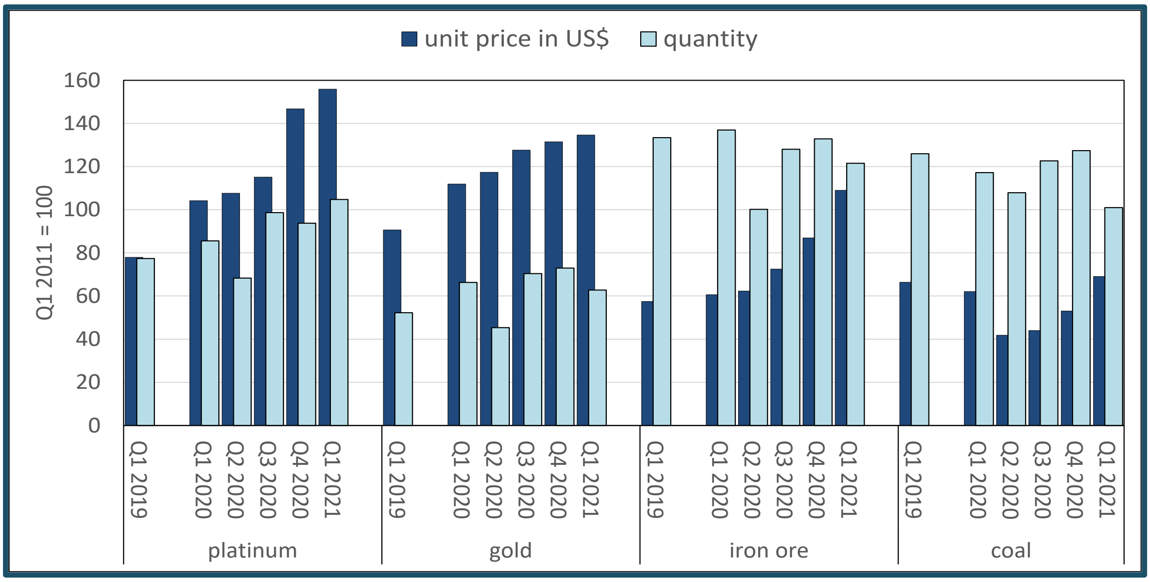
Graph 15. Exports from the first quarter of 2010 in billions of constant (2020) rand (a), not seasonally adjusted



Note: (a) Reflated using CPI rebased to December 2020. Source: Calculated from South African Revenue Service data.

Graph 16 shows unit prices in US dollars and the quantity of South Africa's leading mining exports as an index compared to the first quarter of 2011, at the top of the last commodity cycle. Prices were up for all of South Africa's main exports compared to pre-pandemic days, although coal lagged behind the other products. For platinum, gold and iron ore, prices were higher than in 2011. But only platinum recorded increased exports in volume terms over the past quarter, in part because of the December holiday shutdowns.

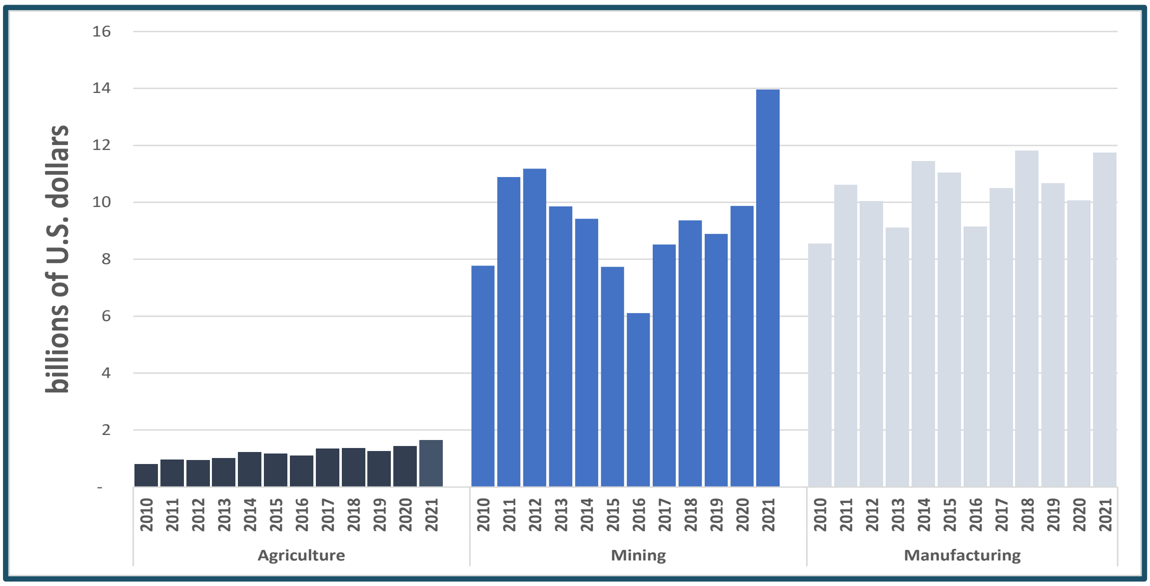
Graph 16. Indices of export unit price and quantity for major South African mining products (Q1 2011 = 100), first quarter 2019 and quarterly from first quarter 2020 to first quarter 2021



Source: Calculated from South African Revenue Service data.

In constant rand terms, manufactured imports recovered compared to the first quarter of 2019, and were well above the depressed levels seen a year earlier. Mining imports are mostly petroleum, where prices are still well below pre-pandemic levels.

Graph 17. Imports from the first quarter of 2010 in billions of constant (2020) rand (a), not seasonally adjusted



Note: (a) Reflated using CPI rebased to December 2020. Source: Calculated from South African Revenue Service data.

Manufactured exports showed unusually strong growth for a first quarter. All manufacturing industries had recovered past the depressed levels of the first quarter 2020. Only the metals refineries still lagged behind the first quarter of 2019, before the pandemic began to affect trade. As a result, auto exports consistently exceeded metals exports in the first quarter of the past three years.

Manufactured imports also increased between the first quarter of 2020 and the first quarter of 2021, although they remained lower than before the pandemic.

Table 1. Trade by manufacturing subsector, first quarter 2021 compared to first quarter 2022

	VALUE (BILLIONS)		% CHANGE FROM Q1 2020		CHANGE IN BILLIONS	
Industry	**USD**	**Rand**	**USD**	**Rand**	**USD**	**Rand**
EXPORTS						
Food and beverages	1.09	16.3	28.3%	20.8%	0.24	2.81
Clothing and footwear	0.44	6.6	9.9%	3.5%	0.04	0.22
Wood products	0.13	1.9	7.6%	1.4%	0.01	0.03
Paper and publishing	0.33	4.9	-18.5%	-22.1%	-0.07	-1.39
Chemicals, rubber, plastic	2.19	32.8	25.2%	18.3%	0.44	5.08
Glass and non-metallic mineral products	0.11	1.7	11.8%	5.7%	0.01	0.09
Metals and metal products	2.49	37.3	19.5%	13.3%	0.41	4.38
Machinery and appliances	2.05	30.6	20.3%	13.6%	0.35	3.66
Transport equipment	2.75	41.1	11.2%	4.0%	0.28	1.57
IMPORTS						
Food and beverages	0.83	12.5	2.8%	-2.3%	0.02	-0.29
Clothing and footwear	1.15	17.2	8.6%	4.2%	0.09	0.69

	VALUE (BILLIONS)		% CHANGE FROM Q1 2020		CHANGE IN BILLIONS	
Industry	**USD**	**Rand**	**USD**	**Rand**	**USD**	**Rand**
Wood products	0.10	1.6	15.1%	9.8%	0.01	0.14
Paper and publishing	0.63	9.4	14.4%	9.6%	0.08	0.82
Chemicals, rubber, plastic	3.48	52.1	22.2%	16.1%	0.63	7.22
Glass and non-metallic mineral products	0.26	3.9	28.9%	23.5%	0.06	0.74
Metals and metal products	1.26	18.8	30.4%	24.5%	0.29	3.71
Machinery and appliances	5.04	75.4	13.6%	8.2%	0.60	5.73
Transport equipment	3.63	54.4	5.6%	0.4%	0.19	0.20

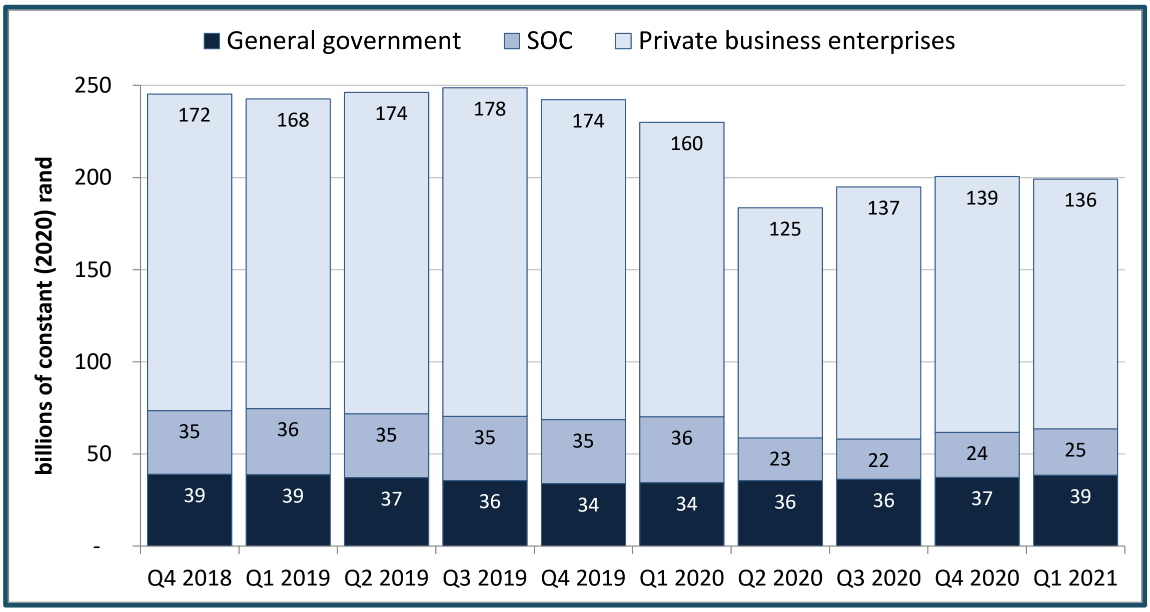
Source: South African Revenue Service monthly data

Investment

Private investment fell in the first quarter of 2021 in seasonally adjusted terms, even though it remained almost 20% lower than in 2019. In contrast, public investment showed modest growth. Returns on assets continued to improve for mining and manufacturing in the fourth quarter of 2020 – the latest available data – but declined for construction.

Private investment declined by 2.3% from the fourth quarter of 2020 to the first quarter of 2021. Yet it was still far from recovering to pre-pandemic levels. It stalled out at 15% lower than a year earlier, and 19% below the first quarter of 2019. In contrast, government investment, which barely declined during the pandemic, grew by 3.4%, leaving it 1% below the first quarter of 2019. Investment by state-owned companies increased by 2.5%. Because it fell by over a third in the second quarter of 2020 – far more steeply than either private or general government investments – that meant state-owned companies invested 30% less in the first quarter of 2021 than a year earlier.

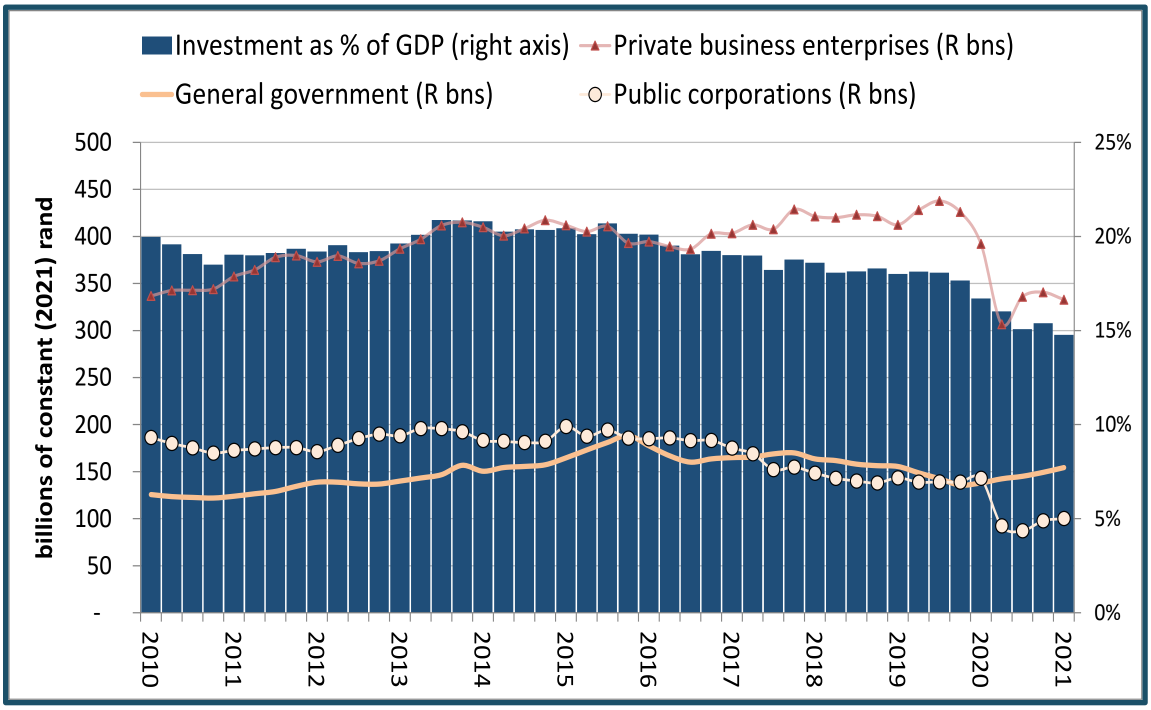
Graph 18. Quarterly seasonally adjusted investment by type of organisation, fourth quarter 2018 to first quarter 2021, in billions of constant (2021) rand (a)



Note: (a) Reflated with implicit deflator rebased to fourth quarter 2020. Source: Calculated from Statistics South Africa. GDP quarterly figures. Excel spreadsheet downloaded from www.statssa.gov.za.

In the first quarter of 2021, the share of investment in the GDP fell to 14.8%, the lowest figure on record (the series reported by the Reserve Bank goes back to 1960). The investment rate fell to 15.6% in the final quarter of 1993, just before the transition to democracy, and to 15% in the second quarter of 2002, during the dotcom crisis.

Graph 19. Quarterly investment by type of organisation in billions of constant (2021) rand, and total investment as a percentage of GDP, 2010 to first quarter 2021



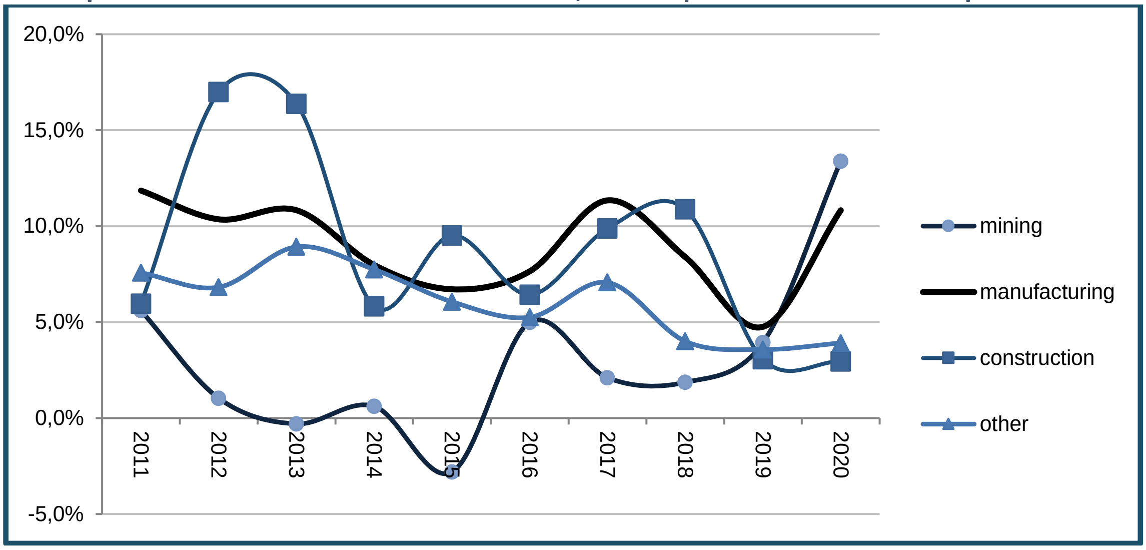
Note: (a) Reflated with implicit deflator rebased to fourth quarter 2020. Source: Calculated from Statistics South Africa. GDP quarterly figures. Excel spreadsheet downloaded from www.statssa.gov.za.

Although investment fell in the first quarter of 2021, the return on assets for mining and manufacturing continued to improve in the fourth quarter of 2020 (the latest available data).

Mining profits surged with the escalation in export prices, rising to the highest levels since the commodity boom ended in 2011.

Manufacturing recovered from a downturn in the fourth quarter of 2019. In contrast, although construction profits doubled in rand terms, they did not keep up with the growth in assets in the industry.

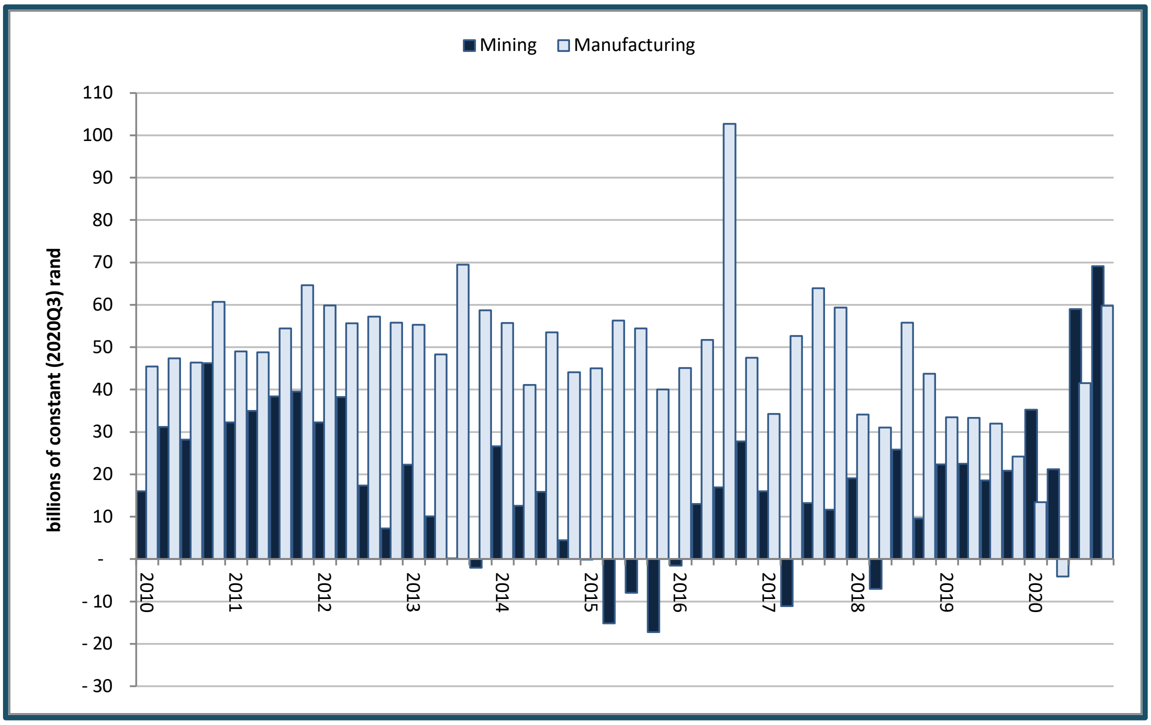
Graph 20. Return on assets in constant rand, fourth quarter 2011 to fourth quarter 2020



Source: Stats SA, Quarterly Financial Statistics adjusted to constant rand. Excel spreadsheet downloaded www.statssa.gov.za. May 2021.

Graph 21 shows the spike in mining and manufacturing profits in the second half of 2020. Mining profits in particular climbed to their highest level in a decade, while manufacturing reached sums last seen in 2018.

Graph 21. Quarterly profits in manufacturing and mining in billions of constant 2020 rand, 2010 to 2021.



Note: Deflated with CPI rebased to December 2020. *Source:* Statistics South Africa, Quarterly Financial Statistics

Foreign direct investment projects

*The **TIPS Foreign Direct Investment Tracker** monitors FDI projects, on a quarterly basis, using published information. In the first quarter of 2021 it identified 18 projects. For 16 projects that provided estimates, the value came to R65 billion. Most of the new initiatives were in utilities, dominated by projects selected as preferred bidders in the Risk Mitigation Independent Power Producer Procurement Programme. In addition, the Tracker captures changes in the status of 10 previously reported projects.*

Table 2: FDI projects captured in Q1, 2021

	ANNOUNCED	PROJECT PREPARATION	EXPLORATION	CONSTRUCTION/ IMPLEMENTATION
Number of projects	11	2	1	4
Value (R bns)	45.5	1.5	Not Reported	17.5
Industries	8 Utilities 2 Services 1 Mining	2 Mining	1 Mining	1 Utilities 1 Manufacturing 1 Services 1 Transport
Type	8 Greenfield 2 Brownfield 1 Upgrade	2 Brownfield	1 Greenfield	2 Expansion 2 Upgrade
Company	DHL Global Forwarding Hisense Netflix Karpowership SA/Karadeniz Energy Group Acwa Power EDF Renewables (South Africa) Total Gaz/Mulilo Kumba Iron Ore	Pan African Resources MC Mining	MC Mining	Ford Motor Company South Africa (FMCSA/Ford) Apis Growth Fund II and JG Summit Holdings DiDi Chuxing Technology Co

Source: TIPS FDI Tracker database

New projects

The Department of Mineral Resources and Energy initiated the Risk Mitigation Independent Power Producer Procurement Programme to supply 2 000MW of emergency energy in light of the shortfalls in Eskom generation. It announced eight successful preferred bidders with seven foreign investors. The projects have a combined value of R45 billion. They include a fleet of floating power stations, supplied by Karpowership, that will be docked at the ports of Coega, Saldanha, and Richards Bay. They will supply 1 220MW of energy based on liquid natural gas. Karpowership is a member of the Karadeniz Energy Group based in Turkey. In addition, Total Gaz and South African renewables company Mulilo will be implementing projects in the Eastern and Northern Cape. The Mulilo Total Coega project combines solar photovoltaic (PV) and reciprocating gas engines to supply 197.76MW contracted capacity. The 75MW Mulilo Total hydra storage combines solar PV technology, a battery energy storage system (BESS) and emergency backup diesel or gas generators. The Acwa Power DAO project will supply 150MW of power from a technology mix comprising PV, BESS and diesel. Finally, EDF Renewables' 75MW Umoyilanga Energy project combines liquefied petroleum gas (LPG), wind, solar and BESS technologies at two sites in the Eastern and Northern Cape. EDF Renewables is a subsidiary of EDF Energies Nouvelles, the renewable energy arm of global French firm EDF.

Hisense plans to install over 2 500 solar panels at its Atlantis appliance manufacturing plant. The solar installation will be able to produce over 1.9 million kWh of renewable energy annually. Once complete, the factory will be completely off-grid and able to fulfil its own power needs. The R20 million project will be implemented over five years.

Kumba Iron Ore announced a R3.6 billion project to enhance the product and extend the life of its Sishen mine to 2039. Its ultra-high dense media separation technology puts ore through a bath of ferrosilicon, removing waste and improving beneficiation.

Ford is modernising the Silverton Assembly plant and expanding production of the new Ranger model. The estimated project value is US$1.05 billion (R15.8 billion). Over half of the investment, US$686 million (R10.3 billion), will go towards extensive upgrades of the assembly plant. The balance of the investment US$365 million (R5.5 billion) will upgrade tooling at major supplier factories.

German freight forwarding company DHL Global Forwarding is investing R126.5 million in a new office and warehouse facility. The larger warehouse enables the consolidation of DHL Global's warehousing requirements. The property will be leased at the Skyparks Business Estate in Gauteng next to the OR Tambo International Airport.

China-based Didi Chuxing (DiDi) is a mobility technology platform – competitor to Uber and Bolt. In addition to ride e-hailing services other app-based transportation services DiDi provides include bike-sharing; on-demand delivery services; and automobile services. Following a successful pilot launch of operations in Gqeberha, DiDi is expanding operations to Cape Town. The company has initiated the registration process for drivers in the city.

Existing projects

Pan African Resources is undertaking the Egoli gold project at the Evander gold mine in Mpumalanga. The US$66 million (R1.05 billion) project will extend the life of the Evander operation. Egoli will be an underground operation with an initial life of nine years. It will leverage existing shaft and plant infrastructure. Pan African plans to implement the project in two phases over a 20-month construction period.

MC Mining plans to develop Makhado, a coking and thermal coal project close to the Musina-Makhado Special Economic Zone (SEZ) in Limpopo. The open pit operation with estimated reserves of 188 million tonnes will be the only producer of hard coking coal in South Africa. Makhado Phase 1 and Phase 2 already have domestic and export hard coking coal offtake agreements. The estimated investment value for the project is US$32 million (R433 million).

Ford is launching its own off-grid renewable system with a 13MW solar installation and specially developed and locally manufactured solar installations on carports around the Silverton plant. Over 31 000 solar panels will cover parking bays that can accommodate about 4 200 vehicles. The solar installation will fulfil about 30% of the Silverton plant's annual power requirements. It has already embarked on implementing the R135-million project in partnership with SolarAfrica.

South Africa's Tyme Bank secured R1.6 billion in foreign investment to support its growth. According to the bank, the new investment will contribute to further expanding its range of banking products and grow its lending portfolio. The investors are the Apis Growth Fund II, a private equity fund managed by Apis Partners in the United Kingdom and the Philippines-based JG Summit Holdings. About R500 million has already been utilised, with the balance being invested over the next 12 to 15 months.

Updates

The Musina-Makhado SEZ, an energy and metallurgical zone, submitted a final environmental impact assessment report to the Limpopo Economic Development, Environment and Tourism Department. The department, however, identified gaps in the report and halted the approval process until they are addressed. The SEZ has attracted a R40-billion commitment from a consortium led by the Hong Kong Mining Exchange. The current proposal includes a 3.5GW coal plant that falls outside of the Integrated Resource Plan for energy.

Platinum Group Metals was granted a mining right for the US$1.06 billion (R18 billion) Waterberg palladium project located in the Bushveld Igneous Complex in Limpopo. However, the local community in Limpopo has lodged an appeal against its licence.

Toyota has announced that it will build the Toyota Corolla Cross in South Africa. This follows the company's announcement in 2019 of a R2.4 billion investment to upgrade local operations in preparation for a new passenger vehicle model.

The Kruisvallei 4.7 MW hydropower project is complete and operational. The project was granted preferred bidder status in the fourth round of the Renewable Energy Independent Power Producer Procurement Programme. The total investment value was about R370 million. It was developed by Red Rocket, which represents the Italian company Building Energy.

Menar's Kangra coal mine has resumed operations and is going ahead with expansion plans after being placed on care and maintenance due to COVID-19 and the resulting market conditions in 2020. Menar is undertaking the Kusipongo expansion, which is expected to extend Kangra's productive life by about 20 years. The estimated investment value for the expansion is R78.8 million.

Canyon Coal's De Wittekrans opencast and underground mine project has been issued a water use licence. This completes all legislative licensing requirements for the project to move ahead. The original water use licence did not include opencast and related activities. The project will be developed in two phases for an estimated R1.6 billion.

Komatsu Africa Holdings completed the construction of a new remanufacturing plant at the head office campus in Johannesburg. At the facility, Komatsu reconstructs components to a quality – in line with specifications – applicable to new components. The plant was developed for about JPY 2.2 billion (R283 million).

United Heavy Industries is undertaking a R17 billion investment programme. It had already completed upgrades to the Mandeni steel mill for R350 million at the end of 2020. The company is moving on to develop metallugical laboratory.

Briefing Note: The pandemic and the economy in Southern Africa

Neva Makgetla

Like most of the world outside of China, Southern Africa endured an economic depression in 2020 as a result of the COVID-19 pandemic. The economic outcomes varied significantly over the course of the year, however. A sharp downturn linked to regional and international lockdowns in the second quarter was followed by a rebound in the remainder of the year. Still, for 2020 as a whole, the regional GDP was around 6% below 2019; excluding South Africa, the decline was 5%. For comparison, in the 2008/9 financial crisis the regional GDP shrank less than 2%. As of April 2021, the IMF expected the region as a whole to return to 2019 GDP levels by 2022, but it forecast that South Africa and Zimbabwe would lag behind.

The available evidence indicates that the pandemic depression aggravated inequalities in Southern Africa, which were already among the worst in the world. Less-skilled workers saw disproportionate loss of livelihoods; small businesses were more likely to close down than larger ones; and government cuts to services in response to falling revenues had the sharpest impact on low-income households and communities.

Global trends largely shaped the recovery in Southern Africa. Most metals saw higher prices while petroleum costs dipped, strengthening the regional balance of trade except for Angola and, since diamond prices fell, for Botswana. Capital flows dipped in the first quarter of 2020, but then recovered fairly strongly, although they varied by country and financial mechanism. The massive stimulus packages in the US and much of Europe bolstered demand internationally, partially offsetting the limitations on domestic spending. In contrast, international tourism, especially where it required long-haul flights, remained at a fraction of pre-pandemic levels due mostly to reduced demand, which was further aggravated by limits on cross-border travel. In the longer run, high-income countries' monopsony on vaccines seem likely to delay the recovery in Southern Africa.

In Southern Africa, as internationally, policy responses to the economic fallout of the pandemic covered four areas.

- *Efforts to minimise the economic impact of public-health restrictions:* The initial response in April of a full lockdown affected almost all formal producers. By mid-2020, it had evolved to allow most economic activities to resume outside of high-risk entertainment venues and international travel. Efforts to roll out vaccines remained hesitant at best, however.
- *Macroeconomic measures to stimulate the economy*: Across the region, the fiscal stimulus was far smaller than in the global North. In 2020, it generally took the form of maintaining spending despite a sharp decline in revenues rather than a substantial increase in expenditure. The result was a sharp rise in budget deficits relative to the GDP, although public spending barely increased. In 2021, most countries initiated austerity measures in order to rein in deficits, despite continued slow GDP growth. In effect, the limited power of Southern African countries relative to global and domestic creditors constrained their scope for increasing state spending or mobilising off-budget resources.
- *Relief spending to cushion the impact of the pandemic depression on small businesses and on poor households:* Several countries announced cash transfers to businesses and households in 2020, but these programmes generally did not reach the majority of intended recipients.

Moreover, most of these programmes dried up long before the GDP and employment recovered.

- *Microeconomic policies to boost economic growth and diversification:* Most countries adapted long-standing policies to pandemic conditions, rather than initiating significant new strategies. Their efforts generally centred on improving infrastructure as well as limited measures to promote diversification, especially through import-substitution; to provide loan guarantees for business; and to support tourism, as the hardest hit industry. The scale of these efforts remained limited, however, and many were poorly defined. There was little visible effort at regional alignment, including around local-procurement initiatives, regional infrastructure and interlinking value chains.

A review of these policy responses in South Africa, Zimbabwe, Zambia, Namibia and Botswana points to several cross-cutting learnings.

First, the pandemic underscored both the long-term costs of continued mining dependency and the difficulty of disrupting it. After the commodity boom that started in the early 2000s ended in 2011, growth slowed substantially across the region, especially from 2015. Most governments had responded to the downturn by seeking to facilitate increased investment in mining rather than promoting diversification into other sectors. Stronger metals prices in the second half of 2020 were critical for the region's recovery, but would also further entrench mining dependency. As usual, the visible and often considerable economic benefits of mining dependency during upswings made it harder to justify disrupting it even when the commodity cycle turned down.

Second, the countries in the region all had limited space for conventional counter-cyclical fiscal and monetary stimulus measures. In contrast to countries in the global North, they were in a weak position relative to creditors, making it harder (and much more expensive) to increase debt when their revenues declined. Their ability to mobilise resources was aggravated by transfer pricing by mines across the region, which reduced public revenues overall. The unusually deep inequalities between households in most of the region also limited the tax base. Taxpayers were often well-resourced business and individuals who could mobilise effectively to oppose or avoid increases.

Fiscal and monetary stimulus measures also faced supply-side constraints in much of the region. These measures assume that if government can increase demand, local business will satisfy it. Yet most of the countries in the region did not have a manufacturing base that could easily retool to meet new needs. In these circumstances, unless supported by industrial policy measures to improve capacity, standard stimulus measures risked increasing inflation or imports rather than promoting domestic production and employment.

Third, the pandemic highlighted both the commitment of most governments in Southern Africa to promoting industrialisation, and the weakness of their industrial policy initiatives. Efforts to promote recovery were generally too modest to bring about substantial change, and often centred on promoting existing agriculture and mining.

Fourth, the limited response to the pandemic across all policy dimensions, from economic policy to public health measures to relief programmes and industrial policy, underscored the impact of inequality on policymaking. The combination of mining dependency and the economic divisions entrenched under colonialism and apartheid meant that much of the region ranked among the most unequal in the world. In these circumstances, both business and policymakers were able largely to protect themselves from the impacts of the pandemic, which made them less likely to act urgently or decisively to address the fallout on less privileged groups. The result was that it proved difficult to sustain either public-health restrictions on business, or large-scale relief programmes for low-income households. Moreover, in several countries state agencies enforced public-health measures in a highly repressive manner rather than through public communication and community mobilisation.

TIPS has contributed a larger paper on COVID-19 and the economy in Southern Africa for publication this year by UNU-WIDER. TIPS held a ***Development Dialogue*** *on it in May, and the draft report is available on request.*

Briefing Note: Manufacturing subsector reports

Thobile Mawelela

The effectiveness and efficiency of industrial policy interventions depend heavily on the ability of policymakers to tailor interventions to the specific needs of individual manufacturing subsectors. For this reason, TIPS prepared a series of notes on the various manufacturing subsectors in South Africa to support evidence-based decision-making. The notes synthesise the available data on the dynamics of South African manufacturing subsectors, specifically in their contribution to GDP, employment, and international trade. They provide profiles on food and beverages; clothing, textiles, footwear and leather; wood and paper products; printing and publishing; capital equipment; electronics and appliances; transport equipment; glass and other non-metallic mineral products; metals and metal products; chemicals and refined petroleum; other chemicals; rubber and plastics; and furniture and manufacturing not elsewhere classified.

This briefing note summarises some of the findings that emerged from the analysis in the notes.

The analyses at industry level underscore the precarious nature of growth in the South African economy since 1994. The period started with an initial rebound as the transition to democracy brought political and social stability as well as a more open economy. Growth accelerated in the early 2000s as global commodity prices surged, although it was deeply affected by the global financial crisis in 2008. After the metals price boom ended in 2011, South Africa saw a sharp slowdown in growth, followed by the worldwide recession triggered by the COVID-19 pandemic in 2020.

A range of challenges in key state-owned companies compounded the economic impact of the broader international cycles. Chief among these was Eskom's escalating costs and growing interruptions in electricity supply, coupled with procurement irregularities and failure to translate investment into functional infrastructure. These shortcomings became a significant constraint to economic growth in the 2010s.

Notwithstanding these challenges, the South African economy at the end of 2020 was 90% higher than the opening of the economy in 1994. However, growth during the period was driven almost exclusively by subsectors outside of manufacturing. It was dominated by finance and business services, logistics and mining, which grew an estimated 11% a year on average from 1994.

Employment data from the early 1990s are generally unreliable; however, Statistics South Africa estimates from 2009 point to a sustained long-term pattern of employment decline across manufacturing subsectors, shedding approximately 330 000 jobs before the onset of the global pandemic and around 570 000 after the pandemic.

Mineral based and capita- intensive manufacturing subsectors remain the key subsectors with which the South African economy integrates with the international economy. These developments matter from an employment perspective and a structural transformation perspective as the decline of the country's manufacturing subsectors often speaks to the underlying global competitiveness of the country. Promoting structural transformation and international competitiveness for the subsectors that have faced declines will require tailored interventions to address the binding constraints confronting the different subsectors of the economy.

Briefing Note: : Disrupting electricity – new measures on embedded generation

Neva Makgetla

On 10 June 2021, President Cyril Ramaphosa announced that the government would urgently escalate the National Energy Regulator of South Africa *(*NERSA*)* licensing threshold for embedded generation projects from 1MW to 100MW. This move will vastly disrupt the electricity supply system, but it was unavoidable because the older system was no longer fit for purpose. As with most disruptions, it promises enormous benefits, but also entails some risks. The challenge for companies, worker representatives and policymakers will be to maximise the rewards while managing the inevitable costs and risks attendant on any major change.

Ultimately, the decision to facilitate smaller private generation at a commercial scale reflected the sea change in electricity technology over the past 20 years. The kinds of massive coal plants that Eskom historically relied on can no longer compete on cost with smaller, more agile and cost-efficient renewable and gas production. Once smaller power stations become competitive, however, the logic of a monopoly on generation goes away. The state protected Eskom to achieve the economies of scale required for efficient coal generation. That argument no longer holds. As a result, there is no need to maintain Eskom's monopoly on the supply side. Instead of a key pillar for South African economic growth, Eskom has increasingly become synonymous with high costs and loadshedding.

Today, Eskom operates nine of the 90 largest coal-fuelled power plants in the world. That poses an immense threat for the economy both because of rising costs and faults, and because of the climate emergency. From 2008 to 2016, Eskom's revenues climbed from 1,9% to 3,7% of the gross domestic product (GDP). This year, the anticipated double-digit increase in electricity tariffs, combined with the pandemic depression, means they will likely exceed 4%, the highest share since the transition to democracy. Meanwhile, loadshedding surged to its highest recorded levels in 2019 and 2020. According to CSIR research, in 2019, announced loadshedding aimed to reduce demand by 1 350GW; in 2020, the figure came to 1 800GW. As of mid-2020, Eskom anticipated that loadshedding would continue through 2023 as it struggled to maintain and repair its coal plants.

Meanwhile, continued reliance on coal poses a growing risk for all of South Africa's major export industries. Trade sanctions for carbon-intensive products are becoming increasingly likely. South Africa's most electricity-intensive exports come from Sasol and the chrome, aluminium and manganese refineries, which together account for around 6% of exports. But virtually all of mining could come into the crosshairs because they are also major electricity users, and even the auto value chain could face challenges.

The new measure means that producers can ramp up production relatively rapidly, filling the gap left by Eskom's troubled power plants. Moreover, the new sources should be cheaper and cleaner as well. If the regulators implement the new system as anticipated, new capacity should start coming on-line in the next few months. That will provide a critical boost for South Africa's economic recovery, especially if the vaccine roll out also speeds up through the end of the year.

The new rules represent a true disruption in the electricity market, however. Eskom loses its monopoly on generation, although it will remain a dominant player for the foreseeable future. The grid will remain a monopoly, however, although it is not clear how much of an interest Eskom will retain in it. Critically, grid management will become more complex, as it must balance a host of smaller players and ramp up storage capacity to reduce the unpredictability of wind and solar power. Finally, estimates for demand for electricity will change dramatically as prices should decline while the mines and refineries shift to cleaner energy in order to safeguard their exports in the longer run.

In this context, Eskom has the potential to end up as a smaller but far more competitive force in generation, as well as making rents from the national grid. In contrast, if it remained dependent on coal, it seemed doomed to irrelevance in 15 to 20 years.

For policymakers, the growth that will follow from cheaper, more reliable and cleaner electricity makes everything easier. That said, the profound disruption of the electricity market requires careful management in five areas.

- First, the permits for embedded electricity have to be fast and easy, as promised.
- Second, the national grid must have the resources to upgrade to meet the new demands on it.
- Third, to take full advantage of the new measures, the metros in Gauteng will have to improve their local grids, especially to serve industrial and commercial sites. These regions constitute the industrial core of the country, but they have let their electricity supplies deteriorate to the point where they harm the entire economy.
- Fourth, as Eskom has to compete more on the generation side, it will be harder to ask it to be the supplier of last resort for poor and rural communities. Currently it directly supplies half of all households, and carries substantial debt because many cannot afford to pay for the services.
- Finally, as Eskom loses market share over the coming years, government is responsible for minimising the burdens on the vulnerable groups affected – workers, small suppliers and communities, mostly in Mpumalanga, that depend on coal-fired plants and coal mines.