THE REAL ECONOMY BULLETIN

TRENDS, DEVELOPMENTS AND DATA

SECOND 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.*

Trends in GDP growth

The GDP grew by 1.2% in the second quarter of 2021, up from the (revised) figure of 1% in the first quarter. The economy recovered 19% over the past year from the sharp COVID-induced downturn in the second quarter of 2020. Still, as of the second quarter, it remained 1.4% lower than before the pandemic. The data for the GDP do not, however, reflect either the violent unrest in July or the impact of the severe third wave of the pandemic that hit the country through mid-September.

As Graph 1 shows, over the past four quarters the GDP largely recovered from the extraordinary downturn in the second quarter of 2020. The global pandemic depression cut South Africa's GDP by 17%, by far the sharpest decline on record. A 14% rebound in the third quarter was followed by growth of 2.5% in the fourth quarter of 2020, but averaged only just over 1% in the last two quarters. Even the slower expansion in the first six months of 2021 was the highest since the global financial crisis in 2008/9. Both the violent unrest in July and a steep resurgence in COVID-19 cases occurred after the reporting period. They likely halted the recovery at least temporarily.

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

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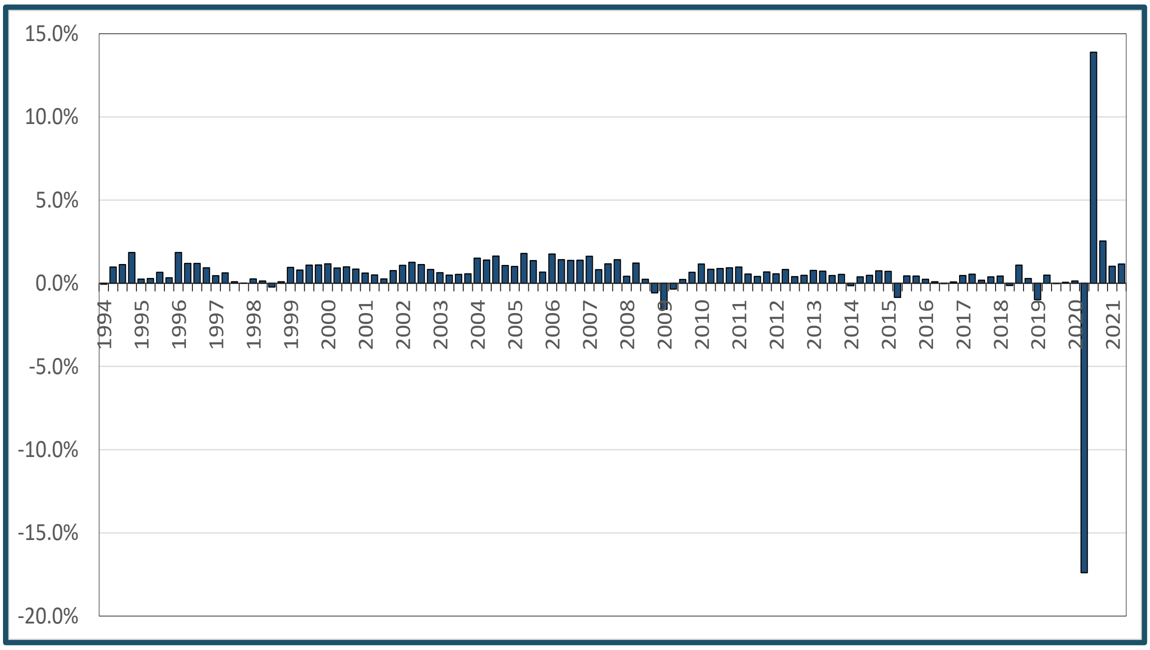
Graph 1. Quarterly change in GDP, seasonally adjusted, 1994 to second quarter 2021



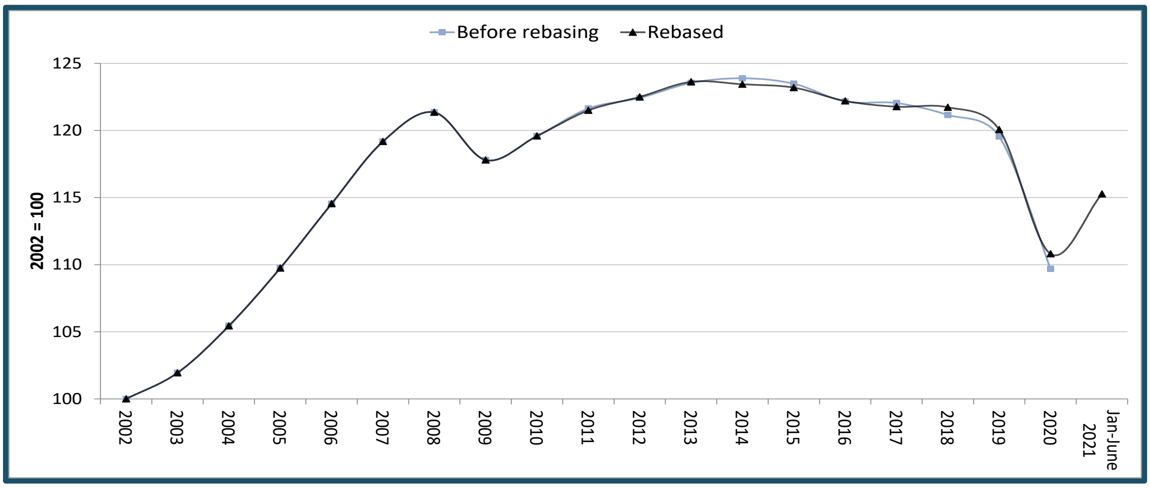
Source: Calculated from Statistics South Africa. GDP quarterly figures. GDP P0441 – 2021Q2. Excel spreadsheet downloaded from www.statssa.gov.za.

Statistics South Africa published its periodic rebasing of the GDP data in August 2021. The rebasing involved reviewing and modifying data sources and consequently findings for the past decade. The current version entailed improvements in reporting, especially on services. It resulted in a substantial change in both the size and growth rates reported for the GDP, without, however, changing the underlying trends.

The revised findings show that the GDP grew 3.5% from the first quarter of 2015 to the first quarter of 2020, before the COVID-19 pandemic. That is twice as fast as the 1.7% reported originally. The new data also show a more robust recovery from the pandemic downturn, at 18% as of the first quarter of 2021 compared to finding of 17% before rebasing.

Still, as Graph 2 shows, the higher growth rates were not sufficient to secure an increase in the GDP per person after the global commodity boom ended in 2011. Even after the recovery in the past year, this indicator remains at levels last seen 15 years ago.

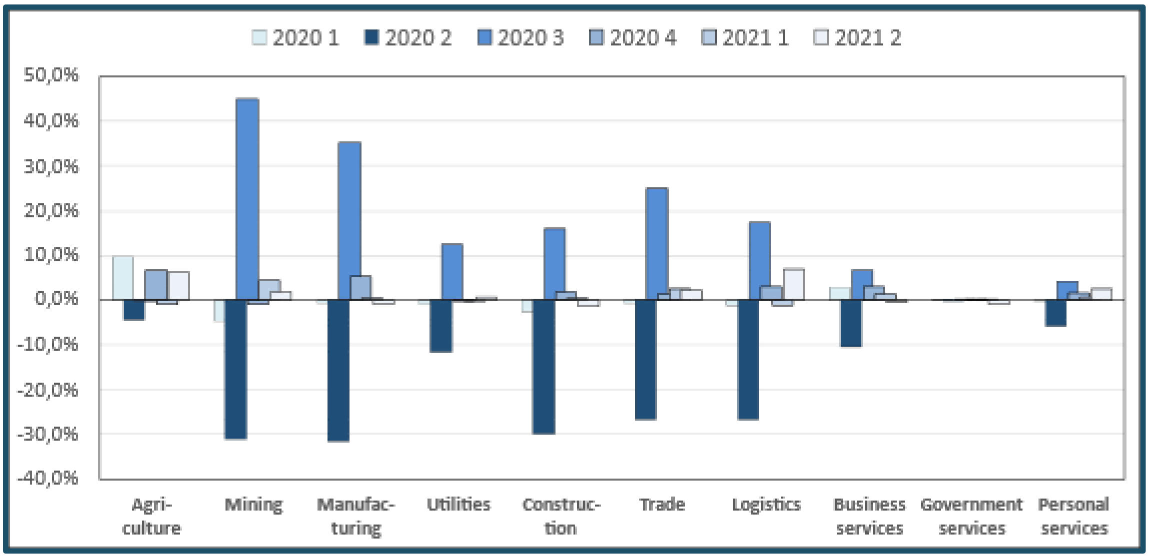
Graph 2. Indices of GDP per person using original and rebased GDP data, annual from 2002 to 2020 (2002 = 100)



Source: Calculated from Statistics South Africa. GDP data. GDP P0441 – 2021Q2 and GDPp 1q21; and mid-year population estimates from Country projection by population group, sex and age (2002-2021). Excel spreadsheets. downloaded from www.statssa.gov.za.

The strong overall growth in the GDP in the past quarter did not benefit all industries equally. Manufacturing value added actually declined 0.8% in the second quarter of 2021, and construction contracted some 1.4%. Business and government services generally also stagnated. In contrast, trade, logistics and personal services grew strongly, accounting for most of the growth in the GDP. (Graph 3).

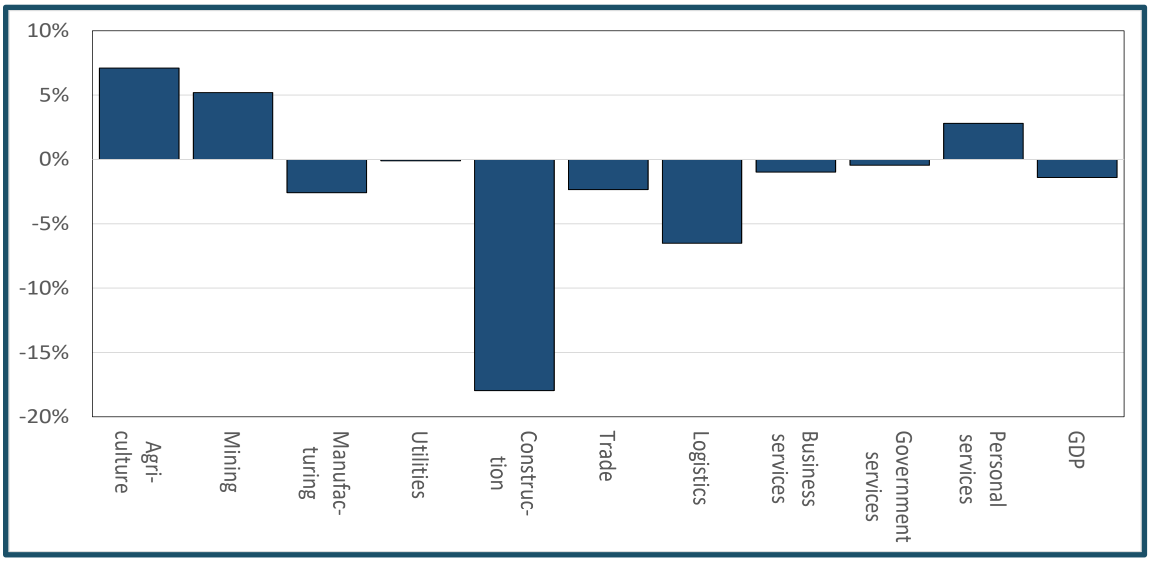
Graph 3. Quarterly and annual change in contribution to GDP by sector, first quarter 2020 to second quarter 2021



Source: Calculated from Statistics South Africa. GDP quarterly figures. GDP P0441 – 2021Q2. Excel spreadsheet downloaded from www.statssa.gov.za.

Overall, the recovery from the downturn in the second quarter of 2020 varies sharply by sector. Mining and manufacturing saw the greatest falls, but also strong initial rebounds that have now levelled out. As of the second quarter 2021, only agriculture, mining, utilities and personal services were at or above their pre-pandemic levels of value added. The contribution of manufacturing to the GDP was 3% lower than it was at the start of 2020, and construction was still down some 18% (Graph 4).

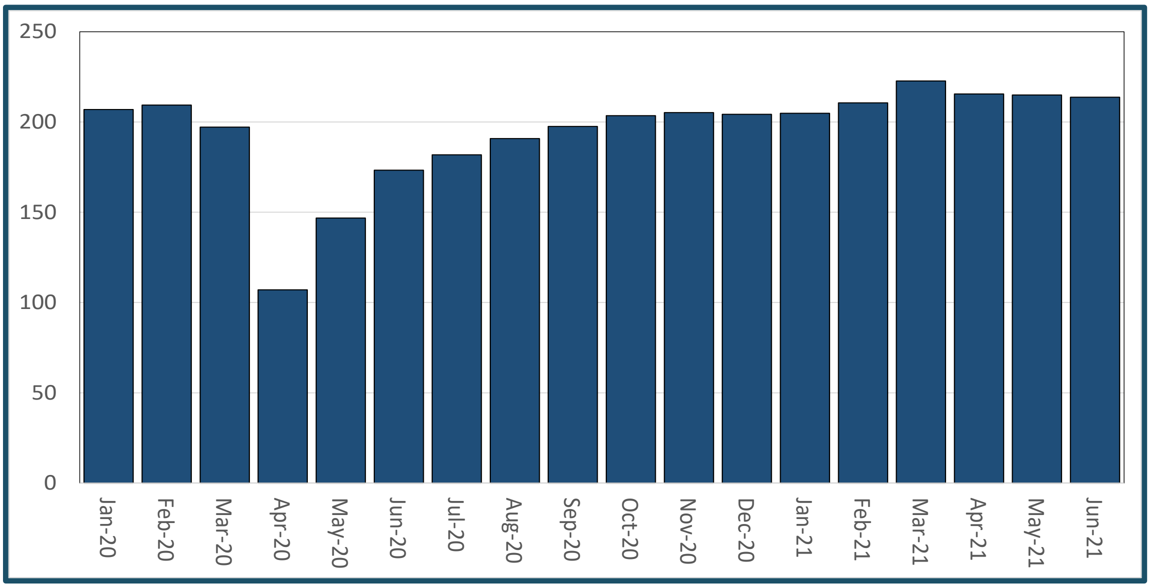
Graph 4. Change in GDP from first quarter of 2020 (pre-pandemic) to second quarter 2021 by sector



Source: Calculated from Statistics South Africa. GDP quarterly figures. GDP P0441 – 2021Q2. Excel spreadsheet downloaded from www.statssa.gov.za.

Despite the drop in manufacturing value added, the sector's sales were almost 1% higher in the second quarter of 2021 than in the first. They declined steadily through the quarter, however (Graph 5).

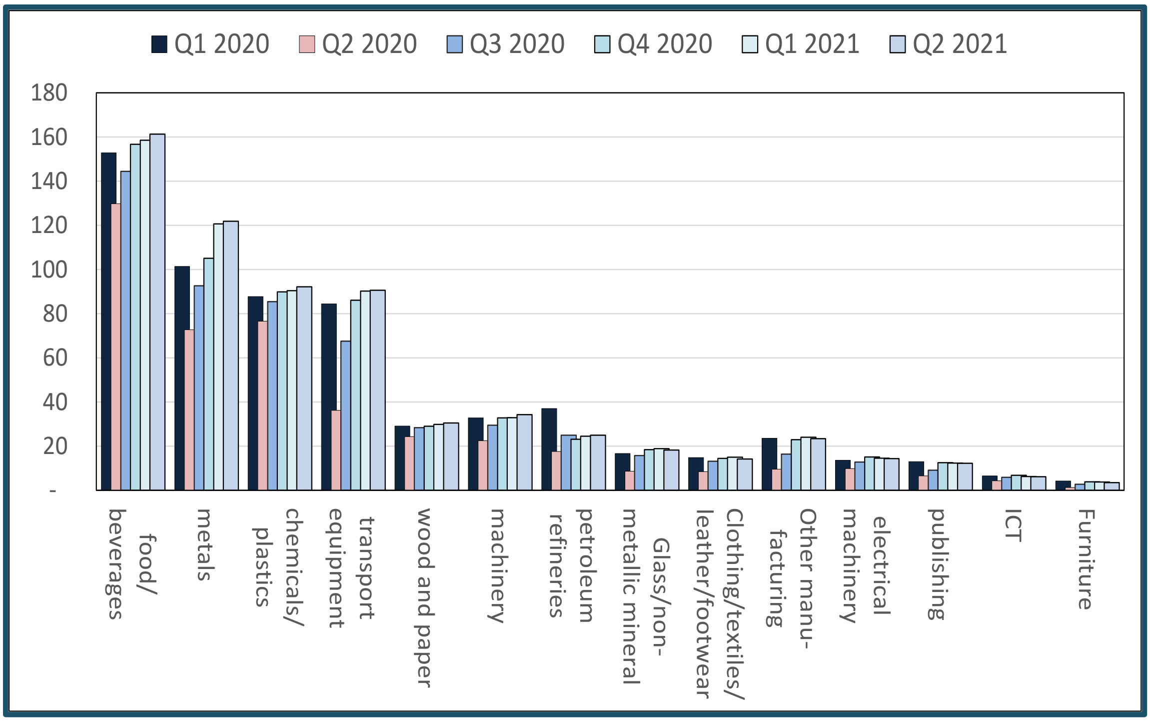
Graph 5. Monthly manufacturing sales in billions of constant (2021) rand (a), seasonally adjusted



Note: (a) Reflated with CPI rebased to June 2021. *Source:* Calculated from Statistics South Africa. Manufacturing: Production and Sales. Excel spreadsheet downloaded from www.statssa.gov.za.

The expansion in manufacturing sales in the second quarter was driven by food processing, chemicals, metals and paper. (Graph 6). These industries are largely commodities-based, with relatively low levels of value added. Machinery also enjoyed higher sales. Other industries saw little growth in output, or even a decline.

Graph 6. Quarterly sales by manufacturing industry in billions of constant (2020) rand (a), seasonally adjusted

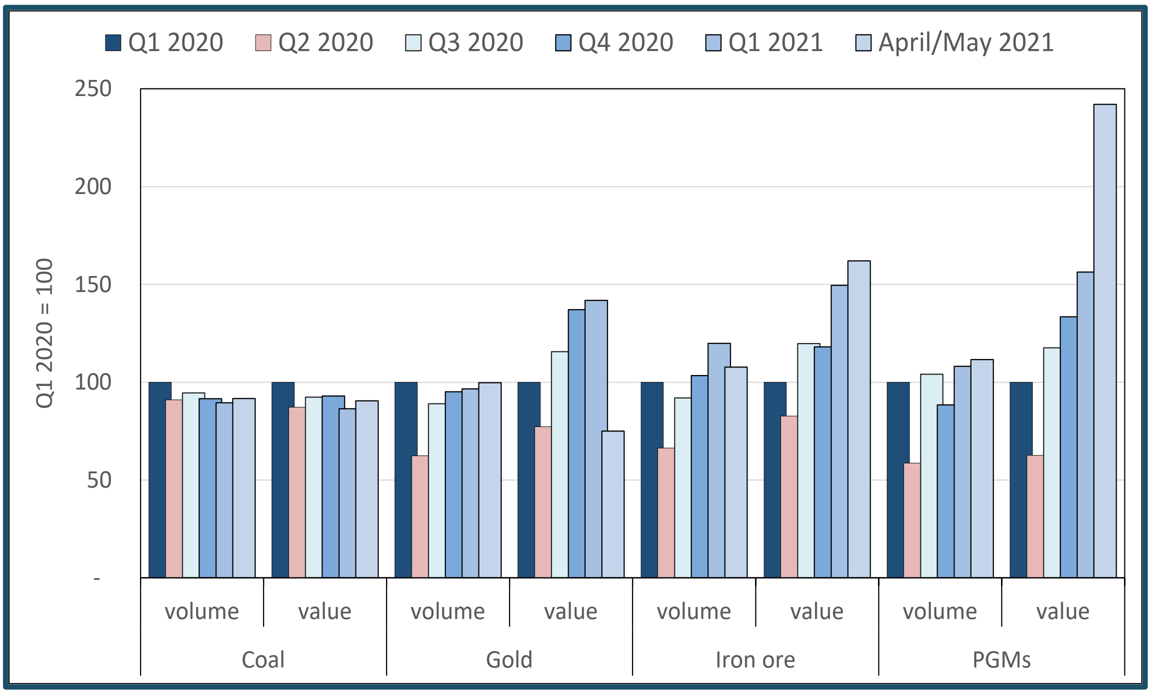


Note: Reflated with CPI rebased to June 2021. *Source:* Calculated from Statistics South Africa. Manufacturing: Production and Sales. Excel spreadsheet downloaded from www.statssa.gov.za.

Data are not yet available for June 2021 mining production and sales, so the figures here relate only to April and May. Sales rose 15% on average for April and May compared to the previous quarter. In these two months, they averaged 50% more than before the pandemic in constant rand terms. In contrast, average production by volume climbed only 2% in April and May compared to the previous quarter, and averaged just 6% above pre-pandemic levels.

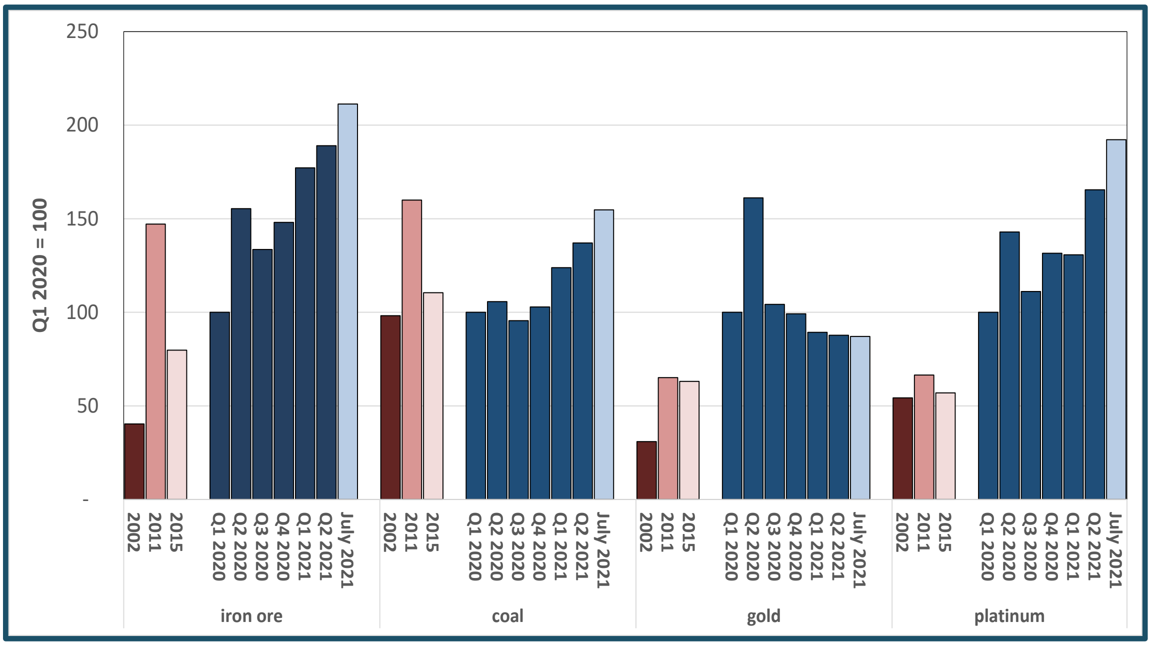
The growth in mining revenues mostly resulted from higher export prices. Graph 7 shows the extraordinary increase in the unit price for South African exports of platinum, iron ore and, more recently, coal. The figures are in constant rand deflated with CPI. In the mid-2010s, all of these metals saw a low point in export prices, which followed 30-year highs in 2011. As of July, both platinum and iron ore had exceeded their 2011 peaks. In contrast, the gold price spiked in the second quarter 2020, as the global economy tanked, but has fallen sharply since then. Still, it remains higher than in 2011. Of South Africa's main mining exports, only coal prices were still below 2011 levels in July. Since then, however, global coal prices have accelerated sharply.

Graph 7. Indices 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.

Graph 8. Indices of unit prices for South African mining exports in constant (2021) rand (a) for 2002, 2011 and 2015, and quarterly from first quarter 2020 to second quarter 2021 (first quarter 2020 = 100)

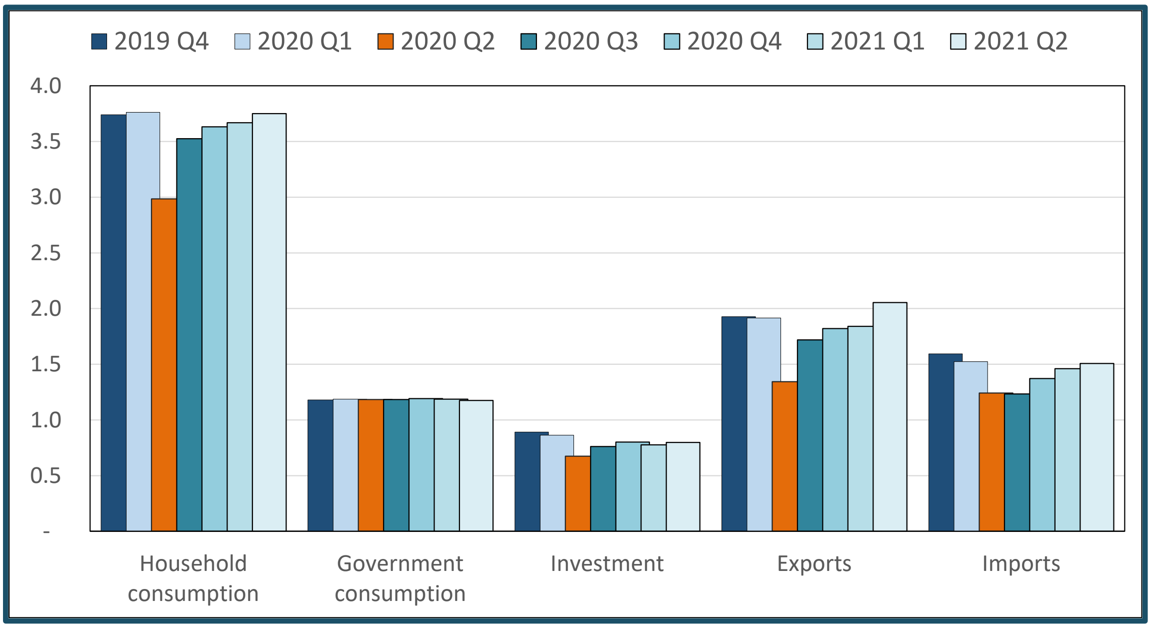


Note: (a) Reflated with CPI rebased to July 2021. *Source:* Calculated from Quantec. National trade data. Accessed at www.quantec.co.za

In expenditure terms, GDP growth in the second quarter of 2021 depended disproportionately on exports. In constant rand, foreign sales climbed 4%, mostly due to higher mining prices, while imports remained flat. The resulting move from a trade deficit to a surplus accounted for nearly 80% of GDP growth in the quarter. Yet net trade has contributed less than 4% of the GDP in every quarter since 2006. Moreover, it is highly volatile.

Overall, the recovery from the pandemic downturn has reflected almost exclusively growth in household consumption and net exports (Graph 9). Government consumption has been virtually flat, and both private and public investment has mostly lagged behind the broader rebound. Net exports moved from a deficit of R4 billion before the pandemic, in the first quarter of 2021, to a surplus of almost R40 billion in the second quarter of 2021; household and government consumption had almost entirely recovered; but investment was still almost 10% lower than its pre-COVID levels.

Graph 9. Quarterly expenditure on GDP, fourth quarter 2019 to second quarter 2021 by category, seasonally adjusted, in trillions of constant (2021) rand (a)



Note: (a) Reflated using implicit deflator rebased to second quarter 2021. *Source:* Calculated from Statistics South Africa. GDP quarterly figures. Excel spreadsheet downloaded from www.statssa.gov.za.

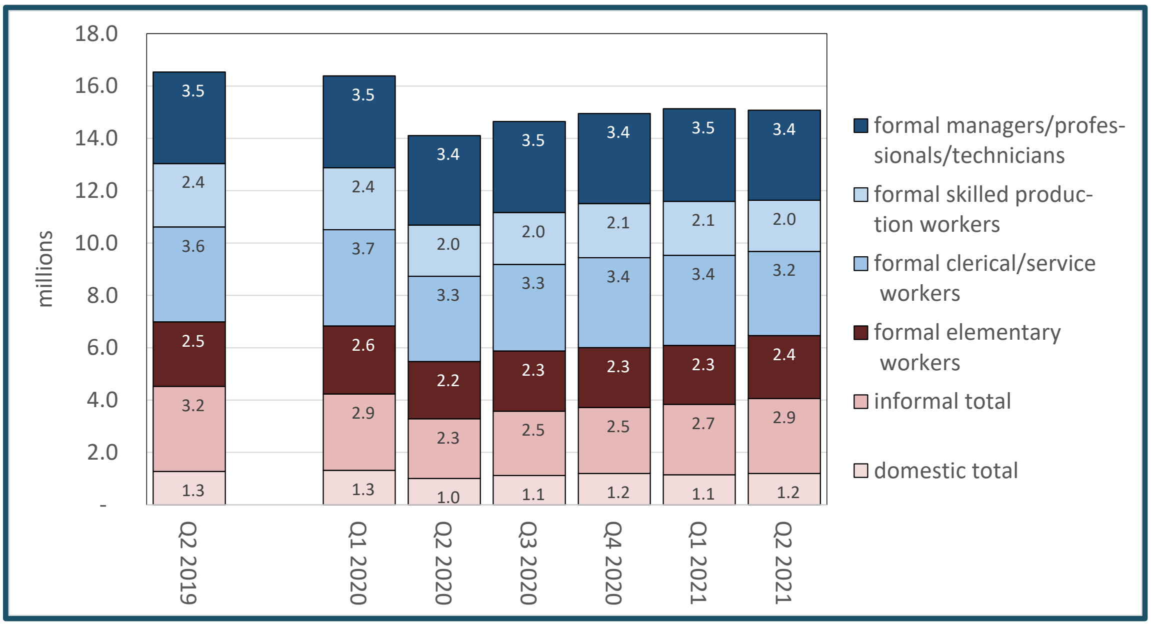
Employment

Despite the relatively rapid growth in the GDP, the Quarterly Labour Force Survey found that total employment flattened out from the first to the second quarter of 2021. South Africa had recovered almost a million jobs since the second quarter of 2020, but total employment was still 8% below pre-pandemic levels. In the second quarter, lower skilled and informal workers saw large job gains, but they were offset by losses for semi-skilled and skilled employees. This outcome likely reflected reduced access to the UIF's temporary employee relief scheme.

Job creation effectively flattened out in the second quarter of 2021, despite the relatively strong expansion in the GDP. It shrank by 50 000, or 0.4%. As Graph 10 shows, the slowdown resulted largely from substantial job losses in formal skilled and semi-skilled jobs, which plummeted

430 000 or almost 5%. In contrast, informal and unskilled formal employment shot up by 330 000 or 6.5%, while paid domestic employment climbed 40 000, or 4%.

Graph 10. Employment by skills level and sector, Q2 2019 and Q1 2020 to Q2 2021



Source: Calculated from Stats SA. QLFS 2008-2021 Q2. Electronic database. Downloaded from www.statssa.gov.za.

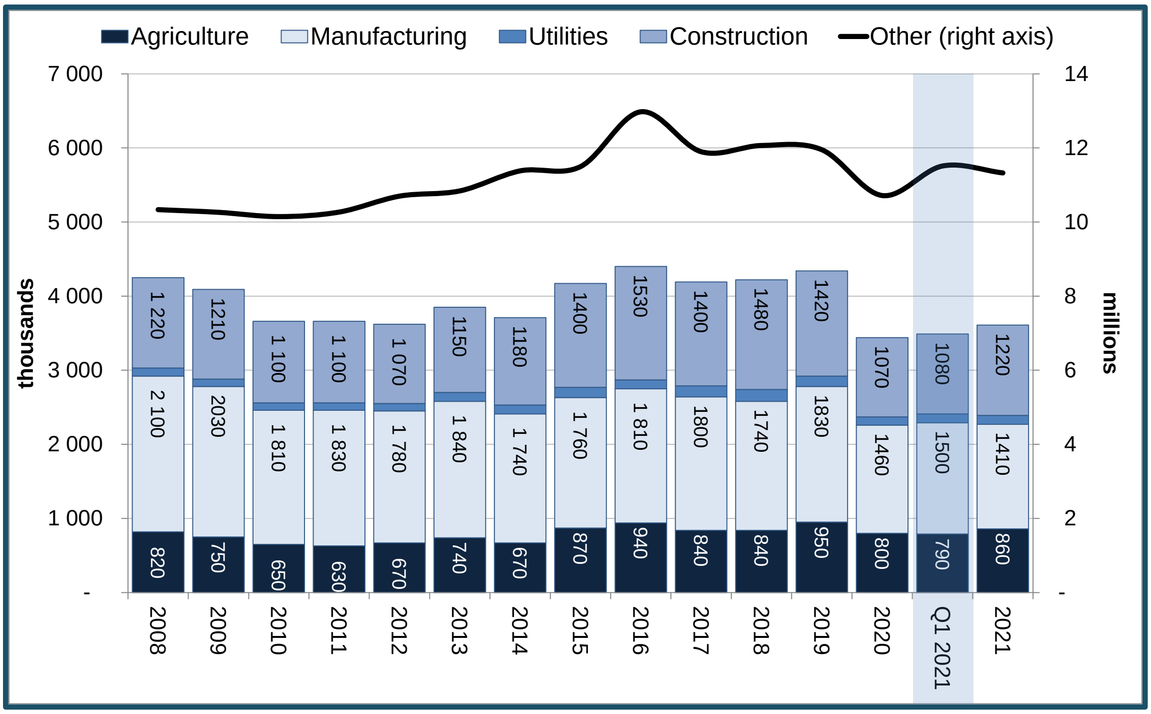
The second quarter of 2021 effectively reversed the earlier slow recovery from the pandemic downturn. A year earlier, at the deepest point of the COVID-19 depression, formal skilled and semi-skilled workers had lost one in 10 jobs, while informal, domestic and elementary formal workers had lost one in five. The second quarter of 2021 wiped out all of the subsequent gains for skilled and semi-skilled production, retail and service workers. In contrast, the quarter brought rapid job growth for informal, domestic and unskilled formal employees. As a result, in the second quarter of 2021 informal, domestic and low-skilled formal employment reached 95% of pre-pandemic levels. But skilled and semi-skilled workers, especially in industry, retail and the services, were still down by around 10%.

The sharp loss of relatively skilled formal jobs in the second quarter likely resulted, at least in part, because the Unemployment Insurance Fund (UIF) ended its Temporary Employee Relief Scheme for the vast majority of workers from March. The scheme had met part of the wages for workers if employers did not retrench them. It was available only to workers facing explicit restrictions on employment due to COVID-19, however. By 2021, that effectively meant almost exclusively hospitality workers. The *Briefing Note: The hospitality industry and COVID-19* discusses the impact of the pandemic.

Employment in the real economy varied substantially by sector over the past quarter. Unlike the GDP, Statistics South Africa does not seasonally adjust employment data, so the average changes in the second quarter over the past decade are indicated as benchmarks.

Construction and agriculture saw large improvements in the second quarter of 2021, but manufacturing shed jobs. Manufacturing lost 90 000 jobs, equal to 6% of its total employment – around four times its normal seasonal job losses in the second quarter. The downturn meant that there were even fewer manufacturing jobs in the second quarter of 2021 than in the depths of the lockdown in 2020, and 23% fewer than in 2019. Construction gained 140 000 positions, or almost 13%, over the quarter, despite the reported shrinkage in its contribution to the GDP. From 2010 to 2019, the sector saw an average second-quarter increase of only 1%. Agricultural employment expanded by 70 000, or 9%, despite a substantial improvement in the minimum wage for farmworkers in the first quarter. In a normal year, employment in agriculture declines from the first to the second quarter (Graph 11).

Graph 11. Second quarter employment by sector from 2008 to 2021, and first quarter 2021

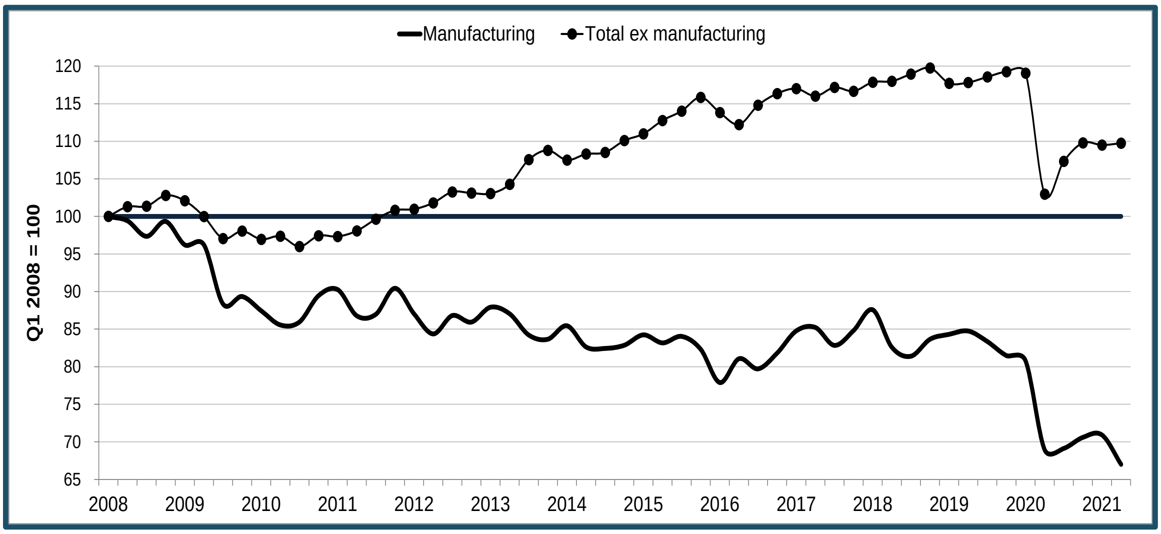


Source: Calculated from Stats SA. QLFS 2008-2021 Q2. Electronic database. Downloaded from www.statssa.gov.za.

Job losses outside of the real economy occurred primarily in business and social services. Business services lost 280 000 jobs, wiping out all of their gains from the second quarter of 2020. Most of the job losses in the sector affected cleaners. In contrast, employment in trade and transport rose around 5% over the quarter, for an increase of 175 000 jobs.

The job losses in manufacturing over the past quarter meant that it fell below 10% of total employment for the first time on record. In 2008, it contributed over 14% of all jobs; in the second quarter of 2021, the figure had fallen to 9.5%. Manufacturing employment declined by 700 000, or a third, over this period.

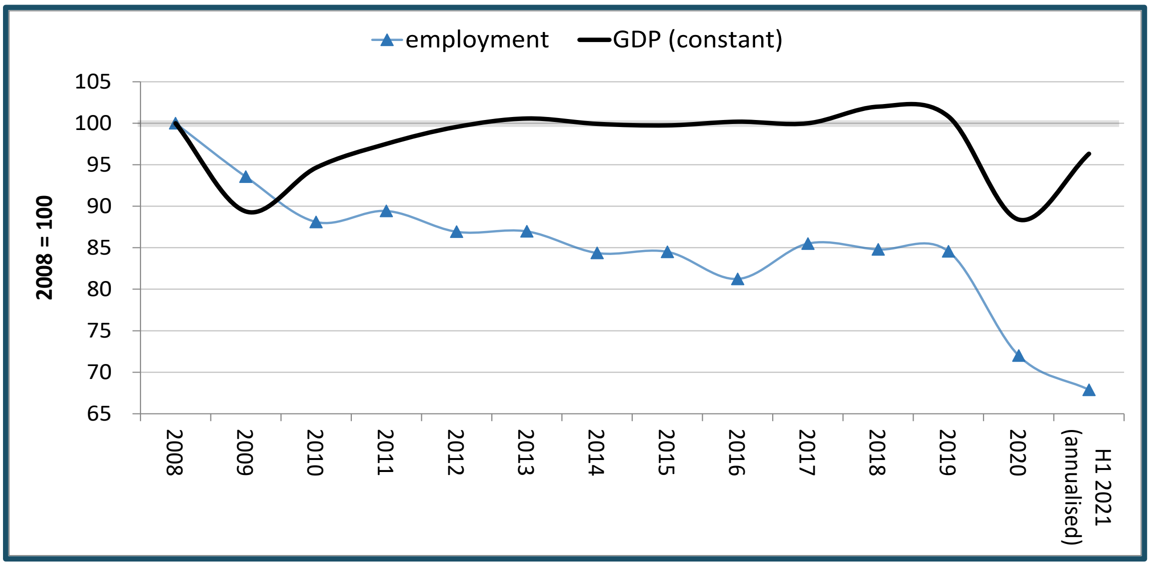
Graph 12. Indices of quarterly employment in manufacturing compared to the rest of the economy (first quarter 2008 = 100)



Source: Calculated from Stats SA. QLFS 2008-2021 Q2. Electronic database. Downloaded from www.statssa.gov.za.

The decline in manufacturing employment appears delinked from growth in sales or value added, as Graph 13 shows. From 2010 to 2019, manufacturing value added climbed 7% but the sector lost 4% of its jobs. In the first half of 2021, value added in manufacturing had recovered to 6% lower than in 2019, before the pandemic, but employment was still down by 20%.

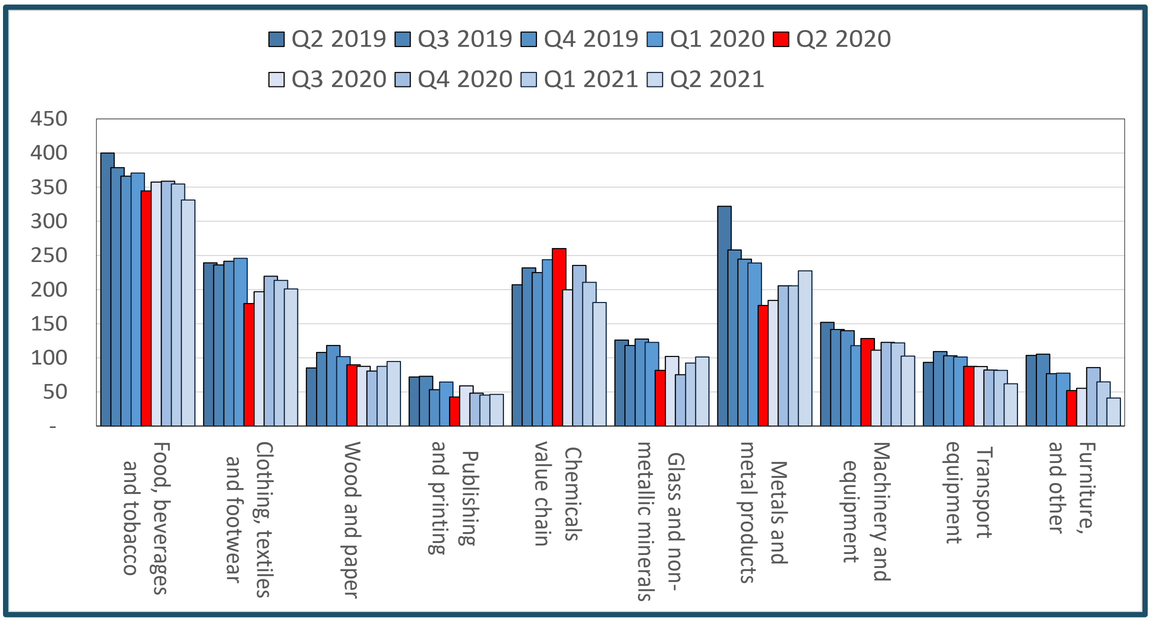
Graph 13. Indices of annual employment and GDP in manufacturing from 2008 to first half of 2021



Source: Calculated from Statistics South Africa, Labour Market Dynamics for relevant years from 2008 to 2019, and Quarterly Labour Force Surveys for 2020 and first half of 2021; GDP data from GDP P0441 – 2021Q2. Excel spreadsheet. Accessed at www.statssa.gov.za.

Individual industries in manufacturing often have fairly low employment numbers, so reports on quarterly changes are mostly not statistically significant. Longer-term trends are more reliable, however. Over the past year, a steady decline in jobs emerged in chemicals, food processing, auto and machinery. These industries accounted for the bulk of job losses in manufacturing. In contrast, metals saw steady growth, presumably reflecting favourable export prices, while other industries were essentially flat.

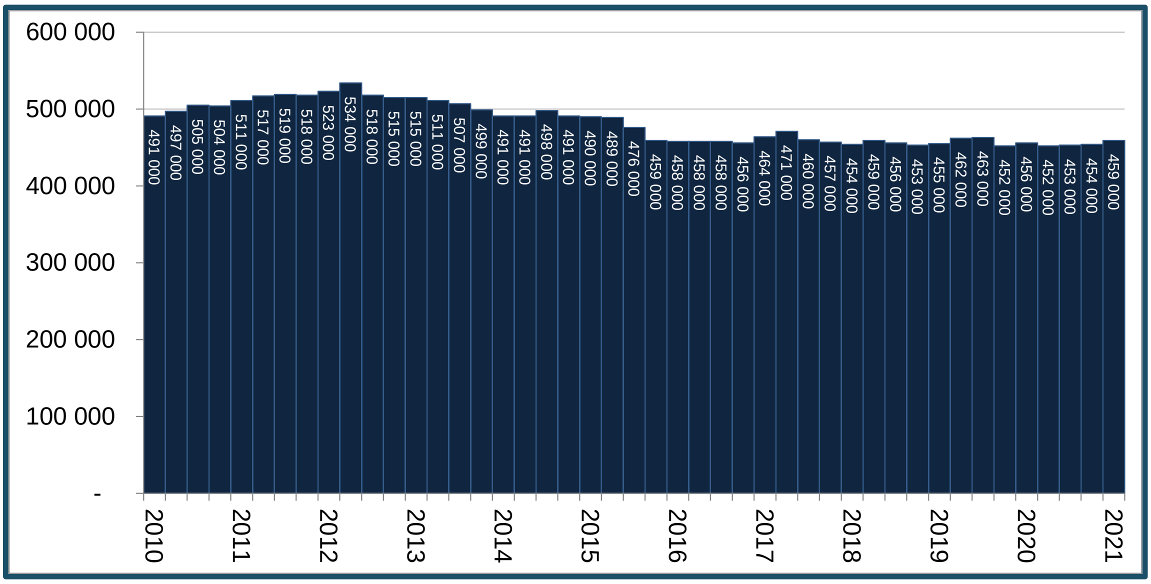
Graph 14. Employment by manufacturing industry per quarter, second quarter of 2019 to second quarter of 2021.



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

Employment in mining has been flat for the past two years, despite soaring export prices and sales.

Graph 15. Mining employment, Q1 2010 to Q1 2021



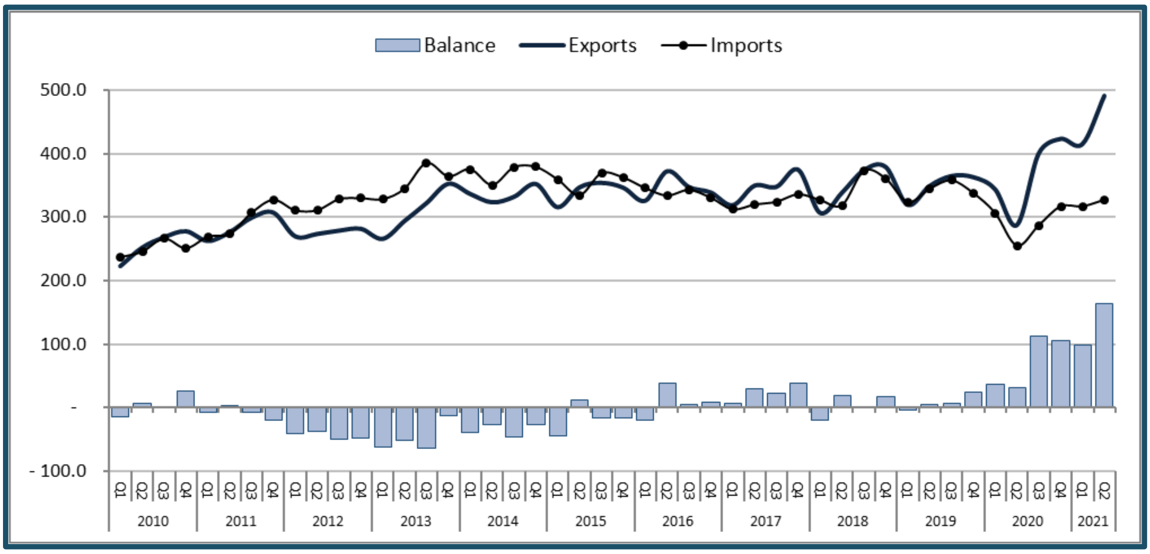
Source: For quarters through first quarter 2021, Stats SA. Quarterly Employment Survey. Excel spreadsheet. Downloaded from www.statssa.gov.za in June 2021.

International trade

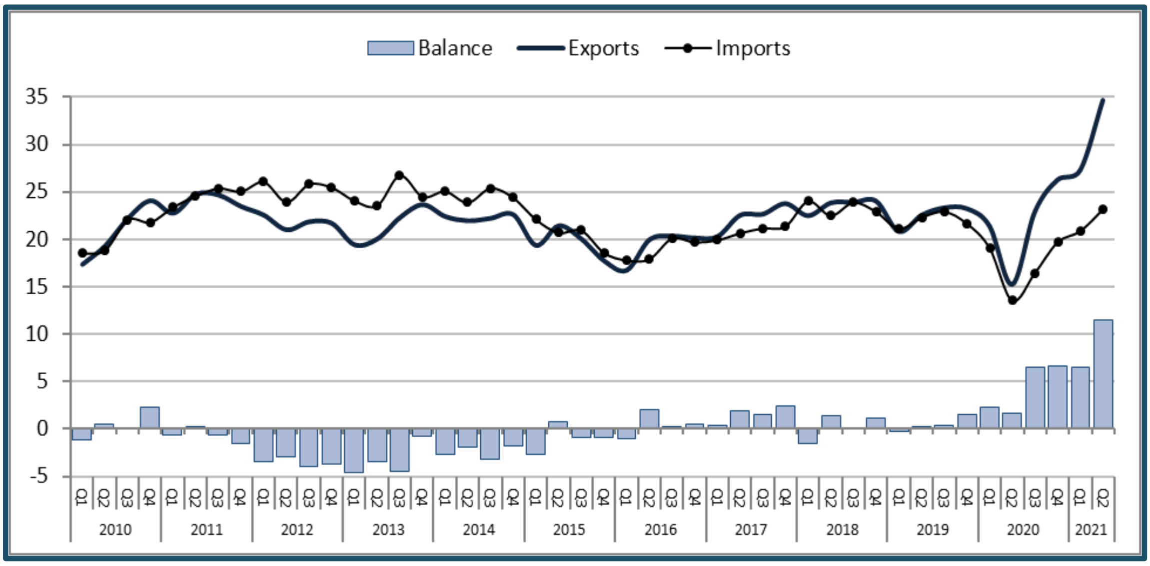
South Africa's trade balance remained strongly positive, with a R163 billion (US$11 billion) surplus in the second quarter of 2021. The record trade surplus was almost exclusively due to the surge in international mining prices, as discussed above. Exports increased 18% from the previous quarter, reaching R491 billion in constant 2021 rands. That represented a 77% increase over the pandemic low point a year earlier. In constant rand, the second quarter of 2021 also saw an increase in imports, but they lagged well behind exports. As a result, the balance of trade rose almost 75% in the quarter.

Graph 16. Second-quarter exports, imports and balance of trade in billions of constant rand and current US dollars (a)

A. Billions of constant (2021) rand



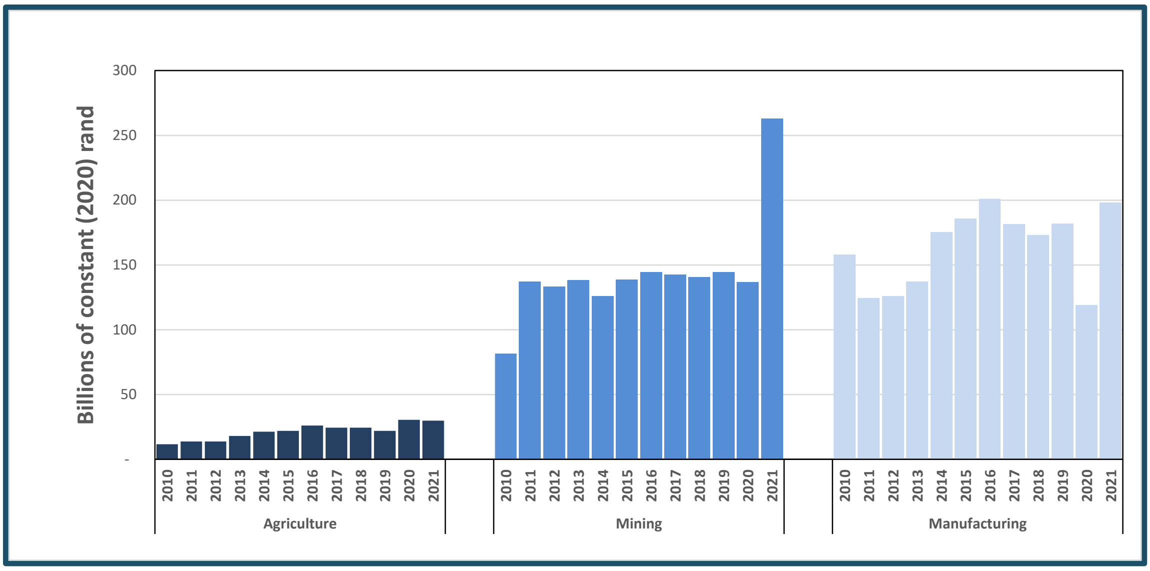
B. Billions of US dollars



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

Mining exports doubled in rand terms in the year to the second quarter of 2021, mostly because of surging prices for platinum and iron ore. The upswing largely reflected the speculative asset bubble caused by very low interest rates in the global North. It also benefited from the recovery in production in China, the US and Europe as the pandemic ebbed. In addition, manufacturing exports hit their highest level since 2016.

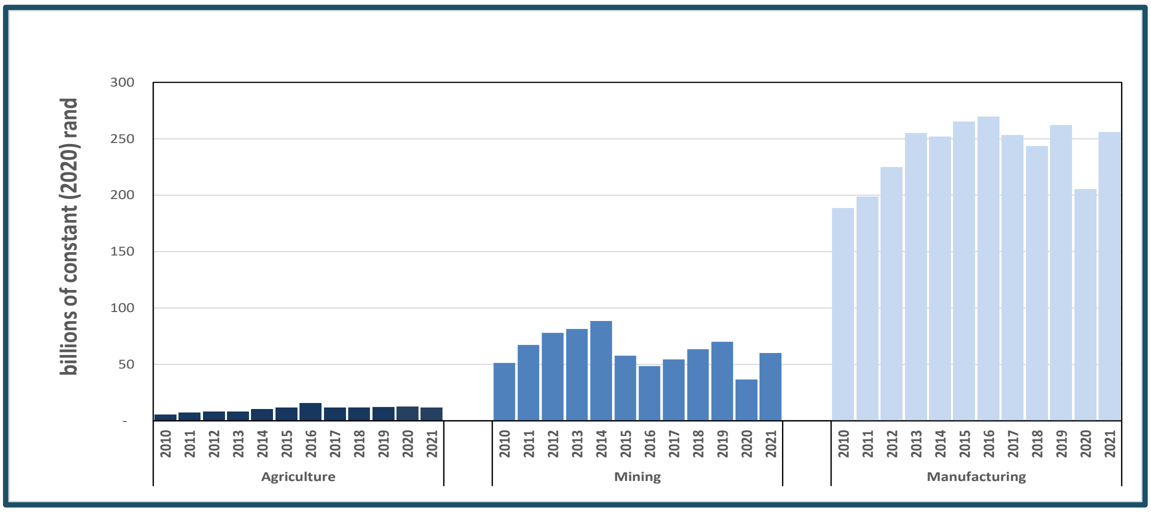
Graph 17. Second-quarter goods exports in billions of constant (2021) rand (a), by sector, 2010 to 2021



Note: (a) Reflated using CPI rebased to June 2021. *Source:* Calculated from South African Revenue Service data.

Imports continued to grow relatively slowly, in large part because international petroleum prices remained suppressed despite some recovery in the past six months. As a result, imports of mineral products remained lower than for most of the 2010s, although they had mostly recovered from the 2020 downturn. South Africa's manufactured imports had, however, fully rebounded.

Graph 18. Second-quarter goods imports in billions of constant (2021) rand (a), by sector, 2010 to 2021



Note: (a) Reflated using CPI rebased to June 2021. *Source:* Calculated from South African Revenue Service data.

Almost every manufacturing industry exceeded its pre-pandemic exports in the second quarter. Auto was particularly dynamic, with exports climbing 27% above their first quarter 2020 levels. Manufactured imports rose 24.4% in the second quarter of 2021, to R256 billion in constant rand terms.

Table 1. Trade by manufacturing subsector, second-quarter 2021 compared to first and second quarter 2020

	VALUE (BILLIONS)		% CHANGE FROM Q2 2020		CHANGE IN BILLIONS	
	USD	Rand	USD	Rand	USD	Rand
EXPORTS						
Food and beverages	1.12	15.9	43.3%	8.1%	0.34	1.19
Clothing and footwear	0.50	7.0	136.4%	80.5%	0.29	3.13
Wood products	0.14	2.0	83.7%	40.5%	0.06	0.58
Paper and publishing	0.38	5.3	37.7%	3.6%	0.10	0.18
Chemicals, rubber, plastic	2.80	39.5	97.4%	49.0%	1.38	12.99
Glass and non-metallic mineral products	0.13	1.8	138.5%	82.7%	0.07	0.81
Metals and metal products	2.80	39.5	90.7%	44.8%	1.33	12.22
Machinery and appliances	2.33	33.0	122.7%	70.4%	1.29	13.62
Transport equipment	3.60	50.9	277.6%	188.9%	2.64	33.27
IMPORTS						
Food and beverages	0.93	13.2	45.9%	9.4%	0.29	1.14
Clothing and footwear	1.02	14.5	11.7%	-16.7%	0.11	-2.90
Wood products	0.11	1.5	109.6%	57.4%	0.06	0.54
Paper and publishing	0.80	11.3	118.9%	65.1%	0.43	4.46
Chemicals, rubber, plastic	3.87	54.7	47.1%	10.4%	1.24	5.18
Glass and non-metallic mineral products	0.27	3.9	95.4%	46.3%	0.13	1.23
Metals and metal products	1.52	21.5	113.6%	59.8%	0.81	8.04
Machinery and appliances	5.34	75.5	42.2%	7.0%	1.58	4.97
Transport equipment	3.87	54.8	157.9%	91.9%	2.37	26.24

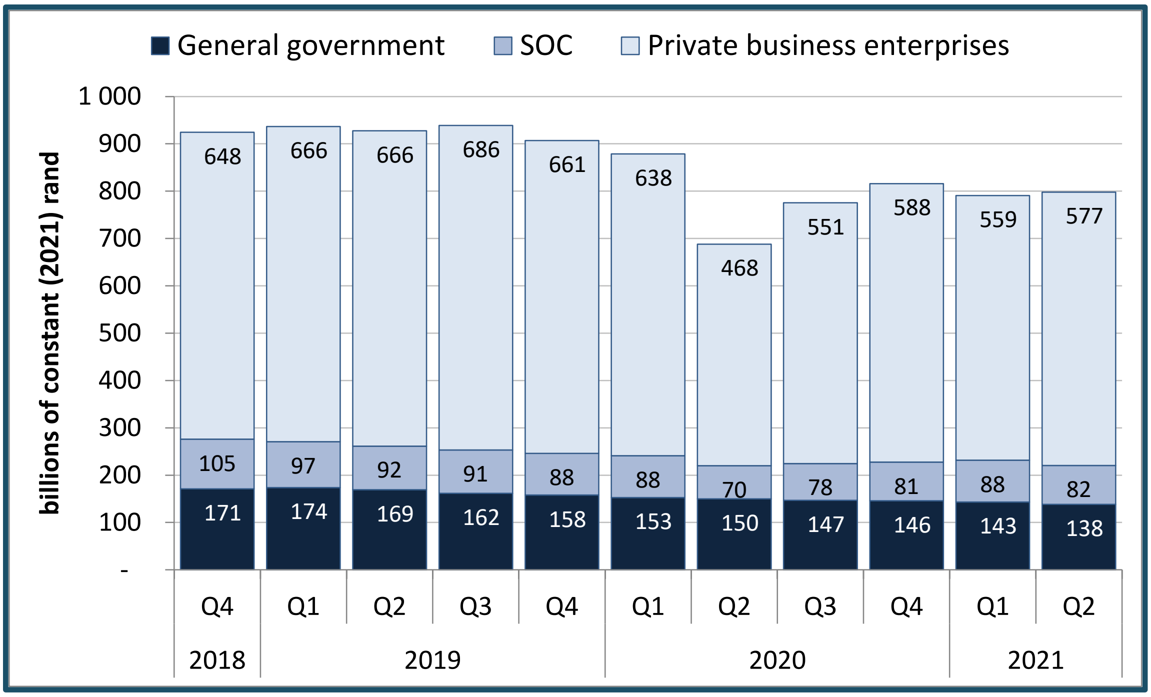
Source: SARS monthly data

Investment

In the second quarter of 2021, investment was around 9% lower than in the first quarter of 2020. It stopped growing in the fourth quarter of 2020. General government and private investment showed the slowest recovery from the pandemic downturn. Moreover, when Statistics South Africa rebased the GDP, it found that the investment rate was overestimated for the past decade. For the second quarter of 2021, it came to a mere 12.8% of the GDP – far below the level generally considered adequate to sustain growth.

Total investment largely flattened out from the fourth quarter of 2020, after an initial rebound of almost 20% from the depths of the lockdown. As a result, investment remained at just over 90% of its level in the first quarter of 2020, which in turn was substantially lower than a year earlier. Still, in the second quarter of 2021, private investment – which accounts for three quarters of all capital formation – expanded by over 3%. In contrast, public investment shrank nearly 5%. As a result, total investment only recovered by just under 1% in the quarter. It remained lower than in the fourth quarter of 2020 (Graph 19).

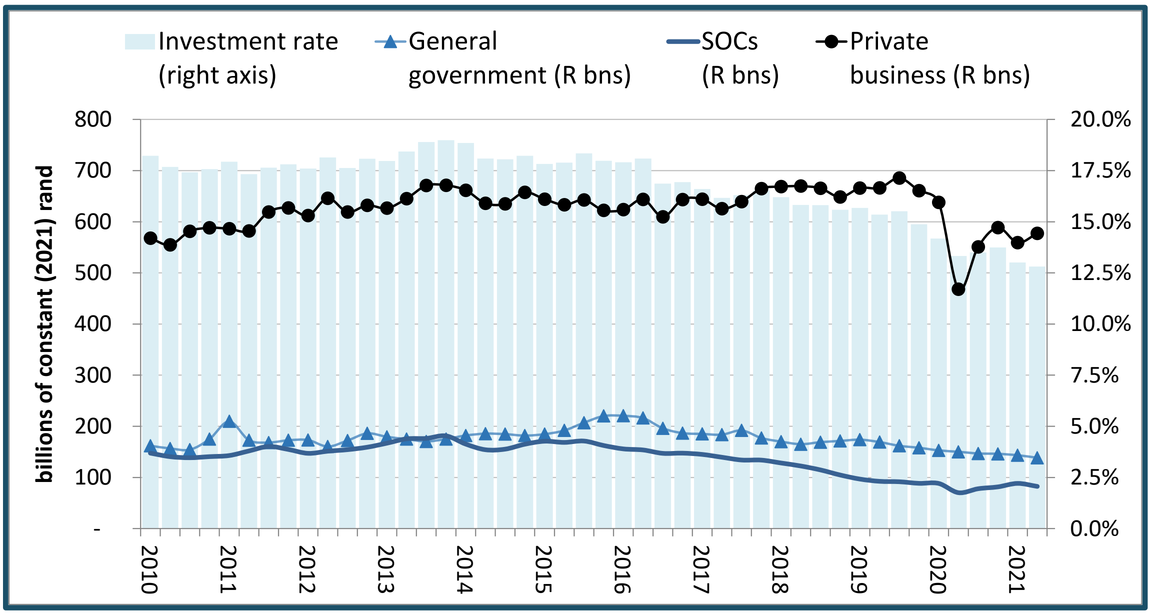
Graph 19. Quarterly seasonally adjusted investment by type of organisation, fourth quarter 2018 to second quarter 2021, in billions of constant (2021) rand (a)



Note: (a) Reflated with implicit deflator rebased to second quarter 2021 *Source:* Calculated from Statistics South Africa. GDP quarterly figures. Excel spreadsheet downloaded from www.statssa.gov.za.

When Statistics South Africa rebased the GDP data, it found that investment had been overestimated relative to other components. This finding meant the investment rate was around 2% lower than previously estimated. The trends in the investment rate remain essentially unchanged, however. Using the new figures, it hovered around 17.5% for most of the 2010s, then declined from 2016. In the second quarter of 2021, it dropped to 12.8% of the GDP. The general rule of thumb is that investment at between 20% and 25% of the GDP is required to maintain stable growth. The decline before the pandemic was mostly due to falling public sector investment. In the second quarter of 2020, however, the pandemic brought a sharp fall in private investment. Despite a steep rebound in the second half of 2020, it remains 9% below its pre-pandemic levels.

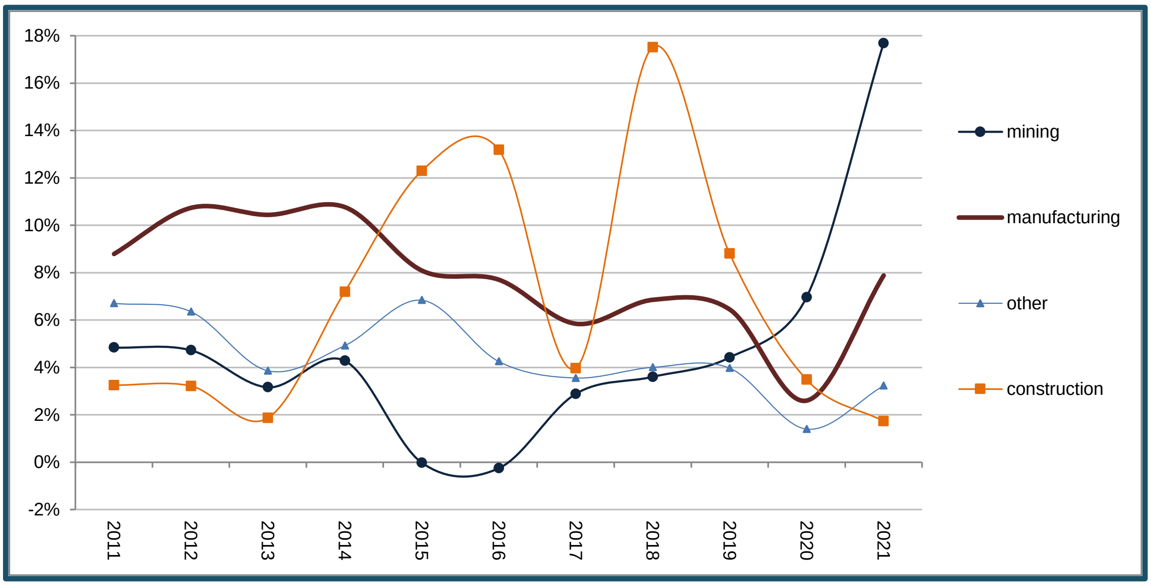
Graph 20. Quarterly investment by type of organisation in billions of constant (2021) rand, and total investment as a percentage of GDP, 2010 to second quarter 2021



Note: Reflated with implicit deflator rebased to second quarter of 2021. *Source:* Calculated from Statistics South Africa. GDP quarterly figures. Excel spreadsheet downloaded from www.statssa.gov.za.

Data on profitability by sector are available only through the first quarter of 2021 (see Graph 20). They point to a sharp recovery in profitability in mining and to a lesser extent in manufacturing compared to the first quarter of 2020. Construction, however, continued to face headwinds.

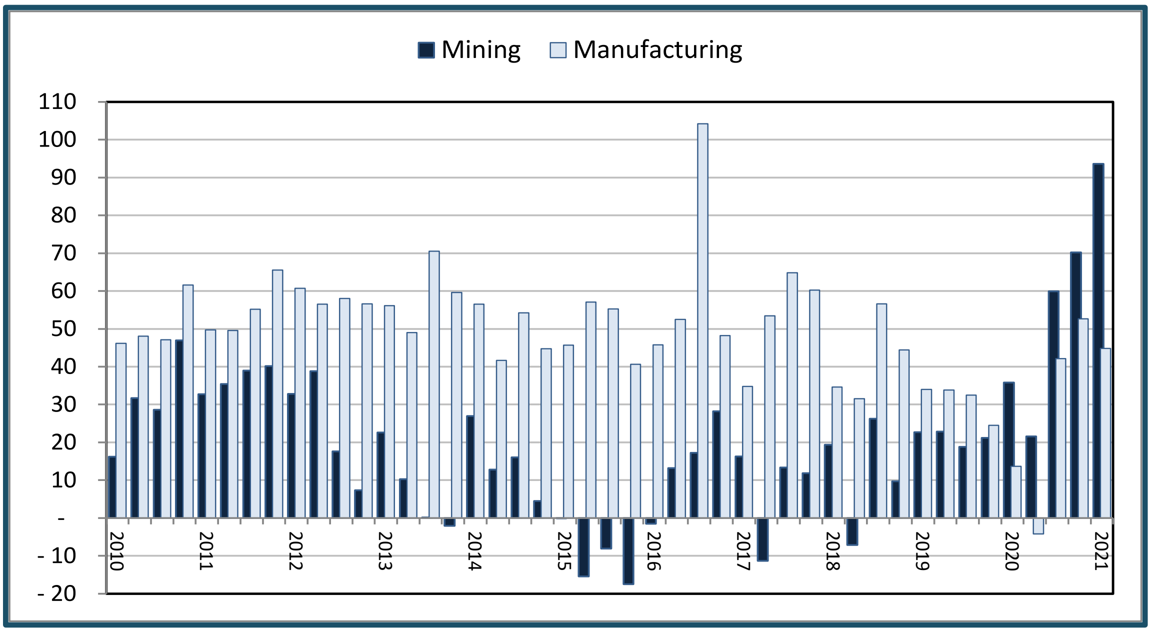
Graph 21. Return on assets in constant rand, first quarter 2011 to first quarter 2021



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

As shown in Graph 22, manufacturing profits recovered more slowly than mining, and plateaued from the third quarter of 2020. In contrast, mining profits soared, driven primarily by high export prices.

Graph 22. Quarterly profits in manufacturing and mining in billions of constant 2021Q1 rand (a), 2010 to 2021



Note: (a) Deflated with CPI rebased to January 2021. *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 second quarter of 2021, 10 projects were identified. The total investment value captured was almost R20 billion from six projects. The majority of investments captured are new projects. There were changes in the status of seven projects previously captured in the Tracker, these were updated accordingly.

Table 2: FDI projects captured in Q2, 2021

	ANNOUNCED	PROJECT PREPARATION	PRE-FEASIBILITY	COMPLETE
Number of projects	5	2	1	2
Value| (R billions)	19.8	0.0173	Not reported	Not reported
Industries	2 Utilities 2 Manufacturing 1 R&D	1 Mining 1 Manufacturing	1 Utilities	2 Services
Type	2 Greenfield 2 Upgrade 1 Expansion	2 Expansion	1 Greenfield	2 Greenfield
Companies	Fodere Titanium TWIMS – (Illovo Africa, Metair, The Foschini Group and Toyota) Scatec Solar SAB/AB InBev Mercedes Benz South Africa	Diamcor Mining Enertronica Santerno	Pan African Resources	Mahindra

Source: TIPS FDI Tracker database

New projects

Scatec was announced as the latest preferred bidder by the Department of Mineral Resources and Energy in the Risk Mitigation Independent Power Producer Procurement Programme. Scatec has a 20-year Power Purchase Agreement with Eskom. It will be developing three projects in the Northern Cape, “Kenhardt 1-3”. The projects have a total 150 MW contracted capacity. They will consist of a total 540 MW solar and 225 MW/1 140 MWh battery storage. The project is valued at about US$1 billion (R14.8 billion) and will be connected to the grid by the end of 2022.

Mercedes-Benz announced a further R3 billion investment to develop its East London manufacturing facility in addition to recently completed R10 billion upgrades in preparation for the production of the new C-Class, initially announced in 2018. Details of the activities involved and changes the new investment entails have not yet been disclosed.

South African Breweries has reinstated a R2 billion investment into its South Africa operations. The investment programme was cancelled over the past year due to challenges including the impact of the pandemic. The projects earmarked for this investment will be completed in 2022.

Fodere, a UK minerals technology company, announced plans to construct a titanium processing plant for an undisclosed amount in Emalahleni in Mpumalanga. The facility will produce titanium dioxide and vanadium pentoxide, with alumina oxide and magnesium sulphate as by-products. Fodere will utilise an internally developed low-carbon proprietary process to extract titanium from steel slag and refine titanium and, industrial minerals and chemicals.

Investors including Illovo Africa, Metair, the Foschini Group and Toyota pledged a collective R18 million in investment towards the Toyota Wessels Institute for Manufacturing Studies (TWIMS). TWIMS is an academic partnership with the Gordon Institute of Business Science. It is a business school and research institution focused solely on manufacturing. The investment aims to create four research chairs that will focus on issues that advance manufacturing in Africa.

Existing projects

Two projects were identified by automotive manufacturer Mahindra. The India-based firm opened a new national parts warehouse and a training facility as part of its expansion in South Africa. The warehouse is equipped with new technology, centralises parts storage and is larger than its predecessor. The training centre is dedicated to internal dealer training and it is also open to employees from the Southern African Development Community. The value of the investment for the Gauteng-based facilities was not reported.

Pan African Resources is undertaking a feasibility study to explore the installation of a solar power plant at its Barberton Mine similar to the Evander/Elikhulu solar PV power project currently under construction (see below). A site for the Barberton solar power plant been selected. The value of the investment has not yet been reported.

Canadian diamond mining firm Diamcor announced that it will proceed with plans to expand processing facilities at the Krone Endora at Venetia Project. The expansion planned for 2020 was delayed by the COVID-19 pandemic. The key objective of the project is to increase processing volumes and improve mining and processing efficiency. The project will be rolled out in two phases; the value has not been disclosed.

Updates

Acwa Power announced the start of construction for its Redstone concentrated solar power plant. The 100 MW power plant will be developed for US$800 million (R11.6 billion) in the Northern Cape. The construction of Redstone is expected to create about 2 000 jobs and 100 permanent jobs once it reaches operation in 2023.

The R3.1 billion Nxuba wind farm reached commercial operation. It was developed by Italian multinational Enel's renewable arm Enel Green Power in the Eastern Cape. Nxuba has 140 MW capacity and is expected to generate 460 GWh of energy annually. The project is a participant in the Renewable Energy Independent Producer Power Procurement Programme.

Mercedes-Benz started production of the new C-class, the W206. Approximately R10 billion has been invested since 2018 to upgrade the manufacturing plant in East London in preparation for the production of the new model. Improvements to the facility include changes to the assembly line, the warehouse and a new body shop containing over 500 robots. The project created 600 new jobs.

Nissan commenced manufacturing the new Nissan Navara following a R3 billion upgrade to its Rosslyn production plant. Work on the improvements to the facility began in 2018. Production was meant to start sooner, but was delayed by the pandemic.

Anglo American completed the Polokwane sulphur dioxide abatement project at the Polokwane Metallurgical Complex Limpopo. The plant will be commissioned in the course of 2021. The US$108 million (R1.5 billion) technology will capture sulphur dioxide from the smelter furnaces and convert it into sulphuric acid. This is expected to reduce emissions by 96%.

Leroy Merlin has opened a fourth store as part of a R1 billion investment to establish operations in South Africa. The French home improvement retailer specialises in hardware, bathroom, home décor and kitchen products amongst others, and targets South Africa's do-it-yourself market. The expansion began in 2019, with all the stores located in Gauteng. The latest opened in Fourways.

Gold miner Pan African Resources has started construction of a 10 MW solar photovoltaic power plant at the firm's Evander mine in Mpumalanga. It is expected to provide 30% of the Elikhulu tailing treatment plants energy requirements. The R140 million plant is to be commissioned in the third quarter of 2021.

Briefing Note: Transnet National Ports Authority

Operational Vulindlela has targeted key structural reforms in South Africa's economic infrastructure to strengthen performance, thereby improving the efficiency of the economy and lowering the cost of doing business. One such reform is the establishment of Transnet National Ports Authority (TNPA) as a separate entity within the Transnet Group. But what does this mean and how does it help?

Restructuring TNPA into a new entity has been in the making since the early 2000s when the port operations of Transnet were separated into two parts – the landlord (which become TNPA) and the ports operator (Transnet Port Terminals or TPT), both divisions of Transnet. TNPA is the manager of the port infrastructure and also provides some port services such as pilotage and towage, as well as services for terminal operators such as security, fire-fighting and environmental protection. The government recognised at the time that having the same company own both the landlord and main tenant would constrain investment in infrastructure, opportunity for new players and efficiency. The National Ports Act of 2005 therefore provided for the establishment of the National Ports Authority.

Despite this decision, the National Ports Authority was never established as an independent entity, instead remaining a division of Transnet. While TNPA is overseen by the Ports Regulator, which has been able to resolve some of the issues of pricing, the concern has remained that TNPA has not facilitated the entry of private players into port operations, at the cost of ports customers and has benefited TPT. Further, the use of profits from TNPA for infrastructure in the broader Transnet group has resulted in underinvestment in port infrastructure. These factors ultimately led to South Africa's main ports being ranked in the bottom five in the 2020 Global Container Port Performance Index by the World Bank. Cape Town ranked 347, Durban 349 and Ngqura was bottom of the list at 351.

These poor rankings highlight what industry has been saying for decades and what the government wanted to change back in 2005. The failure to invest, except where unavoidable, has resulted in costly delays and massive inefficiencies, and held back the emergence of port-associated industries. Previous TIPS work has highlighted the potential of the ship repair industry in creating economic opportunities and employment in a range of different areas, as well as the opportunities for expanding back-of-port operations, and new infrastructure around the ports including expanding the tourism opportunities.

The corporatisation of TNPA offers a neat option as a way forward. On the one hand, it allows TNPA to continue to contribute to the balance sheet of Transnet (which remains important for the financial stability of the group). On the other hand, TNPA will be sufficiently independent to undertake the investments and decisions required to fulfil its mandate, open up space for new players and opportunities, and operate in the best interest of its clients.

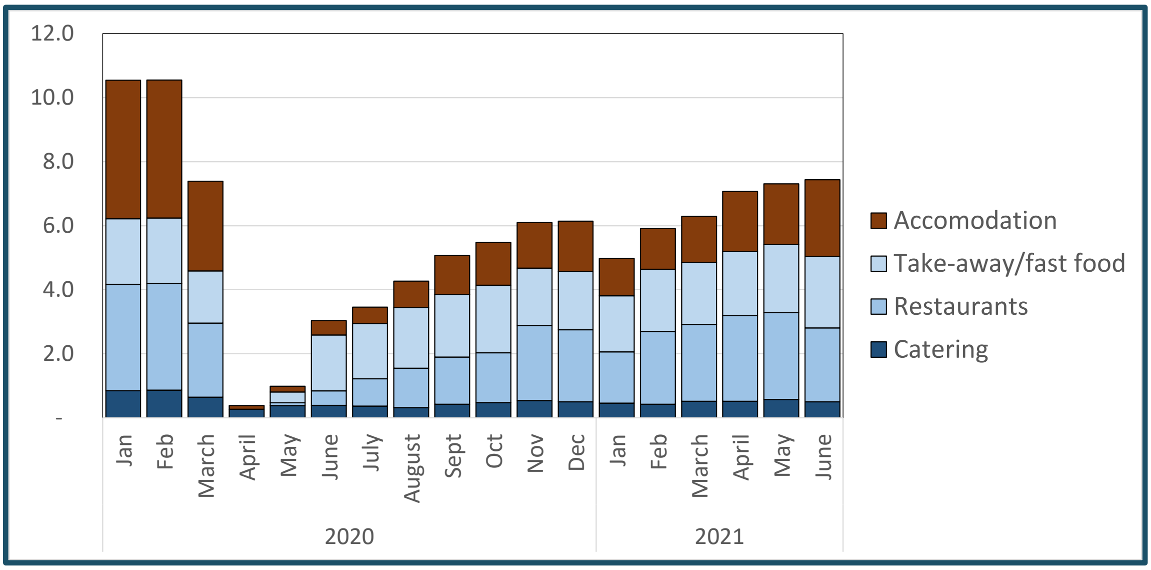
For South Africa to achieve its industrial policy objectives it needs to support its export industry through more effective and competitive port operations, as well as unlocking industrial activities and value added service industries link to the ports. Ensuring the independence of the corporatized TNPA is therefore critical to the success of this plan.

Briefing Note: The hospitality industry and COVID-19

Hospitality services – restaurants, hotels, bars and entertainment venues – pose a high risk of contagion as long as COVID-19 is endemic and only a small fraction of the population has been vaccinated. As a result, businesses in the industry have faced plummeting demand and a range of public-health restrictions. The industry is relatively labour intensive, which means its slowdown results in disproportionate damage to jobs and emerging enterprises.

Statistics South Africa's surveys of restaurants and hotels underscore how their demand plummeted due to the pandemic. As Graph 23 shows, restaurant and accommodation revenues fell to near zero during the lockdown in the second quarter of 2020. Since then, restaurants and catering have recovered only around 60% of their business. Their recovery has stalled since the second wave began at the end of 2020, as customers began to self-isolate. Takeaway and fast food, in contrast, now have revenues in constant terms almost 10% higher than before the pandemic. Accommodation establishments recovered more steadily than food service, but as of June their revenues remained 40% lower than before the pandemic. The occupancy rate plummeted from near 50% before the pandemic to under 10% during the lockdown, and was still under 30% as of June 2021. Moreover, in seasonally adjusted terms, the average price per night was 20% lower in June 2021 than it had been in January 2020.

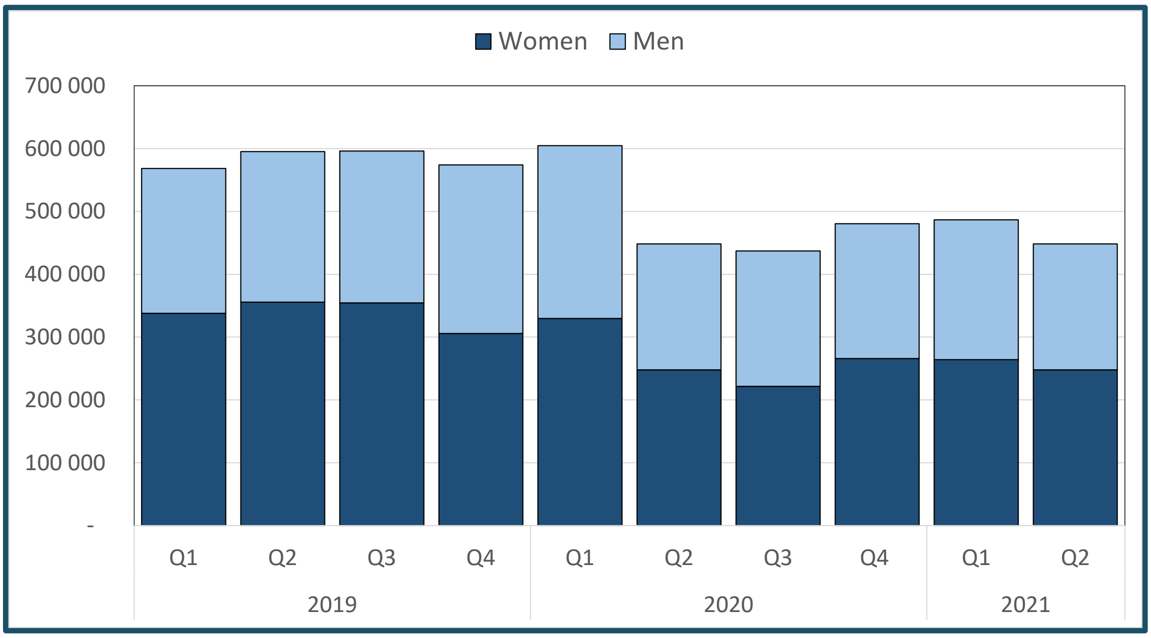
Graph 23. Monthly revenue from food services and accommodation in billions of constant (2021) rand (a), seasonally adjusted, January 2020 to June 2021



Note: (a) For accommodation, figures are reflated with CPI rebased to June 2021. Food service figures are reflated using the implicit deflator rebased to June 2021. *Source:* Statistics South Africa. Food and Beverages from 2005 and Tourist Accommodation from 2007. Excel spreadsheets. Accessed at www.statssa.gov.za.

Hospitality services are relatively labour-intensive. Statistics South Africa estimates that domestic and international tourism accounted for around 2.8% of the GDP but 4.5% of employment in 2017. The pandemic has seen a far slower recovery in hospitality jobs than in the rest of the economy, however. The number of people employed in the industry dropped from 600 000 in the first quarter of 2020 to 450 000 in the second quarter, and has effectively stabilised there. As a result, hospitality jobs dropped from 3.7% of total employment in the first quarter of 2020 to 2.0% in the second quarter of 2021. Women constitute around 55% of employment in the industry, compared to below 45% in the rest of the economy, which means the downturn has hit them particularly hard.

Graph 24. Quarterly employment in restaurants, shebeens and hotels, first quarter 2020 to second quarter 2021, by gender (not seasonally adjusted)



Source: Calculated from Statistics South Africa. Quarterly Labour Force Surveys for relevant quarters. Downloaded from Nesstar facility at www.statssa.gov.za.

The underlying challenge for the hospitality industry is that its historic business model relies on social gatherings, which bring with them the risk of COVID-19 infections as long as most people are not vaccinated. There are ways to adjust the pre-pandemic model to improve safety even with low vaccination rates. They include moving outdoors, improving ventilation and limiting capacity indoors, replacing live entertainment with streaming, requiring masks and social distancing.

Government can also do more to ensure that hospitality businesses and their workers, many of whom are freelance or part-time, are able to access relief packages. What won't work is simply to delay restrictions when infections surge, or to end safety requirements early even though contagion rates are still high. That approach risks prolonging waves of COVID-19, which in turn endangers the recovery in the rest of the economy and in society.