THE REAL ECONOMY BULLETIN

TRENDS, DEVELOPMENTS AND DATA SECOND QUARTER 2022

*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.**

GDP growth

The GDP shrank by 0.7% in the second quarter of 2022, mostly due to large-scale loadshedding, the floods in May in KwaZulu-Natal, and flat government spending. Value added fell in all of the real economy sectors, with agriculture the hardest hit. Manufacturing contracted by just under 6%. Construction remained depressed, apparently mostly due to stagnant investment by state-owned companies. Tourism continues to lag far behind pre-pandemic levels.

The 0.7% decline in the GDP in the second quarter of 2022 was the second interruption in the recovery from the global slowdown started by the COVID-19 pandemic in March 2020. (Graph 1) It extended the tendency towards more volatile national and global growth over the past two years, and pushed the economy back down to half a percent below its pre-pandemic level. (Graph 2)

Every real-economy sector contracted in the past quarter, with the decline at 7.7% in agriculture, 5.9% in manufacturing, 3.5% in mining and 2.4% in construction. Only business services and logistics showed significant growth, at over 2% for the quarter. Government services shrank. (Graph 3.)

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

CONTENTS

EDITORIAL TEAM

The Real Economy Bulletin is a TIPS Publication

Editor

Itumeleng Mokoena

Contributors

Neva Makgetla

Gillian Chigumira

Nokwanda Maseko

Kelello Mashiane

Lesego Moshikaro

Wendy Nyakabawo

TIPS

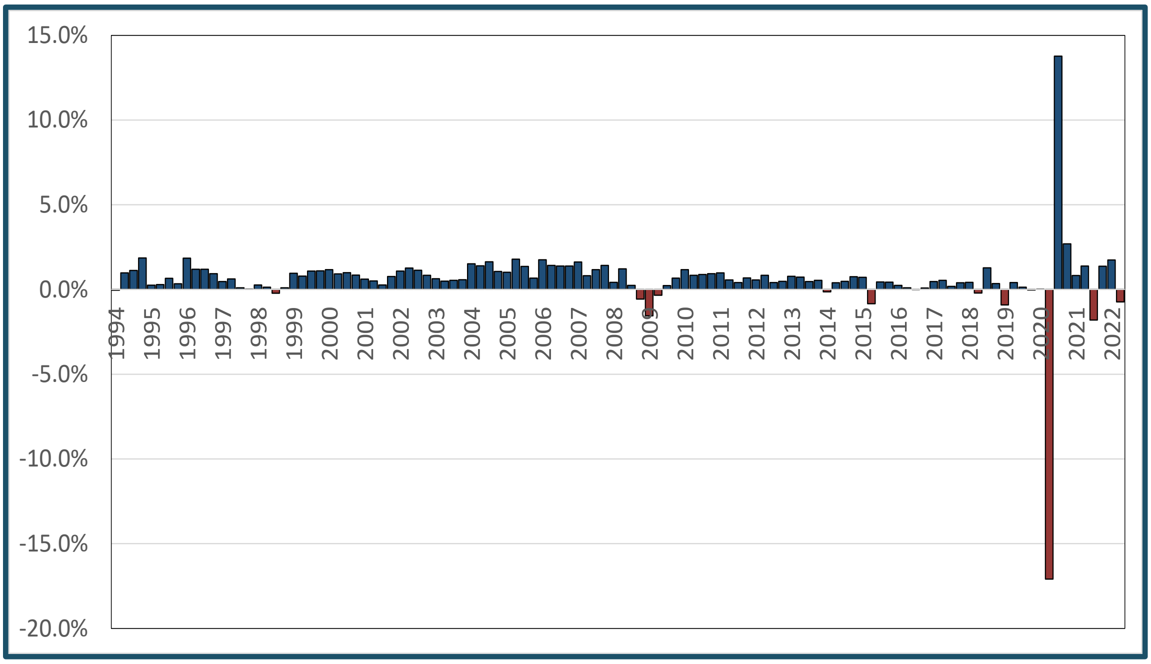
TRADE & INDUSTRIAL POLICY STRATEGIES

+27 12 433 9340

info@tips.org.za

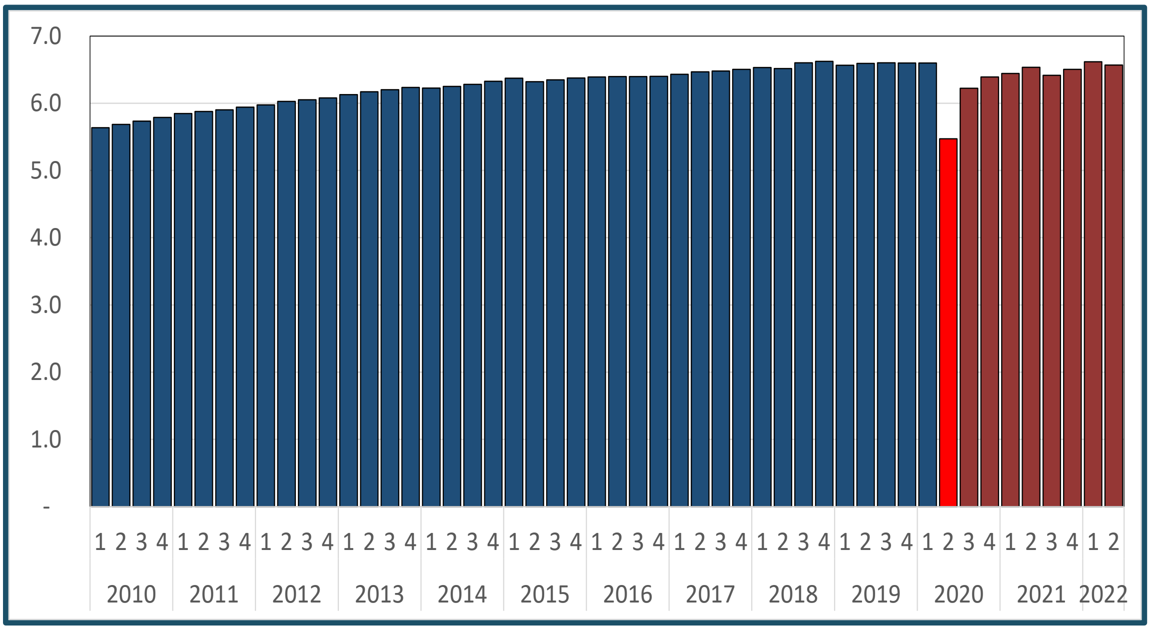
www.tips.org.za

Graph 1. Quarterly change in GDP, seasonally adjusted, 1994 to second quarter 2022



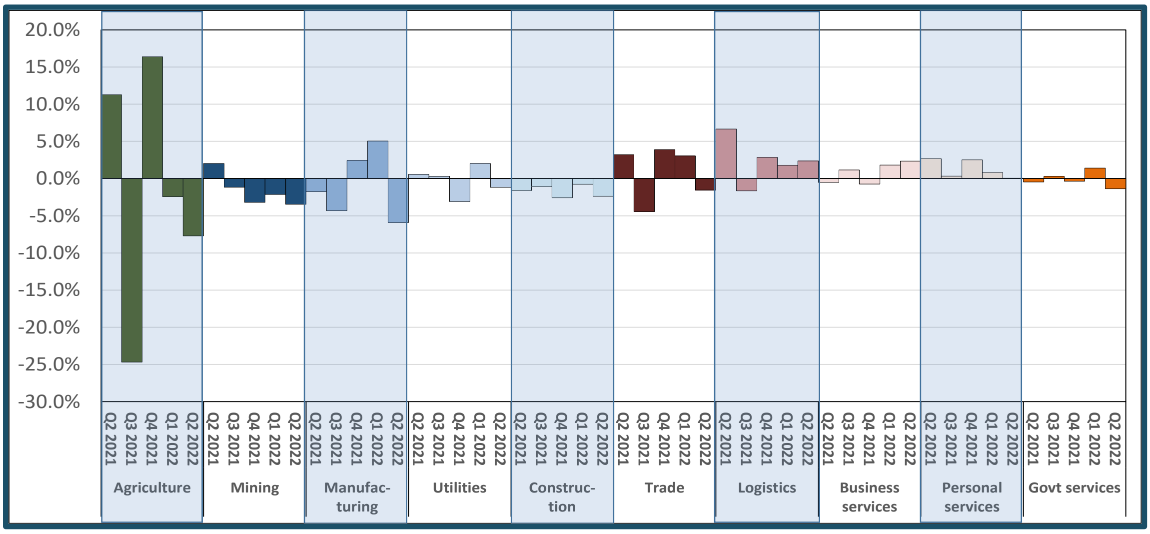
Source: Calculated from Statistics South Africa. GDP quarterly figures. GDP P0441 – 2022Q2. Excel spreadsheet.

Graph 2. Quarterly GDP in trillions of constant (2022) rand (a) from 1994



Note: Reflated using implicit GDP deflator rebased to 2022. Source: Calculated from Statistics South Africa. GDP quarterly figures. GDP P0441 – 2022Q2. Excel spreadsheet.

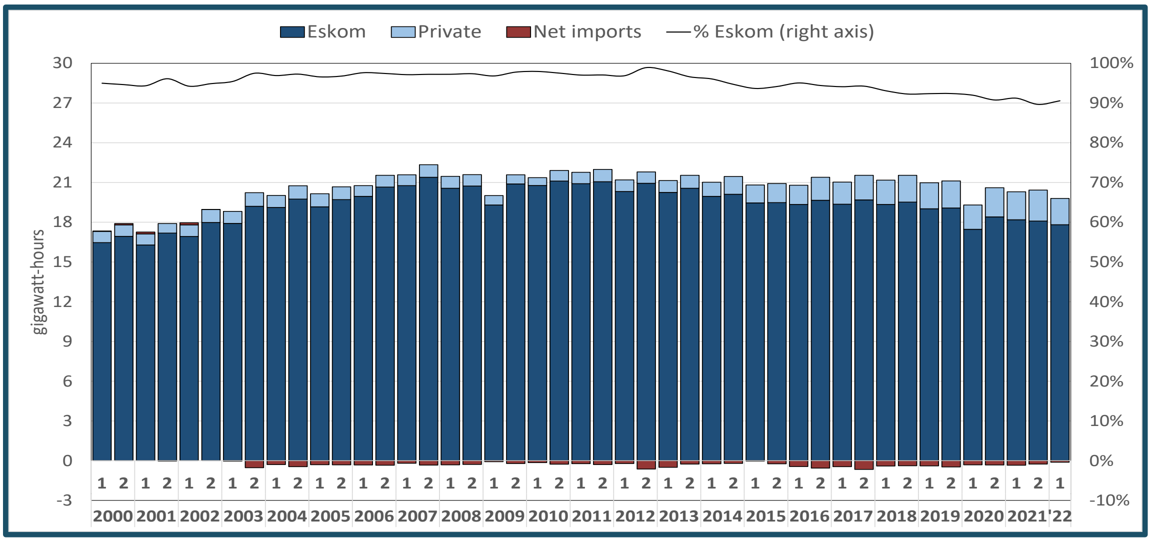
Graph 3. Quarterly growth by sector, second quarter 2021 to second quarter 2022



Source: Calculated from Statistics South Africa. GDP quarterly figures. GDP P0441 – 2021Q2. Excel spreadsheet.

The decline in the GDP was associated with a sharp fall in electricity generated by both Eskom and the private sector, as Graph 4 shows. From 2019 to 2021, total electricity available for use fell by around 1.5% a year. When the economy was operating below pre-pandemic levels, the constrained supply was less destructive, but it became a leading threat to the recovery over the past six months or so. The shortfall arises principally from a combination of faults in Eskom's new Medupi and Kusile plants; the consequent over-burdening of its older capacity, leading to continual breakdowns, especially given poor maintenance and operation; and the long-standing delays in permits for new private generation capacity. In the past few months, steps have been taken to alleviate some of the delays for independent producers, mostly by easing licencing requirements.

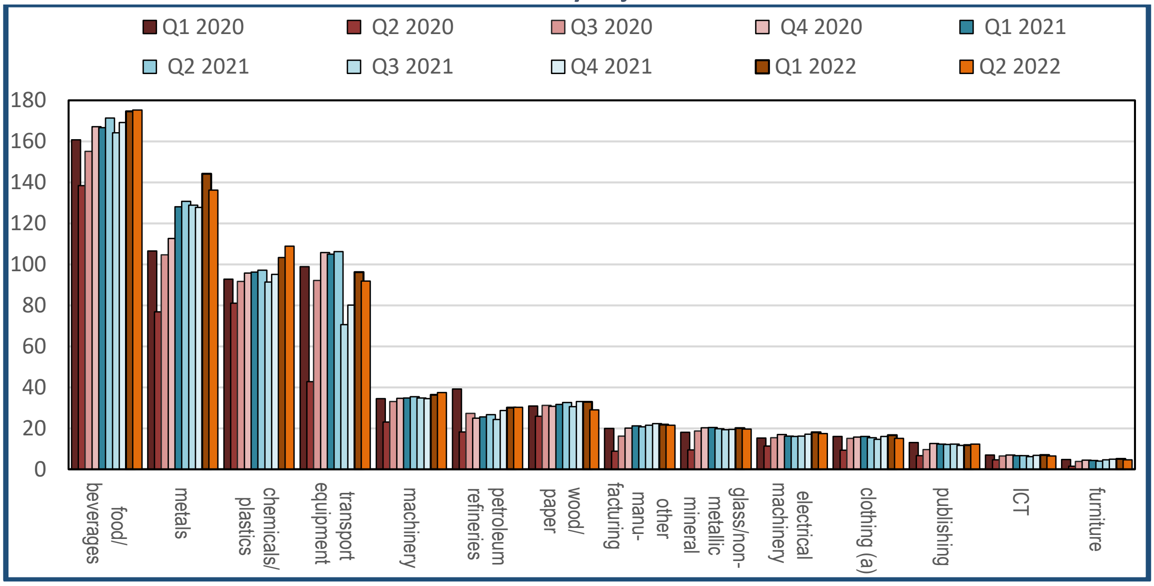
Graph 4. Electricity available for distribution in GWh and share of Eskom in total electricity supply, monthly average per half year, 2000 to first half 2022



Source: Calculated from Statistics South Africa. P4141. Electricity generated and available for distribution. Excel spreadsheet.

Within manufacturing, the manufacturing industries in terms of sales – food processing, metals and chemicals – drove growth in year-on-year terms, although metals saw a decline in the past quarter. In contrast, auto sales remain well below pre-pandemic levels. The industry's recovery in sales stalled in the past quarter, mostly as a result of lower exports.

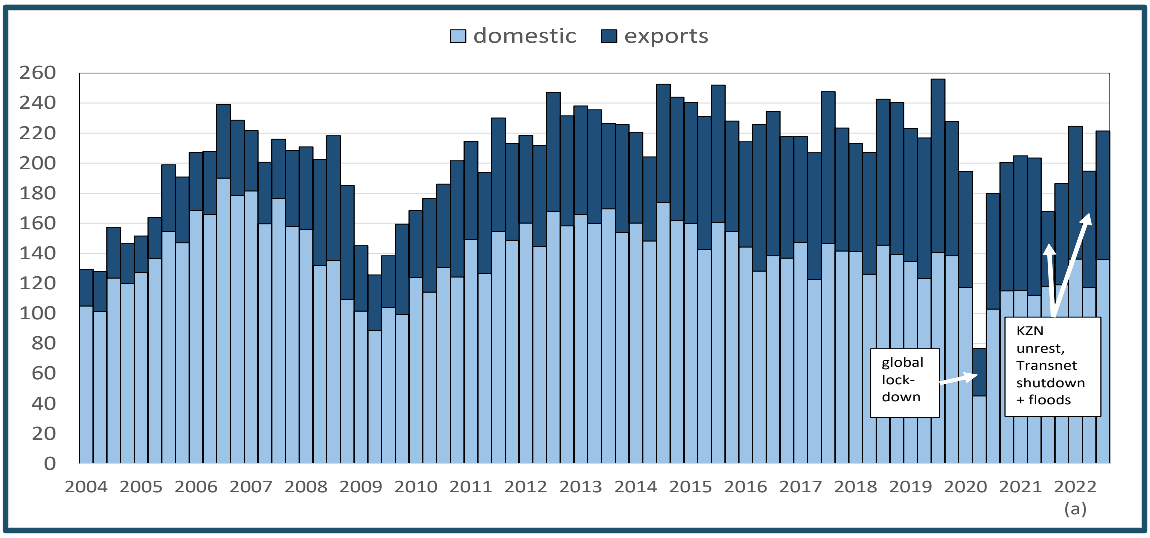
Graph 5. Quarterly sales by manufacturing industry in billions of constant (2022) rand (a), seasonally adjusted



Note: (a) Reflated with CPI. (b) Extrapolated from July and August. Source: Calculated from Statistics South Africa. Manufacturing: Production and Sales, June 2022 (202203).

From the early 2000s, the auto industry became South Africa's largest manufacturing exporter that was not commodity based, accounting for a tenth of all export revenues. Its output plateaued from around 2012, however, as domestic sales fell when the economy slowed after the international metals price boom ended in 2011. Auto production recovered comparatively rapidly from the COVID-19 lockdown, but exports fell sharply in mid-2021 with the unrest and a cyberattack on Transnet. A further slowdown resulted from the floods in Durban harbour in May 2022. Sales in July and August suggested that the industry would reach pre-pandemic levels in the third quarter, but that was still lower than a decade earlier. (Graph 6)

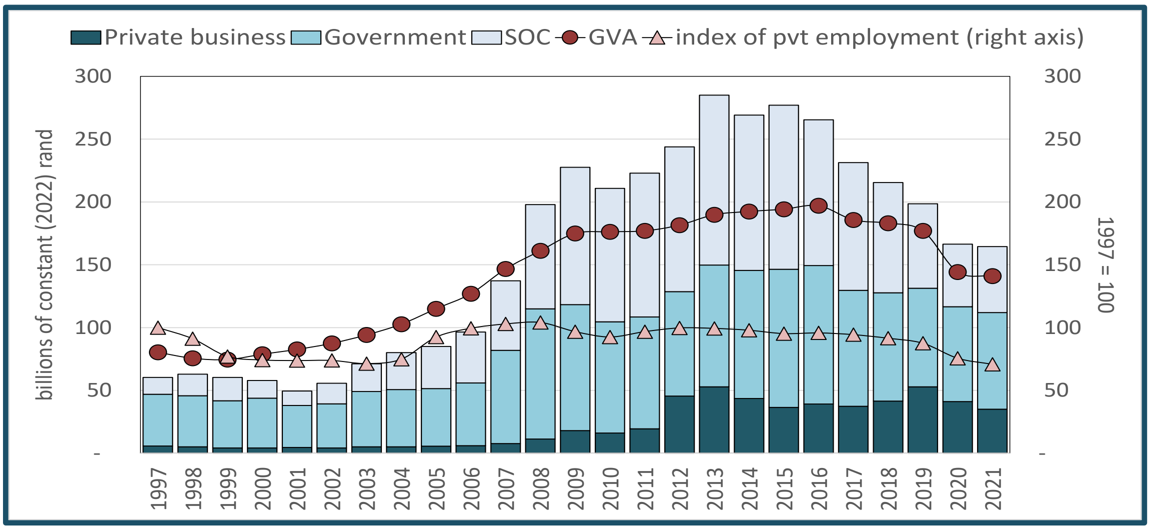
Graph 6. Quarterly domestic and export sales by the auto industry, in thousands of units, 2004 to 2022 (a)



Note: (a) Third quarter 2022 is extrapolated from July and August figures. Source: NAAMSA data accessed via Quantec. EasyData. Interactive dataset. Macroeconomic series.

The long-run downturn in construction has become a significant drag on the economy. The sector has experienced a steady loss of jobs since 2008, and falling value added from 2016. As Graph 7 indicates, the contraction mostly reflects the sharp slowdown in investment in construction works by the state-owned companies over the past decade. In constant rand, parastatal investment in construction plummeted from a high of R135 billion in 2013 to R50 billion in 2021. Investment in public works by general government and private business remained comparatively stable over this period, although it has not fully recovered from the pandemic downturn. Housing plans passed by municipalities fluctuated at around R85 billion in real terms, except for a drop to R57 billion at the height of the pandemic in 2020.

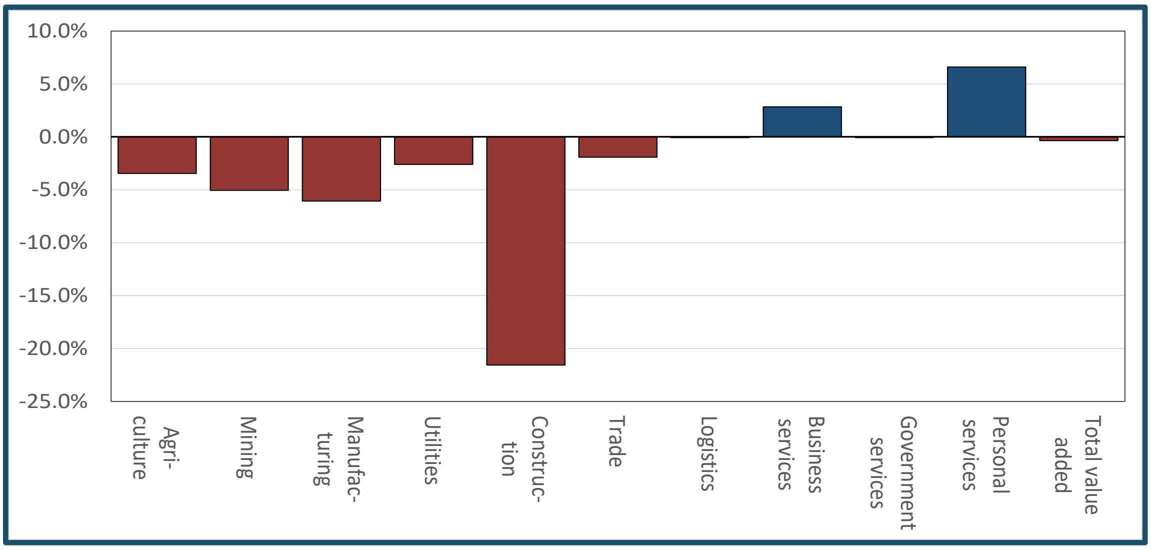
Graph 7. Investment in public works by type of organisation and gross value added in construction, and index of private employment in construction, 1997 to 2021



Source: Calculated from Reserve Bank on-line data.

Overall, the recovery has largely passed by the real economy. Value added in construction is still 20% below pre-pandemic highs, while manufacturing and mining are down by around 5%. Only business and personal services have exceeded their contribution to the GDP in the first quarter of 2020, before the pandemic hit. (Graph 8.)

Graph 8. Change in GDP from first quarter of 2020 (pre-pandemic) to second quarter 2022 by sector

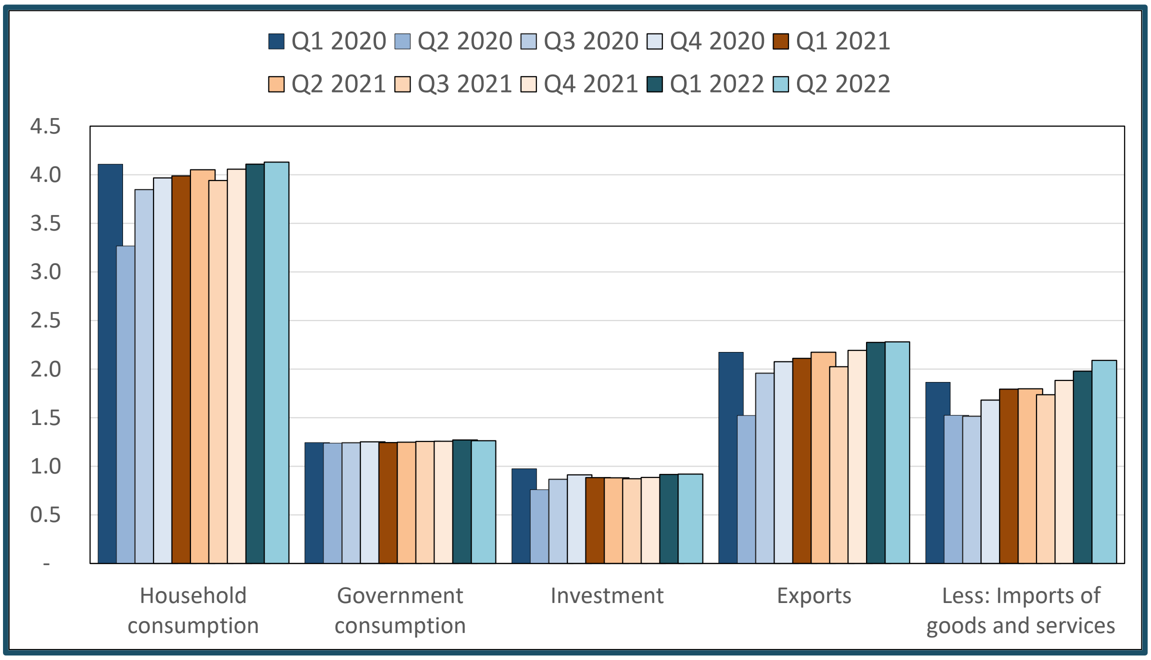


Source: Calculated from Statistics South Africa. GDP quarterly figures. GDP P0441 – 2021Q2. Excel spreadsheet.

Tourism also remains depressed, despite some recovery from the depths of the lockdown. According to Statistics South Africa's data, 115 000 people arrived by air in June 2022, and 280 000 by road. Three years earlier, before the pandemic, 190 000 people arrived by air and 545 000 by road. As of June 2022, the number of visitors from Asia was down by almost two thirds; from other African countries and Europe by almost half; and from the United States, by a fifth. The number of nights provided by accommodation establishments had fallen 30% and the average price per night 15%, in real terms. The revenues of the food service industry were 20% below their June 2019 level.

On the expenditure side, the decline in the GDP was driven by higher imports and somewhat lower government spending, as Graph 9 shows. In contrast, household consumption climbed significantly for the fourth quarter in a row. The richest 10% of households accounts for half of all household spending in South Africa, however, so this trend does not necessarily indicate improved wellbeing for the majority. Investment also rose modestly, as discussed in the relevant section below, while exports were basically the same as in the previous quarter.

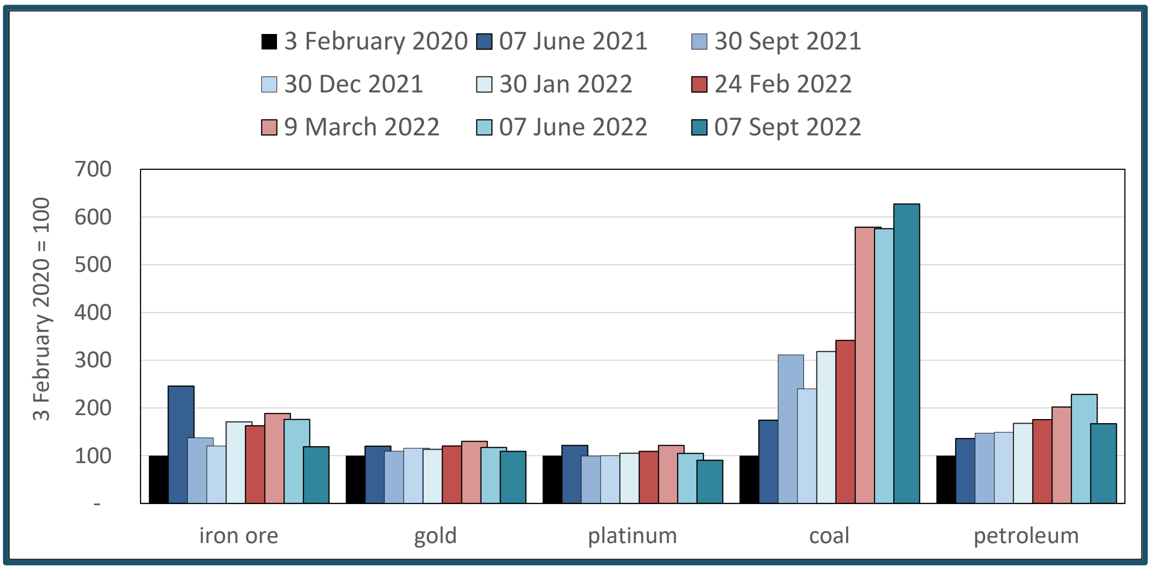
Graph 9. Quarterly expenditure on GDP, first quarter 2020 to second quarter 2022, seasonally adjusted, in trillions of constant (2015) rand



Source: Statistics South Africa. GDP quarterly figures. Excel spreadsheet.

As discussed in the section on trade, the spurt in imports arose mostly from surging petroleum prices. In turn, these prices largely reflected international speculation around the impacts of the Russian invasion of Ukraine on global oil trade. In the third quarter of 2022, international oil prices fell precipitously, from almost US$120 a barrel in early June to under US$85 three months later. This decline should relieve some of the pressure on the balance of payments. It was partially offset by a similarly sharp decline in iron ore, platinum and gold prices, however. Coal prices continued to climb through early September 2022, but volumes were affected by interruptions at Transnet as a result of cable theft on the lines feeding the Richards Bay export terminal. (See *Briefing Note: Global commodity prices and the South African economy*).

Graph 10. Indices of global US dollar prices for South Africa's major mining exports from February 2020 to February, March and early September 2022



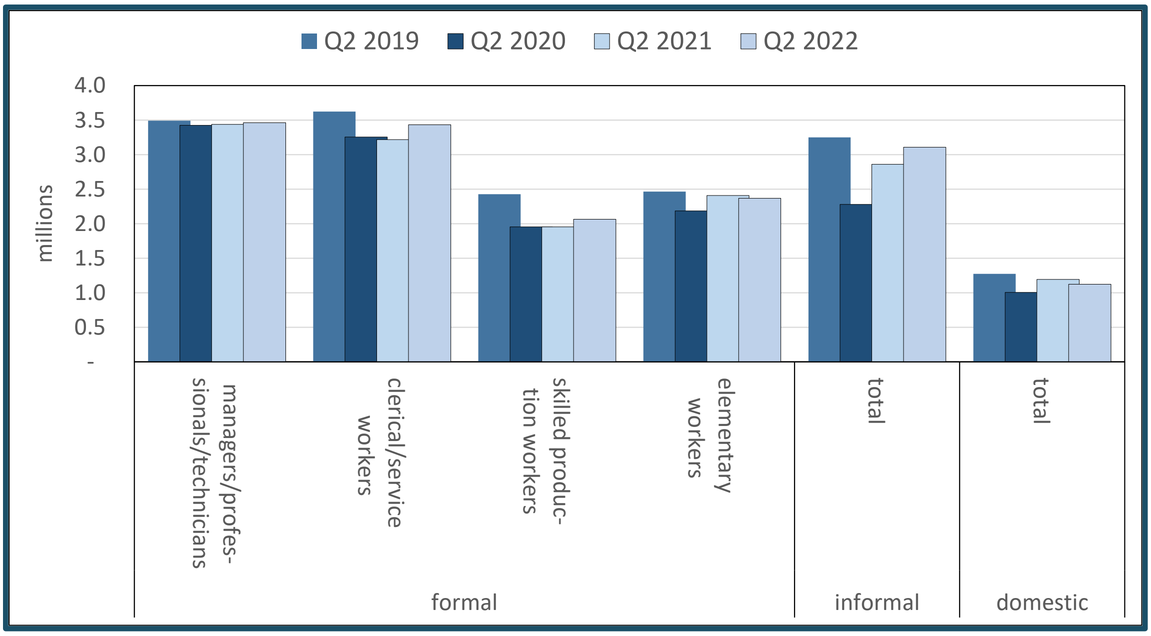
Source: Calculated from Trading Economics. Commodity prices. Interactive dataset. Accessed at https://tradingeconomics.com/commodities 8 September 2022.

Employment

According to the Quarterly Labour Force Survey (QLFS), in the second quarter of 2022 the formal sector still employed 600 000 fewer people than before the pandemic, or 5.5% less. Informal and agricultural employment, in contrast, were down by only 1%, but there were still more than 10% fewer domestic workers. Manufacturing employment appeared to have stabilised at a lower level than before the pandemic, with employment particularly depressed in metals and food processing compared to 2019.

According to the QLFS, in the second quarter of 2022 a total of 15.5 million South Africans had income-generating employment, compared to 16.3 million in the second quarter of 2019. When the pandemic cut into economic activity in the second quarter of 2020, employment dropped by 2.2 million. Two years later, the economy had only regained 1.4 million positions. In the formal sector, relatively skilled workers – managers, professionals and technicians – were the least affected, while the most impacted were skilled and semi-skilled production workers. Informal workers saw the steepest losses from the pandemic, but also experienced a rapid recovery. In part, the sharp rise in informal employment resulted because retrenched formal employees sought opportunities there, despite worse conditions and pay. There were around 200 000 fewer people employed as domestic workers in mid-2022 than before the pandemic. (Graph 11)

Graph 11. Employment by occupation, second quarter, 2019 to 2022

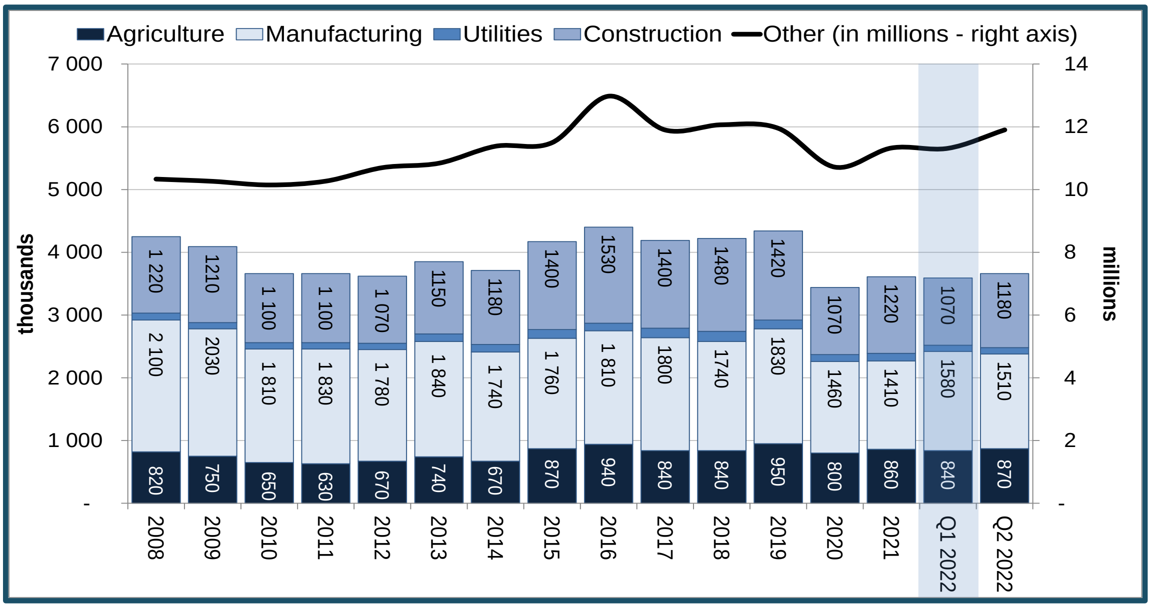


Source: Calculated from Statistics South Africa. QLFS for relevant quarters. Electronic databases.

For most of the two years since the initial COVID-19 lockdown, the QLFS relied on telephonic surveys, which led to depressed response rates. It has now returned to in-person interviews. As a result, the response rate climbed from a low of 45% at the end of 2021 to 79% in the second quarter of 2022. While that is still below the pre-pandemic rate of almost 90%, the findings for the second quarter of 2022 appear fairly reliable.

The jobs recovery in the real economy continues to lag behind the services, as Graph 12 shows. Employment growth in the services accounted for 85% of all jobs regained since the lockdown two years ago.

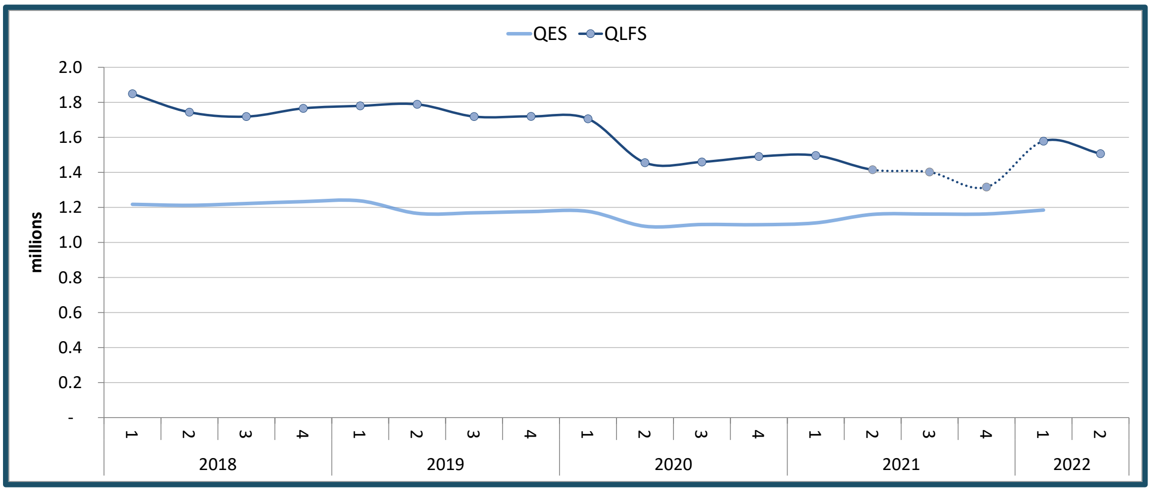
Graph 12. Second-quarter employment in agriculture, manufacturing, utilities and construction compared to the rest of the economy, 2008 to 2022



Source: Calculated from Statistics South Africa. QLFS Trends 2008-2022Q2. Excel spreadsheet.

The QLFS finds a decline in formal plus informal manufacturing employment from the first to the second quarter of 2022. The data are not seasonally adjusted, however, so quarter-on-quarter figures are not always meaningful. In the longer run, the figures still suggest a significant recovery over the past two years. The Quarterly Employment Statistics, which cover only the formal sector and provide information only through the first quarter of 2022, show steadier but gradual gains since the lockdown. Still, this source also finds that manufacturing employment is lower than it was before the pandemic. (Graph 13.)

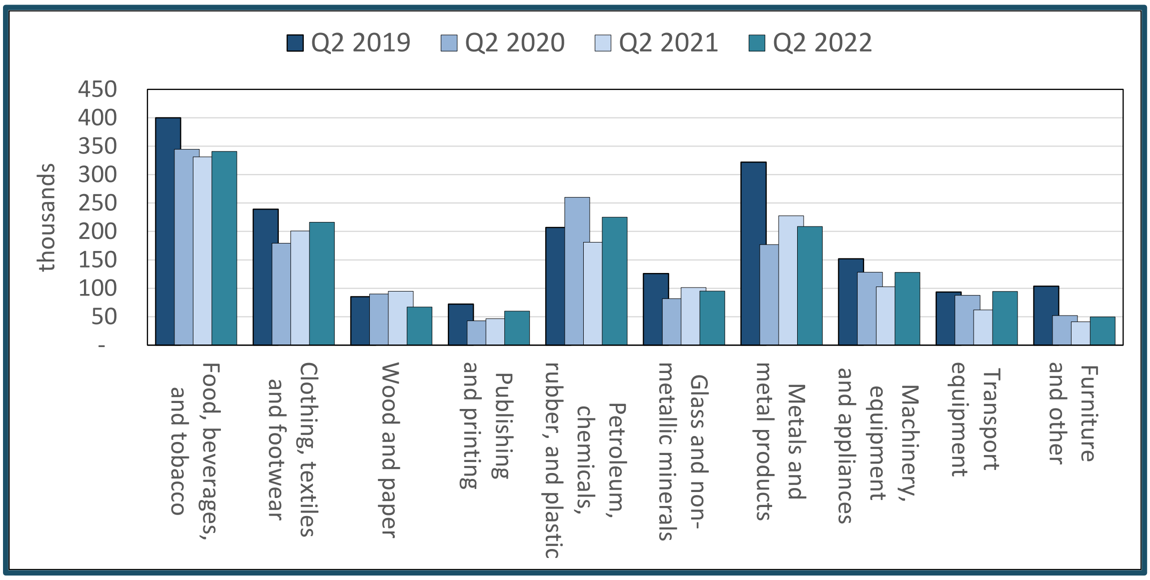
Graph 13. Quarterly Employment Survey and QLFS findings on formal manufacturing employment, first quarter 2018 to second quarter of 2022 (a)



Note: (a) The third and fourth quarter 2021 QLFS reflect very low response rates and are therefore considered unreliable. Source: Calculated from Statistics South Africa. QES details breakdown and QLFS Trends 2008-2022Q2. Excel spreadsheets.

At the industry level, clothing and metals have contributed most to the recovery of manufacturing jobs since 2020, although they remain behind pre-pandemic levels. Food processing, now South Africa's largest manufacturing industry, continues to lag behind despite gains over the second quarter of 2021. Jobs also expanded in machinery and transport equipment in the year to June 2022.

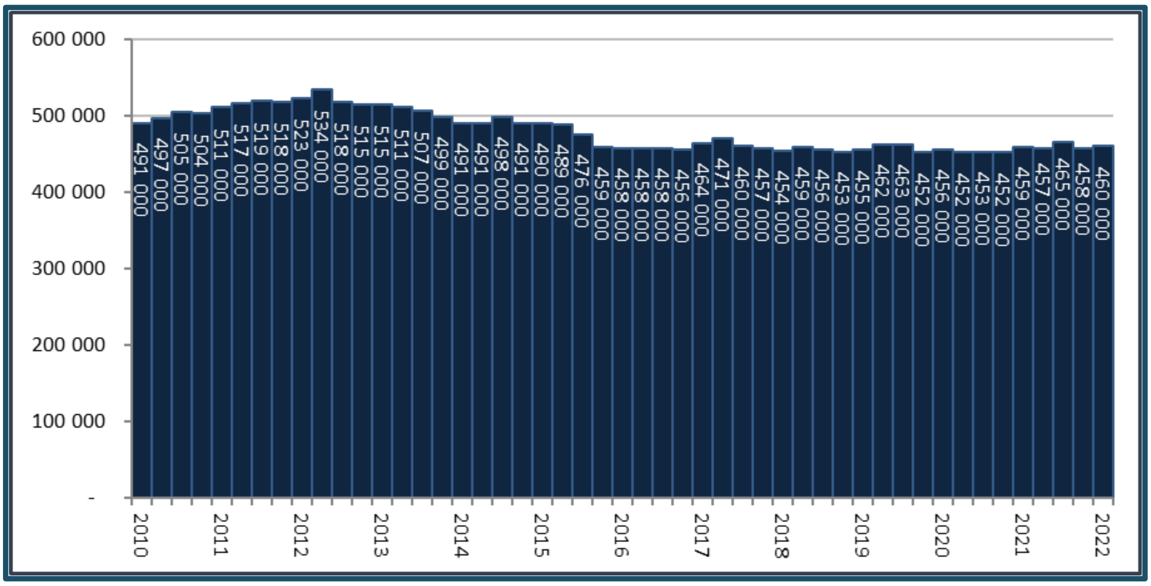
Graph 14. Employment in manufacturing industries, second quarter 2019, 2020, 2021 and 2022



Source: Calculated from Statistics South Africa. QLFS for relevant quarters. Electronic databases.

In the second quarter of 2022, mining employment recorded a marginal increase of 2 000 jobs from the previous quarter. Mining employment has not seen a substantial increase since 2020 despite the rise in mineral prices since the start of the pandemic.

Graph 15. Mining employment, first quarter 2010 to second quarter 2022



Source: Statistics South Africa. Quarterly Employment Statistics. Detailed breakdown. First quarter 2022. Excel spreadsheet.

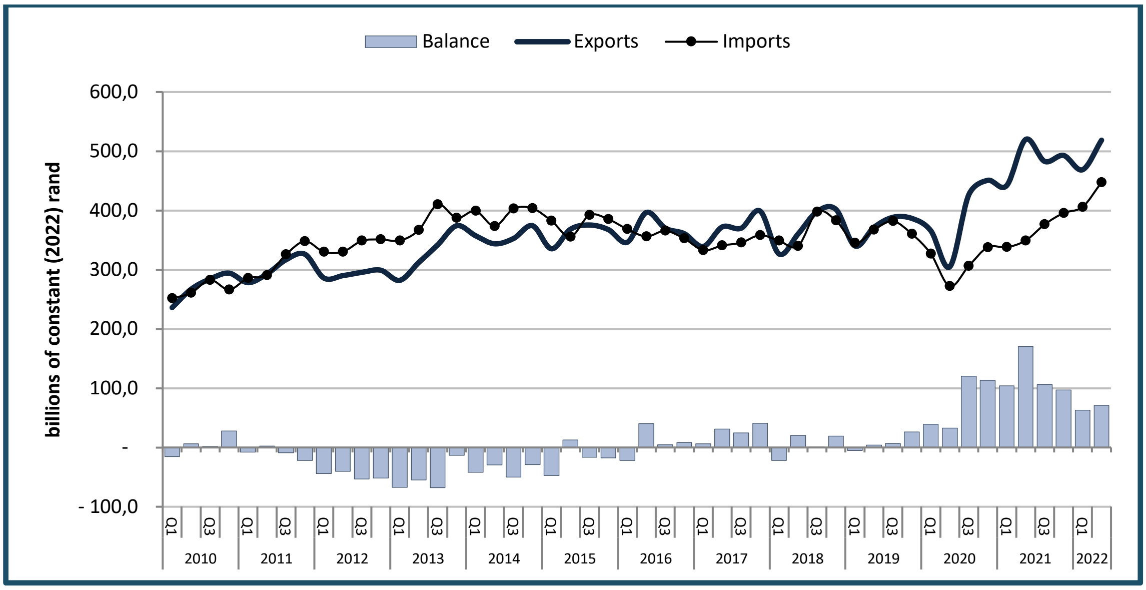
International trade

South Africa's surplus in goods trade has continued to narrow as prices for export commodities have declined, with logistics challenges affecting coal and auto, while the cost of petroleum remains comparatively high.

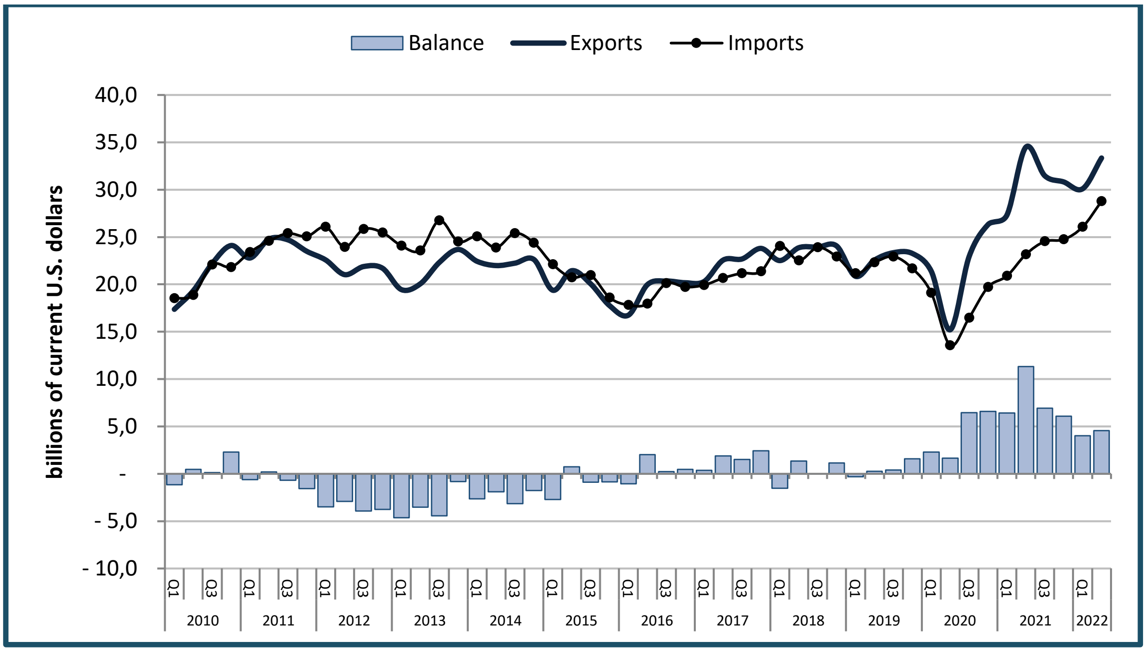
In the second quarter of 2022, South Africa recorded a trade surplus of R71 billion, up from R63 billion in the first quarter of 2022. Although the trade surplus is higher for the quarter under review, it remains well below the surplus of R171 billion recorded in the second quarter of 2021. The downward trend results principally from accelerating growth in imports. In the second quarter of 2022, exports reached R519 billion, recording a decline of 0.2% year-on-year although they climbed by 10.6% over the previous quarter. In contrast, imports escalated some 28% over the previous year, reaching R448 billion. That was 10% above the previous quarter.

Graph 16. Exports, imports and balance of trade in billions of constant rand and current US dollars

A. Billions of constant (2022) rand (a)



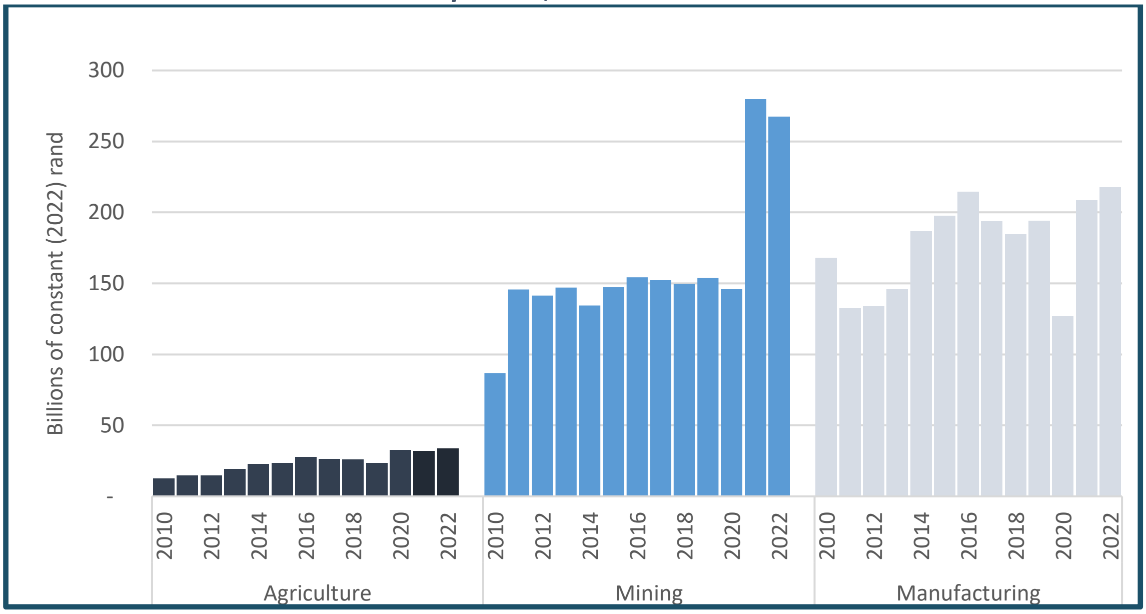
B. Billions of current US dollars



Note: (a) Deflated with CPI. Source: Calculated from South African Revenue Service data.

In the second quarter of 2022, the value of mining exports declined by 4.5% in constant rand over the previous quarter. Their value is far higher than in 2020, however, as a result of the international surge in commodity prices. In the same period, agriculture and manufacturing exports increased by 6.3% and 4.5%, respectively.

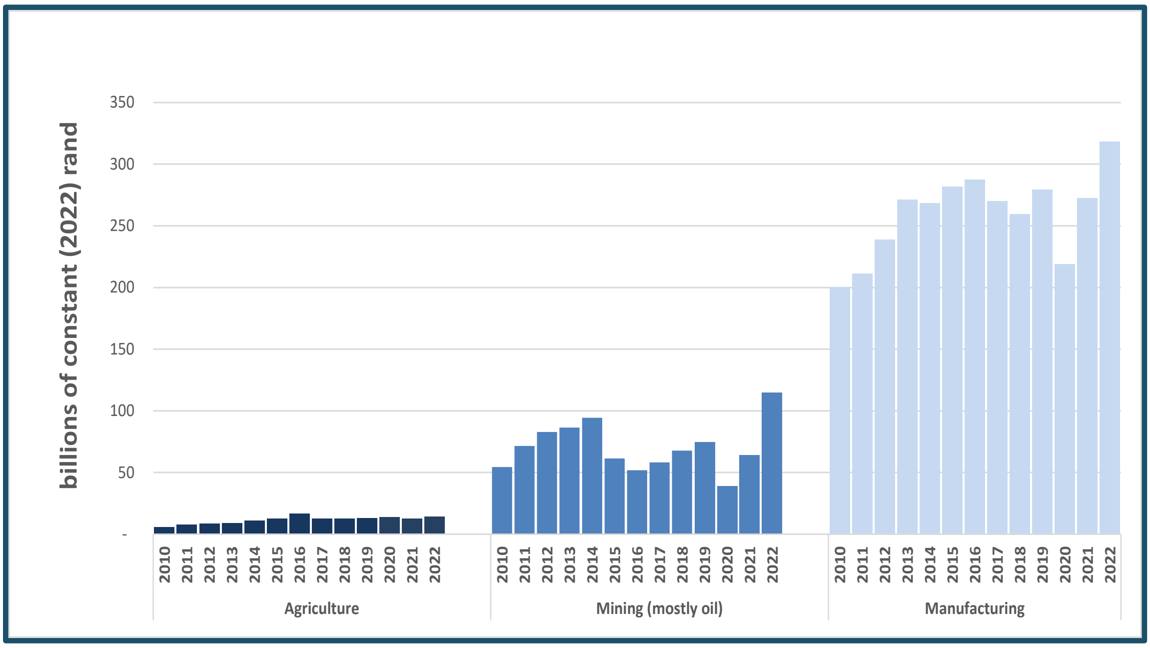
Graph 17. Second-quarter goods exports in billions of constant (2022) rand (a), by sector, 2010 to 2022



Note: (a) Deflated with CPI. Source: Calculated from South African Revenue Service data.

Extractive imports, predominantly petroleum, climbed sharply in in the second quarter of 2022, mostly because of higher global prices. Manufacturing imports continued their steep rise, recording an increase of 17% in the same period. In constant rand, imports of manufactures are now higher than they were before the pandemic.

Graph 18. Second-quarter goods imports in billions of constant (2021) rand (a), by sector, 2010 to 2022



Note: (a) Deflated with CPI. Source: Calculated from South African Revenue Service data.

The rise of manufacturing imports for the quarter under review was driven by year-on-year growth in chemicals (22%), machinery (19.6%) and clothing (17.5%), as shown in Table 1. The value of chemical imports is boosted by higher petroleum prices. The sluggish growth of manufacturing exports mostly results from the 13% year-on-year decline in transport equipment, as noted above. In addition, clothing exports fell 11% and glass and non-metallic mineral products by 5%. Exports of other machinery remained flat for the quarter.

Table 1. Trade by manufacturing subsector

INDUSTRY	VALUE (BILLIONS)		% CHANGE FROM Q2 2021		CHANGE IN BILLIONS	
	USD	RAND	USD	RAND	USD	RAND
EXPORTS						
Food and beverages	1.24	19.4	11.0%	14.7%	0.12	2.48
Clothing and footwear	0.43	6.6	-14.1%	-11.4%	-0.07	-0.85
Wood products	0.15	2.4	7.2%	10.8%	0.01	0.23
Paper and publishing	0.42	6.5	10.5%	14.2%	0.04	0.80
Chemicals, rubber, plastic	2.70	42.1	2.2%	5.8%	0.06	2.32
Glass and non-metallic mineral products	0.12	1.8	-8.8%	-5.8%	-0.01	-0.11
Metals and metal products	3.42	53.4	23.5%	27.8%	0.65	11.61
Machinery and appliances	2.26	35.2	-3.1%	0.0%	-0.07	0.00
Transport equipment	3.02	46.9	-16.1%	-13.4%	-0.58	-7.29
IMPORTS						
Food and beverages	1.02	15.8	9.1%	12.5%	0.08	1.76
Clothing and footwear	1.16	18.1	13.7%	17.5%	0.14	2.70
Wood products	0.11	1.7	6.1%	9.5%	0.01	0.15
Paper and publishing	0.86	13.5	7.8%	11.7%	0.06	1.41
Chemicals, rubber, plastic	4.58	71.3	18.3%	22.2%	0.71	12.95
Glass and non-metallic mineral products	0.27	4.2	-1.1%	1.9%	0.00	0.08
Metals and metal products	1.60	24.9	5.2%	8.8%	0.08	2.01
Machinery and appliances	6.19	96.3	15.9%	19.6%	0.85	15.79
Transport equipment	4.30	66.9	10.9%	14.5%	0.42	8.49

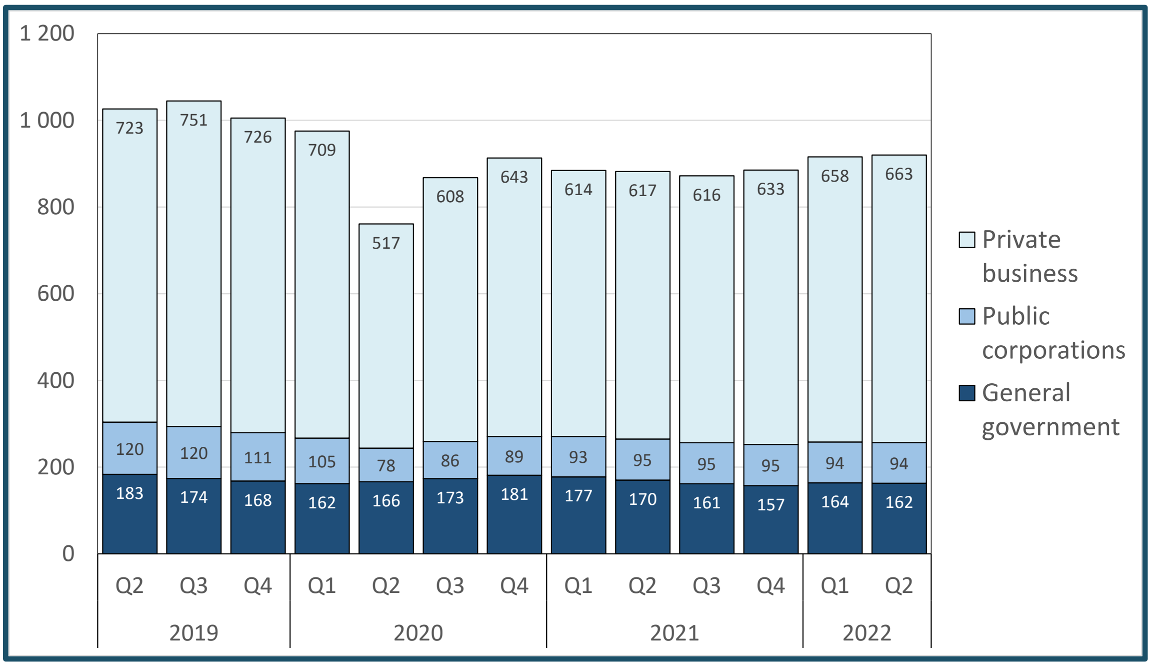
Source: SARS monthly data.

Investment

Private investment has begun to grow again, although public investment remains flat. As a result, the investment rate climbed from 13% in the second quarter of 2021 to 14% a year later. Meanwhile, the average return on assets improved for most of the economy in the year to March 2022.

Private investment climbed 8% from the third quarter of 2021, after declining for the first half of last year. In contrast, government investment rose just 0.6% in this period, and investment by state-owned companies (SOC) shrank.

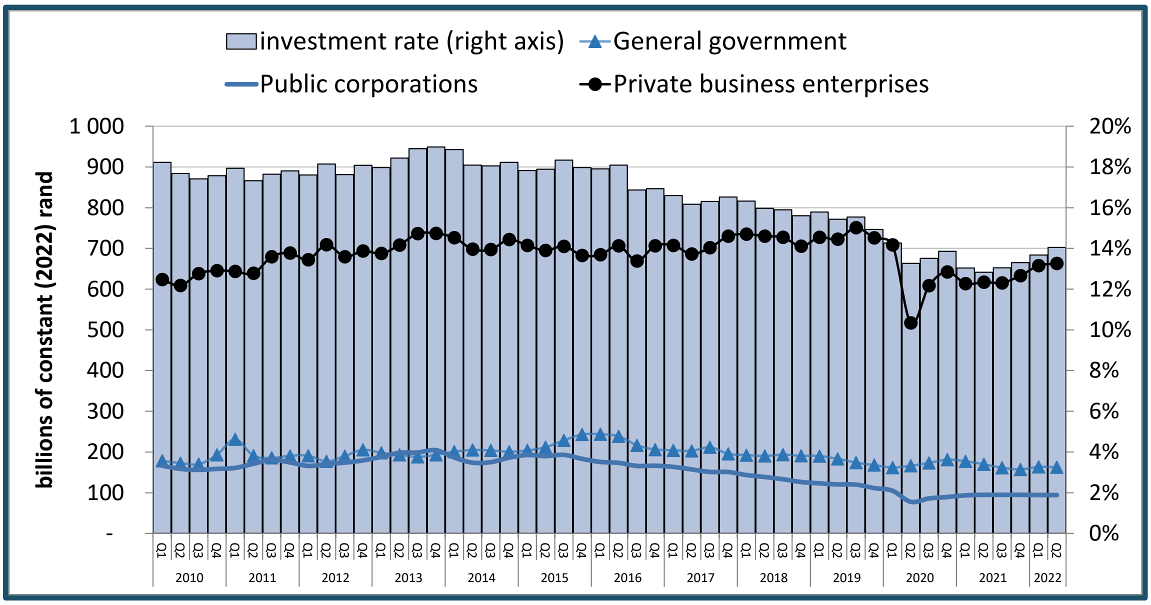
Graph 19. Quarterly seasonally adjusted investment by type of organisation, second quarter 2019 to second quarter 2022, in billions of constant (2022) rand (a)



Note: Reflated with implicit deflator rebased to second quarter 2022. Source: Calculated from Statistics South Africa. GDP quarterly figures. Excel spreadsheet.

Investment began to slide in 2016, mostly because of a drop in the public sector. From the second quarter of 2016 to the second quarter of 2022, private investment shrank 6%, but general government fell 32% and SOCs some 46%. As a result of these trends, the share of capital formation in the GDP – the investment rate – plummeted from around 18% in the early 2010s to 14% in mid-2022.

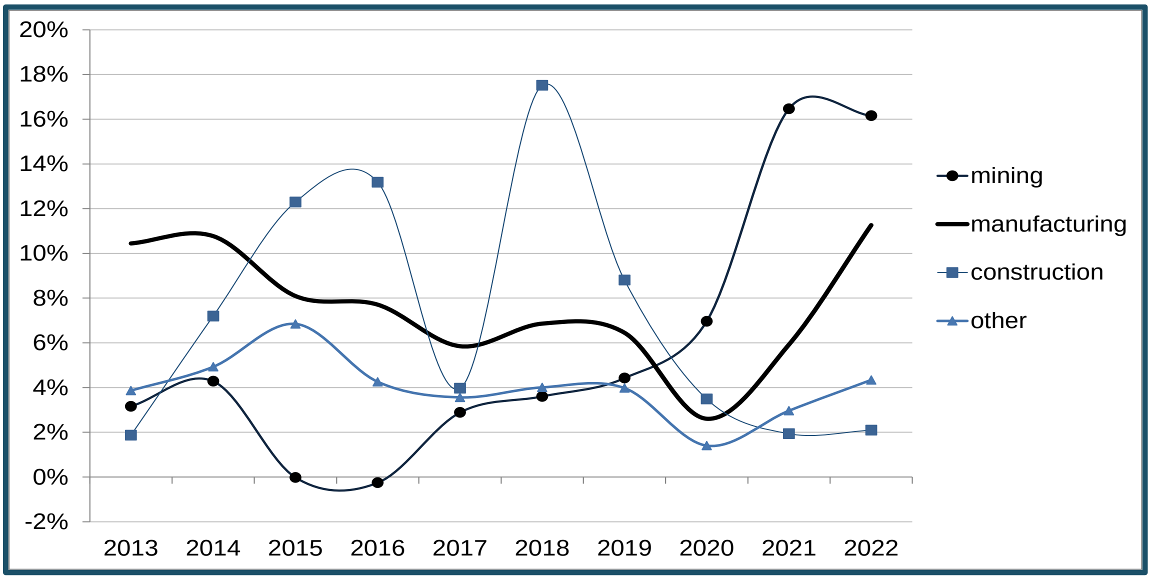
Graph 20. Quarterly investment by type of organisation in billions of constant (2022) rand (a), and total investment as a percentage of GDP, 2010 to second quarter 2022



Note: Reflated with implicit deflator rebased to first quarter of 2022. Source: Calculated from Statistics South Africa. GDP quarterly figures. Excel spreadsheet.

Data on profitability by sector are available only through the first quarter of 2022. Returns on capital in manufacturing rose sharply from 5.9% in Q1 2021 to 11.3% in Q1 2022, generating the highest return in the sector over the past decade. Similarly, the return on capital in construction increased to 2.1%, although mining saw a marginal decline to 16.2% – still a higher rate than in the other sectors.

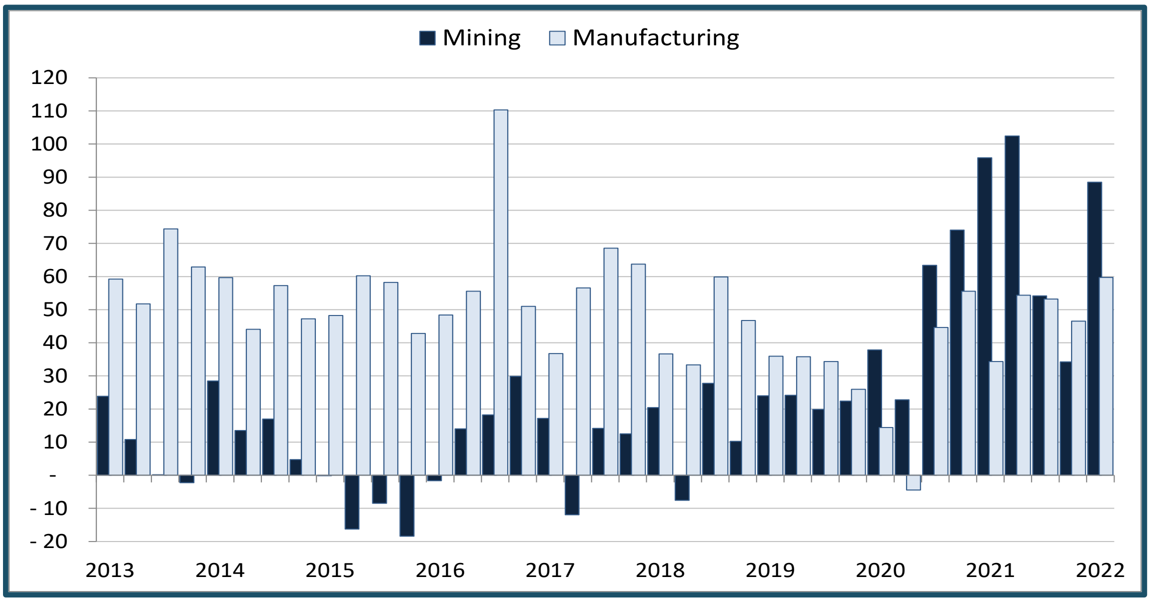
Graph 21. Return on assets by sector, second quarter, 2013 to 2022



Source: Calculated from Stats SA, Quarterly Financial Statistics. Excel spreadsheet.

In the first quarter of 2022, profits from mining, in constant rand, more than doubled, spiking from R34 billion in the fourth quarter of 2021 to R88 billion. This impressive growth resulted from the surge in commodity prices following the Russian invasion of Ukraine in the first quarter of 2022. Manufacturing profits also increased by 28%, from R47 billion in the fourth quarter of 2021 to R60 billion in the first quarter of 2022.

Graph 22. Quarterly profits in manufacturing and mining in billions of constant 2022 rand (a), 2013 to 2022



Note: (a) Deflated with CPI. Source: Source: Calculated from Stats SA, Quarterly Financial Statistics. Excel spreadsheet.

Foreign direct investment projects

The TIPS **Foreign Direct Investment Tracker** monitors FDI projects on a quarterly basis, using published information. Seven of the 11 projects recorded this quarter reported on the value of the investment, for a total of R10.6 billion. Further, eight projects that were previously captured in the Tracker have been updated.

Table 2: FDI projects captured in Q1, 2022

	ANNOUNCED	FEASIBILITY	PROJECT PREPARATION	CONSTRUCTION/ IMPLEMENTATION	COMPLETE
Number of projects	5	2	2	1	1
Value (R billions)	6.7	2.5	0.15	0.5	Not reported
Industries	2 Utilities 1 Manufacturing 1 Mining 1 Services	2 Mining	Manufacturing Services	Manufacturing	Services
Type	3 Greenfield 1 Expansion 1 Brownfield	1 Brownfield 1 Expansion	1 Greenfield 1 Expansion	Expansion	Greenfield
Company	Ardagh Group Tronox Mineral Sands African Data Centres Sustineri Energy (Kibo /Industrial Green Energy) Solutions Eastern Platinum	Pan African Resources	Kinetiko Energy/ Afro Energy/IDC African Data Centres	Fuchs Lubricants South Africa	Acronis

Source: TIPS FDI Tracker database

New and existing projects

Energy

Tronox Mineral Sands has contracted the Sola Group to develop, finance, build and operate two solar photovoltaic plants. The R3.2 billion 100MW projects are the first registered by the National Energy Regulator of South Africa (Nersa) following the amendment of Schedule 2 of the Electricity Regulation Act to allow power generation projects below 100MW to proceed without a licence. Tronox is a global US-based producer of titanium dioxide and inorganic chemicals.

Sustineri Energy is a joint venture between Ireland-based Kibo Energy (65%) and local firm Industrial Green Energy Solutions (35%). Sustineri will develop and operate a 2.7MW plastic-to-syngas power plant in Gauteng for approximately R180 million. The plant will produce electricity through a high-temperature pyrolysis process, degrading non-recyclable plastic to syngas that feeds gas engines to generate electricity and heat.

Afro Energy, a local subsidiary of Australian oil and gas exploration firm Kinetiko Energy, has partnered with the Industrial Development Corporation (IDC) to develop a gas field in Mpumalanga. The development will be implemented through a special purpose vehicle – Afro Gas Development. The estimated project value is R155 million, with Afro Energy taking a 55% stake and the IDC accounting for the rest. The proposed gas field will consist of about 20 wells with the capacity to produce approximately 500 million standard cubic feet per annum.

Manufacturing

The Ardagh Group announced plans to invest US$200 million (R3 billion) in two new glass furnaces at locations still to be specified, and a third furnace at Consol's Nigel facility in Gauteng. The project will create more than 250 employment opportunities. This commitment follows Ardagh's acquisition of Consol. The Group supplies recyclable metal and glass packaging and is headquartered in Luxembourg.

Germany-based Fuchs Lubricants South Africa has commenced the implementation of the second phase of its expansion project on the back of the recently completed first phase. The R500-million Phase 2 includes a new lubricants plant.

Data centres

Africa Data Centres announced the expansion of its capacity in Gauteng to 100MW of IT load. The firm further plans to expand hyper-scale and enterprise-focused facilities at two existing campuses in the province, with a third location still to be determined. It has already completed a data centre in the Western Cape, and plans to build a second facility. It has not disclosed the investment value of these investments. The second data centre will span 15 000 square meters in eight data halls. Africa Data Centres is part of Cassava Technologies, a technology group headquartered in the United Kingdom.

Acronis, a global provider of cyber protection solutions from Switzerland, announced the completion of its first data centre in South Africa. The new facility is one of 111 being developed by Acronis worldwide, part of a Global/Local Initiative that provides global management for data centres, among other services. The company has not published the value of its investment in South Africa.

Mining

Pan African Resources has completed a definitive feasibility study for the development of Mintails, a resource that contains surface gold, in Gauteng. The plan focuses on the Mogale section of Mintails, which could be developed for about R2.5 billion. The company estimates a mineral reserve of 124 million tons of surface gold and production of 50 000 ounces a year over 13 years.

Canadian platinum and chrome producer Eastern Platinum has filed a technical report detailing plans to restart underground mining operations at the Zandfontein section of its Crocodile River Mine in the North West province. The section was placed under care and maintenance in 2013. It estimates the value of the project at US$21 million (R360 million). The Zandfontein section has a measured and indicated resource of 3.9-million ounces of platinum, palladium, rhodium and gold.

Tronox KwaZulu-Natal Sands (part of Tronox) indicated plans to extend its Fairbreeze Mine life-of-mine to 2037. The current mine area of operation is nearing depletion. Work is ongoing to quantify the mine’s additional reserves. The project will include an upgrade of the current mining system and the mineral concentration facility. The value of the investment has not yet been reported.

Updates

Following the South African Breweries (SAB) pledge to invest R4 billion at the national investment conference this year, the firm provided some detail of what the investment will entail. It includes R270 million to be invested into SAB's Ibhayi Brewery in the Eastern Cape. SAB will channel another R650 million into expansion of its Prospecton Brewery in KwaZulu-Natal.

The Kerry Group has completed a new €38 million (R650 million) manufacturing facility named Ikusasa in KwaZulu-Natal. The 10 000 square meter plant includes sustainable features such as solar power generation and waste heat capture. The group initially pledged R600 million during the 2019 Presidential Investment Conference, and followed up with an additional R50 million increment. The facility will create 232 job opportunities.

Swedish battery operator Polarium has opened a manufacturing plant in the Western Cape following an investment of R30 million. The facility will produce lithium battery modules, with 90% exported to the rest of Africa. It will create about 200 jobs. The investment was among those announced at the 2022 Investment Conference.

Equities Property Fund has completed the construction of a logistics campus named Khomanani in Gauteng. The project was completed for Swedish mining and excavation engineering firm Sandvik, which will lease the property. The facility was completed for about R317 million. In addition to being Sandvik’s South Africa headquarters, it includes a warehouse and specialised workshops.

Pan African Resources has commissioned a 10MW solar photovoltaic plant at its Evander gold mine in Mpumalanga. The R150-million plant covers 20 hectares and comprises 26 640 solar modules. Electricity supply to the Elikhulu gold tailings retreatment plant has started. It will provide 30% of the complex’s power needs, reducing the firm’s carbon footprint and reliance on the national grid. Pan African Resources plans to extend the solar facility by about 12MW.

Vedanta Zinc International has approved a R7-billion investment into the Gamsberg Phase 2 expansion project in the Northern Cape, which will double the mine and plant capacity to eight million tonnes a year. Construction of the project will take 18 to 22 months, providing 2 000 to 2 500 jobs during construction and 800 to 1 000 permanent jobs on completion. The project is part of Vedanta’s R21-billion commitment announced at the inaugural Investment Conference.

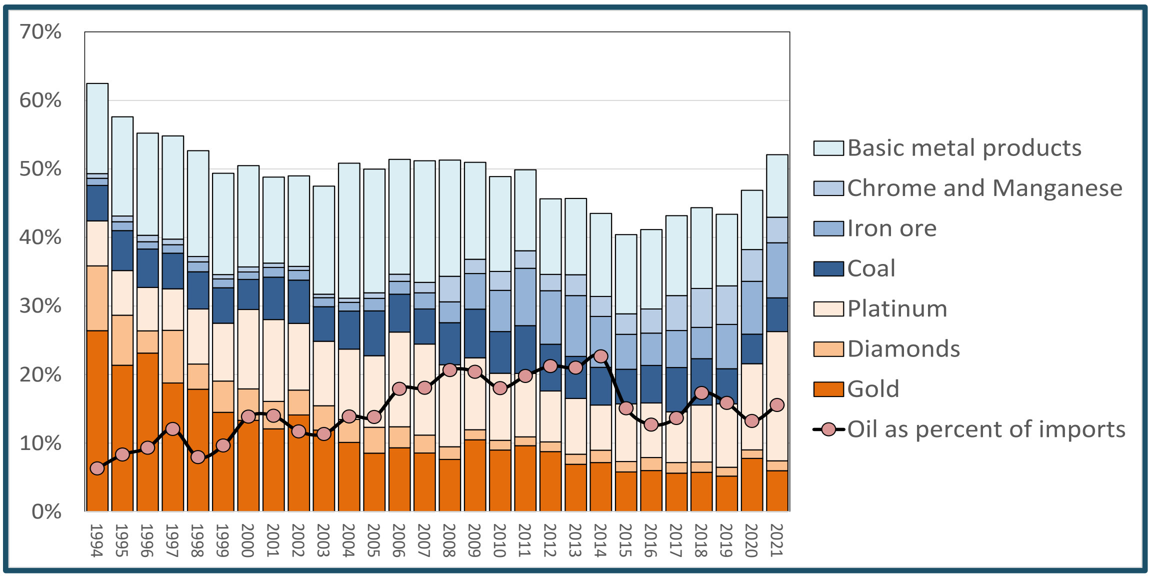
Enaex Africa has completed and commissioned its expanded bulk emulsion explosives plant in Mpumalanga. The R10-million facility will enable Enaex Africa to increase production output, growing its manufacturing capacity by about 20%. The firm is also investing in a R16-million electronic initiation systems assembly plant, now set for completion two years early at the end of 2022.

Fuchs Lubricants has launched the firm’s newly constructed R250 million warehouse and head office in Gauteng. The development formed Phase 1 of a broader expansion programme initiated five years ago. The new facilities will support and serve the South African market exports.

Briefing Note 1: Global commodity prices and the South African economy

Commodity prices have soared to the highest level in two decades due to supply constraints driven by the COVID-19 pandemic and the war in Ukraine. South Africa's major export prices have risen in tandem. South Africa remains heavily dependent on exports from the mining value chain, including precious metals and stones as well as coal, ores and basic metal products. Taken together, these commodities account for between 40% and 60% of total exports. The actual share depends primarily on the level of international prices. Petroleum products account for between 10% and 25% of imports, with fluctuations again largely dependent on world markets. (Graph 23)

Graph 23. Mining and metals exports as percentage of South African exports and petroleum share in imports, 1994 to 2021



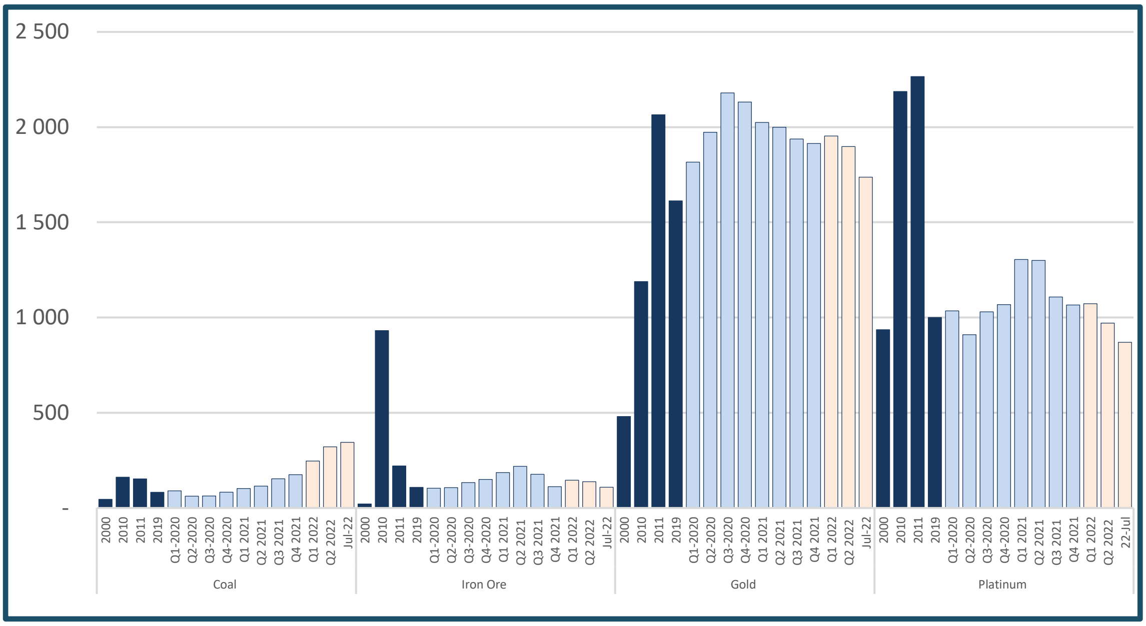
Source: Calculated from SARS data accessed via Quantec EasyData. Interactive dataset.

During the pandemic, coal and gold prices exceeded their 2010/11 peak and reached a historic level. While gold prices began to fall after the temporary spike due to the war in Ukraine, coal prices are still soaring. This rise comes from increased demand for coal as a substitute for natural gas in electricity generation.[1] Most of Europe relied extensively on Russian gas for electricity, leading to a speculative run-up in prices for substitutes when the invasion led to disruptions in supply.

Aside from coal, the prices of all major export commodities for South Africa have begun to fall, highlighting that the boom has largely speculative roots. Between March 2022 and July 2022, iron ore prices declined by 28%, platinum by 19%, and gold by 13%. In this perspective, the invasion of Ukraine provided a speculative boost to prices that were already winding down. This is evident in Graph 24, which shows that the prices of iron ore, gold and platinum began to fall shortly after the spike that followed the Russian attack on 24 February 2022.

[1] World Bank. 2022. Commodity Markets Outlook April 2022. Available from www.worldbank.org. Accessed in September 2022

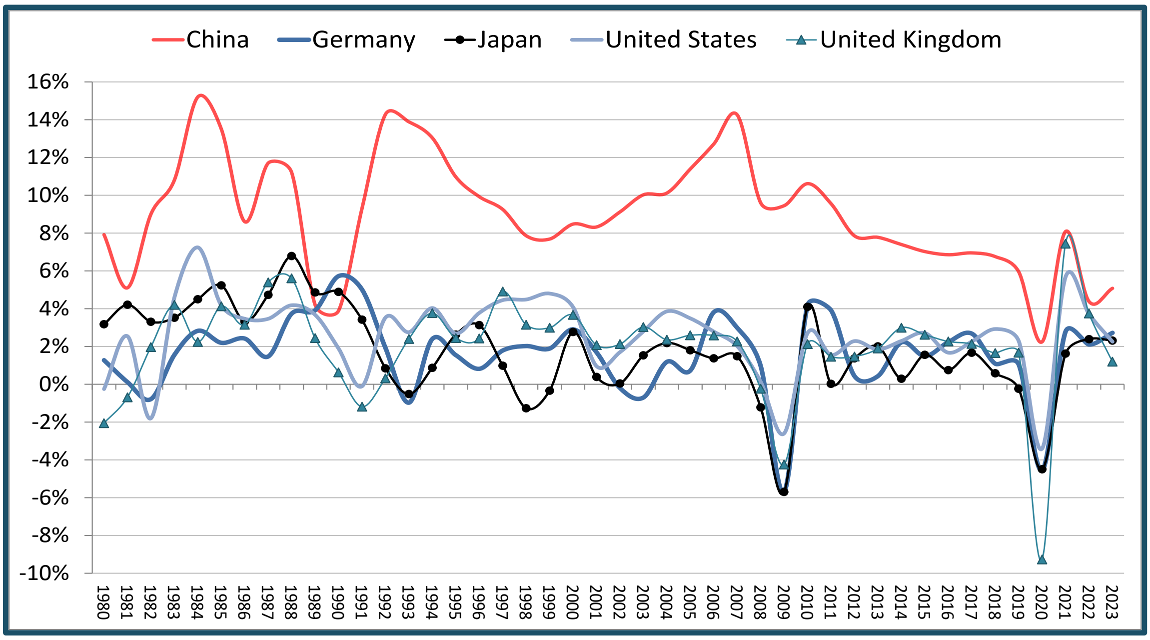
Graph 24. South Africa's major commodity exports in constant US dollars, from 2000 to July 2022



Source: IMF primary commodity prices. Downloaded from www.imf.org. Accessed in September 2022.

Commodity prices face further downward pressure as China's economy, the largest single consumer of metals and ores, slows as a result of its battle with the Omicron variant, high levels of domestic debt, and a variety of other structural challenges. China's GDP growth fell below 0.5% in year-on-year terms in the second quarter of 2022, a rate that would have been unthinkable a few years ago. It is projected to remain below 4% for 2022 and 2023. As Graph 25 shows, growth has slowed gradually in all of South Africa's main trading partners. Taken together, these countries account for around 40% of South Africa's total exports.

Graph 25. Growth rates in South Africa's main trading partners, 1980 to 2021 and projections for 2022 and 2023



Source: IMF. World Economic Outlook. Accessed via Our World In Data. Interactive dataset.

The decline in commodity prices will worsen South Africa's terms of trade and fiscal position. As noted in the REB, the trade surplus is narrowing as export prices and imports increase with the economic recovery. The spike in oil prices after the invasion of Ukraine aggravated these trends. In the second quarter of 2022, South Africa's trade surplus stood at R71 billion, 58% below the peak surplus of R171 billion a year ago.

Lower export prices generally mean slower growth, hitting tax revenues both directly and indirectly. The Reserve Bank warns that the fiscal deficit will increase sharply if the revenue boost from the trade surplus declines before private sector spending and growth accelerate.[2] South Africa's recovery from the pandemic is likely to remain volatile as the country's growth rate, investment and job creation all tend to track world commodity prices, particularly for metals and coal.[3]

Briefing Note 2: Progress on the Sugar Master Plan

It has been almost four years since the relaunch of industrial policy to focus on stand-alone industry master plans. This briefing note tracks the progress of the sugar plan, signed by stakeholders in November 2020, using published information.

Sugar producers have complained for years of a crisis, as the hoped-for boom in exports after the transition to democracy did not emerge while imports, mostly from eSwatini, have soared. The number of registered smallholders has declined by over half in the past 20 years, with even fewer actually producing sugar cane. The industry lost two of its 14 mills during the pandemic, as Tongaat Hulett mothballed the Darnall Sugar Mill and Illovo suspended its operations at Umzimkulu.

In this context, the master plan brought together stakeholders to pinpoint choke points and identify specific areas for intervention. Ten task teams were created to address priority issues.

Sugar is only valuable if it can be processed into food or drink, whether in homes or factories. Between 2002 and 2022, however, imports of both sugar and sweets climbed dramatically, with the bulk of imports coming from eSwatini. Sugar imports multiplied nearly 60 times, from US$5 million to US$290 million, with US$260 imported from eSwatini. Imports of sweets climbed nearly tenfold, from US$7 million to US$67 million, again mostly from eSwatini. Imports of chocolate products rose from US$6 million to US$116 million. In this case, virtually all the increase resulted from duty-free imports from the European Union.

In this context, the master plan focuses heavily on expanding domestic and international demand for both sugar and downstream confectionary products. To that end, it has promoted various "buy local" efforts. Under SA Canegrowers "home sweet home" campaign, a number of retailers and industrial users have committed to producing 80% of sugar inputs locally. Shoprite has been playing a leading role in this effort, along with Proudly SA Living Lekker Locally Campaign support. After the Coca Cola bottlers merged, the company committed to promoting local suppliers. In addition, the Department of Trade, Industry and Competition plans to designate sugar, requiring

[2]Loewald, C., 2022. South African Reserve Bank Occasional Bulletin on Economic Notes. Available from www.resebank.co.za . Accessed in September 2022

[3] Makgetla, N., 2021. Mining and Minerals in South Africa in Oqubay et al (ed), *The Handbook of the South African Economy.* Oxford Academic.

government agencies to purchase only from local producers. This initiative has, however, been delayed because of difficulties in getting information on the amount of sugar affected.

So far local procurement is credited with a 150 000-tonne increase in sales. It is believed to have contributed to a decline in imports of raw cane sugar from 317 000 tonnes in 2020 to 291 000 tonnes in 2021.

Discussions are also underway within the South African Customs Union (SACU) to prevent destructive competitive dynamics. Since two of the main local players, Illovo Sugar and RCL Foods, have extensive sugar holdings in eSwatini, the situation is complex.

The South African Sugar Association (SASA) agreed to a voluntary price restraint for sugar sales to retailers and downstream sugar users (confectionery and beverages, etc.) Under the agreement, producers will limit price increases to headline inflation to assist downstream manufacturers to become more competitive.

The master plan is also committed to support for small business and transformation. The industry established a Small Scale Grower Premium Price Payment system for growers on communal land in historic labour-sending regions as well as farmers on freehold land, irrespective of race, who produce under 1 800 tonnes a year. The scheme provides support to counter disadvantages related to economies of scale and distance from sugar mills, which substantially increase production costs. Payments will continue at least through 2024. Other initiatives include a R1-billion Transformation Fund that has disbursed around R200 million a year since 2019/20. The fund provides grants, transport subsidies and other kinds of assistance to the almost 20 000 small black sugar growers.

The master plan has also encouraged processes to explore diversification into other crops; production of aviation fuel; sugar cane concentrate, which can replace some fruit sugar; and polyethylene and glutamic acid.

Producers argue that efforts to increase demand for local sugar are undermined by taxes that seek to reduce sugar consumption because of its negative health effects. Studies show that excessive consumption of sugar, notably in sugary drinks, can contribute to obesity and diabetes, among other diseases. For this reason, the government adopted a tax to raise the cost of sugary drinks and limit advertising. The industry recently succeeded in delaying an increase in the sugar tax by a year, from 2022 to 2023. That said, even without the tax, the push to promote healthier lifestyles has led to reduced sugar use in a variety of processed foods and drinks. Proponents argue that the cost to society of the health impacts of high sugar consumption more than offset the benefits of the industry in terms of profits, jobs and value added.