Quarterly Bulletin

First Quarter 2021

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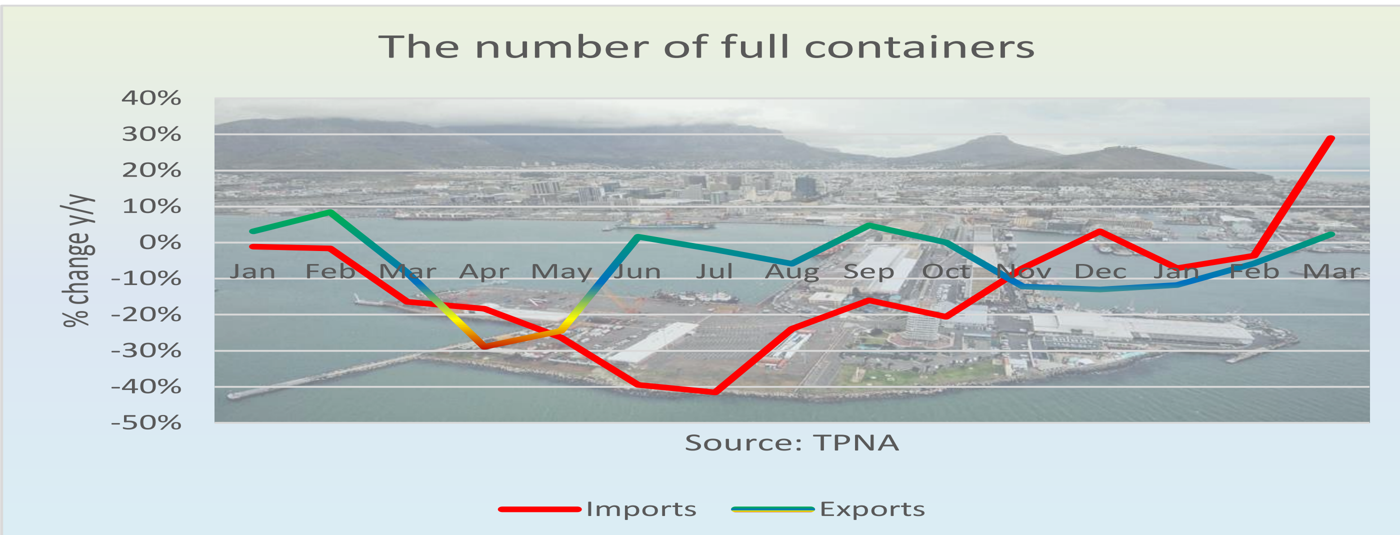
1. GDP Expenditure Measure

The impact of national lockdowns due to the Covid-19 pandemic was unprecedented, but the headline 7,1% plunge in gross domestic product (GDP) overstates the collapse, as final demand, that is GDP less the change in inventories, only fell by 4,5%. This is in line with the 4,5% drop in real household income, but unfortunately neither of these very important indicators of “real” economic activity were reported on by the media, so the broader public is unaware of the true state of affairs. Businesspeople on the other hand see robust demand, which had to be met by drawing down inventories to record low levels, so they are boosting orders and that is starting to be reflected in the surge of imports with full containers imported climbing by 29% y/y in March 2021.



The actual 2020 GDP data turned out to be better than expected and the check on the forecasts are given below.

Expenditure on GDP	**2020**	2020	2020	2020	2020	2020	2020	2020
Constant 2010 prices		Rm			% change			
R million	Actual	Forecaster	Treasury	OECD	Forecaster	Treasury	OECD	Actual
Final consumption expenditure by households	1 851 300	1 771 679	1 803 001	1 844 112	-9,5%	-7,9%	-5,8%	-5,4%
Final consumption expenditure by general government	654 482	658 916	657 614	666 729	1,2%	1,0%	2,4%	0,5%
Gross fixed capital formation	498 530	470 460	485 558	519 982	-22,1%	-19,6%	-13,9%	-17,5%
Change in inventories	-89 797	-25 300	-14 919	-48 224				
Gross domestic expenditure	2 914 515	2 875 755	2 931 255	2 982 600	-10,2%	-8,5%	-6,9%	-9,0%
Exports of goods and services	813 265	817 613	790 420	808 549	-9,8%	-12,8%	-10,8%	-10,3%
Less: Imports of goods and services	803 784	792 359	822 241	881 041	-17,8%	-14,7%	-8,6%	-16,6%
Expenditure on gross domestic product	2 923 996	2 901 010	2 900 669	2 910 107	-7,8%	-7,8%	-7,5%	-7,1%
Final Sales	3 013 793	2 926 310	2 915 588	2 958 331	-7,3%	-7,6%	-6,2%	-4,5%

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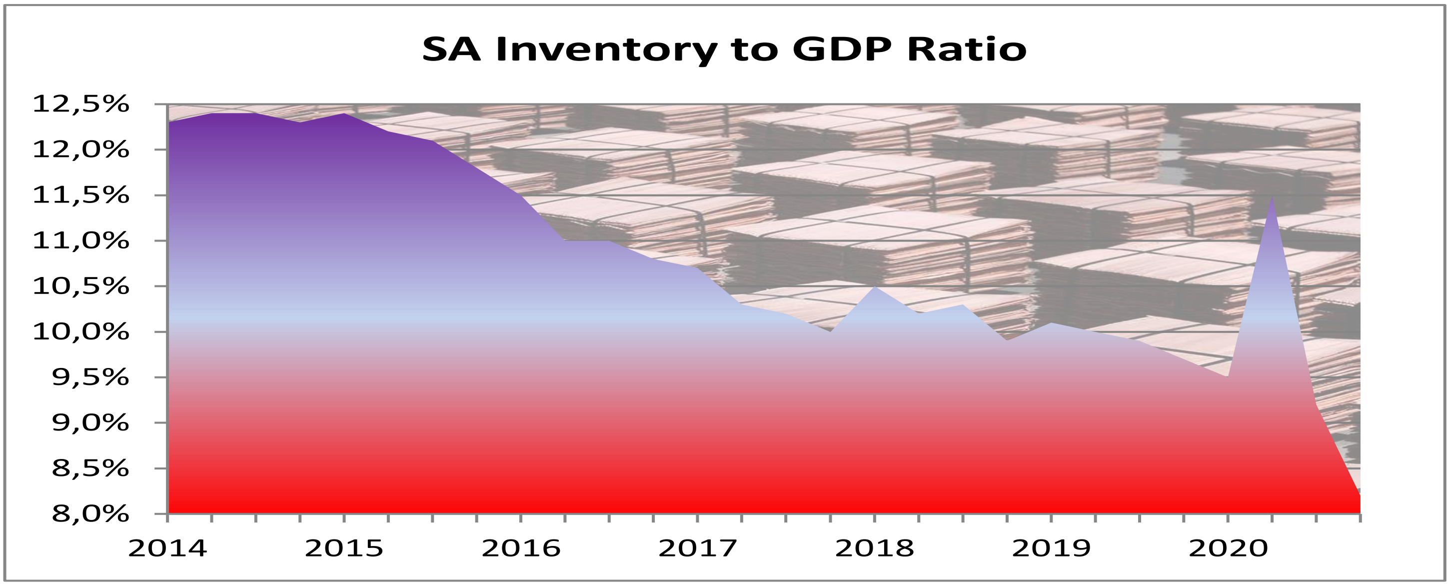
Final consumption expenditure by households: This turned out far better than I expected as real household disposable income only dropped by 4,5%, whereas I was expecting a drop closer to 10%, hence my 9,5% contraction forecast. For 2021 I expect a 3,4% increase, which is well below the 7,5% q/q seasonally adjusted annualised rate (saar) increase in the fourth quarter but is in line with the fourth quarter q/q saar advance in real household disposable income of 3,7%. The Treasury only expects a 2,9% increase.

Final consumption expenditure by government: The government support measures announced with great fanfare in April 2020 that were supposed to add 10% of GDP failed to materialise as less than 10% of the R200bn bank guarantee loans were actually taken up. As government is intent on lowering the civil service wage bill, I am forecasting a 0,5% drop, while the Treasury have forecast a 0,1% easing.

Gross fixed capital formation: The 17,5% decline in 2020 was far better than I expected given that the real value of buildings completed plunged by 46,7% in 2020. In the fourth quarter there was a 12,1% increase at q/q saar, but my forecast for 2021 is for only a 2,5% rise, whereas the Treasury forecasts a continued decline of 2,4%.

Change in inventories: This will be the biggest factor between my (and Old Mutual's) 5% GDP growth forecast and the consensus forecast of 3,6%. I believe that the supply chain disruptions in 2020 and 2021 (Suez Canal) will make businesspeople move away from a "just in time" inventory system to a "just in case" inventory system where they have more semiconductor chips etc just in case there is a supply chain disruption. This is not just a South African concern but a global concern which is why you are seeing such large y/y increases in orders and exports recently.



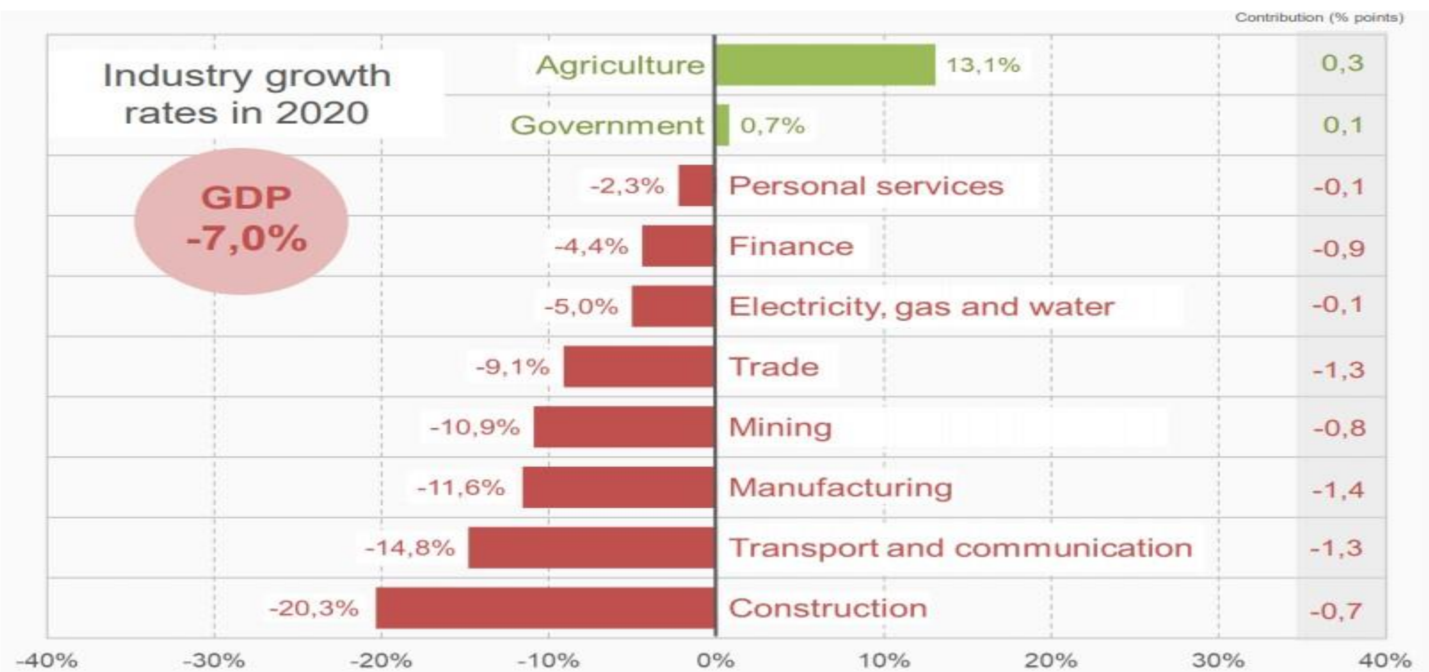
Exports of goods and services: Although the value of merchandise exports rose by 7,5% in 2020, this was in part due to a surge in commodity prices such as rhodium. The volume of goods fell by 10,3% and I expect an 8,1% increase in 2021. Tourism receipts plunged by more than 40% in 2020 and I only expect a small 10% recovery in 2021. I therefore forecast an 8,8% gain in total exports of goods and services compared with the Treasury forecast of a 5,7% rise.

Imports of goods and services: There was an unprecedented 16,6% plunge in imports in 2021 but given the need to replenish inventories, I am expecting a 11,0% jump in 2021, which is the volume increase on a q/q saar basis in the fourth quarter relative to the third quarter.

Expenditure on GDP	2020	2021	2021	2021	2021	2020
Constant 2010 prices		Rm		% change		
R million	Actual	Forecaster	Treasury	Forecaster	Treasury	Actual
Final consumption expenditure by households	1 851 300	1 914 244	1 904 988	3,4%	2,9%	-5,4%
Final consumption expenditure by general government	654 482	651 210	653 828	-0,5%	-0,1%	0,5%
Gross fixed capital formation	498 530	510 993	486 565	2,5%	-2,4%	-17,5%
Change in inventories	-89 797	5 000	-28 857			
Gross domestic expenditure	2 914 515	3 081 447	3 016 523	5,7%	3,5%	-9,0%
Exports of goods and services	813 265	884 832	859 621	8,8%	5,7%	-10,3%
Less: Imports of goods and services	803 784	892 200	854 422	11,0%	6,3%	-16,6%
Expenditure on gross domestic product	2 923 996	3 074 079	3 021 722	5,1%	3,3%	-7,1%
Final Sales	3 013 793	3 069 079	3 050 579	1,8%	1,2%	-4,5%
Final Domestic Demand	3 004 312	3 076 447	3 045 380	2,4%	1,4%	-6,5%

2. GDP Production Measure

The lockdown meant that only two productive sectors were able to show increases in 2020, namely agriculture and government services.



Agriculture: Agriculture grew by 13,1% in 2020 after several years of subdued growth due to the drought. Initial indications are that the maize harvest will be some 6% larger than last year, while table grape exports are some 10% more, while I expect citrus exports to grow by 14%. I therefore expect an 8% increase this year in agriculture.

Government services: This sector grew in 2020 as there was a big increase in demand for health services but given the cutback in government expenditure, I expect an 0,5% drop.

Personal services: There was a surprisingly small 2,3% drop in personal services such as hairdressing in 2020 given all the restrictions on personal contact, so I am only expecting a small 2,5% rise in 2021.

Financial services: This is the largest sector in the economy, so its 4,4% drop is in line with the 4,5% drop in final demand. I expect a 5,7% rise in 2021, which is in line with the growth rate of gross domestic expenditure.

Electricity, gas and water: This sector fell by 5,0% in 2020, but I expect it to grow by a similar margin in 2021 despite the woes at Eskom.

Internal trade: This sector includes catering and accommodation, two sectors that were devasted by the lockdown restrictions. After a 9,1% drop in 2020, I am forecasting a 5,8% rise in 2021.

Mining: Mining value added dropped by 10,9% in 2020 but given the 24,9% y/y rise in mineral sales in January 2021, I expect an 8,5% bounce in 2021. This is still 6,8% below its 2017 level.

Manufacturing: This sector includes motor manufacturing, which needs steel to produce cars. Total vehicle sales fell by 29,1% in 2021 but were up 31,8% y/y in March 2021, so my forecast of a 5,6% increase in 2021 after a 11,6% drop in 2020 may be too conservative.

Transport and communication: This sector slumped by 14,8% in 2020, but anecdotal reports say that business in December 2020 was a record level as businesses encouraged “work from home” and long delays were reported at border posts. I am forecasting a 7,2% rise in 2021, which would still mean this sector is 7,6% smaller than it was in 2017.

Construction: This was the sector hardest hit by the restrictions, as well as the collapse in business confidence. After a 20,3% plunge in 2020, the expected 15,5% bounce in 2021 still leaves it 12,6% smaller than in 2017.

Sector	% ch 2020	2020 Rm	2021 Rm	% ch 2021	2017 Rm
Agriculture, forestry and fishing	13,1	78 069	84 315	8,0%	77 857
Mining and quarrying	-10,9	201 452	218 575	8,5%	234 522
Manufacturing	-11,6	339 363	358 367	5,6%	383 189
Electricity, gas and water	-5,0	61 369	64 437	5,0%	65 329
Construction	-20,3	82 977	95 838	15,5%	109 008
Wholesale, retail and motor trade; catering and accomodation	-9,1	392 300	415 053	5,8%	429 224
Transport, storage and communication	-14,8	231 899	248 596	7,2%	268 993
Finance, real estate and business services	-4,4	626 055	661 740	5,7%	628 972
General government services	0,7	490 228	487 777	-0,5%	472 497
Personal services	-2,3	168 263	172 469	2,5%	168 834
Total value added at basic prices	-6,8	2 671 974	2 807 168	5,1%	2 838 425
Taxes less subsidies on products	-9,0	258 181	272 381	5,5%	281 558
GDP at market prices	-7,0	2 930 156	3 079 549	5,1%	3 119 983
Total value added at basic prices excluding agriculture	-7,2	2 593 905	2 722 853	5,0%	2 760 568

3. Household Disposable Income and Debt Service

Although the South African Reserve Bank (SARB) cut the repo rate by 300 basis points to 3,5% between December 2019 and July 2020, this failed to cushion the South African consumer as the debt service to household income ratio rose to 9,5% in the second quarter from 9,3% in the first quarter. The belated response of commercial banks to the repo rate cut then saw the debt service ratio ease to 7,8% in the third quarter and 7,7% in the fourth quarter.

This failure in the second quarter had two main components.

Firstly, commercial banks did not pass on the full cut in interest rates to the consumer, so the average overdraft rate only fell by 258 basis points between December and September. Secondly, the national lockdown from 27 March disrupted economic activity so severely that 2,2 million people or 13,6% of the labour force lost their jobs during the second quarter. Even among the people who did not lose their jobs there were several who got severely cut wages as business went into survival mode and cut costs were possible.

The net effect of these two influences was that the household debt to disposable income ratio jumped in the second quarter to a revised 86,1%, the highest since the first quarter 2009, from 73.5% in the first quarter before easing to 74,9% in the third quarter and then rising to 75,3% in the fourth quarter.

The Monetary Policy Committee has been split three to two in the two last (September and November 2020) meetings in 2020 and the first meeting in 2021 (January 2021) with the majority voting for a stable repo rate while the minority voted for a further 25 basis points cut. This changed at the second meeting in March 2021 when there was a unanimous decision to keep the repo rate steady. I do not expect any change in the repo rate this year as monetary policy has done all it can. It is now up to policy reform (especially in the electricity and telecommunications sector) as there is no fiscal space either given the collapse in revenue and the need to support income for the unemployed which has pushed the fiscal deficit to record highs.

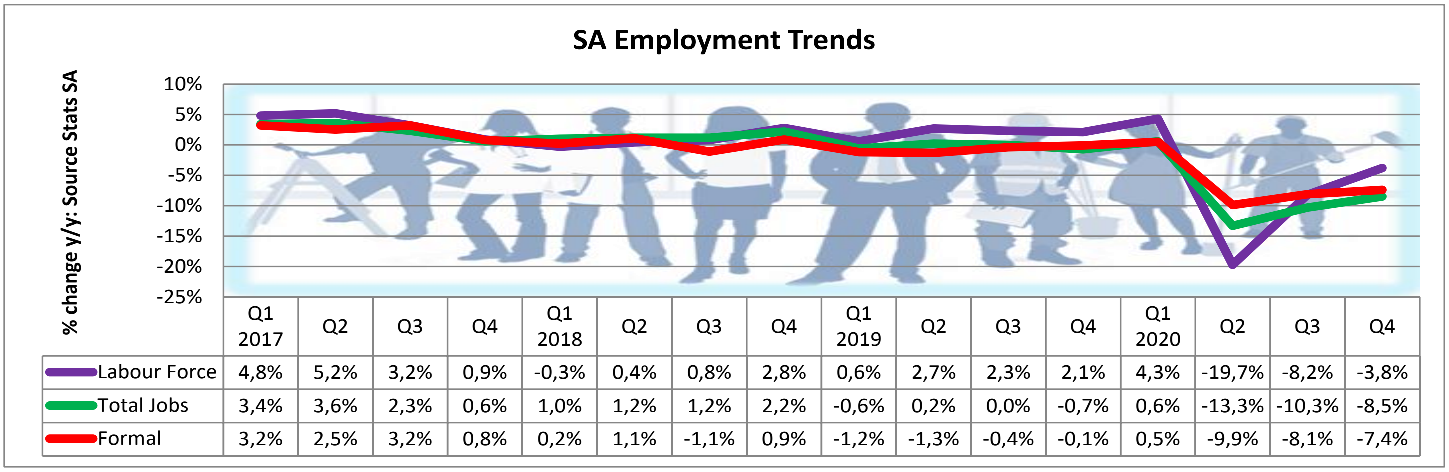
4. Quarterly Labour Force Surveys

There are two Stats SA labour force surveys. The Quarterly Labour Force Survey (QLFS) surveys more than 30 000 households, while the Quarterly Employment Statistics (QES) surveys only VAT-registered firms. Stats SA suspended field work during the coronavirus pandemic, so the second quarter QLFS was only released on 29 September after being delayed twice. The QES is gathered electronically.

The two series should be read in conjunction, as QES is better for a handle on the mining sector as many mine workers come from Lesotho, so they are not surveyed in the QLFS, while the QES excludes farm workers, domestic servants and the informal sector.

I prefer to look at the graph of y/y changes as the data is not seasonally adjusted. The unprecedented national lockdown in the second quarter meant that for the first time the number of not economically active 15 to 64 year olds at 20,578 million compared with 18,443 million in the labour force and only 14,148 million who have a job and 10,064 million who have a formal sector job.

There was some recovery in the third quarter and fourth quarter, but formal sector jobs are still down 7,4% y/y in the fourth quarter 2020.



	Q1 2017	Q2	Q3	Q4	Q1 2018	Q2	Q3	Q4	Q1 2019	Q2	Q3	Q4	Q1 2020	Q2	Q3	Q4
Labour Force	4,8%	5,2%	3,2%	0,9%	-0,3%	0,4%	0,8%	2,8%	0,6%	2,7%	2,3%	2,1%	4,3%	-19,7%	-8,2%	-3,8%
Total Jobs	3,4%	3,6%	2,3%	0,6%	1,0%	1,2%	1,2%	2,2%	-0,6%	0,2%	0,0%	-0,7%	0,6%	-13,3%	-10,3%	-8,5%
Formal	3,2%	2,5%	3,2%	0,8%	0,2%	1,1%	-1,1%	0,9%	-1,2%	-1,3%	-0,4%	-0,1%	0,5%	-9,9%	-8,1%	-7,4%

The data from the QES showed that South Africa's formal non-agricultural sector jobs fell by 5,8% y/y in the fourth quarter 2020.

Figure A: Employment in the non-agricultural formal sector, June 2017 – December 2020.

*Revised estimates.

5. Government Finances

The national lockdown has impacted government revenue severely, so the Medium Term Budget Policy Statement tabled on 28 October 2020 confirmed the record fiscal deficit that in turn prompted further downgrades by the rating agencies.

All three major credit ratings agencies gave their verdict on South Africa's growth prospects on 20 November 2020. Both Moody's Investors Service and Fitch Ratings downgraded, while S&P Global Ratings affirmed its rating. South Africa is now

considered three notches below investment grade by S&P and Fitch, the latter assigning a negative outlook, while the rating assigned by Moody's is two notches below investment grade, also with a negative outlook.
S&P said it could lower the ratings if South Africa's economic prospects fail to recover during the forecast period and fiscal financing or external pressures mount. This could, for example, arise from an unsustainable increase in the government's interest burden as a proportion of revenue. They would also consider a downgrade if the rule of law, property rights, or enforcement of contracts were to weaken significantly, undermining the investment and economic outlook. On the other hand, S&P could raise the ratings if the government's reform efforts were to credibly place its debt-to-GDP ratio on a downward path. An upgrade could also occur if job creation and productivity gains substantially improve, leading to higher real per capita GDP growth.

The job losses and curtailed salary meant that personal income tax had the largest fall out of all tax revenue categories, with the overall tax revenue plummeting by R321,5bn compared with the February 2020 projections.

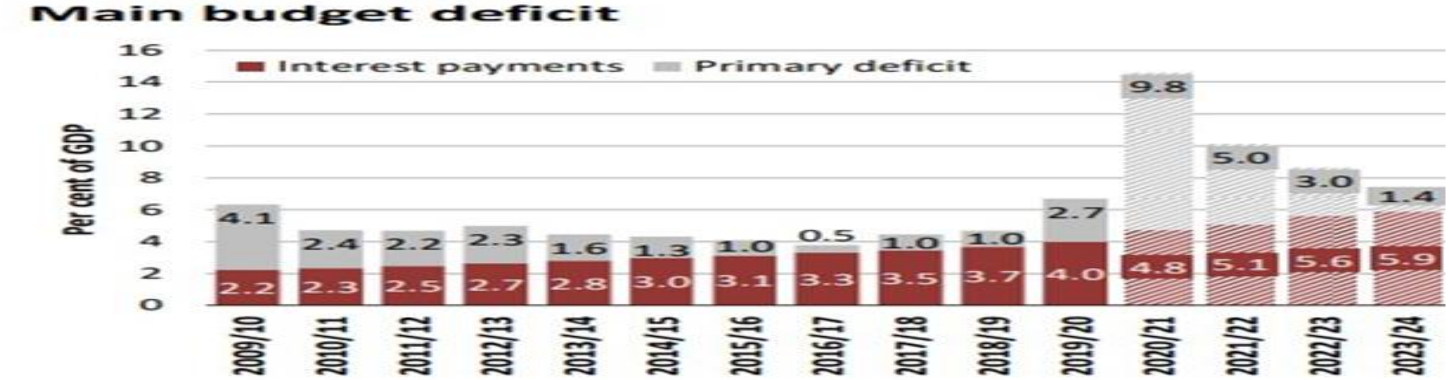
Table 3.3 Gross tax revenue

	2019/20			2020/21				
R billion	**Budget Review**	**Outcome**	**Deviations**	**Budget Review**	**SAB[1]**	**Revised**	**Deviation from Budget Review**	**Deviation from SAB**
Persons and individuals	527.6	527.6	0.0	546.8	455.5	454.2	-92.6	-1.3
Companies	216.7	211.5	-5.2	230.2	154.6	159.6	-70.7	5.0
Value-added tax	344.2	346.7	2.5	360.6	301.3	287.7	-72.9	-13.6
Dividends tax	29.1	27.9	-1.2	31.2	16.7	20.7	-10.5	4.0
Specific excise duties	46.8	46.8	0.1	48.8	36.3	33.8	-15.1	-2.5
Fuel levy	79.3	80.2	0.9	83.4	63.2	68.4	-15.1	5.2
Customs duties	56.3	55.4	-0.9	59.5	45.8	40.3	-19.2	-5.5
Ad valorem excise duties	4.1	4.1	0.0	4.3	3.9	3.2	-1.1	-0.7
Other	54.8	55.4	0.6	60.6	44.1	44.8	-15.8	0.7
Gross tax revenue	**1 358.9**	**1 355.7**	**-3.2**	**1 425.4**	**1 121.3**	**1 112.6**	**-312.8**	**-8.7**

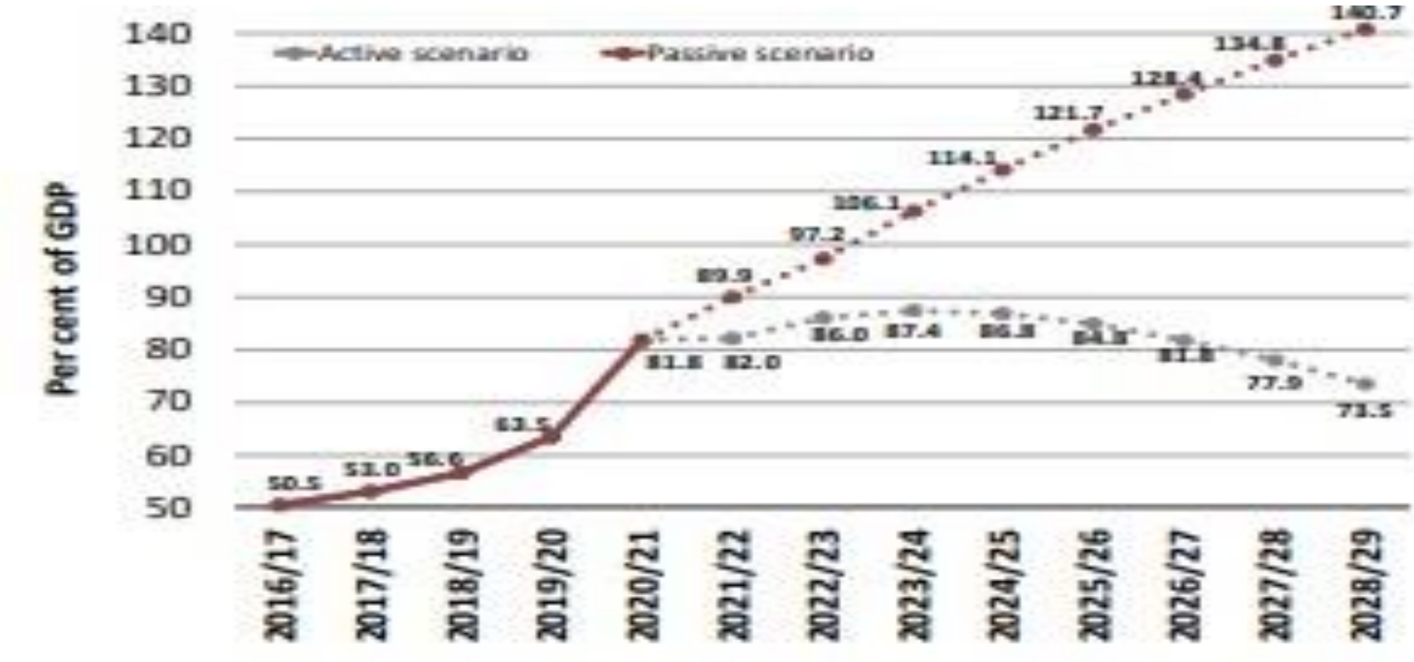
1. 2020 special adjustments budget figures
Source: National Treasury

The Treasury said that over the past decade, increased government spending has failed to promote growth. Since 2008, real spending growth has averaged 4,1% annually, well above annual real GDP growth of 1,5%. Yet despite high levels of expenditure, supported by increased debt accumulation, growth has not recovered to pre-2008 levels.

The rise in government spending over the past decade compared with slow growth for the overall economy meant that consolidated government spending accounted for 35,9% of GDP in 2019/20 compared with 29,6% of GDP in 2008/09. A major part of the rise in government spending has been the 51% increase in the real cost of the public-service wage bill since 2008. The combination of reduced tax revenue and higher government spending means that government needs to borrow more to finance the fiscal deficit for 2020/21, which jumps to 14,6% of GDP from the 6,8% expected in February.



This means that the government debt to GDP ratio will shoot up as government expenditure will increase to provide medical equipment and a social welfare net. Finance Minister Tito Mboweni presented two scenarios, namely an active one where the government cut public sector wages and a passive one, where we continue with what has happened in the past decade.



The Budget presented on 24 February 2021 painted a rosier picture than the October 2020 MTBPS as revenue growth has been stronger than expected in part due to higher commodity prices recently.

This meant that Treasury forecast for 2020 was revised to a 7,2% contraction from October's 7,8%, while the higher revenue in 2020/21 means that tax revenue projections are higher than the 2020 MTBPS estimates by R85,6bn in 2021/22, R65,5bn in 2022/23 and R45,3bn in 2023/24.

The 2021 Budget forecasts that revenue will grow by 11,6% in 2021/22 after a 11,0% reduction in 2020/21, while expenditure falls by 1,6% after a 12,6% jump. The public sector wage will be reduced by early retirement of public servants. Ordinary public servants can take early retirement at age 55, while teachers can take early retirement at age 45. In 2019 the expectation was that the early retirement programme would reduce the public sector head count by some 30 000, but as of the end of 2020 only a tenth of this reduction has been achieved.

This is why the reduction in the civil service wage bill remains a government priority. Compared with the 2020 Budget, main budget non-interest expenditure will be reduced by R264,9bn, or 4,6% of GDP, over the next three years. Debt service costs on the other hand will continue to escalate with debt service costs rising to R338,6bn in 2023/24 from R162,6bn in 2017/18.

During 2020/21, government issued an additional R76,5bn in Treasury bills (relative to 2020 Budget projections) to partly finance the higher gross borrowing requirement and to reduce domestic bond issuance. As a result, Treasury bills increased from 12,4% to 15,8% of domestic debt issuance, but in the 2021 Budget Treasury will cut net Treasury bill issuance to only R9,0bn in 2021/22. In 2020/21, domestic long-term borrowing relative to the 2020 Budget estimate increased by R180,8bn to R518,5bn. Between April 2020 and January 2021, government raised R438,8bn by issuing domestic long-term debt with fixed-rate bonds accounting for 81,5% of bond issuances, with inflation-linked bonds making up the remainder. Domestic bond issuance will now fall to only R380bn in 2021/22.

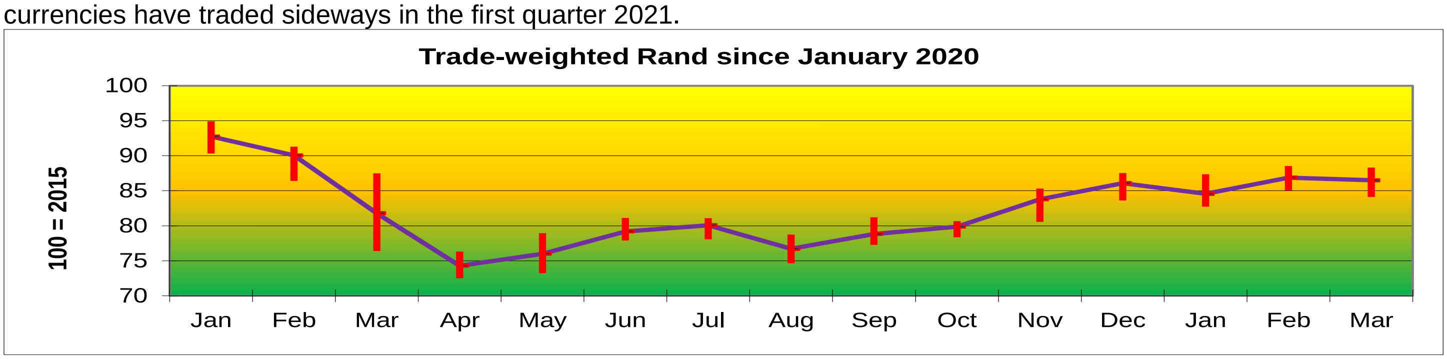
Table 7.2 Financing of national government gross borrowing requirement[1]

R million	2019/20 Outcome	2020/21 Budget	2020/21 Revised	2021/22	2022/23	2023/24
				Medium-term estimates		
Main budget balance	**-345 053**	**-367 999**	**-603 388**	**-482 580**	**-417 164**	**-389 011**
Redemptions	**-70 657**	**-64 699**	**-66 881**	**-65 280**	**-144 797**	**-152 657**
Domestic long-term loans	-19 428	-52 465	-52 465	-60 815	-129 357	-112 428
Foreign loans	-51 229	-12 234	-14 416	-4 465	-15 440	-40 229
Total	**-415 710**	**-432 698**	**-670 269**	**-547 860**	**-561 961**	**-541 668**
Financing						
Domestic short-term loans	**36 078**	**48 000**	**97 184**	**9 000**	**52 000**	**56 000**
Treasury bills (net)	26 001	48 000	124 539	9 000	52 000	56 000
Corporation for Public Deposits	10 077	–	-27 355	–	–	–
Domestic long-term loans	**305 449**	**337 700**	**518 457**	**380 000**	**440 800**	**396 900**
Market loans	305 738	337 700	518 500	380 000	440 800	396 900
Loans issued for switches	-289	–	-43	–	–	–
Foreign loans	**76 052**	**29 260**	**107 070**	**46 260**	**46 320**	**62 600**
Market loans	76 052	29 260	107 070	46 260	46 320	62 600
Loans issued for switches	–	–	–	–	–	–
Change in cash and other balances[2]	**-1 869**	**17 738**	**-52 442**	**112 600**	**22 841**	**26 168**
Cash balances	2 474	12 596	-58 957	107 876	17 544	19 219
Other balances[3]	-4 343	5 142	6 515	4 724	5 297	6 949
Total	**415 710**	**432 698**	**670 269**	**547 860**	**561 961**	**541 668**
Percentage of GDP	*8.1%*	*8.0%*	*13.6%*	*10.2%*	*9.9%*	*9.0%*

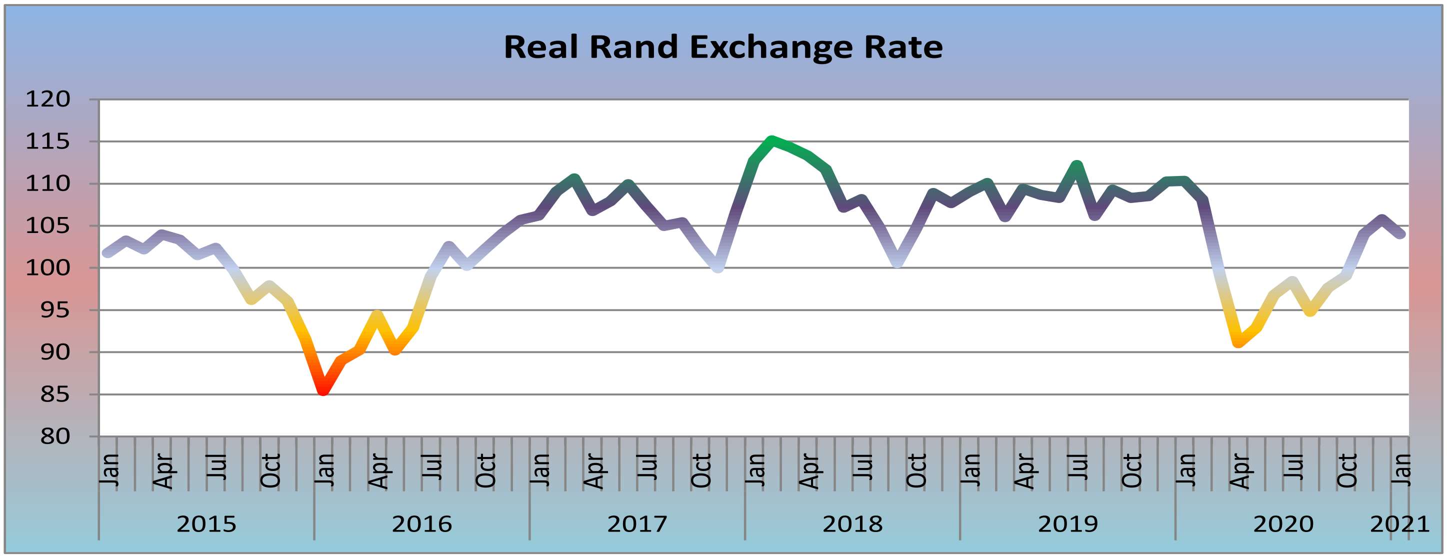
1. A longer time series is presented in Table 1 of the statistical annexure at the back of the Budget Review
2. A positive value indicates that cash is used to finance part of the borrowing requirement
3. Differences between funds requested and actual cash flows of national departments
Source: National Treasury

6. Rand Exchange Rate

The rand has been less volatile, but weaker, in 2019 than in 2018, as global events have trumped domestic political events, but in 2020, the global pandemic resulted in increased volatility once again. The main influence has been part due to global markets switching between "risk-off" positions, which result in a weaker rand, and "risk-on" positions, which result in a stronger rand. These changes are mostly influenced by the trade war between China and the US, as well as the monetary policy stance of the US Federal Reserve. President Donald Trump's tweets keep the market guessing as to which position to take. In 2021 the departure of Donald Trump from the White House resulted in a less volatile environment and most currencies have traded sideways in the first quarter 2021.



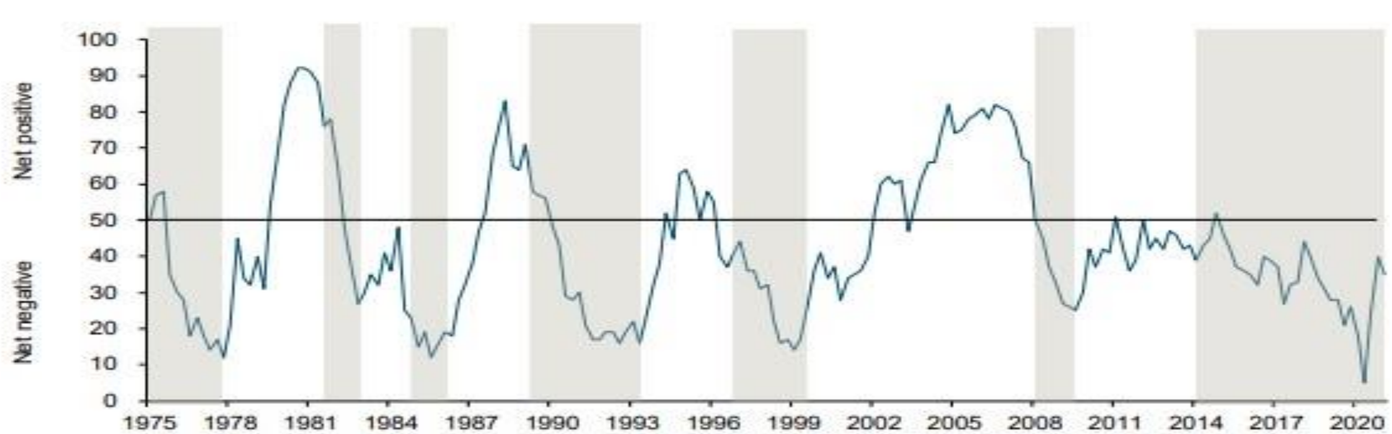
On a real exchange rate basis, the rand sank to 91,06 (100 = 2015) in April 2020 but then recovered to 104,0 in January 2021.



7. Quarterly Confidence Indicators

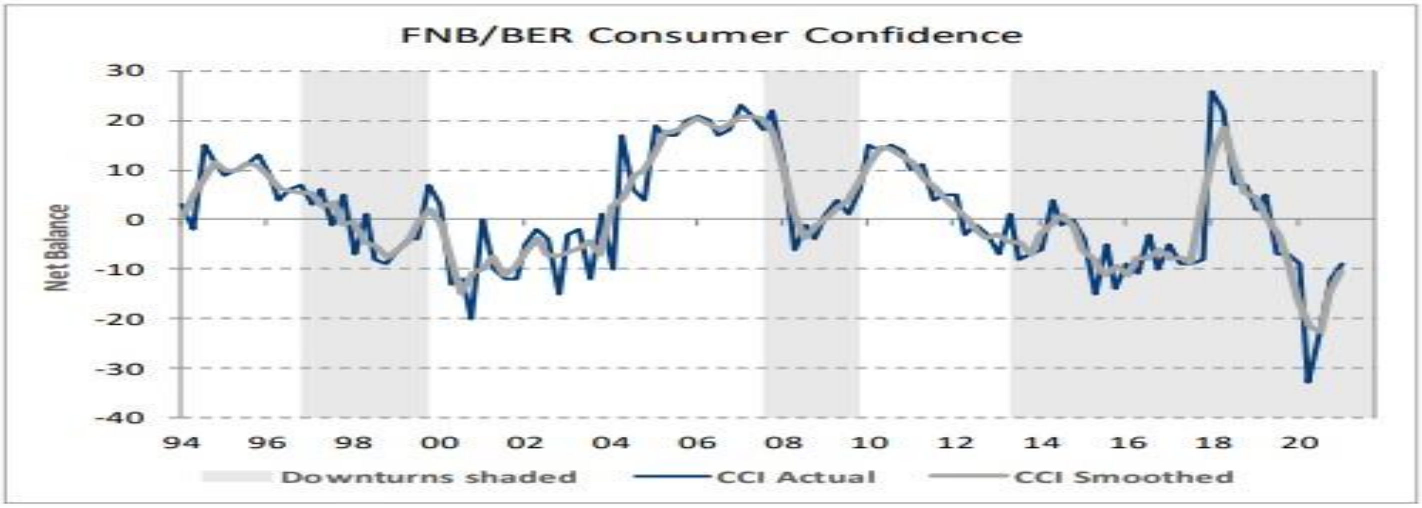
The frequent cabinet reshuffles, the ratings downgrades and policy uncertainty have hit business and consumer confidence during 2016 and 2017, but there was a recovery in the first quarter 2018 before the first half recession impacted on sentiment. Business confidence was stable at a low 28 in the first two quarters of 2019 before plunging to only 21 in the third quarter. It then rebounded to 26 in the fourth quarter before sinking to a 21-year low of 18 in the first quarter 2020 and a record low 5 in the second quarter. It then recovered to 24 in the third quarter and 40 in the fourth quarter. In the first quarter 2021 however, it slipped back to 35.

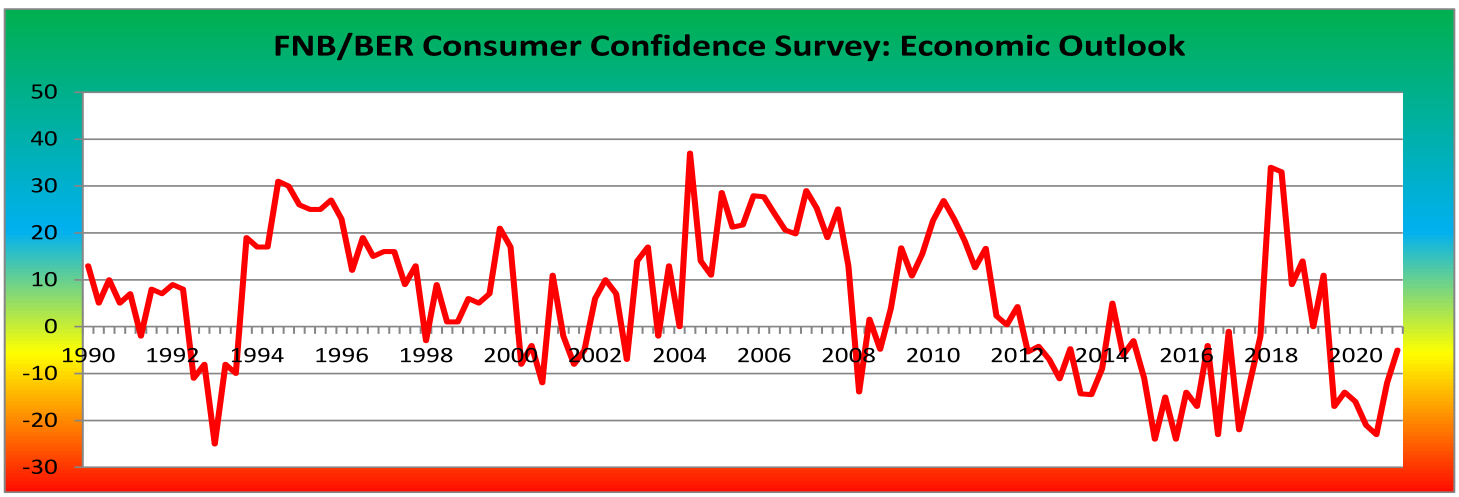
Figure 1: RMB/BER Business Confidence Index



Source: BER, SARB (Shaded areas represent economic downswings)

Consumers were much more optimistic and sent the CCI to a record high of +26 in the first quarter 2018 before there was a reality check and the CCI slumped to -33 in the second quarter 2020 before a recovery to -23 in the third quarter, -12 in the fourth quarter and -9 in the first quarter 2021.

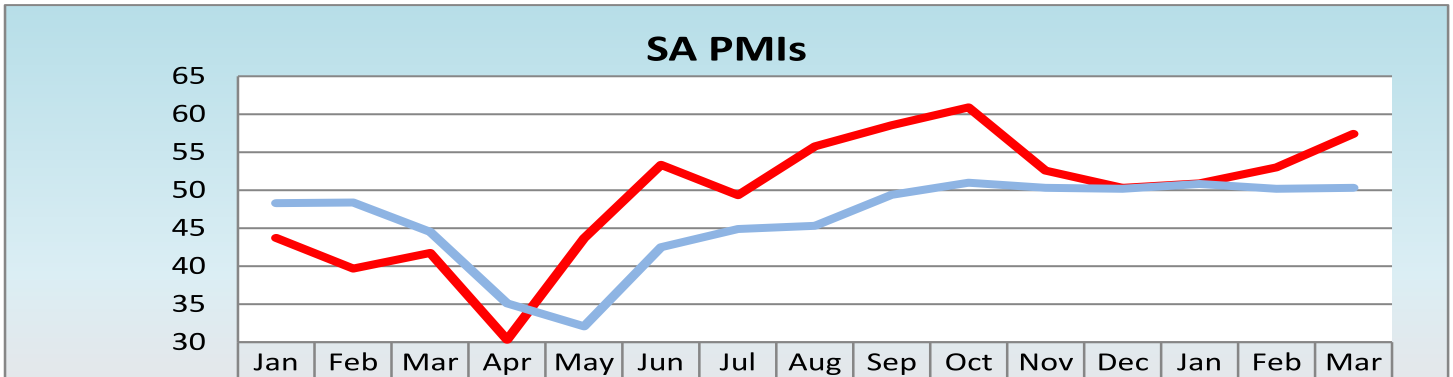




8. **Purchasing Managers' Index (PMI)**

The BER PMI surveys the manufacturing sector, while the Markit PMI surveys the private sector. Both surveys indicate that purchasing managers are pessimistic, but that does not necessarily mean that real activity follows suit. The BER business expectations index rose to 72,8 in January 2018 from 61,9 in December 2017 and 50,0 in November 2017 as purchasing managers believe a change in the African National Congress leadership would result in stronger economic growth in 2018, but a poor first half meant that this index eased to 30,3 in April.

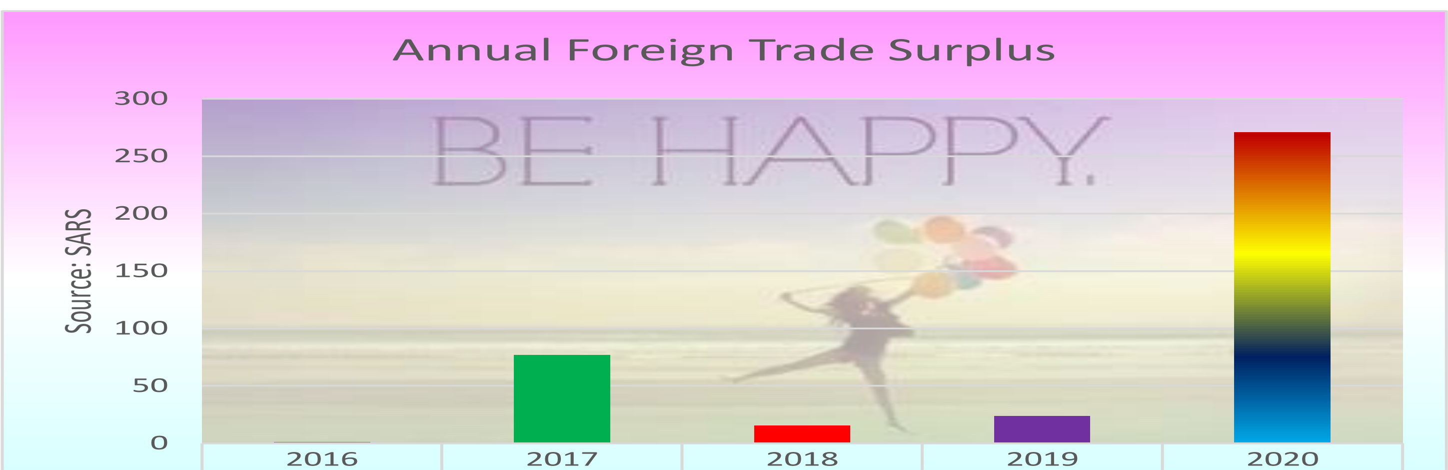
In the final months of 2020, the BER PMI moved to a record high of 60,9 in October, so the confidence among manufacturers has improved dramatically. The Markit PMI however, which has a greater exposure to the services sector, has had a far more subdued recovery. In 2020, the PMIs showed the impact of the national lockdown on the economy and subsequent recovery.



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
BER	43,7	39,7	41,7	30,3	43,7	53,3	49,4	55,8	58,5	60,9	52,6	50,3	50,9	53,0	57,4
Markit	48,3	48,4	44,5	35,1	32,1	42,5	44,9	45,3	49,4	51	50,3	50,2	50,8	50,2	50,3

9. Foreign Trade

I was expecting a surplus of R20bn for 2019, while the actual surplus was R23,7bn. In 2020, the foreign trade balance has been very volatile with a record surplus followed by a record deficit and then back to a record surplus. The bottom line was that we had a record surplus of R270,6bn in 2020.



	2016	2017	2018	2019	2020
R bn	1,0	76,7	15,2	23,7	270,6

10. World Trade

Another reason for South Africa's good trade performance in 2018 was that world trade was expanding, although the trade wars between the US and China saw a subsequent pullback. On 12 December 2019, President Trump signed off on "phase one" of the trade deal between China and the US, indicating the beginning of the end of the trade tensions that have dominated global discourse for the past two years and hopefully a revival in world trade, but that hope was scuppered by the coronavirus pandemic. In May 2020, the index fell by 17,2% y/y, but there has been a rapid bounce back and in November moved back to a y/y increase. In January 2021 the index was up 5,7% y/y.

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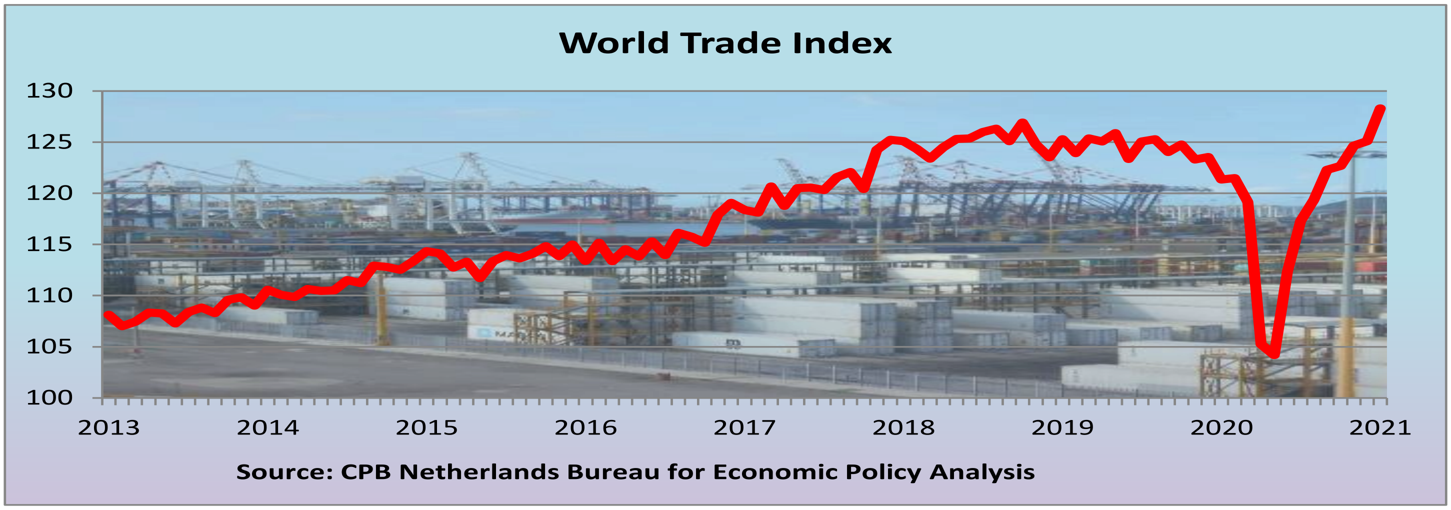
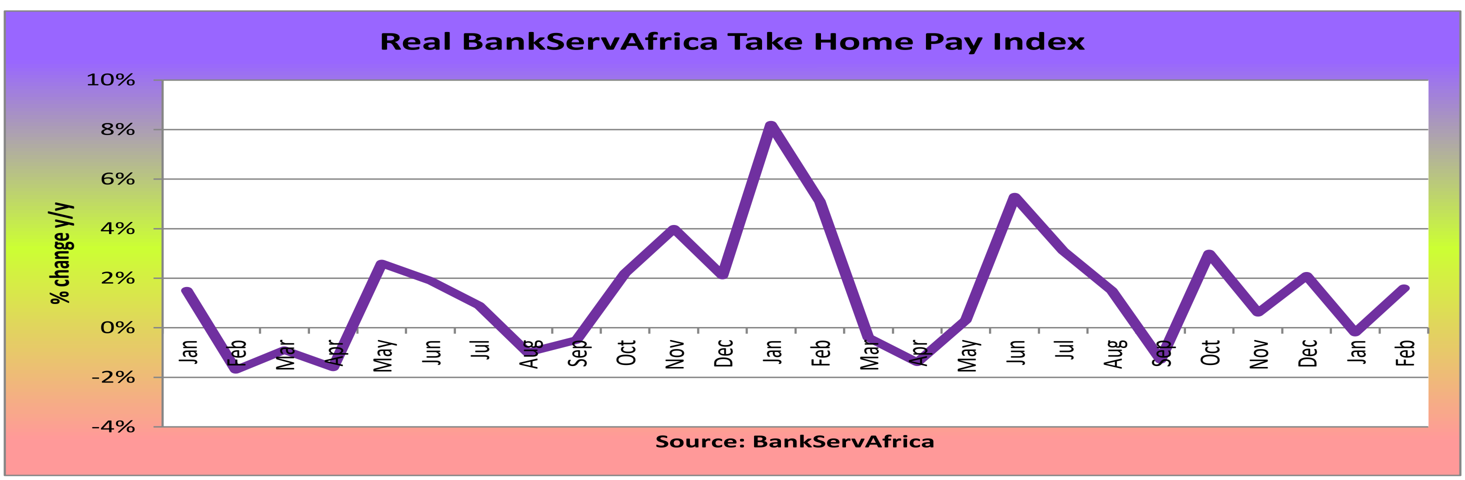


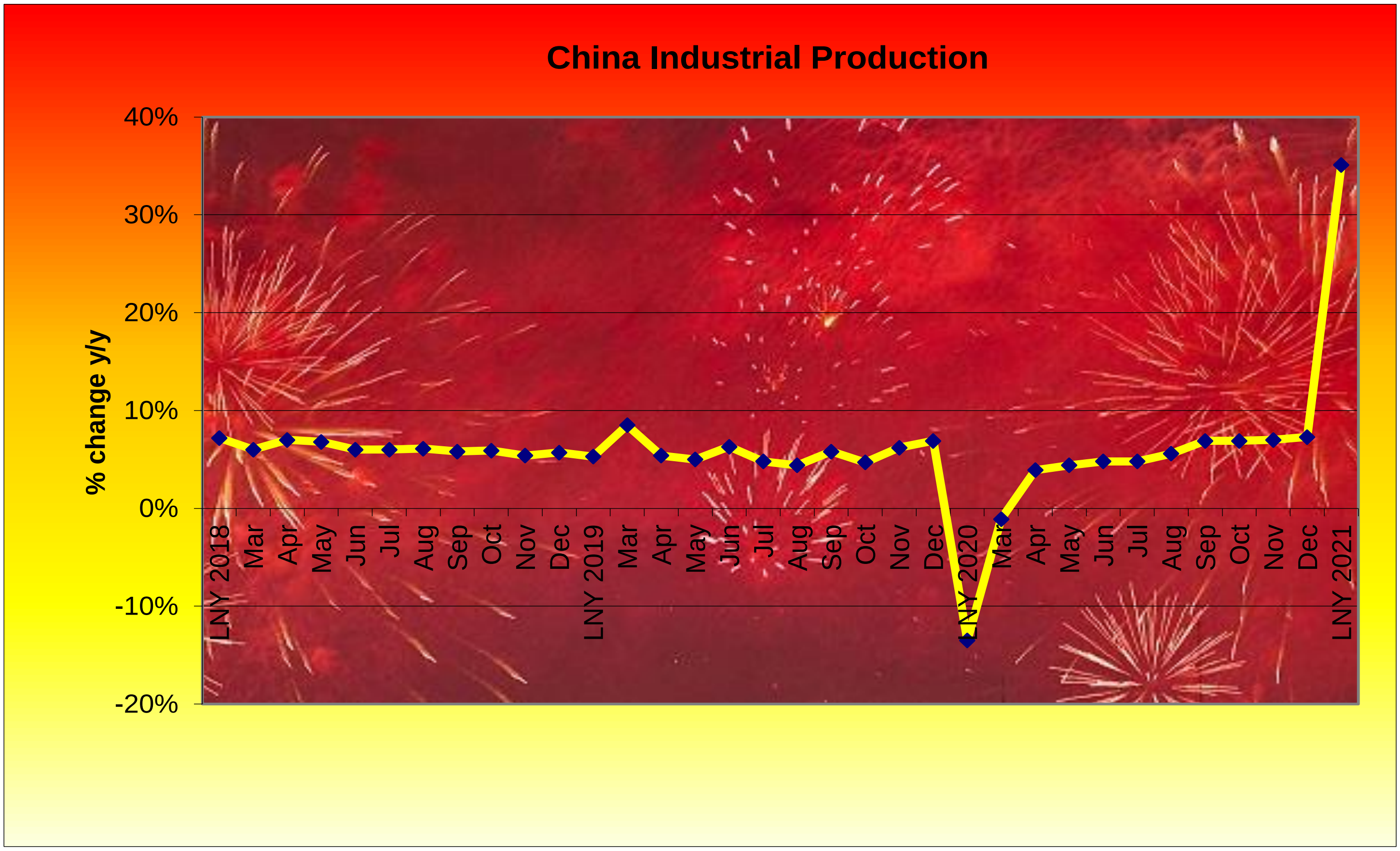
11. Take Home Pay

Real disposable income, in other words what you get to take home after tax, grew by a real 3,0% y/y in October, but that figure must be treated with caution as it does not reflect the impact on low wage jobs. The lockdown has hurt people who take home less than R10 000 per month, which includes most casual and many weekly paid employees. These type of employee numbers have declined radically, according to an analysis of the BankservAfrica data. The Covid-19 lockdown caused a massive disruption to South Africa's average take-home pay, as seen in recent months of salary data where numerous salary payments were either suspended, terminated or adjusted, so the number of weekly and monthly payments were still lower than a year ago.



12. Chinese Industrial Production

For 2017 as a whole, industrial production expanded by 6,6% from 6,0% in 2016. I was expecting a slowdown to 6,2% growth in 2018 and that is what happened. For 2019 as a whole the increase was 5,8%. In 2020, industrial production plunged by 13,5% y/y over the Lunar New Year as the government imposed a lockdown in Hubei, so base effects meant it soared by 35,1% y/y in the Lunar New Year 2021.



13. Tourism

South Africa has been hurt by xenophobia and the stronger rand, so tourism growth has fallen off drastically when compared with 2016. At the moment Tourism SA seems to be clueless on how to bring back growth from our SADC partners, as they are the largest source of international tourists. Former Tourism Minister Derek Hanekom was upbeat about 2019 prospects due to easier visa requirements and the ending of the drought in Cape Town, but so far the data has not vindicated his optimism.

When I was talking to tour operators at the Africa Travel Indaba in Durban in May 2019, they said the approach of the 8 May elections and concerns about violence had resulted in a y/y decline in the first five months, but June and July booking were up some 10% y/y. The data however did not support the optimism and in general 2019 was not that great, but compared with 2020 it will be like heaven compared with the hell the tourism is currently facing with the industry expecting a 80% collapse in tourism revenue. The actual Statistics South Africa data showed that there was 61,2% drop in revenue from tourism accommodation. In January 2021 there was a 71,2% y/y decline.

14. Merrill Lynch Fund Managers Survey

Although some analysts remain concerned about the over-valued nature of equity markets and the recent rise in US bond yields, most equity markets continued to power ahead in the first quarter 2021.

Table 1 - Market Performance

April 9, 2021	Current Price	Performance (percent)					
		1 Week	1 Mo.	COVID	1 Year	Y-T-D	2020
NASDAQ	13,900	**3.1**	6.3	41.6	70.5	7.9	43.6
S&P 500	4,129	**2.7**	6.5	21.9	48.0	9.9	16.3
FTSE 100	6,916	**2.6**	2.8	-7.3	18.4	7.0	-14.3
Dow Jones	33,801	**2.0**	6.2	15.2	42.5	10.4	7.2
S&P/TSX	19,228	**1.3**	3.4	7.3	35.7	10.3	2.2
CAC 40	6,169	**1.1**	4.1	1.0	36.9	11.1	-7.1
DAX	15,234	**0.8**	5.5	10.5	44.2	11.0	3.5
NIKKEI 225	29,768	**-0.3**	2.5	27.2	53.9	8.5	16.0
China CSI 300	5,035	**-2.4**	1.3	24.3	32.8	-3.4	27.2

This is reflected in the April 2021 Merrill Lynch Fund Managers Survey with a record 62% of fund managers being overweight equities, with technology still the key trade, despite the rotation into value. The latest monthly survey of global fund managers – which dates back to 1994 – has revealed no slip in optimism when it comes to stock markets. This reflects the positive expectations fund managers have for corporate results, the market, and the global economy.

Half of the managers believe a V-shaped post-pandemic recovery is in place, versus just 10% in May last year, while 37% think a U- or W-shaped recovery will take place, down from 75% in May last year.

Companies are also expected to deliver strong numbers, with 85% of fund managers expecting global profits to improve over the next 12-months, which will have a knock-on effect for the stock market.

Just over a third (34%) of fund managers think the S&P 500 will outperform in 2021, with the majority shrugging off concerns that valuations are too stretched on the US market – just 7% believe the market is in bubble territory, while 25% believe the market is still in an early-stage bull market and 66% think it is in a late-stage bull market.

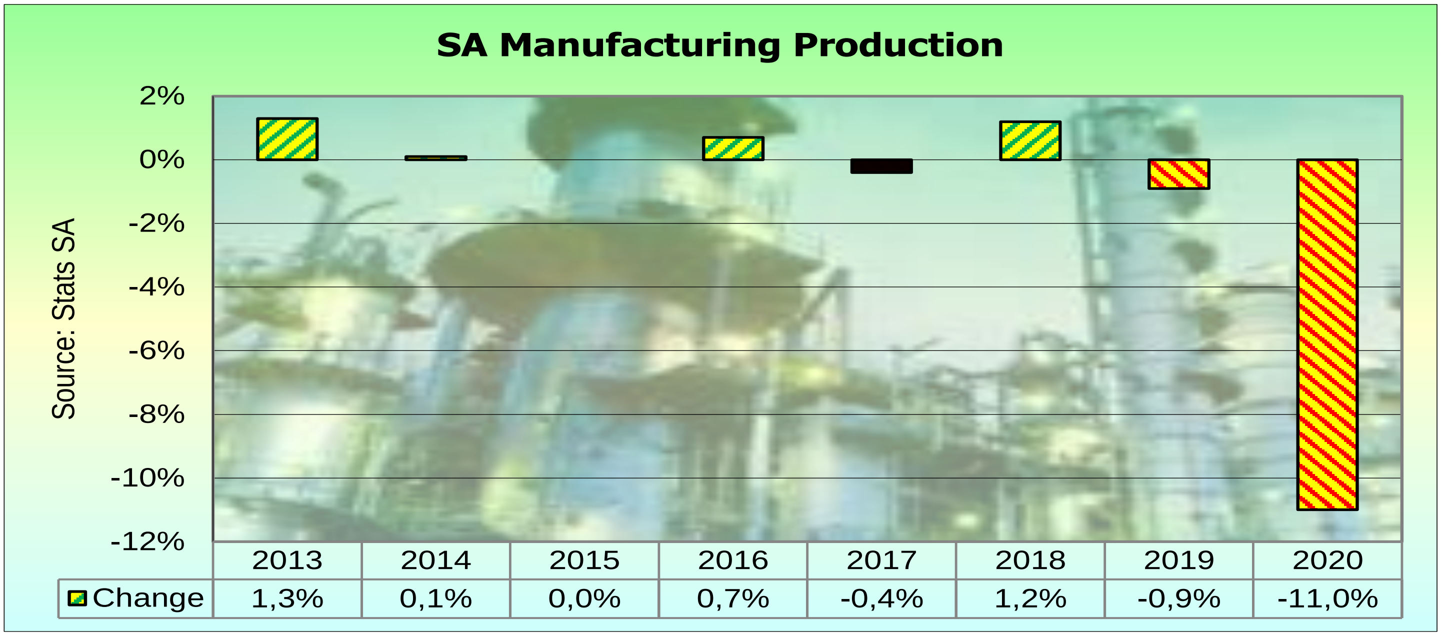
While the ‘cyclical rotation’ into value stocks still has legs, fund managers have also fallen back on growth stalwart technology. Being ‘long tech’ is still the most crowded trade at 32% of those surveyed, but this is down significantly from 80% of investors in September last year. Michael Hartnett, a strategist at Merrill Lynch, said the latest survey showed ‘investors have now reverted back to the barbell of tech and cyclicals’ and have mostly trimmed emerging markets and commodities.

Investors may continue to back equities, but this is not without risk. Covid-19 may have dropped out of the top three concerns, but investors are still having to contend with fears about the impact of a ‘taper tantrum’ in the bond markets if the US Federal Reserve tightens policy, rising inflation, and higher taxes.

Inflation and a subsequent rise in interest rates has been weighing heavily on investors’ minds and 93% of fund managers expect higher inflation over the next 12 months – an all-time high. However, they anticipate that inflation will be accompanied by an increase in growth.

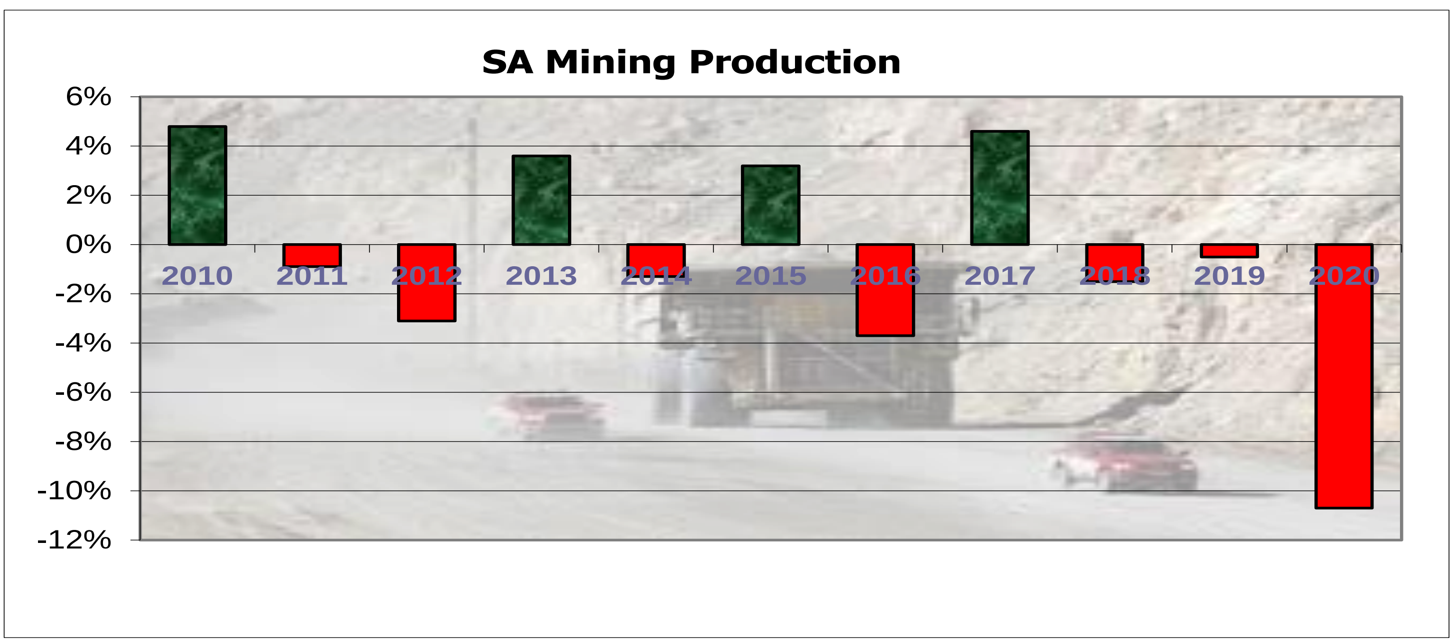
15. Manufacturing Production

Manufacturing production fell by 11,0% in 2020 after a 0,9% drop in 2019. This was nevertheless better than the 13,8% plunge in 2009. I am optimistic about manufacturing production in 2021 and expect growth to exceed 5%.



16. Mining Production

Mining production fell by 10,7% in 2020 after a 0,9% drop in 2019. This was worse than the 6,6% drop in 2009. Despite the 10,7% drop in mining production in 2020, the value of mineral sales grew by 10,4% to a record R609,8bn. This is why I am optimistic about mining production and mineral sales in 2021.



Quarterly Bulletin