



Positive first quarter economic growth raises outlook for 2021

Highlights

- South Africa's real gross domestic product (GDP) grew by 4,6% quarter-on-quarter seasonally adjusted and annualised (q/q saa) in the first quarter of 2021 from a downward adjusted 5,8% (previous 6,3%) in the fourth quarter of 2020.
- The economic growth (contraction) rate year on year (y/y) was -3,2% compared to -4,2% in the fourth quarter of 2020.
- The mining and financial sectors grew at the fastest pace of respectively 18,1% and 7,4%.
- Combined, these two sectors were responsible for more than 60% of the growth rate.
- Measured from the expenditure side, real GDP grew by 4,5% compared to 6,1% in the fourth quarter of 2020.
- A smaller drawdown in inventories and household consumption expenditure made the largest contribution to growth.
- Measured from the income side, household income recovered more than company profits in the first quarter.
- The better growth in the first quarter may very well propel economic growth for 2021 beyond 4%.

The economy continued its recovery in the first quarter of 2021, but the pace slowed

Measured from the production side, the economy grew by 4,6% (q/q sa) in the first quarter of 2021, somewhat slower than the 5,8% of the fourth quarter of 2020. The fourth quarter growth rate was adjusted downward from 6,3% due to changes in mining production initially measured too high.

The mining and financial sectors grew at the fastest pace of respectively 18,1% and 7,4% in the first quarter. The manufacturing sector, which was the star performer in the fourth quarter of 2020 with growth of 21,1%, managed growth of only 1,6% in the first quarter.

On a y/y basis the economic growth rate was -3,2% compared to -4,2% in the fourth quarter of 2020. The smaller contraction is indicative of a gradual recovery to the level of real gross domestic product (GDP) before the COVID-19 pandemic.

Measured from the expenditure side, the economy grew

4,5% q/q saa from a revised 6,1% in the fourth quarter of 2020. The y/y growth rate was -2,6% (see table 1).

Table 1: Changes in GDP measured from the production and expenditure side

| Quarter | % change | Production | Expenditure |
|---------|----------|------------|-------------|
| Q4 2020 | q/q saa | 5,8 | 6,1 |
| Q1 2021 | q/q saa | 4,6 | 4,5 |
| Q4 2020 | y/y | -4,2 | -4,6 |
| Q1 2021 | y/y | -3,2 | -2,6 |

Source: Stats SA, Momentum Investments

Measured from the income side, the rewards from production benefitted employees most opposed to shareholders/companies. Real compensation of employees was 1,0% higher compared to a year ago, while real gross operating surplus was 7,9% less than in the first quarter of 2020.

Household income and company operating profits are recovering

Compensation of employees increased faster than gross operating surplus in the first quarter of 2021 compared to a year before. Table 2 shows compensation of employees was up 3,2% and gross operating surplus by 0,9%.

Growth in compensation of employees was highest in the electricity, government and trade sectors compared to a year ago, while gross operating surplus increased most in the mining and agriculture sectors.

Compensation of employees improved to such an extent that it is even higher than a year ago when expressed in 2010 constant prices. In contrast, real gross operating surplus was still 7,9% lower compared to a year ago.

The proceeds of production are increasingly flowing to employees. Whereas real compensation of employees and real gross operating surplus were on equal terms in 2013, some 56% of real gross value added are now channelled towards compensation of employees with 44% allocated to gross operating surplus.

This development, which started about eight years ago and continued ever since, reveals a structural change in the economy and among other factors, also explains the slow growth in gross fixed capital formation.

Table 2: Income earned from production in current prices

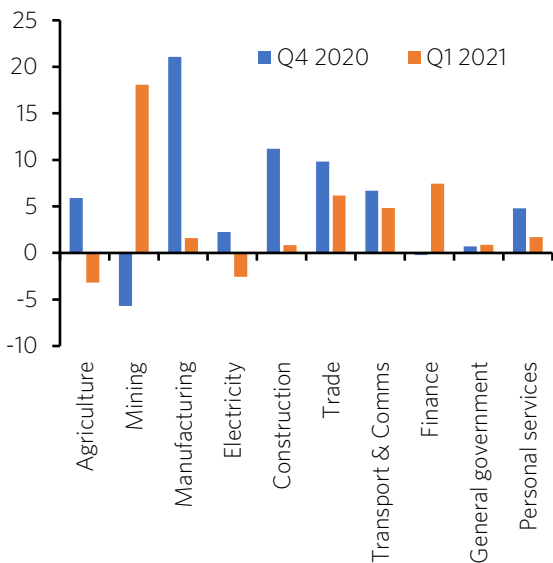
| Household income: Compensation of employees | | | | |
|---|---------|---------|--------------|---------------------|
| R million (Current prices) | Q1 2020 | Q1 2021 | y/y % change | % of total: Q1 2021 |
| Agriculture | 8 385 | 8 615 | 2.7 | 1.4 |
| Mining | 38 795 | 40 211 | 3.6 | 6.6 |
| Manufacturing | 89 956 | 90 554 | 0.7 | 14.8 |
| Electricity | 11 683 | 13 315 | 14.0 | 2.2 |
| Construction | 19 034 | 18 966 | -0.4 | 3.1 |
| Trade | 68 404 | 72 956 | 6.7 | 11.9 |
| Transport & Communication | 34 649 | 31 413 | -9.3 | 5.1 |
| Finance | 99 016 | 100 214 | 1.2 | 16.4 |
| General government | 181 334 | 192 585 | 6.2 | 31.4 |
| Personal services | 42 504 | 43 953 | 3.4 | 7.2 |
| Total | 593 760 | 612 781 | 3.2 | 100.0 |
| Company income: Gross operating surplus | | | | |
| Agriculture | 20 613 | 23 521 | 14.1 | 4.4 |
| Mining | 48 333 | 57 062 | 18.1 | 10.8 |
| Manufacturing | 53 624 | 54 742 | 2.1 | 10.3 |
| Electricity | 30 274 | 27 718 | -8.4 | 5.2 |
| Construction | 21 371 | 16 318 | -23.6 | 3.1 |
| Trade | 99 330 | 96 855 | -2.5 | 18.3 |
| Transport & Communication | 71 414 | 69 751 | -2.3 | 13.2 |
| Finance | 127 286 | 128 513 | 1.0 | 24.2 |
| General government | 27 142 | 28 731 | 5.9 | 5.4 |
| Personal services | 26 061 | 27 154 | 4.2 | 5.1 |
| Total | 525 447 | 530 366 | 0.9 | 100.0 |

Source: Stats SA, Momentum Investments

The mining and financial sectors propelled economic growth, while manufacturing faded

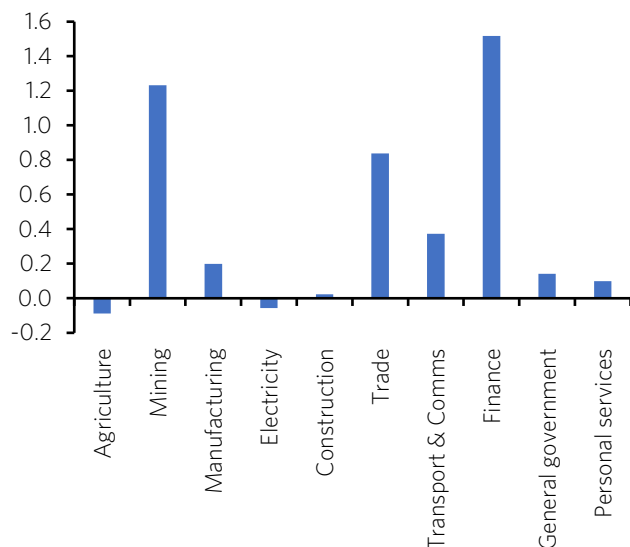
The mining sector benefitted from the opening of the world economy, growing by 18,1% q/q saa from a contraction of 5,7% q/q saa in the fourth quarter of 2020 (see chart 1). Higher demand for especially the platinum group minerals and iron ore supported mining production. Mining contributed 1,2 percentage points to the growth rate (see chart 2). On a y/y basis mining production was up 3,5%.

Chart 1: Economic growth rate by sector: q/q saa



Source: Stats SA, Momentum Investments

Chart 2: Contribution to growth in Q1 2021



Source: Stats SA, Momentum Investments

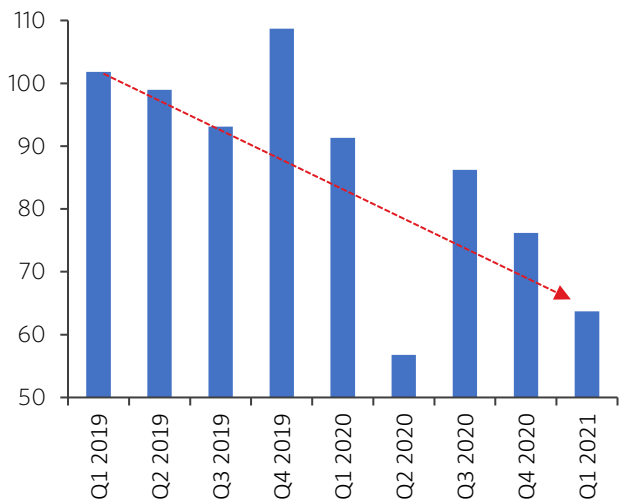
The financial sector also grew strongly by 7,4% q/q saa in the first quarter. This growth rate combined with the large

weighting meant that the financial sector contributed 1,5 percentage points to the q/q saa growth rate. Nevertheless, the financial sector was still 5,3% smaller compared to a year ago.

The trade sector also performed admirably, growing by 6,2% q/q saa, following growth of 9,8% in the fourth quarter of 2020. Production in this sector was supported by growth in compensation of employees.

The manufacturing sector, which performed strongly in the fourth quarter of 2020 with growth of 21,1% q/q saa, however faded in the first quarter of 2021, managing growth of only 1,6%. This was mainly due to a further contraction in the petroleum, chemical products, rubber and plastic products division, where the manufacturing of especially coke, petroleum products and nuclear fuel are on a sharply downward trend (see chart 3). Utilisation in production capacity in this subsector, which is mainly used for the production of energy, decreased sharply from 82,6% in November 2020 to 50,2% in February 2021.

Chart 3: Declining manufacturing in production in coke, petroleum products and nuclear fuel



Source: Stats SA, Momentum Investments

The electricity and agriculture sectors contracted in the first quarter of 2021 compared to the fourth quarter of 2020. South Africa continues to suffer from a lack of sufficient electricity, reducing the magnitude and pace of the economic recovery.

Smaller depletion of inventories made a substantial contribution to growth

Measured from the expenditure side, household consumption expenditure continued to recover. Household consumption expenditure grew by 4,7% in the first quarter of 2021, albeit slower than the 7,5% in the fourth quarter of 2020. This growth rate nevertheless means that it contributed 3,0 percentage points to the growth rate of 4,5% (see table 3).

In contrast, gross fixed capital formation (GFCF) continued on its path of contraction. GFCF contracted by 2,6% q/q saa in the first quarter of 2021 to a level 13,0% lower than a year before. It therefore subtracted 0,4 percentage points from the growth rate.

Imports of goods and services surged by 26,5% q/q saa and together with the decline of 0,9% q/q saa in exports, the external sector subtracted 7,1 percentage points from the growth rate.

Table 3: Economic growth in Q1 2021 measured from the expenditure side

| | % change y/y | % change q/q saa | Contribution to q/q saa |
|-------------------------------|--------------|------------------|-------------------------|
| Household consumption | -0.9 | 4.7 | 3.0 |
| Government consumption | 0.3 | 1.0 | 0.2 |
| Gross fixed capital formation | -13.0 | -2.6 | -0.4 |
| Change in inventories | | | 8.7 |
| Exports of goods and services | -3.7 | -0.9 | -0.3 |
| Imports of goods and services | -2.7 | 26.5 | -6.8 |
| Gross Domestic Product | -2.6 | 4.5 | |

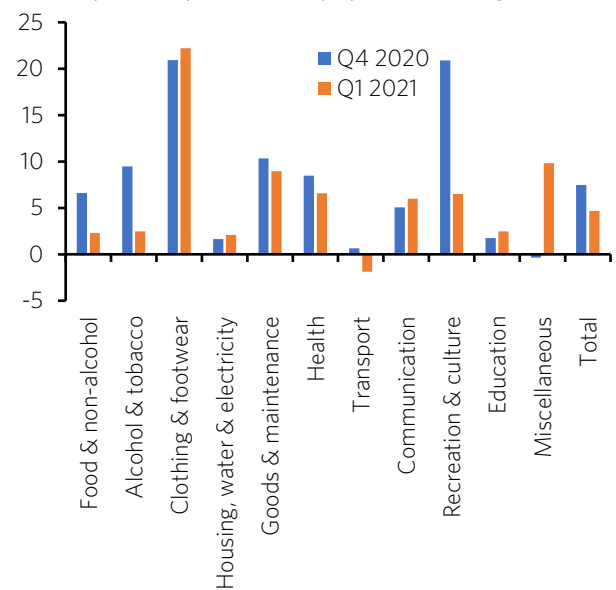
Source: Stats SA, Momentum Investments

Fortunately, the depletion of inventories declined considerably from -R115,7 billion in Q4 2020 to -R53,2 billion in the first quarter of 2021. This contributed 8,7 percentage points to the growth rate.

Within the household consumption expenditure category, spending on clothing and footwear continued to surge at a

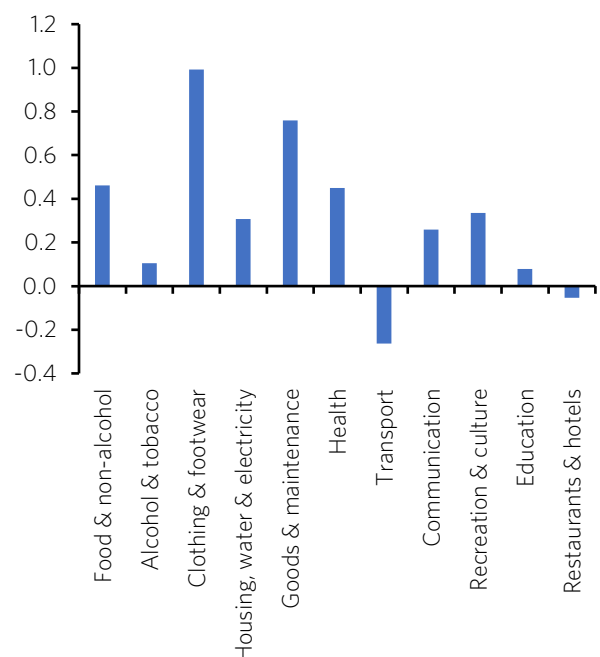
strong pace. This item grew by 22,2% q/q saa from 20,9% in the fourth quarter of 2020 and contributed 1,0 percentage point to the growth in household consumption expenditure.

Chart 4: Growth rates of selected items of household consumption expenditure (q/q saa % change)



Source: Stats SA, Momentum Investments

Chart 5: Contribution to growth in household consumption expenditure



Source: Stats SA, Momentum Investments

Within the GFCF category, the private sector on average did not continue to invest in the first quarter of 2021. Most of the fixed investments were made by the government and public corporations (see table 4). In terms of GFCF by type of asset, the pace of investment in machinery and equipment stalled to negative growth. This item therefore contributed negatively (3,8 percentage points to GFCF).

Table 4: Contribution to GFCF in Q1 2021

| | |
|-------------------------------|-------------|
| GFCF: By organisation | |
| General government | 2.5 |
| Public corporations | 1.2 |
| Private business enterprises | -6.3 |
| Total | -2.6 |
| GFCF: By type of asset | |
| Residential buildings | -2.6 |
| Non-residential buildings | 0.1 |
| Construction works | 0.5 |
| Transport equipment | -0.5 |
| Machinery & equipment | -3.8 |
| Transfer costs | 0.0 |
| Other assets | 1.2 |
| Total | -2.6 |

Source: Stats SA, Momentum Investments

Economic growth outlook for 2021

The first quarter economic growth rate of 4,5% will contribute significantly to this year's growth rate. The opening of the world economy which created more demand for exports, smaller depletion of inventories and further recovery in jobs in specifically the formal sector where most of the higher income tax paying individuals reside, should together with a low base ensure a strong economic growth rate in the second quarter of 2021.

Unfortunately, a lack of sufficient electricity and slow reforms will prevent a faster recovery. Nevertheless, should the current international and domestic economic environment continue for the rest of the year and vaccinations against the COVID-19 pandemic accelerate henceforth, the economic growth rate may well exceed 4% in 2021.

In addition, nominal GDP growth and high external trade prices increase the outlook for higher tax collections. Coupled with better collections, the fiscal deficit is on track to be smaller than estimated by national treasury.

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