



Economic growth bouncing from low lockdown base

Highlights

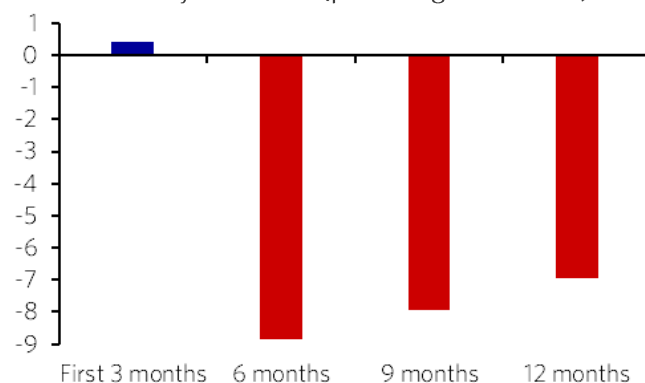
- The South African economy contracted by 7% in 2020 compared to 2019.
- In the fourth quarter of 2020 the economy grew 6,3% quarter-on-quarter seasonally adjusted and annualised (q/q saa) following an upwardly revised 67,3% in the third quarter of 2020.
- Agriculture and general government were the only sectors that made positive contributions to economic growth in 2020.
- The manufacturing sector made the largest contribution to economic growth in the fourth quarter of 2020 (2,4 percentage points), followed by trade (1,3 percentage points).
- Company operating profits and household income recovered further in the fourth quarter.
- Measured from the expenditure side, the economy grew 6,5% in the fourth quarter of 2020 from an upwardly revised 68,1% in the third quarter.
- Exports, household expenditure and inventory accumulation contributed most to economic growth in the fourth quarter.
- Given the partial closure of the economy during the first two months of the first quarter of 2021, the quarterly growth rate is expected to level off.
- The outlook for 2021 is moderately promising at this stage, with growth of around 3,4% expected.

The economy contracted by 7% in 2020, supported by fourth quarter growth

The South African economy contracted by 7% in 2020. On a q/q saa basis, the economy grew at a pace of 6,3% in the fourth quarter of 2020 (from 67,3% in the third quarter). However, year-on-year (y/y), the economy contracted 4,1% in the fourth quarter.

The economy recovered in the second half of 2020 following a weak positive y/y growth rate of 0,4% (revised up from 0,1%) in the first quarter, and a sharp contraction of 17,8% in the second quarter. This meant that at the end of the first half of 2020 the economy was 8,8% smaller compared to the first half of 2019. However, quarter-on-quarter seasonally adjusted (unannualised) growth rates of respectively 16,8% and 1,6% in the third and fourth quarters reduced the size of the annual contraction (see figure 1).

Figure 1: Cumulative year-on-year comparison of the size of the economy with 2019 (percentage difference)



Source: Stats SA; Momentum Investments

Household income and company operating profits are recovering

When level 5 lockdown was instituted on 26 March 2020, households and companies lost income due to not being able to work and produce to the extent they used to. Compensation of employees declined by R37,4 billion in the second quarter of 2020 from the first quarter, while companies' gross operating surplus was R96,6 billion lower (see table 1).

Compensation of employees increased by R41,6 billion in the third quarter of 2020 from the previous quarter and by another R44,1 billion in the fourth quarter compared to the

third quarter of 2020. Compensation of employees for 2020 was, despite the recovery in the second half of 2020, still R28,5 billion lower than in 2019.

From a company profit perspective, the gross operating surplus increased by R108,3 billion in the third quarter of 2020 and R11,1 billion in the fourth quarter of 2020. However, for the year, the gross operating surplus was R65,3 billion lower than in 2019.

Table 1: Gross Domestic Product measured from the income side

Household income: Compensation of Employees							
R' million (Current prices)	Quarter-on-Quarter change				Year-on-year change	Percentage change (y/y)	Percentage of total
	Q1 2020	Q2 2020	Q3 2020	Q4 2020	2020	2020	2020
Agriculture	856	298	-186	-733	963	3,0	1,4
Mining	-5 487	-4 948	2 206	7 884	-10 769	-6,6	6,4
Manufacturing	-14 300	-12 175	14 709	11 098	-13 980	-3,7	15,2
Electricity	-2 176	265	545	931	-517	-1,0	2,1
Construction	-5 162	-2 072	1 811	4 016	-8 911	-10,3	3,2
Trade	-13 666	-7 381	8 690	11 164	-7 047	-2,5	11,7
Transport & Communication	-5 758	-4 439	1 346	2 874	-18 127	-12,2	5,5
Finance	-1 688	-7 178	5 309	1 342	-3 408	-0,9	16,2
General government	-3 045	4 330	2 758	4 740	33 648	4,7	31,3
Personal services	498	-4 140	4 411	781	-381	-0,2	7,0
Total	-49 929	-37 440	41 599	44 096	-28 529	-1,2	100,0
Company income: Gross Operating Surplus							
Agriculture	16 376	12 485	-7 458	-18 731	22 935	3,0	4,2
Mining	-13 065	-10 538	28 799	989	7 333	-6,6	10,8
Manufacturing	-478	-20 186	29 697	-3 779	-10 823	-3,7	10,3
Electricity	8 070	2 357	-1 487	-7 544	-5 669	-1,0	5,8
Construction	4 492	-6 868	291	-2 849	-23 135	-10,3	3,1
Trade	-10 861	-33 144	31 035	15 245	-22 993	-2,5	18,4
Transport & Communication	-5 503	-20 107	17 053	6 149	-27 511	-12,2	13,0
Finance	73	-16 861	7 988	18 487	-6 339	-0,9	24,2
General government	109	-180	1 217	188	3 465	4,7	5,4
Personal services	204	-3 531	1 148	2 900	-2 603	-0,2	4,8
Total	-584	-96 571	108 282	11 055	-65 341	-1,2	100,0

Source: National Treasury, Momentum Investments

Manufacturing production and exports outperformed in the fourth quarter of 2020

The manufacturing sector grew at the strongest pace, namely 21,1%, in the fourth quarter compared to the third quarter (q/q saa), followed by the construction and trade sectors which grew at respectively 11,2% and 9,8%. Transport and communication expanded by 6,7% and personal services by 4,8% from the third quarter of 2020. The performance of personal services is encouraging as it is an indication of small-scale entrepreneurial activities getting back on track (see figure 2).

Due to their relative larger sizes, the manufacturing and trade production sectors made the largest contributions to the fourth quarter q/q saa growth rates (see table 2).

Measured from the expenditure side, gross domestic product (GDP) grew by 6,5% (slightly more than the 6,3%

on the production side). Exports expanded most at a rate of 26,6% in the fourth quarter of 2020, followed by gross fixed capital formation and household consumption expenditure which registered growth rates of respectively 12,1% and 7,5%. Consumption expenditure of general government grew at a pace of 1,1%.

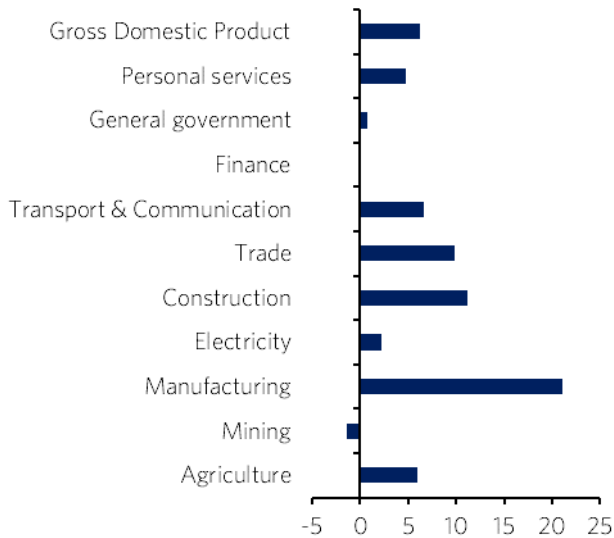
As table 2 shows, exports and household consumption expenditure made the largest contributions to the fourth quarter economic growth rate of 6,5%. On the positive side, inventory accumulation increased as the change in inventories made a four percentage point contribution to the economic growth rate. Imports, which grew at a pace of 52,4% in the fourth quarter, however, deducted 11,4 percentage points from the economic growth rate.

Table 2: Contribution to GDP growth in the fourth quarter of 2020 and full year: Production and Expenditure

Percentage contribution	Fourth quarter 2020	Full year 2020
Production: GDP growth rate	6,3	-7,0
Agriculture	0,2	0,3
Mining	-0,1	-0,8
Manufacturing	2,4	-1,4
Electricity	0,0	-0,1
Construction	0,3	-0,7
Trade	1,3	-1,3
Transport & Communication	0,5	-1,3
Finance	-0,1	-0,9
General government	0,1	0,1
Personal services	0,3	-0,1
Total value added at basic prices	4,9	-6,1
Taxes less subsidies	1,3	-0,8
Expenditure: GDP growth rate	6,5	-7,1
Households	4,7	-3,4
General government	0,2	0,1
Gross fixed capital formation	1,9	-3,4
Change in inventories	4,0	-2,6
Exports of goods and services	7,0	-3,0
Imports of goods and services	-11,4	5,1

Source: Stats SA, Momentum Investments

Figure 2: Economic growth rates in the fourth quarter of 2020 (q/q saa)



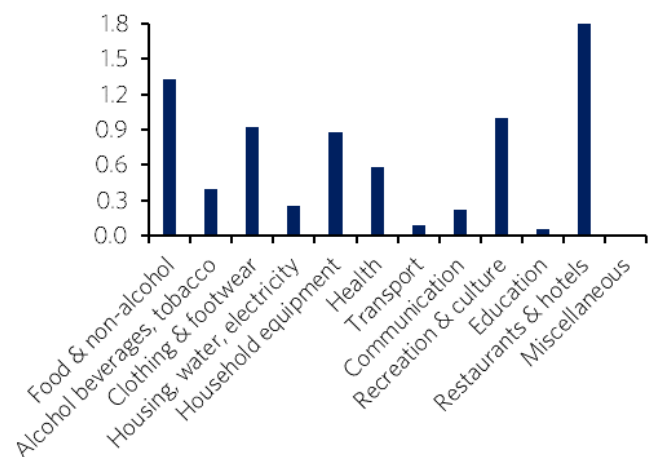
Source: Stats SA, Momentum Investments

Restaurants and hotels again recovered strongly in the fourth quarter of 2020

The growth in compensation of employees supported household consumption expenditure which grew at a pace of 7,5% in the fourth quarter of 2020. This also brought some relief to the restaurant and hotel sector in the fourth quarter of 2020. From an extremely low base this sector grew at a q/q saa rate of 7 569,6% in the third quarter of 2020, followed by 217,9% in the fourth quarter of 2020. These extreme growth rates are an indication of how hard this sector was hit by lockdown. Restaurants and hotels made the largest contribution (1,8 percentage points) to the household consumption expenditure growth rate.

Both purchases of clothing and footwear and spending on recreation and cultural activities increased at a pace of 20,9% in the fourth quarter of 2020. Spending on food and non-alcoholic items grew by 6,6% and that on alcohol and tobacco products by 9,5%. Figure 3 shows the contributions to the fourth quarter household consumption expenditure growth rate of 7,5%.

Figure 3: Percentage point contribution to household consumption expenditure growth in the fourth quarter of 2020



Source: Stats SA, Momentum Investments

Inventories declined most in the mining sector, while investment in transport equipment dominates

Inventory declines of R89, 8 billion (in real terms) occurred in 2020. The deaccumulation was especially evident in the mining sector, where drawdowns of R52,5 billion (in real terms) happened. Together with deaccumulation of R28,9 billion in the trade, catering and accommodation sector, these two sectors were responsible for 91% of inventory drawdowns in 2020.

Some inventory build-up occurred in the fourth quarter of 2020, showing q/q saa growth of 4% from a contraction of 21,7% in the third quarter of 2020.

Gross fixed capital formation increased at a pace of 12,1% in the fourth quarter of 2020, building on a strong performance of 26,9% in the third quarter of 2020.

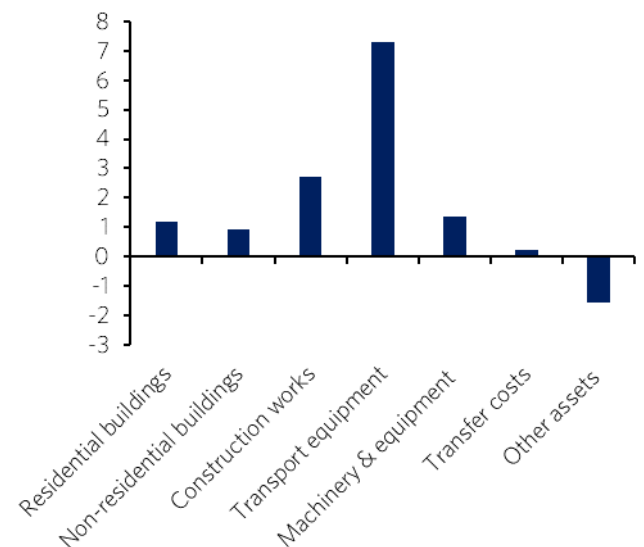
Gross fixed capital formation was supported by especially strong growth in transport equipment, which grew at a pace of 97,1% in the fourth quarter of 2020, contributing more than half (7,3 percentage points) to the growth in gross fixed capital formation (see figure 4).

Growth outlook for 2021

The economy contracted by R219.2 billion in 2020 compared to 2019, despite a strong recovery in the third quarter of 2020 and moderate growth in the fourth quarter. This large contraction will play a significant role in terms of base effects which in itself should support growth in 2021.

Indications from various sources (such as tax collections in January 2021 from individuals and companies, as well as value added tax and the fuel levy) show that economic activity is still increasing. In addition, employment is still growing, which in itself is an indication of accelerating economic activity.

Figure 4: Percentage point contribution to gross fixed capital formation in the fourth quarter of 2020



Source: Stats SA, Momentum Investments

Inventories, which decreased sharply in 2020, are already in an accumulation phase, as shown by the fourth quarter economic growth statistics. At this stage, our estimates point to a reasonable economic growth rate of around 3,4% in 2021.

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