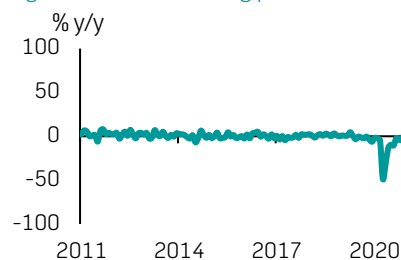


# Economics Weekly.



## Manufacturing and mining sectors key growth drivers this year

Figure 1: Manufacturing production



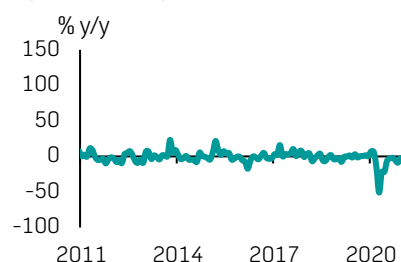
Source: EconoStat, Stats SA

Next week's release of monthly production data for May will be critical in the context of the ongoing third wave of Covid-19 and load-shedding. While May production data broadly precedes the tighter lockdown restrictions, it would have been affected by load-shedding.

The government implemented level 2 lockdown restrictions on 31 May and level 3 on 16 June. These were less restrictive and mainly focused on regulating large gatherings.

Under the current level 4 lockdown, implemented on 27 June, most sectors can operate at full capacity (while observing Covid-19 protocols) bar non-essential establishments such as restaurants, bars and fitness centres. This compares favourably to last year's level 4, wherein only a few sectors could operate at full capacity. We estimate that the economy was operating at around 60% capacity during that time and thus created an extremely low base for most indicators. This is currently reflected in wide fluctuations in year-on-year growth rates in 2Q21. For instance, due to the pandemic-induced low base in 2Q20, manufacturing and mining production posted substantial growth of 87.9% y/y and 116.5% y/y respectively in April this year. While base effects should still reflect in the upcoming May production data, they should ultimately diminish in the second half of the year.

Figure 2: Mining production



Source: EconoStat, Stats SA

As a result, we expect manufacturing production to have posted growth of around 40% y/y in May, a moderation from April's print. Meanwhile, mining production likely posted growth of 30% y/y. Our estimation shows that such growth would imply seasonally adjusted manufacturing and mining production growth of 1.7% m/m and 3.9% m/m respectively. This will be critical for 2Q21 real GDP growth, which we currently expect at around 2.7% q/q seasonally adjusted and annualised, lower than the 4.6% q/q for 1Q21.

Despite the ongoing third wave and level 4 restrictions, we still expect manufacturing and mining sectors to drive the cyclical growth rebound in 2021. The recent manufacturing PMI survey outcomes point to better monthly performance in manufacturing production over the near term. The high-frequency mining production data shows that mining activity has surpassed pre-lockdown levels, supported by prior easier restrictions relative to the current restrictions and the ongoing global economic recovery, which has boosted demand for mining commodities. At this stage, we see balanced risks to our below-consensus 4.1% growth forecast for 2021.

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## Weekly highlights

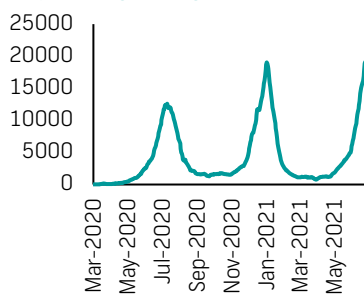
### SA's official foreign exchange reserves

South Africa's foreign exchange reserves rose to \$54.47 billion in June, up from \$54.14 billion in May and \$53.69 billion in April. This was the highest level of reserves since January 2021 and the rise was mainly on higher foreign currency deposits received, following the New Development Bank's loan to government. SA's foreign exchange swaps also matured. These developments were offset by a stronger dollar and lower dollar-denominated gold price. The level of import cover (i.e. the value of gross international reserves relative to the value of merchandise imports as well as services and income payments), had measured 5.9 months in 1Q21 (and 7.3 months in 2020).

### The third wave of Covid-19 infections intensifies

The third wave of Covid-19 infections continues to intensify, with the seven-day moving average having surpassed the peak of the second wave. At 19 956 on 8 July, the seven-day moving average was 4.8% higher than the peak of the second wave and 18% higher w/w. There were 22 956 new cases of Covid-19 infections reported on 8 July, and cumulative cases stood at 2 135 246. The impact (even if limited relative to last year) of the ongoing third wave and level 4 restrictions on GDP growth outcomes is also significant. While most businesses can operate at full capacity during the current level 4 restrictions, productivity may be impacted by increased infections, isolations (i.e. absence from work) and hospitalisations. The government is expected to review (and possibly adjust) lockdown restrictions biweekly. At this stage we do not expect an upward adjustment to broadly stringent restrictions. However, the extension of the current lockdown is possible.

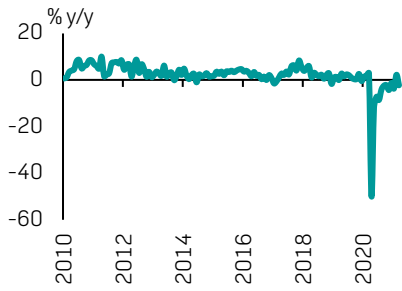
Figure 3: SA daily Covid-19 infections (7-day moving average)



Source: Department of Health, FNB Economics

## Week ahead

Figure 4: Retail sales



Source: EconoStat, Stats SA

**Retail sales** data will be published on Wednesday. The low base in April 2020 translated to retail sales volumes (not seasonally adjusted) growing strongly by 95.8% y/y in April, following a 2.3% y/y decline in March. Seasonally adjusted retail sales declined by 0.8% m/m in April after declining by 4.5% m/m in March, marking a poor start to the second quarter and dampening prospects for 2Q21 real GDP growth relative to 1Q21. We expect the continued monetary policy accommodation stance and tax relief measures provided at the February 2021 Budget Speech to remain broadly supportive of retail sales. However, the slack in the labour market implies that the overall recovery will be protracted.

## The key data in review

Date	Country	Release/Event	Period	Act	Prev
5 Jul	SA	Economy-wide PMI	Jun	51.0	53.2
7 Jul	SA	Gross reserves (\$ billion)	Jun	54.47	54.14
	SA	Net reserves (\$ billion)	Jun	51.37	52.24

## Data to watch out for this week

Date	Country	Release/Event	Period	Survey	Prior
12 Jul	SA	Manufacturing production m/m	May		-1.2%
	SA	Manufacturing production NSA y/y	May		87.9%
13 Jul	SA	Mining production m/m	May		0.3%
	SA	Mining production NSA y/y	May		116.5%
14 Jul	SA	Retail sales m/m	May		-0.8%
	SA	Retail sales NSA y/y	May		95.8%

## Financial market indicators

Indicator	Close	1W	1M	1Y
All Share	65 243.50	-2.0%	-3.5%	16.8%
USD/ZAR	14.34	-0.7%	5.7%	-15.3%
EUR/ZAR	16.99	-0.6%	2.8%	-11.5%
GBP/ZAR	19.77	-0.5%	2.9%	-7.4%
Platinum US\$/oz	1 078.97	-0.7%	-7.4%	26.9%
Gold US\$/oz	1 802.83	1.5%	-4.8%	-0.3%
Brent US\$/barrel	74.12	-2.3%	2.6%	71.2%
SA 10-year bond yield	8.88	-0.7%	2.3%	-8.3%

## FNB SA Economic Forecast

Economic Indicator	2018	2019	2020f	2021f	2022f	2023f
Real GDP % y/y	0.8	0.2	-7.0	4.1	2.2	1.4
Household consumption expenditure % y/y	1.8	1.0	-5.4	3.6	1.4	1.6
Gross fixed capital formation % y/y	-1.4	1.1	-17.5	-4.8	3.2	3.2
CPI (average) % y/y	4.6	4.1	3.3	4.2	4.1	4.5
CPI (year end ) % y/y	4.5	4.0	3.1	4.4	4.0	5.0
Repo rate (year end) % p.a.	6.75	6.50	3.50	3.75	4.25	4.25
Prime (year end) % p.a.	10.25	10.00	7.00	7.25	7.75	7.75
USD/ZAR (average)	13.25	14.40	16.50	14.40	14.20	14.80

Source: FNB

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