OXFORD ECONOMICS

THE ECONOMIC IMPACT OF THE BEER SECTOR IN SOUTH AFRICA

SAB The South African Breweries

BEER ASSOCIATION OF SOUTH AFRICA

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FOREWORD

We are excited to report that, for the first time in years, we have a holistic view of the beer industry's economic impact in South Africa. This report compiled by Oxford Economics, gives us a holistic view of the economic impact of the entire beer sector in the country. This is a new and unique opportunity to put weight behind the socio-economic footprint of the beer industry in South Africa in a technically sound way.

While many previous studies exist showing our socioeconomic impact in part, none have ever attempted a rigorous, coherent estimate of our impact with the same metrics at the same point in time. What is apparent from the report is the positive role that beer plays in the South African economy. We have learned things we suspected, but never previously had data to verify: brewing is a highly productive activity, with spillovers of human capital into the wider economy. It underpins jobs and GDP throughout South Africa, both upstream and downstream.

Using data from 2015-2019, the report concluded that 1 in every 66 jobs in the country has been linked to economic activity arising from beer, amounting to 249 000 jobs in total. The beer sector supported R71bn gross value added (GVA) contribution to South Africa's GDP in 2019, and R1 for every R79 of GDP in South Africa was linked to the economic activity from beer that year, meaning the beer sector helped stimulate about 1.3% of the South African economy. This a just a few of a number of compelling stats that highlight our economic impact from brewing to distribution, procurement, sales and marketing.

At a moment when South Africa's economy seems to be on the cusp of recovering, our socio-economic footprint highlights our potential to invigorate the economy by leading and growing our category. Beer matters, for the economy, job creation, and the success of a wide array of partners up and down our value chain. We have a mission to get South Africans to see beer differently. Our aim is to leverage our role in the economy to continue to responsibly contribute to our communities and society and build this country forward. This report strengthens the foundation to move that vision forward.

Richard Rivett-Carnac
SAB Chief Executive Officer (CEO)

INTRODUCTION

A significant number of people cooperate across multiple sectors in South Africa to make and distribute beer to consumers in the country—and elsewhere in the world where South Africa is part of the value chain. That includes South Africans who grow raw materials like barley and hops, manufacture beer packaging, brew beer, transport beer, and sell beer at shops, restaurants, and entertainment venues. It also includes people in South Africa who contribute indirectly, by supplying specialised equipment and services to beer manufacturers and distributors, as well as to companies in the beer sector's wider supply chain.

In this report we assess the important role that beer plays in the South African economy in 2019.[1] We quantify this role in terms of the gross value added contribution to GDP, jobs, and tax revenues supported by the beer sector.[2] This assessment spans three channels of impact: the economic activity generated at beer manufacturers' and distributors' operational sites (direct impact), economic activity stimulated by beer manufacturers and distributors buying inputs of goods and services from third party suppliers (indirect impact), and further activity supported in the consumer economy when the beer sector pays wages to its employees (induced impact).

KEY TAKEAWAYS

Beer manufacturers supported the South African economy through...		Selling beer to consumers, retail and hospitality outlets stimulated...		In 2019, we estimate that beer supported a total contribution of...
R 63 bn GVA contribution to GDP	+	**R 8.4 bn** GVA contribution to GDP	=	**R 71 bn** total GVA contribution to GDP
181,000 jobs supported	+	**68,000** jobs supported	=	**249,000** total jobs supported
R 13 bn in tax payments to the government	+	**R 31 bn** in tax payments to the government	=	**R 43 bn** in tax payments to the government

The largest share of the impact of beer in South Africa's economy arises from beer manufacturers making and selling beer locally. However, we also quantify the economic activity that occurs because South African businesses export beer, as well as materials, products, and services that are consumed, used to make beer, or used in other parts of the supply chain that is stimulated by the beer sector in other countries.[3]

[1] The study relies on 2019 data (instead of 2020) because of the distortions caused by COVID-19. The effects of the pandemic mean that 2019 is more representative of a normal year for the beer sector. In addition, the analysis for this report was conducted in USD, and the values have been converted to R throughout at an exchange rate of 1 USD = 14.45 R.
[2] Gross domestic product (GDP) is the most commonly used metric to describe the size and health of an economy. It is the total value of final goods and services produced in the economy within a year. After adjustments for taxes and subsidies, the sum of all gross value added created by all firms and industries in an economy is equal to GDP. Gross value added for an individual beer manufacturer, beer distributor, retailer, or hospitality firm is equal to the revenue it generates in a year less the cost of the bought-in goods and services used up to generate that revenue.

[3] The global beer sector, for the purposes of this report, comprises the beer manufacturers and distributors in South Africa and 69 other countries that, together, make up 89% of global beer sales.

BEER SECTOR'S TOTAL IMPACT IN SOUTH AFRICA

In 2019, we estimate that beer supported a R 71 billion gross value added (GVA) contribution to South Africa's GDP.[4] This contribution represented about 1.3% of the South African economy, or R 1 in every R 79 of GDP produced in South Africa in 2019.[5]

R1 in every R79 of GDP

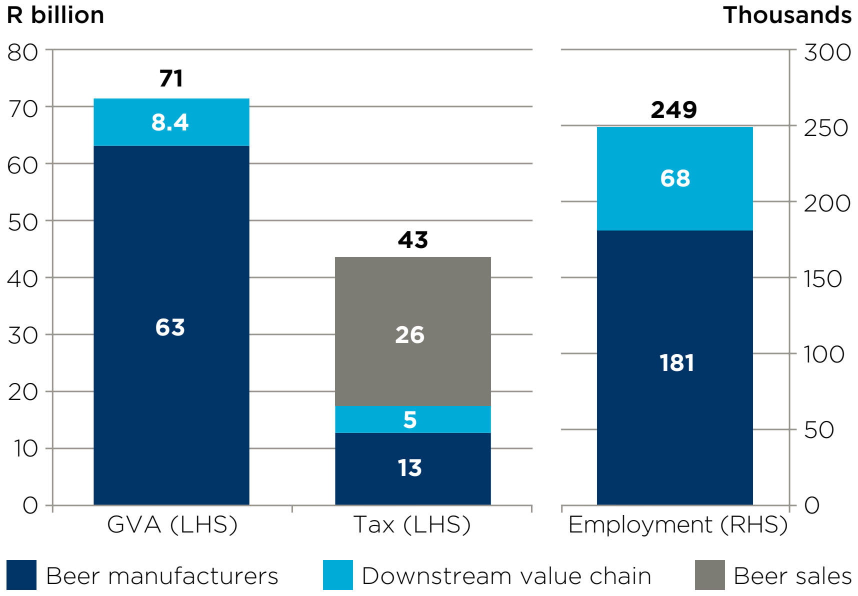
The beer sector was linked to R 1 in every R 79 of GDP in South Africa.

The magnitude of that impact is equivalent to 25% of all the GVA created in the city of Pretoria in 2019.[6] Of this, we estimate that the process of making beer by beer manufacturers supported R 63 billion (88% of the total contribution), while the remaining R 8 billion (12% of the total) was supported by beer's downstream activities of transporting and selling beer.

9 ×

On average, beer manufacturers' employees were around nine times as productive as the average South African worker.

Total GVA, employment and tax supported by the beer sector in South Africa, 2019



Source: Oxford Economics

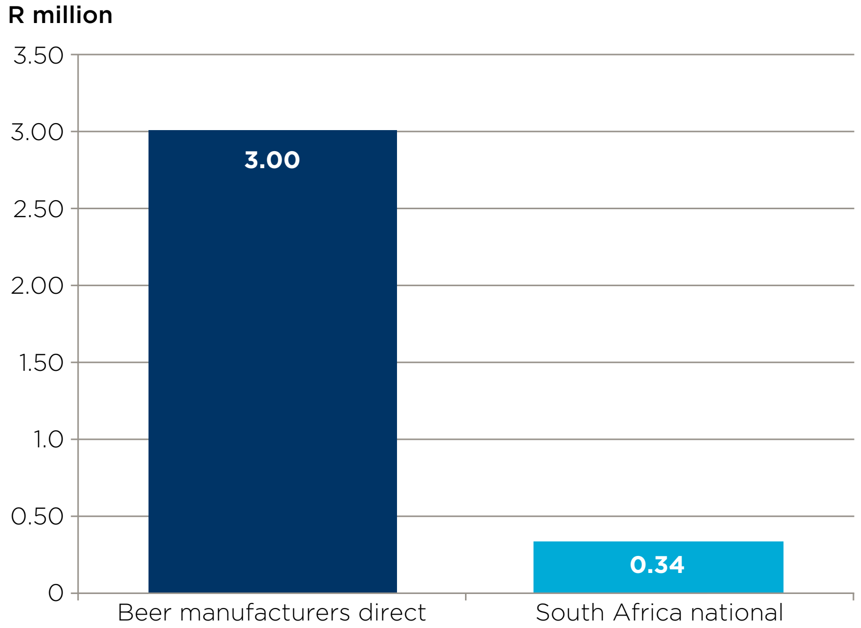
The high productivity of beer manufacturers in the South Africa was an important driver of the beer sector's GVA contribution to GDP. On average, we estimate that each employee at a South African beer manufacturer generated a R 3 million GVA contribution to GDP in 2019.

This was almost nine times the productivity of the average South African worker (at R 340,000 per worker). While this productivity is important to beer manufacturers themselves, it also has benefits for the wider economy. When highly productive employees interact with others in the economy – whether through a supply chain relationship, in business meeting, or by moving jobs – their knowledge and techniques can spread to other businesses, increasing average productivity in the economy overall. This is valuable because productivity is the only mechanism that can sustainably increase wages and therefore living standards over the long-run.

Together, beer manufacturers and retailers supported an estimated 249,000 jobs in South Africa in 2019. This is around 1.5% of all jobs in South Africa, or one in 66 jobs in the country.[7] The employment was similar in magnitude to 67% of employment in Port Elizabeth.[8] Some 181,000 jobs were supported by beer manufacturing (73% of the total jobs supported), whilst the remaining 68,000 jobs were supported by downstream transportation and retail activities (27% of the total jobs supported).

[4] Individual figures may not always sum to totals due to rounding.
[5] GDP was R 5.6 trillion in South Africa in 2019.
[6] GDP was R 290 billion in Pretoria in 2019.
[7] There were 16.3 million jobs in South Africa in 2019.
[8] Employment was 370,000 in Port Elizabeth in 2019.

Productivity (GVA per worker) at South African beer manufacturers compared to national average



Source: Oxford Economics

1 in every 66 jobs

The beer sector was linked to 1 in every 66 jobs in South Africa in 2019.

The beer sector is also important for government revenues in South Africa. In 2019, the tax payments directly remitted or stimulated by the South African beer sector totalled R 43 billion; of this, R 26 billion (or 60% of the total tax contribution) is estimated to have come from sales tax and excise duties from beer sales.

BEER MANUFACTURERS' IMPACT IN SOUTH AFRICA

By marketing and brewing beer, beer manufacturers themselves have an important impact on South Africa's economy. In 2019, beer manufacturers' total economic contribution amounted to R 63 billion in GVA contributions to GDP, more than 180,000 jobs, and R 13 billion in tax revenues. This is equal to 1.1% of South African GDP, 1.1% of national employment, and 1.0% of government revenue, respectively.

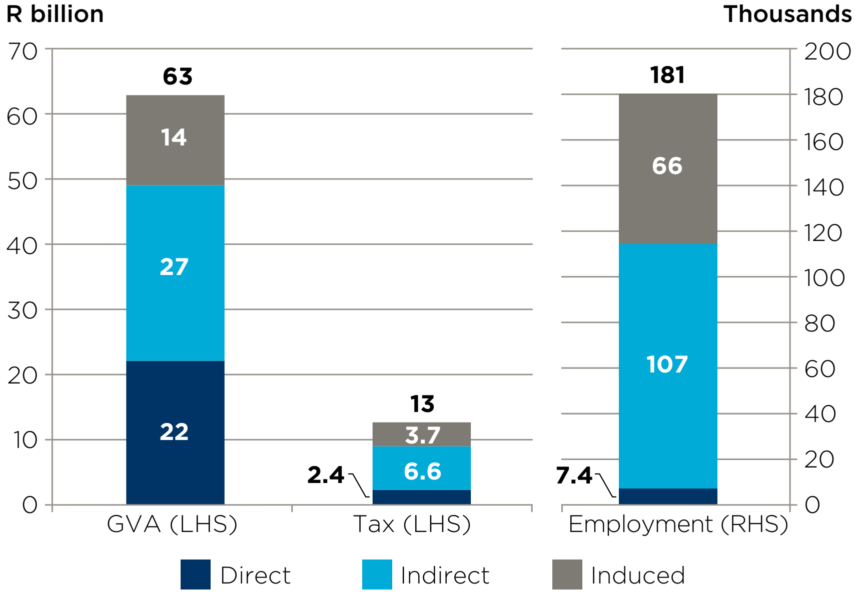
We estimate that by brewing beer, South African beer manufacturers directly generated a R 22 billion GVA contribution to South Africa's GDP, provided 7,400 jobs, and made R 2.4 billion worth of tax payments in 2019.

Beer manufacturers procure a large amount of goods and services in South Africa. This procurement means beer manufacturers stimulate a substantial indirect impact in the country.

R 33 billion in procurement

R 33 billion in goods and services bought by beer manufacturers from South African companies.

Total GVA, employment, and tax supported in South Africa by beer manufacturers, 2019



Source: Oxford Economics

In 2019, extrapolating from data provided by four major beer manufacturers indicate that beer manufacturers as a group, both domestic and international, bought R 33 billion worth of goods and services from South African companies. Of the total procurement in South Africa by beer manufacturers, the vast majority, R 32 billion (or 97%), was purchased by South African beer manufacturers; another R 1.1 billion (3%) worth of South African goods and services were exported to overseas beer manufacturers.

Of the total procurement in South Africa R 33 billion by beer manufacturers, business services providers (such as accountants, engineers, marketers, and legal services providers) benefitted from R 7.6 billion worth of payments (or 23% of beer manufacturers' total purchases), followed by mineral product manufacturers including those that make cans (R 6.7 billion, or 20%), and then transportation and storage firms (R 6.7 billion, or 20%). We estimate that through this procurement, beer manufacturers supported R 27 billion in GVA contributions to South Africa's GDP, 107,000 jobs, and R 6.6 billion in tax revenue.

Finally, the beer sector pays a large amount of wages, which further stimulates economic activity, jobs and taxes within South Africa. Through this wage-induced channel of impact, we estimate that in 2019 beer manufacturers supported R 14 billion in GVA contributions to GDP, 66,100 jobs, and R 3.7 billion in tax revenue.

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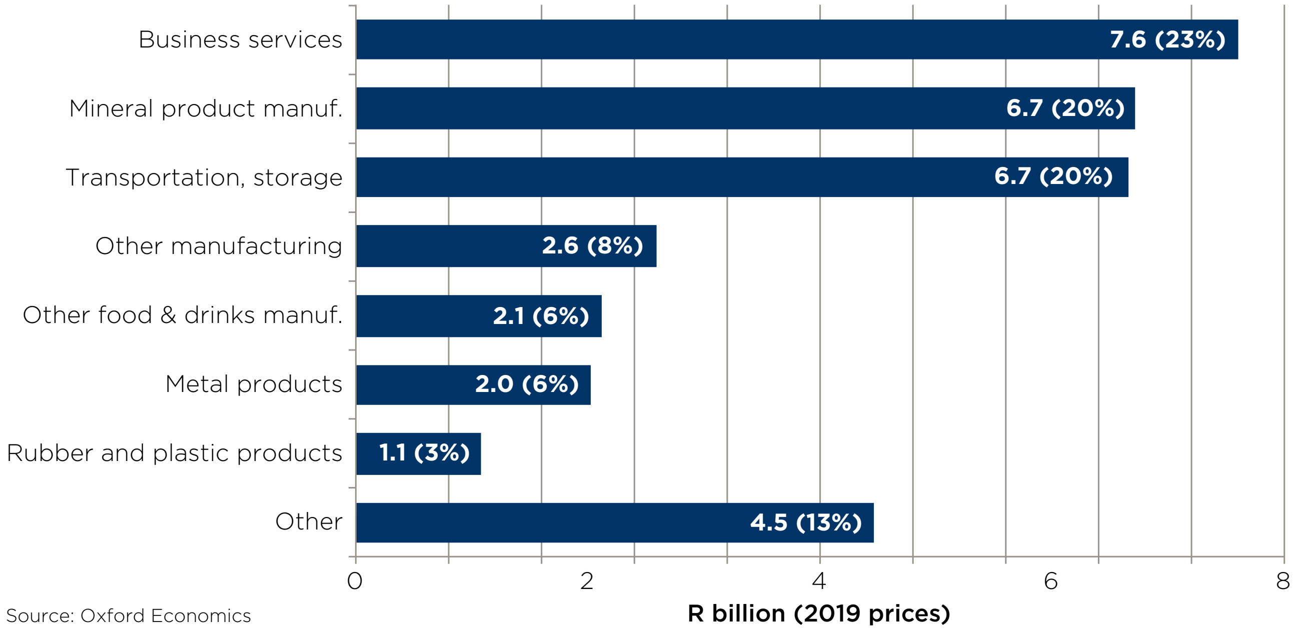
Beer manufacturers' procurement from South African suppliers[9]



Source: Oxford Economics

[9] Other food & drinks manufacturing refers to non-beer food and drinks manufacturing (a category that includes things like adjuncts, bulk water, carbonates, flavour, and yeast).

BEER DISTRIBUTORS, RETAILERS, AND HOSPITALITY SECTOR'S IMPACT IN SOUTH AFRICA

As the consumer-facing portion of the beer sector, beer's downstream value chain is responsible for a large amount of economic activity. Beer's downstream value chain is comprised of wholesalers, retailers, restaurants, bars, pubs, clubs, sports arenas, and other hospitality venues that sell beer to final consumers. In total, the retail and hospitality sector sold R 73 billion worth of beer to consumers in South Africa in 2019.

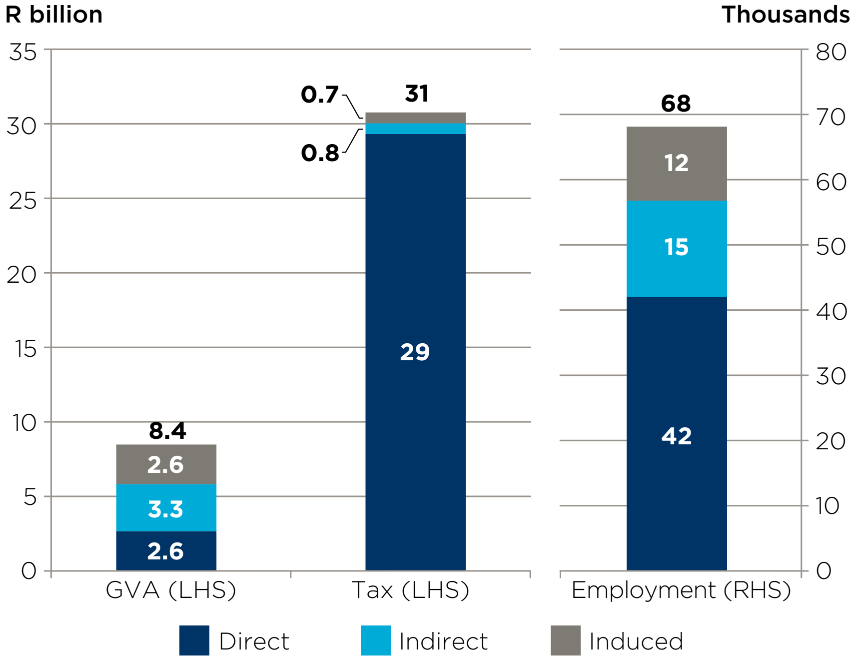
The retail and hospitality sector directly generated a substantial share of the total impact. We estimate that the direct economic contribution from selling beer to consumers in South Africa amounted to R 2.6 billion in GVA in 2019. The service of transporting and selling beer is labour intensive, which creates a large number of jobs in the downstream value chain; thus, we estimate that the downstream value chain generated 42,000 jobs in 2019. In addition, beer's downstream value chain generated R 29 billion in tax payments to the South African government.[10]

The retail and hospitality sector supports further economic activity by buying goods and services from South African suppliers. We estimate that firms involved in the selling and transporting of beer bought R 3.3 billion worth of goods and services from South African firms in 2019. Through the indirect channel of impact, we estimate that, in 2019, beer's downstream value chain supported R 3.3 billion in gross value added, 15,000 jobs and R 0.8 billion in taxation in South Africa.

R 73 billion

The beer sector sold R 73 billion worth of beer to final consumers in South Africa in 2019.

Total GVA, employment, and tax supported by the global beer distributors, retailers, and hospitality in South Africa, 2019



Source: Oxford Economics

The total GVA contribution by the downstream value chain—including direct, indirect, and induced impacts—amounted to an estimated R 8.4 billion in South Africa in 2019. This is equivalent to 0.2% of South African GDP. The jobs supported by beer's downstream value chain totalled 68,000, or about 0.4% of South African employment. Finally, the tax revenue generated by beer's downstream value chain helped raise R 31 billion, about 2.3% of government revenue.

[10] This figure includes beer sales taxes worth R 26 billion.

Additional economic activity is stimulated in South Africa because the retail and hospitality sector pays staff wages and supports wage payments in the supply chain. Through the induced channel of impact, we estimate that a R 2.6 billion GVA contribution to GDP, 12,000 jobs, and R 0.7 billion in tax revenue were supported by beer's downstream value chain in South Africa in 2019.

As the figures show, the downstream value chain is an important source of jobs. To put these figures into perspective, the direct employment in the downstream value chain of 42,000 jobs means that for every job at a South African beer manufacturer there were six jobs directly employed in South Africa's downstream value chain. When we consider the downstream activities and the upstream supply chain (i.e., the direct and indirect channels), we see that 22 jobs are supported for every job at a South African beer manufacturer. Including the consumer economy (the induced channel) means that this number rises to 33 jobs for every job at a beer manufacturer.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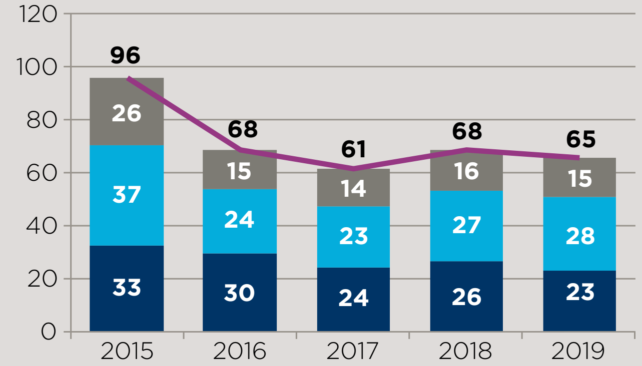
ANNEX

The following charts show how the beer sector's economic impact has evolved in South Africa between 2015 and 2019. The first set of charts shows the direct, indirect, and induced impact in terms of GVA, jobs, and tax revenue for both beer manufacturers and distributors; the second set isolates the impact beer manufacturers supported, and the third set shows the impact that distributors stimulated.

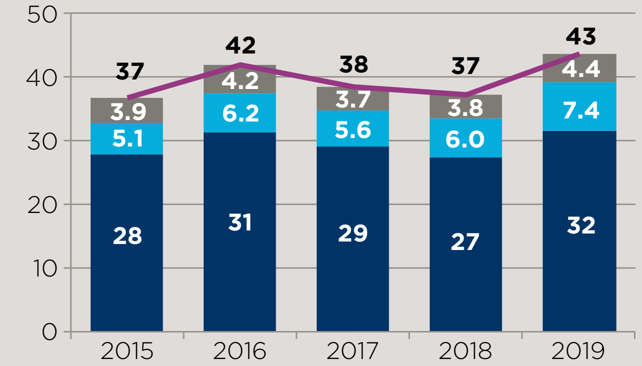
Evolution of global beer's economic contribution in South Africa, 2015-2019

Direct Indirect Induced Total

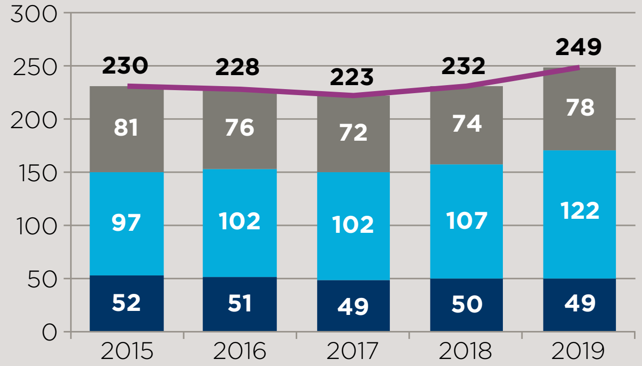
GVA, R billion (2019 prices)



Tax, R billion (2019 prices)



Employment, thousands of jobs

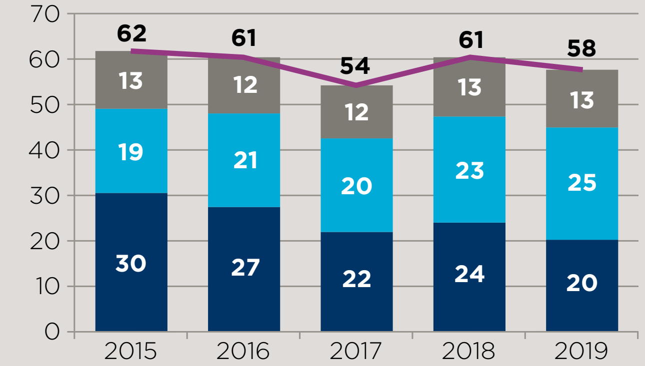


Source: Oxford Economics

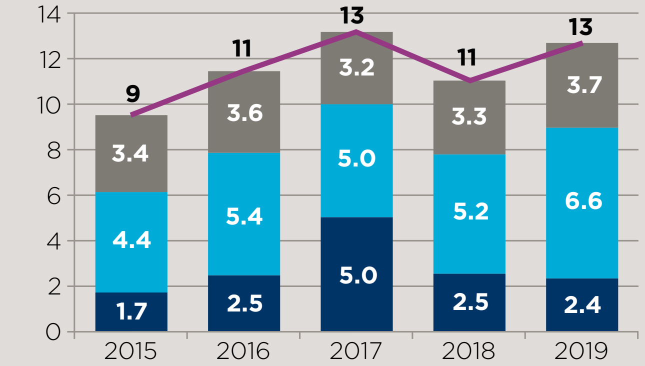
Evolution of the beer manufacturers' economic contribution in South Africa, 2015-2019

Direct Indirect Induced Total

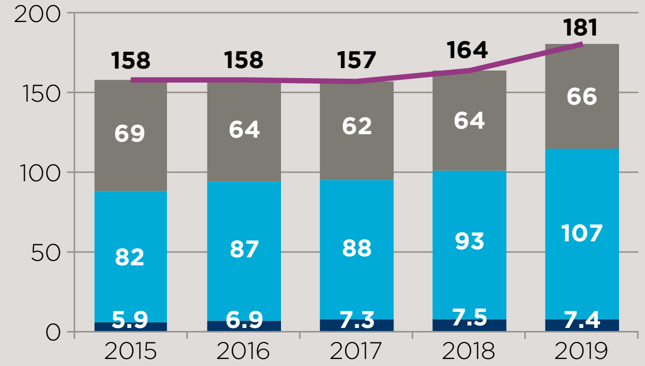
GVA, R billion (2019 prices)



Tax, R billion (2019 prices)



Employment, thousands of jobs

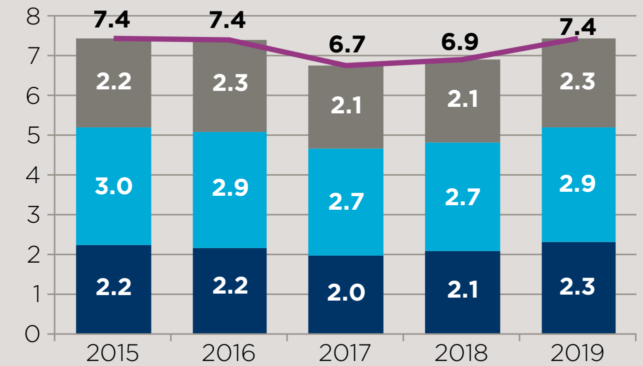


Source: Oxford Economics

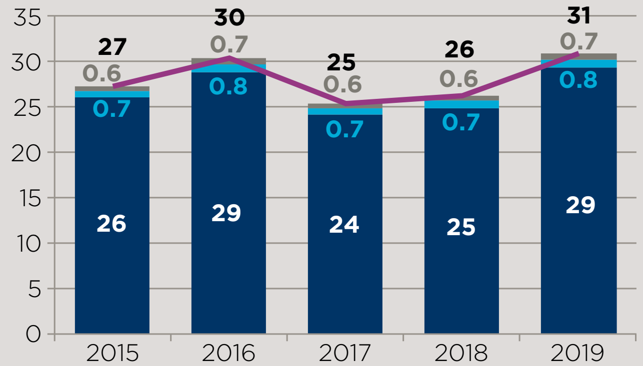
Evolution of the downstream value chain's economic contribution in South Africa, 2015-2019

Direct Indirect Induced Total

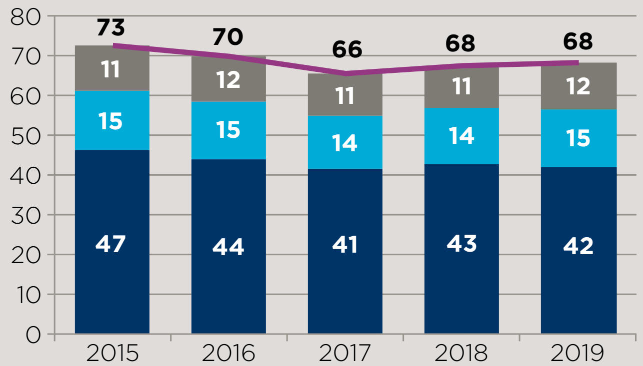
GVA, R billion (2019 prices)



Tax, R billion (2019 prices)



Employment, thousands of jobs



Source: Oxford Economics

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This report pertains to the entire beer sector in South Africa. The analysis was facilitated by data provided by AB InBev, Carlsberg Group, Heineken, and Molson Coors Beverage Company, as well as data collected by Oxford Economics. This report may not be published or distributed without AB InBev's prior written permission.

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