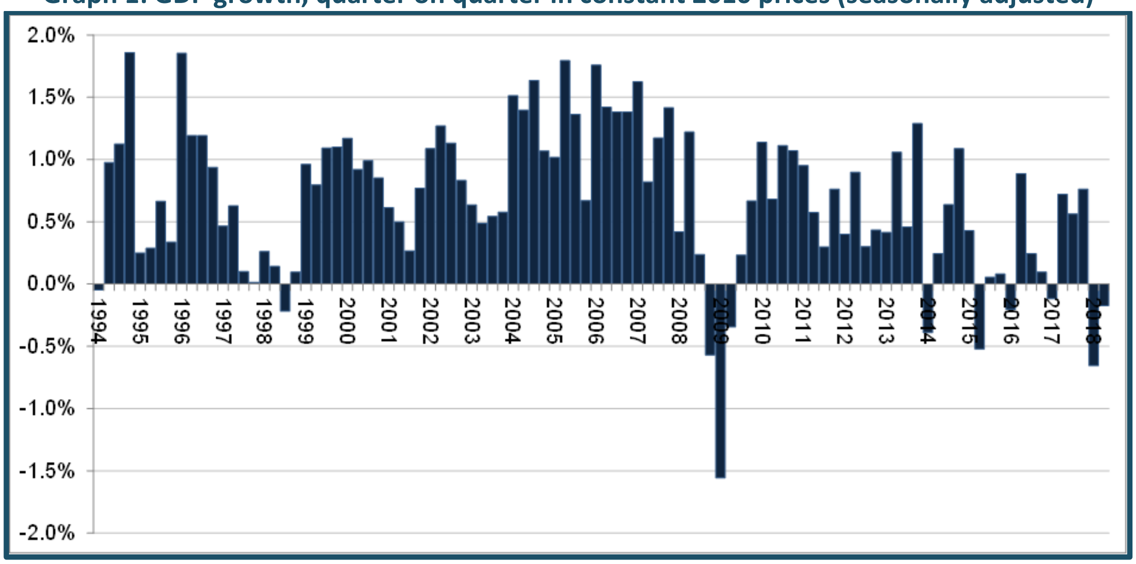
Note: The REB uses actual, not annualised, rates for GDP figures. Most reporting on quarterly growth in the GDP follows a convention of increasing the actual rate fourfold, which is how much the economy would grow if the quarterly growth rate persisted over the entire year – which almost never happens. This kind of reporting gives an exaggerated impression of the impact of GDP growth in a single quarter.

GDP growth

South Africa's GDP shrank by an estimated 0.17% in the second quarter of 2018. Excluding agriculture, however, the economy essentially stagnated over the quarter. Mining expanded by 1.2%, while manufacturing and the rest of the economy excluding agriculture remained essentially unchanged. The second quarter of reported decline in the GDP means that the economy officially entered a recession. More important, however, is that growth has been slow and uneven since 2014.

Growth in the South African economy remained precarious and slow in the second quarter of 2018, with a contraction of 0.17% in the economy as a whole. This continues a trend of slow and unstable growth that started in 2014, as Graph 1 shows. The instability emerges in the sharp divergence between a relatively strong expansion in the last three quarters of 2017, followed by contraction in the past two quarters. As a result, in the past 12 months or the year to June 2018, the GDP actually grew by 1.3% – the fastest rate since 2015 – when compared to the previous year due to relatively robust growth reported in the last two quarters of 2017.

Graph 1: GDP growth, quarter on quarter in constant 2010 prices (seasonally adjusted)



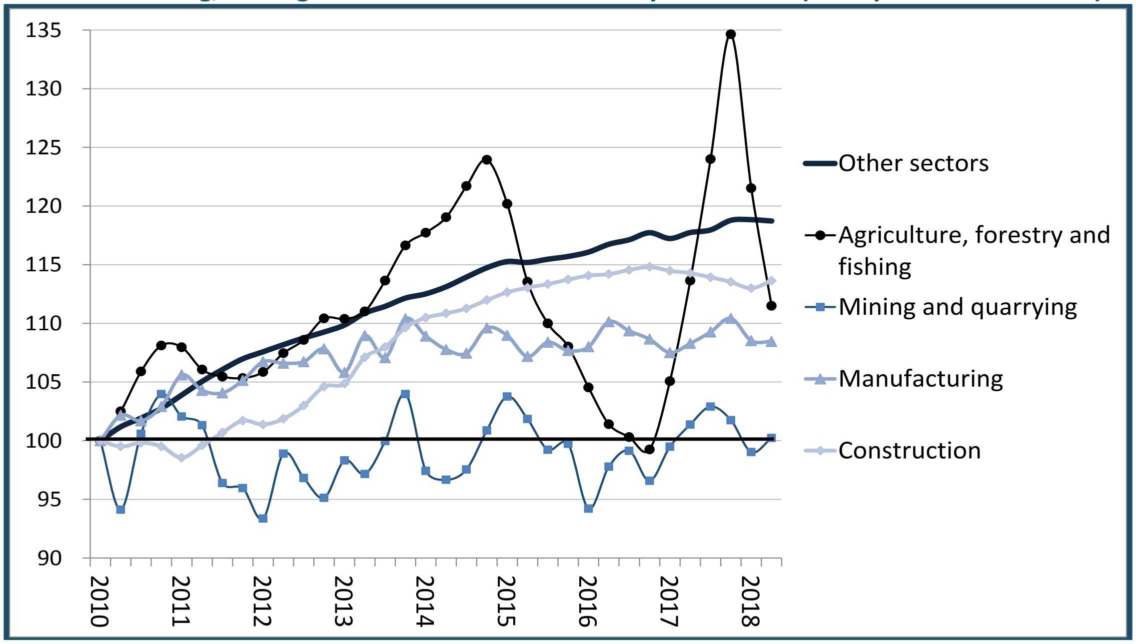
Source: StatsSA GDP quarterly figures. Excel spreadsheet downloaded www.statssa.gov.za in August 2018.

The technical recession mainly reflected fluctuations in agriculture. A greater concern is the longer-term slowdown since 2014. It results from five longer-term developments.

- The end of the commodity boom in 2011. The boom had powered relatively rapid growth based on mining exports from 2002 to 2012. The end affected both mining, the main export industry, and metals refineries, which have long been central to South African manufacturing.
- The rapid increase in electricity prices. Particularly in the 1990s, low-cost, coal-fuelled electricity encouraged energy-intensive metals refineries, notably in aluminium and steel production. In many cases, these plants are no longer viable at the higher electricity price, leading to substantial loss of capacity and jobs.
- The slowdown in public spending and investment, as the government battled to reduce the deficit after the stimulus package implemented from 2009 in response to the global financial crisis. The deficit peaked at peak at 5.3% of the GDP in 2013; it fell gradually to just under 4% in 2016/7; but in 2017/8 it climbed to 4.5% again, largely due to a drop in VAT revenue (See Graph 1 in *Briefing Note: Responding to the slowdown*).
- The visible weakening in government institutions in recent years undermined a key attraction of South Africa for both domestic and foreign investors. Corruption in South Africa remains moderate compared to many countries – but clean, sound and responsible government was a central selling point for investors in the democratic era, and that has now been eroded. Moreover, the institutional challenges that remain around the state-owned companies and the South African Revenue Service (SARS) have constrained government spending by slowing down major investments and cutting into revenues.
- Given slow overall growth, the decline in agriculture due to the national drought in 2015 and the Western Cape drought in 2017/8 had disproportionate effects on overall economic growth. The growing uncertainty around weather reflects the impact of climate change, pointing to further challenges for the future.

The economic decline in the second quarter of 2018 was almost exclusively due to a reported 8.3% fall in agricultural production for that quarter alone. Graph 2 indicates the extraordinary volatility of reported agricultural growth compared to the rest of the GDP since the 2015 drought. It also shows that mining has been essentially flat since 2010, while manufacturing levelled out in 2013. The rest of the economy grew reasonably steadily, although increasingly slowly, until the last quarter of 2017. In the three quarters since then, it has contracted by 0.4%.

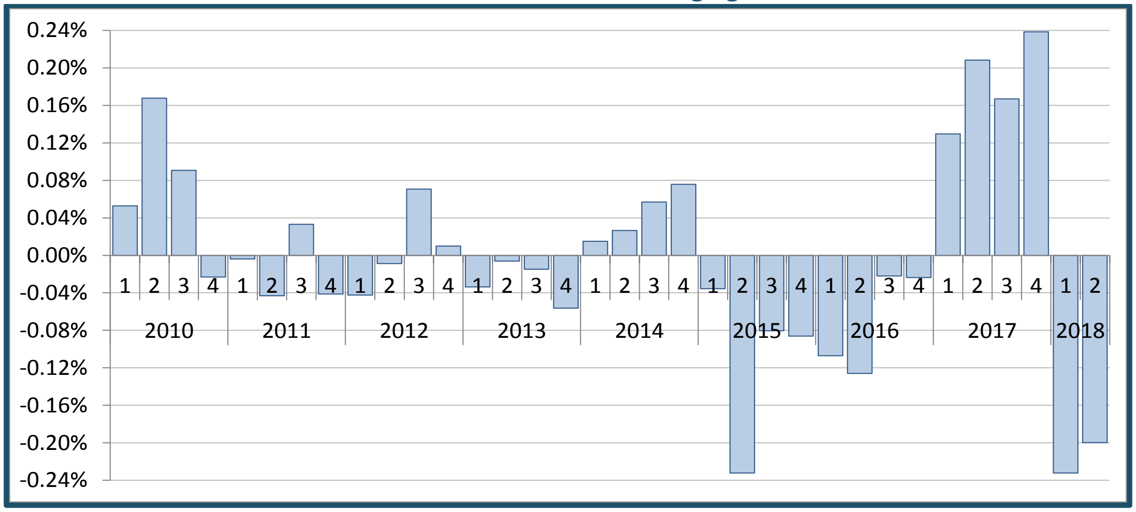
Graph 2. Indices of quarterly seasonally adjusted economic growth for agriculture, manufacturing, mining and the rest of the economy from 2010 (first quarter 2010 = 100)



Source: StatsSA GDP quarterly figures. Excel spreadsheet downloaded www.statssa.gov.za in August 2018

As Graph 3 shows, fluctuations in agricultural production have had a significant impact on GDP growth since 2015, even though the sector accounts for only 2% of the national economy. In part, the disproportionate influence of farming on GDP data reflects the extraordinarily sharp swings reported in its value add quarter on quarter. In part, it results because of slow growth across the rest of the economy, which means large changes in agriculture often make the difference between overall growth and decline.

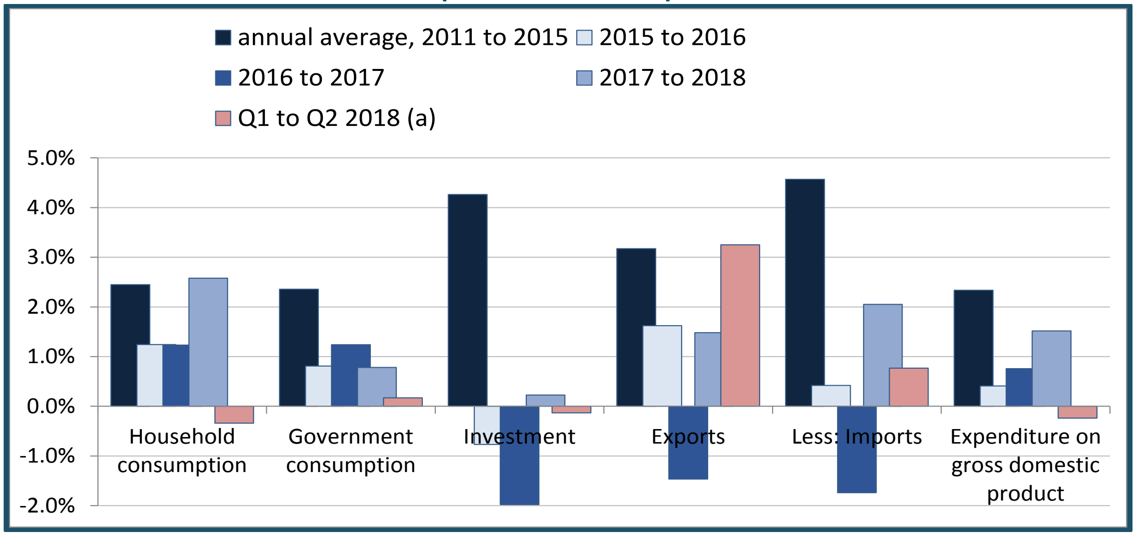
Graph 3: Difference in quarterly, seasonally adjusted growth between the GDP as a whole and the GDP excluding agriculture



Source: StatsSA GDP quarterly figures. Excel spreadsheet downloaded www.statssa.gov.za August 2018

On the expenditure side, the reported fall in the GDP in the second quarter of 2018 was driven by a R14 billion decline in inventories, and to a lesser extent by a fall in household consumption. Statistics South Africa did not publish a sectoral breakdown of inventories for the quarter. Investment also turned negative, while growth in government consumption slowed sharply. The decline in investment in the second quarter was entirely due to the public sector, as discussed in the section on investment below. A surge in exports was not sufficient to offset these negative factors, especially as it was accompanied by some growth in imports.

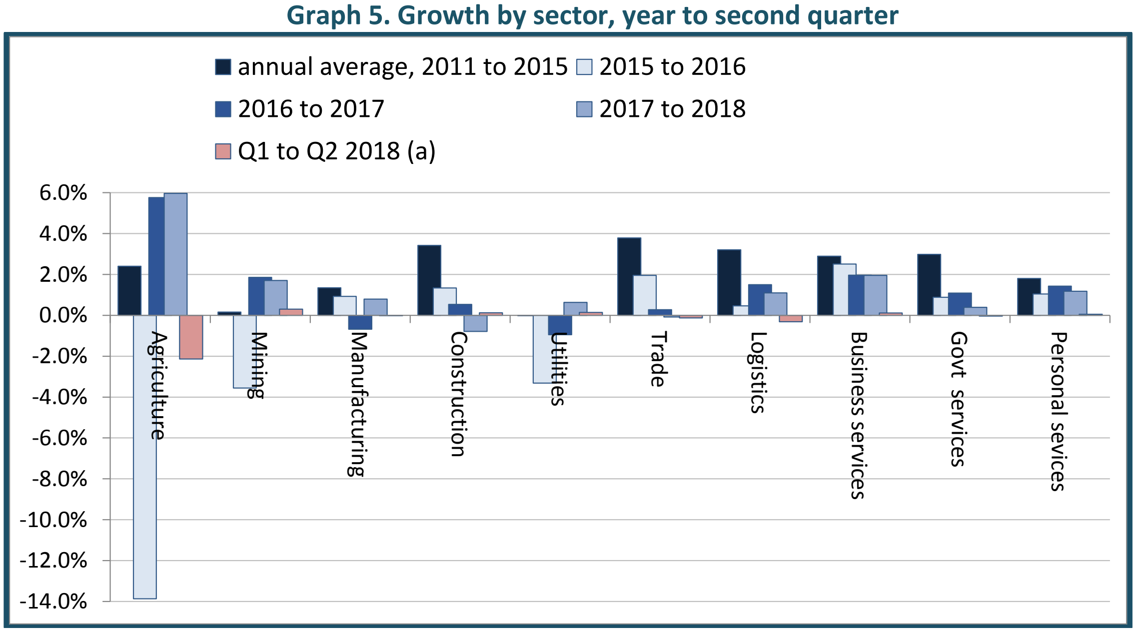
Graph 4: Change in expenditure on the GDP, year to second quarter and first quarter to second quarter 2018



Note: (a) seasonally adjusted. Source: StatsSA GDP quarterly figures. Excel spreadsheet downloaded from www.statssa.gov.za in June 2018.

Although most industries expanded in the past quarter, in every case their growth slowed compared to the previous year (see Graph 5). Similarly, if we look at the year to June 2018, most industries saw slower growth than in the year to June 2017.

Graph 5. Growth by sector, year to second quarter



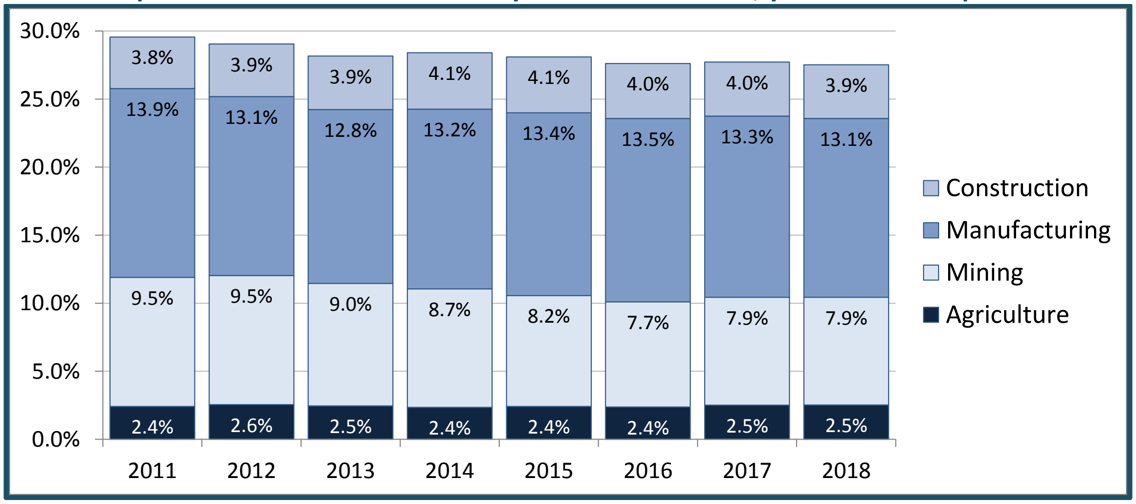
Note: (a) seasonally adjusted. Source: StatsSA GDP quarterly figures. Excel spreadsheet downloaded www.statssa.gov.za in September 2018.

The share of the real economy in the GDP continued to decline in the year to the second quarter (see Graph 6). The sharpest fall was in manufacturing, which dropped from 13.3% in the previous year to 13.1% in the year to June 2018.

Construction also continued to grow more slowly than the rest of the economy. In contrast, over the full year agriculture saw a slight increase in its share in the GDP, despite its sharp contraction in the second quarter.

The share of mining remained essentially unchanged for the year as a whole.

Graph 6: Share of the real economy sectors in the GDP, year to second quarter

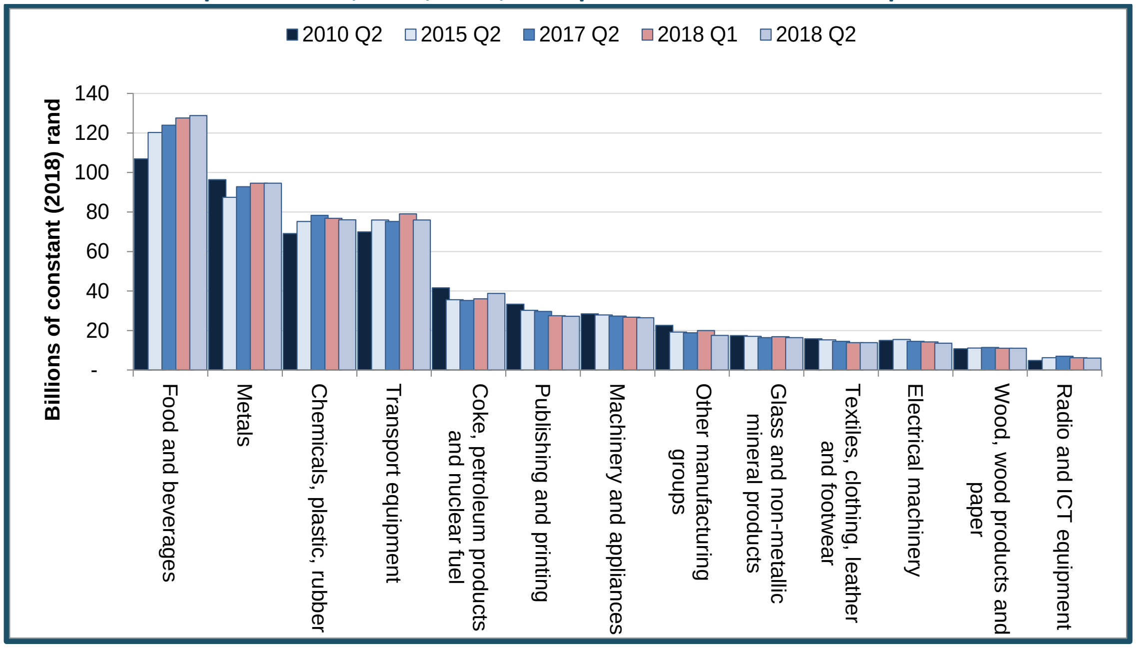


Source: StatsSA GDP quarterly figures. Excel spreadsheet downloaded from www.statssa.gov.za in June 2018.

Manufacturing sales reflected the broader economic trends. They increased by 1.9% (in constant 2018 rand) in the year to the second quarter of 2018, but declined by 1% between the first and second quarters of 2017 and 2018.

Growth was mainly driven by coke, petroleum and nuclear fuel, which saw sales grow by 10.2% year-on-year. Growth was also seen in food and beverages (3.9%); metals (1.9%); and transport equipment (1.0%). While glass and non-metallic mineral products sales remained stagnant in the year to the second quarter of 2018, various other subsectors saw declining sales. Some large drops are seen in radio and ICT equipment sales, which fell by 13.6%; publishing and printing, by 8.2%; and electrical machinery, by 6.7% (see Graph 7).

Graph 7: Manufacturing sales in constant (2018) rand (a), second quarter 2010, 2015, 2017, first quarter 2018 and second quarter 2018



StatsSA. Manufacturing volume and sales from 1998. Excel spreadsheet. Downloaded in August 2018.