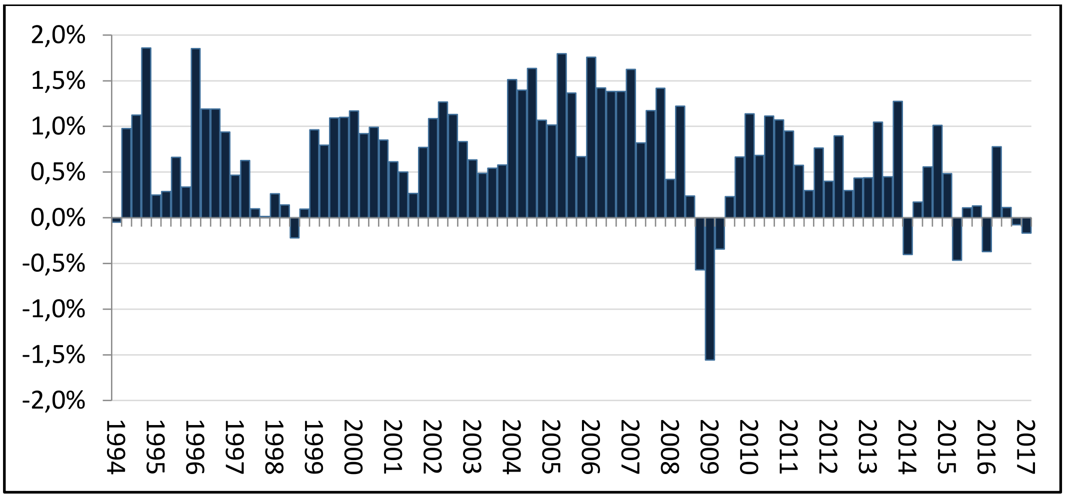
GDP growth

South Africa entered a technical recession with a second quarter of contraction in a row. Investment emerges as the primary drag on economy growth, as confirmed by the decrease in mining production and the sectoral slowdown in utilities and construction. While manufacturing returned to growth over the past year, sales were still depressed, showing a slight decline.

Based on seasonally adjusted data, South Africa's GDP contracted for the second quarter in the row, putting the country in technical recession (Graph 1). Over the first quarter of 2017, GDP decreased by 0.17%, essentially due to the trade, catering and accommodation sector (-1.5%) and manufacturing (-0.9%). Mining (+3%) and agriculture (+5.1%) returned to growth over the quarter, stimulated by the end of the drought, rising international metals prices, and stronger demand.

Importantly, the recent credit rating downgrades (which occurred in April and June 2017) did not affect the developments covered in this Real Economy Bulletin, which is based on data up to March 2017. The downgrades should be understood as a response to the trends discussed, rather than the cause of them (see Briefing Note for more details).

Graph 1. GDP growth, quarter to quarter in constant 2010 prices, seasonally adjusted, not annualised, 1994 to 2017

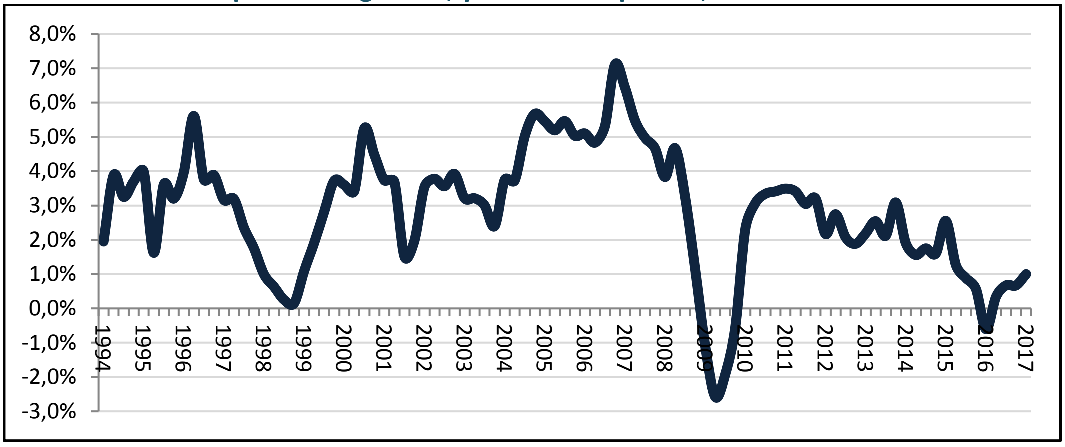


Source: Statistics South Africa GDP data.

Strong growth in the second quarter of 2016 meant that growth in the year to March 2017 was around 1% (Graph 2). In the absence of a robust recovery in the next few months, however, year-on-year growth rates will also decline.

The prospects for growth are uncertain. The World Bank in June cut its forecast for South Africa's GDP growth by 0.5 percentage points to 0.6% for 2017 and by 0.7 percentage points to 1.1% for 2018. The World Bank reduced its forecast for many commodity exporters, largely due to weaker than envisioned recovery in mining-based sectors. In stark contrast, in May, the International Monetary Fund (IMF) raised its growth prediction for South Africa for 2017 from 0.8% to 1%, expecting the end of the drought to lift agricultural production and rising commodity prices to boost the mining sector.

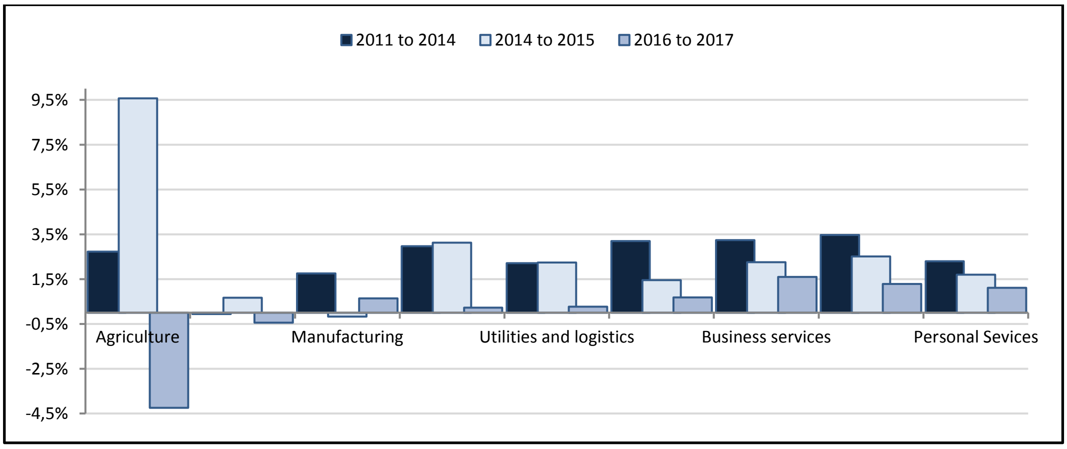
Graph 2. GDP growth, year to first quarter, 1994 to 2017



Source: Statistics South Africa GDP data.

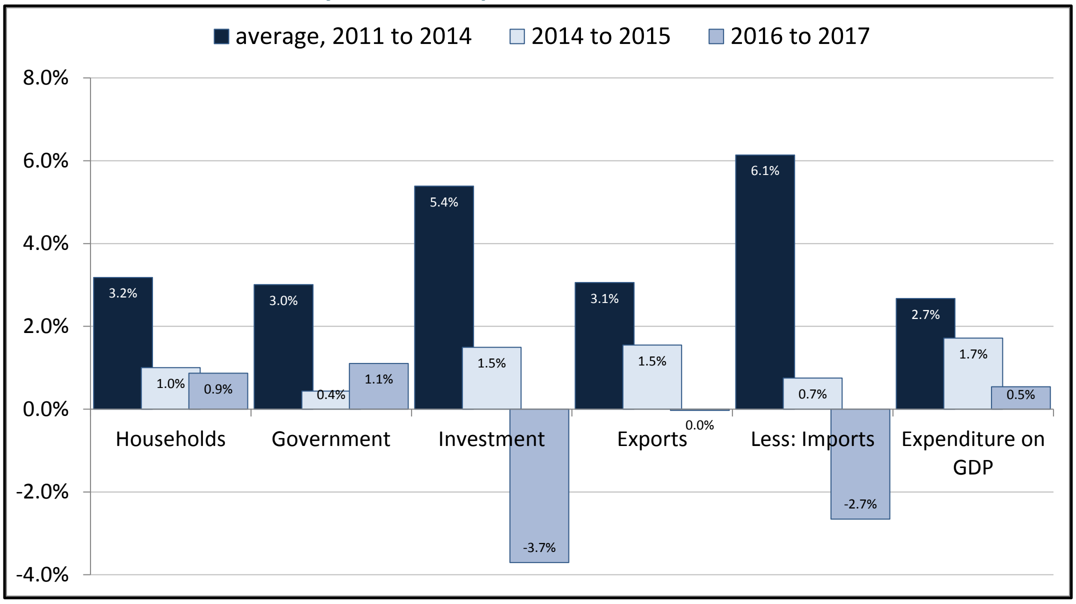
At the sectoral level, in the year to March 2017, utilities and construction experienced a drastic slowdown, after years of rapid growth (Graph 3). Mining declined by 0.4% while manufacturing returned to growth, progressing by 0.6%. Government services continued their gradual slowdown, in line with the ongoing fiscal consolidation (see the previous Real Economy Bulletin for more details on the impact of the fiscal consolidation on South Africa's GDP growth). The GDP share of the real economy remained largely stable, with manufacturing accounting for 13%. The share of mining declined to 7%, in line with seasonal variations. As shown in Graph 4, GDP growth was primarily impacted by the severe decline in investment (see section on investment and profitability for more details).

Graph 3. Change in GDP by sector in volume terms, year to first quarter, 2011 to 2017



Note: Calculated on the basis of the sum of four quarters of each year to the first quarter. Source: Calculated from Statistics South Africa. Electronic database. Series on Gross Domestic Product growth. Downloaded from www.statssa.gov.za in June 2017.

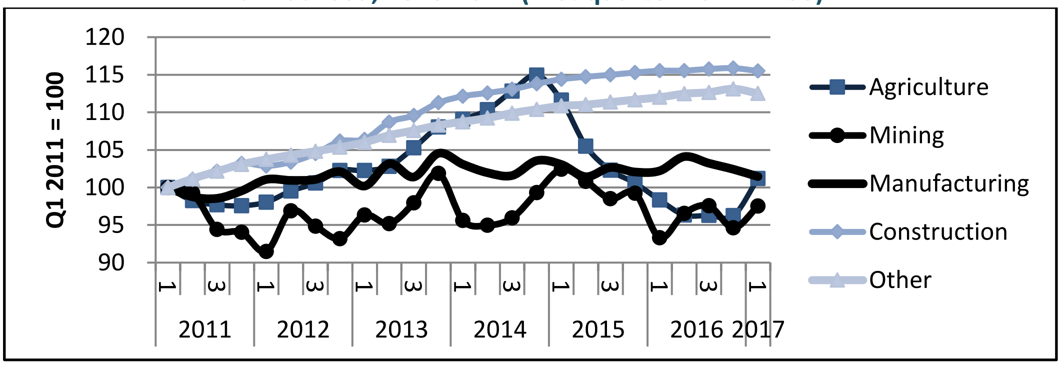
Graph 4. Change in components of expenditure on the GDP, year to first quarter, 2011 to 2017



Source: Calculated from Statistics South Africa. GDP Excel spreadsheet. Downloaded from www.statssa.gov.za in June 2017.

Production volumes in manufacturing further declined in the beginning of 2017, while construction levelled off, decreasing slightly. The end of the drought helped agricultural production volumes pick up for the first time since the 2014 peak. Mining production also improved in volume, although it has been remarkably volatile in the past few years (Graph 5).

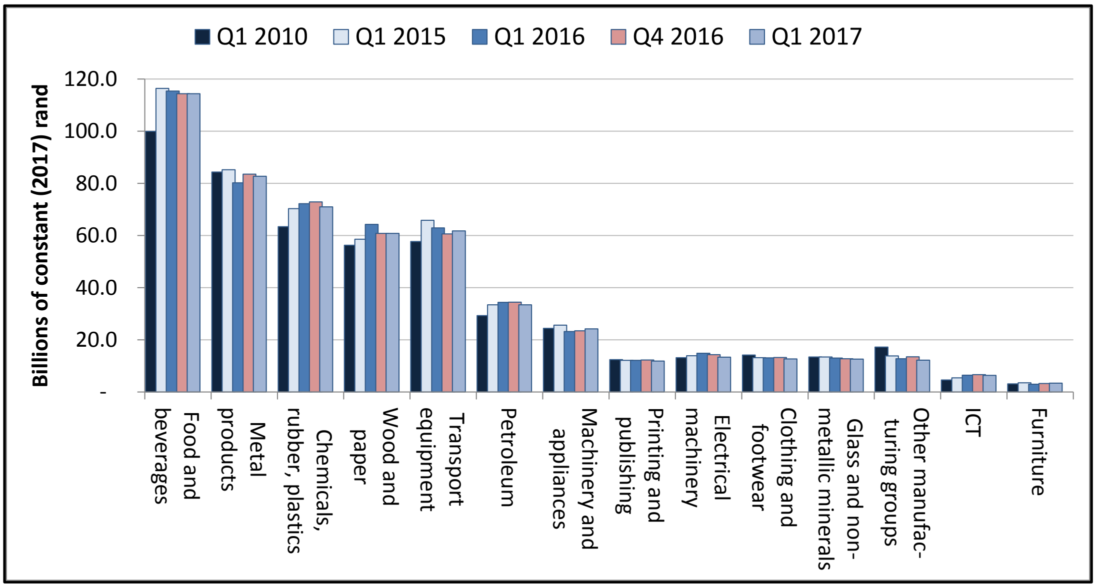
Graph 5. Index of volume of production by sector, quarterly, seasonally adjusted and annualised, 2010-2017 (first quarter 2011 = 100)



Source: Calculated from on Statistics South Africa. Electronic database. Series on GDP growth. Downloaded from www.statssa.gov.za in June 2017.

In line with production volumes, manufacturing sales experienced a 2% decline in the year to the first quarter of 2017 (Graph 6). The electrical machinery (-10%) and the wood and paper (-5%) industries experienced the largest decrease. In contrast, furniture sales grew by close to 13%. Sales of machinery/appliances and metals products increased respectively by more than 4% and 3% on a year-on-year basis. Other sectors experienced slight declines (from 1% to 3% depending the industry).

Graph 6. Manufacturing sales by industry in constant (2017) rand, 2010 to 2017



Note: Average of monthly figures for each quarter. Source: Calculated from StatsSA, Manufacturing: Production and Sales. Excel spreadsheet. Downloaded from www.statssa.gov.za *in May 2017*