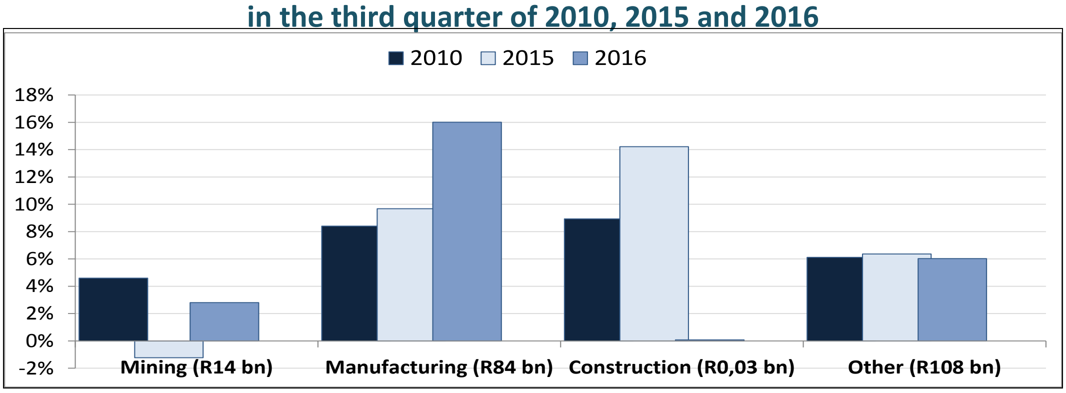
Investment and profitability*

Manufacturing saw a sharp rise in reported profits in the year to the third quarter 2016, but it mainly results from a once-off restructuring in beverages. In contrast, the return to profitability in mining appears to represent a turnaround from the end of the commodity boom. Nonetheless, the first three quarters of 2016 saw falling investment in both the public and private sector.

Graph 16 shows trends in the return on assets – measured as pre-tax profits relative to assets – in the real economy in the third quarter of 2010, 2015 and 2016. Profitability appears reasonably robust in manufacturing, and improved significantly in mining as metal prices rose and the shake-out that followed the commodity bust took effect. In contrast, construction showed falling profitability over the past year.

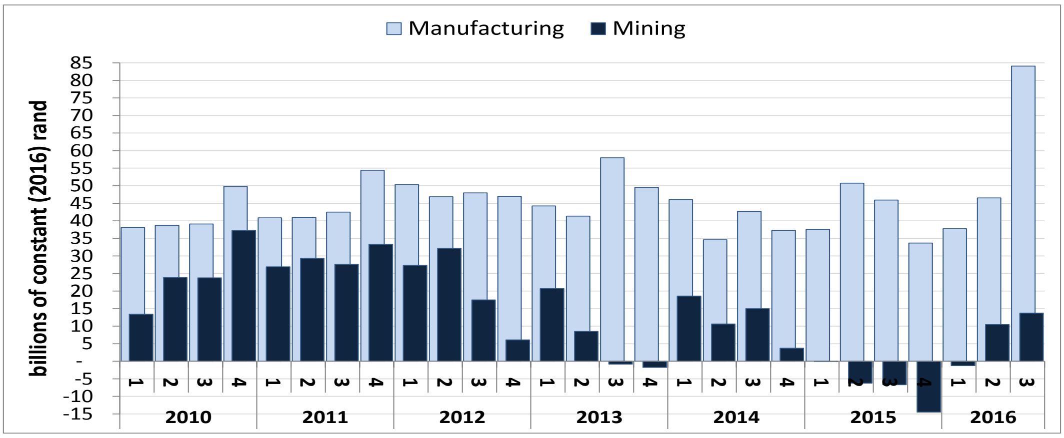
Graph 16. Return on assets (profit before tax as % of asset value) in the third quarter of 2010, 2015 and 2016



Source: Statistics South Africa. Quarterly Financial Statistics, third quarter of relevant years.

In constant rand, mining profits remain far below their peak at the end of the commodity boom, despite some improvement in mid-2016. Manufacturing was less affected by falling metal prices, but has seen substantial volatility and overall lower profits until the extraordinary, but likely once-off, improvement in the last reported quarter (see Graph 17).

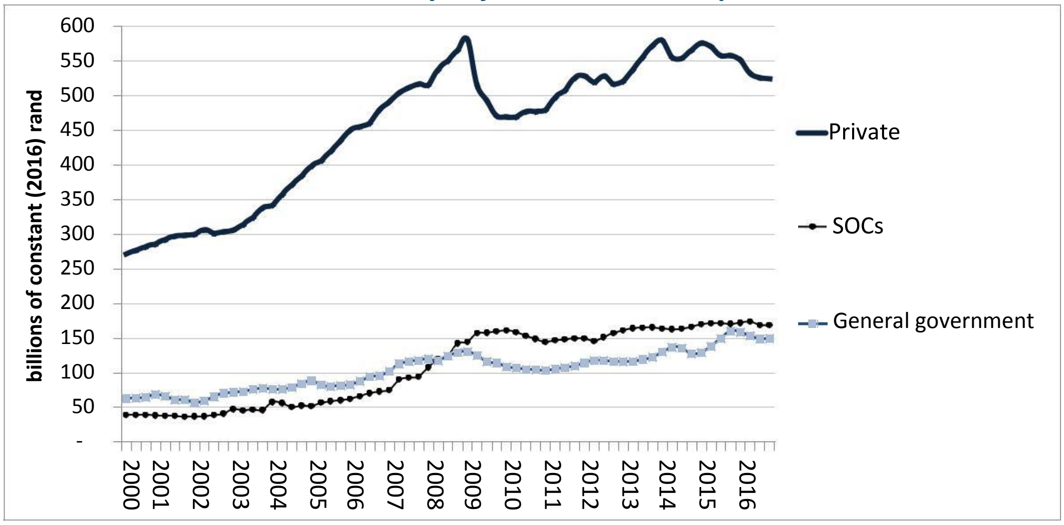
Graph 17. Profits in manufacturing and mining in constant (2016) rand



Source: Statistics South Africa. Quarterly Financial Statistics, relevant years.

Both private and public investment tended to decline in real terms for most of 2016 (the latest available figures are for the third quarter) (see Graph 18). While private investment started falling in 2014, the decline in government and state-owned corporation (SOC) investment began only in the course of 2016. As a result of these trends, the national investment rate – that is, investment as a percentage of GDP – has fallen to around 19%, from a high of 25% in 2008. As a rule, investment at 20% to 25% of the GDP is required for sustained growth.

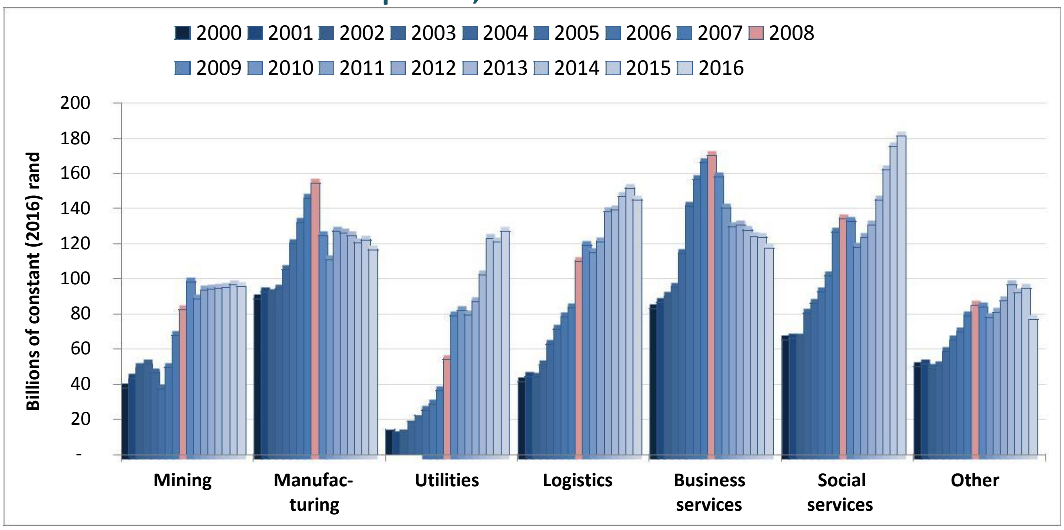
Graph 18. Quarterly investment by type of organisation in constant 2016 rand, seasonally adjusted, 2000 to September 2016



Source: Reserve Bank. Interactive data set. Downloaded in March 2017.

Manufacturing investment has been rather more subdued that other private investment. The fastest investment growth in recent years has been in utilities, logistics and social services, driven largely by the national build programme (see Graph 19).

Graph 19. Investment by sector in constant rand, year to third quarter, 2000 to 2016



Source: Calculated f,South African Reserve Bank. Downloaded from www.resbank.co.za in March 2017.

** Quarterly data on profits and investment by sector can be calculated using Statistics South Africa's Quarterly Financial Statistics for the productive sectors outside of manufacturing. Data are however only available through the third quarter of 2016.*