Quarterly GDP growth

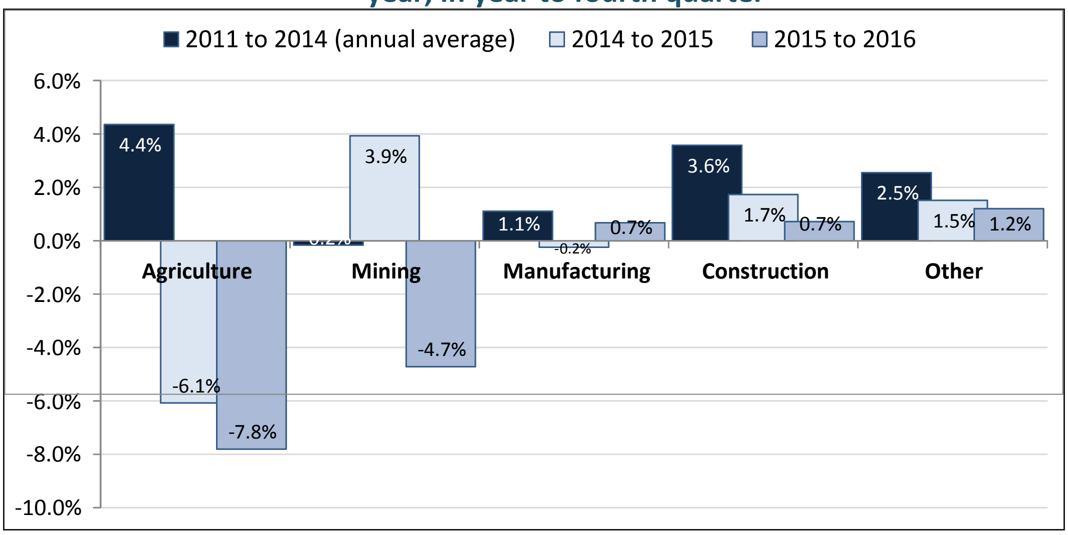
South Africa's GDP fell by 0.08% over the past quarter, driven mostly by a decline in the real economy, above all mining. Mining contracted by 3,0%, manufacturing by 0,8%, and agriculture by 0.1%.These trends contributed to the continued slowdown in growth, which came to just 0,3% for 2016 as a whole.

Year on year, manufacturing showed a return to growth in 2016, but mining saw a decline. Agriculture shrank for the second year in a row, largely due to the persistent effects of the drought. In contrast, construction and the rest of the economy continued to expand, but at a slower rate than in 2015 (see Graph 1).

In the longer term, as Graph 2 shows:

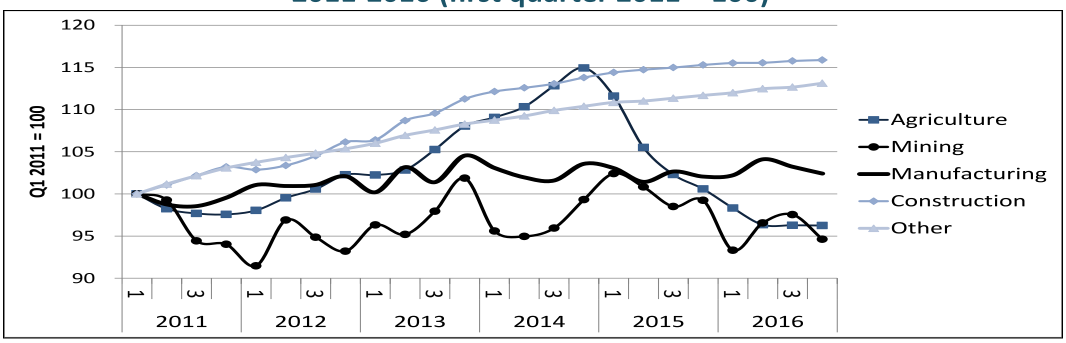
- Mining output often fluctuates on a quarterly basis, but has shown a secular downward trend mainly due to the decline in gold output, which has persisted over the past 20 years or so;
- Agricultural output flattened out in the past six months as the drought has ended; and
- Manufacturing production has seen very little growth since the global financial crisis in 2008, mostly as a result of the challenges in the metals industry.

Graph 1. Change in GDP by sector in volume terms, year on year, in year to fourth quarter



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

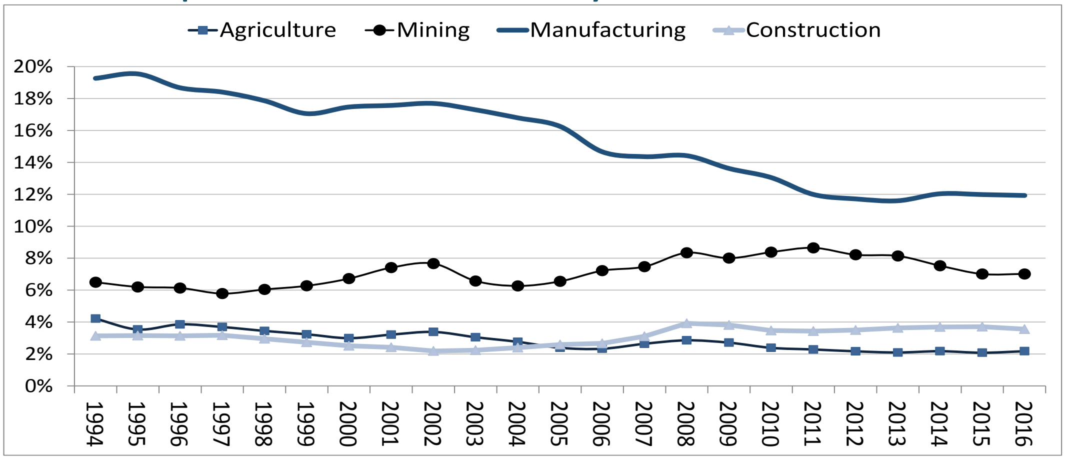
Graph 2. Index of volume of production by sector, quarterly, 2011-2016 (first quarter 2011 = 100)



Source: Calculated from Statistics South Africa. Gross Domestic Product (Quarterly) (2016Q4). Excel spreadsheet downloaded in March 2017.

2016 saw a continued decline in the share of the real economy in the GDP, which has fallen from 29,5% in 2008 to 24,7% in 2016. The share of construction declined after a growing from 2010 to 2015, while the share of manufacturing remains stable but substantially lower than before its sharp fall in the 2008 global financial crisis. The adaptation of mining to the end of the commodity boom emerges in its overall growth relative to GDP over 2016, despite the significant drop in the past quarter (see Graph 3).

Graph 3. Share of the real economy in GDP in current terms

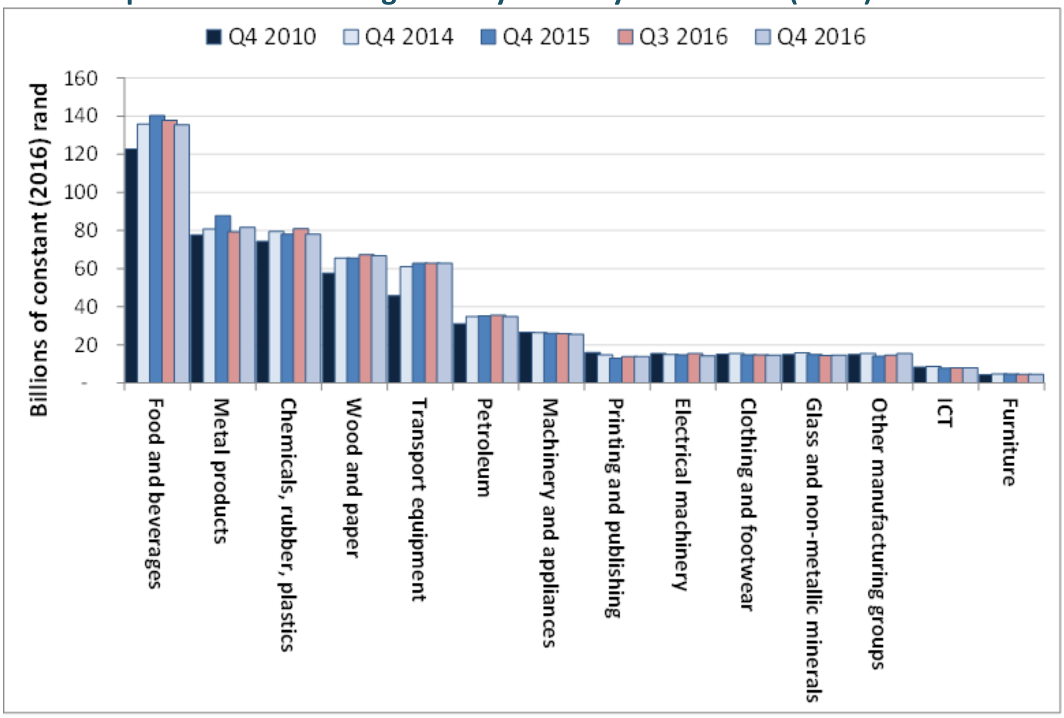


Source: Calculated from on Statistics South Africa. Electronic database. Series on GDP growth. Downloaded from www.statssa.gov.za in March 2017.

Sales across manufacturing contracted in the year to the fourth quarter of 2016 (see Graph 4).

Food and beverages accounted for most of the fall, driven mainly by the drought. No manufacturing industry saw a significant improvement in sales. The quarterly sales figures in Graph 4 are not seasonally adjusted.

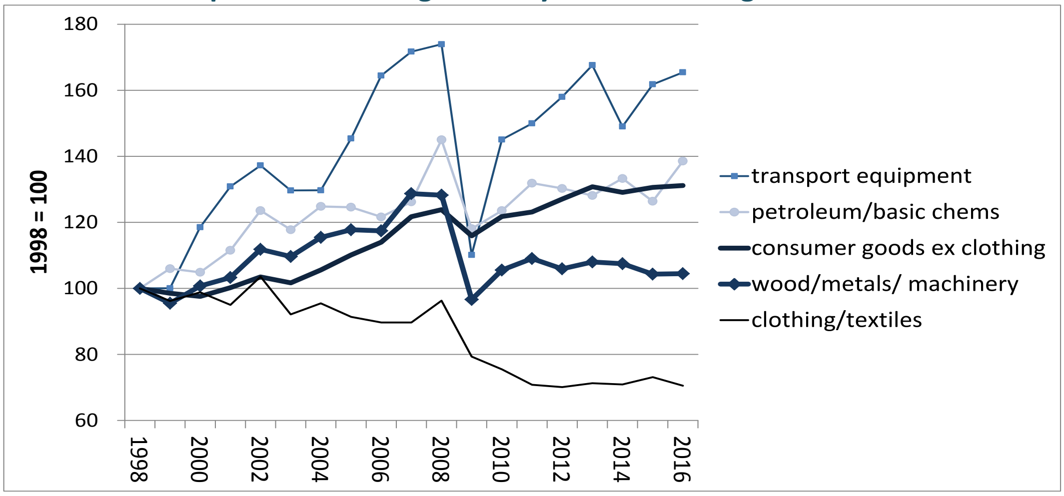
Graph 4. Manufacturing sales by industry in constant (2016) rand



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 February 2017.*

In volume terms, transport equipment experienced a sharp rebound in the past two years, although growth in 2016 was slower than 2015. Consumer goods outside of clothing maintained stable growth, and the decline slowed in wood and metals. In contrast, clothing production contracted by some 3,5% over the past year (see Graph 5).

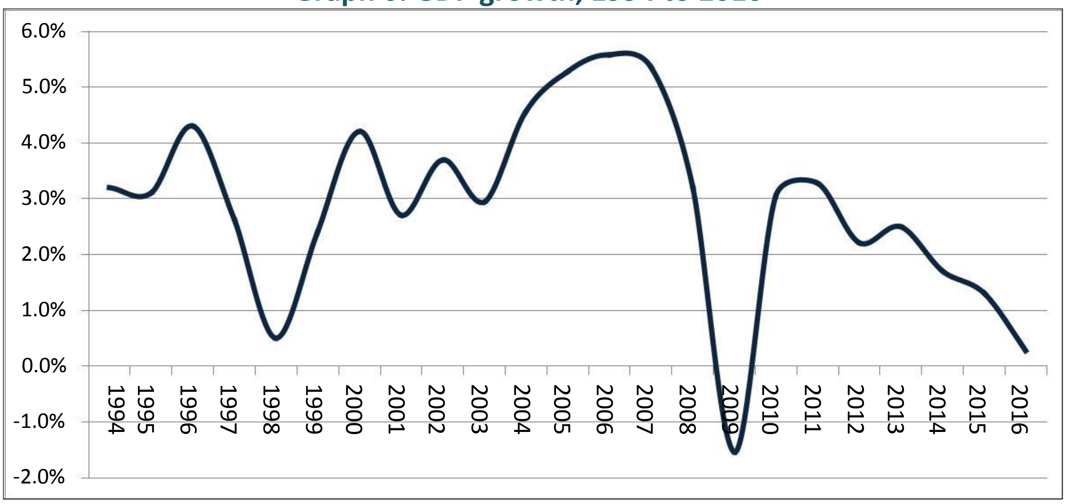
Graph 5. Indices of growth by manufacturing industries



Source: Calculated from Statistics South Africa. Gross Domestic Product (Quarterly) (2016Q4). Series on GDP in constant rand. Downloaded from www.statssa.gov.za in February 2017.

As Graph 6 shows, growth in 2016 was the third lowest since 1994. Even more worrying, it forms part of a five-year trend of slowing growth, starting with the fall in commodity prices in 2011.

Graph 6. GDP growth, 1994 to 2016

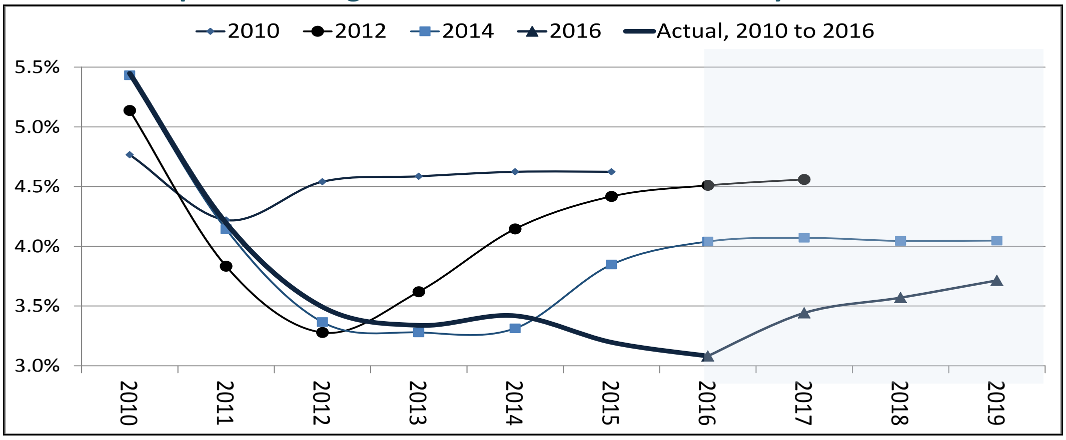


Source: Statistics South Africa GDP data.

As discussed in the <u>*Briefing Note: The 2017/8 budget and industrialisation*</u>, a decline in government spending in real terms surely contributed to the slowdown in GDP growth in 2016. Still, the main cause of the slowdown lies in continued weak growth internationally. China and Europe, in particular, have experienced limited expansion, while growth in the US has been steady but unspectacular. In this context, since 2010 the International Monetary Fund (IMF) has persistently forecast higher growth than in fact occurred, mainly because China consistently underperforms expectations.

Graph 7 compares the IMF forecasts every two years from 2010 with the realities of international growth.

Graph 7. Global growth: IMF forecasts and reality from 2010



Source: IMF. World Economic Outlook for relevant years (October).

The unpredictability of the global scene makes economic analysis much harder. In particular, as discussed in the *Briefing Note: Scenarios for US protection* the Trump Administration may pursue protectionist policies and aggressive international ventures generally. Moreover, Brexit could affect growth in both the European Union and the UK, which still collectively dominate South African exports.

While global growth remains slow, the recent uptick in metals prices has been sufficient to increase the exchange rate. That in turn makes South African manufacturing less competitive internationally, although global markets overall remain relatively slow.

In these circumstances, two immediate factors may affect growth in South Africa. On the one hand, the US central bank is expected to increase interest rates in the near future, possibly even in March 2017. That in turn could pull investors out of South African stocks and bonds, leading to renewed depreciation. On the other, the US stock market is widely considered to be overvalued. A significant correction could affect growth both there and in Europe.