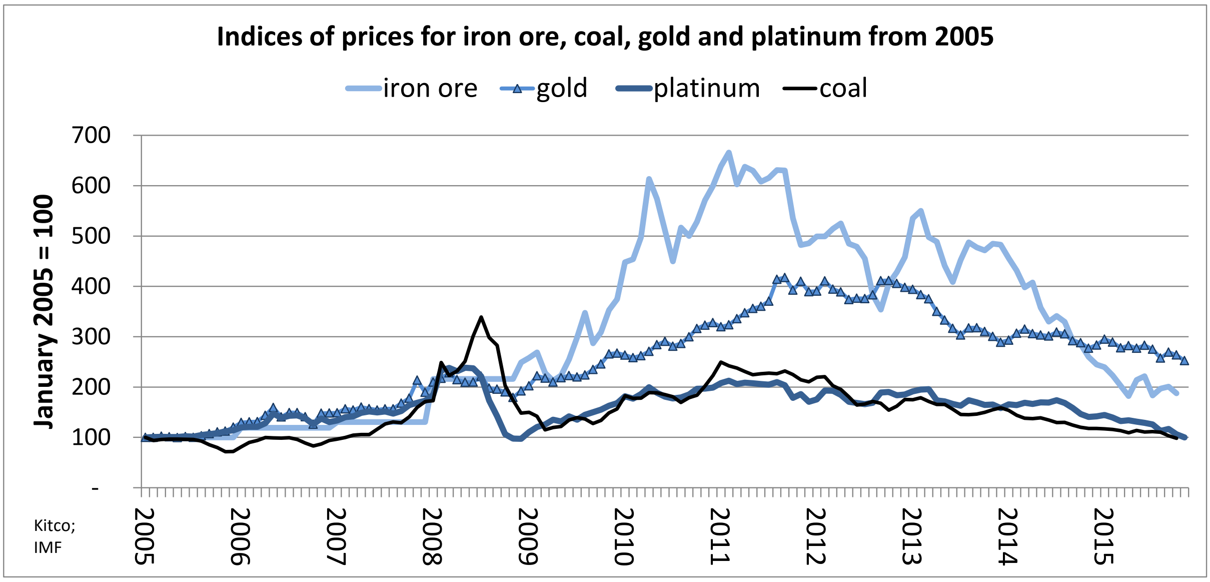
What's behind the trends?

Slower growth in the real economy mostly resulted from the end of the commodity boom, with a particularly sharp downturn in mining and metals refineries. Still, within manufacturing, electrical equipment and most consumer goods industries having done well in the past six months, essentially due to the national build programme, the more competitive exchange rate, and the end of loadshedding. Agriculture and agro-processing have, however, been slowed by the drought.

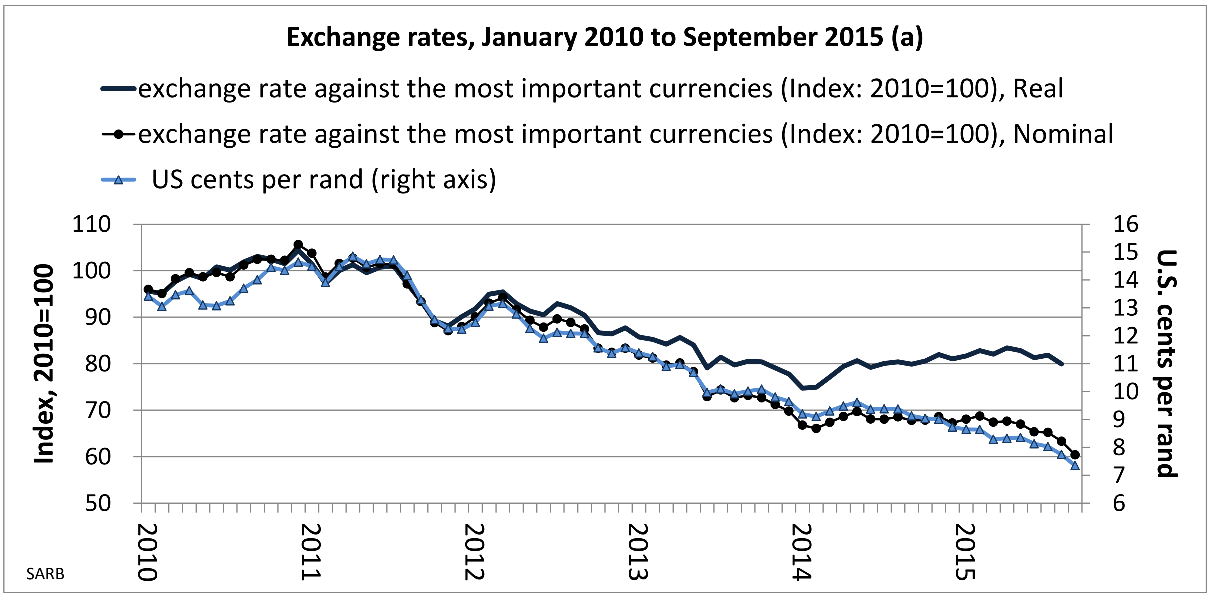
The past quarter saw continued slow growth overall, due mostly to the economy-wide repercussions of the end of the commodity boom. Since 2011, the prices of South Africa's main export commodities – iron ore, platinum, coal and gold – have fallen by a weighted average of around 50%.

The main reason for the drop in commodity prices was slow growth in China. In the case of platinum, the development of methods to reduce the amount used in catalytic converters contributed to weak demand, and was only partially offset by higher purchases for jewellery production in India.



Mining has seen a fall to near zero profits for most commodities, with the exception of iron ore, with a substantial decline in investment and employment – and likely more retrenchments looming. In the third quarter of 2015, Lonmin tottered on the verge of bankruptcy. Anglo Platinum sold its holdings to Sibanye, reflecting the divestment of major foreign miners as profitability drops, a process that occurred over the past decade across gold mining.

The end of the commodity boom has, however, brought a far more competitive exchange rate (as shown in the following chart) and an end to loadshedding as the refineries downsized production. The result was an uptick in total manufacturing, but with very mixed results by subsector, as discussed in the section on GDP and employment outcomes.



It seems likely that the slowdown in agro-processing reflected the initial effects of the drought. Broader consequences will arise if the drought leads to substantial imports of maize. South Africa is generally self-sufficient in food. When it has to import, however, the cost of transport (equal to around a third of the cost of production of maize) leads to sharp price hikes, which would be aggravated by the depreciation of the rand.

Higher food prices would affect the real economy directly, by boosting wage demands across the economy. If it also fosters higher overall inflation, it could also lead the Reserve Bank to increase interest rates.