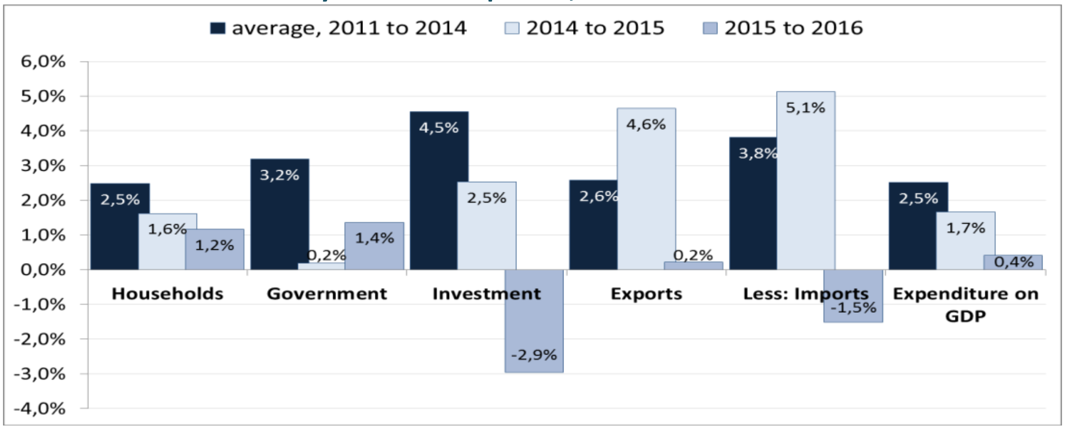
Behind the trends

Slow growth in South Africa mostly reflects the broader global trend since 2011. In the past quarter, the slump in investment deepened. The fiscal consolidation promised by the Medium Term Budget Policy Statement (MTBPS) seems likely to add to the downward pressures on the economy.

As Graph 15 shows, the decline in private and public investment over the past year has become a significant drag on growth.

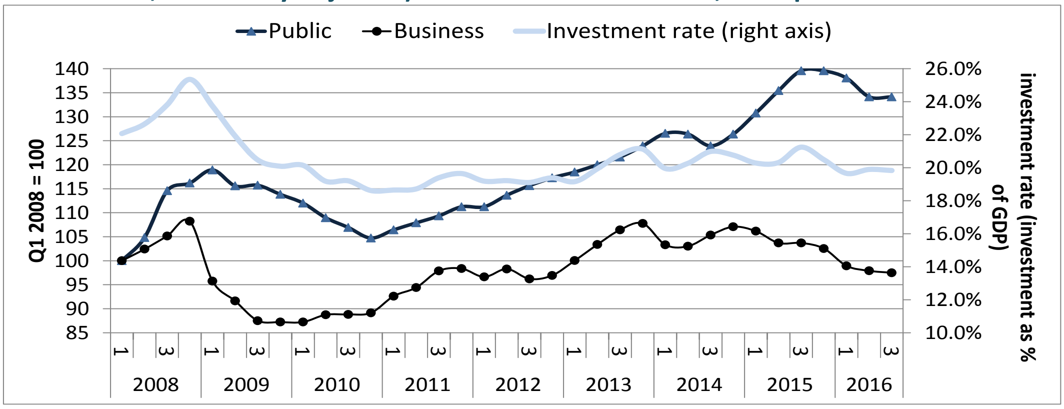
Graph 15: Change in components of expenditure on the GDP, year to third quarter, 2011 to 2014



Source: Calculated from Statistics South Africa. GDP P0441 – Q3 2016. Worksheet QRU. Excel spreadsheet. Downloaded from www.statssa.gov.za in December 2016

After the global financial crisis, business investment recovered through 2014, but since then has declined. Public investment, including both general government and public corporations, began to fall in mid-2015, although it recovered somewhat in the past quarter. As a result, the share of public investment in total investment climbed from 31% in the first quarter of 2008 to 38% in the third quarter of 2016 (see Graph 16).

Graph 16: Indices of investment by the public sector and business (first quarter 2008 = 100; seasonally adjusted) and the investment rate, first quarter 2008 to 2016

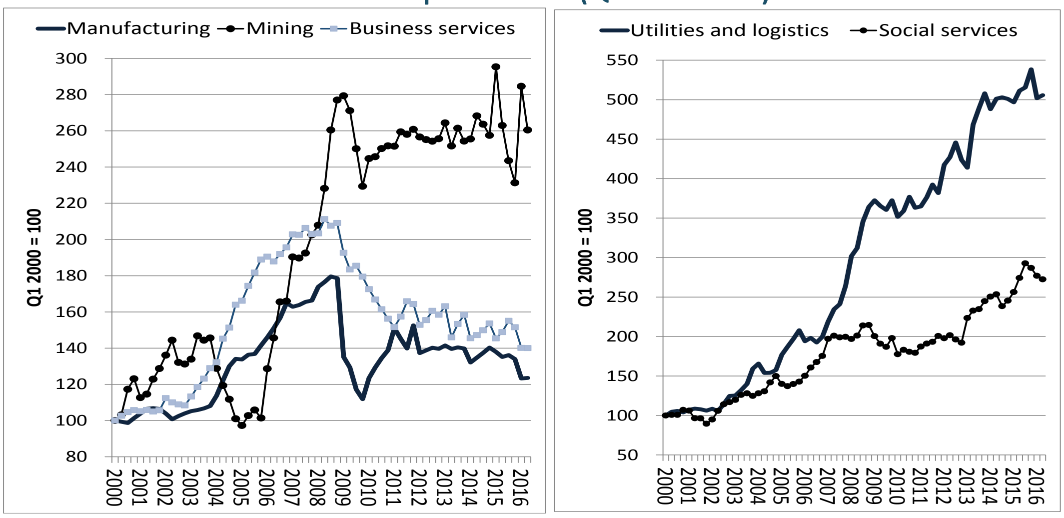


Note: The investment rate is gross fixed capital formation as a percentage of GDP. Source: For first quarter 2010 to third quarter 2016, calculated from Statistics South Africa. GDP P0441 – Q3 2016. Worksheet QRU. Excel spreadsheet. Downloaded from www.statssa.gov.za in December 2016. For first quarter 2008 to fourth quarter 2009, calculated from Reserve Bank. Interactive data series. Electronic database. Downloaded from www.reservebank.co.za in December 2016.

As a percentage of the GDP, investment climbed from under 15% in 1994 to a peak of 25% in 2008, but dropped to around 19% in the past three quarters. As a general guideline, investment of 20% to 25% of the GDP is required for sustained growth.

Investment in mining, manufacturing and business services generally rose rapidly through 2008, although mining fell sharply in 2004/5. But all three sectors saw a sharp fall with the global financial crisis in 2008/9 and never fully recovered. Investment in manufacturing in particular fell from 2011, largely as a result of the pressure on refineries and capital-goods producers from the end of the commodity boom. In contrast, logistics, utilities and social services, which fall mostly under the state, saw significantly increased investment until 2015.

Graph 17: Indices of investment by sector in constant rand from first quarter 2000 to second quarter 2016 (Q1 2000 = 100)



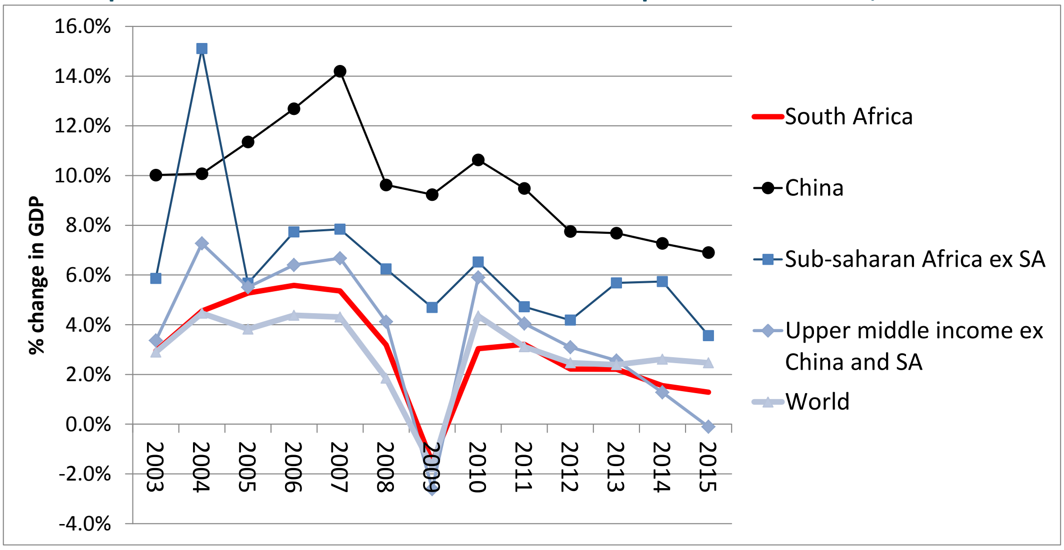
Source: For first quarter 2010 to third quarter 2016, calculated from Statistics South Africa. GDP P0441 – Q3 2016. Worksheet QRU. Excel spreadsheet. Downloaded from www.statssa.gov.za in December 2016. For first quarter 2000 to fourth quarter 2009, calculated from Reserve Bank. Interactive data series. Electronic database. Downloaded from www.reservebank.co.za in December 2016.

More broadly, growth in South Africa continues to track global trends. As Graph 18 shows, in the past year it actually performed rather better than its peers in the upper-middle-income group excluding China, largely because of the deep recessions in Brazil and Russia. From this standpoint, the outlook in 2017 is affected by:

- Efforts by OPEC to reduce production and increase petroleum prices, although the impact is expected to be moderate, raising the price of oil to around US$60 a barrel.
- The political changes in the US and the UK, which have already been destabilising. If the new US administration increases investment in infrastructure to the extent hoped, it could provide some relief on commodity prices – but the uncertainty around trade and international policy in general as well as the US interest rate is a major risk.
- The inability of China to accelerate its growth. The shift from growth driven by exports and, more recently, massive infrastructure investment to expansion based on household consumption has proven slow. Moreover, the rapid increase in

private debt in China over the past two years has raised concerns and not provided the hoped for longer-term stimulus.

Graph18: Growth rates in South Africa and comparator economies, 2003 to 2015



Source: Calculated from World Bank. World Development Indicators. Electronic database. Downloaded in November 2016.