Behind the trends

The economy slowed in the last quarter primarily due to the drought combined with lower commodity prices, which in turn resulted from a global slowdown. While South Africa has not fallen into recession - in contrast to Russia and Brazil - its growth over the past five years has been more than half a percent lower than for all upper-middle-income economies excluding China. In contrast, before 2008 it grew at almost exactly the same rate as this peer group.

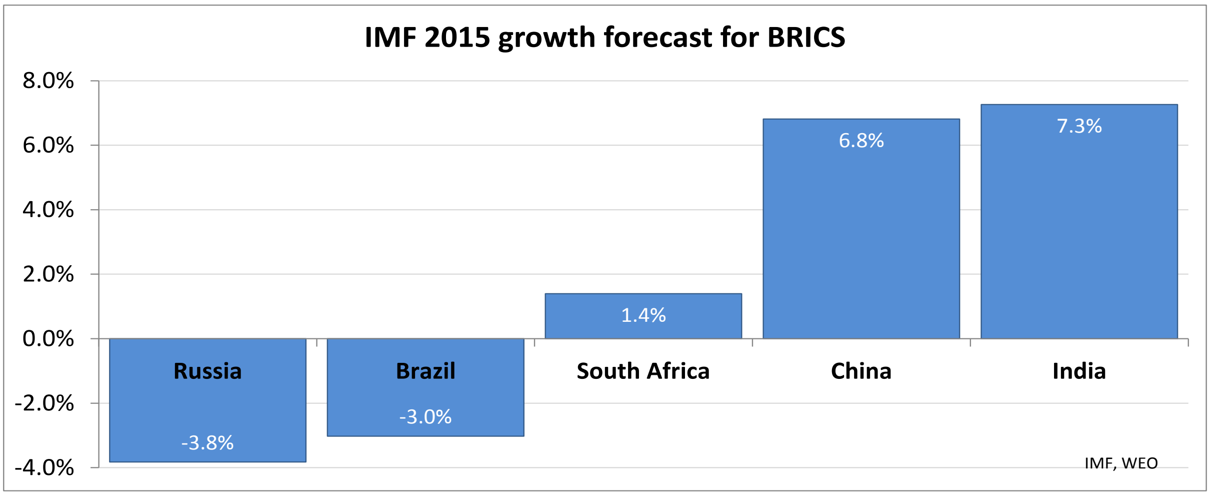
The impact of the end of the commodity boom has coincided with a major drought in Southern Africa. These two blows lie behind the slowdown in the South African economy, which worsened in the past quarter.

In this context, the 6% decline in sales by the manufacturing sector largely reflected the sharp fall in metal production, especially steel and ferroalloys. Sales of metal products fell by almost 10% in real terms in the year to December 2015. The refineries have experienced both slowing export markets and rising competition from China as a result of that country's substantial over-production. Increasing electricity costs have added to their woes.

In addition, the auto industry saw a steady 13% fall in domestic sales from 2011, while exports essentially stagnated. The national automobile producers association, NAAMSA, attributed declining domestic sales to the general economic slowdown, aggravated by the decline in the rand which in turn pushed up the cost of imported models and components.

The decline in commodity prices has mainly resulted from slower growth in Europe and China. Official growth figures for China have come under sharper scrutiny, with most observers agreeing that they are substantially and increasingly overstated.[1] Still, the trend is clear, with reported growth in China falling below 7% for the first time in a quarter century. Experts have also raised doubts about reported growth rates for India.[2]

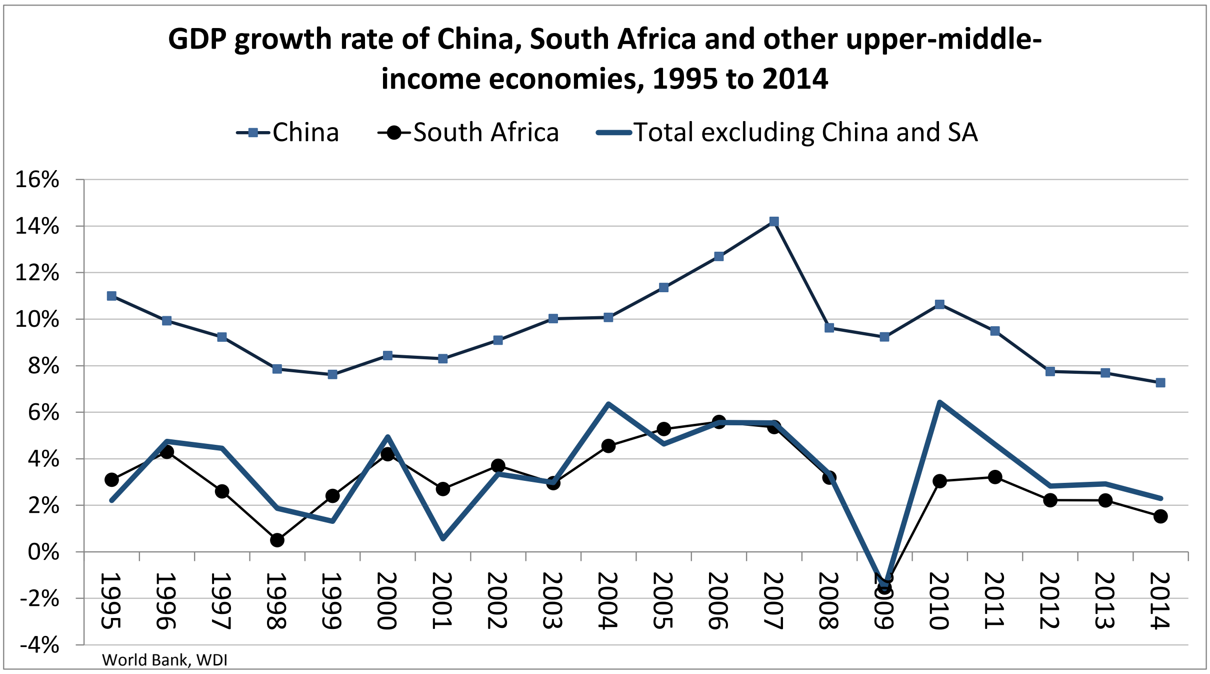
In the event, as the following table shows, South Africa's growth rates actually look rather good compared to the other commodity-dependent BRICS – that is, Brazil and Russia.



[1] See for instance, Keith Bradsher, *Inquiry in China adds to doubt over reliability of its economic data*, New York Times, 26 January 2016 (downloaded from www.nytimes.com in March 2016)

[2] See for instance, Himanshu Goenka, *India's GDP growth data: Numbers divorced from reality?* in India Business Times, 8 February 2016 (downloaded from www.ibtimes.com in March 2016)

Still, growth in South Africa is now more than half a percent lower than for all upper-middle-income economies excluding China. In contrast, before 2008 it grew at almost exactly the same rate as this peer group.



Slow growth in commodity-dependent economies, including South Africa, has generally fuelled political and social strains. To start with, many workers have seen a slowdown in pay increases, especially in the mining value chain. It is noteworthy in this context that, despite some downsizing in mining and agriculture, the available data still show fairly strong growth in South African employment, almost exclusively, however, in business, domestic and social services. At the same time, commodity economies have begun to encounter fiscal constraints, as revenues decline with their exports and growth. That in turn makes it harder to sustain redistributive programmes. In South Africa, the sharp drop in the value of the currency value has also raised a red flag in the mainstream press, together with concerns of country-risk downgrades.

A strength of the South African political economy in these circumstances remains the commitment to social dialogue as well as the depth of civil society, including business and labour. The country can draw on the long-standing practice of working together to develop shared perspectives and measures to address economic downturns. Experience suggests that while many of these commitments will not be fully implemented, the very fact of dialogue helps alleviate the divisions and tensions that inevitably arise as the economy endures a more stressed period.

In any case, despite the negative headwinds, opportunities exist for South Africa to take advantage of the low rand to diversify exports into manufacturing, agriculture, and value-adding services. Moreover, South African firms are increasingly identifying both export and investment opportunities in other African countries, which provide a fast-growing alternative to traditional trade partners.