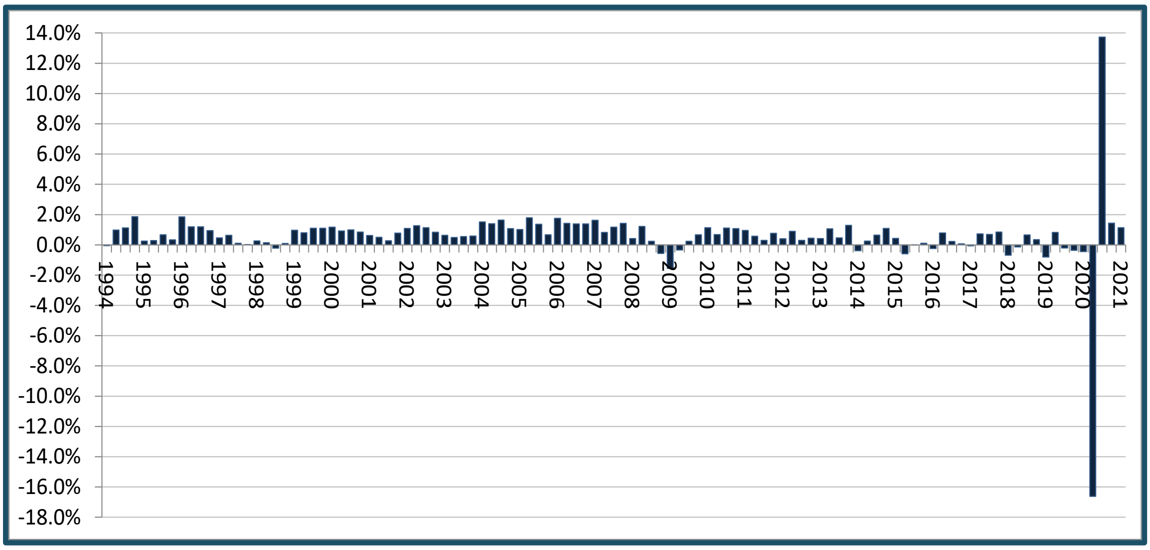
Gross Domestic Product

GDP grew by 2.7% in the first quarter of 2021. High mining prices continued to boost growth above initial expectations. Still, the economy was 2.9% smaller than in the first quarter of 2019, before the pandemic.

As Graph 1 shows, the GDP climbed 2.7% in seasonally adjusted but not annualised terms in the first quarter of 2021. In normal times, that would be extraordinarily rapid growth, surpassed only at the height of the minerals boom in 2006/7. It represented a further slowdown in the rebound from the 17% downturn in the second quarter, however. As a result, GDP was still 2.9% lower than in the first quarter of 2019.

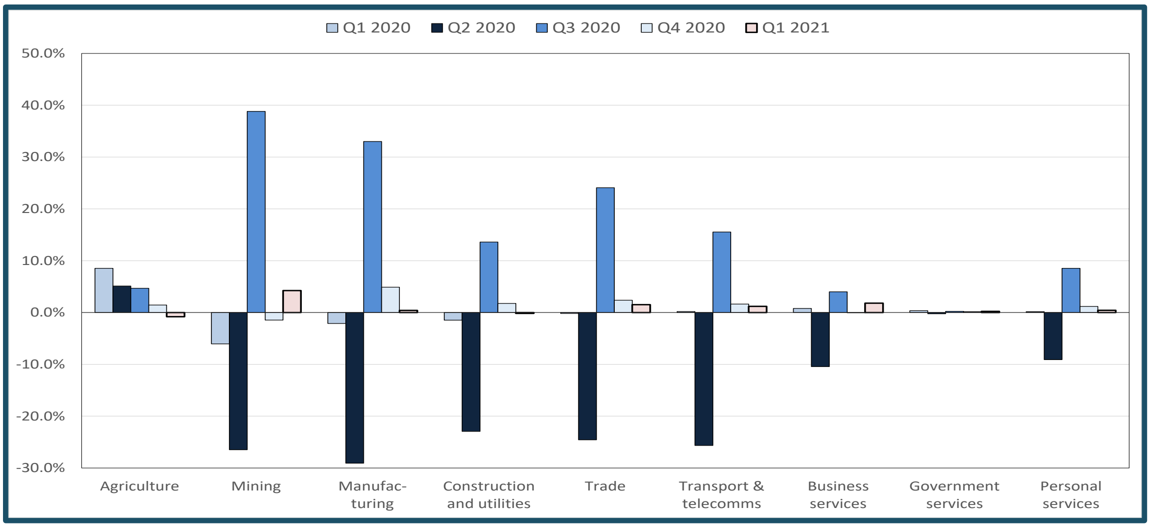
By sector, mining showed the fastest growth (see Graph 2). As discussed in the section on international trade, it benefited from export prices, which for platinum, gold and iron ore exceeded the earlier 2011 peaks in constant rand terms. Manufacturing saw a sharp deceleration in the quarter in seasonally adjusted terms. Construction actually shrank slightly, which was worrying because it had already shed a disproportionate number of jobs during the pandemic.

Graph 1. Quarterly change in GDP, seasonally adjusted, 1994 to first quarter 2021



Source: Calculated from Statistics South Africa. GDP quarterly figures. Excel spreadsheet downloaded from www.statssa.gov.za.

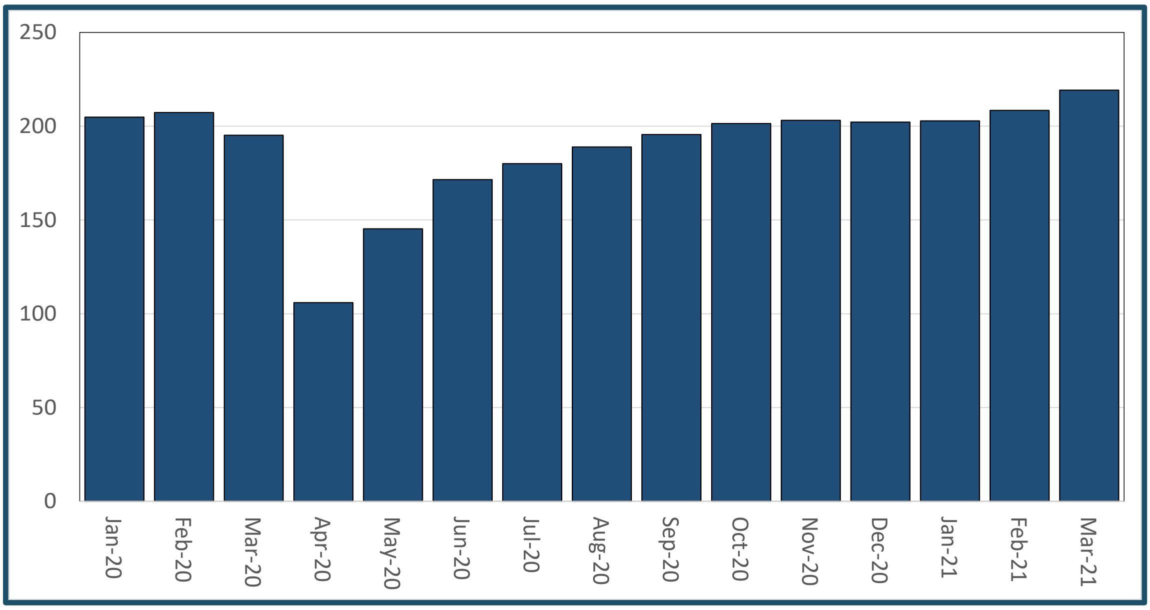
Graph 2. Quarterly and annual change in contribution to GDP by sector, first quarter 2020 to first quarter 2021



Source: Calculated from Statistics South Africa. GDP quarterly figures. Excel spreadsheet downloaded from www.statssa.gov.za.

For manufacturing as a whole, sales in constant, seasonally adjusted rand appeared to pick up during the first quarter of 2021. In March, they exceeded sales a year earlier. Progress could, however, be undermined by the resurgence of the pandemic, which affects manufacturing primarily through the impact on some kinds of consumer demand, especially food and alcohol prepared for restaurants, and through the pressure of absenteeism as workers have to quarantine or isolate.

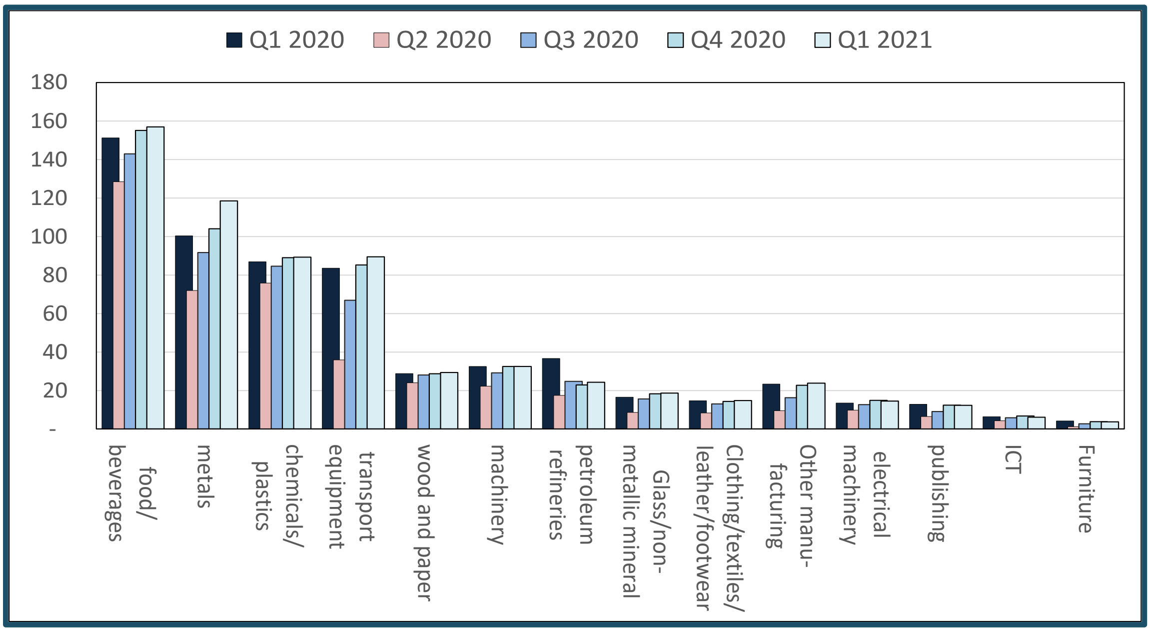
Graph 3. Monthly manufacturing sales
in billions of constant (2021) rand (a), seasonally adjusted



Note: (a) Reflated with CPI rebased to December 2020. *Source:* Calculated from Statistics South Africa. Manufacturing: Production and Sales. Excel spreadsheet downloaded from www.statssa.gov.za.

The recovery in sales from the April low point was particularly marked in metals and auto.

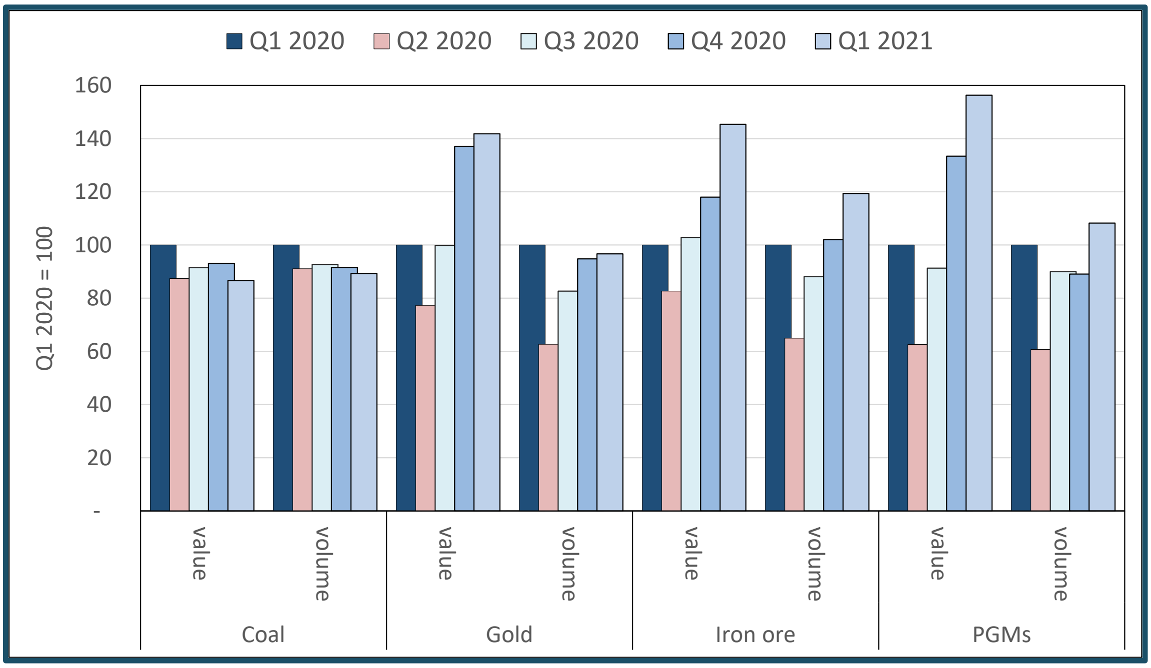
Graph 4. Quarterly sales by manufacturing industry
in billions of constant (2021) rand (a), seasonally adjusted



Note: (a) Reflated with CPI rebased to December 2020. *Source:* Calculated from Statistics South Africa. Manufacturing: Production and Sales. Excel spreadsheet downloaded from www.statssa.gov.za.

In mining, all of South Africa's major exports except coal showed a strong recovery in sales in constant rand terms, mostly because of soaring export prices. Production also more than recovered in iron ore and platinum, although gold output was still slightly lower than before the pandemic and coal was around 10% behind.

Graph 5. Index of seasonally adjusted quarterly production and sales (in constant rand) in mining (Q1 2020 = 100)(a)

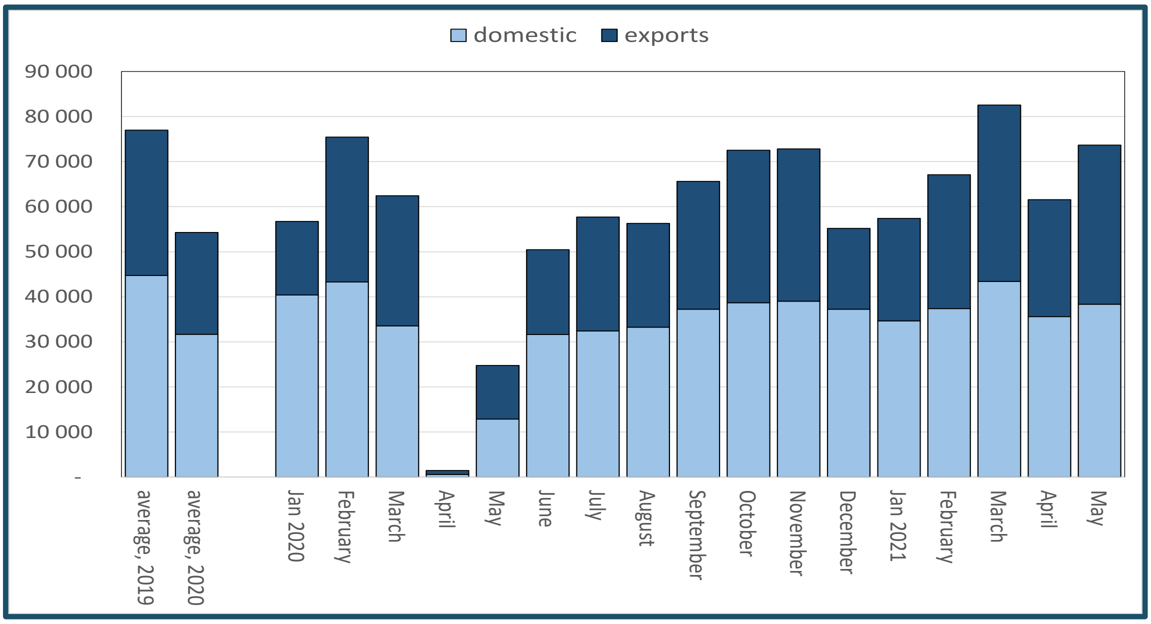


Note: (a) Production volume indices rebased to first quarter of 2020; sales are deflated with CPI. *Source:* Calculated from Statistics South Africa. Mining Production and Sales. Excel spreadsheet downloaded from www.statssa.gov.za.

Because the pandemic was not under control, with a marked surge in January, bars and restaurants remained the hardest hit industry in the economy. In the first quarter of 2021, their sales were down by 30% compared to the first quarter of 2020, when travel had already started to slow as a result of fears of COVID-19. They were 35% lower than in the first quarter of 2019. The figures indicated that the industry had not recovered at all from the last quarter of 2020 in seasonally adjusted terms.

The auto industry is South Africa's largest manufactured export outside of the mining value chain. Both domestic and export sales recovered strongly after collapsing in April 2020. Domestic sales levelled out from October 2020, however, export sales fluctuated but remained fairly strong. In May 2021, exports were 17% higher than in May 2019, before the pandemic, but domestic sales were 5% lower than two years earlier.

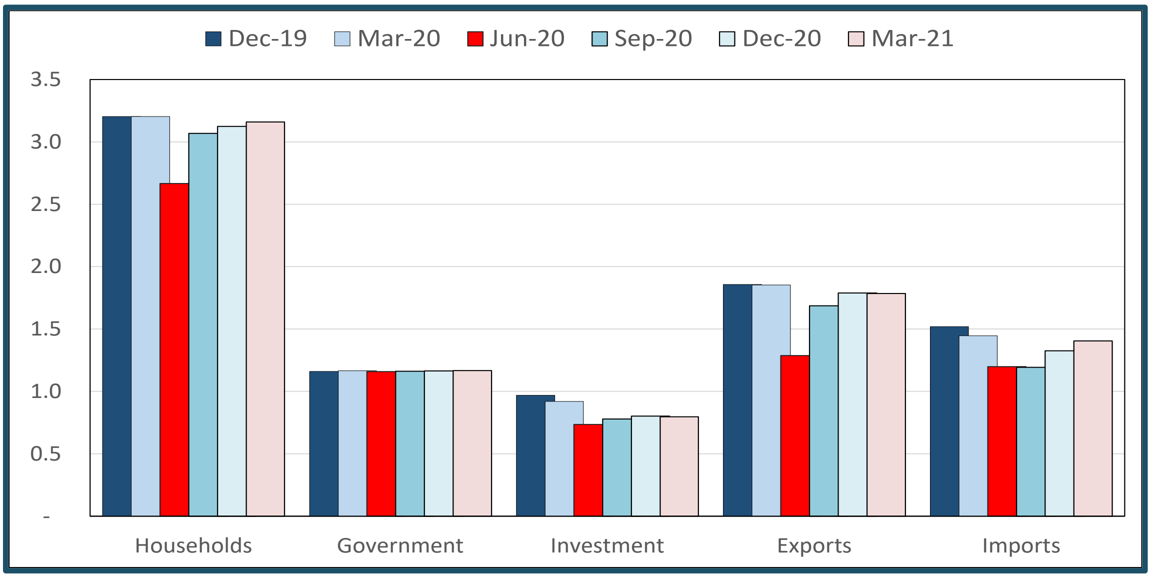
Graph 6. Domestic and export auto sales, averages for 2019 and 2020 and monthly from January 2020 to May 2021 (number of vehicles)



Source: Calculated from NAAMSA data published by Quantec. EasyData. Downloaded from www.quantec.co.za.

In expenditure terms, recovering household consumption continued to drive growth, although it remained lower than before the pandemic. In contrast, as discussed more in the section on investment and profitability, capital formation declined marginally in the first quarter of 2021. Government sustained its consumption during the sharp downturn in the second quarter of 2020, but it has not increased it since then. Exports of goods and services in seasonally adjusted terms were also flat in the past quarter, as Graph 7 shows, although goods alone climbed quite sharply in actual (not seasonally adjusted) terms.

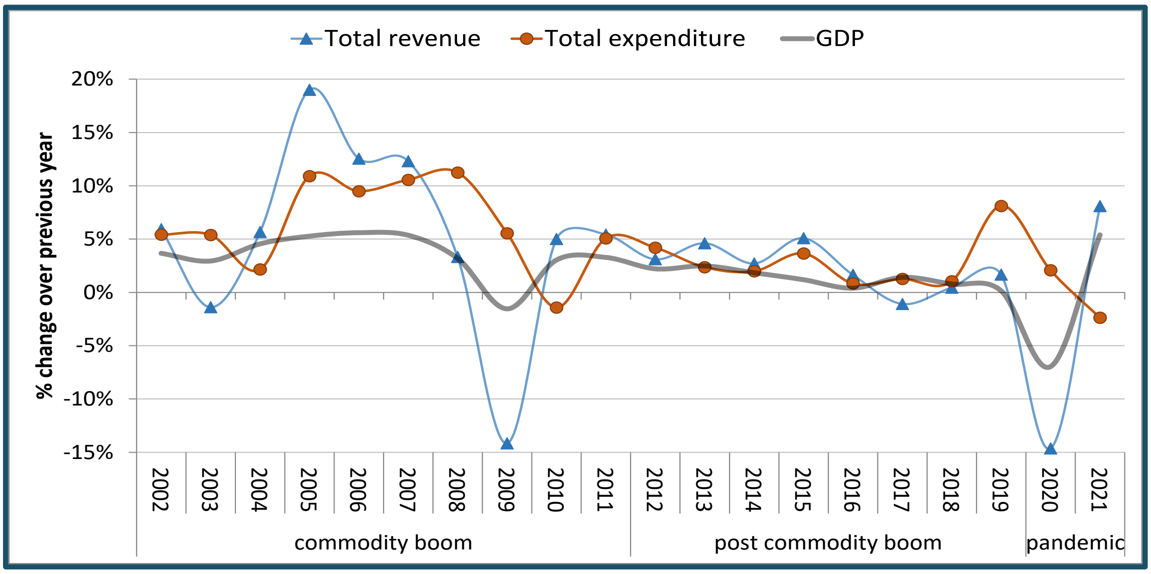
Graph 7. Quarterly expenditure on GDP, fourth quarter 2019 to fourth quarter 2020, by category, seasonally adjusted, in billions of constant (2021) rand (a)



Note: (a) Reflated using implicit deflator rebased to fourth quarter 2020. *Source:* Calculated from Statistics South Africa. GDP quarterly figures. Excel spreadsheet downloaded from www.statssa.gov.za.

South Africa's fiscal response to the COVID-19 crisis aligned with a long-term inclination toward pro-cyclical strategies. As Graph 8 shows, the 2008/9 global financial crisis and the end of the global commodity boom in 2011 brought first a sharp dip and then a sustained decline in both GDP growth and government revenues. In response, the government consistently cut spending in real terms. The 2019/20 budget reversed this trend due in large part to a R23 billion investment in Eskom. In 2020, in constant rand, South Africa's main budget revenue fell by 15% while spending climbed 2%. As a result, the deficit increased from 7% of the GDP in 2019/20 to 12% in 2020/21. In 2021/22, however, the government aimed to reduce the deficit to 9% of GDP. To that end, it planned to cut its spending by 2% in real terms, despite an anticipated 4% expansion in revenues.

Graph 8. Growth in GDP and government revenues and expenditure in South Africa, 2002 to 2021 (a)



Note: (a) Calendar year for GDP; year from March for revenues and expenditure. Revenues and expenditure deflated with March CPI. *Source:* Calculated from National Treasury. Budget Review data in excel format. Table 1. Downloaded from www.treasury.gov.za in April 2021; and South African Reserve Bank. Interactive dataset. Series on GDP in constant rand. Accessed at www.resbank.co.za in April 2021.

The 2021/22 pullback was even stronger if measured through the consolidated account that combined the budget with the accounts of state-owned companies and social protection funds. By this measure, government expenditure was expected to decline by 5.5% from 2020 to 2021, while revenue climbed by 7.1%. In real terms, that would leave spending including debt service some 2.2% higher than it was before the pandemic, in 2019/20, with revenue still down by 8.4%. Excluding debt costs, however, consolidated state spending was expected to drop 0.2% below 2019/20 levels in real terms.

South Africa's comparatively limited leverage with international creditors made it difficult for it to continue borrowing on the levels initiated at the start of the pandemic. As a result, it was effectively dependent on stimulus packages in the global North and China to boost its recovery. Moreover, the resulting restrictions on spending led to a sharp cut off to aid for workers and the jobless in the 2021 budget. Yet neither the GDP nor, as discussed in the following section, employment had fully recovered from the pandemic, and a third wave of COVID-19 began in June. In this context, the decision to free up electricity generation, discussed in the briefing note, represented a critical move toward accelerating the economy recovery.