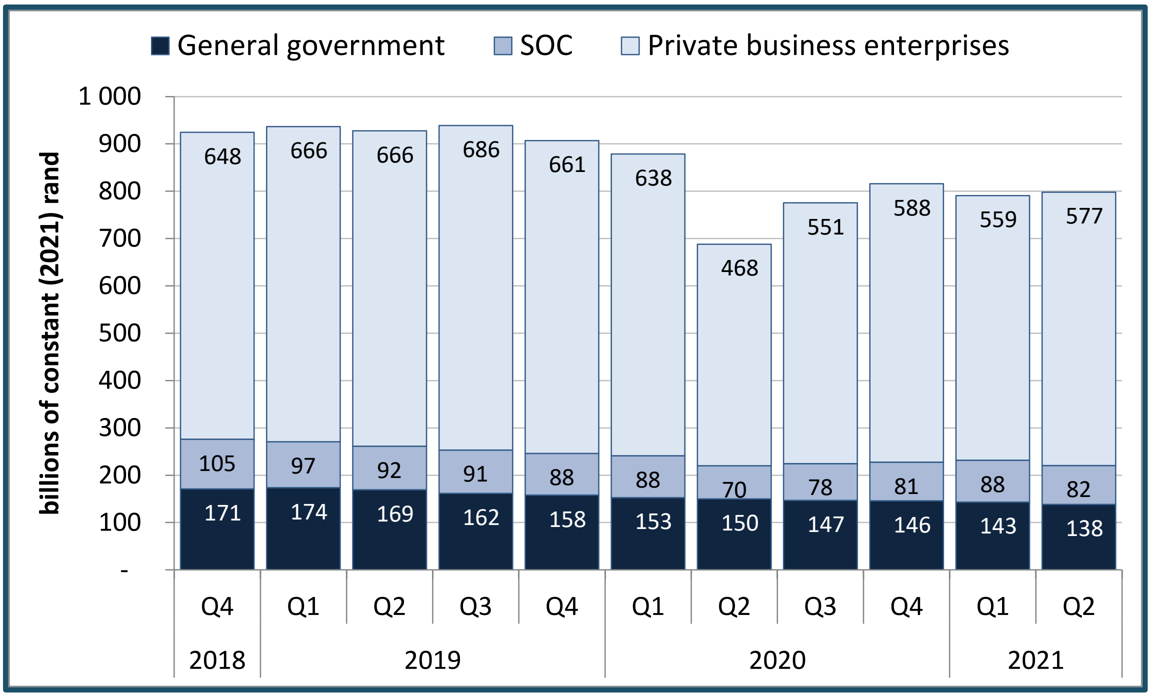
Investment

In the second quarter of 2021, investment was around 9% lower than in the first quarter of 2020. It stopped growing in the fourth quarter of 2020. General government and private investment showed the slowest recovery from the pandemic downturn. Moreover, when Statistics South Africa rebased the GDP, it found that the investment rate was overestimated for the past decade. For the second quarter of 2021, it came to a mere 12.8% of the GDP – far below the level generally considered adequate to sustain growth.

Total investment largely flattened out from the fourth quarter of 2020, after an initial rebound of almost 20% from the depths of the lockdown. As a result, investment remained at just over 90% of its level in the first quarter of 2020, which in turn was substantially lower than a year earlier. Still, in the second quarter of 2021, private investment – which accounts for three quarters of all capital formation – expanded by over 3%. In contrast, public investment shrank nearly 5%. As a result, total investment only recovered by just under 1% in the quarter. It remained lower than in the fourth quarter of 2020 (Graph 19).

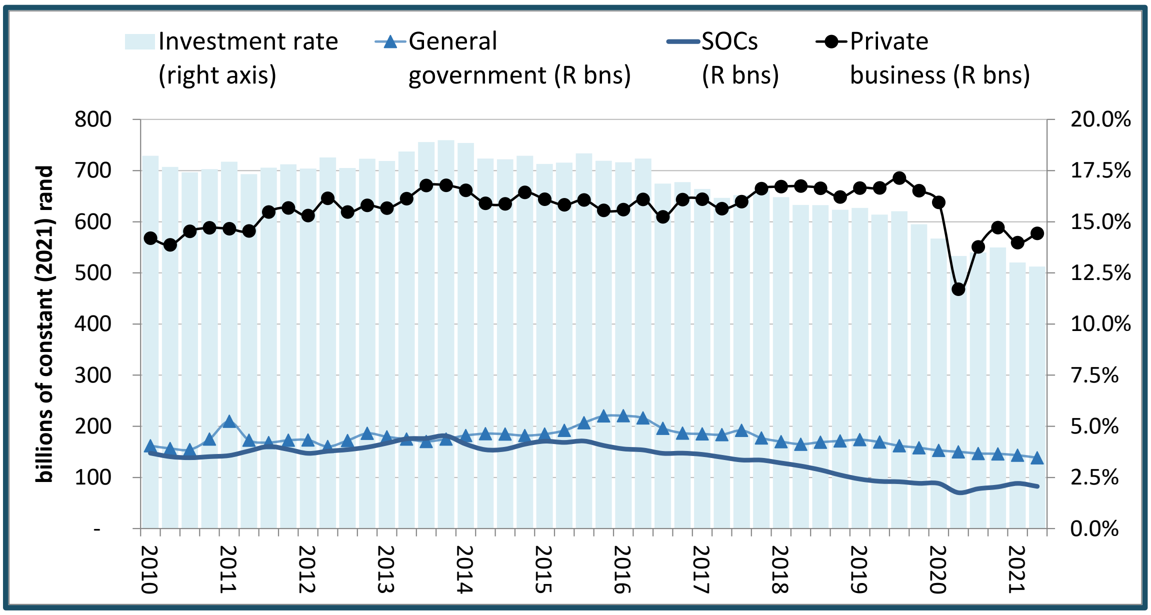
Graph 19. Quarterly seasonally adjusted investment by type of organisation, fourth quarter 2018 to second quarter 2021, in billions of constant (2021) rand (a)



Note: (a) Reflated with implicit deflator rebased to second quarter 2021 *Source:* Calculated from Statistics South Africa. GDP quarterly figures. Excel spreadsheet downloaded from www.statssa.gov.za.

When Statistics South Africa rebased the GDP data, it found that investment had been overestimated relative to other components. This finding meant the investment rate was around 2% lower than previously estimated. The trends in the investment rate remain essentially unchanged, however. Using the new figures, it hovered around 17.5% for most of the 2010s, then declined from 2016. In the second quarter of 2021, it dropped to 12.8% of the GDP. The general rule of thumb is that investment at between 20% and 25% of the GDP is required to maintain stable growth. The decline before the pandemic was mostly due to falling public sector investment. In the second quarter of 2020, however, the pandemic brought a sharp fall in private investment. Despite a steep rebound in the second half of 2020, it remains 9% below its pre-pandemic levels.

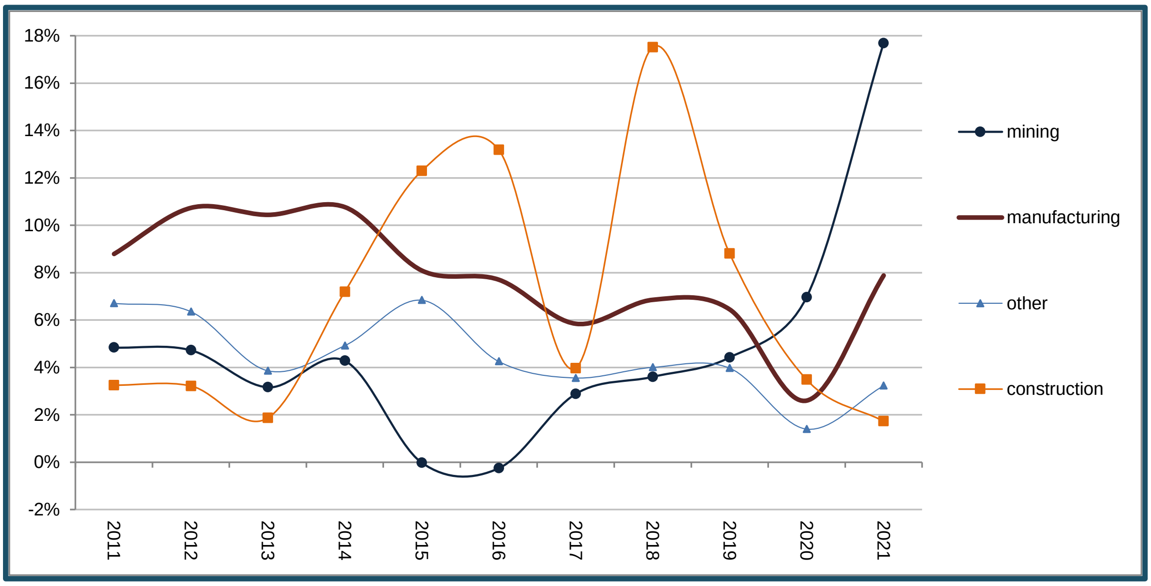
Graph 20. Quarterly investment by type of organisation in billions of constant (2021) rand, and total investment as a percentage of GDP, 2010 to second quarter 2021



Note: Reflated with implicit deflator rebased to second quarter of 2021. *Source:* Calculated from Statistics South Africa. GDP quarterly figures. Excel spreadsheet downloaded from www.statssa.gov.za.

Data on profitability by sector are available only through the first quarter of 2021 (see Graph 20). They point to a sharp recovery in profitability in mining and to a lesser extent in manufacturing compared to the first quarter of 2020. Construction, however, continued to face headwinds.

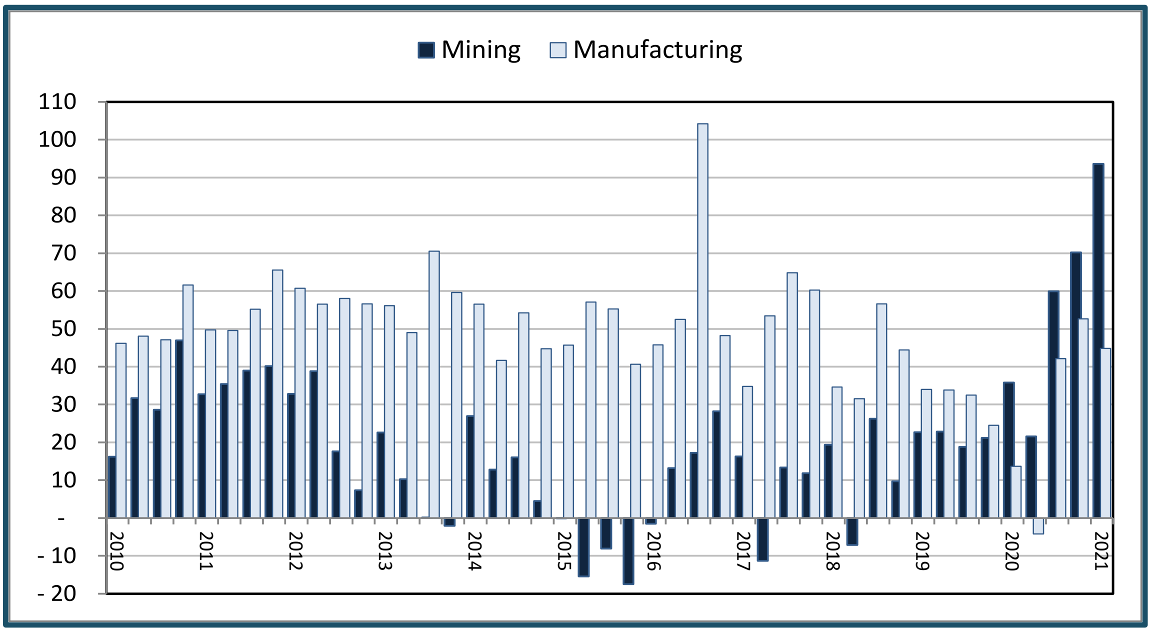
Graph 21. Return on assets in constant rand, first quarter 2011 to first quarter 2021



Source: Stats SA, Quarterly Financial Statistics adjusted to constant rand. Excel spreadsheet downloaded www.statssa.gov.za. July 2021.

As shown in Graph 22, manufacturing profits recovered more slowly than mining, and plateaued from the third quarter of 2020. In contrast, mining profits soared, driven primarily by high export prices.

Graph 22. Quarterly profits in manufacturing and mining in billions of constant 2021Q1 rand (a), 2010 to 2021



Note: (a) Deflated with CPI rebased to January 2021. *Source:* Statistics South Africa, Quarterly Financial Statistics.