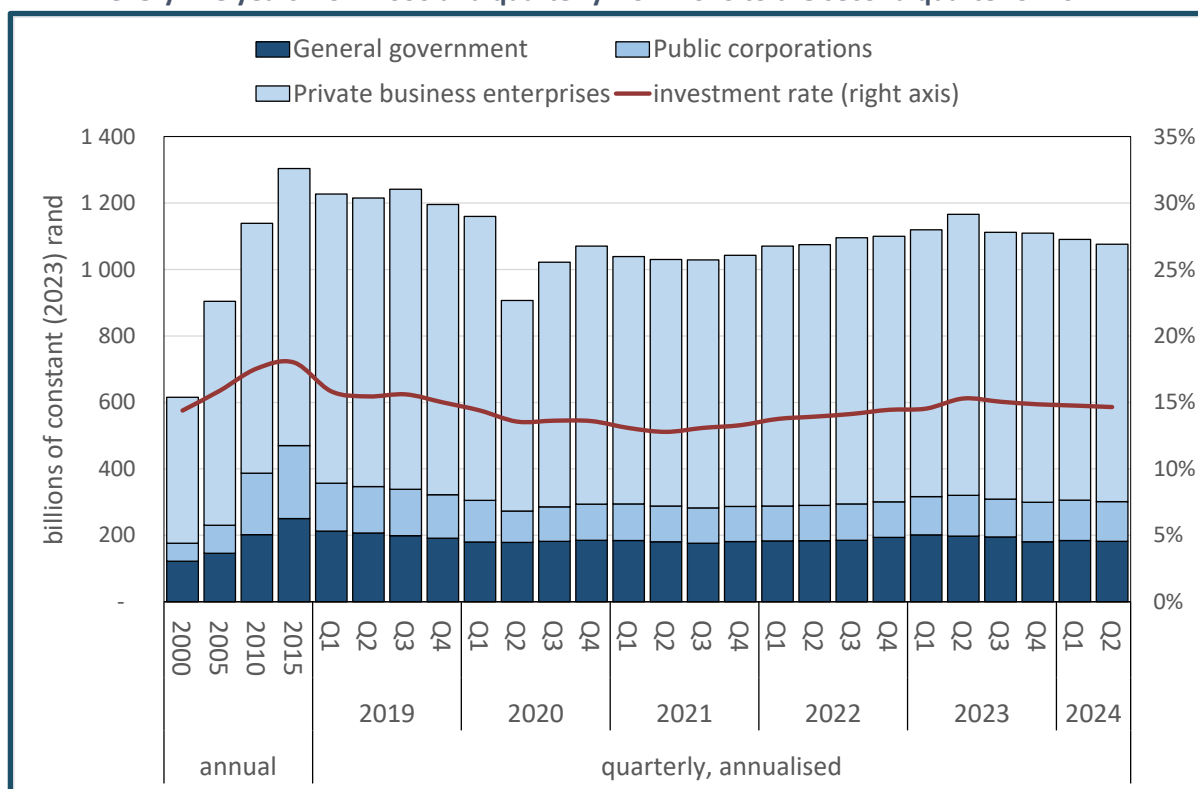


Investment and profitability

Over the year to the second quarter of 2024, the investment rate fell to 14.6%, down from its post-pandemic peak of 15.3% and well below pre-pandemic levels. Both government and private investment shrank sharply over the year. By type of capital acquired, public works and buildings accounted for most of the decline, while machinery and equipment increased, in part reflecting large-scale investment in renewable electricity. In terms of profitability, manufacturing remained stable but mining and construction experienced a decline.

Post-pandemic investment peaked in the second quarter of 2023, but it has fallen steadily since then. Gross fixed capital formation in the second quarter of 2024 was 6% lower than a year earlier, and 1% down on the first quarter. For the year, both private and general government investment shrank 7% in constant rand terms, while investment by state-owned companies fell 1%. The investment rate – that is, gross fixed capital formation as a share of the GDP – dropped from 15.3% in the second quarter of 2023 to 14.6% a year later. That compares to a post-1994 high of 18% in 2015, but the rate had already fallen to 15.5% by 2019. (Graph 15)

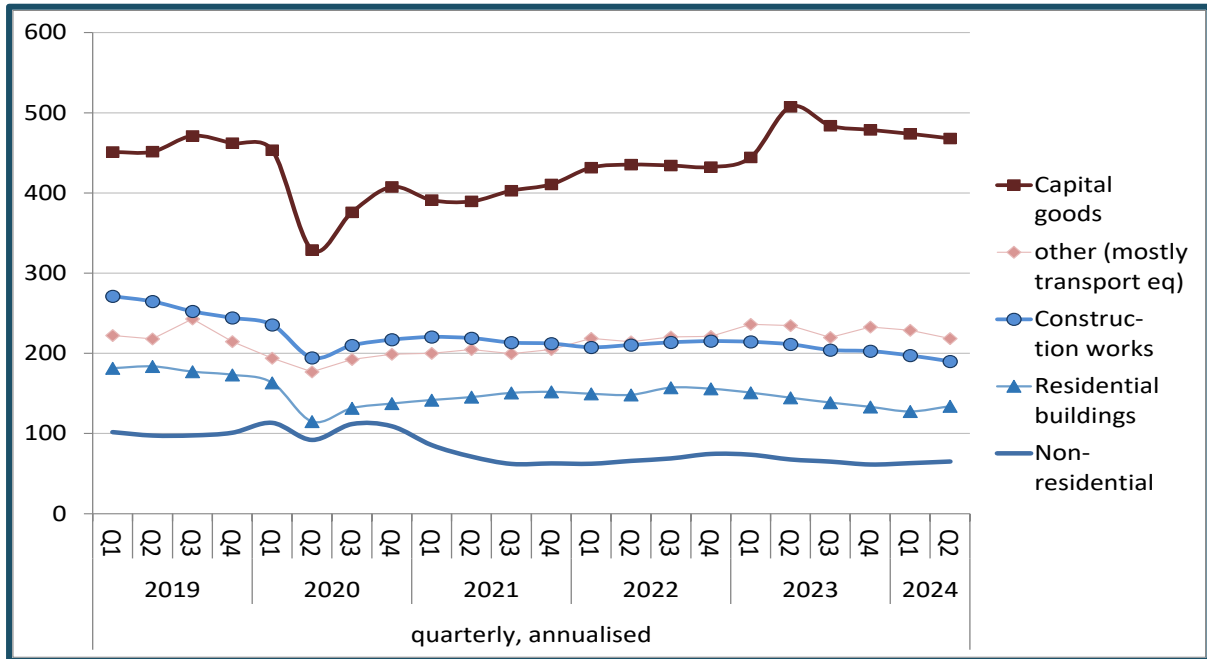
Graph 15. Investment by type of investor in constant 2024 rand and the investment rate (a), every five years from 2000 and quarterly from 2020 to the second quarter of 2024



Note: (a) Figures for investment are reflatd with implicit deflator rebased to March 2023. The investment rate is gross fixed capital formation as a percentage of expenditure on the GDP. Source: Calculated from Statistics South Africa. GDP quarterly figures. GDP P0441 – 2024Q2. Excel spreadsheet.

The available evidence underscores the difficulty of maintaining public investment in a context of fiscal and monetary austerity, despite the government’s formal prioritisation of infrastructure spending. The structure of capital investment reflects these constraints. All types of construction – homes, non-residential buildings and public works – have fallen by 28% in recent years. In contrast, investment in machinery and equipment now exceeds 2019 levels by 4%. The rapid expansion in off-grid electricity, especially in renewables, pushed up expenditure on capital goods in 2023.

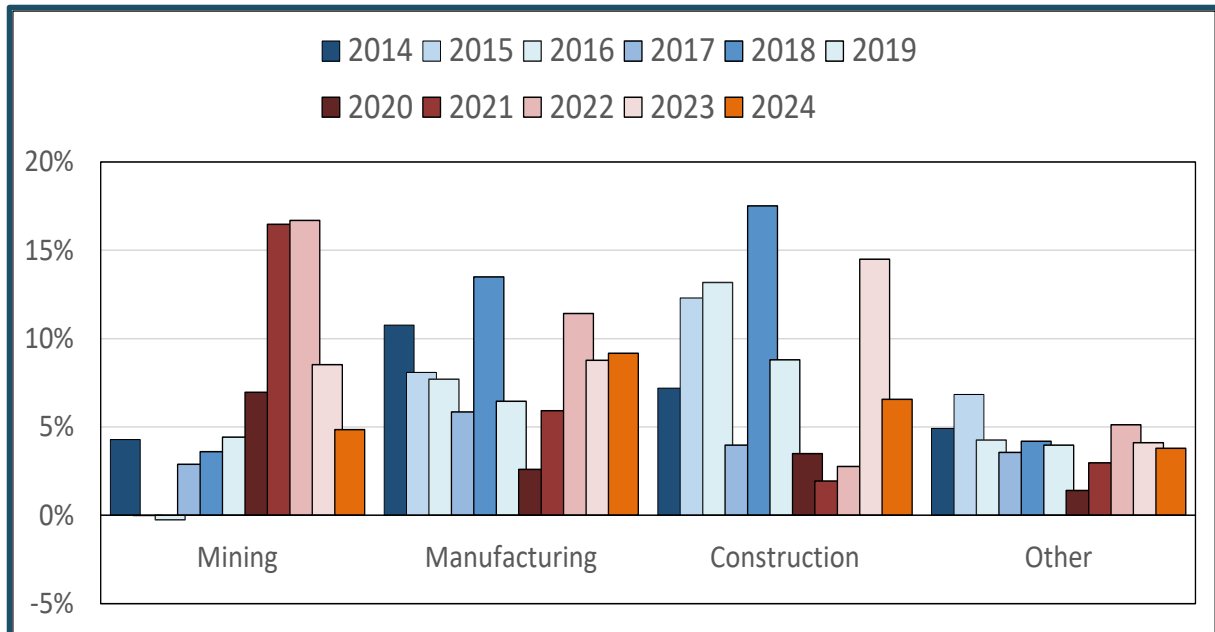
Graph 16. Quarterly gross fixed capital formation by type of asset, 2019 to second quarter 2024, in billions of constant (2024) rand (a)



Note: (a) Figures for investment are reflat with implicit deflator rebased to March 2023. Source: Calculated from Statistics South Africa. GDP quarterly figures. GDP P0441 – 2024Q2. Excel spreadsheet.

Data on profitability by sector are available only through the first quarter of 2024, from Statistics South Africa’s Quarterly Financial Statistics. Return on capital in construction spiked at 14% in the first quarter of 2023, but had dropped to 7% a year later. In mining, the return on capital decreased to 5% at the start of 2024, well below the level two years earlier. In contrast, returns on capital in manufacturing remained relatively stable at 9%, substantially higher than the other sectors.

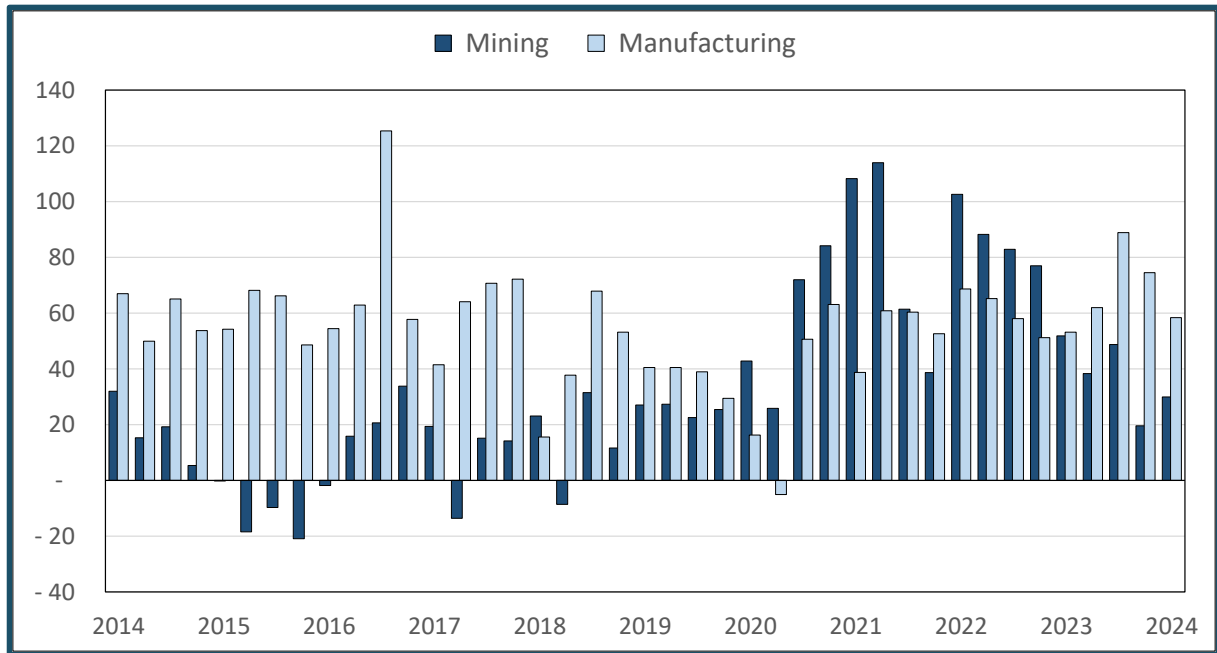
Graph 17. Return on assets by sector, first quarter, 2014 to 2024



Source: Calculated from Stats SA, Quarterly Financial Statistics. Excel spreadsheet.

In the first quarter of 2024, manufacturing profits in constant (2023) rand dropped sharply from R75 billion in the fourth quarter of 2023 to R58 billion. This decline was presumably due to slow economic growth and infrastructure delays in South Africa. In contrast, mining profits increased by more than half (53%), from R20 billion in the fourth quarter of 2023 to R30 billion in the first quarter of 2024

Graph 18. Quarterly profits in manufacturing and mining in billions of constant 2023 rand (a), 2013 to first quarter of 2023



Source: Calculated from Stats SA, Quarterly Financial Statistics. Excel spreadsheet.