

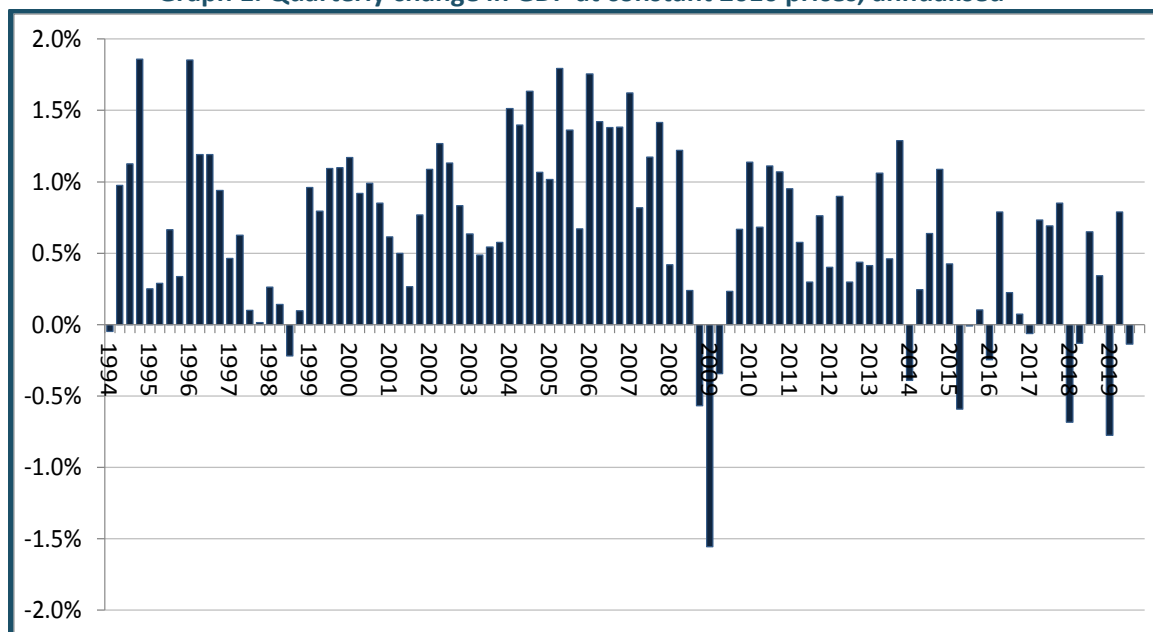
GDP growth

For the second time this year, the GDP contracted in the third quarter of 2019. In the past two years, the economy has reportedly shrunk in four quarters, underscoring the effects of the slowdown. Reported GDP growth has also become unusually erratic, with the economy growing reasonably strongly when it was not actually shrinking.

After rebounding by 0.8% between the first and the second quarter, GDP contracted by 0.1% in the third quarter of 2019, which is an annual rate of 0.6%. The economy has contracted for two quarters this year, although the rate of the decline was smaller compared to the first quarter of 2019, when GDP contract by 0.8%.

Graph 1 reflects the growing volatility in GDP data since 2014. Since then, the reported GDP has contracted in eight quarters; in the previous two decades, it declined only during global downturns. The standard deviation for growth from 2015 was 2.5 times the average; from 2010 to 2015, it was smaller than the average. Some of the reported volatility apparently reflects problems with the seasonal adjustment of quarterly GDP figures, as discussed in the last issue of the REB, but the data also reflect both slower and more erratic economic growth.

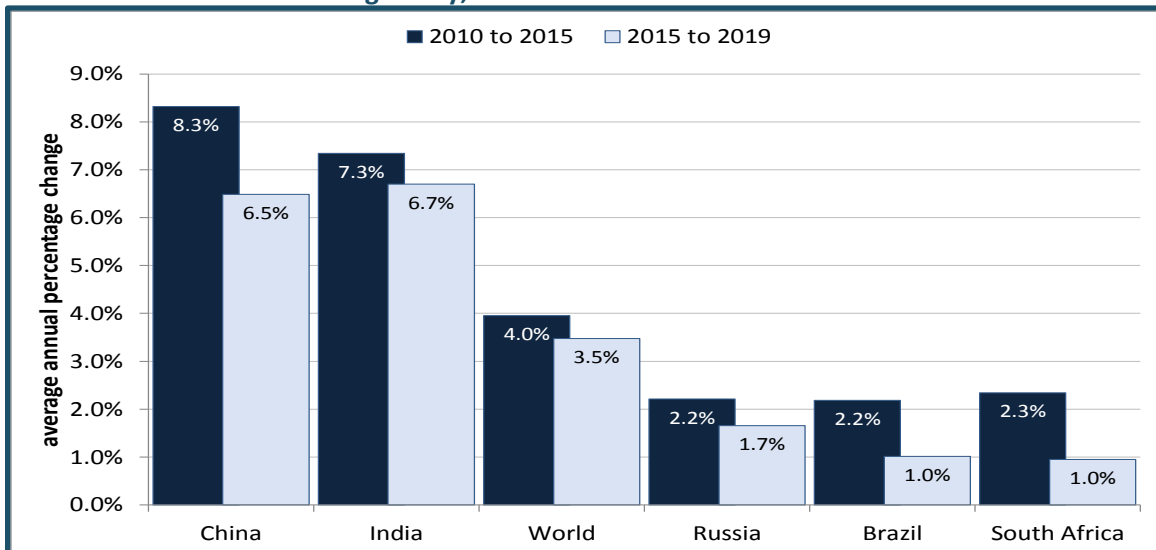
Graph 1. Quarterly change in GDP at constant 2010 prices, annualised



Source: Statistics South Africa (StatsSA) GDP quarterly figures. Excel spreadsheet downloaded www.statssa.gov.za December 2019.

South Africa has company in the slowdown since 2015, as the experience of the BRICS shows. Still, South Africa has seen more depressed growth (see Graph 2)

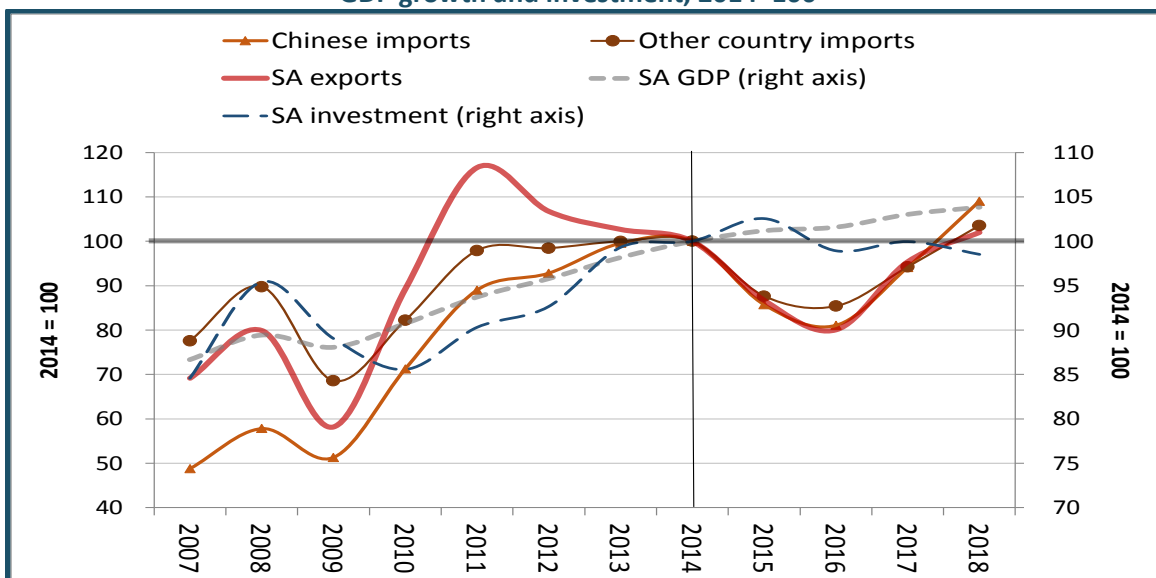
Graph 2. Annual percentage growth in GDP in BRICS countries (a) and globally, 2010 to 2015 and 2015 to 2019



Note: (a) The magnitude of the growth rates for both China and India have been queried, but the trends are likely accurate. Source: IMF, World Economic Outlook, October 2019. IMF estimates for 2019.

The slowdown across most developing economies points to the importance of global headwinds, not just domestic policy. In particular, from 2015, all of South Africa's main trading partners saw a fall in their total imports. In the same period, not surprisingly, South Africa's exports in dollars also fell, at a similar rate to the fall in its partners' imports. The decline in South Africa's foreign sales was associated with slower GDP growth and, with a delay, a drop in investment.

Graph 3. Indices of global import trends compared to South African exports, GDP growth and investment, 2014=100



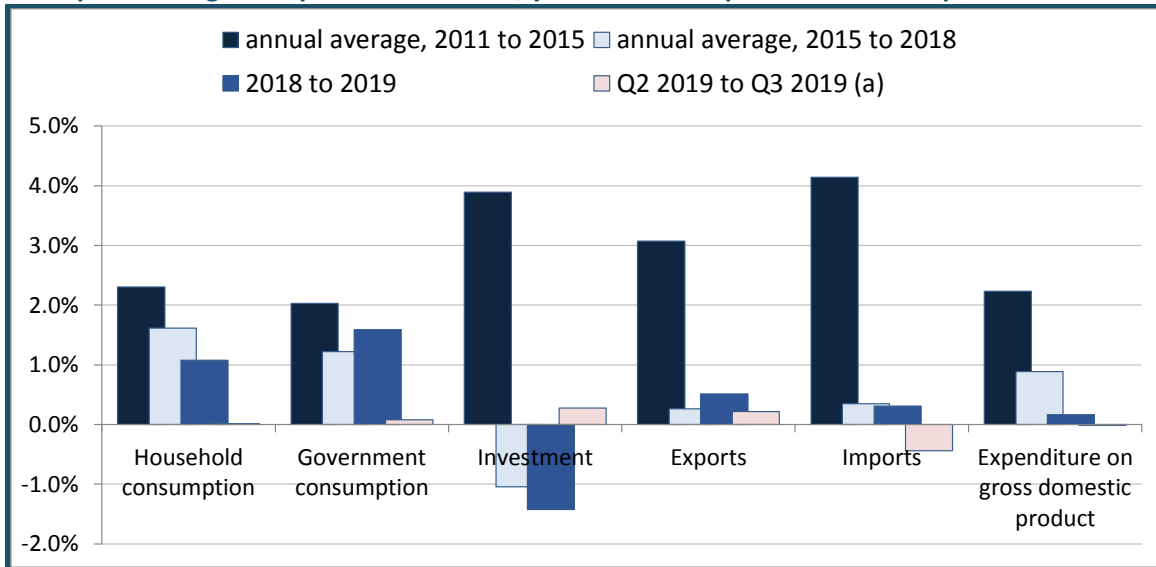
Source: For trade data, Trade Map; for GDP and investment, Statistics South Africa.

From the expenditure perspective, the contraction in the third quarter of 2019 was due entirely to a decline in inventories, as consumption, investment and the balance of trade grew at least somewhat. Inventories are far more volatile than other elements of demand, and their swings are often hard to explain. From 2018 to 2019, using the year to the third quarter, inventories fell

from R8 billion to negative R10 billion. From the second quarter of 2019 to the third quarter, they dropped from R27 billion to negative 10 billion.

Still, the sharp fall in inventories only caused an overall contraction in the GDP last quarter because growth in government and household consumption slowed to far below the average for the year. In contrast, investment ticked up. As discussed in the section on investment, growth was entirely due to improved private investment.

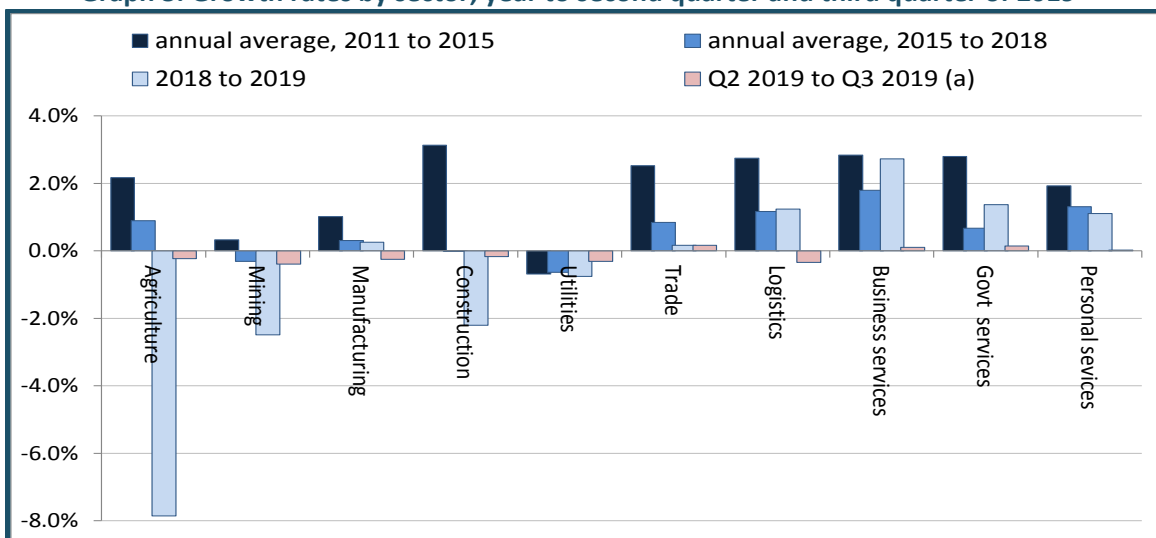
Graph 4. Change in expenditure on GDP, year to second quarter and third quarter of 2019



Source: StatsSA GDP quarterly figures. Excel spreadsheet downloaded from www.statssa.gov.za in December 2019. Note: (a) Seasonally adjusted.

By industry, all the sectors of the real economy saw a contraction between the second and third quarters of 2019. Only manufacturing recorded growth for the year to September. Agriculture again saw a sharp decline, reflecting severe localised droughts. Construction also continued to shrink, which – as noted below – was associated with significant job shedding. The services and retail grew, but only very slowly.

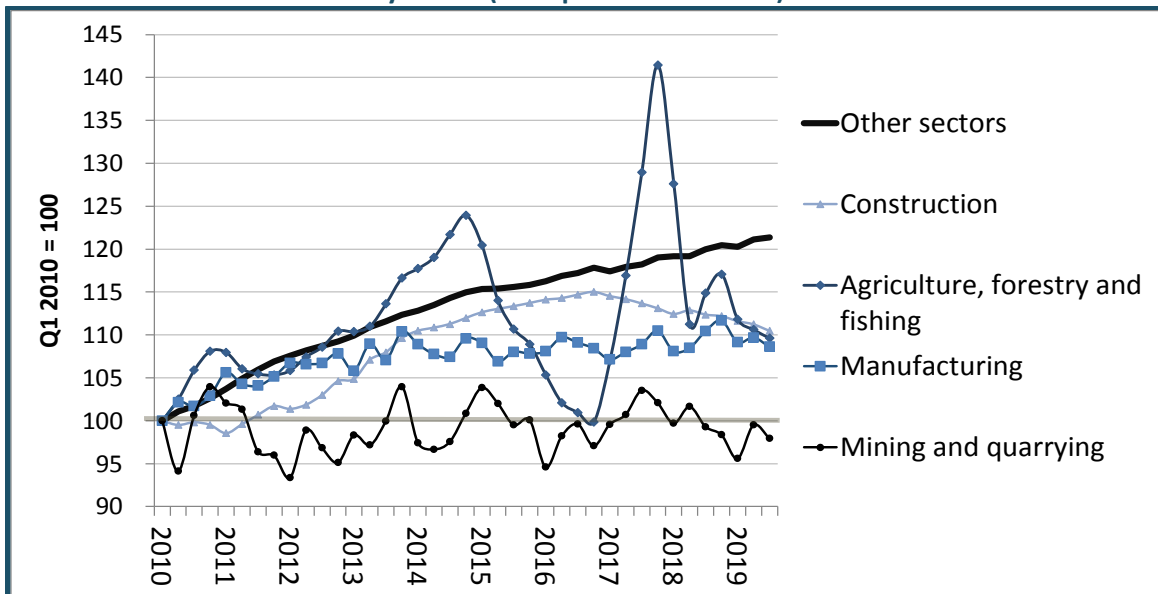
Graph 5. Growth rates by sector, year to second quarter and third quarter of 2019



Source: StatsSA GDP quarterly figures. Excel spreadsheet downloaded www.statssa.gov.za in December 2019. Note: (a) seasonally adjusted, annualised.

Graph 6 shows the extraordinary volatility of agriculture in recent years, reflecting the increased severity of droughts as the climate crisis deepens. Construction has shrunk in every quarter save one since the end of 2016, contracting a total of 4%, after it had grown equally steadily from 2010 to 2016. Manufacturing and mining have fluctuated but have remained essentially unchanged since 2014. The rest of the economy, dominated by public and private services and by trade, has shown comparatively consistent growth over the past decade.

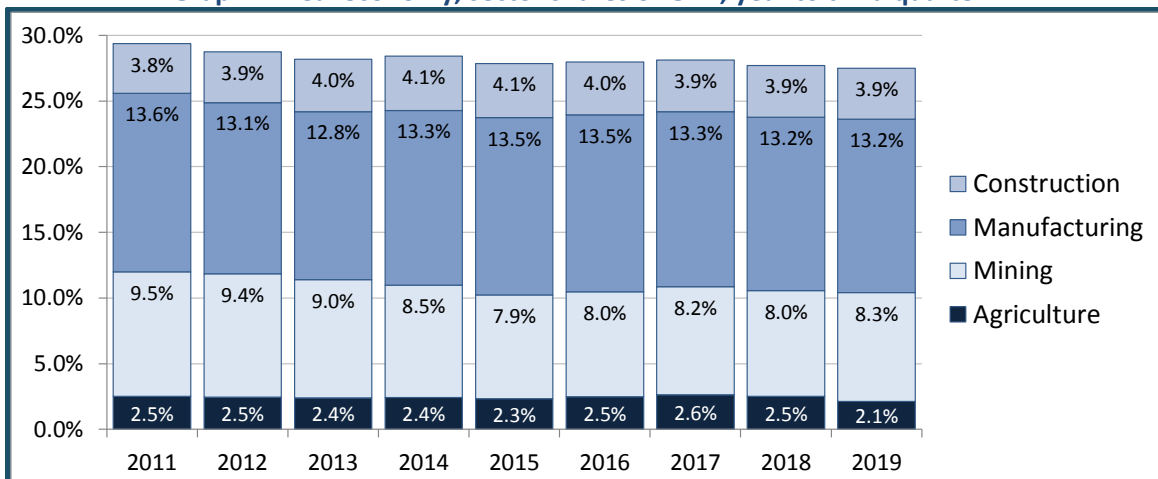
Graph 6. Indices of quarterly contribution to GDP in constant terms, by sector (first quarter 2010 =100)



Source: StatsSA GDP quarterly figures. Excel spreadsheet downloaded from www.statssa.gov.za in December 2019.

As a result of these trends, the share of the real economy in the GDP fell from 29% in 2011 to 27% in 2019. From 2018 to 2019, using the year to third quarter, its share fell from 27.7% to 27.5%, mostly because of the decline in agriculture.

Graph 7. Real economy, sector shares of GDP, year to third quarter

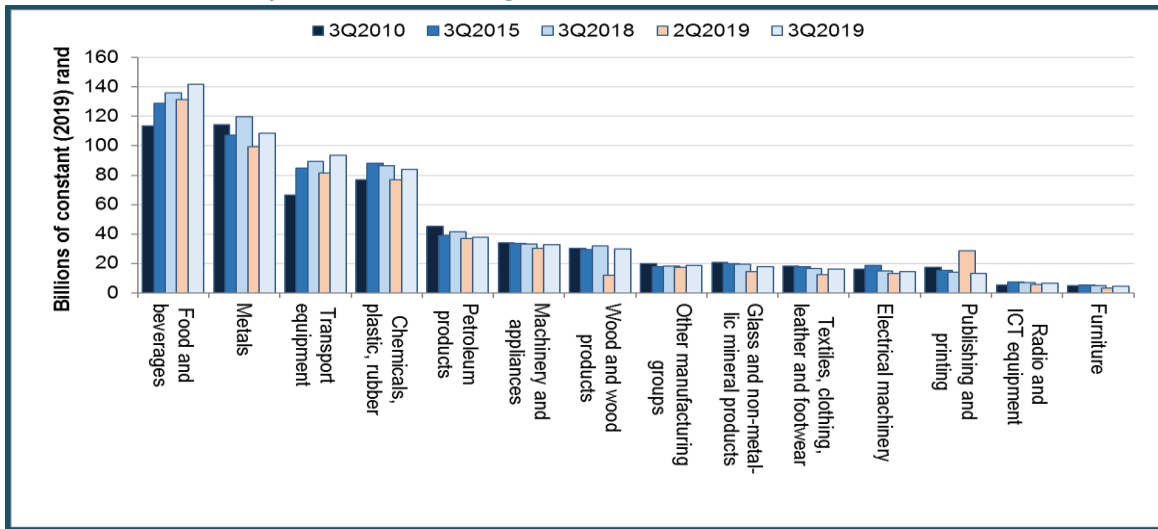


Source: StatsSA GDP quarterly figures. Excel spreadsheet downloaded from www.statssa.gov.za in December 2019.

In the third quarter of 2019, there was an uptick in total manufacturing sales compared to the second quarter of 2019. The quarterly figures are volatile, however, and manufacturing sales have shown no significant growth since 2015. Only publishing and printing showed a fall in sales

between the second and third quarter of 2019. The largest gains were recorded for wood and wood products, transport equipment, metals, and food and beverages.

Graph 8. Manufacturing sales, constant rand, 2010 – 2019



Statistics South Africa (StatsSA). Manufacturing volume and sales from 1998. Excel spreadsheet. Downloaded in November 2019.