# THE REAL ECONOMY BULLETIN

TRENDS, DEVELOPMENTS AND DATA

SECOND QUARTER 2019

*The Real Economy Bulletin is a TIPS review of quarterly trends, developments and data in the real economy, together with a comprehensive analysis of the main manufacturing industries and key data in Excel format*.*

## GDP growth

*Statistics South Africa reported rapid growth in the GDP in the second quarter, at 0.8% in actual terms – that is, 3% at an annualised rate. The data continue the increased volatility in the GDP data over the past five years. The data again raise questions about the seasonal adjustment of the quarterly GDP data.*

South Africa's GDP climbed by 0.8% in seasonally adjusted terms from the first to the second quarter of 2019, reversing the decline on virtually the same order of magnitude in the previous quarter. These figures highlight continued volatility in economic conditions, with a secular downward trend. The number of quarters with negative growth has increased markedly since 2014.

The robust rebound raises questions about the GDP data. Seasonal adjustment of the quarterly data aims to compensate for underlying cyclical trends, so that the average growth across the quarters is more or less equal over time. Yet in the past five years, a distinct annual cycle has emerged in the seasonally adjusted data. In four of these years, the first quarter has seen a decline, followed by more robust growth in the rest of the year. These issues are analysed in more detail in the Briefing Note on seasonality in the GDP data.

*Available at www.tips.org.za/the-real-economy-bulletin

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EDITORIAL TEAM

The Real Economy Bulletin is a TIPS Publication

**Editor**

Mbofholowo Tsedu

**Contributors**

Rhulani Hobyani

Faizel Ismail

Saul Levin

Neva Makgetla

Kelello Mashiane

Nokwanda Maseko

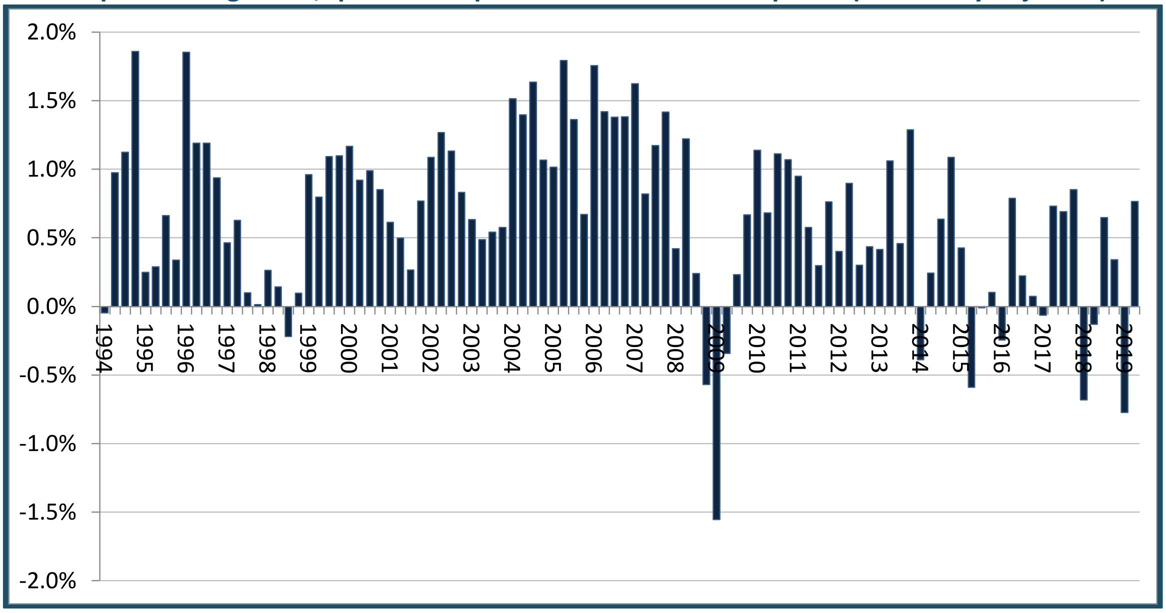
TIPS

TRADE & INDUSTRIAL POLICY STRATEGIES

+27 12 433 9340 info@tips.org.za

www.tips.org.za

**Graph 1. GDP growth, quarter on quarter in constant 2010 prices (seasonally adjusted)**

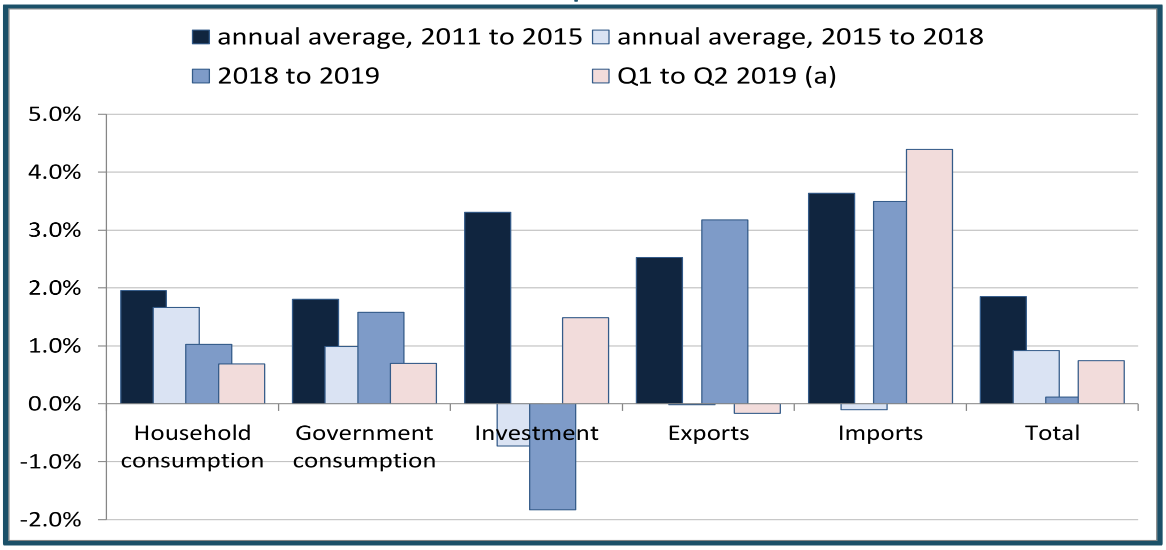



*Source: StatsSA GDP quarterly figures. Excel spreadsheet downloaded from www.statssa.gov.za in June 2019.*

On the expenditure side, a marked recovery in private investment drove the reported growth in the second quarter of 2019. Nonetheless, investment declined in the year through the second quarter of 2019. The Investment and Profitability section provides more detail.

In contrast to investment, while personal and government consumption expanded in the past quarter, the rate of growth was lower than in most of the previous decade. Income inequalities mean that the richest 10% of households account for over half of all spending. Exports declined slightly in constant terms, while imports rose by 4% in the quarter.

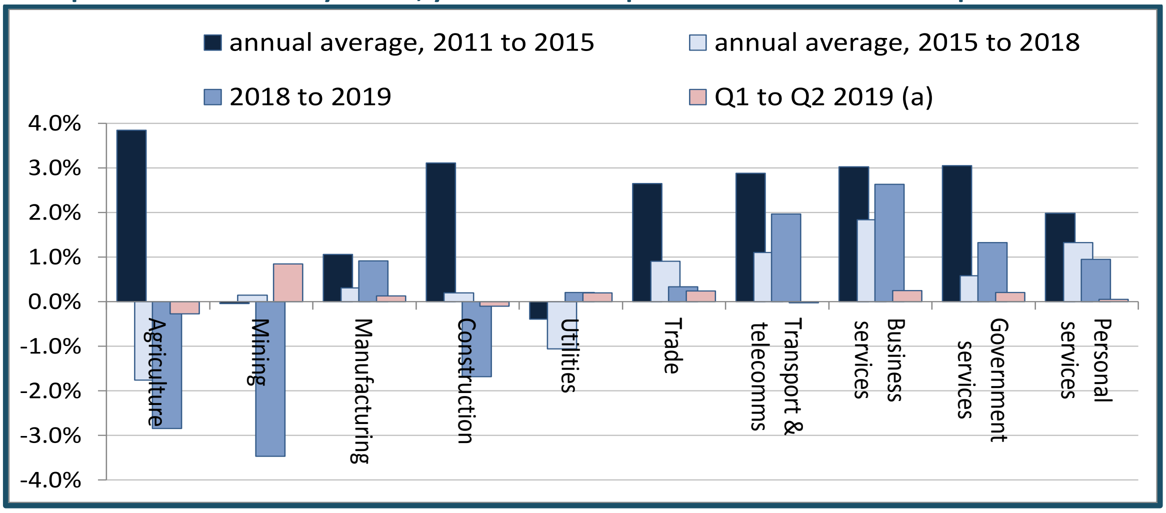
**Graph 2. Change in expenditure on the GDP, year to second quarter and second quarter of 2019**




*Note: (a) Seasonally adjusted change from first quarter 2018 to second quarter of 2019. Source: StatsSA GDP quarterly figures. Excel spreadsheet downloaded from www.statssa.gov.za in June 2019.*

By industry, the second quarter reportedly saw an improvement in all sectors except agriculture, transport and communications (logistics) in the graph below, and construction. In year-on-year terms, however, agriculture, mining and construction all showed substantial declines, while manufacturing and government services experienced stronger growth than in the previous three years. Mining climbed almost 1% in the quarter, although it still declined strongly in the year to June 2019. Manufacturing saw some improvement, but its growth slowed compared to the previous year.

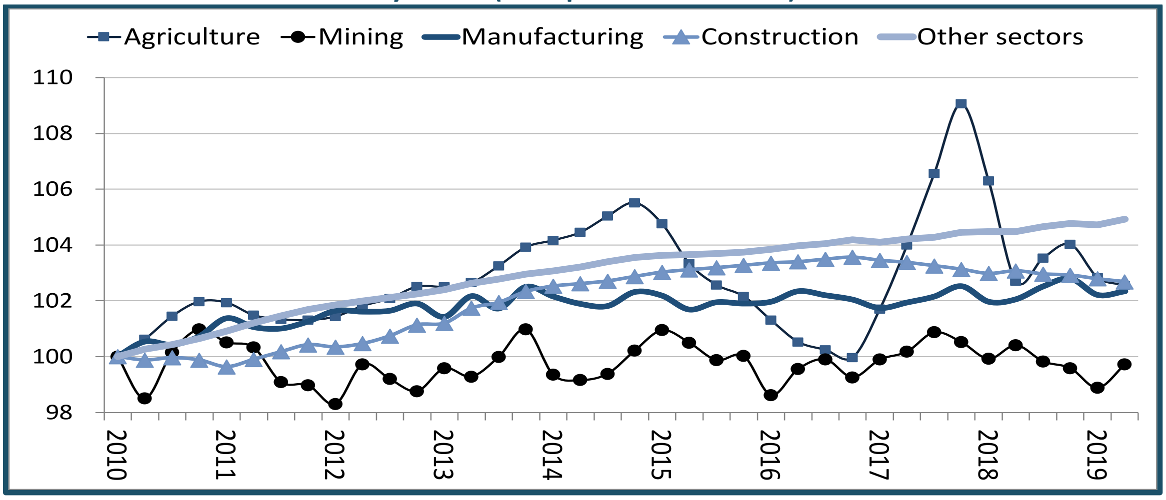
**Graph 3. Growth rates by sector, year to second quarter and first to second quarter of 2019**




*Note: (a) Seasonally adjusted, actual (not annualised) change from first quarter 2018 to second quarter of 2019. Source: StatsSA GDP quarterly figures. Excel spreadsheet downloaded from www.statssa.gov.za in June 2019.*

As Graph 4 shows, manufacturing and mining have experienced essentially no increase in production in the past five years, despite some fluctuations over the period. Construction has declined steadily for the past 10 quarters. Agriculture has shown extreme volatility even though the figures are seasonally adjusted, reflecting the worsening of droughts as the climate crisis progresses.

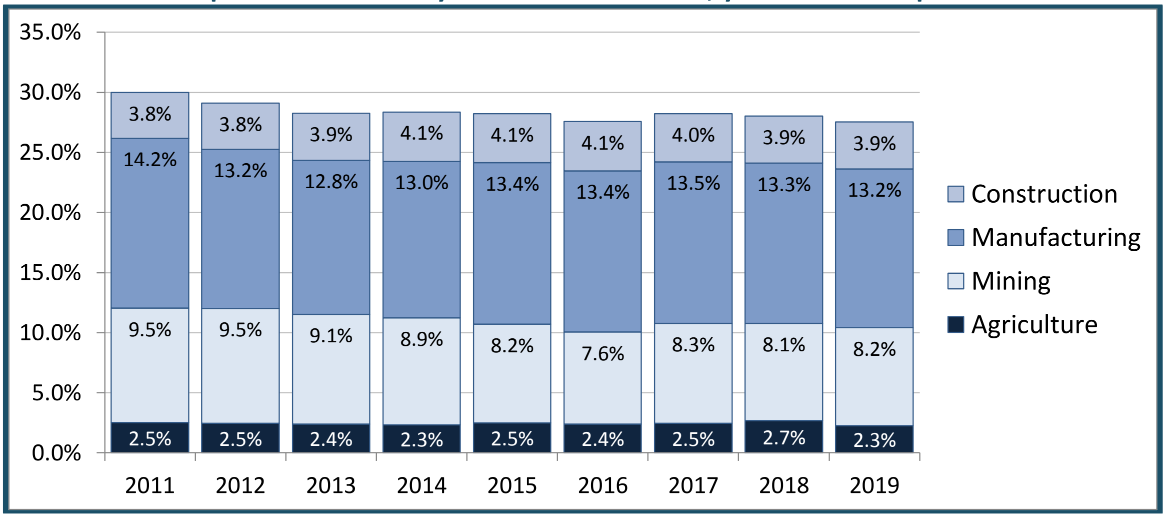
**Graph 4. Indices of quarterly contribution to the GDP in constant terms by sector (first quarter 2010 = 100)**




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

Over the year to the second quarter, the share of the real economy in economic activity decreased from 27.9% in 2018 to 27.5% in 2019, down from a peak of 29.6% in the year to the second quarter of 2011. The share of manufacturing dropped from 13.5% in the year to the second quarter of 2017 to 13.2% in the second quarter of 2019.

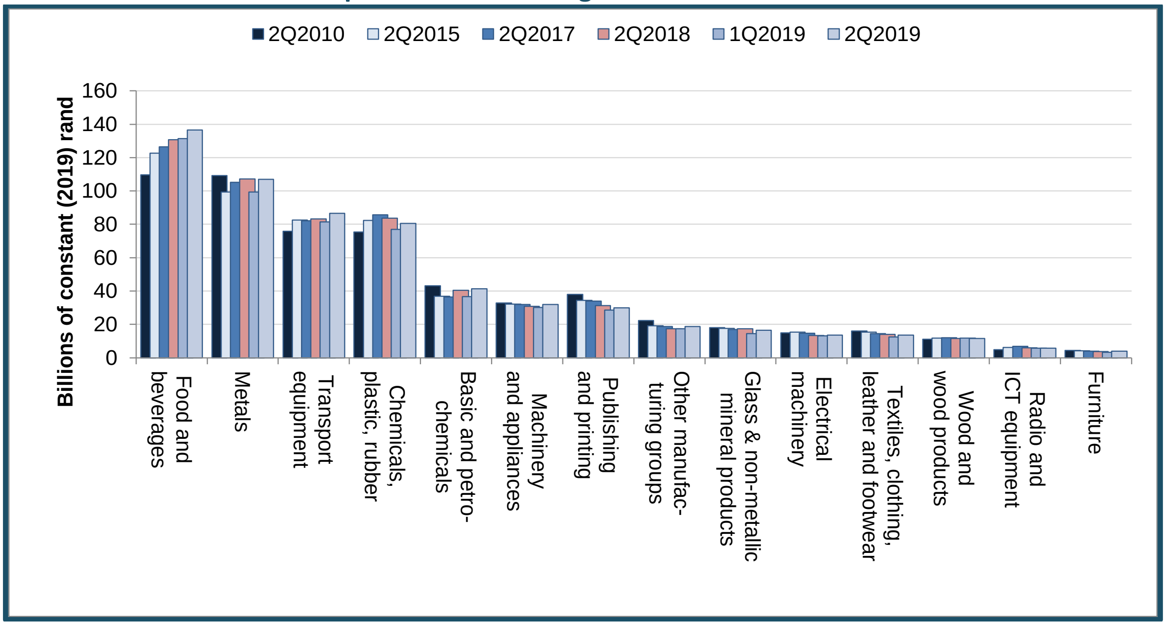
**Graph 5. Real economy sector shares of GDP, year to second quarter**




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

Total manufacturing sales in the second quarter of 2019 were up 6% from the first quarter of 2019, increasing by R34 billion from R563 billion to R597 billion in constant (2019) rand. This was a marginal improvement of 1% on sales when compared to the same period in 2018.

**Graph 6. Manufacturing sales in constant rand**




*Source: StatsSA. Manufacturing volume and sales from 1998. Excel spreadsheet. Downloaded in August 2019.*

A decline in sales was recorded in only two minor sectors, wood and wood products and the radio and ICT sectors, which both experienced sales declines in the region of 2% from the first quarter of 2019. Significant sales growth was recorded for furniture, glass and petroleum products, all registering double digit growth in sales from the first quarter. Metals and clothing and textiles also experienced significant growth in sales (averaging around 8% growth), rebounding from first quarter stagnation. Moderate growth was observed in the sales figures of the food and beverages, transport equipment, machinery, and chemicals, with growth ranging between 4% and 6%.

When compared with the second quarter of 2018, manufacturing sales increased only marginally, growing overall by 1%. Critically, sales were down in the chemicals, textiles, glass, furniture and publishing sectors (these sectors fell by 4% on average), highlighting continued strain on the sales environment in many sectors.

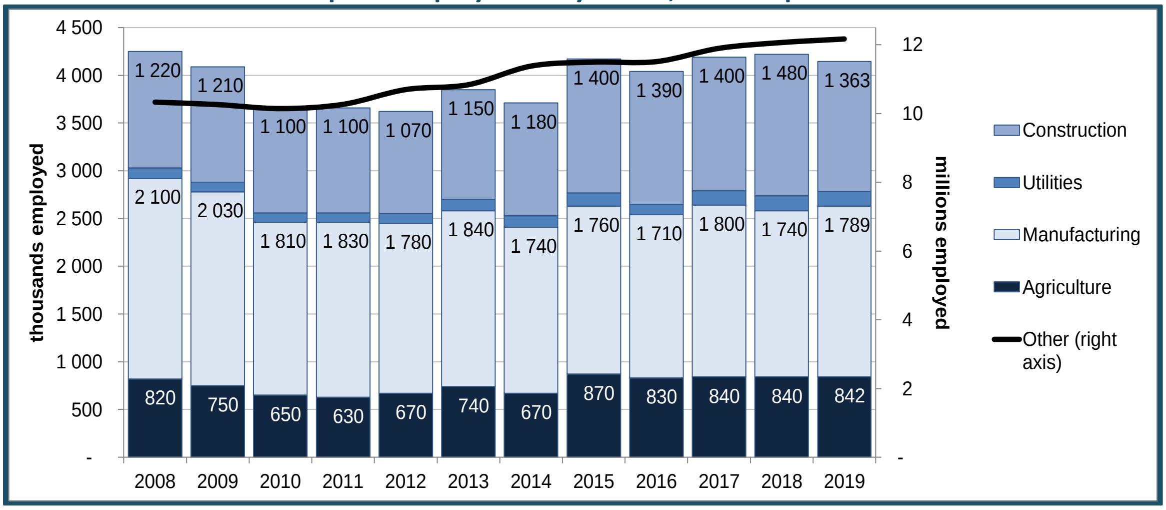
## Employment

*After a sharp fall in the first quarter, employment in the real economy was essentially stable in the year to the second quarter of 2019. It is now at the same level it was in 2015.*

Employment data are not seasonally adjusted, which makes evaluation of quarterly changes difficult. In 2019, total employment increased by around 20 000, or 0.1%. That came close to the second-quarter norm over the previous eight years, which saw a slight decline in employment. It contrasted with the sharp fall reported for the first quarter, with the loss of 250 000 jobs or 1% of the total. That was far above the normal seasonal contraction of around 0.1%.

Because jobs data are not seasonally adjusted, it is more useful to compare figures for the same quarter of each year. As Graph 7 hows, employment in the real economy in the second quarter, excluding mining, was around 80 000 or 1.5% lower in the second quarter of 2019 than in the second quarter of 2018. Virtually all the job losses came from construction, which lost over 100 000 positions or 8% of the total in the year to second quarter 2019. Still, construction employment remains substantially higher than it was from 2010 to 2014. In contrast to construction, manufacturing saw an uptick compared to a year earlier, expanding by 50 000 jobs or almost 3%, while agriculture was stable. Employment in other sectors – services, logistics and retail – climbed slightly over the past year.

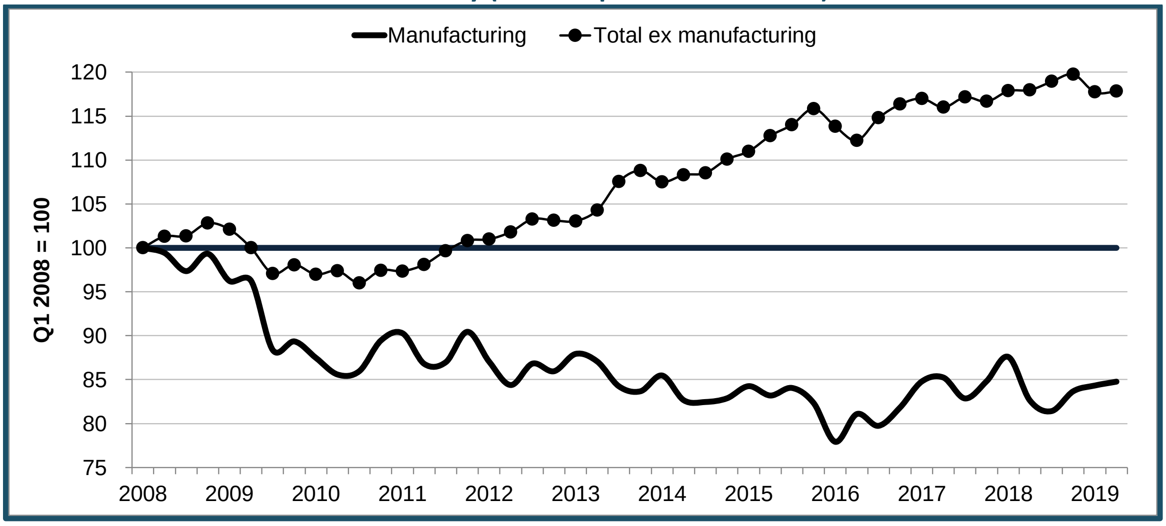
**Graph 7. Employment by sector, second quarter**




*Source: StatsSA. QLFS –2008-2019 Q2. Electronic database. Downloaded from www.statssa.gov.za.*

The increase in manufacturing jobs reflected the tendency to fluctuate between 1.7 million and 1.8  million since 2010, with no real growth over the period. As Graph 8 shows, manufacturing employment remains below its levels in 2008, on the eve of the global financial crisis. In contrast, employment in the rest of the economy is more than 15% higher than it was in 2008.

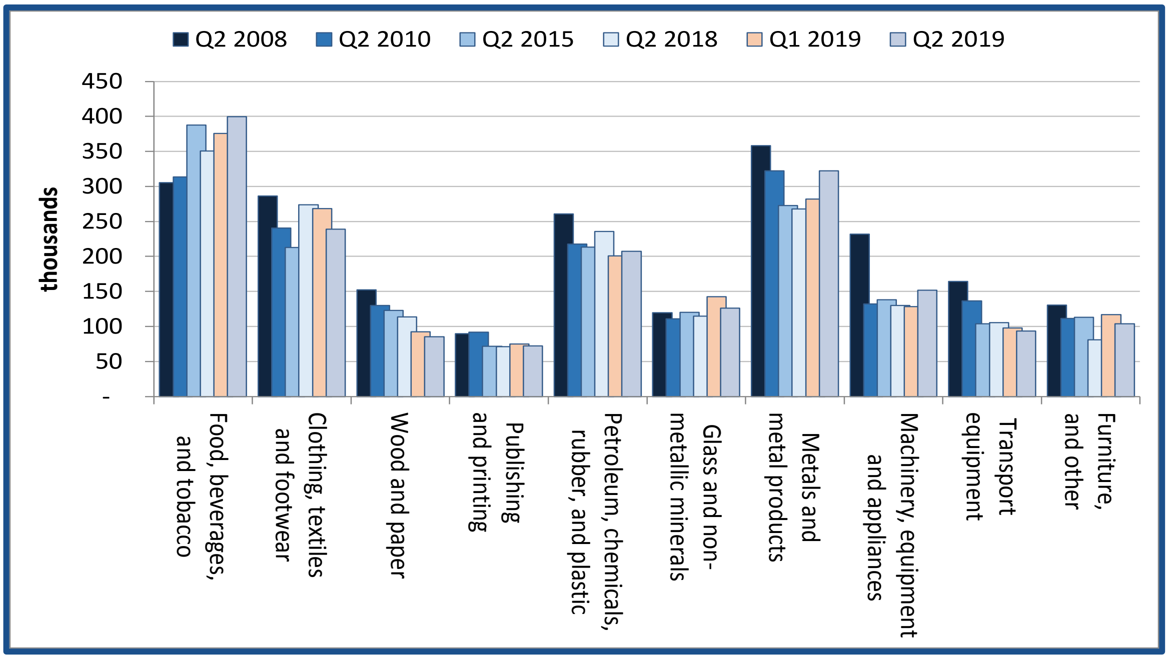
**Graph 8. Indices of employment in manufacturing and the rest of the economy (second quarter 2008 = 100)**




*Source: StatsSA. QLFS –2008-2019 Q1. Electronic database. Downloaded from www.statssa.gov.za.*

Within manufacturing, the largest job gains in the year to the second quarter 2019 were in the metals value chain – refineries, metal products and machinery. Food processing also continued its expansion, which has been fairly consistent for most of the past decade. In contrast, clothing, wood and paper, and chemicals saw significant job losses over the year.

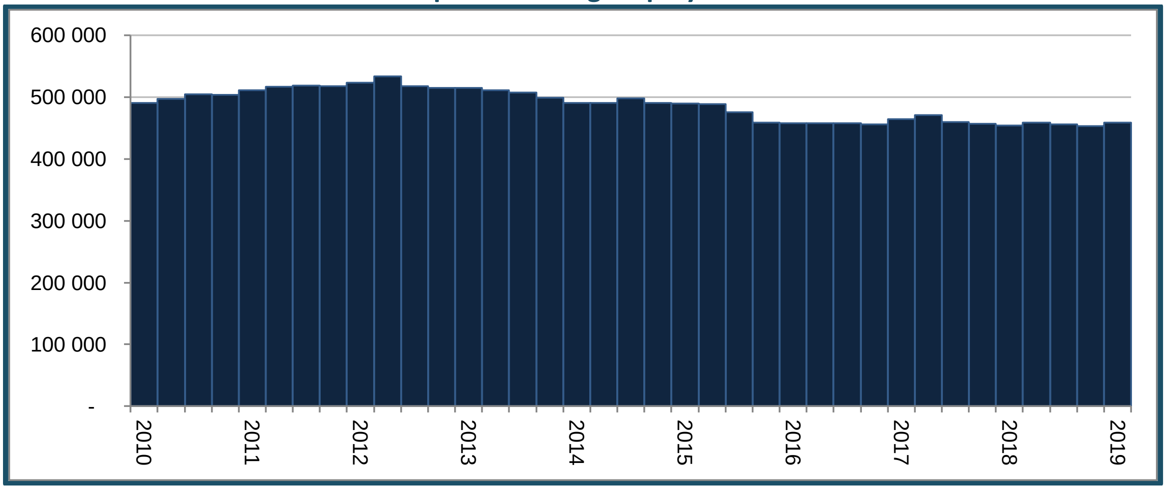
**Graph 9. Employment by manufacturing industry, second quarter of 2008, 2010, 2017, 2018 and 2019, and first quarter of 2019**




*Source: StatsSA. QLFS –2008-2019 Q1. Electronic database. Downloaded from www.statssa.gov.za.*

For mining employment, figures from the Statistics South Africa employer survey, the Quarterly Employment Statistics, are considered more reliable than those from the Quarterly Labour Force Survey. They are, however, available only through the first quarter of 2019. The sector was flat compared to the first quarter of 2018. Since 2011, when the commodity boom ended, some 70 000 miners – around one in seven – have lost their jobs.

**Graph 10. Mining Employment**



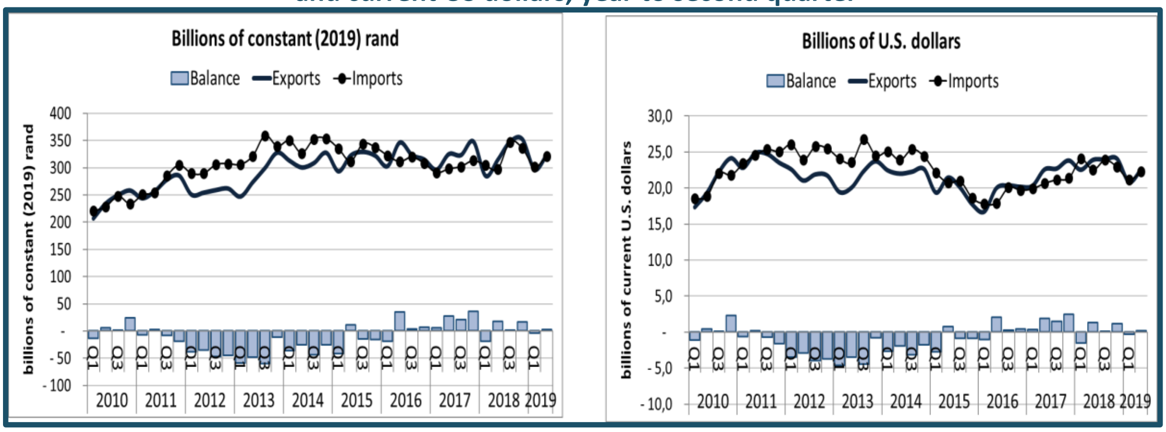

*Source: StatsSA. Quarterly Employment Statistics. December 2018.*

## International trade

*Both imports and exports increased between the first and second quarters. Only marginal growth was observed compared to the same period last year.*

Total international trade improved from the first quarter of 2019 to the second, with a net trade surplus of R3 billion reported in the second quarter of 2019, equivalent to US$200 million. Exports were up 9% (R26 billion) at R324 billion from the first quarter of 2019. Imports were up 6.5% between the first and second quarters of 2019, increasing from over R302 billion to R321 billion.

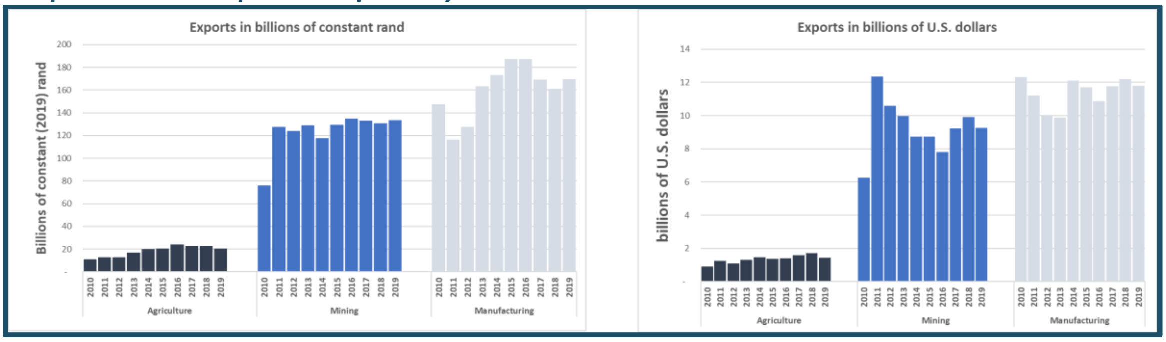
**Graph 11. Exports, imports and balance of trade in constant rand and current US dollars, year to second quarter**




*Source: South African Reserve Bank (SARS) monthly data*

A downward fluctuation in the rand in the second quarter of 2019 meant both mining and manufacturing exports increased in rand terms – the first upswing since 2016 for manufacturers. In contrast, there was a broad-based dollar decline across all export categories, and agricultural exports also fell in rand terms. Manufacturing exports had been consistently declining since 2016, but experienced 5% growth between 2018 and 2019 in rand terms, although they fell 3% in dollars. Mining exports were up 2% to R133 billion, while in dollar terms they fell by 6.5%.

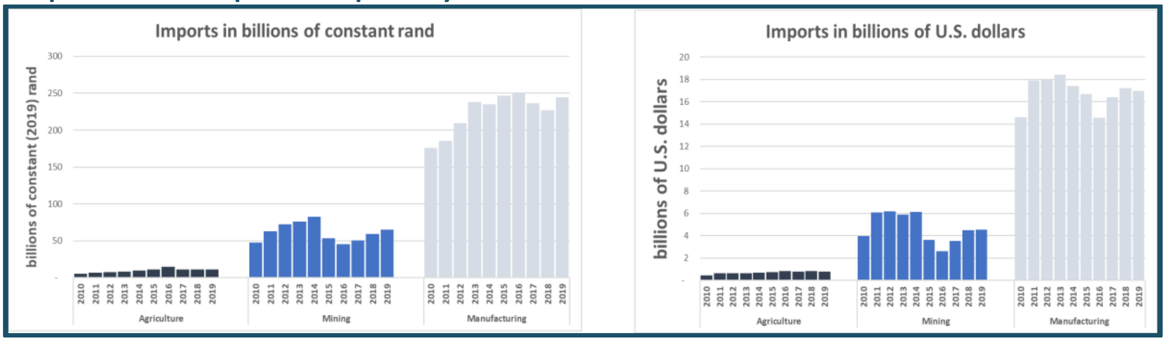
**Graph 12. Second-quarter exports by sector in billions of constant rand and current US dollars**




*Source: SARS monthly data*

Imports were up across all classifications in rand terms, with manufactured imports increasing 8% from R227 billion in 2018 to R244 billion in 2019. On the other hand, dollar-denominated manufacturing imports decreased marginally by 1% overall. Mining imports increased 11% to R65 billion, with a marginal dollar increase of 1%. Agricultural imports also increased marginally by 1% in rand terms, although they fell 7% between 2018 and 2019 in dollars.

**Graph 13. Second quarter imports by sector in billions of constant rand and current US dollars**




*Source: SARS monthly data*

Manufacturing exports were led by the transport equipment, machinery, metals and wood sectors, which accounted for the bulk of exports in the last quarter.

- Positively, transport equipment exports continued with increased exports, growing at a rate of 27% from the same period in 2018 for an increase of just under R10 billion.
- Machinery and metals exports grew an average of 1.4%, increasing to R28 billion and R38 billion respectively, although both sectors experienced significant drops in dollar-denominated terms.
- Food and beverage exports were also up 4% or R560 million to reach just under R15 billion or US$1 billion.

Significant decreases were noted in clothing and textiles and the paper sector. Clothing exports fell by just under 12% in the last quarter, while paper and publishing exports fell by over 30% when compared to 2018. Exports were also slightly down in dollar terms, with the exceptions being transport equipment (a key export for South Africa) and wood. Machinery and metals exports fell by an average of 7% each, while chemicals fell by 6% and food and beverages by 4.5%.

**Table 1. Trade by manufacturing subsectors**

| | VALUE (BILLIONS) | | % CHANGE FROM Q2 2018 | | CHANGE IN BILLIONS | |
|---|---|---|---|---|---|---|
| **Industry** | USD | RAND | USD | RAND | USD | RAND |
| ***EXPORTS*** | | | | | | |
| **Food and beverages** | 1.02 | 14.7 | -4.5% | 4.0% | -0.05 | 0.56 |
| **Clothing and footwear** | 0.40 | 5.8 | -19.1% | -11.7% | -0.09 | -0.76 |
| **Wood products** | 0.15 | 2.1 | 5.2% | 15.0% | 0.01 | 0.28 |
| **Paper and publishing** | 0.26 | 3.7 | -36.2% | -30.3% | -0.15 | -1.60 |
| **Chemicals, rubber, plastic** | 1.87 | 26.9 | -6.1% | 2.2% | -0.12 | 0.58 |
| **Glass and non-metallic mineral products** | 0.12 | 1.7 | -4.0% | 4.6% | -0.00 | 0.07 |
| **Metals and metal products** | 2.69 | 38.7 | -6.6% | 1.6% | -0.19 | 0.61 |
| **Machinery and appliances** | 1.94 | 27.9 | -7.1% | 1.2% | -0.15 | 0.34 |
| **Transport equipment** | 3.13 | 45.1 | 17.1% | 27.2% | 0.46 | 9.64 |
| ***IMPORTS*** | | | | | | |
| **Food and beverages** | 0.82 | 11.9 | 0.0% | 9.0% | 0.0 | 0.98 |
| **Clothing and footwear** | 1.02 | 14.7 | -1.2% | 7.6% | 0.0 | 1.03 |
| **Wood products** | 0.09 | 1.3 | -8.4% | -0.1% | 0.0 | -0.00 |
| **Paper and publishing** | 0.52 | 7.5 | -20.4% | -13.2% | -0.1 | -1.13 |
| **Chemicals, rubber, plastic** | 3.21 | 46.1 | -5.3% | 3.3% | -0.2 | 1.46 |
| **Glass and non-metallic mineral products** | 0.26 | 3.7 | -3.2% | 5.4% | 0.0 | 0.19 |
| **Metals and metal products** | 1.12 | 16.1 | 4.1% | 13.5% | 0.0 | 1.92 |
| **Machinery and appliances** | 5.59 | 80.4 | 2.2% | 11.4% | 0.1 | 8.26 |
| **Transport equipment** | 3.98 | 57.3 | 0.0% | 8.8% | 0.0 | 4.64 |

*Source: SARS monthly data*

In rand terms, imports increased for most industries. However, wood and paper imports fell, with paper and publishing imports falling by 13% and a marginal drop recorded in wood products. Food and beverage imports increased by 9% to R11.9 billion, while metals and machinery imports experienced double digit increases in imports. Metals and metal product imports increased by 13.5%, while machinery and appliances increased by 11.4% to just over R80 billion. Other notable increases in imports were noted in transport equipment which increased by 8.8% and clothing and textiles which saw imports increasing by over 7%.

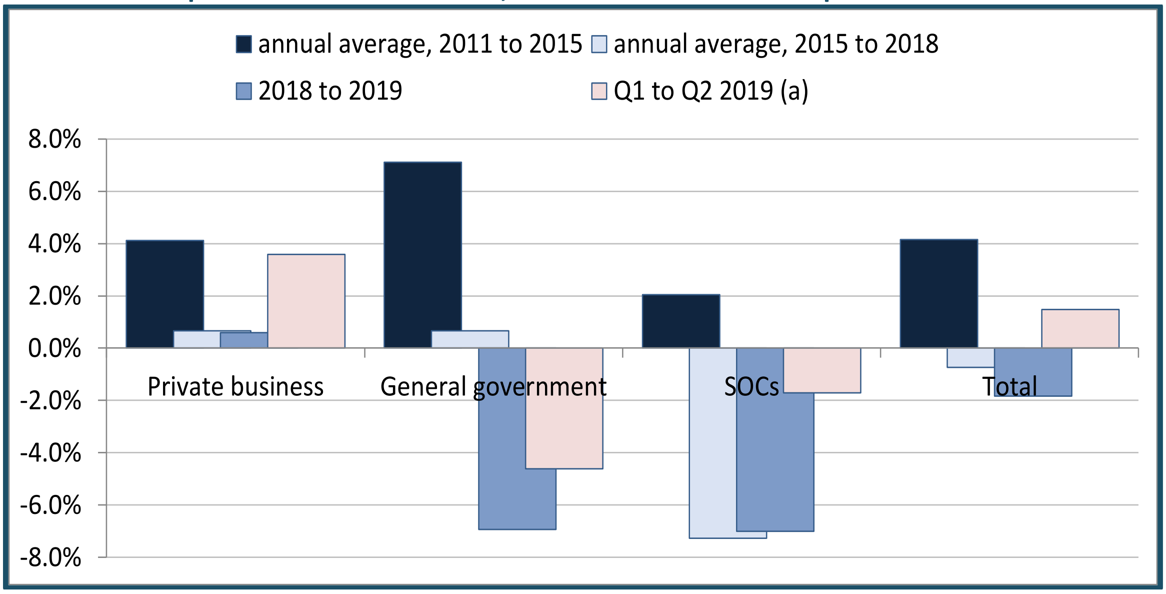
In dollar terms, imports were mainly down in the second quarter of 2019, with major decreases in imports of wood, paper, and chemicals. Paper and publishing imports fell by over 20% in dollar terms, while chemical imports fell by 5%. However, even in dollars, imports increased in metal and metal products (4%) and in machinery and appliances (which increased by just over 2%) when compared with the same period (second quarter) of 2018.

## Investment and profitability

*Investment fell almost 2% in year-on-year terms through the second quarter of 2019, although it showed a sharp recovery in the past quarter. The decline was due entirely to a fall in public sector investment over the year, with gains in the second quarter of 2019 reflecting a steep improvement in private business investment.*

Year on year, using the year to the second quarter, total investment dropped 1.8% from 2018 to 2019, although it climbed by 1.5% from the first to the second quarter of 2019. Over both the year and the past quarter, growth entirely reflected private investment. Both government and state-owned corporation (SOC) investment dropped by over 6% in the year to the second quarter of 2019.

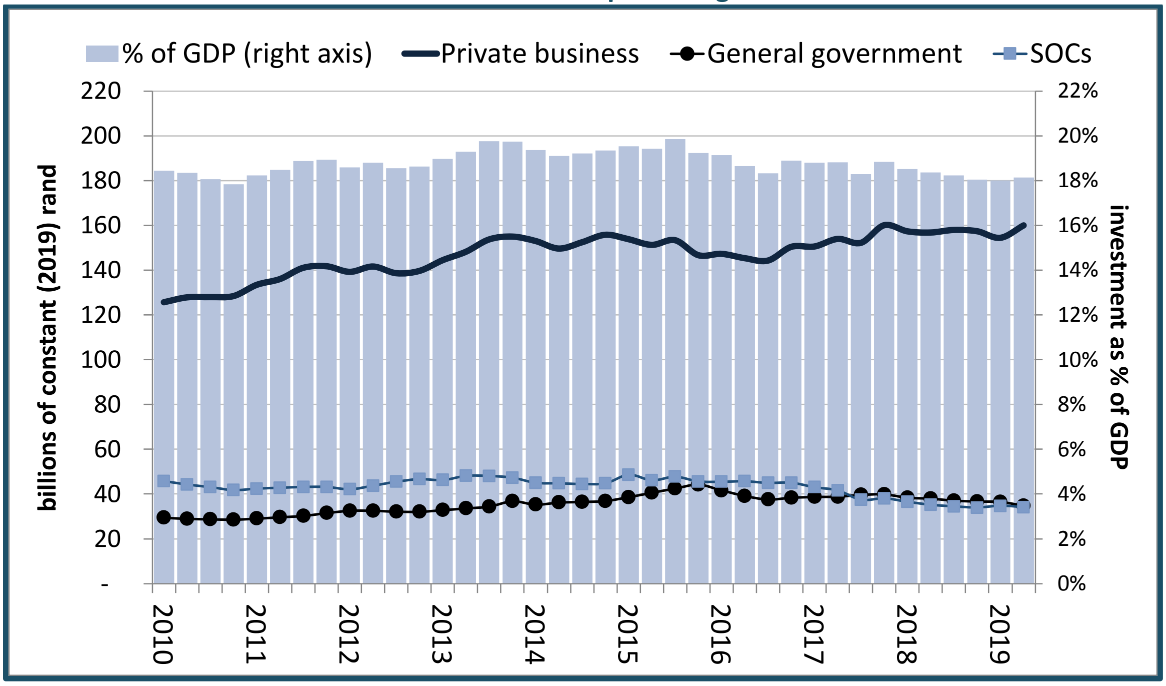
**Graph 14. Change in investment by type of organisation, year on year for year to second quarter from 2011 to 2019, and from first to second quarter 2019**




*Note: (a) Seasonally adjusted but not annualised change from the first quarter to the second quarter of 2019. Source: StatsSA GDP data. Excel spreadsheet downloaded from www.statssa.gov.za in June 2019.*

As a share of GDP, total investment hovered around 18% for the year to the second quarter of 2019. That compared with just over 20% in the two years to mid-2015.

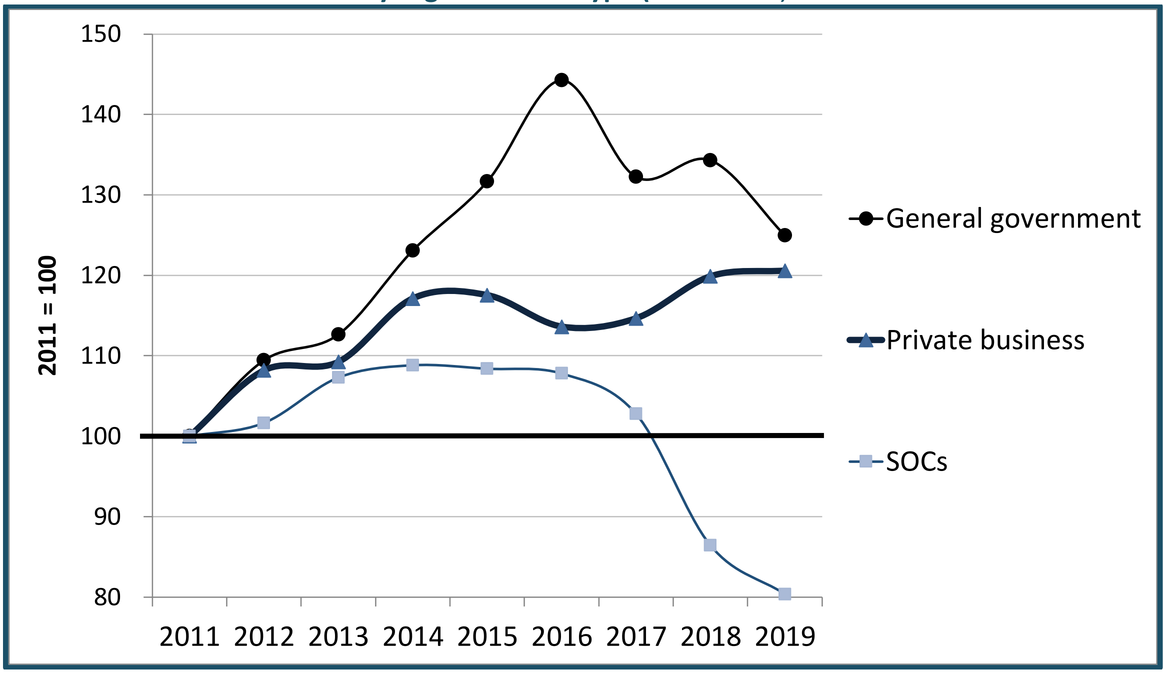
**Graph 15. Quarterly seasonally adjusted investment by type of organisation in constant rand and as percentage of GDP**




*Source: StatsSA GDP data. Excel spreadsheet downloaded from www.statssa.gov.za in June 2019.*

The decline in investment was principally due to the public sector. From 2016, private business investment climbed 6%, but general government investment dropped by 13% and SOC investment by 25%.

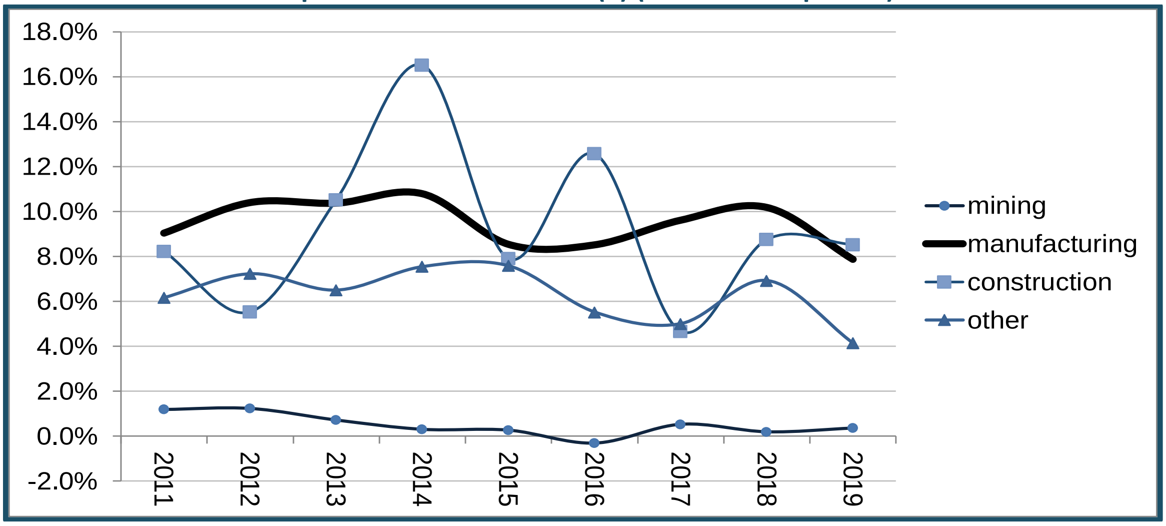
**Graph 16. Index of investment in year to second quarter, 2011 to 2019, by organisational type (2011 = 100)**




*Source: Calculated from StatsSA GDP data. Excel spreadsheet downloaded from www.statssa.gov.za in June 2019.*

In the year to the first quarter of 2018 compared to the year to first quarter 2019 – the latest available data – returns on assets in the manufacturing sector dropped from 10% to 8%, highlighting continuing strain on the sector. Returns in mining remained below 0.5%. The construction sector saw almost no change in its rate of return in the year to first quarter 2019 compared to the year to first quarter 2018.

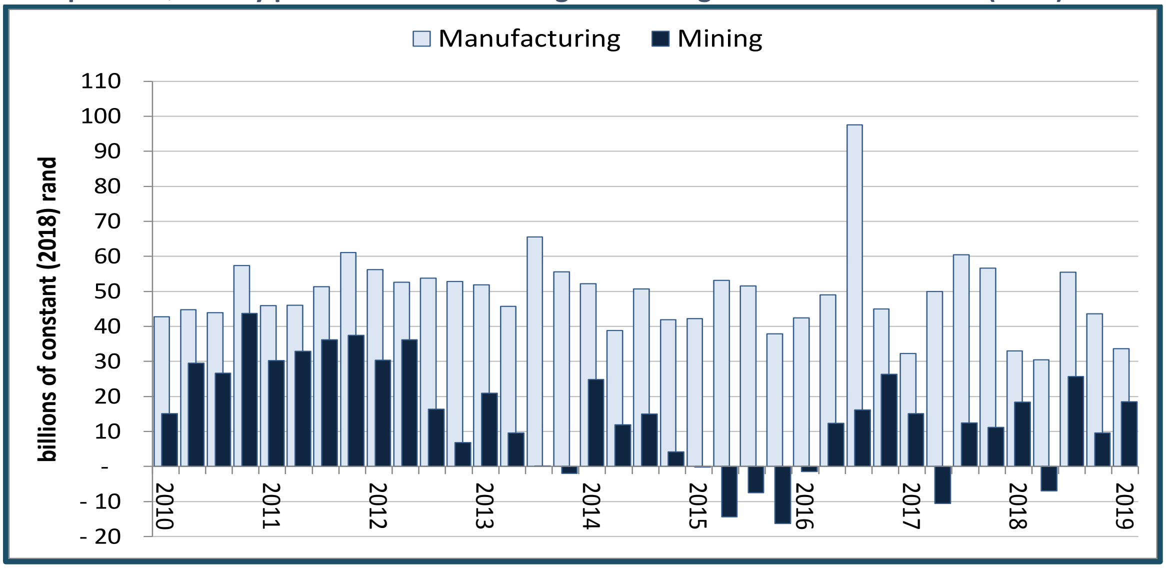
**Graph 17. Return on Assets (a) (Year to first quarter)**




*Note: a. Net profit or loss before tax as percentage of total assets. Source: StatsSA, Quarterly Financial Statistics*

Graph 18 shows quarterly manufacturing and mining profits in constant rand from 2010. Mining continues to show a slow recovery from the end of the commodity boom. Profits in manufacturing have been volatile and generally lower in the past two years. From 2010 to 2015, quarterly profits in manufacturing averaged R50 billion before tax, in 2018 rand; from 2017 to 2019, they averaged only R45 billon.

**Graph 18. Quarterly profits in manufacturing and mining in billions of constant (2018) rand**




*Source: StatsSA, Quarterly Financial Statistics.*

## Foreign direct investment projects

The TIPS FDI Tracker monitors foreign direct investment projects, analysing new and updated projects quarterly, on the basis of media monitoring. Seventeen projects were added to the Tracker this quarter – the bulk of which came to completion – while one project was updated. The total value from the announced investments is R25.1 billion, with 11 projects reporting. Most of the projects are in the services industry, which contribute R920 million to the total value. By phase, projects are dominated by greenfield projects, with six investments in this category.

**Table 2. FDI Projects Captured in Q2, 2019**

| | Announced | Complete | Pre-project preparation |
|---|---|---|---|
| Number of projects | 7 | 9 | 1 |
| Value | R11.2 billion | R12.5 billion | R1.3 billion |
| Industries | 3 Services<br>3 Manufacturing<br>1 Mining | 1 Manufacturing<br>5 Services<br>1 Utilities<br>1 Transport<br>1 Mining | 1 Construction |
| Type | 3 Expansion<br>1 Brownfield<br>1 Greenfield<br>2 Upgrade | 6 Greenfield<br>1 Upgrade<br>2 Brownfield | 1 Greenfield |
| Company | Rio Tinto<br>Hilton Hotels and Resorts AccorHotels<br>GoDaddy Inc.<br>Nissan South Africa<br>WeWork<br>Arçelik Global- Defy Appliances | Arçelik Global- Defy South Africa<br>BMW<br>Engie<br>Lufthansa Technik Maintenance International (LTMI)<br>Jaguar Land Rover South Africa<br>Oracle Corporation<br>Cisco Systems<br>Galane Gold<br>Nihilent | FWJK (property developer |

*Source: TIPS*

**New projects**

Mining firm Rio Tinto announced a US$463 million (R6.5 billion) investment in a new mineral sands mine named Zulti South in Kwa-Zulu Natal. The investment would sustain the capacity of subsidiary operation, Richards Bay Minerals (RBM), and extend its mine life. Richards Bay Minerals mainly produces rutile, zircon, titanium slag and high purity iron. It operates four mines in the Zulti North area, a mineral separation plant and smelting facility. Zulti South mine would maintain the output of zircon and rutile and provide ore to support titanium dioxide ($TiO_2$) sales. Construction is scheduled to start mid-2019, provided the necessary permits are granted. The first commercial production is expected in late 2021. Richards Bay Minerals is 74% owned by the

Anglo-Australian Rio Tinto, with the rest held by a consortium of black economic empowerment groups and an employee trust. This is the largest investment announced this quarter.

In manufacturing, Nissan announced a R3-billion investment in its Rosslyn plant in Pretoria. The project will prepare for manufacture of the Navara pick-up for the local and international markets. Production is expected to start in November 2020, including the 2020 model of the Navara single cab, double cab and cab-and-a-half. The investment will add 400 jobs at the facility and is the second largest investment added to the Tracker. This investment follows an upgrade at the Rosslyn plant completed in 2017 to support the continued production of the NP200 half-ton bakkie and NP300 (Hardbody) one-ton bakkie.

Defy expects to invest a further R200 million this year, following inauguration of the refurbished Jacobs factory in Durban (discussed in the next section). The home appliances manufacturer further plans to invest R1 billion over the next five to seven years. Its plans include a warehousing facility in Ladysmith and continued improvements of the Jacobs facility, with upgrades to cooking appliances and tumble driers production lines. Defy further aims to expand output to include new cooking products such as 60cm built-in ovens and a new free-standing stove by 2020.

Hospitality company Hilton Hotels and Resorts (Hilton) plans to open hotels under the "Canopy by Hilton" brand in the Western Cape. The project is in collaboration with GrowthPoint Properties, with a pledged investment value of R550 million. The project is part of a precinct redevelopment by GrowthPoint that it expects to start operating in 2021. Also in hospitality, the French company Accor announced that it will open three hotels in South Africa by 2020. This forms part of its plan to invest US$1 billion (R14 billion) in African hotels, primarily in Egypt.

Other investment projects announced in services are by American companies GoDaddy and WeWork. GoDaddy is an internet domain registrar and web hosting company that delivers online tools and solutions for entrepreneurs and small businesses. WeWork provides workspace solutions and will add a new location in Cape Town to its existing Johannesburg operations. Neither company gave a value for these investments.

**Existing projects**

The French multinational Engie has completed the development of the Kathu Solar Park in the Northern Cape for R12 billion. The solar park was inaugurated this quarter and commissioned in February. Kathu is a 100MW concentrated solar plant with eight solar fields with mirrors reflecting sunlight into tubes. It allows for 4.5 hours of thermal energy storage to smooth out supply. The solar park is Engie's sixth CSP plant in South Africa. It employed about 1 700 people during construction, and will provide 81 permanent jobs for the next 20 years. The project started in 2016 through the Renewable Energy Independent Power Producer Programme.

Galane Golds has started commissioning the processing plant as part of its phased reopening of the Galaxy gold mine in Mpumalanga. In addition to refurbishing the processing plant, it will upgrade the plant to 30 000 tonnes a month from the current 15 000 tonnes, increasing production to over 25 000 ounces per year of gold. The value of the investment to restart the mine is US$5 million (R70 million). Galane is starting a scoping study to double the size of the plant again to match potential mine production.

Home appliances manufacturer Defy opened a R121-million facility at its Jacobs factory in Durban. The additional automated plant will produce up to 500 top loader washing machines a shift for local and export markets. The company projects 75 jobs will be created through the investment.

BMW South Africa completed its R260-million campus in Midrand. The facility is part of the company's R6.5 billion investment drive in the country. It includes BMW's head office and Financial Services as well as a R109 million technical and non-technical dealer training facility. It offers an apprentice programme under MerSETA, the industry's Sector Education and Training Authority.

Jaguar Land Rover recently opened a refurbished experience centre in Johannesburg, offering experiences on a variety of driving terrains as well as conference and event facilities. Jaguar invested R100 million to develop the facility over three years.

Lufthansa Technik Maintenance International (LTMI) opened a new maintenance facility in Johannesburg near OR Tambo International Airport. This is Lufthansa's first facility in South Africa, with a second planned for Cape Town. The facilities will provide line maintenance for Comair and Kulula. The company has already employed 45 South African aviation professionals, and plans about 120 additional jobs by the end of 2020. The value of the investment was not reported.

Property development company FWJK has secured foreign investment for a mixed development tower in Cape Town, the R1.3 billion Zero 2 One Tower, following delays since the initial announcement in 2016. The tower will be the tallest building in Cape Town with 44 storeys. It will include 570 apartments as well as 7 000 square metres of retail shops on the ground level and station concourse level. Construction is expected to start in the next few months, pending approvals from the South African Reserve Bank.

Computer technology multinational Oracle opened a new eco-friendly headquarters in Johannesburg with technology to monitor energy, water and waste consumption. This follows the opening of Oracle's first innovation Hub in South Africa in 2018. The value of the investment was not released.

Cisco South Africa launched the R10-million Cisco Edge Incubation Centre at the Dube Trade Port in Durban. The incubation hub aims to develop SMMEs to accelerate their entry in the digital marketplace, offering business facilities and workspaces. Cisco's first incubation centre opened in Pretoria in 2018.

India-based consulting and solutions integration company Nihilent opened its first user-experience lab in Johannesburg. The lab analyses consumer experiences for companies developing new products. The value of the investment was not reported.

**Updates**

Transmashholding (TMH) Africa has completed upgrades to the company's South Africa manufacturing facility in Boksburg, as part of the R500 million investment over the next three to five years that it announced in 2018. The facility manufactures and assembles rolling stock, refurbishes old locomotives and provides maintenance. The expansion programme plans to increase the workforce from 130 to about 500 people. TMH Africa is a partnership between Russian firm TMH and black-owned Mjisa Investments. It aims to supply Transnet and Prasa, with a view to expanding into Africa. The investment is part of the Russian company's global growth strategy, which includes plans to invest R50 billion in six countries including South Africa over the next five years.

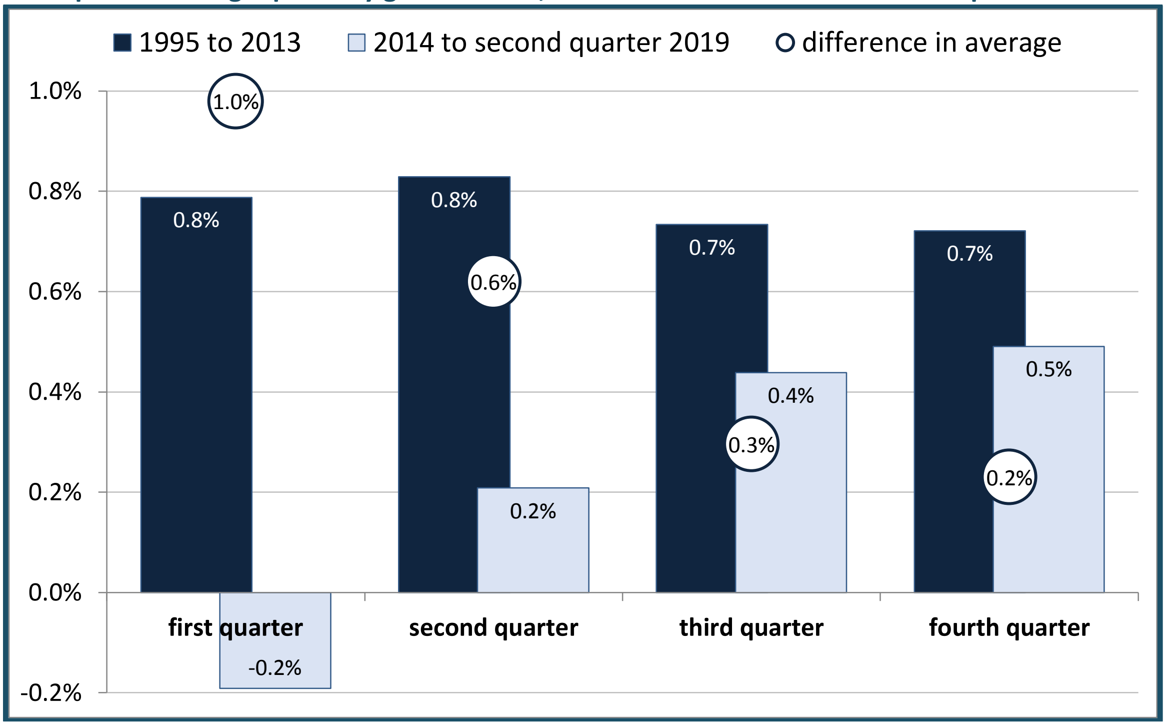
## Briefing Note: Seasonality in the GDP Data

According to official Statistics South Africa GDP data, even after adjusting the data to remove seasonal variations, the economy contracted in the first quarter of 2019 in five of the six years from 2014 to 2019. In contrast, the economy reportedly shrank just twice in the second quarter, once in the third quarter, and not at all in the fourth.

These data point to an extraordinary shift in the GDP data, with the emergence of an annual cycle in the seasonally adjusted quarterly figures. Yet seasonal adjustment should compensate for regular seasonal changes such as the growing cycle in agriculture, the holiday sales for retail, and closedown periods in mining, manufacturing and construction. By extension, after the adjustment there should not be a regular significant variation between the quarters in the average growth figures.

In practice, as the following graph shows, from 1995 to 2013 the seasonally adjusted data saw a uniform average rate of growth across all four quarters, ranging from 0.7% to 0.8% a quarter (in actual, not annualised, terms). In contrast, from 2014 a marked quarterly variation has emerged even after the data have been seasonally adjusted. From the first quarter of 2014 to the second quarter of 2019, the economy reportedly shrank 0.1% in the first quarter; then grew by 0.3% in the second quarter; 0.4% in the third; and 0.5% in the fourth.

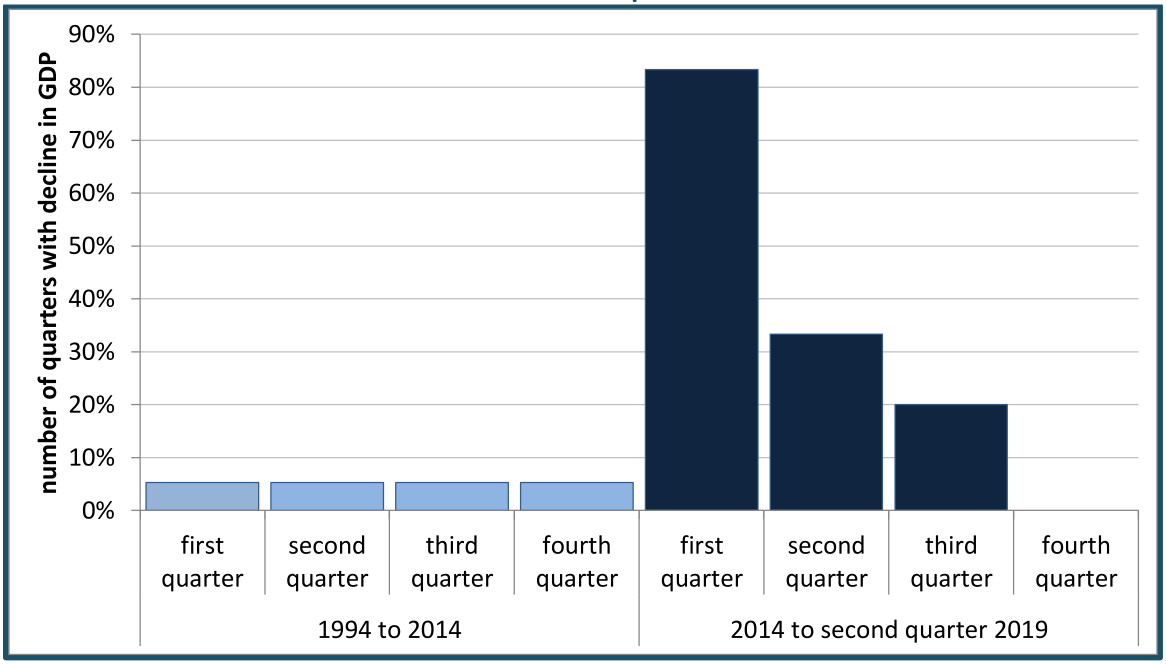
**Graph 19. Average quarterly growth rates, 1995 to 2013 and 2014 to second quarter 2019**




*Source: StatsSA GDP quarterly figures. Excel spreadsheet (previous format) downloaded from www.statssa.gov.za in June 2019*

The following graph compares the reported economic contractions by quarter from 1995 to 2013 and from 2014 to the second quarter of 2019. For each quarter, it shows the percentage of quarters reporting a decline in the GDP. In the first period, there is no difference across the quarters; in the second, an unambiguous cyclical variation emerges.

**Graph 20. Share of quarters reporting a decline in GDP, by quarter, 1995 to 2013 and 2014 to second quarter 2019**

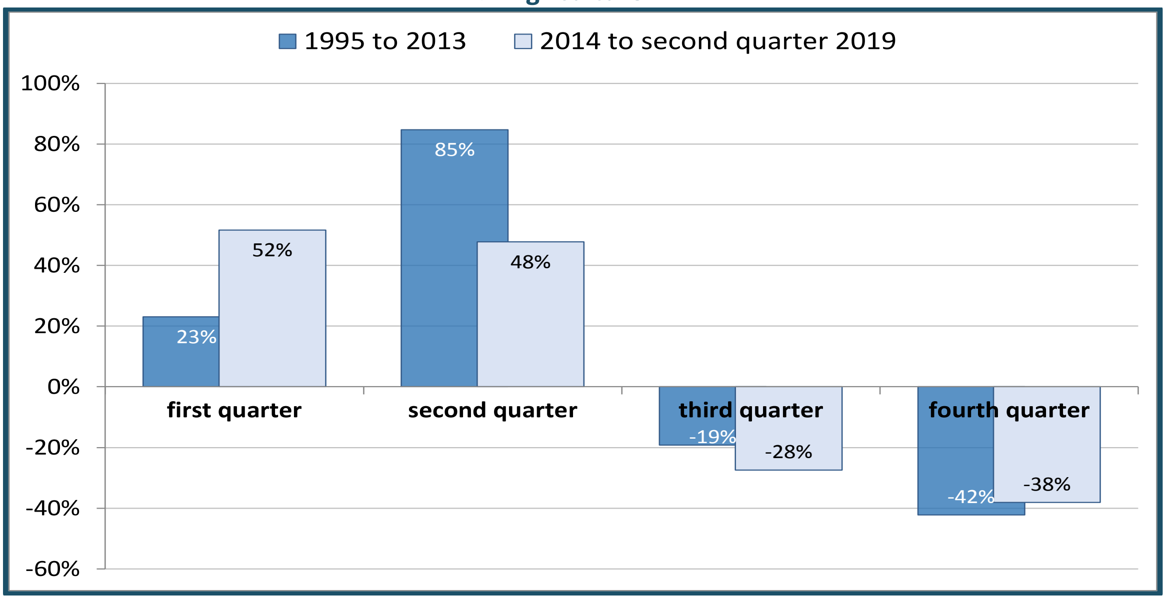



*Source: StatsSA GDP quarterly figures. Excel spreadsheet (previous format) downloaded from www.statssa.gov.za in June 2019.*

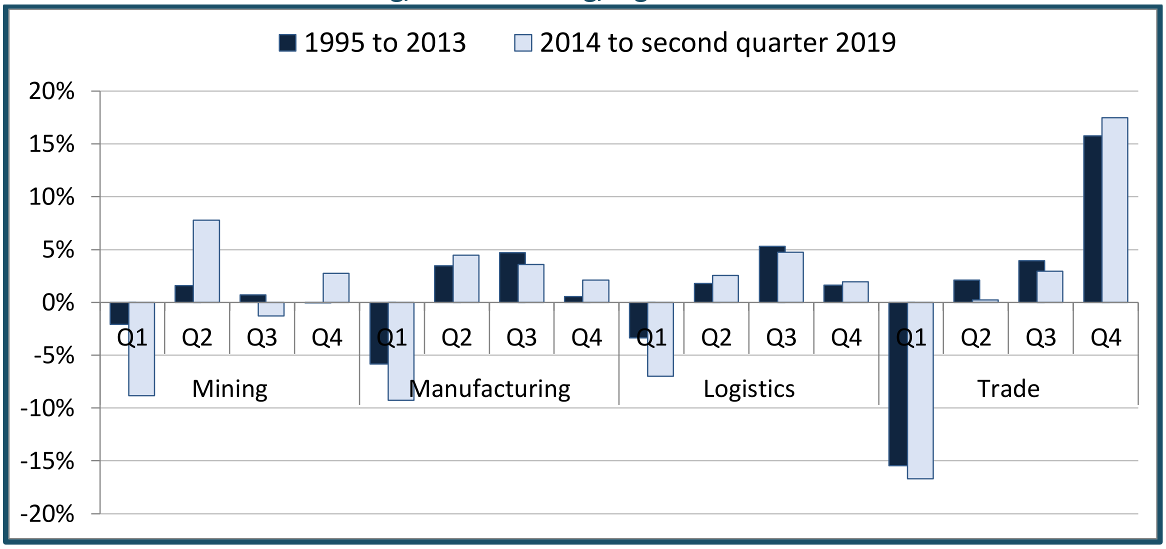
The difficulties with the seasonal adjustment of GDP data may arise from changing seasonal production patterns in major industries. These changes have been most obvious in agriculture but are also visible in mining, manufacturing, trade and telecommunications, and retail and wholesale trade. As the following graphs show, there was a significant change in all these industries in the quarterly average growth rates from 2014 to 2019 compared to 1995 to 2013.

**Graph 21. Changes in actual (not seasonally adjusted) average quarterly growth rate by industry, 1995 to 2013 and 2014 to second quarter 2019**

**A. Agriculture**



**B. Mining, manufacturing, logistics and trade**




*Source: StatsSA GDP quarterly figures. Excel spreadsheet (previous format) downloaded from www.statssa.gov.za in June 2019.*

Figures on quarterly GDP growth are building blocks in economic decisions across government and the private sector. Moreover, it does not help the confidence of either business or citizens to be told repeatedly that the economy has contracted. It is therefore particularly important that the quarterly GDP data provide an accurate representation of the underlying growth trends, stripped of seasonal variations.

# Briefing Note: Industry Master Plan methodology

The relaunch of industrial policy from early 2019 included proposals for Master Plans for priority industries. In South Africa, this approach is characterised by the three main elements:

1. Agreement between government and leading businesses in the industry on a very short list of key strategic interventions while establishing a platform for regular, constructive high-level engagements.
2. An in-depth economic analysis to identify both strengths and challenges facing the industry, resolve disagreements about the facts, and identify opportunities to strengthen and grow the industry.
3. Extensive, evidence-based engagement between government and leading companies in the industry to test proposals and agree on actions.

The Master Plan approach sets a framework for constructive engagement and implementation that can respond to changing circumstances and evidence. It is not about pressuring the partners into unrealistic commitments, but rather building relationships between government and industry, establishing a common vision and direction, with a platform for on-going collaboration and course correction.

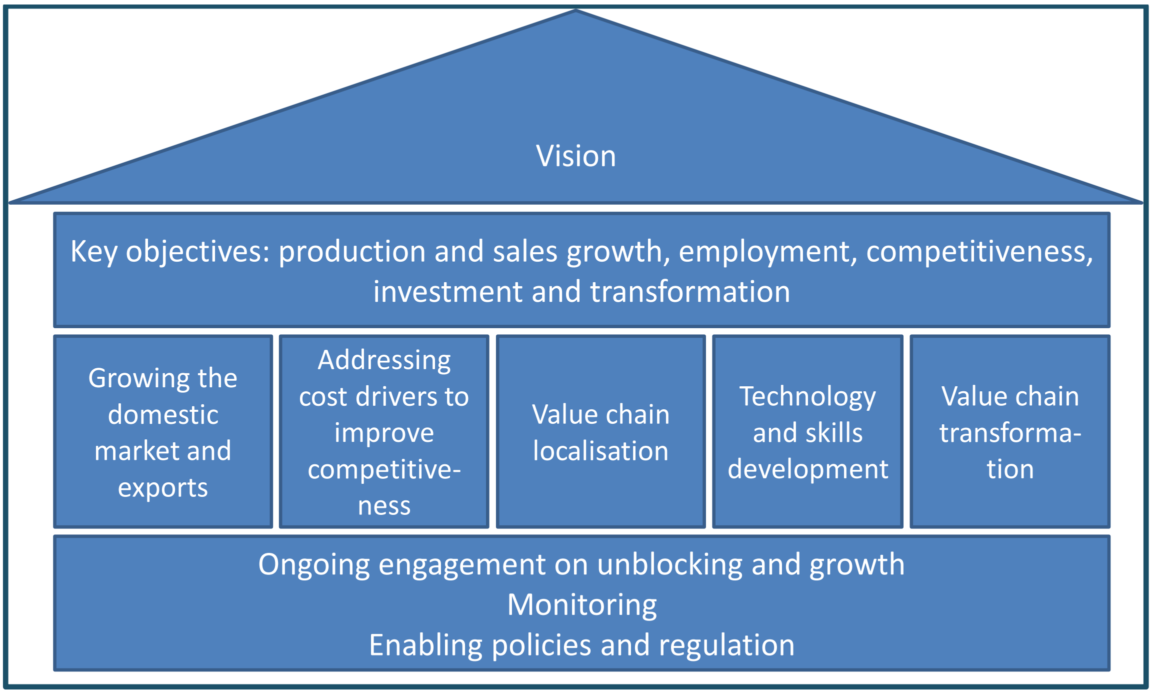
A Master Plan aims above all to accelerate growth in the industry while upgrading its technological base and competitiveness. It should also support socio-economic aims when viable and reasonable. For instance, it does not make sense to expect highly capital-intensive metals refineries to generate large numbers of jobs directly. Still, taken together, the Master Plans as a group must promote more inclusive industrialisation or the project will not retain stakeholder support.

The completed Master Plan is a concise, focused strategic document that briefly itemises key interventions and actions to unlock growth and achieve other national aims for the industry. That is effectively the tip of an iceberg, since the plan builds on:

- In-depth analyses of the industry in South Africa and globally, typically undertaken by outside experts;
- A scenarios exercise to project the impact of the Master Plan on targeted outcomes given different levels of growth in the overall economy; and
- An evaluation of proposed interventions in terms of their costs, benefits and risks to different stakeholders.

The Master Plan should address each of the pillars shown in Figure 1. To be effective, it has to set up a structure for high-level engagement and oversight. That means the parties must set aside sufficient personnel and time. Experience shows that delays in obtaining mandates and dealing with disagreements are significant risks for the implementation of industrial policy measures.

**Figure 1. Elements of the Master Plan**




In short, the finalisation of the Master Plan for an industry is just the first step in the process. The core challenge is to ensure that the engagement platforms established support ongoing monitoring with collaborative and innovative engagement over how to unblock and strengthen key initiatives and respond to changing economic conditions.

For a more detailed discussion of this topic see Policy Brief [Master Plans for industrial policy].

## Briefing Note: Brexit and South African trade

The current disarray in British politics centres on the nature of Brexit, with no consensus in sight either on how it should be achieved, or on the UK's future relationship with the EU. The new Prime Minister has faced strong resistance to a no-deal exit, but it is not clear what proposals could achieve a majority in Parliament, much less support from most British citizens.

Because the UK is still one of South Africa's major trading partners, the final outcome will have significant implications for our own economy. As detailed in the following section of this note, the UK buys around 5% of all South African exports, and supplies 2% of its imports (down from almost 10% in the early 2000s). The UK is also a major investor into the South African economy, and increasingly South African firms have invested heavily in the UK. Stability in the relationship will therefore be beneficial to both countries.

Brexit was sold to the UK public as a way to make Britain great again. Yet the political uncertainty around it has already had a negative economic impact. There are reports of industrial firms closing down or relocating their operations. There are ongoing concerns of supply chain disruptions and even, in the case of no deal, food and medicine shortages. Supporters argue that these negatives will ultimately be offset by end to austerity budgets and new trade deals.

How does all of this impact on the UK's other trading partners, particularly in a post-Brexit world where the UK is seeking to re-establish itself politically and economically? We could see an increasingly aggressive Britain striving to re-assert its power in the world and advance its mercantilist interests, including in South Africa and Africa. Alternatively, the world could see a Britain seeking to increase co-operation in its own region and the world, re-building multilateral governance based on the values and principles of inclusivity, equity and sustainable development. The former is more likely.

The risks are visible in the US approach to "making America great", which has included threats to the rules-based trade regime globally as well as bullying of some developing economies. The US has clearly signalled that it prefers to drop multilateral arrangements in exchange for bilateral treaties – an approach that inherently disadvantages smaller economies.

With the SA-UK trade arrangements currently falling under the broader EU agreement – the SADC Economic Partnership Agreement (EPA) – that was concluded with a regional grouping of South Africa and its neighbouring countries, work has been done to extract the terms of the agreement to ensure continuity in the trade relationship. However, a no-deal Brexit would mean that transitional approach cannot be used, and the UK would apply a common set of tariffs until trade agreements can be concluded with individual countries and regions. That approach would impact negatively on South African trade with the UK.

A UK separate from the EU has different needs and trade interests. More detailed work is required in the conclusion of an updated or new agreement, which is increasingly becoming more urgent. The bilateral negotiations with a more powerful trading partner that is increasingly sounding like the US is of concern. However, there are clear opportunities for improved trade on a number of products between South Africa and the UK as they move away from EU preferences.

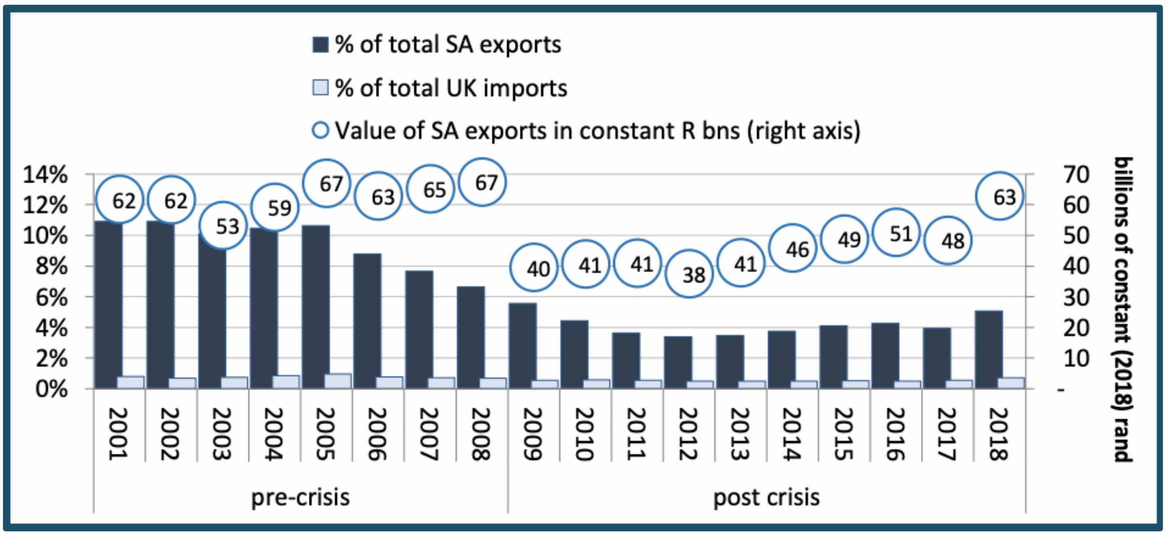
Trade agreements aside, the risk of a recession in the UK as a result of Brexit would have implications for the already fragile South African economy. A particular challenge could arise from trends in the UK auto industry, which is a key market for South African platinum for catalytic converters.

## South African trade with the UK

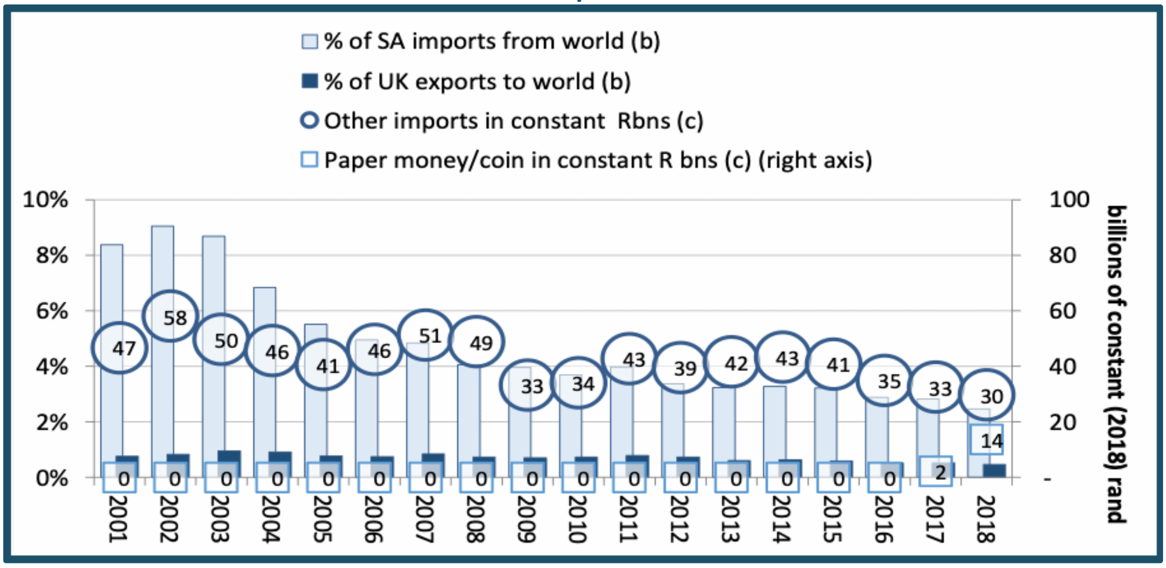
South African trade with the UK has stagnated in the past five years, with flat exports and declining imports, as the following graphs show. The import data for 2018 are affected by SARS reports of substantial imports of bank notes and coin from the UK. It is concerning that, in contrast to the South African figures on imports, the UK trade data for 2018 do not report large exports of bank notes to South Africa.

**Graph 22. Bilateral exports and imports as a percentage of total UK and South African trade and in billions of constant (2018) rand (a)**

**A. Exports**



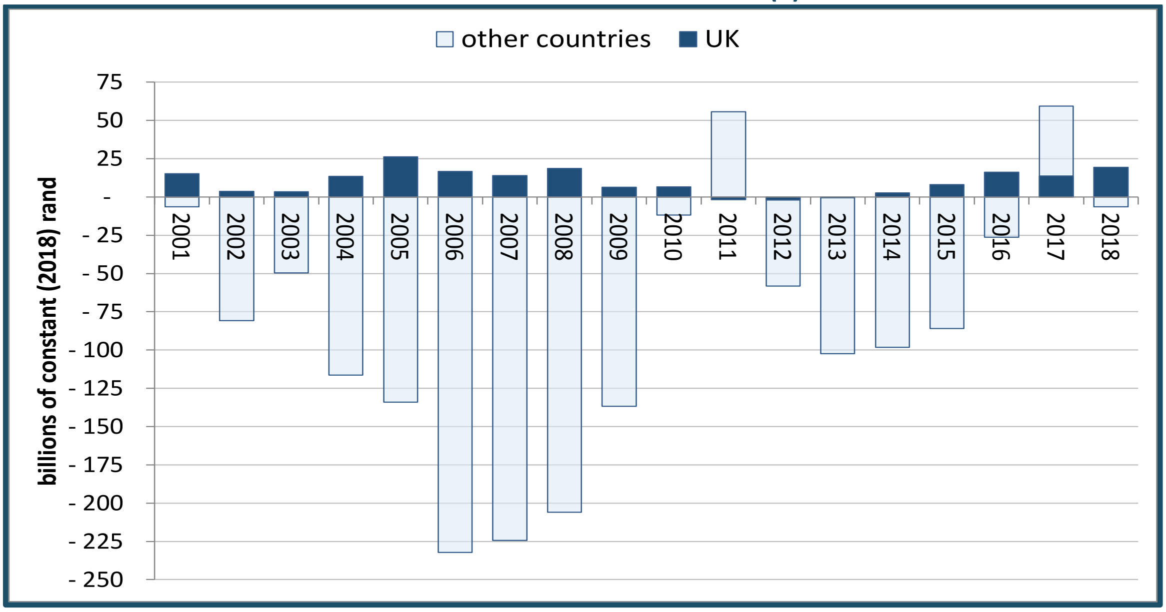

**B. Imports**




*Notes: (a) Reflated with South African CPI rebased to 2018. (b) Excluding reported imports of bank notes and coin. (c) These imports are in South African, but not UK, trade data. Source: TradeMap.*

South Africa generally runs a balance of trade surplus with the UK, which helps to offset its tendency to have a trade deficit with the rest of the world. The trade surplus in 2018 was entirely due to a surplus with the UK.

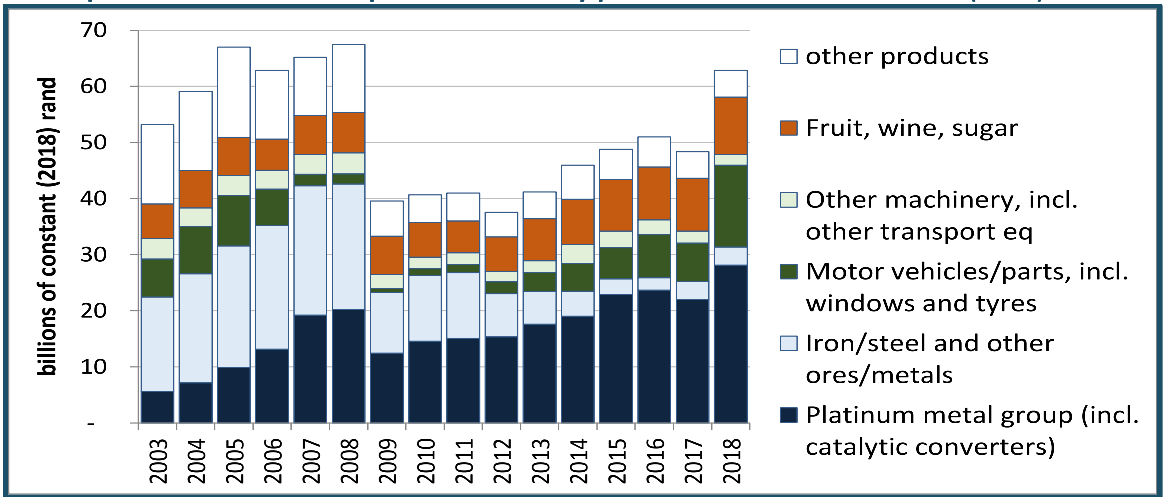
**Graph 23. South Africa's balance of trade with the UK and with all other countries in billions of constant 2018 rand (a)**




*Notes: (a) Reflated with South African CPI rebased to 2018. Source: TradeMap.*

South Africa's exports to the UK were dominated by a relatively small number of products. Platinum, both raw and incorporated in catalytic converters, made up 45% of the total in 2018. Platinum sales to the UK equalled a quarter of South African total platinum sales. Before the global financial crisis in 2008/9, steel was the major export to the UK, but it fell to near zero thereafter. Cars and car parts and fruit, wine and sugar effectively replaced steel in South African exports to the UK, accounting for almost 40% of the total in 2018. The UK bought between 5% and 10% of South African car exports in the past five years, and 14% of fruit, wine and sugar exports.

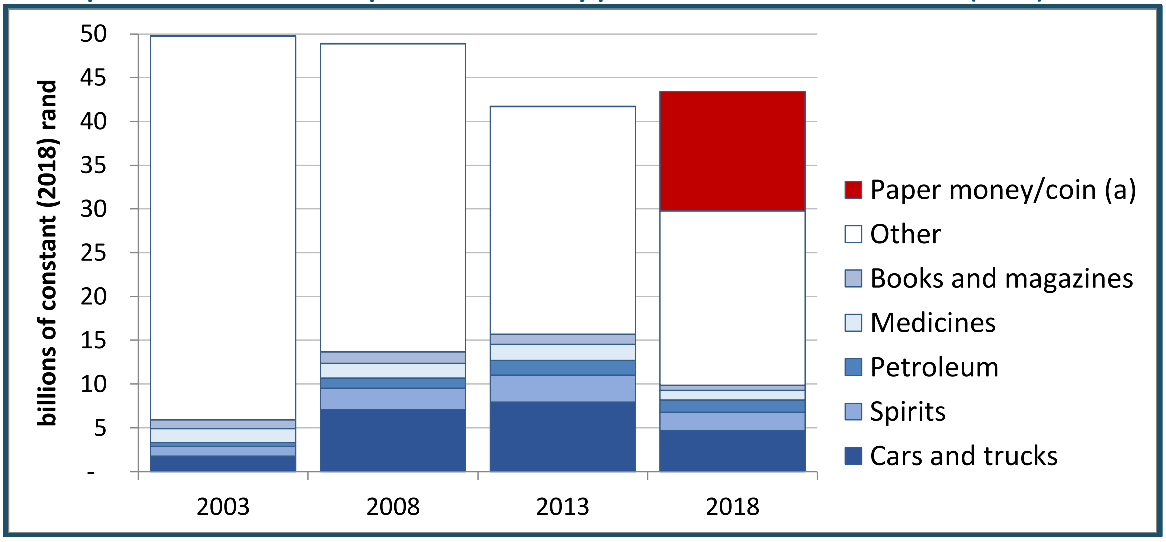
**Graph 24. South African exports to the UK by product in billions of constant (2018) rand**




*Notes: (a) Reflated with South African CPI rebased to 2018. Source: TradeMap.*

South African imports from the UK were more diverse. Excluding the reported import of notes and coin in 2018, over the past five years cars made up around a seventh of South African imports from the UK; spirits a 15th; petroleum and medicines, about a twentieth each.

**Graph 25. South African exports to the UK by product in billions of constant (2018) rand**




*Notes: (a) Reflated with South African CPI rebased to 2018. Source: TradeMap.*

# Briefing Note: FDI that supports development priorities - Measuring the “quality” of foreign direct Investment

Like other developing countries, South Africa aims to attract foreign direct investment (FDI). Coming into The Presidency, President Cyril Ramaphosa prioritised increased investment – foreign and domestic – setting a five-year US$100 billion (over R1 trillion) target for new investment. This intensified drive to increase investment raises the question of “quality” of FDI into South Africa. That in turn points to the importance of developing tools or mechanisms to assess FDI, with the aim of maximising its benefits towards achieving inclusive industrialisation. It is important to understand the extent to which projects contribute to South Africa’s development priorities – at a granular level, essentially being able to measure their value-add against developmental priorities.

Empirical studies have shown mixed results on the link between FDI and economic development. Benefits include raising productivity and tax revenues, while the positive spill-over effects include bringing in new technology and technical knowledge, upgrading skills and creating employment. However, increasing investment in itself, is not as important for sustainable growth as the quality, type and composition of investment. Different types of investment and objectives for investing generate varying benefits. For example, greenfield investments are likely to have greater gains for the host country than a company investing for market share through a merger or acquisition.

While there are variances in the definition of “quality FDI”, there are some common characteristics in descriptions of the concept. The UNCTAD 2006 World Investment Report describes “quality FDI” as “the kind that would significantly increase employment, enhance skills and boost the competitiveness of local enterprises”. The importance of technology transfers and upgrading and enabling domestic companies to access global markets is often highlighted as well. So is the importance of maintaining social and environmental standards. The emphasis is that FDI should be judged on its nature and qualities rather than quantitative measures on their own.

There are examples of tools or guidelines for measuring quality FDI. The Organisation for Economic Cooperation and Development has undertaken a project, the “FDI qualities project”, that in part aims to provide governments with relevant instruments for this purpose. They identify five “FDI qualities indicators”, namely productivity-innovation, skills, job quality, gender and carbon footprint. These were selected on the basis of an assessment of how FDI can contribute to specific sustainable development goals.

South Africa has the foundations from which to develop quality FDI outcomes and indicators such as local content agreements, social and labour plans in mining, and local community development requirements for renewable energy projects, among others. The development objectives set out in policy and plans are a good basis for developing criteria or indicators against which the quality of FDI can be assessed or measured. Different industries have different needs, necessitating the need for criteria to be tailored for specific industry needs.

While FDI is important, it should not be pursued or accepted without being interrogated, or questioned for its appropriateness for South Africa’s needs. Having a mechanism to evaluate the quality of FDI projects could help indicate to both industry and government, in as clear terms as possible, how far FDI is going in contributing to development objectives, beyond the quantitative measures on inflows and outflows.