THE REAL ECONOMY BULLETIN

TRENDS, DEVELOPMENTS AND DATA

FOURTH 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.*

Trends in GDP growth

GDP growth in 2019, at 0.2%, was the lowest since the global financial crisis in 2008/9. The economy reportedly contracted in the last two quarters of the year as well as the first quarter. The slowdown reflects a combination of demand-side factors, resulting from slower global growth and a pro-cyclical (although far short of austerity) fiscal and monetary stance, combined with the supply-side drag of Eskom loadshedding and increasingly harsh and frequent droughts as the climate crisis intensifies.

As Graph 1 shows, GDP growth has slowed since the international commodity boom ended in 2011. In 2019, it reached the lowest level since the 2008/9 global financial crisis. Formal employment growth largely paralleled changes in the GDP. Growth in manufacturing, mining, construction and utilities was consistently lower and more erratic than the rest of the economy. Agriculture followed a similar pattern but has become more volatile in recent years due to recurrent droughts as the climate crisis deepens.

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

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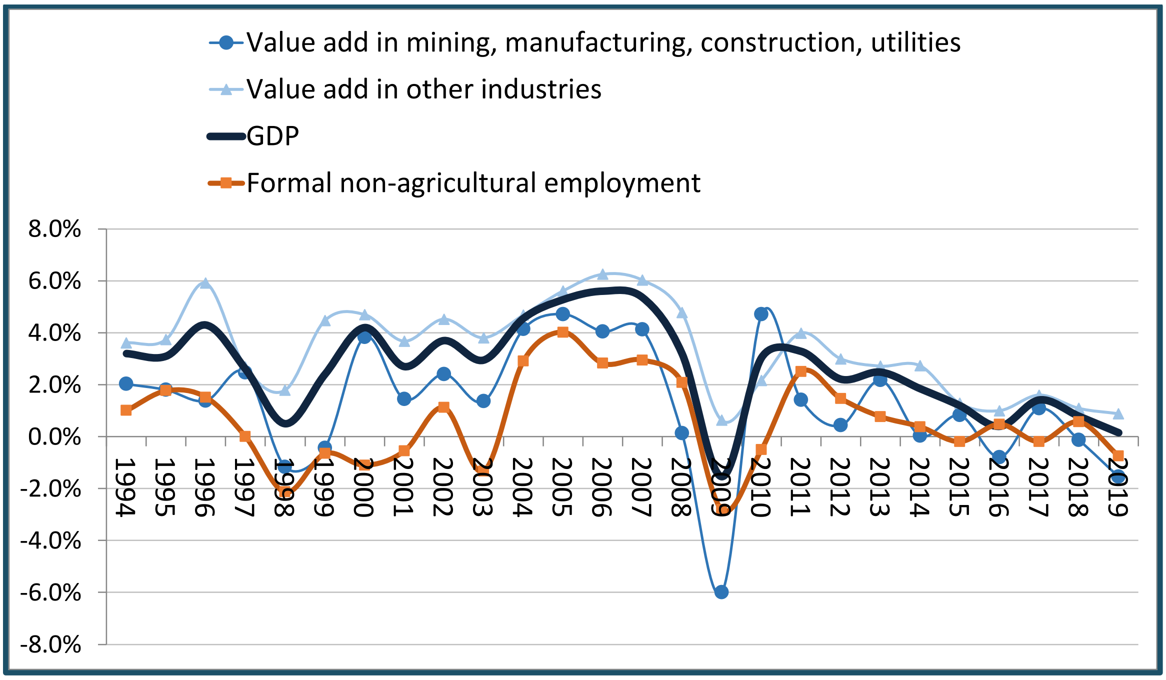
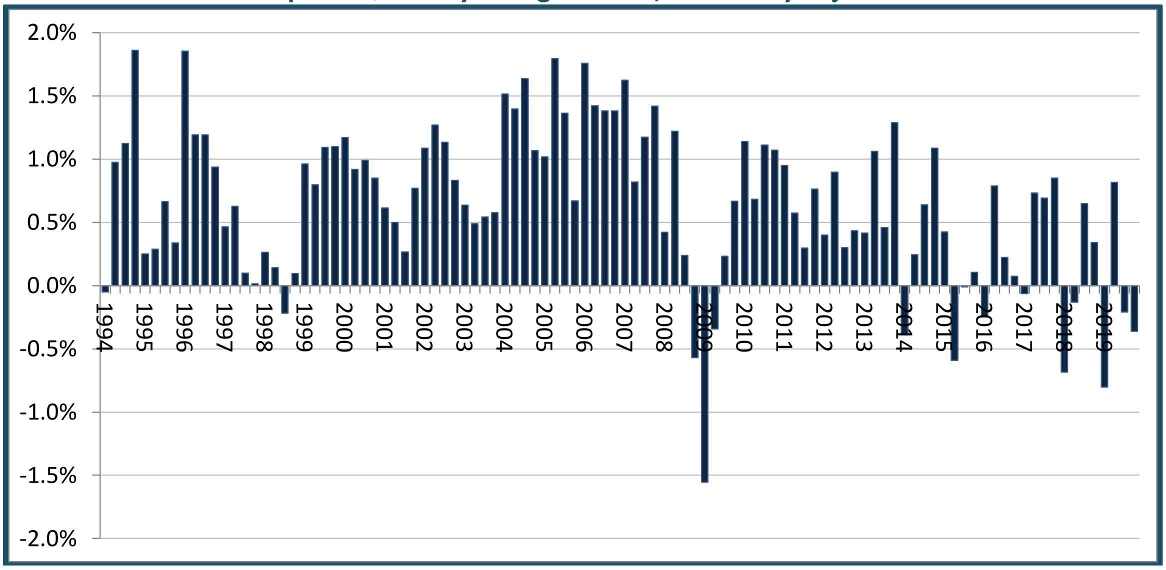
Graph 1. Growth in the GDP, overall and by sector, and in formal non-agricultural employment, 1994 to 2019



Source: Calculated from, for GDP, Statistics South Africa. GDP data. Quarterly and Regional Fourth Quarter 2019. Excel spreadsheet downloaded in March 2020; for employment, South African Reserve Bank. Online download facility. Interactive dataset. Downloaded in March 2020.

Since 2015 volatility in GDP growth has grown, especially from 2015. In 2019, the GDP contracted in three quarters, with a decline of 0.6% over the second half of the year denoting a technical recession. As noted in earlier issues of this Bulletin, the more erratic growth appears in part to reflect difficulties with the seasonal adjustment from 2014, so that a contraction was reported in every first quarter since then. The recession in the second half of 2019, in contrast, does not follow a seasonal pattern.

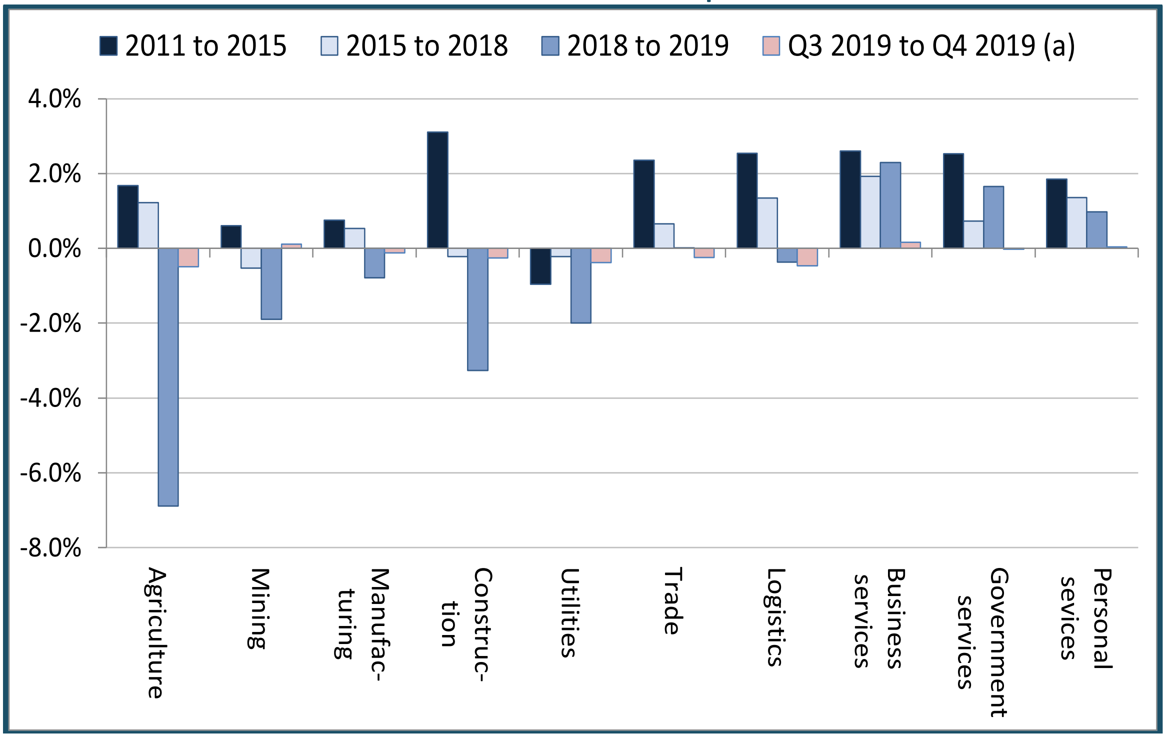
Graph 2. Quarterly change in GDP, seasonally adjusted



Source: Statistics South Africa. GDP quarterly figures. Excel spreadsheet downloaded www.statssa.gov.za March 2020.

Every sector in the real economy declined in 2019, with growth coming exclusively from services, especially business services. In 2019, the sharpest decline in output was in agriculture, but construction, utilities and mining have all shrunk since 2015. By comparison, the 2019 fall in manufacturing, at 0.8%, was relatively modest.

Graph 3. Growth rates by sector, annual averages from 2011 to 2019 and third to fourth quarter 2019

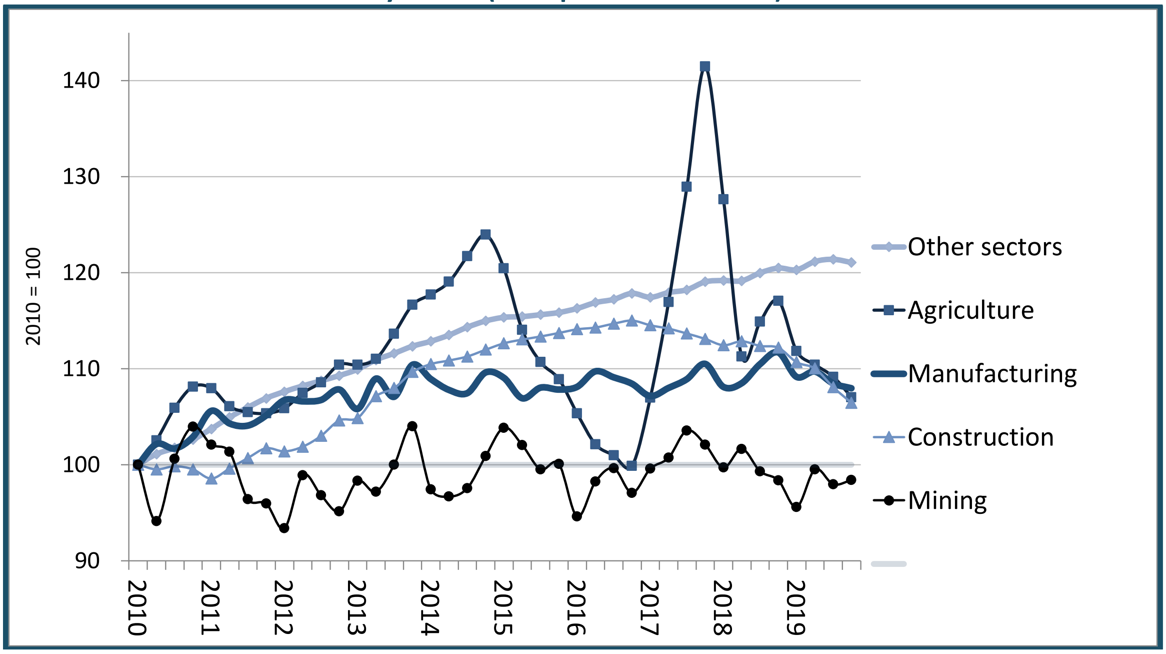


Note: (a) Seasonally adjusted. *Source:* Statistics South Africa. Gross Domestic Product (Quarterly)(2019Q4). Excel spreadsheet downloaded from www.statssa.gov.za in March 2020.

Graph 4 shows the steady decline in construction over the past three years, and underscores the extraordinary volatility in agricultural production. In contrast, manufacturing and mining have seen fluctuating value add but virtually no long-term growth since the end of the commodity boom.

The rest of the economy has grown fairly consistently but at a decreasing rate. In these circumstances, the 0.1% downturn in services and retail in the second half of 2019 meant the economy as a whole contracted.

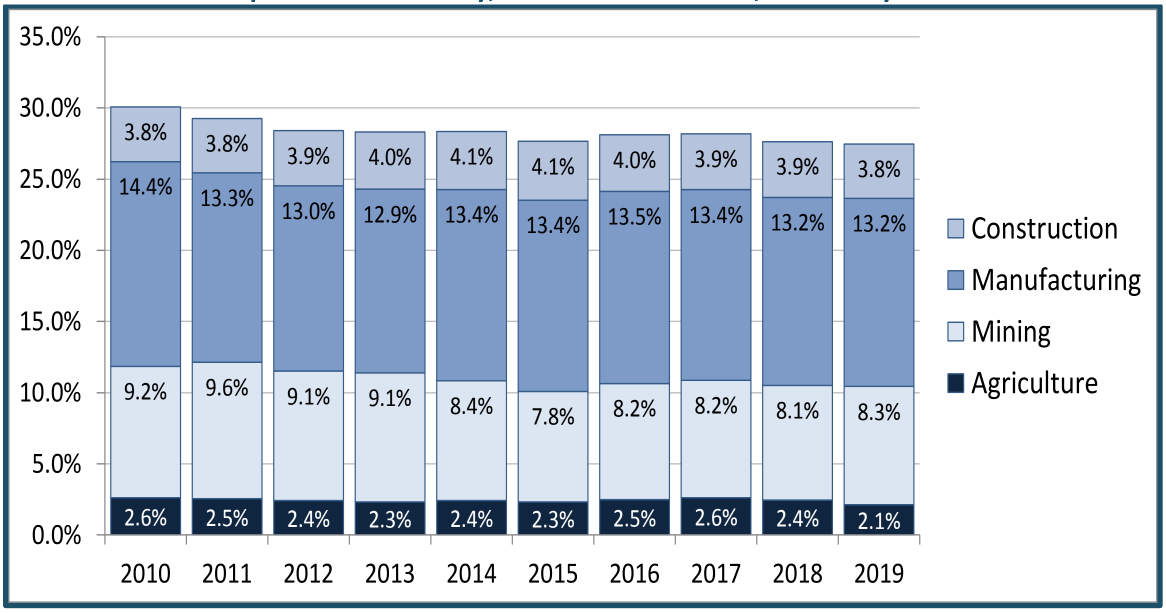
Graph 4. Indices of quarterly contribution to GDP in constant terms, by sector (first quarter 2010 =100)



Source: Statistic South Africa GDP quarterly figures. Excel spreadsheet downloaded from www.statssa.gov.za in March 2020.

As a result of the relatively slow growth in the real economy, its share in the GDP fell from 30% in 2010 to 27% in 2019. The decline mostly reflects the falling share of manufacturing, which dropped from 14.4% in 2010 to 12.9% in 2013, and since then has contributed just over 13% of the GDP. Mining saw a similar pattern, falling from a high of 9.6% in 2011 to a low of 7.8% in 2015 – parallel to the fall in international prices for mining products – and since then has stabilised at around 8.2% of the GDP.

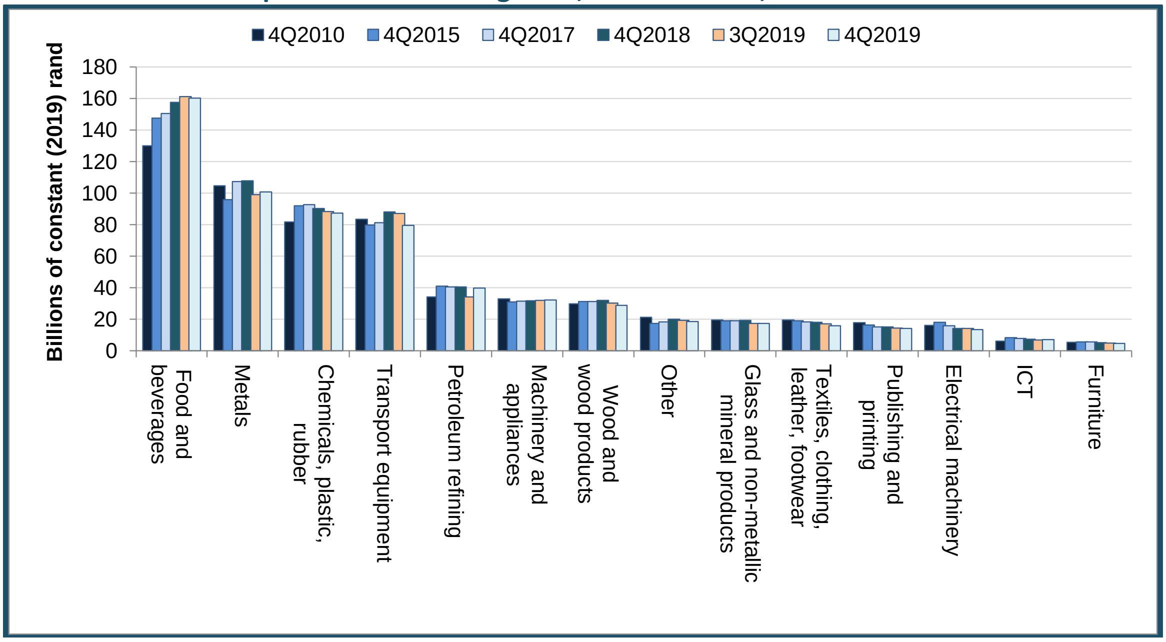
Graph 5. Real economy, sector shares of GDP, calendar years



Source: Statistics South Africa GDP quarterly figures. Excel spreadsheet downloaded from www.statssa.gov.za in March 2020.

Manufacturing sales in constant terms regained most of the ground lost in the third quarter of 2019, rising some 10%. Quarterly sales figures are, however, highly volatile. For the year to the fourth quarter of 2019, overall manufacturing sales decreased by 4.1%. The only growth was seen in food and beverages (increasing by 1.8%) and machinery and equipment (2.2%). All other subsectors saw falling sales. The decline was sharpest for textiles and clothing (-12.3%), glass and non-metallic minerals (-10.8%), and transport equipment (-9.8%). Since 2010, outside of food and beverages, sales have been flat or declining in constant terms.

Graph 6. Manufacturing sales, constant rand, 2010 to 2019



Source: Statistics South Africa. Manufacturing volume and sales from 1998. Excel spreadsheet. Downloaded in February 2020.

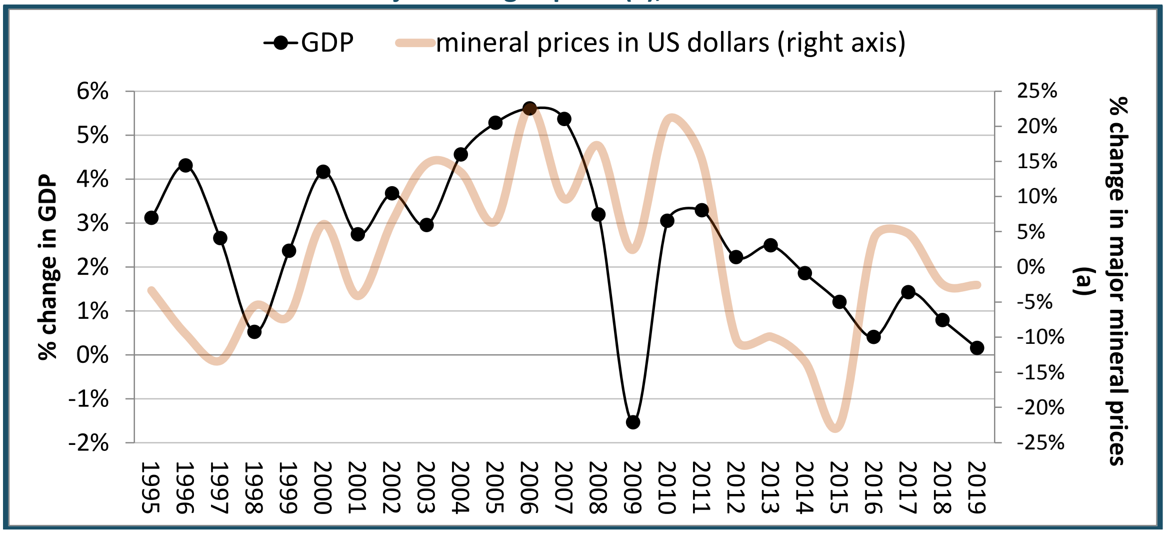
Behind the slowdown

Sluggish growth in 2019 reflected a combination of declining growth in key trading partners, especially China and Germany; the pro-cyclical fiscal and monetary policy in this context; and, on the supply side, the rising cost and unreliability of electricity as well as the impact of increased volatility in agriculture.

Slowing international and domestic demand

As the following graph shows, GDP growth has broadly tracked international metals prices over the past 20 years. It climbed during the global commodity boom from 2002 to 2011. Then, as the prices of South Africa's major mining exports – platinum, coal, iron ore and gold – declined, growth began a downward trend. From 2002 to 2011, South African exports climbed 15% a year in US dollar terms. Then they fell 7% annually through 2015 before beginning to grow again at 3% a year from 2015 to 2019. In 2019, they were still 17% lower in dollar values than they were in 2011. The depreciation of the rand provided some protection for local producers, increasing local revenues for exporters and raising the price of imports. Still, the sharp slowdown in exports weighed heavily on growth.

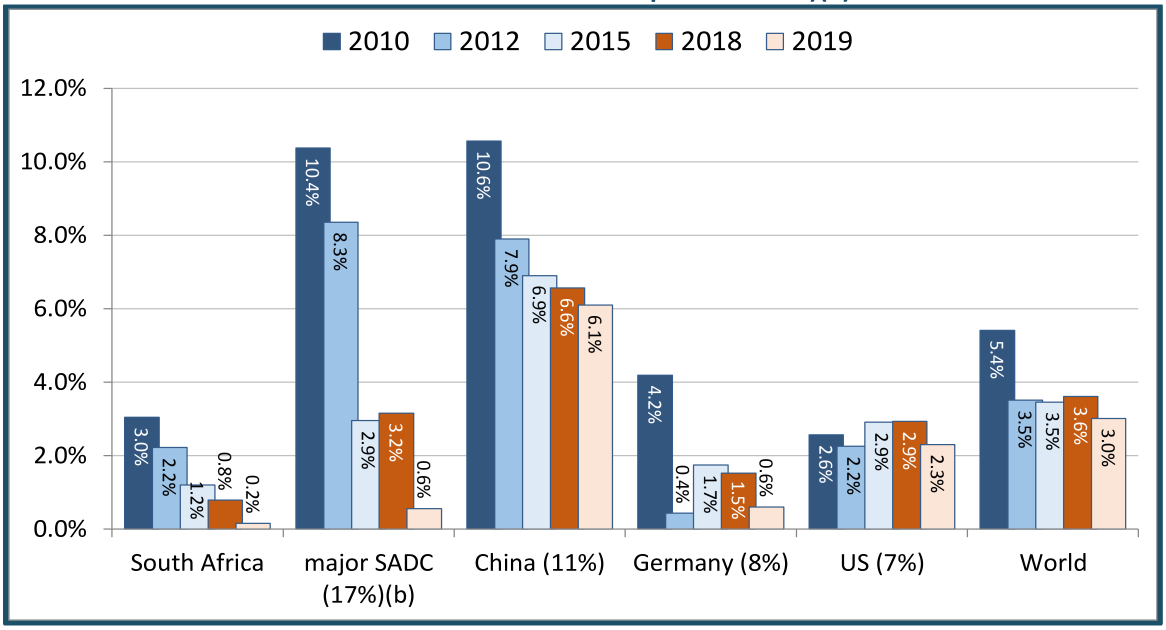
Graph 7. Growth in GDP and in trade-weighted index of international US dollar prices of major mining exports (a), 1994 to 2019



Note: (a) Index of US dollar prices for coal, iron ore, gold and platinum, weighted by share in exports. *Source:* For GDP, Statistics South Africa. Quarterly and Regional Fourth Quarter 2019. Excel spreadsheet downloaded in March 2020; for metals price, Index Mundi and Kitco data, downloaded in March 2019; and for trade weights, Quantec EasyData, international trade data at 6-digit HST level in current rand.

In recent years, as Graph 8 shows, all of South Africa's major trading partners faced a sharp slowdown in growth, which will likely worsen in 2020 as a result of the outbreak of the novel coronavirus. China, the US and Germany together account for over a quarter of South African export earnings, while five SADC countries – Botswana, Namibia, Mozambique, Zambia and Zimbabwe – accounted for a seventh. All of these countries have grown faster than South Africa, but they experienced significant slowdowns in 2019.

Graph 8. Growth in South Africa's top trading partners, 2010 to 2019 (figures in brackets are share in South African exports in 2019)(a)



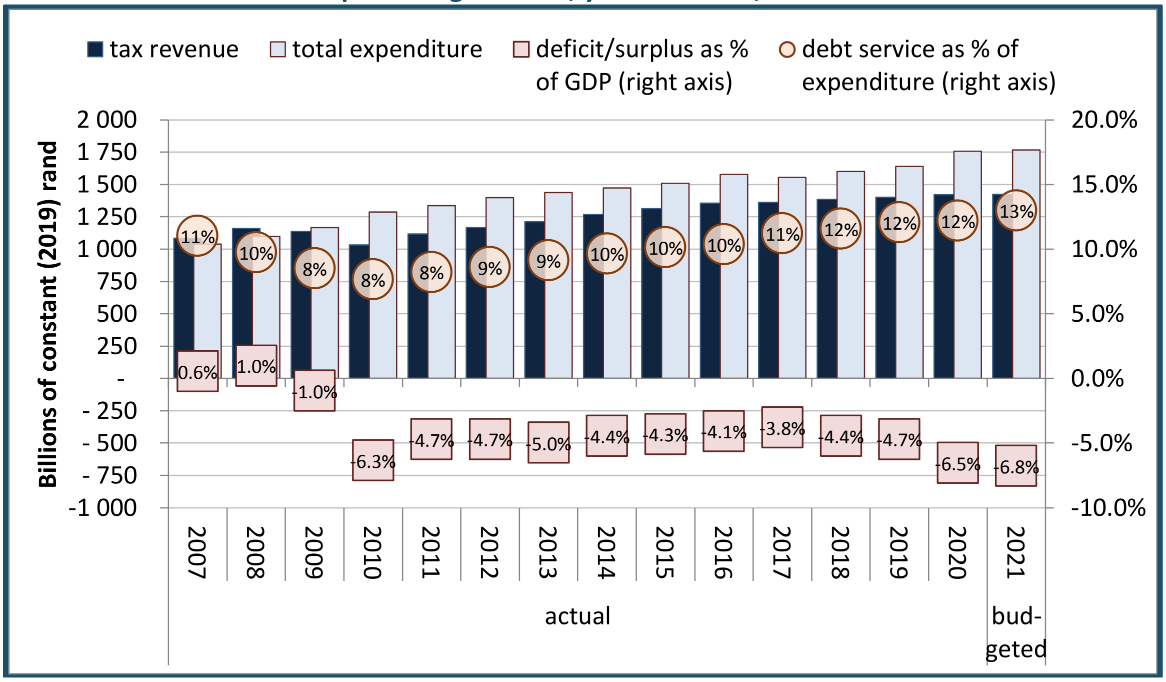
Notes: (a) Figures for 2019 are from national sources for China, Germany and the U.S. For Africa and the world, IMF estimates. (b) Index of GDP growth for Botswana, Namibia, Mozambique, Zimbabwe and Zambia, weighted by size of the economies. *Source:* IMF. World Economic Outlook. October 2019. Downloaded in March 2020.

While international exports have slowed, domestic demand has been depressed by pro-cyclical fiscal and monetary policies. Budgets expanded much more rapidly when the economy was growing rapidly and government revenues climbed sharply, then slowed when growth flattened out. Interest rates dropped during the commodity boom, but have increased in real terms in recent years. These measures do not amount to austerity. Rather, they arise from accommodation to changing circumstances in ways that aggravate rather than counteracting the slowdown.

On the fiscal side, the budget has not been cut, and from 2018 a jump in spending in real terms means the deficit increased from 4% to 7% of the GDP. But growth in spending fell markedly as the economy slowed after 2011. From 2002 to 2011, as the metals price boom fuelled growth, in constant terms government spending climbed 7% a year; from 2011 to 2015, it grew 3% a year; and from 2015 to 2017, it expanded 2% a year. From fiscal 2019 to 2021, in contrast, government spending was budgeted to rise by 4% a year, far outstripping tax revenues. Most of the increase in 2019 went to bail out Eskom and South African Airways, while social services faced significant cuts in real terms.

A critical brake on the budget has been slower tax revenues, which in turn reflect worsening profitability across the economy; the loss of capacity at the South African Revenue Services in recent years; and increased efforts by companies to evade taxation as their profit rates have declined. From 2018 to 2021, tax revenues were budgeted to increase just 0.9% a year. As a result, despite slower growth in expenditure, the budget deficit jumped from 4.7% of the GDP in 2019 to 6.5% in 2020, and was budgeted at 6.8% for 2021. A consequence was rising national debt-service payments, which climbed from 8% of government spending in 2008 to 12% in 2020.

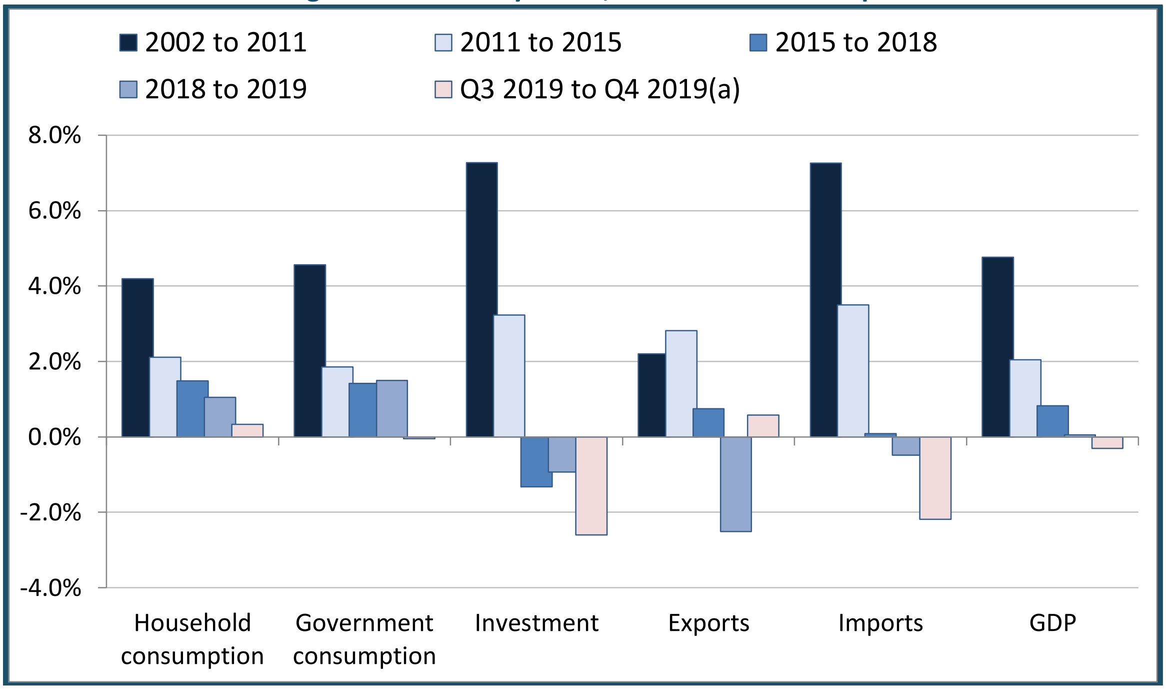
Graph 9. National government tax revenues and expenditure in billions of constant (2019) rand (a), interest payments as a percentage of government expenditure, and the deficit as percentage of GDP, year to March, 2007 to 2021



Note: (a) Deflated with average CPI for the year to March, rebased to 2019. *Source:* National Treasury. Budget Review 2020.

The pro-cyclical nature of government spending emerged in figures for government consumption, as the following graph shows. It climbed 4.6% a year in the global commodity boom from 2002 to 2011. As economic growth slowed from 2011, however, it expanded more slowly, by 1.9% a year from 2011 to 2015, and then by 1.4% annually from 2015 to 2018. In 2019, it increased by 1.5%. In short, from 2015, although government final consumption grew more rapidly than the GDP as a whole, it was far slower than during the global commodity boom.

Graph 10. Change in expenditure on GDP, average annual growth during and after the global commodity boom, and third to fourth quarter 2019

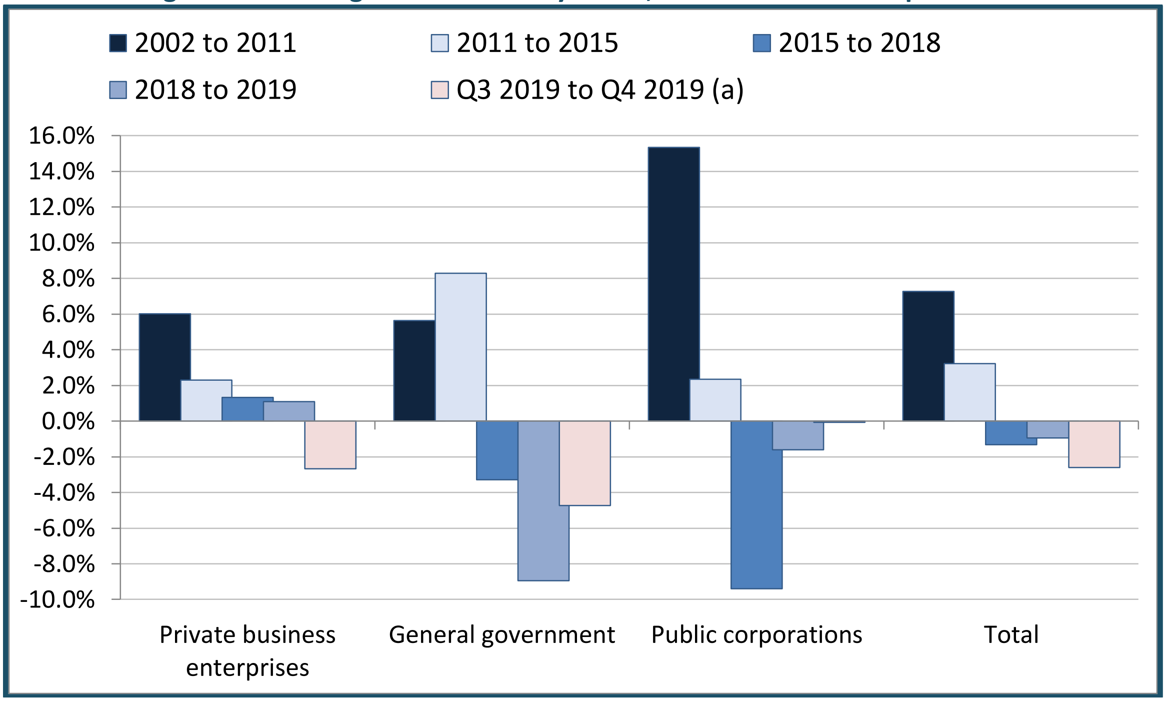


Note: (a) Seasonally adjusted. *Source:* Statistics South Africa. Gross Domestic Product (Quarterly)(2019Q4). Excel spreadsheet downloaded from www.statssa.gov.za in March 2020.

Public investment, which includes investment by both government and state-owned companies, was even more pro-cyclical.

As Graph 11. shows, during the commodity boom from 2002 to 2011, public investment climbed 10% a year, more than doubling in constant rand terms and rising from a quarter to a third of all investment in South Africa. Its annual growth rate plummeted to 5% from 2011 to 2015, however, with a particularly sharp fall from state-owned companies. From 2015 to 2018, the public sector disinvested at 8.5% a year, and from 2018 to 2019 its investment contracted 2.4%.

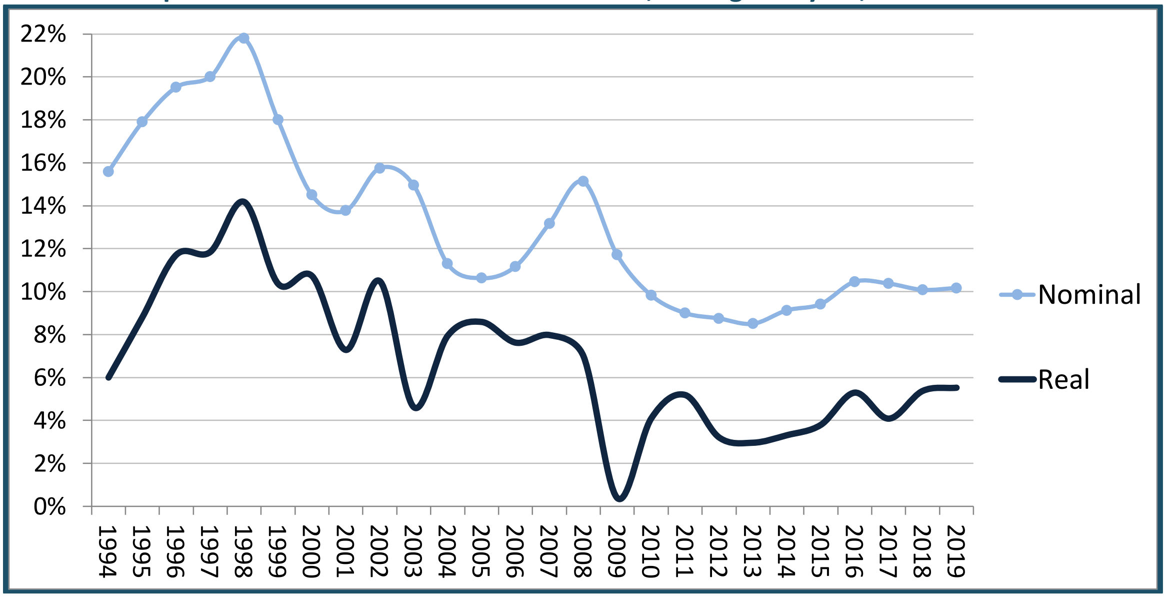
Graph 11. Change in investment by public and private sector, average annual growth during and after the global commodity boom, and third to fourth quarter 2019



Note: (a) Seasonally adjusted. *Source:* Statistics South Africa. Gross Domestic Product (Quarterly)(2019Q4). Excel spreadsheet downloaded from www.statssa.gov.za in March 2020.

In terms of monetary policy, real interest rates declined significantly from the late 1990s to 2012. From 2012 to 2019, however, just as the economy slowed, they increased by more than 2%. The rise partially reflected higher nominal rates as the Reserve Bank reacted to the depreciation of the rand following the sharp fall in export prices. From 2017 to 2019, the real rate rose mostly because inflation dropped from 6% to 4.5% (see Graph 12).

Graph 12. Real and nominal overdraft rates, average for year, 1994 to 2019



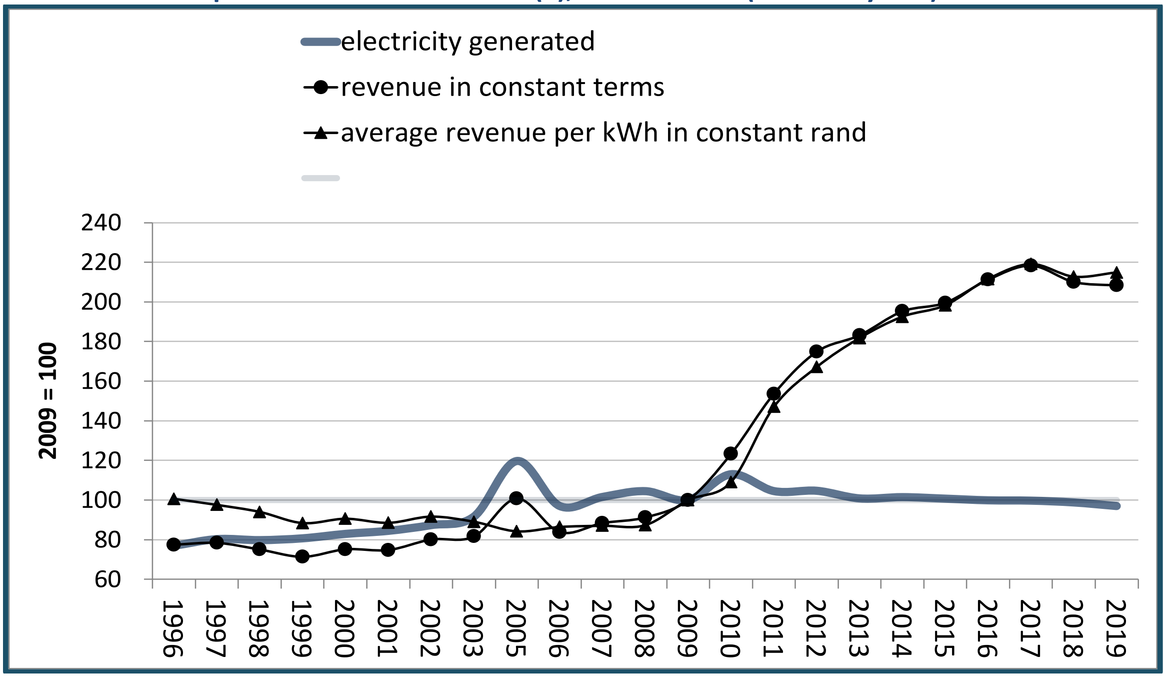
Source: South African Reserve Bank. Online download facility. Interactive dataset. Downloaded in March 2020.

Supply-side constraints: Electricity and the climate crisis

On the supply side, the unreliability and rising cost of electricity became an increasingly important constraint on the economy. In addition, acceleration of the climate crisis led to more frequent and intense droughts, which in turn aggravated volatility in agricultural production.

From 2015 to 2019, Eskom engaged in loadshedding for extended periods, mostly recently in the second half of 2019. In the same period, its tariffs climbed by 8% in real terms, after more than doubling from 2008 to 2015. These trends affected virtually all producers, but especially the electricity-intensive metals refineries that also faced stagnant prices after 2011. They responded by adopting more energy efficient technologies and in some cases by downsizing electricity-intensive production lines. As the following graph shows, the result was that electricity use declined 8% from 2008, even as Eskom's total revenues rose sharply. In 2018 and 2019, Nersa refused to provide Eskom with the increases it demanded, leading to a fall in tariffs and revenues in real terms. In response, Eskom has taken Nersa to court.

Graph 13. Indices of Eskom generation in GWh and total revenue as well as revenue per GWh in constant rand (a), 1996 to 2019 (financial years)



Note: (a) Deflated with CPI. *Source:* Calculated from Eskom Annual Reports for relevant years.

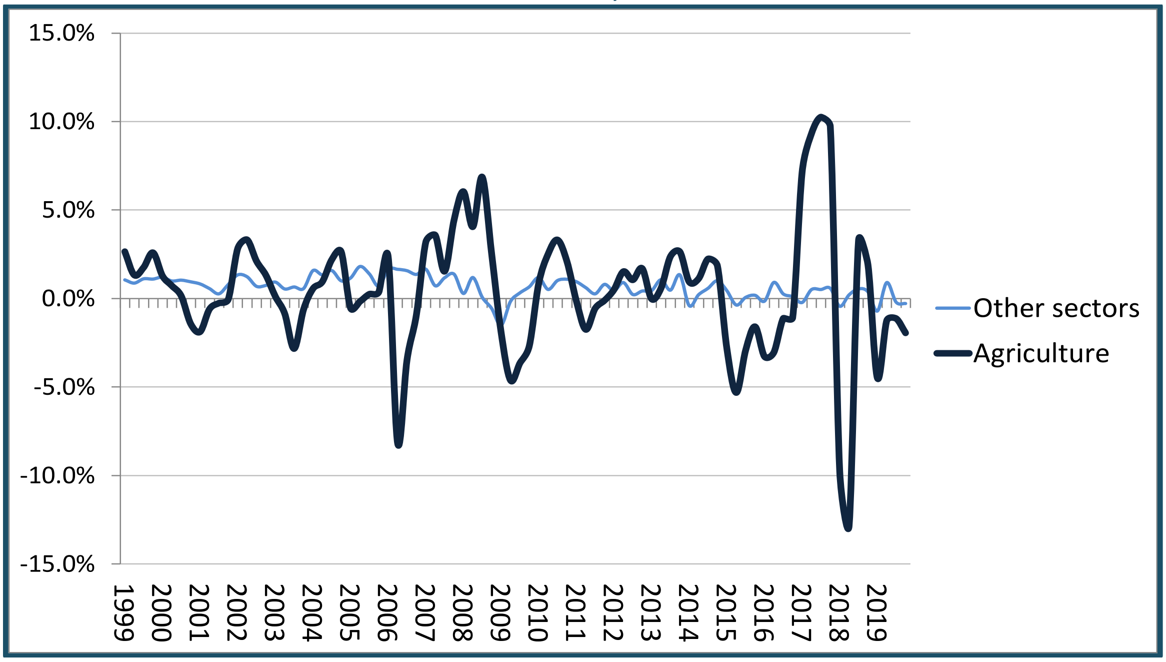
Eskom's crisis started because from 2008 it invested heavily in very large, coal-fuelled plants. It ignored the option of utilising newer, smaller-scale technologies as well as the gradual decline in electricity intensity. To pay for its new plants, Eskom raised its borrowing to R300 billion in 2018, equal to a tenth of total public debt; doubled electricity prices in real terms; and delayed repairs on existing plants. Then both the Medupi and Kusile plants proved late and faulty, generating less than anticipated. That plunged the electricity grid (and Eskom's finances) into crisis. In 2018, Eskom paid R25 billion in interest and made losses of R20 billion, adding to the burdens on the fiscus and the economy.

A second supply-side factor was agriculture. The sector contributes only around 2% of the GDP. It has, however, experienced extreme fluctuations in production as a result of repeated droughts.

In the context of slow growth in the rest of the economy, the result was a disproportionate influence on GDP figures. In 2019, agriculture saw the largest decline of any sector in rand terms, at R5 billion, with a 7% drop in its output. That in itself reduced GDP growth by 0.1%.

Graph 14. points to the growing volatility in agricultural production, as droughts are followed by steep rebounds. The severity of the 2015/16 drought was unprecedented in the previous 20 years, while 2018 again saw a decline as a result of regional droughts. The maximum quarterly decline in agricultural production in the past 20 years (seasonally adjusted but not annualised) was 13%, while the fastest growth was 10%. No other sector saw a decline greater than 7% or growth of more than 5% in a single quarter over this period. The standard deviation for seasonally adjusted quarterly growth in agriculture from 1999 to 2014 was 2.5%. Since 2014, it has risen to 5.6%. The next most volatile sector in the past five years was mining, but the standard deviation for its quarterly growth was 2.8%, and the figure was under 1.5% for every other sector.

Graph 14. Annual percentage change in value added in agriculture and other industries, 1999 to 2019



Source: Calculated from Statistics South Africa. GDP data. Quarterly and Regional Fourth Quarter 2019. Excel spreadsheet downloaded in March 2020

The climate crisis has brought higher temperatures that result in more intense droughts but also more tempestuous rainfall, typically affecting sub-regions rather than the entire country. South Africa as a whole has already seen temperatures increase at twice the rate of the globe as a whole, and this trend is likely to continue. By region, droughts have become more likely in the Western Cape and Limpopo, while temperatures have risen twice as fast in inland provinces as along the coast. Rainfall is likely to decline in the Southern Cape by up to 30% by 2050. It is expected to increase in most of the rest of the country except in the northeast, but become more erratic. The higher temperatures generally make droughts more likely even if rainfall increases in some areas. They also foster new kinds of pests and blights, especially if combined with more humidity, and add to stress on livestock.

Conclusions

The global boom in metals prices brought a temporary growth spurt to South Africa. But it reinforced dependency on the mining value chain, including heavily energy-intensive refineries, rather than promoting diversification. The end of the boom has imposed slower growth. The coronavirus outbreak is likely to further slow growth in major trading partners, especially in Asia, adding to pressure on the economy for much of 2020.

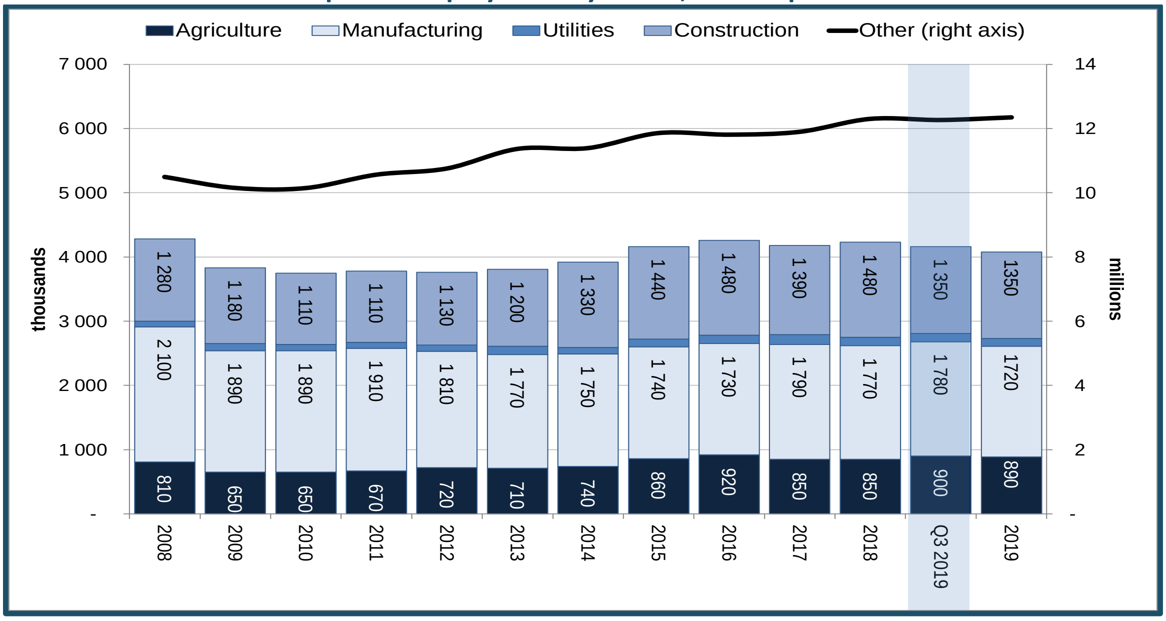
Since the end of the mining boom in 2011, government has adopted a moderately pro-cyclical stance as it sought to minimise the immediate risks around fiscal and monetary policy. Poor decisions by Eskom aggravated the slowdown and in the past two years have added to the burdens on the budget. The increase in the intensity of droughts as a result of the climate crisis also contributed to slower growth in the past five years.

Employment

Construction employment continued its downward trend, with the loss of 130 000 jobs, or 9% of its total workforce, in the year to the fourth quarter of 2019. Manufacturing also saw net job losses in this period. In contrast, agriculture gained 36 000 jobs. The rest of the economy reportedly created half a million new employment opportunities.

Construction has been a major drag on employment creation since 2016. From the fourth quarter of 2018 to the fourth quarter of 2019, it lost 130 000 positions. It had climbed from 1.1 million in 2010 to 1.48 million in 2016 before falling back to 1.35 million in 2019. In contrast, agriculture continued to rebound from the 2015/16 drought, which saw it lose 70 000 jobs. Still, at 890 000, it remained below its 2016 level of 920 000. Manufacturing employment continued to stagnate, losing 50 000 jobs or 3% in the year to the fourth quarter 2019. In contrast, the rest of the economy gained 510 000 jobs, almost entirely in business and community services. The quarterly employment figures are not seasonally adjusted, so quarter-on-quarter data are not a reliable indicator of trends.

Graph 15. Employment by sector, fourth quarter

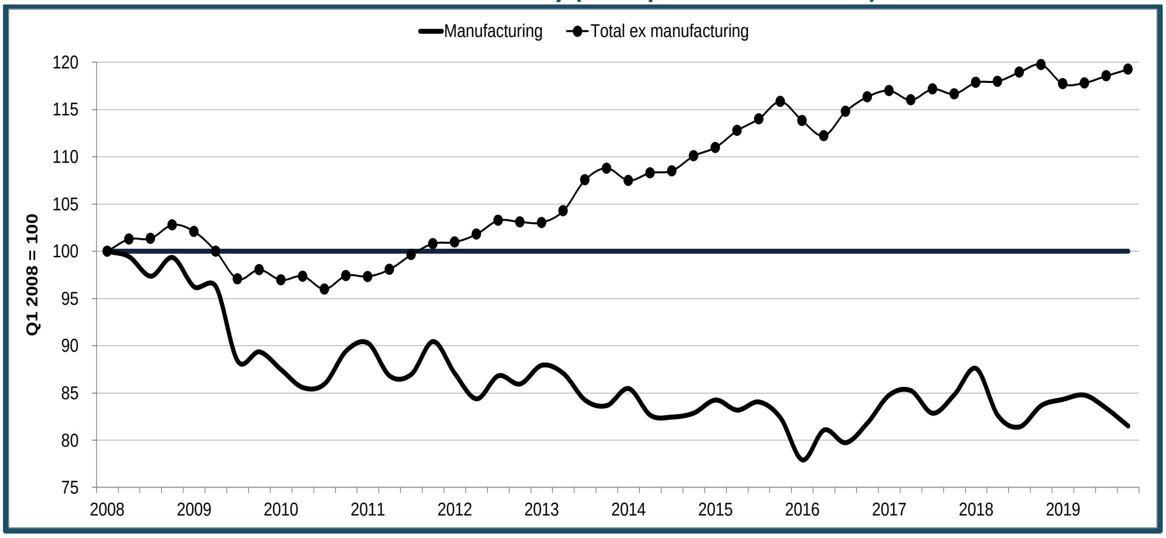


Source: Calculated from Statistics South Africa. QLFS Trends 2008-2019 Q4. Excel spreadsheet. Downloaded from www.statssa.gov.za in February 2020.

Total employment in manufacturing has fluctuated around 1.75 million since 2012. Before the global financial crisis, it stood at 2.1 million, but fell to 1.9 million in 2009 and then continued its downward trend through 2012. Although employment in manufacturing has largely stabilised since 2012, it now provides 300 000, or 15%, fewer jobs than before the 2008/9 crisis.

In contrast, the rest of the economy has gained over two million jobs since 2008, for an increase of 17%.

Graph 16. Indices of employment in manufacturing and the rest of the economy (first quarter 2008 = 100)

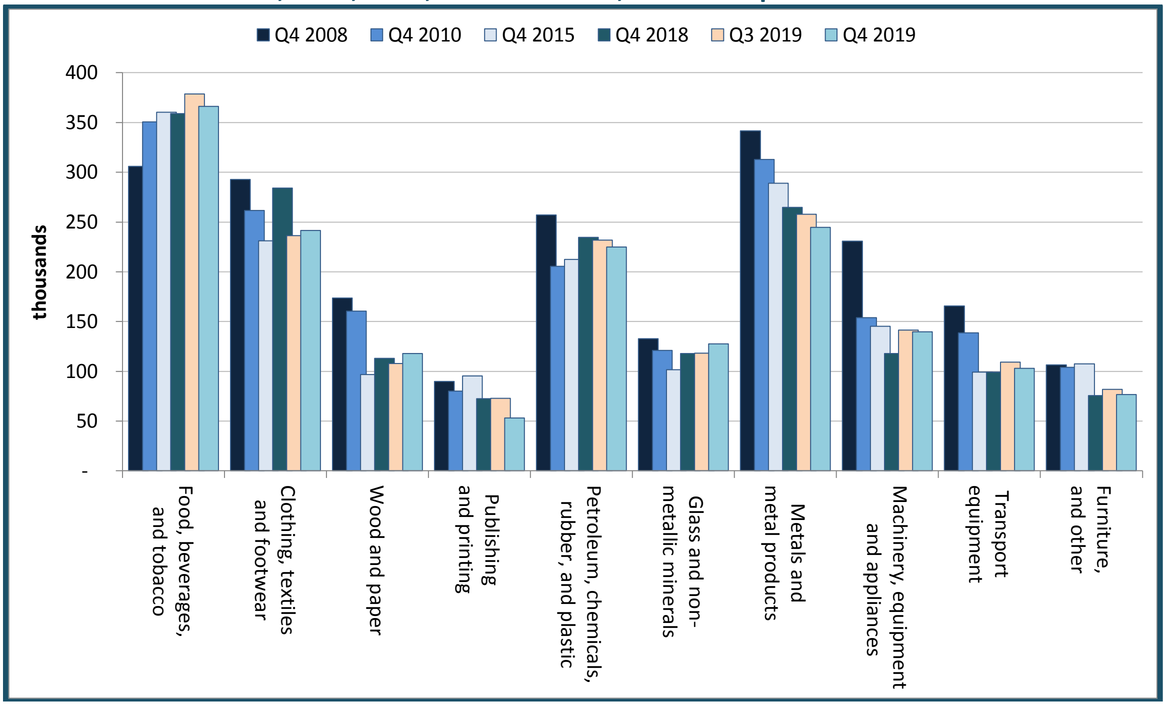


Source: Calculated from *StatsSA. QLFS –2008-2019 Q4. Electronic database. Downloaded from www.statssa.gov.za*

The stagnation in manufacturing employment largely reflects the long-run decline in job creation by metals and metal products. Until 2008, it was the largest single source of manufacturing jobs. Since then, over one in four metal workers have lost their jobs, as employment in the industry shrank by 100 000. In the year from the fourth quarter of 2018, employment in the industry fell by 20 000. The woes in the metals industry in part reflect global trends, especially the global financial crisis in 2008/9 and the end of the metals price boom in 2011. But domestic factors have also been crucial, especially the doubling of the electricity price in real terms since 2008, since metals refineries are highly electricity intensive, and Kumba's hike in domestic iron-ore prices. Its decline has been only partially offset by significant job creation in food processing, which has also levelled out since 2015.

In the past year, employment in clothing took a hit, falling by 15% or over 40 000 from the fourth quarter of 2018. In contrast, machinery and equipment created 22 000 new jobs. The rest of manufacturing remained essentially stable.

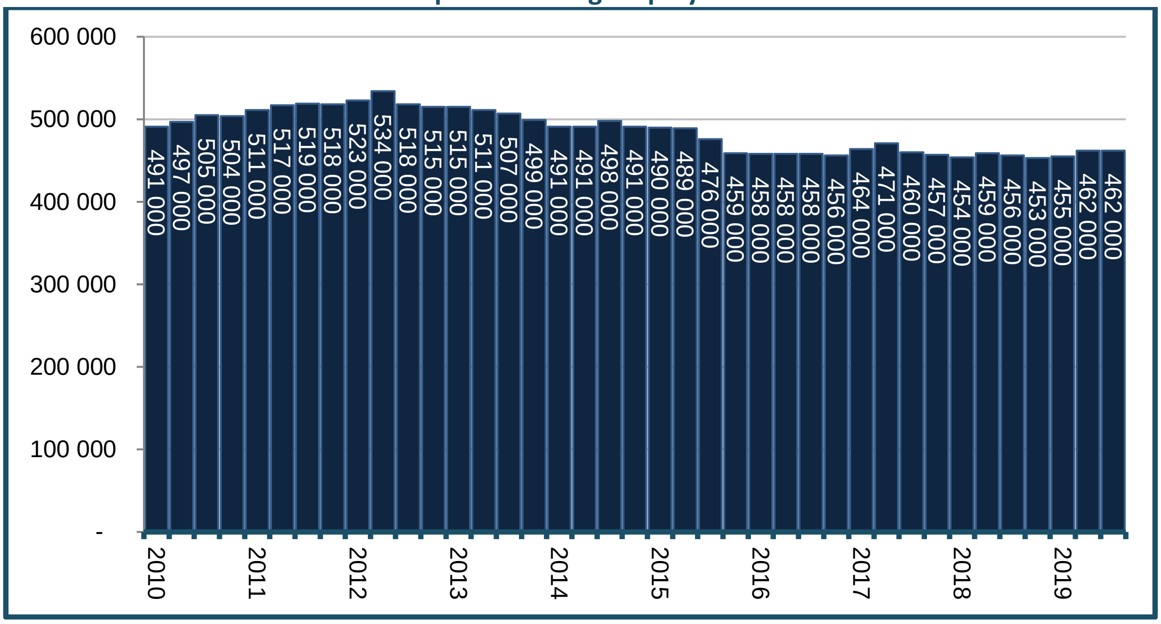
Graph 17. Employment by manufacturing industry, fourth quarter of 2008, 2010, 2015, 2018 and 2019, and third quarter of 2019



Source: Calculated from Statistics South Africa. Quarterly Labour Force Survey. Electronic databases. Relevant quarters. Downloaded from Nesstar facility at www.statssa.gov.za.

For mining, Statistics South Africa recommends using its employer survey, the Quarterly Employment Statistics, which lags a quarter behind the household-based Quarterly Labour Force Survey. After declining steadily from 2012, as the international metals price boom ended, mining employment recovered slightly from 2018 (see Graph 18).

Graph 18. Mining employment

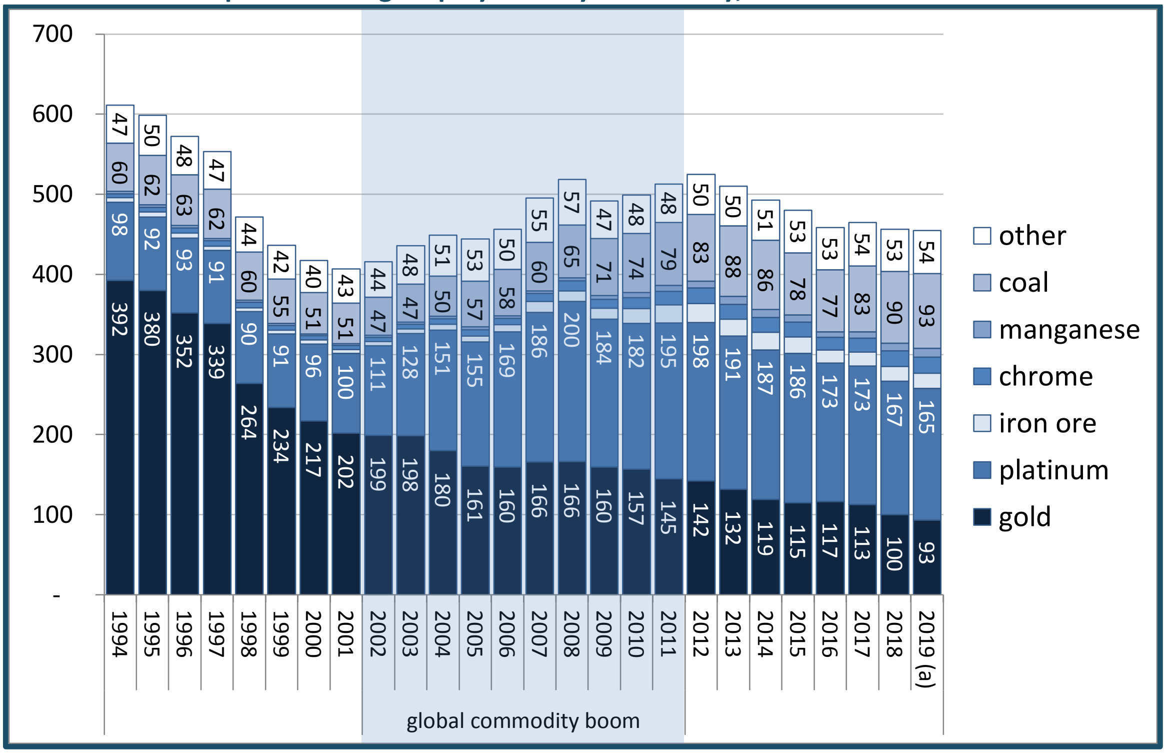


Source: StatsSA. Quarterly Employment Survey. Fourth quarter 2019. Downloaded from www.statssa.gov.za.

Mining employment is determined mainly by two trends: diversification into new minerals, especially platinum, and more recently chrome and manganese ore, as the gold mines matured and declined; and international commodity prices, which spiked in 2011, then fell precipitously and since 2015 have generally levelled out at between 30% and 50% below their 2011 peaks.

The expected sharp slowdown in Chinese manufacturing as a result of the coronavirus outbreak seems likely to lead to a further slump in mining export prices and consequently job losses. (See TIPS Policy Brief *Coronavirus: impact of an economic slowdown in China on the South African economy*).

Graph 19. Mining employment by commodity, 1994 to June 2019



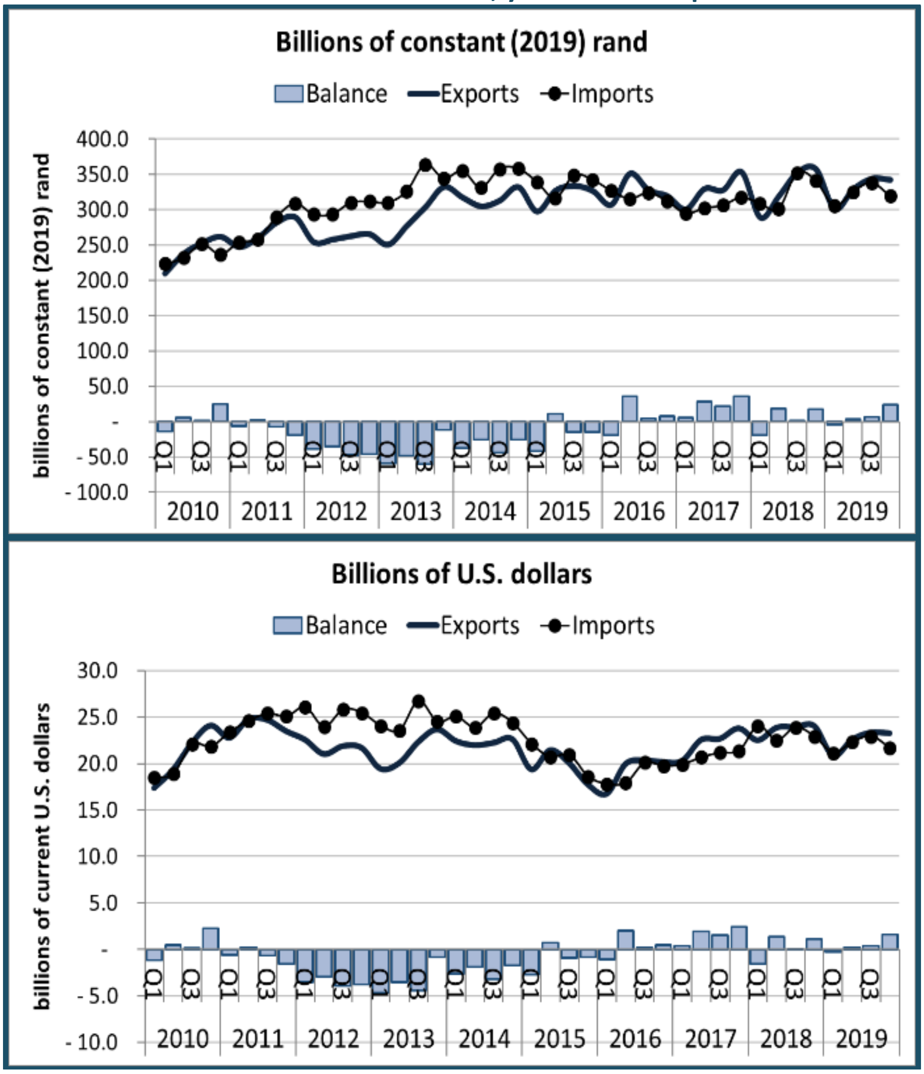
Note: (a) Average of monthly employment, year to June. *Source:* Department of Mineral Resources and Energy annual and monthly employment data.

International trade

From the third to the fourth quarter of 2019, South Africa's exports and imports fell in both constant rand and US dollar terms. The balance of trade improved because of the relatively sharp fall in imports, largely due to slower economic growth.

Exports and imports were lower in both constant rand and US dollar terms in the fourth quarter of 2019 compared to the third quarter. In constant rand, exports decreased by 0.5% while imports fell 5.6%, and the trade surplus more than tripled. Generally, the balance of trade has improved during the economic slowdown, mostly because of lower imports. In addition, the relatively low price of petroleum for much of the period since 2015 helped limit the cost of imports.

Graph 20. Exports, imports and balance of trade in constant rand and current US dollars, year to fourth quarter

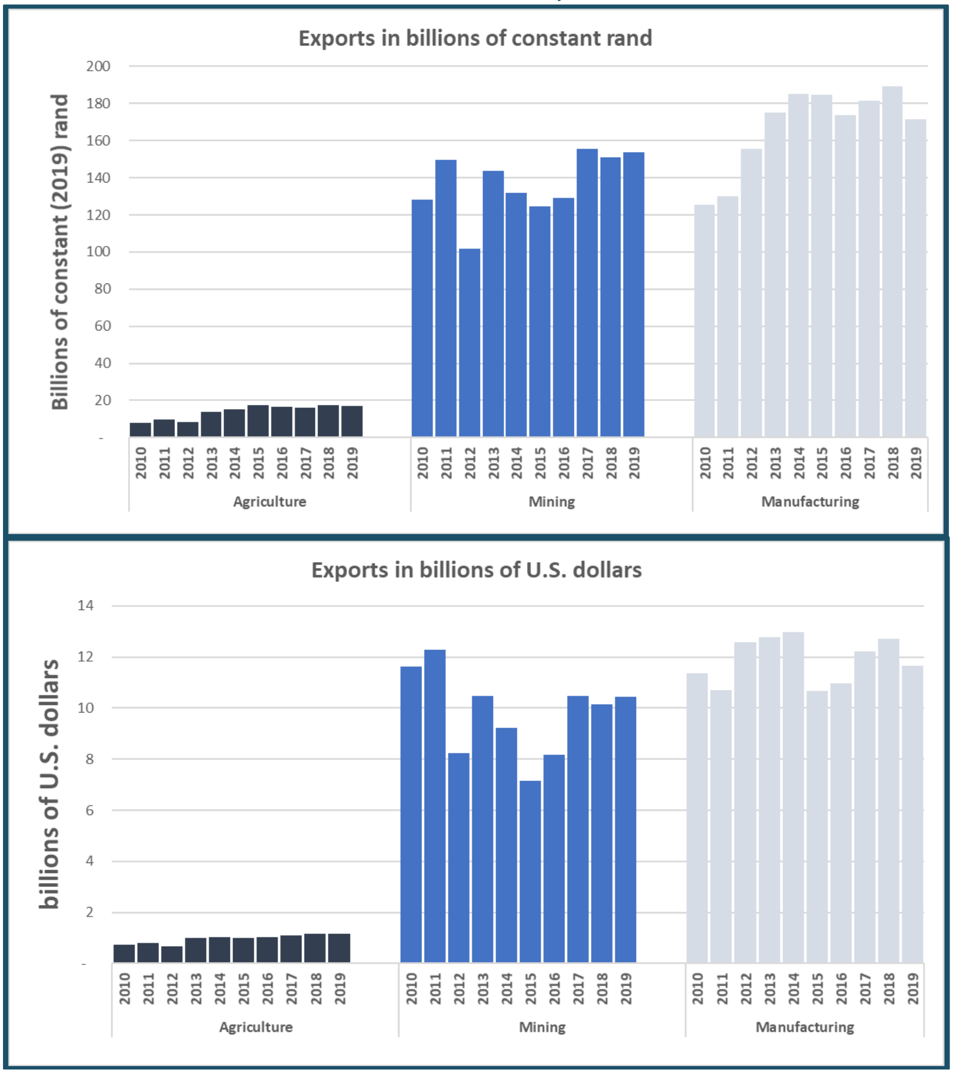


Source: South African Revenue Service (SARS) monthly data.

From the fourth quarter of 2018 to the fourth quarter of 2019, exports fell by 4%, while imports dropped 6%.

The decline in exports was driven by a sharp fall in manufactured products, especially transport equipment, basic metals and heavy chemicals. In constant rand, agricultural exports remained largely unchanged, while mining exports recovered slightly.

Graph 21. Fourth-quarter exports by sector, in billions of constant rand and current US dollars, 2010 to 2019

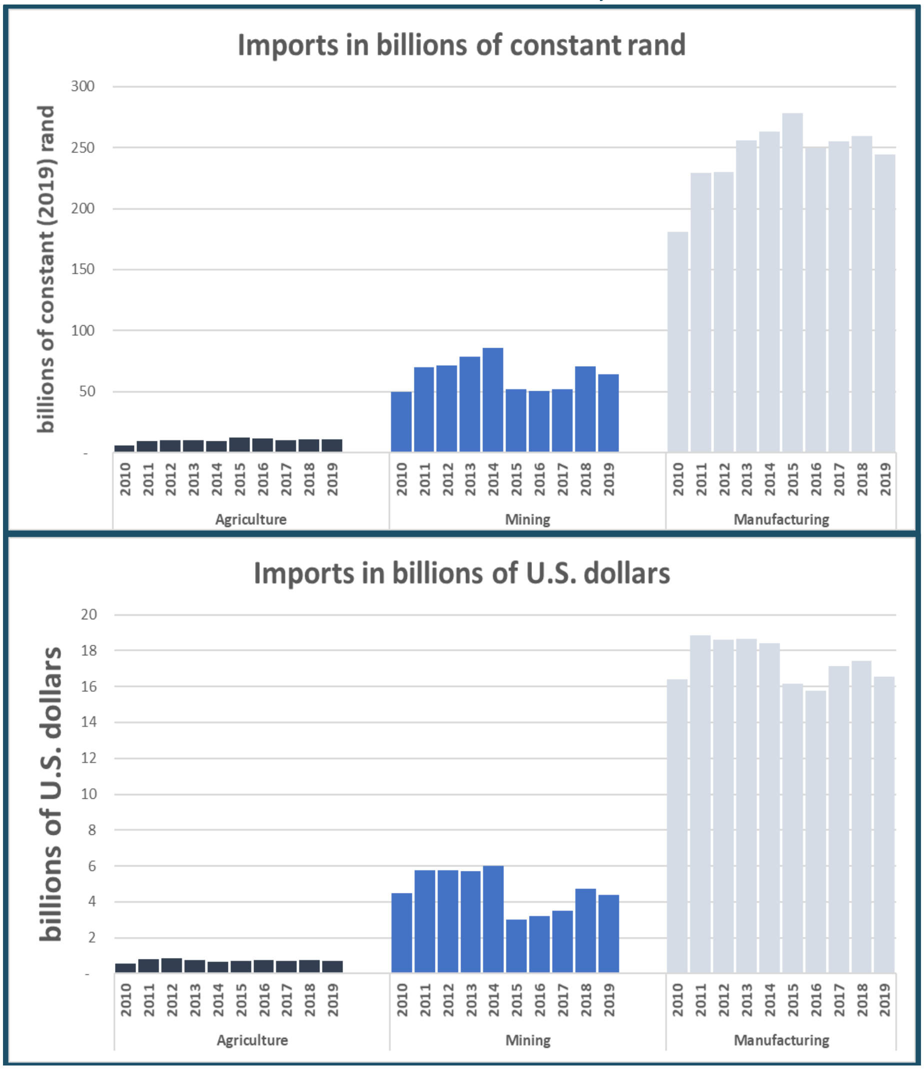


Source: South African Revenue Service (SARS) monthly data

On the import side, the fall was driven by manufacturing and mining.

Mining imports are mostly petroleum, and the unit price of imported petrol fell over 15% in dollar terms from the fourth quarter of 2018 to the fourth quarter of 2019.

Graph 22. Fourth quarter imports by sector, in billions of constant rand and current US dollars, 2010 to 2019



Source: South African Revenue Services (SARS) monthly data.

There was a contraction in exports across all subsectors of manufacturing, in both constant rand and dollar terms, between the fourth quarter of 2018 and the fourth quarter of 2019. As noted, the sharpest declines occurred in metals and transport equipment. The largest declines for imports occurred in machinery and equipment, transport equipment and chemicals.

Table 1. Trade by manufacturing industry, Q4 2018 to Q4 2019

	Value (billions)		% change from Q4 2018		Change in billions	
Industry	**USD**	**Rand**	**USD**	**Rand**	**USD**	**Rand**
EXPORTS						
Food and beverages	1.11	16.3	-2.4%	-3.4%	-0.03	-0.57
Clothing and footwear	0.50	7.4	-4.1%	-4.9%	-0.02	-0.38
Wood products	0.11	1.6	-31.2%	-31.8%	-0.05	-0.74
Paper and publishing	0.39	5.7	-12.4%	-13.2%	-0.06	-0.87
Chemicals, rubber, plastic	1.86	27.4	-5.6%	-6.5%	-0.11	-1.89

	Value (billions)		% change from Q4 2018		Change in billions	
Industry	**USD**	**Rand**	**USD**	**Rand**	**USD**	**Rand**
Glass and non-metallic mineral products	0.11	1.7	-8.4%	-9.4%	-0.01	-0.17
Metals and metal products	2.39	35.2	-13.1%	-13.9%	-0.36	-5.67
Machinery and appliances	2.02	29.8	-3.2%	-4.1%	-0.07	-1.27
Transport equipment	2.85	42.1	-12.2%	-12.8%	-0.40	-6.17
IMPORTS						
Food and beverages	0.94	13.8	2.6%	1.7%	0.0	0.24
Clothing and footwear	1.11	16.3	-5.7%	-6.6%	-0.1	-1.15
Wood products	0.09	1.4	-4.8%	-5.6%	0.0	-0.08
Paper and publishing	0.78	11.4	12.7%	11.7%	0.1	1.19
Chemicals, rubber, plastic	3.34	49.2	-7.3%	-8.1%	-0.3	-4.36
Glass and non-metallic mineral products	0.26	3.8	-5.7%	-6.4%	0.0	-0.26
Metals and metal products	0.98	14.5	-7.6%	-8.3%	-0.1	-1.32
Machinery and appliances	5.35	78.8	-4.7%	-5.5%	-0.3	-4.61
Transport equipment	3.32	48.9	-7.4%	-8.2%	-0.3	-4.38

Source: South African Revenue Services (SARS) monthly data.

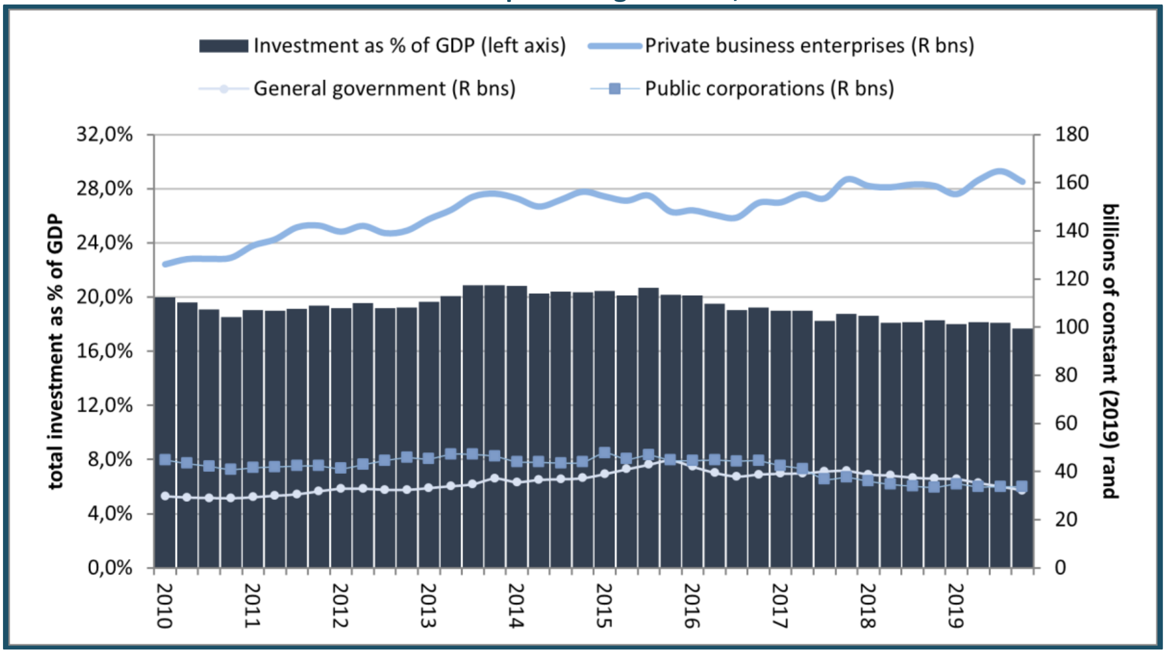
Investment and profitability

Investment was generally depressed in 2019, mostly as a result of the decline in public investment. Private investment fell in the final quarter, although it increased over the year. Profitability continued to fall in manufacturing and dropped in construction. Mining saw some improvement, mostly because the value of its assets fell even faster than its profits.

As noted above (see Graph 11), investment was down in 2019 compared to 2018, largely as a result of long-run disinvestment by the public sector. Private business investment climbed 1.1%, compared to an annual average of 1.3% growth over the previous three years.

As a percentage of GDP, investment fell to 17.7% in the fourth quarter of 2019, representing the lowest investment rate for any quarter since 2010. The rate dipped as a result of a 2.6% fall in private investment and a 4.7% decline in government investment in the quarter. It had, however, been falling steadily from 2014, when investment climbed above 20% of the GDP.

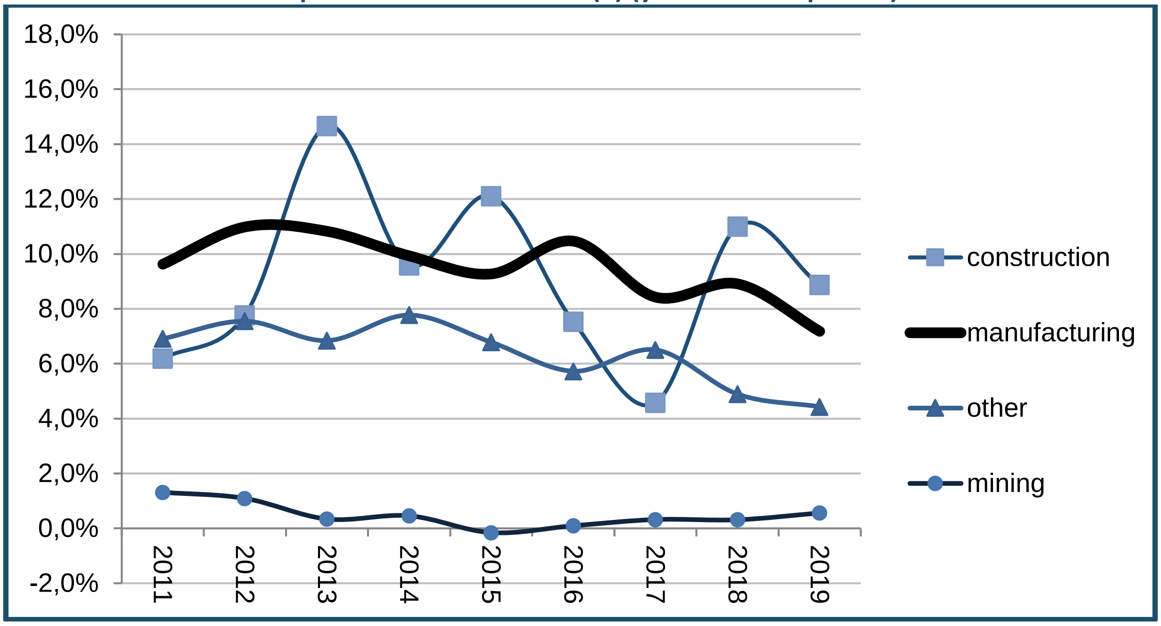
Graph 23. Quarterly seasonally adjusted investment by type of organisation in constant rand as a percentage of GDP, 2010 to 2019



Source: Statistics South Africa GDP quarterly figures. Excel spreadsheet downloaded from www.statssa.gov.za in March 2020.

The return on assets in manufacturing declined from 8.9% to 7.2% in the year to the third quarter 2019 (the latest available data), continuing the downward trend of the past five years. Construction also saw a decline from 11% to 8.9% after improving in 2018. The rest of the economy saw the return on assets fall from 4.9% to 4.4%. In contrast, mining had an improvement in profitability, although off a low base, rising from 0.3% to 0.6%.

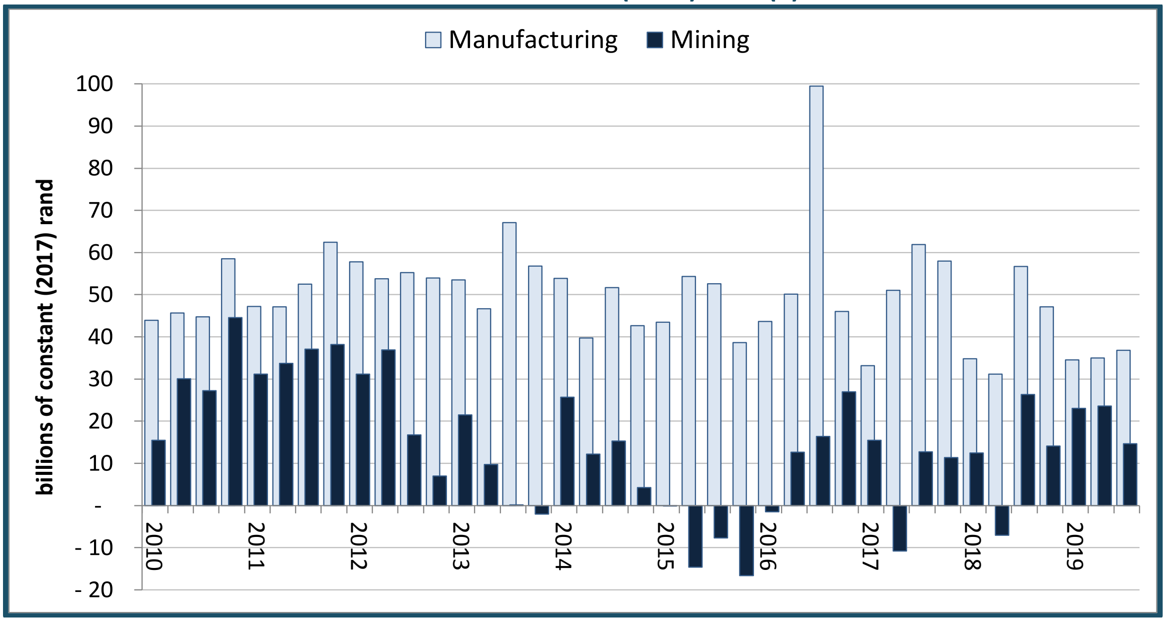
Graph 24. Return on assets (a) (year to third quarter)



Note: (a) Net profit or loss before tax as percentage of total assets. *Source:* Statistics South Africa. Quarterly Financial Statistics. Details SML. Excel spreadsheet. Downloaded from www.statssa.gov.za in March 2020.

While mining profits increased for much of 2017, they dropped sharply in constant (2019) rand from R24 billion in the second quarter of 2019 to R15 billion in the third. Manufacturing profits rose slightly from the first half of 2019 to the third quarter, from R35 billion in constant 2019 rand in the first and second quarters to 37 billion in the third quarter.

Graph 25. Quarterly profits in manufacturing and mining in billions of constant (2019) rand (a)



Note: (a) Deflated with CPI rebased to September 2019. *Source:* Statistics South Africa. Quarterly Financial Statistics. Details SML. Excel spreadsheet. Downloaded from www.statssa.gov.za in March 2020.

Note on the annual Investment Conferences

In 2018 President Ramaphosa held the first Investment Conference where he set a target of achieving US$100 billion in new foreign and domestic investment over five years. Reports suggest that, of the 31 projects announced in 2018, eight projects have been completed, with seventeen in construction or at implementation. Together, these projects represent R238 billion in investments. Concluded projects include the Mara phone manufacturing plant and upgrades of the Proctor and Gamble manufacturing facility.

The second Investment Conference garnered additional commitments from foreign and domestic companies. By the end of the conference, 71 investors had pledged over R300 billion in investments more than double the commitments received in 2018. As with the first conference, some of these projects were already in the pipeline, and had been covered by the quarterly TIPS FDI Tracker and Investment News Updates. They include the new MSC Cruises terminal in Durban (R259 million), Rio Tinto/Richards Bay Minerals (R6,5 billion) and Atterbury property development (R6 billion), among others.

Foreign direct investment projects

The TIPS Foreign Direct Investment Tracker monitors FDI projects, on a quarterly basis, using published information. The total investment value captured this quarter was R52.4 billion

Table 2 records new announcements from the investment conference. It excludes projects that were announced earlier and have not change, but it includes some that expand on earlier plans.

Table 2. Investments announced at the 2019 Investment Conference

Company	Value (R billions)	Country of Origin	Location	Industry
French companies in South Africa	20	France	Various	Various
Coca-Cola	14.7	United States	Various	Manufacturing
Liquid Telecom	8.5	United Kingdom	Various	Services
Astron Energy/ Glencore	6	Switzerland	KwaZulu Natal	Petroleum
Orion	4	Australia	Northern Cape	Mining
Vopak	3.1	Netherlands	KwaZulu Natal	Services
AMG-WEGO	2.79	China	Northern Cape	Mining
Toyota	2.43	Japan	KwaZulu Natal	Manufacturing
Triple Flag	2.1	Canada	Limpopo	Mining
Heineken	1.48	Netherlands	Gauteng	Manufacturing
Wilmar	1.5	Singapore	KwaZulu Natal	Manufacturing
Ivanhoe	1	Canada	Limpopo	Mining
Wesizwe	0.73	China/South Africa	North West	Mining
KLT	0.53	India	North West/ Gauteng	Manufacturing
MA Automotive	0.512	Italy	Eastern Cape	Manufacturing
Defy	0.462	Turkey	KwaZulu Natal	Manufacturing
B. Braun	0.3	Germany	Gauteng	Manufacturing
Faurecia	0.25	France	Western Cape	Manufacturing
ZF Lemfoerder	0.24	Germany	Eastern Cape	Manufacturing
Econet Energy	0.21	Mauritius	Various	Utilities
Hisense	0.16	China	Western Cape	Manufacturing
Motherson	0.12	India	Gauteng/KwaZulu Natal	Manufacturing

Source: South Africa Investment Conference Announcements https://sainvestmentconference.co.za/wp-content/uploads/2019/11/2019-Announcements_7Novemberxls_.pdf.

Additional projects identified outside the investment conference are outlined in Table 3.. Investment values were available for four of the eight projects identified. They amounted to R5.9 billion. Most of the projects are in manufacturing, predominantly for upgrades on existing plants. Several projects updated in this quarter were announced in the 2018 Investment conference.

Table 3. FDI Projects Captured in Q4, 2019 (excluding investment conference projects)

	Announced	Pre-Feasibility	Construction/ Implementation
Number of projects	5	1	2
Value (R billions)	5.5	Not Reported	0.4
Industries	4 Manufacturing 1 Services	1 Mining	1 Manufacturing 1 Services
Type	1 Expansion 4 Upgrade 1 Brownfield	1 Greenfield	1 Upgrade 1 Expansion
Company	Bridgestone Toyota Volkswagen Citroen Isuzu	URU Mining	Isuzu Google

Source: TIPS FDI Tracker database

New projects

Bridgestone South Africa announced plans to invest a further R300 million across its tyre production facilities in South Africa. It is also completing a R400-million investment at its main plant in Brits, North West Province. The company's investment will come to about R700 million over the current and coming financial year.

Toyota South Africa announced a R450 million investment at its Prospecton Plant near Durban. The investment is aimed at boosting production of the Hiace Ses'fikile minibus range. It entails an upgrade of the existing workshop and securing more specialised equipment. Toyota also announced the commencement of export operations to support the assembly of semi-knocked down vehicles in Kenya, with R20 million invested in a packaging facility at Prospecton towards this end.

Volkswagen Group South Africa (VWSA) announced plans to move its manufacturing plant in Uitenhage off the national electricity grid. The R3.5 billion project will cover some of its components suppliers in a facility adjacent to the production plant. The company intends to install a biogas facility to generate electricity. The facility will include a waste separation set-up and once operational it will also produce fertilizer that could be sold for US$400 a ton. VWSA projects an 18-month construction period, and will take two to three years to fully leave the national grid. The project should create about 1 000 jobs.

Isuzu will be building the new model of the D-Max bakkies in South Africa as part of a R1.2-billion investment. In addition to a full redesign – the first in eight years – Isuzu has also upgraded the three-litre turbodiesel engine. The bakkie will be engineered to meet the requirements of the South African and key Sub-Saharan Africa markets.

Canada-based company URU Metals plans to open a nickel mine in Limpopo. The company's South Africa subsidiary is waiting for feedback on its application for the mining rights, comprising three prospecting rights for a further 30 years. The value of this project was not reported.

Existing projects

Google launched over 100 WiFi towers, called Google Stations, across Langa, Khayelitsha, Gugulethu and Delft in the Western Cape. They will provide WiFi services to residences, public areas, universities, transportation hubs and shopping malls. Google intends to roll out more Google Stations in South Africa, but has not yet indicated the locations or the value of the investment.

French company Groupe PSA has returned the Citroën car brand to South Africa through a subsidiary, Peugeot Citroën South Africa. The company plans to relaunch Citroën with minimal investment, leveraging Peugeot’s infrastructure and sharing resources such as human resources and finance. Citroën and Peugeot sales forces and showrooms will, however, be separated. The company plans to have 35 Citroën dealers by the end of 2020. Three car models were launched for the South African market: the C3 hatchback, C3 Aircross sports-utility vehicle (SUV) and C5 Aircross SUV. The value of the investment was not reported.

Updates

Liquefied natural gas and helium company Renergen broke ground for a new pipeline in its US$40 million (R592 million) commercial liquid helium plant for the Virginia gas project in the Free State. The project will be rolled out in two phases. Phase one is expected to be complete by 2021 with capacity to produce an estimated 350kg of helium a day. Phase two is expected to come online between 2022 and 2033.

Beijing Automotive Industry Corporation SA has received a cash injection to cover higher investment cost and address delays in its local project. It was initially announced as costing R11 billion rand, but recent developments have increased the sum by R0.5 billion. The project at Coega, just outside Port Elizabeth, is now six months behind schedule.

Procter and Gamble (P&G) completed a R300-million investment in the company’s manufacturing facility. The project was among those announced at the first investment conference in 2018. The investment includes upgrades to the company’s Pampers production facility, for better waste management and improved energy efficiency.

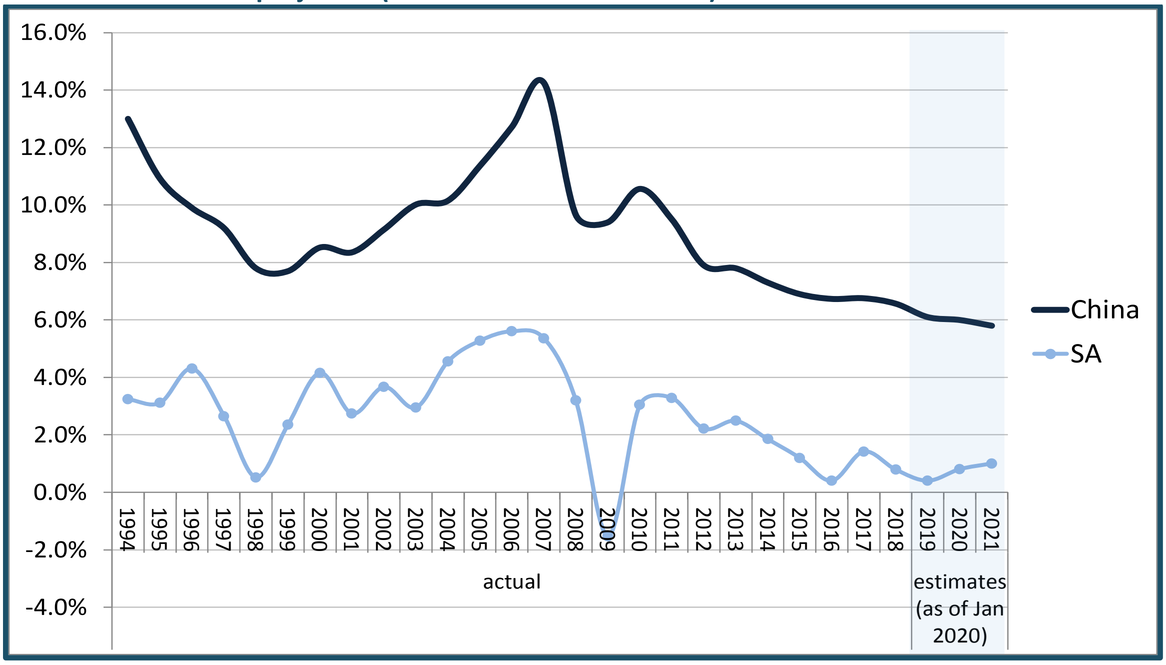
Rwanda-based Mara Group has opened the company’s first smart phone factory at the Dube Trade Port in Durban. The manufacturing facility is part of a five-year, R1.5-billion investment plan for South Africa. Two cellphone models will be manufactured at the factory – the Mara X and Mara Z – with capacity of over 1.2 million handsets annually. The phones will be sold in South Africa through FNB (via FNB Connect) and Vodacom. The project has created employment for 200 people. The project was also among investments pledged at the inaugural SA Investment Conference in 2018.

Briefing Note: Coronavirus – impact of an economic slowdown in China on the South African economy

The global economy is facing an economic slowdown as a result of the coronavirus disease (COVID-19) that began in China and had spread to at least 50 other countries by late February. China is now the world's second biggest economy, and South Africa's largest single trading export destination as well as its largest export market. With the situation changing rapidly, it is important that South Africa keep track of the developments and undertake contingency planning to prepare for the impacts on the economy and on jobs. (See TIPS Policy Brief *Coronavirus: impact of an economic slowdown in China on the South African economy*).

Analysts have projected a slowdown in Chinese growth as a result of the COVID-19, particularly for the first quarter of 2020. Latest estimates suggest China's economy could contract by 2.5% in the first quarter of 2020, and 2% year-on-year (Mjo, 2020[1]). Graph 26 provides IMF growth estimates for 2020 and 2021, which suggested a slowdown in Chinese growth even before the COVID-19 outbreak. The graph shows that South Africa's economic growth has tended to track China's, mostly because of the importance of China as a market for South African commodity exports.

Graph 26. Economic growth in China and South Africa, actual from 1994 to 2018 and projected (before the COVID-19 crisis) from 2019 to 2021



Source: IMF, World Economic Outlook. October 2002 for 1994 to 2018, and January 2020 Update for 2019 to 2021.

Slower growth in China affects South African exports both because of lower demand and because it has led to lower global commodity prices. Of the top 10 South African exports to China, virtually all are commodities that are further fabricated in China, often for re-export to other countries.

[1] Mjo, O., 2020. Coronavirus to dent global growth for 2020. Business Day. Johannesburg.

Although the extent of the impact on exports is not clear yet, analysts suggest that demand for iron ore and steel will decline. Kumba Iron Ore has raised concerns about impact on commodity prices as a result of decreased demand from China. Other industries facing challenges include wood pulp, greasy wool, and fisheries, particularly rock lobster.

Imports from China amounted to R235 billion in 2019, and consisted almost exclusively of consumer goods and intermediate inputs for manufacturing. The top 10 import items amounted to R53 billion for 2019, up from R15 billion in 2010. China is South Africa's largest supplier of eight of the top 10 import items, with consumer electronics such as cellphones and laptops exceeding 80%. This shows a concerning overdependence on China.

This initial overview points to the importance of stronger contingency planning to deal with the economic effects of the virus. In the absence of clear plans to support affected businesses, the likely result will be a further slowdown in growth as well as substantial job losses and closures especially of smaller, more informal businesses.

Briefing Note: Budget 2020 and funding for industrial policy

With a depressed economy, the 2020 budget was bound to be a delicate balancing act. Entitled *Consolidation, Reform and Growth,* it acknowledges a weak economic outlook, low growth, tax revenue shortages, higher debt service costs and concerns with public finances and fiscal deterioration. A widening deficit, escalating interest payments with debt servicing costs the fastest-growing area of expenditure (growing at 12%) and a technical recession are worrying signs for the economy.

State-owned companies will get the bulk of new spending. In 2020/21, Eskom will get R25 billion and South African Airways R10 billion. In contrast, the main labour-intensive services – health, education and policing – all see a real cut, with increases below inflation. National Treasury hopes to reach a deal to cut public servants' pay by 3% in real terms so as to avoid reducing services to the public. If that proves impossible, funding for the major social services except for social grants will fall in real terms by between 2% and 3% a person. Social grants will increase by inflation.

The budget for the Department of Trade, Industry and Competition (DTIC) – the new department that merges the earlier Departments of Trade and Industry and Economic Development – is expected to contract if inflation is taken into account. It gets a 0.5% increase in nominal rand, rising from just over R11 billion in 2019/20 to R11.1 billion in 2020/21. That represents a reduction of 4% in real terms.

The DTIC budget commits to four focus areas, namely developing industrial infrastructure, providing industrial finance, strengthening exports and enhancing competition.

The 2020/21 budget provides above-inflation growth for programmes related to economic transformation, research and planning. Its incentive schemes rise under 2% in nominal terms, however, for a decline of around 2.5% after inflation. The departmental administration faces a 10% cut in real terms. Moreover, the South African Bureau of Standards (SABS) will see payments by the department fall below 2018 levels after taking inflation into account.

The department contributes around a third of the total SABS budget, with the remainder mostly earned through fees from companies.

Incentives to manufacturing and services (excluding funds transferred to the Industrial Development Corporation) comprise over a third of the DTIC budget.

The largest component is manufacturing incentives, at R3.8 billion in 2020. They cover the manufacturing competitive enhancement programme, the capital projects feasibility programme, the automotive investment scheme (which is funded primarily through off-budget tax subsidies), the export marketing and investment assistance scheme, the sector-specific assistance scheme, and the section 12I tax incentive scheme. These payments are expected to grow slightly above inflation, at 4.4%, in the current budget.

The second largest component is incentives for services, at R698 million in 2020. The bulk goes for business process outsourcing, television and film. These payments are expected to decline by R106 million in the 2020/21 budget, representing a cut of 18% after taking inflation into account. The budget does not explain which components will see reduced funding.

In short, the DTIC budget reflects the constraints facing government as it attempts to restructure the economy in the midst of an economic slowdown. With falling revenues and increasing demands to prop up the state-owned enterprises, the funds available for industrial policy have become tightly constrained. That in turn raises the importance of the Master Plan process in order to ensure more rigorous prioritisation, coordination across the state and effective collaboration with business.

For more information on fiscal and monetary policy, see the Trends in GDP Growth section.