

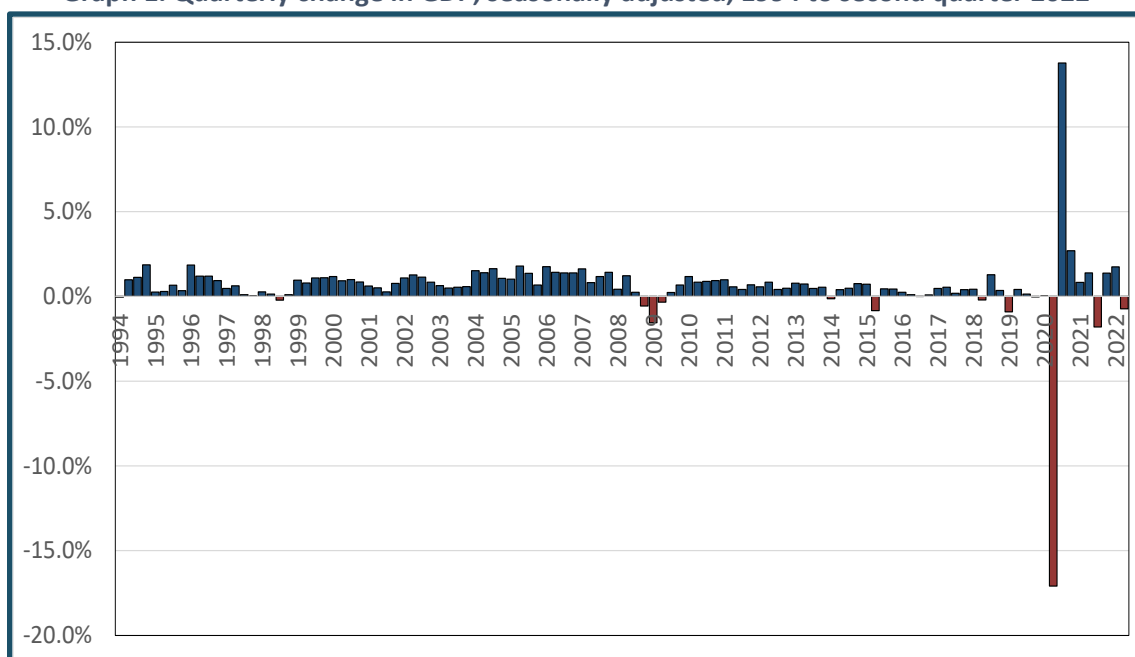
## GDP growth

The GDP shrank by 0.7% in the second quarter of 2022, mostly due to large-scale loadshedding, the floods in May in KwaZulu-Natal, and flat government spending. Value added fell in all of the real economy sectors, with agriculture the hardest hit. Manufacturing contracted by just under 6%. Construction remained depressed, apparently mostly due to stagnant investment by state-owned companies. Tourism continues to lag far behind pre-pandemic levels.

The 0.7% decline in the GDP in the second quarter of 2022 was the second interruption in the recovery from the global slowdown started by the COVID-19 pandemic in March 2020. (Graph 1) It extended the tendency towards more volatile national and global growth over the past two years, and pushed the economy back down to half a percent below its pre-pandemic level. (Graph 2)

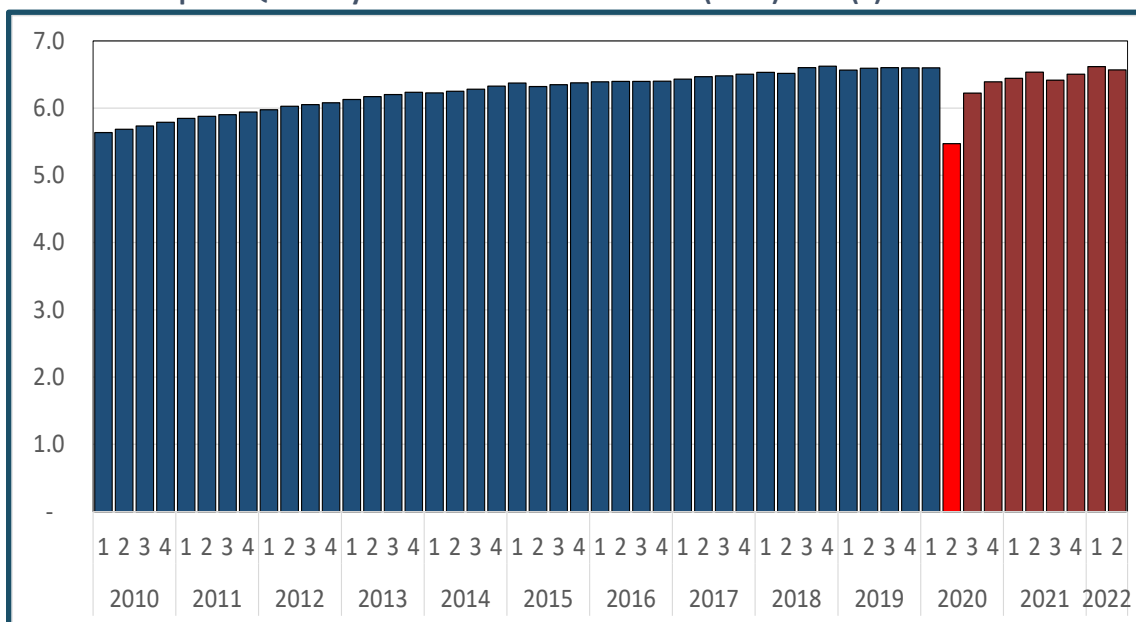
Every real-economy sector contracted in the past quarter, with the decline at 7.7% in agriculture, 5.9% in manufacturing, 3.5% in mining and 2.4% in construction. Only business services and logistics showed significant growth, at over 2% for the quarter. Government services shrank. (Graph 3.)

**Graph 1. Quarterly change in GDP, seasonally adjusted, 1994 to second quarter 2022**



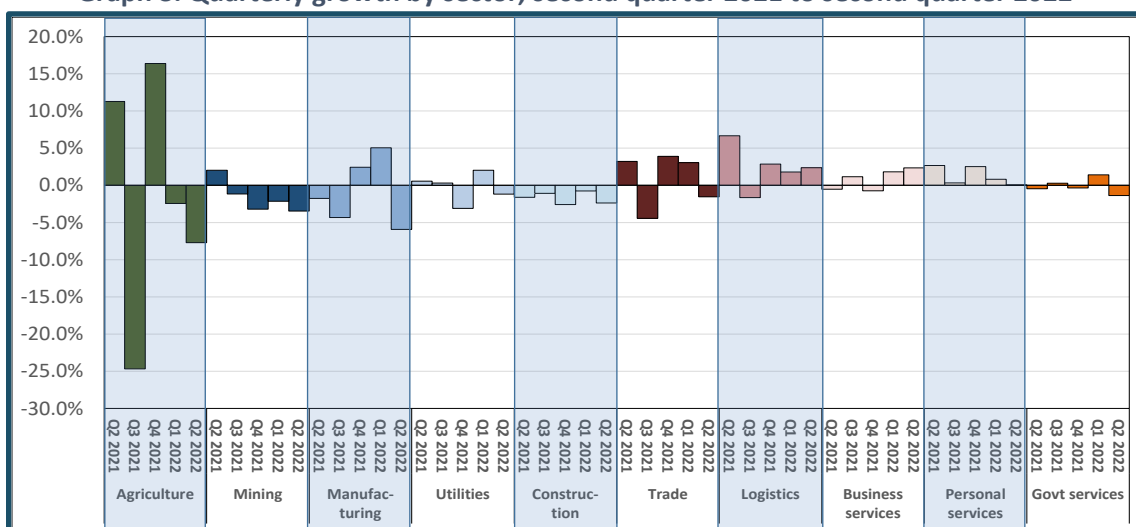
Source: Calculated from Statistics South Africa. GDP quarterly figures. GDP P0441 – 2022Q2. Excel spreadsheet.

**Graph 2. Quarterly GDP in trillions of constant (2022) rand (a) from 1994**



Note: Rebased using implicit GDP deflator rebased to 2022. Source: Calculated from Statistics South Africa. GDP quarterly figures. GDP P0441 – 2022Q2. Excel spreadsheet.

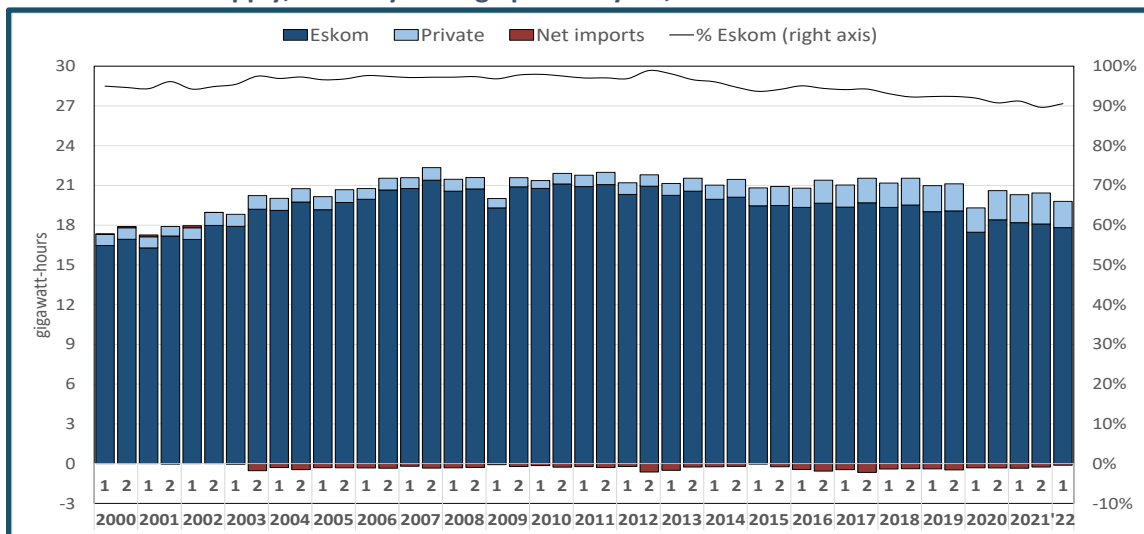
**Graph 3. Quarterly growth by sector, second quarter 2021 to second quarter 2022**



Source: Calculated from Statistics South Africa. GDP quarterly figures. GDP P0441 – 2021Q2. Excel spreadsheet.

The decline in the GDP was associated with a sharp fall in electricity generated by both Eskom and the private sector, as Graph 4 shows. From 2019 to 2021, total electricity available for use fell by around 1.5% a year. When the economy was operating below pre-pandemic levels, the constrained supply was less destructive, but it became a leading threat to the recovery over the past six months or so. The shortfall arises principally from a combination of faults in Eskom’s new Medupi and Kusile plants; the consequent over-burdening of its older capacity, leading to continual breakdowns, especially given poor maintenance and operation; and the long-standing delays in permits for new private generation capacity. In the past few months, steps have been taken to alleviate some of the delays for independent producers, mostly by easing licencing requirements.

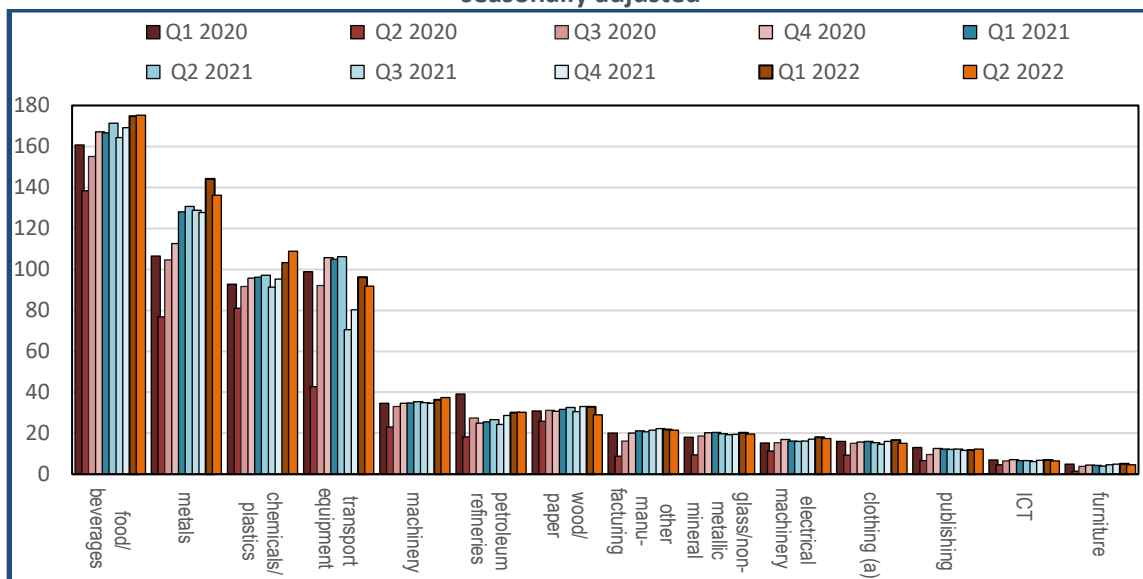
**Graph 4. Electricity available for distribution in GWh and share of Eskom in total electricity supply, monthly average per half year, 2000 to first half 2022**



Source: Calculated from Statistics South Africa. P4141. Electricity generated and available for distribution. Excel spreadsheet.

Within manufacturing, the manufacturing industries in terms of sales – food processing, metals and chemicals – drove growth in year-on-year terms, although metals saw a decline in the past quarter. In contrast, auto sales remain well below pre-pandemic levels. The industry’s recovery in sales stalled in the past quarter, mostly as a result of lower exports.

**Graph 5. Quarterly sales by manufacturing industry in billions of constant (2022) rand (a), seasonally adjusted**

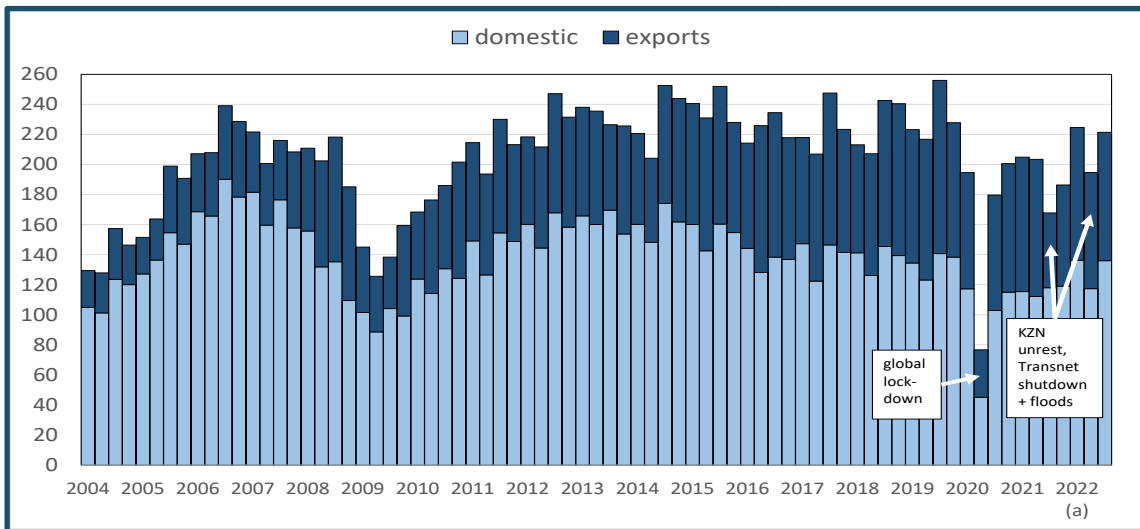


Note: (a) Refflated with CPI. (b) Extrapolated from July and August. Source: Calculated from Statistics South Africa. Manufacturing: Production and Sales, June 2022 (202203).

From the early 2000s, the auto industry became South Africa’s largest manufacturing exporter that was not commodity based, accounting for a tenth of all export revenues. Its output plateaued from around 2012, however, as domestic sales fell when the economy slowed after the international metals price boom ended in 2011. Auto production recovered comparatively rapidly from the COVID-19 lockdown, but exports fell sharply in mid-2021 with the unrest and a cyberattack on Transnet. A further slowdown resulted from the floods in Durban harbour in May

2022. Sales in July and August suggested that the industry would reach pre-pandemic levels in the third quarter, but that was still lower than a decade earlier. (Graph 6)

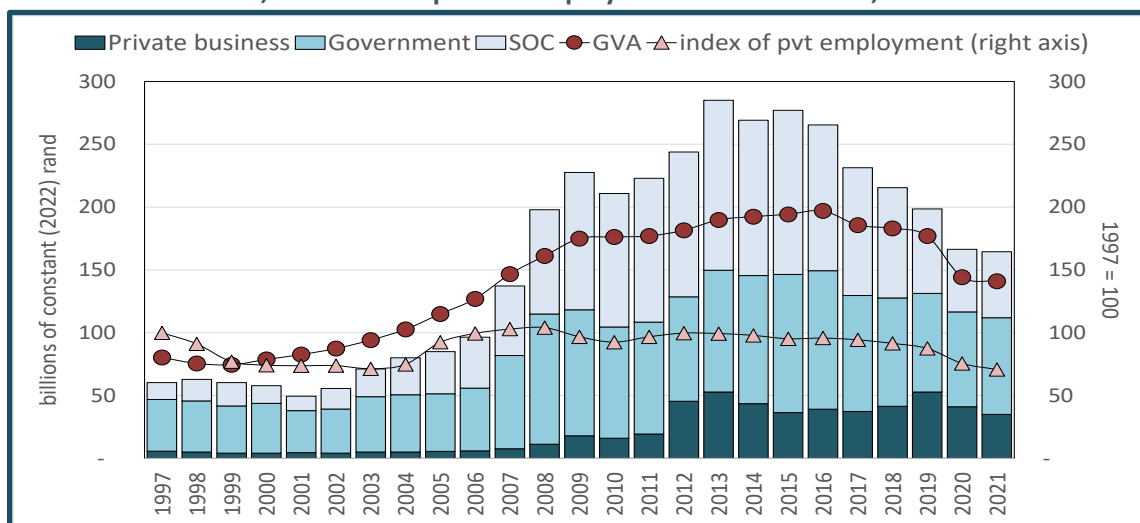
**Graph 6. Quarterly domestic and export sales by the auto industry, in thousands of units, 2004 to 2022 (a)**



Note: (a) Third quarter 2022 is extrapolated from July and August figures. Source: NAAMSA data accessed via Quantec. EasyData. Interactive dataset. Macroeconomic series.

The long-run downturn in construction has become a significant drag on the economy. The sector has experienced a steady loss of jobs since 2008, and falling value added from 2016. As Graph 7 indicates, the contraction mostly reflects the sharp slowdown in investment in construction works by the state-owned companies over the past decade. In constant rand, parastatal investment in construction plummeted from a high of R135 billion in 2013 to R50 billion in 2021. Investment in public works by general government and private business remained comparatively stable over this period, although it has not fully recovered from the pandemic downturn. Housing plans passed by municipalities fluctuated at around R85 billion in real terms, except for a drop to R57 billion at the height of the pandemic in 2020.

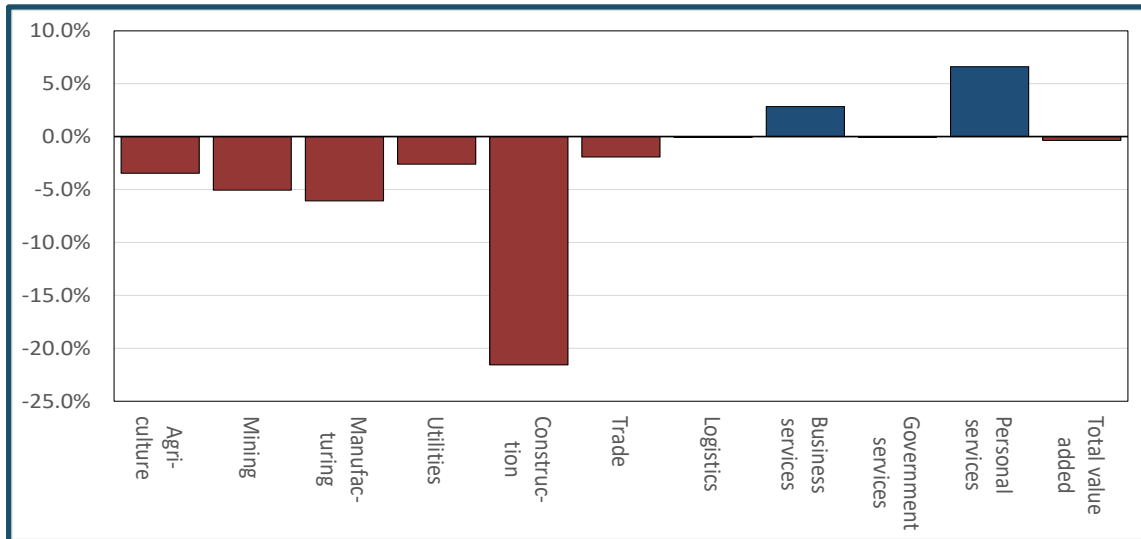
**Graph 7. Investment in public works by type of organisation and gross value added in construction, and index of private employment in construction, 1997 to 2021**



Source: Calculated from Reserve Bank on-line data.

Overall, the recovery has largely passed by the real economy. Value added in construction is still 20% below pre-pandemic highs, while manufacturing and mining are down by around 5%. Only business and personal services have exceeded their contribution to the GDP in the first quarter of 2020, before the pandemic hit. (Graph 8.)

**Graph 8. Change in GDP from first quarter of 2020 (pre-pandemic) to second quarter 2022 by sector**

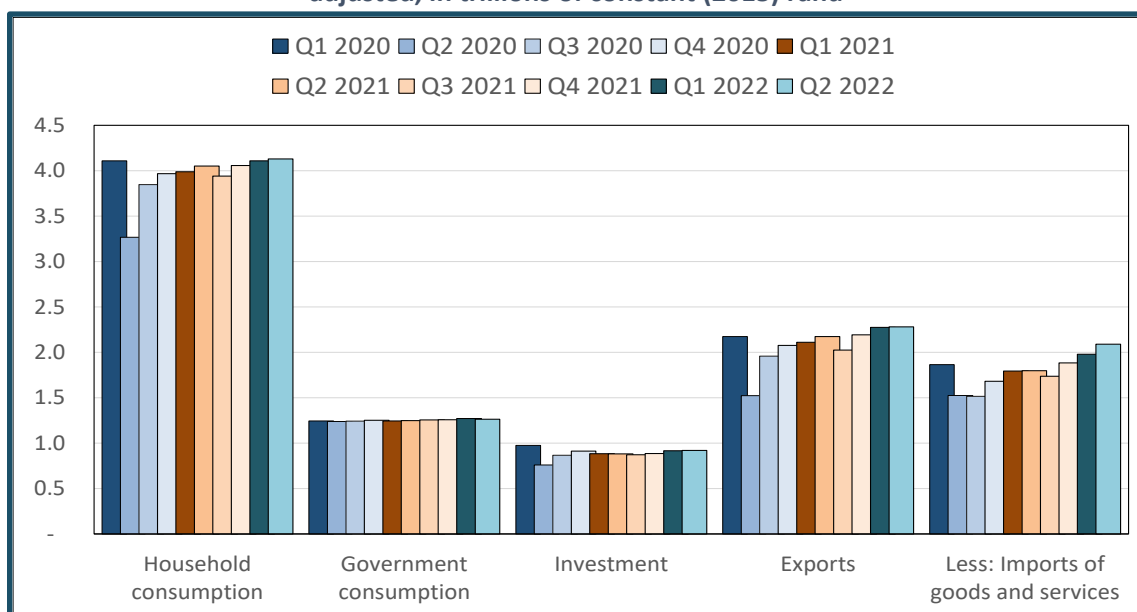


Source: Calculated from Statistics South Africa. GDP quarterly figures. GDP P0441 – 2021Q2. Excel spreadsheet.

Tourism also remains depressed, despite some recovery from the depths of the lockdown. According to Statistics South Africa’s data, 115 000 people arrived by air in June 2022, and 280 000 by road. Three years earlier, before the pandemic, 190 000 people arrived by air and 545 000 by road. As of June 2022, the number of visitors from Asia was down by almost two thirds; from other African countries and Europe by almost half; and from the United States, by a fifth. The number of nights provided by accommodation establishments had fallen 30% and the average price per night 15%, in real terms. The revenues of the food service industry were 20% below their June 2019 level.

On the expenditure side, the decline in the GDP was driven by higher imports and somewhat lower government spending, as Graph 9 shows. In contrast, household consumption climbed significantly for the fourth quarter in a row. The richest 10% of households accounts for half of all household spending in South Africa, however, so this trend does not necessarily indicate improved wellbeing for the majority. Investment also rose modestly, as discussed in the relevant section below, while exports were basically the same as in the previous quarter.

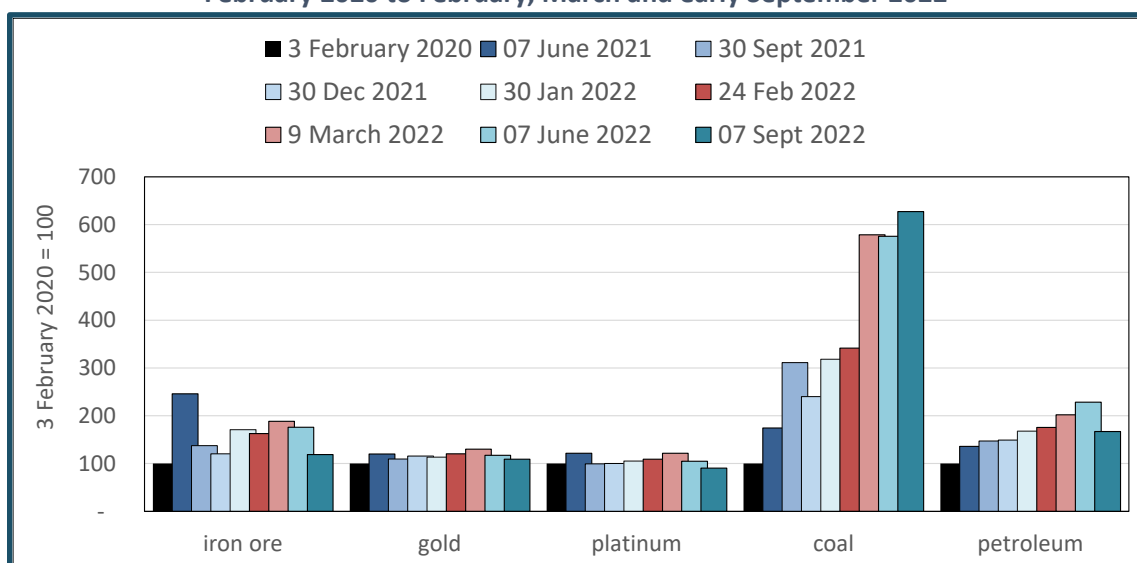
**Graph 9. Quarterly expenditure on GDP, first quarter 2020 to second quarter 2022, seasonally adjusted, in trillions of constant (2015) rand**



Source: Statistics South Africa. GDP quarterly figures. Excel spreadsheet.

As discussed in the section on trade, the spurt in imports arose mostly from surging petroleum prices. In turn, these prices largely reflected international speculation around the impacts of the Russian invasion of Ukraine on global oil trade. In the third quarter of 2022, international oil prices fell precipitously, from almost US\$120 a barrel in early June to under US\$85 three months later. This decline should relieve some of the pressure on the balance of payments. It was partially offset by a similarly sharp decline in iron ore, platinum and gold prices, however. Coal prices continued to climb through early September 2022, but volumes were affected by interruptions at Transnet as a result of cable theft on the lines feeding the Richards Bay export terminal. (See *Briefing Note: Global commodity prices and the South African economy.*)

**Graph 10. Indices of global US dollar prices for South Africa’s major mining exports from February 2020 to February, March and early September 2022**



Source: Calculated from Trading Economics. Commodity prices. Interactive dataset. Accessed at <https://tradingeconomics.com/commodities> 8 September 2022.