

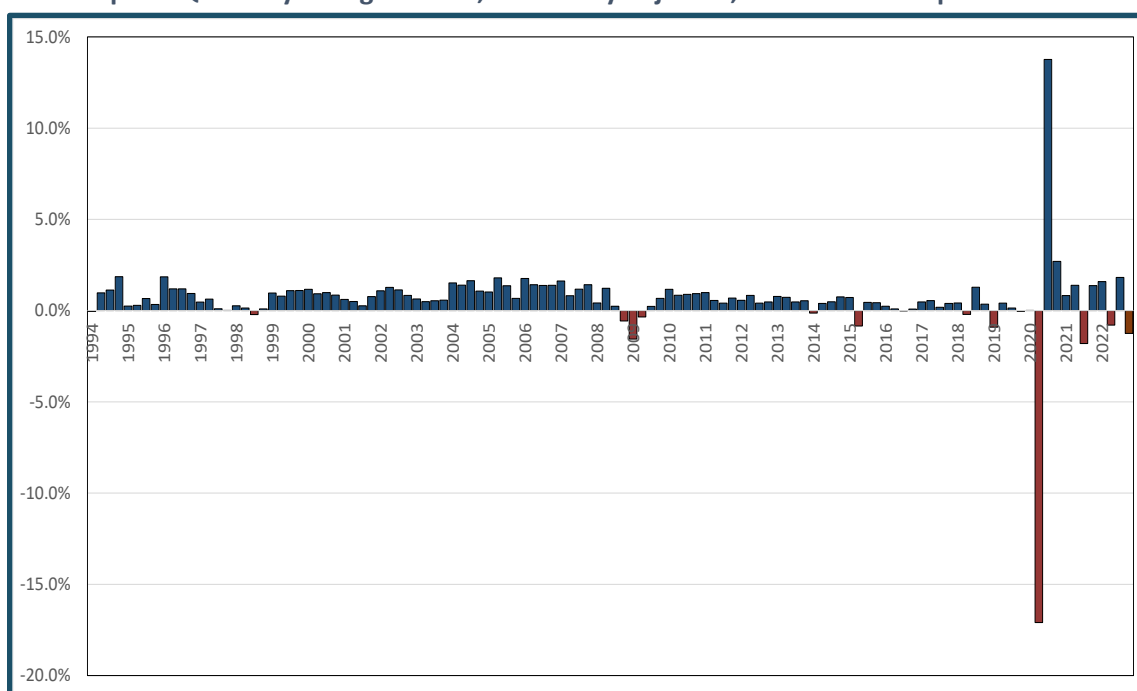
GDP growth

The economy shrank by 1.3% in the fourth quarter of 2022. Arguably that very poor outcome actually showed surprising resilience, given extraordinarily heavy loadshedding combined with falling export prices. Manufacturing contracted by just under 1%, but agriculture and mining both fell by 3%. Since the pandemic, quarterly GDP growth has turned markedly volatile.

The GDP contracted by 1.3% in the final quarter, after growing by 1.8% in the previous quarter. (Graph 1) For the year as a whole, despite two quarters of shrinkage, the economy expanded by 2.1%, reaching a total of R6.6 billion. That was 0.6% above 2019, before the pandemic downturn. (Graph 2) In the interim, however, the population has grown over 4%, so per capita GDP still has some way to go before it gets back to 2019 levels.

GDP growth remains highly volatile. The past year saw two quarters of growth above 1.5% – which would translate to 7% annual growth, if it persisted – but in two quarters it shrank almost as fast. South Africa has not recorded that kind of quarterly variability since the transition to democracy. In 2021 and 2022, the volatility of quarterly GDP growth, as measured by the standard deviation, was more than twice as high as in 2018 and 2019.

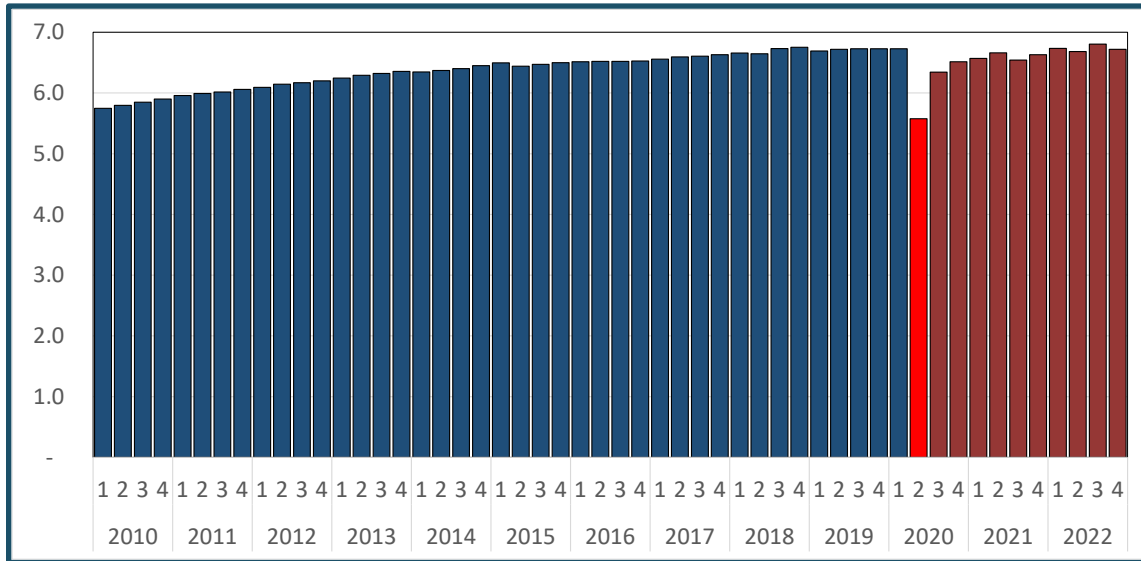
Graph 1. Quarterly change in GDP, seasonally adjusted, 2000 to fourth quarter 2022



Source: Calculated from Statistics South Africa. GDP quarterly figures. GDP P0441 – 2022Q4.

Excel spreadsheet.

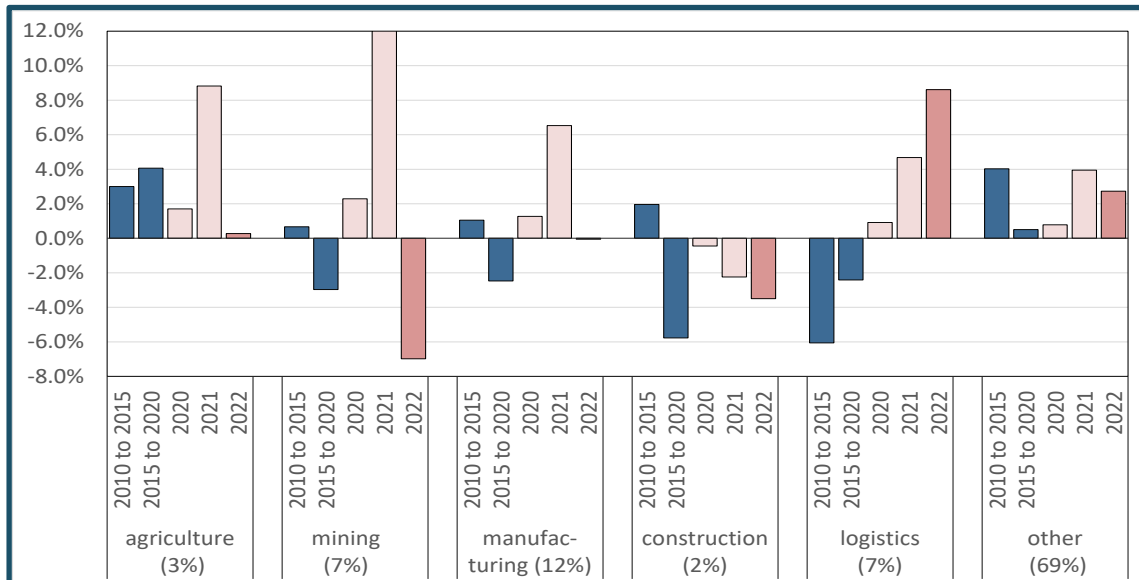
Graph 2. Quarterly GDP in trillions of constant (2022) rand (a) from 2010



Note: Rebased using implicit GDP deflator rebased to 2022. Source: Calculated from Statistics South Africa. GDP quarterly figures. GDP P0441 – 2022Q4. Excel spreadsheet.

In 2022, mining and construction were the largest drag on the GDP growth by volume. Mining output reportedly shrank by 7%, while construction fell 3.5%. Manufacturing barely declined at all over the full year, shrinking by 0.1%. Agriculture and the tertiary sector both expanded. Fundamentally, global mining cycles continue to be a key factor behind trends in the broader economy. Mining accounts for only 7% of the GDP but over half of total exports, which means the significant swings in its contribution to the GDP have a major impact on overall growth. Construction remains in a long-term downturn.

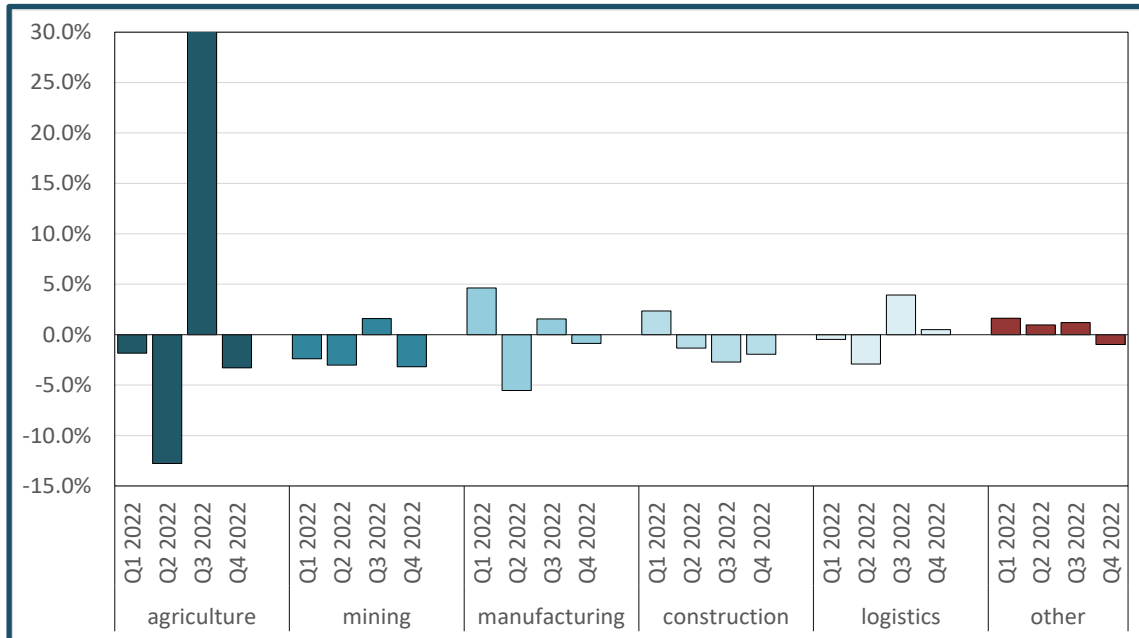
Graph 3. Annual growth by sector, average from 2010 to 2015 and 2015 to 2020, and annually from 2020 to 2022 (share of total GDP in brackets)



Source: Calculated from Statistics South Africa. GDP quarterly figures. GDP P0441 – 2021Q4. Excel spreadsheet.

In the last quarter of 2022, manufacturing shrank moderately, while both agriculture and mining saw much larger downturns. Agriculture shows extraordinary swings in growth quarter on quarter, which suggests persistent problems with the seasonal adjustment of the data. The rest of the economy also shrank after three quarters of growth.

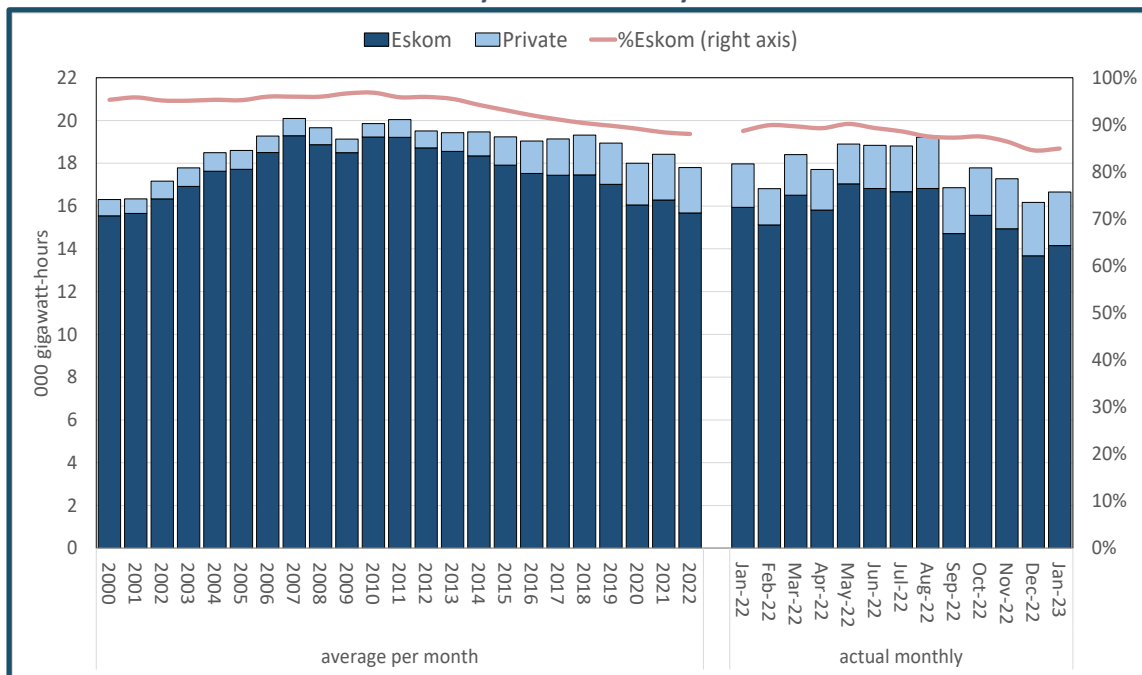
Graph 4. Quarterly growth by sector, first to fourth quarter 2022, seasonally adjusted



Source: Calculated from Statistics South Africa. GDP quarterly figures. GDP P0441 – 2021Q4. Excel spreadsheet.

The very high levels of loadshedding and a fall back in export prices over the course of 2022 made some economic decline inevitable. As Graph 5. shows, Eskom’s supply of electricity fell sharply in August and again in December. The private sector increased generation, but not enough to offset the Eskom shortfall. Eskom’s share in grid electricity fell from 87% in the third quarter of 2022 to 85% in the final quarter. The figures do not include small off-grid solutions, such as generators and rooftop solar, which gained in popularity among higher-income households and formal businesses. The 2023/4 budget provided credit guarantees to assist businesses in going off grid, a critical step in protecting the economy from the failures of the national electricity supply in the short run. Unfortunately, experience during the pandemic suggested that this kind of measure would not necessarily get banks to relax their lending requirements. When financing is available, solar systems generally pay for themselves over the medium term, as the very low cost of generation compared to both Eskom electricity and diesel generators offsets the initial investment in panels and batteries.

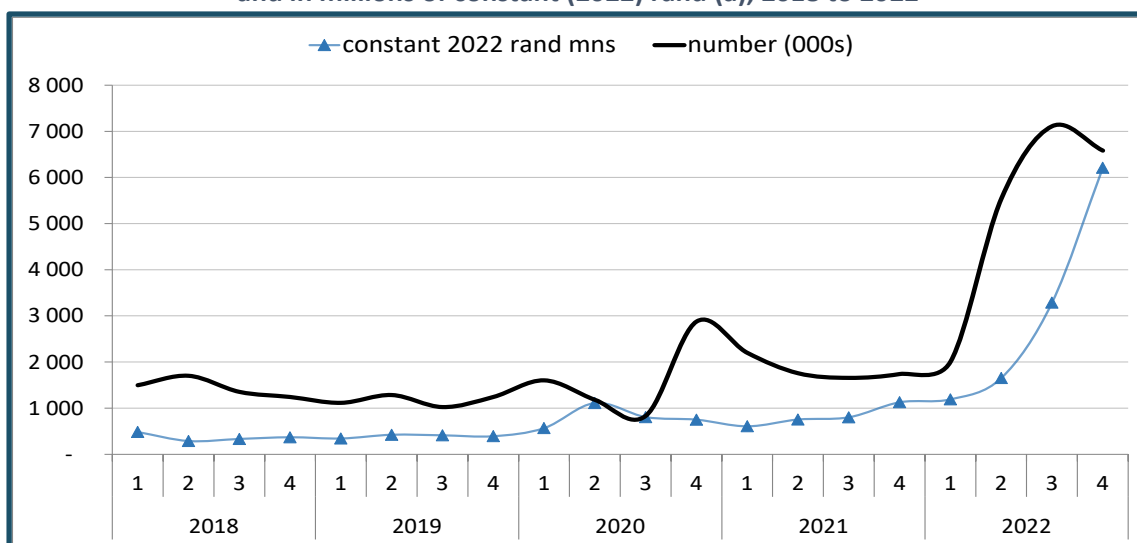
Graph 5. Electricity available for distribution in GWh and share of Eskom in total electricity supply through the national grid, monthly average from 2000 to 2022 and monthly from January 2022 to January 2023



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

There are indications of the cost of loadshedding to the economy, although the overall burden is difficult to quantify. For instance, Graph 6 shows that the cost of imports of lithium-ion batteries climbed more than threefold in the course of 2022. Still, aggregating the full costs of loadshedding proves difficult. On the one hand, the burdens are diffused across virtually all producers, with very uneven impacts depending on their energy dependency and access to substitutes. On the other, business accounts do not generally record many of the costs separately, for instance for repairs to equipment damaged by interrupted electricity or overtime to make up for lost shifts. See the [Briefing Note on Loadshedding and the economy](#).

Graph 6. Quarterly imports of lithium-ion batteries in thousands of units and in millions of constant (2022) rand (a), 2018 to 2022



Note: (a) Refflated with quarterly CPI rebased to fourth quarter 2022. Source: Calculated from International Trade Centre. TradeMap. Interactive dataset. Accessed at www.trademap.org March 2023.

Studies agree that the burdens of loadshedding to the broader economy generally exceed the cost of measures to reduce it. These measures include, among others, financing producers to enable them to afford the up-front cost of off-grid solutions; fast-tracking new sources of supply for the grid; and burning more diesel to generate electricity. For Eskom and the government as a whole, however, these solutions would appear as on-budget costs, where loadshedding effectively externalises them.

In 2022 as a whole, gross manufacturing sales were 7% higher than in 2019. The recovery in sales essentially stalled in the second quarter of 2021 (Graph 7). In the fourth quarter of 2022, they were essentially the same, in constant rand, as in the preceding six months.

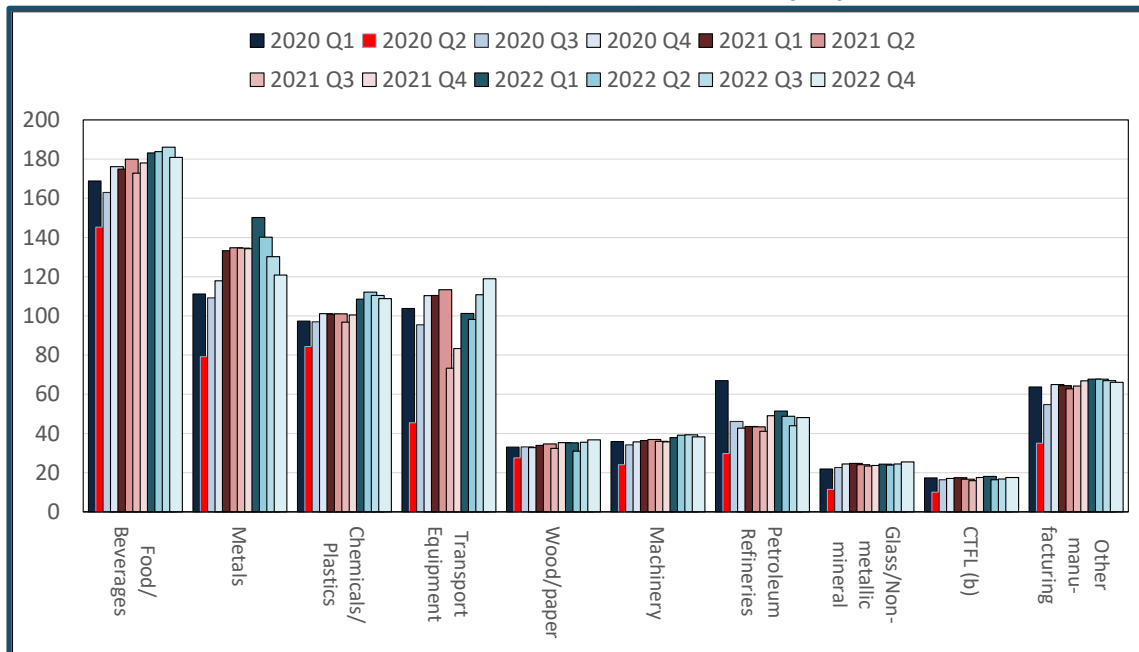
Graph 7. Quarterly manufacturing sales in billions of constant (2022) rand (a), 2019 to 2022



Note: (a) Refflated with CPI rebased to December 2022. Source: Calculated from Statistics South Africa. Manufacturing: Production and Sales, December 2022. P3041.2.

Sales by the auto industry climbed to 15% above pre-pandemic levels, with a sharp recovery from the downturn in mid-2021. In contrast, metals started the year with a jump in sales but saw a steep and steady decline thereafter. Food sales dipped but in constant rand were still 5% above pre-pandemic levels.

Graph 8. Quarterly sales by manufacturing industry in billions of constant (2022) rand (a), seasonally adjusted



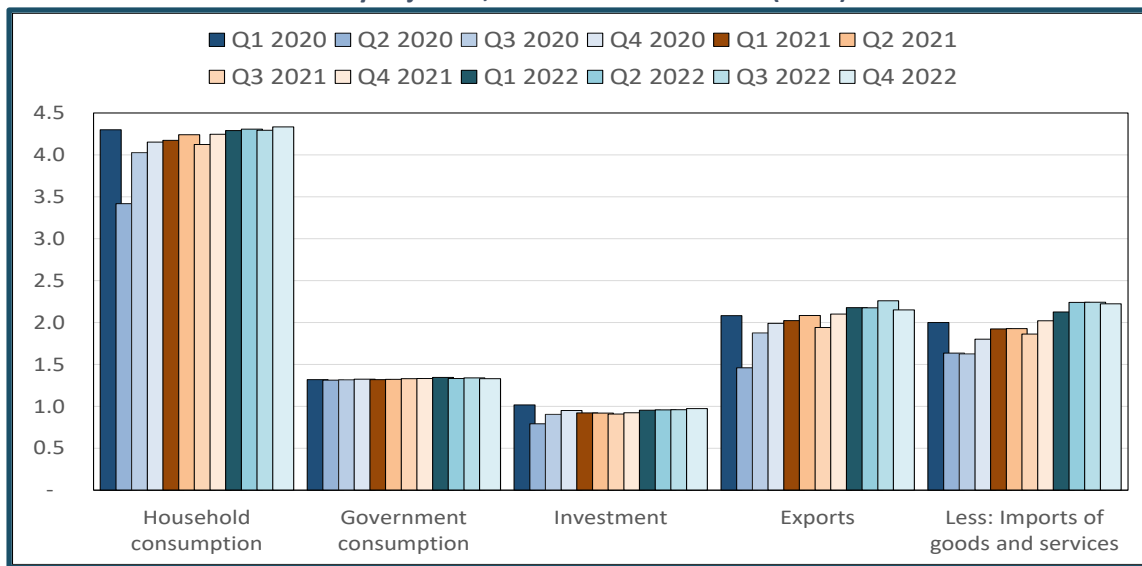
Note: (a) Refflated with CPI. Source: Calculated from Statistics South Africa. Manufacturing: Production and Sales, December rema2022. Excel spreadsheet. P3041.2.

The recent decline in metals sales was driven primarily by lower prices and stagnant production in the steel industry, which accounts for around a third of the industry's total turnover. From the first to the last quarter of 2022, the unit steel price dropped by nearly a third, while output fell 15% from mid-2021.¹ Aluminium and fabricated products saw their sales decline between 15% and 20% in constant rand, mostly due to falling prices rather than shrinking output. In contrast, structural steel production increased through 2022, though it remains around 50% lower than in the early 2010s.

From the perspective of expenditure, household consumption and investment were the main drivers of growth, but falling government consumption and export revenues offset them. (Graph 9.) Declining export revenues mainly reflected lower prices for South Africa's mineral exports, especially iron ore, combined with lower volumes. These issues are detailed in the section on international trade. As discussed in the section on investment, higher investment arose almost entirely from general government and the private sector, with a continued fall in capital spending by state-owned corporations.

¹ Calculated from Statistics South Africa. Manufacturing: Production and Sales. Excel spreadsheet. December 2022. P3041.2.

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



Source: Calculated from Statistics South Africa. GDP quarterly figures. GDP P0441 – 2021Q4. Excel spreadsheet.