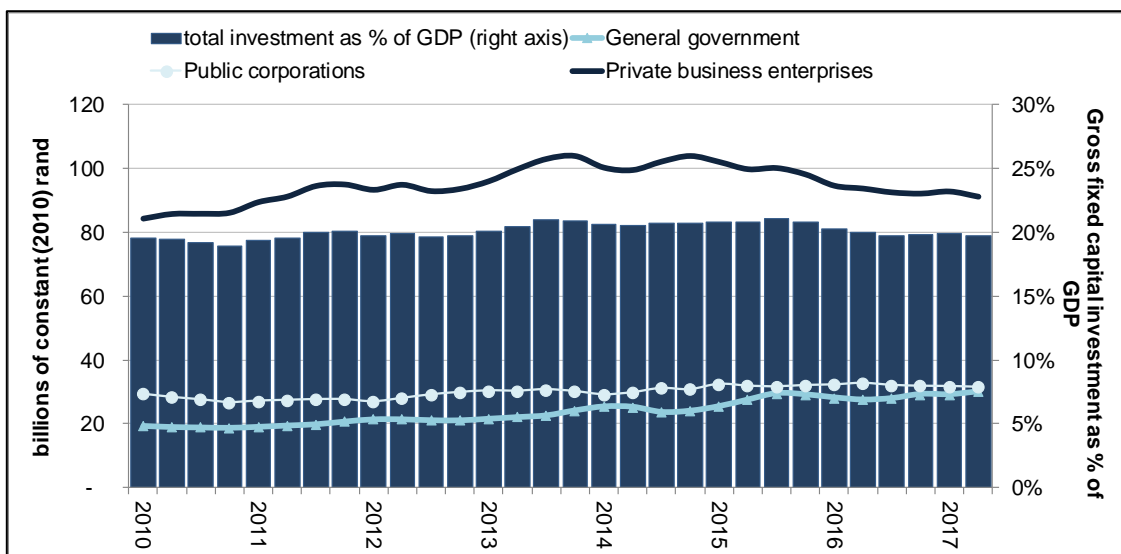


Investment and profitability

Total investment fell slightly by 1% in the second quarter of 2017, with a fall in both the public and private sectors. The decline of state investment is mainly due to continuing fiscal consolidation. Consistent with investment, the past year saw lower profitability in the real economy, although data are only available through the first quarter of 2017. Construction saw profits fall by three quarters compared to the first quarter of 2016.

Total investment fell by 1% in the second quarter of 2017 (Graph 16). As a result, investment remained at around 20% of GDP in 2016, far from the 2008 peak of 23,5%.

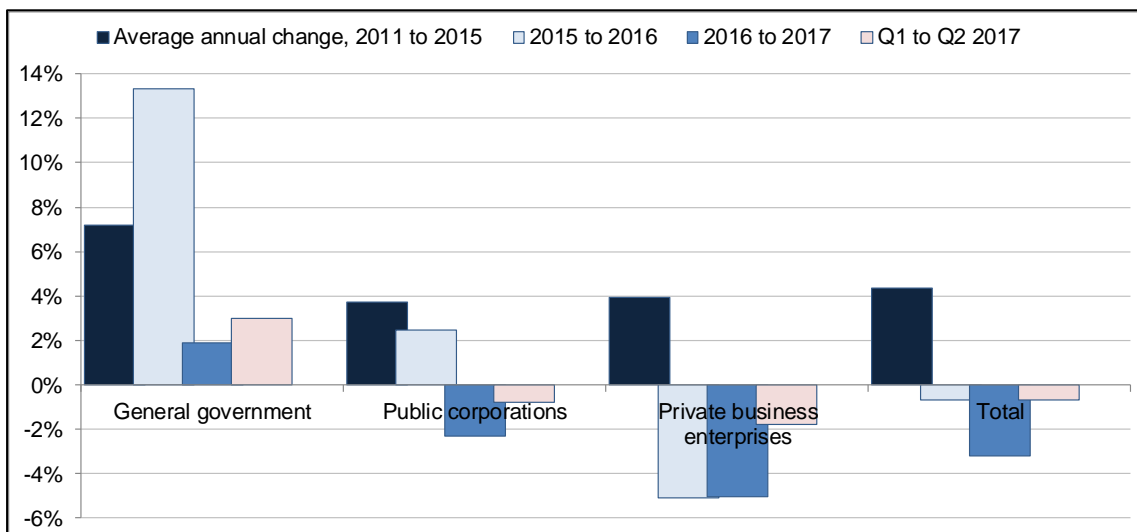
Graph 1. Yearly investment by type of organisation in constant 2010 rand, 2000 to 2017



Source: Reserve Bank. Interactive data set. Downloaded in June 2017.\

Private sector investment fell 2% in the second quarter of 2017, continuing a downward trajectory from 2015. Government investment increased by 3% this quarter after levelling out in the previous quarter and throughout 2016, in line with the fiscal consolidation. Investment by state-owned enterprises declined about 1% in the second quarter of 2017.

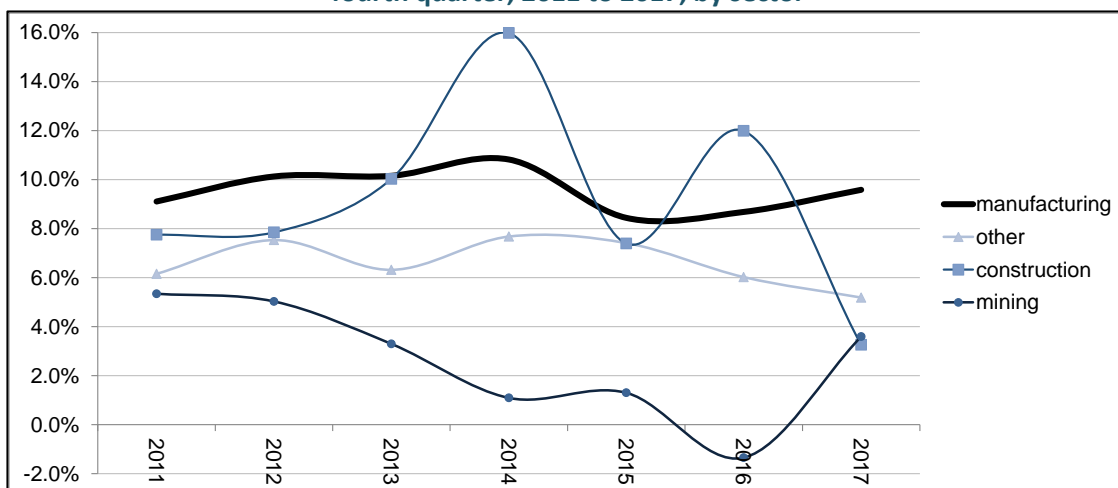
Graph 2. Change in investment by type of investor, 2011 – 2017



Source: StatsSA GDP quarterly figures. GDPp_Tables_2q_2017. Excel spreadsheet downloaded from www.statssa.gov.za in September 2017

Profitability in the first quarter of 2017¹, calculated as pre-tax profits relative to assets, declined significantly in the real economy (Graph 18). Profits in the manufacturing sector experienced a sharp decline of 26% compared to the previous quarter, dropping from R39 billion to R29 billion. Mining profits also fell. The construction sector saw the fastest decline in profitability, with its pre-tax profits dropping from R22 billion in the first quarter of 2016 to R5 billion in the first quarter of 2017. The rest of the economy saw a modest increase in profits, although remaining well below 2015 levels.

Graph 3. Return on assets (profit before tax as % of asset value) in the fourth quarter, 2011 to 2017, by sector



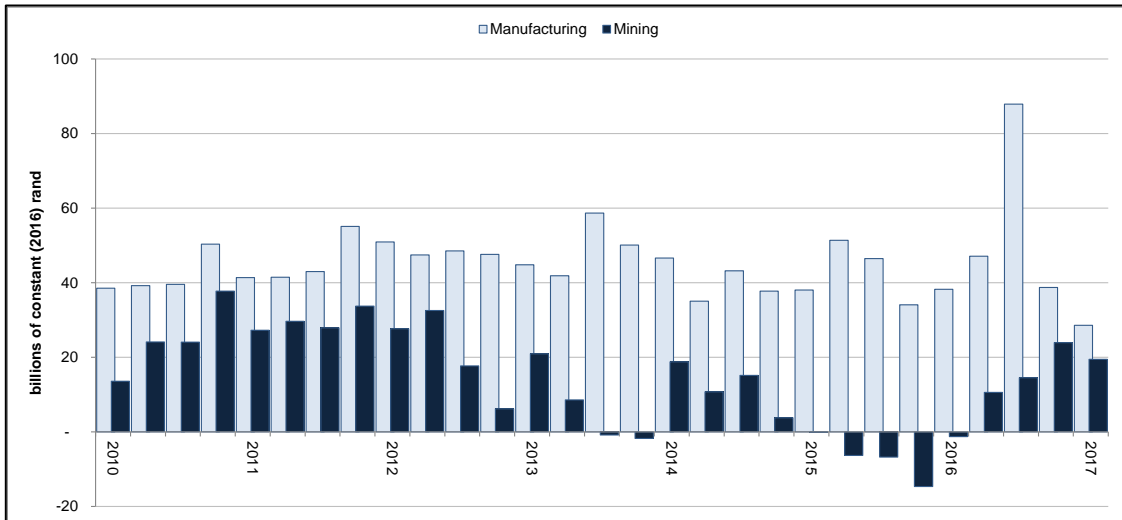
Source: Statistics South Africa. Quarterly Financial Statistics, third quarter of relevant years.

In constant rand, profits in the manufacturing sector fell to lowest levels since before 2010 (

¹ Profitability is calculated from Statistics South Africa Quarterly Financial Statistics (QFS) which are only available through the first quarter of 2017.

Graph 4). The spike in profits in the third quarter of 2016 was an anomaly due to a major merger in the beverages industry. Moderating profitability in the mining sector indicated the fragility of the recovery of the sector despite the previous three consecutive quarters of profitability improvements.

Graph 4. Profits in manufacturing and mining in constant (2016) rand, 2010 to 2017



Note: The unusual spike reported in 2016 quarter three resulted from a major merger in the beverages industry
Source: Statistics South Africa. Quarterly Financial Statistics, relevant years.