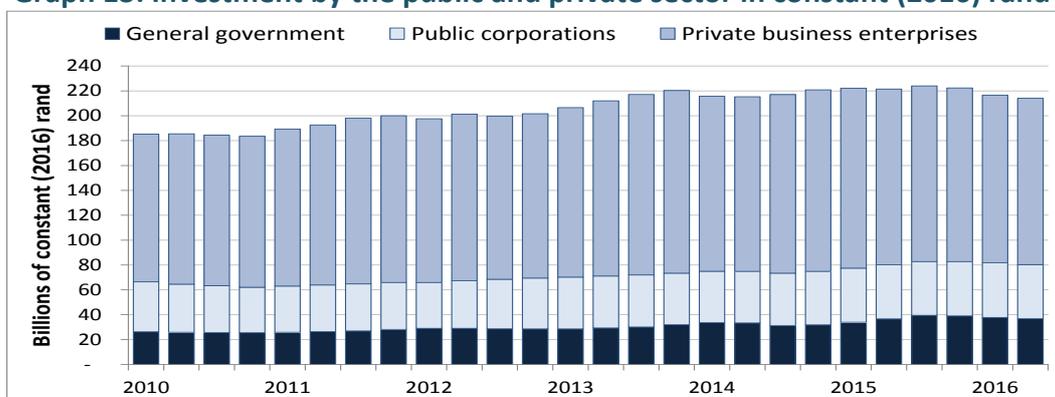


Investment and profitability¹

A decline in investment, particularly by the state, was the biggest drag on GDP growth in the second quarter of 2016. Profitability across the economy declined in the first quarter of 2016 compared to the first quarter of 2015, with worsening losses in mining. In contrast, manufacturing and construction enjoyed a higher profit rate for the quarter compared to the previous year.

As Graph 13 shows, total investment has fallen for three quarters in real terms. As a result, in the first half of 2016 it declined to below 20% of the GDP for the first time since 2013. The sharpest fall in this period was in government investment, which dropped by 6,5%. Private investment fell 5,4%, but state-owned enterprise increased their investment by 0,5%.

Graph 13: Investment by the public and private sector in constant (2016) rand



Source: Calculated from, Statistics South Africa. GDP P0441 - Q2 2016. Excel spreadsheet. Downloaded from www.statssa.gov.za in September 2016

The fall in public investment likely results from the slowdown in state spending over the past two years. When fiscal policy turns contractionary, state investment tends to decline because it is project based and therefore easier to cut than on-going programmes.

In terms of profitability, according to Statistics South Africa's Quarterly Financial Statistics (see Table 2):

- The return on capital for the economy as a whole (excluding agriculture) dropped from 4,2% in the first quarter of 2015 to 3,2% a year later.
- The return on capital in mining fell to -1,8% in the first quarter of 2016 from -0,6% in the first quarter of the previous year. In contrast, in the first quarter of 2011 – the last year of the commodity boom – the return on capital in mining was 3,5%. Mining

¹ Quarterly data on profits and investment by sector can be calculated using Statistics South Africa's Quarterly Financial Statistics for the productive sectors outside of manufacturing. Data are, however, only available through the first quarter of 2016.

investment dropped from R69 billion in the year to the second quarter of 2012 to R56 billion² in the year to the second quarter of 2015.

- In contrast, manufacturing profits increased for most of the year to mid-2015, recovering from a sharp fall in the third quarter of 2013. Moreover, investment in manufacturing remained positive at around R23 billion for the first quarter of the year, continuing a trend from 2015 when manufacturing investment averaged just over R21 billion.
- The construction sector posted considerable profits. The 12,3% first quarter figure was one of the most profitable quarters since 2011.

Table 2: Profitability and capital expenditure by sector, first quarter 2016

	Mining	Manufacturing	Construction	Utilities	Other sectors	Total
Profitability						
Profits in R bns, Q1 2016	-8,6	26,3	5,5	-3,2	65,1	85,1
Return on capital, Q1 2016	-1,8%	5,5%	12,3%	-0,5%	5,9%	3,2%
Return on capital Q1 2015	-0,6%	5,1%	9,5%	-0,4%	8,8%	4,2%
Return on capital Q1 2011	3,5%	6,4%	2,1%	1,4%	6,2%	4,8%
Capital expenditure (CAPEX)						
Capex in Rbns, Q1 2016	9,0	22,6	2,1	25,8	35,2	94,6
Capex as % of assets, Q1 2016	1,9%	4,7%	4,8%	4,4%	3,2%	3,5%
Capex as % of assets, Q1 2015	2,3%	5,4%	6,6%	3,5%	3,3%	3,5%
Capex as % of assets, Q1 2011	2,3%	2,9%	8,0%	7,6%	2,9%	8,9%

Note: Return as capital calculated as profits less tax divided by the carrying value of assets. Source: Calculated from Statistics South Africa, Quarterly Financial Statistics, relevant quarters.

² In Constant 2010 ZAR