

World Economic Situation and Prospects

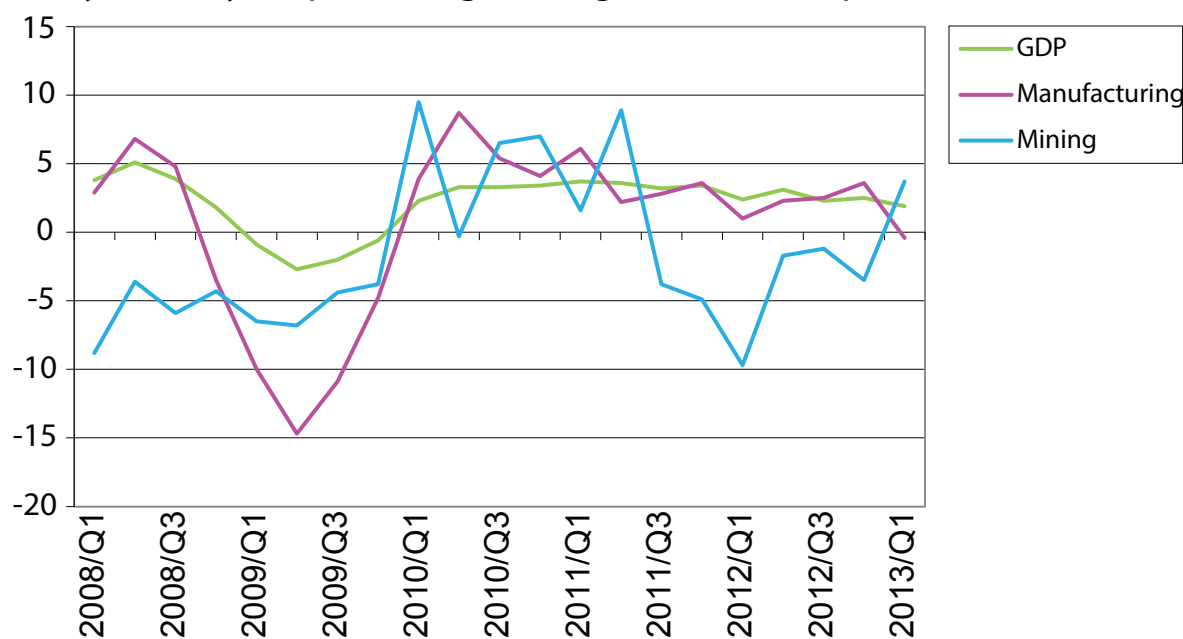
Weekly Highlights

12 June 2013

South Africa: weaker growth due to a contraction in manufacturing

South Africa registered the slowest economic growth rate in the first quarter of the year since the recession in 2009, with the economy expanding at a pace of only 1.9 per cent compared to the first quarter in the previous year (see figure). The major drag on growth came from the manufacturing sector, which represents 15.4 per cent of GDP and contracted by 0.4 per cent. On a seasonally adjusted annualized basis, this decline was even more pronounced, at 7.9 per cent. An even sharper drop in GDP growth was prevented by the mining sector, which makes up 4.8 per cent of GDP and grew by 3.7 per cent after contracting for six consecutive quarters.

Figure 1: Growth in GDP, manufacturing and mining
(year-on-year percentage change in constant prices)



Source: Statistics South Africa.

The weak performance of the manufacturing sector is due to a number of factors, including weak external demand, infrastructure shortfalls such as problems with the electricity supply and rising production costs. At the same time, the slowdown in manufacturing occurred despite a fall in the value of the currency by 8.1 per cent against the dollar in the first quarter, which makes exports more competitive, although this positive effect might feed through only with some greater time lag.

The weakening growth provides a challenging environment for policymaking. In the area of monetary policy, possible interest rate cuts to spur growth need to be weighed against a further weakening of the currency and the possible increase of inflation that might result. For fiscal policy, designing and implementing ways to address the persistently high official unemployment rate of 25.2 per cent will become even more of a challenge if the contraction in the manufacturing sector in the first quarter does not reverse itself and becomes a more pronounced trend.