Gross domestic product
Conditions in the South African economy remain unsatisfactory.
The rate of decline in consumer spending deteriorated to 5.8% in Q2 of 2009, its worst performance in almost 25 years.
Factors contributing to poor consumer spending include:
- Increased job losses
- Falling real disposable incomes

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- Falling real disposable incomes

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- Increased job losses
- Falling real disposable incomes

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Factors contributing to poor consumer spending include:
- Increased job losses
- Falling real disposable incomes

Note: An * in a specific graph indicates % change at constant prices, at a seasonally adjusted and annualised rate.
Having faced strong headwinds throughout the year, the world economy failed to attain a higher growth momentum in 2015. Adverse factors included sharply lower commodity prices, highly volatile equity and currency markets, deflationary risks in parts of the globe, the start of monetary policy normalisation in the United States, the slowing Chinese economy, macroeconomic uncertainty in many countries and geopolitical crises.

World GDP growth slowed from 3.4% in 2014 to 3.1% in 2015. This was its worst performance since the 2008/09 recession. Economic growth in emerging markets and developing economies moved to a lower gear (some remaining in recession), while advanced economies generally recorded modest improvements in their expansion rates.

The United States economy expanded by 2.4% in 2015, as household spending increased at a robust pace. However, growth in fixed investment activity moderated and export growth was sharply lower due to subdued global demand and a strong US dollar. Import demand increased at a rapid pace as foreign goods became cheaper on the back of an appreciating currency.

In the Eurozone, real GDP rose to 1.5% (0.9% in 2014) and economic growth became more broad-based across its member states, with the only negative rates emanating from Greece. Although the Japanese economy expanded by 0.6% (nil growth in 2014), two quarters of negative growth (quarter-on-quarter) during 2015 highlighted the fragility of its recovery momentum. The United Kingdom’s economy grew by 2.2% in 2015, down from the 2.9% recorded in 2014.

Undergoing serious challenges due to its structural adjustment programme and weaker global demand, in 2015 the Chinese economy posted the lowest economic growth rate in 25 years, at 6.9%. The Brazilian and Russian economies, in turn, remain in deep recession. In sharp contrast, the pace of expansion in India remains very robust. Sub-Saharan Africa has been highly affected by the downturn in commodity markets and renewed uncertainty globally. The region’s growth slowed to 3.5% in 2015, from 5% in 2014. This was largely due to sharply lower commodity prices and export demand, which progressively affected the drivers of domestic expenditure.

World trade took considerable strain in 2015. Weaker demand in various regions and/or countries around the globe, particularly but certainly not exclusively due to reduced Chinese demand for industrial commodities, resulted in growth in the volume of world trade declining from 3.4% in 2014 to 2.6% in 2015.

In light of a low inflationary environment, monetary policy remained highly accommodative in the Eurozone and in Japan, whereas the US Federal Reserve started its long-anticipated normalisation of policy rates in December 2015, the first hike in US interest rates in more than a decade.

The outlook for the global economy appears to be somewhat better, with GDP growth of 3.4% and 3.6% forecast by the IMF for 2016 and 2017, respectively. The expansion momentum is expected to gain some traction in the USA, while the Eurozone should benefit from monetary policy stimuli and stronger consumer spending. China’s growth is set to slow further, while Brazil and Russia are likely to remain in recession in 2016. Strong growth is again expected from India and Sub-Saharan Africa could possibly record a slightly better performance in 2016, although the downside risks are high for many of the region’s economies.

The South African economy has been facing serious challenges. Its growth slowed to 1.3% in 2015, being the lowest rate since 2009. The worst drought on record aggravated the situation, with agricultural GDP contracting by 8.4% (the worst performance in 20 years). Manufacturing activity is being constrained by weak demand conditions globally and domestically, as well as by infrastructure-related challenges, particularly electricity supply. A number of manufacturing sub-sectors are in recession. The mining sector’s performance continues to be affected by lower commodity prices and export demand, rising operational costs and policy uncertainty, among other factors.

South African households are under increasing pressure. Limited growth in incomes set against rising living costs, yet high indebtedness levels in a rising interest rate environment, difficult access to new credit and employment uncertainty have all dented consumer confidence and impacted on household spending, which increased by 1.6% last year.

Faced with weak demand conditions and spare production capacity in many industries, business sector confidence declined further, affecting investment decisions. Fixed investment spending by the private sector expanded by only 0.4% in 2015. At the broad sector level, real capital outlays declined in sectors such as construction, agriculture, mining, trade and electricity. Investment spending rose modestly in the manufacturing sector, largely for the maintenance and replacement of capital equipment. Growth in capital expenditure by general government slowed to 5.9% in 2015 (10.3% in 2014), whilst that of public corporations remained subdued at 0.8%.

On the employment front, 6 000 new jobs were created in the formal non-agricultural sectors of the economy in 2015, according to the Quarterly Employment Survey. Gains were recorded mainly in the trade and accommodation sector, finance and business services, and in the community and social services sector. Substantial job losses were reported by the mining and construction sectors, with manufacturing also having shed some jobs.

Despite a difficult trading environment globally, South Africa’s merchandise export volumes increased by a brisk 10.6% in 2015, while the volume of imported goods rose by 4.8%. This resulted in a substantially smaller trade deficit. This positive development on the trade account more than offset a very marginal worsening on the services, income and current transfer account. As a result, the deficit on the current account narrowed to 4.4% of GDP in 2015 (5.4% in 2014).

Consumer inflation decelerated to an average of 4.6% in 2015, from 6.1% in the previous year. However, inflationary pressures have been building up as the impact of the drought on agricultural output have started filtering through to food price inflation, which increased steadily from a low of 4.3% in June 2015 to 8.8% by February 2016. Substantial rand weakness in recent months and an uptick in crude oil prices saw petrol inflation measuring 20.7% in February this year.

Facing a worsening inflation outlook, the MPC raised the repo rate by 50 basis points in 2015 and by a further 75 basis points in Q1 of 2016.

2016 is likely to be a particularly difficult year for the South African economy. The leading business cycle indicator is providing advance warning in this regard. Demand conditions will remain weak domestically as well as in key export markets, leading to spare production capacity in many manufacturing industries. With business confidence at a six-year low, fixed investment activity in the private sector is thus expected to be very subdued and may possibly contract in 2016. The financial standing of the public sector at large will affect government spending negatively. The effect of the drought on the agriculture sector will still be felt for some time, but once rainfall normalises its output will rebound strongly. The mining sector will remain at the mercy of developments in commodity markets, but the weaker rand is alleviating the impact of adverse forces.

The outlook is expected to improve significantly in 2017 and even more so in 2018, as the infrastructure challenges currently constraining the economy’s growth potential are effectively addressed, and demand conditions recover locally and abroad on the back of improving business and consumer sentiment.
Gross Domestic Product

- Growth in real gross domestic product in South Africa slowed to 1.3% in 2015, from the 1.5% recorded in 2014.

- Although the mining sector’s GDP expanded by 3%, this was largely due to the very low base recorded in 2014, when it experienced a 5-month long strike. The sector is still being affected by depressed conditions in commodity markets.

- The worst drought conditions on record resulted in agricultural production declining by 8.4% in 2015. Weak activity in the primary sectors impacted on the manufacturing sector, which recorded virtually no growth for the second consecutive year.

- The finance and business services sector reported a higher growth rate for 2015 as a whole, but the momentum slowed towards the end of the year.

- Spending on government services slowed substantially in 2015.

GDP growth at sectoral level

Notes:
(i) Figures in brackets in the above graph refer to the sector’s percentage share of total GDP at basic prices (constant 2010 prices) in 2015.
Gross domestic product (cont.)

**Sectoral composition of the South African economy in 2015**

![Pie chart showing sectoral composition of South African economy in 2015]

- Mining & quarrying: 8.0%
- Manufacturing: 13.0%
- Agriculture, forestry & fishing: 2.3%
- General government: 17.4%
- Wholesale & retail trade, catering & accommodation: 15.0%
- Transport, storage & communication: 10.0%
- Finance, insurance, real estate & business services: 20.9%
- Electricity, gas & water: 4.0%
- Construction: 4.0%
- Community, social & personal services: 5.7%

*Note: Sector share according to GDP at basic prices (current prices)*

Source: IDC, compiled from Stats SA data

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**Real GDP growth in service-related sectors**

![Bar chart showing real GDP growth in service-related sectors]

- Services sectors include: Electricity, Construction, Trade, Transport, Finance, Government and Other services.

Source: IDC, compiled from Stats SA data

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**Real GDP growth in the manufacturing sector**

![Bar chart showing real GDP growth in the manufacturing sector]

Source: IDC, compiled from Stats SA data

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**Real GDP growth in the mining sector**

![Bar chart showing real GDP growth in the mining sector]

Source: IDC, compiled from Stats SA data

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**Real GDP growth in the agricultural sector**

![Bar chart showing real GDP growth in the agricultural sector]

Source: IDC, compiled from Stats SA data
Gross domestic expenditure

- Reflecting a deterioration in domestic demand, growth in gross domestic expenditure continued on a declining trend in 2015, coming in at only 0.3%.
- Household consumption expenditure and fixed investment activity (gross fixed capital formation) registered improvements in 2015, having expanded by 1.6% and 1.4%, respectively.
- In contrast, limited fiscal space resulted in government consumption spending rising by just 0.3%.
- Investment activity in the country, driven to a significant extent by public corporations such as Eskom, Transnet and PRASA, underpinned the substantial demand for imported products. Consequently, the import-to-GDP ratio increased to almost 32% in the final quarter of 2015, the highest level since the third quarter of 2008.

Final consumption expenditure by households

- The increased momentum in household spending recorded until the 1st quarter of 2015 was not sustained in the following six-month period, as consumer spending slowed sharply. The pace improved in the 4th quarter, taking overall growth for the year to 1.6%, a slight improvement on the 1.4% in 2014.
- The main factors constraining household spending included high levels of indebtedness, with debt servicing costs rising further in 2015; slower growth in real disposable incomes at only 0.4% for the year; and challenging labour market conditions, especially in the primary and secondary sectors.
- The rate of increase in spending on durable goods slowed markedly to 1.6% in 2015, from 5.3% in 2014. The non-durable goods and services categories, in turn, benefitted from higher expenditure growth relative to the previous year.

Final consumption expenditure by government

- Subdued rates of economic growth impacted on tax revenue and limited the ability of government to sustain its anti-cyclical spending levels. Growth in real government consumption expenditure decelerated to a mere 0.3% in 2015, the slowest rate of expansion since 1998.
- Spending on social services remains the largest expenditure area for government, with education (20.3%), social protection (15.6%) and health (12%) accounting for just under 50% of the projected spending in 2015/16.
- The contribution of government spending to national GDP stood at 20.3% in 2015, an all time high similar to the level recorded in 2013.
- The ability of government to contain spending growth is under the spotlight, with credit rating agencies concerned over rising debt levels in a weak growth environment.
Gross fixed capital formation

- Fixed investment activity recovered during 2015, expanding by 1.4% compared to the 0.4% contraction recorded in 2014.
- Nevertheless, such a subdued rate of increase continues to reflect the business sector’s response to difficult trading conditions and operational challenges. This was particularly evident in the mining sector, which curtailed investment spending in an adverse commodity market environment.
- Capital expenditure by the electricity sector contracted as various renewable energy projects reached completion and outlays on Eskom’s large projects had already peaked.
- The continued roll-out of several public sector investment programmes supported spending in construction works. In turn, the difficult financial position of households and weak business confidence were reflected in the sustained contraction in residential and non-residential capital outlays.

Fixed investment by type of organisation

- Although business conditions remain unfavourable for expansionary investment activity, the need for general maintenance of capital equipment underscored the 0.4% marginal increase in private sector investment in 2015, up from the 3.4% contraction recorded in 2014.
- Growth in fixed investment spending by public corporations, in turn, slowed from 1.6% in 2014 to 0.8% in 2015. Contributing factors included lower levels of economic activity nationally, large capital projects nearing completion, and relatively strained balance sheets.
- Capital expenditure by government made the principal contribution to overall fixed investment activity in 2015, accounting for 1 percentage point out of the total of 1.4%. This involved continued investment in educational, healthcare and other socioeconomic infrastructure.

Inventories

- During 2015, private enterprises reduced their inventory levels by the largest annual amount since 2009, as the weak growth outlook continued to weigh on business decisions. The ratio of industrial and commercial inventories to GDP therefore declined to around 13%, the lowest level since 2011.
- The largest decline in inventories was recorded by the manufacturing sector, but the mining as well as the wholesale, retail and motor trade sectors also reported substantially lower inventory levels.
- Increases in inventory levels were recorded mainly in the finance and business services sector, while the electricity, gas and water, as well as transport, storage and communication sectors also recorded smaller increases.
**Formal non-agricultural sector employment**

- Overall employment in the formal non-agricultural sectors of the economy increased by 6 000 in 2015. This compares with 22 500 job losses in the preceding year.
- Increased employment in the wholesale, retail, catering and accommodation sector (+36 400), as well as in finance and business services (+22 600), was countered by lower employment levels in mining (-28 900), construction (-19 000) and manufacturing (-5 000).
- Government employment expanded only 6 600 in 2015, significantly lower than the 53 300 rise in 2014.
- In the final quarter of 2015, total formal non-agricultural employment amounted to 8.99 million, of which 2.04 million people were employed by government, 2 million by financial and business services and 1.89 million by the trade sector. Total manufacturing employment fell to 1.13 million.

**Productivity and unit labour costs**

- Labour productivity improved in the 1st half of 2015, with the 3.5% increase in the 2nd quarter of the year being the highest since the 2nd quarter of 2010.
- Employee remuneration costs are still a significant driver of operational cost increases. The 5.8% rise in nominal remuneration per employee in 2015 exceeded the 4.6% average inflation rate.
- The largest increases in employee remuneration were reported by mining (10.6%), government (7.3%), electricity, gas and water (7.1%) and finance and business services (6.1%).
- The faster rates of increase in nominal unit labour costs over the closing quarters of 2014 were transitory, for the pace slowed in 2015, averaging 5% in the 2nd and 3rd quarters of the year.

**Change in employment levels**

- The limited increase in formal sector employment as reported in the Quarterly Employment Survey is in stark contrast to the statistics reported in the Quarterly Labour Force Survey, which reported an increase in formal sector employment of 269 000 in the 4th quarter of 2015 compared to the same period a year earlier. Informal sector employment, in turn, rose by 236 000.
- Nevertheless, the overall unemployment rate increased marginally from 24.3% in Q4 2014 to 24.5% in Q4 2015. A total of 5.2 million people were unemployed in the final quarter of 2015, an increase of 284 000 from a year earlier. The level of unemployment is significantly skewed toward the youth, as 66% of the unemployed were below the age of 35.
- With 2.3 million people having given up looking for work in the final quarter of 2015, this took the expanded unemployment rate to 33.8%.
Employment (cont.)

Sectoral composition of employment in South Africa in 2015

- Agriculture, forestry and fishing: 8.7%
- Mining: 4.7%
- Manufacturing: 11.5%
- Electricity, gas & water: 0.6%
- Construction: 4.8%
- Trade, catering & accommodation: 19.2%
- Transport, storage & communication: 4.4%
- Finance & business services: 20.4%
- Community, social & personal services: 4.9%
- Government: 20.8%
- Other mining (2.7)
- Building construction (2.7)
- Communication (0.9)
- Coal mining (0.8)
- Machinery & equipment (0.1)
- Food (1.8)
- Transport & storage (3.5)
- Transport & storage (3.5)
- Other chemicals (0.6)
- Furniture (0.3)
- Food & beverages (0.4)
- Textiles (0.3)
- Other services (0.3)
- Civil engineering (2.1)
- Wearing apparel (0.5)
- Leather & leather products (0)
- Tobacco (0.4)
- Electrical machinery (0.4)
- Glass & glass products (0.1)
- Prof & scientific equip (0.1)
- Fabricated metal products (1.1)
- Footwear (0.1)
- Non-metallic minerals (0.4)
- Basic non-ferrous metals (0.2)
- Motor vehicles & parts (0.9)
- Leather & leather products (0)
- Rubber products (0.1)
- Water supply (0.1)
- Electricity, gas & steam (0.5)
- Plastic products (0.4)
- Fabricated metal products (1.1)
- Other transport equipment (0.1)
- Prof & scientific equip (0.1)
- Glass & glass products (0.1)
- Electrical machinery (0.4)
- TV, radio & comm. equip (0.1)
- Footwear (0.1)
- Non-metallic minerals (0.4)
- Basic chemicals (0.2)
- Wood & wood products (0.4)
- Basic iron & steel (0.3)
- Petroleum products (0.3)
- Printing & publishing (0.5)
- Paper & paper products (0.4)
- Other industries (0.3)
- Medical & other health services (2.9)
- Gold & uranium ore mining (1.2)
- Machinery & equipment (1.1)
- Coal mining (0.8)
- Communication (0.9)
- Building construction (2.7)
- Other mining (2.7)

Note: Data is for the formal sector as per data from the Quarterly Employment Statistics (QES). However, agricultural employment includes the informal sector as per data from the Quarterly Labour Force Survey.
Manufacturing sector

Manufacturing GDP and volume of production

- Weak demand conditions globally and domestically continued to weigh on the manufacturing sector’s performance in 2015, with the average physical volume of production and value added (GDP) remaining virtually unchanged from 2014 levels.

- The impact of the drought on agriculture and a mining sector still feeling the brunt of the commodities’ downturn affected local demand for manufactured goods. Weak growth in household spending impacted on producers of consumer goods.

- Both the iron and steel and the basic metal products sub-sectors recorded significant declines in production. The sub-sectors producing food and beverages, electrical machinery and transport equipment performed relatively better.

- Since demand conditions have been subdued in key external markets for manufactured exports, such as the Eurozone and key African economies, domestic producers have not been able to fully realise the benefits presented by a weaker currency.

Physical volume of production per sub-sector of manufacturing

- Note: Figures in brackets refer to the sub-sector’s percentage share of total manufacturing production.

Source: IDC, compiled from Stats SA data
Fixed investment and capacity utilisation

- Fixed investment activity in the manufacturing sector improved in the opening quarter of 2015, but the momentum was not sustained. Capital expenditure declined in real terms over the subsequent three quarters as the sector recorded increased spare capacity.

- For the year as whole, investment spending in manufacturing expanded by 0.6%.

- The textiles (71%) and iron and steel (73.1%) sub-sectors continued to experience low and declining rates of utilisation of production capacity as demand deteriorated in 2015.

- In contrast, the other transport equipment and non-metallic mineral products sub-sectors reported significantly higher utilisation of production capacity as demand for their products increased relative to 2014.

Utilisation of production capacity per sub-sector of manufacturing

Absolute change in sub-sectoral utilisation of production capacity (Q4 of 2015 vs Q4 of 2014)

Note: Figures in brackets refer to the sub-sector’s percentage utilisation of production capacity in the fourth quarter of 2015.
**Expectations regarding employment creation**

- Fiercely competitive pressures in the face of weak demand has been forcing manufacturers to reduce employment levels since the 1st quarter of 2008.
- The sector shed a further 5 000 jobs during 2015, with expectations that the negative trend may have persisted in the 1st quarter of 2016, based on the latest BER survey.
- The manufacturing sector accounted for 12.6% of all formal sector employment in the 4th quarter of 2015, with this ratio having increased from 11.4% a year earlier, as other sectors recorded higher employment losses over this period.
- Various manufacturing sub-sectors expect lower employment levels going forward, particularly those producing transport equipment, wood and wood products and furniture. In sharp contrast, clothing and textiles manufacturers hold a positive outlook for job creation over the next 6 months.

**Expectations regarding employment creation per sub-sector of manufacturing**

![Employment creation by sub-sector chart]

*Source: IDC, compiled from BER data*
Consumer price inflation

- Consumer inflation averaged 4.6% in 2015, a notable improvement from the 6.1% recorded in 2014. Contributing factors included sharply lower commodity prices, especially crude oil, as well as a good harvest in the 2013/14 season, which kept food price inflation suppressed for a large part of the year.

- However, as severe drought conditions across large parts of the country increasingly affected agricultural output, food inflation was pushed higher in the opening months of 2016, reaching 8.8% in February.

- A substantially weaker Rand and a recovery in oil prices early in 2016 took fuel inflation upward to 20.7% in February, compared to the 10.5% average decline recorded in 2015 as a whole. Expectations are that consumer prices will continue to rise rapidly over the remainder of 2016, largely due to food inflation.

Producer price inflation

- Lower commodity prices placed downward pressure on final manufactured producer price inflation (PPI) in 2015, which averaged 3.6% compared to 7.5% in 2014.

- The impact of the recent recovery in commodity prices is starting to manifest itself in the PPI data for intermediate and final manufactured goods, both of which reported a year-on-year price increase of 7.6% in January 2016.

- Amongst the intermediate products, the following recorded sharp year-on-year increases in prices in January 2016: glass and glass products (26.1%), precious and non-ferrous metals (20.1%), basic iron and steel (15.6%). This indicates higher input costs going forward for downstream manufacturers.

- Within the final manufactured products category, the prices of food, fuel, household appliances, motor vehicles and parts recorded some of the highest rates of increase.

Credit extension to the private sector

- Total loans and advances extended to the private sector (households and corporates) increased at an average rate of 10.4% in 2015, faster than the 8.7% reported in 2014.

- The rise in credit demand was driven by the corporate sector, considering an average increase of 16.5%. Some of the funding borrowed was utilised for the maintenance of capital equipment in production facilities.

- Growth in credit extended to households slowed to 3.8%, on average, in 2015, from 4.3% in 2014. This is likely to have been due to tighter credit provision by banks as well as reduced household borrowing in a rising interest rate cycle.

- Demand for mortgage finance, which is mostly granted to households, continued to rise in 2015, but leasing finance (typically associated with vehicle purchases) contracted, possibly indicating that households may be using some home equity to consolidate loans and ease cash-flow constraints.
Repo and prime overdraft rates

- The interest rate tightening cycle continued in 2015, with the Monetary Policy Committee (MPC) of the South African Reserve Bank (SARB) raising the repo rate by 50 basis points during the course of the year.
- The relatively low inflation environment, largely due to declining commodity prices, permitted a slow pace of interest rate increases.
- However, the rapid depreciation of the Rand late in 2015 and in the opening months of 2016, combined with drought-induced food price increases and some recovery in commodity prices, prompted the MPC to hike interest rates by 75 basis points thus far in 2016.
- Inflation expectations indicate that the MPC may raise the repo rate further in 2016, as evidence of second round inflationary feed-through is coming to the fore.

Inflation and interest rates

- Despite the interest rate increases in 2015, the overall monetary policy stance remained fairly accommodative, considering that the repo rate was close to 0% in real terms.
- In light of the currently weak economic growth and continuing unemployment challenge, the MPC is likely to keep monetary policy as growth-supportive as possible despite a rising inflation environment.
- However, increasing core inflation, which measured 5.8% in the opening two months of 2016, is an ongoing concern for the MPC. Hence, the committee may be reluctant to allow the real repo rate to move too significantly into negative territory.

Long- and short-term yields

- South Africa’s long-term government bond yields increased during 2015, from a low of 7.4% in February to 9.6% by year-end.
- The largest increase in long-term rates occurred in December, after the removal of Finance Minister Nhlanhla Nene. Expectations of a potential downgrade in South Africa’s sovereign ratings during the course of 2016 were increasingly priced in government debt.
- Following the 2016 National Budget, the ability of government to achieve its spending and debt containment plans is being continuously assessed, with bond yields moving sideways in the interim.
Johannesburg Securities Exchange (JSE) performance

- The FTSE/JSE All-Share Price Index (Alsi) moved sideways during 2015 as declining commodity prices weighed on resource stocks, while industrial shares continued to increase in value despite an increasingly difficult economic environment.
- The weakness in global commodity markets resulted in resource stocks on the JSE falling by 39.4%, while financial stocks declined by 2.6% in 2015. The substantial loss in the value of financial stocks occurred in December.
- The Alsi did not escape the bearish sentiment that emerged in global stock-markets at the start of 2016, declining by 8.7% to a low of 46 282 late in January. A subsequent recovery in commodity markets, among other factors, supported the Alsi to close at 52 495 on the 30th of March 2016, a 3.6% gain for the year to date.

Share traded on the JSE

- Turnover on the JSE increased significantly during 2015, rising by 23.8% relative to the previous year to R5 trillion. The volume of shares traded, in turn, increased by 20.5% 74.4 billion.
- Companies listed on the JSE raised R250 billion of share capital during 2015. However, a significant portion of the capital raised was used to shore up balance sheets and reduce debt levels rather than for expansionary activities.
- Uncertainty regarding the health of the world economy, the start of policy rate normalisation in the United States and concerns over the short- to medium-term performance of the South African economy, among other factors, contributed to the rise in the volatility index, especially in the second half of 2015.

Net portfolio purchases/sales by non-residents

- Investment appetite by non-residents towards South African equities was fairly strong during the 2nd and 3rd quarters of 2015.
- However, in the final quarter of the year, non-residents were net sellers of R40.4 billion worth of domestic shares, with the net outflow for the year as a whole standing at R4.9 billion.
- Interest in South African bonds was relatively muted throughout 2015. Significant bond purchases by non-residents were recorded in April and October, but these net inflows were reversed in the subsequent months, with a net outflow of R19.4 billion recorded for the full year.
- Non-resident investor sentiment towards South African assets has reflected the generalised risk aversion towards emerging markets that re-surfaced during 2015, particularly as yields improved in advanced economies, especially the USA.
**Government finance**

**Budget balance**

- Overall revenue collection by government for the 2015/16 fiscal year is projected to be R25 billion higher than the amount budgeted in February 2015. This is, however, largely due to the sale of government’s stake in Vodacom to provide a capital injection into Eskom.

- Tax revenue is, nevertheless, expected to be R11.6 billion lower than budgeted, as company tax, VAT collections and import duties were well below expectations. Increases in salaries and wages above the inflation rate supported a higher than budgeted tax collection from individuals.

- Government expenditure exceeded the budgeted amount by R25 billion due to the capital injection to Eskom. If this payment is excluded, spending was basically in line with the budgeted amount. However, this was achieved by under-spending on transfers and subsidies in favour of higher debt-servicing costs and provincial equitable share payments.

**Government debt**

- The space for counter-cyclical fiscal policy has become more limited. This was reflected in the 2016 National Budget, specifically the substantial spending cuts envisaged therein.

- The continued and rapid rise in government debt is one of the concerns raised by international ratings agencies, as the gross loan debt of government represented 50% of GDP in the final quarter of 2015, or R2 trillion in nominal terms.

- With economic growth weaker than anticipated, the upper turning point for the ratio of gross loan debt to GDP is now expected in 2017/18, at 51%. This is one year later and 1 percentage point higher than projected in the 2015 Budget.

- The rising cost of debt is claiming an increasing share of the national budget, requiring cut-backs in other allocations. Government efforts to contain spending are critical as the revenue raising potential will be limited in the short-term.

**Government savings**

- Government dissaving amounted to R38.7 billion (equivalent to -1.1% of GDP) in 2015, compared to R80 billion in 2014.

- Continued negative savings by government as well as households (equivalent to -2.3% of GDP) have resulted in an increased reliance on the domestic corporate sector and foreign capital inflows to fund the shortfall.
The rand vs. the US dollar and the euro

- The rand has been under severe pressure since the start of 2015, being one of the worst performing emerging market currencies.
- Having started the year at R11.52 per US dollar, the rand depreciated sharply by 34.3% to R15.49 by the end of 2015.
- Increased risk aversion towards emerging markets, concerns over the slowdown in China, weak commodity prices and interest rate normalisation in the USA all impacted on the rand.
- Domestically, contributing factors to the currency’s weakness included poor economic growth, concerns over the balance of payments and fiscal deficits and low business confidence.
- The rand rebounded somewhat in the 1st quarter of 2016 as commodity markets showed signs of recovery, being also supported by highly accommodative monetary policy in the Eurozone and Japan along with the postponement of further interest rate hikes by the US Federal Reserve.

The rand versus other foreign currencies

- The following illustrate the extent of appreciation (+) or depreciation (-) of the rand against select currencies over the period March 2015 to March 2016*:
  - Australian dollar: -24.0%
  - Brazilian real: -8.5%
  - British pound: -21.5%
  - Chinese renminbi: -22.6%
  - Eurozone euro: -31.2%
  - Indian rupee: -19.3%
  - Japanese yen: -36.2%
  - US dollar: -27.8%
- The above % changes are all based on monthly average exchange rates.

Effective exchange rates of the rand

- After appreciating against a basket of currencies* during 2014, substantial rand weakness was observed in 2015, with the domestic currency reaching all-time lows against most major international currencies.
- The nominal effective exchange rate of the rand depreciated by 16.5% over the 12 months to December 2015, whereas in real terms the rate of depreciation stood at 9.7%. By December 2015, the real effective exchange rate of the rand was at its weakest level since October 2002.
- Although a weaker currency should generally enhance the price competitiveness of local products in export markets, as well as provide a degree of protection against import competition in the domestic market, relatively subdued demand conditions in key export markets (e.g. China, Europe, Africa) have limited the potential benefits.

- Euro (29.3% weight), US dollar (13.7%), Chinese renminbi (20.5%), British pound (5.6%) and Japanese yen (6.0%), among others.

* Source: IDC, compiled from SARB data
Balance of payments

Trade balance

- South Africa recorded a trade deficit of R34.5 billion in 2015, a substantial improvement on the R68.6 billion deficit in 2014.
- The weaker currency offset to some extent the highly adverse trends in commodity prices, as exports of mining and mineral products still managed to record modest growth.
- Weak global demand impacted on manufacturing exports as the trade deficit for this sector widened to R340 billion for 2015 as a whole. The challenges experienced by the local steel industry were reflected in a drop in exports, whereas steel imports increased strongly as cheaply priced Chinese steel entered the local market.
- In 2015, the manufactured export basket was dominated by motor vehicles (17.2% share), followed by iron & steel (11.4%), petroleum products (6.2%), and vehicle parts & components (5.2%). The import bill for crude oil plummeted by R78 billion, as the steep drop in oil prices offset the rand’s depreciation.

Trade performance per sector

Change in export and import values: 2015 vs 2014

- Agriculture
- Mining
- Processed food
- Beverages
- Textiles
- Clothing
- Leather
- Footwear
- Wood products
- Paper products
- Printing and publishing
- Petroleum
- Industrial chemicals
- Other chemicals
- Rubber products
- Plastic products
- Glass
- Non-metallic minerals
- Iron and steel
- Non-ferrous metals
- Fabricated metals
- Machinery & equipment
- Electrical machinery
- Radio & TV
- Professional equipment
- Motor vehicles & parts
- Other transport equipment
- Furniture
- Other manufacturing
Current account of the balance of payments

- Underpinned by a substantial improvement on the trade account, the deficit on the current account of the balance of payments improved from 5.4% of GDP in 2014 to 4.4% in 2015.
- The smaller trade deficit was largely the result of an increase in the trade surplus of the mining sector.
- In terms of the income account (dividends and interest), the strong increase in inflows was basically matched by outflows of a similar magnitude, resulting in a very modest net improvement of about R1 billion for 2015.
- The deficit on the services account widened by R4 billion as payments increased at a faster pace than earnings.
- Payments to other SACU countries accounted for the largest portion of the R49.5 billion in current transfers by central government in 2015, with this amount being R30 billion larger than in 2011.

Current account balance and financial flows

- Despite a difficult economic environment globally and increased challenges domestically, South Africa attracted substantial foreign capital inflows during 2015.
- Attracted by potential returns in the local equities market, portfolio inflows increased strongly from R73.4 billion in 2014 to R105.5 billion in 2015. However, the 2nd half of the year witnessed substantially lower portfolio inflows in anticipation of the eventual hike in US policy rates and due to increased risk aversion towards emerging markets in general.
- Direct investment inflows, however, fell sharply from R62.6 billion in 2014 to R22.6 billion in 2015.
- For the first time in 12 years, foreign capital inflows (at R165 billion in 2015) fell short of the current account deficit (R174.1 billion). The R9.1 billion shortfall in 2015 contrasts with a surplus of R16.6 billion in 2014.

Total reserves and import cover

- South Africa’s gross gold and other foreign reserves increased sharply during the course of 2015.
- In rand terms, overall reserves amounted to R713.9 billion, an increase of R145.4 billion compared to 2014. However, in dollar terms their value declined from USD 49.1 billion in 2014 to USD45.8 billion last year.
- Foreign exchange reserves increased substantially by almost R125 billion to R605 billion, whereas gold reserves increased by R10.8 billion to R66.7 billion.
- The import cover (i.e. the total value of international reserves relative to the average monthly value of imports of goods and services) has risen steadily over the past two years, from 4.4 months’ worth of imports in the 2nd quarter of 2014 to 5.3 months by the 4th quarter of 2015.
Composition of the export basket

- The manufacturing sector has claimed an increasing share of the merchandise export basket in recent years, accounting for 61.1% of the total in 2015, the largest share since 2003.
- The nominal value of manufactured exports increased by 6% in 2015, with strong growth recorded by motor vehicles and parts (+19.3%). Other sizeable manufacturing sub-sectors that recorded strong export performances included non-ferrous metal products, other chemicals, as well as paper and paper products.
- The manufacturing export basket is, nevertheless, highly concentrated, as the top 10 sub-sectors (out of a total of 120) accounted for 58% of total manufactured exports in 2015.
- Mining exports rose very modestly as lower commodity prices took their toll despite a weaker rand. Iron ore exports declined sharply from R74.2 billion in 2014 to R55.1 billion in 2015, on the back of reduced Chinese demand.

Imports according to broad category

- The marginal rate of increase in overall merchandise imports in 2015, at only 0.5%, was skewed by the substantial drop in crude oil imports.
- The oil price fell from an average of USD99 per barrel in 2014 to USD52 per barrel in 2015, resulting in imports of raw materials declining by 38% to R128.5 billion last year.
- However, demand for all other import categories increased in 2015, with imports of intermediate goods up by 10.4%, and those of consumption goods rising 7.8%.
- The ongoing public sector infrastructure investment has resulted in an increased demand for capital goods. Imports of electrical machinery and equipment, for instance, rose by 14.3% to R49.6 billion in 2015. Imports of ‘other’ transport equipment increased by 51% to R27.7 billion, reflecting higher demand for locomotives and aircraft in 2015.

Key export destinations

- China’s importance as the leading destination for South African exports was slightly reduced in 2015 as the country’s share declined to 9.1%, compared to 9.4% in 2014.
- Exports to China totaled R92.1 billion, with iron ore remaining the single largest export product. However, falling commodity prices and weaker Chinese demand resulted in the share claimed by iron ore in the overall export basket to this country declining from almost 50% in 2011 to about 36% by 2015.
- Stronger rates of economic growth in the USA, Germany and the UK have been reflected in higher exports in 2015. These are all key markets for South African manufactured goods.
- In 2015, 29% of all merchandise exports were destined for other African markets, with 87.4% of the export basket being manufactured goods. Around 42% of South Africa’s total manufactured exports were sold in the rest of Africa in 2015. Leading export destinations were Namibia, Botswana, Mozambique, Zambia and Zimbabwe.
Commodity prices

- The downward trend in commodity prices, which started in 2011, continued well into 2015.
- Weaker demand and excess supply internationally have underpinned the adverse price trends in most instances, with a stronger US dollar aggravating the situation.
- Metal prices have fallen sharply on the back of a slowing Chinese economy and due to the structural adjustments it is undergoing, with its growth drivers shifting from investment activity and exports towards more domestic consumption.
- Although lower commodity prices have a beneficial impact on inflation, the sharply lower oil price in particular has raised increasing concerns about deflation in a number of countries.
- More recently, the prices of certain commodities recovered somewhat, but this could perhaps be transitory as the underlying fundamentals have generally not yet changed.

Gold and platinum

- Encouraging signs of a sustained growth momentum for the world economy at large, especially higher growth in the US and UK economies, along with expectations of monetary policy tightening in the US, a strong US dollar, as well as continued low levels of inflation saw the gold price declining for most of 2015.
- The recovery in South Africa’s platinum production in 2015 occurred within an environment of relatively subdued global demand, thus impacting negatively on platinum prices. A market surplus and large above-ground stockpiles are not supportive of a sustained price recovery.
- In rand terms, however, a much weaker exchange rate saw gold and platinum prices rising, with the gold price reaching an all-time high. This has provided some support to domestic mining companies from a revenue generation perspective.

Brent crude oil

- International crude oil prices fell sharply during the course of 2015 and early in 2016, with supply-side factors dominating price developments.
- Although non-OPEC supply growth slowed, OPEC members continued with their operations and produced even more oil, exacerbating negative market developments and triggering further price collapses throughout 2015.
- By January 2016 the price of Brent crude oil had fallen to its lowest level since 2003, at USD27.9 per barrel. It has since recovered substantially, hovering around USD40 per barrel late in March 2016.
- Although lower oil prices are beneficial for oil importing countries, they have had highly detrimental effects on many oil exporting countries, several which in Africa, impacting on their trade accounts, fiscal revenues and economic growth.
SARB business cycle indicators

- Prospects for the South African economy remain generally unsatisfactory as evidenced by the declining trend in the leading business cycle indicator of the SA Reserve Bank.

- The leading indicator has fallen substantially from a reading of 98.6 index points in November 2014 to 92.2 by January 2016, being the lowest level since October 2009.

- On a year-on-year basis, the leading indicator declined by 4% in January 2016, pointing to weak economic growth ahead. The indicator has now recorded negative growth rates (y-o-y) for 28 consecutive months. The longest period of negative growth on record lasted 52 months, from 1989 to 1993.

- Negative contributions to its January 2016 reading emanated from factors such as the number of building plans approved, commodity price trends, the number of job advertisements, as well as unfavourable trends in the manufacturing sector.

BER business confidence indicators

- Business confidence in the South African economy fell steeply throughout 2015 and in the 1st quarter of 2016. At 36 points, the latest reading is lowest in almost 6 years. More than 60% of survey respondents are unhappy with prevailing business conditions.

- Over 75% of all vehicle dealers are unhappy about current economic conditions. At a mere 24 points in the 1st quarter of 2016, the respective level was one of the worst since 2009.

- Retailers’ confidence edged higher to a net balance of 44 points in Q1 2016, after having plunged to a 15-year low in Q3 of 2015, but was well below its pre-crisis high of 88 points.

- Low business confidence is indicative of a challenging economic environment and difficult operating conditions, therefore pointing to continued weak growth for the remainder of the year.

BER/FNB confidence indicators

- After witnessing improving conditions over the years 2012 to 2014, business confidence in the broader construction sector fell again during 2015. This is reflective of a challenging operating environment for building contractors and the civil engineering sector.

- Subdued rates of growth in overall fixed investment and low confidence levels amongst consumers have impacted on residential building activity in particular, with adverse implications for the construction sector as a whole.

- Investment in residential buildings has been on a decline since 2008 and investment in non-residential buildings contracted over the past three years.

- Conditions in the construction sector also worsened as growth slowed from 13% in 2014 to 4.6% in 2015.
Despite a challenging consumer environment, growth in retail trade sales gained some momentum in 2015, measuring 3.3% for the year, up from 2.1% in 2014.

At the sub-category level, however, spending on durable items such as furniture and household appliances fell marginally (-0.5%) as higher interest rates forced consumer to cut back on purchases of luxury goods. In turn, household spending on clothing, textiles and footwear; hardware, paint and glass; as well as on pharmaceuticals and cosmetics, recorded fairly strong rates of growth during 2015.

Low levels of consumer confidence, rising living costs (e.g. food and electricity prices), a higher interest rate environment, lack of consumer confidence, and poor employment prospects, will affect negatively the ability and willingness of households to raise their spending propensity at least in the short-term.

New vehicles sales and exports

Total new vehicles sales declined by 4.1% in 2015 to 617 691 units, being the second year of lower sales.

The number of passenger vehicles sold fell 6% as consumers reduced their spending on durable goods. In contrast, sales of heavy and light commercial vehicles increased by 2.8% and 0.4%, respectively, in 2015.

For the year as a whole, exports increased sharply by 20.5%, due to a strong rebound in the 1st half of the year. The steep rise in exports of passenger vehicles was underpinned partly by the resumption of production at the Mercedes-Benz plant in the East London Industrial Development Zone, after having been closed for re-tooling over a portion of 2014.

The 2nd half of 2015, however, witnessed a moderation in vehicle export growth, with year-on-year declines having in fact been recorded since December 2015.

Building plans passed and buildings completed

The overall value of building plans passed declined by 0.2% in 2015, indicative of the difficult economic environment and lower confidence among businesses and households.

Although the value of residential building plans passed increased by 3.8% in 2015, this growth rate was substantially lower than the 13.6% recorded in 2014. Furthermore, the momentum was slower in the 2nd half of 2016.

The value of residential buildings completed rose by 9.3% in 2015, but fell at the start of 2016, providing little comfort that the residential property market could be improving.

Trends in the non-residential building market are of concern, as the value of both building plans passed and building plans completed declined substantially in 2015, by 8.8% and 11.3%, respectively.
Foreign direct investment

- According to UNCTAD estimates, global foreign direct investment (FDI) inflows rebounded strongly by 36% in 2015, to a post-crisis high of USD1.7 trillion.

- FDI flows into developed economies rose by 90%, mainly into the USA (with FDI inflows estimated at USD384 billion) and the European Union. FDI flows into developing economies reached a new high of USD741 billion (45% of global FDI flows), with the largest recipients being Hong Kong (China) and China at USD163 billion and USD136 billion, respectively. FDI flows into Africa, however, declined by 31%, whilst Latin America reported an 11% drop.

- South Africa recorded a 64% decline in FDI inflows in 2015, from R62.6 billion in 2014 to R22.6 billion in 2015. The inflows were mainly in the form of loans extended by foreign parent companies to local subsidiaries or via equity investments into local companies.

Liquidations of companies

- The number of company liquidations decreased from 2,064 in 2014 to 1,962 in 2015, representing a 0.5% decline.

- Voluntary liquidations accounted for the vast majority (88%) of all liquidations in 2015.

- At a broad sector level, most of the liquidations took place in the finance and business services sector, followed by the wholesale and retail trade, and the community and social services sector. These sectors are known for their large number of small-, medium- and micro-enterprises (SMMEs), with such companies perhaps not having the necessary financial means to survive difficult economic conditions.

Petrol price and crude oil prices

- Despite the steep drop in crude oil prices to the lowest levels in more than a decade, the benefit for the South African economy was eroded to some extent by the substantial depreciation of the rand.

- By December 2015, the petrol price in Gauteng stood at R12.09 c/l, only 1.6% lower than a year earlier. The oil price, in turn, was 37.4% lower at USD38.9 per barrel, but the rand had depreciated by 30% against the US dollar.

- The recovery in international oil prices thus far in 2016 and a relatively more stable currency in recent weeks do not bode well for the local petrol price. Considering its weight of 5.68% in the CPI basket, higher crude oil prices and some rand recovery are likely to fuel domestic inflation going forward. In February 2016, petrol price inflation measured 20.7% (the highest in 2.5 years), and contributed 1.2 percentage points to the 7% overall inflation rate.
World economic climate index

- The world economy is struggling to sustain a higher growth momentum, with continuous downward revisions to growth having been made by the International Monetary Fund.
- The World Economic Climate indicator fell further in the opening quarter of 2016, indicating the challenges faced by the global economy at present. At a reading of 87.8 points, the index is now well below its long-term average of 96.
- Perceptions about current global economic conditions did, however, improve ever so slightly in the 1st quarter of 2016, but the outlook for the next 6 months has worsened in many regions/countries around the globe.
- Africa’s economic climate indicator fell sharply over the past year, with the assessment of the present economic situation at a multi-year low in Q1 2016. This highlights the challenges faced by many commodity-exporting African countries.

GDP growth in advanced economies

- The expansion momentum in the world’s most advanced economies remained fairly modest in 2015 as growth in the UK and Canada disappointed.
- In the US, GDP growth measured 2.4% in 2015, mainly underpinned by higher growth in consumer spending as investment activity slowed. Export growth was lower at only 1.1% (3.4% in 2014), as weaker global demand and a strong dollar took their toll, but imports rose quite sharply.
- The Eurozone economy recorded an expansion of 1.5% and growth became more broad-based across its member states. The Italian economy emerged from recession, whilst Spain recorded robust growth. Germany continued to record relatively strong growth and improved economic conditions led to higher growth in France.
- The Japanese economy expanded by only 0.6% in 2015. Fiscal and monetary policy support continued to be required as the economy recorded modest contractions in Q2 and Q4.

GDP growth in emerging economies

- Emerging markets and developing economies saw their aggregate growth decline for the 5th consecutive year in 2015.
- In China, economic growth slowed to 6.9%, its worst performance in 25 years. Subdued global demand weighed on its export performance and growth in fixed investment slowed. Its structural adjustment process appears to be more challenging than initially anticipated.
- Brazil’s economy is in deep recession, as sharply lower commodity prices, structural constraints, macroeconomic instability, political uncertainty and low business confidence affected its overall performance.
- Russia’s economy contracted by an estimated 3.7% in 2015, as oil prices at multi-year lows and continued western sanctions affected economic activity.
- In sharp contrast, the Indian economy expanded at a brisk pace, being among the world’s fastest growing economies.
International indicators (cont.)

Equity market performance

- Global equity markets faced strong headwinds in 2015, following a relatively sustained recovery in the preceding couple of years.
- Furthermore, bearish sentiment took over at the start of 2016, with sharp contractions across most of the world’s principal stock-markets.
- The Dow Jones Industrial index declined by around 2% over the 12 months to 31 December 2015. After falling further at the beginning of 2016, a recovery emerged during March.
- Brazil’s Bovespa has been under strain for quite some time, mirroring the economy’s poor performance in recent years. By the end of December 2015, the equity market was 13.3% lower than a year earlier.
- In China, the Shanghai Composite index was some 9.4% higher on 31 December 2015 on a y-o-y basis, but the index has trended lower in the opening quarter of 2016.

Consumer price inflation

- Lower commodity prices have exerted downward pressure on producer and consumer inflation during 2015, resulting in deflationary risks in a number of advanced economies.
- This has prompted central banks such as the European Central Bank (ECB) and the Bank of Japan to provide further monetary policy stimulus (negative interest rates, additional quantitative easing) to stimulate demand, support economic growth and prevent prices from declining.
- The ECB’s target is for inflation to be close to, but below the 2% mark. Over the past 3 years, however, consumer price inflation has been well below this target and on a declining trend.
- Although the USA also experienced a period of falling prices at the start of 2015, the trend has been reversed with inflation at 0.7% by year-end and measuring 1% in February 2016.

Interest rates

- In its attempt to fight off deflationary pressures, the ECB has not only kept its policy rate at very low levels, but also lowered interest rates on its deposit facility to negative territory so as to stimulate credit demand and spending, in the process aiming to raise also inflation.
- In March 2016, the ECB lowered its policy rate to 0%, a new all-time low, whilst continuing with its asset purchase programme (also now as Quantitative Easing), which will be raised to €60 billion as from April 2016.
- In the USA, the Federal Reserve (Fed) eventually raised interest rates by 25 basis points on 16th December 2015, this being the first hike since 2006. Subsequent turmoil in global financial and currency markets led the Fed to hold rates steady since then. Going forward, policy rates are expected to be raised very modestly in light of fragile economic conditions globally and concerns over the impact on the US economy.
Glossary of terms

Balance of payments: Consists of three main accounts: (1) the current account, which is made up of visible trade (i.e. merchandise exports and imports) and invisible trade (i.e. payments and receipts for services such as transportation, travel, etc; income, including compensation of employees, investment income and current transfers); (2) the transfer account, which reflects net capital transfer receipts; and (3) the financial account, which consists of direct investment, portfolio investment (i.e. the selling and purchasing of assets such as shares and stocks) and other investment flows.

Bond: A fixed interest-bearing security issued by the central government. Its yield to redemption is an arbitrary rate which reflects market conditions, including participants’ expectations.

BER: Bureau for Economic Research at the University of Stellenbosch

Effective exchange rate: Obtained by weighting the exchange rate between the rand and the currencies of major trading partners. The weights of the five major currencies are the following: Euro (29.26%), US dollar (13.72%), Chinese renminbi (20.54%), British pound (5.82%) and the Japanese yen (6.03%).

FCEG: Final consumption expenditure by general government includes spending on individual goods and services (e.g. education, health and social services), as well as expenditure on collective goods and services to the benefit of the community as a whole (e.g. maintenance of law and order, public administration and defence).

FCEH: Final consumption expenditure by households measures the sum of outlays on new goods and services by resident households, including private non-profit organisation.

FDI: Foreign direct investment.

GDE: Gross domestic expenditure is the total value of the expenditure by households, the corporate sector and general government on final goods and services. It differs from expenditure on GDP in that it includes imports but excludes exports.

GDP: Gross domestic product is the total value of all final goods and services produced within the economy.

GFCF: Gross fixed capital formation represents total spending by both the private and public sectors on tangible and intangible assets which have been produced and are themselves used continuously in product processes for more than a year (i.e. investment goods or articles which yield future benefits).

General government: Central, regional and local authorities and extra-budgetary funds.

Growth rates: Unless otherwise specified, these are obtained by calculating the percentage change between the figure for the current period and that of the corresponding period in the previous year.

IFS: International Financial Statistics

IMF: International Monetary Fund

Import cover: Refers to the number of months’ worth of imports which current reserves can cover.

Interest rates: The prime rate is the lowest rate at which a clearing bank will lend money on an overdraft facility; the repo rate replaced the Bank rate as the benchmark interest rate in the economy on 9 March 1998 – this is the rate at which the central bank makes cash available to banks on a tender basis through repurchase agreements; banks that experience difficulties in obtaining cash can borrow from the central bank at the penalty rate, which is known as the marginal lending facility rate.

JSE: Johannesburg Securities Exchange

LHS: Left hand scale

Money supply: \( M1 = \) the sum of coins and banknotes in circulation, cheque and transmission deposits plus other demand deposits; \( M2 = M1 \) plus other short-term deposits and medium-term deposits held by the domestic private sector; and \( M3 = M2 \) plus long-term deposits held by the domestic private sector.

MPC: Monetary Policy Committee of the South African Reserve Bank

Price indices: The consumer price index (CPI) represents the prices of a basket of consumer goods and services, whereas the production price index (PPI) represents the prices of a basket of producer goods, including capital and intermediate goods.

Public corporations: Government-owned businesses which are formally established and regulated by an enabling Act of Parliament, or companies wholly or mainly owned by public authorities.

QE: Quantitative Easing, is a programme by central banks in which they purchase debt instruments, mainly government debt, to increase liquidity in the economy and thereby stimulate economic activity and support inflation.

Real terms: A variable is “in real terms” when its value has been adjusted for changes in the purchasing power of money. This is carried out by deflating by an appropriate price index, with the resulting value being in “constant prices”.

RHS: Right hand scale

SARB: South African Reserve Bank

Seasonal adjustment: Refers to the elimination of the seasonal variation in a time series.

Stats SA: Statistics South Africa

Trade balance: The difference between the exports and the imports of goods (excluding services).

ULP: Unleaded petrol


Note: An * in a specific graph indicates % change at constant prices, at a seasonally adjusted and annualised rate.
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