



World Economic Situation and Prospects

Weekly Highlight

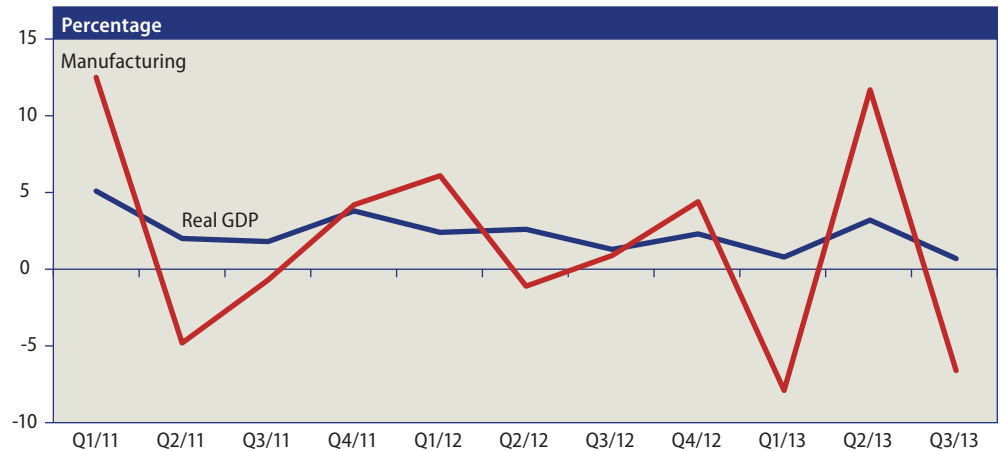
4 December 2013

South Africa: growth slowdown presents various policy challenges

South Africa's growth slowed to 1.8 per cent in the third quarter, from 2.2 per cent in the same quarter last year. The slowdown appears even more pronounced when viewed in terms of annualized seasonally adjusted growth, which fell to 0.7 per cent in the third quarter from 3.2 per cent in the previous quarter (figure 1). A major drag on growth was manufacturing, which contracted by 6.6 per cent on the back of strikes in the automotive sector. In the face of this instability, some major car manufacturers have announced a halt to their expansion in the country.

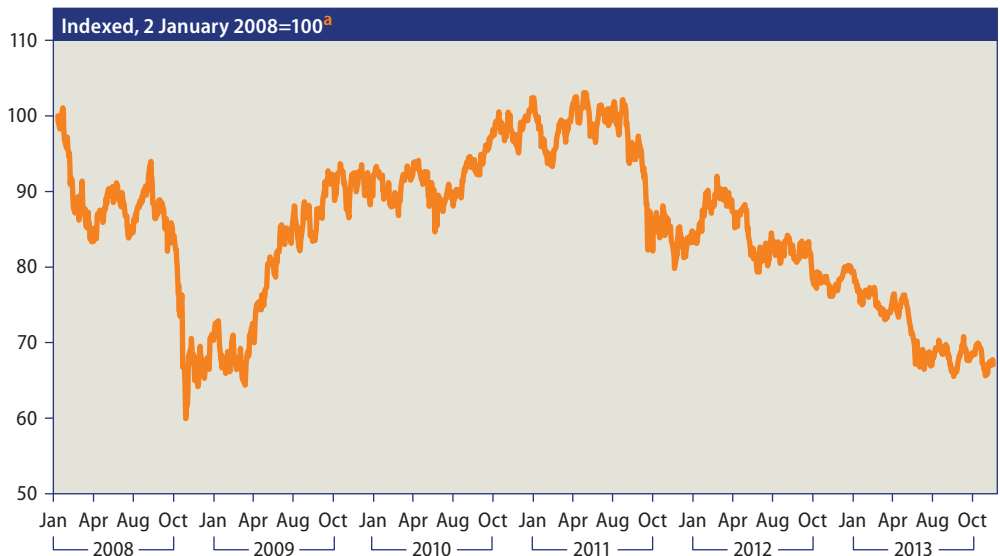
These trends raise problematic issues regarding the broader development of the economy as well as the future actions of policymakers. Manufacturing constitutes about 15 per cent of GDP, making it the second largest sector in the economy after finance. Any weakening of this sector, especially in the form of less investment, would even further complicate the prospects of reducing the stubbornly high official unemployment rate of almost 25.0 per cent. At the same time, the overall slowdown presents a dilemma for monetary policy, which needs to weigh further loosening in support of growth against the inflation risks stemming especially from a weaker currency, which has continued its depreciation against the dollar this year, falling by 16 per cent (figure 2).

FIGURE 1
ANNUALIZED, SEASONALLY ADJUSTED GROWTH OF SOUTH AFRICA'S GDP AND MANUFACTURING SECTOR



Source: Statistics South Africa.

FIGURE 2
SOUTH AFRICAN RAND AGAINST THE UNITED STATES DOLLAR



Source: JP Morgan Chase.

^a A lower value of the index indicates depreciation against the United States dollar.