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Beyond GDP - SA needs a new barometer of economic activity

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For firms deciding where to invest, for the Reserve Bank setting interest rates, and for a government setting its budget, more immediate ways of measuring economic activity would be useful. SA needs to create a real-time barometer, a composite index, that goes beyond GDP. Fortunately, it has the tools to do so

In 1602, Dutch merchants pooled their capital to form the Vereenigde Oostindische Compagnie (VOC). What made the venture revolutionary was not the ships or the spice. It was the information: prices in distant ports, harvest conditions, currency movements, political risks.

As the historian Steven Marks has argued, the profit motive is ancient, but it was the expanding capacity to gather and analyse information that turned trade into economic growth. Double-entry bookkeeping, the printing press, the telegraph, the internet – each of these leaps was, at root, an information revolution.

Large language models are the latest evolution in this long story. Tools like ChatGPT democratise analysis that was once the preserve of expensive professionals. A small business owner can now design a logo, build a website, and even draft a basic contract in ways that previously required a consultant. Subject to broadband access and digital skills, the gap between those with information and those without has narrowed dramatically. That is, historically speaking, how economies grow.

But there is a paradox: the very technology that accelerates economic activity also makes that activity harder to count. And counting it accurately has never been more important for South Africa.

Consider a retailer who used to throw away bread and expired fresh produce at the end of each day. That food was originally baked, transported and purchased from wholesalers – and this value addition was counted in GDP. Imagine the shop then installs a simple AI tool that predicts demand more accurately and adjusts orders accordingly. Waste drops sharply. The shop buys fewer inputs, so measured activity in parts of the supply chain falls. Yet profits improve and fewer resources are wasted. So real economic value rises, even as recorded output declines.

This example captures a broader problem. As economies mature, services like finance, software, consulting, healthcare and education account for a larger share of output. Services are notoriously difficult to measure, and AI is about to make it much worse. When a single subscription can replace a paralegal, a copywriter, and a data analyst simultaneously, the standard framework for counting market transactions breaks down.

SA is at a fork in the road

A broken estimate of economic output can really hurt an economy, especially one that stands at a fork in the road. The RMB/BER Business Confidence Index, published this week, shows that South African businesses are more upbeat about expected business conditions than they have been in a while. But will this be reflected in GDP statistics or projections?

In a new UNU-WIDER working paper, “Beyond GDP: the case for a real-time barometer of economic activity in South Africa”, we examine historical revisions to South Africa's GDP and find that booms are often understated and downturns overstated.

Certain sectoral revisions have also become far noisier. In agriculture, for instance, it is not uncommon for a single quarter's growth to be revised by more than ten percentage points as data updates trickle in.

Given South Africa's susceptibility to shocks, pandemic disruption, prolonged load-shedding, logistics failures, water crises, floods and unrest, one might expect larger corrections but, in fact, average quarterly GDP revisions have become smaller. The mismatch should invite deeper scrutiny. It doesn't help that the demographic benchmarks underpinning these estimates are themselves unreliable, given the troubled 2022 Census.

For firms deciding where to invest, for the Reserve Bank setting interest rates, and for a government setting its budget, better measurement is not an academic luxury. When the underlying data is misleading, capital is misallocated, investment is delayed, and policy is made on shaky ground.

A new toolkit to take us beyond GDP

What South Africa lacks is a credible way to take the pulse of economic activity between routine data releases, built from indicators that arrive faster, offer finer geographic detail and have different error structures from the official accounts.

The good news is that a remarkable toolkit has emerged. Satellite imagery now tracks agricultural output in near real time; night-time lights, measured from space, correlate with economic activity and reveal sub-national patterns where ground-level data is sparse.

In addition, mobile-phone metadata and payment flows map economic engagement. Online prices scraped from retailer websites produce daily inflation indices that capture dynamics that quarterly surveys cannot. And textual data from news and job vacancies yield forward-looking indicators of sentiment and labour demand.

Fortunately, AI itself – the same technology disrupting our measurement frameworks – can be used to exploit these opportunities.

Building a new data observatory

As a measure, GDP will remain indispensable. The point is not to abandon it but to add to it. What we propose is a real-time economic barometer: a composite index that draws on electricity generation, financial transactions, mobility data, satellite imagery, online prices, and textual indicators.

Nowcasting – which tries to predict forthcoming data releases using more immediate sources of data - is a step in this direction. But we are proposing something more: a complement to GDP that captures shocks and structural change beyond the ambit of traditional national accounts.

Such an endeavour would require collaboration between Stats SA, the Reserve Bank, universities, and the private firms whose data feeds would form the backbone of the system. It requires investment in public-sector data science. And it requires good governance – data-sharing protocols, privacy safeguards, a trusted intermediary – to ensure credibility and transparency.

None of this is fanciful. Building on the SARB's existing monthly composite business cycle indicators could be a good place to start. The UK's Office for National Statistics already publishes experimental high-frequency indicators. South Africa has the institutional foundations and the technical talent to do so too. It also has the urgent need: we cannot afford to underestimate our GDP given the knock-on implications for investment.

The VOC merchants understood something that still holds: those who see the economy most clearly are the ones best placed to prosper in it. From the printing press to the large language model, that principle has not changed. South Africa can – and should – build the tools to see clearly again.

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