

GDP Expectations

ECONOMICS | SOUTH AFRICA | INDUSTRIES

The recovery continued in Q4.

- Real GDP growth likely picked up slightly in the final months of 2025, accelerating from 0.5% qoq in Q3 to about 0.6% in Q4. High-frequency data suggest services provided the momentum, driven by robust activity in domestic trade and finance. Elsewhere, performances were mixed. Agriculture probably ended the year on higher ground, while mining, manufacturing and electricity remained under pressure.
- We forecast moderately faster growth in agriculture. Favourable weather conditions kept field crops and horticulture positive, but the battle against foot-and-mouth disease continued to weigh on livestock, containing the upside for the sector.
- Mining, manufacturing and electricity production contracted. Lower coal and magnesium output weighed on mining, while manufacturing weakness was widespread. Although there was no load-shedding in Q4, sluggish demand from the energy-intensive mining and manufacturing sectors hurt electricity production. Furthermore, water supply likely remained a drag on growth, given worsening crises in some large metros and drought conditions in other parts of the country.
- Services carried the economy in Q4. We anticipate positive contributions from finance, domestic trade, general government and personal services. Surging financial market activity and stronger credit demand likely boosted finance, real estate, and business services, while robust consumer spending sustained growth in domestic goods trade and food services. In contrast, hotels and accommodation contracted, receding somewhat from the higher base established over the previous two quarters.
- Should our forecast materialise, the economy will have grown by 1.4% in 2025. We still expect a modest acceleration to 1.6% in 2026, underpinned by favourable cyclical dynamics, but adverse global developments increasingly cloud the outlook. The war in Iran, continued US tariff uncertainty, and the ongoing geopolitical fracturing pose significant downside risks.

Chart 1: Mining, manufacturing and electricity contracted

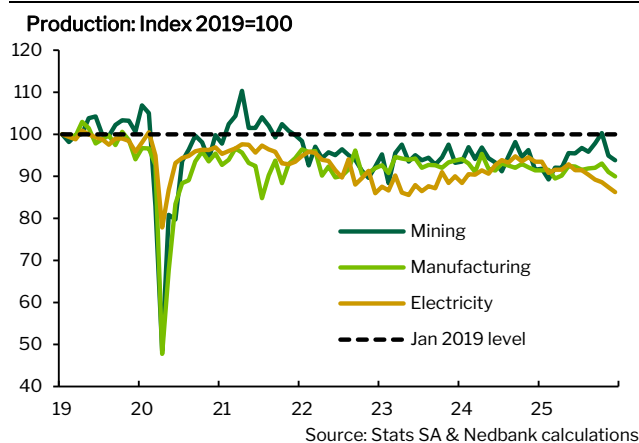
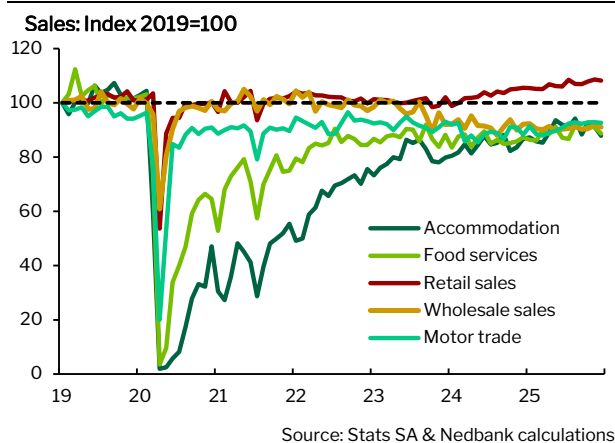


Chart 2: Services remained robust



Expected GDP outcomes in Q4 2025

We forecast modestly faster growth in Q4, driven by robust activity in the services sector, which benefited from healthy consumer demand, stronger credit demand and surging trading volumes on financial markets. In contrast, activity in most of the primary and secondary sectors remained under pressure. **Altogether, we forecast real GDP to have risen slightly from 0.5% in Q3 to 0.6% in Q4, translating into growth of 1.4% in 2025.**

Given the lack of high-frequency data, forecasting quarterly outcomes for **agriculture, forestry and fishing** is fraught with difficulty. Our best guess is that the recovery continued, with value added expanding by about 2.4% in Q4, after growth of 1.1% in Q3. Field crops and horticulture benefitted from favourable weather conditions, while livestock production remained constrained by foot-and-mouth disease and high feed costs. The final production estimate for the 2025-26 winter crop was 1.5% lower than the previous season. However, at 2.6 million tonnes, the harvest remains solid by historical standards and probably made a positive contribution to Q4. Other activity indicators were mixed. Encouragingly, the Agribusiness Confidence Index (ACI) rose five points to 67, supported by favourable weather, strong export performance throughout the year, improved port efficiencies and the announcement of a nationwide cattle vaccination programme to curb foot-and-mouth disease.

Mining relapsed in Q4, with output shrinking by 0.5% qoq, after expanding by 2.3% in Q3. The drag came from coal, platinum-group metals, and gold, which together shaved 2.1 percentage points (ppts) off the total. In contrast, manganese ore continued to perform well, with production up 15% and contributing 1.1 ppts. **Manufacturing production** also contracted by 0.5% qoq, following meagre growth of 0.3% in Q3. Eight of the ten manufacturing divisions reported lower output over the quarter. Motor vehicles, parts and accessories and other transport equipment (down 6.1% and contributing -0.5 ppts), wood and wood products, paper, publishing and printing (down 2% and contributing -0.2 ppts) and food and beverages (down 0.9% and contributing -0.2 ppts) made the largest negative contributions. In contrast, the petroleum, chemicals, rubber and plastics was the largest positive contributor.

Table 1: Latest economic indicators.

Industries	mom %			yoy %			Q4 2025		2025
	Oct-25	Nov-25	Dec-25	Oct-25	Nov-25	Dec-25	qoq %	yoy %	yoy %
Mining	2.5	-5.4	-1.2	6.1	-2.4	2.5	-0.5	2.0	0.0
Manufacturing	1.1	-2.1	-1.2	0.5	-2.0	-1.4	-0.5	-1.0	-1.3
Electricity	-0.7	-1.3	-1.4	-5.2	-7.3	-7.9	-3.2	-6.8	-2.0
Buildings completed	-1.7	18.0	8.0	-4.2	0.4	13.9	5.8	3.4	0.1
Wholesale sales	0.2	1.8	-1.1	-3.0	-0.7	0.3	0.6	-1.2	-1.4
Retail sales	1.0	0.6	-0.4	3.0	3.6	2.6	0.8	3.0	3.7
Vehicle sales (Stats SA)	0.9	0.9	0.6	1.8	0.3	7.0	1.5	2.9	2.0
Accommodation income	3.2	-0.2	-1.0	11.3	8.4	0.3	-1.6	6.3	3.4
Food services income	1.0	-0.1	-2.6	11.3	8.4	0.3	0.8	6.3	5.5
Freight transport	-0.7	-1.6	1.9	3.0	-1.7	1.9	-0.6	1.0	0.4
Passenger transport	-1.9	-3.4	5.0	3.8	4.0	4.3	-2.9	4.0	9.4
Real credit extended	0.7	0.8	1.2	3.5	4.2	4.9	2.5	4.2	2.3

Source: Stats SA

Electricity, gas, and water likely contracted by around 2.3% qoq in Q4, after shrinking by 2.5% in Q3. The contraction reflects a 3.2% qoq drop in electricity production and erratic water supply in several large municipalities, where ageing infrastructure continues to constrain delivery. Eskom's energy data points to a 7.9% qoq slide in electricity demand, accompanied by a 10.4% drop in dispatchable generation over the quarter. The unplanned capability loss factor (UCLF) as a percentage of total installed capacity averaged 20% over the quarter, while planned maintenance averaged 11%. The 6% qoq decrease in the UCLF allowed for no manual load reduction (MLR) over Q4.

On a more positive note, a range of indicators suggests that **construction** activity continued to recover in Q4. We estimate that value added increased by around 0.5% qoq, following a modest 0.1% rise in Q3. Buildings completed rose by 5.8% qoq in Q4, while sentiment improved markedly. The FNB/BER business confidence index increased by five points to 44 in Q4, placing it three points above its long-term average. Confidence in both building and civil construction also strengthened, with the respective indices reaching 10- and 11-year highs. Building confidence rose from 35 in Q3 to 43 in Q4, while the civil construction confidence index jumped to 52. Taken together, the broad-based improvement in sentiment suggests that activity in the construction sector may have turned a corner.

Value added by **domestic trade** is estimated to have increased by 0.9% qoq, supported by relatively robust consumer demand, which continued to benefit from subdued inflation, lower interest rates, rising employment and positive wealth effects from higher equity prices. Retail sales growth eased slightly from 1.0% qoq in Q3 to 0.9% in Q4. Apart from food, beverages and tobacco sold in specialised stores, performances across most other retail categories remained strong. The largest positive contributions came from general dealers, 'other' retailers, and household furniture, appliances and equipment, which together added 2.9 ppts to the quarterly growth rate. Wholesale sales gained momentum, accelerating from 0.3% qoq in Q3 to 0.6% in Q4. Motor trade sales rose by 1.5% qoq, unchanged from Q3, driven by a 5.6% increase in new vehicle sales. By contrast, real income from accommodation declined by 1.1% over the quarter, partly offsetting a 0.8% rise in food and beverage activity.

Transport activity declined over the quarter, with both passenger and freight volumes deteriorating. As far as freight is concerned, an encouraging 3.6% qoq increase in rail freight was not enough to offset the 1.3% contraction in road freight volumes. Overall, our estimates suggest that the **transport, storage, and communication** grew by 0.4% in Q4, with the weakness in transport offset by stronger growth in communications. We expect stronger growth in **finance, real estate, and business services**, with value added up about 1.4%, compared to 0.3% growth in Q3. Trading conditions in the broader finance industry improved significantly. The rally in precious metal prices and improved investor confidence, backed by evidence of continued fiscal discipline, the switch to a lower inflation target and the ongoing structural reforms, led to a sharp increase in trading volumes on financial markets, providing a boost to banking and insurance. Banks also benefited from an upturn in real credit extension, which grew 2.5% qoq and by 4.2%

yoy, supported by increased corporate and household borrowing as financial conditions eased and domestic growth prospects improved.

Table 2: Quarterly forecasts.

Industries	Actual					Forecast		Forecast risks
	2024		2025			2025		
	% of GDP	Full year	Q1	Q2	Q3	Q4	Full year	
Agriculture	2.9	-8.7	18.6	2.5	1.1	2.4	21.3	Upside
Mining	6.1	0.4	-4.1	3.5	2.3	-0.5	-0.5	Balanced
Manufacturing	12.8	-0.4	-2.0	1.5	0.3	-0.5	-1.6	Balanced
Electricity, gas & water	3.3	3.5	-2.6	0.2	-2.5	-2.3	-4.1	Balanced
Construction	2.2	-5.4	-3.7	-0.3	0.1	0.5	-3.7	Downside
Domestic trade	12.4	-1.2	0.3	1.4	1.0	0.9	2.9	Upside
Transport & communications	7.0	-1.2	2.4	0.1	0.5	0.4	0.9	Upside
Finance, real estate & business services	21.1	3.2	0.1	0.7	0.3	1.4	2.7	Upside
General government	7.8	0.3	-0.2	0.6	0.7	0.4	0.5	Downside
Personal services	14.4	1.2	-0.3	0.5	0.3	0.2	0.1	Upside
Gross value added	90.0	0.5	0.1	0.9	0.5	0.6	1.4	Upside
GDP	100.0	0.5	0.1	0.9	0.5	0.6	1.4	Upside

Source: Stats SA & Nedbank forecasts

The medium-term outlook.

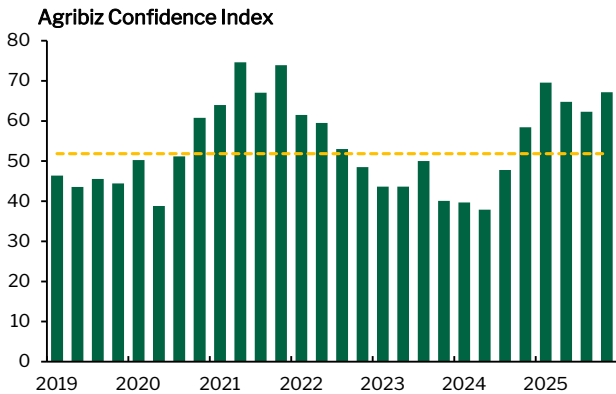
Economic growth is expected to gain traction in 2026. We forecast real GDP growth of 1.6% yoy, averaging 1.7% over the next three years. Easier financial conditions and the gradual easing in supply-side constraints should enable moderately faster economic growth. The downside risks to our forecast increased significantly in recent weeks, with the war in Iran clouding the outlook for oil prices, inflation and interest rates.

Agriculture had a reasonably positive year in 2025 despite persistent challenges in the livestock industry related to foot-and-mouth disease. Favourable production conditions for horticulture and field crops supported output, contributing to healthy employment levels and record export performance, which rose 10% yoy. This strong performance occurred despite heightened uncertainty stemming from US trade policy and tariff developments. Farmer confidence also improved over the year. Looking ahead, agriculture experts expect these trends to continue in 2026. In addition to favourable weather conditions, several developments may improve the outlook. The effective US tariff on South Africa’s exports will likely be much lower. Towards the end of last year, the US exempted several food products from reciprocal tariffs in a bid to appease US consumers upset by high and sticky food prices. More recently, the US Supreme Court struck down the Trump’s administration’s reciprocal tariffs. South Africa will now face the same 15% ‘global’ tariff as most other countries, which is significantly lower than the 30% reciprocal tariff imposed last year. Furthermore, AGOA has been extended to 31 December, which means that the eligible products are exempted from the Most Favoured Nation tariffs, which range between 2.5–3.5%. Despite the unexpected reprieve, the Trump administration remains committed to finding other ways to impose tariffs and consequently trade policy uncertainty will remain elevated. Another source of optimism stems from progress made in developing a vaccine to accelerate the eradication of foot-and-mouth disease. From a financial perspective, lower interest rates should also ease farmers’ financing costs and support the sector. At this stage, we expect agriculture to grow by a more subdued 8% in 2026.

Progress on the energy front continues. The country experienced only 641 GW of load-shedding in 2025, the lowest level since 2018. Total installed renewable capacity increased by 743 MW between December 2025 and December 2024, supported by new wind, solar PV, and concentrated solar power additions to the grid. Eskom’s electricity availability factor (EAF) averaged 63% in 2025, reaching the 70% target in 7 out of 52 weeks. Without detracting from these gains, capacity constraints persist. Demand still exceeds supply. The system also remains partially reliant on open-cycle gas turbines. The new year brings the promise of faster implementation of reforms under Operation Vulindlela (OV), following the groundwork laid for Phase II in 2025. So far, the necessary legislative changes have either been passed or will be tabled shortly to support a more competitive, capable, and efficient market for long-term energy and water security. For energy, success hinges on the operationalisation of the National Transmission Company of South Africa and the procurement of 1 164 km of 400kV transmission lines and associated infrastructure, which are essential for enabling private investment in the grid. For water, more groundwork is needed. Key actions include the introduction of the Water Services Amendment Bill to separate Water Service Authorities (WSAs) from Water Service Providers (WSPs), the finalisation and launching of the National Water Action Plan, and completion of preparatory work for establishing the National Water Resources Infrastructure Agency (NWRIA), including lender consents and agreements with labour

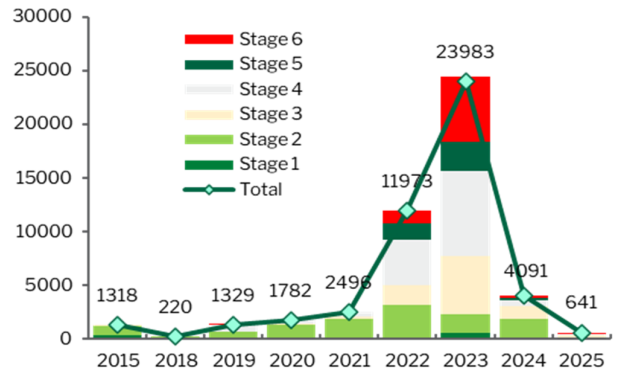
on staff transfers. All said, we expect the overall improvements in the energy sector to become more noticeable, while water-related challenges are likely to persist. Altogether, we anticipate **electricity, gas and water** to contract by a smaller 2.1% in 2026.

Chart 3: The ACI is well above 50



Source: Agricultural Business Chamber

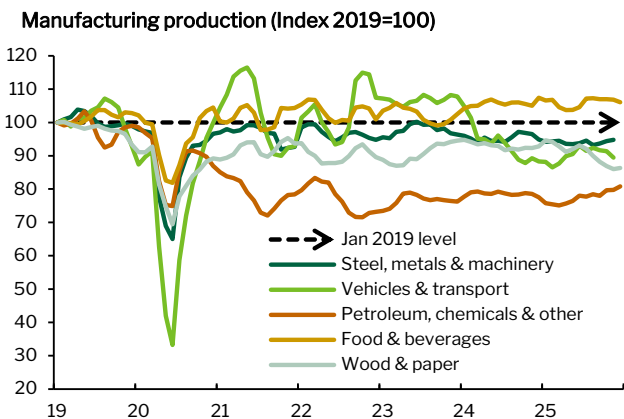
Chart 4: There has only been 641 GW of load-shedding GW at each stage



Source: Eskom se Push

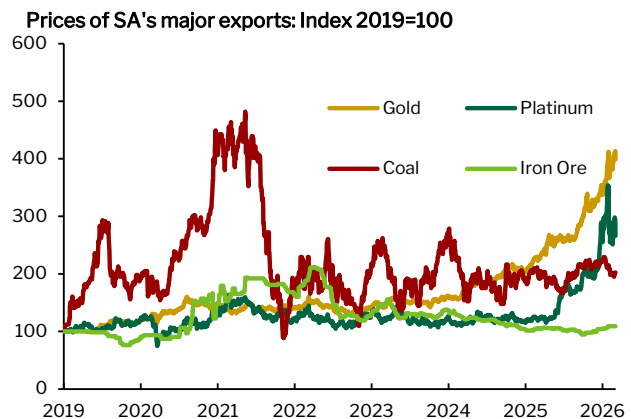
Mining and **manufacturing** declined in 2025. Mining was down 0.6% and manufacturing by a larger 1.6%. Both sectors have struggled to return to pre-covid levels and appear unlikely to reach these levels soon. Improved electricity supply, modest progress in logistics, lower interest rates, and rising domestic demand have supported incremental output gains in some quarters. However, logistics and municipal services remain grossly inefficient, and operating costs are still elevated. Although the stronger rand reduces some input costs, it also partly offsets the benefits from firmer commodity prices. Importantly, it will be difficult for mining and manufacturing to gain significant and sustained upward traction unless structural reforms in electricity, logistics, water and municipal service delivery are accelerated and fully implemented. Over the next year, the external environment will likely be more supportive of higher mining output. In contrast, manufacturing will remain under pressure, hurt by the high costs imposed by challenging domestic operating conditions, ongoing tariff uncertainties and considerable price competition from China and other low-cost producers in the domestic market. As such, we expect mining to grow by 1.7% yoy in 2026, while manufacturing is forecast to contract by 0.6%.

Chart 5: The export industries are already struggling



Source: Stats SA

Chart 6: There are gains in some commodity prices.



Source: LSEG

We expect the recovery in **construction** that began in the second half of 2025 to continue in 2026. The improvement over the second half though will not be enough to lift growth for the full year - we anticipate a 3.6% decline in value added by construction in 2025. The outlook for the sector hinges on a recovery in fixed investment activity. On this front, business confidence remains weak (below 50), dimmed by elevated global uncertainties and the slow pace of domestic structural reforms. Despite these uncertainties, some evidence of increased capital expenditure emerged over the second half of 2025. Companies took on more general loans, which are typically used to finance capital expenditure. Moreover, the investment environment gradually improved as the Reserve Bank lowered its policy rate by a further 100 basis points (bps), and government bond yields across all maturities declined by 145 bps on average as the Financial Action Task Force removed SA from its grey list and as S&P Global unexpectedly upgraded the country's credit rating in response to evidence of continued fiscal discipline. Collectively, these developments have lowered the cost of capital, which should serve to crowd in private sector projects, encouraging expenditure on residential and

non-residential buildings. So far, the data suggest only modest gains. The value of residential buildings completed increased in recent months, and our research (captured in Nedbank's Capital Expenditure Project Listing) reflects an increase in private sector project announcements. However, we have not seen an increase in building plans passed, which drives the pipeline of future building projects. Nonetheless, given the low base and more favourable financing conditions, we expect construction to expand by 0.7% in 2026. However, the risks to outlooks for fixed investment and, therefore, construction remain skewed to the downside due to the challenges posed by mounting global uncertainties and the disruptions caused by criminal networks in the construction sector.

Chart 7: Business confidence is weak

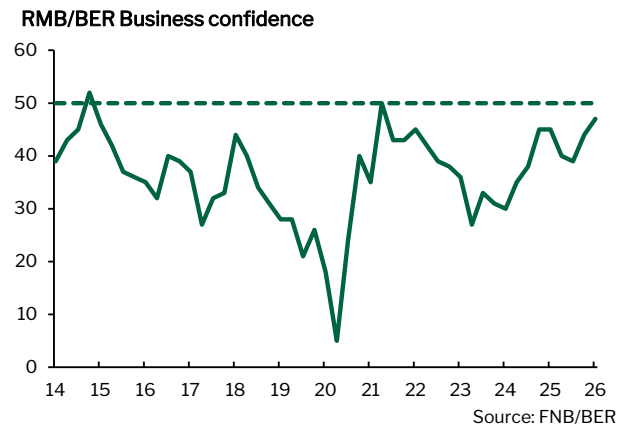
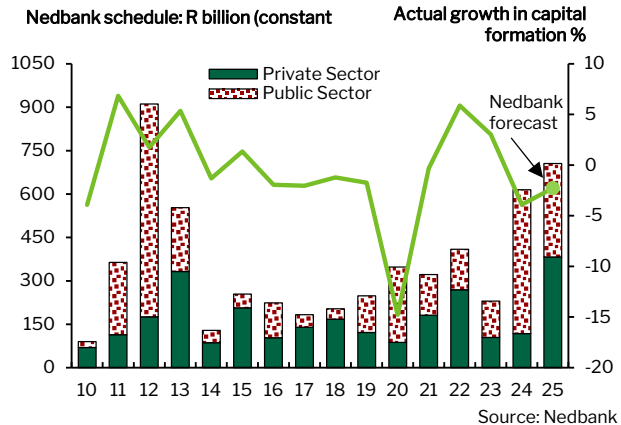


Chart 8: CAPEX showed an uptick in private project plans



The expansion in **domestic trade, accommodation, and catering** is expected to continue. We forecast growth of 2.9% in 2025. The upward trajectory is forecast to continue in 2026, driven by robust consumer demand in response to subdued inflation, lower debt service costs, rising employment, and positive wealth effects from higher equity prices. Ongoing withdrawals from the two-pot retirement system will further strengthen household finances. These funds will support spending and/or help pay down existing debt, improving financial health. Vehicle sales are expected to accelerate further as interest rate cuts filter through the economy. Accommodation and food services are expected to remain robust, supported by increased international travel and tourism as global financial conditions improve. We expect growth of 2.5% in 2026.

Chart 9: Financial conditions will remain supportive

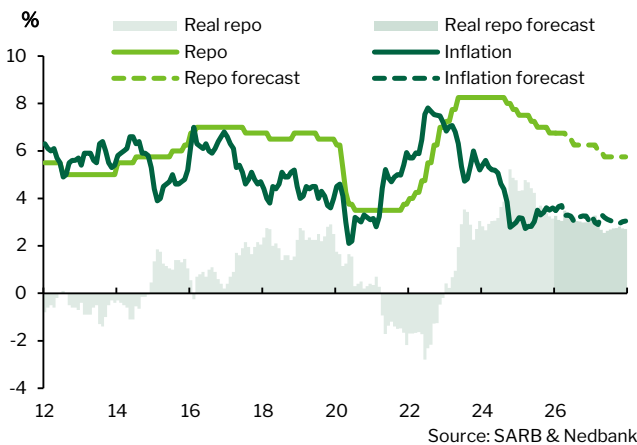
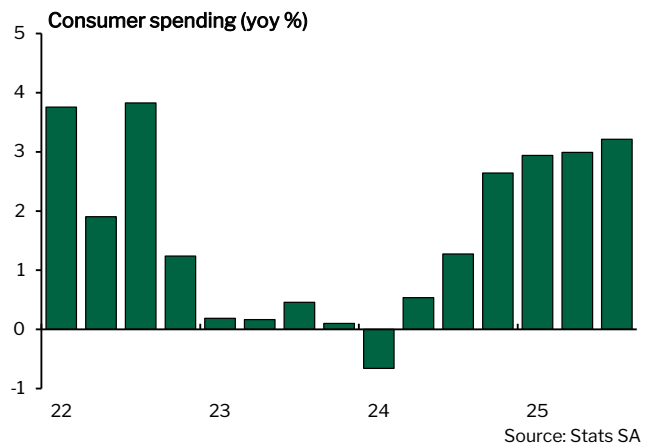


Chart 10: Consumer spending has picked up



Value added by **transport and communications** is forecast to have increased by 0.9% yoy in 2025. Heading into 2026, we expect freight transport to recover marginally as economic activity picks up. Furthermore, demand for communications will remain robust. We anticipate the sector will gain momentum and grow by around 1.8% in 2026.

Banking and real estate are also expected to gain more meaningful momentum into 2026. Household credit demand remains surprisingly subdued, while corporate credit demand has picked up. Encouragingly, there have been signs of an increased appetite for home loans among households in recent months. At the same time, demand for vehicle financing has increased significantly, and credit card usage has remained robust. Even personal loans turned positive, albeit exaggerated by a low base. Nonetheless, we expect household credit demand to stage a more compelling recovery into the new year, supported by firmer household finances and lower interest rates. The recovery in company loans has been relatively broad-based, with the strongest boost coming from general loans, which are commonly used to finance capital expenditures. This suggests higher levels of fixed investment,

which should gain further traction in the quarters ahead. Altogether, we see growth in **finance, real estate, and business services** of 2.6% for 2025 and 2.1% in 2026.

In conclusion, we expect a moderate recovery over the next three years, with GDP growth averaging around 1.7%. Domestically and globally, subdued inflation and interest rates will likely boost demand. However, US trade policy and the war in Iran poses significant downside risks. South Africa's ability to cope with the trade headwinds depends on faster progress with reforms in the energy and logistics space. At the same time, a prolonged war in the Middle East would keep oil prices high for longer, placing renewed upward pressure on domestic inflation, potentially leading to tighter monetary policy, which would remove a key driver of the anticipated acceleration in economic activity.

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