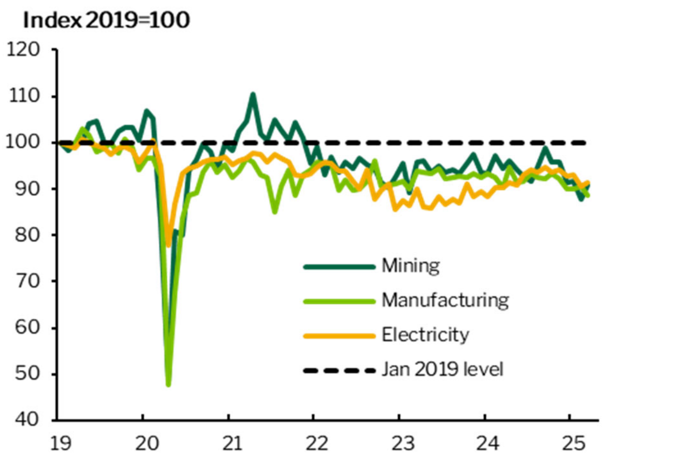
GDP Expectations

ECONOMICS | SOUTH AFRICA | INDUSTRIES

Growth was likely stagnant over Q1 2025

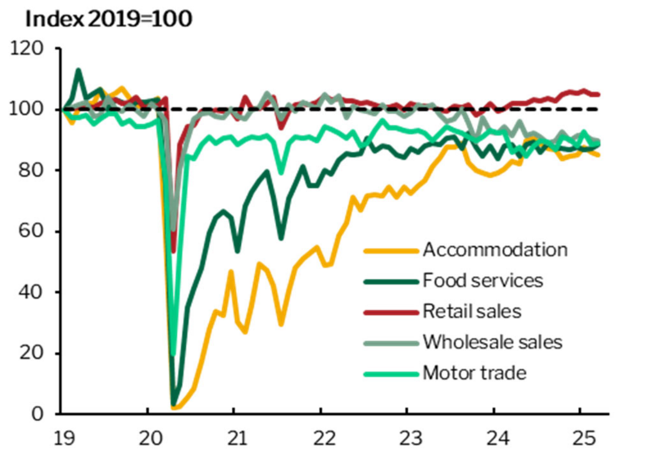
- High-frequency statistics reflected stagnant economic activity over Q1. Agriculture will probably be the star performer. In contrast, activity in mining, manufacturing, electricity, construction and trade relapsed, still held back by a difficult operating environment, aggravated by persistent inefficiencies in essential economic infrastructure and the stronger base in Q4. Real GDP is forecast to make no gains in Q1, slowing from 0.6% in Q4 2024.
- Agriculture, transport and communications, finance, general government and personal services increased over Q1. While retail, motor trade sales, and real income from accommodation and food services accelerated, wholesale sales fell - dampening the contribution from trade to overall GDP.
- Energy, mining, and manufacturing contracted, driven by the return of load-shedding, infrastructure failures, and subdued domestic and global demand.
- We expect some acceleration in growth during the remainder of the year. The main boost will come from domestic demand, supported by firmer consumer confidence, sustained by a recovery in real household incomes driven by lower inflation and lower debt service costs due to lower interest rates. Despite minor progress on the structural front, operating conditions remain challenging, and production costs high. The weaker global recovery will weigh on output, particularly given SA's elevated cost structures, underlying inefficiencies, and significant infrastructure constraints. Accelerating structural reforms are the key to enhancing the international competitiveness of industries. This would enable the economy to grow faster and create more jobs without hitting supply bottlenecks, driving up costs, and stoking inflation.
- Overall, we expect growth of 1% in 2025 and 1.5% on average over the next three years. However, the uncertain global environment and implicit collapse of AGOA pose significant downside risks.

Chart 1: Electricity, mining and manufacturing struggled



Source: Stats SA & Nedbank calculations

Chart 2: Services disappointed.



Source: Stats SA & Nedbank calculations

Expected GDP outcomes in Q1 2025

Agriculture and the tertiary sector provided upside to economic growth in Q1. In sharp contrast, the malaise in the primary and secondary sectors intensified. Producers grappled with sluggish demand, trade policy uncertainties and stagnant commodity prices, but the country's structural challenges remained the most significant obstacle to a sustained recovery. These continued to elevate production costs and persistently disrupt or delay operations, further eroding producers' international price competitiveness. Despite pockets of progress, the list of challenges remains too long. Mild load-shedding returned as companies continued to absorb the cost of responding to the 2023 energy crisis and escalating electricity tariffs. Companies must also deal with the daily struggles at the ports, the need to shift from rail to road, water insecurity, high crime and other security threats, and reels of legislation and regulation. Altogether, we forecast real GDP to have remained flat in Q1 2025, following growth of 0.6% in Q4 2024.

Agricultural output remains volatile and difficult to monitor. Nonetheless, we estimate that agriculture gross value-added expanded by 6.5% qoq in Q1 following its 17.2% surge in Q4 2024. The latest available data suggests an uneven recovery across subsectors. Horticulture and field crops are encouraging, but the livestock industry still faces challenges. Favourable weather conditions supported solid output in horticulture, particularly table and wine grapes. The table grape harvest rose by 4% yoy, while wine grapes increased by 11%. The National Crop Estimates Committee (CEC) lowered its fourth production estimate for the 2024/25 summer grains slightly-but it remains 16% higher than in 2023/24. Maize production is projected to grow by 14% yoy, driven mainly by a 26% increase in white maize output. The CEC also forecasts higher output relative to the last season for sunflower seeds (↑15% yoy), soybeans (↑26% yoy), groundnut (↑22% yoy), sorghum (↑41% yoy), and dry beans (↑41% yoy). Additionally, machinery sales provide further evidence of the continued recovery. Tractor sales rose by 2.4% qoq, while combine harvester sales surged by 29.8%. Favourable weather conditions and modest progress in port efficiency have contributed positively to agriculture's performance. However, the livestock industry remains under pressure, still grappling with foot-and-mouth disease and elevated feed costs. Despite these challenges, employment in the sector improved by 4% qoq in Q1, led by gains in livestock, horticulture, game hunting, and organic fertiliser production. In contrast, job losses were recorded in forestry and aquaculture.

Table 1: Latest economic indicators.

	mom %			yoy %			Q1 2025		2024
	Jan-25	Feb-25	Mar-24	Jan-25	Feb-25	Mar-24	qoq %	yoy %	yoy %
Mining	0.2	-4.1	3.5	-1.6	-9.7	-2.8	-4.4	-4.7	0.4
Manufacturing	0.0	0.7	-2.2	-3.3	-3.2	-0.8	-2.3	-2.4	-0.4
Electricity	0.4	-2.8	0.8	5.7	0.2	1.1	-2.0	2.3	5.0
Buildings completed	-33.5	19.1	0.1	-20.0	1.5	12.3	-22.8	-1.7	-13.8
Wholesale sales	0.2	-1.8	-0.1	-0.8	-7.5	-2.1	-0.8	-3.6	-5.3
Retail sales	0.9	-1.2	-0.2	7.0	4.1	1.5	0.1	4.1	2.4
Vehicle sales (Stats SA)	0.8	-1.0	1.9	0.3	-5.9	3.6	0.7	-0.8	-3.3
Accommodation income	0.5	-3.0	0.9	7.8	4.4	0.8	1.5	4.3	2.7
Food services income	-0.7	0.6	1.3	7.8	4.4	0.8	0.5	4.3	2.7
Freight transport	1.1	1.2	-1.1	-4.7	-4.1	-3.6	2.4	-4.1	-6.9
Passenger transport	5.6	-6.4	4.2	11.0	3.9	11.5	1.8	8.8	10.3
Real credit extended	-0.4	-1.1	1.2	1.4	0.5	1.2	-0.4	1.0	-0.4

Source: Stats SA

Electricity, gas, and water likely contracted by around 1.6% qoq from -1.4% in Q4. A decline in electricity production (↓2.0% qoq) was accompanied by reduced water supply, which remained erratic in some large municipalities due to crumbling infrastructure. Eskom's energy data points to a 5.5% qoq reduction in dispatchable generation, likely explained by the notable increase in the unplanned capability loss factor (UCLF↑18.4% qoq) over the quarter. The increase in the UCLF resulted in manual load reduction (MLR) of 352 gigawatts and 175.1 hours (7.3 days) of load-shedding.

Electricity outages and high input costs in the face of subdued domestic and global demand explain the weakness in mining and manufacturing output over the quarter. The contraction in mining production widened to 4.4% in Q1 from -0.7% in Q4. PGMs suffered the most, with production falling 13.7% (shaving 4.3 ppts off the total). In contrast, iron ore production jumped 8%, contributing 1.1 ppts. Manufacturing production declined by 2.3%. Seven of the ten manufacturing divisions contracted, while the rest made negligible gains. The most considerable dent was made by declines in beverages, coke, petroleum products, fuel, motor vehicle parts and accessories.

The weakness in iron ore, basic iron and steel, and non-ferrous metal production points to subdued activity in the construction sector and feeds into our expectation that construction activity likely fell by around 0.3% qoq. A 22.8% qoq decline in the real value of buildings completed further corroborates our forecast. Furthermore, the FNB/BER building confidence index barely moved, edging up only a smidgen to 41 from 40. It also indicates that most firms remain dissatisfied with prevailing business conditions.

Value added by domestic trade likely contracted by 0.1% qoq. It was dragged down by the 0.8% decline in wholesale sales. Although growth in retail sales was weak at 0.1%, outcomes across the rest of the sector stayed firm, supported by increased purchasing power from much lower inflation and the two-pot withdrawals. The recovery in motor trade sales continued, expanding by 0.7% qoq. Improvements were recorded for sales of used and new vehicles. Real income from accommodation and food and beverages grew by 1.5% and 0.5%, respectively, over the quarter.

The different modes of transport posted mixed results. The number of passenger rail journeys decreased, but those by road increased. Road and rail freight rose. Overall, our estimates suggest that transport, storage, and communication improved by around 1.3% compared to the previous quarter. We forecast growth in value added by finance, real estate, and business services at around 0.5% in Q1 from 1.1% in Q4 2024. However, banking conditions deteriorated, with real credit extension contracting by 0.4% qoq. Relative to the same quarter a year earlier, real credit extension increased by 1.0% in Q1.

Table 2: Quarterly forecasts.

Industries	Actual		Forecast					Forecast risks
	2024		2025					
	Share (% of GDP)	Full year	Q1	Q2	Q3	Q4	Full year	
Agriculture	2.9	-8.0	6.5	2.3	2.6	3.6	10.3	Upside
Mining	6.1	0.3	-4.4	-0.2	1.1	0.5	-3.8	Balanced
Manufacturing	12.8	-0.5	-2.3	-0.8	0.9	0.3	-2.4	Balanced
Electricity, gas & water	3.3	3.5	-1.6	-0.3	0.5	0.7	-1.3	Balanced
Construction	2.2	-5.1	-0.3	-0.1	0.3	0.5	0.0	Downside
Domestic trade	12.4	-1.4	-0.1	0.3	0.4	0.6	2.0	Downside
Transport & communications	7.0	-1.3	1.3	0.2	0.5	0.5	0.1	Upside
Finance, real estate & business services	21.1	3.5	0.5	0.3	0.3	0.5	2.9	Downside
General government	7.8	-0.1	0.4	0.2	0.3	0.3	0.4	Downside
Personal services	14.4	1.7	0.4	0.2	0.5	0.4	1.0	Downside
Gross value added	90.0	0.6	0.0	0.1	0.5	0.6	1.0	Downside
GDP	100.0	0.6	0.0	0.1	0.5	0.6	1.0	Downside

Source: Stats SA & Nedbank forecasts

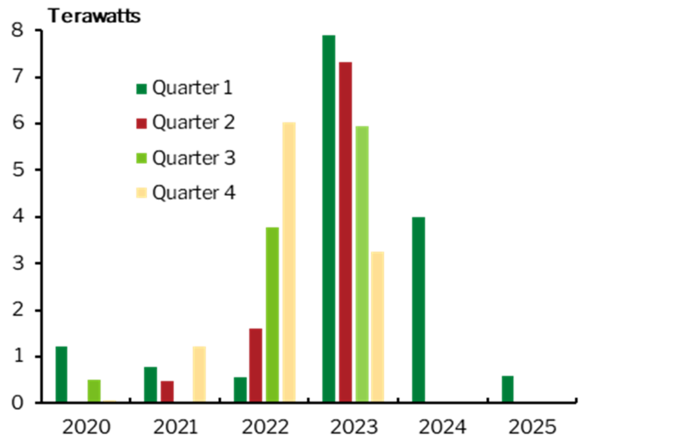
The medium-term outlook.

We expect the economy to recover in 2025. Our forecast is for growth of 1.0% for the year, averaging 1.5% over the next three years. SA's structural constraints remain pretty much the same, with only minor improvements from the previous year. On the cyclical front, lower inflation and interest rates will provide impetus to demand.

The outlook for agriculture is more promising for 2025. The La Niña rains have boosted farmer sentiment. As of 30 April, the winter cereal planting intentions stood 1.1% higher than the production figures for 2024. Further optimism is premised on better financial conditions for farmers given the lower interest rate environment, progress in controlling animal diseases, and the hope that port improvements will continue. This is reflected in the Agribiz confidence index, which improved by 11 ppts from Q4 2024 to 70 in Q1 2025. However, several structural and cyclical challenges remain. The livestock industry continues to grapple with animal diseases and elevated feed costs. Excessive rainfall in some regions has raised concerns about crop quality, and while wine production is recovering, it remains below pre-pandemic levels. Further downside risks emanating from the Trump administration's tariffs and the implicit end to AGOA, fractured geopolitics, port inefficiencies, poor rail and road infrastructure, crime, stock theft, worsening municipal service delivery, and ultimately, farm profitability. Despite these headwinds, we forecast agriculture to grow by 10.3% in 2025 off last year's low base.

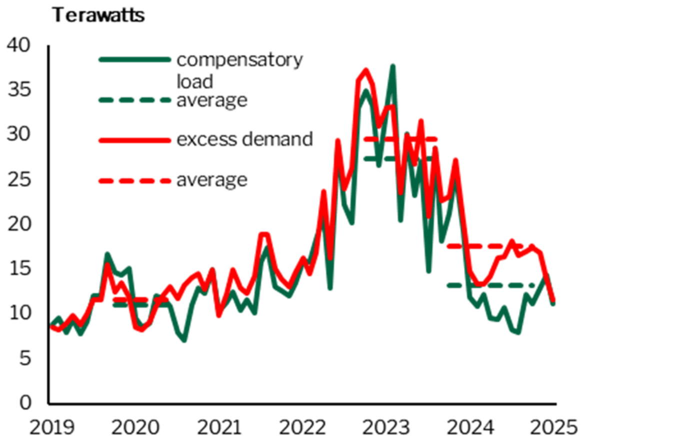
Following a relatively stable year, load-shedding returned at the start of 2025, underscoring persistent vulnerabilities in the electricity system. For context, excess demand nearly doubled between 2020 and 2024, while Eskom's use of its compensatory load (including load interruptions, imports, and open-cycle gas turbines) increased by 21%. Therefore, the re-occurrence of load-shedding is unsurprising. Still, the situation has improved since the peak of the crisis in 2023. From 2023 to April 2025, excess demand dropped by 94%, manual load reduction by 95%, compensatory load usage by 65%, and load-shedding by 94%. Ramped up planned maintenance and reinstating units onto the grid underscore the progress. Eskom's winter outlook anticipates load-shedding only if unplanned outages exceed 13 GW. If outages increase to 15 GW, load-shedding will be limited to a maximum of 21 days at Stage 2 — far better than the Stage 5 projections seen in 2024. Still, the system remains vulnerable. Given the ongoing strain on electricity and growing instances of water shedding due to failing infrastructure, we expect electricity, gas and water to shrink by 1.3% in 2025.

Chart 3: Load-shedding returned at the start of 2025



Source: EskomSePush

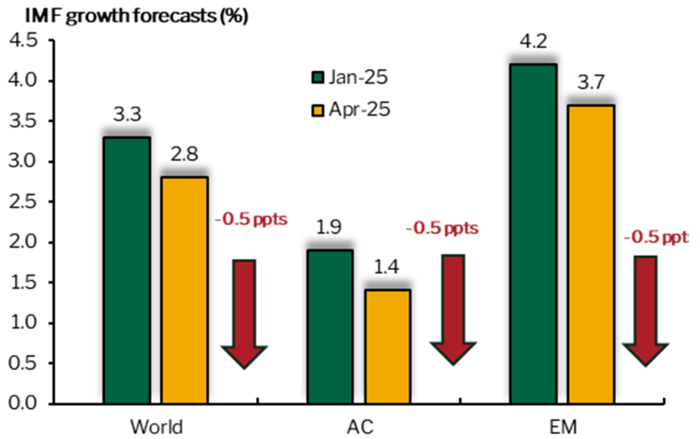
Chart 4: Excess demand and compensatory load has fallen



Source: Eskom

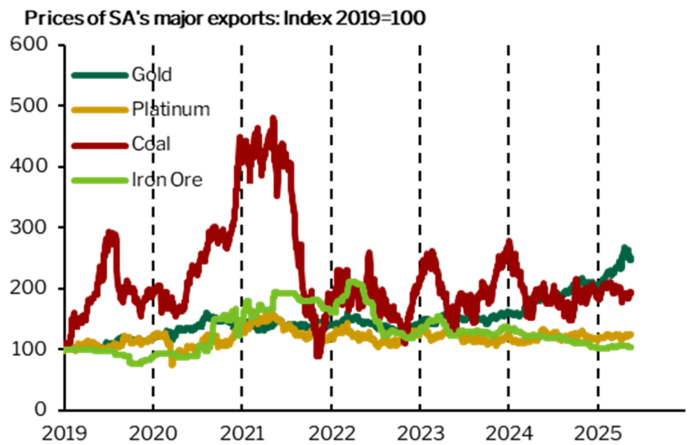
Mining and manufacturing are off to a disappointing start. We forecast declines of 3.8% and 2.4% in mining and manufacturing in 2025. Progress on the electricity front should help both sectors over the year, but inefficient logistics, failing municipal infrastructure, and frequent water outages will offset the upside. Elevated cost structures, accompanied by the sheer difficulties associated with getting products to market, have resulted in a build-up of inventory sufficient to cater to marginal increases in demand. Despite somewhat firmer domestic demand, global growth has been revised lower, with intensified downside risk fuelled by uncertainty surrounding the Trump administration's policies. Heightened trade tensions and the implicit end to AGOA pose significant threats to the manufacturing sector. Higher tariffs and elevated domestic costs will weigh heavily on export competitiveness – an effect unlikely to be offset by a weaker rand. Additionally, the weaker global growth outlook will keep commodity prices subdued for longer, further weighing on production and profitability. Within the manufacturing sector, the automotive industry is the most exposed to the US, particularly producers of parts and accessories, which benefitted significantly from duty-free access to the US market.

Chart 5: IMF revised global growth forecasts



Source: IMF

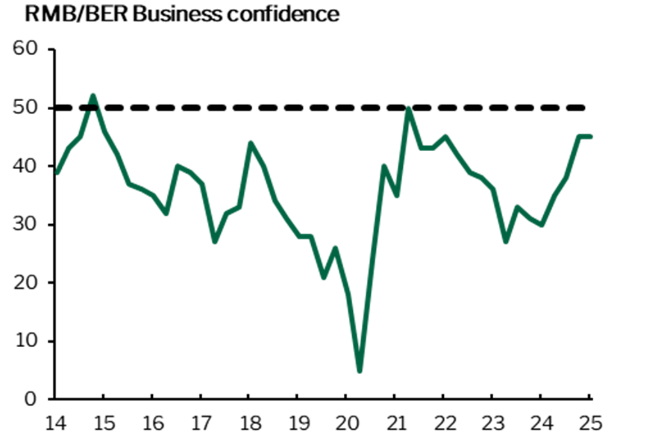
Chart 6: Commodity prices (except gold) remain subdued



Source: Workstream

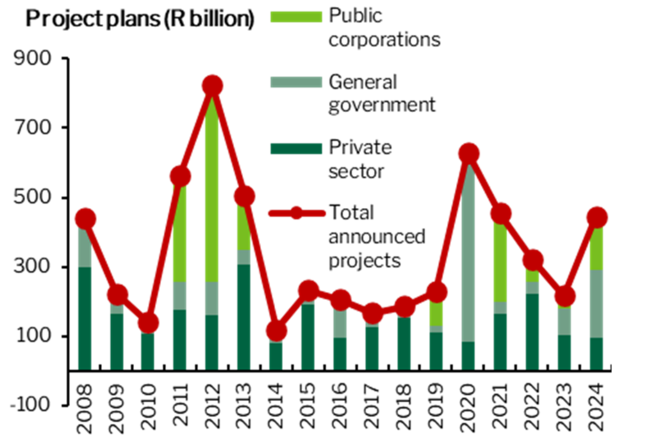
Construction activity and gross fixed capital formation will remain flat in 2025. Weak sentiment and continued reluctance among firms to take on credit reflect elevated uncertainty driven by instability in the GNU, global headwinds, and slow progress on structural reforms. Despite recent interest rate cuts, long-term borrowing costs remain high, with bond yields exceeding 10%. This keeps the cost of capital elevated and crowds out private sector projects, dampening expenditure on residential and non-residential buildings. However, upside risks to the outlook exist. The Nedbank Capital Expenditure Project (CAPEX) Listing showed a marked rise in new project announcements in 2024, particularly in bulk infrastructure - housing, transport, water, and sanitation- which could support activity from 2025 onwards. Realisation of these projects, however, hinges on improved government delivery, which has historically been weak.

Chart 7: Business confidence is weak



Source: FNB/BER

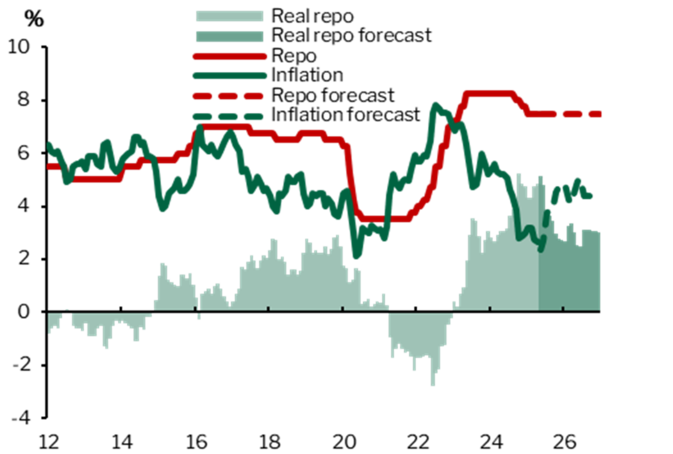
Chart 8: CAPEX shows an uptick in project plans



Source: Nedbank

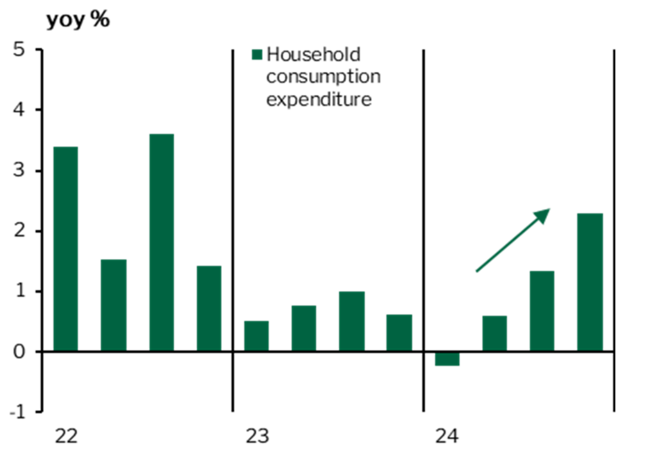
Domestic trade, accommodation, and catering are expected to gain meaningful momentum in 2025. Stronger consumer spending will be driven by a more subdued inflationary environment and lower interest rates, increasing real incomes and supporting discretionary spending. Continued withdrawals from the two-pot retirement system will further strengthen household finances. These funds will support spending and/or help pay down existing debt, improving financial health. Vehicle sales should continue to recover as interest rate cuts filter through the economy. Tourism and accommodation will remain robust, supported by increased international travel and tourism, as global inflation remains subdued and interest rates lower. We expect growth of 2% in 2025.

Chart 9: Inflation and interest rate forecasts



Source: SARB & Nedbank

Chart 10: Recent trends in consumer spending.



Source: Stats SA

Value added by transport and communications is expected to grow by 0.1% in 2025. Freight transport will probably recover marginally as economic activity picks up. Although the demand for communications will remain elevated, it will unlikely increase much.

Amid a more uncertain global landscape, banking and real estate trading conditions are expected to improve gradually throughout the year. Household and corporate credit demand, presently, remain subdued. Corporate borrowing is skewed toward overdrafts and credit cards, while general loans are weak. Corporates rely on overdrafts and credit for cash management purposes and general loans (the largest portion of company credit) for investment purposes. This hesitancy to take on more general loans reflects the underlying uncertainty and weighs on the willingness to undertake fixed investment. Household credit remained stagnant across mortgages as well as instalment sales and leasing finance, while overdrafts and credit card usage, though slowing, stayed relatively firm. Despite the subdued environment in early 2025, credit demand appears to be hovering near its trough. Given the decline in interest rates, it should slowly start to increase as the year progresses. Value added by finance, real estate, and business services is expected to grow by 2.9% in 2025.

In conclusion, we expect a moderate recovery over the next three years, with GDP growth averaging around 1.5%. Domestically and globally, subdued inflation and interest rates will likely boost demand. However, much depends on the need for faster progress with reforms in the energy and logistics space and the effect on global demand from Trump 2.0.

GROUP ECONOMIC UNIT

Crystal Huntley	+27 10 221 8468	crystalhu@nedbank.co.za
Nicky Weimar	+27 10 234 8357	nickywe@nedbank.co.za