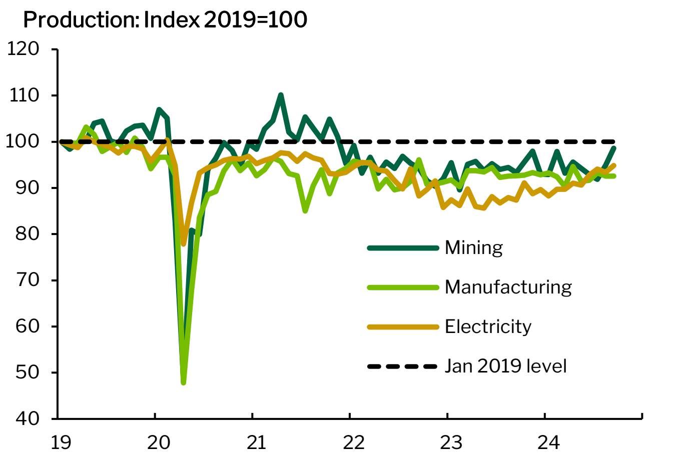
GDP Expectations

ECONOMICS | SOUTH AFRICA | INDUSTRIES

The economy likely ticked up slightly in Q3.

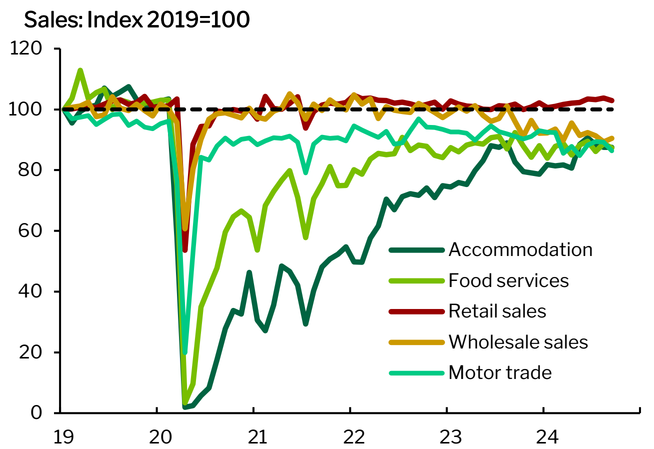
- High-frequency statistics reflect a slight uptick in economic activity over Q3. The improvement reflects better operating conditions and firmer domestic demand brought about by falling inflation. Altogether, real GDP is forecast to grow by 0.5% qoq.
- The persistent absence of load-shedding and other logistical advances created a more favourable producer environment. Eskom's energy availability factor (EAF) averaged 65% over the quarter, unplanned outages dropped 12% qoq, and its use of Open Cycle Gas Turbines (OCGT) fell 27% qoq. These improvements were accompanied by some, albeit modest, progress on the logistical front. While these failed to lift growth significantly, given the broader context of generally subdued global and domestic demand and lower commodity prices, it was enough to provide some support to production. Consequently, mining, manufacturing and construction managed to increase output modestly.
- Elsewhere, performances were mixed. Domestic trade likely contracted over Q2, hurt by sharp declines in wholesale sales, continued weakness in motor trade, and reduced spending on food and beverage services. Encouragingly, lower inflation, especially on food and fuel, supported consumers' purchasing power and real incomes, which helped sustain the ongoing recovery in retail sales. Accommodation also contributed positively, supported by relatively robust business travel and tourist arrivals. Passenger transport likely posted growth, but freight declined further over the quarter. Finally, we anticipate steady growth from finance, real estate, and business services, underpinned by moderate growth in transactional and corporate demand for credit and a slow recovery in commercial property.
- Despite mixed performances in Q3, we believe the worst of the downturn is probably behind us. We expect continued growth in the final quarter and some acceleration in 2025. The main boost will come from domestic demand, supported by firmer consumer confidence, a recovery in real household incomes driven by lower inflation, and lower debt services costs as interest rates ease. Access to contractional savings through the two-pot retirement system will provide an additional boost. Despite progress on the structural front, operating conditions remain challenging, and production costs are high. These factors will continue to weigh on producers and exporters. While global demand will likely improve moderately as inflation and monetary policy ease, subdued demand from China and increased protectionism will restrict the upside. Even if international demand does take off, SA's elevated cost structures, underlying inefficiencies and significant infrastructure constraints limit our producers' ability to exploit a global upturn fully. All told, we still expect growth of 1% in 2024 and 1.7% in 2025.
- Resolving the country's energy and logistical constraints remains the key to unlocking faster growth over the medium to longer term. While the Government of National Unity (GNU) has ushered in renewed optimism, this needs to translate into accelerated structural reforms to enhance the international competitiveness of industry, enabling the economy to grow faster and create more jobs without hitting supply bottlenecks, driving up costs and stoking inflation.

Chart 1: Producers fared better on steady electricity supply.



Source: Stats SA & Nedbank calculations

Chart 2: High interest rates still weighed on services.

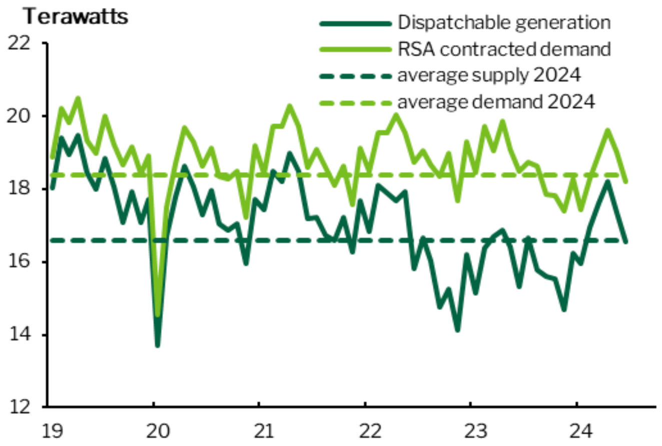


Source: Stats SA & Nedbank calculations

Operating conditions supported production over Q3 2024

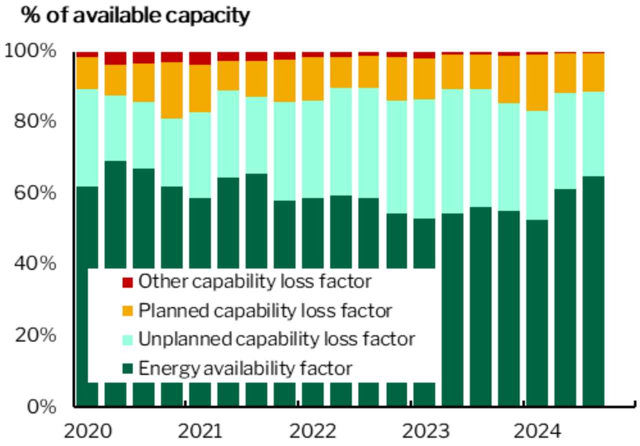
There have been some improvements in operating conditions over the quarter, with the most significant being the continual absence of load-shedding. It has been just over 8 months since Eskom suspended load-shedding. Weaker demand due to subdued economic activity and a shift to renewable energy by households and companies set against increased electricity supply made the difference. Compared to Q3 last year, electricity demand declined by 1%, while dispatchable generation rose by 7.4%. Relative to the previous quarter, electricity demand grew by 4%, outpacing a 3.3% increase in dispatchable generation. Although the demand dynamic started to change in Q3, the reduced pressure on the grid has been significant enough to enable an elevated level of planned maintenance, reflected in a 14% yoy increase in Eskom's Planned Capability Loss Factor (PCLF). Altogether, the EAF climbed to an average of 65% in Q3, up from 56% in Q3 2023. Eskom achieved this milestone without resorting to open cycle gas turbines (OCGT), whose use declined by a further 3.5% qoq and a dramatic 60% yoy. However, the sustainability of recent gains remains uncertain. So far this year, average electricity demand is still 10.7% higher than supply, as reflected in an unplanned capability loss factor of 27.2%. Although planned maintenance has increased, it may still not be enough to compensate for the years of neglect and the advanced age of most coal-fired power stations. Sustainable improvement hinges on the timeous and efficient implementation of the proposed energy sector reforms. At the same time, the actual test of the progress made so far will come once economic activity picks up pace.

Chart 3: Demand remains 10.7% above supply on average.



Source: Eskom

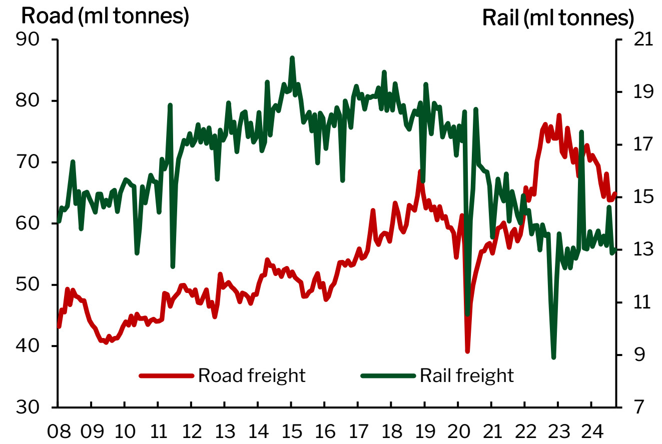
Chart 4: Eskom's capability loss factors have improved



Source: Eskom

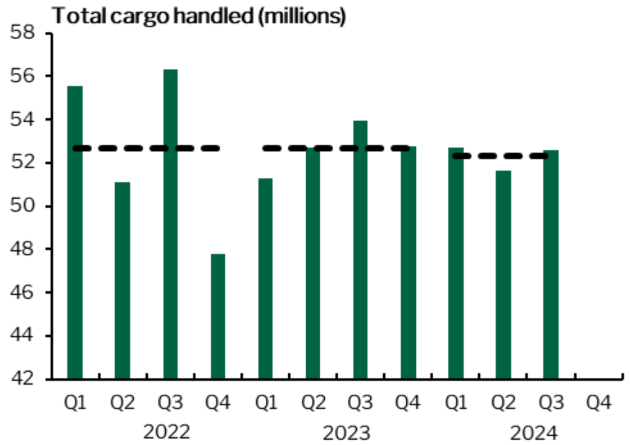
Some progress has also been made on the logistical front, with marginal gains in freight volumes across road, rail, and port networks. For the year to date, 121 million tonnes have been moved via rail, up by a slight 0.4% from the same period last year. According to the latest National Logistics Crisis Committee (NLCC) Pulse Report, the average time spent moving freight by road has fallen across seven of the eight major transport corridors. On average, transit times declined by 7 hours. The N1 Cape Town corridor improved the most, with transit times down by 26 hours, while the time spent on the N4 Pretoria corridor declined by 42 minutes. Regarding the ports, port calls (the time a vessel spends docked at port) at Cape Town and Richards Bay declined noticeably, but most other ports changed little. In Q3, the number of containers processed at the country's ports rose by a modest 980 104.

Chart 5: Rail freight volumes edged up slightly while road volumes declined.



Source: Stats SA

Chart 6: The number of containers handled at the ports increased modestly over Q3.



Source: Transnet National Ports Authority

Although South Africa appears to be crawling in the right direction, logistics networks remain inefficient. Moving around 200 million tonnes of freight by rail is considered the threshold where rail contributes to economic growth. As mentioned above, rail freight currently totals 121 million tonnes, 40% below the critical threshold. Equally, vessels spend roughly 6 days anchored at the country's ports, compared with less than 2 days globally. Finally, it is difficult to separate the cyclical from the structural components. For example, the decline in road transit times and port call durations may simply be a function of less congestion due to generally subdued economic activity.

Expected GDP outcomes in Q3 2024

The improvement in operating conditions, particularly concerning electricity, supported the economy over the quarter. The moderate political outcomes from the May general elections, a stronger rand, the rebound in the equity market, and the rapid inflation decline also improved business and consumer sentiment. Nonetheless, the extent of the boost was diluted by a still challenging operating environment, subdued global demand conditions, and still high interest rates. The circumstances were enough, however, to lift growth in mining, manufacturing, and construction over the quarter. Services activity also picked up modestly. However, stretched household finances still weighed on wholesale sales, motor trade, food services, freight transport, real estate activity, and household credit demand. **Altogether, we forecast real GDP growth of about 0.5% qoq in Q3, slightly faster than 0.4% in Q2.**

We expect agricultural output to grow by 1.2% qoq in Q3 after contracting by 2.1% in Q2. The boost will likely come from livestock and horticulture. Conditions in the livestock industry improved. In October, the Department of Agriculture said that foot-and-mouth disease had been eliminated in the Northwest, Free State, and Mpumalanga, but outbreaks continued in KwaZulu Natal and the Eastern Cape. In addition, output by the poultry industry likely recovered further. Encouragingly, broiler (chickens bred for meat and eggs) production increased. Although egg output stabilised, it remains below the levels achieved before the Avian flu outbreak. Conditions for horticulture were favourable, likely translating into higher stone fruit and wine production. Higher agricultural employment over Q3 is another indicator of a likely increase in value added. On the downside, the mid-summer drought weighed on wheat farmers, convincing them to plant less. Heavy rainfall and flooding over the winter months probably also affected yields. Consequently, total wheat production declined by 5.4% yoy. According to the Crop Estimates Committee's (CEC) 4th production estimate, the total winter crop decreased by 1.4%.

Table 1: Latest economic indicators.

	mom %			yoy %			Q3 2024		2023
	Jul-24	Aug-24	Sep-24	Jul-24	Aug-24	Sep-24	qoq %	yoy %	yoy %
Mining	-1.1	3.3	3.8	-1.6	0.3	4.7	0.9	1.1	0.0
Manufacturing	1.7	-0.7	0.0	2.2	-0.8	-0.8	0.2	0.1	0.6
Electricity	1.4	-0.7	1.6	8.5	6.3	8.5	2.9	7.8	-4.4
Buildings completed	45.7	-3.6	-2.4	7.1	3.6	-13.3	19.6	-1.7	-18.2
Wholesale sales	-1.1	-2.3	1.3	-2.0	-11.6	-6.6	-2.9	-6.8	-3.2
Retail sales	-0.2	0.6	-0.8	1.7	3.3	0.9	0.7	2.0	-1.2
Vehicle sales (Stats SA)	-0.2	-1.2	-2.0	-0.7	-3.9	-7.1	-0.6	-3.9	-1.9
Accommodation income	11.4	3.0	5.0	-2.5	-5.2	0.3	13.3	-3.0	3.9
Food services income	-3.7	3.0	-1.6	-5.4	2.1	-5.4	-0.2	-2.5	24.6
Freight transport	-3.5	-2.2	1.5	-5.8	-6.3	-12.3	-2.5	-8.2	1.4
Passenger transport	9.6	-3.9	-6.7	15.2	11.6	-6.8	0.2	5.9	15.8
Real credit extended	-1.0	1.1	1.1	-1.1	0.5	0.7	0.8	0.1	0.1

Source: Stats SA

After contracting for two consecutive quarters, mining production rebounded by 0.9% qoq in Q3. The recovery was primarily driven by manganese ore (↑10.1% qoq), followed by chromium ore (↑7.3% qoq). With both minerals used to manufacture steel, the jump points to some recovery in the global steel industry, which has long been bogged down by chronic excess capacity. Encouragingly, South Africa's ore exports rose by 12.9% qoq in Q3. Domestic ore sales probably also increased as local iron and steel manufacturers upped production over the quarter. In contrast to manganese and chromium, dwindling production of PGM's (-0.8% qoq) and gold (-1% qoq) contained the upside for the mining sector.

Manufacturing output grew by a slower 0.2% in Q3 from 0.6% in Q2. As mentioned above, basic iron and steel producers made the most significant contribution to manufacturing over the quarter, expanding output by 18.1% qoq and contributing 0.5 percentage points (ppts) to the quarterly increase in total manufacturing production. However, the boost was partly contained by lower petroleum production (-4.7% qoq) and motor vehicles (-11.5% qoq).

Electricity, gas, and water likely grew by about 2.2% qoq after rebounding by 3.1% in Q2. Higher electricity production (↑ 2.9% qoq) likely outweighed reduced water supply, which remained erratic in some large municipalities due to crumbling infrastructure. Value added by construction is forecast to grow by around 0.4% qoq, slightly softer than 0.5% in Q2. Our forecast aligns with increased building activity and our expectation that fixed investment turned the corner over the quarter. The real value of buildings completed rose 19.6% qoq in Q3 after expanding by 7% in Q2. The FNB/BER building confidence index also strengthened, climbing to 40 in Q3 from 35 in Q2. The improvement in confidence stems from increased demand for architects and non-residential builders, while the residential building sector continued to underperform. Despite better sentiment, around 60% of building firms were still dissatisfied with prevailing business conditions.

Value added by domestic trade likely relapsed, shrinking by around 0.9% qoq after accelerating by 1.2% in Q2. Performances were mixed within the broader sector. Wholesale sales exerted the most downward pressure, declining by a relatively sharp 2.9% qoq in Q3 after growing by 1.3% in Q2. Motor trade sales also remained under pressure, shrinking by a further 0.6% qoq, weighed down by high borrowing costs. The weakness was widespread, with declines in new and used vehicle sales, workshop income, and accessory sales. Encouragingly, fuel sales rose by 1.6% qoq, while convenience store sales climbed by 2.3%. Consumers also dined out less, with real income from food and beverage services down 0.2% qoq. The drag from these three industries was partly contained by continued growth in retail sales and hospitality income. Retail sales were supported by firmer consumer demand as inflation decelerated significantly, boosting the purchasing power of household incomes. Retail sales grew by 0.7% qoq in Q3, driven by general dealers (↑ 1.1% qoq) and textiles, clothing, footwear, and leather goods (↑ 2.1% qoq). Finally, accommodation income rose by 1.3% qoq, up for the 3rd consecutive quarter, and supported by continued growth in tourist and business travel.

The different modes of transport also posted mixed results. The number of passenger rail journeys increased, but those by road declined. A similar trend was visible in freight transport, with rail volumes up while road volumes fell. Overall, our estimates suggest that real income from land transport contracted by around 1.2% qoq. We forecast growth in value added by finance, real estate, and business services of around 1.1% in Q3. Banking conditions improved, driven by robust demand for transactional and corporate credit. In real terms, credit extension grew by 1.2% over the quarter.

Table 2: Quarterly forecasts.

Industries	Actual				Forecast			Forecast risks
	2023		2024					
	Share (% of GDP)	Full year	Q1	Q2	Q3	Q4	Full year	
Agriculture	2.6	-4.8	13.5	-2.1	1.4	4.1	0.5	Downside
Mining	7.3	-0.5	-1.7	-0.8	0.9	2.6	0.5	Balanced
Manufacturing	12.0	0.3	-1.4	1.1	0.2	-0.8	-0.6	Balanced
Electricity, gas & water	2.9	-4.0	-0.4	3.1	2.2	0.6	4.9	Balanced
Construction	2.2	-0.1	-3.1	0.5	0.6	0.3	-5.1	Downside
Domestic trade	12.1	-1.8	0..3	1.2	-0.9	0.7	-1.6	Upside
Transport & communications	6.8	4.1	-0.5	-2.2	0.1	0.7	0.3	Upside
Finance, real estate & business services	21.2	1.6	0.2	1.3	1.0	0.4	3.0	Downside
General government	8.0	0.5	-0.1	0.5	0.3	0.4	0.6	Upside
Personal services	14.6	1.8	0.1	0.2	0.5	0.7	2.1	Downside
Gross value added	89.6	0.7	0.0	0.5	0.5	0.6	1.0	Balanced
GDP	100.0	0.7	0.0	0.4	0.5	0.6	1.0	Balanced

Source: Stats SA & Nedbank forecasts

The medium-term outlook.

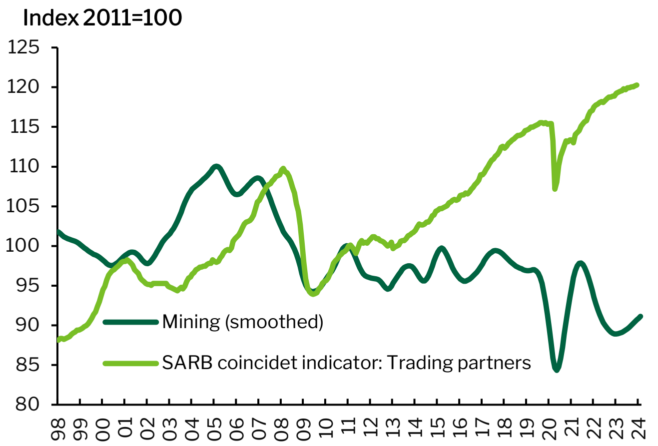
We expect the recovery to gain moderate momentum in the final quarter of this year. Reliable electricity supply and further slight improvements to logistics will be conducive to production. This, coupled with the moderate political outcome of the Government of National Unity (GNU) and the anticipated upturn in the business cycle, should lead to a more upbeat mood amongst businesses and consumers. Global and domestic demand will be reinforced by continued disinflation and monetary policy easing. On the local front, access to contractional savings through the two-pot retirement system, which came into effect in September, will provide an additional boost to spending, both directly and indirectly, as consumers use these funds to repay debt and restore their financial health. We expect the economy to grow by 0.6% qoq in Q4 and by 1% in 2024.

Additional gains will likely follow in 2025, with GDP growth forecast at 1.7% yoy. More meaningful progress is likely to be made on the structural front, given the GNU's promises to prioritise reforms and accelerate infrastructure investment, potentially underpinning further gains in business and investor confidence, which could also lift economic activity. In our view, structural gains will be slow to materialise, given the extent of the challenges and its persistently erosive impact on the country's international competitiveness. We expect cyclical forces to provide most of the momentum. Lower inflation and interest rates will spur global and domestic demand. The initial boost will come from lower inflation, easing the pressure on household budgets and lifting consumer spending. With a considerable lag, usually around 18 to 24 months, lower interest rates will eventually amplify the recovery. The most significant risk to the growth outlook stems from the likely changes to US economic policies under the incoming Trump administration. Tariffs will dampen global trade and economic growth. These policies will also be reflationary, likely resulting in structurally higher interest rates for longer and ultimately dampening economic activity.

The recovery in agriculture is likely to continue in Q4 2024 and 2025. Given higher prices, generally lower input costs and relatively favourable weather projections, farmers intend to plant more hectares for the 2024/25 summer season (up 0.8% yoy). Furthermore, the poultry and broader livestock industry are on the mend while consumer demand is recovering. Altogether, we expect value added by agriculture to grow by about 5% in 2025.

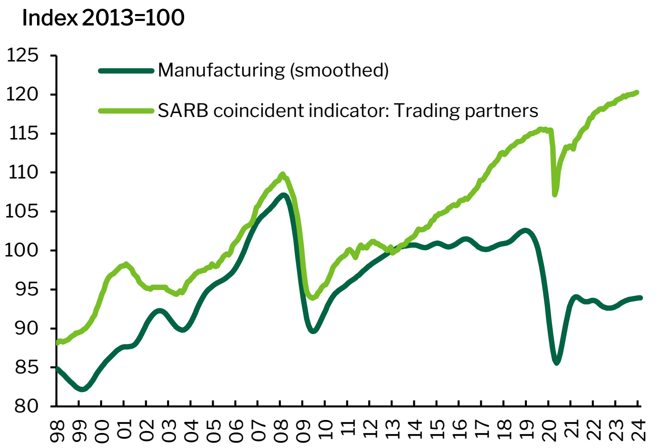
Despite recent improvements in SA's electricity and transport woes, revamping both networks will require extensive work. Until then, it will remain a binding constraint to mining and manufacturing production, capping the upside from cyclical upswings in domestic and global demand. The progressive decline in electricity production, which started around 2011, systematically eroded SA producers' international competitiveness, severely limiting these sectors' ability to exploit the global business cycle. Charts 5 and 6 show a structural break between SA's mining and manufacturing production and the business cycle in our main trading partners. Mining output started its sideways drift from 2011 onwards, while manufacturing followed in 2013. SA's fading competitiveness reflects the country's electricity woes, a rail network of which 42% is out of commission, ports ranked amongst the worst in the world, and high labour costs relative to productivity. On top of this, years of underinvestment. Even with expedited structural reforms, it will take time to reverse this pressure. Over the next three years, we see only moderate improvements in both sectors. In 2025, mining and manufacturing will likely rise by around 3.1% and 1.2% off the low bases established this year.

Chart 7: Mining diverged from the global cycle around 2011.



Source: Stats SA & SARB

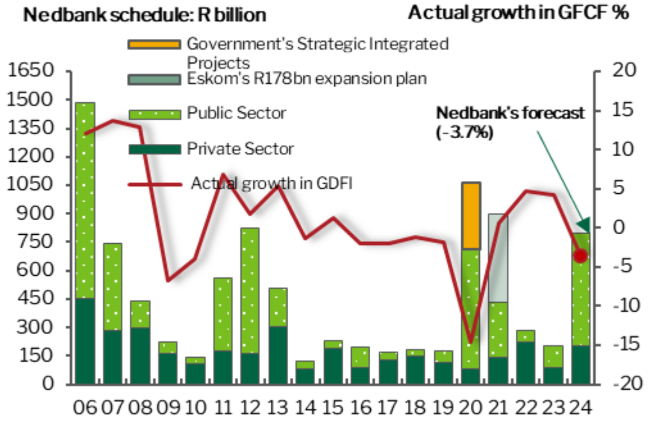
Chart 8: Manufacturing decoupled around 2013.



Source: Stats SA & SARB

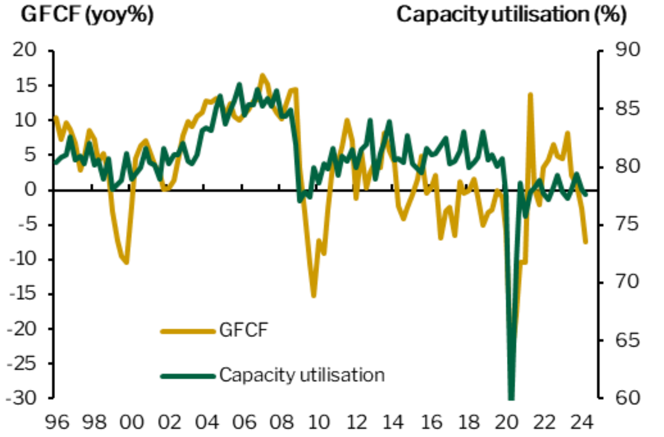
Construction is forecast to recover in 2025, supported by the anticipated upturn in fixed investment. The Nedbank Capital Expenditure Project Listing reflected a significant increase in the value of new projects announced in the first half of 2024, which should materialise from 2025 onwards. Fixed investment in renewable energy projects will likely remain robust in the years ahead. Still, these projects are low on construction content (bricks and mortar) and high on machinery and equipment. If the government follows through on its plans to invest R393 billion in bulk infrastructure, particularly transport, water, and sanitation, it will support the construction sector over the next three years. However, the government has a poor track record in delivering on infrastructure. We forecast growth in construction of about 1% in 2025.

Chart 9: Nedbank's CAPEX reflects an increase in planned projects but is likely to only materialise in 2025.



Source: FNB/BER

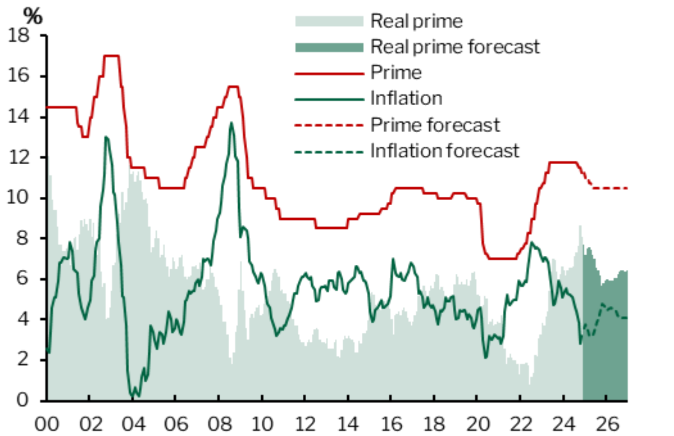
Chart 10: Capacity utilisation ticked up in Q3 but not enough to spur investment.



Source:

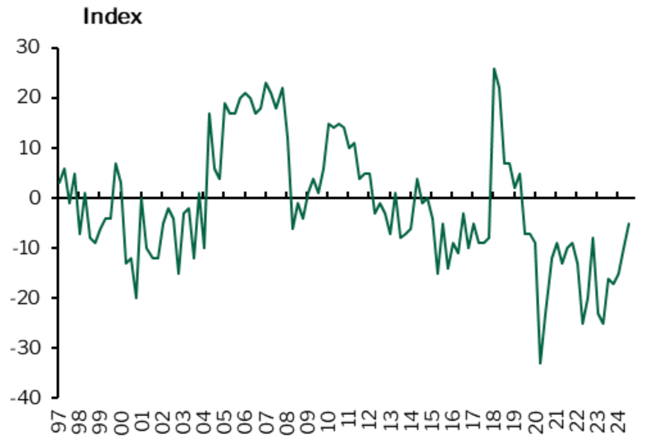
The recovery in domestic trade, accommodation, and catering is forecast to accelerate towards year-end and next year. The sector will benefit from the anticipated upturn in consumer spending as real incomes improve, inflation remains subdued, and interest rates come down more meaningfully. An additional boost will come from withdrawals of contractional savings through the two-pot retirement system. Households are expected to use contractional savings to increase spending directly and/or repay debt to restore financial health. Vehicle sales, on the other hand, will remain weak because of still elevated interest rates and consumers putting purchases off till the new year. Tourism and accommodation will remain robust, supported by increased international travel and tourism as global inflation and interest rates ease. Our quarterly forecast faces upside risks because the boost from withdrawals of contractional savings could be greater than we currently anticipate. Domestic trade is forecast to contract for the year by 1.3%, reflecting the cumulative effect of the 475-bps hike in interest rates. Domestic trade is only expected to gain meaningful momentum next year as interest rates decline more aggressively, debt service costs fall, and discretionary incomes recover. We expect growth of 1.3% in 2025.

Chart 11: The decline in inflation and the forecasted interest rates...



Source: Stats SA

Chart 12: ...should provide a lift to fragile consumer confidence.



Source: FNB/BER

Like tourism and hospitality, leisure and business travel are still normalising from the blow of strict lockdowns. Consequently, passenger transport should remain relatively robust. Freight transport will likely recover marginally as economic activity picks up. This, combined with continued strong demand for communications, should support growth in value added by transport and communications of around 0.3% in 2024 before improving to 0.7% in 2025.

Banking and real estate trading conditions should improve noticeably in the quarters ahead. Household credit demand is forecast to turn the corner in 2025 as real incomes increase and interest rates decline further, while corporate credit demand should benefit from firmer global and domestic economic activity and the gradual recovery in fixed investment. Value added by finance, real estate and business services are expected to grow by 3% in 2025.

In conclusion, we expect a moderate recovery over the next three years, with GDP growth averaging around 1.7%. Domestically and globally, falling inflation and lower interest rates will likely boost demand. However, much depends on the need for deep-seated reform in the energy and logistics space and the effect on global demand from Trump 2.0.

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