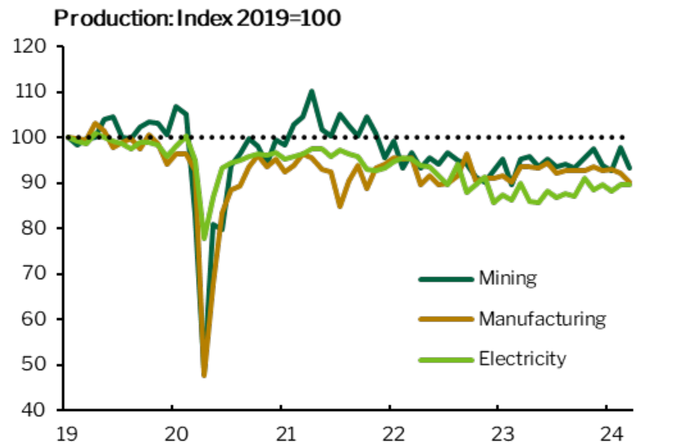
GDP Expectations

ECONOMICS | SOUTH AFRICA | INDUSTRIES

The economy made modest gains in Q4.

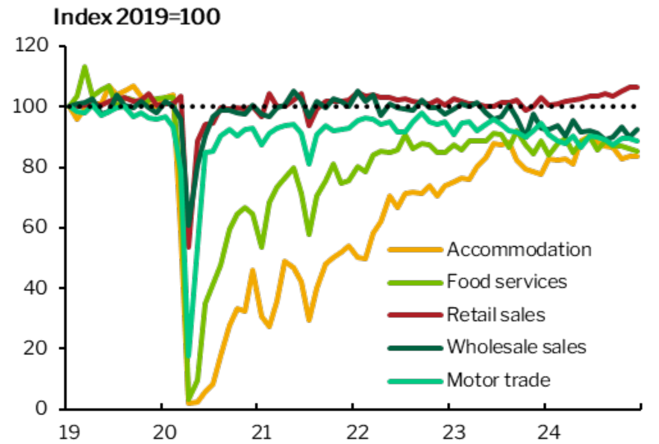
- High-frequency statistics reflect a modest recovery in economic activity over Q4, driven mainly by the services sector, propped up by stronger consumer demand. In contrast, the primary and secondary sectors relapsed, still held back by a difficult operating environment, aggravated by persistent inefficiencies in essential economic infrastructure. Barring any significant revisions to the Q3 numbers, real GDP is forecast to grow by 0.5% qoq in Q4, translating into growth of only 0.5% in 2024, down from an already weak 0.7% in 2023.
- Domestic trade, accommodation, and catering provided much of the momentum in Q4, supported by the ongoing recovery in consumer spending driven by rising real incomes, sharply lower inflation, and significant withdrawals from retirement funds through the new two-pot system. Wholesale, retail, and motor trade sales accelerated, but real income from accommodation and food services contracted. We expect only modest improvements in other services.
- Despite the absence of load-shedding, value added by mining and manufacturing contracted in Q4. The persistent weakness in these sectors suggests that the underlying operating environment remains challenging.
- We expect some acceleration in growth 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. Despite minor progress on the structural front, operating conditions remain challenging, and production costs high. The modest recovery in global demand will have minimal impact on output, given SA's elevated cost structures, underlying inefficiencies, and significant infrastructure constraints.
- 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.
- Overall, we expect growth of 1.4% in 2025 and 1.5% on average over the next three years. However, the heightened threat of a global trade war and the potential collapse of AGOA pose significant downside risks.

Chart 1: Producers struggled despite steady electricity.



Source: Stats SA & Nedbank calculations

Chart 2: Lower inflation boosted services.



Source: Stats SA & Nedbank calculations

Expected GDP outcomes in Q4 2024

The tertiary sector drove economic growth in Q4. Disinflation boosted real incomes and supported an upturn in consumer demand. This effect was amplified by the additional boost from withdrawals of contractional savings through the two-pot retirement system, which came in time to finance consumption expenditure over the festive season. While acknowledging the feat of 280 days with a consistent power supply (as of December 31, 2024), the primary and secondary sectors still struggled to lift production. The high-cost environment, which includes the spillovers of having had to respond to the energy crisis experienced in the previous year, together with struggles at the ports, the need to shift from rail to road, water insecurity, additional security measures, and escalating electricity tariffs; continued to weigh on output. Altogether, we forecast real GDP growth of about 0.5% qoq in Q4, better than -0.3% in Q3.

Agricultural output is volatile and difficult to track. Nonetheless, we expect value-added to expand by 0.4% qoq in Q4 after imploding by 28.8% in Q3. Off such a low base, the risks to our forecast probably reside on the upside. The outcome will vary across the sub-sectors. There were some positive developments in livestock, while horticulture suffered production declines. The 2024 summer and winter crops were lower than the previous season, but the outlook for the 2024-25 season is more optimistic. The National Crop Estimates Committee's (CEC) first production estimate shows that the summer grains and oilseeds harvest is up 11% from 2023/24, totalling 17.2 million tonnes. Maise production is projected to increase by 8% yoy, mainly due to increased white maise output (up an impressive 22% yoy). The CEC also projects higher output of sunflower seeds (↑14% yoy), groundnut (↑26% yoy), sorghum (↑32% yoy), and dry beans (↑50% yoy). Over the quarter, employment in the sector fell by 1% qoq, with notable losses in field crops, game, hunting, and forestry.

Table 1: Latest economic indicators.

	mom %			yoy %			Q4 2024		2024
	Oct-24	Nov-24	Dec-24	Oct-24	Nov-24	Dec-24	qoq %	yoy %	yoy %
Mining	-2.8	0.0	-3.9	1.1	-0.9	4.8	-0.4	-0.7	0.4
Manufacturing	1.3	-1.3	-2.4	1.8	-1.9	-1.2	-0.8	-0.4	-0.5
Electricity	-1.2	0.7	-1.4	2.7	6.6	3.2	-0.5	4.1	4.8
Buildings completed	-8.6	14.9	-2.2	-23.8	-14.1	-0.6	-2.6	-13.7	-14.2
Wholesale sales	3.6	-3.3	2.6	4.9	-7.0	0.9	2.0	-0.6	-5.2
Retail sales	1.7	1.0	-0.1	6.2	7.6	3.1	2.1	5.4	2.5
Vehicle sales (Stats SA)	2.4	0.0	-0.9	2.0	-2.4	-4.4	0.5	-1.6	-3.4
Accommodation income	-6.5	1.8	2.9	2.4	5.0	9.5	-5.9	-1.0	-1.6
Food services income	-0.2	-0.6	-1.0	-0.8	2.3	-4.0	-1.1	5.8	2.6
Freight transport	-2.5	1.4	-0.1	-10.3	-10.6	-7.6	-1.4	-9.6	-7.0
Passenger transport	4.0	-7.1	3.8	14.2	1.3	2.8	0.8	6.2	10.3
Real credit extended	-0.8	0.1	0.3	1.4	1.2	0.8	0.5	1.1	-0.4

Source: Stats SA

Electricity, gas, and water likely contracted by around 0.5.% qoq after rebounding by 1.6% in Q3. A decline in electricity production (↓0.5% 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% reduction in dispatchable generation, likely explained by the notable increase in planned maintenance (↑40% qoq) over the quarter. The decline in contracted demand (albeit by a smaller margin of 4%) probably accounts for the absence of load-shedding experienced.

High input costs in the face of subdued domestic and global demand explain why the absence of load-shedding did not translate into higher mining and manufacturing output over the quarter. Mining production contracted by 0.3% in Q4, reversing the 3.8% gain in Q3. Manganese ore, iron ore, and gold production suffered the most. Manganese ore made the largest dent, probably discouraged by the 18% qoq drop in the manganese price. While iron ore prices recovered in Q4, it was not enough to lift production, considering the drop in demand from the manufacturing sector. Manufacturing production declined by 0.8% despite the uptick in demand from China. The contraction was driven by a decline in basic iron and steel, non-ferrous metal products, and machinery, which fell by 2.7% qoq in Q4. The subsector subtracted 0.6 ppt off manufacturing output over the quarter.

The decline in iron ore, basic iron and steel, and non-ferrous metal products points to subdued activity in the construction sector and feeds into our expectation that construction activity likely fell by around 0.2% qoq, a reversal from growth of 1.1% in Q3. Our forecast is corroborated by the 2.6% qoq decline in the real value of buildings completed. Furthermore, the FNB/BER building confidence index remained unchanged at 40, indicating that most firms remain dissatisfied with prevailing business conditions.

Value added by domestic trade likely recovered, growing by around 1.4% qoq after contracting by 0.4% in Q3. Firmer consumer demand, boosted by increased purchasing power from much lower inflation and the two-pot withdrawals, supported the sector. Wholesale sales turned the corner, growing by 1% qoq in Q4 after contracting by 3.8% in Q3. Motor trade sales similarly recovered, expanding by 0.5% qoq. Improvements were recorded for sales of used and new vehicles and accessories. Retail sales grew by 2.1% qoq in Q4, driven by general dealers (↑ 2.9% qoq) and textiles, clothing, footwear, and leather goods (↑ 4.5% qoq). However, accommodation income weighed on the sector's performance, shrinking by 5.9% qoq. Real income from food and beverages also declined by 1.1% over the quarter.

The different modes of transport posted mixed results. The number of passenger rail journeys increased, but those by road were unchanged. Road and rail freight fell. Overall, our estimates suggest that transport, storage and communication improved by around 0.8% compared to the previous quarter. We forecast growth in value added by finance, real estate, and business services of around 0.4% in Q4 from 0.8% in Q3. Banking conditions moderated, driven by subdued demand for household and corporate credit. In real terms, credit extension grew by 0.5% 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	-4.8	-28.8	4.1	-16.3	Upside
Mining	7.3	-0.5	-1.7	-0.3	1.2	-0.4	0.2	Balanced
Manufacturing	12.0	0.3	-1.4	0.7	0.5	-0.8	-0.7	Balanced
Electricity, gas & water	2.9	-4.0	-0.4	3.1	1.6	-0.5	4.3	Balanced
Construction	2.2	-0.1	-3.1	0.5	1.1	-0.2	-5.0	Downside
Domestic trade	12.1	-1.8	0..3	1.0	-0.4	1.7	-1.2	Downside
Transport & communications	6.8	4.1	-0.5	-2.4	-1.6	0.5	-0.8	Upside
Finance, real estate & business services	21.2	1.6	0.2	1.5	1.3	0.4	3.3	Downside
General government	8.0	0.5	-0.1	0.2	-0.1	0.1	0.1	Upside
Personal services	14.6	1.8	0.1	0.2	0.5	0.7	2.1	Upside
Gross value added	89.6	0.7	0.0	0.4	-0.4	0.4	0.4	Upside
GDP	100.0	0.7	0.0	0.3	-0.3	0.5	0.5	Upside

Source: Stats SA & Nedbank forecasts

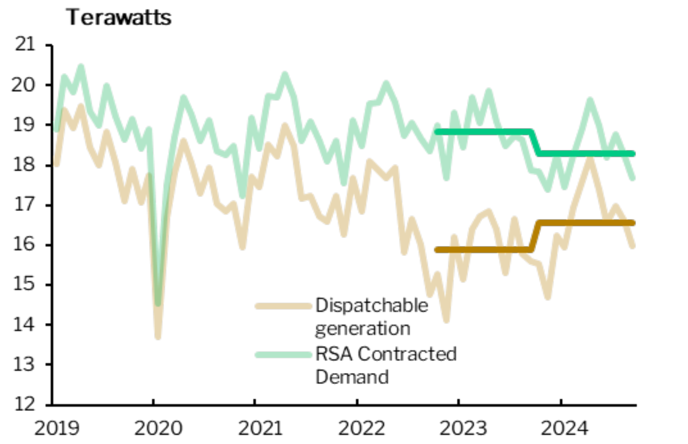
The medium-term outlook.

We expect the economy to recover in 2025. Our forecast is for growth of 1.4% yoy, averaging 1.6% 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.

2024 was a challenging year for agriculture, with the drought damaging the summer crops and farmers facing high feed costs while contending with animal diseases and port challenges. Horticulture, however, performed well. Our forecast is for the sector to have contracted by 16.3%. However, the overall performance could be better should there be a revision by Statistics SA to the Q3 contraction. According to Agribiz, the recovery in 2025 will be slow. Mixed weather conditions will have varying effects on field crops across the country, making production estimates tricky. The improvement in dam levels and promising market prices will aid the production of fruits and vegetables. Livestock will benefit from better grazing veld (thanks to the rains), the lifting of export bans, and recovering domestic demand. The wine industry also faces rosier production prospects after a few years of falling output and the lingering after-effects of the prohibition of sales of wine during the COVID-19 pandemic. However, the outlook faces downside risks because of threats associated with AGOA, fractured geopolitics, port inefficiencies, poor rail and road infrastructure, crime, stock theft, worsening municipal service delivery, and ultimately farm profitability. We forecast agriculture to contract by a more subdued 7.9% in 2025.

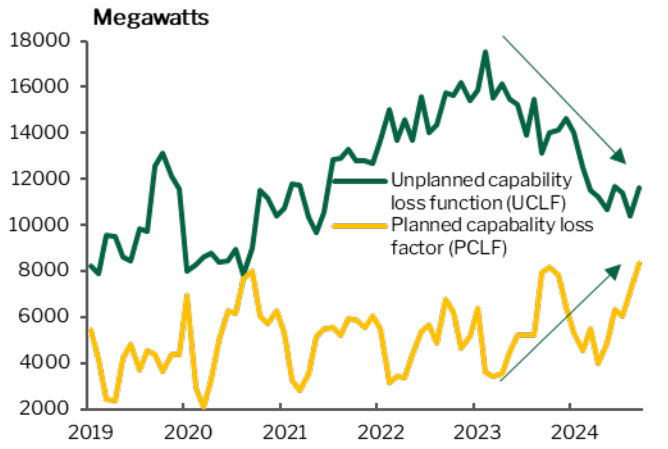
Despite the recent bout of stage 6 load-shedding, electricity is in a better place than in 2023 and early 2024. For the year, electricity generation increased by 4.3%, accompanied by a 2.8% decline in demand and an improvement in the energy availability factor from an average of 55 in 2023 to 60 in 2024. The country spent 9/12 months with a consistent power supply, while planned maintenance increased by 22%. Other positive developments included a drop in unplanned outages and reliance on the compensatory load. This spells progress in the face of a vulnerable electricity system. The bouts of load-shedding should thus not come as a surprise and should be anticipated while the country implements its energy action plan. We forecast that the electricity, gas, and water sector will grow 4.3% in 2024 after contracting in the previous two years. With water shedding becoming a reality, the expectation is for value added to soften to around 1.8% in 2025.

Chart 3: Electricity generation increased, and demand fell.



Source: Eskom

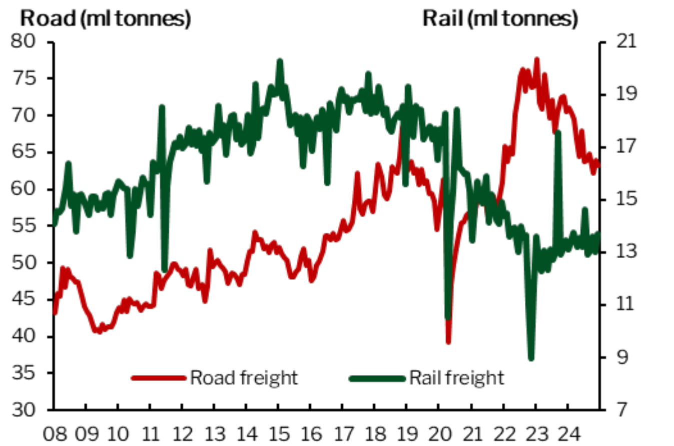
Chart 4: Eskom's UCLF dropped while PCLF rose



Source: Eskom

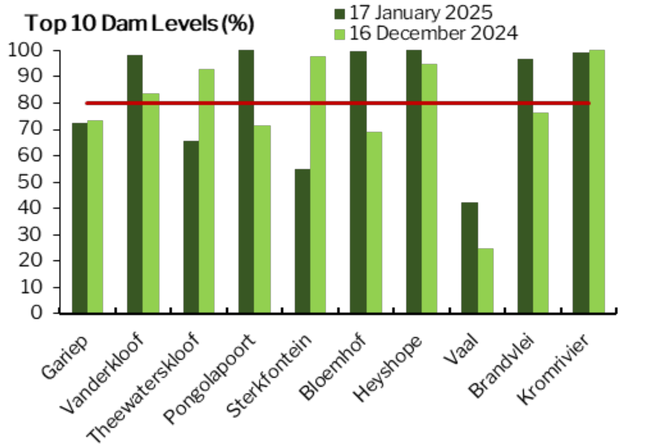
While mining improved by 0.2% yoy in 2024, manufacturing declined by 0.7%. We anticipate a 1.1% and 0.4% improvement in mining and manufacturing in 2025. Progress on the electricity front should help both sectors over the year, but inefficient logistics, failing municipal infrastructure and more frequent water outages undermine 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 for marginal increases in demand. Despite these challenges, firmer domestic demand, and continued albeit uninspiring global growth from lower inflation and interest rates in advanced countries and China's expansionary policies should facilitate a marginal increase in output across the sector in 2025. The heightened threat of a global trade war and the potential collapse of AGOA pose significant downside risks. 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. This, combined with a weak rand, helped to restore price competitiveness in the face of high domestic production costs.

Chart 5: Roads remain the main means of moving freight.



Source: Stats SA

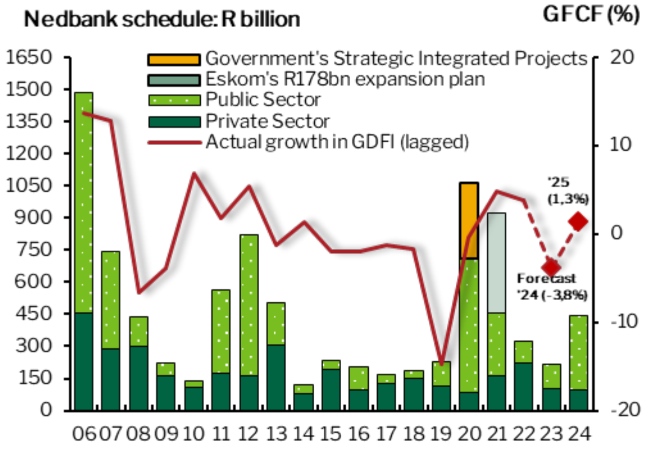
Chart 6: Dam levels recovered noticeably



Source: Department of water & sanitation

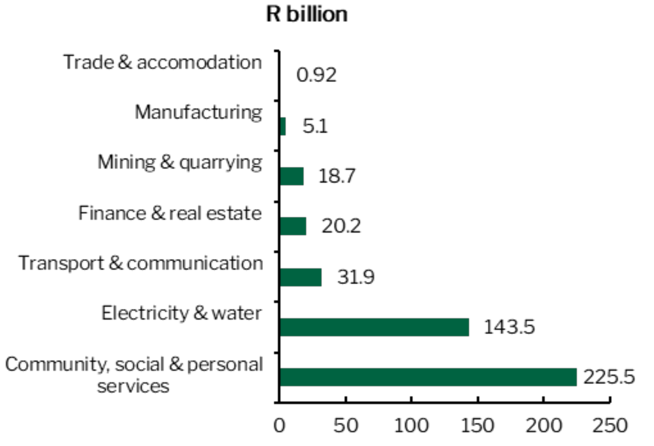
Construction is forecast to recover in 2025, supported by the anticipated upturn in fixed investment. The Nedbank Capital Expenditure Project Listing reflected a significant increase in the value of new projects announced in 2024, which should materialise from 2025 onwards. These projects are geared toward bulk infrastructure development, such as housing, transport, water, and sanitation. Should the government follow through on its plans, it will support the construction sector over the next three to five years. However, the government has a poor track record in delivering on project plans. While fixed investment in renewable energy projects will likely remain robust in the years ahead, these projects are low on construction content (bricks and mortar) and high on machinery and equipment. We forecast growth in construction of about 1% in 2025.

Chart 7: Nedbank's CAPEX reflects an increase in planned projects likely to materialise in 2025.



Source: FNB/BER

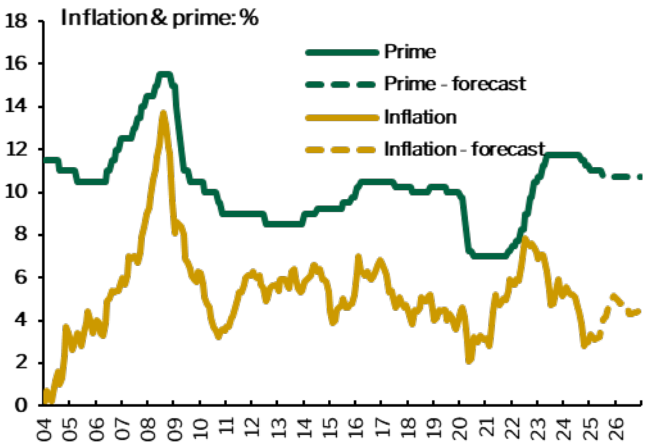
Chart 8: Projects are geared toward bulk infrastructure development.



Source: Nedbank

Domestic trade, accommodation, and catering will likely fall 1.2% in 2024. The benefits from lower inflation and improved real incomes only started filtering through more broadly in Q4. Despite the 75-basis point drop in the repo rate, interest rates remain elevated and, in light of the transmission lag, failed to lift consumer demand adequately. This was also reflected in incomes from accommodation and food and beverages. Domestic trade is, however, expected to gain meaningful momentum in 2025 as interest rates decline further, debt service costs fall, and discretionary incomes recover. We expect growth of 2.5% in 2025.

Chart 9: Inflation and interest rate forecasts



Source: SARB & Nedbank

Chart 10: Recent trends in consumer spending.

Source: Stats SA

Like tourism and hospitality, the normalisation in leisure and business travel is still normalising to pre-Covid levels. The recovery has, however, been slow, and the pace is likely to continue. Passenger transport should consequently follow suit. Freight transport will probably recover marginally as economic activity picks up. Although the demand for communications will remain elevated, it will unlikely increase much. Value added by **transport and communications** is thus expected to remain unchanged in 2025.

Banking and real estate trading conditions should improve noticeably in the year ahead. Household credit demand is forecast to turn the corner in 2025 as real incomes increase and interest rates decline by a further 25 bps, 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** is expected to grow by 2.6% in 2025.

In conclusion, we expect a moderate recovery over the next three years, with GDP growth averaging around 1.5%. 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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