Gross Domestic Product

ECONOMICS | South Africa

NEDBANK

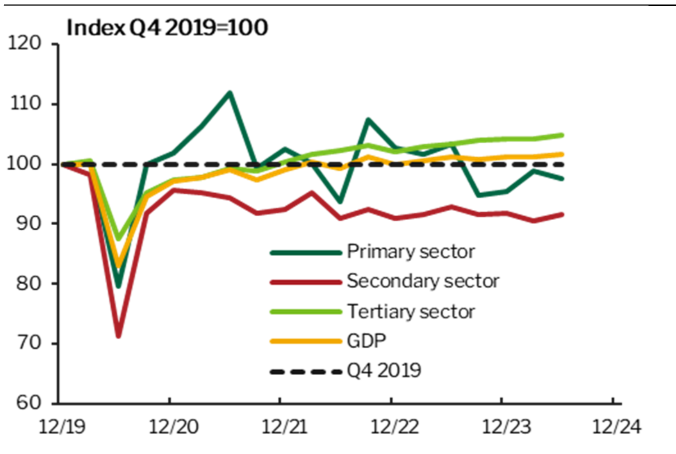
As widely expected, the economy recovered off a low base.

- Direction: Real GDP expanded by 0.4% qoq in Q2, matching our expectations but falling slightly short of the market's forecast of 0.5%. Compared with the same quarter a year ago, the economy grew by 0.3%, slightly down from 0.5% in Q1.
- The industry breakdown: The boost came from recoveries in finance, domestic trade, government and personal services, driven by renewed domestic spending as lower inflation lifted confidence, households' purchasing power, and real incomes. The improvements in electricity supply also facilitated a turnaround in manufacturing. In contrast, value added by mining declined further, albeit at a slower rate. Adverse weather conditions and animal diseases hurt agriculture, while transport and communications contracted sharply,
- The expenditure breakdown: Expenditure on GDP grew by 0.5% qoq in Q2, following an upwardly revised 0.1% contraction (previously -0.2%) in Q1. Gross domestic expenditure (GDE) did the heavy lifting, driven by a recovery in household consumption expenditure (HCE), faster growth in government consumption expenditure (GCE) and inventory accumulation. In contrast, fixed investment contracted further. At the same time, the country's net export position deteriorated, as exports declined while imports rose.
- The outlook: As expected, today's GDP outcomes suggest that the worst of the downturn is probably behind us. We expect the recovery to gain moderate traction over the final stretch of the year before strengthening and broadening throughout 2025 and 2026. The boost will likely come from continued improvements in consumer demand as inflation falls further and interest rates start to decline, bolstering real incomes and lowering borrowing costs. An added boost could also come from households' access to contractional savings enabled by the two-pot retirement system. However, slower growth in government spending and weak fixed investment will likely contain the boost provided by more robust consumer spending to GDP during the remainder of the year. Altogether, we still forecast GDP growth of around 0.9% in 2024.

Table 1: Key growth rates.

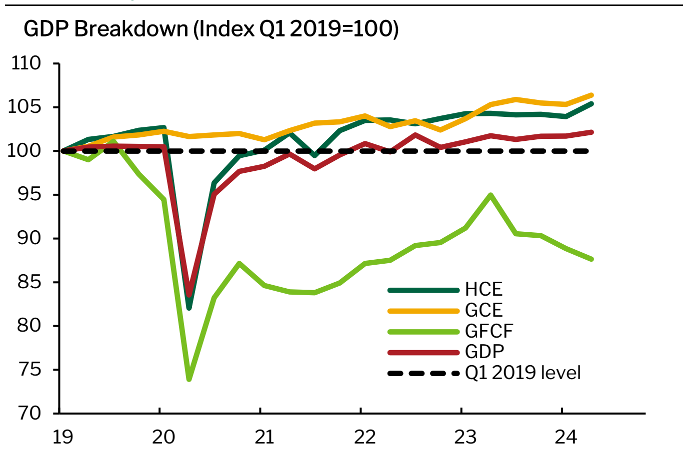
		Q2 2024	Q1 2024	Nedbank forecast	Market forecast
Real GDP	qoq %	0.4%	0.0	0.4	0.5
	yoy %	0.3%	0.5	0.3	0.4

Chart 1: Sector breakdown of GDP.



Source: Stats SA and Nedbank calculations

Chart 2: Expenditure breakdown of GDP.



Source: Stats SA and Nedbank calculations

Industry Breakdown of GDP

The economy fared better in Q2 than in Q1, with real GDP expanding by 0.4% qoq, after recording no growth in Q1. The outcome aligned with our forecast but fell short of the market's forecast of 0.5%. On a yoy basis, the economy grew by 0.3%, slightly down from 0.5% in the previous quarter. Negative contributions came from agriculture, mining, and transport, particularly freight. The absence of load-shedding supported manufacturing but had little impact on mining, where output and value added contracted further, albeit at a slower pace. Lower inflation, especially on essentials such as food and fuel, supported consumers' purchasing power and real incomes, offsetting the ongoing squeeze from high interest rates. As a result, services increased over the quarter.

Table 2: Sector breakdown of GDP.

Industries	% of total	Quarterly						Annual	
		qoq %			yoy%			yoy%	
	2023	2023	2024		2023	2024			YTD
		Q4	Q1	Q2	Q4	Q1	Q2	2023	2024
Agriculture	2.6	-2.4	13.5	-2.1	-21.4	-3.8	-14.4	-4.8	-10.1
Mining	6.3	2.6	-1.7	-0.8	3.4	0.6	-0.6	-0.5	-0.1
Manufacturing	13.0	0.3	-1.4	1.1	2.0	-0.4	-0.9	0.3	-0.7
Power & water	3.1	2.3	-0.4	3.1	0.8	1.6	5.1	-4.0	3.4
Construction	2.2	-1.5	-3.1	0.5	-4.5	-8.7	-6.9	-0.1	-7.8
Trade & accomm.	12.5	-2.8	0.3	1.2	-2.4	-2.8	-2.2	-1.8	-2.5
Transport & comm.	7.0	3.1	-0.5	-2.2	3.9	1.4	0.6	4.1	1.0
Finance	21.0	0.8	0.2	1.3	3.1	2.5	3.3	1.6	2.9
General government	7.8	-0.5	-0.1	0.5	0.8	0.4	1.3	0.5	0.8
Personal services	14.3	0.9	0.1	0.2	3.7	2.4	2.2	1.8	2.3
Value added	89.8	0.3	0.0	0.5	1.4	0.5	0.3	0.7	0.4
GDP	100.0	0.3	0.0	0.4	1.4	0.5	0.3	0.7	0.4

Source: Stats SA

Gross value added (GVA) by agriculture, forestry, and fishing contracted by 2.1%, following a 13.5% expansion in the previous quarter. The decline is due to the effect of unfavourable weather conditions on field crops and the impact of animal diseases on animal products. The weakness in agriculture shaved 0.1% percentage points (ppts) off GDP growth. Value added by the mining sector declined 0.8%, while manufacturing grew by 1.1%. In mining, the drag came from iron ore, coal, diamonds, and gold. Six of the ten sub-sectors reported growth in manufacturing, with motor vehicles, parts and accessories, and other transport equipment, as well as food and beverages, and basic iron and steel, non-ferrous metals, metals, and machinery outperforming the rest. Electricity, gas, and water grew by 3.1% due to improved electricity production and higher water consumption. There was a turnaround in the construction industry as outlays on residential and non-residential buildings increased off a shallow base.

The services industry expanded by 0.5% over Q2, compared to negligible growth in the previous quarter. Contractions in transport, storage and communication were offset by faster growth in the other four industries. Trade, catering, and accommodation were up by 1.2% qoq, supported by wholesale, retail and accommodation, which benefitted from increased consumer spending as real household incomes recovered amid lower inflation. Finance, real estate, and business services grew by 1.3% qoq, driven by stronger growth in all sub-industries. General government services increased by 0.5%, probably boosted by the elections. Stats SA ascribed the acceleration to higher employment by national and provincial governments as well as extra-budgetary institutions. Finally, the value added by personal services increased by 0.2%, with some buoyancy provided by health and education. In sharp contrast, transport, storage, and communications contracted by 2.2% due to poor performances in land transport and transport support services.

Expenditure breakdown of GDP

Expenditure on GDP rebounded, growing by 0.5% qoq in Q2 following a revised 0.1% contraction (previously -0.2%) in Q1. The momentum came from gross domestic expenditure (GDE), which offset a renewed deterioration in the country's net export position.

A recovery in household consumption expenditure (HCE), faster growth in government consumption expenditure (GCE) and inventory accumulation drove GDE. These factors compensated for a further contraction in fixed investment. The drag from the negative net export position worsened as exports declined while imports rose.

Table 3: Expenditure breakdown of GDP

	qoq% Δ				yoy%Δ				Annual	
	2023		2024		2023		2024		2023	YTD
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2		2024
Household consumption expenditure (HCE)	-0.2	0.1	-0.2	1.4	1.0	0.6	-0.3	0.9	0.7	0.3
Government consumption expenditure (GCE)	0.5	-0.4	-0.2	1.0	2.2	3.2	1.5	1.2	1.9	1.4
Gross fixed capital formation (GFCF)	-4.7	-0.2	-1.7	-1.4	2.1	0.8	-2.6	-7.4	3.9	-5.0
Change in inventories (R bn)	-45.7	19.4	3.8	9.6	2.7	-5.7	-10.3	10.1	26.0	-0.3
Gross domestic expenditure (GDE)	-3.3	1.3	-0.8	1.1	-1.6	0.3	-1.4	-1.7	0.8	-1.5
Exports	0.9	0.5	-2.9	-0.4	2.9	5.9	-1.4	-1.7	3.7	-1.6
Imports	-8.8	4.0	-5.0	1.7	-2.3	2.4	-6.9	-8.5	3.9	-7.7
Expenditure on GDP	-0.3	0.3	-0.1	0.5	-0.2	1.2	0.3	0.4	0.7	0.4

Source: Stats SA

HCE grew by 1.4% qoq, its fastest pace since Q4 2021, after contracting by 0.2% in Q1. Household finances benefited from easing inflation, which boosted real disposable income. Even so, spending was kept in check by elevated debt service costs and fragile consumer confidence, mainly weighed down by job losses and concerns about job security. The recovery was broad-based, amplified by the previous quarter's low base. Spending on non-durable goods grew by 0.7% qoq, driven by increased outlays on food and beverages as food prices moderated. These outweighed reduced spending on housing, water, electricity, gas and other fuels, which reflected the impact of restrictive interest rates and sharply higher tariffs. Spending on semi-durable goods rose by 1.7%, recovering from a 4.2% drop in Q1. Consumers brought more clothing and footwear, which grew by 3.2% after a sharp 7% drop. Durables goods also fared better, posting slightly faster growth of 0.9%. Spending on services increased by 1.8% due to higher outlays on health, transport, and communication services, as well as on recreation and culture and restaurant and hotel activities.

Table 4: Breakdown of consumer spending.

	qoq% Δ				yoy%Δ				Annual	
	2023		2024		2023		2024		2023	YTD
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2		2024
Durables	-0.3	2.4	0.4	0.9	-1.2	-0.3	1.2	3.1	0.6	2.1
Semi-durables	1.3	3.5	-4.2	1.7	6.3	3.7	-2.9	1.8	3.5	-0.5
Non-durables	-0.7	-1.6	1.4	0.7	-2.2	-2.1	-1.0	-0.3	-2.4	-0.6
Services	-0.1	-0.1	-0.6	1.8	2.5	1.8	0.2	1.0	2.1	0.6
Total	-0.2	0.1	-0.2	1.4	1.0	0.6	-0.3	0.9	0.7	0.3

Source: Stats SA

Gross fixed capital formation (GFCF) contracted for the fifth consecutive quarter, down by 1.4% qoq in Q2. The weakness was widespread. The private sector trimmed capital expenditure by 1.3% qoq and 7.4% yoy, weighed down by generally subdued demand conditions, considerable political uncertainties and continued structural challenges in logistics. Capital expenditure by public corporations declined by 1.5% after two consecutive quarters of robust growth, while fixed investment by the government contracted by 1.5%.

The breakdown of capital expenditure by type of asset reflected sharp contractions in outlays on other assets (-8.4% qoq) and construction works (-3.7%). Construction fell for the sixth consecutive quarter, driven by the falloff in infrastructure spending by government. Outlays on transport equipment and machinery and other equipment (including computers) also fell further, probably due to less investment in alternative energy sources by the private sector and households as load-shedding subsided. Encouragingly, outlays on residential buildings rebounded by a robust 5.1% qoq after six quarters of sharp contractions. Fixed investment in non-residential buildings also remained firm, up 3.2% from 2.8%.

Table 5: Breakdown of gross fixed capital formation.

	qoq% Δ				yoy%Δ				Annual	
	2023		2024		2023		2024		2023	YTD
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2		2024
By asset:										
Residential buildings	-4.2	-3.8	-4.3	5.1	-11.9	-14.8	-16.0	-7.3	-7.1	-11.9
Non-residential buildings	-4.0	-5.5	2.8	3.2	-5.2	-18.6	-14.5	-3.7	-1.5	-9.4
Construction works	-3.3	-0.7	-2.7	-3.7	-4.4	-5.5	-7.9	-9.9	-1.7	-8.9
Transport equipment	-3.3	0.2	-2.9	-1.8	7.8	-7.7	-9.1	-6.8	8.1	-8.0
Machinery & equipment	-4.7	-1.1	-1.0	-1.2	12.5	11.7	6.9	-7.3	10.4	-0.5
Other assets	-10.3	12.6	-1.8	-8.4	-7.2	19.2	2.3	-9.5	3.9	-3.7
By institution:										
Government	-1.3	-7.3	2.0	-1.5	5.9	-7.6	-8.6	-8.2	3.9	-8.4
Public corporations	-7.1	4.2	2.5	-1.5	4.2	9.2	2.9	-2.5	9.9	0.1
Private sector	-5.1	0.9	-3.1	-1.3	1.0	1.8	-1.8	-8.0	3.0	-4.9
GFCF	-4.7	-0.2	-1.7	-1.4	2.1	0.8	-2.6	-7.4	3.9	-5.0

Source: Stats SA

Government consumption expenditure (GCE) accelerated by 1% qoq after two quarters of decline. Purchases of goods and services and compensation of employees increased over the quarter.

Inventory accumulation increased to R9.6 billion in Q2 from R3.8 billion in Q1. Over the quarter, the inventory buildup occurred in trade, catering and accommodation, manufacturing and finance, real estate and business services.

The negative net export position deepened, amounting to -R69.4 billion from -R42.3 billion. Exports contracted by 0.4%, while imports rose by 1.7%. Exports of vegetable products, minerals, transport equipment, and base metals declined. Meanwhile, imports of transport equipment, vegetable products, minerals and textiles increased.

Outlook

Today's numbers confirm that the worst of the economic downturn is probably behind us. We expect the recovery to gain moderate traction over the final stretch of the year before strengthening and broadening throughout 2025 and 2026. The boost will likely come from continued improvements in consumer demand as inflation falls further and interest rates start to decline, bolstering real incomes and lowering borrowing costs. Households are also widely expected to take advantage of the new pot-retirement system, which allows them to access a portion of their contractional savings. Many analysts expect these funds to supercharge the evolving recovery in consumer spending. While some of these funds will likely be diverted to spending, a significant share will be used to repay debt and restore financial health. Nonetheless, we expect the recovery in consumer spending to gather pace, supporting the broader services sector.

With the general election out of the way, the government will likely curtail spending more aggressively in the quarters ahead to meet its deficit and debt reduction targets. Therefore, we foresee slower growth in government spending in the second half of the year. The drag from weak fixed investment activity will persist for longer. Given subdued global demand, lower commodity prices and ample spare capacity in most industries, private firms are unlikely to expand operations until the economic recovery gains sufficient momentum to place some pressure on existing capacity. On top of these considerations, the energy and logistics disruptions of the past two years have reduced sales and inflated operating costs, eroding profitability in most industries. At this point in the cycle, the private sector is more likely to focus on restoring profitability through cutting costs and extracting efficiencies than embarking on major expansionary projects. Fixed investment is expected to turn the corner early next year, driven by a revival in renewable energy projects, a more supportive international and domestic business cycle, and further improvements in structural reforms. Net exports will remain negative, constraining GDP growth. Exporters will struggle to lift volumes substantially as logistics have not improved sufficiently to handle a significant surge in cargo. At the same time, imports will likely be propped up by the recovery in consumer demand, although the upside will be limited by weak fixed investment. Altogether, we still forecast GDP growth of around 0.9% in 2024, followed by faster growth of 1.5% and 1.6% in 2025 and 2026, respectively.

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