Gross Domestic Product

ECONOMICS | South Africa

NEDBANK

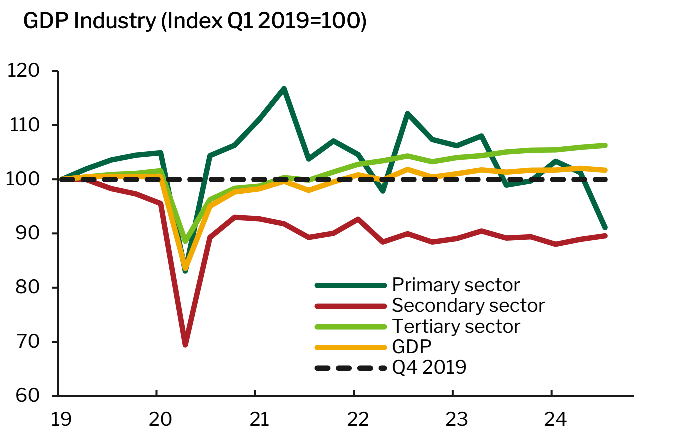
Gloomy agriculture derails the recovery.

- **Direction:** Real GDP contracted by 03% qoq in Q3, dropping below our and market expectations of 0.5%. Compared with the same quarter a year ago, the economy grew by 0.3%, the same as in Q2.
- **The industry breakdown:** The persistent absence of load-shedding and other logistical advances supported mining and manufacturing production. Weak crop outcomes and lingering diseases in the livestock industry offset better conditions for livestock, resulting in a 28.8% drop in agriculture, which shaved 0.7 percentage points (ppts) off the quarterly change in GDP. Domestic trade contracted, hurt by sharp declines in wholesale sales, continued weakness in the motor trade, and reduced spending on food and beverage services. Transport, storage and communications contracted due to decreased activity for land transport and transport services. Finance, real estate, and business services held steady, underpinned by moderate growth in transactional and corporate demand for credit and a slow recovery in commercial property.
- **The expenditure breakdown:** Expenditure on GDP declined by 0.2% qoq in Q2, following a downwardly revised 0.4% growth (previously 0.5%) in Q2. Gross domestic expenditure (GDE) declined, dragged down by a contraction in government consumption expenditure (GCE) and inventory depletion. These outweighed the effect of growth in household consumption expenditure (HCE) and fixed investment. The drag from net exports eased as imports fell by more than exports.
- **The outlook:** Today's GDP outcome suggests that the economy is not entirely out of the woods yet. On the upside, the most significant weakness came from agriculture. Excluding agriculture, the economy grew by 0.4% qoq. Consequently, we still expect the economy to recover in Q4 before strengthening and broadening throughout 2025. The boost will likely come from continued improvements in consumer demand as inflation remains subdued and interest rates start to decline more meaningfully, 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 government spending, a modest fixed investment recovery, and the persistent drag from net exports will likely contain the boost from more robust consumer spending to GDP over Q4. Altogether, we forecast GDP growth of around 0.5% in 2024 and 1.5% in 2025.

Table 1: Key growth rates.

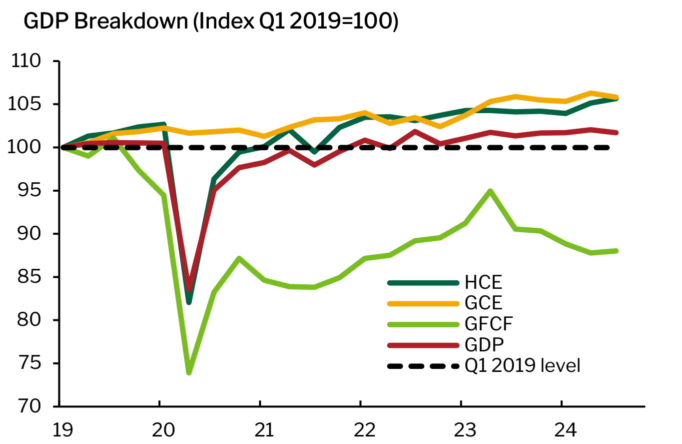
		Q3 2024	Q2 2024	Nedbank forecast	Market forecast
Real GDP	qoq %	-0.3	0.3	0.5	0.5
	yoy %	0.3	0.5	1.3	1.2

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 much worse than expected, with real GDP contracting by 0.3% qoq in Q3 after recording growth of 0.3% in Q2. The outcome fell short of our and the market's forecast of 0.5%. On a yoy basis, the economy grew by 0.3%, the same as in the previous quarter. Negative contributions came from agriculture, trade, transport, and general government. The absence of load-shedding resulted in a recovery in mining, while its impact on manufacturing was more subdued. Lower inflation, especially on essentials such as food and fuel, supported retail trade, but the ongoing squeeze from high interest rates and its effect on consumers' purchasing power and real incomes weighed on wholesale sales, motor trade, and food and beverages services. As a result, services decreased over the quarter. Finance, real estate and business services contributed positively to GDP, reflecting increased economic activity across all subsectors.

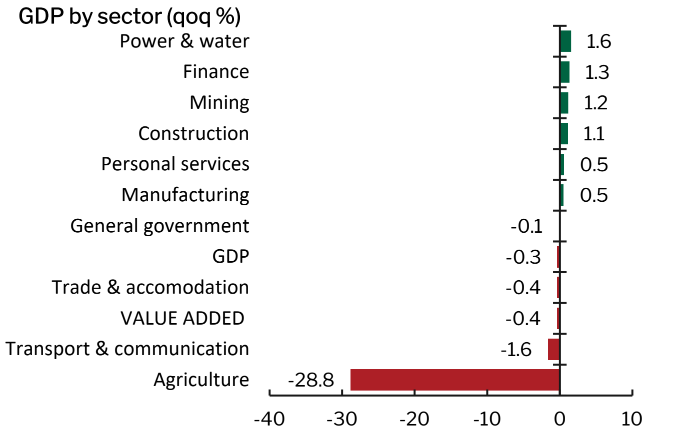
Table 2: Sector breakdown of GDP.

Industries	Quarterly (qoq %)			Quarterly (yoy%)			Annual		% of total
	Q1 24	Q2 24	Q3 24	Q1 24	Q2 24	Q3 24	2022	2023	2023
Agriculture	13.5	-4.8	-28.8	-3.8	-15.1	-29.6	2.0	-4.8	2.5
Mining	-1.7	-0.3	1.2	0.6	-0.2	1.4	-7.3	-0.5	6.3
Manufacturing	-1.4	0.7	0.5	-0.4	-1.4	0.8	-0.4	0.3	12.9
Power & water	-0.4	3.1	1.6	1.6	5.1	6.2	-2.9	-4.0	3.1
Construction	-3.1	0.5	1.1	-8.7	-6.9	-2.9	-3.2	-0.1	2.2
Trade & accommodation	0.3	1.0	-0.4	-2.8	-2.4	-1.9	3.4	-1.8	12.6
Transport & communication	-0.5	-2.4	-1.6	1.4	0.6	-1.7	8.6	4.1	7.0
Finance	0.2	1.5	1.3	2.5	3.6	3.9	3.3	1.6	21.0
General government	-0.1	0.2	-0.1	0.4	1.4	0.1	0.4	0.5	7.9
Personal services	0.1	0.2	0.5	2.4	2.2	1.4	2.5	1.8	14.5
VALUE ADDED	0.0	0.4	-0.4	0.5	0.3	0.3	1.9	0.7	90.1
GDP	**0.0**	**0.3**	**-0.3**	**0.5**	**0.3**	**0.3**	**1.9**	**0.7**	**100.0**

Source: Stats SA

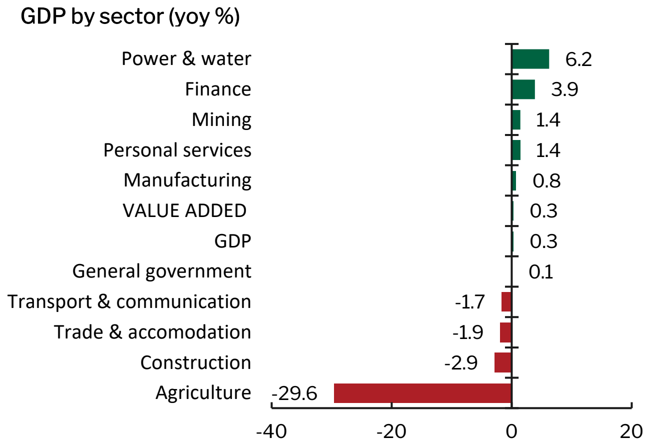
The contraction in gross value added (GVA) by agriculture, forestry, and fishing deepened to 28.8% qoq. The implosion reflects the effect of unfavourable weather conditions on field crops and lingering diseases in the livestock industry. The weakness in agriculture shaved 0.7 percentage points (ppts) off the quarterly change in GDP. Value added by the mining sector rebounded (up 1.2%) from its contraction in Q2, while manufacturing grew by a more subdued 0.5%. In mining, the recovery was driven by manganese and chromium ore. Only three of the ten sub-sectors reported growth in manufacturing, with basic iron and steel, non-ferrous metals, metals, and machinery outperforming the rest. Electricity, gas, and water grew by 1.6% due to improved electricity production. The turnaround in the construction industry continued into Q3 as construction works and outlays on residential and non-residential buildings increased.

Chart 3: Agriculture explains the weak GDP outcome.



Source: Stats SA and Nedbank calculations

Chart 4: A similar picture emerges relative to a year ago.



Source: Stats SA and Nedbank calculations

The services industry expanded by 0.3% over Q3, compared to growth of 0.5% in the previous quarter. Performances were mixed within the subsectors. Contractions in trade, catering and accommodation, transport, storage and communication as well as government services, were offset by faster growth in finance and personal services. Trade, catering, and accommodation shrunk by 0.4% qoq, weighed down by wholesale sales, motor trade and food and beverages, which buckled under the pressure of elevated interest rates and its effect on household incomes. Transport, storage and communications contracted by 1.6% due to poor performances in land transport and support services. General government services declined by 0.1% due to decreased employment in national and provincial governments and extra-budgetary institutions. Finance, real estate, and business services grew by 1.3% qoq, driven by stronger growth in all sub-industries. Finally, the value added by personal services increased by 0.5%, with some buoyancy provided by health and education.

Expenditure breakdown of GDP

Expenditure on GDP relapsed in Q3, contracting by 0.2% qoq, following 0.4% growth in Q2. Gross domestic expenditure (GDE) shrunk by 0.3%, while the drag from net export position eased somewhat. On the expenditure side, the weakness stemmed from cutbacks to government spending and inventory depletion, which offset the ongoing recovery in household consumption expenditure (HCE) and an encouraging upturn in gross fixed capital formation (GFCF).

Table 3: Expenditure breakdown of GDP

	Qoq %				Yoy %			Annual	
	2023	2024			2024				YTD
Expenditure	Q3	Q1	Q2	Q3	Q1	Q2	Q3	2023	2024
Household consumption expenditure	-0.2	-0.2	1.2	0.5	-0.3	0.6	1.4	0.7	0.6
Government consumption expenditure	0.5	-0.2	0.9	-0.5	1.5	1.2	-0.2	1.9	0.8
Fixed capital formation	-4.7	-1.7	-1.2	0.3	-2.6	-7.3	-3.2	3.9	-4.4
Change in inventories (R'bn)	-45.7	3.8	19.0	-6.6	-10.3	12.4	12.5	26.0	
Gross domestic expenditure (gde)	-3.3	-0.8	1.1	-0.3	-1.4	-1.7	1.2	0.8	-0.6
Exports	0.9	-2.9	-0.7	-3.7	-1.4	-2.1	-6.9	3.7	-3.6
Imports	-8.8	-5.0	1.7	-3.9	-6.9	-8.5	-3.8	3.9	-6.4
Net exports (R'bn)	-27.1	-42.3	-73.8	-68.3	-20.3	-11.3	-15.4	-93.3	
Expenditure on GDP	-0.3	-0.1	0.4	-0.2	0.5	0.3	0.3	0.7	0.3

Source: Stats SA

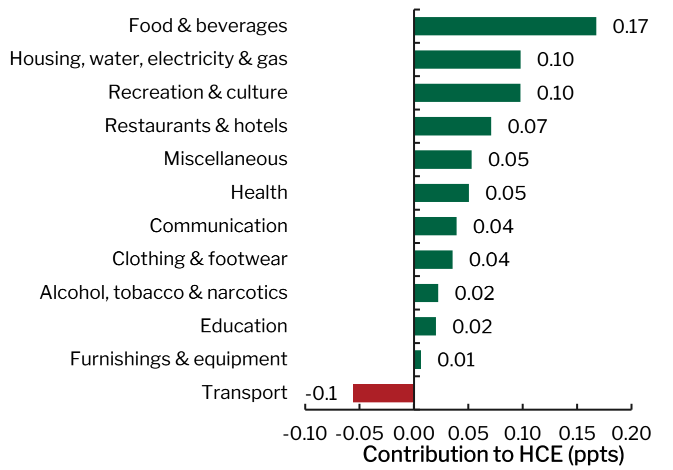
HCE grew by 0.5% qoq in Q3, slowing from 1.2% in Q2. Spending benefited from a boost in disposable income due to lower inflation and employment growth. However, the upside was still contained by the impact of elevated debt service costs due to high interest rates. Consumer confidence also remained fragile on concerns about job security. As a result, households were cautious about spending. The moderation in spending was broad-based, amplified by the previous quarter's high base. Households continued to prioritise spending on essential goods and services, while outlays on non-durable goods grew at a steady pace. Spending was mainly directed to food, housing, water, electricity, gas and other fuels. Growth in spending on durables and semi-durables slowed over the quarter. Within durable goods, the drag came from reduced outlays on new vehicles as the impact of higher interest rates continued to bite. Within semi-durable goods, consumers spent less on clothing and footwear. Spending on services also eased due to lower outlays on transport, health, education, and communication services. However, spending on recreation and culture, as well as restaurant and hotels increased somewhat. For the year to date, HCE grew by 0.1% compared with the same period last year.

Table 4: Breakdown of consumer spending.

	Qoq % Δ				Yoy % Δ			Annual	
	2023	2024			2024				YTD
Category	Q3	Q1	Q2	Q3	Q1	Q2	Q3	2023	2024
Durable goods	-0.3	0.4	1.0	0.2	1.2	3.1	4.1	0.6	2.1
Semi-durable goods	1.3	-4.2	1.8	0.5	-2.9	1.9	1.1	3.5	-0.4
Non-durable goods	-0.7	1.4	0.9	0.9	-1.0	-0.3	1.6	-2.4	-0.6
Services	-0.1	-0.6	1.3	0.3	0.2	0.3	0.8	2.1	0.3
Total	-0.2	-0.2	1.2	0.5	-0.3	0.6	1.4	0.7	0.1

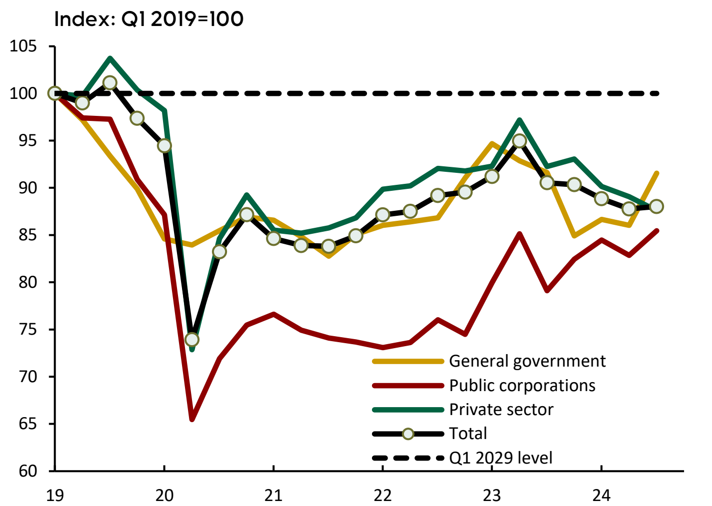
Source: Stats SA

Chart 5: Drivers of spending (ppts contribution)



Source: Stats SA and Nedbank calculations

Chart 6: Fixed investment by institution.



Source: Stats SA and Nedbank calculations

Gross fixed capital formation (GFCF) rebounded in Q3, growing by 0.3% after shrinking for four consecutive quarters. The increase was driven by higher outlays by the general government and public corporations, which grew by 6.4% and 3.1%, respectively. The private sector remained cautious about expanding capacity despite easing structural constraints. Companies are still recovering from last year's disruptions when profits came under pressure from severe load-shedding. Private sector capital expenditure fell by a deeper 1.7% qoq, after shrinking by 1.2% in Q2.

The breakdown of capital expenditure by type of asset reflected mixed performances. There were some encouraging signs. Capital outlays on construction works increased by 1.4% after six consecutive quarters of decline. Investment in machinery and other equipment also rebounded, probably driven by renewable energy projects. Outlays on non-residential buildings increased further, albeit at a slower rate of 0.1%, down from 3.5% in Q2. Investment in other assets rebounded strongly over the quarter, advancing by 4.4%. In contrast, outlays on transport equipment and residential buildings declined, probably reflecting the lingering impact of high interest rates.

Table 5: Breakdown of gross fixed capital formation.

	Qoq % Δ				Yoy % Δ			Annual	
	2023	2024			2024				YTD
Sector/Institution	Q3	Q1	Q2	Q3	Q1	Q2	Q3	2023	2024
Residential buildings	-4.2	-4.3	5.1	-0.8	-611.3	-53.9	365.0	-7.1	-11.5
Non-residential buildings	-4.0	2.8	3.5	0.1	-14.5	-3.4	0.3	-1.5	-9.1
Construction	-3.3	-2.7	-3.2	1.4	-7.9	-9.5	-5.3	-1.7	-8.8
Transport equipment	-3.3	-2.9	-1.6	-2.7	-9.1	-6.6	-6.6	8.1	-7.9
Machinery & other equipment	-4.7	-1.0	-1.1	0.5	6.9	-7.3	-3.6	10.3	-1.0
By institution:									
General Government	-1.3	2.0	-0.7	6.4	-8.6	-7.5	-0.4	3.9	-5.7
Public corporations	-7.1	2.5	-1.9	3.1	2.9	-2.9	7.9	9.9	2.6
Private Sector	-5.1	-3.1	-1.2	-1.7	-1.8	-7.9	-5.5	3.0	-5.1
Total	-4.7	-1.7	-1.2	0.3	-2.6	-7.3	-3.2	3.9	-4.4

Source: Stats SA

Government consumption expenditure (GCE) contracted by 0.5% qoq following 0.9% growth. The decline was attributed to lower spending on employee compensation and goods and services.

There was an inventory drawdown worth R6.6 billion in Q3, following an increase of R19 billion in Q2. Over the quarter, manufacturing, electricity, gas and water, mining and quarrying reduced their inventories.

The net export position remained negative in Q3. However, the drag reduced to -R68.3 billion from -R73.8 billion, positively contributing to GDP. Over the quarter, exports contracted by 3.7%, while imports fell by 3.9%. The reduction in exports resulted from decreased shipments of pearls, precious and semi-precious stones and precious metals, vehicles and transport equipment, chemicals, base metals, and machinery and electrical equipment. Declines in vehicles and transport equipment, mineral products, vegetable products, and base metals dragged down imports.

Outlook

Today's numbers were disappointing, suggesting underlying conditions remain challenging. However, the main drag came from agriculture. Excluding agriculture, the economy grew by 0.4% qoq. Even so, we expect economic activity to bounce back in Q4, and to broaden and strengthen further throughout 2025.

The absence of load-shedding created a more supportive environment for producers throughout the year, reducing disruptions to operations and thereby allowing for higher production, especially in the mining and manufacturing sectors. We expect electricity supply to remain stable in Q4 and 2025. Further moderate gains in logistics, continued global growth, and firmer domestic demand should also lead to higher production and exports in the quarters ahead. Despite the anticipated improvement, import volumes will likely outpace exports. Imports will be propped up by faster growth in consumer demand, further amplified by the gradual recovery in fixed investment in 2025. Consequently, net exports will remain a drag on GDP growth in Q4 2024 and much of 2025.

Consumer spending will be the primary driver of domestic demand, supported by subdued inflation and easing interest rates. This will lower debt service costs and bolster real disposable incomes. A further boost will come from household withdrawals from the two-pot retirement system, which will restore consumers' financial health if used to reduce debt. The recovery in consumer spending should gather pace as we move into the new year and provide broader support to the services sector. Given the moderate economic climate and fiscal constraints, we expect the government to manage its expenditure cautiously in Q4 and 2025. Consequently, growth in government spending will likely remain contained at less than 1%.

The upturn in fixed investment will likely continue in the quarters ahead. Given the focus on infrastructure spending in this year's Medium Term Budget Policy Statement, public sector capital expenditure will likely sustain total fixed investment over the final quarter. In contrast, private sector outlays will remain relatively weak, subdued by uninspiring global demand, stagnant commodity prices, and ample spare capacity in most industries. Private fixed investment will likely turn the corner next year as the economic recovery gains sufficient momentum to place some pressure on existing capacity. Altogether, we forecast GDP growth of around 0.5% in 2024, followed by faster growth of 1.5% and 1.8% in 2025 and 2026, respectively.

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