Economic Insights | 05 March 2025

# Gross Domestic Product

ECONOMICS | South Africa

NEDBANK

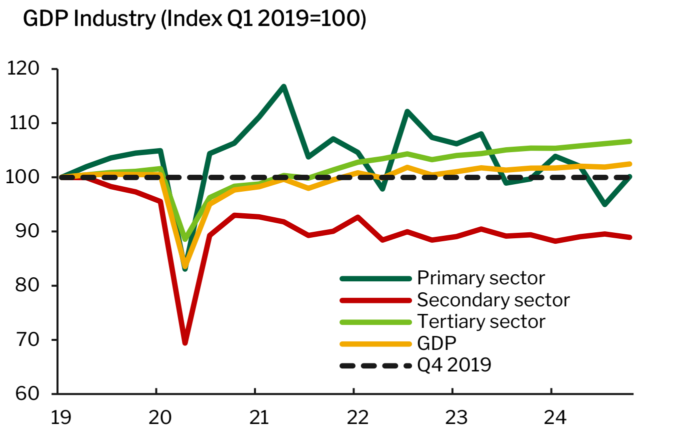
## The economy recovered in Q4.

- Direction: Real GDP expanded by 0.6% qoq in Q4, slightly better than our forecast of 0.5%, but well below the consensus market forecast of 0.9%. Compared with the same quarter a year ago, the economy grew by 0.9%, better than in Q3.
- The industry breakdown: Agriculture, domestic trade and accommodation as well as finance provided much of the momentum in Q4. Agriculture was supported by better performances in some field crops, livestock and horticulture. Trade was buoyed by the ongoing recovery in consumer spending driven by rising real incomes, sharply lower inflation, and significant withdrawals from retirement funds through the support of the new two-pot system. Stronger performance in all sub-sectors held up finance, real estate, and business services. Transport, storage and communications were the largest drag on economic growth, contracting due to decreased activity for land transport and transport services. Despite the absence of load-shedding, electricity, mining, and manufacturing declined. Personal and government services also contracted.
- The expenditure breakdown: Expenditure on GDP grew by 0.6% qoq in Q4 after contracting by 0.1% in Q3. The uptick came from a modest improvement in gross domestic expenditure (GDE), while net exports made no contribution. On the demand front, the increase was driven by household consumption expenditure (HCE), which outweighed shrinking government consumption expenditure (GCE) and gross fixed capital formation (GFCF). There was also some inventory accumulation. In 2024, expenditure on GDP grew by 0.6%, slightly down from 0.7% in 2023.
- The outlook: Today's numbers probably reflect the start of a gradual economic recovery. We expect the economy to gain moderate momentum throughout 2025. The boost will likely come from continued improvements in consumer demand as inflation remains subdued and interest rates ease a bit more, bolstering real incomes and lowering borrowing costs. We also expect a recovery in fixed investment boosted by increased outlays on infrastructure by the public sector. However, slower government spending due to fiscal constraints and the persistent drag from net exports will likely contain the boost from more robust consumer spending to GDP in 2025. Altogether, we forecast GDP growth of around 1.4% in 2025 and 1.8% in 2026.

Table 1: Key growth rates.

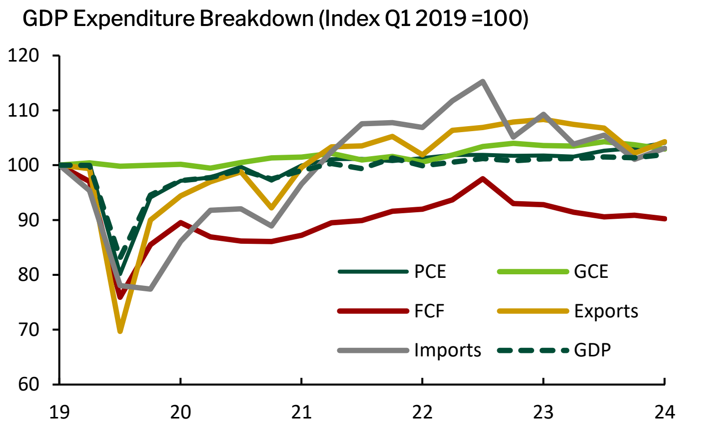
| | | Q4 2024 | Q3 2024 | Nedbank forecast | Market forecast |
|---|---|---|---|---|---|
| Real GDP | qoq % | 0.6 | -0.1 | 0.5 | 0.9 |
| | yoy % | 0.9 | 0.4 | 0.5 | 0.9 |

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 slightly better than expected, with real GDP expanding by 0.6% qoq in Q4 after contracting 0.1% in Q3. The outcome slightly exceeded our forecast of 0.5% and fell below the market's expectation of 0.9%. On a yoy basis, the economy grew by 0.9%, up from 0.4% in the previous quarter. Positive contributions came from agriculture, finance and domestic trade. Agriculture rebounded while domestic trade benefitted from stronger consumer demand. Finance, real estate and business services contributed positively to GDP, reflecting increased economic activity across all subsectors. The main drag came from transport, but mining and manufacturing also contracted despite the absence of load-shedding. Electricity, water and gas performed poorly alongside the decline in construction.

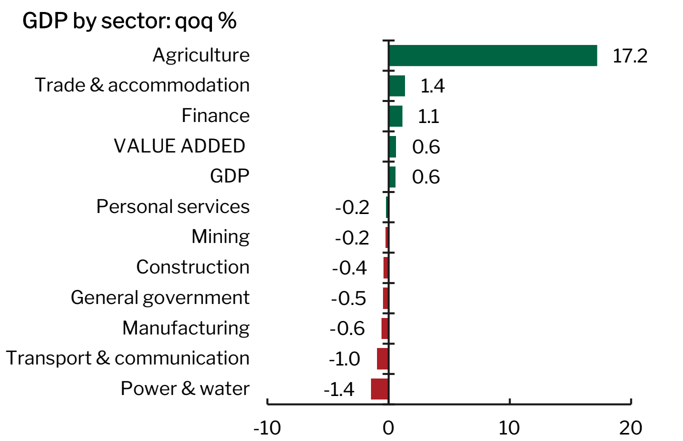
Table 2: Sector breakdown of GDP.

| Industries | Quarterly (qoq %) | | | Quarterly (yoy%) | | | Annual | | % of total |
|---|---|---|---|---|---|---|---|---|---|
| | Q2 24 | Q3 24 | Q4 24 | Q2 24 | Q3 24 | Q4 24 | 2023 | 2024 | 2024 |
| Agriculture | -3.4 | -19.7 | 17.2 | -11.0 | -20.1 | 9.1 | -4.8 | -8.0 | 2.9 |
| Mining | -0.7 | 0.8 | -0.2 | -0.1 | 1.4 | -1.0 | -0.5 | 0.3 | 6.1 |
| Manufacturing | 0.8 | 0.3 | -0.6 | -1.2 | -0.1 | -0.3 | 0.3 | -0.5 | 12.8 |
| Power & water | 2.3 | 1.3 | -1.4 | 4.8 | 5.9 | 1.5 | -4.0 | 3.5 | 3.3 |
| Construction | 0.2 | 0.8 | -0.4 | -6.9 | -2.9 | -2.0 | -0.1 | -5.1 | 2.2 |
| Trade & accommodation | 0.7 | -0.6 | 1.4 | -2.3 | -2.2 | 1.6 | -1.8 | -1.4 | 12.4 |
| Transport & communication | -3.1 | -0.5 | -1.0 | 0.2 | -0.9 | -5.2 | 4.1 | -1.3 | 7.0 |
| Finance | 1.7 | 1.2 | 1.1 | 3.7 | 3.8 | 4.1 | 1.6 | 3.5 | 21.1 |
| General government | 0.3 | -0.1 | -0.5 | 0.7 | -0.6 | -0.8 | 0.5 | -0.1 | 7.8 |
| Personal services | 0.1 | 0.6 | -0.2 | 2.1 | 1.4 | 0.9 | 1.8 | 1.7 | 14.4 |
| VALUE ADDED | 0.3 | -0.2 | 0.6 | 0.4 | 0.4 | 0.9 | 0.7 | 0.6 | 90.0 |
| **GDP** | **0.3** | **-0.1** | **0.6** | **0.4** | **0.4** | **0.9** | **0.7** | **0.6** | **100.0** |

Source: Stats SA

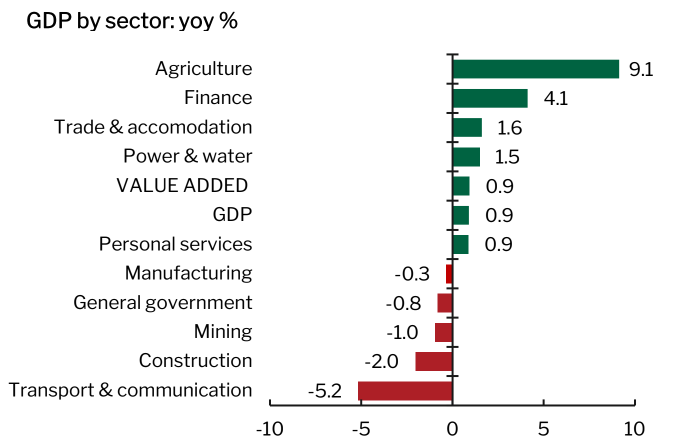
Agriculture, forestry, and fishing positively contributed to gross value added (GVA), recovering by 17.2% qoq from -19.7% (revised from -28.8) in Q3. The better performance reflects increased economic activities in field crops and animal products. The rebound in agriculture added 0.4 percentage points (ppts) to the quarterly change in GDP. Value added by the mining sector relapsed (down 0.2%), reversing the 0.8% gain in Q3. Similarly, manufacturing contracted by 0.6%. In mining, manganese ore, iron ore, and gold production suffered the most. Six of the ten sub-sectors reported negative growth in manufacturing, with basic iron and steel, non-ferrous metals, metals, and machinery performing the worst. Electricity, gas, and water decreased by 1.4% due to declines in electricity production. Construction activity fell 0.4%, a reversal from 0.8% growth in Q3, hurt by reduced outlays on residential and non-residential buildings.

Chart 3: Agriculture and services explain the 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 0.4% over Q4, the same as in the previous quarter. Performances were mixed within the subsectors. The boost came from domestic trade, catering and accommodation as well as finance, real estate and business services, which offset contractions in transport, storage and communication as well as government and personal services. Trade, catering, and accommodation increased by 1.4% qoq, buoyed by wholesale, retail and motor trade sales. Firmer consumer demand, boosted by increased purchasing power from much lower inflation and the two-pot withdrawals, supported the sector. Finance, real estate, and business services grew by 1.1% qoq, driven by stronger growth in all sub-industries Transport, storage, and communications contracted by 1.0% due to poor performances in land transport and support services. General government services declined by 0.5% due to reduced employment by national and provincial governments and extra-budgetary institutions. Finally, the value added by personal services fell by 0.2% because of declines in health and education.

## Expenditure breakdown of GDP

Expenditure on GDP rebounded in Q4, growing by 0.6%, following a 0.1% contraction in Q2. Gross domestic expenditure (GDE) rose by 0.6%, while the net export position made no contribution. Household consumption expenditure and a less severe drawdown of inventories drove growth. In contrast, government spending and gross fixed capital formation (GFCF) declined.

Table 3: Expenditure breakdown of GDP

| | Qoq % Δ | | | | Yoy % Δ | | | | Annual | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2024 | | | | 2024 | | | | 2024 | 2023 |
| Spending category | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | AVE | AVE |
| Household consumption expenditure | -0.2 | 1.1 | 0.4 | 1.0 | -0.2 | 0.6 | 1.3 | 2.3 | 1.0 | 0.7 |
| Government consumption expenditure | -0.1 | 0.8 | -0.5 | -0.8 | 1.6 | 1.0 | -0.4 | -0.6 | 0.4 | 1.9 |
| Fixed capital formation | -1.5 | -0.9 | 0.3 | -0.7 | -2.5 | -6.9 | -2.7 | -2.7 | -3.7 | 3.9 |
| Change in inventories (R'bn) | -21.3 | -9.5 | -25.1 | -16.4 | -16.5 | 5.3 | 7.8 | -14.7 | -18.1 | 26.0 |
| Gross domestic expenditure (gde) | -1.2 | 1.0 | -0.1 | 0.6 | 0.5 | 0.4 | 0.6 | 1.0 | -0.7 | 0.8 |
| Exports | -0.9 | -0.6 | -4.3 | 2.1 | 0.7 | 0.1 | -5.1 | -3.5 | -2.0 | 3.7 |
| Imports | -5.0 | 1.6 | -4.2 | 2.0 | -7.0 | -8.6 | -4.0 | -5.6 | -6.3 | 3.9 |
| Net exports (R'bn) | -16.1 | -45.0 | -44.5 | -44.6 | -13.5 | -3.9 | -8.4 | -11.8 | -37.5 | -99.8 |
| Expenditure on GDP | 0.1 | 0.3 | -0.1 | 0.6 | 0.6 | 0.4 | 0.4 | 0.9 | 0.6 | 0.7 |

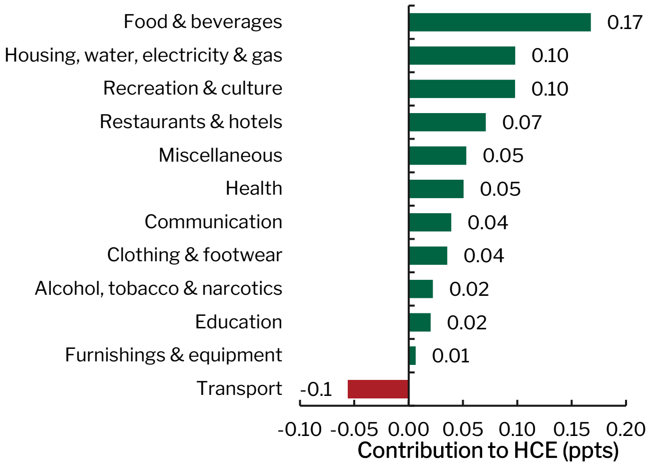
HCE accelerated by 1% in Q4 qoq, up significantly from 0.4% in Q3. Spending was supported by rising real disposable income, underpinned by subdued inflation and increased employment. Modestly lower interest rates also reduced debt service costs, freeing up funds for discretionary spending. An added boost came from substantial withdrawals through the two-pot retirement system. Apart from services, spending on all types of goods increased. Consumers prioritised semi-durable goods, which recorded the strongest growth of 3.9% qoq, its highest in two years, driven by outlays on clothing and footwear. Encouragingly, spending on durable goods also accelerated by 2.2%, its fastest pace since Q1 2022. Here, the focus was on furnishings and household equipment. Spending on non-durable goods remained relatively firm, supported by the rapid deceleration in food inflation. However, spending on services contracted by 0.2% after two quarters of growth, dragged down by lower spending on restaurants and hotels, which outweighed increased spending on recreation and culture. For 2024, HCE grew by 1%, up from 0.7% in 2023.

Table 4: Breakdown of consumer spending.

| | Qoq % Δ | | | | Yoy % Δ | | | | Annual | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2024 | | | | 2024 | | | | 2024 | 2023 |
| Spending category | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | AVE | AVE |
| Durable goods | 0.7 | 0.4 | 0.6 | 2.2 | 1.4 | 3.1 | 4.1 | 4.3 | 3.2 | 0.6 |
| Semi-durable goods | -4.1 | 1.7 | 0.7 | 3.9 | -2.8 | 1.9 | 1.2 | 2.1 | 0.7 | 3.5 |
| Non-durable goods | 1.3 | 1.0 | 0.9 | 1.6 | -1.0 | -0.3 | 1.6 | 4.5 | 1.3 | -2.4 |
| Services | -0.5 | 1.2 | 0.1 | -0.2 | 0.3 | 0.4 | 0.7 | 0.6 | 0.5 | 2.1 |
| Total | -0.2 | 1.1 | 0.4 | 1.0 | -0.2 | 0.6 | 1.3 | 2.3 | 1.0 | 0.7 |

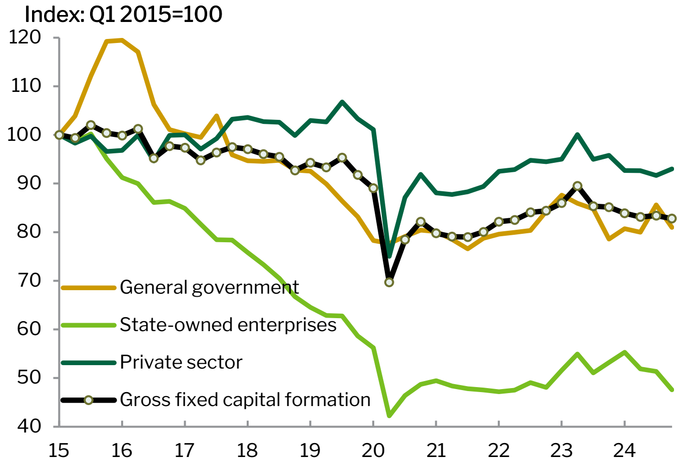
Source: Stats SA

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) disappointed in Q4, contracting by 0.7% after growing by 0.3% in Q3. The relapse resulted from declines in capital outlays by general government and public corporations, which fell sharply by 5.4% and 7.4%, respectively. Encouragingly, private sector capital formation turned the corner, increasing by 1.5% after three consecutive quarters of contraction. This uptick was likely driven by improved business confidence, easing structural constraints, and firmer domestic demand. However, GFCF remained weak in 2024, contracting by 3.7%, after expanding by 3.9% in 2023. Over the whole year, the cutbacks were widespread, partly reflecting a correction off 2023's high base, when companies frontloaded outlays on alternative energy sources due to severe load-shedding. The most noticeable drop came from the private sector, which reduced capital outlays by 4.1% as companies grappled with generally subdued demand amid substantial excess capacity. Capital spending by general government and public corporations fell by 2.9% and 2.2%, respectively, in 2024.

The breakdown of capital expenditure by type of asset reflected mixed performances. There was a sharp drop in outlays for residential buildings (-7.5% qoq). Capital expenditure on non-residential buildings also fell by 2.7%, following three consecutive quarters of growth, probably reflecting the lingering impact of high interest rates. Consequently, growth in construction works moderated to 0.8% from 2.1%. Investment in machinery and other equipment fell by 1.3%, but investment in transport equipment rebounded (up 1.3%) after three quarters of decline.

Table 5: Breakdown of gross fixed capital formation.

| | qoq% Δ | | | | yoy%Δ | | | | Annual | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2024 | | | | 2024 | | | | 2023 | 2024 |
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | | |
| By asset: | | | | | | | | | | |
| Residential buildings | -3.8 | 5.4 | -0.3 | -7.5 | -15.5 | -6.4 | -2.9 | -5.9 | -7.1 | -15.5 |
| Non-residential buildings | 2.5 | 3.6 | 0.5 | -2.7 | -14.7 | -3.6 | 0.5 | 4.7 | -1.5 | -14.7 |
| Construction works | -1.5 | -3.8 | 2.1 | 0.8 | -6.6 | -8.6 | -3.6 | -3.4 | -1.7 | -6.6 |
| Transport equipment | -3.0 | -0.2 | -2.5 | 1.3 | -9.3 | -5.7 | -5.5 | -4.5 | 8.1 | -9.3 |
| Machinery & equipment | -1.3 | -0.7 | 0.0 | -1.3 | 6.5 | -7.1 | -3.8 | -3.2 | 10.4 | 6.5 |
| Other assets | -1.3 | -8.3 | 4.6 | 5.2 | 2.4 | -9.5 | 5.7 | 0.7 | 3.9 | 2.4 |
| By institution: | | | | | | | | | | |
| Government | 2.7 | -0.9 | 7.0 | -5.4 | -7.9 | -6.8 | 0.8 | 3.3 | 3.9 | -2.9 |
| Public corporations | 3.9 | -6.2 | -1.0 | -7.4 | 5.6 | -5.3 | 1.4 | -9.9 | 9.9 | -2.2 |
| Private sector | -3.3 | -0.1 | -1.1 | 1.5 | -2.2 | -7.1 | -4.1 | -3.0 | 3.0 | -4.1 |
| GFCF | -1.5 | -0.9 | 0.3 | -0.7 | -2.5 | -6.9 | -2.7 | -2.7 | 3.9 | -3.7 |

Government consumption expenditure (GCE) contracted further, falling by 0.8% qoq after shrinking by 0.5%. Reduced spending on employee compensation and goods and services was mainly to blame.

Inventory drawdown continued in Q4, but the rate of decline moderated to R16.4 billion from R25.1 billion. Large inventory depletions were recorded in mining and trade, catering and accommodation.

The net export position was steady in Q4, making no contribution to GDP. Over the quarter, exports grew by 2.1%, which was offset by a 2% increase in imports. The rise in exports was driven by pearls, precious and semi-precious stones, precious metals, and chemical products. Import growth reflected purchases of vehicles, transport equipment, vegetable products, and machinery and electrical equipment.

## Outlook

The economy should fare better in 2025, picking up moderately off last year's low base, supported by improved operating conditions as structural reforms gain some momentum. On the production side, the tertiary sector will provide the boost sustained by stronger consumer demand. While better electricity supply will aid mining and manufacturing, inefficiencies in rail and port logistics and higher electricity tariffs will limit the gains. The construction sector should benefit from some improvement in fixed investment activity. Agriculture should also fare better than last year, given good rains at the start of the new season.

Consumer spending growth is expected to improve to 2.2% in 2025, supported by subdued inflation and easing interest rates, which 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 could also boost spending either directly or indirectly by reducing debt and improving consumers' financial health. These, together with slightly better employment growth prospects, will boost consumer confidence and encourage spending. Growth in government consumption expenditure is forecast to increase slightly by 0.2% in 2025, driven by increased outlays on social services and compensation of employees. Stronger growth will be limited by budget constraints and the need for fiscal consolidation to reduce debt service costs and debt accumulation.

Fixed investment will likely turn the corner in 2025, growing by 0.6%. Given the government's focus on infrastructure spending, government and public corporations will likely sustain total fixed investment. The Nedbank Capital Expenditure Project Listing reflected a significant increase in the value of new projects announced by the public sector in 2024, which should materialise from 2025 onwards. Increased investment in economic infrastructure, together with easing logistics constraints, improving consumer demand, steady global growth and a modest increase in commodity prices, should lift business confidence and attract investment from the private sector. However, the upside will be partly contained by an increasingly unfavourable global policy environment, geopolitical uncertainty and ample spare capacity in most industries.

Easing logistics constraints, steady global growth and a modest increase in commodity prices should boost export growth. However, imports will likely rise faster than exports, driven by firmer domestic demand, particularly consumer spending and the gradual recovery in fixed investment. Consequently, net exports will remain a drag on GDP growth in 2025. Altogether, we forecast GDP growth of 1.4% in 2025 and 1.8% in 2026, averaging 1.6% over the next three years.

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