momentum investments

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in the moment

Economy grows 0.8%: Broad-based rebound but fragility remains

Q1 2025 0.1% q/q → **Q2 2025 0.8% q/q**

Production 0.8% q/q

- **Agriculture:** Expanded by 2.5% q/q, significantly less than 18.6% q/q in the first quarter.
- **Mining:** Platinum group metals, gold and chromium ore supported 3.7% q/q growth.
- **Manufacturing:** Led the rebound in overall economic growth with 1.8% q/q growth, contributing 0.2pp*.
- **Utilities:** Grew by a modest 0.2% q/q, following two consecutive quarters of decline.
- **Construction:** Dropped 0.3% q/q, with both residential and non-residential building activity slowing.
- **Trade:** Increased 1.7% q/q, driven by higher activity in retail, motor trade, accommodation and food and beverages.
- **Transport:** Fell 0.8% q/q with lower activity in land transport and transport support services.
- **Finance:** Grew by 0.3% q/q. The only industry that has not contracted in 10 consecutive quarters.
- **Government:** Increased by 0.7% q/q following three consecutive growth dips.
- **Personal services:** Expanded by 0.5% q/q.

Expenditure 0.7% q/q

- **Household consumption:** Increased by 0.8% q/q, supported by durable goods, semi-durable goods and services.
- **Government consumption:** Up 0.7% q/q, driven by higher goods and services purchases and employee compensation.
- **Gross fixed capital formation:** Declined sharply (1.4% q/q) for the second consecutive quarter.
- **Inventories:** Recorded a R16.6 billion buildup, contributing 0.5pp to overall economic growth.
- **Exports:** Plunged 3.2% q/q, mainly due to lower trade in base metals, vegetable products and vehicles.
- **Imports:** Decreased by 2.1% q/q, contributing positively (0.6pp) to overall economic growth.

Source: Statistics South Africa (Stats SA)
q/q = quarter-on-quarter
** Percentage point(s)*

So what?

Economic growth of 0.8% q/q in the second quarter of 2025, from a weak 0.1% q/q in the first quarter, outperformed expectations. Activity gains were broad-based. Nevertheless, meaningful near-term growth prospects are constrained. Low business confidence in the third quarter points to limited investment and hiring. Higher United States (US) tariffs on SA goods will weigh modestly on growth (0.1 to 0.2pp drag based on the SA Reserve Bank's (SARB) estimate), while rising electricity tariffs are raising input costs and squeezing household disposable incomes. We remain constructive on the medium-term outlook as structural reforms could gradually lift potential growth. We forecast GDP growth of 1% in 2025 and 1.4% in 2026, which is in line with the Reuters median consensus in the August 2025 Econometer poll.

Most industries recovered in the second quarter

SA's second quarter economic growth rate of 0.8% q/q, as published by Stats SA, beat the Reuters median consensus of 0.5% q/q.

On the production side, economic activity was higher across eight of the 10 industries with the remaining two industries (construction as well as transport, storage and communication) recording a drop in production in the period under review.

The biggest positive contributor was the manufacturing industry which also recorded a broad-based increase (seven of the 10 manufacturing divisions reported higher growth rates). This was closely trailed by the trade and mining industries, each contributing around 0.2pp to overall growth.

> Notably, six industries (mining and quarrying, manufacturing, utilities, construction, general government services and personal services) were in a technical recession in the first quarter. All, except for construction, emerged from a technical recession in the second quarter.

Following two consecutive quarters of robust double-digit growth rates in the agriculture sector since a significant contraction in the third quarter of 2024, agriculture production expanded at a much slower pace of 2.5% q/q in the second quarter of 2025.

The Agricultural Conditions Assessment Committee of SA (ACAC), established to provide regular assessments of the agriculture sector in the absence of high-frequency data, assessed the second quarter (its first release) and concluded that operating conditions in SA's agriculture sector are uneven but leaning positively, with strong crop performance balancing persistent challenges in the livestock sector. Specifically:

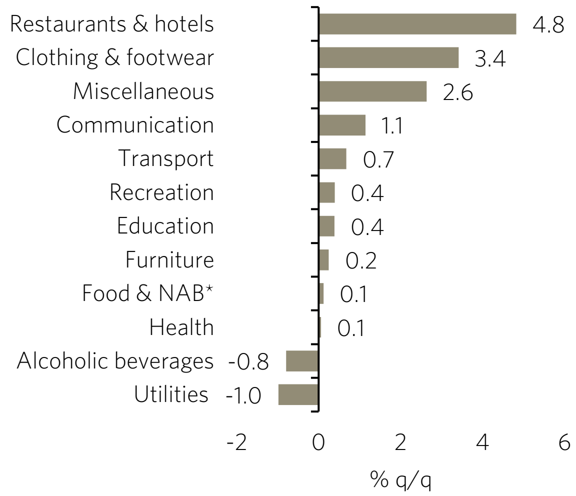
- Field crops: Output in 2024-25 is estimated to be higher than the previous season, supported by favourable rainfall. However, quality issues in white maize could negatively impact the profitability of farming businesses despite a larger crop.
- Livestock: Beef and dairy sectors continue to face profitability challenges due to the foot-and-mouth disease and slow vaccination progress. However, this could be offset, partly, by lower feed prices from strong soybean and maize harvests.
- Horticulture and wine: Citrus, deciduous fruit and table grapes harvest as well as wine production are better this season. Nevertheless, trade policy frictions, especially with the US, remain a risk.
- Vegetables: Conditions are generally fair, with rainfall benefiting volumes, though excessive rain caused crop delays in some areas.
- Input costs: Fertiliser prices are edging higher, while diesel is cheaper than in 2024, creating a mixed input cost outlook.

Household consumption held up while fixed investment and exports dragged growth lower

On the expenditure side, the economy expanded by 0.7% q/q, led by higher household consumption expenditure, a buildup in inventories and lower imports. Combined, these factors were enough to counter the decreases in fixed investment and exports.

Our annual economic growth projection largely depends on the consumer and this outcome is reassuring. 10 of the 12 household consumption categories increased in the second quarter (see chart 1).

Chart 1: Broad-based increase in household consumption expenditure in the second quarter



Source: Global Insights, Stats SA, Momentum Investments
** Food and non-alcoholic beverages*

> The lower inflation and interest rate environment supports stronger household consumption, but challenges remain ahead.

Factors that could weigh on consumer sentiment and dampen consumer spending prospects include the recent frictions in the taxi industry, higher electricity tariffs and the recent amendments to labour laws (the most significant labour reform since the 1990s). While the labour reforms aim to support small firms, changes such as lowering the threshold for dismissing underperforming workers and relaxing probation rules are likely to be viewed negatively by consumers, particularly against the backdrop of SA's high unemployment rate (33.2% in the second quarter of 2025 from 32.9% in the first quarter). On the other hand, the labour reforms could help support business sentiment.

> The second sharp decrease in fixed investment in a concern (negative 1.4% q/q in the second quarter after printing at negative 1.5% q/q in the first quarter).

Under the asset composition of fixed investment, declines were recorded in other assets, non-residential buildings, transport equipment, transfer costs, and residential buildings. By organisation, public corporations were the main drag (negative 33.5% q/q, erasing a 27.2% q/q gain in the first quarter). General government also fell (negative 3.4% q/q), while the private sector fixed investment grew by 5.6% q/q, partly offsetting the 6.3% q/q decline in the first quarter.

Ongoing progress in structural reform positive for medium-term growth prospects

Business Leadership SA (BLSA) recently launched its reform tracker to assist businesses and government in monitoring reforms that are positive for the business environment including, but not limited to, those under Operation Vulindlela and to help keep the country informed. The tracker covers three key categories: economic, criminal justice and governance.

On a high-level, reform efforts are progressing well with 26 out of 240 reform deliverables that have been tracked over the past year and a half categorised as "100% complete" and the effects are being felt in the economy. 59 are categorised as making good progress, 108 are progressing, but behind schedule, and 19 are facing major obstacles. Most of the deliverables (around 70%) fall under the economic category with the remaining deliverables split broadly evenly between criminal justice and governance.

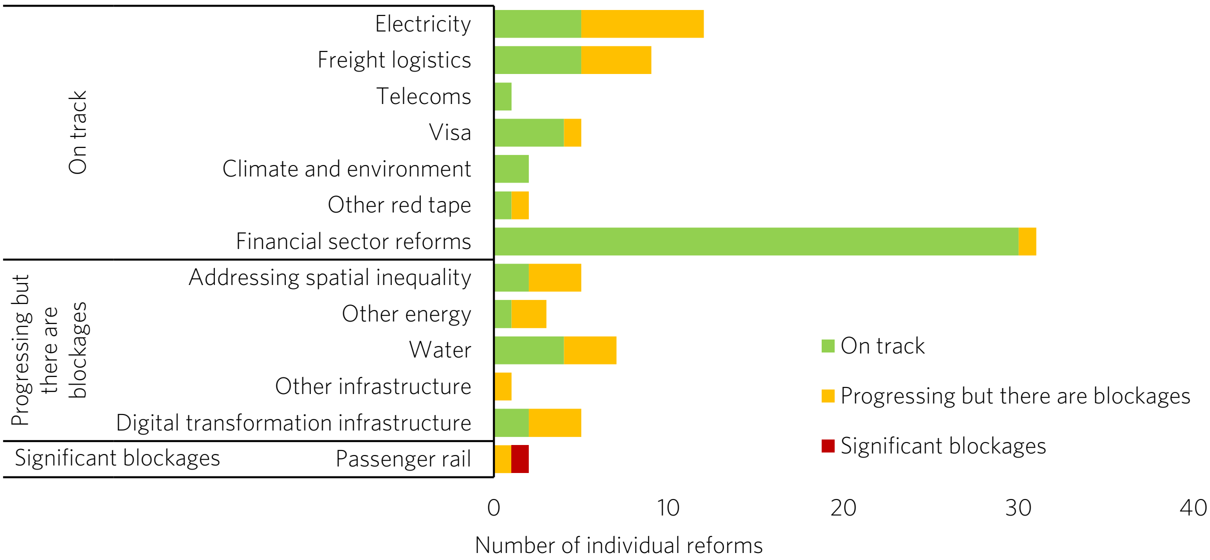
According to the BLSA progress dials, economic reform shows the most advanced progress with the gauge furthest into the green compared to the other categories. Seven of the 13 broader economic reform areas are largely on track, five are moving forward but there are blockages and only one (passenger rail) is encountering significant blockages in the policy development process (see chart 2).

Within the respective broader economic reform areas, the individual reforms are mostly on track.

Reform in criminal justice shows the second fastest progress and governance reform is the least advanced.

While the reform initiatives designed to improve efficiencies in the economy and state are progressing, we caution that the real economic impact will emerge over the medium term. The progress reflected in the tracker supports our long-standing view that with structural reform progress, SA can achieve 2% growth over the medium-term.

Chart 2: Economic policy initiatives (2025 to 2026) progressing well, though further work remains.



Source: BLSA (September 2025), Momentum Investments

Growth is likely to remain pedestrian in the near term

The economic growth rate of 0.8% q/q in the second quarter of 2025, rebounding from just 0.1% q/q in the first quarter and surprising to the upside, is a welcome development particularly because growth was broad-based across the sectors.

Nevertheless, meaningful near-term growth prospects remain constrained. Depressed business confidence in the third quarter suggests limited appetite for fixed investment and employment expansion by firms. Higher US tariffs on SA goods pose a marginal drag on the economy (detracting 0.1 to 0.2 percentage points from growth according to the SARB's estimate). Lastly, higher-than-previously expected electricity tariffs are anticipated over the next two years. These filter through to production costs across the economy, while also eroding households' disposable income. These dynamics underscore that the odds are stacked against stronger growth in the short term.

However, we remain constructive on the medium-term growth outlook. Addressing structural constraints in electricity, logistics and visa policy provides scope for an improvement in potential growth. Reforms in these areas are beginning to gain traction, though their full impact will take time to materialise.

Our growth forecasts remain cautious. We expect GDP growth of 1% in 2025 and 1.4% in 2026. These estimates are in line with the Reuters median consensus from the August 2025 Econometer poll.