



Real GDP contracted marginally by 0.2% q/q in 2023 Q3

Highlights

- Statistics South Africa (Stats SA) reported a seasonally adjusted (sa) real gross domestic product (GDP) contraction of 0.2% quarter-on-quarter (q/q) in the third quarter of 2023, slightly worse than the Reuters median consensus of negative 0.1% q/q.
- The biggest drag on economic growth, based on the production method, was the contraction in the agriculture, manufacturing, and construction sectors. Activity in the agriculture sector was revised down in the second quarter, along with other sectors, and this led to real GDP growth being lower at 0.5% q/q compared to the prior estimate of 0.6% q/q.
- On the expenditure side, the decrease in inventories largely negated the positive contribution from net exports.
- According to the Bureau for Economic Research (BER) and the Bureau for Food and Agricultural Policy (BFAP), the agricultural sector has performed exceptionally well in the last decade against the 2030 targets set out in the National Development Plan (NDP). Production in the horticulture subsector expanded the most, while poultry only achieved 29% of the target between 2012 and 2022. The agricultural sector remains resilient but idiosyncratic factors and global challenges could hamper progress in the sector's performance.
- SA's exports are more heavily dependent on electricity relative to the globe and the disruptions in electricity supply have consequently hampered export volumes, Hausmann (et al., 2023) highlights in *Growth Through Inclusion in SA*. The report recommends that SA takes advantage of its natural resource endowment and focuses on green energy to address the energy crisis, boost exports, improve economic growth prospects and leverage the deglobalisation movement.
- National Treasury recently revised its economic growth estimate for 2023 down to 0.8% from 0.9%. The downward revision was driven by a lower estimate for final household consumption and higher renewable energy-related imports.
- We expect economic growth of 0.7% in 2023 and 1% in 2024. Growth estimates from the National Treasury, the SA Reserve Bank (SARB) and Reuters similarly point to economic growth picking up slightly to around 1% in 2024 and improving further in 2025. Despite the envisioned improvement in economic growth, estimates across the board are lower than the growth rate of 1.9% recorded in 2022 and significantly lower than the long-term (1994 to 2022) average growth rate of 2.4%. The International Monetary Fund (IMF) estimates SA's economic growth rate to average 1.5% over the next five years.
- In addition to the general view that challenges in logistics, energy and water have constrained economic growth, Hausmann (et al., 2023) attributes economic stagnation in SA to wider spatial exclusion. This emphasises the urgency for a swift implementation of reforms and a focus on inclusive growth.

Agriculture was the largest negative contributor to GDP on the production side

According to Stats SA, seasonally-adjusted real GDP decreased by 0.2% q/q in the third quarter of 2023, negatively surprising the market's expectation (Reuters median consensus) for a 0.1% q/q contraction. The contraction in the third quarter follows a larger-than-expected growth outcome of 0.5% q/q (revised down from 0.6% q/q) in the second quarter.

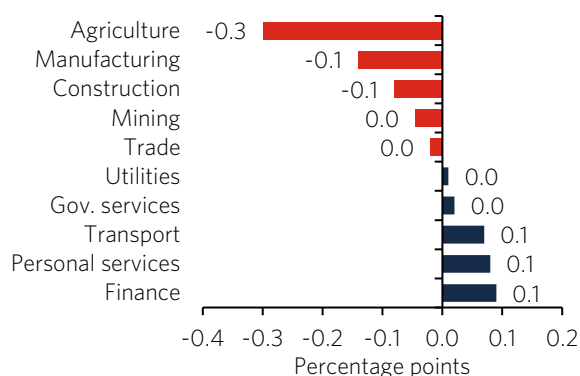
The downward revision of growth in the second quarter was largely due to downward adjustments in the agriculture sector (2.8% q/q from 4.2% q/q), mining (0.8% q/q from 1.3% q/q) and finance (0.4% q/q from 0.7% q/q). Activity in the construction sector was revised marginally up. Stats SA reported that "a decline was recorded for field crops, animal products and horticulture products" in the agriculture sector and "the food, beverages and tobacco division made the largest negative contribution in the manufacturing sector".

Five of the 10 industries recorded negative growth (production method) in the third quarter. Agriculture detracted the most from growth (negative 9.6% q/q, contributing negative 0.3 percentage points), followed by manufacturing (negative 1.3% q/q, contributing negative 0.1 percentage point) and construction (negative 2.8% q/q, contributing negative 0.1 percentage point) as illustrated in chart 1.

Economic activity in the third quarter was hampered by transport disruptions (taxi strike in the Western Cape (WC) and burning of trucks on the N3), severe weather conditions (flooding in the WC), and ongoing national power cuts. According to data from EskomSePush, the third quarter of 2023 experienced the third-highest number of national loadshedding hours ever.

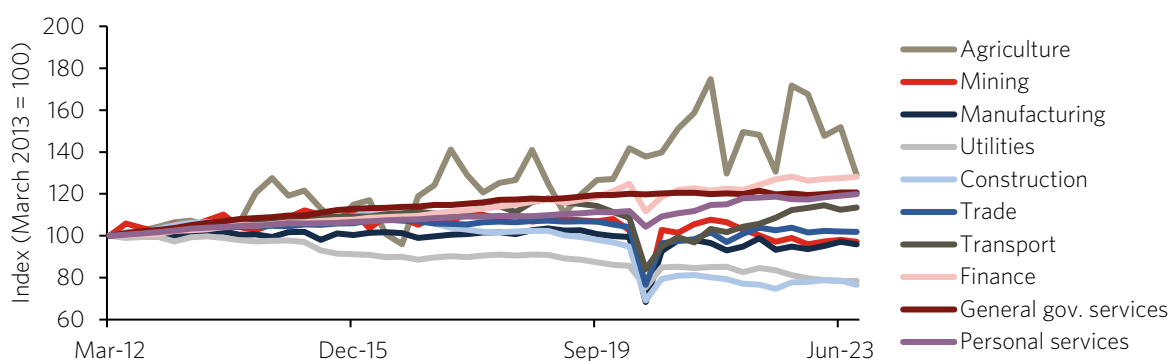
Severe weather conditions and animal diseases pose a threat to the robust longer-term performance of the agricultural sector (see chart 2). According to the BER-BFAP agriculture progress report, the growth in the agriculture sector in the last decade is largely due to increased productivity, driven by technological innovation, as well as growth in traditional export markets and access to new markets.

Chart 1: Agriculture was the hardest hit in 2023 Q3



Source: Stats SA, Momentum Investments

Chart 2: Agriculture sector has outperformed in the longer term. Construction is the worst-performing industry.



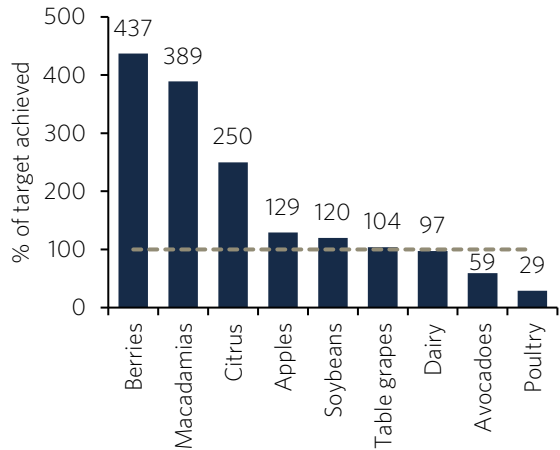
Source: Global Insights, Stats SA, Momentum Investments
Data until September 2023

The BER-BFAP report tracks performance in the agricultural sector against targets set out in the NDP for the period 2012 to 2022. As seen in chart 3, six of the nine agricultural products surpassed the NDP's targets for 2030.

Horticulture has been the best-performing subsector but growth in this subsector has recently been constrained by global supply chain disruptions as well as logistical inefficiencies locally. The production of soybeans is noted as a success story because increased production has migrated SA from being a net importer of soybeans to being a net exporter. On the other hand, poultry production has been the worst performing relative to envisioned targets but remains the largest contributor to agricultural output. Slow progress in the poultry industry is attributed to subdued economic growth, cheaper imports of poultry, high feed product prices globally, animal diseases (Avian flu), loadshedding and poor service delivery in municipalities. Logistical constraints (e.g. the ongoing congestion in Durban ports) and the challenges cited for poultry remain an ongoing concern. These constraints need to be addressed to ensure further

progress in the agriculture sector and maintain the positive contribution to growth.

Chart 3: Horticulture production has surpassed 2030 targets*



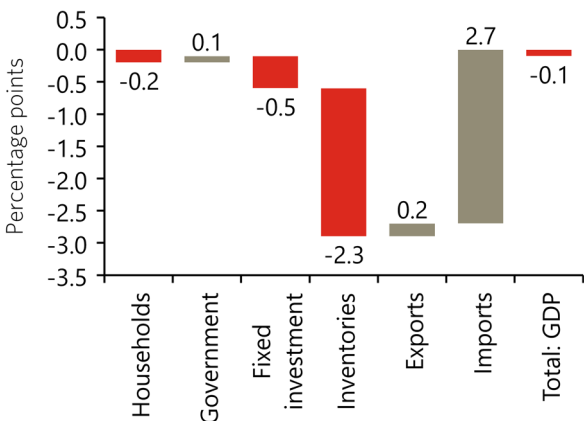
Source: BER, Momentum Investment
 * Share of NDP agricultural expansion targets achieved between 2012 and 2022

The Agricultural Business Chamber of SA (Agbiz) remains positive about the winter crop harvest for 2023/2024 and notes that the impact of the recent floods on crops is likely minimal.

The decrease in inventories weighed on growth according to the expenditure approach

The decrease in inventories was the biggest negative contributor to growth in the third quarter of 2023 (contributing negative 2.3 percentage points). This negated the positive contribution from net exports to a large extent as seen in chart 4.

Chart 4: Inventories detracted the most from growth



Source: Stats SA, Momentum Investments

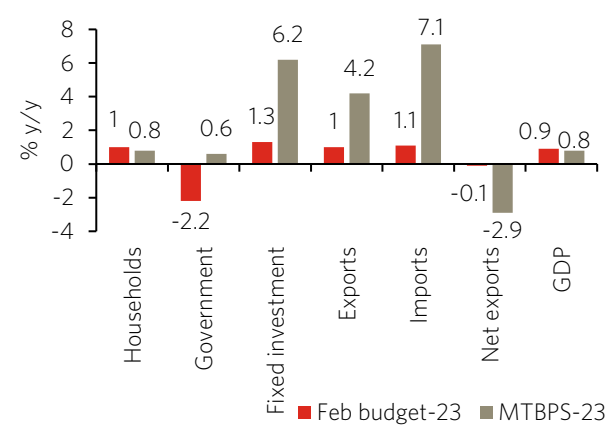
Another notable contraction was the 3.4% q/q decrease in fixed investment, leading to a negative 0.5 percentage points detraction from growth.

Positive net exports were due to a substantial decrease in imports relative to the increase in exports. Exports increased by 0.6% q/q (contributing 0.2 percentage points to growth) and imports dropped by 8.6% q/q (contributing 2.7 percentage points). Nevertheless, imports during the first nine months of the year (January to September) are still 4.6% y/y higher than the same period a year ago.

In the 2023 Medium-Term Budget Policy Statement (MTBPS), SA's growth estimate for 2023 was revised down to 0.8% (previously 0.9%). This downward revision is largely reflective of weaker household consumption expenditure on the back of lower consumer disposable income and larger negative net

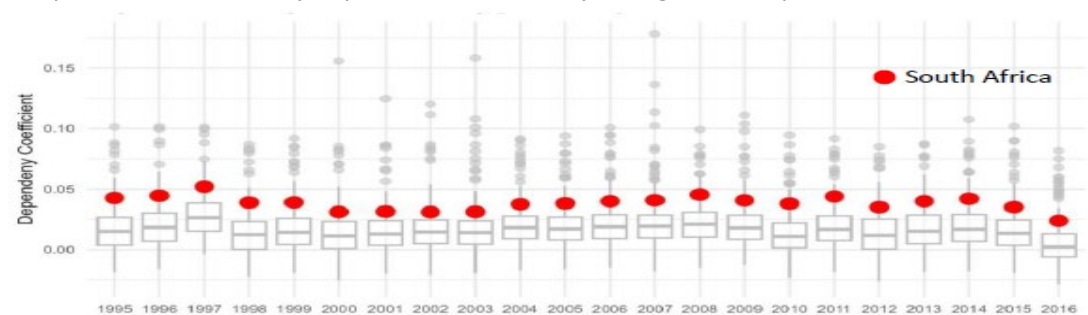
exports driven by a higher volume of renewable energy-related imports (see chart 5). These revisions outweigh the expectation of higher fixed investment driven by renewable energy investment. This composition illustrates the potential boost to economic growth that could be achieved if SA aims to be a bigger role player in the supply of renewable energy-related needs as recommended by Hausmann (et al., 2023) in *Growth Through Inclusion in SA*, a report by the Growth Lab at Harvard University.

Chart 5: Larger volume of imports expected to detract from GDP in 2023



Source: National Treasury, Momentum Investments

Chart 7: SA’s exports are more heavily dependent on electricity on a global comparison

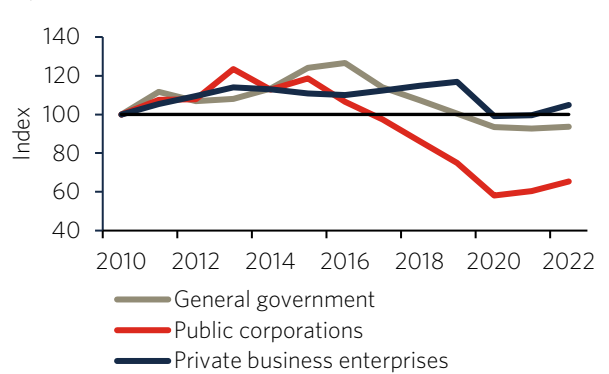


Source: Ricardo Hausmann et al., 2023

The impact of loadshedding on the economy is often focused on the production side of GDP and less on the expenditure side. Chart 7 illustrates the high dependence of SA exports on electricity. SA has consistently ranked around the 90th percentile globally from 1995 to 2016 (Hausmann et al., 2023). Given this high dependence, the shortage of electricity supply in conjunction with the higher cost of electricity has resulted in a decrease in SA’s comparative advantage in

We continue to anticipate an uptick in private investment in 2023. The likelihood of introducing private sector participation to address logistical constraints as envisioned in the Freight Logistics Roadmap (government’s blueprint for reforms in the logistics sector) could foster higher private investment growth and overall economic growth.

Chart 6: Uptick in private investment growth expected in 2023



Source: National Treasury, Stats SA, Momentum Investments

electricity-intensive exports and inevitably constrains the volume of exports. This is likely one of the contributing factors to relatively flat export volumes despite higher prices. According to Hausmann (et al., 2023), addressing the energy constraints will not help SA regain its comparative advantage because renewable sources of energy (wind and solar) have become more competitive, especially with global trends moving towards decarbonisation. Therefore, a bigger focus on green energy is recommended to help SA

regain a competitive advantage and ensure that the country can leverage from the deglobalisation movement, especially considering that SA has an

endowment of the critical minerals required (e.g. platinum, chromium, palladium and manganese).

SA’s economic growth stagnation is projected to continue

In the November 2023 interest rate-setting meeting, the SARB revised its average growth estimate for 2023 up to 0.8% from 0.7% previously. The new estimate is in line with the National Treasury’s estimate published in the MTBPS but marginally lower than ours and the Reuters median consensus of 0.7% (see table 1). Economic growth is estimated to be higher over the next two years but estimates across the board are lower than the average growth rate of 1.9% recorded in 2022 and significantly lower than the long-term average growth rate of 2.4%.

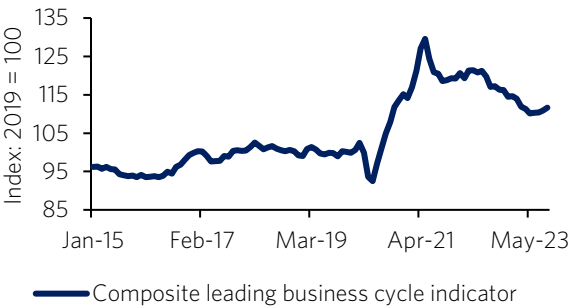
Table 1: Real GDP (%y/y) projections below long-term average growth

Institution	2023	2024	2025
National Treasury	0.8%	1%	1.6%
SARB	0.8%	1.2%	1.3%
IMF	0.9%	1.8%	1.6%
Reuters	0.7%	1.3%	1.7%
Momentum Investments	0.7%	1%	1.7%

Source: National Treasury (2023 MTBPS), SARB (November 2023 MPC Statement), IMF (October 2023 IMF WEO), Reuters (November 2023 survey)

The SARB’s composite leading business cycle indicator shown in chart 8 supports the broadly anticipated pickup in economic growth in 2024. The indicator increased by 0.6% month-on-month (m/m) in September 2023, marking the fourth consecutive m/m lift.

Chart 8: Leading indicator points to better growth in 2024

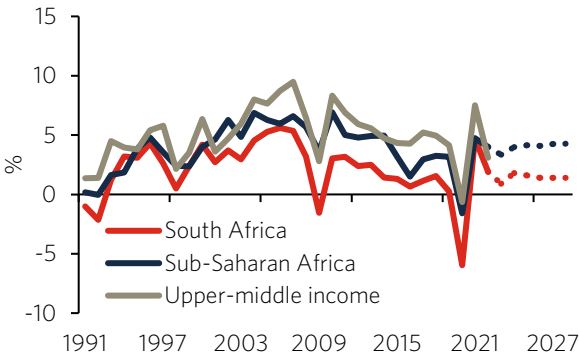


Source: SARB, Momentum Investments

Hausmann (et al., 2023) points out that SA’s growth problem has intensified over the years. As seen in chart 9, SA’s economic growth rate has trended downward from 5.6% recorded in 2006 and is consistently below peers. While the downward trend is similar in Sub-Saharan Africa and among upper-middle-income countries, the authors highlight that SA experiences a much weaker recovery from sharp economic downturns (e.g., global financial crisis and COVID-19 pandemic). Subdued growth in SA is attributed to collapsing state capacity (inefficient logistics and inadequate supply of water and electricity) as well as wider spatial exclusion.

Chart 9 further illustrates that SA’s economic growth is expected to continue to stagnate at an average of 1.5% from 2024 to 2028 and remain below Sub-Saharan Africa, with the divergence widening from 2024 onwards. This does not bode well for SA’s competitiveness on a global scale, it may hinder government’s fiscal consolidation plans, and will likely aggravate the country’s socio-economic challenges. This emphasises the importance of swiftly addressing inefficiencies in the network industries and working towards more inclusive growth.

Chart 9: SA real GDP growth consistently below peers



Source: Hausmann et al., 2023, Momentum Investments
Data until 2028
Data for SA and Sub-Saharan Africa sourced from the IMF’s October 2023 World Economic Outlook and upper-middle income data was sourced from the World Bank World Development Indicators.

The information used to prepare this document includes information from third-party sources and is for information purposes only. Although reasonable steps have been taken to ensure the validity and accuracy of the information contained herein, Momentum Metropolitan Life Limited does not guarantee the accuracy, content, completeness, legality or reliability of the information contained herein and no warranties and/or representations of any kind, expressed or implied, are given to the nature, standard, accuracy or otherwise of the information provided.

Neither Momentum Metropolitan Life Limited, its affiliates, directors, officers, employees, representatives or agents (the Momentum Parties) have any liability to any persons or entities receiving the information made available herein for any claim, damages, loss or expense, including, without limitation, any direct, indirect, special, incidental, punitive or consequential cost, loss or damages, whether in contract or in delict, arising out of or in connection with information made available herein and you agree to indemnify the Momentum Parties accordingly. For further information, please visit us at momentum.co.za. Momentum Investments is part of Momentum Metropolitan Life Limited, an authorised financial services and registered credit provider, and rated B-BBEE level 1.