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Growth recovery for 2024 derailed by poor agricultural performance

GDP contracted by 0.3% QoQ (seasonally adjusted) in Q3 2024, following an expansion of 0.3% in Q2 2024. Despite the decline, the level of GDP was still 0.3% higher in Q3 2024 on a YoY basis. The average GDP in the first three quarters of 2024 was 0.4% higher than in 2023.

Nonetheless, the QoQ contraction stemmed mainly from the agricultural sector, which declined by 28.8% due to the lower production of field crops due to unfavourable weather conditions and rising input costs. Further, domestic trade also contracted because of decreased sales for the wholesale subsector and lower spending on food and beverage services. Lastly, the transport, storage and communications sectors also contracted due to decreased transport activity.

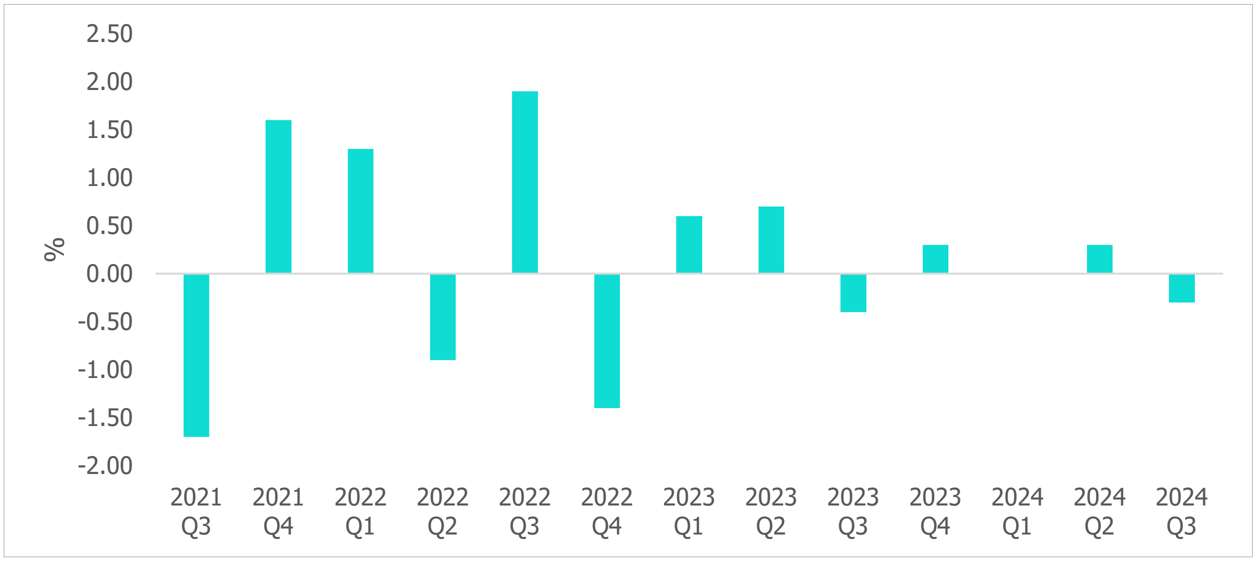
By contrast, mining rebounded, aided by the absence of load-shedding and following two successive quarters of contraction as production volumes increased in 6 of the 12 mineral groups, particularly for manganese ore, chromium ore, coal and copper. However, growth in the mining sector is impeded by several factors, including inefficient rail and port infrastructure, higher cost of operating ageing mines, muted investment in the sector and weak global demand.

The manufacturing sector also contributed positively due to the absence of load-shedding and increased production volumes seen in the subsectors supplying basic iron and steel, non-ferrous metal products, metal products and machinery as well as furniture and other manufacturing. However, the average level of actual manufacturing output in the first three quarters of 2024 was 0.3% lower than a year earlier, reflecting the impact of subdued domestic and global demand and logistical constraints.

On the expenditure side, government consumption expenditure (GCE) and inventories reflected contractions, which outweighed the effect of growth in household consumption expenditure (HCE) and fixed investment.

Following the Q3 GDP numbers, South Africa's growth in 2024 may fare much worse than the 1% projection by the South Africa Reserve Bank (SARB) and the IMF. The most significant weakness came from the agricultural sector. Excluding agriculture, the economy grew by 0.4% QoQ. Consequently, the economy is still expected to strengthen in Q4 2024. The boost is likely to come from continued consumer demand improvements as inflation remains subdued and lower interest rates.

Quarterly GDP growth

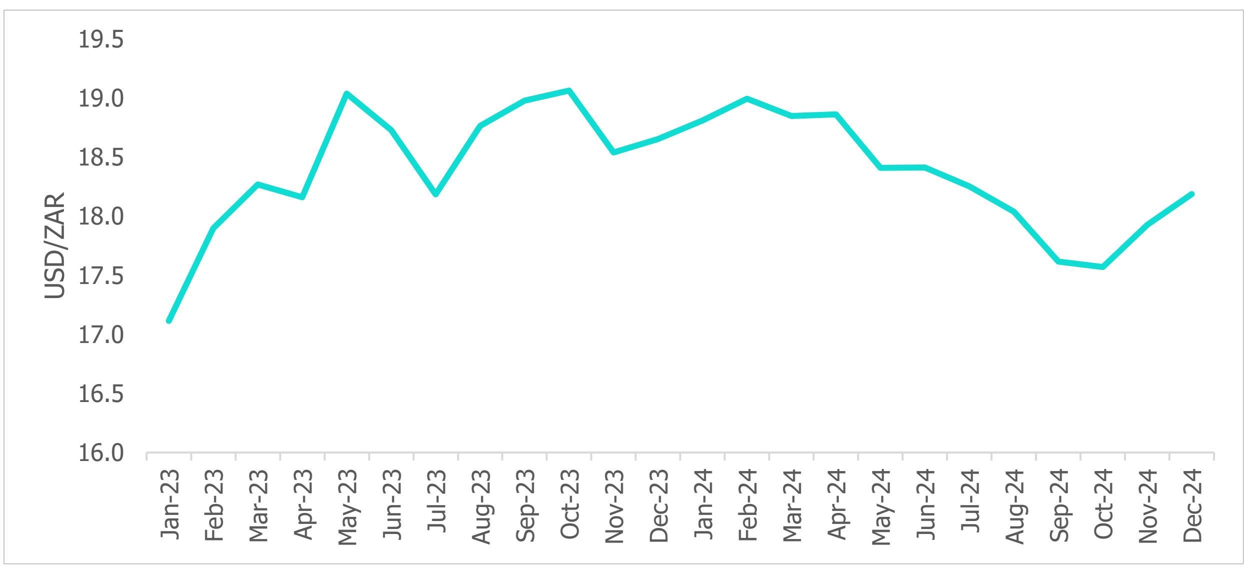


Source: Statistics South Africa

Rand weakness on the back of market sentiment

The Rand was weaker against the US Dollar in December (1.5% MoM) following the US Feds monetary policy meeting on the 18th of December, which saw higher US inflation forecasts in 2025 at 2.5% YoY from closer to 2.0% in its previous forecasts made in September. Financial markets now only expect one 25bps cut in the US interest rate cycle in 2025, previously factoring in more rate cuts despite the Fed factoring in a total of 50bps in its December dot plot. Looking ahead, the Rand will continue to take direction from the USD movement.

USD/ZAR Movement



Source: BIS

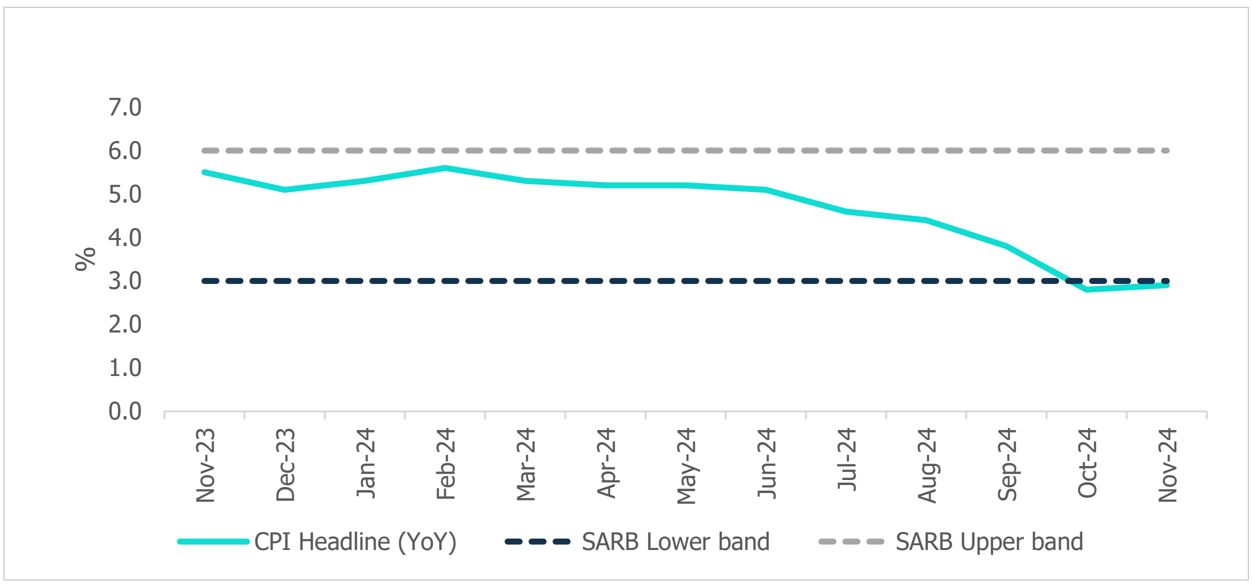
Inflation still subdued

Inflation increased marginally to 2.9% YoY in November from 2.8% in October. This increase is primarily due to higher inflation rates in categories such as "food and non-alcoholic beverages", "alcoholic beverages and tobacco," "housing and utilities," and "health." However, transport costs contracted for the third consecutive month in November, mainly due to lower fuel prices, which fell by 13.6%.

Looking ahead, food inflation (2.3% in November) is expected to increase as base effects wane and the impact of the earlier dry weather filters through. Global disinflation is also likely to slow down. However, improved domestic operating conditions due to a stable electricity supply and further improvements in logistics should help contain input costs and operating expenses, which, together with the predictions of higher rainfall, will partly mitigate the upside risks.

As Dollar strength may weigh on the Rand, transport costs are expected to increase. Domestically, there are also likely increases in electricity and other administered prices such as water. Despite these risks, the SARB expects inflation to be around 4% in 2025.

Headline inflation (YoY)



Source: Statistics South Africa

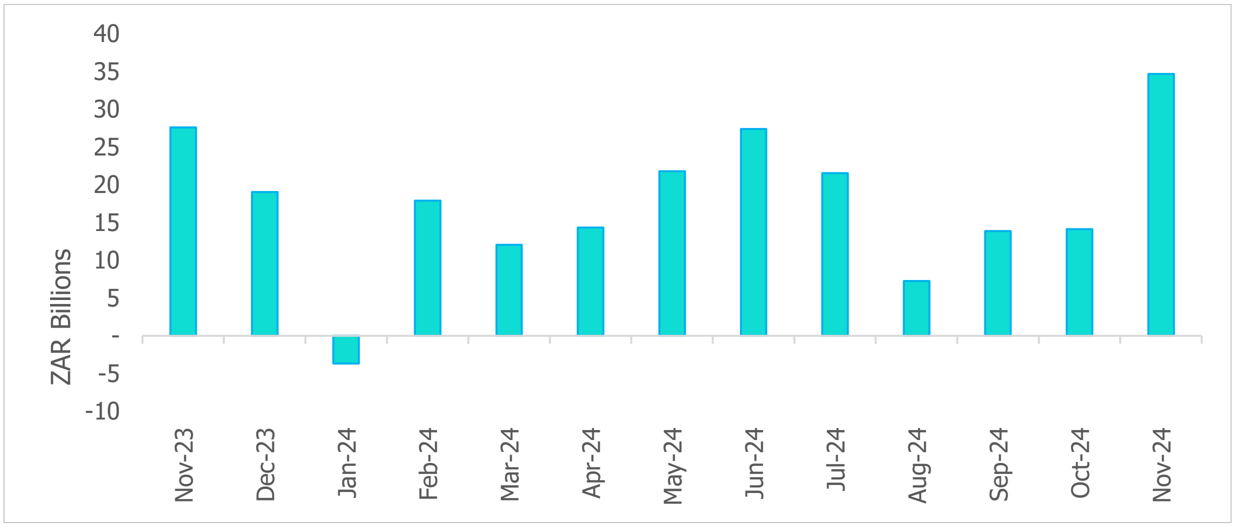
November trade surplus highest in 2024

The trade surplus expanded from ZAR 14.1 billion in October to ZAR 34.7 billion in November. This marked the largest trade surplus since the beginning of the year. From January to November 2024, the cumulative trade balance reached ZAR 181.3 billion, up from ZAR 111.0 billion during the same period in 2023.

In November, exports decreased by 4% YoY to ZAR 180.9 billion, while imports dropped by 9% YoY to ZAR 146.2 billion. From January to November, total exports reached ZAR 1.9 trillion, marking a contraction by 1.4% YoY. Meanwhile, cumulative imports amounted to ZAR 1.7 trillion, marking a contraction of 5.4% YoY during the same period.

Looking ahead, trade may be shaped by global factors, including the economic stability of major trading partners. Further, the US president has suggested implementing a universal import tariff ranging from 10%-20% to create a more competitive pricing landscape for domestic suppliers. For South Africa, export categories that might be affected by these higher tariffs include metals, ores and ferroalloys, which are key export items to the US.

South Africa's monthly trade balance



Source: South African Revenue Service

CAD remains unchanged in Q3 2024

The current account deficit (CAD) was unchanged at 1% of GDP in Q3 2024 and smaller than the deficit of 1.5% in Q1 2024. Overall, there was a smaller shortfall in services and current transfers, offsetting a deterioration in the income and trade accounts.

Regarding trade, merchandise exports decreased by 5.1% YoY in Q3 2024, reflecting decreases in both mining and manufacturing exports. Almost all subcategories of mining exports decreased over this period. The reduction in the value of manufacturing exports was mainly due to lower exports of vehicles and transport equipment, chemical products, machinery and electrical equipment. By contrast, the higher value of agricultural exports resulted largely from increased citrus fruit exports. Merchandise imports decreased by 5.6% in Q3 as the import value of mining, manufacturing and agricultural products declined.

The non-trade deficit narrowed for a second consecutive quarter from 3.5% of GDP in Q2 2024 to 3.4% of GDP in Q3 2024. The improvement emanated from a narrower deficit in the services and secondary income accounts, which offset a wider deficit in the primary income account.

Looking ahead, the sustained trade surplus through 2024 has played a key role in containing the CAD. However, this momentum may be affected by the anticipated recovery in domestic demand. Moreover, the upside for exports will still be contained by logistical constraints. The global outlook remains uncertain, given the threat of higher tariffs and other protectionist measures. Altogether, the CAD is forecast to widen in 2025 to 1.93% of GDP from an estimated 1.65% in 2024.

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