



# Flash Note: GDP

March 2023

## The 4Q22 GDP data reflected a material setback

As measured by GDP, the economy contracted by 1.3% q/q in 4Q22 (seasonally adjusted but not annualised), following upwardly revised growth of 1.8% q/q (previously 1.6% q/q) in 3Q22. The outturn was worse than our expectation of a 0.4% q/q contraction as well as Bloomberg's consensus of a 0.5% q/q contraction. The contraction was broad-based, with all goods-producing sectors relapsing, underscoring the severe impact of intensified load-shedding in the corresponding quarter. GDP grew by 0.9% y/y, reflecting a moderation from the base effect-induced growth of 4.2% y/y in 3Q22. GDP growth averaged 2.0% in 2022, underwhelming analyst expectations and moderating from 4.9% in 2021. The level of GDP backtracked and was R1.43 billion (not annualised) below the 4Q19 level.

Nominal compensation of employees (labour income, not seasonally adjusted) grew by 4.1% y/y, reflecting a moderation from 5.0% y/y in 3Q22. Compensation averaged 5.2% in 2022, down from the post-lockdown rebound of 6.8% in 2021, but still higher than 4.5% in 2019 - reflecting sustained cost of living pressures with headline inflation of 6.9% in 2022. Meanwhile, gross operating surplus (a theoretical proxy for profit) grew by 8.8% y/y, reflecting a moderation from 13.3% y/y in 3Q22. Operating surplus averaged 8.4% in 2022, down from 15.3% in 2021, but above the 5.0% in 2019.

## Outlook: dire amid load-shedding and slower global growth

We expect the economy to soften from 2.0% in 2022 to a meagre 0.4% this year before gradually recovering to 1.4% next year and 1.6% in 2025. The most significant threat to economic stability is the ongoing hard power shortages, which by our current

Figure 1: Seasonally adjusted GDP down 1.3% in 4Q22

	% q/q, Seasonally adjusted					% y/y, Unadjusted				
	4Q21	1Q22	2Q22	3Q22	4Q22	4Q21	1Q22	2Q22	3Q22	4Q22
Agriculture, forestry and fishing	16.4	-1.8	-12.8	30.5	-3.3	1.6	-0.2	-21.8	29.6	10.6
Mining and quarrying	-3.2	-2.4	-3.0	1.6	-3.2	1.8	-4.2	-9.8	-6.4	-7.1
Manufacturing	2.4	4.6	-5.5	1.6	-0.9	-3.1	1.3	-3.3	3.2	-1.3
Electricity, gas and water	-3.1	2.3	-1.3	-2.7	-1.9	-3.1	-0.1	-1.7	-4.5	-3.9
Construction	-2.6	-0.5	-2.9	3.9	0.5	-5.0	-7.1	-5.9	-1.9	1.2
Trade, catering and accommodation	3.9	3.0	-1.0	1.0	-2.1	3.4	6.0	1.4	7.9	-0.2
Transport, storage and communication	2.9	1.6	2.5	3.6	0.7	4.8	9.0	6.2	11.3	7.9
Finance, real estate and business services	-0.7	1.9	2.4	1.6	-2.3	0.8	1.8	4.9	5.3	3.6
General government services	-0.3	1.1	-1.6	0.3	-0.7	-0.7	0.9	-0.8	-0.7	-0.8
Personal services	2.5	0.5	0.1	-1.3	0.2	6.4	6.2	3.7	1.8	-0.7
<b>GDP revised</b>	<b>1.4</b>	<b>1.6</b>	<b>-0.8</b>	<b>1.8</b>	<b>-1.3</b>	<b>1.7</b>	<b>2.8</b>	<b>0.3</b>	<b>4.2</b>	<b>0.9</b>
<b>GDP previous</b>	<b>1.4</b>	<b>1.7</b>	<b>-0.7</b>	<b>1.6</b>		<b>1.7</b>	<b>2.7</b>	<b>0.2</b>	<b>4.1</b>	

Source: Stats SA, FNB Economics

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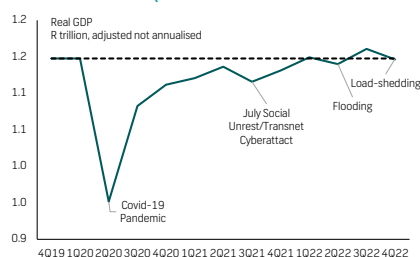


forecast, have effectively pushed the economy into a two-quarter technical recession between 4Q22 and 1Q23. Should intensified load-shedding persist, surpassing what is currently envisaged in our baseline throughout 1H23, a prolonged recession will be likely. Private sector fixed investment growth will be curtailed, threatening the job market recovery. Slowing global growth, especially from South Africa's major trading partners, and logistical constraints could constrain export volumes, further depressing economic growth and government revenue.

## Sectorial breakdown

Measured from the production side, the relapse in economic activity was broad-based, with seven out of 10 sectors recording quarterly decreases.

Figure 2: Aggregate GDP level falls back below 4Q19



Source: Stats SA, FNB Economics

- **Agriculture, forestry, and fishing** contracted by 3.3% q/q in 4Q22 following growth of 30.5% q/q in 3Q22 (upwardly revised from 19.2% q/q). Growth was 10.6% y/y in 4Q22 and averaged 0.3% in 2022. The decline in quarterly output reflected weakness in field crops and horticultural products.
- **Mining and quarrying** contracted by 3.2% q/q in 4Q22, more than reversing the 1.6% q/q growth in 3Q22. This outcome primarily reflected output declines in iron ore and platinum group metals.
- **Manufacturing** declined by 0.9% q/q in 4Q22, following growth of 1.6% q/q in the prior quarter. This primarily reflected a contraction in food and beverages and basic iron and steel.
- **Electricity, gas, and water** declined by 1.9% q/q, reflecting a contraction in electricity and water consumption.
- The **construction industry** grew by 0.5% q/q, following growth of 3.9% q/q in 3Q22, mainly reflecting increased activity in commercial buildings and construction works. Although moderate, consecutive growth over the past two quarters is encouraging, bouncing back from a prolonged recession.
- The **trade, catering and accommodation** sector declined by 2.1% q/q after posting 1.0% q/q growth in 3Q22, reflecting weakness in wholesale trade, catering, and accommodation. The trade sector's output declined by 0.2% compared to 4Q21.
- The **transport, storage and communication** sector grew by 0.7% q/q in 4Q22, slowing from 3.6% q/q in the prior quarter, underpinned by land transport, air transport and communication services.
- The **finance, real estate and business services** sector contracted sharply by 2.3% q/q after posting 1.6% q/q growth in 3Q22. The decline reflected decreased economic activity in financial intermediation, insurance and pension funding and auxiliary activities.
- **General government services** contracted by 0.7% q/q, mainly reflecting reduced employment at national government, extra-budgetary institutions, and local government.
- The **personal service** sector grew by a mere 0.2% q/q after contracting by 1.3% q/q in 3Q22, underpinned by increased activity in community services.

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On the expenditure side, household consumption expenditure grew by 0.9% q/q in 4Q22, following a 0.3% quarterly decline in 3Q22. Services consumption grew by 1.4% q/q, rebounding from a 0.2% contraction, while durable goods consumption grew by 2.0% q/q in 4Q22, up from 1.4% q/q in the prior quarter. Non-durable goods consumption shrank for the third successive quarter, reflecting strong consumer headwinds for low- and middle-income consumers. Overall consumption expenditure averaged 2.6% in 2022, moderating from 5.6% in 2021, but was more robust than the 1.2% average growth in 2019.

Figure 3: Household consumption expenditure (seasonally adjusted)

%	Durable goods	Semi-durables	Non-durables	Services	Goods consumption	Services consumption	Total
4Q22: q/q	2.0	0.1	-0.2	1.4	0.3	1.4	0.9
4Q22: y/y	5.6	0.2	-1.0	3.5	0.5	3.5	2.0
2021	11.5	8.8	4.4	4.7	6.6	4.7	5.6
2022	0.3	1.7	2.1	3.5	1.7	3.5	2.6

Source: Stats SA, FNB Economics

Gross fixed capital formation (GFCF) grew by 1.3% q/q, up from 0.3% q/q in 3Q22, primarily supported by private enterprises' fixed investment, up by 1.5% q/q, from a 0.6% q/q contraction in 3Q22. General government fixed investment grew by 2.5% q/q, from 3.5% q/q growth in 3Q22, while fixed investment by public corporations declined by 2.3% q/q from growth of 0.6% q/q in 3Q22. Total GFCF growth was 4.7% in 2022, up from 0.2% in 2021. However, GFCF is still 10.4% below the 2019 average level. Inventories amounted to R29.45 billion in 4Q22, down from R69.53 billion in 3Q22, underpinned by inventory build-up in the mining, manufacturing, and trade sectors. In 2022, inventory amounted to R35.98 billion, reflecting a solid restocking following a R20.60 billion destocking in 2021.

The real trade deficit (goods and services) widened to R101.51 billion in 4Q22 from R50.05 billion in 3Q22, as export volumes declined by 4.8% q/q, while import volumes only declined by 0.8% q/q. Export volumes grew by 7.5% in 2022, reflecting a moderation from 10.0% growth in 2021. Meanwhile, import volumes grew by 14.2% in 2022, up from 9.5% in 2021.

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