

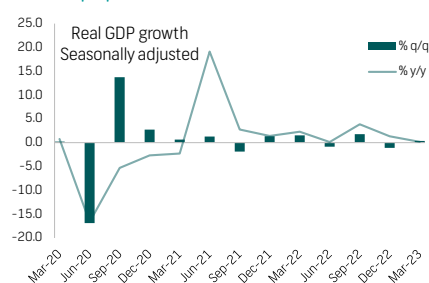


Flash Note: GDP

6 June 2023

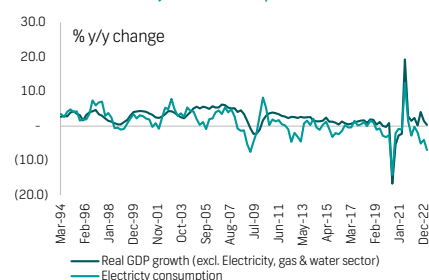
1Q23 GDP: Economy escapes a recession, but still stuck in the lowest gear

Figure 1: Seasonally adjusted GDP up 0.4% q/q



Source: Stats SA, FNB Economics

Figure 2: Some divergence in output and electricity consumption



Source: Stats SA, FNB Economics

Following an upwardly revised GDP contraction of 1.1% q/q (previously 1.3% q/q contraction) in 4Q22, the economy defied our expectation of a mild technical recession and expanded by 0.4% q/q in 1Q23 (Figure 1). The outturn was effectively aligned with the Bloomberg consensus expectation of 0.3% q/q. Compared to the same quarter last year, the economy only expanded by 0.2%, consistent with expectations of a material slowdown in real GDP growth this year.

The outcome suggests that GDP is around the pre-pandemic 2019 level and still weighed on by the lingering impact of the pandemic and the July 2021 social unrest. Meanwhile, hard power shortages, logistics challenges, elevated inflation, and rising interest rates are keeping the economy stuck in the lowest gear, with more pronounced near-zero quarter-on-quarter variations. This means growth remains fragile and vulnerable to economic shocks. Interestingly, all energy-intensive sectors expanded despite intensified load-shedding in 1Q23 relative to 4Q22. If sustained, this may be a more concrete indication that corporates are being innovative and increasingly becoming less reliant on the electricity grid to sustain production. Indeed, a decoupling in real GDP and electricity usage as measured by Eskom and Statistics South Africa is evident in Figure 2.

Generally, eight out of ten sectors underpinned growth in the first quarter with agriculture, forestry and fishing and electricity, gas and water dragging growth (Figure 3). Specifically, sectorial growth played out as follows:

- The **agricultural, forestry and fishing** sector unexpectedly declined sharply by 12.3% q/q, reflecting a deterioration from a 2.4% quarterly decline in 4Q22. Growth in this sector reflected decreased activity in field crops and animal production. According to the latest Crop Estimate Committee, total commercial maize production is estimated to grow by 8.8% in the 2023 calendar year, which should underpin growth in the broader agricultural sector later in the year.
- The **mining and quarrying** sector grew by 0.9% q/q, partially reversing the 3.0% quarterly decline in the prior quarter. Increased activity in the platinum group metals (3.1% q/q), gold output (4.3% q/q), and iron ore output (4.5% q/q) divisions underpinned the rebound in the aggregate mining sector activity.

Economist

Thanda Sithole

Contact us:

Website: fnb.co.za/economics-commentary

Email: Thanda.Sithole@fnb.co.za

Flash Note: GDP



- The **manufacturing sector** grew by 1.5% q/q, reflecting a rebound from a 1.2% q/q contraction in 4Q22. Activity in the manufacturing sector was primarily supported by increased activity in the food and beverages (7.3% q/q) as well as petroleum, chemical products, rubber and plastic products (4.4% q/q) divisions.
- Weakness in the **electricity, gas and water sector** continued with activity falling by 1.0% q/q, marking the fourth successive quarterly decline due to decreased electricity and water consumption. Eskom's power plant breakdowns continue to weigh on the broader sector, with the year-to-date energy availability factor at 53.2% compared to 59.1% in the corresponding period last year.
- Activity in the **construction sector** continued expanding, posting 1.1% q/q, and marking the third consecutive quarterly expansion. Growth in this sector reflected increased activity in residential and non-residential building as well as construction works.
- Growth in the **trade, catering and accommodation sector** was 0.7% q/q, reflecting a partial rebound from the 2.2% quarterly contraction previously. The retail trade sector grew by 0.8% q/q, the wholesale trade sector expanded by a mere 0.1% q/q, while weak growth was recorded in the motor trade sector. Activity in the tourism-related sector (restaurants and accommodation) expanded, contributing to overall growth in the sector.
- The **transport, storage and communication sector** grew by 1.1% q/q from 0.9% q/q in 4Q22 and underpinned by increased activity of goods and passenger transportation as well as transport support services and communication services.
- The **finance, real estate and business services sector** recorded a modest expansion of 0.6% q/q, after contracting by 1.6% q/q in the prior quarter. Growth in this sector reflected increased activity in financial intermediation, insurance, and pension funding as well as real estate and business services.
- The **personal services sector** expanded by 0.8% q/q, reflecting an acceleration from a 0.1% quarterly contraction in the previous quarter, underpinned by increased community services. Meanwhile, the general government services sector expanded by 0.2% q/q, rebounding from a 0.7% quarterly decline in the prior quarter and reflected increased employment across all spheres of government.

Figure 3: Quarterly growth broad-based across sector, aggregate GDP growth remain near-zero

	% q/q, Seasonally adjusted						% y/y, Unadjusted					
	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23
Agriculture, forestry and fishing	15.3	-0.9	-11.8	31.4	-2.4	-12.3	0.0	-1.4	-19.9	31.5	8.8	-5.4
Mining and quarrying	-3.2	-2.6	-3.1	1.9	-3.0	0.9	1.8	-4.3	-10.0	-6.6	-7.3	-3.9
Manufacturing	1.9	4.3	-5.6	1.6	-1.2	1.5	-3.2	0.8	-3.6	2.9	-1.5	-3.6
Electricity, gas and water	-3.1	2.5	-1.4	-2.6	-2.0	-1.0	-3.3	-0.1	-1.6	-4.3	-3.7	-6.3
Construction	-2.7	-0.6	-2.6	4.1	0.4	1.1	-4.1	-6.9	-5.7	-1.7	1.0	4.2
Trade, catering and accommodation	4.0	2.9	-1.1	1.2	-2.2	0.7	3.1	5.8	1.4	7.9	-0.2	-1.5
Transport, storage and communication	2.6	1.3	2.7	3.4	0.9	1.1	4.9	8.8	5.9	10.9	7.5	7.8
Finance, real estate and business services	-0.5	1.9	2.1	1.1	-1.6	0.6	0.0	1.3	4.3	4.6	3.5	2.3
General government services	-0.2	1.3	-1.5	0.4	-0.7	0.2	-0.7	1.1	-0.4	-0.2	-0.4	-1.1
Personal services	2.6	0.2	0.3	-1.0	-0.1	0.8	5.8	5.8	3.7	1.9	-0.8	0.3
GDP revised	1.4	1.5	-0.8	1.8	-1.1	0.4	1.4	2.5	0.2	4.1	0.8	0.2
GDP previous	1.4	1.6	-0.8	1.8	-1.3		1.7	2.8	0.3	4.2	0.9	

Source: Stats SA, FNB Economics

Flash Note: GDP



Outlook

The marginal upside surprise from the 1Q23 outcomes may push our 2023 growth expectation of 0.1% higher. However, this is clouded by the likelihood of more intense power outages in winter. Also, real wage growth remains limited, and the impact of the cumulative 475bps rise in interest rates is still filtering through. We will provide our new set of macroeconomic forecasts over the next few days.

Demand-side

Consumption spending is constrained: household consumption expenditure grew by 0.4% q/q, following a less mild expansion of 0.7% q/q (previously 0.9% q/q) in 4Q22. This was largely underpinned by strong spending growth in restaurants and hotels (6.9% q/q in 1Q23 versus 6.1% q/q in 4Q22). Services consumption shrank by 0.2% q/q, following growth of 1.2% q/q in 4Q22, while goods consumption expanded by 1.0% q/q up from 0.3% q/q in 4Q22. The increase in goods consumption reflects a modest rebound in non-durable goods consumption, which grew by 1.0% q/q after contracting for three successive quarters. Semi-durable goods consumption expanded by 2.4% q/q, reflecting an acceleration from a 0.7% quarterly expansion in 4Q22. Spending on durable goods shrank by 0.2% q/q, following quarterly growth of 1.0% in the previous quarter, reflecting the impact of higher interest rates. Generally, consumer headwinds remain persistent while income growth of 3.8% y/y in 1Q23 was below inflation of 7.0%. This should push more households to reallocate a higher proportion of income towards essential items. While growth in consumption credit should partly reflect distressed borrowing as higher living costs drain consumer wallets, higher interest rates should eventually weigh on credit expansion as lending standards tighten.

Fixed investment somewhat resilient: gross fixed capital formation (GFCF) grew by 1.4% q/q, reflecting steady growth from a 1.5% q/q expansion in 4Q22, primarily underpinned by other assets (i.e., research and development, computer software, mineral exploration and cultivated biological resources) and investment in non-residential buildings. Private enterprises' fixed investment was up mildly by 0.2% q/q following a 1.8% q/q expansion in the prior quarter. Meanwhile, fixed investment by general government grew strongly by 7.0% q/q, after expanding by 1.0% q/q in 4Q22. Fixed investment by public corporations grew by 0.8% q/q after increasing by 0.2% q/q in 4Q22. The recovery in GFCF remains incomplete (5.5% below 4Q19 level) and is likely to be protracted amid depressed business confidence and heightened load-shedding and political uncertainty. Nevertheless, private sector energy-related investment is likely to underpin GFCF growth over the forecast horizon. Inventories amounted to R34.9 billion in 1Q23, reflecting continued restocking though at a modest pace relative to the R40.2 billion in 4Q22 and R86.9 billion in 3Q22.

The real trade deficit (goods and services) remained in deficit and widened further to R126.7 billion from a R118.0 billion in 4Q22. This reflected growth of 4.1% q/q in exports, following a 3.2% q/q contraction in 4Q22. Meanwhile, imports grew by 4.4% q/q, following a mild contraction of 0.8% q/q in the previous quarter.

Disclaimer

First National Bank A division of FirstRand Bank Limited. An Authorised Financial Services and Credit Provider (NCRCP20).

Disclaimer: The information in this publication is derived from sources which are regarded as accurate and reliable, is of a general nature only, does not constitute advice and may not be applicable to all circumstances. Detailed advice should be obtained in individual cases. No responsibility for any error, omission or loss sustained by any person acting or refraining from acting as a result of this publication is accepted by FirstRand Group Limited and / or the authors of the material.