

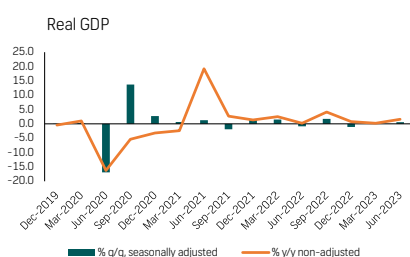


Flash Note: GDP

5 September 2023

2Q23 GDP growth stronger-than-expected

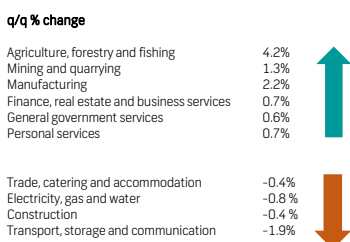
Figure 1: Real GDP quarter-on-quarter and year-on-year



Source: Stats SA, FNB Economics

Real GDP expanded by a stronger-than-anticipated 0.6% q/q in 2Q23 (seasonally adjusted), reflecting continued momentum from an expansion of 0.4% in 1Q23 (Figure 1). We had predicted a moderate expansion of 0.1%, and Bloomberg consensus had slightly higher growth of 0.3% q/q. Indeed, GDP growth volatility has increased since the pandemic shock and worsened by the dynamic impact of intensified load-shedding, reducing certainty around point forecasts. Nevertheless, GDP was up 1.6% y/y (not seasonally adjusted), partly reflecting a comparably lower base-induced acceleration from a muted 0.1% y/y increase in 1Q23. In 2Q22, the KZN flooding, prolonged strike in the gold mining sector, frequent load-shedding (which subsequently triggered an Energy Action Plan announcement by President Cyril Ramaphosa in July 2022), and elevated input costs disrupted economic activity, creating a low base behind the relatively robust annual GDP growth in 2Q23. The economy expanded by 0.9% in 1H23, placing upward pressure to the consensus forecast of 0.2% growth for 2023.

Figure 2: Sectorial quarterly growth performance in 2Q23



Source: Stats SA, FNB Economics

As already indicated by the high-frequency data, electricity-intensive sectors (mainly mining and manufacturing) continued posting growth even as the load-shedding intensity was higher than 2H22 and the second highest on record after the peak in 1Q23. Indeed, the manufacturing sector contributed the most to the quarterly GDP growth. Still, the prevailing low-growth regime is insufficient to boost confidence and meaningfully reduce higher levels of unemployment. Although the economy has lagged the National Development Plan targets, the ongoing reforms in the energy as well as ports and rail network industries will be critical in lifting confidence and underpinning potential growth. Investing in competitive human capital is also necessary for inclusive growth and empowering citizens to confront the challenging global economy. In 2Q23, the official unemployment rate remained stubbornly high at 32.6% from a low of 21.0% in 2007, underscoring structural weaknesses in the economy that need to be amended.

Zoning into sectors: six out of ten sectors supported GDP growth

Figure 2 shows which sectors supported GDP growth in the reference quarter. Specifically, growth in various sectors played out as follows:

- The **agricultural, forestry and fishing sector** unexpectedly grew by 4.2% q/q, rebounding from an upwardly revised decline of 11.9% (previously -12.3%) in 1Q23. The growth in this sector underscored increased economic activity in field crops and horticultural products.

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- The **mining and quarrying sector** expanded by 1.3% q/q, slightly below the 1.4% quarterly expansion in the previous quarter, largely driven by increased output in platinum group metals, gold, and other metallic minerals as well as coal.
- The **manufacturing sector** grew by 2.2% q/q, reflecting an acceleration from 1.5% q/q in 1Q23 and was the largest contributor to headline real GDP growth. Within this sector, increased economic activity was recorded in the petroleum, chemical products, rubber and plastic products, as well as basic iron and steel, non-ferrous metal products, metal products and machinery.
- Weakness in the **electricity, gas and water sector** continued, albeit at a slower pace, with activity declining by 0.8% q/q marking a prolonged five-quarter recession. In the reference quarter, economic activity was dragged by decreased consumption of electricity and water.
- Activity in the **construction sector** declined by 0.4% q/q in 2Q23, following three consecutive quarters of expansion. This reflected decreased activity in both non-residential and residential buildings construction.
- Activity in the **trade, catering and accommodation sector** declined by 0.4% q/q, reflecting a deterioration from the 0.7% quarterly expansion in 1Q23. This underscored reduced activity in both wholesale and retail trade subdivisions.
- The **transport, storage and communication sector** shrank by 1.9% q/q, deteriorating from a quarterly expansion of 1.1% q/q in 1Q23, as activity in land transport and transport services declined.
- The **finance, real estate and business services sector** recorded a modest expansion of 0.7% q/q, relatively steady from the 0.6% q/q growth in the first quarter, reflecting increased activity in financial intermediation, insurance, and real estate.
- The **general government services sector** expanded by 0.6% q/q, reflecting a modest acceleration from 0.3% q/q in the first quarter, as employment in the civil service increased.
- Growth in the **personal services sector** was 0.6% q/q, a modest acceleration from the 0.4% quarterly expansion in 1Q23. This underscored increased activity in health and education.

Demand-side components

Unsurprisingly, **household consumption expenditure** declined by 0.3% q/q in 2Q23, after expanding by 0.4% q/q in 1Q23 (Figure 3). This reflected a reduction in goods consumption, with non-durables falling by 1.3% q/q, semi-durables falling by 1.2% q/q, and durables falling by 1.1% q/q. Meanwhile service consumption expanded by a moderate 0.7% q/q. Generally, consumers were confronted with high-living-cost pressures as inflation and cumulative interest rate hikes continued to weigh on their purchasing power. Nominal wages grew by 5.0% y/y (not seasonally adjusted), reflecting a modest acceleration from 4.4% y/y in 1Q23, but still below inflation. In 1H23, growth in consumption spending was 0.9% (seasonally adjusted) – consistent with our expectation of a moderation from 2.5% in 2022.

Fixed investment quite resilient despite subdued confidence: gross fixed capital formation (GFCF) grew by 3.9% q/q in 2Q23, reflecting an acceleration from an upwardly revised 1.8% q/q (previously 1.4% q/q) in 1Q23. GFCF by private business enterprises recorded strong growth of 5.7% q/q (and 7.7% y/y, seasonally adjusted), from 1.8% q/q (2.2% y/y) during the first quarter. Investment spending in machinery and equipment (up 11.0% q/q in 2Q23) continues to underpin private sector GFCF growth. This is linked to the importation of investment products related to renewable energy. Fixed investment in construction works increased by a muted 0.3% q/q, from 0.5% q/q in 1Q23, while other types of fixed investment assets recorded a quarterly decline in 2Q23. Growth in public corporation GFCF was 4.2% q/q (7.6% y/y) and growth in general government GFCF was -2.7% q/q, but up 8.7% y/y.

There was a strong build-up in inventories, amounting to R58.9 billion in 2Q23, from a downwardly revised R29.3 billion (previously R34.9 billion) in 1Q23. This reflected large inventory increases in the manufacturing, trade, catering and accommodation, and mining and quarrying sectors.

Flash Note: GDP



Real exports of goods and services grew by 0.9% q/q in 2Q23, reflecting a significant moderation from 4.3% q/q in 1Q23. Meanwhile, imports of goods and services grew by a more robust 3.3% q/q, albeit a moderation from 4.8% q/q in 1Q23. As a result, the real trade deficit of good and services amounted to R164.8 billion, widening from R129.8 billion in the prior quarter.

Figure 3: Expenditure on GDP q/q percentage change and YTD annual growth

	1Q23	2Q23	1H23
Consumption expenditure	0.4%	-0.3%	0.9%
Durable goods	-0.1%	-1.1%	2.4%
Semi-durables	2.5%	-1.2%	3.2%
Non-durable goods	1.0%	-1.3%	-1.6%
Services	-0.3%	0.7%	1.7%
General government consumption	1.3%	1.7%	1.5%
Gross fixed capital formation	1.8%	3.9%	6.0%
General government GFCF*	-2.7%	7.2%	10.3%
Public corporations GFCF*	0.8%	4.2%	6.3%
Private sector GFCF*	0.7%	5.7%	4.9%
Change in inventories (R billion)	29.3	58.9	88.2
Exports of goods and services	4.3%	0.9%	3.5%
Imports of goods and services	4.8%	3.3%	8.4%
Real net exports (R billion)	-129.8	-158.8	-147.3

* GFCF: Gross Fixed Capital Formation

Source: Stats SA, FNB Economics

Outlook

Today's dataset places marginal upside risk to our annual growth forecast. Although, uncertainty prevails amid the dynamic impact of load-shedding, GDP growth is now likely to average closer to 0.5% this year.

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