



*in the*  
**moment**

## Agriculture behind the large downside surprise in Q3 growth

**Q2 2024**  
0.3% q/q

**Q3 2024**  
-0.3% q/q

**Production**  
-0.3% q/q



**AGRICULTURE** Down 28.8% q/q, detracting 0.7 percentage points (pp) from growth due to lower field crops.



**MINING** Up 1.2% q/q from two consecutive quarters of contraction.



**MANUFACTURING** Subdued at 0.5% q/q and contributed marginally (0.1 pp) to growth.



**UTILITIES** Rose by 1.6% q/q as electricity supply continued to be stable.



**CONSTRUCTION** Picked up to 1.1% q/q from 0.5% q/q previously.



**TRADE** Contracted by 0.4% q/q. Lower activity for wholesale and motor trade as well as food and beverages.



**TRANSPORT** Contracted by 1.6% due to land transport and transport support services.



**FINANCE** Largest positive contributor to growth, increasing by 1.3% q/q and contributing 0.3 pp.



**GOVERNMENT** Contracted marginally by 0.1% q/q.



**PERSONAL SERVICES** Up 0.5% q/q and contributed 0.1 pp to growth.

**Expenditure**  
-0.2% q/q



**HOUSEHOLD CONSUMPTION** Growth moderated to 0.5% q/q from 1.2% q/q previously. Non-durable and semi-durable goods had the highest growth.



**GOVERNMENT CONSUMPTION** Decreased by 0.5% q/q due to purchases of goods and services and compensation of employees.



**GROSS FIXED CAPITAL FORMATION** Ticked up slightly to 0.3% q/q following four consecutive quarters of decreases.



**INVENTORIES** Detracted 0.5 pp from growth (second largest negative contributor).



**EXPORTS** Largest detractor at 1 pp as exports decreased by 3.7% q/q.



**IMPORTS** Decreased by 3.9% q/q resulting in a contribution of 1.1% (main positive contributor).

Source: Statistics South Africa (Stats SA)  
q/q = quarter-on-quarter



## So what?



On the back of the large negative surprise in growth, we are more cautious about growth in the fourth quarter of 2024. We maintain the view that household consumption expenditure may be boosted by the two-pot withdrawals and the impact of the second interest rate cut to 7.75% in November could provide some support. However, the large dip in agriculture is a concern.

Our estimate for economic growth in 2024 remains lacklustre at around 1%, with a potential for a downside surprise, before rebounding to an expected 1.8% in 2025. Improving sentiment, lower inflation, lower interest rates, and growing momentum in structural reform underpin the expected boost next year; however global policy uncertainty in the United States (US) remains a downside risk.

## Water crisis may have a bigger impact on growth indirectly

According to Stats SA data, real economic growth contracted by 0.3% q/q, a significant downside surprise from the Reuters median consensus and the SA Reserve Bank's (SARB) estimate of 0.5%.

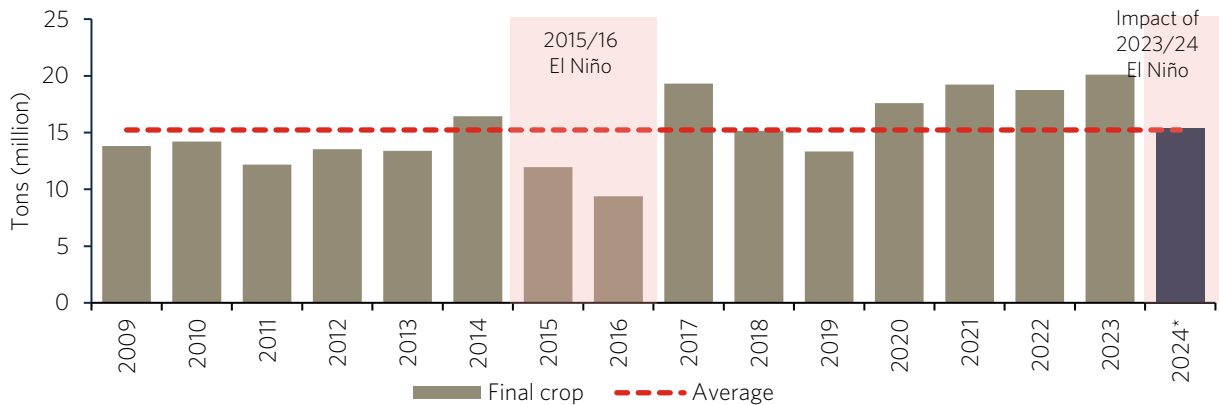
Growth was anticipated to marginally rebound from flat growth in the first quarter and weak growth of 0.3% q/q (revised down from 0.4% q/q) in the second quarter. Consequently, we may not experience better growth in the second half of the year as previously anticipated unless agriculture rebounds in the fourth quarter (an inherently volatile sector).

Agriculture was the largest negative contributor to economic growth as the sector decreased sharply by 28.8% q/q.

The production estimates from the Crop Estimates Committee (CEC) reveal that final summer crops for 2024 are down 25.2% y/y from 2023 largely due to the El Niño season - see chart 1.

Winter crop harvest is underway. While the CEC's fourth winter crop estimates for 2024/25 are down 1.4% from 2023/24, The Agriculture Business Chamber of SA (Agbiz) notes that "SA is in a relatively good place regarding wheat supplies this new marketing year" due to large imports in the previous season.

Chart 1: Final 2024 summer crops estimate down to long-term average

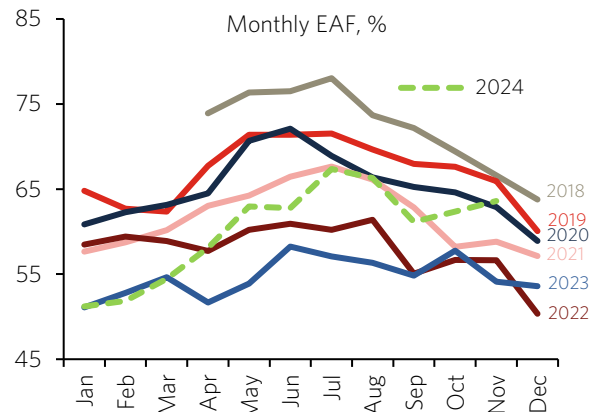


Source: CEC, Momentum Investments. \* Final production estimate

Economic growth continued to disappoint despite no loadshedding for two consecutive quarters, going on three. Positively, the electricity availability factor (EAF) continued to improve above 60% pointing to a continuation of stable electricity which means that

while the benefit of no loadshedding is taking longer to transpire, we are not expecting the electricity supply to play a detracting role from economic activity in the near term.

Chart 2: 2024 EAF bucking downward trend in the second half of the year relative to previous years



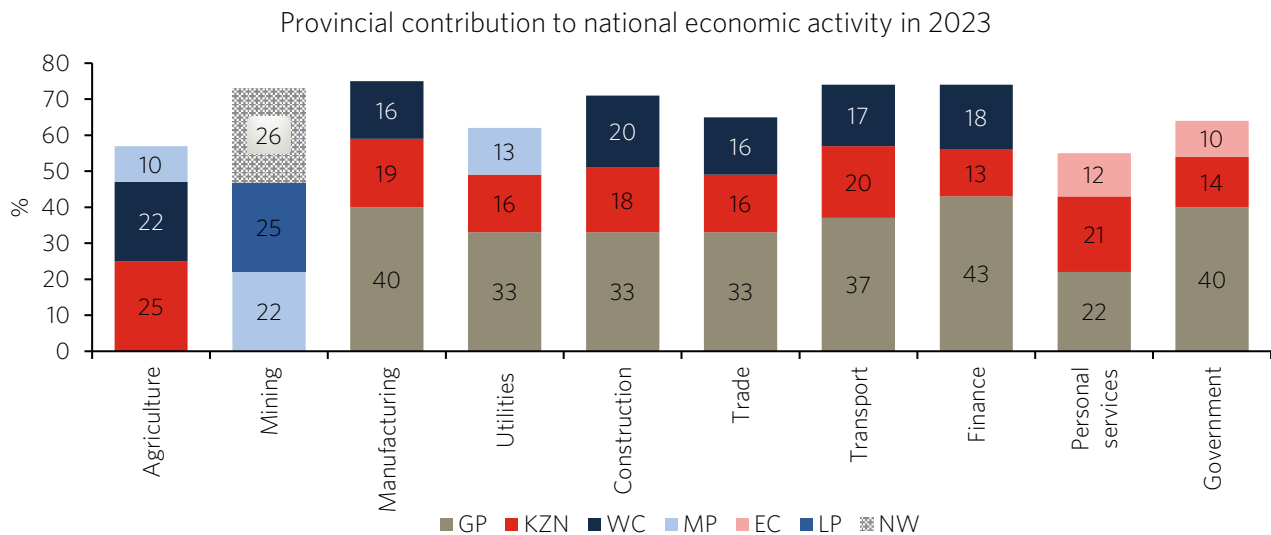
Source: Eskom, Momentum Investments

As illustrated in chart 2, the EAF is currently higher than in the past three years and this year is the first year where EAF has been on a steep upward trend throughout the year.

However, the water crisis is worsening, particularly in Gauteng. From an economic production perspective, this could impact activity given the dominance of Gauteng in the various sectors (see chart 3). However, the impact will likely be minimal because those sectors

are not large users of water and, combined, made up 83.2% of economic activity in 2023. The bigger impact on growth will be if the water crisis worsens in the provinces that contribute the most to agriculture and mining (KZN, WC, MP, LP and NW); however, this may also not be significant given the relatively smaller contribution of mining and agriculture to GDP (7.1% in 2023). According to the Department of Water and Sanitation, agriculture is the largest total user of water, followed by households and then mining (see chart 4).

Chart 3: Gauteng was the biggest contributor to national economic activity in eight of the 10 sectors in 2023



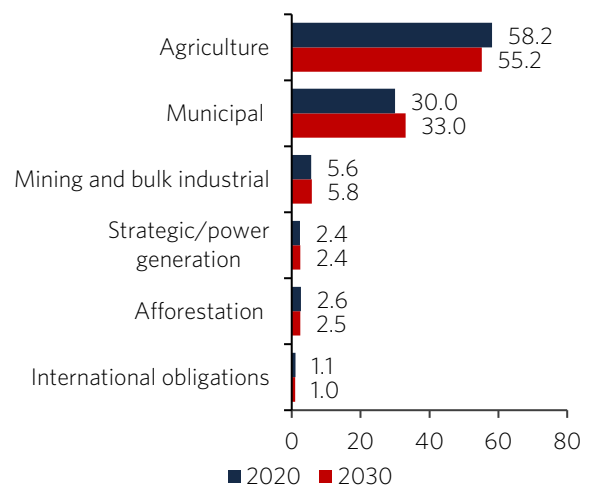
Source: Global Insight, Stats SA, Momentum Investments

GP = Gauteng, KZN = KwaZulu-Natal, WC = Western Cape, MP = Mpumalanga, EC = Eastern Cape, LP = Limpopo, NW = North West. Free State and Northern Cape not included

“ The water crisis is poised to have a bigger social impact (share of municipalities’ water requirement expected to increase in 2030 - see chart 4). ”

This could indirectly affect economic growth if social unrest picks up and consumer confidence is negatively affected. Furthermore, the water crisis could diminish SA’s appeal as a tourist destination and burden the health system or reduce productivity if health issues come into play.

Chart 4: Agriculture’s share of water usage expected to decrease while municipalities’ share increases



Source: Department of Water and Sanitation (2022 report), Momentum Investments  
Agriculture = irrigation and livestock watering. Municipal = industries, commerce, urban and rural domestic with households being the biggest user

## Lower imports offset the negative impact of lower exports on economic growth

According to Stats SA data, the 3.7% q/q decrease in exports in the third quarter resulted in exports detracting 1 pp from growth. Positively, imports were also lower by 3.9% q/q, adding 1.1 pp to growth. Therefore, lower imports offset the detraction coming from lower exports.

Household consumption expenditure growth moderated to 0.5% q/q (contributing 0.3 pp) in the third quarter from 1.2% q/q (0.8 percentage point contribution) in the second quarter. This is despite the one month of early pension fund withdrawals in September. The fourth quarter GDP data, which would include an additional three months of early pension withdrawals, will provide more evidence of the possible impact of the two-pot reform on economic growth.

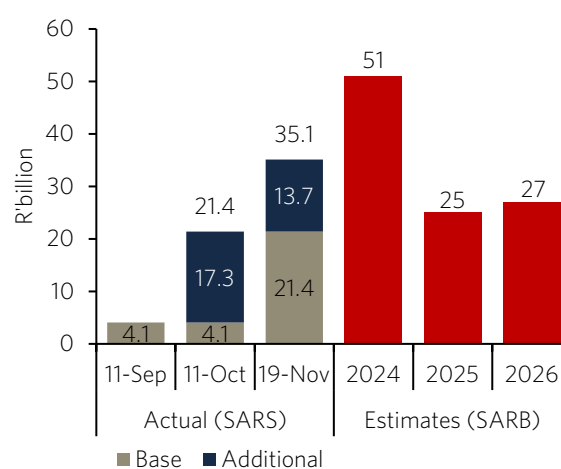
According to the SA Revenue Service (SARS), the gross lump sum of savings withdrawals from the two-pot system increased from R4.1 billion in the first few days since the pension reform to R35.1 billion by 19 November (see chart 5). The SA Reserve Bank (SARB) subsequently increased its estimate of withdrawals for 2024 from R40 billion to R51 billion.



The actual two-pot withdrawals and the estimated total withdrawal for this year may support consumer spending in the fourth quarter if consumers allocate a meaningful portion of their withdrawals to consumption expenditure.



Chart 5: Two-pot withdrawals gaining momentum in 2024



Source: SARS, SARB, Momentum Investments

## Third quarter economic growth calls for caution on near-term growth optimism

In its staff concluding statement published in November, the IMF projects SA's economic growth at 1.8% by the end of this decade. They note that risks to the growth outlook are tilted to the downside. Downside global risks include "further deepening of geoeconomic fragmentation and intensification of protectionist policies, an escalation of ongoing conflicts, a deeper slowdown in key trading partners (e.g. China), or slower global disinflation which could lead to exchange-rate, commodity-price, and capital flow volatility, dampening confidence, exports, and growth". Domestically, delays in the implementation of reforms would pose downside risks to economic growth.

In our view, the IMF's baseline projection is extremely cautious particularly because the baseline includes ongoing structural reform efforts, which in our view have the potential to result in more robust growth. The SARB estimates the domestic economy to grow by 2% by 2027 (before the end of this decade) and we estimate that economic growth will marginally breach the 2% mark in 2026.

The IMF's statement underscores the importance of the GNU's sustainability to achieve higher economic growth in SA. It assumes a faster pace of reform implementation under the GNU or stronger global growth as an upside risk to its baseline view.

In the near term, the large negative surprise in growth, steers us to be more cautious about growth in the fourth quarter of 2024. We maintain the view that household consumption expenditure may be boosted by two-pot pension withdrawals and the impact of the second interest rate cut to 7.75% in November could provide some support. However, the large dip in agriculture is a concern. Overall, we still expect economic growth to recover from 0.7% in 2023 but

remain lacklustre at around 1% in 2024 (with the potential of a downside surprise) before rebounding to an expected 1.8% in 2025. Improving business and consumer sentiment, lower inflation, lower interest rates, and growing momentum in structural reform underpin the expected boost next year; however global policy uncertainty under Donald Trump in the US remains a downside risk.

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