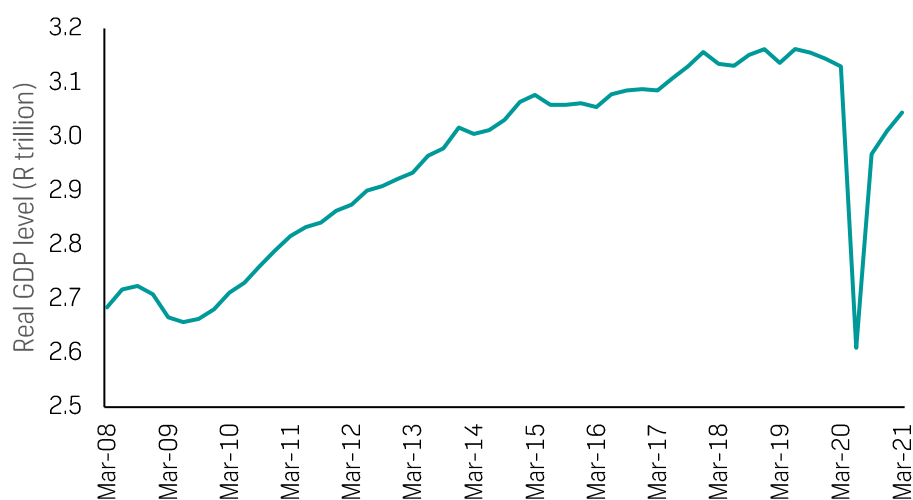


South Africa's 1Q21 GDP growth exceeds consensus expectations

The economy's GDP officially grew by 4.6% q/q at a seasonally adjusted and annualised rate (saar) in 1Q21, following downwardly revised growth of 5.8% q/q (previously: 6.3% q/q) seasonally adjusted and annualised. The out-turn was higher than our 2.4% q/q estimate and the Bloomberg consensus estimate of 3.1% q/q. The Bloomberg forecast survey of 16 research houses ranged from a minimum of 1.5% q/q to a maximum of 9.2% q/q. Interestingly, the most considerable surprise to our forecast was the finance, insurance, real estate, and business services sector which posted solid growth of 7.4% q/q (versus our estimate of 2.0% q/q), contributing 1.5ppt to overall real GDP growth. Despite sustained quarterly growth momentum, the economy's GDP was still 3.2% below 1Q20 levels.

Figure 1: Real GDP recovery sustained in 1Q21



Source: Stats SA, FNB Economics

Growth outlook: revised higher amid better-than-expected out-turn

Premised on today's GDP outcome, the upward risks to our annual GDP growth forecast that we have been cautiously flagging appear more likely. Subsequently, we preliminarily lift our annual GDP growth to 4.1% from our previous forecast of 3.7%, with risk tilted on the upside. Our concern about the extent to which export volumes benefit from the rising external demand is evident in today's out-turn, which showed that export volumes contracted by an annualised 0.9% q/q in 1Q20 following growth of 26.6% q/q in 4Q20. We are also concerned about the continued electricity loadshedding.

Production side: broad-based growth performance in 1Q21

In 1Q21 eight out of ten sectors of the economy posted favourable quarterly growth rates and contributed positively to overall real GDP growth. The finance, real estate, and business services sector grew by 7.5% q/q annualised. As a result, it contributed 1.5ppt to real GDP growth, supported by increased economic activity for financial intermediation, auxiliary activities, real estate activities and other business activities. Economic performance in this sector could improve further as domestic and global demand recover, which would support financial intermediation.

The **mining and quarrying sector** posted considerable growth of 18.1% q/q seasonally adjusted and annualised and contributed 1.2ppt to overall real GDP growth in 1Q21. According to Stats SA's report, mining activity was supported by strong production growth of platinum group metals (PGMs), iron ore and gold. Positively, the mining sector's GDP was 3.5% higher in 1Q21 relative to the pre-pandemic 1Q20 level. This sector's positive performance should continue amid sustained higher commodity prices and rising global demand.

The **trade, catering and accommodation** sector's GDP increased by 6.2% q/q annualised, supported by retail trade and wholesale trade. We expect this sector to benefit from various factors, including the vaccine roll-out, accommodative monetary policy and modestly recovering demand. Stats SA's data showed that compensation of employees was up by 3.2% in 1Q21 relative to 1Q20, but contracted by 4.6% q/q (this data is not seasonally adjusted). We expect non-labour income (interest and dividends) to support consumer expenditure somewhat this year. However, a large proportion of households that earn lower wages and contribute more to essential expenditure face elevated levels of unemployment.

The **transport, storage and communication** sector grew by 4.8% q/q annualised, supported by increased activity in land transportation and communication services. The **manufacturing sector** grew by 1.6% q/q annualised, supported by motor vehicles, parts and accessories, and other transport equipment as well as wood and wood products, paper, publishing, and printing. We expect both the transport and manufacturing sectors to perform better this year amid generally recovering demand and trade. The manufacturing sector's GDP was only 1.1% lower in 1Q21 relative to 1Q20, while transport, storage and communication's GDP was materially lower by 11.5% over the same period.

The **personal services sector** increased by 1.7% q/q annualised, supported by increased community services and other producers' activities. This sector's activity should modestly improve as the vaccine roll-out progresses. In addition, fitness centres services and sporting and recreational activities should benefit from less stringent lockdown restrictions. Notably, the overall personal service sector's GDP was only 0.6% lower in 1Q21 relative to 1Q20. On the other hand, the **general government services sector** grew by 0.9% q/q annualised and was up by 0.5% y/y.

Surprisingly, the **agriculture, forestry and fishing sector** contracted by 3.2% q/q annualised, mainly due to lower production of field crop and animal products. Still, we expect last year's growth in this sector to be sustained this year, albeit at a slower pace due to last year's high base. Weather conditions and rising external demand should support activity in the agricultural sector. This sector's GDP was 7.5% higher in 1Q21 relative to 1Q20.

Worryingly, the **electricity, gas and water** sector contracted by 2.6% q/q annualised and by 0.9% y/y in 1Q21. Activity in this sector will be interrupted by Eskom's continued planned and unplanned maintenance of its power plants. As load-shedding continues, this poses a risk to water supply and internet connectivity, with implications for overall economic activity.

Figure 2: Sectoral growth performance in 1Q21

Sectors	% q/q (saar)	% y/y (NSA)
Agriculture, forestry and fishing	-3.2	7.5
Mining and quarrying	18.1	3.5
Manufacturing	1.6	-1.1
Electricity, gas and water	-2.6	-0.9
Construction	0.8	-17.5
Trade, catering and accommodation	6.2	-3.8
Transport, storage and communication	4.8	-11.5
Finance, real estate and business services	7.4	-5.3
General government services	0.9	0.5
Personal services	1.7	-0.6
Real GDP	4.6	-3.2

Source: Stats SA, FNB Economics

Measured from the expenditure side, SA's GDP increased by 4.5% q/q saar in 1Q21, from a revised 6.1% in 4Q20. The revision to GDP was on inventories, which are R2.5 billion lower than previously estimated. The easing of lockdown restrictions has been supportive of the gradual improvement in economic growth, but the economy is still 2.6% below its 1Q20 level and is closer to 2014 levels.

Imports are the biggest mover in 1Q21, growing 26.5% q/q saar and shaving 6.8ppt from GDP, while exports have contracted by 0.9% and shaved off a further 0.3ppt. Investments have returned to negative territory, recording -2.6% and contributing -0.4ppt. Household and government expenditure recorded 4.7% and 1.0% respectively, adding 3.0ppt and 0.2ppt to GDP. Negative inventories have narrowed by over R64 billion and have added a further 8.7ppt to GDP.

Figure 3: GDP growth from the expenditure side

	% q/q (saar)	% y/y (NSA)
Final consumption expenditure by households	4.7	-0.9
Final consumption expenditure by general government	1.0	0.3
Gross fixed capital formation	-2.6	-13.0
Gross domestic expenditure	12.0	-2.3
Exports of goods and services	-0.9	-3.7
Imports of goods and services	26.5	-2.7
Expenditure on gross domestic product (GDP)	4.5	-2.6

Source: Stats SA, FNB Economics

Households' expenditure

Expenditure by households is lower compared to 4Q20 (4.7% vs 7.5% previously) and is 0.9% lower than a year ago. Increased expenditure was mostly allocated to clothing and footwear, which has recorded 22.2% growth (q/q, seasonally adjusted and annualised). Besides clothing, miscellaneous goods and

services (9.8%); furniture, household equipment and maintenance (8.9%); health (6.6%); recreation and culture (6.5%); as well as communication (6.0%) recorded considerable growth. Transport and restaurants are in negative territory at -1.9% and -3.0% respectively. Quarterly growth in expenditure was broad-based, led by durables (20.7%); followed by semi-durables (10.2%), services (3.9%) and non-durables (0.4%).

Government expenditure

Government expenditure is only marginally lower in 1Q21 compared to 4Q20 (1.0% vs 1.1% previously), and 0.3% higher than 1Q20 – which is expected given the social spending government has committed to countering the effects of the pandemic.

Gross fixed capital formation

After gains in 2H20 (26.9% in 3Q20 and 12.1% in 4Q20), investments returned to negative territory, and are a substantial 13% lower than in 1Q20. The sharp turn in investments is driven by machinery and other equipment (-10.1%); transport equipment (-4.2%); and residential buildings (-1.7%). On a year-on-year basis investments by government have been growing since the latter half of 2020 – by 1.8% in 3Q20; 10.0% in 4Q20; and 11.7% in 1Q21. Public corporations and private businesses have instead posted substantial drops in investment, currently at -28.9% and -15.1% respectively.

Inventories and external trade

Real inventories destocking amounted to R53.2 billion in 1Q21 compared to R117.5 billion in 4Q20, indicating that the rate of destocking reduced significantly. Easier economic restrictions, rising demand and improving confidence means that the rate of destocking should slow further. Real exports were 0.9% lower in 1Q21 relative to 4Q20, while real imports were 26.5% higher. Both imports and exports are lower than their 1Q20 levels, by 2.7% and 3.7% respectively.

End!