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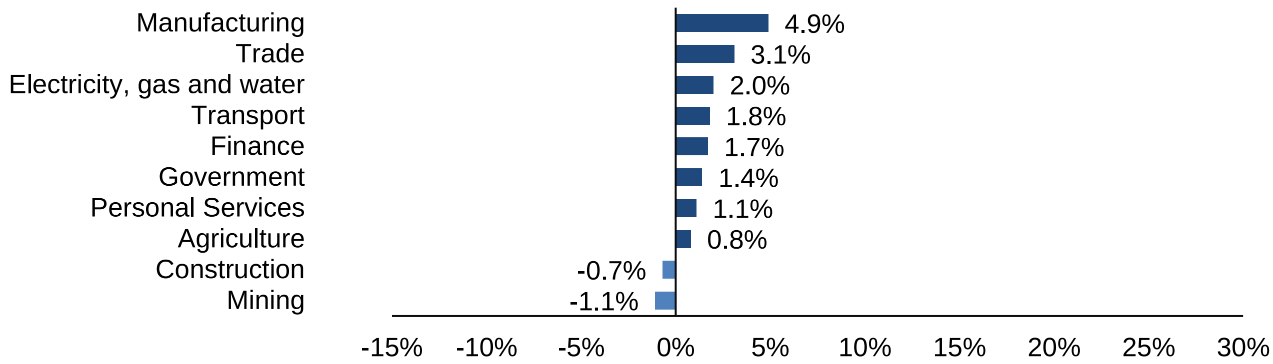
GDP Update: GDP grew by 1.9% qqsa in Q1.22, ahead of expectations

Tuesday 7 June 2022

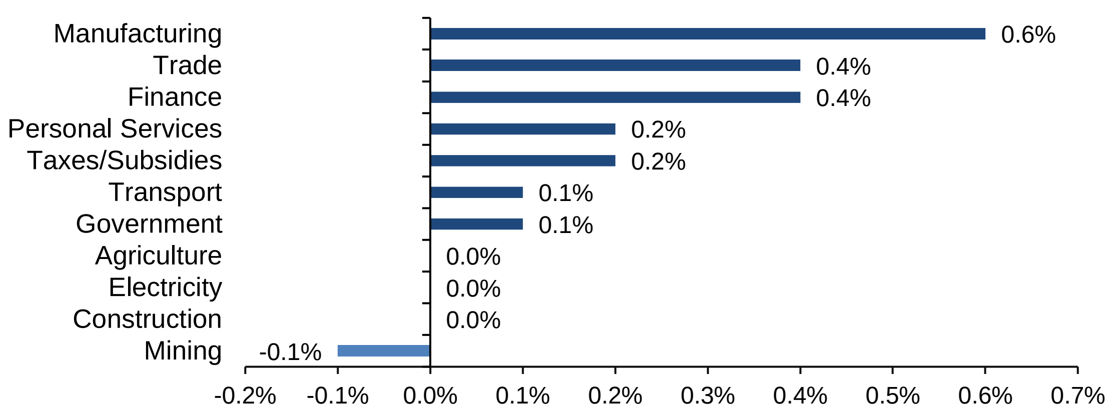
Figure 1: GDP sector performance in Q1.22 (production approach), qqsaa



Sources: Stats SA

- Headline GDP grew by 1.9% on a quarter on quarter seasonally adjusted (qqsa) basis in the first quarter of 2022, following Q4.21's 1.4% qqsa (revised) lift and by 3.0% when measured on a year-on-year basis. The outcome was ahead of consensus expectations (Bloomberg) of a 1.2% qqsa lift.
- The economy was particularly buoyant in January with key sectors of the economy rising notably on an annual basis, supported by a pick-up in demand, with few Covid-linked restrictions in place. The war between Ukraine and Russia, which commenced on the 24th February however dampened confidence and exacerbated supply chain bottlenecks triggered by the pandemic, impacting optimal economic activity.
- The increase in growth over the quarter was led by the manufacturing industry which rose by 4.9% qqsa, contributing 0.6% points to the headline reading. Only the mining and construction industries declined on a quarter-on-quarter basis.
- The manufacturing sector's performance, coupled with a 2.0% qqsa pick-up in the electricity, gas and water category, supported the 3.7% qqsa increase in the secondary sector of the economy, this despite a modest decline (-0.7% qqsa) in construction activity.
- Conversely, the primary sector of the economy, which comprises the agricultural and mining sectors fell by -0.4% qqsa in Q1.22, dragged down by the mining sector which fell by a further -1.1% qqsa in the first quarter, following a -3.2% qqsaa drop in Q4.21.

Figure 2: Contributions to Q1. 22 GDP (Production approach)



Source: Stats SA

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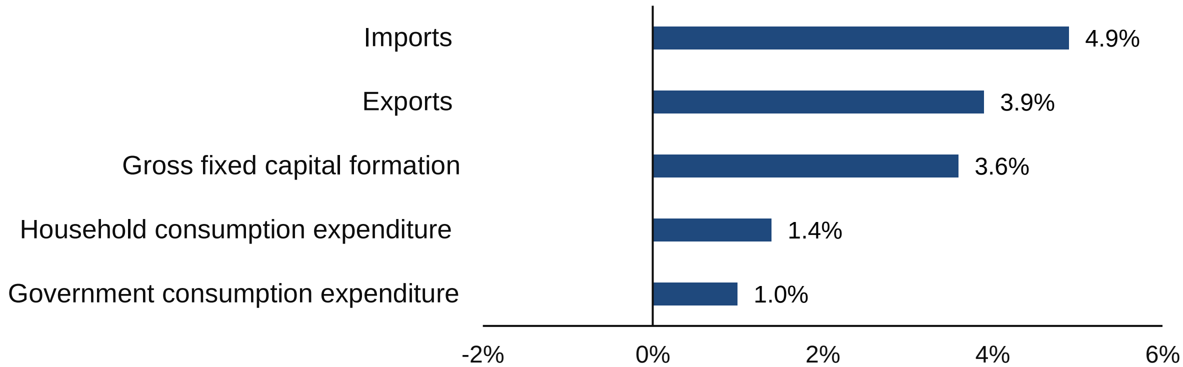
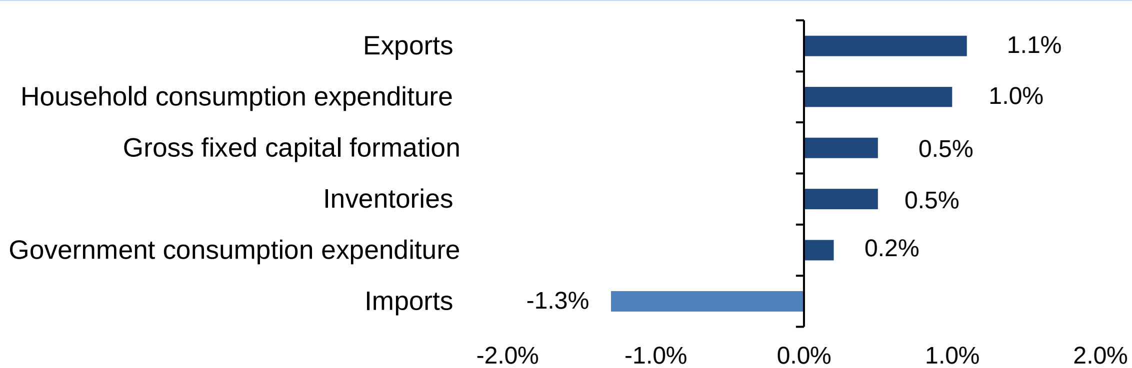
Figure 3: GDP sector performance in Q1.22 (Expenditure approach), qqsaa



Sources: Stats SA

- While sanctions on Russian exports and disruptions to export activity from Ukraine led to an escalation in a number of commodity prices, domestically, logistical challenges, owing to aging and poorly maintained infrastructure was an impediment to South Africa's export potential.
- The agricultural sector rose by a modest 0.8% qqsa, following a robust pick-up in Q4.21. The lift "was mainly due to increased production of horticulture products", according to Stats SA. Unfavourable weather conditions, together with "rising input costs and deterioration of the domestic network industries" are among the chief risks facing South African farmers and agribusiness, according to Agbiz.
- The tertiary segment of the economy rose by 1.8% qqsa, with all sectors increasing over the quarter. The finance sector which makes up a substantial component of overall GDP, grew by 1.7% qqsa, following last quarter's decline and accordingly added 0.4% points to the topline reading. Moreover, the trade sector which encompasses tourism activity and retail sales grew by a further 3.1% qqsa, adding an additional 0.4% points to the headline number. The tourism sector which was one of the biggest casualties of the pandemic has rebounded, following the lifting of domestic lockdown restrictions and international travel bans.
- The expenditure approach to measuring GDP also yielded an outcome of 1.9% qqsa in Q1.22, following Q4.21's 1.5% qqsa (revised) lift. Household final consumption expenditure (HFCE) which makes up around 60% of the GDP outcome grew by 1.4% qqsa in Q1.22, accordingly adding 1.0% point to the topline reading. The restaurants and hotels sub-category increased by 6.5% qqsa, while the transport and non-alcoholic beverage categories grew by 2.8% qqsa and 2.5% qqsa respectively.

Figure 4: Contributions to Q1.22 GDP (Expenditure approach)



Sources: Stats SA

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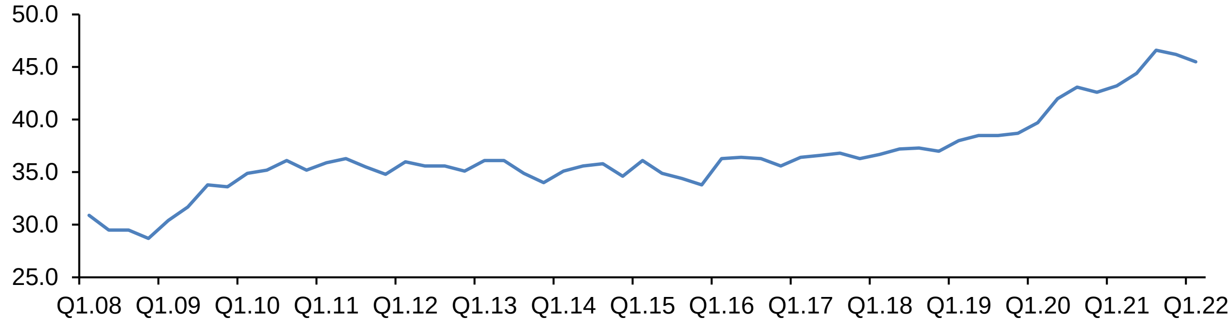
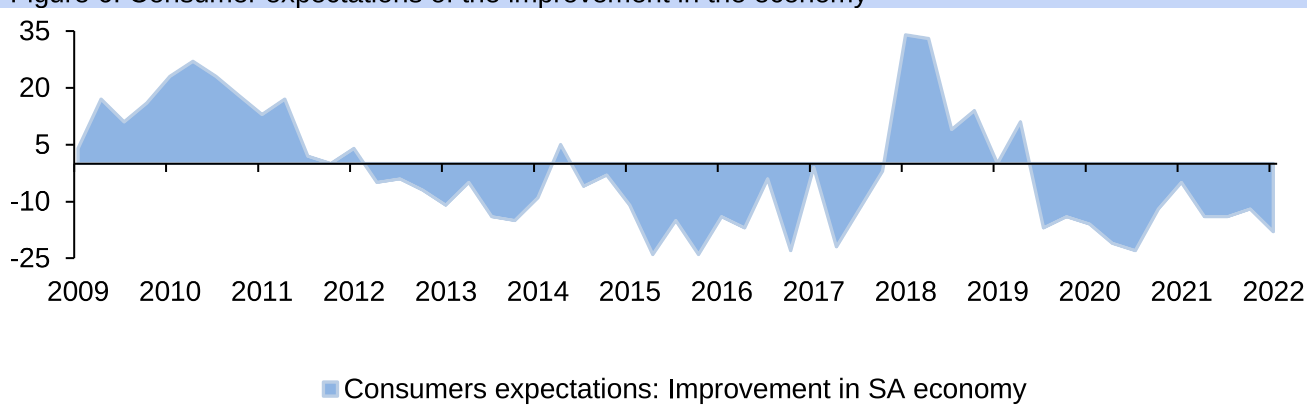
Figure 5: Expanded Unemployment Rate



Sources: Stats SA

- However despite this moderate pick-up in spend, which is down on Q4.21's reading of 3.0% qqsa (revised) many consumers remain financially constrained with sharply rising food and fuel prices diluting already limited disposable incomes. Moreover unemployment remains at critically high levels, while mounting interest rates will continue to weigh on the indebted. Accordingly, HCE is projected to grow modestly over the medium-term.
- Gross fixed capital formation grew by 3.6% qqsa in the first quarter, following Q4.21's 1.6% qqsa (revised) increase, supported largely by a pick-up in the machinery an equipment and transport equipment components. A notable pick-up in business confidence is required to further boost private sector investment. Security of electricity supply and an improvement in the ease of doing business is imperative is imperative in this regard.
- Net exports detracted from growth in expenditure on GDP in Q1.22. Indeed, while export activity grew by 3.9% qqsaa, it was outpaced by the import of good and services of 4.9% qqsa.
- SA's growth trajectory remains subject to downside risks including persistent geo-political tensions, which along with stringent lockdowns in China saw global growth projections downgraded. Domestically a slow, inconsistent implementation of key structural reforms outlined by the State continues to impede performance and weigh on the country's competitiveness. Security of electricity supply remains a chief priority.

Figure 6: Consumer expectations of the improvement in the economy



Source: BER

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