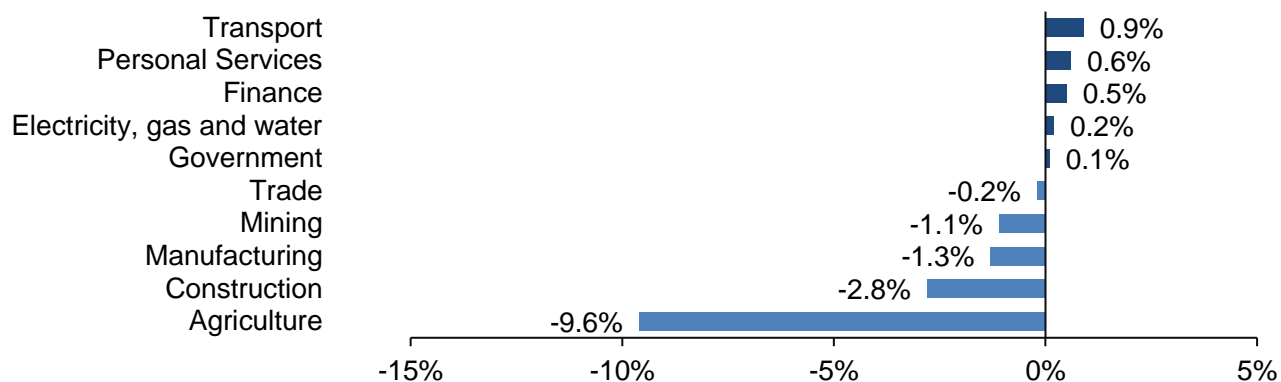


GDP Update: GDP fell by -0.2% qqsa in third quarter

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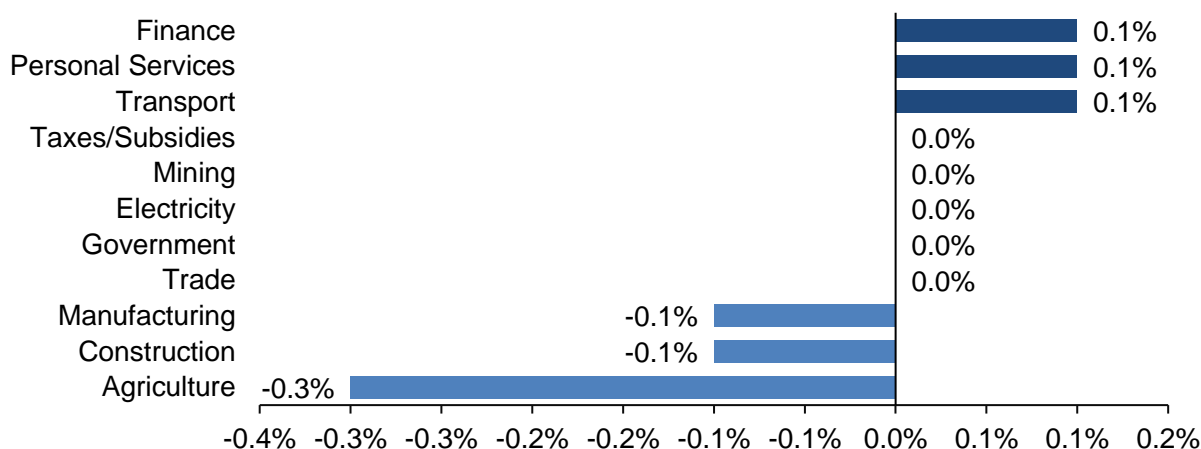
Figure 1: GDP sector performance in Q3.23 (production approach), qqsa



Sources: Stats SA

- Headline GDP fell by -0.2% in the third quarter of 2023 when measured on a quarter on quarter seasonally adjusted (qqsa) basis. The outcome which was largely in line with consensus expectations (Bloomberg) follows Q2.23's modest 0.5% qqsa (revised) lift. Measured on a year-on-year basis GDP contracted by -0.7% in the third quarter.
- The weak GDP outlook is reflective of the fragile economic environment which continues to be plagued by a number of challenges, predominantly inadequate electricity supply and significant logistical constraints. Specifically electricity generation is down -6.0% year-to-date (to end September) when compared to the same period last year. Moreover, the N3 truck incidents that took place in July and the week-long Western Cape taxi strike in August will have contributed to the third quarter's lacklustre growth outcome.
- The agricultural sector was the worst performing sector in Q3.23, contracting by -9.6% qqsa and accordingly detracting -0.3% points from the topline outcome. "A decline in output was recorded for field crops, animal products and horticulture products," according to Stats SA.
- The agricultural sector continues to face a number of challenges impeding optimal activity, including the declining state of our roads, failing water infrastructure, electricity supply constraints and climate concerns.
- Moreover, the mining and quarrying sector contracted by -1.1% qqsa in the third quarter.

Figure 2: Contributions to Q2. 23 GDP (Production approach)



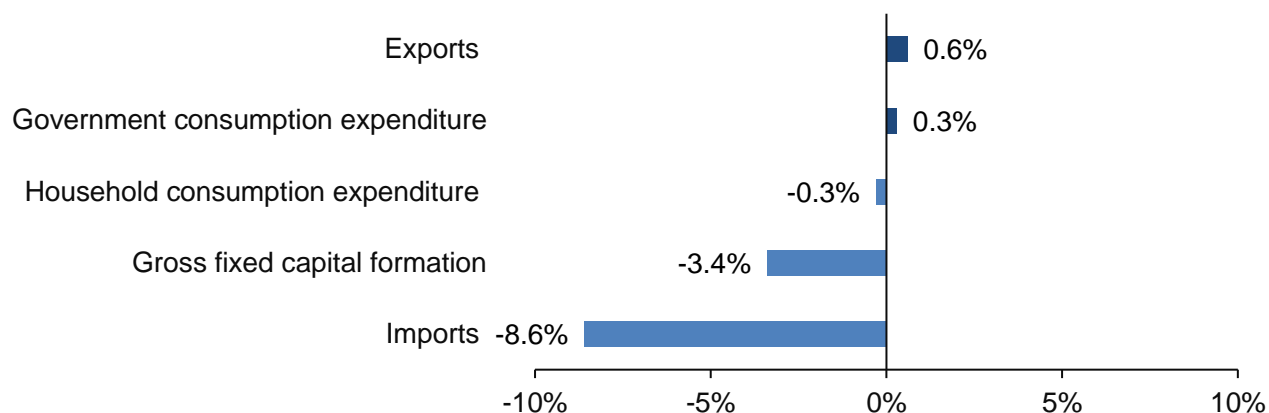
Source: Stats SA

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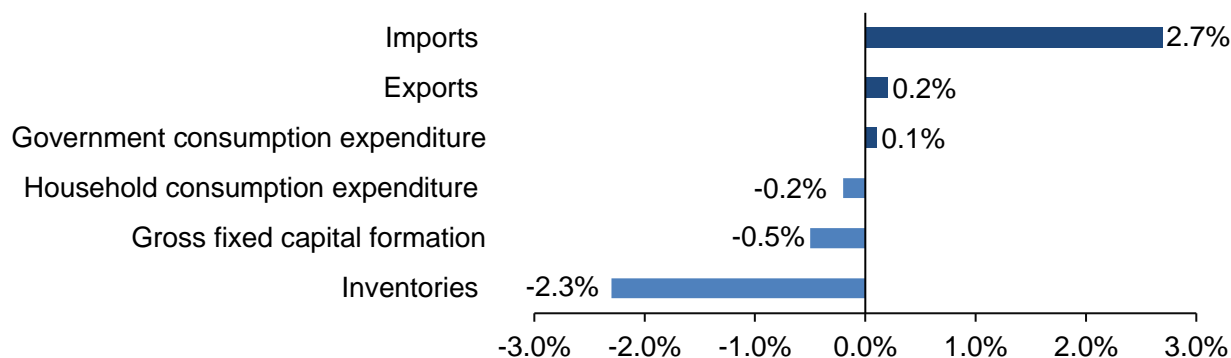
Figure 3: GDP sector performance in Q2.23 (Expenditure approach), qqsa



Sources: Stats SA

- Indeed, the fragile global environment has weighed heavily on commodity demand, with the World Bank's metals and minerals index down over -13.0% year-to-date (to end October). Overall, the primary sector of the economy declined by -4.4% qqsa.
- The secondary sector of the market contracted by -1.3% qqsa, weighed down by the manufacturing and construction industries which together detracted a further -0.2 of a % point from the GDP outcome. Specifically, manufacturing activity fell by -1.3% qqsa, largely underpinned by the performance of the the food, beverages & tobacco division. Notwithstanding the myriad of domestic challenges, including subdued demand, the fragile global manufacturing environment continues to undermine export potential.
- Activity in the construction sector fell by -2.8% qqsa, following a decline of -0.2% qqsa (revised) in Q2.23. "Decreases were reported for residential buildings, non-residential buildings and construction works," according to Stats SA. The results of the BER's Q3.23 building survey reveal that confidence amongst builders in the residential segment of the market fell further in the third quarter. Indeed, "the outlook for work deteriorated as based on respondents' own expectations".
- The tertiary segment of the economy rose by a marginal 0.4% qqsa. The transport, personal services and finance sectors added a combined 0.3 of % point to the headline GDP outcome, on the back of modest growth of 0.9% qqsa, 0.6% qqsa and 0.5% qqsa respectively. Conversely, the trade sector fell by -0.2% qqsa. Although retail trade sales and tourism accommodation figures ticked up in the third quarter, the sector was weighed down by food and beverages, wholesale and motor trade activity.

Figure 4: Contributions to Q3.23 GDP (Expenditure approach)



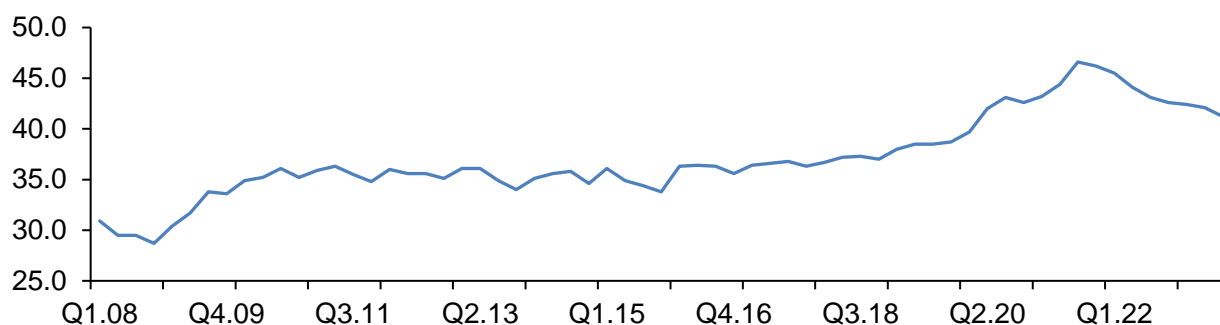
Sources: Stats SA

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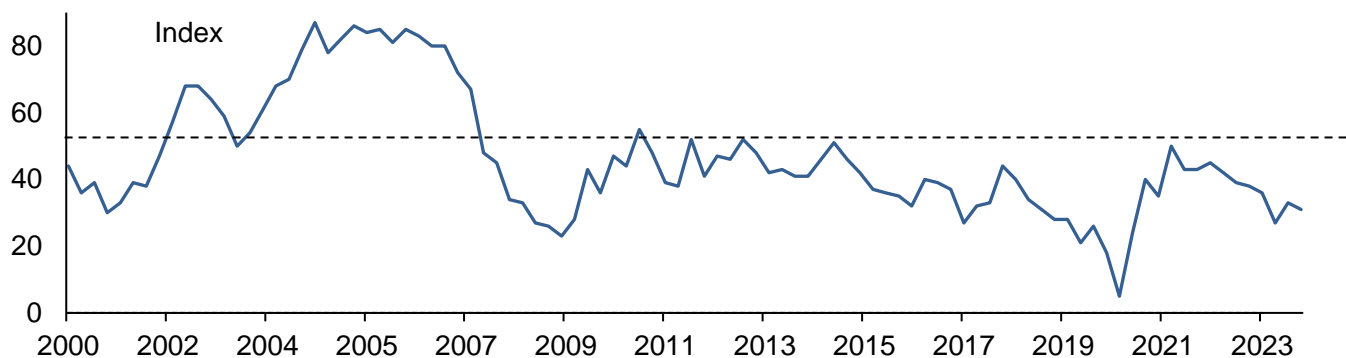
Figure 5: Expanded Unemployment Rate



Sources: Stats SA

- Similarly, the expenditure approach to measuring GDP yielded an outcome of -0.1% qqsa in Q3.23, following Q2.23's 0.7% qqsa (revised) lift. Household consumption expenditure, which makes up around two thirds of GDP declined over the quarter, falling by -0.3% qqsa and accordingly detracted -0.2 of a % point from the top line number.
- The semi-durables category was the only positive contributor to the HCE reading, while non-durables, durables and services all declined over the quarter. The semi-durables retail category (which includes, clothing and footwear) appears "to be continuing the growth trend that has emerged since the lifting of lockdown restrictions", according to the BER's Q3.23 retail survey.
- Indeed, the consumer remains highly constrained grappling with the elevated cost of living, while domestic interest rates are projected to remain higher for longer weighing on the indebted. Moreover, the unemployment rate is hovering at a still elevated 31.9%.
- Government consumption grew by 0.3% qqsa in the third quarter adding 0.1 of a % point to the overall reading, while gross fixed capital formation (GFCF) declined by -3.4% qqsa, following seven consecutive months of growth and thereby detracted -0.5 of a % point from the quarter's GDP result. The decrease was underpinned largely by the machinery and other equipment segment, which declined by -3.2% qqsa, (detracting -1.3% points). A notable pick-up in business confidence which slid further into depressed territory in Q4.23 is required to markedly boost investment. Security of electricity supply, a significant improvement in the logistics network, political certainty and an improvement in the ease of doing business are imperative in this regard.

Figure 6: Business Confidence



Source: BER

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