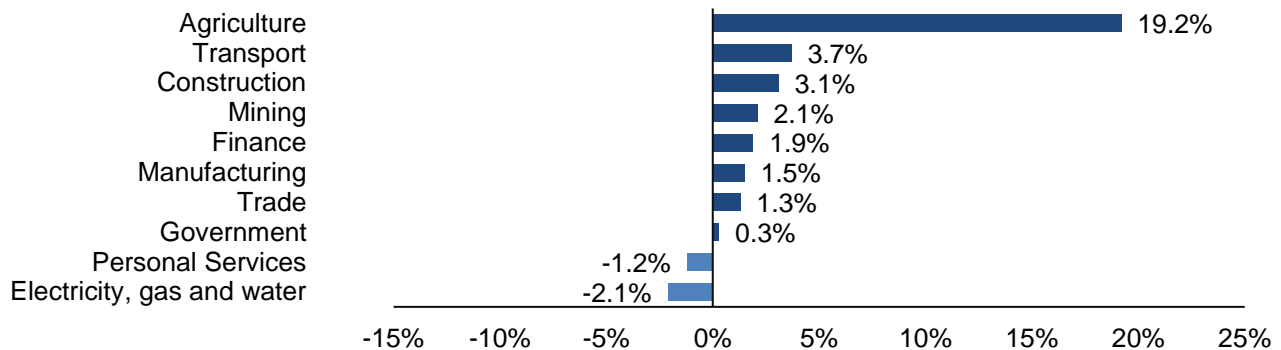




GDP Update: GDP rose by 1.6% qqsa in Q3.22, ahead of expectations

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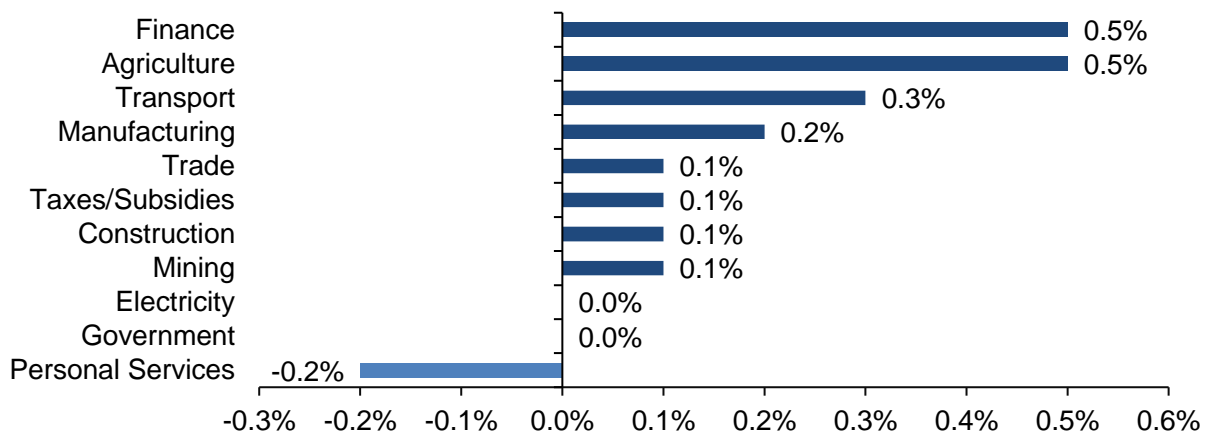
Figure 1: GDP sector performance in Q3.22 (production approach), qqsa



Sources: Stats SA

- Headline GDP rose by 1.6% on a quarter on quarter seasonally adjusted (qqsa) basis in the third quarter of 2022, following Q2.22's -0.7% qqsa slide. The outcome was notably ahead of consensus expectations (Bloomberg) of a 0.4% qqsa increase.
- Measured on a year-on-year basis GDP rose by 4.1% in the third quarter.
- Base effects were partly responsible for the quarterly lift, following a dire second quarter performance which was adversely effected by the severe flooding in Kwa-zulu Natal, impeding economic activity.
- The increase in growth over the quarter was largely broad based, with only the electricity and personal services sectors detracting from the headline outcome.
- The primary sector of the economy rose by a notable 8.2% qqsa in Q3.22, adding 0.6% points to the topline reading on the back of gains in agricultural and mining production of 19.2% qqsa and 2.1% qqsa respectively. "Increased economic activities were reported for field crops and horticulture products" according to Stats SA, boosting the agricultural sector's performance.
- Going forward however, modest "declines in critical crop harvests such as maize, production challenges in the sugar industry, trade friction in fruits, vegetables, beef and wool, as well as widespread foot-and-mouth disease" could weigh on the full year's performance, according to Agbiz. Moreover, the mining sector remains susceptible to slowing global growth and accordingly demand.

Figure 2: Contributions to Q3. 22 GDP (Production approach)



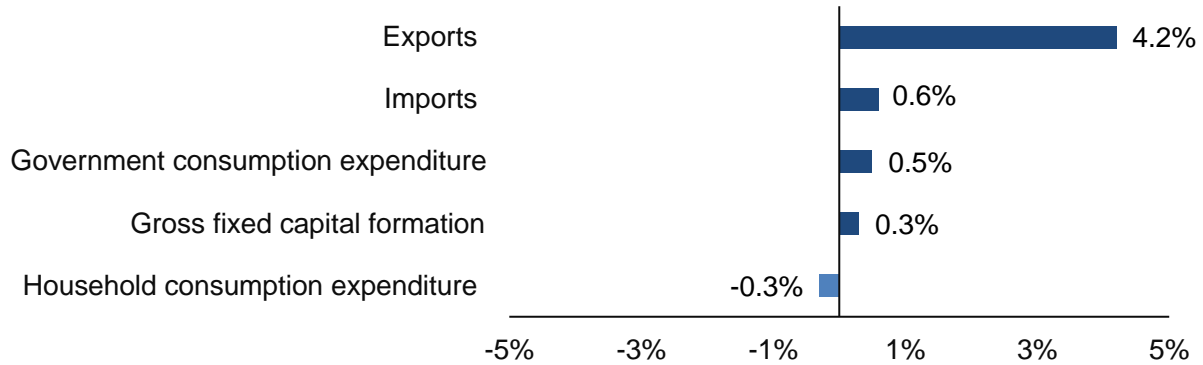
Source: Stats SA



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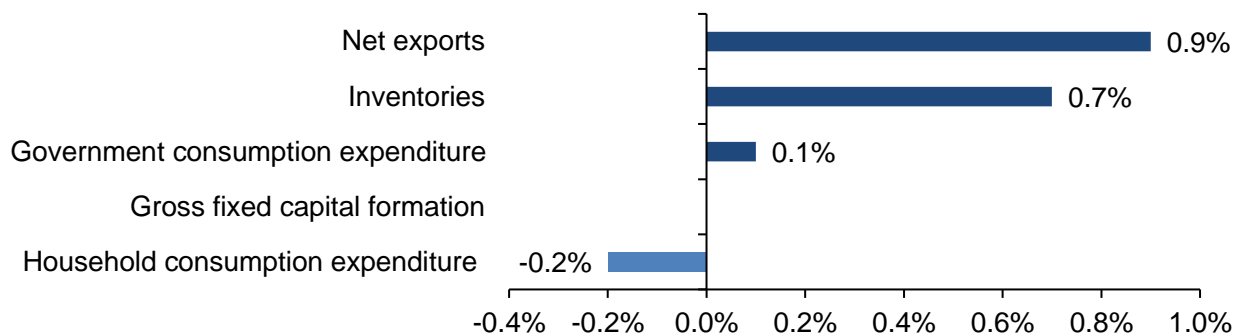
Figure 3: GDP sector performance in Q3.22 (Expenditure approach), qqsa



Sources: Stats SA

- The secondary sector of the market increased by a modest 1.2% qqsa, supported by a 3.1% qqsa lift in the construction sector and a 1.5% qqsa increase in manufacturing activity. The electricity, gas and water segment of the economy however declined over the quarter, on a slide in the consumption of electricity and water. Indeed, the electricity supply situation remains critical, with rotational load shedding a persistent feature.
- Similarly, the tertiary segment of the economy grew by 1.1%, with the finance sector increasing by 1.9% qqsa and owing to its size of the overall GDP reading added 0.5% points to the headline number. Additionally the trade sector rose by 1.3% qqsa, aided by gains in “wholesale, motor trade and catering and accommodation”, according to Stats SA. The retail component however disappointed but we anticipate a pick up in sales in Q4.22 supported by the seasonally significant festive season.
- The transport sector also added to the lift in the tertiary segment on growth of 3.7% qqsa.
- The expenditure approach to measuring GDP likewise yielded an outcome of 1.6% qqsa in Q3.22, following Q2.22’s -0.7% qqsa decline, boosted largely by a 4.2% qqsa in export activity, which added 1.1% points to the topline reading.
- Conversely, household final consumption expenditure (HFCE) which makes up around two thirds of the GDP outcome fell by -0.3% qqsa and accordingly detracted -0.2% points from the headline number, dragged down primarily by the non-durable goods category, which declined by -0.8% qqsa (detracting 0.3% points). Indeed, consumers remain financially constrained, reeling from the rising cost of living and declining real incomes.

Figure 4: Contributions to Q3.22 GDP (Expenditure approach)



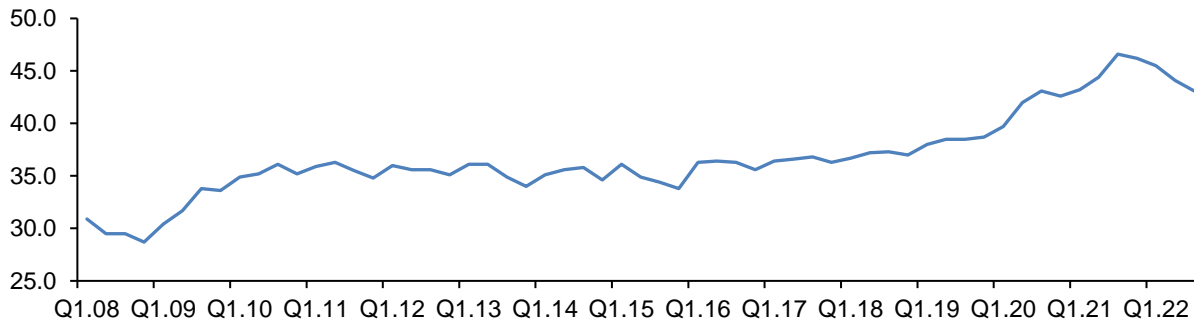
Sources: Stats SA



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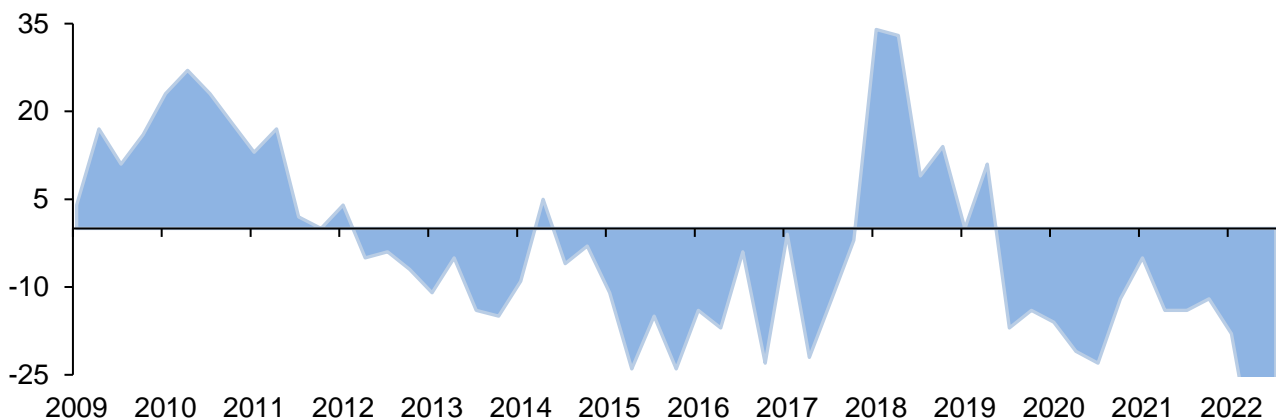
Figure 5: Expanded Unemployment Rate



Sources: Stats SA

- Moreover, unemployment remains critically high, especially in the youth category of the market, although it did improve somewhat in Q3.22.
- Government expenditure rose by 0.5% qqsa, moving back into growth territory following Q2.22's -0.8% qqsa (revised) contraction.
- Gross fixed capital formation slowed marginally to 0.3% qqsa in the third quarter. The modest lift was supported largely by "increased investments in residential buildings and transport equipment", according to Stats SA. However, a -7.2% qqsa decline in the machinery and other equipment category largely cancelled out any gains.
- A notable pick-up in business confidence which slid further into depressed territory in Q3.22 is however required to markedly boost private sector investment. The consistent supply of electricity, political certainty and an improvement in the ease of doing business is imperative in this regard.
- Indeed, domestically, security of electricity supply remains a key priority. The economy cannot function optimally without access to reliable, affordable energy. Moreover, as a small, open economy South Africa remains highly susceptible to global events, with the slower global growth outlook a significant downside risk.

Figure 6: Consumer expectations of the improvement in the economy



Source: BER



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