

WEEKLY REVIEW | NUMBER 45 | 6 DECEMBER 2024

# SA growth stumbles in Q3, weighing on full-year prospects

## THE WEEK IN PERSPECTIVE

Lisette IJssel de Schepper

It was a big week of economic data releases on the local front. On balance, most data can perhaps best be summarised as disappointing, yet not unexpectedly so (more on this below). A huge drop in the agricultural component of GDP meant that the economy contracted on a quarterly basis. This sets the entire 2024 back and means that the economy will be lucky to see a marginal acceleration from the 0.7% growth recorded in 2023. There was somewhat better news in the sense that the current account deficit did not deteriorate as the consensus expected but remained broadly unchanged. The global data calendar was less busy, but there were several political developments that we will unpack below.

There was some news from **credit rating agencies** this week. Moody's affirmed SA's rating at the current two levels below investment grade (as expected), but unlike S&P Global, which revised its outlook from stable to positive about two weeks ago, Moody's kept it unchanged. Meanwhile, S&P Global has put Transnet on CreditWatch, which signals a possible downgrade. Yesterday, the finance minister said the agency initially wanted to downgrade Transnet, but that it was able to convince S&P to hold off on doing so. Previously, National Treasury has made it clear that it would not grant further bailouts to SOEs and this would make it even more difficult for the entity to raise capital in private markets. While we share the sentiment of not throwing good money after bad, Transnet's performance suffers as a result of being cash-strapped, which hurts the entire economy - an economy that is still under significant pressure.

Indeed, the drop in the November Absa PMI after two increases, the contraction in Q3 GDP and the slight dip in the FNB/BER CCI were, to be quite frank, disappointing. But, beyond some quirks in the agriculture GDP component, one cannot argue that they were fully unexpected. Even without agriculture, GDP growth would have been sluggish – we would have been glad to hit 1% this year. The manufacturing sector has been hit with shock after shock over the last couple of years, and a few months of no load-shedding and optimism around the GNU is not enough to turn the battered sector around. The same holds for the broader industrial production sector in SA, with the logistics issues still hurting. The consumer is getting some welcome relief. Slightly lower interest rates, significantly lower inflation (which, of course, does not mean that their shopping basket is suddenly less expensive), and a near-term boost from two-pot retirement withdrawals will alleviate some pressure, we will need to see sustained real income and job growth for there to be a meaningful difference to spending. Indeed, the fact that so many consumers are withdrawing so much just underscores the underlying weakness of the consumer. The point is that the lingering weakness in 2024 is not a surprise, but we remain more hopeful about 2025 as long as we continue to see a commitment to further structural reform (and Trump does not destroy the global economy). Structural reform takes time to pay off, but the confidence that the government will be able to deliver can translate into higher private fixed investment and spending much quicker and buys us time. See the note from the Impumelelo Growth Lab [here](#) on what can be done to get us to 3% growth. (Also, if you are a Business Day subscriber – find our first column on the same topic in today's paper, [here](#). This will become a regular feature in 2025).

Taking it back to the arithmetic of **GDP**, our full-year forecast of 1% has to be revised downwards on the back of a downward revision to Q2 and the disappointing Q3 outcome. We do expect revisions to the agricultural GDP component for Q3, but still, growth of around 0.8% seems like a more likely outcome than the 1% we had before. That does mean that growth needs to accelerate quite meaningfully in Q4 (and/or a

relatively large revision to Q3 GDP needs to be made). For now, 2.2% for next year still seems possible. Clients will receive a Brief on the details early next week.

In a year full of political surprises, **South Korea** took the spotlight early in the week after its president suddenly declared martial law on Tuesday. Following protests and parliament voting against it, he reversed the decision, which was based on the accusation that the main opposition party was close to North Korea and, as such, a threat to democracy. Mere hours later, opposition parties moved to impeach the president. On Wednesday, the **French** minority government collapsed after its prime minister tried to force through a budget without parliamentary approval. This resulted in no-confidence votes from the left and far-right parties and ultimately to the French Prime Minister resigning. French bond yields have blown out – the 10-year yield already briefly rose above that of Greece last week – and the stock market slumped. French President Emmanuel Macron said he will name a new prime minister "in the coming days".

We have made the point before, but an inward-facing Germany and France will make it more difficult for the region to 'stand up' against Trump and his MAGA policies. Speaking about Trump, a 'tweet' from the president-elect about **BRICS** members being hit with 100% tariffs should they pursue a BRICS currency created a bit of a stir, locally at least, in the beginning of the week. The Department of International Relations & Cooperation was quick to deny that such a currency was planned. Such outbursts, directed at Trump's will and with and without actual policy implications, are going to be more frequent over the next few years.

In local politics, we had a **mini reshuffle** of the cabinet, with two ministers and deputy ministers switching positions. Without reasoning provided, it is not possible to ascertain for sure whether the shift in ministers was related to recent allegations of corruption against the Justice Minister. The ruling party in neighbouring **Namibia** added to the string of majority parties that lost voter share in elections this year, although the Swapo party managed to cling to its 34-year hold on power. The election was marred by technical difficulties.

In commodity markets, the (postponed) **OPEC+** meeting took place yesterday. It was widely expected that OPEC+ would continue with its output cuts and delay an increase in production until the first quarter of 2025. Eight members decided to extend their "voluntary adjustments" of 2.2 million barrels per day until the end of March, before these cuts "will be gradually phased out" on a monthly basis until the end of September 2026. However, all this remains "subject to market conditions".

The **rand** exchange rate crept closer to R18/\$, but, at the time of writing, did not manage to dip below this level. Still, it was a touch stronger against the dollar and euro w-o-w. The JSE Alsi had a relatively solid week, closing over 2% higher from last Thursday.

Weekly Key Indicators		
	Close	w-o-w
R/\$	R18.03	-0.4%
R/€	R19.07	-0.2%
R/£	R23.02	0.2%
\$/€	\$1.06	0.2%
Brent	\$73.41	0.7%
Gold	\$2 641	0.0%
Platinum	\$942	0.7%
JSE ALSI	86 846	2.4%
10y gov. bond	8.95	-2bps
FRA (1x4)*	7.74	-1bps

\*Forward rate agreement

#### WEEK AHEAD: SLEW OF DATA FROM STATS SA; ECB TO DECIDE ON INTEREST RATE

The push to get data out before much of SA closes down during the December holidays means that Stats SA is publishing more data than usual in one week. The slew of October releases (**mining, manufacturing and internal trade sales**) means that we should get some sense of how the economy started the fourth quarter of the year following a very poor Q3. Mining production was out pretty strong in the previous month, while manufacturing production was weaker than expected. Wednesday sees November **consumer inflation (CPI)** and **retail sales** for October released. On Thursday, we see the **producer price inflation (PPI)** print for November. We expect a slight acceleration in headline CPI after it dipped to just 2.8% y-o-y in October. However, at 3.2% it remains well below the 4.5% target of the SARB. Core inflation is expected to remain below 4% in November. PPI dipped into negative territory, but this is expected to turn around in

November with another slight annual increase. At around 3% expected for the year, however, PPI inflation remains much slower than in 2023 (6.7%) and 2022 (14.4%). Stats SA will also publish its Quarterly Employment Statistics (QES) for Q3 next week. This provides an estimate of non-agricultural formal employment and income trends in SA. The Quarterly Labour Force Survey (QLFS) had relatively strong formal job growth of 122 000 q-o-q in Q3, but this does not always translate directly to the QES. In fact, the temporary jobs that were created to run the election and boosted QES employment in Q2, will likely fall away in Q3.

Finally, the BER will release the 2024Q4 **inflation expectations survey** on Thursday. The markets and the SARB will be keen to see if the recent downtick in actual inflation has translated into a decline in inflation expectations.

There are a few interest rate decisions on the global front, but the most important will be the **European Central Bank** (ECB) on Thursday. While there remains much uncertainty around Trump's impact on the global economy, markets have taken the view that it would imply more easing by the ECB than expected before. Some have floated the idea of stepping up the pace with a 50bps cut in December, but other ECB members have been more cautious. The consensus view is for a 25bps cut. In contrast to more expected cuts by the ECB, markets anticipate fewer cuts by the US Federal Reserve (Fed) and will, as such, keenly watch the **jobs data** due later today and the **CPI print** out on Wednesday. Of course, there will be no Trump-inflation impact on November data, but sticky inflation as we head into the Trump era will make fewer rate cuts a more likely outcome. A speech by Fed chair Jerome Powell earlier this week was seen as suggesting that the US economy and labour market remain strong to such an extent that fewer rate cuts may be implemented.

Date	Event	Latest
Monday (9 Dec)	CN: Consumer inflation (Nov)	0.3% y-o-y
Tuesday (10 Dec)	SA: Mining production (Oct)	4.7% y-o-y
Tuesday (10 Dec)	SA: Manufacturing production (Oct)	-0.8% y-o-y
Wednesday (11 Dec)	SA: Consumer inflation (Nov)	2.8% y-o-y
Wednesday (11 Dec)	SA: Retail, motor trade sales (Oct)	-0.9%; -7.1% y-o-y
Wednesday (11 Dec)	US: Consumer inflation (Nov)	2.6% y-o-y
Thursday (12 Dec)	UK: GDP growth (Oct)	0.1% m-o-m
Thursday (12 Dec)	SA: Inflation expectations (Q4)	n/a
Thursday (12 Dec)	SA: Wholesale trade sales (Oct)	-6.6% y-o-y
Thursday (12 Dec)	SA: Producer inflation (Nov)	-0.7% y-o-y
Thursday (12 Dec)	SA: Formal non-agri employment (2024Q3)	0.4% q-o-q
Thursday (12 Dec)	EZ: ECB interest rate decision	3.25%
Thursday (12 Dec)	IN: Consumer inflation	6.2% y-o-y

Please note that the next Weekly (13 December) will be the last for 2024.

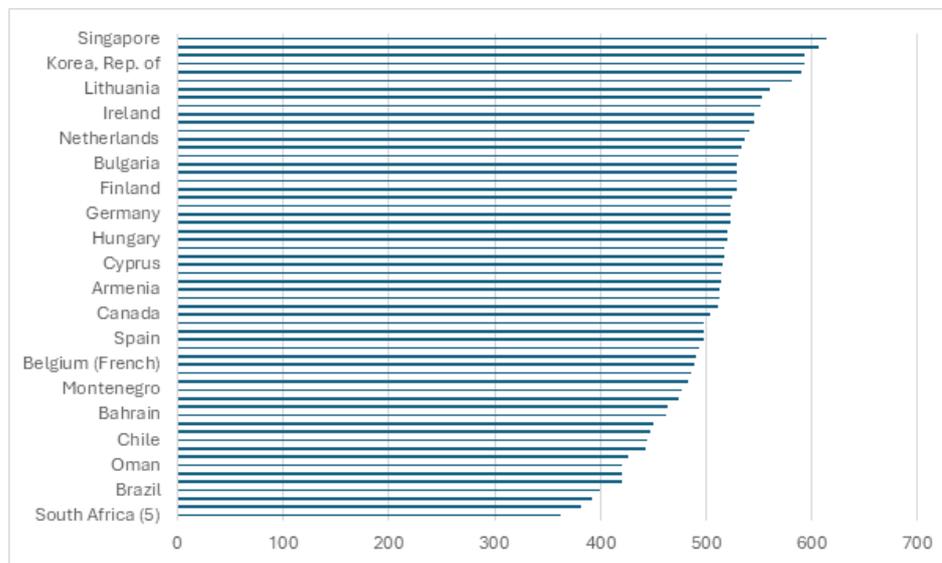
## IMPUMELELO REFORM MONITOR

Roy Havemann

### EDUCATION

From a reform perspective, this week's developments should be dominated by SA's weak performance on the Trends in International Mathematics and Science Study (TIMSS). South Africa's Grade 5s were ranked last out of 59 countries in math and science, despite being evaluated against Grade 4s from other countries.

## Average mathematics achievement



Source: TIMMS

SA spent more on average than OECD countries, or 4.4% of GDP in 2023/24, compared to the OECD average of 3.3%. For a detailed analysis of education spending trends, see the research from our colleagues at Research on Socio-Economic Policy (RESEP) [here](#), and for a deep dive into trends, see [here](#). While there will be some short-term wins from electricity, ports and rail reforms, in the long run, South Africa's poor performance in education is a key growth constraint.

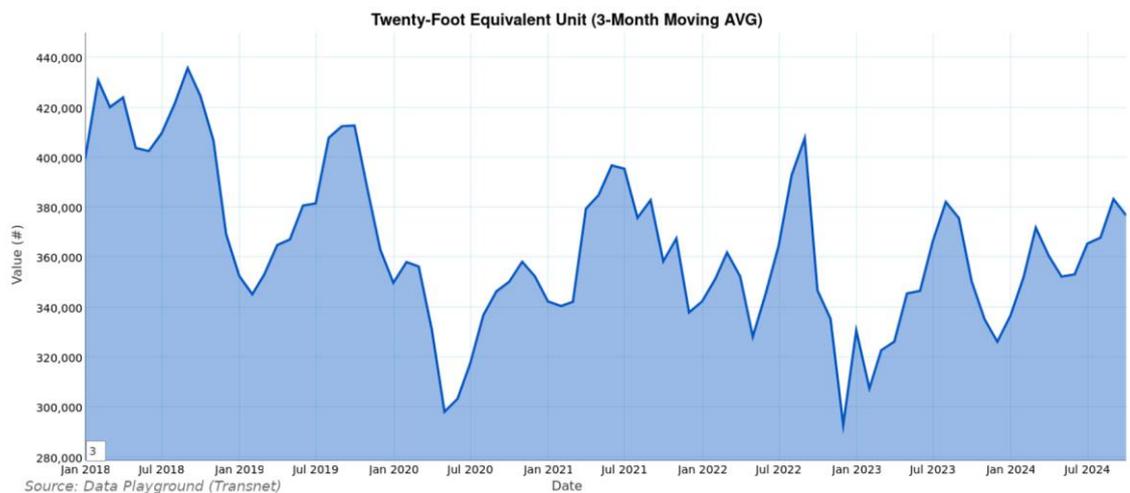
## ELECTRICITY

**Eskom** gave a detailed presentation on its progress to the Parliamentary Committee on Electricity (the presentation is available [here](#)). Again, the biggest disappointment was that Eskom did not seem to be planning for a full unbundling. They presented the end state for electricity as being still three subsidiaries (transmission, generation and distribution) as being under Eskom Holdings. While this will help, fully independent entities are vital for proper energy market reform. The update from Eskom did not give significant new information. As we discussed in [last week's Weekly](#), the report from the National Transmission Company of South Africa highlighted that load-shedding was "probably" off the table for 2025. This would critically depend on a slow recovery in demand

Also in last week's Weekly, we discussed progress with "**IRP2024**", the government's updated version of the contentious Integrated Resources Plan first released in 2019 ("IRP2019"). This week, IRP2019 received a significant blow – the Gauteng High Court ruled that the provision for 1 500MW of new coal-fired generation capacity was irrational, because of the failure of the minister and energy regulator Nersa to consider the effect of the envisaged new coal-fired power station on the environment, especially on the health of children and future generations. This will put further pressure on IRP2024. While it is seen as an improvement on the previous iteration, there are already concerns that the process is being rushed.

## CHART OF THE WEEK: LOGISTICS

Data from **Transnet on ports** is now available on the BER Data Playground (click [here](#), and follow the left-hand side to "Transnet"). The volume of TEUs (Twenty-Foot Equivalent Units) processed through a port serves as a critical economic barometer, reflecting trade dynamics and economic momentum. In SA, Transnet National Ports Authority is responsible for tracking these figures. Notably, the three-month moving average of TEU throughput peaked in September 2018. Since then, port activity has plateaued, with the latest data print showing an average of 375 000 TEUs per month in October 2024.



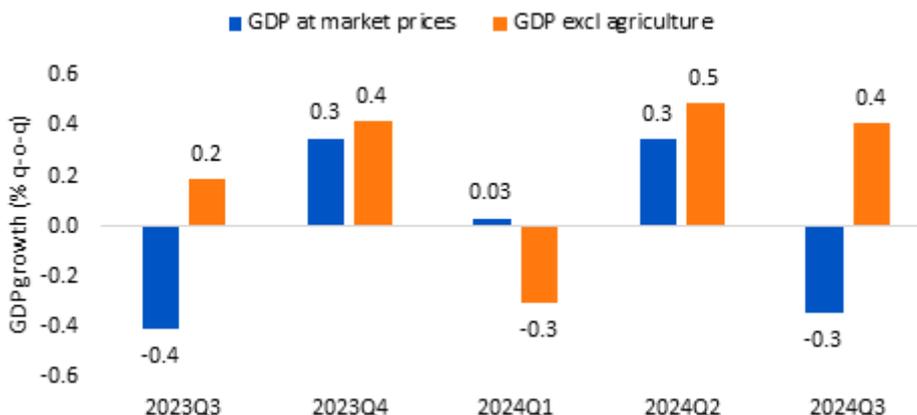
## DOMESTIC SECTION

Katrien Smuts

### COLLAPSE IN AGRICULTURE PUSHES THE ECONOMY INTO A CONTRACTION IN Q3

The 0.3% q-o-q contraction in **Q3 GDP** stems largely from the grossly underperforming agricultural sector. The agricultural industry declined by 28.8% q-o-q, a much steeper contraction than expected. On an annual basis, agricultural production was down by 29.6%.

#### Excluding agriculture, GDP would have grown by 0.4% q-o-q



Source: Stats SA

Beyond agriculture, the other industries largely performed in line with expectations. From the expenditure side, the fixed investment dynamics were always going to draw the most attention. Following four quarters of consecutive declines, there was a slight (0.3% q-o-q) expansion in gross fixed capital formation (GFCF). This was largely driven by investment in other assets, construction works, and machinery and equipment. However, it is important to qualify that it was mainly the general government and public corporations that drove the uptick in investment, with private business enterprises (which constitute the bulk of investment) ticking down once more. Clients can find a detailed comment on the data, [here](#).

Meanwhile, the **deficit on the current account** of the balance of payments narrowed slightly in Q3. The shortfall went from R75 billion in Q2 to R71 billion in Q3, which meant that as a percentage of GDP, the deficit was stable at 1%. The slightly weaker trade surplus (R180 billion to R177 billion) was more than offset by a narrower deficit on the balance of services, income and current transfers (R255 billion to R248 billion), causing the narrower overall deficit.

## BEST FESTIVE SEASON CONSUMER CONFIDENCE READING SINCE 2019

Having soared from -15 index points in the first quarter of 2024 to a 5-year high of -5 in the third quarter, the **FNB/BER Consumer Confidence Index (CCI)** edged one point lower, to -6, during the fourth quarter. The -6 recorded in the fourth quarter is the best festive season consumer confidence reading since 2019 and far better than the -17 index points measured during 2023Q4. Despite the one-point decline in consumer sentiment relative to 2024Q3, the upsurge in the CCI since the end of 2023 points to a marked increase in consumers' willingness to spend during this holiday season. Consumers' spending ability has improved notably, bolstered by lower inflation, 50-basis points of interest rate cuts and an estimated R40 billion in the two-pot retirement system payouts in 2024.

## PMIs MOVED IN OPPOSITE DIRECTIONS IN NOVEMBER, VEHICLES UP FURTHER

The **Absa PM** declined by 4.5 points in November 2024. It reverted back to contractionary territory at 48.1 index points, down from 52.6 in October. This points to some loss of momentum in the recovery seen over the last two months. However, the manufacturing PMI (and official factory sector data) have been volatile this year, so this is not unexpected. The **S&P PMI** continued to expand, increasing to 50.9 in November from 50.6 the month before. This is the fourth month above the neutral 50-point mark.

Both PMIs consistently show **more upbeat expectations of business conditions**. Respondents tend to be hopeful about the next year, backed by local political stability, lower inflation, reduced interest rates, and greater consumer demand. However, the global political outlook has become more complicated, with concerns about global growth and trade dynamics following Trump's election as US president in November.

According to naamsa, **new vehicle sales** increased to 48 858 in November, 5.8% higher than the October number and 8.1% higher than in November 2023. November marks the second consecutive month of increases in new vehicle sales, signalling there may be a turnaround in the domestic market. On the downside, export sales were down by 28.6% compared to November 2023. Year to date, export vehicle sales were also lower by 23.9%.

## ELECTRICITY PRODUCTION DIPS RELATIVE TO SEPTEMBER

The latest **electricity data** for October shows a seasonally adjusted monthly decline in both production (-1.4%) and consumption (-1.2%). However, on an annual basis, both have risen (which makes sense as we had no load-shedding this year, but did have disruptions last year). Production rose by 2.7% y-o-y, while consumption grew by 0.3%.

# INTERNATIONAL SECTION

Pabalelo Mosoma

## EUROZONE RETAIL SALES CONTRACT AT THE BEGINNING OF THE FOURTH QUARTER

**Retail sales** in the Eurozone contracted by 0.5% m-o-m in October, reversing the 0.5% gain seen in September. This decline was steeper than the 0.3% contraction expected. The largest drag stemmed from sales of non-food products, which fell by 0.9% after a 1.3% rise in September.

The drop in retail sales paints a worrying picture for household consumption in the fourth quarter. Additionally, the rising risk of sustained economic sluggishness in Germany, along with increasing political uncertainty in both Germany and France, is likely to keep household consumption subdued in the near term.

## MIXED RESULTS IN US PMIs

The **US ISM manufacturing PMI** rose to 48.4 in November, up from 46.5 in October, surpassing consensus expectations. While this marks the eighth consecutive month of contraction—indicated by readings below 50—the pace of decline has moderated. Notably, the sub-index measuring new orders climbed into

expansionary territory for the first time in eight months. This improvement could be attributed to post-election clarity, which has allowed firms to move forward with previously delayed projects.

Meanwhile, business activity in the service sector grew at its slowest pace in three months, driven by a broad-based slowing across the PMI subindices. The **ISM Services PMI** dropped to 52.1 in November, down from 56 in October, defying market expectations of a modest decline to 55.5.

#### **CHINA'S MANUFACTURING ACTIVITY EXPANDS AT FASTEST PACE SINCE JUNE**

China's manufacturing sector saw firm growth in November, following the ramp-up in stimulus from Beijing. The **Caixin Manufacturing PMI** increased to a five-month high of 51.5, up from 50.3 in October. This marked the second consecutive month in expansionary territory driven by increased demand for Chinese manufactured goods, which spurred a notable rise in production. Encouragingly, manufacturers expressed heightened confidence, anticipating further improvements in business conditions. Meanwhile, the **Caixin services PMI** declined to 51.5 in November from 52.0 in October, contrary to market expectations of an increase to 52.5. On a positive note, confidence among service providers has risen to the highest level since May, indicating that it is likely for the service sector to improve going forward.

## CONTACT US

**Editor:** Lisette IJssel de Schepper

**Email:** [lisette@sun.ac.za](mailto:lisette@sun.ac.za)

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Please refer to the glossary on the **BER website** for explanations of technical terms.

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