



OVERBERG MARKET REPORT

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The Bottom Line

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GDP figures: Quarter 3 of 2023 - South Africa's Q3 GDP Contracts More than Expected

The South African economy pulled back from two consecutive quarters of positive growth, to shrink by -0.2% quarter on quarter (QoQ) in Q3 2023, the three months to end-September, after a downwardly revised rise in Q2 from 0.6% to 0.5%. The median estimate of economists in a Bloomberg survey was for a contraction of -0.3% QoQ. Year-on-year (YoY), the Gross Domestic Product (GDP) decreased by -0.7% in Q3 2023. The weaker GDP is not surprising given SA's structural constraints of electricity supply and logistical constraints as well as the challenging global environment. Transnet, whose long-standing rail infrastructure woes have been compounded by the bottlenecks at ports, which have prevented companies from timeously getting their goods in and out of the country. Businesses are also grappling with cost pressures of higher stages of load-shedding.

The contraction in GDP is a political headache for President Cyril Ramaphosa, who has been accused by business leaders of being too slow in pushing through structural reforms that economists say are crucial to reinvigorating the economy. "The big picture is that SA's recovery from the pandemic has been among the worst in the emerging world, with GDP just 0.3% above its pre-pandemic peak," said Jason Tuvey, the deputy chief emerging-markets economist at Capital Economics. The rand briefly weakened through R19/\$ in late trade on Tuesday 5 December after the release of the GDP data.

CLASSIFICATION OF ECONOMIC ACTIVITIES: GDP is calculated from data gathered from ten industries. The ten industries are subdivided into three sectors. The three-sector model consists of the Primary Sector, the Secondary Sector, and the Tertiary Sector. Five of the ten economic activities posted declines. The winners were utilities, transport, finance, government, and personal services. Half the sectors are still below their pre-pandemic GDP levels. To remove the effect of inflation, GDP is measured at constant 2015 prices. Quarterly figures are seasonally adjusted.

THE PRIMARY SECTOR: The Primary sector engages in the extraction of raw materials/natural resources such as mining, agriculture, and fishing. These activities are divided into two industries namely agriculture and mining. The output of the Primary sector becomes the input of the Secondary sector. (1) Agriculture, forestry, and fishing - QoQ growth declined by -9.6%, hurt by an unexpectedly sharp agricultural contraction that surprised even agricultural economists. The non-agricultural sectors (jointly) performed marginally better than expected. Agriculture was affected by lower output in field crops, animal products, and horticulture products. (2) Mining - QoQ growth declined by -1.1%. Decreased economic activities were reported for platinum group metals (PGMs), gold, other metallic minerals, and manganese ore.

THE SECONDARY SECTOR: The Secondary sector engages in manufacturing and construction. It takes the inputs from the Primary sector and its outputs become the inputs for the Tertiary (the third) sector. Secondary sector producers are worse affected by severe infrastructure constraints than

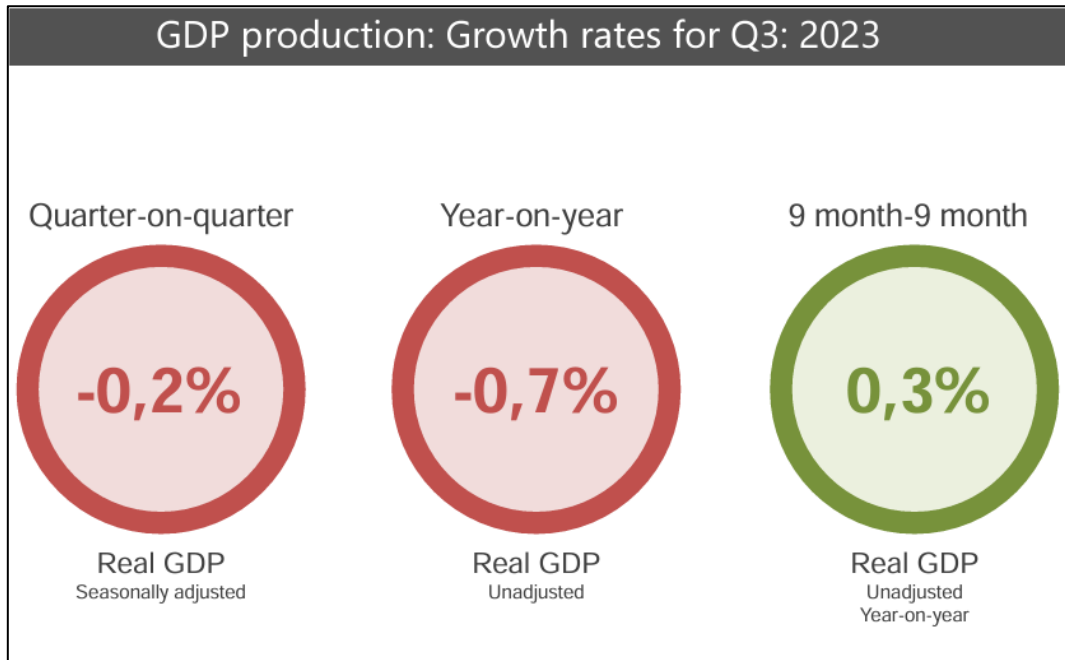


businesses in the Tertiary sector. The divergence between goods-producing sectors and services continues. (3) Manufacturing - QoQ growth declined by -1.3%. Eight of the ten manufacturing divisions reported negative growth rates in the third quarter. The food, beverages, and tobacco division made the largest contribution to the decrease in the third quarter. The petroleum, chemical products, rubber, and plastic products division and the basic iron and steel, non-ferrous metal products, metal products, and machinery division also made significant contributions to the contraction of this industry. (4) Utilities - QoQ growth increased by 0.2%. (5) Construction - QoQ growth declined by -2.8%. The construction sector is vital for economic growth, yet it is the smallest industry in our economy. The militant construction mafia has brought many construction businesses to its knees. This is one of the reasons why this industry is struggling.

THE TERTIARY (THIRD) SECTOR: This sector receives its inputs from the Secondary sector and provides services and end products to consumers. It is by far the largest of the three sectors. (6) Trade, catering, and accommodation - QoQ growth declined by -0.2%. (7) Transport and communication - QoQ growth increased by 0.9%. (8) Finance and business services - QoQ growth increased by 0.5%. (9) Government services - QoQ growth increased by 0.1%. (10) Personal services - QoQ growth increased by 0.6%.

BOTTOM LINE: The economy lost momentum in the third quarter, raising the risk of slipping into a technical recession during the fourth quarter and putting heavy pressure on Transnet to fix its dysfunctional logistical infrastructure. Low economic growth implies less tax revenue for the government to fulfil its public mandate of providing essential services – and has the potential to throw the government’s fiscal consolidation efforts off track. The disappointment in 3Q 2023, weighs on the growth that can be achieved this year. Economic growth of less than 1% is likely in 2023. A modest improvement in 2024 is still expected.

GDP growth rates and GDP at market prices		
Year	GDP: Annual growth rate	GDP: At market prices R Million
2016	0.70%	R4 450 171
2017	1.20%	R4 501 702
2018	1.60%	R4 571 783
2019	0.30%	R4 583 667
2020	-6.00%	R4 310 327
2021	4.70%	R4 513 044
2022	1.90%	R4 599 261
2023 Q1	0.40%	R1 125 857
2023 Q2	0.50%	R1 164 185
2023 Q3	-0.20%	R1 163 309



Source: SA STATS

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