momentum
investments group

in the moment



Growth up 0.4% q/q in Q2 2024 buoyed by consumption

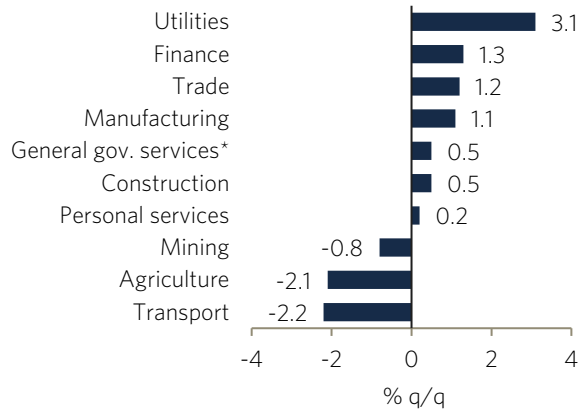
Highlights

- As reported by Statistics South Africa (Stats SA), seasonally adjusted (sa) real gross domestic product (GDP) lifted by 0.4% quarter-on-quarter (q/q) in the second quarter of 2024, following flat growth (0% q/q, revised up from negative 0.1% q/q) in the first quarter of 2024.
- On the production side, seven of the 10 industries grew, with the fastest growth recorded in utilities (electricity, gas and water). The transport, agriculture and mining industries all contracted in the second quarter.
- On the expenditure side, economic growth was buoyed by the rebound in household consumption expenditure (1.4% q/q, contributed 0.9 percentage points). Households spent more money across most of the product groups, with miscellaneous goods and services as well as clothing and footwear registering the highest growth rates.
- Going forward, household consumption is expected to get a boost from the two-pot retirement reform, interest rate cuts (with a lag) and lower inflation.
- Government expenditure and inventories also contributed positively to economic growth in the second quarter. On the other hand, gross fixed-capital formation (GFCF) contracted for the fourth consecutive quarter and net exports detracted from growth.
- Eskom's summer baseline 2024/25 projection indicates that SA will likely not experience loadshedding until 31 March 2025. If achieved, this would mark one year without loadshedding, something last experienced in 2017.
- The positive electricity outlook this summer is in part due to an anticipated 2 500 MW of additional generation capacity expected by January 2025.
- The estimated additional impact on GDP of the early pension withdrawals, according to the SA Reserve Bank (SARB), is between 0.1 to 0.3 percentage points in 2024, depending on the scale of withdrawals. A bigger impact of between 0.3 and 0.7 percentage points is estimated in 2025, again depending on the scale of withdrawals, and no impact on GDP is estimated in 2026. These estimates are small relative to other countries, e.g. Chile.
- The expected increase in household consumption from the two-pot reform and the projection of a more stable electricity supply will support economic growth in the second half of 2024. Consequently, we have revised our growth estimate for 2024 slightly up to 1.1% in 2024, previously 1%. Our 2025 growth forecast has also improved to 1.8%, previously 1.7%.

Consistent electricity supply contributed to higher economic growth

Following flat growth in the first quarter of 2024 (0% q/q, sa - revised up from negative 0.1% q/q), real GDP increased by 0.4% q/q, sa in the second quarter of 2024. On the production side, economic growth in the second quarter was broad-based with seven of the 10 industries recording positive growth rates. However, transport, storage and communication (negative 2.2% q/q) as well as agriculture, forestry and fishing (negative 2.1% q /q) weighed heavily on growth (see chart 1). These two industries combined detracted 0.3 percentage points from the overall GDP.

Chart 1: Utilities registered the strongest growth in Q2 2024



Source: Stats SA, Momentum Investments
** General government services*

The best-performing industries in the quarter under review were utilities (3.1% q/q), the finance industry (1.3% q/q), trade (1.2% q/q) and manufacturing (1.1% q/q). Combined, these industries added a 0.6 percentage point to the overall GDP.

As noted by Stats SA, the utilities industry was supported by a consistent electricity supply during the quarter. On the other hand, "strike action and a fall in freight volumes" contributed to the decrease in the transport industry. This illustrates that the energy crisis is improving but challenges remain in the logistics sector.

Notable changes from the first quarter to the second include the rebound in manufacturing (1.1% q/q from negative 1.4% q/q), and construction (0.5% q/q from a sharp contraction of 3.1% q/q). Conversely, the agriculture industry plunged 2.1% q/q from 13.5% q/q.

On a sectoral basis, the secondary sector grew by a robust 1.3% q/q. The tertiary sector recorded modest growth of 0.5% q/q and the primary sector contracted by 1.3% q/q as both the agriculture and mining industries performed poorly in the second quarter.

Household consumption rebounded in the second quarter

According to the expenditure method, real GDP increased by 0.5% q/q, sa in the second quarter of this year.

Household consumption expenditure rebounded from negative 0.2% q/q in the first quarter of 2024 to 1.4% q/q and contributed 0.9 percentage points to overall GDP. This follows the switch from a contraction in the first quarter to positive growth in services (from negative 0.6% q/q to 1.8% q/q) and semi-durables (from negative 4.2% q/q to 1.7% q/q). The rebound in semi-durable goods was largely due to the increase in clothing and footwear (3.2% q/q in the second quarter from negative 7% q/q in the first quarter). The other two categories of household consumption (durable and non-durable goods) also increased in the second quarter, contributing positively to consumption expenditure. Durables, non-durables, semi-durables and services all increased due to higher expenditure across the different product groups (see chart 2). The only decrease was recorded in utilities which could be explained by the tariff increases implemented on 1 July 2024.

Consumption expenditure is expected to get a boost from the two-pot retirement reform (more details in a separate section below), the expected interest rate cuts

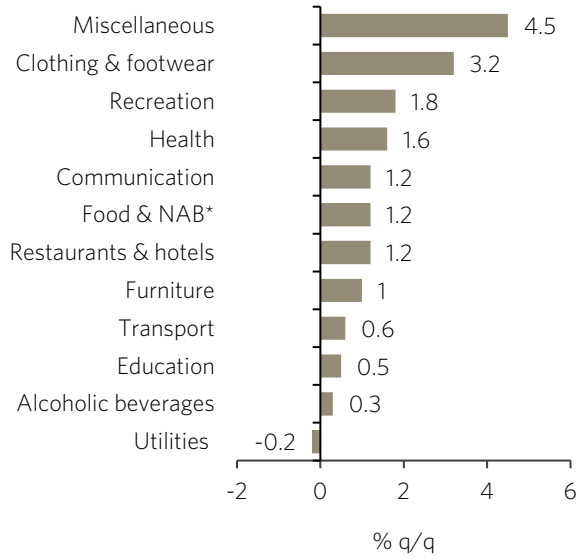
(with a lag) and low inflation which would lift real wages and disposable income.

Government expenditure increased by 1% q/q in the second quarter from negative 0.2% q/q in the first quarter.

GFCF decreased for the fourth consecutive quarter at negative 1.4% q/q in the second quarter of 2024. The decrease was experienced across the board (general government, public corporations and private businesses). An improvement in business confidence, progress on structural reforms and an effective government of national unity (GNU) could support GFCF moving forward.

Due to the large increase in imports (1.7% q/q) and the decrease in exports (0.4% q/q), the net impact from a trade perspective was a detraction from economic growth in the second quarter.

Chart 2: Broad-based increase in consumer expenditure product groups in Q2 2024



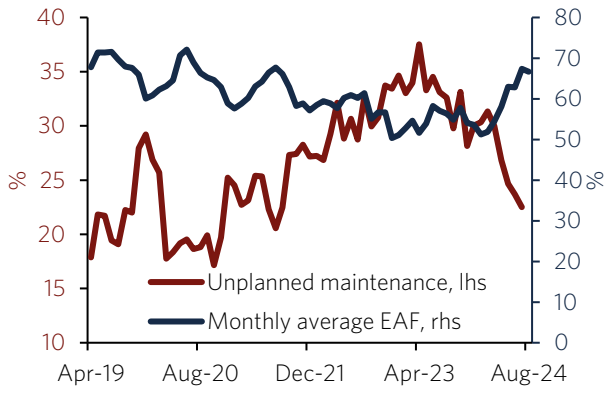
Source: Stats SA, Momentum Investments
** Food and non-alcoholic beverages*

Positive electricity outlook for summer 2024/25

At the time of writing, SA had gone five months without loadshedding (26 March to 3 September 2025). This is a significant milestone given the intense loadshedding experienced in 2023 and that these five months included the winter period, where demand is typically higher. Eskom has achieved a consistent energy supply, so far, through increasing planned maintenance. This has improved the reliability of the power plants thus enabling a reduction in unplanned maintenance (40% below the peak reached in May 2023) and a higher energy availability factor (EAF) (see chart 3). Furthermore, the reported decrease in staff turnover and increase in the employee morale index has contributed to the operational improvement at the power utility.

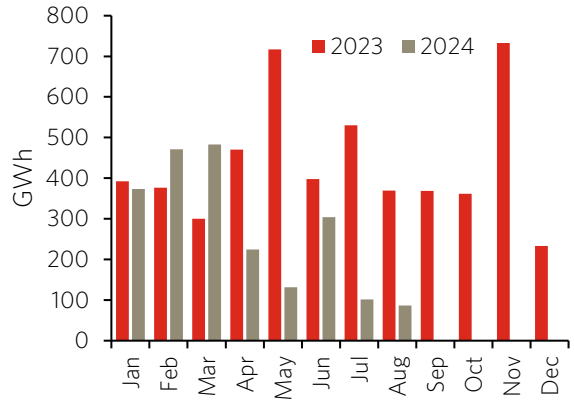
According to Eskom, SA will likely continue enjoying the break in loadshedding until 31 March 2025 (base case). This positive summer outlook, if achieved, should help boost confidence levels and economic activity. The no loadshedding scenario through summer 2024/25 is partly due to the expected increase in generation capacity. Eskom noted that Koeberg Unit 2 (930 MW), Kusile Unit 6 (800 MW) and Medupi Unit 4 (800 MW) are expected to be operational by January 2025 thus adding 2 500MW of generation capacity. The predicted worst-case scenario if loadshedding does return in the 2024/25 summer period is stage 2. This is better than stage 6 loadshedding implemented during some days in summer 2023/24 and is not a concern for economic growth because firms have built resilience to lower stages of loadshedding with the increased use of alternative energy systems.

Chart 3: Unplanned and EAF trends are supportive of the positive energy outlook



Source: Eskom, Momentum Investments

Chart 4: Sharp decrease in OCGT usage since April 2024



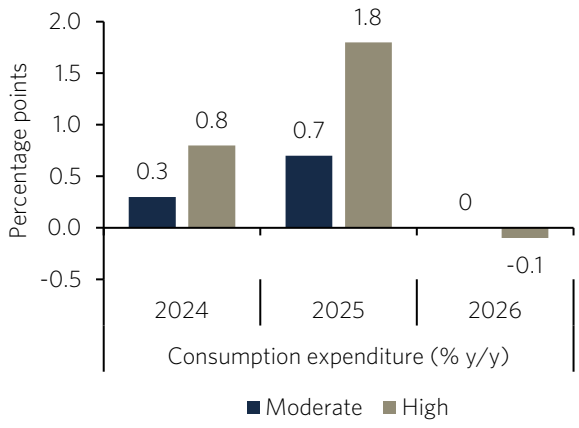
Source: Eskom, Momentum Investments

The reduced reliance on Open Cycle Gas Turbines (OCGTs) (see chart 4) during the past five months is reported to have saved the power utility R10 billion. If maintained, this could contribute positively towards the goal of improving Eskom's financial position which would in turn support the recovery in the utility's operations and economic activity.

Marginal GDP boost expected from early pension withdrawals

With the two-pot retirement reform now officially effective from 1 September 2024, withdrawals from pension holders have kicked in. These withdrawals will boost disposable income and lead to an increase in consumption expenditure. The economic note published by the SARB estimates that the withdrawals could add between 0.3 and 0.8 percentage points to consumption expenditure growth in 2024 depending on the scale of withdrawals (ranging from moderate to high). The boost to consumption is estimated to be higher next year at between 0.7 and 1.8 percentage points, again depending on the scale of withdrawals (see chart 5).

Chart 5: Impact of early pension withdrawals on consumption expenditure peaks next year

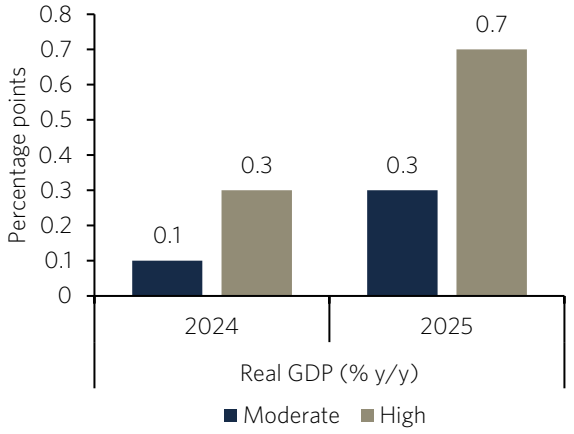


Source: SARB, Momentum Investments

In our view, consumers are likely to spend a bigger chunk of their withdrawals in 2024 on items that will reduce their financial burden e.g. school fees and rent. Thereafter, we anticipate that durable goods and other services will be the biggest beneficiaries.

The withdrawals are estimated to contribute around 0.1 to 0.3 percentage points to GDP growth in 2024, depending on the scale of withdrawals. A bigger impact of between 0.3 and 0.7 percentage points is estimated in 2025 and no GDP impact is estimated in 2026 (see chart 6).

Chart 6: Early pension withdrawals expected to have a marginal impact on GDP



Source: SARB, Momentum Investments

The contribution to economic growth in 2024 and 2025 will be welcomed given pedestrian growth in SA. However, the estimated impact of both withdrawal scenarios is small especially relative to other countries that implemented early withdrawals during the pandemic, e.g. Chile, Peru and Australia.

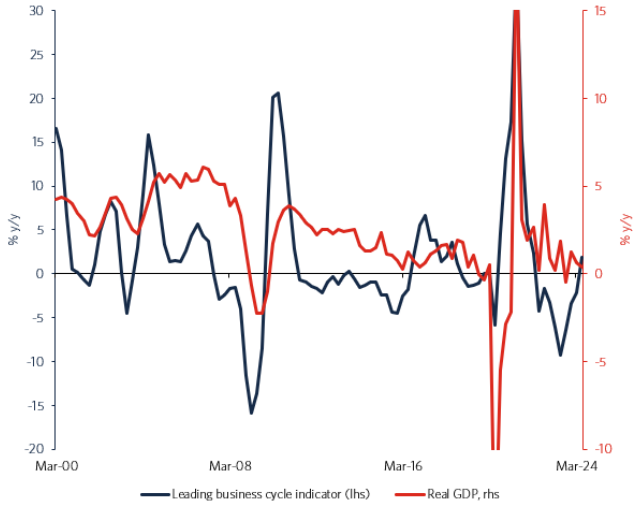
Marginal upward growth revisions on improving domestic factors

The expected increase in household consumption from the two-pot reform and the projection of a more stable electricity supply will support economic growth in the second half of 2024. Consequently, we have revised our growth estimate for 2024 slightly up to 1.1% in 2024, previously 1%. Our 2025 growth forecast has also improved to 1.8%, previously 1.7%. We expect economic growth in 2025 to be lifted by continued progress on structural reforms, interest rate cuts, lower price pressures and improved sentiment as the GNU remains in place (one year since formation) and the cabinet delivers some tangible results.

The International Monetary Fund is scheduled to update its global GDP estimate in October 2024. As it stands, global GDP is expected to be marginally higher in 2025 (3.3%) than in 2024 (3.2%), which signals that global demand is not expected to provide impetus to the domestic economy in 2025. Furthermore, there are concerns about the Chinese economy which introduces downward pressure on export volumes.

The SARB's composite leading business cycle indicator decreased by 0.4% month-on-month (m/m) in June 2024. However, looking at the year-on-year (y/y) trend, we see that the indicator has recently become positive (second quarter of 2024) after being negative for a prolonged period. The shift to positive territory supports our expectation of economic expansion going forward. However, at 1.8% y/y in the second quarter, the increase in the indicator is below the long-term average of 2.8% and we interpret this as mild optimism. In other words, it is not pointing to robust economic growth, which aligns with our growth estimates.

Chart 7: Leading indicator points to mild optimism



Source: SARB, Momentum Investments
Data until June 2024
Y-axis (primary and secondary) is truncated

The information used to prepare this document includes information from third-party sources and is for information purposes only. Although reasonable steps have been taken to ensure the validity and accuracy of the information contained herein, Momentum Metropolitan Life Limited does not guarantee the accuracy, content, completeness, legality or reliability of the information contained herein and no warranties and/or representations of any kind, expressed or implied, are given to the nature, standard, accuracy or otherwise of the information provided.

Neither Momentum Metropolitan Life Limited, its affiliates, directors, officers, employees, representatives or agents (the Momentum Parties) have any liability to any persons or entities receiving the information made available herein for any claim, damages, loss or expense, including, without limitation, any direct, indirect, special, incidental, punitive or consequential cost, loss or damages, whether in contract or in delict, arising out of or in connection with information made available herein and you agree to indemnify the Momentum Parties accordingly. For further information, please visit us at momentum.co.za. Momentum Investments is part of Momentum Metropolitan Life Limited, an authorised financial services and registered credit provider, and rated B-BBEE level 1.