INTUITION

24 JANUARY 2024

Sticking to our GDP forecasts

We presented our 2025 outlook in our December Insight presentation, in which we painted an upbeat picture of how small changes in various sectors can lift South Africa's GDP growth towards the 3% level over the next 3 to 4 years. As we returned to the office in the new year, the markets did not greet us with optimism. Various factors are at play. Looking back at the presentation I reflected on what we said and questioned whether we were wrong. The GDP data for Q3 '24 released towards the end of last year was also confusing as it turned out to be a negative number. We briefly review this release and reaffirm our GDP growth forecasts.

SPEED READ

- **Our 2025 outlook presentation painted a picture of the South African economy achieving GDP growth of 3% over the next few years.**
- **StatsSA released the GDP data for Q3 at the end of last year which showed negative growth for the quarter. This challenged our assumptions behind our upbeat forecast.**
- **A closer inspection of the numbers points to a dramatic negative performance in the agricultural sector. Other role players have also questioned the large contraction. Revisions are probably on the cards as the sector's confidence indicator tells a different story.**
- **We retain our outlook and echo the message from the SA Business Team heading to Davos - that SA has a more positive story to tell.**

Willie Pelser

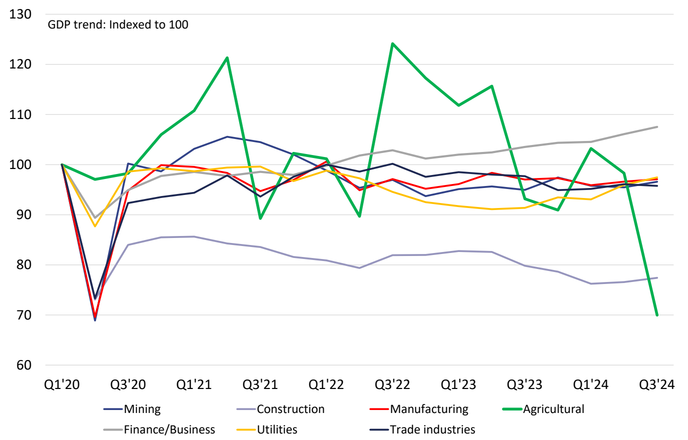
In December, I presented our South African outlook on behalf of the investment team. When you are on the podium you realise the extent to which you are sticking your neck out as you lay out various assumptions and forecasts. Various wars remind me of one basic training instruction during my army days - be careful to raise your head from the "loopgraaf" (trench), a bullet travels faster than you think. Soon after our seminars, Stats SA released GDP statistics for Q3 which challenged our view of faster economic growth in 2025 and beyond. Furthermore, the start of 2025 has seen markets come under pressure, so one questions whether the theory and forecasts will hold. We remain constructive on our views from the presentation. A recording is available on our [YouTube channel] for those who want a recap or for those who could not make the various timeslots. However, I would firstly like to highlight some thoughts around the GDP release in question.

In December last year, StatsSA reported unexpectedly weak Q3 GDP growth. We were all anticipating a positive impact from the consistent energy supply across all spheres of our economy. Unfortunately, the contraction of 0.3% was largely due to a sharp collapse in agricultural production that left most economists dumbfounded. Agricultural production recorded growth of -29% relative to the second quarter. StatsSA attributed the decline primarily to drought conditions that severely affected the production of key field crops such as maize, soya, beans, wheat and sunflowers. As I traveled across KZN this holiday, and also saw video footage from an acquaintance as he flew his helicopter over parts of the Harrismith and Warden area, I am filled with optimism that there will be a significant rebound in agricultural sector growth in the quarters ahead. The crops look absolutely beautiful.

Many people closer to the agricultural sector have often argued that something is amiss in the reported agricultural data incorporated into GDP growth. In past years, StatsSA used a seasonal smoothing function to rid the data of extreme volatility (an inherent problem with agricultural data due to significant seasonality). However, in recent years the volatility has increased markedly. Late in December last year, the Bureau for Food and Agricultural Policy (BFAP) published a research paper on the issue and suggested (as many economists suspected) that Q3 agricultural GDP needs to be restated. The BFAP analysis suggests that the decline in real agricultural GDP should be a third of the number that was published. This implies that agricultural production should have been unchanged between Q2 and Q3 (versus a published -29% q-o-q growth rate – assuming that Q1 and Q2 data were left unchanged). That adjustment would result in positive GDP growth for the quarter. This suggests that we are likely to see some upward revisions to the data in due course.

The chart below highlights the volatility and extremeness of the latest number. The other sectors have continued their respective upward momentum. Yet as we pointed out in December, it will take time for SA to reach a growth rate of 3%. We are not expecting that this year, but believe we are

SA GDP GROWTH BY SECTOR

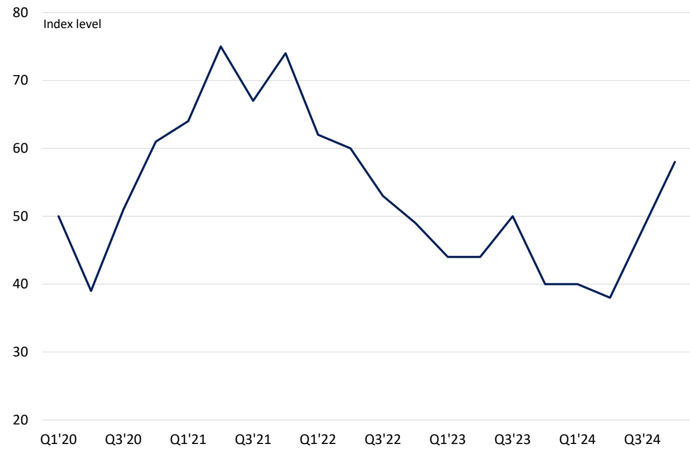


Economic growth in Q3 for the non-agricultural sectors was in line with our expectations. Growth in the agricultural sector left us dumbstruck.

finally on the journey to a sustainably higher growth rate. The Agricultural Business Chamber publishes a Confidence Index (ACI) on a quarterly basis. Their latest release focusing on the 4th quarter of 2024 confirms that it should be a good period as shown by the recent uptick. The confidence index has increased by 10 points to 58 in Q4 and is the second consecutive improvement. It places the ACI at its highest level since Q2 2022. The index comprises 10 sub-indices - the most notable sub-index improvements were in the general agricultural conditions (17 points higher) and the sub-index measuring the volume of exports which jumped by 69 points. The general conditions optimism mirrors the expectations of La Niña rains in the 2024/25 summer season and the positive impact of that on agricultural conditions. Farmers are well into the planting season and are broadly optimistic. The Western Cape and other regions have had a

> “South Africa’s agricultural exports stood at US$4,1 billion in Q3 2024, a 5% increase relative to the same period in 2023.”

SENTIMENT IN THE AGRICULTURAL SECTOR



Sentiment in the fourth quarter of 2024 grew like a summer crop.

generally better-than-expected harvest.

Respondents in the grains and fruit subsectors were the major drivers of the improvements in the export sub-index. For example, South Africa’s agricultural exports stood at US$4,1 billion in Q3 2024, a 5% increase relative to the same period in 2023. Furthermore, the cumulative export value for the first three quarters of 2024 is up 4% from last year, at US$10,5 billion.

We continue to emphasise that small initial contributions and changes in the South African economic landscape will help to lead us towards a 3% GDP growth path over the next few years. Contrary to my sergeant’s advice, I will continue to lift my head and dodge the shorter-term bullets, such as the anomalous Q3 data discussed here.

Whilst finishing this article, Team SA’s Business line-up heading to the annual World Economic Forum in Davos stated at a press conference: “We go this year with a better story.” Those were the words of Nedbank CEO Jason Quinn. Standard Bank chairperson Nonkululeko Nyembezi also pointed out that investors are “looking at 2025 and beyond, and the story is a lot more positive … we are at an inflection point”. Finance Minister Godongwana remarked to the press that there were signs of a Q4 (2024) rebound.

For the time being, we see no reason to change our views. In fact, we share the sentiment from Business SA and consequently have not adjusted our growth assumptions.

Having examined the case for SA in our last seminar, our next presentation will focus on the prognosis for offshore investments.

Topic:	Re-examining the case for offshore
Natal Midlands	
Date:	13 March 2025
Venue:	Christ Church Howick, 23 Mare Street, Howick
Morning Time:	10am for 10.30am
Evening Time:	5.30pm for 6pm

Johannesburg	
Date:	11 March 2025
Venue:	Rosebank Union Church, Cnr Winne Mandela Drive and St Andrews Road, Hurlingham
Time:	7am for 7.30am

Cape Town	
Date:	n/a
Venue:	SSISA Conference Centre, Boundary Road, Newlands, Classroom 1, 3rd Floor
Time:	7.30am
Venue:	ABRU Motor Studio, Lourensford Wine Estate, Somerset West
Time:	5.30pm for 6pm

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