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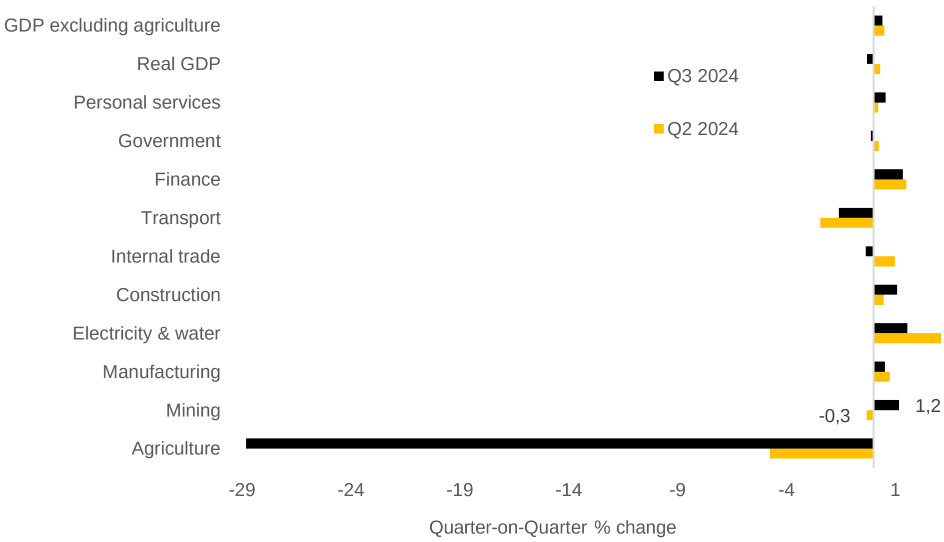
MINERALS COUNCIL
SOUTH AFRICA

Rebound in mining value added unable to lift overall GDP in Q3

A recovery in mining GDP during the third quarter (Q3) of 2024 after quarterly declines in the previous two quarters (Q1 and Q2 of 2024) was unable to lift overall real GDP in the July to September quarter. Against the Bloomberg financial market consensus for real GDP to increase by 0.4% in Q3 (Minerals Council expected +0.3%), overall real GDP *declined* by 0.3%. The Q3 contraction follows downwardly revised Q2 real GDP growth of 0.3%. The Q2 print was initially reported at +0.4%. At first glance, the Q3 GDP contraction is a setback to the narrative that the positive sentiment[1] stemming from the Government of National Unity (GNU), the absence of load-shedding, and household withdrawals linked to the two-pot retirement system would lift growth momentum in the second half of 2024 and into 2025.

Figure 1: When the plunge in agriculture is excluded, real GDP expanded in Q3



Source: Stats SA

The concern about the Q3 GDP outcome is heightened by the fact that value added, a measure of output, declined in four of the ten major sectors during Q3. However, a notable mitigating factor is that the overall real GDP decline in Q3 was overwhelmingly the result of a shock contraction in the **agricultural** sector – figure 1 highlights the extent of the fall. As a result, agriculture reduced real GDP growth by 0.7 percentage points (% pts) during Q3. According to Stats SA, this was because of lower **field crop** activity, which probably still reflects the more than 20% annual decline in South Africa's maize harvest in the 2023/24 season. By some distance, the weakness in agriculture was the biggest driver behind the GDP contraction. Indeed, if we exclude agriculture from the GDP

[1] Business, consumer and investor confidence rose in the third quarter. The latter was reflected in lower South African bond yields and a rise in the share prices of domestic-focused companies on the JSE.

figures, the economy *grew* by 0.4% in Q3, which was largely unchanged from non-agricultural real GDP growth of 0.5% in Q2 2024.

In terms of the **mining sector**, as also mentioned in the commentary on the September mining production stats, higher chrome and manganese output drove the rise in mining GDP during Q3. The rise in mining boosted real GDP by 0.1% pts in Q3. While positive, it did not come close to compensate for the negative GDP contribution from agriculture. The other sectors where value added declined in Q3 were **trade** (mainly wholesale and retail), **transport** and **general government**. The sustained weakness in the transport sector is most likely a function of the stop-start improvement on rail logistics, as well as the reduction in the trucking of some commodities amid lower prices for coal. In more recent times, i.e., beyond Q3, the trucking of management has also been less as prices dipped.

Based on the first three quarters of 2024, there was also better news for mining, with value addition in the sector increasing by 0.7% year-on-year (y-o-y) compared to the corresponding period in 2023. This shows some improvement after real mining GDP contracted by 0.5% in 2023. The outcome was less positive for **mining profitability**. Stats SA's **gross operating surplus** numbers, which include the impact of price changes and provide a broad measure of profits in the major sectors of the economy, indicated that mining sector profits declined by 0.9% y-o-y in the first nine months of 2024. In stark contrast to this, profits in the non-mining sectors increased by 5.8% y-o-y during the corresponding period.

Conclusion and looking ahead

With data for the first three quarters of 2024 now available, real mining GDP in 2024 looks set to post the first increase for an entire calendar year since 2021. That said, growth is expected to be modest at between 0.5% and 1%. At the same time, mining profitability remains under pressure. Some lift in profits is only expected once **platinum group metals** (PGMs) prices start to rise from current depressed levels. There has been more optimism of late that this could be imminent as constrained PGM supply growth in South Africa and some uptick in global PGM demand from the global vehicle industry should lift sentiment and prices. A risk to this view is if incoming US President Donald Trump undermines global trade growth by launching another trade war with key countries/regions such as China and Europe.

Regarding overall real GDP growth in 2024, the Q3 decline will result in a downward revision to growth forecasts. Even assuming a solid rebound in quarterly growth during Q4 2024, full year real GDP growth of around 0.5% now seems likely. Assuming no revisions to the historical data, this would mean a further slight easing in the annual growth momentum from the 0.7% recorded in 2023. It also means that we will need to wait for 2025 before the real benefits from the absence of load-shedding, increased confidence (assuming it is sustained), as well as lower inflation and interest rates start to kick in. Much-needed further progress on lifting the tonnages transported by Transnet will also assist in driving faster mining and overall real GDP growth in future.

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