

South Africa

Floods, load shedding, and activity headwinds

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- ◆ Our activity tracker contracted by 3.2% m-o-m in April...
- ◆ ...amid severe floods, port disruptions, damage to transport infrastructure, and worsening energy shortages
- ◆ We expect a sharp contraction in Q2 GDP and forecast full year growth of 1.7% y-o-y

After a strong start to the year with the economy expanding by 1.9% q-o-q in 1Q 2022, activity fell sharply in April. Our activity tracker contracted by 3.2% m-o-m in April, from a 0.7% gain in March, against a backdrop of persistent load shedding and severe flooding in parts of KwaZulu-Natal and the Eastern Cape that disrupted port operations and damaged transport and logistics infrastructure.

Declines in activity were broad-based but led by manufacturing, mining, and the wholesale trade sector. Manufacturing production contracted by 5.4% m-o-m, with output in the petroleum sector slumping after Sapref – South Africa's largest refinery – was mothballed at the end of March. Wholesale trade contracted by 4.9% m-o-m, taking seasonally adjusted sales back below pre-pandemic levels after a strong showing in Q1, while mining output fell by 4.3% m-o-m, as large declines in coal (due to the impact of heavy rains) and gold production (due to strike action impacting some mines) outweighed positive contributions from iron ore and manganese. Elsewhere, there were smaller contractions for retail sales (0.2% m-o-m), transport volumes (0.3%), and electricity production (1.0%), with the latter reflecting a rise in unplanned outages that intensified power cuts during the month.

Outside of the data entering our tracker, there was more positive news for building completions that reached their highest level since the pandemic began, and for tourism and hospitality sectors that showed strong gains in tourist arrivals, and improvements in restaurant spending. Despite these gains, however, both construction and tourism indicators remain well down on pre-pandemic levels, although there may be additional gains following South Africa's recent decision to remove its remaining COVID-19 restrictions as the fifth wave of infections ebbs after imposing much less pressure on the healthcare sector.

The broader outlook for household spending nevertheless appears challenging, amid elevated inflation and rising interest rates, low confidence levels, and a still-subdued jobs recovery. We think there are signs that consumer activity has plateaued in recent months, while headwinds from low business confidence, ongoing energy shortages, and a slowing global economy are also likely to weigh on growth. At this stage we expect the economy to contract sharply in the second quarter, with GDP shrinking by 1.7% q-o-q, and forecast full year growth of 1.7% this year and 1.1% in 2023 (consensus: 2.0% in 2022 and 1.8% in 2023).

This is a Free to View version of a report with the same title published on 27-Jun-22. The full version of the note is available for clients of HSBC and contains further discussion of the Macro scenario currently affecting South Africa. Please contact your HSBC representative or email AskResearch@hsbc.com for more information.

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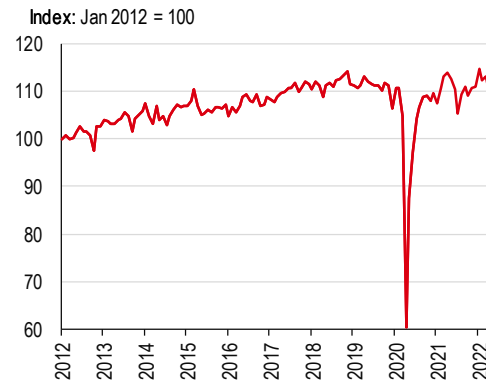
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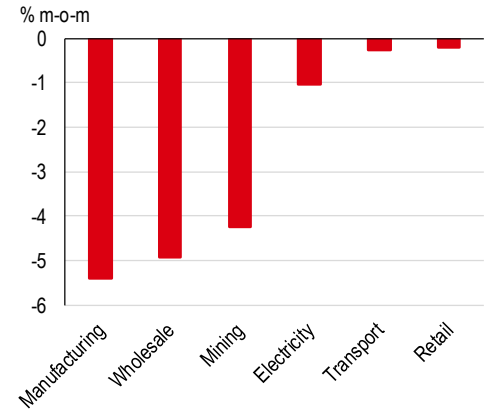
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1. Our activity tracker contracted by 3.2% m-o-m in April...



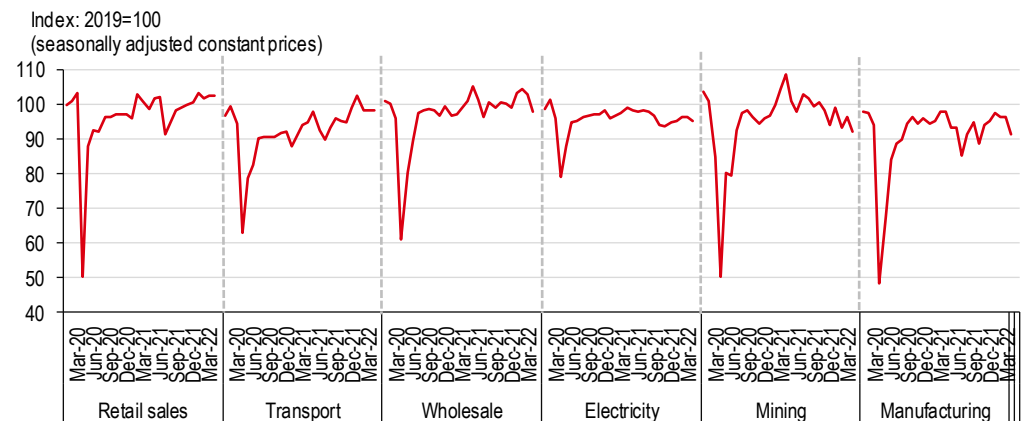
Note: Our activity tracker comprises seasonally adjusted monthly data for mining, manufacturing, and electricity production, freight transport volumes, and wholesale and retail trade sales
Source: Statistics South Africa, HSBC

2. ...led by steep falls in manufacturing, mining, and wholesale trade...



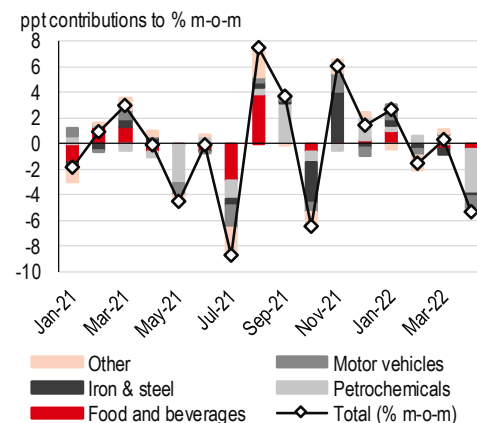
Source: Statistics South Africa, HSBC

3. ...leaving manufacturing and mining output significantly below pre-pandemic levels



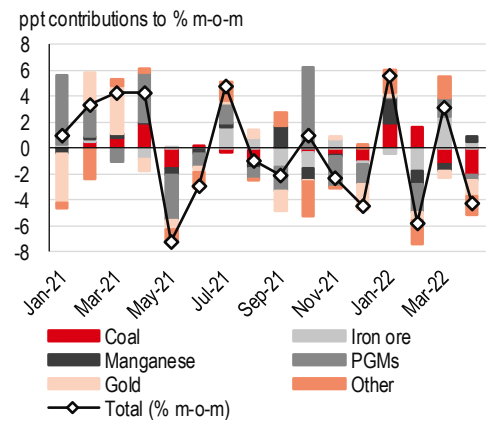
Source: Statistics South Africa, HSBC

4. Manufacturing production declined sharply, falling by 5.4% m-o-m...



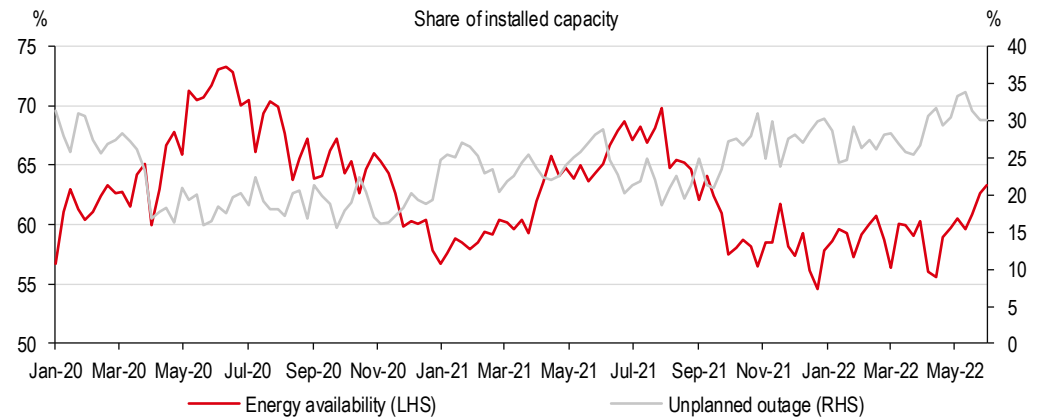
Source: Statistics South Africa, HSBC

5. Coal and gold dragged total mining production lower in April...



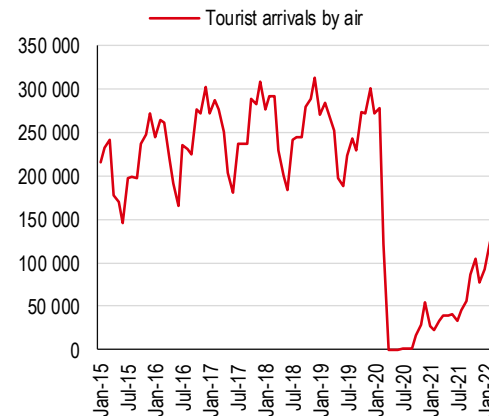
Source: Statistics South Africa, HSBC

6. A rise in unplanned outages has weighed on energy availability and electricity output



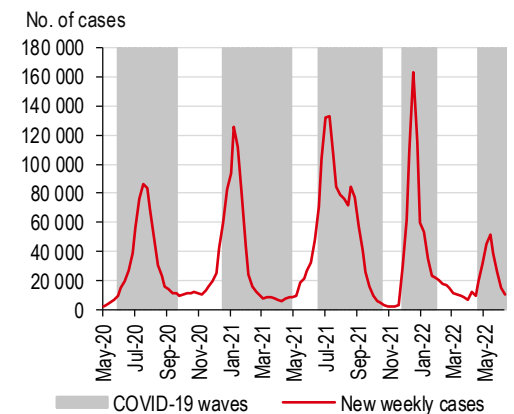
Source: Eskom, HSBC

7. Tourist arrival numbers continue to improve



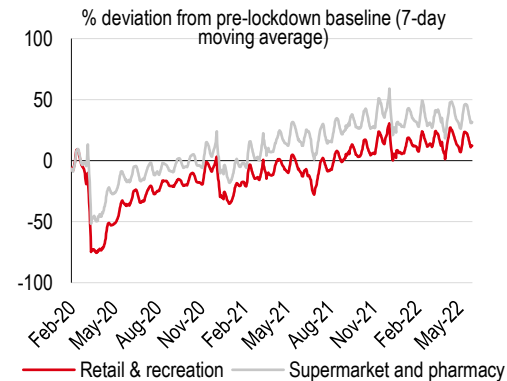
Source: Statistics South Africa, HSBC

8. The government removed COVID-19 restrictions as the fifth wave ebbs...



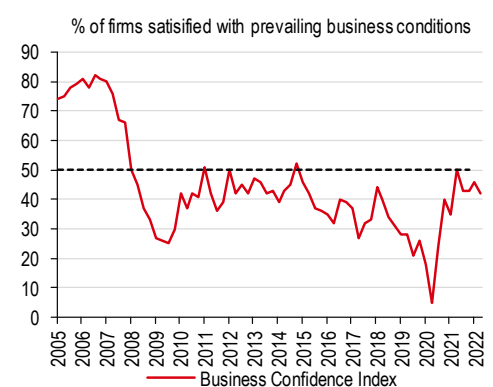
Source: Refinitiv Datastream, HSBC

9. Mobility data, however, suggests a plateau in consumer activity in recent months...



Source: Google Mobility, HSBC

10. ...business confidence remains weak, and dipped in the second quarter



Source: Bureau for Economic Research, HSBC

Disclosure appendix

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