

South Africa

Lights out and off track

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Economics - CEEMEA

- ◆ Our activity tracker rose by 0.5% m-o-m in August...
- ◆ ...but persistent power cuts and severe transport disruptions point to stiff growth headwinds ahead
- ◆ We now forecast a contraction in Q4 and cut our 2022 growth forecast to 1.6%

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Persistent power cuts and severe transport disruptions

While our activity tracker showed modest gains in August, we think the growth outlook is rapidly deteriorating amid persistent power cuts and severe disruptions to the country's transport and logistics network. We nudge our estimate for Q3 growth down (from 0.4% to 0.3%), consistent with PMI readings that dropped sharply in September, and now expect the South African economy to contract in Q4 (from 0.6% to -0.5%) (charts 1 and 2). As a result of these adjustments, we lower our full-year 2022 GDP growth forecast to 1.6% y-o-y (2.0% previously).

Energy shortages may have eased somewhat from Stage 6 reductions in recent weeks, where 6 000MW or about one-sixth of demand was removed from the grid, but they remain at elevated levels with state-owned Eskom's energy availability stuck below 60%, unplanned outages above 30%, and the duration of power cuts more than doubling this year (charts 3 and 4).

Meanwhile, the 12-day labour strike at state-owned transport company Transnet brought the country's railways and ports to a grinding halt. Export harbours operated at between 12% and 30% of daily averages (chart 5), with Business Unity South Africa (BUSA) estimating that the strike kept ZAR65bn worth of goods (1% of GDP) standing idle at the ports, and the Mineral's Council estimating that the country's mining companies lost more than ZAR800m per day in export revenues during the strike, with iron ore, coal, chrome, ferrochrome and manganese the worst affected. Agricultural exports were also negatively impacted, while a strike in the auto sector at the same time also weighed on vehicle production and exports.

These fresh disruptions to South Africa's transport and logistics network add to the impact of floods and flood damage earlier in the year and the longer-term decline in the performance of freight transport volumes, with rail volumes down by about 25% on pre-pandemic levels, coal exports more than 20% lower than five years ago, and ports performance showing few gains over the past decade (charts 6 and 7).

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Modest activity gains in August

The near-term growth outlook has certainly deteriorated, even if the latest data indicates there were modest gains in August, with our activity tracker rising by 0.5% m-o-m from a revised 1.3% monthly gain in July (chart 8). The temporary reprieve from severe load-shedding was evident in the rebound in electricity production, and there was robust growth for the manufacturing sector, with these gains more than offsetting declines from retail sales and transport volumes (charts 9 and 10).

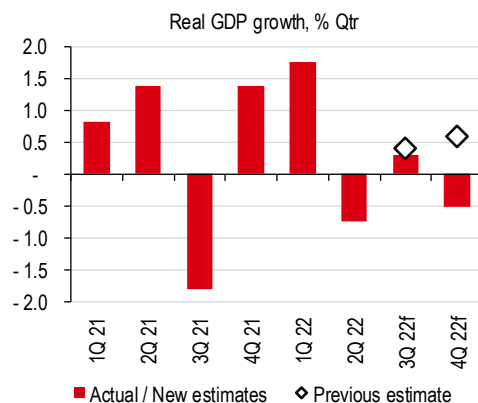
Electricity production increased by 5.5% m-o-m in August after declining by 3.4% previously, as load shedding eased from the period of Stage 6 power cuts in July when Eskom workers downed tools (chart 11). And we think this recovery in energy availability may have partly supported manufacturing output that increased by 2.1% m-o-m, amid strong gains for iron and steel production and the auto sector, which has seen an acceleration in exports in recent months (charts 12 and 13). There were muted monthly gains for wholesale trade, which rose 0.2% m-o-m, while mining production was unchanged in August as increased gold and iron ore production was fully offset by contractions in platinum group metals and coal (chart 14). Mineral sales nudged down during the month and may face headwinds from lower commodity prices (charts 15 and 16).

Freight transport volumes, meanwhile, fell by 1% m-o-m in August after registering strong sequential gains since March, as road transport volumes edged lower and rail payload dropped almost 4% m-o-m (chart 17). Away from our tracker, there was better news for the construction sector as building completions picked up in August after falling to a six-month low in July, following strong gains in residential buildings activity (chart 18).

The biggest decline during the month was for retail sales that fell by 1.8% m-o-m in August, a fourth successive monthly decline, potentially suggesting that higher inflation and rising interest rates are beginning to bite as they weigh on disposable incomes and spending power. Consumer activity appears muted (chart 19), and alongside a sluggish labour market and low consumer confidence we expect a slowdown in household spending over the coming months.

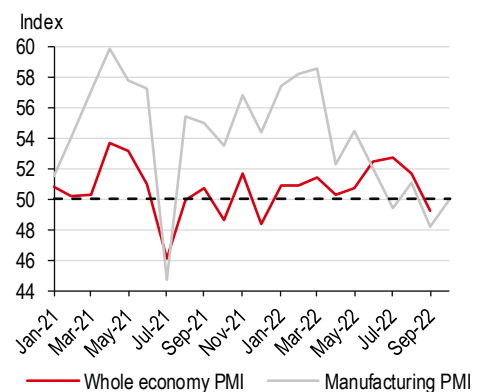
Yet the latest data also show pockets of resilience, including the tourism gains that are likely to underpin hospitality spending (charts 20 and 21), strong motor vehicle sales that have been buoyed by re-fleeting in the car rental business (chart 22), and signs of relatively robust credit growth (chart 23). We assessed this tension between a daunting macro overhang and more supportive micro drivers in a recent report.

1. We expect the economy to contract in Q4 2022...



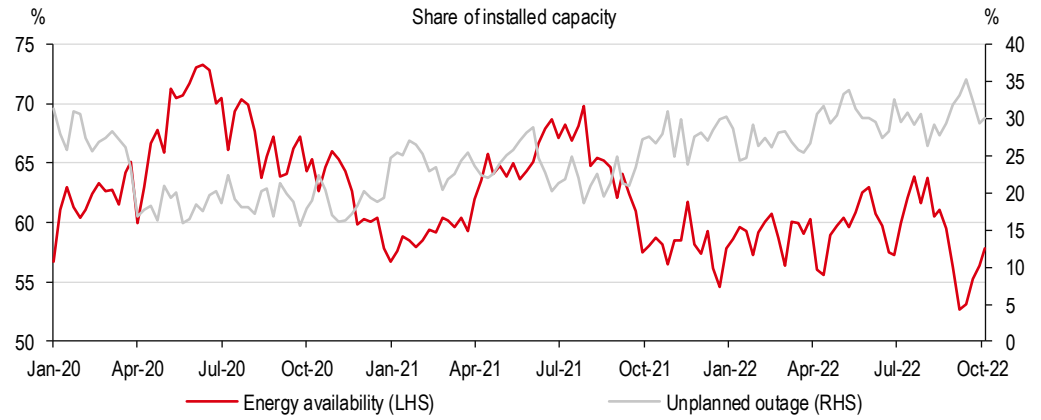
Source: Statistics South Africa, HSBC estimates

2. ...consistent with the downturn in PMI readings



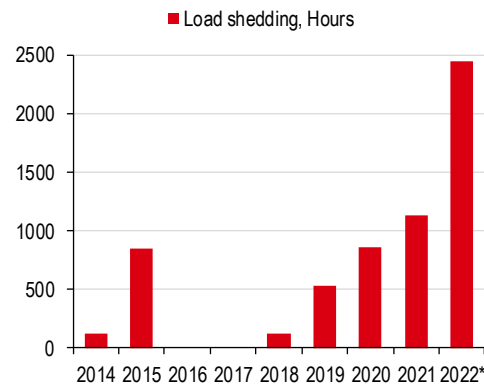
Source: Bureau for Economic Research, S&P Global, HSBC

3. Power supply shortages have worsened at Eskom amid high unplanned outages...



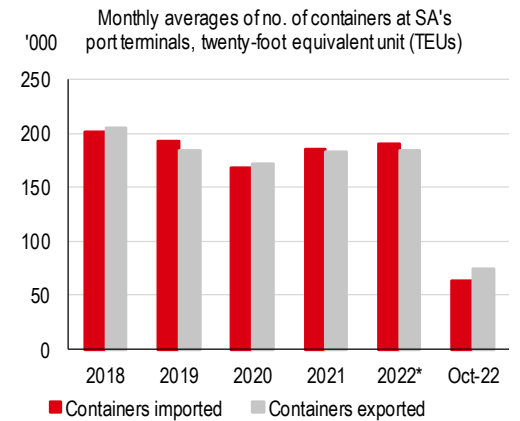
Source: Eskom, HSBC

4. ...and load shedding has more than doubled this year



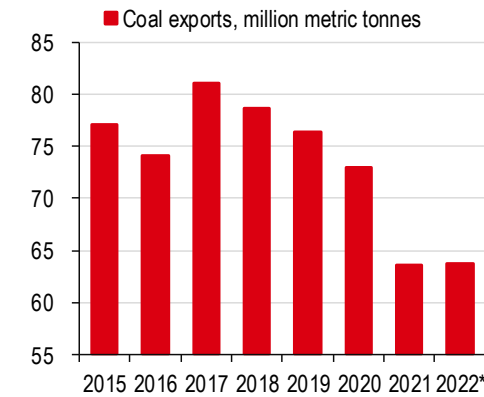
Note: * 1 January to 31 October 2022
Source: EskomSePush, HSBC

5. The strike at Transnet brought port activity to a grinding halt...



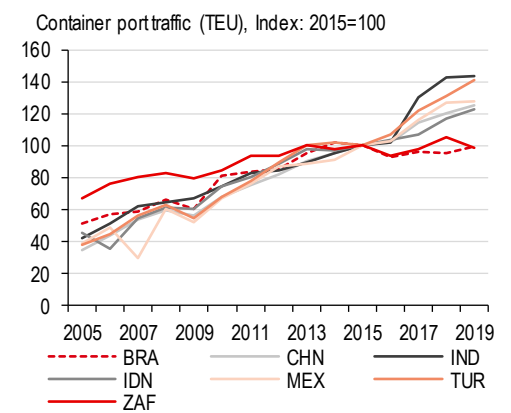
Note: * 2022 shows figures for 1 January to 30 September
Source: BUSA, HSBC

6. ...while rail problems are weighing on coal exports...



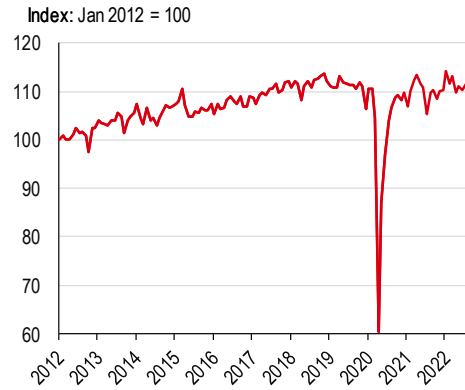
Source: 2022 is an annualised total from Jan to Sep data.
Source: SARS, HSBC

7. ...adding to the longer-term malaise in South Africa's port performance



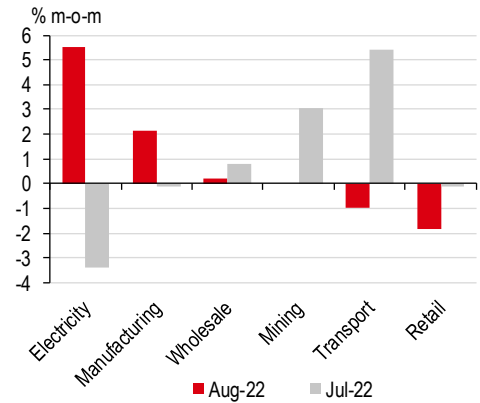
Source: World Bank, HSBC

8. Activity showed modest gains in August, with our tracker up by 0.5% m-o-m



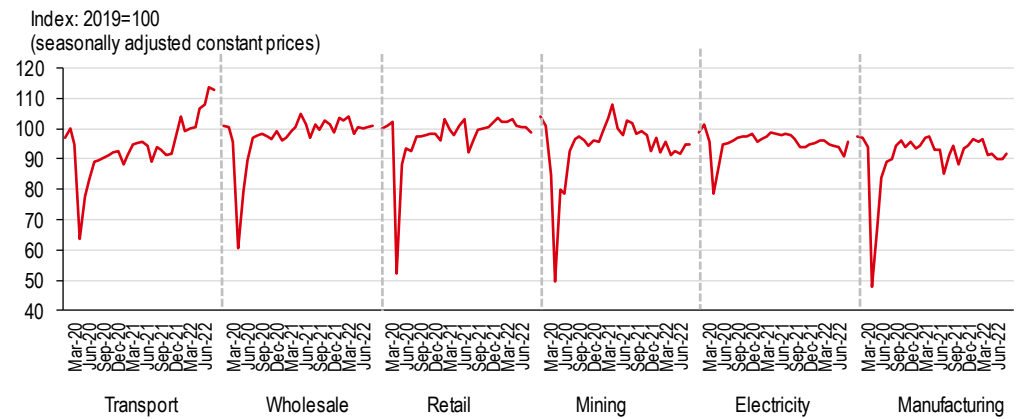
Source: Statistics South Africa, HSBC

9. Electricity production rebounded, while there was robust manufacturing growth



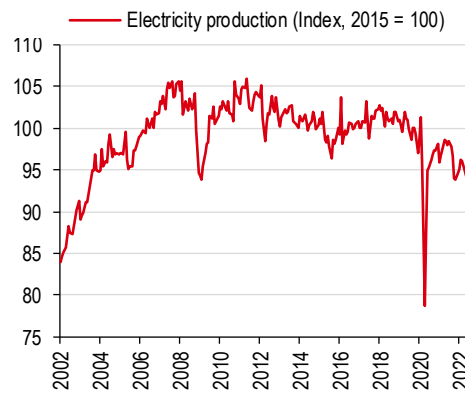
Source: Statistics South Africa, HSBC

10. Transport remains the standout sector in terms of its post-lockdown recovery, but there are signs that retail sales are starting to flag



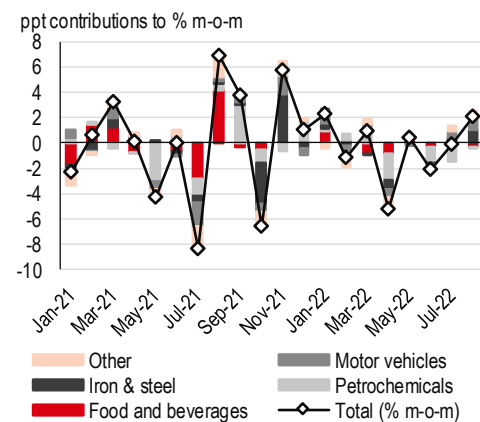
Source: Statistics South Africa, HSBC

11. Electricity production bounced, but any recovery is likely to be short-lived



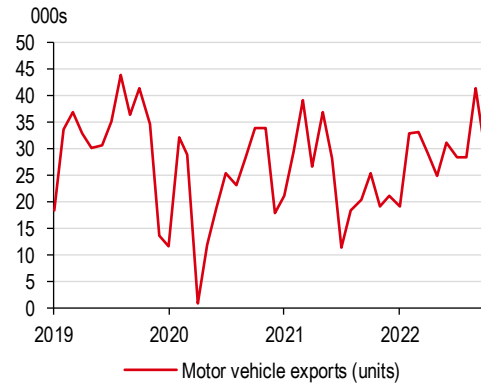
Source: Statistics South Africa, HSBC

12. Iron and steel and motor vehicles supported manufacturing gains...



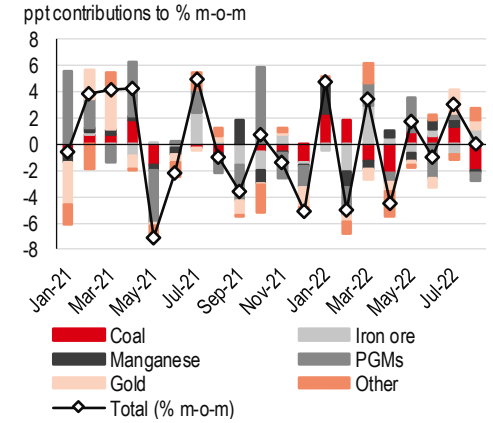
Source: Statistics South Africa, HSBC

13. ...with auto exports rising to their second highest on record in September



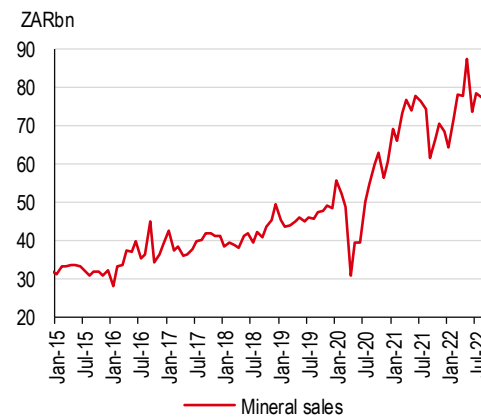
Source: Refinitiv Datastream, HSBC

14. Higher iron ore and gold output offset the decline in coal production and PGMs...



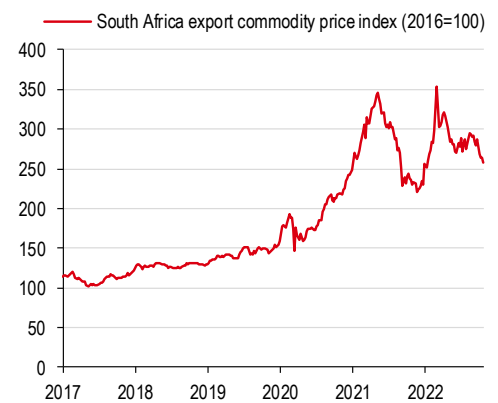
Source: Statistics South Africa, HSBC

15. ...while mineral sales edged down by 1.3% m-o-m...



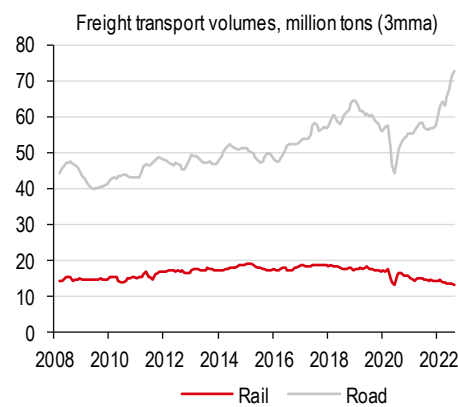
Source: Statistics South Africa, HSBC

16. ...and could fall further given the downturn in key commodity prices



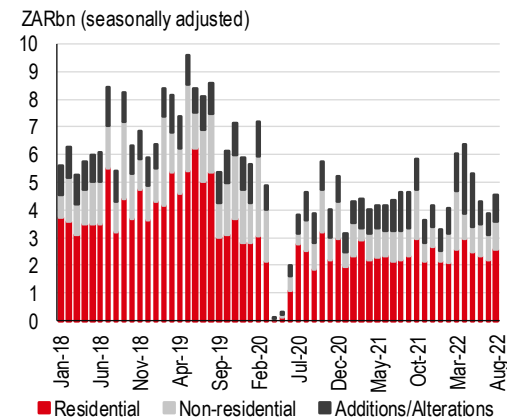
Source: Bloomberg, HSBC

17. Falling rail freight pulled down transport volumes in August



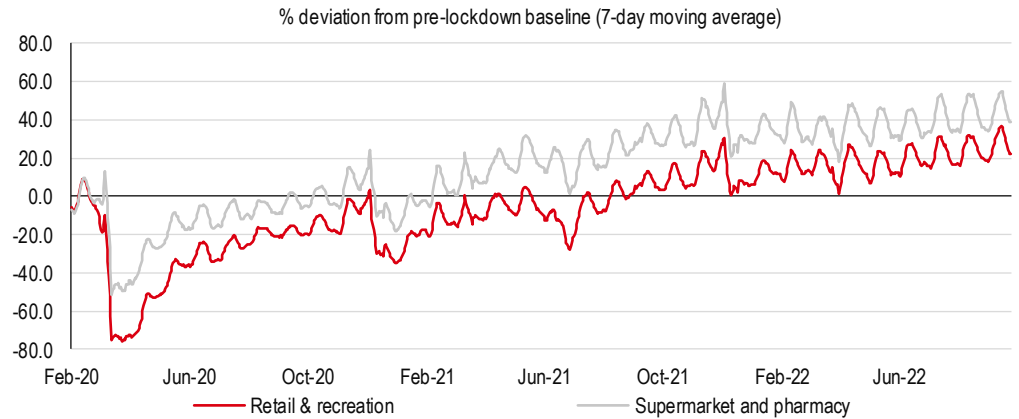
Source: Statistics South Africa, HSBC

18. Building completions picked up from a 6-month low in July



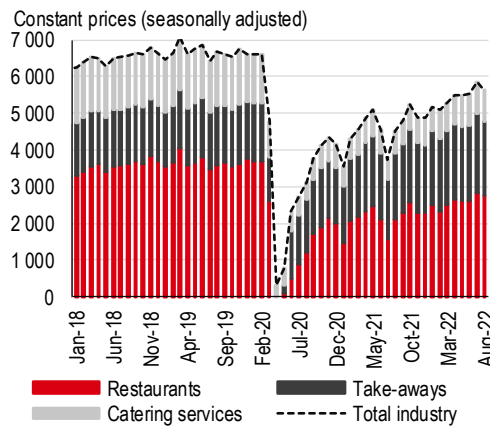
Source: Statistics South Africa, HSBC

19. Mobility data suggests muted gains for consumer activity in recent months



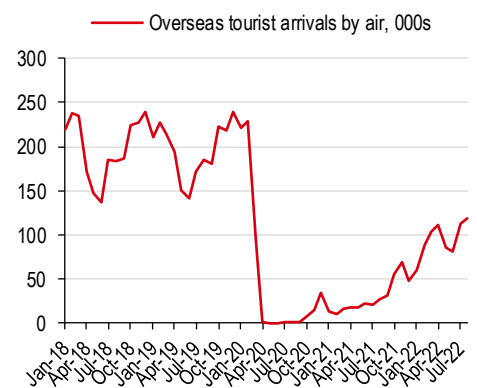
Source: Google Mobility, HSBC

20. Spending on food and drinks dipped slightly during the month...



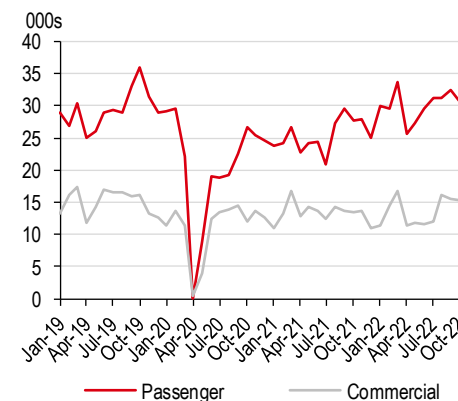
Source: Statistics South Africa, HSBC

21. ...but tourism arrivals continue to normalise



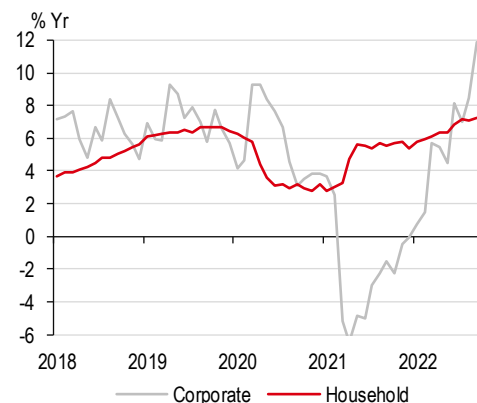
Source: Statistics South Africa, HSBC

22. Passenger vehicle sales has been supported by the car rental industry...



Source: Refinitiv Datastream, HSBC

23. ...and private sector credit growth remains robust



Source: SARB, HSBC

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