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Growth surprises as Iran risks loom

Q4 2025
0.4% q/q

Q1 2026
0.5% q/q

Production 0.5% q/q



↑ 3.9% q/q: Driven by increased activity in field crops and horticulture products.



↑ 0.7% q/q: Supported by stronger precious group metals (PGM) and gold production.



↓ 0.8% q/q: Half of the manufacturing divisions contracted during the quarter.



↑ 0.4% q/q: Driven by higher electricity consumption.



↑ 0.2% q/q: Supported by increased activity in non-residential buildings and construction works.



↑ 0.7% q/q: Due to higher wholesale trade, motor trade, food and beverages, and accommodation activities.



↑ 0.7% q/q: Supported by land transport, air transport and transport support services.



↑ 0.9% q/q: Underpinned by financial intermediation and auxiliary financial services.



↑ 0.3% q/q: Reflecting increased public sector employment.



↑ 0.3% q/q: Driven by stronger community service activities.

Expenditure 0.5% q/q



↑ 0.1% q/q: Supported by growth across durable, semi-durable and non-durable goods.



↑ 0.6% q/q: Supported by higher spending on goods and services and employee compensation.



↓ 1.1% q/q: Constrained by lower investment in machinery and equipment, residential buildings and other assets.



R22.4 billion drawdown driven by inventory reductions in manufacturing and trade.



↑ 0.5% q/q: Driven by higher exports of mineral products and vegetable products.



↓ 2.6% q/q: Driven by a decline in imports of precious stones and metals and mineral products.

Source: Statistics South Africa (Stats SA)
q/q = quarter-on-quarter



So what?



Economic growth surprised to the upside in the first quarter of 2026 but the impact of the Middle East conflict is yet to be reflected in the data. The spillover effects through higher fuel prices, elevated inflation and tighter monetary policy became more visible from April onwards. Business confidence dropped in the second quarter, which is likely to weigh on investment decisions while higher living costs and borrowing costs will constrain household spending.

We expect SA's economy to grow by 1.2% in 2026 before improving to 1.5% in 2027. However, this continues to lag growth rates in peer economies. Risks to the outlook remain tilted to the downside. A prolonged closure of the Strait of Hormuz and an El Niño weather event represent key risks to growth, with the SA Reserve Bank (SARB) estimating that growth could be as low as 1.2% in 2027 under these scenarios.

Services and agriculture support growth offsets manufacturing drag

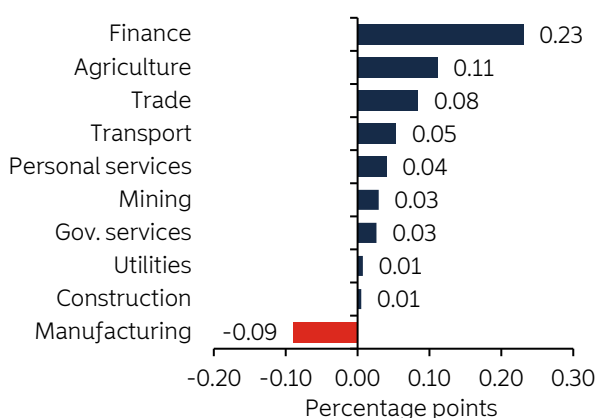
As measured by Stats SA, SA's economy expanded by 0.5% q/q in the first quarter of 2026, up from 0.4% q/q in the fourth quarter of 2025, according to the production method.

This outcome surprised to the upside and marked the sixth consecutive quarter of expansion, the longest growth streak since the first quarter of 2018.

However, growth momentum remains relatively subdued, with average growth over this period of just 0.4%.

Growth in the first quarter was broad-based, with nine of the ten industries expanding and contributing positively to overall GDP (see chart 1). The finance, real estate and business services sector grew by 0.9% q/q, contributing 0.2 percentage points (pp) to overall growth and representing the largest positive contribution in the quarter. However, the strongest sectoral performance came from agriculture, which expanded by 3.9% q/q.

Chart 1: Broad-based production side growth in the first quarter of 2026



Source: Stats SA, Momentum Group

While agricultural output was positive, it was notably weaker than the 16.4% q/q surge recorded in the same

quarter of 2025. The Agricultural Conditions Assessment Committee of SA indicated that the grain and oilseeds crop performed well, supported by favourable rainfall conditions and a 5% expansion in the planting area for summer crops, while the livestock sector remained under pressure due to ongoing foot-and-mouth disease disruptions.

Mining output increased by 0.7% q/q, supported primarily by PGMs, which rose by 8.5% q/q. Output also improved in diamonds, gold and chromium ore. However, these gains were partially offset by declines in coal, iron ore, nickel, copper, other metallic and non-metallic minerals and building materials.

In the trade sector, motor trade sales rose by 2.2% q/q, marking a fourth consecutive quarterly increase, supported by stronger vehicle and fuel sales. Used vehicle sales recorded a stronger gain of 4.8% q/q, while the new vehicle market rose by 1.2% q/q, extending its growth streak to six consecutive quarters. Fuel sales, in comparison, increased by 2.8% q/q.

Wholesale trade sales increased by 0.9% q/q, marking a third consecutive quarterly gain.

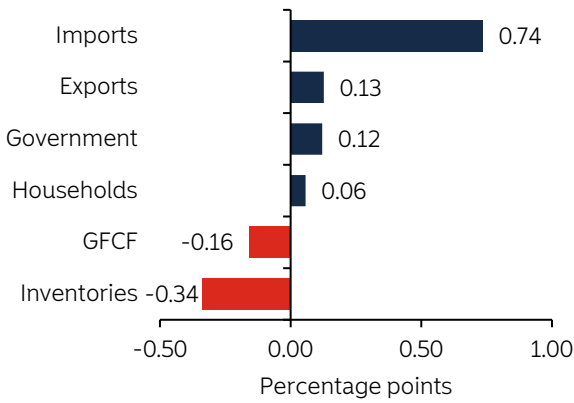
Together, gains in motor and wholesale trade offset weakness in retail activity. After eight consecutive quarters of expansion, retail trade sales stagnated in the first quarter of 2026 (0% q/q).

Manufacturing was the only industry that contracted in the first quarter of 2026, declining by 0.8% q/q. Five of the ten manufacturing divisions recorded lower output, with the petroleum, chemical products, rubber and plastics division being the largest negative contributor. Additional weakness was recorded in wood, paper, publishing and printing; iron and steel, non-ferrous metals and machinery; communication and professional equipment and food and beverages. Notably, the iron and steel, non-ferrous metals and machinery grouping has worryingly contracted for six consecutive quarters.

Domestic demand pressures starting to creep in

On the expenditure side, the picture was similarly broad-based, with GDP expanding by 0.5% q/q in the first quarter of 2026, up from 0.3% q/q in the fourth quarter of 2025 (see chart 2)

Chart 2: Broad-based expenditure side growth in the first quarter of 2026



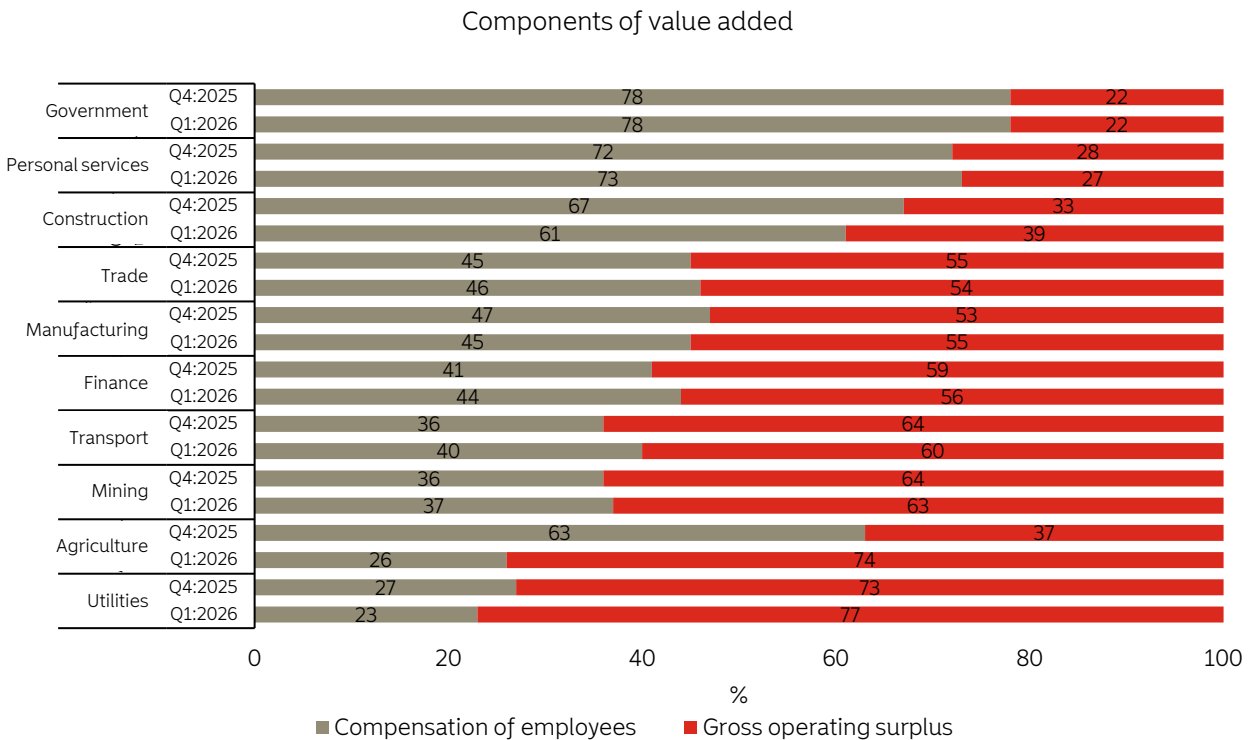
Source: Stats SA, Momentum Group

Household consumption expenditure slowed sharply to 0.1% q/q in the first quarter of 2026 from 1.2% q/q in the prior quarter.

The unemployment rate rose to 32.7% in the first quarter, its highest level in three quarters. There were 345 000 job losses mostly concentrated in community and social services as well as construction. This likely weighed on household income and consumption momentum.

Gross value added is unevenly distributed between compensation of employees and gross operating surplus, with labour's share relatively low in capital-intensive sectors (see chart 3).

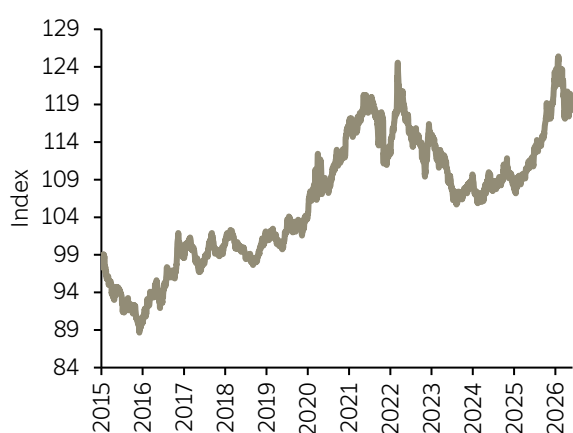
Chart 3: Large differences in how value is distributed between labour and capital across the different industries



Source: Stats SA, Momentum Group

In mining, only around 37% of value added accrues to employees, while 63% is captured by gross operating surplus. This has important implications for wage dynamics, as profitability in commodity-linked sectors tends to influence wage bargaining outcomes. Given SA's elevated terms of trade (see chart 4), the relatively low compensation share could signal potential upward pressure on mining wages.

Chart 4: Terms of trade supported by elevated commodity prices



Source: Bloomberg, Momentum Group
Data up to 1 June 2026

More broadly, early signs suggest wage dynamics are coming under pressure.

According to PayInc data, the average nominal net salary index declined by 0.5% y/y in April, following two years of increases in 2024 and 2025. PayInc attributes part of this pressure to the impact of the Middle East conflict on corporate profitability. With nominal wage growth softening and inflation accelerating, the real net salary index declined by 2.7% q/q in April 2026, reaching its lowest level in two years. Weak real income growth, alongside elevated geopolitical uncertainty, is likely to weigh on employment and earnings prospects which will negatively affect household consumption going forward, if it persists.

After two consecutive quarters of growth, fixed investment contracted by 1.1% q/q. The decline was driven by machinery and other equipment, residential buildings and other assets.

Economic growth resilience expected to fade as sentiment weakens

Economic growth surprisingly edged up to 0.5% q/q in the first quarter of 2026, from 0.4% q/q in the previous quarter. However, this period only partially reflected the conflict's impact, with March being the only month of war included in the quarter. The effects of the war became more visible from April onwards, mainly through higher fuel prices. As such, the second quarter economic growth outcome for 2026 will give a clearer indication of the conflict's impact on local growth.

The sharpest drop came from new vehicle dealers (18-point drop), likely reflecting weaker expected sales given higher interest rates (the SARB increased the repo rate by 25 basis points in May). Overall, lower confidence suggests businesses are becoming more cautious, which will dampen fixed investment plans.

For households, higher fuel and transport costs, together with elevated inflation overall and tighter monetary policy, are likely to weigh on spending power.

Business sentiment has already weakened noticeably. The Business Confidence Index fell from 47 to 39 in the second quarter of 2026, with a decline across most sectors.

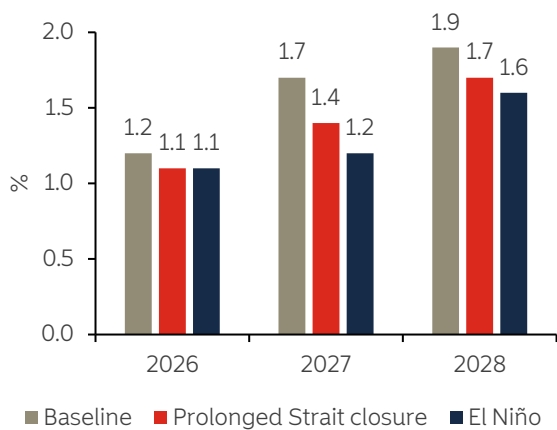
We expect SA's economic growth to average 1.2% in 2026 before recovering to 1.5% in 2027. While growth is expected to improve, it will remain weak relative to peer economies and downside risks remain.

Following SA's recent sovereign rating upgrade from BB- to BB, Fitch noted that its 2027 growth forecast of

1.4% for SA remains well below the BB-rated sovereign median of 4%.

According to the SARB, the main downside risks to the growth outlook include a prolonged closure of the Strait of Hormuz and an El Niño weather event (see chart 5).

Chart 5: SARB's economic growth estimates under different scenarios, %



Source: SARB, Momentum Group

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