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The macro signal

South African economic growth monitor

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Q2 growth contraction largely anticipated

	Production (supply side) Q2: -0.2% q/q		Expenditure (demand side) Q2: -0.2% q/q	
DRIVERS Added to growth	Utilities **+1.0%** Largely due to increases in electricity and water consumption.	Government **+1.0%** Mainly due to higher employee compensation in extra-budgetary, higher education and provincial institutions.	Exports **+0.9%** Increased trade in precious metals and stones, chemicals, livestock and paper products.	Household Consumption **+0.4%** Semi-durables (or clothing and footwear) was the only sector that contracted.
DRAGS Subtracted from growth	Mining **-3.0%** The largest negative contributors were platinum group metals, manganese ore, gold and iron ore.	Trade **-1.9%** Decreased activities were reported for wholesale trade, motor trade as well as food and beverages.	Gross Fixed Capital Formation **-0.2%** Negative contributors were construction works, transport equipment, other assets and transfer costs*.	Imports **+4.9%** Mainly due to increased trade in machinery and electrical equipment as well as mineral products (oil).

Source: Statistics South Africa (Stats SA). Values quoted are q/q (quarter-on-quarter)
** Other assets (includes research and development, computer software, mineral exploration and cultivated biological resources), transfer costs (costs of ownership transfer)*

So What?

1. The contraction in the second quarter of 2026 indicates that the cyclical upswing lost momentum, with weak domestic demand and investment limiting growth.
2. A challenging global backdrop, ongoing conflict in the Middle East, higher fuel-related costs and local political risks remain downside risks to the growth outlook.
3. We maintain our real growth forecasts of 1.2% in 2026 and 1.5% in 2027. Growth in 2027 is expected to be supported by a recovery in fixed investment and a gradual improvement in household consumption.

CONSUMER LENS

Living standards have grown by just 0.5% over the past five years*.

Growth was insufficient to make a meaningful contribution to enhancing living standards for the average South African.

Unemployment increased from 32.7% in Q1 to 33.6% in Q2 2026.

Continued weakness in the jobs market remains a key constraint on household income and consumption growth.

** According to Word Bank data*

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Economy contracted as mining, manufacturing and trade weighed on activity

According to Stats SA, the economy contracted by 0.2% q/q in the second quarter of 2026, following a downwardly revised 0.4% q/q growth in the first quarter (previously 0.5% q/q).

Q2 growth marked the first contraction after six consecutive quarters of expansion. This provides an initial indication of the impact of the Middle East conflict on the local economy.

The slowdown was concentrated in the mining, manufacturing and trade sectors on the production side, while activity increased across the remaining six sectors.

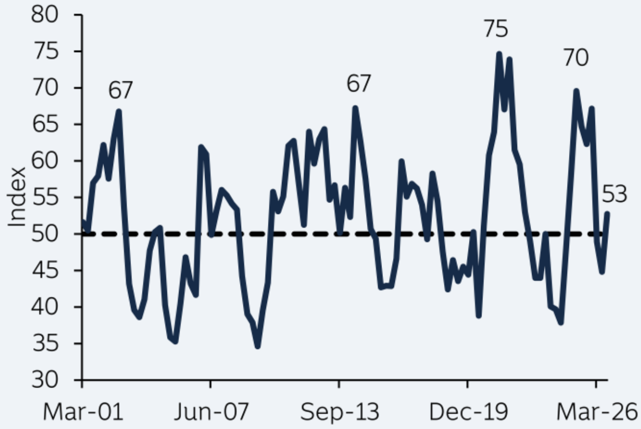
Mining activity fell by 3% q/q, reflecting weaker output across several commodities, including platinum group metals, manganese ore, gold and iron ore.

Manufacturing activity declined by 1.8% q/q, marking its third consecutive quarterly contraction and highlighting continued pressure on SA's industrial base. Seven of the 10 manufacturing divisions recorded a decline in growth. The food and beverages, furniture and other manufacturing as well as basic iron and steel, non-ferrous metal products, metal products and machinery divisions were among the weaker performers.

Trade, catering and accommodation declined for the first time in six quarters, falling 1.9% q/q in the second quarter. Given that the sector includes several consumer-facing activities, the decline has been consistent with increased pressure on household spending amid higher inflation (including fuel prices).

Agricultural output increased by 0.3% q/q in the second quarter, slowing from a downwardly-revised 1.2% q/q in the first quarter. The moderation likely reflects the impact of flooding earlier in the year. Looking ahead, the Agricultural Business Chamber of SA (Agbiz)/Industrial Development Corporation Agribusiness Confidence Index rose by eight points to 53 in the third quarter of 2026, indicating that agribusinesses are optimistic about business conditions (see chart 1).

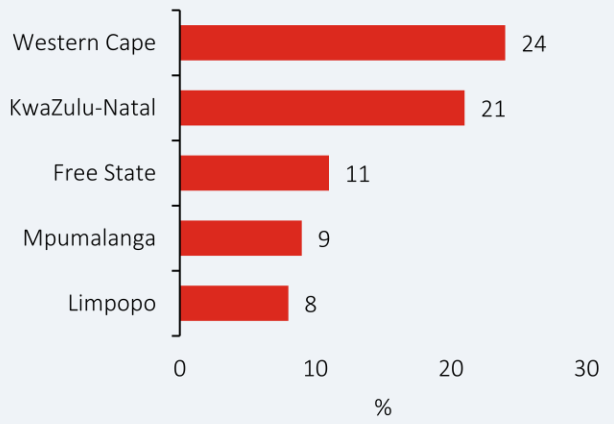
Chart 1: Agriculture confidence moved back above the neutral 50-point level after two quarters below it



Source: Agbiz, Momentum Group
Data until September 2026

However, risks to this outlook remain, with Agbiz highlighting that agribusinesses are concerned about risks from an El Niño-driven drought, geopolitical tensions, higher input costs and trade disruptions. According to the Daily Maverick, the Western Cape experienced its driest July in decades. This was not El Niño-related but raises concerns especially given the province's contribution to overall agricultural GDP for the country (see chart 2).

Chart 2: Western Cape accounts for the largest share of agricultural GDP in SA



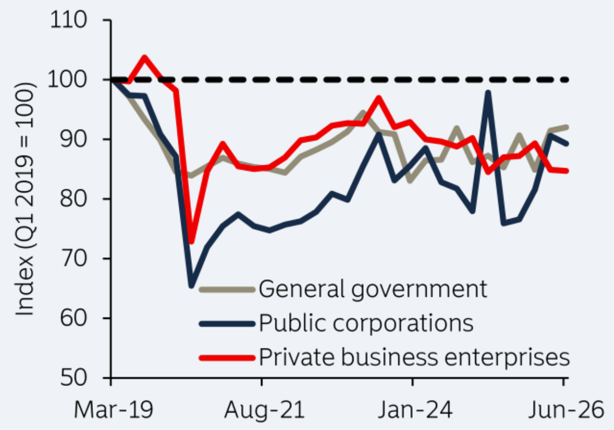
Source: Stats SA, Momentum Group
Based on 2024 data

Weak fixed investment continued to burden economic growth

On the expenditure side, gross fixed capital formation contracted by 0.2% q/q in the second quarter, following a 1% q/q decline in the first quarter. Private sector investment declined for the second consecutive quarter, while public corporations also recorded a contraction.

The continued weakness in investment (see chart 3) is concerning given the need to expand productive capacity, address infrastructure constraints and ultimately lift SA's growth rate.

Chart 3: Fixed investment remains below pre-pandemic



Source: Global Insight, Stats SA, Momentum Group
Data until June 2026

Growth in household consumption expenditure ticked up to 0.4% q/q from a downwardly revised flat growth rate in the first quarter, from 0.1% q/q.

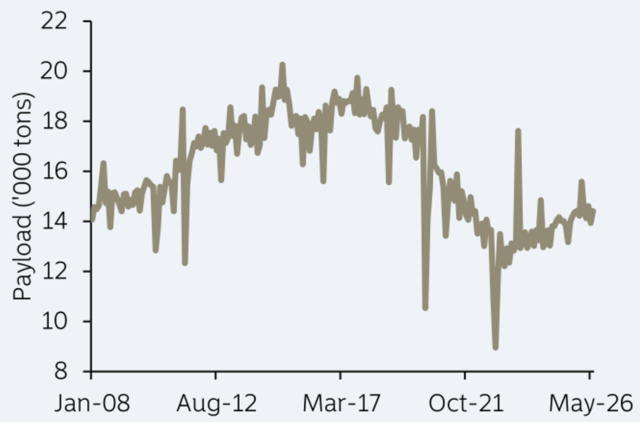
Households faced affordability pressures during the second quarter, with inflation rising to an average of 4.5% from 3.2% in the previous quarter.

Fuel prices also increased sharply, with diesel prices averaging around R10/l higher and petrol prices R5.6/l higher than in the previous quarter. At the same time, consumer confidence deteriorated in the second quarter, pointing to more cautious households.

Government consumption expenditure rose by 0.4% q/q in the second quarter, moderating slightly from 0.5% q/q in the first quarter.

The external sector detracted from economic growth. Exports of goods and services increased by 0.9% q/q, but imports rose significantly faster, by 4.9% q/q, resulting in net exports subtracting 1.1 percentage points from quarterly GDP growth. Export performance remains important for the country's growth outlook, particularly as improving rail freight volumes (see chart 4) begin to alleviate some of the logistical constraints that have limited SA's export capacity.

Chart 4: Rail freight volumes are improving



Source: Global Insight, Stats SA, Momentum Group
Data until June 2026

Growth recovery remains fragile amid rising risks

The contraction in the second quarter brought growth in the first half of the year to an average of 0.1%, down from 0.4% in the same period last year. The weak outcome highlights the fragility of the cyclical upswing, with the ongoing war, higher fuel prices and subdued sentiment weighing on economic activity.

Looking forward, business confidence deteriorated slightly in the third quarter to 38 points, while consumer confidence is expected to remain weak. As such, growth is likely to remain subdued in the third quarter.

SA's economic recovery remains vulnerable to a challenging global backdrop, local political risks and weak capital investment. While improving logistics efficiency should provide some support to exports, weakness in investment limits the pace at which the economy can expand.

We forecast GDP growth of 1.2% in 2026 and 1.5% in 2027, unchanged from our previous forecasts. Growth in 2027 is expected to be supported by a recovery in fixed investment as sentiment improves and structural reform progresses, alongside a gradual improvement in household consumption.

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