Industry Insights | 01 June 2026

GDP Expectations

NEDBANK

ECONOMICS | SOUTH AFRICA | INDUSTRIES

Another quarter of tepid economic growth

- Real GDP growth likely softened from 0.4% qoq in Q4 2025 to about 0.2% in Q1 2026. High-frequency data suggest that services drove growth, supported by robust activity in domestic trade and finance. Elsewhere, performances were mixed. Off the tailwinds of last year's favourable rains, agriculture probably started the year off in positive territory. Mining output strengthened while manufacturing and electricity remained under pressure.
- We forecast moderately faster growth in agriculture. Expected harvests of field crops and horticultural products remained strong. On the downside, the livestock industry (more than 40% of agricultural Gross Value Added) remained under pressure from foot-and-mouth disease and the outbreak of African swine fever.
- Mining recovered, with PGMs and gold contributing the most. Manufacturing production weakened further as five of the ten manufacturing divisions reported contractions. Although the grid remained stable, with no load-shedding, electricity gas and water likely contracted, reflecting a 0.8% qoq drop in electricity production and a deepening water crisis, with many municipalities experiencing frequent water interruptions. Construction probably weakened further, given a sharp drop in building activity and weak sentiment amongst hardware retailers, building material manufacturers, and residential builders.
- Services probably remained the primary driver of growth in Q1, underpinned by finance, real estate and business services, which benefited from easier financial conditions. Domestic trade activity also remained positive, although the momentum likely softened, as weakness in accommodation and parts of retail trade partly contained the boost from growth in wholesale and vehicle sales. Transport activity improved as both passenger and freight volumes increased. We also anticipate positive contributions from general government and personal services.
- We still expect economic growth to improve slightly from 1.1% in 2025 to 1.2% in 2026, mainly driven by consumer demand, which should continue to benefit from earlier interest rate cuts. The war in Iran, however, poses significant downside risks. The conflict has already contributed to higher fuel prices, which have placed renewed upward pressure on domestic inflation, prompting the SARB to raise interest rates, with further tightening remaining a possibility. This threatens to remove an important source of support for household spending and investment, leaving the risks to the growth outlook firmly skewed to the downside. Over the next three years, we forecast an average growth rate of around 1.7%.

Chart 1: Mining grew, but manufacturing and electricity fell

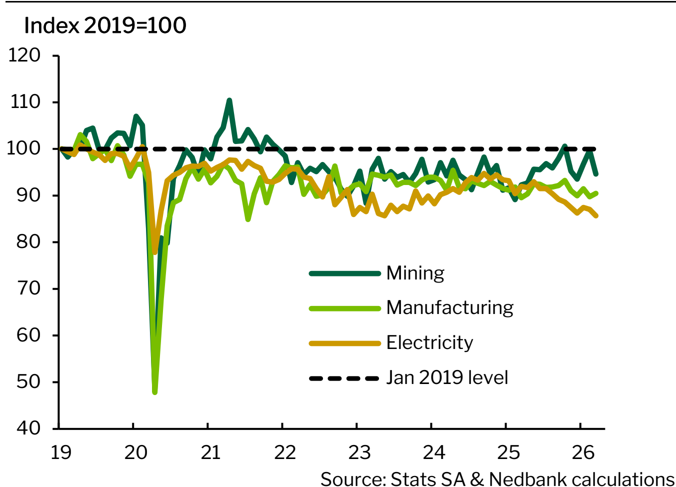
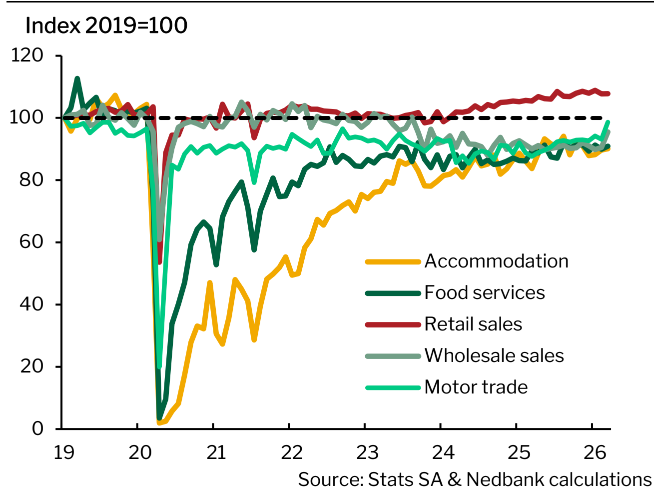


Chart 2: Services remained robust



Expected GDP outcomes in Q1 2026

High-frequency indicators point to tepid growth in Q1. Agriculture and services are likely to have driven growth. Services benefited from healthy consumer demand, supported by easier financing conditions and stronger credit demand. Mining made a positive contribution, while manufacturing, electricity, gas and water, and construction remained under pressure. Altogether, we see real GDP slowing from 0.4% qoq in Q4 to 0.2% in Q1.

Off the tailwinds of last year's good weather, agriculture likely recorded further gains in Q1. Given the lack of high-frequency data, forecasting quarterly outcomes for agriculture, forestry, and fishing remains difficult. Our best estimate is that gross value added (GVA) expanded by about 0.5% qoq, following growth of 0.4% in Q4 2025. Expected harvests for field crops and horticulture

remain strong, with data released by the Crop Estimates Committee at the end of May showing that the 2025-26 summer grain and oilseed harvest is expected to reach 21.1 million tonnes (potentially the largest on record), up 3% yoy. The increase in agricultural exports over the quarter, particularly horticultural products, wine, and field crops, alongside the rise in sector employment (up 1% qoq), further supports the view that agricultural activity likely remained resilient. On the downside, the livestock industry (more than 40% of agricultural GVA) remained under pressure from foot-and-mouth disease and the outbreak of African swine fever.

Mining recovered somewhat in Q1, with output rising by 0.6% qoq, after shrinking 0.5% in Q4 2025. PGMs and gold made the most significant positive contributions (adding 3 ppts). In contrast, iron ore and coal continued to underperform, with production down 6.6% and 3.3%, respectively. Together, these two industries shaved 1.8 ppts off the quarterly growth rate in mining production. Manufacturing production contracted by 1% qoq, after falling 0.5% in Q4. Five of the ten manufacturing divisions reported contractions over the quarter. The largest negative contributions came from petroleum, chemical products, rubber and plastic products (-3.4% and subtracting 0.7 ppts), basic iron and steel, non-ferrous metal products, metal products and machinery (-1.4% and subtracting 0.3 ppts) and wood and wood products, paper, publishing and printing (-2.4% and subtracting 0.2 ppts). In contrast, motor vehicles made a small positive contribution of 0.2 ppts.

Table 1: Latest economic indicators.

Industries	mom %			yoy %			Q1 2026		2025
	Jan-26	Feb-26	Mar-26	Jan-26	Feb-26	Mar-26	qoq %	yoy %	yoy %
Mining	3.5	3.0	-5.1	4.7	9.7	2.5	0.6	5.5	0.1
Manufacturing	1.7	-1.8	0.8	-0.2	-2.3	0.9	-0.9	-0.5	-1.3
Electricity	1.4	-0.5	-1.6	-6.1	-3.9	-7.1	-0.8	-5.7	-2.0
Buildings completed	-52.3	79.9	-1.2	-33.1	19.0	22.5	-19.5	5.6	0.1
Wholesale sales	-1.3	0.7	5.5	-4.2	-1.4	8.3	0.9	1.0	-1.4
Retail sales	0.9	-1.1	0.1	4.4	1.6	2.6	0.0	2.8	3.7
Vehicle sales (Stats SA)	-0.7	1.5	3.9	2.7	5.6	14.7	2.2	7.6	1.9
Accommodation income	-2.0	0.7	-3.2	-1.2	3.1	1.7	-3.1	1.2	3.5
Food services income	2.2	-1.5	1.1	-1.2	3.1	1.7	0.1	1.2	5.5
Freight transport	0.6	-0.3	1.9	-2.9	-2.3	1.6	1.0	-1.2	0.3
Passenger transport	-0.1	-0.6	4.0	-2.4	4.0	5.1	3.0	2.3	9.4
Real credit extended	0.0	0.9	-0.9	5.2	7.3	5.1	1.2	5.9	2.3

Source: Stats SA

Electricity, gas, and water likely contracted by around 0.2% qoq in Q1, after shrinking by 2.2% in Q4. The contraction reflects a 0.8% qoq drop in electricity production and a deepening water crisis, with many municipalities experiencing frequent water interruptions due to burst pipes, pump station failures, reservoir shortages, infrastructure maintenance backlogs, vandalism, illegal connections and weak municipal finances. Eskom's energy data points to a 2.6% qoq slide in electricity demand, accompanied by a 2% drop in dispatchable generation over the quarter. The unplanned capability loss factor (UCLF) as a percentage of total installed capacity averaged 19% over the quarter, while planned maintenance averaged 12%. The 6% qoq decrease in the UCLF allowed for no manual load reduction (MLR) over Q1.

Value added by construction is forecast to contract by around 1.1% qoq, slightly smaller than -1.3% in Q1. Our forecast aligns with a sharp drop in building activity and our expectation of weak fixed investment outlays (0.2% qoq) over the quarter. The real value of buildings completed fell 19.5% qoq in Q1 after expanding by 5.3% in Q4. The FNB/BER building confidence index also slipped, dropping to 42 in Q1 from 43 in Q4. The lower sentiment reading was mainly due to a decline in confidence among hardware retailers and building material manufacturers. The residential builder sector remains under severe pressure, while the confidence of non-residential builders jumped to its best level since Q1 2008.

Domestic trade likely slowed from 1.3% in Q4 to 0.3% qoq. Performances were mixed within the broader sector. Vehicle sales performed the best, up 2.2% over the quarter. Growth was widespread, with increases in new and used vehicle sales, workshop income, accessories, fuel and convenience store sales. Wholesale sales also picked up (0.9% from 0.4%), with dealers in food, beverages, and tobacco as the main positive contributors. Income from food and beverage services increased slightly.
Meanwhile, retail sales were stagnant over the quarter. Positive contributions from household furniture, appliances and equipment, pharmaceuticals and medical goods, cosmetics and toiletries, and all other retailers were offset by negative contributions from general dealers and retailers in food, beverages and tobacco in specialised stores. By contrast, real income from accommodation declined by 3.1% over the quarter.

Transport activity picked up, with both passenger and freight volumes increasing. As far as freight is concerned, rail freight increased by an encouraging 2.9% qoq and road freight volumes rose 0.7%. Similarly, rail passenger journeys increased by 7.8%,

compared with a 1% increase in road journeys. Overall, our estimates suggest that value added by transport, storage, and communication grew by 0.2% in Q1. We forecast growth in value added by finance, real estate, and business services of around 0.5%. Banks benefited from reasonable growth in real credit extension, which rose 1.2% qoq and 5.9% yoy, supported by increased corporate and household borrowing amid easier financial conditions.

Table 2: Quarterly forecasts.

Industries	Actual		Forecast					Forecast risks
	2025		2026					
	% of GDP	Full year	Q1	Q2	Q3	Q4	Full year	
Agriculture	2.9	17.4	0.7	0.9	1.4	2.6	4.1	Upside
Mining	6.1	0.2	0.6	0.3	1.2	0.5	3.0	Balanced
Manufacturing	12.8	-1.2	-0.9	-1.1	0.9	0.2	-1.3	Balanced
Electricity, gas & water	3.3	-4.3	-0.2	0.4	0.0	1.0	-2.6	Balanced
Construction	2.2	-4.4	-1.1	0.3	0.1	0.3	-1.9	Upside
Domestic trade	12.4	2.3	0.2	0.3	0.4	0.5	1.9	Upside
Transport & communications	7.0	0.8	0.2	0.4	0.3	0.5	0.9	Upside
Finance, real estate & business services	21.1	1.9	0.5	0.3	0.3	0.2	2.1	Upside
General government	7.8	0.4	0.3	0.4	0.1	0.2	1.4	Downside
Personal services	14.4	0.4	0.2	0.1	0.2	0.3	1.0	Upside
Gross value added	90.0	1.1	0.2	0.1	0.4	0.4	1.2	Upside
GDP	100.0	1.1	0.2	0.1	0.4	0.4	1.2	Upside

Source: Stats SA & Nedbank forecasts

The medium-term outlook.

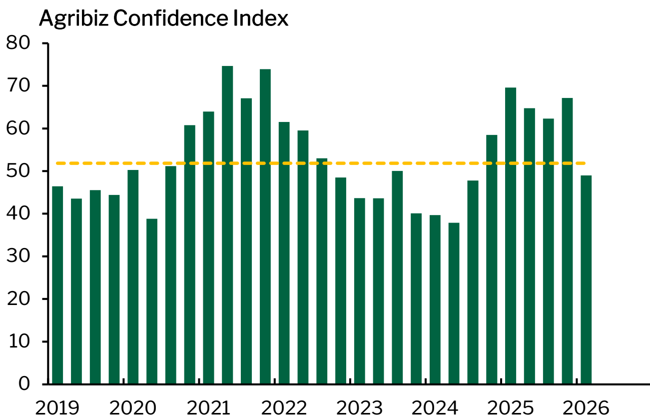
Economic growth is expected to continue creeping up in 2026. We forecast real GDP growth of 1.2% yoy, averaging 1.7% over the next three years. Relatively easier financial conditions (compared to a year ago) and the gradual easing of supply-side constraints should enable modest economic growth. The downside risks to our forecast increased significantly, with the war in Iran clouding the outlook for oil prices, inflation and interest rates.

Agriculture is likely to record further growth this year, building on the strong expansion seen in 2025. As mentioned earlier, the 2025-26 summer crop estimates point to a bumper harvest, with the expected maize crop likely to be the largest on record. However, risks to the sector are mounting. Foot-and-mouth disease and African swine fever continue to place severe strain on the livestock industry. At the same time, ongoing logistical constraints hinder the efficient movement of agricultural products to domestic and export markets. Geopolitical tensions also threaten to add further financial pressure on farmers, alongside the losses from the recent floods. The increase in fuel prices caused by the Iran war is set to raise farmers' input costs. According to Wandile Sihlobo, fuel accounts for around 13% of grain farmers' input costs. Given that farmers are largely price-takers and therefore unable to pass on higher costs to consumers, the pressure on profitability is likely to filter through to lower planting intentions in subsequent seasons. An additional medium-term risk is the expected return of El Niño conditions later this year, which could negatively affect the 2026-27 agricultural season. These mounting risks are already reflected in the Agribiz/IDC Confidence Index, which declined to 49 in Q1 2026, the lowest level since Q3 2024. At this stage, we expect agriculture to grow by a more subdued 3.9% in 2026.

There has been progress on the energy front. Eskom has maintained grid stability, with South Africa now having gone more than 12 months without load-shedding. According to Eskom's 2026 Winter Outlook, the power system is expected to remain stable despite the seasonal increase in electricity demand. This improvement has been supported by reduced unplanned outages, lower national electricity demand, and an Energy Availability Factor (EAF) of around 65%. Eskom estimates a supply surplus of more than 5 000 MW during winter, with load-shedding unlikely unless unplanned outages exceed 14 000 MW. The utility has also significantly reduced its reliance on diesel-powered open-cycle gas turbines, resulting in a substantial decline in diesel expenditure. While electricity supply has improved markedly, the same cannot yet be said for water infrastructure. The findings of the 2025 Blue Drop and Green Drop reports highlight persistent weaknesses across large parts of the country's water and wastewater systems, including ageing infrastructure, high levels of non-revenue water, inadequate maintenance, and poor wastewater treatment performance. Although policy reforms and institutional interventions are underway, progress on the ground remains uneven, and service delivery outcomes differ significantly across municipalities. The contrast between Johannesburg and Cape Town illustrates these divergent realities. Johannesburg continues to experience frequent outages caused by pipe bursts, leaks, pump failures and broader infrastructure deterioration, with disruptions often occurring without warning and, in some instances, lasting several days. Cape Town, by comparison, benefits from more proactive infrastructure management and preventative maintenance, resulting in a more reliable and predictable water supply. Overall, we expect the improvement in electricity supply

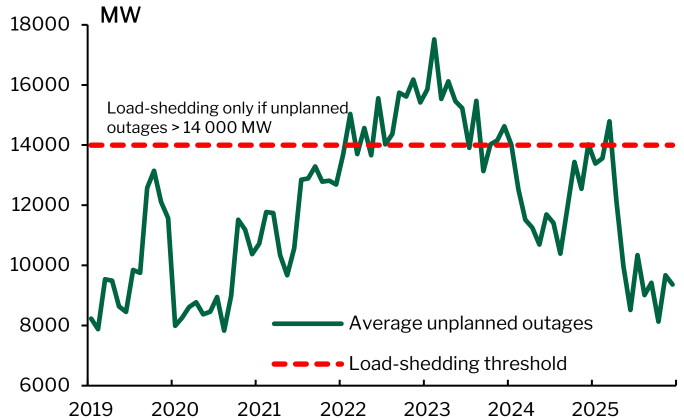
conditions to become more evident over the medium term. However, water-related constraints are likely to remain a drag on economic activity. As a result, we forecast the electricity, gas and water sector to contract by a smaller 2.6% in 2026.

Chart 3: The ACI dropped below 50



Source: Agricultural Business Chamber

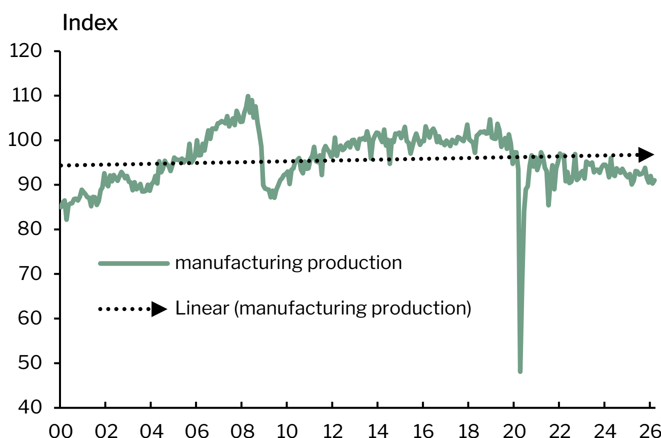
Chart 4: Unplanned outages have declined



Source: Eskom

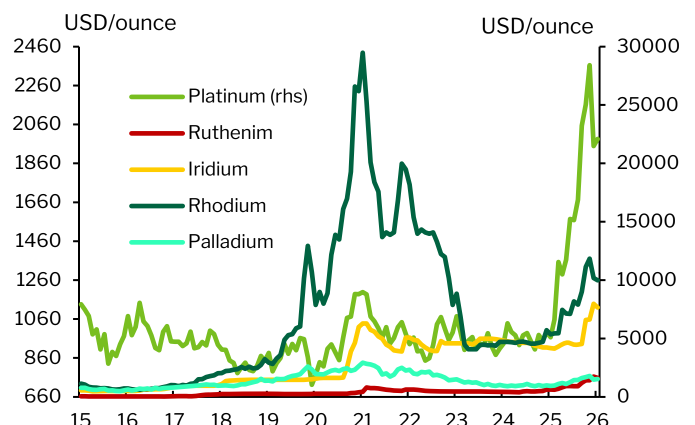
Mining and manufacturing are unlikely to return to pre-covid levels this year. Both industries remain heavily exposed to structural inefficiencies, and while electricity supply may have improved, electricity tariffs remain exceptionally high. Adding to these already elevated cost structures is the explosion in fuel prices stemming from the war in the Middle East. Rising fuel prices will directly impact production costs through fuel used for operations and transport, and potentially indirectly through increased wage demands. For some manufacturing divisions, the impact is more immediate, as key raw materials used in the production process are derived from fuel. This leaves those industries exposed not only to rising input costs but also to the risk of actual raw material shortages and supply disruptions. Moreover, the supply shock is unfolding amid subdued domestic demand. The war and its consequences threaten to place additional pressure on demand through higher inflation, weaker confidence and the increased likelihood of interest rate hikes. For mining, there are some offsets. Commodity prices in segments such as PGMs and gold remain elevated, while external demand for certain commodities, like chrome and magnesium, remains resilient. Although some of the recent improvements in mining reflect base effects, there remains a reasonable chance that the sector could still record growth this year. Manufacturing appears less likely to emerge favourably. The sector continues to face intense competition from imports, which has partly contributed to the growing list of plant closures in recent months. A meaningful recovery would require much faster structural reforms in electricity, logistics, water and municipal service delivery. As such, we expect mining to grow by 3% yoy in 2026 and manufacturing to contract by 1.4%.

Chart 5: Manufacturing is struggling to gain upward traction



Source: Stats SA

Chart 6: PGM prices are elevated

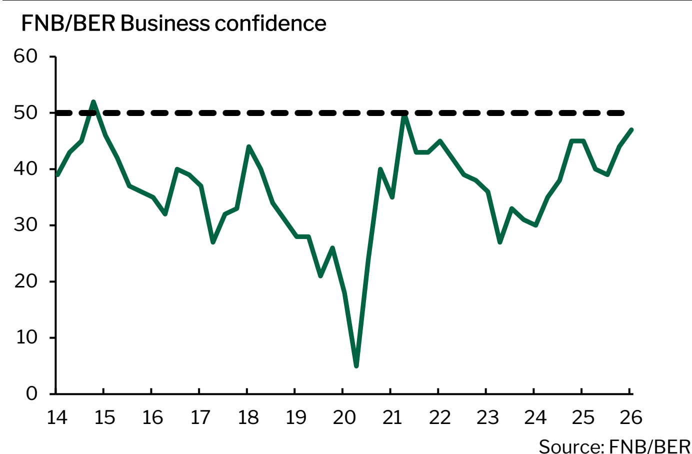


Source: LSEG

We expect the contraction in construction activity to moderate in 2026. The sector began showing tentative signs of recovery in the second half of 2025, and while this was insufficient to lift year-over-year growth, some of the momentum is expected to carry into 2026. As a result, we forecast that the construction sector's value added will decline by a less severe 1.9% in 2026. The outlook for the sector remains closely tied to fixed investment activity. While business confidence is still weak (below 50), reflecting elevated global uncertainties and the slow pace of domestic structural reforms, there have been some encouraging signs. Capital expenditure intentions improved in 2025, growth in general loans to corporates (typically used to finance capital expenditure)

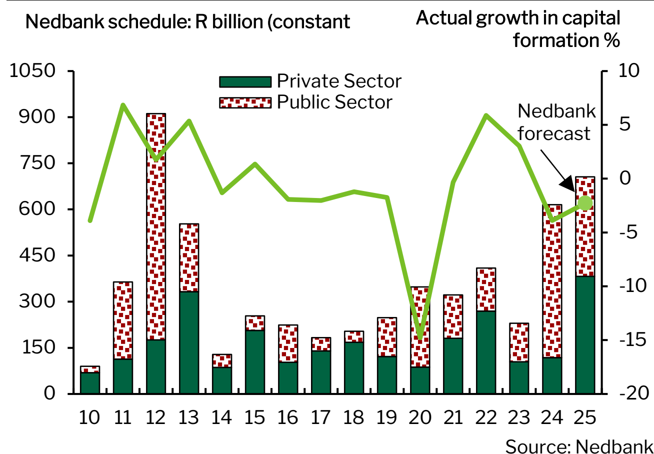
increased, and the investment environment became more supportive. Despite the recent increase in interest rates, the policy rate is still 50 basis points (bps) lower than a year ago, and government bond yields have declined across most maturities. The latter reflects the removal of SA from the Financial Action Task Force's grey list and S&P Global's upgrade of the country's credit rating following evidence of continued fiscal discipline. Collectively, these developments have lowered the cost of capital, which should crowd in private-sector projects, encouraging expenditure on residential and non-residential buildings. So far, the data suggest only modest gains. The value of residential buildings completed has increased in recent months, and our research (captured in Nedbank's Capital Expenditure Project Listing) shows an increase in private-sector project announcements. Over the last two months, we have also started seeing yoy increases in building plans passed, which drives the pipeline of future building projects. Moreover, the renewable energy drive and continued focus on the structural reform agenda should further support fixed investment. That said, the outlook remains fragile. Heightened geopolitical tensions, rising oil prices and the prospect of weaker global growth could cause businesses to delay or scale back investment plans. Risks to the outlook for fixed investment and, therefore, construction remain skewed to the downside. Domestic challenges, including criminality and disruptions within the construction sector, add to these risks.

Chart 7: Business confidence is weak



Source: FNB/BER

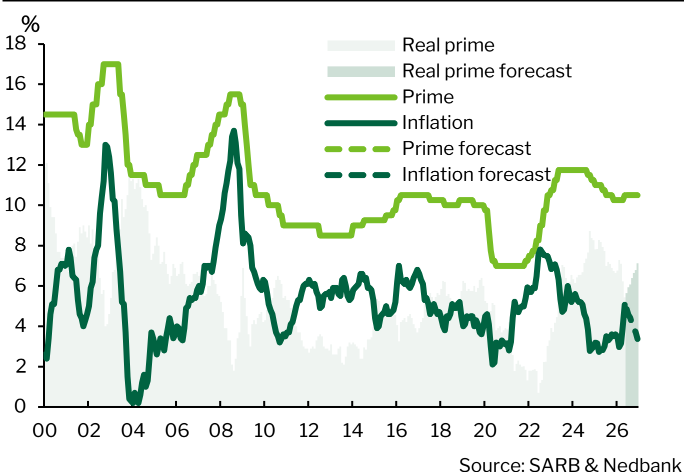
Chart 8: CAPEX showed an uptick in private project plans



Source: Nedbank

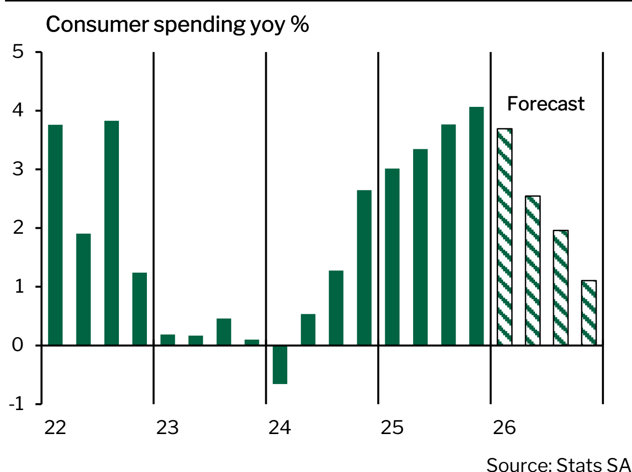
The expansion in domestic trade, accommodation and catering is expected to continue in 2026, although at a slower pace. We forecast growth of 1.9% in 2026. While household spending remains supported by better financing conditions than a year ago, positive wealth effects, and access to the two-pot retirement system, the outlook for the consumer has weakened materially. The war in the Middle East has pushed fuel prices higher, increasing transport and living costs and placing renewed upward pressure on inflation. As a result, household purchasing power is likely to come under greater strain. The SARB has already responded to these inflationary pressures by raising interest rates, and further tightening remains a possibility should inflation continue to rise. This marks a reversal of the easing cycle that had previously supported household finances. Consequently, consumer spending is expected to remain positive but more subdued than previously anticipated. Accommodation and food services should continue to benefit from tourism and international travel, although the pace of expansion may also moderate if global economic growth slows further. Overall, domestic trade, accommodation and catering should remain a source of growth in 2026. Still, the sector is unlikely to receive the same degree of support from household demand that appeared likely at the start of the year.

Chart 9: Financial conditions will tighten



Source: SARB & Nedbank

Chart 10: Consumer spending should still grow



Source: Stats SA

Value added by transport and communications is forecast to increase by 0.9% yoy in 2026. Freight transport will likely be affected by higher transport costs, while demand for communications should remain robust.

Banking and real estate are expected to gain more meaningful momentum in 2026. Credit growth is expected to remain relatively firm in the coming months. On the consumer side, earlier interest rate cuts will sustain spending and demand for general loans. Mortgage lending is likely to benefit from both lower borrowing costs and rising house prices. At the same time, vehicle finance should be underpinned by competitive pricing and the increased availability of low-cost imports from India and China. However, consumers may become more cautious amid heightened uncertainty surrounding the Iran conflict and the closure of the Strait of Hormuz. Corporate credit growth should also remain resilient as investment in renewable energy and structural reforms continue. Lower risk premiums are anticipated to lead to a more meaningful acceleration in fixed investment, sustaining company loan growth. However, geopolitical uncertainties pose downside risks for export-orientated sectors. Altogether, we see growth of 2.1% in finance, real estate, and business services in 2026.

In conclusion, we expect a moderate recovery over the next three years, with GDP growth averaging around 1.7%. Domestically and globally, lower inflation and interest rates were initially expected to support demand. However, US trade policy and the war in Iran pose significant downside risks. South Africa's ability to cope with these headwinds depends on faster progress with reforms in the energy, logistics and water sectors. The conflict in the Middle East has already contributed to higher fuel prices, placing renewed upward pressure on domestic inflation. The SARB has responded by raising interest rates, and further tightening remains a possibility should inflationary pressures persist. This threatens to remove an important source of support for household spending and investment, leaving risks to the growth outlook firmly skewed to the downside.

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