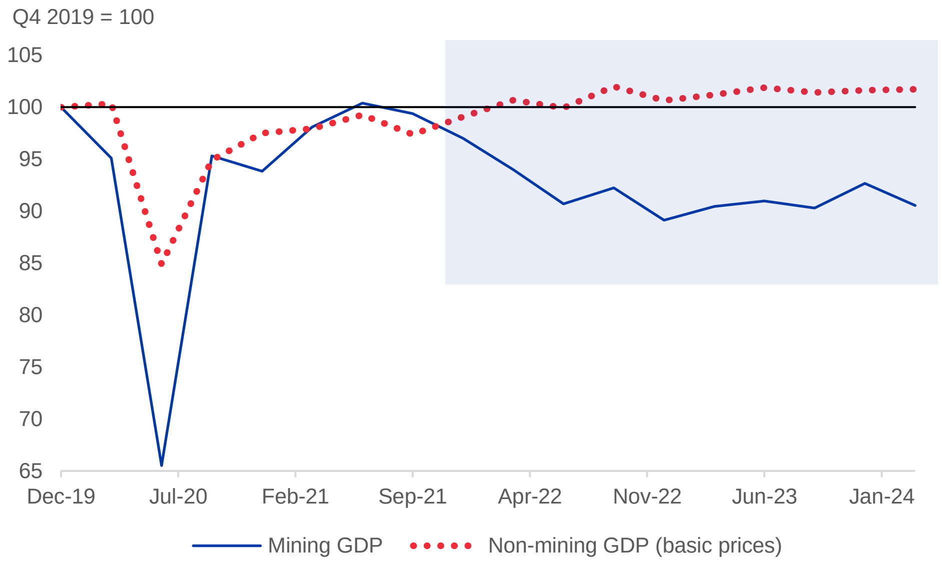
4 JUNE 2024

Mining contracts in Q1 2024, weighing on overall GDP

As was telegraphed by the high-frequency monthly production data in the first three months of 2024, Stats SA reported that mining sector GDP (measured in real terms) contracted in the first quarter (Q1). Value added by mining declined by 2.3% quarter-on-quarter (q-o-q), almost fully reversing the solid increase of 2.6% q-o-q recorded in Q4 2023. Mining's contraction in Q1, which was driven by lower activity in the PGMs, coal, gold and manganese sectors, subtracted 0.1 percentage point (% pt) from overall real GDP. Compared to the first quarter of 2023, mining value added fell by 0.3% year-on-year (y-o-y).

Helped by a notable (+13.5% q-o-q) rebound in the **agricultural** sector from weakness in the second half of 2023, **non-mining GDP** managed to eke out a modest quarterly gain of just 0.1% q-o-q during Q1. Besides mining, value added in five[1] other major sectors declined in the first quarter, highlighting broad-based economic weakness at the start of 2024. The implication of the larger decline in mining relative to the non-mining part of the economy is illustrated in Figure 1, with mining GDP now a notable 9.5% below its pre-Covid level. In stark contrast, the non-mining part of GDP was 1.7% *above* the pre-Covid level during Q1. The shaded area in the chart emphasises that the underperformance by mining really started since 2022, a period characterised by record power cuts and worsening logistics performance. The mining sector was/is particularly exposed to these constraints.

Figure 1: Mining moved further below its pre-COVID level in Q1 2024



Source: Stats SA, Minerals Council

[1] On a quarterly basis, value added was also lower in the manufacturing, electricity, construction, transport, and general government sectors.

The tough operating environment for mining at the start of the year was also highlighted by the **gross operating surplus** figures. These provide an indication of profitability across the different sectors. The gross operating surplus for mining *declined* by 12.8% y-o-y in Q1. For the non-mining part of the economy, this measure *increased* by 6.7% y-o-y, again revealing a stark divergence between the mining and the non-mining sectors of the economy. The one area where mining did outperform was on **compensation of employees**, which increased by 8.6% y-o-y in Q1 2024. On average, this measure rose by a much lower 3.4% y-o-y in the non-mining sectors.

Bottom line: Following a poor start to the year, the absence of load curtailment to the mines, and broader load shedding to the rest of the economy, so far in the second quarter bodes well for an improved GDP performance in the April to June quarter. However, production cutbacks in a key sector like PGMs because of non-power issues suggests that overall mining output may not realise the full benefit of the reprieve in load curtailment, at least not initially. In terms of overall GDP, the moderate contraction in Q1 suggests some downside to our already subdued real GDP growth forecast of 1% for 2024. These concerning growth dynamics should re-enforce the need for the seventh administration, whatever shape it may take, to sustain, and preferably fast track, the structural reforms started by the sixth administration.

Hugo Pienaar
Chief Economist
Cell: +27 (0)83-387-1150
Email: **hpienaar@mineralscouncil.org.za**

- ENDS -