Economics | South Africa

Nedbank
Guide to the Economy

GROUP ECONOMIC UNIT

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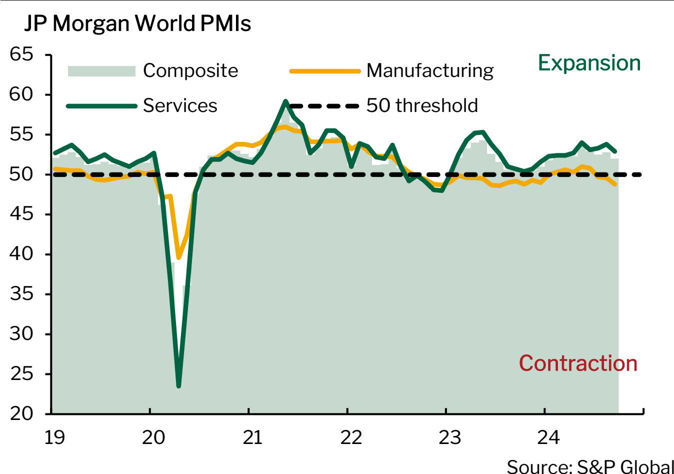
International background and outlook

Global growth lost momentum in Q3, with shaky activity in the eurozone, a softer US labour market and fading confidence in China. Business surveys show that economic activity in advanced and emerging economies moderated, with the manufacturing sector in some countries under renewed pressure. While services continued to sustain economic momentum, the rate of increase has slowed somewhat. Economic growth will likely remain relatively muted for the rest of the year, weighed down by the impact of past interest rate hikes, political uncertainty, and the ongoing geopolitical conflicts. However, declining inflation, resilient labour markets, robust wage growth and the support from monetary policy easing, albeit measured, will offset some of the downside. Overall, the risks to the global outlook are balanced, with a more meaningful recovery expected in 2025. Disinflation has continued across the world, with inflation trending at or close to central bank targets in several countries. While core prices have eased slightly from their early 2024 levels, they remain sticky due to elevated services inflation. The escalating conflict in the Middle East also poses upside risks to global energy prices and the inflation outlook. Monetary policy easing has started in many countries, with more cuts expected this year and throughout 2025 as inflation recedes.

The world economy softened in Q3 as demand weakened on the lingering effects of high interest rates. While US economic growth rebounded to 3% qoq in Q2 after moderating to 1.6% in Q1, softer activity in France and Italy aggravated the drag from a faltering German economy on the eurozone. Japanese consumer demand benefited further from high wage increases, although exports remained contained by subdued global demand. The Chinese economy remained in the doldrums, convincing the central bank to announce its largest stimulus package since the pandemic.

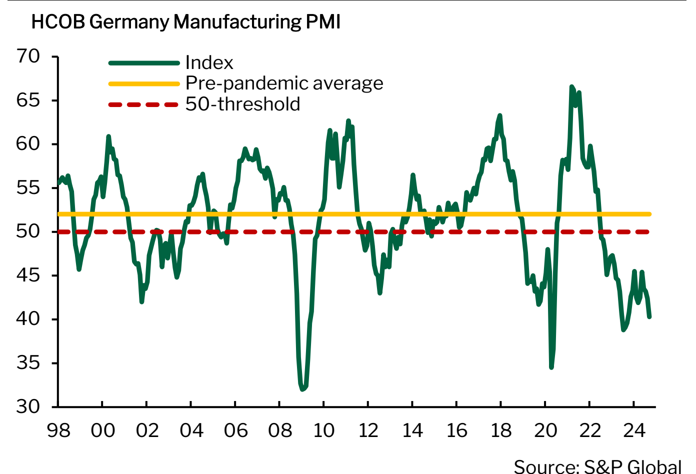
According to the JP Morgan Global Purchasing Managers' Index (PMI), a key gauge of economic activity, manufacturing activity deteriorated for the first time since December 2023, weighed down by slower output, employment, and demand. In contrast, services expanded further due to robust demand. Global growth will likely remain soft for the rest of the year before gaining more meaningful upward traction in 2025, as rising real incomes, lower inflation, and falling interest rates boost consumption across the major economies and most large developing countries. Further support should emanate from stronger growth in China as the country's fiscal and monetary stimulus measures take effect. However, elevated geopolitical risk could disrupt the momentum. The escalating conflict in the Middle East could push oil prices up sharply again, stoking global inflation and halting or slowing interest rate cuts.

Chart 1: Global economic activity softened in Q3.



Source: S&P Global

Chart 2: German manufacturing remains weak.

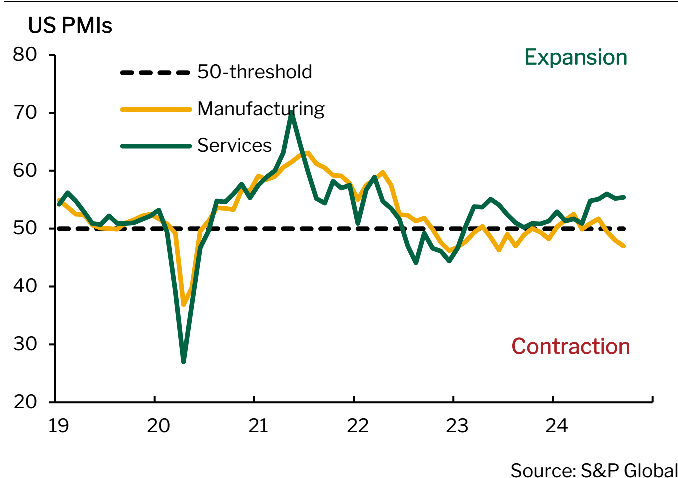


Source: S&P Global

The US economy will likely slow down in Q3 after growing by a robust 3% qoq in Q2. Consumer spending remained strong, supported by healthy real wage growth as inflation shifted down a gear, a relatively resilient labour market and firmer consumer confidence. The University of Michigan's consumer sentiment index climbed to a 5-month high of 70.1 in September, although it remained below the Q1 average of 78.4. Job creation also bounced back strongly in September after slowing noticeably over July and August, lifting the average for Q3 to 186 000, up substantially from 147 000 in Q2, but still softer than 243 000 in Q4 2023. At the same time, the unemployment rate crept up, averaging 4.2% in Q3, up from 4% in Q2 and 3.8% in Q1. The unemployment rate is now at a level the

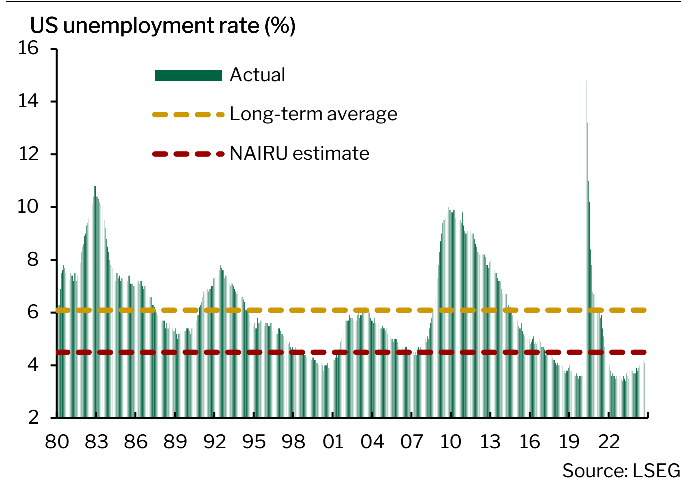
Fed considers consistent with its long-run steady state. Given these sound fundamentals, nominal personal consumption expenditure grew steadily at just over 5% yoy in August and July. Elsewhere, the cracks in the US economy's armour deepened. Business confidence faltered, rattled by the upcoming presidential election, which remains too close to call, while the outcome could alter the domestic and global landscape materially. High-frequency statistics reflect softer activity. The contraction in manufacturing activity deepened in August and September due to a sharp fall in demand. Although robust domestic and external demand sustained services, the growth rate nonetheless softened. According to the Reuters poll, the consensus forecast is for US growth to moderate to 1.9% in Q3 and 1.5% in Q4. Growth should recover modestly in 2025, bolstered by lower inflation and falling interest rates.

Chart 3: US activity was mixed in Q3.



Source: S&P Global

Chart 4: The US labour market cooled slightly.



Source: LSEG

Despite the recovery in the first half of the year, eurozone growth remained sluggish. Weak confidence and elevated interest rates contained consumer spending, and subdued external demand undermined export growth. The lacklustre German economy remains the main drag in the bloc as it struggles to reverse the downturn in its manufacturing and construction sectors. High-frequency data shows that eurozone activity slowed markedly in Q3, with the HCOB Composite PMI falling for a fourth consecutive month in September, dipping into contractionary territory for the first time in 7 months. Manufacturing led the downturn, with notable slowdowns in the bloc's largest economies, Germany and France. Services expanded further but at its slowest pace since February, as weakness in France offset growth in the rest of the eurozone. France's services sector slowed as the temporary boost from the Paris 2024 Olympics faded.

Retail sales dipped again following 3 consecutive months of growth, falling by 0.4% in June and 0.1% in July. Consumer demand remained muted. Weak consumer confidence and the lingering impact of still-high interest rates weighed on spending despite improved employment levels and above-inflation wage growth. Confidence remained at a low of -12.9 in September from -13.4 in August. Beyond the current slump, consumer spending should recover as real wage growth remains robust and interest rates decline further. However, softer-than-anticipated global growth or an escalation in trade tensions between major economies could undermine exports and limit the upside. Over the medium term, real GDP growth should accelerate as consumption climbs, foreign demand strengthens, and monetary policy eases further. The Reuters economic poll forecasts growth of 0.3% in both Q3 and Q4. For the year, the European Central Bank (ECB) expects growth to average 0.8% in 2024 and 1.3% in 2025.

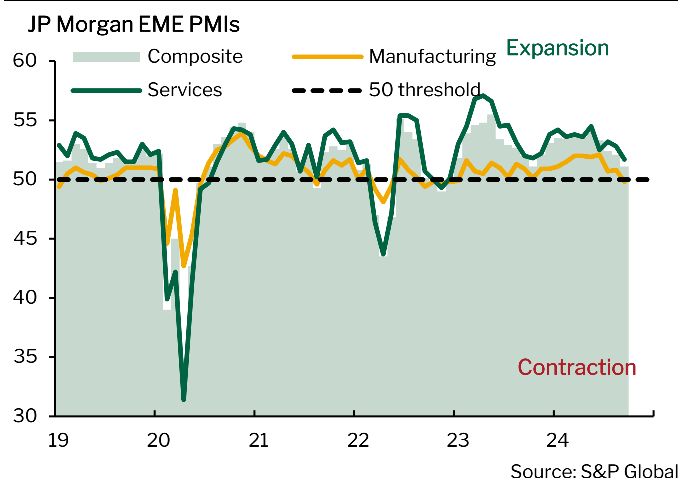
UK real GDP growth slowed to 0.5% qoq in Q2, down from 0.7% in Q1, led by higher government consumption and investment. Household consumption also contributed, albeit modestly, growing by 0.2%. Net trade weighed on economic growth as imports expanded faster than exports. Survey data suggests that growth will likely continue in Q3. The manufacturing conditions remained favourable, propped by robust domestic demand. The S&P Global UK Manufacturing PMI remained healthy at 51.5 in September, only slightly down from 52.5 in August. Manufacturing output slowed amid uncertainty ahead of the Autumn Statement on 30 October, when the government is expected to announce tax increases given its plans to raise public spending. Services activity slowed, but solid inflows of new business provided some support. Consumer spending improved, with retail sales expanding for a second straight month in August, up by 2.5% yoy from 1.5% in July after contracting by 0.5% in June. The GfK Consumer Confidence index held steady at -13 until August and then fell sharply to -20 in September as consumers anxiously awaited the Autumn Statement. Despite what appears like relatively resilient underlying conditions, the Bank of England (BoE) expects GDP growth to slow to 0.4% in Q3 and 0.2% in Q4, citing the pass-through of previous monetary policy tightening on demand but adding that the effect of past interest rates hikes may be close to its peak.

The Japanese economy expanded by 0.7% qoq in Q2, its strongest growth rate since Q2 2023, and up from a 0.6% contraction in Q1. The economy continued to benefit from the jump in average pay and a recovery in automotive volumes. Household consumption and fixed investment rose 0.9% (from -0.6%) and 0.8% (from -0.5%), respectively. In contrast, government spending slowed, while net trade deteriorated. Recent data suggests that the recovery continued in Q3. After falling to contractionary levels in June, the au Jibun Japan Composite PMI expanded throughout the third quarter, driven by higher services activity, which offset further contractions in manufacturing. Consumer spending improved due to higher wages and the tax cuts in June. Retail sales increased by 2.8% yoy in August from 2.7% in July. Consumer confidence remained steady at 36.7 in August, its highest level since April. Encouragingly, households' willingness to purchase durable goods improved, suggesting that consumer spending will remain relatively strong

during the rest of the year. Despite these positive developments, the Reuters economic poll shows real GDP growth slowing to 0.4% and 0.3% in Q3 and Q4, respectively, partially due to the impact of higher interest rates.

Among emerging market economies (EMEs), performances varied in Q3. In some countries, economic growth improved in response to easing inflation and lower interest rates. In others, tight fiscal policy, high debt levels, and weak currencies constrained economic activity. In China, efforts to boost consumer demand continued as the prolonged real estate sector slump still weighed on the world's second-largest economy. High-frequency data points to stagnant growth in Q3 after real GDP growth slowed to 4.7% yoy in Q2 from 5.3% in Q1. The Caixin China Composite PMI fell to 50.3 in September from 51.2 in August, the lowest reading since October 2023. The drag came from shrinking manufacturing activity, while services grew at the softest pace in a year. The manufacturing PMI dipped to 49.3 from 50.4, undermined by weaker domestic and external demand. New orders declined the most in 2 years, while external sales fell the most in 13 months. Like most other economies, the services PMI remained robust but softened amid a slowdown in new orders. Business confidence remains muted in both sectors, weighed down by concerns about the global economy and rising competition.

Chart 5: Services and manufacturing lost pace in EMEs.



Source: S&P Global

Chart 6: Sluggish activity in China weighed on most EMEs.

Source: S&P Global

Consumer demand remained lacklustre and inconsistent. Retail sales growth slowed to 2.1% yoy in August after climbing 2.7% in July. Furthermore, the unemployment rate increased to 5.3% in August from 5.2% in July and after holding steady at 5% over the previous 3 months. The softening in the labour market will weigh on wage growth and household spending. China's stimulus measures will likely support the economy in the near term. The People's Bank of China (PBoC) announced the most extensive stimulus package since the pandemic, cutting its key lending rates and reducing the reserve requirement ratio for banks to inject CNY1 trillion ($142 billion) in new liquidity. However, structural constraints will continue to weigh on China's economy, including slowing productivity growth due to an ageing population, the adverse impact of the property slump on confidence, and overcapacity in manufacturing. Despite the boost of the stimulus packages, the Reuters poll shows growth at 4.8% in Q3 and 4.7% in Q4. Over the year, real GDP is expected to average 5% in 2024, precisely in line with the government's official growth target, before slowing to 4.5% in 2025.

Growth in India moderated further to 6.7% yoy in Q2 from 7.8% in Q1. The Q2 outcome was the slowest growth in 5 quarters, although it remains robust relative to its peers. The drag came from softer government spending and private consumption. However, economic activity held relatively steady in Q3. The HSBC India Composite PMI dropped below 60 in September for the first time since December 2023, with growth in services and manufacturing softening. Domestic and external demand grew at the softest pace this year while employment rose. Even so, the economy remains robust, with activity above the long-term average and sentiment still upbeat. Looking ahead, easing inflation, the anticipated interest rate cuts and robust external demand will prop up growth. However, the upside could be partially offset by softer household spending, given tighter lending restrictions for unsecured credit. According to the Reuters poll, growth will increase to 6.9% in Q3 and remain steady in Q4.

Brazil expanded further in Q2, with real GDP rising by 1.4% qoq from 1% in Q1. The boost came from household consumption, government expenditure, and fixed investment, which increased by 1.3%, 1.3% and 2.1%, respectively. However, net trade deteriorated as imports soared by 7.6%, while exports rose by a softer 1.4% due to lower commodity prices. Economic conditions remained healthy for much of Q3. The S&P Global Brazil Composite PMI dipped slightly in September, subdued by softer growth in services. Manufacturing activity was robust, supported by a rebound in output and increased external orders. Brazil is the only major EME that has hiked interest rates in a predominantly easing environment as the central bank leans against higher-than-expected inflation readings amid robust labour markets and strong wage growth. The hike could limit consumption and thus weigh on growth, at least in the medium term. In the rest of Latin America, growth will likely be sluggish amid still-tight monetary and fiscal policies and deteriorating terms of trade. In emerging Europe, growth is set to recover, bolstered by solid real wage growth and buoyant consumer spending. However, the upside will be contained by weakness in major trading partners.

Inflation mostly continued its downward trend in most countries in response to the earlier tightening in monetary policies. While inflation should ease further in 2025, some countries still face elevated core inflation due to sticky service prices. Furthermore, some

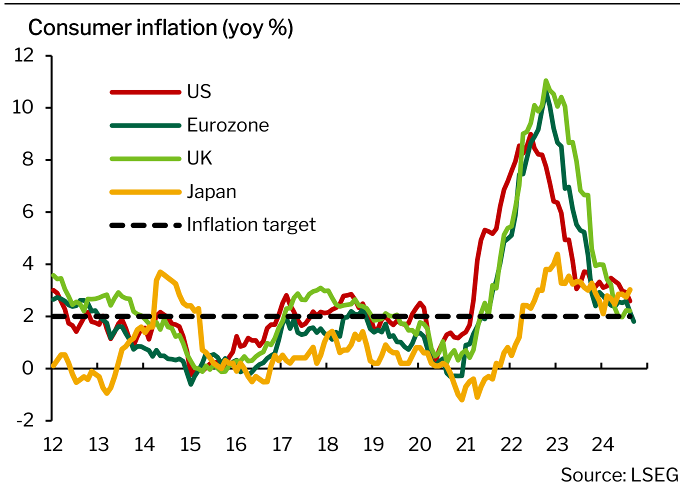
upside risks remain, particularly those related to policy uncertainty, worsening geopolitical tensions, resilient labour markets, and strong wage growth.

US headline inflation receded to 2.5% yoy in August, its lowest reading since February 2021, down from 2.9% in July. Downward pressure came from a relapse in energy costs driven by lower global crude prices. New vehicle prices also contracted in August, while food and transportation inflation softened. In contrast, shelter costs remained elevated, rising by more than double the headline inflation rate. As a result, core inflation has been sticky, unchanged at 3.2% in July and August. The core personal consumption expenditure (PCE) price index – the US Federal Reserve's (Fed's) preferred measure of inflation – has also been quite stubborn in its descent. After easing in May and June, it trended higher in Q3, increasing to 2.7% in August from 2.6% in July. Nonetheless, US inflation is projected to moderate further in the coming year. In its September Summary of Economic Projections, the Fed revised its core PCE inflation forecast to 2.6% in Q4 2024 from 2.8% in March. Core PCE inflation is projected to dip further to 2.2% (forecast at 2.3% in June) in Q4 2025 and reach the 2% target in the last quarter of 2026.

Eurozone inflation continued its unsteady path during the quarter. According to preliminary estimates, it dropped to 1.8% in September, led by lower energy costs, while services inflation eased. In contrast, prices of food, alcohol, and tobacco increased slightly. After remaining steady at 2.9% between May and July, core inflation declined modestly to 2.8% and 2.7% in August and September, respectively. In its September Monthly Economic Bulletin, ECB staff projected average CPI at 2.5% in 2024, 2.2% in 2025, and 1.9% in 2026.

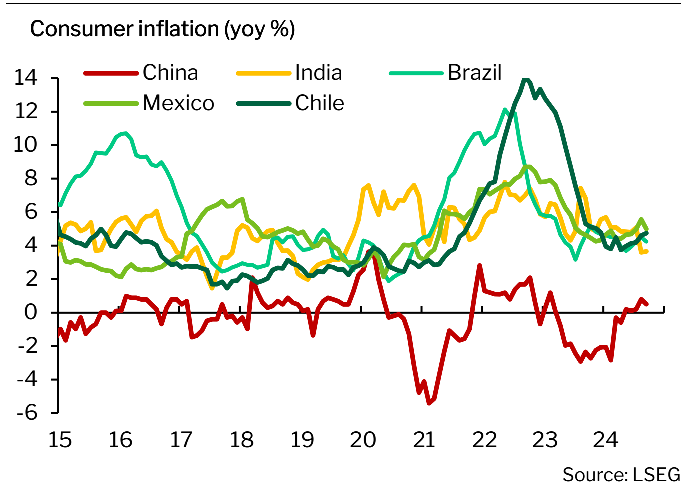
UK inflation steadied at 2.2% in August, unchanged from July but slightly up from 2% in May and June. Most inflation components eased, although the higher airfares pushed core inflation to 3.6% from 3.3% in July. Japanese inflation rose to 3% in August, the highest level since October 2023, from 2.8% in the previous 3 months. Electricity prices exerted the most upward force, rising at its fastest pace since March 1981 after the end of the energy subsidy in May. The cost of food, housing, furniture and household utensils, clothes, and culture also edged higher. Core inflation was also up, hitting a 6-month high of 2.8% in August.

Chart 7: Inflation cooled further in most major economies.



Source: LSEG

Chart 8: EME inflation most remained contained.



Source: LSEG

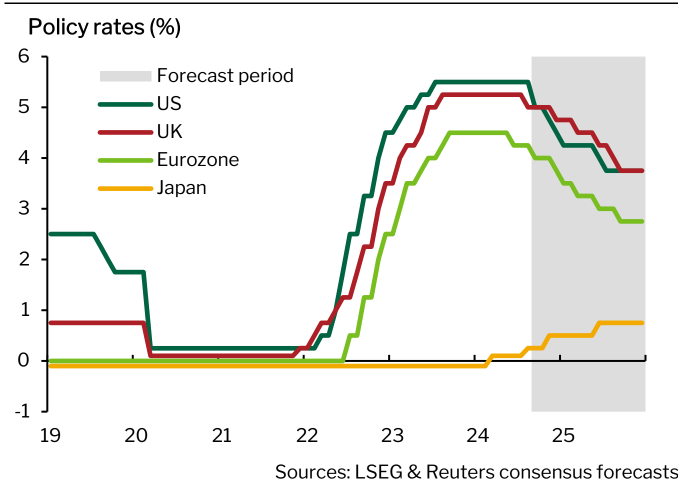
In EMEs, China's inflation remained soft, contained by weak confidence and sluggish consumer demand. However, the supply-side issues driven by the unfavourable weather conditions pushed inflation up slightly to 0.6% in August from 0.5% in July. Food prices exerted the most upward pressure, rising at its fastest pace in 19 months. Non-food prices eased. Core inflation remained weak, slowing to 0.3% from 0.4% in August. After deviating from its downward trend for 3 consecutive months, Brazilian inflation declined to 4.2% in August, falling back into the central bank's 1.5–4.5% target band. Core inflation increased slightly to 3.6% in August from 3.5% in July. India's inflation rose to 3.7% in August but remained within the target band of 2–6% for the second straight month. The rise in inflation was led by a renewed increase in food prices after they dropped markedly in July.

Global monetary policy has predominantly pivoted towards easing in response to falling or around-target inflation levels. The inflation outlook has also improved notably, providing further justification for policy normalisation. Nonetheless, some concerns remain about a potential resurgence in price pressures given the upside risks. At its September meeting, the US Fed kicked off its cutting cycle with a bang, reducing its target for the federal funds rate by an aggressive 50 basis points (bps) to 4.75–5%. While the decision was not wholly unexpected, the consensus view leaned towards a 25 bps reduction. The Federal Open Market Committee (FOMC) stated that it had gained greater confidence that inflation is moving sustainably towards the 2% target, adding that the risks to the outlook appear roughly balanced. However, the committee indicated that it was prepared to adjust monetary policy if the attainment of its goals was compromised. Despite this, the Fed appeared more dovish, signalling plans for a further combined 50 bps cut at its November and December meetings. The September Summary of Economic Projections shows interest rates falling by an additional 100 bps in 2025.

The ECB reduced its refinancing rate by a further 25 bps in September on a subdued inflation outlook and the strength of the monetary policy transmission. Even so, the ECB struck a cautious note, reiterating its commitment to bringing inflation back to target. It will keep rates sufficiently restrictive for as long as necessary to achieve this goal. BoE left interest rates unchanged at 5% in September after cutting them by 25 bps in August. The committee was split, with 1 of the 9 members favouring a 25 bps cut. The

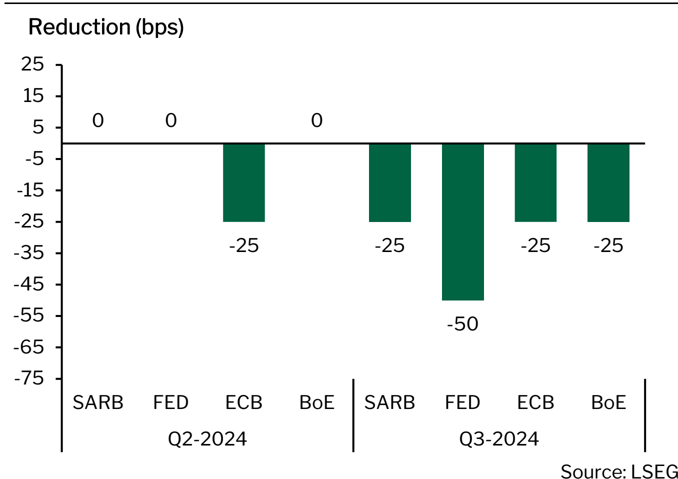
committee also agreed to reduce government bond purchases by £100 billion over the next year to a total of £558 billion. The Bank of Japan (BoJ) continued to raise policy rates gradually. The central bank left its policy interest rate unchanged at 0.25% in September, its highest level since 2008. However, a hike of 25 bps is expected in Q4.

Chart 9: The rate-cutting cycle is likely to deepen.



Sources: LSEG & Reuters consensus forecasts

Chart 10: Monetary policy easing accelerated in Q3 2024.

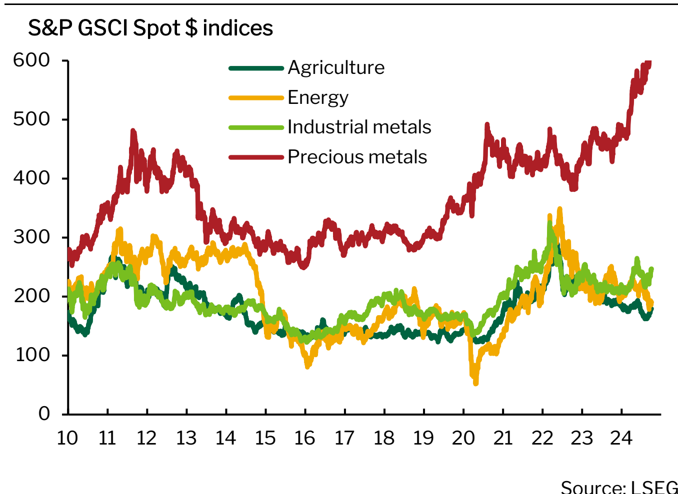


Source: LSEG

The PBoC reduced its 7-day reverse repo rate to a record low of 1.5% from 1.7% and dramatically lowered its reserve requirement ratio (RRR) by a dramatic 50 bps, which reduces the weighted-average RRR to 6.6%, freeing up around CNY1 trillion in liquidity for new lending. Deviating from the global trend, Brazil's central bank increased interest rates by 25 bps in September, taking the Selic rate up to 10.75%. The decision reflects concerns about a potential resurgence in price pressures after inflation spiked between May and July. The Committee has stated that strong labour market dynamics, a resilient economy, and a positive output gap present upside risks to the inflation outlook. Elsewhere, Mexico and Chile reduced interest rates by 25 bps. Meanwhile, India left rates steady in August, despite inflation trending within target.

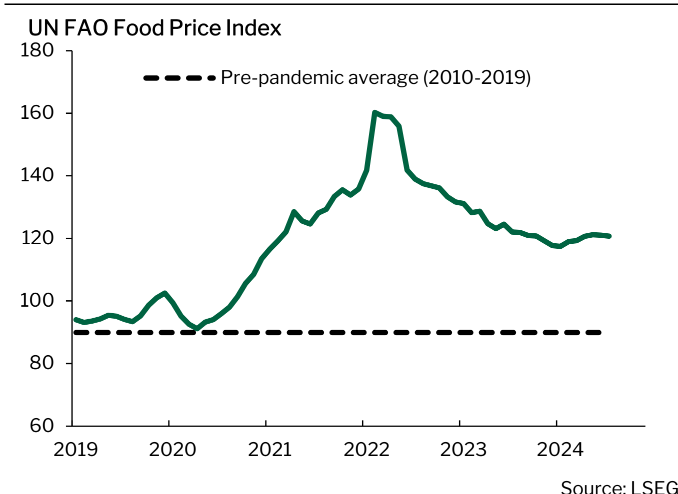
Commodity prices declined in Q3 as improved supply and muted demand in key economies offset concerns over ongoing geopolitical tensions. According to the S&P Goldman Sachs Commodity Spot Price Index, commodity prices fell by 5.3% in Q3 after a modest 0.7% rise in Q2. The decline was led by energy prices, which plunged by 15.2%, driven by a 15.7% drop in Brent crude oil prices. In contrast, natural gas prices rose at double-digit rates, albeit slower than in the previous quarter. Unfortunately, energy prices, particularly Brent crude, face significant upside risks given the escalating conflict in the Middle East, with Iran firing ballistic missiles at Israel in response to its strikes on Lebanon. The concern remains that the conflict could escalate into a broader war, potentially disrupting crude output from the region. Brent crude oil prices were up 2% following the attack. Precious metal prices rose by double digits, up 13% from 5.7% in Q2. Gold surged on firm central bank purchases and higher Indian demand, up 13.7% during the quarter. Industrial metal prices increased by 2.6% after jumping by 8.6% in Q2. Global food prices eased in Q3 after rebounding in the previous quarter. The Food and Agricultural Organization's (FAO's) food price index shows that price growth softened to 0.4% qoq from 2% in Q2 as falling meat, dairy, cereal, and food oil prices offset the higher sugar prices.

Chart 11: Record high gold prices lifted precious metals.



Source: LSEG

Chart 12: Global food prices softened in Q3 2024.



Source: LSEG

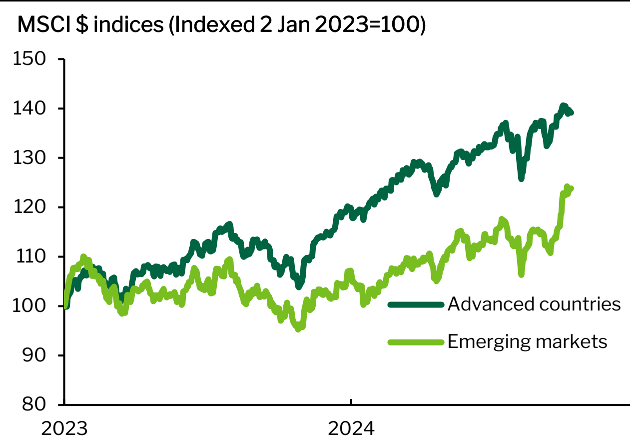
In currency markets, the US dollar lost notable ground in Q3, weighed down by risk-on sentiment after the Fed cut its policy interest rates by 50 bps in September. The trade-weighted US dollar depreciated by 4.5% qoq in Q3 after strengthening by 1.3% in Q2. Against its peers, the dollar was down 3.8% and 5.5% against the euro and pound. The Japanese yen continued its run throughout the quarter, benefiting from expectations of a widening policy rate differential between the US and Japan. The yen rose by an impressive 10.7% in Q3, its strongest gain since Q4 2008. EME currencies also mostly gained against the dollar, benefiting from

renewed risk appetites. However, Latin American currencies were broadly weaker at the start of the quarter, gaining only marginally in September after the Fed's 50 bps cut.

Chart 13: The US dollar weakened on the Fed's rate cut.

Source: LSEG

Chart 14: Risk-on sentiment lifted equity prices.



Source: LSEG

Global equity markets rallied in Q3 on upbeat sentiment as earnings forecasts improved on expectations of firmer growth as inflation and interest rates declined. Markets were volatile, particularly in early August when the yen carry trade unravelled and weaker-than-expected US jobs data reignited concerns of a hard landing. Further volatility emanated from investors repricing technology stocks despite better-than-expected earnings reports. However, most of these losses were recovered later in the month and into September. In the US, sector performances were mixed, with utilities and real estate coming out as top performers, while information technology posted only modest gains. The Nasdaq, S&P 500, and Dow Jones Industrial Average were up by an impressive 12.4%, 9.7% and 8% in Q3, respectively. European equities were mixed. At a sectoral level, gains were led by real estate, utilities, and healthcare, while energy and information technology stocks lost ground. The French CAC fell by 5.7% during the quarter, while the German DAX gained by 3.2%. The FTSE 100 rose by 3.6% as the Labour Party's landslide election win and expectations for rate cuts bolstered sentiment. However, gains were capped after the new Prime Minister hinted at potential tax increases, and the BoE remained cautious about easing monetary policy. After historically high volatility prompted by concerns of weaker US growth and interest rate hikes, the Japanese Nikkei ended the quarter at a soft 1.8%. EME stocks gained on renewed risk-on sentiment, fuelled by lower interest rates in major economies and the announcement of new stimulus measures in China. The MSCI EM gained 3.7% over the quarter.

Liandra da Silva

Domestic background and outlook

The economy fared slightly better in Q2 2024. Easing structural constraints, falling inflation, and rising real incomes supported production and consumption. The main boost came from a rebound in domestic demand, which offset a renewed deterioration in the country's net export position. We expect the economic recovery to continue and broaden in the second half of the year. Electricity supply is expected to remain stable, while transport bottlenecks should ease further, albeit only modestly. These gradual improvements, coupled with reduced political risks following May's peaceful election and the subsequent formation of a government of national unity (GNU), will likely support higher production and exports in the quarters ahead. Even so, the momentum will come mainly from consumer spending as lower inflation boosts real disposable incomes, falling interest rates gradually reduce debt service costs, and withdrawals of contractional savings through the 2-pot retirement system help repay debt and lift spending. Fixed investment will take longer to recover amid ample spare capacity, after more than a year of severe disruptions, which reduced sales, drove up operating costs and eroded profit margins. Given limited fiscal space, government will probably contain expenditure in a bid to meet its deficit reduction targets. All said, real GDP is forecast to grow by about 1% this year, before picking up some pace to around 1.6% in 2025. Disinflation intensified in recent months, supported by a sharp deceleration in food inflation, falling fuel prices, a firmer rand and still-subdued demand. Headline inflation is forecast to remain around the Reserve Bank's 4.5% target over the next 2 years, creating space for further monetary easing. We expect the repo rate to decline from 8% currently to 7.75% by end-2024 and 7% by end-2025.

Economic activity improved slightly in Q2, with real GDP expanding by 0.4% qoq after recording no growth in Q1. All sectors benefited from the absence of load-shedding and slightly smoother logistics. While these structural gains and stronger domestic demand enabled a recovery in manufacturing, they were insufficient to lift mining and agriculture. Mining grappled with sluggish global demand and soft commodity prices, while dry weather conditions and animal diseases hit agriculture. As a result, export volumes faltered, while resurgent domestic demand raised import volumes, worsening the country's already negative net export position. The weakness in mining and agriculture also hurt freight transport. In sharp contrast, value added by services recovered, driven mainly by a relatively strong rebound in consumer spending and increased government expenditure related to the organisation of the May general election. Consequently, domestic trade as well as finance, real estate and business services recorded the strongest growth, while general government and personal services also improved. Most sectors trimmed capital expenditure, which declined for the fourth consecutive quarter by a relatively steep 1.4%. The sharpest cutbacks occurred in construction works, transport equipment, machinery and equipment, and other assets. Encouragingly, capital outlays on residential and non-residential buildings increased, contributing to a recovery in the construction sector after 4 quarters of shrinking value added.

Table 1: GDP breakdown by sector and expenditure category

Industries	Size	Annual growth rates				Quarterly growth rates			
	% of GDP	yoy %				qoq % (not annualised)			
	2023	2021	2022	2023	YTD' 24	Q3'23	Q4'23	Q1'24	Q2'24
Agriculture	2.6	5.6	2.0	-4.8	-10.1	-19.4	-2.4	13.5	-2.1
Mining	6.3	12.9	-7.3	-0.5	-0.1	-0.7	2.6	-1.7	-0.8
Manufacturing	13.0	6.9	-0.4	0.3	-0.7	-1.3	0.3	-1.4	1.1
Power and water	3.1	2.3	-2.9	-4.0	3.4	0.3	2.3	-0.4	3.1
Construction	2.2	-2.2	-3.2	-0.1	-7.8	-3.3	-1.5	-3.1	0.5
Domestic trade	12.5	6.8	3.4	-1.8	-2.5	-0.3	-2.8	0.3	1.2
Transport and communications	7.0	5.9	8.6	4.1	1.0	0.5	3.1	-0.5	-2.2
Finance	21.0	2.8	3.3	1.6	2.9	1.1	0.8	0.2	1.3
General government	7.8	-0.9	0.4	0.5	0.8	0.5	-0.5	-0.1	0.5
Personal services	14.3	5.8	2.5	1.8	2.3	0.8	0.9	0.1	0.2
Value added	89.8	4.7	1.9	0.7	0.4	-0.5	0.3	0.0	0.5
GDP	100.0	5.0	1.9	0.7	0.4	-0.4	0.3	0.0	0.4
HCE	64.6	6.2	2.5	0.7	0.3	-0.2	0.1	-0.2	1.4
GCE	19.4	0.6	0.6	1.9	1.4	0.5	-0.4	-0.2	1.0
GFCF	15.0	-0.4	4.8	3.9	-5.0	-4.7	-0.2	-1.7	-1.4
Δ in inventories (Rbn)	0.6	-12.1	53.4	26.0	-0.3	-45.7	19.4	3.8	9.6
GDE	99.7	5.3	3.9	0.8	-1.5	-3.3	1.3	-0.8	1.1
Exports	32.9	9.7	6.8	3.7	-1.6	0.9	0.5	-2.9	-0.4
Imports	32.6	9.6	15.0	3.9	-7.7	-8.8	4.0	-5.0	1.7
Expenditure on GDP	100.0	5.3	1.8	0.7	0.4	-0.3	0.3	-0.1	0.5

Source: Stats SA

The economic recovery likely continued in the second half of the year. High-frequency data suggests household consumption expenditure (HCE) gained momentum in Q3. Real retail sales rose by 2% yoy in July, while new passenger vehicle sales increased by an impressive 16.7% qoq and 4.3% yoy in Q3. Given that household finances were still quite fragile coming into Q3, the rebound in consumer spending has been stronger than we expected, probably driven by higher real incomes and rising expectations of substantially easier financial conditions in the months ahead. With inflation shifting down a gear, real personal disposable income (PDI) returned to growth in Q2, increasing by 0.9% qoq, ending 4 quarters of contraction. Other indicators were less encouraging. Employment statistics were mixed. The Labour Force Survey showed that employment in the formal non-agricultural sector declined by 76 700 jobs or 0.7% qoq in Q2, while the Quarterly Employment Survey reported an increase of 42 000 or 0.4% over the same quarter. Despite the conflicting outcomes, labour market conditions appear softer, with employment growth losing momentum and the unemployment rate creeping up to 33.5% in Q2 from 32.9% in Q1. Debt service costs also remained punishing, consuming a sizeable 9.1% of PDI in Q2, down only slightly from 9.2% in Q1. Over the same period, households reduced savings even further to -1.3% of PDI from -0.8% previously.

Chart 15: Disposable income improved in Q2.

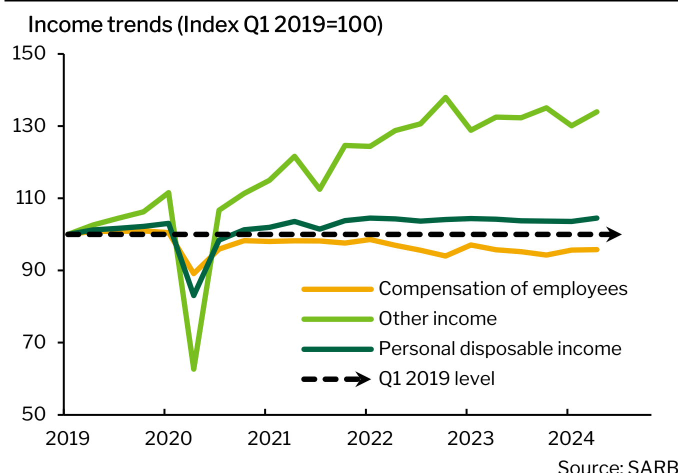


Chart 16: Household savings rate remains negative.

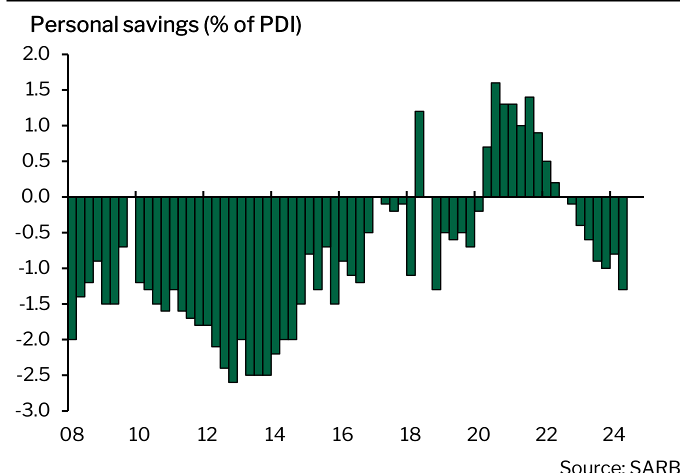


Chart 17: Debt service costs remained high in Q2.

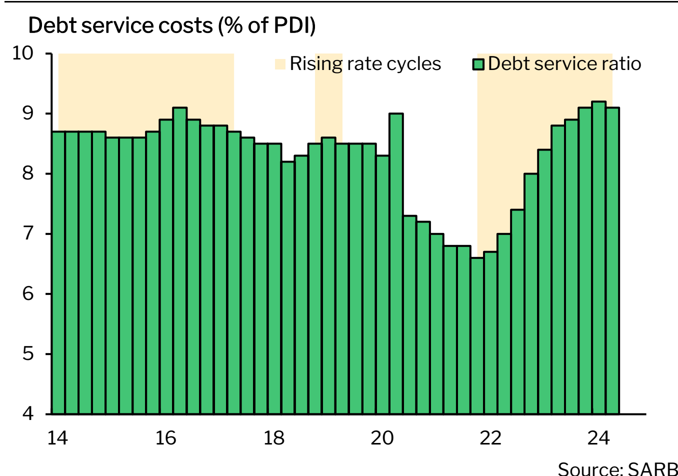
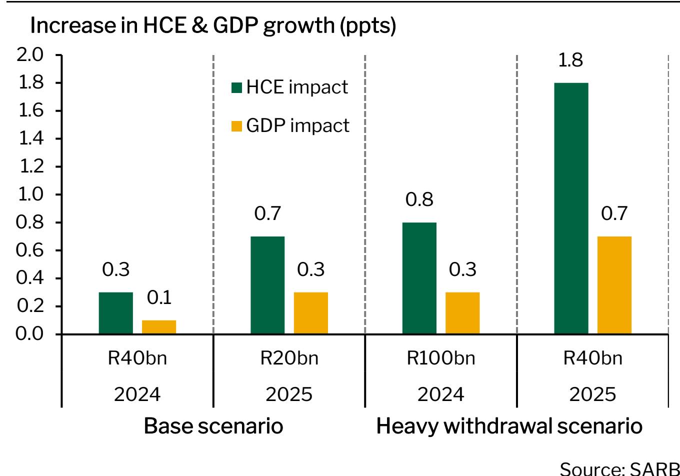


Chart 18: SARB estimates of the 2-pot system's impact.



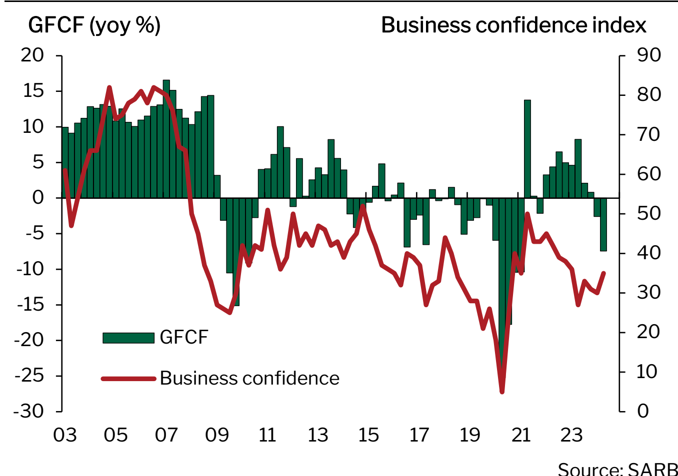
Although households are not out of the woods yet, we expect significant improvements before year-end and throughout next year. Financial conditions have eased noticeably over Q3. Inflation dipped below the South African Reserve Bank's (SARB's) 4.5% target in August, with food inflation moderating and fuel prices falling. Against this backdrop, the Monetary Policy Committee (MPC) reduced interest rates by 25 bps in September. Net wealth levels probably also increased further as house prices turned the corner. At the same time, the optimism surrounding the GNU, early signs of economic recovery, and easing monetary policies in most advanced countries propelled equity prices to much higher ground. Moreover, anecdotal reports suggest that households jumped at the opportunity to access a portion of their contractional savings after the 2-pot retirement system took effect in September. Recent surveys showed that households intended to use the funds to settle debt. In response, consumer confidence recovered somewhat, with the FNB/BER Consumer Confidence Index improving to -5 in Q3 from -10 in Q2, reaching its highest levels since the final quarter of 2019.

These supportive trends will likely continue. Inflation is forecast to decline even further in Q4 and to remain around SARB's 4.5% target over the next year. With inflation steady at SARB's target, we expect the MPC to ease monetary policy further, reducing interest rates by a cumulative 100 bps by the end of 2025. Subdued inflation will boost purchasing power and sustain the recovery in real disposable income. Debt service costs will also decline as the rate-cutting cycle deepens, freeing more funds for discretionary

spending. Consumers will likely use early withdrawals of their retirement funds mainly to repay debt and increase spending. SARB's base scenario assumes retirement fund withdrawals of R40 billion, R20 billion and R21 billion in 2024, 2025, and 2026, boosting disposable income and raising consumer spending by around 0.3 percentage points (ppts) in 2024 and 0.7 ppts in 2025, with little to no impact in 2026. Against this backdrop, we expect consumer spending to accelerate in the second half of the year, lifting the growth rate for 2024 to 1.4% from 0.7% in 2023. After that, consumer spending is forecast to grow by a relatively robust 2.3% in 2025, driven by rising real income and lower interest rates.

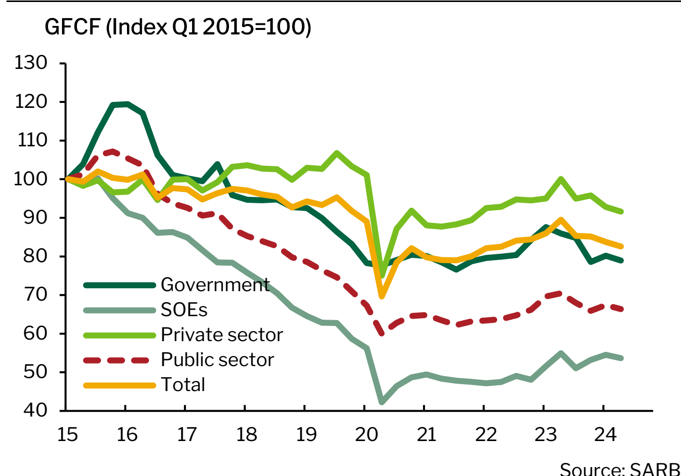
Gross fixed capital formation (GFCF) is also forecast to recover in the second half after contracting sharply in the first half of the year. The recovery will likely be slow and too modest to lift fixed investment for the whole year above 2023's high base. GFCF is, therefore, still forecast to contract by a relatively sharp 3.7% in 2024 before posting moderate growth of around 1.8% in 2025. The gradual recovery is expected to flow from improved operating conditions as structural reforms start to yield some tangible results, the domestic and global economies pick up more meaningful pace, and business confidence strengthens on greater political stability and policy certainty under the GNU.

Chart 19: Fixed investment declined as confidence firmed.



Source: SARB

Chart 20: All sectors trimmed capital expenditure.



Source: SARB

The operating environment has already stabilised. The most significant improvement has been the end of load-shedding. Encouragingly, electricity supply increased further in Q3, with the physical volume of electricity production up 8.5% yoy in July and 6.3% in August. However, logistics networks are still highly inefficient, keeping cost structures elevated and undermining producers' international competitiveness. After improving slightly towards the end of last year and earlier this year, the volumes handled by the country's transport networks deteriorated again in Q3. The volume of freight moved by rail declined slightly over July, while the processing of containers and bulk minerals also deteriorated marginally. Water supply remained erratic in some large municipalities, with regular and prolonged outages due to long overdue maintenance. In contrast, the peaceful elections and the formation of a GNU have reduced the risk premium expected by investors, which, coupled with falling inflation and interest rates, could help reduce the cost of capital and lower the hurdle rates for new capital projects. In short, underlying operating conditions have improved slightly but remain generally challenging. Nonetheless, the absence of load-shedding and the positive political change alone propped up business confidence. The RMB/BER Business Confidence Index increased to 38 in Q3 from 35 in Q2, reaching its highest level since Q4 2022.

In our view, easing structural constraints will help create a more conducive environment for fixed investment activity over the medium term, but more robust and sustained economic growth is needed to absorb ample spare capacity and restore private sector profitability after more than a year of severe disruptions and persistent uncertainties. At this stage, the domestic economic recovery has only just begun, while demand from our major trading partners remains relatively sluggish. Consequently, the mining sector is still under pressure, with output falling by 1.4% yoy in July. On the upside, manufacturing production increased for the first time in 3 months by 1.7% yoy in July. Even so, manufacturing output will have to increase much more to place the sort of pressure on existing capacity that would convince companies to expand operations. On this score, capacity utilisation in the sector dropped to a low 77.6% in Q2 from 78% in Q1, which is still much below the pre-pandemic average of 82%. For these reasons, we still expect the recovery in private sector fixed investment to be slow and gradual. Public sector fixed investment could provide an upside surprise. Nedbank's Capital Expenditure Project Listing shows a sharp increase in new projects announced by the public sector in the first half of this year, accounting for 74% of all new projects recorded. Government announced new capital projects worth an annualised R393 billion, up from only R75 billion in 2023, while state-owned enterprises announced projects valued at an annualised R194 billion, up from a weak R35 billion in 2023. The public sector has a poor track record in getting capital projects off the ground. Still, even modest increases could contribute to faster growth in GFCF in 2025 than we currently anticipate.

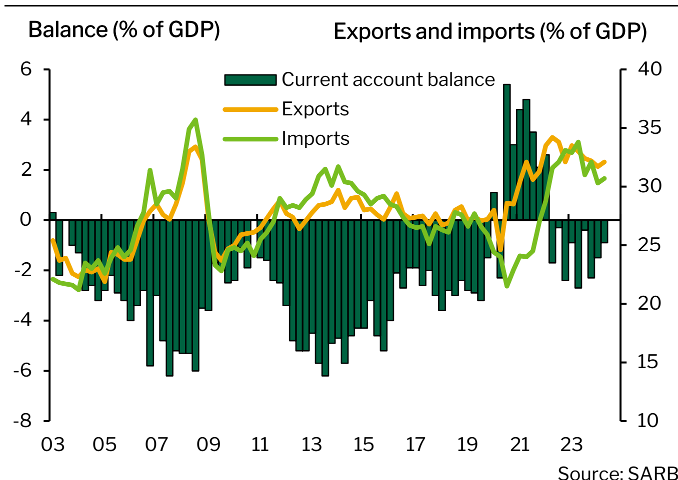
Growth in government consumption expenditure (GCE) will likely slow in the second half of the year after rebounding by 1% qoq in Q2, following 2 quarters of decline. With the general elections out of the way, government is expected to contain non-interest expenditure to meet its deficit reduction targets and reduce the public debt burden. We believe the new government will confirm its commitment to fiscal consolidation in the upcoming Medium-Term Budget Policy Statement (MTBPS), sticking to the targets set

out in February's National Budget. As a result, we anticipate a modest 0.9% increase in real GCE for 2024, followed by less-than-1% growth over the next 3 years. However, the wage bill and expanded portfolios under the GNU pose upside risks to our forecasts.

Finally, the net export position is forecast to deteriorate as import volumes rebound faster than those of exports. The recovery in domestic demand will boost imports, while inefficient logistics, general high domestic cost structures and the slow recovery in China and the eurozone will still contain exports. Altogether, the economy will fare slightly better in 2024, with real GDP growth of around 1%, up from 0.7% in 2023. Economic growth is expected to accelerate to around 1.6% in 2025 as structural constraints ease further and the global and domestic business cycles become more supportive.

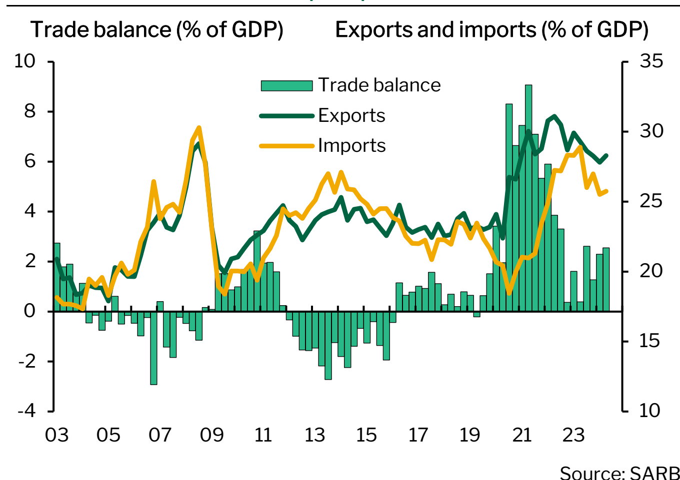
Regarding the balance of payments, the current account deficit narrowed to 0.9% of GDP in Q2 from 1.5% in Q1, supported by a wider trade surplus and a smaller non-trade deficit. The trade surplus widened to R187 billion or 2.6% of GDP as the value of exports rose 3.5%, while that of imports grew by a softer 2.6%. Higher export prices, which rose by 3.5% qoq, offset the 0.5% qoq decline in export volumes. Both import volumes and prices rose over the quarter, up 1.7% and 1.3%, respectively. With export prices outpacing those of imports, boosted by a resurgent gold price, the terms of trade increased by 2.1%, strengthening for the second consecutive quarter. The non-trade deficit (on the services, income, and transfers account) also narrowed due to higher service receipts relative to payments. We expect the current account deficit to average 1.2% of GDP in 2024, narrowing from 1.6% in 2023, underpinned by a healthy trade surplus. After that, the current account deficit is forecast to widen to about 1.8% of GDP in 2025. The trade surplus will likely narrow in the year ahead as imports driven by the anticipated recovery in domestic expenditure outpace exports contained by a challenging domestic operating environment and the likely slow recovery in demand from China and the eurozone. The non-trade deficit will also widen as corporate earnings recover, resulting in higher dividend payments.

Chart 21: The current account deficit narrowed.



Source: SARB

Chart 22: A wider trade surplus provided the boost.



Source: SARB

The financial account deteriorated significantly in Q2, recording net capital outflows worth R18.1 billion or -2% of GDP, a sharp reversal from inflows of R51.4 billion or 2.9% of GDP in Q1. The weaker trend was visible in all categories, but the drag came from large net portfolio outflows, amounting to R57.5 billion. At the time, concerns that US interest rates could stay high for longer amid sticky inflation and China's disappointing economic performance weighed on global risk sentiment. Investors probably also took cautious positions ahead of SA's general elections, fearing a possible shift towards the far left of the ideological spectrum. Capital flows have already and will continue to improve as political risks decline and domestic growth prospects improve.

Credit demand remained subdued in Q3, but the worst of the slowdown appears to be over. Private sector credit extension rose by 4.9% yoy in August after slowing to a 5-month low of 3.5% yoy in July. Growth in loans and advances, excluding the highly volatile investments and bills category, increased to 4.8% yoy from 3.8% over the same period. A rebound in company loans provided the momentum, jumping to 6.4% yoy in August from 4.3% in July and only 2.8% in January. However, this acceleration mainly reflected the low base established in August last year, although continued investment in renewable energy projects also contributed. In sharp contrast, the gradual slowdown in household loans continued, caused by high interest rates and tighter lending standards among commercial banks. Household loan growth eased to 3.1% in August from 3.2% in July, down from a recent peak of 7.2% in September 2022. Home loans grew by a weak 2.5% in August, overdrafts rose by only 0.4%, and personal loans declined for the fifth consecutive month. However, vehicle finance increased by a relatively healthy 6.3%, although much slower than 7.1% at the end of last year. The most robust category was credit cards, which grew by 9.8% yoy in August, suggesting that households continue to rely on credit to finance consumer spending.

Credit growth is likely to improve during the remainder of the year. Household credit demand should turn the corner in the months ahead as consumer finances strengthen due to rising real incomes, lower inflation, falling interest rates, and the windfall boost from the 2-pot retirement system. The outlook for corporate credit remains uncertain. Company loan growth will likely remain relatively volatile as fixed investment will recover only slowly as the domestic economy gains more upward traction, global growth picks up some pace, and the general operating environment improves further.

Chart 23: Corporate versus household loan growth.

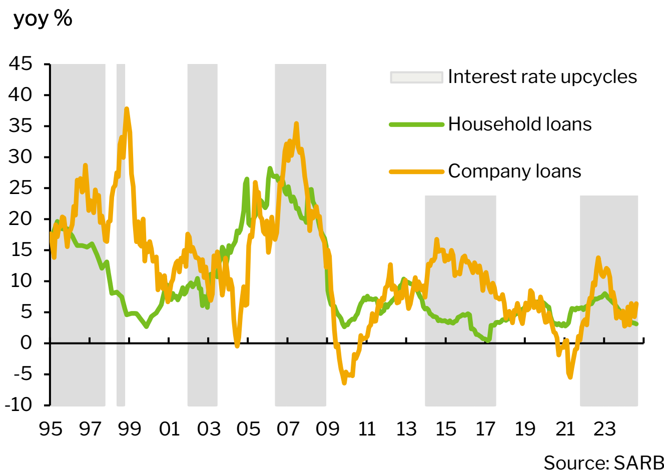
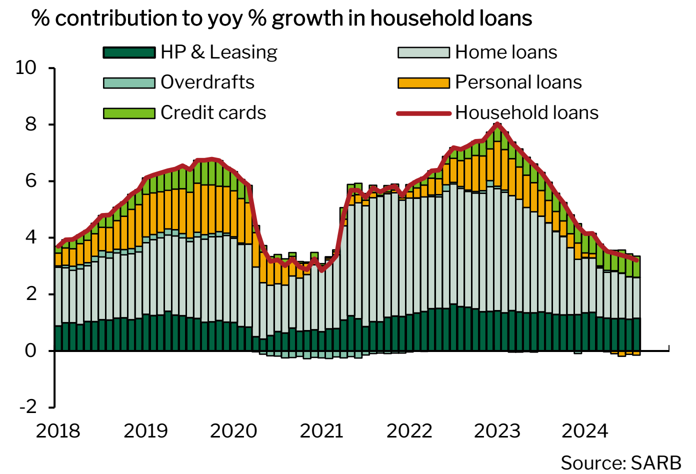


Chart 24: Breakdown of household loans.



Headline consumer inflation moderated further during Q3, dropping to 4.4% in August and falling below the 4.5% target of SARB for the first time since April 2021. Fuel and food prices exerted the most downward pressure. Fuel inflation slowed to 1.8% in August from 9.3% in May, helped by a firmer rand and lower global oil prices. The price of Brent crude oil was kept low by subdued global demand and ample supply despite the ongoing conflict in the Middle East. Food inflation decelerated significantly, but the rate of moderation slowed as the impact of last year's high base dissipated. Core inflation, which excludes volatile food and fuel prices, remained below SARB's 4.5% inflation target for the second month in August, easing to 4.1% from 4.3% in July, contained by subdued domestic demand and tighter monetary policy.

We expect headline inflation to remain below the SARB's 4.5% target in the final months of this year. Over the short term, lower fuel prices will contain inflation. Over the medium term, price pressures will likely be kept in check by a stronger rand, continued global disinflation, selective domestic demand, and a gradual decline in domestic operating costs as structural constraints ease further. The escalating conflict in the Middle East poses upside risks to global oil prices as it could disrupt oil production and existing transport routes. On the domestic front, key upside risks include the threat of higher wage settlements and another round of hefty increases in electricity tariffs and other administrative prices. All said, our base view remains for inflation to average 4.6% in 2024, easing to 4.2% in 2025 before ticking up to 4.5% in 2026.

Chart 25: Inflation has reached the SARB's target.

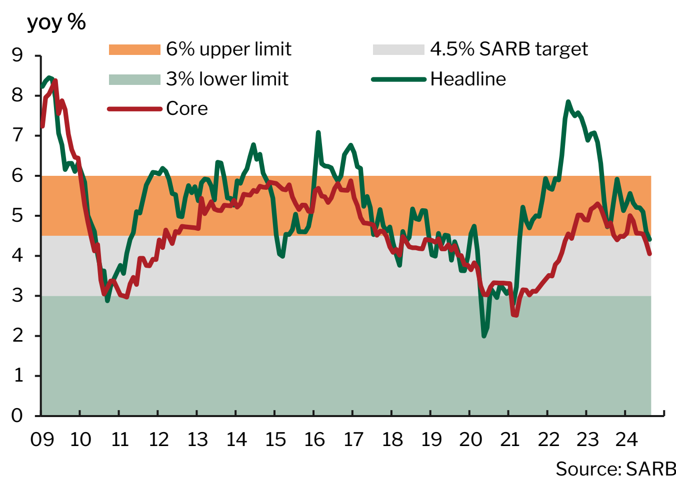
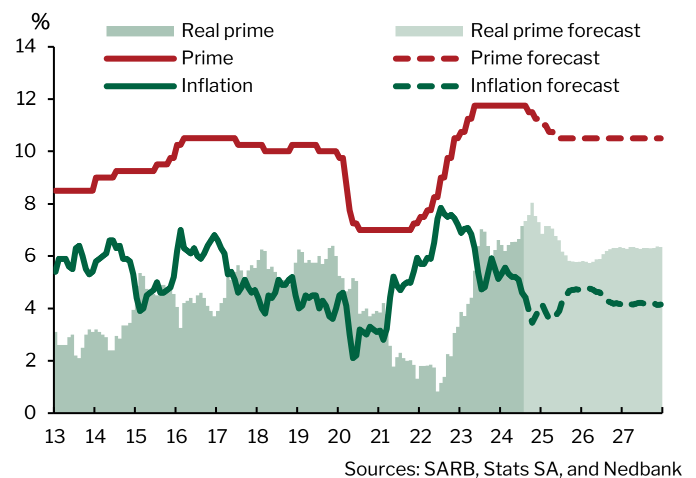


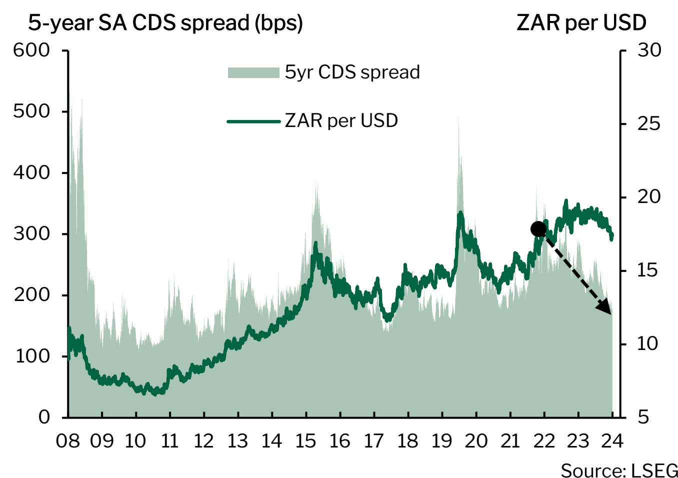
Chart 26: Prime lending rate forecasts.



SARB's MPC unanimously decided to reduce the repo rate by 25 bps to 8% at its September meeting. The decision was based on inflation's return to the 4.5% target and receding upside risks to the inflation outlook. SARB expected inflation to remain just below its 4.5% target over the next 2 years. The central bank lowered its headline inflation forecasts to an average of 4.6% in 2024, 4% in 2025 and 4.4% in 2026. At the time of the meeting, the downward revisions were motivated by expectations of lower oil prices amid ample global supply, subdued food inflation due to the fading impact of El Niño, and a stronger rand as global risk appetites recover, driven by further US monetary policy easing. SARB left its GDP growth forecast for 2024 unchanged at 1.1% but raised its forecasts for 2025 and 2026 to 1.6% and 1.8%, respectively. Despite the upward revisions, the MPC expected little to no demand pressure on prices, anticipating a small negative output gap over the next 3 years. Although the committee remained concerned over elevated inflation expectations and high electricity tariff hikes, it considered the risks to the inflation outlook as broadly balanced. The Quarterly Projection Model's repo rate projections still pointed to cumulative cuts of around 50 bps in 2024 and a further 75 bps in 2025. Consequently, we still expect another 25 bps rate reduction in November, followed by 3 cuts of 25 bps each in the first half of next year, reducing the repo rate and prime lending rate to 7.75% and 10.50%, respectively.

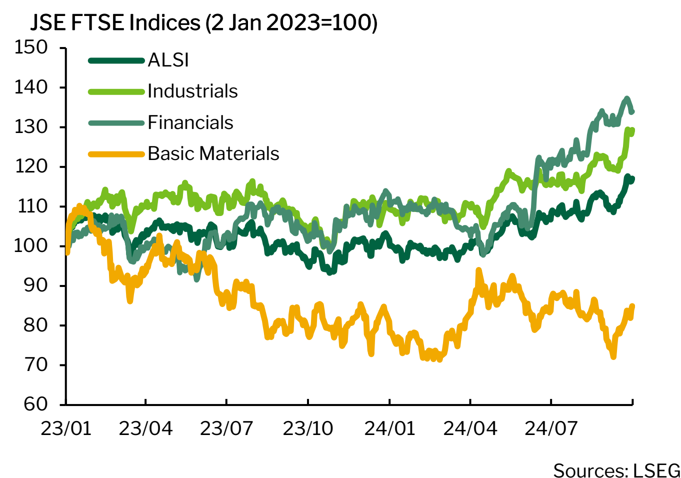
Local financial markets strengthened further in Q3, boosted by the positive political outcomes and growing expectations of better domestic growth prospects premised on accelerated structural reforms, subdued inflation and falling interest rates. Local markets also benefited from the global risk-on rally that preceded and followed the US Fed's decision to cut its policy rate by a larger-than-expected 50 bps in September. Equity prices gained impressive ground, with the FTSE/JSE All-share Index up 9.9% over Q3, led by financials and industrials, which rose by 13.9% and 11.6%, respectively. However, basic materials were little changed over the quarter. For the year to date, the all-share index surged by an impressive 12.6%, with financial and industrials up 18.5% and 15.8%, respectively. In contrast, basic materials bucked the trend, losing 1.6% of its value over the year to date. Local equity prices will likely remain relatively robust in the final stretch of this year and throughout next year, buoyed by firmer global risk sentiment as US interest rates decline and the anticipated recovery in the domestic economy. Potential hurdles include the uncertain outcome of the November US presidential elections and the Middle East conflict, which could still unsettle global investors' risk appetites.

Chart 27: The rand strengthened as the risk premium fell.



Source: LSEG

Chart 28: Prime lending rate forecasts.



Sources: LSEG

Bond yields eased noticeably as political risk receded, inflation moderated, SARB reduced interest rates, and global bond yields eased following the Fed's big move in September. The yields on the benchmark 5- and 10-year government bonds fell to 7.92% and 8.79% at the end of September from 8.77% and 10% at the end of June. The bond market is expected to strengthen further, driven by subdued inflation, easing monetary policy and, in line with our expectation, a gradual improvement in the country's fiscal metrics. The focus will shift to October's MTBPS and the new government's fiscal plans. If the government strays from February's targets, it will unsettle the bond market. However, the new government is likely to stick to the plan, which could pave the way for the major rating agencies to upgrade the country's sovereign risk ratings in the years ahead.

The rand gained further ground over Q3, appreciating by 0.9% qoq against the trade-weighted basket of currencies and by a significant 6.5% against a weaker US dollar, bolstered by the country's moderate political settlement and the Fed's aggressive rate cuts. For the year to date, the rand gained 7%, 5.7% and 2.3% against the US dollar, the UK pound, and the euro, respectively. Global forces will likely set the tone for the rand over the short term. We anticipate a spike in global risk aversion in the months ahead as the US election approaches, continued US economic outperformance tames the market's aggressive rate cut expectations, and the conflict between Israel and Iran rages. By early next year, most of these uncertainties will likely fade, and global risk sentiment should improve as the global rate-cutting cycle deepens and broadens, creating a more supportive environment for emerging market assets and currencies. A soft landing in the US and moderately better performances in other advanced countries would also boost risk appetites. In contrast, continued sluggish growth in China amid the persistent threat of deflation could undermine investors' perceptions towards emerging markets, given the dominant role Chinese demand for commodities plays in most developing countries' export earnings. On the local front, further evidence of structural reforms and continued fiscal prudence could help sustain the upbeat sentiment towards SA. Although the rand is currently trading within our fair-value range, we still expect the rand to hold relatively steady in 2025, supported by global risk-on sentiment and relatively consistent albeit uninspiring global growth.

Nicky Weimar and Johannes (Matimba) Khosa

FACTS AND FORECASTS OF KEY ECONOMIC VARIABLES

Updated 10 October 2024

Annual forecast	2019	2020	2021	2022	2023	2024	2025	2026
Growth (real, % change)								
GDP	0.3	-6.2	5.0	1.9	0.7	1.0	1.6	1.7
GDE	1.1	-8.0	5.3	3.9	0.8	0.1	2.2	1.3
HCE	1.3	-6.1	6.2	2.5	0.7	1.4	2.3	1.5
GDFI	-1.7	-14.8	-0.4	4.8	3.9	-3.5	1.8	2.5
Exports	-3.3	-12.0	9.7	6.8	3.7	-1.5	3.6	4.0
Imports	0.6	-17.6	9.6	15.0	3.9	-3.4	5.1	3.2
Current account balance								
R bn	-146.5	108.2	226.7	-30.0	-112.5	-88.0	-137.7	-159.7
% of GDP	-2.6	1.9	3.6	-0.5	-1.6	-1.2	-1.8	-1.9
Gold price (average per ounce)								
Dollar	1 404.4	1 783.4	1 795.6	1 817.1	1 942.7	2 339.8	2 289.9	2 261.5
Rand	20 261.8	29 568.4	26 743.0	29 892.2	35 900.8	42 346.8	39 904.8	41 040.3
Exchange rates								
Rand per US$	14.43	16.58	14.89	16.45	18.48	18.10	17.43	18.15
US$ per euro	1.118	1.147	1.180	1.053	1.082	1.091	1.115	1.109
Yen per US$	109.0	106.4	110.4	131.7	141.4	148.5	134.3	128.8
US$ per UK pound	1.279	1.292	1.374	1.233	1.247	1.299	1.358	1.338
Rand per euro	16.12	19.00	17.55	17.27	19.98	19.72	19.44	20.13
Yen per rand	7.56	6.43	7.42	8.00	7.65	8.20	7.71	7.10
Rand per UK pound	18.45	21.40	20.46	20.20	23.04	23.45	23.66	24.28
Interest rates (end of period)								
3-month JIBAR	6.80	3.63	3.87	7.21	8.34	7.83	7.10	7.10
Prime	10.00	7.00	7.25	10.50	11.75	11.25	10.50	10.50
Long bond	8.96	8.93	9.65	10.84	11.04	9.76	9.37	9.54
Inflation (average)								
Headline CPI	4.1	3.3	4.6	6.9	5.9	4.6	4.2	4.5
Core CPI	4.1	3.4	3.1	4.3	4.9	4.4	4.1	4.5

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FACTS AND FORECASTS OF KEY ECONOMIC VARIABLES

Updated 10 October 2024

Quarterly forecasts	2023				2024			
	Q1'23	Q2'23	Q3'23	Q4'23	Q1'24	Q2'24	Q3'24	Q4'24
GDP (qoq %)	0.6	0.7	-0.4	0.3	0.0	0.4	0.5	0.6
Interest rates (end of period)								
3-month JIBAR	7.91	8.43	8.28	8.34	8.29	8.29	8.05	7.83
Prime	11.25	11.75	11.75	11.75	11.75	11.75	11.50	11.25
Long bond (10-yr)	10.63	11.36	12.00	11.04	11.98	11.22	9.97	9.76
Inflation (end of period)								
CPI	7.1	5.4	5.4	5.1	5.3	5.1	3.9	4.0
Core CPI	5.5	5.0	4.5	4.5	4.9	4.5	4.1	4.0
Exchange rates (end of period)								
Rand per US$	17.78	18.83	18.92	18.28	18.92	18.19	17.13	17.24
US$ per euro	1.084	1.091	1.057	1.104	1.079	1.071	1.116	1.107
Yen per US$	132.8	144.3	149.4	141.1	151.3	160.8	143.2	138.4
US$ per UK pound	1.233	1.270	1.220	1.273	1.262	1.264	1.339	1.355
Rand per euro	19.26	20.50	19.98	20.16	20.35	19.48	19.12	19.08
Yen per rand	7.46	7.66	7.88	7.70	8.02	8.84	8.36	8.03
Rand per UK pound	21.89	23.91	23.07	23.42	23.92	22.99	22.94	23.35
Gold price per ounce								
$	1 977.6	1 919.6	1 964.2	2 062.6	2 232.4	2 325.7	2 276.9	2 270.0
Rand	35 162.1	36 138.3	37 153.0	37 708.7	42 239.7	42 292.9	39 009.1	39 125.1

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