Economic Insights | 14 February 2025

Weekly Monitor

ECONOMICS | SOUTH AFRICA

Review of 10 to 14 February and a preview of 17 to 21 February

- The rand has gained ground against a broadly weaker dollar.
- Mining and manufacturing production will weigh on GDP growth in Q4 2024
- The US dollar is broadly softer as investor temper their expectations
- In his testimony to the Senate, the US Fed Chair stressed that the Fed is not in a hurry to cut interest rates further.
- The US continued to create jobs in January despite the disruptions from unfavourable weather.
- US CPI unexpectedly rose to 3% in January, primarily due to the price shock from the avian flu outbreak.
- The UK economy grew slightly after stagnating in the third quarter.
- China's inflation rose as food prices rebounded.

Currencies

The rand has pulled back to R18.37/$ after trading weaker at the start of this week. The local unit firmed a softer US dollar. Investors tempered their expectations of likely benefits for the US economy from the Trump administration's protectionist policies. Trump's tariff policy seems to be losing momentum, while trading partners threaten reciprocal measures. The euro is trading at a two-week high of $1.05 this morning, while the British pound is at $1.26/$, its highest level since the third week of December. The Japanese yen has pulled back to ¥152.60/$ after touching ¥154 on Wednesday.

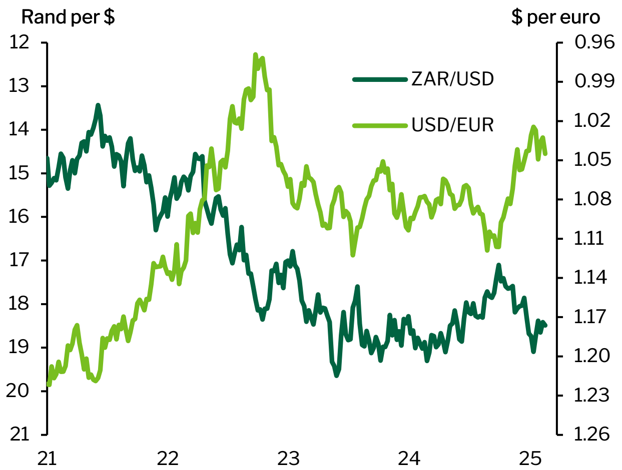
The Canadian dollar has rebounded to levels that prevailed in the first week of December, while the Mexican peso is back to its level in the first week of February. These currencies dropped sharply in the final week of January after Trump signed orders imposing 25% tariffs on their exports to the US.

Table 1: The currency markets

	2025/02/13	2025/02/06	% Δ
Rand			
USD/ZAR	18.49	18.41	-0.41
GBP/ZAR	23.18	22.65	-2.30
EUR/ZAR	19.32	18.97	-1.80
JPY/ZAR	8.25	8.22	-0.40
Majors			
EUR/USD	1.0450	1.0327	-1.18
GBP/USD	1.2548	1.2409	-1.11
JPY/USD	152.61	151.40	-0.79

Source: Refinitiv

Chart 1: The currency markets



Source: Refinitiv

Equities, bonds and commodities

Local equities recorded another week of broad-based gains, with the JSE All Share Index closing higher as all its subindices rose on Wednesday and Thursday to reverse the losses from the start of the week.

In the US, strong earnings reports from tech companies and continued optimism on the economy lifted the major indices. European markets and the Japanese Nikkei are also strengthened as fears about the damage from Trump's tariffs faded somewhat.

Bond yields eased marginally as inflation fears moderated somewhat because the markets expected delays in the implementation of Trump's reciprocal tariff proposals. The US 10-year yield dropped to 4.54% yesterday after touching 4.63% on Wednesday. Locally, bond markets are flat ahead of next week's Budget speech.

In commodity markets, Brent crude oil price eased on the prospect of potential talks between the US and Russia. President Trump announced that the US and Russia would immediately start negotiations to end the Russia-Ukraine war, easing fears of the war continuing to impact the Russian oil and gas supply. The gold price has set a new record high of $2 934.75 an ounce as it benefits from its inflation-hedge status.

Table 2: Equities

	2025/02/13	2025/02/06	% Δ
Local (JSE)			
ALSI	88643.75	87872.05	0.88
Industrials	124447.48	122594.78	1.51
Financials	20625.76	20601.96	0.12
Basic materials	46411.33	46254.79	0.34
Global Equities			
SP500	6115.07	6025.99	2.16
Nasdaq Composite	19945.64	19523.40	0.74
German DAX	22612.02	21787.00	3.79
France CAC	8164.11	7973.03	2.40
Nikkei	39461.47	38787.02	1.74
UK FTSE	8764.72	8700.53	0.74
Commodities			
Brent crude ($/barrel)	76.02	75.44	0.77
Gold ($/ounce)	2928.92	2860.39	2.40
Platinum ($/ounce)	997.11	976.35	2.13

Source: Refinitiv

Chart 2: JSE Equities

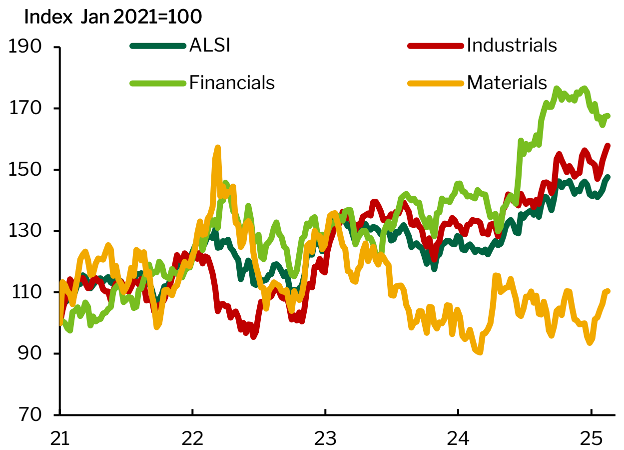
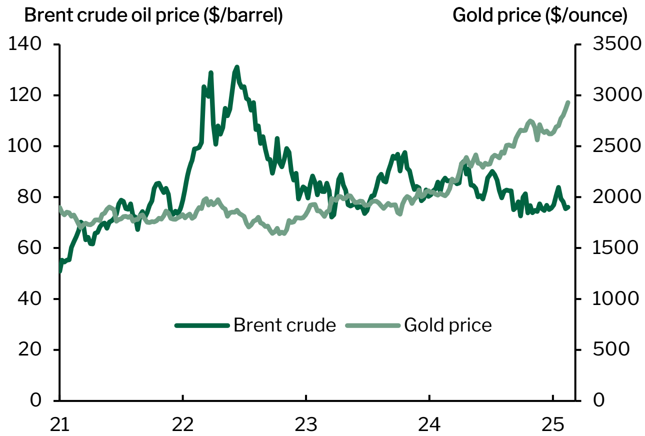


Chart 3: Commodities



Source: Refinitiv

Economic developments

Domestic economic releases and events

Both mining and manufacturing production will weigh on GDP growth in Q4 2024. Manufacturing contracted by 0.8%, with six out of the ten divisions declining. The largest were basic iron and steel and non-ferrous metal products and parts and accessories. Mining reversed its gains in Q3 2024, registering a decline of 0.3%. Manganese ore, iron ore, and gold production suffered the most. PGMs and coal, however, managed to grow. While mining grew over the year, up by 0.4%, manufacturing production fell by 0.4%. The lull in load-shedding must have supported output in mining, while the soft and slow recovery in demand was an insufficient boost to manufacturing production in the face of high operating costs.

International economic releases and events

In his semi-annual testimony to the Senate Banking Committee, Federal Reserve Chair Jerome Powell reiterated that the Fed would not hurry to further cut its policy interest rate, stating that monetary policy was less restrictive than a year ago. Powell would not be drawn into debate on his views on the Trump administration's trade tariffs, stressing that the Fed would assess the likely impact on inflation once the tariff policy was clear. Powell's testimony followed the data showing that the labour market remained strong in December, while job creation remained high in January. The US economy added 143 000 nonfarm jobs in January, lower than the market forecast of 170 000 but still reflecting solid hiring, with employment not significantly impacted by the California wildfires and severe winter weather over large parts of the country. Payroll increases for December were revised to 307 000 from the initially reported 256 000. The unemployment rate fell slightly to 4% from 4.1%, while average hourly earnings increased by 0.5% mom and 4.1% yoy to $35.87. The labour participation rate rose to 62.6% from 62.5% as favourable job prospects encouraged more job seekers. Consumer inflation increased to 3% yoy in January against the market consensus of an unchanged 2.9%. Prices rose by 0.5% mom from December's 0.3% rise, with the cost of eggs up by 15.2% mom, due to the negative effect of avian flu on supply. Core inflation unexpectedly edged higher to 3.3% yoy after briefly easing to 3.2% in December.

Eurozone industrial production unexpectedly shrank by 1.1% mom in December from 4% growth in November. The decrease was driven by significant reductions in capital goods (-2.6%), intermediate goods (-1.9%), and durable consumer goods (-0.7%). Year-on-year, the decline in industrial output intensified to 2% from 1.8%.

Germany's industrial production contracted 2.4% mom in December, after November's 1.3% growth. The automotive industry and machine maintenance and assembly led the decrease, while the pharmaceutical industry experienced a substantial increase. Annually, output dropped further by 3.1% in December from a 2.8% fall in November. The trade surplus widened to €20.7 billion in December from €19.2 billion in November. Exports grew unexpectedly by 2.9% mom to €131.7 billion, driven by increased sales to EU countries. Meanwhile, imports edged up by 2.1% to €111.1 billion, with notable increases in purchases from the EU, the US, and Russia. Germany recorded a surplus of €241.2 billion in 2024 as a whole.

UK real GDP grew by a modest 0.1% qoq in Q4, following a stagnant Q3. The boost came from a 0.2% increase in the services sector and a 0.5% rise in construction. However, the production sector faced challenges, declining by 0.8%. This downturn was attributed mainly to a 0.7% decrease in manufacturing, particularly in transport equipment and pharmaceuticals. The monthly industrial production figures showed that conditions remained broadly lacklustre despite rebounding by 0.5% mom in December from a drop of 0.5% in November. The increase was led by stronger growth in mining (+1.5% vs -1.8%) and manufacturing (+0.7% vs -0.3%). Inflation moderated to 2.5% yoy in December from 2.6% in November. Prices dropped in the restaurant and hotel sector, costs for recreation and communication decreased by 3.4%, while services declined by 4.4%. On a monthly basis, consumer prices rose by 0.3% from 0.1%. Core inflation fell to 3.2% yoy from 3.5%.

China's annual inflation increased to 0.5% in January from 0.1% in December, reaching its highest level since August 2024 due to the effects of the Lunar New Year and the government stimulus. Food prices rebounded by 0.4% from -0.5%, while non-food prices rose by 0.5% from 0.2%. Over the month, consumer prices rose by 0.7% after recording no change in December.

Next week's focus: Key economic releases and events

Domestic

The main event next week will be the 2025/26 National Budget. We expect the Minister to present a more upbeat economic outlook, as the economy benefits from favourable weather, steadier electricity supply, subdued inflation, modestly lower interest rates, and reasonable global demand. However, downside risks to domestic growth are still elevated primarily due to the looming threat of an escalating trade war between the US and its trading partners. We forecast gross tax collections for fiscal year (FY) 2024/25 to slightly exceed the 2024 Medium-Term Budget Policy Statement (MTBPS) estimate but remain below the 2024 Budget projection by more than R20 billion. Personal taxes have increased sharply, boosted by the two-pot retirement fund withdrawals. At the same time, company taxes will likely beat October's projections. However, VAT growth will probably fall short of the MTBPS's estimate, contained by the faster-than-expected deceleration in inflation. Over the next three years, faster economic growth and rebounding tax buoyancy will boost tax collections but will still be well below the trajectory set out in February 2024. Non-interest expenditure rose by less than 3% in the first nine months of FY2024/25, running well below last year's Budget and MTBPS targets. Debt service costs increased less than projected, while Treasury seems to have absorbed the higher wage bill within the original allocations. Although encouraging, the higher-than-budgeted public sector wage settlement will exert upward pressure on expenditure over the Medium-Term Expenditure Framework (MTEF-2025/26 to 2027/28). We expect the consolidated budget deficit to narrow slightly to 4.4% of GDP in FY2024/25 from 4.5% in FY2023/24, beating the 5% reflected in MTBPS. The deficit will narrow over the MTEF, driven by stronger revenue growth as nominal GDP increases. Encouragingly, the primary surplus will increase over the period.

We do not anticipate any significant new revenue measures. Personal tax brackets are again likely to be left unchanged, considering the subdued inflation rate. Medical aid tax credits could also be unchanged as the government prepares to introduce the National Health Insurance Scheme (NHI). Reports suggest the NHI legislation will be amended to make provisions for the continued existence of medical aid schemes alongside NHI, implying the withdrawal of tax credits in the future. The fuel levy has not been adjusted since April 2022, so we expect an inflation-related hike in FY2025/26. Considering the end of load-shedding and the relief it has brought to business operational costs, the levy could be increased by more than inflation. The excise duties on alcohol and tobacco products will rise by the usual above-inflation adjustments.

We do not expect any new policy announcements. Media reports indicate that the Medium-Term Development Programme will set an economic growth target of 3% per annum and will not include a fiscal rule. This contradicts the National Treasury's announcement in the MTBPS that it was undertaking technical work on an anchor to guide changes in expenditure. The Treasury will likely give an update on the process to review the inflation target. At January's Monetary Policy Committee meeting, Reserve Bank Governor Kganyago announced that a conference on the inflation targeting framework will be held in March, a clear indication that the public consultation phase of the process is due to commence. In recent years, the Governor has argued to revise the inflation target to 3% from the current 4.5%.

Key releases include consumer (CPI) for January, retail sales for January, and the fourth quarter Quarterly Labour Force Survey (QLFS). Statistics South Africa will release the revised CPI basket, including a new base year and weights. Based on the outgoing data series, our CPI forecast shows inflation edging higher to 3.4% in January from 3% in December. The increase mainly reflects rising fuel costs. During the month, the petrol price increased by 0.6% mom, reducing the yoy rate of decline to a shallower 4.5% from 10.2%. The monthly increase mainly reflected the impact of higher oil prices. The Brent crude oil price rose by 4% in January, outweighing the effect of a modest appreciation of the rand against the US dollar. As a result, transport costs will increase by 0.1% yoy after three consecutive months of deflation. Food inflation likely accelerated to 2.4% from 1.7%, mainly due to base considerations. Upward pressure will also emanate from miscellaneous items, including building and household insurance, gym fees, and funeral expenses and policies, which were surveyed in January. Growth in retail sales likely slowed to 4.1% yoy in December from 7.7% in November as the base starts normalising. Lower inflation, interest rates, and festive shopping would have supported sales.

The QLFS is not expected to show a significant improvement in the unemployment rate as the weak economy fails to absorb the growing labour force, and companies are sitting on excess capacity. Employment growth will probably improve in 2025. A stable power supply, easing logistic challenges, some improvement in consumer demand, and faster reform implementation will lift business confidence and encourage the private sector to expand capacity.

International

This afternoon, US retail sales and industrial production data will be watched to asses the US economy's strength in early 2025.

Next week's key release is the People's Bank of China monetary policy decision, with the market expecting no change in the 1- and 5-year loan rates. Japanese Q4 GDP figures will be out on Tuesday, with investors looking out for the impact of rising interest rates on domestic demand. On the inflation front, the UK, France, and Japan data are due. The market anticipates that UK inflation will edge down to 2.4% from 2.5% yoy. Meanwhile, the S&P Global PMI flash data is due on Friday and is expected to show continued recovery of the manufacturing sector. Additionally, consumer confidence and retail sales data are due.

Table 3: Release Calendar

Date	Country/Region	Indicator Name	Period	Reuters Poll	Prior	Unit
14 Feb 2025	US	Retail Sales (yoy)	Jan		3.92	%
	US	Industrial Production (mom)	Jan	0.3	0.90	%
	US	Manuf Output (mom)	Jan	0.1	0.6	%
	US	Industrial Production (yoy)	Jan		0.55	%
17 Feb 2025	Japan	GDP (qoq)	Q4	1	0.3	%
18 Feb 2025	UK	ILO Unemployment Rate	Dec	4.4	4.4	%
	France	CPI (yoy) NSA	Jan	1.4	1.4	%
	France	CPI (mom) NSA	Jan	-0.1	-0.1	%
	SA	Unemployment Total	Q4	8.1	8.011	Million
	SA	Unemployment Rate	Q4	33.0	32.1	%
	Germany	ZEW Economic Sentiment	Feb	9.0	10.3	Index
19 Feb 2025	Japan	Machinery Orders (mom)	Dec	2.2	3.4	%
	Japan	Machinery Orders (yoy)	Dec	7.6	10.3	%
	Japan	Exports (yoy)	Jan	3.0	2.8	%
	Japan	Imports (yoy)	Jan	2.0	1.8	%
	Japan	Trade Balance Total Yen	Jan		130.9	Billion
	UK	Core CPI (yoy)	Jan	3.1	3.2	%
	UK	CPI (yoy)	Jan	2.4	2.5	%
	SA	CPI (mom)	Jan		0.1	%
	SA	CPI (yoy)	Jan		3	%
	SA	Core Inflation (mom)	Jan		0	%
	SA	Core Inflation (yoy)	Jan		3.6	%
	SA	Retail Sales (yoy)	Dec		7.7	%
20 Feb 2025	China (Mainland)	Loan Prime Rate 1Y	Feb	3.1	3.1	%
	China (Mainland)	Loan Prime Rate 5Y	Feb	3.6	3.6	%
21 Feb 2025	Japan	CPI, Core Nationwide (yoy)	Jan	3.2	3	%
	UK	GfK Consumer Confidence	Feb		-22	Index
	UK	Retail Sales (mom)	Jan	0.2	-0.3	%
	UK	Retail Sales (yoy)	Jan	4.00	3.6	%
	France	Business Climate Manufacturing	Feb	94.0	95.0	Index
	France	Business Climate Overall	Feb	92.0	95	Index
	US	Existing Home Sales	Jan	4.16	4.24	Million
	US	U Mich Sentiment Final	Feb	67.8	67.8	Index
	US	U Mich Conditions Final	Feb	68.7	68.7	Index
	US	U Mich Expectations Final	Feb	67.3	67.3	Index
	US	U Mich 1Yr Inf Final	Feb	4.3	4.3	%
	US	U Mich 5-Yr Inf Final	Feb	3.3	3.3	%

Source: Refinitiv/Trading Economics

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