Economic Insights | 14 March 2025

Weekly Monitor

ECONOMICS | SOUTH AFRICA

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

- The rand came under pressure after the release of the national Budget, but it has since recovered marginally.
- Mining and manufacturing production contracted by 2.7% yoy and 3.3%, respectively.
- The National Budget shows limited expenditure restraint amid the higher VAT rate and, effectively, personal taxes.
- US inflation moderated after a drop in energy prices and a slowdown in services inflation.
- The US labour market remained robust despite Federal government job losses.
- The Bank of Canada cut interest rates by 25 bps as it warned about the growth risks from the trade war with the US.
- China slipped back into deflation due to a drop in food prices.
- Japan's economy expanded in Q4 as net trade and government spending rose.

Currencies

The rand was firmer early in the week as the US dollar lost further ground on worries about the likely impact of the US trade war with its key trading partners. However, the local unit lost 0.7% to R18.31/$ on Wednesday after the Finance Minister presented the Budget Speech 2025, which showed that despite limited expenditure restraint, the expenditure targets would likely be missed, while it effectively raised taxes on individuals. This morning, the local unit is marginally firmer at R18.26/$.

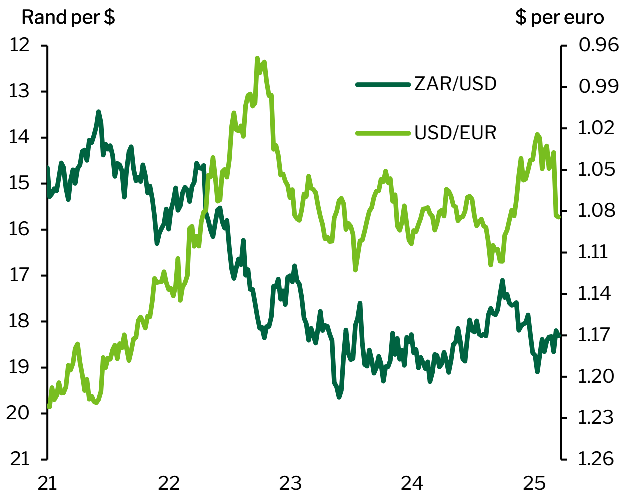
The US dollar fell to $1.09 per euro on Tuesday, its lowest level since 5 November, just before Donald Trump won the US elections, due to concerns about the likely negative impact of the Trump administration's trade war on the US economy. The US unit has pulled back marginally to $1.08 this morning but remains under pressure as the tit-for-tat import tariffs continue. As Congress fails to reach a deal to raise the debt ceiling again, the prospect of a federal government shutdown this weekend also puts the dollar under pressure. Against the British pound, the US unit touched $1.30 on Wednesday, but it was marginally firmer at $1.29 this morning. The Japanese yen is around ¥148.70 this morning, holding steady at around ¥147 this week.

Table 1: The currency markets

	2025/03/13	2025/03/06	% Δ
Rand			
USD/ZAR	18.31	18.20	-0.60
GBP/ZAR	23.67	23.46	-0.91
EUR/ZAR	19.85	19.75	-0.50
JPY/ZAR	8.12	8.10	-0.21
Majors			
EUR/USD	1.0843	1.0832	-0.10
GBP/USD	1.2941	1.2920	-0.16
JPY/USD	148.64	148.03	-0.41

Source: Refinitiv

Chart 1: The currency markets



Source: Refinitiv

Equities, bonds and commodities

The local market is broadly weaker, which is in line with the global trend due to local concerns about the fiscal budget.

US equity markets extended their losses from last week as they fell in each of this week's four sessions. The S&P 500 has dipped by more than 10% since its peak in mid-February, entering correction territory after the Nasdaq suffered the same fate last week.

European equities also came under pressure, surrendering some of last week's gains. In Asia, the Japanese Nikkei was down for four straight sessions up to Thursday. Still, Asian equities rebounded marginally today on hopes that a US Federal government shutdown will be averted on indications that some Democrats will support the Republican temporary funding bill.

In bond markets, the US 10-year yield hovered around 4.28% this week. Locally, the yield on the 10-year benchmark increased slightly to 9.81% from 9.78% on worries about the high execution risk of the National Treasury's spending plans and the likely impact on government debt.

In commodity markets, Brent crude oil decreased as the trade war heightened fears of an economic slowdown affecting energy demand. Also, the International Energy Agency (IEA) revised its oil demand forecast lower. Gold has set a record high of $2 989.20 an ounce as the metal benefits from its safe-haven status.

Table 2: Equities

	2025/03/13	2025/03/06	% Δ
Local (JSE)			
ALSI	88570.16	88930.31	-0.40
Industrials	126627.01	129140.75	-1.95
Financials	20297.65	20561.09	-1.28
Basic materials	46665.96	46226.07	0.95
Global Equities			
SP500	5521.52	5770.20	-4.31
Nasdaq Composite	17303.01	18196.22	-4.91
German DAX	22567.14	23008.94	-1.92
France CAC	7938.21	8120.80	-2.25
UK FTSE	8542.56	8679.88	-1.58
Nikkei	36790.03	36887.17	-0.26
Commodities			
Brent crude ($/barrel)	70.47	72.99	-0.71
Gold ($/ounce)	2984.49	2910.79	2.53
Platinum ($/ounce)	994.94	962.95	3.32

Source: Refinitiv

Chart 2: JSE Equities

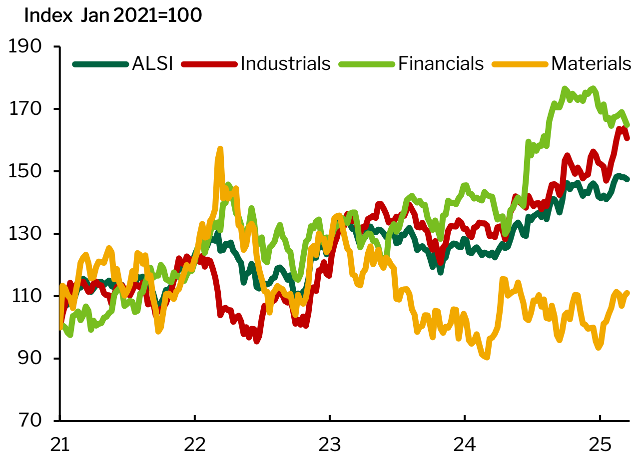
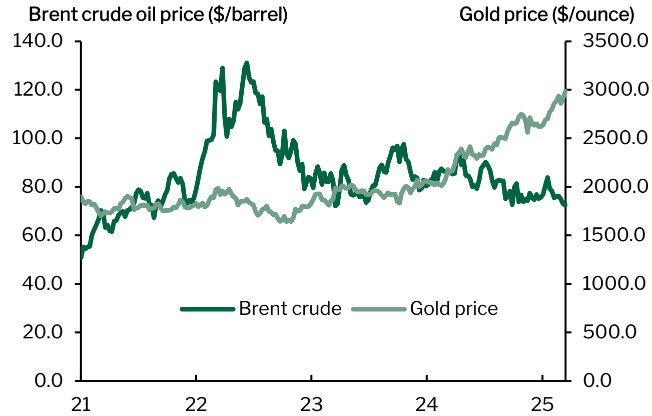


Chart 3: Commodities



Source: Refinitiv

Economic developments

Domestic economic releases and events

Mining and manufacturing production started the year on a weak footing. Both industries contracted despite the yoy improvements in electricity generation (up 5.7%). Mining fell for a third consecutive month, registering a contraction of 2.7% yoy from -2.4% in December, worse than our expectation of +0.9%. Iron ore, PGMs, and coal led the decline, shaving 4.8 ppts off total production. On the plus side, manganese ore grew by 21.2% and contributed 1.2 ppts. Over the three months ending in January, production was down 3.5%. Mineral sales fell by 5.9%, driven by a 21.1% drop in gold sales. Mineral sales, however, are still trending up and increased by 6.8% qoq over the last three months.

Manufacturing production has started trending downward in January. It contracted by 3.3% yoy from 1.2% in December. The drag came from petroleum, chemicals, rubber, and plastics, as well as food and beverages, while motor vehicles, parts and accessories also continued its decline. Together, the three sub-sectors shaved 3.7 ppts off the total. The most significant positive contribution came from wood, paper, publishing and printing (rising 5.6% and contributing 0.6 ppts). Manufacturing sales were down 1.9% yoy. On a seasonally adjusted basis, sales fell by 0.8% mom, following changes of 1.1% in December and -3.0% in November 2024

National Treasury finally tabled the 2025 National Budget on Wednesday. The revised but still contested budget reflects a slower pace of deficit reduction than indicated last year. The consolidated budget deficit narrows from a hefty 5% of GDP in fiscal year (FY) 2024/25 to 4.6% in FY2025/26 (vs. 4.2% in Oct-24), 3.8% in FY2026/27 (vs 3.6%) and 3.5% in FY2027/28 (vs 3.2%). Essentially, the Treasury is banking on faster economic growth, no personal income tax relief and a one percentage point rise in VAT tax rate over two years to boost the state's coffers sufficiently to absorb higher government expenditure without raising the budget deficit too much. Consolidated revenue is forecast to increase by 7.5% per annum over the next three years, revised from 6.9% in last year's Medium Term Budget Policy Statement (MTBPS). At the same time, consolidated expenditure is budgeted to grow by 5.6% per annum over the same period, much higher than the 4.9% reflected in the MTBPS. This acceleration is partly driven by higher-than-budgeted increases in public sector wages but also by larger allocations for infrastructure and above-inflation increases in social grants and other consumption expenditures. Debt service costs also exert more upward pressure on spending due to the broader budget deficit, rising by 7.1% per year over the three years, up from the 6.9% anticipated in MTBPS. Encouragingly, excluding debt service costs, the government will run a slightly larger primary surplus, which widens from 0.5% of GDP in FY2024/25 to 0.9% in FY2025/26 and then climbs to 2% in FY2027/28. The gross-debt-to-GDP ratio is projected to peak at 76.2% this year before easing slowly to 75.1% in FY2027/28. This year's fiscal framework is a mixed bag. Given the reliance on relatively robust revenue growth and the tendency for expenditure to overshoot, the budget deficit will likely be higher than projected. Consequently, fiscal risks will remain elevated.

International economic releases and events

US President Donald Trump has threatened to impose tariffs of 200% on European alcohol after the European Union slapped higher tariffs on US goods in retaliation for the 25% tariffs on steel and aluminium. This comes as the political rhetoric with Canada escalates. The new leader of the Liberal party, Mark Carney, has vowed not to back down in the tit-for-tat import tariffs against the US, accusing Donald Trump of attacking Canadian workers and families and vowing that Canada will never be a state of the US. Carney, who will take from Prime Minister Justin Trudeau, is a seasoned economist who served as the Governor of the Bank of Canada and the Bank of England.

After weeks of mounting uncertainty and growing recession fears, there was good news on US inflation. Headline inflation eased to 2.8% yoy in February after increasing to 3% in January from a recent low of 2.4% in September last year. Encouragingly, core inflation receded to 3.1% after edging up to 3.3% in January. A relapse in energy prices exerted the most downward pressure, declining by 0.2% yoy. The ongoing slowdown in services inflation also contributed to the easing from 4.3% in January to 4.1% in February, brought about by softer increases in shelter, medical care, and transport services. In contrast, food inflation increased from 2.5% in January to 2.6% in February. On a month-on-month basis, CPI rose by 0.2%, down from 0.5%.

The US economy created 151 000 jobs in February, up from January's 125 000. Employment in health care, financial services, transport, and warehousing increased significantly. However, federal government employment declined by 10 000 due to layoffs by the Department of Government Efficiency (DOGE). The unemployment rate rose to 4.1% from 4%, while the labour force participation rate eased to 62.4%. Average hourly earnings for all employees increased by 0.3%, mom to $35.93. For private-sector production and non-supervisory employees, earnings rose by 0.3% mom to $30.89.

As widely expected, the Bank of Canada reduced its key interest rate by 25 basis points to 2.75%. The Governing Council observed that the Canadian economy experienced stronger-than-anticipated growth in Q4, supported mainly by previous rate cuts. However, growth is projected to decelerate due to escalating trade tensions with the US, which will likely weigh on consumer confidence and fixed investment.

The eurozone's economy expanded by an annualised 0.9% in Q4, slower than Q3's 1.7% growth.

Germany's industrial production rebounded by 2% mom in January, recovering from a 1.5% decline in December. The automotive sector led the increase, lifting output by 6.4%. However, output of fabricated metal products declined by 7.7%, while energy production fell by 0.5%. Over the year, output shrunk by 1.6%, highlighting ongoing challenges in the sector despite the recent monthly rebound.

China dipped back into deflation. Prices declined by 0.7% yoy in February from a 0.5% increase in January due to a contraction in seasonal demand following the Spring Festival. Food prices fell by 3.3%, driven by sharply lower fresh vegetable prices (-12.6%) and much slower increases in pork prices (4.1% from 13.8%). Core inflation was -0.1% from a 0.6% rise in January. Consumer prices fell by 0.2% mom from 0.7% increase.

Japan's economy grew by 0.6% qoq in Q4, below the flash estimate of 0.7%, but still up significantly on Q3's 0.4% growth. Private consumption was flat after reporting a 0.7% rise in Q3. In contrast, government spending showed positive momentum, growing by 0.4% from a modest 0.1% gain. Net trade played a significant role in overall growth, contributing 0.7 percentage points, as exports rose for the third quarter, albeit at a slower pace of 1% compared to 1.5%. In contrast, imports fell by 2.1%. On an annualised basis, the economy advanced by 2.2%, a notable increase from a 1.4% increase in Q3

Next week's focus: Key economic releases and events

Domestic

Next week's focus will shift from fiscal to monetary policy. The SARB's Monetary Policy Committee (MPC) meets on Wednesday and Thursday. This is a difficult one to call, as a case can be made for either another cut or a pause. Domestic inflation and growth dynamics still support further monetary policy easing. Although headline inflation ticked up off a low base in January, it remained well below the SARB's 4.5% target. Even more compelling, there was no evidence of significant upward traction in any goods and services within the consumer basket. Steady and low core inflation further confirms that underlying price pressures remain contained. At the same time, the modest gains on the economy's supply side have been consolidated, helping to contain operating costs and providing some space for moderately faster economic growth without triggering disruptions and bottlenecks.

Other cost-push forces also appear tame. Global oil prices are slipping, bogged down by sluggish global demand and expectations of increased supply. Despite renewed global uncertainty as the US rains down tariffs upon friend and foe alike, the rand has held up relatively well. Even the political discord over this year's National Budget only led to a mild and brief dip in the rand. Elsewhere, consumer spending is recovering but is too patchy and selective to translate into significant demand pressure on prices. This is evident in the ongoing slowdown in the household loan growth. More importantly, the inflation outlook for the year remains relatively benign. The gentle rise of recent months will likely continue. Even so, we still see the average for the year at a low 4%. If recent fundamentals dominate the discussion, another 25-bps rate cut is likely on the cards.

However, the MPC rightly pointed to brewing upside risks to the inflation outlook in January. The Committee identified essentially two areas of concern:

- High administrative price inflation, particularly the possibility of another round of hefty increases in electricity tariffs.
- The threat that the Trump administration's trade policies could trigger a global trade war, leading to higher inflation and interest rates globally while rattling investors and resulting in greater risk aversion in financial markets. Such an outcome would place the rand under substantial pressure. According to the SARB's model, the rand would depreciate to nearly R21 to the US dollar, driving domestic inflation up to 5% and lifting the policy rate to 50bps above the SARB's baseline.

Both these risks have materialised, but perhaps not quite the way the Committee envisioned. NERSA granted Eskom another hefty 12.74% increase for 2025 but slashed the increases for 2026 and 2027 to 5.36% and 6.19%, respectively. The price hikes are substantially less than the SARB assumed in its January forecasts, especially over the medium term. So, the electricity tariff hikes will likely be less damaging than feared. President Trump's chaotic trade war started with a bewildering barrage of announcements. The US administration followed through on some of its most severe threats but postponed others. The verdict on reciprocal tariffs is scheduled for early April. So far, China, Canada, and the European Union have all retaliated against the US.

Given that the global markets largely dismissed Trump's tariff threats, the flurry of executive orders jolted and confused investors. Geopolitical tensions intensified. The markets' fear gauge, the VIX, shot up to levels last seen during the pandemic. US confidence faltered, consumers' inflation expectations rose sharply, the Atlanta Fed's NOW forecasts pointed to a shrinking activity over Q1 and Q2, and Fed Chair Jerome Powell confirmed there is no hurry to cut interest rates. The mayhem has a stagflation feel about it. Geopolitical tensions and trade wars lead to higher inflation and weaker growth through falling trade volumes, reduced investment and faltering demand. The MPC expected these shocks to trigger global risk aversion and bolster the US dollar, placing the rand under strain. While it has led to a spike in risk aversion, it has not convinced investors to stockpile dollars. This may be because the dollar is still trading around historical highs or because the Trump administration's policies are shaking the markets' usually unwavering faith in US exceptionalism and its safe-haven qualities. Consequently, the rand and other EM currencies remained upright amid the turmoil. It is still early days. The hit could come later, and renewed and persistent rand weakness would alter inflation's trajectory. Given the unfolding trade war and widespread confusion, it may be wise to wait and see and leave interest rates unchanged for now. We think the MPC will choose this path next Thursday.

Key releases include February's consumer inflation (CPI) and retail sales for January. We forecast CPI to have remained steady at 3.2%. On the downside, transport costs remained in contraction territory, but the deflation rate likely moderated due to a smaller drop in fuel prices. In January, fuel prices increased by 1.2% mom, reducing the yoy decline in fuel to 2.4% from 3.1%. Meanwhile, food inflation will rise from 1.9% to 1.5% as the base effects reverse and global prices increase. Some upward pressure will also emanate from miscellaneous items, including health insurance and hospital fees, which were surveyed in February. Growth in retail sales likely slowed to 1.4% yoy in January from 3.1% in December. The moderation reflects the usual dip in sales at the start of the year. Nonetheless, sales are still up due to an improvement in consumer demand. Consumer spending continues to benefit from higher discretionary incomes due to lower inflation, reduced interest rates and withdrawals from the two-pot retirement system.

International

Monetary policy decisions will be in focus next week as the trade war threatens to stoke inflation. The Bank of England is expected to keep its Bank rate unchanged at 4.5%. At its last meeting, the Bank reiterated that policy must "remain restrictive for sufficiently long" to reduce the risks of persistent inflationary pressures. The People's Bank of China, the Central Bank of Brazil and the Bank of Japan are expected to maintain their policy rates at current levels.

This afternoon, the focus will be on the US University of Michigan consumer sentiment index, with the survey closely watched for the impact of the US trade war on household sentiment and its implications for inflation expectations. Last month, 5-year inflation expectations rose to a multi-year high on fears about the US's high import tariffs on its key trading partners. Next week's key releases include industrial production for the US, China, and Japan. Additionally, retail sales for the US and China will also be released. In Japan, the trade balance is expected to improve from a -¥ 2758.8 billion deficit to a ¥600 billion surplus.

Table 3: Release Calendar

Date	Country/Region	Indicator Name	Period	Reuters Poll	Prior	Unit
14 Mar 2025	Germany	CPI Final (mom)	Feb	0.4	0.4	%
	Germany	CPI Final ((yoy))	Feb	2.3	2.3	%
	UK	Industrial Output (yoy)	Jan	-0.7	-1.9	%
	UK	Manufacturing Output (yoy)	Jan	-0.4	-1.4	%
	France	CPI (yoy)	Feb	0.8	0.8	%
	US	U Mich Sentiment Preliminary	Mar	63.1	64.7	Index
	US	U Mich Conditions Preliminary	Mar	65.0	65.7	Index
	US	U Mich Expectations Preliminary	Mar	64.3	64	Index
	US	U Mich 1Yr Inf Preliminary	Mar		4.3	%
	US	U Mich 5-Yr Inf Preliminary	Mar		3.5	%
17 Mar 2025	China (Mainland)	Industrial Output (yoy)	Feb	5.4	6.2	%
	China (Mainland)	Retail Sales (yoy)	Feb	4	3.7	%
	China (Mainland)	Industrial Production (yoy)	Feb	6.0	5.8	%
	China (Mainland)	Retail Sales (yoy)	Feb	3.4	3.48	%
	China (Mainland)	Unemployment Rate Urban Area	Feb	5.1	5.1	%
	US	Retail Sales (mom)	Feb	0.7	-0.9	%
	US	Retail Sales (yoy)	Feb	3.5	4.2	%
18 Mar 2025	EU	ZEW Survey Expectations	Mar	28	24.2	Index
	Germany	ZEW Economic Sentiment	Mar	35	26	Index
	Germany	ZEW Current Conditions	Mar	-92	-88.5	Index
	US	Industrial Production (mom)	Feb	0.4	0.5	%
	US	Manufacturing Output (mom)	Feb	0.1	-0.1	%
	US	Industrial Production (yoy)	Feb	2.3	2	%
19 Mar 2025	Japan	Exports (yoy)	Feb	11.0	7.2	%
	Japan	Imports (yoy)	Feb		16.7	%
	Japan	Trade Balance Total Yen	Feb	600.0	-2758.8	Billion
	Japan	Industrial O/P Rev (mom)	Jan	-1	-1.1	%
	Japan	Industrial O/P Rev (yoy)	Jan	2.6	2.6	%
	SA	CPI (mom)	Feb		0.3	%
	SA	CPI (yoy)	Feb		3.2	%
	SA	Core Inflation (mom)	Feb		0.2	%
	SA	Core Inflation (yoy)	Feb		3.5	%
	SA	Retail Sales (yoy)	Jan		3.1	%
	Brazil	Selic Interest Rate	19 Mar	13.25	13.25	%
	Japan	JP BOJ Rate Decision	19 Mar	0.5	0.5	%
20 Mar 2025	China (Mainland)	Loan Prime Rate 1Y	Mar	3.1	3.1	%
	China (Mainland)	Loan Prime Rate 5Y	Mar	3.6	3.6	%
	UK	ILO Unemployment Rate	Jan		4.4	%
	UK	BOE Bank Rate	Mar	4.5	4.5	%
	SA	Prime Rate	Mar	11.00	11.0	%
	SA	Repo Rate	Mar	7.5	7.5	%
	US	Existing Home Sales	Feb		4.08	Million
21 Mar 2025	Japan	CPI, Core Nationwide (yoy)	Feb		3.2	%
	UK	GfK Consumer Confidence	Mar		-20	Index
	France	Business Climate Overall	Mar		96	Index
	EU	Consumer Confid. Flash	Mar	-12.8	-13.6	Index

Source: Refinitiv/Trading Economics

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