Economic Insights | 21 February 2025

Weekly Monitor

ECONOMICS | SOUTH AFRICA

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

- The rand recovered losses from earlier in the week as the focus shifted to next week's G20 meeting.
- Retail sales were up 3.1% yoy in December, 2.1% over Q4 and 2.5% in 2024
- The unemployment rate moderated slightly to 31.9% in Q4 from 32.1% in Q3
- The People's Bank of China (PBoC) kept its key lending rates unchanged, consistent with market expectations.
- US retail sales fell by 0.9% mom in January, the largest drop since March 2023.
- Japan's economy exceeded expectations in Q4 2024, due to a recovery in business investment recovery.

Currencies

The rand has pulled back after falling to R18.51/$ from R18.40 in late trading on Wednesday, in the aftermath of the sudden postponement of the Budget Speech 2025. Cabinet disagreements over the proposed increase of the value-added tax rate to 17% from 15% resulted in the 11th-hour postponement of the budget speech to 12 March. This morning, the local unit is trading around R18.35/$, back to its level of R18.34/$ on Monday as the focus shifted to the upcoming G20 meeting in Cape Town next week.

The US dollar held steady during the week as investors paused to assess the latest tariff plans after President Trump stated on Wednesday that he would announce fresh tariffs, which would include lumber and forest products. The currency likely gained following the release of the US Federal Reserve (Fed) minutes, signalling caution amongst participants amid inflation concerns. Currencies in Europe depreciated marginally, with the euro mainly hovering around $1.04, while the British pound ended the week at $1.27. The Japanese yen strengthened, climbing to an 11-week peak after a hot inflation print for January raised bets for further rate hikes by the Bank of Japan (BoJ).

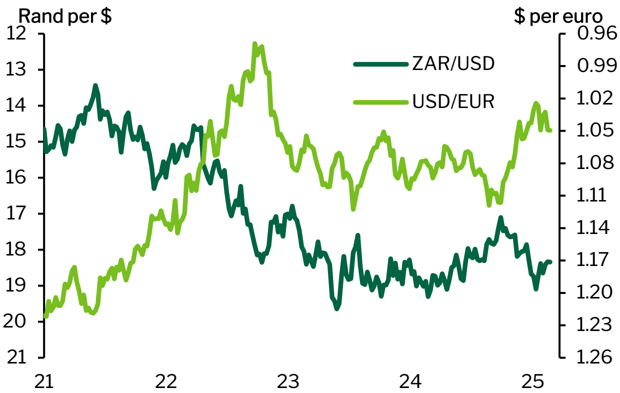
The Canadian dollar maintained its rebound from previous lows as strong domestic demand bolstered expectations for tighter monetary policy. The Mexican peso was relatively steady as markets assessed the Bank of Mexico's latest minutes and renewed US tariff threats.

Table 1: The currency markets

	2025/02/20	2025/02/13	% Δ
Rand			
USD/ZAR	18.34	18.34	-0.03
GBP/ZAR	23.21	22.97	-1.01
EUR/ZAR	19.26	19.28	0.11
JPY/ZAR	8.19	8.29	1.17
Majors			
EUR/USD	1.0496	1.0491	-0.05
GBP/USD	1.2661	1.2585	-0.60
JPY/USD	150.33	152.33	1.33

Source: Refinitiv

Chart 1: The currency markets



Source: Refinitiv

Equities, bonds and commodities

The JSE All Share Index edged up slightly as concerns about the cancellation of the 2025 Budget Speech faded. Industrials and financials led the gains while basic materials dipped.

Globally, stocks closed in the red amid caution fuelled by President Trump's unpredictable trade policies. Additionally, the US Fed's minutes and uncertainty surrounding peace negotiations to end the war in Ukraine also contributed to the decline. In the US, losses were further exacerbated by a fall in Walmart Inc. stocks after a report from the retail giant showed that its top- and bottom-line forecasts fell short of market estimates. Losses in Europe were partially offset by strong corporate earnings results from Schneider Electric SE and Centrica Plc. The Japanese Nikkei also dipped in line with its peers. However, losses were worsened by the hot inflation reading, which raised bets for further rate hikes by the BoJ.

The local bond market was not rattled by the rejection of the 2025 Budget, which included a hike in the VAT rate by 2 percentage points to 17%. However, the local market is unlikely to move much until the Budget Speech is tabled on 12 March.

In commodity markets, the Brent crude oil price was up by 2.4% this week. Russia reported a 30-40% drop in oil flows through the key crude export route, Caspian Pipeline Consortium, following a Ukrainian drone attack on a pumping station. Further upside pressure emanated from uncertainty regarding the resumption of exports from Iraq's Kurdistan region and a possible delay in OPEC+ supply increases. Gains were, however, contained by the possibility of easing US-Russia tensions and a positive outcome from the Russia-Ukraine peace talks, which could see sanctions on Russia lifted and oil exports fully restored.

The gold price set a new record high of $2946.85 an ounce on Wednesday as it benefitted from its safe-haven status amid heightened concerns about the likely trade war between the US and its key trading partners.

Table 2: Equities

	2025/02/20	2025/02/13	% Δ
Local (JSE)			
ALSI	89253.73	89008.21	0.28
Industrials	128639.88	126096.79	2.02
Financials	20706.79	20625.76	0.39
Basic materials	46490.81	46814.01	-0.69
Global Equities			
SP500	6117.52	6114.63	-0.32
Nasdaq Composite	19962.36	20026.77	-0.80
German DAX	22314.65	22513.42	-0.88
France CAC	8122.58	8178.54	-0.68
Nikkei	38678.04	39149.43	-1.20
UK FTSE	8662.97	8732.46	-0.80
Commodities			
Brent crude ($/barrel)	77.89	76.09	2.37
Gold ($/ounce)	2926.87	2883.18	1.52
Platinum ($/ounce)	970.38	979.55	-0.94

Source: Refinitiv

Chart 2: JSE Equities

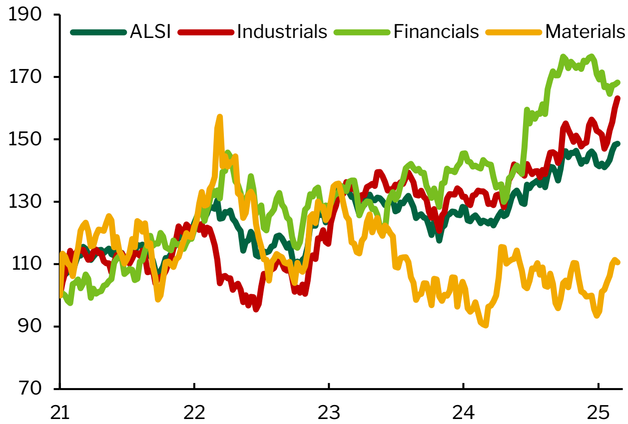
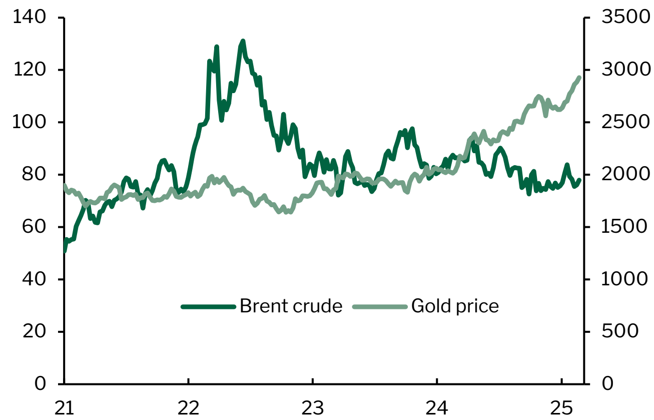


Chart 3: Commodities



Source: Refinitiv

Economic developments

Domestic economic releases and events

The unemployment rate eased slightly to 31.9% in Q4 from 32.1% in Q3 as employment growth outpaced the expansion in the labour force. Total employment rose by 131 700 in Q4, an increase of 0.8% over the quarter and 2.1% over the year. Both the formal and informal sectors employed more people, but the formal sector led the way, creating 90 300 jobs. Although the labour force increased, the number of unemployed fell by 19 600. However, the number of discouraged workers increased by a further 110 620 over the quarter, leaving the expanded unemployment rate unchanged at a high 40.1%. The sectoral breakdown shows that finance was the largest contributor to the increase in employment over the quarter, adding 232 000 jobs (+8.5% qoq). Manufacturing, private households, and transport also contributed, adding 40 700, 18 000 and 17 000 jobs, respectively. These offset sharp declines in employment by community and social services, domestic trade, construction, and mining. On yoy basis, a total of 355 000 jobs were created, driven by manufacturing, domestic trade, community and social services and construction. In sharp contrast, employment in finance and utilities was lower than a year ago.

Retail sales were up 3.1% yoy in December, a moderation from 7.6% the previous month. Key contributors included textiles, clothing, footwear, and leather goods and general dealers. Sales in these categories grew 7.8% and 2%, respectively, contributing 2.7 ppts to the total. In Q4, sales increased 2.1% qoq, an improvement from the 1.1% in Q3. Retailers benefitted from better sales in 2024, which rose by 2.5% compared to 2023. Five of the seven sectors showed growth. This reflects stronger consumer demand, boosted by lower inflation. The 50-bps rate cut in 2024 likely improved sentiment, but its effect on financial conditions is too early to gauge.

International economic releases and events

The People's Bank of China (PBoC) left its key lending rates unchanged, which aligned with market expectations. The 1-year loan prime rate (LPR) remains at 3.1%, while the 5-year LPR is held steady at 3.6%. The PBoC expressed concern over a volatile yuan and the impact of the recent hikes in US tariffs on Chinese imports. Furthermore, the Chinese government has pledged to maintain a proactive fiscal policy throughout the year, building on a broader stimulus package introduced in September 2024.

In the US, data pointed to softer economic activity in early 2025. Retail sales disappointed, falling by 0.9% mom in January, its steepest decline since March 2023. Severe weather and the Los Angeles fires hurt consumer spending. Stores selling sporting goods, hobbies, musical instruments, and books saw the biggest drop of 4.6%, followed by motor vehicles (-2.8%) and non-store retailers (-1.9%). In contrast, sales increased at gasoline stations, food services, general merchandise stores, and miscellaneous retailers. On a year-on-year basis, retail sales growth slowed to 4.2% from 4.4%. Industrial production rose by 0.5% mom, slowing from 1% in December. Shrinking manufacturing output caused the slowdown. Manufacturing output fell by 0.1% mom due to a 5.2% drop in motor vehicles and parts production, which offset growth in other sectors like aircrafts and utilities. Despite the slowdown over the month, industrial output rose by 2% yoy in January, accelerating from the modest 0.3% growth recorded in December.

German economic sentiment came out better than expected, with the ZEW Indicator of Economic Sentiment increasing to 26 in February from 10.3 in January. Optimism about the new government's ability to act boosts sentiment. Following a prolonged spell of sluggish demand, private consumption was expected to gain momentum over the next six months. At the same time, the outlook for the construction sector improved, boosting the European Central Bank's recent interest rate cuts and expectations of further monetary easing. Although participants were more upbeat about the outlook, Germany's current economic situation was still assessed as weak.

France's inflation rate increased to 1.7% yoy in January from 1.3% in December. This surge was driven by an uptick in services (2.5% from 2.2%) and energy (2.7% from 1.2%). Manufactured goods prices also rebounded (0.2% from -0.4%), while food inflation remained relatively steady (0.1% from 0%). Consumer prices fell by 0.2%, mom.

UK inflation ticked up to 3% yoy in January from 2.5% in December. This rise was driven by increases in transport, food and non-alcoholic beverages, recreation and culture, and education. Services inflation also increased despite slower price increases in restaurants, hotels, housing, and utilities. Core inflation rose to 3.7% from 3.2%, suggesting that underlying cost pressures remain elevated. The unemployment rate remained unchanged at 4.4% over October to December. The number of unemployed increased for both up to and exceeding 12 months. Employment went up by 107 000 to 33.86 million, with growth in full- and part-time jobs. The proportion of individuals with second jobs rose further, accounting for 3.8% of the employed. The economic inactivity rate slightly decreased to 21.5%.

Japan's economy fared better than expected in Q4 2024. Real GDP expanded by 0.7% qoq, up from 0.4% in Q3. The growth was driven by a recovery in business investment (0.5% from -0.1%). In addition, government spending rose further, but private consumption only increased slightly despite relatively strong wage growth. The country's economy showed resilience amid mounting challenges from US tariff threats and higher inflation. The trade deficit widened to ¥2758.78 billion, surpassing market expectations of ¥2100 billion. Imports rose faster than exports. Imports jumped 16.7%, while exports increased by 7.2%. Mineral fuel imports, including petroleum and LNG, grew by 4%. Purchases of electrical machinery surged by 18.2%, driven by semiconductors. Meanwhile, purchases from China, the US, South Korea, India, and the EU increased, while imports from Hong Kong and Russia decreased. Japan's annual inflation rate surged to 4% in January, up from 3.6% in December. Food prices spiked by 7.8%, driven by fresh vegetables. Electricity and gas costs remained high due to the absence of energy subsidies.

Next week's focus: Key economic releases and events

Domestic

Key releases for next week include consumer- (CPI) and producer inflation (PPI), money supply and private sector credit extension (PSCE), and the trade balance, all for January. We forecast CPI to edge higher to 3.4% in January from 3% in December. The increase mainly reflects rising fuel prices. 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 are surveyed in January. PPI is also projected to have increased to 1% in January from 0.7% in December. As with CPI, higher fuel and food prices will drive the upturn.

Annual growth in PSCE will probably rise to 5% in January from 3.8% in December, mainly reflecting base effects. Growth in loans and advances likely improved to 4.8% from 4.2% over the same period. Corporate loans will drive the increase, while household loans will probably remain subdued. However, the yoy rise in corporate loan growth will be boosted by the low base established last year when the growth rate came in at 2.6%. As a result, the growth rate in corporate loans rises to 6.8% in January after remaining steady at 5.4% in the previous two months. Growth in household credit demand is forecast to remain subdued at around 3%, kept in check by still high interest rates.

The trade position likely deteriorated in January, with the trade balance switching to a deficit of around R7.8 billion from a surplus of R15.5 billion in December. The deterioration will reflect a steeper contraction in exports due to seasonal factors and muted demand from SA's key trading partners. However, the downside on exports should be contained by the ongoing rally in the gold price. On the other hand, imports likely edged higher on improving domestic demand, given low inflation, rising real incomes, and easing interest rates.

International

This afternoon, US consumer confidence is expected to remain unchanged from the preliminary estimates. Next week's key releases include the US Personal Consumption Expenditure Price (PCE) Index data. The markets expect core and headline PCE inflation to ease slightly to 2.7% yoy and 2.5% yoy, respectively. Preliminary inflation data for the EU, Germany, and France is also due next week. The second estimate of Q4 2024 US GDP is also due, with consensus forecast reflecting growth of 2.5%. Lastly, the final PMIs will be released on Thursday and closely watched for trends in services and manufacturing.

Table 3: Release Calendar

Date	Country/Region	Indicator Name	Period	Reuters Poll	Prior	Unit
21 Feb 2025	UK	GfK Consumer Confidence	Feb	-22.0	-22.00	Index
	UK	Retail Sales (yoy)	Jan	0.6	3.6	%
	France	Business Climate Mfg	Feb	96.0	95.00	Index
	France	Business Climate Overall	Feb		95	Index
	US	Existing Home Sales	Jan	4.1	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	%
24 Feb 2025	Germany	Ifo Business Climate New	Feb		85.1	Index
	EU	HICP Final (mom)	Jan		0.4	%
	EU	HICP Final (yoy)	Jan	2.5	2.5	%
25 Feb 2025	Germany	GDP Detailed (qoq) SA	Q4		-0.2	%
26 Feb 2025	Germany	GfK Consumer Sentiment	Mar		-22.4	Index
	France	Consumer Confidence	Feb		92	Index
	SA	CPI (mom)	Jan	0.3	0.1	%
	SA	CPI (yoy)	Jan	3.2	3	%
	SA	Core Inflation (mom)	Jan	0.2	0	%
	SA	Core Inflation (yoy)	Jan	3.5	3.6	%
27 Feb 2025	Germany	Unemployment Rate SA	Feb		6.2	%
	SA	PPI (mom)	Jan		0.2	%
	SA	PPI (yoy)	Jan		0.7	%
	EU	Business Climate	Feb		-0.94	Index
	EU	Economic Sentiment	Feb		95.2	Index
	EU	Industrial Sentiment	Feb		-12.9	Index
	US	Durable Goods	Jan	1.3	-2.2	%
	US	GDP 2nd Estimate	Q4	2.5	2.3	%
28 Feb 2025	Japan	Industrial O/P Prelim (yoy) SA	Jan		-3.2	%
	Japan	Retail Sales (yoy)	Jan	4.1	3.7	%
	SA	M3 Money Supply (yoy)	Jan		6.71	%
	SA	Pvt Sector Credit Ext.	Jan		3.83	%
	France	GDP (qoq) Final	Q4	-0.1	-0.1	%
	France	CPI Prelim (yoy) NSA	Feb	1.4	1.7	%
	France	CPI Prelim (mom) NSA	Feb	0.3	0.2	%
	SA	Trade Bal (Incl. Region)	Jan		15.46	Billion
	Germany	CPI Prelim (yoy)	Feb	2.2	2.30	%
	US	Core PCE Price Index (mom)	Jan	0.4	0.2	%
	US	Core PCE Price Index (yoy)	Jan	2.7	2.80	%
	US	PCE Price Index (mom)	Jan	0.4	0.3	%
	US	PCE Price Index (yoy)	Jan	2.5	2.6	%
	SA	Budget Balance (mom)	Jan		21.4	Billion

Source: Refinitiv/Trading Economics

GROUP ECONOMIC UNIT

Isaac Matshego	+27 10 234 8358	isaacmat@nedbank.co.za
Busisiwe Nkonki	+27 10 233 2966	busisiwenkon@nedbank.co.za