Economic Insights | 07 March 2025

Weekly Monitor

ECONOMICS | SOUTH AFRICA

NEDBANK

Review of 3 to March 7 and a preview of 10 to March 14

- The rand is trading firmer, in line with other emerging market currencies, buoyed by broad US dollar losses.
- Domestic new vehicle sales grew 7.3% yoy, supported by strong passenger vehicles, while exports contracted by 8.6%.
- The trade balance switched to a deficit in January as imports accelerated faster than exports.
- The current account deficit narrowed in Q4, bolstered by a rebound in net gold exports.
- The US trade deficit widened in January due to a sharp increase in imports amid tariff concerns.
- US PCE inflation moderated in January, remaining above the Federal Reserve's 2% target.
- As widely expected, the European Central Bank (ECB) cut its interest rates by 25 basis points.
- The French economy contracted in Q4 due to a slowdown in household consumption.
- Germany's inflation was unchanged, while France's fell due to a drop in energy costs.
- China has maintained its 5% annual GDP growth target for 2025.

Currencies

The rand is trading around R18.09/$ this morning, up by 3.2% since Friday last week and its highest level since 17 December. The local unit has gained from broad-based US dollar weakness, benefiting emerging market currencies. The Brazilian real and the South Korean won are also firmer this week.

The US dollar lost ground across the board as markets fretted about the risk to the US economy from high import tariffs. US data pointed to job losses rising to the highest level since the COVID-19 pandemic years. The euro drew further support on indications of higher military spending in Europe. It is trading around $1.086 this morning, its highest level since Donald Trump won the US elections on 5 November. The British pound is trading at $1.293/$, the highest level since the US elections. The Japanese yen has risen to ¥147.51/$, its strongest level since the first week of October.

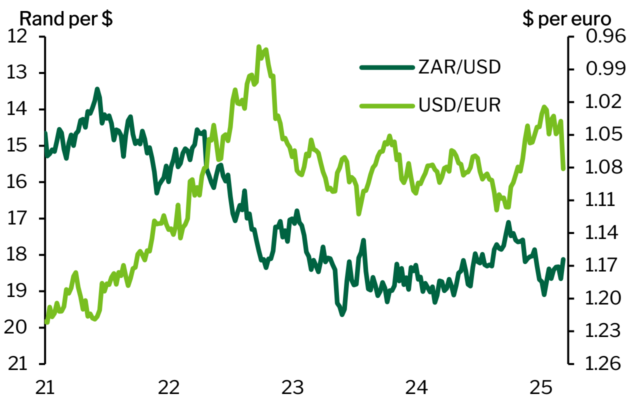
After last week's sharp fall following Trump's declaration that higher import tariffs would be effective from Tuesday, the Canadian dollar has gained 1.4% this week after Trump announced the suspension of tariffs for another month. The Mexican peso is trading around MXN20.24/$ this morning, having risen from MXN20.69 on Monday,

Table 1: The currency markets

	2025/03/06	2025/02/27	% Δ
Rand			
USD/ZAR	18.12	18.66	2.94
GBP/ZAR	23.34	23.39	0.21
EUR/ZAR	19.60	19.38	-1.08
JPY/ZAR	8.14	8.05	-1.16
Majors			
EUR/USD	1.0812	1.0375	-4.04
GBP/USD	1.2884	1.2577	-2.38
JPY/USD	147.65	150.60	2.00

Source: Refinitiv

Chart 1: The currency markets



Source: Refinitiv

Equities, bonds and commodities

The JSE All Share Index was little changed this week as financials dropped despite strong earnings reports from two of the country's largest four banks.

US equity markets are headed for the third successive week of losses as the likely negative impact of the US trade war on corporate earnings has stoked investor fears. The latest US economic data, which shows worker layoffs rising to their highest level since 2020, added to the selloff. European equities recovered as sentiment was buoyed by plans to boost European governments' military spending. The European Union Commission will review its fiscal rules to create room for higher military spending as the continent adjusts to the fact that there are no more security guarantees from the US. The UK FTSE 100 bucked the trend of notable gains across the continent. The Japanese Nikkei was also firmer up to Thursday but lost 2.2% in today's session as Asian markets fell widely on elevated risk aversion.

In bond markets, yields fell across the board as recession fears escalated. The US 10-year yield dropped marginally to 4.24% from 4.29% as inflation fears offset worries about growth. Locally, the yield on the 10-year benchmark held relatively steady, trading around 9.78%.

In commodity markets, the Brent crude oil price dropped below $70 a barrel on Wednesday as it touched the lowest level since December 2021. OPEC+ announced that it would proceed with its planned output boost in April, raising the group's total output by about 138 000 barrels a day. Additionally, worries about the impact of the US trade war on global demand weighed on oil prices. Gold price eased slightly to $2 904.62 an ounce, still near its record high.

Table 2: Equities

	2025/03/06	2025/02/27	% Δ
Local (JSE)			
ALSI	88930.31	88913.81	0.02
Industrials	129140.75	128291.98	0.66
Financials	20561.09	20800.59	-1.15
Basic materials	46226.07	44937.42	2.87
Global Equities			
SP500	5738.52	5954.50	-3.63
Nasdaq Composite	18069.26	18847.28	-4.13
German DAX	23419.48	22551.43	3.85
France CAC	8139.07	8111.63	0.34
UK FTSE	8653.30	8809.74	-1.78
Nikkei	36887.17	37155.50	-0.72
Commodities			
Brent crude ($/barrel)	72.83	74.85	-2.70
Gold ($/ounce)	2920.88	2858.60	2.18
Platinum ($/ounce)	971.52	947.65	2.52

Source: Refinitiv

Chart 2: JSE Equities

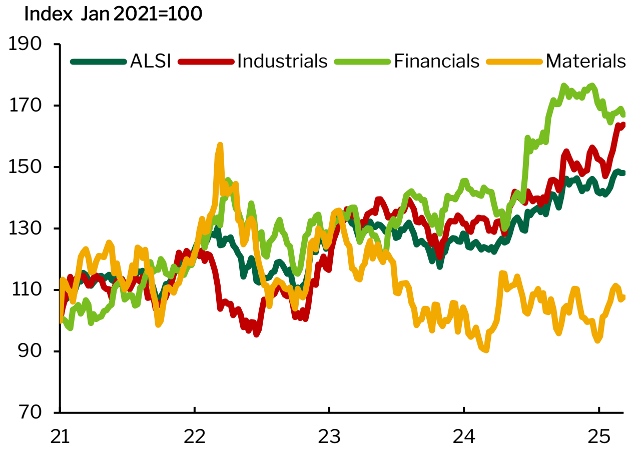
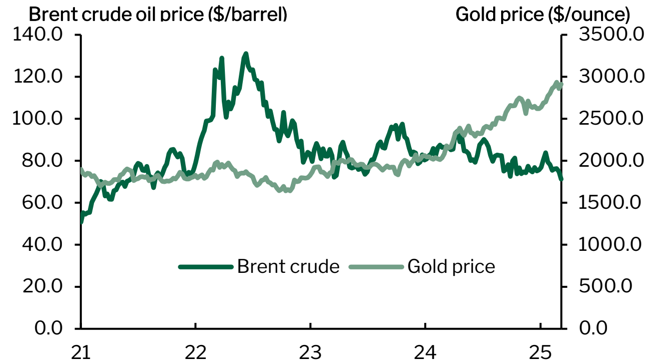


Chart 3: Commodities



Source: Refinitiv

Economic developments

Domestic economic releases and events

Real GDP expanded by 0.6% qoq in Q4 2024, after shrinking by 0.1% in Q3. On the production side, agriculture and the tertiary sector provided much of the momentum. Better performances in field crops, livestock and horticulture supported agriculture, while lower inflation and interest rates supported the tertiary sector. On the expenditure front, the uptick came from a modest improvement in gross domestic expenditure (GDE), while net exports made no contribution. Household consumption expenditure (HCE) outweighed shrinking government consumption expenditure (GCE) and gross fixed capital formation (GFCF). There was also some inventory accumulation. In 2024, expenditure on GDP grew by 0.6%, slightly down from 0.7% in 2023. We expect the economy to gain moderate momentum throughout 2025. The boost will likely come from continued improvements in consumer demand as inflation remains subdued and interest rates ease a bit more, bolstering real incomes and lowering borrowing costs. We also expect a recovery in fixed investment boosted by increased outlays on infrastructure by the public sector. However, slower government spending due to fiscal constraints and the persistent drag from net exports will likely contain the upside for GDP in 2025. Altogether, we forecast GDP growth of around 1.4% in 2025 and 1.8% in 2026.

Other releases showed that vehicle sales were up 7.3% yoy in February, moderating in line with market forecasts from 10.4% in January. Passenger vehicle sales rose by a further 16.8% yoy, while commercial vehicles fell by a steeper 10.1%. Car exports were 3 278 fewer than last year, reflecting an 8.6% yoy drop. Passenger vehicle exports relapsed, declining by 18.1% yoy. Exports of commercial vehicles, however, performed well, with 1 629 more exported compared to last year.

The trade balance reversed course at the start of 2025, switching to a deficit of R16.4 billion from a surplus of R14.7 billion in December. Imports rebounded while exports declined further, albeit less severely. Imports accelerated by 14.4% mom% in January from a 1.2% contraction in December. Growth was led by original equipment components (68%), vehicles and transport equipment (24%), chemical products (19%) and machinery and electronics (14%). In contrast, the imports of mineral products, mainly crude oil, contracted by 12%. Exports declined by 6.4% mom in January, shallower than the 11.7% contraction in December. Vehicles and transport equipment (-29%), as well as precious metals (-25%), exerted the most downward pressure, offsetting growth in exports of vegetable products (29%), base metals (17%) and mineral products (11%). The trade balance will likely remain in a deficit for most of 2025 as imports continue to outpace exports.

The current account deficit narrowed to a seasonally adjusted and annualised R31.6 billion or 0.4% of GDP in Q4, significantly less than the R55.6 billion deficit or 0.8% of GDP recorded in Q3. The trade surplus widened, led by net gold exports. Total exports, including gold, rebounded by 2.6% QoQ in Q4 after shrinking by a sharp 6.2% in Q3. Merchandise imports increased by 1%, recovering from a 5.6% contraction in Q3. Import volumes climbed by 2% from a 4.1% dip, while import prices fell by 0.8% over the quarter. Net gold exports accelerated by 41.2% in Q4, rising at its fastest pace since Q3 2020, bolstered by a rebound in volumes and prices. Merchandise exports remained weak, contracting a further 0.4% qoq, albeit less severe than the 6.1% plunge recorded in Q3. Encouragingly, export volumes increased by 1% following three consecutive quarters of contraction while prices declined by 0.8% (from -0.6%) amid soft commodity prices. The terms of trade improved notably, boosted mainly by the surging gold price. The ratio increased by 1.5% from a revised 0.2% gain. The non-trade deficit widened slightly to 3.6% of GDP (from 3.5%). The deficit on the secondary income account increased to 0.6% of GDP (from 0.5%), while that of services rose to 1% of GDP (from 0.8%). In contrast, the primary income deficit narrowed to 2% of GDP from 2.2% as income payments increased far more than receipts.

The current account deficit narrowed significantly in 2024, driven by a sizeable trade surplus. We expect the trade surplus to narrow in 2025 as imports will likely outpace exports. Export volumes should improve on more reliable electricity supply, slightly smoother logistics and steady albeit uninspiring global demand. Gold export volumes and prices should remain robust, given the increasingly uncertain geopolitical landscape. Imports will be propped up by stronger consumer spending and a modest recovery in fixed investment. The non-trade deficit will persist as income payments increase on firmer domestic growth. Service income will be supported by robust tourist arrivals, while transfers will likely remain relatively steady. Overall, the current account deficit is forecast to widen slightly in 2025.

International economic releases and events

Yesterday, the Trump administration again postponed the 25% tariffs imposed on imports from Canada and Mexico after US financial markets weakened, US car producers objected, and Canada retaliated swiftly. The tariffs were first announced on 20 January and then postponed to 4 March. In the latest move, Canada and Mexico have been given a reprieve until 2 April, when the sweeping reciprocal tariffs on all US trading partners are scheduled to come into effect. Apart from postponing the implementation, the amended order also included an exemption for potash used to produce fertiliser for farmers. However, the 10% levy on Canadian energy products remained in effect, while the 25% tariffs on steel and aluminium products are still scheduled for 12 March. Although the three countries are partners in the US-Mexico-Canada Agreement, renegotiated during Trump's first term, the President nonetheless used his emergency powers to threaten new tariffs unless both countries reduce fentanyl trafficking into the US. In response to the latest delay, Canada placed its retaliatory tariffs on CAD125 billion US products on hold until 2 April. Meanwhile, the additional 10% tariff levied on Chinese imports remained in place, bringing the cumulative increase to 20%. China responded by imposing selective tariffs on products generally produced in states led by Republicans.

US PCE inflation moderated to 2.5% yoy in January from 2.6% in December, slowing for the first time in four months. Core inflation fell to 2.6% yoy from 2.9%, remaining well above the Federal Reserve's 2% target. Other data showed that the US trade deficit widened to a record $131.4 billion in January as imports surged on precautionary buying ahead of the higher tariffs. The market consensus was for an increase to $127.4 billion from December's $98.1 billion. Imports surged by 10%, reaching a new high of $401.2 billion, with notable rises in finished metal shapes and computer equipment due to the impending tariffs. Exports rose modestly by 1.2% to $269.8 billion, driven by shipments of civilian aircraft and pharmaceuticals. The US trade gap with China, the EU, Switzerland, Mexico, Vietnam, and Canada widened, with the deficit with Canada expanding to a record high.

The European Central Bank (ECB) cut its policy interest rates by 25 basis points as expected, taking the deposit rate to 2.50%. Despite the ongoing challenges, the ECB hinted at the possibility of further rate cuts but stressed that future policy decisions would remain data dependent. The ECB expected inflation to average 2.3% in 2025, 1.9% in 2026, and 2% in 2027. Overall, the Governing Council remained confident that inflation would settle at its 2% target on a sustainable basis over the medium term.

According to preliminary estimates, the eurozone annual inflation eased to 2.4% in February from 2.5% in January. Price increases slowed for services (3.7% from 3.9%) and energy (0.2% from 1.9%) but accelerated for unprocessed food and non-energy industrial goods. Core inflation also softened to 2.6% from 2.7%. Retail sales unexpectedly dropped by 0.3% mom in January from a flat reading in December. Non-food products and fuel sales decreased. Despite the boost expected from rising real wages, households are saving money amid concerns about trade tensions and potential recession-related job losses. According to preliminary estimates, German inflation remained at 2.3% yoy in February. Services inflation slowed to 3.8% from 4%, while energy costs declined further by 1.8% from -1.6%. Core inflation eased to 2.6% yoy. Preliminary estimates showed that French inflation fell sharply to 0.8% yoy in February from 1.7% in January. The decline was led by a drop in energy prices (-5.7% from 2.7%), particularly electricity costs. Services, manufactured goods, and tobacco prices also slowed. However, food inflation increased slightly due to rising fresh produce prices. Over the month, CPI was steady at 0.2%.

The French economy contracted by 0.1% in Q4 after growing by 0.4% in Q3. Household consumption growth decelerated to 0.3% from 0.6% due to reduced outlays on services, which fell by 0.1%, while goods consumption increased at a slower 0.2%. Fixed investment also continued its downward trend, shrinking by 0.1%, primarily due to a significant drop in construction investment. Net trade had a neutral effect on GDP, with exports and imports rising by 0.4%.

Japanese retail sales rose by 3.9% yoy in January from 3.5% in December, as rising wages continued to boost consumption. Higher sales of fuel (8.7%), non-store retailers (8%), and automobiles (5.9%) were the main drivers. On a monthly basis, sales rebounded by 0.5% in January after a 0.8% drop in December. The unemployment rate stood at 2.5% in January from 2.4% in December.

The Chinese government maintained its annual growth target at “around 5%” for 2025, the same target as in 2024. This is despite the elevated risks facing the world’s second-largest economy as the US government imposes higher import tariffs. The country’s trade surplus increased to $170.52 billion in February from $104.84 billion. The jump was primarily driven by an unexpected decline in imports, which fell by 8.4% yoy, reflecting weak domestic demand. In contrast, exports saw a modest growth of 2.3%, a slowdown from the 10.7% increase recorded in December. The trade surplus with the United States reached $49.1 billion, with exports and imports showing slight increases of 2.3% and 2.4%, respectively.

Next week's focus: Key economic releases and events

Domestic

Next week’s focus will be on the Budget Speech, which was postponed on 19 February after parties in the Government of National Unity (GNU) disagreed on the proposed increase of the value-added tax (VAT) rate to 17% from 15%. Media reports suggest that VAT will be raised to between 15.5% and 16% after parties in the GNU agreed on a lower increase. We expect the National Treasury to raise the fuel levy after it was left unchanged in the initial Budget to compensate for the foregone revenue due to the lower VAT increase. Other revenue adjustments likely will be limited. Therefore, the National Treasury will not realise the estimated revenue gains of R60.5 billion annually over the next three years. On the expenditure side, the government will be under pressure to limit aggregate spending growth. In the original budget, spending was planned to rise by 5.8% a year between FY2025/26 and FY2027.28. The public sector wage bill will have to be contained through staff attrition after the government reached a three-year wage agreement with public unions. For FY2025/26, the wage increase has been fixed at 5.5%, while increases for the subsequent two years will be tied to the inflation rate. Lower increases in social grants will likely be pencilled in after the original budget raised the social protection bill at 5.8% a year between FY2025/26 and FY2027/28. However, we believe that the National Treasury will have to make provision for the Social Relief of Distress grants in FY2026/27 and 2027/28, as the current budget set aside R35.3 billion for FY2025/26 and only R443 million and R463 million for the next two years. Therefore, the budget deficit target of 3.4% of GDP by FY2027/28 will be missed, and a wider budget shortfall over the next three years will push borrowing higher and raise debt service costs.

This morning, Bloomberg reported that the finance minister will present the revised Budget to the Cabinet for approval on Monday. We expect the Budget to be tabled on Wednesday as the parties in the GNU are unlikely to delay it further.

Key data releases include manufacturing and mining production for January. We forecast manufacturing production to have contracted, albeit at a slightly slower rate of -1% yoy in January from -1.2% in December. The less severe rate of decline reflects some improvement in structural constraints, particularly a stable power supply and slightly smoother logistics. High operating costs and excess capacity still constrain output growth in the sector due to subdued global demand and commodity prices. Annual growth in mining production improved to 1.3% in January from -2.4% in December, lifted by the low base a year ago. General conditions in the sector also remain constrained by low global demand and commodity prices.

International

This afternoon the US nonfarm payroll data is due. The market consensus is for a 160 000 increase in payrolls from the 143 000 gains in January. However, government employment is projected to fall after layoffs by the Department of Government Efficiency in some agencies. The unemployment rate is estimated to remain at 4%, while average weekly earnings are projected to have risen by 0.5% mom.

Next week's key data include inflation data from the US, China, Germany, France, and Japan. US inflation is expected to show further moderation in price pressures, with headline CPI at 2.9% yoy from 3% and core CPI estimated at 3.1% yoy from 3.3%. Other releases include industrial and manufacturing production data for several countries.

On the monetary policy front, Fed Chair Jerome Powell will deliver an address on the economic outlook at the University of Chicago today. The speech will be closely scrutinised for the Fed's view on the likely impact of the Trump administration's import tariffs and implications for growth, inflation, and interest rates. The Bank of Canada will announce its interest rate decision on Wednesday. The market forecasts a 25-basis point cut, taking the rate to 2.75% from 3%.

Table 3: Release Calendar

Date	Country/Region	Indicator Name	Period	Reuters Poll	Prior	Unit
7 Mar 2025	SA	Net $Gold & Forex Res	Feb		61.3	Billion
	SA	Gross $Gold & Forex Res	Feb		65.876	Billion
	Germany	Industrial Orders (mom)	Jan	-2.80	6.9	%
	UK	Halifax House Prices (yoy)	Feb	3.1	3	%
	EU	GDP Revised (qoq)	Q4	0.1	0.1	%
	EU	GDP Revised (yoy)	Q4	0.9	0.9	%
	US	Non-Farm Payrolls	Feb	160	143	000
	US	Unemployment Rate	Feb	4.0	4.00	%
	US	Average Earnings (mom)	Feb	0.3	0.50	%
	US	Labor Force Participation Rate	Feb		62.6	%
9 Mar 2025	China (Mainland)	CPI (yoy)	Feb	-0.5	0.5	%
	China (Mainland)	CPI (mom)	Feb	-0.1	0.7	%
10 Mar 2025	Germany	Industrial Output (yoy)	Jan		-2.4	%
11 Mar 2025	Japan	GDP Rev (qoq) Annualised	Q4	2.8	2.8	%
	Japan	GDP Revised (qoq)	Q4	0.7	0.7	%
12 Mar 2025	US	Core CPI (mom), SA	Feb	0.3	0.4	%
	US	Core CPI (yoy), NSA	Feb	3.1	3.3	%
	US	CPI (mom), SA	Feb	0.3	0.5	%
	US	CPI (yoy), NSA	Feb	2.9	3	%
	Canada	BoC Rate Decision	12 Mar	2.75	3	%
13 Mar 2025	SA	Gold Production (yoy)	Jan	-6	-8.4	%
	SA	Mining Production (yoy)	Jan	-3	-2.4	%
	EU	Industrial Production (mom)	Jan	0.5	-1.1	%
	EU	Industrial Production (yoy)	Jan	-1.7	-2.00	%
	SA	Manufacturing Production (mom)	Jan	0.6	-2.40	%
	SA	Manufacturing Production (yoy)	Jan	1.6	-1.2	%
14 Mar 2025	Germany	CPI Final (mom)	Feb	0.4	0.4	%
	Germany	CPI Final (yoy)	Feb	2.3	2.3	%
	UK	Industrial Output (mom)	Jan	0.7	0.50	%
	UK	Industrial Output (yoy)	Jan	0	-1.9	%
	US	U Mich Sentiment Preliminary	Mar	63.2	64.7	Index
	US	U Mich Conditions Preliminary	Mar	64.4	65.7	Index
	US	U Mich Expectations Preliminary	Mar	63.5	64	Index
	US	U Mich 1Yr Inf Preliminary	Mar	4.4	4.3	%
	US	U Mich 5-Yr Inf Preliminary	Mar	3.6	3.5	%
	France	CPI (yoy) NSA	Feb	0.8	0.8	%
	France	CPI (mom) NSA	Feb	0.0	0.2	%

Source: Refinitiv/Trading Economics

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