BUREAU for ECONOMIC RESEARCH

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From Brasília to Joburg: politics takes centre stage

THE WEEK IN PERSPECTIVE

Lisette IJssel de Schepper

This was one of those weeks in which politics, markets and macroeconomics became difficult to separate. In Brazil, Luiz Inácio Lula da Silva secured a fourth non-consecutive term after defeating Flávio Bolsonaro in Sunday's presidential runoff. The result was particularly notable because Bolsonaro had led the first round, while his Liberal Party had already strengthened its position in Congress. Markets reacted sharply to Lula's victory, with Brazilian equities falling heavily and the real weakening as investors refocused on the country's difficult fiscal position and the policy choices facing the new administration. The reaction was a reminder that, in an environment of high debt and expensive capital, political outcomes are being judged very quickly through a fiscal lens.

Israel's election produced a different kind of uncertainty. Prime Minister Benjamin Netanyahu's bloc again emerged as the largest political force but fell short of the 61 seats required for a parliamentary majority, leaving difficult coalition negotiations ahead and the possibility of another election still open. Yet the political limbo does not necessarily imply a pause in regional security risks. Israeli security experts note that a caretaker government retains the legal authority to launch military action, while separate reporting suggests US allies have been warned to prepare for possible renewed strikes on Iran after (or ahead of…) next week's US midterm elections and for the risk of Iranian retaliation. That combination makes the next few weeks potentially important not only politically, but also for oil markets and the global inflation outlook.

Despite the heightened geopolitical risk, Brent ended the week only marginally higher at $113.32/bbl, although that level remains exceptionally elevated. The rand weakened by 0.6% against the dollar over the week, while SA government bonds were more resilient, with the benchmark 10-year yield falling by 7 bps to 8.70% as markets digested last week's MTBPS.

There was also a very different kind of market shock in the technology sector. Alphabet shares fell by around 13% on Thursday, wiping roughly $500bn from the company's market value and helping pull the Nasdaq lower. The sell-off followed results that crystallised two increasingly important questions around the AI boom: how long investors will tolerate the extraordinary scale of capital spending before demanding clearer returns? And could AI itself erode the economics of some of the businesses funding that investment? Alphabet's quarterly capital expenditure rose to $51.3bn and free cash flow turned negative, while slower search-advertising growth reinforced concerns that conversational AI could prove less profitable than traditional search.

The reaction matters beyond Alphabet. AI-related investment has become an increasingly important support to US business spending, GDP growth, and equity-market valuations. The scale of Thursday's rout suggests investors are becoming more demanding about the link between AI expenditure and eventual earnings, even as the underlying investment cycle remains exceptionally strong.

Against this backdrop, US monetary policy remained firmly constrained by the combination of resilient activity and still-elevated inflation. The Federal Reserve (Fed) kept its policy rate unchanged at 3.75–4%, but two members voted for a 25 bp increase. The Fed described economic activity as expanding at a "strong pace", and Thursday's data reinforced the point. The US economy grew at a solid 3.4% annualised q-o-q rate in the third quarter, accelerating from 2.2% in Q2 and beating expectations. Consumer spending remained particularly firm. At the same time, headline PCE inflation accelerated to 3.6% y-o-y in September, from 3.4% in August, while core PCE edged up to 3.1%. In short, the latest data strengthened the case for another Fed hike rather than merely delaying eventual easing. Markets now attach a very high probability to a 25 bp increase in December, as strong growth and persistent inflation leave the Fed with little reason to declare the tightening cycle complete.

Weekly Key Indicators

	Close	w-o-w
R/$	R16.62	0.6%
R/€	R18.55	0.3%
R/£	R22.22	0.7%
$/€	$1.12	-0.3%
Brent crude oil	$113.32	0.1%
Gold	$4 015	-1.0%
Platinum	$1 483	-6.4%
JSE ALSI	110 038	1.4%
10y gov. bond	8.70	-7bps
FRA (1x4)*	7.35	3bps

*Forward rate agreement

Closer to home, Stats SA provided an unusual combination of good and less-good news. Its rebasing and benchmarking exercise showed that the SA economy is larger than previously estimated, with nominal GDP in 2025 revised up by 5.3% to just over R8tn. A larger denominator mechanically improves several headline ratios, including debt and the budget deficit as shares of GDP.

However, the exercise also revised 2025 real GDP growth down to 0.9%, from 1.1% previously. The distinction matters. SA has not suddenly discovered additional growth; rather, Stats SA has improved its measurement of the level and composition of activity taking place in the economy. The result is a larger economy that has nevertheless grown more slowly in recent years than we previously thought.

The high-frequency domestic data provided a similarly mixed message. The SARB's leading indicator improved in August and motor trade activity in July and August was running above the second-quarter average, suggesting some recovery in momentum. At the same time, producer inflation accelerated sharply in September as higher fuel costs began feeding back into the production chain.

Taken together, that perhaps captures the week's broader message. There is still evidence of resilience in US activity, in parts of the SA economy and even in the ability of policymakers to absorb shocks, but resilience should not be confused with acceleration. Growth remains modest, inflation risks remain elevated and political uncertainty is again playing an unusually large role in shaping the economic outlook.

WEEK AHEAD: LOTS OF DATA, BUT ELECTIONS TO TAKE CENTRE STAGE

Politics and economics will again compete for attention next week. The US midterm elections take place on Tuesday, with control of Congress at stake. Meanwhile, South Africans vote in the local government elections (LGE) on Wednesday. Alongside the political events, a busy global data calendar brings a fresh round of PMIs, the Bank of England's (BoE) latest rate decision and the US employment report for October.

Monday is PMI-heavy. China's RatingDog manufacturing PMI will provide an early read on whether the export-led resilience evident in recent activity data carried into October. In the US, the ISM manufacturing PMI will be watched for signs that activity remains firm. Closer to home, the October Absa Manufacturing PMI and new vehicle sales will provide two of the first indications of domestic momentum at the start of the fourth quarter.

Attention then shifts firmly to politics. The US midterm elections on Tuesday will determine control of the House of Representatives and shape the balance of power in the Senate, but the vote extends well beyond Congress. Thirty-six governorships and most state legislative chambers are also being contested, alongside a large number of state ballot measures. The outcome will therefore matter not only for the Trump administration's ability to advance its federal policy agenda over the next two years, but also for the direction of policy at the state level. SA's LGE follows on Wednesday, with the results and subsequent coalition arithmetic to matter more for domestic sentiment than most of the week's scheduled economic releases. We have a client-exclusive webinar with Natasha Marrian and Dawie Scholtz looking ahead to the LGE and the latest polls later today; clients can **email Lisette or their contact economist for registration details.**

Wednesday also brings another round of activity data, including China's composite PMI, and the US ISM services index. Eurozone flash inflation will be closely watched after the ECB kept rates unchanged this week, particularly given the renewed pressure from higher energy prices.

The BoE announces its latest rate decision on Thursday. UK inflation has accelerated again on the back of higher fuel prices, leaving the BoE facing a familiar trade-off between weak growth and persistent price pressures.

The main global data release of the week comes on Friday with the October US employment report. Payroll growth, unemployment and wage growth will help shape expectations for the Fed's December meeting. Preliminary November Michigan consumer sentiment is also due later in the day, although it is likely to play a secondary role unless there is a sizeable move.

Date	Event	Latest
Monday (02 Nov)	CN: RatingDog Manufacturing PMI (Oct)	52.1
Monday (02 Nov)	US: ISM Manufacturing PMI (Oct)	54.5
Monday (02 Nov)	SA: Absa Manufacturing PMI (Oct)	50.7
Monday (02 Nov)	SA: Total New Vehicle Sales (Oct)	61.7K
Tuesday (03 Nov)	US: Midterm election	n/a
Wednesday (04 Nov)	CN: RatingDog Composite PMI (Oct)	52.4
Wednesday (04 Nov)	SA: Local government election	n/a
Wednesday (04 Nov)	EZ: Consumer Inflation (flash, Oct)	3.8% y-o-y; 0.6% m-o-m
Wednesday (04 Nov)	US: ISM Services PMI (Oct)	54.9
Thursday (05 Nov)	SA: S&P Global PMI (Oct)	49
Thursday (05 Nov)	UK: BoE Interest Rate Decision	3.75%
Friday (06 Nov)	SA: Foreign Exchange Reserves (Oct)	$75.4B
Friday (06 Nov)	US: Unemployment Rate (Oct)	4.2%
Friday (06 Nov)	US: Michigan Consumer Sentiment (Prel, Nov)	48

SA POLITICAL UPDATE

Natasha Marrian

CRITICAL WEEK AHEAD AS SA HEADS TO THE POLLS

The final push toward the November 4 election takes place this weekend, with parties holding major rallies to galvanise supporters and demonstrate momentum ahead of voting day.

The country is on the cusp of an unusually consequential local government election, following the historic 2024 election in which the ANC lost its outright majority in a national election for the first time. The 2021 local election had already foreshadowed this shift, as declining ANC support and increasingly fragmented councils reshaped the political landscape. Similarly, the outcome of Wednesday's election will serve as a bellwether for 2029.

Its immediate significance should not be understated. SA's economic heartland, the City of Johannesburg, is in crisis and requires intervention and rapid reforms to halt its decline. That deterioration follows a decade of messy, transactional coalitions that have contributed to the near collapse of service delivery in the city. The extent of Joburg's dysfunction was clear this week. With days to go before residents cast their votes, rubbish was left uncollected across the city and Joburg Water announced urgent interventions to stabilise its "severely constrained" system. The consequence of these interventions was decreased pressure, prolonged water outages and intermittent supply across large parts of the city.

Joburg will be closely watched as election results begin rolling in on Wednesday night and into the weekend. While the formal result will take longer to finalise, the broad shape of the vote should become clearer relatively quickly. The harder part will begin thereafter. Polls indicate that once again, there will be no outright winner in the city, and coalition talks will then begin in earnest, as councils have 14 days to elect their mayors. The DA's federal executive committee, its leadership structure, is meeting on Saturday, November 7, to discuss its position on coalitions.

The weight of the coalition landscape will rest on the two largest parties, the ANC and the DA. Many questions that will determine the fate of the country's metros must be answered. Will the ANC's national leadership step in to compel the Gauteng province and region to move away from the status quo of ANC-anchored arrangements with smaller parties and to push for a grand coalition with the DA? Will the DA display the flexibility required to keep the ANC at the table? Will parties opt to negotiate across several metros simultaneously, given the similar fragmentation anticipated across Gauteng's three metros? Will Jacob Zuma's MK Party emerge as the largest party in eThekwini?

The ANC is holding its final election rally in Buffalo City in the Eastern Cape on Sunday. The province has historically been a party stronghold. One additional complication is the SA Communist Party (SACP), which is contesting independently and has concentrated much of its campaign effort in the Eastern Cape. Insiders say there are fears that senior ANC leaders in the province have been campaigning for the SACP. This is despite a directive from Luthuli House for ANC members and leaders to choose between the allies and resign from their government posts if they elect to back the SACP. Insiders in the province say this has not happened in all cases. It is unclear what impact the SACP will have on the ANC in the province or elsewhere. It has no electoral track record as an independent electoral force and has barely featured in pre-election polling.

SECURITY RISKS LOOM AS ANTI-IMMIGRANT GROUP TURNS UP THE HEAT

Days after President Cyril Ramaphosa deployed the SA National Defence Force to KwaZulu-Natal, Acting Police Minister Firoz Cachalia and the provincial police approached the High Court seeking to interdict March and March, the anti-immigrant movement, from holding marches and protest convoys in eThekwini. The application was sought based on information from crime intelligence alleging that the group was planning to set fire to the Home Affairs Refugee Reception Centre in Durban. The group had long camped outside the building, which staff had vacated because of safety concerns. The court papers also indicated concerns that a group linked to a Ugandan man who was killed in Durban last week was planning retaliation against the protesters. An interim interdict was granted on Wednesday, with the court due to consider on Friday whether it should be made final. Ramaphosa warned that concerns about illegal immigration could not be used as a pretext for

criminality. Speaking at the Durban Chamber of Commerce, he highlighted the negative impact of looting and violent protests on business and investor confidence.

The risks associated with potential violence and protests remain significant heading into the election. Protests could disrupt voters heading to the polls and could spark looting and violence should they spiral out of control. The July 2021 riots remain a stark reminder of how quickly unrest can escalate in KwaZulu-Natal. The country's security apparatus is taking a proactive stance, as reflected both in the SANDF deployment and the urgent court application.

The group's leader, Jacinta Ngobese-Zuma, has been associated with former president Jacob Zuma and the MK Party through family connections and MKP participation at a protest organised by her movement. According to pre-election polls, MKP is polling as the largest party in eThekwini. Ngobese-Zuma adopted a more overtly political stance this week ahead of the election, urging South Africans not to vote for the ANC. It was the first overtly political statement from Ngobese-Zuma, who has become the face of the anti-illegal immigrant movement in SA.

DOMESTIC DATA

Vincent van der Westhuizen

LEADING INDICATOR SUGGESTS SOME RECOVERY IN MOMENTUM

The SARB's composite leading business cycle indicator rose by 1.1% m-o-m in August, reversing July's 0.8% decline and recording its first increase since May. Six of the ten available component series increased. The largest positive contributions came from faster growth in the real M1 money supply, an increase in residential building plans approved and higher dollar-denominated prices for SA's main export commodities. Compared with a year earlier, the leading indicator was up 1.9%.

The improvement points to somewhat firmer near-term economic momentum, although one month's rebound is not yet enough to establish a sustained upward trend.



MOTOR TRADE REMAINS SOFT DESPITE JULY REBOUND

Motor trade sales rose by 1.9% y-o-y in August, slowing from 3.1% in July. New vehicle sales remained the main support, rising by 9.1% and contributing 2.5% pts to annual growth. On a seasonally adjusted basis, total motor trade sales declined by 0.3% m-o-m in August after rebounding by 4.5% in July.

For the first two months of Q3, the average level of motor trade sales was 1.6% above the Q2 average, suggesting some improvement in quarterly momentum despite the softer August print. The underlying picture remains mixed, with new and used vehicle sales providing support while fuel and accessories sales remain weak. Overall, activity in the sector appears subdued, with elevated fuel prices continuing to weigh on demand despite relatively strong new vehicle sales.

PRODUCER INFLATION REACCELERATES AS FUEL PRESSURES RETURN

Producer price inflation for final manufactured goods rose to 6.2% y-o-y in September, from 5% in August and above market expectations of 5.7%. This ended three consecutive months of moderation and reflected renewed fuel-price pressure.

The largest contribution came from coke, petroleum, chemical, rubber and plastic products, where prices rose by 19.1% y-o-y and contributed 4.1% pts to headline PPI. Metals, machinery, equipment and computing equipment added a further 0.5% pts. On a monthly basis, producer prices increased by 1%, the first rise since May, again driven largely by petroleum-related products.

Finally, private-sector credit extension slowed to 6.23% y-o-y in September, from 7.47% in August, marking its weakest annual growth rate since September 2025.

INTERNATIONAL DATA

Nadia Matulich

FED HOLDS RATES AS GROWTH REMAINS STRONG AND INFLATION ELEVATED

The Fed voted 10-2 to keep the federal funds rate unchanged at 3.75%-4%. As has been the case so far under the new Fed Chair, who does not favour detailed, explicit forward guidance, the accompanying statement was relatively short. The Committee noted that economic activity continues to expand at a strong pace, while job gains have kept pace with workforce growth, leaving unemployment little changed.

The underlying data support this assessment, with the Q3 advance GDP release placing real GDP growth at 3.4% annualised q-o-q, up from 2.2% in Q2. Growth was supported by stronger investment and consumer spending, while government spending also contributed positively. These gains were partly offset by weaker net exports. Similarly, as noted previously, the September jobs data placed unemployment at 4.2%, relatively unchanged over the past six months.

However, inflation has remained elevated, with Thursday's release placing PCE inflation at 3.6% y-o-y in September, up from 3.4% in August. The m-o-m increase accelerated to 0.5%, from 0.3% in August. Excluding food and energy prices, core PCE inflation stood at 3.1% y-o-y and 0.3% m-o-m.

Inflation expectations also remained elevated, with Friday's University of Michigan Survey of Consumers placing year-ahead inflation expectations at 4.7% and long-run expectations at 3.5%. The rest of the Michigan survey remained subdued, with current economic conditions at 46.7 (down 8.3% m-o-m), expectations at 48.8 (up 5.4% m-o-m) and overall consumer sentiment at 48 (-0.2% m-o-m).

The combination of robust activity, a resilient labour market and still-elevated inflation would ordinarily strengthen the case for further tightening. However, the majority of the Committee opted not to tighten further, given that geopolitical uncertainty remains elevated. The Fed reiterated its commitment to price stability and to returning inflation to its 2% target.

ECB KEEPS RATES UNCHANGED

The ECB also met this week to determine interest rates, with its Governing Council keeping all three key rates unchanged. Continuing a global trend in monetary policy discussions, rising energy prices were said to pose downside risks to growth and upside risks to inflation. The ECB noted, however, that the shock is still unfolding and that underlying inflation has remained broadly stable so far. Nevertheless, both direct and second-round effects are expected to place further upward pressure on

inflation. Financing conditions have also tightened, which the ECB expects to weigh on both inflation and growth.

Against this backdrop, the Governing Council kept rates unchanged and reiterated that future decisions would remain data dependent and meeting by meeting.

The meeting was also overshadowed by Christine Lagarde's announcement that she will step down as ECB President on 7 February 2027, around eight months before the scheduled end of her term. Lagarde said she wanted greater freedom to speak and engage on issues beyond monetary policy. Her early departure brings forward the succession process at a particularly delicate point for the ECB, with the Bank still navigating elevated inflation, weak growth and tighter financing conditions. A successor will be appointed by the European Council.

FLASH PMIS POINT TO RESILIENT ACTIVITY DESPITE RISING COST PRESSURES

Last Friday also saw a host of flash PMI releases. For the most part, there were no major surprises, with the relevant economies broadly continuing along the trajectories seen last month. The S&P Global Flash Composite PMI for the Eurozone declined slightly to 51.9, from 53.1 in September. The Manufacturing and Services PMIs were similarly lower, at 52.4 and 51.7 respectively, from 52.9 and 53.0 in September, with activity affected by strikes and unrest.

In the UK, the PMIs were somewhat more encouraging, with the S&P Global Flash Composite PMI rising to 53.1, from 52.0 in September. The Manufacturing and Services PMIs also improved to 52.8 and 53.1 respectively, from 51.9 and 52.1. Growth was supported by increases in new business, stronger output across both sectors and employment growth.

The US PMIs, meanwhile, remained exceptionally strong, with the Composite PMI at 57.6, albeit slightly below the 58.4 recorded in September. The Manufacturing and Services PMIs stood at 56.0 and 57.9 respectively, compared to 55.9 and 58.8 previously. New orders and export sales reached multi-year highs, at levels last seen in 2022, while employment grew at its fastest pace since June 2022.

Cost pressures remained elevated across all three economies, with higher energy and fuel costs feeding through to input and selling prices. The pressure was particularly pronounced in the US, where selling-price inflation reached its highest level since August 2022.

FORECAST UPDATE

We have made no changes to our forecast this week, having published our full **2026Q4 forecast** last Friday. However, **Stats SA's rebasing and benchmarking of the national accounts** has changed the historical picture somewhat. The SA economy is larger than previously estimated, but recent real growth has been slightly weaker.

Stats SA has shifted the base year used for measuring real GDP from 2015 to 2022 and incorporated new data sources and improved methodologies. The exercise lifted the estimated size of the economy in 2022 by 4.9%, while nominal GDP in 2025 was revised up by 5.3%, from R7.64tn to just over R8.0tn. Much of the increase reflects better coverage of activity already taking place in the economy rather than the discovery of a new source of growth.

The largest upward sectoral revision was in mining, partly reflecting improved coverage of informal and illegal mining activity. Finance, real estate and business services were also revised materially higher, largely because of improved measurement of owner-occupied housing. More broadly, the

exercise also improves Stats SA's estimate of activity in parts of the economy that are not fully captured through conventional surveys.

A larger nominal GDP base has some mechanically favourable implications. Ratios such as government debt, the budget deficit and the current-account balance are all smaller when expressed as a share of a larger economy. This does not, however, change the underlying rand value of government debt, the deficit or the external imbalance.

The less favourable aspect of the revision concerns the recent real growth history. Growth in 2025 was revised down to 0.9%, from 1.1% previously, and several earlier years were also revised lower. The exercise therefore leaves us with a somewhat larger economy, but one that has expanded more slowly than previously estimated.

For now, this represents a change to the historical base rather than to our view of the outlook. We continue to expect real GDP growth of 1.1% in 2026, followed by only a gradual improvement to 1.3% in 2027 and 1.8% in 2028.

We will undertake a full re-estimation of the BER macroeconometric model once Stats SA publishes the longer rebased time series, expected in November, and the SARB incorporates the revised national accounts into its December Quarterly Bulletin. This will allow us to reassess the historical relationships in the model consistently rather than simply splicing the new GDP estimates onto the existing forecast.

	Actual		Forecast		Next release/meeting	
	2025	2026Q3	2026Q4	2026		
Brent crude oil ($, spot, avg.)	68.83	91.37	103	92.3	n/a	
ZAR/USD (avg.)	17.88	16.28	16.50	16.40	n/a	
Policy interest rate (%, end of period)	7.25	7.25	7.25	7.25	19-Nov-2026	
Headline CPI (y-o-y % change)	3.2	4.4	5.2	4.3	18-Nov-26	Oct
FNAB inflation (y-o-y % change)	4.1	1.0	1.9	2.2	18-Nov-26	Oct
Headline PPI (y-o-y % change)	1.5	5.6	7.7	5.5	26-Nov-26	Oct
	2025	2026Q2	2026Q3	2026		
Real GDP growth (seasonally adjusted)						
(y-o-y % change)	0.9	0.9	0.8	1.1	1-Dec-26	2026Q3
(q-o-q % change)		-0.2	0.2			

Source: BER, Stats SA, SARB and LSEG.
Note: The table is updated ad hoc and is indicative of our latest view.
FNAB stands for food & non-alcoholic beverages.

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