BER BUREAU for ECONOMIC RESEARCH

LATEST FORECASTS | FOURTH QUARTER 2024

Economic Prospects

Executive summary

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Please refer to the glossary on the BER's **website** for explanations of technical terms.

Forecast in a nutshell

Real annual % change*	2024	2025	2026
Final household consumption expenditure	**1.2**	**2.2**	**2.1**
Durable goods	3.0	3.2	2.8
Semi-durable goods	0.8	3.2	3.0
Non-durable goods	0.8	1.8	1.6
Services	1.2	2.0	2.0
Gross fixed capital formation	**-3.1**	**5.1**	**5.4**
Private	-3.6	6.6	6.8
Government	-5.1	-0.4	0.7
Public Corporations	3.7	3.7	3.1
Gross domestic expenditure	**0.1**	**2.3**	**2.2**
Exports of goods and services	-0.3	4.3	3.9
Imports of goods and services	-3.0	4.5	4.3
Gross domestic product	**1.0**	**2.2**	**2.1**
Current account as % of GDP	**-1.2**	**-2.0**	**-2.5**
Interest rates (%, last quarter average)			
3-month NCD rate	8.29	7.65	7.64
10-year government bond yield	10.85	9.59	9.41
Prime overdraft rate	11.25	10.50	10.50
Inflation rates (%)			
Producer prices	3.3	2.9	3.7
Consumer prices	4.7	4.5	4.5
Labour and employment (private and public)			
Nominal wage rate	3.6	5.6	5.1
Employment growth	1.7	1.6	2.1
Exchange rates (Q4 average)			
R/US dollar	17.60	17.38	18.00
R/Euro	19.36	19.81	21.07
R/Pound sterling	23.59	24.15	25.21
R/100 Japanese Yen	11.89	12.41	13.34
Fiscal indicators as % of GDP	**24/25**	**25/26**	**26/27**
Main budget balance	-5.0	-3.9	-3.6
Gross government debt	75.1	76.6	77.3

** unless specified otherwise*

Executive summary

In many ways, 2024 is turning out much better than expected. Most notably, the extended absence of load-shedding and positive noises from the newly established Government of National Unity (GNU) about much-needed structural reform are welcome developments. However, despite shifts in some of the underlying components, our headline real GDP growth forecast for 2024 is unchanged at 'just' 1%. Indeed, while the Q1 GDP data was revised upwards, growth in Q2 disappointed and came out weaker than we had expected during our July forecast.

Following flat growth in Q1, the economy expanded by 0.4% quarter-on-quarter (q-o-q, seasonally adjusted) in Q2. We have pencilled in another 0.4% for Q3 with an acceleration to 0.7% growth in Q4, which results in **full-year growth** of 1%. Our more upbeat forecast for 2025, at 2.2%, is unchanged. The low base, a relatively stronger consumer, an uptick in fixed investment and improved trade dynamics explain the better 2025 outcome. However, as before, we see the growth rate edge back to just below 2% in 2027-2029. We would need to see meaningful structural reform implementation (in the non-energy space) and a sustained lift in confidence for growth to stay above 2% over the medium term.

One significant change to our 2024 forecast stems from the **consumer**. Following a surprisingly downbeat print in Q1, we were forced to bring down our full-year consumer spending forecast to just 0.6% growth in 2024 during our Q3 forecast update. Recently released official data has shown that consumer spending bounced back by more than we anticipated in Q2. In addition, we are more optimistic about consumer spending during the second half of the year, with a steady uptick in the FNB/BER Consumer Confidence Index (CCI), lower inflation (more on this below), the start of an interest rate easing cycle and a boost from the two-pot retirement savings system kicking in. As such, we now see final household consumption growth at 1.2% in 2024 (from 0.7% in 2023), before accelerating more meaningfully to 2.2% in 2025. All categories are expected to see improved growth in 2025 from 2024, with durables and semi-durable volume growth leading the pack at 3.2% growth. As with GDP, we see total consumer spending drop back below 2% over the medium term.

In terms of the impact on GDP growth, the upward revision to consumer spending was, to some extent, countered by a downward revision to **fixed investment**. Gross fixed capital formation declined for a fourth consecutive quarter (on a q-o-q basis) in Q2. We see quarterly growth turnaround in the second half of the year, but this is unlikely to be enough to prevent a full-year contraction in fixed investment in 2024. That said, an expectation of faster capex growth next year (coming from a low base) is one of the reasons why we are more optimistic about GDP growth in 2025. Most of the lift is expected to come from the private sector (with above 5% growth forecast for 2025-2028), with a still constrained fiscus holding back government investment. Investment by public corporations is projected to average around 3% from 2024-2029.

Following the formation of the GNU (and it so far seemingly working well with some market-friendly initiatives), sentiment within SA, but also towards SA, has improved. The credit default swap (CDS) rate and 10-year government bond yield are trading at better (lower) levels compared to prior to the election. Combined with other factors, lower yield benefit the fiscal picture, although we still see government debt to GDP track higher before peaking around 2027 (at a slightly lower level than before). Further aided by global dynamics (a bigger-than-expected interest rate cut to start the US easing cycle and significant stimulus announced in China), the **rand**

exchange rate strengthened to well below R17.50/$ during the latter weeks of September. Again, on the back of global dynamics (with markets now expecting a slower pace of US Federal Reserve rate cuts and the exuberance around China dying down a little), the rand is trading just above R17.50/$ in mid-October. We see the rand average around R17.60/$ for the full quarter, which would be more than one rand stronger than the average recorded during the first half of the year. There is some scope for further strengthening through 2025 before the long-term weakening trend against the dollar (driven by inflation and interest rate differentials) kicks in once more towards the end of next year.

The stronger rand exchange rate and a string of fuel price declines have contributed to an improved **consumer inflation (CPI)** outlook. Our forecast for annual headline CPI in 2024 is a touch lower, at 4.7 vs 4.8% before, with 2025 also 0.1 percentage point lower at 4.5%. Beyond the usual risks (rand, food, fuel, and wage settlements), the electricity price increase is a particular concern next year, with Eskom requesting a 36% tariff hike. The SA Reserve Bank's (SARB) latest inflation outlook, in line with our forecast, sees inflation average around (and below) the midpoint of the target over the medium term. This has provided the SARB with the scope to start its easing cycle, with more cuts expected. Following a cautious 25 basis points (bps) cut in September (with the rate-setting committee members mindful of upside risks to inflation and in no rush to get to a neutral interest rate level), we project another 100bps in the next few meetings. This brings repo down to 7% (prime at 10.5%).

The global **geopolitical backdrop** remains tense. The Russia-Ukraine war is dragging on, with the situation in the Middle East extremely volatile, which contributes to sharp swings in commodity prices (particularly oil and, to some extent, gold). The war between Hamas and Israel has spread to neighbouring countries, despite international calls for a ceasefire. Furthermore, we are mere weeks away from the US Presidential election, with the race between Kamala Harris and Donald Trump remaining uncomfortably close. On the economic front, the US Federal Reserve has joined its European counterparts and started its easing cycle with a bigger-than-expected 50bps cut as it worries about a cooling labour market. It is unlikely to continue easing at this pace. The US economy remains relatively strong, with the Eurozone struggling to find momentum as Germany – the region's biggest economy – is set to contract once more in 2024. The UK, however, seems to have turned a corner, although risks remain. The biggest risk to the global growth outlook comes from China. Following weaker-than-expected data in the first half of 2024, a 'bazooka' stimulus package is aimed at propping up its growth rate back to the targeted 5% - whether this is enough, remains to be seen.

The full Economic Outlook report (including a discussion of the risks around our forecast) will follow in due course. Summaries of the latest forecast in Excel format can be found ***here****.*