

LATEST FORECASTS | THIRD QUARTER 2024

# Economic Prospects

Executive summary

## EDITOR:

**Lisette IJssel de Schepper**

✉ lisette@sun.ac.za

☎ +27 (0)21 808 9777

## MODELLING:

**Shannon Bold**

✉ sbold@sun.ac.za

☎ +27 (0)21 808 9776

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# Forecast in a nutshell

Real annual % change*	2024	2025	2026
<b>Final household consumption expenditure</b>	<b>0.6</b>	2.0	2.1
Durable goods	1.2	2.9	3.2
Semi-durable goods	0.1	2.6	2.8
Non-durable goods	0.6	1.9	1.6
Services	0.5	1.8	2.0
<b>Gross fixed capital formation</b>	<b>-1.6</b>	4.1	4.0
Private	-2.0	5.4	4.9
Government	-3.9	-1.5	0.7
Public Corporations	4.8	4.3	3.3
<b>Gross domestic expenditure</b>	<b>0.2</b>	2.0	2.0
Exports of goods and services	0.1	4.8	4.1
Imports of goods and services	-2.3	3.9	3.8
<b>Gross domestic product</b>	<b>1.0</b>	2.2	2.0
<b>Current account as % of GDP</b>	<b>-2.1</b>	-1.9	-2.3
<b>Interest rates (% , last quarter average)</b>			
3-month NCD rate	8.3	7.6	7.5
10-year government bond yield	11.2	10.3	9.9
Prime overdraft rate	11.25	10.75	10.50
<b>Inflation rates (%)</b>			
Producer prices	3.9	4.2	4.9
Consumer prices	4.8	4.6	4.5
<b>Labour and employment (private and public)</b>			
Nominal wage rate	3.0	5.6	4.9
Employment growth	3.0	1.6	2.1
<b>Exchange rates (Q4 average)</b>			
R/US dollar	17.90	17.84	18.15
R/Euro	19.69	20.69	21.42
R/Pound sterling	22.91	23.01	23.78
R/100 Japanese Yen	11.90	12.71	14.09
<b>Fiscal indicators as % of GDP</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>
Main budget balance	-5.5	-4.3	-3.8
Gross government debt	74.0	75.8	77.0

\* unless specified otherwise

# Executive summary

There have been some significant developments since our last forecast update. Politically, the peaceful local elections have resulted in a government of national unity (GNU). The speech by President Cyril Ramaphosa later this week could give some sense of the policy direction, but early signs are promising. On the economic front, the potential positive effects of a sustained period of no load-shedding in Q2 have been offset by a much weaker-than-expected Q1 GDP outcome.

**Indeed, the downward surprise to Q1 GDP, especially the weakness in consumer spending and private investment, has contributed to a downward revision to our full-year GDP forecast.** We now expect growth of 'just' 1% in 2024, down from 1.3% forecast before. However, we have upwardly revised our forecast for 2025 to 2.2% (from 1.6% before). For 2024, it is still relatively 'easy' to get to our previous forecast from the production side as the absence of load-shedding should result in a pick-up in activity. However, from the expenditure side, it seems like the drag of sustained higher borrowing costs will weigh more heavily on the consumer while official investment data continues to disappoint. In all, we forecast consumer spending to expand by 0.6% in 2024, down from 1% earlier, before picking up to 2% in 2025. The 2024 gross fixed capital formation forecast is even more downbeat, with a contraction of 1.6% now pencilled in from a 2.1% expansion earlier. The weakness is mainly coming from private investment in Q1, which pulled the full-year forecast lower. As with consumer spending, a recovery is forecast in 2025.

**The GNU has taken some of the more worrisome downside scenarios for the SA off the table (at least for now) and can be seen as an upside development relative to our baseline heading into the forecast.** As such, the GNU itself, more political certainty, and hopefully some positive steps on the policy front, should help with consumer and business sentiment in the second half of the year. However, the poor Q1 data means the recovery will be off a lower-than-expected base in 2024, which weighs on full-year growth. The lower base does help in 2025, with improved sentiment, lower inflation and an expected decline in borrowing costs providing a further boost. Sustained improvement in energy availability and a further alleviation of the local rail and port disruptions will benefit trade and growth. This is why we are more optimistic about 2025 than 2024.

**There have been some positive developments since the last forecast.** The rand exchange rate averaged somewhat stronger to the dollar than we anticipated. A steady decline in SA's credit default swaps (CDS) spread<sup>1</sup> since early June reflects more positive investor sentiment towards the country. The rand has scope to strengthen further once the US Federal Reserve (Fed) starts easing. A stronger rand and favourable fuel price dynamics have contributed to us lowering our headline consumer inflation (CPI) forecast for 2024. We now see annual CPI inflation average 4.8% in 2024 and tick down further to average 4.6% in 2025 and 4.5% in 2026. Core inflation is expected to tick down from 4.6% to an average of 4.4% in the next two years.

**The lower inflation profile means that our view of the SA Reserve Bank (SARB) cutting its policy interest rate by 25 basis points (bps) in September remains unchanged.** There could perhaps be some members

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<sup>1</sup> Sovereign credit default swap (CDS) spreads measure the cost of hedging against sovereign defaults or debt restructuring.

of the monetary policy committee (MPC) opting for a cut in tomorrow's (18 July) interest rate decision. However, at the same time, there is a lingering risk that the first cut could be postponed to later in the year, but with **inflation expectations** slowly drifting lower and the inflation outlook improving, we argue that the SARB could have the scope to start a shallow cutting cycle later in Q3. We still see about 100bps worth of cuts in the next few meetings, with another 25bps cut in late 2026, before the repo rate is expected to remain on hold. Over the long term, the SARB's desire to pursue a lower inflation target is expected to come into play, which is why we do not expect further cuts (for now). Successfully anchoring inflation at a lower level would facilitate a lower policy rate over time, but a firm commitment and timeline from the SARB and National Treasury would be required for this to happen.

**Global monetary policy dynamics have changed since the previous forecast (although in line with expectations).** The European Central Bank (ECB) and several other European central banks have cut their policy interest rate, while the US Fed has decided to keep its Fed funds target on hold for now as inflation remains too high. Markets are pricing in a high probability of a rate cut of 25bps in September, which is in line with our view. Meanwhile, the global geopolitical backdrop remains tense, causing volatility in financial and commodity markets. A possible surge in the Brent crude price remains a relevant risk to our forecast. In terms of global growth, the Q2 data for China disappointed, but Europe seems to have (tentatively) turned a corner. The American economy continues to outperform, but there are more signs of cooling in the labour market, and with inflation slowing, this explains growing expectations of a US Fed cut in Q3.