

WEEKLY REVIEW | NUMBER 8 | 28 FEBRUARY 2025

Load-shedding returns, G20 meetings take place and more Budget talk

THE WEEK IN PERSPECTIVE

Lisette IJssel de Schepper

The domestic news headlines were dominated by the aftermath of the postponed Budget, G20 developments and, disappointingly, load-shedding. Stage 6 load-shedding returned for the first time since February last year due to several unit trips at power stations. Load-shedding was suspended on Wednesday morning when emergency reserves were replenished and lost generation capacity was recovered.

We have added to the **Budget debate** in various ways (see [here](#) for a column in today's Business Day and [here](#) for a piece on why we cannot let this fiscal crisis go to waste). Because the embargo has been lifted, we could also do a rough estimate of the implications of the aborted Budget on our macro forecast. The biggest and most obvious impact would be an increase in inflation. Our **modelling** suggests that headline consumer inflation could be about 1%pt higher relative to our January baseline. This can even prompt the SA Reserve Bank (SARB) to hike the repo rate, should it strictly follow a so-called Taylor rule (which we know it does not, but it does show how a potential VAT hike could work itself through the economy. For example, while investment is not directly impacted by VAT, it would be hurt by a higher interest rate environment). Media reports suggest that the two biggest parties of the GNU remain far apart when it comes to agreeing on how the books should be balanced – but of course, the books will not balance without either a cut in expenditure or a hike in tax (or, most likely, a bit of both). Just as an aside, should the Budget not be tabled or passed on 12 March (or before the end of the financial year), government financing continues as per the Medium Term Budget Policy Statement released in October last year.

On the global front, US President Donald **Trump's** messaging around tariffs was initially confusing—especially when it came to starting dates for the planned tariffs on Canadian and Mexican imports. Yesterday, he said that the 25% tariffs on Canada and Mexico would start on 4 March, with an additional 10% tax imposed on China. Trump again said he would impose 25% tariffs on “cars and all the other things” from the European Union without providing details. Unfortunately, closer to home, **Bhekisa** reports that US-funded HIV organisations in SA received letters that they will be shut down permanently – similar institutions elsewhere in Africa have also received such letters. According to Bhekisa, there is very little communication from SA's government side, which makes the process even more difficult.

Meanwhile, **Ukraine** and the US agreed to establish a joint fund to collect and reinvest revenues from Ukrainian natural resources. The deal does not include the security guarantees Ukraine wanted, however, it also does not require Ukraine to pledge \$500bn worth of resources as payment for past military aid. The **German** election resulted in Friedrich Merz's Christian Democrats (CDU/CSU) becoming the largest party, with 208 of the parliament's 630 seats. Nonetheless, Merz still needs to compile a coalition government. The hard-right Alternative for

Germany, which saw a surge in support and received the second most votes, is not likely to join the new government.

In **financial markets**, the confirmation that Trump would implement tariffs on Mexico and Canada, as well as China, from next week boosted the US dollar. In step, the peso and looney lost ground. The rand also slipped yesterday after remaining largely flat to the dollar through the week. Cryptocurrencies, which surged following Trump’s election, are running out of steam (patience), and Bitcoin tumbled below \$90 000 – the lowest since November.

Weekly Key Indicators		
	Close	w-o-w
R/\$	R18.48	0.6%
R/€	R19.25	0.0%
R/£	R23.29	0.3%
\$/€	\$1.04	-0.6%
Brent	\$73.28	-4.2%
Gold	\$2 875	-2.1%
Platinum	\$957	-1.9%
JSE ALSI	87 325	-1.7%
10y gov. bond	10.51	-11bps
FRA (1x4)*	7.50	-3bps

*Forward rate agreement

Positive for SA inflation dynamics, the Brent crude **oil** price moved lower by more than 4% w-o-w. Indeed, in the US, West Texas Intermediate dipped below \$70/barrel to close at its lowest level since mid-December. Also positive for SA food inflation was news that the first production estimates for 2024-25 summer grains and oilseeds point to the possibility of a better harvest. The Crop Estimates Committee forecasts the 2024-25 overall summer grains and oilseeds harvest at 172 million tonnes, up 11% from the previous season – **agbiz** argues that further upward revisions are possible in coming months.

WEEK AHEAD: BIG DOMESTIC DATA WEEK

Next week will be very busy on the domestic data calendar. The week kicks off with the **Absa PMI** for February on Monday. The PMI dipped in January, as did the S&P Global PMI. It will be interesting to see if respondents mention the return of load-shedding in February. Also, on Monday, naamsa will publish **new vehicle sales** data for February.

On Tuesday, Stats SA is set to publish the **2024Q4 GDP** figures following a 0.3% contraction in Q3. The economy is likely to have expanded in Q4, but the potential revision to the Q3 data makes it more difficult than usual to estimate by how much. In Q3, the main drag from the production side of GDP came from agricultural production, which plummeted by 28.8% q-o-q. Credible research from the Bureau for Food and Agricultural Policy (BFAP) has since shown that the 2024Q1-2024Q3 contraction in agricultural production is a severe overstatement of what actually transpired in the sector, and indications are that a significant revision will be made to the historic agriculture data. While revisions to historical data are common, a fairly large (upward) adjustment seems necessary this time. With the Q4 data release, we will also see 2024’s full-year growth print, which we expect to come in at around 0.8%.

On Wednesday, the **2025Q1 RMB/BER Business Confidence Index** will provide insight into business conditions and business sentiment developments in the SA economy. Finally, on Thursday, the SA Reserve Bank (SARB) will publish the 2024Q4 **current account data**.

On the global front, **China’s** National People’s Congress starts on 5 March, where the premier is set to deliver the Government Work Report. This looks back at how the economy fared in 2024 and sets targets for 2025, including GDP, inflation, employment, and budget deficit. The growth target will receive the most attention, with the majority expecting the Chinese government to again set it at around 5%, although it could be pitched somewhat lower at 4.5-5%. The fiscal targets will provide some indication of the stimulus planned by the government.

Preliminary February consumer inflation data for the Eurozone is scheduled for Monday. The **European Central Bank (ECB)** has its policy meeting on Thursday. Another 25bps rate cut is broadly expected, although the head of the Belgium Central Bank warned that the ECB might be sleepwalking into too many rate cuts. Particular interest will surround what the ECB signals on the way forward. The US jobs data due on Friday will, in turn, receive attention from those scrutinising the US Federal Reserve's path going forward.

Date	Event	Latest
Monday (03 March)	CN: Caixin manufacturing PMI (Feb)	50.1
Monday (03 March)	SA: Absa manufacturing PMI (Feb)	45.3
Monday (03 March)	UK: Inflation rate flash (Feb)	2.5% y-o-y
Monday (03 March)	US: ISM manufacturing PMI (Feb)	50.3
Monday (03 March)	SA: New vehicle sales (Feb)	46 400
Tuesday (04 March)	SA: GDP growth (2024Q4)	-0.3% q-o-q
Wednesday (05 March)	SA: S&P Global PMI (Feb)	47.4
Wednesday (05 March)	SA: RMB/BER business confidence index (Q1)	45
Wednesday (05 March)	US: ISM services PMI (Feb)	52.8
Thursday (06 March)	SA: Current account (Q4)	-1% of GDP
Thursday (06 March)	EZ: ECB interest rate decision	2.9%
Friday (07 March)	US: Nonfarm payrolls & unemployment rate (Feb)	143 000; 4%
Friday (07 March)	SA: Foreign exchange reserves (Feb)	\$65.88B

DOMESTIC SECTION

Katrien Smuts

FIRST CPI INFLATION PRINT WITH NEW WEIGHTS

After a week's delay, Stats SA released the first **consumer (CPI) inflation** print for 2025 on Wednesday. Headline CPI inflation rose to 3.2% y-o-y in January, up from 3.0% y-o-y in December. On a monthly basis, CPI inflation increased to 0.3% m-o-m from 0.1% in December.

The main contributors to January's annual inflation rate were housing and utilities (4.5% y-o-y, contributing 1.1%pts), food and non-alcoholic beverages (2.3% y-o-y, 0.4%pts), and restaurant and accommodation services (4.9% y-o-y, 0.3%pts). Although food and non-alcoholic beverages made a positive contribution to headline CPI inflation, the rate of increase slowed compared to December. Specifically, food inflation decelerated from 1.7% in December to 1.5% in January, driven by base effects and the ongoing supply recovery of various food products.

PPI TICKS UP SLIGHTLY IN JANUARY

Stats SA's **factory gate (PPI) inflation** also edged higher in January, rising to 1.1% y-o-y from 0.7% y-o-y in December. Similar to the trends observed in headline CPI inflation, food products, beverages, and tobacco products contributed positively to the overall PPI figure, increasing by 4.4% y-o-y and adding 1.3 %pts. However, unlike the food component in CPI, PPI inflation in this sub-category saw a slight uptick, rising from 4.2% y-o-y in December to 4.4% y-o-y in January. Despite this increase, current levels remain well below the highs of 2022 and 2023, indicating that price pressures have stabilised at relatively normal levels.

Notable detractors from overall PPI inflation included coke, petroleum, chemical, rubber, and plastic products, which declined by 1.8% y-o-y, subtracting 0.4 %pts. Transport equipment also weighed on PPI, falling by 4.8% y-o-y and detracting 0.4 %pts.

LEADING INDICATOR DIPS BY 1.8% M-O-M

The SARB's leading business cycle indicator, which is published monthly, recorded a slight decline in December. The indicator fell by 1.8% m-o-m to 112.8, down from 114.8 in November. Five of the seven components contributed negatively to the indicator in December, while one remained unchanged. The only positive contribution came from an acceleration in the six-month smoothed growth rate of job advertisement space. Despite the monthly decline, the indicator still registered a 1.6% y-o-y increase, suggesting a slightly improved outlook compared to a year ago.

INTERNATIONAL SECTION

Nadia Matulich

CONFIDENCE WAVERS ACROSS THE GLOBE WITH RECESSION FEARS LOOMING LARGE IN THE US

Durable goods orders in the **US** rose by 3.1% in January after declines of 1.8% and 2% in the preceding two months. This marks the fastest increase since 9.8% in July and the second-highest increase since November 2023. Meanwhile, the second estimate for US Q4 2024 GDP remained unchanged from the advanced print, at 2.3%.

More notably, the **Conference Board Consumer Confidence Index** jolted markets, dropping sharply by 7.0 points in February from 105.3 to 98.3 (1985=100). Although labelled as consumer confidence, the index incorporates assessments of business conditions, labour market conditions, and income. Not only did the current conditions index fall by 3.4 points to 136.5, but expectations also declined significantly, dropping by 9.3 points to 72.9. A reading below 80 is often considered a warning sign of an impending recession. Worryingly, 12-month ahead inflation expectations also rose, increasing from 5.2% to 6%.

Across the Atlantic, the results of the **IFO Business Climate Index for Germany** were released this week. Sentiment remains subdued, holding steady at 85.2 points in February. The index has fluctuated between 85 and 90 since mid-2023. Companies were dissatisfied with prevailing conditions (declining by one point to 85), though expectations improved marginally to 85.4, up from 84.3 in January. The economy appears to be in 'wait and see' mode. While the manufacturing and trade sectors showed some improvement, with less pessimistic outlooks and better assessments of economic conditions, the service sector weakened, particularly in transport and logistics. The construction sector also saw an improvement due to less sceptical expectations, though the current business situation worsened due to a lack of orders. While interest rates have been declining, uncertainty has been rising following the commencement of Trump's presidency and the upcoming (at the time) German election.

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