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Don’t let every headline rewrite SA's growth outlook

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Headlines matter but a forecaster's task is to separate signal from noise, temporary disruption from a lasting shift in direction, and resilience from acceleration.

Every quarter, we at the Bureau for Economic Research (BER) rebuild the South African economy. Not literally, of course, but in our forecasts.

In July, in crafting our third-quarter forecast, we found that almost every major assumption had changed. Oil prices were higher, inflation had accelerated, interest rates had risen, business confidence had weakened and the global outlook had become considerably more uncertain.

We went back to the drawing board, reconsidered the assumptions and ran the numbers again. After all that, the BER’s forecast for real GDP growth in 2026 landed at 1.3%, exactly where it had been in April.

An unchanged forecast does not mean nothing changed. Sometimes it means that several large changes offset one another.

The International Monetary Fund’s (IMF) evolving global forecasts illustrate this well.

In January, before the outbreak of war in the Middle East, the IMF expected global growth of 3.3% in 2026 and 3.2% in 2027. It was already remarking on the world economy’s resilience, with investment in technology, supportive financial conditions and the adaptability of businesses offsetting trade-policy headwinds. Global inflation was expected to ease to 3.8% this year.

By April, the picture had changed sharply. The IMF cut its 2026 growth forecast to 3.1% and raised its inflation forecast to 4.4%. Without the war, stronger incoming data would actually have justified lifting the growth forecast to 3.4%. The conflict had clearly weakened the outlook, even if stronger incoming data partly offset the resulting downgrade.

In July, the IMF marginally lowered this year’s growth forecast again to 3% but raised the 2027 forecast to 3.4%. It now expects a more pronounced slowdown this year, followed by a stronger rebound as energy disruptions begin to ease. Meanwhile, the global technology investment boom has continued to offset some of the damage from the war. Overall, its growth outlook was therefore broadly unchanged from April.

The April warning of slower growth and higher prices was not wrong. Relative to January, global growth *is* weaker and inflation considerably higher but, importantly, there has not been a relentless deterioration in the growth outlook with every new week of conflict.

This is mainly because the world economy has absorbed the energy shock better than initially feared. Production outside the Gulf increased, consumers and businesses adjusted their energy demand, and large oil inventories were drawn down, including substantial commercial stocks in China. China's weak domestic demand also reduced pressure on the global market at a critical point. A growing renewable-energy share and lower energy intensity provided additional buffers. Meanwhile, the technology boom continued to support economies linked to that value chain.

"Resilience" has become the new buzz word. But resilience should not be mistaken for invulnerability. Some of the buffers protecting the global economy are temporary, while the impact is highly uneven across countries. Energy importers and economies with limited policy space are under far greater pressure than the global headline suggests. South Africa, of course, ticks both boxes.

Yet South Africa has its own resilience puzzle.

At the start of the year, the BER forecast growth of 1.8% in 2026. Following the energy shock, we cut the growth forecast to 1.3% in April and raised inflation from 3% to 4%. Our latest forecast keeps growth at 1.3%, while lifting inflation again to 4.2%.

The BER's growth forecast has held up partly because the economy entered the shock from a better starting point than anticipated. First-quarter GDP expanded by 0.5% quarter on quarter, exceeding our forecast. That matters for the full-year calculation, even though we expect considerably weaker growth during the remainder of the year.

The consumer has also continued to hold on. Household consumption accounts for the bulk of economic activity, and its resilience repeatedly surprises us. Consumer spending has slowed, and higher fuel bills are undoubtedly hurting. But consumers have not capitulated; South Africans are still buying cars.

National Treasury's temporary fuel levy relief did not eliminate the shock, but spread part of the adjustment over time, supported household purchasing power and reduced the risk that the first-round fuel increase would trigger a more forceful monetary-policy response.

Fixed investment is a very different story. In April, we still expected total fixed investment to grow by 3.4% this year and private investment by 4.1%. We now expect barely positive growth in total investment, with private sector fixed investment contracting by 1.5%. The reversal reflects the weak starting point after investment contracted again in the first quarter, with private residential investment being particularly disappointing. It seems firms are still not committing to new projects despite an improvement in the country's macroeconomic fundamentals.

Consumption can keep the near-term growth forecast from falling. Investment is what would allow us to lift the medium-term one.

Without stronger investment, the economy will fail to add sufficient productive capacity, infrastructure or jobs to sustain growth beyond about 1.5%. Fixed investment is one area where I would be delighted if it turns out the BER is being too pessimistic. An upside surprise would not merely improve one year's GDP number; it could begin to change the country's longer-term growth story.

A good forecast should leave room for such upside outcomes. The central case should be equally likely to prove too optimistic as too pessimistic.

Oil is a good example of where things could go either way. Renewed escalation, damage to more energy infrastructure or wider disruption to shipping could push prices materially higher again. Equally, June showed that an off-ramp from the conflict can cause prices to retreat quickly.

At its July meeting, the SA Reserve Bank considered an adverse scenario in which Brent crude averages $100 a barrel this year, requiring another interest rate hike and a longer period of restrictive policy. It also considered a favourable case in which oil averages $78 before falling further, allowing inflation to return to target sooner and rates to begin declining earlier.

Oil spiking close to $100 does not mean it will stay there but neither does oil falling nearer $85 mean that the danger has passed. A forecast must assess the likely path, not simply extrapolate from the latest price.

Monetary policymakers face a particularly difficult version of this problem. There are two broad mistakes a central bank can make when confronting a supply shock.

The first is to assume that higher inflation will be temporary, only to discover that it has spread into inflation expectations, wages and broader prices. The second is to respond too forcefully to the initial price spike, only for the shock to fade while higher interest rates continue to suppress demand.

The SARB's May rate hike helped manage the first risk. Inflation had risen, expectations were deteriorating and the possibility of second-round effects could not be ignored. By acting early, the Bank bought itself some time.

That does not mean the July decision to hold the policy rate at 7% was obvious. June inflation reached 5%, core inflation also surprised on the upside and Brent crude was flirting with $100 around the time of the meeting. The argument for another hike was credible (though we did not join the chorus in predicting one).

But monetary policy affects inflation with long and uncertain lags. Having tightened in May, the Bank could afford to wait for more evidence rather than allow the oil price prevailing on one particular day to rewrite the policy outlook.

Further action may yet be necessary. The conflict could intensify, inflation expectations could deteriorate again, or a more hawkish US Federal Reserve could weaken the rand.

But easing geopolitical tensions, falling fuel prices and continued rand resilience could also bring inflation down faster than expected.

Forecasts must respond to new information. But there is an important difference between updating an outlook and allowing it to twitch with every oil price move, political statement or alarming headline. The task is to separate signal from noise, temporary disruption from a lasting change in direction, and resilience from genuine acceleration.

The headlines matter. The challenge is knowing when they have changed the story, and when they are merely the latest chapter.

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