

WEEKLY REVIEW | NUMBER 46 | 13 DECEMBER 2024

Good news for SA inflation expectations in a busy data week

THE WEEK IN PERSPECTIVE

Lisette IJssel de Schepper

It was a busy week on the **domestic data** front. We saw good news on inflation (both actual and expectations), solid retail sales data and mixed manufacturing and mining prints. The Q3 Quarterly Employment Statistics (QES) showed a 130 000 q-o-q drop in formal non-agricultural employment, but if you strip out the impact of the temporary election jobs created in Q2 that fell out in Q3, the decline was 'just' about 37 000. Still disappointing, of course. The rand had a good week, especially given global geopolitical developments, and the CDS spread (a measure of default risk) dipped quite nicely. It was, in all, a decent week to essentially cap off the year for SA. Globally, the European Central Bank (ECB) delivered on its 25bps rate cut and expressed concern about the economy losing momentum. The biggest (unexpected) development took place in Syria. The more than 50-year rule of Syria by the Assad family came to an end, with Bashar al-Assad fleeing to Russia. Syria remains fragile, and the future of the country remains uncertain.

Taking it back to local data, both the consumer and producer price **inflation** prints for November came in lower than expected. Meanwhile, the Q4 **BER inflation expectations survey** shows that, on average, analysts, business people and trade union officials (i.e. price setters in the economy) foresee consumer inflation stabilising around the 4.5%-target midpoint from 2024 to 2026. This means that further interest rate cuts remain on the cards for SA for now – although the SA Reserve Bank (SARB) is unlikely to cut by more than 25bps at a time. In financial markets, forward-rate agreements point to a total of 75bps cuts over the next 12 months. This is in line with our **forecast**. However, should the SARB divert, a total of just 50bps seems more likely than 100bps, despite the positive data.

In addition to the **ECB** there were several other monetary policy decisions this week. The Swiss National Bank (SNB) cut by a hefty 50bps to bring the policy rate to 0.75% and commented that it would be prepared to intervene in currency markets if needed. The SNB wants a weaker currency. The Bank of Canada (BoC) also cut by 50bps (to 3.25% - a level they believe is no longer restrictive to growth), but signalled that a more gradual approach to policy could be expected going forward. The BoC has reduced its benchmark interest rate by 175bp over the last six months. This is the steepest easing of all advanced economies (the Fed's expected 25bps cut next week will take it to 100bps). In the emerging market space, Brazil lifted its policy rate by 100bps and promised two more increases of a similar magnitude. This was a surprise to the markets. Consumer inflation in Brazil remains above the bank's preferred rate (closer to 3.25%) at 4.9%.

SA financial market assets benefitted from **Chinese** authorities announcing that they would step up stimulus. The Politburo, representing the country's top politicians, said it would implement a "more proactive" fiscal policy instead of just "proactive," while monetary policy would become "moderately loose." This term was last used during the 2008/09 global financial crisis, switching to "prudent" in late 2010. On the fiscal front, it signalled its budget deficit ratio would be increased to allow for further stimulus.

China's announcement of more support - among other things - boosted the **oil price** a bit, as it could translate into higher oil demand in coming years. However, the uptick in oil prices this past week notwithstanding, it is clear that demand remains under pressure. This is underscored by a further

downward revision to OPEC's global oil demand outlook for 2024. To be sure, OPEC+ estimates further demand growth, just less pronounced than before. This was the fifth monthly reduction in its demand projection. In terms of global supply, Europe and the US are expected to impose further sanctions on Russia, while President-elect Donald Trump may impose more sanctions on Venezuela and Iran. With positive and negative developments on the demand and supply side largely cancelling each other out, the Brent crude oil price has been hovering around \$73/bbl since early November.

The **rand** exchange rate strengthened against a generally stronger dollar and closed back below R18/\$ for the first time in just under a month. While Chinese stocks rose on the stimulus announcements, most global bourses ended Thursday largely flat w-o-w – the local JSE ALSI was no exception.

Weekly Key Indicators		
	Close	w-o-w
R/\$	R17.78	-1.4%
R/€	R18.63	-2.3%
R/£	R22.57	-1.9%
\$/€	\$1.05	-0.9%
Brent	\$73.09	1.2%
Gold	\$2 682	1.6%
Platinum	\$935	-0.7%
JSE ALSI	86 965	0.1%
10y gov. bond	8.87	-8bps
FRA (1x4)*	7.72	-2bps

*Forward rate agreement

This is the last Weekly Review for 2024. On behalf of the entire Weekly Team, I would like to wish our readers a good festive period. We will be back on 10 January 2025. If you have comments or suggestions for the Weekly in 2025, please feel free to reach out to me directly (lissette@sun.ac.za).

WEEK AHEAD: FED EXPECTED TO CUT BY ANOTHER 25BPS

While there are no major domestic data releases scheduled for next week, the global calendar is fairly full. The week kicks off with a slew of monthly data from **China** and the usual batch of flash **PMI** figures from across the globe. The IFO Business Climate and ZEW Economic Sentiment Indices (both for December) will provide further colour on the struggling German economy. On Tuesday US **retail sales** for November will give insight into the strength of the consumer, with the Fed's preferred measure of inflation closing the week on Friday.

The most important event will be the interest rate decision by the **US Fed** on Wednesday. The Fed is widely expected to cut its policy rate by another 25bps but is likely to pause in January next year to see how inflation develops in the coming months. The Fed meeting will be accompanied by an update to the Summary of Economic Projections (SEP). This is the first update after Donald Trump won the election, and with the risk that his policies will potentially be inflationary and actual inflation remaining relatively sticky, the SEP is likely to show a higher terminal interest rate than before (i.e. Fed members are likely to signal that they will stop cutting interest rates at a higher level than before). The first Fed announcement for 2025 is scheduled for 29 January (with the SA Reserve Bank meeting on the 30th).

The Bank of England (**BoE**) will also decide on its policy interest rate next week, but it is expected to keep it on hold. With inflation above 2% (next week's November print is expected to come in at an unchanged 2.3%) and upside risks, the BoE will take it slow. The Bank of Japan (**BoJ**) is also expected to keep its rate unchanged next week, for a fourth consecutive meeting.

Date	Event	Latest
Monday (16 Dec)	CN: Industrial production, retail sales, fixed investment (Nov)	5.3% y-o-y; 4.8% y-o-y; 3.4% YTD
Monday (16 Dec)	EZ, UK, US: Flash composite PMI (Dec)	48.3; 50.5; 54.9
Tuesday (17 Dec)	SA: Leading business cycle indicator (Oct)	0.9% m-o-m
Tuesday (17 Dec)	DE: Ifo Business Climate; ZEW Economic Sentiment (Dec)	85.7; 7.4
Tuesday (17 Dec)	US: Retail sales (Nov)	0.4% m-o-m
Wednesday (18 Dec)	UK: Consumer inflation rate (Nov)	2.3% y-o-y
Wednesday (18 Dec)	US: Fed interest rate decision & SEP	4.75%
Thursday (19 Dec)	JP: BoJ interest rate decision	0.25%
Thursday (19 Dec)	UK: BoE interest rate decision	4.75%
Friday (20 Dec)	US: Core PCE price index (Nov)	0.3% m-o-m

DOMESTIC SECTION

Nomvelo Moima

MIXED NEWS FOR MONTHLY MINING AND MANUFACTURING OUTPUT AT THE START OF Q3

Annual **mining production** grew by 1.4% y-o-y in October, following an upwardly revised 4.9% y-o-y rise in September. PGMs were the largest positive contributor for a second consecutive month (+3.3% y-o-y, adding 1% pt), while the biggest drag came from iron ore (-6.4%; -0.8% pts). Compared to a strong September (+4.5% m-o-m), seasonally adjusted (sa) mining output shrank by 3% m-o-m in October.

Like mining, **manufacturing activity** also fared well in October on an annual basis. According to Stats SA, production rose by an above-consensus 0.8% y-o-y, from a downwardly revised 1.4% decline in the prior month. The main drivers of the annual headline reading were petroleum, chemical and plastic products (+4.5% y-o-y; +0.9% pts), followed by food and beverages (+2.9%; +0.7% pts). Although seven of the 10 subsectors reported an expansion, overall production growth was muted due to a significant contraction in vehicle parts and accessories (-16.6%; -1.7% pts), weighing on annual output. On a monthly basis (sa), production ticked up by 0.4% after a 0.2% m-o-m decline in September.

STRONG SALES DATA ACROSS DOMESTIC TRADE SECTORS

Internal trade data from Stats SA indicated that real **retail trade sales** increased by a solid 6.3% y-o-y in October, outpacing market expectations for annual growth of 2%. This expansion was led by a double-digit rise in general dealers' retail sales (+11.5% y-o-y; +4.9% pts). Moreover, apart from hardware retailers (-3.7%; -0.3% pts), the other six subsectors all reported growth. On a monthly basis, sales rebounded by 1.6% following a 0.6% decline in September.

More positive news was that real **wholesale trade sales** expanded by 3.4% y-o-y, from a downwardly revised 7.3% decline in the previous month. This marks the first annual expansion in wholesale trade sales in almost 14 months. Further encouraging news for quarterly GDP dynamics was a 2.1% m-o-m uptick, following an increase of a similar magnitude in September. Similarly, breaking a six-month streak of declines, real **motor trade sales** rose by 2.3% y-o-y in October, on the back of a 2.9% m-o-m rise (sa). The majority of the gains came from robust used vehicle sales (+21.1% y-o-y; +3.9% pts), while new vehicle sales continued to contract, albeit at a softer pace – see the chart of the week below.

CONSUMER INFLATION ACCELERATED SLIGHTLY IN NOVEMBER; INFLATION EXPECTATIONS MOVE DOWN

Annual **headline consumer inflation (CPI)** registered a more modest than expected acceleration in November, rising to 2.9% y-o-y, from a four-year low of 2.8% y-o-y in the prior month. The uptick was driven by a slower rate of decline in transport inflation amid softer fuel price decreases (-13.6% y-o-y compared to -19.1% in October). Meanwhile, price growth in other key subcomponents was benign; notably, food and non-alcoholic beverages continued to ease (up 2.5% y-o-y vs 3.6% y-o-y). Core inflation, which excludes food and energy costs, moved lower for a second consecutive month to 3.7% y-o-y, down from 3.9% in the previous month.

Staying on inflation, **producer price inflation (PPI)** for final manufactured goods slowed to a below-consensus -0.1% y-o-y in November from -0.7% in the prior month. Lower fuel prices were once again the main contributor to the downward pressure on producer prices.

Average expectations for headline CPI inflation slowed to the SARB's 4.5% inflation target, for the first time since mid-2021. Aided by a significantly lower CPI inflation relative to the Q3 survey period, average inflation expectations for 2024 decreased to 4.6% in 2024Q4, from 5.1% in 2024Q3. This downward adjustment of expectations for inflation is also reflected in 2025 and 2026, mainly driven by business people and trade union officials who revised their expectations lower across all three years. To read the full report, [click here](#).

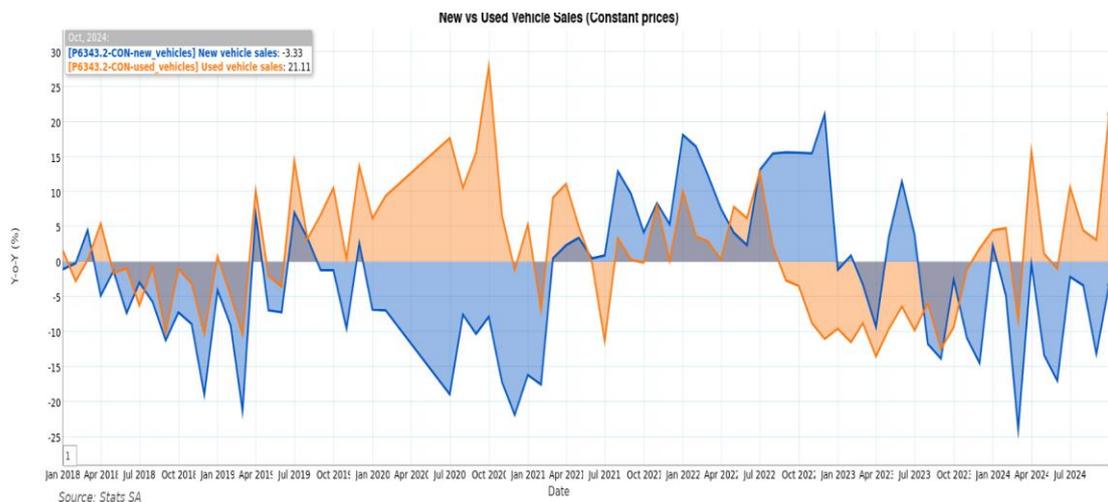
SA FORMAL SECTOR SHEDS JOBS IN Q3

Moving on to the latest jobs data, Stats SA's **Quarterly Employment Statistics (QES)** showed a 1.2% q-o-q decline in formal non-agriculture employment in 2024Q3. This follows a 0.4% q-o-q increase in 2024Q2. The sectors where the highest job losses occurred were community services (-131 000 – which were mostly temporary jobs created to run the election), followed by business services (-15 000). In contrast, trade (+19 000) and construction (+4 000) reported job growth. Disappointingly, compared to a year ago, total formal employment fell by 2.7% y-o-y in Q3 (-294 000).

CHART OF THE WEEK

Hanjo Odendaal

Earlier in 2024, we launched the beta version of the **BER Data Playground**. To showcase the data freely available on the Playground, we will regularly publish a chart in the Weekly. Vehicle sales are a reliable indicator of the health of the consumer, reflecting shifts in disposable income, financing conditions, and consumer sentiment. While new vehicle sales have experienced declines in recent months, used vehicle sales achieved their fourth consecutive month of annual growth in October 2024. The notable 21.11% increase represents the largest rise since October 2020, underscoring robust demand and potentially strong retail activity in secondary markets as consumers gravitate toward more cost-effective options. [Note: The growth for the COVID period has been removed so as not to distort the picture].



INTERNATIONAL SECTION

Tshidiso Mofokeng

ECB LOWERS POLICY RATE

The ECB decided to reduce its key **policy rate** by 25bps to 3%, in line with consensus. Notably, the central bank has mentioned that their policy stance will remain 'sufficiently restrictive'. In terms of the updates to their projections, the ECB has downwardly revised economic growth throughout the forecast horizon by a fraction, while they note consumer inflation being a touch lower in 2024 and 2025. Despite economic growth momentum weakening and global trade frictions likely to weigh on total output, they are not pre-committing to any particular rate path and remain data-dependent, in line with their mandate of price stability.

US CONSUMER INFLATION INCHES HIGHER

Annual **consumer inflation** rose marginally to 2.7% in November from 2.6% in October, as expected. On a monthly basis, consumer inflation ticked up to 0.3% in November from 0.2% previously. Core inflation remained unchanged at 3.3% in November. This was primarily driven by softer price pressures from shelter costs and transport services. The latest inflation figures keep a 25bps cut in the policy rate on the table for next week's Fed meeting but were not strong or slow enough to give further indications on 2025.

CHINESE EXPORT GROWTH MODERATES WHILE IMPORTS EXTEND DECLINE

China's **trade surplus** widened from \$95bn in October to a firm \$97bn in November. Moreover, annual exports grew 6.7% in November, following a solid 12.7% gain in the prior month. Exports are likely to stay buoyant in the coming months on expectations of tariff hikes. Meanwhile, imports fell by 3.9% in November, which is steeper than the 2.3% decline in the previous month.

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