

COMMENT | 13 MARCH 2025

A brief from the chief

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“Must be an interesting time to be an economist, hey?” I can’t recall how often someone has said that to me since the middle of last year, and particularly since the beginning of this one. And they are not wrong – but it is a real challenge to distinguish legitimate signals from noise during these ‘interesting times’.

There is pressure to change forecasts quickly to reflect new circumstances, but this is neither feasible nor desirable. We need to cut through the inevitable volatility and consider the fundamentals - except that the fundamentals are shifting too.

The US risks dividing the global economy into a protectionist jigsaw puzzle, with stock markets reflecting the real nervousness of what this may mean for the US economy. I joked in an internal meeting that US President Donald Trump is behaving like a toddler. I don’t really want to compare the ‘leader of the free world’ to a three-year-old, but the sad reality is that they do have many things in common. Trump’s habit of erratically using tariffs and threats as a negotiating tool not only directly impacts investment and trade decisions but also adds to uncertainty. Frustratingly, like a toddler, he seems to be distracted quickly. Trump’s current focus on all the ‘bad things’ in South Africa has already inflicted damage despite the possibility that he might lose interest soon. The souring of relations between South Africa and the US is concerning, especially as we need to hand the G20 baton to the US by the end of the year. My toddlers are obsessed with “why?” – Trump, unfortunately, seems less worried about the why and how, and just does. Of course, toddlers grow up (and too quickly, or so I’m told) – but I’m not sure if we will see much maturing of Trump during his presidency, although he will likely, at some point, run out of steam, and the chaos should become slightly less chaotic.

Beyond the stock market slump, the US dollar has weakened. Financial markets have started to reprice in US Federal Reserve (Fed) rate cuts, with May now essentially being a coinflip for a cut or the rate being left unchanged. This on its own would be positive for South Africa and potentially our monetary policy trajectory, but the risk of a possible US recession, which is why markets are repricing in rate cuts, of course, would not.

Coming back to the toddler comparison, this does not mean that Trump cannot get anything 'right', just that the process will be very messy. While the way the US is approaching the Russia-Ukraine war is somewhat confounding, an involved and pushy US is the only way a lasting ceasefire is likely to be reached. A ceasefire, and potentially some form of lasting 'peace' down the line, would present a significant upside risk to Europe. Indeed, Europe seems to be waking up slowly from a rut. A turnaround in the German economy would be a game-changer for the region.

Currently, our high-road scenario (premised on a better Europe) and low-road scenario (a struggling US) are playing out simultaneously. The question is whether they will offset each other and bring us back to our baseline.

Our baseline forecast at the beginning of the year was for South Africa to achieve about 2% real GDP growth in 2025. This has been our story for a while: base effects, small but simultaneous windfalls for the consumer, and some progress on the structural reform front, which should help with a pick-up in private investment and exports. It was encouraging to see the initial signs that this could indeed play out. Business confidence improved through the second half of 2024, the consumer did well, and there was plenty of positive news on the reform front.

But for now, 2% no longer seems feasible, and while our next formal forecast update is scheduled for April, it seems that we will be adjusting our baseline forecast downwards to around 1.5%. A few reasons below:

- The disappointing **2024 GDP** print does not set us up well for 2025. The fact that growth slowed from 2023 to 2024 reflects a deep weakness in the South African economy that cannot be fixed by merely keeping the lights on (which we also seem to struggle with of late). But, we need to see a significant acceleration in quarterly growth momentum to get to 2% in 2025. Unfortunately, the early signs are that we will not achieve this in Q1 – and arithmetically, a strong Q1 would be important to get to fast full-year growth. The Absa PMI stayed stubbornly below the neutral 50-point mark in January and February, while the S&P Global PMI was also stuck in negative terrain. Electricity and manufacturing production edged up slightly on a monthly basis in January, but mining output declined. It also remains to be seen how the closure of ArcelorMittal's longs business will work through the industrial side of the economy and what the (negative) knock-on thereof will be.
- There is a creeping sense of disappointment setting in among our business survey respondents. The RMB/BER Business Confidence Index (BCI) remained unchanged at 45 index points in the first quarter of 2025. Respondents are still relatively upbeat about expected business conditions, but they have yet to see them actually improve. For confidence to improve further, actual conditions need to improve, and if they do not, disappointment may set in. The stagnant first-quarter business confidence reading was not surprising. Be it global geopolitics or local worries about the government of national unity (GNU), the budget postponement, water issues, or the return of load-shedding, the environment is more uncertain - and that breeds hesitancy and pessimism. This, unfortunately, does not bode well for private sector fixed investment and employment growth (although we are still much better off than we were this time last year).

- The consumer experienced a strong ending to 2024, and the expectation was that some of that momentum would carry through to 2025. However, renewed headwinds are gathering. The Budget 2025 is tough on the consumer – **please find our detailed comment on the Budget here**. The consumer confidence recovery already stalled a bit towards the end of last year, and one wonders how recent events will impact it going forward.
- The South African Reserve Bank’s (SARB) cutting cycle was always going to be shallow, but we may have seen the end of rate cuts for a while. The SARB is highly concerned about the potential upside risks to inflation, and it’s difficult to argue the global environment has calmed enough to take away some of the potential risks. Indeed, only time will tell by how much, but the VAT hike(s) will be inflationary. In January 2025, two of the six members opted for the repo rate to remain unchanged, we think that next week, more than two will argue for no change, for now. The “for now” part is important though. Should actual inflation continue to undershoot (as it did through the second half of 2024), inflation expectations remain well behaved as inflation picks up in coming months (which is always the tricky part), we get some windfalls through, for example, lower fuel prices (amid all the global drama, the oil price has come down nicely) and the Fed resumes its cutting cycle, the SARB may be tempted to cut again later this year.

So, what about the what-ifs? We often explain our high-road scenario as an alternative to the baseline in which all the puzzle pieces fall into place. Some pieces we have control over (structural reform policies are like the corner pieces), while some pieces we don’t (think of toddler Trump, but also the weather impacting agriculture crops). Some puzzle pieces were falling into place quite nicely late last year, but we now risk squandering that positive momentum.

In the middle of last year, we said that the South African economy does not need fairy tales or miracles to achieve faster economic growth — something the president even repeated in his weekly newsletter. But perhaps the message got lost that we would not get to 2% without greater effort; without the sustained implementation of existing structural reform plans. There has not been enough. Unfortunately, the 2025 Budget was another missed opportunity to accelerate the implementation of structural reform.

That said, I can’t be a real economist without coming with a “but on the other hand” in a closing comment. We need to acknowledge that 1.5% growth still is a significant acceleration from 0.6% last year. It still means a better economy. The Budget is not good for most individual consumers, but the Treasury itself thinks the additional spending on frontline workers (employment) and some other spending categories will lift consumer spending as a whole. There was a glimmer of hope in private sector investment, which finally ticked up in 2024Q4. If that gets sustained, a little goes a long way, as it comes from a low base. A little improvement on the export front should also be beneficial.

We would gladly put country before accuracy and hope that our downward revision to 1.5% proves to be overly pessimistic, but the way things are going right now, holding on to 2% for 2025 would, for now, be a fairy tale.

A shortened version of this note will appear in the Business Day of 14 March 2025.

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