

WEEKLY REVIEW | NUMBER 25

10 July 2026

This report summarises the key domestic and international data releases over the past week, including South Africa's latest inflation expectations survey, weaker manufacturing activity and production, and continued resilience in new vehicle sales. Internationally, we cover softer-than-expected US labour market data, resilient manufacturing activity in the US and China, and easing eurozone inflation as lower oil prices begin to filter through.

The full BER Weekly Review examines why markets are increasingly looking through renewed geopolitical tensions in the Middle East, what faster normalisation in oil markets means for South Africa's inflation and interest rate outlook, and Natasha Marrian's analysis of the anti-immigration protests and shifting political dynamics within the DA ahead of the November local government elections. The full Weekly is available to BER Essential Insights subscribers ([sign up here](#) for only R210/month) and Premium Insights clients.

DOMESTIC DATA

Lisette IJssel de Schepper

MANUFACTURING REMAINS A DRAG ON GROWTH

Manufacturing production remained under pressure in May, declining by 4.3% y-o-y. While output rose by 1.1% m-o-m on a seasonally adjusted basis, the broader trend remained weak. Unless production records an unusually strong rebound in June, the sector appears set for a second consecutive quarterly contraction, which will drag on Q2 GDP growth. The data reinforce the signal from the June Absa PMI, in which the average business activity index for Q2 remained below 50 and was broadly unchanged from Q1. Respondents continued to cite weak demand, with the unwinding of earlier front-loaded orders weighing on activity.

Worryingly, nominal sales also declined, suggesting manufacturers continue to face a difficult operating environment. Together with higher input costs during the Middle East conflict, this is likely to have placed further pressure on profitability

INTERNATIONAL DATA

Paul Gluckman

EUROZONE CONSUMER SPENDING PICKS UP AS PRODUCER PRICE PRESSURES PERSIST

Monthly retail sales ticked up by 0.2% in May, recovering from April's 0.3% decline. The modest rise was driven by higher food, drink and tobacco sales volumes (0.6%), which outweighed lower automotive fuel sales in specialised stores (-0.5%). Annual retail sales growth also accelerated to 1.6% in May, suggesting consumer spending remained resilient despite elevated energy costs. Stronger food, drink and tobacco sales offset weaker automotive fuel sales.

Meanwhile, producer price inflation accelerated to 5.9% y-o-y in May (from 5% in April), reflecting the earlier surge in energy prices. However, the monthly increase slowed sharply to 0.2%, suggesting that producer price pressures may already be easing following the recent decline in oil prices.

STRONG GROWTH CONTINUES IN THE US SERVICE SECTOR

The ISM services PMI logged its 24th consecutive expansion, registering 54 in June, 0.5% pts below May's print. Despite slower growth in business activity, new orders and supply deliveries, all four subindexes are expansionary and above their 12-month moving average. Notably, the employment index entered expansionary territory for the first time since February, increasing by 3.3% pts to 51.7 and offsetting the decline in the other indices. Respondents suggest the World Cup contributed to an improved job market. However, June's weaker-than-expected non-farm payroll report painted a somewhat softer picture of labour market conditions, suggesting employment momentum may be moderating.

The price index declined to 67.7, its first time below 70 since February. Inventory accumulation also slowed sharply as businesses began unwinding earlier order front-loading. Nevertheless, expansion in 14 of 18 service industries was robust in June.

CHINESE CONSUMER PRICES STAGNATE YET AGAIN WHILE PPI SPIKES TO 4-YEAR HIGH

Annual consumer inflation eased from 1.2% to 1% in June, underscoring the continued weakness in domestic demand. Food prices fell 1.6% y-o-y, largely dragged by a continued decline in pork prices (15.9% y-o-y). Transport costs also moderated (4.1% y-o-y in June from 5.4% in May), as easing war tensions allowed the government to lower fuel prices. The further cut in fuel costs allowed monthly consumer prices to fall by even more in June than in May (-0.3% vs -0.1%). Core inflation also remained subdued at 1%, suggesting price weakness extends beyond volatile food and energy components.

In contrast, producer prices climbed 4.1% y-o-y for June, the highest rate since mid-2022, reflecting higher input costs associated with the recent Middle East conflict. The widening gap between producer and consumer inflation suggests firms may find it increasingly difficult to pass higher costs on to consumers, potentially squeezing profit margins. However, the monthly data were more encouraging. Producer prices declined by 0.3% m-o-m in June, mirroring the recent reversal in global oil prices and suggesting the worst of the cost shock may already be passing.

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