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South Africa's business cycle clock wavers

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We don't disagree, 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. Across the Atlantic, Europe seems to be waking up, with talk about a potential ceasefire deal for Ukraine posing a key upside risk for the region. Currently, our high-road scenario (premised on a better Europe) and low-road scenario (a struggling US) are playing out at the same time. 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, and 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 we are adjusting our baseline forecast downwards to around 1.5%. For starters, the disappointing 2024 GDP print of 0.6% does not set us up well for 2025. Another reason is the creeping sense of disappointment that is setting in among our business survey respondents.

The BER has been doing business surveys for more than 70 years and it helps us understand the mood of SA Inc. The RMB/BER Business Confidence Index (BCI) is one

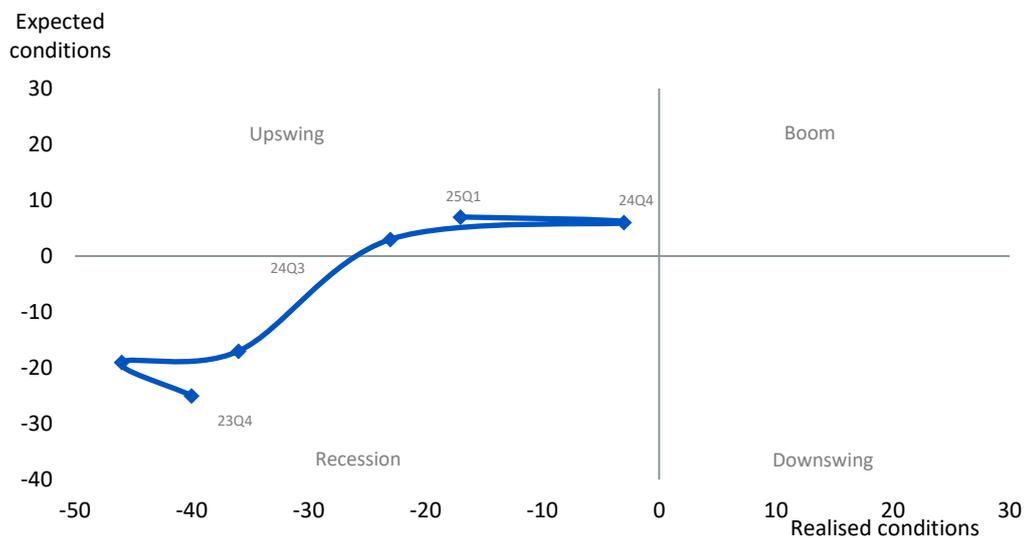
outcome of the surveys. It tracks the mood of South African businesspeople and serves as a leading indicator of the business cycle. When sentiment is positive it means more investment and employment; negative sentiment means the opposite. Over time, the BCI has had a close relationship with economic activity, but it is important to note that we need to see improved sentiment before we see improved activity. And it takes sustained activity growth to then reinforce improving sentiment.

The 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 crux is that both would reinforce each other – an improvement in conditions would in itself be positive for growth, with the resultant improvement in confidence providing a further boost. However, while the business cycle clock is still pointing to an upswing phase, South Africa has started moving in the wrong direction (see graph).

The graph shows that through 2023 and the first half of 2024, survey respondents saw both current and expected business conditions worsen. But prospects brightened in the third quarter of last year, causing the line to move into the top left quadrant indicating expectations of a business upswing. While respondents still rated business conditions worse than a year previously, they were optimistic about future conditions. In the fourth quarter of 2024, SA Inc was turning even more upbeat about the future, with the graph tracking towards expectations of an economic boom. Unfortunately, at the start of 2025, this optimism had still not translated into better actual conditions, causing the graph to start backtracking away from expectations of a boom.

Heading in the wrong direction



Source: BER

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. Just look at how the South African

Reserve Bank has become notably more hawkish on the risks to the inflation outlook 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 (such as US President Trump). Some puzzle pieces were falling into place quite nicely late last year, but we now risk squandering that positive momentum. Then we would be back to muddling through.

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.

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% really would be a fairy tale.

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