

LATEST FORECASTS | SECOND QUARTER 2024

# Economic Prospects

Executive summary

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# Forecast in a nutshell

Real annual % change*	2024	2025	2026
<b>Final household consumption expenditure</b>	<b>1.0</b>	<b>2.1</b>	<b>2.0</b>
Durable goods	1.3	3.2	3.0
Semi-durable goods	1.3	2.5	2.7
Non-durable goods	0.5	1.9	1.6
Services	1.2	1.9	1.9
<b>Gross fixed capital formation</b>	<b>2.1</b>	<b>4.2</b>	<b>4.2</b>
Private	3.3	5.4	5.0
Government	-2.5	-1.0	0.7
Public Corporations	1.5	4.2	3.4
<b>Gross domestic expenditure</b>	<b>1.1</b>	<b>2.1</b>	<b>2.0</b>
Exports of goods and services	2.6	2.1	3.2
Imports of goods and services	1.9	3.8	3.6
<b>Gross domestic product</b>	<b>1.3</b>	<b>1.6</b>	<b>1.9</b>
<b>Current account as % of GDP</b>	<b>-2.6</b>	<b>-3.2</b>	<b>-3.7</b>
<b>Interest rates (% , last quarter average)</b>			
3-month NCD rate	8.19	7.62	7.58
10-year government bond yield	9.90	9.85	9.88
Prime overdraft rate	11.29	10.75	10.65
<b>Inflation rates (%)</b>			
Producer prices	4.8	4.7	5.0
Consumer prices	5.2	4.6	4.5
<b>Labour and employment (private and public)</b>			
Nominal wage rate	4.7	5.5	5.3
Employment growth	1.9	1.7	1.6
<b>Exchange rates (Q4 average)</b>			
R/US dollar	18.62	17.79	18.21
R/Euro	20.67	20.63	21.49
R/Pound sterling	23.64	22.94	23.86
R/100 Japanese Yen	13.11	14.01	14.57
<b>Fiscal indicators as % of GDP</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>
Main budget balance	-5.2	-4.8	-4.2
Gross government debt	76.9	79.4	80.1

\* unless specified otherwise

# Executive summary

The SA economy managed to avoid a technical recession and registered a slight quarterly expansion in 2023Q4<sup>1</sup>. For the full year, real gross domestic product (GDP) increased by 0.6% from 2022. This was in line with our expectations and a marked slowdown from the 1.9% recorded in 2022. In 2023Q4, the economy was barely 1% bigger than it was pre-COVID. We expect growth to reaccelerate, to an average of 1.3% in 2024 and 1.6% in 2025. While better than 2023, this is a downward revision from our earlier forecast for 1.5% (2024) and 2.2% (2025).

The lower real GDP outcome for both 2024 and 2025 is largely a function of a more downbeat expectation for domestic demand. In 2024, growth in gross domestic expenditure (or GDE) has been downwardly revised to 1.1% from 1.8% before. While we expect lower imports (a function of lower demand), we still expect net trade to weigh on GDP. Importantly, we are less optimistic about **gross fixed capital formation**, with a slowdown from 4.2% in 2023 to 2.1% in 2024 pencilled in. This is largely due to lower private sector investment, as the green energy drive — while still the main driver of investment — is losing some steam, and non-energy investment remains lacklustre. Despite more of a slowdown in the annual figure than we expected before, the quarterly growth in investment remains relatively strong relative to the 2011-2019 period. With the electricity and logistics constraints expected to be less onerous next year, investment should pick up, although by less than before (4.2% in 2025 vs 6.2% before).

Our forecast for **consumption expenditure** in 2024 was lowered slightly, from 1.2% before to 1% in April. To some extent, this is due to **inflation** coming in a smidge higher than initially expected (5.2% for 2024 vs 5% before) and the **South African Reserve Bank (SARB)** now expected to commence on a shallow rate-cutting cycle in September only (from July previously). We see an extended pause once the repo rate reaches 7.25% - implying 100 basis points (bps) of cuts in total, vs 125bps before. Lower interest rates and a further moderation in inflation (average of 4.3% in 2025) support a recovery in consumer spending in 2025, with durable goods spending set to increase by 3.2%, and total household consumption up by 2.1%. With slowing inflation, there is scope for another 25bps cut towards the end of 2026.

While the SARB does not follow the major global central banks slavishly, the increased likelihood that the **US Federal Reserve (Fed)** will delay its first interest rate cut amid sticky (services) inflation does mean that the SARB may also postpone its first cut. The US economy remains resilient and the labour market, despite some signs of cooling, is still very strong. For now, we still expect the Fed to cut in the third quarter of this year, but unlike before, the European Central Bank (ECB) is expected to cut its policy rate before the Fed. A weaker economy and slower inflation in the Eurozone give the ECB the scope to cut first. This results in a stronger dollar to the euro and, in turn, a somewhat weaker **rand/dollar exchange rate**. We now see the rand average around R18.62/\$ in the fourth quarter of this year, weaker than the R18.45/\$ before. Global

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<sup>1</sup> The quarterly 0.1% q-o-q expansion was somewhat weaker than expected, with growth dragged lower by another surprisingly big decline in value added by the agricultural sector. However, estimates by BFAP suggest that the contraction in agriculture in Q4 should have been closer to 2-5% instead of the 12.2% q-o-q drop recorded. Should Stats SA revise the agricultural estimate, this could result in a higher Q4 print and even lift full-year GDP growth. Click [here](#) for BFAP's analysis.

monetary policy dynamics provide scope for the rand to strengthen through 2025, with the rand averaging below R18/\$ in Q4 next year.

The **Brent crude oil** price poses a (near-term) upside risk to the global and local inflation outlook. While we have lifted our near-term forecast somewhat and remain of the belief that the current supply and demand fundamentals do not support a high(er) price, geopolitical tensions risk keeping the price elevated. The **gold price** has benefitted from the rising geopolitical tension and monetary policy dynamics, with its price hitting fresh record highs in 2024. While expected to come down over time, a higher gold price has some benefits for SA exports and even investment.

Domestically, **political** risks also remain at the forefront with the date for the national election now set at 29 May 2024. Our baseline assumption is that the government formed post-election will not be significantly worse or better than the current one in terms of supporting economic growth. This means some continued traction on structural reform, but not the real progress needed to properly lift (potential) GDP growth. This essentially implies the ANC will remain in power – although recent polls suggest that it will lose support to such an extent that a coalition with smaller parties on a national level is now very likely<sup>2</sup>.

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<sup>2</sup> It is easy to tell a narrative of a more adverse political outcome, and we will explore this in our scenario forecast which will be made available to macro clients in due course.