Economics | South Africa

Nedbank
Guide to the Economy

GROUP ECONOMIC UNIT

16 April 2025

NEDBANK

Nedbank Guide to the Economy

Economics | South Africa

ISSN 1023-7097

International background and outlook

Tectonic shifts in the United States' (US) geopolitical relations and economic policies hogged the headlines in early 2025. Economic statistics took a backseat to the slew of policy announcements coming out of President Trump's White House. The Trump administration followed through on its harmful and incoherent tariff plan in a chaotic and confusing manner, with unexpectedly sharp increases and equally sudden pauses. While President Trump placed his sweeping reciprocal tariffs on 60 countries on hold for 90 days, the US trade war with China escalated dramatically. On last count, the US raised its tariff on China's imports to 145%, and China retaliated by lifting its levies on US imports to 125%. The dreaded trade war has begun. Rising import duties across the globe will raise prices and slow economic activity. Ideally, the US finds ways to roll back these measures through bilateral negotiations. If not, a temporary rise in inflation with a moderate global slowdown appears the best outcome. At worst, recession or stagflation sets in. Either way, these developments leave central bankers with only difficult choices. The US Federal Reserve (Fed) opted to pause its rate-cutting cycle while assessing the impact of the policy changes. Elsewhere, monetary policy decisions diverged. The Bank of England (BoE) and the Bank of Japan (BoJ) also adopted a wait-and see approach, while the European Central Bank (ECB) eased interest rates further. The evolving trade war hit financial markets hard. Equity markets plunged, while investors flocked to the relative safety of government bonds. Safe-haven demand also kept the gold price near record highs. Unlike previous shocks, the US dollar (USD) lost significant ground, perhaps reflecting fading confidence in the world's reserve currency.

The world economy: US tariff tumult darken the outlook

Before the tariff mayhem struck, the world economy remained reasonably healthy, albeit slightly softer than at the end of last year. Recent survey data reflected a moderate slowdown in private sector activity in Q1. The drag came from developed countries while emerging markets were more resilient. Although the JP Morgan Global Composite PMI remained above the key 50 threshold, which signals expansion, it moderated from 52.6 in December to 52.1 in March. After sustaining the world economy over the past 2 years, services activity slowed faintly in early 2025. In contrast, manufacturing fared slightly better, with the PMI rising slightly from a weak 49.6 in December to 50.3 in March.

Chart 1: Private activity softened slightly

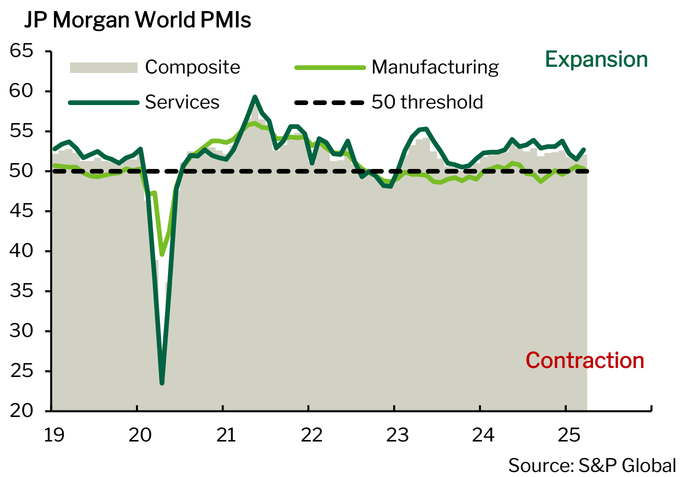
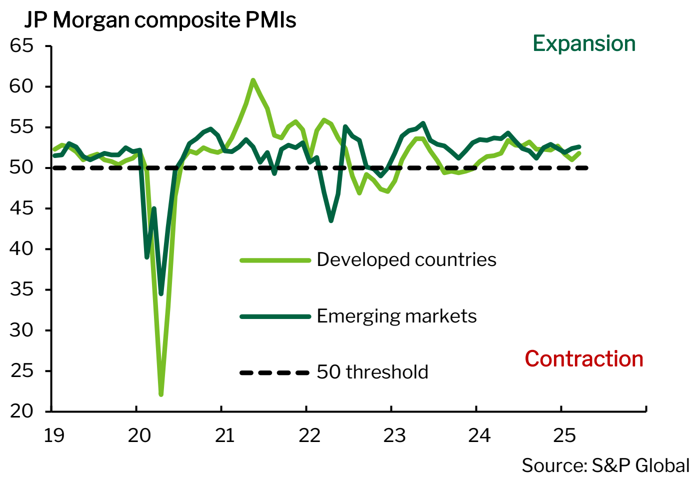
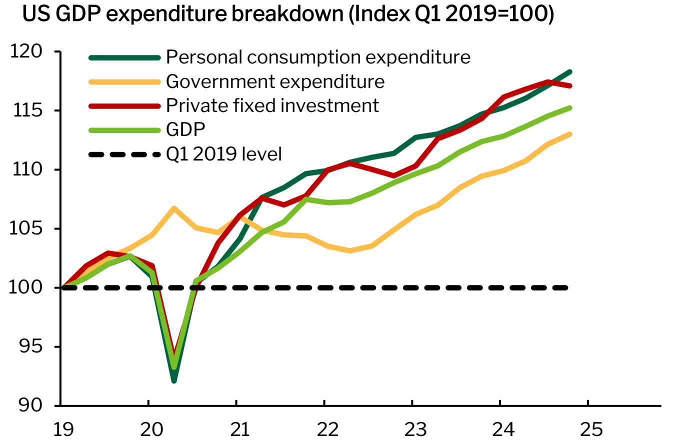


Chart 2: The drag came from developed countries



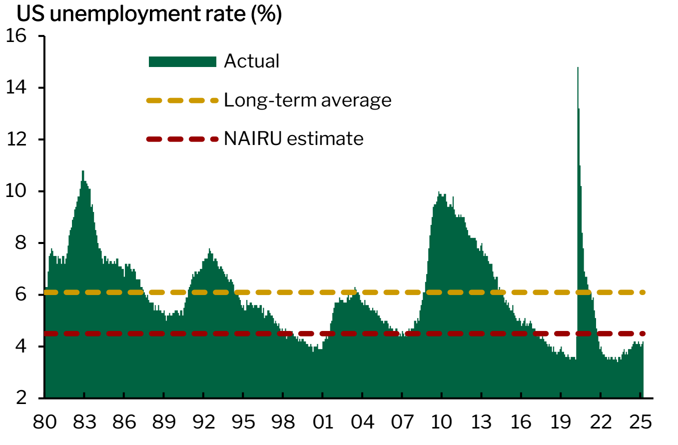
The US economy ended 2024 in good shape. Real GDP grew by an annualised 2.4% quarter on quarter (qoq) in Q4, still well above its potential growth rate of around 2%, although somewhat cooler than the 3% pace set in Q3 and Q2. Throughout last year, the boost came from a blistering acceleration in consumer spending, backed up by a prolonged spell of robust job creation, persistent real income growth supported by healthy wage increases and lower inflation, substantial personal savings, and impressive positive wealth effects. Government spending also contributed, but the boom in private sector fixed investment, which lasted 7 quarters, faltered somewhat in Q4. Altogether, robust demand sustained GDP growth at 2.8% in 2024, almost unchanged from 2.9% in 2023.

Chart 3: Consumer spending drove US GDP growth in 2024



Source: LSEG

Chart 4: The unemployment rate remains low

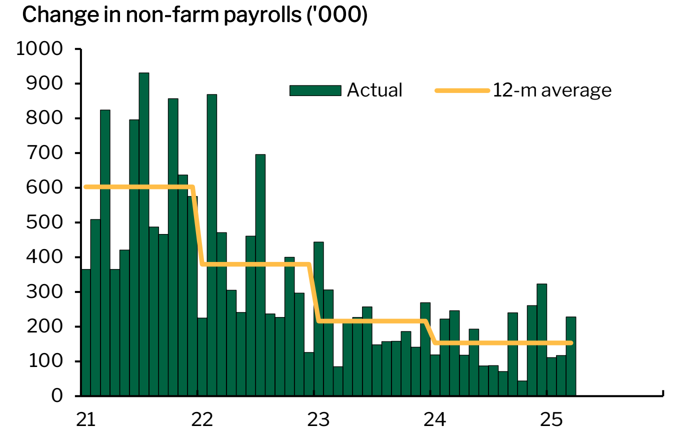


Source: LSEG

Tariff fears and policy uncertainty weighed on confidence but had no meaningful impact on real economic activity in Q1. Services activity remained relatively robust. Moreover, consumer finances held up well. The unemployment rate barely moved, ticking up slightly from 4.1% in December to 4.2% in March. Job creation also continued at a relatively robust pace. Non-farm payrolls expanded by an average of 152 000 per month over the quarter. Average hourly earnings eased from 4% in December to 3.8% in March, still outpacing inflation and sustaining real income growth. However, consumer confidence weakened noticeably, bogged down by concern over the potential impact of Trump's trade policies. Consumers feared higher tariffs would hurt the economy, lead to retrenchments and raise prices. These worries likely made them slightly more cautious about spending. Retail sales growth slowed from 4.4% year on year (yoy) in December to 3.1% in February.

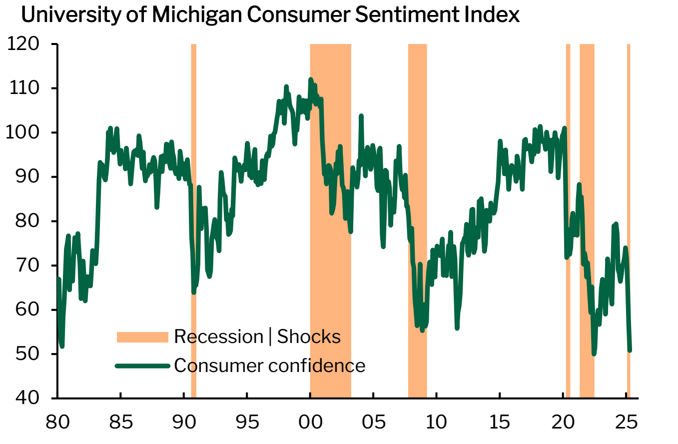
Meanwhile, US industry fared slightly better in Q1. Industrial production turned the corner in December and picked up pace in January and February. However, most PMI measures suggest that the recovery lost steam in March. The S&P Global manufacturing PMI dipped just below the key 50 threshold, with output shrinking, new orders slowing, and input costs rising. All said, the US economy largely continued its ascend in Q1. According to the Reuters poll, analysts forecast GDP growth of around 2.3% qoq, only fractionally lower than Q4.

Chart 5: Job creation continued at a healthy pace



Source: LSEG

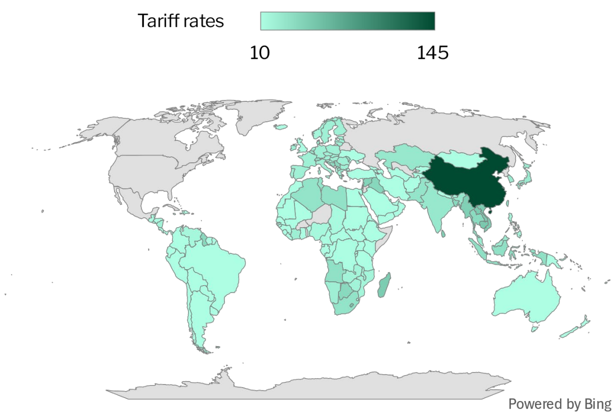
Chart 6: US consumer confidence imploded



Source: LSEG

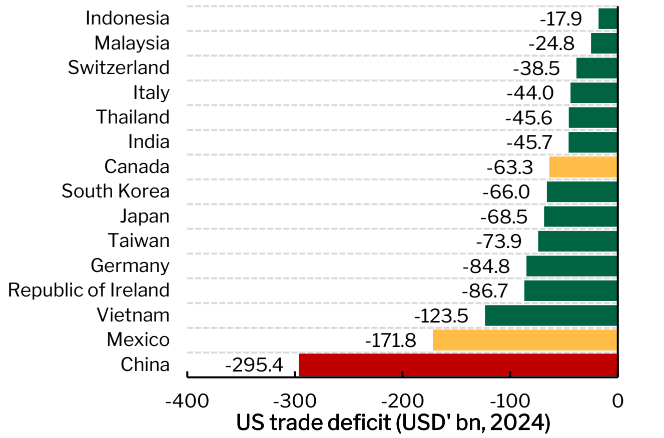
Since then, trading conditions have soured, upended by the most aggressive tariff increases since the early 1900s. Over February to April, President Trump raised import tariffs on specific products and most countries. Among these were the introduction of a minimum 10% tariff on all imports and steep 'reciprocal' levies on 60 countries that the US runs a goods trade deficit with. These ‘reciprocal' rates were far higher than the tariffs levied on US goods by most of the affected countries. Instead, the rate was calculated by dividing the US goods deficit with each country by total US imports, before halving the rate in a gesture of 'leniency'. This formula produced levies ranging from just above 10% to as much as 50%. However, tariff policy kept changing, with each announcement followed either by a long list of exemptions on specific products or postponed to a later date. As of 12 April, the measures that came into effect included a 25% levy on steel, aluminium and finished motor vehicles and the minimum 10% tariff on all imports. The reciprocal tariffs announced on 2 April, dubbed ‘Liberation Day’, were postponed for 90 days only a few hours after they came into effect on 9 April. The on-off actions and mixed signals from President Trump will only add to the confusion and uncertainty, but the pause gives US companies more time to adjust their operations and trading partners time to negotiate better outcomes. The only exception to the pause was China. As of 12 April, China increased its levy on US goods to 125%, while the US raised its tariff to 145%. As has become the pattern, the US excluded smartphones, computers and other electronics from its 10% minimum tariffs, including those imported from China on 13 April.

Chart 7: Reciprocal tariffs and China escalation



Source: US International Trade Commission

Chart 8: US trade deficits with major trading partners



Source: LSEG

While the scope and scale of the tariffs may change over time, the US economy will clearly face higher import tariffs, which will not only push prices up mechanically but will also reduce economic activity. Higher prices will erode households' purchasing power, undermining consumer confidence and spending, which accounts for just over 70% of US GDP. Companies also face tougher conditions. Weaker consumer demand will weigh on services, the dominant force in the US economy. While Trump's trade policy is meant to protect US producers against foreign competition, the complexity of global supply chains suggests US producers will also feel the effects of the tariffs through rising input costs and potential delays in securing inputs due to shifting supply chains. With sales growth slowing, companies may not be able to pass the full cost increase onto customers, thereby squeezing profits even further. Then, there is the unpredictability of policymaking under the Trump administration. Few companies would willingly expand operations as demand falters and policy uncertainty spikes. Consequently, companies will likely trim fixed investment.

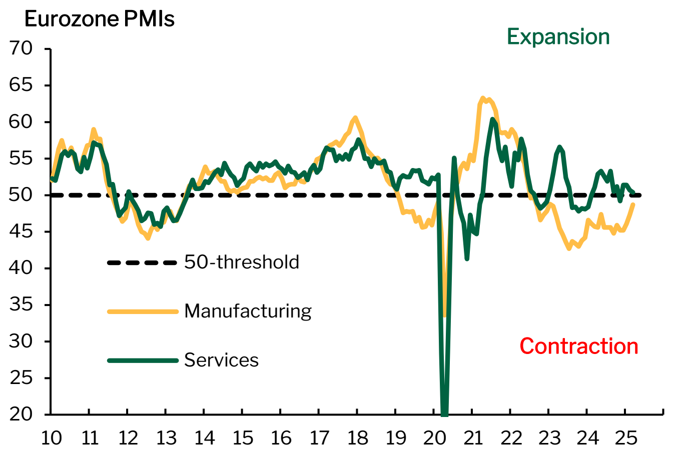
As for US exports, much depends on how the rest of the world responds. China and some other countries have already retaliated with similar measures. Even if other countries refrain from retaliation, the arbitrary nature of Trump's tariffs could sour consumer sentiment towards US brands, culling export demand. We are already seeing evidence of self-imposed consumer boycotts in Canada and Europe. As conditions weaken and profits fade, the private sector will likely take corrective action, cutting costs, delaying fixed investment, and ultimately reducing their workforce. Consequently, the risk of a US recession is elevated but could be avoided. The best remedy would be to scale back or remove the tariffs. If the tariffs remain in place, President Trump's other policy initiatives of extended tax relief and sweeping deregulation could help contain the damage. Finally, aggressive interest rate cuts by the Fed would also provide a powerful counter. Even so, US growth will slow in 2025. Current market forecasts vary greatly, reflecting high degrees of uncertainty, but most now expect the US economy to grow by less than 2% this year. This compares poorly with January's lofty expectations, when Reuter's consensus forecast stood at 2.3% and the IMF forecast at a robust 2.7%.

The **eurozone**'s economy remained sluggish. The recovery lost momentum towards the end of 2024. GDP growth stalled over Q4, after 3 consecutive quarters of expansion. The drag came from contractions in Germany and France. Germany's export-orientated economy grappled with high energy costs and subdued global demand. The dip in France was less about fundamentals and more about statistical noise, with economic activity normalising off a high base in Q3 caused by the boost from the Paris Olympic and Paralympic Games. Although the eurozone's economy stood still over the quarter, it nonetheless strengthened relative to the same quarter a year earlier. In 2024, GDP grew by 0.9%, up from a modest 0.4% in 2023.

High-frequency data points to a mild uptick in eurozone activity in Q1. The HCOB PMIs show that private sector activity expanded throughout the quarter, driven by gradual improvements in manufacturing, backed up by continued albeit slightly softer growth in services. Households enjoyed relatively strong income growth, amplified by steady job creation and falling unemployment. The gradual decline in the unemployment rate continued, easing from 6.2% at the end of 2024 to 6.1% in February. However, confidence remained frail. Consumer pessimism deepened to a 3-month low of -14.5 in March. Consumers still felt the impact of earlier interest rate hikes. Like their American counterparts, they were also worried about the impact of a trade war on the economy and employment. Despite the underlying gloom, retail sales improved, picking up a modest pace from 2.2% yoy in December to 2.3% in February.

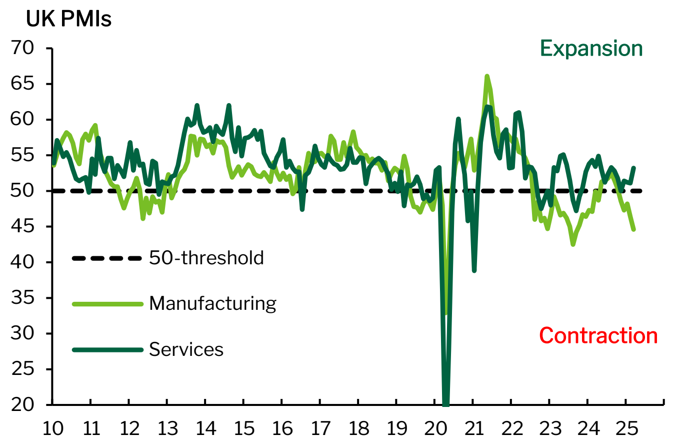
The region's growth outlook is also clouded by the evolving trade war with the US. The European Union now face a minimum tariff of 10% (potentially rising to 20%) on all its exports to the US and a 25% tariff on its steel, aluminium, and motor vehicle exports. Germany, Europe's largest economy, is the most exposed to US tariffs. Germany runs a large trade surplus with the US, and vehicles and pharmaceuticals account for a significant portion of its exports. France and Italy will also feel the tariff pain through their food and automotive industries. If US tariffs undermine Chinese and global growth, European exports will come under even greater pressure. Moreover, the region's producers are already grappling with fierce price competition from cheap Chinese imports in their domestic markets. These pressures will intensify as China seeks to grow its footprint in Europe while its presence in the US shrinks. With global demand subdued, domestic growth prospects murky, and US trade policy uncertain, the private sector will likely hold off on capital expenditure. These negatives will be offset by faster growth in personal consumption, underpinned by subdued inflation and much lower interest rates. Fiscal policy will probably also remain supportive. With the US more critical of its allies, openly reluctant to underwrite Europe's security, and seemingly eager to cede to Russian demands to secure a quick end to the war in Ukraine, European countries have pledged to shore up their own military defences. Encouragingly, Germany's Bundestag approved reforms to its strict 'debt brake', enabling €500 billion in new infrastructure and defence spending, which is expected to boost Germany's GDP growth in 2026, with positive spillovers for the rest of the eurozone. Altogether, the eurozone is likely to experience another year of slow growth. The ECB expect the bloc's economy to grow by 0.9% in 2025, before strengthening to 1.2% in 2026 and 1.3% in 2027. Market forecasts reflect a similar pace and trajectory.

Chart 9: Eurozone's manufacturing activity improved



Source: LSEG

Chart 10: The UK continues to rely on services



Source: LSEG

UK growth also remained lacklustre in late 2024. The economy recorded no growth in Q3 before expanding by a modest 0.1% qoq in Q4. Over the quarter, government spending carried the economy. Slower consumer spending, shrinking fixed investment and a worsening net export position contained the upside. In 2024, the economy grew by 1.1%, up from a weak 0.4% in 2023. Encouragingly, survey data points to stronger private sector activity in early 2025. The S&P Global composite PMI increased from 50.5 in December to 52 in March. Services activity picked up speed, more than compensating for a deepening slump in manufacturing. Consumer demand provided much of the momentum. Although the unemployment rate crept up towards the end of last year, household earnings growth and credit demand remained robust in January and February. As a result, retail sales growth accelerated from 0.6% yoy in January to 2.2% in February. In sharp contrast, the downturn in industrial production entered its tenth month in January, shrinking by a relatively sharp 1.5% yoy.

The patchy performance will likely continue during the rest of the year. Lower interest rates will lift consumer spending, particularly towards the end of the year. However, the competitive challenges of business will likely intensify. The United Kingdom (UK) is still struggling with higher energy costs than its peers. The composition of power generation is partly to blame. The country relies on gas and wind. Gas prices have remained elevated and offset agreements with renewable energy generators often result in unexpected costs, which are passed through to businesses and households. On top of the higher energy bill, companies will also have to foot higher taxes as the government aims to reduce the public debt burden, which exceeds 100% of GDP. At the same time, the US trade war will weigh on growth in the eurozone, the UK's largest trading partner, thereby placing further downward pressure on exports. The UK is less exposed than Europe to US tariffs on goods, as services make up 40% of the UK's total exports. Even so, the 10% US tariff will still weigh on goods exporters. All said, the UK economy is forecast to grow by a muted 1% in 2025, before picking up pace to 1.4% in 2026 and 1.5% in 2027.

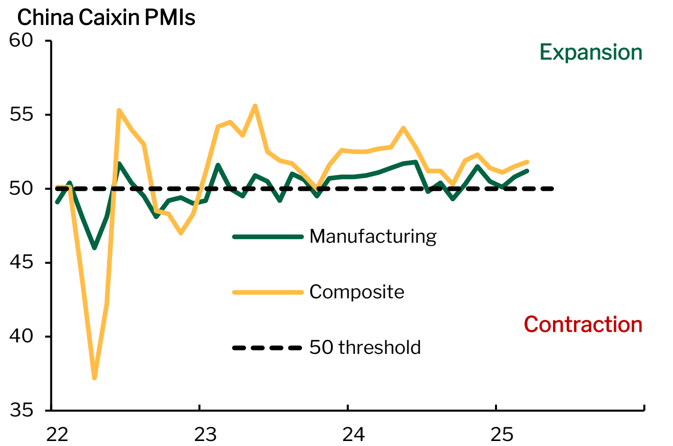
The recovery in Japan's economy continued in Q4 2024. GDP grew for the third consecutive quarter, expanding by 0.6% qoq. All sources of demand increased over the quarter, but the biggest boost came from the net export position. Exports rose by 1% qoq, while imports fell by 2.1%. Consumer spending was boosted by tax breaks and government subsidies, but the upside was partly contained by higher inflation. Despite the recovery over the last 3 quarters of 2024, the 0.5% drop in the first quarter caused the country's growth rate for the full year to decline by 0.1%, a significant slowdown from 1.5% in 2023. Recent data reflects a mixed picture in early 2025. Economic activity improved further in January and February, but lost momentum in March. The au Jibun composite PMI rose further above the neutral 50 level from 50.2 in December to 52 in February, before suddenly deteriorating to a weak 48.9 in March. The recoveries in services and manufacturing run out of steam. However, consumer demand held up relatively well. Retail sales grew by 4.4% yoy in January and a further 1.4% in February.

US tariffs will weigh on Japan's export-orientated economy. Japan is a leading exporter of vehicles, machinery, precision equipment and robotics. Exports to the US now face a 10% minimum levy (potentially rising to 24%) and a 25% levy on motor vehicles. The price disadvantage caused by these tariffs will reduce export sales to the US. In addition, Japan also depends on regional trade. The US imposed disproportionally high tariffs on most Asian economies. These could affect Japan's exports through 2 channels: Generally weaker regional growth and increased competition as Asian countries compete for regional market share to compensate for their losses in the US market. While the fate of Japan's exports hangs in the balance, domestic demand will likely drive the economy in 2025. The boost will come from continued growth in government and consumer spending. Consumer spending will benefit from positive real wage growth after unions secured unprecedented increases in 2023. As a result, Japan's economy should still fare better in 2025 than in 2024. For the calendar year, growth forecasts vary between 0.7% and 1.1%. For the fiscal year, the Reuters poll forecasts growth of 0.9%, up slightly from 0.8% in 2024. However, the risks to the outlook reside firmly on the downside.

Emerging market economies strengthened in Q4 2024. China's economy picked up pace, bolstered by the additional fiscal and monetary stimulus, which boosted confidence and spending, partially offsetting the impact of the slump in the real estate sector. The GDP growth rate accelerated from 4.6% yoy in Q3 to 5.4% in Q4. The recovery continued in early 2025 as the support from the macroeconomic stimulus filtered through. Consumer and business confidence increased in January. Retail sales growth accelerated from 3.7% yoy in December to 4% in January and February, underpinned by increased spending over the Spring Festival. Industrial production softened somewhat, slowing from 6.2% yoy in December to 5.9% in January and February. The Caixin PMIs also point to firmer growth in Q1. The composite PMI rose from 51.4 in December to 51.8 in March, lifted by stronger growth in services and manufacturing.

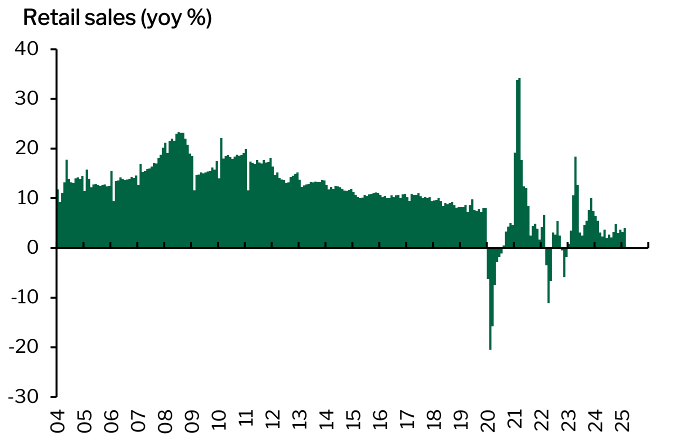
China's economy faces an uphill battle over the next four years. China has been hit harder than any other country by the US tariffs. China was among the first countries to face higher US tariffs, starting in February, before dramatically ratcheting up as China retaliated to every US measure. As mentioned above, the US tariff on Chinese imports now stands at a staggering 145%, while China retaliated with 125% tariffs on US imports. Of course, US consumers will bear the costs in the short term, but US supply chains will reorganise and shift away from Chinese suppliers over the medium to longer term. China will seek to grow its market share in other markets to mitigate the impact on its export sales. China could partly offset the effects of US tariffs on its international price competitiveness through currency depreciation. However, such a move risks adding a currency war to a raging trade war. Much will depend on how China responds. Escalation and negotiation seem equally possible. The fluid situation makes predictions difficult, but the US trade war and the resultant uncertainty will clearly hurt China's export volumes, discourage manufacturing investment, and undermine confidence in 2025 and 2026. To cushion the blow, the Chinese government is mulling adding more stimulus to its economy. Bolder stimulus would boost domestic demand, containing but not fully offsetting weaker exports. It would also align with China's long-term goals of establishing a better balance between manufacturing and services. Most experts expect GDP growth to slow from 5% in 2024 to around 4.5% in 2025.

Chart 11: China's economy fared better in early 2025



Source: LSEG

Chart 12: China's stimulus is supporting consumer demand



Source: LSEG

India's economy regained momentum late last year. Real GDP growth accelerated from 5.6% yoy in Q3 to 6.2% in Q4. All sources of final demand contributed. The most significant lift came from surging consumer and government spending. Fixed investment also remained robust, expanding by a further 5.7%. Net exports made a substantial positive contribution, as exports surged by 10.4% while imports grew by only 1.1%. In 2024, economic growth slowed from 8.2% in 2023 to 6.3% in 2024. The upward trend of late 2024 broadly continued in early 2025. Private sector activity expanded further, albeit at a slower pace. Services softened, but manufacturing accelerated. India's economy will likely continue to outperform other EMs. The momentum will come from strong growth in consumer spending, supported by much lower inflation and reduced interest rates. Increased public sector investment in physical and digital infrastructure will provide an additional boost. Export growth will probably slow as US trade barriers weigh on global demand and subdue commodity prices. On the upside, India has maintained good foreign relations with the US. These strong ties extended to the Trump administration. While the US imposed a hefty 26% reciprocal tariff on the country's exports, India should be able to negotiate a better deal with the US. Consequently, most analysts expect faster growth of around 6.5% in 2025 and 6.7% in 2026.

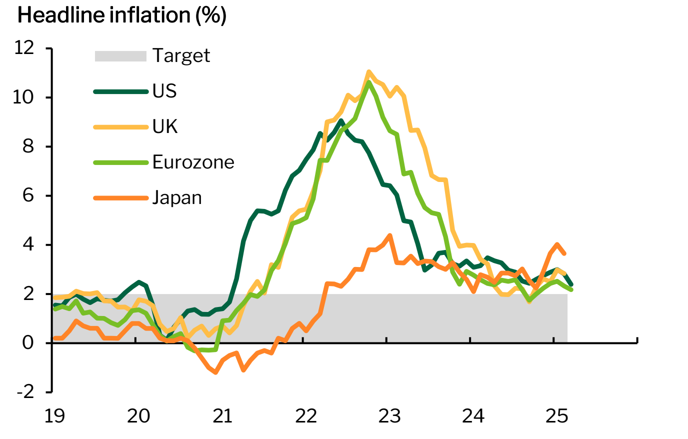
Brazil fared well in 2024. Real GDP grew by a robust 4% yoy in Q3 and an equally brisk 3.6% in Q4. Domestic demand sustained economic growth, while the net trade position deteriorated, hurt by shrinking exports caused by subdued global demand and lower commodity prices. Over the whole year, the economy grew by 3.4%, up from 3.2% in 2023, and its best performance since 2021. Recent monthly indicators still point to strong growth. Survey data reflect a buoyant picture. S&P Global's manufacturing PMI remained well above the neutral 50 level throughout Q1, while the services PMI climbed from 51.6 in December to 52.5 in March. Despite this resilience, cyclical headwinds are mounting. Price pressures resurfaced throughout last year. In response, the central bank tightened monetary policy. Although wage growth remains strong, higher inflation and interest rates will probably catch up with consumers. Apart from mounting financial pressures, the upcoming elections in October will weigh on confidence. Like all other EMs, Brazil's exports will feel the effects of a 10% US tariff on its exports, slower global demand and potentially much weaker commodity prices. The latest Reuters poll foresees growth slowing to 2.1% in 2025.

In conclusion, the world economy now looks vulnerable. The US trade war will hurt global trade volumes, disrupt supply chains, reorganise and shift production, and weigh on most countries' export volumes either directly through their exposure to the US market or indirectly through generally weaker global demand. Consequently, global growth is expected to slow in 2025, probably sliding to well below 3%. Emerging markets are more exposed than advanced countries. Goods exports account for the bulk of total exports and a sizeable slice of GDP in most developing economies. These countries will feel the impact through slower global growth, renewed setbacks in China and falling commodity prices. However, cyclical forces are more supportive of domestic demand in most countries. Rising real incomes, subdued inflation, and lower interest rates should sustain consumer spending, providing some offset to weaker exports. These gains could prove short-lived if the trade war revives global price pressures. These could come from rising input costs, disrupted supply chains, and significant currency weakness. However, falling commodity prices, particularly lower oil prices, should help contain inflation risks. Where inflation remains contained, accelerated monetary easing is likely. Where fiscal space exists, more aggressive stimulus is likely. These mitigating forces are unlikely to alter the course in 2025, but could turn the tide sooner and contribute to a more convincing recovery in 2026.

Inflation: Sticky as US tariffs hit

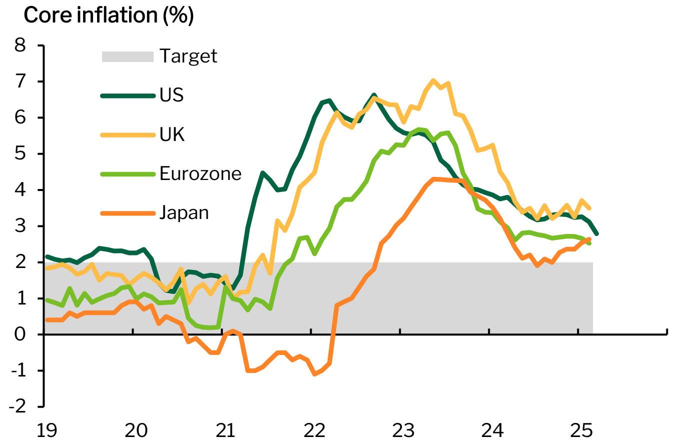
Global disinflation broadly continued, albeit at a snail's pace. After rising from 2.4% in September last year to 3% in January, US headline inflation finally budged in February, before easing to 2.4% in March. Core inflation, which excludes food and energy prices, moderated from 3.3% in January to 2.8% in March. There was less evidence of significant disinflation in the Fed's preferred gauge, the core PCE (Personal Consumption Expenditure) price index, which hovered slightly above or below 2.8% over the past 5 months. The UK and Japan followed the same pattern as the US. UK consumer inflation slowed from a 9-month high of 3% in January to 2.8% in February, while Japan's measure moderated from a 23-month high of 4% in January to 3.6% in February. Core inflation diverged. In the UK, core inflation remained elevated and volatile, but softened to 3.5% in February. In Japan, core inflation accelerated without interruption, rising for the seventh straight month to 2.6% in February. In contrast, eurozone inflation resumed a clear downward trend. Its headline figure slowed from 2.5% in January to 2.2% in March, while the core measure dipped from 2.6% to 2.4%. In most advanced countries, lower energy costs and slowing services inflation exerted the most downward force, offsetting faster food price increases.

Chart 13: Headline inflation in advanced countries



Source: LSEG

Chart 14: Core inflation in advanced countries



Source: LSEG

In emerging markets (EMs), inflation diverged. China slid back into deflation in February, with headline and core prices falling by 0.7% and 0.1%, respectively. Declines were widespread, partly reflecting fading seasonal demand following the Spring Festival in late January. In India, the downward trend intensified. Inflation slowed from 4.3% in January to 3.6% in February, falling below the central bank's 4% target for the first time in 5 months. The drag came from energy and food prices. Conversely, inflation in Mexico and Brazil reversed after easing in January. Mexico's inflation stayed within the central bank's 2-4% target, but climbed to 3.8%. In Brazil, inflation climbed to 5.1%, driven by high food prices and rising housing and utilities costs. In other EMs, inflation remained contained, hovering within or close to central bank targets. The steady state stemmed from some resilience in EM currencies and softer global food and oil prices.

Trump's trade war raised inflation expectations significantly since the start of the year. As mentioned above, tariffs lift prices and hurt economic growth. Therefore, tariffs can trigger stagflation. Consequently, US inflation will likely increase. Even if President Trump abandons reciprocal tariffs, the extreme levies on China, significant rates on Canada and Mexico, the minimum universal 10%, and those on specific goods alone will lead to once-off but substantial price increases in a wide range of US goods. A weaker USD will elevate import costs further. These effects will likely come through in the US inflation numbers between April and June. Over time, the combination of US tariffs and retaliation from other countries could also disrupt and reshuffle global supply chains, potentially leading to delivery delays and inefficiencies within the system, compounding the rise in import and production costs. Such implications could introduce second-round or dynamic effects into the price-setting process. Meanwhile, weaker US growth could offset the potential inflationary pressure, forcing companies to absorb a greater portion of the cost increase or to seek efficiencies elsewhere in their cost structure. The best-case scenario for the US is a temporary rise in inflation brought about by a moderate slowdown in economic growth. The worst-case scenario is that the trade war leads to prolonged supply chain dislocation and dislodges inflation expectations, resulting in more persistent inflation despite sluggish economic growth. Simply put, stagflation sets in.

Before the chaos that followed 'Liberation Day', the Fed's forecasts already reflected expectations of mildly higher inflation in 2025. The Federal Open Market Committee (FOMC) expected core PCE inflation to increase to 2.8% versus the 2.5% projected in December. It now seems the FOMC will raise its inflation projections further, at least for 2025. In a speech delivered on 4 April, Fed Chair, Jerome Powell said that inflation will likely rise in coming quarters as the higher tariffs work their way through the economy. Powell warned that, at the very least, the tariffs will generate a temporary rise in inflation, but the impact could also be persistent.

Other countries could also encounter greater price pressures. Nations that retaliated, particularly China, will also see higher prices on some products. If tariffs lead to widespread supply chain disruptions, it could affect import costs and inflation in more countries. Currency weakness poses upside risks to inflation in EM economies. However, these price pressures could be countered by weaker economic growth and the slide in global oil and other commodity prices.

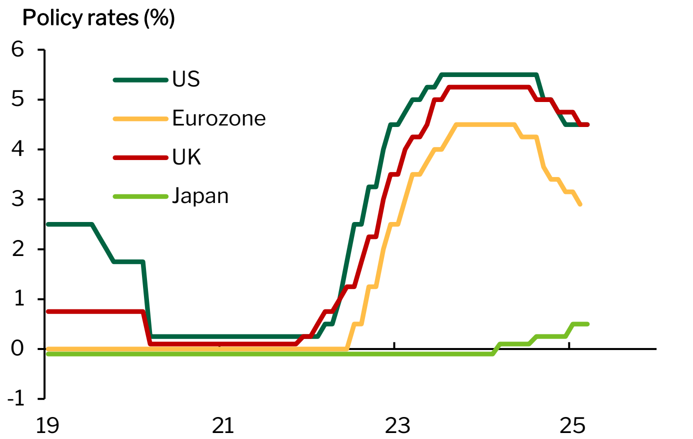
In the eurozone, inflation will likely remain relatively subdued in 2025. Lower commodity prices, a stronger euro, and sluggish domestic demand will probably more than offset any increase in import tariffs owing to the bloc's retaliatory measures. In March, the ECB expected headline inflation to end the year close to its 2% target at 2.3%. Consensus forecasts reflect an even lower 2.2%. UK inflation will likely increase, mainly due to higher energy prices. The UK's energy regulator, Ofgem, increased the household price cap in January, with an additional increase expected in April. Lower oil and gas prices and a stronger currency could still contain the rise in inflation. The BoE expects inflation to climb to a steep 3.7% in Q3, before resuming a downward trend. The markets expect UK inflation to average 3% in 2025, well above the central bank's 2% target. While inflation expectations have increased in Japan, price pressures are projected to soften, closing the year at 2% due to softer demand.

EM countries' inflation could be slightly higher as food prices rise off a low base. If the USD recovers, renewed currency weakness could add further pressure. However, the upside will be contained by softer economic growth, lower oil and other commodity prices and still restrictive monetary policy in many economies.

Monetary policy: Central banks adopt a wait-and-see approach

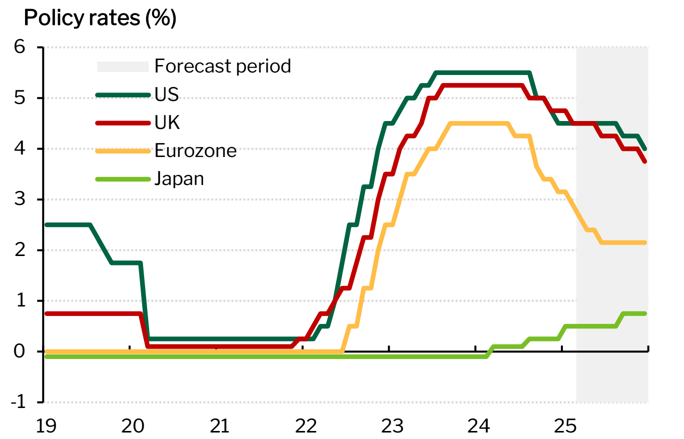
Central banks moved in different directions in early 2025. The US, the UK, and Japan kept interest rates on hold amid evidence of sticky prices and upside risks to the inflation outlook. In contrast, monetary policy easing continued in Europe and some other advanced countries. Resurgent inflation convinced some EMs to tighten monetary policy, while the threat of renewed currency weakness caused others to pause. The rate-cutting cycle mostly continued across Asia, motivated by country-specific inflation dynamics or evidence of fading growth momentum.

Chart 15: Central banks are becoming cautious



Source: LSEG

Chart 16: The markets expect more easing



Source: LSEG

The FOMC kept the federal funds rate on hold at 4.25-4.50% in January and March. Upside risks to the inflation outlook motivated the pause, which the FOMC described as 'somewhat elevated'. The Fed noted that it needed more time to assess the impact of the changes in US economic and trade policies on inflation. Since the March meeting, President Trump has not only raised import tariffs dramatically but has also done so in a chaotic manner, with repeated stops and starts, prolonging uncertainty. In a speech just after the 'Liberation Day' announcements, Fed Chair Jerome Powell said policymakers faced 'a highly uncertain outlook with elevated risks of higher unemployment and higher inflation'. He stressed that the central bank would focus on anchoring inflation expectations and ensuring that 'a one-time increase in the price level does not become an ongoing inflation problem'. Powell reiterated that the appropriate policy path is unclear but concluded that the Fed is 'well positioned' to wait for clarity before considering any policy adjustments. These comments suggest a prolonged pause in US interest rates. In sharp contrast, the markets' rate expectations tilted overwhelmingly towards deeper rate cuts in the second half of the year. The markets now fear an economic downturn, placing around a 45% probability on a technical recession. They expect growth risks to outweigh inflation worries, tilting the Fed towards more aggressive monetary policy easing.

Like the US, the BoE and the BoJ left interest rates unchanged in March. The BoE kept its bank rate at 4.5% amid expectations for stubbornly high inflation in the coming months and global uncertainty. According to BoE projections, higher energy prices will drive inflation to 3.7% in Q3 2025. Given the expected deviation from the 2% target during the year, the committee sees it appropriate to only gradually ease policy rates, but consensus forecasts still show a further 75 bps cut in 2025. The BoJ kept rates steady at 0.5% after raising them by 25 bps in January. The board opted to be cautious, focusing on assessing the impact of intensifying global economic risks on its fragile economy. Recently, inflation expectations for the year ahead edged higher. These, combined with signs that Japanese companies are more open to price and wage hikes, suggest that inflation could move more in line with the BoJ's view, paving the way for further rate hikes. However, due to the economic impact of US tariffs, the central bank faces the challenge of striking the right balance between continuing its restrictive monetary policy and supporting growth. Reuters consensus forecasts point to an additional hike of 25 bps by the BoJ in Q3. In contrast to its peers, the ECB sees inflation falling to around its target over the next few years. Consequently, the ECB reduced its key policy rate by 25 bps in March. Given the tame inflation outlook, the central bank can ease the rate further. The markets predict further cuts totalling 50 bps this year.

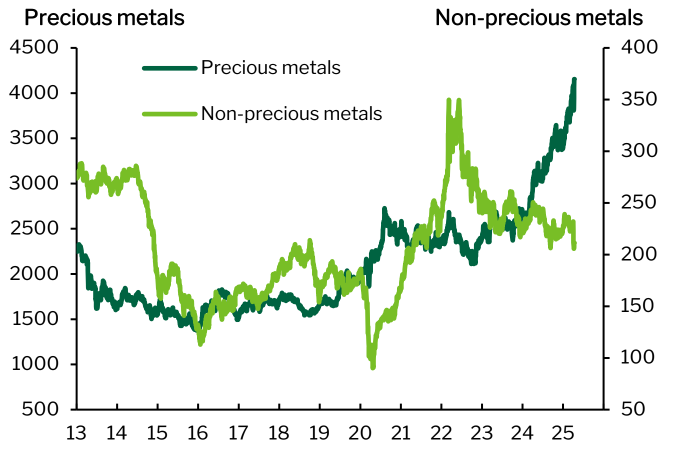
Monetary policy decisions varied among EM countries. The People's Bank of China (PBoC) held policy rates steady for a third consecutive meeting in March, with the 1- and 5-year loan prime rates at record lows of 3.1% and 3.6%, respectively. Despite holding, the PBoC signalled an easing bias, stating that it would further lower policy rates and reduce reserve requirement ratios to ensure a sustainable economic recovery. At its March meeting, the Reserve Bank of India (RBI) lowered its repo rate for the first time since May 2020. The decision follows a continuous moderation in price pressures since November, with inflation remaining within the RBI's target range of 2–6% for the past 5 months. In Latin America, the Bank of Chile left interest rates unchanged amid inflation fears linked to escalating geopolitical tensions, while the Bank of Mexico cut interest rates by 50 bps due to receding inflation and a subdued growth outlook. The largest economy in the region, Brazil, remained on its hiking path, increasing its Selic rate by 100 bps to 14.25% in March after inflation advanced to 5.1% in February.

All said, central banks will probably become more cautious and adopt a holding pattern, especially over the short term, as they digest the impact of the tariff spiral on global inflation and economic growth.

Commodity prices: Safe-haven status and pre-emptive buying boosts gold and copper.

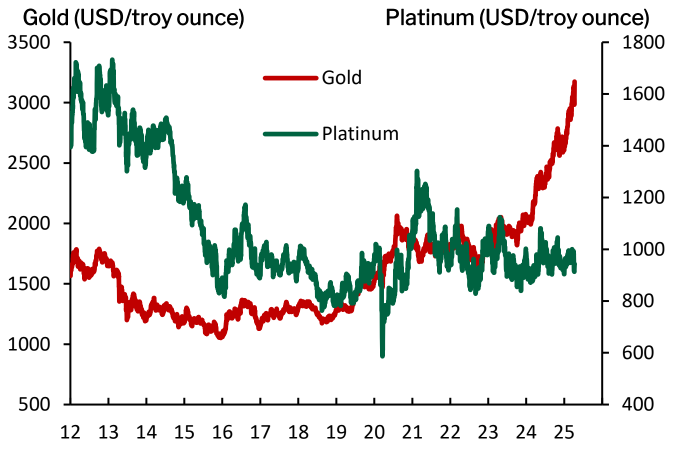
Heightened global risk aversion drove commodity markets. Gold has been the biggest winner, buoyed by its attractiveness as a safe-haven asset and hedge against inflation. Energy prices have been the main losers, dampened by expectations of the negative impact of the trade war on global demand and OPEC+'s supply expansion. Gold gained 19% in Q1 and then broke through $3 000 an ounce to a historical high of $3 133 in the first week of April.

Chart 17: Precious metals surged



Source: S&P Goldman Sachs

Chart 18: All the momentum came from gold

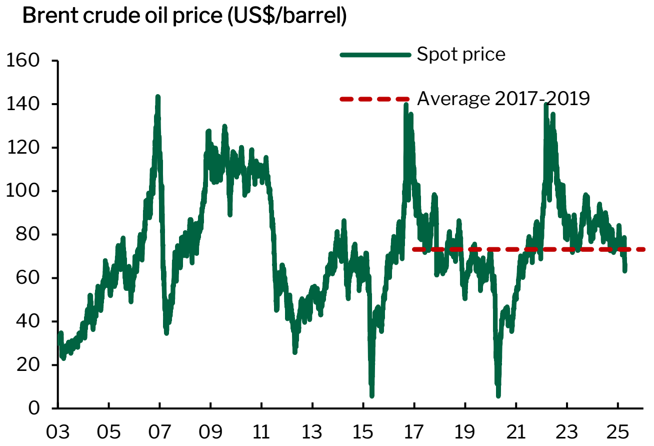


Source: Reuters

Copper benefited from pre-emptive buying on reports that the US would impose a 25% tariff on copper imports. The price touched a record high on 26 March. However, copper has since surrendered those gains on fears over the impact of the trade war on global industrial activity. The Brent crude oil price has dipped to well below $70 a barrel due to concerns about global recession, and after OPEC+ indicated that it would raise its output quota by more than previously announced. The cartel has indicated that it will hike its daily output by 411 000 barrels per day in May, much higher than the initially announced 135 000. The Brent crude oil price has dropped to $67, its lowest level since May 2021.

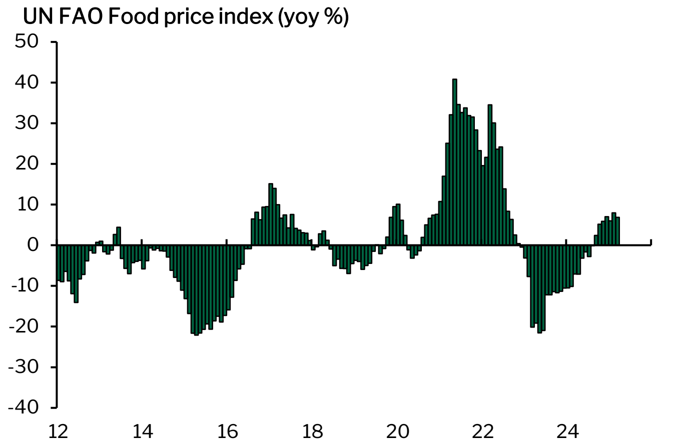
The impact of the escalating trade war on global demand and the USD will determine the trajectory of commodity prices. Renewed risk aversion and inflation fears could push the gold price even higher. Given the strong rally, the upside appears limited. Gold will probably remain elevated. Weaker global demand will hurt copper and energy prices. Energy prices will stay low. Some forecasters see oil prices falling below $60 a barrel in the year's second half. Agricultural prices will likely be contained by ample supply on the back of favourable weather conditions in many food-producing countries, including dominant Brazil.

Chart 19: Oil prices declined sharply



Source: LSEG

Chart 20: Food prices rose off a low base

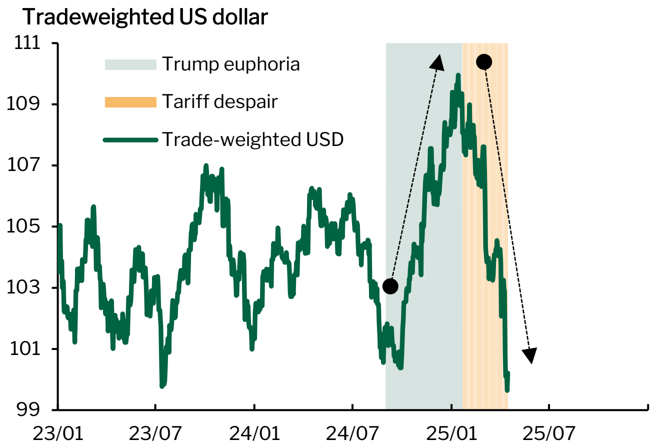


Source: UN FAO

The currency markets: Tariff fears reverse US dollar gains

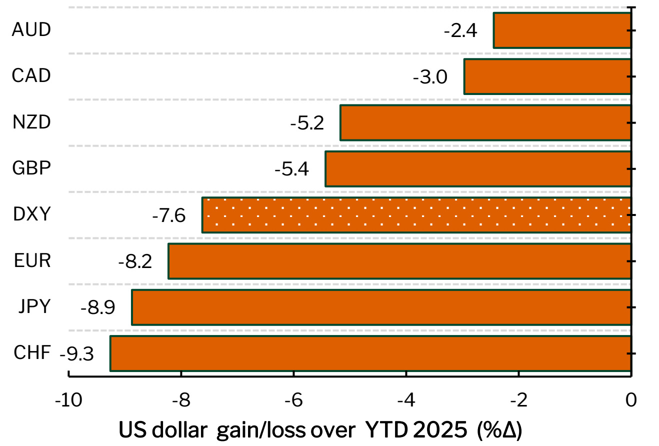
The USD has been under sustained pressure since the start of the year. The greenback's slide intensified as Trump's on-off tariff war escalated. Over the year to date, the trade-weighted dollar depreciated by a steep 7.6%, shedding 3.2% in March and a further 3.8% in early April. The dollar lost the most ground against the Swiss franc (CHF), the Japanese yen (JPY) and the euro (EUR). The unexpected slide in the world's reserve currency amid acute uncertainty and financial market turmoil is unprecedented. Usually, the dollar gains most when the US economy outperforms its peers or when safe-haven demand surges on global economic and financial turbulence. Recent developments partly reflect a correction from the dizzy heights of last year, when the dollar rallied on the assumption that President Trump's policies would unleash much faster economic growth, stickier inflation and fewer interest rate cuts relative to other advanced countries. These assumptions have not materialised. Instead, investors now expect the US economy to weaken, at best, or slip into recession, at worst. Consequently, the markets are pricing in more aggressive rate cuts, turning interest rate differentials against the USD. At the same time, President Trump's unpredictability and damaging trade policies also shook the global financial markets' deeply entrenched trust in US exceptionalism, eroding the dollar's safe-haven qualities.

Chart 21: The USD's sharp correction



Source: LSEG

Chart 22: The USD's losses against other majors



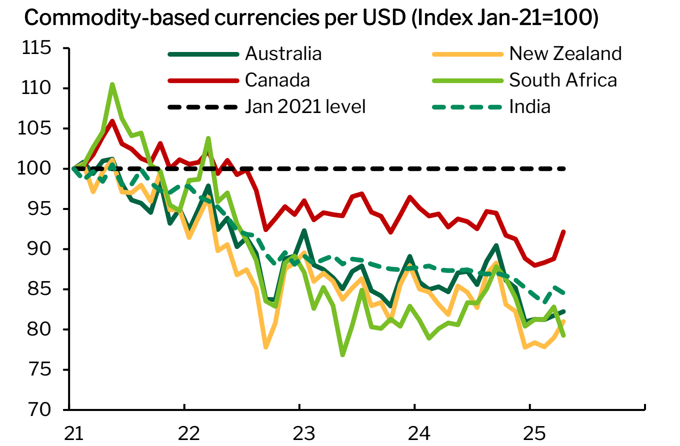
Source: LSEG

In contrast, other low-risk advanced countries offered some stability. Safe-haven demand sustained the CHF and the JPY. The JPY also benefited from expectations of more interest rate hikes and hopes for the country to secure a more favourable trade deal with the US relatively quickly. Meanwhile, the EU's plans to expand its military spending bolstered sentiment towards the euro.

EM currencies struggled against a weaker USD, but most bounced back after 90-day pause in reciprocal tariffs. Investors expected US trade policy to hit emerging markets the hardest. Markets priced in the impact of higher tariffs on Asian EMs relative to other countries and the anticipated drag on export earnings from a tariff-induced slowdown in global growth. Commodity-based currencies plunged for the same reasons, with the added nuance that weaker growth in China would hurt demand for and prices of commodities. The Canadian dollar (CAD) and Mexican peso seesawed in lockstep with the on-today-off-tomorrow tariff announcements from the White House. The CAD was broadly flat over the quarter. The peso gained 2.4% after President Trump mentioned a trade deal between the US and Mexico.

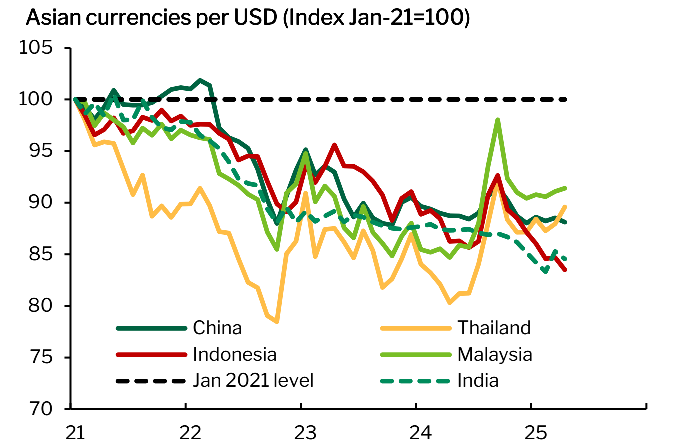
Foreign exchange markets will remain volatile over the short term. Consequently, safe-haven demand will dominate currency movements until clarity emerges on the scale and scope of US trade policy. Risk-off sentiment will continue to prop up the Swiss CHF and the JPY. The intensity of the trade war and expectations of relative interest rate movements between the US and its peers will dictate the dollar's course. The US monetary policy outlook is murky. We sense that the Fed would leave rates unchanged over the short term, shifting interest rate differentials in favour of the USD over the next few months. Thereafter, much will depend on how well the US economy copes with the tariff-induced price hikes and supply chain disruptions. If a recession ensues, the Fed will likely cut interest rates more aggressively than other advanced countries, leading to renewed dollar weakness. EMs face significant downside risks due to the looming disruption in global trade and the likely pressure on commodity prices.

Chart 23: Commodity-based currencies



Source: LSEG

Chart 24: Asian EM currencies were hard hit

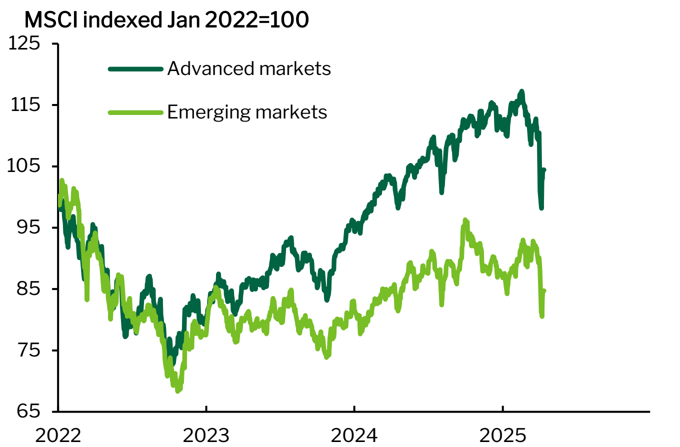


Source: LSEG

Global equity markets: Volatility to intensify as earnings expectations are dampened by the trade uncertainty.

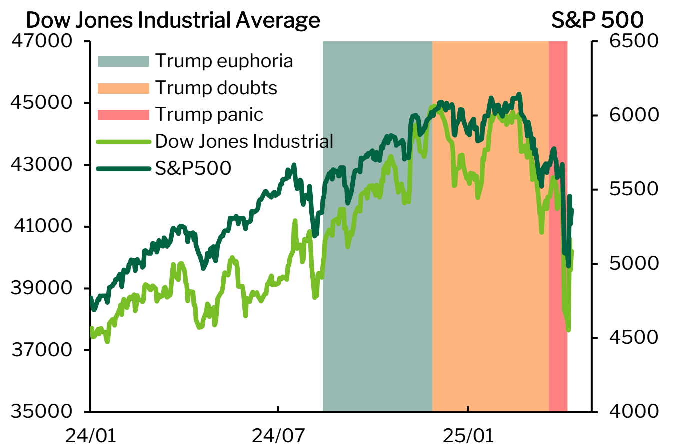
Trump's 'Liberation Day' tariffs announcement sent global equity markets into a tailspin. Market volatility surged as risk aversion rose sharply. The Chicago Board Options Exchange Volatility Index (VIX), a gauge of market volatility, jumped to its highest level since August 2024, when the Japanese interest rate hike upended the yen 'carry trade'. Major US equities plunged into correction territory – declines of more than 10% from the recent highs – as they surrendered all the gains recorded since Trump's election win in November 2024. Technology shares led the declines, as investors dumped them due to their high exposure to Chinese manufacturing supply chains.

Chart 25: Global stock markets tumbled



Source: Morgan Stanley Capital Index

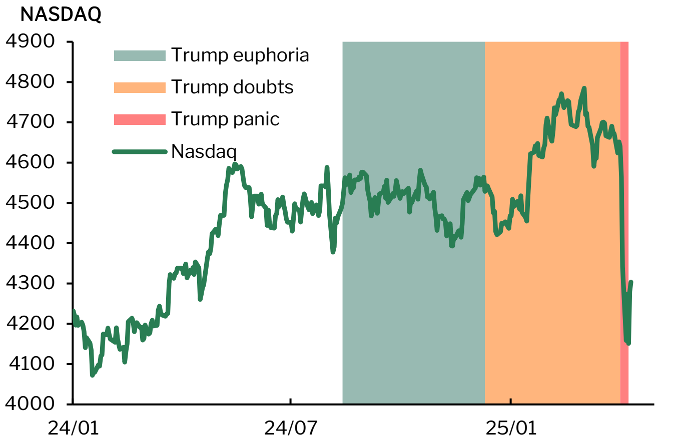
Chart 26: US equities suffered the most



Source: LSEG

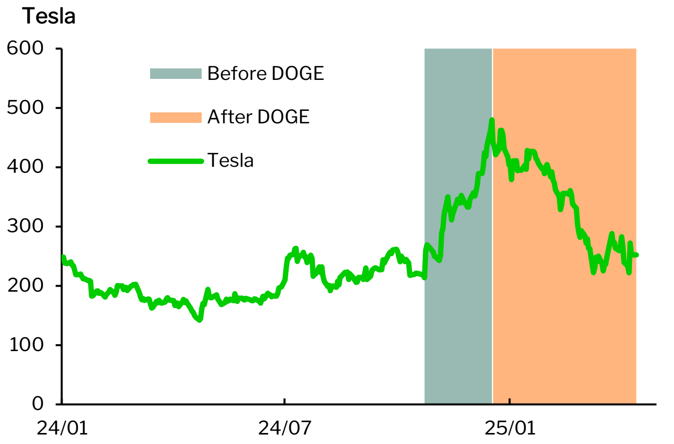
European equities, which had diverged from their US counterparts in late February after the EU approved higher military spending among its member states, were weighed by the Trump tariffs, eroding most of their gains. In Asia, the key stock markets spiralled to their lowest levels since December 2023 as the steep import tariffs threatened their supply chains. Emerging markets plunged as investors fled to the safety of gold and bonds.

Chart 27: NASDAQ could recover on China concessions



Source: LSEG

Chart 28: The impact of DOGE on Tesla



Source: LSEG

Global equities will likely remain volatile as the trade war intensifies. Should the trade war significantly disrupt supply chains between the US and its key trading partners, corporate earnings across the globe will be hard hit. US tech companies, as well as US and European automakers, will most likely bear the brunt of the market selloff. Emerging market corporates will not be shielded from the earnings malaise because of their reliance on exports to the major economies and significant exposure to China.

Domestic background and outlook

The economy endured another year of subdued and patchy growth in 2024. Real GDP growth slowed slightly from 0.7% in 2023 to 0.6% in 2024. Despite this, economic activity recovered in Q4, driven by a rebound in agriculture and buoyant domestic trade fuelled by stronger consumer spending. Despite the global turmoil, we still expect the domestic economy to fare better in 2025. The momentum will come from the ongoing recovery in consumer spending, underpinned by rising real incomes, subdued inflation, modestly lower interest rates and withdrawals from contractional savings. Government consumption and capital expenditure could provide an added boost. However, renewed political instability, fading global growth prospects and sluggish commodity prices will likely undermine business confidence, hurt exports and discourage fixed investment. In response to the evolving trade war, we have reduced our GDP growth forecast by 0.3 percentage points to 1.1% for 2025 and 0.2 percentage points to 1.6% for 2026. Despite these adjustments, forecast risk remains to downside. Inflation will rise gradually off a low base, but remain relatively contained. The upward pressure will come from a weaker rand and higher import prices, but these will be countered by low global oil prices, modest domestic demand, and easing supply-side constraints. Given the fluid and unsettled global landscape, the South African Reserve Bank (SARB) will likely leave interest rates unchanged for the rest of the year.

The economy: Modestly faster growth, supported by structural reform and a cyclical recovery.

The economy again disappointed in 2024. Real GDP growth slowed from an unimpressive 0.7% in 2023 to a slightly softer 0.6% in 2024. However, the annual numbers masked some important nuances. The weakness was mainly isolated to Q3, when GDP unexpectedly contracted by 0.1% qoq due to a sharp decline in agriculture. Encouragingly, the economy staged a relatively convincing recovery in Q4, growing by 0.6% qoq.

Table 1: GDP breakdown by sector and expenditure category

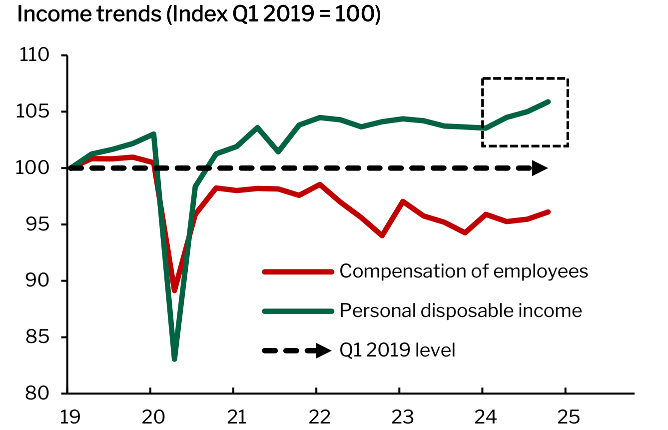
Industries	Size	Annual growth rates				Quarterly growth rates				
	% of GDP	yoy %				qoq % (not annualised)				
	2024	2021	2022	2023	2024	Q4'23	Q1'24	Q2'24	Q3'24	Q3'25
Agriculture	2.9	5.6	2.0	-4.8	-8.0	-2.4	14.1	-3.4	-19.7	17.2
Mining	6.1	12.9	-7.3	-0.5	0.3	2.6	-1.2	-0.7	0.8	-0.2
Manufacturing	12.8	6.9	-0.4	0.3	-0.5	0.3	-1.2	0.8	0.3	-0.6
Power and water	3.3	2.3	-2.9	-4.0	3.5	2.3	-0.2	2.3	1.3	-1.4
Construction	2.2	-2.2	-3.2	-0.1	-5.1	-1.5	-2.8	0.2	0.8	-0.4
Domestic trade	12.4	6.8	3.4	-1.8	-1.4	-2.8	0.5	0.7	-0.6	1.4
Transport and communications	7.0	5.9	8.6	4.1	-1.3	3.1	-0.7	-3.1	-0.5	-1.0
Finance	21.1	2.8	3.3	1.6	3.5	0.8	0.1	1.7	1.2	1.1
General government	7.8	-0.9	0.4	0.5	-0.1	-0.5	-0.2	0.3	-0.1	-0.5
Personal Services	14.4	5.8	2.5	1.8	1.7	0.9	0.0	0.1	0.6	-0.2
Value added	90.0	4.7	1.9	0.7	0.6	0.3	0.1	0.3	-0.2	0.6
GDP	100.0	5.0	1.9	0.7	0.6	0.3	0.1	0.3	-0.1	0.6
HCE	64.8	6.2	2.5	0.7	1.0	0.1	-0.2	1.1	0.4	1.0
GCE	19.2	0.6	0.6	1.9	0.4	-0.4	-0.1	0.8	-0.5	-0.8
GFCF	14.5	-0.4	4.8	3.9	-3.7	-0.2	-1.5	-0.9	0.3	-0.7
Change in inventories (Rbn)	-0.6	-12.1	53.4	26.0	-18.1	19.4	-21.3	-9.5	-25.1	-16.4
GDE	98.0	5.3	3.9	0.8	-0.7	1.3	-1.2	1.0	-0.1	0.6
Exports	31.8	9.7	6.8	3.7	-2.0	0.5	-0.9	-0.6	-4.3	2.1
Imports	29.8	9.6	15.0	3.9	-6.3	4.0	-5.0	1.6	-4.2	2.0
Expenditure on GDP	100.0	5.3	1.8	0.7	0.6	0.3	0.0	0.4	-0.1	0.6

Source: Stats SA

On **the supply side**, agriculture, forestry, and fishing led the rebound in Q4, with the sector's output recovering from a 19.7% qoq drop in Q3 to a 17.2% increase in Q4. Agriculture accounted for a sizeable 0.4 ppts of the quarterly change in GDP. Added support came from wholesale, retail and motor trade and finance, real estate and business services. The boost to the tertiary sector follows from the recovery in domestic expenditure, particularly consumer demand. The economy's recovery was dampened by continued weakness in mining and manufacturing despite the absence of load-shedding. These poor outcomes reflect still subdued domestic and global demand and reduced domestic productive capacity following the hits from the COVID-19 pandemic and surging production costs imposed by deep structural inefficiencies. Construction slipped back into contraction.

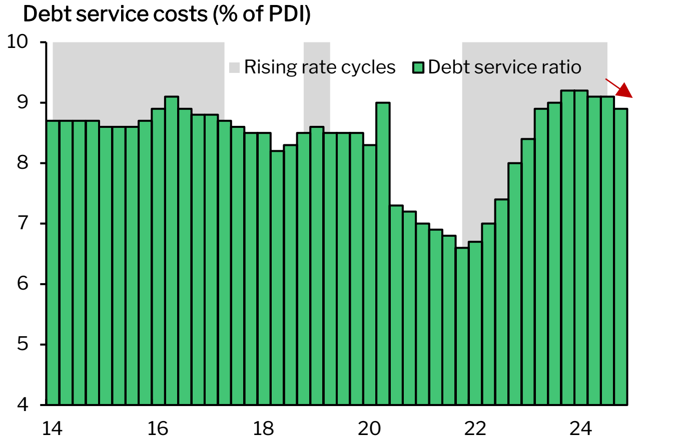
Viewed from the demand side, faster growth in household consumption expenditure (HCE) drove the recovery. HCE accelerated from 0.4% qoq in Q3 to a relatively robust 1% in Q4. Household consumption contributed 0.6 percentage points (ppts) to GDP growth. Rising real incomes, underpinned by sharply lower inflation, lifted consumer spending. The recovery in household income gathered pace and broadened in Q4. Real personal disposable income (PDI) increased for the third consecutive quarter, rising by 0.5% qoq in Q3 and a faster 0.8% in Q4. More importantly, employee compensation, which makes up about 70% of PDI, also strengthened, jumping from a modest 0.2% in Q3 to 0.7% in Q4. The recovery in employee pay reflected healthy wage and salary increases, a modest increase in employment and low inflation. Households avoided debt. Consequently, the household debt-to-income ratio fell to a 2-year low of 62% in Q4. Subdued borrowing and modestly lower interest rates helped ease households' debt servicing burden, freeing up some funds for discretionary spending. The ratio of debt service cost to disposable income fell from a punishing 9.1% in Q2 and Q3 to a softer 8.9% in Q4. On top of these positives, consumers drew down savings to sustain spending, accelerated by withdrawals of contractional savings through the 2-pot retirement system. Apart from consumer spending, most other sources of final demand remained weak. There was an uptick in exports over Q4, but imports also increased, driven by stronger domestic demand. As a result, net exports made a negligible contribution to GDP. Finally, gross fixed capital formation (GFCF) contracted alongside weak government consumption expenditure (GCE).

Chart 29: Real incomes are rising



Source: SARB

Chart 30: Debt service costs eased slightly in Q4

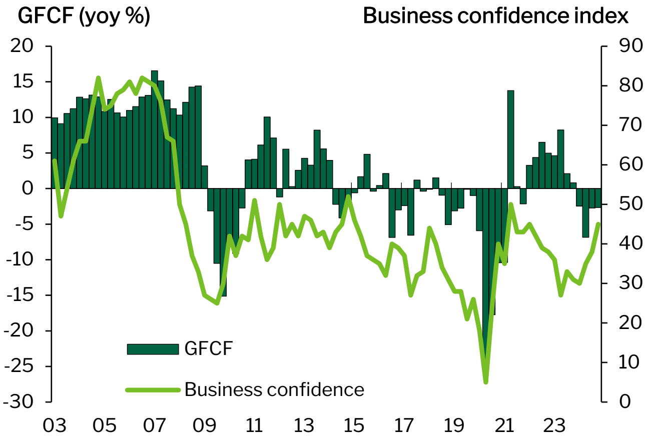


Source: SARB

Consumer spending remained the key source of momentum at the start of the first quarter. High-frequency statistics showed continued improvement in retail trade and strong sales of new passenger vehicles. Retail sales posted a broad-based increase, jumping by an impressive and unexpected 7.0% yoy. Moreover, new passenger vehicle sales surged by a surprising 25.3%. We expect this positive trend in consumer spending to continue. Subdued inflation will bolster real disposable incomes, while the modest reduction in interest rates and lower debt burdens should soften debt service costs. Further withdrawals from the 2-pot retirement system will likely continue and boost spending, directly or indirectly, by reducing debt and improving consumers' financial health. Strong household finances and slightly better employment growth will bolster consumer confidence and encourage spending. Altogether, these factors will lift HCE by 2.1% in 2025. However, risks to the downside are rooted in consumers' hesitancy to take on new credit for large purchases (notably vehicles and property), the VAT increase, and still high interest rates relative to before the pandemic.

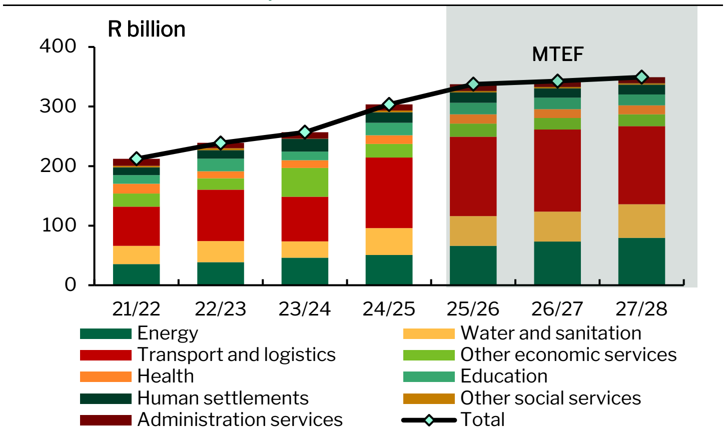
Conditions in early 2025 still do not appear conducive to much stronger fixed investment. Confidence indicators are below the neutral 50 mark, residential and non-residential building activity is weak, commercial vehicle sales are still declining, and demand for machinery and equipment remains muted. However, we anticipate a slow and muted recovery in the quarters ahead. Private sector fixed investment will likely remain relatively weak in 2025, weighed down by the rapidly deteriorating global economic outlook, the escalating trade war between the US and China, and the uncertain future of the Africa Growth and Opportunity Act (AGOA). The troubles within the Government of National Unity (GNU) and fears of possible policy changes will also make companies more hesitant to undertake large-scale expansionary projects. Consequently, we only see the private sector stepping up capital outlays more meaningfully in 2026 as the anticipated rise in domestic demand throughout 2025 gradually reduces spare productive capacity. Sluggish activity by the private sector could be contained or offset by increased capital expenditure by the public sector. The government plans to increase infrastructure investment by 18% to R337.5 billion in 2025. Of this, 60% will go toward addressing the inefficiencies in transport, logistics and energy. If spent effectively, it should deliver much-needed efficiency gains, boost business confidence, and potentially unlock higher private-sector fixed investment in 2026. Overall, we forecast an increase in GFCF of only 0.1% in 2025, still better than the 3.7% contraction in 2024.

Chart 31: The underlying weakness in GFCF continued.



Source: SARB

Chart 32: Public sector plans to raise infrastructure investment.



Source: National Treasury

We expect government consumption expenditure (GCE) to increase by a modest 0.2% in 2025. Our forecast faces upside risks. The National Budget estimates show that the government aims to increase consolidated expenditure by 7.8% to R2 592.3 billion in the 2025/26 fiscal year, with debt service costs surging by 9.1% and non-interest expenditure rising by 5.8%.

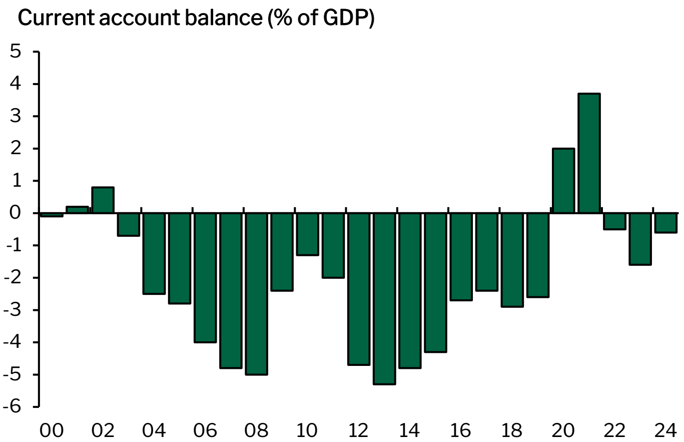
The country's net trade position is expected to deteriorate. Export volumes will remain under pressure. The gradual and modest improvements on the electricity and logistical front will not reduce operating costs fast enough to enhance competitiveness meaningfully. On top of South Africa's already considerable competitive challenges, some industries will probably lose the benefit of duty-free access to the US markets as AGOA expires, and most producers will face higher import tariffs. In addition, Trump's far-reaching tariffs will dampen global trade, weigh on already subdued global growth, and hurt commodity prices, further dampening export growth. Given our expectation of stronger consumer demand, import volumes will likely increase, outpacing exports and driving the net trade position deeper into the red.

Altogether, we forecast GDP growth of 1.1% in 2025 and 1.6% in 2026, averaging 1.5% over the next 3 years. However, risks to the outlook reside on the downside because of the increasingly unfavourable global policy environment and geopolitical uncertainty.

The balance of payments: Current account deficit likely to widen on weaker trade outcomes

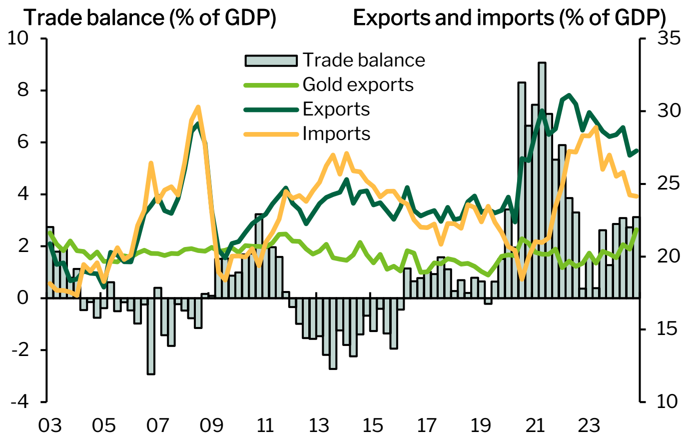
The current account deficit narrowed from R55.6 billion in Q3 to R31.6 billion in Q4. As a ratio of GDP, the deficit eased from 0.8% to 0.4%. The improvement stemmed from a wider trade surplus, which jumped from 1.8% of GDP in Q3 to 2.3% in Q4. The value of exports rebounded. Net gold exports drove the recovery, surging by 41.2% qoq and 61.2% yoy in Q4, lifted by an impressive rally in the gold price. In contrast, merchandise exports declined further, shrinking by 0.4% qoq and 3.2% yoy in Q4. Lower domestic production due to persistent structural challenges, subdued global demand, and soft commodity prices weighed on merchandise exports. At the same time, the value of imports rose by less than that of exports. Falling import prices driven by lower global oil prices partly offset higher import volumes caused by stronger domestic demand. Due to higher dividend payments, the deficit in the services, income and transfer accounts widened slightly from 3.5% of GDP in Q3 to 3.6% in Q4. Overall, the country's external position improved significantly in 2024, with the deficit narrowing to a modest 0.6% of GDP, down from 1.6% in 2023.

Chart 33: Current account narrowed notably in 2024



Source: SARB

Chart 34: Net exports bolstered the trade surplus



Source: SARB

Box 1: Structural reforms

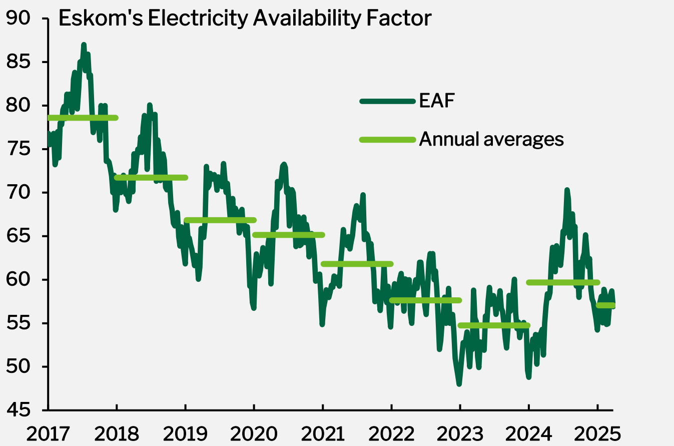
Progress remains slow, but South Africa is still in a better position than in 2023. Despite the return of load-shedding at the start of Q1, it remains below levels experienced a year earlier. Other electricity indicators also point to a general improvement. The energy availability factor averaged 57.6% in March, with planned maintenance over January to March exceeding last year's average. Nonetheless, power stations remain vulnerable. In the absence of additional installed and grid capacity, the return of load-shedding will remain a risk for the foreseeable future.

Although the country's transport network remains highly inefficient, slightly more volume is being moved by rail and the delays at the ports have eased somewhat. Transnet moved 2.2% more freight by rail in December 2024 compared to 2023 while road volumes declined by 8.9%. Although port call durations have dropped at a couple of ports in 2024, progress at others have fluctuated and Durban remained stuck at its 2023 average. The hope is that the establishment of the Transport Economic Regulator, scheduled to start operating this year, will consolidate the regulation of transport sectors and promote competition to improve efficiency and together with the National Logistics Crisis Committee, advance private-sector participation and support investment in logistics.

The current state of water resources in the country are dire with some of the big dams reporting levels below 80%. Supply challenges across major cities are concerning, with most grappling to meet demand. These are mainly due to infrastructure decay, load shedding (affecting water pumps) and mismanagement (faulty meters and water losses). Johannesburg is on the brink of collapse, with water shedding almost weekly. The city is losing water due to pipe bursts and long turnaround times when reported. There is no official quantification of the exact loss, but it is estimated that the city loses about 40% of water because of these bursts. In eThekwini, the Department of Water and Sanitation has implemented water rationing measures to reduce consumption by 8.4% while the measures implemented by Cape Town in 2018 has helped the city avert water shedding. The government's current focus is on improving municipal water services and promoting private-sector participation. Plans are afoot to introduce an independent economic regulator to ensure fair pricing and sustainable management of water services. The municipal turnaround strategy focuses on addressing critical maintenance backlogs, ensuring skilled personnel are in place and fast-tracking infrastructure investments to stabilise service delivery. As stipulated in the Budget Review, a recent report on water-sector investment requirements estimated that R256 billion will be required annually between 2023 and 2050, totalling R7.2 trillion, to achieve water security and access for all. The National Water Programme aims to address investment gaps, with initial commitments from the New Development Bank and the City of Cape Town.

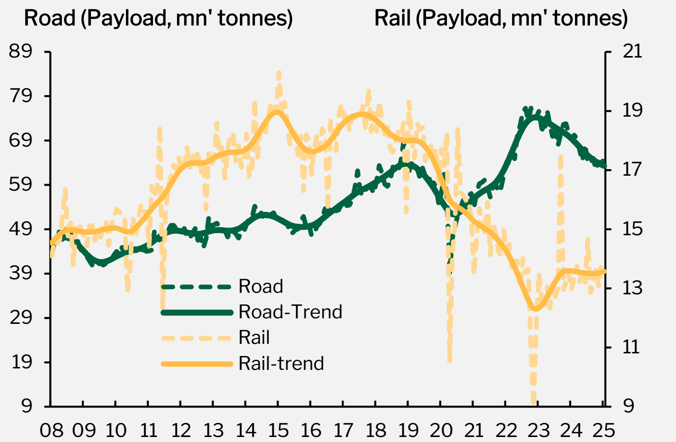
While these plans are welcomed and signal moves in the right direction, it is incremental and there is a long way to go before the benefits of reduced operating costs and improved international competitiveness filters through. Nonetheless, it should result in some efficiency gains in 2025 and create some breathing space for moderately faster growth.

Chart 35: EAF at start of 2025 still better than in 2023.



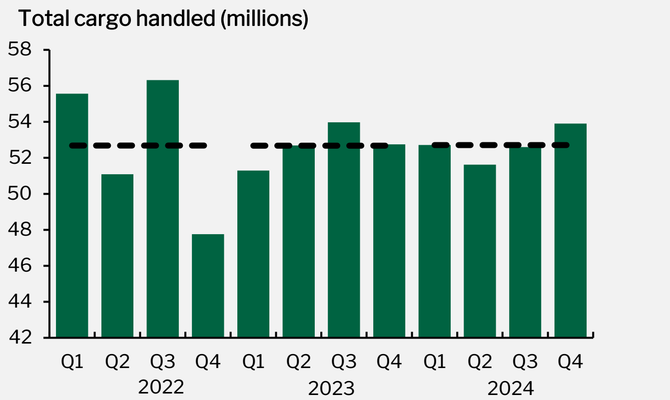
Source: Eskom

Chart 36: Rail freight volumes stabilised.



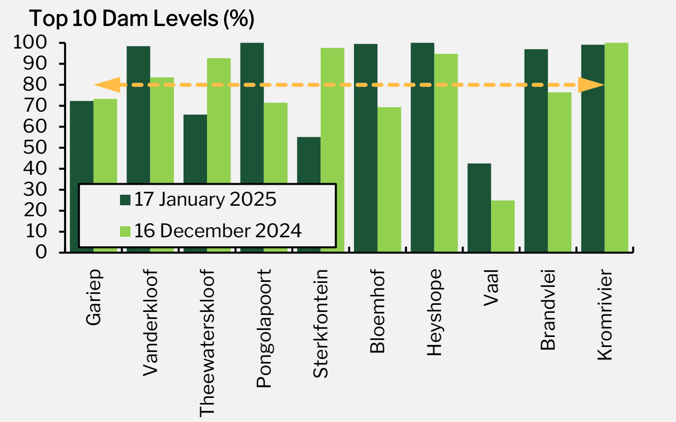
Source: Stats SA

Chart 37: Total cargo handled also improved slightly.



Source: SARB

Chart 38: Dam levels below the critical 80% mark.



Source:DWS

The trade surplus will narrow in 2025. We expect imports to outpace exports. Stronger consumer spending will prop up import volumes. Import prices will likely be stagnant, with lower global oil prices offsetting the impact of a weaker rand. In contrast, the unfolding US trade war will hurt exports. Trump's tariffs will hit South Africa's exports through 3 channels. First, local producers will face higher import levies on their exports to US, making their products more expensive to US consumers and reducing export sales. The impact will be significant as the US is South Africa's second largest export market, accounting for 8.6% of total exports or 2.1% of GDP in 2024. As of 11 April, most local producers will face a minimum levy of 10%, which could surge to 30% by early July unless the government manages to strike a more favourable trade deal with the US. Aluminium and steel producers will face a 25% tariff, but the US has, at least, exempted most mineral products from tariffs.

In addition, there is considerable confusion over the future of AGOA. At this stage, 27.9% of South Africa's exports to the US qualify for duty-free access, including automobiles, parts and accessories. However, the US imposed a 25% tariff on finished motor vehicles in March, excluding automotive parts and accessories. While there has been no official communication, the imposition of these tariffs would effectively terminate AGOA. It now seems unlikely the US will extend the agreement before it expires in September 2025.

Second, US tariffs will also weigh on economic growth in South Africa's other trading partners, further reducing demand for our export. The sky-high tariff imposed on China will hurt its export-orientated economy. Given that China is South Africa's largest trading partner and the world's largest consumer of commodities, a slowdown in China would hit our mining exports. Mining, in turn, accounts for 42% of South Africa's total exports, of which 19.5% go to China. And finally, as global growth slows and China's recovery falters, international commodity prices will likely decline, leading to a renewed deterioration in South Africa’s terms of trade. While the drag on exports will be partially contained by more reliable electricity supply, slightly less inefficient logistics, and sustained demand for gold, this will not be sufficient to offset the downside. As a result, we expect a smaller trade surplus in 2025. The current deficit is expected to widen to 1.3% in 2025 from 0.6% in 2024.

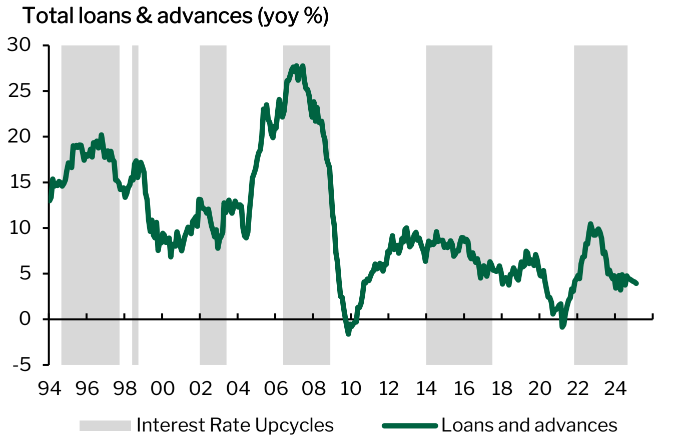
The financial account deteriorated in Q4 2024, recording a net outflow of R9.5 billion or 0.5% of GDP, a reversal of Q3’s net inflow of R39.1 billion or 2.1% of GDP. The drag emanated from net portfolio outflows, amounting to R11.2 billion. The enthusiasm that surrounded the election of Donald Trump as US president drove outflows over the period, with US outperforming most other advanced and developing countries. Over the whole year, the financial account still recorded a surplus of 0.9% of GDP, little changed from 0.8% in 2023. Given global uncertainties and underlying risk-off sentiment, capital inflows to South Africa will likely remain under pressure.

Credit demand: Sluggish, but likely to turn the corner

Credit growth remained weak and patchy in early 2025. Private sector credit extension (PSCE) slowed from 3.8% yoy in December to 3.7% in February. The slowdown was broad-based. A sharp contraction in the volatile bills and investments category exerted the most downward pressure in February, but growth in loans and advances also lost further momentum, easing from 4.2% in December to 3.9% in February. The weaker trend was visible in the retail and corporate markets.

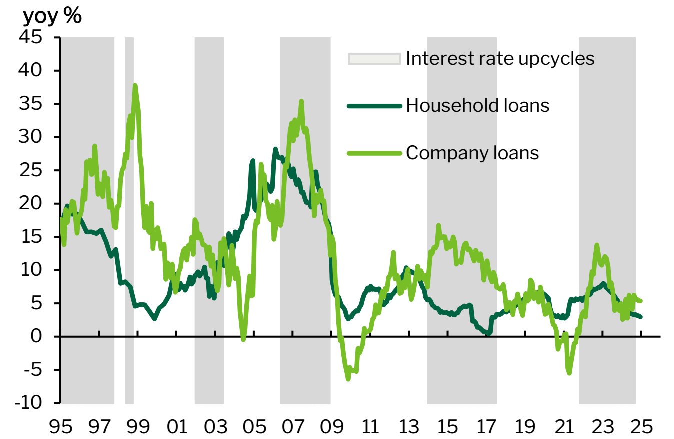
The gradual slowdown in household loans continued unabated, sliding to only 2.7% in February, falling to just below the trough reached in the aftermath of the pandemic. Tighter lending standards by commercial banks and generally soft credit demand were mainly to blame. Despite 3 interest rate cuts since September last year, consumers remained cautious of large commitments. Growth in vehicle finance and home loans slowed, while overdrafts and personal loans declined further. Only credit card usage held up relatively well, still growing by a healthy 8.4% yoy, albeit down from 8.9% in December and a high of 10.7% in July.

Chart 39: Total loans and advances remain weak



Source: SARB

Chart 40: Household and company loans



Source: SARB

Company loan growth remained volatile, heavily influenced by declines and rebounds in last year's base. This erratic pattern continued into 2025, with advances jumping from 4.6% in December to 6.1% in January before relapsing to 4.5% in February. The weakness came mainly from a sharp moderation in overdrafts, which account for close to 11% of company loans. However, growth in instalment sales, leasing finance, commercial mortgages and general loans picked up slightly in February. Companies remain generally hesitant to expand operations given the country's relatively modest growth prospects and challenging operating environment caused by the high cost inflicted by persistent infrastructure constraints and bottlenecks.

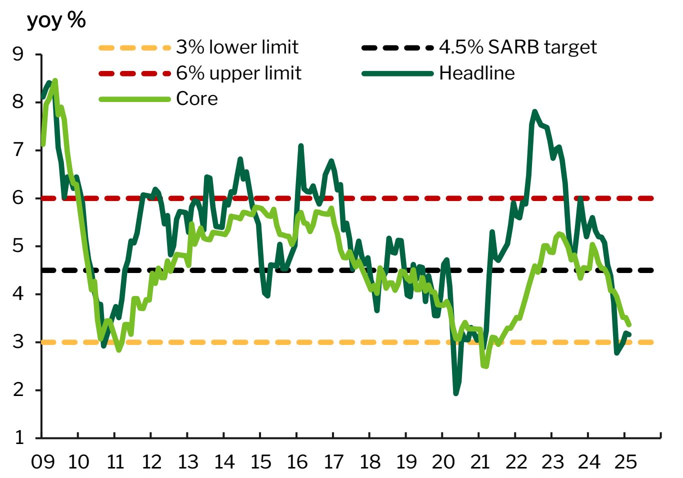
We still expect credit growth to turn the corner in 2025. Household credit demand will slowly recover as consumer finances stabilise, underpinned by rising real incomes, contained inflation, moderately lower interest rates and ongoing access to contractional savings through the 2-pot retirement system. Company loan growth will likely remain volatile and drift sideways in the first half of the year, before gathering moderate upward traction as fixed investment recovers, the ongoing structural reforms start to improve operating conditions more meaningfully and the recovery in the domestic economy becomes more entrenched. We expect growth in loans and advances to edge up to around 5% by year-end. Given the uncertain global environment, the risk to our forecast remains to the downside.

Inflation: Slowly drifting higher

Inflation remained subdued in early 2025. Headline inflation increased gradually from a low of 2.8% in October to 3.2% in February. The gentle rise stemmed from a slow upward drift in food and fuel prices off a very low base. Fuel prices increased for the fourth consecutive month in February, driven by higher global oil prices and a weaker rand over this period. Despite the monthly increases, fuel prices were still lower than last year. However, the monthly increases meant that the deflationary drag on headline inflation faded somewhat. At the same time, food inflation ticked up from a 14-year low of 1.5% in November to 1.9% in February. Electricity prices remained high and edged up slightly from 11.4% at the end of last year to 11.9% in February. Price increases in most other goods and services moderated further, driven by lower operating costs due to easing supply-side constraints and kept in check by modest growth in domestic demand. Consequently, core inflation, which excludes food and energy prices, eased from 3.5% in December to 3.4% in February, extending its stay below SARB's 4.5% target to 8 months.

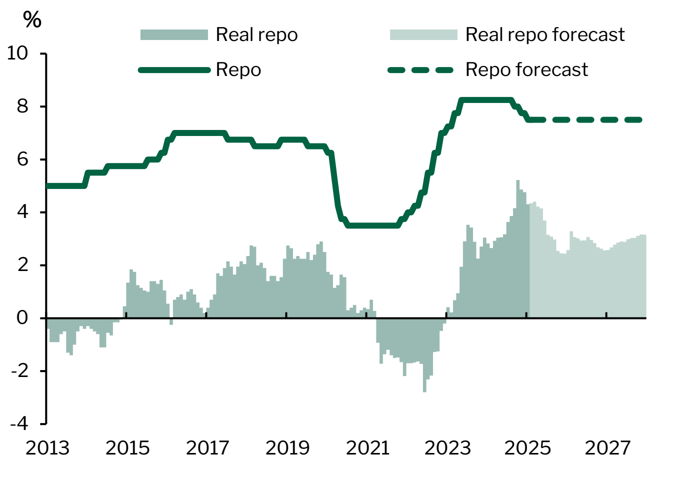
Inflation will continue to drift higher, ending the year at around 5%. The upward pressure will come from various sources. Goods prices, led by food, will likely rise. The anticipated trajectory partly reflects statistical effects, with future price increases calculated from last year's lower levels. These base effects will be most pronounced in food prices. The upward trend will be amplified by rising import costs, primarily driven by a weaker rand, but also higher international prices. Global food prices are already rising off a low base. According to the United Nations' Food and Agriculture Organisation, food inflation increased for the first time in 21 months in September last year, before climbing to 6.9% yoy in March. Sharply higher tariffs in the US and other countries also pose upside risks to import prices. If the global trade war results in widespread disruptions in global supply chains, the increase in import inflation could be more severe than currently envisioned. On the local front, the hikes in VAT and other tax rates will result in higher prices, regardless of the expansion of the basket of zero-rated items. Our calculations suggest that the 0.5% increase in VAT will add about 0.2 ppts to inflation in 2025 and 2026, while the additional 0.5% increase in 2026 will exert a further 0.3 ppts to our base forecasts. On this score, SARB came to broadly same conclusions. Moreover, higher electricity tariffs will remain a source of inflation in 2025. The National Energy Regulator of South Africa (NERSA) approved a hefty 12.74% tariff increase for 2025/26, followed by much milder hikes of 5.36% in 2026/27 and 6.19% in 2027/28.

Chart 41: Inflation rising but still below the 4.5% target.



Source: SARB and Stats SA

Chart 42: Nominal and real interest rate forecasts



Source: SARB, Stats SA, and Nedbank forecast

There will be significant countervailing forces. The rise in food prices will be contained by higher yields in summer crops in South Africa and the rest of the Southern Hemisphere following good rains throughout the region. Fuel price inflation will also be milder than initially anticipated. Global oil prices fell sharply in recent weeks. OPEC+ decided to increase oil production just as the US tariff war soured the global economic outlook. Of course, OPEC+ could still reverse its decision. Even so, weaker global demand will continue to weigh down oil prices. On top of these disinflationary forces, a modest and patchy recovery in domestic demand, driven almost exclusively by price-sensitive consumers, still grappling with relatively high interest rates, will limit companies' ability to pass cost increase onto consumers. At the same time, fewer power outages and slightly smoother logistics will partly offset the impact of higher import prices and a weaker rand on company's operating costs. All said, we do not expect inflation to deviate significantly from SARB's 4.5% target in 2025. Inflation is forecast to average 4% in 2025, before drifting up to around 4.6% in 2026 and 2027.

Monetary policy: Only difficult choices ahead

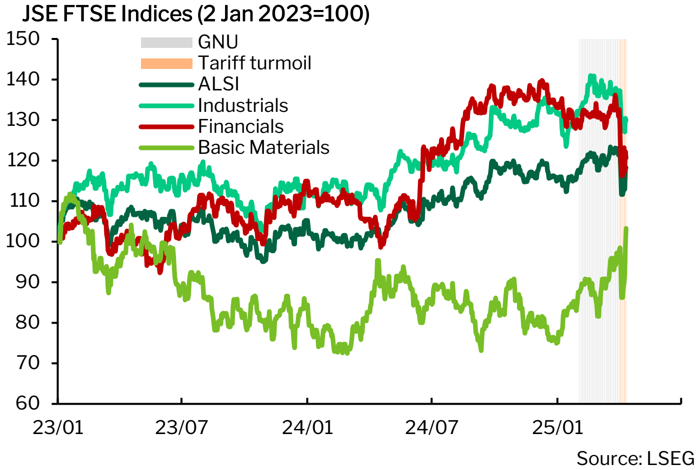
SARB's Monetary Policy Committee (MPC) left the repo rate at 7.50% at its March meeting, following cuts of 25 bps at each of the previous 3 meetings. While the MPC expected inflation to remain contained over the short term but feared that a global trade war could unsettle the rand and lead to renewed price pressures over the medium term. The MPC probably also took note of the Fed's growing caution, understanding that a prolonged pause or even tighter monetary policy by the Fed could amplify the downward pressure on the rand. While stressing the upside risks, SARB nonetheless lowered its inflation forecasts to only 3.6% in 2025 and 4.5% in 2026 and 2027. The central bank expected lower oil prices to dampen the impact of the VAT rate hike, a weaker rand, and higher electricity tariffs over the short term.

We expect the MPC to remain cautious in the face of global uncertainty. The MPC's trade war concerns not materialised in recent weeks, but probably unfolded in a far more dramatic and disruptive manners than they envisioned. With the tariff drama still evolving, the outlook for all drivers of domestic inflation remains highly uncertain. Much will depend on how US trade policy impacts its economy and how the Fed responds. If US economy weakens significantly, or enters technical recession, the Fed would probably cut interest rates as growth concerns outweigh inflation fears. Under such circumstances, the rand would stabilise, allowing the MPC to cut interest rates further. If US inflation rise sharply and the economy slows only moderately, the Fed would probably leave interest rates on hold, especially so soon after the post-pandemic inflation bulge. Against such a backdrop, the USD would rebound. If the US economy weakens less than the rest of the world economy, the USD could rally off lower levels. This would keep the rand under pressure and cause the MPC to pause for a prolonged period. Given the uncertainty, we think the MPC will keep interest rates on hold until there are fewer moving parts to consider.

Local financial markets: Sharp losses as global risk aversion surges

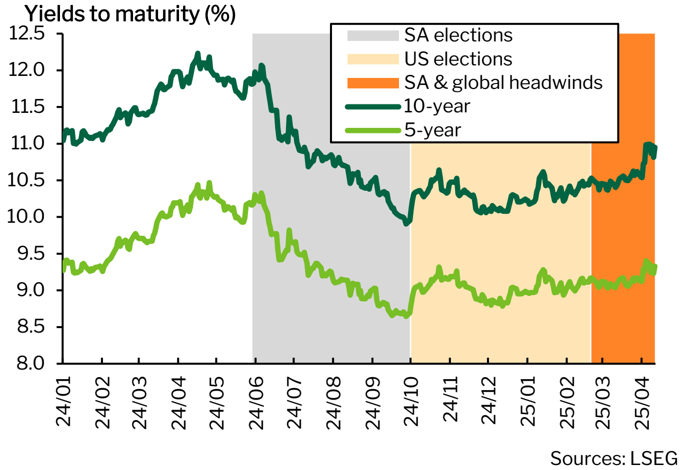
The tariff-induced global meltdown also hurt local markets. Global risk aversion spiked. The flight to safety hit riskier asset classes and jurisdictions. Consequently, most emerging market currencies, equities and bonds came under pressure. Local factors added further strain. Markets fears that the GNU would collapse as the rift between the ANC and DA over the VAT increase and other policy choices widened. As a result, the dividend South Africa earned on political stability after last year's election started to unwind, leading to a renewed rise in the country's risk premium.

Chart 43: Resources buoyed the JSE



Source: LSEG

Chart 44: Bond yields rose as risk aversion increased



Sources: LSEG

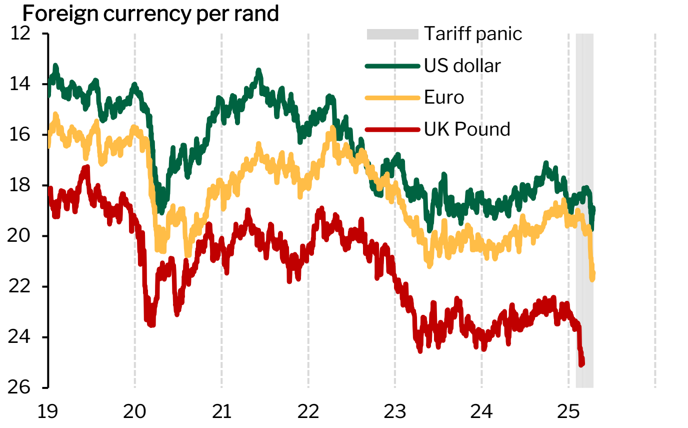
Under the circumstances, the local stock market held up remarkably well. The FTSE JSE all-share index (ALSI) lost only 2.5% of its value in early April. A 7.1% surge in resources offset declines of 7.8% in financials and 3.9% in industrials. Resources, dominated by exporters, benefited from the rand's slide and higher gold and other metal prices. Financials plunged as the markets priced in the possibility of weaker credit demand and poor credit quality on bank earnings as interest rate expectations turned more hawkish. The rand slide raised the probability that SARB would not cut interest rates any further. Domestic political woes also weighed on financials as the country's risk premium crept up. Despite the April sell-off, the ALSI is still 2.7% higher than at the end of last year, buoyed by 37.5% surge in resources over the same period. The local stock market will probably remain weak over the short term, bogged down by global risk-off sentiment amid continued tariff uncertainty and market turmoil. Once the dust settles, the local equities will rebound, led mainly by financials, which offer good value and should benefits from firmer domestic demand. Resource and industrial stocks appear more vulnerable, given significant exposure to the US and China.

Bond yields rose as risk aversion spiked, the rand's slide raised inflation and interest rate expectations, and the domestic fiscal and political gridlock intensified. The unexpected rout in US Treasuries in early April amid a major global risk-off event also rattled investors. The yield on the benchmark 10-year government bond climbed from 10.20% at the end of last year to 10.95% on 11 April, after briefly rising above 11% in early April. Local bond yields will likely remain elevated until global markets stabilise, and some measure of political stability returns to South Africa.

The rand traded within a narrow trading range for most of Q1, hovering between R18.07 and R19.09 against the USD, as the greenback lacked a clear direction, bogged down by the US government's on-again-off-again pivot towards protectionism. However, the rand came under intense pressure in early April as risk aversion intensified after Trump's punitive 'Liberation Day' tariffs, hurting most emerging market currencies. On a trade-weighted basis, the rand depreciated by a steep 4.6% since the start of the year. As of 15 April, the rand weakened by 3.1% against a sliding USD, but tumbled 7.8%, 5.6% and 7.3% against the euro, the British pound and the JPY, respectively.

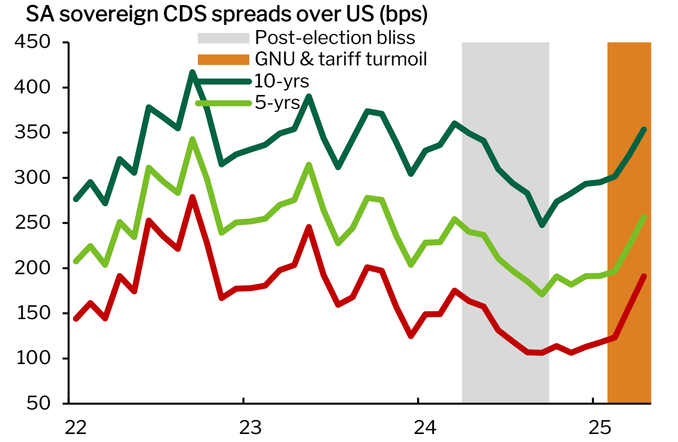
The rand remain fragile as it grapples with a confluence of local and global headwinds. Global risk aversion will remain elevated, weighing on the rand, as global investors try to get ahead of the never-ending changes in US economic policies, which threatens to upend the world economic order and plunge the global economy into a recession. Local forces will also remain unsupportive. Domestic growth prospects now appear more muted, while the future of the GNU still hangs in the balance. At this stage, the rand will likely remain under pressure. If the global landscape stabilises, and South Africa finds a centrist solution to the current political impasse, the rand could stage a more convincing recovery.

Chart 45: The rand came under severe pressure



Source: LSEG

Chart 46: Risk perceptions towards SA deteriorated



Sources: LSEG

FACTS AND FORECASTS OF KEY ECONOMIC VARIABLES

Updated 16 April 2025

Annual forecast	2019	2020	2021	2022	2023	2024	2025	2026	2027
Growth (real, % change)									
GDP	0.3	-6.2	5.0	1.9	0.7	0.6	1.1	1.6	1.5
GDE	1.1	-8.0	5.3	3.9	0.8	-0.7	2.0	1.7	1.6
HCE	1.3	-6.1	6.2	2.5	0.7	1.0	2.1	1.6	1.7
GFCF	-1.7	-14.8	-0.4	4.8	3.9	-3.7	0.1	2.4	2.7
Exports	-3.3	-12.0	9.7	6.8	3.7	-2.0	-1.1	1.4	2.4
Imports	0.6	-17.6	9.6	15.0	3.9	-6.3	2.1	2.3	2.6
Current account balance									
R bn	-146.5	109.5	229.6	-33.3	-112.1	-44.5	-100.3	-153.1	-182.1
% of GDP	-2.6	2.0	3.7	-0.5	-1.6	-0.6	-1.3	-1.9	-2.1
Gold price (average per ounce)									
USD	1404.4	1783.4	1795.6	1817.1	1942.7	2404.8	3053.1	3064.1	3049.8
Rand	20261.8	29568.4	26743.0	29892.2	35900.8	44145.8	57125.7	57935.0	59299.8
Exchange rates									
Rand per USD	14.43	16.58	14.89	16.45	18.48	18.36	18.71	18.91	19.44
USD per EUR	1.118	1.147	1.180	1.053	1.082	1.079	1.112	1.123	1.117
JPY per USD	109.0	106.4	110.4	131.7	141.4	151.9	145.3	141.0	141.1
USD per GBP	1.279	1.292	1.374	1.233	1.247	1.278	1.302	1.299	1.283
Rand per EUR	16.12	19.00	17.55	17.27	19.98	19.78	20.77	21.24	21.72
JPY per rand	7.56	6.43	7.42	8.00	7.65	8.27	7.79	7.46	7.26
Rand per GBP	18.45	21.40	20.46	20.20	23.04	23.39	24.27	24.56	24.94
Interest rates (end of period)									
3-month JIBAR	6.80	3.63	3.87	7.21	8.34	7.72	7.51	7.51	7.51
Prime	10.00	7.00	7.25	10.50	11.75	11.25	11.00	11.00	11.00
Long bond	8.96	8.93	9.65	10.84	11.04	10.22	10.67	10.64	10.41
Inflation (average)									
Headline CPI	4.1	3.3	4.6	6.9	5.9	4.4	4.0	4.6	4.6
Core CPI	4.1	3.4	3.1	4.3	4.8	4.4	5.0	5.6	4.5

Disclaimer:

While every care is taken to ensure the accuracy of the information and views in this document, no responsibility can be assumed for any action based on the information.

FACTS AND FORECASTS OF KEY ECONOMIC VARIABLES

Updated 16 April 2025

	2024				2025			
	Q1'24	Q2'24	Q3'24	Q4'24	Q1'25	Q2'25	Q3'25	Q4'25
GDP (qoq %)	0.1	0.3	-0.1	0.6	0.1	0.2	0.5	0.6
Interest rates (end of period)								
Three-month JIBAR	8.29	8.29	8.00	7.72	7.51	7.51	7.51	7.51
Prime	11.75	11.75	11.50	11.25	11.00	11.00	11.00	11.00
Long bond (10-yr)	11.98	11.22	9.95	10.22	10.55	10.69	10.63	10.67
Inflation (end of period)								
CPI	5.3	5.1	3.8	3.0	3.1	3.8	4.5	5.1
Core CPI	4.1	5.0	5.6	6.2	5.9	5.4	5.5	5.2
Exchange rates (end of period)								
Rand per USD	18.92	18.19	17.26	18.85	18.30	18.76	18.68	18.92
USD per EUR	1.08	1.07	1.11	1.04	1.08	1.13	1.14	1.13
JPY per USD	151.31	160.83	143.62	157.18	149.95	142.33	143.10	144.24
USD per GBP	1.26	1.26	1.34	1.25	1.29	1.31	1.31	1.32
Rand per EUR	20.35	19.48	19.22	19.50	19.79	21.26	21.22	21.32
JPY per rand	8.02	8.84	8.30	8.32	8.18	7.59	7.66	7.62
Rand per GBP	23.92	22.99	23.05	23.48	23.58	24.60	24.52	24.96
Gold price per ounce								
USD	2232.4	2325.7	2634.5	2623.8	3123.1	3126.2	3048.0	3026.7
Rand	42239.7	42292.9	45464.5	49460.4	57161.9	58637.3	56942.7	57262.7

Disclaimer:

While every care is taken to ensure the accuracy of the information and views in this document, no responsibility can be assumed for any action based on the information.

GROUP ECONOMIC UNIT

Nicky Weimar	nickywe@nedbank.co.za
Isaac Matshego	isaacmat@nedbank.co.za
Matimba Khosa	johanneskh@nedbank.co.za
Crystal Huntley	crystalhu@nedbank.co.za
Liandra da Silva	liandrad@nedbank.co.za
Busisiwe Nkonki	busisiwenkon@nedbank.co.za

Nedbank 135 Rivonia Campus

135 Rivonia Road, Sandown, Sandton, 2196, South Africa

nedbankgroup.co.za