

SA Economics



Macro-economic outlook: room for downside inflation, and so interest, rate surprises for this year

Friday 6 January 2023

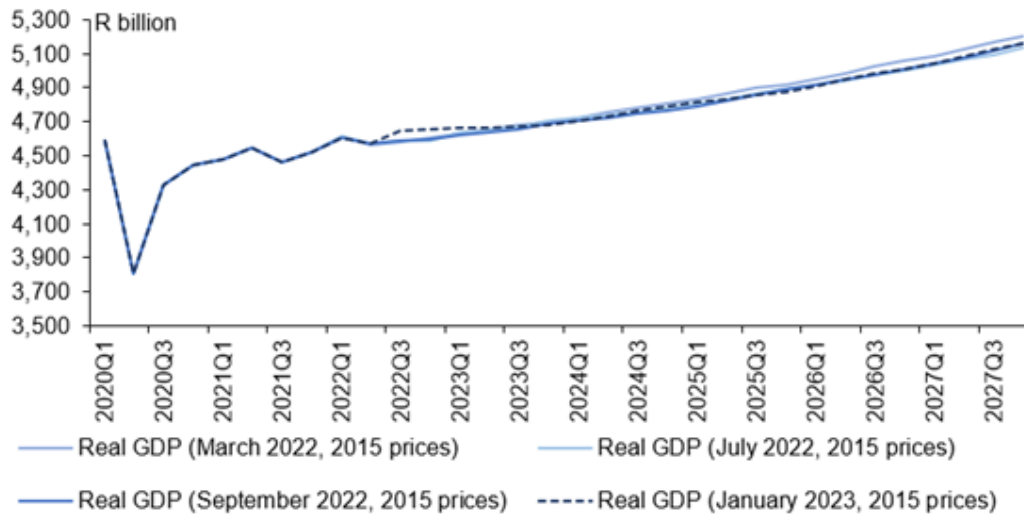
Summary, % real growth rates	2022	2023	2024	2025	2026	2027
GDP (real, %)	2.5	1.1	1.7	2.0	2.5	2.8
HCE (real, %)	2.9	1.3	2.2	2.3	2.4	2.7
GCE (real, %)	0.8	-1.8	-1.0	0.2	0.9	1.3
GFCF (real, %)	4.5	3.1	4.6	5.2	5.5	6.1
GDE (real, %)	3.9	1.1	1.9	2.2	2.6	3.0
Export (goods & non-factor services) - (real, %)	9.4	7.3	3.8	4.1	4.6	5.1
Imports (goods & non-factor services) - (real, %)	14.1	6.8	4.4	4.4	5.0	5.5
Balance: Current Account - (% of GDP)	0.5	-1.9	-2.1	-2.0	-2.2	-2.3
Imports as % of GDP	28.9	30.6	31.4	32.1	32.9	33.7
Exports as % of GDP	28.0	29.7	30.3	30.9	31.5	32.2

Consumption Expenditure	2022	2023	2024	2025	2026	2027
HCE, total (real, %)	2.9	1.3	2.2	2.3	2.4	2.7
HCE as % of GDP	66.4	66.5	66.8	67.0	66.9	66.9
Unemployment rate (%)	33.5	33.3	32.8	32.7	32.4	32.2
Population (million)	59.9	60.4	61.0	61.7	62.3	62.9
Employment growth rate (%)	6.2	2.7	2.3	2.4	2.1	2.1
Compensation of employees (%)	5.9	6.1	6.4	6.3	6.4	6.6
GCE as % of GDP	19.5	18.9	18.4	18.1	17.8	17.6

Gross Fixed Capital Formation	2022	2023	2024	2025	2026	2027
GFCF, total (real, %)	4.5	3.1	4.6	5.2	5.5	6.1
GFCF as % of GDP	14.3	14.6	15.0	15.5	15.9	16.4
Private sector (real, %)	6.4	3.3	4.8	5.5	5.6	6.1
Government (real, %)	0.1	2.7	4.1	4.7	5.3	6.2
Non-residential GFCF (real, %)	8.0	3.3	4.8	5.5	5.6	6.2
Residential buildings (real, %)	-0.4	2.9	4.8	5.3	5.6	5.8

Please note: all data may be subjected to historical revisions

South Africa GDP (R billion, constant prices) quarterly – SA GDP expected to reach pre-COVID levels earlier



Source: Investec

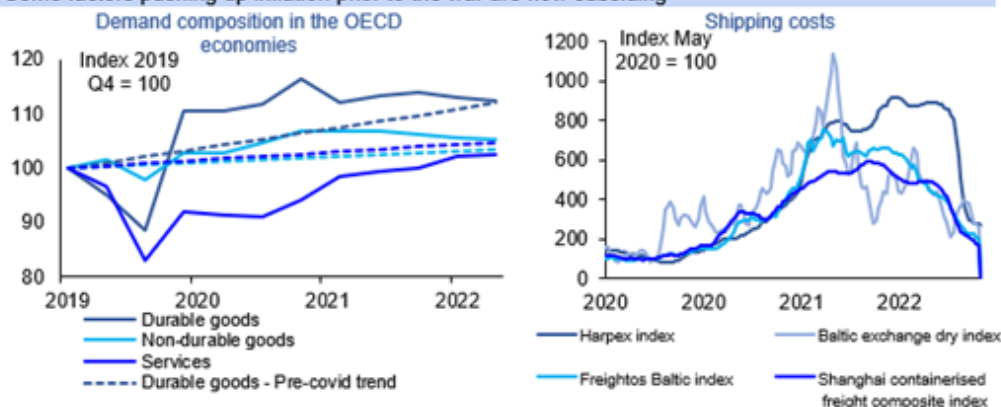
GDP summary, % real growth rates	2022 Q1	2022 Q2	2022 Q3	2022 Q4	2023 Q1	2023 Q2	2023 Q3	2023 Q4	2024 Q1	2024 Q2	2024 Q3	2024 Q4
GDP (real, y/y %)	2.7	0.5	4.0	2.9	1.3	2.1	0.6	0.5	0.9	1.4	2.0	2.4
HCE (real, y/y %)	3.0	2.0	4.5	2.2	1.3	1.0	1.6	1.2	1.6	2.0	2.4	2.8
GCE (real, y/y %)	2.2	1.0	1.0	-1.0	-2.2	-1.9	-2.2	-0.8	-1.1	-0.8	-1.2	-0.9
GFCF (real, y/y %)	3.6	4.3	5.8	4.6	2.3	3.5	3.2	3.4	3.7	3.6	5.2	5.9
GDE (real, y/y %)	3.5	3.8	5.3	3.1	1.5	0.5	0.6	1.8	1.5	2.1	2.0	1.9
Export (goods & non-factor services) - (real, y/y %)	7.8	4.4	16.8	9.2	6.8	9.6	6.2	6.7	5.8	3.8	3.4	2.3
Imports (goods & non-factor services) - (real, y/y %)	10.4	16.1	20.9	9.4	7.2	3.4	5.8	10.9	7.7	6.1	3.3	0.8
Current Account – (% of GDP)	2.4	-1.6	-0.3	-1.2	-1.7	-1.6	-2.0	-2.3	-2.2	-2.1	-2.0	-2.0
Imports as % of GDP	27.9	29.7	29.4	28.8	29.6	30.0	30.9	31.7	31.5	31.4	31.3	31.2
Exports as % of GDP	27.4	27.6	28.3	28.6	28.9	29.6	29.8	30.3	30.3	30.3	30.3	30.3

Note: The GDP figures are from the expenditure side and so include the residual. Source: SARB, Investec

GDP summary, % real growth rates	2025 Q1	2025 Q2	2025 Q3	2025 Q4	2026 Q1	2026 Q2	2026 Q3	2026 Q4	2027 Q1	2027 Q2	2027 Q3	2027 Q4
GDP (real, y/y %)	2.3	2.1	1.9	1.8	2.1	2.4	2.6	2.7	2.8	2.7	2.8	3.0
HCE (real, y/y %)	2.6	2.4	2.2	2.0	2.1	2.3	2.4	2.6	2.6	2.7	2.7	2.7
GCE (real, y/y %)	-0.3	0.1	0.4	0.7	0.8	0.8	0.9	1.0	1.1	1.3	1.4	1.5
GFCF (real, y/y %)	5.6	5.4	5.2	4.8	5.0	5.3	5.7	6.0	6.0	6.1	6.1	6.2
GDE (real, y/y %)	2.2	2.2	2.1	2.1	2.3	2.5	2.7	2.8	2.9	2.9	3.0	3.1
Export (goods & non-factor services) - (real, y/y %)	2.9	3.7	4.5	5.2	4.8	4.7	4.5	4.4	4.7	5.0	5.2	5.4
Imports (goods & non-factor services) - (real, y/y %)	2.4	3.8	5.0	6.2	5.6	4.9	4.8	4.6	5.0	5.5	5.6	5.7
Current Account – (% of GDP)	-1.9	-2.0	-2.0	-2.1	-2.1	-2.1	-2.1	-2.2	-2.3	-2.3	-2.3	-2.3
Imports as % of GDP	31.6	31.9	32.2	32.6	32.7	32.7	32.9	33.2	33.4	33.6	33.8	34.0
Exports as % of GDP	30.5	30.8	31.0	31.3	31.4	31.4	31.6	31.8	31.9	32.1	32.3	32.5

Note: The GDP figures are from the expenditure side and so include the residual. Source: SARB, Investec

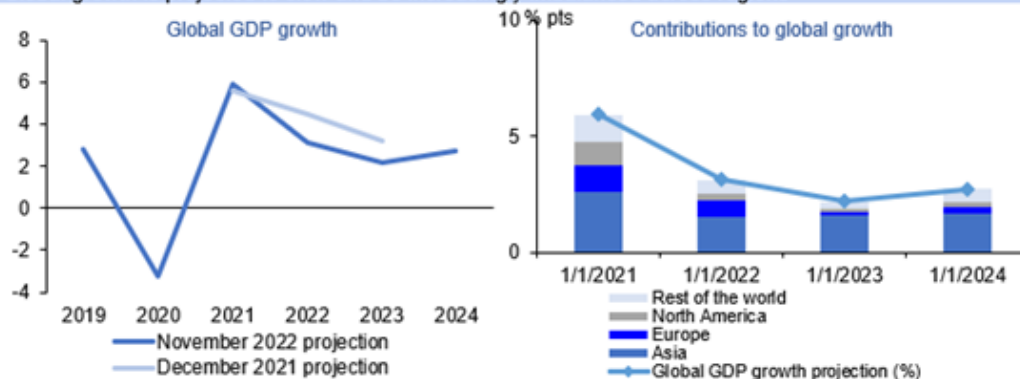
Some factors pushing up inflation prior to the war are now subsiding



Source: OECD, Economic Outlook November 2022

Note: In the LH chart, the dashed lines correspond to a continuation of the pre-pandemic trend (2010-19). The OECD index is based on a weighted sum of individual country growth rates using GDP weights in PPP terms. Consumption of durable goods, non-durable goods, and services is available for 35, 27 and 27 OECD countries, respectively, except for 2022Q3, where estimates are based on the subset of countries with available data.

Global growth is projected to slow and be increasingly imbalanced across regions



Source: OECD, Economic Outlook November 2022

Note: Asia comprises China, India, Indonesia, the Dynamic Asian Economies and OECD Asia-Pacific countries. Europe refers to OECD Europe countries. Rest of the world includes among others Latin America which comprises Argentina, Brazil, Chile, Colombia, Costa Rica, Mexico and Peru. Contributions calculated moving PPP shares of global GDP.

- Globally, Q1.23 is expected to see a weakening in economies, led by Europe, China and the US, with concerns over recession still prevalent, while the US has slowed, but not stopped, its rate hike trajectory, and other economies are expected to follow.
- Inflation drivers have weakened and inflation expectations are falling, or likely to fall, as economic growth slowed over Q4.22, which will likely lead to a moderation in inflation pressures over Q1.23 on lagged effects.
- However, the most recent readings still show inflation is typically high, well above target measures, and interest rate hikes are likely to continue over Q1.23, while risks to the inflation, and interest rate, outlooks persist as well.
- Fiscal, as well as monetary, tightening is expected globally this year, which will add to slowing global activity, although the eventual full reopening of China's economy would have marked effects on commodity prices, global trade and growth.

- China is still expected to see activity contract in Q1.23, and overall it is expected to be a weaker quarter in SA too as higher interest rates bite into the middle income sector of the consumer base which are increasingly financially vulnerable.
- January is likely to see the MPC switch to a 50bp hike, instead of continuing the 75bp lifts it followed the Fed with over much of H1.22. The FOMC shifted to a 0.5% hike in December (SA did not have December MPC meeting).
- The volatile rand, after briefly benefiting from the change in gear in US monetary policy, weakened late yesterday on US data seen to show continued strength of its labour market, and the rand will see ongoing sensitivity to US data releases.
- The ANC conference is wrapping up, with the 8th January statement expected to reiterate support for the step-aside rule, while a cabinet reshuffle is anticipated this month. The SONA is due on the 9th February, and the Budget around 22nd.
- The ANC's new Deputy President, Paul Mashatile, is expected to drive implementation of structural repair to the country's infrastructure when he becomes Deputy President of SA, and renewable energy build is also expected to raise the medium-term outlook.

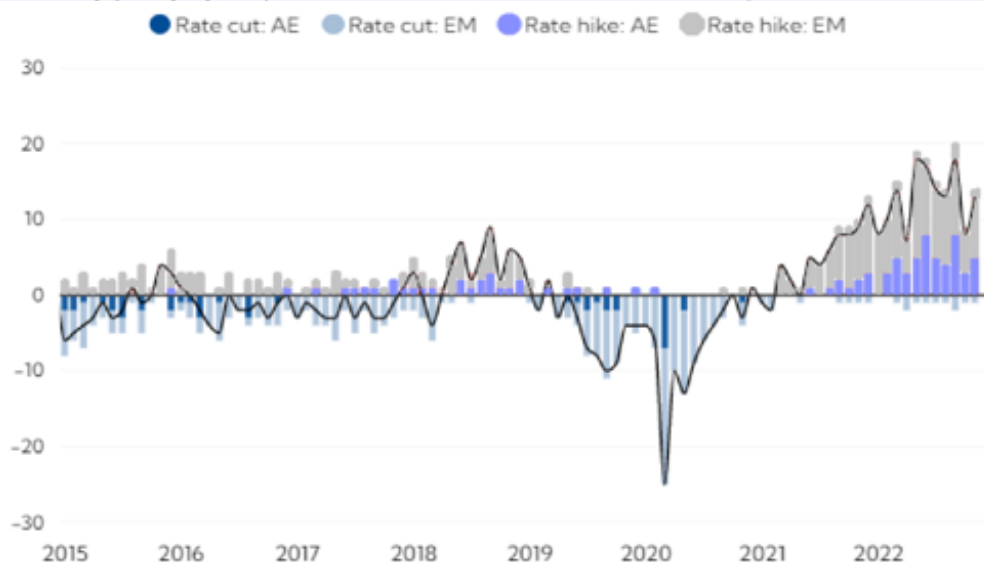
Please scroll down to the second section below

Monetary Sector	2022	2023	2024	2025	2026	2027
Repo Rate (year-end: %)	7.00	7.00	6.50	6.50	6.50	6.50
Prime Overdraft Rate (year-end: %)	10.50	10.50	10.00	10.00	10.00	10.00
SA rand bond (year-end: %)	11.55	10.90	10.50	10.10	10.00	9.90

Inflation	2022	2023	2024	2025	2026	2027
Consumer Inflation (Av: %)	6.9	5.2	4.7	5.0	5.0	5.1
(year-end: %)	7.0	4.4	4.3	5.0	5.0	5.2
Producer Inflation (Av: %)	14.4	7.4	4.8	5.1	5.1	5.0
(year-end: %)	14.0	4.4	4.9	4.8	5.3	4.9
Salary & wage increases (%)	4.2	5.4	5.1	5.5	5.4	5.4

Exchange Rates: averages	2022	2023	2024	2025	2026	2027
USD/ZAR	16.36	16.49	16.52	16.60	16.43	16.58
GBP/ZAR	20.18	20.34	21.76	23.54	23.49	23.55
EUR/ZAR	17.21	17.48	19.33	20.75	20.53	20.59
ZAR/JPY	8.03	8.23	7.20	6.45	6.51	6.50
GBP/USD	1.24	1.23	1.32	1.42	1.43	1.43
EUR/USD	1.05	1.06	1.17	1.25	1.25	1.25
USD/JPY	131	136	119	107	107	107

Monetary policy cycle (number of central banks, absolute value)



Source: IMF

Inflation forecasts	2022 Q1	2022 Q2	2022 Q3	2022 Q4	2023 Q1	2023 Q2	2023 Q3	2023 Q4	2024 Q1	2024 Q2	2024 Q3	2024 Q4
Consumer Inflation (Av: y/y %)	5.8	6.6	7.6	7.3	6.7	5.4	4.2	4.4	4.7	4.9	4.7	4.4
Producer Inflation (Av: y/y %)	10.8	14.7	17.0	15.0	12.8	7.6	5.0	4.6	4.7	4.9	4.8	4.9
Salary & wage increases (y/y %)	4.0	3.6	4.0	5.1	5.5	6.3	4.9	4.8	4.8	4.7	5.7	5.2

Source: Statistics SA, SARB, Investec

Inflation forecasts	2025 Q1	2025 Q2	2025 Q3	2025 Q4	2026 Q1	2026 Q2	2026 Q3	2026 Q4	2027 Q1	2027 Q2	2027 Q3	2027 Q4
Consumer Inflation (Av: y/y %)	5.0	5.0	5.0	4.9	4.9	5.2	4.9	5.0	5.0	4.8	5.2	5.2
Producer Inflation (Av: y/y %)	5.3	5.1	5.0	4.9	5.0	5.2	5.0	5.2	5.1	4.9	5.0	4.9
Salary & wage increases (y/y %)	5.4	5.5	5.5	5.6	5.5	5.4	5.4	5.3	5.4	5.4	5.4	5.5

Source: Statistics SA, SARB, Investec

Monetary	2022 Q1	2022 Q2	2022 Q3	2022 Q4	2023 Q1	2023 Q2	2023 Q3	2023 Q4	2024 Q1	2024 Q2	2024 Q3	2024 Q4
Sector % year-end												
Repo Rate (year-end: %)	4.25	4.75	6.25	7.00	7.50	7.50	7.00	7.00	6.50	6.50	6.50	6.50
Prime Overdraft Rate (year-end: %)	7.75	8.25	9.75	10.50	11.00	11.00	10.50	10.50	10.00	10.00	10.00	10.00
SA rand bond (Av: %)	9.90	10.70	11.00	11.55	11.20	11.00	11.00	10.90	10.80	10.70	10.60	10.50

Note: % quarter-end. Source: SARB, Investec

Monetary	2025 Q1	2025 Q2	2025 Q3	2025 Q4	2026 Q1	2026 Q2	2026 Q3	2026 Q4	2027 Q1	2027 Q2	2027 Q3	2027 Q4
Sector % year-end												
Repo Rate (year-end: %)	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50
Prime Overdraft Rate (year-end: %)	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
SA rand bond (Av: %)	10.40	10.30	10.20	10.10	10.00	10.00	10.00	10.00	10.00	9.90	9.90	9.90

Note: % quarter-end. Source: SARB, Investec

Global supply chain pressures have eased but remain higher than prior to the pandemic



Source: OECD, Economic Outlook November 2022

A variety of high-frequency indicators point to a slowdown



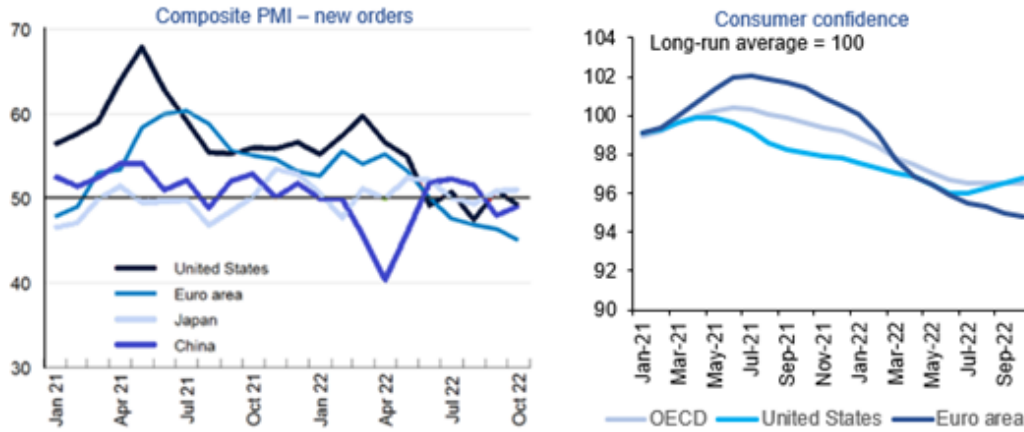
Source: OECD, Economic Outlook November 2022

Note: Data in left hand chart are PPP-weighted aggregates. The retail sales measure uses monthly household consumption for the United States and the monthly synthetic consumption indicator for Japan.

- Concerns over a substantial global recession, particularly as a result of overly restrictive US monetary tightening, persist, as do worries over high inflation, although inflation is showing room to surprise on the downside as drivers weaken.
- Worries over China persist, particularly its response to the pandemic with the World Bank recently cutting its forecast for China's growth this year to 4.3% y/y from 8.1% y/y despite some easing in restrictions.
- South Africa's economic activity will be affected by global trade, with the rand's depreciation boosting export values of dollar based goods on the translation effect as export earnings are brought back into the country.
- While the trade data in SA showed largely similar figures calculated by both SARS and Stats SA in Q3.22, the deflator used by Stats SA (to remove the impact of inflation and render real figures), sharply suppressed imports.
- That is, South Africa's resultant much lower real import figures, with a deflator of close to 15% y/y likely used, pushed up overall GDP sharply. For exports, the deflator was close to 5% y/y boosting real exports massively in comparison.
- PPI inflation in Q3.22 was 17% y/y, and using a consistent deflator would have given a consistent outcome, i.e. deflating both imports and exports by 5% y/y, would have yielded a materially lower GDP outcome.
- 2022 proved to be a turbulent year, with the Russian/Ukraine war a black swan event which pushed up inflation, and so interest rates, much higher than was anticipated at the start of 2022, and the rand was much weaker.
- 2020's black swan of the COVID-19 pandemic did the opposite for inflation and interest rates, but saw a weaker rand, as the domestic currency remains driven in the main by international events, with global macro-economic uncertainties currently.

- For government finances, and so credit ratings, it should be noted that SA's actual export (and import) figures for Q3.22 were much closer in value than Stats SA's calculated real figures, and so would have had less of a nominal revenue effect.

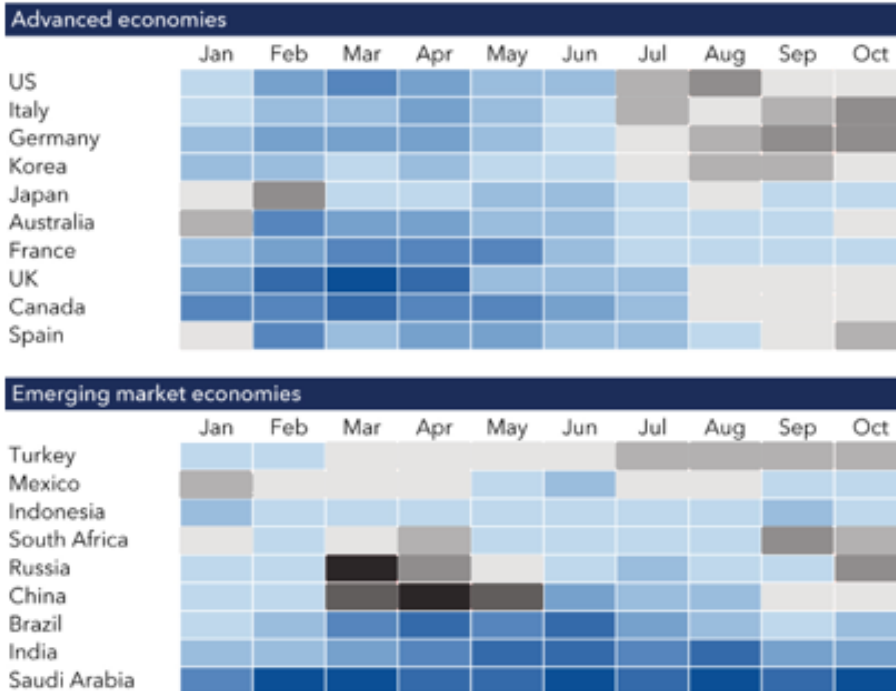
A variety of high-frequency indicators point to a slowdown



Source: OECD, Economic Outlook November 2022

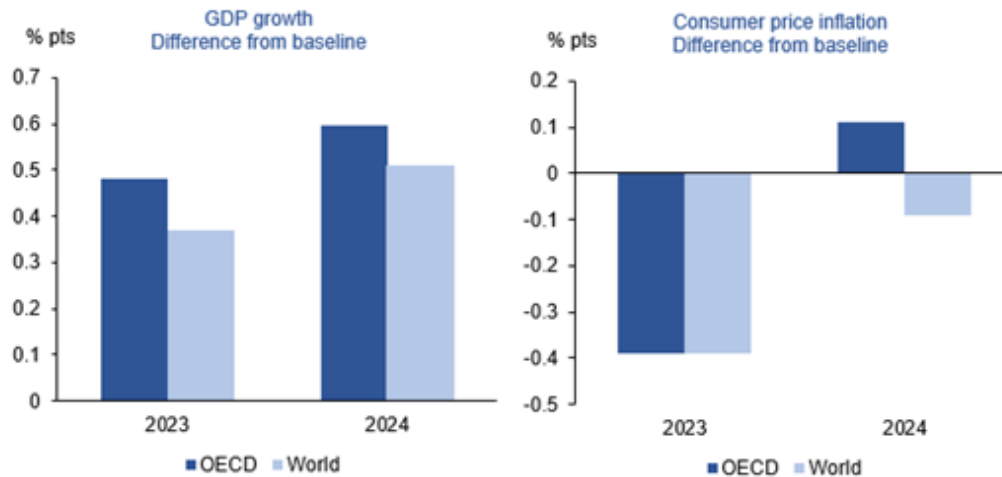
Red zone (GREY TO BLACK BELOW) – Indicators of economic activity

Purchasing manager indexes, 2022: blue signals expansion, grey signals contraction



Source: IMF

Reduced uncertainty and lower commodity prices would strengthen growth and ease inflation



Source: OECD, Economic Outlook November 2022

Note: Illustrative scenario with a 100 basis point reduction in global investment risk premia, a 10% decline in global oil prices and a 5% decline in global food prices.

Consumption Expenditure, % real growth rates	2022 Q1	2022 Q2	2022 Q3	2022 Q4	2023 Q1	2023 Q2	2023 Q3	2023 Q4	2024 Q1	2024 Q2	2024 Q3	2024 Q4
HCE, total (real, y/y %)	3.0	2.0	4.5	2.2	1.3	1.0	1.6	1.2	1.6	2.0	2.4	2.8
HCE as % of GDP	66.3	67.2	65.9	66.2	66.3	66.5	66.6	66.7	66.8	66.8	66.8	66.9
Unemployment rate (%)	34.5	33.9	32.9	32.8	33.0	32.6	33.6	33.9	33.3	33.1	32.6	32.3
Population (million)	59.7	59.8	60.0	60.1	60.2	60.3	60.5	60.6	60.8	60.9	61.1	61.3
Employment growth rate (y/y %)	-0.5	4.2	10.4	10.8	7.1	1.7	5.0	-2.6	-0.7	1.1	3.4	5.3
Compensation employees (y/y %)	5.5	5.0	5.7	7.4	5.7	6.0	6.5	6.2	6.4	6.5	6.5	6.4
GCE as % of GDP	19.7	19.7	19.5	19.1	19.0	18.9	19.0	18.9	18.7	18.5	18.4	18.2

Source: SARB, Investec

Consumption Expenditure, % real growth rates	2025 Q1	2025 Q2	2025 Q3	2025 Q4	2026 Q1	2026 Q2	2026 Q3	2026 Q4	2027 Q1	2027 Q2	2027 Q3	2027 Q4
HCE, total (real, y/y %)	2.6	2.4	2.2	2.0	2.1	2.3	2.4	2.6	2.6	2.7	2.7	2.7
HCE as % of GDP	67.0	67.0	67.0	67.0	67.0	66.9	66.9	66.9	66.9	66.9	66.8	66.8
Unemployment rate (%)	32.6	32.6	32.7	32.9	32.6	32.5	32.3	32.2	32.3	32.2	32.3	32.2
Population (million)	61.4	61.6	61.8	61.9	62.1	62.2	62.4	62.5	62.7	62.8	63.0	63.1
Employment growth rate (y/y %)	4.1	3.0	1.9	0.8	1.3	1.9	2.3	3.0	2.6	2.3	1.8	1.6
Compensation employees (y/y %)	6.4	6.3	6.3	6.4	6.4	6.4	6.4	6.3	6.5	6.7	6.8	6.7
GCE as % of GDP	18.2	18.1	18.1	18.0	18.0	17.9	17.8	17.7	17.7	17.6	17.5	17.5

Source: SARB, Investec

Gross Fixed Capital Formation, % real growth rates	2022 Q1	2022 Q2	2022 Q3	2022 Q4	2023 Q1	2023 Q2	2023 Q3	2023 Q4	2024 Q1	2024 Q2	2024 Q3	2024 Q4
GFCF, total (real, y/y %)	3.6	4.3	5.8	4.6	2.3	3.5	3.2	3.4	3.7	3.6	5.2	5.9
GFCF as % of GDP	14.3	14.4	14.3	14.3	14.4	14.6	14.6	14.7	14.8	14.9	15.1	15.2
Private sector (real, y/y %)	7.2	7.2	6.5	4.6	2.0	3.2	4.2	3.6	4.1	3.7	5.4	6.0
Government (real, y/y %)	-4.7	-2.7	4.1	4.4	3.1	4.3	0.5	2.8	2.9	3.1	4.7	5.5
Non-residential GFCF (real, y/y %)	8.1	9.9	7.1	6.6	2.2	2.5	5.8	2.9	3.8	3.4	5.6	6.4
Residential buildings (real, y/y %)	3.0	-4.5	3.9	-4.0	0.8	6.6	-2.3	7.1	5.1	5.4	4.7	4.2

Source: SARB, Investec

Gross Fixed Capital Formation, % real growth rates	2025 Q1	2025 Q2	2025 Q3	2025 Q4	2026 Q1	2026 Q2	2026 Q3	2026 Q4	2027 Q1	2027 Q2	2027 Q3	2027 Q4
GFCF, total (real, y/y %)	5.6	5.4	5.2	4.8	5.0	5.3	5.7	6.0	6.0	6.1	6.1	6.2
GFCF as % of GDP	15.3	15.4	15.6	15.6	15.7	15.9	16.0	16.1	16.2	16.4	16.5	16.6
Private sector (real, y/y %)	5.7	5.5	5.4	5.2	5.3	5.5	5.7	5.8	5.9	6.0	6.2	6.3
Government (real, y/y %)	5.3	5.0	4.6	3.7	4.2	4.9	5.7	6.3	6.4	6.3	6.0	6.0
Non-residential GFCF (real, y/y %)	6.0	5.6	5.4	5.1	5.3	5.4	5.7	5.9	5.9	6.0	6.2	6.4
Residential buildings (real, y/y %)	4.6	5.2	5.5	5.8	5.6	5.5	5.7	5.5	5.6	5.8	5.7	6.1

Source: SARB, Investec

Regards

Annabel Bishop

annabel.bishop@investec.co.za

Tel: +27 (11) 286 7188

https://www.investec.com/en_za/focus/economy.html