Monthly macro and economic insights report

Our monthly To the Point column by economist Dr Roelof Botha offers in-depth analysis and commentary on the latest economic trends, market developments, and financial news. Designed to keep you informed and ahead of the curve, each edition delves into key economic indicators, explores their impact on global and local markets, and provides insights to help you navigate the ever-changing economic landscape.

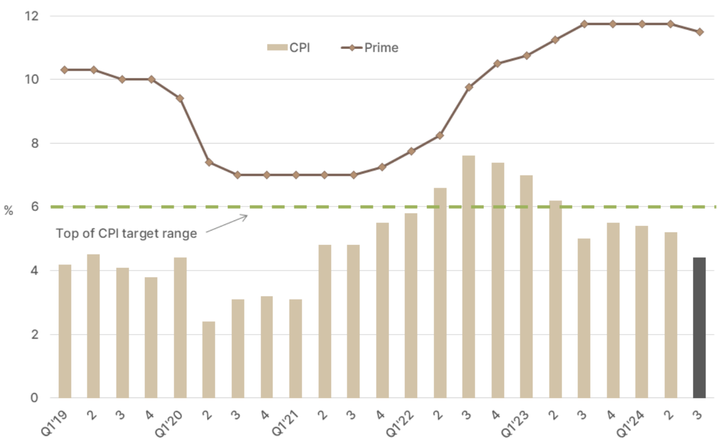
October 2024

Rate-cutting cycle starts

In September, the Monetary Policy Committee (MPC) of the Reserve Bank finally decided to lower the official bank rate (the so-called repo rate), which was automatically followed by an equal reduction of the prime overdraft rate of the commercial banks. Underpinning the decision to lower the repo rate was a further easing of inflationary pressures, with the August consumer price index (CPI) recording a drop from 4.6% - 4.4% to below the mid-point of the MPC's inflation target range of 3% - 6%.

The latest reading of the producer price index (PPI) is good news, as it acts as a leading indicator for consumer price trends. The PPI has dropped to 2.8% - its lowest level since October 2020, indicating another rate cut could be on the cards in November.

Prime overdraft rate and the consumer price index (CPI)

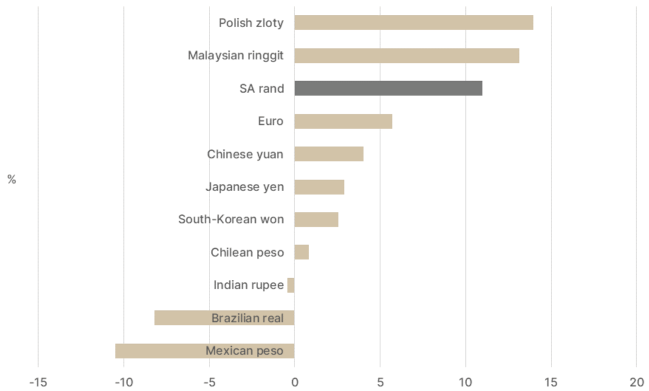


Note: CPI = y-o-y change. Source: Stats S.A., SARB. Data as at September 2024. Past performance is not a reliable guide to future performance. For illustrative purposes only and not indicative of any investment.

Rand strength continues

Over the past twelve months, South Africa's currency has outperformed most currencies of note, strengthening by 11% against the US dollar. The rand has fared better than the Australian dollar, the Euro, the Japanese yen and the British pound. Since the end of September last year, only the Malaysian ringgit and the Polish zloty have strengthened by a larger margin against the greenback.

Percentage change against the US dollar
12 months to 26 September 2024



Sources: X-rates; author's own calculations. Data as at 26 September 2024. Past performance is not a reliable guide to future performance. For illustrative purposes only and not indicative of any investment.

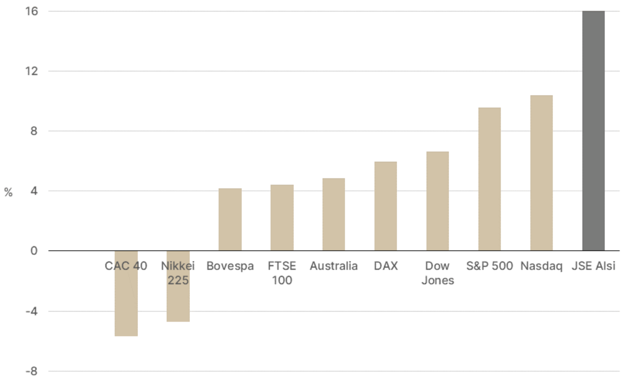
Currencies cannot be weak or strong on their own, so the main reason for the outstanding performance of the rand is intimately tied to a weaker dollar. The dollar has been under pressure since it became clear that the Federal Reserve in the U.S. was on the verge of starting a rate-cutting cycle. The latter occurred during September, a move that has prompted fund managers around the globe to start looking for more attractive havens than U.S. Treasury notes.

It seems clear that the rand has also benefited from renewed business confidence in the wake of the new government of national unity (GNU), which seems intent on roping in private sector expertise to address problems associated with logistics and energy infrastructure. The strong rand constitutes one of the key reasons for the downward trend in fuel prices – a welcome development that is bound to keep inflation in check and facilitate further drops in the prime overdraft rate.

JSE keeps on breaking records

The FTSE/JSE Africa All Share Index (ALSI) is enjoying its strongest rally in over a decade, with no sign of any imminent cooling off. Several fund managers, including the Optimum Investment Group, believe that room exists for further gains, especially due to attractive valuations for a number of high-quality companies. Over the past six months, no global stock exchange of note (except for China) has been able to match the performance of the JSE ALSI, which has risen by more than 16% since April.

Percentage change in key stock market indices
1 April to 30 September 2024



Sources: Trading Economics; Google Finance; Bloomberg; Moneyweb. Data as at 30 September 2024. Past performance is not a reliable guide to future performance. For illustrative purposes only and not indicative of any investment.

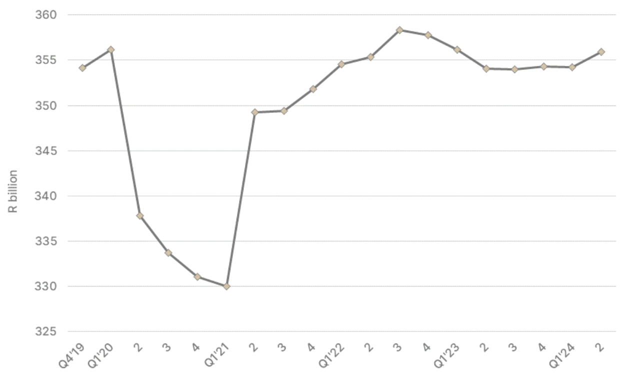
Due to the abnormal volatility in Chinese and Hong Kong stock markets caused by a significant economic stimulus package announced by China in late September, these indices have not been included in the accompanying graph.

Retail trade sales start recovering

Due to the sharp increase in debt servicing costs of South African households, consumers have been forced to tighten their belts, as demonstrated by the declining trend in real retail trade sales that started during the fourth quarter of 2022. Fortunately, an increase in employment during 2023 and marginally higher levels of remuneration have combined to reverse this trend during the second quarter of 2024.

The widely anticipated cut in lending rates may also have played a part in the real year-on-year increase of 2.4% in retail sales during the three months between May and July. Shops that sell furniture and appliances fared the best, posting an increase of 4.7%, followed by general dealers (the largest group) at 4.4%.

Retail trade sales at constant 2024 prices

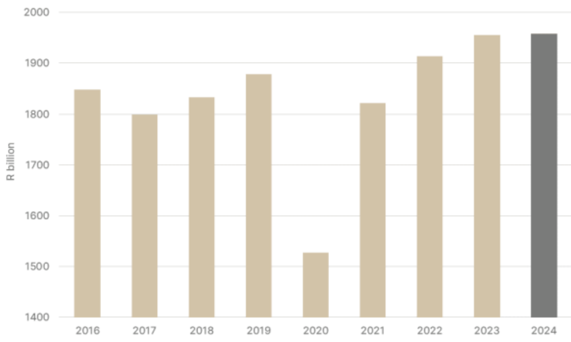


Note: Four-quarter average; Source: Stats S.A. Data as at September 2024. Past performance is not a reliable guide to future performance. For illustrative purposes only and not indicative of any investment.

Manufacturing sales continue to expand

South Africa's manufacturing sector continues to perform well, with the sales figures for the first 7 months of the year hitting a new record (in real terms). The cumulative figure for 2024 - of just below R2 trillion - was marginally higher than last year, and 4% higher than in 2019, confirming a full recovery from the Covid lockdowns, as well as solidifying a new growth trend.

Manufacturing sales for January to June at constant 2024 prices



Sources: Stats S.A.; Author's own calculations. Data as at September 2024. Past performance is not a reliable guide to future performance. For illustrative purposes only and not indicative of any investment.

Top-performing manufacturing groups (year-on-year % sales increases to July 2024)

	%		%
Petroleum	26.1	Rubber & plastic	6.4
Beverages	18.5	Motor vehicles	6.3
Basic metals	14.4	Fabricated metals	6.0
Chemicals	12.4	Food	5.8
Glass & Cement	9.1	Machinery & appliances	5.6

Sources: Stats SA; own calculations

Over the past year, most of the country's key manufacturing groups have grown sales values well ahead of inflation. Now that the coalition government has put substantial emphasis on policies designed to encourage economic growth, the manufacturing sector is bound to continue with its upward momentum well into the future, especially in the absence of loadshedding.

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About Dr Roelof Botha

A seasoned veteran of the economics fraternity in South Africa, Dr Botha has more than 50 years' experience as a lecturer, financial editor of a daily newspaper, economic policy advisor at the National Treasury, columnist for various publications, researcher and a public speaker. Dr Botha received his early schooling in Sweden, Germany, The Netherlands, Christiana in the North West Province, as well as in Cape Town and Pretoria. His post-graduate qualifications include Honours and Master's degrees in economics (cum laude) at the University of Pretoria, and a Doctorate at the University of Johannesburg.

He has authored more than 2000 articles, research papers and books, and has received the prestigious Finmedia Economist of the Year award, based on the accuracy of forecasts of key economic indicators.

Dr Botha teaches economics (part-time) at the Gordon Institute of Business Science (GIBS) and is the Economic Advisor to the Optimum Financial Services Group.

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