



ECONOMIC COMMENTARY

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financial well-being*

GLOBAL AND LOCAL TIDES OF ECONOMIC CHANGE

In many countries, the tides of economic change often ripple subtly. However, in South Africa (SA), they crash like waves, reshaping our landscape dramatically.

Global economic climate and its impact on SA

The global economic environment is crucial to SA's economic outlook. Recently, the United States (US) Federal Reserve (Fed) signalled its intent to maintain higher interest rates to combat inflation. This has implications for emerging markets like SA, potentially putting pressure on the rand and increasing borrowing costs. Furthermore, the International Monetary Fund recently adjusted its global growth forecast, projecting slower growth for 2024. This global slowdown impacts SA's export markets. However, it also presents opportunities for SA to attract investment as a relatively stable emerging market with growth potential. SA's economic prospects have also been buoyed by recent improvements in various sectors. The South African Reserve Bank's (SARB's) projected 1.2% growth rate for 2024 marks a notable turnaround, with further upward adjustments expected. The SARB's cautious optimism is underpinned by improved power supply stability, which remains a foundational element of economic productivity.

Investment climate and market sentiment

Globally, investment climates are shifting. In the US, there is cautious optimism with inflation showing signs of easing. Analysts expect that if the inflation trend continues downward, we could see rate cuts by the end of 2024. In Europe, the European Central Bank (ECB) has taken a more cautious stance: Recent minutes from the ECB's meeting revealed concerns over sticky inflation and wage growth, suggesting a slower path to rate cuts. This mixed outlook requires investors to be agile, balancing between regions and sectors that are performing well.

In SA, investors are finding renewed confidence in the market. The recent rally in South African stocks and bonds is reminiscent of the so-called "Ramaphoria" of 2018. This optimism is driven by the formation of a Government of National Unity, fostering hopes of political stability and economic reform.

Consumer behaviour and retail trends

A significant shift in consumer behaviour is reshaping the retail landscape globally and in SA. Companies that once thrived on relentless price increases are now pivoting towards discounts and promotional strategies to attract budget-conscious consumers. This shift presents both challenges and opportunities for investors. Decreased consumer spending power can put pressure on profit margins. However, companies adept at navigating these changes can capture significant market share. Brands that successfully offer value without compromising on quality are likely to thrive.

In SA, similar trends are observable. Major supermarket chains like Shoprite and Pick n Pay have ramped up their loyalty programmes and special offers to meet affordability demands. These strategies help to retain customer loyalty and drive sales volume.

Inflation and monetary policy

Inflation expectations in SA have shown signs of easing, with projections for the next two years declining to 4.9% from 5.2%. This decline is positive considering the SARB's efforts to stabilise the economy. That being said, the Monetary Policy Committee is expected to maintain the key interest rate at 8.25% during its upcoming meeting.

Housing market and consumer debt

The housing market remains a critical component of the economic landscape. Recent trends indicate a surge in housing prices, particularly in urban centres. This surge is partly fuelled by an increase in demand from first-time buyers and a limited supply of affordable housing. The rise in property prices has also led to increased consumer debt, as more individuals take on larger mortgages.

Chinese market dynamics

Internationally, we see various market dynamics at play. In China, the government's ongoing efforts to stimulate the economy amid slow growth and weak consumer demand highlight the volatility and opportunities in emerging markets. China's strategic focus on technology and infrastructure offers long-term growth potential but investors must navigate the risks of regulatory changes and geopolitical tensions.

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