



ECONOMIC COMMENTARY

Dr. Francois Stofberg

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financial well-being*

GLOBAL ECONOMIC OUTLOOK: STEADY GROWTH WITH PERSISTENT CHALLENGES

The World Bank projects that the global economy will maintain a steady growth rate of 2.7% in 2025 and 2026, consistent with the previous two years. While this stability is noteworthy, the growth rate remains insufficient to significantly alleviate global poverty, particularly in developing economies where sluggish investment, high debt levels, and the escalating costs associated with climate change present formidable obstacles. On a positive note, global inflation is expected to decrease to 2.7%, aligning more closely with central bank targets.

Regional developments: Mixed economic signals

- + **United States (US):** The US economy demonstrates resilience with anticipated growth of 2.3%, bolstered by robust consumer spending and labour market improvements. However, uncertainty looms with the inauguration of Donald Trump this week, with potential policy shifts (particularly concerning tariffs) that could influence both domestic and global economic conditions.
- + **Europe:** European markets exhibit caution amid fluctuating economic indicators and political developments. The region faces slower growth prospects, partly because of high energy costs, but mostly because of a lack of growth-orientated policies.
- + **China:** China's trade surplus reached nearly \$1 trillion in 2024, underscoring its dominance in global manufacturing, which currently accounts for 27% of global industrial production. Despite efforts by Western nations to rebalance trade relations through tariffs, China's strong export performance persists, supported by government subsidies and innovation in sectors like electric vehicles and renewable energy.

South Africa's (SA's) economic landscape: Optimism amid structural challenges

SA's economy is poised for an upward trajectory after more than a decade of underperformance. Economists forecast a growth rate of 1.7% for 2025, an improvement from the estimated 0.7% in 2024. This optimism is fuelled by initiatives to address growth constraints and an expected increase in consumer spending.

However, the nation continues to grapple with significant challenges. Johannesburg, the country's economic hub, faces severe water crises owing to failing infrastructure, with supply cuts sometimes lasting up to 86 hours. Experts attribute these issues to corruption, poor maintenance, and mismanagement, which threaten to overshadow the longstanding power outages and potentially cripple an already fragile economy.

In the corporate sector, ArcelorMittal SA's decision to wind down its long steel products, affecting approximately 3 500 jobs, highlights the impact of weak economic conditions, high costs, and competition from Chinese steel imports. This move highlights the urgent need for structural reforms to enhance competitiveness and sustainability in key industries.

Investment insights: Navigating uncertainties

Global investors exhibit caution amid potential tariff hikes and political transitions. Significant inflows into global money market funds, totalling \$158.73 billion in early January, reflect a preference for safer assets during times of uncertainty. Conversely, global equity funds attracted \$11.36 billion, indicating selective confidence in certain sectors and regions.

In SA, the rand remained relatively stable following key US economic reports, trading at R18.76 against the dollar. Investor sentiment is influenced by both domestic factors (e.g. infrastructure challenges) and international developments.

Conclusion: Strategic considerations for stakeholders

The global economic environment in 2025 presents a complex interplay of steady growth prospects and significant challenges. Stakeholders must navigate uncertainties stemming from political transitions, policy shifts, and structural issues within key economies.

In SA, while there is cautious optimism for economic improvement, addressing infrastructure deficiencies and enhancing industrial competitiveness remain critical. For investors, a balanced approach that considers both opportunities in resilient sectors and the potential risks associated with geopolitical and economic developments is advisable.

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