EFFICIENT GROUP

ECONOMIC COMMENTARY

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YOUR MONTHLY ECONOMIC UPDATE
3 April 2025

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ECONOMIC DEVELOPMENTS DURING MARCH 2025

As we conclude March 2025, it is imperative to reflect on the significant economic events that have shaped both the global landscape and South Africa's (SA's) economic environment. March was marked by escalating trade tensions, fluctuating commodity prices, and pivotal policy shifts, all of which bear profound implications for consumers and markets alike.

Global economic developments

Escalation of trade tensions
The global economy has been notably impacted by the United States' (US') recent trade policies. President Donald Trump announced the extension of tariffs to all countries, igniting fears of a global trade war and potential recession. This move led to significant declines in global stock markets, with investors seeking refuge in safer assets, such as sovereign bonds and gold. Major indices, including Japan's Nikkei, experienced substantial drops, reflecting heightened concerns about economic stability. The Organisation for Economic Co-operation and Development (OECD) has warned that increasing US tariffs are expected to decelerate global economic growth and elevate inflation. Growth forecasts for most major economies have been reduced, with significant downward revisions for Mexico and Canada. The OECD anticipates that additional tariffs could further reduce global economic output and diminish household incomes, with potential retaliatory measures exacerbating the situation.

Commodity market fluctuations
In the commodities sector, copper has emerged as a standout performer. US benchmark copper futures have surged with a record 28% this year. This increase is primarily attributed to the anticipation of tariffs on imports, prompting suppliers and manufacturers to accelerate shipments into the US ahead of potential trade barriers. Copper's essential role across various industries underscores the broader economic implications of these price movements.

South African economic developments

Economic growth prospects
Domestically, SA's economic outlook presents a mixed picture. Some analysts believe that the economy can grow by as much as 2.1% this year, a significant improvement from the 0.7% growth observed in 2024. This optimism is driven by increased spending and investment. However, the South African Reserve Bank has slightly revised its 2025 growth forecast down from 1.8% to 1.7%, citing weaker demand and ongoing supply challenges. Overall, we question the pace and impact of the proposed structural reforms announced by the government and, therefore, believe that the economy might grow by less than 1% in 2025.

Fiscal policy and budgetary measures
The government has attempted to introduce a budget aimed at fostering politically sustainable economic growth and stabilising public finances, although we would have preferred much more spending cuts. Key measures include increased spending on health, necessitated by reductions in US aid. To finance these expenditures, the government plans to raise the value-added tax (VAT) by 0.5% in 2025/2026, with an additional 0.5% increase slated for the following year, bringing the VAT rate to 16% by 2026/2027. While this move has faced criticism, it is deemed necessary to prevent further spending cuts.

Labour market dynamics
In the labour sector, the United National Transport Union (UNTU), representing more than half of Transnet's workforce, has rejected a final wage offer from the state-owned logistics group. The proposed three-year agreement included wage increases of 6% for the first two years and 5.5% for the third year. The UNTU is demanding a 10% across-the-board increase and a single-year deal, highlighting ongoing labour tensions within key state-owned enterprises.

Currency and market performance
The rand has experienced modest gains, strengthening by approximately 0.2% to trade at R18.25 against the US dollar. This appreciation reflects investor reactions to global trade developments, particularly the US administration's tariff plans. The Johannesburg Stock Exchange's Top 40 Index also saw a slight uptick, while government bond yields experienced a marginal decline, indicating nuanced investor sentiment amid global uncertainties. Despite these developments, concerns about SA's economic trajectory persist. Many have chosen to downgrade South African equities from "overweight" to "neutral", citing apprehensions about the country's economic slowdown and the effectiveness of policy reforms.