STATE OF THE **SA BUSINESS CYCLE**

2nd Quarter 2025 15 July 2025

NAVIGATE THE BUSINESS CYCLE WITH CONFIDENCE

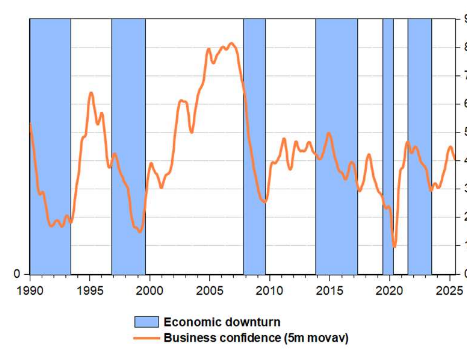
With a solid understanding of the country's economic history and by applying the appropriate econometric techniques, Business Cycle Analytics is a provider of reliable real time and forward-looking information on the domestic business cycle

THE SOUTH AFRICAN ECONOMY STALLS AMIDST DEEP CRISIS (25Q2)

The second quarter of 2025 was eventful, with crisis developments of historic proportions. It spans **the 90-day waiver regarding the trade tariffs announced by President Donald Trump** on 2 April, sending shock waves across the globe. Domestically, **the GNU teetered on the brink of collapse** as Budget 3.0 (to be implemented, 31 May) was deliberated by the coalition partners.

Financial markets reacted sharply, first a steep fall with the tariff announcement and thereafter an even stronger rebound. The crude oil price also fell sharply. Both local and global PMIs indicated that industrial production was in contractionary territory. **It was sad contemplating that the blossoming consumer-led recovery following the outcome of the 2024 national elections and the formation of the GNU on 19 June**, losing momentum – 25Q1 GDP growth came in at 0.1% and high-frequency economic indicators, including business and consumer confidence, dipped notably, 25Q1 & Q2.

Figure 1: RMB/BER Business Confidence Index



Source: BCA

Real household spending is weak but resilient, government consumption is being contained, and **business confidence and fixed investment are seriously lagging pre-covid levels; real net exports are also dipping** – *see charts*. The result is business cycle rigidity, i.e., a lack of business cycle momentum. **Levels of uncertainty are unprecedented**.

Globally, trend growth was and was going to be under pressure for the near future as the power of centrifugal is countered by isolationist (and nationalist political) tendencies and disregard for multi-national institutions. **The post-Bretton Woods international financial architecture is being reshaped**. The SARB capitalised on the opportunity, when stability returned, to up the *ante* and announced consideration of a 3% inflation target at its May 2025 MPC meeting.

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Real GDP growth was exclusively driven by a strong recovery in agricultural GDP, expanding by 12% during 25Q1 and being up 6.6% (year-on-year) and 29% compared to the pre-coronavirus pandemic levels.

The growth in the services sectors disappointed, with financial & business services being flat (0.1% quarter-on-quarter). It has been the major post-covid growth sector, with its level close to 14% up. Personal services (9.4% up compared to 2019 levels), contracted marginally in 25Q1. **Government consumption has been under pressure owing to precarious fiscal conditions that ensued during the pandemic crisis**, also contracting marginally in 25Q1.

Real manufacturing, water & electricity and construction GDP is down 2%, 2.6% and 3.7% respectively in 25Q1 and is 9%, 9.4% and 28.7% beneath pre-covid levels. Real private fixed investment spending is 16.3% lower compared to 2019 levels.

In all, the tertiary sector expanded by only 0.3% as did the retail, wholesale & accommodation sector. This reflects the pattern of economic growth – **insufficient demand to boost business confidence**. Demand is insufficient owing to **serious constraints in the secondary sectors of the economy where upskilling of labour and employment creation must occur**.

Suffice to conclude that the post-election economic recovery is subject to immense inertia. Broad real domestic expenditure is up 0.5% (25Q1), 1.5% (year-on-year) and 1.3% (compared to 2019 levels), with net exports adding to this modest expansion, resulting in 0.5% real GDP growth (year-on-year) and 2.1% (compared to 2019).

In sum, the business cycle

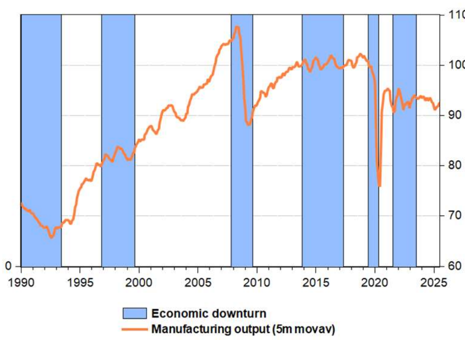
The formation of the GNU (June 2024), the associated lift in business and consumer confidence and the improvement in retail, wholesale and vehicle sales towards the end of the year brightened the outlook. **Structural reform is also gradually swinging into action, but the second quarter was met with turbulence of historic proportions**.

It witnessed a sharp reaction in financial markets, **reacting to the unleashing of an almost unprecedented global tariff war** and, domestically, **an existential crisis in the GNU around the 2025/26 national budget**. SA's incremental growth path became doubtful and will remain in the balance given the scope of ongoing structural change, both abroad and locally.

The recovery in international markets was swift but geo-political tensions remain highly strung. Developments during 25Q2 sobered expectations regarding the world economic outlook – with economic growth expected to proceed beneath trend levels.

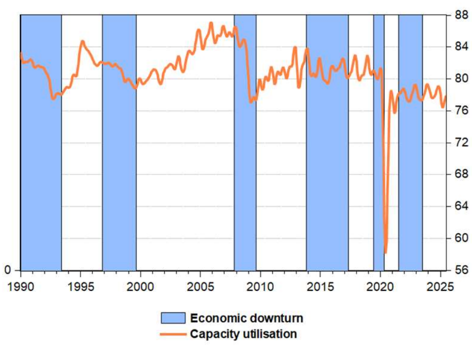
Domestically, the demand-side of the economy weakened, 25Q1. A strong recovery in agriculture provided a countervailing impetus and the economy is still underpinned by resilience in real domestic

Figure 2: MNF production volume



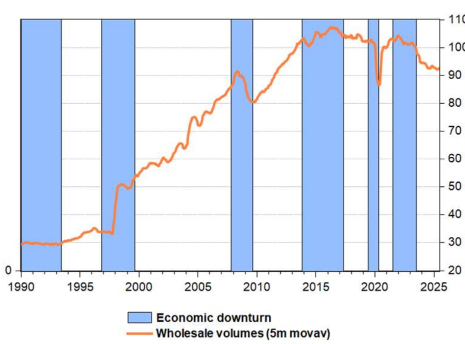
Source: BCA

Figure 3: MNF working hours



Source: BCA

Figure 4: Wholesale sales volume



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BUSINESS CYCLE ANALYTICS

spending. Net exports have become a drag on growth. **A recovery is shaping up in the civil construction sector providing a reliable indication of structural economic reform policies gaining traction**.

SA's growth strategy in the macroeconomic department, needs to be complimented by active industrial policy at the sectoral and regional levels. **This is expected to sustain growth and employment creation, generating much-needed business cycle momentum**.

The SARB announced the consideration of a 3% inflation target in May creating a building block for macroeconomic prudence, with the National Treasury likely to formalise this initiative. **The first half of 2025 was some setback, but expectations have adjusted and the outlook remains for incremental growth over the short- to medium-term**.

US ECONOMY: EXTRAORDINARY THREE MONTHS

The second quarter of 2025 was an extraordinary three months. Initially shaken by President Trump's tariff announcement (2 April), stability swiftly returned with the announcement of a 90-day pause. **Yet, if anything, levels of uncertainty (and tension) deepened from already radical dimensions**, best reflected in a soaring gold price.

Whereas the latest global events sparked explosive centrifugal forces, counter-balancing developments in the US are interesting. At times of deep structural change, the business climate tends not to be conducive to growth. A world embarked on an energy transition for a sustainable future, **requires that centripetal forces triumph**.

In the major industrial countries, spending on services, underpinned by the productivity gains associated with AI, remains the source of economic resilience. US growth and employment creation are tapering but is not falling off a cliff. The June economic indicators showed marginal improvements in a range of countries, with the contraction of industrial production easing.

Whereas bond yields have spiked, short-term interest rates are easing, with the BoE and ECB leading the way. **High debt levels and resilient labour markets are constraining central banks' scope to ease interest rates, particularly in the US**.

In China, the government continues to support growth with infrastructure-related spending, whilst at the same time re-balancing economic growth in favour of higher real wage income and consumer spending. **By implication, real GDP growth needs to slow to a sustainable rate**.

Trading nations in Europe and the East have been hit by the announcement of US import tariffs. **This is likely to stimulate trade diversion**. Any de-globalisation forces will constrain world economic growth. **Global economic forecasts have been scaled down and various scenarios are presented.**

Both the US stock market (depicted by the trajectory of the S&P 500 index in the charts) and crypto currency markets (e.g., the dollar-based Bitcoin price) **corrected briefly and then recovered to levels much higher than before 2 April** – *see charts*. The chart bottom left shows that similar market forces are driving the cyclical momentum in both the S&P 500 index and the Bitcoin price.

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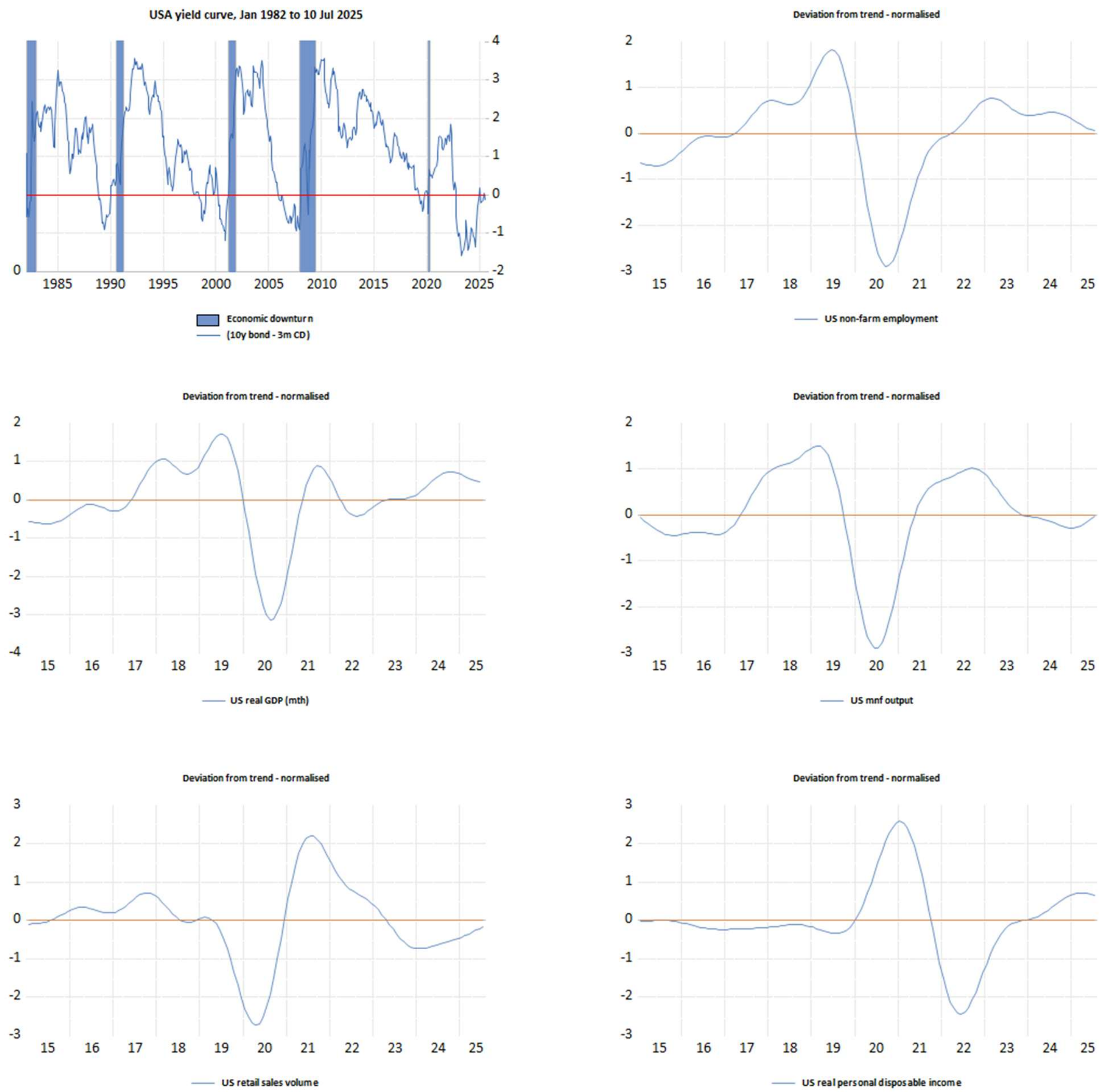
US BUSINESS CYCLE INDICATORS, 25Q2

Deviation from trend - key variables: Jan 2015 to Jun 2025



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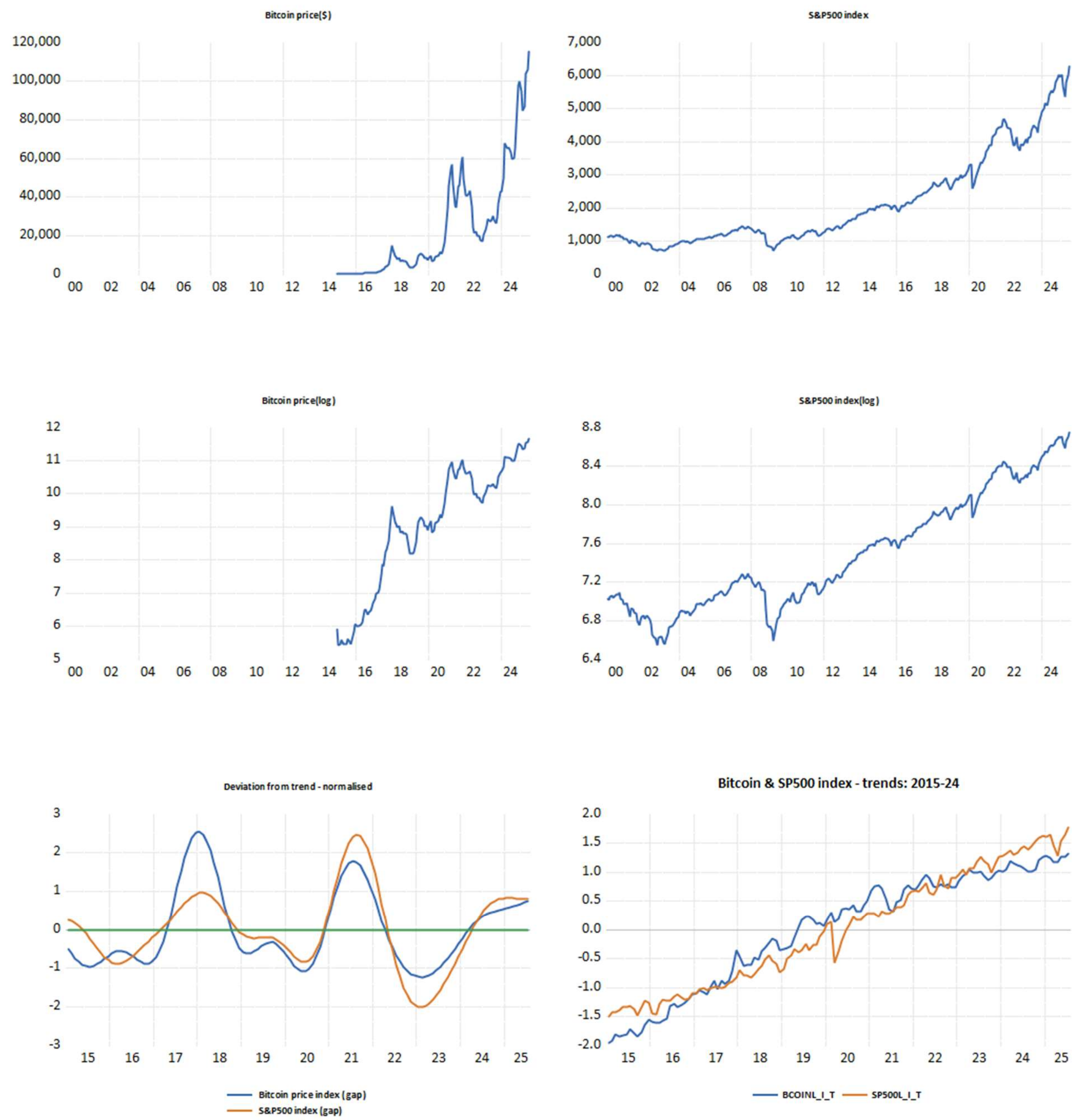
US FINANCIAL MARKET, 25Q2

US financial market - Bitcoin price & S&P500 index: 2015 to 10 Jul 2025



"When you adopt a cyclical worldview, your outlook will be in the minority whenever the chance of an economic turning point is high".

Achuthan & Banerji