STATE OF THE **SA BUSINESS CYCLE**

1st Quarter 2026 17 April 2026

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

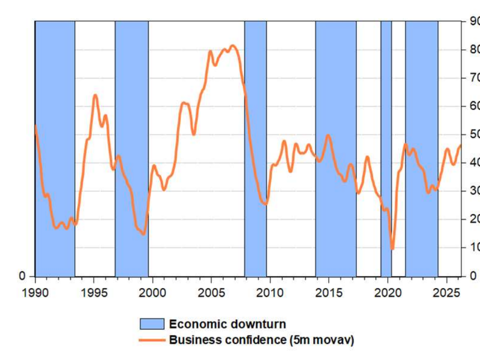
5TH QUARTER OF POSITIVE MODERATE GDP GROWTH MIDST SERIOUS HEADWINDS, 25Q4

The business cycle is poised for economic recovery, albeit that it has been midst exceptional headwinds. Important leading economic indicators, such as business confidence and the SARB's composite leading business cycle indicators affirm the incipient economic recovery.

The RMB/BER business confidence index has jumped by 8 index points since mid-2025 (being above its long-term average, 26Q1), the composite leading economic indicator troughed mid-2023 (typically leading the business cycle by between 8-12 months) and the ratio between the composite coincident and lagging economic indicators troughed early-2024. **Of concern is the fact that the composite coincident indicator was still trending moderately downwards towards the end of last year** *(see chart)*.

Considering the high-frequency economic indicators, the picture is clear. **The consumer sector (retail spending and consumer confidence) benefited over the past year**. Manufacturing, on the other hand, is taking strain, with only working hours having increased in meeting the increase in retail and wholesale demand. Overall employment creation is trending negatively, even in the employment-intensive services sector of the economy. **By implication, the improved consumer spend is financed from non-wage incomes, which is unsustainable**.

Figure 1: Business Confidence



Source: BER/ BCA

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SA's real GDP expanded by 0.4% qoq during 25Q4, i.e., the fifth consecutive moderate quarterly growth, which is encouraging. Of concern, remains the fact that the sectoral composition of growth persisted, with the secondary sectors contracting (0.9% qoq; 2.2% yoy) and the services sectors accounting for the growth (up 0.7%, qoq; 1.7%, yoy).

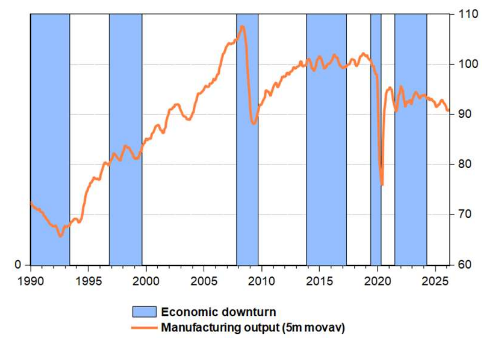
The sharp quarterly contraction of the construction sector (1.3%) contrasts with the sustained growth of the finance, insurance, real estate & business services sector (1.4%). Putting it in broader perspective, **the construction sector real value-add is 30% beneath its pre-covid level, compared to the financial services sector being 15.3% up over the corresponding period**.

The implication is that the financialisation of the economy is deepening, whilst de-industrialisation continues apace. The financialisation of the economy improves resilience, deepening capital markets and accommodating a flexible exchange rate, **but the de-industrialisation trend must reverse to render economic growth inclusive**. Manufacturing real value-add is 7.6% below pre-covid levels and contracted again in 25Q4. For every factory closing, a long supply chain of sectors suffers; conversely, for each new/expanded factory, a long supply-chain is created.

The overvalued rand exchange rate fuels both these tendencies as it undermines the country's manufacturing competitiveness, stimulates imports and contributes to exchange rate volatility. The macroeconomic challenge is achieving a more stable currency at a competitive level, which requires an increased emphasis on addressing the infrastructure supply constraints faced by manufacturers (as well as reforming the labour market). Current economic policy emphasis, as important as it is, is very much on price stability and fiscal sustainability. **The 25Q4 GDP numbers suggest the country is still on the wrong track**, albeit that a steadier aggregate growth tendency is encouraging.

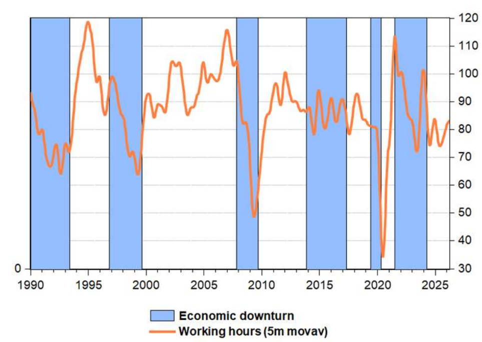
The heartening aspect of SA's GDP growth, is the stellar performance of the agricultural sector, up 30% from pre-covid levels. This sector is employment-intensive, an important foreign exchange earner and closely tied with SA's (and equally employment-intensive) growing tourism sector. Agricultural GDP was flat during 25Q4, but up 20% yoy. **This sector accounted for 17% of the growth in aggregate GDP since the coronavirus pandemic, even though its direct contribution to GDP is only 2.9%.**

Figure 1: MNF output volumes



Source: StatisticsSA/ BCA

Figure 2: MNF working hours



Source: BER/ BCA

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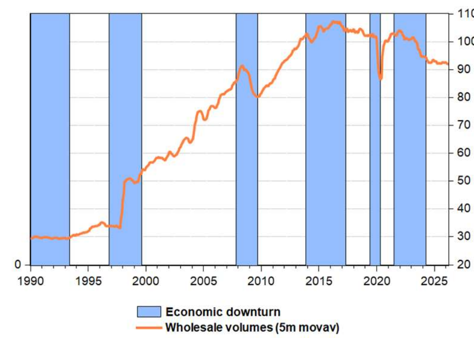
The retail, wholesale & accommodation sector expanded by 0.9% qoq (up 2.6% yoy) and the transport & communication sector, contracting marginally (0.3%, qoq), but up 2.8% yoy. Both these sectors are close to their respective pre-covid levels. The personal services sector is up 0.4% qoq, 1.1% yoy and 10.9% compared to its pre-covid level.

On the demand-side of the economy, real domestic expenditure expanded by a modest 0.5% qoq, but is up 3.2% yoy. **This represents a potent demand stimulus to GDP growth over the past year**. In this, real household spending led the charge, up 3.9% yoy (and 1.2% qoq). Real household spending is close to 9% up compared to pre-coved levels. The demand-side of the economy received support from government consumption, up 0.5% qoq, 1.5% yoy and 4.7% compared to pre-covid levels.

Figure 3: Wholesale sales volumes



Source: BER/ BCA

Of concern, is the lagging fixed investment situation. Whilst private sector fixed investment was up 2.4% qoq, public sector fixed investment contracted by 1.6%; gross domestic fixed investment is down 0.5% yoy and close to 12% beneath pre-covid levels. This reflects the sectoral GDP growth performance. It is desirable that the qoq gain in private fixed investment represents a sustained response to the demand boost over the past year. **Autonomous public (and private) sector investment must become a stronger driver of growth, improve the supply side of the economy and directly boost demand**.

Another concern is the contraction of net exports and the fact that the openness of the economy (i.e. total trade as a ratio of GDP) **is in decline** – this has been a tendency since the coronavirus pandemic impact. The current account of the balance of payments shows a surplus, but this is exclusively owing to strong commodity prices, boosting SA's terms of trade. Whilst most welcome, it tends to pull a veil over the underlying economic problems as well as exposing the economic to risk should the commodity price boom (in precious metals) reverse.

The commodity windfall must be preserved at all costs to finance (public-private sector) infrastructure fixed investment. Since the coronavirus pandemic real household spending has grown at more than double the growth rate in gross domestic fixed investment, which is unsustainable.

In sum – the business cycle

As noted, the sharp reversals in the financial markets since the end of February, with the onset of the US/Israeli war with Iran, and subsequent energy and food (and other) price shocks, are likely to impact negatively. **As an open economy, the SA business cycle is exposed**. The economy has proved to be resilient, but it is now even more important to build resilience by attending to the supply-side constraints. **More success on this front, the more resilient the economy and the higher the likelihood that its incipient recovery will be sustained and even accelerated**.

It is not possible to forecast in the current geo-political conditions. The IMF compiled a 'reference' and alternative scenarios. The *reference scenario* assumes a stabilisation of the Middle East conflict by mid-May, with world economic growth slowing from 3.4% (2024/25) to 3.1% this year and 3.2% in 2027. The alternative scenarios, assuming extended (and escalating) war, projects lower growth and higher inflation, **with the negative impact asymmetrically on emerging and developing economies**. *More reason to sustain structural economic reform in SA*.

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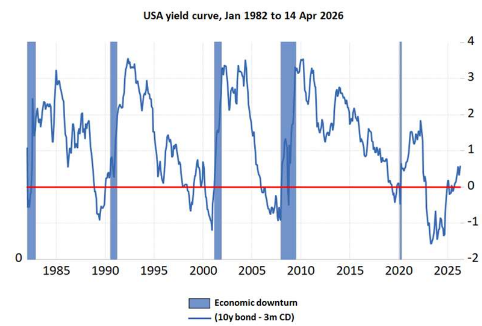
US ECONOMIC RESILIENCE, NEAR-TERM INFLATION WORRIES, 26Q1

March witnessed sharp reversals in US financial markets with the onset of the US/Israeli war with Iran. **The tensions of war have therefore escalated during 2026, and levels of uncertainty remain elevated**. Whereas current price worries (fuel, food, etc. and tariffs) overshadows the bond market, with the headline CPI figure already up, it was noted previously that the balance of forces are deflationary, including the impact of tariffs and AI.

On the positive side, financial markets continue to perform well, with AI boosting productivity growth in key industries and the theme of underperforming goods industries and better performing service industries continuing. **This may not be a full analysis of the state of the global economy**. There are important nuances.

Final demand in the US economy remains resilient – real household spending increased by 2.5% (yoy; Jan-Feb'26); real private investment is up 3.4% (25Q4) and net exports have swung positive as imports are under pressure from higher tariffs. Overall real GDP growth has tapered over the past three years from 3.4% to 2.0% (25Q4).

Figure 5: US yield curve (10y bond – 3m CD)



Source: FRED Data base

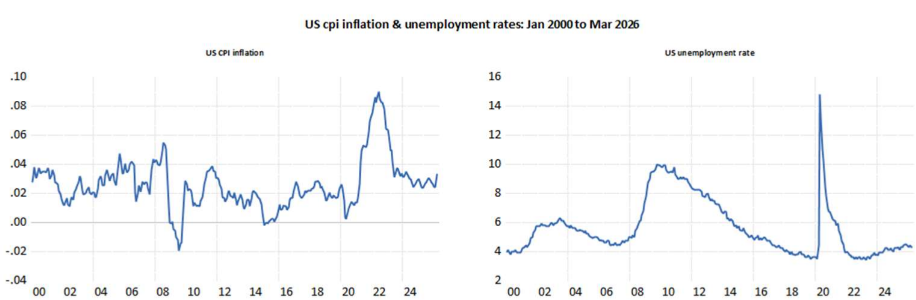
The combination of economic resilience and near-term inflation worries underpin the 4%+ bond yields. **Closer scrutiny is unnerving**. Non-farm payroll employment has gradually tapered from 5% four years ago, to a standstill in 26Q1, 0.15%. This is mirrored in the trajectory of real personal disposable income growth, tapering from 6.7% (23Q2) to 1.4% (2025, Jan-Feb'26). **Other labour market measures reveal deeper labour market slack**. With consumer confidence taking a knock, household credit spending will be affected.

The Fed remains on the back foot, keeping rates on hold; it is not clear what impact the change of the guard (end-May) will have on the conduct of monetary policy. **All depends how the current shock to the global economy evolves**. The IMF compiled a 'reference scenario' in its April 2026 *World Economic Outlook*, built around the assumption that the Middle East conflict dissipates around mid-May.

Given the existing damage to energy and other infrastructure and the reactions in the commodity and financial markets, **the impact is already negative and will be asymmetrical**, being worse for commodity-importing developing countries with pre-crisis macroeconomic fragilities, compared to advanced economies.

This asymmetry intensifies in alternative more damaging scenarios and with the outcome being magnifying lower global growth and higher inflation the more serious the geo-political event/crisis. In the 'reference scenario' global growth is projected at 3.1% in 2026 and 3.2% in 2027, compared to 3.4% in 2024/25. The downward revision for emerging and developing countries is 0.3% for 2026 compared to the IMF January 2026 *WEO Update*, and 0.1% in respect of the advanced economies.

US BUSINESS CYCLE INDICATORS, 26Q1



Source: St' Louis Federal Reserve data base

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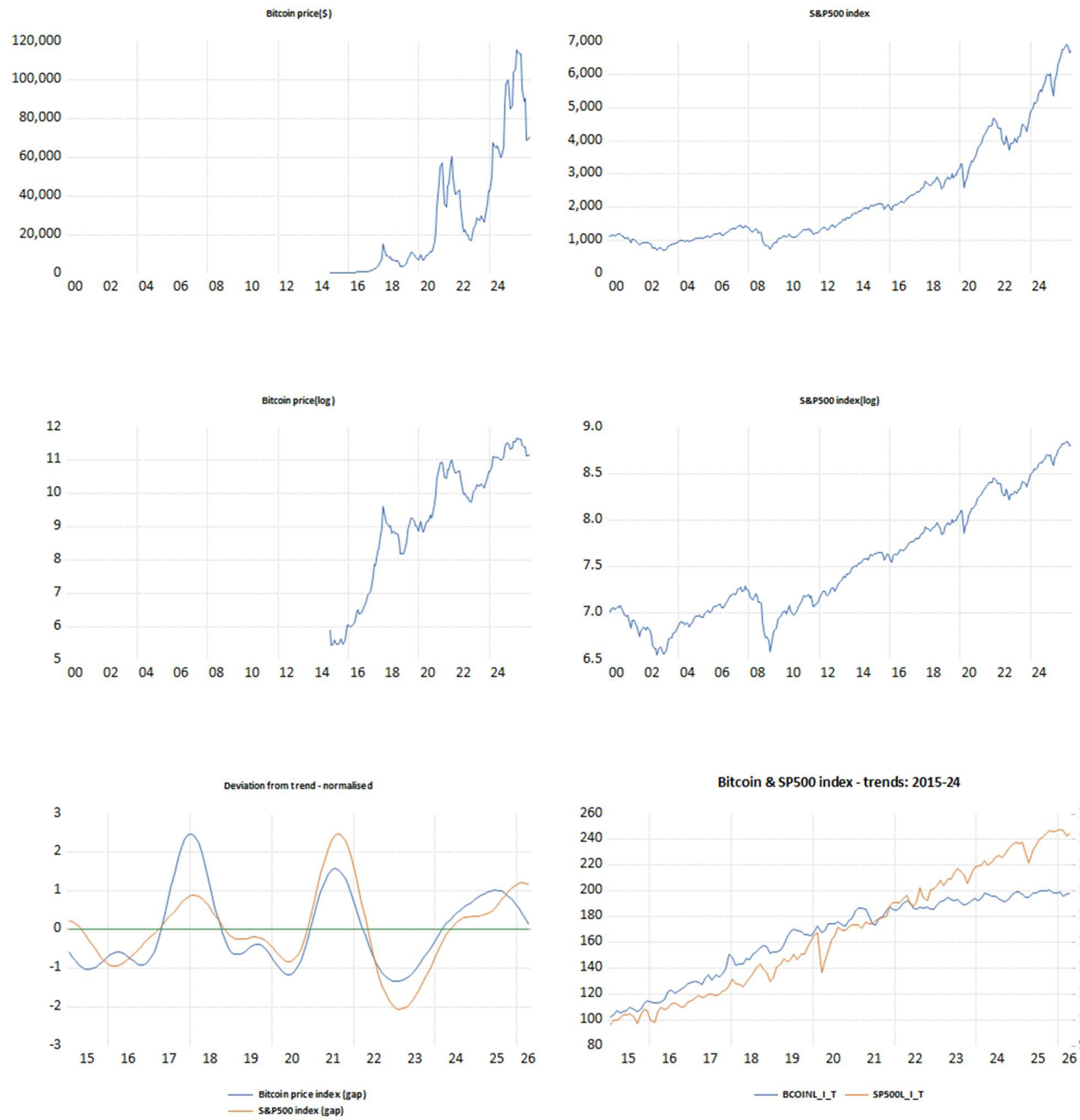
US FINANCIAL MARKET, 26Q1

US financial market - Bitcoin price & S&P500 index: 2015 to 14 Apr 2026



Source: St 'Louis Federal Reserve data base

"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

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