

Analysis of the economy & budgetary events in the context of the construction sector

AfriSam

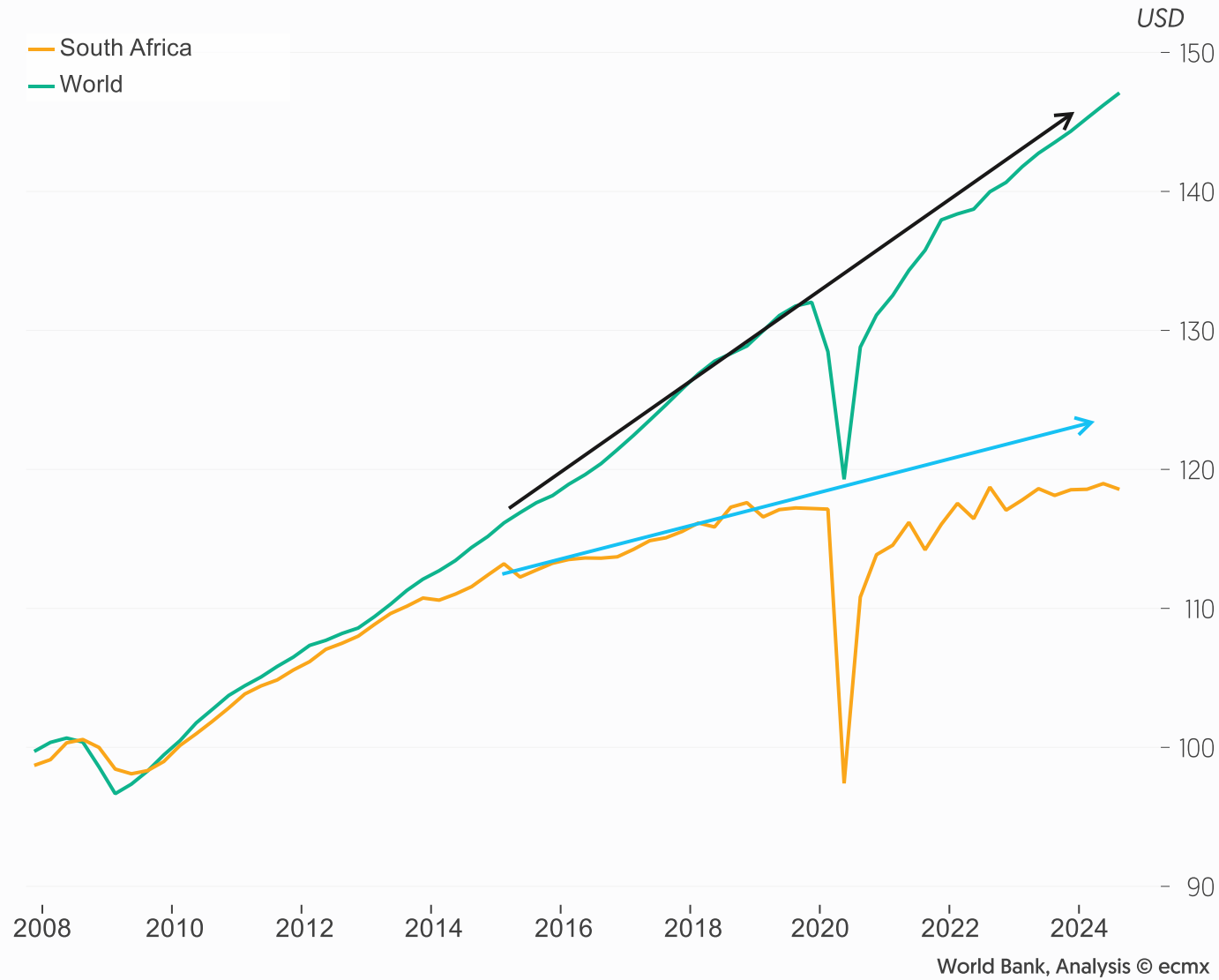
Dr Azar Jammie

Director and Chief Economist Econometrix Pty Ltd.

21 February 2025



World Bank, GDP, Constant Prices, SA, USD

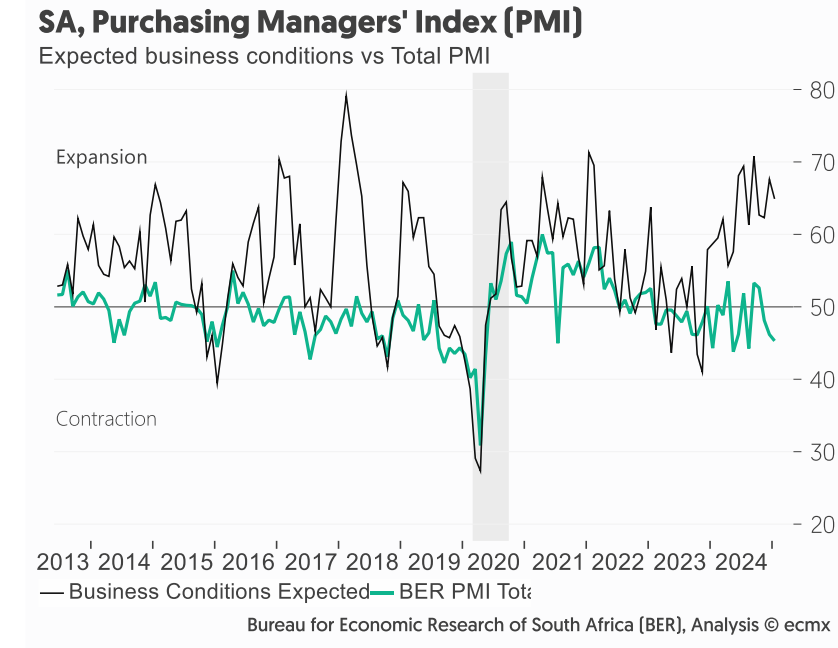
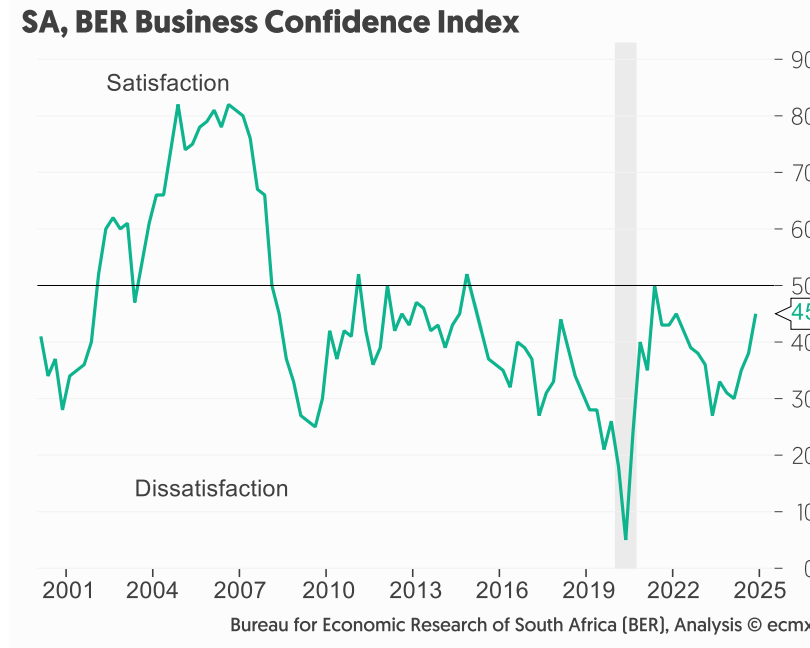


| IMF Forecasts | | | |
|--------------------|------|------|------|
| | 2024 | 2025 | 2026 |
| India | 6.5 | 6.5 | 6.5 |
| Argentina | -2.8 | 5.0 | 5.0 |
| China | 4.8 | 4.6 | 4.5 |
| ASEAN | 4.5 | 4.6 | 4.5 |
| Emerging Economies | 4.2 | 4.2 | 4.2 |
| Sub-saharan Africa | 3.8 | 4.2 | 4.2 |
| Egypt | 2.4 | 3.6 | 4.1 |
| World | 3.2 | 3.3 | 3.3 |
| Nigeria | 3.1 | 3.2 | 3.0 |
| US | 2.8 | 2.7 | 2.1 |
| Türkiye | 2.8 | 2.6 | 3.2 |
| Colombia | 1.6 | 2.5 | 2.8 |
| Chile | 2.5 | 2.4 | 2.5 |
| Brazil | 3.7 | 2.2 | 2.2 |
| Advanced Economies | 1.7 | 1.9 | 1.8 |
| United Kingdom | 0.9 | 1.6 | 1.5 |
| South Africa | 0.8 | 1.5 | 1.6 |
| National Treasury | 0.8 | 1.9 | 1.7 |
| Russia | 3.8 | 1.4 | 1.2 |
| Mexico | 1.8 | 1.4 | 2.0 |
| Japan | -0.2 | 1.1 | 0.8 |
| Eurozone | 0.8 | 1.0 | 1.4 |

Source: IMF, Jan25

Hopes for improved growth

- Cessation of load-shedding
- Confidence from the formation of GNU
 - Improved oversight of corrupt practices
 - More cooperation between government & private sector
 - Fast tracking by some ministries
 - Adherence to fiscal rectitude
- Rand strengthens moderately
- Lower inflation than expected
- Interest rates falling
- Institutions revise SA growth upwards by about 0.5%
- Stimulus from two-pot retirement scheme



Domestic Risks

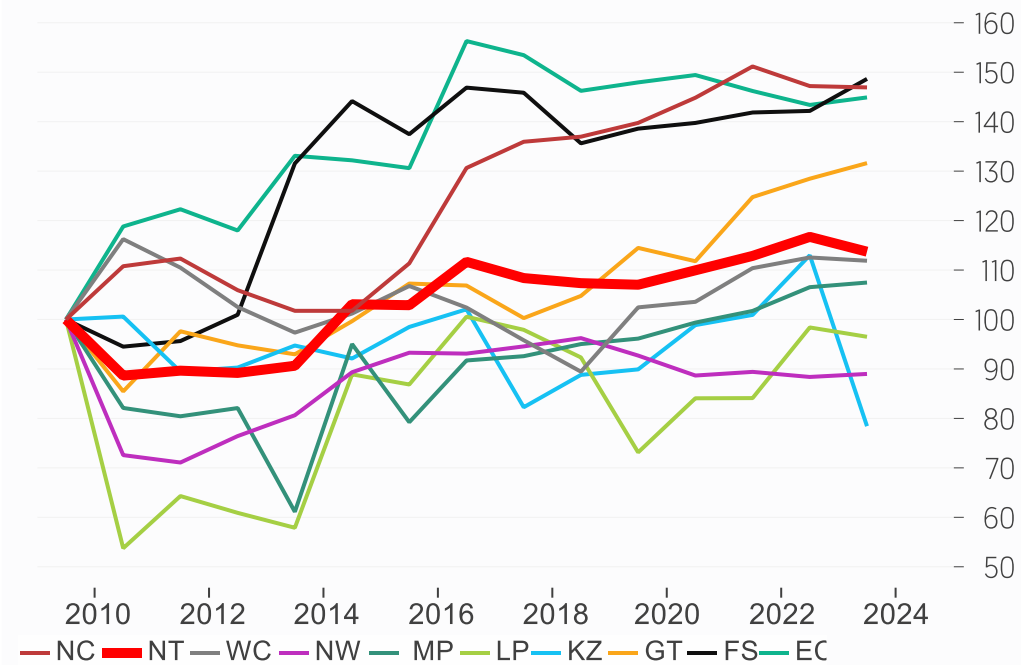
Risks

- Logistical bottlenecks continue
- Fallout from Mozambique unrest
- Opposition to private/public partnerships
- Breakup of GNU, a possible risk
- Opposition to GNU from within the ANC
- Disarray and incompetence at municipal level
- Failure to address more deep-seated structural impediments
- Negative fallout from Trump administration:
 - Vis-à-vis SA
 - Vis-à-vis Global economy
- Global long-term interest rates to remain elevated

Thus, far little sign of significant growth pickup

South Africa's Percentage of Non-Revenue Water

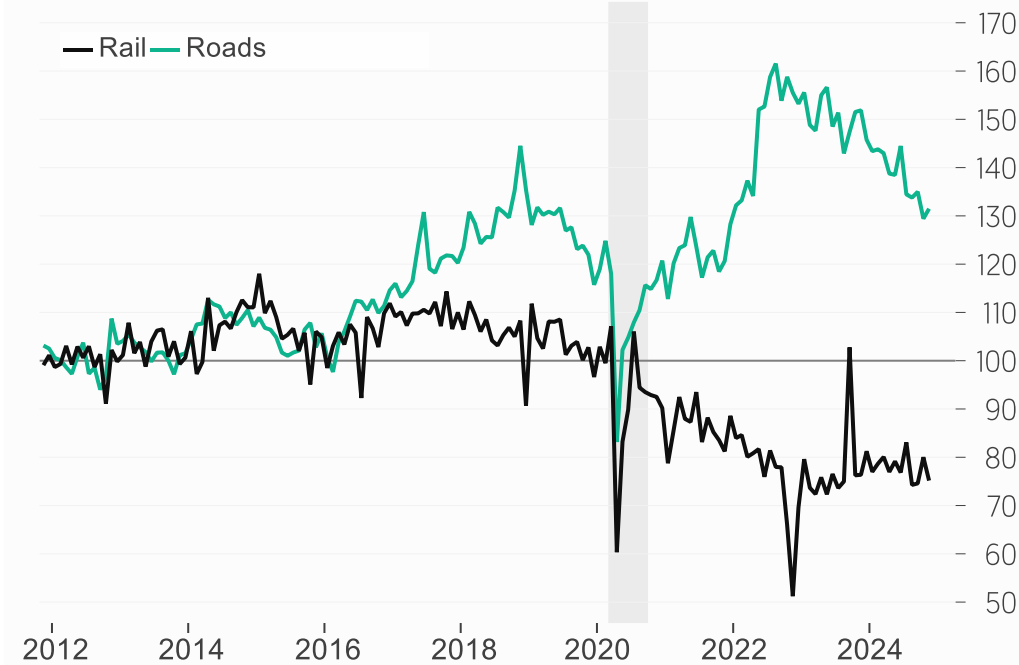
By Province. Rebase = 2009



Dept. of water & sanitation, Analysis © ecmx

SA, Freight, Total

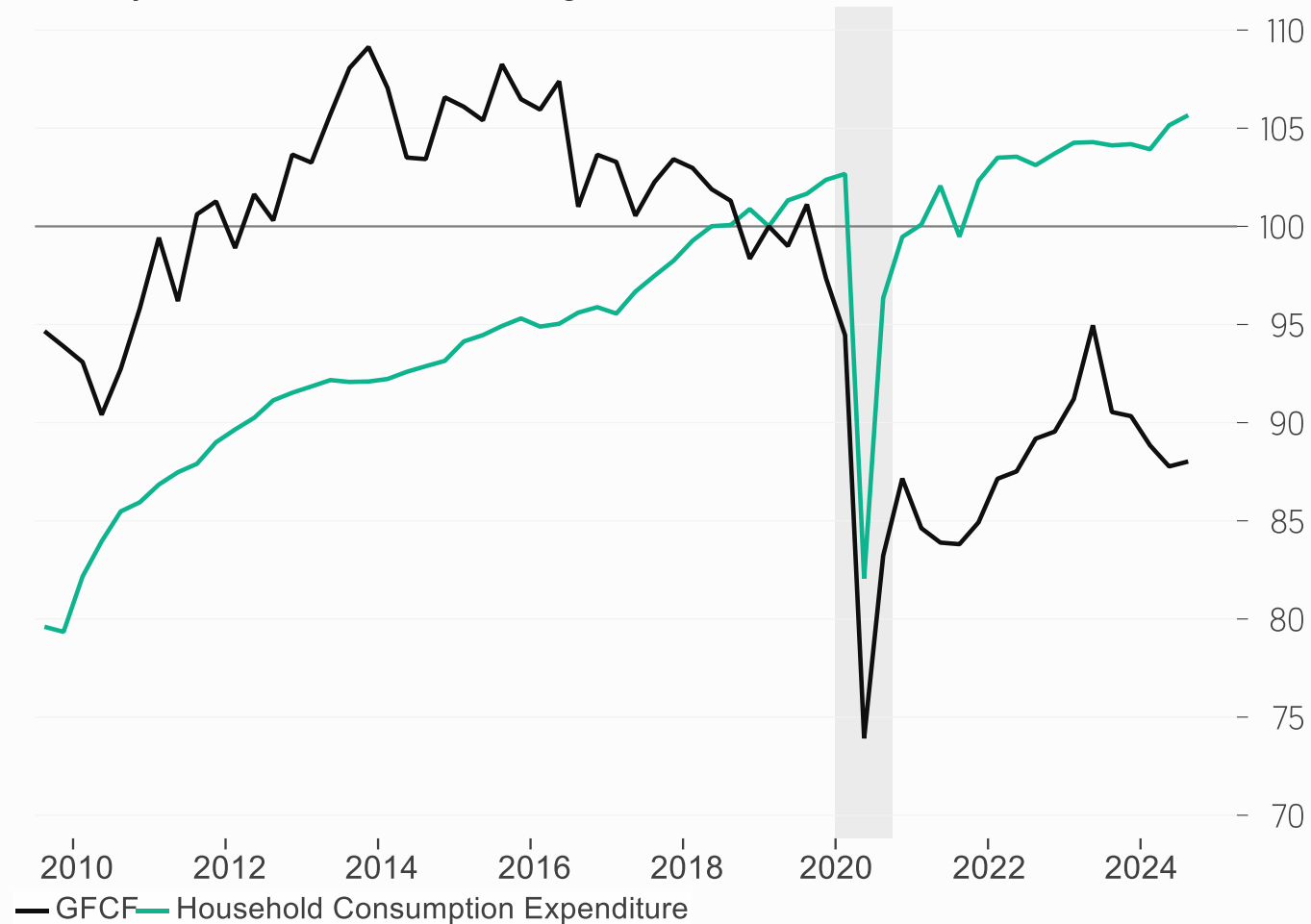
Seasonally-adjusted, tons million, Index 2012=100



South African Statistics (Stat SA), Analysis © ecmx

SA, Fixed Investment vs Household Consumption Expenditure

Seas adj index, Q1 '19 = 100. Shading = Hard lockdown



South African Statistics [Stat SA], Analysis © ecmx

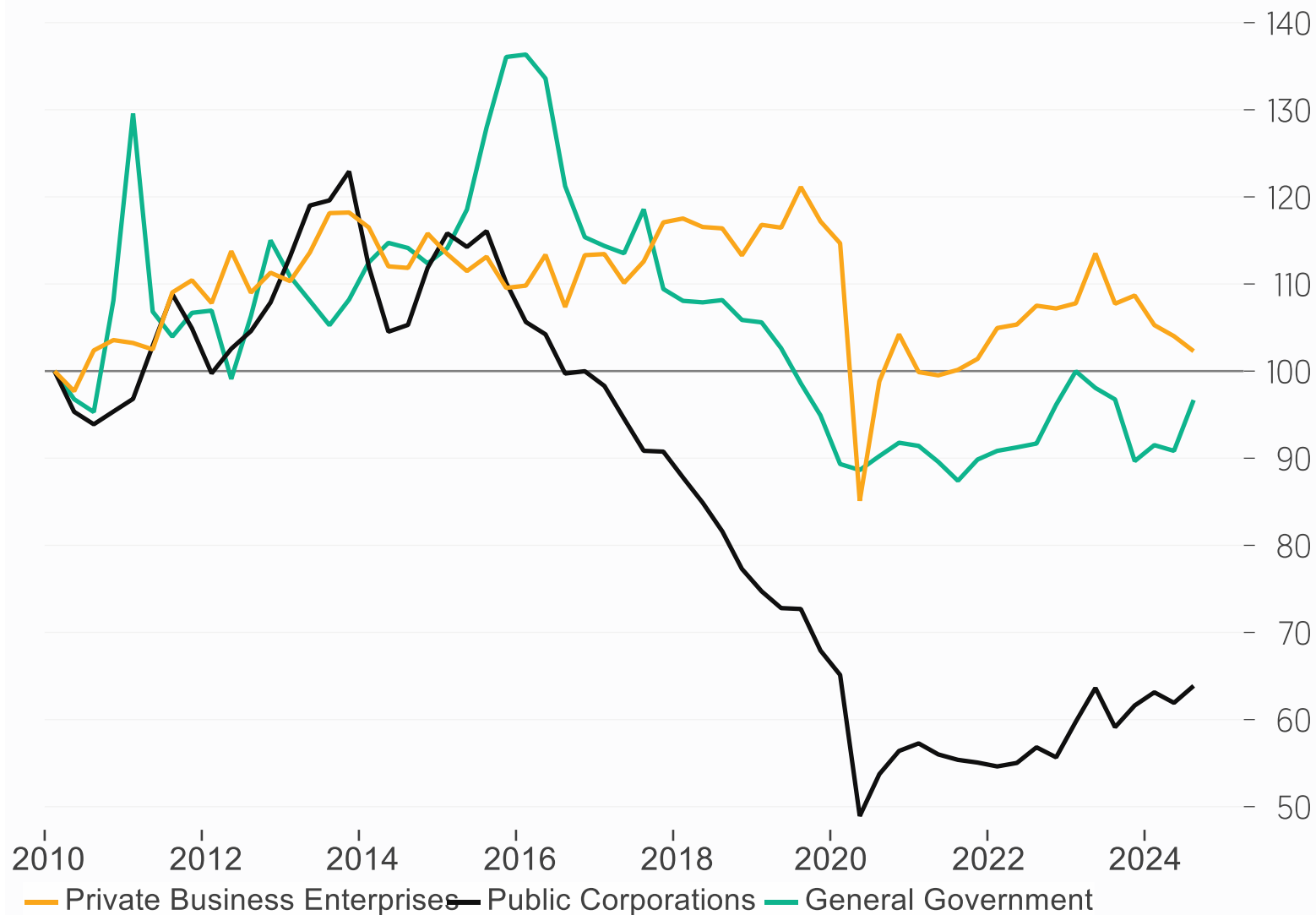
SA, Gross Fixed Capital Formation as % of GDP



South African Statistics (Stat SA), Analysis © ecmx

SA, Gross Fixed Capital Formation

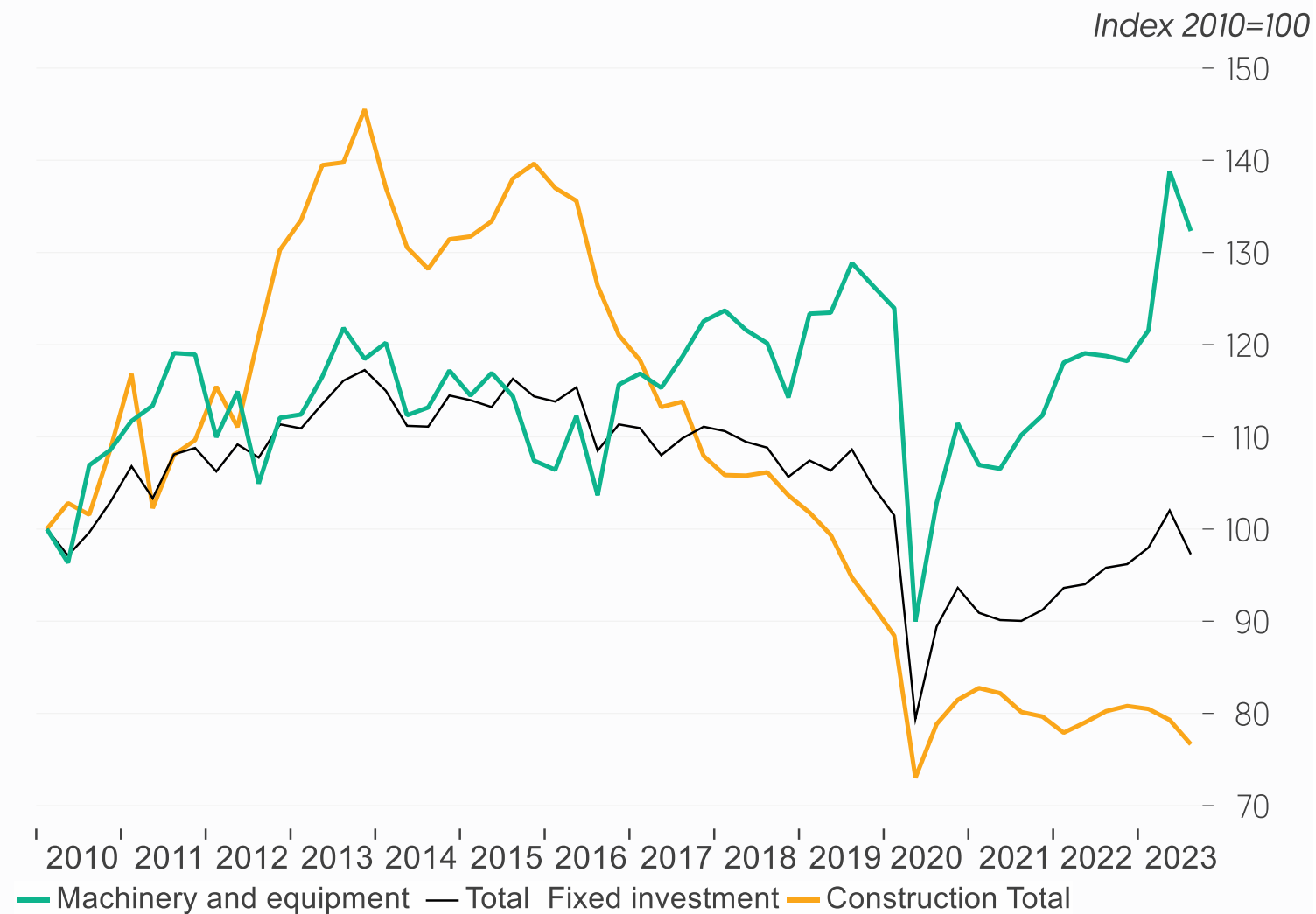
By Type of Organisation, Index 2012=100



South African Statistics (Stat SA), Analysis © ecmx

SA, Gross Fixed Capital Formation

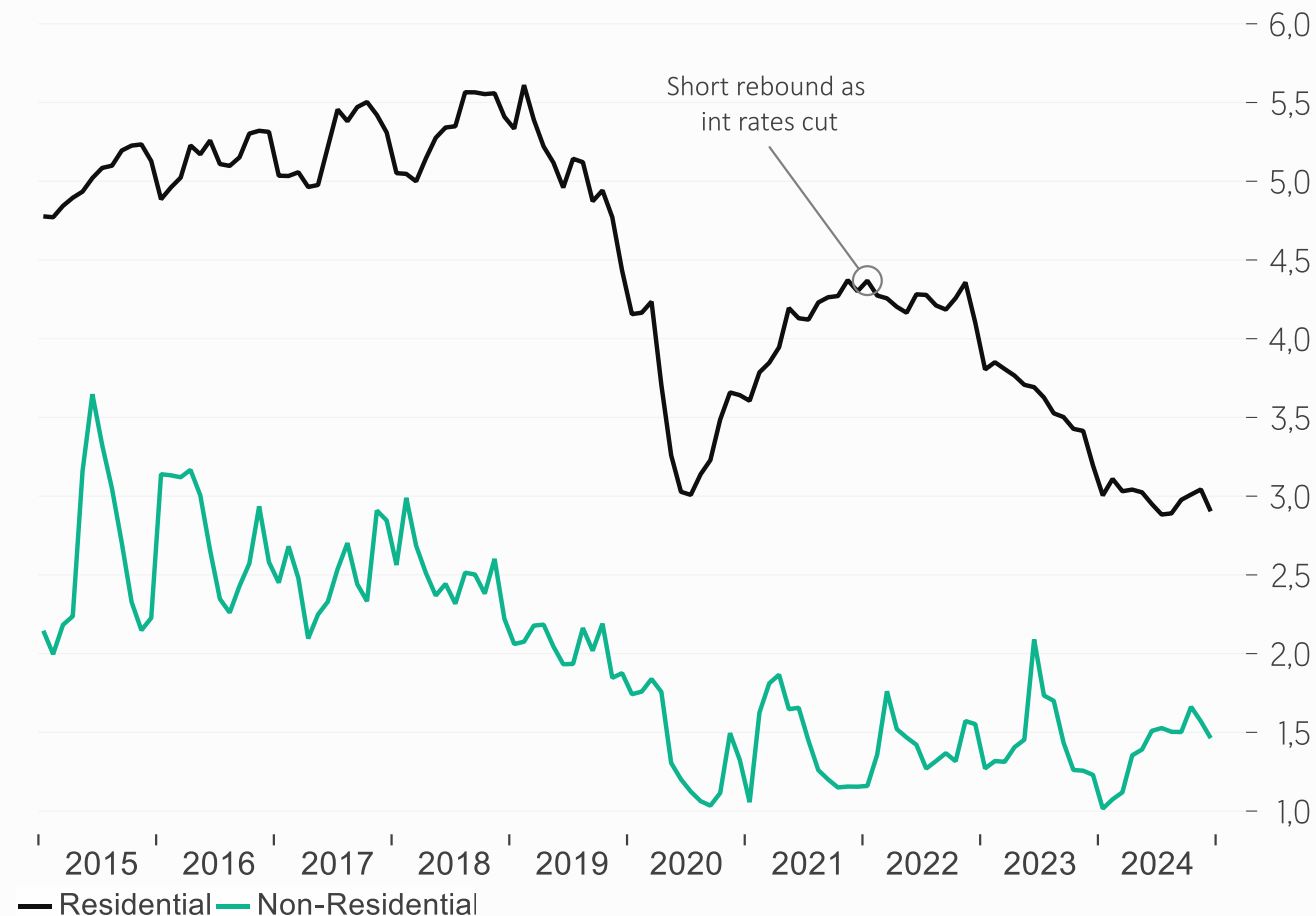
Total vs Construction vs Machinery and Equipment



South African Statistics (Stat SA), Analysis © ecmx

Residential vs non-residential building plans passed

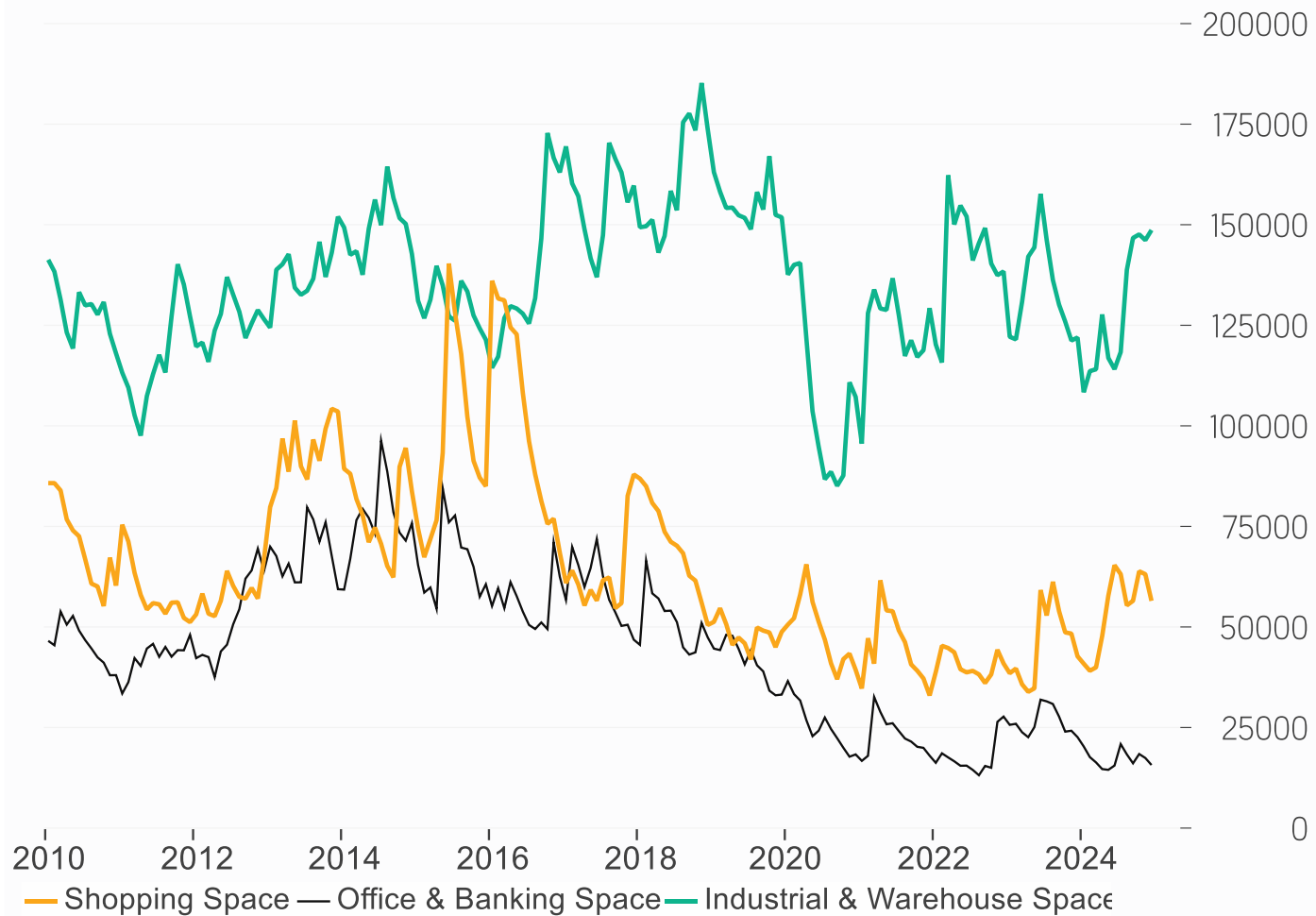
smoothed - 12 months- Constant ZAR Billions



South African Statistics (Stat SA), Analysis © ecmx

SA, Non-residential building plans passed

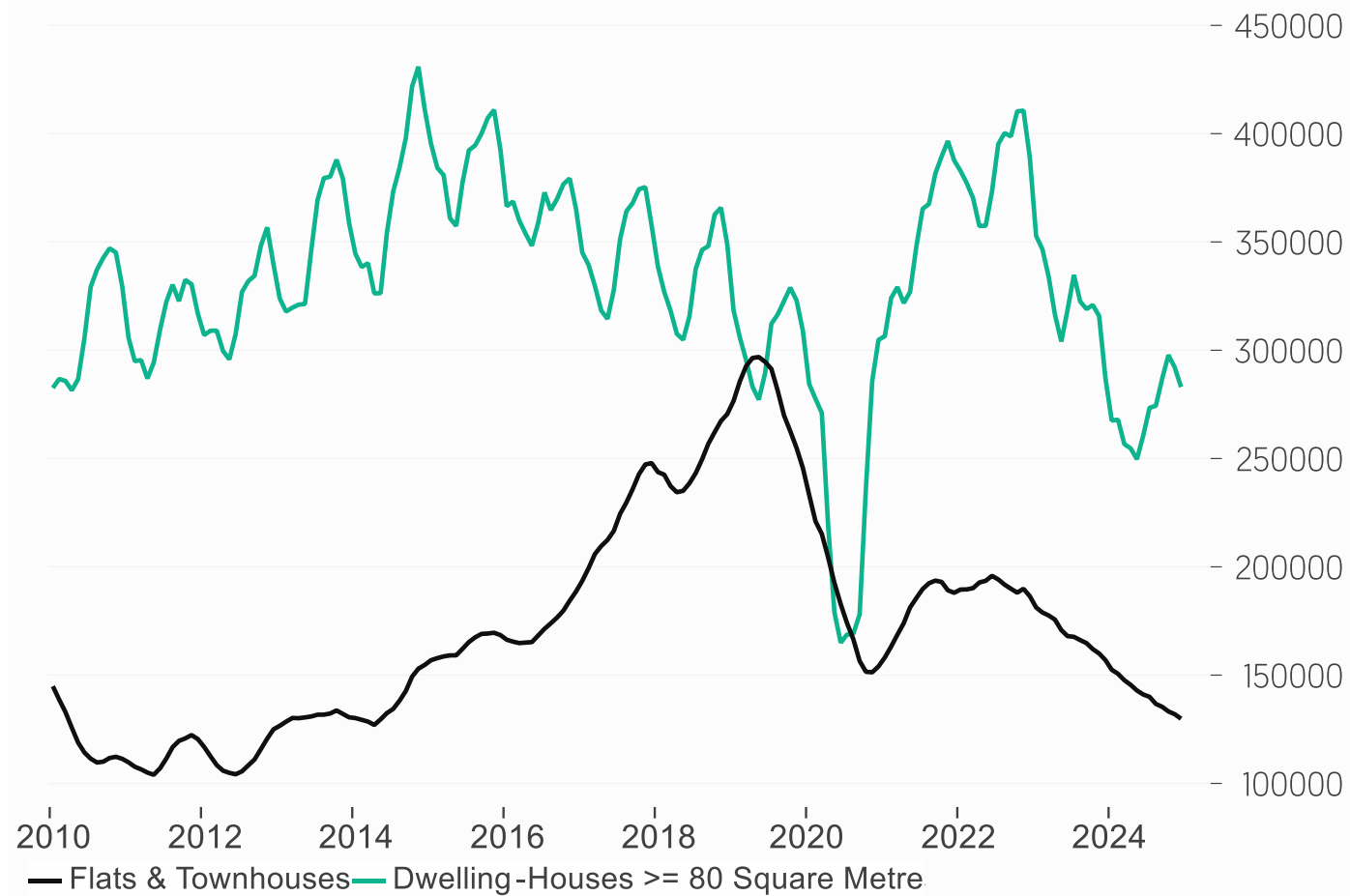
Square Meters, Millions



South African Statistics [Stat SA], Analysis © ecmx

SA Residential Building Permits

square metres, smoothed 6 months



South African Statistics (Stat SA), Analysis © ecmx

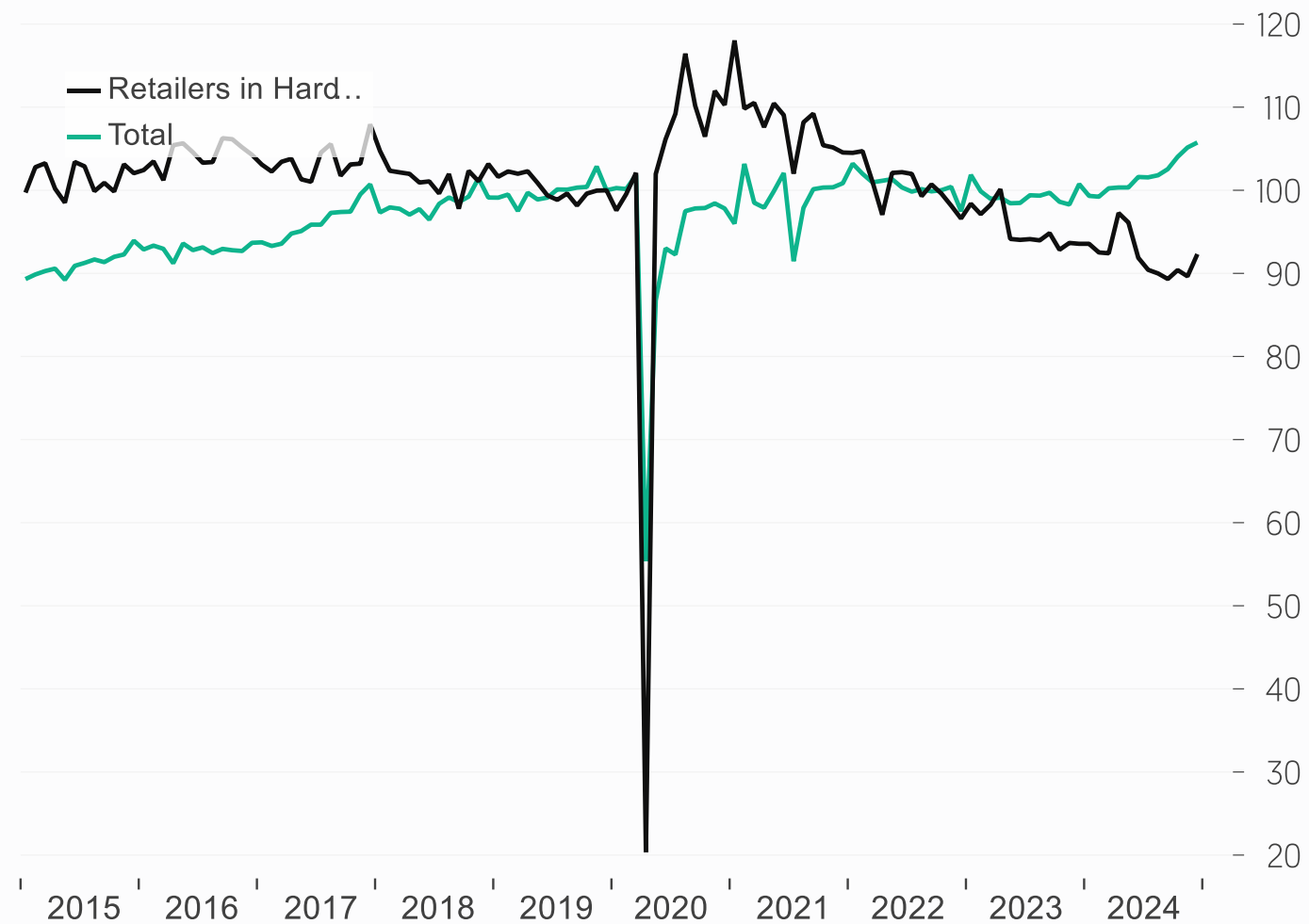
Households, Mortgage Advances, y/y %



Reserve Bank of South Africa [SARB], Analysis © ecmx

Retail sales vs. retail sales of building merchants

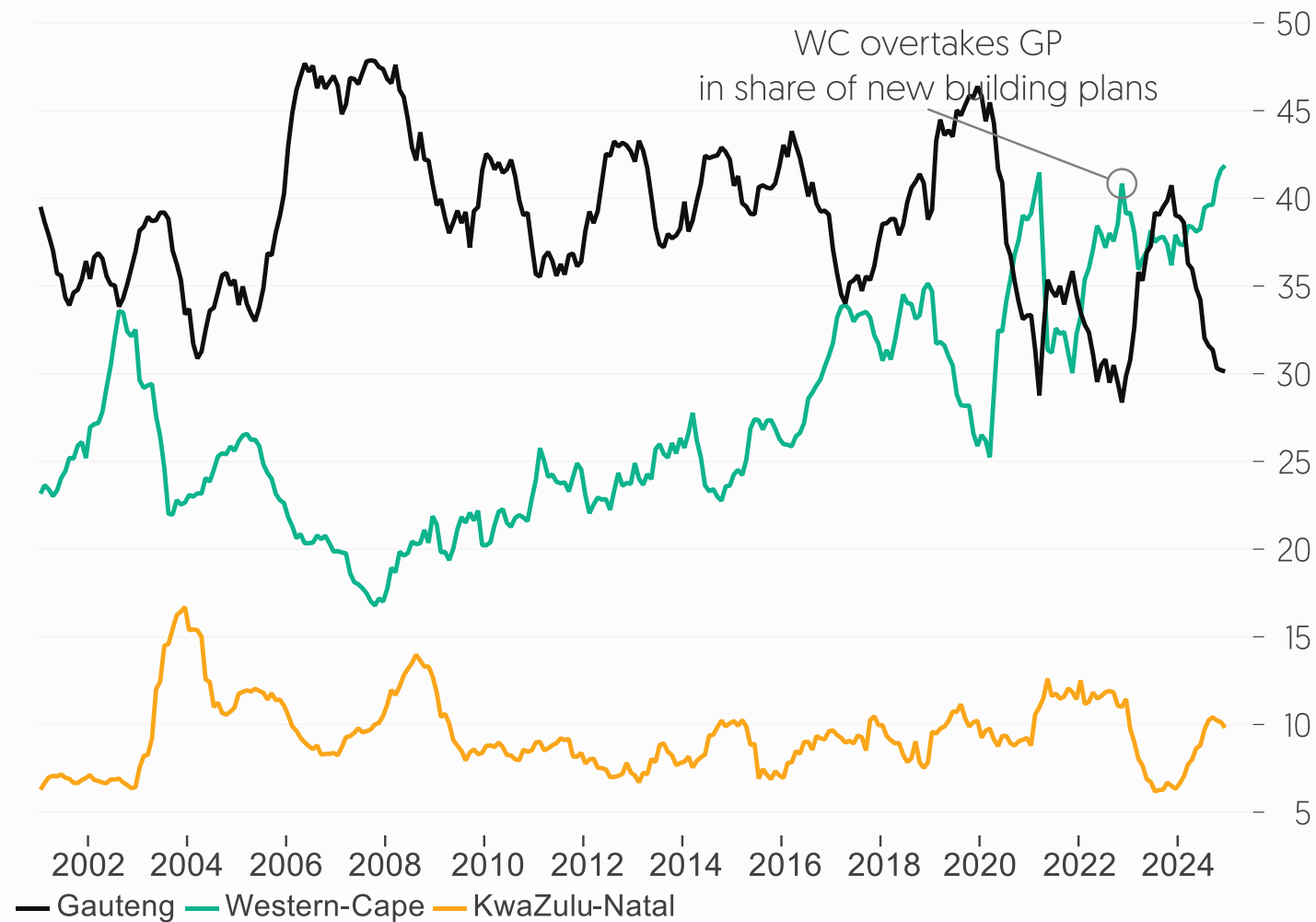
ZAR, billion



South African Statistics (Stat SA), Analysis © ecmx

SA, % share of new building plans

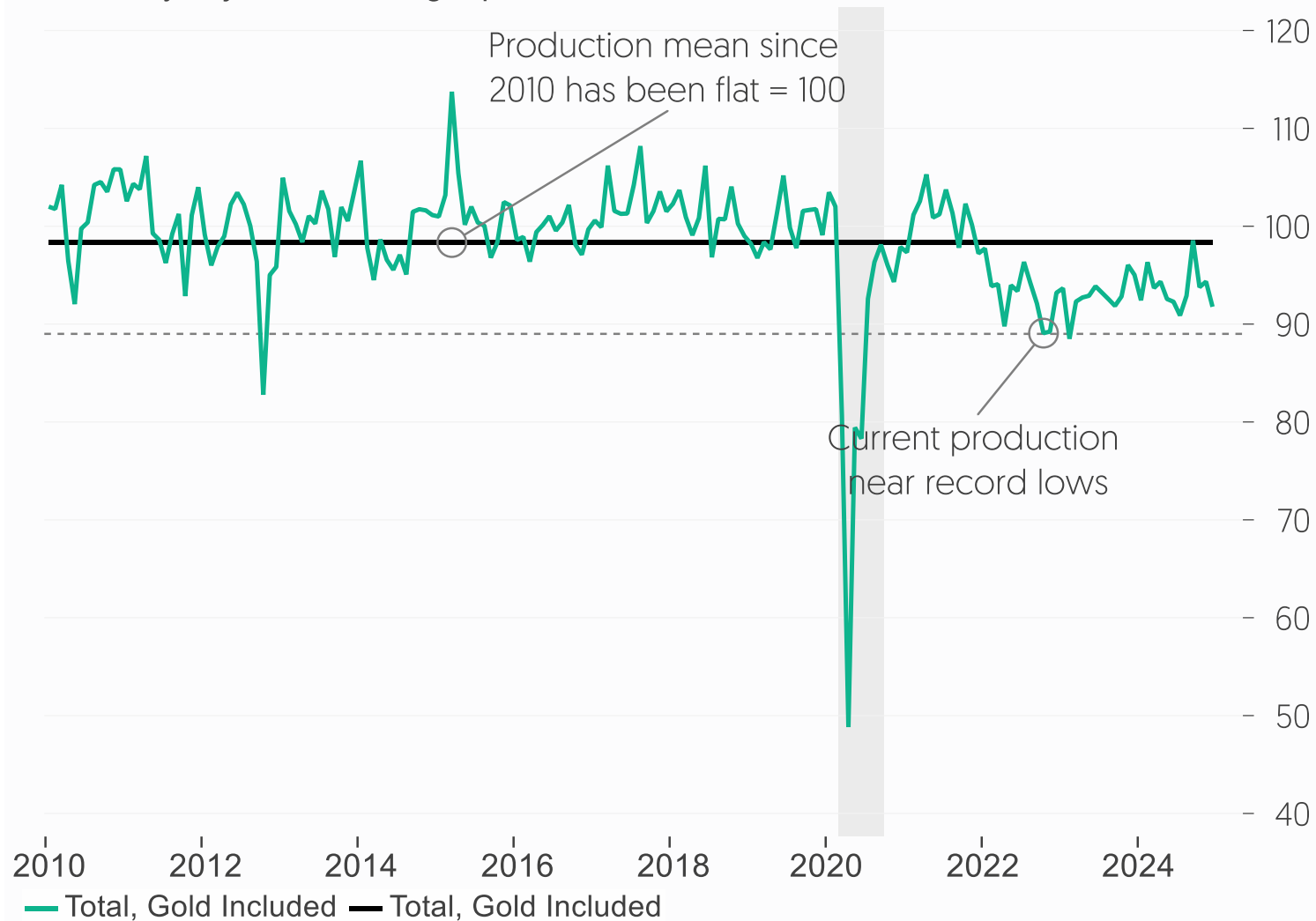
Number, seas-adj, smoothed 1 year



South African Statistics (Stat SA), Analysis © ecmx

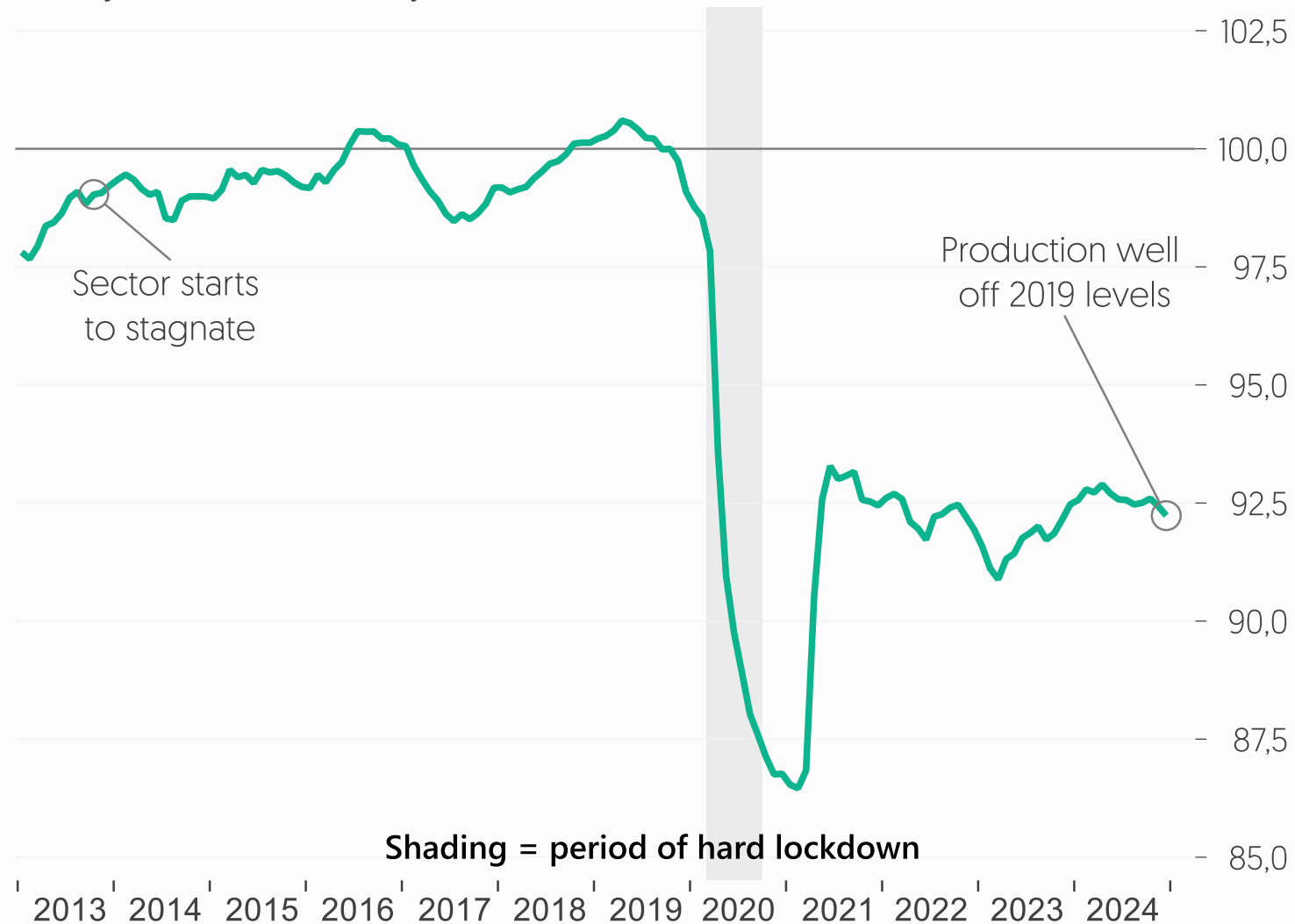
SA, Mining Production Index

seasonally adjusted Shading = period of hard lockdown



SA, Manufacturing Production

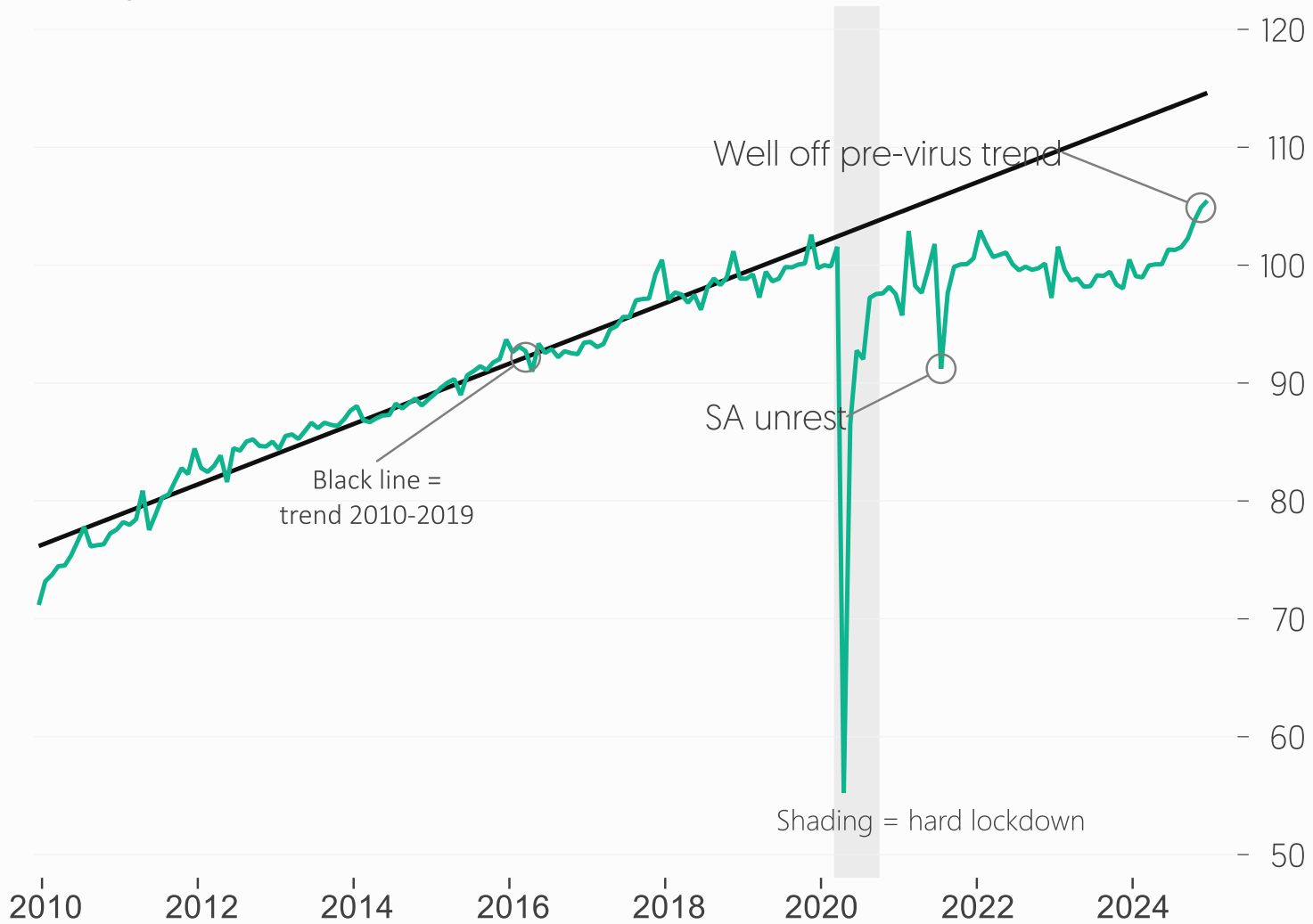
seas-adj index. Smoothed 1 year. Rebased 2019/10 = 100



Shading = period of hard lockdown

SA, Retail Trade

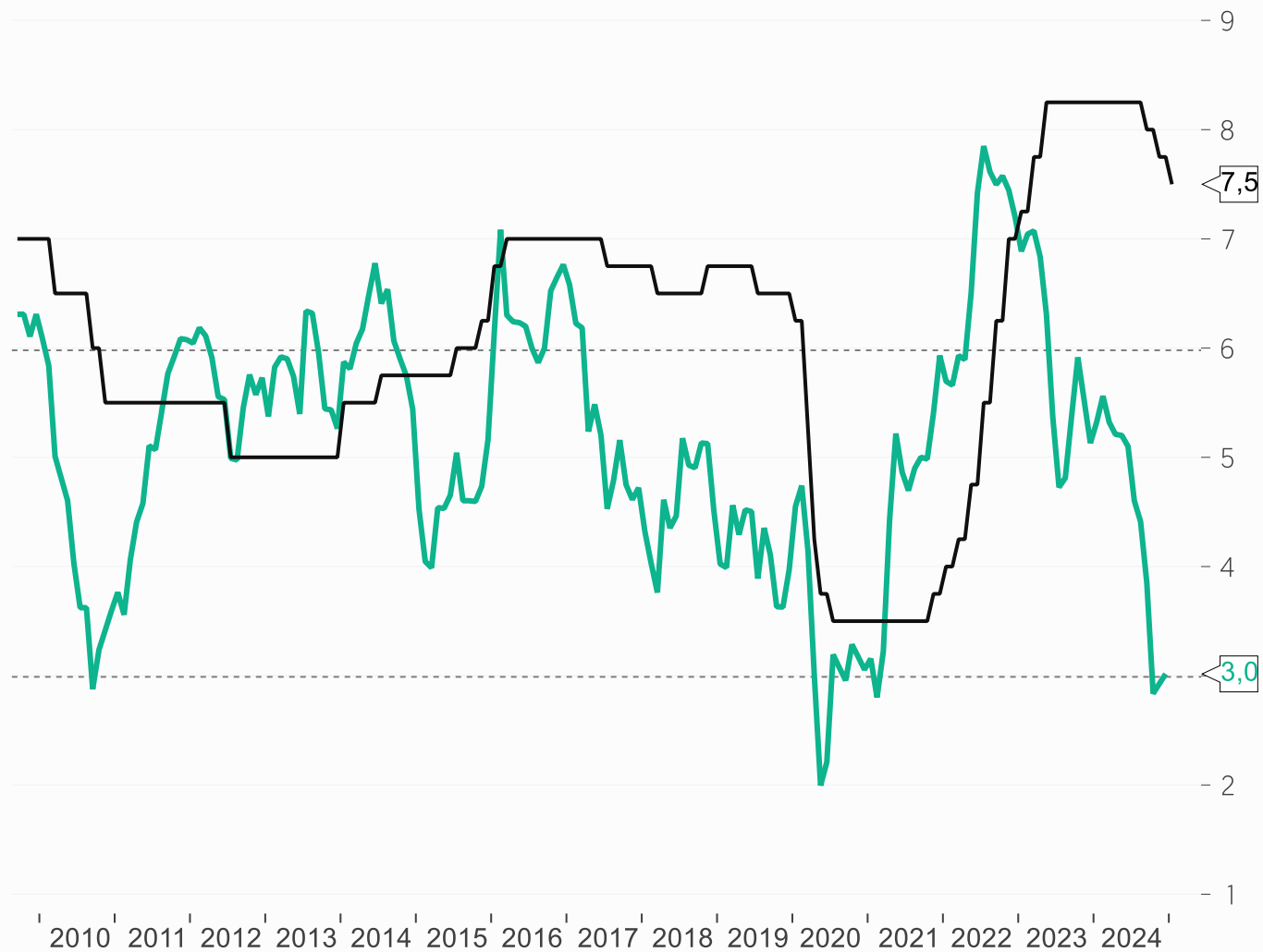
seas adj index, Jan '20 = 100



South African Statistics [Stat SA], Analysis © ecmx

SA, CPI and interest rate,%

horizontal lines = inflation target.



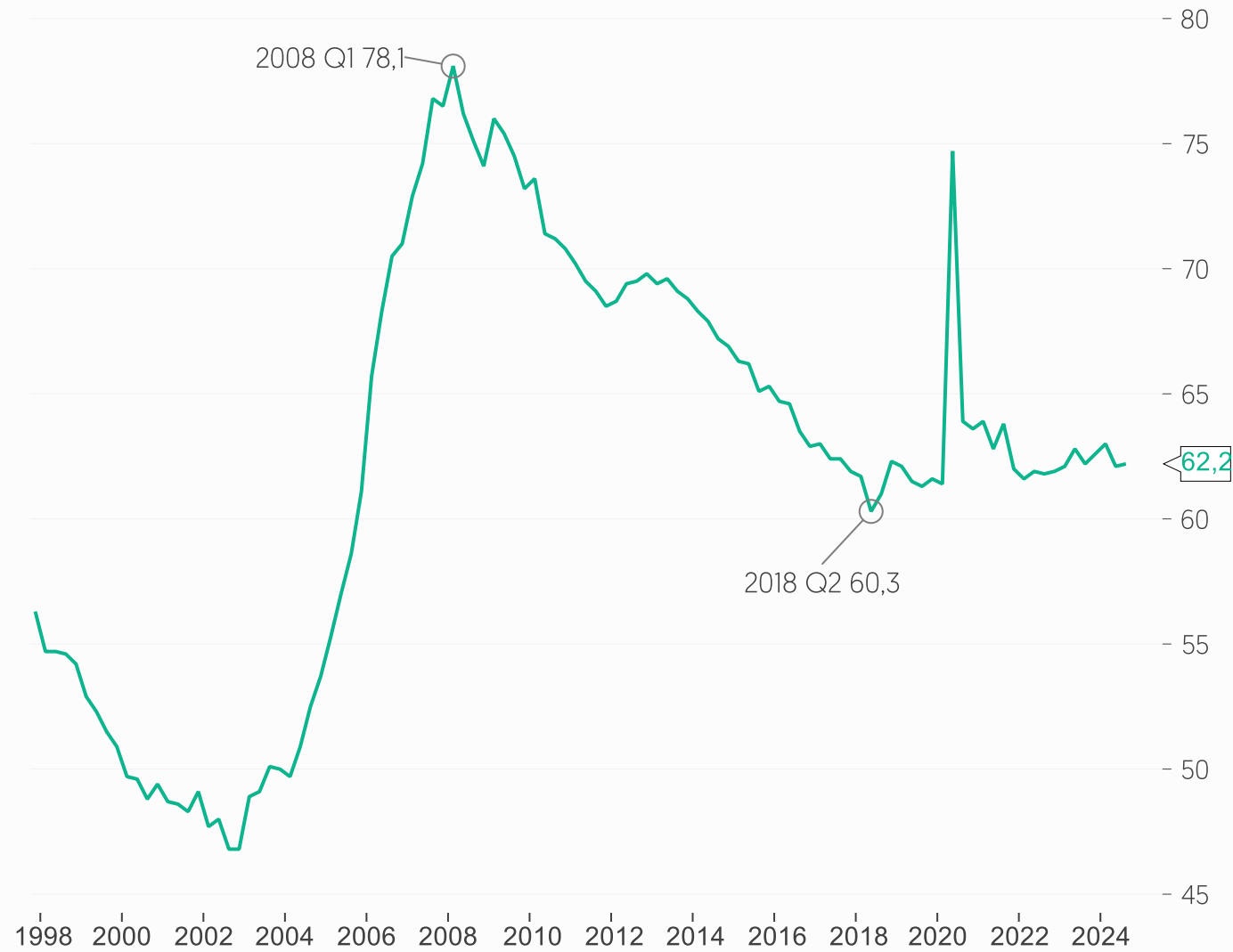
South African Statistics (Stat SA), Reserve Bank of South Africa (SARB), Analysis © ecmx

SA Headline Inflation vs Growth in Average Monthly Earnings



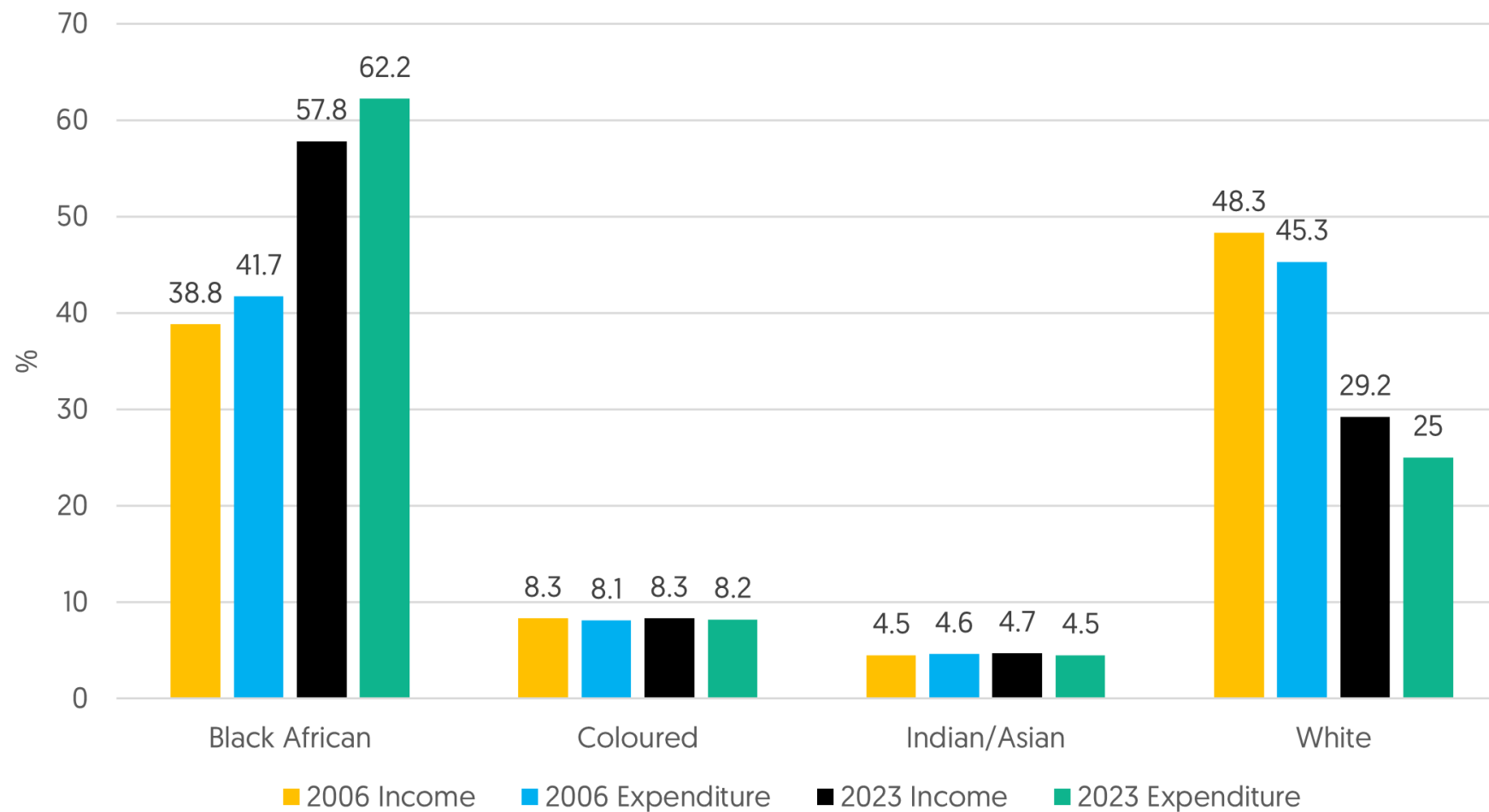
South African Statistics (Stat SA), Analysis © ecmx

Household Debt as % of Disposable Income



Reserve Bank of South Africa (SARB), Analysis © ecmx

Total Income & Expenditure Shares By Population Group 2006 vs. 2023



The 80 : 20 Principle of Income Distribution

CPI weights by Income Group (2021 prices)

| Expenditure Quintile | Weight | % of approximate households | Current Inflation Rate % |
|----------------------------|--------|-----------------------------|--------------------------|
| 1: Up to R33 619 | 1.58 | 50.6 | 3.8 |
| 2: R33 620 up to R65 213 | 4.63 | 18.2 | 3.3 |
| 3: R65 214 up to R109 163 | 9.46 | 12.9 | 2.9 |
| 4: R109 164 up to R199 920 | 19.17 | 18.2 | 2.8 |
| 5: Over R199 921 | 65.16 | | 3.0 |

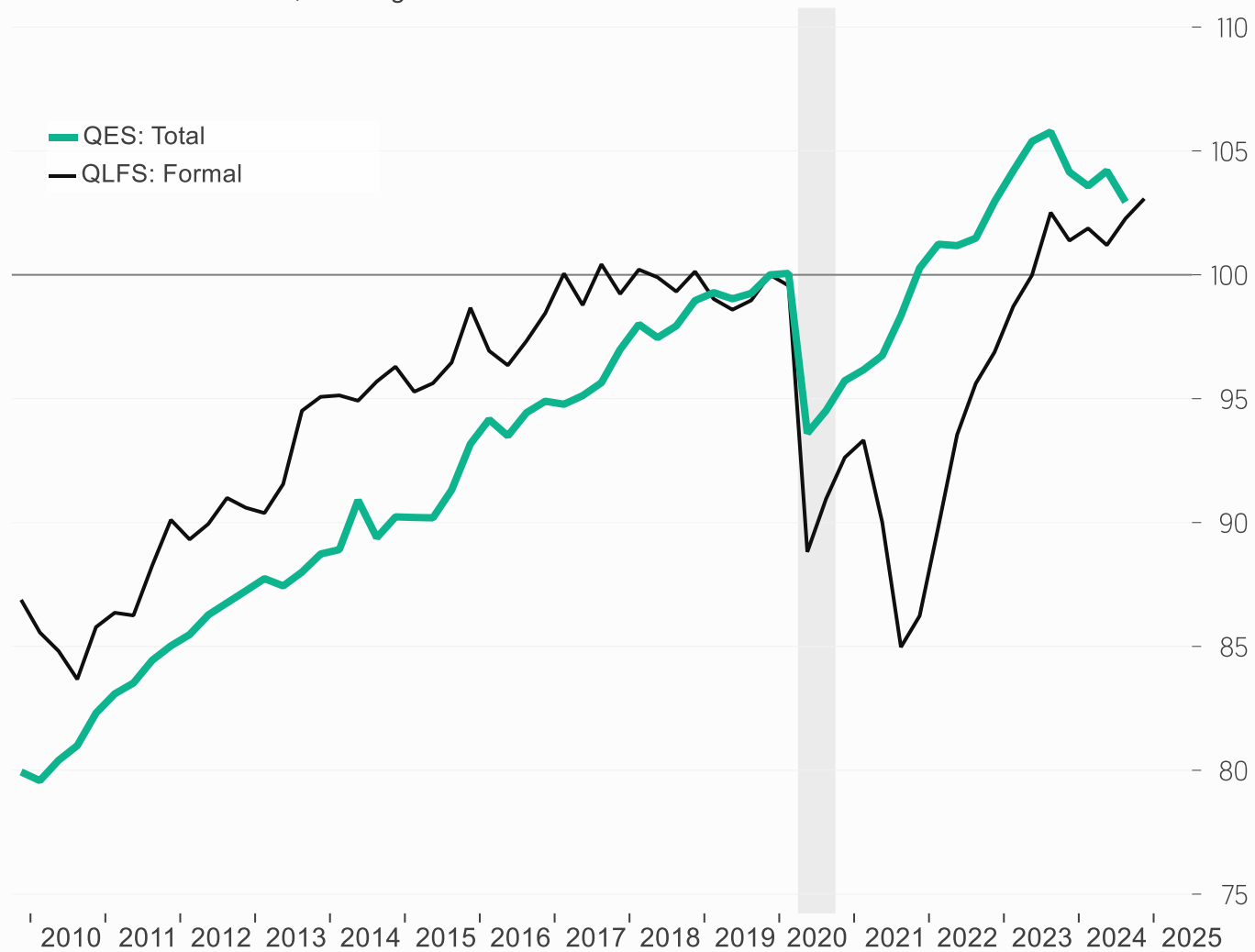
SA Economic Forecast (Growth %)

| | 2024 | 2025 | 2026 | 2027 | 2028 |
|--|------|------|------|------|------|
| Gross Domestic Product | 0,7 | 1,8 | 1,9 | 2,1 | 2,2 |
| Private Consumption | 1,1 | 2,1 | 2,3 | 2,5 | 2,5 |
| Fixed Investment | -2,9 | 3,7 | 3,9 | 4,2 | 4,1 |
| Current A/C Balance As % of GDP | -1,1 | -1,8 | -2,0 | -2,2 | -2,0 |

Source: SARB; Econometrix

SA, QES v QLFS (formal)

Rebased Q4 2019 = 100, shading = hard lockdown



South African Statistics (Stat SA), Analysis © ecmx

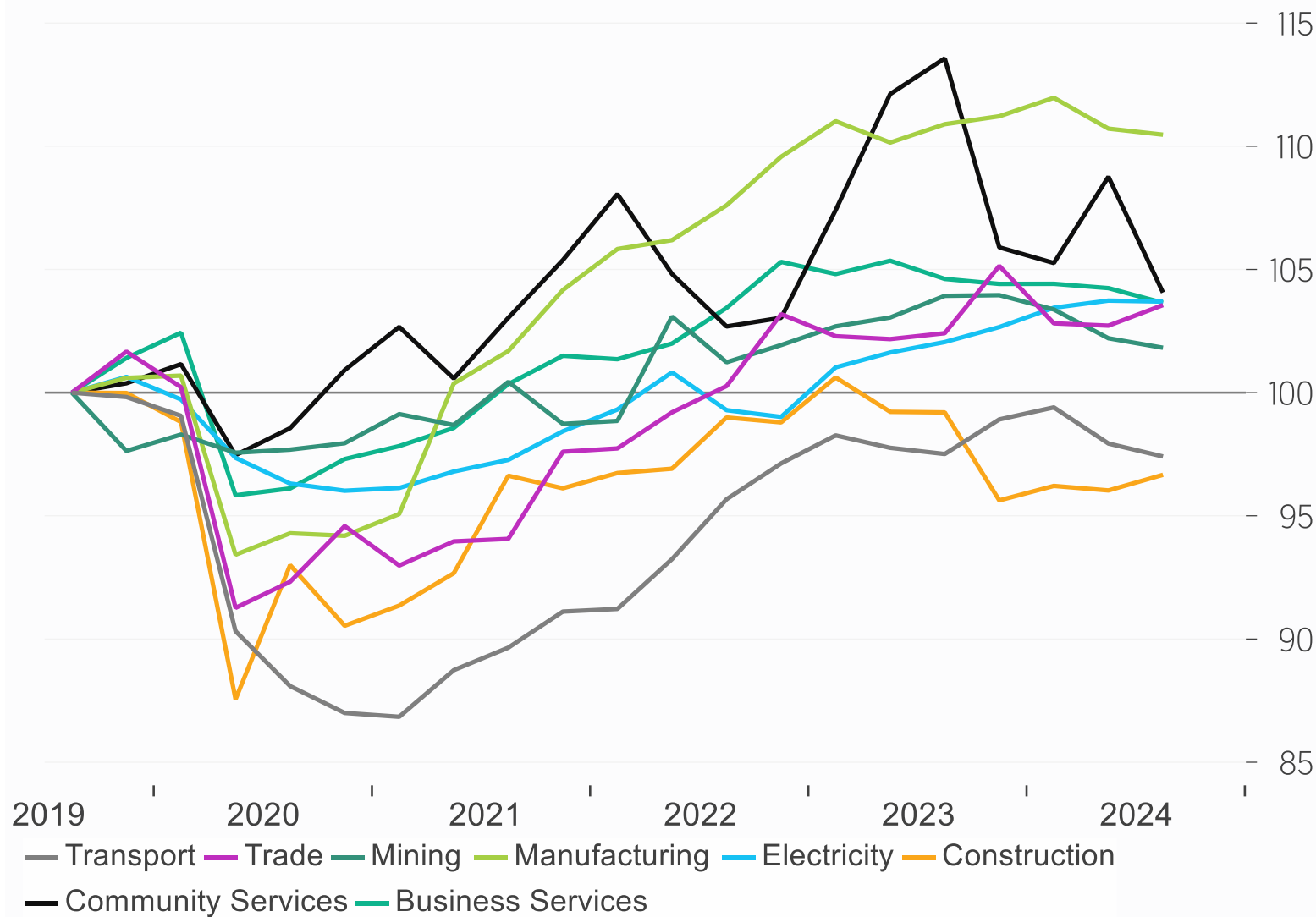
Construction as a % of total employment



South African Statistics (Stat SA), Analysis © ecmx

SA, Formal Employment Index

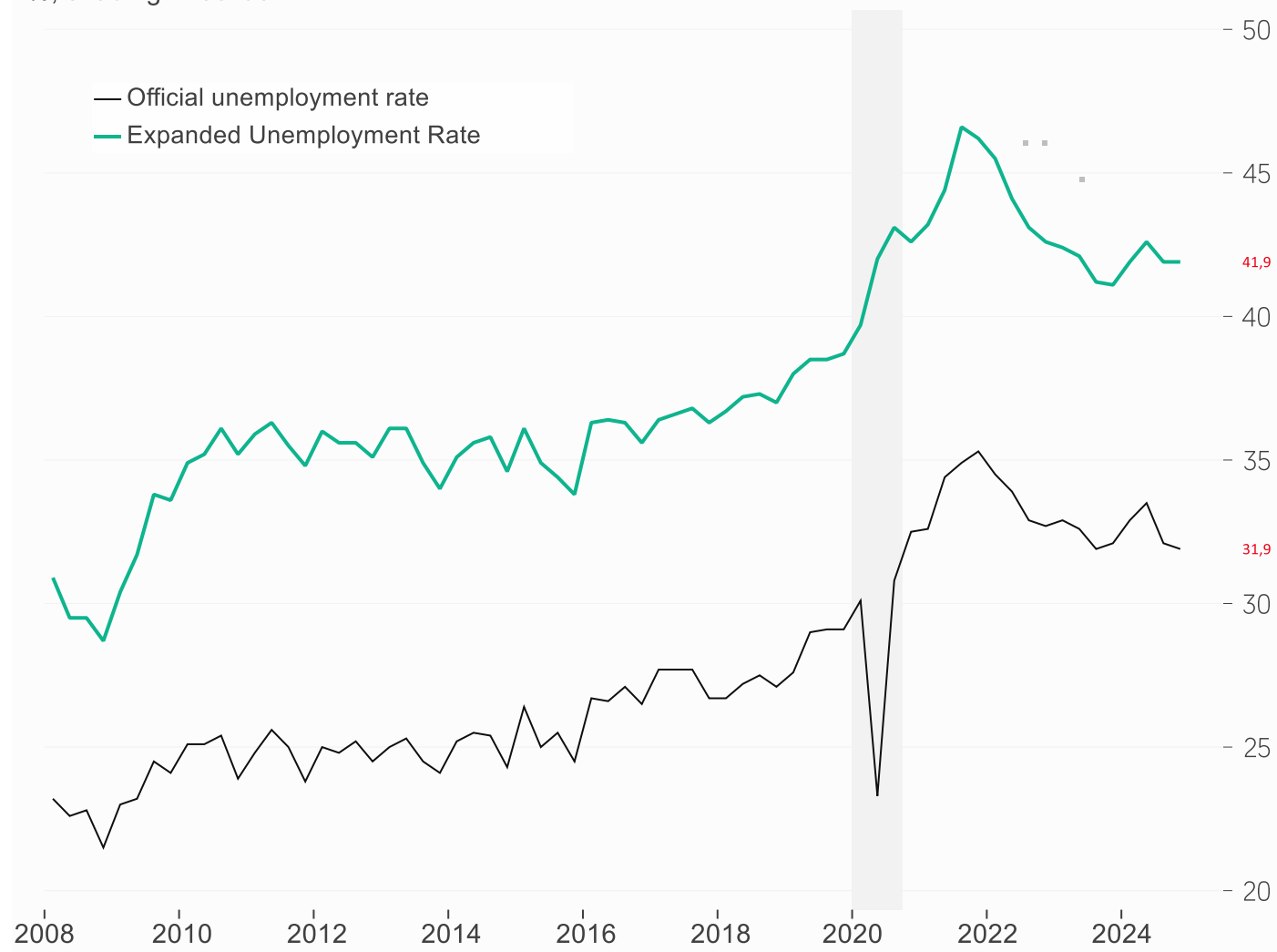
Index 2019 Q3 = 100



South African Statistics (Stat SA), Analysis © ecmx

SA, Unemployment Rate

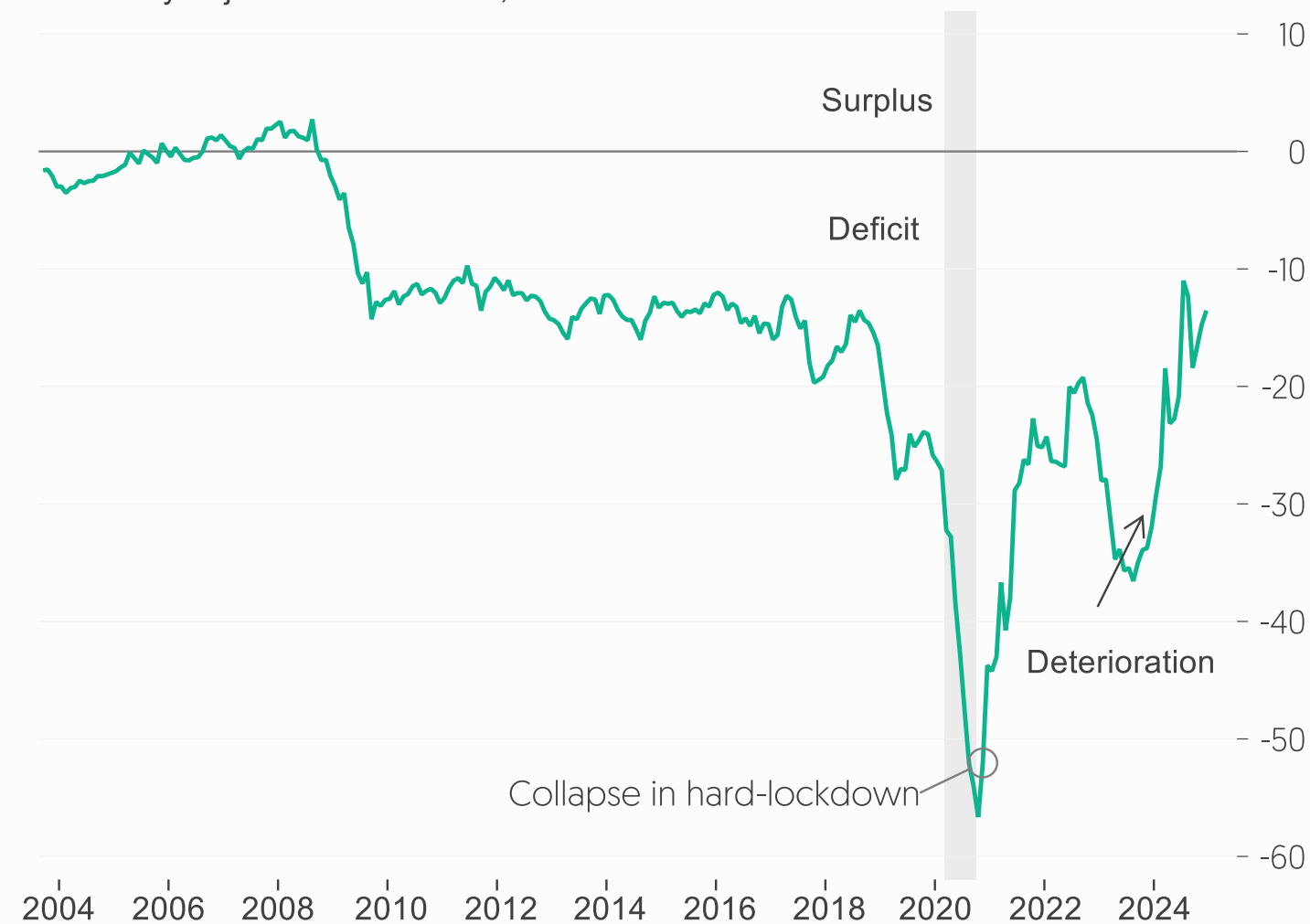
%, shading = lockdown



South African Statistics [Stat SA], Analysis © ecmx

SA, Government Budget Balance

Seasonally adjusted- ZAR Billion, Smoothed 6m



<Property Source not found.>, Analysis © ecmx

Positives & Negatives from Budget Postponement

Positives:

- Reflection of vibrant democracy at work
- Message to ANC that it has to consult GNU partners
- Budget impasses common in coalition governments
- Problem has arisen from attempts at fiscal austerity, not populism
- Credit rating agencies might be impressed by this
- Spat assists in recognition of dilemma of overspending
- Hiking of VAT rate would have withdrawn R50bn from consumers
- No reference to NHI

Negatives:

- It appears as if the ANC failed to consult GNU partners until late
- Challenge of finding alternative revenue sources
- VAT exclusions and no fuel levy increase neutralised effective 2% hike
- Problem is inability to control spending
- Public sector wage budget hiked by R23.4bn over three years
- SRD grant retained for another year
- Child Support and other grants increased by more than inflation

Conclusion:

- Sustainable growth will remain elusive until higher growth generated
- Dealing with structural impediments critical long-term
- Translation of infrastructural investment into reality critical

Infrastructural Intentions in the Budget Speech



- Capital payments, which is money allocated for the purchase or upgrade of long-term assets like buildings, machinery and equipment are the fastest growing area of spending by economic classification
- Over the next three years, public infrastructure spending amounts to more than R1tn
- R402bn for transport and logistics
- R219bn for energy infrastructure
- R156bn for water and sanitation
- SANRAL to spend R100bn "over the medium-term":
- Roads kept in active resurfacing contracts from 950 km in 2024/25 to 2000 km in 2025/26
- SANRAL will increase strengthening and improvement of network from 200 km in 2024/25 to 400 km in 2026/27
- Provincial roads departments will reseal over 16,000 Lane-kilometres of roads
- Every R1m spent on construction creates more than three jobs for individuals with no more than Matric
- Construction of Mkhomazi Project to commence Nov 2026, transferring water to Mngeni Water Supply System, supplying 5m households
- Credit guarantee vehicle to be launched in H1 2026

Public-sector infrastructure expenditure and estimates

2024/25 - 2026/27

| | R 'bn | % of total |
|-------------------------|------------------------------|--------------|
| Energy | 203,8 | 21,6 |
| Water and sanitation | 160,9 | 17,1 |
| Transport and logistics | 340,0 | 36,0 |
| Other economic services | 63,4 | 6,7 |
| Health | 40,8 | 4,3 |
| Education | 56,4 | 6,0 |
| Human settlements | 43,7 | 4,6 |
| Other social services | 7,0 | 0,7 |
| Administration services | 27,8 | 2,9 |
| Total | 943,8 (903,0) (812,5) | 100,0 |

(Feb 23) (Feb22)

Source: National Treasury

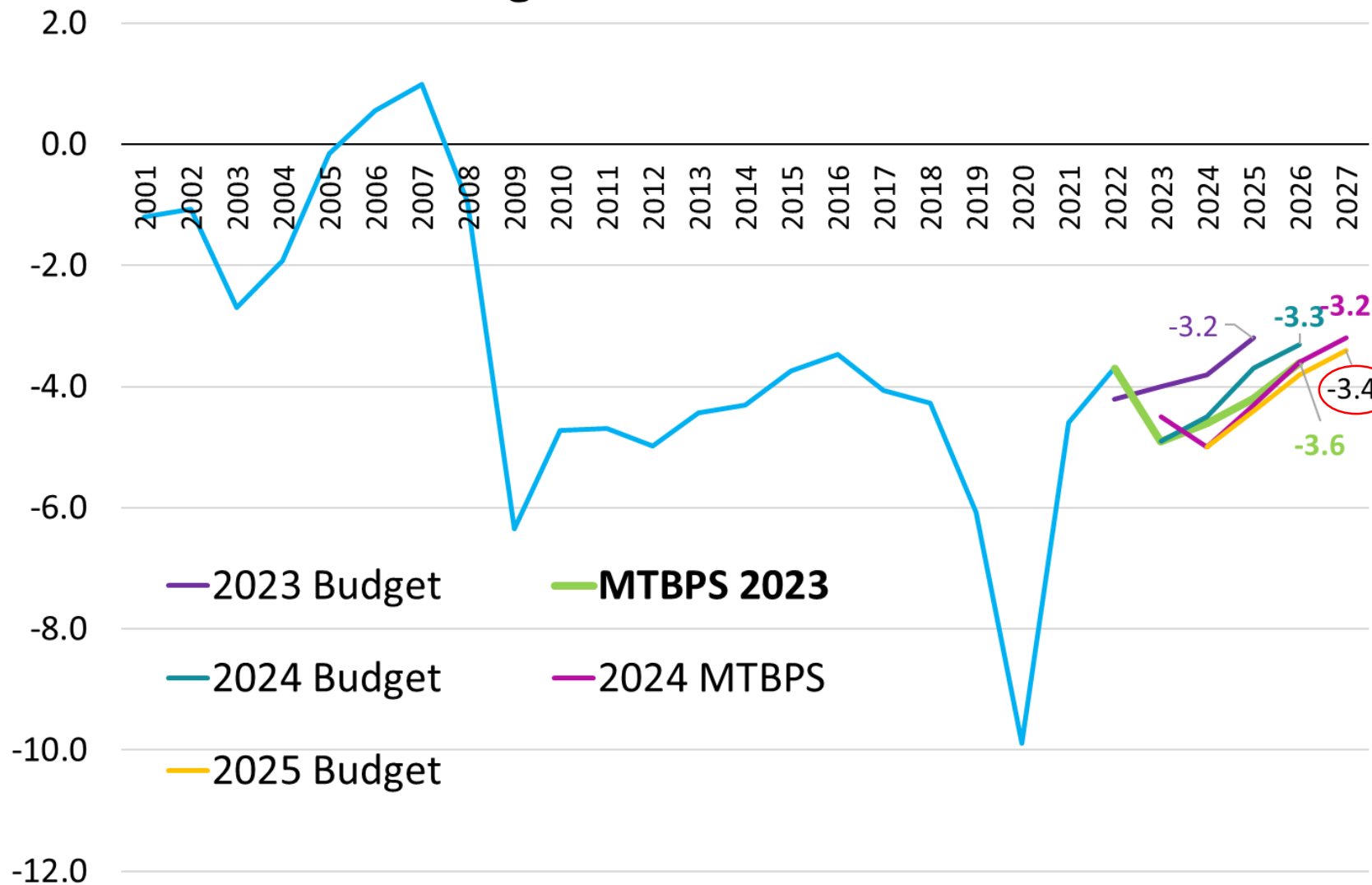
Treasury's Macro-Economic Outlook
MTBPS 2024 vs February 2025 (Projected)
% Change

| | 2024 | | 2025 | | 2026 | | 2027 | |
|---------------------------------|------|-----|------|-----|------|-----|------|-----|
| Gross Domestic Product | 1.1 | 0.8 | 1.7 | 1.9 | 1.7 | 1.7 | 1.9 | 1.9 |
| Consumer Price Inflation | 4.6 | 4.4 | 4.4 | 4.5 | 4.5 | 4.6 | 4.5 | 4.4 |

**MTBPS 2024*

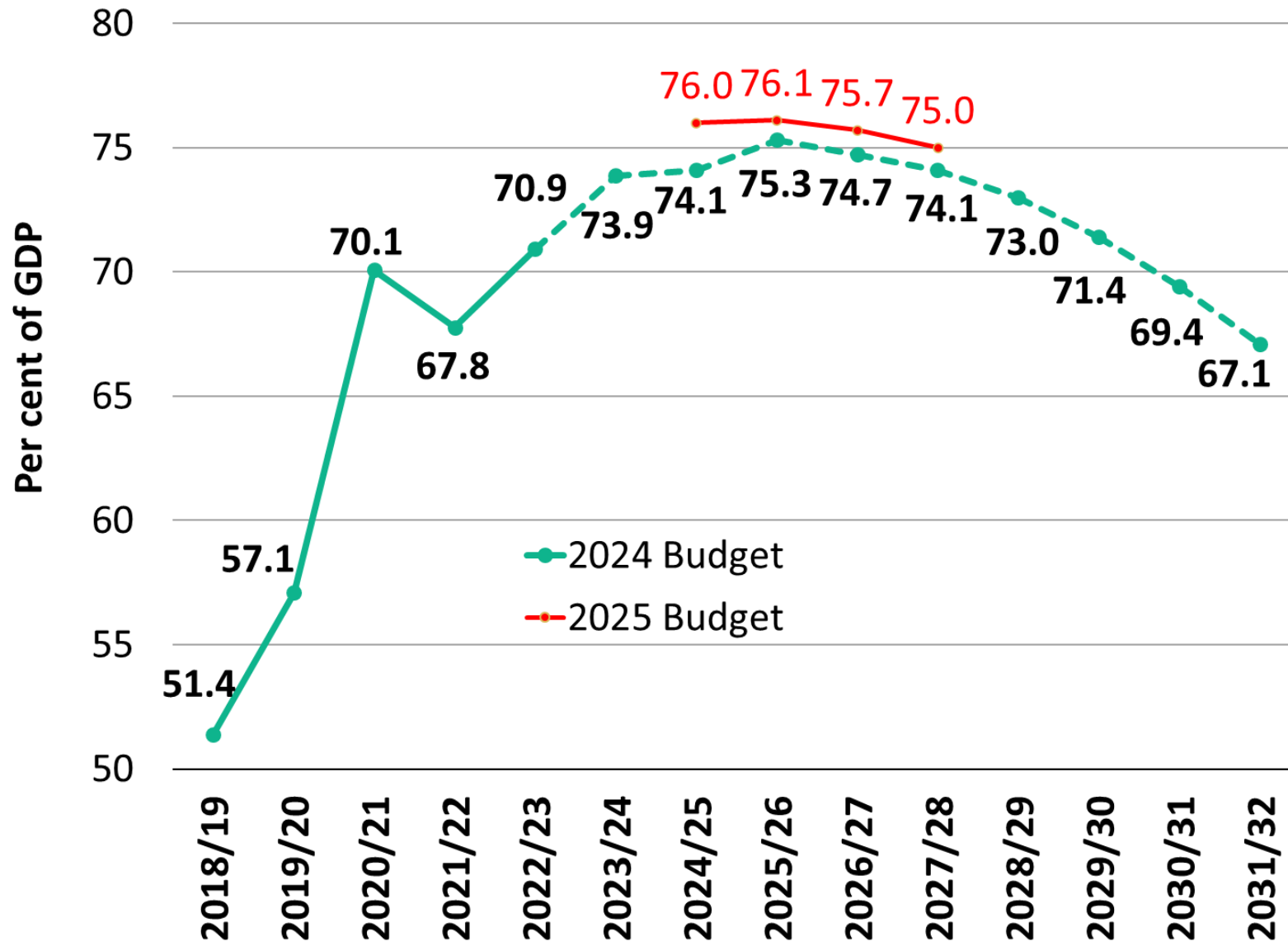
Source: National Treasury

Budget Balance as % GDP



Source: National Treasury

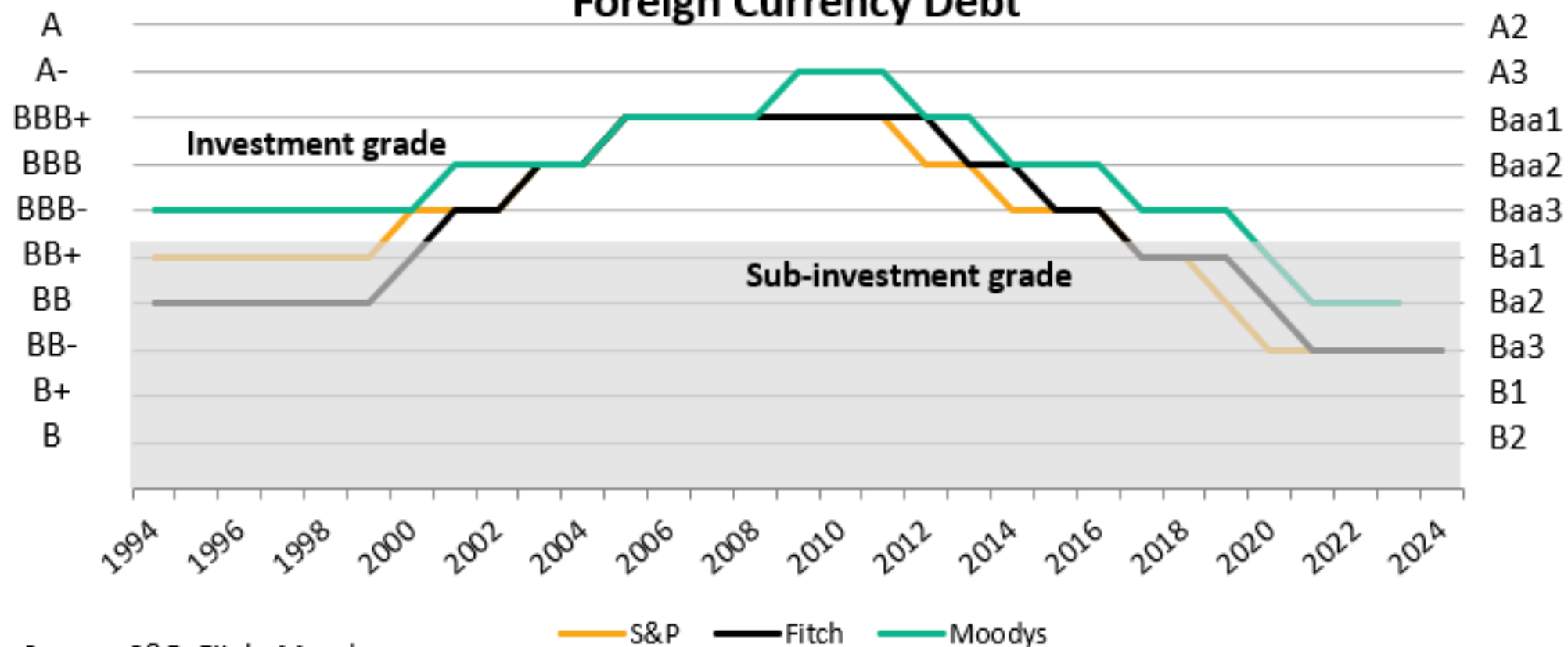
Gross debt-to-GDP outlook



Trend towards increased fiscal rectitude

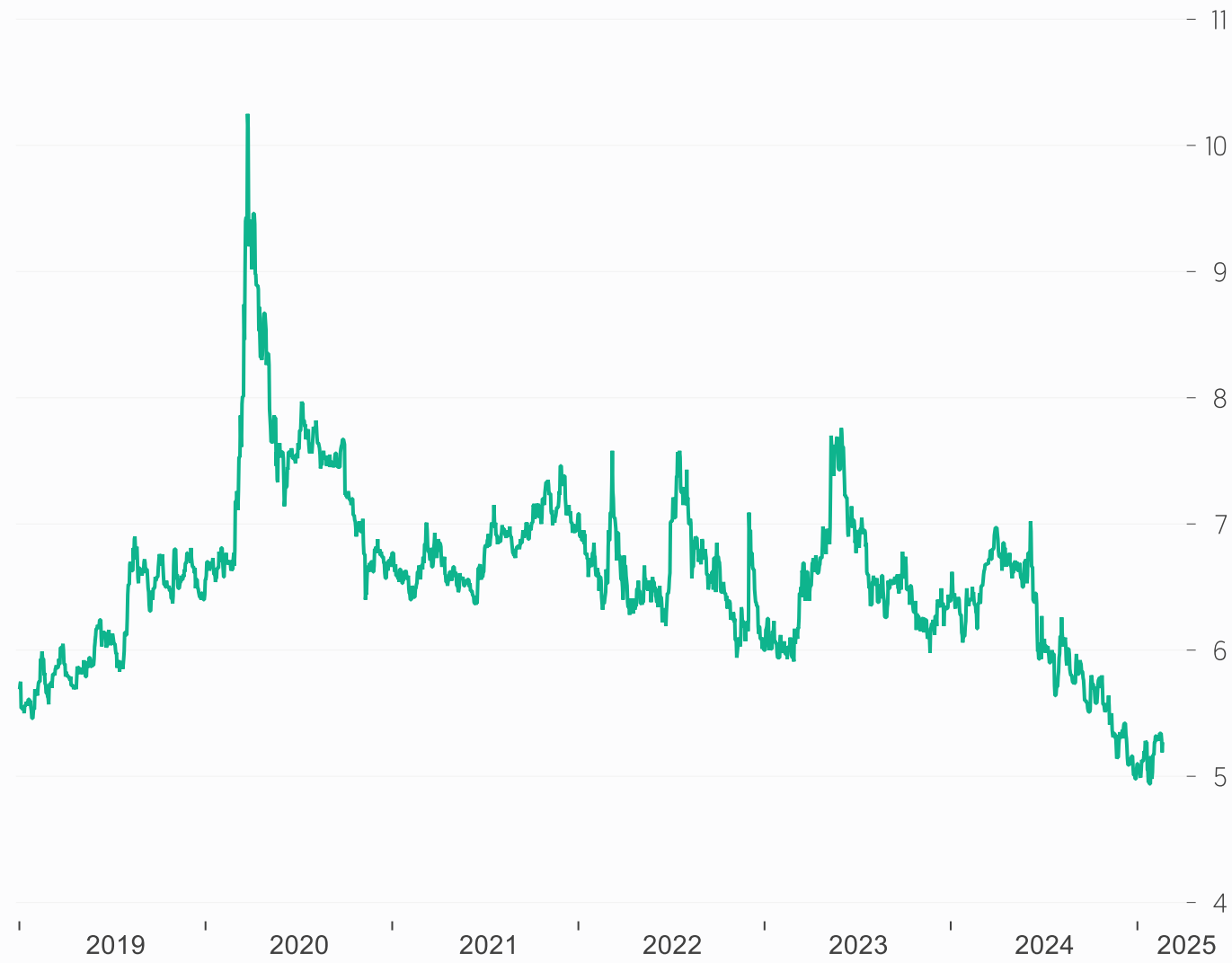
| Government Revenue vs Expenditure | | | | | |
|--|-------------|-------------|------------|-------------|-------------|
| | 23/24 | 24/25 | 25/26 | 26/27 | 27/28 |
| R 'billions | | | | | |
| Revenue | 1 941.4 | 2 026.6 | 2 247.7 | 2 389.9 | 2 534.2 |
| Expenditure | 2 258.8 | 2 404.0 | 2 600.8 | 2 713.2 | 2 844.7 |
| Y/y growth (%) | | | | | |
| Revenue | 2.4 | 4.4 | 10.9 | 6.3 | 6.0 |
| Expenditure | 5.5 | 6.4 | 8.2 | 4.3 | 4.8 |
| | | | | | |
| Budget Balance % | -5.0 (-4.5) | -5.0 (-5.0) | -4.4(-4.3) | -3.8 (-3.6) | -3.4 (-3.2) |
| Feb25 (MTBPS24) | | | | | |
| Source: National Treasury | | | | | |

South Africa's Credit Rating History Foreign Currency Debt



Source: S&P, Fitch, Moodys

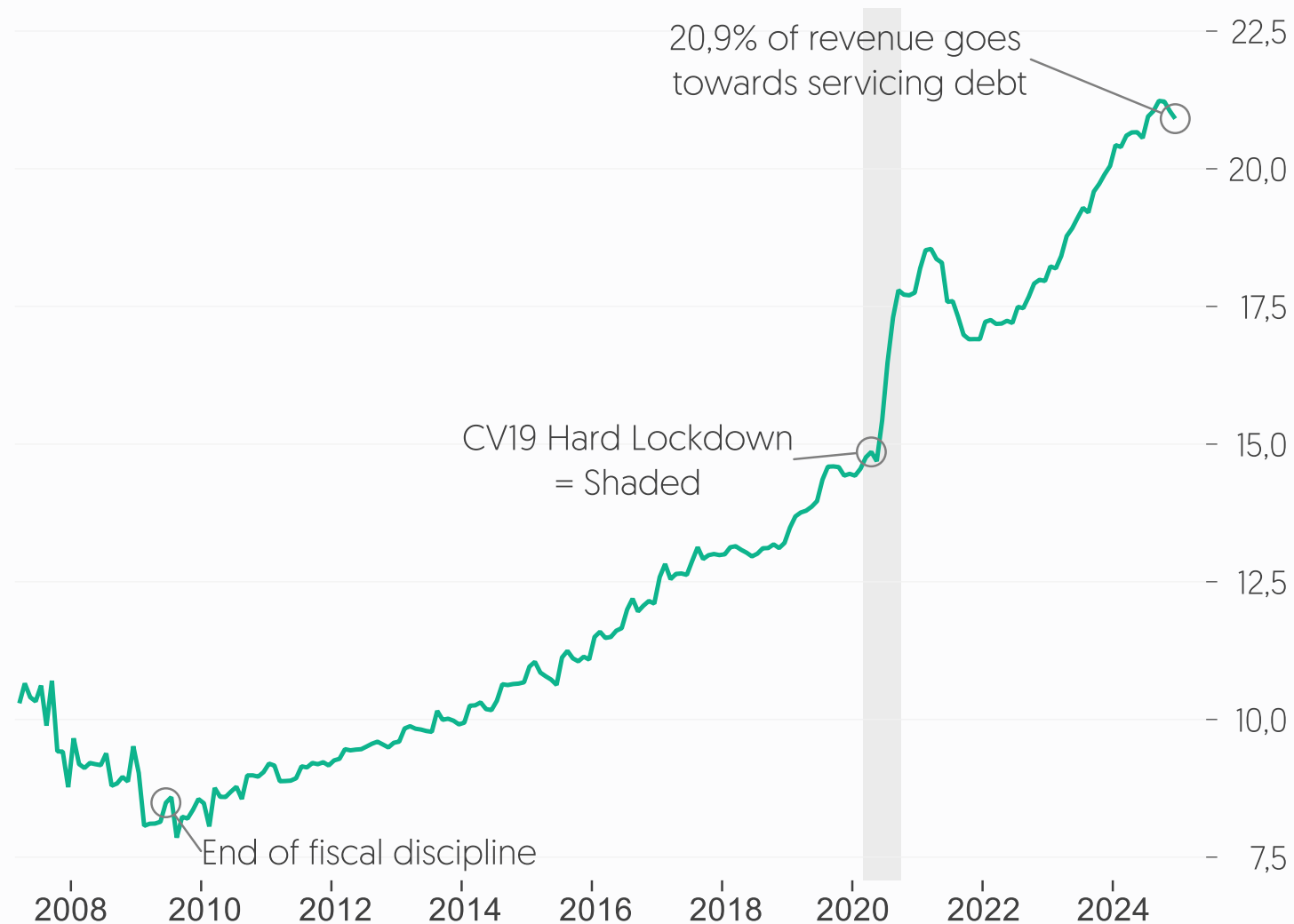
SA, US 10-year yield differential



Analysis © ecmx

SA, Debt Servicing Costs as % of Revenue

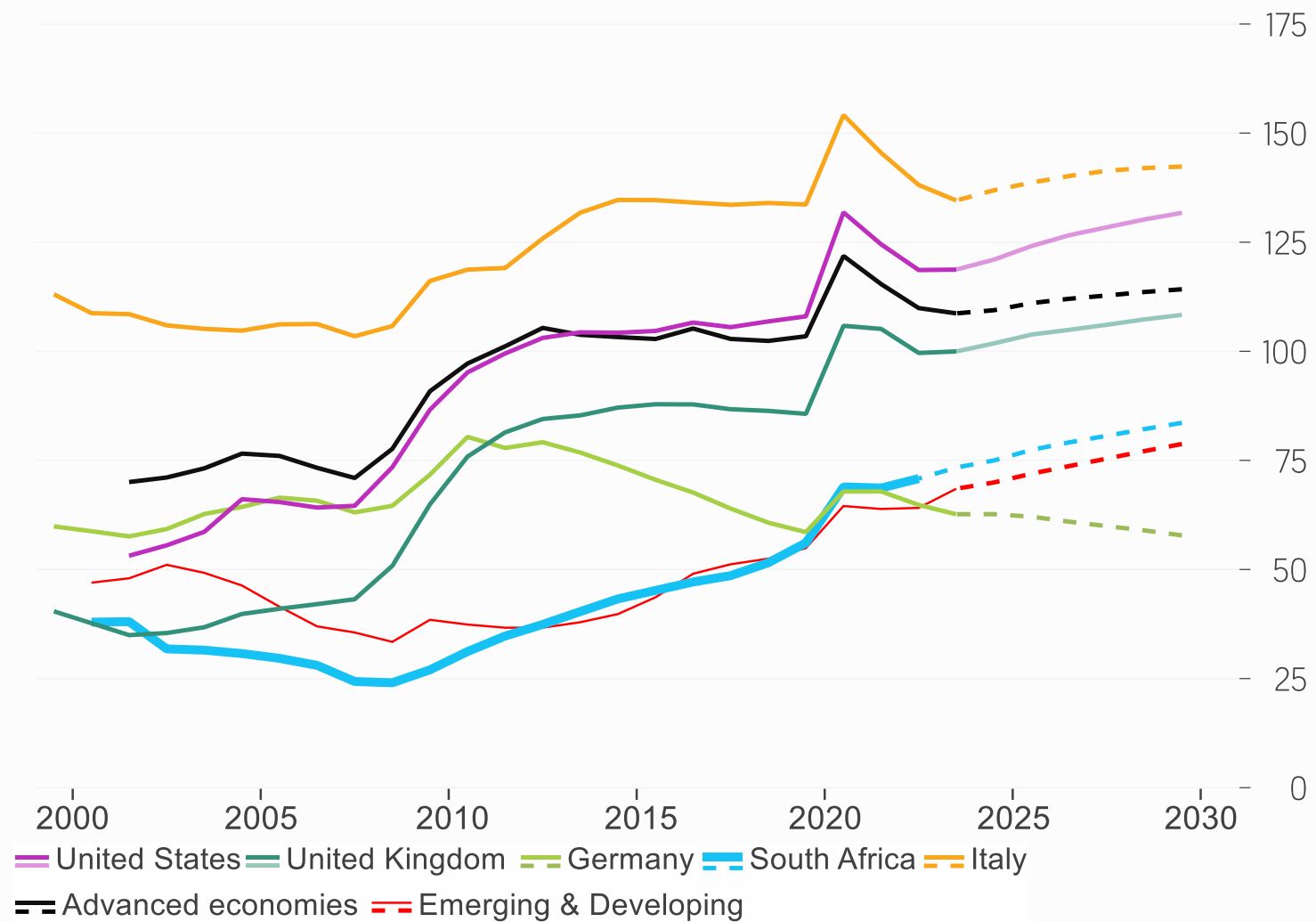
Smoothed 12months



South African National Treasury, Analysis © ecmx

General Government Gross Debt

Percent of GDP



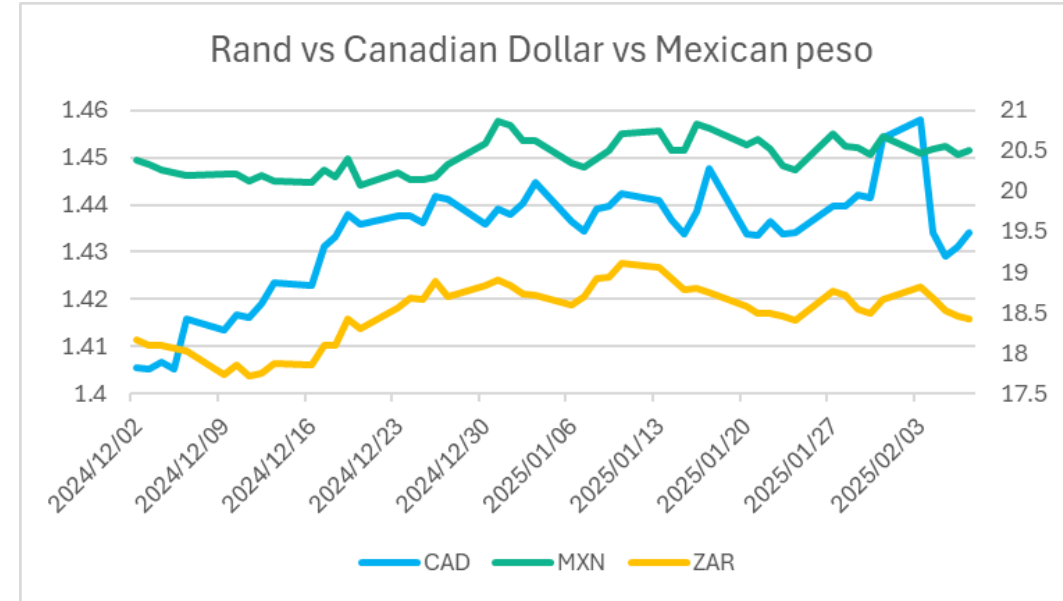
International Monetary Fund (IMF), Analysis © ecmx

Fears over Trump's Impact on SA

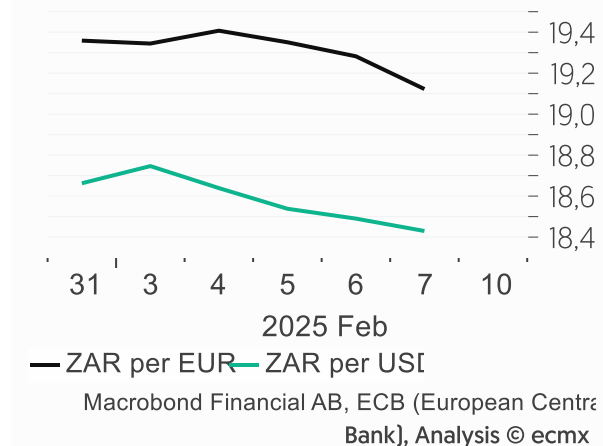
- Aid withdrawal
- Pushback on SA foreign policy stances
- Pushback on expropriation and BEE – note that Rand weakened in response to the strong Dollar due to Mexico & Canada tariff announcement rather than Trump's SA tirade
- Retaliation for SA's reporting of Israel to ICJ
- Impact on AGOA would affect motor & wine industries and some fruit exporters – but not huge relative to total
- AGOA impact more than 3% of SA exports
- Far bigger impact is on desire of Americans to invest in SA
- However, trade relations with other countries to open up
- Ironically, Rand strengthened by 2% last week

Conclusion

- Much of the impact of the deteriorating US/SA relations had already been discounted in Rand's depreciation in 2022 & 2023
- Budget has important role in highlighting fiscal rectitude or not

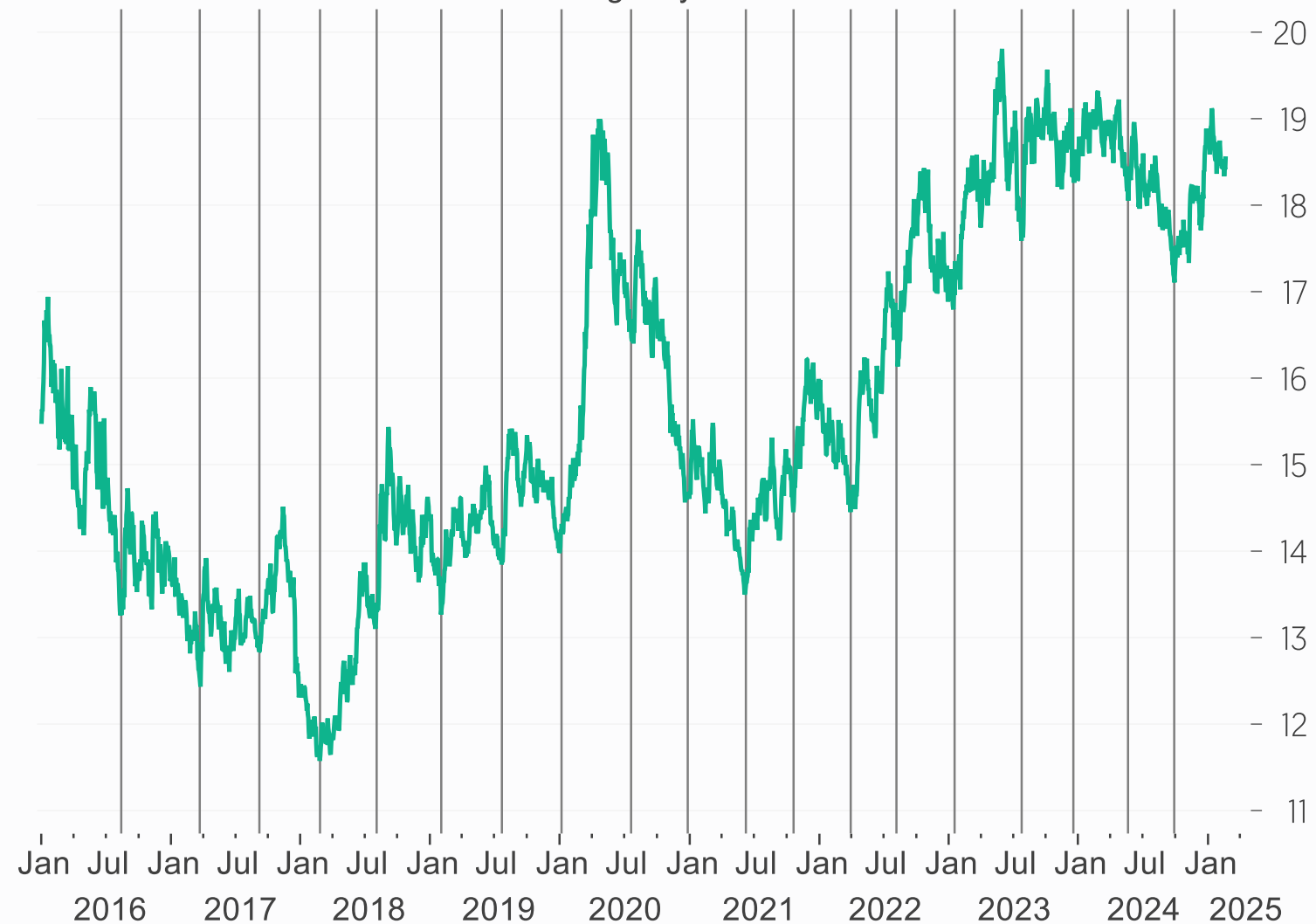


Rand/Dollar vs. Rand/Euro Last Week



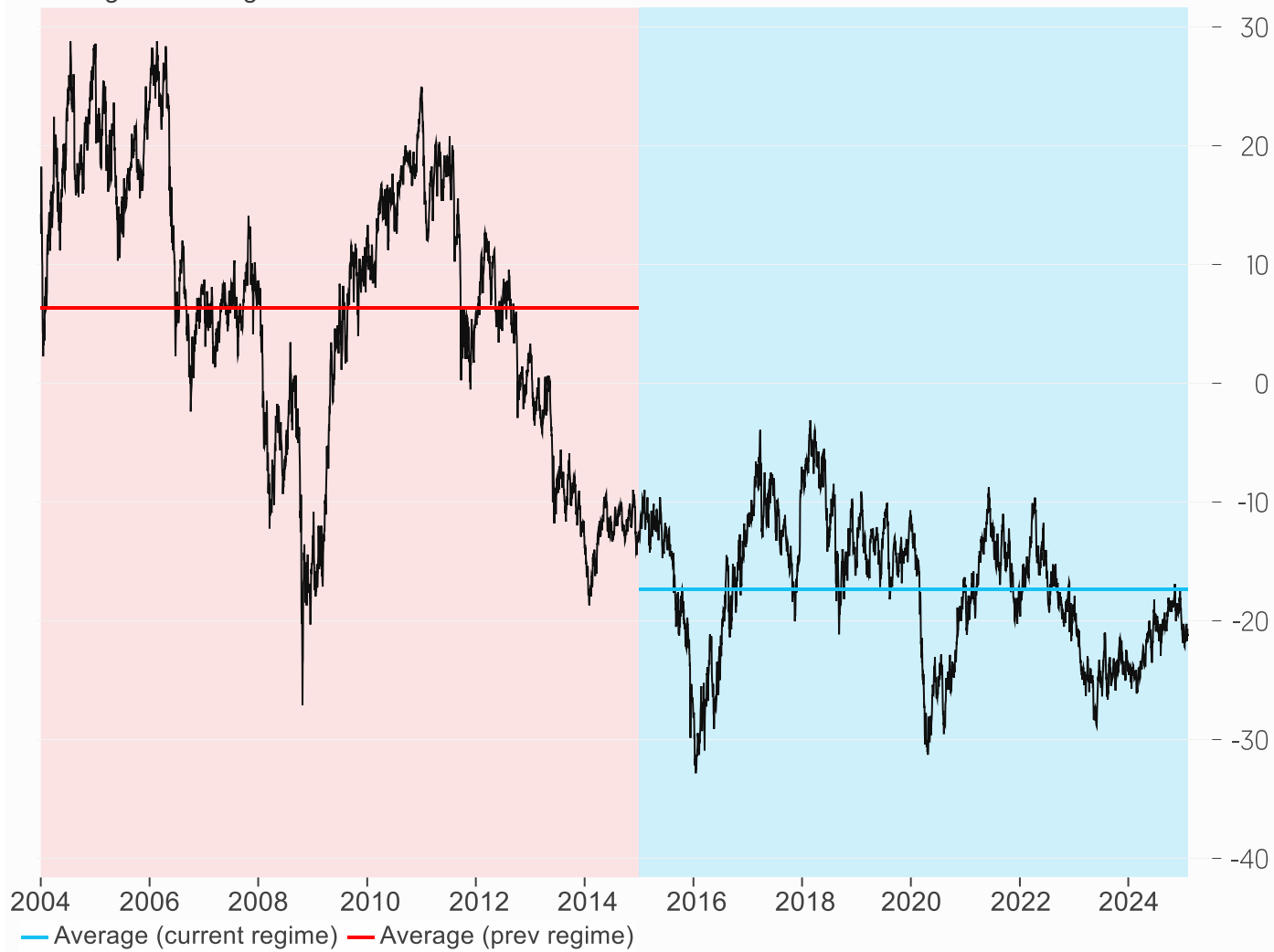
SA, Rand per Dollar

Vertical lines = 25-30 week relative strength cycles



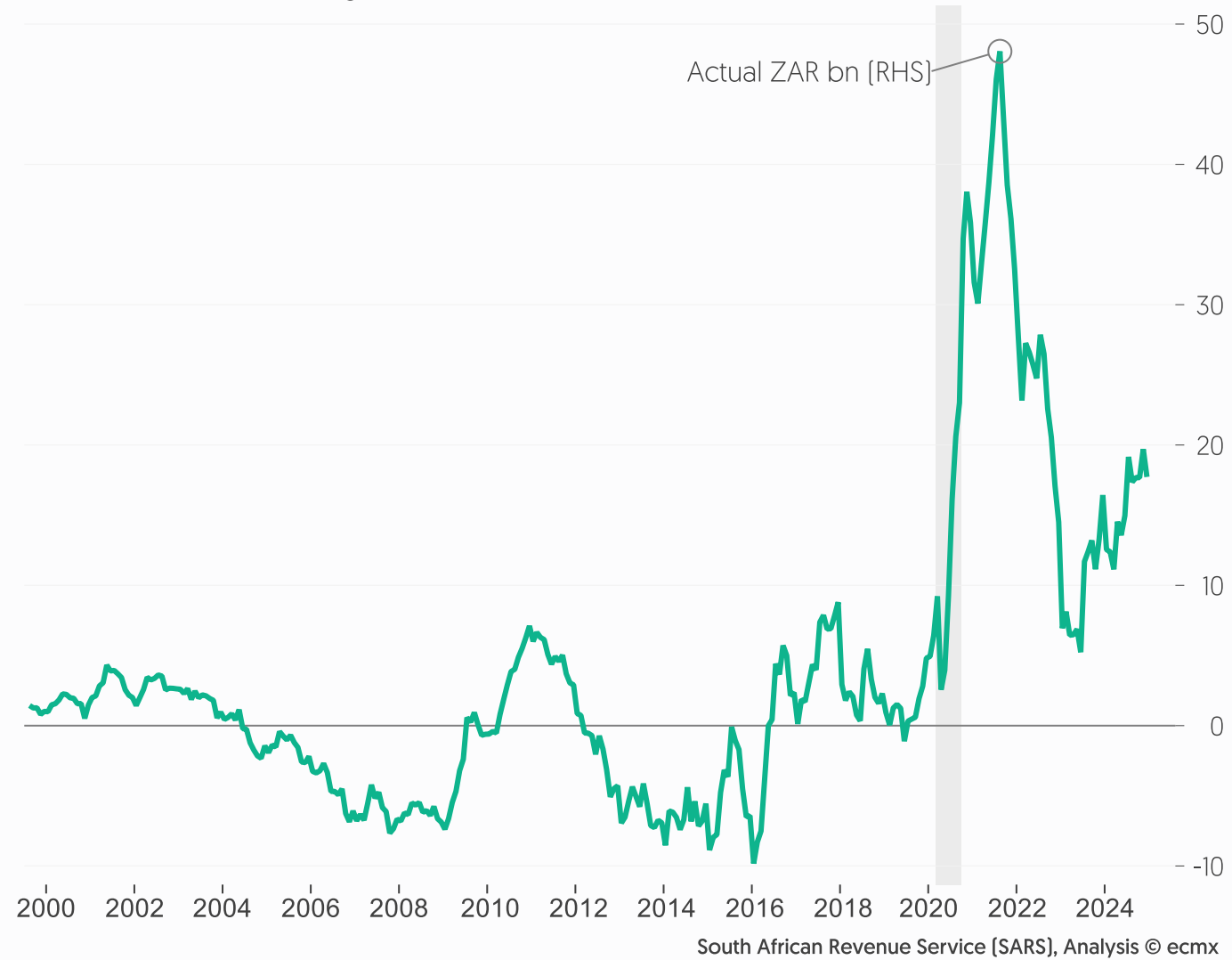
Rand Real Effective Exchange Rate

Shading = ZAR 'regimes' with means

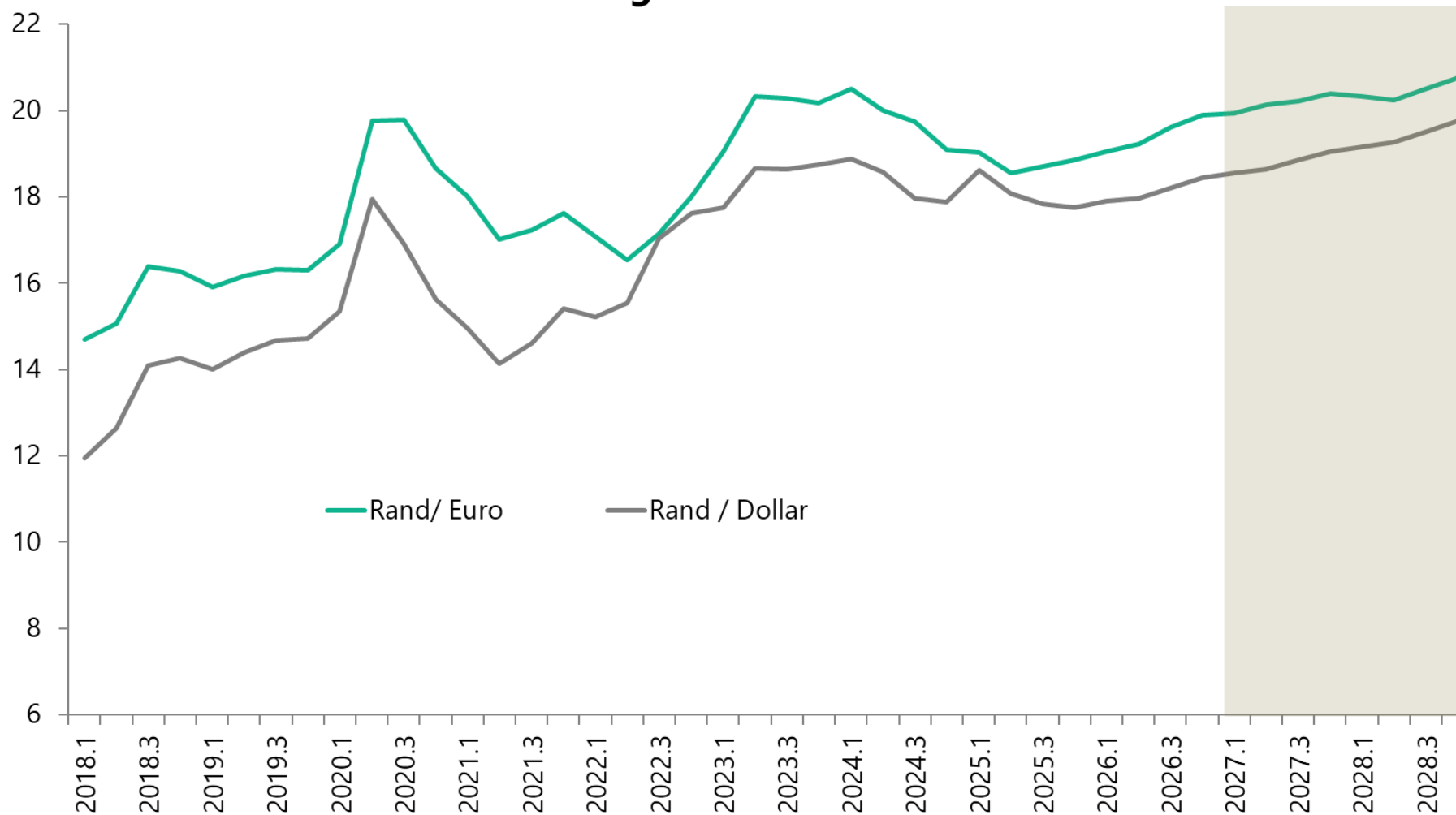


SA, Trade balance

Smoothed 6 months. Shading = hard lockdown



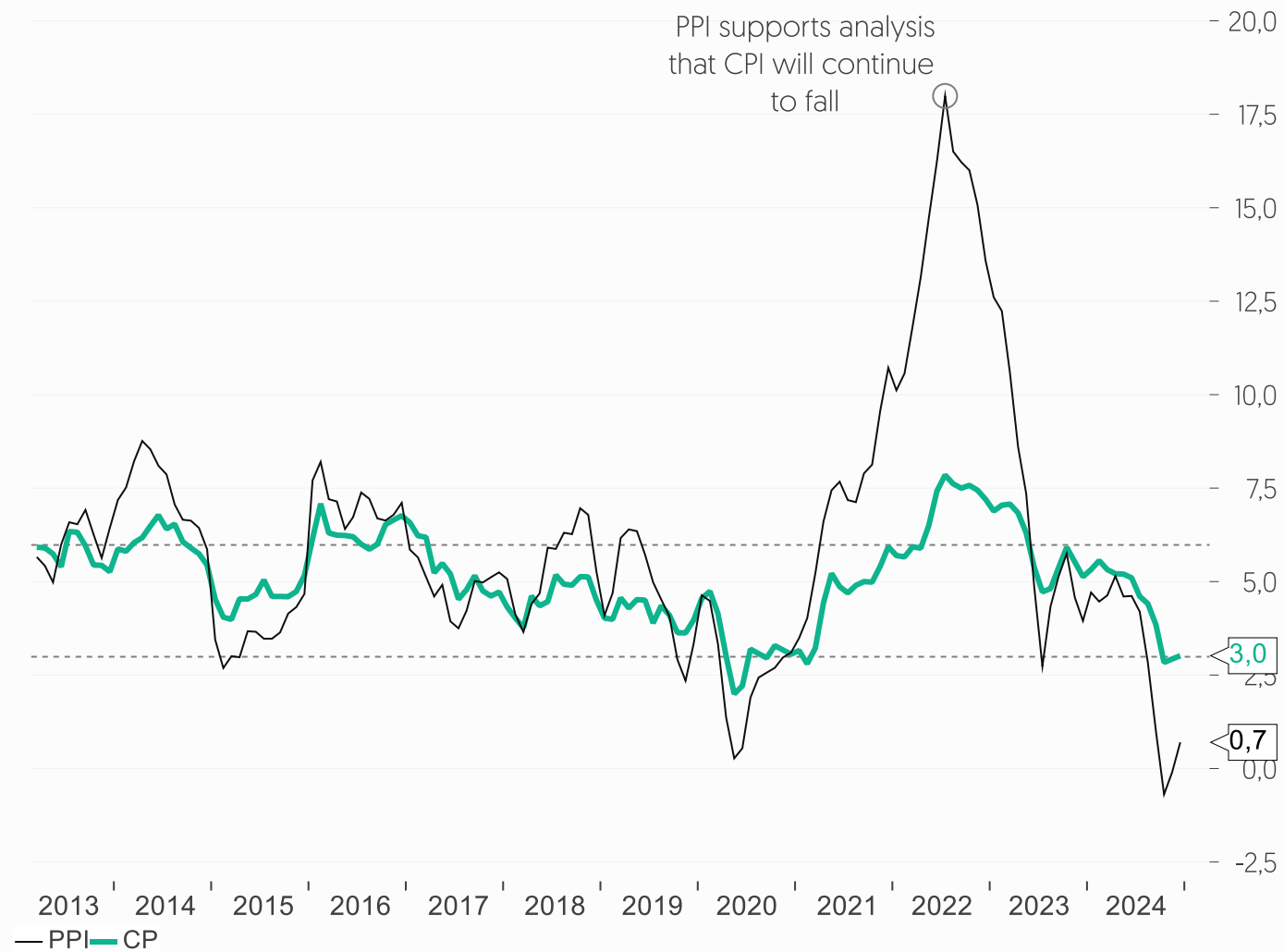
Exchange Rate Forecasts



Source: Econometrix

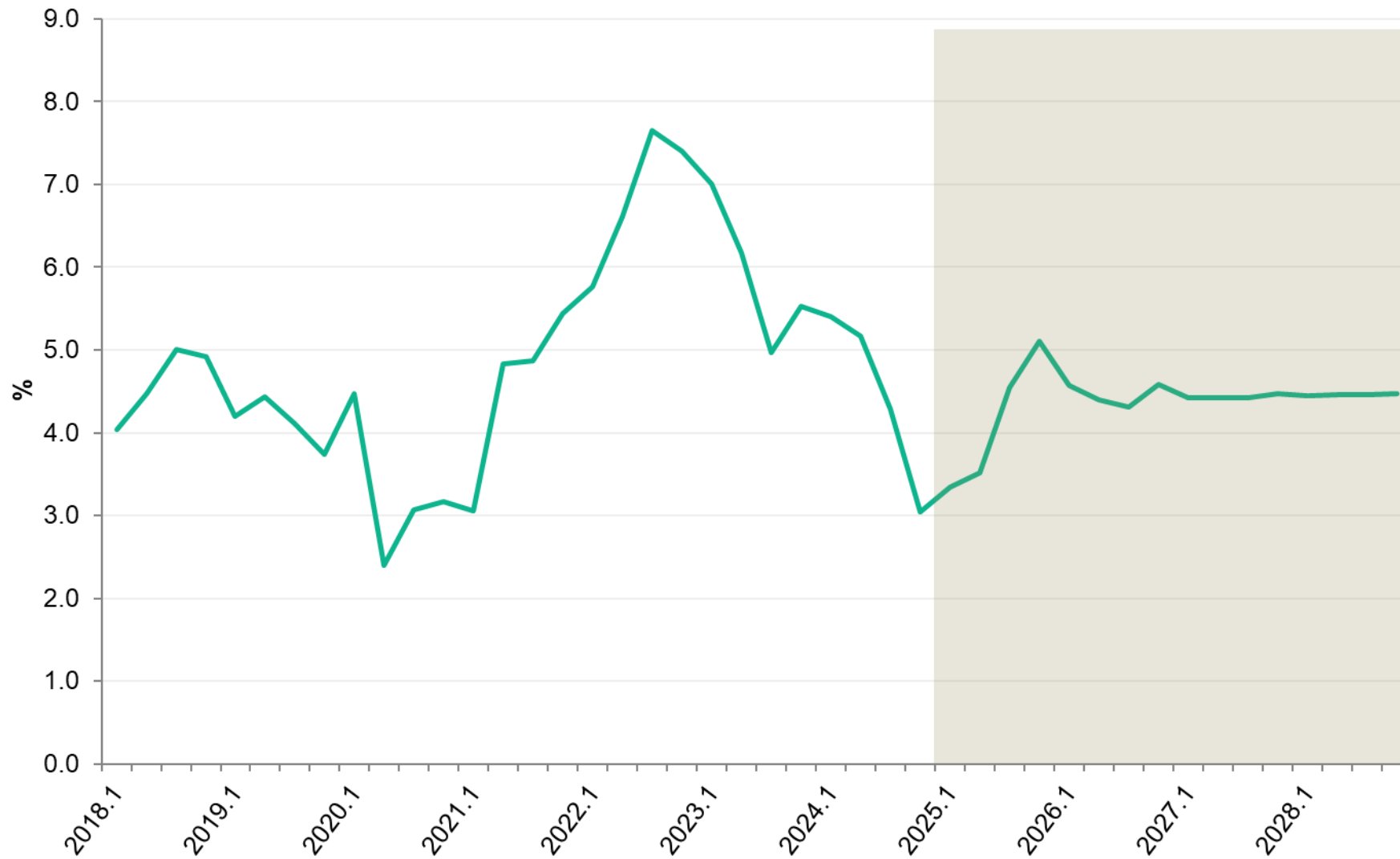
SA, CPI vs PPI Inflation

horizontal lines = inflation target.



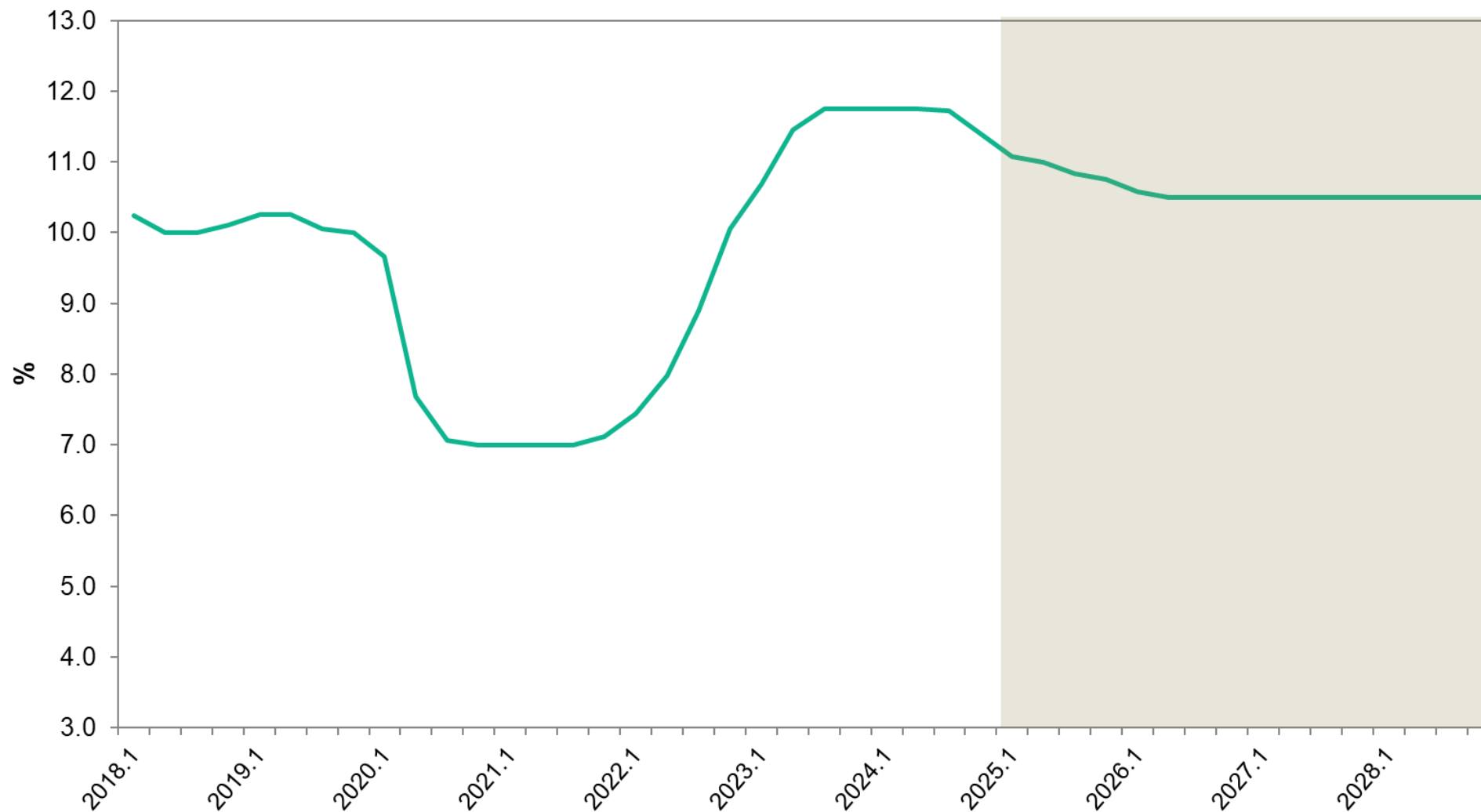
South African Statistics [Stat SA], Analysis © ecmx

CPI Inflation Forecast



Source: StatsSA, Econometrix

Prime Overdraft



Source: SARB, Econometrix

Thank you for your time and attention

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