ECONOMY

Economic outlook for 2024: Inflation, economic growth and policy uncertainty

SA's economic performance in 2024 likely to be driven by trends in exports, consumer spending and investment

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08 JANUARY 2024 - 10:45

Sacci's business confidence increased to 111.5 points in November from 108.6 in the prior month. Picture: 123RF/XTOCK IMAGES

South Africans should prepare themselves for a bumpy ride in 2024, despite increasing evidence of easing inflation — and in turn possible lower interest rates — as the focus now shifts to dismal economic growth projections as well as the rising level of uncertainty ahead of the country's national elections.

The country's kaleidoscope of macroeconomic difficulties — including the 0.2% quarter-on-quarter GDP contraction in the third quarter, intensified Eskom blackouts, Transnet bottlenecks and accelerating fuel and food prices that have been a major source of cost inflation over the past couple of years — are all properly documented.

These issues — as well as the deterioration of SA's public finances, a sharp contraction in household finance and overall weaker high frequency data — have rolled over into 2024.

"In a nutshell, SA's economic outlook in 2024 will be shaped by global economic trends, geopolitical developments, domestic infrastructural challenges, effective implementation of reform commitments by government, and the pending elections in this country," North-west University professor Raymond Parsons said.

He said SA could still avoid a technical recession (two successive quarters of negative economic growth) and that he expected GDP growth of about 1% in 2024 even though it will be an uneven economic recovery.

Parsons said the country’s economic performance in 2024 would be driven by trends in exports, consumer spending and investment.

“On the positive side there is increasing evidence that rates of inflation are easing, with both the consumer price index and the producer price index showing sharp declines in November,” he said.

He said interest rates may well now have peaked in SA, and barring shocks, borrowing costs may begin to ease later in 2024.

SA headline inflation shot above the top of the SA Reserve Bank’s 3%-6% inflation target range in May 2022 as a result of surging food and fuel costs. Inflation remained outside the upper end of the target for 13 months, peaking at 7.8% in July 2022.

It fell to 4.7% in July 2023, close to the Bank’s midpoint mark of 4.5%. This was short-lived. SA headline inflation reached 5.9% in October, but quickly fell to 5.5% in November.

Investec chief economist Annabel Bishop said the downward pressure from fuel price cuts aided SA inflation lower towards the end of 2023, as did rand strength for the prices of other commodities, as well as base effects.

“January, however, will be likely to see a start-of-year kick-up in inflationary pressure,” she warned, adding that the lift in January was bound to be “temporary” and would not necessitate higher interest rates.

Bishop said they expected the MPC to wait until CPI inflation runs at about or below 4.5%, which currently is only likely in the second half of 2024.

She said SA headline inflation is likely to reach 4.5% year-on-year in July this year, then drop below 4% temporarily, which will most likely provide the environment that the Reserve Bank will look for to cut its repo rate.

“We expect three 25 basis point cuts in the second half of 2024,” she said.

Nedbank said its current CPI outlook also was leaning towards a downward trend.

“This is largely due to subdued levels of overall demand, reduced disruptions across supply chains, and declining global liquidity levels. Furthermore, a moderating macroeconomic environment is unlikely to sustain high inflationary pressures,” Nedbank said.

On a positive note, economists expect load-shedding to have a smaller effect on growth in the next three years, particularly as many businesses acquire alternative sources of energy supply at an additional cost to be able to deal with lower stages of rotational electricity outages.

However, they warn that even as worries over energy restrictions lessen and that logistics failures are likely to dominate growth concerns in 2024

Another major risk for SA in 2024 is the national elections.

US-based BMI, a FitchSolutions company, said it expects some election-related fiscal slippage in the national budget due to be presented in February.

SA Reserve Bank governor Lesetja Kganyago also highlighted the coming elections as among the key risks now facing the economy.

Parsons said the wide range of plausible outcomes, in terms of possible coalitions, could also lead to high level of uncertainty that exists, he said.

Momentum economist Sanisha Packirisamy said the 2024 elections were likely to be the most closely contested elections since the dawn of democracy.

“Markets are likely discounting the probability of a marginal outright victory by the ANC or the possibility of an ANC-led coalition taking a smaller party on board, both of which will likely keep the ANC mandate intact,” she said.

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