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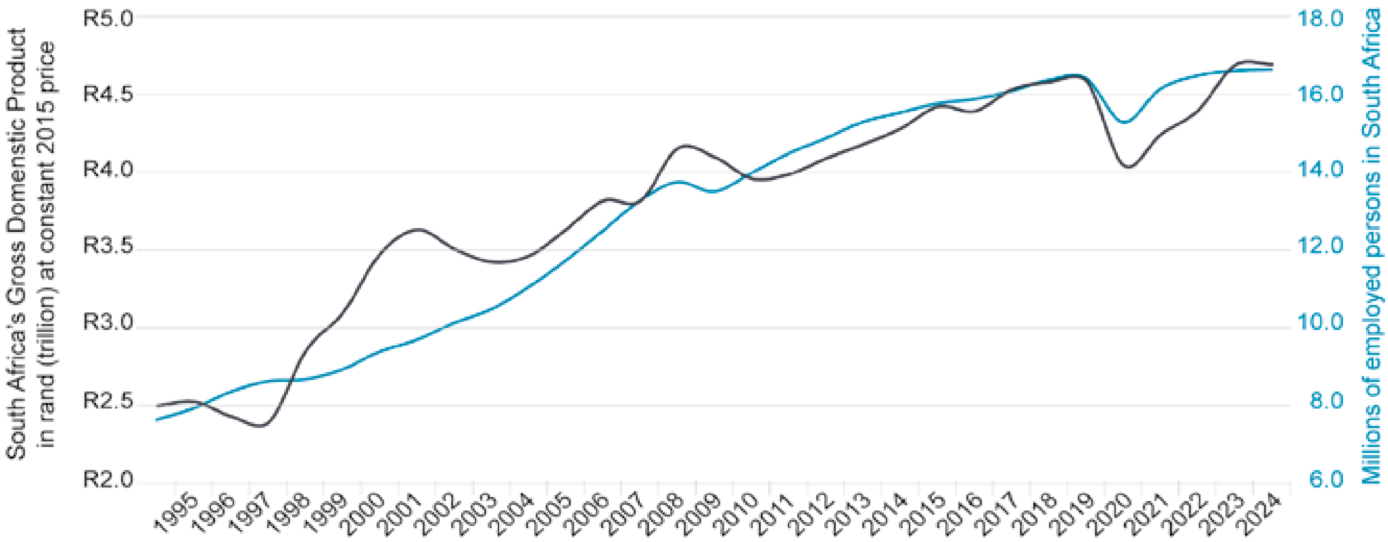
The economy

South Africa's economy contracted by 0.1% in the first quarter of 2024. The official unemployment rate was 32.9% and by the expanded definition unemployment stood at 40.2%. It is easy to lose sight of the extent of unemployment when measured in percentages, but in numbers 11.3 million of 41.2 million South Africans of working age are jobless. The graph below shows the rather obvious correlation between economic growth and employment since 1994. To address the significant problem of unemployment it is necessary to stimulate economic growth, because the faster the economy grows, the more jobs are created.

Graph: South Africa's Gross Domestic Product (constant 2015 prices) and number of people employed in South Africa



Economic growth cannot be generated by government legislation, but by expansion in the private sector. What Government can do is to create business-friendly conditions to foster growth by:

- removing bureaucratic "red tape" impediments;
- reviewing elements of its labour policy;
- expediting the granting of work visas to persons with scarce and necessary skills; and
- creating long-term certainty about black economic empowerment (BEE) requirements.

In addition to poor economic growth and high unemployment, inflation remained relatively high at above 5% for the first and second quarters of 2024. Inflation is often driven by three expenditure clusters – fuel and transport, electricity, and food inflation. Fuel and transport inflation appears to be flat at present, while food price increases are not as high as those experienced in recent years. Electricity inflation stays high as consumers have to cope not only with Eskom's tariff increases early on every year, but also increases in electricity prices from municipalities. It is ironic that the household sector's shift to rooftop solar installations has created added financial pressure on municipalities as the growth in demand for electricity from upper-end household customers slows.

While South Africa's economy is not in great shape, the general election held on 29 May 2024 revived the expectations of South Africans. It is worth recording that while no single political party received an absolute majority, the later negotiations and formation of the Government of National Unity were well received, both in South Africa and abroad. Several provinces are governed by coalition agreements as well. It is fair to expect that the Government of National Unity will remain stable in the near future, but that the resolve of some provincial governments may be tested.

It is noteworthy that load shedding or rolling electricity blackouts have declined during the first and second quarters of 2024. This is expected to have a positive impact on South Africa's economy outlook for the rest of 2024. In a similar vein, the time taken to process a container through South African ports has been reduced from earlier problematic levels.

Global economic developments saw interest rate cuts in Europe, but no interest rate cuts in the US. US inflation was at 3.0% in June 2024, while the Federal Reserve's inflation target remains 2.0%. Data reveals that the US job market may be slowing somewhat, encouraging the belief amongst Fed watchers that the US may cut interest rates soon.

Financial markets

Financial markets performed well in the post-election period and as quarter-end approached. The FTSE/JSE All Share Index TR improved by 8.2% in the second quarter, 4.1% of which was generated towards the end of the quarter. It was mostly financial and retail shares that steamed ahead while industrial shares remained lacklustre and mining shares performed poorly. Listed property shares continued the recovery that started in October 2023.

% Change June 2024	Most recent quarter	Calendar YTD	1 year (p.a.)	3 years (p.a.)	5 years (p.a.)	10 years (p.a.)
All Share Index	8.2%	5.8%	10.2%	11.0%	10.6%	8.2%
Listed Property	5.5%	9.6%	22.3%	11.7%	0.9%	3.2%
STeFI Composite	2.0%	4.2%	7.0%	6.5%	6.1%	6.6%
ALBI	7.5%	5.6%	11.4%	7.6%	7.8%	8.2%
MSCI All Country World ZAR	0.4%	10.7%	15.7%	14.9%	17.1%	15.0%
Bloomberg Global Aggr. Bond ZAR	-3.1%	-3.7%	-2.6%	2.5%	3.1%	5.1%
Rand (+ stronger, - weaker)	2.6%	0.6%	3.6%	-7.2%	-4.5%	-4.2%
Inflation	0.5%	2.4%	5.1%	6.3%	5.5%	6.3%
Gold ZAR	1.5%	12.1%	17.9%	18.6%	16.3%	11.6%

From information released by National Treasury it appears that the almost consistent sale of domestic bonds by non-residents was reversed in May 2024. We estimate the inflows into the bond market has exceeded R25 billion. Bond yields moved down sharply with long bonds trading 1.25% lower than at the beginning of the second quarter. The investment return on long bonds (12-year plus maturity bucket) was 9.9% in the second quarter of 2024.

The rand exchange rate experienced volatility in the second quarter of 2024, with the highest level recorded at R19.30 and the lowest level at R17.87. Despite the volatility, the monthly closing values of the rand remained relatively stable at approximately R18.80 up to May 2024, but strengthened to R18.19 by the end of the second quarter.

The powerful performance of developed economies' stock markets continued through the second quarter. The prices of big technology stocks in the US continued to advance sharply. For example, the NVIDIA stock price increased by 239% in 2023 and by mid-2024, it was up 149% after a 10:1 stock split. The extent to which big tech stocks can continue to rise is uncertain and this perhaps reflects the broad market's fascination with artificial intelligence (AI) and how it is likely to impact economies going forward.

We keep our optimistic outlook for the potential performance of financial markets over the next 12 months, despite the mediocre performance of the domestic economy expected in 2024.

Prepared by
Marcus Rautenbach
Principal Investment Consultant

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Information for this article has been obtained from several sources:
National Treasury, South African Reserve Bank, Stats SA and IRESS