



The Clearing Storm

SOUTH AFRICAN RESERVE BANK

MONETARY POLICY FORUM

15 October 2024

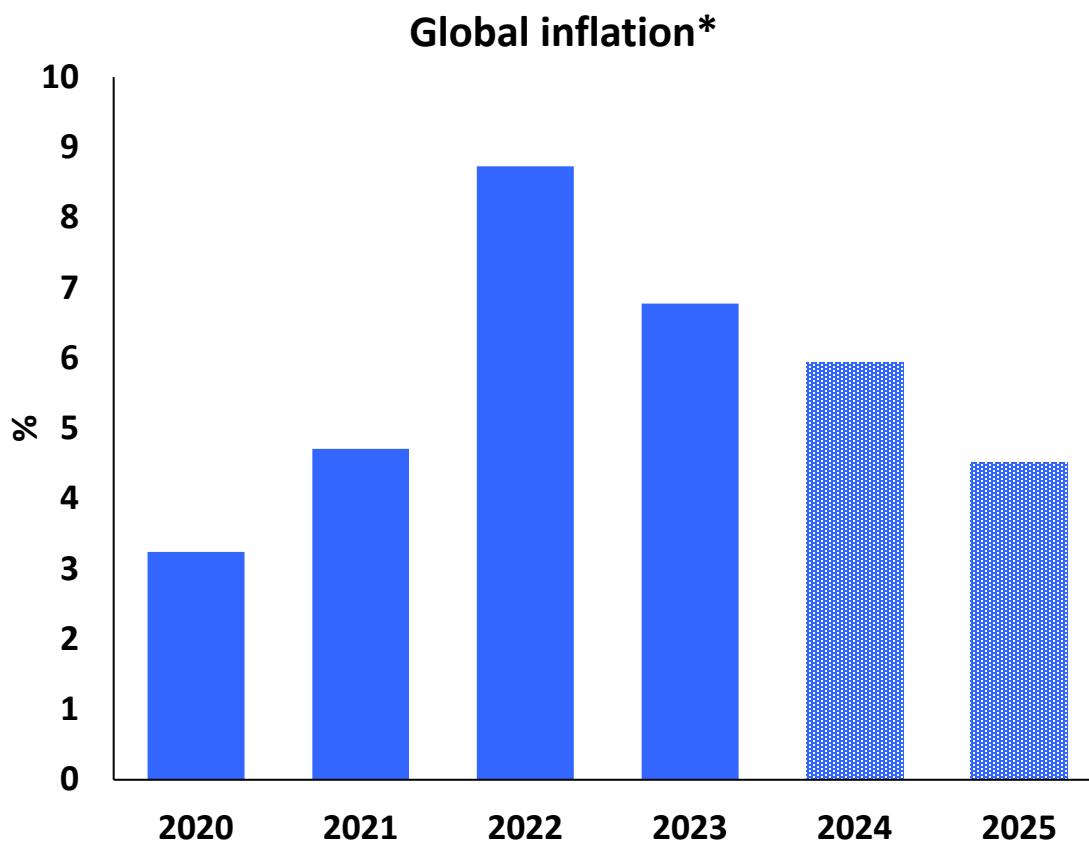


SOUTH AFRICAN RESERVE BANK

Overview

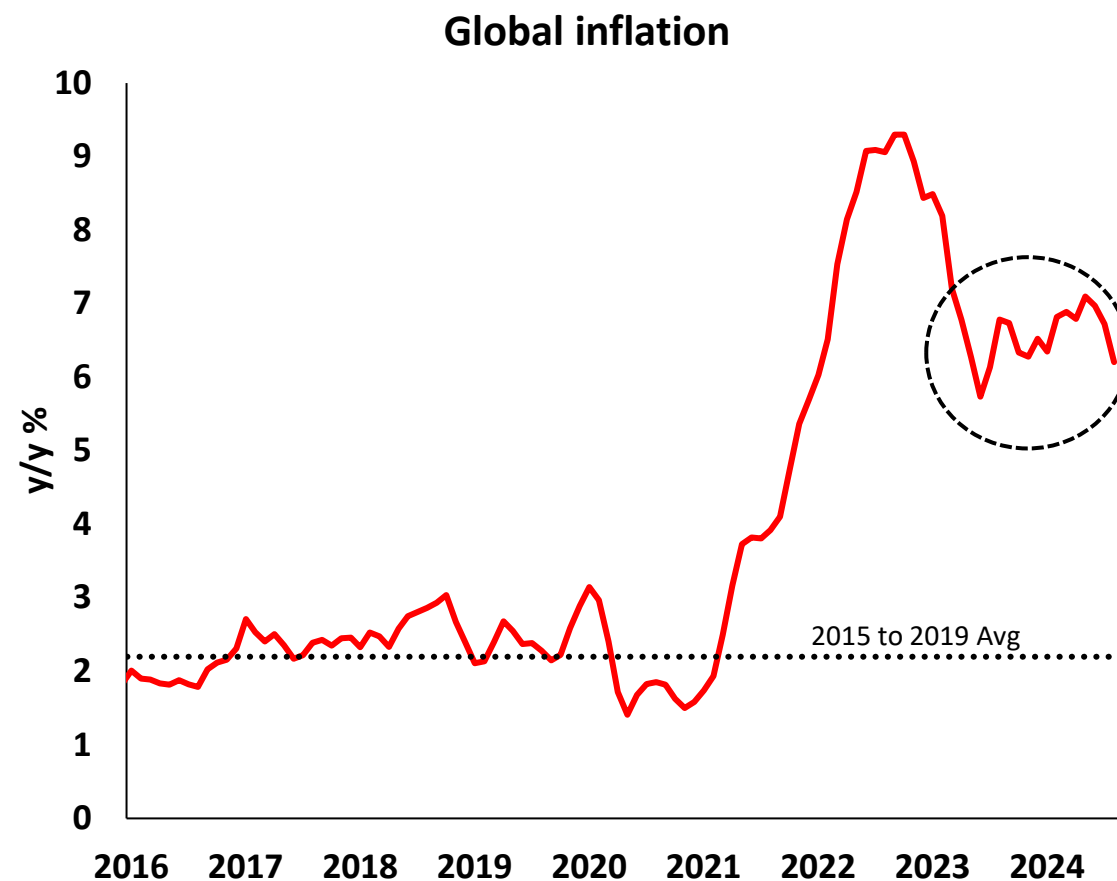
- Global inflation easing, but convergence slow & with reversals
- Allows rates to fall, but unclear how fast and how far
- Global growth historically modest, but resilient
- Domestic growth still weak, but gradually lifting
- Fuel, food, and FX-related prices pull headline inflation lower, faster
- Spillovers to core & expectations = stabilisation
- Policy still moderately restrictive, neutral on the horizon

Global inflation continues to ease, albeit with some setbacks



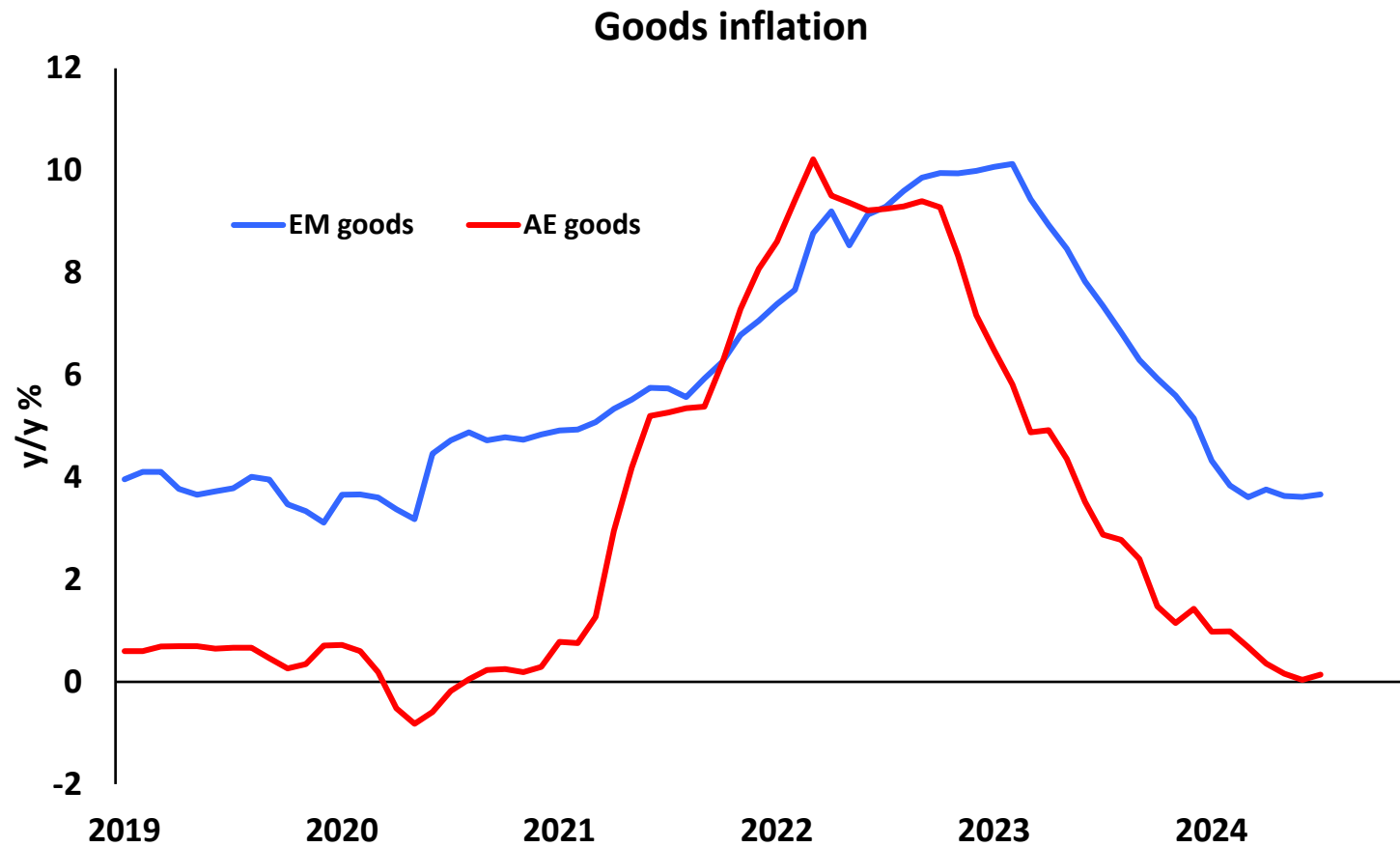
* Shaded bars denote forecasts

Source: IMF



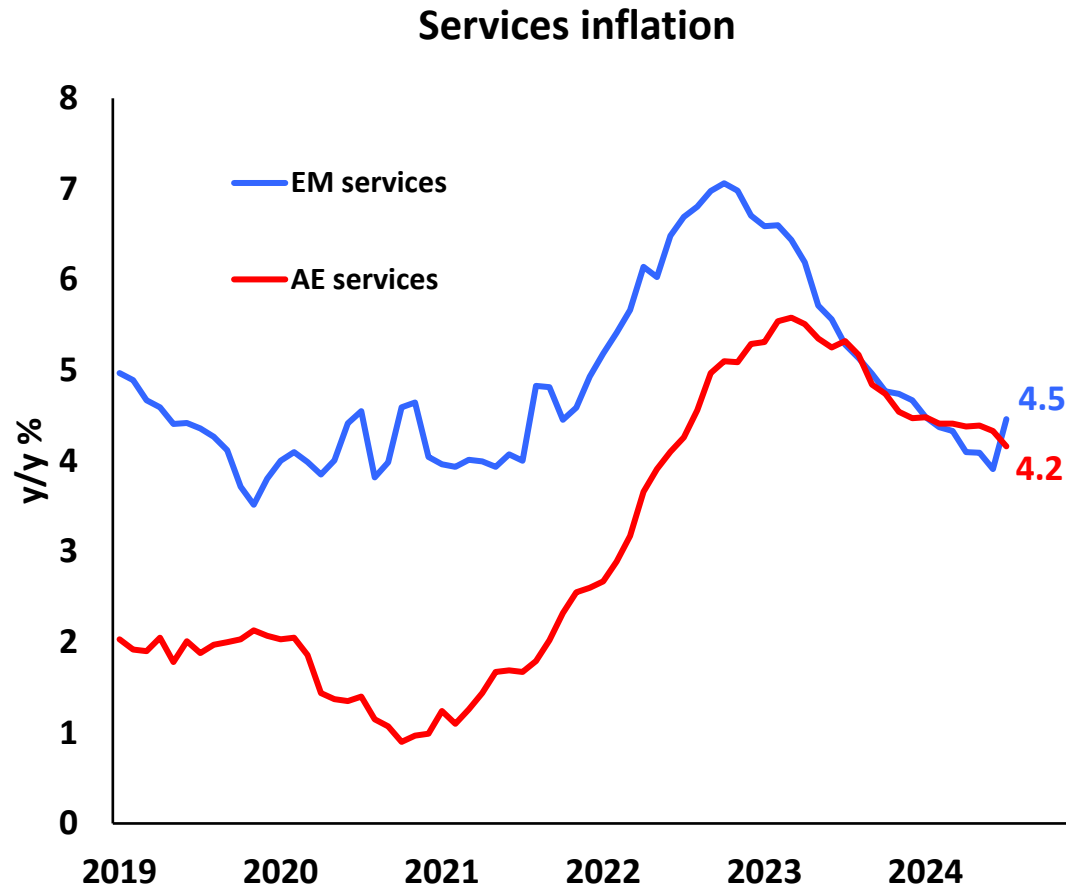
Source: Haver

...pulled lower by strong disinflation in goods

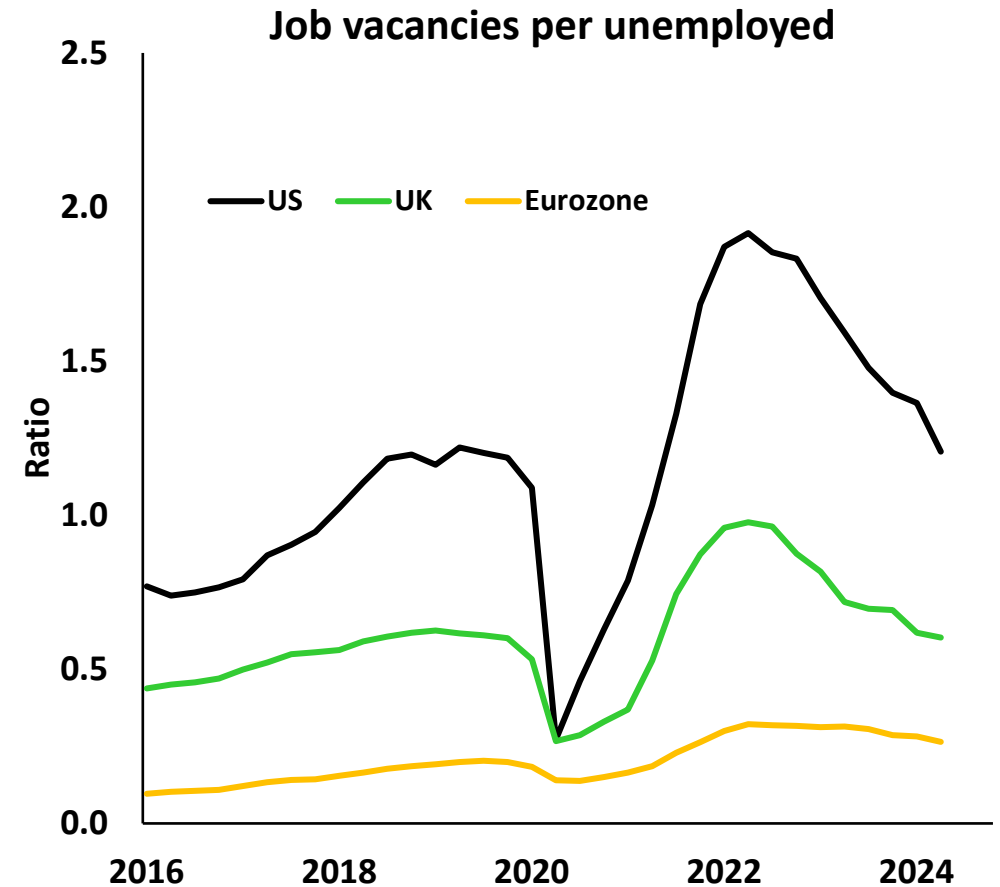


Sources: Haver and SARB

...despite drag from services & still firm labour markets...

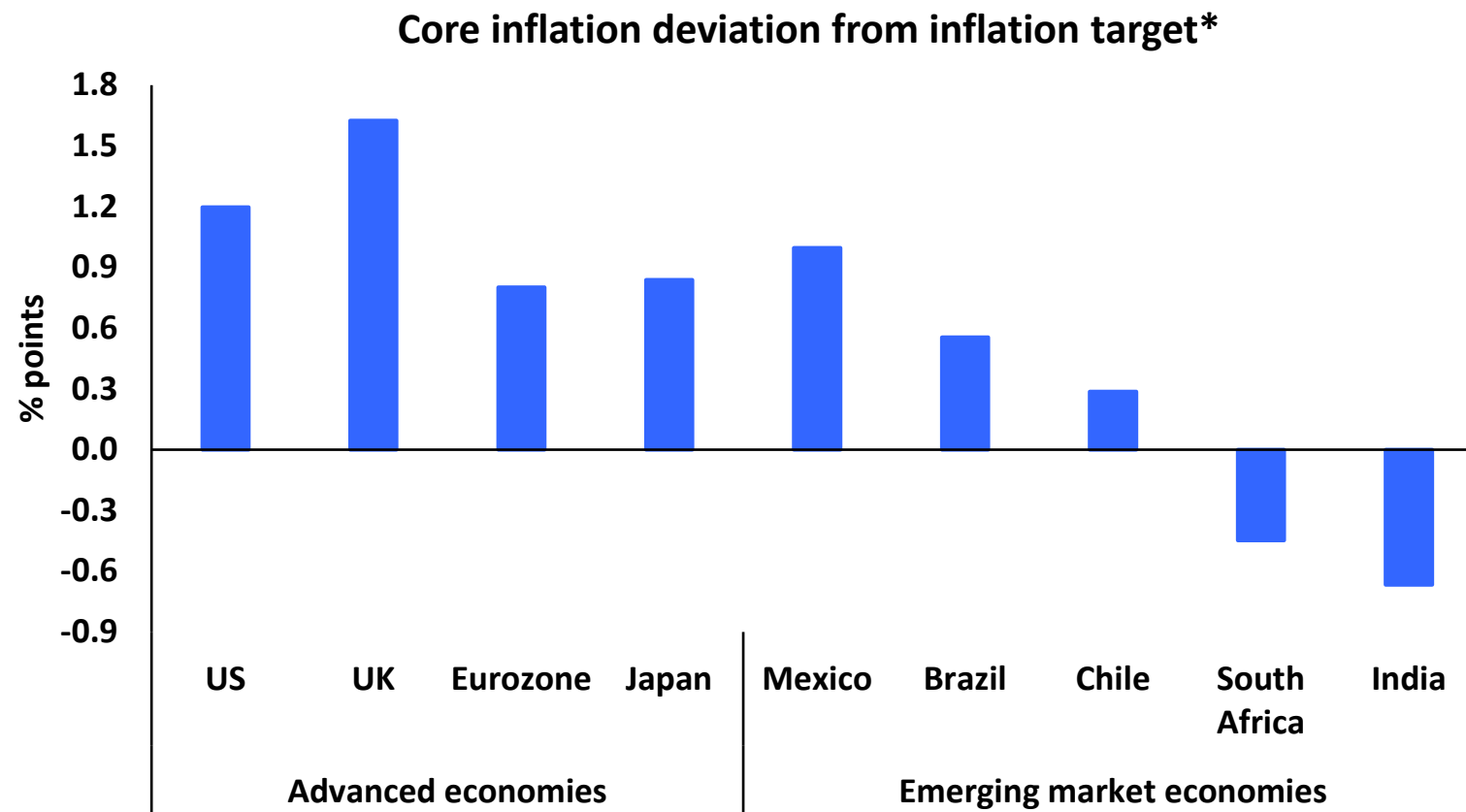


Sources: Haver and SARB



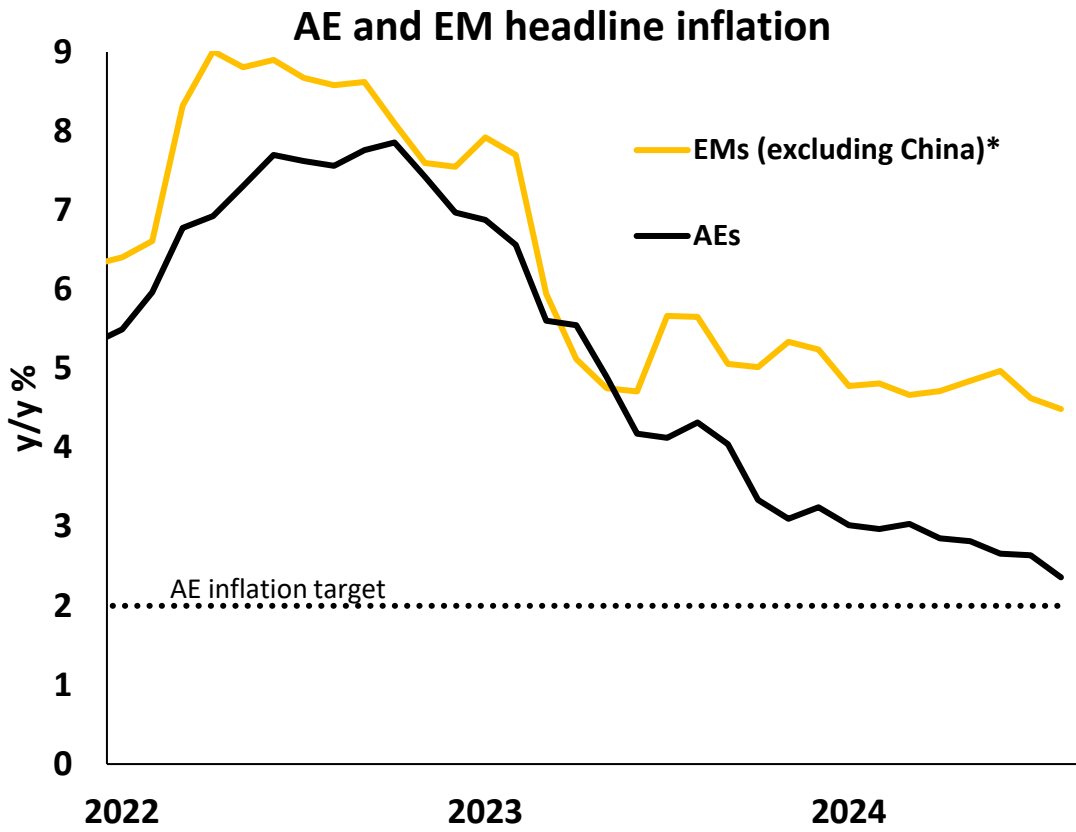
Source: Haver

...keeping core inflation above targets in many jurisdictions

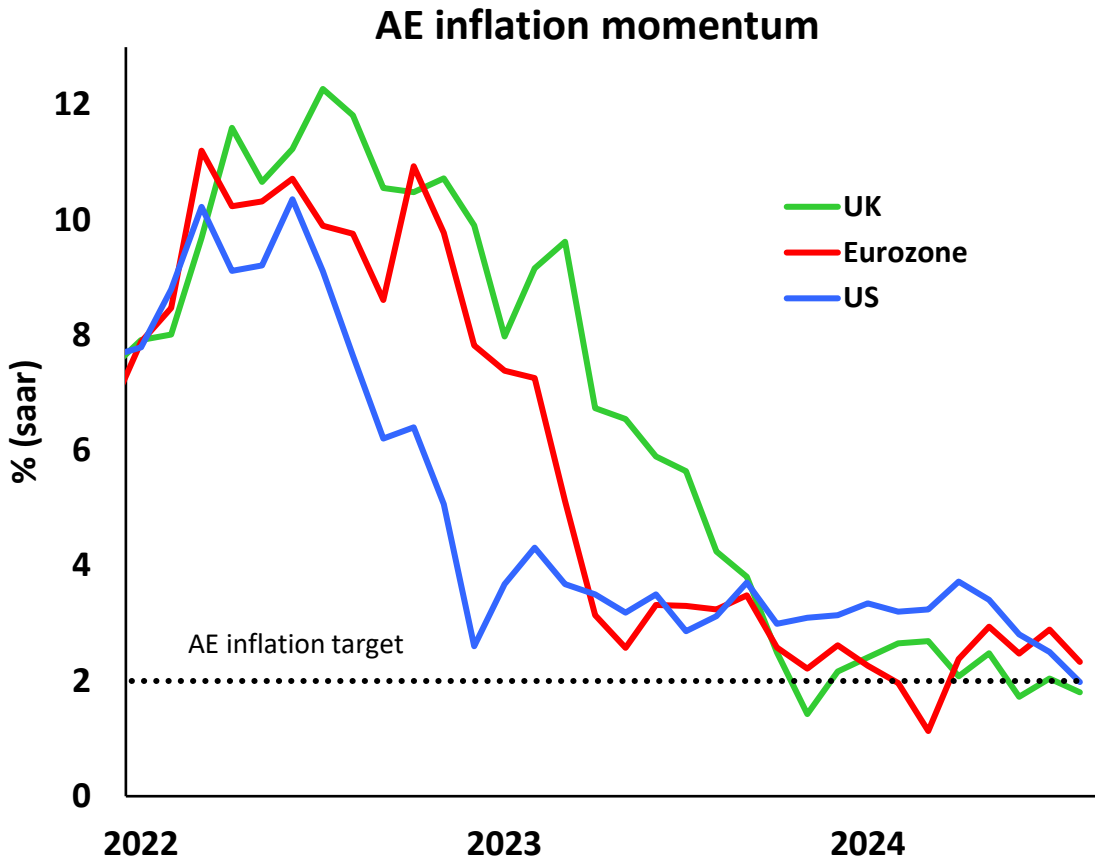


* As at August 2024
Sources: Haver and SARB

Nevertheless, confidence around further disinflation

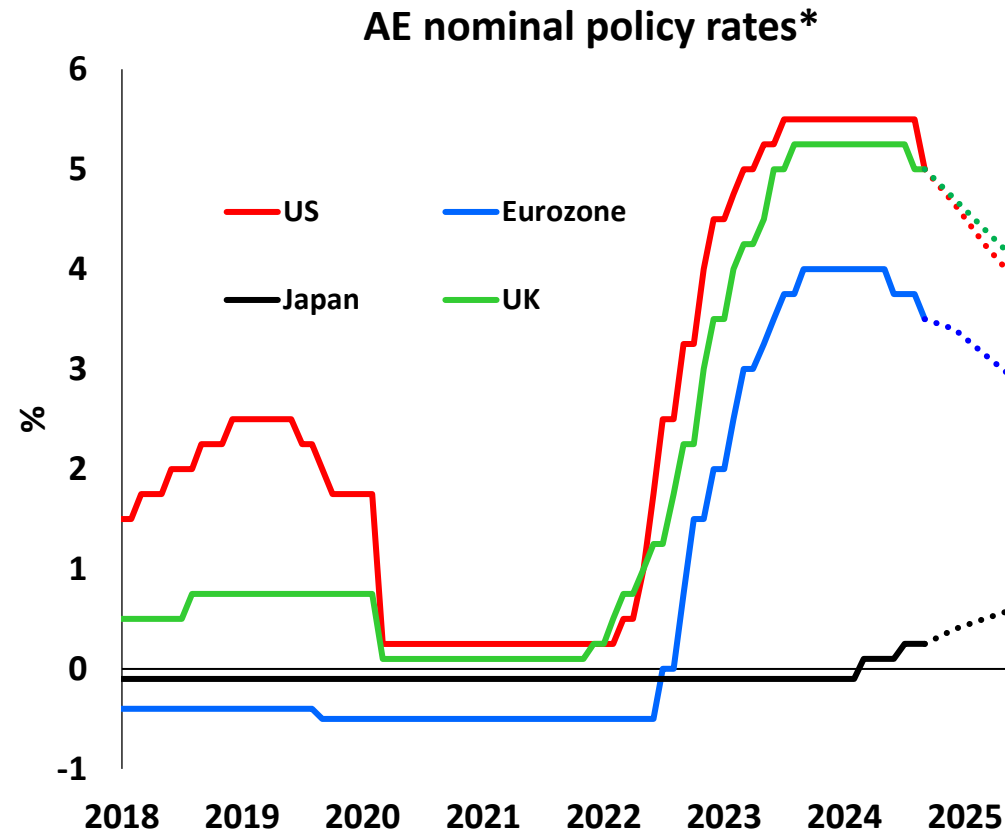


* Sample of 15 major EM countries
Sources: Haver and SARB

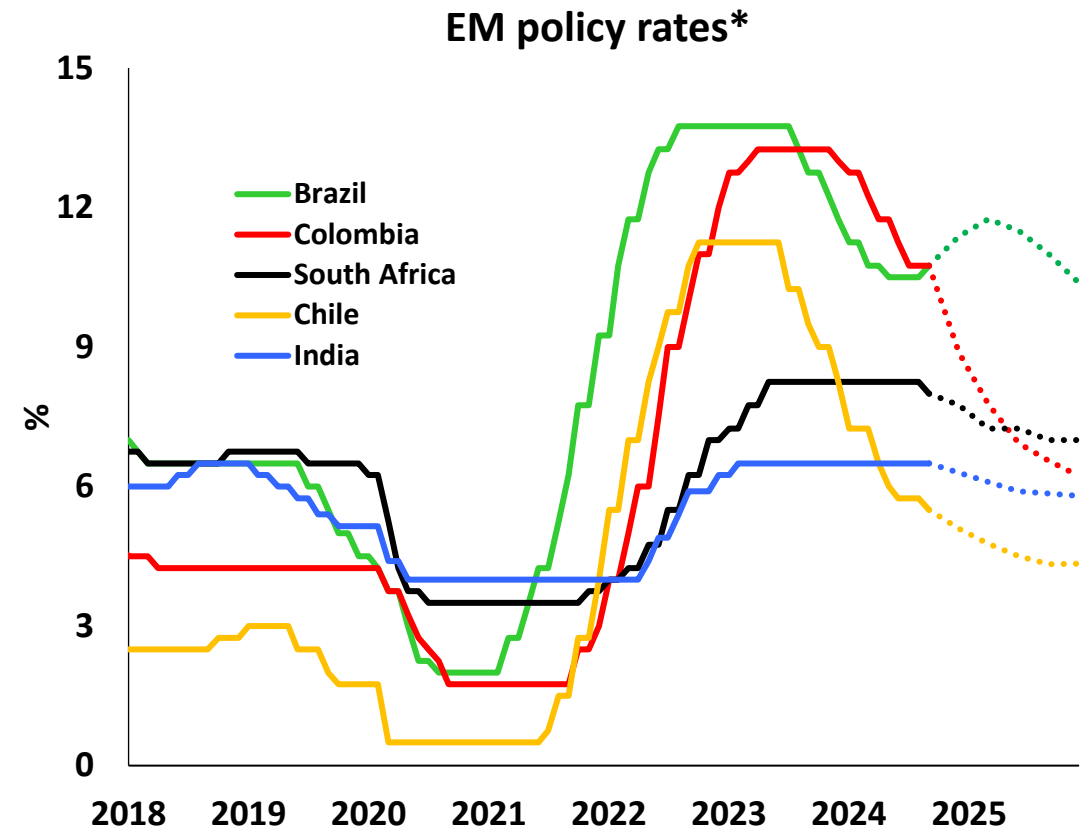


* % change over 6 months (saar)
Sources: Haver and SARB

Start of policy easing generally, while expected future rates elevated

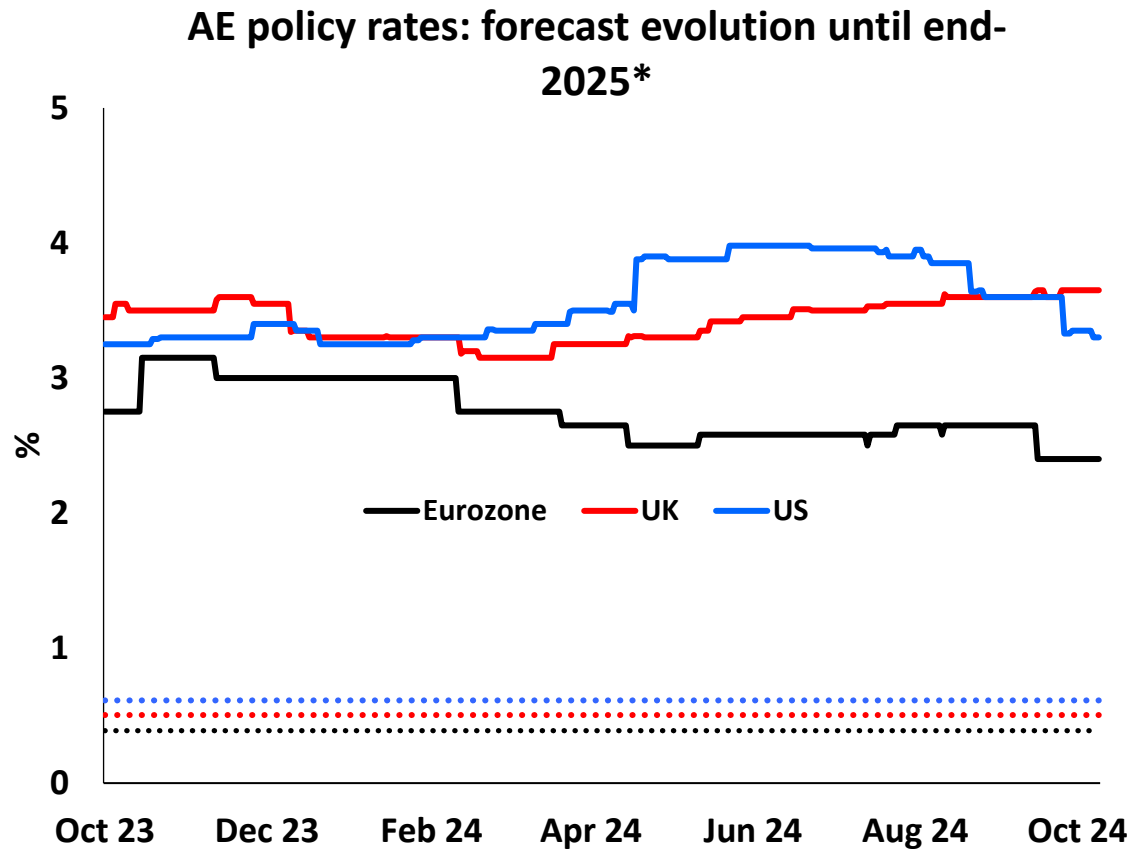


* Dotted lines are median analyst forecasts
Source: Bloomberg

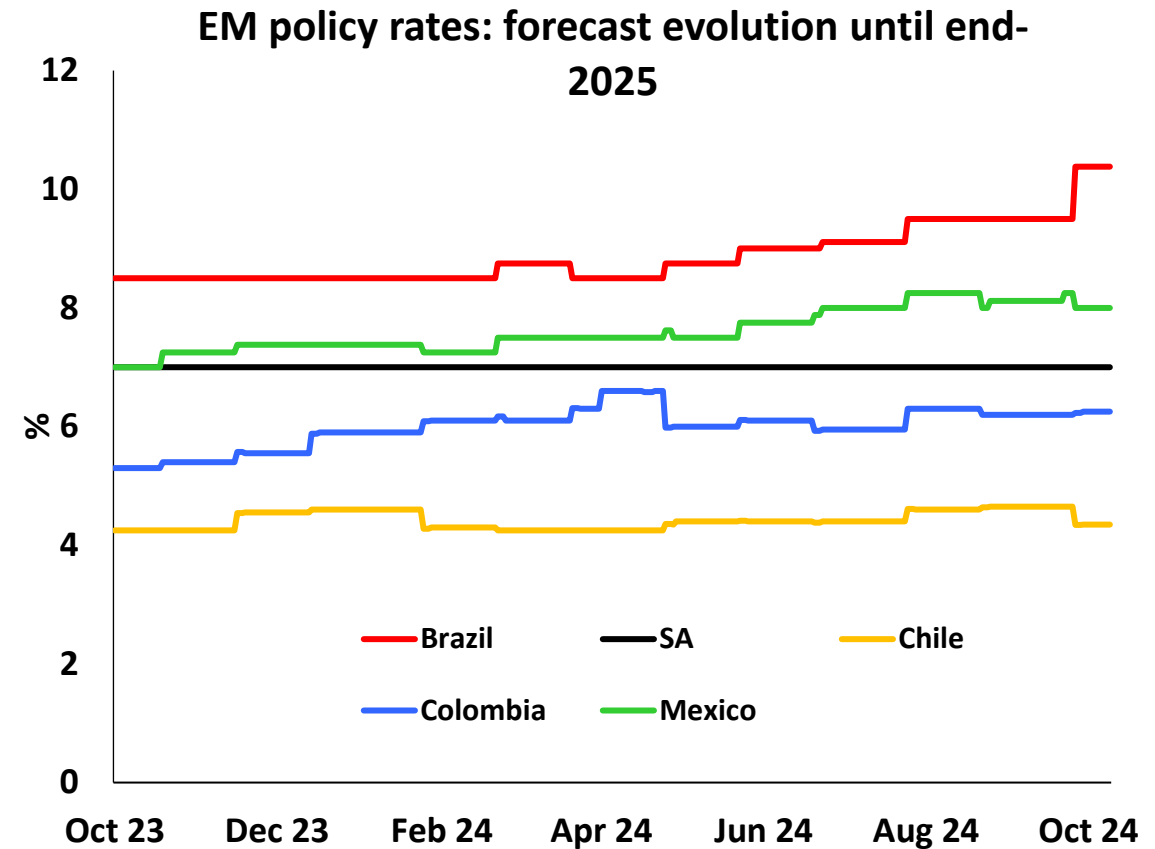


* Dotted lines are median analyst forecasts
Source: Bloomberg

One-year ahead rates falling more in AEs than in EMs

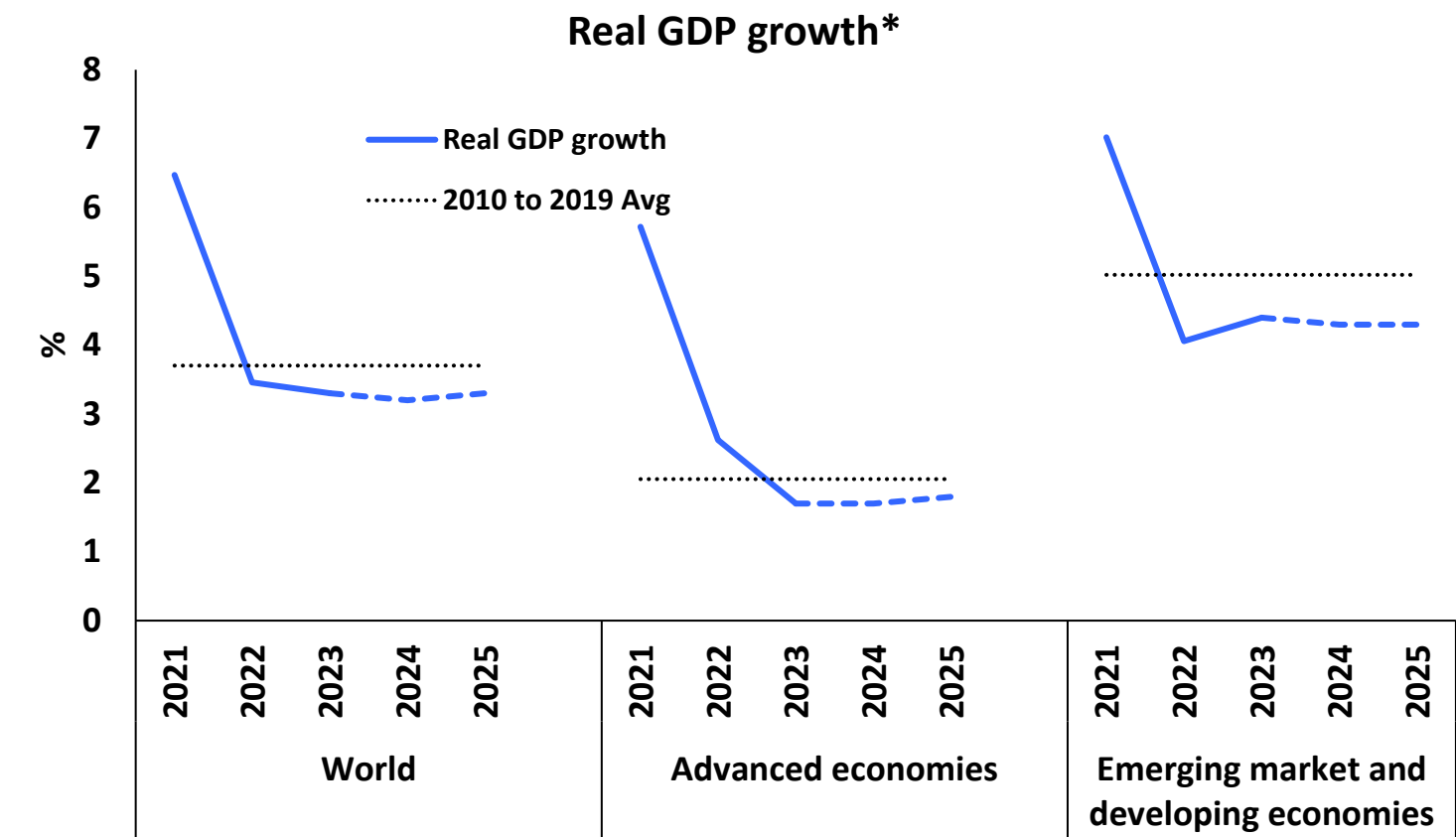


Sources: BIS and Bloomberg



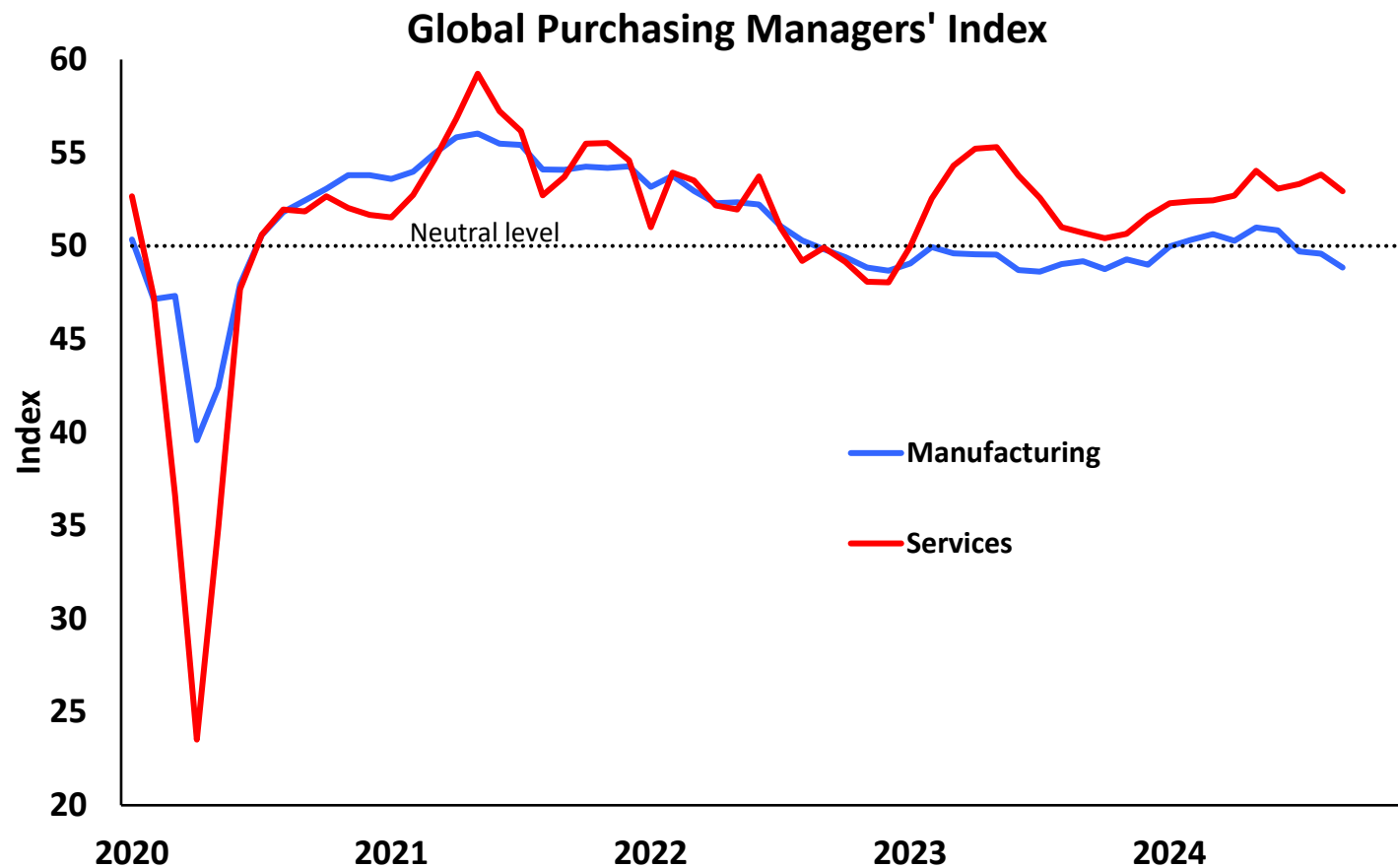
Source: Bloomberg

Global growth resilient, yet modest...



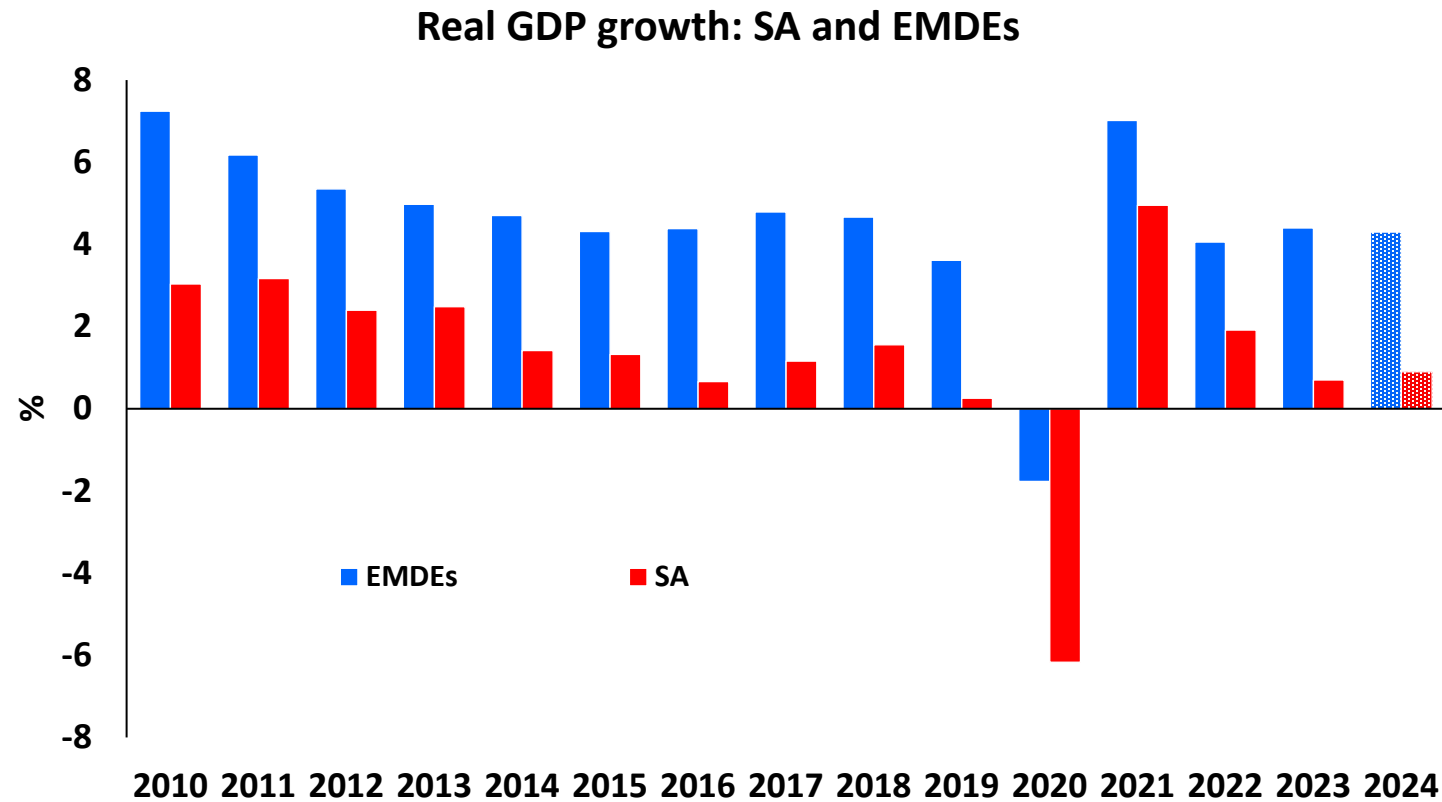
* Dotted lines indicate forecasts
Source: IMF

...carried along by services, while manufacturing subdued



Sources: JPMorgan and S&P Global

SA growth continues to lag far behind EM peers...

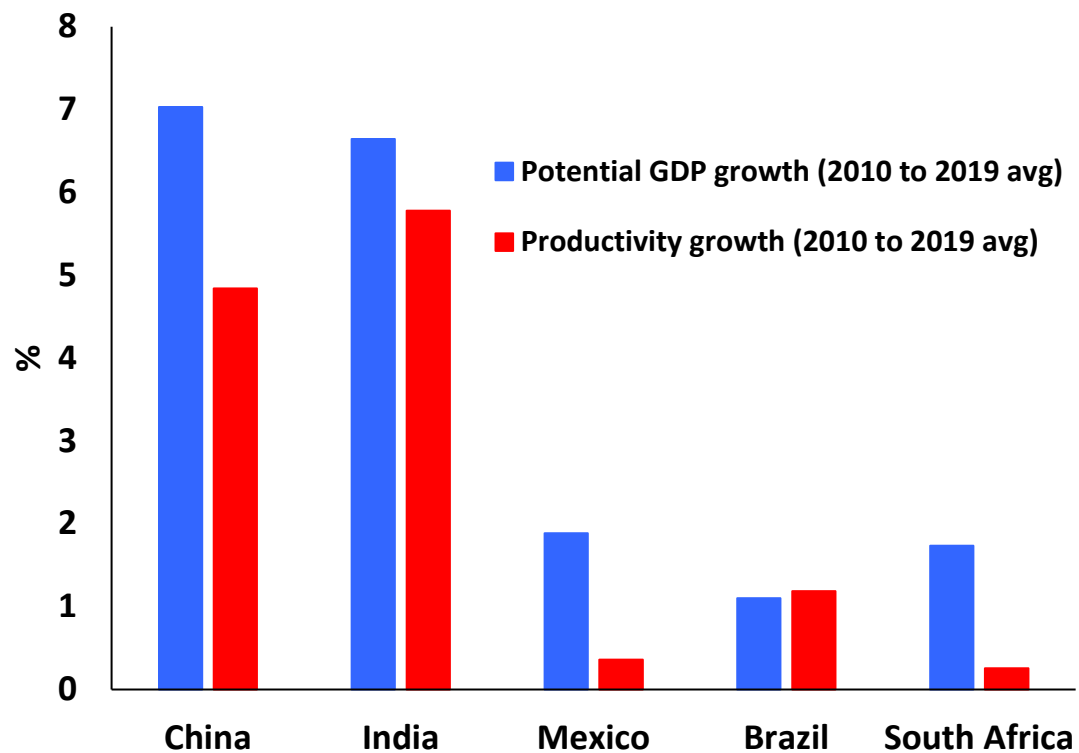


* Shaded bars indicate forecasts

Sources: IMF and Stats SA

...reflecting low potential & productivity growth, and poor investment performance

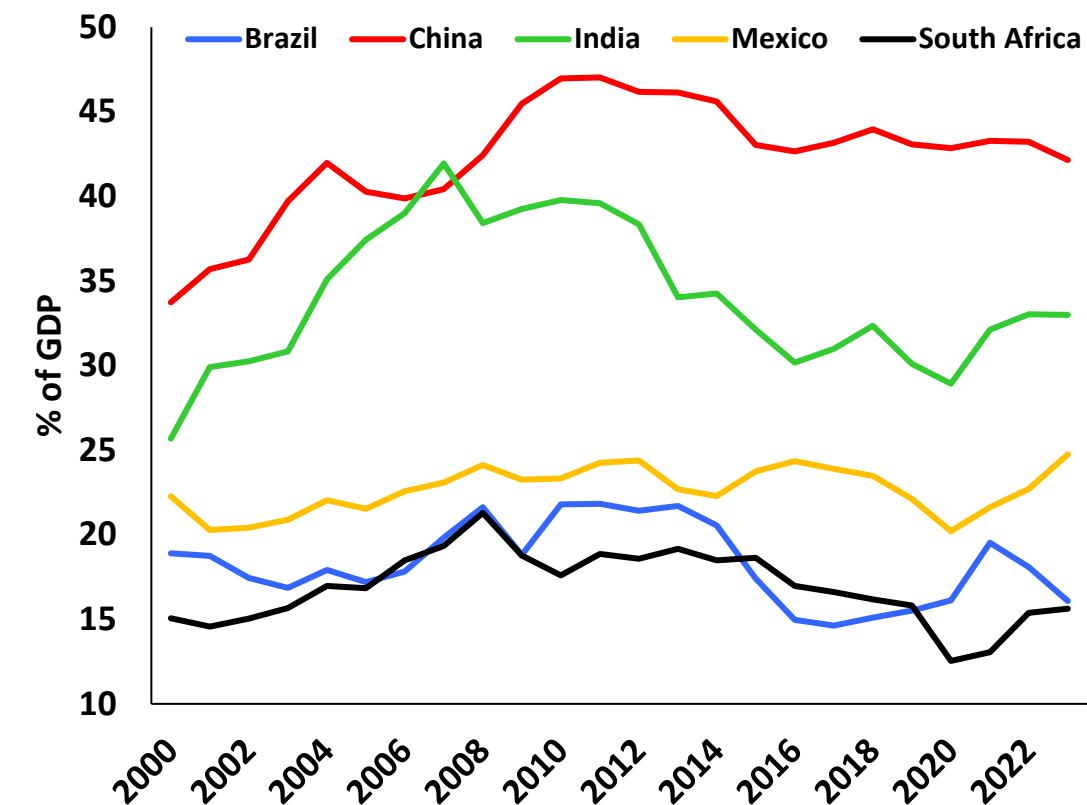
Potential and productivity* growth



* Productivity measured as output per hour worked (inflation and PPP adjusted)

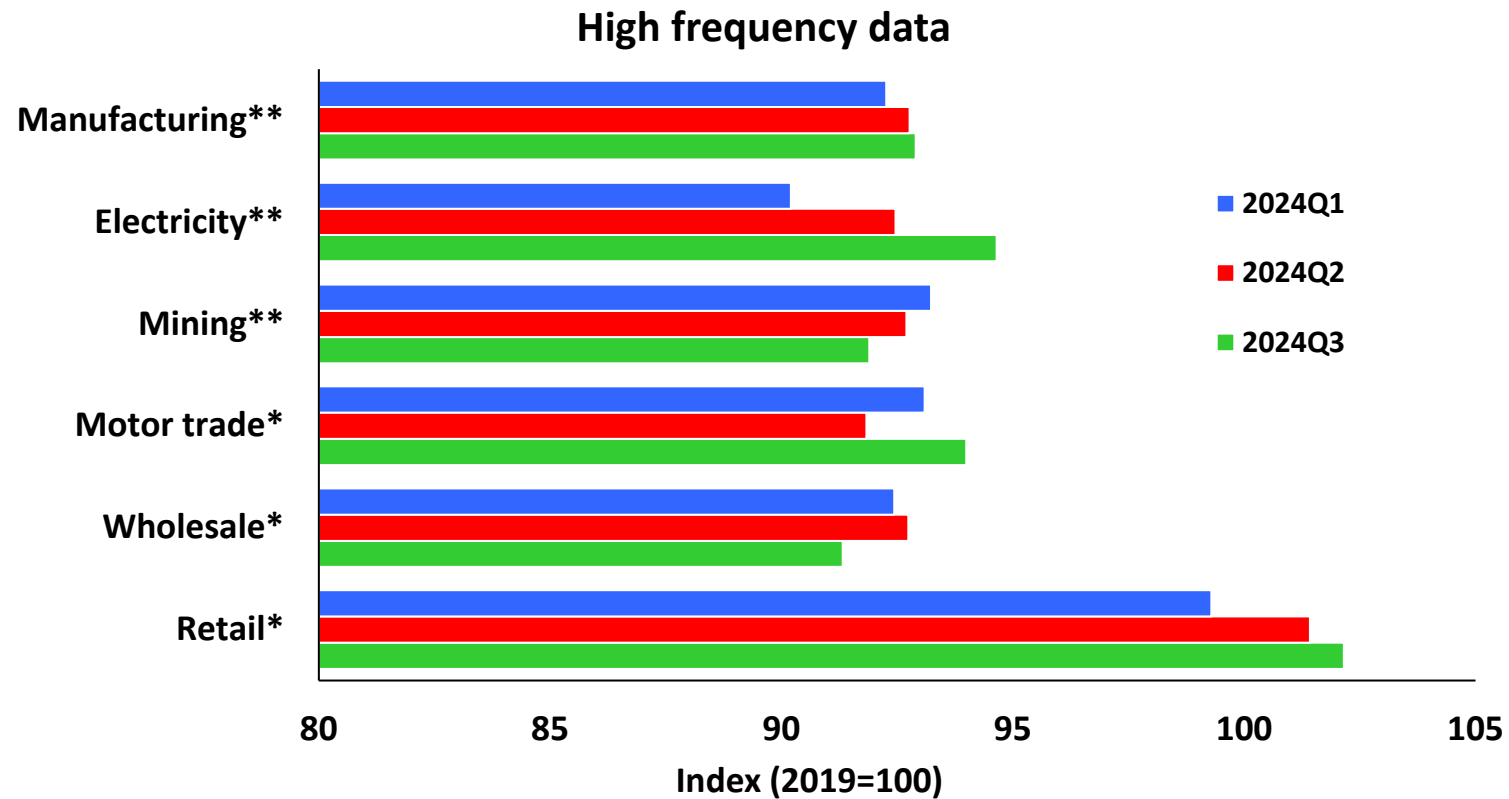
Sources: Penn World Tables, Stats SA and SARB

Total investment



Source: IMF

Impact of easing constraints yet to reflect in monthly/quarterly data...

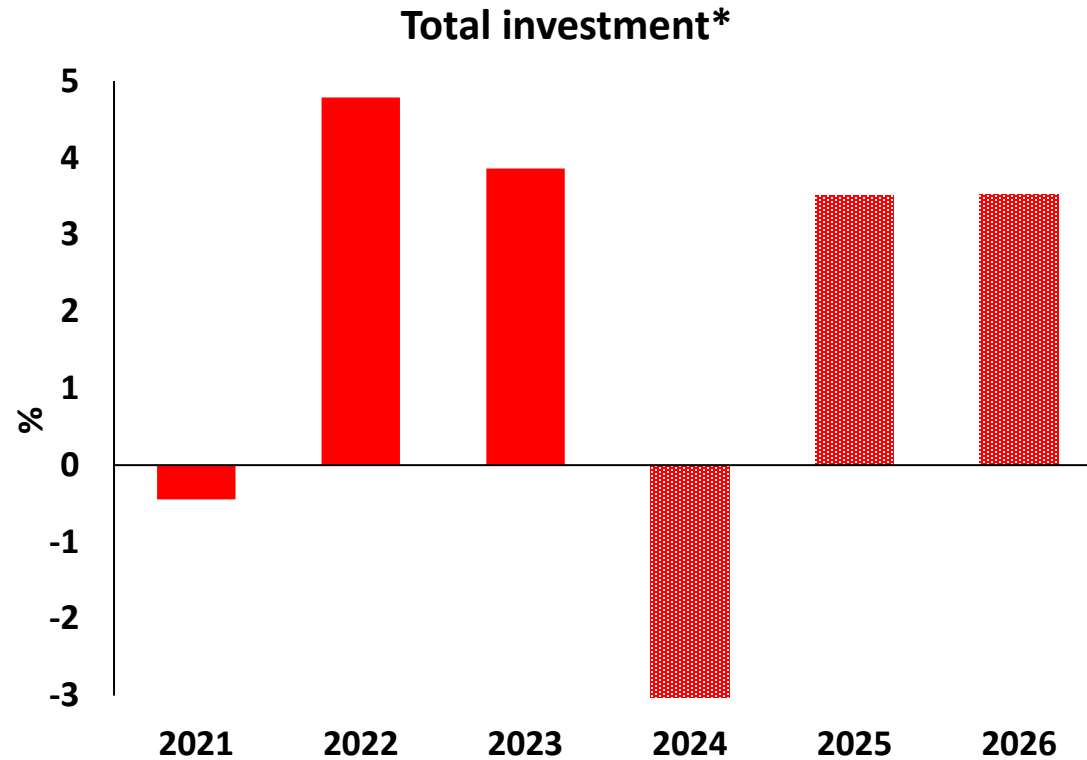


* Data for 2024Q3 is until July

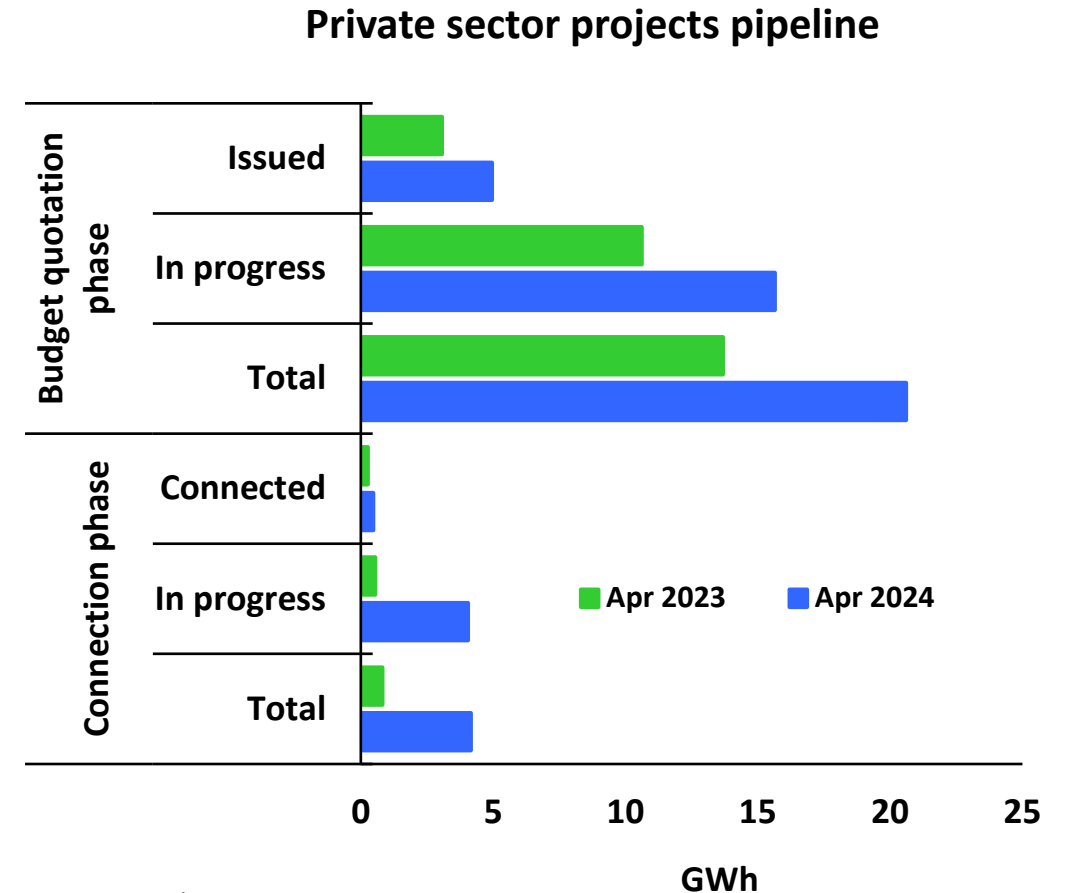
** Data for 2024Q3 is until August

Source: Stats SA

Forecast pencils-in stronger investment as embedded-generation rises

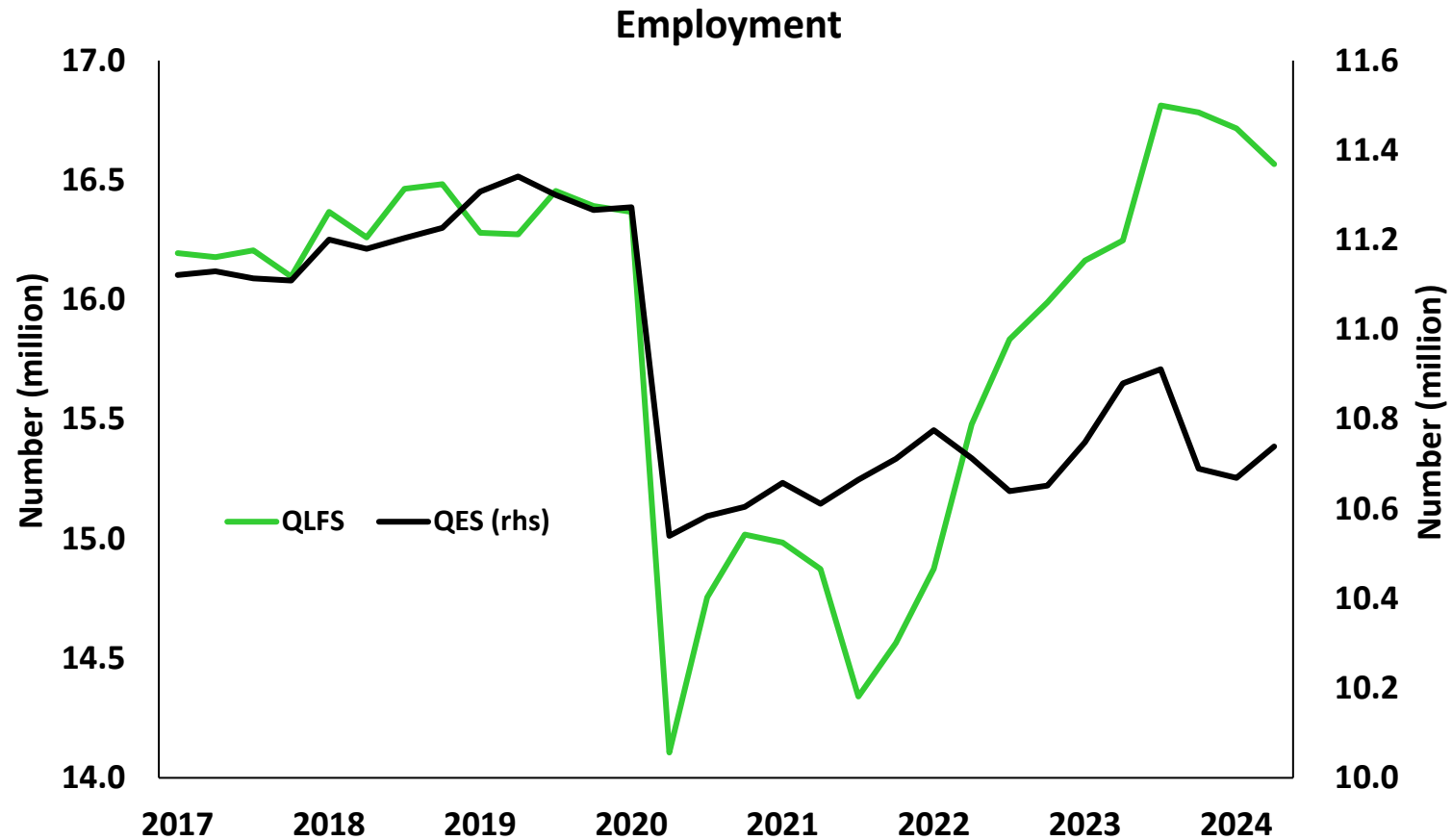


* Shaded bars indicate forecasts
Source: SARB



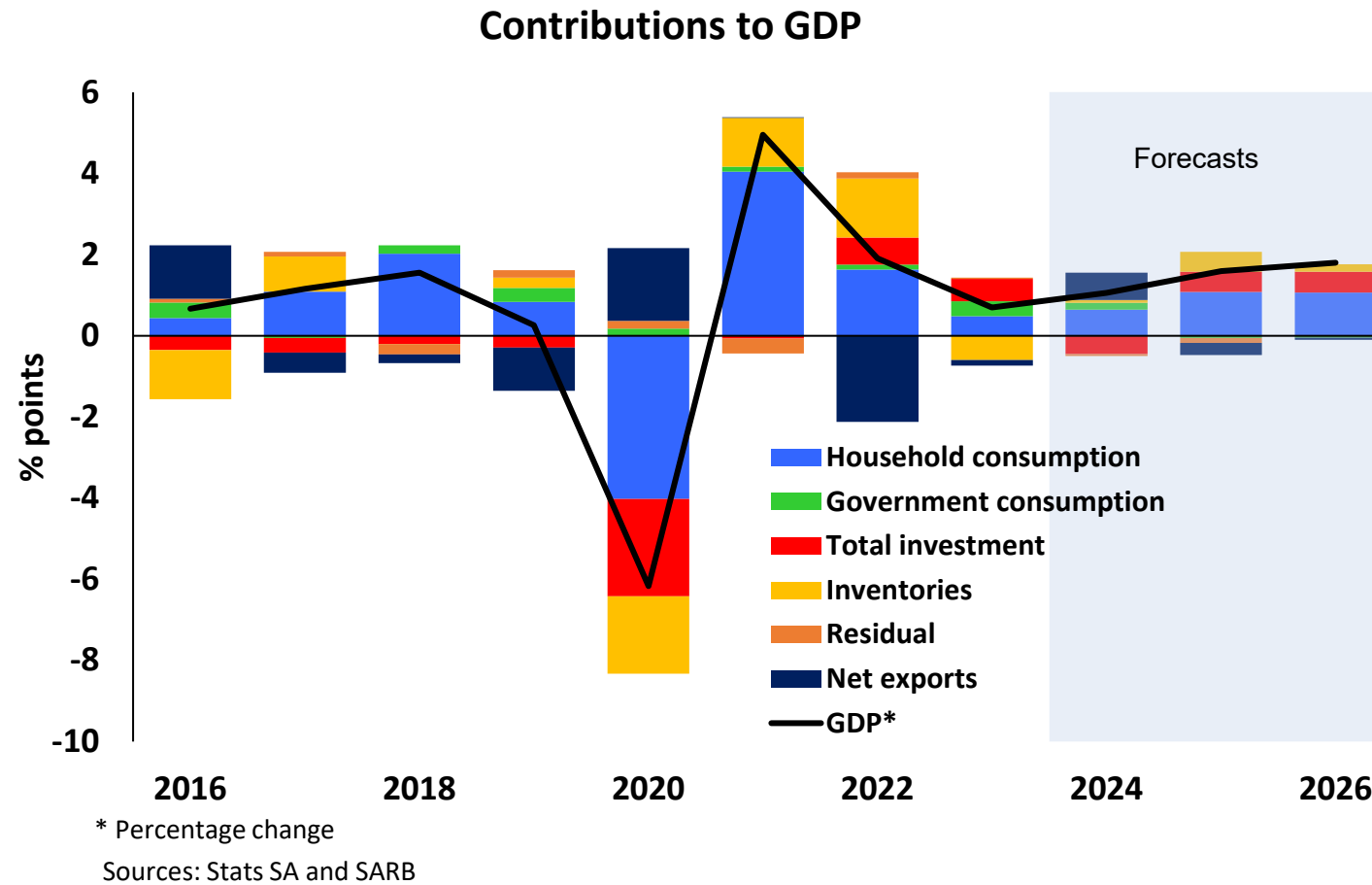
Source: National Treasury

Labour market outcomes appear mixed...

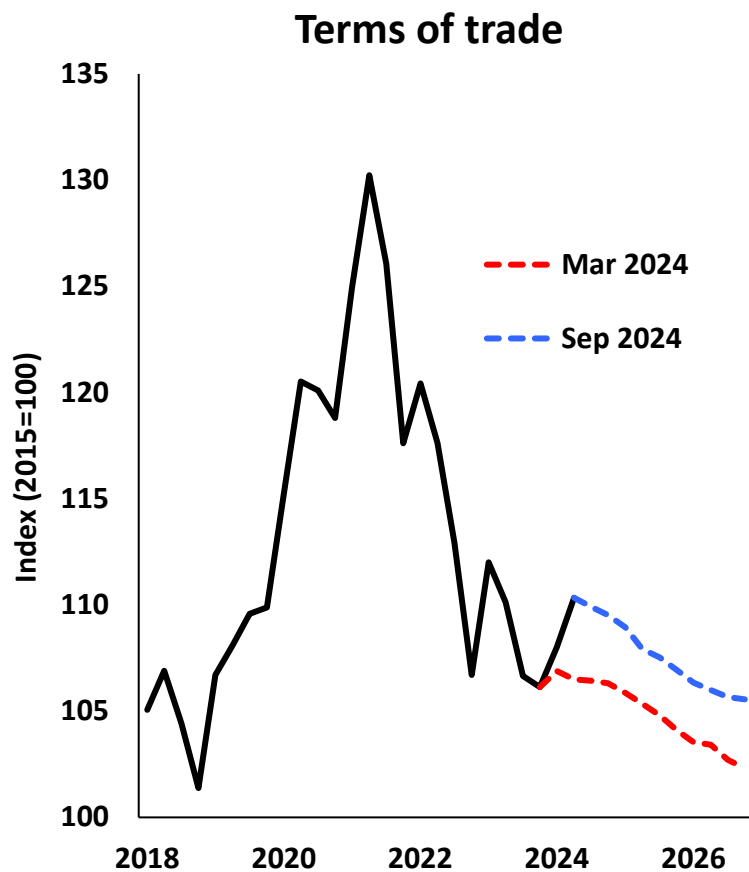


Sources: Stats SA and SARB

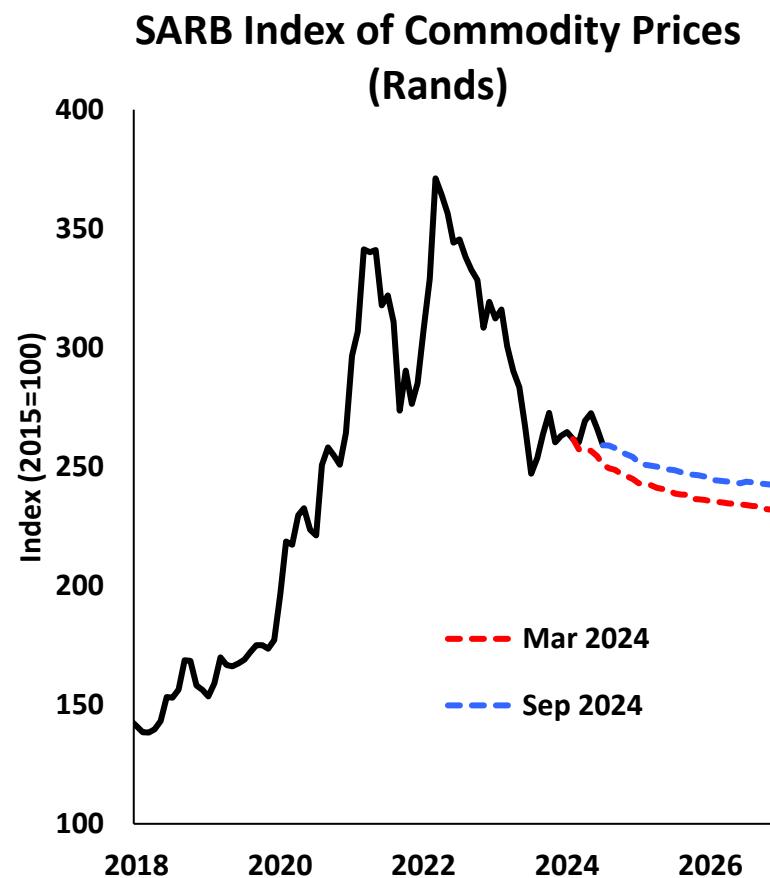
... but household consumption still doing the heavy lifting



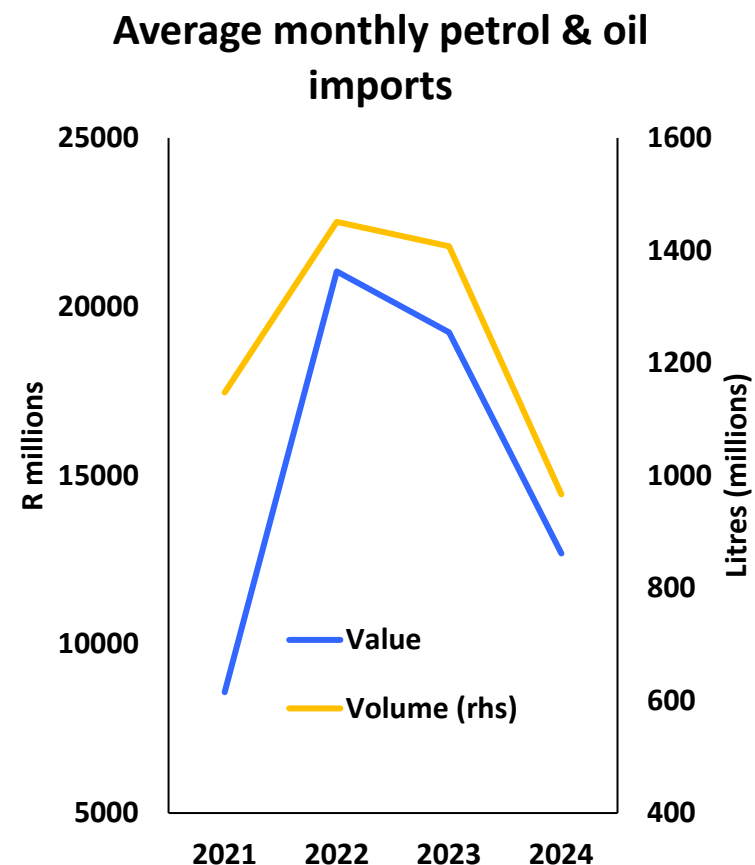
TOT generally lower, but slightly less drag on income than expected



Source: SARB

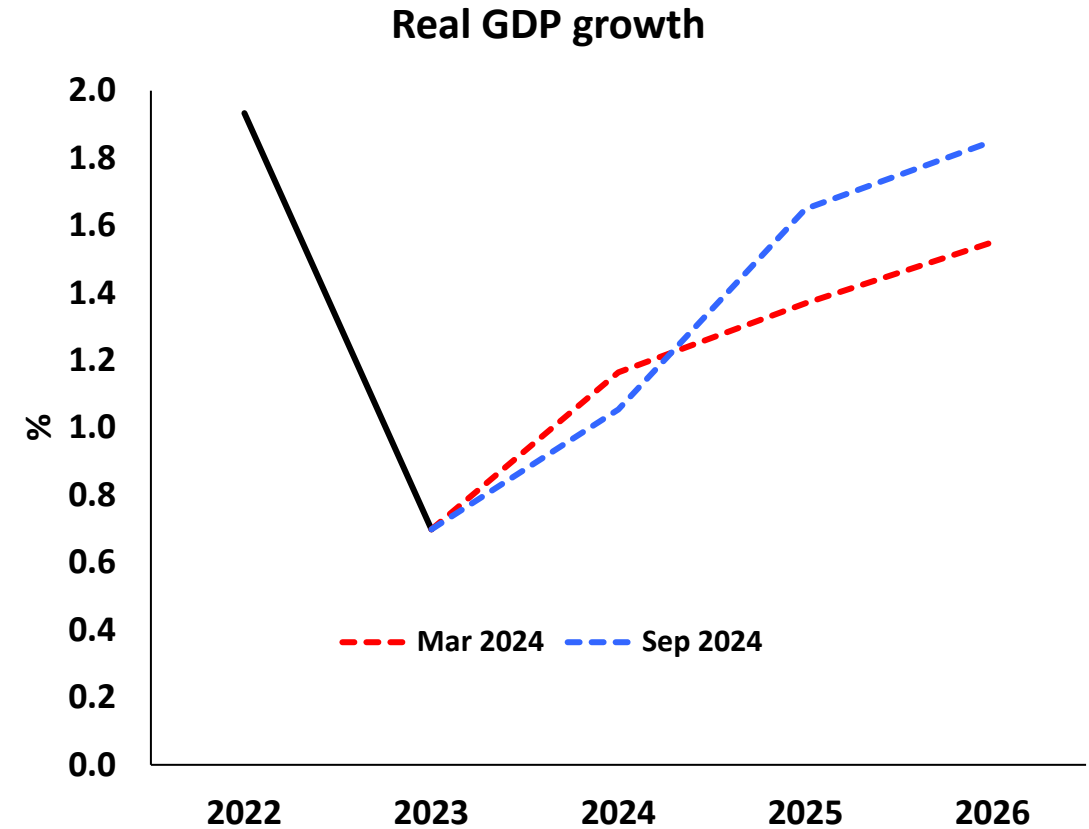


Source: SARB



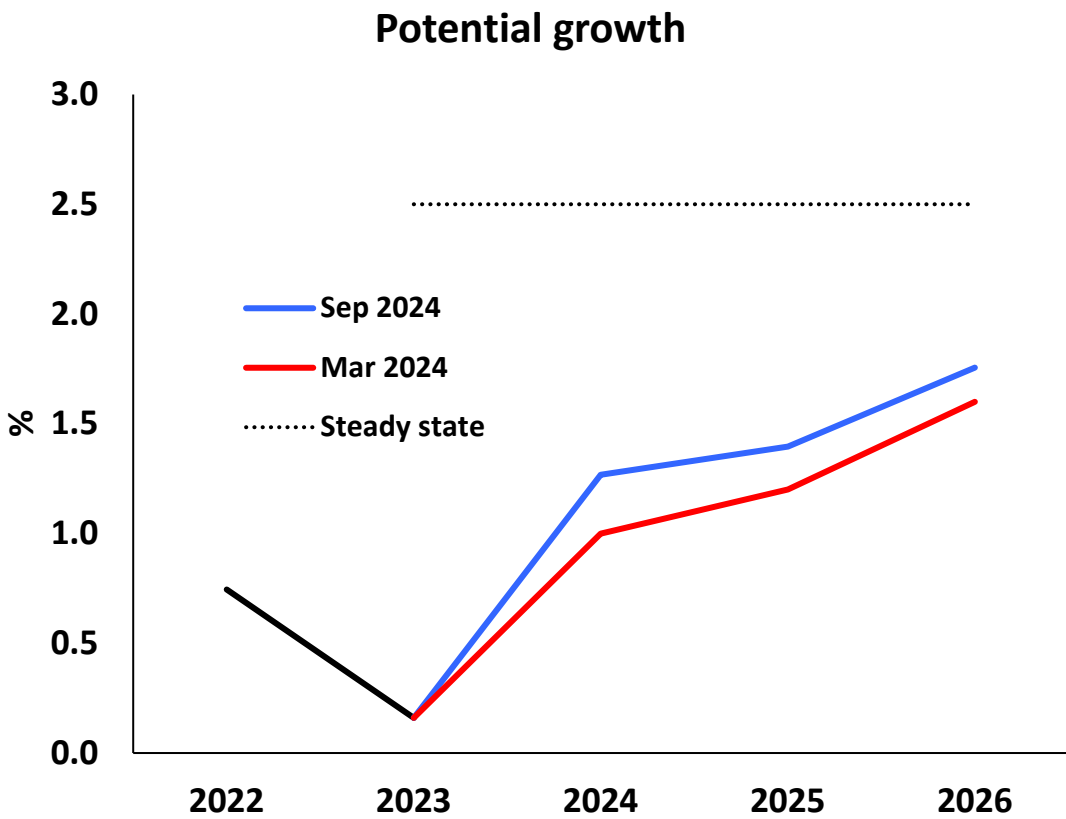
Source: SARS

Growth dynamics result in upward revisions to real & potential GDP



Sources: Stats SA and SARB

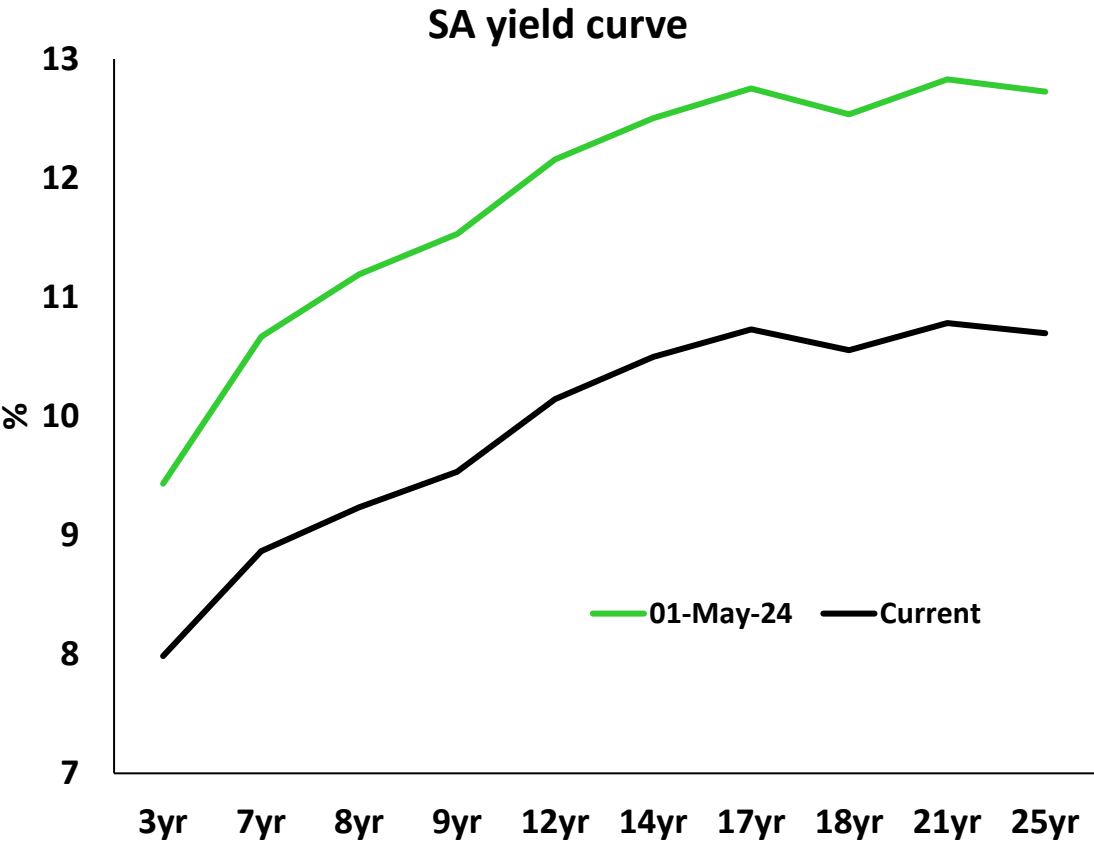
| Real GDP growth | 2023 | 2024 | 2025 | 2026 |
|-----------------|------|------|------|------|
| Mar 2024 MPC | 0.7 | 1.2 | 1.4 | 1.6 |
| Sept 2024 MPC | 0.7 | 1.1 | 1.6 | 1.8 |



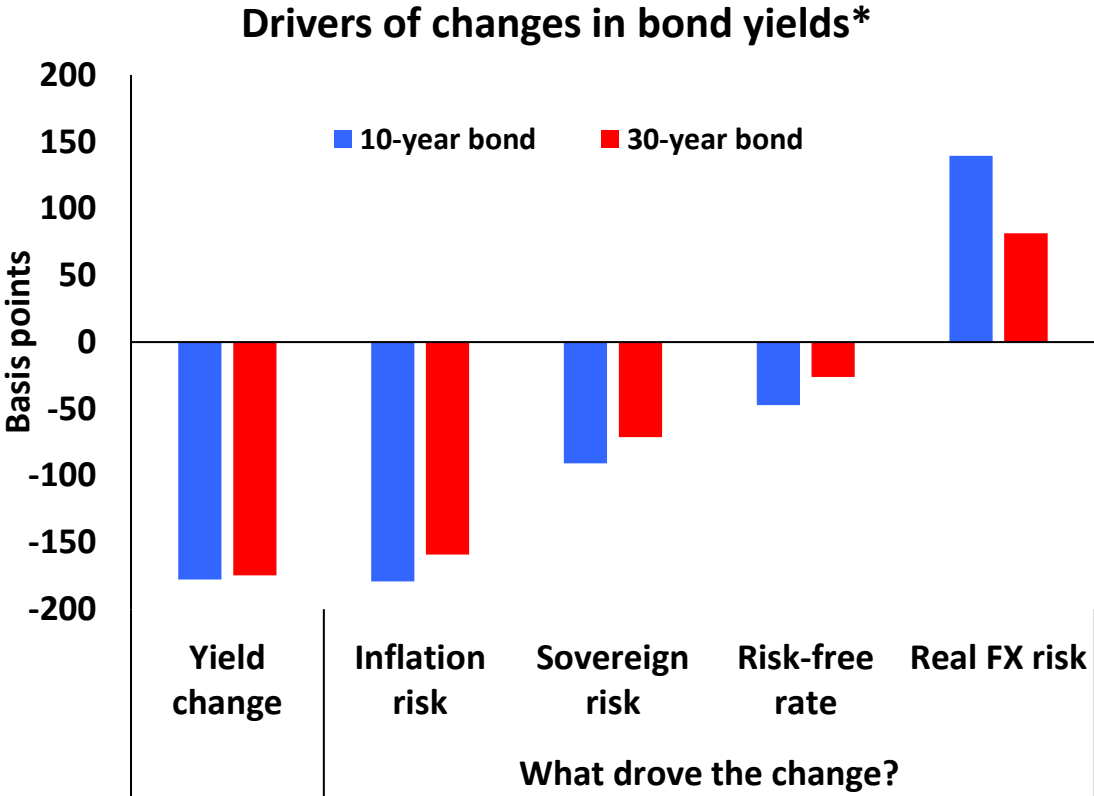
Source: SARB

| Potential GDP growth | 2023 | 2024 | 2025 | 2026 |
|----------------------|------|------|------|------|
| Mar 2024 MPC | 0.2 | 1.0 | 1.2 | 1.6 |
| Sept 2024 MPC | 0.2 | 1.3 | 1.4 | 1.8 |

Easing inflation outlook compresses the yield curve and lowers risk premium

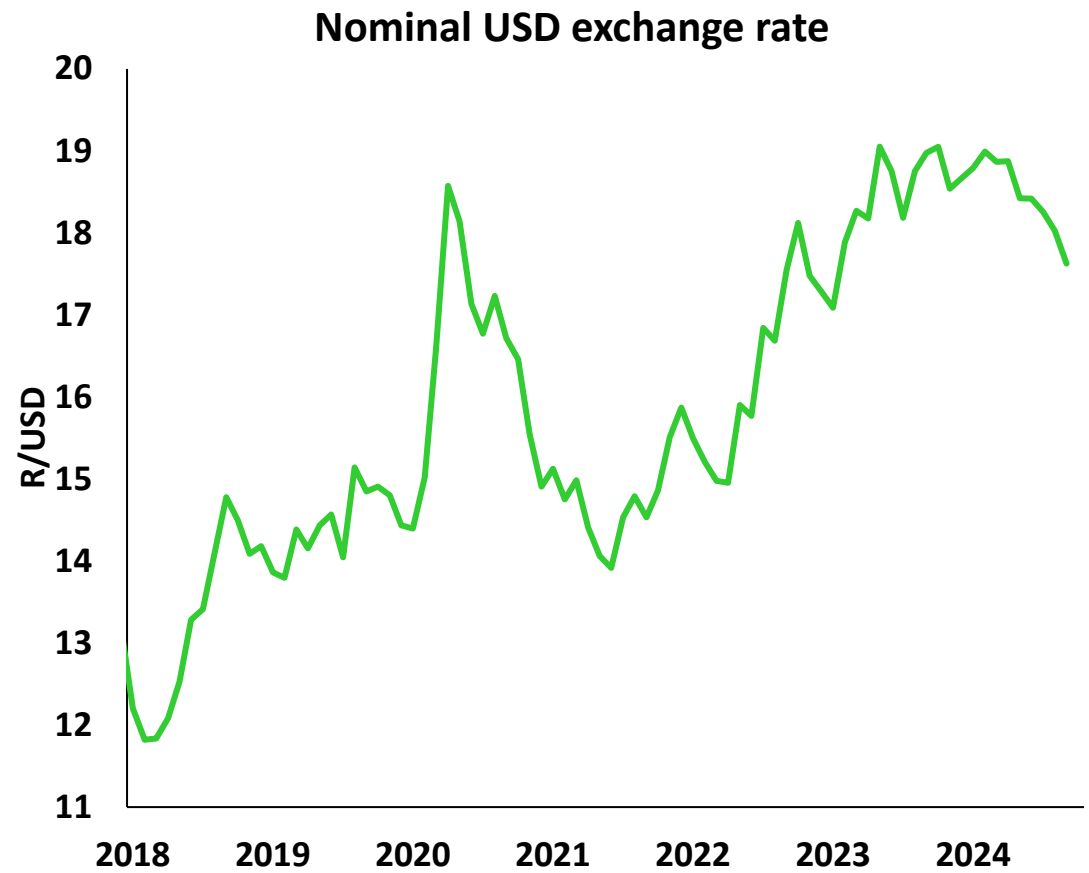


Source: Bloomberg

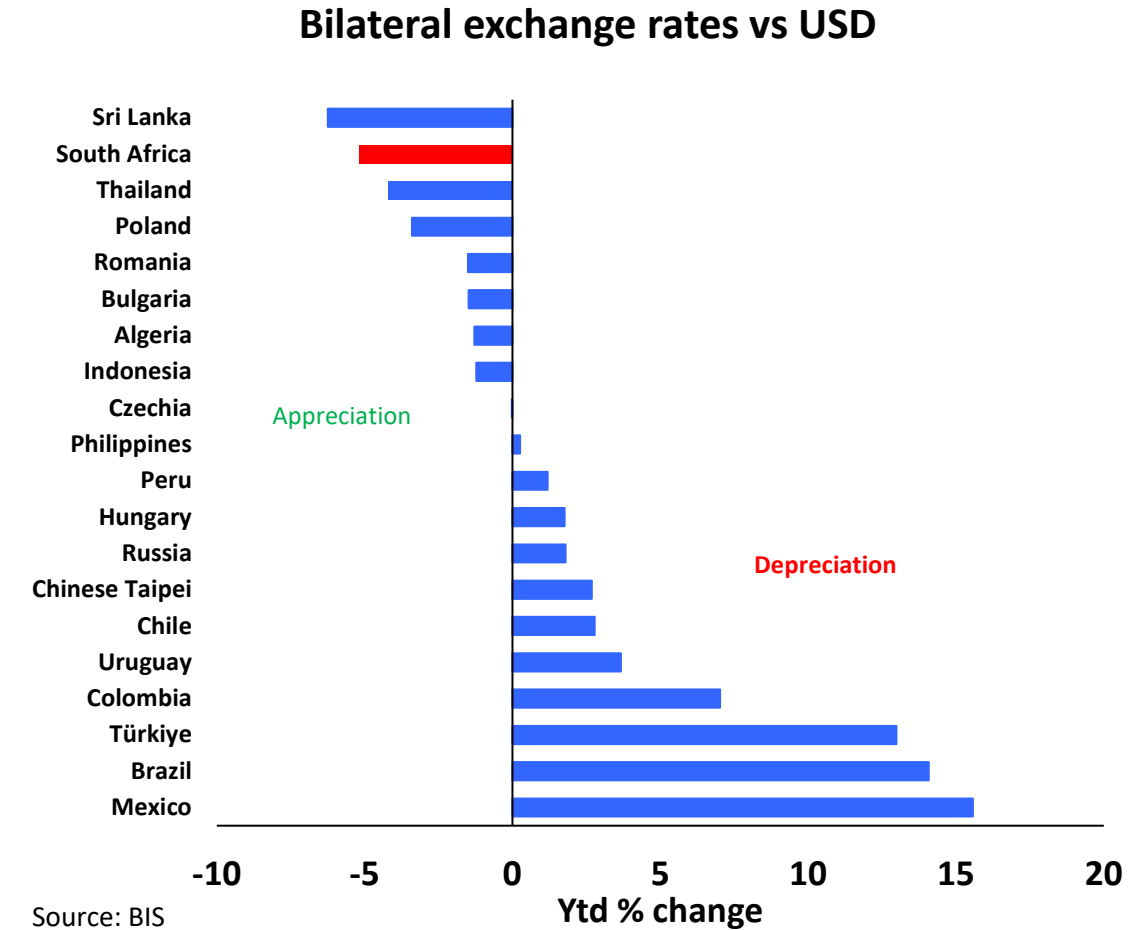


* Change over the past 6 months
Sources: Bloomberg and SARB

...buoying the rand...

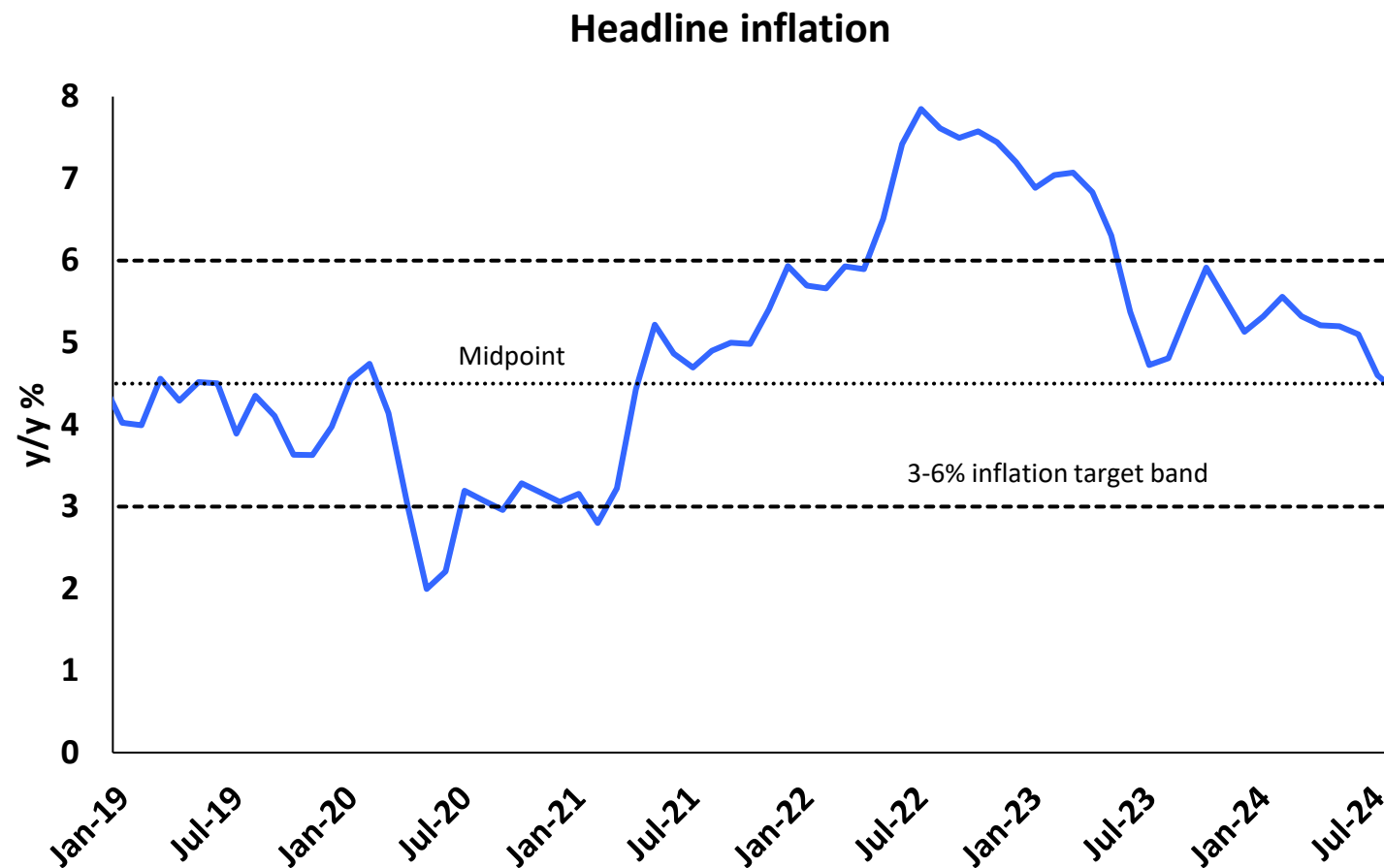


Source: SARB



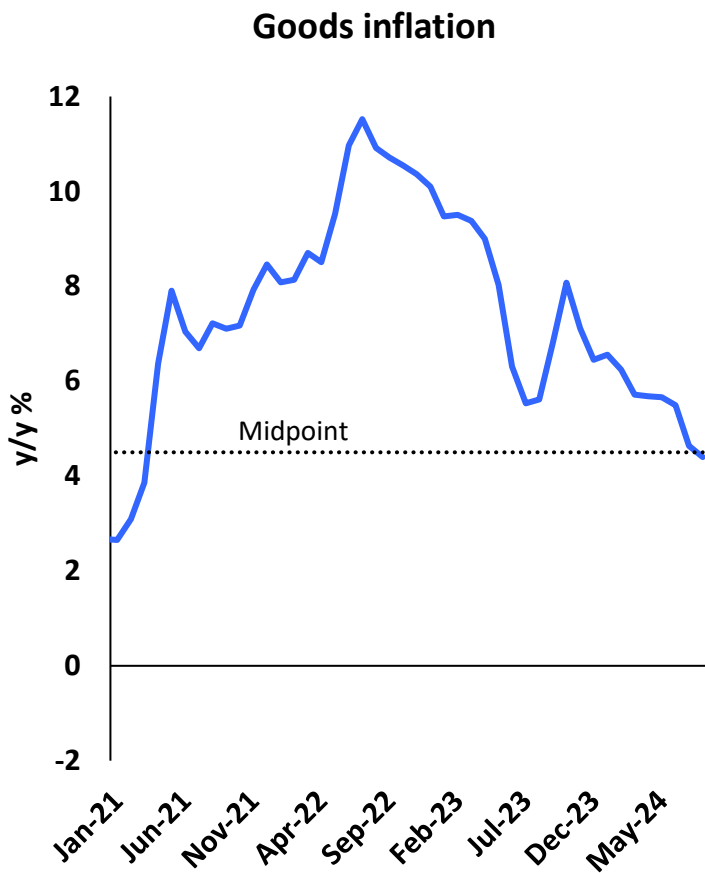
Source: BIS

...& adding impetus to the disinflation process

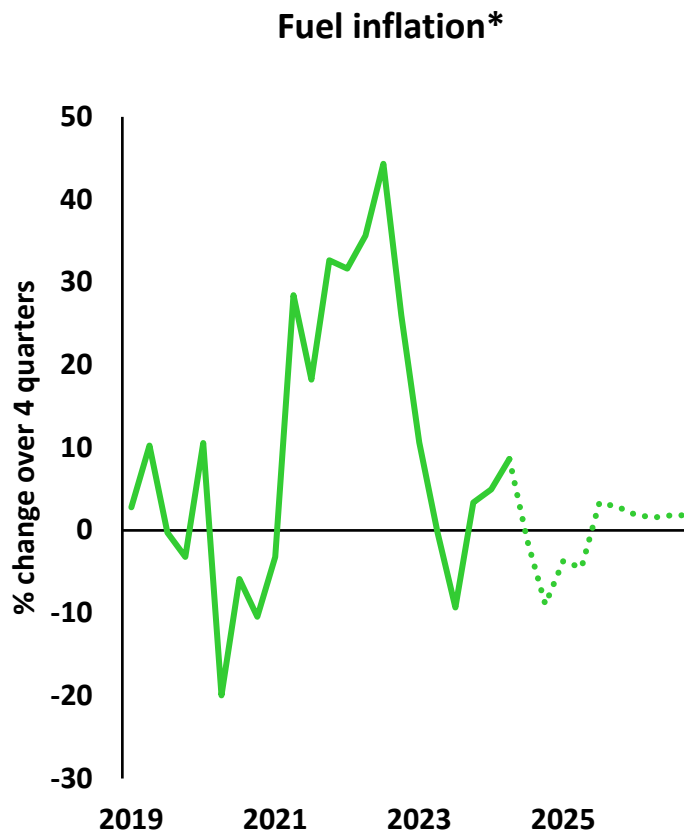


Sources: Stats SA and SARB

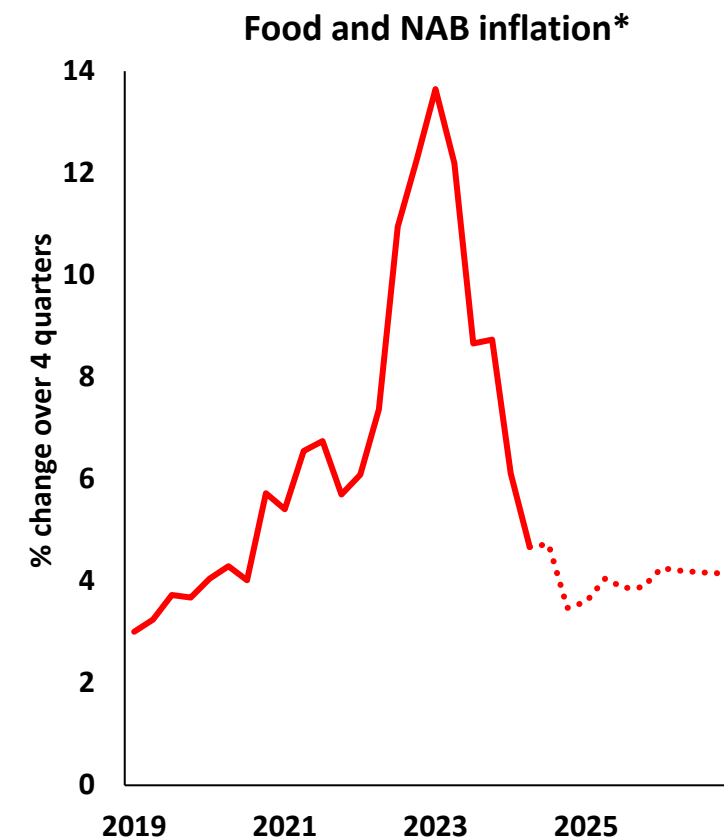
Strong moderation in goods inflation, underpinned by rand strength



Source: Stats SA

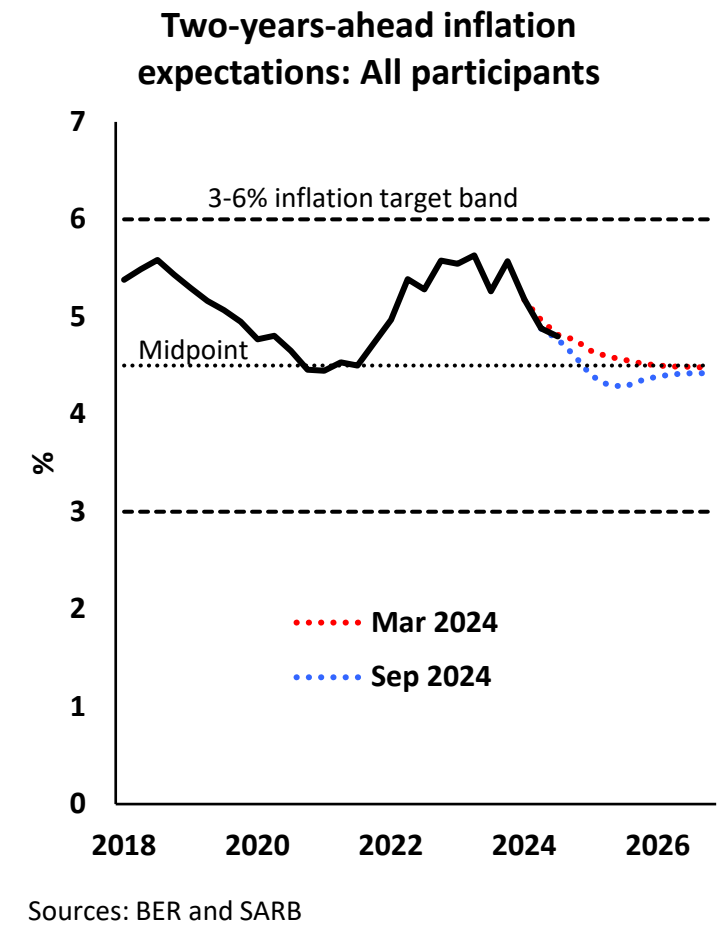
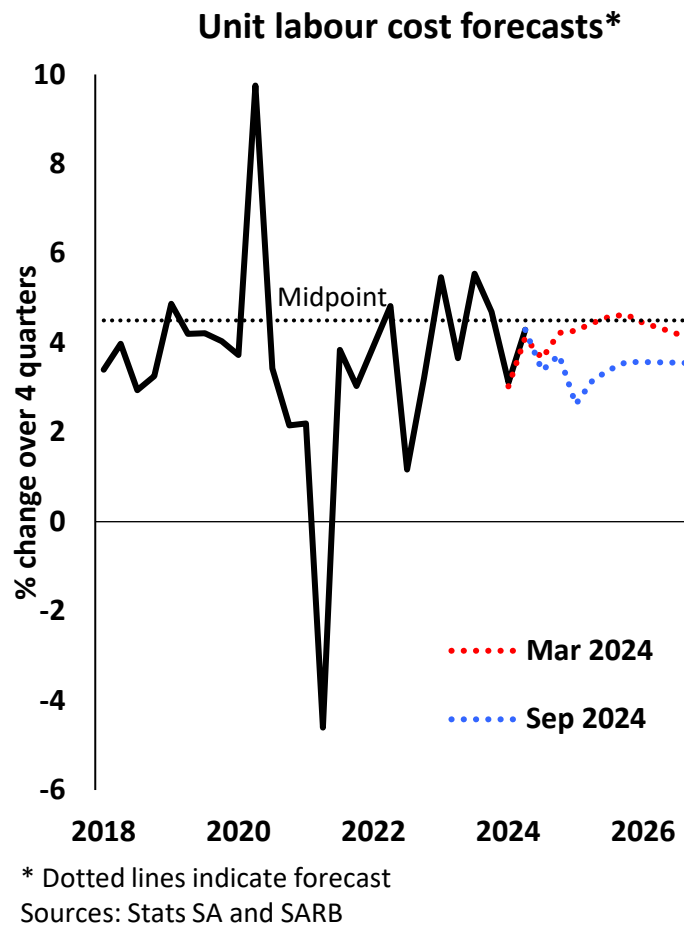
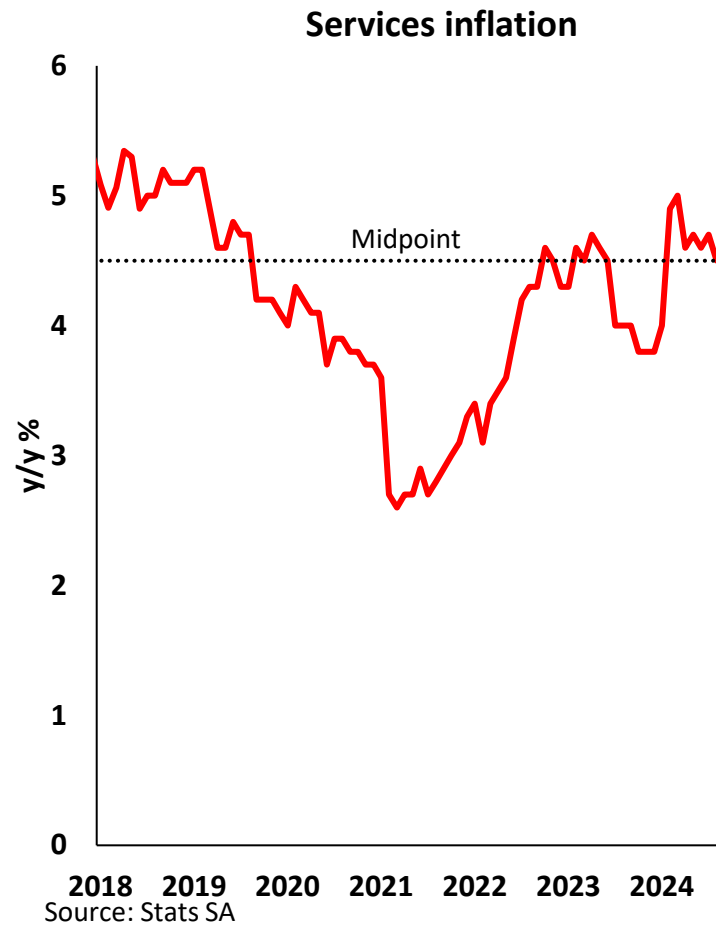


* Dotted lines indicate forecast
Sources: Stats SA and SARB

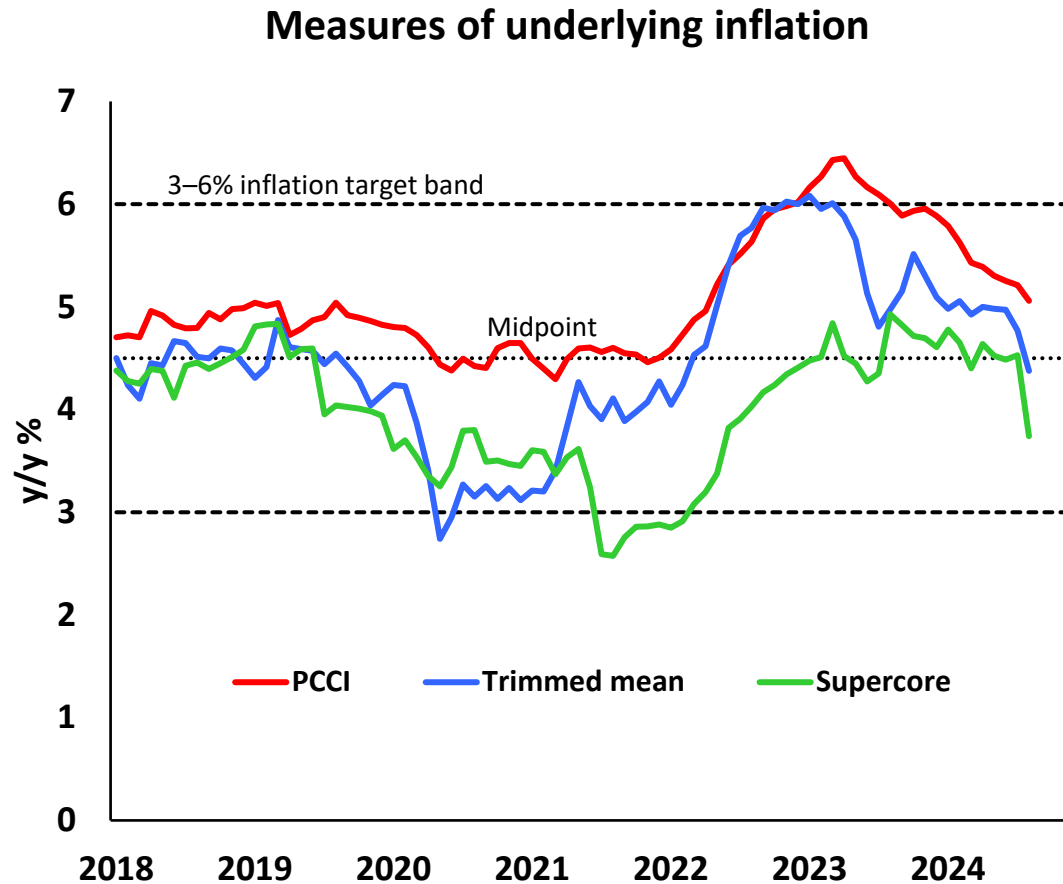


* Dotted lines indicate forecast
Sources: Stats SA and SARB

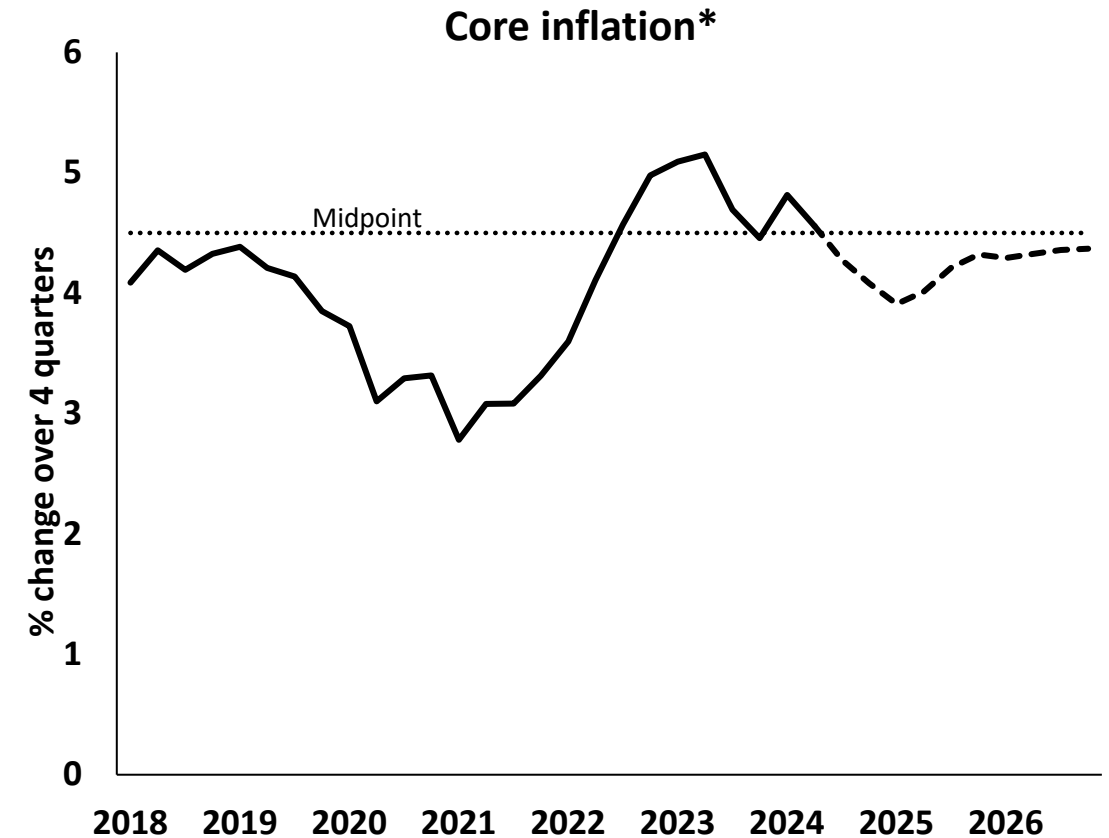
Services also easing as ULCs muted & expectations soften



Reflected in moderation across a range of underlying inflation measures



Sources: Stats SA and SARB



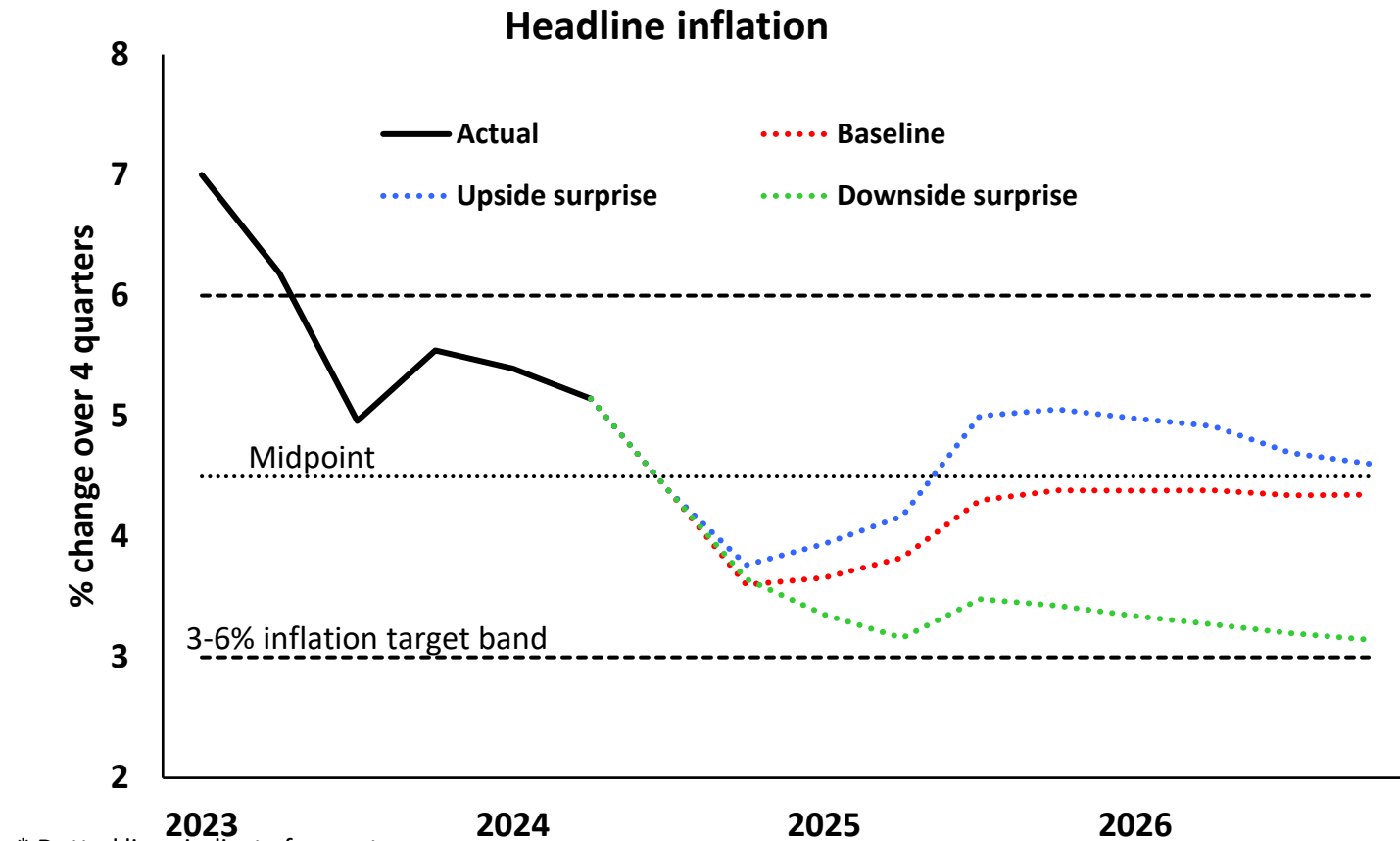
* Dotted lines indicate forecasts

Sources: Stats SA and SARB

Baseline forecast sense-checked against scenarios

2024 Sept MPC Scenarios:

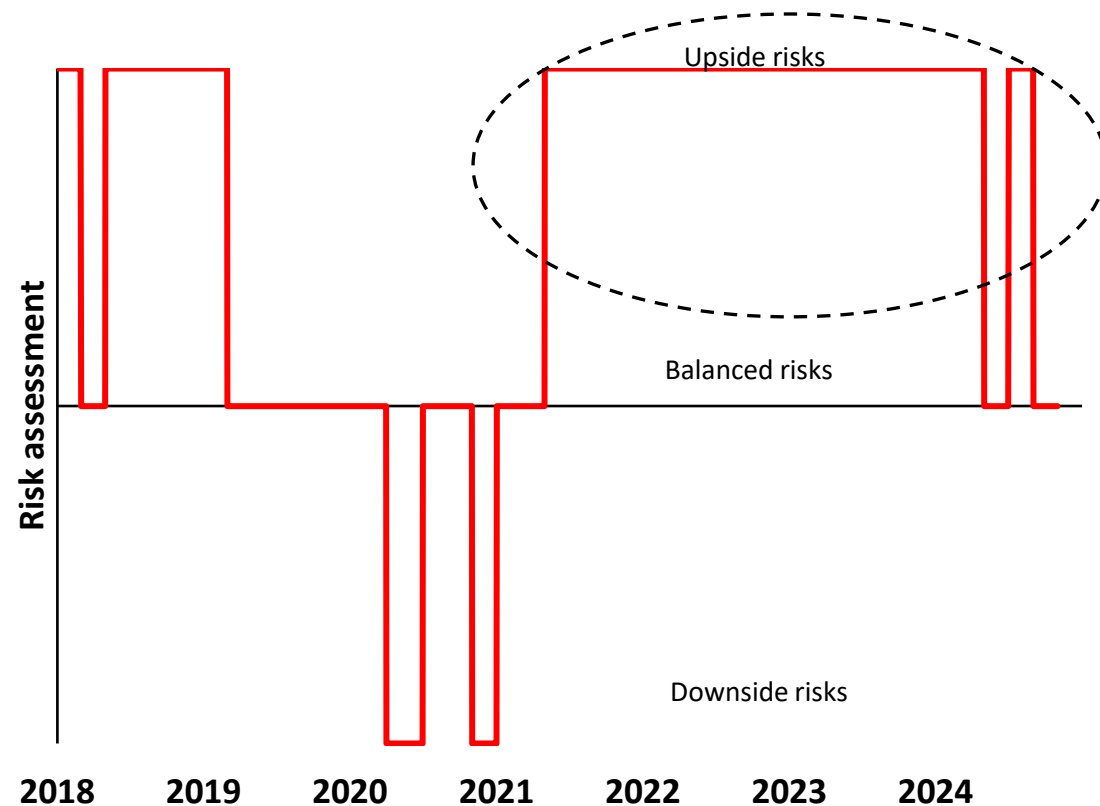
- **Upside scenario**
 - Significant electricity tariff increase
 - Faster wage growth
 - Rental inflation
- **Downside scenario**
 - Substantial Rand strengthening



* Dotted lines indicate forecasts
Sources: Stats SA and SARB

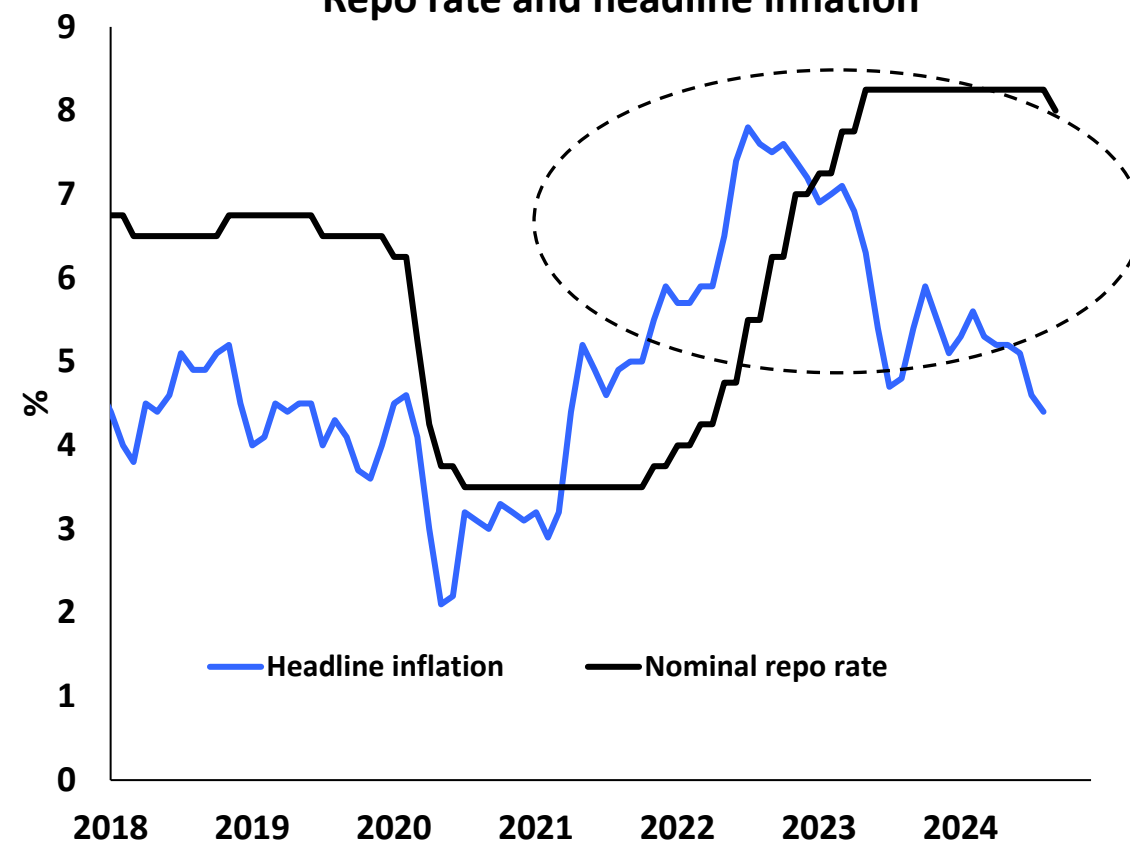
Inflation risks seen to be broadly balanced, supporting decision to ease policy

MPC inflation risk assessment



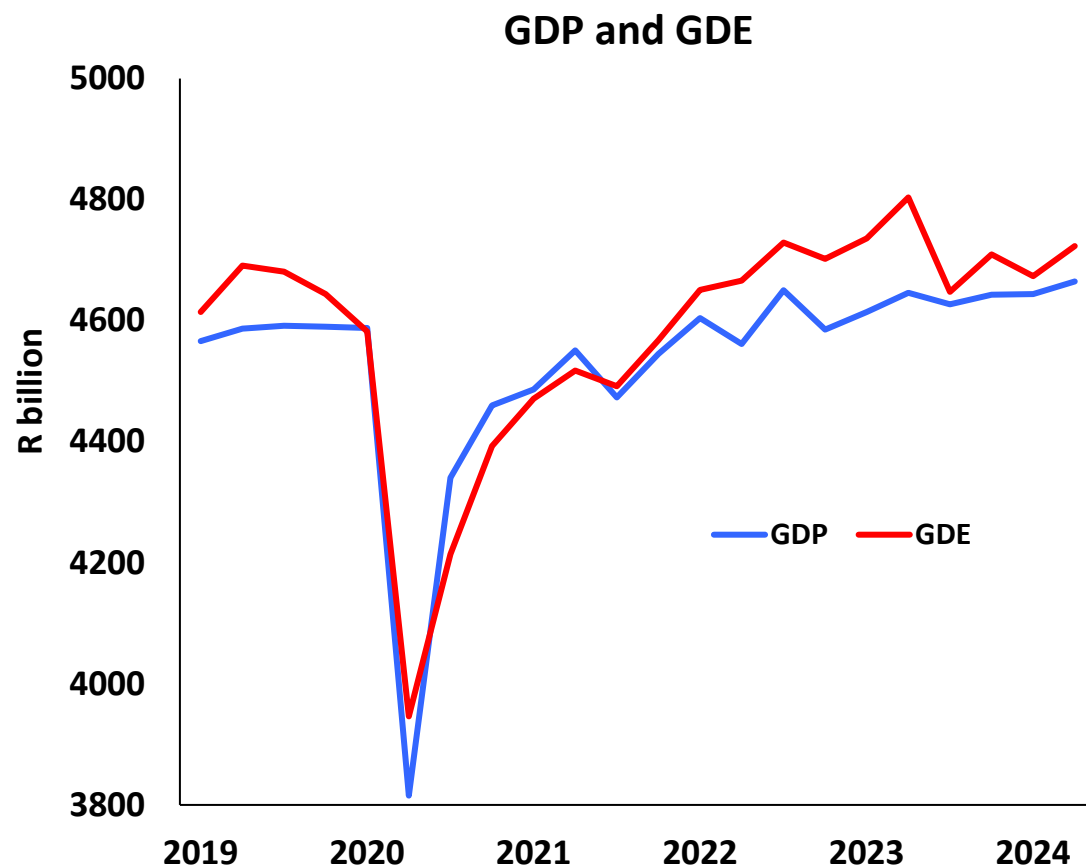
Source: SARB

Repo rate and headline inflation

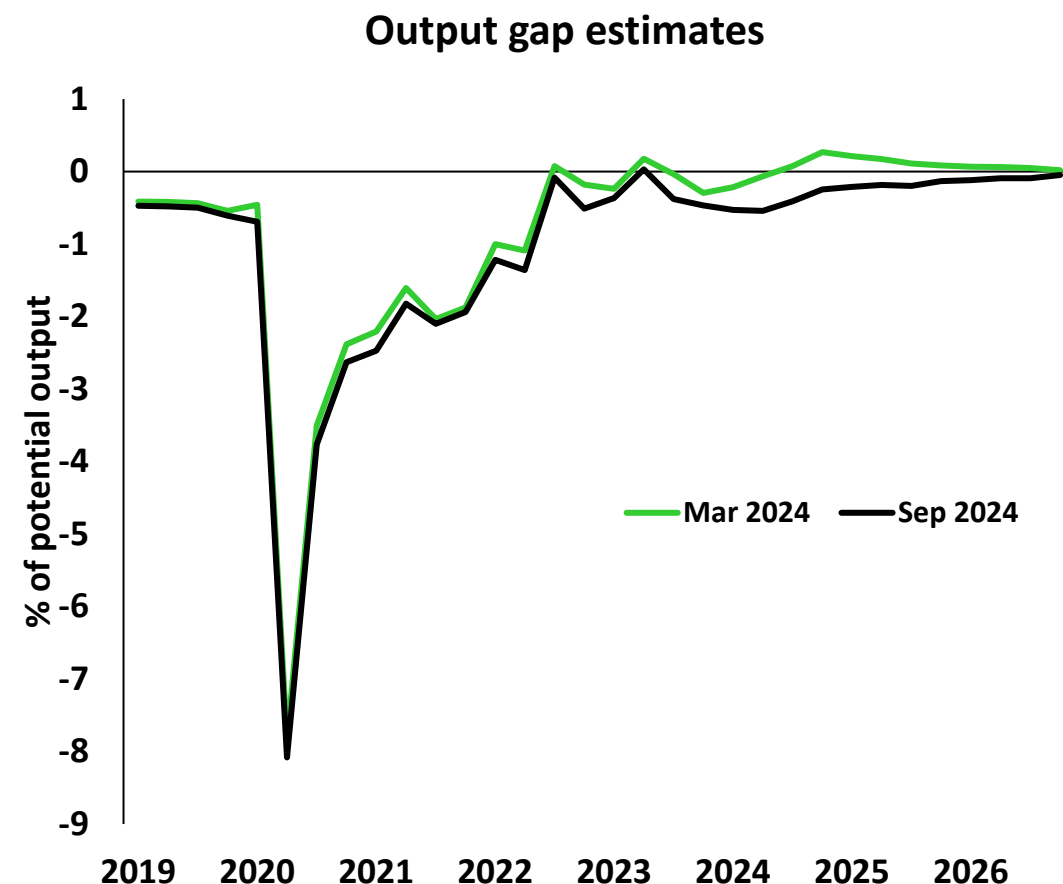


Sources: Stats SA and SARB

Rates align AD & AS, dampening price pressures...

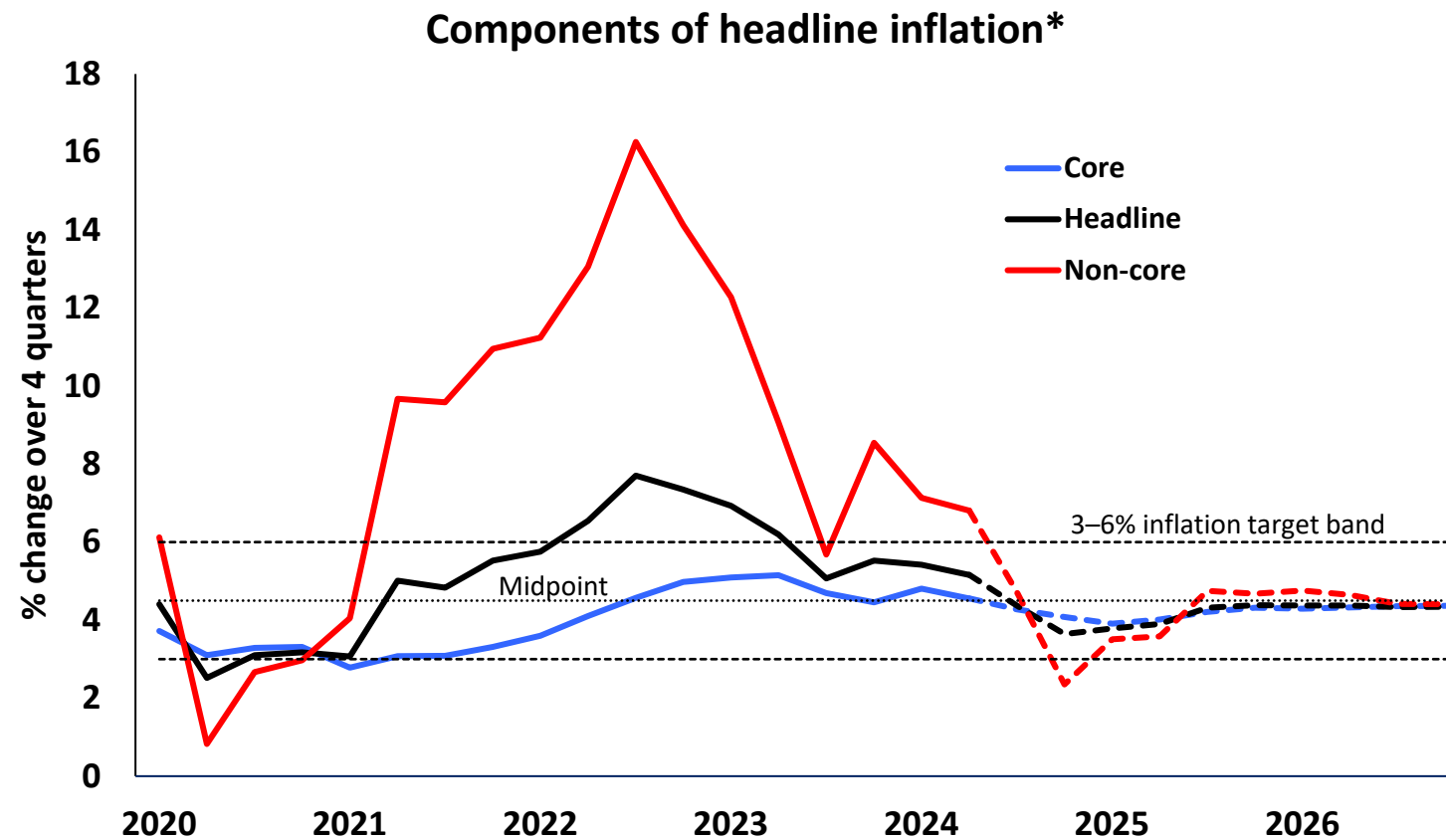


Source: Stats SA



Source: SARB

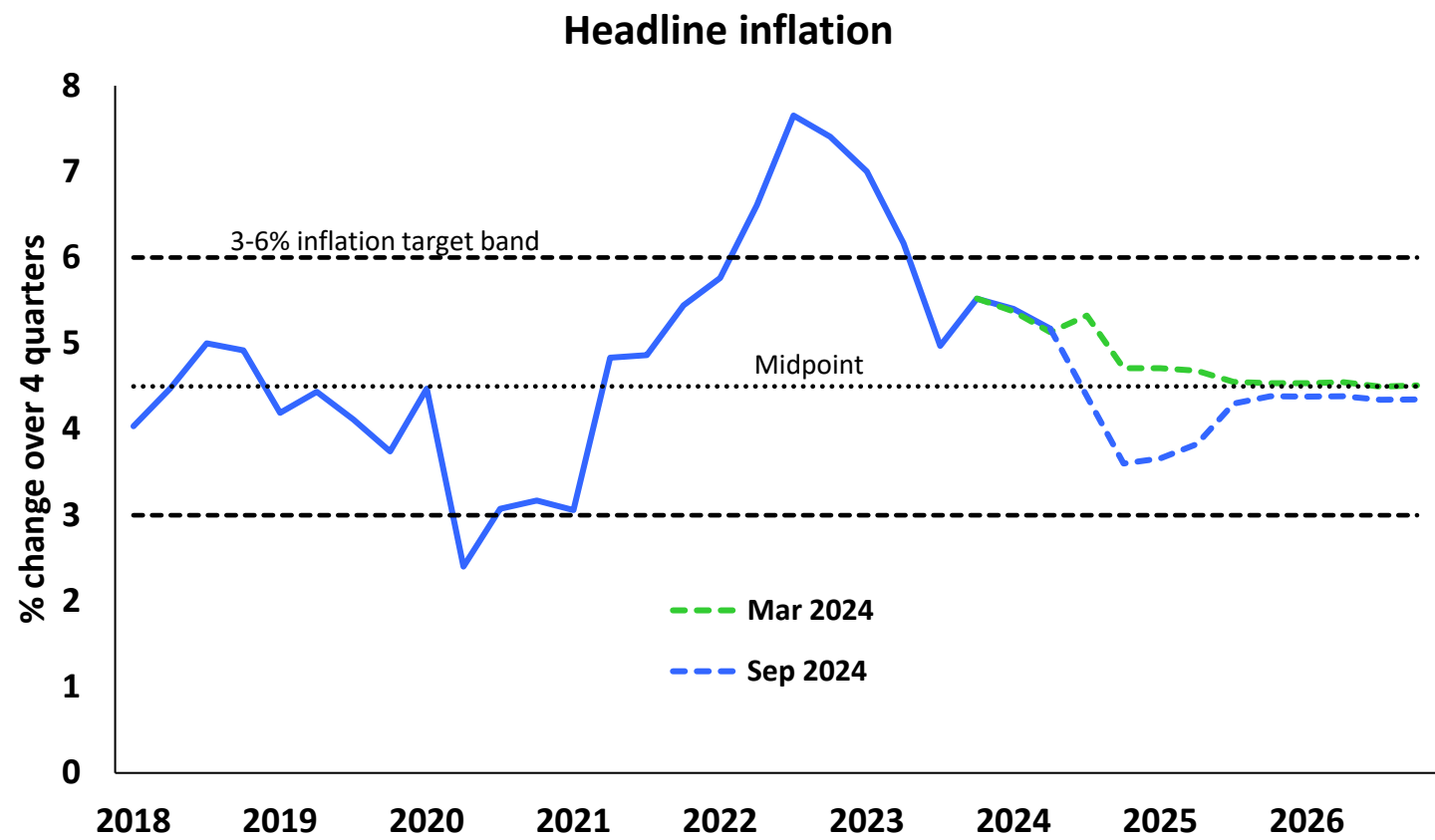
Sharper non-core deceleration, matched with & reinforcing muted core



* Dotted lines indicate forecast

Sources: Stats SA and SARB

Culminating in the projected headline target undershoot in the near term



Sources: Stats SA and SARB

Conclusion

- **Global easing cycle, with large role for domestic circumstances**
- **Policy space still unclear: GDP resilient and financing needs high**
- **Fewer negative shocks to domestic outlook: smoother sailing**
- **Core inflation contained & yield curve compress on policy effort**
- **Challenge is to stabilise inflation & expectations at target...**
- **...avoid policy missteps that could cause inflation reversals.**



**Thank you for your
attendance**



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