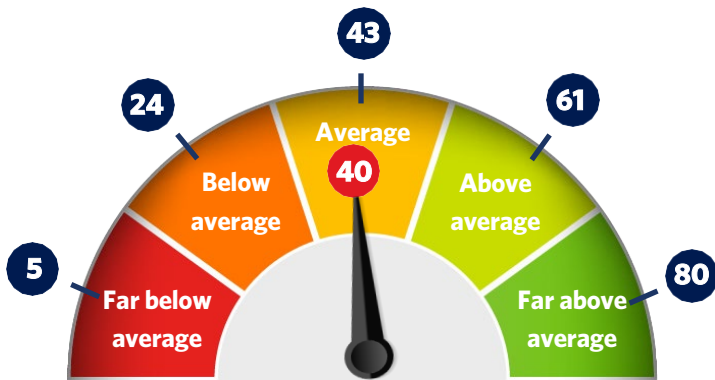




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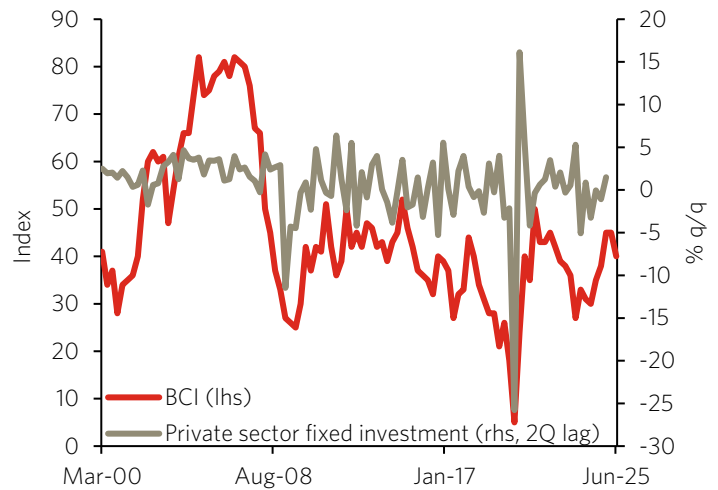
Business pulse: Sentiment dips to 40, revealing broad weakness

Business Confidence Index (BCI)



Source: Bureau for Economic Research (BER), Momentum Investments
Far below (above) average = 2 standard deviation (std. dev.) below (above) average
Below (above) average = 1 std. dev. below (above) average
Red circle = current quarter's index

From confidence to capital



Source: BER, South African Reserve Bank (SARB), Momentum Investments

Construction



Manufacturing



Retail



Wholesale



Vehicle dealers



Other services*



Source: BER, Momentum Investments

* Survey has a quarter lag



So what?



Stability in the business confidence index at 45 points in the first quarter of 2025 masked broad-based weakness which has emerged in the second quarter survey. While some pressures weighing on sentiment in the second quarter have eased, including improved diplomatic relations, the reversal of the value-added tax (VAT) hike, and the Government of National Unity (GNU) partners' commitment to cooperation, concerns persist.

Global uncertainty, weak external demand, and lingering political unease continue to weigh on sentiment. The 90-day pause on reciprocal tariffs will have lapsed by the next survey, but the situation remains fluid. Overall, the decline in business confidence is a negative signal for an already fragile economy. We forecast fixed investment to contract by 0.9% in 2025 and the economy to grow by 1.2% in 2025.

Majority of business respondents are not satisfied with prevailing business conditions

The Rand Merchant Bank (RMB)/BER BCI dipped from 45 points in the first quarter of 2025 to 40 in the second quarter. At this level, six out of 10 business respondents are not satisfied with prevailing business conditions.

The drop in sentiment marks the first decline since March 2024 and indicates the waning optimism seen in previous periods. RMB lists various reasons negatively impacting sentiment in this survey which was conducted between 7 and 26 May. These include:

- Strained relations between the United States and SA. President Cyril Ramaphosa's visit to Washington DC was on 21 May, but most responses were already submitted.
- Likewise, the formal reversal of the VAT hike in Budget 3.0 came after most responses were submitted.
- Concerns over the stability of the GNU.
- Global trade uncertainty despite the 90-day pause in reciprocal tariffs.
- Logistical issues.

RMB notes that the improvement in wholesalers' sentiment was supported by non-consumer goods traders. However, consumer goods wholesalers saw a sharp drop in sales. This is a concerning sign for consumer demand ahead.

New vehicle dealers and building contractors registered the sharpest drops of 10 points to 42 and 35 points, respectively. According to RMB, the residential building sector has not yet benefitted from the past four interest rate cuts (100 basis points).

Retailers expressed an eight-point drop in confidence to 42 points. While manufacturers registered the smallest decline in sentiment (one point), the sector was the most downbeat.

“ Four of the five surveyed sectors recorded increased pessimism, with only wholesalers registering a rise in confidence from 42 to 50 points, making it the only sector reaching the neutral level. ”

“ Confidence levels across most sectors were slightly below their long-term averages, except for manufacturing being further below average. Wholesale trade was the only sector registering slightly above its long-term average. ”

Agricultural sentiment upbeat

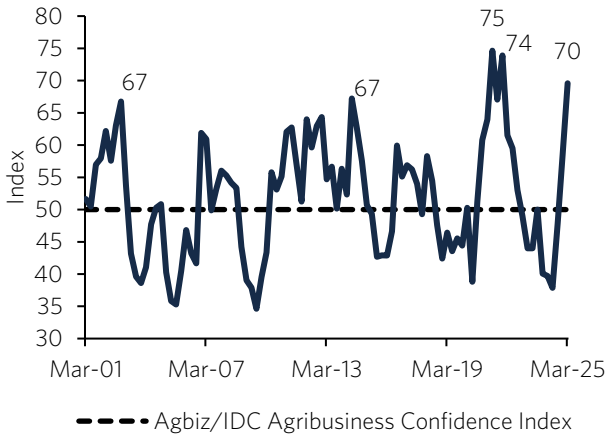
The Agricultural Business Chamber of SA (Agbiz)/IDC Agribusiness Confidence Index rose by 11 points to 70 in the first quarter of 2025. This marked its third consecutive quarterly improvement and the highest level since the fourth quarter of 2021 (see chart 1). According to Agbiz, this optimism is buoyed by favourable La Niña rains, improving port efficiency, and progress in managing outbreaks of animal diseases.

Nine of the ten subindices improved in the first quarter. Turnover and net operating income indices saw strong gains, up 14 and 28 points, respectively. Export sentiment surged 17 points to 100, underpinned by a record US\$13.7 billion in agricultural exports in 2024.

The subindices for financing costs and bad debt, which are interpreted inversely, offered mixed signals. The

financing costs index declined, which is positive and consistent with lower interest rates. However, a rise in bad debt provisions highlights lingering financial pressure on some farming operations.

Chart 1: Agriculture confidence at third highest peak



Source: Agbiz, Momentum Investments

“ The optimism in the agriculture reflects a recovery following El Niño disruptions and animal disease outbreaks, according to Agbiz. ”

Furthermore, optimism aligns with the sector’s performance, which recorded double-digit quarterly growth in both the fourth quarter of 2024 and the first quarter of 2025.

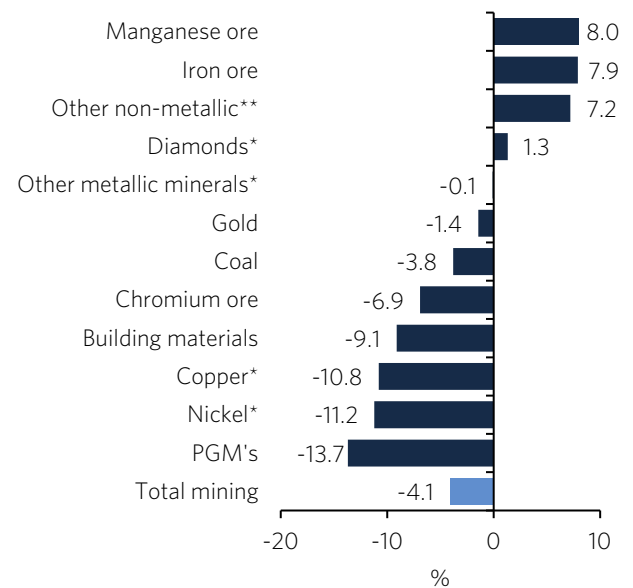
Continued optimism and a recovery in production means the sector could continue contributing to economic growth. This bodes well for the inflation outlook through contained food prices.

Mining and manufacturing in a technical recession in the first quarter

Mining production fell by 4.1% q/q in the first quarter of 2025 and detracted 0.2 percentage points from economic growth. As seen in chart 2, the decrease was broad-based across eight of the 12 mineral groups, but platinum group metals (PGMs) recorded the biggest decrease, largely due to heavy rains in the northern provinces in January and February according to the Mineral Councils SA.

The Minerals Council SA further noted that several factors point to strained mining conditions in the first quarter of 2025. These include the sector falling into a technical recession, weak profitability and slower wage growth. Compensation of employees in mining rose by just 2.6% y/y, lower than 3.9% y/y in non-mining sectors.

Chart 2: Broad-based underperformance in mining output, % q/q



Source: Global Insight, Stats SA, Momentum Investments

* Not seasonally adjusted

** Other non-metallic minerals

“ While adverse weather was the main cause of the poor mining performance in the first quarter, some recovery is expected for the second quarter. ”

However, challenges such as uncompetitive electricity pricing, continued rail and port constraints, and rising global trade tensions are likely to limit the pace of recovery in mining output and profitability.

PGMs have come under sustained pressure due to shifting demand dynamics, particularly the growing global interest in electric vehicles, which rely less on PGMs compared to internal combustion engine technologies. In response to pressure on PGMs and its broader strategy, Anglo American announced a demerger in early 2024 and the demerger of its

platinum business, now known as Valstra Platinum (formerly Anglo American Platinum or Amplats) was completed on 31 May 2025 according to *BusinessTech*. Nevertheless, PGMs still have potential because they are classified as critical minerals.

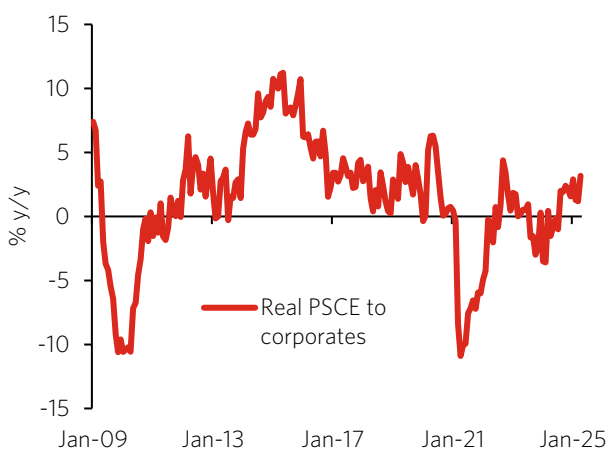
Similar to mining, the manufacturing sector fell into a technical recession in the first quarter of 2025, contracting by 2% q/q from a previous decline of 1.1% q/q in the fourth quarter of 2024.

“ The seasonally-adjusted Absa Purchasing Managers’ Index decreased to 43.1% in May 2025, levels last seen in May 2020. This signals that businesses conditions in the manufacturing sector remain challenging. ”

Corporate borrowing rises but fixed investment still missing

Real private sector credit extension (PSCE) to corporates has trended firmly in positive territory since August 2024 (see chart 3).

Chart 3: Rising growth in corporate credit extension



Source: SARB, Momentum Investments
Data until April 2025

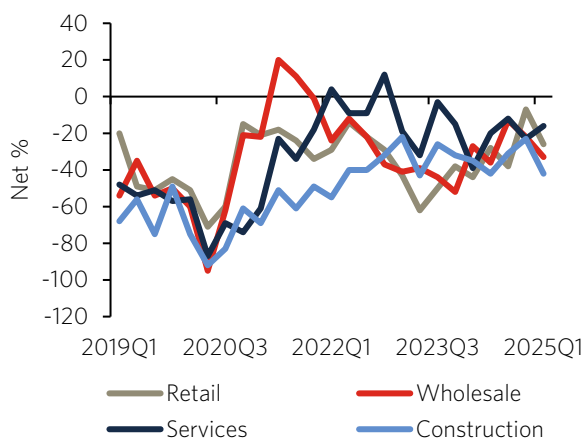
This is largely due to inflation moderating from 4.4% y/y in August 2024 to 2.8% y/y in April 2025.

However, nominal credit growth to corporates has also been shifting higher, averaging 5.3% over the past nine months compared to 3.8% in the nine months prior. This has contributed to higher real credit extension and the trend reflects the lower cost of financing from the interest rate cuts implemented by the SA Reserve Bank. In April, real credit extension to corporates rose by 3.2% y/y partly due to low base effects.

Rising credit extension has not translated to higher fixed investment as fixed investment has remained weak and averaged negative 1.3% over the past seven months.

“ This suggests that credit may be supporting firms’ financial positions rather than funding expansion, particularly in the low-growth environment. ”

Chart 4: Profitability lower across the sectors



Source: BER, Momentum Investments

In the sector-specific BER surveys for the first quarter, most sectors reported a decline in profitability (see chart 4) which indicates the financial strain of corporates. A notable exception was the services sector, where slightly fewer respondents indicated lower profitability, but the majority still reported lower profitability.

Some pressures on business sentiment wane but concerns persist

Stability in the business confidence index at 45 points in the first quarter of 2025 masked broad-based weakness which emerged in the second quarter survey.

A majority of the factors that weighed on confidence in the second quarter have largely subsided. Ramaphosa described his visit to Washington to mend diplomatic relations as successful, the proposed VAT hike was reversed and there is commitment from GNU partners to continue working together.

Nevertheless, pressures remain including weak global growth and an uncertain global environment. By the time of the next survey, the 90-day pause on reciprocal tariffs would have expired but the situation around tariffs remains fluid. Furthermore, despite GNU partners voicing their commitment, manufacturers still view the political climate as a constraint.

The drop in business confidence is negative for an already weak economy and declining fixed investment. We forecast fixed investment growth of negative 0.9% in 2025 and subdued economic growth of 1.2%.

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