

ECONOMIC OVERVIEW

Global Economic Outlook

Global economic growth (1)

- The July 2026 World Economic Outlook (WEO) reflects a partial but uneven stabilisation relative to April, as the initial drag from the US-Iran war is increasingly offset by an accelerating AI-driven technology cycle. Adjustments to countries' growth outlooks vary with exposure to the war and to the technology value chain.
- Global growth is now projected at 3.0% in 2026 (down 0.1 %pt from April's 3.1%) before recovering modestly to 3.4% in 2027 (up 0.2 %pts from April's 3.2%).
- Against a backdrop of elevated energy prices and uncertainty over the conflict's duration, the IMF forecasts global headline inflation is expected to rise from 4.1% in 2025 to 4.7% in 2026, before easing to 3.9% in 2027. Importantly, inflation projections over the forecast horizon have seen slight upward revisions from April.
- Risks are now judged more balanced relative to April but still tilted to the downside.
  - Peak oil prices proved less severe than anticipated at the time of the April update, but ongoing skirmishes between the US and Iran remain disruptive to global energy markets and supply chains. However, developments since July suggest that the energy shock has also proved more persistent, with oil prices subsequently moving back towards $100/bbl. This sits above the IMF's July baseline assumption of an average oil price of around $89/bbl in 2026 and keeps energy-price risks firmly in focus.
  - The global impact remains highly uneven. Energy-importing economies with limited exposure to the technology upswing remain particularly vulnerable, while economies more closely integrated into the AI and technology value chain have benefitted from stronger investment and demand.
  - The July revisions reflected this divergence, with the US outlook proving comparatively resilient and several Asian economies benefiting from the stronger technology cycle, while a number of economies more exposed to the energy shock saw weaker outlooks.

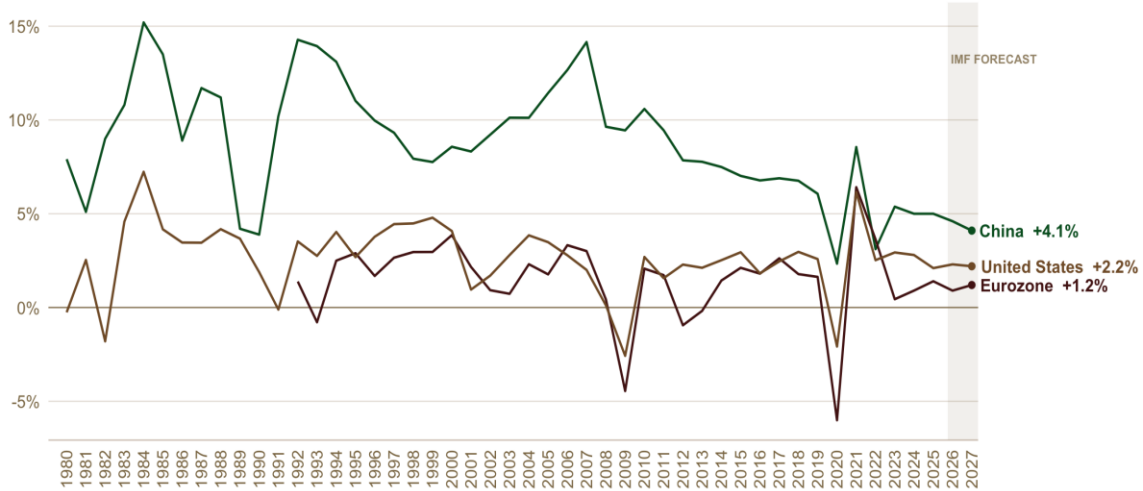
The WEO July '26 Projections

y-o-y %	2024	2025*	2026	2027
World GDP (PPP**)	3.3	3.5	3.0	3.4
Advanced economies	1.8	1.9	1.7	1.8
US	2.8	2.1	2.3	2.2
Eurozone	0.9	1.4	0.9	1.2
United Kingdom	1.1	1.4	1.0	1.3
Germany	-0.5	0.2	0.7	1.0
Japan	0.1	1.1	0.6	0.7
Emerging countries	4.3	4.5	3.8	4.5
China	5.0	5.0	4.6	4.1
India	6.5	7.7	6.4	6.7
Brazil	3.4	2.3	2.4	2.2
Russia	4.3	1.0	1.1	1.1
Sub-Saharan Africa	4.1	4.5	4.3	4.5
Nigeria	4.1	4.0	4.1	4.3
South Africa	0.5	1.1	1.1	1.3

Source: IMF, World Economic Outlook (July 2026). *Estimate, **Purchasing power parity

Annual Real GDP Growth

% y-o-y



Source: IMF, World Economic Outlook (July 2026). 2026-27 are IMF forecasts

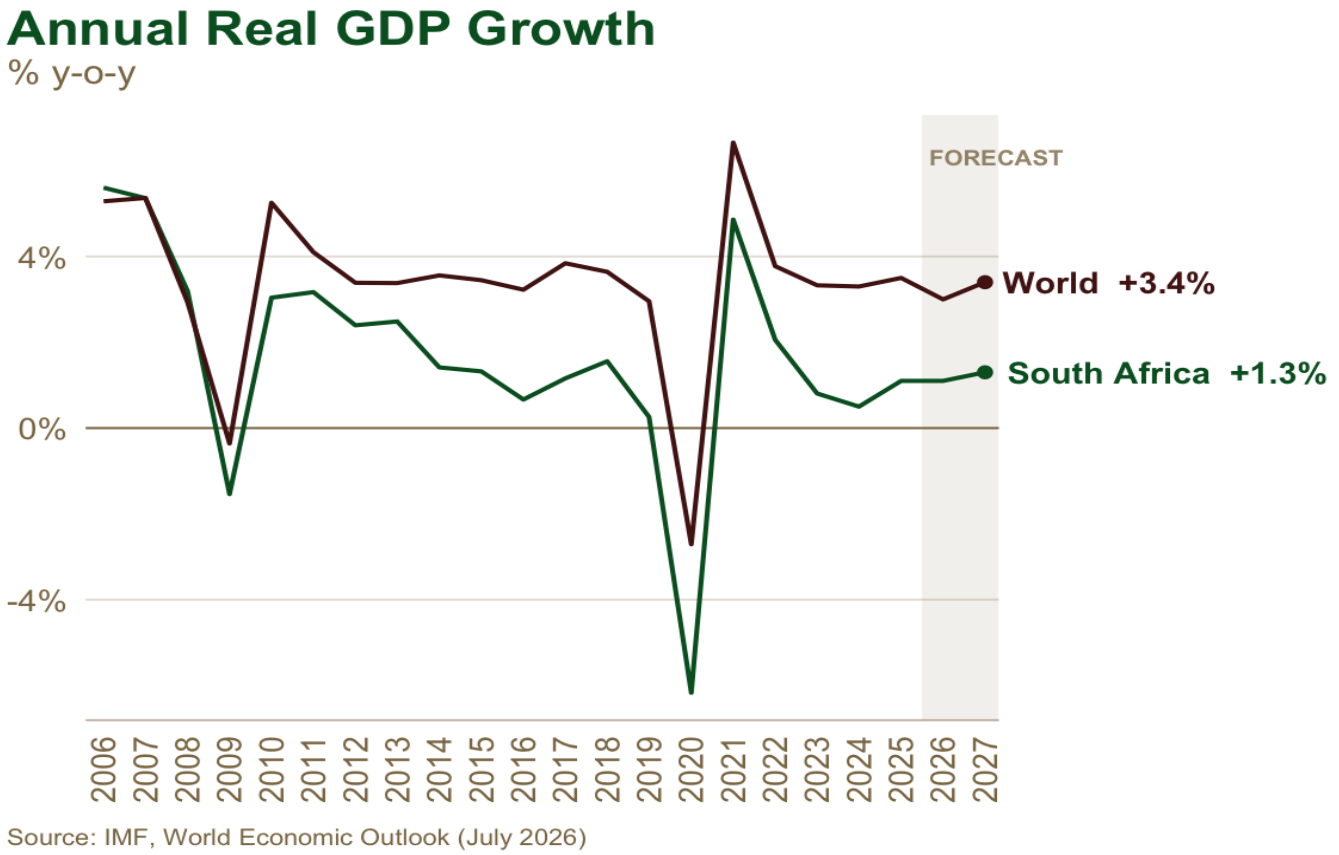
Global growth buoyed by AI-demand amid supply shock

- *"Global Economy in Crosscurrents of War and Technology" – IMF WEO July 2026*
- US: Real GDP growth slowed to 1.5% q-o-q (annualised) in 26Q2 from an upwardly revised 2.1% in Q1, as AI-related capital goods imports subtracted 1.1 %pts. Consumer spending rebounded to 3.4% and non-residential investment grew 8.5%, but spending is expected to moderate as tax-refund support fades and energy prices stay high.
- Eurozone: Growth accelerated to 0.6% q-o-q in Q2 (0.3% excluding Ireland), supported by exports amid weaker consumption and investment. Summer heatwaves and 50 bps of ECB rate hikes are expected to weigh on Q3.
- UK: GDP grew 0.4% q-o-q in Q2 (Q1: 0.6%) and 0.4% m-o-m in July, with AI-related activity lifting services – supporting the upward revision to the UK's outlook in the July WEO.
- Japan: Growth slowed to 1.4% q-o-q (annualised) in Q2 as private consumption stalled. The yen hit a 40-year low, prompting a rare US-Japan joint intervention, while 10-year yields rose above 3%. Tightening global financial conditions are a significant downside risk.
- China: Growth slowed to 4.3% y-o-y in Q2 (Q1: 5%), the weakest since 2022Q4, with weak July retail sales and industrial output. The IMF nevertheless lifted China's 2026 forecast by 0.2 %pts to 4.6% on strong tech-related manufacturing and exports.
- Sub-Saharan Africa: Growth is expected to remain stable at 4.3% in 2026, with SA at 1.1%. Higher fuel and fertiliser prices weigh on oil importers and threaten agricultural output and food security.

Gap between SA & global GDP

- The decoupling of SA's growth from global growth since 2010 largely reflects domestic constraints, including persistently weak business confidence and private fixed investment, high unemployment and subdued household income growth. These constraints were subsequently compounded by the pandemic, the worsening electricity crisis and heightened political uncertainty.

- The growth gap remains pronounced over the forecast period, with SA growth expected to remain well below global growth despite a modest domestic recovery.



Source: IMF, World Economic Outlook (July 2026)

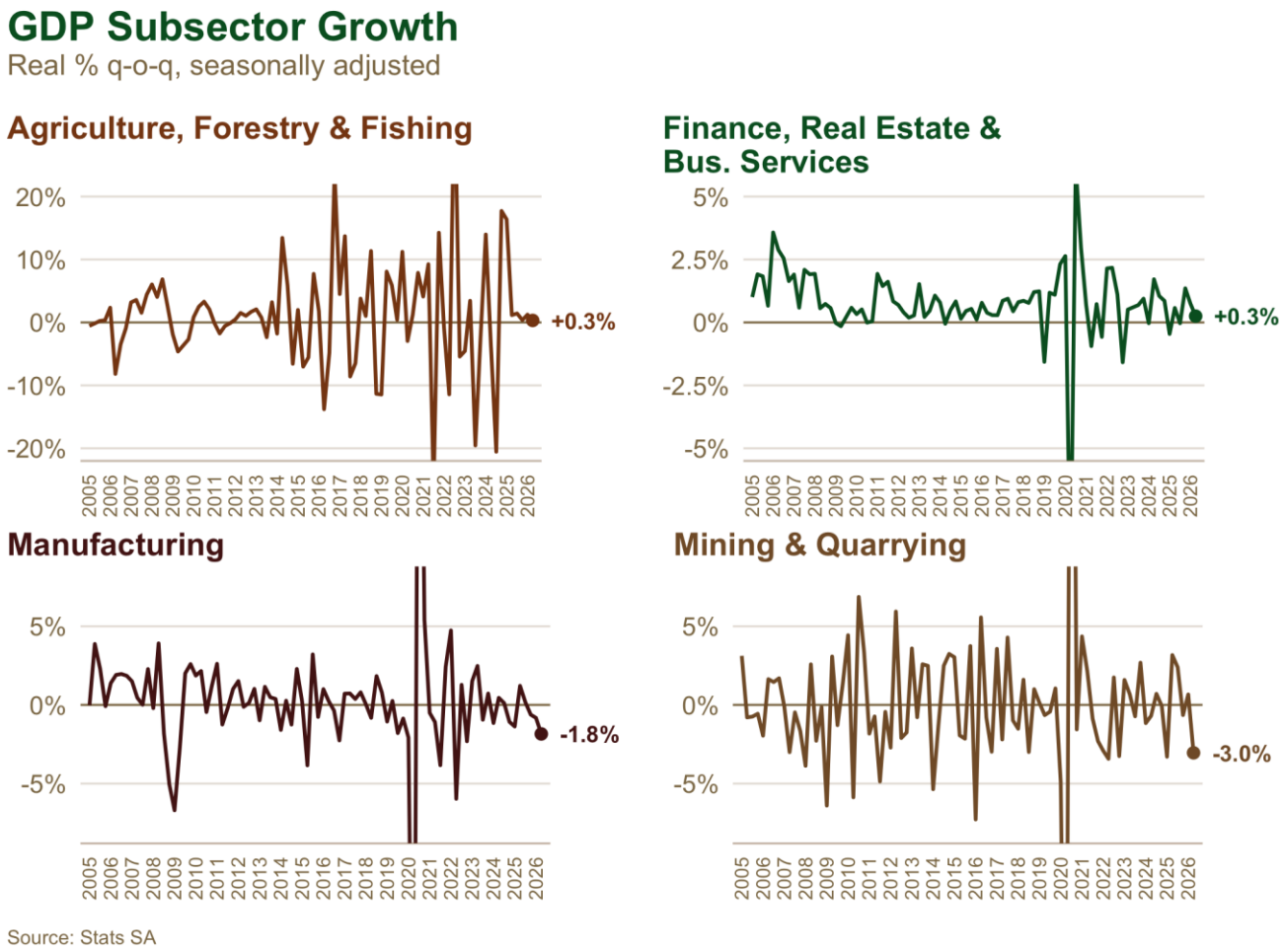
Domestic Economic Outlook

SA growth contracts in Q2

- Measured from the production side, South Africa's GDP contracted by 0.2% q-o-q (seasonally adjusted) in 2026Q2, following a 0.4% expansion (revised from 0.5%) in 2026Q1.

- Seven industries recorded positive growth between the first and second quarters.
  - Transport, finance, government services and personal services all contributed 0.1%pts, increasing by 0.3%, 0.3%, 1.0% and 0.6% respectively.
  - The remaining positive contributors all contributed less than 0.05%pts: agriculture, forestry, and fisheries (expanding by 0.3%); electricity, gas, and water (1%); and construction (0.4%).
  - Mining, manufacturing and trade contracted by 3%, 1.8% and 1.9% respectively, shaving off -0.1%pts, -0.2%pts and -0.2%pts respectively.

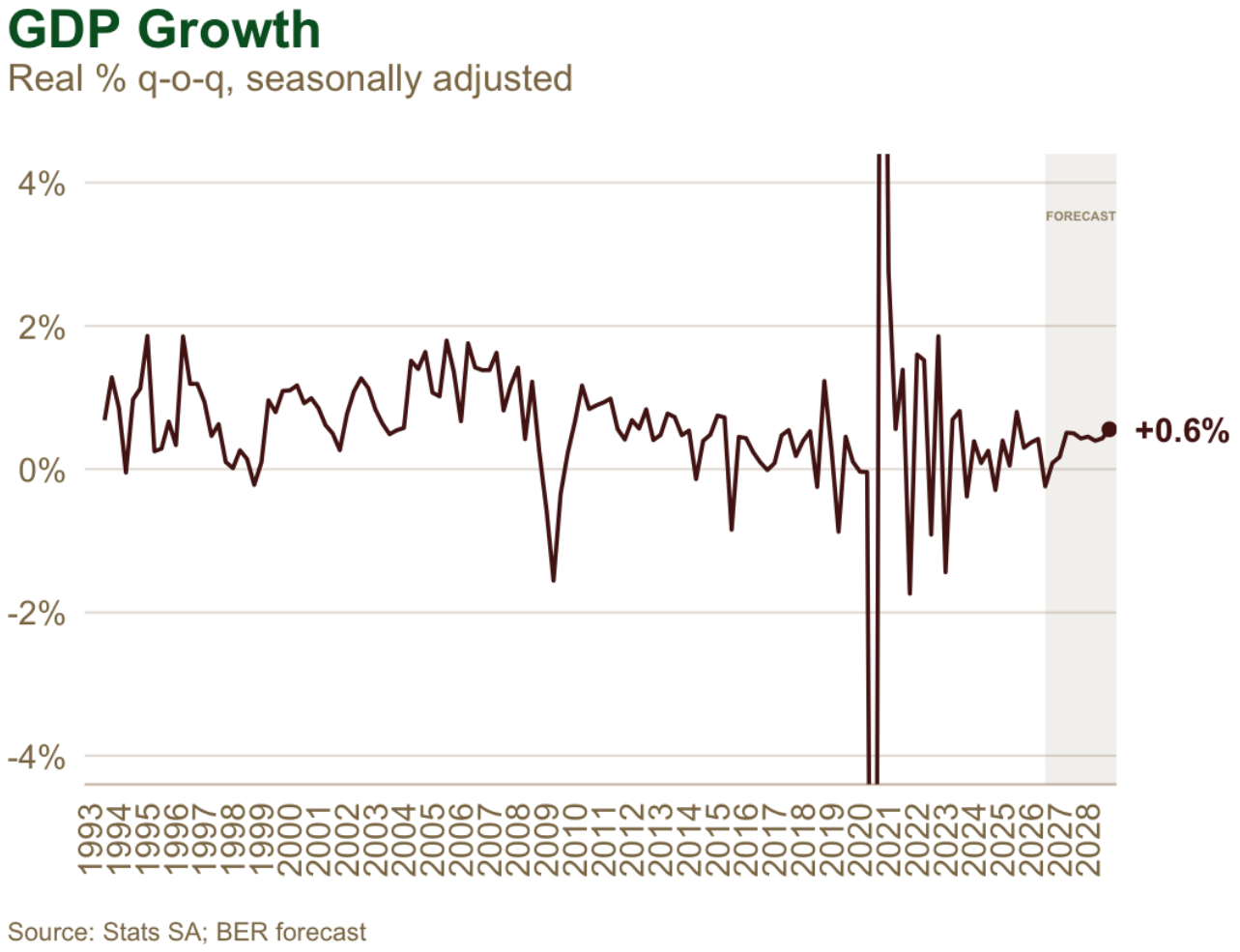
- GDP expanded by 0.9% between 2025Q2 and 2026Q2 (unadjusted).



SA growth contracts in Q2 (2)

- Measured from the demand side, net exports were the biggest drag on growth this quarter.
  - Household final consumption expanded by 0.4% q-o-q, adding 0.3 %pts – the ninth consecutive quarter of positive growth in consumption.
  - Government final consumption expenditure was up by 0.4%, contributing 0.1 %pts to growth.
  - Changes in inventories contributed 0.6%pts to growth.

- These increases were offset by declines in investment and net exports.
  - Exports rose 0.9% (adding 0.2 %pts), while imports rose 4.9% (subtracting 1.3% points). Net exports therefore subtracted around 1.1 %pts from growth.
  - Gross fixed capital formation declined by 0.2% q-o-q, making virtually no contribution to the quarterly growth rate.
  - In year-on-year terms, real GDP growth measured from the expenditure side was 0.8%.



Manufacturing production

- Seasonally adjusted manufacturing production declined by 1.5% q-o-q in 2026Q2, following a 0.8% decline in Q1, with seven of the ten subsectors contracting.

- Food and beverages, furniture and other manufacturing, and metals and machinery were the largest drags; only petroleum and chemical products and textiles, clothing and footwear contributed positively.

- In annual terms, output shrank by 3.1% y-o-y, led by wood products, paper, publishing and printing (-10.6%), basic iron and steel (-3.6%) and food and beverages (-3.2%).

- Activity picked up in July: output (s.a.) rose 2.2% m-o-m and 1.1% y-o-y – the first annual expansion since March – led by food and beverages (+4.1%) and petroleum, chemical and plastic products (+3.2%).

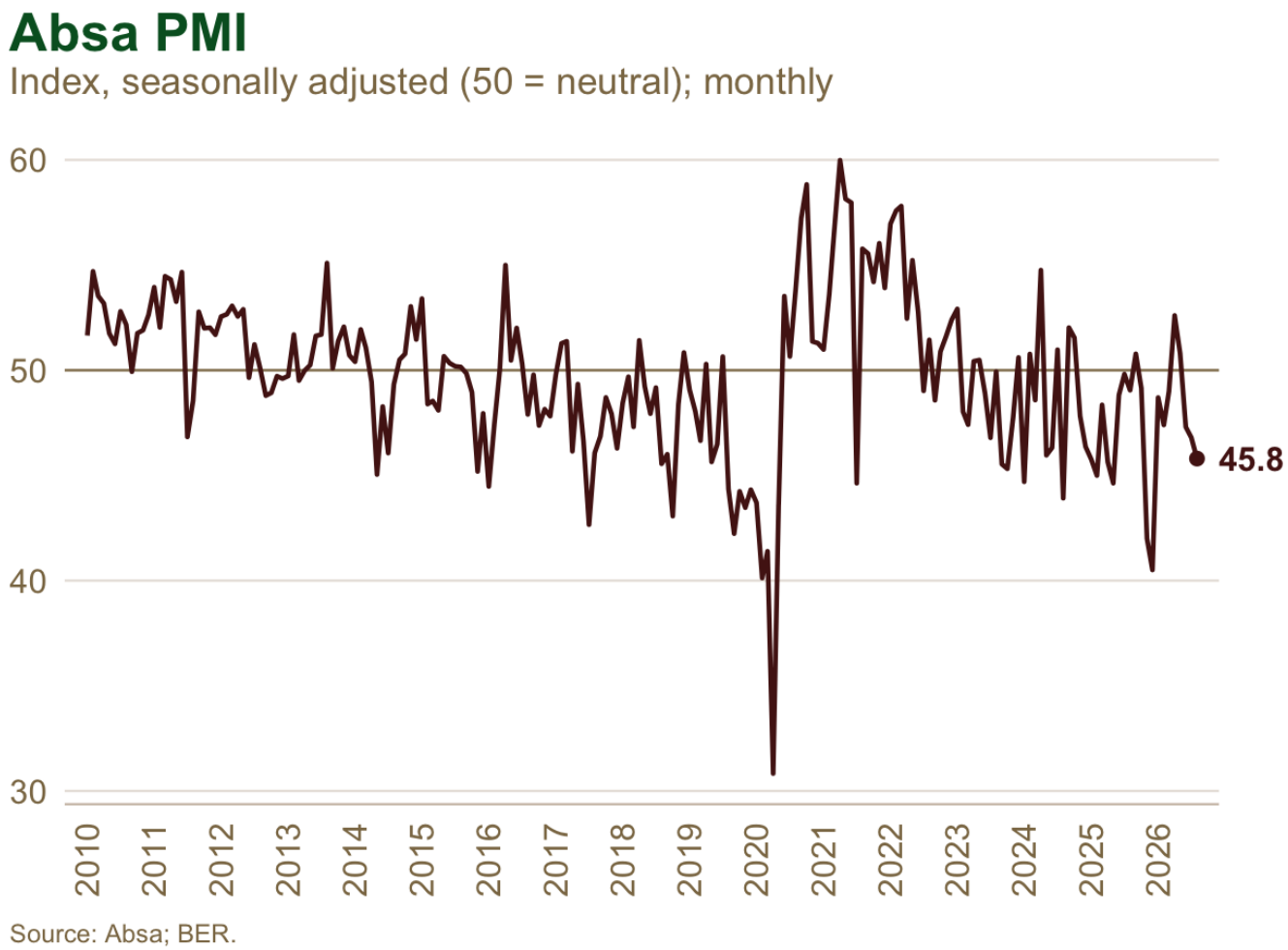
Manufacturing Subsectors, 2026Q2

Manufacturing subsector	Weight	q-o-q %	y-o-y %
Food and beverages	22.19	-3.0	-3.2
Textiles, clothing, leather and footwear	3.68	+2.3	+3.2
Wood and wood products, paper, publishing and printing	9.98	-1.3	-10.6
Petroleum, chemical products, rubber and plastic products	23.91	+1.0	+1.5
Glass and non-metallic mineral products	3.11	-3.3	-3.6
Basic iron and steel, non-ferrous metal products, metal products and machinery	21.85	-1.2	-3.9
Electrical machinery	2.15	-4.1	+0.1
Radio, television and communication apparatus and professional equipment	1.00	+2.4	-0.2
Motor vehicles, parts and accessories and other transport equipment	7.84	-3.1	-6.8
Furniture and other manufacturing	4.29	-9.3	-3.5
Total manufacturing	**100.00**	**-1.5**	**-3.1**

Source: Stats SA (July manufacturing production and sales); BER calculations

PMI declines in August

- The seasonally adjusted Absa Purchasing Managers' Index (PMI) declined by 1 point to 45.8 in August. Respondents noted subdued demand, slow deliveries, port delays, and higher freight and delivery costs.
- Business activity declined sharply by 8.6 points to 40.2. New sales orders similarly declined from 44.1 to 40.3. The deterioration was largely driven by domestic demand, particularly influenced by weak consumer confidence and lower spending on non-essential goods.
- The employment index improved from 42.2 to 46.2, while the index measuring expected business conditions in six months' time rose from 49.3 to 54.7 – back in expansionary territory, though still below the 68.8 reading before the escalation of tensions in the Middle East.
- The purchasing price index was unchanged at 67.2 and is lower than the high of 84.8 seen in May. This is still a substantial increase in cost pressure relative to the all-time lows at the start of the year.



Business confidence declines in Q3

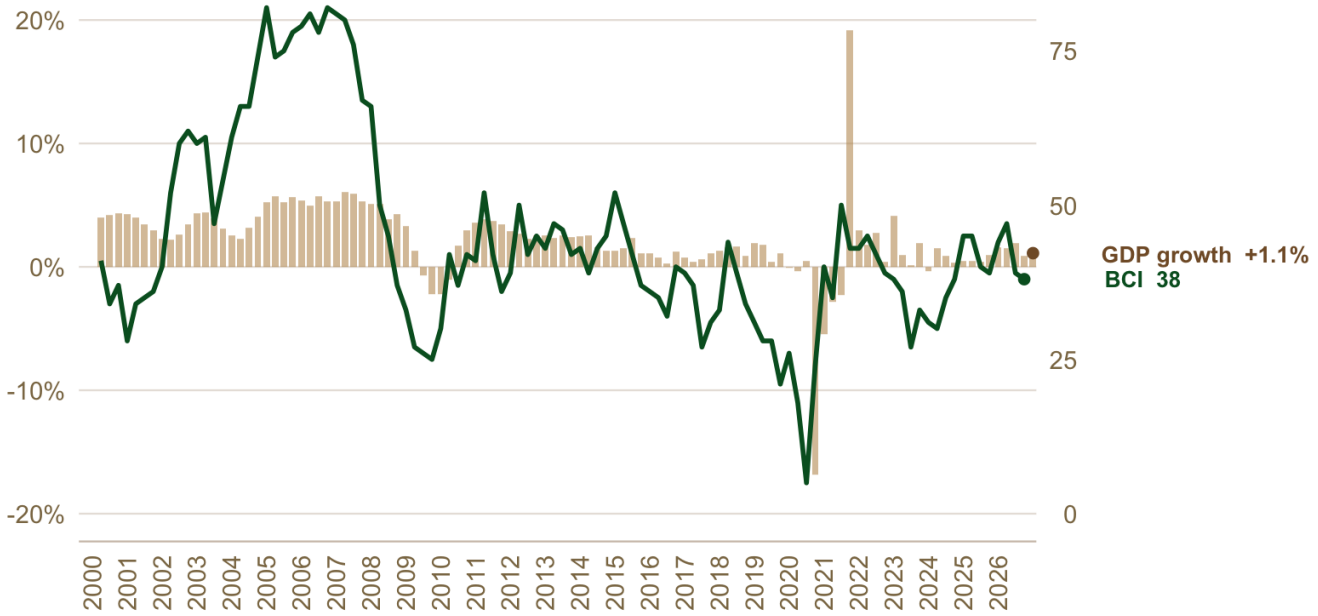
- The RMB/BER Business Confidence Index declined by a further one point to 38 in Q3. Some immediate pressures from the situation in Iran have eased, but geopolitical and trade uncertainty remain elevated, alongside weak demand.

- Four of the five sub-indices deteriorated relative to 2026Q2:
  - Wholesale confidence fell by 1 point to 39, 6 points below its long-run average of 45.
  - New vehicle dealers fell by 11 points to 38, from the 13-year high of 67 in Q1.
  - Retail confidence improved by 9 points to 40, as sales of consumer goods held up better.
  - Building contractors fell by 1 point to 45, on weaker government-related activity.
  - Manufacturing confidence fell by 4 points to 27, as weak domestic and export demand persisted.

- On the upside, domestic new vehicle sales rose 11.4% y-o-y in August, partly offset by an 11.9% contraction in exports. Higher fuel prices, inflation and the recent rate hike may slow domestic sales in the near term.

Business Confidence & GDP Growth

GDP growth, real % y-o-y (lhs) & RMB/BER Business Confidence Index (rhs)



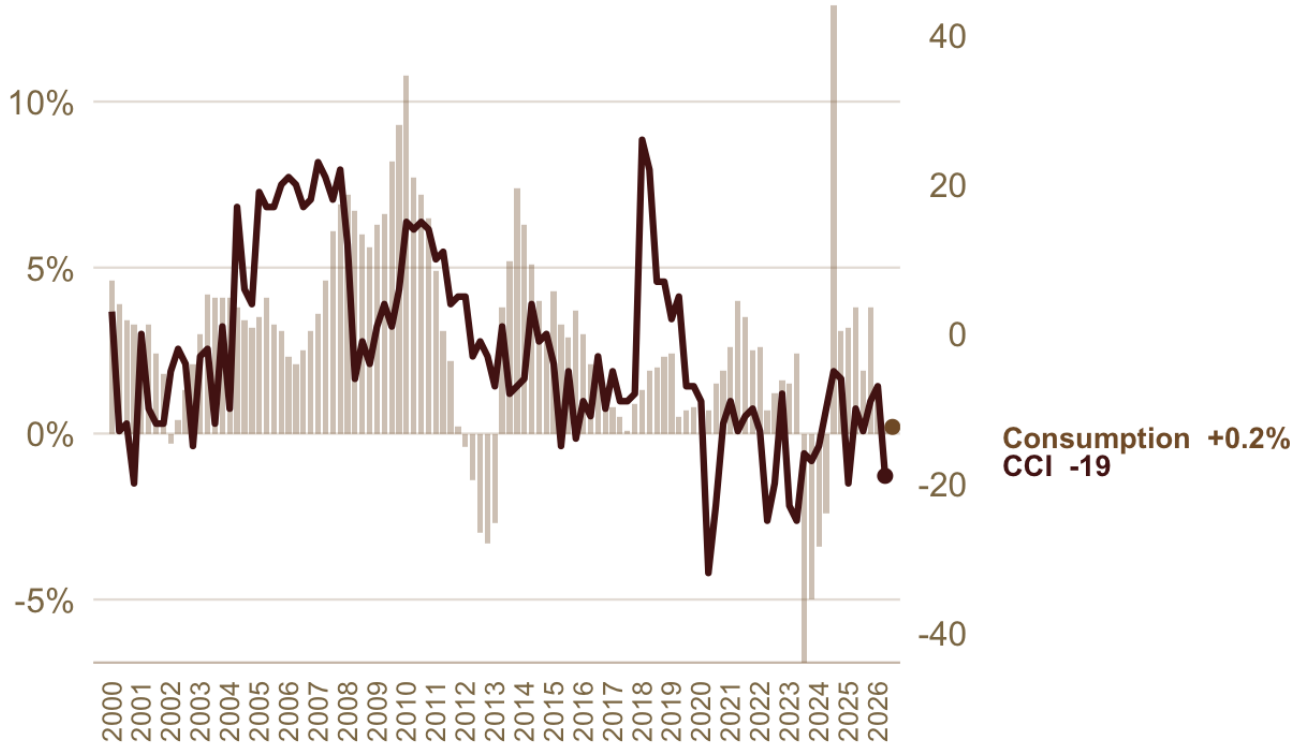
Source: Stats SA; BER

Consumer confidence nosedives in Q2

- The FNB/BER Consumer Confidence Index (CCI) deteriorated sharply in Q2, falling by 12 points from -7 to -19, as surging fuel prices following the Iran conflict weighed on household budgets, particularly among higher-income consumers
- The decline was driven by the current general economic outlook, down 18 points to -32, and the household financial outlook, down 12 points to 0. The suitability of the present time to buy durable goods was slightly lower at -24, compared to -21 in Q1.
- Sentiment declined most among high-income households (from -4 points to -28). It deteriorated for middle-income households from -7 to -19. It was unchanged at -12 for low-income households.
- The overall decline is largely an Iran war issue, with the surge in fuel prices and the hike in the interest rate constraining household spending ability.
- Some of these pressures have eased since then, but elevated fuel prices, higher inflation and the less favourable interest-rate outlook suggest that any recovery in consumer confidence is likely to be gradual rather than immediate.

Consumer Confidence

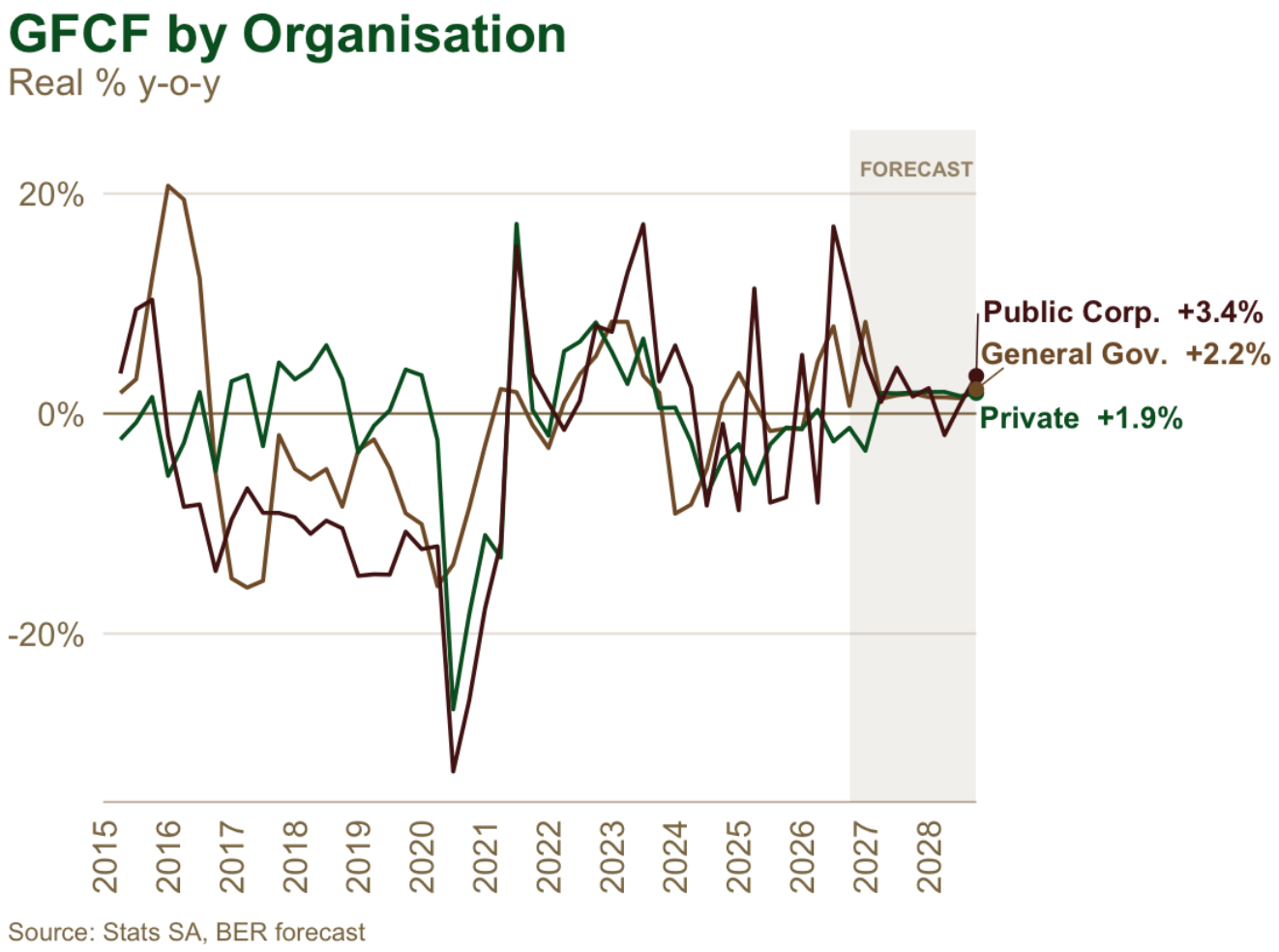
Household consumption, real % y-o-y (lhs); FNB/BER CCI, index net % (rhs)



Source: Stats SA, BER

Fixed investment declines further

- Real gross fixed capital formation (GFCF) decreased by 0.2% q-o-q in Q2, following a 1.0% contraction in Q1, making virtually no contribution to GDP growth.
- The largest drag was a 4% quarterly decrease in construction works (-0.7%pts), with further declines in transport equipment, transfer costs and other assets.
- These were partially offset by increases in residential and non-residential investment, and machinery and other equipment.
- By organisation, general government capital formation rose 7.9% y-o-y and public corporation investment 17.6%, while private-sector capital formation contracted by 2.6%.
- Construction sector GVA expanded 0.4% q-o-q in 2026Q2, while FNB/BER Civil Confidence was unchanged at 43 points; improved order books point to a pickup in work in the coming months.



Source: Stats SA, BER forecast

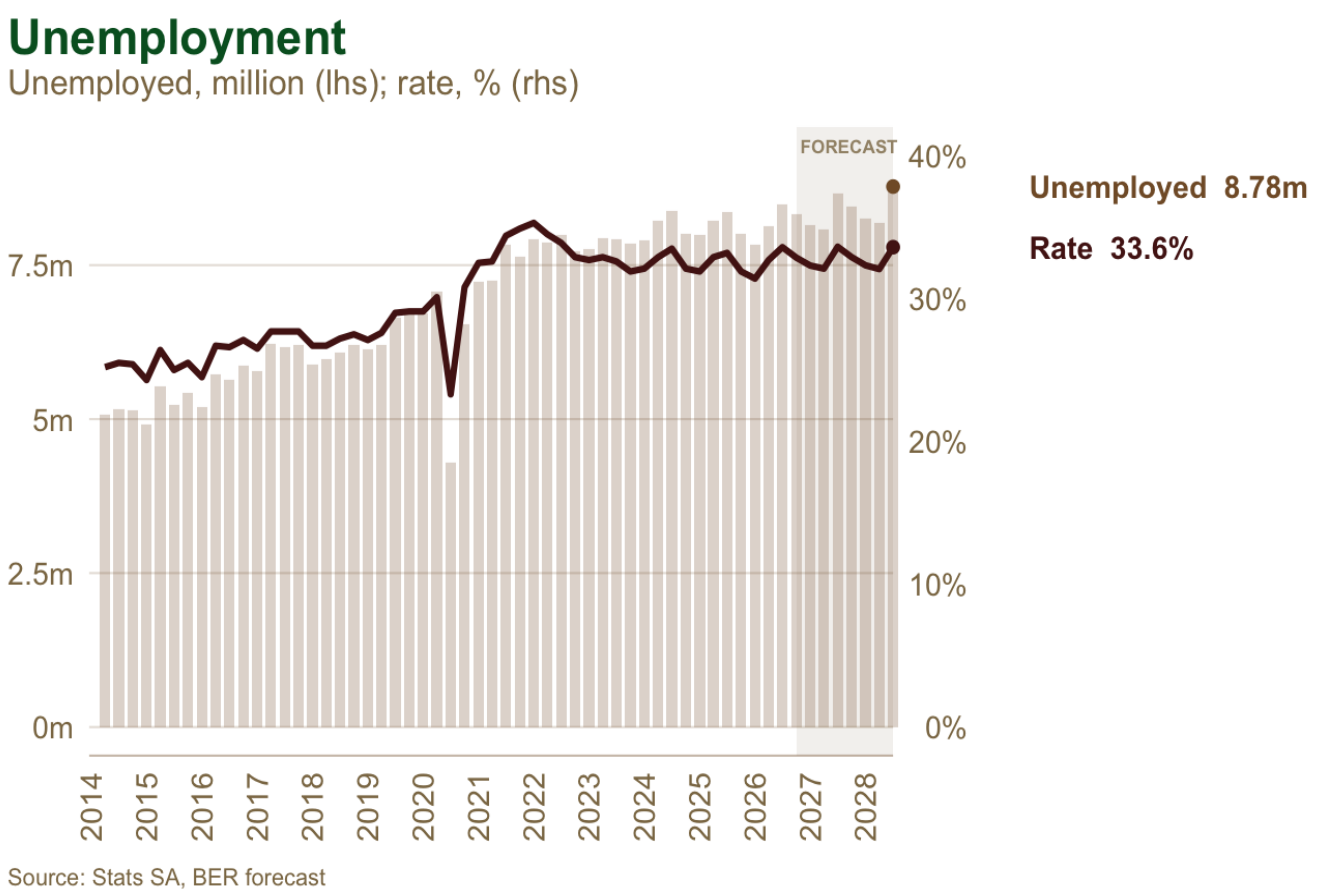
Unemployment rate increases in Q2

- According to Stats SA's latest QLFS, the official national unemployment rate ticked up to 33.6% in 2026Q2, from 32.7% in Q1.

- Employment declined by 16k jobs in Q2 relative to Q1. Recent changes to Stats SA's reporting methodology have altered the classification of employment across the formal, informal and household sectors, so sectoral figures should be interpreted with caution.
  - Formal sector employment declined by 41k jobs. Similarly, employment in private households decreased by 9k jobs. Informal sector employment increased by 34k jobs.

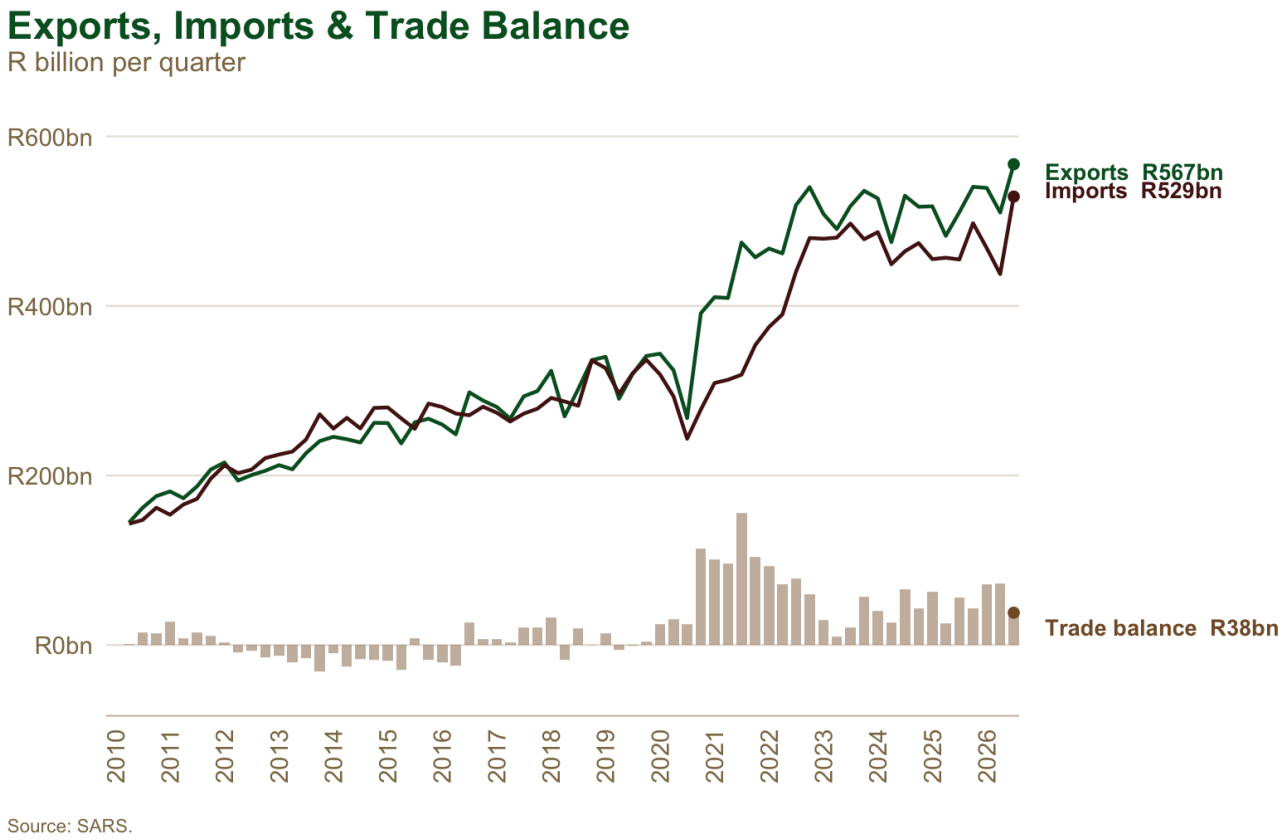
- The number of people outside the labour force declined by 208k q-o-q, driven mainly by discouraged work-seekers (-227k). However, the overall labour force was up 329k, with 345k individuals classed as unemployed.

- Including the potential labour force, the combined rate of labour underutilisation (LU3) edged up to 43.8% in Q2, from 43.7% in Q1. Among youth aged 15–24, LU3 increased further to 72.4%, from an already elevated 71.9%.



SA trade surplus widens

- According to the SARB, SA's trade surplus narrowed from R428.8bn in Q1 to R146.4bn in Q2, as imports (+R376.6bn) rose far more than exports (+R92.3bn).
- The current account moved from a surplus of 2.3% of GDP in Q1 to a deficit of 2.6% (R205.5bn) in Q2.
- SARS's preliminary July trade surplus widened to R20.1bn from R17.8bn in June, as exports of motor vehicles, manganese and coal rose and petroleum imports fell.
- China remained SA's largest trading partner, taking 12.3% of July exports and supplying 23.7% of imports.
- Regional trade remains a key support: the surplus with the rest of Africa rose to R32bn in July (June: R20.4bn), and R11.1bn of the total surplus came from trade with Botswana, Eswatini, Lesotho and Namibia.



Structural Challenges

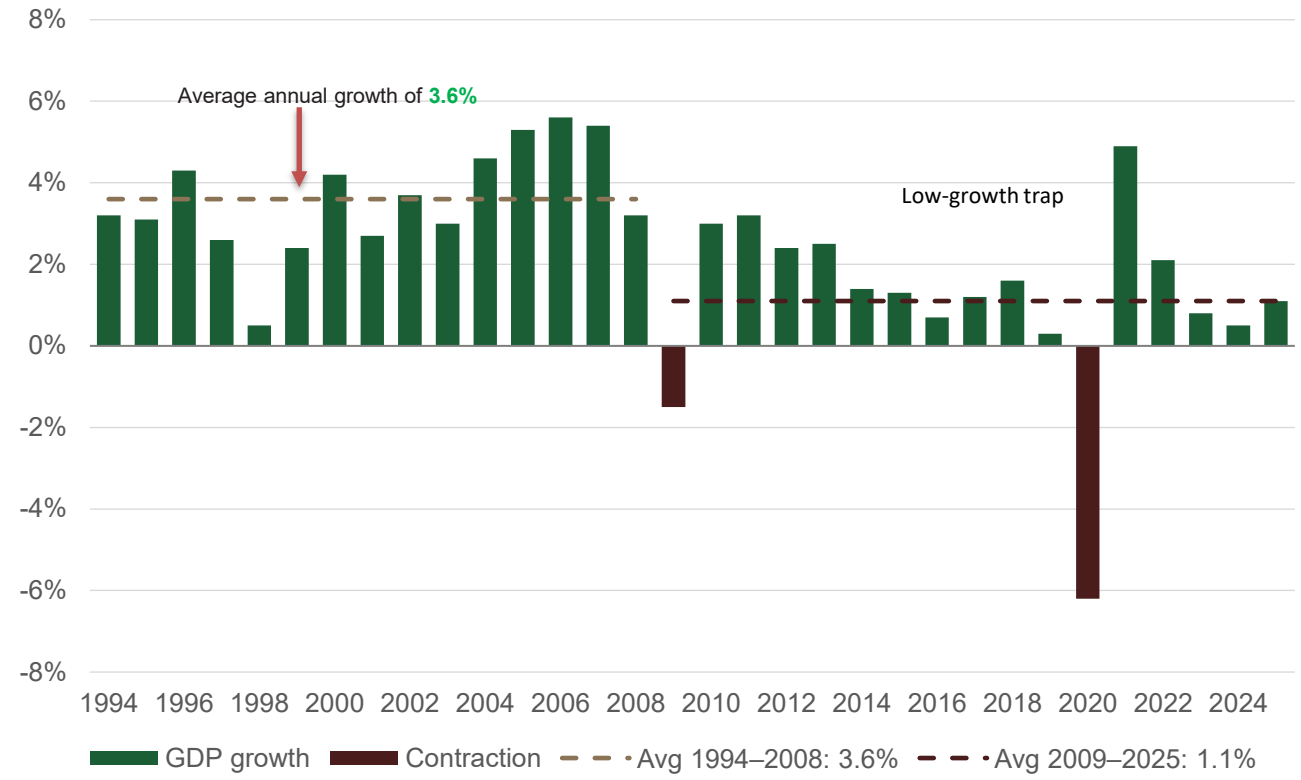
Growth stuck in a low-growth trap since 2009

- **1994–2008:** prudent fiscal and monetary policy, rising investment and the commodity boom lifted real GDP growth to an average of 3.6% a year, peaking at 5.4% a year in 2005–2007.
- **2009–2025:** growth averaged only 1.1% a year – and just 0.8% since 2014 – as the global financial crisis, load-shedding, COVID-19 and the 2021 unrest hit output.
- **Latest:** growth improved to 1.1% in 2025 (0.5% in 2024) as severe load-shedding ended, but GDP contracted by 0.2% q-o-q in 2026Q2.
- **NDP target:** the 5.4% average growth target for 2030 remains out of reach at the current pace.

> **Bottom line:** growth since 2009 has run at less than a third of the pre-crisis pace – lifting it requires structural reform, not just cyclical support.

From 3.6% to 1.1% a year

Real GDP growth, annual %; dashed lines = period averages



Source: Stats SA; averages calculated from annual real GDP growth

When the economy grows, unemployment falls

- **Mirror image:** years of stronger GDP growth coincide with lower unemployment, and vice versa (correlation of −0.45 over 1994–2025). The unemployment axis is inverted, so the lines move together.

- **Boom:** as growth averaged 4.8% a year in 2003–2007, unemployment fell from 26.6% (2002) to 21.0% (2007).
- **Bust:** each contraction pushed unemployment up – by 2.6 pp in 2009 (GDP −1.5%) and by 3.4 pp in 2020 (GDP −6.2%).

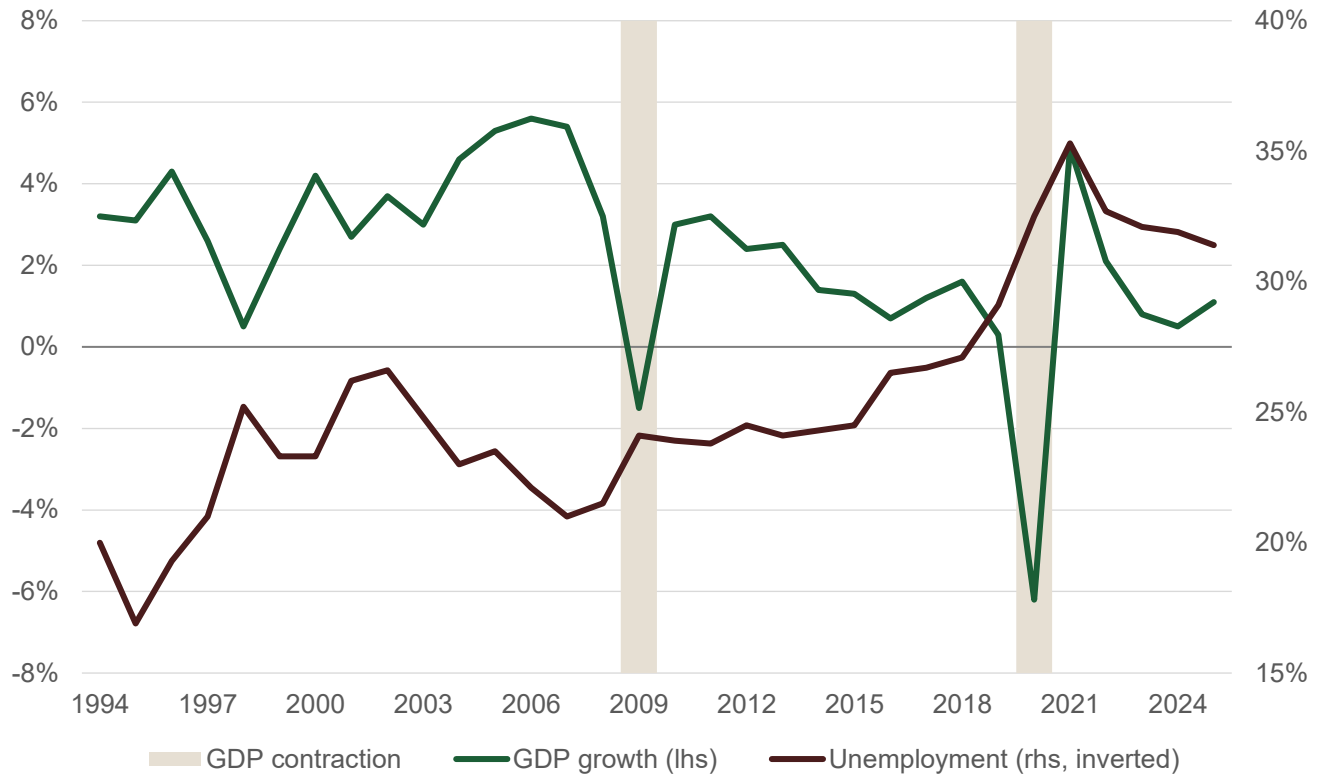
- **Stagnation:** with GDP growth below 2% in every year from 2014 to 2020, unemployment climbed from 24.3% to 32.5%, peaking at 35.3% in 2021.

- **Recovery:** the 2021–22 rebound helped bring unemployment down to 31.4% by 2025, but with growth back near 1% the decline has been slow.

Bottom line: when GDP growth picks up, unemployment comes down – and when growth stalls or contracts, joblessness rises.

Faster growth, lower unemployment

Annual %; GDP growth (lhs); unemployment rate (rhs, inverted)



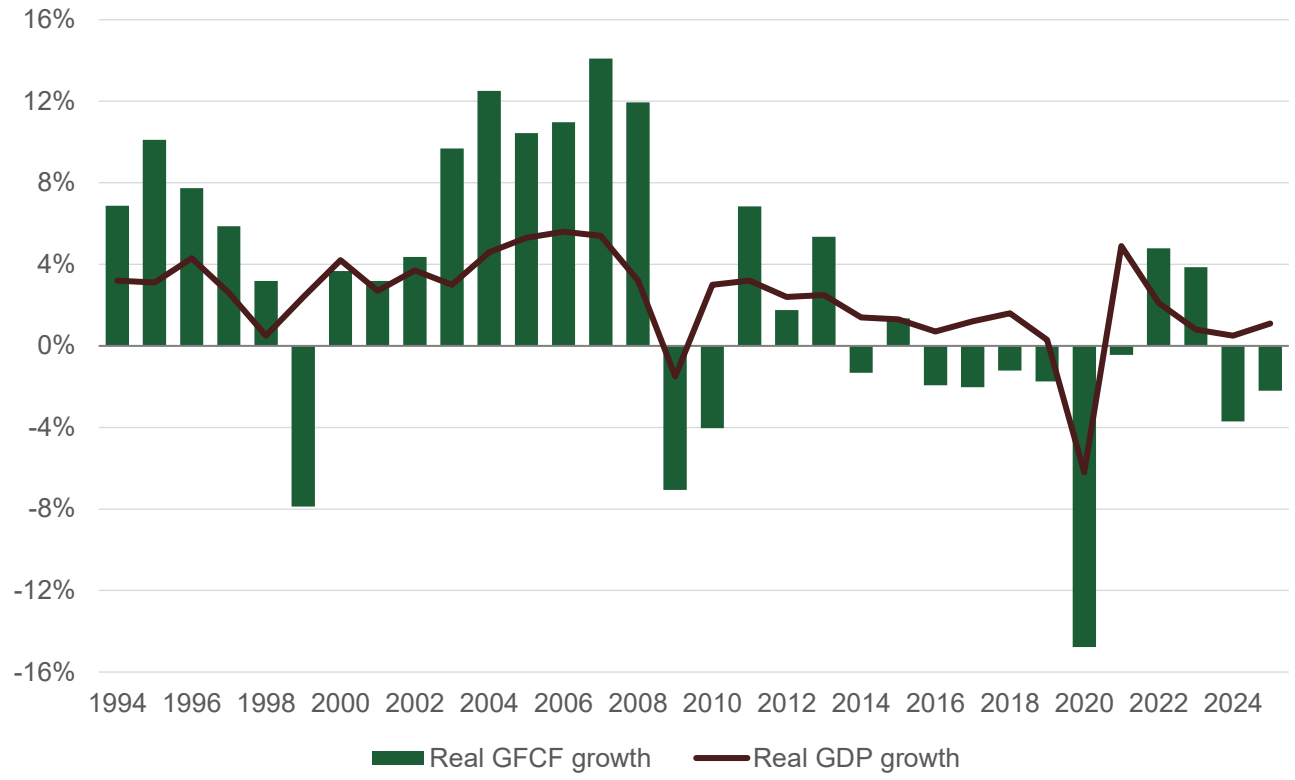
Infrastructure investment: the missing growth engine

- **Investment drove the boom:** real fixed investment (GFCF) grew by double digits every year from 2004 to 2008 (14.1% in 2007), when growth exceeded 5% and unemployment fell to 21%.
- **Steady decline since:** GFCF contracted by 3.7% in 2024 and 2.2% in 2025, and fell further in 2026Q1 (-1.0%) and Q2 (-0.2%).
- **Investment ratio:** nominal GFCF slipped from 14.9% of GDP in 2023 to 14.5% in 2024 and 13.9% in 2025 (SARB) – well below the NDP's 30% target.
- **Construction:** its share of value added has almost halved, from 4.2% in 2008 to 2.3% in 2025.

Bottom line: with unemployment at 33.6% in 2026Q2, reviving public and private infrastructure investment is a prerequisite for faster, job-rich growth.

Investment and growth move together

Real annual %; fixed investment (columns), GDP (line)



Source: SARB; Stats SA

Binding constraints and their implications

Key constraints

- **Economic & social infrastructure:** electricity supply has stabilised, but its cost, freight rail and port performance, water and sanitation, and broadband access still constrain output.
- **Regulatory processes:** opaque and slow, with no clear timelines – EIAs, water licences, access to land, local government regulations and ease of doing business.
- **Policy logjams & bottlenecks:** slow roll-out of priority high-impact projects; the Public Procurement Act was signed in July 2024, but its regulations were still in draft in 2026.
- **Capacity of the state:** uneven technical and implementation capability, weak accountability and co-ordination structures that need strengthening.

Implications for South Africa

- **Concentrated economy:** export earnings still rely on primary minerals and capital-intensive manufacturing.
- **Productive sectors under pressure:** mining (-3.0%) and manufacturing (-1.8%) contracted again in 2026Q2.
- **Joblessness:** labour-force growth outpaces job creation – unemployment reached 33.6% in 2026Q2 (43.8% incl. the potential labour force), versus 27.7% in 2017Q1.
- **Reliance on the state:** community, social & personal services (largely government) account for 27% of formal non-agricultural jobs (Dec 2025); public works programmes (EPWP, CWP) remain critical.
- **Social grants:** about 18.8 million permanent grants were in payment in March 2026, plus some 7.8 million SRD grant beneficiaries.

Bottom line: unless these binding constraints are addressed, growth will stay stuck near 1% a year and the economy will keep struggling to absorb new labour-market entrants.

Source: Stats SA (GDP, QLFS 2026Q2, QES Dec 2025); SASSA; National Treasury

Key observations

- The global economy has proved more resilient than initially feared following the escalation in the Middle East, but the outlook remains highly uneven. The energy shock has persisted, with Brent back above $100/bbl, although the AI-driven technology cycle continues to support parts of the global economy.

- South Africa's growth momentum weakened in Q2, with real GDP contracting by 0.2% q-o-q after Q1 growth was revised down to 0.4%. Domestic expenditure nevertheless held up better, with household consumption continuing to expand, while net exports were the main drag on headline GDP.

- The inflation picture has become more two-sided. Headline CPI eased sharply to 4.3% in July, but core inflation edged higher, and renewed oil-price pressure means fuel inflation is likely to reaccelerate in the coming months.

- Monetary policy has consequently become less supportive than envisaged at the start of the year. The SARB raised the policy interest rate by 25 bps twice in May and September. With oil prices elevated and inflation risks still tilted to the upside, a November hold remains the most likely outcome, although the hurdle for further tightening has increased.

- Business conditions remain subdued. The RMB/BER BCI slipped to 38 in Q3, while the Absa manufacturing survey points to persistent weakness in both domestic and export demand. There are, however, pockets of resilience, including household consumption and the domestic new-vehicle market, while firms' expectations have improved somewhat from the lows reached during the Q2 shock.

- Beyond the cycle, structural constraints remain the binding drag on growth. Infrastructure, regulatory and state-capacity bottlenecks, together with a fixed-investment ratio of only 13.9% of GDP, have kept growth near 1% a year since 2009 and unemployment above 30%. Faster implementation of structural reforms is critical to lift investment and job creation.