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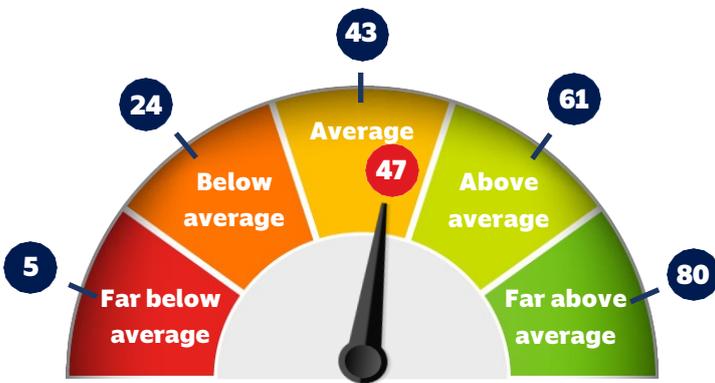


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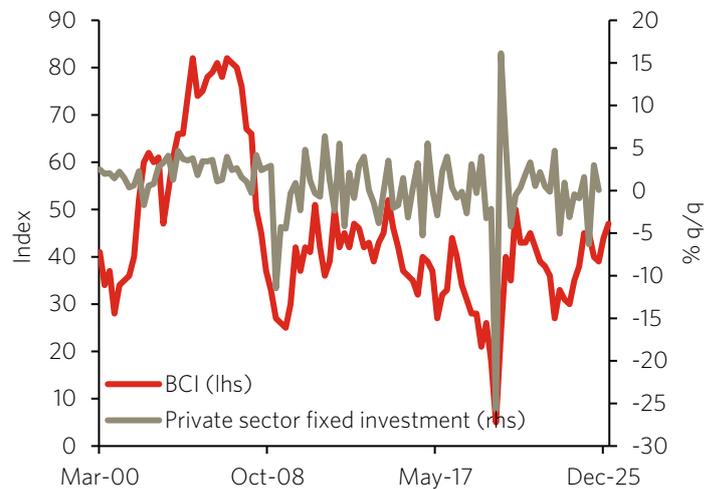
Business pulse: Sentiment up, but Middle East risks linger

Business Confidence Index (BCI)

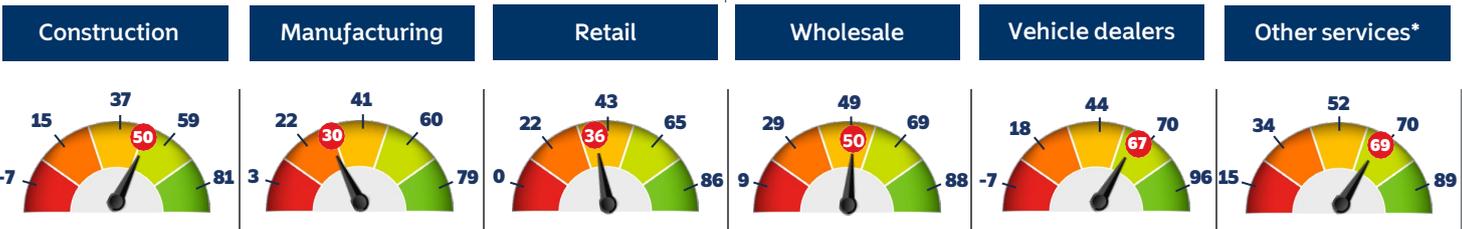


Source: Bureau for Economic Research (BER), Momentum Group
Far below (above) average = 2 standard deviation (std. dev.) below (above) average
Below (above) average = 1 std. dev. below (above) average
Red circle = current quarter's index

From confidence to capital



Source: BER, Statistics South Africa (Stats SA), Momentum Group



Source: BER, Momentum Group

* Survey has a quarter lag

So what?

Business confidence increased in the first quarter of 2026 but escalated conflict between Israel/United States (US) and Iran could weigh on business sentiment in the second quarter of 2026. Furthermore, the geopolitical tensions in the Middle East introduce further downside risks to our revised economic growth expectation of 1.5% in 2026. This is mainly through higher oil prices, which may drive up inflation and delay interest rate cuts, if sustained. Furthermore, rising freight and insurance costs, along with a

weaker rand, will increase import prices and inflation, likely slowing consumer spending and overall economic growth. For 2025, we maintain our growth forecast of 1.2% given an expectation of modest growth in the fourth quarter of 2025. Our projection of better growth in 2026 is underpinned by ongoing support from households and a return to growth in fixed investment, though we acknowledge downside risks from the rising geopolitical tensions.

Three of the five sectors recorded improved sentiment in the first quarter of 2026

Businesses reflected an improvement in sentiment with the BER's BCI increasing from 44 points in the fourth quarter of 2025 to 47 in the first quarter of 2026.

“ While business conditions are still deemed as unfavourable (index below 50), the improvement lifted the index closer to the 50 neutral mark. This was the highest level since the second quarter of 2021.

The BER indicated that the survey took place from 12 to 23 February 2026, coinciding with a well-received State of the Nation Address (12 February) and positive media coverage of the fiscal position ahead of the Budget Review (25 February). Furthermore, during this period, the rand strengthened and inflation moderated supporting the view of further interest rate cuts and thus lifting sentiment.

Building contractors, wholesalers and new vehicle dealers reported improved sentiment in the first quarter with all three sectors now at or above the neutral level (50) (see table 1). This offset the declines from manufacturers and retailers.

Building contractors recorded the biggest increase from 39 points to 50. BER noted that the 'improvement

was supported by an improvement in activity, although the non-residential sector continues to outperform the residential sector'.

New vehicle trade dealers (the most optimistic sector) were likely encouraged by prospects of further interest rate cuts. Support directed to consumers in the Budget Review will likely provide further support to the sector.

The drop in confidence reported by manufacturers (the most downbeat of all the sectors) is in line with weak manufacturing production growth. However, the drop reported by retailers is surprising considering robust retail sales growth in 2025. The BER reports that sales volumes fell for non-durables and durables, but semi-durables saw a slight improvement in the first quarter of 2026.

Table 1: Three sectors now at or above the neutral level

	2025Q4	2026Q1	Change
BCI	44	47	3
Building contractors	39	50	11
Manufacturers	39	30	-9
Retailers	43	36	-7
Wholesalers	42	50	8
New vehicle dealers	58	67	9

Source: BER, Momentum Investments

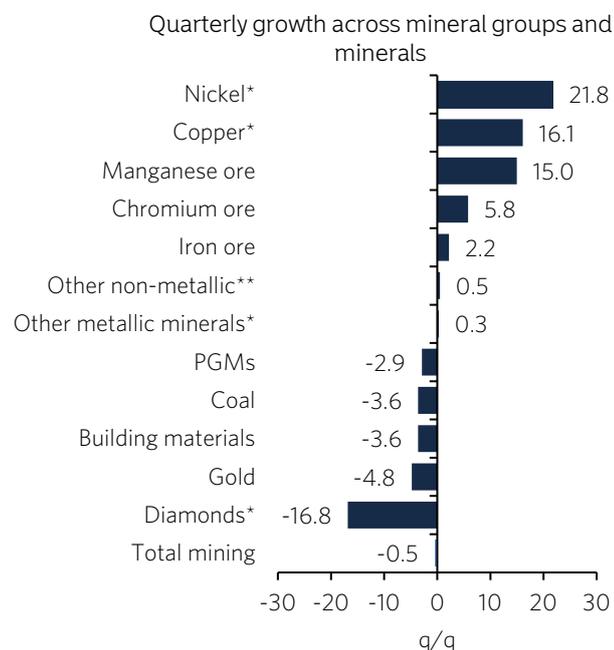
Weak industrial production will weigh on economic growth in the fourth quarter of 2025

“ Mining and manufacturing production decreased in the fourth quarter of 2025 while the construction sector showed mixed results.

Seasonally adjusted mining production declined by 0.5% quarter-on-quarter (q/q) in the fourth quarter of 2025, following robust growth of 3.6% q/q in the second quarter and 2.6% q/q in the third quarter. Five of the 12 mineral groups and minerals declined (see chart 1) with

the contraction primarily driven by declines in coal (negative 3.6% q/q, detracting 0.9 of a percentage point (pp)) and Platinum Group Metals (PGMs, negative 2.9% q/q, detracting 0.8pp). Diamond production recorded a particularly sharp drop (negative 16.8% q/q but only detracted 0.3pp from mining production) while gold (negative 4.8% q/q) and building materials (negative 3.6% q/q) also weighed on overall mining output. In contrast, manganese ore was the largest positive contributor, rising by a strong 15% q/q and contributing 1.1pp.

Chart 1: Coal and PGMs weighed on mining output in the fourth quarter of 2025



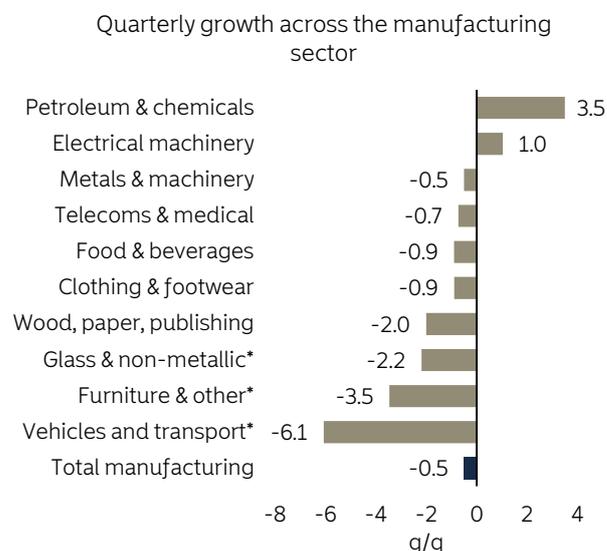
Source: Global Insight, Stats SA, Momentum Group
 *Not seasonally adjusted
 ** Other non-metallic minerals

“ On an annual basis, mining production increased marginally by 0.1% year-on-year (y/y) in 2025, compared to 0.5% y/y growth in 2024 and stable output (0% y/y) in 2023. ”

The subdued expansion in mining production indicates that the 2025 commodity price boom did not translate into a significant production response.

Similar to mining production, seasonally adjusted manufacturing production decreased by 0.5% q/q in the fourth quarter. The manufacturing sector experienced a broader-based decline with eight of the 10 industries recording decreases (see chart 2). The biggest detractors were motor vehicles, parts and accessories and other transport equipment division (detracting 0.5pp), wood and wood products, paper, publishing and printing (detracting 0.2pp) and the food and beverages division (detracting 0.2pp).

Chart 2: Broad-based production decline in the manufacturing sector in the fourth quarter



Source: Global Insight, Stats SA, Momentum Group
 * Motor vehicles, parts and accessories and other transport equipment, furniture and other manufacturing, glass and non-metallic mineral products

“ On an annual basis, manufacturing production decreased by 1.3% y/y in 2025, which is a bigger drop compared to negative 0.4% y/y in 2024. ”

Manufacturing utilisation edged lower to 77.8% in the fourth quarter of 2025 from 77.9% in the previous quarter, remaining below the long-term average of 80.6%. While the quarterly decline was marginal, utilisation has now remained below its historical average since the first quarter of 2020, reinforcing the broader picture of constrained manufacturing momentum.

The seasonally adjusted value of building plans completed increased for the third consecutive quarter at 5.8% q/q in the fourth quarter. On the other hand, building plans passed declined by 5.4% q/q reversing some of the gains in the third quarter (7.4% q/q).

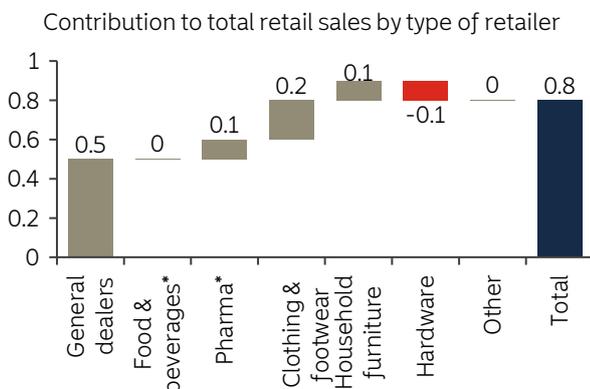
On an annual basis, the value of building plans passed declined by 4.9% y/y in 2025. Decreases were reported for non-residential buildings and residential buildings. An increase was reported for additions and alterations. Gauteng had the biggest decrease in value terms while Western Cape had the largest increase.

Robust trade sales will cushion production drag

“ Retail trade, wholesale trade and motor trade sales increased in the fourth quarter of 2025 and will contribute positively to economic growth. ”

Seasonally adjusted retail trade sales grew 0.8% q/q in the fourth quarter, continuing a run of positive quarterly growth since the first quarter of 2024, with only one quarter of flat growth during this period. General dealers, comprising nearly 45% of the retail sector, were the largest positive contributor in the fourth quarter (0.5pp) with a growth rate of 1.1% q/q (see chart 3). In contrast, retailers in hardware, paint and glass detracted from retail sales growth, by recording a decline of 1.7% q/q after four consecutive quarters of positive performance.

Chart 3: General dealers lifted retail trade sales growth in the fourth quarter



Source: Global Insight, Stats SA, Momentum Group

* Food, beverages and tobacco in specialised stores, pharmaceutical and medical goods, cosmetic and toiletries

On an annual basis, retail trade sales were robust, growing by 3.7% y/y in 2025. Six of the seven types of retailers showed positive year-on-year growth rates over this period. The largest positive contributors were general dealers and retailers in textiles, clothing, footwear and leather goods.

Seasonally adjusted wholesale trade sales increased 0.6% q/q in the fourth quarter but decreased by 1.4% y/y in 2025 following much larger drops of 4.9% y/y in 2024 and 3.1% y/y in 2023.

The divergence between retail and wholesale trade sales in 2025 highlights a consumption-led recovery, while production sectors remained constrained.

Seasonally adjusted motor trade sales grew 1.5% q/q in the fourth quarter. Growth predominantly came from new vehicle sales (5.6% q/q) while used vehicle sales was broadly unchanged (0.1% q/q). In line with the consumer-recovery theme, motor trade sales were up 2% y/y in 2025, driven by new vehicle sales growth.

The 2026 Budget review announced measures to support SMMEs

In the 2026 Budget Review, the government introduced some practical support for small, medium and micro enterprises (SMMEs) to ease costs and encourage entrepreneurship.

“ Notably, the Value-Added Tax (VAT) registration threshold was more than doubled from R1 million to R2.3 million in annual turnover. ”

This means many small businesses won't have to register for VAT or comply with the associated administrative requirements.

The capital gains tax exemption for selling a small business was also raised, now applying to businesses valued up to R15 million from R10 million. This will help

owners keep more of their profits when they exit or transfer their business.

These tax changes are designed to reduce red tape and give SMMEs more room to grow and in turn create jobs.

Mixed data points to modest fourth quarter economic growth and downside risks emerge

Weak activity in the mining and manufacturing sector in the fourth quarter of 2025 points to a drag from the industrial production side of the economy. However, firmer retail, wholesale and motor trade sales suggest that domestic demand remained relatively resilient.

The combination of weakness in industrial production and robust trade activity points to modest overall growth in the fourth quarter of 2025. Our forecast for economic growth in 2025 is 1.2%.

We maintain our expectation for improved economic growth in 2026, projecting a growth rate of 1.5%, with an anticipated average growth rate of 1.8% over the medium term (2026 to 2028). Factors supporting our expectation for better growth include an anticipated rebound in fixed investment, backed by strong corporate credit growth (12.9% y/y in January 2026) as well as decent household consumption growth, which will benefit from interest rate cuts, low inflation and may benefit from rising household credit growth (4% y/y in January 2026, up from 3.7% y/y in December 2025).

The rise in geopolitical tensions in the Middle East poses downside risks to our 2026 growth forecast.

The main channel is higher inflation, which will depend on how much oil prices rise (at the time of writing, an 11.8% increase to US\$81/bb since the conflict escalated) and how long oil prices stay elevated. That will be driven by how long the conflict lasts and whether disruptions to the Strait of Hormuz, a key global oil route, are prolonged. Higher oil prices would lift fuel and transport costs, pushing up local headline inflation. This could delay interest rate cuts as the SA Reserve Bank (SARB) would shift focus to assess the inflation risks and possible secondary inflation impact. In addition to rising energy prices, increased tensions are driving up global freight and insurance costs and weakening the rand (2.7% weaker against the dollar since tensions escalated). This creates additional pressure on import prices and domestic inflation, which in turn will weigh on household spending and slow overall economic growth.

Table 2: Middle East conflict poses downside risks to 2026 economic growth estimates

Real GDP growth (%)	2025	2026	Medium term average growth
National Treasury	1.4	1.6	1.8
SARB	1.3	1.4	1.7
Reuters	1.3	1.6	1.8
Momentum	1.2	1.5	1.8

Source: National Treasury (February estimates), SARB (January), Reuters Economist Poll (January), Momentum Group (March)

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