

strategy&

South Africa Economic Update

Mid-2026 review and forward signals by industry

June 2026



Six-month horizon | Client briefing

PwC house view

Real GDP growth will remain modest through the second half of 2026, tracking the Reserve Bank’s 1.2% projection.

What’s supporting this?

Selective strength mining, infrastructure-linked sectors, and defensive services. Consumers remain resilient, though rising costs are beginning to squeeze them.

What’s holding us back?

Prolonged tensions in the Middle East could keep oil and fuel prices elevated, weigh on the rand, and delay rate cuts. Growth momentum has already begun to slow.

Bottom line

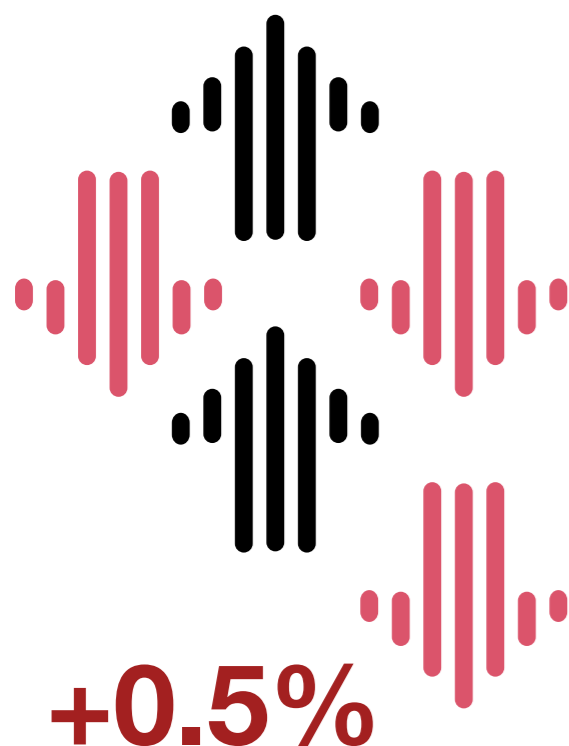
South Africa’s recovery is continuing, but the next six months are likely to be shaped less by domestic demand and more by oil, the rand, inflation and the rate path.



Macroeconomic forecasts (9 June 2026)

Baseline scenario	2024	2025	2026F	2027F
ZAR/USD	18.32	17.88	16.50	17.00
Consumer price inflation (%)	4.4	3.2	4.5	4.2
Repo rate (end-of-period)	7.75	6.75	7.00	6.75
Real GDP growth (%)	0.5	1.1	1.1	1.3
Unemployment rate (%)	31.9	31.4	31.8	32.1
Probability weighted average	2024	2025	2026F	2027F
ZAR/USD	18.32	17.88	16.59	17.10
Consumer price inflation (%)	4.4	3.2	4.6	4.2
Repo rate (end-of-period)	7.75	6.75	7.10	6.88
Real GDP growth (%)	0.5	1.1	1.0	1.3
Unemployment rate (%)	31.9	31.4	31.9	32.2

Macro overview



Quarter-on-quarter GDP growth, Q1 2026

Growth continued, but fixed investment and inventories weighed on momentum.

+1.9%

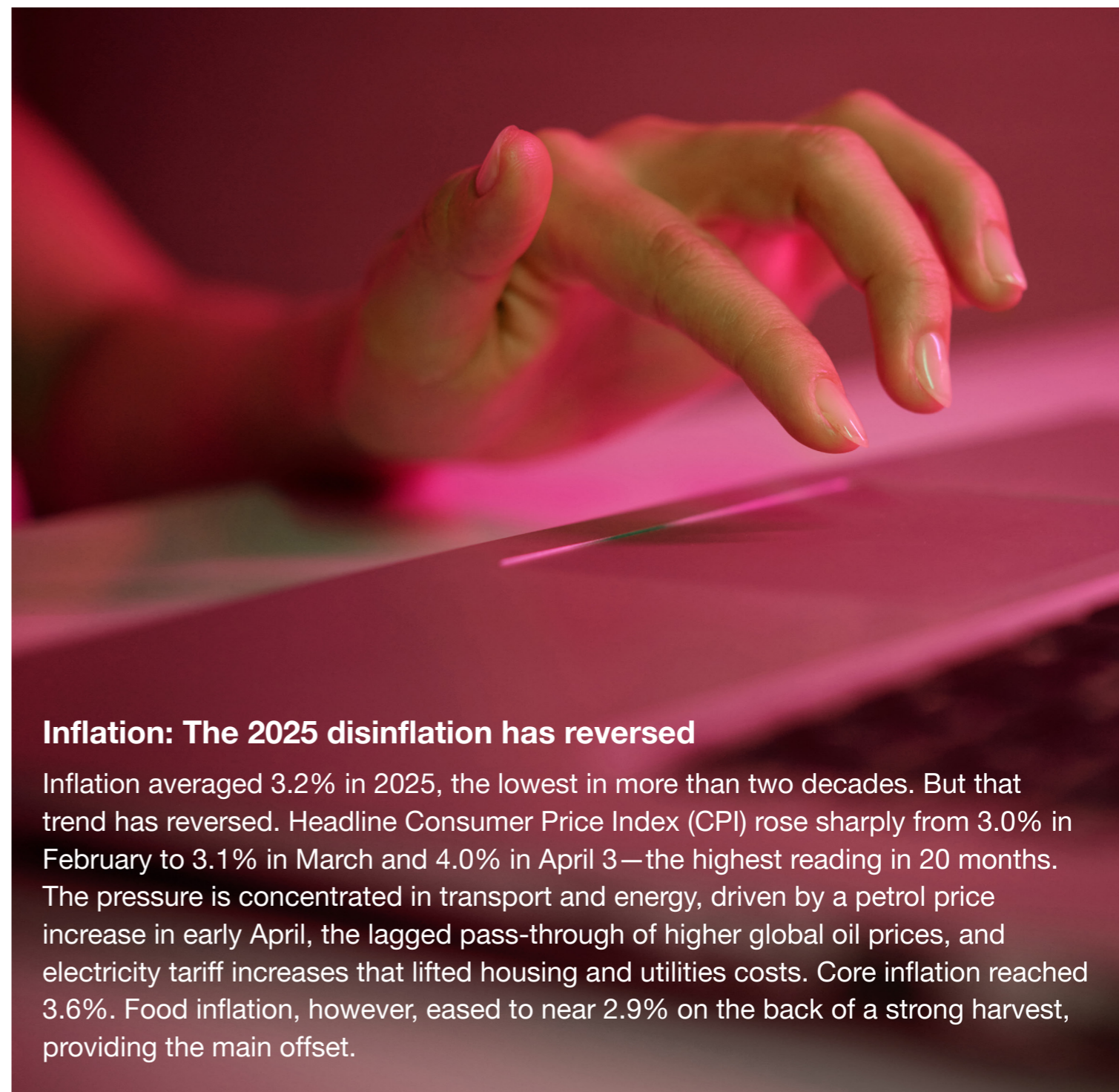
Year-on-year GDP growth, Q1 2026

Partly reflecting a low base and a strong agricultural season.

Growth: Recovery continues at a slower pace

The South African economy is on steadier footing than it has been in years, but growth is slowing. Annual growth reached 1.1% in 2025¹, the strongest performance since 2022. The Reserve Bank expects 1.2% growth in 2026² (revised down at the May Monetary Policy Committee meeting), rising to 1.7% in 2027, while the IMF is more cautious, cutting its 2026 forecast to 1.0% in April from 1.4% earlier¹².

On a quarterly basis, the economy expanded 0.4% in Q4 2025 and 0.5% in Q1 2026, marking the sixth consecutive quarterly gain. Finance, agriculture, trade, and transport led growth, while manufacturing was the only negative contributor. Growth was supported by modest increases in household and government consumption and by net exports, as exports rose 0.5% and imports fell 2.6%. However, weaker fixed investment and lower inventories weighed on the overall result. Year-on-year growth accelerated to 1.9% in Q1 from 0.8% in Q4 2025¹, partly reflecting a low base and strong agricultural season. Before recent external shocks, the Reserve Bank had pointed to early signs of recovering investment, alongside rising business confidence, easier load-shedding, and steadier logistics.



Inflation: The 2025 disinflation has reversed

Inflation averaged 3.2% in 2025, the lowest in more than two decades. But that trend has reversed. Headline Consumer Price Index (CPI) rose sharply from 3.0% in February to 3.1% in March and 4.0% in April 3—the highest reading in 20 months. The pressure is concentrated in transport and energy, driven by a petrol price increase in early April, the lagged pass-through of higher global oil prices, and electricity tariff increases that lifted housing and utilities costs. Core inflation reached 3.6%. Food inflation, however, eased to near 2.9% on the back of a strong harvest, providing the main offset.

4.4%

Inflation pressure

SARB 2026 inflation forecast.



Policy: The easing cycle has ended

After holding the policy rate at 6.75% in January and March, the Reserve Bank raised it by 25 basis points to 7.00% on 29 May², with the prime lending rate moving to 10.50%. The decision focused on risk management, with the Committee looking beyond current inflation readings. The Bank now expects inflation to average 4.4% in 2026 and 3.7% in 2027 before returning to the 3%-point target by 2028. That target was adopted in November 2025 and replaced the previous 3–6% band.

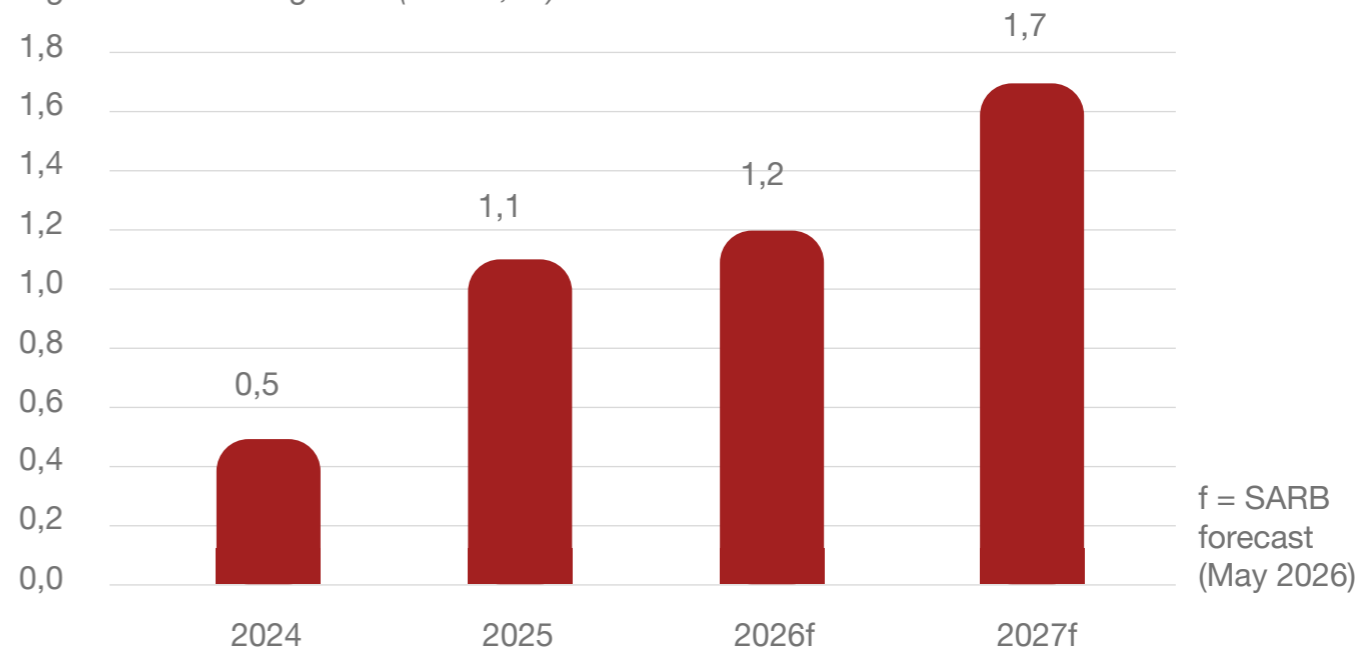
The Committee identified three key risks: prolonged tensions in the Middle East pushing up oil and food prices, a possible El Niño drought, and non-linear cost pass-through to consumers.

7.00%

Policy rate relief delayed

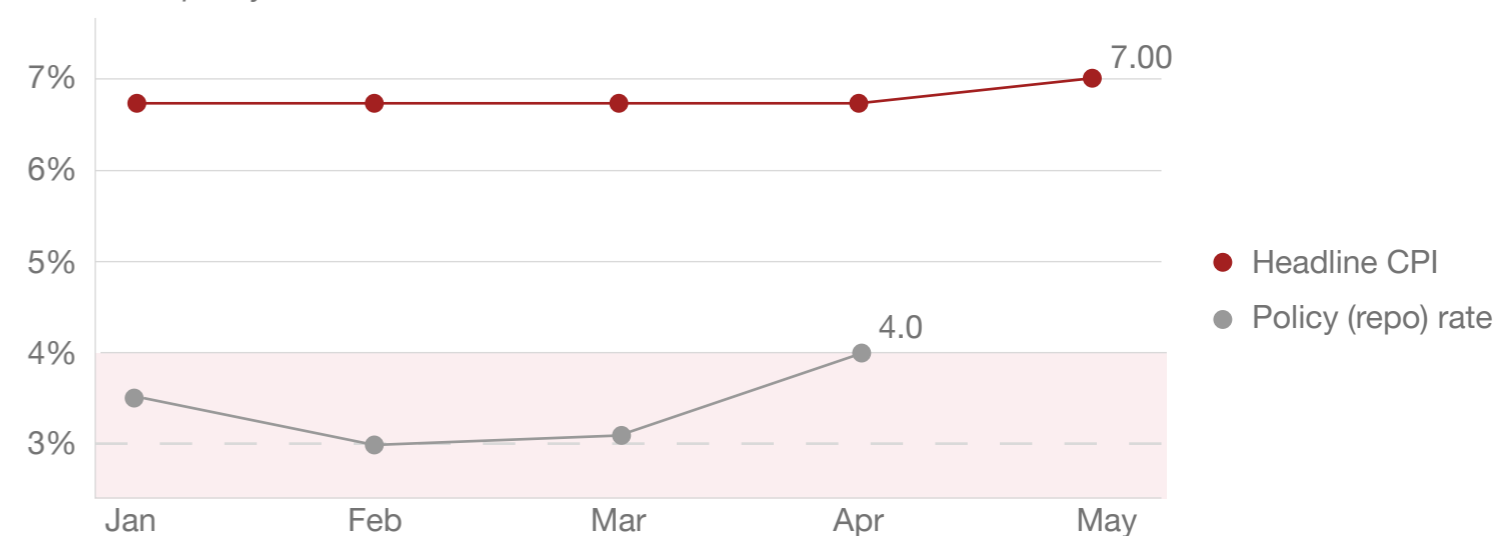
Policy rate after SARB's May 2026 increase.

Fig 1 — Real GDP growth (annual, %)



Sources: Stats SA GDP (P0441, Q12026); SARB forecasts (May 2026 MPC)

Inflation vs policy rates – 2026



Real GDP growth (SARB forecasts) and the 2026 inflation–policy rate path. Source: Stats SA, SARB.^{1, 2, 3}

Key indicators at a glance

The external driver: A cost-push shock

The main development over the past six months has come from outside South Africa. The tension in the Middle East has lifted oil, fuel, and fertiliser prices while weakening the rand, which had been around 7% stronger against the US dollar earlier in the year. As a net oil importer, South Africa absorbs this primarily as a cost-push shock. The pressure on margins and prices is being imported, and its persistence depends largely on factors beyond the country's control. This raises input and transport costs across the economy without signalling stronger domestic demand.

Transmission to business

Sentiment shifted quickly. The RMB/BER Business Confidence Index, which had climbed to an 11-year high (excluding the pandemic rebound) of 47 in the first quarter, fell to 39 in the second¹¹, erasing two quarters of gains. Consumer-facing sectors most exposed. Manufacturing sentiment held just above neutral but lost momentum.

The evidence suggests that the domestic conditions that improved through 2025 remain in place, while the external shock has slowed the upswing for now. Over the next two quarters, outcomes will depend mainly on how long cost pressure and rand weakness persist.



PwC industry interpretation of the data

In the table below, we assess what data reveals about industry health and the short- to medium-term outlook. For each sector, we use three analytical lenses:



Historical (lagging):

GDP-by-industry data and recent output and sales figures.



Current (coincident):

Latest production, sales, and Purchasing Managers' Index (PMI) readings.



Forward (leading):

Business confidence, PMI six-month expectations, interest rate and fuel outlook, and the public-investment pipeline.

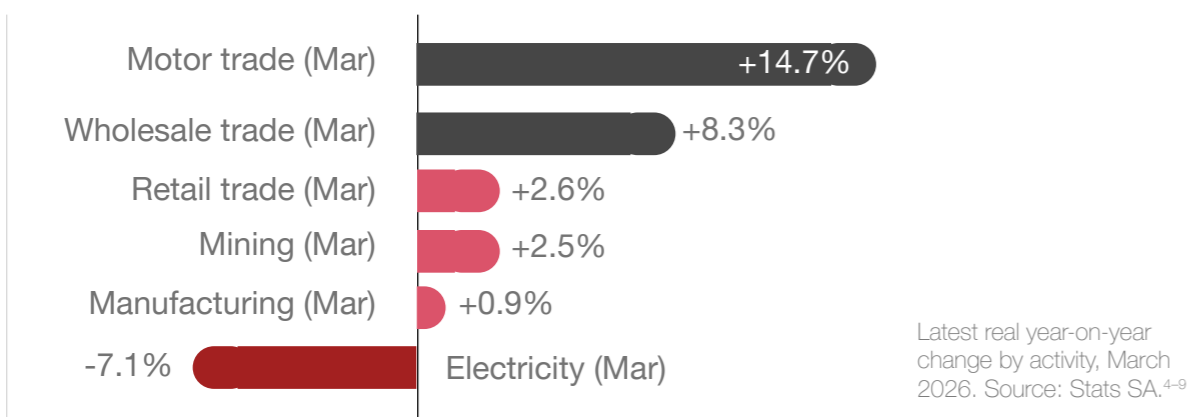
The sector picture is uneven, with mining, infrastructure-linked activity and defensive services providing support, while electricity, consumer-facing sectors and input-cost-sensitive industries face pressure.

Sector scorecard

The arrows are colour-coded and indicate both the direction and the overall balance of signals. ↑ improving / supportive → steady or mixed ↓ softening / headwind

Industry PwC sector	Historical	Current	Forward signal
Mining and quarrying Energy, Utilities and Resources	↑ March output +2.5% y/y	↑ PGM and gold prices lifting sales	→ Iron ore, coal soft; prices supportive
Electricity, gas and water Power and Utilities	→ Load-shedding eased; volumes down	↓ Generation -7.1% y/y; tariffs lift CPI	→ Supply steadier; tariffs a demand drag
Manufacturing Industrial Mfg and Automotive	↓ Stop-start; weak late 2025	→ March output +0.9% y/y; PMI 50.8	→ 6-mth PMI view >50; input costs high
Construction Engineering and Construction	→ Long downturn levelling off	→ Contractor confidence 46; non-residential leads	↑ Budget infrastructure pipeline supportive
Trade, catering and accommodation Consumer Markets; Hospitality	↑ Retail +3.7% over 2025	→ Retail +2.8% Q1; wholesale +8.3%	↓ Rates and fuel squeeze household budgets
Transport and storage Transport and Logistics	→ Logistics constraints persistent	→ Q1 rail and road transport firmer	→ Reform underway; fuel a headwind
Information and communication Technology, Media and Telecom	→ Steady GDP contributor	→ Resilient demand; data growth	↑ Defensive; digitalisation tailwind
Finance, real estate and business services Financial Services	↑ Key growth driver in 2025	→ Rate up to 7%; confidence dented	→ Higher-for-longer: margins up, demand down
Agriculture, forestry and fishing Agribusiness	↑ Strong harvest aided food disinflation	→ Output good; input costs rising	↓ Fertiliser and diesel costs; El Niño risk
General government and community Government and Public Services	→ Fiscal consolidation; constrained	→ Infrastructure focus; tight fiscal space	→ Reform- and capex-dependent
Personal services Consumer; Health; Other	→ Steady, defensive demand	↑ Health and pharma retail growing	→ Discretionary spend under pressure

Sector momentum, latest real year-on-year change, March 2026



Sector highlights

01

Mining: The half-year's clear outperformer

Mining output grew 2.5% year-on-year in March, with platinum group metals and gold leading the way at 10.5% and 17.1% respectively. However, growth slowed from February due to rising fuel costs. The real story is revenue: mineral sales jumped 30.2% year-on-year. Gold prices surged as investors sought a hedge against geopolitical risk, while the weaker rand boosted earnings for rand-denominated sales.

Platinum group metals also performed strongly. Coal and iron ore, by contrast, remain under pressure. The key question now is how long these elevated PGM and gold prices will last.^{1,4}

02

Financial services: Rate reversal brings mixed effects

Finance, real estate and business services rose 0.9% q/q in Q1 and contributed 0.2 percentage points to GDP growth. However, the largest single contributor to services output now faces a changed rate environment. The move to a 7% policy rate offers mixed signals: wider lending margins support profitability, but higher rates dampen credit demand and risk eroding asset quality by increasing the likelihood of borrower defaults. Equity and bond markets have remained resilient, and non-residential property continues to outperform residential, providing some support.

Yet sector confidence has softened alongside the broader business index, suggesting underlying caution about the outlook.^{1,2}

03

Consumer and trade: Resilience under pressure

Household spending drove growth into 2026. Retail sales rose 2.8% in the first quarter, wholesale climbed 8.3%, and motor trade surged 14.7% in March. New-vehicle sales rose 12.8% in May, the strongest May since 2013. However, this momentum is now fading. Higher fuel prices and the 7% policy rate are squeezing real disposable income. The temporary boost from two-pot retirement withdrawals is running out, and consumer-facing sector confidence fell most sharply in Q2.^{7, 8, 9}

04

Manufacturing: Fragile stabilisation

Manufacturing, roughly 13% of GDP, is critical for both employment and exports. Outputs fell 0.8% q/q in Q1, even though year-on-year growth returned to 0.9% in March after a weak spell. The Purchase Manager's Index (PMI) has held just above neutral at 50 with May's reading of 50.8 showing softening activity and new orders.^{1, 5, 10}

05

Construction and infrastructure: the clearest domestic upside

Construction GDP edged up 0.2% q/q in Q1, supported by non-residential buildings and construction works. Building activity is stabilising after a prolonged downturn, with the non-residential outpacing residential. Contractor confidence remains near neutral.

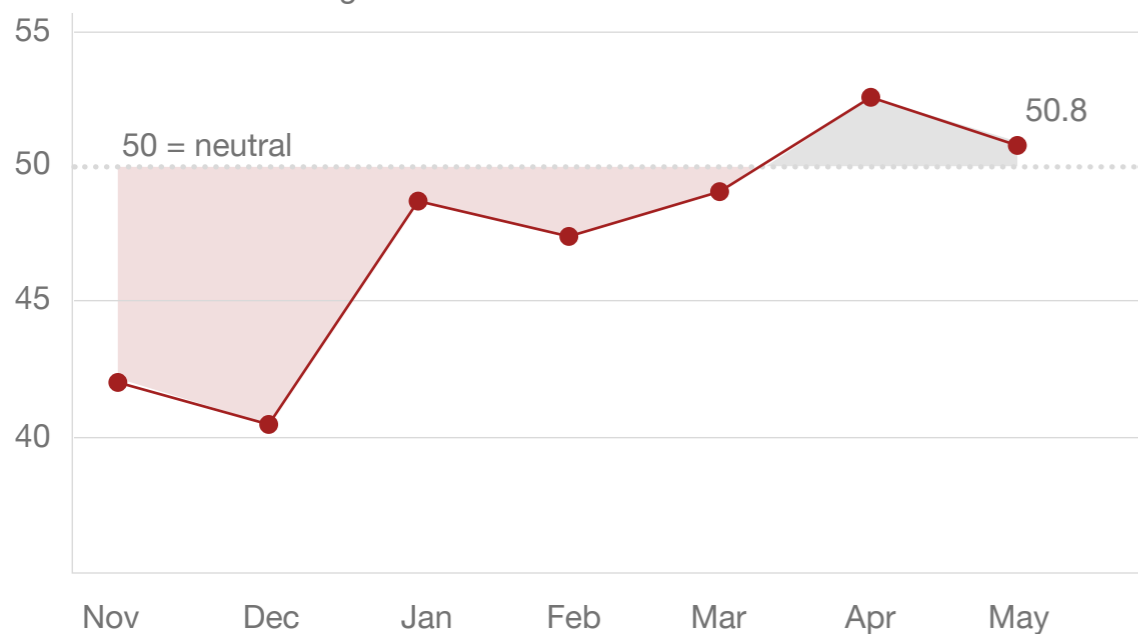
The sector's forward outlook depends on government follow-through: the Budget's emphasis on capital expenditure is the most concrete domestic growth lever available, and main reason we see positive momentum ahead¹¹.

Forward signals

The two most timely cross-sector indicators point in the same direction. Manufacturing sentiment moved back above the neutral 50 mark. The May reading of 50.8¹⁰ slipped from 52.6 in April as new orders and activity softened. The recovery is still narrow. Meanwhile business confidence gave back two quarters of gains¹¹ in a single quarter, with consumer-facing sectors most exposed. Together, they suggest that the domestic fundamentals that improved through 2025 remain in place, while the external cost shock has slowed the upswing for now.

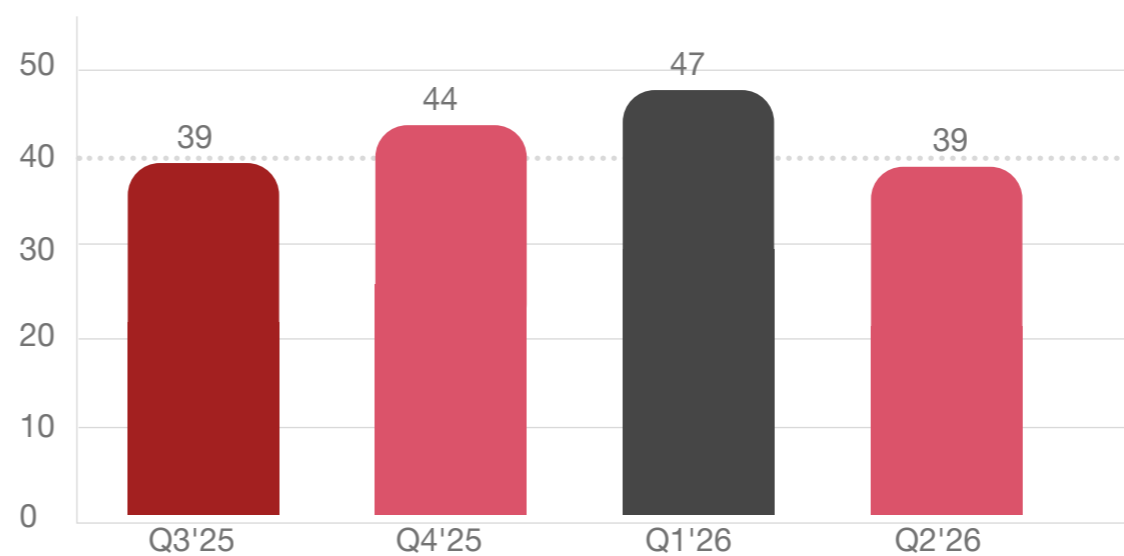


Absa manufacturing PMI

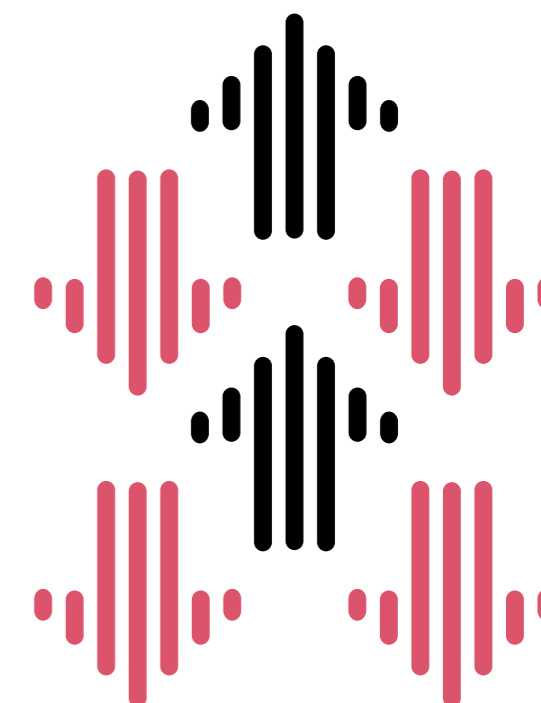


Nov 2025 - May 2026

RMB/BER business confidence



Index. 0-100 (50 = neutral)



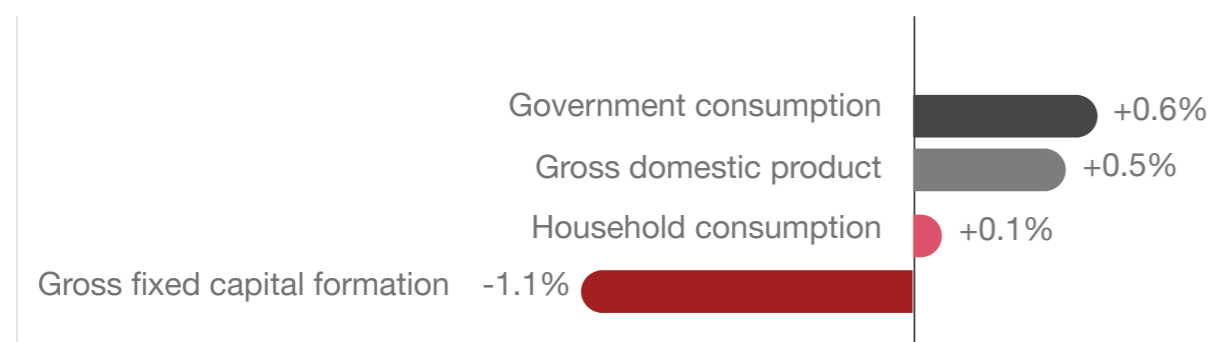
Investment: Gross fixed capital formation

Gross fixed capital formation, investment in productive capacity such as machinery, equipment, buildings, and infrastructure, provides the clearest forward indicator of sustainable growth. Today's capital spending shapes tomorrow's output, productivity, and employment.

After two consecutive quarterly increases, fixed investment fell 1.1% in Q1 2026, subtracting 0.2 percentage points from GDP. The decline was concentrated in machinery, equipment, and residential buildings. Inventories also dragged on growth, with a R22.4b annualised drawdown in manufacturing and trade.

This weakness stood out in an otherwise positive quarter and contradicted the business confidence recovery seen earlier in the year, a disconnect worth monitoring.

Q1 2026 GDP by expenditure 'quarter-on-quarter'



Q1 2026 GDP and demand components, real, quarter-on-quarter. Net exports also supported growth as imports fell and exports rose. Source: Stats SA.¹

There are two ways to read this. The benign one is timing: equipment investment is lumpy, and a single quarter's pullback after two gains does not necessarily signal a trend. The more cautious reading is that the investment cycle is already responding to a less supportive backdrop, including a policy rate now at 7%, a weaker rand raising the cost of imported capital goods, and the Middle East shock, which landed only at the end of the quarter and is not yet fully in the data. For the second half, the public infrastructure pipeline in the Budget remains the most visible support for fixed investment. Private capital expenditure is likely to stay cautious until the rate and cost outlook clarifies.



What to watch into H2 2026

- Oil and the rand: The single largest swing factors for inflation, the rate path, and input margins over the next two quarters.
- The rate path: 7% may not be the peak if the external cost shock persists. Plan around higher-for-longer and limited room for near-term easing.
- Consumer resilience: Retail has held up. Real disposable income is now being squeezed by fuel and borrowing costs.
- Commodity windfall: Elevated PGM and gold prices are cushioning export earnings and fiscal revenue. Watch the durability of those prices.
- Infrastructure: The Budget's capital-expenditure focus is the clearest domestic growth lever, and the main upside for construction.
- Q2 GDP release: Due 8 September 2026, this will be the first fuller GDP read on the fuel-price and Middle East shock.

Strategic and operational considerations

- Pricing and margins: Map exposure to fuel, energy, and imported input costs, and test how much can realistically be passed through before volumes suffer; revisit escalation clauses in supply, and customer contracts.
- Financing and capital structure: Plan around higher-for-longer rates and limited room for imminent cuts. Review refinancing schedules, covenant headroom and working-capital cost, and stress-test debt service against a further move.
- Currency exposure: With the rand sensitive to the oil price and global risk sentiment, revisit hedging policy, natural hedges for importers and exporters, and the translation impact on offshore earnings.
- Supply chain and logistics: Build resilience against port, rail, and fuel disruption through dual sourcing, inventory buffers weighed against carrying cost, and contingency routing. Do not assume a quick return to normal lead times.
- Demand and credit risk: Segment exposure to cost-constrained consumers, monitor receivables and bad-debt trends, and protect value propositions where real incomes are tightest.
- Capital allocation and scenarios: Position for the public-investment pipeline where relevant, apply reinvestment discipline to any commodity windfall, and stress-test plans against the SARB's scenarios of a prolonged conflict, an oil spike and a possible drought.



Endnotes and sources

The numbers in the text correspond to the sources below. All are official or publicly available; links go to the publisher's release or series page and are current to end-May 2026.

1. Statistics South Africa: Gross Domestic Product (P0441), first quarter 2026, released 9 June 2026 (+0.5% q/q and +1.9% y/y, sixth consecutive quarter of growth; gross fixed capital formation -1.1% q/q). Full-year 2025 growth 1.1%. https://www.statssa.gov.za/?page_id=1854&PPN=P0441
2. South African Reserve Bank: Monetary Policy Committee statement, 29 May 2026 (and 29 January and 26 March 2026), with growth and inflation forecasts and the 3% point target. <https://www.resbank.co.za/en/home/publications/publication-detail-pages/statements/monetary-policy-statements/2026/may>
3. Statistics South Africa: Consumer Price Index (P0141), April 2026 (4.0%); 2025 annual average 3.2%. <https://www.statssa.gov.za/?cat=33>
4. Statistics South Africa: Mining: production and sales (P2041), March 2026 (+2.5% y/y; mineral sales +30.2%), released 14 May 2026. <https://www.statssa.gov.za/?cat=41>
5. Statistics South Africa: Manufacturing: production and sales (P3041.2), March 2026 (+0.9% y/y), released 12 May 2026. <https://www.statssa.gov.za/?p=19580>
6. Statistics South Africa: Electricity generated and available for distribution (P4141), March 2026 (generation -7.1% y/y). <https://www.statssa.gov.za/?p=19580>
7. Statistics South Africa: Retail trade sales (P6242.1), March 2026 (+2.6% y/y; Q1 +2.8%). <https://www.statssa.gov.za/publications/P62421/P62421March2026.pdf>
8. Statistics South Africa: Wholesale trade sales (P6141.2), March 2026 (+8.3% y/y, released 21 May 2026); summary via IndexBox. <https://www.indexbox.io/blog/south-africa-wholesale-trade-sales-rise-83-in-march-2026/>
9. Statistics South Africa: Motor trade sales (P6343.2), March 2026 (+14.7% y/y real); naamsa: new vehicle sales, May 2026 (+12.8% y/y, best May since 2013). <https://www.statssa.gov.za/?p=19580>
10. Bureau for Economic Research / Absa: Purchasing Managers' Index, May 2026 (50.8), released 1 June 2026; series via Trading Economics. <https://tradingeconomics.com/south-africa/manufacturing-pmi>
11. Bureau for Economic Research / Rand Merchant Bank: Business Confidence Index, Q2 2026 (39), released 2 June 2026. <https://www.ber.ac.za/Documents/Index/RMBBER-Business-Confidence-Index>
12. International Monetary Fund: World Economic Outlook, April 2026 (South Africa 2026 growth cut to 1.0% from 1.4%; 2027 to 1.3%). <https://www.imf.org/en/Publications/WEO>

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- Sector and market strategy: Demand modelling and growth and investment cases tailored to your industry.
- Macroeconomic and impact modelling: SAM-based economic impact, pricing and cost-of-living frameworks, and regulatory impact assessment.
- Sustainability and the just transition: Climate economics and transition planning.

Get in touch



Lullu Krugel

Chief Economist and Sustainability Lead | PwC South Africa

lullu.krugel@pwc.com
+27 (0) 82 708 2330



Dirk Mostert

Director | PwC South Africa

dirk.mostert@pwc.com
+27 (0) 82 800 9326



Salome Ntsibande

Senior Manager | PwC South Africa

salome.ntsibande@pwc.com
+27 (0) 72 210 1013



Vicky Hibbers

Manager | PwC South Africa

vicky.hibbers@pwc.com
+27 (0) 76 382 7632

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strategyand.pwc.com

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