

Economic Review

September 2025

The highly-anticipated US Federal Reserve (US Fed) meeting in September resulted in a rate cut, despite persistent inflation and a weakening labour market. In the second quarter of 2025, US economic growth exceeded market forecasts. Meanwhile, inflation in the Eurozone picked up, lessening the pressure on its central bank to lower interest rates. The UK experienced slower economic growth in Q2 2025 compared to the previous quarter. The South African Reserve Bank chose to keep interest rates steady at its September meeting, regardless of the Fed's decision. South Africa's economy expanded in Q2 2025, although growth remained below 1%.

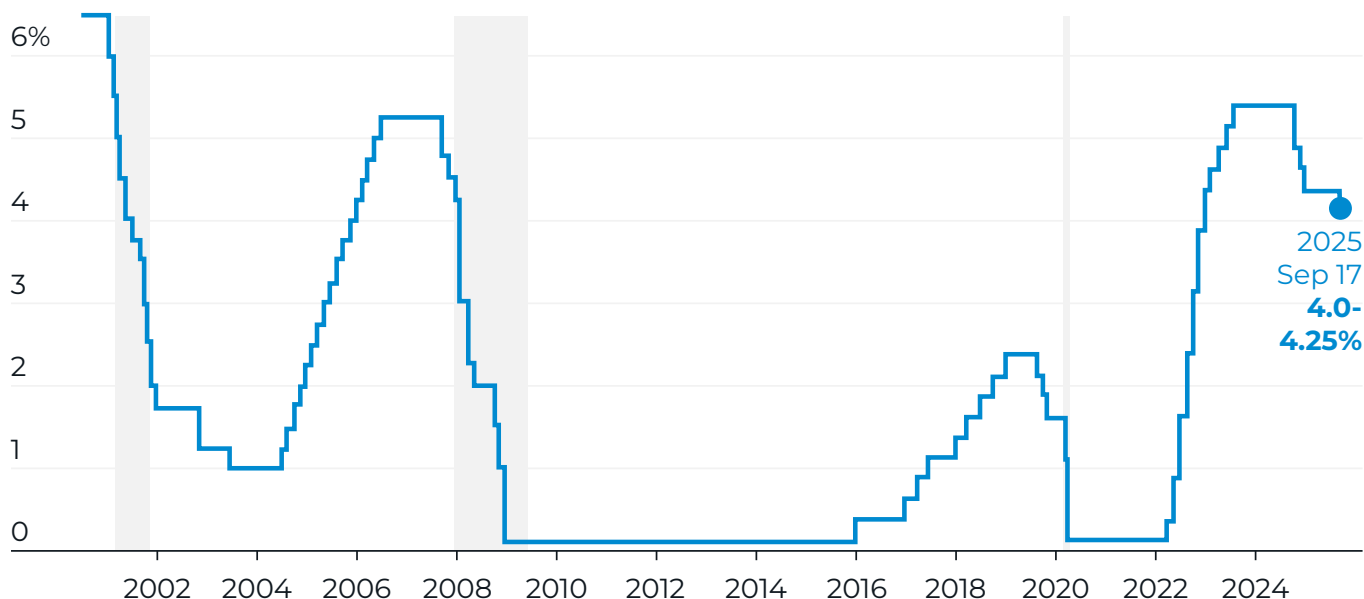
Fed cuts rates for the first time since December 2024

At its September meeting, the Fed reduced interest rates by 25 basis points (bps), bringing the target range down to 4.00–4.25%. This decision was backed by 11 of the 12 voting members of the Federal Open Market Committee (FOMC), with Stephen Miran - who heads President Trump's Council of Economic Advisers - advocating for a deeper 50 bps cut.

This widely-anticipated rate reduction marks the first since December 2024 and signals the beginning of a potential series of future cuts aimed at easing borrowing costs across the country. Fed Chair Jerome Powell noted an unusual slowdown in both labour supply and demand, describing the job market as less dynamic and softer than usual. He warned that risks to employment have increased. Despite persistent inflation – up 2.9% year-on-year (y/y) in August, the highest rate since January and still above the Fed's 2% target – concerns about the labour market are growing. The rate cut reflects a growing consensus within the Fed that the weakening job market may need support through lower interest rates.

Fed cuts interest rates for the first time in 2025

US federal funds rate since 2000



Source: Federal Reserve Bank of New York

The surge in inflation that followed the pandemic and caused the Fed to hike interest rates in 2022 has now eased considerably. In response, central banks in regions like the UK, Europe, and Canada have already begun lowering rates. Meanwhile, Fed officials have consistently signalled their intention to reduce borrowing costs by at least 50 bps this year.

After its latest meeting, the FOMC described economic activity as having “moderated”. It noted a slowdown in job creation and a recent uptick in inflation, which remains elevated. These developments present a challenge to the Fed’s dual mandate of maintaining price stability and promoting full employment. Powell said that the rate cut shifts monetary policy toward a more “neutral” stance, moving the Fed away from its previously “moderately restrictive” position. President Trump has also emphasised the need for lower interest rates to revive the sluggish housing market and ease the burden of government debt financing.

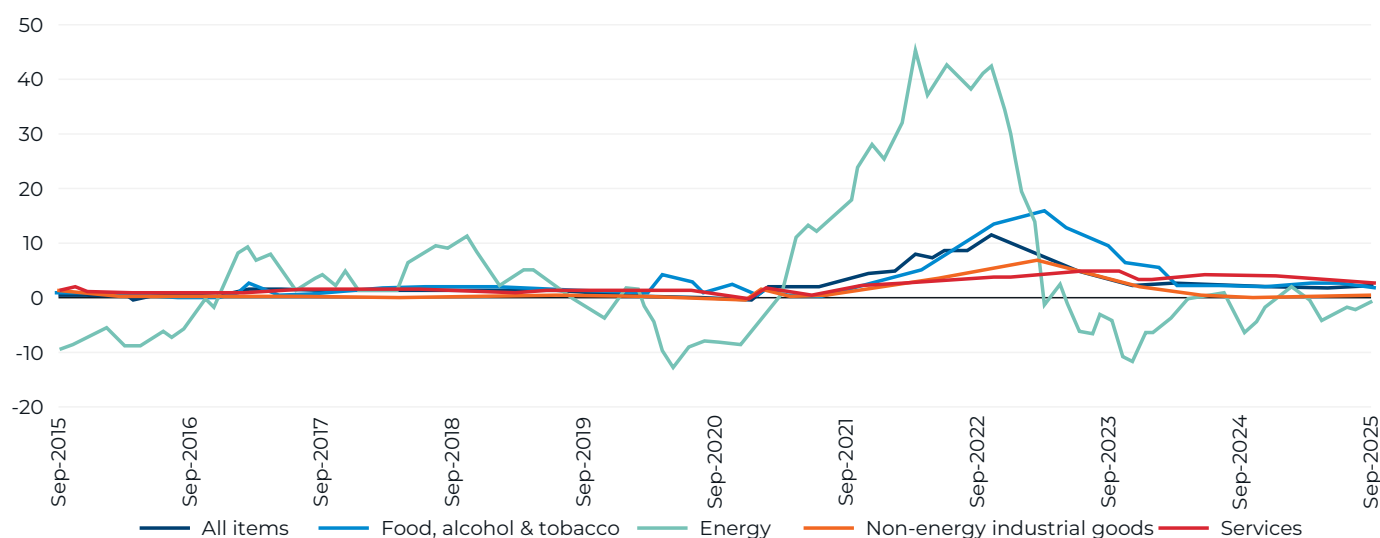
Eurozone inflation data points to uptick

Inflation accelerated in September in the Eurozone’s largest economies, indicating that overall price growth probably rose throughout the 20-nation bloc. This development reduces the urgency for the European Central Bank (ECB) to cut interest rates further. The ECB last lowered its three key rates by 25 bps in June 2025 but has since held them steady as inflation hovered near its target. While markets are gradually scaling back expectations for additional rate cuts, a slight easing of policy remains on the table.

Inflation rose in Germany, France, Italy, and Spain, reinforcing forecasts that the Eurozone’s annual inflation rate will reach around 2.2% y/y, from 2.0% y/y in August. The increase was mainly driven by a smaller decline in energy prices, a trend that had been anticipated. There were modest gains in some core categories, such as services and clothing, in certain national reports. However, this uptick is expected to be short-lived, and inflation is projected to decline sharply early next year.

Eurozone annual inflation and its main components, September 2015 - September 2025 (estimated)

(%)



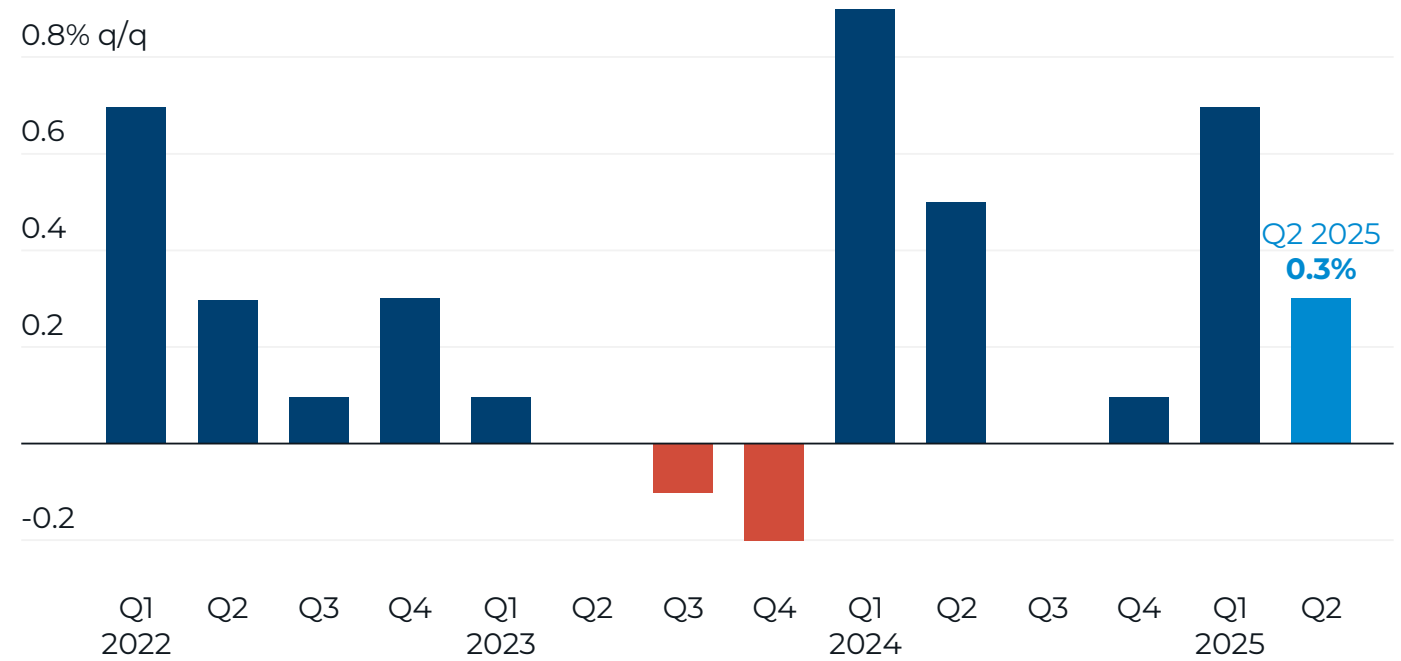
Source: Eurostat, September 2025

ECB policymakers are currently focused on how significantly inflation might fall below the central bank's target and whether this decline will be long-lasting. The ECB projects inflation at 1.7% y/y for 2026, a figure that has raised concerns among some officials who worry it could dampen expectations and entrench weak price growth. They argue that subdued inflation could be worsened by sluggish economic expansion, the impact of US tariffs, and potential softening in the labour market. This cautious view is backed by disappointing data, including weak retail and producer price growth in Germany and underwhelming consumer spending in France. However, many economists expect only a slight dip below the 2% inflation target. More hawkish ECB members contend that factors like increased defence spending and reduced global trade integration are inherently inflationary and could counterbalance the downward pressures.

UK GDP growth slows in Q2 2025

UK economic growth slowed in Q2 2025, with GDP rising by 0.3% y/y, down from 0.7% in Q1. This figure aligns with initial estimates from the Office for National Statistics (ONS) and matched economists' expectations reflected in a Reuters poll. The annual growth rate for 2024 remains unchanged at 1.1%, but revisions to quarterly data have lifted the growth rate for the year ending June 2025 to 1.4%, up from the previously reported 1.2%. When adjusted for population growth, GDP per capita increased by 0.9% over the same period, driven largely by high immigration levels, marking an improvement from the flat growth seen in 2024.

UK GDP grew 0.3% q/q in 2025



Source: LSEG

The UK led economic growth in the G7 nations in the first half of the year. However, part of this surge was driven by temporary factors such as a spike in exports ahead of new US tariffs. The Bank of England projects that overall growth for 2025 will be relatively modest, at just 1.25% y/y. The ONS noted that consumer spending showed minimal improvement, and output from consumer-focused services slightly declined, even though the broader services sector grew.

Many economists anticipate that Chancellor Rachel Reeves will need to implement tax increases amounting to tens of billions of pounds in the upcoming 26 November 2025 Budget, following an even larger hike last year, to stay on track with deficit reduction targets. The Office for Budget Responsibility (OBR) is expected to present a more pessimistic outlook on productivity and economic growth. Fiscal challenges have been worsened by rising US tariffs, higher borrowing costs, and government reversals on planned welfare cuts.

For your interest:

1. US JOLTS job openings beat market expectations

- US JOLTS Job Openings for August were 7.227 million compared to the expected 7.190 million. This is a modest upside surprise compared to the previous 7.184 million.
- The figures show that despite slowing momentum elsewhere in the economy, the US labour picture is not deteriorating. This resilience may again temper expectations for aggressive 2026 rate cuts, especially after a strong Jobless Claims report.

(Source: Market Pulse, September 2025)

2. US economy grows in Q2 2025

- The US economy grew faster than previously estimated in Q2 2025 amid strong consumer spending and business investment. However, momentum appears to be slowing as the effects of tariffs and policy uncertainty start to filter through.
- US GDP increased at an upwardly revised 3.8% y/y in Q2 2025, the fastest pace since Q3 2023, the Commerce Department's Bureau of Economic Analysis said in its third GDP estimate. The economy was previously reported to have grown at 3.3% y/y over the same period. Economists polled by Reuters had expected GDP growth to be unrevised.

(Source: Reuters, September 2025)

3. UK retail sales have fallen consecutively

- UK retail sales fell for the 12th consecutive month in September. Another decline is expected in October as weaker consumer demand and concerns about the government's next Budget weigh. The Confederation of British Industry's monthly gauge of how retail sales compared with a year earlier fell to -29 in September from -32 in August.
- Retailers and other businesses are concerned about possible further tax rises in Chancellor Reeves' 26 November Budget. Official data showed stronger-than-expected retail sales in August but consumer confidence weakened in September as concerns about the economy mounted.

(Source: Reuters, September 2025)

4. SA retail trade growth continues

- Retail trade continued its upward trajectory, rising by 5.6% y/y. Five of the seven retail groups recorded a positive month, with textiles and clothing, and general dealers the main drivers of growth. Retailers of food and beverages, pharmaceuticals and medical goods registered a decline in sales.
- Manufacturing, electricity generation, wholesale trade, and rail freight transport were weaker year-on-year. Manufacturing activity decreased by 0.7%, with seven of the 10 manufacturing divisions recording a decline in production.

(Source: Stats SA, September 2025)

SA economy expands in Q2 2025

After a modest increase of 0.1% y/y in South Africa's real GDP in Q1 2025, growth accelerated to 0.8% y/y in Q2 2025. On the production side, the manufacturing, mining, and trade sectors were the main drivers of this improvement. The demand side also showed positive momentum, largely supported by stronger household spending and a reduction in imports.

Manufacturing; mining and quarrying; and trade, catering, and accommodation each contributed 0.2 percentage points to the GDP growth in Q2 2025. Manufacturing and mining rebounded after two quarters of decline. Manufacturing output rose by 1.8%, mainly due to gains in the automotive and petroleum, chemicals, rubber, and plastics industries. Mining production increased by 3.7%, marking its fastest growth since Q1 2021 (4.4%), with platinum group metals, gold, and chromium ore leading the way. On the demand side, household consumption and lower imports were the key positive contributors. However, a drop in gross fixed capital formation and weaker export performance weighed negatively on overall growth.

Consumer activity remained strong in Q2 2025. The trade, catering, and accommodation sector grew by 1.7%, marking its best performance since Q1 2022 (2.6%). Growth was driven by increases in retail and motor trade, accommodation services, and food and beverage sales. However, wholesale trade declined in the same period. After five consecutive quarters of inventory reductions, there was a stock build-up of R16.6 billion in Q2 2025. This increase in inventories was spread across the mining and quarrying, transport, storage and communication, and manufacturing sectors.

MACRO OVERVIEW

Global overview

Developed market (DM) equities ended September strongly, with the MSCI World Index posting gains of 3.21% month-on-month (m/m) and 17.43% year-to-date (YTD) in US dollars. The mega-cap tech and AI cohorts again led the increases. Emerging market (EM) equities also had a very strong month, with the MSCI EM Index gaining 7.18% m/m and 28.22 YTD in US dollars, putting them comfortably ahead of their DM peers in 2025. Chinese stocks – particularly those listed outside Mainland China – and precious metal miners, were a key driver of EM performance as they maintained their recent strong momentum. The FTSE 100 posted gains of 1.86% m/m in pound terms, an increase from August's 0.92% m/m gains. The S&P 500's August gains continued into September, ending at 3.64% m/m in US dollars. Both global bonds and global property were in positive territory for the month at 0.65% m/m and 1.04% m/m respectively, in US dollars. The Euro Stoxx 50 Index gained 3.42% m/m in September from August's 0.65% m/m gain in euros. The Dow Jones Index gained 2.00% m/m in US dollars, although the gains were below August's 3.42% m/m gains. Japan's benchmark Nikkei Index also ended September in positive territory at 5.82% m/m in yen.

Local overview

September was the year's best month for local equity markets, with the FTSE/JSE All Share Index gaining 6.61% m/m in rand terms, ending its strongest quarter in over five years and pushing the local bourse to a 31.73% YTD gain. In what has become a familiar theme for the JSE in 2025, Resources were the biggest gainers for September at 25.45% m/m, and precious metal miners were the major drivers of performance. Property and Financials detracted in September, at -0.96% m/m and -1.86% m/m respectively in rand terms, from August gains. Industrials were the biggest detractor for the month at -6.16% m/m. Cash was in positive territory for the month at 0.58% m/m in rand terms. The local bond market gains continued into September for short-, medium-, and long-term bonds. The FTSE/JSE All Bond Index ended the month positively at 3.32% m/m in rand terms. Bonds of 1-3 years were positive at 0.68% m/m, along with bonds of 3-7 years at 1.76% m/m. Bonds of 7-12 years were positive at 3.73% m/m, and bonds of 12 years and above were the biggest gainer for the month at 5.12% m/m. The rand strengthened against the US dollar, British pound and the euro by 2.56% m/m, 2.92% m/m, and 2.16% m/m respectively.

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