

Economies at a glance

February 2021

Forecast 2020:

GDP: -3.5%
Inflation: 1.2%

Forecast 2021:

GDP: 6%
Inflation: 1.8%

EUROZONE

Unlike in the United States where the number of COVID-19 cases are declining, several countries in the Eurozone had to impose new lockdown restrictions to limit the spread of a new wave. At the same time, delivery and distribution of vaccines are not running smoothly. This will affect the economic outlook for the first quarter of 2021, especially the services sector. The services PMI for February declined to a three-month low point, remaining in contractionary territory. Although the manufacturing PMI increased further, driven by exports to Asia, several countries are experiencing supply chain disruptions as companies find themselves short of raw materials. Yet, there are already talks of ending fiscal stimulus by year end. Should this happen, it will be a repeat of the global financial crisis when fiscal stimulus was ended prematurely.

Forecast 2020:

GDP: -9.9%
Inflation: 0.8%

Forecast 2021:

GDP: 4.3%
Inflation: 1.4%

JAPAN

In its monthly report on the state of the economy, the cabinet office in February downgraded its assessment of the economy for the first time in ten months.

Consumer spending was downgraded due to lower spending on services following the introduction of the second state of emergency last month in some areas.

However, the evaluation on capital expenditure, industrial production, corporate profits, exports and imports improved. As for the outlook, the cabinet office expects the economy to begin a recovery. On inflation, consumer prices declined, but excluding energy, it rose.

However, the Bank of Japan (BOJ) stated it won't hit the 2% target before 2024. The BOJ will now meet in March to review whether it should tweak its easing policies and maintain it for longer.

UNITED STATES

The early indication from the Federal Reserve of Atlanta's GDPNow is for positive economic growth in the first quarter of 2021 following a growth rate of 4.1% in the fourth quarter of 2020. At the same time, rising bond yields are signaling an expectation of higher economic growth and consumer price inflation increasing to levels above the Federal Reserve's target of 2%. However, Federal Reserve Chairman Jerome Powell is more worried about unemployment than higher inflation resulting from an excessive stimulus package: "I'm much more worried about falling short of a complete recovery, and losing people's careers and lives that they built, because they don't get back to work in time." Janet Yellen, Secretary of the Treasury, shared the same sentiments, noting that the US\$1.9 trillion stimulus must be executed as soon as possible to avoid unemployment being high for several years.

Forecast 2020:

GDP: -6.8%
Inflation: 0.3

Forecast 2021:

GDP: 4.2%
Inflation: 0.7%

UNITED KINGDOM

The economy contracted 9.9% in 2020, returning the economy to the size it was in 2013. The contraction surpassed the 9.7% collapse experienced during the Great Depression in 1921, making it the worst annual drop since 1709. However, optimism reigns as prime minister Boris Johnson released a four-phase roadmap aimed at effectively ending lockdown restrictions on 21 June. He reiterated the phases will be driven by data and not by dates. The faster end to the lockdown was made possible by a sharp decline in the number of new COVID-19 cases and 25% of the population already vaccinated. Analysts implored the government to keep job support programmes alive until at least the end of June after official statistics showed that 1.7 million people were unemployed in the fourth quarter of 2020, up 454 000 from a year before.

Forecast 2020:

GDP: -4.8%
Inflation: -0.1%

Forecast 2021:

GDP: 3.1%
Inflation: 0.2%

CHINA

As the US is designing measures to reduce supply chain disruptions in critical goods such as in military and technology, China is considering restrictions on exports of rare earth metals that are used by the US military (fighter jets) and mobile telephones. China has also, albeit under the radar, stepped up its efforts to disintermediate the US\$ from its commercial and financial system. This is contributing to the weaker US\$ and strengthening in other currencies. China's economy is muddling through early in 2021, with some sectors growing strongly. But the services PMI declined in January as new orders from overseas weakened substantially, likely due to the weakening economic situation in Europe. In addition, new domestic orders also weakened, possibly as a result of the geographically isolated outbreaks of COVID-19 in China that required degrees of new economic restrictions.

Forecast 2020:

GDP: -2.4%
Inflation: 3.2%

Forecast 2021:

GDP: 4.6%
Inflation: 3.4%

Forecast 2020:

GDP: 2.3%
Inflation: 2.7%

Forecast 2021:

GDP: 7.7%
Inflation: 1.8%

EMERGING MARKETS

The International Monetary Fund warned that inequitable distribution of vaccines risks exacerbating financial vulnerabilities in emerging markets. Given emerging markets' dependence on for instance tourism, commodity prices, and global manufacturing supply chains, an inequitable recovery will hurt economic growth in advanced economies. Meanwhile, the Taiwanese economy, which grew 3,1% last year, is set to grow by more than 4% in 2021, driven by strong demand for its technology products. India's resistance to bitcoin is picking up, in contrast with China, who is promoting the use of the cryptocurrency. Moody's expect India's economy to grow by 13,5% but kept its rating at the lowest investment grade level. In its union budget, India slashed the fiscal deficit to 6,8% of gross domestic product (GDP) from 9,5% in 2020/21. It is estimated to decline to 4,5% of GDP by 2025/26.

Forecast 2020:

GDP: -7.2%
Inflation: 3.3%

Forecast 2021:

GDP: 3.2%
Inflation: 3.9%

SOUTH AFRICA

The South African economy should, despite a mixture of sector performances, have registered positive economic growth in the fourth quarter of 2020. Initial indications from high frequency data are that manufacturing production, retail sales and electricity production grew by an annualised and seasonally adjusted rate of respectively 22,3%, 11,5%, and 3,2%, while a nominal trade surplus of R102 billion was registered. However, mining and wholesale sales contracted by respectively 1,8% and 7,8%. This would have reduced the economic contraction in 2020. The national treasury expects the contraction to be negative 7,2% compared to negative 7,8% earlier. The treasury also tabled a budget with an estimated economic growth rate of 3,3% in 2021, slowing to 2,6% in 2022. Thanks to a revenue overrun of almost R100 billion compared to the MediumTerm Budget Policy Statement (MTBPS), the fiscal deficit was lowered to 14% of GDP compared to the MTBPS' estimate of 15,7%. Higher revenue, coupled with a reduction in expenditure (based on no salary increases for civil servants, which remains a big risk) had a deficit reduction knock-on effect. If the plans work out, the treasury estimates that the fiscal deficit can decrease to 9,3% of GDP in 2021/22 and 6,3% of GDP in 2023/24. However, this is still too high as debt service costs is estimated to continue increasing from 17,1% of revenue in 2020/21 to 19,7% in 2023/24.

The macro research desk

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Indices summary for February 2021

	One month	Three months	One year	Three years	Four years	Five years	Six years	Seven years	Ten years
Equity indices									
FTSE/JSE All-Share Index (Alsi)	5.87%	16.10%	33.20%	7.57%	9.96%	9.21%	6.82%	8.11%	10.73%
FTSE/JSE Shareholder Weighted Index (Swix)	4.61%	14.16%	26.08%	3.50%	6.89%	7.04%	4.92%	7.13%	10.46%
FTSE/JSE Capped Swix All Share index	5.33%	14.51%	23.91%	1.67%	4.66%	5.23%	3.45%	5.84%	
FTSE/JSE All Share Top 40 Index	6.01%	16.19%	36.15%	8.97%	11.58%	9.89%	7.43%	8.29%	10.87%
FTSE/JSE Mid Cap Index	3.15%	12.82%	7.38%	-1.78%	0.06%	3.30%	1.71%	5.49%	8.64%
FTSE/JSE Small Cap Index	8.40%	18.69%	30.40%	-2.77%	-2.40%	2.17%	0.70%	3.86%	8.62%
FTSE/JSE Resources Index	11.57%	28.40%	66.57%	29.06%	25.68%	24.34%	11.49%	7.16%	5.29%
FTSE/JSE Financials Index	4.79%	10.57%	-4.41%	-8.89%	-2.28%	0.10%	-1.37%	3.46%	8.59%
FTSE/JSE Industrials Index	2.31%	9.82%	31.49%	4.62%	7.48%	6.12%	5.59%	8.11%	13.82%
FTSE/JSE Research Affiliates Fundamental Indices 40 Index (Rafi)	6.36%	16.60%	24.78%	4.39%	8.17%	9.25%	5.76%	6.50%	9.00%
FTSE/JSE Research Affiliates Fundamental Indices All Share Index	6.92%	17.68%	25.16%	4.32%	7.58%	9.26%	5.45%	6.37%	8.67%
FTSE/JSE SA Listed Property Index (Sapy)	8.60%	19.50%	-15.75%	-13.54%	-11.74%	-7.60%	-6.69%	-0.69%	4.61%
Interest-bearing indices									
FTSE/JSE All Bond Index (Albi)	0.06%	3.28%	8.31%	7.13%	8.88%	9.79%	7.42%	8.48%	8.56%
FTSE/JSE All Bond Index 1-3 years (Albi)	-0.69%	-0.30%	9.04%	8.40%	8.78%	9.03%	8.25%	8.25%	7.82%
FTSE/JSE Inflation-linked Index (Ili)	1.92%	6.38%	7.66%	3.60%	2.83%	3.58%	3.83%	4.95%	6.50%
Short-term Fixed Interest Composite Index (Stefi)	0.31%	0.91%	4.84%	6.44%	6.70%	6.87%	6.82%	6.71%	6.33%
Commodities									
NewGold Exchange-Traded Fund	-6.30%	-3.86%	3.45%	18.69%	11.97%	5.48%	10.35%	8.73%	9.85%
Gold price (in rands)	-7.26%	-4.11%	3.80%	19.09%	12.42%	5.79%	10.90%	9.11%	10.27%
Platinum Exchange-Traded Fund	9.03%	19.05%	31.47%	15.16%	6.96%	3.66%	3.91%	1.48%	
Platinum price (in rands)	12.31%	24.27%	33.63%	16.86%	8.25%	4.50%	4.88%	2.47%	0.36%
Currency movements									
Rand/euro movements	-0.32%	-1.14%	6.07%	8.12%	6.96%	1.19%	5.67%	2.96%	6.62%
Rand/dollar movements	-0.08%	-2.13%	-4.01%	8.39%	3.50%	-0.99%	4.32%	4.90%	8.03%
Inflation index									
Consumer Price Index (CPI)			3.16%	3.88%	4.00%	4.51%	4.80%	4.74%	5.06%

Important notes

1. Sources: Momentum Investments, IRESS, www.msci.com, www.yieldbook.com, www.ft.com.
2. Returns for periods exceeding one year are annualised.
3. The return for Consumer Price Index (CPI) is to the end of the previous month. Due to the reweighting of the CPI from January 2009, this number reflects a compound of month-on-month CPI returns. The historical numbers used are the official month-on-month numbers based on a composite of the previous inflation series (calculations before January 2009) and the revised inflation series (calculations after January 2009).
4. The MSCI World index (All Countries) returns are adjusted to correspond with global investment prices received.
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