August 2018

Economies at a glance

01 United States

Pro-cyclical fiscal policy is fuelling domestic demand. However, the fiscal contribution to growth is expected to become negative later in the cycle (2020), prompting a **downswing**. A further escalation in trade disputes represents the main downside risk. Fiscal stimulus and a **tight labour market** are likely to boost inflation. Technological advances, spare capacity in key sectors and ongoing policy tightening should, however, prevent runaway inflation. **Monetary policy** is expected to **shift beyond neutral** in upcoming quarters, in line with robust growth and firming inflation.

Forecast 2018:
GDP: **2.8%**
Inflation: **2.6%**
Forecast 2019:
GDP: **2.4%**
Inflation: **2.2%**

02 Eurozone

Forecast 2018:
GDP: **2.1%**
Inflation: **1.6%**
Forecast 2019:
GDP: **1.9%**
Inflation: **1.7%**

Growing **support for non-mainstream** political parties **complicates policymaking** and could **slow reform** in the longer run. The **euro** is likely to **appreciate** against the US dollar towards the **end of 2019**, as differentials (growth, quantitate easing, interest rates and political risk) shift in favour of the Eurozone. Heightened political tensions, rising risks of trade wars and softer growth have prompted a **more dovish stance** by the European Central Bank, with hikes in interest rates now expected towards the end of 2019, at the earliest.

03 China

Growth is **steadily** shifting to a **lower gear**, as **exports ease** and **investment slows**, amid tightening monetary conditions. Authorities are **actively promoting financial stability** through a tightening in funding conditions, better pricing on credit risks and greater market discipline. The removal of limits on presidential terms allows leaders to take a longer-term view on the economy, allowing for tail risks to be more adequately addressed. The **risk** of a **costly trade war** with the US has risen. The US$200 billion tariff proposal would shave an estimated 0.3% off Chinese growth and add 0.2% to inflation.

Forecast 2018:
GDP: 6.4**%**
Inflation: 2.2**%**
Forecast 2019:
GDP: 6.2**%**
Inflation: 2.2**%**

04 South Africa

Forecast 2018:
GDP: **1.4%**
Inflation: **4.7%**
Forecast 2019:
GDP: **2.1%**
Inflation: **5.1%**

Structural reforms are necessary to shift SA to a higher growth plane over time. **Household spend** is expected to remain **firm** on decent growth in real wages, positive wealth effects, mild credit growth and some job gains. Inflation is expected to increase, but will likely remain within the target band for the next two to three years. Medium-term **upside threats to inflation** include the **rand**, wages and **oil prices**. **Interest rates** should remain **steady** for the remainder of the year, before being raised in 2019. Maintaining an attractive real interest rate profile remains important in an environment of **diminishing global liquidity** additions.

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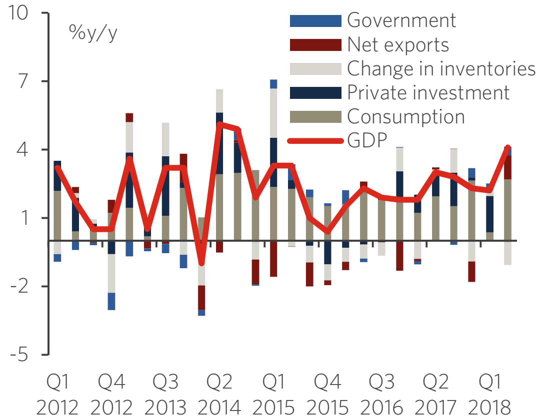
Economies at a glance: United States

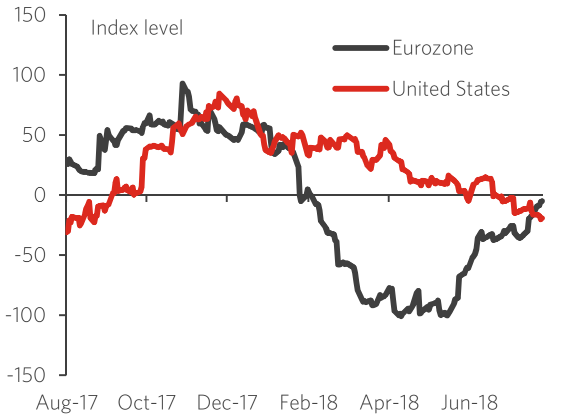
- Government stimulus, in the form of generous personal and corporate tax cuts, as well as a strong consumer have benefited growth in domestic demand.
- Although the economic surprise index crossed over into negative territory towards the end of July 2018, growth projections for the third quarter, based on high-frequency data releases, remained solid.
- While growth in economic activity is anticipated to peak in 2018, the outlook for 2019 remains firm. Heightened trade tensions and an unwind in the positive contribution from government stimulus could see the economy entering a downturn in 2020.

Chart 1: Consumption remains a key growth driver*



*Data up to Q2 2018

Chart 2: Negative economic surprise index suggests US economy may be nearing a peak*



*Data up to August 2018

Chart 3: Evolution of third-quarter growth forecasts remains firm

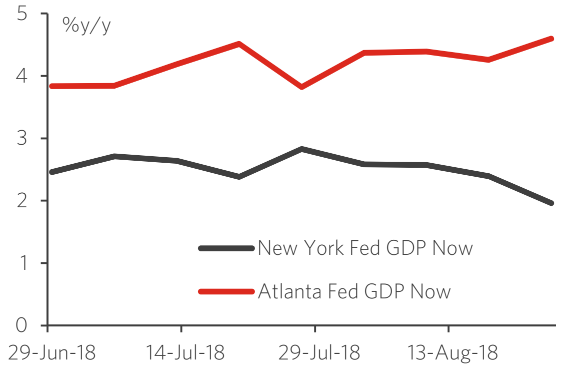


Chart 4: Services and manufacturing sentiment is rolling over, but is still in expansionary territory

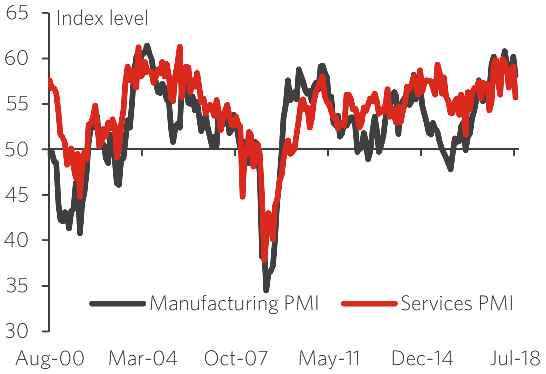


Chart 5: Solid growth in the leading indicator

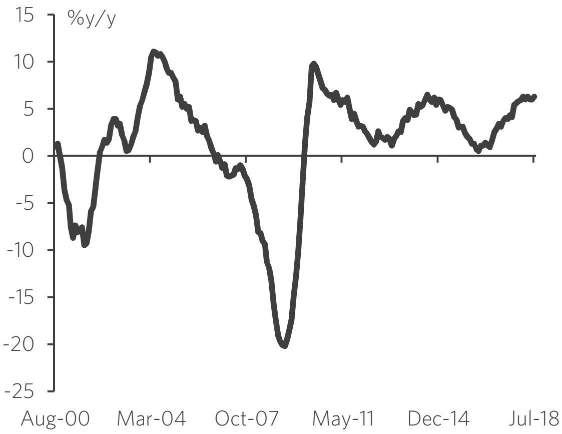


Chart 6: The probability of a recession occurring within the next year has risen, but remains low

Source: Bloomberg, Momentum Investments

Economies at a glance: Eurozone

- Although intra-euro trade accounts for a significant share of total trade, the Eurozone recovery is at risk of taking a significant blow, if trade wars continue to escalate, given its high bilateral trade with the United States (US).
- The European Union has adopted a retaliatory stance by imposing tariffs of 10% and 50% on US agricultural products, textiles and motor vehicles on top of its existing total product tariff base.
- Export growth detracted from overall economic activity in the second quarter of the year. Trade protectionism and anticipated euro appreciation later in the year could continue to weigh negatively on growth.

Chart 1: The US remains the biggest export destination in extra-euro trade

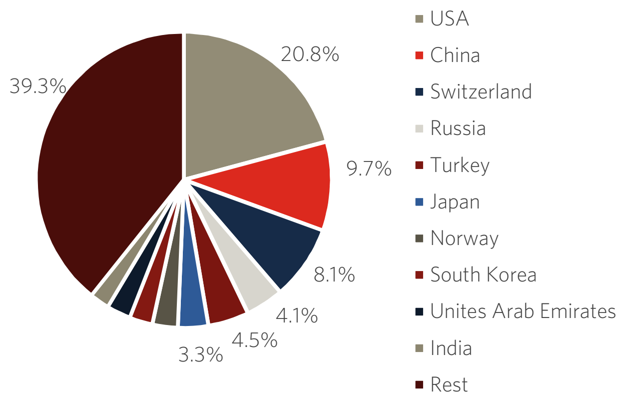


Chart 2: European trade balance with the US is close to historic highs

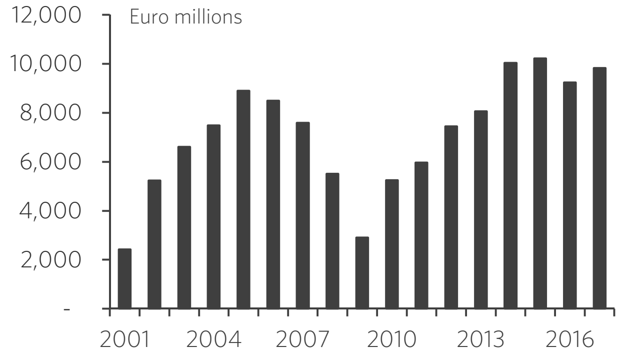


Chart 3: Manufacturing goods constitute the largest share of Eurozone exports

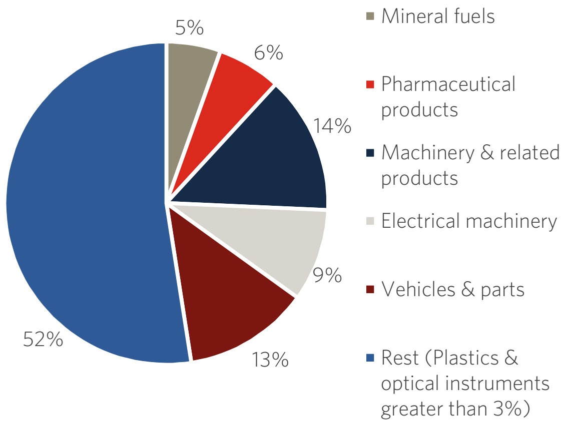


Chart 4: European tariffs are higher than US tariffs for all products

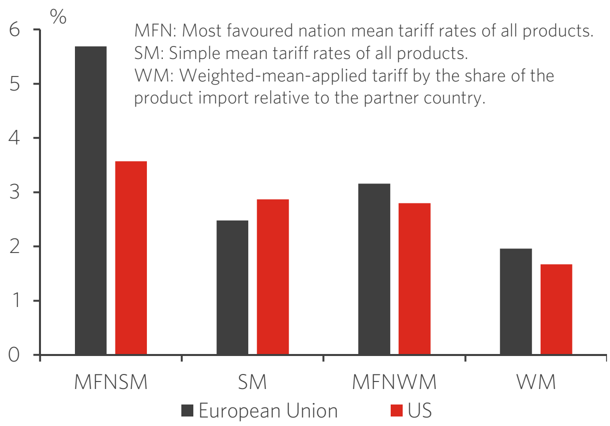


Chart 5: Weak net exports driving GDP (gross domestic product) lower

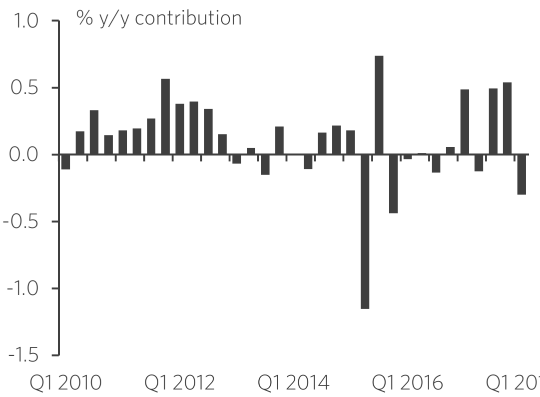
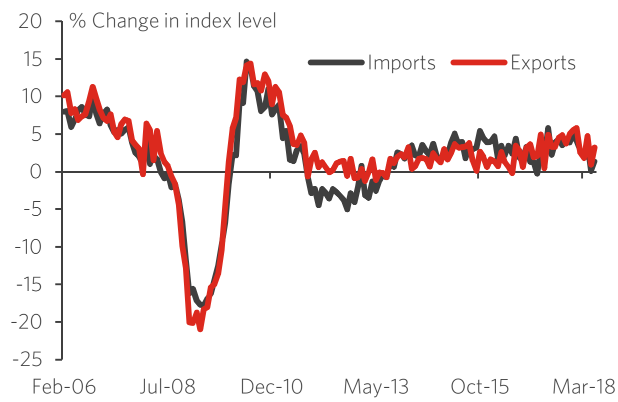


Chart 6 Real net exports down, as trade environment becomes restrictive



Source: Bloomberg, Eurostat, Trade Map, Capital Economics, Momentum Investments

Economies at a glance: China

- Deleveraging resumed in earnest in late 2017, as authorities committed to unwinding excess credit in an orderly fashion. Authorities re largely focused on recognising non-performing loans, increasing loan loss provisioning and expanding conduits for the sale of bad investments.
- Investment in infrastructure is taking a strain, as the financial system becomes less accommodative, but growth in investment in real estate remains steady.
- The economy is expected to avoid a hard landing, as exports continue to underpin growth, but punitive trade tariffs pose a challenge.

Chart 1: Deleveraging acting as the biggest growth headwind

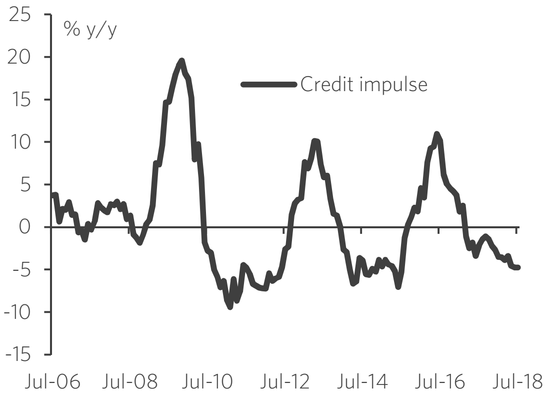
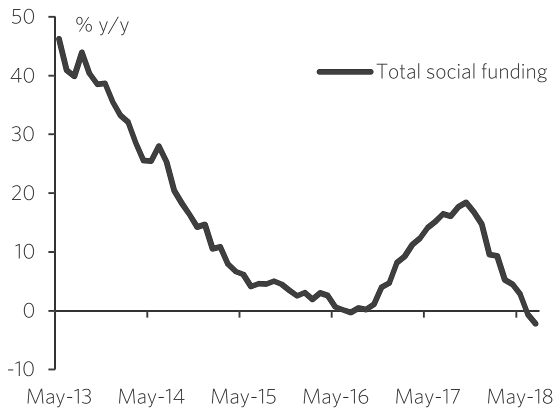


Chart 2: Deleveraging efforts underway



*Data up to July 2018

Chart 3: Money supply is slowing in line with monetary authorities' deleveraging efforts

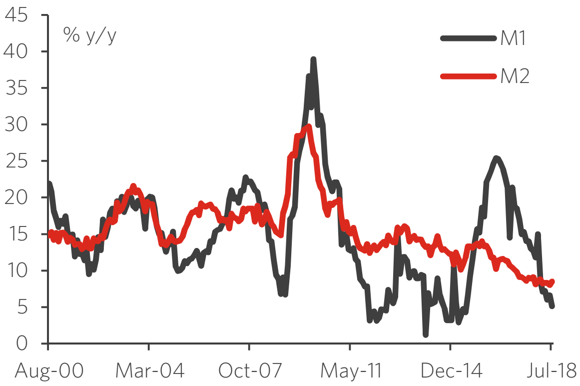


Chart 4: Infrastructure feeling the pain, as credit tightens

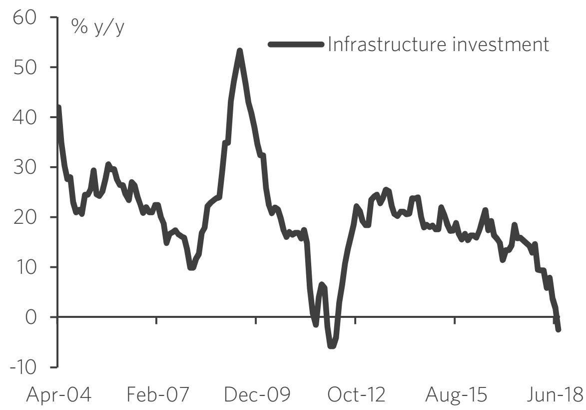


Chart 5: New starts showing robust growth, but the slowdown in the property market remains a risk

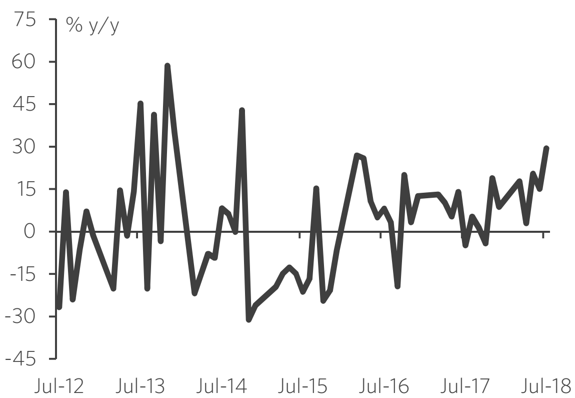
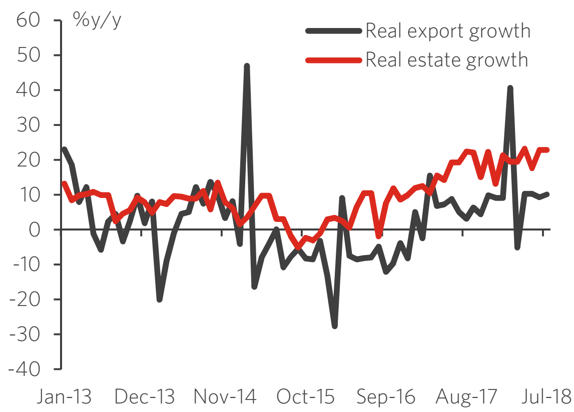


Chart 6: Growth in exports and real estate investment continues to underpin economic activity



Source: Bloomberg, Macquarie, Momentum Investments

Economies at a glance: South Africa

- Headline inflation is rising, with the print for July 2018 reaching a ten-month high. Nevertheless, price pressures are still well within the 3% to 6% target range of the South African Reserve Bank.
- Food inflation remains non-threatening after experiencing a favourable harvest season in 2017/2018. However, an escalation in international oil prices and a depreciation in the local currency have exerted upward pressure on transport inflation.
- Notwithstanding the recent uptick in headline inflation, growth in real disposable incomes, for almost all income-earning groups, is higher than a year ago.

Chart 1: Stable food inflation is keeping a lid on headline price pressures

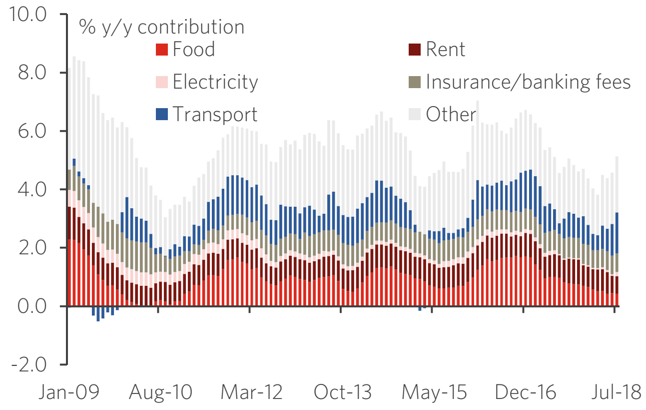


Chart 2: Rand depreciation and higher international oil prices have driven transport inflation higher

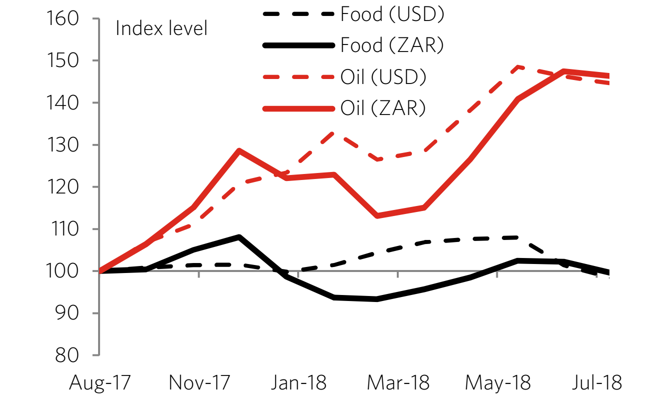


Chart 3: Transport inflation continues to contribute to higher headline inflation

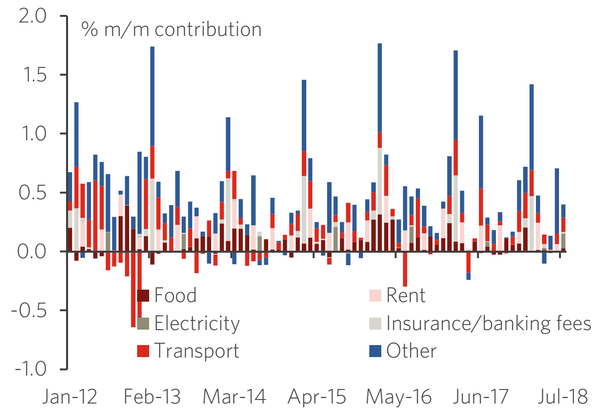


Chart 4: Grains detracting from overall food inflation

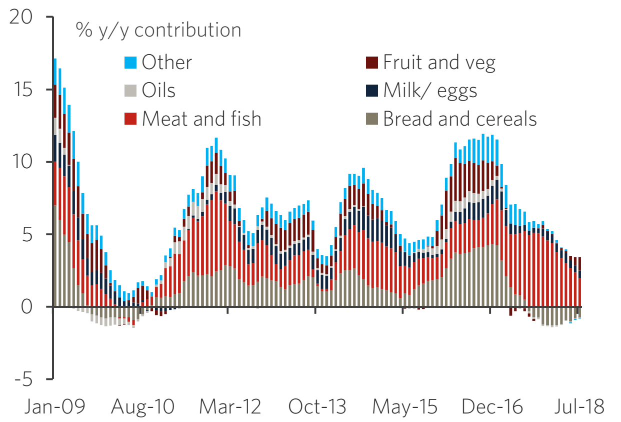


Chart 5: Lower income earners' purchasing power higher than a year ago, given lower inflation pressure

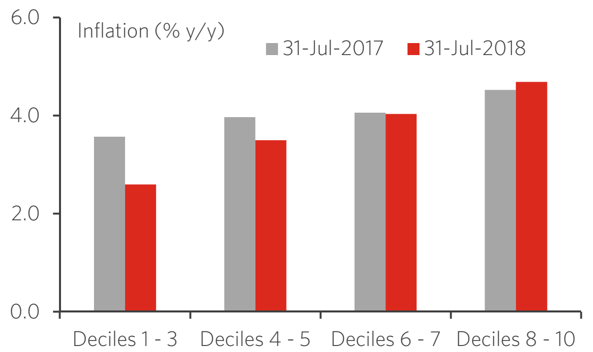
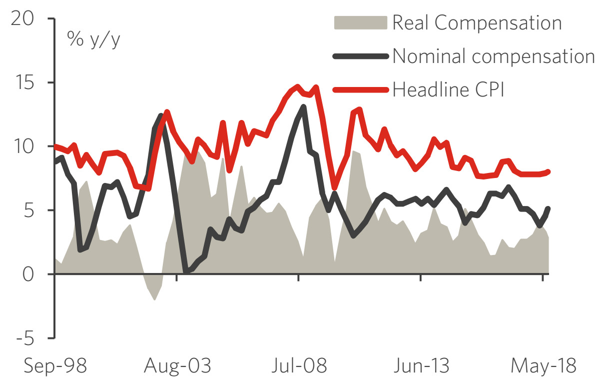


Chart 6: Real wage growth remains supportive*



*Data up to July 2018

Source: Stats SA, IRESS, Momentum Investments

The macro research desk

Herman van Papendorp is the head of the Momentum Investments research and insights team and takes ultimate responsibility for macro research and asset allocation. Economist, Sanisha Packirisamy, is responsible for providing a macro framework to inform investment opportunities and strategies. Roberta Noise has recently joined the team as an economic analyst.

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Your goal is our benchmark