July 2018

Economies at a glance

01 United States

Pro-cyclical fiscal policy is fuelling the economy. However, the fiscal contribution to growth is expected to become negative later in the cycle (2020), prompting a **downswing**. Fiscal stimulus and a **tight labour market** are likely to boost inflation. Technological advances, China disinflation, spare capacity in key sectors and ongoing policy tightening should, however, prevent a runaway in inflation outcomes. **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: 2.3%
Inflation: 2.2%

02 Eurozone

Forecast 2018:
GDP: 2.1%
Inflation: 1.5%
Forecast 2019:
GDP: 1.9%
Inflation: 1.6%

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 trade-war risks and softer growth have prompted a **more dovish stance** by the European Central Bank, with interest-rates hikes now expected towards the end of 2019, at the earliest.

03 Emerging markets

Stable commodity prices, **resilient global growth**, still **accommodative monetary policies** and ongoing **progress in economic** and **political reforms** are behind the **growth advantage** that emerging markets have over developed markets. Firm underlying global demand matters more for trade growth, but emerging markets would be the biggest loser if there was a more marked lurch towards **protectionism**.

Forecast 2018:
GDP: 5.0%
Inflation: 4.6%
Forecast 2019:
GDP: 4.9%
Inflation: 4.3%

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. Despite higher taxes and increased petrol prices, **household spend** is expected to remain firm in the second half of 2018. 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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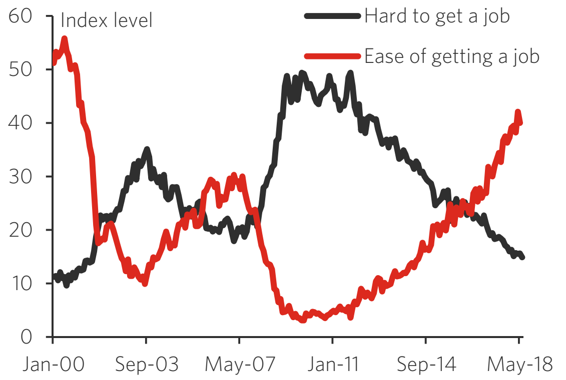
Economies at a glance: United States

- The United States (US) unemployment rate rebounded to 4% in June 2018, but continued to reflect a tight labour market.
- An increase in the ease of getting a job, low benefit claims on unemployment, strong hiring rates and a normalisation in part-time employment for economic reasons reflect diminishing slack in the labour market.
- Rising wage growth is expected to lift overall inflation higher, leading to a further increase in interest rates, which could put the brakes on consumption growth in upcoming quarters.

Chart 1: Easiest time to find employment since 2000*



*Data up to June 2018

Chart 2: Unemployment benefit claims decline, driven by low unemployment level

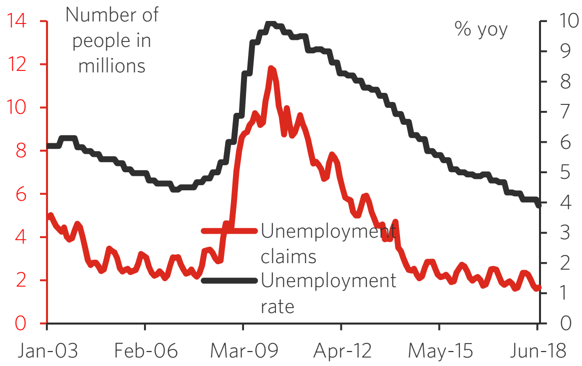
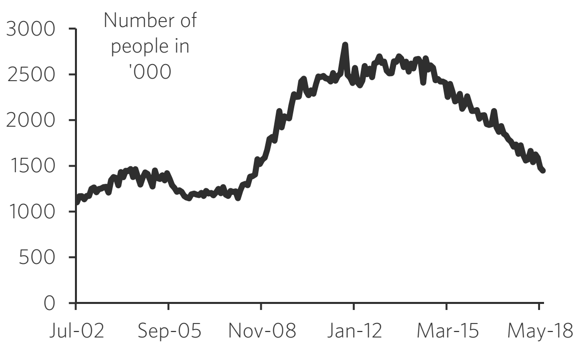
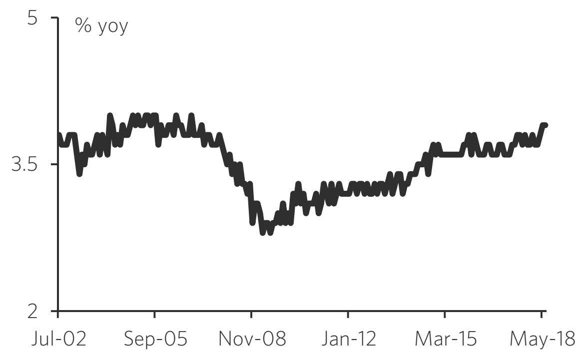


Chart 3: Part-time employment numbers (for economic reasons) normalising to pre-crisis levels*



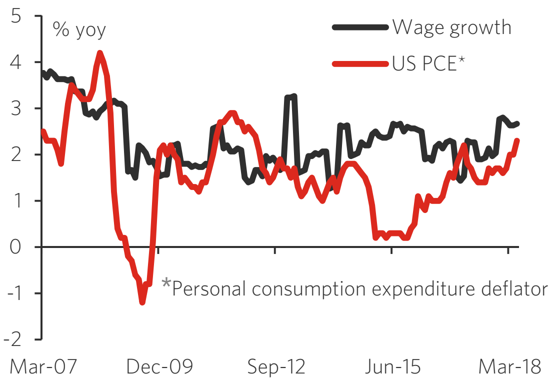
*Data up to June 2018

Chart 4: Hiring rates still edging upwards*



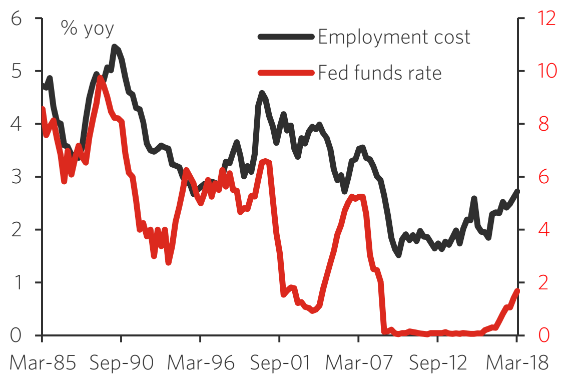
*Data up to June 2018

Chart 5: US household real income in good standing, as inflation tracks lower than wage growth*



*Data up to May 2018

Chart 6: Historically, a rising wage index has been associated with Fed interest-rate hikes

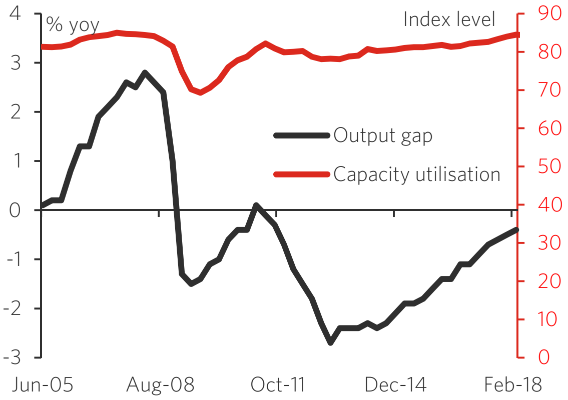


Source: Bloomberg, IRESS, Momentum Investments

Economies at a glance: Eurozone

- An improvement in domestic demand has led to a considerable narrowing of the output gap. Improved demand conditions are corroborated by a recovery in capacity utilisation to around 85%.
- Forward-looking indicators of growth, including the lead indicator and business and consumer sentiment, point to firm, but slowing growth.
- Slowing export growth (due to trade protectionist concerns and lagged euro depreciation) could weigh on economic activity in the remainder of the year.

Chart 1: Output gap has nearly closed in line with a recovery in capacity utilisation



*Data up to June 2018

Chart 2: Growth in the lead indicator is still positive

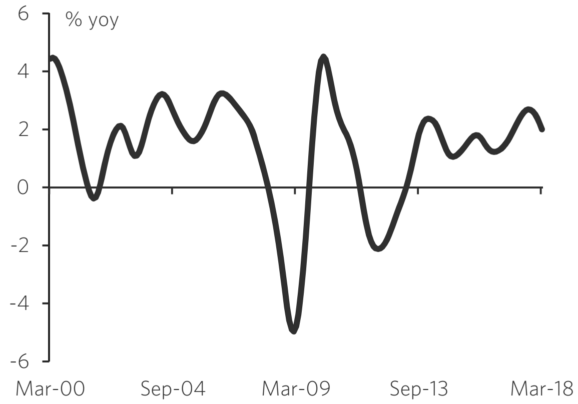


Chart 3: Consumer and business confidence not far off their peaks

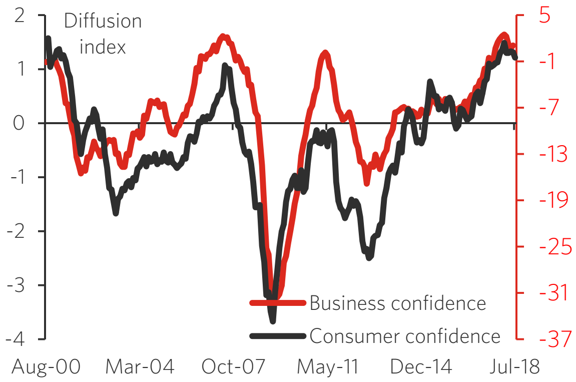


Chart 4: A lower unemployment rate and rising wages are positive for consumer spend

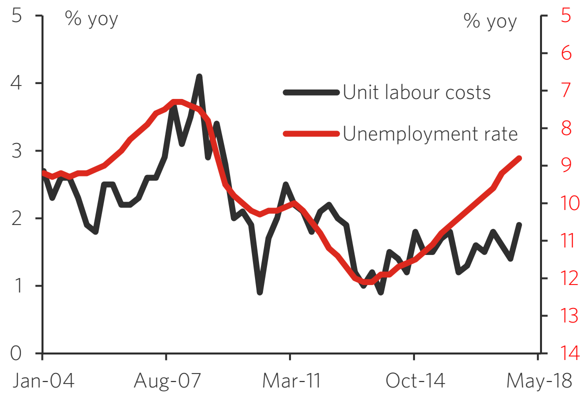


Chart 5: A recovery in bank lending to corporates should support fixed investment

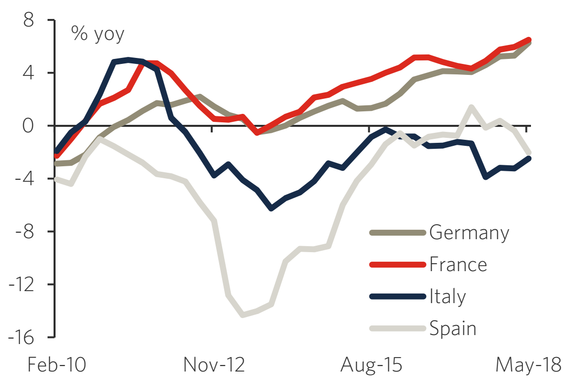
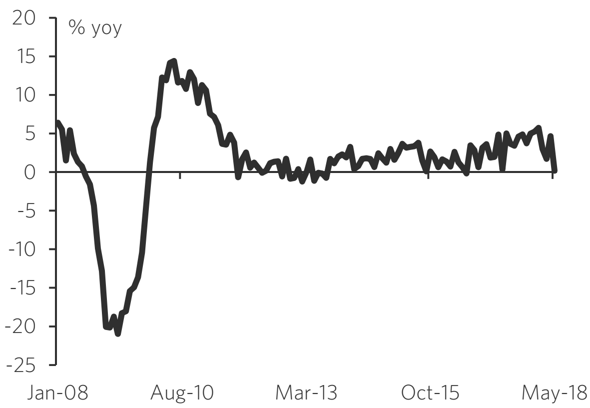


Chart 6: Export growth slowing, but remains marginally positive

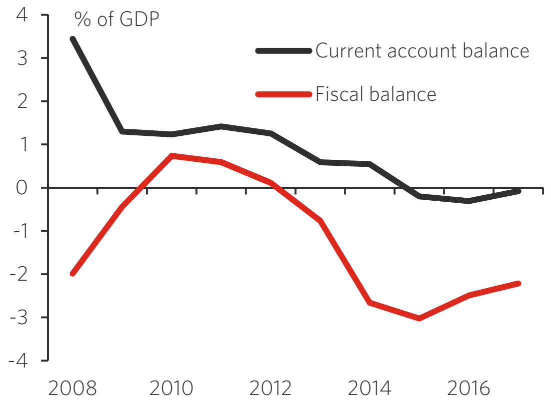


Source: Bloomberg, Eurostat, Momentum Investments

Economies at a glance: Emerging markets

- Economic fundamentals in emerging markets (EM) are in better shape in 2018 compared to the 1997 Asian Financial Crisis levels, the 2007/2008 Global Financial Crisis and the May 2013 Taper Tantrum.
- Tighter global financial conditions and the rising possibility of a global trade war have dented the returns from risky asset classes.
- EMs are likely to be the largest loser in a global-trade-war scenario, given the region's high dependency on trade.

Chart 1: Fiscal deficits have improved in EM, while the current account deficit is marginal *



*Data up to 2017

Chart 2: Inflation is lower in EM

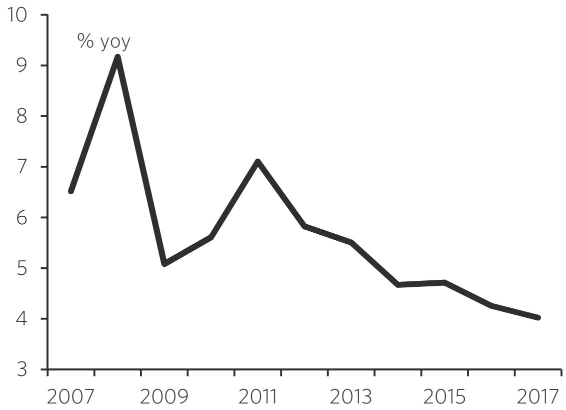
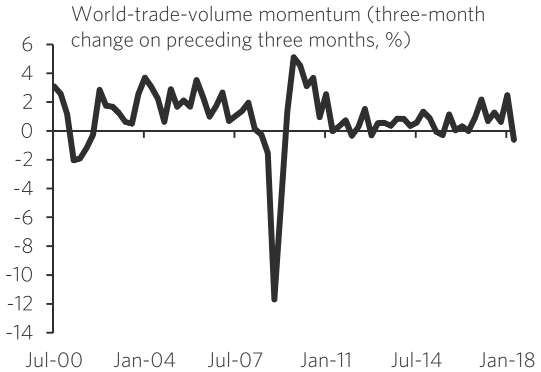


Chart 3: World trade dipped, as a result of trade retaliation talks *



*Data up to April 2018

Chart 4: EM currencies sold off, as global-trade-war rhetoric escalated*

*Data up to July 2018

Chart 5: Risk in EMs has risen in response to the rising threat of protectionism

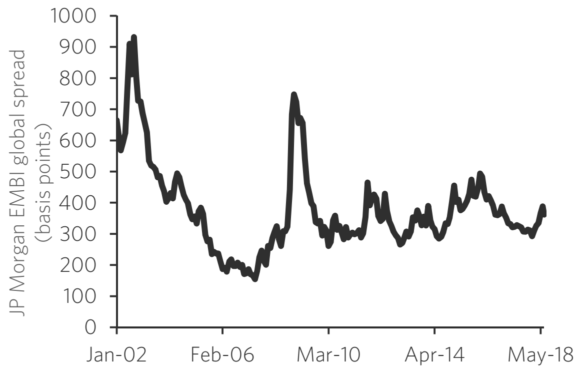
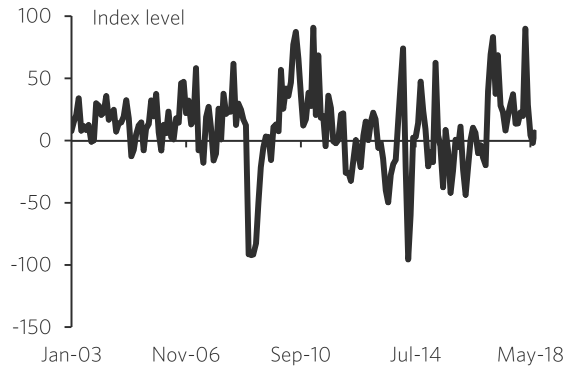


Chart 6: EM export surprises (actual less expectations) have dipped on global trade concerns



Source: Bloomberg, International Monetary Fund, CPB World Trade Monitor, Momentum Investments

Economies at a glance: South Africa

- South Africa's (SA) tax revenue is highly reliant on personal income tax (PIT), company income tax (CIT) and value-added tax (VAT).
- Higher-income earners contribute to the bulk of PIT collected, but rising non-compliance is evident in the data.
- Consumers have been hit by rising fuel taxes, an increase in the VAT rate and limited compensation for bracket creep. Nonetheless, real wage growth remains positive and has been supportive of spend.

Chart 1: PIT remains the largest contributor to state revenue

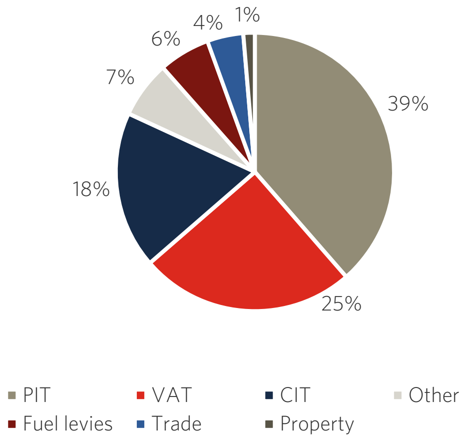


Chart 2: High-income earners contributed more than 60% to total PIT in 2016

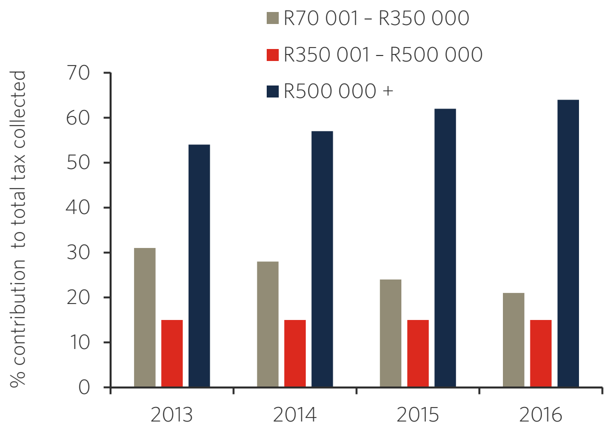


Chart 3: Deterioration in PIT compliance

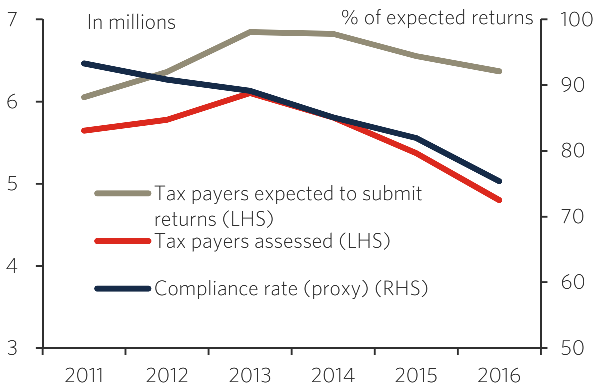


Chart 4: Government's VAT collection estimates revised higher on VAT-rate rise

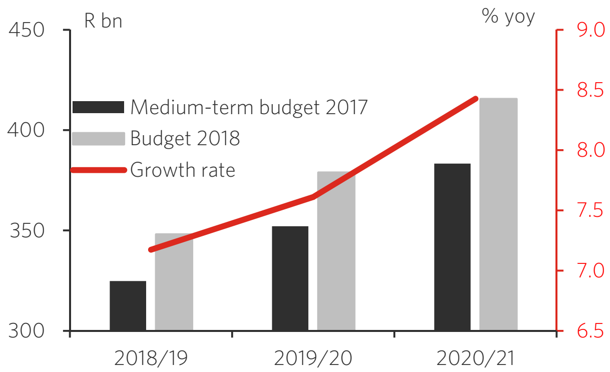


Chart 5: Fuel-levy increases are outstripping the upper end of the inflation target

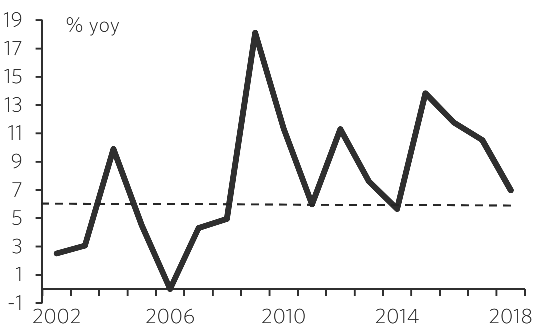
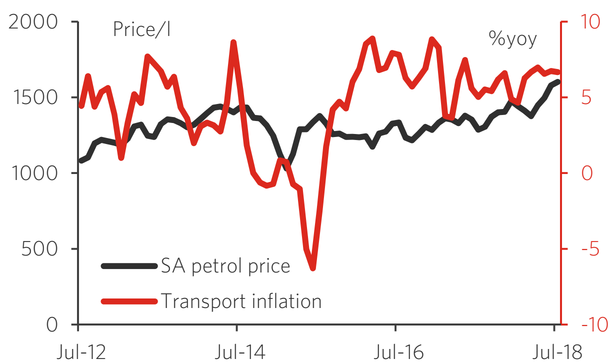


Chart 6: SA feeling the pinch of rising petrol prices



Source: Bloomberg, Bureau of Economic Research, Stats SA. SA Revenue Services, National Treasury, 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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Roberta Noise

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Your goal is our benchmark