

# June 2018

## Economies at a glance

### United States

01

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%

### Eurozone

02

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, quantitative 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.

**Forecast 2018:**

GDP: 2.1%  
Inflation: 1.5%

**Forecast 2019:**

GDP: 1.9%  
Inflation: 1.6%

### China

03

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 credit risk pricing and greater market discipline. The removal of presidential terms limits 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 from Chinese growth and add 0.2% to inflation.

**Forecast 2018:**

GDP: 6.4%  
Inflation: 2.4%

**Forecast 2019:**

GDP: 6.2%  
Inflation: 2.2%

### South Africa

04

**Structural reforms** are necessary to shift SA to a higher growth plane over time. **Household spend** is expected to remain **firm** on decent real wage growth, 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.

**Forecast 2018:**

GDP: 1.7%  
Inflation: 4.9%

**Forecast 2019:**

GDP: 2.1%  
Inflation: 5.1%

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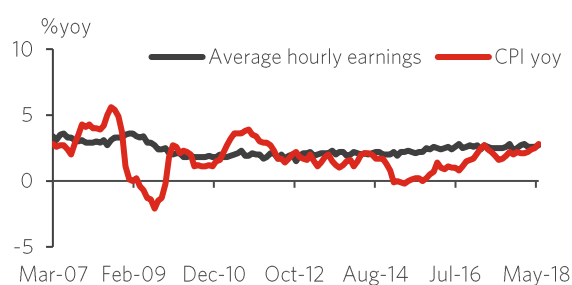


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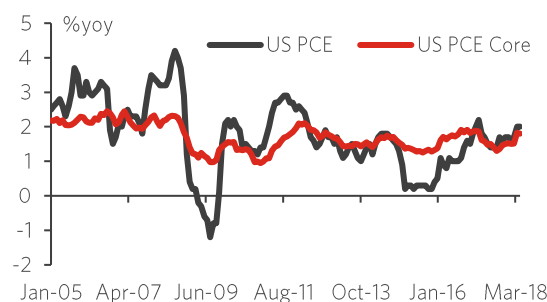
## Economies at a glance: **United States**

- Headline inflation rose to its highest level in six years in May 2018, to 2.8% in year-on-year (y/y) terms. The elevated print was largely due to base effects created by a low inflation print in May 2017, as well as steep international oil prices, which fuelled energy inflation in the month.
- Wage inflation has steadily started to reflect the tightness in the labour market, picking up to 2.7% y/y in May from a low of 1.5% y/y in September 2012.
- Although core inflation remains closer to the 2% target, the underlying inflation gauge points to rising underlying inflation pressures.
- Rising inflation and above-potential growth has led to a more hawkish stance from the United States Federal Reserve.

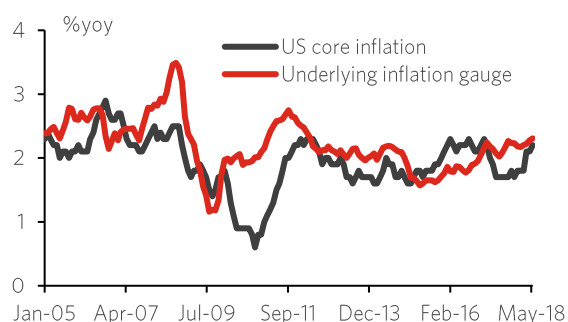
**Chart 1: A tight labour market is supporting higher wage and headline inflation**



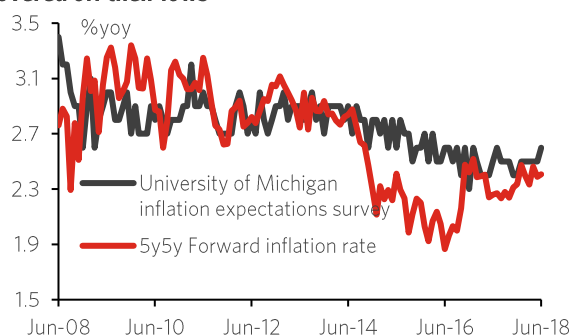
**Chart 2: Higher fuel prices are driving headline inflation marginally above core**



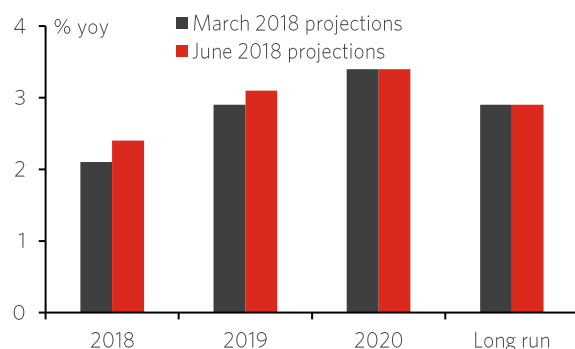
**Chart 3: Underlying inflation gauge points to higher core inflation**



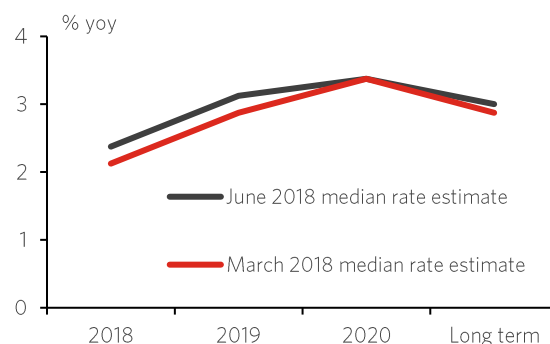
**Chart 4: Forward-looking inflation expectations have recovered off their lows**



**Chart 5: Federal Reserve upwardly adjusted its inflation forecasts**



**Chart 6: Higher inflation forecasts have led to a more hawkish Federal Reserve**

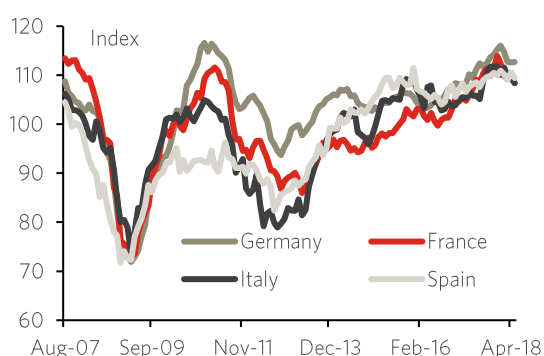


Source: Bloomberg, Momentum Investments

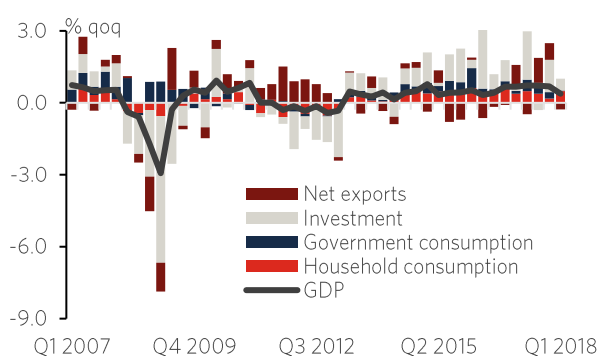
# Economies at a glance: Eurozone

- Economic sentiment remains positive in the Eurozone's four-largest economies, but political noise in Germany, Spain and Italy could dent confidence levels in upcoming months, leading to a more moderate growth outcome.
- Although the contribution to overall economic activity from household consumption dipped in the first quarter of 2018, macro fundamentals bode well for the outlook for the consumer.
- Growth in consumer credit has recovered to 2009 levels, after eight years of deleveraging. Employment growth and positive real wages have further contributed to a rise in consumer confidence levels.

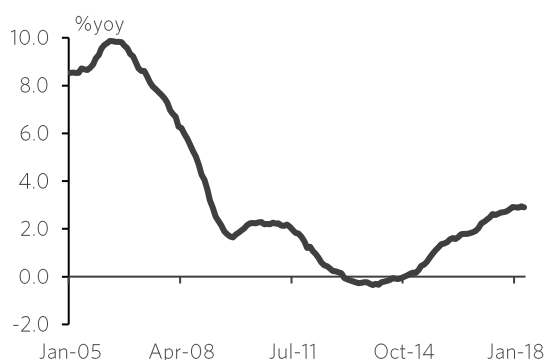
**Chart 1: Recent political turmoil may dent firm economic sentiment**



**Chart 2: First-quarter slowdown driven by weaker consumer spend and softer exports**

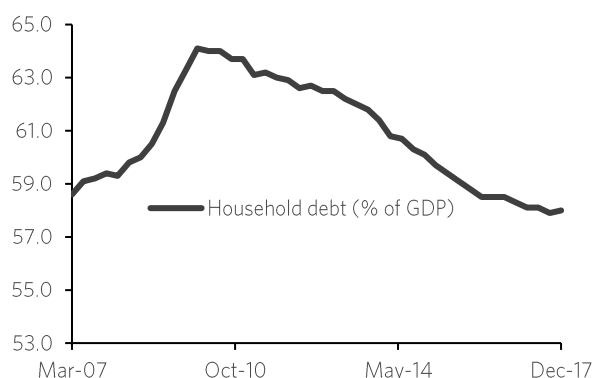


**Chart 3: Consumer credit growth has recovered to 2009 levels**

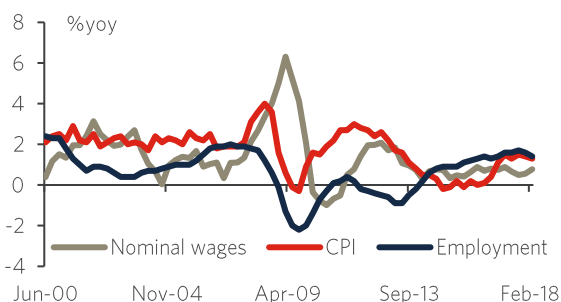


\* Data up to March 2018

**Chart 4: Household balance sheets are stable**

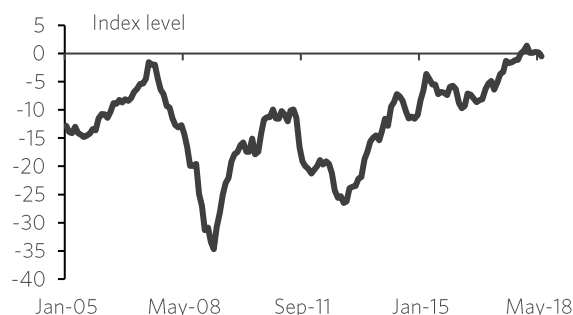


**Chart 5: Higher real wage growth and job gains are supportive for the consumer**



\* Data up to March 2018

**Chart 6: Consumer confidence trending higher**



Source: Bloomberg, Capital Economics, Momentum Investments

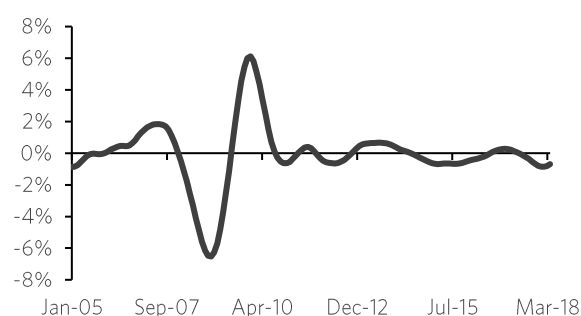
# Economies at a glance: China

- A focus on financial deleveraging has hurt growth in the manufacturing and investment industries. A shift in focus to internally led growth should lead to China shifting to a lower growth gear in upcoming years.
- Some signs of stabilisation have been noted, with business confidence starting to recover, although remaining below neutral. Similarly, negative growth in the lead indicator shows signs of bottoming out. Manufacturing and services sentiment indicators have, in addition, stabilised in recent readings.
- Although growth in consumer spend fell worryingly in the second quarter of the year, consumer confidence remains at all-time highs.

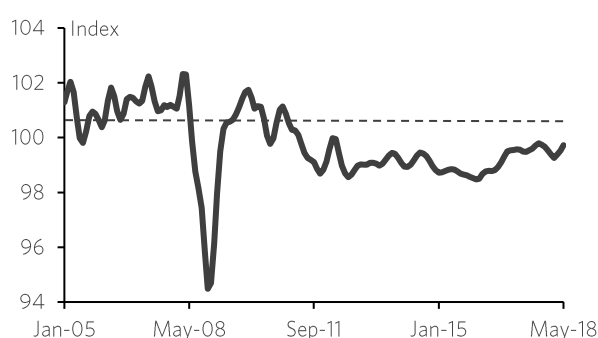
**Chart 1: Economic activity is surprising towards the downside in China**



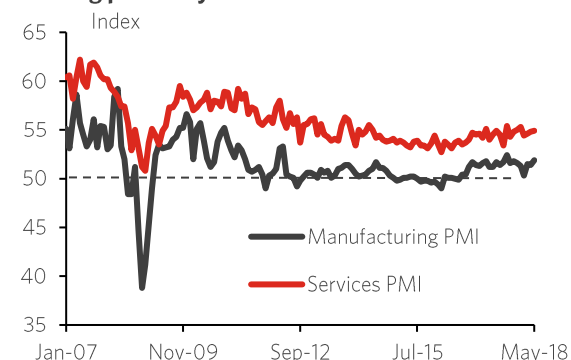
**Chart 2: Growth in the lead indicator is showing signs of bottoming out**



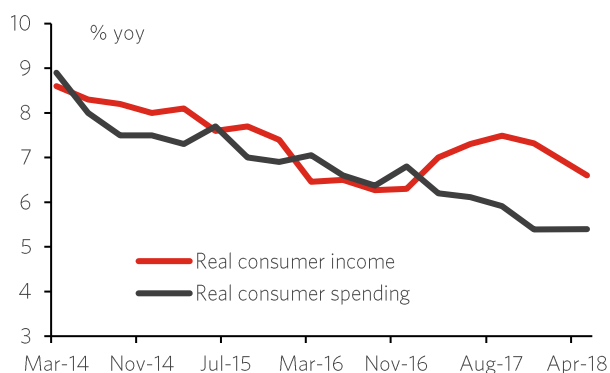
**Chart 3: Business confidence is recovering**



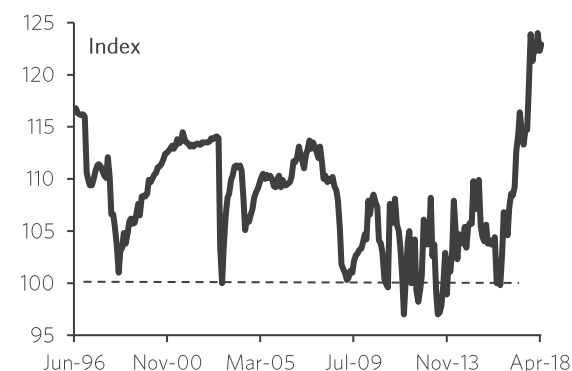
**Chart 4: Sentiment in services and manufacturing trending positively**



**Chart 5: Growth in consumer spend has slowed recently**



**Chart 6: Consumer confidence remains robust**

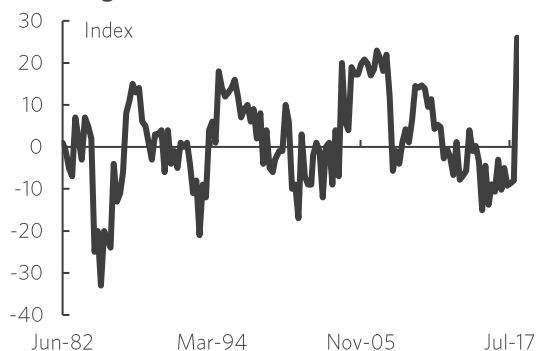


Source: Bloomberg, Momentum Investments

# Economies at a glance: South Africa

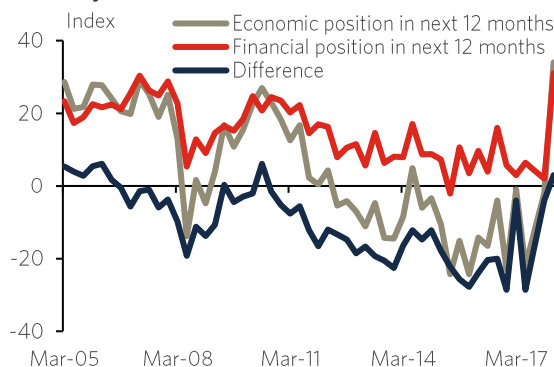
- After many quarters of subdued consumer confidence, the Ramaphoria effect (“citizens’ thankfulness for the end of the Zuma season” or “reward for just not being Zuma”) has driven sentiment to its highest level on record.
- Lower inflation has supported higher growth in real wages. Growth of the public sector real wages has exceeded growth of real wages in the private sector.
- Wealth effects (house and equity price inflation) and a loosening of credit criteria should additionally support consumption spend going forward.

**Chart 1: Ramaphoria sent consumer confidence to an all-time high**



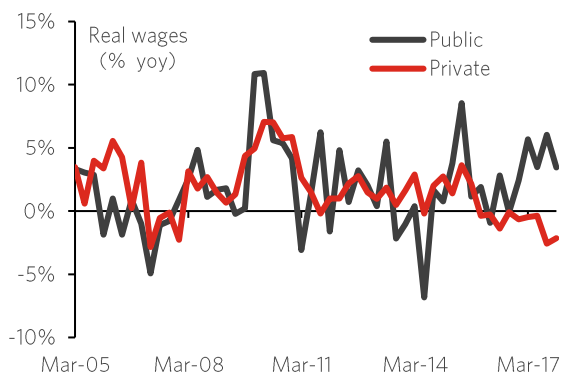
\* Data up to Q1 2018

**Chart 2: Consumers more upbeat about the prospects for the economy**



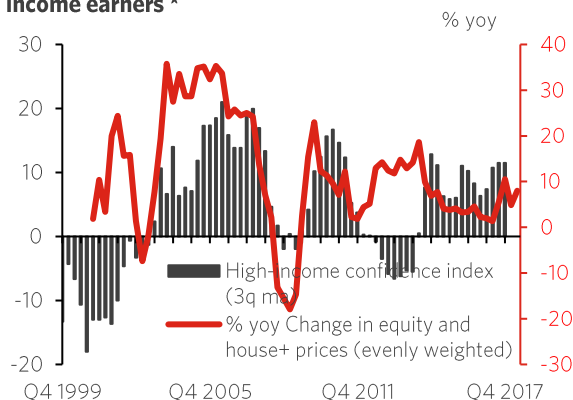
\* Data up to Q2 2018

**Chart 3: Wage growth in the public sector has exceeded that in private sector**



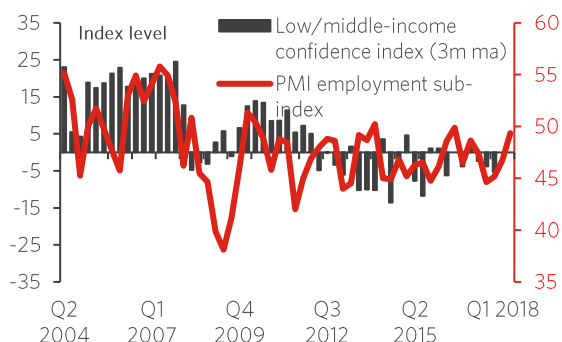
\* Data up to Q4 2017

**Chart 4: Wealth effects are positive for high income earners \***



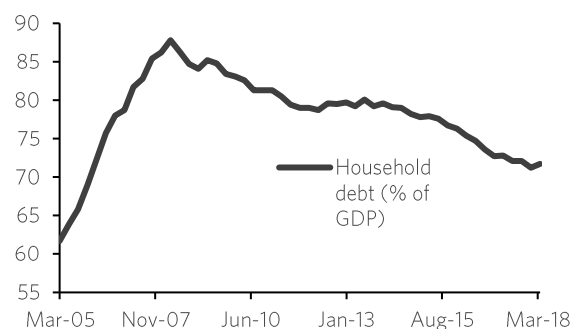
\* Data up to Q2 2018

**Chart 5: Mildly positive jobs outlook should be beneficial for low-income earners\***



\* Data up to Q2 2018

**Chart 6: Households have de-levered, allowing for credit uptake**



Source: Bloomberg, BER, IRESS, Momentum Investments

## The macro research desk

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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*



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