

Economies at a glance

April 2021

Forecast 2021:

GDP: 7.2%

Core PCE Inflation: 2.2%

Forecast 2022:

GDP: 4.3%

Core PCE Inflation: 2%

EUROZONE

The Services Purchasers Managers Index remained in contractionary territory despite increasing from 45,7 in February to 49,6 in March. This reflects the effect of new economic restrictions related to recent surges in COVID-19 infections. Of the four major Eurozone economies, only Germany showed growth in services, while France, Italy and Spain showed a continued decline in service activity. Elsewhere two-thirds (18 of the 27 countries) have now ratified the Own Resources Decision. Once all the countries have given their approval, the European Commission can borrow funds (the European Union budget may not run a deficit) to assist countries with economic recoveries. The aim is to start borrowing and disbursements by the third quarter of 2021. The European Central Bank expects that economic growth contracted in the first quarter and that rising inflation will be transitory.

Forecast 2021:

GDP: 6.8%

Inflation: 1.9%

Forecast 2022:

GDP: 5.8%

Inflation: 2%

JAPAN

Japan instituted another COVID-19 state of emergency, this time in Tokyo, Osaka, Kyoto and Hyogo. The new state of emergency, which includes a 'ban' on the sale of alcoholic beverages in restaurants and taverns, will run from 25 April to 11 May, barely three months before the start of the Olympic Games. COVID-19 infections have risen sharply to above 5 000 per day. This will negatively affect Japan's economic growth rate in the second quarter, following an expected contraction of around 6% in the first quarter of 2021. Japan plans to secure enough vaccines for all its citizens by September 2021, which should assist the economic recovery. Bank of Japan officials expect the strong economic recovery in the United States and China as driving forces for Japan's export-reliant economy.

UNITED STATES

First-quarter economic growth at 6,4% was in accordance with expectations, driven by consumption. US Treasury Secretary Janet Yellen's call for a global corporation minimum tax rate, whereby the largest corporations should pay taxes based on their market share in the countries they operate, received favourable consideration from Europe. Federal Reserve Chairperson Jerome Powell, continued the dovish stance, stating employment gains must be broad-based and inclusive, prompting speculation that rate increases might only occur in 2024. Earlier, the New York Federal Reserve found that households spent 29,2% of their (\$1 200) April 2020 stimulus payouts, 25,5% of their (\$600) December 2020 receipts, and they intend to spend 24,7% of their (\$1 400) March 2021 cheques. The rest was relatively evenly split between savings and debt repayments.

Forecast 2021:

GDP: 4.3%

HICP Inflation: 1.5

Forecast 2022:

GDP: 5.1%

HICP Inflation: 1.2%

UNITED KINGDOM

Medical protectionism, driven by the COVID-19 vaccine 'held-backs' hit the United Kingdom hard during January. S&P Global reports that the UK's imports of medicines declined by 42,2% in January (from December), while it was 38,7% lower than a year before. However, since then most problems were resolved, and vaccinations picked up the pace. Half of the population has received the first COVID-19 vaccination. Economic activity is accelerating, and Goldman Sachs increased its economic growth estimate for the UK to just below 8% for 2021 on the back of continuing fiscal stimulus. In addition, the government announced the corporate tax rate is set to increase from the current 19% to 25% in 2023, while bracket creep is projected to be introduced on Personal Income Tax next year. This process of fiscal unwinding to reduce government debt may, however, harm economic activity if implemented too soon.

Forecast 2021:

GDP: 2.5%

Inflation: 0.5%

Forecast 2022:

GDP: 2.4%

Inflation: 0.6%

CHINA

Shortages and supply chain disruptions contributed to producer price inflation increasing by 4,4% year on year (y/y) in March. This is the fastest increase in two years, driven by higher energy prices. Although China's first-quarter economic growth rate seems high at 18,3% (y/y), it slowed to 0,6% quarter on quarter from 2,4% in the fourth quarter of 2020. Both household income and expenditure slowed, while their savings increased. This may prompt the central bank to keep interest rates unchanged this year in an attempt to find the right balance between averting a significant acceleration in inflation and maintaining steady employment growth.

Forecast 2021:

GDP: 8.7%

Inflation: 1.6%

Forecast 2022:

GDP: 5.5%

Inflation: 2.1%

EMERGING MARKETS

Net foreign capital inflows to emerging markets slowed to \$1,4 billion in March (lowest since April 2020), affected by new COVID-19 waves in India, Thailand, Malaysia and the Philippines, lowering their economic growth estimates. This suggests easy monetary policy this year. In Latin America, Chile is experiencing a strong surge in infections, questioning the Sinovac vaccine which is deemed to be 67% effective (compared to Pfizer 95%, Moderna 94,1%, AstraZeneca 76% and J&J 72%).

Although inflationary pressures are growing stronger across Latin America (from rising food and energy prices), output gaps remain large, suggesting a need for broad-based employment growth before interest rates may rise. In Russia, fast economic growth coincided with inflation accelerating to 5,8% in March (above the target of 4%), prompting the central bank to increase the policy rate by another 50 basis points.

Forecast 2021:

GDP: 6.9%

Inflation: 3.5%

Forecast 2022:

GDP: 5.7%

Inflation: 3.4%

SOUTH AFRICA

Following the Easter weekend and school holidays, a mild increase in the rate of new COVID-19 infections is occurring. In the meantime, the government has secured enough doses to vaccinate 45 million people. High-frequency economic indicators point to a mixed performance in the first quarter of 2021. This far, mining and domestic trade posted continued growth compared to the fourth quarter of 2020 while manufacturing and electricity production contracted. Credit extension to the private sector contracted in March on both a year on year (-2,2%) and month on month basis (-1,6%) due to a contraction in the uptake of unsecured credit by corporates. A large international trade surplus of R96,6 billion was recorded in the first quarter of 2021. Preliminary National Treasury statistics revealed the main budget deficit for 2020-21 may be R51 billion less than estimated in the February 2021 budget. This can be ascribed to budget revenue exceeding the February 2021 estimate by R36 billion. This amount is almost enough to fund a pay rise of CPI + 4% demanded by labour unions representing civil servants (for a period of two years).

Forecast 2021:

GDP: 3.4%

Inflation: 4.1%

Forecast 2022:

GDP: 2.3%

Inflation: 4.4%

The macro research desk

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Indices summary for April 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)	0.97%	8.58%	36.40%	8.12%	8.95%	8.04%	6.69%	7.81%	10.71%
FTSE/JSE Shareholder Weighted Index (Swix)	-0.31%	7.58%	32.40%	4.78%	5.99%	5.67%	4.64%	6.83%	10.29%
FTSE/JSE Capped Swix All Share index	0.81%	10.13%	36.19%	3.20%	4.52%	4.17%	3.46%	5.77%	
FTSE/JSE All Share Top 40 Index	0.62%	8.05%	35.15%	9.22%	9.99%	8.79%	7.14%	8.00%	10.78%
FTSE/JSE Mid Cap Index	2.41%	9.17%	37.16%	0.09%	1.73%	1.86%	2.32%	5.03%	8.92%
FTSE/JSE Small Cap Index	5.58%	23.21%	73.98%	1.51%	1.38%	1.97%	2.56%	4.98%	9.82%
FTSE/JSE Resources Index	2.85%	16.14%	61.00%	28.11%	26.04%	21.01%	12.55%	7.18%	5.90%
FTSE/JSE Financials Index	1.46%	8.16%	24.93%	-7.93%	-2.20%	-1.37%	-1.99%	2.45%	8.33%
FTSE/JSE Industrials Index	-1.19%	2.98%	24.60%	5.06%	5.23%	5.41%	5.10%	7.79%	13.21%
FTSE/JSE Research Affiliates Fundamental Indices 40 Index (Rafi)	2.68%	11.58%	40.39%	5.51%	8.01%	7.45%	5.89%	6.26%	9.24%
FTSE/JSE Research Affiliates Fundamental Indices All Share Index	2.88%	11.96%	41.93%	5.29%	7.71%	7.25%	5.66%	6.11%	8.93%
FTSE/JSE SA Listed Property Index (Sapy)	11.68%	22.78%	40.33%	-11.85%	-9.13%	-7.37%	-5.18%	0.07%	5.17%
Interest-bearing indices									
FTSE/JSE All Bond Index (Albi)	1.90%	-0.63%	14.68%	6.40%	8.19%	8.66%	7.48%	8.05%	8.19%
FTSE/JSE All Bond Index 1-3 years (Albi)	1.49%	1.13%	7.21%	8.90%	8.81%	8.93%	8.48%	8.29%	7.85%
FTSE/JSE Inflation-linked Index (Ili)	1.14%	3.69%	12.95%	3.63%	3.55%	3.09%	3.54%	4.48%	6.54%
Short-term Fixed Interest Composite Index (Stefi)	0.30%	0.92%	4.34%	6.24%	6.54%	6.75%	6.74%	6.66%	6.29%
Commodities									
NewGold Exchange-Traded Fund	2.02%	-8.40%	-18.24%	15.69%	10.42%	6.51%	10.06%	9.05%	9.26%
Gold price (in rands)	1.25%	-9.79%	-18.47%	15.82%	10.84%	6.86%	10.46%	9.38%	9.64%
Platinum Exchange-Traded Fund	0.01%	7.52%	24.01%	15.40%	8.17%	2.64%	3.97%	1.81%	
Platinum price (in rands)	1.76%	6.05%	20.91%	15.53%	8.40%	2.57%	4.38%	2.16%	-0.59%
Currency movements									
Rand/euro movements	0.67%	-4.34%	-13.31%	5.01%	4.62%	1.46%	4.52%	2.59%	5.98%
Rand/dollar movements	-1.72%	-3.47%	-21.01%	5.14%	2.03%	0.45%	3.28%	4.68%	8.22%
Inflation index									
Consumer Price Index (CPI)	0.68%	1.71%	3.20%	3.95%	3.92%	4.36%	4.67%	4.58%	5.00%

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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