

# November 2018

## Economies at a glance

### United States

01

Tax cuts and firm consumer dynamics are behind **strong late cycle growth**. An economic **downturn is expected in 2020**, as the fiscal contribution to growth becomes negative and the escalation in trade tensions dents activity. A **tight labour market**, a rebound in surveyed inflation expectations and pipeline producer prices point to a further **rise in inflation**, but technological advances and ongoing gradual policy tightening should prevent it from exceeding the Fed's 2% target on a sustainable basis. Interest rates are expected to peak in 2019.

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

### Eurozone

02

The economy hit a soft growth patch, but **falling unemployment** and an expected dip in inflation should underpin consumer spend, while **business sentiment** surveys remain **upbeat**. Adverse trade measures could, however, **weaken the external sector** and pose a risk to growth prospects. Underlying **price pressures** remain **subdued**, pointing to interest rate hikes towards the end of 2019 at the earliest. Growing **support for non-mainstream political parties** suggest mainstream parties may need to **reconsider their mandate** to survive in the longer run.

**Forecast 2018:**  
GDP: 2.0%  
Inflation: 1.7%  
**Forecast 2019:**  
GDP: 1.8%  
Inflation: 1.7%

### Emerging markets

03

Emerging markets are **facing increasing headwinds**, given their exposure to higher **energy prices**, **escalating trade concerns** and **tighter global financial conditions**. A threat to high foreign-denominated debt holdings, in a handful of vulnerable economies, has soured sentiment towards the emerging market composite recently in fear of contagion effects. While **macro fragilities** in emerging economies have **lessened relative to previous crises**, it will be important to rebalance growth patterns to increase economic resilience against capital flows and exchange rate shocks in the long term.

**Forecast 2018:**  
GDP: 4.7%  
Inflation: 5.2%  
**Forecast 2019:**  
GDP: 4.7%  
Inflation: 5.0%

### South Africa

04

**Greater political stability** has been observed lately, but **constrained growth** remains a function of a slow reform agenda. Consumers appear to have passed the peak point of vulnerability, while corporates are still facing a **tough environment**. Some **fiscal slippage** is anticipated in the medium term, with the potential need for additional guarantees to fund ailing state-owned enterprises posing a risk to an otherwise stable sovereign rating projection. **Inflation** is expected to rise, but **remain within target**, allowing for a **shallow interest rate hiking cycle**.

**Forecast 2018:**  
GDP: 0.7%  
Inflation: 4.6%  
**Forecast 2019:**  
GDP: 1.5%  
Inflation: 5.2%

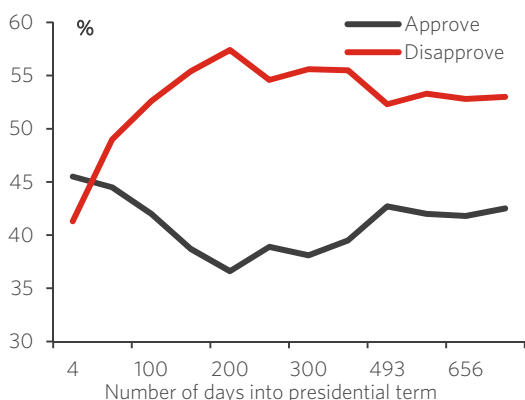
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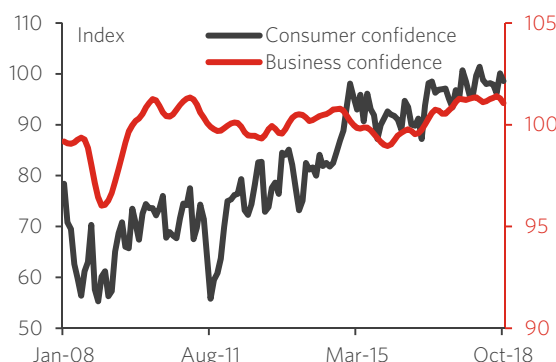
# Economies at a glance: United States

- Despite economic growth printing above its long-term average and job gains continuing in a tight labour market, United States (US) President Donald Trump has remained unpopular throughout his two-year term. Trump's job approval rating has averaged a meagre 39%, which is lower than the 53-average for an elected US president.
- Political uncertainty has remained volatile in the US since January 2017. The Democrats took control of the House for the first time in eight years in the recent US midterm elections, which had a record-setting voter turnout, while the Republicans won the senate. This signals the potential for policy deadlock ahead.
- Consumer and business sentiment has remained strong, but an escalation in trade disputes and policy uncertainty could detract from the ease of doing business in the US.

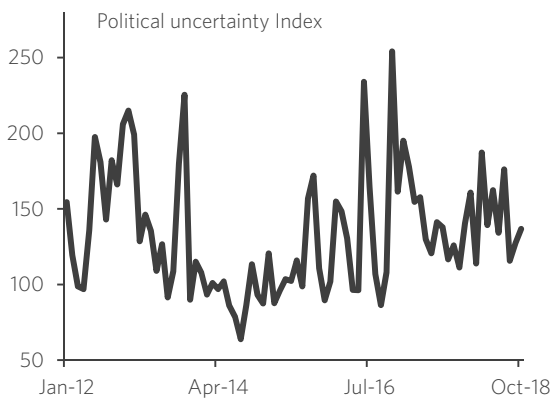
**Chart 1: Trump's popularity still weak after the midterm elections**



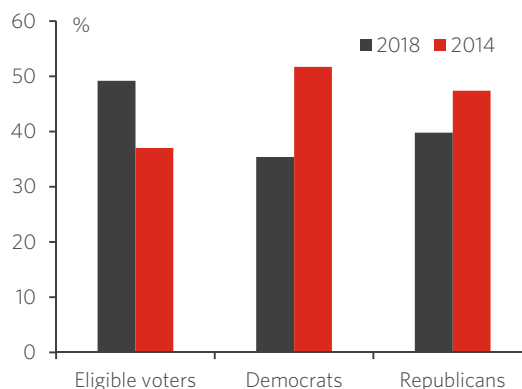
**Chart 2: Sentiment remains firm among consumers and firms**



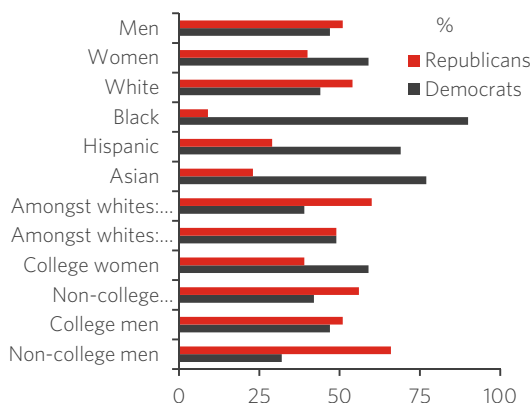
**Chart 3: Political uncertainty has been volatile since January 2017**



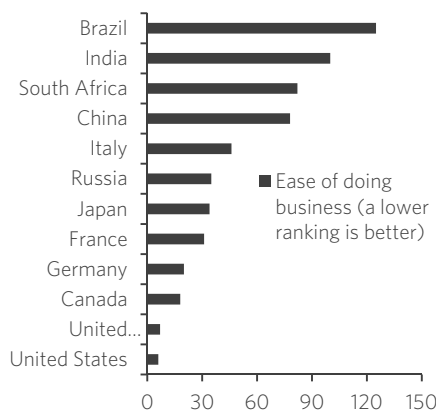
**Chart 4: Voter turnout was more robust in 2018 than in 2014**



**Chart 5: Democrats had strong support in the midterms**



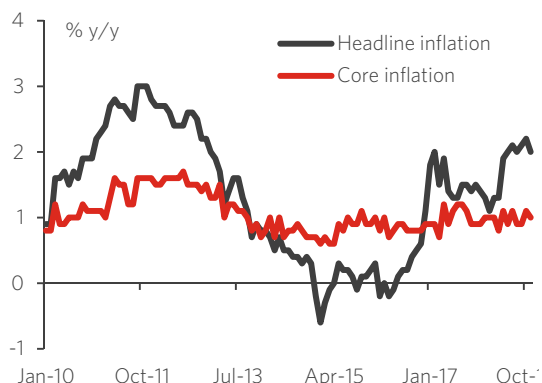
**Chart 6: The US is one of the most business-friendly countries, but trade disputes could change this**



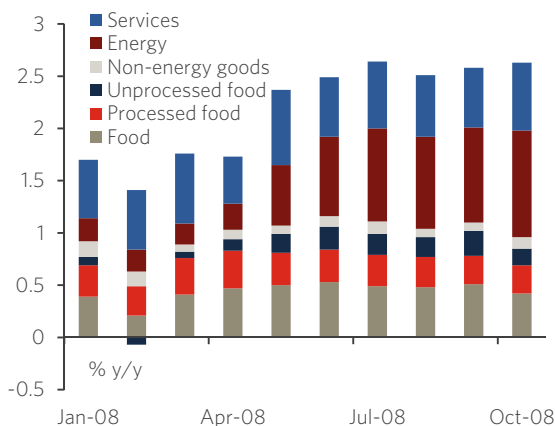
# Economies at a glance: Eurozone

- Inflation in the Eurozone edged back to the 2.0% target in November from the high October 2.2% – a level last seen at the end of 2012. Higher energy prices retreated from the second consecutive month rise above the 2% European Central Bank (ECB) target, while core inflation rose above its 0.9% annual average.
- Rising inflation is detracting from growth in real household wages. Moreover, household credit growth appears to be rolling over. A slowdown in consumer spending is expected to see growth in the Eurozone softening into 2019.
- Although economic activity slowed in the third quarter of 2018, the ECB continued to signal an end to its asset purchases in December 2018.

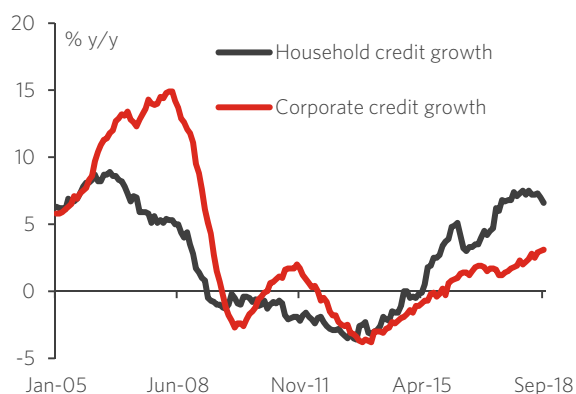
**Chart 1: Headline inflation is growing by 2%, but core inflation remains muted**



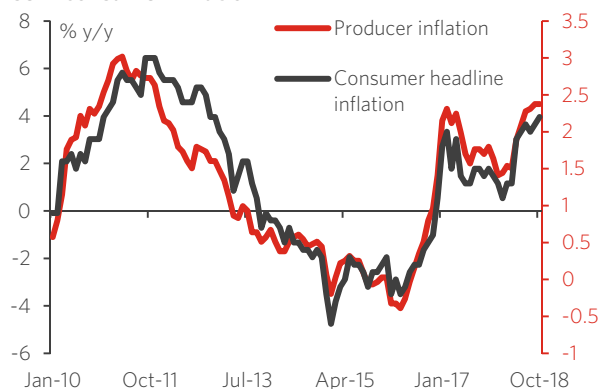
**Chart 2: Energy prices contributed 10% to inflation in October 2018**



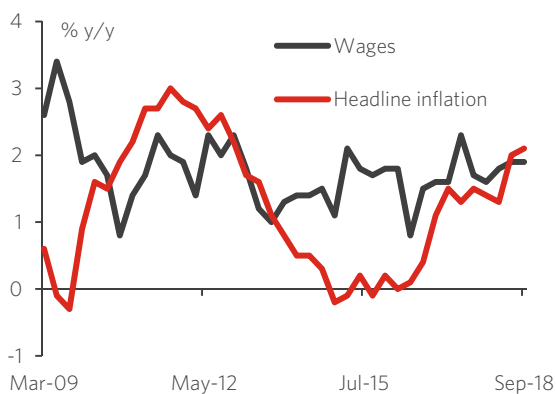
**Chart 3: Strong household credit growth may have peaked**



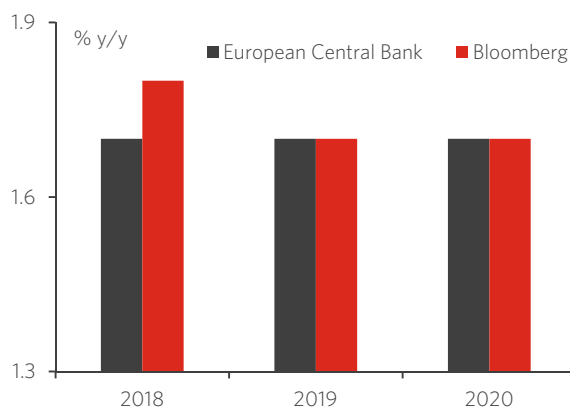
**Chart 4: Factory gate prices are rising sharply, pointing to a rise in consumer inflation**



**Chart 5: Higher inflation is eroding real growth in wages**



**Chart 6: ECB inflation forecasts in line with market consensus**

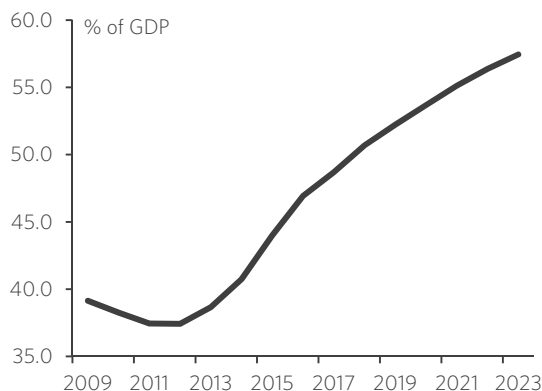


Source: Bloomberg, European Central Bank, Momentum Investments

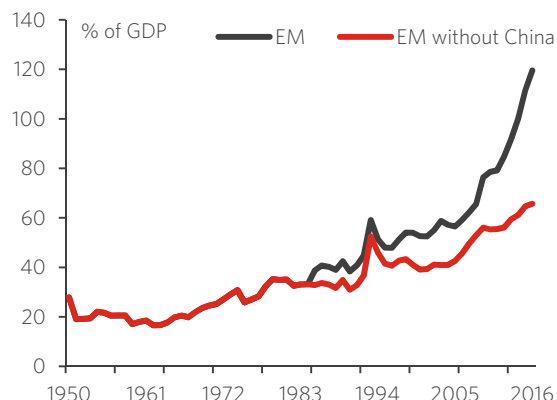
# Economies at a glance: Emerging markets

- Emerging market (EM) debt as a share of gross domestic product (GDP) continued to rise above 50% in 2018. Private sector debt constitutes a large share of this rise in debt and is more prevalent in China.
- The quantum of corporate debt outpaces household debt, by far, in China. Overall debt levels are lower in Brazil, but the country is deemed the eighth most unequal country because pension pay-outs surpass that of health care spend.
- High external debt and the near-term maturity of this debt remain a concern for select EM economies like Turkey and Argentina, who were the biggest losers in the 2018 sell-off.

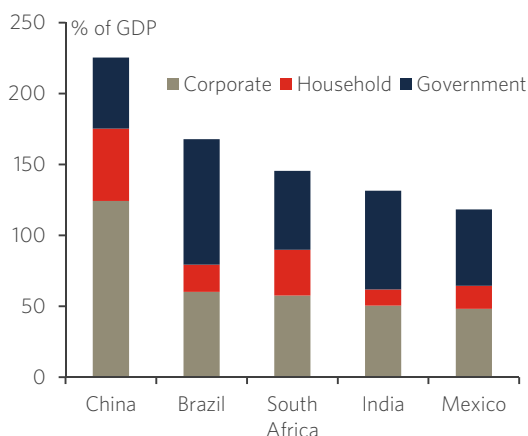
**Chart 1: EM debt as a share of GDP is expected to continue its upward trend into 2023**



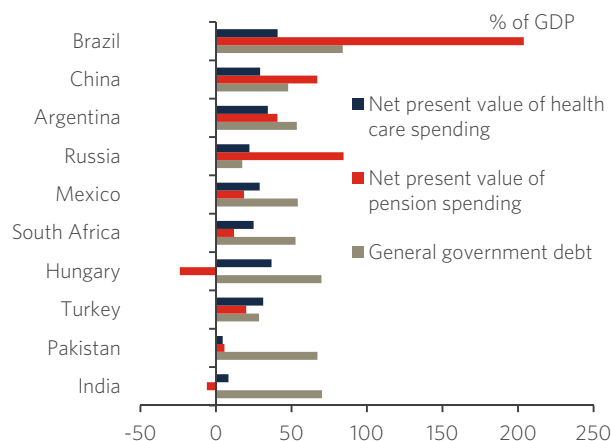
**Chart 2: Rise in private EM debt largely due to a rise in China's corporate debt**



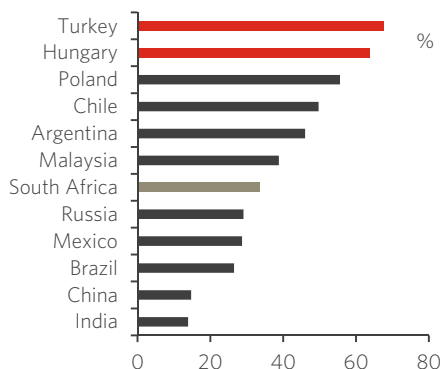
**Chart 3: Corporate debt remains significantly high in China**



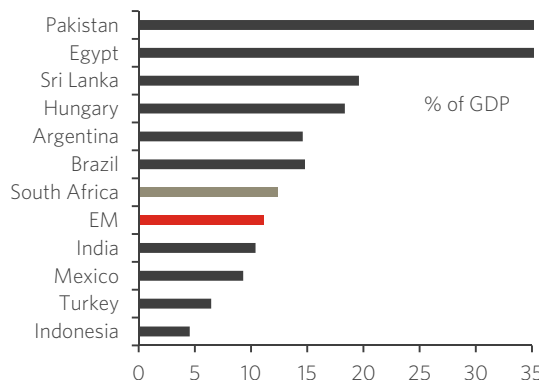
**Chart 4: Government pension spend exorbitant in Brazil because of frequent high pension payouts**



**Chart 5: Turkey and Hungary have the largest share of foreign currency debt**



**Chart 6: Gross financing needs are alarmingly high for a large share of EMs**



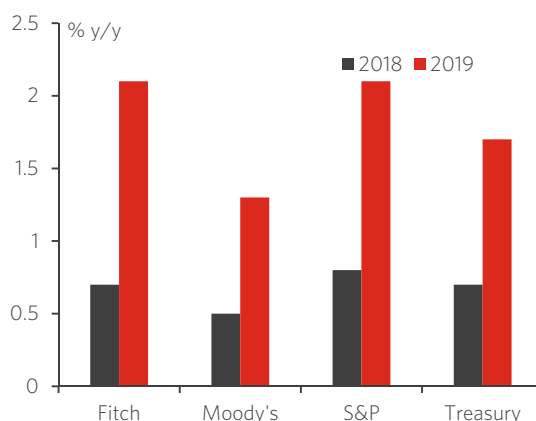
# Economies at a glance: South Africa

- Ratings agencies are likely to give South Africa (SA) the benefit of the doubt for now, given the ongoing commitment to fiscal consolidation. Growth was, however, revised downwards again, because of the poor performance in the first half of the year.
- Despite the unexpected deterioration in the fiscal and current account deficit projections for the next two years, government remains committed to fiscal consolidation and expanding export opportunities.
- Governance and political indicators for the local economy have worsened in recent years in a poor political climate.

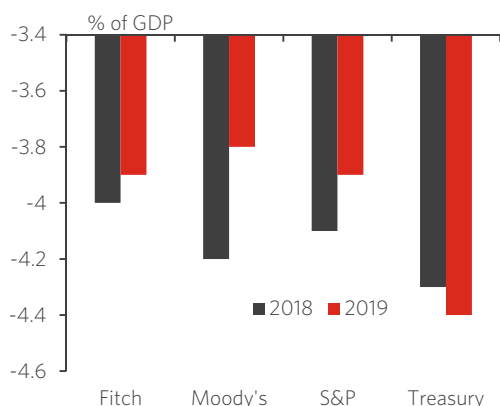
**Chart 1: No imminent rating changes expected**

Long-term rating	S&P	Fitch	Moody's
Investment grade	A-	A-	A3
	BBB+	BBB+	Baa1
	BBB	BBB	Baa2
	BBB-	BBB-	Baa3
Sub-investment grade	BB+	BB+	Ba1
	BB	BB	Ba2
Outlook	Stable	Stable	Stable
Key:			
Local currency rating			
Foreign currency rating			
Both ratings			

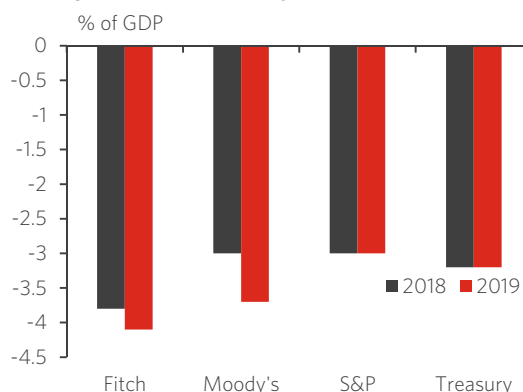
**Chart 2: Growth forecasts remain below trend growth**



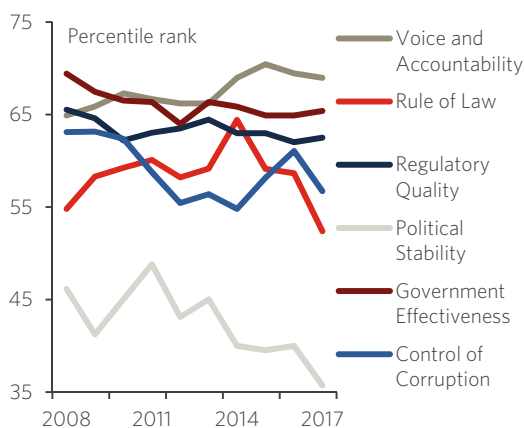
**Chart 3: Fiscal deficit to widen in 2019**



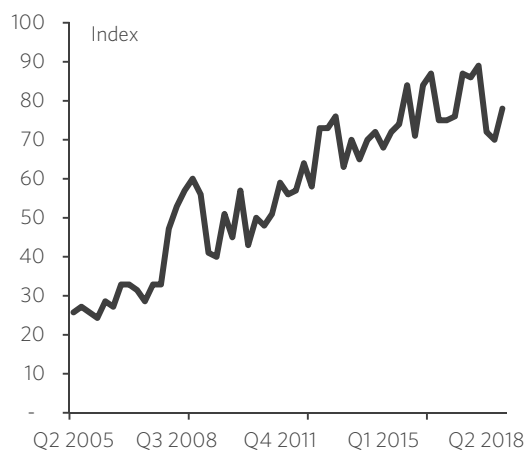
**Chart 4: Current account deficit expected to track sideways in the forecasted period**



**Chart 5: World governance indicators saw political stability dip significantly in 2017**



**Chart 6: Political uncertainty remains volatile**



Source: National Treasury, Rating agencies, World Bank, 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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