

# December 2018

## Economies at a glance

### Eurozone

**Forecast 2018:**

GDP: 1.9%

Inflation: 1.7%

**Forecast 2019:**

GDP: 1.5%

Inflation: 1.7%

The economy hit a soft growth patch, but **falling unemployment** and an expected dip in inflation should underpin consumer spend.

**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** suggests mainstream parties may need to **reconsider their mandate** to survive in the longer run.

### South Africa

**Forecast 2018:**

GDP: 0.7%

Inflation: 4.6%

**Forecast 2019:**

GDP: 1.5%

Inflation: 5.2%

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 **remains within target**, allowing for a **shallow interest rate hiking cycle**.

### United States

01

Tax cuts and firm consumer dynamics are behind **strong late-cycle growth**. A 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%

02

### China

03

Growth is **steadily shifting to a lower gear**, as **exports ease** and **investment slows**. The **risk of a costly trade war** with the US has risen. Additional tariffs on US\$200 billion worth of Chinese goods exported to the US could shave a estimated 0.3% off Chinese growth and add 0.2% to inflation, but Chinese authorities are **implementing countermeasures** (including tax deductions for households, an increase in local government bond issuance and support for exporters), which should provide a **partial offset**.

**Forecast 2018:**

GDP: 6.4%

Inflation: 2.1%

**Forecast 2019:**

GDP: 6.2%

Inflation: 2.3%

04

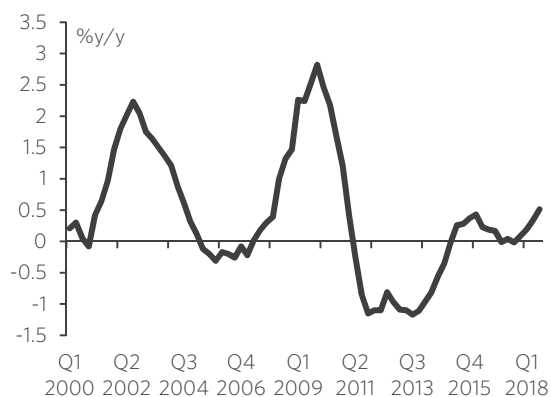
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# Economies at a glance: United States

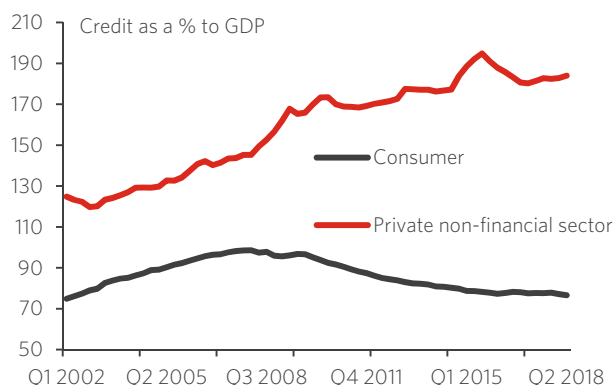
- Generous tax cuts have supported spend by businesses and consumers in the United States (US) economy. However, financial conditions are tightening, partly as a consequence of the fear of global trade war and a further expected rise in interest rates.
- Despite a rise in student-loan debt, consumers have actively delevered since the global financial crisis. Lending conditions have eased for household mortgages, but demand has slowed. Nevertheless, growth of house prices remains positive, supporting household net wealth.
- While household balance sheets have recovered, corporate debt levels have become more threatening to the US economic outlook.

**Chart 1: Positive fiscal impulse has added 0.6% to economic growth in the third quarter of 2018\***

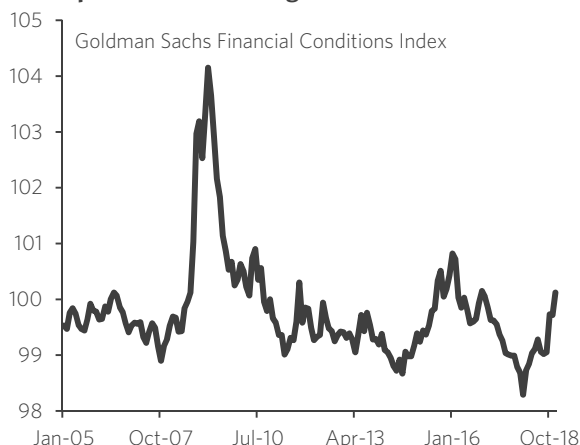


\*Last available data for Q3 2018

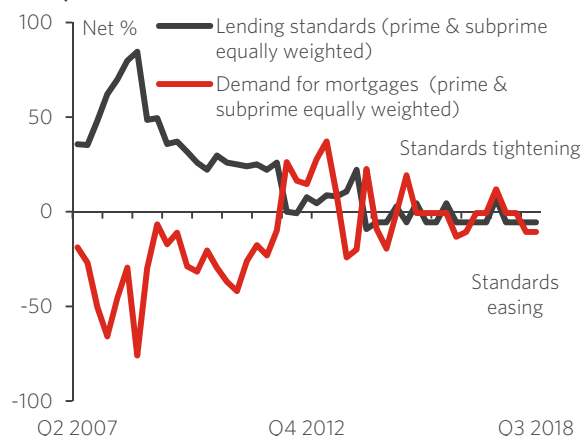
**Chart 2: Non-financial sector corporate debt is high and rising**



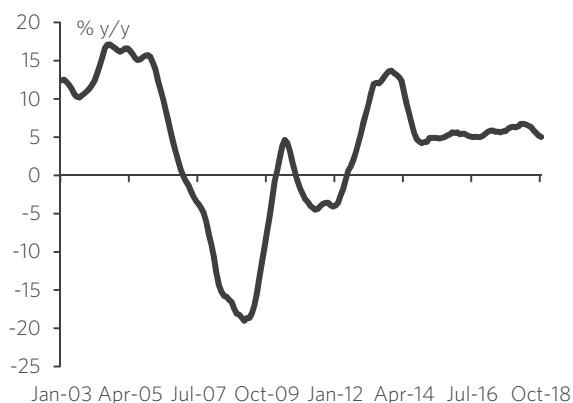
**Chart 3: Financial conditions are tightening, partly as a consequence of the fear of global trade war**



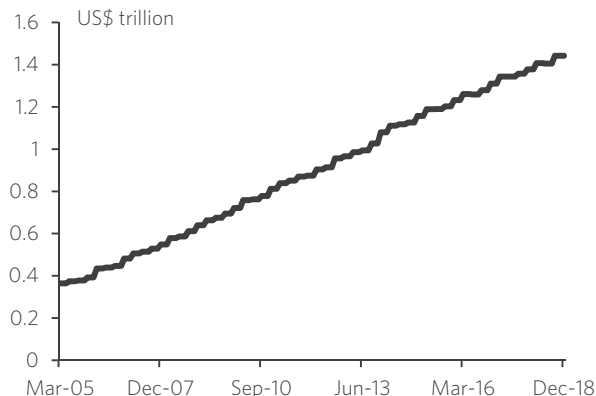
**Chart 4: Lending standards for household mortgages have eased, but demand has slowed**



**Chart 5: Despite slower mortgage demand, growth of house prices remains solid**



**Chart 6: Steady rise in student-loan debt to US\$ 1.4 trillion**



Source: Brookings edu, Bank of International Settlements, Bloomberg, Momentum Investments

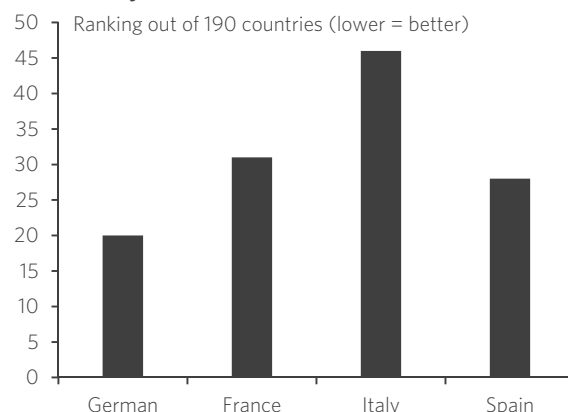
# Economies at a glance: Eurozone

- Political uncertainty has eased since the Brexit referendum, but remains high, given uncertainty around the political and economic outlook for the United Kingdom and ongoing debt woes in Italy.
- Political stress has resulted in a decline in the ease of doing business in economies such as Italy and Spain.
- A slump in sentiment, partly due to the fear of more onerous tariffs, points to a weakening economic outlook for the Eurozone.
- Despite a decline in immigration numbers, support for non-mainstream parties continues to grow, creating further obstacles to economic reform in the longer run.

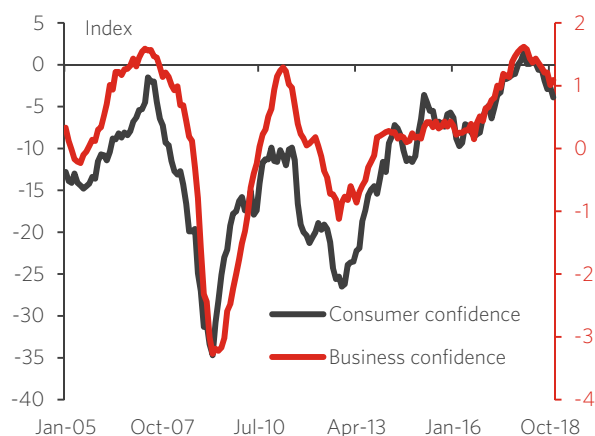
**Chart 1: Political uncertainty has declined since the 2016 high, but remains above its long-term average**



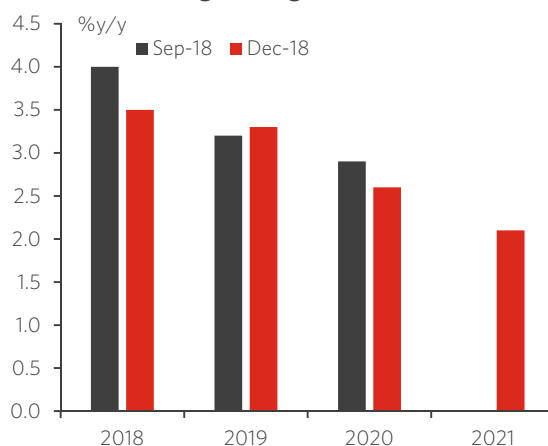
**Chart 2: The ease of doing business is highest in Germany and lowest in Italy**



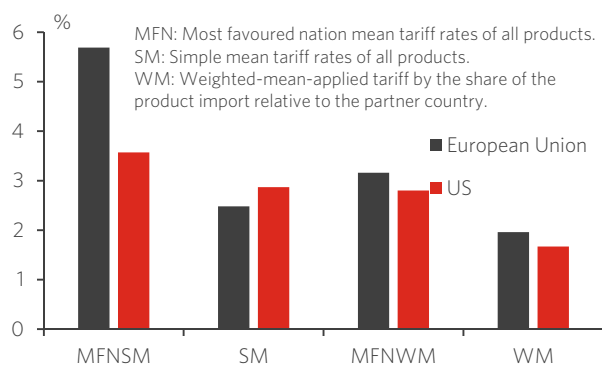
**Chart 3: Business and consumer sentiment has slumped**



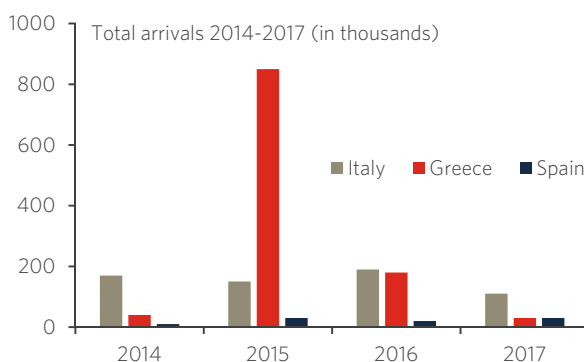
**Chart 4: Fixed investment intentions have declined since the last interest-rate-setting meeting**



**Chart 5: European tariffs are higher than those of the US**



**Chart 6: Migration numbers peaked in 2015, but have eased since**

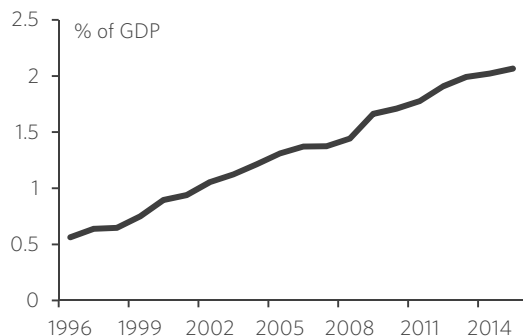


Source: Political uncertainty, World Bank, Bloomberg, European Union Central Bank, Momentum Investments

# Economies at a glance: China

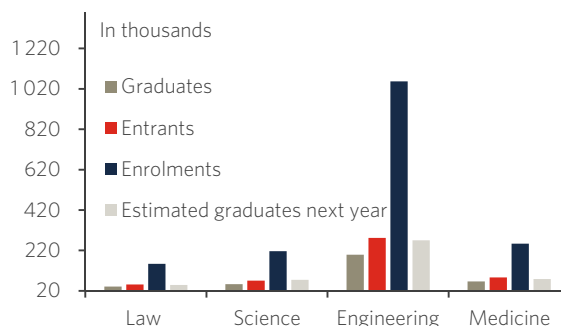
- China's focus on science and technology, to establish a more sustainable growth footprint in the longer-term, is evident in its significant investment in research and development (R&D) and tertiary schooling.
- The usage of renewable energy has been on the rise and is set to double by 2040, while the social environment agrees with policies in place, as the climate is seen to be more equitable.
- Positive business intentions and stable sentiment are threatened by the potential for the implementation of more damaging trade policies. However, the lead indicator for economic activity remains solid.

**Chart 1: R&D spend has grown consistently\***

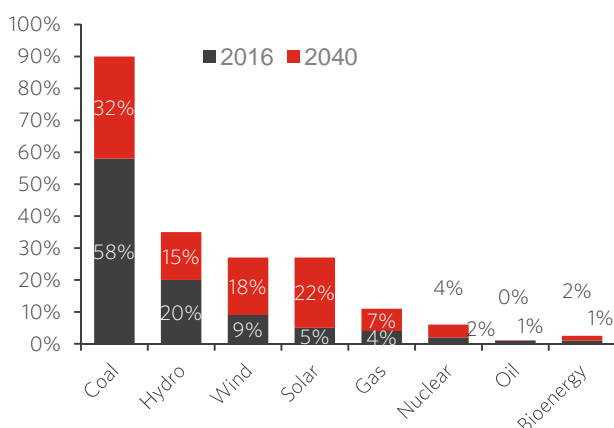


\*Last available data for Q3 2018

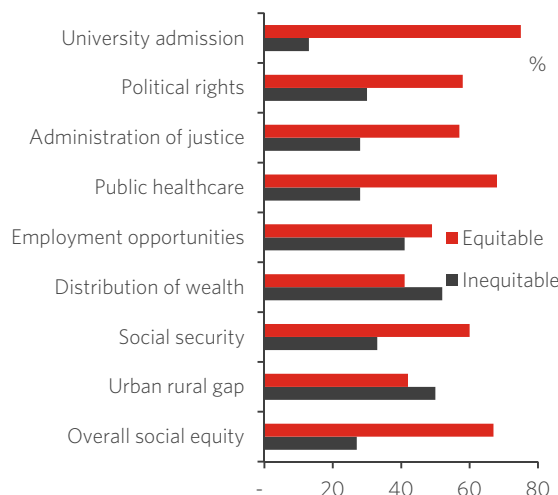
**Chart 2: Science and technology graduates grow, as the demand for artificial intelligence rises**



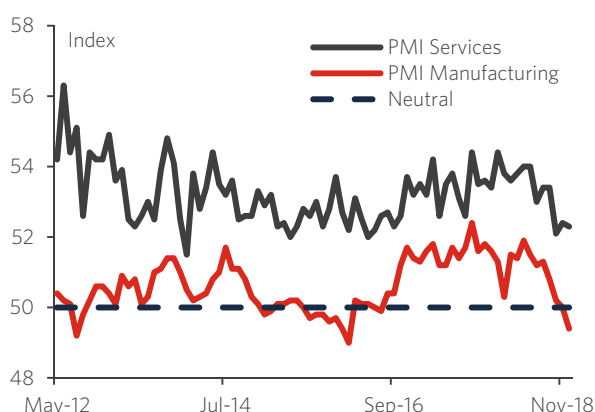
**Chart 3: The switch from coal to renewables usage is set to almost double by 2040**



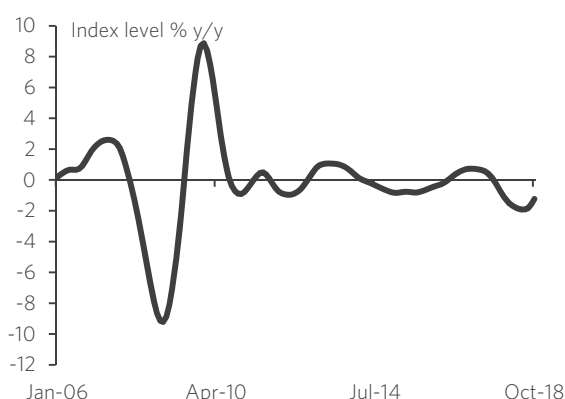
**Chart 4: The majority of social indicators skew towards an equitable stance**



**Chart 5: Business sentiment is declining more notably in the manufacturing sector**



**Chart 6: Expected growth in activity is stabilising**

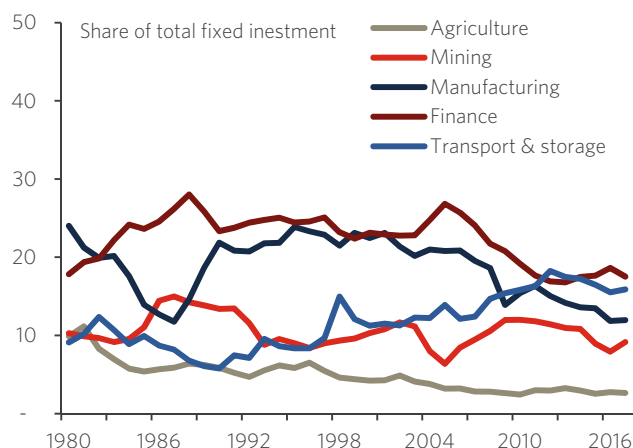


Source: World Bank China Ministry of Education, International Energy Agency, Li Peilin.ed, Momentum Investments

# Economies at a glance: South Africa

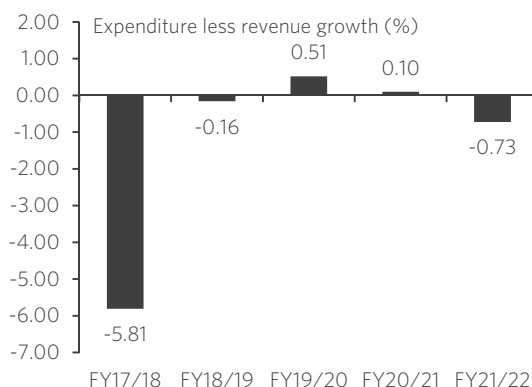
- Private fixed investment has fallen as a share of gross domestic product (GDP), while spend by government, as a relative share, has remained broadly stable since the global financial crisis. However, with sovereign ratings pressure arising from government's expansionary stance, room for fixed investment spend by government to grow significantly remains limited.
- A recovery in capacity utilisation points to the need for additional fixed investment, but constraints to investment, such as political instability and skilled labour shortages, remain high and are having a negative effect on investment intentions and, thus, actual investment growth.
- Actual fixed investment growth remains tepid, but expectations look more upbeat.

**Chart 1: The tertiary sector accounts for the bulk of fixed investment**



\*Last available data for 2017

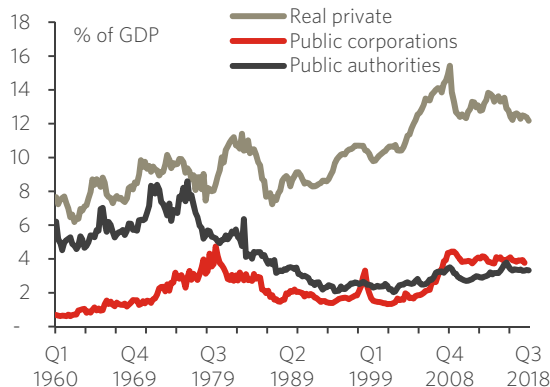
**Chart 2: Government's expansionary fiscal stance continues**



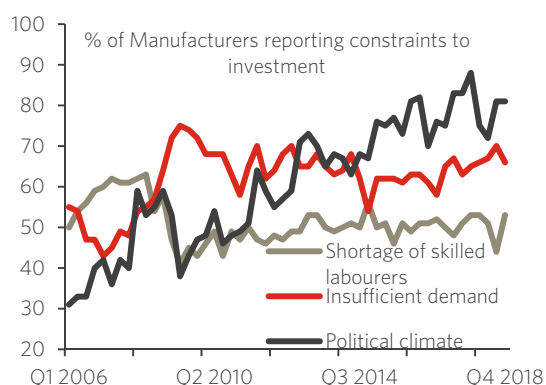
**Chart 3: Capacity utilisation has recovered from the 2008 crisis, but is still below pre-crisis peaks**



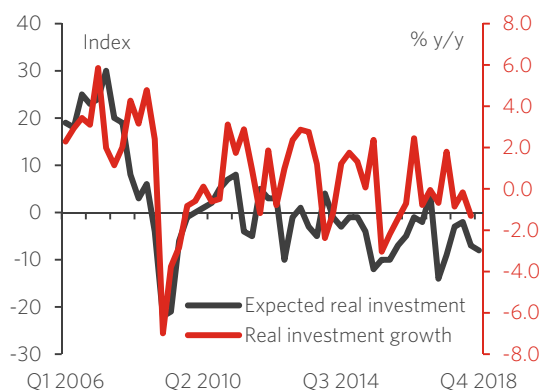
**Chart 4: Fixed capital formation is weaker relative to history for the private sector**



**Chart 5: Constraints to investment trending higher relative to its history**



**Chart 6: Expected investment remains higher than actual investment**



Source: Bureau of Economic Research, Statistics South Africa, South African Reserve 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*

