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ECONOMIC COMMENTARY

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YOUR WEEKLY ECONOMIC UPDATE

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THE LATEST ECONOMIC NEWS FROM THE UNITED STATES AND SOUTH AFRICA

In the United States (US), inflation, once again, surprised to the upside. Compared to June 2020, headline inflation increased to 5.4% in June 2021, up from May's 5.0%. Core inflation, which excludes more volatile energy and food prices, rose by 4.5%. Core inflation, the US Federal Reserve's preferred measure of inflation, is expected to average 3% before slowing down to 2.1% in 2022. Signs of the slowdown in inflation were already seen in the moderation of prices of wholesale US cars, household furnishings and supplies, as well as recreational and information technology (IT) goods. Most observers believe that, as supply conditions ease and pent-up demand retreats, prices should become more depreciative. It seems that fewer and fewer are expecting higher inflation to set in permanently, and that the recent spikes will, in fact, only be short-lived.

Overall, the US economy is continuing with its strong recovery and will be one of the fastest-growing developed economies in 2021. In the most recent round of unemployment payments, those individuals who receive support decreased by another 29 000 to 3.23 million. US employers also added 850 000 jobs in June, the largest gain in 10 months. Even better is the news about the increase in wages that support consumers as they are weaned from COVID-19-based state support. A poll conducted by Gallup found that almost 60% of Americans say that they are thriving; a thriving US consumer means a thriving global economy.

In South Africa (SA), the South African Reserve Bank (SARB) decided to keep the repurchase rate unchanged at 3.5%; the prime lending rate is therefore extending its 50-year low at 7.0%. During his speech, SARB Governor, Lesetja Kganyago, seemed to suggest that the Bank's medium-term inflation outlook improved, a view that we have been holding for quite some time. The SARB kept their 2021 gross domestic product (GDP) growth estimate unchanged at 4.2%, while slightly reducing their estimate for 2022 to 2.3%. Headline inflation for 2021 was revised higher to 4.3% and lower to 4.2% for 2022, both of which are well inside the SARB's target. These forecasts do not really support the proposed path of interest rate increases set out by the Bank's Quarterly Projection Model (QPM). The QPM, which previously showed that two interest rate increases would be likely in 2021, now believes that only one will be necessary, but that each one of the quarters in 2022 will see an interest rate increase. We do not see this playing out in this manner. We maintain that we might (50% probability) see one rate hike this year, 0.25%, and maybe two more next year, totalling an increase of 0.75%. To translate this into numbers: if the interest rate is increased by 0.75%, it means that each R1 million debt that a consumer has will be roughly R7 500 more expensive on an annual basis, or about R625 per month.

More welcome news for South Africans was announced by President Cyril Ramaphosa during his most recent family meeting. He explained that SA will be moved down to an adjusted Level 3 lockdown, that borders will open and that informal gatherings will be allowed, albeit with limited numbers. The government will also aim to support smaller businesses by allowing tax payments to be deferred and will support poor households by extending the additional support grant until March 2022. This is a clever tactic to solidify peace after the recent unrest. President Ramaphosa also issued a firm warning to looters and acknowledged (to our surprise) that government was slow to act and to provide sufficient support to communities during the protests.