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ECONOMIC COMMENTARY
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YOUR WEEKLY ECONOMIC UPDATE
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GOLDILOCKS GROWTH AND A NEW CABINET

The United States' (US) second-quarter gross domestic product (GDP) growth was disappointing, coming in at 6.5% instead of the expected 8.5%. However, the US has in fact now recovered from its largest peak-to-trough fall in output on record. The lower-than-expected figures seem to stem from unexpected declines in government spending (something that will correct itself in the medium-term) and residential investment, as well as a more significant drag from inventories. Overall, optimism about growth that persistently beats long-term trend levels is starting to fade: the impact of fiscal stimulus is declining, higher prices are deteriorating buying power, the delta variant of the coronavirus is running amok, and a lower-than-expected saving rate is keeping investments subdued. But persistently beating trend-growth is not really that important for a rich country like the US. Full employment might be nicer, and the recent jobs report showed that this will happen sooner rather than later. The US produced another month of stellar job creation in July, nonfarm payrolls increased by 943,000. This is an increase from June's already high 938,000, causing the unemployment rate to fall to 5.4%, only 5.7 million jobs shy of its February 2020 low and what many believe would be full employment in the US.

In Europe, the block of economies is still roughly 3% below its pre-pandemic GDP levels, largely due to a combination of smaller stimulus and longer lockdowns. Britain on the other hand is still about 8.8% below their pre-pandemic levels. Fortunately, expectations are that the Europeans should be back to their pre-pandemic levels by the fourth quarter of 2021, and Britain will follow shortly thereafter. As these economies return to normal, global growth is expected to start slowing down in the medium to long term. But it is important to understand that the slowdown is not a structural break, like we have seen after previous global recessions where economies are left on a lower long-term growth trajectory. This slowdown seems to be more of a return to the goldilocks type economy we were in before the pandemic, down from sky-high recovery growth rates to long-term normality. Goldilocks is a good place to be, it is an ideal state of full employment, economic stability, and stable growth.

Just as South Africans started their long weekend the president announced a new cabinet. Overall, it does not feel like much has changed. However, we believe this change allowed President Ramaphosa to consolidate more power and remove some more bad influences from the ruling party. As a result, we maintain that the overall impact of the announcement was positive even though it was clear that internal politics still had its way, and a couple of the ministers we wanted to see removed are still with us. President Ramaphosa was also able to hand-pick the new minister of finance, Enoch Godongwana, amongst others. Because former minister of finance Tito Mboweni made it known that he wanted to step down, the transition should not hurt our financial markets. In fact, we believe Enoch has much to offer in his place. Mostly because he seems conservative, which should be welcome news to both investors and South African residents, as we enter this very tough time of trying to balance the books whilst also trying to keep the masses satisfied.