
July 2018

World Economy

Before the technology sell-off end July, the S&P 500 Index reached a 6-month high, while the Nasdaq hit a record high and the Russell 2000 Index of smaller shares was just short of its previous record. The trade deal between Trump/US and Europe has helped sentiment. Credit card rates in the US have sharply diverged from the prime rate. US GDP growth for the second quarter was up at +4.1%, while the core PCE (personal consumption expenditure) price index rose +2%, indicating inflation is not a problem. New US home sales fell -1.5% in the 2nd quarter. Sales are slowing due to rising mortgage rates and construction costs. The IMF highlighted that world growth has become less even, more fragile and with increased risk to the downside.

SA Economy

SA consumer inflation surprised the market on the downside in June at 4.6%/y/y. Core inflation now only 4.2%/y/y. SA Reserve Bank decided to leave its Repo rate unchanged at 6.5%, in-line with expectations. According to Stanlib Chief Economist, Kevin Lings, the SA economy continues to face significant challenges and could continue to drift largely sideways until after the 2019 national election. The SA Reserve Bank lowered its forecast growth for our economy from 1.7% to 1.2% for this year. The official unemployment rate increased to 27.2% during the second quarter, compared with 26.7% in the first quarter. South Africa's trade surplus widened to R12-billion (\$917-million) in June from a revised R3.84-billion surplus in May, data from the revenue agency showed. The seasonally adjusted Absa Purchasing Managers' Index (PMI) rose to 51.5 index points in July, up from 47.9 in June. The current level, which is above the neutral 50-point mark, suggests that the manufacturing sector got off to a good start in the first month of the third quarter of this year. The South African new-vehicle market expanded by 2.6% in July, compared with the same month last year. Petrol inflation rose by a substantial 4.7% month-on-month in June, with the annual rate rising to 16.3% year-on-year.

Trends and Opportunities

- Two more rate hikes are still expected this year in the US.
- SA interest rates are expected to remain unchanged into late 2019.
- The SA economy continuous drifting sideways.

"Once employees feel challenged, invigorated and productive, their efforts will naturally translate into profit and growth for the organisation." – **Ricardo Semler**

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