

Economies at a Glance

December 2023

Forecast 2024:

GDP: 1.3%

Core PCE Inflation: 2.5%

Forecast 2025:

GDP: 1.5%

Core PCE Inflation: 2.3%

EUROZONE

The European Central Bank (ECB) will probably keep interest rates on hold well into the first half of 2024 as higher financing costs and elevated geopolitical uncertainty impede business investment. Saturated job markets and improving real incomes will nevertheless support consumer spending, while the transition to green energy will underpin ongoing public investment. The Bloomberg median consensus growth forecast for 2024 halved in the past year from 1.4% in December 2022 to 0.6%. Although headline and core price pressures (the latter with a lag) are expected to moderate, inflation is only likely to sustainably return to the ECB's 2% target by 2025. Growth in nominal wages should ease further in 2024 as signs of labour market cooling are becoming more apparent. Nevertheless, the Bloomberg median consensus forecast for HICP inflation for 2024 edged higher from 2.2% at the end of 2022 to 2.6% in December 2023.

Forecast 2024:

GDP: 0.3%

Inflation: 2.9%

Forecast 2025:

GDP: 1%

Inflation: 2.1%

JAPAN

Japan may experience another year of gradual economic expansion, buoyed by recent fiscal stimulus, a bounce in consumer activity and targeted investment by corporates. The Bloomberg median consensus forecast for growth for 2024 peaked at 1.2% in the first quarter of 2023 but has since softened to 0.9%. This remains above Japan's longer-term potential growth rate given gains in labour productivity, boosted by advances in digital technology. Pandemic-related price pressures broke Japan's muted longer-term inflation trend, underpinned by an ageing population, stagnant wages and a culture of price sensitivity. The Bloomberg median consensus expects inflation to average above the Bank of Japan's target of 2% at 2.2% for 2024, more than a percent higher than predictions made a year ago. Market-implied policy rates are predicting an exit to negative interest rate policy in 2024.

UNITED STATES

While consumer spending held up well in 2023, this trend is unlikely to hold in our view, due to flatter growth in real incomes, rising consumer debt and near-depleted pandemic savings. Moreover, tepid growth in business investment is set to continue on higher financing costs. Persistent strength in labour markets points to a shallower anticipated dip in growth. The Bloomberg median consensus forecast for growth in 2024 rebounded from 0.6% in August to 1.2% in December 2023. However, the median expected probability of a recession in the next twelve months remains significant at 50%. Further progress will likely be seen in inflation's descent, but it could be a bumpy ride given ongoing labour market tightness. With the Bloomberg median consensus forecasting core PCE inflation for 2024 at 2.7%, market-implied policy rates are only pricing in the start of the rate cutting cycle by the middle of 2024.

Forecast 2024:

GDP: 0.5%

HICP Inflation: 2.3%

Forecast 2025:

GDP: 1.2%

HICP Inflation: 2%

UNITED KINGDOM

Although consumer spending should replace government consumption and investment as the main driver of growth in 2024, growth will remain historically low in the context of a strongly restrictive policy mix, involving an increased pace of quantitative tightening, elevated interest rates and contractionary fiscal measures. The Bloomberg median consensus growth forecast for 2024 slid from an expected 0.9% in December 2022 to 0.4%. Downward revisions to growth forecasts have been accompanied by upward adjustments to inflation projections. The median consensus forecast for headline inflation for 2024 migrated higher to 3.1% from 2.5% a year ago, largely on the back of upward revisions to wage inflation. The Bank of England only expects inflation to consistently trend closer to its 2% target by the end of 2025. As such, market-implied policy rates are signaling steady interest rates in the first half of 2024 with 50 basis points worth of cuts priced in by the end of the year.

Forecast 2024:

GDP: 0.8%

Inflation: 2.7%

Forecast 2025:

GDP: 1%

Inflation: 1.8%

CHINA

Forecast 2024:

GDP: 4.6%

Inflation: 1.4%

Forecast 2025:

GDP: 4.5%

Inflation: 1.7%

Despite a muted policy response earlier in 2023, Chinese authorities introduced a series of initiatives late in the year to offset growth challenges, including a property crisis, risks associated with local government debt, sluggish global growth and geopolitical tensions. The Bloomberg median consensus forecast for growth in 2024 fell sharply to 4.5% in the third quarter of the year in response to renewed property sector woes. However, this figure could drift slightly higher on backend-loaded stimulus measures. Factory gate prices remained in deflation throughout 2023 as the cost of raw materials and commodities dragged inflation lower. Inflation forecasts made by the Bloomberg consensus for 2024 have dropped from 2.3% a year ago to 1.5%. Authorities are likely to continue supporting growth through a lower reserve requirement ratio and fiscal support.

Forecast 2024:

GDP: 4%

Inflation: 6.2%

Forecast 2025:

GDP: 4.2%

Inflation: 4.3%

EMERGING MARKETS

Softer growth is expected for 2024 in an environment of weak global demand. Notwithstanding slower growth in China, Asia will likely remain the largest contributor to world growth. Ongoing efforts to reduce risk in global supply chains and redirect investment to facilitate nearshoring trends are expected to continue supporting economic activity across the composite.

Conversely, concerns about Chinese growth and diminished activity among the region's key trading partners are likely to result in underperforming growth for countries in Latin America and the Caribbean. Growth prospects remain diverse across Central and Emerging Europe (CEE), the Middle East (ME) and Africa. No visible resolution to the Russia-Ukraine conflict and past monetary policy tightening will weigh on economic activity in CEE, while risks of the Israel-Hamas war spreading will dent growth prospects for the ME. The growth outlook for Sub-Saharan Africa appears modest, but will remain under pressure for commodity-reliant and indebted nations.

Forecast 2024:

GDP: 1%

Inflation: 5.3%

Forecast 2025:

GDP: 1.7%

Inflation: 4.5%

SOUTH AFRICA

More of energy utility Eskom's fleet being returned to service in addition to a significant private sector renewable energy pipeline should see a material reduction in loadshedding in the second half of 2024. As such, loadshedding is likely to have a smaller impact on growth in the next three years, particularly as many businesses have acquired alternative sources of energy supply at an additional cost to be able to deal with lower stages of electricity outages. Even as worries over energy restrictions lessen, logistics failures are likely to dominate growth concerns in 2024. Treasury recently announced a (conditional) R47 billion guarantee facility for Transnet that allows it to borrow funds from lenders at a better rate than it would otherwise get. The facility is contingent on Transnet implementing the Freight Logistics Roadmap, divesting non-core assets, slashing costs and exploring alternative funding models. SA faces rising socio-political risks in a growth-constrained environment. The 2024 elections are likely to be the most closely contested elections since the dawn of democracy. Markets are likely discounting the probability of a marginal outright victory by the ANC or the possibility of an ANC-led coalition taking a smaller party on board, both of which will likely keep the ANC mandate intact. In spite of pedestrian growth, looser fiscal policy and renewed upside threats to inflation should keep central bank rhetoric hawkish and monetary policy restrictive in the coming months, with the first move lower in interest rates pencilled in for the second quarter of 2024, at the earliest.

The macro research desk

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.



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Indices summary for December 2023

| | One month | Three months | One year | Three years | Four years | Five years | Six years | Seven years | Ten years |
|--|--------------|-----------------|-------------|----------------|---------------|---------------|--------------|----------------|--------------|
| Equity indices | | | | | | | | | |
| FTSE/JSE All-Share Index (Alsi) | 2.00% | 6.92% | 9.25% | 13.51% | 11.84% | 11.88% | 8.19% | 9.93% | 8.78% |
| FTSE/JSE Shareholder Weighted Index (Swix) | 2.53% | 8.04% | 7.85% | 10.59% | 8.54% | 8.69% | 5.00% | 7.18% | 7.30% |
| FTSE/JSE Capped Swix All Share index | 2.90% | 8.21% | 7.87% | 12.69% | 9.53% | 8.97% | 5.37% | 6.89% | 7.12% |
| FTSE/JSE All Share Top 40 Index | 1.39% | 6.55% | 8.98% | 13.40% | 12.53% | 12.51% | 8.74% | 10.68% | 8.92% |
| FTSE/JSE Mid Cap Index | 7.92% | 9.98% | 9.70% | 12.83% | 5.31% | 7.29% | 4.25% | 4.69% | 6.82% |
| FTSE/JSE Small Cap Index | 6.00% | 8.56% | 11.17% | 23.90% | 17.36% | 12.71% | 7.62% | 6.94% | 8.40% |
| FTSE/JSE Resources Index | -0.03% | 3.00% | -11.84% | 8.21% | 11.32% | 14.57% | 14.73% | 15.18% | 6.85% |
| FTSE/JSE Financials Index | 5.84% | 12.35% | 20.00% | 18.55% | 7.56% | 6.13% | 3.49% | 5.78% | 7.53% |
| FTSE/JSE Industrials Index | 0.71% | 5.87% | 16.62% | 12.40% | 12.30% | 11.61% | 6.12% | 8.32% | 8.21% |
| FTSE/JSE Research Affiliates Fundamental Indices 40 Index (Rafi) | 3.24% | 5.51% | 6.52% | 18.43% | 12.95% | 12.14% | 9.43% | 10.57% | 9.13% |
| FTSE/JSE Research Affiliates Fundamental Indices All Share Index | 3.28% | 6.06% | 5.85% | 17.59% | 12.22% | 11.58% | 8.82% | 10.01% | 8.70% |
| FTSE/JSE SA Listed Property Index (Sapy) | 9.90% | 16.37% | 10.15% | 14.87% | -0.18% | 0.24% | -4.55% | -1.71% | 2.94% |
| FTSE/JSE All Property Index (ALPI) | 9.92% | 15.86% | 10.70% | 14.61% | -0.74% | -0.67% | -5.21% | -2.61% | 1.72% |
| Interest-bearing indices | | | | | | | | | |
| FTSE/JSE All Bond Index (Albi) | 1.49% | 8.11% | 9.70% | 7.43% | 7.73% | 8.25% | 8.15% | 8.44% | 7.98% |
| FTSE/JSE All Bond Index 1-3 years (Albi) | 1.10% | 4.11% | 9.22% | 6.35% | 7.62% | 7.59% | 7.85% | 8.10% | 7.70% |
| FTSE/JSE Inflation-linked Index (Ili) | 2.17% | 6.16% | 6.98% | 8.86% | 7.61% | 6.55% | 5.43% | 5.02% | 5.58% |
| Short-term Fixed Interest Composite Index (Stefi) | 0.70% | 2.11% | 8.06% | 5.68% | 5.61% | 5.94% | 6.16% | 6.35% | 6.43% |
| Commodities | | | | | | | | | |
| NewGold Exchange-Traded Fund | -0.77% | 8.98% | 23.64% | 10.87% | 15.35% | 15.33% | 15.29% | 12.96% | 11.29% |
| Gold price (in rands) | -0.80% | 7.46% | 22.37% | 11.13% | 15.45% | 15.55% | 15.49% | 13.29% | 11.69% |
| Platinum Exchange-Traded Fund | 5.62% | 7.46% | 3.11% | 5.17% | 7.79% | 9.85% | 8.04% | 5.42% | 2.22% |
| Platinum price (in rands) | 3.01% | 5.50% | -1.16% | 3.67% | 6.53% | 8.99% | 7.25% | 5.10% | 2.12% |
| Currency movements | | | | | | | | | |
| Rand/euro movements | -1.54% | 1.72% | 12.07% | 4.13% | 6.61% | 4.31% | 5.33% | 4.98% | 3.46% |
| Rand/dollar movements | -3.00% | -2.71% | 8.13% | 7.77% | 6.96% | 5.00% | 6.76% | 4.27% | 5.75% |
| Inflation index | | | | | | | | | |
| Consumer Price Index (CPI) | | | 5.52% | 6.12% | 5.37% | 5.01% | 5.04% | 4.98% | 5.20% |
| Global indices | | | | | | | | | |
| MSCI World Index (All Countries) | 2.26% | 8.29% | 32.03% | 14.11% | 15.93% | 17.70% | 14.96% | 14.49% | 13.96% |
| MSCI Developed Markets Index | 1.76% | 8.40% | 33.86% | 15.60% | 16.98% | 18.45% | 16.26% | 15.44% | 14.85% |
| MSCI Emerging Markets Index | 1.13% | 5.83% | 18.53% | 2.33% | 7.16% | 8.93% | 7.24% | 9.52% | 8.56% |
| Global Property Research (GPR) 250 REIT Index | 3.26% | 9.35% | 28.19% | 20.90% | 15.23% | 15.76% | 17.92% | 13.00% | 18.32% |
| MSCI Africa Index | 0.86% | 6.64% | 5.04% | 3.83% | 2.41% | 2.97% | -0.01% | 2.53% | 2.57% |
| FTSE World Government Bond Index | 0.98% | 5.65% | 14.27% | 0.16% | 3.88% | 3.69% | 5.52% | 4.27% | 5.47% |
| Three-month US dollar LIBOR rate | -2.54% | -1.38% | 13.54% | 10.13% | 8.86% | 6.70% | 8.62% | 6.02% | 7.13% |
| Three-month Euro LIBOR rate | -1.21% | 2.74% | 16.61% | 5.18% | 7.29% | 4.77% | 5.65% | 5.20% | 3.60% |
| ICE LIBOR 1 Month USD ZAR converted | -3.04% | -1.57% | 13.23% | 10.21% | 9.04% | 7.04% | 8.89% | 6.23% | 7.23% |
| FTSE EPRA/NAREIT Developed Index | 7.29% | 12.45% | 19.46% | 10.12% | 6.18% | 8.74% | 8.99% | 7.74% | 10.41% |

Important notes

- Sources: Momentum Investments, IRESS, www.msci.com, www.yieldbook.com, www.ft.com.
- Returns for periods exceeding one year are annualised.
- The return for Consumer Price Index (CPI) is to the end of the previous month. Due to the reweighting of the CPI from January 2009, this number reflects a compound of month-on-month CPI returns. The historical numbers used are the official month-on-month numbers based on a composite of the previous inflation series (calculations before January 2009) and the revised inflation series (calculations after January 2009).
- The MSCI World index (All Countries) returns are adjusted to correspond with global investment prices received.
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