ECONOMIC COMMENTARY - By Dr. Francois Stofberg

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During June, the bipartisan infrastructure negotiations in the United States (US) continued. A $1.2 trillion plan initially emerged from the two parties, which set out additional infrastructure spending close to $600 billion. The proposal includes $258 billion for highways, $40 billion for bridges, and almost $62 billion for transportation alternatives, federal lands, and tribal infrastructure. Our view is that more infrastructure spending in the US is not only good news for their economic growth and markets, but also good news for commodity heavy emerging economies like South Africa. More fiscal stimulus will also assist the US economy in getting down from their quantitative easing (QE)-induced high, which many now believe will end sooner than expected.

Robert Kaplan, Dallas Federal Reserve (Fed) President, explained that the US will most likely meet the US Fed threshold for tapering its asset purchases (QE) sooner than expected. This statement came after the US Fed released their updated forecasts showing that they believe the US economy will grow by as much as 7% in 2022. They also believe that inflation will average 3.4%, up from earlier forecasts of 6.5% and 2.4%, respectively. As a result, their tone seemed much more hawkish, which led analysts to believe that the Fed will both taper and increase interest rates sooner than expected. Kaplan, amongst others, anticipates an interest rate increase in 2022 as inflation surpasses the 2% target in both 2021 and 2022, whilst unemployment dips below 4%. For now, however, both jobless claims and other unemployment variables remain reluctantly high. In May, analysts expected jobless claims to fall to 380 000 but were met with a figure closer to 411 000. This figure was much higher than the 200 000–250 000 range that reflects a healthy US labour market.

In the Eurozone, GDP growth surprised to the upside during the first quarter of 2021. Even though the first quarter showed that the Eurozone economy contracted by -0.3%, the contraction was much less than anticipated, given the tight lockdown restrictions across Europe. It seems companies and households have had time to adjust to the various lockdown restrictions. After a 6.6% contraction in 2020, analysts believe that the Eurozone will grow by 4.3% in 2021 and 5.3% in 2022. As a result, analysts expect the Eurozone to return to pre-crisis levels by the fourth quarter of 2021. Although the biggest risks include new covid variants, other major risks also include further delays in the lifting of mobility restrictions and setbacks in the vaccination rollout.

Locally, it seems South Africa (SA) is making a turn for the better. In May, Eskom reported that it had managed to reduce its debt burden by R83 billion, a 15% reduction. In June, we heard that the government will be selling the majority shares of state-owned South African Airways. Both stories seem more like fake news, than anything else. Nevertheless, since President Ramaphosa took the reins, it seems that there is more and more good news like this. We are hopeful that this trend can continue and eventually lead to structural reforms in our economy, especially in our labour legislation.

In June, Statistics South Africa (StatsSA) reported that inflation hit a 30-month high in May, reaching 5.2%, up from April's 4.4%. Increasing fuel, food, and non-alcoholic beverages prices have been the biggest drivers of inflation in recent months. Stripping out these volatile prices from the inflation basket shows a rosier inflation outlook. However, we maintain that the South African Reserve Bank (SARB) will most likely increase interest rates once this year.

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