

ECONOMIC COMMENTARY

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YOUR WEEKLY ECONOMIC UPDATE

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GLOBAL INFLATION, GOLD, AND LOCAL RETAIL SALES

In the United States (US), government data last week showed that the annual increase in the Consumer Price Index (CPI) had slowed slightly in August to 8.3%, but that prices continued to rise month-on-month, increasing by 0.1%. The US and other developed economies have been battling historically high price increases for months, owing to extremely high energy and food bills. This has been caused to a large extent by supply constraints after economies reopened following their coronavirus pandemic lockdowns, and in the wake of Russia's invasion of Ukraine. It is, however, concerning that core CPI, which excludes volatile energy and food prices, is also rapidly accelerating. In the US, core CPI rose 6.3% when measured against a year ago, higher than the 5.9% seen in June and July.

Wall Street shares plunged following the news, with the Dow Jones Industrial Average losing nearly 1 300 points and the S&P 500 falling 4.3%. The news also dashed hopes of a slowdown in the US Federal Reserve's (Fed's) campaign of increasing interest rates to cool down the overheating economy. Until now, the Fed has already instituted two consecutive 0.75% hikes, and there are widespread expectations that it will make a similarly-sized increase at its meeting next week.

Overall, the US economy seems resilient even though economic data has been mixed. Applications for US unemployment insurance fell for a fifth consecutive week, suggesting that the demand for workers remains healthy despite an uncertain economic outlook. Retail sales unexpectedly rose in August, but the prior month's figure was sharply revised lower. Factory production also rose slightly in August while total industrial production, including mining and utilities, fell.

The price of gold fell to its lowest level since April 2020 amid expectations of more aggressive interest-rate hikes by the US Fed. In total, the price has slid almost 8.8% this year as the Fed aggressively increased interest rates, which diminishes the appeal of assets that bear no interest. A strong US dollar is also usually not good news for commodities like gold that are priced in dollars, because a stronger dollar means that commodities become relatively more expensive everywhere outside of the US. Meanwhile, Chinese growth has slowed so sharply that several major banks did not even think that a 3% expansion is achievable this year. This could further dampen the demand for gold jewellery from the world's biggest consumer of this precious metal.

In South Africa (SA), retail sales volumes were up 8.6% in July compared with a year ago, when SA was gripped by civil unrest in KwaZulu-Natal and Gauteng. Year-to-date retail sales volumes are 2.9% higher compared with the same period in 2021. This is welcome news because consumer discretionary incomes have come under pressure, owing to rising interest rates and a higher cost of living. Resilience in consumer spending has been underpinned by robust growth in non-labour income, a continued drawdown in respect of savings accumulated during lockdown, as well as an increase in the use of credit.

