

## ECONOMIC COMMENTARY

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YOUR WEEKLY  
ECONOMIC UPDATE

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### NAVIGATING GLOBAL ECONOMIC SHIFTS IN 2024

#### **Eurozone inflation and the European Central Bank's (ECB's) next move**

For the past four months, the Eurozone has experienced a gentle decline in inflation rates. However, analysts are predicting a slight uptick this month, which could influence the ECB's approach to interest rate cuts. Consumer prices in the Eurozone are expected to be 2.5% higher in May compared with a year ago. This is mainly because of unfavourable base effects in energy prices and an increase in services inflation, owing to last year's subsidised German train tickets. ECB President Christine Lagarde recently indicated a strong likelihood of an interest rate cut at the June meeting. However, any higher-than-expected inflation figures might delay further cuts in July.

#### **China's manufacturing sector: A mixed outlook**

China's manufacturing sector remains under scrutiny as data from May reveals mixed signals about its economic health. President Xi Jinping's administration has been pushing for high-quality production, especially in sectors like electric vehicles and artificial intelligence. The official Purchasing Managers' Index for May is expected to show a slight improvement to 50.5, from April's 50.4. Meanwhile, the Caixin Survey reported the fastest pace of factory activity in 14 months. Despite these positive indicators, underlying issues, such as a real-estate slowdown and weak retail sales, continue to challenge China's economic recovery. Overall, China is experiencing an uneven recovery, driven more by strong manufacturing output than by consumer spending and investment.

#### **United States (US) inflation and the Federal Reserve's (Fed's) dilemma**

In the US, the Fed's preferred measure of inflation, the Personal Consumption Expenditures (PCE) Index, is expected to show a 2.7% year-on-year increase for April, unchanged from March. The core PCE, which excludes food and energy, is also forecasted to remain steady at 2.8%. This comes despite a general cooling in consumer price inflation (CPI) data for April, which brought some relief to the market. Analysts believe that the unchanged PCE data may not significantly alter the market's optimistic view on inflation trends. The Fed's current stance suggests a cautious approach, waiting for more definitive signs of inflationary pressures easing before making further rate adjustments.

#### **Japan's economic challenges**

Japan's latest inflation data suggests that the Bank of Japan (BoJ) is unlikely to raise interest rates in June. Headline annual CPI rose by 2.5% in April, down from 2.7% in March, with core inflation also slowing. The yen has remained relatively stable, reflecting subdued inflationary pressures. However, broader economic indicators raise concerns: Japan's gross domestic product contracted by 0.5% in the first quarter of 2024, and private consumption fell sharply. Wage growth remains insufficient to boost consumer spending significantly, and the BoJ is expected to maintain its current rate policy for now.

#### **South Africa (SA): A glimmer of hope amidst challenges**

Closer to home, SA's financial markets are buoyant as the nation heads towards the election. Investors are optimistic, expecting stocks, bonds, and the rand to perform well post-election, driven by high commodity prices boosting exports. A Bloomberg survey indicates that most emerging-market investors are overweight or neutral on SA, favouring it over other African markets. There is a general expectation that a favourable election outcome, particularly one that avoids a populist government, could lead to increased foreign investment. However, the durability of this rally hinges on the new government's ability to address long-standing issues such as crime, corruption, and fiscal challenges.

To conclude, we encourage you to stay informed and consult with your financial advisor to make strategic decisions that align with your long-term goals. The road ahead may be complex, but with careful planning and a keen eye on global trends, we can navigate it successfully.

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