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This week's data pointed to a mixed but still subdued economic picture. In SA, headline inflation eased more than expected in July, helped by softer food and fuel inflation, although core inflation remained sticky. Retail sales showed some resilience at the end of the second quarter, while wholesale trade remained weak. Internationally, Chinese activity lost further momentum at the start of Q3, Eurozone sentiment continued to improve, US industrial production slowed, and higher energy prices lifted UK inflation.

The full **BER Weekly Review** looks at renewed pressure in global bond markets, the US Treasury's decision to increase long-dated bond buybacks, and SA's Government-Business Partnership shifting attention towards sector-specific opportunities in mining, agriculture and tourism. **Our latest tourism data story looks at the role of visa reform in supporting the sector.**

DOMESTIC DATA

Nomvelo Moima

HEADLINE CPI EASES FROM JUNE'S TWO-YEAR HIGH IN JULY

According to Stats SA, annual headline consumer price inflation slowed to 4.3% in July, down from 5% in June, while prices rose by 0.2% m-o-m, slower than the prior month's 0.7% m-o-m increase. Headline CPI came in below the consensus forecast of a decline to 4.5% y-o-y (BER: 4.4% y-o-y), with the downside surprise stemming from lower-than-expected municipal tariff increases, which are surveyed in July. Stats SA says some municipalities have not yet been surveyed, suggesting near-term upside risk when they are incorporated next month. Moderations in fuel prices and softer food inflation were anticipated, and indeed, the pace of price increases slowed for both categories in July; most notably, food inflation declined from 1.6% y-o-y to 0.9% y-o-y, its lowest level in 16 years. This was largely driven by continued disinflation in cereal products and a slower rise in meat prices. At the same time, transport inflation cooled to 8.9% y-o-y in July, mainly due to the fuel index declining from 34.3% y-o-y to 20.8% y-o-y. However, the annual core CPI (excluding food and energy) edged up to 4.2% in July, up from 4.1% in the prior month.

The July print therefore provided welcome headline relief, but the slight rise in core inflation suggests that underlying price pressures remain somewhat sticky.

RETAIL SALES REMAIN RESILIENT, WHILE WHOLESALE TRADE WEAKENS

Stats SA also released domestic trade statistics for June, revealing a persistent divergence in performance across the trade sector. Real retail sales grew by 1.6% y-o-y in June, following a downwardly revised 2.2% y-o-y increase in May. The largest positive contributions to the headline figure came from “all other retailers” (up 7.5% y-o-y) and general dealers (1.8% y-o-y), each adding 0.8 percentage points (%pts). Only two of the seven retail categories recorded annual contractions, namely retailers of textiles, clothing and footwear and retailers of hardware. Meanwhile, sales of household furniture and appliances remained firm (up 8.5% y-o-y, +0.3 %pts), indicating that some consumers have maintained an appetite for discretionary spending despite higher fuel costs. However, on a seasonally adjusted basis (sa), real retail sales contracted by 0.6% m-o-m in June, following a flat reading in the prior month.

In contrast, real wholesale trade sales contracted for a second consecutive month, declining by 6.8% y-o-y in June, compared with a 7.1% y-o-y decline in the prior month. On a monthly basis, real wholesale trade sales (sa) contracted by 3.4% in June, a slight improvement on the sharp 7.4% m-o-m drop in May.

June marked a third consecutive monthly decline in real wholesale trade sales, setting the sector up to detract from second-quarter growth, while retail trade is likely to make a positive contribution.

INTERNATIONAL DATA

Paul Gluckman

CHINA'S GROWTH SUBDUED AS CONSUMPTION AND PRODUCTION MODERATE

Retail sales slowed to 0.6% y-o-y in July, following 1% in June, marking the second consecutive month of annual growth after May's 0.6% contraction. The headline reading continued to be dragged down by automotive sales (-17%) and petroleum and related products (-7.6%), as elevated oil prices remain a headwind to consumption. However, this was partly offset by very strong demand for communication equipment (20.4% y-o-y) and resilient food product sales (5.3% y-o-y). On a monthly basis, retail sales were broadly unchanged.

Similarly, industrial production slowed to 4.5% y-o-y in July from 5.3% y-o-y in June, below expectations. Twenty-five of the 41 major industries recorded annual growth, led by computers and communications equipment (19.1%). Production growth, however, was weighed down by softer manufacturing (5.5% vs 6% in June) and a continued deterioration in the mining sector (-4.2% vs –2.2%). Monthly, industrial production picked up by 0.1%.

Meanwhile, the unemployment rate rose by 0.2% pts to 5.2%, while fixed investment fell by 6.7% y-o-y, its weakest growth since the pandemic. Taken together, the data points to a further loss of momentum at the start of Q3. The broader picture remains one of subdued domestic demand, weaker production momentum, and a worrying slowdown in fixed investment, leaving the near-term growth outlook soft.

EUROZONE ECONOMIC SENTIMENT CONTINUES TO RECOVER

The ZEW indicator, a market sentiment gauge, had fallen to a four-year low of –20.4 in April but gradually improved each month, recovering to 31.4 in August. The recovery persisted, with 37.2% of analysts anticipating conditions to improve over the next six months, while only 5.8% expected a deterioration. Expectations improved across industries, while the current-conditions index rose by 16.2 points to -21.5. Strong corporate results and exports appear to have supported confidence despite the ongoing heatwave.

In Germany, economic expectations rose by 7.9 points to 34.2 from July to August, even though shipping remains constrained by low river levels. Along with strong exports, expectations of support from infrastructure-related fiscal stimulus appear to have lifted sentiment.

US INDUSTRIAL PRODUCTION SLOWS IN JULY

Industrial production slowed to 1.1% y-o-y in July (0.2% m-o-m), from 1.3% (0.1%) in June. While five out of six major market groups rose, led by strong growth in business equipment production (6.6% y-o-y; 0.8% m-o-m), a decline in consumer goods (-1.8% y-o-y; -0.4% m-o-m) weighed on the overall reading.

Meanwhile, manufacturing production rose by 1.2% y-o-y (-0.2% m-o-m) in July, down from 1.5% the month prior. Durable production rose (3.9% y-o-y), propped up by computer and electronic products (9.9% y-o-y), as demand for AI-related inputs surged.

The resilience therefore remains concentrated in business equipment and technology-related production rather than signalling a broad-based acceleration in US industry.

UK INFLATION LIFTED BY ENERGY PRICES

Annual CPI increased from 2.6% in June to 2.9% in July. The largest positive contributor was housing and household services (4.6% in July from 1.2% in June), reflecting higher electricity and gas prices. This was expected given the 13% jump in the UK's energy price cap last month following higher wholesale energy costs. The cap increase also pushed up the monthly CPI to 0.3%.

While higher inflation strengthens the case for a Bank of England (BoE) hike in September, there is still a strong case for a hold. Core inflation, which excludes energy prices, remained unchanged at 2.6% for a third consecutive month. Additionally, while services inflation remains elevated at 3.4%, it softened from 3.6% in June. The combination of higher headline inflation but stable core and softer services inflation, therefore, leaves the near-term policy outlook finely balanced. The rise in headline inflation should also be read alongside signs of a cooling labour market, with employment growth weakening and unemployment remaining elevated. That combination should make the BoE cautious about responding too aggressively to what is, for now, largely an energy-driven increase in headline inflation.

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