Economic Review

June 2025

US non-farm payrolls increased slightly in May, with job gains continuing but at a slower pace than in April. The US and China, the world's two largest economies, met in London to advance trade discussions. They aimed to build mutual understanding, strengthen co-operation, and reduce miscommunication. The OECD forecasts a slowdown in global economic growth in 2025 and 2026, primarily due to weaker performance in certain countries. SA's headline Producer Price Index (PPI) declined in May, while Consumer Price Inflation (CPI) remained steady. SA's GDP posted modest growth in the first quarter of 2025.

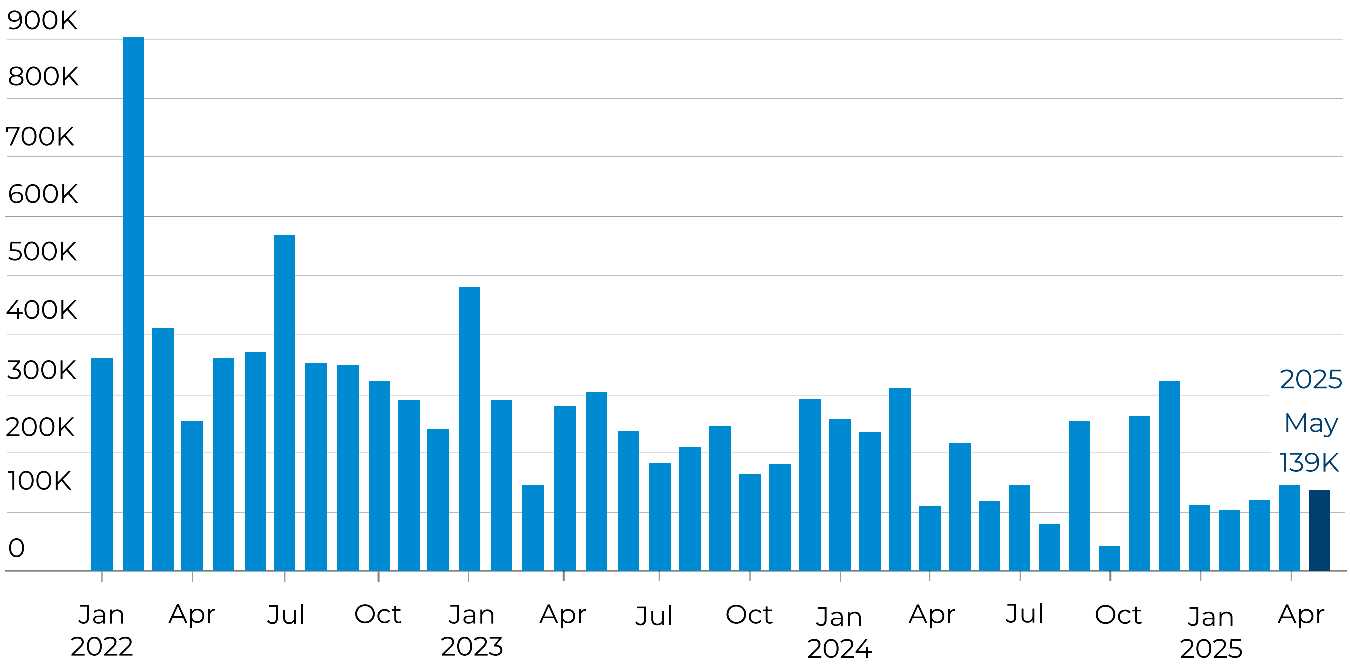
US non-farm payrolls

The Bureau of Labor Statistics reported a slowdown in hiring in the US in May compared with April, as businesses and consumers responded cautiously to tariffs and concerns about a weakening economy. Non-farm payrolls increased by 139 000, exceeding the Dow Jones forecast of 125 000 but below April's revised total of 147 000. Nearly half of the new jobs came from the healthcare sector, which added 62 000 positions, well above its 12-month average of 44 000. The leisure and hospitality industry contributed 48 000 jobs, while social assistance roles increased by 16 000.

On the downside, the US government lost 22 000 jobs as President Donald Trump's initiative to downsize the federal workforce, along with efforts by the formerly Elon Musk-led Department of Government Efficiency, began to take effect. The national unemployment rate remained steady at 4.2% year-on-year (y/y), while a broader metric that includes discouraged and under-employed workers was also unchanged at 7.8% y/y. Wages grew more than anticipated, with average hourly earnings rising 0.4% for the month and 3.9% over the past year, surpassing forecasts of 0.3% and 3.7%, respectively. The combination of solid job gains and steady unemployment highlights the US labour market's resilience despite recent economic disruptions.

Monthly job creation in the US

Jan. 2022-May 2025



Source: US Bureau of Labor Statistics

The US labour report reflects a job market that remains strong, but mounting economic pressures suggest it may eventually begin to fluctuate. The data is set against a backdrop of growing uncertainty, fuelled by Trump's tariffs and the unpredictable extent of his efforts to rebalance global trade in favour of US goods. While most economic indicators suggest a recession is not imminent, sentiment surveys reveal significant concern among both consumers and business leaders. Many are bracing for the potential slowdown in business activity and the inflationary effects caused by the tariffs. In response, US Federal Reserve (US Fed) officials are approaching the current situation with heightened caution.

China and the US confirm trade deals

The Chinese and US economic and trade teams confirmed the details of the framework for implementing the Geneva trade talks in June. According to a statement from China's Ministry of Commerce (MOFCOM), China will assess and approve eligible export applications for controlled items in line with its laws and regulations. In return, the US will lift several restrictive measures previously imposed on China.

The statement from MOFCOM was issued in response to inquiries about claims by some US officials and media outlets that China and the US had reached a supplementary agreement on implementing the Geneva trade talks consensus. These reports suggested that China would speed up its approval process for rare-earth exports to the US, while the US would, in turn, lift certain related restrictions on China. The MOFCOM confirmed that, since trade discussions in London on 9-10 June, both sides had remained in close communication.

The MOFCOM expressed hope that the US would work with China in a spirit of collaboration, making full use of the China-US economic and trade consultation mechanism, in line with the key understandings reached during the 5 June phone call between the two heads of state. The ministry emphasised the need to build on common ground, minimise misunderstandings, deepen collaboration, and jointly advance the healthy, stable, and sustainable development of China-US economic and trade relations.

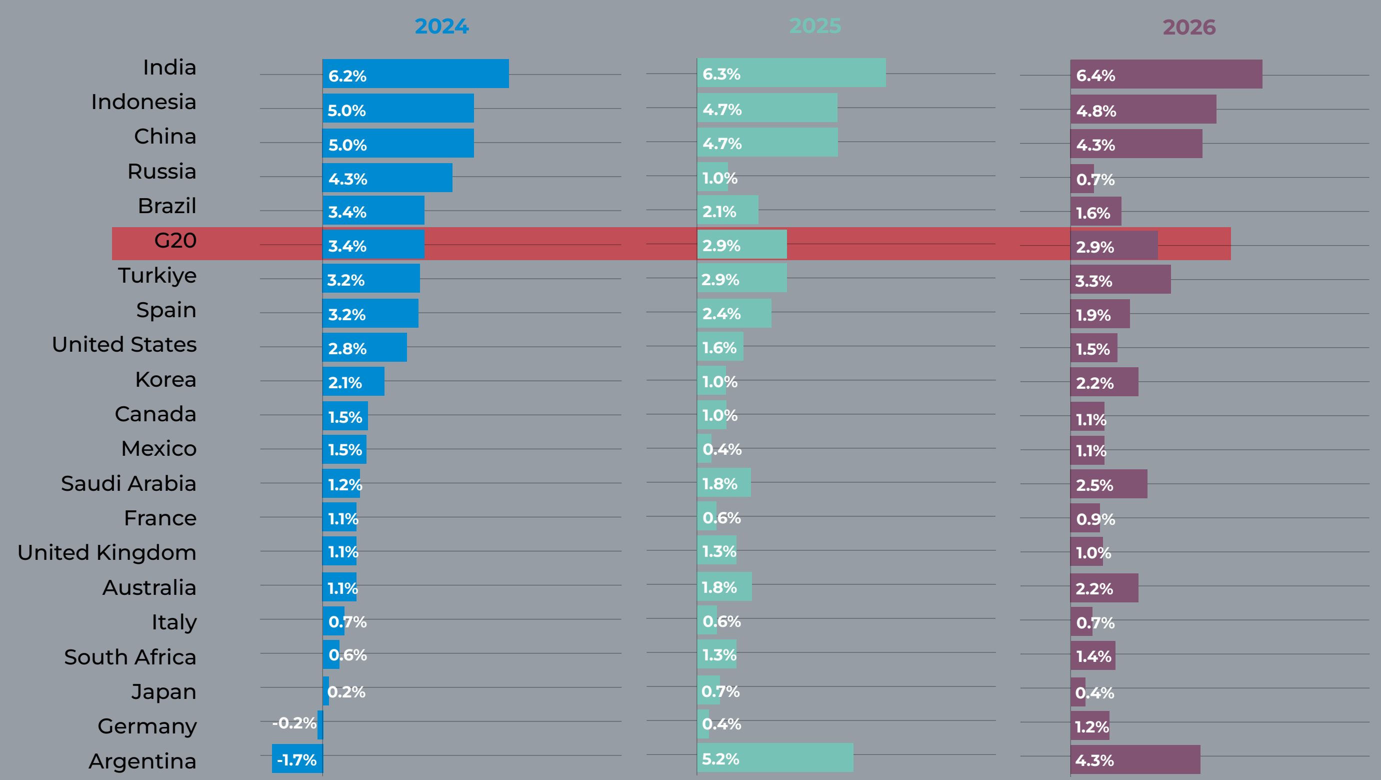
A Chinese expert said the current progress between China and the US reflected efforts to turn consensus into concrete actions, and such practical measures provided important support for all parties, including US businesses, by helping to stabilise supply chains and strengthen development resilience. However, concrete actions and sincerity are needed from the US to implement the consensus and deliver results, the expert said, urging the US to meet China halfway. News of the progress in China-US trade issues has drawn widespread attention, following early reports from certain Western media outlets.

The US and China finalised a trade understanding reached last month in Geneva, the US Commerce Secretary claimed. The China deal, which the US Commerce Secretary claimed had been signed, sets out the terms laid out in trade talks between Beijing and Washington, including a commitment from China to deliver rare earths, according to the report. Reuters reported that Trump said the US had signed a deal with China, without providing additional details.

Trade policy weakens global growth

According to the OECD's June 2025 economic outlook, global growth is projected to slow from 3.3% year-on-year (y/y) in 2024 to 2.9% y/y in both 2025 and 2026. The deceleration is expected to be most pronounced in the US, Canada, Mexico, and China, with more modest slowdowns in other regions. Inflationary pressures have re-emerged in some economies, driven partly by increased trade costs in countries implementing new tariffs. These higher costs are likely to add upward pressure to inflation, though the effect may be partially counterbalanced by declining commodity prices. Across G20 economies, annual headline inflation is forecast to ease from 6.2% y/y in 2024 to 3.6% y/y in 2025 and 3.2% y/y in 2026.

Real GDP growth projections for G20 countries in 2025 and 2026



Source: OECD June 2025 Economic Outlook

The OECD Secretary-General said that the global economy had moved from a phase of resilient growth and falling inflation to a more uncertain trajectory. The latest economic outlook reveals that rising policy uncertainty is undermining trade and investment, eroding confidence among consumers and businesses, and dampening growth prospects. The Secretary-General emphasised the need for governments to engage constructively through dialogue to address challenges in the global trading system. He called for keeping markets open and upholding the benefits of a rules-based trading system, which supports competition, innovation, productivity, efficiency, and long-term growth.

The outlook also identifies several key risks including the threat of increased trade fragmentation, potential tariff hikes and retaliatory measures, which could deepen the global growth slowdown and severely disrupt cross-border supply chains. Additionally, inflation could prove more persistent than expected, particularly in countries grappling with higher trade costs or tight labour markets. This could lead to more restrictive monetary policies, further straining economic growth.

For your interest:

1. G7 Summit takes place in June

- World leaders of the G7 nations - the US, Italy, France, Germany, the UK, Canada, and Japan - gathered in Canada from June 15-17 for their annual summit.
- This year's summit occurred against the backdrop of escalating conflict between Israel and Iran, trade tensions between the US and the G7 nations, and the ongoing Russia-Ukraine war. President Donald Trump left the summit early to return to Washington and address the rising conflict between Israel and Iran.

(Source: American University Washington, June 2025)

2. US Fed leaves rates unchanged

- The US Fed kept interest rates steady in a range between 4.25-4.5%, where it has been since December. This is after expectations of higher inflation and lower economic growth ahead.
- Along with the rate decision, the committee indicated, through its closely watched "dot plot," that two cuts by the end of 2025 were still on the table. However, it lopped off one reduction in both 2026 and 2027, putting the expected future rate cuts at four, or a full percentage point.

(Source: CNBC, June 2025)

3. BOE leaves rates unchanged

- The Bank of England (BOE) decided to keep rates at 4.25%, as inflation remained at its highest level for more than a year and above the Bank's target rate.
- BOE Governor Andrew Bailey said interest rates remained on a gradual downward path but warned that the world was highly unpredictable. There are concerns that the conflict between Israel and Iran, a major oil producer, could send energy costs higher and drive overall prices up, which would impact further rate decisions.

(Source: BBC, June 2025)

4. SA's PPI decreases annually and monthly

- SA's headline PPI final manufacturing figure was 0.1% in May 2025, compared with 0.5% in April 2025. The PPI decreased by 0.3% month-on-month (m/m) in May 2025.
- The main positive contributor to the headline PPI annual inflation rate was the category of food products, beverages and tobacco products. This was also the main contributor to the monthly rate.

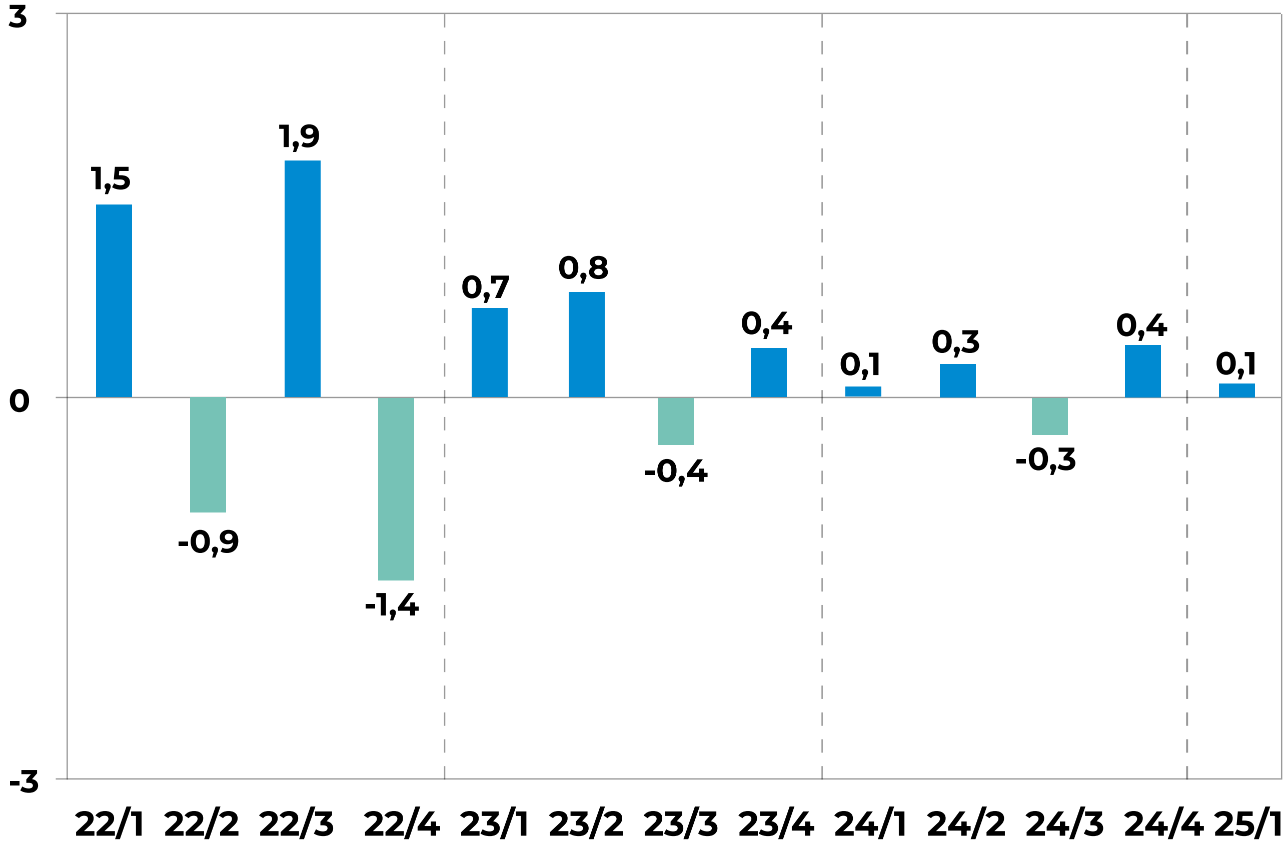
(Source: Stats SA, June 2025)

SA quarterly GDP increases slightly

Stats SA reported that the economy grew by just 0.1% in Q1 2025, following a downwardly revised 0.4% expansion in Q4 2024. The slight growth was primarily driven by the agricultural sector, which surged by 15.8% and contributed 0.4 percentage points to overall GDP, supported by increased activity in horticulture and animal production.

The transport sector expanded by 2.4%, adding 0.2 percentage points to growth, while the finance sector rose by 0.2% and trade made a modest contribution of 0.1 percentage points. On the downside, manufacturing was the biggest drag on the economy, contracting by 2% and subtracting 0.2 percentage points from GDP. The electricity and construction sectors also weighed on growth, each contributing a negative 0.1 percentage points.

SA quarterly real GDP growth (2022 to 2025)



Source: StatsSA

Real GDP expenditure in SA rose by 0.1% in Q1 2025, supported by increases in household final consumption, changes in inventories, and exports. However, the South African Reserve Bank (SARB) has revised its 2025 growth forecast down to 1.2%, citing underperformance in the mining and manufacturing sectors, along with persistently high unemployment, which rose to 32.9% in the final quarter of 2024. Despite the challenges, the SARB anticipates a gradual improvement in economic growth, projecting it will reach 1.8% by 2027.

MACRO OVERVIEW

Global overview

Developed market (DM) equities maintained their positive momentum into June, when the MSCI World Index ended at 4.32% m/m in US dollars. Equity markets had a brief pullback mid-month as conflict between Israel and Iran escalated, and the US got involved. Ultimately, the conflict de-escalated, and equities resumed their gains into month-end. Emerging market (EM) stocks also had a strong run in June, when the MSCI EM posted the biggest gains at 6.14% m/m in US dollars. The S&P 500 followed suit, ending at 5.08% m/m in US dollars. Global property posted gains of 1.04% m/m for June, and global bonds posted gains of 1.89% m/m over the the same period, both in US dollars. The FTSE 100 Index gained 0.48% m/m in pounds, but the Euro Stoxx 50 Index lost -1.10% m/m in pounds. The Dow Jones Index was also positive for the month, at 4.47% m/m in US dollars. Japan's benchmark Nikkei Index continued May's gains into June, ending the month at 6.77% m/m in yen.

Local overview

South African equity markets had a solid end to the first half of 2025, when the FTSE/JSE All Share Index ended at 2.35% m/m in rand terms. Industrials and Property were both in negative territory in June, ending at -0.97% m/m and -0.87% m/m respectively. Resources posted the biggest gains for the month at 4.23% m/m, while Financials and Cash posted gains of 1.20% m/m and 0.60% m/m. The bond market was positive for short-, medium-, and long-term bonds, with the FTSE/JSE All Bond Index ending the month positively at 2.28% m/m. Bonds of 1-3 years were positive at 0.87% m/m along with bonds of 3-7 years at 1.75% m/m. Bonds of 7-12 years were positive at 2.33% m/m, and bonds of 12 years and above ended positively at 3.20% m/m. The rand strengthened against the US dollar by 1.61% m/m, but weakened against the euro by -1.73% m/m, and against the pound by -0.01% m/m.

graviton

member of Sanlam group

Disclaimer: Graviton Financial Partners (Pty) Ltd and Sanlam Multi Manager International (Pty) Ltd and the other external managers mentioned in this article are authorised financial services providers in terms of the Financial Advisory and Intermediary Services Act,2002.
Past performance is not necessarily a guide to future performance. The information does not constitute financial advice, is intended for broker training purposes and may not be distributed to any investors.

While every effort has been made to ensure the reasonableness and accuracy of the information contained in this document (“the information”), the FSP’s, its shareholders, subsidiaries, clients, agents, officers and employees do not make any representations or warranties regarding the accuracy or suitability of the information and shall not be held responsible and disclaims all liability for any loss, liability and damage whatsoever suffered as a result of or which may be attributable, directly or indirectly, to any use of or reliance upon the information.

The information in this document has been recorded and arrived at by Graviton Financial Partners (Pty) Ltd (FSP) License No. 4210 in good faith and from sources believed to be reliable, but no representation or warranty, expressed or implied, is made as to its accuracy, completeness or correctness. Past performance is not a guide to future performance. Changes in currency rates of exchange may cause the value of your investment to fluctuate. The value of investments and income may vary and are not guaranteed. The information is provided for information purposes only and should not be construed as rendering investment advice to clients. Graviton Financial Partners (Pty) Ltd and its shareholders, subsidiaries, agents, officers and employees accordingly accept no liability whatsoever for any direct, indirect or consequential loss arising from the use or reliance, in any manner, on the information provided in this document.

for your future