

Economic Review | The July Edition

www.gravitonperspectives.co.za/economic-review-the-july-edition/

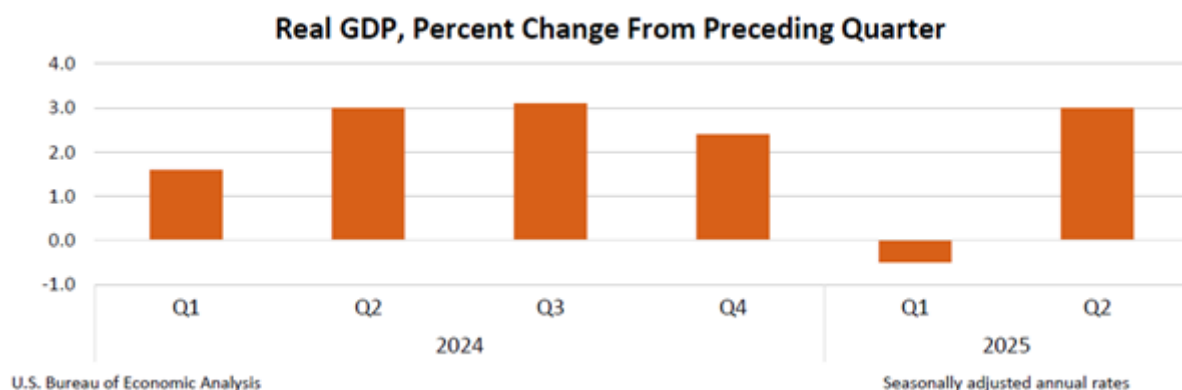
August 11, 2025



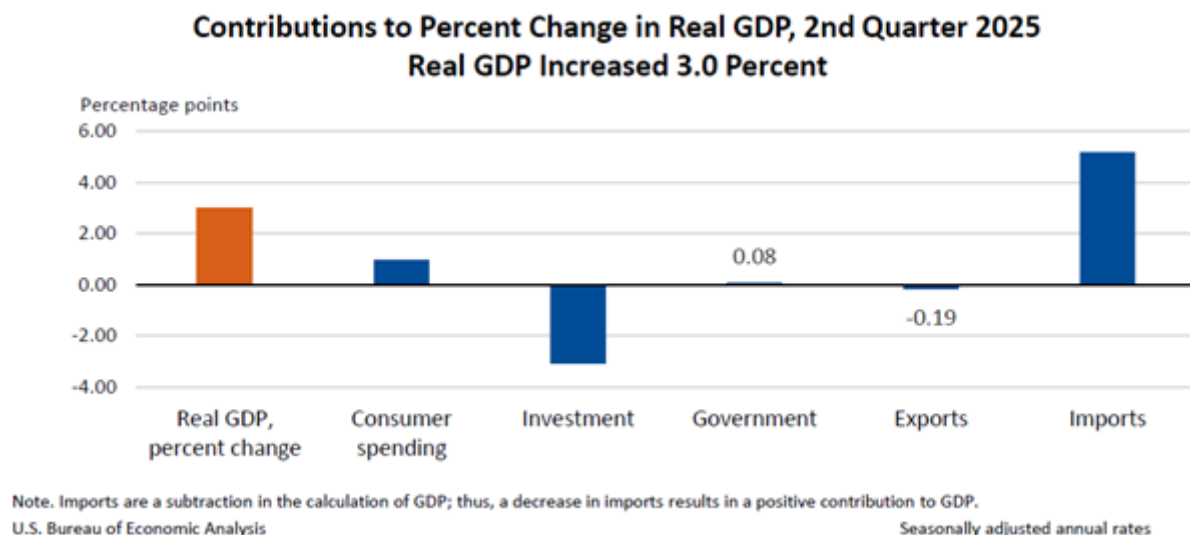
The US economy recovered in July after a contraction the previous month. US retail sales bounced back in June, pointing to stronger consumer spending. China's official manufacturing PMI declined slightly, indicating a slowdown in economic momentum. China also posted positive quarterly growth, exceeding the 5% mark. In the eurozone, the unemployment rate for June was unchanged from May, although in some countries employment figures dropped. South Africa's manufacturing sector returned to growth after nine months of decline. The South African Reserve Bank (SARB) cut interest rates at its July Monetary Policy Committee (MPC) meeting, responding to easing inflation pressures.

The US economy rebounds in the second quarter

Based on preliminary data from the US Bureau of Economic Analysis, the US economy rebounded strongly in Q2 2025, with real GDP growing by 3.0% year-on-year (y/y). This marks a significant turnaround from the 0.5% y/y contraction recorded in Q1 2025, which was the weakest performance since 2022. Q2 growth was mainly driven by a drop in imports and a rise in consumer spending, although declines in investment and exports partially offset these gains. Core GDP, which reflects underlying demand in the economy, slowed to 1.2% y/y in Q2, from 1.9% earlier in the year, marking its slowest pace of growth since Q4 2022.



In Q1 2025, a surge in imports weighed on economic growth. This trend reversed in Q2 as companies relied more on inventories than imports, which helped to lift GDP – adjusted for seasonal swings and inflation. Consumer spending, which drives roughly 70% of the US economy, rose significantly to 1.4% in Q2, from just 0.5% in Q1. Despite the improvement, these two quarters represent the slowest pace of consumer spending since the pandemic. Business investment dropped sharply to 1.9% from 10.3%, largely due to a correction following strong activity earlier in the year.



This GDP report is a key element of economic data expected to show how consumers and businesses are weathering President Trump’s sweeping economic policies. The back-and-forth stockpiling and selling of inventories before and after Trump imposed tariffs appears to be masking an underlying weakness in consumer and business spending. Economic resilience does not make a convincing case for the US Federal Reserve (Fed) to consider a rate cut to stimulate growth. According to US futures, investors expect rate cuts in September and December. The Fed cuts rates whenever it becomes clear that the economy is bound to weaken, increasing unemployment. In addition to fighting inflation, the Fed is also responsible for keeping the labour market intact.

Chinese manufacturing PMI ticks down in July

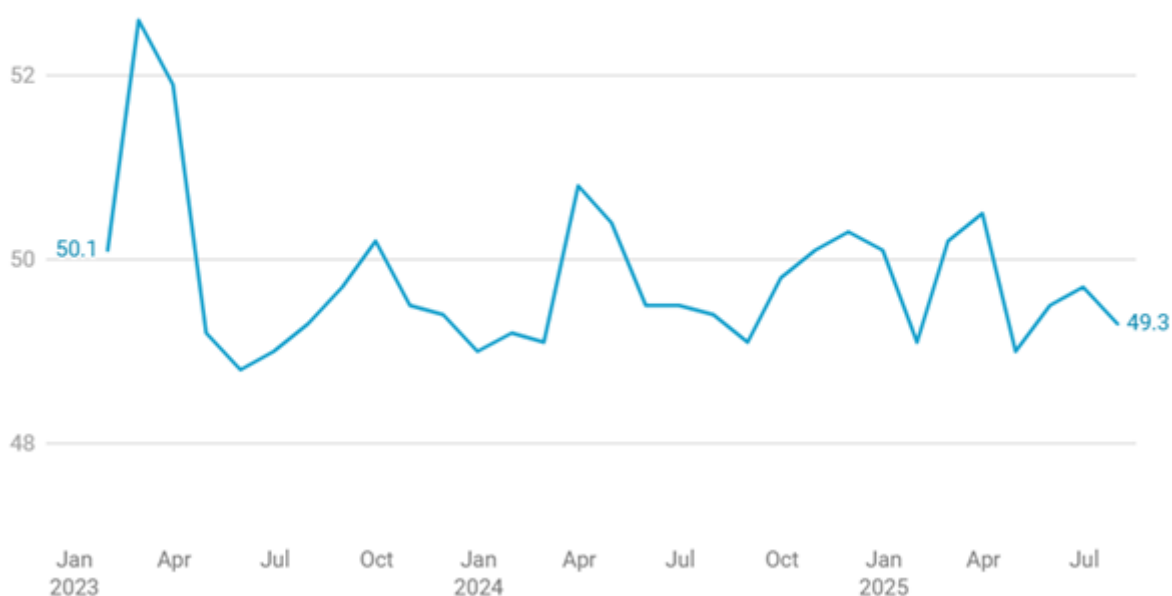
China’s official measure of manufacturing activity showed a deeper-than-expected decline in July, reflecting slower economic momentum and persistent trade tensions with the US. The Manufacturing Purchasing Managers’ Index (PMI) was 49.3, below the 49.7 forecast in a Reuters poll. Since April, the PMI has remained under the 50-point mark, signalling ongoing contraction in the sector.

In April, trade tensions between the US and China intensified, with both countries imposing tariffs exceeding 100% on each other’s imports. In May, both countries reached a temporary agreement to roll back most of these additional tariffs for a 90-day period, reducing the effective rate on Chinese exports to the US to around 43%. However, a June

2025 meeting between representatives from both sides in Stockholm ended without an announcement to extend the deal, despite widespread expectations that it would continue.

China's official manufacturing PMI

Since the end of Covid-19 restrictions (2023 - 2025)



Source: National Bureau of Statistics

China's National Bureau of Statistics attributed the drop in July's manufacturing PMI to seasonal factors and severe weather conditions, including extreme heat and heavy rainfall in parts of the country. For example, in deadly flooding near Beijing, at least 30 people lost their lives after the city issued a top-level red alert for rain, according to state media. By comparison, in July 2024 the PMI reading was 49.4, with the new orders sub-index at 49.3. Analysts at Goldman Sachs noted that, in addition to adverse weather, Beijing's efforts to curb overcapacity – referred to as “anti-involution” policies – are also weighing on economic activity.

Eurozone growth slows, while the unemployment rate holds steady

Eurozone economic growth slowed to just 0.1% quarter-on-quarter (q/q) in Q2 2025, from 0.6% in Q1, according to a preliminary estimate. While modest, the Q2 figure was better than the flat growth markets had anticipated. Q1's stronger reading was partly driven by US import frontloading ahead of tariff hikes. Inflation in the eurozone remained steady at the European Central Bank's 2.0% target in July, defying expectations of a slight decline. Core inflation, which excludes volatile items like energy and food, also held firm at 2.3%.

The region's labour market was stable. The seasonally-adjusted unemployment rate was 6.2% in June – unchanged from May and down from 6.4% a year earlier. EU-wide unemployment rate was 5.9%, also steady month-on-month (m/m) and slightly lower than the 6.0% recorded in June 2024. Eurostat data showed that 12.97 million people were

unemployed in the EU in June, including 10.7 million in the eurozone. Joblessness declined in Spain, Italy, and Portugal, remained unchanged in Germany, France, Belgium, and the Netherlands, and rose in Austria, Poland, Denmark, and Finland.

Although the eurozone economy is facing significant uncertainty, business surveys on activity and hiring remain relatively resilient. Unemployment is expected to stay near record lows, which helps to cushion domestic demand from broader economic headwinds. This supports the outlook for continued, though modest, economic growth in the coming quarters.

For your interest

1. China posts better-than-expected GDP growth

- China's GDP expanded by 5.2% y/y in the second quarter from the same period a year earlier, according to the National Bureau of Statistics (NBS). That was higher than the average prediction of 5.1%, based on a poll of 40 economists surveyed by Reuters.
- China's economy remains under mounting external and internal pressure to meet its ambitious target of "around 5%" growth set for this year – a goal economists believe will be tough to achieve without further policy support.

(Source: CNN, July 2025)

2. UK CPI expands

- The Consumer Price Index (CPI), including owner occupiers' housing costs (CPIH) rose by 4.1% y/y in June 2025 compared with 4.0% y/y in May 2025. CPI rose by 3.6% y/y in June 2025, up from 3.4% y/y in May 2025.
- Transport, particularly motor fuels, made the largest upward contribution to the monthly change in both CPIH and CPI annual rates. Housing and household services, particularly owner occupiers' housing costs, made a large and partly offsetting downward contribution to CPIH.

(Source: Office for National Statistics, July 2025)

3. US retail sales rebound in June

- US retail sales rebounded more than expected in June, suggesting a modest improvement in economic activity and giving the Fed cover to delay cutting interest rates while it gauges the inflation fallout from import tariffs.
- That report was reinforced by data from the Labor Department that showed first-time applications for unemployment benefits dropped to a three-month low, consistent with steady job growth in July. The US central bank is under pressure from Trump to lower borrowing costs.

(Source: Reuters, July 2025)

4. SA factory activity returns to growth

- South Africa's seasonally adjusted Absa Purchasing Managers' Index (PMI) rose to 50.8 in July 2025 from 48.5 in June, marking the manufacturing sector's first return to positive territory in nine months. The expansion was driven by a strong recovery in demand, with the new sales orders surging by 9.8 points to 55.9 – their third consecutive monthly improvement.
- The sector also faces headwinds from a 30% US tariff on South African exports which could cost tens of thousands of jobs following the lapse of a trade deal deadline set by Trump.

(Source: Trading Economics, July 2025)

SARB cuts interest rates again

The SARB's MPC unanimously agreed to lower the policy interest rate by 25 basis points, reducing the repo rate to 7% and the prime lending rate to 11%, from 1 August 2025. In earlier discussions, the SARB explored the possibility of adopting a 3% inflation target, arguing that the current 3–6% range was too broad and should be revised. With inflation currently near 3%, the SARB sees a chance to secure a lower inflation environment at minimal economic cost.

The rand has appreciated, and inflation expectations have eased. June's CPI showed headline inflation at 3% y/y and core inflation at 2.9% y/y, both at the lower end of the SARB's target range. However, food prices – especially meat – have increased, and fuel prices are declining more slowly than before. As a result, the SARB anticipates a slight rise in headline inflation in the coming months, with an annual average of 3.3%, consistent with previous projections. Inflation is expected to stabilise near the target level for the remainder of the forecast period.

Economic growth remains subdued, largely due to ongoing supply-side constraints such as inefficiencies in logistics. Increased uncertainty has also weighed on output, with business and consumer confidence weakening in the first half of the year. The SARB forecasts a gradual improvement in growth, supported by structural reforms. Risks to the growth outlook are considered balanced.

Global challenges underscore the need for domestic reforms to boost growth. The SARB's primary role is to maintain price stability, and it believes the current environment presents a unique opportunity to entrench low inflation and pave the way for sustainably lower interest rates. Key reforms that could enhance economic performance include managing public debt responsibly, improving infrastructure and network industries, curbing inflation in regulated sectors, and ensuring wage growth aligns with productivity.

Macro overview

Global overview

Developed market (DM) equities had a solid start to the second half of the year with the MSCI World Index ending positively at 1.29% m/m in US dollars. Mega-cap tech stocks led from the front again. Nvidia was the star performer, boosted by Trump's announcement that he would lift a ban on supplying AI chips to China and reports that the Magnificent 7 companies planned to accelerate their AI capex spend. Emerging market (EM) stocks also had a strong run in July, when the MSCI EM Index posted gains of 2.02% m/m in US dollars. The FTSE 100 and the S&P 500 were among the gainers for the month, ending at 3.96% m/m and 2.24% m/m in pound and US dollar terms. However, global property and global bonds both detracted in July, ending at -1.14% m/m and -1.49% m/m respectively, both in US dollars. The Euro Stoxx 50 Index gained 0.45% m/m in July from a June loss of -1.10% m/m in euros. The Dow Jones Index was positive for the month, at 0.16% m/m in US dollars. Japan's benchmark Nikkei Index continued June's gains – although lower – into July, ending the month at 1.44% m/m in yen.

Local overview

South African equity markets delivered a fifth consecutive positive monthly return, when the FTSE/JSE All Share Index ended July at 2.27% m/m in rand terms. Resources were the biggest drivers of local returns for July at 5.06% m/m, with platinum and gold miners delivering more than half of the index returns. The local bourse crossed the historic 100 000 points milestone for the first time in July. Property, Financials, and Cash ended in positive territory for the month at 4.75% m/m, 1.34% m/m, and 0.62% m/m respectively, in rand terms. However, Industrials detracted for the month at -3.78% m/m. The bond market continued June's gains into July for short-, medium-, and long-term bonds. The FTSE/JSE All Bond Index ended the month positively at 2.73% m/m. Bonds of 1-3 years were positive at 0.74% m/m along with bonds of 3-7 years at 1.94% m/m. Bonds of 7-12 years were positive at 2.95% m/m, and bonds of 12 years and above ended positively at 3.89% m/m. The rand weakened against the US dollar by -1.72% m/m, but strengthened against the euro by 0.79% m/m and against the pound by 1.77% m/m.

Graviton Financial Partners (Pty) Ltd is an authorised financial services providers in terms of the Financial Advisory and Intermediary Services Act, 2002. The information in this article does not constitute financial advice. While every effort has been made to ensure the reasonableness and accuracy of the information contained in this article ("the information"), the FSP, their 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 disclaim 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.