



2013: The window of opportunity

The year is already nearly two weeks old and things are slowly returning to normal. Our economics team has started to formulate our broad outlook on the economy for 2013 and I would like to share some of our new year's thoughts with you.

But before I get into the details, allow me to wish you all a very prosperous and financially rewarding 2013!

Back to the future; what's in stall for 2013? There are simply too many variables that will impact on the country and on the economy during the year to be totally sure about the eventual outcome. Will Greece and Euroland implode? Will the American political squabbles affect their economy? Will China's growth slow down or accelerate? What about the local economy? Will strikes destroy the little we have left in the mining industry? Will another jump to the left in economic policy result in yet another round of downgrades? These outcomes are still in the realm of the unknown. There are, however, certain trends that have been very clear and a few likely scenarios are possible based on these observations. Here is what I know and expect for 2013!

- Monetary policy will remain very accommodative in the USA, Euroland and Japan; in fact in most countries. This means that interest rates will remain exceptionally low with possibly some signs by year end that the period of super low interest rates may be over. In the meantime, global interest rates will be low for quite some time. Of this I am certain.
- The big economies will maintain accommodative fiscal policies; relatively large fiscal deficits which will also be supportive of economic performance. Certain countries, such as the Greece's of this world, will maintain their relatively tough fiscal policies, but by and large global fiscal policies will remain accommodative. I am quite sure about this also.
- Euroland may be in recession. If not, growth in Euroland is likely to be weak but growth in the US could be rather strong. Certain southern Euroland

countries may make good progress towards fixing their economic woes; Greece comes to mind again. Japan is likely to remain a basket case in terms of economic growth. China's growth is likely to remain robust but the 10%'ers are unlikely to be repeated.

- For the rest of the world slightly better growth can be expected than in 2012.
- Of course possible dangers always loom. Another Euroland debt crisis, a debt ceiling crisis in the US, or political instability in a major country somewhere. Nevertheless, 2013 could indeed be better than 2012.
- One issue I am particularly worried about is inflation. Massive fiscal and monetary stimulation is likely to eventually awaken the inflation monster, and inflation is most likely going to become the next big problem for the world's central banks. But we probably have another year or two before inflation really becomes troublesome. That means that 2013 may be special...

Special, because this year could give us a window of opportunity during which financial markets can do particularly well, especially equity markets. This is because economic policies will remain exceptionally accommodative on the one hand, but also because inflation will remain at bay for now, a situation which is not sustainable. Eventually rising inflation will lead to tighter economic policies, which will certainly not be good for financial markets.

This is the first of our economic salvoes for the year. What is becoming apparent, however, is that equity markets are likely to have another good year ahead! Look out for our official House View, due to be released in February, and other economic updates throughout the year.

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