EFFICIENT GROUP Weekly Economic Newsletter

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ECONOMIC COMMENTARY - By Francois Stofberg

This week I took another in-depth look at some important global economies: the BRICs countries, as well as the US and EU (later I'll include Britain and Japan as well). What we do is, we identify key macro-economic variables for each economy and then compare each quarter's value to its long term average (2008-2016). After adjusting this value for each variable, we finally average all 20 odd adjusted values to get one single macro-economic representation for each economy. This final value is measured around a value of 50, above 50 indicates a healthy macro-economy and below 50, an unhealthy, struggling economy.

The previous time I did this study, I only had data up until the 4th quarter of 2015 and India and the US economies reigned supreme. This time round I was able to obtain most of the values for both quarters of 2016, and although they lost some steam, both India and the US held their positions. India's success fits in well with our story last week about being the "most open economy in the world". Investments boost growth in the short term, but also increase the potential for growth in the long term. Unlike most rich countries, the US continues on their steady path of recovery, so much so that we've started to wonder if they might not be lying about some of their results. But, we don't comment on conspiracies, we simply state the facts, and the facts are that the US economy is a powerboat that is simply slashing through the icy waters of recovery.

One more point is worthy to be mentioned. I also compare the co-movements in our economic-index to the stock markets, for each country. There is a clear correlation between our index (the real economy) and each country's representative stock market (financial economy), as one would expect. However, compared to the struggling nature of each country's real economy, stock markets are very over-priced; in which case either earnings will have to increase or stock prices will have to decrease. Unfortunately, earnings can't increase too much if the real economy is struggling, in which case stock prices will have to fall; this is the possible market correction we think may still occur in the latter parts of 2016.