EFFICIENT GROUP

Weekly Economic Newsletter

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ECONOMIC COMMENTARY - By Francois Stofberg

As economists, we are often asked whether South Africa's economy will follow the route of Zimbabwe's; from hero to zero. Our response has long since been that SA's strong and independent institutions will keep this economy alive and prospering. Although these institutions have come under severe pressure over the last couple of years, they have remained resilient yet again. Not only was the independence of our financial institutions upheld, but the independent nature of our judiciary was also upheld when the state capture report became public knowledge. What was previously only speculation about corruption can now be investigated and put on trial. What is more, our judiciary has once again shown that not even "number one" can do as he pleases. Markets react well to strong institutions, investor and consumer sentiment has caused the Rand to make strong gains over the last two weeks. Longer term economic prospects, however remain dull as structural changes are still needed to remedy this ailing economy.

Other important news this week was the Fed's decision to keep interest rates unchanged, but to give strong forward guidance that they will be hiked in December. A Bloomberg survey showed that the likely chance of a December hike is now at 75%, a view we've long since held. However, we believe that all the current guidance is a smokescreen to mask the volatility that might arise from the political uncertainty that has been brewing in the US. I think before we discuss the likely path of US interest rates and any further, or the impact they will have on our small economy, we should wait for more hard-economic data and the results of their election. It's very important to remember that whatever happens on the 8th of November one should not make quick rash decisions, but stick to the plan you've laid out with your financial advisor, and remember that we play the long-term game.

A final interesting thing that might happen in the upcoming moths is virtual inflation; creating inflation out of nothing. Usually, prices for goods and services are driven by demand and supply; inflation occurs is demand increases without supply increasing, or supply decreases without demand decreasing. However, for the first time since 2010, Chinese export manufacturers might have to increase prices simply because they cannot continue to undercut prices. Consequently, prices will be set higher without a likely change in the structure of demand and supply. The effect will be that China's largest trading partners (USA, Japan, and the European Union), which all are currently struggling with low inflation, might see a spurt of "virtual inflation".