EFFICIENT GROUP

ECONOMIC COMMENTARY

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Newsletter

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JANUWORRY: CHINESE CORONA AND SOUTH AFRICAN SHORT-TERMISM

As the death toll of the Wuhan Coronavirus reaches 360 it has officially overtaken the 2003 Severe Acute Respiratory Syndrome (SARS)-epidemic as a more deadly virus. This resulted in a fall in the Chinese markets of about 9%. However, only about 5% of this decline can be ascribed to the Coronavirus. Markets globally have been going through a tough time over the last couple of weeks, which the Chinese markets missed because they were closed due to their New Year celebrations. Chinese officials extended their downtime to allow markets more time to stabilise. It is, therefore, reasonable enough to assume that 4% of this pullback was likely caused by general market sentiment. It's worthwhile to applaud the Chinese on their determination though. They built a 365,000 square hospital in Wuhan to serve 1,000 patients in 10 days and the second, even larger hospital, will be completed within the week.

Uncertainty about the Coronavirus and its impact on global growth, amidst uncertainties about a slowdown in the developed world, have caused investors to turn risk averse. For this reason, we saw the rand stumble down to R15-levels against the USD.

South Africa's economy has now gone through twelve concurrent years of low growth. This was fuelled by poor, and loose fiscal policy, i.e. wasteful, irregular, ineffective, and suboptimal government spending. All of which have led to high budget deficits, debt levels and ultimately an impoverished South Africa. And despite all this, the government continues to pressure private and public institutions not to go through with painful, but necessary retrenchments. In addition, instead of allowing businesses to fail, they throw billions of rands into many bottomless pits. This results in a miss-allocation of scare resources (labour and capital) away from productive investments. This feels similar to drinking a pain killer to cure a broken leg. In the short term it feels like you're at least doing something, but eventually it paralyzes you. The government will have to change its thinking: less government intervention is preferred.

Lastly, the South African Reserve Bank (SARB) decided to reduce interest rates. Finally realizing that the threat to inflation is subdued by both demand and supply constraints, the SARB decreased interest rates by 0.25%. Most notably, consumer demand is kept low by

+ weak confidence;
+ low wage increases; and
+ greater levels of unemployment.

On the supply side, crude oil prices have been falling and the rand has not spiralled out of control; South Africans have grown accustomed to seeing the rand swing between R14 and R15 against the USD. Although local demand is under severe strain, even a small injection like this, can help let off some steam among consumers.

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