EFFICIENT GROUP

ECONOMIC COMMENTARY

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Newsletter

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WELCOME TO 2021

British and European policymakers finally reached a deal, avoiding the bad-for-all case of a hard Brexit. All that is left to do now is iron out some of the wrinkles in the deal. But as the more rapid-spreading South Africa strain of COVID-19 was found, Britain entered a third round of hard lockdown. With this latest lockdown even schools were closed, which will most likely force the service-driven economy into a deeper recession. Any hopes of a revitalized post-Brexit economy are dwindling for now.

The United States (US) seems to be falling off the rocker. Pro-Trump protestors stormed the capitol, seemingly unhappy with Trump stepping aside on 20 January 2021. Twitter banned or removed many of the President's accounts based on inciting violence. This raises many questions not only regarding freedom of speech (a cornerstone of US democracy) but also tech-dominance. Despite Democrats and Republicans finally agreeing on a second round COVID-relief, with a price tag of USD900 billion, incoming president Joe Biden said this was only a down payment for the action that was needed to revitalize the US economy. He was referring to a multi-trillion-dollar fiscal plan to support households, state, local governments and businesses, as well as ramp up infrastructure spending. To raise the funds needed for this ambitious plan he suggests taxing the wealthy, as well as corporate America. We agree with the notion of supporting businesses and spending on outdated US infrastructure. But we believe it is unwise to force more cash down the throats of households, or to spend more on ineffective, poorly run, state and local governments. Nevertheless, markets appreciated the news tremendously and all three the major US indices, the Dow Jones, S&P500, and NASDAQ, reached all-time highs. More fiscal and monetary stimulus means more equity support.

In South Africa (SA) vacationers were hit with bad news when President Ramaphosa closed beaches in many of our favourite holiday destinations. This was met with such disregard that government had to deploy the army to assist local authorities. Until now the presidency has been able to avoid another hard lockdown, but we are unsure for how much longer. Daily active cases have now reached an all-time high in SA, and a failed state, clouded by gross incompetence, has once again put us in a position where harder lockdown measures might become a necessity. Many of our developmental peers have already started to roll out vaccines. Russia and China have been at it for weeks, and India will start with their roll out within the week. In SA, we are still left in the dark about when vaccines will be freely, and widely available. For this reason, we are concerned that the anticipated local economic recovery will take longer than expected. Although we might still be swept up in a global recovery story if vaccines are rolled out effectively abroad and new strains are managed accordingly. In terms of consumer, business, and investor sentiment towards SA, a lot is riding on the February budget. President Ramaphosa seems to have consolidated power during 2020 as informal inquiries, and various commissions started to rattle the cages of the corrupt. If he can use his newfound power to push through tough expenditure cuts to the civil service wage bill, we might stand at the good end of the global growth story.

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