

STIFF-NECKED AMERICANS AND MODERN INFLATION

Trump is out, Biden is in. Based on the severe and frequent attacks on Trump as Biden's inauguration approached, many were glad to see the former president go. As an objective observer, I am in two minds about it. I believe both Trump and the United States (US) missed out on a unique transformational opportunity that could truly have defined this age and made America great again (Trump's infamous campaign slogan). Both parties were simply too stiff-necked. What the US failed to grasp is that true transformation never occurs by doing more of the same thing. True transformation could have addressed issues like the shortages of capitalism, inequality, partisanship, and maybe even racism. Most thought it a victory when Biden signed 15 executive orders shortly after his inauguration, much more than most presidents sign throughout their entire presidencies, to undo much of what Trump did, I thought it a terrible loss. Although Trump did many good things during his presidency, he was unable, or unwilling, to gather the emotional intelligence needed to empathetically hear the plead of those opposing him. Something that his position unfortunately demanded. What we are left with is a visage, a smokescreen of peace and prosperity, because of huge amounts of stimulus and state support, that is keeping Americans dazed. With Biden's plans of even more excessive stimulus, he might be able to keep the visage up for many years, but make no mistake, the US missed their opportunity to "Make America Great Again".

Getting back to the lighter side of economics: the numbers. In South Africa, Statistics South Africa released our December inflation figures: 3.1%. Bringing the annual rate to its lowest in 16 years and the second lowest it has been since 1969, only 3.3%. In 2004 the rate was 1.4% and in 1969 the rate was 3%. Consequently, the South African Reserve Bank's (SARB) decision to cut interest rates by 3% in 2020, was spot on. Just enough to keep real rates positive and support our capital markets, but as low as possible to support a sick economy; literally and figuratively speaking. Food prices however rose 6%, with meat, oils and sugar leading the way. Looking to the future, the SARB believes inflation will only slightly increase to 4% in 2021, and possibly 4.5% in 2022, with GDP expected to grow 3.6% and 2.4%, respectively. With muted concerns about inflation breaching the SARB's mid-range target of 4.5% in the medium-term, they therefore decided to keep the repurchase rate unchanged at 3.5%. We consider this a wise decision.

Inflation is a funny business. Inflation today differs vastly from the inflationary systems of the past. More accurately, it is more of a process than a system being driven by once-off shocks. In the past, inflation could take flight if OPEC decided to hike oil prices, or when governments decided to increase expenditure rapidly, like the US did during the Vietnam war. Nowadays, because of the extreme monetary stimulus of the past decade, or decades on the part of Japan, it is more like a death by a thousand cuts. Now, inflation seems to be interwoven over geographies and through global supply chains. Now, inflation creeps up on you. The point? Inflation is not yet a problem, but it is going to be a lot more difficult to discern when it becomes one. Sooner or later, we are going to have to pay for decades of monetary stimulus and deflation, and the enormous amounts of debt we have been accumulating.

