EFFICIENT GROUP

ECONOMIC COMMENTARY

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YOUR WEEKLY ECONOMIC UPDATE

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COVID-19, EARNINGS, AND TOMATOES

We start off with some COVID-19 news: as many South Africans are aware, we have recently seen a spike in new COVID-19 cases in a trend that is starting to look very similar to the one that recently indicated the arrival of a second wave of infections. Using a rolling three-day positivity rate, our infection rate has slowly been increasing, reaching 8.1% by the end of last week. We will, therefore, most likely, have another family meeting with our President during which he will probably announce some (unfortunate) restrictions in an attempt to avoid a third wave, as seen in many other countries around the world. Initially, our poor response to the pandemic caused unimaginable damage to our economy, but more recently our inability to timeously secure adequate amounts of vaccines have continued our predicament.

Like us, many other developing countries are struggling to beat the pandemic: India is battling with staggering new infection rates whilst Taiwan recently introduced much stricter social-distancing measures. In the developed world, most countries in the European Union (EU) are easing restrictions, even though epidemiologists worry that the shift to normality is premature.

In earnings news, we have reached the end of the first quarter of the earnings season, and it appears that United States (US)-based companies continue to reign supreme. In their latest reports, 87% of S&P 500 companies (an index of the 500 largest firms in the US) beat earnings expectations. Despite this good news, markets took the news with a pinch of salt, being more concerned with the recent announcement about inflation.

Although analysts expected an annual inflation print of 3.6%, already much higher than what we usually see from the US, inflation was reported to be 4.2% during April. This marks the greatest increase since 2008. One of the most surprising price shocks was that of used cars, where prices increased by 10% month-on-month. This increase was the single-greatest increase in used car prices since starting to collect data in 1953. High price increases, like these, have caused many investors to doubt the US Federal Reserve's (Fed's) guidance about inflation only being temporary. Many now fear that higher levels of inflation will take hold, in which case the Fed will have to unwind their very accommodative monetary support much quicker than anticipated. Less support means less easy money, which will lead to market uncertainty and volatility.

We conclude with some more interesting news from South Africa: you might have noticed a tomato shortage during your last visit to your local grocer, or perhaps you could not find quality tomatoes, or tomato prices were extremely high. Prices shot up owing to a supply shortage after severe rains in early 2021 ruined crops. Farmers received more rain in January and February than they usually receive in a full year. This shortage caused an increase in tomato prices well beyond R20 000 per ton. Luckily, a short growth cycle means that the inconvenience was short-lived. Since the highs at the end of April, the price has fallen back to around R11 000 per ton and should continue to do so as the 20% shortage is eventually eradicated.

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