EFFICIENT GROUP

ECONOMIC COMMENTARY

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YOUR WEEKLY ECONOMIC UPDATE

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MORE POSITIVE INDICATORS AND LOCAL POLICY AMENDMENTS

Last week another collection of positive economic indicators emerged from the United States (US). Many more experts have, therefore, voiced the opinion that the US Federal Reserve (Fed) might start to curb their monetary support by the end of 2021. Currently, the US Fed is still buying upwards of $120 billion in agency mortgage-backed securities and Treasuries each month, causing the Fed's balance sheet to continue ballooning. The Fed has also been clear that they will continue to support the economy until "substantial further progress" has been made on its goals of achieving an average inflation of 2% and full employment; both of which we believe are rapidly approaching.

One of the indicators that continue to point towards a rapidly recovering US economy is the high levels of consumer prices. Like June, July's annual price increase remained at the 13-year high of 5.4%, also because of persisting supply-chain constraints and soaring demand; it seems that the helicopter money provided by the government is doing its part to boost demand. After adjusting inflation for the more volatile items, such as fuel and food, referred to as core inflation, it does, however, seem that a slowdown in prices is possible. Core inflation came down from June's 4.5% to 4.3% in July. Interestingly, the Biden administration last week urged the Organization of the Petroleum Exporting Countries (OPEC) to boost oil production and to alleviate some of the pricing pressure, which they believe can harm the ongoing global recovery. We maintain that the current prices are unsustainably high; the Middle East's geopolitical tensions can cause them to remain elevated.

Another indicator is the falling US initial unemployment claims, which came down from the prior week's 387 000 to this week's 375 000. Unemployment itself has been driven down by a booming economy and it seems that the elusive "full employment" is not kept at bay by the inability to produce jobs, but by workers' reluctance to take up those jobs. Currently, there are more job vacancies in the US than unemployed individuals. Workers are hesitant to return to work over concerns of the spread of the Delta variant, or so they claim. We believe that another factor plays a substantial role. That is, that workers are more reluctant to take up these opportunities because they have grown lazy on the back of government handouts and a soaring equity market.

In South Africa, a new amendment agreed to by Mineral Resources and Energy Minister Gwede Mantashe, will allow independent electricity producers to be exempt from licencing requirements for electricity generation projects up to 100 MW. Previously, the cap was 1 MW. Although the amendment is welcome news to an industry with many shortcomings, legal experts fear that the poorly drafted amendment can lead to uncertainty and, therefore, delay execution. Another bill that was gazetted last week by Employment and Labour Minister Thulas Nxesi, is the Destroyed, Affected or Looted Workplaces Temporary Relief Scheme. This scheme will allow eligible workers who were negatively impacted by rioting and other unrest in Gauteng and KwaZulu-Natal to receive between 38% and 60% of their pre-unrest salaries, subject to a minimum of R3 500 and a top-end cap of R17 712. Like the helicopter support provided to US citizens, support of this kind is welcome in severe instances and can alleviate much of the financial distress caused by severe events. However, it is also very costly and even more difficult to stop doing once you have started.