EFFICIENT GROUP

ECONOMIC COMMENTARY

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YOUR WEEKLY ECONOMIC UPDATE

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FLOODS, HOUSE PRICES, AND INFLATION

Following the severe floods in KwaZulu-Natal, many companies have suspended their operations to recover and to restore damaged equipment and infrastructure. Container depots, terminals, and warehouses that have been damaged will likely further constrain local supply chains. This, in turn, can add upward pressure on prices while potentially having a negative impact on economic performance, as producers are unable to receive inputs, and others face export delays of their finished goods.

In a report released by independent property valuation firm, Rode & Associates, it is noted that real house prices in South Africa (SA) will, most likely, decline for the seventh consecutive year in 2022. According to the report, house prices have fallen by about 2% in real terms so far this year. The report also shows that the outlook for real house price growth is not favourable. Rode & Associates maintain that SA is only halfway through the current property cycle that usually ranges between 15 and 20 years. By implication, real house prices might continue to decline for another few years to come. To a certain extent, slower house price growth is expected. Not only have interest rates started to increase as monetary policy around the world tightens, but SA is stuck in a low-growth environment with rising levels of record-high unemployment.

At the other end of the world, data from the United States (US), the world's largest economy, and the United Kingdom (UK), showed inflation at levels not seen in a generation. In March, US annual inflation hit a 40-year high of 8.5%, whereas prices in the UK jumped 7.0%, the fastest pace in three decades. As global inflation soars on the back of lingering supply chain constraints as a result of the global pandemic, the persistent lockdowns in China, and the ongoing war in Ukraine, central banks are preparing for rapid interest rate increases. However, as we have explained in the past, concerns are mounting that the economy will not be able to bear the brunt of rapidly rising interest rates. As consumption staggers, the gears of economic growth might lock, which may lead to a recession.

This grim outlook was reflected in the latest earnings report from JPMorgan Chase, the largest American bank by assets. In a conference call with investors, their Chief Executive Officer, Jamie Dimon, said that all of these unfavourable factors will probably collide next year. This corresponds with our view that markets will probably hold up another 12 to 18 months but, after that, who knows? Fortunately, manufacturers in China have begun to prepare to re-open their Shanghai plants. As China's most populated city, Shanghai is speeding up its efforts to get back to normal after a nearly three-week COVID-related shutdown. China's no-COVID policy has hurt the global economy and rattled global supply chains. But at least China, the world's second largest economy, has a few more levers to pull to support their economic recovery, which might offset some of the other unfavourable factors facing global economic output.