EFFICIENT GROUP Weekly Economic Newsletter

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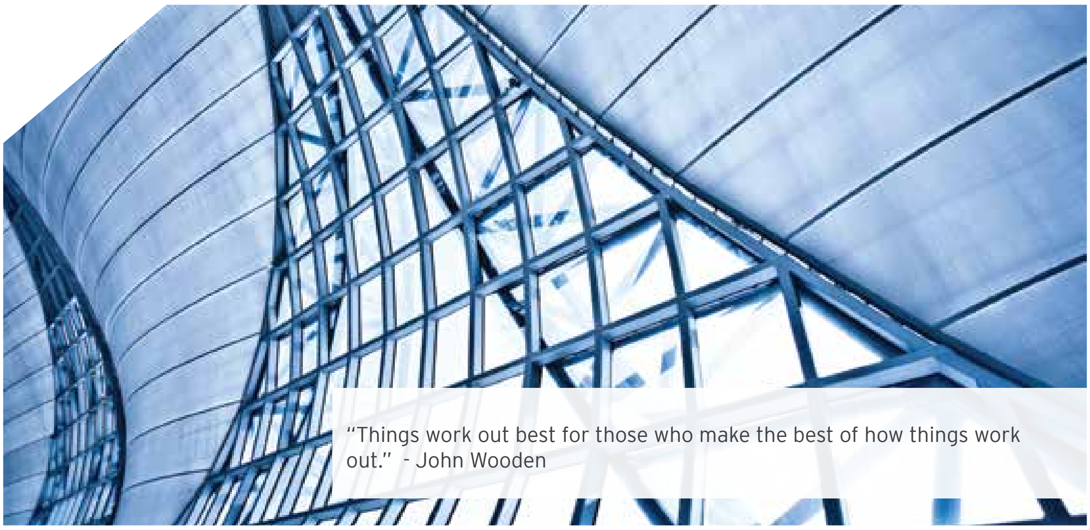

"Things work out best for those who make the best of how things work out." - John Wooden

ECONOMIC COMMENTARY - By Francois Stofberg

This week the South African Reserve Bank (SARB) released their Quarterly Bulleting for the 3rd quarter of 2016. Although this publication details a lot of very important indicators, its most important contributor is the current account deficit (CAD), which once again reached 4.1% as percentage of GDP. The current account basically summarizes everything that goes in and out of South Africa; goods, services, capital, interest payments, and the list goes on. What makes this variable so important is what it tells you about your economy. A deficit means that South Africans consume more than what they produce and therefore must import the deficit; in a very simplistic manner this means we are dependent on foreign goods and therefore foreign currencies, which translates into a weaker Rand (which is what we saw happen after the publication was released). A deficit, therefore implies that we import more than what we export, and finally it also means that we invest more than what we save.

Now here comes the fun part. Those individuals who are in favour of a (unreasonably high) minimum wage, wrongfully hold to the theory that, by increasing the minimum wage, consumption in SA will increase, which in turn should increase the GDP. However, as the current account deficit clearly shows, South Africans are already consuming more than they should! This theory does hold in rich countries where the wealthy save disproportionate amounts; unfortunately, SA is not a wealthy country, and as the CAD also shows, we do not save nearly enough. Redistributing cash will therefore not help. Policies should rather aim to increase the total output (which is also the total income) of SA's economy through the value chain, rather than tie the noose around the necks of small and medium enterprises by enforcing unreasonably high minimum wages.

To keep an eye on this week. Markets in the United States should continue to edge upwards this week when the Federal Reserve (Fed) announce their interest rate decision. These increases come after the month-long bull run we've seen on these markets following the "good" news of Donald Trump's electoral victory. We are still of opinion that the Fed will increase interest rates, which should help to keep the dollar strong. By implication gold prices should remain under pressure.