EFFICIENT GROUP

ECONOMIC COMMENTARY

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Newsletter

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UNNERVING STATISTICS

In the United States the fear of a recession continues to increase. Some of the In the United States the fear of a recession continues to increase. Some of the larger investment banks, like Goldman Sachs, have now reduced 4th quarter growth estimates on the back of recent socio-political disruptions. After Trump got tired of the Chinese not bowing the knee quickly enough, he again surprised markets with talks of more tariffs, on an estimate of $300 billion of Chinese imports. China responded by halting the United States' crop imports and allowed their currency, the yuan, to slip to its weakest level since the 2008 global financial crisis. Moments later Trump's administration formally labelled China as a "currency manipulator".

Previously I mentioned that the global economic impact of a trade war (intervening in the flow of goods and services) should not be too severe, and that recessions are a necessity for optimal resource allocation. But it's also important to remember that the sentimental (and not the real fundamental) impact of a trade war can be more severe. The current trade war is quickly turning into a virtual war, where countries use currencies, speculation, emotions, and even confidence to prevent markets of clearing at optimal levels. This disruption to the flow of information, and the friction it causes to efficiency, leads to much more short-term volatility, that, if prolonged, can lead to negative long-term fundamental changes.

Negative sentiment and virtual disruptions have been plaguing South Africa's economy for the last decade. What should have been short-term volatility has translated into negative long-term fundamental changes. Nowhere is this more evident than what's been happening to South Africa's currency lately. Fundamentally our rand should be closer to R12.50 levels. But reoccurring short-term disruptions, mostly caused by sentimental drivers such as poor governance, a lack of political leadership and efficiency, as well as weak policies, have eroded the long-term (fundamental) strength of our economy and currency.

Some more unnerving statistics were released by Statistics South Africa (StatsSA) when they announced that unemployment in SA reached 29.1% in the second quarter (Q2) of 2019; according to the narrow definition of unemployment. Fuelled by an economic slowdown, 6.7 million workers are without jobs and 2.7 million are too discouraged to seek employment. If these workers are added to the unemployment figure, it suddenly jumps to 40.9%; referred to as the broad definition of unemployment. StatsSA also released the latest mining and manufacturing data. Mining output increased by 3.5% in Q2, compared to Q1, and manufacturing only slightly increased by 0.6%. We were hoping to see more out of these sectors, after the first quarter slump in GDP, but at the current rate our economy will most likely only grow at 0.6% in 2019.