EFFICIENT GROUP

ECONOMIC COMMENTARY

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YOUR WEEKLY ECONOMIC UPDATE

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"NEVER BET AGAINST THE US ECONOMY" - WARREN BUFFETT

Last week global markets were laser-like focussed on China's gross domestic product (GDP) figures for the first quarter of the year, hopeful for any signs of a possible stronger than expected recovery in the world's second largest economy. The headlines were predictable: China managed to grow their GDP by 18.3% compared with a year earlier, marking its fastest growth since quarterly records began in 1992. At first glance, investors might see this as a possible sign of the underlying strength of China's recovery when, in fact, it revealed the oddities in how GDP is reported in the country. The nearly-normal first quarter of 2021 was being compared with the largely locked-down first quarter of 2020. In stark contrast, the United States (US) and Japan instead chose to focus on growth in quarter-on-quarter annualised terms. The latest figures showed signs of waning momentum starting to appear as the figures also dipped below most economists' expectations. To shed more light on this, we compared this figure with the last quarter of 2020: China's economy only expanded 0.6% in the first quarter of 2021, slowing from a newly revised 3.2% quarter-on-quarter GDP increase in the fourth quarter of 2020. In addition to these historic figures, future prospects also do not seem to improve as China faces a range of challenges one year after the COVID-19 pandemic started. These challenges include a slower consumer recovery, promising signs of inflation and an escalation in geopolitical tensions that could possibly hinder trade.

Across the Pacific Ocean, the US economic recovery seems to be accelerating. Two sets of economic figures revealed a surge in consumer spending during March and a sharp pullback in layoffs during the second week of April. Retail sales, which measure in-store, restaurant, and online spending, rose 9.8% in March. The main reason for this was the billions of dollars of stimulus funds being distributed to households across the US. Independent from this, nearly 200 000 fewer workers filed for initial unemployment benefits last week. Jobless claims, an indication of layoffs, fell to 576 000 last week from 769 000 a week earlier. A spanner was thrown in the works after US health authorities recommended a pause in the roll-out of the Johnson & Johnson single dose COVID-19 vaccine. This temporary halt is, however, expected to have a limited impact on the recovery of the US economy.

The strong US economic data was further reinforced as the first quarter earnings season got underway when banks crushed analyst expectations during their quarterly financial releases. The largest banks saw their earnings soar as more retail and institutional investors traded stock on a regular basis and more companies came to the market to raise funds to buy other firms or to expand their operations. We also saw an increase in reserve releases after banks set aside billions of dollars last year for a worst-case scenario. Consumers remained resilient as we saw an improvement in the credit quality across most major banks with expectations around faster loan growth during the latter part of the year as the credit cycle starts to turn. Unfortunately for the large banks, they could not participate in one of the largest initial public offerings (IPOs) this year after Coinbase decided to take the direct route and IPO'd through a direct listing. This marked the first major listing of a cryptocurrency exchange. It was also a moment of validation for the digital asset class, which poses a big threat to global banks in the not-so-distant future. The listing also propelled the value of all coins past $2.25 trillion worldwide as investors rushed to get in on the action. Bitcoin finished of the week in spectacular fashion after falling as much as 14% on Sunday and, in the process, wiping out all memory of Coinbase's listing. Several sources attributed the fall to speculation that the US Department of the Treasury may investigate possible money laundering executed through digital assets.

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