EFFICIENT GROUP

ECONOMIC COMMENTARY

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YOUR WEEKLY ECONOMIC UPDATE

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MARKET VOLATILITY AND ECONOMIC ACTIVITY

We all knew that markets would be volatile this year, but I doubt that many thought that they would see something like the 26% single-day fall in the share price of Meta, Facebook's parent company. Not only was this the biggest contraction that the company had experienced since its debut in 2012, but it was also the biggest single-day slide in market value for a company in the United States (US), ever. Almost $230 billion in market capitalisation was wiped out when the social media giant issued a dismal forecast, blaming Apple's privacy changes and increased competition from the likes of TikTok and YouTube. Changes to Apple's operating software give users the choice to prevent apps from tracking their online activity for ads, making it harder for advertisers that rely on data to develop new products and to get to know their market. Increased competition and a shift in consumer preference to video-based content, caused Facebook's global daily active users to decline from the previous quarter, another first for the social media giant.

In terms of economic activity, the US published data last week to show that their economy has grown at its fastest annual rate in almost 40 years. After reporting a stellar 6.9% quarterly expansion in the fourth quarter of 2021, the annual growth rate came in at 5.7%, its highest since 1984. Although a lot of this momentum will be carried into 2022, we doubt that we will see much more than 3% growth from the US economy this year. Not only will the likes of Omicron weigh on economic activity, but more so tighter monetary policy and the lack of stimulus cheques from the government. Another concern around global economic activity is the expected slowdown in China.

China's factory activity contracted at its sharpest rate in almost two years, highlighting the huge economic costs from the country's zero-COVID approach. Because of the country's radical stance against the virus, the recent surge in cases has led to the reinstatement of tough containment measures, which will have a negative impact on both production and demand. For this reason, the Manufacturing Purchasing Managers' Index (MPMI), a measure of economic activity, fell to 49.1 in January, its lowest level since February 2020. Levels below 50 imply an expected contraction in output among manufacturers. Tighter lockdowns and debt problems in the large Chinese property market caused the International Monetary Fund (IMF) to cut their 2022 growth estimate for China from 5.6% to 4.8%.

In South Africa (SA), the broader Purchasing Managers' Index (PMI), that considers both the manufacturing and the service sectors, rose to 50.9 in January from 48.4 in December, slightly back above the neutral 50-point mark into expansionary territory. The PMI is an index that measures the prevailing direction of economic trends in the manufacturing and the service sectors. It considers purchasing managers' views about the economy and shows whether they believe that market conditions are expanding, staying the same, or contracting. PMIs are, therefore, a good indicator of a country's broader economic activity. If PMIs increase, it is likely that economic activity will also increase. Although January was a good month, we believe that load shedding, higher fuel and electricity prices, as well as higher interest rates, among others, will be a drag on economic activity. SA's economy should, therefore, not expand by much more than 2.2% in 2022.

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