EFFICIENT GROUP

ECONOMIC COMMENTARY

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YOUR MONTHLY ECONOMIC UPDATE

6 December 2023

The tide is turning, especially for the hopeful remnant

It has been a tough year for South Africans. In fact, we have been having tough years for as long as we can remember. Inflation has slowly been increasing since the 4% levels that we saw pre-COVID. In 2022, inflation reached nearly 7% and will most likely be around 6% in 2023. Higher inflation means that buying power deteriorates faster, making South Africans feel poorer. Interest rates, which are also higher than they should be, are doing their share to make us feel miserable. Unemployment has slowly been increasing recently but it seems to be stabilising around 32%. Gross domestic product (GDP) per capita (per person), adjusted for inflation, has slowly been decreasing over the last decade, which literally means that South Africans have become poorer. And it does not end there: If you are fortunate enough to be investing for retirement, your total liquid assets have probably not grown by more than 6% to 8% each year for the last five years (and much less over the last ten years); especially not if you adjust for fees and taxes. Once you also adjust for inflation, it means that your assets have been losing value too.

Most South Africans will blame government for their predicament, and rightfully so. The ruling party has been one of the greatest destroyers of wealth (like capital) and livelihoods in South Africa's (SA's) history. Corruption, cadre deployment, poor economic policies (like black economic empowerment), and weak employment policies that favour employees over employers are only some of the factors that have contributed to SA's current and ongoing conundrum.

However, it is not as easy as simply blaming the ruling party. Since the global financial crisis in 2008/2009, rich countries have been artificially boosting their economies and markets with monetary and fiscal policy in a way that has led to a structural change in business cycles, sentiment, and valuations. So, while our government was failing us, the rest of the world was turning against emerging countries and their assets.

It is, however, worthwhile to note that, amidst the mounting obstacles, many individuals have created substantial wealth through legitimate pursuits in SA. These individuals, many of whom are our clients, always look internally, not externally: They observe, learn, and improve themselves and those around them. They do not blame but create. In this way, their skills are always in demand and they end up creating substantial amounts of wealth. We refer to these individuals as 'the hopeful remnant'.

That being said, the tide is slowly shifting back to emerging economies. Rich countries are no longer able to keep their economies artificially strong and must now unwind their support. Also, while intervention in rich countries was keeping their economies alive, their economic fundamentals deteriorated. Debt-to-GDP ratios in these countries are set to exceed 120% of GDP, more than double the rate in emerging countries. Companies in emerging markets have remained resilient amidst insurmountable odds, whilst many in rich countries have been kept alive by intervention.

A shift in the tide of sentiment is something that we can look forward to in SA, especially the hopeful remnant. However, because of the manoeuvres of rich countries, the business cycle has been extended, meaning that we might have to wait a few more years. This might give us enough time to go through the pain of our local politics. Now, more than ever, it is important to remain patient and follow sound financial principles. Remember to always speak to your financial advisor and investment experts!

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