There's light at the end of the tunnel – provided we roll out the vaccine successfully

Speaking at Glacier by Sanlam's recent 2021 Outlook webinar, Stanlib chief economist Kevin Lings provided an economic update for local and global markets. It seems it's not all doom and gloom – there is positivity, but it hedges on the successful rollout of the vaccine.

Economic update at the start of 2021

There's a lot of data coming out, but the US economy remains the crux of what happens in world markets. "I do think there'll be more economic stimulus as it's important for the performance of financial markets," said Kevin.

China remains intact and seems to be doing fairly well. In South Africa we're getting on top of the virus infection numbers, but economic recovery will depend on the progress of the vaccine rollout.

The International Monetary Fund's (IMF) most recent update was fairly optimistic and suggested world growth will be in excess of 5% this year. Anything above 3.5% is considered good, and the 5% is relative to a fairly low base – to put the figure in context.

"The IMF envisages that growth next year will be around 4%. Most economies will go back to record levels of GDPs over the next two years and will systematically make up ground that was lost over the last year," he said.

However, in order for this forecast to materialise, the IMF states there has to be an effective vaccine rollout. "We have to be able to distribute it at a fairly rapid pace this year. The world will then enjoy what I call a 'vaccine dividend'. We see a pent-up demand in some industries, e.g. travel and entertainment. Plans that were placed on hold will be revisited and this will be good for world growth," said Kevin.

"We saw this at the beginning of the last century when the world moved on from the Spanish flu - there was a period of exuberance that followed as pent-up demand materialised."

Outlook appears encouraging

When looking at the rate of new coronavirus infections in the US, we see the data moving in the right direction. “Their effort to date is not to be applauded, but they’re getting it under control.

“Developed countries have the advantage that, as they get the numbers down, they’re able to roll out vaccines in the background, and this is crucial to economic performance.

“In SA, the situation is a bit more complex. We don’t have an effective rollout happening in the background, and we also have a significant risk of a third wave in the winter months,” said Kevin.

The US could reach population immunity by the middle of this year. The UK has also made progress and Europe, after a shaky start, is improving. We see a bit of a lag in emerging markets. “We expect to see a two-speed global economic recovery in the second half of this year, between developed and emerging markets, and hopefully this gap will close next year,” he said.

“In SA the data is getting better and that tells us that lockdown works. We’ve seen excess deaths come down quite substantially. But we have more work to do in terms of rolling out the vaccine.”

US recovering well

The US is recovering remarkably well - GDP grew by 4.0% q/q (annualised) in Q4 2020. Some of this recovery, although not all, relates to a bounce-back in employment and retail sales reaching a record high.

In order to reach record sales without a record high employment, the government has had to literally pay people to go shopping. The US launched a huge fiscal stimulus package of around $3 trillion, to put money in the hands of households. In many cases, the amount of money received, exceeded what consumers would have earned had they been employed.

The Biden administration wants to provide another stimulus of around $9 billion to stimulate the economy further. Consumer spending makes up 70% of the US economy, so this stimulus injection will give the US economy another major boost this year.

“The problem is they’re spending money they don’t have. Their tax base is languishing, and they’re substantially indebted. However, the Federal Reserve is willing to buy a lot of that debt, having bought $4.8 trillion worth of government bonds, to date.

“We can’t do this in SA – the rand would simply collapse. The US is in a unique position to do this,” said Kevin.

China set to have a good year

“China has the virus under control and has performed the best out of the large economies. They’ve also done a fair amount of infrastructure investment and we expect the Chinese economy to grow over 8% this year.

“The two biggest economies – the US and China – look like they’re going to have a good year this year, provided they get the vaccine rollout right,” said Kevin.

South Africa – there’s work to be done

“SA should see growth of around 2% this year, and 3% next year. We’re just not generating the economic numbers we need to create employment. Manufacturing has had a severe decline, and although it’s recovered some lost ground, it remains stagnant. Retail sales declined sharply last year. Again, they’ve recovered some ground but still lack the vibrancy needed.

“The interest rates have helped, but in a limited way, in the form of cheaper debt repayments. But people are still not buying houses and cars.

“Inflation is under control and the interest rate environment in SA is solid – we can stay at these levels for quite some time.

How to revive the SA economy

“The real question is ‘How to get our economy going’? Most countries would use fiscal stimulus, but in SA we simply don’t have the budget. Our tax revenue is falling and the government debt level is expected to remain at around 90% - even with a focus on reduced spending, said Kevin.”

“We lost our international credit rating and foreigners don’t own the level of foreign debt they used to. Our trade balance looks good and that has to do with the commodity cycle. If commodity prices remain strong, the exchange rate tends to get supported.

“Getting the economy going through infrastructure spending remains the focus, but we just haven’t been able to implement this. Normally State-Owned Enterprises would be responsible for infrastructure spending – but they don’t have the finances. Government has stressed the need for private / public partnerships and it’s possible to get these going within a short period of time. We know the private sector is interested.

“I believe we have upside in SA that can exceed my current expectations - but I’m not seeing enough urgency around these partnerships and finding solutions. This is the only way to get the local economy growing for the benefit of all, Kevin concluded.”

In the news:

News24 - 5 February 2021 - Huge public service wage bill

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Glacier Financial Solutions (Pty) Ltd.

A member of the Sanlam Group
Private Bag X5 | Tyger Valley 7536 | Email client.services@glacier.co.za | Tel +27 21 917 9002 / 0860 452 364 | Fax +27 21 947 9210 | Web www.glacier.co.za | Reg No 1999/025360/07
Licensed Financial Services Provider | Glacier Financial Solutions (Pty) Ltd. is also a Licensed Discretionary Financial Services Provider FSP 770, trading as Glacier Invest | Sanlam Multi-Manager International (Pty) Ltd. | A member of the Sanlam Group

Private Bag X8 | Tyger Valley 7536 | Tel +27 21 950 2600 | Fax +27 21 950 2126 | Web www.smmi.com *|*Reg No 2002/030939/07
Licensed Discretionary Financial Services Provider, acting as Juristic Representative under the Glacier Financial Solutions FSP 770
Glacier International is a division of Sanlam Life Insurance Limited
Sanlam Life Insurance Ltd. | Email life@sanlam.co.za | Tel + 27 21 916 5000 / 0860 726 526 | Fax +27 21 947 9440
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