

There's a lot going on...

Those were the words used by Stanlib Chief Economist, Kevin Lings, to describe the global economy right now. Changing monetary policy around the world, and the way forward relating to COVID-19 are among the variables we need to understand, but by far the most important is how the US manages interest rates.

A look at the United States

Inflation woes aside, the US economy has performed unbelievably well.

Over a period of six weeks during lockdown, the US lost 22 million jobs. Policy initiatives were then introduced, which proved effective - in particular the fiscal stimulus or unemployment payments.

Retail sales remain high, and this can be attributed to the jobs that have been added back since Q3 2020 and the fact that salaries have been increased.

The initial surge in inflation related to the opening up of the economy and was therefore deemed transitory. As time went on, the transitory nature showed up and some areas slowed, while other areas of inflation proved less transitory (e.g. housing and rental costs which account for 33% of the US inflation basket). Wages are also less transitory. We expect to see four interest rate hikes this year. The road ahead will therefore be more challenging for market participants. We don't expect the US to go into decline, but fund managers and investors will need to look more carefully to find value.

How the US handles interest rates going forward is critical. If rates are not raised often enough, inflation will become embedded at a higher level. Conversely, rushing interest rates higher will not be welcome by the financial markets and could push the economy into a recession.

The situation in South Africa

Our economy is struggling. We lost two million jobs in six weeks as we went into lockdown, and this was on the back of already-slowing growth.

Looking at some of the key sectors we see that Manufacturing, which makes up 20% of our economy, has shown disappointing results in the last year or so, largely due to looting and load shedding, and this in turn has done damage to confidence in the sector. Globally, manufacturing in emerging markets has shown decent growth. Mining has been stagnant and Retail, although doing better than it was, is not performing as well as it should be.

South Africa's growth strategy

As stated in the *South African Economic Reconstruction and Recovery Plan* (15 October 2020), we need to pursue an infrastructure-led economic reconstruction and recovery with investment in infrastructure that will stimulate the various sectors of the economy.

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