



## ECONOMIC COMMENTARY - By Dr. Francois Stofberg

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#### TWO REIGN SUPREME WHILE MANY FAIL TO FOLLOW

Both the British-based Oxford-AstraZeneca and American-based Pfizer are in the running to have Phase 3 human trials of their COVID-19 vaccine ready by the end of 2020. Pfizer is confident that they will have 100 million vaccines ready to deploy in 2020 and would be able to ramp up production considerably after that. This, of course, is welcome news for countries in the northern hemisphere who are entering winter and have seen a recent spike in coronavirus cases. Most European countries are considering more lockdowns. But restrictions have, however, collided with a growing sense of apathy as public weariness and a willingness to risk the dangers of the coronavirus out of desire or necessity have increased. But as lockdowns creep back into everyday life, analysts are starting to worry about a double-dip recession in Europe, fuelling some of the uncertainty that we have seen in global equity and foreign exchange markets.

Among the world's two largest economies, China is set to achieve the impossible by likely being the only large economy to grow in 2020. After contracting a mere 6.8% in the first quarter, gross domestic product (GDP) expanded by 3.2% in the second quarter and 4.9% in the third quarter. Recent activity showed how the Chinese economy was going from strength to strength. Industrial production rose by 6.9% year-over-year (YoY) and returned to rates such as those preceding the coronavirus outbreak for the first time. The manufacturing utilisation rate rose to 77.2% and fixed-asset investment finally turned positive when the year-to-date (YTD) edged up to 0.8% in September. Although lagging in previous months, retail sales were up 3.3% YoY, a post-virus high, and much greater than the consensus expectation of 1.8% and the 0.5% growth that we saw in August. The United States (US) is expected to do the best among the G7 group of large global economies. A number of factors helped the US avoid a deeper recession. First, was the mountain of momentum they had behind them, record-low levels of unemployment and a technology sector that seemed to soar in the stratosphere, untouchable by anything or anyone. Second, it seems unlikely that the US will enter another round of hard lockdowns, although some towns and states might impose restrictions if scared constituents demand them. If this is the case, they will, most likely, avoid a double-dip recession. Finally, the US has also been most aggressive in assisting households to get through the pandemic, using not only monetary but also fiscal policy. They will, however, be left with a huge debt hangover which can become a problem if post-COVID growth falls below inflation. But, for now, it seems as though they will work themselves out of the debt hangover by 2025.

In the southernmost point of Africa, our own President Ramaphosa acted very presidential when he addressed the nation about another economic recovery plan. He seemed very determined and in control of his confused party, explaining that he would not allow party politics to interfere with implementation. President Ramaphosa further explained that the costly COVID-related grants that support poorer households in South Africa would continue, but failed to explain where the money would come from. We are also concerned about the support to state-owned-enterprises (SOEs), most notably South African Airways (SAA), as this will add pressure to both the fiscal deficit and the stability of state finances. One possibility is the so-called 'Solidarity Fund' that, basically, asks (read tells) the rich (everyone earning a salary) to give up some of their money to support the rest. We might even see changes to the Pension Funds Act that would nudge savers towards investing in infrastructure projects. However, taxes and prescribed assets will not be enough. The only solution is to cut back on spend and to grow the economy. Growing the economy is by far the most difficult. We have had many plans to do so but these have always failed miserably when it came to implementation, mostly because of incompetent, unaccountable leaders. We believe that the state should rather act in an administrative role and fix their own house first (local authorities and national departments). A functioning state can go a long way to boost economic performance, which, in turn, will create the jobs that they keep on chanting about.