



ECONOMIC COMMENTARY - By Dr. Francois Stofberg

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APRIL FOR AMERICA

April was all about the Americans:

- + how they have been consistently able to stay ahead of the rest (the Europeans, British, Japanese and Chinese) despite some severe setbacks;
- + values such as freedom and democracy;
- + a culture of cutthroat competition; and
- + aspirations to be bigger and better, tied in with a hunger for truth and a willingness to change.

All this led to breathtaking economic progress. Like legendary investor Warren Buffet, also known as the oracle of Omaha, recently said: "In its brief 232 years of existence, however, there has been no incubator for unleashing human potential like America".

April started with talks about a massive infrastructure plan, also known as the American Jobs Plan. United States (US) President Joe Biden explained that \$2.25 trillion would be spent to upgrade America's lagging infrastructure. Although news headlines focused on the renewable side of the plan, like electrifying 20% of the nation's yellow school busses and incentivizing the manufacturing and use of electric vehicles (more good news for Tesla), most of the money will be spent on other critical areas.

A few of these areas include:

- + 20 000 miles (32 187 kilometers) of roads;
- + 10 000 bridges (\$115 billion);
- + in-home care (\$400 billion);
- + affordable housing (\$180 billion);
- + advanced manufacturing (\$300 billion); and
- + research and development (\$180 billion).

While this was happening, the US manufacturing Purchasing Managers' Index (PMI) posted a new record high, up to 60.5 points. New home sales reached a 15-year high, the likes that were last seen just before the global financial crisis hit. But unlike in 2008, when the world economy was being lulled into a mortgage-backed asset bubble created by unsustainably low interest rates we now have an upbeat, well-financed, and cash-rich American consumer. We saw this in March already. In March, household income surged by 21.1%, the largest monthly increase on record, tracing back to 1959. Most of the surge reflected the \$1,400 helicopter money households received as part of President Biden's fiscal relief package (the American Rescue Plan) signed into law in March. About those accommodative central banks. We are not too concerned about their current position; the economic and market context is completely different from the 2000-2008 period. Although their accommodative positions might cause long-term problems, like we see in Japan, in the short to medium term they will continue to support their citizens in this ongoing period of recovery. We are also not too concerned about central bank policy becoming less accommodative too quickly.

Two more datasets pointed towards an ever-stronger America. The rise in consumer spending, fueled by the cash injection, and a sharp pullback in layoffs, pointing towards the ongoing recovery in the world's largest economy. And although US health authorities recommended a pause in the roll-out of the Johnson & Johnson single dose COVID-19 vaccine, which might have halted some of the momentum, the pause was quickly lifted. If that was not enough, the Democratic-led White House detailed another spending package worth \$1.8 trillion, called the American Families Plan. President Biden plans to add \$1 trillion to government's existing spending plans, over the next ten years, and offer \$800 billion in tax cuts to low and middle-income households. Biden not only intends to improve access to healthcare among low and middle-income households, but to also subsidize childcare, and offer free community college and free pre-kindergarten, to name but a few.

By the end of April, more than 86% of the US firms who had reported back on first-quarter earnings surpassed consensus earnings per share expectations, above the previous record-high of 77%. Earnings were indeed catching up with what was previously believed to be lavish valuations. And first-quarter US GDP figures also came in higher than expected, at 6.4% (a seasonally adjusted annual rate).

