A modest GDP growth in global and domestic economy in 2013 says Absa

A modest improvement in global growth is forecast this year with gross domestic product (GDP) expected to improve to 3.3% in 2013 from a forecast 3.1% in 2012.A decline in disposable household income in the US will contribute to a moderation in growth in the world's largest economy to 2.1% this year from 2.3% last year.

Craig Pheiffer, GM of Absa Asset Management Private Clients, said: "A hard landing in China has been averted and growth of close to 8% in 2013 should follow from the current monetary policy and fiscal policy mix. The urbanisation growth strategy in China is positive, but the process and the benefits will not be evident in the shorter term. Nevertheless, a growing China and a growing India (forecast 6.5% growth in 2013) should make a substantial contribution to the expected modest uptick in the global economy this year.

After five quarters of contraction, recent data suggests that the euro area economy has turned the corner. Increased confidence in current policy should at least halt the contraction of the euro area economy in 2013, although no growth is expected from the region as a whole this year. The recent stimulus package of about 10.6 trillion yen, announced by Japanese Prime Minister Shinzo Abe, should contribute to higher levels of growth in the Japanese economy than was being expected just a quarter ago."

Modest improvement in SA

In South Africa, a modest improvement in the rate of GDP growth from an expected 2.5% in 2012 to 2.8% is being forecast. Lower rates of growth in consumption spending, government spending and gross fixed capital formation in 2013 should be offset by a pick-up in the rate of nett exports. The improvement in the rate of export growth should come from increased demand out of our trading partners as well as from the competitive advantage gained by a weaker rand. That should benefit activity in the local manufacturing sector.

Inflationary pressures still persist through high fuel prices and food prices (despite more recent maize and wheat price declines) and a breach of the upper end of the 3% to 6% target range is expected in the coming months. With modest growth and inflation only marginally outside of the range for most of this year, the base case remains for flat official interest rates for the duration of 2013. While the expected improvement in economic activity in South Africa in 2013 is indeed a positive, the magnitude of the growth in the economy is unlikely to make a significant dent in the unemployment rate.

Never seen conditions like the ones we are experiencing

Christopher Gilmour, analyst at Absa Asset Management Private Clients, said: "In all my 31 years of experience in global investment markets, I have never seen conditions like the ones we are experiencing. While equity markets are often regarded as being a kind of barometer, an indication as to where underlying economies are likely to go in future, the current very high market conditions are anticipating extremely strong economic growth, both here and overseas. Whether or not such strength will occur in any reasonable timeframe is debatable.

"Strong local earnings growth in the financial and industrial sector is underpinning the very high levels of the financial and industrial index (FII). The FII is in expensive territory, currently sitting on a PE ratio of 17.4. This is not only significantly above its long-term average of 13.8, but is also outside one standard deviation of the norm."

The reverse yield gap, the difference between the yield on a government bond and the dividend yield on equity, has been narrowing for some time but has very recently begun to diverge again. This is often seen as a trigger for switching out of bonds and into equities. A similar situation is occurring in the US.

Retail sales growth appears to be flagging

When it comes to the retail sector, currently among the most expensive sectors on the JSE, Gilmour points out that retail sales growth appears to be flagging. Even with cheap unsecured lending, retail sales growth at a shade over 3% in November last year was not inspiring and the longer-term trend appears to be declining. Under such a scenario, Gilmour picks Mr Price, Shoprite and Woolworths as his favourite stocks in the sector.

At a global level, Gilmour expects politicians and central banks to continue with a "muddling-through" approach. But the decline in US corporate earnings growth may be slowing and perhaps even reversing. A strong start to 2013 equity market performance was experienced on the back of a compromise on the US Fiscal Cliff and a perceived improvement in China's GDP growth. But the year as a whole seems likely to be choppy, especially as political wrangling in the US continues unabated on issues such as lifting the US public debt ceiling.

An improvement in US corporate earnings should translate into a stronger US equity market, which, in turn, should improve sentiment on the JSE Securities Exchange. On balance, Gilmour believes that equities should experience a reasonable 2013 in terms of growth.