Richard Cluver Predicts

In our 23rd year of service to the investing public of South Africa

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U.S. manufacturing closed out its weakest quarter in three years this month and the number of Americans filing new claims for jobless benefits held near two-month highs last week, suggesting the expected economic recovery is failing to gain traction.

The weak growth tone was also emphasized by other reports on Thursday showing a contraction in factory activity for a fifth straight month in September and a dip in a measure of future economic activity in August. Chinese quarterly GDP growth, meanwhile, peaked at 2.4% in the last quarter of 2011, fell to 1.9% in the first quarter of this year and has now been flat at 1.8% for the past two quarters according to China's National Bureau of Statistics.

Now contrast this with the fact that the US inflation rate has been falling steadily from a peak rate of 3.9% last October to a low of 1.4% in August before rising marginally last month to 1.7%. And across the pond in the UK, inflation has fallen from a peak rate of 5.2% last October to a low of 2.4% in July before beginning a gradual rebound to a current 2.5%. Similarly, Chinese inflation has come down from a 6.5% peak in August last year to an August this year 1.8% before rebounding to 2%.

Collectively these figures paint a picture of a world sliding steadily into a new recession. And galloping to the rescue we have the US Federal Reserve now printing almost 3-billion dollars every day as part of its QE3 programme. The numbers for Europe are not yet available but since the avowed policy there is to buy up every bond issued by the troubled "Club Med" nations, we might expect similar numbers to emerge.

To put all of that into words we all understand, the World Pty Ltd is doing less and less work each month And paying itself more and more. Usually the inevitable result is inflation, but the converse is happening.

So what is happening? Well some leading economists are claiming that a disconnect has occurred. The levers of classical monetary policy are, they say, no longer working. But surveys of global public opinion tell us something different. Recognising that the majority of young people graduating from schools and universities are not finding work and that an unemployment rate of one person in every four is becoming quite common across the globe, ordinary people everywhere are doing what mankind has done for countless eons ahead of the onset of winter. Once, autumn was a time when mankind stored away food with which to survive the winter. Now we pay off our debts and build up bank savings.

So what is happening to all that money the US Federal Reserve is printing? It is ending back in the banks.

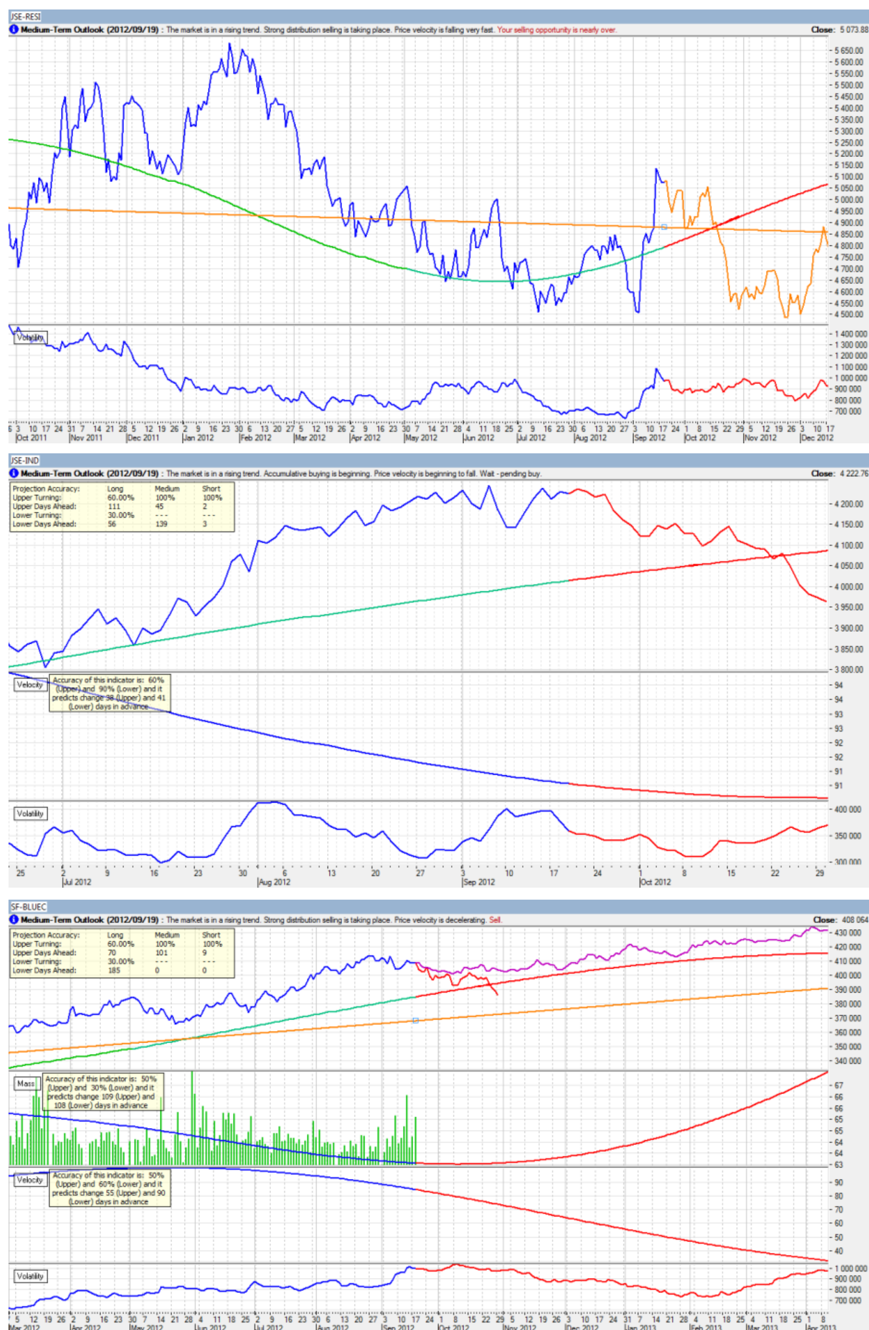
Now understand how inflation is measured. Quite simply, the biggest ingredient in most inflation measures is retail spending. Well obviously people are not spending money if they are depositing all they can in the banks. That is why inflation numbers are falling even though reserve banks are printing money.

Now add into this equation the governments of the world who on average collect in taxes almost half of most people's earnings. In a balanced world we expect governments to use their tax revenue to build roads and dams and similar public enterprises which in turn make it possible for business to have reliable power sources and efficient means of moving its produce. But look at what has actually been happening in much of the world in recent years. Governments are

spending more and more of the money they receive on an ever-expanding civil service. For example in South Africa the number of people employed by government has doubled since 1994 while civil service productivity has fallen to a quarter of what it was in 1994. Furthermore, on a per capita basis, civil servants are being paid 34% more than their private sector equivalents.

Then of course there are welfare services. As more and more private enterprises either trim their work forces of go to the wall, more and more people have their hands out for state grants. Next year 16.7-million South Africans will be recipients of social grants, paid for by 1.9-million people who pay 92% of all income tax collected.

Worldwide, what we are seeing is a crisis of very few “haves” bearing the burden of an army of “have nots.” Meanwhile radicals like Julius Malema in South Africa and scores of others like him across the planet are finding fertile ground when they address the masses saying in effect that the “rich capitalists got rich by stealing from the poor so elect me to government and I will take it back…I will nationalise their mines and their banks and factories.” Looking at SAA, Telkom and Eskom we know how efficient government is at running businesses that require frequent bail-outs from the fiscus.



Meanwhikle the wage settlement at the Marikana mine this week has been hailed by labour as a victory. In fact, faced with the imminent withdrawal of their bank funding, Lonmin was forced to compromise. But the immediate effect has been the closure of one shaft and the termination of development work on another which means that some 6 000 current or future jobs have been lost in order to create additional pay for the strikers.

Facing such threats, investors tend to hang onto their money rather than invest in new ventures So, for example, in April this year Business Day reported that South Africa's biggest four banks claimed weak domestic confidence and global uncertainty were largely the reasons why corporate deposits now exceeded R520bn, as companies hoard cash rather than invest in new or existing job-creating projects.

Ironically, paying off workers reduces the supply of commodities to the marketplace so prices tend to rise. So it should not surprise investors that in the short-term the JSE Resources Index appears to have turned upwards al illustrated in my graph

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on the right.
But industrials have clearly peaked as illustrated by my second composite. And blue chips, as I have predicted for months, continue their short-term slide which should see them bottom during the next six weeks..

The month ahead:

New York's SP500: I correctly predicted a decline. Now I see a brief recovery lasting until mid-week before the next decline takes us into October.

London's Footsie: London's brief upward spike is likely to continue until mid-week after which a downward trend is likely until October 12.

JSE Industrial Index: I correctly predicted a recovery which I expect to continue until September 25 before the next decline which is likely to last until around October 10.

Top40 Index: I correctly predicted gains which I expect to continue until the beginning of October followed by a up and down downward trend until October 18.

ShareFinder Blue Chip Index: I correctly predicted a downward trend which I expect to last until around October 10.

The Rand: I correctly predicted a modest strengthening before fresh weakness set in. And I expect a repeat in the days ahead with another brief strengthening followed by weakness beginning around September 25 and lasting until around October 8..

Golds: I correctly predicted a recovery. Now I see a brief fall followed by gains until early October.

Bonds: I correctly predicted gains which I said I expected to continue until October. I now foresee gains until the end of October.

The Predicts accuracy rate on a running average basis over the past 450 weeks has been 81.21%.

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