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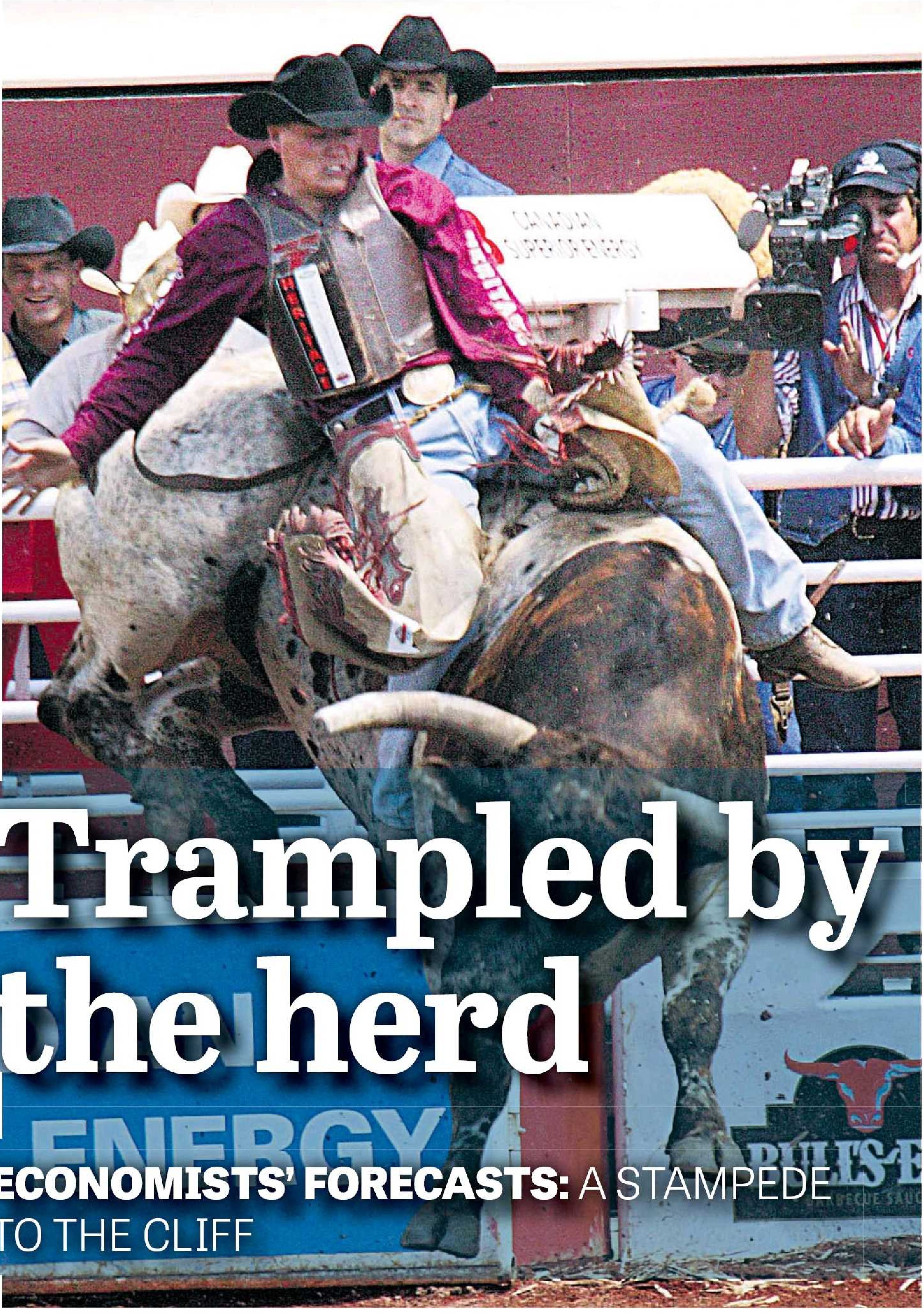

Trampled by the herd

ECONOMISTS' FORECASTS: A STAMPEDE TO THE CLIFF

HOLD ON TIGHT. Keeping your grip on an enduring investment philosophy is likely going to get harder as plunging commodity prices, weakening Chinese growth and unsustainable sovereign debt conundrums continue to toss global markets. Picture: Bloomberg

➳ Are our economists speaking their minds or just speaking up their books? Certainly, their forecasts have a poor track record.

Magnus Heystek

I'm very suspicious of economists and the sanitised messages they issue on behalf of their paymasters, whether it be a bank, assurance or asset management company.

Most of their research reports and press conferences tend to be thinly disguised marketing opportunities for their companies, rather than real economic forecasts.

Soothsayers' convention

It may surprise readers that there is no formal economist profession, like that of accountants, doctors or lawyers.

Yet "economists" are quoted almost daily, on anything from the petrol price to economic variables – as if they were clairvoyants.

There are few local economists prepared to stick out their necks, such as Dawie Roodt, Mike Schüssler and George Glynos, but the rest seem to find safety in the herd.

I looked at the consensus forecasts of the 33 economists who partook in this year's Economist of the Year competition.

Currently, the rand is flirting with 14.00 to the dollar, the commodity cycle is deteriorating and our tax revenues are way behind schedule. Business and confidence indices are at 15- and 12-year lows respectively and a global downgrade of our global debt is on the cards.

Compare this with two forecasts made by the economist group in March: 2015's growth rate would be over 2%, while the consensus for the rand was R11.80 against the US$. Imagine being an exporter/importer and relying on this forecast?

Two years after South Africa was lumped into the Fragile Five, the rand has plunged from R10.30 to R13.90 to the US$ – a 35% decline. Yet our economists speak of "mean reversion" and "what goes up will come down".

In July, economists' consensus forecast for the rand was 12.43 to the US$ and 13.25 against the euro by 2015's fourth quarter. This will probably be out by about 20%.

On expected economic growth, the consensus is 1.9% for 2015 and a very optimistic 2.4% for 2016. Yet FNB has already downgraded 2016 growth to 1.5% – in line with Moody's and other global forecasters.

For what it's worth, my forecasts are:

1. The China slowdown has just begun. Avoid commodities, emerging markets and even SA assets, especially bonds and commodity funds. Cash returns of 5% to 8% suddenly look very attractive.

2. Rand weakness has a long way to go. We are a capital-hungry country but our largest foreign investors have recently berated government's tinkering with the Bilateral Investment Treaties we have with them.

3. As the economy slumps government will find reasons to interfere even more, crowding out the private sector.

4. Government needs to make structural changes, but it will take the economically popular route to appease the left-wing opposition.

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