OPPORTUNITY
PRIVATE CAPITAL

Economic Snapshot January 2020

LOCAL HIGHLIGHTS & LOWLIGHTS

- Loadshedding continued, casting shadow over economic growth.
- Fresh fears over ratings downgrade weaken exchange rates.
- Reserve Bank signals second rate cut likely in 2020 to stimulate economy.

GLOBAL EVENTS OF NOTE

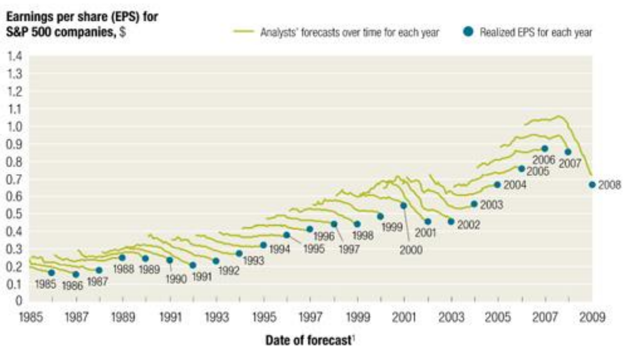
- US drone strike killing top Iranian general Qasem Soleimani brought global risk up, affecting gold and oil prices immediately.
- Brexit terms finally agreed upon by UK parliament.

FOCUSED COMMENTARY: Looking into the glass ball for 2020

With 2020 underway, businesses will be doing strategic planning sessions. Key to these meetings are the forecasts, and invariably the trustworthiness of these forecasts. Forecasting is often a very difficult exercise, especially in industries that are sensitive to global events or global economic forces.

Let's scratch the surface of interpreting forecasts, forecasting errors, and how to present forecasts:

The first question to ask should be who is making the forecast, and if they have any incentive to be overly positive. For instance, analysts who are not independent have long been suspected of being over-optimistic to stimulate trades and also to stay in the 'good books' of those supplying them with info. Good news falls better on the ear, right? So we tend to rather listen to them, too. The McKinsey article to the right shows the persistent over-estimation of earnings per share forecasts, with the green forecasting line always well above the current and future outcome of the EPS:



"Actual growth surpassed forecasts only twice in 25 years—both times during the recovery following a recession." https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/equity-analysts-still-too-bullish

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Secondly, the 'data' used (and if it was adapted or manipulated in any way) is extremely important. Subconsciously we normally have an idea of what a result should look like (creating what is called an 'anchor'), and data scientists/analysts are often asked to manipulate the input data until it delivers a result that is close to what management expected (as depicted in this Data cartoon). When analysing historic patterns a 'sample bias' is easily introduced if an unsuitably small selection is made and deemed representative of reality. The sample vs population dynamic is also easily misrepresented, with the "97% of climate experts agree" statement coined by Barack Obama regarding global warming recently coming under fire due to exactly this error.

When presenting a forecast, you can either choose a deterministic or probabilistic approach. The former camp will say "I expect a 10% increase in sales", while the latter camp will break it down to "There is a 25% chance of no increase in sales, a 50% chance of a 10% increase, …", etc. I prefer the latter. After all, if you are standing with one foot in block of ice and one foot in a fire, you can't say that you will be fine one average.

To end off, here are three property industry forecast articles for 2020 and beyond: Top Estate Agents 2020 Preditions; Residential Property Market Predictions and 5 Emerging Real Estate Trends for 2020.

OUR QUOTE FOR THE MONTH:

An economist is an expert who will know tomorrow why the things he predicted yesterday didn't happen today. ~ Evan Esar

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