

Households' financial health improves

Local economic update: July 2010

By Tendani Mantshimuli, consumer economist, Liberty

Looking back at the first half of the year it's fair to say that the economy has fared relatively well.

The country has moved decisively out of a recession with a respectable growth rate of 4.6% recorded for the first quarter of this year. Monthly data such as car sales, retail and manufacturing figures suggest that we will see continued positive growth albeit at a slower pace than in the first quarter. This is in line with business and consumer confidence indicators which have edged down in recent months.

Household spending rises

Surprisingly, given the underlying weakness in employment data and credit demand, things are looking up on the expenditure side. According to the figures published in the latest SA Reserve Bank *Quarterly Bulletin*, which relates to the first quarter of this year, growth in expenditure by households accelerated from 1.6% in at the end of last year to 5.7% for the first quarter of this year. Household expenditure is generally financed either by disposable income or overall household wealth and credit.

Household income rises

Despite the job losses in the first three months of this year, household disposable income continued to grow from 1.6% to 5.7% as a result of generally higher earnings. With credit demand from the households remaining weak the additional boost in expenditure came from improved wealth prospects, in particular lifted by the fine performance of equities during the first quarter of this year. There were solid increases recorded in expenditure on durables like new cars and recreational entertainment equipment as well semi-durable goods like clothing and footwear. The improvement in household demand will benefit the economy since household expenditure forms a substantial part of national output; so far growth had only been evident on the supply side but for sustainability the expenditure side had to pick up as well.

Household debt falls

Another positive for consumers from the *Bulletin* is that household debt as percentage of household disposable income continued on its downward trend; the ratio declined from 79.9% at the end of last year to 78.4% by the end of the first quarter of this year. While still very high debt levels are expected to continue to

decline throughout 2010 as credit demand remains at historical lows. The current low interest and low inflation environment will make it easier for households to continue working down their debt levels.

Savings are not improving

It's a little concerning to note that the national saving ratio as percentage of gross domestic product (GDP) declined marginally from 16.3% to 16%. On face value the size of the decline on a quarter to quarter basis seems negligible, but it's the long-term low savings rate that indicates a poor saving culture in the country. July is national saving month when every South African is encouraged to save. Net saving by the household sector on an annual basis was still negative for 2009, (the latest available data), clearly indicating that we are more inclined to consume our disposable income than save it. As a result, despite the improvement in household disposable income, household saving as a ratio of GDP increased by just 1.6%.

We need savings to pay for our infrastructure

There's been a lot of talk about the magnificent infrastructure that South Africa put up in preparation for the Fifa World Cup currently underway. It's generally agreed that this counter-cyclical capital expenditure by government helped minimise the depth and severity of the global recession on South Africa. However, it's important to note that capital expenditure or fixed investment is financed by domestic saving; if domestic saving is not sufficient then we rely on foreign savings to do that which is in turn reflected in the current account deficit. Therefore, saving does not only help individual consumers to own their finances, it contributes to making the country less reliant on foreign saving to finance necessary fixed investment expenditure essential for future economic growth. Currently, the bulk of saving in South Africa is carried by the corporate sector and to a lesser extent by government, and it's important to improve on this from the households' side.

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