

Watching the interest rates

Local economic update: August 2010

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This time the Reserve Bank decided not to cut interest rates but did allow for the possibility of a further cut this year. Now is the time to use low interest rates to cut back on debt.

Interest rates lowest in 30 years

The most noteworthy economic event for this month was undoubtedly the SA Reserve Bank's monetary policy committee meeting (MPC). The MPC decided to leave interest rates unchanged at 6.5% with the prime lending rate at 10%, the lowest rates for almost 30 years.

Before the meeting there were calls for a cut to support economic growth as growth seemed set to slow down from the 4.6% rate recorded in the first quarter, mainly as a result of weaker manufacturing.

Reasons for not cutting rates

- The interest rate cuts of 550 basis points have already provided significant stimulus;
- Economic recovery is set to continue albeit at a somewhat slower pace in the second quarter;
- Consumer spending is increasing with car sales and house prices supporting this view;
- The Reserve Bank's forecast of an annual growth rate of 2.9% for 2010 is in line with market consensus; and
- Upward risks to inflation going forward posed by high wage settlements and high levels of administered prices.

Future rate cuts

The MPC did leave room for further rate cuts if the economy weakened further. Of great concern is the increasing rate of unemployment. 232 000 jobs have been lost this year so far. This might constrain the budding recovery in consumer spending going forward which is needed for a sustainable economic recovery.

However, this economy has had many years of so-called jobless growth and with the economy expected to grow below potential the best we can hope for is a stemming of the job shedding rather than an increase in the number of jobs created.

Pay back debt

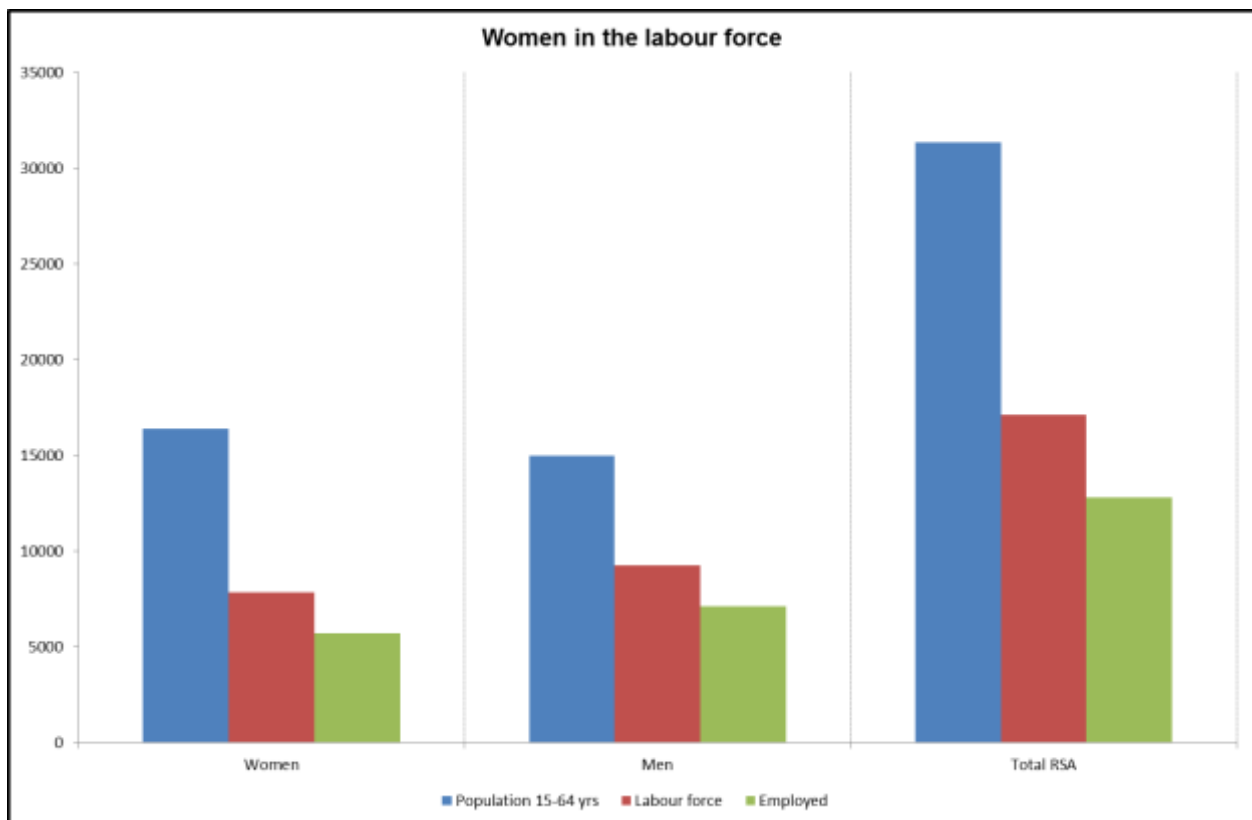
Consumers should continue to take advantage of the historically low interest rates and inflation to work down their high debt levels as the cost of servicing the debts is low right now. Looking back at July as our national saving month, it's worthwhile to note that those 'other' consumers who do save must be relieved that interest rates remained where they were and that the return on their investment will remain unchanged. Also, it's good news for most pensioners who depend on interest income to survive, that rates remained unchanged.

Women take the lead

August is Women's Month so it was encouraging to see the impact women have made on the South African economy. The MPC statement was read out by Gill Marcus who is the first female governor in the bank's history; supporting her were her three deputy governors, one of whom is also a woman.

Female education levels improve: The May 2010 *General Household Survey* published by Statistics South Africa indicates that at younger ages more and more women are getting educated at a faster rate than men than ever before. Knowledge is power and getting a professional qualification is a good start towards economic empowerment. Increasingly as educational levels in the country improve this is leading to empowerment of women in the economy.

More women needed in the formal economy: The measured pace of improved education alongside the opening up of economic opportunities are beginning to bear some fruit but the graph below shows that there's still a long way to go before women can catch up with men in the job market. Although the general South African population is skewed in favour of women, this is not reflected in the employment numbers where more men than women form part of the labour force. Also, the unemployment among women was, at 27,3%, higher than the 25,2% national unemployment rate during the first quarter of this year. However, prospects for women look good as more of them form part of the professional educated pool of the workforce where retrenchments are not as common as those of general workers.



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