

A light is starting to emerge

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Job losses continue to affect household finances and spending, but an economic recovery is on the cards

While the South African economy remains undoubtedly in a recession the latest gross domestic product (GDP) numbers give hope that we might be turning the corner. GDP moderated from a decline of -6.4% in the first quarter this year to -3% in the second quarter. Even more encouragingly, monthly data from mining and manufacturing production as well as retail sales have shown a marked improvement which point to further improvement in domestic output in the third quarter.

Households remain under pressure

While the economy is turning the corner it is clear that consumers still remain under pressure:

- **Income declining:** Disposable income continued to decline in the second quarter mainly as a result of job losses. Retrenchments and a reduction in working hours continued as company profit margins remained under pressure in a weak economy. While the salaries of those fortunate enough to have jobs largely benefited from wage increase settlements (which averaged above 10%), these gains were more than offset by the retrenchments.
- **Cutting spending further:** Household spending declined for the third consecutive quarter by even more than in the first quarter of this year. In addition to limited disposable income, banks have cut back on lending. Consumers are also wary of taking on more debt as household debt as a percentage of disposable income remains very high at just over 76%. This means a portion of household incomes has to be spent on paying off debt instead of spending on consumer goods. The continued decline in retail sales, although at a more moderate pace, indicates that the cumulative drop in interest rates of 500 basis points may only have the full desired impact on consumers in the months to come.

Positive developments

Although households are still struggling, there are some positives on the horizon. As the economy improves there will be a corresponding decline in retrenchments. Interest rate cuts have eased the cost of repaying debt, reducing the pressure on income somewhat. The continued decline in inflation, particularly food inflation, is further good news for consumers.

No one can predict the future with certainty but it is encouraging that indications suggest that although a recovery will be slow and not full blown, we are not headed towards a deeper recession. Consumers should focus on paying off their debts while at the same time saving towards financial freedom.

Beware of investing based on the past

While a mixed picture emerges from the above discussion it's important to remember that it is a reflection of what has happened in the recent past, something we can't change. And it also reaffirms a well used cliché; you cannot time the market.

This time last year the picture of our economy and indeed the global economy was quite gloomy. While we won't return to business as usual in the world as we knew it, we need to remember that economies move in cycles with recessions followed by growth periods. For investors who want to align their strategy to economic performance, it's possible that, without expert advice, you might have missed out on good investment opportunities by the time an improvement in the economy is recorded in published statistics.