



## Is the recession in South Africa over?

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While the global economy appears to be in recovery, South African consumers continue to experience a recession.

### South Africa's recovery behind the rest of the world

We have all seen headlines in newspapers and financial publications declaring that the recession is almost at an end.

For some major global economies like France, Germany, India and China this has actually come to pass. Although South Africa's economic recovery is lagging behind that of the global economy (just like we lagged behind in the downturn), things are looking up for our economy too. Manufacturing production and mining output have been improving for the past few months so it's not unreasonable to expect positive growth by the end of the year.

### South African consumers are still cautious

If you ask consumers out there if they feel that their own economic woes are at an end the answer will be a resounding 'no'. The Bureau of Economic Research (BER) consumer confidence index (CCI) is trending below the long term average, indicating that consumers are wary about their financial situations and are avoiding purchasing large items.

Interestingly, confidence is higher in the higher income group, mainly as a result of the recovery of financial markets. For the average consumer, though, confidence is still held back by limited access to credit, fears of job security and high debts which will take time to repay.

### Job losses will continue

We can expect job losses to continue even when growth starts turning positive. The job loss figures for the 3<sup>rd</sup> quarter showed that a further 484 000 jobs were lost, bringing the total this year so far to 959 000.

### Growth from consumer spending will be slow

The recovery of consumer demand for goods is important because household spending contributes about 60% of the country's gross domestic product (GDP). Spending is expected to decline in 2009, the first such annual decline since 1992, which means that growth based on consumer spending will still be slow.

Up to now, particularly in the global market, most of the growth we've seen has been a result of stimulus packages and inventory replenishment. For growth to be sustainable, people need to start spending. What we've seen, though, is that consumers are more inclined to save now than they were before the financial crisis. Full recovery for consumers will lag behind that of the economy because employment creation and an end to retrenchments are crucial for the household sector's income.

### Consumer outlook: electricity prices and interest rates

This month there were two developments in the economy that have a direct impact on the outlook of our finances.

- **Eskom** asked for a possible tariff increase of 45% over the next three years. Higher tariffs will help Eskom to continue funding their infrastructure programme to increase electricity supply capacity. While we need a reliable supply of electricity for foreign investment and sustainable economic growth that creates jobs, the reality is that higher electricity costs will have a negative impact on the economy in the short term as they will increase input costs for businesses. This will add pressure on the finances of consumers, most of whom are still quite distressed.
- The **Reserve Bank's** monetary policy committee (MPC) decided to leave rates unchanged at their October meeting. While a cut would have brought welcome relief to consumers, the MPC has already eased monetary policy by an acceptable degree to support the economy by cutting interest rates by a cumulative 500 basis points. The full impact of the previous cuts will be felt in the economy in the next twelve months or so, as suggested by the estimates of the transmission mechanism of monetary policy. For the Reserve Bank to achieve its target of keeping inflation below 6% the MPC needs to act now to influence expectations and pricing. There are already significant risks posed to inflation in the form of above-inflation target wage settlements and the upcoming electricity tariff increases. So the MPC was right to leave rates unchanged as they can remain neutral for some time before tightening up against inflationary pressures. Stable, predictable prices are good for consumers in the long run.