

## Growth figures an early holiday gift

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Although we are officially out of a recession, consumers remain wary for good reason. Debt and job losses have affected consumer spending but the recovery of the financial markets should boost consumer spending. Business confidence is picking up slowly and 2010 should see economic growth gaining momentum.

### SA officially out of a recession

There was welcome news from Stats SA when they published GDP (gross domestic product) numbers which showed that the economy grew by 0.9% in the third quarter and is officially out of a recession. Although this by no means signals that we are out of the woods, it is nevertheless welcome news. While we can expect the economy to record positive growth in future, this will be nowhere near the country's potential output of about 4.5%, or indeed anything like the quarterly rates we've been used to seeing before the second half of 2008.

### Trade and finance sectors still weak

It's easy to see the reason why growth will be slower if we take a close look at the contribution of the economic sectors to the overall growth number.

As expected, manufacturing production did exceptionally well as did the construction, electricity, gas, water, and general government sectors. The trade (retail) and finance sectors, however, remained weak and still posted negative growth although this was more moderate than in the previous quarter.

These sectors show that expenditure, particularly consumption expenditure, remains under pressure.

### Debt and job losses have limited consumer spending

This pressure on expenditure stems from high debt levels which are coming down slowly despite the interest cuts and low inflation we're experiencing. Inflation decreased from 6.1% in September to 5.9% in October, the first time it's been within the target band since 2006.

Job losses have also reinforced the reluctance of consumers to spend, which has an impact on the economy. An unprecedented number of job losses accompanied the global recession; here at home, 418 000 jobs were shed in the third quarter alone. Even if the economy continues to record positive growth rates it does not mean an immediate stop to job losses. Employment is a lagging indicator, as companies only hire when they are making money on a sustained basis, which means that consumers should still be justifiably concerned about their jobs.

For growth to pick up convincingly and be sustained, it has to be supported by robust consumption expenditure from all sectors of the economy.

### Bonuses unlikely but business confidence picking up

The coming holiday season will not be as jolly as it was in previous years. It seems that most companies will not be able to pay year-end bonuses because the outlook for business remains uncertain for the fourth quarter of the year at least. The good news, though, is that the BER (Bureau for Economic Research) business confidence index for the fourth quarter increased, indicating that business conditions are expected to improve somewhat. It's important that a turnaround is experienced by the business sector as this would stem the tide of retrenchments.

### Recovery of financial markets should boost consumer confidence

Consumer confidence remains quite low compared to the highs attained in the past few years. This partly is influenced by job losses and prospects about consumers' incomes and financial positions. The recovery of the financial markets, however, should have positive effects on consumers as they are able to spend income earned from their equity investments. Confidence is expected to recover as the economy and the markets continue to recover. Lower interest rates have also boosted consumers' income as it makes the repayment of debt cheaper.

### What to look forward to in 2010

All in all there should be some measure of comfort to look forward to in 2010:

- Inflation is expected to be back within target during the first half of the year
- Interest rates are expected to remain at current levels with increases only expected late in the year or even early in 2011
- As economic growth gathers momentum, with a boost from increased activity during the World Cup, there is opportunity for job creation.