

Local economic outlook: February 2010

2010 will ease consumer stress

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Last year was a time of tremendous financial stress for consumers; however, South Africa is finally out of its recession and key economic figures are pointing to an improvement.

Consumers still shaky

Consumer spending continued to drop during the third quarter of 2009, although only by 2% compared with the 6.1 % drop in the second quarterⁱ. Retail spending was also down in November 2009. People are not spending as much because of:

- **Job losses** and the fear of job losses. Nearly 800 000 jobs were lost in the first three quarters of 2009ⁱⁱ.
- **Weaker overall household wealth**, which includes assets like houses and equities (shares). While equities performed increasingly better towards the end of 2009, house prices remained low.
- **High levels of debt**. Household debt was 79% of disposable income in the third quarter last year. Because people are now reluctant to finance their spending with credit, the amount of credit given out to consumers also dropped in November 2009.

Signs of recovery in the manufacturing sector

With the country officially out of recession we've started seeing modest signs of improvement in the key data (figures) used to measure economic performance. The latest manufacturing statistics show that this crucial sector has continued to improve and it's encouraging that leading indicators of manufacturing activity in months to come also point to continued improvement. However exports may only pick up when consumer demand from our major trading partners increases.

2010 a mild improvement

Looking forward to 2010, our gross domestic product (GDP) is expected to increase further with a positive growth rate of at least 2.5%. Growth will be supported by activities associated with the FIFA World Cup, manufacturing production and government spending on infrastructure.

Unfortunately, this growth rate will not be enough to regain lost jobs or create new ones. In South Africa local spending makes up nearly two-thirds (66%) of our economic output, so our economic recovery can only be sustained at higher-than-anticipated levels if consumer spending increases.

Positive outlook for households

There are some positives that are expected to lift consumer confidence and thus boost expenditure:

- **Inflation** is expected to move back into the target during the first part of 2010. More importantly **food inflation** will continue on a downward trend
- **Household wealth** will improve as house prices pick up and if equity performance remains at current levels.
- Pressure on disposable income will ease as **economic growth** takes hold.
- **Interest rates** are not likely to increase so the cost of paying off debt will remain at low levels. A further rate cut cannot be ruled out, although the chances look slim at this stage

ⁱSouth African Reserve Bank (SARB) *Quarterly Bulletin*

ⁱⁱStats SA