

February was an important month for consumers

By Tendani Mantshimuli, consumer economist, Liberty Life

There were several major developments during February that have an impact on consumers: the budget which has increased the tax burden of the middle class; inflation which edged lower; the announcement of Eskom's price hike and finally better than expected economic figures.

A surprise in economic recovery

The scene has been set for a modest economic recovery in 2010. Statistics SA released the latest Gross Domestic Product (GDP) where the economy recorded a solid 3.2% growth rate in the last quarter of 2009, well ahead of market expectations. This was mainly a result of a robust recovery in the manufacturing and mining sectors which benefited in part from renewed metal demand from China. Of some concern was the continued weakness of the trade sector, a sector which directly reflects how consumers are faring in the economy. We expect that household consumption expenditure will still also show some latent weakness when the Reserve Bank publishes the *Quarterly Bulletin* in March.

Inflation falls further

CPI inflation edged down from 6.3% in December to 6.2% in January. Inflation is expected to revert back into target during the second quarter of 2010. It's important for consumers to know that price increases will be stable and predictable because inflation erodes spending power and savings as well. The single biggest threat to inflation remains the increase in electricity prices.

Eskom price hikes announced

The National Electricity Regulator granted Eskom a staggered tariff increase; 24.8% in April this year, 25.8% in April 2011 and another 25.9% in April 2012. This rate applies to direct Eskom clients, municipal clients will pay slightly less. Also, low income users will be cross subsidised. In the 2010/11 Budget speech the Finance Minister made provision of almost R7 billion to municipalities to cushion the impact of tariff increases to low income earners. During 2010 the first round effect will add around 0.5% to CPI. It's difficult to correctly estimate the second round effect that will be passed back to consumers by businesses that are forced to put up prices but the combined effect is that inflation might move out of the target range later in the year. The good news is that the increase was substantially less than the 35% Eskom originally asked for.

The interest rate debate

Though the mandate of the Reserve Bank has not been changed from that of inflation targeting within a band of 3-6%, it has been expanded to also look at economic growth. So even if inflation moves out of the band, no rate change is anticipated for most of 2010. Growth is set to improve throughout the year so a rate cut to stimulate growth might not be an immediate concern for the central bank. However, at the last meeting the monetary policy committee (MPC) reportedly debated a rate cut before deciding to leave rates unchanged, so an outside chance for a cut does remain.

Budget 2010/11 Summary

Tough times

The South African government, like all of us, has to do a budget based on its income and expenditure priorities. On February 17, Finance Minister Pravin Gordhan tabled his budget before parliament. Compared to Trevor Manuel, Minister Gordhan had a more difficult time because he took over when the country's economy experienced its first recession in 17 years. This means that government revenue, which it predominantly gets from company and personal tax, suffered. Companies don't make as much money during a recession and people's earnings don't increase as fast in a recession, and even worse, they lose their jobs. For this reason even though it was generally a fairly balanced budget there wasn't as much tax relief as there was in the previous years. And even worse, the budget surplus of the last few years was reversed to a deficit - government needs to spend more than its income, and they'll have to borrow to make up the shortfall.

Little tax relief

There were no major changes in tax policy for individuals or companies. In line with the weaker revenue stream, this year's budget delivered tax relief of R6.5 billion across the board, sharply down from the R13 billion awarded in the 2009/10 budget. While lower income groups benefit more, for people earning above R300 000, there has actually been bracket creep, in other words the tax relief does not fully compensate for the affects of inflation. The minister also warned that we should expect increases in the future to finance necessary government expenditure.

Saving incentives

In line with what the minister called "government's goal of encouraging greater national savings" the tax free savings thresholds of interest and dividends were raised from R21 000 to R23 300 for taxpayers under 65 and from R30 000 to R32 000 for those over 65 years of age. Considering how tight the budget is, this shows that government considers 'saving' a national priority by increasing this incentive.

Substantial increase in fuel tax

Tax on fuel was increased by 25.5c per litre. This was a substantial increase and will have an impact on our disposable income. This included a special levy of 7.5c to help fund the new petroleum pipeline between Durban and Gauteng. The total tax paid on a litre of petrol now stands at R2.44 and on diesel R2.29. As expected we're going to see a carbon emissions tax on new motor vehicles soon in line with government's commitment to preserving our environment.

Sin taxes

As expected, taxes on the so-called sin taxes increased, though the increases are marginally less than last year's increases; only traditional beer was not included in the increases. For example, a packet of cigarettes will cost R1.24 more, a 340 can of beer will be 6.5c more, while a 750ml bottle of spirits will set you back R2.22c more. Ominously, the Minister indicated that as "the tax burden benchmarks for the various alcoholic beverages were set back as far back as 2002, and considering the social need to curb alcohol abuse, a consultation process to increase these benchmarks will be increased during 2010." More increases on the horizon!

Social

Government continued to expand the social grants network with the announcement last year that there will be a phased extension of recipients of a child support grant up to 18 years. The old age and pension grant increased by R70 to R1 080 a month while the child grant increases by R10 to R250 a month. This is an important source of income to the poorest section of our population and reaffirms government's stated

commitment to improve the lives of even poor South Africans. All in all R89 billion has been allocated for this.

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