

Taking Stock

Local economic update: April 2010

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At the beginning of this year, there was a lot of uncertainty about where 2010 would take us. Battered and bruised from a market crash in 2008 followed by a severe recession last year, we were hoping for some stability in 2010 to at least help us find our feet again. So, is the picture looking any brighter four months into the New Year?

Local is lekker

The growth in the economy in the final quarter of 2009 came in at 3.2%, far higher than was expected. Other statistics that economists watch like car sales, retail sales, and mining and manufacturing output suggest that we will see a similar growth figure for the first quarter of this year. So the economy is recovering - but what about the man or woman on the street?

Let's look at some important numbers.

Consumer confidence index

The significant increase in the latest consumer confidence index tells us that people are feeling better about their financial prospects. Last month's surprise 50 basis point rate cut will help boost confidence further and should see an increase in consumer spending.

Market recovery

The JSE All Share Index has continued its strong run from last year, which saw it rally by over 30%. It is up by about 7% this year so far. This has a very positive effect on our balance sheets as our household wealth now looks a lot healthier than it did a year ago. This also means that our retirement savings, which include shares listed on the JSE, are also looking healthier.

House prices

Estate agents tell us that house buying activity has increased significantly and although this does not mean house prices will soar, house prices will at least stabilise and should increase moderately this year.

Job stability

Fundamentally the economy is recovering and the result is 18 000 new jobs created in the last three months of 2009. This is definitely a significant turnaround after shedding nearly 900 000 jobs last year. People are not so afraid of losing their jobs, which adds to the feeling of confidence.

Life after the World Cup

The World Cup will give us some positive momentum along with the continued spending by government on infrastructure. But the question economists are asking is: what then?

South African businesses are not spending money or expanding, which means that although we have seen some job creation, we are not in a position to recover the nearly 900 000 jobs that were lost last year. Businesses are also concerned about the political noise that is creeping in around policies relating to South African industries and they will not want to expand until they are sure of government's intentions. It remains to be seen what exactly the affect of the World Cup will be on the economy and whether the rest of the economy will have recovered sufficiently to continue on a strong growth path.

The European storm

There are storm clouds brewing on the horizon in Southern Europe. You may have seen many headlines about PIGS. This is not your bacon variety but rather the collective name given to Portugal, Italy, Greece and Spain. These countries are in significant trouble with large budget deficits, raising fears that they might be unable to pay back their government debt. Greece is in particularly bad shape and may need to be bailed out by the rest of the European Union. South Africa has virtually no trading links to Greece so this would not affect us directly, but it could shake up the global markets. This could see investors moving away from more risky investments such as emerging markets including South Africa. The world is still in a very fragile recovery and a disturbance like this could easily spill over into the rest of the world.

SA finances in good shape

By comparison, South Africa is in a much better position. We are able to finance our deficit with a clear plan outlined in the budget on how to reduce the debt levels in the next few years. Treasury successfully raised funding in the global market a few weeks back, showing that investors also have confidence in the South Africa government's ability to service its debt.

What this all means for consumers

Although consumers are feeling more confident, we are nowhere near back to the levels of confidence before the crisis. Most households are still feeling the pinch as they struggle with debt and increasing costs. But things are certainly looking better now than they did a year ago.

The best is always a balanced approach. As the squeeze on our pockets lessens, use this opportunity to improve your financial situation rather than taking on further debt, but also take time and some money to enjoy yourself and the positive mood of hosting the biggest sporting event in our history.

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