

We continue to grow

Local economic update: June 2010

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In our last review, we wrote that growth was returning to the economy. The latest figures for economic growth surprised most economists by being better than expected. As we approach the half-year mark, things are looking up for the South African economy and consumer fortunes seem set to follow.

The South African economy grew by 4.6% during the first quarter of 2010, more than the forecast of most analysts. The supply side of the economy is recovering steadily from the recession with the biggest contributors to growth coming from the manufacturing, mining, trade and finance sectors.

Increased demand for cars and commodities

The manufacturing sector benefited from an increased demand for cars for the export sector and for the local car rental industry ahead of the 2010 World Cup™. An increased demand from Asian countries for commodities like basic metals also boosted manufacturing output.

Consumer confidence recovering

Importantly, we saw solid increases in the trade and the financial services sectors. Retail sales turned positive during March after more than a year of negative growth. This positive growth is expected to be sustained by World Cup-related activities and by increasing consumer confidence on the back of the economic recovery. This is encouraging because it shows signs of an improvement in consumer sentiment.

Unemployment and inflation spoil the party

Unemployment remains a risk to continued economic growth: 170 000 jobs were shed during the first quarter of this year. For growth to continue, the economy cannot rely on the supply side only: consumer spending, which forms about two-thirds of GDP from the expenditure side, has to increase convincingly. Unemployment is expected to improve as the economic growth gathers momentum.

In addition to unemployment, the high increases in administered prices like water, rates, taxes and electricity will put something of a dampener on consumer demand. However, this will be mitigated by the continuing low inflation and low interest rate environment.

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