



2011: A moderate improvement

Local economic update: January 2011

By Tendani Mantshimuli, consumer economist, Liberty Life

Growth should continue to rise in 2011, but the challenges remain

At the beginning of 2010 most South Africans were optimistic about the year that lay ahead. We were going to host the most spectacular sporting event on earth and the economy was expected to move out of a recession. Well, we discharged the former to global acclaim but the jury is still out on the latter: the economy has moved out of recession but growth remains fragile. Economic growth figures for the third quarter came in at just 2.6% compared to the 3.2% that the market was expecting.

Strong rand remains a factor

The manufacturing sector, which forms about 15% of the economy, and the mining sector were battered by the strong rand, which had a negative impact on the competitiveness of South Africa exports. Other emerging markets that have relatively high interest rates, such as South Africa, are also experiencing the strengthening of their currencies.

With inflation well within the target band and deposit rates of around 5.5%, South Africa still offers an attractive return on investment compared to the developed markets and we can expect to see cash flowing in from low-yield, advanced economies as investors seek attractive returns.

The continued strength of the rand will have an impact on profitability in the mining and manufacturing sector; which may then have a negative impact on employment prospects in these industries.

Growth to accelerate

Although global imbalances such as China's huge current account surpluses, the US's consumer-focused economy and Europe and the UK's debt woes continue to create uncertainty, South Africa's economic growth for 2011 is expected to accelerate to 3.7% from an estimated 2.7% for 2010.

Interest rates a mixed blessing

Interest rates will remain low for most of 2011, and in fact some forecasts are predicting a further rate cut in 2011. This is a good time for consumers to continue paying off their debts. However, while low interest rates are good for highly indebted consumers, they make life just that much more difficult for people like pensioners whose income is dependent on interest from fixed investments.

Employment outlook

As economic growth picks up we can expect to see an improvement in overall employment opportunities which will boost household disposable income and expenditure.

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