

Interest rates on hold – for now Local economic update: April 2011

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Expenditure data in the South African Reserve Bank's (SARB) latest Quarterly Bulletin shows that things are looking a little more positive for consumers.

Consumption expenditure continued to increase from the third quarter to the fourth quarter last year, albeit at a marginally slower pace, as a result of increased household disposable income.

Employment and wages increase

When most economies were still reeling from the global recession, South Africa stopped shedding jobs following solid GDP growth in the fourth quarter, which supported the recovery of household disposable income. In addition, those fortunate enough to have jobs have had above-inflation salary increases. Together with low interest rates and low inflation, this has boosted spending capacity and the continued reduction of debt levels.

Petrol and food prices pose inflation risk

As the situation in oil-producing nations of North Africa and the Middle East continues to deteriorate, there is a risk that inflation will increase significantly because of high oil prices driven by supply fears.

The steady climb of global food prices is also cause for concern. The SARB has therefore revised its inflation expectation up but has decided to keep interest rates unchanged for now.

Savings rate increases – but not for households

Good news is that the national saving rate, as a percentage of GDP, increased between 2009 and 2010. However, the main driver of savings was once again corporate South Africa rather than the household sector or government. Household saving is still negligible but you can only save if you have income left over from spending on necessities. In a country where the unemployment rate is 24%, it will be a challenge to increase household saving unless we see an increase in employment prospects.

Government has a large deficit, partly due to day-to-day expenditure rather than investment expenditure.

More focus on investment needed

Government needs to lead the savings drive by example. During the Budget speech, the finance minister mentioned that the government salary bill has increased to nearly 40% of government expenditure. Economic growth targets will not be reached unless the government spends on projects that will finance investment and infrastructure expenditure rather than day-to-day expenses.

Focus on savings

Arguably one of the reasons for not saving is the lack of a saving culture, which needs to be changed over time by education. Financial institutions must continue increasing access to their services and provide products tailored for different consumers. However, these measures will not succeed if employment and consumer incomes are not increased through sustained economic growth.

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