



All eyes on the growth figure

Local economic update: May 2011

By Tendani Mantshimuli, consumer economist, Liberty Life

This month, we focus our attention on economic growth, whether consumers are starting to spend, and how government will address our unemployment crisis.

While we wait for the official growth figures for the first quarter of this year, we can use mining, retail and manufacturing indicators from Stats SA to help form an opinion on economic growth.

Initial figures look positive

The manufacturing production indicator has improved over the first two months of the year. Mining output and retail sales have been up. This all bodes well for first quarter growth.

Consumer demand is back

It is interesting to note that the current growth in the economy is mostly due to a recovery in consumer demand. Car sales have on average increased by over 20% in the past few months and retail trade sales are also quite robust.

This spending was made possible by increases in real wages and unchanged interest rates. The low interest rate environment has enabled consumers to slowly but steadily chip away at their debt levels. However, household debt is still at historically high levels (77.6% of household disposable income in the fourth quarter of 2010), dragging down the demand for credit and further increases in expenditure.

Unemployment still the biggest obstacle to recovery

In South Africa, household expenditure is at least two-thirds of total expenditure. This cannot be sustained by disposable income that is supported mainly by wage settlements that are higher than inflation – we need to see an increase in the economy's ability to create jobs and absorb more people into the formal labour market.

Government's efforts to tackle unemployment, in particular among the youth, are commendable because youth unemployment is substantially higher than the national unemployment rate. There is consensus that this cannot be a government-only effort, the private sector has to come on board as well.

To this end, the president has held a job summit with corporate South Africa to craft the way forward. The proposed labour amendment bills, scheduled to be reviewed by parliament this year, are viewed by labour as necessary to improving conditions of employment but are considered by some in business as a potential deterrent to creating more jobs.

A compromise from both sides is important as unemployment is a concern for all South Africans.

An increase in employment is beneficial because:

- More tax revenue is generated for government, enabling it to meet service delivery targets.
- Business benefits from increased demand for their products when more people are employed.
- The country's standard of living improves when more people are financially independent and there is less of a burden on government welfare systems.

Youth unemployment jeopardises economic and social stability and must be tackled as a matter of national urgency. In the months to come there may be more detail coming from government on how this will be achieved.

New jobs, but mostly temporary

Other than policy interventions by government, sustained economic growth will continue to support a stable labour market. There have been encouraging signs with retrenchment tapering off in the latter part of 2010.

Some new jobs have been created in the private sector but a trend seems to be developing towards short-term or temporary job creation. This could be a result of businesses being unsure about the depth and the sustainability of the current economic recovery.

Inflation fears remain

There are fears about the impact that rising oil prices (due to the unrest in North Africa and the Middle East) will have on inflation, which presents a significant risk to domestic and global economic recovery. SA's year-on-year inflation increased to 4.1% in March, a bit higher than market consensus, driven mainly by higher food and energy prices.

At the current rate we might see inflation edging beyond 5% towards the end of this year; the South African Reserve Bank would then start looking at tightening monetary policy. However, there is still spare capacity in the economy so the bank will not need to tighten aggressively, so economic growth will not be unduly constrained.

Liberty Group is an Authorised Financial Services Provider in terms of the FAIS Act (Licence no. 2409). The information contained in this communication, including attachments, is not to be construed as advice in terms of the Financial Advisory and Intermediary Services Act of 2002 ("FAIS") as the writer is neither an appointed representative of Liberty, nor a licensed financial services provider as contemplated in FAIS. Please consult your financial adviser should you require advice of a financial nature and/or intermediary services.