



A review of the South African economy: Quarter 1 2009

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Global markets remain volatile and the stimulus packages for restoring confidence and growth have yet to yield the desired results.

At home, there is good and bad news as interest rates drop but inflation is higher than expected. The drop in interest rates is not good news for people who rely on interest for their income.

South Africans are spending less and are using less debt to finance their spending. Saving has also increased slightly although the drop in interest rates may prevent some people from saving.

It makes sense to diversify your investment so that you are prepared for changes in the market.

Global markets are still volatile

The continuing volatility in the global markets makes even experts wary of anticipating where the markets are headed. Projections for economic recovery are continually revised as new the economic indicators paint a varied picture of the state of major world economies. The stimulus packages put together by governments and monetary authorities have yet to yield the desired results of restoring confidence and stimulating aggregate demand to kick-start growth.

SA: good news for some

Here at home we've had good news and bad news. Information that is cause for concern includes the negative growth for the fourth quarter of 2008 and the poor outlook for 2009. Also, consumer inflation came in higher than expected (8.6 % for February) mainly due to insurance costs, health care and petrol prices and the weak Rand.

Interest rates decreased and food prices have started declining and look set to continue doing so as confirmed by the producer price inflation figures.

For most people, particularly those who have mortgage, car and credit card debt, the drop in interest rates was a welcome relief, easing the pressure of debt repayment and releasing a few hundred rands of spending money. Prospective borrowers might be encouraged to buy that house or that car now as it would be cheaper to service the debt compared to a few months back. But for those people who depend on interest income from their investments, the news is not so good. Each interest rate cut reduces their income and spending power and might even deter some from saving.

Household spending and debt decrease

Financial pressure on South Africans was shown by the decline in the growth of household spending in the last two quarters of 2009, the first time this has happened since 1992. Disposable income (income available to spend after paying taxes etc) also declined over the same period.

Encouragingly, people are not increasing debt to finance their spending as credit extension is also declining. Household saving as a ratio of gross domestic product edged up somewhat in the last quarter of 2008, mainly because of lower spending.

It still makes sense to invest and save

The downturn in the economy has had a negative impact on companies' earnings which led some companies to reduce dividends and in some cases even withhold dividends completely as they seek to strengthen their balance sheets. For investors who depend on dividend income to maintain their lifestyles, this is not a turn for the better.

In addition, the value of our stock exchange has fallen dramatically since the financial crisis started, though not to the same extent as those in major world economies. This reduces the confidence in equities as an investment option.

Under these circumstances does it still make sense to save? A resounding yes! Unfortunately the poor growth prospects have already resulted in companies either reducing working hours (so that people still have jobs but earn less income) or retrenching staff (resulting in loss of income). Having a nest egg makes a world of difference in these cases because you still need to meet your the needs of your family irrespective of how the economy is doing.

Diversify to make the most of your investment

What then would be a good strategy for saving those extra rands you have?

Well, during these times of uncertainty it's important to diversify your investment so that it 'catches the headwind' and does not shrink drastically. Not many of us are qualified to do that, which might be why we find ourselves with reduced means.

The best investment you can make is not rushing to put your money in a flavour-of-the-day investment but rather consulting a qualified financial adviser who will help you navigate these murky economic waters. They would have the knowhow of where to place each investment to protect your capital and yield a return. There are still good investments out there, you just need the qualifications and experience to know where.