A glimmer of hope: local economic update, February 2013

 By Tendani Mantshimuli

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The final months of 2012 held a glimmer of positive news for the South African economy but there are still serious concerns for policymakers.

The ANC elective conference in Mangaung provided some policy certainty to the market. Wholesale nationalisation has been ruled out although the state does reserve the right to nationalise what it deems strategic industries. The proposed mining tax remains the one potential frictional issue for the mining sector.

Another positive development from the conference was the endorsement of the National Development Plan, which, if implemented as proposed, will boost economic growth and create much-needed jobs, particularly for youths.

Manufacturing recovers

Manufacturing data for November was more positive than anticipated, which supported GDP growth for the final quarter of the year. An improvement in the manufacturing sector in 2013 will depend on the continuance of infrastructure expenditure by the government and a steady improvement in the global economy. This will be positive for a recovery of the domestic economy. As things stand now, however, it will be a challenge for manufacturing to gain significant upward momentum as the sector is still feeling the effects of the labour unrest in the mining sector, weak demand locally as well as internationally, due to weak global growth.

Retail sales improved more than expected for the month of November. September and October were difficult months with strikes in the transport and mining sectors. The transport strike led to some disruption of stock reaching supermarket shelves and, therefore, affected retail sales. The increase in the November numbers is encouraging; anecdotal evidence suggests that December festive sales were acceptable. Notwithstanding the monthly improvements the long-term trend is still downward.

There are serious concerns that face the economy:

- **Inflation rises:** Inflation is likely to rise further due to high administered prices, which include petrol, electricity, medical aid as well as educational costs. The petrol price has increased by 41c/l this month, mainly due to rand weakness. There's currently an under-recovery, which means that we can expect a further rise in the petrol price in the coming month.
  Stats SA is in the process of revising the inflation basket in terms of what is included and the relative weightings. As a

result of these developments the weight of the petrol price is set to rise significantly in February. Further weakness in the rand will increase the risk of inflation increasing further. This will put pressure on consumers' discretionary income as the items most affected are necessities.

- **Repayment of high debt levels:** Part of the financing of the increase in retail sales mentioned above was most likely from unsecured lending. While growth in this aggregate hasn't yet added significantly to overall household debt, the debt levels themselves are still high so that the servicing or repayment thereof puts a constraint to disposable income. The SA Reserve Bank left rates unchanged with the prime overdraft rate at a historic low of 8.5%. This is still supportive of economic growth and supportive of continued reduction of household debt levels. It's important to note that the bank remains concerned about the possibility of inflation rising through the year, partly due to the weakness of the rand.
- **Unemployment continues unabated:** The ongoing labour unrest not only undermines our production and the country's ability to meet its export commitments; it inevitably results in retrenchments, which will add to the already high number of unemployed South Africans. The looming retrenchments in the mining sector are a case in point. Unfortunately, the impact will not be contained to a specific mine, but will also impact on related industries like manufacturing and other suppliers and small retailers surrounding the mines.
  We have already seen that high unemployment is a recipe for social unrest and, to an observer and potential investor in South Africa who doesn't understand the country's dynamics, it could be interpreted as if the government is not in full control of the country. This has implications for investment flows into the country and its credit rating. Also, for any SA business to expand and do well we need social and economic stability, so it's important that labour unrest is addressed expeditiously.

ABOUT TENDANI MANTSHIMULI

Tendani Mantshimuli is consumer economist of Liberty Life.
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