



Relatively good news at last

Clearly the department of finance is a classic example of how well departments can be managed! While the minister of finance announced a slightly weaker budget yesterday (consolidated deficit of -4.8% versus -4.6% budgeted in February 2012), we estimate better figures in the February 2013 budget.

Here's how:

Main budget revenue

R Bn	2011/12 Prelim Outcome	Budget 2012/13	MTBPS 2012/13	MTBPS v. Budget	Our estimate for 2012/13	Our estimate v. Budget	y/y Growth
PIT	250.4	286.0	282.0	-4.0	281.6	-4.4	12.5%
CIT	151.6	167.8	166.1	-1.7	166.8	-1.0	10.1%
VAT	191.0	209.7	212.0	2.3	213.1	3.5	11.6%
Secondary tax on companies/ dividend withholding tax	22.0	19.1	18.8	-0.3	20.0	0.9	-8.9%
Specific excise duties	25.5	28.8	28.5	-0.3	29.9	1.1	17.6%
General fuel levy	36.6	42.8	41.0	-1.8	43.3	0.5	18.4%
Customs duties	34.2	36.2	38.0	1.8	37.7	1.6	10.5%
SACU	-21.8	-42.2	-42.2	0.0	-42.2	-0.0	93.7%
Other	50.4	51.3	50.2	-1.1	52.0	0.7	3.1%
TOTAL NET REVENUE	739.8	799.3	794.4	-4.9	802.4	3.1	8.5%

Main budget balance

R Bn	2011/12 Prelim Outcome	Budget 2012/13	MTBPS 2012/13	MTBPS v. Budget	Our estimate for 2012/13	Our estimate v. Budget	y/y Growth
Revenue	739.8	799.3	794.4	-4.9	802.4	3.1	8.5%
Expenditure	888.7	969.4	969.4	0.0	969.3	-0.1	9.1%
Surplus/Deficit	-148.9	-170.0	-174.9	-4.9	-166.9	3.1	12.1%
% of GDP	-4.9%	-5.2%	-5.3%	-0.1%	-5.1%	0.1%	-
GDP	3 017.9	3 301.4	3 269.9	-31.5	3 297.0	-4.4	9.2%

Consolidated budget

R Bn	2011/12 Prelim Outcome	Budget 2012/13	MTBPS 2012/13
Revenue	837.0	904.8	900.6
Expenditure	964.0	1058.3	1057.1
Surplus/Deficit	-127.0	-153.5	-156.5
% of GDP	-4.2%	-4.6%	-4.8%
GDP	3 017.9	3 301.4	3 269.9



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Remember, the minister delivers consolidated figures in his medium term budget policy statement (MTBPS). The consolidated budget differs from the main budget in that it includes other revenues from provinces, social security and selected public entities – this is why the consolidated budget balance is usually a little smaller than the main budget deficit, as stated at the February budget.

We (and the South African Reserve Bank) focus on main budget numbers. Note some differences with the main budget: We expect revenue to be marginally higher than the budgeted estimates – we are slightly less negative on the collections of personal income tax (PIT) and company income tax (CIT), more positive on value added tax (VAT), excise duties and fuel levy collections, while we expect expenses to be marginally lower than budgeted. This is in line with our previous estimates and better than market expectations.

All in all, we foresee a better outcome to the deficit estimates after the February budget in 2013. The fiscal deficit is expected to come in below budget at -5.1%.

This week's economic statistics commenced on a positive note, with the Reserve Bank's composite leading business cycle indicator rising for the first time after eight declines on a year on year basis by 0.1% in August. Although this is not yet enough to get excited about, the fact that five of the 11 components recorded increases is a welcome change indeed. The largest positive contributions came from the acceleration in the composite leading business cycle indicator of South Africa's major trading-partner countries, as well as an increase in the prices of all classes of shares traded on the JSE. The major negative contributions came from a decrease in the number of residential building plans passed, as well as a decline in the export commodity price index.

Inflation indicators in September had opposing trends. While the Consumer Price Index (CPI) increased, much faster than consensus expectations, to 5.5% y/y in September (5.0% in August), the Producer Price Index (PPI) slowed to 4.2% y/y. Market consensus had PPI pegged at 5.3%, after increasing to 5.1% in August. Consumer prices were fuelled mostly by the food, housing and utilities, and the transport sub-indices, and producer prices reacted to slower increases in electricity, mining and quarrying, other manufacturers, and basic metals.

We believe that the latest economic indicators, such as the rapid increase in CPI, the weaker rand (trading at an average rate of R8.70 to the dollar this week), wider current account deficit (-6.4% for Q2 2012), and stronger retail sales (6.4% y/y increase in August) could convince the Monetary Policy Committee to keep interest rate unchanged at their next meeting in November. Even though we do not foresee rate cuts in 2013, perhaps consumers will find some relief in the forecast that the rates will most probably not be raised either – some good news too!