EFFICIENT GROUP

Economics

The good news

South African economics received a welcome break this week when a number of main economic indicators released revealed better than expected results over their respective reporting periods.

Inflation came in at a softer level of 5.6% y/y for the month of May after a 5.9% y/y increase in April. This slower than expected rise in inflation was mainly brought about by the slower rise in the transport index, following the 73 cents per litre decrease in the price of petrol in May. The annual rate of increase on this index decreased to 3.7% in May from 6.2% in April.

Table 1: Sub-categories contribution to CPI

	Contribution	
Group	**April 2013**	**May 2013**
Food and non-alcoholic beverages	0.9	1.0
Alcoholic beverages and tobacco	0.4	0.4
Clothing and footwear	0.1	0.1
Housing and utilities	1.4	1.4
Household contents and services	0.2	0.1
Health	0.1	0.1
Transport	1.0	0.6
Recreation and culture	0.2	0.2
Education	0.3	0.3
Restaurants and hotels	0.2	0.2
Miscellaneous goods and services	1.1	1.1
Residual	0.0	0.1
All Items	5.9	5.6

Another ray of light was the current account figure for the first quarter which also surprised the market at -5.8% of GDP (or R 191bn) after the deficit of 6.5% of GDP (or R 213bn) in the final quarter of 2012. The weaker rand environment supported global trade volumes in the first quarter with increased external demand from emerging market economies for mining and manufactured goods in particular. While both merchandise exports and imports increased by roughly R 85bn during the first quarter, there were also significant improvements in net gold exports and the balance on the service, income and current transfer payments.

The good news

Table 2: Current Account breakdown

	2012				2013
R Bn	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**
Merchandise exports	694.6	686.1	689.1	715.0	800.1
Net gold exports	78.0	77.9	67.6	60.7	69.9
Merchandise imports	821.4	843.9	844	861.8	948.2
Trade balance	-48.8	-79.9	-87.3	-86.1	-78.2
Net service, income and current transfer payments	-105.5	-128.6	-127.7	-126.5	-112.7
Balance on current account	-154.3	-208.5	-215.6	-212.6	-190.9
As % of GDP	-5.0	-6.7	-6.8	-6.5	-5.8

Even though these indicators might reflect improvement in the South African economy, it might only be short lived. While our revised outlook on the current account has improved due to the weaker rand environment (we now forecast -5.8% of GDP for 2013), the weaker rand could also cause significant deterioration in our inflation outlook for the rest of this year as well as next year. For now our view on interest rates remains the same – no change for the rest of 2013.

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