EFFICIENT GROUP Weekly Economic Newsletter

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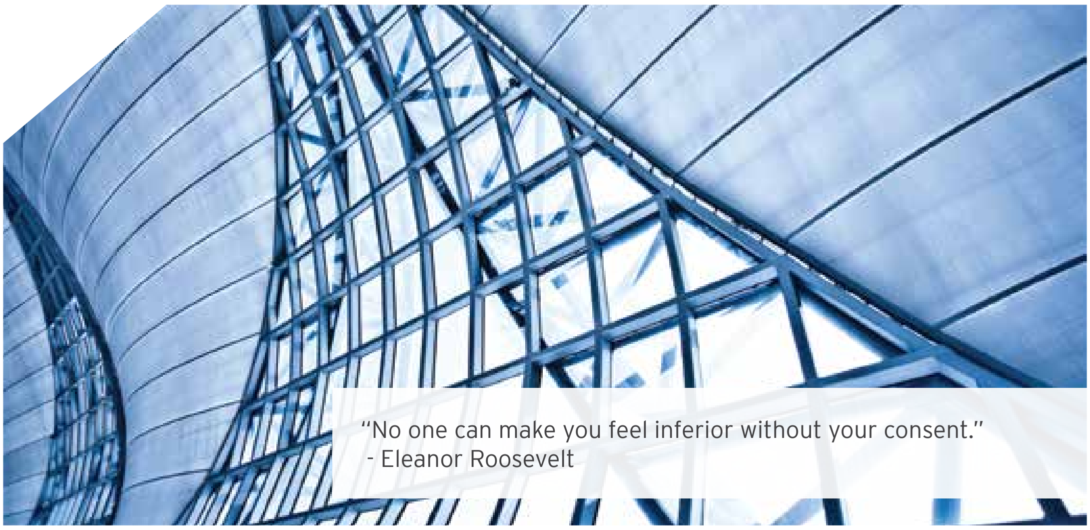

ECONOMIC COMMENTARY - By Francois Stofberg

This week's local economic indicators once again showed that the South African economy is still in the process of bottoming out. Another concern, is that the frequency of short term shocks (like policy uncertainty which is exacerbated by apparent political in-fighting), have translated into longer term fundamental changes. We now have a fundamentally weaker rand, and a fundamentally weaker economy.

Dismal credit extensions to the private sector only grew by 6.8% year-on-year in July, down from an already low of 7.3% in June; a trend that will most likely continue throughout 2016. Private sector credit is broadly disaggregated into household and business credit. Households have been particularly hard hit in this environment of weaker fundamentals. High levels of household debt, an environment of increasing interest rates, and tight credit criteria, have all added to slow growth in credit extended to households; growing only 2% year-on-year. At an average of 11% annual growth, credit extended to firms in 2016 has grown almost on par, when compared to its historic average. It is however, concerning that the money has been borrowed for operational issues and protection against Rand-volatility, rather than business expansion.

Trade statistics released by SARS showed more of the same, a strong trade surplus on the back of export growth and weaker imports. The cumulative trade surplus has now grown to R17.4 bn, compared to last year's cumulative deficit of R24.7 bn. A depressed currency does aid exporters to a certain extent, however, global demand and favoured emerging market sentiment, usually do more for our exporters. This point is particularly evident in the double-digit declines in new vehicle car sales we've seen throughout 2016, driven largely by a lack of global demand. Also, lower imports once again point towards struggling local demand, which is more of a concern than the upbeat nature of a trade surplus. A final point on trade: a positive trade balance supports the current account, which should be supportive of the Rand. However, the stand-off between the minister of finance, and all those who are in apparent disagreement with the prudent management of state finances, will surely deter any positive effects the trade balance might have on the exchange rate of the rand.