EFFICIENT GROUP

Weekly Economic Newsletter

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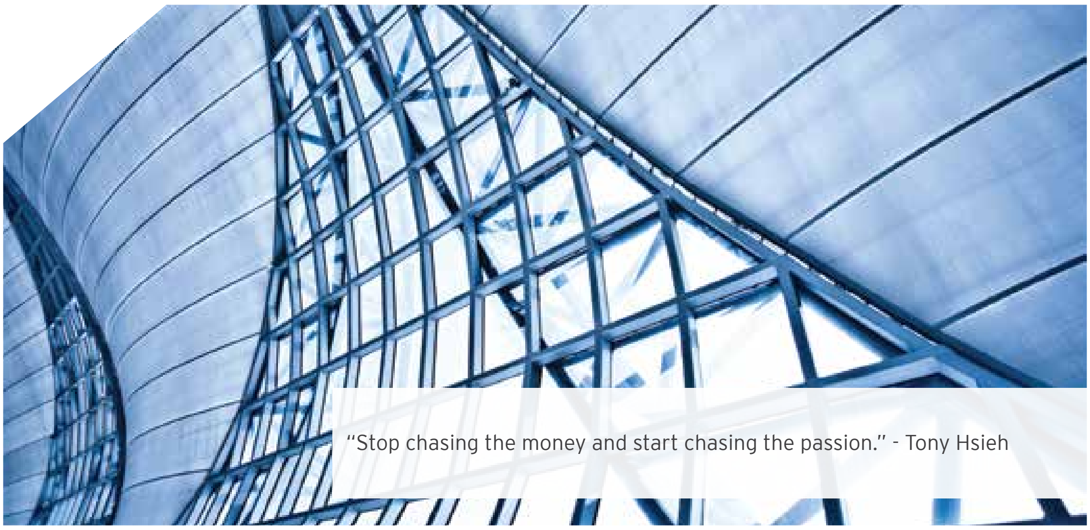

ECONOMIC COMMENTARY - By Francois Stofberg

The consumer has been battered with bad news this year: high interest rates, inflation and unemployment, as well as a very weak rand and a lot of political tension, all weighed down on consumer confidence. Black Friday, the decision to keep rates unchanged, and keeping our sovereign credit rating all came at just the right time. We might even see a short-term spurt in the economy’s performance.

The first estimates of SA's minimum wage came in at a whopping R3500, almost double what it was previously in certain industries. In our opinion this will place an unnecessary burden on small and medium enterprises which will lead to substantial lay-offs and a shift away from labour, towards capital. Basically, everything you don't want to see happen in a developing economy like South Africa, especially if that country already has one of the highest unemployment figures in the world (SA’s current unemployment is 27.1%). It remains quite clear that policy makers in SA don’t understand the basics about wealth creation. Wealth is not created by redistribution, but through the value chain. A much better alternative would be to give small businesses more incentives to employ the very poor, or young, by allowing for higher wage subsidies. What would be even better, is if these subsidies could be linked to the employee's skill development and output performance; both of which are crucial for SA's long term economic success.

In other local economic news. Statistics South Africa (STATSSA) reported that inflation reached 6.4% during the month of October. Most likely inflation will average 6.2% for the year, outside the South African Reserve Bank's (SARB) target range of 3-6%. Both these are good reasons to increase interest rates. The other good reasons include higher medium term inflation forecasts, and the very likely chance of interest rate increases in the US. The reason they decided not to increase rates, even though it appeared obvious that they should, is because of the dire state of our economy and the social tensions it would flare up.

Finally, on Friday, a sympathetic Moody’s decided to keep SA’s credit rating above investment grade. They felt that external factors: the two-season drought and a lack of foreign demand, weighed down on SA’s economy. S&P’s decision should look similar on the 2nd of December. However, as I’ve explained in the past, the growth problem is more internal and can only be solved by structural reforms that are too tough to introduce. Persisting low growth, our government’s out of control spending habits, and ballooning debt will therefore inevitably lead to junk-status.