Weekly Economic Newsletter

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ECONOMIC COMMENTARY - By Francois Stofberg

Last week was a particularly busy week in South African economics. Unemployment etched lower to 26.5% but remains structurally high. SA currently has the 19th highest unemployment rate worldwide (Zimbabwe has the highest rate at 99%). Unemployment is kept high by government's inability to translate high education spending into a world class skills development process.

Inflation came in lower than expected – 6.6% for the month of January (food prices still contribute the largest share, 1.9%). This decrease bodes well with our expectation that inflation will slowly creep back into the South African Reserve Bank's limit of 3-6%, before the third quarter. We are still expecting the agricultural industry to contribute substantially to this year's GDP and the uptick in output to drive down food prices.

The rand also strengthened below R13 last week, driven by positive sentiment towards riskier foreign investments and a decrease in negative political events locally (something that may change quite soon).

The final bit of economic news was the price-fixing and collusion allegations that were raised against Standard Bank, Investec, and ABSA. This, however, seems less about right and wrong and more about pushing some political agenda. This is specifically true if one considers the timing of these allegations – so shortly before the release of this year's National Budget, and so shortly after the bouts against ABSA about paying back money that was lent to them before 1994. It is also true if one considers the tremendous effort made by individual political parties to use this event to push their specific agendas. From an economic perspective, nationalising the central bank or financial industry in South Africa is a ridiculous idea – the dismal position of most state-owned enterprises is probably the best point to support this argument. It is also a ridiculous idea to blame the minister of finance for these events and fire him on this basis, which will be seen as an attack on the independence of state finances and will most likely lead to a downgrade.

This week is also budget week, and although we'll unpack the budget in more detail during next week's newsletter, some things to look out for. Expect more spending – keep a close eye on government's spending on salaries as well as social assistance, and the lack of spending on infrastructure. Expect more taxes – on the wealthy (higher capital gains taxes 2-4%; marginal taxes on high-income earners 2%; and higher estate taxes), on the "fat" (sugar taxes), on the "sinners" (tobacco and alcohol taxes), and on motorists (a likely 40c increase in the fuel levy/road accident fund).