

Contact Us



81 Dely Road
Hazelwood
Pretoria
0081



+27 (12) 460 9580



info@efgroup.co.za



www.efgroup.co.za



ECONOMIC COMMENTARY - By Francois Stofberg

This week RMB and the Bureau for Economic Research published the latest business confidence index for South Africa. The rate fell to a 5 year low of 36 points, and overall contracted by 15 points in 2015; the further this rate falls below 50 the less expansion is expected in the business sector. Within the index, various businesses are asked questions to discern their opinion on the outlook of their sector; new vehicle dealers, the construction sector and wholesalers reduced their confidence, whereas retailers were a bit more upbeat (probably in anticipation of the December consumer rush).

On Friday, 4 December, S&P will reconsider South Africa's sovereign credit rating. This rating defines a country's ability to pay back their debt (which is currently about 48% the size of SA's GDP) and is one of the main indicators large investors use to discern the investment health of a country. Currently South Africa is one notch within "investment grade", meaning we are considered a "healthy" investment destination. We do not believe S&P will downgrade SA to "junk bond"-status this week (probably only next year). I do however, expect the tone in Friday's address to be filled with "if you don't" statements; if you don't reduce government spending, if you don't grow your economy faster, if you don't stop this growth degradation, if you don't stop shunning away investors, if you do not improve state efficiency and labour productivity, then we'll downgrade you.

A Quick Glance at 2016: In the next couple of weeks I will also devote a short section to what we expect to see in the world of economics during 2016. Commodity prices will most likely remain under pressure: largely as a result of oversupply (particularly of mining products), a drop in international demand (specifically from China), and a strong US dollar (on the back of likely interest rate increases. Remember, there is a negative relationship between the US dollar and commodity prices; the dollar is used to express the value of commodity prices, if the dollar therefore, strengthens, commodities become relatively cheaper.