EFFICIENT GROUP

ECONOMIC COMMENTARY

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YOUR WEEKLY ECONOMIC UPDATE

13 September 2023

TOUGH TIMES NEVER LAST

Last week, prices of both grades of petrol went up by R1.71 per litre while diesel increased by close to R3 per litre. The recent jump in fuel prices is driven by a twofold weakening of the exchange rate and a substantially higher oil price. Having started at around R17 to the United States (US) dollar at the start of the year, the rand has now depreciated by more than 11% year-to-date. The oil price, in turn, has increased by more than 10% already this year, reaching its latest level just above $90 a barrel. A higher oil price will likely add to inflationary pressure, although the impact of higher fuel prices is usually overstated.

In our estimate, we consider the year-to-date deprecation of the rand and the oil price increase. We also factor in the second-round price effect, namely that higher fuel prices make "everything" else more expensive. But, even then, the higher fuel prices we have experienced in 2023 should not add more than 1.08% to consumer inflation on an annual basis. What is more important is to consider the impact of higher fuel prices in the context of the deteriorating macro-economy. For this reason, we still believe that inflation will remain close to 4.5%, the mid-range of the South African Reserve Bank's (SARB's) target, in the medium term.

Overall, we do not expect the SARB to increase interest rates again, unless the US Federal Reserve becomes even more hawkish. If that happens, we might see one more increase of 0.25%. We agree with some analysts that we may even see our first interest rate decrease by mid-2024, which will be a welcome relief to most South Africans.

According to the FNB/BER Consumer Confidence Index (CCI), South African consumers have started to claw back some of the lost ground. Unfortunately, the index remains well within negative territory. Confidence among individuals who earn more than R20 000 per month plunged to an all-time low of -40 in the second quarter of 2023 but rebounded to -17 in the third quarter. The confidence levels of households earning between R5 000 and R20 000 per month also improved, from -22 to -15 during the third quarter.

Theoretically, the FNB/BER CCI can vary between -100 and 100 but the overall index has fluctuated between -33 (indicating an extreme lack of confidence) and +23 (indicating extreme confidence) since the BER started measuring consumer confidence comprehensively in 1982. The average of the index is +2 and could, therefore, be regarded as the neutral level. So, even if we have seen an "improvement" among certain household income groups, consumer confidence is still far from neutral levels, and even further away from what can be considered a consumer base that is once again confident about the economy and their future.

It is becoming clearer that 2023 will be a very difficult year for the South African economy. Even though the economy grew slightly better than expected in the second quarter, 0.6% instead of 0.3%, most analysts expect that we will only grow about 0.3% for the entire year. Some argue that we might even see an annual contraction. Add to this, our deteriorating state finances and balance of payments, and you start to understand why our local markets are not attracting even short-term capital. All the while, the chances of a Goldilocks (too good to be true) environment in the US continue to increase.

So, what should investors do in times like these? Do not try and do it on your own. Always seek independent, holistic financial advice so that you can get the best objective advice that considers your unique financial objectives across generations. Also, do not be hasty. Do not fall for scams that promise you the moon and the stars; be extremely cautious about anyone who guarantees you more than 10% returns annually. And always remember, tough times never last, only tough people do!

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