EFFICIENT GROUP

ECONOMIC COMMENTARY

Dr. Francois Stofberg

YOUR WEEKLY ECONOMIC UPDATE

7 February 2024

CONSUMER RELIEF AND A STRAINED FISCUS

Battered by low wage growth, high interest rates, and increasing debt levels, many South African consumers are in the worst financial shape that they have been in for years, maybe even decades. The result is a persistently weak economy. But, the worst might be over.

A faltering economy, driven mostly by a failing state, meant that salaries and wages in South Africa (SA) failed to keep up with inflation during 2022 and 2023, resulting in a decline in household buying power of about 5%. The danger of plummeting salaries, however, is not just that households stop spending sufficiently to grow the economy but that consumers will need to borrow money to make ends meet. In these tough times, consumers often turn to unsecured loans, which are not backed by any assets, which means banks charge higher interest rates to offset the risk. This usually does not end well for the borrower. The last time there was a boom in unsecured loans (between 2012 and 2014), many households ended up poorer than before because they could not keep up with the interest rates that they were being charged.

In the end, lower incomes and higher interest payments – not least because of the unsustainably high interest rates that the South African Reserve Bank has forced on us – have put South Africans in a very tight spot. Consequently, households have been unable to purchase the goods and services that they previously could afford, putting strain on various sectors of the economy. In fact, we have not seen the services sector perform this poorly, so consistently, for a very long time. The reason for this is that SA is a consumer-driven economy with more than 60% of its gross domestic product (GDP) attributed to private final consumption. As such, when households are under pressure, economic growth is under pressure. And if economic growth is under pressure, households are under pressure, and so the vicious cycle continues.

Fortunately, despite the uncertainty of the upcoming elections and the reaction of capital markets, the outlook for 2024 is much different. Inflation has been easing and even the outlook for food prices is positive. Interest-rate cuts may only be a few months away and could be reduced by at least 1%. Even unemployment figures have improved, albeit only slightly. Amidst cooling prices and the resilient nature of recovering enterprises, we are even expecting higher income growth this year. Overall, the purchasing power of households should improve, together with their standard of living, which declined during 2022 and 2023. That being said, consumers will probably only really feel the difference in 2025.

Concerning the upcoming Budget Speech, a few things have caught our attention: President Cyril Ramaphosa is committed to extending a COVID-era monthly payment for low-income citizens until March 2025. These payments can eventually become the basic income grant that he hinted at a month ago, when he said that there is a "strong case" for it despite fiscal constraints. Despite the strain that a basic income grant will place on the fiscus, it might not be all bad news. For one, it will reduce the gap between those who have (jobs) and those who do not, as well as alleviate some of the socio-political tension in our economy. We expect the ruling party will use policies like these as an electioneering tool to win votes in the upcoming election. Many also expect Ramaphosa to sign the National Health Insurance into law. But even if he does, we believe that it will be vehemently opposed in court and will not see the light of day for many more years to come (at least not in its current format). Ramaphosa also intends to fully implement the previously announced pay increases for 1.3 million state employees. Consequently, the consolidated budget deficit should widen to 4.8% of GDP this year, and remain at 4.6% in 2025, a major overshoot of official estimates. We doubt that the markets were expecting anything different and should, therefore, not react too negatively. But we would still advise our clients to brace for impact.

21 Years of being your holistic financial services partner
Efficient Group