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PO Box 76297, Lynnwood Ridge, South Africa, 0040

Grain Building, 1st Floor, 477 Witherite Street
The Willows, Pretoria, South Africa, 0184

Tel. +27 12 807 6686, Fax. +27 12 807 5600
admin@agbiz.co.za, www.agbiz.co.za

Vat nr. 4920204684

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Media release

Weak economy: Some lose, some win

Despite widespread pessimism about the economy, there are industries that are still doing relatively well.

“Exporters are managing and although consumer spending is under pressure, consumers still spend, differently though,” Ettienne le Roux, chief economist of Rand Merchant Bank, said in an economic outlook at the Agbiz congress.

“There are also encouraging signs that certain measures announced by the minister of finance in his budget speech in February may have contributed to both Moody's and S&P* not downgrading South Africa's credit rating to junk status recently.”

Le Roux said that factors such as high interest rates and high inflation create the perfect storm for consumers. “They have to cut many corners to save a buck and to stay within their budgets. Declining consumer spending has a significant effect on the economy as consumer spending constitutes 60% of GDP."

Trends of the current "consumerism to conservatism" are that consumers spend less on expensive items such as furniture, household appliances, and new cars. They are also cutting back on luxuries.

Similar patterns are visible in the residential property market.

“More consumers that are downscaling to a smaller property due to financial related pressure are opting to rent rather than buy. Fewer people are also selling to upgrade. Cars are being financed over longer periods and consumers are downshifting to cheaper medical aid plans. Many are also increasingly accessing pension and provident funds when switching jobs, while others make changes to short-term insurance policies to save some money," Le Roux said.

There are, however, South African industries that are doing relatively well despite all the pessimism. These include certain manufacturing exporters, farmers exporting citrus, fruit and nuts, while tourism is also coming back to life," Le Roux said.

Even within the mining sector, companies supplying building materials such as sand and stone show decent growth. Within the manufacturing sector companies supplying beverages, basic chemicals, motor vehicle parts and accessories, radio and television apparatus and sawmilling of wood are seemingly coping just fine.

"What many of these industries have in common is that they are either exporters (some into Africa) and/or are benefitting from import substitution on the back of currency weakness."

According to Le Roux the renewable energy industry is also doing relatively well, as are property developers in the mid-sized residential market, student accommodation, retirement villages etc.

"Although consumers spend less on luxury items, they do still spend. Retailers of clothing and footwear, medical and pharmaceutical products, sports equipment and camping gear are all still showing growth. Consumers continue to spend on their hobbies as well."

Le Roux said that one reason why outdoor, adventure and camping gear is in demand is because people have realised "local is once again lekker". Holidays overseas have just become so expensive.

Rand/dollar exchange rate

Le Roux pointed out that it is important to remember that the rand/dollar exchange rate is as much influenced by happenings in the US economy as it is by developments locally.

An important point Le Roux drove home is the fact that there is now more two-way risk on the rand. Following years of persistent weakness since 2012, the rand in recent months has seen bouts of strength, "reminding us it is not only one-way traffic any more". Suddenly there is rising doubt about the strength of the US recovery, while fears of China falling over are fading.

Credit rating: We are not alone

Le Roux said South Africa is not the only country that has seen its credit rating being cut in recent years. Many large emerging market countries, most of which are commodity exporters, are also under pressure.

Also worth noting is that Moody's and S&P assign different weights to different aspects in their assessments. This leads to different interpretations. One must also distinguish between South Africa's local currency status and the country's foreign currency status.

"Some people do not foresee serious consequences if South Africa is downgraded to junk status but they are wrong. It will have serious negative consequences for the economy, as the cost of finance will increase for everyone: the government, banks, parastatals as well as for the consumer," Le Roux explained.

He is of the opinion that other factors than purely economic indicators may have influenced both Moody's and S&Ps' decision not to downgrade South Africa to junk status. "There is a lot of political noise but good things are happening under the surface," he said.

Some of these include:
- Plans are being formalised to expand the independent power producer model of renewable energy into gas and coal;
- Invest SA, a one-stop shop to promote investment, has already been launched;
- The CCMA now has greater authority to play a more active role in settling labour disputes as in the recent Comair and Pikitup strikes;
- The visa regime has already been relaxed and more changes can be expected.
- The office of the Chief Procurement Officer has been established to modernise the tendering processes to eliminate corruption and cut costs.

Predictions

Le Roux predicted the following for the period 2016 to 2018:
- Low economic growth: Range 0% - 2%
- Inflation averaging around 6% over the next two years: Range 5.5% - 7.5%
- Interest rate normalisation to continue: Repo rate peak of around 7.25%
- Rand as volatile as ever with a wide trading range: USD/ZAR14 - 17

* The presentation was made before S&P's announcement in June.

Enquiries
Dr John Purchase
E-mail: john@agbiz.co.za
Mobile: 082 447 2308

Written by Derick van der Walt for Agbiz
Greenpepper Communication