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**A country renewed with hope but  
not yet reformed.**

**DCASA 2018**

# Going slowly ever so slowly

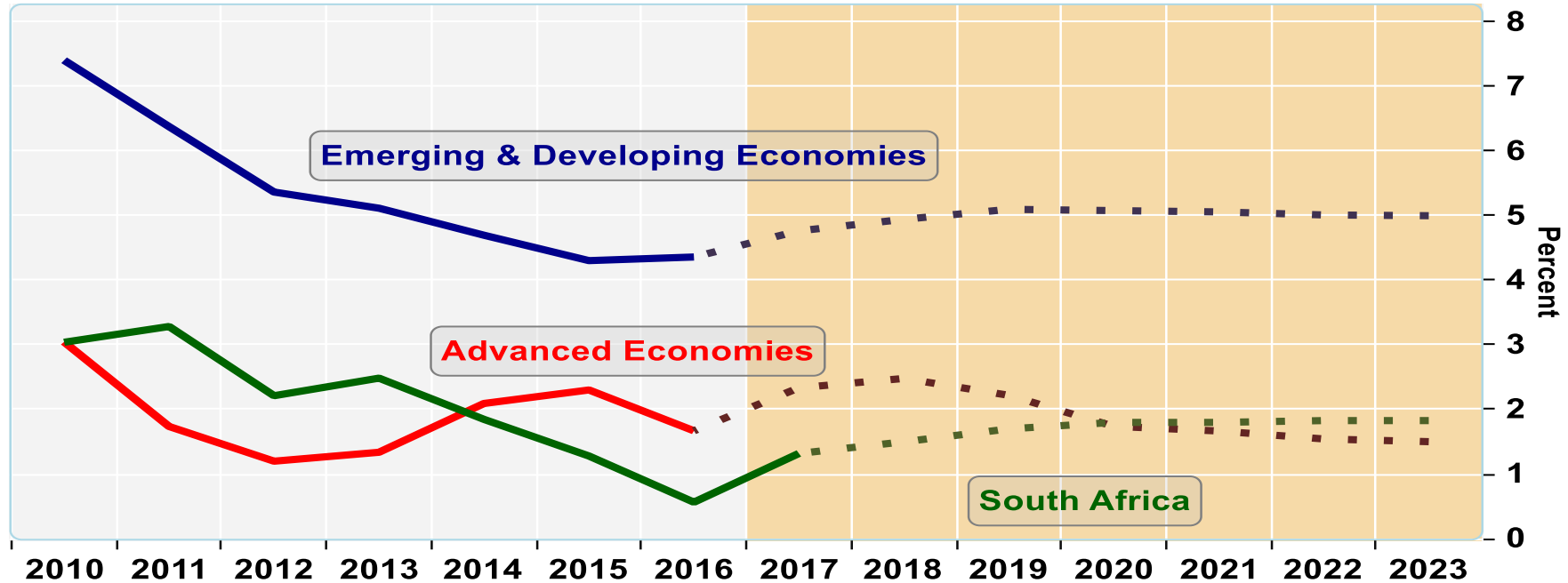


- Context international and local economy
  - Growth improves World vs SA
- SA economy and commodity cycle
- Debt indicators and thoughts
- Savings and assets
- Short Forecast for 2019/20 and rest of 2018.

# Emerging Markets are still racing ahead. SA lagging.

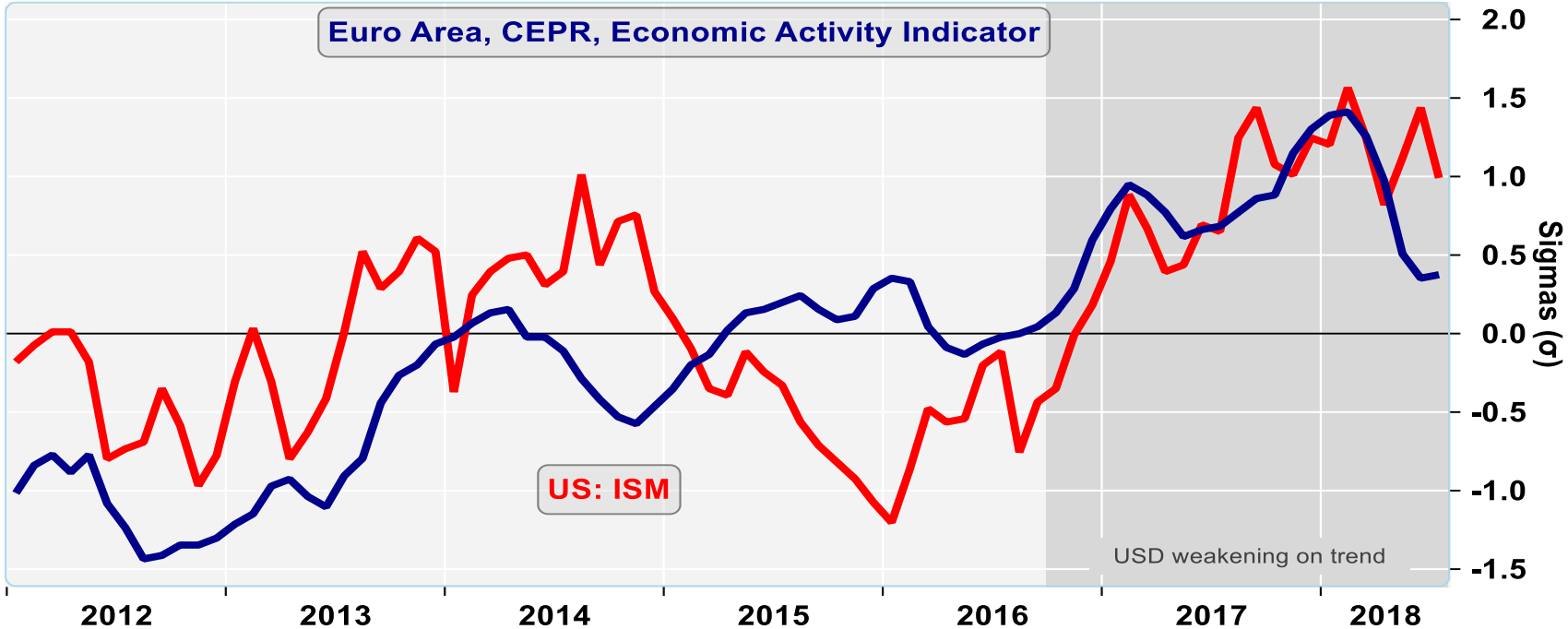
## GDP History and Forecasts.

IMF World Economic Outlook.



# Business surveys strongest in over a decade

## Business surveys are looking strong



# Some general facts that will impact



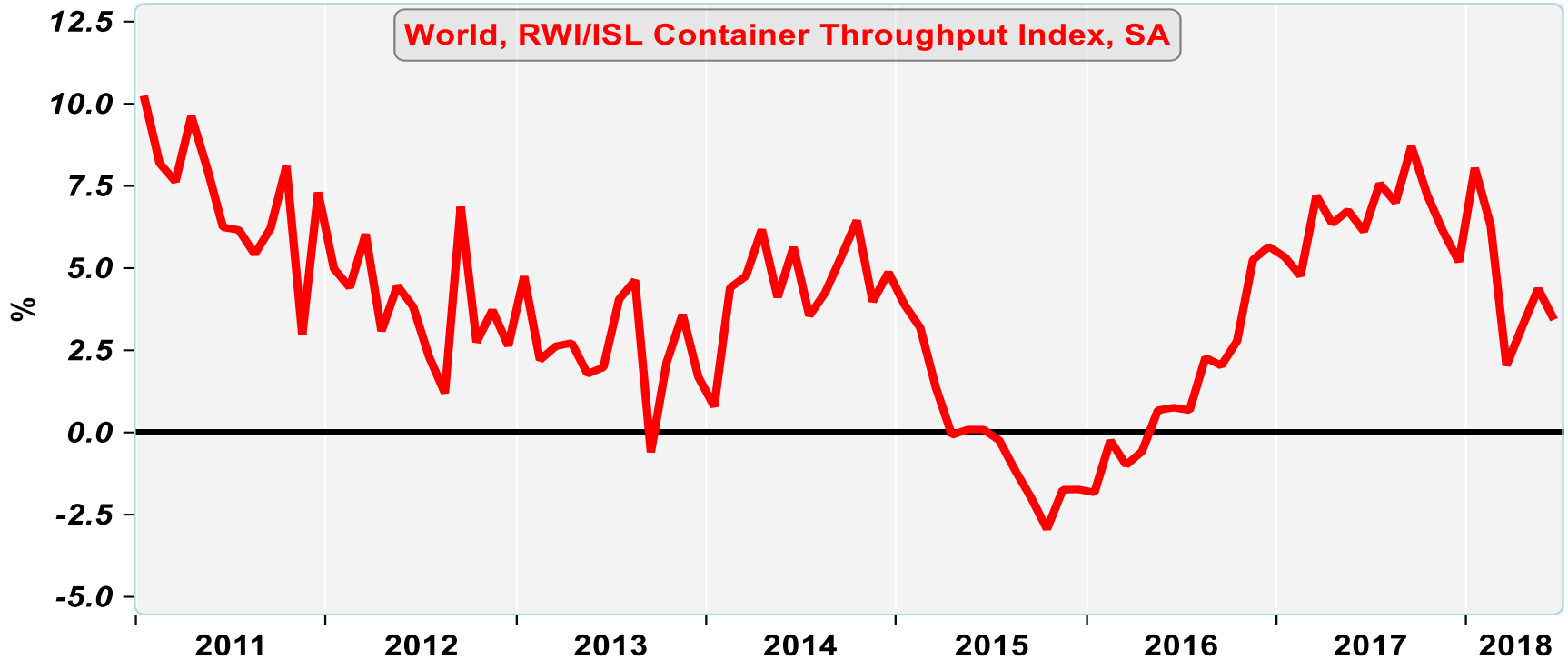
- US rate cycle is on the up.
  - Not good for commodities when this takes place.
  - Not positive for US growth.
- Europe will have to work through Brexit and so will UK.
  - Euro area could gain in short-term as firms switch to continent from London.
- China Growth slowing to 6% or so.
- India is the new big growth star but still very poor.
- Latin America is getting growth back.
- Africa has slowed but still faster growth than before commodity boom. But varied growth across region.

# World Trade is growing but at a vastly slower rate!!

## Container throughput in 85 harbours.



### World, RWI/ISL Container Throughput Index, SA



- It seems likely that at least in part the trade war will impact trade growth.
  - Overall the tariffs implemented so far are \$50 billion worth of goods by US on China about the same on other trade partners and others are implementing them on US. So about \$200 billion of trade is impacted.
  - Trade in goods was R15,3 trillion in 2016.
    - So very small thus far.
  - But the bigger impact of another \$200 billion on China alone and then threats to others plus counter tariffs could add another \$500 or so.
    - So still less than say 5% of trade impacted yet.....
    - And this is the problem that no one knows how this will impact
    - My guess is that the war will stop before too long and World loses a few points in growth. Say from 3,7% to 3% or so.
    - Enough to dent commodity prices

# Currencies and the commodity cycle



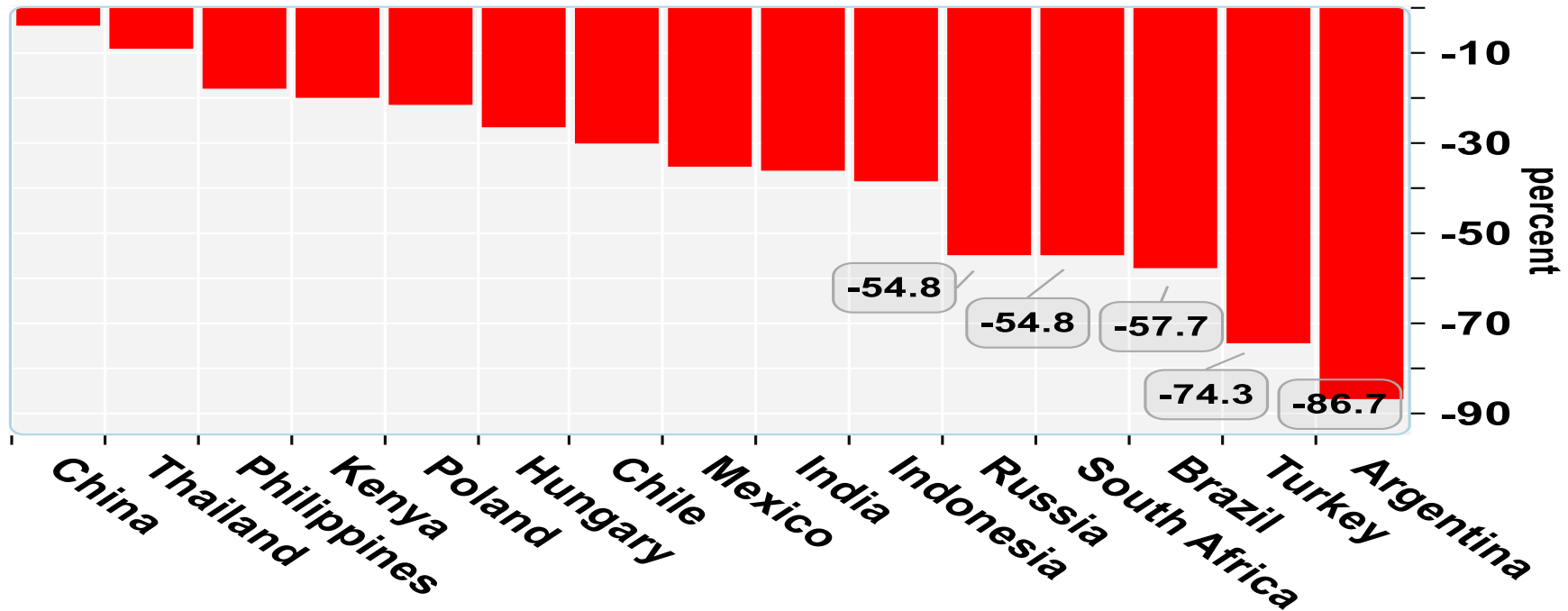
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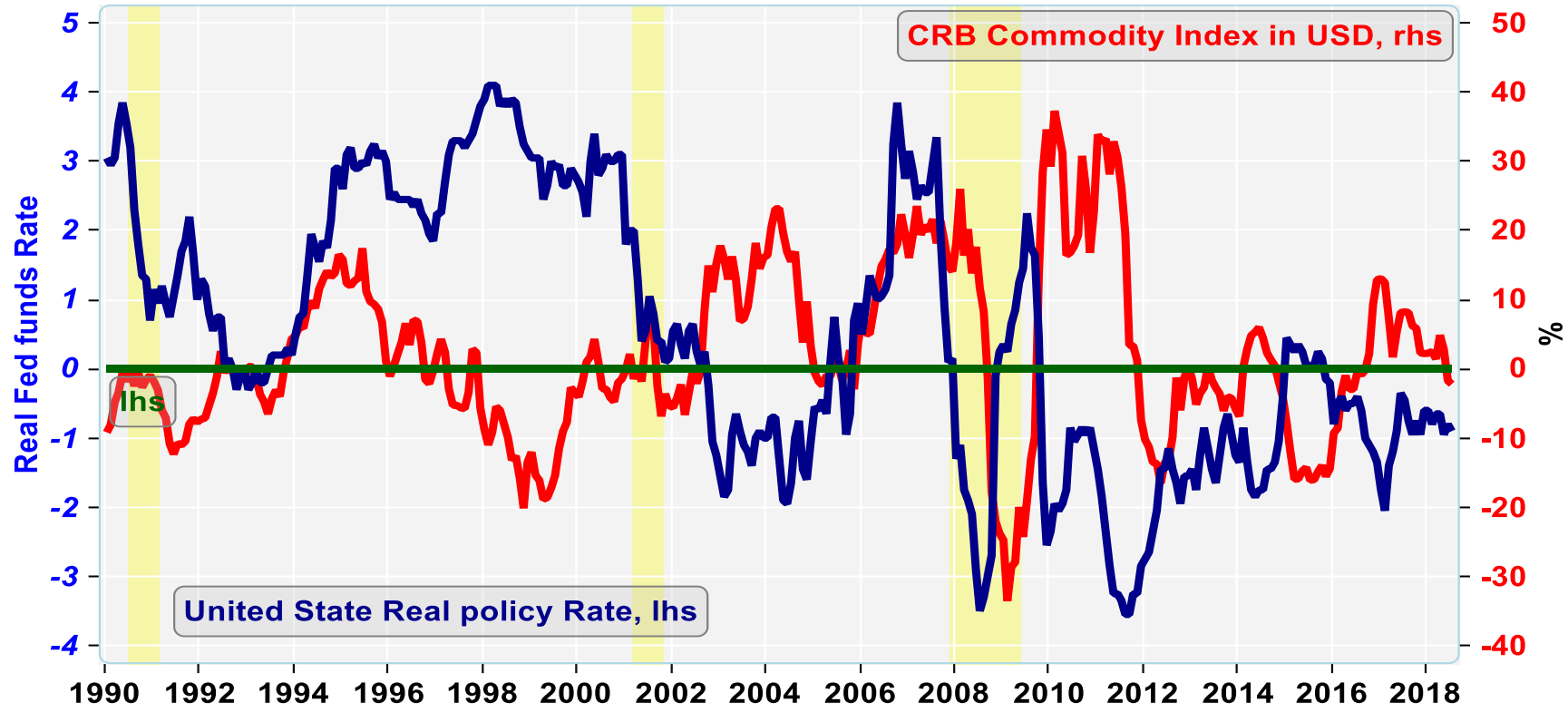
# Change since 2011 (ties into commodity cycle).



## EM currencies to USD since start 2011



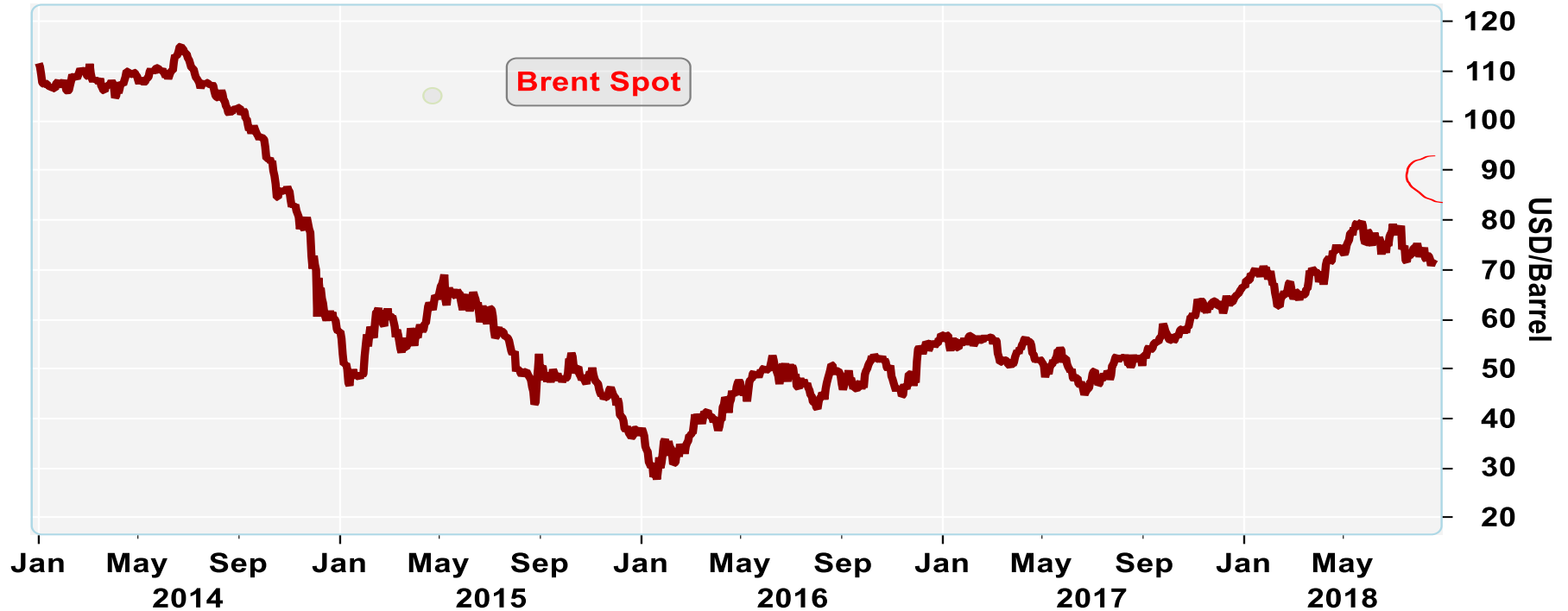
# Also US rate increases are not good for commodity prices

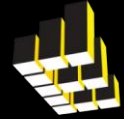


# Has Oil Peaked? I think so as the cartel never holds for a very long time.



## Brent Spot





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Some economic indicators for the property sector

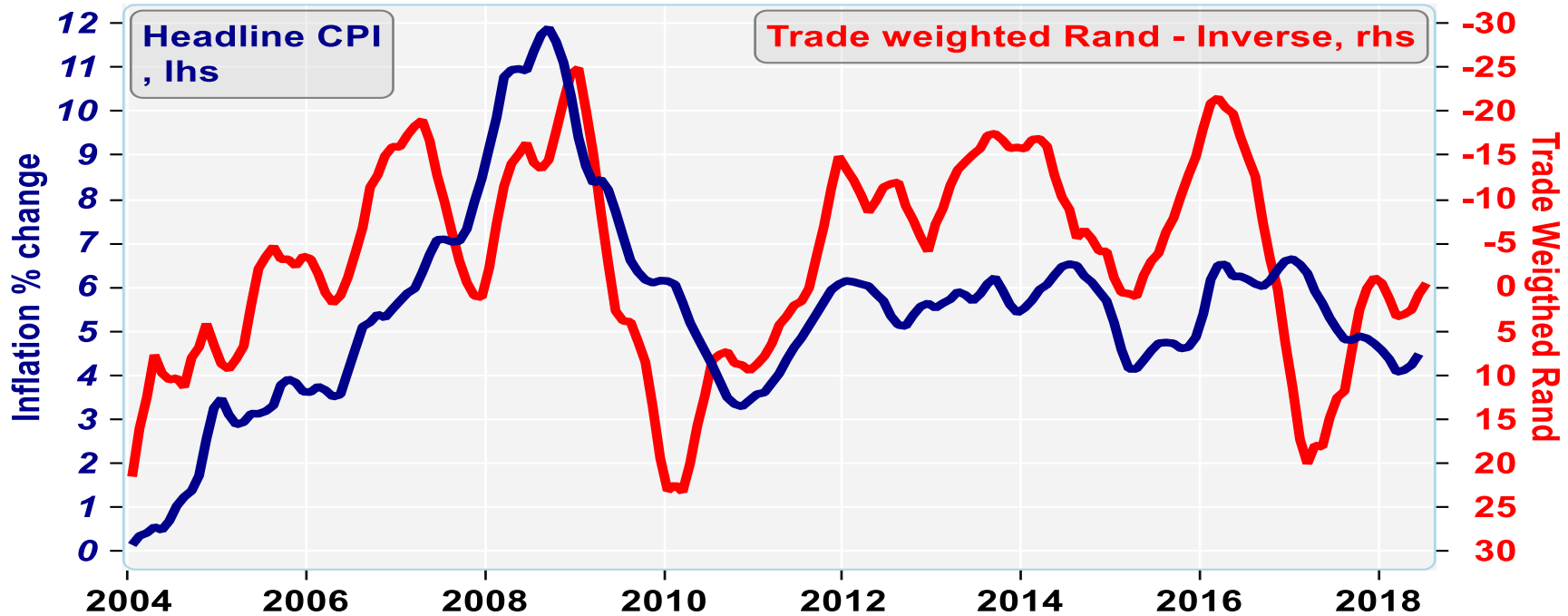
## **The normal suspects**

Rand influences inflation.

Many importers price R/\$ at R15 already for a while



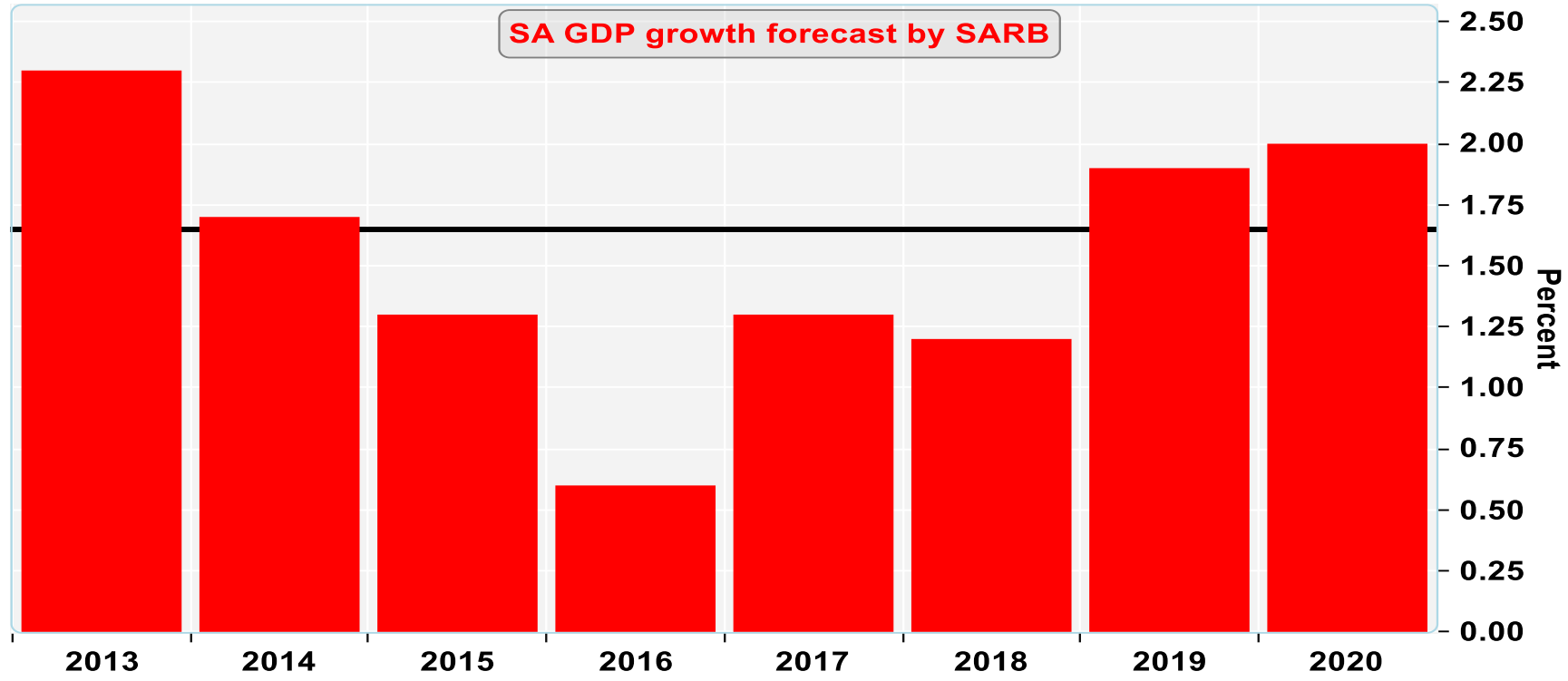
## Inflation and the Rand



- I believe that inflation will head higher now to over 5% and closer to 6%.
  - On average this year will have an inflation rate of just over 5%
  - Next year will be closer to 5,5% average with a small chance of breaching 6% for a month or two.
  - But inflation averages between 5% and 6% for the next three years is what not only economists but trade unions etc. expect.
  - So Rates may not decline but they will not rise either (small changes yes but steady)

# Growth history & forecast from SARB.

Private sector average for this year is 1,6% and 1.9% next

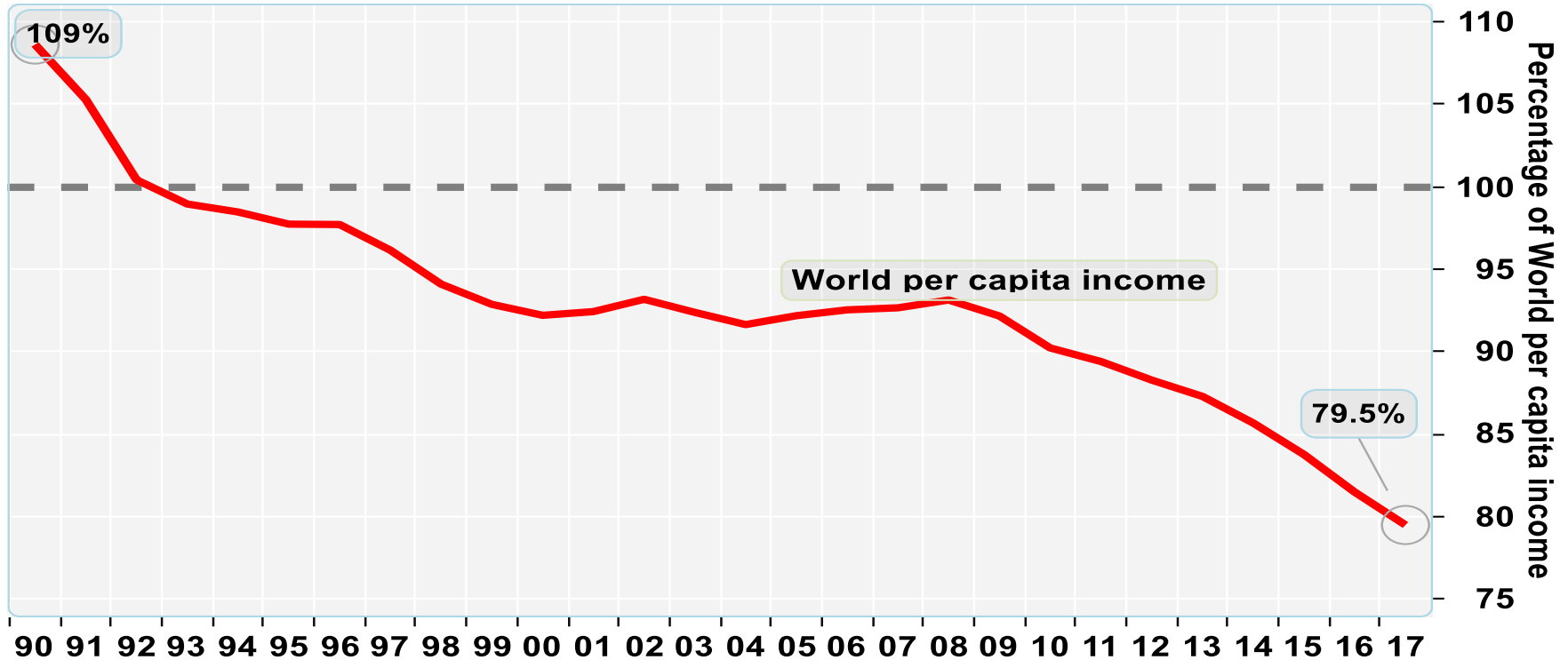


# Per capita income SA vs. World:



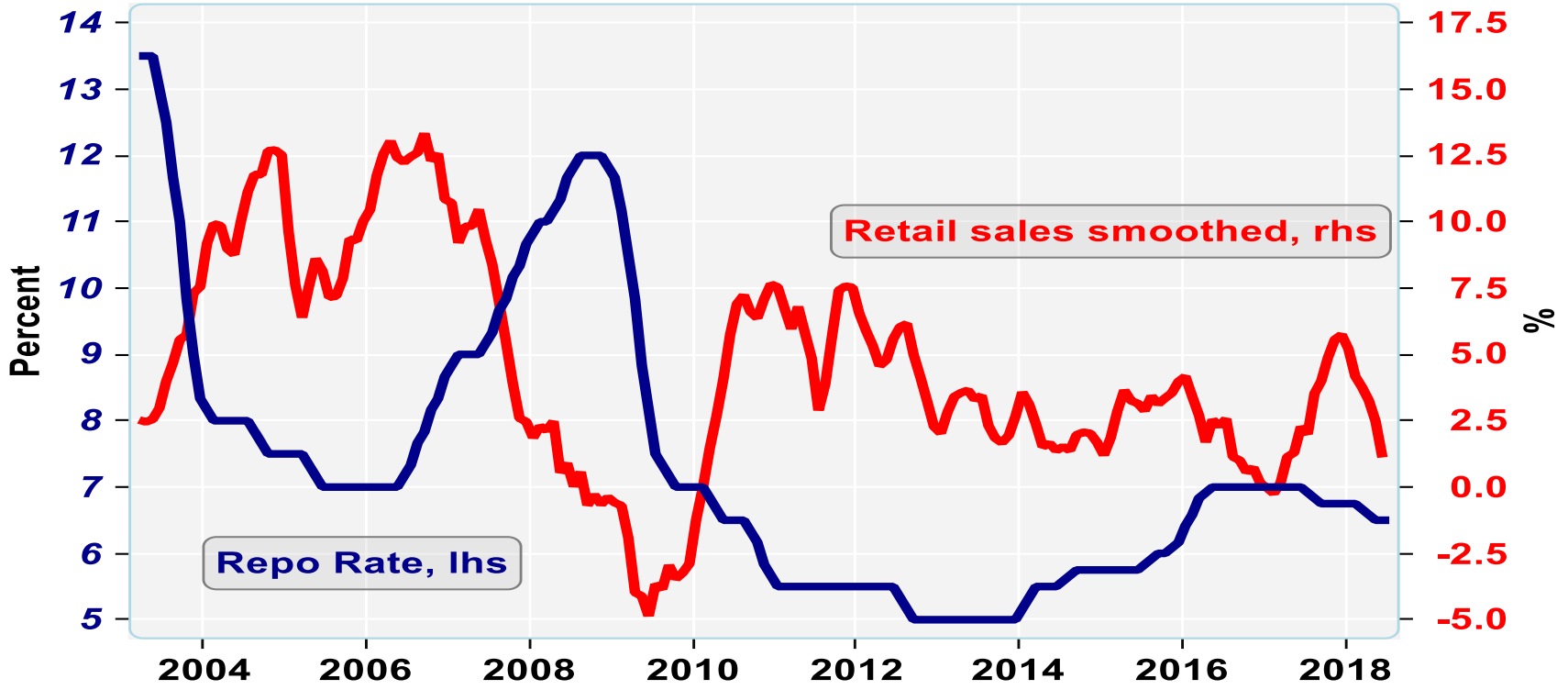
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## South African per capita income as % of World per capita income

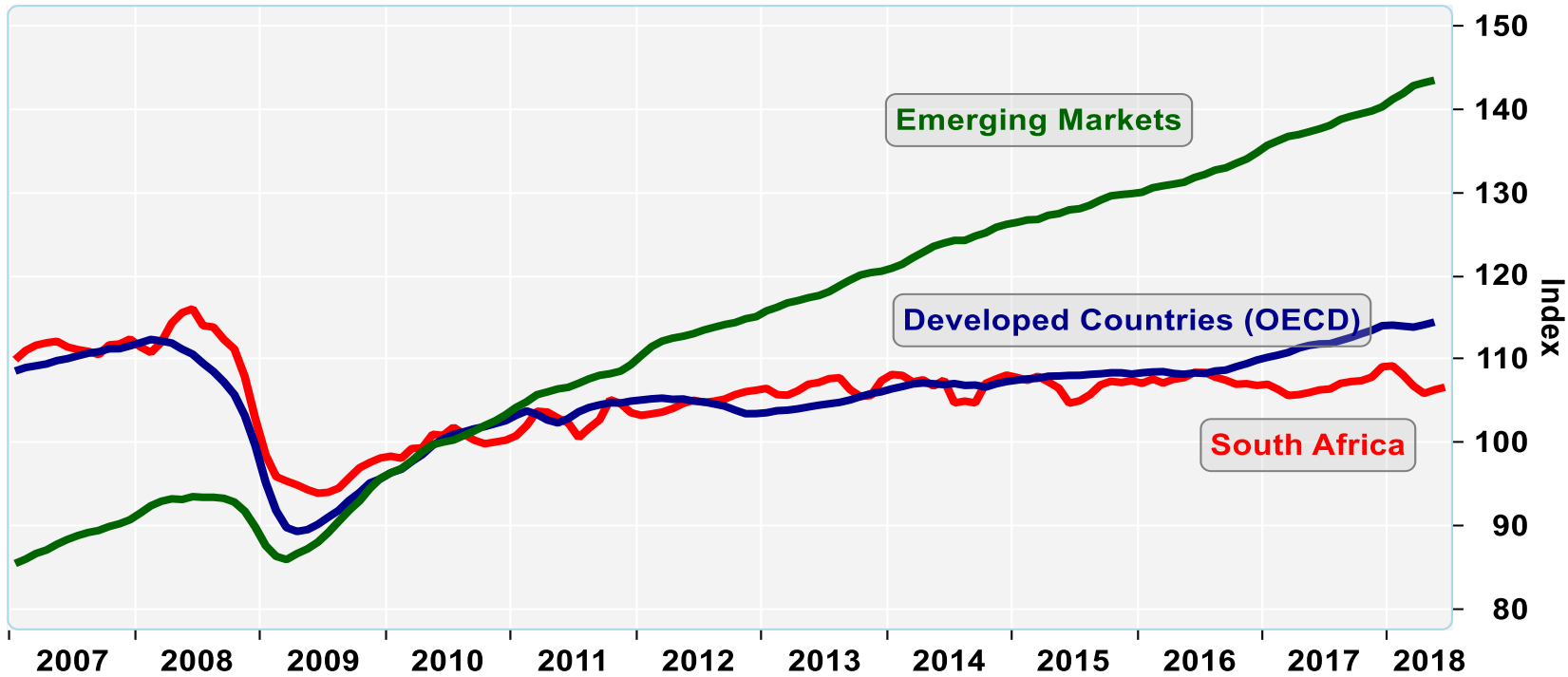




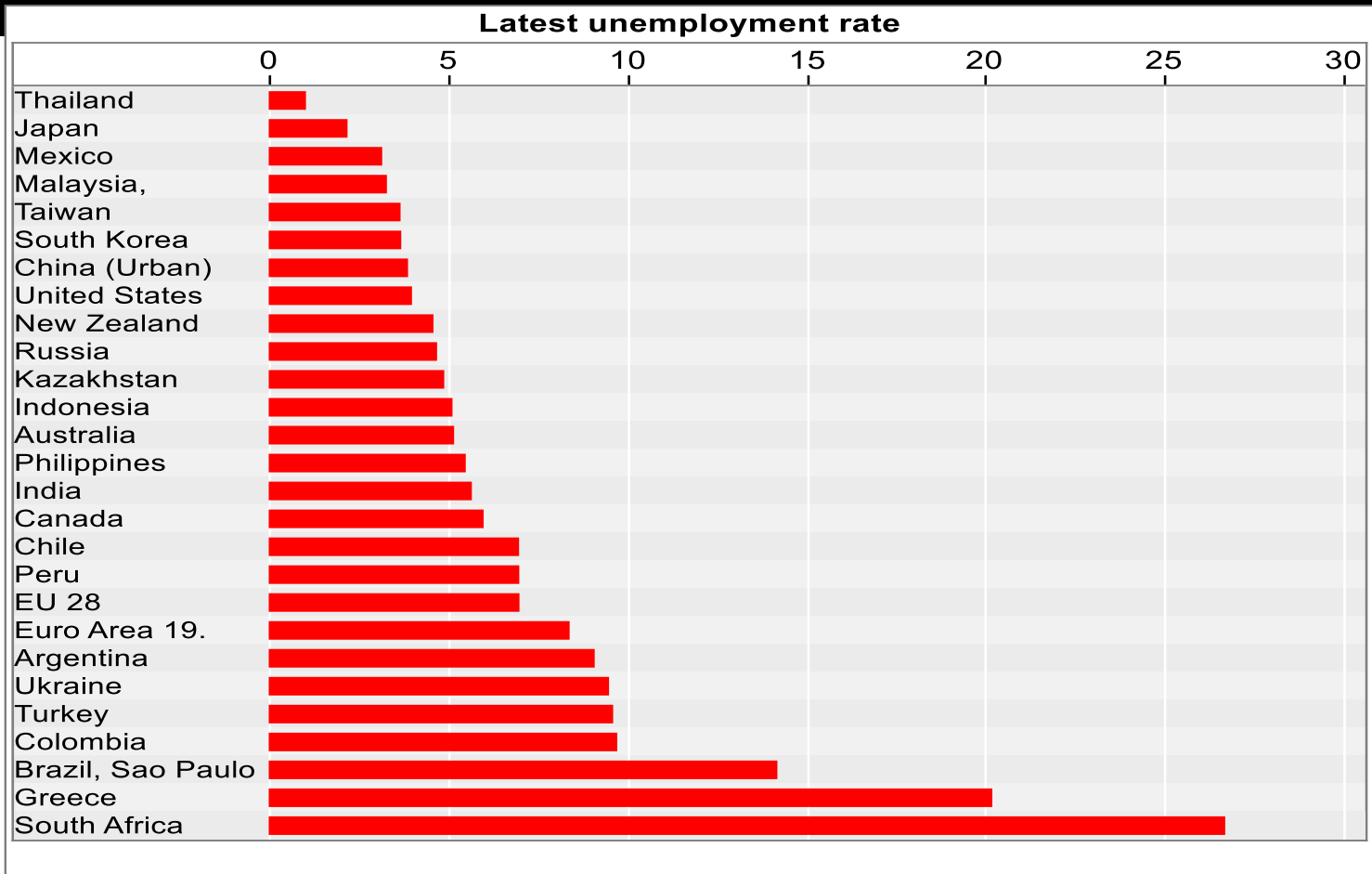
# Retail sales growth. VAT; fuel and sugar taxes hurt



## Industrial production compared



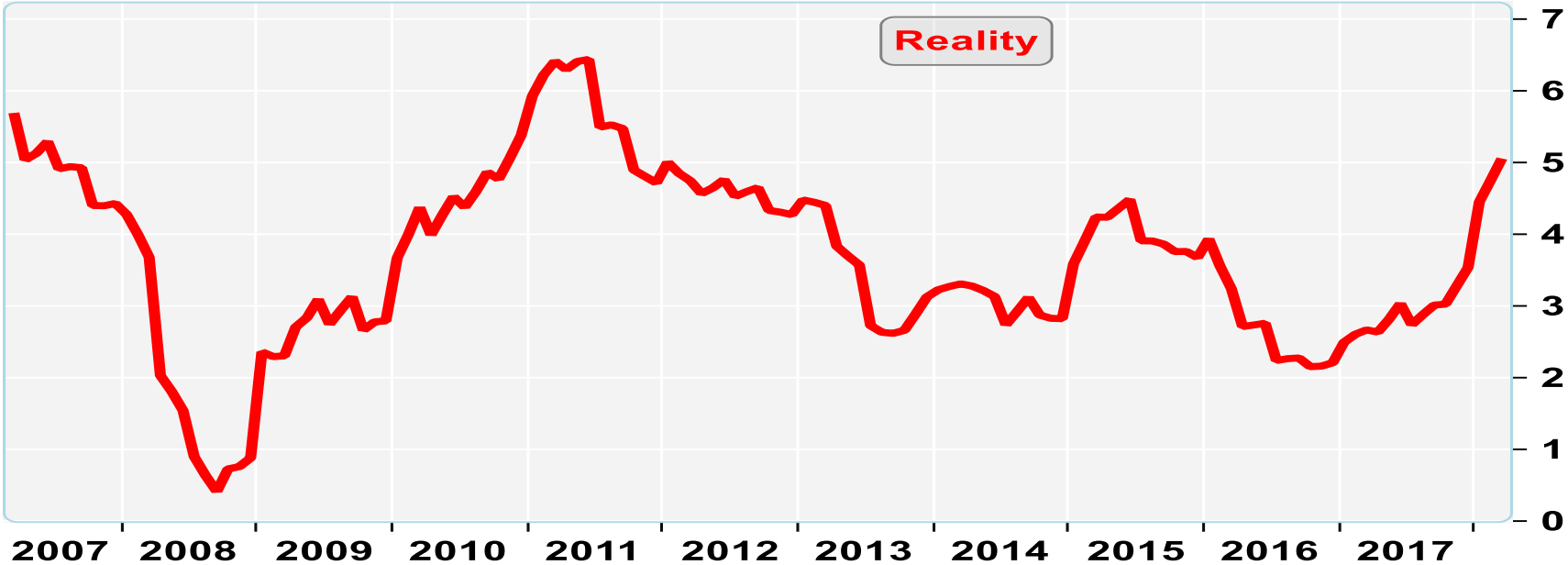
# Perspective on unemployment.



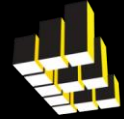
# Reality is however very positive – even after inflation.



## Real Reality: Income minus expenditure



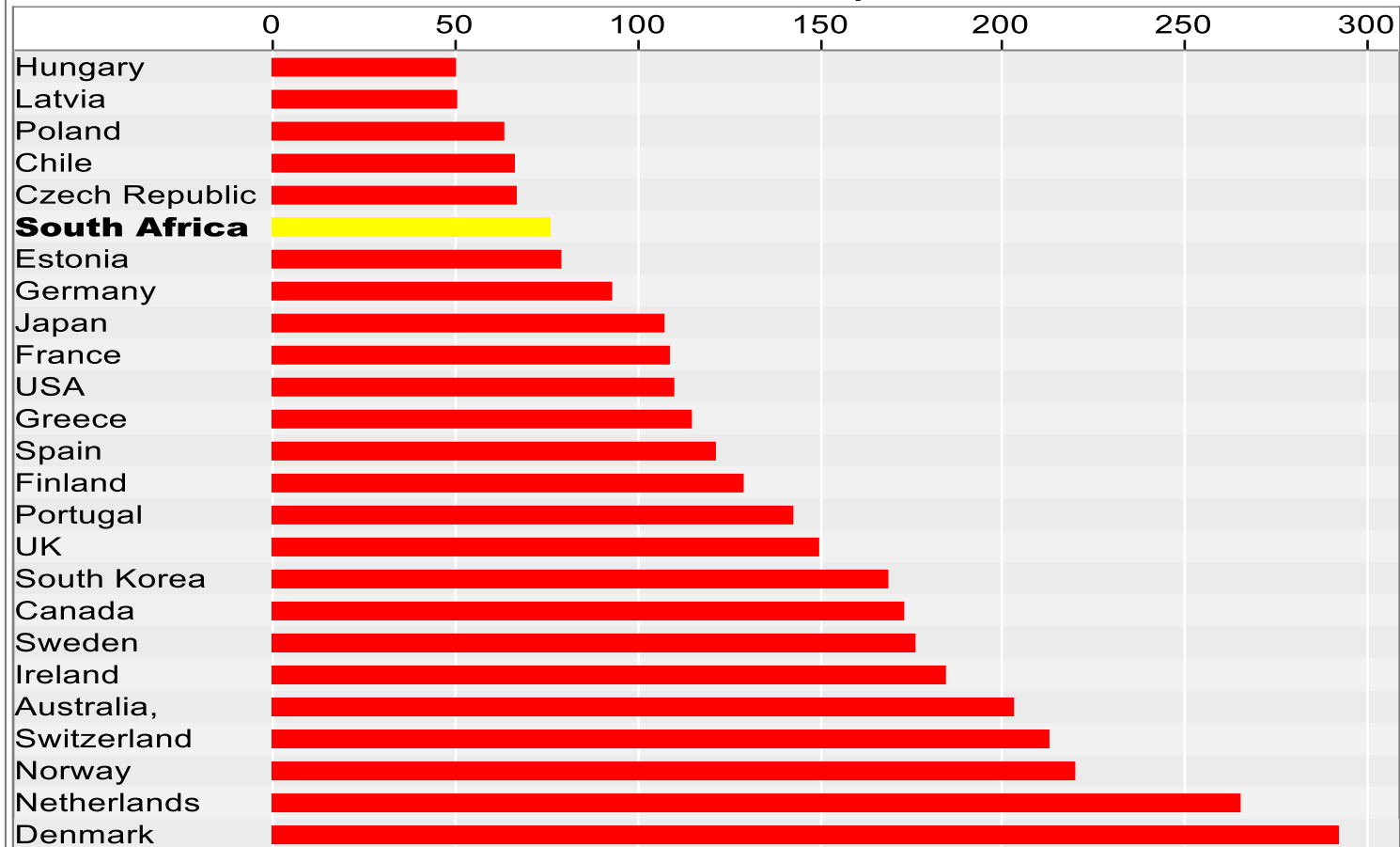
**Economistscoza**  
**Non-farm; Non financial private sector cash income from normal operations minus normal cash expenses.**



Debt counsellors are very effective in what they do as is the current credit act. Also believe consumer is careful as debt has been high and consumers do not want trouble.

## **Debt indicators in this super cycle.**

### Household Debt to Household disposable income

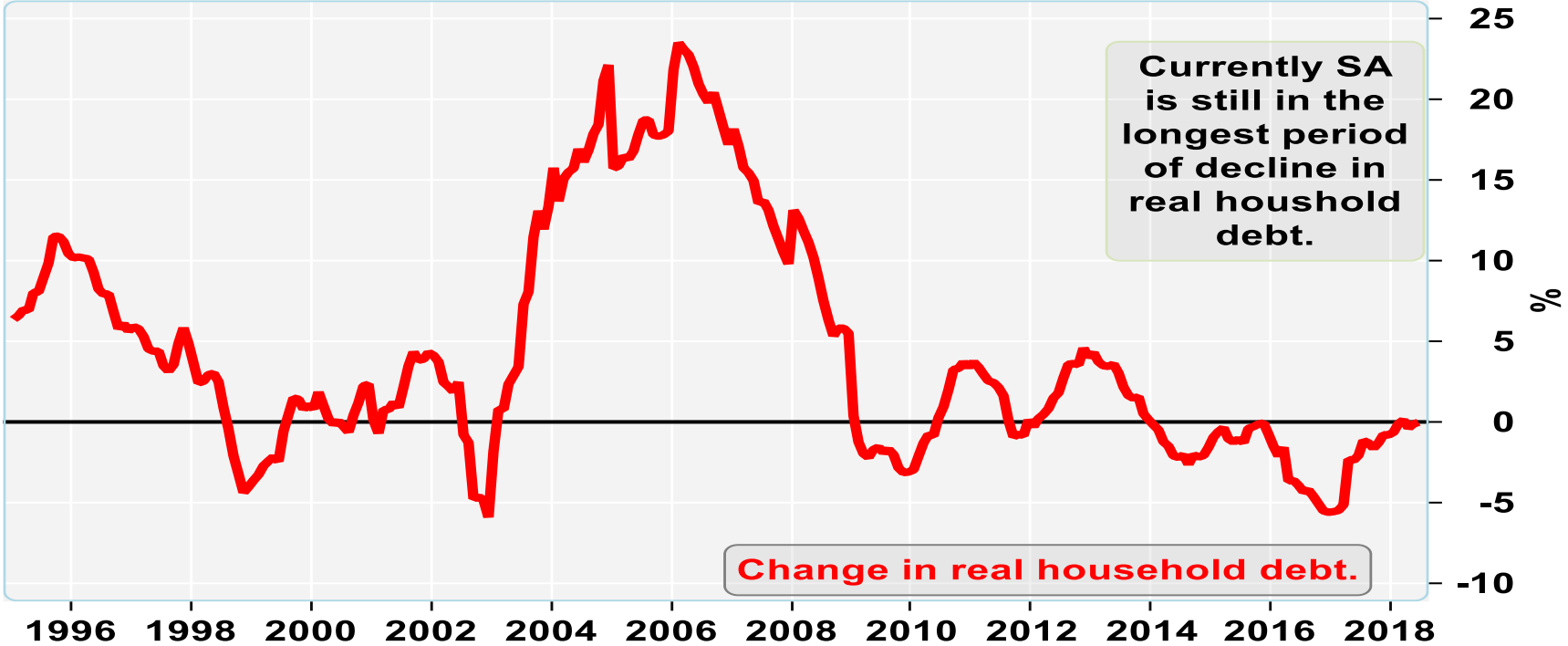


■ Latest debt to disposable income ratio [Close 2013 - 2015, sort asc.]

Soucre: OECD and economistscoza

# Real change in SA household debt. 53 months real decline so far – 1 month of increase!

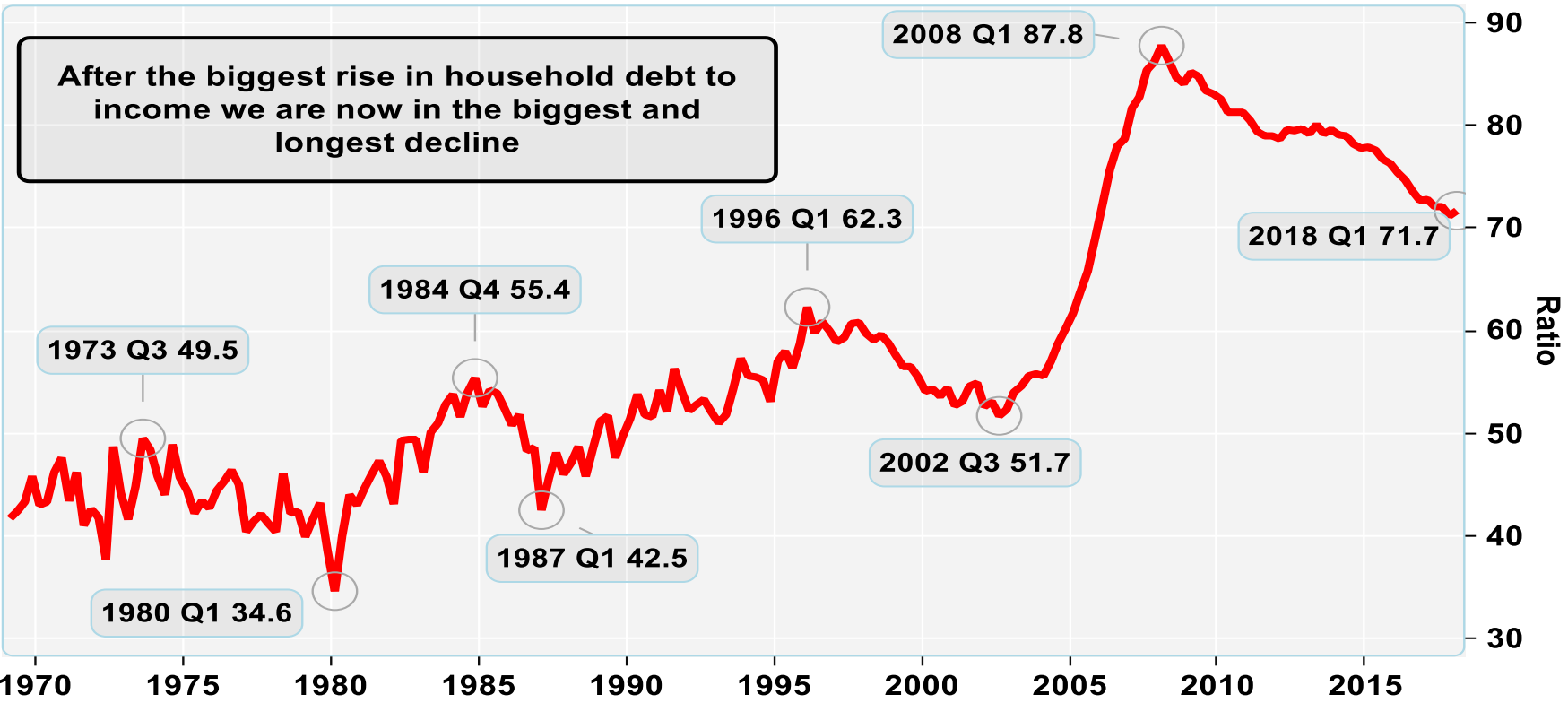
## Change in real household debt.



Currently SA is still in the longest period of decline in real household debt.

Change in real household debt.

# Longest decline will also now be biggest decline in household debt to household income.

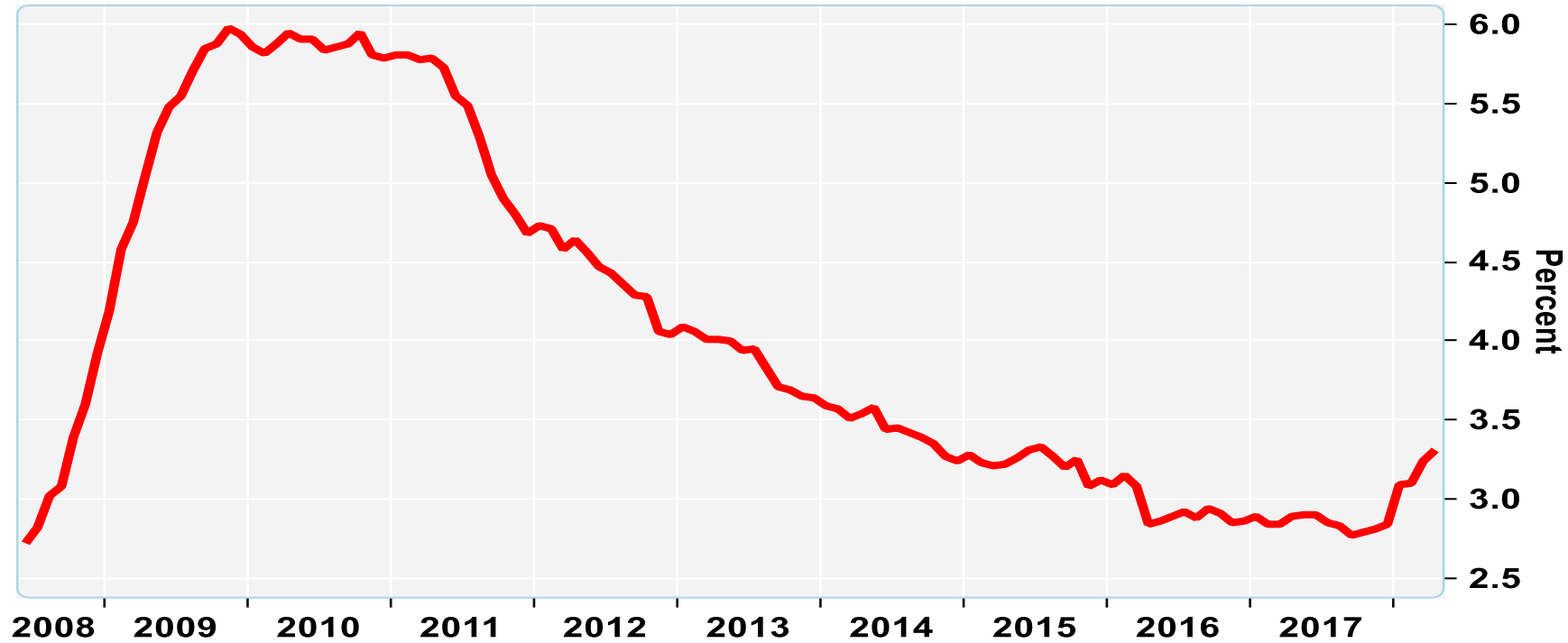




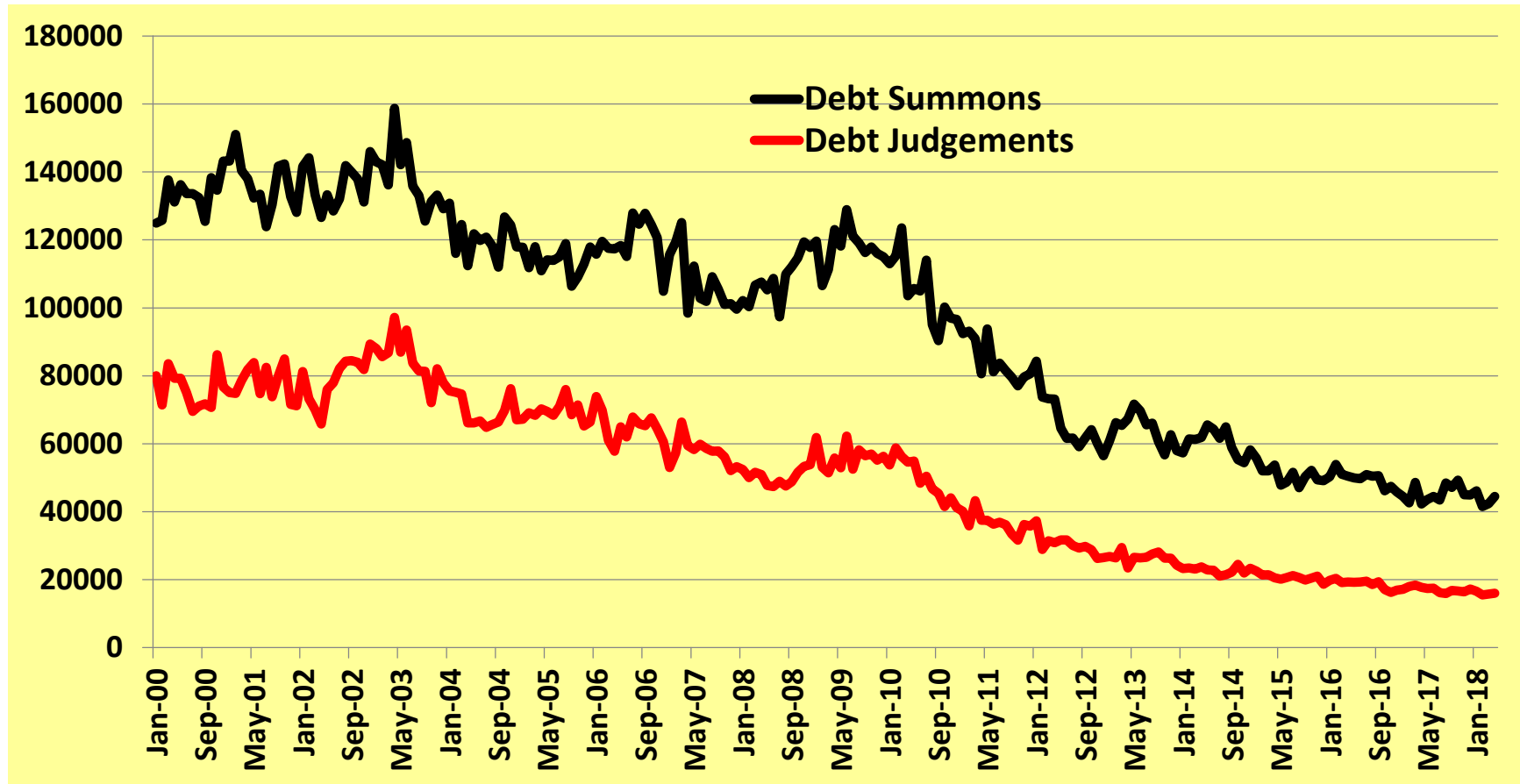
# Slight increase in non-performing loans in SA banking system.



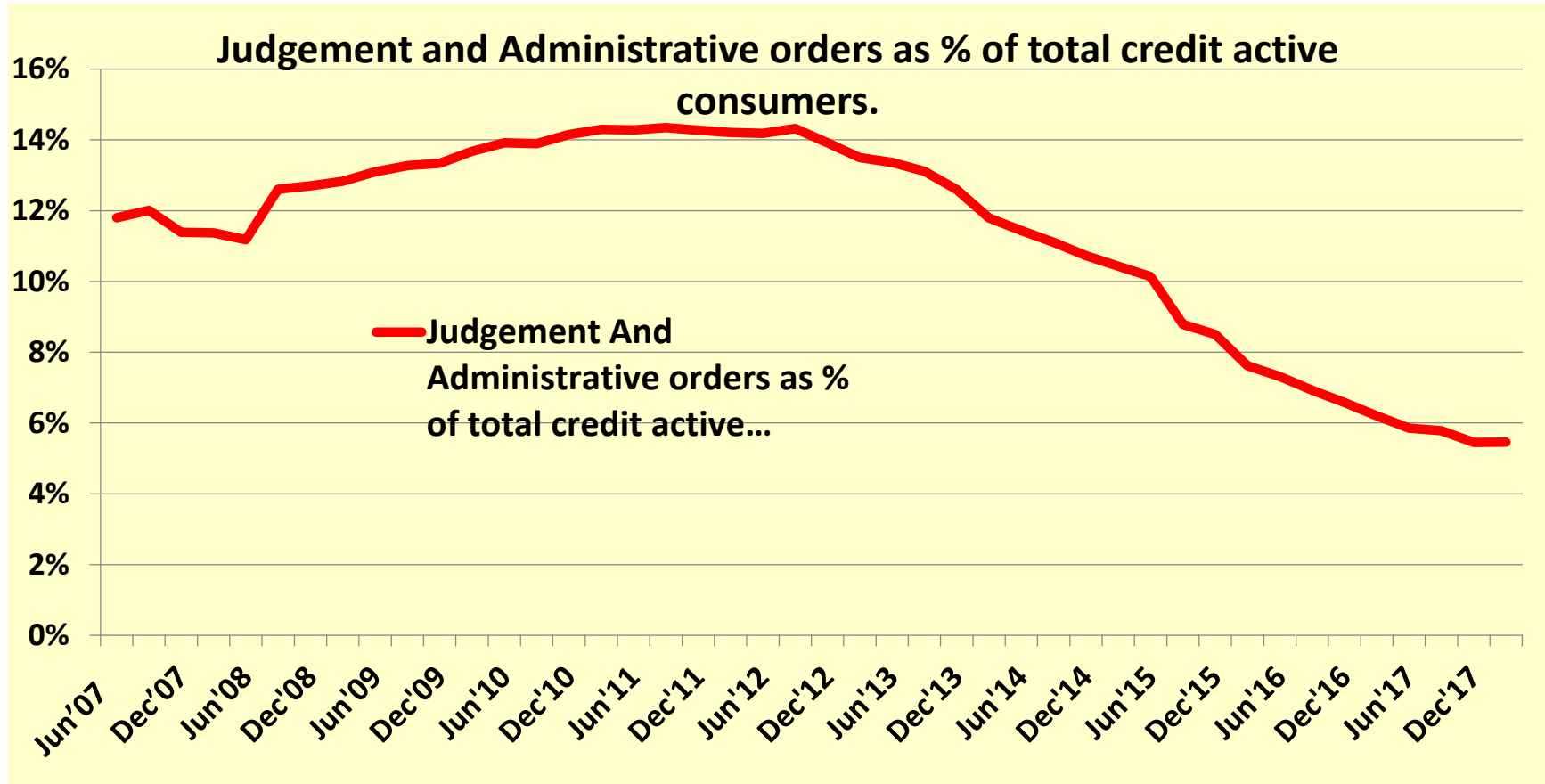
## South Africa, Non-Performing Loans, % of Total



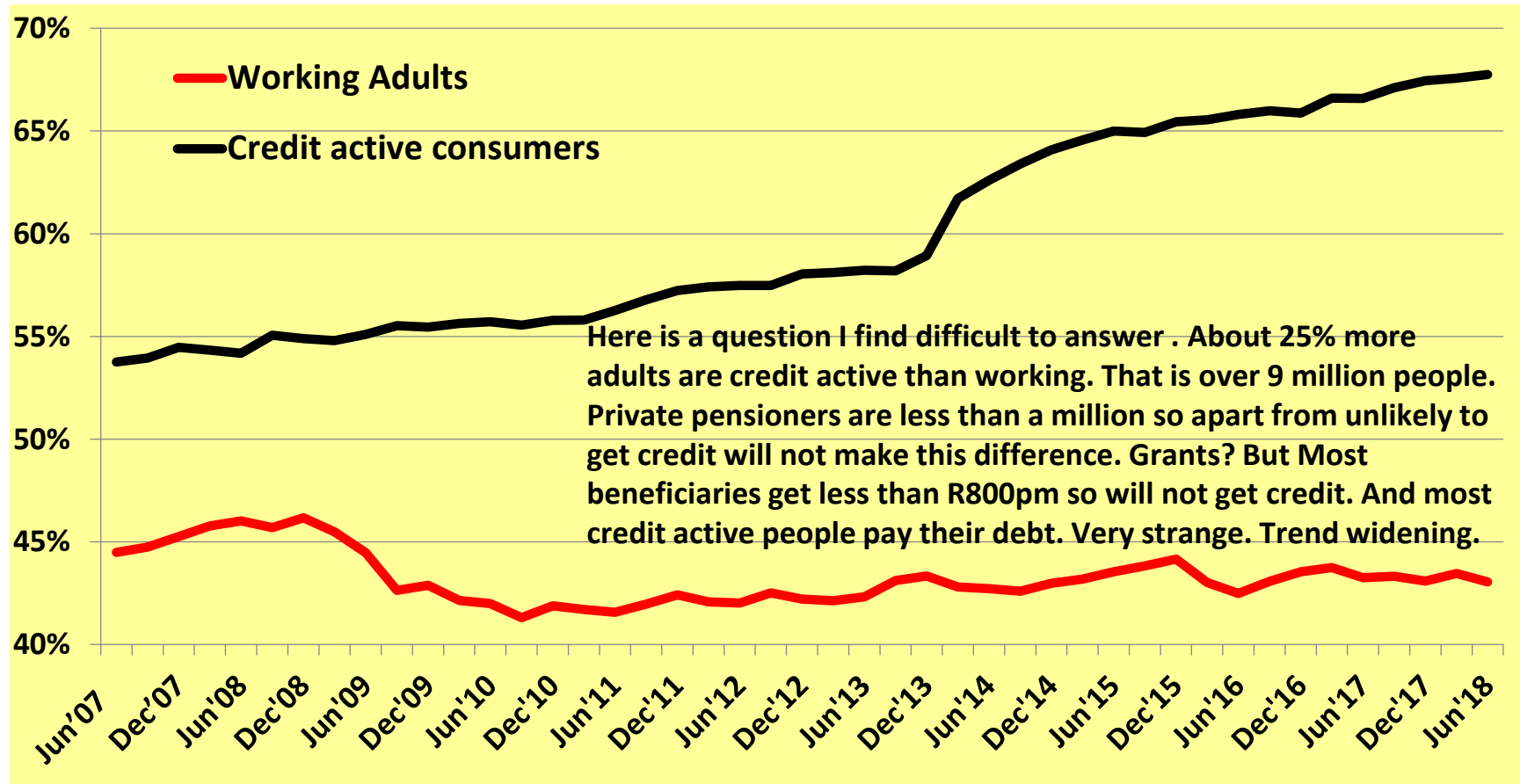
# Less problem loans - Debt Judgements & summonses. Still the lowest level since records began!



# Judgements and Administrative orders active as % of credit active consumers.

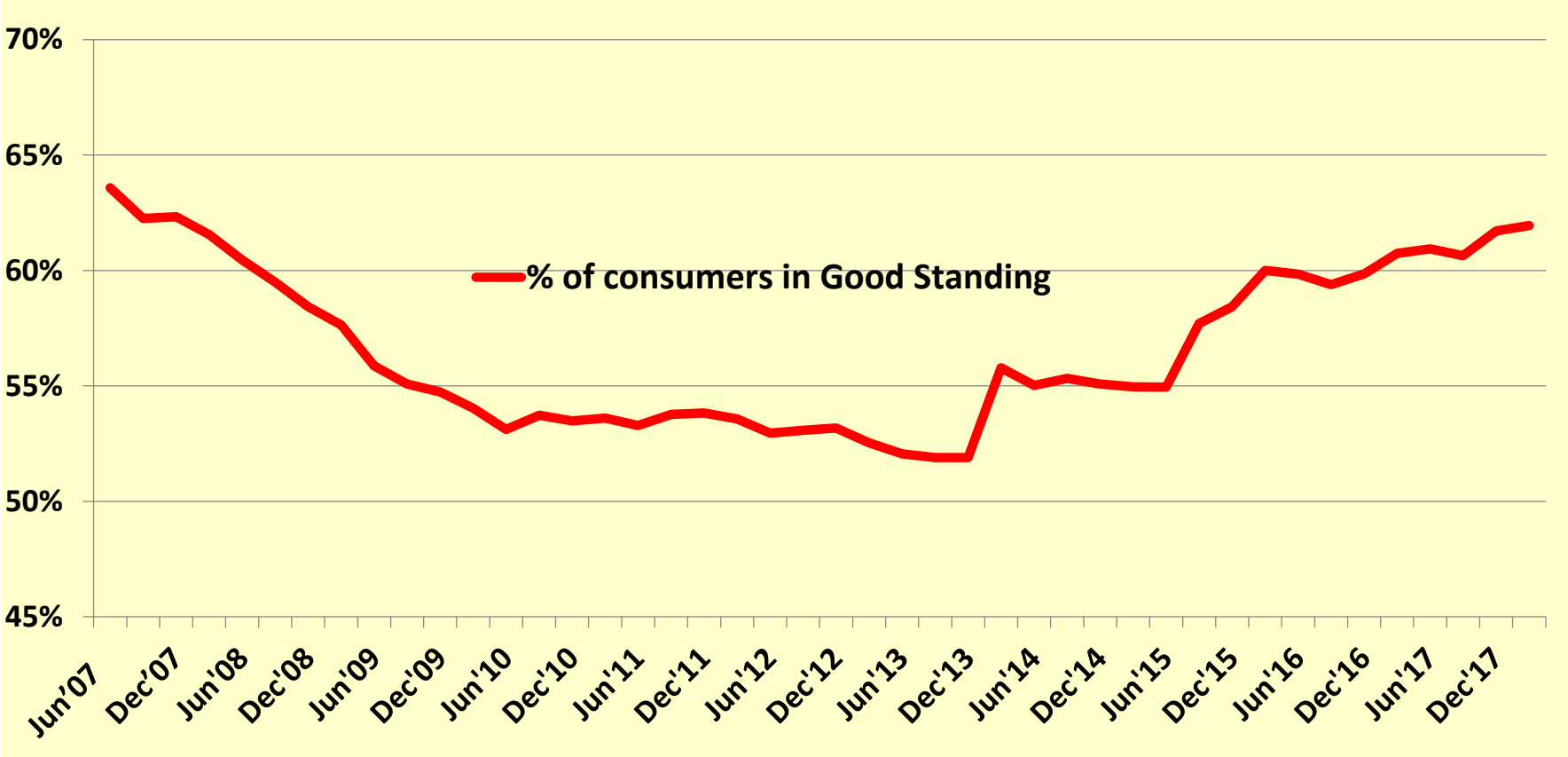


# More credit active consumers than adults employed

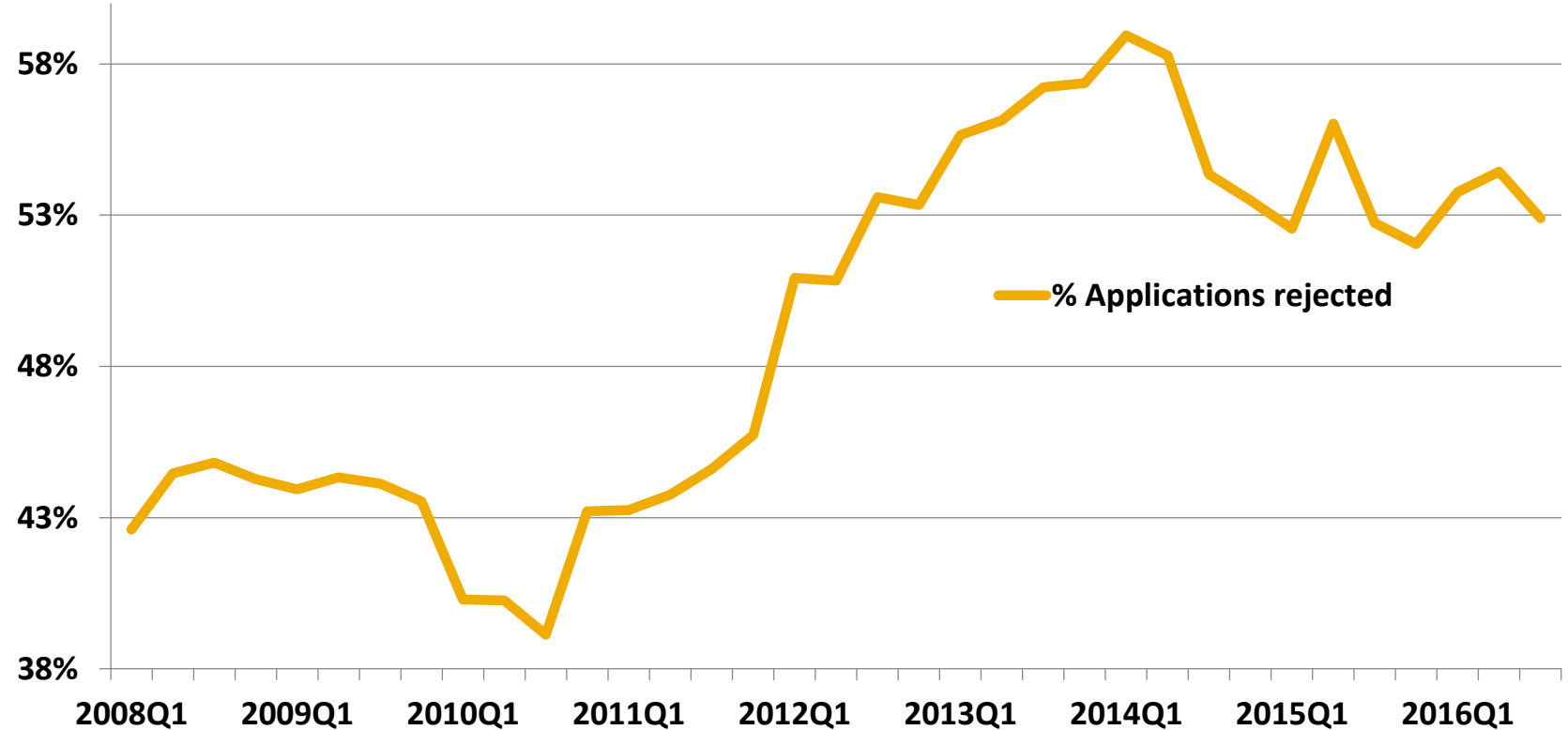


Here is a question I find difficult to answer . About 25% more adults are credit active than working. That is over 9 million people. Private pensioners are less than a million so apart from unlikely to get credit will not make this difference. Grants? But Most beneficiaries get less than R800pm so will not get credit. And most credit active people pay their debt. Very strange. Trend widening.

# Credit active consumers in good standing.



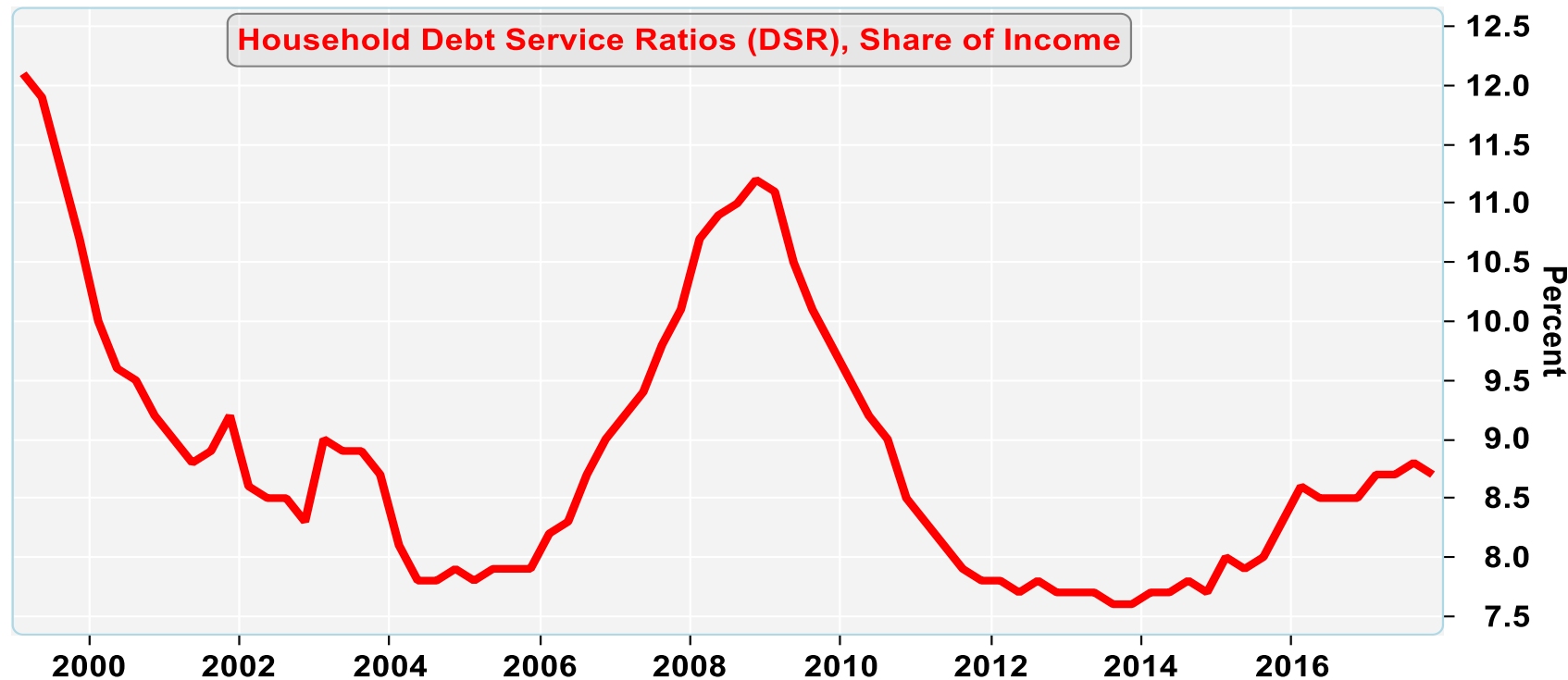
# Banks have become stricter with loan applications.



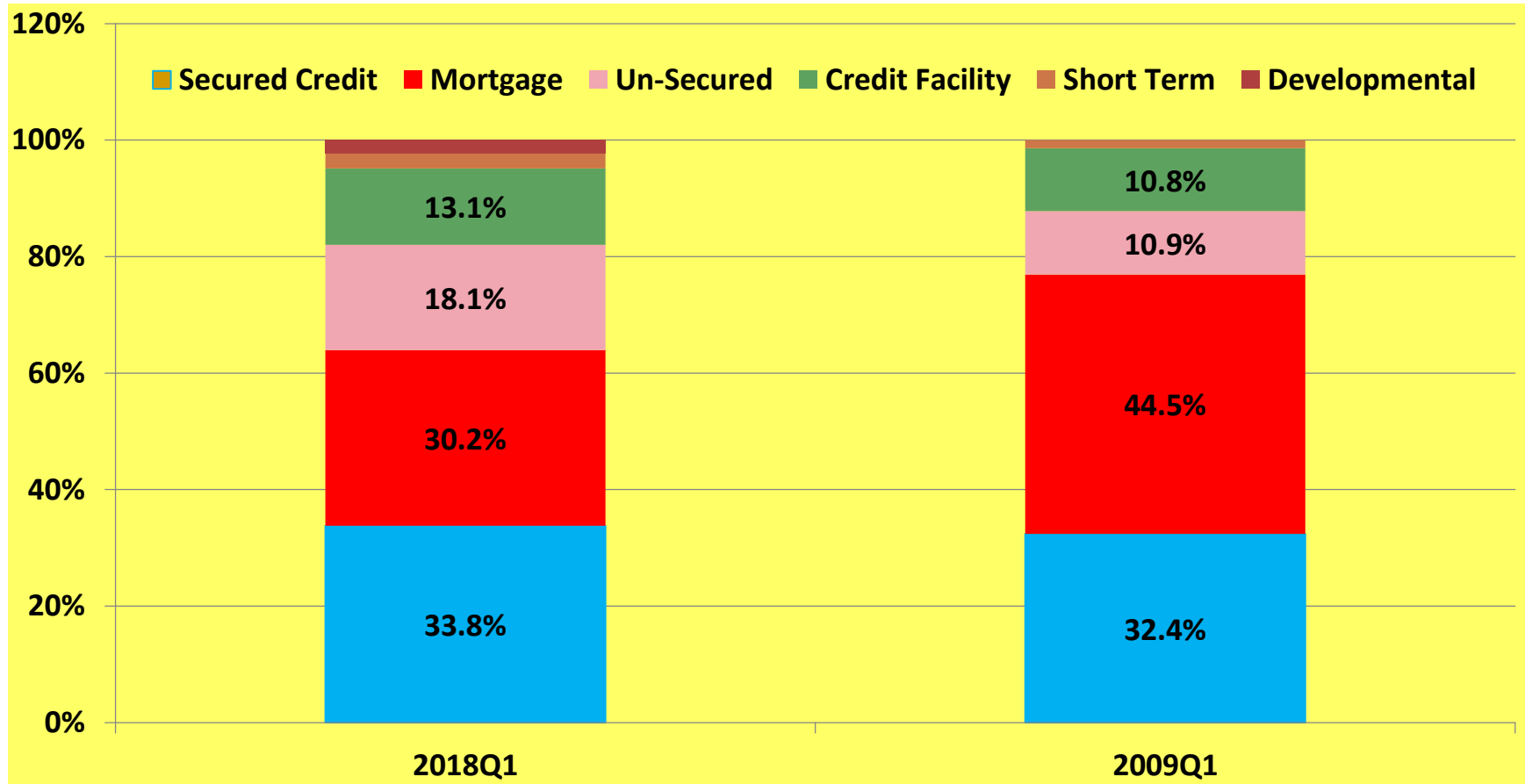
**Debt Service Ratio still high but being managed.  
We will see this decline as debt to income declines and rates decline.**



## Household Debt Service Ratios (DSR), Share of Income

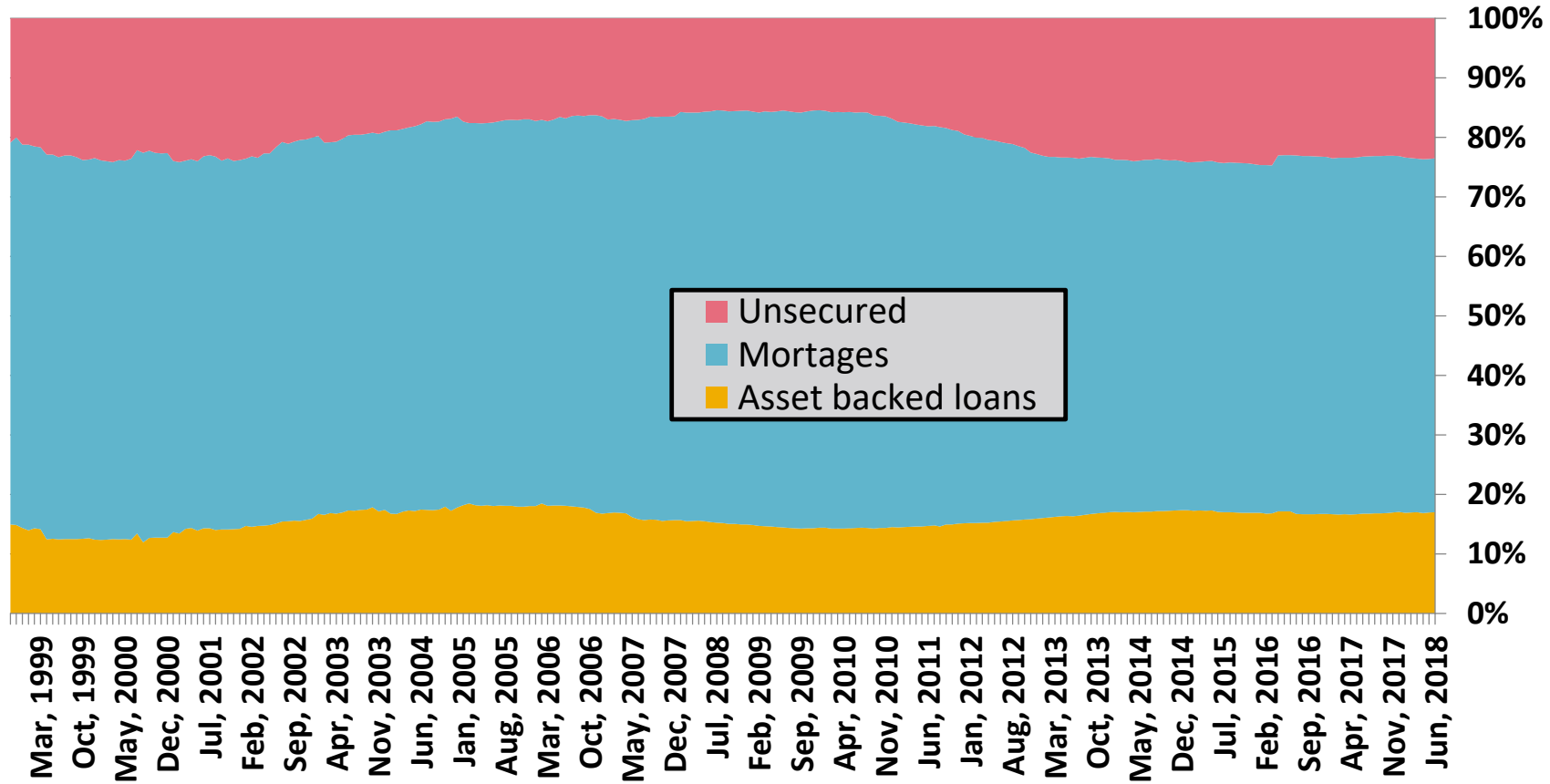


# The fall of Mortgage debt and rise of un-secured debt.

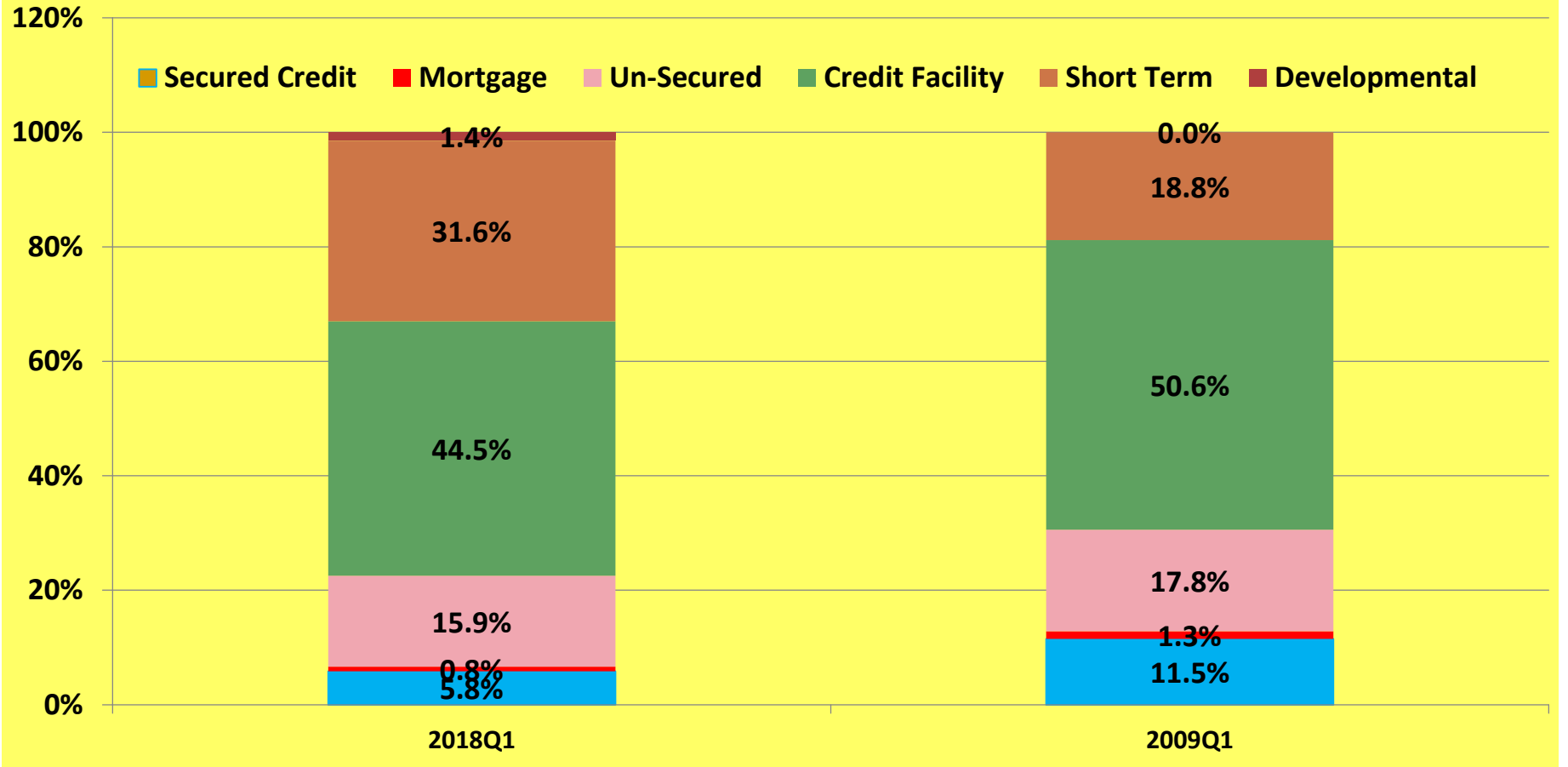




# Market share of Bank debt. Very different to overall debt granted.



# Market share by number of transactions. The increase in Short-term credit.

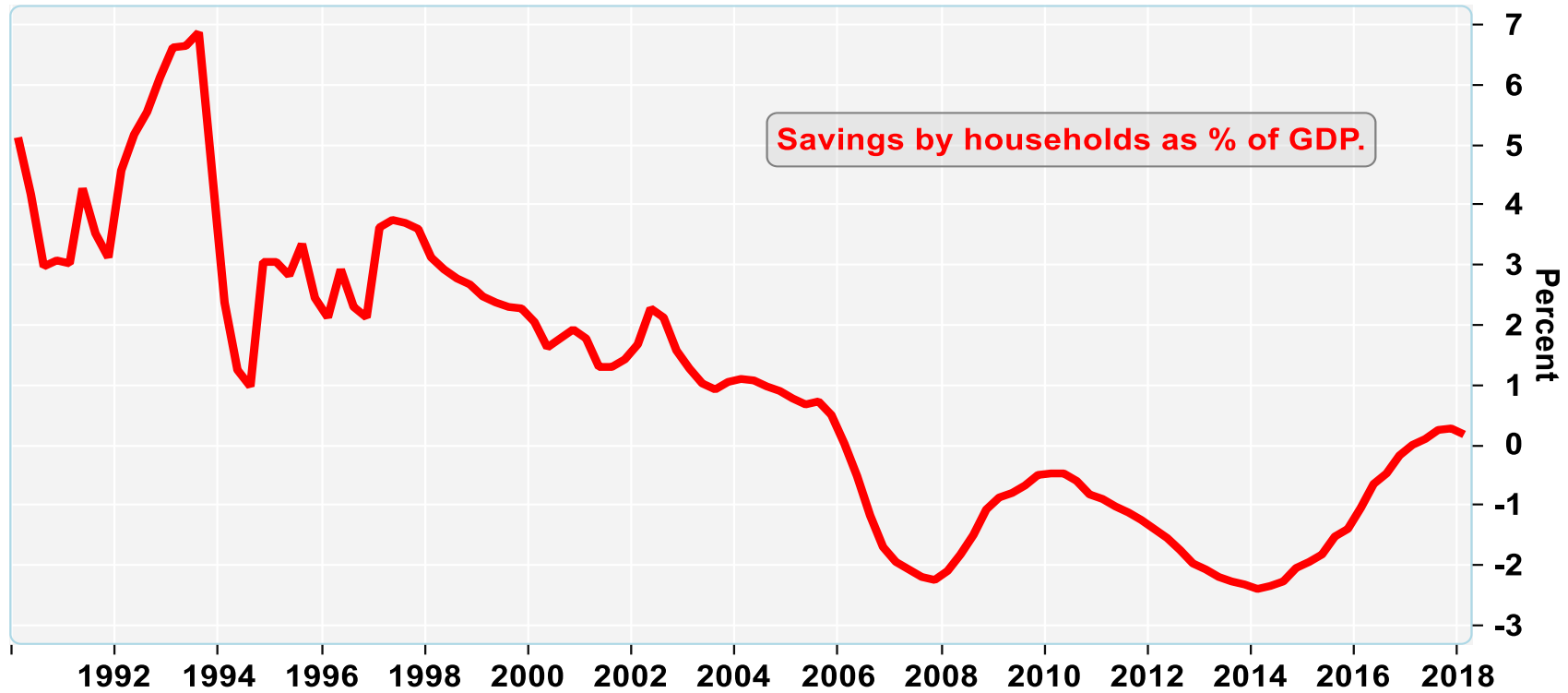


# Consumer savings and assets.

SA Assets are good and consumer debt is declining.  
Thought on Land; assets etc. Inequality of wealth.

# Problem is not much in traditional Savings

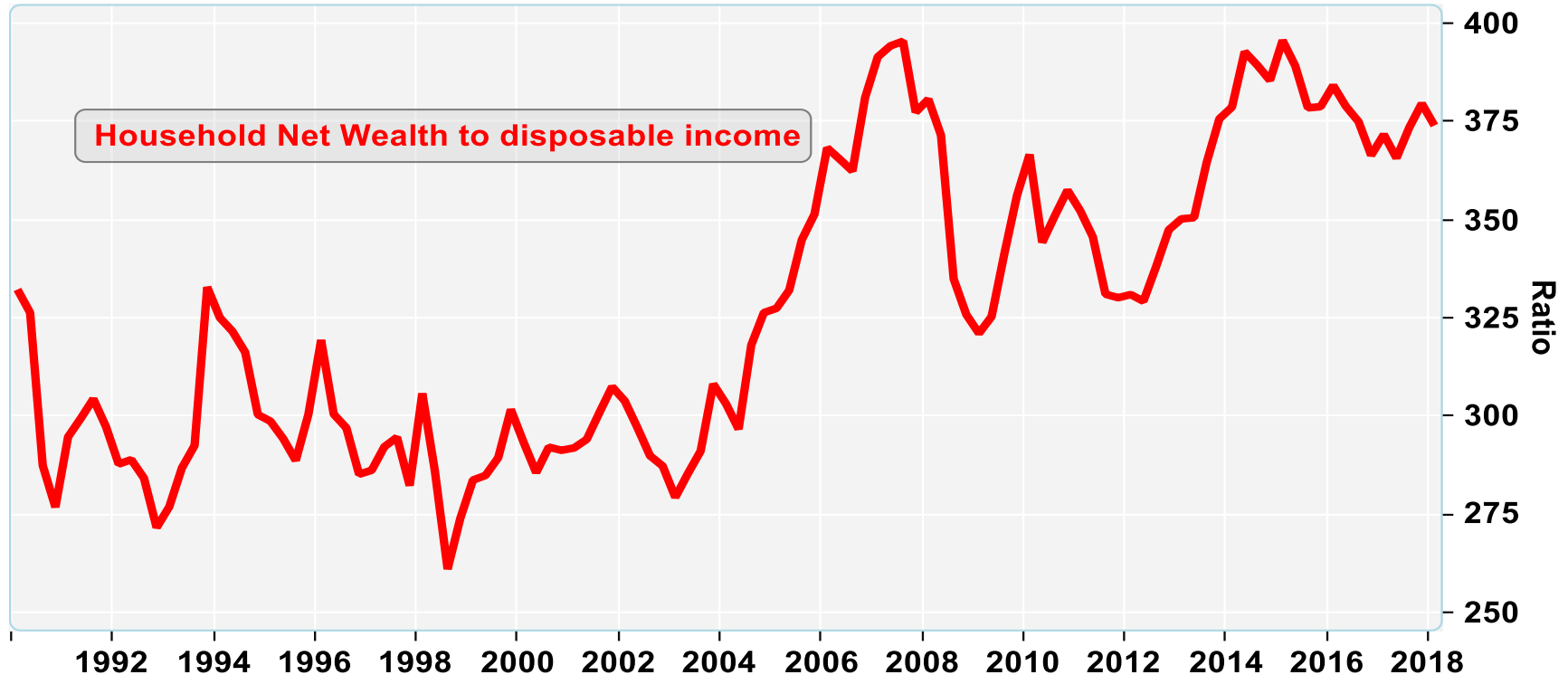
## Savings by households as % of GDP.



# SA net household wealth to disposable income. Despite downturn still high.



## Household Net Wealth to disposable income

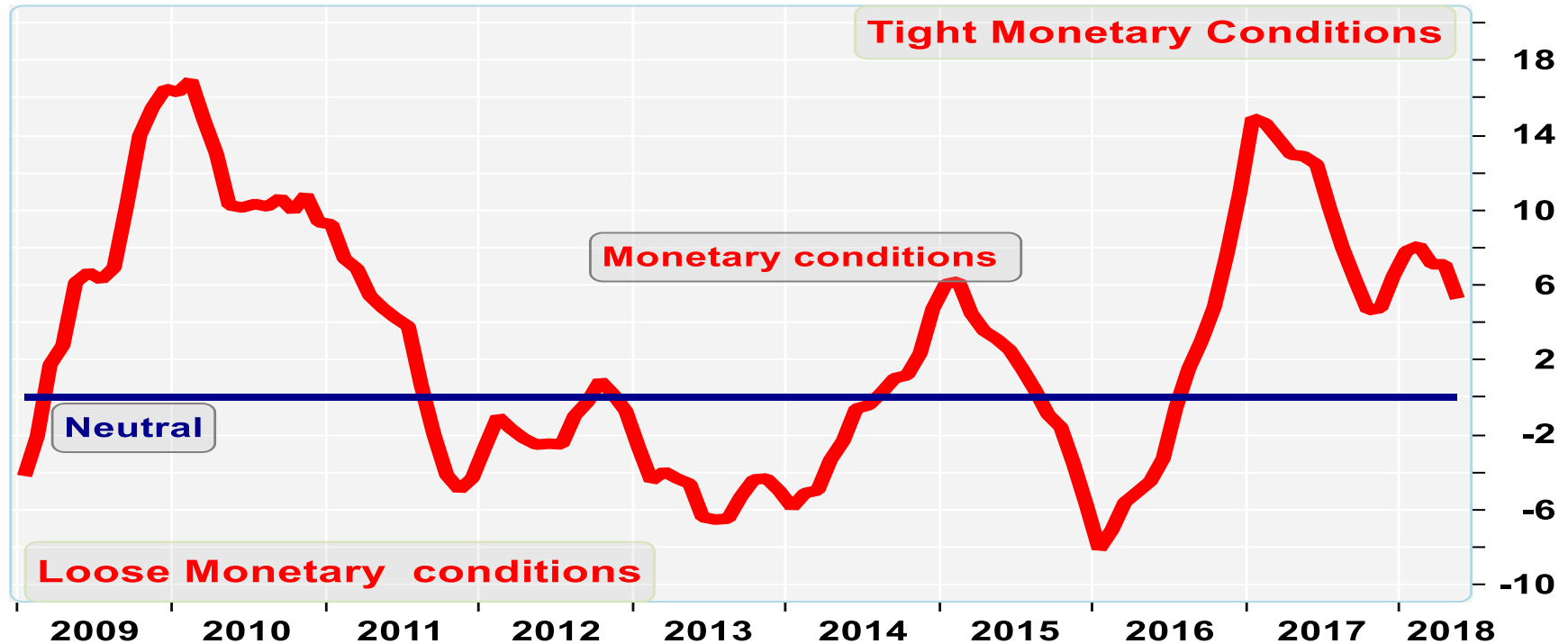


With Monetary conditions becoming tighter unlikely that household credit growth will be speed up quickly



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## Monetary conditions index



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# The Debt cycle summary

## (Still the same as 2017 presentation)



- The biggest decline of SA household debt in our recorded history.
- The recovery of the consumer is underway but will still take a little time.
  - Interest rates will have to decline a little more before there is a recover.
  - Consumer confidence and business confidence is key!!!
- The Debt counsellor system has helped a lot and we should know that.
  - Own success is sometimes not good for growth of industry but consolidation could help.
- We will see high levels of debt (88%) again but probably about a decade or more away.
- Short-term debt increase may also show some stress of consumer but also wary Banks are of housing Market. (New point)

# So what now?

Some quick predictions and thoughts on the economy future



# Summary for 2018



- World Growth best in three years.
  - Slowing down now?
- SA business is doing alright but would get more confidence and real positive action would ignite a barrage of investment.
- **SA consumer is better off** as she has Assets and lower debt
  - Bounce back could be very good.
- Inflation slowly moving up so rate changes on hold for say 18 months.
- Growth will be slower than expected OK for 2018 as VAT hike and confidence are stumbling blocks.
  - Despite VAT increase Inflation should average below 6%. (5,1% average)
- SOE delivery on efficient delivery will take time.

- **2019** SA may get to **2% growth** but due to Eskom & Rand; inflation will increase to around 5.5% - no rate relief; could be closer to 1,5%
- Consumer may start coming back near 2<sup>nd</sup> half of the year.
- **Unemployment** will increase to closer to 30% by end 2019 or early 2020.
- Many strikes and other protests to continue.
- Trade WAR????? China Debt Turkey etc.
  
- **2020** should see better growth but with a slower world economy SA may only get say 2,5% or so – but if no leadership after 2019 election then 1,8% is likely.
- Inflation should fall back so rate could start to decline say 50 to 100 basis points.
- **SA should be addressing more issues such as getting low hang fruit such as tourism.**
  - **SOE's should be performing better** but some like SAA may no longer be what they are today. Some cheapish loans may also help here.
- Local building blocks will be getting into place.
- Trade War???



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**It looks like the fruits of the past are still lingering. They will for a while.**

The disaster of the last decade will take time and effort to undo. It is not clear that SA will just get higher growth. But SA has some very hard & honest people working in all sectors and levels. We need to remain supportive of those and know that **crooks do not leave willingly.**