QUARTERLY CONSUMER OUTLOOK

Q3 2014 | August 2014

ANALYSIS

Dr. Azar Jammine

Ilse Fieldgate

Deon Fourie

Laura Campbell

DATA AND TECHNICAL SUPPORT

Tina Koziol

Monique Levine

MODELS & FORECASTING

Dr. Johannes Jordaan

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Macro Economic Overview[1]

Synopsis of global and domestic economic trends

Global highlights

- **Global economic growth** has continued at a reasonable pace through to the present. Persistence of record low interest rates has continued to provide support for the world economy. Global economic conditions on the whole appear more favourable than at any stage since the 2009 global recession, albeit moderately.
  This outlook is underpinned by the fact that recent evidence points to a more brisk recovery in the US in Q2.
- Nonetheless, there has been a slight reduction in growth in some emerging markets; together with the sharp reduction in US Q1 GDP growth due to weather-related factors, this has resulted in forecasts for global growth being revised downwards for 2014 to 3.4% (which is still an improvement from 3.2% in 2013). The acceleration in growth could continue through 2015 and 2016 on the back of the wealth effect of higher financial asset prices and ongoing low interest rates.
- However, the **downside risk factors** for a global recovery are the huge overhang of high levels of government debt in developed economies, combined with the certainty as to what impact a normalisation of interest rates globally back to positive levels in real terms will imply for global economic conditions.
- **Commodity prices** have generally not risen significantly in recent years, mainly as a result of relatively subdued demand for goods in the world economy. In emerging markets there appears to have been a cooling off in inflationary pressures. In particular, the lower oil price (having fallen back to around $105 per barrel) is helping to keep inflation of goods and services relatively subdued.
- The picture with regard to other commodity prices has been fairly mixed, with some declining and others increasing. Food commodity prices have fallen, while the price of gold, having fallen by -28% over the course of 2013, has more or less straddled the $1300 per oz. level in recent months. Fears of US interest rates rising sooner than expected has depressed the price of gold, while the prospect of improved global economic conditions should be supportive of an increase in demand inflation, which in turn supports higher gold prices.
- From a longer-term point of view, one cannot rule out the possibility of a steeper increase in commodity prices and inflation in the event that the build-up of global liquidity of the past few years finally translates into increased borrowing by consumers and businesses and lending by financial institutions.
- **Interest rates** around the world have remained at extremely low levels for the past five years - especially in the case of developed economies. Rates have been kept low in order to assist businesses and consumers to survive and recover from the global recession of 2008/09.
  Some emerging countries have raised interest rates recently to dampen inflationary pressures generated by currency depreciation last year, while others have reduced interest rates.
- A lessening of inflationary pressures over the course of this year has paved the way for a fairly benign interest rate environment, with the greatest threat being of the US raising interest rates sooner than previously anticipated.
  The US Fed's programme of quantitative easing has succeeded in part, but rather than being used to fund economic growth, the additional funds have also been used for investment into financial assets such as bonds and equities, whose prices have soared to new all-time highs. Aware of the potential longer-term damage to the US and global economy, the Fed has therefore been tapering QE over the course of this year.
  Tapering is likely to be completely exhausted by October, after which the key issue is the timing of when the Fed might decide to begin raising its key rate. Some have now suggested that the rate might be increased at the beginning of next year already.
- There is unease with regard to the state of **equity markets**. The bull trend has continued from March 2009 to the present, with prices on the New York Stock Exchange almost three times as high as they were at their low point. If global economic activity continues at a reasonable pace in the medium term, this will assist in perpetuating the bull run on equities even if minor corrections recur.
- The **foreign exchange** environment has been relatively stable over the past six months. The Dollar/Euro exchange rate is back to where it was at the beginning of the year, having weakened until midyear, and then rallied back to around $1.34 at present. Gradual tapering of QE has been supportive of a stronger Dollar as it has meant that the rate of increase in the supply of Dollars would slow.

[1] *Analysis by Dr Azar Jammine and Ilse Fieldgate; economic forecast models by Dr Johannes Jordaan*

Domestic highlights

- The SA economy has weakened in 2013 and 2014 in the face of the decline in business confidence resulting from disruptions caused by an escalation of industrial action, especially in the mining and manufacturing sectors – as a result **growth** forecasts have been revised downwards. The platinum mining strike was undoubtedly the major contributor towards the slump in the q/q seasonally adjusted GDP growth rate for Q1 2014, which declined to negative levels for the first time since the recession of 2008/09, viz. -0.6%.
- SA's long-term the level of growth has proved woefully insufficient to prevent the unemployment rate from increasing. The official unemployment rate rose in each of the first two quarters of this year and employment growth has been virtually static for the last six years.
- Even though the South African economy is unlikely to end up in recession, there are huge structural impediments to any marked improvement in growth for a long time to come. The main structural weaknesses that contribute towards the underperformance of SA's economy in relation to the rest of the world are the proliferation of strike activity, the security of electricity supply, and the growing recognition of the poor level of skills and education outcomes.
- Even though economic prospects are not very bright, they are not completely disastrous either. Some positive growth is likely to have been recorded in Q2. Growth in 2015 is bound to see some improvement compared with 2014 as one will be comparing against a very low base of performance for 2014, driven by the high incidence of industrial action. However, should the latter persist beyond this year, then even the hopes of growth getting back to a 2.5%-3.5% range in coming years, would be dashed.
- Growth in **fixed investment**, especially in machinery and equipment, remains positive, but subdued in the face of a reluctance on the part of business to invest more than is needed purely for replacement purposes. Growth in public sector investment remains positive but fairly pedestrian, which is disappointing because government has kept reiterating its intention to drive growth through large-scale infrastructural investment spending.
- The reasons for the gradual decline in **consumption** over the past 18 months are: a sharp reduction in the growth of unsecured loans to middle and lower income households; rising inflation (especially food and petrol) over the past year has eroded disposable income; and the negative impact of the prolonged platinum mining strike and the metals industry strike, which meant that workers have not received wages to sustain spending patterns.

  The downturn in consumer spending growth has been particularly sharp in respect of the consumption of durable goods.

  However, there are still some positive influences preventing consumer spending from slowing unduly: real interest rates remain negative, preventing the debt-servicing burden on consumers from rising too far; the growth of a slightly more affluent middle-class; and greater laxity in enforcing repayment terms on debt as a result of the National Credit Act.
- The CPI **inflation** rate has risen to its highest level in five years in May and June, and is now well in excess of the 3%-6% inflation target. One of the main factors driving the increase has been the substantial depreciation of the Rand. However, expected declines in food and petrol inflation (as a result of the moderation in the Rand depreciation) could contribute towards the inflation rate declining back to the 6% upper end of the inflation target by the end of Q3. The underlying reason as to why inflation is not racing ahead is because the economy remains significantly weak and growth in credit demand and money supply is low. Consequently, businesses are just not able to increase prices in such a way as to exert upward pressure on inflation. Countering these reasons for expecting receding inflation, are fears of rising electricity inflation and aggressive wage increases.
- If SARB is to be believed about its concerns regarding further intensification of inflation and the fact that we are in a rising interest rate cycle, then one can expect further interest rate hikes in the medium term. In all probability the Bank will decide to raise the repo rate by a further 0.25% either at the September or November MPC meetings. In turn, these are likely to be followed by additional quarter point increases through 2015, especially if domestic economic growth recovers moderately, as anticipated.
- The Rand has been recovering and stabilising. Notwithstanding the fact that the Rand has held its own against other currencies over the course of this year, it remains more vulnerable to depreciation than most other emerging market currencies as the economy is still running a substantial current account deficit. However, even though the Rand is vulnerable to significant renewed downward pressure, the likelihood of a renewed free-fall of the kind seen in 1998, 2001 and 2008 is small. This is because the mood towards emerging markets has changed considerably over the past decade. The three-year rising trading channel of the Dollar vis-à-vis the Rand, is likely to remain intact. **The Rand is likely to sustain a depreciating trend** in the face of the large current account deficit, but at the same time should not depreciate too far in a short space of time.

South African Economic Growth

Overview

- The South African economy has weakened perceptibly in 2013 and 2014 in the face of the decline in business confidence resulting from disruptions caused by an escalation of industrial action, especially in the mining and manufacturing sectors. Downward revisions of forecasts for growth have been the order of the day, be it by Treasury, the Reserve Bank, the IMF and other multilateral institutions, or private sector economic analysts.
- Part of the reason for the decline in South Africa's economic growth performance in recent years and the downward revisions of forecasts is the progressive downward revision of growth forecasts for the world economy. However, within this, a growing relative underperformance of the South African economy is in evidence from a comparison of the magnitude of the downward revisions of global growth forecasts and those for South Africa.
- For example, taking April 2011 as a base, the IMF at that time forecast economic growth for the world economy for the years 2014, 2015 and 2016 at 4.6%, 4.7% and 4.7% respectively. Such forecasts have been revised downwards significantly since then, to 3.4%, 3.9% and 4.0%, i.e. downward revisions of -1.2%, -0.8% and -0.7% respectively.
- The corresponding forecast growth rates for South Africa have been revised downwards over this three-year period, from 4.4%, 4.5% and 5.4% respectively, to 1.7%, 2.7% and 3.2%, representing downward revisions of -2.8%, -1.9% and -2.2% for each of the next three years. In other words, the downward revisions of growth for the South African economy have been between two and three times as great as those pertaining to the world economy.
- The inference is that even though greater pessimism regarding the global economy generally may have been responsible for some of the increased pessimism relating to the South African economy, it is domestic factors which have been relatively more important in influencing such downward revisions.
- There are a host of structural weaknesses contributing towards the relative and growing underperformance of South Africa's economy in relation to the rest of the world. The underperformance has been especially stark in relation to the extremely positive growth being achieved and predicted to continue for the sub-
- Saharan African continent as a whole. Although South Africa benefits to some extent from the high growth in the rest of Africa, via the boost this gives to exports, there are arguably many structural factors holding back the domestic economy from emulating its peers to the North.
- The most important from a short-term perspective has been the proliferation of strike activity, which really gathered momentum in the aftermath of the Marikana tragedy in August 2012.
- There were a number of serious strikes in the mining sector which followed that year. Then in Q3 2013, there were a series of strikes in the motor assembly industry, followed by one in the motor components industry and finally another one in the logistics industry.
- There were also strikes in the fuel and aviation industries. In retrospect, these strikes pale in comparison with the seriousness of the two major strikes experienced in 2014, the first in the platinum mining industry which lasted five months, from late January to June and the second in the metals industry which spanned the whole of July.
- Whilst all these strikes have been principally and ostensibly about securing higher wage increases, there appear to have been four main underlying contributing factors to the escalation of strike activity.
- Firstly, the explosive growth of micro-lending focused on the working class, especially in the mining sector, between 2010 and 2012, entailed a debilitating compounding effect of exceptionally high interest rates on the indebtedness of the borrowers. The result was that many workers have struggled to meet their debt servicing commitments. Consequently, they desperately needed big wage increases to try and assist in their repayments.
- Secondly, the past two years have seen a substantial build-up of rivalry between trade unions vying for increased membership by outdoing one another with aggressive wage demands. Some of this rivalry has also been politically

motivated with the formation of working groups challenging the policies being adopted by the tripartite Alliance which has seen resentment by Cosatu union affiliates in having to toe the ANC party line.

- Thirdly, a growing awareness of the huge gap that has developed between the remuneration of the working class and that of corporate executives has egged workers on to secure the kind of wage increases that might begin to make a dent in this gap.
- Finally, linked to the sense of objection to growing inequality, one senses a growing worker revolt against the nature of the capitalist system in South Africa and the existing economic order. The latter is seen still to be dominated by "White" capital, a legacy from the apartheid era.

GDP by sector

- GDP growth in the trade sector stayed unchanged at 2.2% y/y in Q1 2014, from 2.2% in Q4 2013. Although y/y growth in the trade sector remained unchanged, it could be noted that wholesale, retail and motor vehicle trade increased at a slower pace in Q1 2014. This was due to higher prices in response to the depreciation in the Rand exchange rate, sustained high levels of consumer indebtedness, rising transport costs, weak employment growth and the 0.5% interest rate hike in January. Growth in retail, wholesale and vehicle sales are expected to moderate in coming months due to a rise in electricity tariffs in July, high inflation, increased pressure on the disposable incomes of consumers and expected interest rate hikes later this year. However, growth is not expected to decline sharply over the remainder of the year and into negative territory since interest rates remain close to 40-year lows. On the other hand, demand for tourist accommodation rose in Q1 2014 as a result of an increase in foreign visitors to South Africa benefiting from the weaker Rand. The tourism sector is expected to remain one of the more positive contributors to economic growth in 2014.

Table 1: Growth rate in % (y/y, real) in Total GDP and GDP for wholesale and retail trade, catering and accommodation

	Q1 2013	Q2 2013	Q3 2013	Q4 2013	2013
Total GDP					
Trade GDP					
	Q1 2014 (f)	**Q2 2014 (f)**	**Q3 2014 (f)**	**Q4 2014 (f)**	**2014 (f)**
Total GDP					
Trade GDP					

Source: SARB, Econometrix

Chart 1: World GDP vs. SA GDP

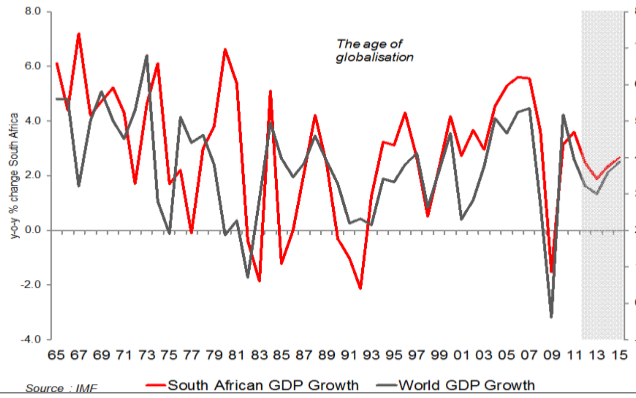


Chart 2: SA GDP growth (seasonally adjusted annual rates)

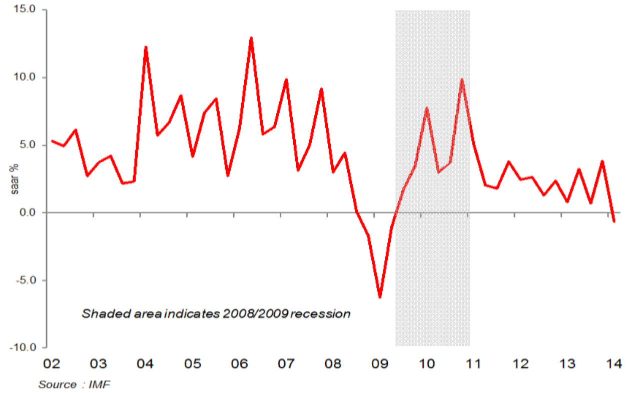


Chart 3: SA GDP growth vs. Sub-Saharan Africa and advanced economies

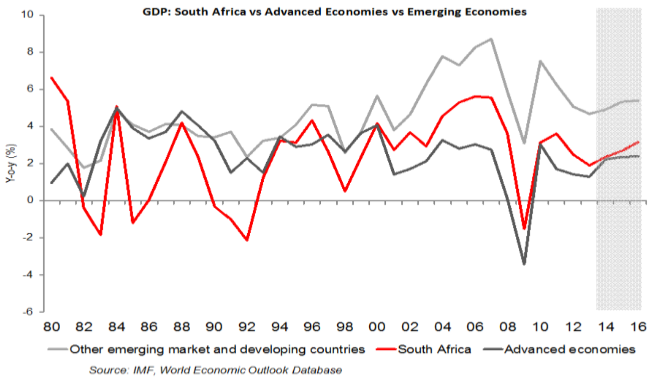


Chart 4: SA GDP growth vs. Sub-Saharan Africa and other emerging and developing economies

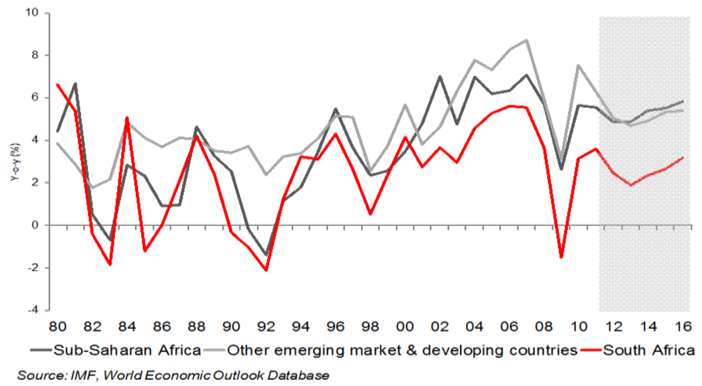


Chart 5: Growth (q/q saar) of GDP sectors: Q1 2014

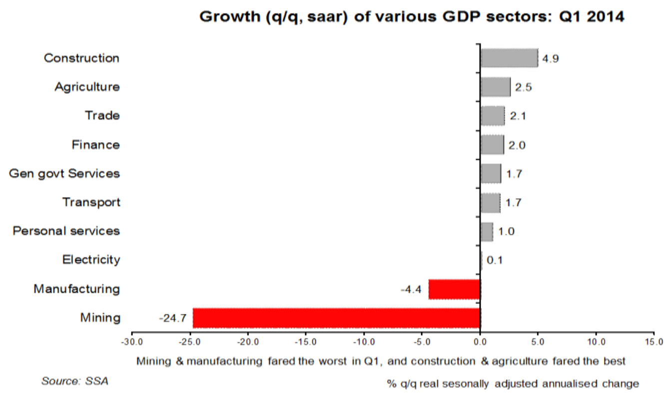


Chart 6: SA leading indicator

Chart 7: GDP y/y real growth – wholesale and retail trade, catering and accommodation

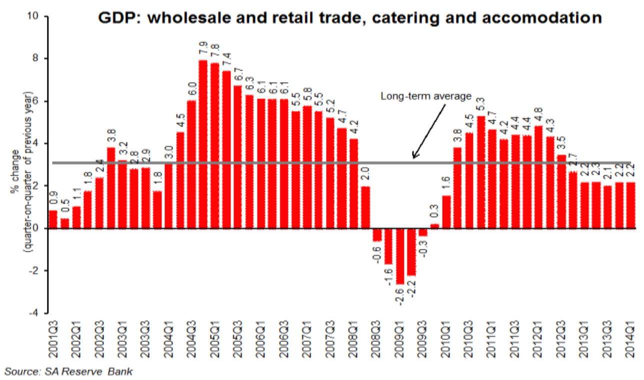
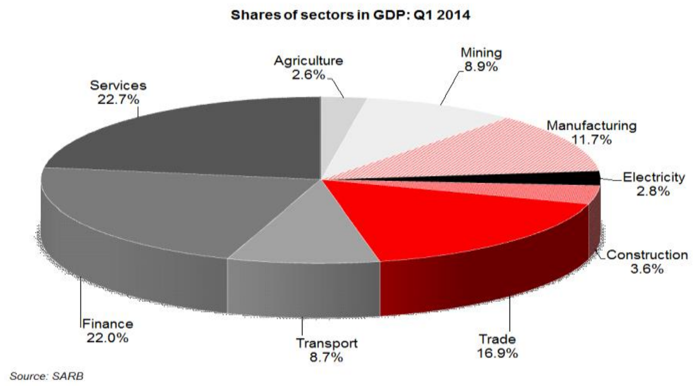
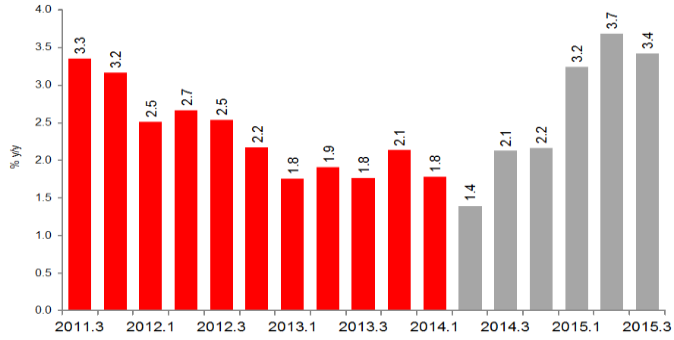


Chart 8: Shares of sectors in total GDP: Q1 2014



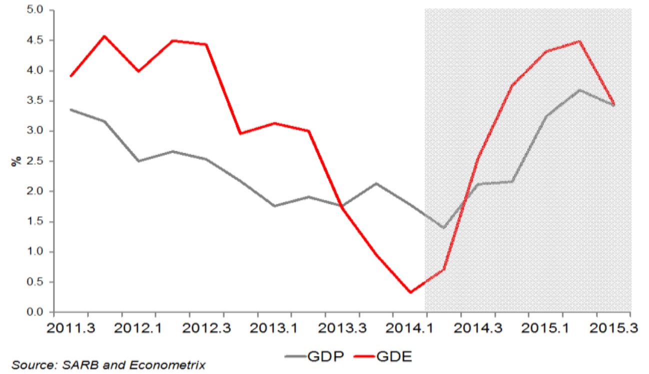
South African Economic Growth – Outlook

Chart 9: GDP growth forecast (real, y/y rates)



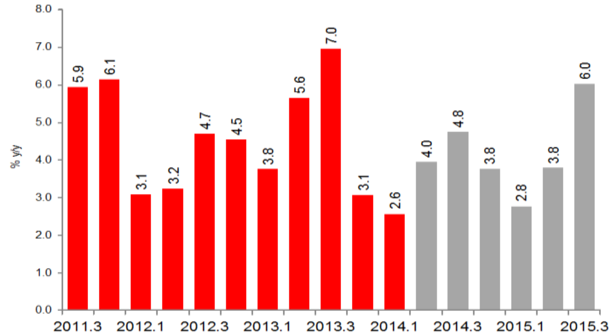
Source: SARB and Econometrix

Chart 10: GDP and GDE growth forecast (real, y/y rates)



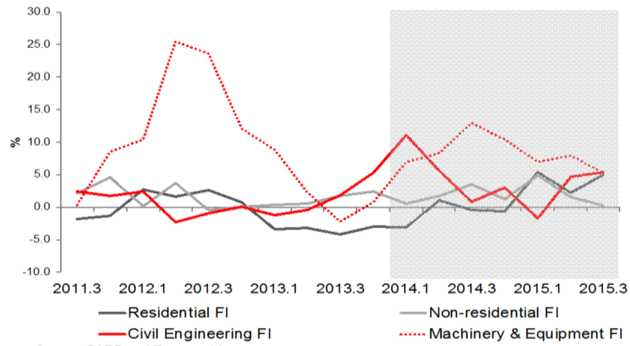
Source: SARB and Econometrix

Chart 11: Fixed investment growth forecast (real, y/y rates)



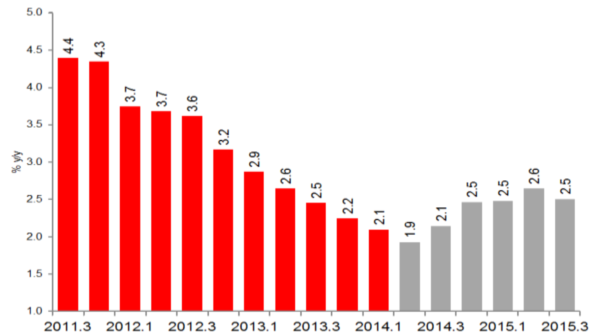
Source: SARB and Econometrix

Chart 12: Components of investment expenditure growth forecast (real, y/y rates)



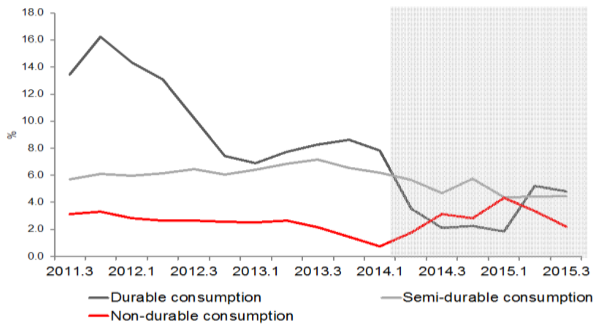
Source: SARB and Econometrix

Chart 13: Household consumption expenditure growth forecast (real, y/y rates)



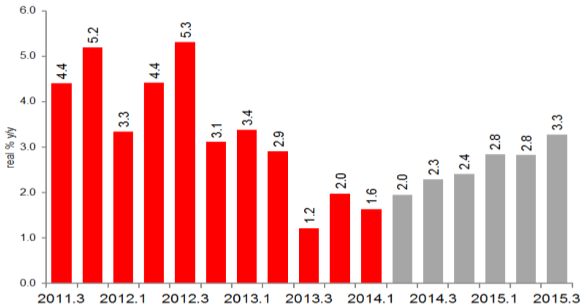
Source: SARB and Econometrix

Chart 14: Components of household consumption expenditure growth forecast (real, y/y rates)



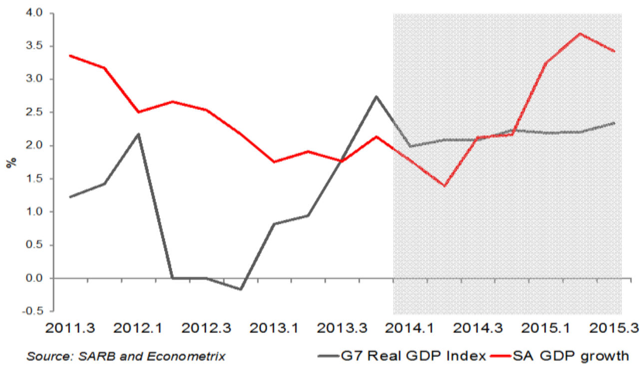
Source: SARB and Econometrix

Chart 15: Government consumption expenditure growth forecast (real, y/y rates)



Source: SARB and Econometrix

Chart 16: G7 GDP vs. SA GDP growth forecast



Source: SARB and Econometrix

Key Macro-economic Indicators - Historical Data

	2013Q1	2013Q2	2013Q3	2013Q4	2013	2014Q1
Exchange Rates						
Dollar/Euro						
Rand/Dollar						
Rand/Euro						
Rand/Pound						
Yen/Rand						
Inflation & Interest Rates						
CPI Overall (Headline) (y/y %)						
CPI Food (y/y %)						
CPI Core (ex F& B, P, E) (y/y %)						
PPI Overall (y/y %)						
Prime Overdraft						
3 Month NCD						
3-5 Year Gilt (R157)						
GDE (y/y %)						
GDP (y/y %)						
Private Consumption (y/y %)						
Durables						
Semi-Durables						
Non-Durables						
Services						
Govt. Consumption (y/y %)						
Fixed Capital Formation (y/y %)						
Residential						
Non-Residential						
Civil Engineering						
Machinery & equipment						
Transport Equipment						
Government						
Exports (y/y %)						
Imports (y/y %)						
Balance On C/A (As % Of GDP)						
Gold Price ($/Oz)						

Source: SARB

Key Macro-economic Indicators - Forecasts

	2014Q2	2014Q3	2014Q4	2014	2015Q1	2015Q2
Exchange Rates						
Dollar/Euro						
Rand/Dollar						
Rand/Euro						
Rand/Pound						
Yen/Rand						
Inflation & Interest Rates						
CPI Overall (Headline) (y/y %)						
CPI Food (y/y %)						
CPI Core (y/y, %)						
PPI Overall (y/y, %)						
Prime Overdraft						
3 Month NCD						
3-5 Year Gilt (R157)						
GDE (y/y %)						
GDP (y/y %)						
Private Consumption (y/y %)						
Durables						
Semi-Durables						
Non-Durables						
Services						
Govt. Consumption (y/y %)						
Fixed Capital Formation (y/y %)						
Residential						
Non-Residential						
Civil Engineering						
Machinery & equipment						
Transport Equipment						
Government						
Exports (y/y %)						
Imports (y/y %)						
Balance On C/A (As % Of GDP)						
Gold Price ($/Oz)						

Source: SARB, Econometrix

Household Consumption Expenditure

Overview

- On the consumption **side**, the gradual slowdown that has been in evidence in the past year and a half has continued through to the present. There has been a sharp reduction in the **growth of unsecured loans** to middle and lower income households as a result of the increase in the impairment of consumer loans. Increased bad debts from such loans were a logical outcome of the extraordinarily rapid growth experienced in the rollout of such loans between 2010 and 2012.
- In addition, the inflation rate has risen over the past year in the wake of the sharp depreciation of the Rand in 2013. This has eroded **disposable income**, especially with food and petrol inflation, two staple items in most consumers' spending baskets rising by more than the overall inflation rate. However, probably the most powerful negative influence on consumer spending in the recent past has been the impact of the prolonged platinum mining strike, followed by the strike in the metals industry. The strikes have meant that workers involved have not received wages and have therefore not been able to sustain their spending patterns. Secondly, the strikes have damaged businesses in the mining sector as well as the industries that supply the mining sector.
- The knock-on effect in terms of less spending by those employed on a short time basis in those businesses will also have damaged their ability to spend. Concerns about the security of employment of persons in the industries related to the mining sector and in the build-up to the metals industry strike which followed, have undoubtedly exerted an element of caution with regard to maintenance of existing spending patterns.
- The downturn in consumer spending growth has been particularly sharp in respect of the **consumption of durable goods**. It was this segment of consumer spending which had been the most buoyant during the period of strong growth in spending between 2010 and 2012, which was driven largely by the ready access to unsecured loans. It followed that this was the area of spending which was most affected by the rise of impairments and the resultant slowdown in the availability of such loans.
- Growth in **real final consumption expenditure** by households continued to decelerate for the 13th consecutive quarter (since Q4 2010) to 2.1% y/y in Q1 2014, from 2.2% in Q4 2013. This was the lowest growth rate in personal consumption expenditure since the Great Recession of 2009.
- Some encouragement can be drawn from the fact that the ratio of household debt to disposable income declined in Q1 2014, for the third consecutive quarter, to 74.5% from 75% in Q4 2013. However, this is still a fairly high ratio in relation to levels of between 50% and 55% of disposable income which prevailed in the first half of the last decade.
- Under the circumstances, it is difficult to see a credit-led boom helping to boost overall economic growth in the medium term. More encouragingly, linked to the decline in indebtedness, gross savings picked up in Q1 to 14.6% of GDP, its highest level in two years. In the midst of turmoil in the mining industry, it is clear that individuals and businesses have become more cautious in spending and have instead begun to show distinct signs of saving more.
- After having increased in Q4 2013, y/y growth in **real wages** declined once again in Q1 2014 to just 1.3%, from 3.1% in Q4 2013. This ties in with the decline of growth in real wages witnessed on an annual basis since 2011. Y/y growth in real wages declined to 2.9% in 2013, down from 5.1% and 3.1% in 2011 and 2012, respectively. Nominal wage growth moderated in Q1 2014 for the third consecutive month, to 7.2%, from 8.5% in Q4 2013.
- Despite instances of adversarial industrial relations, average wage settlements in Q1 2014 remained at levels just below 8%. The SARB Quarterly Bulletin notes that the moderation in real wage growth was mainly evident in salaries and wages paid by the private sector, particularly in manufacturing; wholesale and retail trade, catering and accommodation; transport storage and communication and social and personal services.

Outlook

Table 2: Growth rate (y/y %, real) in Total Consumption Expenditure

	2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	2013	Q1 2014	Q2 2014 (f)	Q3 2014 (f)	Q4 2014 (f)	2014 (f)
Total											
Non-durable											
Semi-durable											
Durable											
Services											

Source: SARB, Econometrix

See page 50 for detailed forecast.

Chart 17: Household consumption expenditure growth

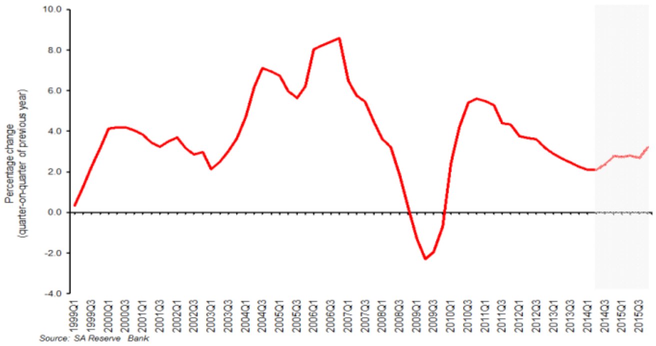


Chart 18: Household consumption expenditure (real growth) by category

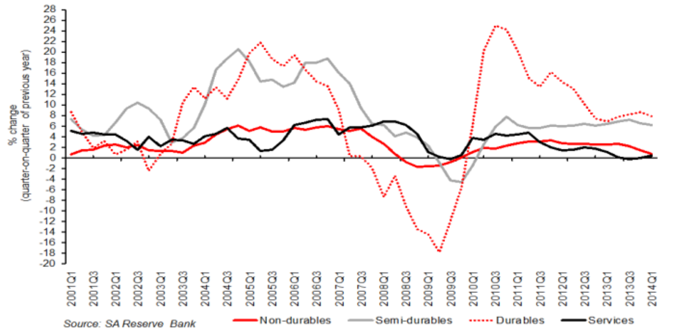


Chart 19: Non-durable real household consumption expenditure (real growth)

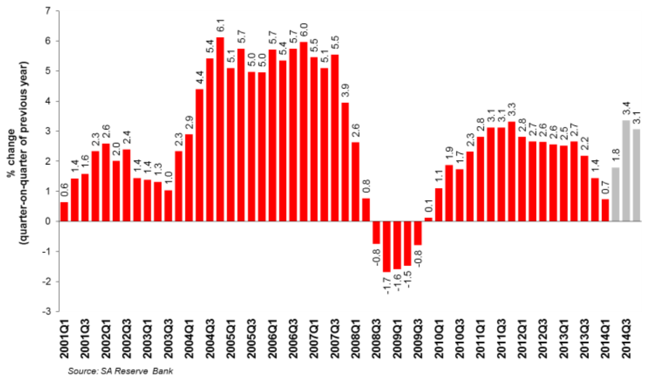


Chart 20: Share of non-durable in total household consumption expenditure

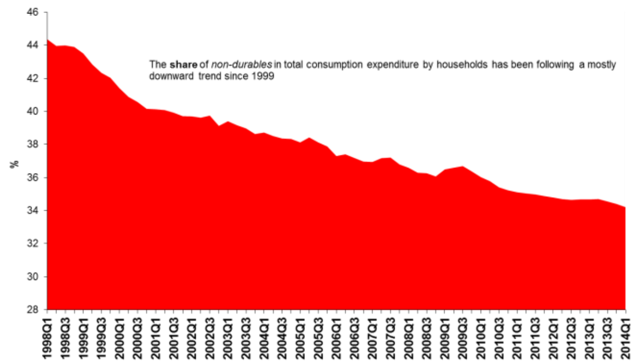


Chart 21: Semi-durable household consumption expenditure (real growth)

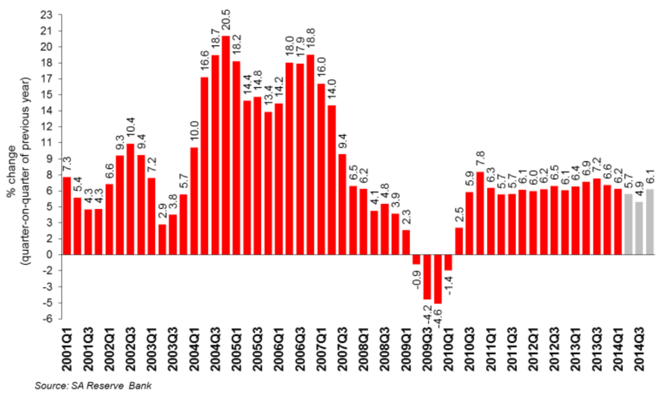


Chart 22: Share of semi-durable goods in total household consumption expenditure

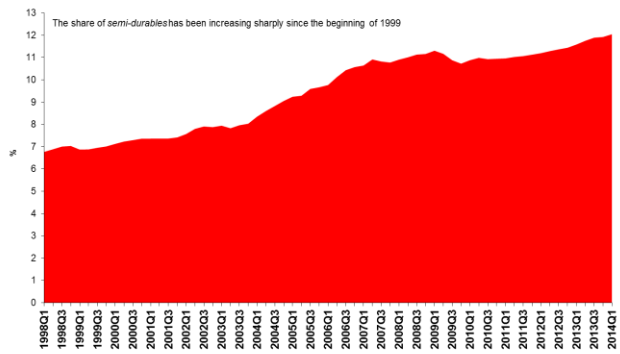


Chart 23: Durable real household consumption expenditure

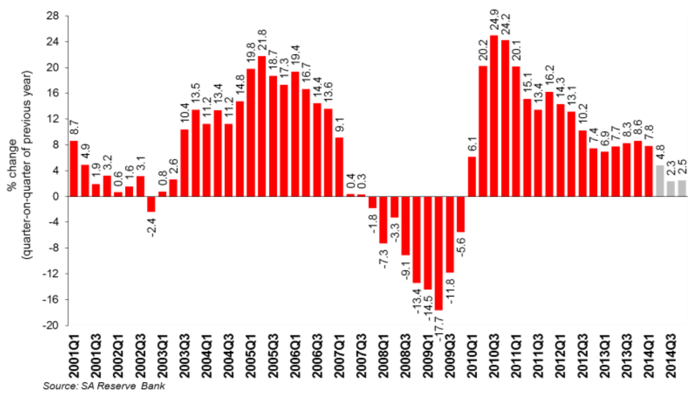
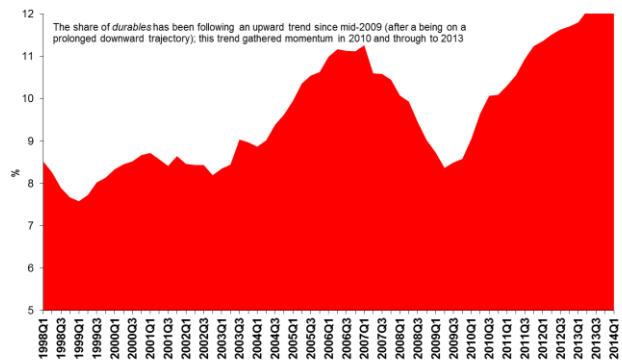


Chart 24: Share of durable goods in total household consumption expenditure



Retail sales

Overview

- Y/y growth in retail sales at constant prices declined fairly sharply to 0.0% in June, from 2.6% in May. This was the lowest growth recorded since the 2009 recession and it was down on the average growth recorded for the first half of 2014, of 2.3%.
- Total nominal retail sales growth also declined in June, to 5.7%, from 8.3% in May and an average growth rate of 7.3% for 2014-to-date. Sales for June 2014 amounted to R59.24 billion (compared to R56.05 billion recorded in June 2013).
- Undoubtedly, the softness of the retail sector in June reflects the impact of the prolonged strike in the platinum mining sector which spanned five months until the end of June and the resultant loss of pay for striking workers. It is also possible that ahead of the metal workers strike, which was due to start at the beginning of July, that workers may have exercised caution with regard to their spending in June. Household balance sheets have been coming under increased pressure in past months which will have continued to have a negative effect on their ability to spend in June. Firstly, many lower-end consumers are experiencing the fallout of the boom in unsecured loans of a few years ago in the form of increased inability to meet their debt servicing requirements and debt repayments. Secondly, higher inflation and higher debt servicing costs have eroded the growth in disposable income. Thirdly, the knock-on effect of strikes have jeopardised employment. There is clearly a limit to the extent to which the retail sector can continue being supported by the growth of the middle-class who have the ability to sustain spending at high levels.
- In the face of weak economic growth in part indicated by the weak growth in retail sales in June, interest rates may still rise by a further 0.25% before the end of the year. The Reserve Bank has intimated that further interest rate increases are in store in order to bring them back to levels above inflation. The Reserve Bank has also reiterated that the scope for monetary policy to have much impact on economic growth is limited and that implementation of structural adjustments to the economy, incorporated into the NDP, have become urgent.

Outlook

-

…le 2: Growth rate (y/y) in Retail Sales, seasonally adjusted

	[illegible]	Q2 2013	Q3 2013	Q4 2013	Q1 2014 (f)	Q2 2014 (f)	Q3 2014 (f)	Q42014 (f)
Current prices								
Constant prices								

See page 54 for detailed forecast.

Factors impacting on household consumption

CPI Inflation

- The y-o-y CPI inflation rate has risen to **its highest level in five years**, coming in at 6.6% for both May and June. This is now well in excess of the 3% to 6% official inflation target. Without doubt one of the main factors driving the increase in inflation from just below 5% two years ago, to its current level, has been the substantial depreciation of the Rand on a real trade weighted (purchasing power) basis.
- Despite this, one could argue that the **increase in inflation** has been very **mild** in comparison with the inflationary increases seen in the wake of previous phases of currency depreciation. Much of this can be attributed to the fact that the depreciation of the Rand from around R6.60 to the Dollar and under R10 to the Euro in the middle of 2011, to its current levels around R10.60 and R14.20 to the Euro, has taken place over a protracted period of three years.

  On previous occasions when inflation had spiked into double-digit figures in the wake of currency depreciation, this had followed much steeper and shorter phases of depreciation, such as with the emerging markets crisis of 1998, the global economic downturn, 9/11 and Argentinian debt crisis of 2001 and the global financial crisis of 2008. With the depreciation having been more gradual over the past three years, the pass through effect of rising import costs has not been as severe. Besides, the strength of the Rand between 2009 and 2011 associated with significant capital inflows into emerging markets, was not accompanied by a countervailing sharp decline in inflation. This implied that businesses had built up significant margins with which to resist passing cost increases on to consumers when the Rand did eventually begin to depreciate. Forward cover taken out to ensure against currency depreciation also assisted in delaying the increase in inflation.
- Fortunately, there appear to be **growing signs that** the 6.6% inflation rate recorded for May might turn out to have been the peak in the rising trend of the past few years.
- A number of factors appear to be combining to **soften inflationary pressures**.

  Firstly, the fairly substantial increase in food inflation, to over 9%, is likely to be reversed. Much of the increase in food inflation can be attributed to the lagged effect of steep increases in agricultural commodity prices late last year and early this year. However, since March, such commodity prices have fallen back substantially. The price of maize locally has decreased by no less than 60% and that of sunflower by 40%. Even the price of wheat has fallen back by around 15%.

  As a consequence, the agricultural PPI inflation rate, which had risen sharply from 4.1% in December to 11.7% in March, had fallen back all the way to 4.5% by June. Both a stabilisation in the Rand's exchange rate since January, as well as the bumper crops anticipated later this year as a result of good rainfalls in the summer rainfall regions, have contributed towards the decline in agricultural prices.

  The decline has been further assisted by a fall in global food prices as a result of excellent crops in the US. Even on the intermediate manufactured goods level, food inflation has begun to slow. It is therefore only a matter of time before the CPI inflation rate for food also decreases significantly.

  Secondly, the increases in the price of petrol seen in the first five months of the year have given way to a stabilisation of the fuel price in the past four months. Again, this was attributable to Rand stability and a decline in commodity prices, this time the price of crude oil.

  Furthermore, it would appear as if there is a reasonable probability of the petrol price being reduced by a further 60 cl at the beginning of September if the current over recovery resulting from the stability in the Rand exchange rate and a low oil price, is sustained through to the end of August.

  This could well result in the y-o-y petrol inflation rate for September decreasing to below 2%, from 14.5% in May.

  Other things equal, expected declines in food and petrol inflation could contribute towards the overall inflation rate declining back to the 6.0% upper end of the inflation target by the end of Q3.

  A further factor assisting in tempering inflationary pressures is the fact that the Rand exchange rate is now lower than it was back in January. As a consequence, the **feedthrough of price increases of imports** is starting to **recede**. This is already in evidence in the trend of the PPI inflation rate for final manufactured goods. This had risen from 6.5% in December, to a peak of 8.8% in April, but subsequently dropped back to 8.1% in June. In similar vein, the PPI inflation rate for intermediate manufactured goods, which had risen from 8.1% in December to a peak of 10.5% in February, fell back to 9.0% in June.

- Countering these reasons for expecting inflation to recede, are **fears of rising electricity inflation** and aggressive wage increases. The sharp decline in electricity tariff increases awarded to Eskom by NERSA, to just 8% for the current year, from levels of around 25% a few years ago, has undoubtedly also contributed towards a more benign trend in inflation.
  However, NERSA has indicated that it is prepared to allow Eskom to raise its tariffs by between 2% and 5% more than the 8% annual increase originally awarded the utility.
  This extra increase is predicated on the need to raise Eskom's revenue to help fund the building of new power stations, critical to ensuring electricity security in the country.
  As a result, from April onwards, one should start seeing the electricity inflation rate rising. However, even at a 5% higher rate of increase for electricity inflation, the impact on the overall inflation rate should not amount to much more than an additional 0.4% to inflation in 2015/16.
- With regard to **wage increases**, these have increased sharply in several industries as a result of aggressive industrial action. However, corporate earnings do not appear to have suffered unduly from this. Analysis we have conducted shows that there has been a distinct inverse correlation between increases in remuneration per employee and changes in employment. The inference to be drawn from this is that whenever businesses are driven to grant wage increases substantially in excess of inflation, they respond by reducing their workforce rather than by allowing their overall labour costs to escalate to the point where they are forced to pass these onto consumers.
  The economy therefore ends up with employment growth running fairly consistently at levels 1% to 1.5% below overall economic growth. Unemployment remains stubbornly high as a consequence.
- Finally, the underlying reason as to why inflation is not racing ahead is because the economy remains significantly weak and growth in **credit demand** and **money supply is low**. Consequently, businesses are just not able to increase prices in such a way as to exert upward pressure on inflation.
- In conclusion, the CPI inflation rate is likely to drop back to below the 6% upper end of the inflation target towards the end of the year and then hover between 5% and 6% for the ensuing three years.
- Obviously, a sudden and steep depreciation in the Rand on the back of renewed jitters towards emerging markets would overturn such a forecast, but this does not form our highest probability outcome.

Chart 25: CPI vs. PPI inflation

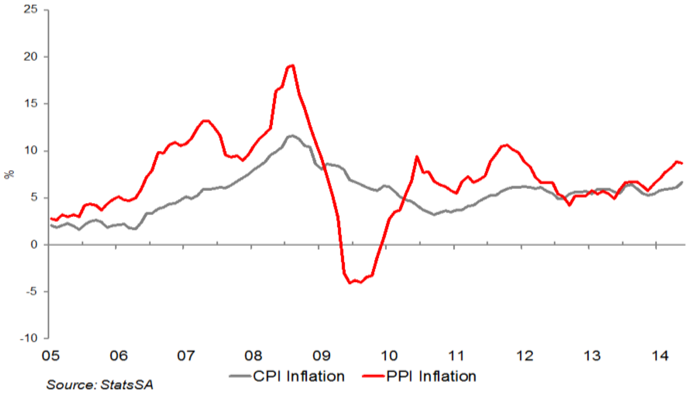


Chart 26: Overall CPI inflation and Food inflation

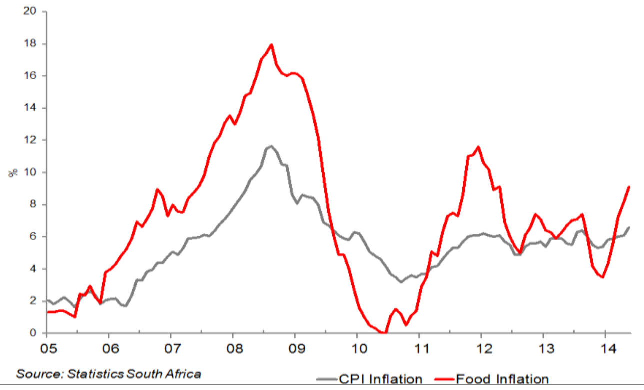


Chart 27: Growth in pump price petrol (93 octane Gauteng)

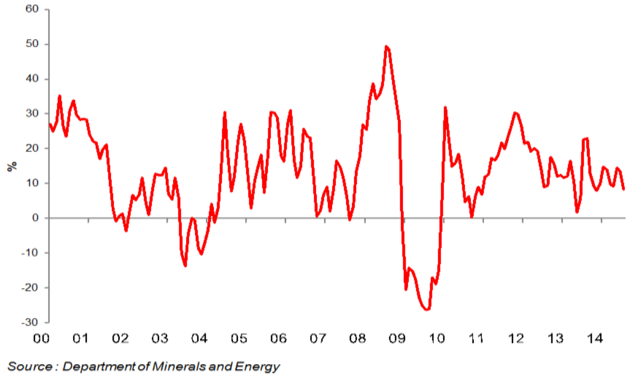


Chart 28: Overall CPI inflation vs. Services inflation

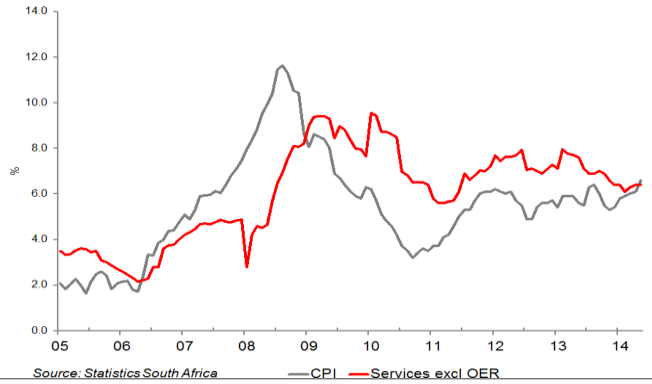


Chart 29: CPI inflation for food, transport and housing

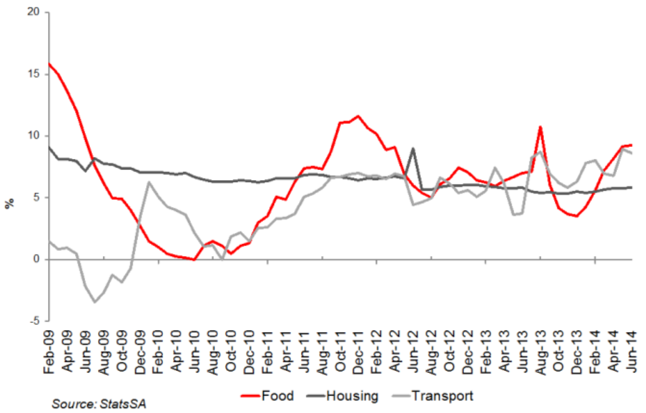


Chart 30: Goods inflation – non-durables, semi-durables and durables

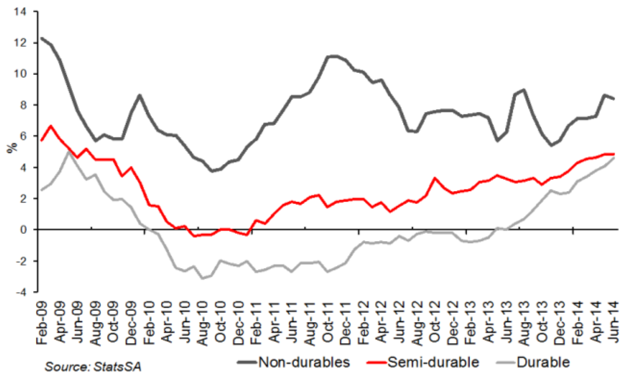


Chart 31: PPI inflation – exported vs. imported commodities

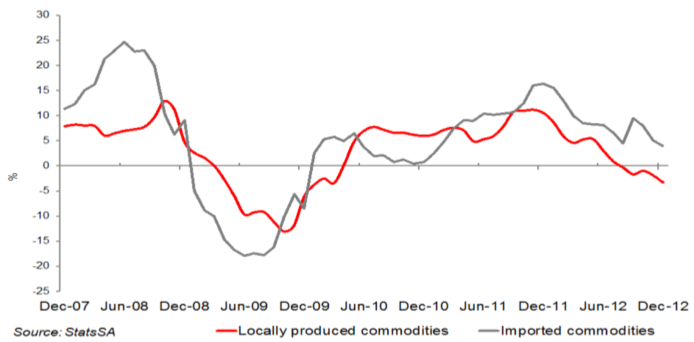
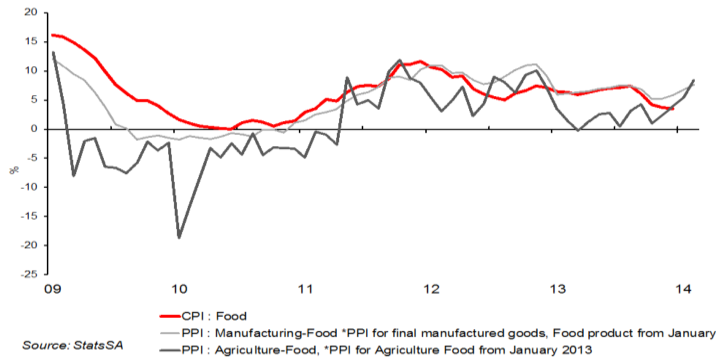


Chart 32: PPI inflation for food vs. CPI inflation for food



Interest Rates

- **The repo rate** had been held unchanged by the Reserve Bank for 18 months prior to 2014. Consensus at the beginning of 2014 was that interest rates would remain at their four decade-long lows through the first half of the year. However, this forecast was abruptly interrupted at the MPC meeting in January which followed immediately after a fairly sharp depreciation in the Rand to R11.39 to the Dollar, its weakest level in five years. This prompted the Reserve Bank to **raise the repo rate by 0.5%,** going against most forecasts. Furthermore, the Bank intimated quite firmly that it believed that the upward trend in inflation stood to gather momentum in the wake of this currency depreciation. In addition, food and other commodity prices were also rising quite sharply at the time.
  Following a recovery in the Rand subsequent to January's fall, coupled with concerns about falling economic growth on the back of the strike in the platinum mining industry, fears of further significant increases in interest rates were tempered somewhat. Nonetheless, there were still expectations at the ensuing two MPC meetings in March and May that the Bank's continuously hawkish tones would result in further modest increases.
  Despite this, interest rate hikes were not forthcoming at those meetings. Subsequently, following the start of the metals industry strike in July, with the concomitant detrimental implications for economic growth prospects domestically, one would have thought that there would have been even less reason to raise interest rates.
- Despite this, the meeting was characterised by a decision to increase **the repo rate by 0.25%,** the first time such a small change in the repo rate had been made since the year 2000. The interpretation of this move to raise rates in the face of faltering economic growth was that the Reserve Bank was determined to maintain the credibility of its hawkish statements about intensifying inflationary prospects, by showing its hand, albeit with a smaller than normal increase in interest rates. After all, successive statements about the likelihood that we were in an upward interest rate cycle ahead of global "normalisation" of interest rates, could be interpreted as implying that the central bank was determined to move real interest rates back to positive levels. This follows several years of negative real interest rates.
- Increasingly, the Bank appears to have recognised that **negative real interest rates** are not conducive to promoting savings. Instead they generate all sorts of **distortions in the economy**. Specifically, they encourage consumption in the present in lieu of investment for the future. They also help to promote higher asset prices, out of sync with the subdued nature of real economic growth and in so doing contribute towards rising inequality.
- With ongoing stability in the Rand, signs of inflation increasing have been tapering further more recently. In addition, the **real economic outlook remains dismal**, depressed still further by news from Europe that its economy, a major export market for South African goods, has been performing more weekly than anticipated. Even more so than before one would anticipate that there is not much reason to hike interest rates further.
  Nonetheless, if the Reserve Bank is to be believed about its concerns regarding further intensification of inflation and the fact that we find ourselves in the rising interest rate cycle, then one has to conclude that there will be further interest rate hikes in the medium term. In all probability the Bank will decide to raise the repo rate by a further 0.25% either at the September or November MPC meetings. In turn, these are likely to be followed by additional quarter point increases through 2015, especially if domestic economic growth recovers moderately, as anticipated.
  There is also the expectation that by the middle of 2015 US interest rates might also be starting to rise on the back of improved economic growth in the world's strongest economy.
- There appear to be **three major factors** encouraging the Reserve Bank to believe that inflation risks are on the upside despite evidence that in the short term the opposite may be the case.
  Firstly, the Bank has highlighted the possibility that electricity tariffs might need to be increased much more sharply than previously anticipated in order to fund Eskom's build programme. Since the last MPC meeting slightly greater certainty in this regard has emerged, with NERSA suggesting that it might approve an increase of 2% to 5% more than the 8% annual increase for the next five years originally agreed upon. This would increase inflation by around 0.4% from the middle of 2015 onwards.

Secondly, the Reserve Bank appears to be fretting about the high wage increases being granted by employment bodies in the face of aggressive wage demands and industrial action by trade unions. The threat of higher inflation from this source is, however, being significantly watered down by the fact that businesses appear to be reducing their workforces whilst granting higher wage increases. As a result, the actual wage costs of pay agreements reached are being kept stable and the inflationary impact of those wage increases is being neutralised.

Thirdly and probably the most important reason for the Bank's cautious and hawkish stance is that it is aware that the current account deficit remains endemic. Under such circumstances a deterioration in sentiment towards emerging markets arising out of a tightening of US monetary policy, could result in a sharp decline in portfolio inflows into South African assets.

- Such circumstances could be accompanied by a steep depreciation in the Rand and renewed inflationary build-up. By raising interest rates the attraction of depositing funds into South African bonds, is enhanced somewhat.
- In conclusion, whilst all these factors as potentially inflationary threats are valid, it would also be wrong to exaggerate such threats.
- **Long-term interest rates** have remained in a **broad sideways channel** for several months. Around April/May, yields fell by some 50 bpts in the presence of a significant short-term strengthening of the Rand and a dissipation of inflationary concerns and associated fears of significant further increases in short-term interest rates. However, as soon as the Rand weakened in June and July, all those gains were lost.
- More **recently**, **yields have fallen again** as a result of renewed confidence in emerging markets, but not to the same extent as in April/May. On the one hand, the prospects for inflation receding in the short term have improved markedly. On the other hand, the Reserve Bank has intimated that it stands to increase short-term interest rates further as part of the process of "normalisation" of interest rates, which is interpreted to mean reversion to an environment of positive real interest rates.
- Overriding the trend of domestic yields, however, has been the trend of long-term interest rates abroad, especially in the US. Here too, favourable economic indicators more recently caused yields to rise in expectation of a sooner than previously anticipated increase in the Fed Funds rate. However, yields have fallen back most recently again, especially in Europe, as more recent evidence has pointed to global economic growth remaining relatively lacklustre.
- Given the long-term correlation between South African bond yields and those abroad, **domestic yields have followed the pattern of international yields.** In this regard, there is a real risk that over the coming year expectations of rising interest rates in the US will gain momentum and this could damage sentiment towards both US and domestic bond markets. In South Africa in particular, given the country's large current account deficit, which is second only to Turkey in size as a percentage of GDP amongst leading emerging markets, the Rand is particularly sensitive to the level of capital inflows. Therefore, if inflows into the bond market slow, this is bound to weaken the currency, causing inflationary pressures to increase and this would then exacerbate the rising trend of domestic bond yields.
- Arguably, the dominance of the domestic markets by **international trends** has outweighed the impact of domestic economic and social developments on the bond market. Specifically, when Standard and Poor's (S&P) downgraded the credit rating on South African government bonds in June, from BBB to BBB-, the local bond market held up rather well. This was mainly because global financial sentiment towards emerging markets was positive at the time. The reduction in the S&P credit rating did not interrupt the purchases of South African government bonds. There were of course other mitigating factors.

The S&P credit rating now leaves South Africa's rating just one notch above the threshold which distinguishes between investment grade and speculative grade. However, this still means that international pension funds, which are barred from purchasing government bonds which are rated as speculative grade, are still entitled to purchase South African government bonds because of the retention of their investment grade status.

Secondly, even at BBB-, the credit rating on South African government bonds remains in good company, together with the self-same rating for the bonds of other BRICS economies, including Brazil, India and Russia.

Thirdly, S&P reverted to an outlook on the country's credit rating of "stable", from "negative". This implies that the credit rating agency is not intent on further downgrades in the near term. In a sense, it has executed its views of South Africa's credit rating default risk with the downgrade and no further action needs to be taken for the present.
Finally, the S&P credit rating downgrade did not affect the ratings of the other two leading credit rating agencies, viz. Moody's and Fitch, whose credit ratings are still three and two notches above the investment grade threshold respectively.

- As a measure of the extent to which foreign investors are still relatively relaxed about the economic situation in **South Africa is** the fact that they South African **government bond issue of $1.6bn in July** was **three times oversubscribed.**
- Nonetheless, there remains a **medium-term risk** of further **credit rating downgrades**, especially in the case of Moody's and Fitch, whose rating of South Africa carries a "negative" outlook designation, implying a significant chance of such downgrades. The critical risk element is that with South Africa's economic growth underperforming against original expectations and in particular expectations when three-year budgets were drawn up, the possibility of a shortfall in the growth of government revenue is substantial. Intentions to reduce the budget deficit over the next three years from the current level of 4.0% of GDP, down to 2.8% of GDP by 2016/17, therefore appear to be in jeopardy.
  Associated with this, the intention to limit the increase in the size of the public debt to no more than 45% of GDP within the next three years is also in jeopardy. Since these are metrics that are closely examined by the credit ratings agencies, evidence of failure to meet these budgets is likely to be met by further ratings downgrades.
- After the first three months of the current 2014/2015 fiscal year, i.e. April to June, growth in government revenue has indeed been running slightly below budget, but fortunately so too has expenditure. Nonetheless, extrapolation of the cumulative growth in revenue and expenditure for the first three months of the fiscal year to a full fiscal year, points to the 2014/15 budget deficit being exceeded somewhat, at around 4.8% of GDP compared with the actual budget deficit of 4.0% of GDP.
- At this level of overshoot, the ratings agencies might just be forgiving. However, much will depend upon whether or not coming months provide reassurance that this slight overshoot of the budget deficit will not come to be significantly exceeded. There are two risks here. Firstly, should economic growth prospects deteriorate still further in the wake of the debilitating strikes in the platinum mining and metals industries, then the likelihood of generating revenue required to limit the increase in the public debt, will diminish. Secondly, the wage negotiations between government and public sector unions will entail a significant test of government's ability to constrain the growth in its expenditure. With the public sector wage bill accounting for more than 35% of total government expenditure, it is imperative that the increases in wage rates awarded are restrained. The government itself has spelt out the need to limit the growth in real non-interest expenditure in the public sector to no more than 2% per annum over the next three years. This contrasts starkly with the real increases in government expenditure over the past decade which typically averaged between 8% and 12% per annum. Following the high wage increases awarded to mining and metal workers, there has been a generally more demanding set of wage negotiations in many other sectors of the economy. The public sector is unlikely to be left unaffected by this aggressive mood on the part of workers.
- Unfortunately, this leaves a situation of lose-lose either way. If the government stands up to the unions, the economy is likely to be faced with yet another debilitating strike that will damage economic growth prospects still further.
  On the other hand, if the government relents and breaks the promise to limit real growth in government expenditure to 2% per annum by awarding bigger wage increases than currently earmarked, then the risk is that the ratings agencies will see this as jeopardising the commitment to limiting the growth in the public debt. This would increase the risks of further credit ratings downgrades and the associated risk of a spike in bond yields.
- In conclusion, the weak level of economic growth and the associated signs of inflation slowing in the medium term, are favourable to an environment of declining longer term interest rates. Against this, however, is the risk of a change in the current relatively positive sentiment towards emerging markets.

Secondly, there is a risk of a further downgrade in the country's credit rating. Should either of these risks pan out in reality this could cause the Rand to weaken further and jeopardise purchases of bonds by foreigners. The most likely outcome is that bond yields edge upwards over the coming year, but not dramatically so. There is, however, a more significant upside risk to bond yields that cannot be completely discarded.

Chart 33: SA Reserve Bank repurchase (repo) rate

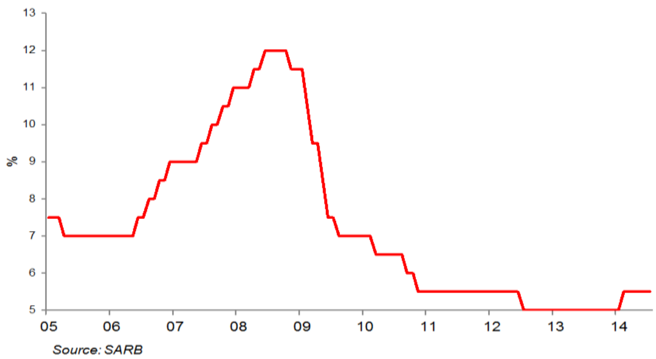


Chart 34: Prime overdraft rate

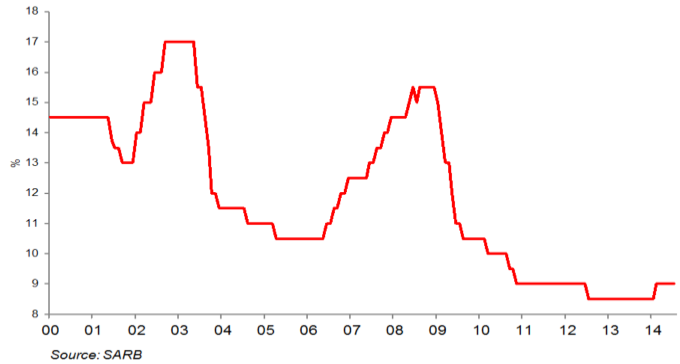


Chart 35: Household consumption growth vs. interest burden

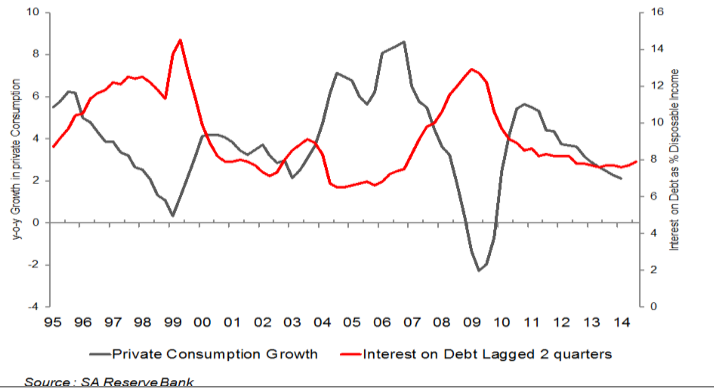


Chart 36: Yields on R186 and R157

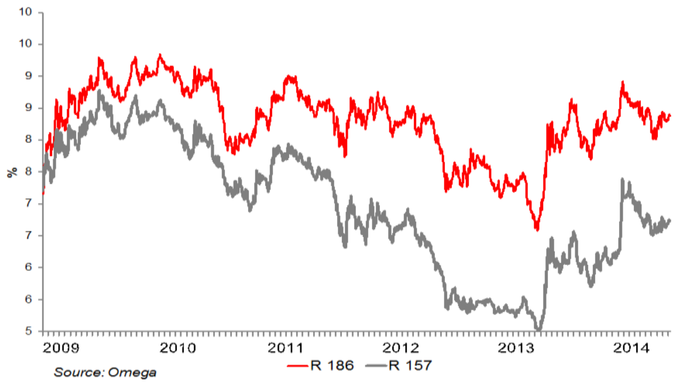


Chart 37: Interest rate differential, R186 – R157

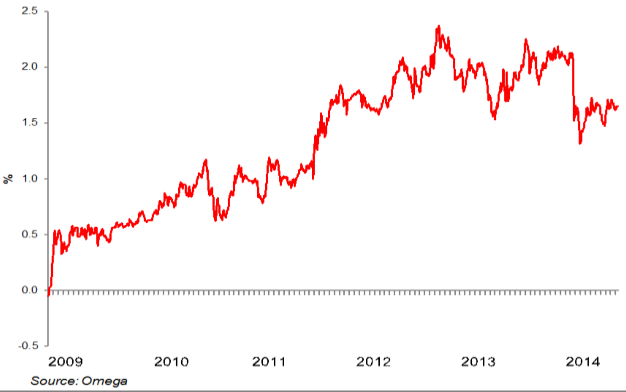


Chart 38: Yields on R157 vs. NCD3

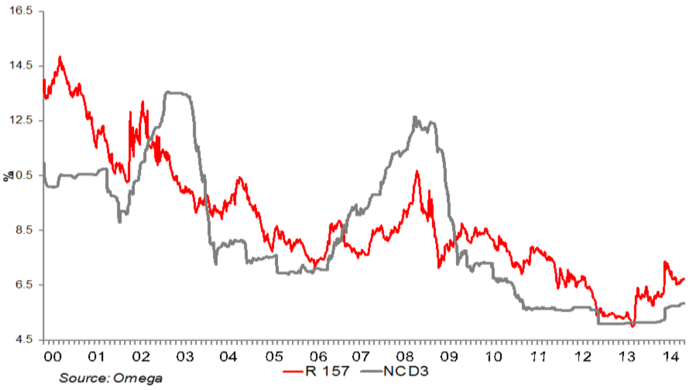
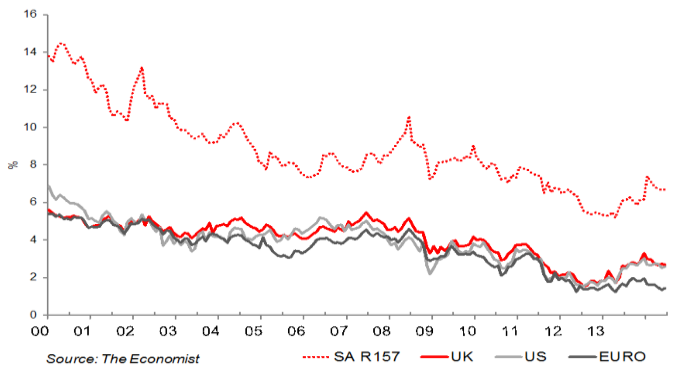


Chart 39: Interest rate differential, R157 – NCD3

Chart 40: Long term interest rate trends



Household income

Table 3: Household Income indicators at a glance

Year-on-year change	Quarter	Latest	Previous
Personal disposable income (real)	Q1 2014		
Personal disposable income (nominal)	Q1 2014		
Real wages	Q1 2014		
Gross earnings of employees	Q1 2014		
Avg monthly earnings by employees (incl bonuses & overtime) - nominal	Q1 2014		
Avg monthly earnings by employees (incl bonuses & overtime) - real	Q1 2014		
Remuneration per worker – public sector (nominal, from SARB)	Q4 2013		
Remuneration per worker – private sector (nominal, from SARB)	Q4 2013		

Source: Statistics SA, Reserve Bank

Disposable income

The y/y growth of real disposable income increased to 1.0% in Q1 2014, from a recent low point of 0.6% in Q4 2013. Nonetheless, this was still lower than the average growth of 1.9% in real disposable income recorded for 2013 as a whole.

Undoubtedly, the erosion of the growth of disposable income prices continued to be negatively affected by rising inflation more generally, higher debt servicing costs since the 0.75% rise in interest rates over January-July 2014 and the adverse effect of widespread labour unrest. Some encouragement can be drawn from the fact that the ratio of household debt to disposable income declined in Q1 2014, for the third consecutive quarter, to 74.5%, from 74.6% in Q4 2013.

However, this is still a fairly high ratio in relation to levels of between 50% and 55% of disposable income which prevailed in the first half of the last decade. Under the circumstances, it is difficult to see a credit-led boom helping to boost overall economic growth in the medium term. More encouragingly, linked to the decline of indebtedness, gross savings picked up in Q1 to 14.6% of GDP, its highest level in two years. In the midst of turmoil in the mining industry, it is clear that individuals and businesses have become more cautious in spending and have instead begun to show distinct signs of saving more.

Chart 41: Real personal disposable income y/y growth

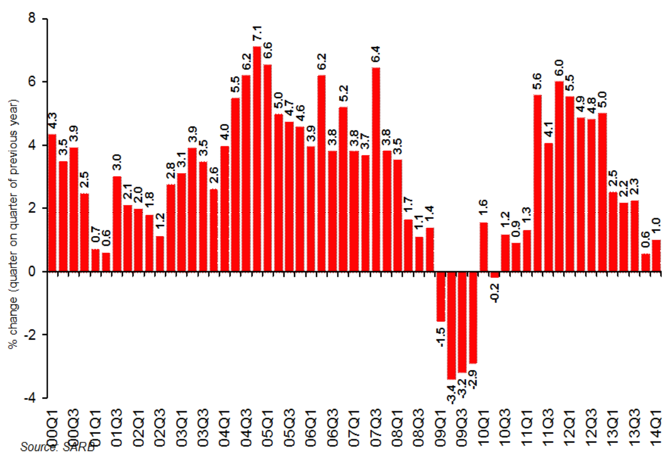
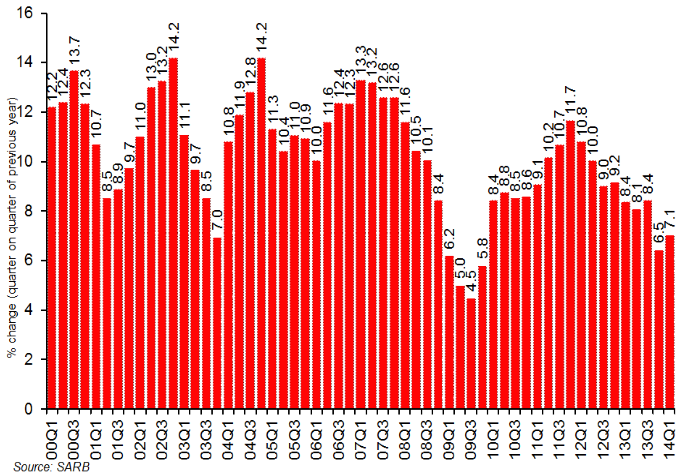


Chart 42: Nominal personal disposable income y/y growth



See page 55 for detailed forecast.

Chart 43: Personal disposable income (nominal growth) vs CPI Inflation

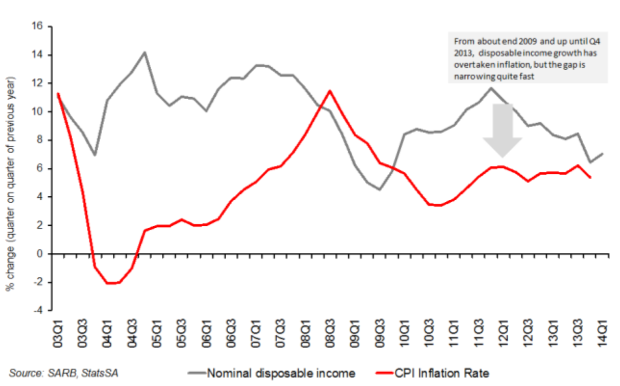
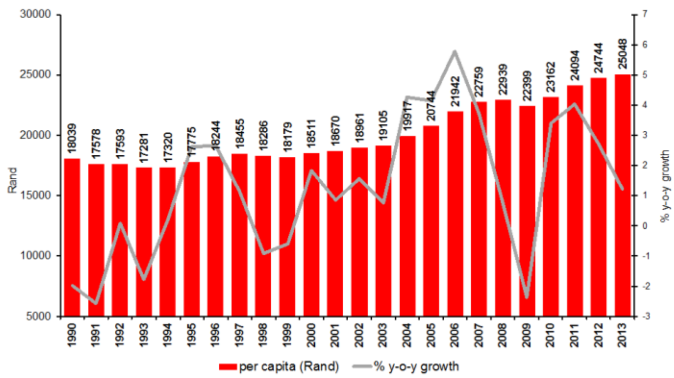


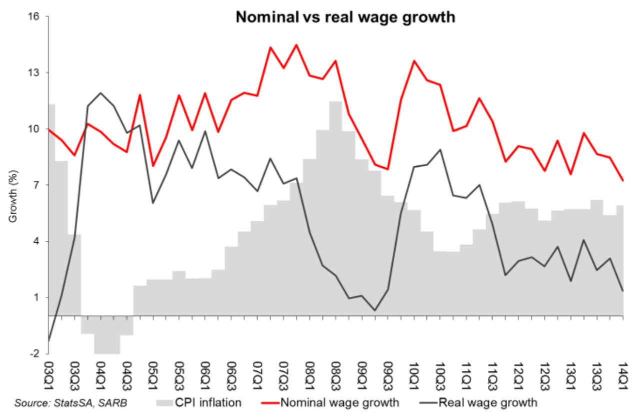
Chart 44: Real disposable income per capita of households



Real wages

After having increased in Q4 2013, y/y growth in real wages declined once again in Q1 2014, to just 1.3%, from 3.1% in Q4 2013. This ties in the decline in growth in real wages witnessed on an annual basis since 2011. Y/y growth in real wages declined to 2.9% in 2013, down from 5.1% and 3.1% in 2011 and 2012 respectively. Nominal wage growth moderated in Q1 2014 for the third consecutive month, to 7.2%, from 8.5% in Q4 2013. Despite instances of adversarial industrial relations, average wage settlements in 2013 remained at levels just below 8% throughout the year.

Chart 45: Nominal vs real wage growth



Public sector wages

Public sector wage increases had previously been higher than that of the private sector, but this trend was reversed in Q4 2010, with nominal private sector wage increases exceeding that of the public sector, up until Q3 2011. Thereafter growth between the two has been erratic with growth in private sector wages and public sector wages averaging 7.6% and 6.9% in 2013, from 7.2% and 6.7% in 2011, respectively. In addition, the growth in remuneration has been steadily declining from the double digit growth figures once experienced from 2008 to 2010 to single digit growth figures. Chart 48 shows that:

- In 2009 and 2010, increases in remuneration per worker (both in the public and private sector) far exceeded CPI. Since 2011, however, inflation increased significantly, narrowing the gap between remuneration and CPI.
- In 2009, 2010 and 2012, public sector increases exceeded that of private sector increases. In 2011 and 2013, the relationship reversed and increases of private sector wages exceeded those of public sector wages.

According to the SARB Quarterly Bulletin, y-o-y growth in remuneration per worker at constant prices increased to 1.2% in Q4 2013, from 0.6% in Q3 and 2.8% in the previous quarter. Y-o-y growth averaged 1.8% in 2013, compared to a much higher 3.0% in 2012 and 1.9% in 2011.

The government represents South Africa's largest employer, and has time and again reiterated its commitment to ensuring that the public sector wage bill will be contained. The implementation and follow through of this promise going forward, of the National Treasury and Department of Public Service working collaboratively to monitor wage bill trends, will largely depend on who is appointed to cabinet in the finance minister's post. Since May 2014, Nhlanhla Nene is the incumbent minister, having succeeded Pravin Gordhan.

Gross earnings of employees

The **Quarterly Employment Survey** (QES) reports a decline in growth of **gross earnings of employees** in Q1 2014, to just 7.0%, from 7.8% in Q4 2013 and an average of 8.1% for the whole of 2013. Corresponding to these figures, the QES further notes that growth in remuneration per employee fell back to just 6.5% in Q1, from 7.3% in the Q4 of last year and an average of 7.6% last year.

This may be encouraging from the point of view of reflecting weak upward pressure on wages notwithstanding the aggression of wage demands in the economy. However, it is also a reflection of the weak state of the overall economy. It is noticeable that the increases in remuneration per employee have been highest in the services sectors, especially in the retail and tourism sector. There was nonetheless a sharp decline in growth in remuneration per employee in the mining sector, which presumably may have been influenced by the platinum mining strike and the fact that some workers in that sector did not receive wages.

Chart 46: Remuneration per worker (nominal) – annual average

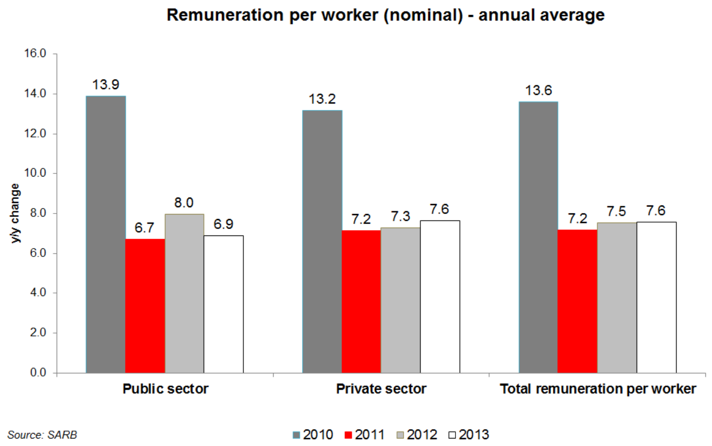


Chart 47: Remuneration per worker (real)

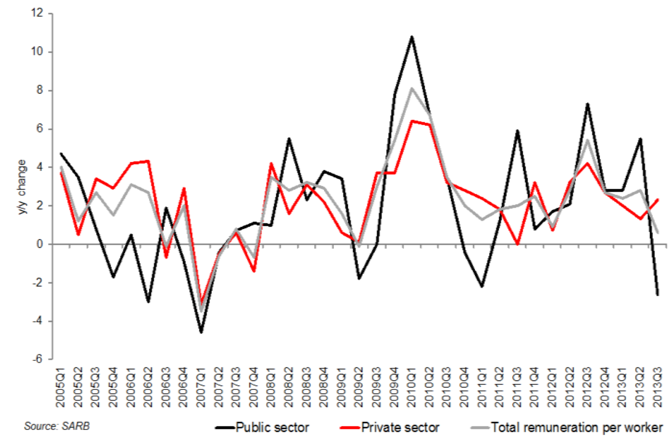


Chart 48: Remuneration per worker (nominal) vs CPI Inflation

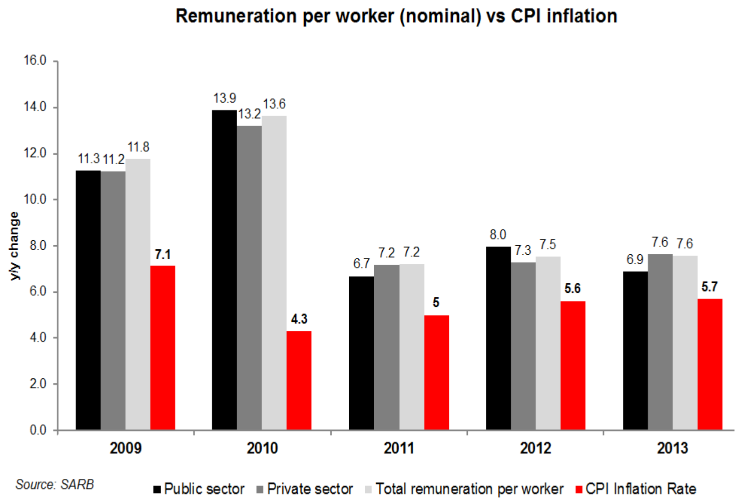


Chart 49: Average monthly earnings (Incl bonuses & overtime): Total

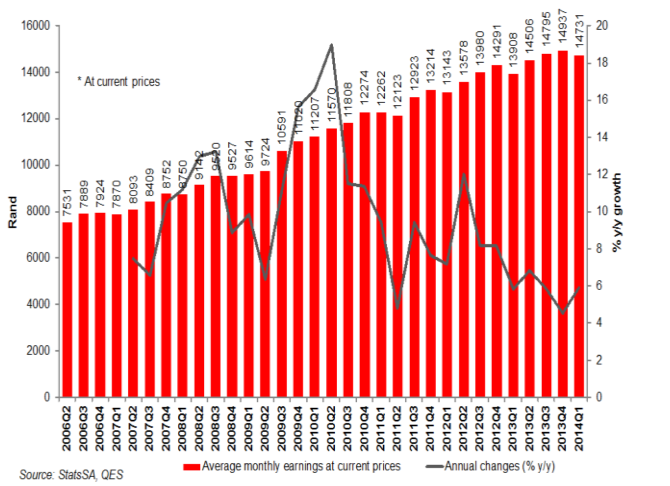


Chart 50: Average monthly earnings (incl bonuses & overtime): Mining industry

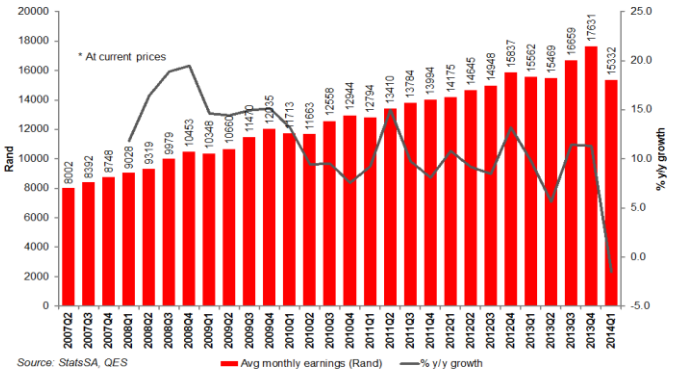


Chart 51: Average monthly earnings (incl bonuses & overtime): Manufacturing industry

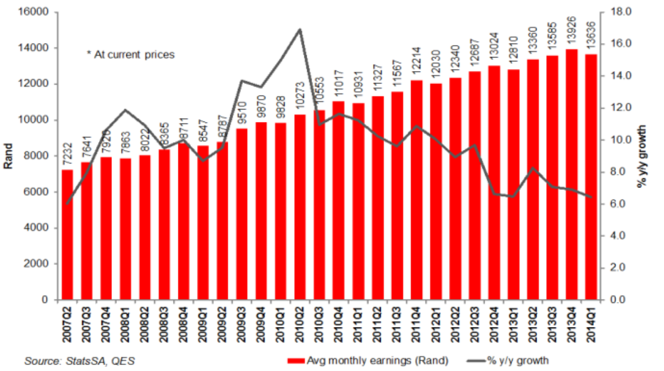


Chart 52: Average monthly earnings (incl bonuses & overtime): Electricity, gas & water supply industry

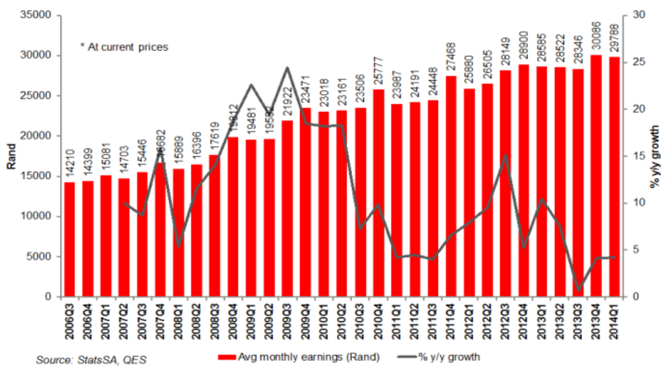


Chart 53: Average monthly earnings (incl bonuses & overtime): Construction industry

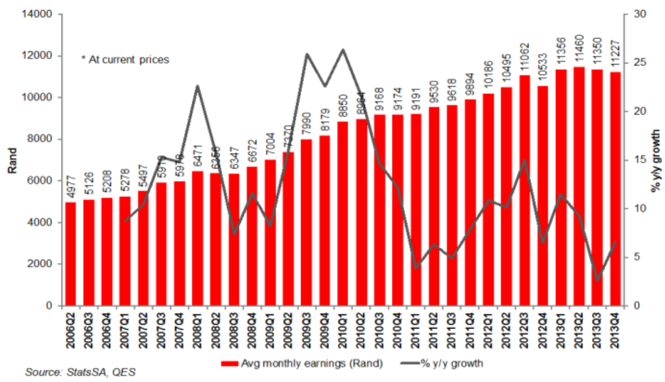


Chart 54: Average monthly earnings (incl bonuses & overtime): Wholesale & retail trade, hotels & restaurants industry

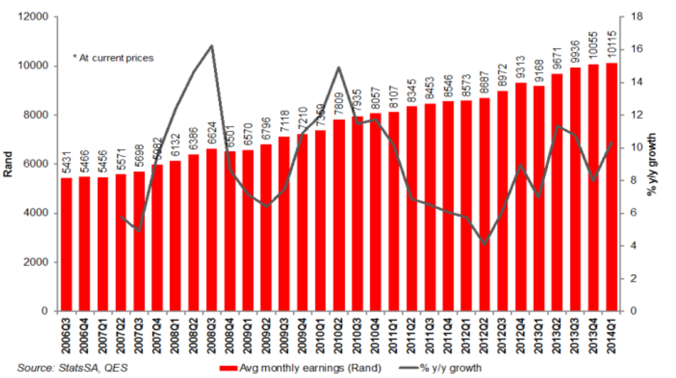


Chart 55: Average monthly earnings (incl bonuses & overtime): Transport, storage & communication industry

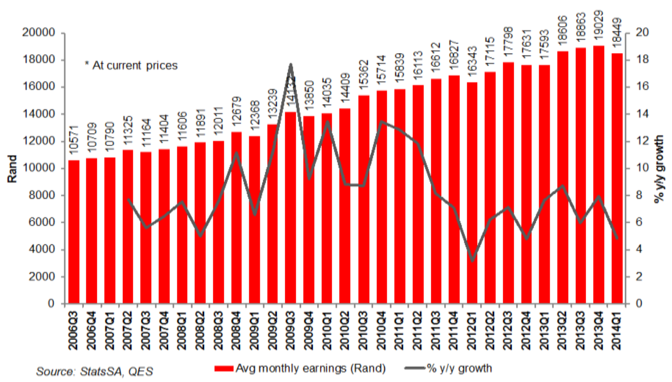


Chart 56: Average monthly earnings (incl bonuses & overtime): Financial intermediation, insurance, real estate & business services industry

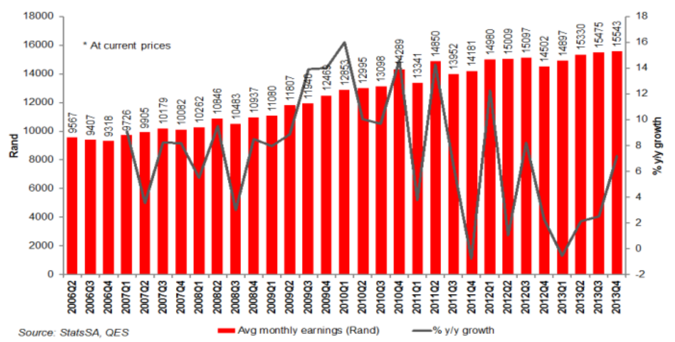


Chart 57: Average monthly earnings (incl bonuses & overtime): Community, social & personal services industry

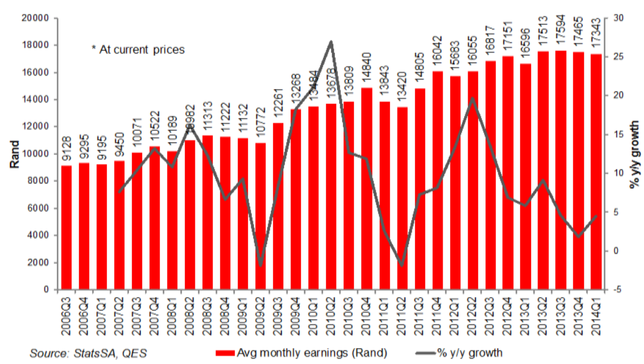


Table 4: Average monthly earnings (at current prices, by industry) –2013/Q1 2014

	Wages Incl overtime & bonuses			Wages Excl overtime & bonuses			Overtime and bonuses (monthly)		
	Avg monthly earnings (R)	*Quarterly change (% q/q)*	*Annual change (%y/y)*	Avg monthly earnings (R)	Quarterly change (R)	Annual change (% y/y)	Avg monthly earnings (R)	Quarterly change (R)	Annual change (%y/y)
Mining									
Q2 '13									
Q3 '13									
Q4 '13									
Q1 '14									
Manufacturing									
Q2 '13									
Q3 '13									
Q4 '13									
Q1 '14									
Electricity									
Q2 '13									
Q3 '13									
Q4 '13									
Q1 '14									
Construction									
Q2 '13									
Q3 '13									
Q4 '13									
Q1 '14									
Trade									
Q2 '13									
Q3 '13									
Q4 '13									
Q1 '14									
Transport									
Q2 '13									
Q3 '13									
Q4 '13									
Q1 '14									
Finance									
Q2 '13									
Q3 '13									
Q4 '13									
Q1 '14									
Services									
Q2 '13									
Q3 '13									
Q4 '13									
Q1 '14									
Total									
Q2 '13									
Q3 '13									
Q4 '13									
Q1 '14									

Source: StatsSA, QES Survey

Table 5: Average monthly earnings (at current prices, by industry) – 2010 to 2013

	Wages Incl overtime & bonuses			Wages Excl overtime & bonuses			Overtime and bonuses (monthly)		
	Avg monthly earnings (R)	Annual change (R)	*Annual change (%y/y)*	Avg monthly earnings (R)	Annual change (R)	Annual change (% y/y)	Avg monthly earnings (R)	Annual change (R)	Annual change (%y/y)
Mining									
2010									
2011									
2012									
2013									
Manufacturing									
2010									
2011									
2012									
2013									
Electricity									
2010									
2011									
2012									
2013									
Construction									
2010									
2011									
2012									
2013									
Trade									
2010									
2011									
2012									
2013									
Transport									
2010									
2011									
2012									
2013									
Finance									
2010									
2011									
2012									
2013									
Services									
2010									
2011									
2012									
2013									
Total									
2010									
2011									
2012									
2013									

Source: StatsSA, QES Survey

Employment

Unemployment rate edged up in Q2…

Quarterly Employment Survey (QES)[2]

The **Quarterly Employment Survey (QES)** reported a net job creation of 9,000 jobs in Q1 2014 (q/q). The QES is conducted among 20,208 VAT registered private and public enterprises and therefore accounts only for jobs in the formal non-agriculture sector. The results, however, have high validity because there are based on companies' pay rolls.

According to the QES, the total number of jobs increased by 9,000 to 8,507,000 in Q1 2014 which is equivalent to a y/y growth of 0.5% (or 42,000 jobs). This is much lower than the average 1.9% y/y growth rate in GDP recorded over this period, suggesting that the trend of employment creation lagging behind overall economic growth, continued.

As one might have anticipated, given the extent of disruption to the mining sector in the past two years and especially in Q1 2014, -29,000 jobs were lost in the mining sector during that quarter. Associated with the fact that it contributes to supplying the mining sector, there was also a small amount of job losses in the manufacturing sector, of -2,000. There were also a limited degree of job losses in the construction sector (-8.000) and in transport and communications (-7,000). In contrast, as has been the trend for several years now, it was the services sectors that reflected job creation. There was an increase in the number of jobs in the retail and wholesale trade, hotels and restaurant sector, of 10,000. This seems to coincide with the boom being experienced in the tourist industry. There was also a gain of 13,000 jobs in the financial and business services sector, the largest in the economy.

However, by far the **largest source of job creation** in Q1 on a y/y basis was once again in respect of community, social and personal services, where there were **job gains of 65,000.** Many of these jobs are in **the public sector** and in the security industry. Cumulatively over the past year, a total of 157,000 jobs have been created in that sector. When it is borne in mind that total job creation over this period according to the QES has amounted to just 109,000, it can be seen that job creation in other sectors was actually negative.

Encouragingly from a wage inflation point of view, gross earnings increased by just 7.0% y/y in Q1, compared with 7.8% in Q4 2013 and an average of 8.1% for the whole of last year. Growth in remuneration per employee also declined to 6.5% y/y in Q1 2014, from 7.3% y/y in Q4 2013.

Table 6: Gains or losses in number of employees (QES) – *quarter compared to previous quarter*

	Q1-13	Q2-13	Q3-13	Q4-13	Q1-14
Mining					
Manufacturing					
Electricity, Gas & Water					
Construction					
Trade, Hotels & Non-Financial Services					
Transport & Communications					
Financial & Business Services					
Community & Personal Services					
Total Private Sector					

[2] *The QES is conducted from a survey covering 20,208 VAT registered private and public enterprises in the formal non-agricultural sector of the economy. As such, it should provide a fairly accurate measurement of employment trends in the formal sector. The second survey, the Quarterly Labour Force Survey (QLFS), is conducted from amongst 30,000 households and by virtue of this includes information on both formal and informal sector employment, as well as data on employment of domestic workers and agricultural workers. It is usually published at the beginning of the second month of every quarter.*

Table 7: Gains or losses in number of employees (QES) – *quarter compared to quarter in previous year*

	Q1-13	Q2-13	Q3-13	Q4-13	Q1-14
Mining					
Manufacturing					
Electricity, Gas & Water					
Construction					
Trade, Hotels & Non-Financial Services					
Transport & Communications					
Financial & Business Services					
Community & Personal Services					
Total Private Sector					

Source: Statistics SA

Chart 58: Formal non-agricultural employment

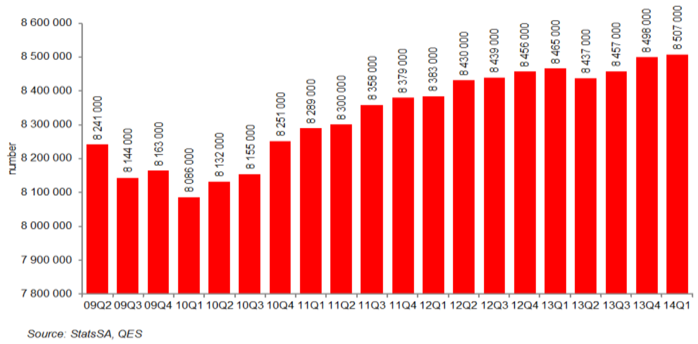


Chart 59: Change over four quarters in formal non-agricultural employment

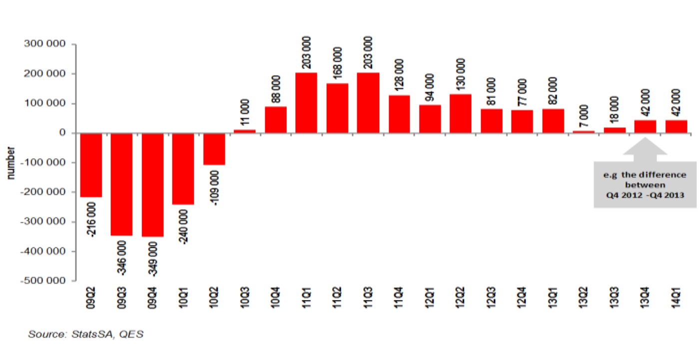


Chart 60: Change over one quarter in formal non-agricultural employment

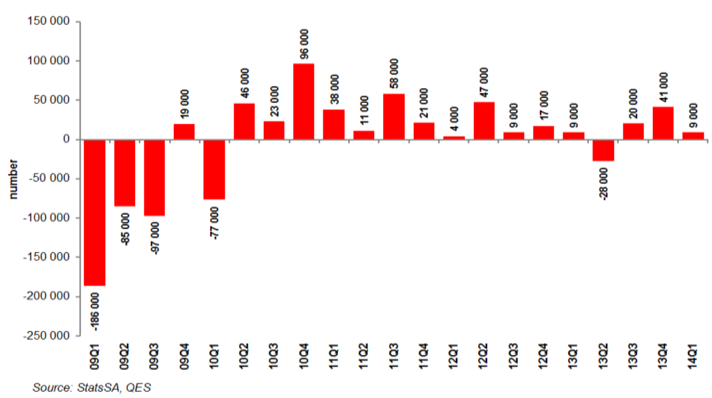


Chart 61: Employment by sector

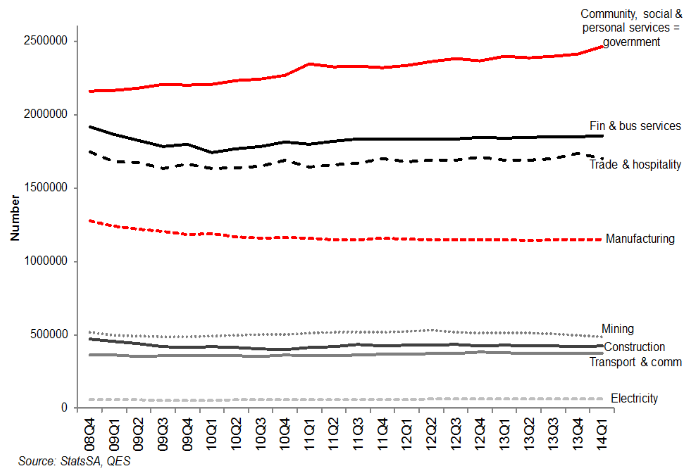


Chart 62: Change in formal employment by sector: Q1 2014: Change over four quarter (Q1 2014 vs Q1 2013)

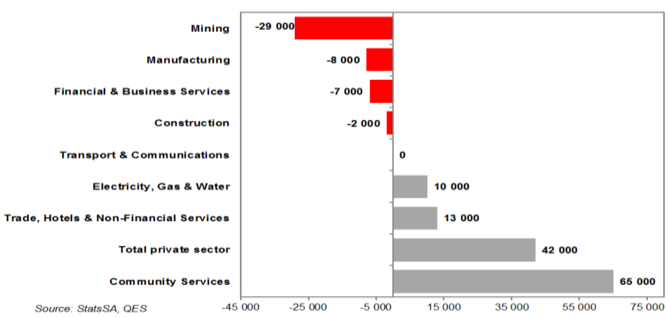
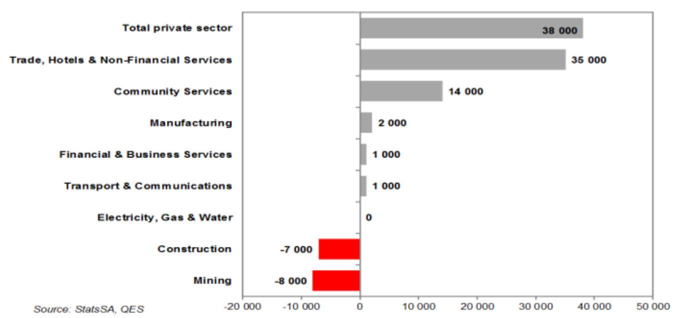


Chart 63: Change in formal employment by sector: Q1 2014: Change over one quarters (Q4 2013 vs Q1 2014)



Quarterly Labour Force Survey (QLFS)

The **Quarterly Labour Force Survey (QLFS)** release for **Q2 2014** reported a net job creation of 39,000 in the formal and informal sector. For the previous **Q1 2014,** both **QLFS and QES** reported marginal job creation in the formal sector. This might come as a surprise in view of the fact that the first half of 2014 was greatly affected by heightened waves of industrial action.

The QLFS collects data from 30,000 households and estimates employment in both the informal and formal sector. For **Q1 2014**, the survey reports a reduction of -122,000 jobs overall, compared with a job creation of 141,000 in Q4 2014. This decline was a seasonal phenomenon, as workers who were taken on in Q4 of the preceding year to take account of the holiday season activity, leave the job market once the season is over.

For **Q2 2014**, the QLFS showed a q/q gain of 39,000 jobs in formal and informal employment, or 0.2%. For the period compared with the corresponding Q2 2013, there were 403,000 new jobs created.

Some of the employment growth recorded in Q2 is attributable to the fact that there was a significant increase in employment amongst private households (60,000 q/q) and informal workers (43,000 q/q). In contrast, agriculture shed -39,000 jobs and the formal sector recorded a loss of -24,000 jobs. Despite this, on a y/y basis, formal sector employment was still reflected as having been as high as 381,000, about four times the quantum of jobs created according to the QES.

On the other hand, the number of unemployed persons rose to a new all-time record of 15.15m, up from 5.07m in Q1 2014. Dividing the number of unemployed persons by the estimated labour force, of 20.25m, yields the outcome that the official unemployment rate rose quite steeply for the second successive quarter, from 25.2% in Q2 2014, to 25.5% in Q2 2014.

Table 8: Key statistics from Quarterly Labour Force Survey (QLFS) ('000s)

	Q4 2013	Q1 2014	Q2 2014	*Quarter on quarter change*	*Year-on-year change*
Population 15-64yrs					
• Not economically active					
• Labour Force					
○ Employed					
* Formal (non-agric)					
* Informal (non-agric)					
* Agriculture					
* Private Households					
○ Unemployed					

Source: Statistics SA

Summary		Quarter	Latest	Previous
QES (Quarterly Employment Survey)	Actual jobs lost/gained **(q/q)**	Q1 2014		
QLFS (Quarterly Labour Force Survey)	Actual jobs lost/gained **(q/q)**	Q2 2014		
Official Unemployment rate (QLFS)		Q2 2014		

See page 55 for detailed forecast.

Table 9: Gains or losses in number of employees (QLFS) –*compared to previous quarter: ‘000s*

	Q1-2014 (vs Q4 13)	**Q2-2014** (vs Q1 14)
Agriculture		
Mining		
Manufacturing		
Electricity, Gas & Water		
Construction		
Trade, Hotels & Non-Financial Services		
Transport & Communications		
Financial & Business Services		
Community Services		
Private households		
Total		

Source: Statistics SA

Table 10: Gains or losses in number of employees (QLFS) –*compared to previous year: ‘000s*

	Q1-2014 (vs Q1 ’13)	**Q2-14** (vs Q2 ‘13)
Agriculture		
Mining		
Manufacturing		
Electricity, Gas & Water		
Construction		
Trade, Hotels & Non-Financial Services		
Transport & Communications		
Financial & Business Services		
Community Services		
Private households		
Total		

Source: Statistics SA

Chart 64: Total Employment

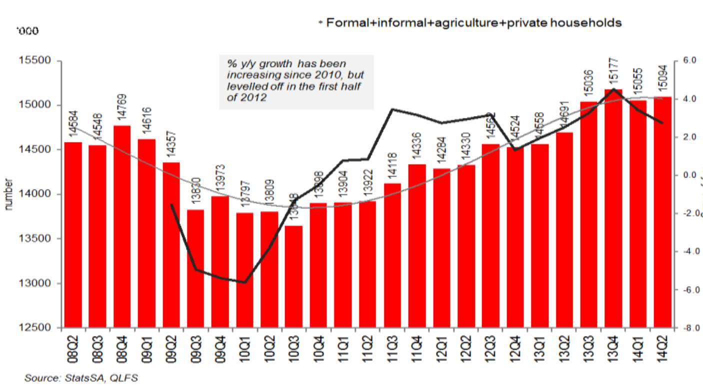


Chart 65: Total formal employment

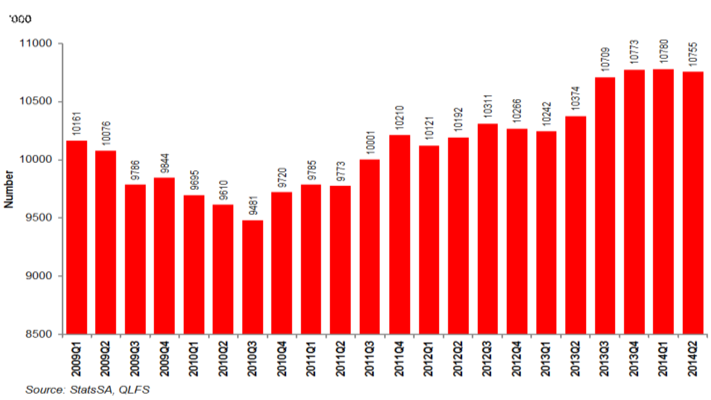


Chart 66: Total informal employment

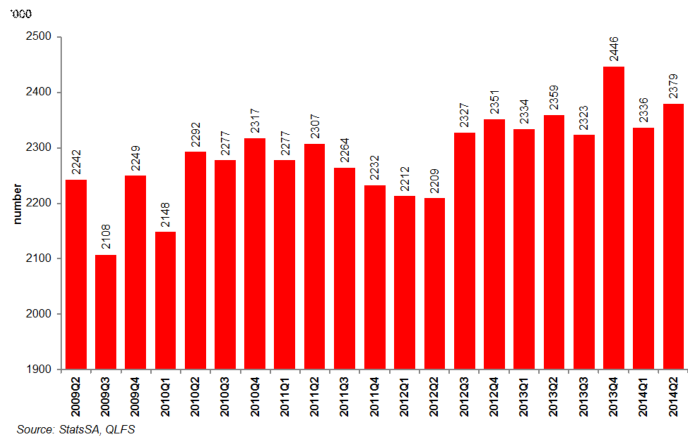


Chart 67: Labour force (employed + unemployed)

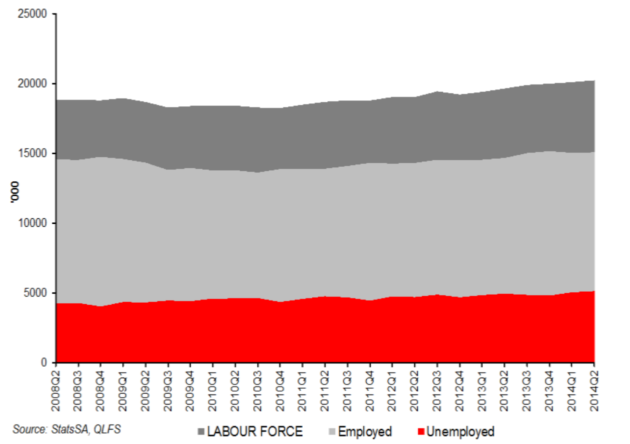


Chart 68: Change (quarter on quarter) in employment

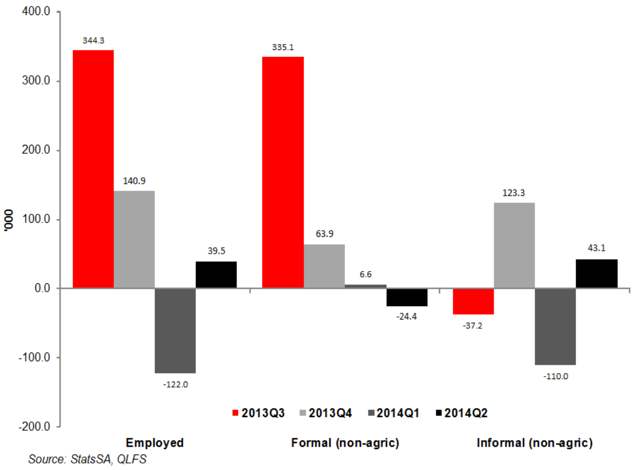
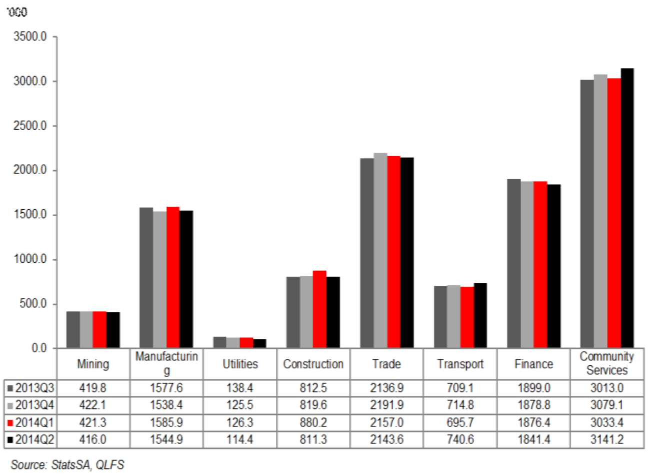
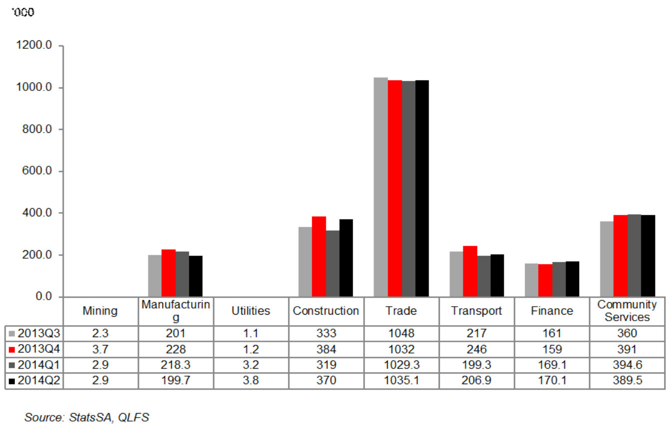


Chart 69: Formal sector (non-agric) employment by industry



	Mining	Manufacturing	Utilities	Construction	Trade	Transport	Finance	Community Services
2013Q3	419.8	1577.6	138.4	812.5	2136.9	709.1	1899.0	3013.0
2013Q4	422.1	1538.4	125.5	819.6	2191.9	714.8	1878.8	3079.1
2014Q1	421.3	1585.9	126.3	880.2	2157.0	695.7	1876.4	3033.4
2014Q2	416.0	1544.9	114.4	811.3	2143.6	740.6	1841.4	3141.2

Chart 70: Informal sector employment by industry



	Mining	Manufacturing	Utilities	Construction	Trade	Transport	Finance	Community Services
2013Q3	2.3	201	1.1	333	1048	217	161	360
2013Q4	3.7	228	1.2	384	1032	246	159	391
2014Q1	2.9	218.3	3.2	319	1029.3	199.3	169.1	394.6
2014Q2	2.9	199.7	3.8	370	1035.1	206.9	170.1	389.5

Chart 71: Change in employment: Change over one quarter

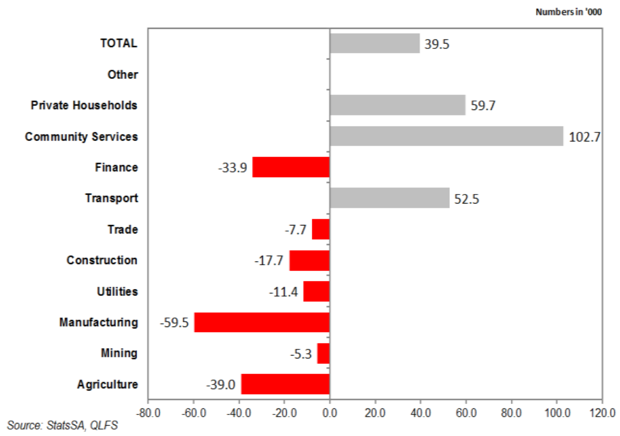
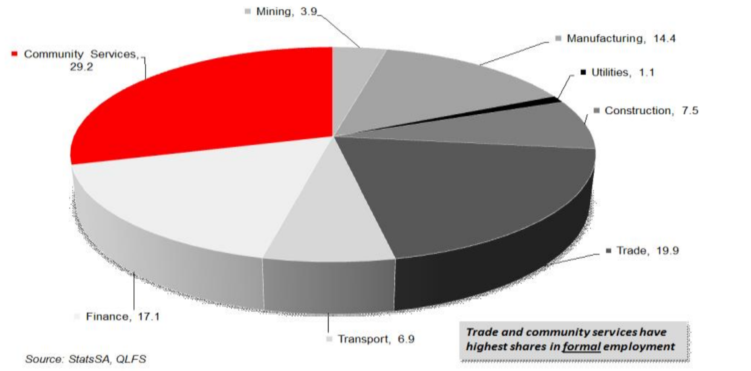
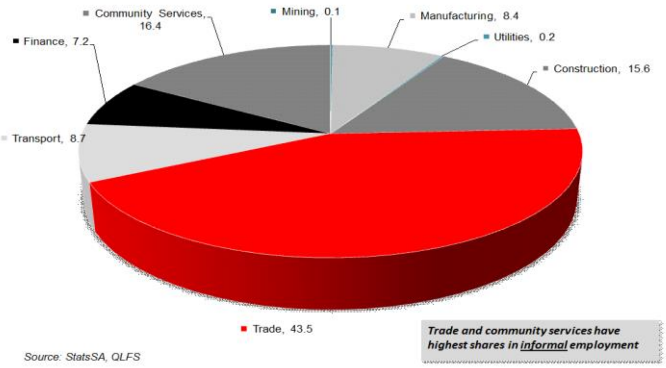


Chart 72: Share of industries in total formal employment (Q4 2013)



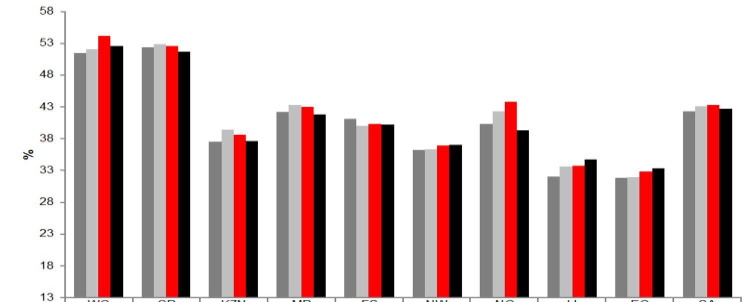
Source: StatsSA, QLFS

Chart 73: Share of industries in total informal employment (Q4 2013)



Source: StatsSA, QLFS

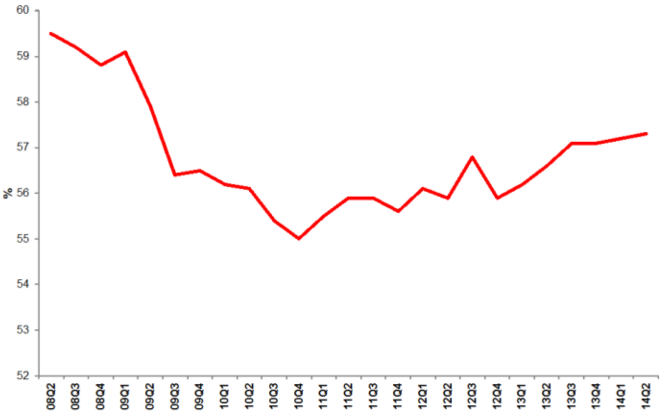
Chart 74: Employment as % of population ratio: by province



	WC	GP	KZN	MP	FS	NW	NC	LI	EC	SA
2013Q2	51.4	52.3	37.5	42.2	41.1	36.2	40.3	32	31.8	42.3
2013Q3	52	52.8	39.4	43.3	40	36.3	42.3	33.6	31.9	43.1
2013Q4	54.1	52.5	38.6	43	40.3	36.9	43.8	33.7	32.8	43.3
2014Q2	52.5	51.6	37.6	41.8	40.2	37	39.3	34.7	33.3	42.7

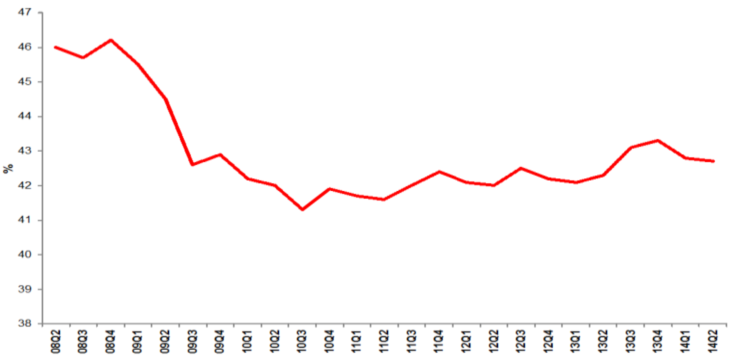
Source: StatsSA, QLFS

Chart 75: Labour force participation rate



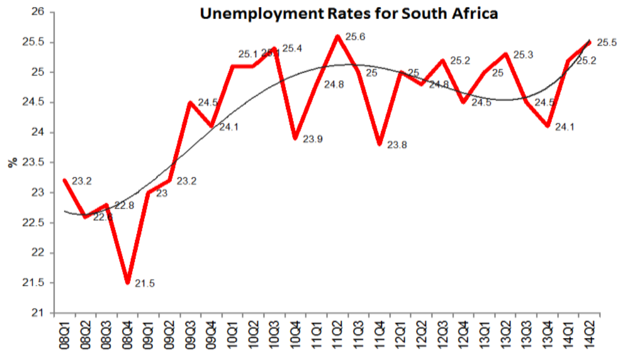
Source: StatsSA, QLFS

Chart 76: Employed/population ratio (absorption rate)



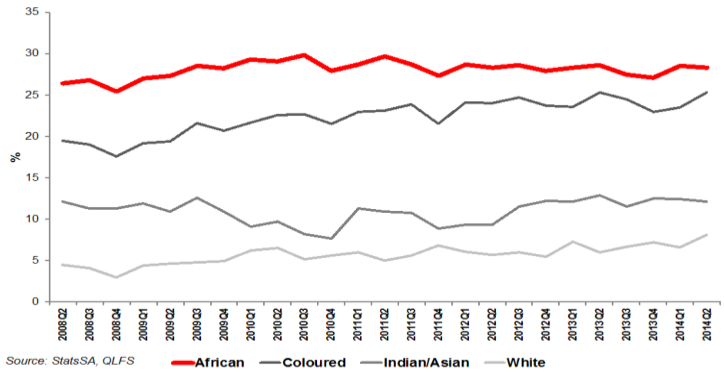
Source: StatsSA, QLFS

Chart 77: Unemployment rate



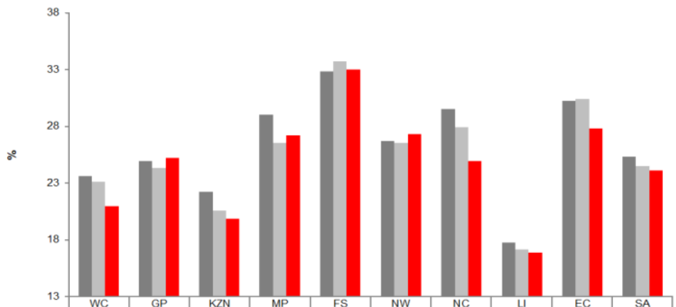
Source: StatsSA, QLFS

Chart 78: Unemployment rate by population group



Source: StatsSA, QLFS

Chart 79: Unemployment rate by province



	WC	GP	KZN	MP	FS	NW	NC	LI	EC	SA
2013Q2	23.6	24.9	22.2	29	32.8	26.7	29.5	17.8	30.2	25.3
2013Q3	23.1	24.3	20.6	26.5	33.7	26.5	27.9	17.2	30.4	24.5
2013Q4	21	25.2	19.9	27.2	33	27.3	24.9	16.9	27.8	24.1

Source: StatsSA, QLFS

Household debt/credit

Key household financial soundness indicators

Table 11: Financial health of households

	12Q3	12Q4	13Q1	13Q2	13Q3	13Q4	14Q1
Consumer confidence index							
Key ratios							
Consumption expenditure as % of GDP							
Savings as % of disposable income							
Debt as % of disposable income							
Debt as % of GDP							
Mortgage debt as % of disposable income							
Debt servicing costs as % of disposable income (income gearing ratio)							
Debt as % of household assets (capital gearing ratio)							
Debt as % of household assets (capital gearing ratio)							
Nominal disposable income							
Real disposable income							
Household debt[1]							
Household financial assets[2]							
Household total assets							
Household net wealth[3]							
Real consumption expenditure							
Household credit extended by monetary institutions[4]							
Mortgage advances extended to private sector							
Financing cost of household debt[5]							
Other indicators							
Nr of insolvencies							

Source: SARB Quarterly Bulletin & Financial Stability Review

[1] ***Total household debt*** *= open accounts in retail + open accounts in motor trade + personal loans by banks & building societies + personal loans by banks to agriculture + credit cards + microlending + loans issued by financial companies + hire purchases by banks + leasing finance + instalment sale credit by banks, commerce (motor trade & retail trade) + securitisation (retail, motor trade and other) + mortgage loans + securitisation for residential mortgages + loans granted by participating mortgage bond schemes + loans granted by private self admin & provident funds + bank credit for non-incorporated businesses.*

[2] ***Household financial assets*** *include households' deposits with financial institutions, their share in pension funds & proxy for their holdings of shares.*

[3] ***Household net wealth*** *comprises household total assets, i.e. total fixed assets + financial assets – liabilities.*

[4] ***Credit extended*** *to households by* ***all monetary institutions*** *= installment sales + leasing finance + mortgage advances + overdrafts + credit cards + general loans & advances.*

Household financial and debt soundness synopsis

Analysing the framework below, it can be concluded that the financial and debt position of the household sector continues to remain under pressure (e.g. the household debt to disposable income ratio remains very high at 74.5%). Not only are the number of ''red'' blocks more than the number of ''blue'' blocks in the table below for Q1 2014, but they are also more than in preceding quarters, which suggests that households are coming under increased financial pressure.

Household sector fundamentals are not improving much and confidence levels remain very low (although the FNB/BER consumer confidence index did improve from -6 in Q1 to 4 in Q2 2014). Households' balance sheets remain plagued by high debt levels, higher debt servicing costs, high inflation and poor domestic economic growth conditions in the face of persistent labour unrest, extensive unemployment, low productivity and electricity generation capacity constraints.

	12Q4	13Q1	13Q2	13Q3	13Q4	14Q1
Household sector financial conditions and determinants thereof						
Real Disposable Income Growth (q/q ann.)						
Employment Growth						
Average Real Wage Growth						
SARB Leading Economic Indicator Growth - quarterly avg. (q/q ann.)						
Real Economic Growth (q/q ann.)						
Interest Rates on debt (quarterly average)						
Consumer Price Inflation						
Household debt-to-disposable income ratio						
Household debt-service ratio						
[illegible]						
Household Net Saving-to-PDI Ratio						
Real house prices (y/y[illegible]						
JSE All Share Index ([illegible]						
Indicators of household confidence						
Consumer Confidence Index (FNB/BER)						

Source: SARB, FNB

- *Forecast*

Blue = Improvement; Grey = no change/less deterioration; red = deterioration

Total household credit

- **Total household debt**[3] rose for the first time on a y/y growth basis since Q4 2012, to 5.5% in Q1 2014 from 5.3% in Q4 2013. While household debt as a percentage of disposable income continued to decline marginally for the third consecutive quarter to 74.5% in Q1 2014 (from 74.6% in Q4 2013), household debt stress was nonetheless intensified by a rise in the income gearing ratio (debt servicing cost as a percentage of personal disposable income). In addition, the ratio of household debt to gross domestic product (GDP) remained high at 44.9% in Q1 2014 (albeit down slightly from 45.1% in Q4 2013), which remains a drag on the net wealth of households (declining to a growth rate of 14.0% y/y in Q1 2014, from 14.4% in Q4 2013). The TransUnion Consumer Credit Index for Q2 2014 also persisted below the 50 point mark for the tenth consecutive quarter, indicating that the credit health of consumers continues to weaken.

- **The debt position of households** can be expected to remain strained over the medium term due to high inflation (averaging 6.2% y/y over the first six months of the year and reaching 6.6% in June 2014), low real disposable income growth (1.0% y/y in Q1 2014), increased debt servicing costs (following the 0.5% and 0.25% interest rate hike in January and July 2014, respectively, which raised the prime rate to 9.25%) and a weak economic growth outlook (given persistent labour unrest, an unreliable supply of electricity and high unemployment). A further interest rate increase before the end of the year is also anticipated as SARB moves toward the attainment of positive real interest rates (especially if inflation remains above the 3%-6% target band, the Rand depreciates further as the U.S. continues to taper off on quantitative easing and the U.S. raises interest rates earlier than anticipated), which will place additional strain on household finances.

- **Total household credit**[4] extended by monetary institutions continued to moderate on a y/y growth basis since Q4 2012 (when it was 9.9%) to 4.4% in Q2, from 5.2% in Q1 2014. The slowdown in credit growth from monetary institutions could mainly be attributed to the significant decline in the rollout of unsecured loans (i.e. from a high growth of 38.8% y/y in Q2 2011 to 2.8% in Q2 2014) due to pressure from authorities on lending institutions.

- For the year to date, total household credit extended by monetary institutions grew by 4.8% y/y, which is substantially below the 8.3% credit extension growth recorded over 2013. Notwithstanding the slowdown in unsecured lending, the declining growth trend in credit granted to households over the past 20 months is an indication that people are borrowing less to fund consumer spending.

Table 12: Growth (y-o-y) in total household debt

	2011	2012	2013	2014
Q1				
Q2				
Q3				
Q4				
Average				

Source: SARB

Table 13: Growth (y-o-y) in total household credit from monetary institutions

	2011	2012	2013	2014
Q1				
Q2				
Q3				
Q4				
Average				

[3] *For a definition of household debt and household credit, please see Notes and Definitions at the end of this report.*

Chart 80: Total household debt (Rand value)

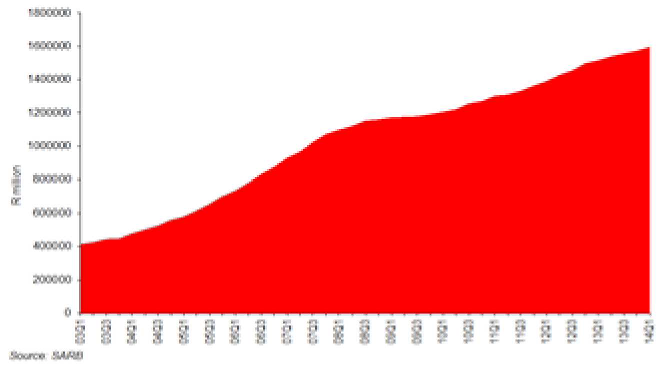


Chart 81: Growth in total household debt

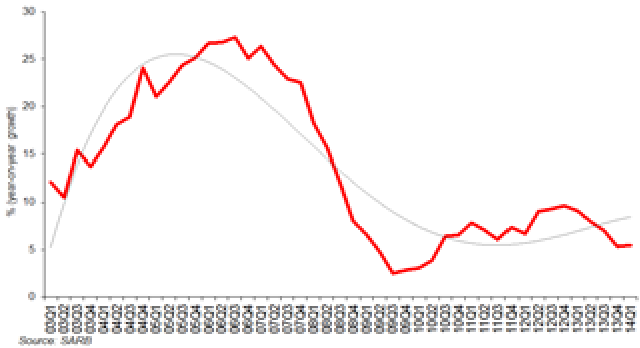


Chart 82: Growth in total household debt (annual basis

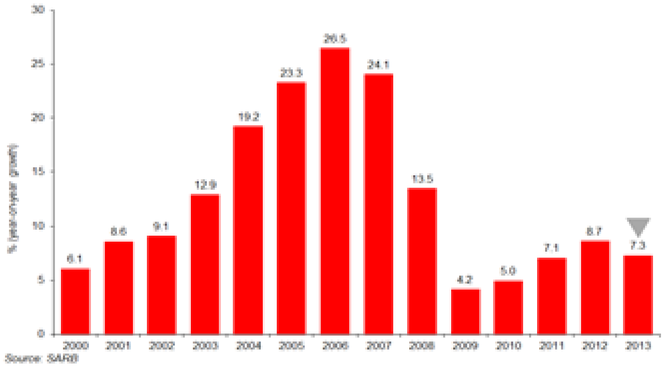


Chart 83: Growth in household debt and prime rate (lagged)

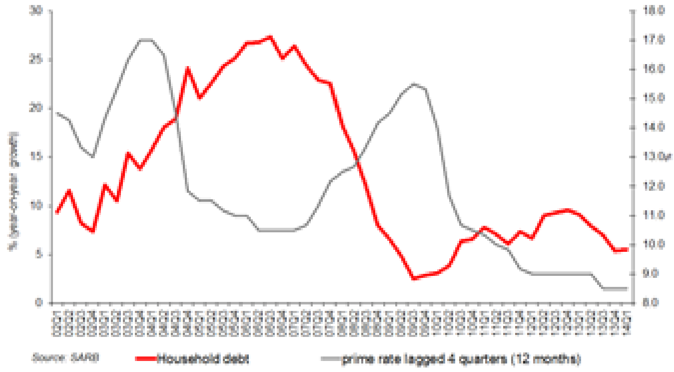


Chart 84: Household credit extended by monetary institutions (Rand value)

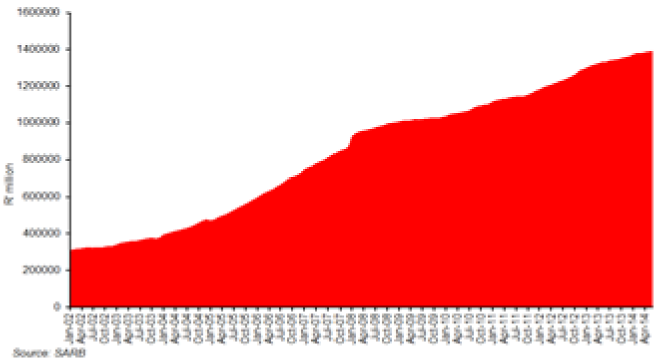


Chart 85: Growth in household credit extended by all monetary institutions

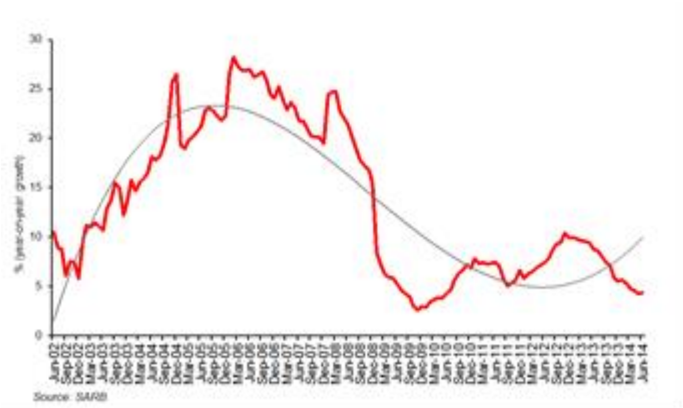


Chart 86: Growth in household credit extended by monetary institutions (annual basis)

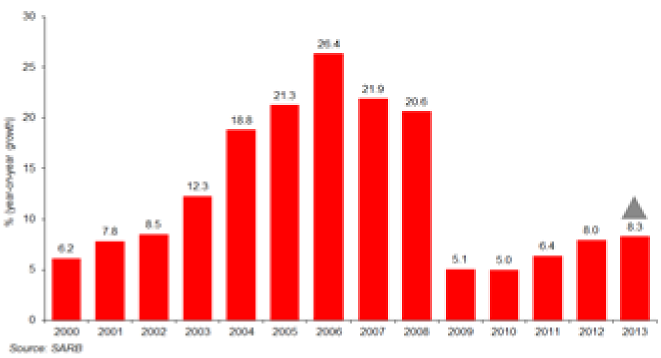
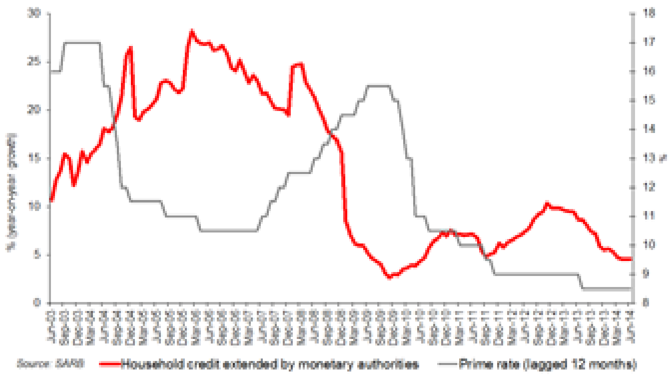


Chart 87: Growth in household credit and prime rate (lagged)



Household credit composition

➲ Key point: *While declining sharply on a y/y basis, the share of unsecured lending in total household credit extended by monetary institutions rose marginally in Q2 2014.*

- The share of **mortgages** in total credit extended to households from monetary institutions is the largest source of credit demand and has been declining since Q4 2009 when it was 70.3%. The share of mortgages declined to 59.1% in Q2 2014, from 59.2% in Q1 and 59.7% in Q4 2013. The share averaged 67.1% in 2011, 63.5% in 2012, 60.2% in 2013 and 59.1% for the 2014 year to date.
- The share of **instalment sales credit** in total credit extended to households from monetary institutions is the second largest source of credit demand and has been rising since Q3 2007 when it was 10.8%. The share of instalment sales credit remained unchanged at 16.7% in Q2 2014 in comparison to Q1, but rose from 16.5% in Q4 2013. The share averaged 13.5% in 2011, 14.7% in 2012, 16.0% in 2013 and 16.7% for the 2014 year to date.
- The share of **unsecured credit (general loans and advances)** in total credit extended to households from monetary institutions is the third largest source of credit demand and rose once again in Q2 2014 after increasing remarkably since Q3 2007. The share of unsecured lending increased to 14.6% in Q2 2014, from 14.5% in Q1, but equivalent to the 14.6% in Q4 2013. The share averaged 11.0% in 2011, 13.4% in 2012, 14.7% in 2013 and 14.6% for the 2014 year to date.
- The share of **credit cards** in total credit extended to households from monetary institutions is the fourth largest source of credit demand and has been rising since Q3 2010 when it was 4.6%. The share of credit cards increased to 6.6% in Q2 2014, from 6.5% in Q1 and 6.4% in Q4 2013. The share averaged 4.9% in 2011, 5.3% in 2012, 6.2% in 2013 and 6.6% for the 2014 year to date.
- The share of **overdrafts** in total credit extended to households from monetary institutions is the fifth largest source of credit demand and has been varying between 3.3% and 2.2% since Q3 2007. The share of overdrafts declined to 2.7% in Q2 2014, from 2.8% in Q1, but up from 2.5% in Q4 2013. The share averaged 2.3% in 2011 and 2012, 2.5% in 2013 and 2.7% for the 2014 year to date.
- The share of **leasing finance** in total credit extended to households from monetary institutions is the smallest source of credit demand and has been declining since Q3 2007 when it was 4.9%. The share of leasing finance decreased to 0.3% in Q2 2014, from 0.4% in both Q1 and Q4 2013. The share averaged 1.3% in 2011, 0.8% in 2012, 0.5% in 2013 and 0.4% for the 2014 year to date.

Table 14: Composition of total household credit extended by monetary institutions (% share)

	Instalment sales credit	Leasing finance	Mortgage advances	Overdrafts	Unsecured lending (general loans & advances)	Credit cards	Total
Q2 2012							
Q3 2012							
Q4 2012							
Q1 2013							
Q2 2013							
Q3 2013							
Q4 2013							
Q1 2014							
Q2 2014							

Source: SARB, Econometrix

Chart 88: Composition of total credit extended to households

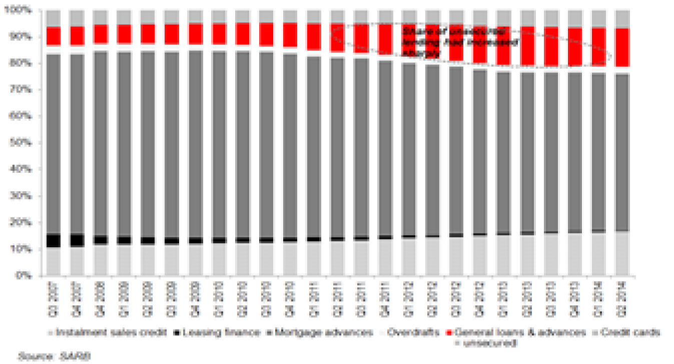


Chart 89: Composition of total credit extended to households (2013)

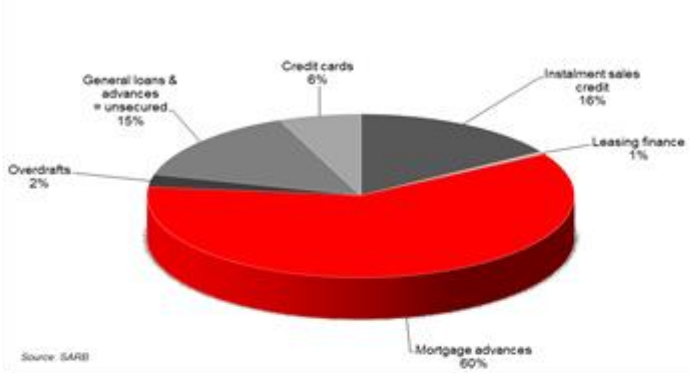


Chart 90: % share of household instalment sales in total household credit

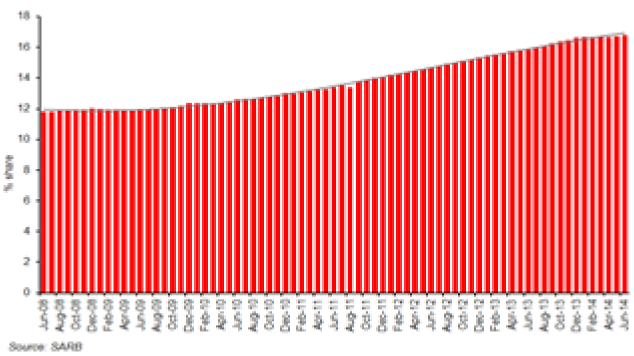


Chart 91: % share of household leasing finance in total household credit

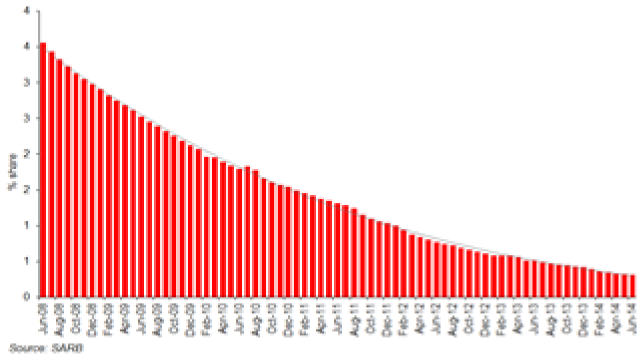


Chart 92: % share of household mortgage advances in total household credit

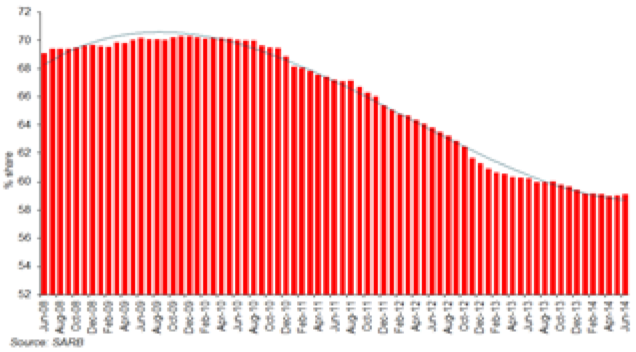


Chart 93: % share of household overdrafts in total household credit

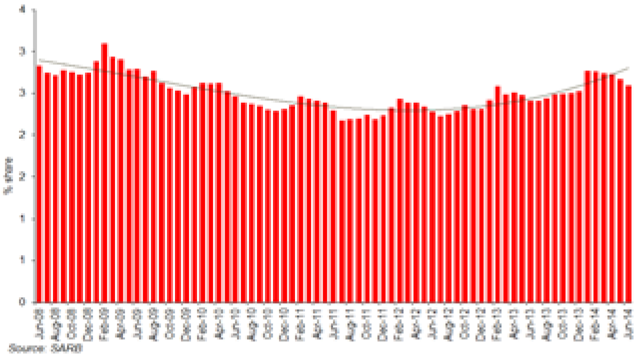


Chart 94: % share of household unsecured credit in total household credit

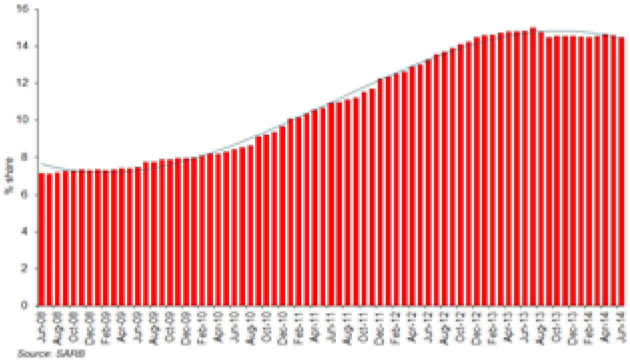
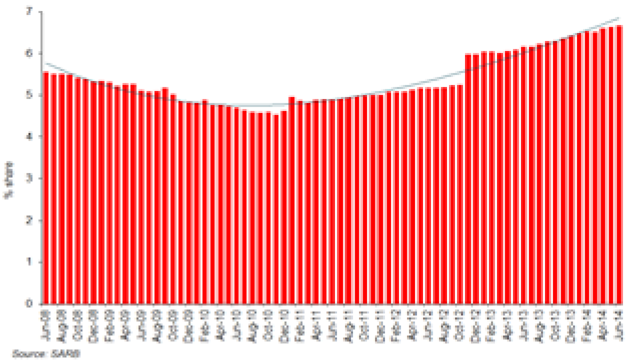


Chart 95: % share of household credit cards in total household credit



Household credit – Instalment sales & Leasing finance

- Key point: *Leasing finance continues negative growth trajectory since changes in financial legislation and as consumers cut back on spending on luxury items.*

- Household **instalment sales credit** (or HP credit) extended by monetary institutions - which is generally used to finance the purchase of motor vehicles, furniture, appliances and other durable goods - continued to decelerate on a y/y growth basis since Q4 2012 (when it was 19.6% up on Q4 2011) to 10.4% in Q2, from 12.9% in Q1 2014. After falling for 13 consecutive months, instalment sales credit growth increased to 10.6% y/y in June, from 9.9% in May 2014. Nonetheless, growth in June was below the average 11.7% y/y growth in instalment sales credit for the year to date.

- Household **leasing finance** extended by monetary institutions - which is also typically used to fund the purchase of vehicles - has been in negative territory on a y/y growth basis since December 2007 and continued to decline to -35.2% in Q2 2014, from -33.2% and -27.3% in Q1 and Q4 2013, respectively. The decline occurred despite positive y/y growth in new and used vehicles sold of 2.2% on average for the year to date, suggesting that households are becoming less reliant on leasing finance to fund their transportation needs. Y/y growth in leasing finance also decreased to -34.8% in June 2014, from -33.3% in May, albeit up from the -37.6% low in April 2014. Nonetheless, growth in June was still below the average -34.2% y/y growth in leasing finance for the year to date.

- The negative growth in leasing finance since late 2007 can be attributed to changes in financial legislation and consumers' spending limitations on luxury items such as furniture, electronic equipment, new motor vehicles and various durable household appliances.

Table 15: Growth (y-o-y) in household instalment sale credit from monetary institutions

	2011	2012	2013	2014
Q1				
Q2				
Q3				
Q4				
Average				

Source: SARB

Table 16: Growth (y-o-y) in household leasing finance from monetary institutions

	2011	2012	2013	2014
Q1				
Q2				
Q3				
Q4				
Average				

Source: SARB

Chart 96: Household instalment sales (Rand value)

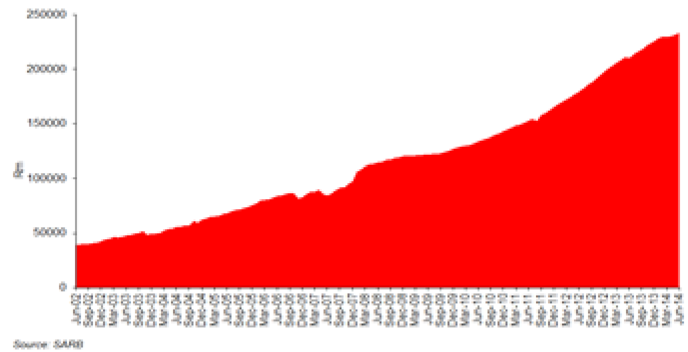


Chart 97: Household instalment sales (y-o-y growth)

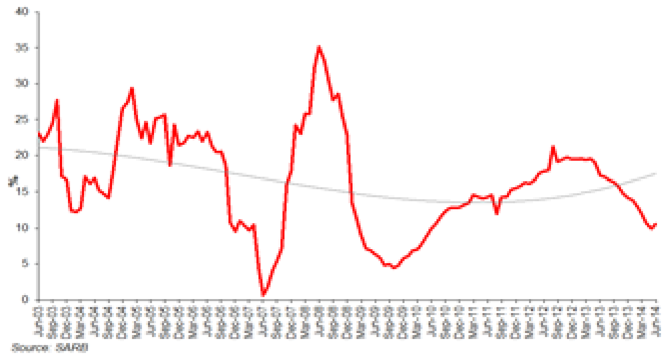


Chart 98: Growth in household instalment sales (annual basis)

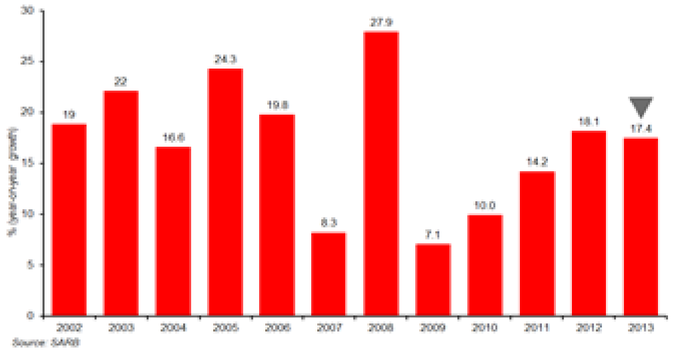


Chart 99: Household instalment sales vs real household durable consumption expenditure and furniture retail sales

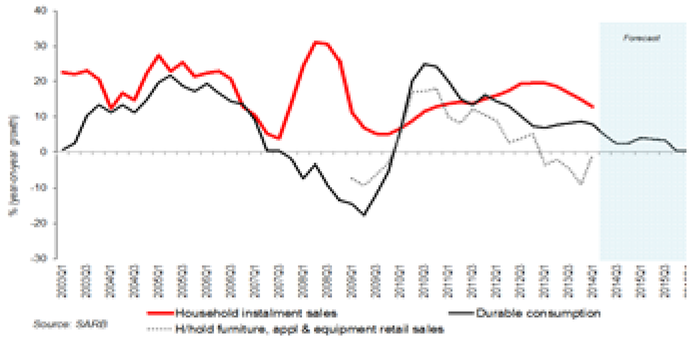


Chart 100: Household leasing finance (Rand value)

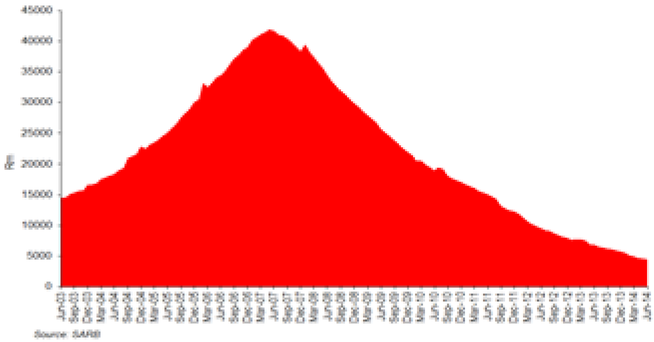


Chart 101: Household leasing finance (y-o-y growth)

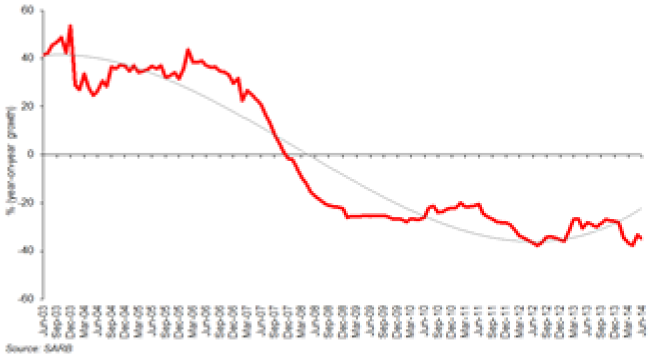


Chart 102: Growth in household leasing finance (annual basis)

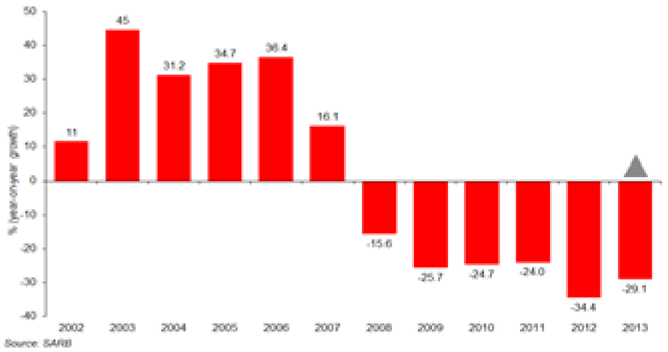
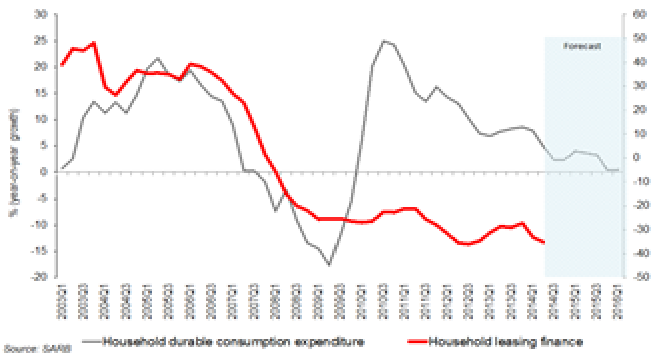


Chart 103: Household leasing finance vs real household durable consumption expenditure growth



Household credit – Mortgages & Overdrafts

➲ **Key point:** *Growth in mortgage advances slows in Q2 2014 given tight household balance sheet positions.*

- The high double-digit growth rates observed in **mortgage advances to households** between 2002 and 2008 declined dramatically since 2009 to single-digit levels following the subprime crisis emanating in the U.S. Growth in mortgage advances slowed to 2.3% y/y in Q2 2014, from 2.6% and 2.5% in Q1 and Q4 2013, respectively. On a y/y basis, growth in mortgage advances edged up in June 2014 to 2.4%, from 2.2% and 2.3% in May and April, respectively. Nonetheless, growth in June was still slightly below the average 2.5% y/y growth in mortgage advances for the year to date and 2.7% in 2013.
- Real growth in completed building activity declined sharply in Q1 2014 to -3.8% y/y, from 4.0% and 15.7% in Q4 and Q3 2013, respectively. However, while still negative, building plans passed in Q1 2014 increased to -0.1% y/y, from -2.7% in Q4 2013. This provides an indication that mortgage advances should remain positive over the remainder of this year. Even so, growth in mortgage loans is likely to remain subdued in coming months since households remain characterised by high levels of indebtedness (i.e. although the ratio of household debt to disposable income declined marginally it was still high by historical standards at 74.5% in Q1 2014).

  The financial position of households is further hampered by higher debt servicing costs following SARB's interest rate increases which took the prime lending rate to 9.25% in July, prospects of a further interest rate hike toward the end of this year in pursuit of positive real interest rates and high inflation (i.e. above the 3%-6% target band and reaching 6.6% in June 2014).
- Y/y growth in household **overdrafts extended by monetary institutions** declined to 12.8% in Q2 2014, from 16.2% in Q1 and 14.4% in Q4 2013. This was the lowest growth rate in overdrafts since Q4 2012 when it was 15.2% y/y, but yet significantly above the negative growth of -1.8% observed between 2008 and 2011. Y/y growth in household overdraft accounts continued to decline to 12.2% in June 2014, from 12.6%, 13.5% and 15.6% in May, April and March, respectively. Downside risks remain to growth in household overdrafts in the face of potential further interest rate hikes).

Table 17: Growth (y-o-y) in household mortgage advances from monetary institutions

	2011	2012	2013	2014
Q1				
Q2				
Q3				
Q4				
Average				

Source: SARB

Table 18: Growth (y-o-y) in household overdrafts from monetary institutions

	2011	2012	2013	2014
Q1				
Q2				
Q3				
Q4				
Average				

Source: SARB

Chart 104: Household mortgage advances (Rand value)

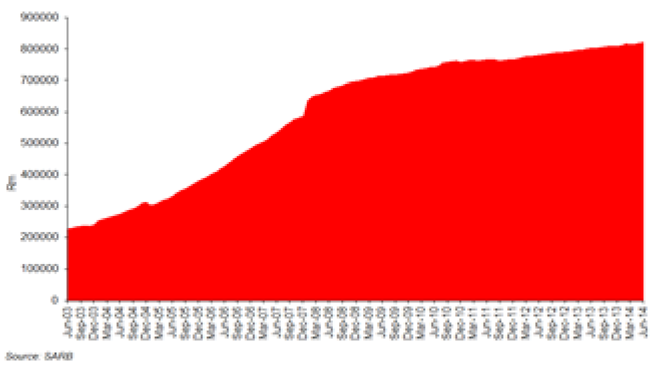


Chart 105: Household mortgage advances (y-o-y growth)

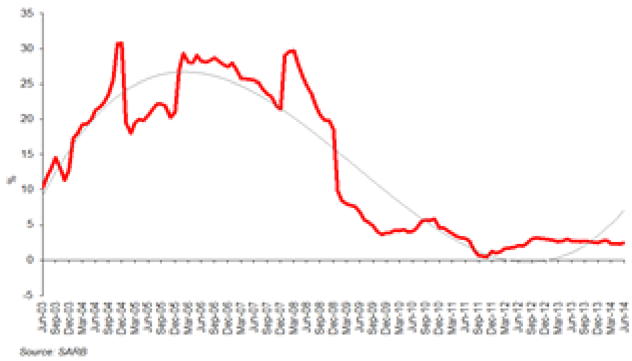


Chart 106: Growth in household mortgage advances (annual basis)

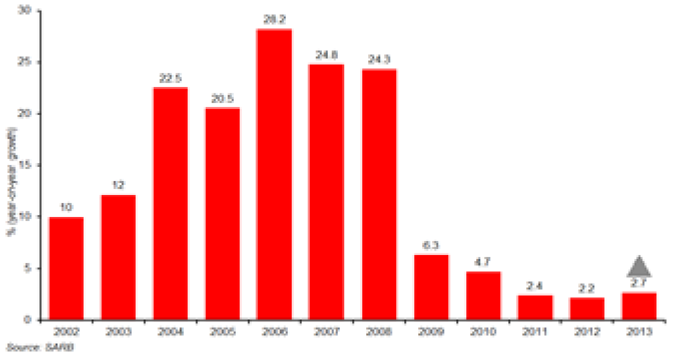


Chart 107: Growth in household mortgage advances vs real residential building plans passed and residential building fixed capital formation

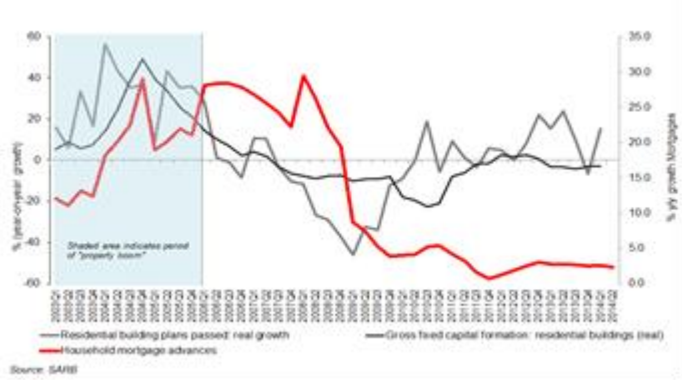


Chart 108: Household overdrafts (Rand value)

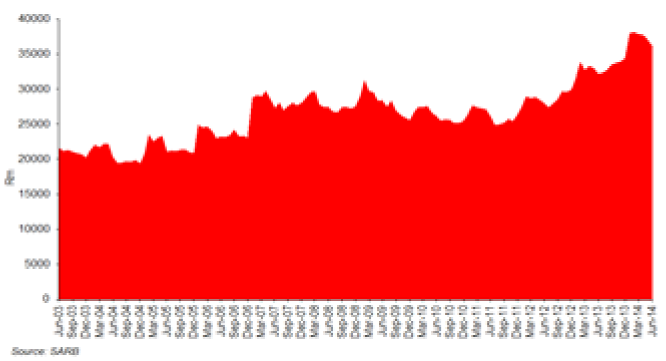


Chart 109: Household overdrafts (y-o-y growth)

Chart 110: Growth in household overdrafts (annual basis)

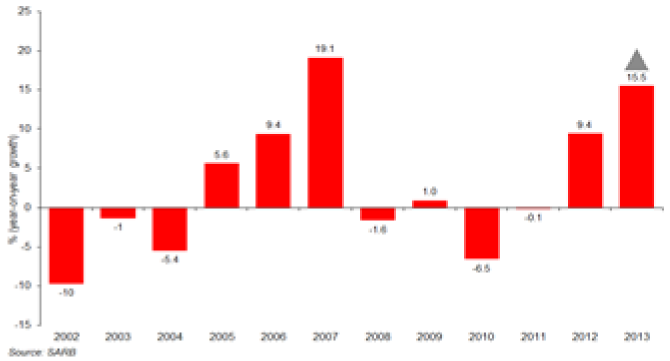
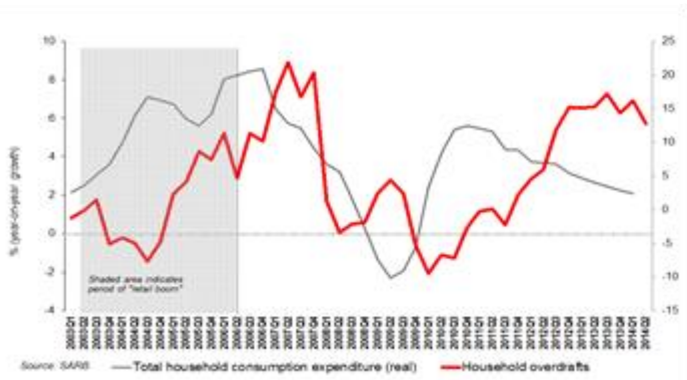


Chart 111: Growth in household overdrafts vs real household consumption expenditure growth



Household credit – Unsecured lending & Credit cards

➲ **Key point:** *Growth in unsecured lending continues on downward trajectory.*

- **Growth in unsecured credit (general loans and advances)** to households continued its sharp downward trajectory since September 2012 when it reached a high of 35.4% y/y. Growth in unsecured lending declined to 2.8% y/y in Q2 2014, from 4.3% in Q1 and 8.2% and 16.2% in Q4 and Q3 2013, respectively. On a y/y basis, growth in this form of lending declined from 2.8% and 3.5% in May and April, respectively, to 1.9% in June 2014, which was the lowest growth recorded for unsecured credit in almost eleven years (i.e. since July 2003 when it was 1.2%). The substantial decline in the pace of unsecured loan growth can be attributed to higher consumer loan impairments and pressure from authorities on financial institutions to reduce their lending of unsecured credit and apply stricter criteria to the granting of such loans in order to limit defaults.
- Low rates of growth in unsecured lending are expected to continue in the short to medium term, which will in turn place downward pressure on overall consumer spending, particularly from poorer segments of the population. The impact of the fall in unsecured lending has already been evident in lower consumption expenditure growth (i.e. total personal consumption expenditure declined from a post-recession high of 5.6% y/y in Q4 2010 to 2.1% in Q1 2014).
- Household debt owed on **credit cards** remained unchanged on a y/y growth basis at 13.6% in Q2 2014, but was significantly lower than the 18.2% and 29.3% growth recorded for Q4 and Q3 2013, respectively. This was also the lowest growth recorded since Q2 2012 when it was 13.0%. Y/y growth in the total amount owed by households on credit cards slowed to 13.0% in June 2014, from 13.7% and 14.1% in May and April, respectively.
- It can be rationalised that credit card growth will remain more or less subdued in comparison to historic levels when interest rates are raised to levels above inflation (i.e. positive real rates).

Table 19: Growth (y-o-y) in household unsecured lending (general loans & advances) from monetary institutions

	2011	2012	2013	2014
Q1				
Q2				
Q3				
Q4				
Average				

Source: SARB

Table 20: Growth (y-o-y) in household credit cards from monetary institutions

	2011	2012	2013	2014
Q1				
Q2				
Q3				
Q4				
Average				

Source: SARB

Chart 112: Household unsecured lending/general loans and advances (Rand value)

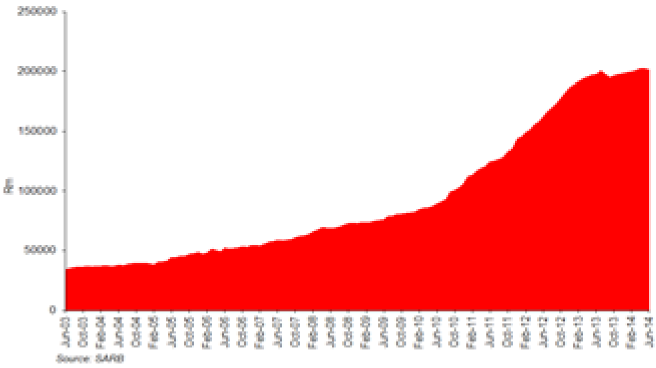


Chart 113: Household unsecured lending (y-o-y growth)

Chart 114: Growth in household general loans & advances/unsecured lending (annual basis)

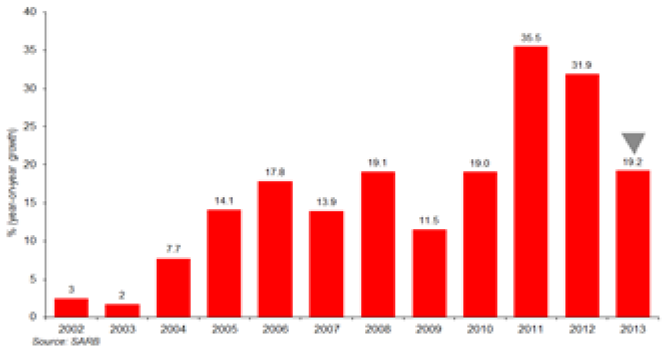


Chart 115: Growth in household unsecured lending vs real household durable consumption expenditure and disposable income

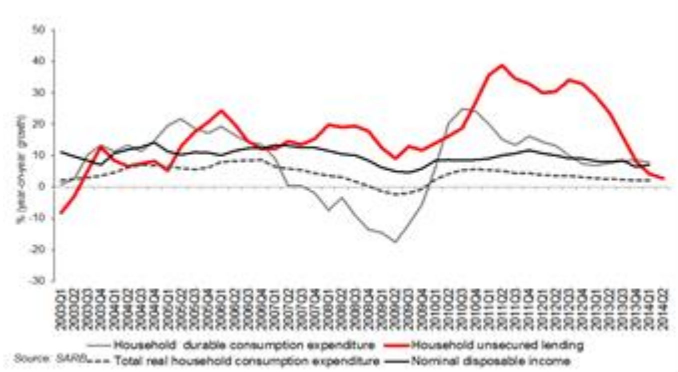


Chart 116: Household credit cards (Rand value)

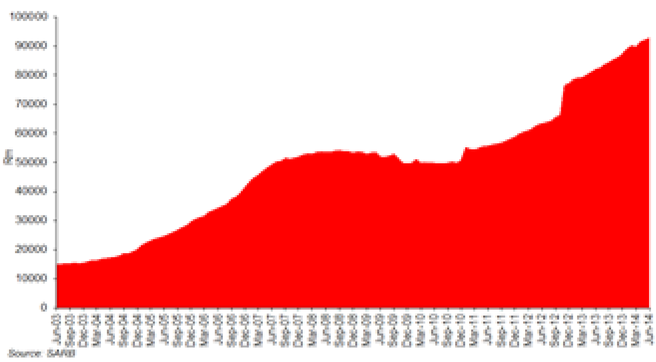


Chart 117: Household credit cards (y-o-y growth)

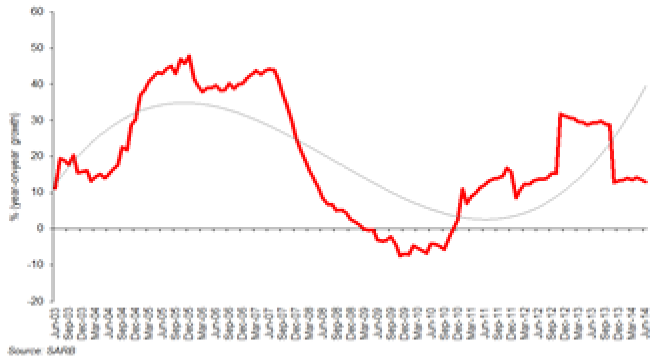


Chart 118: Growth in household credit cards (annual basis)

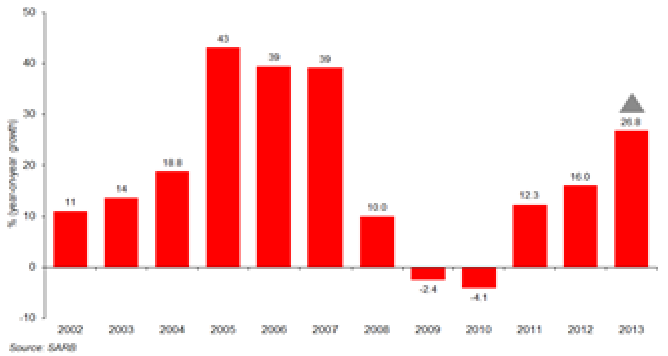
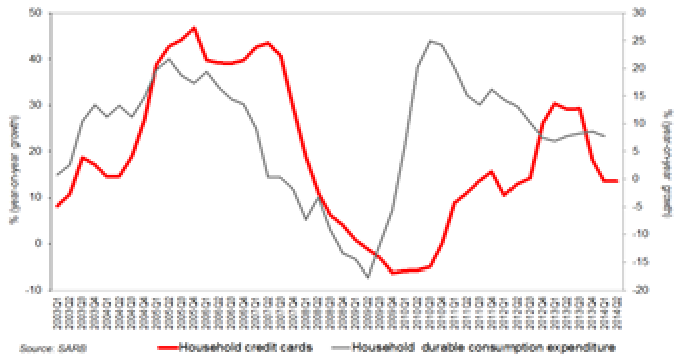


Chart 119: Growth in household credit cards vs real household durable consumption expenditure growth



Determinants of the demand for household debt

- The use of consumer credit is determined largely by household investment activities and changes in expenditure on consumer goods. Household consumption expenditure is, in turn, strongly influenced by consumers' current and anticipated disposable income levels, their associated marginal propensity to consume versus save, their asset holdings and changes in the market value of their assets, the cost of credit (i.e. interest rates), inflation, consumer confidence and the age distribution of consumers.
- There existed a close correlation between y/y growth in **total nominal household debt** and **real household consumption expenditure** up until mid-2009; thereafter, while household consumption expenditure growth and household debt growth followed a similar trend, growth in household debt outpaced that of household consumption expenditure, which implies that consumers have become more reliant on debt to finance their expenditure needs (see Chart 120, where consumption expenditure growth is plotted on the left axis and debt growth on the right axis). The gap between household consumption expenditure growth and household debt growth appears to have widened marginally in Q1 2014.
- There exists an inverse relationship between **interest rates** and household debt (i.e. higher interest rates eventually lead to lower growth in household debt, usually after a lag of between three to six quarters). The SARB raised interest rates by 0.5% and 0.25% in January and July 2014, respectively, which increased the current prime rate to 9.25%. A further interest rate hike of 0.25% is also anticipated before the end of the year as the SARB moves toward its goal of returning to positive real interest rates (i.e. above inflation). However, this should not have a large negative impact on (already weak) economic growth as expected, since interest rates still remain at relatively low levels and South Africa's growth environment is currently hampered more by domestic structural and international factors than monetary policy. The increase in interest rates however could augur negatively for household debt growth.
- R**eal disposable income growth** edged up in Q1 2014 to 1.0% y/y, from a dismal 0.6% in Q4 2013 (which was the lowest rate recorded since Q2 2010). Nonetheless, this was still lower than the average growth recorded in real disposable income for 2013 as a whole of 1.9% y/y, 2012 of 5.1% and 2011 of 4.3%. Growth in disposable income in Q1 2014 continued to be negatively affected by rising inflation more generally, higher debt servicing costs since the 0.5% rise in interest rates in January and the adverse effect of widespread labour unrest.
- Some encouragement can be drawn from the fact that the ratio of **household debt to disposable income** declined in Q1 2014, for the third consecutive quarter, to 74.5%, from 74.6% in Q4 2013. However, this is still a fairly high ratio in relation to levels of between 50% and 55% of disposable income which prevailed in the first half of the last decade. Under the circumstances, it is difficult to see a credit-led boom helping to boost overall economic growth in the medium term.
- Positively and linked to the decline of household indebtedness, **gross savings** picked up in Q1 2014 to 14.6% of GDP, its highest level in two years. In the midst of frequent and protracted labour unrest it is clear that individuals and businesses have become more cautious in spending and have instead begun to show distinct signs of saving more (which should be boosted by further interest rate increases).
- From a financial stability perspective, it is not only the level of household debt that matters, but its sustainability as well. **Debt servicing cost as a percentage of disposable income (income gearing ratio)** rose marginally for the second conscutive quarter to 7.9% in Q1 2014, from 7.7% and 7.6% in Q4 and Q3 2013, respectively. While this is still substantially below the double-digit income gearing ratio observed between the periods 1995 to 2000 and 2007 to 2010, the increase in the income gearing ratio nevertheless indicates that households found it more difficult to service outstanding debt out of income. However, this was partially offset by a decline in **household debt as a percentage of total household assets (capital gearing ratio)**, which declined for the third consecutive quarter to 17.9% in Q1 2014, from 18.0%, 18.6% and 19.1% in Q4, Q3 and Q2 2013, respectively. The capital gearing ratio was also lower in Q1 2014 than the long term average of 18.2% since 1994, which points to the improved ability of households to service outstanding debt out of assets in the event of adverse shocks to their income.

Table 21: Growth (y-o-y) in household credit cards from monetary institutions

	2012 Q4	2012	2013Q1	2013Q2	2013Q3	2013Q4	2013	2014Q1
Household debt/income ratio								
Income gearing								
Capital gearing								
Debt as % of GDP								

Source: SARB

Chart 120: Growth in household debt vs real household consumption expenditure growth

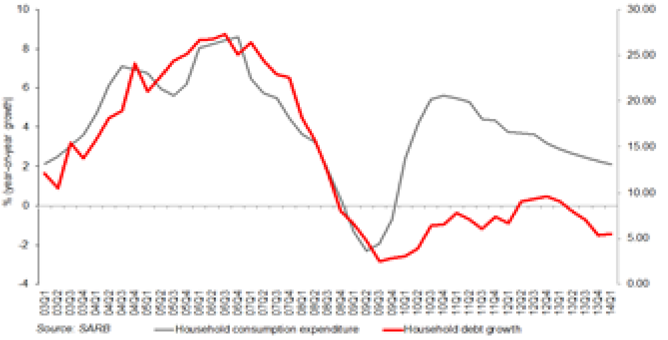


Chart 121: Growth in total household debt vs durable consumption

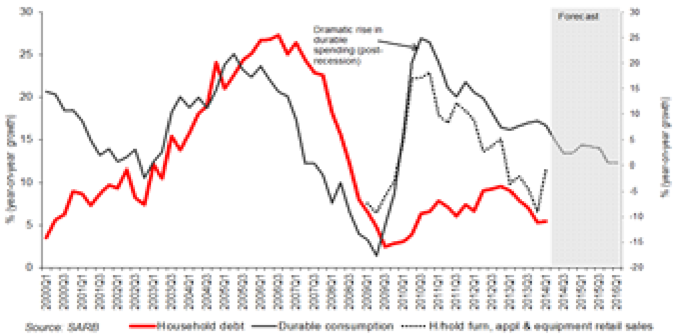


Chart 122: Household debt growth vs personal disposable income growth

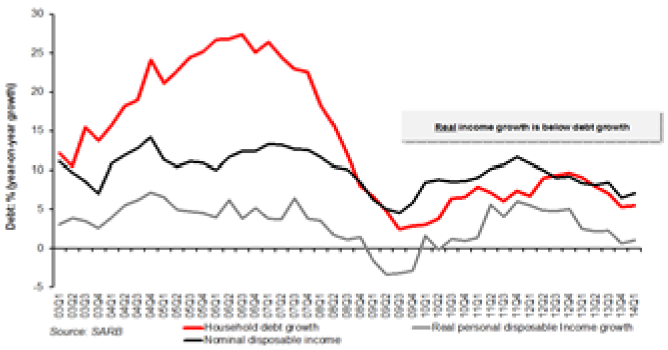


Chart 123: Total household debt as % of personal disposable income

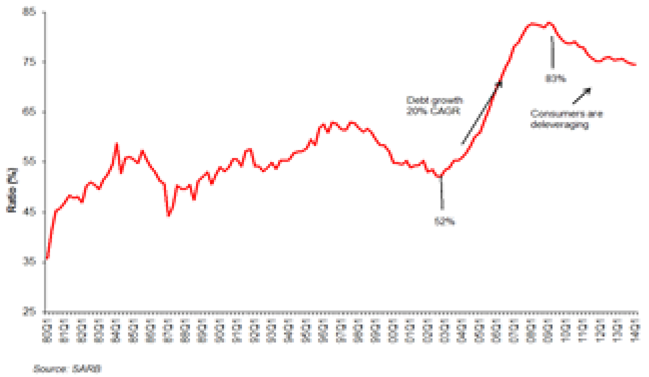


Chart 124: Household debt as % of disposable income vs savings as % of disposable income

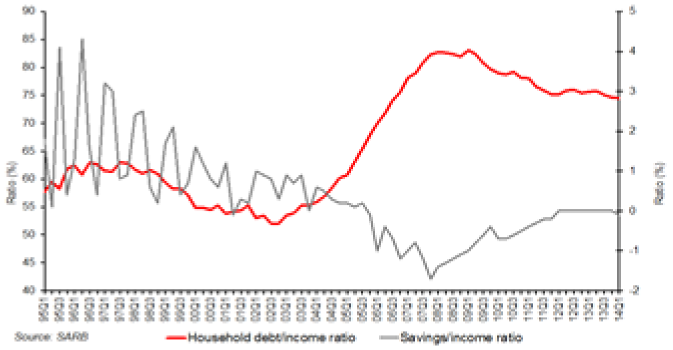


Chart 125: Interest payments on household debt as % of personal disposable income (Income gearing)

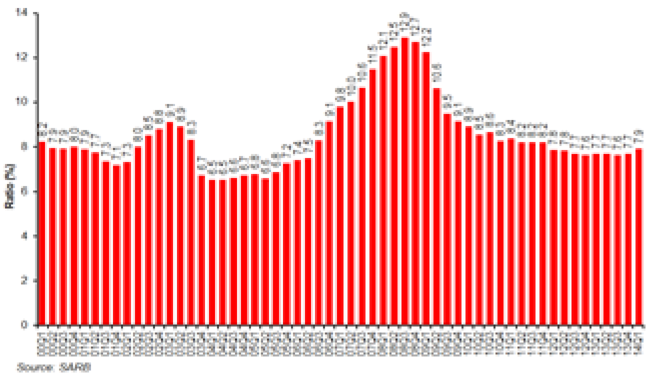


Chart 126: Capital gearing ratio: Household debt as % of total assets of households

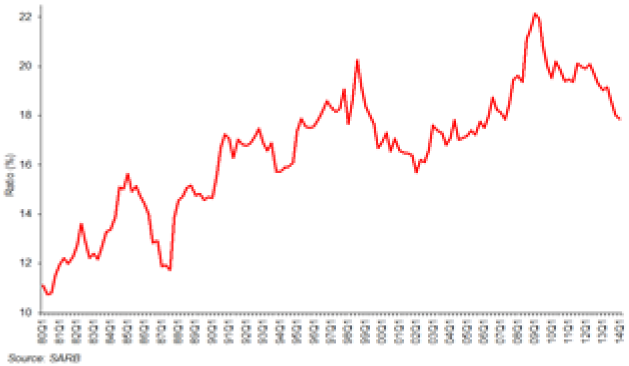
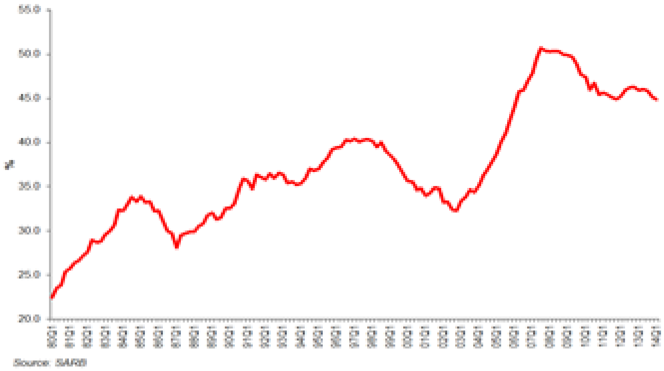


Chart 127: Debt as % of GDP



Assessing debt stress

➲ **Key point:** *Consumers perceive their financial position to have deteriorated in Q1 2014.*

- The MBD/BMR **Consumer Financial Vulnerability Index (CFVI)** provides a benchmark of how consumers view the state of their finances. A score above 60.0 points indicates that consumers feel financially secure, a score between 40.0 and 60.0 points as financially exposed and a score below 40.0 points as financially vulnerable and not in control of their finances. The CFVI worsened to 50.2 points in Q1 2014, from 52.0 points in Q4 2013, suggesting that c**onsumers perceive their balance sheets as under strain** and that they are struggling to gain control of their finances. While the index in Q1 2014 was above the low of 45.0 points in Q3 2009, it was substantially below the high of 58.9 in Q1 2012. Thus far, the CFVI has not been above the financially secure 60.0 point benchmark and it has been declining on average from 55.6 points in 2011, to 51.4 in 2012 and further down to 48.9 in 2013, which confirms the increased financial pressure being experienced by households. The **debt servicing ability** sub-component of the CFVI specifically, declined significantly to 46.6 points in Q1 2014, from 53.7 in Q4 2013. This was the lowest CFVI recorded since its inception in Q2 2009 and endorses the view that consumers are very financially vulnerable and struggling to repay their debt owed.
- **Domestic factors** contributing to the deterioration in households' balance sheets (especially households that have debt and/or are over-indebted) include high indebtedness and increased debt servicing costs (following the 0.5% and 0.25% interest rate hike in January and July 2014, respectively), high inflation (above the 3%-6% target band), low real disposable income growth (1.0% y/y in Q1 2014), a relatively weak rand (reducing consumers' purchasing power through more expensive import prices) and a poor economic growth outlook in the face of persistent labour unrest, an unreliable supply of electricity and high unemployment. A further interest rate increase of possibly 0.25% is also anticipated before the end of the year as the SARB moves toward the attainment of positive real interest rates, which will place additional pressure on indebted consumers. **International factors** hampering the financial position of households include slower economic growth in China and weak economic activity in Europe, which result in weaker South African exports and thereby lower job creation and household income potential.
- According to the National Credit Regulator (NCR), there were 21.7 million **credit-active consumers** in Q1 2014, up from 20.6 million in Q4 2013. On a y/y growth basis, this represents a sharp increase of 8.1% in Q1 2014 from the 20.1 million credit-active consumers in Q1 2013.
- Of the total number of credit-active consumers, 12.1 million (or 51.9%) were in **good credit standing** in Q1 2014 (consumers up to date with payments or not more than two months in arrears), which is 1.4 million more than the 10.7 million consumers in good standing in Q4 2013. On a y/y growth basis, consumers in good credit standing increased significantly to 14.8% in Q1 2014, from around 0.8% in both Q4 and Q3 2013, respectively.
- 9.6 million people or 44.2% of total credit-active consumers had **impaired records** in Q1 2014 (consumers more than three months in arrears, with adverse listings and/or with judgements and administration orders against them), which is -0.3 million less than the 9.9 million consumers with impaired records in Q4 2013. This is also reflected on a y/y growth basis, where consumers with impaired records declined significantly to 0.7% in Q1 2014, from 6.3% in Q4 2013. Of the total number of credit-active consumers, 32.4% were three months or more in arrears and 11.8% had judgements and administration orders against them.
- While the abovementioned domestic and international factors will keep credit growth at subdued levels, it will also raise the risk of greater impairments going forward.

Chart 128: Total impaired advances

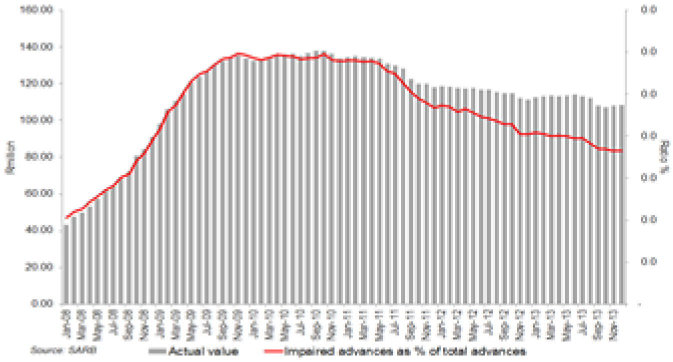


Chart 129: Credit impairments* in respect of total loans & advances

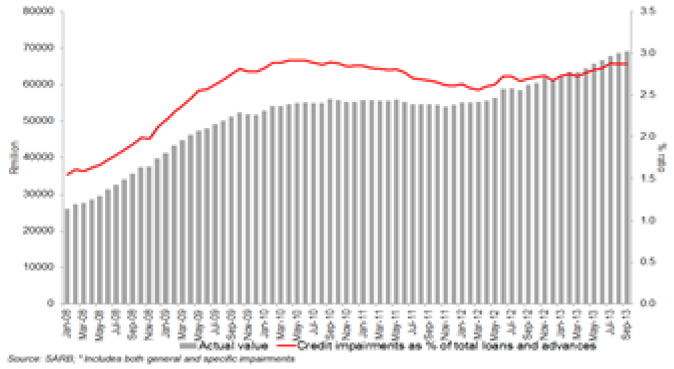


Chart 130: Specific credit impairments

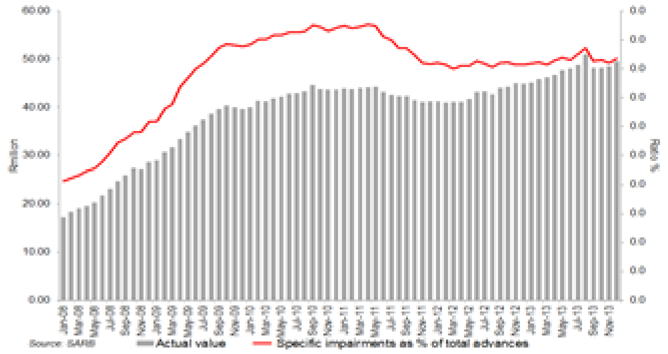


Chart 131: Lending standards of retail banks

Chart 132: Consumer Financial Vulnerability Index

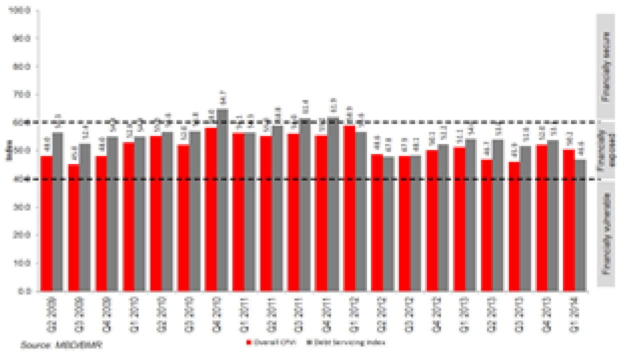


Chart 133: Credit standing of consumers

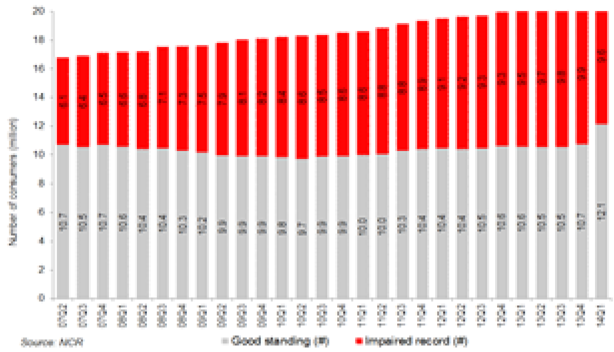


Chart 134: Consumers with good credit standing: Actual number and as % of total credit-active consumers

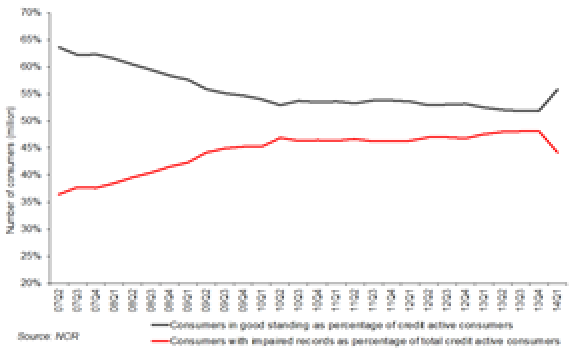
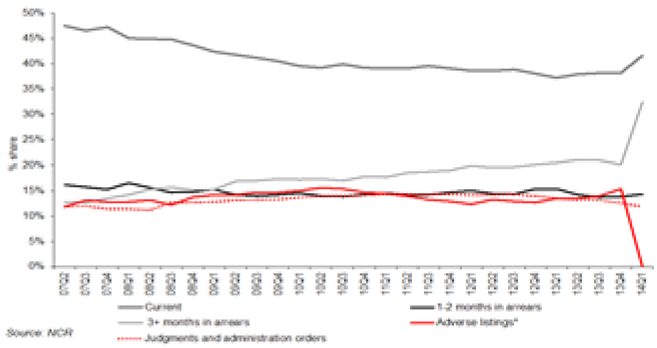


Chart 135: Credit standing of consumers: % share of credit categories



Forecasts

Total Household Consumption

		2011	2012	2013	2014	2015	2016	2017
Total	**Nominal (R million)**							
	Y-on-y % change							
Total	**Constant 2005 prices (R million)**							
	Y-on-y % change							
Price Index (2005 = 100)	**Index (2005 = 100)**							
	Y-on-y % change							

Household Consumption • Durable Goods

		2011	2012	2013	2014	2015	2016	2017
Durable goods	**Nominal (R million)**							
	Y-on-y % change							
Durable goods	**Constant 2005 prices (R million)**							
	Y-on-y % change							
Price Index (2005 = 100)	**Index (2005 = 100)**							
	Y-on-y % change							
Furniture, household appliances etc	Nominal (R million)							
	Y-on-y % change							
Furniture, household appliances etc	Constant 2005 prices (R million)							
	Y-on-y % change							
Price Index (2005 = 100)	Index (2005 = 100)							
	Y-on-y % change							
Personal transport	Nominal (R million)							
	Y-on-y % change							
Personal transport	Constant 2005 prices (R million)							
	Y-on-y % change							
Price Index (2005 = 100)	Index (2005 = 100)							
	Y-on-y % change							
Computers and related	Nominal (R million)							
	Y-on-y % change							
Computers and related	Constant 2005 prices (R million)							
	Y-on-y % change							
Price Index (2005 = 100)	Index (2005 = 100)							
	Y-on-y % change							
Recreational and	Nominal (R million)							
	Y-on-y % change							
Recreational and	Constant 2005 prices (R million)							
	Y-on-y % change							
Price Index (2005 = 100)	Index (2005 = 100)							
	Y-on-y % change							
Other durable goods	Nominal (R million)							
	Y-on-y % change							
Other durable goods	Constant 2005 prices (R million)							
	Y-on-y % change							
Price Index (2005 = 100)	Index (2005 = 100)							
	Y-on-y % change							

Household Consumption • Semi-Durable Goods

		2011	2012	2013	2014	2015	2016	2017
Semi-durable goods	**Nominal (R million)**							
	Y-on-y % change							
Semi-durable goods	**Constant 2005 prices (R million)**							
	Y-on-y % change							
Price Index (2005 = 100)	**Index (2005 = 100)**							
	Y-on-y % change							
Clothing and footwear	Nominal (R million)							
	Y-on-y % change							
Clothing and footwear	Constant 2005 prices (R million)							
	Y-on-y % change							
Price Index (2005 = 100)	Index (2005 = 100)							
	Y-on-y % change							
Household textiles, furnishings, glassware etc	Nominal (R million)							
	Y-on-y % change							
Household textiles,	Constant 2005 prices (R million)							
	Y-on-y % change							
Price Index (2005 = 100)	Index (2005 = 100)							
	Y-on-y % change							
Motorcar tyres, parts and	Nominal (R million)							
	Y-on-y % change							
Motorcar tyres, parts and	Constant 2005 prices (R million)							
	Y-on-y % change							
Price Index (2005 = 100)	Index (2005 = 100)							
	Y-on-y % change							
Recreational and	Nominal (R million)							
	Y-on-y % change							
Recreational and	Constant 2005 prices (R million)							
	Y-on-y % change							
Price Index (2005 = 100)	Index (2005 = 100)							
	Y-on-y % change							
Miscellaneous goods	Nominal (R million)							
	Y-on-y % change							
Miscellaneous goods	Constant 2005 prices (R million)							
	Y-on-y % change							
Price Index (2005 = 100)	Index (2005 = 100)							
	Y-on-y % change							

Household Consumption • Non-Durable Goods

		2011	2012	2013	2014	2015	2016	2017
Non-durable goods	**Nominal (R million)**							
	Y-on-y % change							
Non-durable goods	**Constant 2005 prices (R million)**							
	Y-on-y % change							
Price Index (2005 = 100)	**Index (2005 = 100)**							
	Y-on-y % change							
Food, beverages and	Nominal (R million)							
	Y-on-y % change							
Food, beverages and	Constant 2005 prices (R million)							
	Y-on-y % change							
Price Index (2005 = 100)	Index (2005 = 100)							
	Y-on-y % change							
Household fuel, power and water	Nominal (R million)							
	Y-on-y % change							
Household fuel, power and	Constant 2005 prices (R million)							
	Y-on-y % change							
Price Index (2005 = 100)	Index (2005 = 100)							
	Y-on-y % change							
Household consumer	Nominal (R million)							
	Y-on-y % change							
Household consumer	Constant 2005 prices (R million)							
	Y-on-y % change							
Price Index (2005 = 100)	Index (2005 = 100)							
	Y-on-y % change							
Medical and	Nominal (R million)							
	Y-on-y % change							
Medical and	Constant 2005 prices (R million)							
	Y-on-y % change							
Price Index (2005 = 100)	Index (2005 = 100)							
	Y-on-y % change							
Petroleum products	Nominal (R million)							
	Y-on-y % change							
Petroleum products	Constant 2005 prices (R million)							
	Y-on-y % change							
Price Index (2005 = 100)	Index (2005 = 100)							
	Y-on-y % change							
Recreational and	Nominal (R million)							
	Y-on-y % change							
Recreational and	Constant 2005 prices (R million)							
	Y-on-y % change							
Price Index (2005 = 100)	Index (2005 = 100)							
	Y-on-y % change							

Household Consumption • Services

		2011	2012	2013	2014	2015	2016	2017
Services	**Nominal (R million)**							
	Y-on-y % change							
Services	**Constant 2005 prices (R million)**							
	Y-on-y % change							
Price Index (2005 = 100)	**Index (2005 = 100)**							
	Y-on-y % change							
Rent	Nominal (R million)							
	Y-on-y % change							
Rent	Constant 2005 prices (R million)							
	Y-on-y % change							
Price Index (2005 = 100)	Index (2005 = 100)							
	Y-on-y % change							
Household services, including domestic servants	Nominal (R million)							
	Y-on-y % change							
Household services, including domestic servants	Constant 2005 prices (R million)							
	Y-on-y % change							
Price Index (2005 = 100)	Index (2005 = 100)							
	Y-on-y % change							
Medical services	Nominal (R million)							
	Y-on-y % change							
Medical services	Constant 2005 prices (R million)							
	Y-on-y % change							
Price Index (2005 = 100)	Index (2005 = 100)							
	Y-on-y % change							
Transport and communication	Nominal (R million)							
	Y-on-y % change							
Transport and communication	Constant 2005 prices (R million)							
	Y-on-y % change							
Price Index (2005 = 100)	Index (2005 = 100)							
	Y-on-y % change							
Recreational, entertainment	Nominal (R million)							
	Y-on-y % change							
Recreational, entertainment and educational services	Constant 2005 prices (R million)							
	Y-on-y % change							
Price Index (2005 = 100)	Index (2005 = 100)							
	Y-on-y % change							
Miscellaneous services	Nominal (R million)							
	Y-on-y % change							
Miscellaneous services	Constant 2005 prices (R million)							
	Y-on-y % change							
Price Index (2005 = 100)	Index (2005 = 100)							
	Y-on-y % change							
Security services	Nominal (R million)							
	Y-on-y % change							
Security services	Constant 2005 prices (R million)							
	Y-on-y % change							
Price Index (2005 = 100)	Index (2005 = 100)							
	Y-on-y % change							

Retail Sales (real, nominal, price deflator)

		2012.1	2012.2	2012.3	2012.4	2013.1	2013.2	2013.3	2013.4
Retail trade sales (R millions)	Current prices								
Y-on-y % change									
Retail trade sales (R millions)	Current prices (seasonal adjusted)								
Y-on-y % change									
Retail trade sales (R millions)	Constant 2012 prices								
Y-on-y % change									
Retail trade sales (R millions)	Constant 2012 prices (seasonal adjusted)								
Y-on-y % change									
Price index 2012 = 100									
Y-on-y % change									

		2014.1	2014.2	2014.3	2014.4	2015.1	2015.2	2015.3	2015.4
Retail trade sales (R millions)	Current prices								
Y-on-y % change									
Retail trade sales (R millions)	Current prices (seasonal adjusted)								
Y-on-y % change									
Retail trade sales (R millions)	Constant 2012 prices								
Y-on-y % change									
Retail trade sales (R millions)	Constant 2012 prices (seasonal adjusted)								
Y-on-y % change									
Price index 2012 = 100									
Y-on-y % change									

		2016.1	2016.2	2016.3	2016.4	2017.1	2017.2	2017.3	2017.4
Retail trade sales (R millions)	Current prices								
Y-on-y % change									
Retail trade sales (R millions)	Current prices (seasonal adjusted)								
Y-on-y % change									
Retail trade sales (R millions)	Constant 2012 prices								
Y-on-y % change									
Retail trade sales (R millions)	Constant 2012 prices (seasonal adjusted)								
Y-on-y % change									
Price index 2012 = 100									
Y-on-y % change									

Real disposable income, employment, wage inflation quarterly forecasts

		2012.1	2012.2	2012.3	2012.4	2013.1	2013.2	2013.3	2013.4
Retail disposable incomes (R millions)	Constant 2005 prices								
Y-on-y % change									
Employment quarterly forecasts	Number in '000								
Y-on-y % change									
Unemployment rate quarterly forecasts	In %								
Average wage and salary inflation quarterly forecasts	Y-on-y % change								

		2014.1	2014.2	2014.3	2014.4	2015.1	2015.2	2015.3	2015.4
Retail disposable incomes (R millions)	Constant 2005 prices								
Y-on-y % change									
Employment quarterly forecasts	Number in '000								
Y-on-y % change									
Unemployment rate quarterly forecasts	In %								
Average wage and salary inflation quarterly forecasts	Y-on-y % change								

		2016.1	2016.2	2016.3	2016.4	2017.1	2017.2	2017.3	2017.4
Retail disposable incomes (R millions)	Constant 2005 prices								
Y-on-y % change									
Employment quarterly forecasts	Number in '000								
Y-on-y % change									
Unemployment rate quarterly forecasts	In %								
Average wage and salary inflation quarterly forecasts	Y-on-y % change								

Notes and definition

Total household debt:

- open accounts in retail
- open accounts in motor trade
- personal loans by banks & building societies
- personal loans by banks to agriculture
- credit cards
- microlending
- loans issued by financial companies
- hire purchases by banks
- leasing finance
- instalment sale credit by banks, commerce (motor trade & retail trade)
- securitisation (retail, motor trade and other)
- mortgage loans
- securitisation for residential mortgages
- loans granted by participating mortgage bond schemes
- loans granted by private self admin & provident funds
- bank credit for non-incorporated businesses

Total household credit extended by monetary institutions = mortgage advances (70%) + installment sales + leasing finance + other loans and advances + credit cards + overdrafts.

Definition of household:

In relation to the institutional and maturity breakdown of assets and liabilities (BA900), the household sector is defined as follows:

A household consists of an individual or small group of individuals sharing the same living accommodation, pooling some or all of their income and wealth, while consuming goods and services collectively. The household sector consists of the following institutional units:

a. Households. Individuals are members of a household and are not treated as separate institutional units.

b. Unincorporated business enterprises of households. Unincorporated business enterprises of households comprise households engaging in market production as one-man businesses or sole proprietorships and partnerships. They are legal entities but are not organised in the form of a company and the household and business accounts cannot be separated. The one-man business or sole proprietorship can be with or without employees with the latter being own-account workers.

c. Non-profit institutions serving households. Non-profit institutions serving households are legal or social entities providing goods and services to households for free or at economically insignificant prices but which are neither controlled nor mainly financed by government. Non-profit institutions serving households include welfare organisations, aid societies, clubs, non-profit hospitals and schools, churches, trade unions, stokvels, political parties and such companies registered under Section 21 of the Companies Act.

d. Private trusts Private trusts are assets of individuals and estates administered by, among others, banks, trust companies and attorneys on their behalf.

e. Friendly societies (September 2004). Friendly societies are governed in terms of the Friendly Societies Act, 1956 (Act No 25 of 1956). A friendly society can be defined as a formal mutual organisation existing with the purpose of providing its members or their relatives with benefits, relief or maintenance when in financial difficulty due to, among other things, sickness, death, unemployment and retirement.

According the risk returns, SME's can be part of retail (household) sector, as well as the corporate sector, it depends on the SME's annual turnover amount, if it is less than a specified amount, if will be part of household sector and if it is more than the specified amount it will form part of the corporate sector.

Note regarding the data and definitions of terminology used

Data collection forms were changed with the implementation of Basel II in January 2008 and the term 'non-performing loans' was replaced with the term 'impaired advances', which has a more stringent definition and results in a technical increase from non-performing loans to impaired advances**.**

Impaired advances are advances in respect of which the bank has raised specific credit impairment

BA900 data include both "general" and "specific" provisions / impairments (i.e termed as "Credt impairments in respect of loans and advances). The "general" provisions were previously included under equity on the DI900 but moved to "credit impairments" on the BA900. The figures from the BA900 will be bigger than the figures from financial stability (Bank Supervision).

A **specific provision** means any impairment, allowance or provision made against losses on a debt that has been specifically identified as bad or doubtful, whilst a **general provision** means any provision created to absorb future losses and which losses have not been separately identified, but which losses can reasonably be expected to exist or develop.

Specific credit impairments. All financial assets such as loans and advances are subject to an "impairment test", to determine whether loans were problematic at balance sheet date, and whether the recoveries on these loans are doubtful or not. International Accounting Standard (IAS) 39 indicates that there should be "objective evidence" that a loss on a loan had been incurred that would place a doubt of the full recovery of the loan as goes as far as describing some of these events such as: changes in the payment status of borrowers such as an increased number of delayed payments, and credit downgrades.

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Contact Details

Econometrix Park

8 West Street • Houghton

Johannesburg • 2198

P.O. Box 87510

Houghton

2041

Tel • +27 11 483-1421

Web • www.econometrix.co.za

sales@econometrix.co.za