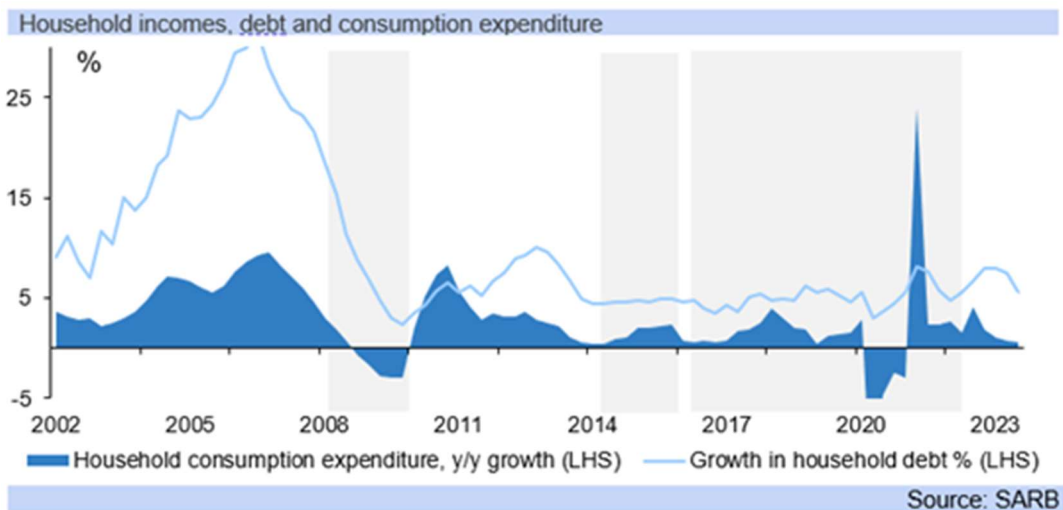


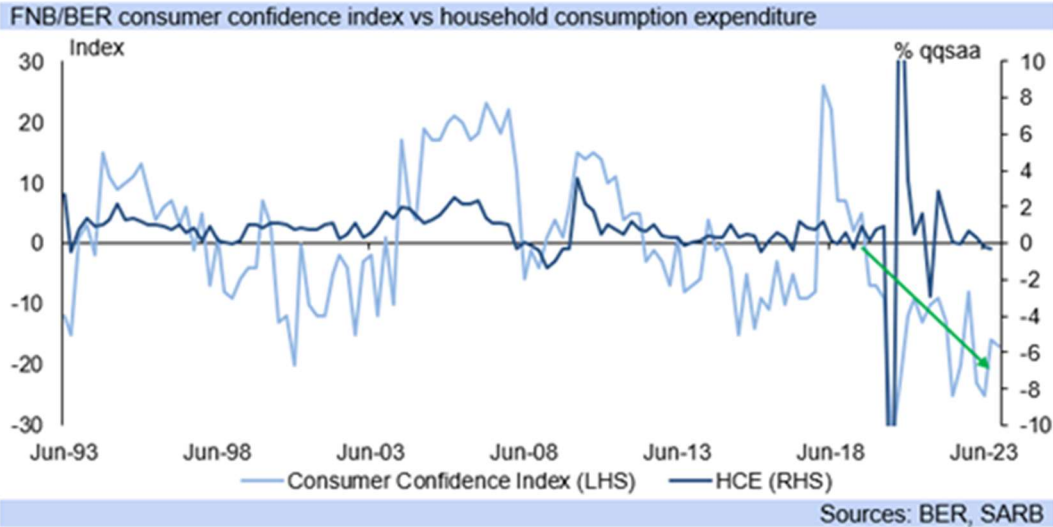
SA Economics



Household finances: the declining trend in real incomes remains entrenched, weakening economic growth

Wednesday 17 January 2024



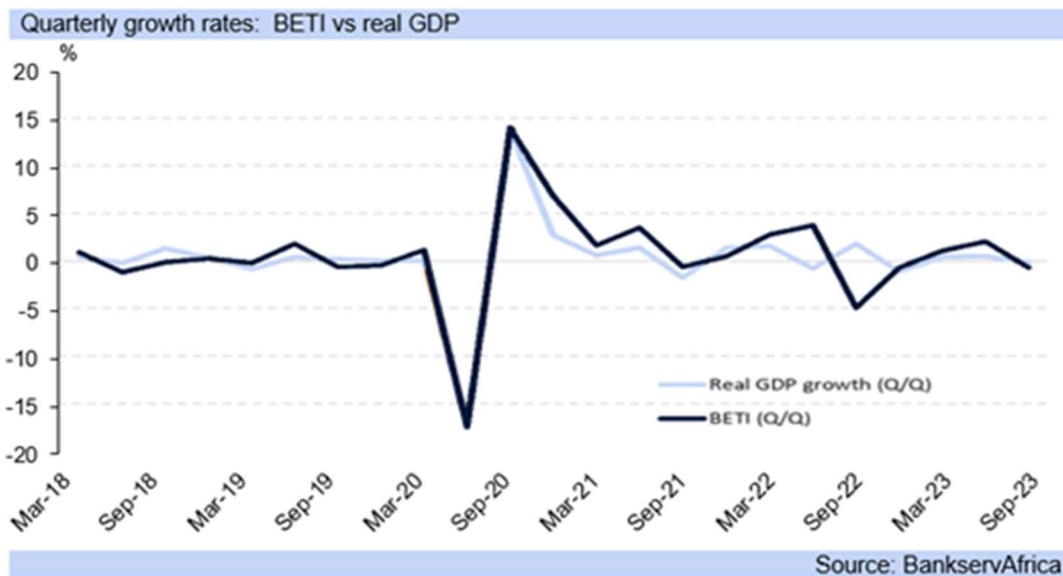


Household Consumption Expenditure	2022	2023	2024	2025	2026	2027	2028
HCE, total (real, %)	2.5	0.6	1.4	1.8	1.8	2.1	2.2
HCE as % of GDP	66.7	66.7	67.1	67.3	67.4	67.5	67.6
Unemployment rate (%)	33.5	32.4	32.5	32.5	32.5	32.4	32.2
Population (million)	59.9	60.4	61.0	61.7	62.3	62.9	63.5
Employment growth rate (%)	5.9	5.2	1.2	1.6	1.5	1.8	1.9
Compensation of employees (%)	4.6	4.9	5.0	5.6	5.9	6.2	6.4
GCE as % of GDP	19.6	19.8	19.0	18.7	18.4	18.3	18.1

- Average salary increases slowed in October, to 1.8% y/y from 4.1% y/y in September (nominal, actual terms), below the inflation rate. In real (inflation adjusted) terms October saw a -3.4% y/y drop in real take home pay (BankservAfrica data).
- The average real salary fell to R13 942 a month in October, from R14 226 (revised) in September, still on a declining trend from R16 124 in February 2021, weakening HCE (Household Consumption Expenditure) growth and so GDP growth.
- CPI inflation rose in October, to 5.9% y/y, from 5.4% y/y in September and 4.8% y/y in August, cutting into real incomes (and so real expenditure) as nominal take home pay increases did not rise by the same amount.
- That is, average salaries in nominal (actual terms) rose by only 4.1% y/y in September, below the 5.2% y/y inflation rate, and so dropped by -0.8% y/y in real terms in September, and fell by -3.4% y/y in October in real terms.
- The BankservAfrica calculates average take-home pay “by dividing the total value of salaries paid into the bank accounts of (around 4 million) employees (excluding salaries greater than R100K per month) by the total number of salary payments”.

- The Q4.23 BER Retail Survey shows that “durable goods and non-durable goods retailers in fact reported lower sales volumes compared to the previous festive season”, indicating consumer financial strain in a higher interest rate environment.
- In December 2022, the prime lending rate was at 10.50%, while in December 2023 it had risen to 11.75%, a relentless upwards momentum from 7.25% in December 2021, and 7.0% in December 2020.
- High inflationary pressures in SA have come from the supply side, mainly fuel and food costs, and South Africa’s CPI inflation rate has been uneven in its descent, but the trend is still one overall of falling inflation (i.e. disinflation).
- Indeed, higher operating costs for businesses, including self-generation of electricity in the case of load shedding, have weighed on businesses. BankservAfrica Economic Transactions Index (BETI) showed a contraction of -2.3% q/q in Q4.23.

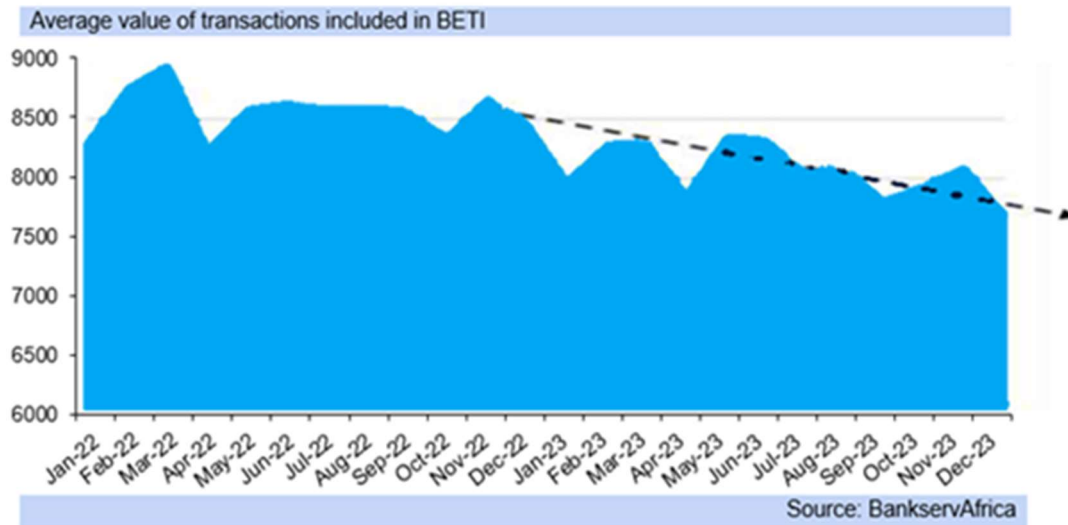
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CPI forecast averages

Date	Index Base 2016	Annual y/y	Monthly m/m	Quarterly y/y	Calendar year y/y	
Jan 2023	107.1	6.9	-0.1			
Feb 2023	107.9	7.0	0.7			
Mar 2023	109.0	7.1	1.0	7.0		
Apr 2023	109.4	6.8	0.4			
May 2023	109.6	6.3	0.2			
Jun 2023	109.8	5.4	0.2	6.2		
Jul 2023	110.8	4.7	0.9			
Aug 2023	111.1	4.8	0.3			
Sep 2023	111.8	5.4	0.6	5.0		
Oct 2023	112.8	5.9	0.9			
Nov 2023	112.7	5.5	-0.1			
Dec 2023	112.8	5.2	0.1	5.6	2023	5.9
Jan 2024	113.3	5.8	0.4			
Feb 2024	113.6	5.3	0.3			
Mar 2024	114.2	4.7	0.5	5.3		
Apr 2024	114.5	4.7	0.3			
May 2024	114.9	4.8	0.3			
Jun 2024	115.1	4.8	0.2	4.8		
Jul 2024	115.8	4.5	0.6			
Aug 2024	116.0	4.4	0.2			
Sep 2024	116.4	4.1	0.3	4.3		
Oct 2024	116.6	3.4	0.2			
Nov 2024	116.9	3.8	0.3			
Dec 2024	117.0	3.7	0.1	3.6	2024	4.5
Jan 2025	117.8	4.0	0.7			
Feb 2025	118.3	4.1	0.4			
Mar 2025	118.9	4.1	0.5	4.1		
Apr 2025	119.1	4.0	0.2			
May 2025	119.2	3.8	0.1			
Jun 2025	119.5	3.8	0.2	3.9		
Jul 2025	120.8	4.3	1.1			
Aug 2025	121.2	4.4	0.3			
Sep 2025	121.5	4.4	0.3	4.4		
Oct 2025	121.6	4.3	0.1			
Nov 2025	121.9	4.2	0.2			
Dec 2025	122.1	4.4	0.2	4.3	2025	4.2

Source: Stats SA, Investec



- The BankservAfrica Economic Transactions Index (BETI) measures the value of transactions in the economy (at seasonally adjusted real prices), and is seen as a good proxy of economic activity. We forecast that the economy stalled in Q4.23.
- Also out for Q4.23, the ABSA Purchasing Manager Index rose to 48.2 from 47.8 in Q3.23, although both indicate contractions in the industry having a negative effect on GDP, although Q4.23 less so than Q3.23 .
- While a technical recession is possible for Q4.23 (two or more quarters of a contraction in GDP), any contraction, if it occurs, should be less than Q3.23's -0.2% qqsa (quarter on quarter, seasonally adjusted), and so closer to 0% qqsa.
- The Q4.23 BER Retail Survey showed a depressed reading, of 47%, indicating that 53% of retailers were dissatisfied with prevailing business conditions, although confidence became less depressed than in both Q2.23 and Q3.23.
- The BER notes, "(t)he uptick in retailer confidence appears to be driven by improvements in profitability and general business conditions, rather than better sales growth."
- For the first two months of Q4.23 (further data is not available), retail sales contacted by -4.3% sa (seasonally adjusted), in real terms, which is a hefty contraction and would require a very high outcome for December to avoid a Q4.23 overall contraction.
- The Bloomberg consensus (published this week) shows an expectation of an expansion of 0.6% y/y for 2023's GDP, but this is likely too strong, and a 0.5% y/y outcome is likely only with a 0% qqsa Q4.23 outcome, or less.
- Bloomberg also shows the consensus forecast for 2024's economic growth forecast is 1.2% y/y, close to our view of 1.0% y/y. Lower interest rates will assist the

economy this year, with improvements in infrastructure also expected (see Investec's 3rd January's Marco economic outlook, contact below).

- We continue to expect that SA's interest rates will remain on hold in Q1.24 and be likely cut in H2.24, with currently only a relatively small possibility of the first cut occurring in Q2.24 (May) instead.

Interest rate forecast end rates

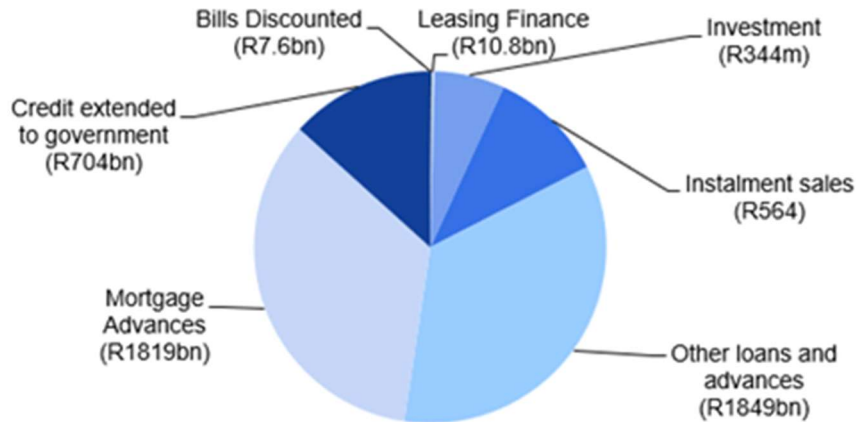
Date	Prime forecast	Prime less Inflation	Repo	Repo less Inflation
Jan 2023	10.75	3.9	7.25	0.4
Feb 2023	10.75	3.7	7.25	0.2
Mar 2023	11.25	4.2	7.75	0.7
Apr 2023	11.25	4.4	7.75	0.9
May 2023	11.75	5.4	8.25	1.9
Jun 2023	11.75	6.4	8.25	2.9
Jul 2023	11.75	7.0	8.25	3.5
Aug 2023	11.75	6.9	8.25	3.4
Sep 2023	11.75	6.4	8.25	2.9
Oct 2023	11.75	5.8	8.25	2.3
Nov 2023	11.75	6.2	8.25	2.7
Dec 2023	11.75	6.5	8.25	3.0
Jan 2024	11.75	6.0	8.25	2.5
Feb 2024	11.75	6.5	8.25	3.0
Mar 2024	11.75	7.0	8.25	3.5
Apr 2024	11.75	7.1	8.25	3.6
May 2024	11.75	7.0	8.25	3.5
Jun 2024	11.75	6.9	8.25	3.4
Jul 2024	11.75	7.3	8.25	3.8
Aug 2024	11.75	7.3	8.25	3.8
Sep 2024	11.50	7.4	8.00	3.9
Oct 2024	11.50	8.1	8.00	4.6
Nov 2024	11.25	7.5	7.75	4.0
Dec 2024	11.25	7.5	7.75	4.0
Jan 2025	11.00	7.0	7.50	3.5
Feb 2025	11.00	6.9	7.50	3.4
Mar 2025	10.75	6.6	7.25	3.1
Apr 2025	10.75	6.7	7.25	3.2
May 2025	10.50	6.7	7.00	3.2
Jun 2025	10.50	6.7	7.00	3.2
Jul 2025	10.25	5.9	6.75	2.4
Aug 2025	10.25	5.8	6.75	2.3
Sep 2025	10.25	5.8	6.75	2.3
Oct 2025	10.25	5.9	6.75	2.4
Nov 2025	10.25	6.0	6.75	2.5
Dec 2025	10.25	5.9	6.75	2.4

Source: IRESS, Investec

Credit standing of consumers – Impairments and delinquencies									
Millions	Sep 21	Dec 21	Mar 22	Jun 22	Sep 22	Dec 22	Mar 23	Jun 23	Sep 23
Credit-active consumers (million)	26.42	26.38	26.48	26.52	26.65	26.90	27.07	27.05	27.41
Good standing (million)	16.25	16.50	16.44	16.63	16.88	17.19	17.25	17.03	17.47
Good standing (%)	61.51	62.55	62.08	62.73	63.36	63.89	63.71	62.95	63.74
Current (%)	53.79	54.64	53.93	54.80	55.60	55.81	55.47	55.49	55.65
1-2 months in arrears (%)	7.72	7.91	8.15	7.94	7.75	8.08	8.24	7.46	8.09
Impaired records (million)	10.17	9.88	10.04	9.88	9.76	9.71	9.82	10.02	9.94
Impaired records (%)	38.49	37.45	37.92	37.27	36.64	36.11	36.29	37.05	36.26
3+ months in arrears (%)	24.27	24.07	24.31	24.67	24.16	23.72	23.78	24.01	23.46
Adverse listings (%)	11.26	10.46	10.73	9.70	9.59	9.55	9.69	10.24	10.04
Judgments and administration orders (%)	2.96	2.92	2.88	2.90	2.89	2.84	2.81	2.81	2.76
Delinquencies (%)	46.21	45.36	46.07	45.21	44.39	44.19	44.53	44.51	44.35

Source: NCR

Components of PSCE (R billion)



Source: SARB