

Spiralling spending plunge could bar interest rate hike

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FOR the first time since 2013, spending in SA declined sharply in the second quarter this year. Expectations for continued weakness support the view that interest rates will be kept unchanged when the Reserve Bank's monetary policy committee meets next week.

Leading the decline was a significant drop in inventories along with a slowdown in spending growth by households and private businesses, a Reserve Bank quarterly bulletin showed yesterday.

"A heavy-handed approach is not what is needed for monetary policy now. There is no certainty the economy will not contract in the third quarter," said Investec chief economist Annabel

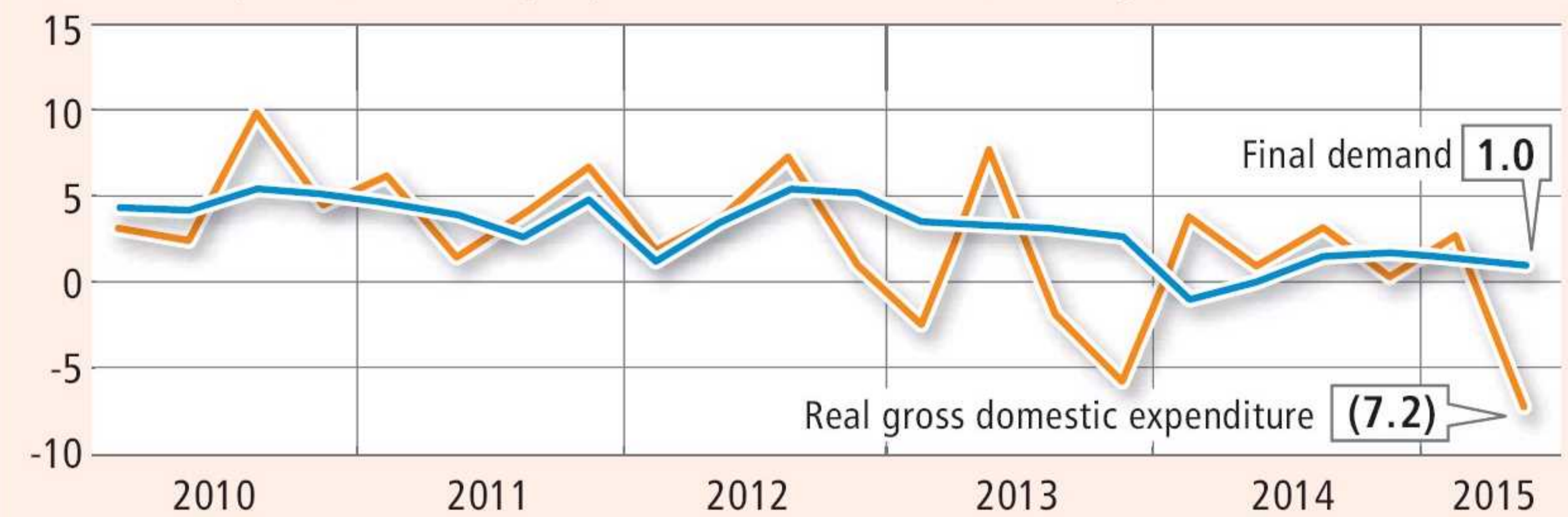
Bishop. An interest-rate hike this month, so soon after the last one in July, would see debt-servicing costs rise in the third quarter. This would dent confidence and further curb spending growth — limiting already-ailing economic growth over the period.

"Already household consumption expenditure is slowing noticeably, and the full effect of the July interest rate hike has not come through — it can take three or more quarters," she said.

The depressed levels of domestic spending reflected lower consumer and business confidence and slower wage growth. Spending by households slowed to 1.2% in the second quarter from 2.4% in the first quarter in line with a drop in consumer confidence and slower real income growth, the Bank said. The modest pace of increase

REAL GROSS DOMESTIC EXPENDITURE AND FINAL DEMAND

Quarter on quarter, seasonally adjusted and annualised (% change)



Source: RESERVE BANK

in household spending also led to a slowdown in the growth of household debt. Household debt-servicing costs remained unchanged as there were no interest-rate increases in the second quarter, it said.

Growth in disposable household incomes also slowed, partly indicating the effect of higher interest rates and the costs of administered services such as electricity and water. Interest rates have increased by a cumulative 100

basis points since January last year.

Spending by businesses failed to inspire in the second quarter, with the pace of increase in capital outlays slowing meaningfully in line with depressed levels of business confidence.

The latest business confidence index suggests that low investment levels by private businesses most likely continued in the third quarter.

The Rand Merchant Bank/Bureau for Economic Research's business confidence index fell five index points to 38 in the third quarter after falling by six points in the second quarter.

Capital investment by public corporations rose marginally after contracting in the second quarter, supported by infrastructure investments by Eskom and Umgeni Water Board. maswanganyin@bdfm.co.za