

SA consumers urged to cool spending spree as interest rates jump

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By LAVERN DE VRIES
Staff Reporter

With 18 days to go before Christmas, leading economists are urging consumers to tighten the reins on spending after yet another interest rate rise.

Dawie Roodt, chief economist of the Efficient Group, blamed rampant consumer spending as the driving reason behind the Reserve Bank's decision to increase the repo rate by 50 basis points, a move which will see commercial banks raise the prime rate to

14.5%. Standard Bank and Absa have already adjusted their rates while First National Bank (FNB) and Nedbank are to follow suit on Monday.

A further interest rate rise is in the offing early in the new year.

"The wheels are not coming off and our economy is doing exceptionally well but what the Reserve Bank is saying is that we should cool off the spending because if we party too long we'll have a longer hangover," Roodt told the Cape Argus.

Meanwhile, Cosatu has slammed the interest rate hike,

SA INTEREST RATES				
		MAY 06	DEC 07	18 month change
Loan type	Capital	10.5%	14.5%	
Mortgage bond	R1 000 000	R9 984	R12 800	R2 816
Car	R100 000	R2 332	R2 532	R200
Personal loan	R50 000	R1 176	R1 283	R107
SOURCE: OASIS GROUP HOLDINGS				R3 118

saying it would make for "the worst possible Christmas present for the people of South Africa".

Cosatu spokesman Patrick Craven said the policy of inflation targeting was inappropriate for a developing country struggling with mass unem-

ployment and poverty.

"It condemns millions to remain jobless and poor," Craven said.

"People who already face skyrocketing increases in the price of fuel and food ... have to bear rising repayments on bonds and loans."

Roodt explained that because consumers were spending too much on credit, on top of car and home purchases, inflation was being pushed up.

And although most borrowers would feel the pinch in their pockets, savers would benefit from the 0.5% interest rate hike.

"Essentially, the Reserve Bank is encouraging us to save money and pushing the interest rate up is the quickest and most effective way to do this. It is painful in the short-term but it is better for the country's economy in the long-term."

However, other economists have stated that the reprimand as Roodt explains it, would be vice-like for consumers.

"The rate hikes mean the average consumer is certainly under increasing pressure," said Ridwan Kajee, executive director of Oasis Group Holdings.

The interest rate coupled with this week's petrol price increase of 43c a litre should deter people from using credit cards, said Kajee.

"With rate hikes early in 2008 a distinct possibility, it is also important to be cognisant

Shoprite prices		
	Dec '06	Dec '07
Chicken (kg)	R22.99	R26.99
Steak (kg)	R75.00	R82.00
Cheese (kg)	R35.90	R38.90
Maizermeal (2.5kg)	R9.99	R10.99
Sugar (2.5kg)	R13.95	R15.99
Rice (2kg)	R9.99	R10.99
Milk (2 litre)	R10.95	R12.95
Bread	R3.99	R4.19

of existing debt and attempt to repay this as it may well become more expensive to service

in the near future," he added.

Roodt echoed these sentiments, advising people to draw up budgets with a list of their expenses and income.

"Things such as bond and car repayments should be listed first while things such as entertainment should be listed near the end. When things become too tight, just trim from the bottom to save money."

Roodt concluded that he expected a rate cut in the second half of 2008.

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'Rate up – but enjoy Christmas'

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Households face higher payments on cars, property and credit cards

By SIVUYILE MANGXAMBA
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"Just go and enjoy Christmas – forget about the troubles of the world."

Those were the words of Reserve Bank governor Tito Mboweni as he announced that the repo rate would increase by 50 basis points to 11%, making a total 4.5% increase since last year.

The call for festive enjoyment did not go down well with the press contingency at the Reserve Bank's monetary policy committee announcement in Pretoria, who retorted that they wouldn't be able to afford it.

The rate hike has deep implications for the festive season, especially for households who will now have to fork out more money on their car, house and credit card repayments.

The decision to raise the repo rate – the rate at which the Reserve Bank lends money to retail banks – came just a day after the fuel price went up 43 cents. The banks are expected to follow suite and increase interest rates by 0.5%.

"The assessment of the MPC is that the balance of risks to the inflation outlook continues to be on the upside. Therefore the MPC has decided to adjust the repurchase rate by 50 basis points to 11% per

annum with effect from Friday, December 7," said Mboweni.

"The MPC will continue to monitor relevant developments and take the necessary steps to ensure that inflation returns to within the target range (of 3% to 6%)," he said, adding that there was still a lot of work to be done.

In spite of the rate hike, Stellenbosch-based Bureau for Economic Research chief economist Pieter Laubscher was optimistic that consumer confidence would remain high in the short term.

However Laubscher considered that there were tougher times ahead.

"There is a lot of pressure

coming on the consumer," said Laubscher.

He said wage increases in the middle of the year were still behind the strong consumer confidence that was recorded in spite of inflationary pressures.

Some of the factors influencing the decision have been the recent inflation developments where the CPIX has remained outside the 3 to 6% range that the Reserve Bank uses to target inflation.

"CPIX inflation remained outside the target range for the seventh consecutive month, reaching a four-and-a-half-year high of 7.3% in October. Food price inflation has contin-

ued to accelerate, measuring 12.4% in October," said Mboweni.

Despite the higher short-term trend in inflation, expectations remain contained within the inflation target range, said the governor.

"According to the inflation expectations survey that is conducted on behalf of the Bank by the Bureau for Economic Research at the University of Stellenbosch, there was only a slight deterioration in expectations in the fourth quarter compared to those in the third quarter, when a significant increase in expectations was recorded," said Mboweni.

CPIX inflation in 2008 is now expected to average 5.9%, compared to the 5.8% expected in the previous survey.

Significantly, CPIX inflation expectations for 2009 remain unchanged at 5.6%.

In spite of this, Mboweni was not optimistic that the CPIX would edge within its target range in the next six months.

Meanwhile, Oasis Group Holdings executive director Ridwan Kajee warned consumers to be aware of using high-cost debt instruments like credit cards that have become readily available, particularly over the festive season.

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