

World Cup boosts business confidence

SOUTH Africa's business confidence rose in June after a dip the previous month, as positive sentiment stemming from the World Cup offset a gloomy global economic outlook, an industry survey showed.

The South African Chamber of Commerce and Industry (Sacci) said last week its confidence index had increased by 2.8 index points to 84.8 in June on expectations that the momentum from the country's successful hosting of the soccer tournament could yield long-term economic benefits.

"The success of the tournament could boost domestic business confidence despite indications that the global economy may suffer a depressed economic outlook for the medium term," the business chamber said.

South Africa spent about R40 billion on preparations for the tournament, but analysts estimate that only R13bn of that will be recouped from foreign visitors' spending.

However, Finance Minister Pravin Gordhan said last week that on top of creating 130 000 jobs, sizeable long-term benefits would be reaped after the tournament had ended.

Sacci said yesterday it was aware of a faltering global economic recovery and its effects on

the South African economy. Indications of continued job losses in the country were also a concern.

Sacci said last month it was also worried about the inflation implications of high wage demands.

Meanwhile, the Reuters Economist, an index of six weighted indicators, looking two years ahead, fell to 243.03 in June against 254.28 in May. The consensus of the 23 economists polled was for South Africa's GDP to grow by an average 3.16 percent in 2010, rising to 3.52 and 3.74 in 2011 and 2012 respectively. Most economists lowered their forecasts from last month.

Fragile

"We think the economy has definitely come out of recession, but at the moment it looks like the recovery has lost some momentum," said Salomi Odendaal, an economist at Citadel.

"We still think the economy will continue growing, but consumer spending is still fragile, so we do not think it will be a robust recovery."

Retail sales were up for the fourth month in a row in April but the outlook is weak for the year as households remain highly indebted, while the recession has slashed about a million jobs.

Data also pointed to a bumpy

recovery in manufacturing.

In an effort to stimulate demand, the central bank has cut the repo rate by 550 basis points since December 2008 to a three-decade low of 6.5 percent.

Analysts in the June poll mostly reversed their earlier expectations for a small rise in the repo rate by the end of the year as data pointed to a stuttering recovery.

The Economist showed the repo rate was expected to end this year at a mean of 6.52 percent, rising to 7.7 percent next year and 8.48 percent in 2012. Inflation expectations were even more benign than those given in the previous poll.

The consensus was for headline consumer inflation to average 5.03 percent this year and 5.61 percent and 6.09 percent in 2010 and 2011 respectively.

"I think we are in a low inflationary environment at the moment," said Mike Schussler of Economists.co.za. "We are going to go to a higher inflationary environment, because we have very high electricity rates coming," he added, referring to power price increases of 25 percent a year for three years from Eskom.

The Reserve Bank expects inflation to remain within its 3 to 6 percent target range until the end of 2011. - Reuters



Finance Minister Pravin Gordhan says the World Cup created 130 000 jobs and that the country will reap significant long-term benefits from the tournament.

