

Solid Economic Growth for South Africa in 2010?

Although likely to remain subdued in the opening months, there is a good chance that economic growth could be surprisingly solid, with South Africa ending 2010 with annual GDP growth of over 3%, predicts Old Mutual chief economist Rian le Roux.

"The combination of a recovery in consumer demand, ongoing robust public sector spending, an end to the cycle of destocking, moderate export gains and the 2010 Fifa World Cup, could combine to generate a surprisingly robust acceleration in growth during the middle quarters of 2010," le Roux said in a statement.

"We could even see another interest rate cut from the Reserve Bank adding to the positive conditions, should inflation surprise on the downside and the rand remain strong."

According to le Roux, global recovery is solidly underway and he believes the risk of a "W-shaped" downturn is relatively small.

This means South Africa will benefit from revivals in both the developed and emerging markets, particularly China, helping underpin export volumes and prices of its commodity exports.

Not only will this help the trade deficit, which le Roux predicted should stay steady at around 4.5% of GDP this year, but the country should also continue to attract foreign capital inflows, so that the rand depreciates only moderately against the US dollar over the year.

Inflation should also remain under control for the year, driven by the stronger rand, lower food prices and weak consumer demand. Inflation pressures continue to remain though, arising especially from Eskom's proposed electricity tariff hikes.

"Eskom will prove to be a thorn in the side of the economy for many years, probably throughout the first half of the new decade," he said.

With inflation relatively tame for now, le Roux said the most likely scenario was for interest rates to remain unchanged (with prime at 10.5%) for all of 2010.

However, the Reserve Bank could surprise with a 50 basis point rate cut - possibly in the first quarter - should consumer spending prove particularly sluggish or inflation especially benign.

"So after the year of big macroeconomic surprises that was 2009, on first examination our forecasts for 2010 paint a much quieter scenario - with relatively steady inflation, interest rates, currency and economic growth ahead," le Roux observed.

"This should be welcome by most South Africans. However, experience tells us that there are always unexpected shocks from some source, and this year will probably be no different."