BIZCOMMUNITY

Dramatic steps needed to improve household savings

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Research from the newly launched Investec GIBS Savings Index reveals two significant macro-economic factors inhibiting South Africans from saving - substantial unemployment and the slowdown in income growth per capita.

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Slow economic growth and low productivity growth, the latter which impacts South Africa on a global competitive basis, also prove significant, as do high young age dependency levels and easy credit conditions.

Consumer spending, at R1.8 trillion from R816bn in 1994 in real terms (removes the distorting effect of inflation), mainly consists of expenditure on necessities, with little room left over for significant household savings on a macro-economic level. Low income households are in the majority, and while living standards and incomes have lifted since 1994 on upward social mobility, substantially more needs to be achieved.

Misleading averages

Real income is now estimated at R54,124 per adult, well up from 1994's R39,589, indicating that South Africans have become better off on average. However, averages can be misleading, as too many remain in poverty. In particular, South Africa's pyramid-shaped population base shows a high young age dependency with very low income households assisted by government via child support grants.

Around a third of South Africa's labour force is out of work or has stopped searching for jobs, and 16.4 million people (the majority children) are supported via social welfare transfers. The growth rate of real income per capita has slowed since 2006, and worryingly has turned negative recently.

Credit growth has been accelerated by unsecured lending, but the challenge of poor financial literacy means many do not calculate in additional 'hidden' finance costs even when vital information on the loan is provided. Impaired credit records are higher now than in 2009, the time of South Africa's last recession. Warren Buffet said, "Do not save what is left after spending but spend what is left after saving." But for many the little that comes in does not cover all of the basic necessities merely to survive.

Fast growth rates

The solution for reducing unemployment and inequality, and eliminating poverty, remains fast real economic, and income, growth rates which draw substantially more individuals into the economic net, reduce the welfare and debt burden of the state, and so create a sustainable future for all South Africans. Such an outcome will raise both savings and tax revenues, and in turn engender even faster economic and income growth.

For this to happen, business and household confidence needs to rise above trend (from current depressed levels), economic policy stability needs to occur, particularly the removal of the threat to private sector property rights, with the ease of doing business improving substantially.

Without the dramatic improvement in these factors of South Africa's investor climate, real incomes will contract further, as will employment, and the climate for building savings deteriorate further.

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