

THE ECONOMIC WEEK AHEAD: Ntsakisi Maswanganyi

Bank forecast to keep rates at 40-year lows

THE Reserve Bank's monetary policy committee is expected to leave interest rates unchanged at 40-year lows this week.

The committee starts its three-day meeting tomorrow and it will have a lot to discuss, particularly the rand's volatility, and inflation having breached the upper end of the 3%-6% target band in July.

The prime rate — the interest rate commercial banks charge on loans to clients — has remained at 8.5% since July last year.

While higher inflation would normally prompt the Bank to hike lending rates, the sluggish nature of economic growth and a slow recovery in spending by households is preventing the move.

The committee is, however, not expected to be overly concerned about inflation breaching the target band in July, as it expected an average inflation rate of 6.3% during this quarter.

“We have lots of macroeconomic imbalances which point to the potential that we should have higher interest rates, yet the economic growth is simply not there. We are struggling for growth and the external environment is still quite weak.” Investment Solutions chief strategist Chris Hart says.

“Inflation has breached the upper end of the target range and is

WORLD DATA RELEASE SCHEDULE					
Day	Country	Reference	Statistic	Previous	Consensus
Monday	EMU	Aug	Core inflation rate (Y/Y) – final	1.1%	1.3%
	EMU	Aug	Inflation rate (Y/Y) – final	1.6%	1.3%
	UK	Third quarter	BoE quarterly bulletin		
	US	Aug	Industrial production (Y/Y)	1.4%	–
Tuesday	UK	Aug	PPI input (Y/Y)	5.0%	3.0%
	UK	Aug	PPI output (Y/Y)	2.1%	1.8%
	UK	Aug	Retail price index (Y/Y)	3.1%	3.2%
	UK	Aug	Inflation rate (Y/Y)	2.8%	2.7%
	UK	Aug	Core inflation rate (Y/Y)	2.0%	2.1%
	EMU	Jul	Balance of trade	€17.3bn	€20.0bn
	US	Aug	Core inflation rate (Y/Y)	1.7%	1.8%
	US	Aug	Inflation rate (Y/Y)	2.0%	1.7%
	Wednesday	SA	Aug	Inflation rate (Y/Y)	6.3%
SA		Aug	Inflation rate (M/M)	1.1%	0.30%
SA		Jul	Retail sales (Y/Y)	1.9%	4.50%
SA		Jul	Retail sales (M/M)	0.0%	–
UK			MPC meeting minutes		
US			FOMC economic projections		
US			Fed interest rate decision	0.25%	0.25%
Thursday	UK	Aug	Retail sales (Y/Y)	3.0%	–
	US	Sep 9–13	Initial Jobless claims	292K	323K
	US	Second quarter	Current account	-\$106.1bn	-\$96.8bn
Friday	UK	Aug	Public sector net borrowing	£-1.64bn	£1.19bn
	EMU	Sep	Consumer confidence	-15.6	-15.0

still on an upward trend, with the weak rand providing further upward pressure,” Mr Hart says.

The rand has been very volatile in recent weeks in line with other currencies in developing countries over concerns that the US's stimulus programmes would be

reduced this month, which would curb capital inflows into emerging market assets. The rand was, however, less volatile late last week after reports that the US might not use military action against Syria calmed investor jitters.

The consumer price index (CPI),

a measure of consumer inflation, is expected to have increased to 6.4% last month compared with August last year from 6.3% year on year in July, according to a BDLive median consensus survey of 11 economists.

Statistics SA will release the data on Wednesday. Forecasts

among the economists ranged from 6.3% to 6.6%.

“If CPI comes out at 6.4% then it is broadly in line with the Bank's forecast for a 6.3% average for the third quarter,” says Rand Merchant Bank senior economist Carmen Nel. “In terms of the impact of weak rand pass-through on CPI, this will remain muted because the output gap is quite large.

“We've seen some pass-through but it has not been enough to make the Bank respond with high interest rates,” she says.

Market focus is also expected to be on retail sales, also due from Statistics SA on Wednesday, as these are an indication of spending appetite among households.

Retail sales are expected to have accelerated by 4.2% year on year in July from a 1.9% year-on-year increase in June, according to a BDLive median consensus forecast.

Most economists expect this to be driven in part by low base effects from July last year.

Spark ATM Systems operations manager Ryan Tkamtzis says consumers are likely to “exercise caution” in spending in the near future. “We are still dealing with high debt among consumers and the wage increases are struggling to keep up with the rate at which the cost of living is increasing,” he says.

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