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Is South Africa facing a recession?

The probability of the country entering a period of recession is rising by the day. Manufacturing output – one of the economy's driving forces – is declining and this is just one of many other indicators of a stagnating economy.

Another indicator is that February's local manufacturing output shrank by 3.6%, compared to the same period last year. Of the nine manufacturing sectors, eight showed a decline. The only sector that showed positive growth was the one dealing with motor vehicles, car parts and transport equipment.

In addition, South Africa's growth rate was a mere 0.3% last year and while some data from March must still be released, it is already clear the 2016 economic slowdown is likely to continue in 2017.

The negative Gross Domestic Product (GDP) growth of -0.3% in the last quarter of 2016 was disappointing and the downgrades by Fitch and Standard and Poor's could shave another one or two percentage points off the GDP.

If the growth rate continues to decline in the first quarter of 2017, we will have had two consecutive quarters of negative growth. This will indicate that South Africa is technically in recession. The final data will only be available in June.

Another indicator of recession is the fact that South Africa is already experiencing a per capita recession because the population growth exceeds economic growth.

Adding to the economic woes, is the increasing uncertainty about economic policy. The Policy Insight Index of the North West University Business School, measures levels of economic certainty. This index increased markedly to 51 points at the end of March, compared to 38.8 points in the last quarter of 2016. It is now at its highest level since Nene-gate in 2015.

The effect of junk status will soon become a reality as we are already facing the fuel price increase of close to 55 cents per litre this month. This will have a ripple effect on food prices and all aspects of our lives.

Fortunately, the possibility of stagflation (economy stagnating while inflation rises) has been stalled for the moment by the announcement that consumer price inflation dropped from 6.3% in February to 6.1% in March 2017.

Economists are generally wary of predicting business cycles like a recession, because it is:

1. exposed to factors such as war, weather patterns and new technologies and;
2. the cycles can be held hostage by people and specifically politicians - who can instigate or prevent the start of a recession by manipulating money or government spending.

Even Lesetja Kganyago, Governor of the Reserve Bank, said it was still too early to predict whether we would face a recession. However, the bank will continue to lower its growth expectations. In the wake of South Africa's economic downgrade, the Bank also expects inflation to rise due to the weakening rand.

It is ironic how quickly South Africa's economic outlook has changed in recent weeks. Until recently analysts seemed convinced of an imminent interest rate cut. Now there is virtually consensus that we can expect an interest rate hike of 0.25% in May.

To make matters worse, if we did manage to avoid a local recession, President Donald Trump could unleash a global recession if the US continues to charge tariffs of between 5 and 45% on imports from countries like China and Mexico.

How does it affect you?

Many people are worried about what a recession may mean for their portfolios, investments and their retirement plans.

And there will undoubtedly be several shocks before and after the ANC leadership conference in December, continuing right up to the general election in 2019.

How can you protect yourself in the event of a recession?

1. Draw up and stick to a budget.
2. Save as much as possible and buy selectively. Do you really need those luxuries?
3. Invest with caution and choose investments offering a fixed rate, with less exposure to market volatility.
4. Eliminate or reduce debt as much as possible.
5. Do not enter into any new debt arrangements.

Every cloud has a silver lining. South Africa can survive the Zupta nightmare, even though it won't be a smooth ride. What we need, is to stay in the saddle, keep our heads together and invest our money where we are sure to reap stable returns.

Debt makes you poor

Every day people succumb to the pressure of spending money they do not have. This pressure is often from banks, manufacturers and retailers, chasing their own profit margins.

However, many forget that debt is a luxury and working your whole life just to pay it off, is actually no life at all.

Good financial planning and being vigilant about avoiding the pitfalls of debt can make a significant difference to your levels of stress and ultimately your overall well-being. But why do some people get it right, while others suffer the lifelong burden of debt?

How much do you owe?

Not appreciating the threat debt poses, is perhaps the greatest danger. Many of us do not know the true extent of our debt. It is often fear that prevents us from writing down what we owe and calculating how long it will take to repay it.

Be truthful about your financial situation and acknowledge how much you owe. Then develop a plan to reduce it systematically. Analyse your accounts and you will see that small amounts rapidly add up to a significant numbers. It is also useful to review your bank charges and consider, for example, cheaper cell phone packages and insurance options.

A budget is the financial barometer of your life and the true test of your financial well-being. Without a budget you are not in charge of your finances and will remain a victim.

Debt weakens your retirement

The big dilemma is that debt can threaten your retirement financially. It can compel you to work for many years beyond your planned retirement age. You can avoid this fate with financial discipline.

Adapt your lifestyle to ensure success

If you are serious about getting rid of debt, you should commit to changing your lifestyle. Strike a balance between eliminating unnecessary luxuries and creating additional sources of income. Both these steps require courage, perseverance and devotion. If necessary, swallow your pride and exchange your luxury car for a cheaper, more economical vehicle that suits your budget.

Be debt-smart

The secret is to commit only to debt that works to your advantage. An example is a bond on your house, which is a long term investment. Debt becomes a disadvantage when it is used to buy unnecessary items that depreciate. Many of us engage in this kind of debt, making us poorer as we indulge in the pleasures of consumerism.

The smart investor, on the other hand, will only enter into debt if it shows a return soon afterwards - such as debt for higher education, which will increase your monthly income. The smart investor will never buy luxuries on account and only incurs debt when interest rates are low.

Beware of plastic money

Although credit provides easy access to money, it comes at a high cost. Your card balance can easily build up to a point where your repayments cover only the interest and not the outstanding capital amount.

Instead, use your credit card only as a last resort in an emergency. If you do not have the discipline to stick to that, it is perhaps time to consider binning all your credit cards.

Pay yourself first

Before you pay your bills, your budget should make provision for you to "pay yourself" in the form of saving.

This step is crucial to ensure your financial security in the event of an emergency, and later in life when you are no longer working and earning a salary.

After paying yourself, the second most important set of payments, is the instalments to pay off your debts. Only once these have been taken care of, do you use the rest.

Enjoy life

Sound money management requires keeping debt to a minimum. Refrain from spending impulsively and respect your hard-earned money. There is nothing wrong with a holiday in New York, as long as you can pay for it in cash. Enjoy life, but not at the expense of your own financial health!

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