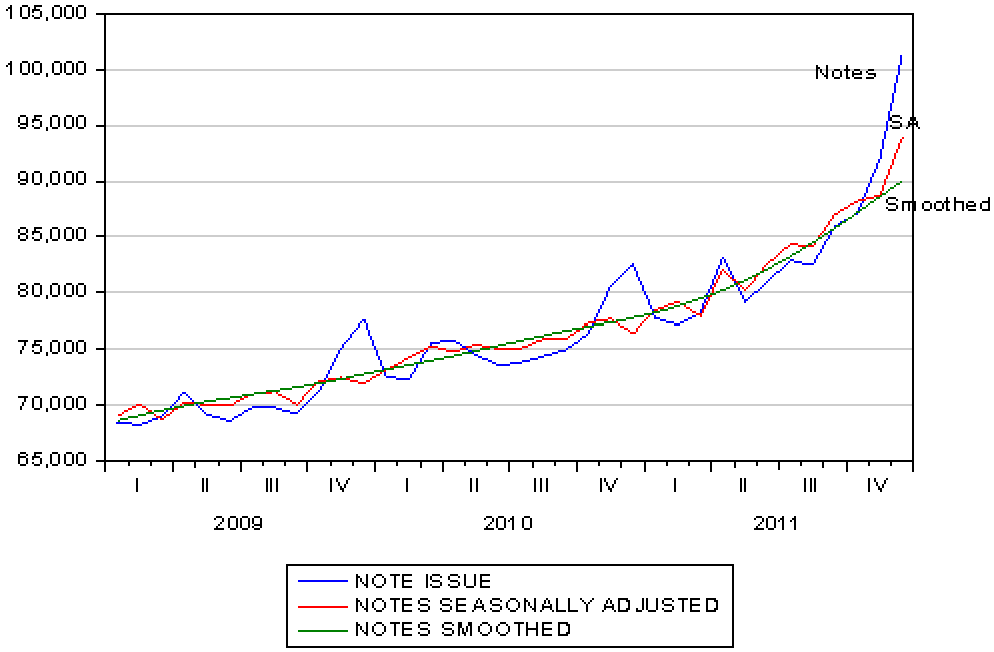
The economy: Bulging pockets

The demands for and supply of cash in SA have grown explosively in recent months. Is spending more robust than has been recognised?

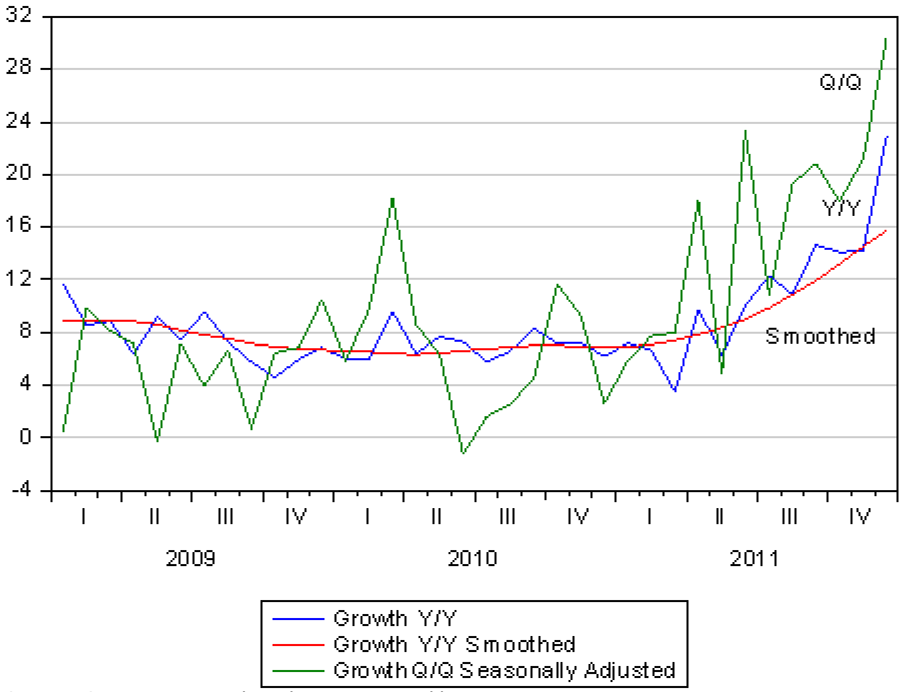
The demand for the notes issued by the Reserve Bank held in the tills and ATMs of the SA banks and in the pockets and purses of the public is growing explosively, according to the statistics released yesterday by the Reserve Bank in its Statement of Assets and Liabilities for December 2011. The Reserve Bank note issue at December month end was R101.3bn compared to R92bn in issue at the November 2011 month end, and up 22.9% up on December 2010. This growth was well up on the still robust 14.2% year on year growth realised in November. On a seasonally adjusted basis, quarter to quarter growth was at an even faster 30.4% annualised rate. As we show below, this sharp acceleration in growth dates from the third quarter of 2011 (see chart).

The SA Reserve Bank Note Issue (Rm)



Source: SA Reserve Bank and Investec Wealth & Investment

The Growth in the Note Issue



Source: SA Reserve Bank and Investec Wealth & Investment

These notes in issue constitute about 23% of all the liabilities of the Reserve Bank. Since SA banks are not holding excess cash reserves of any magnitude the note issue may be regarded as the high powered money or the money base of the SA economy, the base upon which the supply of bank deposits and bank credit is built. By this measure of the growth in Reserve Bank money (and the potential for growth in broader definitions of money that include bank deposits) monetary policy in SA is highly stimulating.

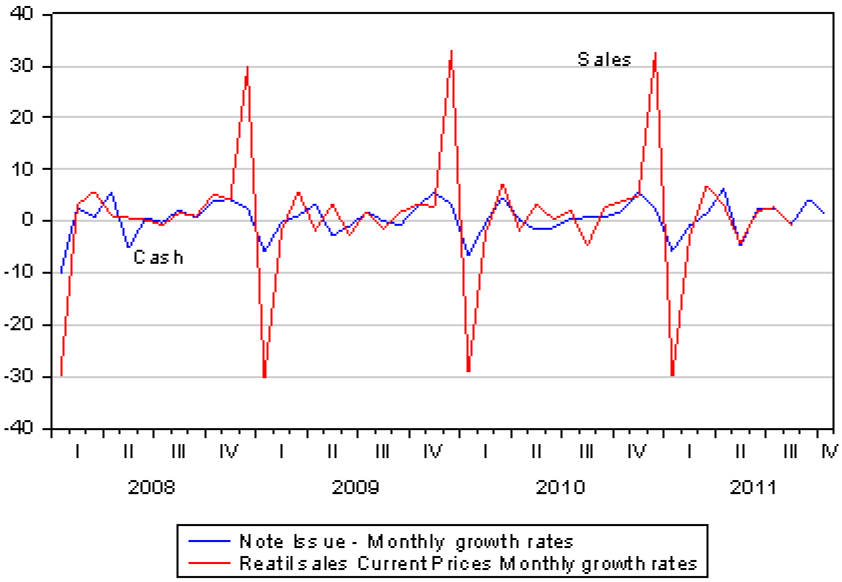
The Reserve Bank has never regarded the money base (the sum of the notes in issue adjusted for cash reserve requirements of the banks) as an objective of its monetary policy. It simply accommodates the demands for notes as expressed by the public and the banks. These demands to hold cash, rather than deposits in the banks or other financial or real assets, are clearly intended to meet the spending intentions of the public. Not all spending intentions need cash: debit and credit cards as well as credit supplied by retailers are obvious alternatives to cash exchanged for goods and services. The continued strength in the demands for cash in SA has occurred despite the convenience of the electronic alternatives and may well reveal the scale of the informal economy that relies on cash.

The demands for and supply of cash therefore provides a very good coinciding indicator of spending at retail level. It has the great advantage of being a very up to date indicator of spending. The latest official estimates of retail spending are only for October 2011.

The correlation between monthly changes in the supply of cash and monthly changes in retail sales confirms the usefulness of the supply of cash as an indicator of the state of the SA economy. This correlation co-efficient has been as high as 0.67 since January 2005 (See below).

There is every reason to predict that the recent very strong pick up in the demands for cash have been reflected in strong growth in the sales made by retailers in November and December 2011, both for cash and credit. ***Brian Kantor***

Monthly growth in cash and retail sales



Source: SA Reserve Bank, Stats SA and Investec Wealth & Investment