SA Economic Prospects: Fading amid persistent bottlenecks

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see money differently

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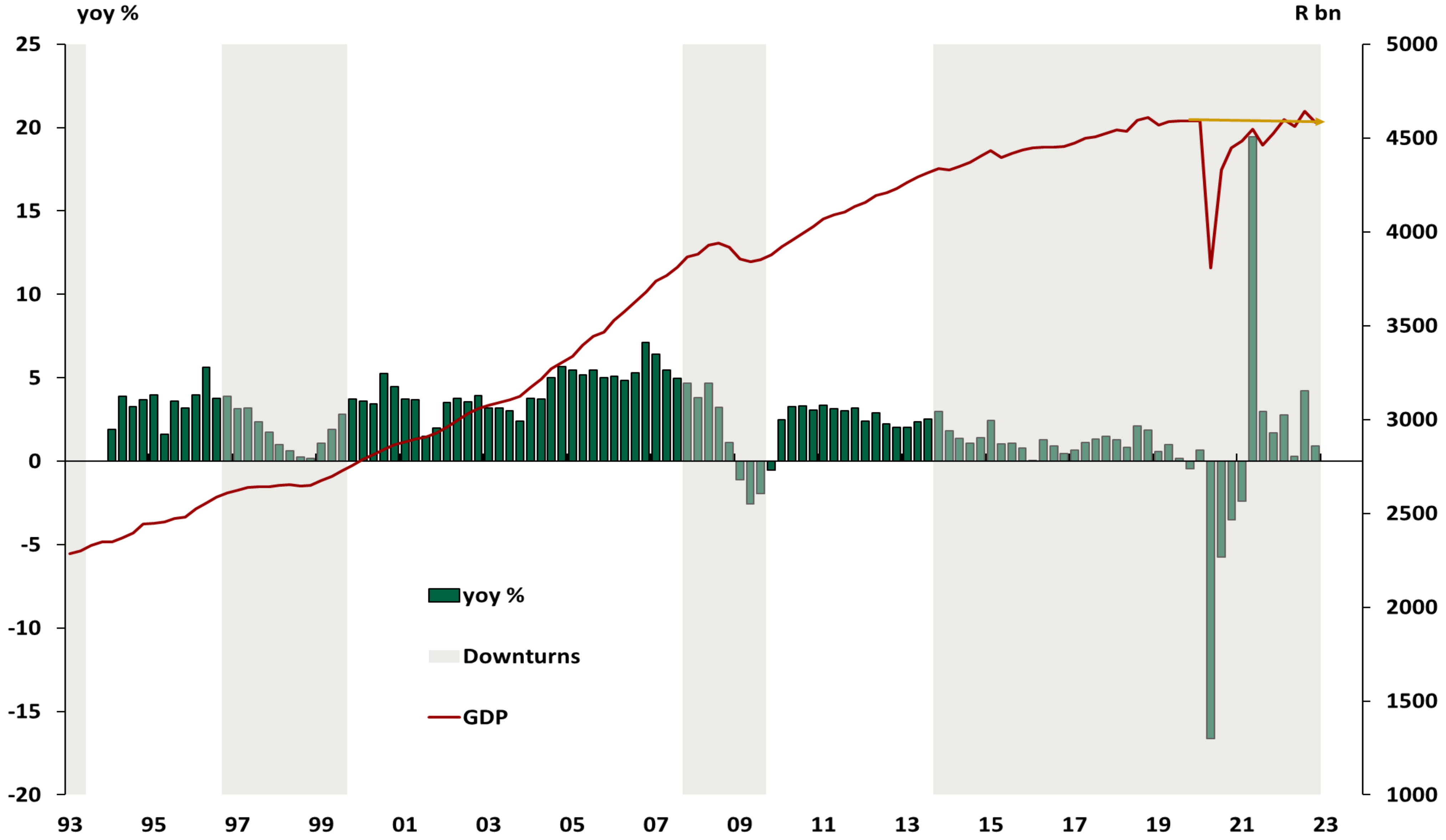
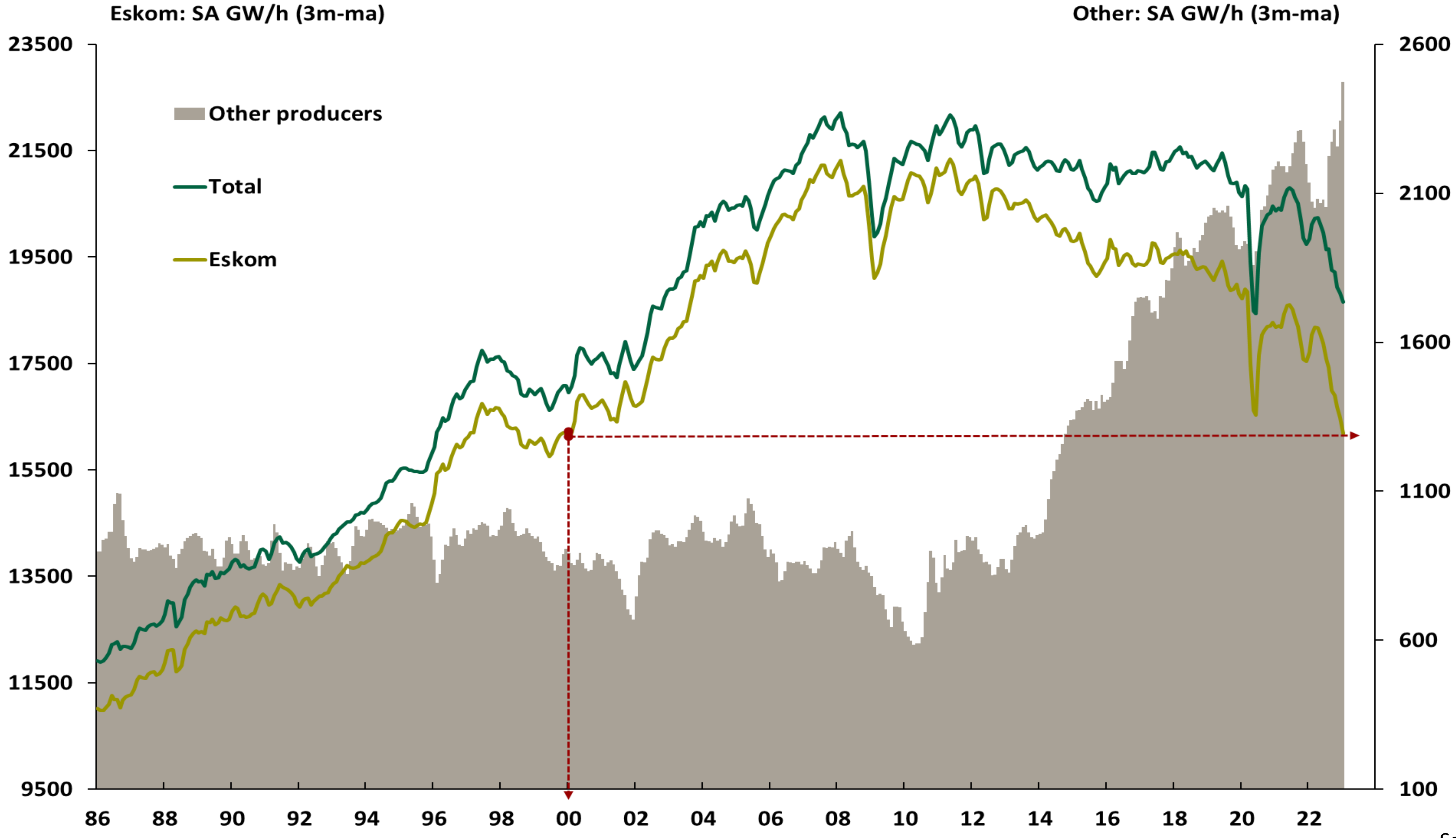
SA's economy has returned to pre-pandemic levels, but there is no sign of upward momentum



Source: Stats SA

The growth outlook is marred by an acute electricity shortage



Source: Stats SA

It is difficult to assess the impact of load-shedding on GDP growth in 2023

There is a lot we simply do not know…

- **The knowns…**
  - Households are subjected to all stages of load-shedding
  - Large energy users (miners and manufacturers) are subjected to load-curtailment
  - The large energy group indicated that load-shedding at stages 4 and above starts to hit production materially
  - The grid is extremely unstable
    - Eskom told us that on 14 February 2023, SA narrowly escaped a total grid collapse as 8 power stations failed and automatically shut down
    - Eskom indicated that it is highly likely that new stages will be introduced in the winter – stages 7-8
    - At these levels, unintended consequences such as prolonged water outages could follow.
  - It is clear that the economy needs to adjust to a whole new level of load-shedding. As a result, growth will suffer.
  - The question is how much?

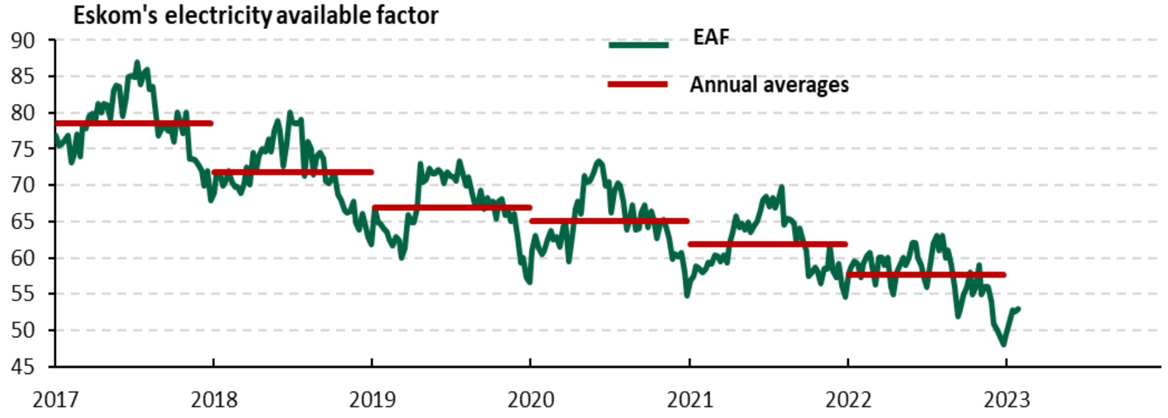
Requiring too many assumptions…

- **The unknowns…**
  - How many days of load-shedding will SA experience in 2023?
  - What stages of load-shedding will the economy be subjected to every day?
  - The extent to which private companies have adapted by installing alternative or backup energy generation, whether diesel generators or solar panels with batteries and inverters.
    - Eskom believes that there is significant private capacity out there
    - It is impossible to measure because it is not declared

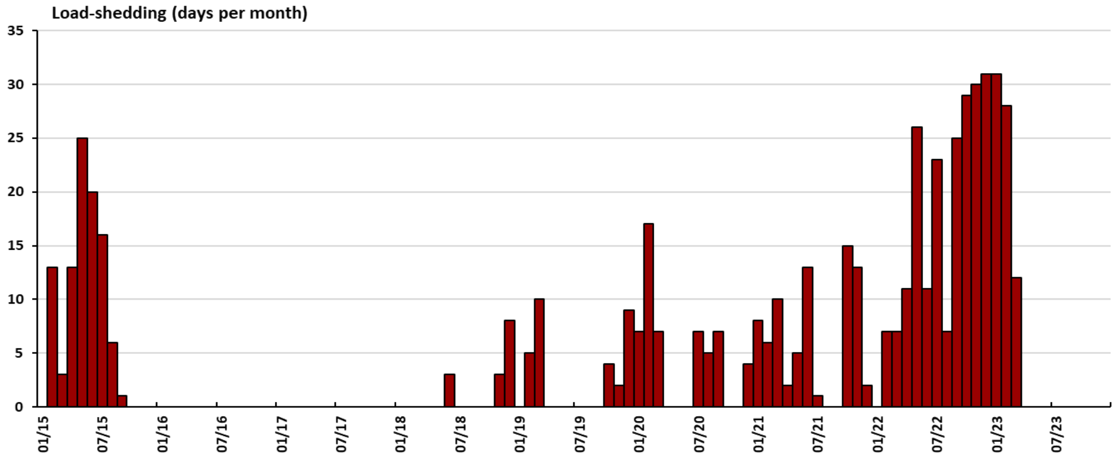
  - Our assumptions
    - The economy operates at stages 4-5 on average for much of 2023
    - The switch to renewable and/or alternative energy sources accelerate
    - Economic growth is materially affected in 2023, but conditions improve from 2024 onwards

The economy now has to adjust to much more frequent and prolonged power outages

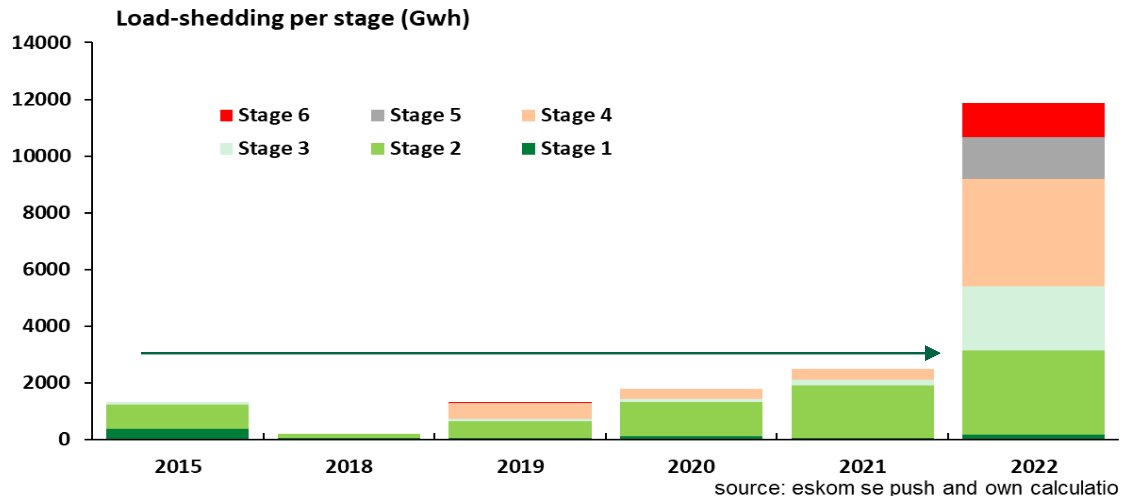
Eskom's operational efficiency has deteriorated dramatically, resulting in a sharp escalation in rolling black out, particularly from Q4 2022



The economy was subjected to 207 days of load-shedding in 2022, up from 75 and 54 in 2021 and 2020, respectively



The economy will have to adjust to more frequent and prolonged power outages per working day

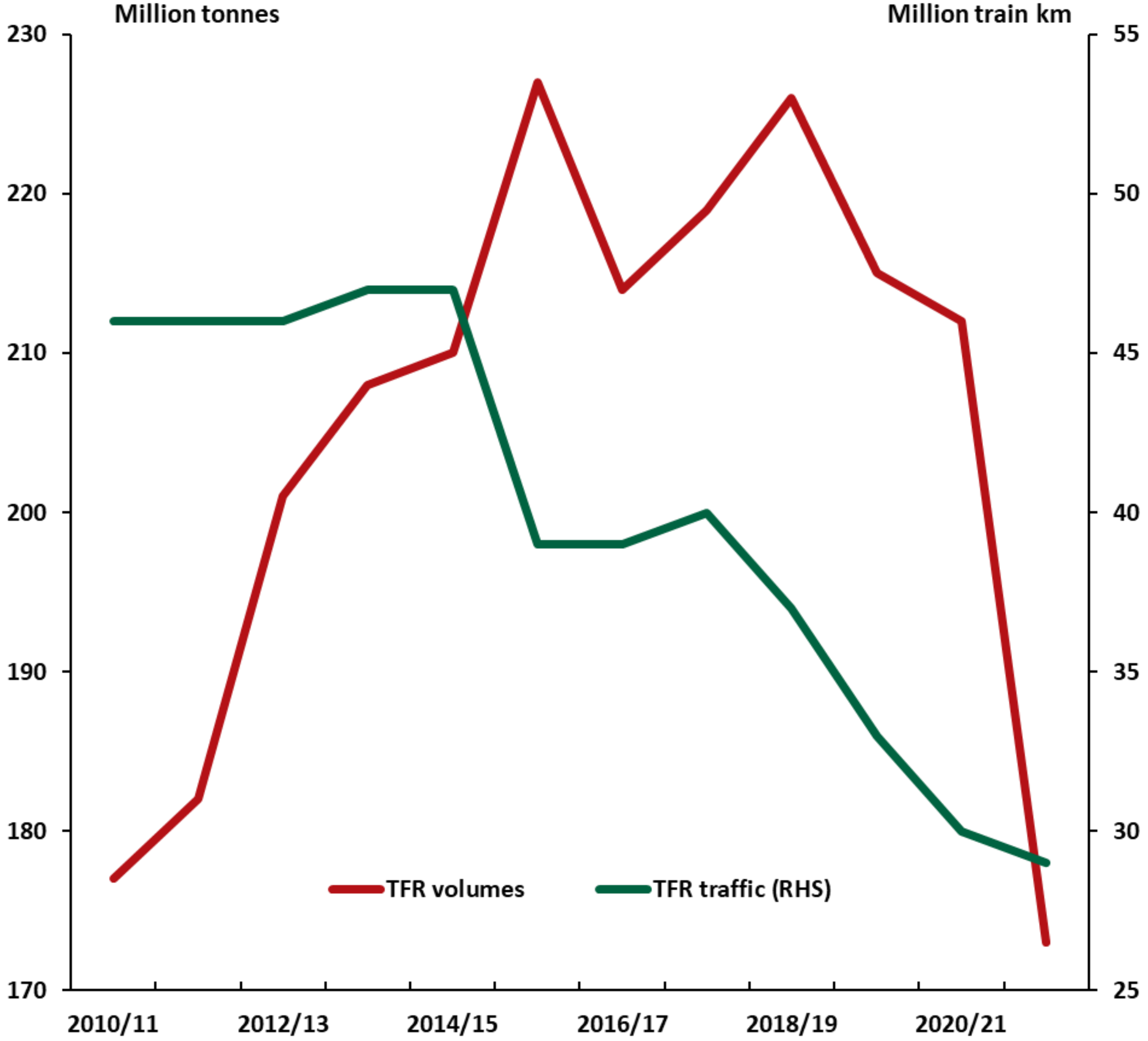


The South African Reserve Bank's estimates of the economic costs of load-shedding at the different stages

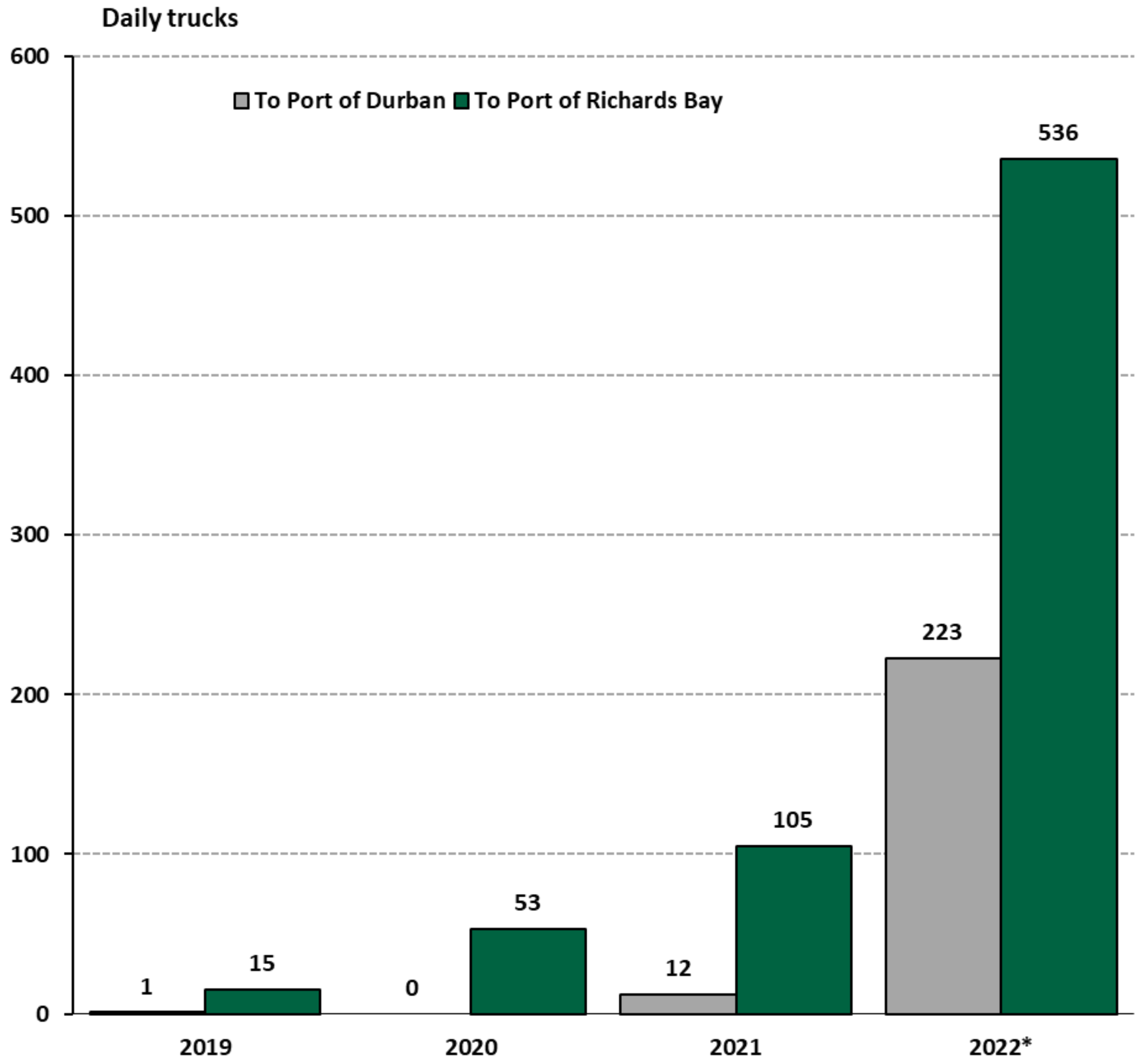
	Nominal GDP lost (R'mn per week day)	Real GDP lost (R'mn per week day)
Stages 1-2	0 -1.2	0-0.8
Stage 3 (3000MW)	204	136
Stage 4 (4000MW)	408	272
Stage 5 (5000MW)	725	484
Stage 6 (6000MW)	899	499

Electricity is not the only problem

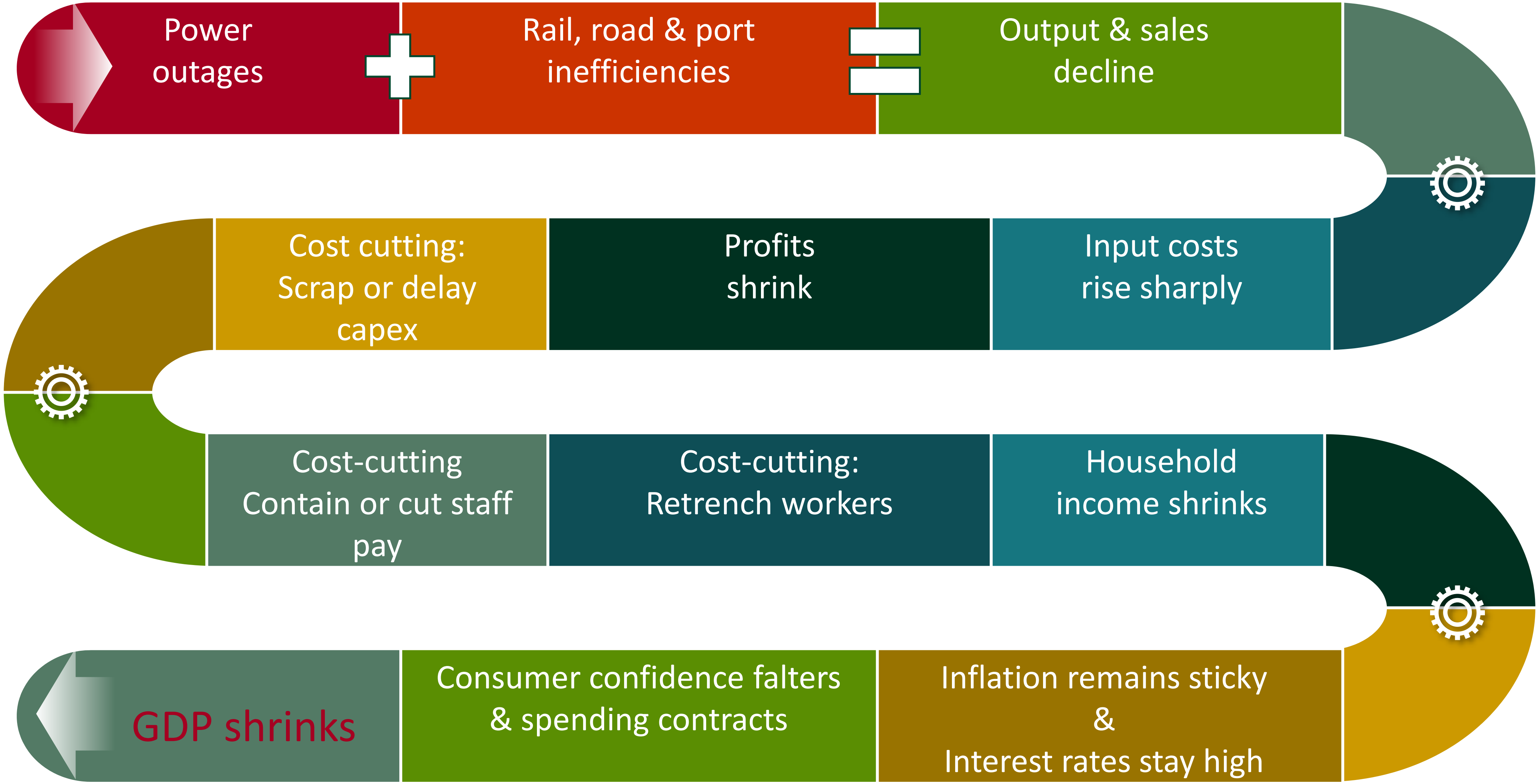
The inefficiency of rail have resulted in a sharp drop in bulk rail transport



As a result, more goods and bulk commodities travel by road, driving up production costs and damaging road infrastructure

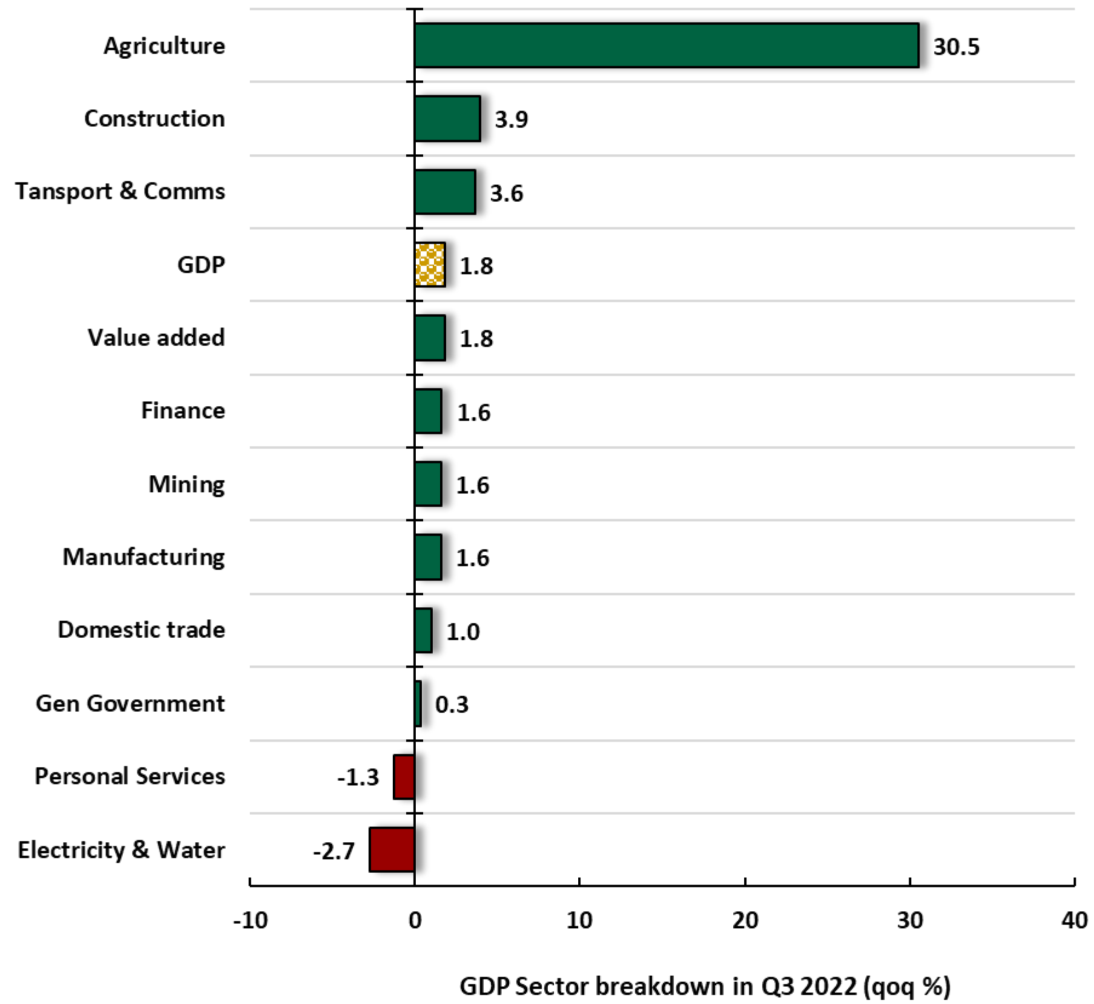


The likely chain reaction…

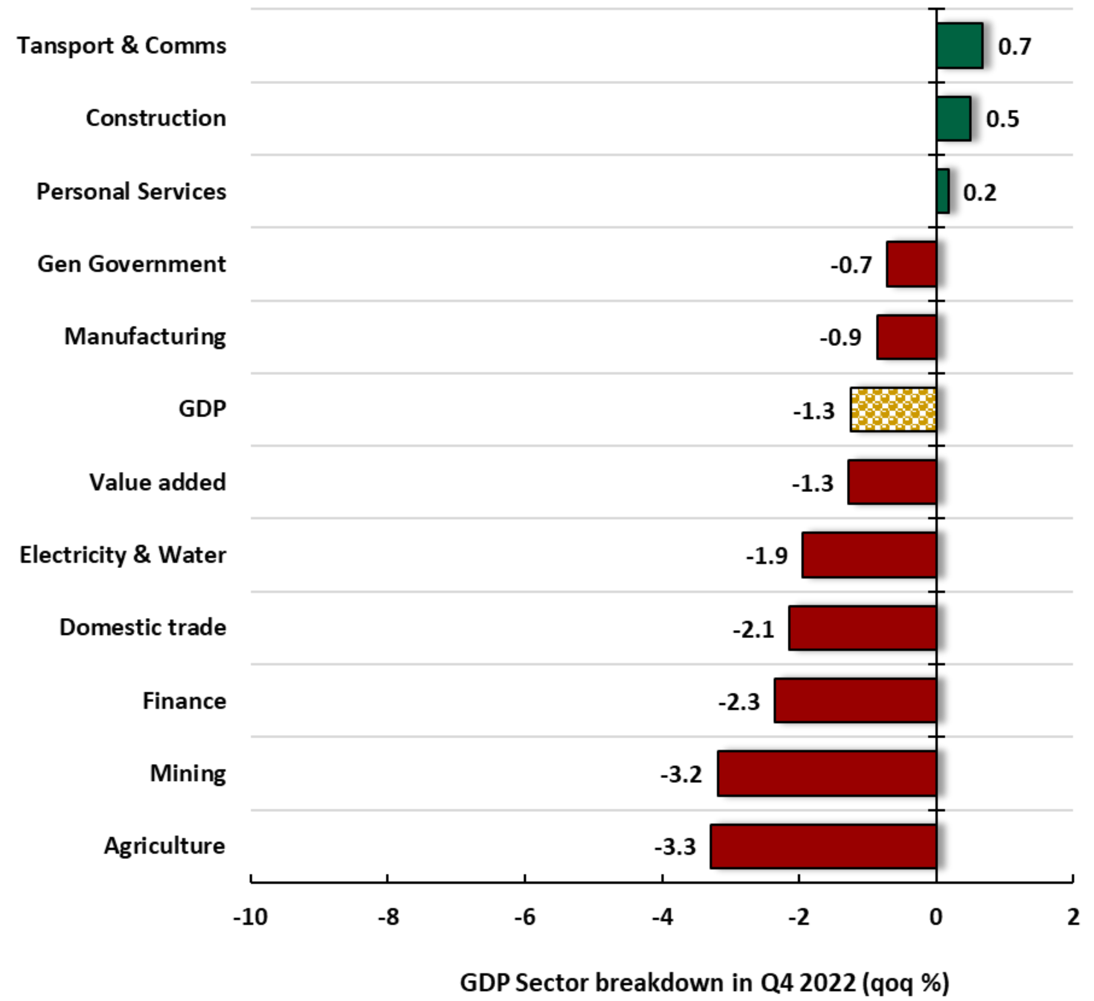


The impact of load-shedding was particularly visible in Q4 GDP

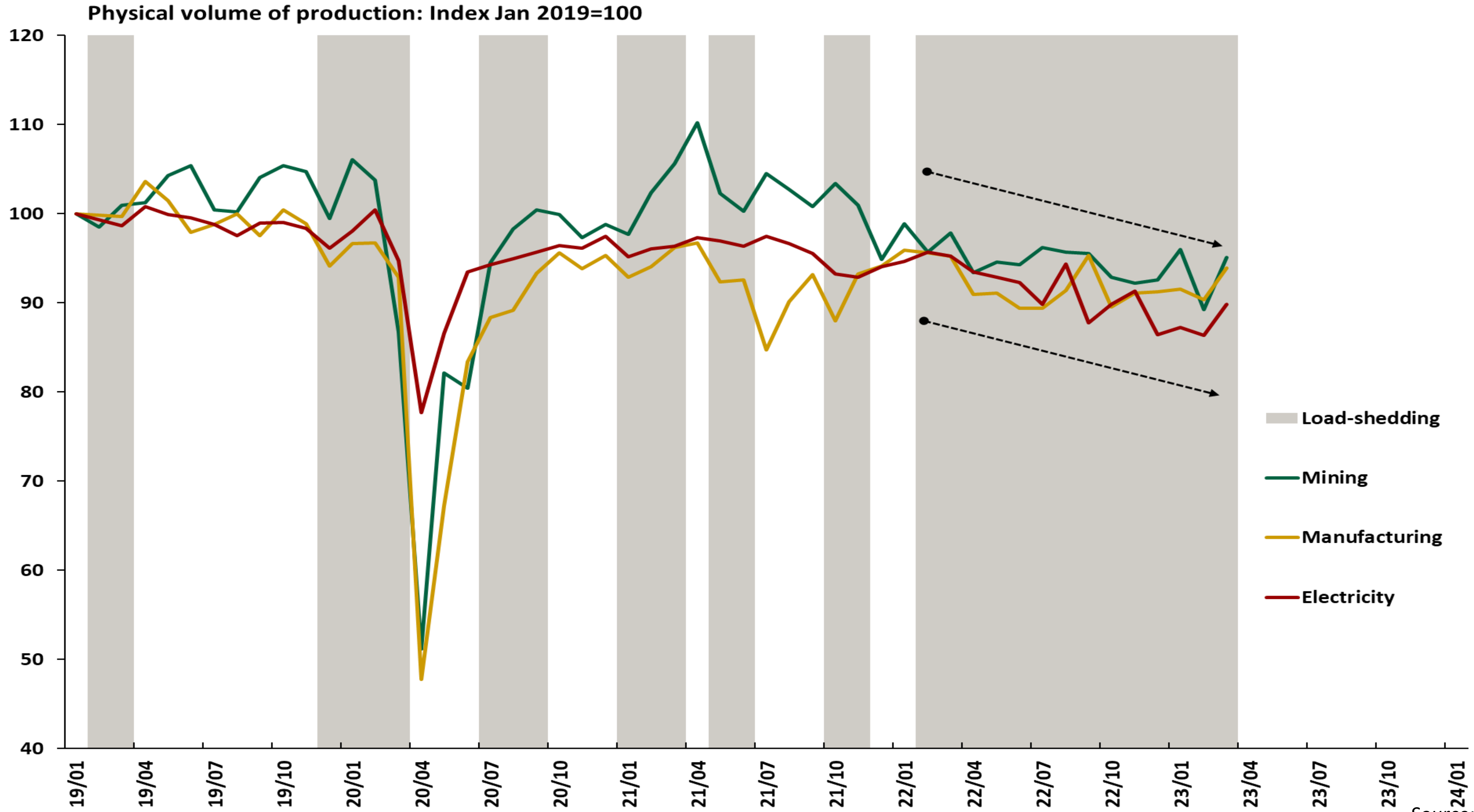
From Q3…



…to Q4



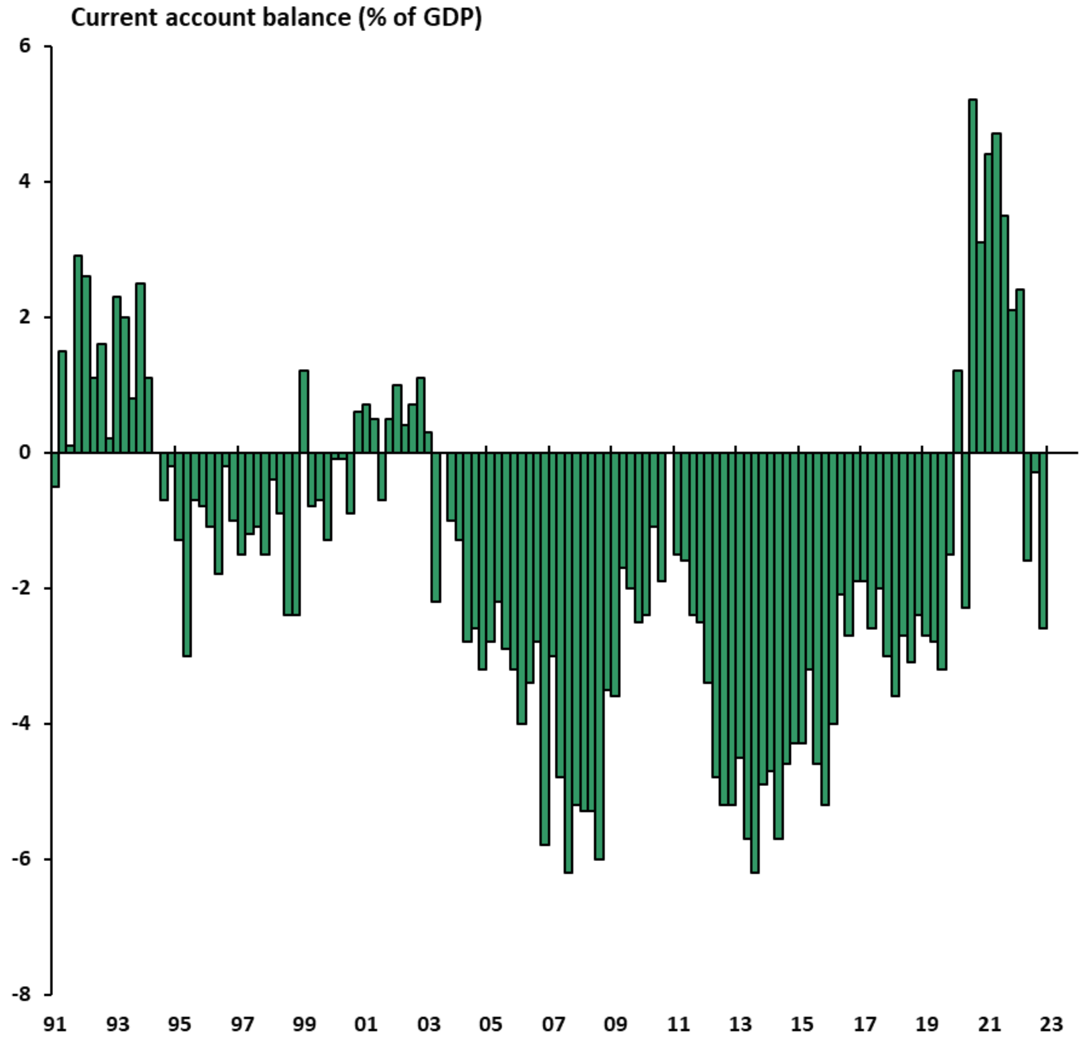
Electricity outages, and other logistical constraints, will continue weigh on producers



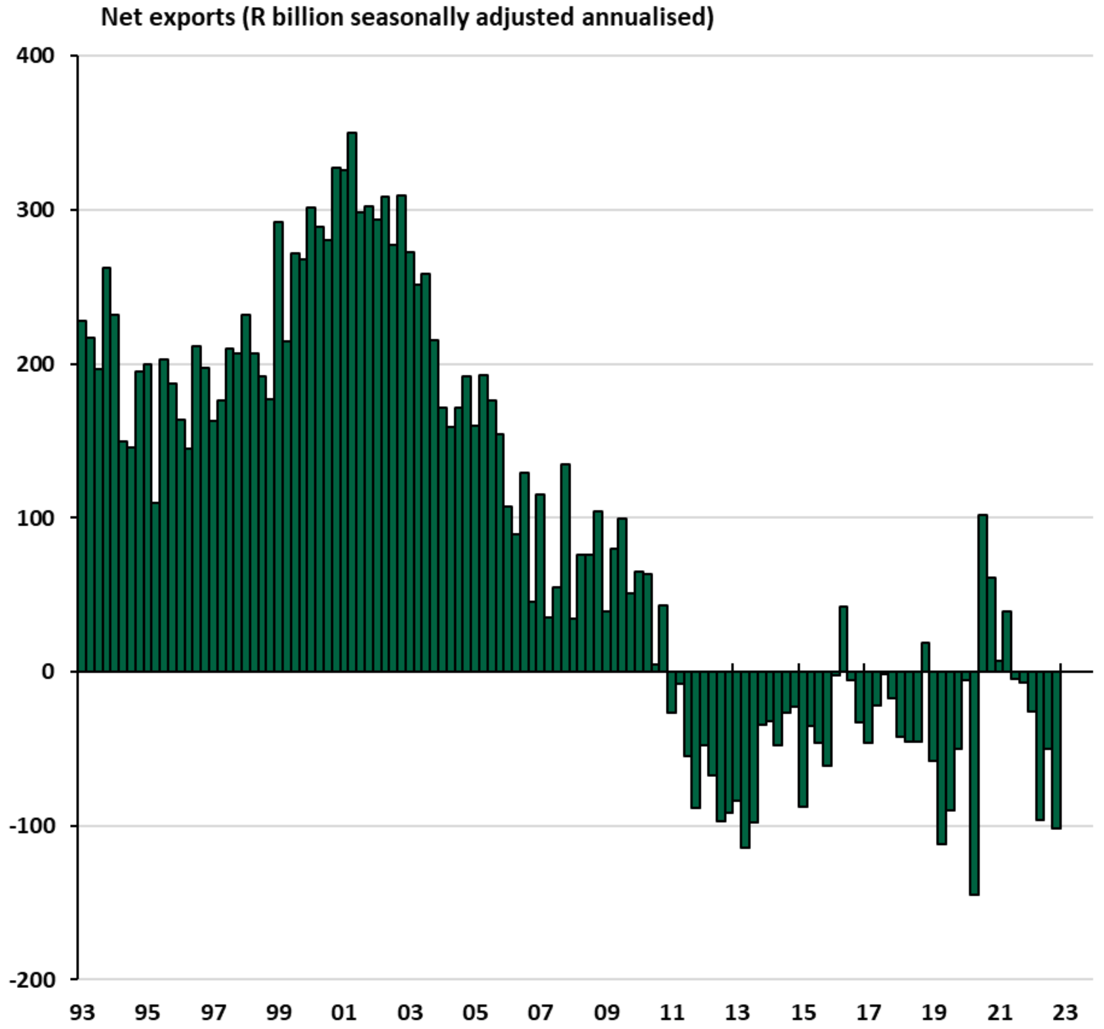
Source: Stats SA

As a result, exports are likely to decline

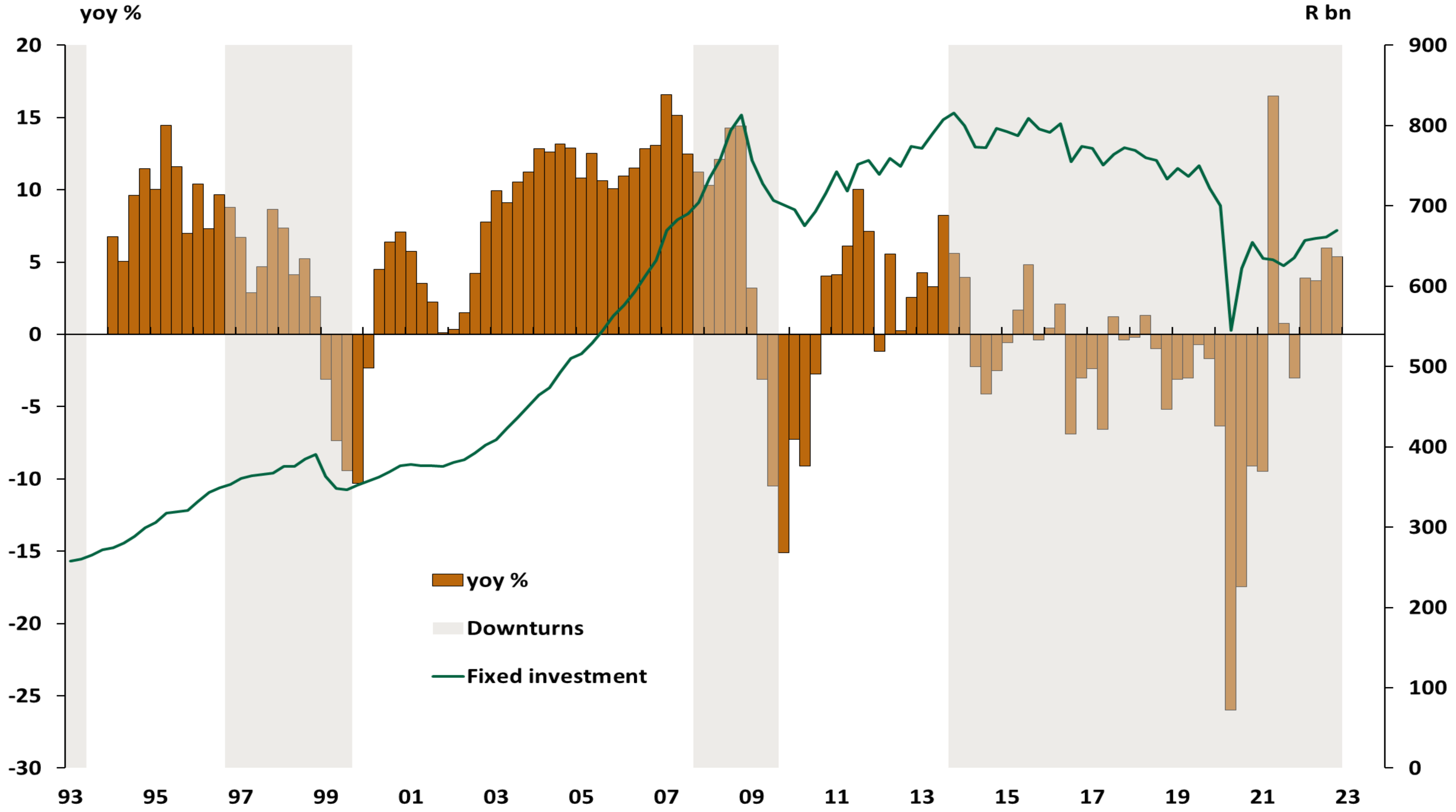
The current account deficit is widening



Net exports are likely to be the main drag on GDP in 2023

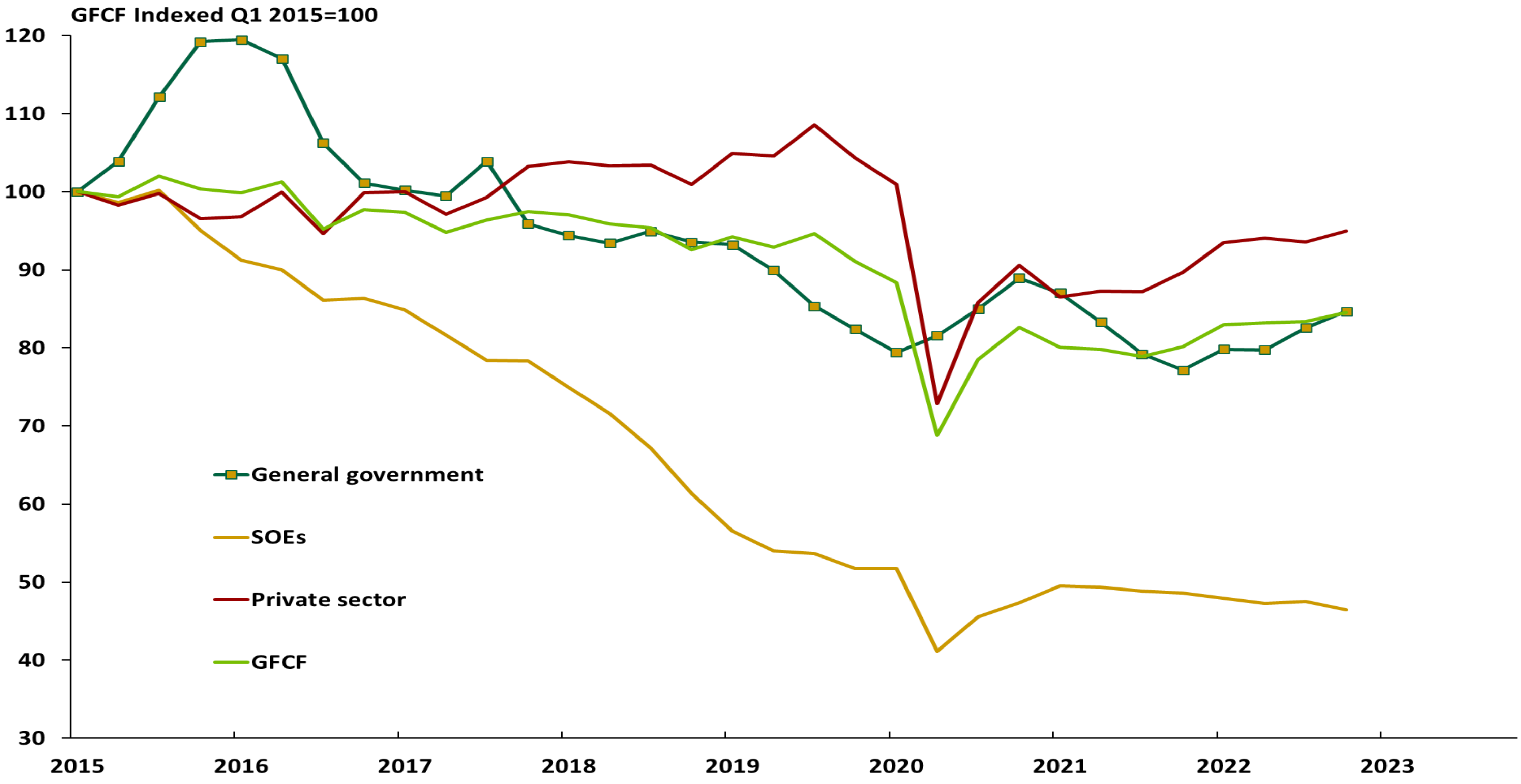


Against all odds, the recovery in fixed investment continued in Q4



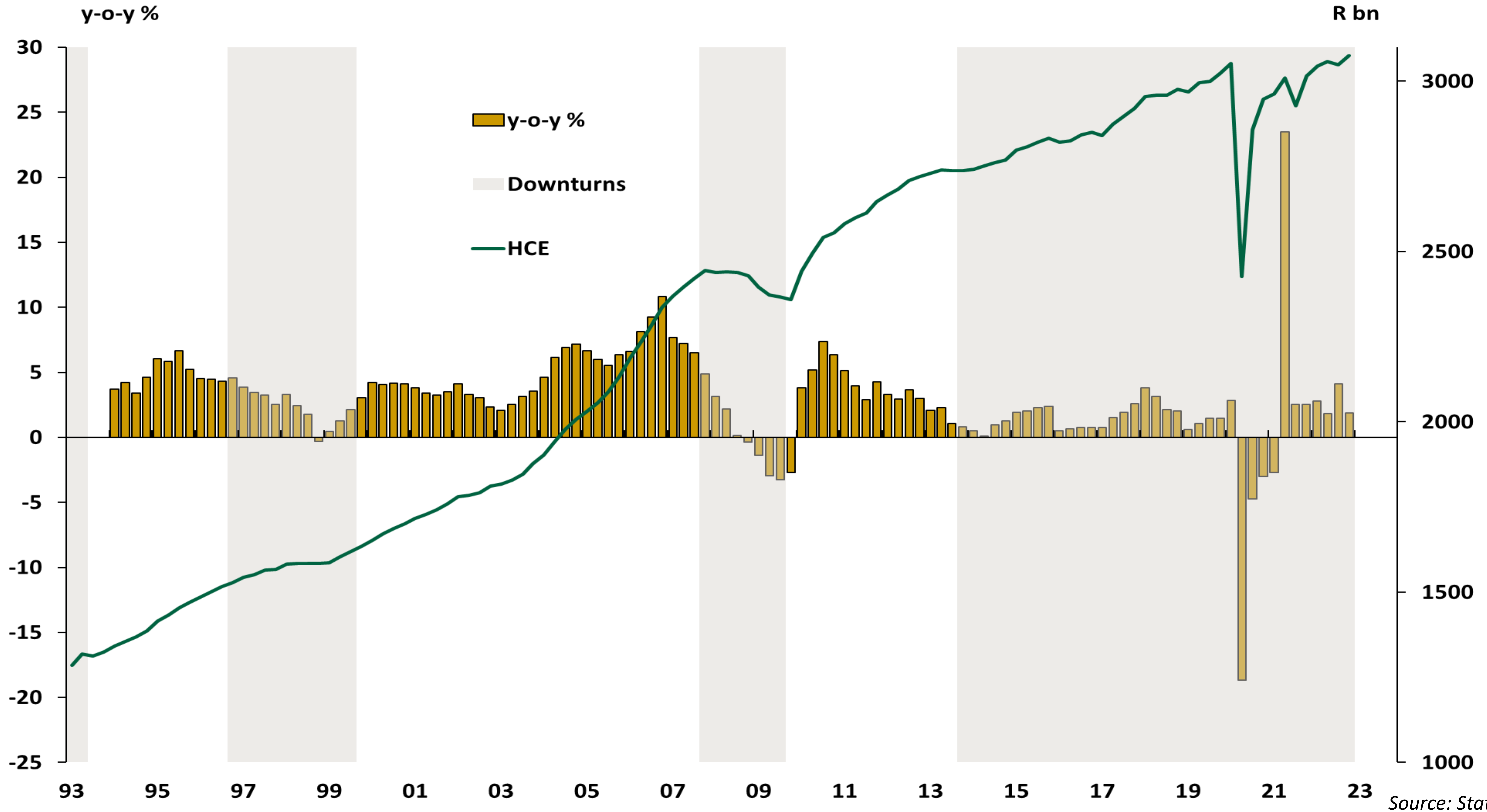
Source: SARB

The lift came from the private sector and government



Source: SARB

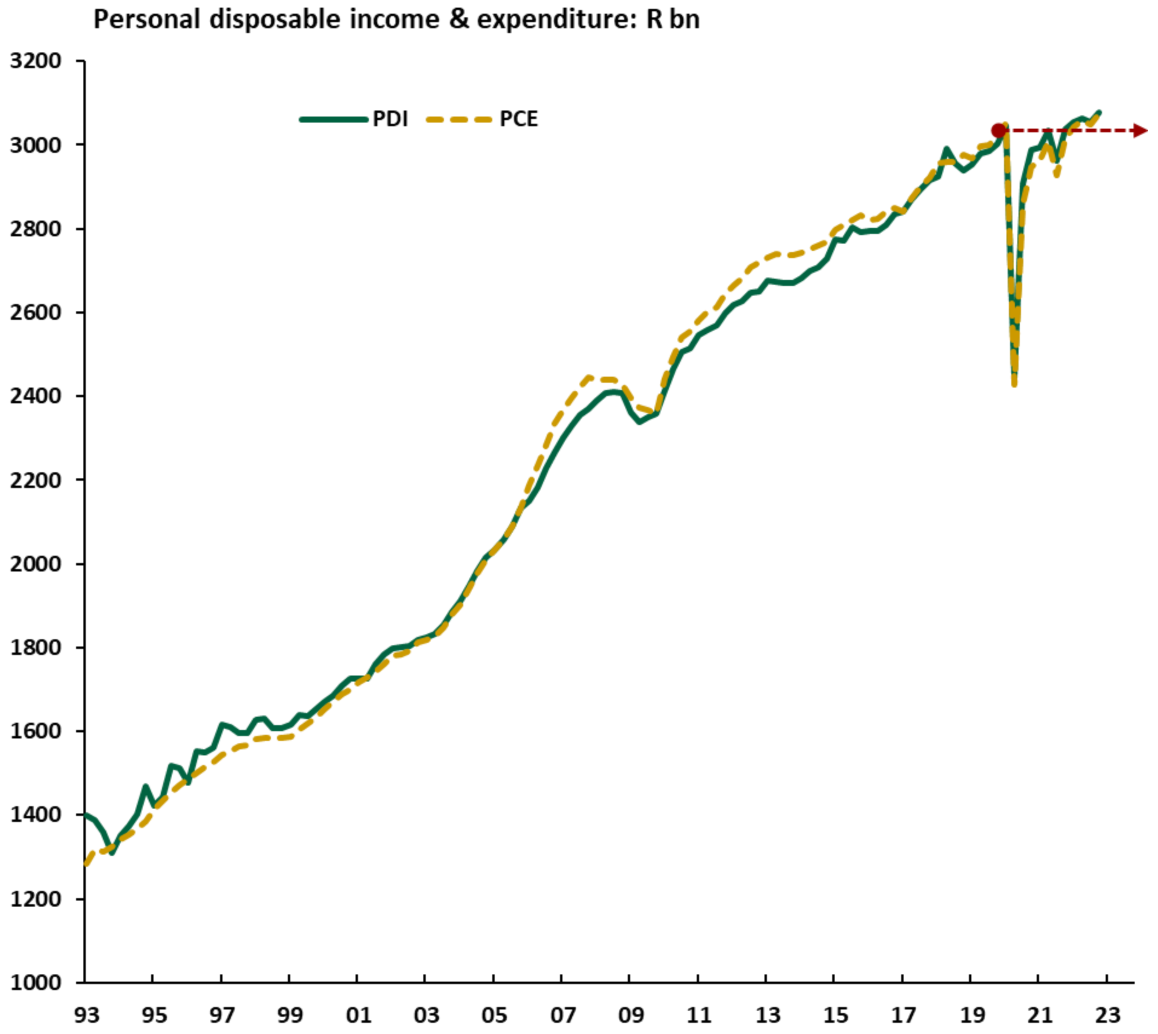
Consumer spending remained relatively resilient in Q4



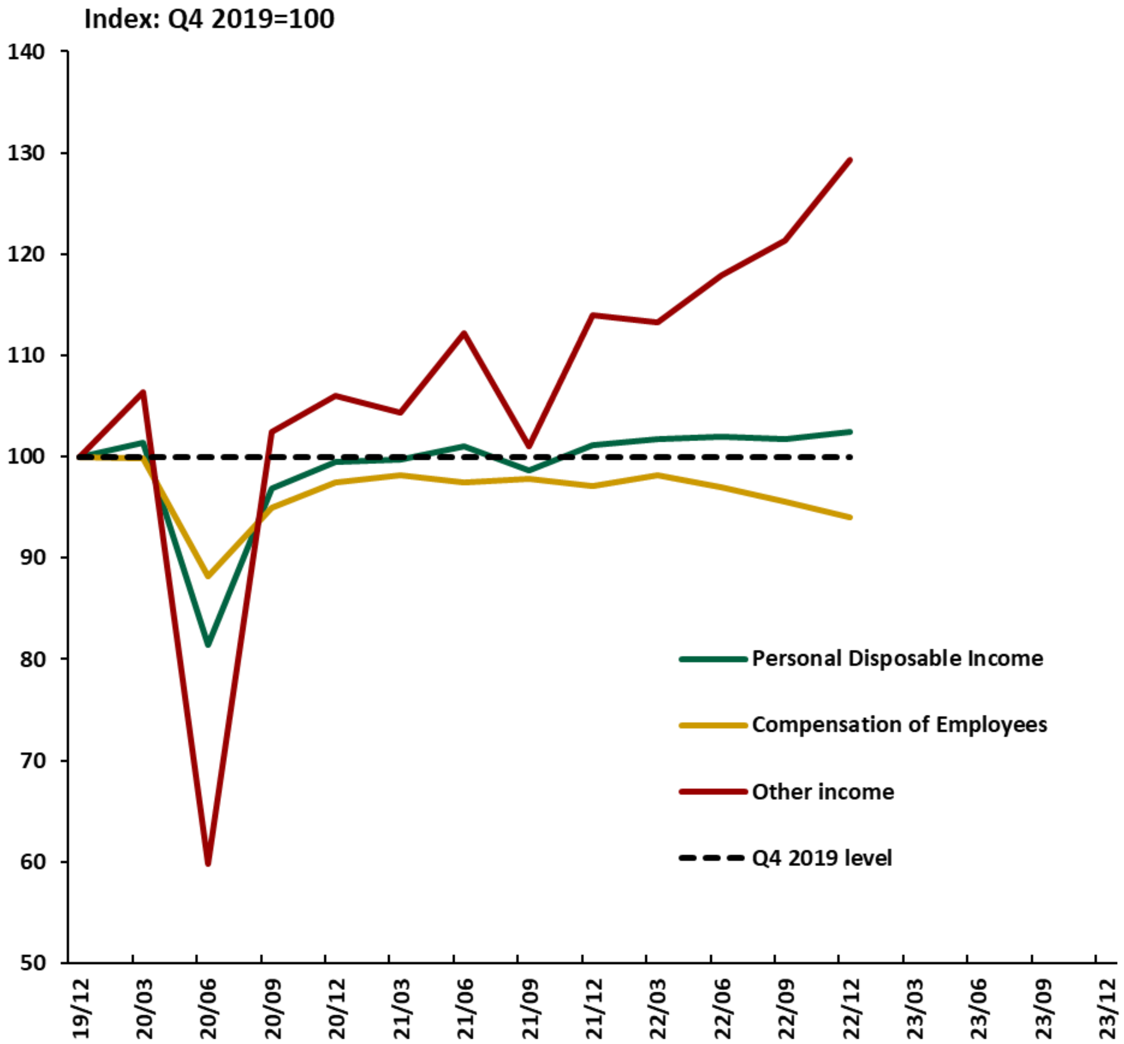
Source: Stats SA

Household income has so far held up relatively well

Personal disposable income has risen above pre-pandemic levels

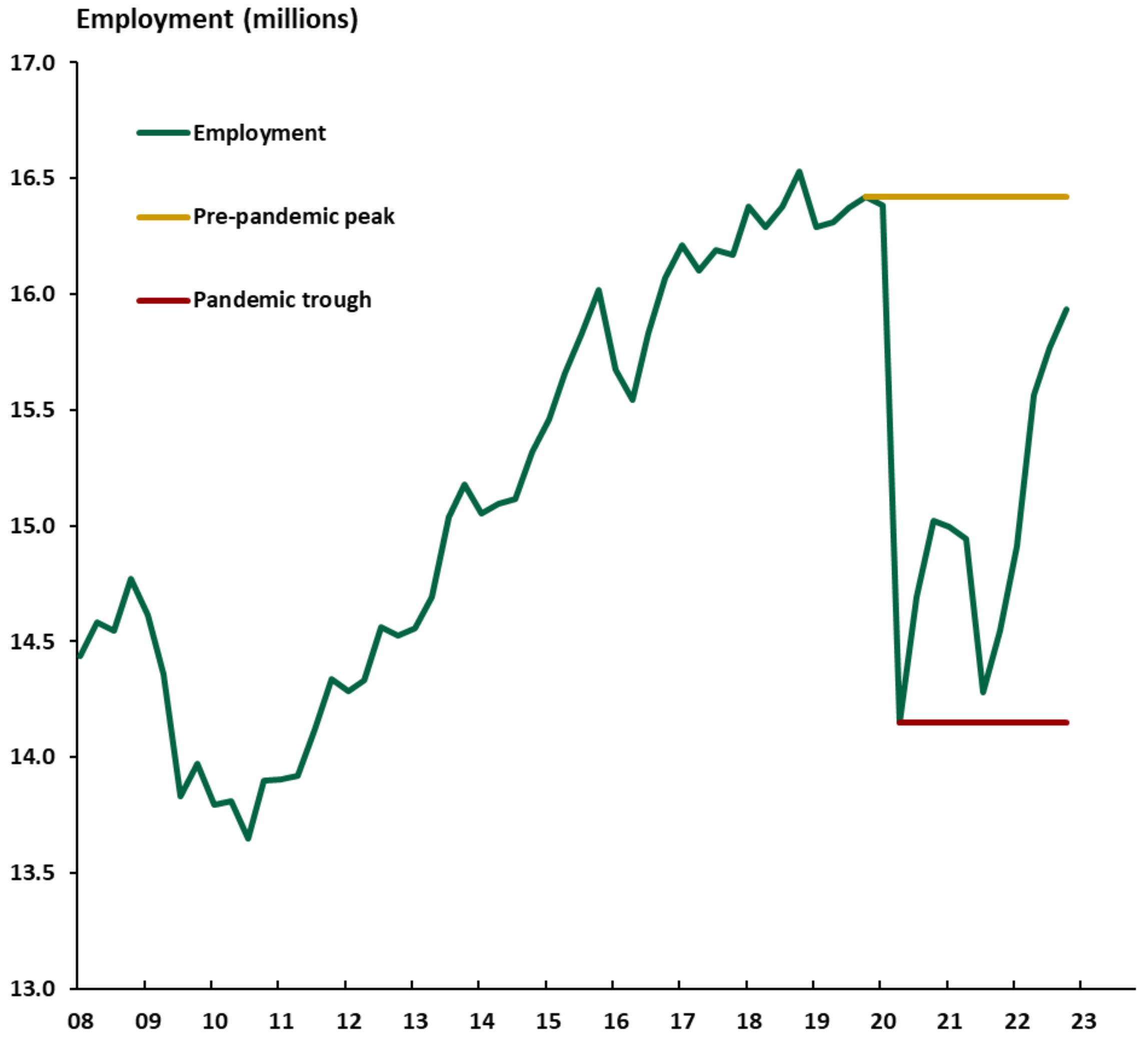


But, this only tells part of the story, household pay is taking significant strain

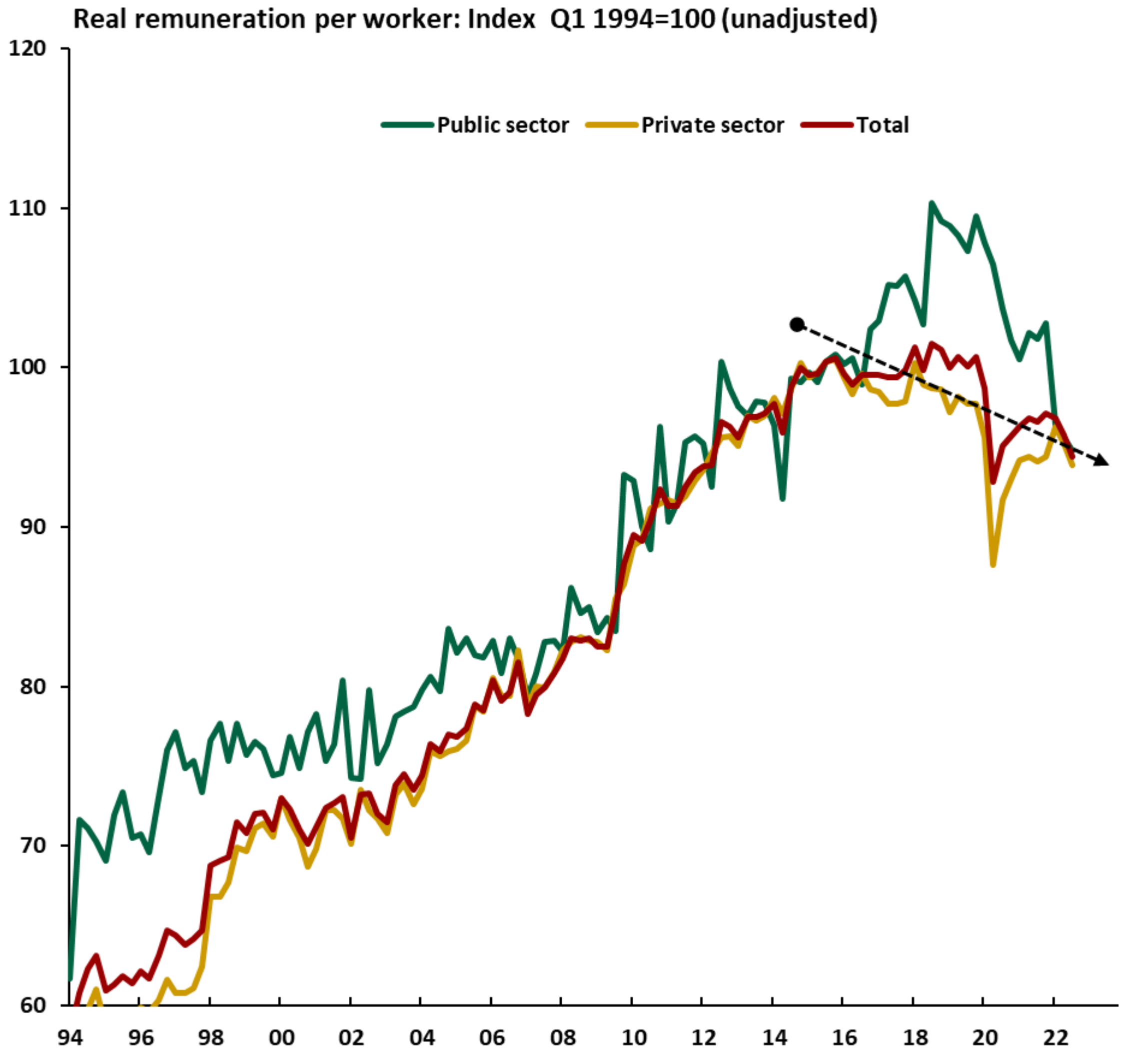


Employment is still improving, but remuneration is under pressure

The economy created more jobs in 2022. However, employment remains well below pre-pandemic levels

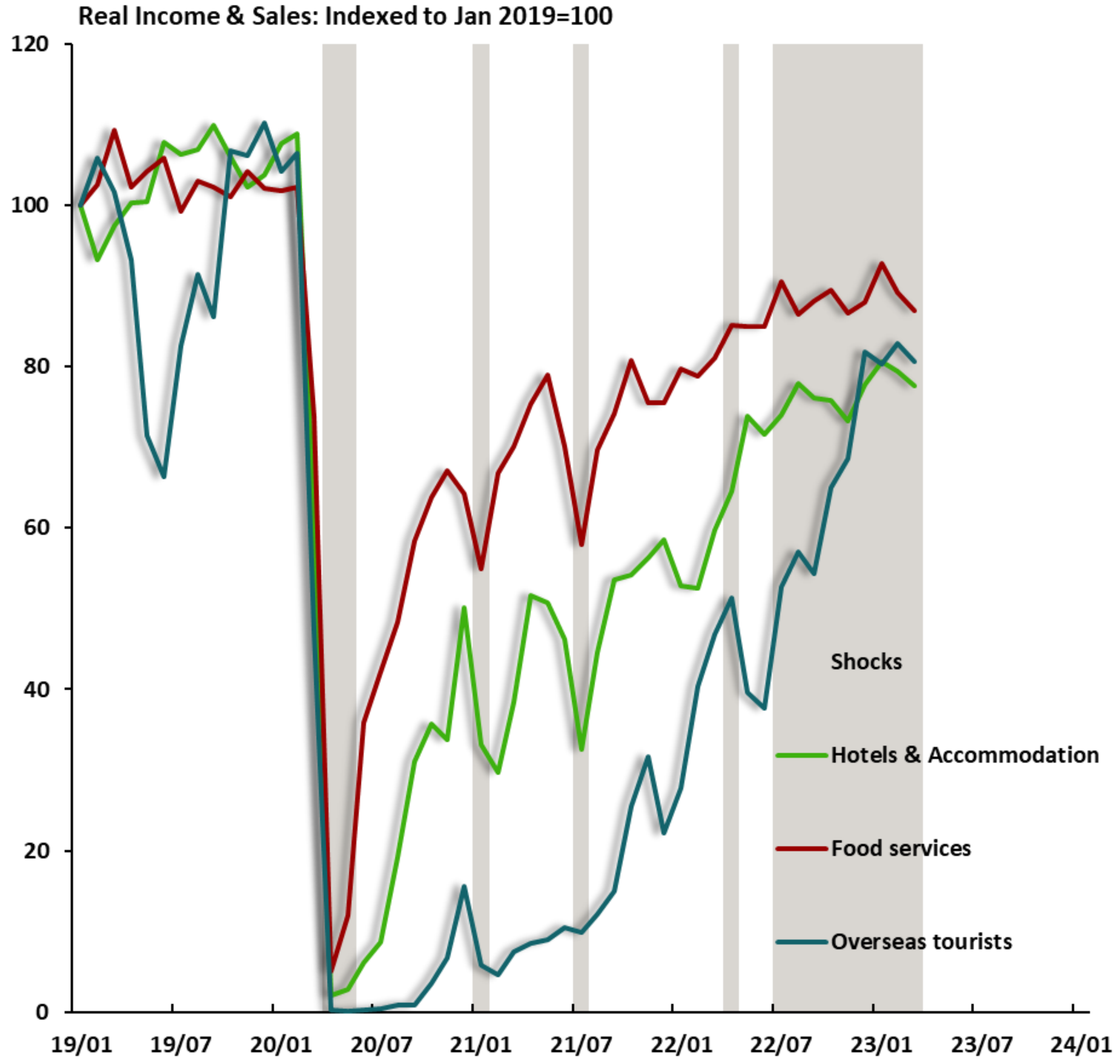


The drag on compensation is coming from the public sector. We expect private sector pay to come under greater pressure.

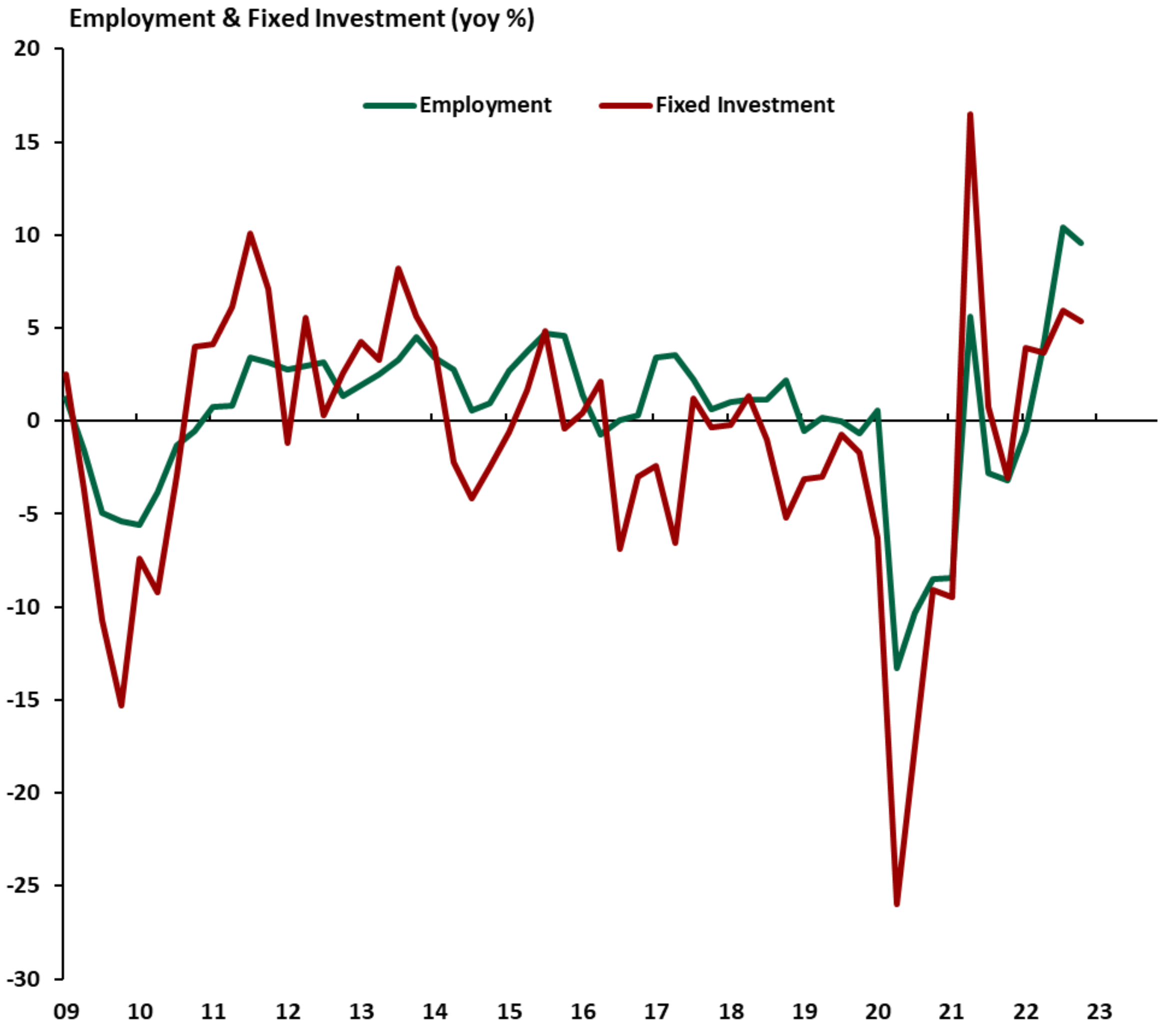


Load-shedding will hurt growth but necessarily result in another wave of retrenchments

The ongoing recovery in tourism will continue to create jobs

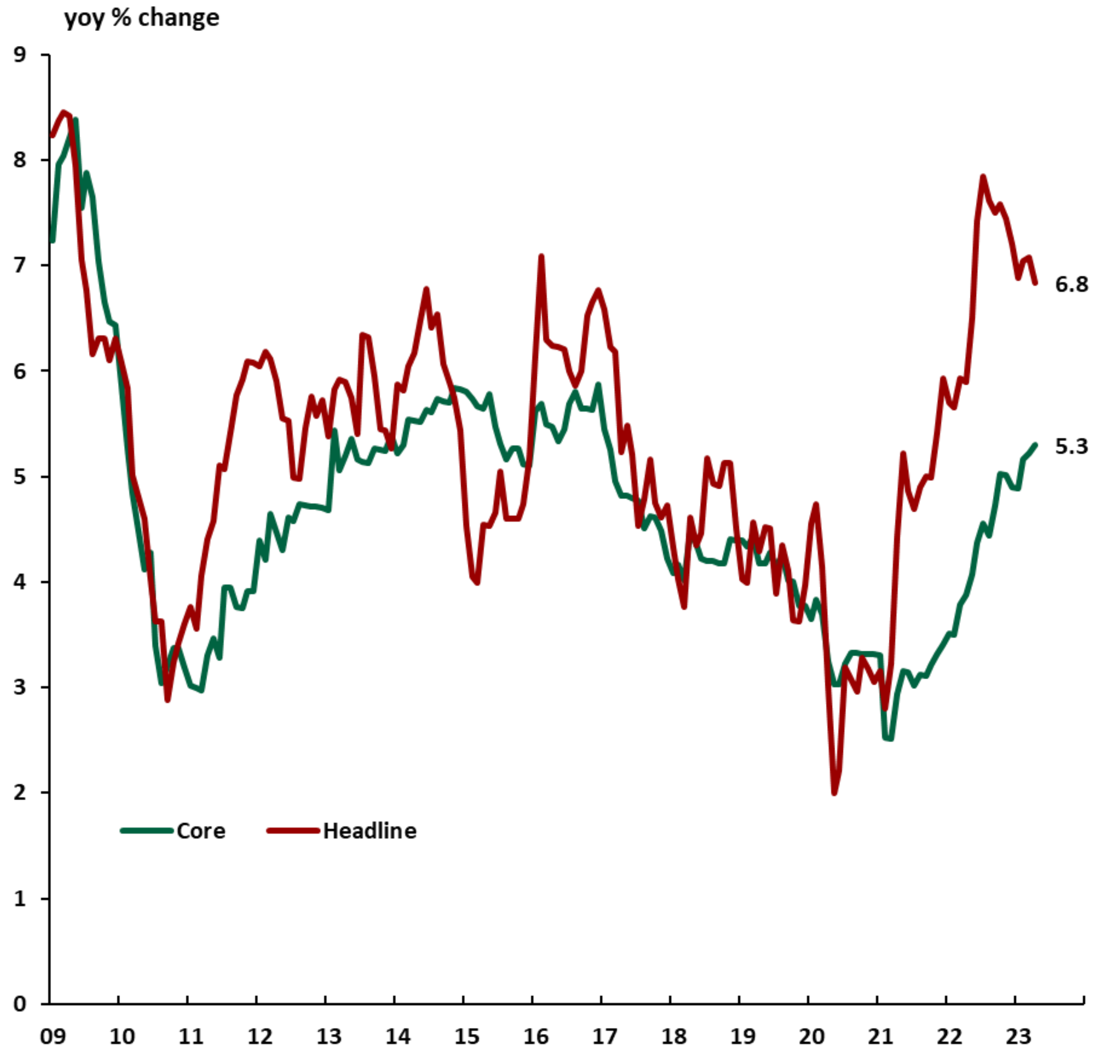


However, the anticipated slowdown in fixed investment could destroy some jobs

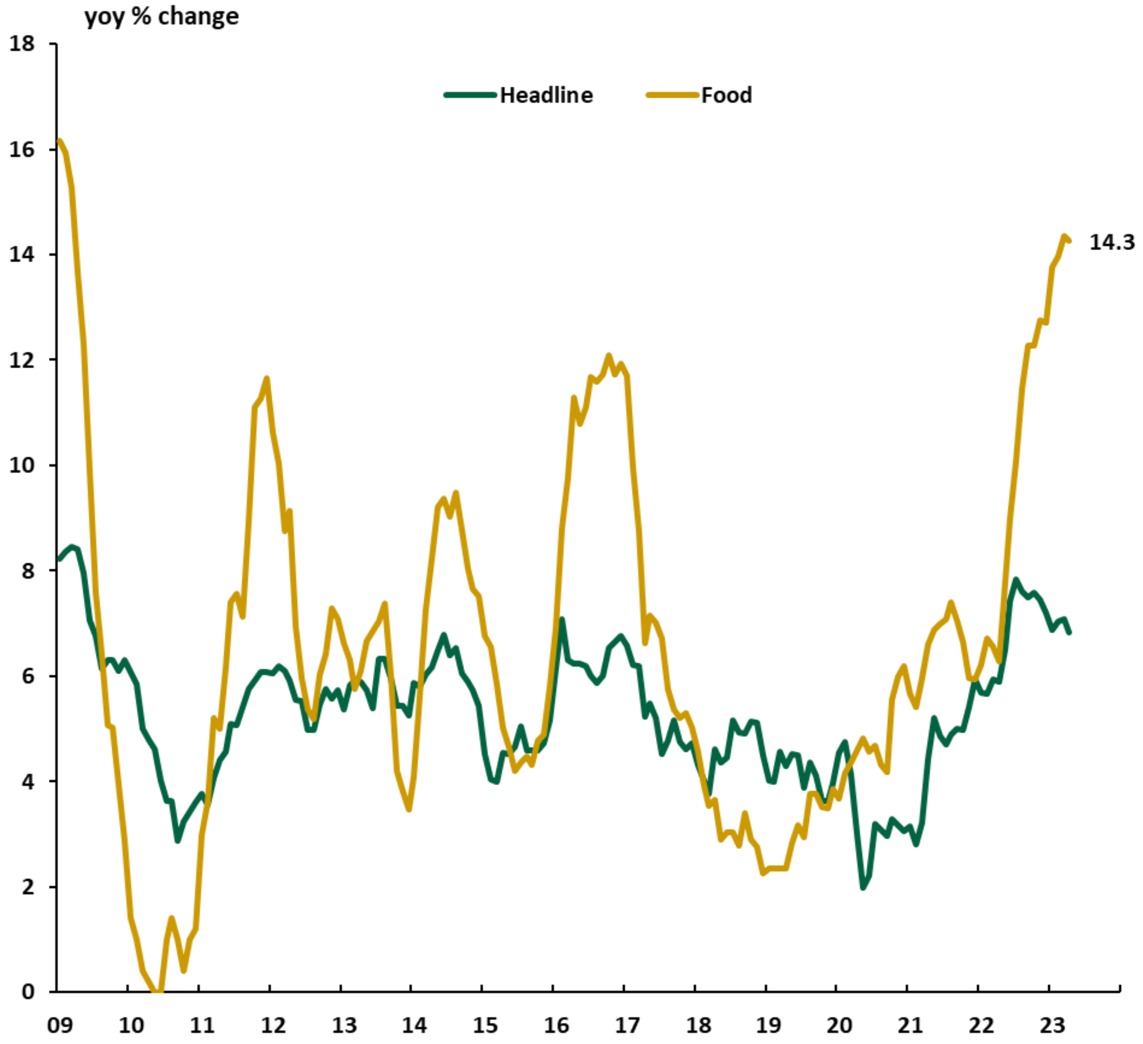


Inflation remains an erosive influence

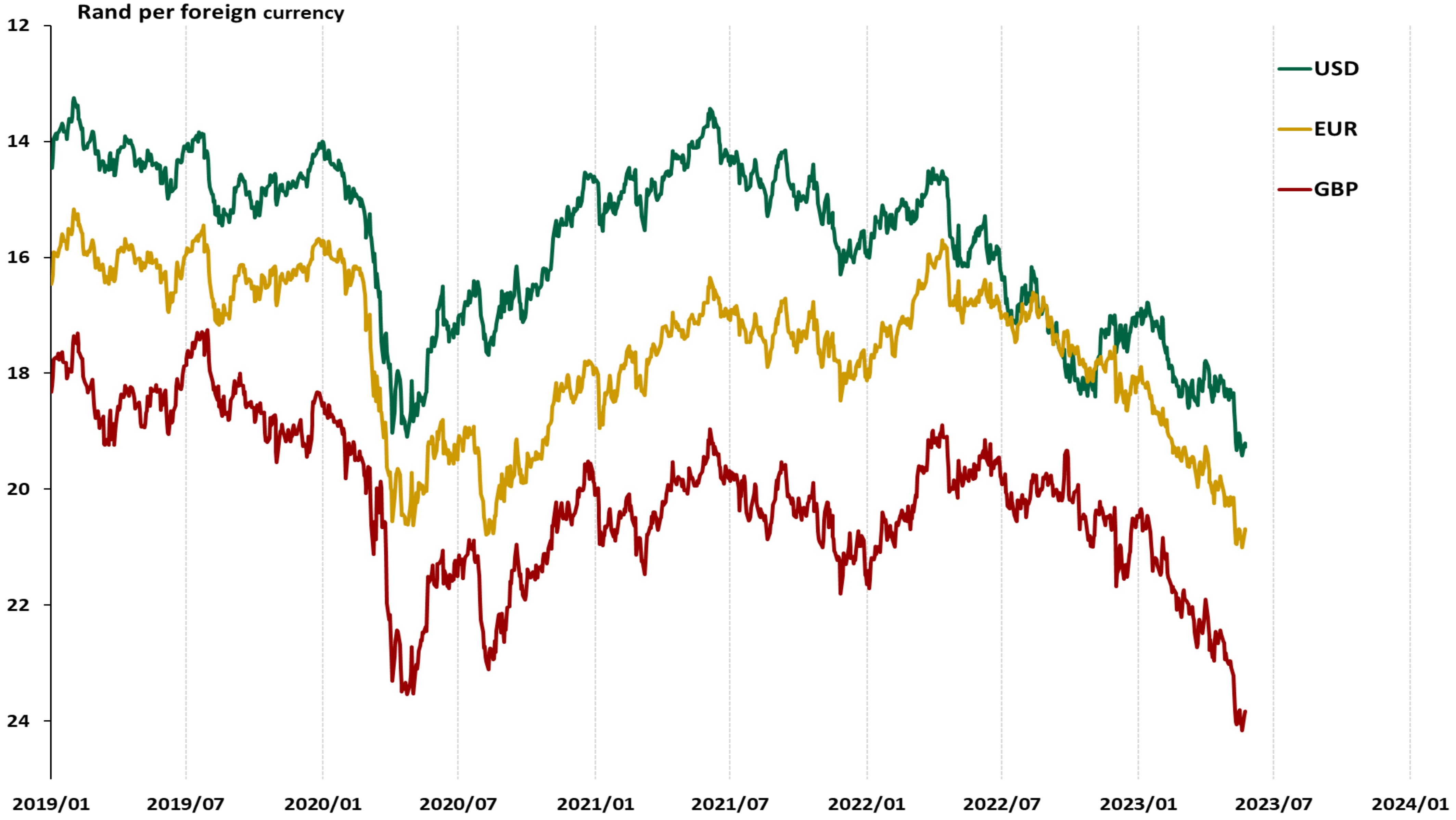
Inflation is proving sticky, but easing to 6.8% in April after rising unexpectedly in February & March



Food inflation is a real worry, reflecting the impact of load-shedding on production costs

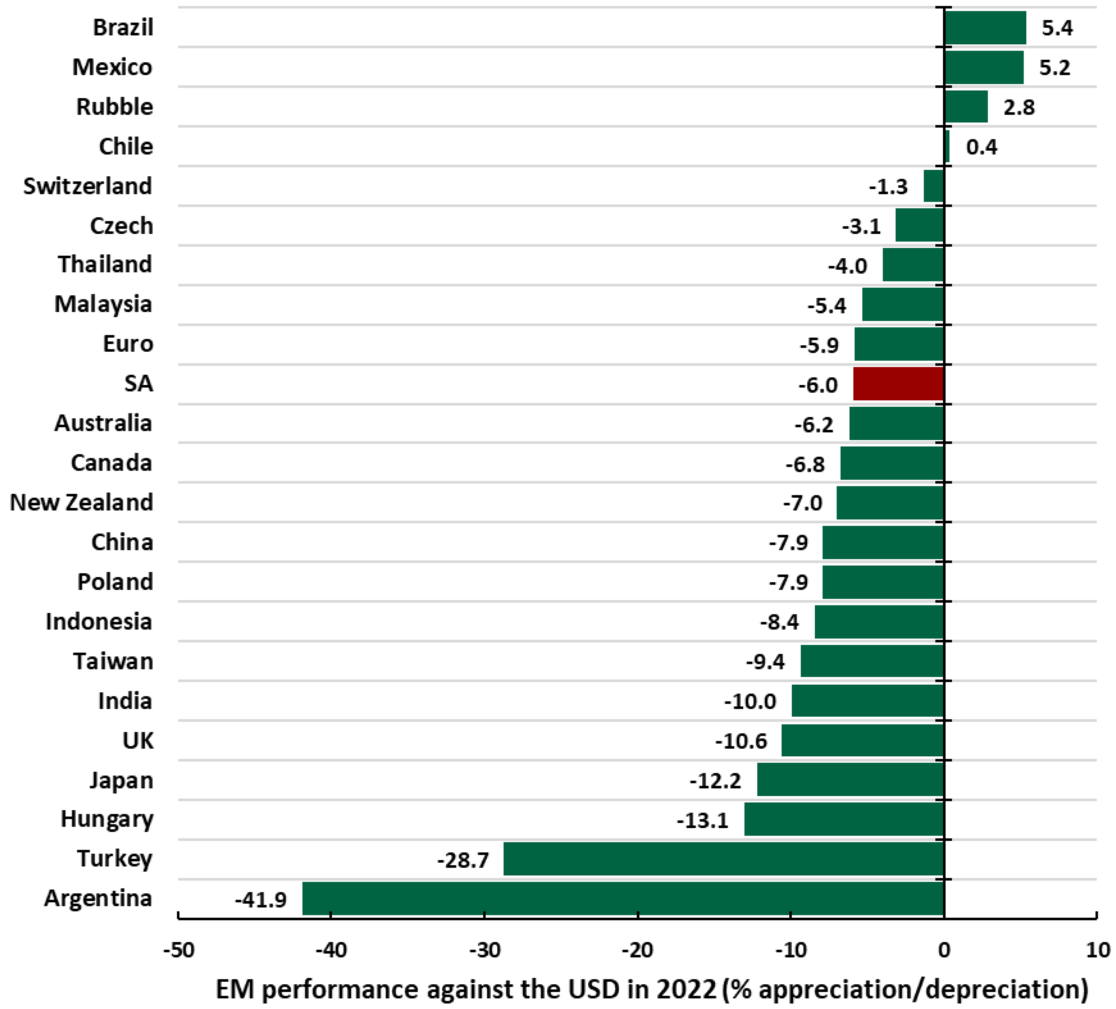


The rand has come under severe pressure in recent weeks

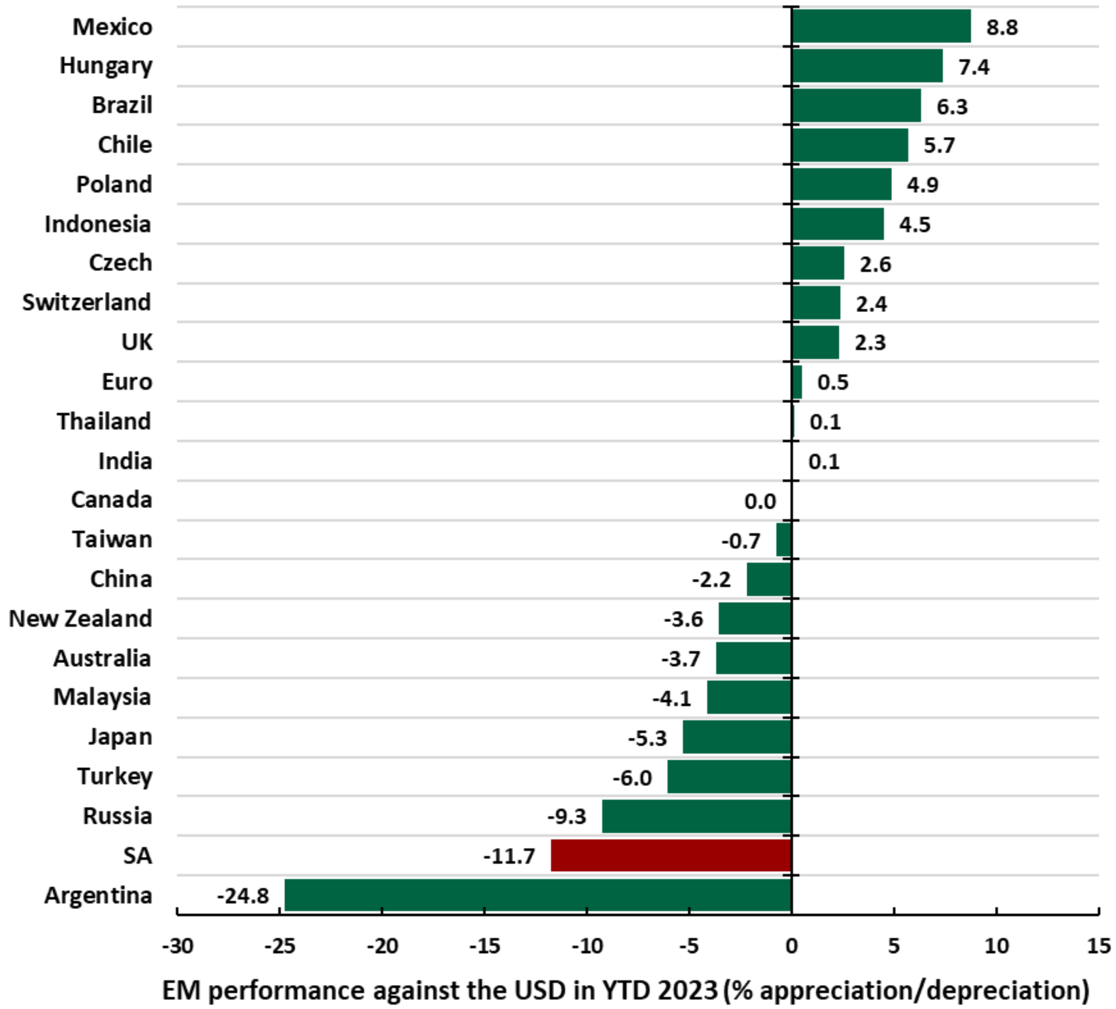


The rand has fared much worse than other EM currencies against the US dollar

In 2022, the rand hovered in the middle of the pack against a rampant US dollar

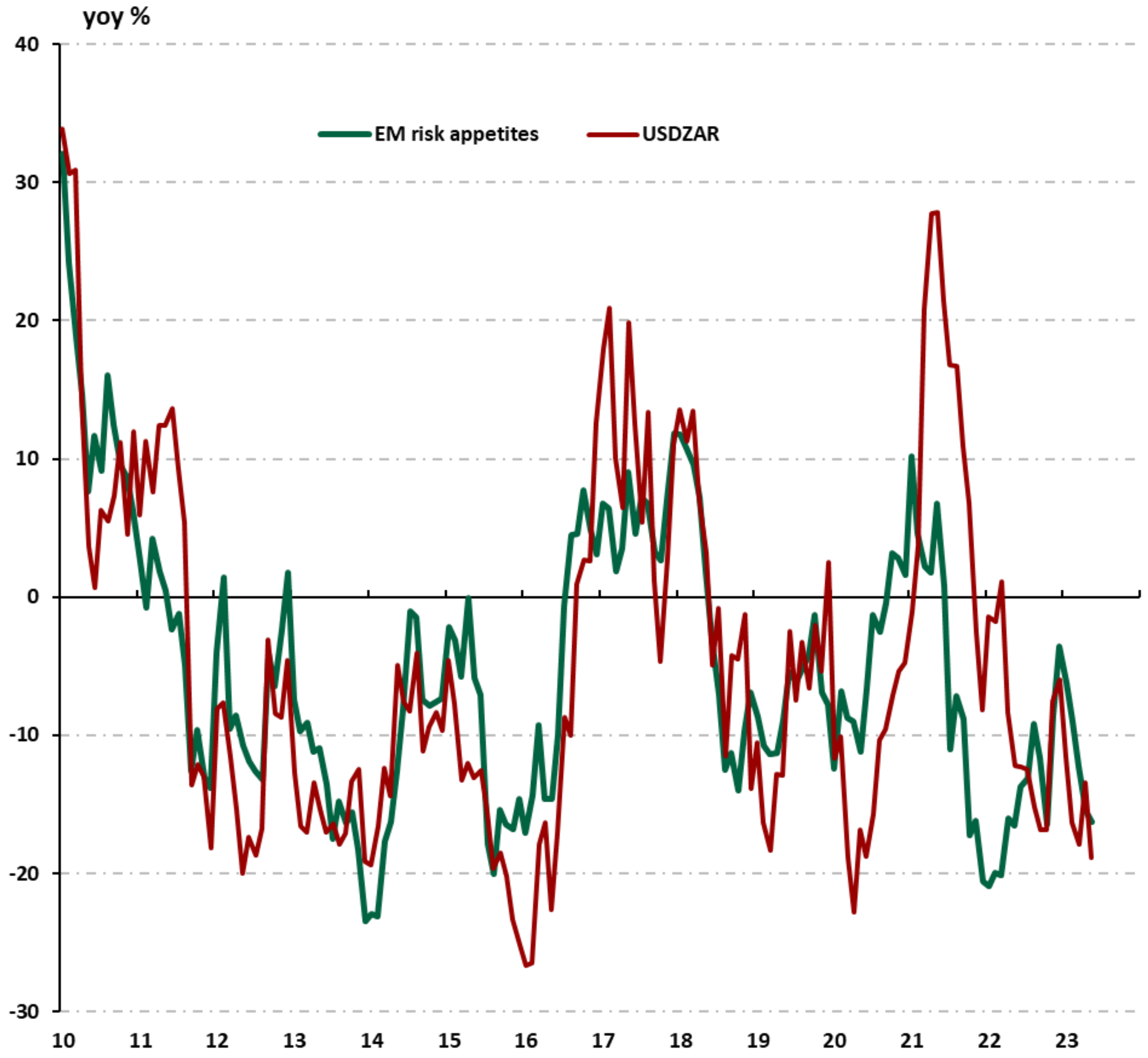


So far this year, the rand is one of the worst performing currencies against a softer US dollar

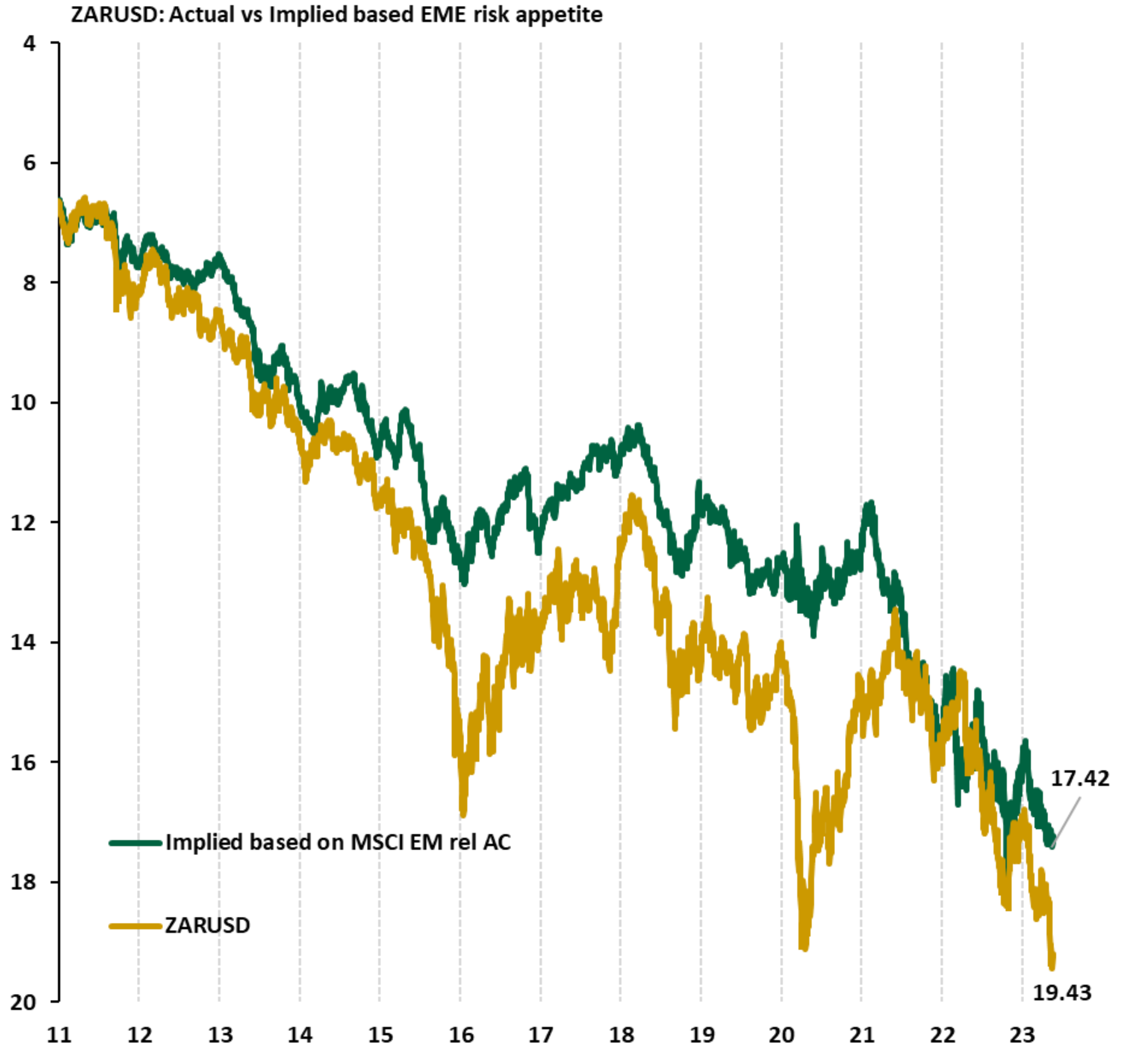


General global risk sentiment is the key driver of the rand over the short term

Global risk appetites remained volatile and weak so far this year

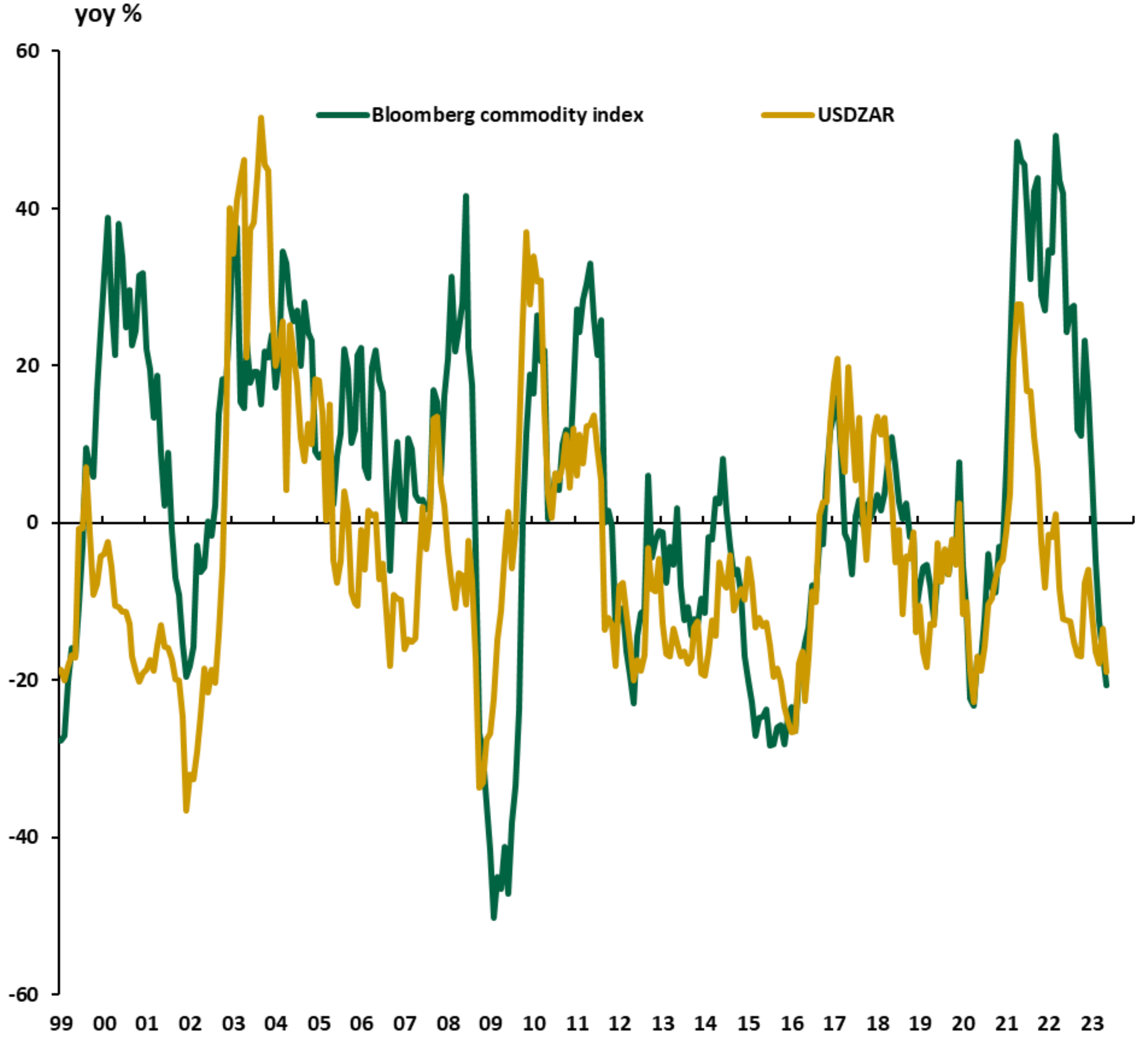


Even so, the rand is trading at a discount to emerging market risk



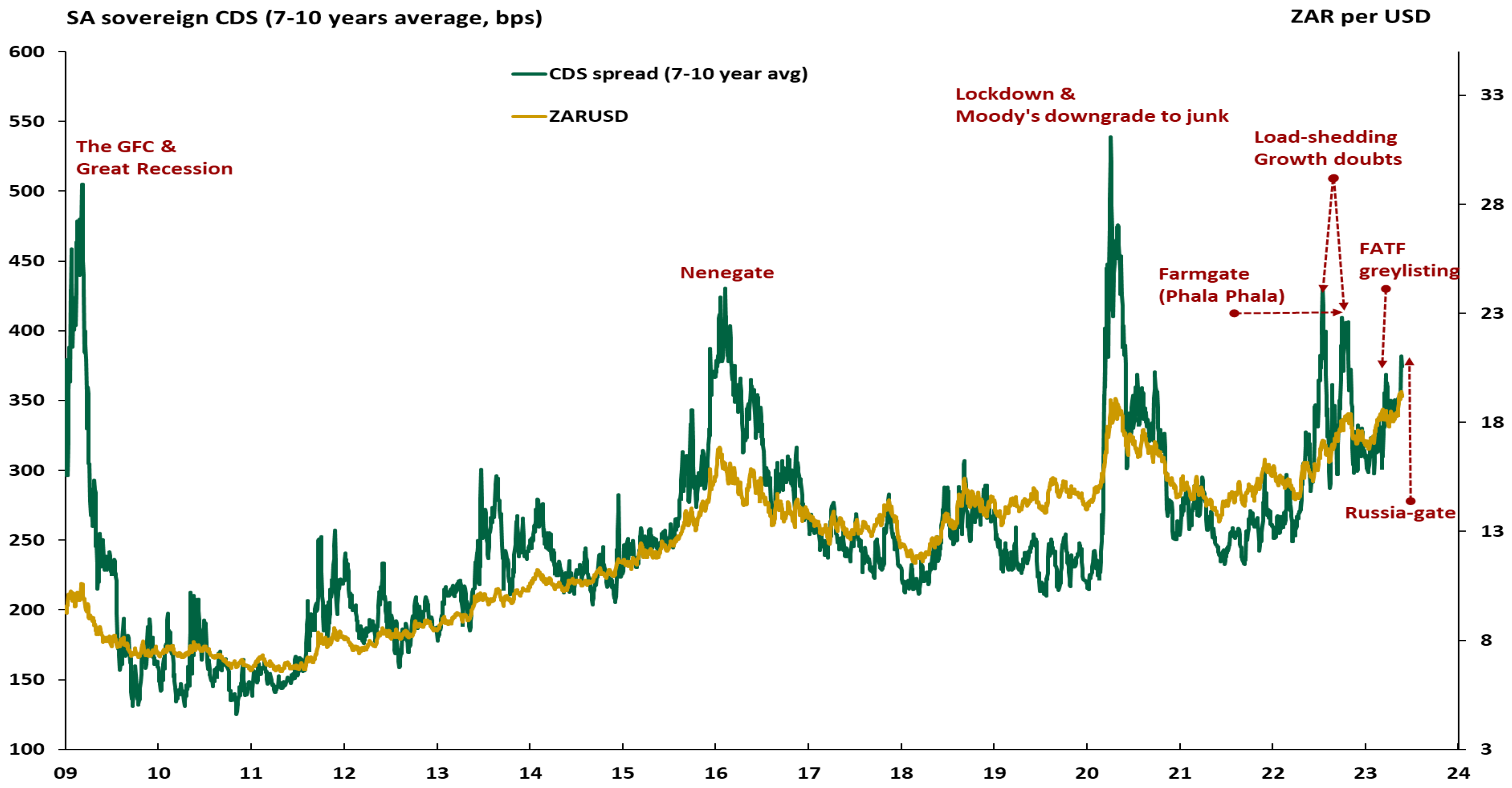
Lower commodity prices have contributed to the rand's slide

Global risk appetites remained volatile and weak so far this year



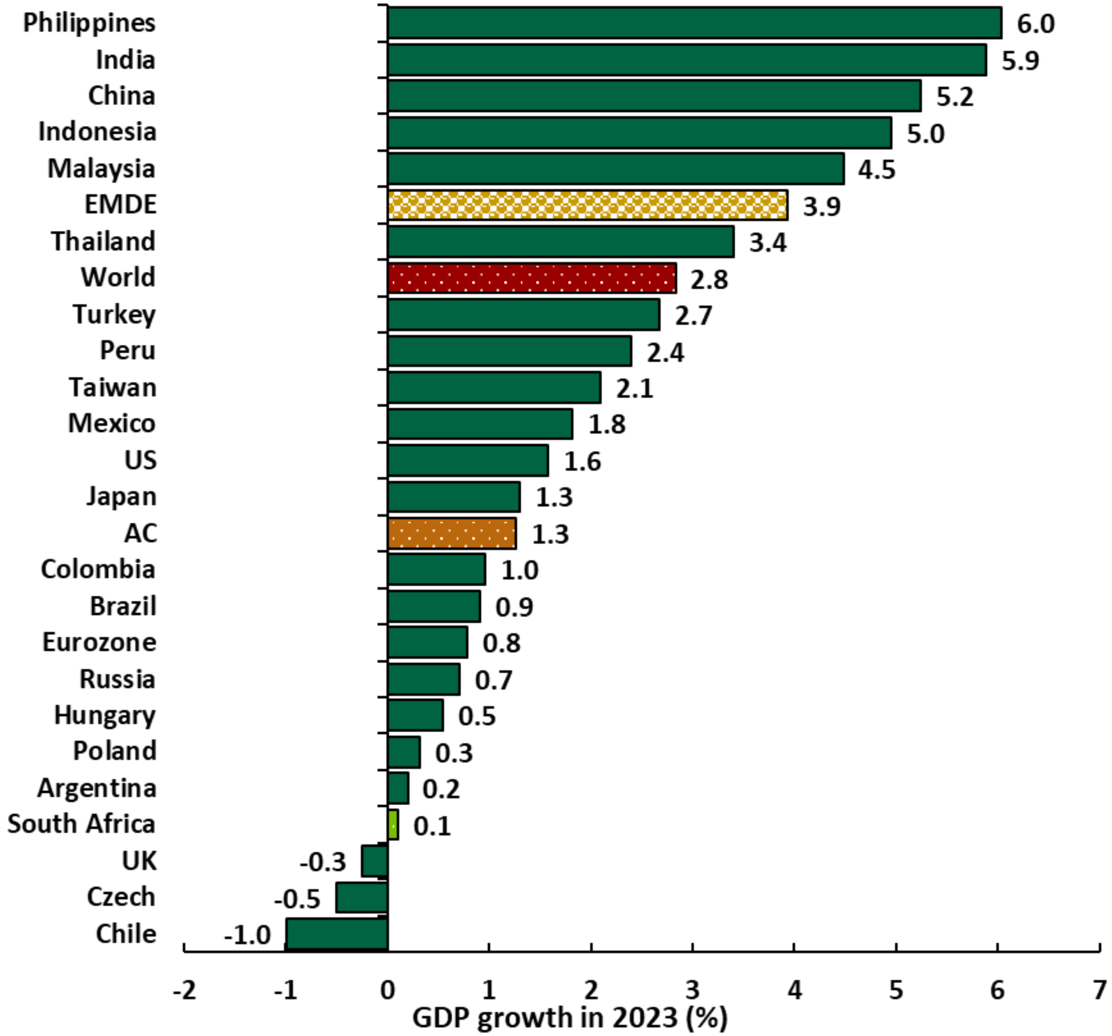
The prices of SA's largest commodity exports have been mixed, but gold has been robust

SA-specific risk is the problem

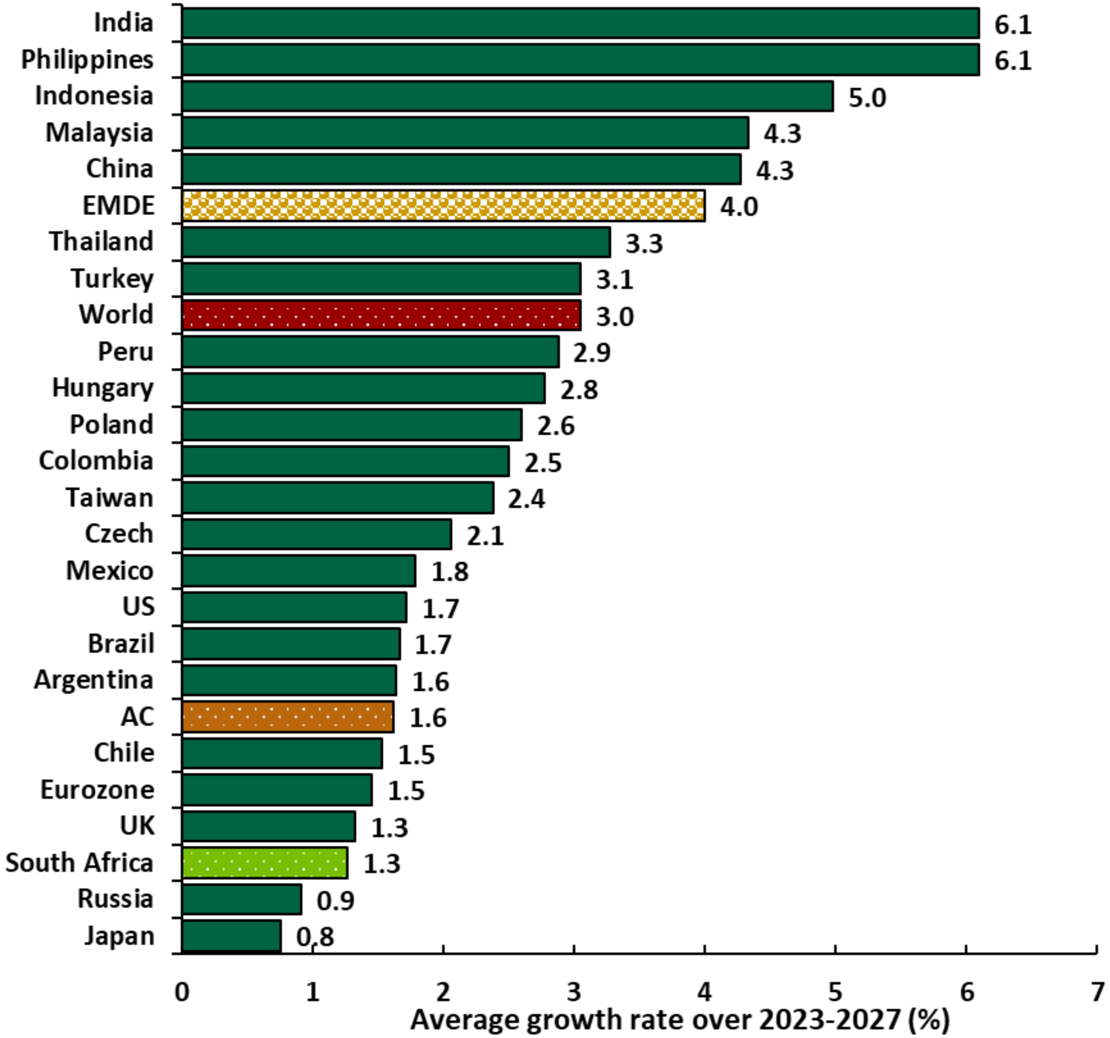


A major cause of the rand's underperformance is SA's relatively poor growth prospects

The IMF forecasted weak growth for SA, miles below those of other EMEs

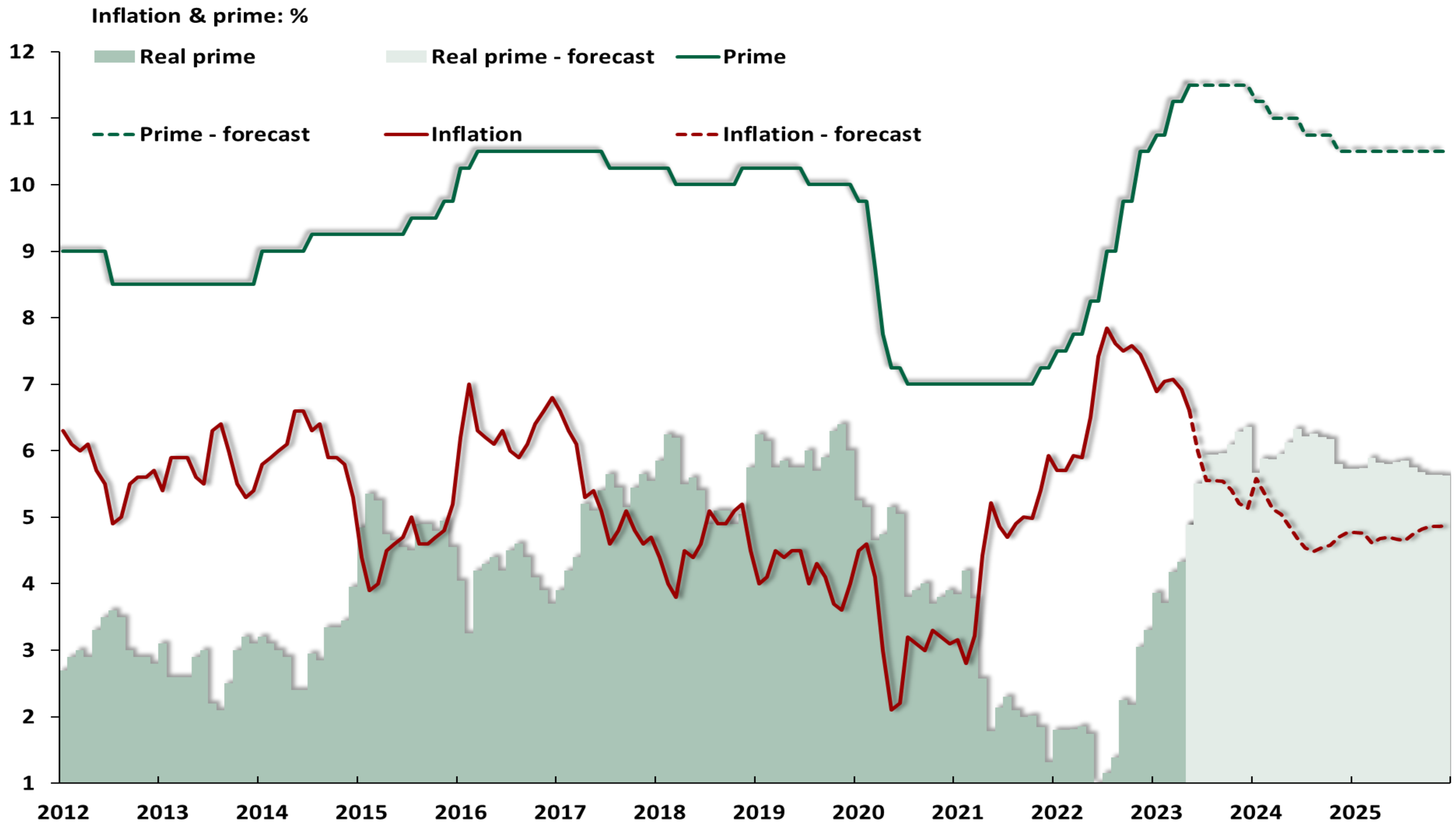


However, SA was expected to be among the worst performers over the next three years



IMF WEO April 2023

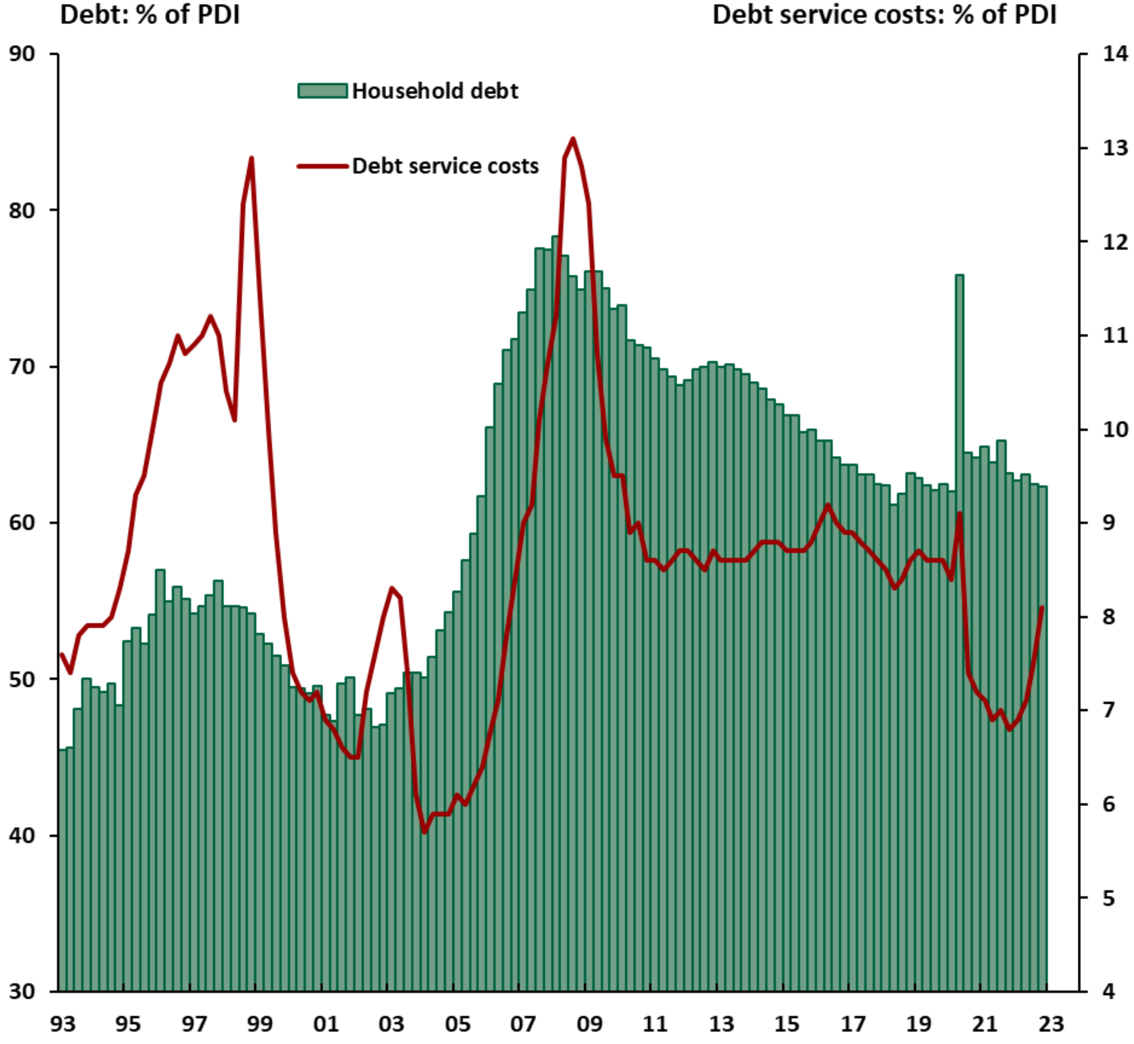
With inflation above 7%, the Reserve Bank will push through one more rate hike



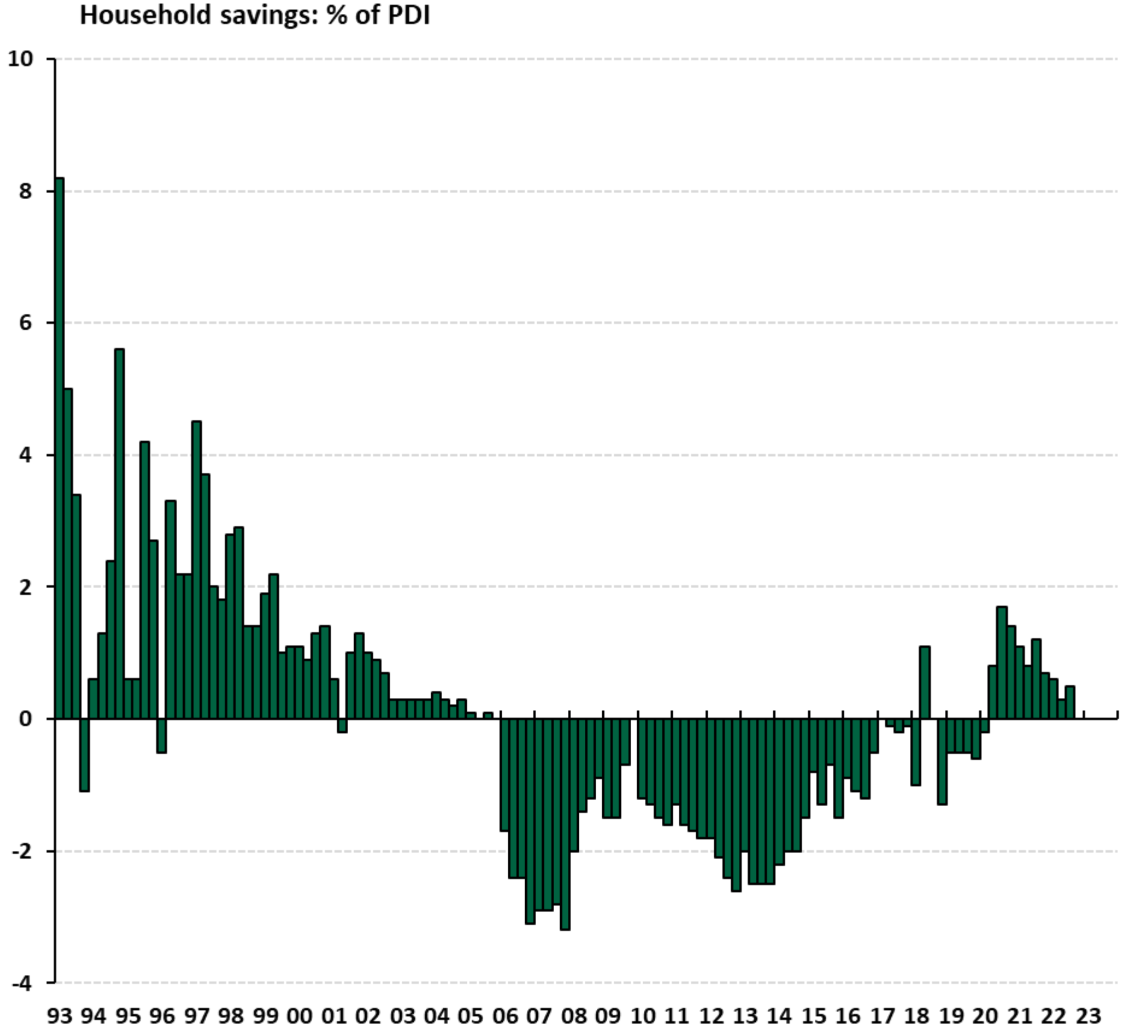
Years	Prime
2023	11.50
2024	10.50
2025	10.50
2026	10.50

However, households have eroded their buffers

Debt levels are still manageable but debt service cost is now above 8% of income



Household have eroded their savings, probably to sustain living standards



Forecast of major economic indicators

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Economic growth - Annual growth rates (%)										
Consumer spending	0.7	1.7	2.7	1.2	-5.9	5.6	2.6	1.2	1.5	1.9
Fixed investment	-1.9	-2.0	-1.3	-2.1	-14.6	0.2	4.7	2.4	1.5	1.9
Exports	0.4	-0.3	2.7	-3.4	-11.9	10.0	7.5	-3.1	4.8	3.9
Imports	-4.1	1.5	3.2	0.4	-17.4	9.5	14.2	-0.5	4.8	4.6
GDP	0.7	1.2	1.5	0.3	-6.3	4.9	2.0	0.2	1.2	1.6
Balance of Payments										
Current Account (R'bn)	-127.4	-120.2	-157.4	-144.2	109.6	227.7	-31.8	-101.9	-172.2	-210.6
As % of gdp	-2.7	-2.4	-2.9	-2.6	2.0	3.7	-0.5	-1.5	-2.3	-2.7
Interest rates - Year-end rates										
3-month JIBAR	7.36	7.16	7.15	6.80	3.63	3.87	7.21	8.18	7.16	7.15
Prime	10.50	10.25	10.25	10.00	7.00	7.25	10.50	11.50	10.50	10.50
Long bond	8.92	8.82	9.22	8.96	8.93	9.65	10.84	10.87	10.01	9.97
Exchange rates - Annual averages										
ZAR/USD	14.68	13.26	13.24	14.48	16.45	14.93	16.38	18.23	18.29	18.61
ZAR/EUR	16.19	15.06	15.59	16.20	18.86	17.63	17.20	20.09	20.63	21.44
ZAR/GBP	19.81	17.21	17.58	18.49	21.15	20.54	19.30	22.78	23.11	23.67
JPY/ZAR	7.45	8.46	8.38	7.54	6.49	7.40	8.04	7.34	7.28	7.03
USD/EUR	1.10	1.14	1.18	1.12	1.15	1.18	1.05	1.10	1.13	1.15
Inflation - Annual averages										
CPI	6.3	5.3	4.6	4.1	3.3	4.6	6.9	6.1	4.8	4.8
Repo	7.00	6.75	6.75	6.50	3.50	3.75	7.00	8.00	7.00	7.00

The end

Thank you for listening