ECONOMIC RECOVERY: WILL SLOW AND STEADY WIN THE RACE?
Q1 2014

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SA’s economic growth marathon performance has been erratic.

Annual GDP growth
5 year moving average

Source: MacroSolutions
AND OUR PEERS HAVE RUN AWAY FROM US

EM ave 4.8% p.a., vs SA 2.6% p.a.

Emerging markets GDP growth: 4.8% p.a.
South Africa GDP growth: 2.6% p.a.

Marathon times:
World record: 2h 03m
USA ave finishing time: 4h 37m
Walkers: 8h+

If the average EM ran the marathon in 3h 20m, then SA would have finished in 6h 9m

Source: MacroSolutions
BUT, PERHAPS SA HAS RUN FASTER IN RECENT YEARS THAN WE THINK…

3% GDP growth with 1% population growth is as good as 5% GDP growth with 3% population growth

Source: MacroSolutions
SO, REAL DISPOSABLE INCOME PER CAPITA HAS Risen SOLIDLY SINCE 1995…

And at the same pace as in the 1950’s & ‘60’s

Up 44% since 1995, or some 2% p.a.

3% GDP growth with 1% population growth is as good as 5% GDP growth with 3% population growth

Source: MacroSolutions
BUT A HUGE BACKLOG HAS OPENED UP DURING THE TWO DECADES OF STAGNATION

Had we continued to grow at the rate of the 1950’s & ’60’s, overall living standards would have been 50% higher today and unemployment likely a lot lower

Source: MacroSolutions
...IN OTHER WAYS WE HAVE RUN THE MARATHON PRETTY FAST

Thereby creating a slightly easier life for many

Source: MacroSolutions
HOWEVER, WE ARE NOT EVEN WALKING IN THE EMPLOYMENT RACE …

- **Unemployment rate**: 4.6m cannot find work
- **'Expanded' unemployment rate**: A further 2.2m people have given up trying

Source: MacroSolutions
DESPITE SUPPOSEDLY BETTER EDUCATION OUTCOMES…
Better matric pass rates have done zero for the youth unemployment rate

Matric pass rate

Unemployment rate for 15 – 24 year-olds

Source: MacroSolutions
OUR JOB SEEKERS ARE RUNNING WITH 25KG WEIGHTS AROUND EACH LEG...

- Higher quantitative pass rates yes, better qualitative supply of skills, no
  - Few get tertiary education admission (many then drop out too)
  - For the rest, finding meaningful employment is very, very hard

- SA’s troublesome labour environment is a huge obstacle to job seekers
  - Labour laws, labour relations & skills mismatches are keeping the unemployed outsiders out

- IMF: “SA does not exhibit the characteristics of fast job-creating countries”
AS INCREASING MECHANISATION CLEARLY DEMONSTRATES…

Capital : labour ratio
Units of capital per unit of labour used in all production processes

Source: Macquarie Securities
PEOPLE ALSO RECKON GOVERNMENT IS NOT DELIVERING AND THEY ARE NOT HAPPY…

Satisfaction with delivery of basic services

Confidence in a happy future

Source: MacroSolutions
AND A **KEY INDUSTRY** IS PERFORMING **SHOCKINGLY BADLY**…

Production volume is today 20% lower than in 1970

Source: MacroSolutions
ASSESSMENT OF SA’S DIFFERENT MARATHONS

- Social delivery
  - Smooth, well above average speed since 1994

- Economic growth
  - Erratic speeds, but about average relative to population growth since 1994
  - But far below what is needed to eradicate backlogs

- Employment and government performance
  - At crawl speed, have deteriorated badly over the past five years

- Is there any hope for improvement?
WHAT IS THE FUNDAMENTAL PROBLEM?

- Lack of an economic ‘growth driver’
  - No global growth and/or commodities boom
  - No domestic sector boom
  - No infrastructure boom
  - No credit boom
  - No well educated and productive labour force to provide a larger competitive advantage

- Lack of policy certainty
  - New Growth Plan vs NDP: interventionist policies vs freer economy
  - NDP implementation: does endless debate imply NDP lip-service only?
  - Meanwhile, additional rules, regulations, burdens & restrictions are being placed on the private sector with no intention to enhance the private sector’s labour absorption capacity
STILL, A UNIQUE OPPORTUNITY MAY LIE AHEAD…

- A growing sense of urgency in Government, and significant pressure from outside to
  - Affect growth-enhancing reforms
  - Improve Government’s performance
  - Rectify what has gone severely ‘off the rails’ in recent years (corruption, capex under-spend etc)
  - Provide policy certainty

- A good plan is on the table

- Politics will give five years breathing space

- NDP opposition is fragmented and weakened

- The Rand is much more competitive

- The SARB has shown it will protect the ZAR’s new-found competitiveness

- The world economy is looking better
DIVERGENCE IN PROSPECTS BETWEEN DEVELOPED & EMERGING

OECD leading indicators

Source: MacroSolutions
FRAGILE FIVE CURRENCIES WEAKENED MORE THAN REST

Currencies per USA Dollar, indexed Jan 2011 = 100

Source: MacroSolutions
POLICY EXPANSIONARY FOR LONGER

Inflation below target

Core inflation, y-o-y % ch

Euro
USA

2% target

Source: MacroSolutions
BUT MARKETS START TO FOCUS ON THE FED’S INTENTIONS

QE3 ($bn)

Fed Funds rate*

Total

Treasuries

MBS

* Median of Fed members’ prediction for the Fed Funds rate
RAND WEAKENED MORE THAN OTHER SIMILAR CURRENCIES

Currencies vs USA Dollar, indexed Jan 2007 = 100

Source: MacroSolutions
BIG DEFICITS DISLIKED BY INVESTORS & RATINGS AGENCIES

SA IS UNCOMPETITIVE

Current account balance as % of GDP

FISCAL SLIPPAGE A BIG RISK GIVEN WAGE BILL AND SOCIAL SPENDING

Budget balance as % of GDP

Source: MacroSolutions
INTEREST RATES UNEXPECTEDLY UP IN JANUARY

More hikes to come – BUT cycle likely subdued

Source: MacroSolutions
SLOW GROWTH MEANS SUBDUED RATE CYCLE

SARB policy rate (& forecast)
Real GDP growth

Source: MacroSolutions
SUMMARY AND CONCLUSIONS

- SA is in a slow growth trap and needs to break out of it urgently
  - Failure to do so risks social, policy, financial and fiscal instability

- There is indeed some hope:
  - A growing sense of urgency among policy makers for required improvement
  - A commitment to sensible policies has been firmly made

- But hope is still no guarantee Government will do ‘the right things’
  - The risk of a populist-leaning policy drift remains very much alive
  - Post-election policy initiatives will be key

- Cyclical challenges remain considerable
  - May result in considerable currency & market volatility over the remainder of 2014
THANK YOU
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