

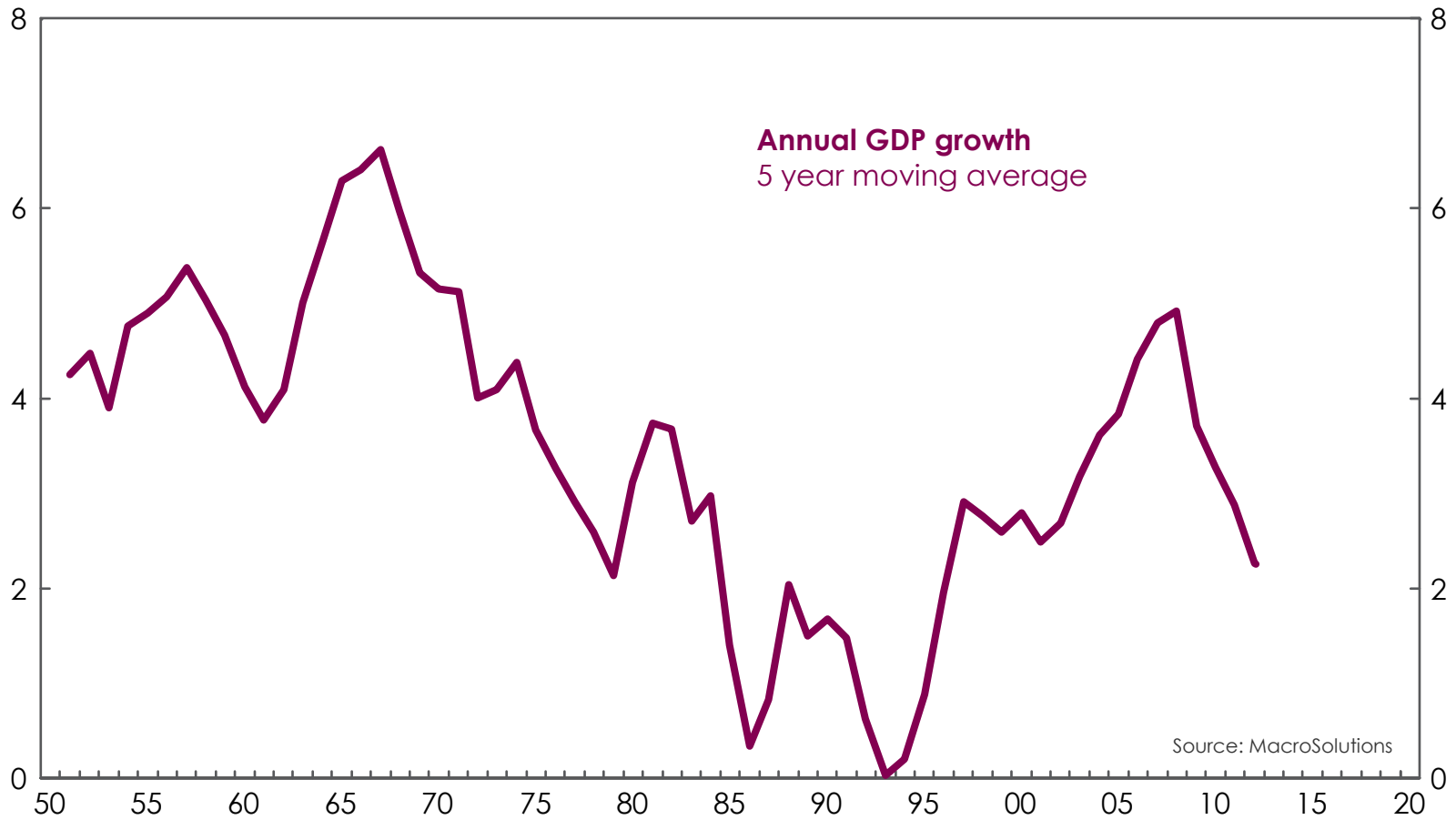


# **ECONOMIC RECOVERY: WILL SLOW AND STEADY WIN THE RACE? Q1 2014**

**RIAN LE ROUX**

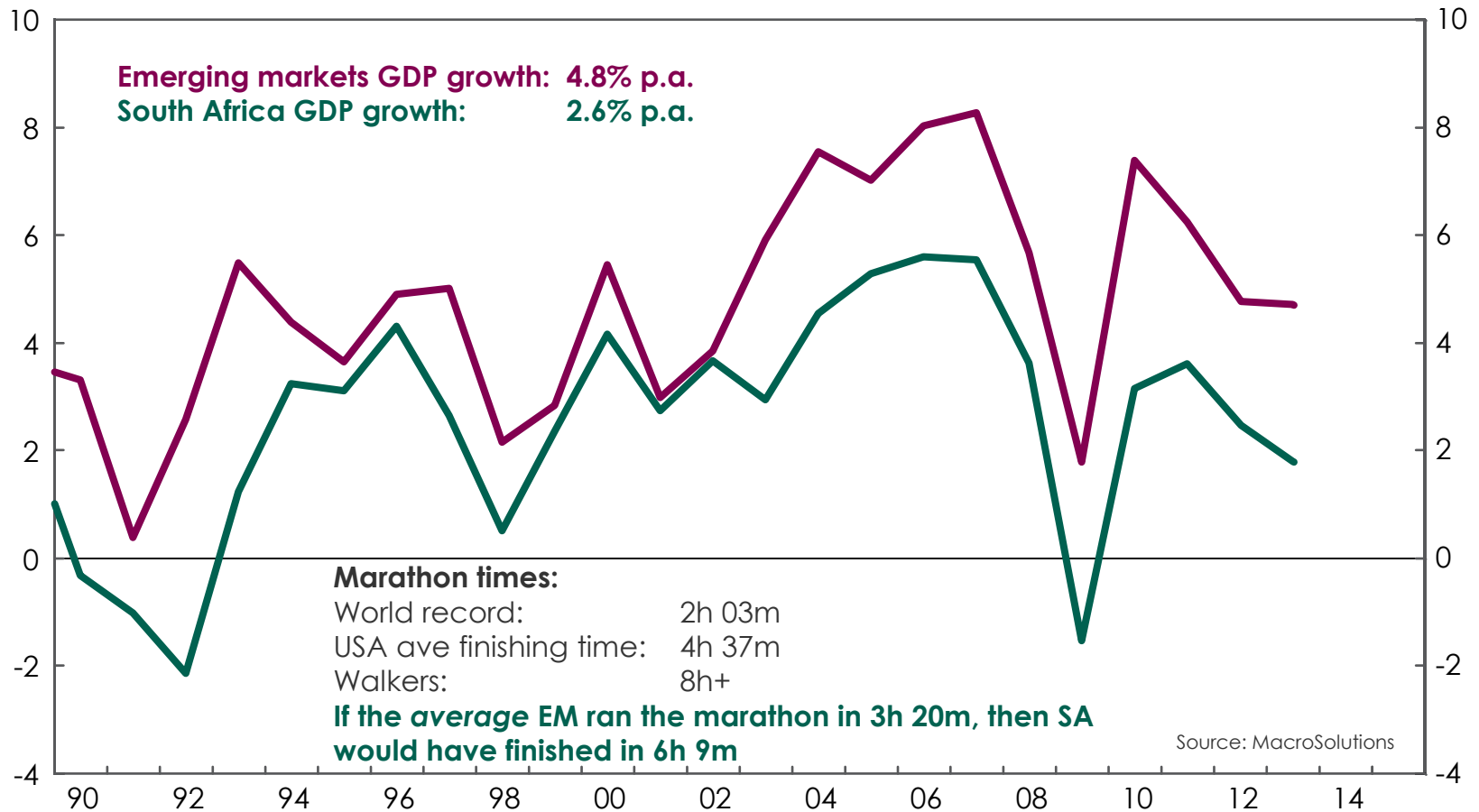
Senior Economist  
at Old Mutual Investment Group

# SA'S ECONOMIC GROWTH MARATHON PERFORMANCE HAS BEEN ERRATIC

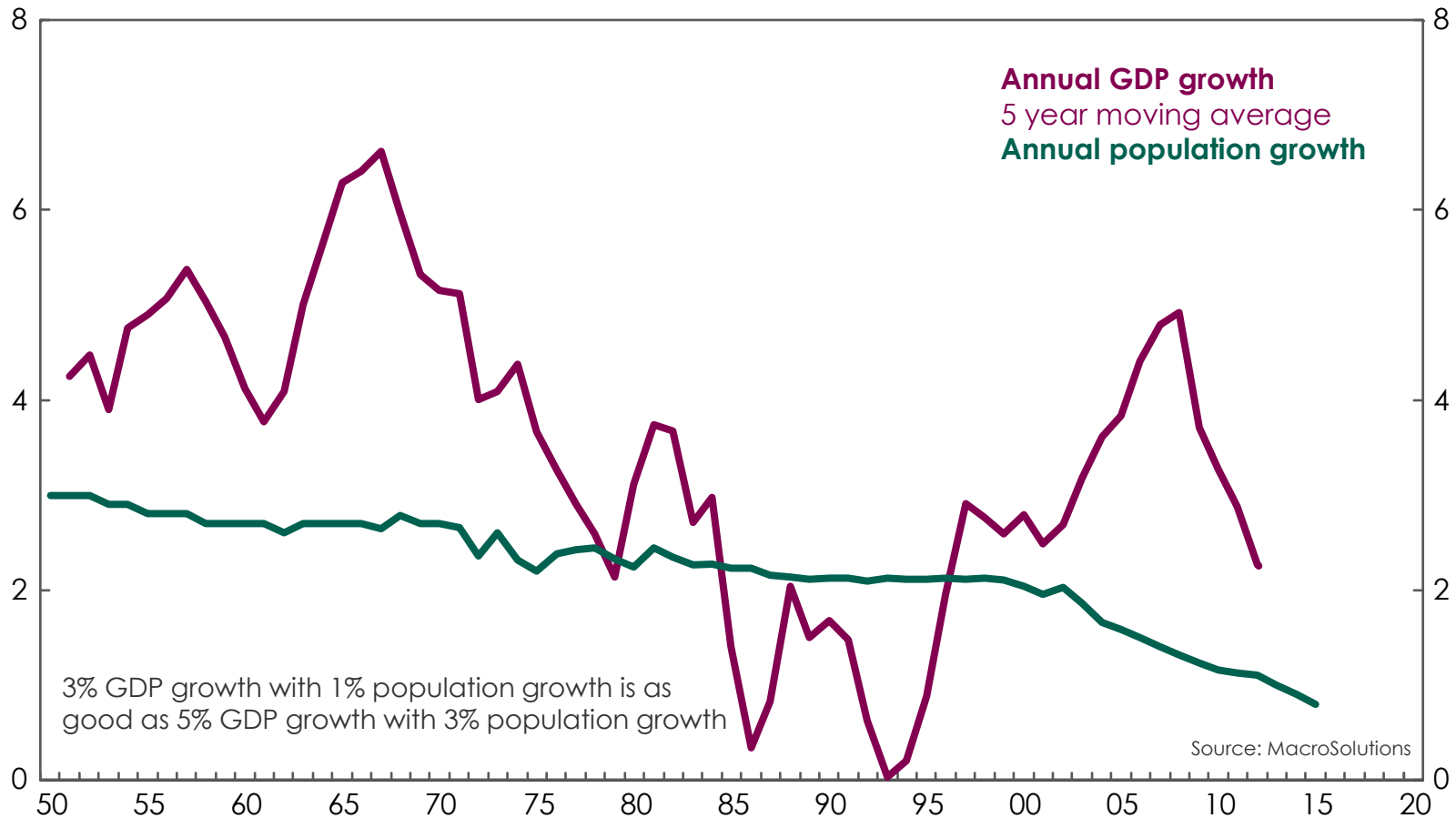


# AND OUR PEERS HAVE RUN AWAY FROM US

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

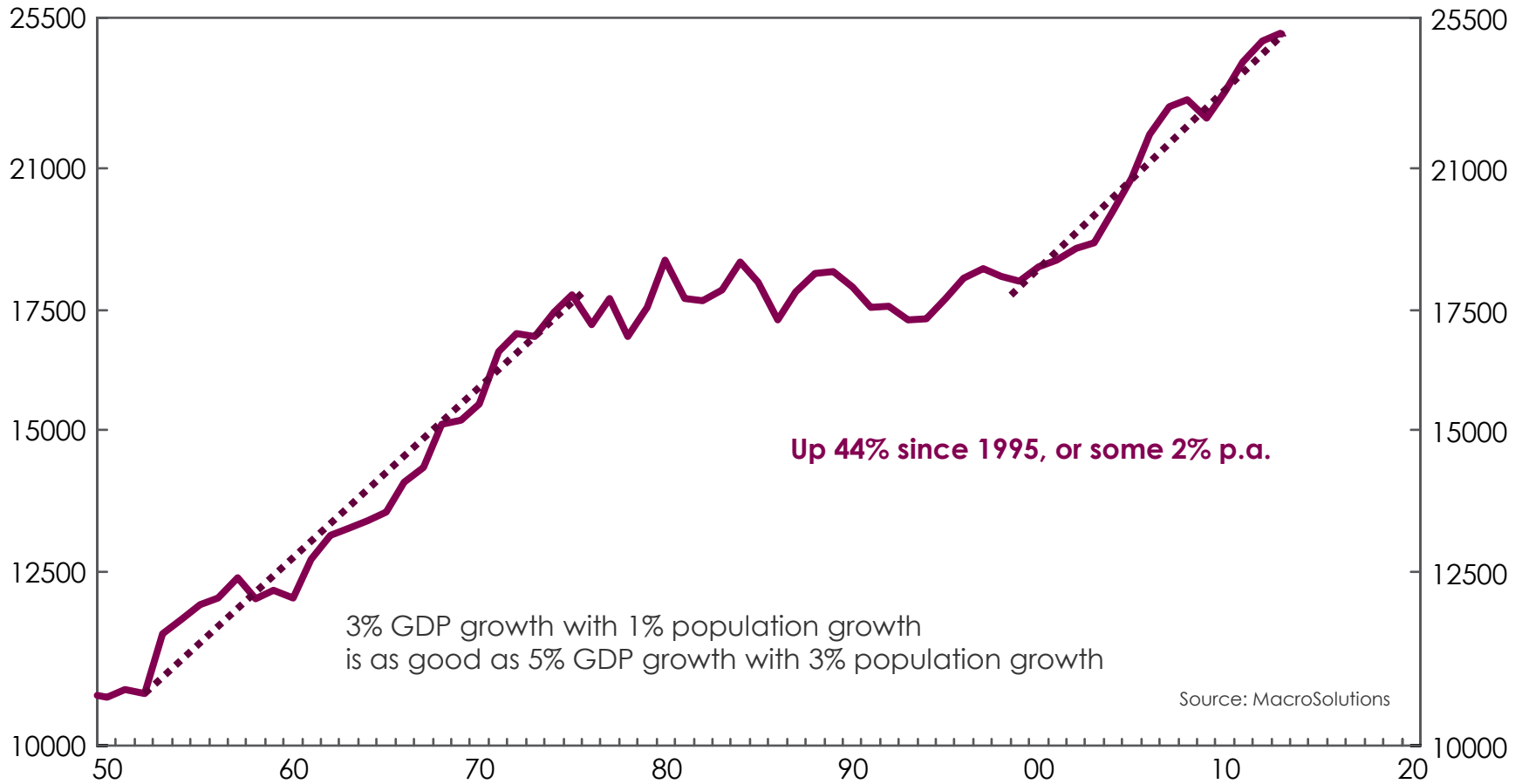


# BUT, PERHAPS SA HAS RUN FASTER IN RECENT YEARS THAN WE THINK...

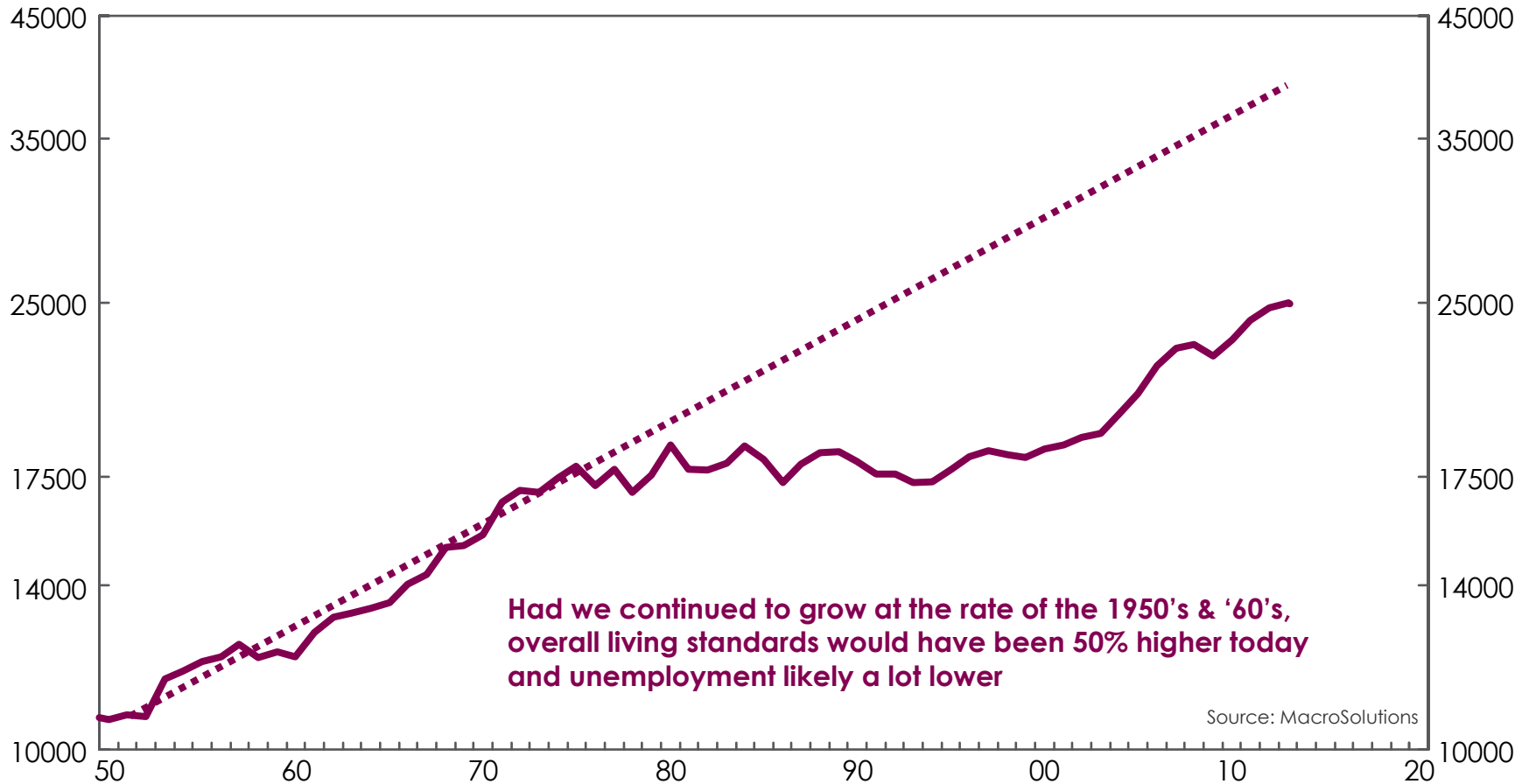


# SO, REAL DISPOSABLE INCOME PER CAPITA HAS RISEN SOLIDLY SINCE 1995...

And at the same pace as in the 1950's & '60's

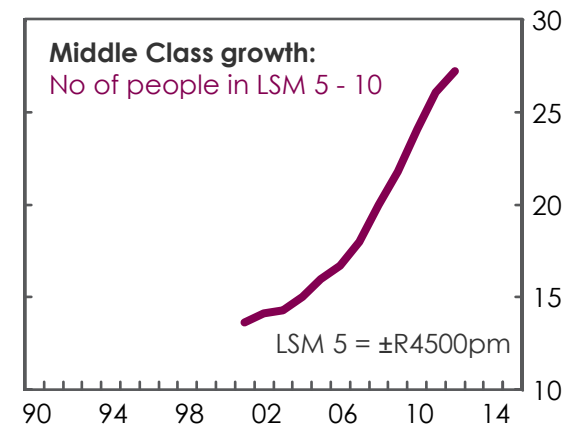
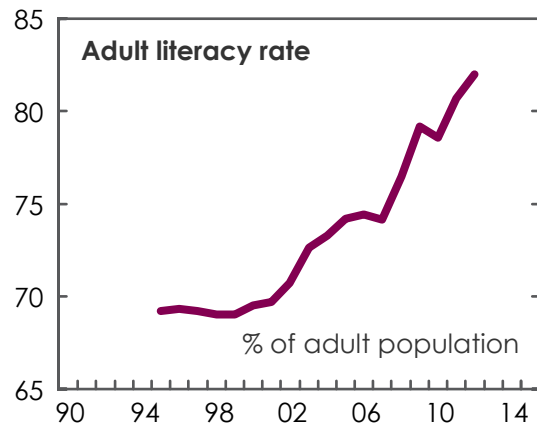
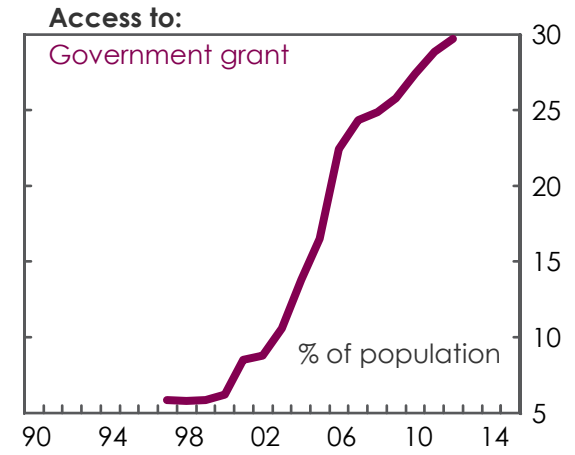
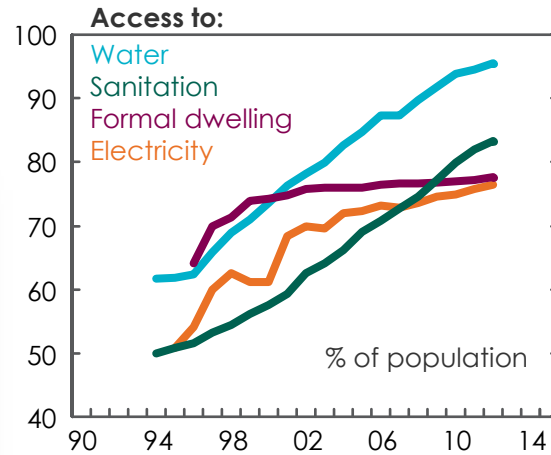


## BUT A HUGE BACKLOG HAS OPENED UP DURING THE TWO DECADES OF STAGNATION



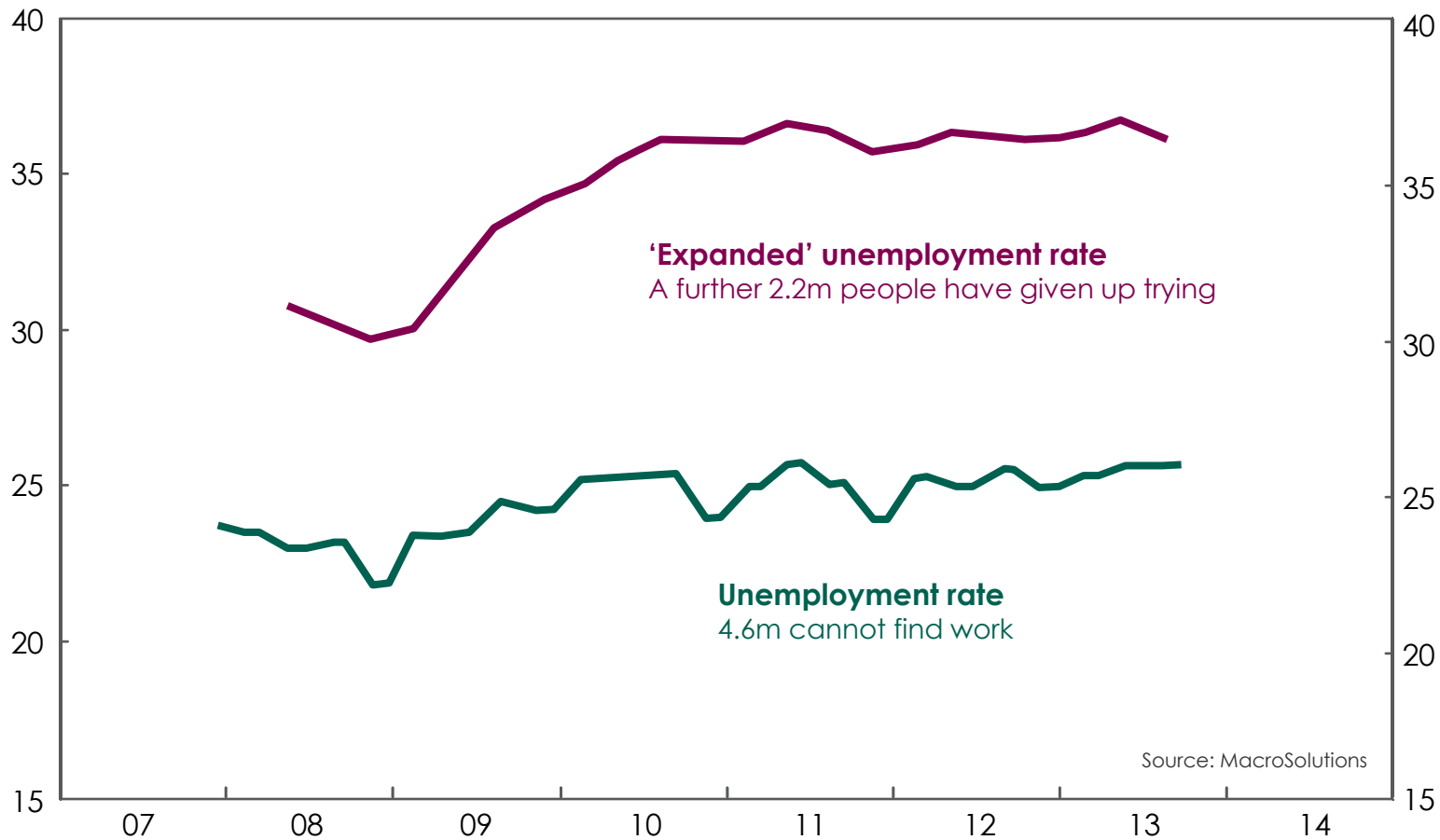
# ...IN OTHER WAYS WE HAVE RUN THE MARATHON PRETTY FAST

Thereby creating a slightly easier life for many



Source: MacroSolutions

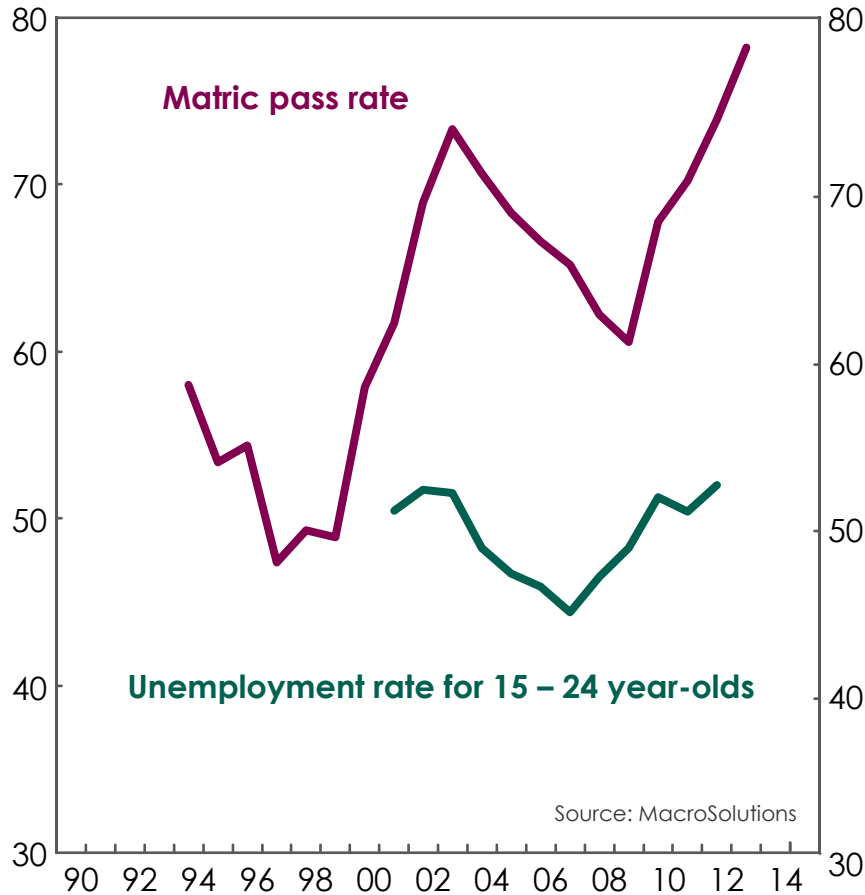
# HOWEVER, WE ARE NOT EVEN WALKING IN THE EMPLOYMENT RACE ...





# DESPITE SUPPOSEDLY BETTER EDUCATION OUTCOMES...

Better matric pass rates have done zero for the youth unemployment rate



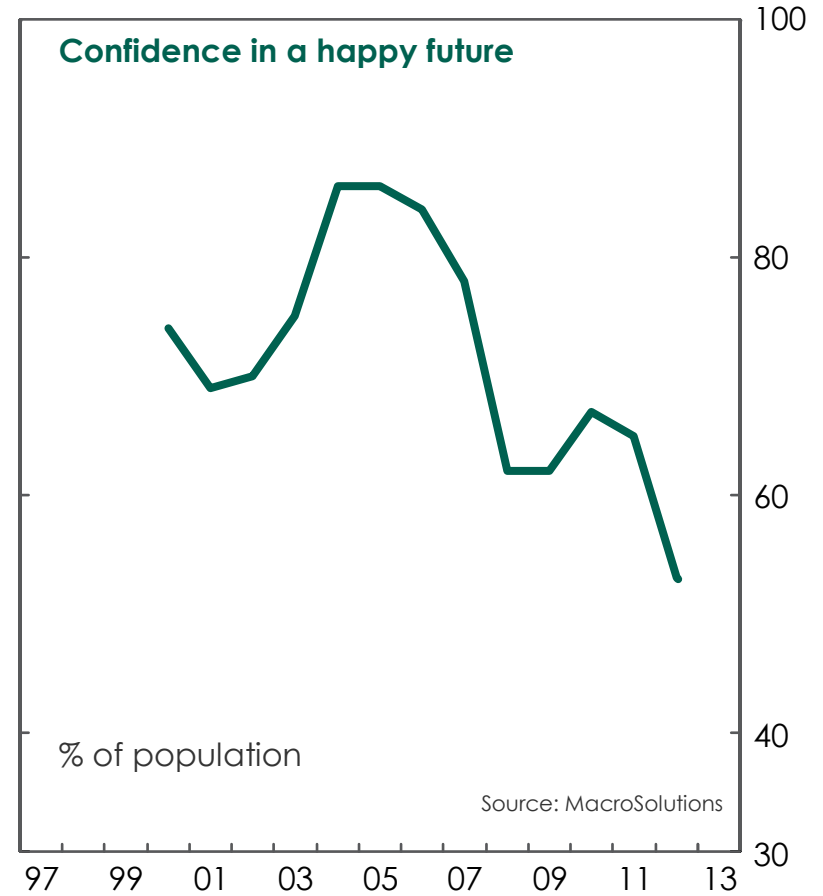
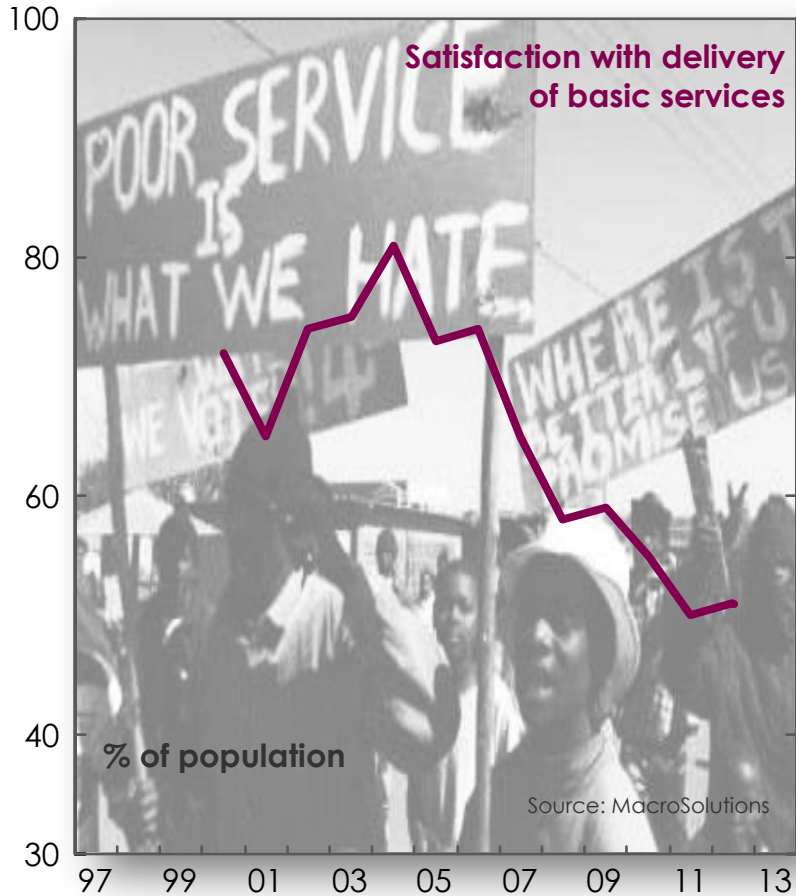
## OUR JOB SEEKERS ARE RUNNING WITH 25KG WEIGHTS AROUND EACH LEG...

- 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”**

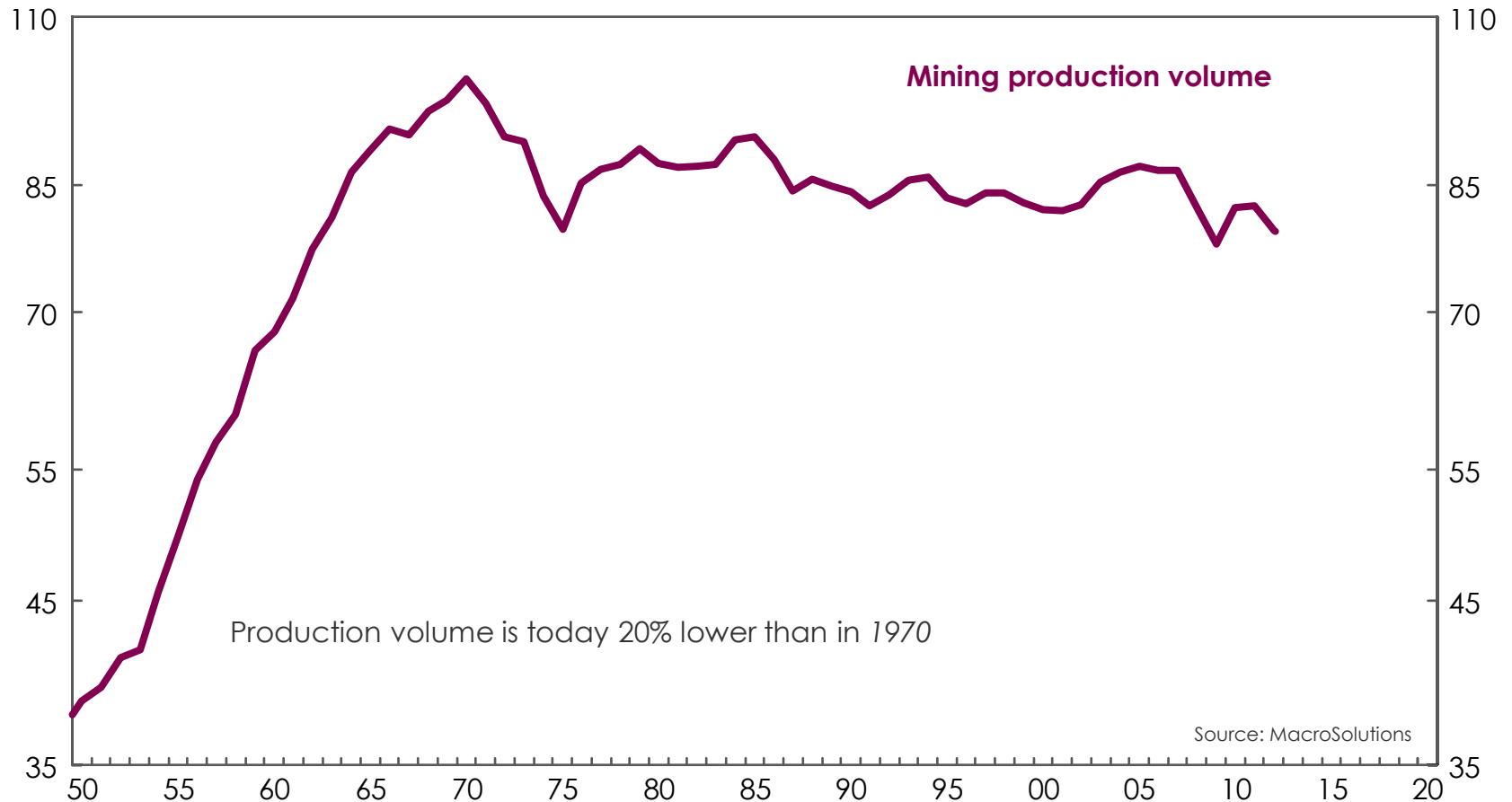
# AS INCREASING MECHANISATION CLEARLY DEMONSTRATES...



# PEOPLE ALSO RECKON GOVERNMENT IS NOT DELIVERING AND THEY ARE NOT HAPPY...



# AND A KEY INDUSTRY IS PERFORMING SHOCKINGLY BADLY...



# 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

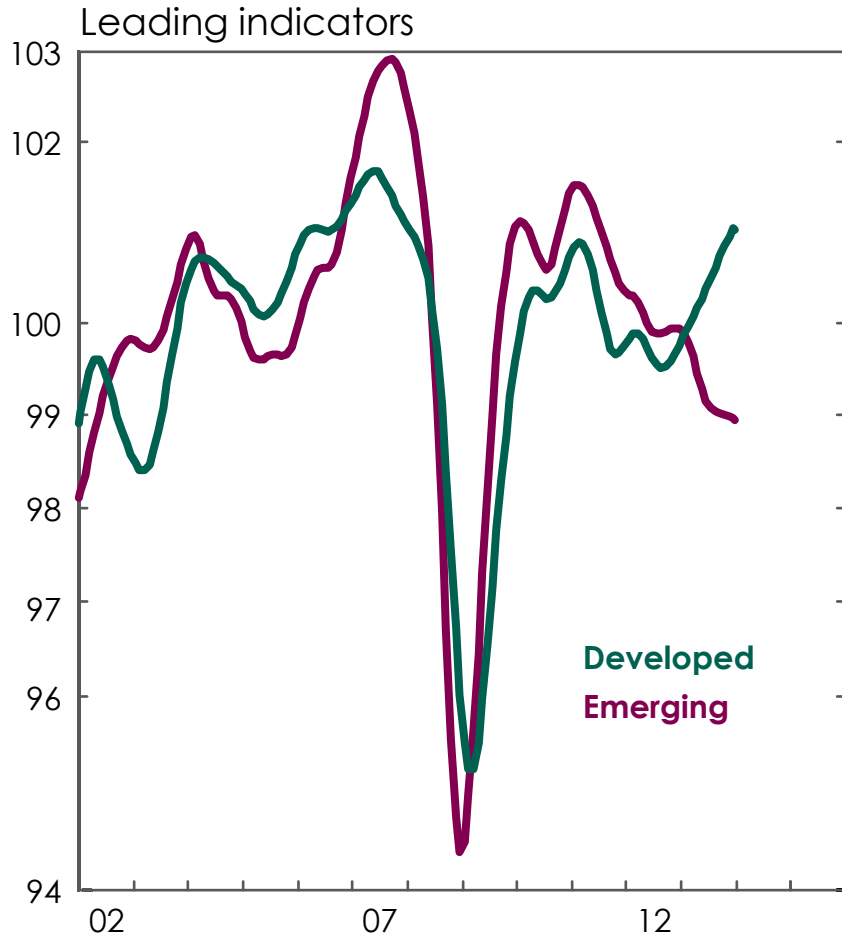
## STILL, A UNIQUE OPPORTUNITY MAY LIE AHEAD...

- 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



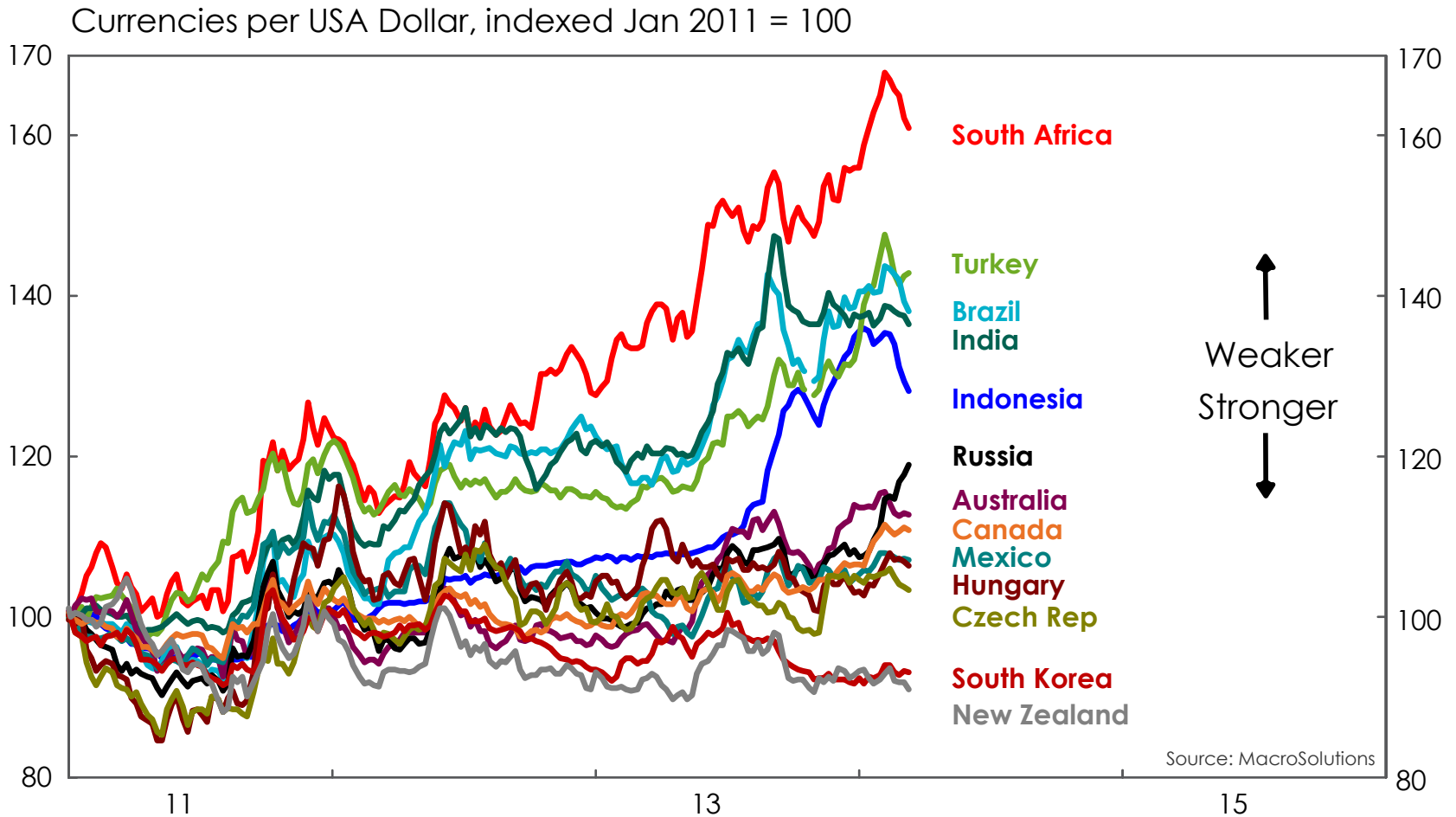
# DIVERGENCE IN PROSPECTS BETWEEN DEVELOPED & EMERGING

OECD leading indicators



	2013	2014	2015
	<i>actual</i>	<i>Economist magazine forecasts</i>	
USA	1.9	2.8	2.9
Euro area	-0.4	1.1	1.5
Japan	1.6	1.4	1.3
Brazil	2.3	1.8	2.1
Russia	1.3	2.9	3.5
India	4.6	6.0	6.3
China	7.7	7.2	6.9

# FRAGILE FIVE CURRENCIES WEAKENED MORE THAN REST

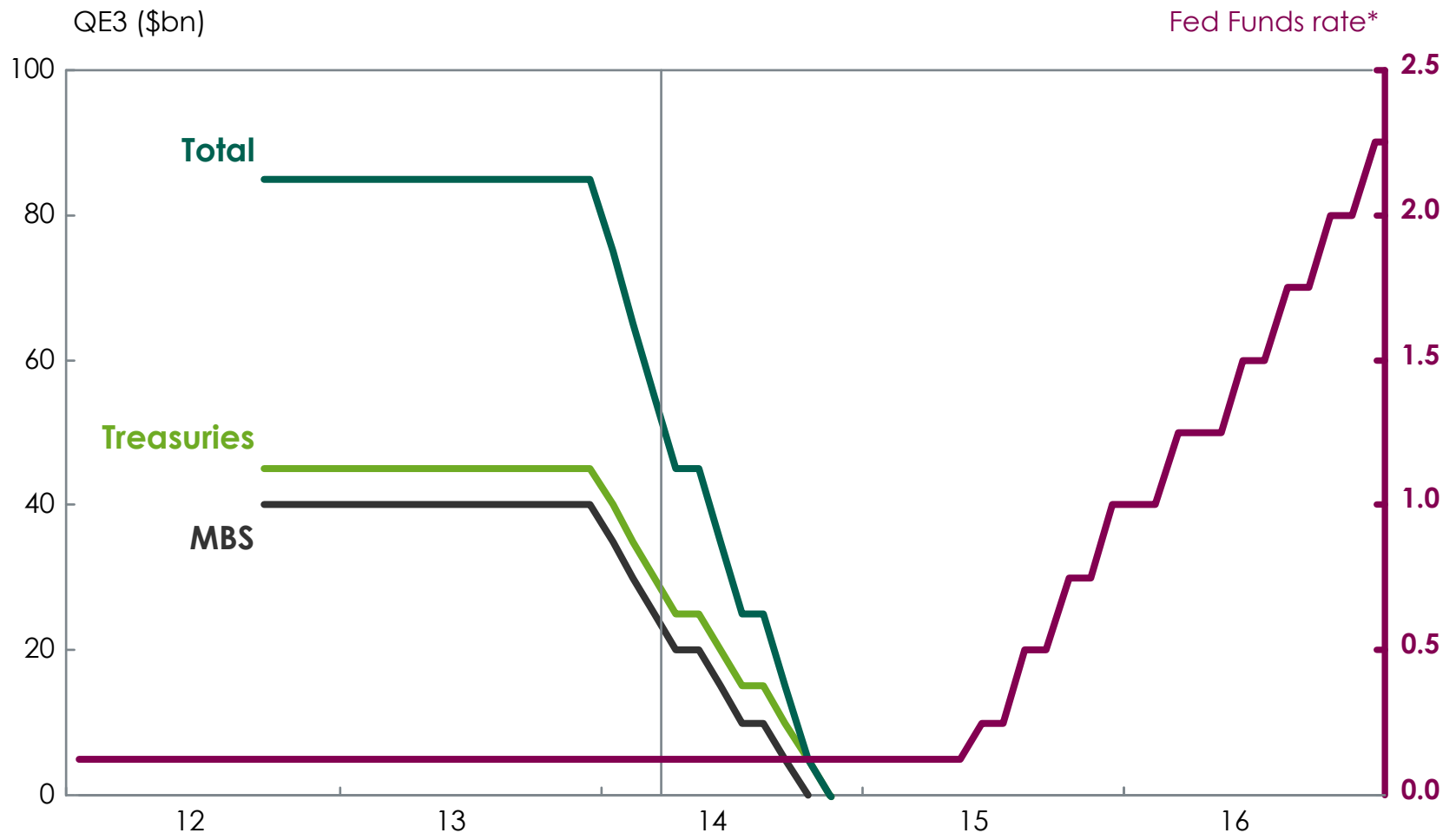


# POLICY EXPANSIONARY FOR LONGER

Inflation below target

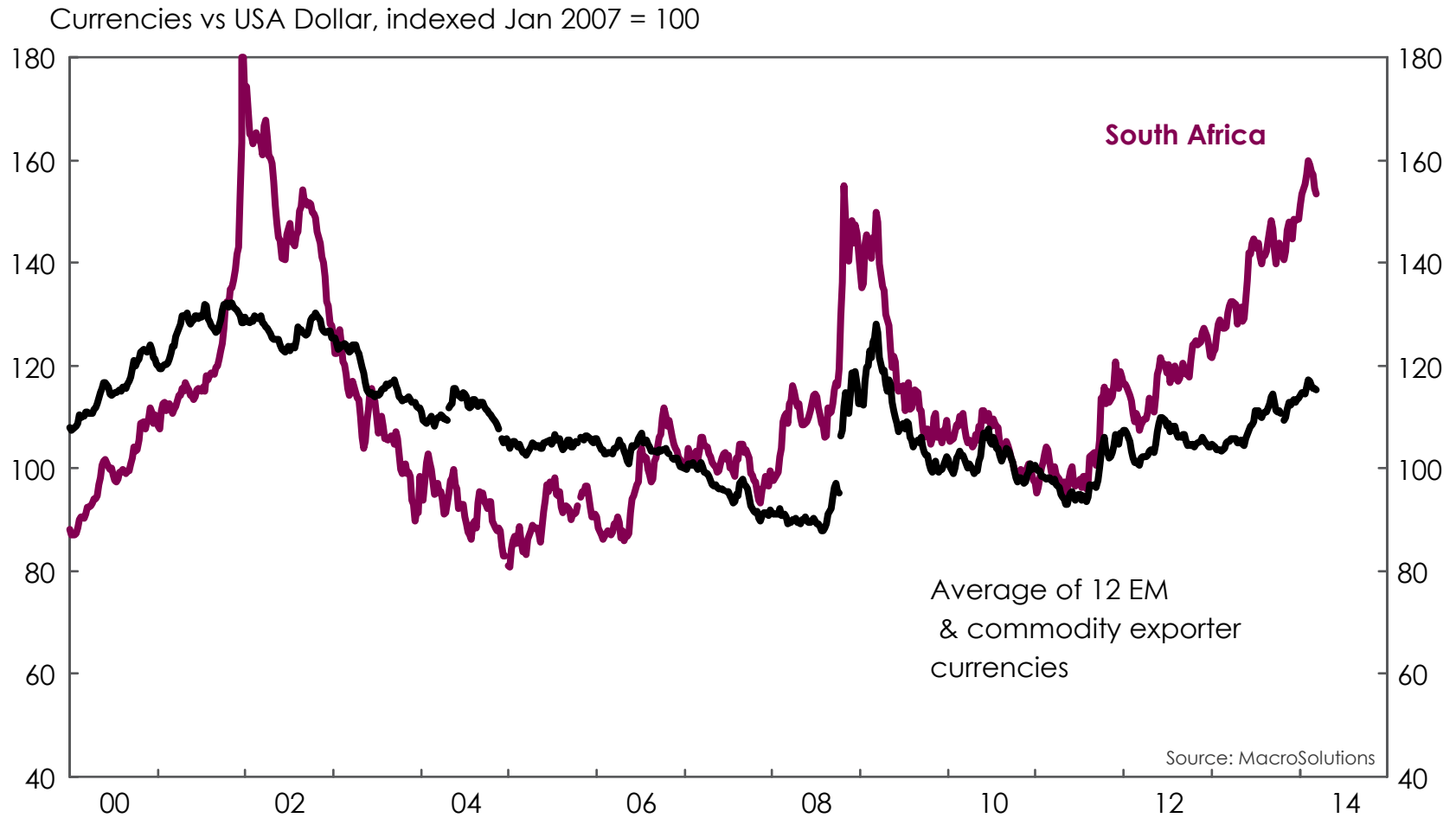


# BUT MARKETS START TO FOCUS ON THE FED'S INTENTIONS



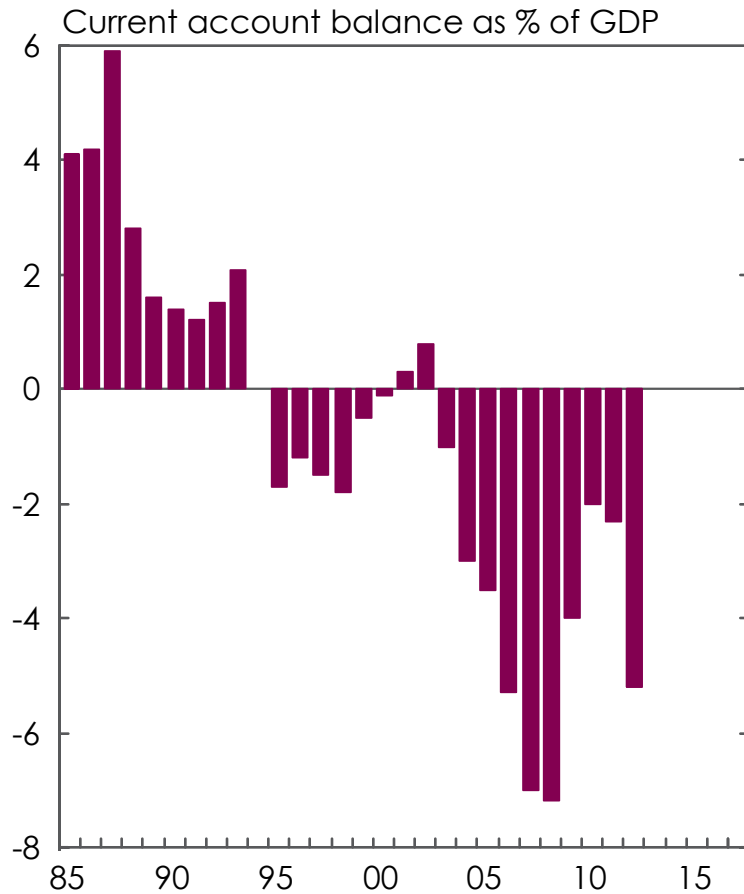
\* Median of Fed members' prediction for the Fed Funds rate

# RAND WEAKENED MORE THAN OTHER SIMILAR CURRENCIES

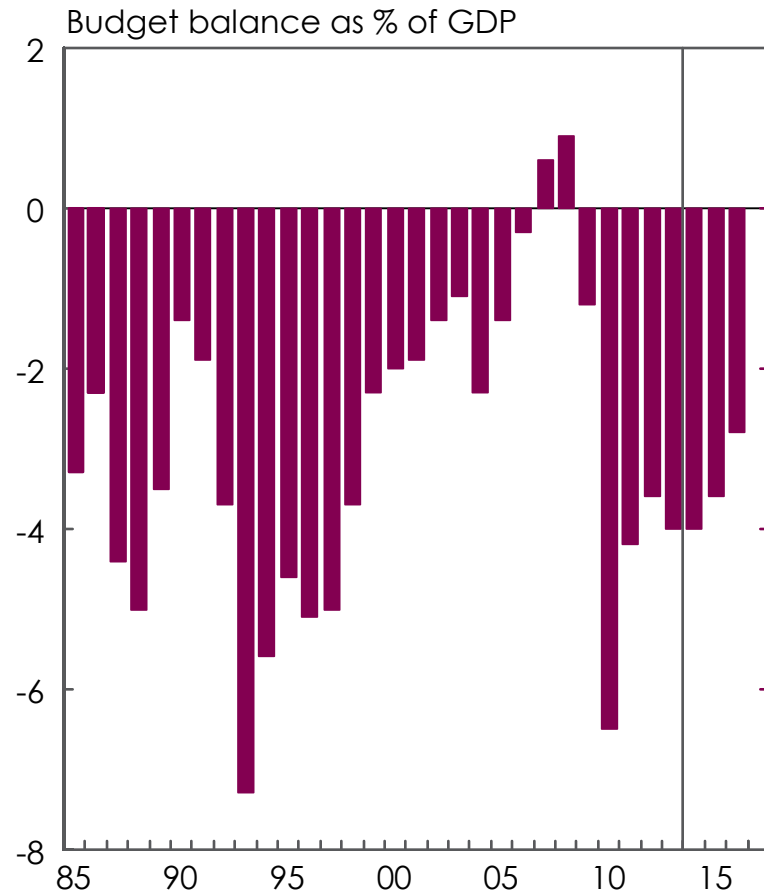


# BIG DEFICITS DISLIKED BY INVESTORS & RATINGS AGENCIES

## SA IS UNCOMPETITIVE

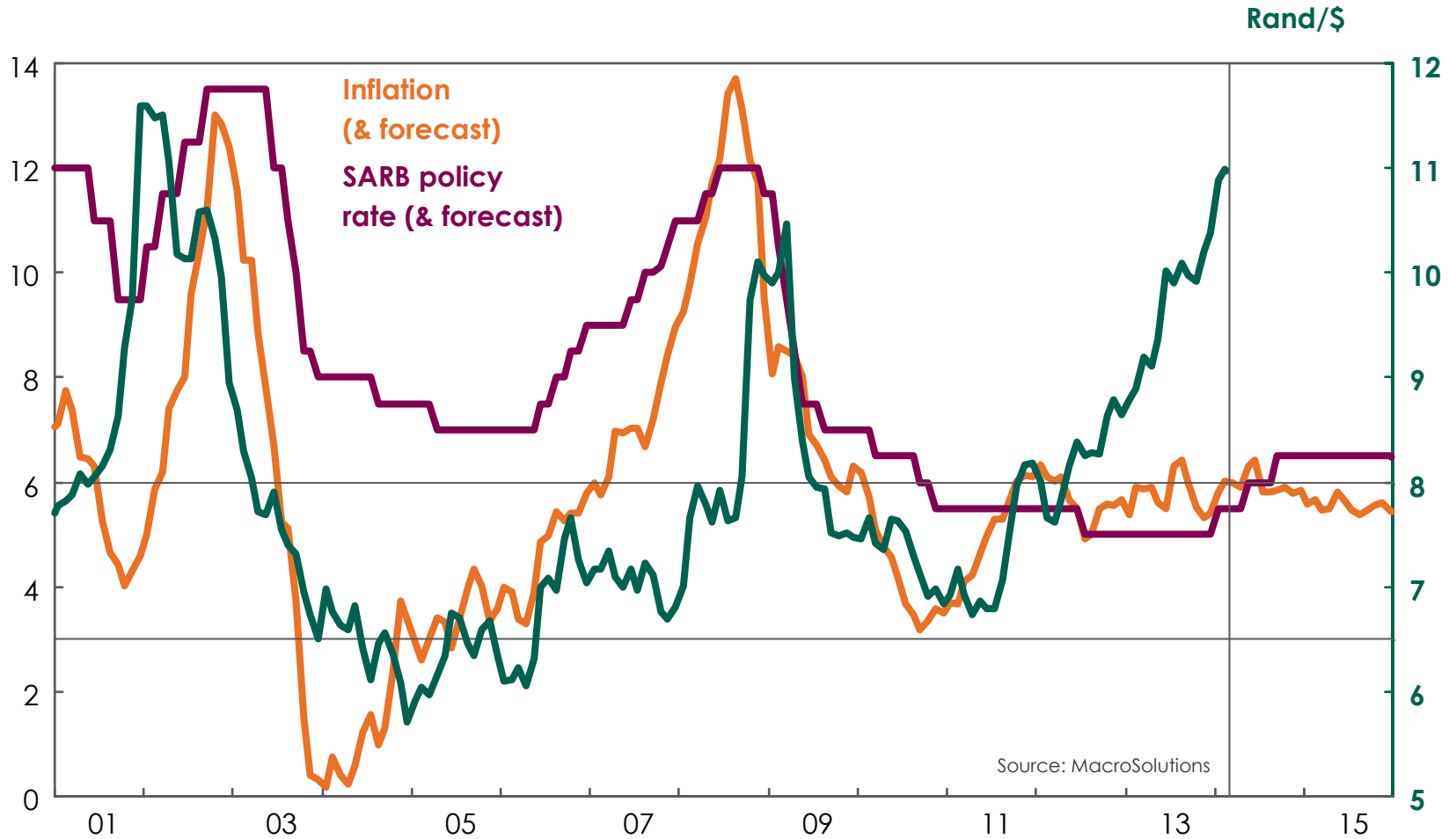


## FISCAL SLIPPAGE A BIG RISK GIVEN WAGE BILL AND SOCIAL SPENDING

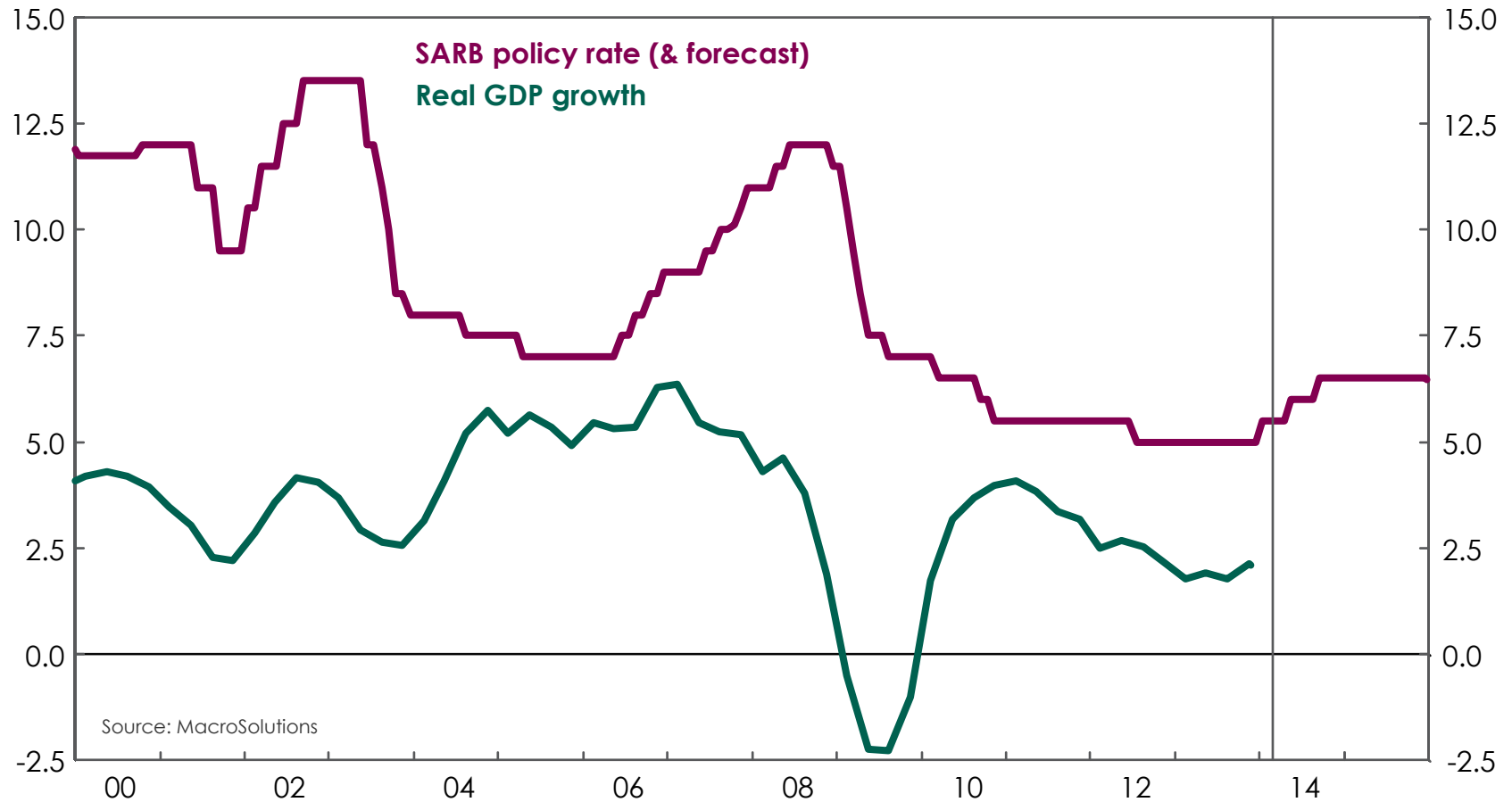


# INTEREST RATES UNEXPECTEDLY UP IN JANUARY

More hikes to come – BUT cycle likely subdued



# SLOW GROWTH MEANS SUBDUED RATE CYCLE





# 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**

DO GREAT THINGS



**OLD MUTUAL**  
INVESTMENT GROUP

# REGULATORY INFORMATION

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