

Bigger doesn't necessarily mean better

Last week StatsSA rebased and revised our national GDP data, the implication of which is that our economy is now 11% bigger than it was before. This is not a sinister move from Government to try and massage the data. Rather it is based on global best practice to regularly update GDP calculations. Whilst some might celebrate the fact that our economy is larger than expected, it does little to change the growth trajectory of the economy. For this to happen, we need reform. On this point, there might be a glimmer of hope.



**Michael
Porter**

“It was the best of times, it was the worst of times, ... it was the spring of hope, it was the winter of darkness.” A Tale of Two Cities by Charles Dickens was first published in 1859, yet those words could so easily apply to modern South Africa. For every two steps forward, we seem to take one step back. The momentum that was building in the economy thanks to a commodity windfall and robust global growth has been cut short by

the unrest in July. Trust in government and overall confidence levels are low. Against this background, StatsSA released their updated and rebased GDP data, pointing to the fact that our economy is 11% larger than previously calculated. Fortunately, this is not a conspiracy theory to massage the data, but part of a normal benchmarking process that takes place every five years.

Any statistical agency worth its salt should periodically revisit how it measures the economy. Economies are dynamic, shifting and changing over time. New industries rise to dominance while others fade away. Consumer tastes wax and wane and new technologies replace the old. Rebasing and benchmarking exercises ensure that the tools used to measure the economy take these changes into account.

At the end of 2020, the size of the economy was R5.5 trillion, as opposed to R4.97 trillion previously calculated. Whilst this is a step in the right direction, it is worth pondering that Amazon's sales for 2020 were \$386 billion (or R6.3 trillion if converted at the average exchange rate for the year. So we shouldn't pop the champagne just yet!) Apart from the economy being larger, the most significant change from this exercise is to the structure of the economy. Sectors that have increased in size include finance, real estate and business services, personal services,

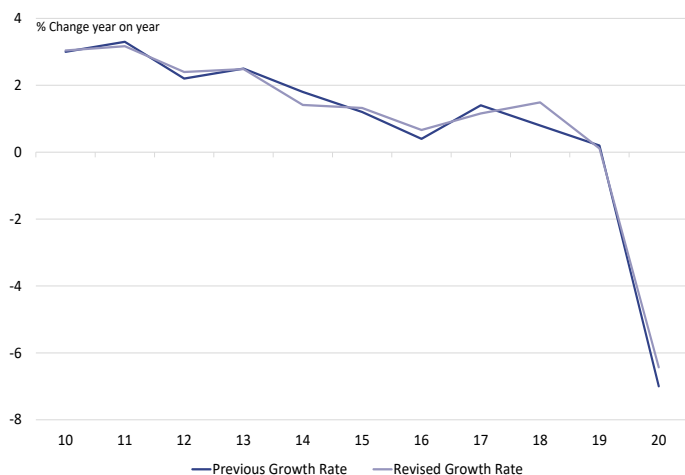
SPEED READ

- SA has benchmarked and updated its GDP calculations. The implication is that our economy is now 11% larger than previously calculated.
- Whilst the size of the economy is larger, and therefore some ratios based on GDP are better, the rate of growth has not changed.
- The path ahead remains challenging, and a higher growth rate requires reform. In this regard, there is a glimmer of hope that the wheels are finally turning.

and manufacturing, whilst government services have shrunk considerably. Again, this is not a reflection of poor government and lack of service delivery (even though it might feel like it), but rather a function of some activities being reclassified into other sectors. Of further interest is that the unobserved (or informal) part of the economy now accounts for 8% of the total – a vital cog that is underappreciated but which makes a significant contribution to poverty relief.

A higher level of overall GDP is good news for ratios based on that data, especially total government debt, household debt and the government's annual budget deficit. At the margin, these should relieve pressure from the rating agencies over further downgrades. In reality, the rating agencies are more concerned about the future trajectory of debt than the absolute percentages, and hence this does not give Treasury any further wiggle room. Debt levels are still too high and cutbacks are still required. Unfortunately, what did not change was the growth trajectory of the economy. The chart below from StatsSA shows the annual rate of growth in the economy. Despite the revisions and rebasing, the rate of growth has barely changed. The deteriorating trend evident from 2013 onwards remains very much intact

SA GDP GROWTH

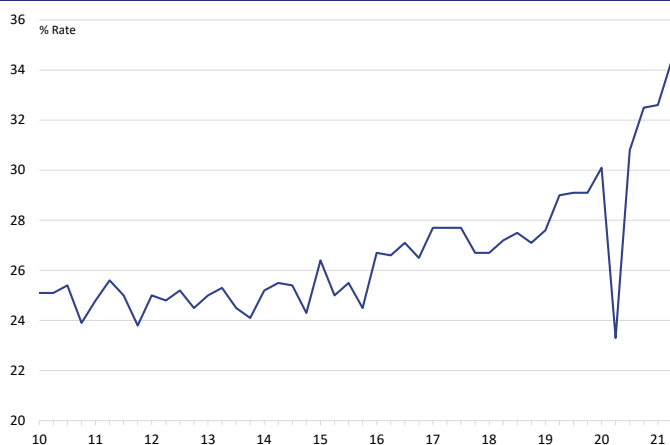


Despite the revision of the size of the economy, the rate of growth in GDP has not changed. The deteriorating trend in the rate of growth is still very much in place.

The poor trend in GDP growth is well established and a source of great concern, more so given that some of the recent tailwinds might be fading. This year has been characterized by record trade surpluses – due to buoyant commodity prices – which in turn have fed the fiscus with extra tax revenue and buoyant spending in mining towns. Commodity prices have recently come off the boil – partly due to changing expectations about global growth as the Delta variant spreads, and partly because they were not sustainable at such elevated levels in the first place. In particular, iron ore and rhodium are down 36% and 41% respectively from their highs reached earlier this year. The commodity boom provided a boost to our economy when we needed it most, but we are not ready for that boost to fade. We need it to last a while longer.

The challenges facing our economy are further highlighted by the dire unemployment statistics released last week. The chart

SA UNEMPLOYMENT RATE



Our unemployment rate now stands at 34.4%, one of the highest in the world, but not something to be proud of. Within the youth category, the rate is now at a staggering 75%.

below is probably one of the most heart-breaking charts around – and crystallises the impact of weak GDP growth on society. What is even more gut-wrenching is that the unemployment rate amongst the youth category stands at 75%. This data is measured to the end of June – before the unrest has been taken into account – so we must expect the trend to deteriorate further before it improves. It is hard to paint a bullish picture of the consumer economy against this background.

Nothing screams louder for the urgency of reform than the above chart. In this regard, our expectations are at rock bottom. After all, SA is brilliant at talking about plans – we have endless legotlas and conferences - but absolutely hopeless when it comes to the implementation thereof. But is there a glimmer of hope? On 10th June, the president announced that the threshold for embedded generation projects without requiring a licence will rise from 1MW to 100MW and he promised that the regulations would be gazetted within 60 days. The announcement was met with applause (that the thresholds had been raised to 100MW and not the 10MW previously mooted) but equal scepticism that it would be years before the regulations were actually in place. Fast forward to 12th August, and the necessary regulations were published. This is the first time that I can remember that Government has delivered on its timelines.

The potential to unlock growth from this reform should not be underestimated. Two weeks later, Sibanye Stillwater released their results in which they commented that not only has the reform derisked their renewable energy projects, but it has also accelerated execution thereof by between 3 – 6 months. Given the ongoing risk of load shedding, this reform has the potential to spur huge investment which would benefit multiple sectors of the economy.

Reform has not stopped there. Later in August Transnet made two important announcements:

- They are seeking expressions of interest from private sector operators to participate in the management of the container terminals at Durban and Ngqura.
- They are considering granting private operators access to the national rail network.

I am under no doubt that it will take at least 12 months before there is any real progress on the above issues. That might be disappointing for those seeking immediate progress. What stands out for me is the change in thinking and attitude. Whilst I am certainly not saying that the leopard has changed its spots completely, the fact that Public Enterprises is embracing collaboration between the public and private sectors is a major leap forward. Our economy may be bigger than we thought, but the holy grail is not its size, but its rate of growth. That is the only way to create jobs. It is early days, but amongst the despair and discontent of Winter, it may just be the Spring of hope.



Please note, due to the concerns over the 3rd wave of Covid, Harvard House has decided to cancel our Insight presentations until further notice.



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Topic: n/a

Natal Midlands

Date:	TBC
Venue:	Fernhill Hotel Midmar / Tweedie Road Howick
Morning Time:	10am for 10.30am
Evening Time:	5.30pm for 6pm

Johannesburg

Date:	TBC
Venue:	Rosebank Union Church, Cnr William Nichol and St Andrews Road, Hurlingham
Time:	7am for 7.30am

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