

Hidden Characteristics of the South African Economy

South Africans are largely desensitized to bad news about their own country. We are punch drunk from reports of ineptitude, corruption, failure of key government services and so many other areas. The problem with this is that, just like the boy who cried wolf, when a real wolf arrived, no one believed him. In our case, some of the bad news reported may be based on incorrect data and there is an alternative story. As part of our analysis of our key investment themes for 2022 and beyond, we will consider the Supported Consumer in this article and why shares like Shoprite, Spar and Mr Price remain firmly on our radar.

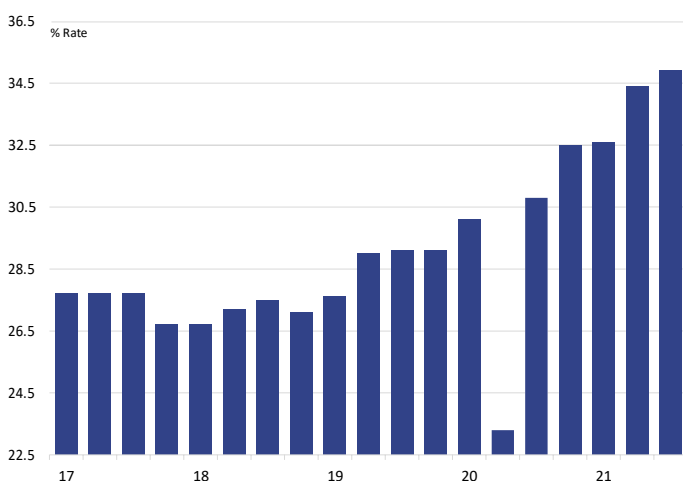


**Robin
Gibson**

We are all aware that social grants suck up R200 billion of the Government's budget. This money is never saved. Rather, it is drawn within days of deposit and spent in full purchasing largely necessities but in some cases other discretionary items (read alcohol). The ANC government has failed to stimulate significant GDP growth or employment and the official statistics make for depressing

reading. Estimates of unemployment range from the official 36% to an estimated 45%. This is nothing short of catastrophic, yet weirdly, statistics for the major retailers do not support this kind of jobs bloodbath.

OFFICIAL UNEMPLOYMENT STATISTICS



The effect of the Zuma years, Covid and July unrest are very clear in the official statistics over the last 5 years

Recent statistics related to listed property companies that operate in townships and food and clothing retailers don't

SPEED READ

- Recent employment numbers suggest that 1 in 3 South Africans who wish to work cannot find a job. There have been suggestions that this number is closer to 1 out of 2. This requires a continued policy response from the government in terms of financial support either through grants or some other mechanism.
- The informal economy is significantly under-appreciated. With employment statistics only considering those who have a formal job, it fails to consider those who have no job but do have an income.
- The informal economy underpins large portions of the local formal economy. Companies are discovering that a vast untapped economy lies in areas previously avoided for multiple reasons. These companies are seeking new markets in these areas and finding a whole new way of doing business.

support a collapsing consumer market. Is there another leg to the story that the mainstream data doesn't illuminate?

The Harvard House team recently attended JP Morgan's Investment Conference virtually. This idea was explored as part of a panel discussion with key players in the sector. One of these is GG Alcock, an expert on township economies and the dynamics of the informal sector. GG is a child of anti-apartheid activists who grew up in a hut without electricity or running water. He is deeply ingrained in the township society and sector and is a highly sought-after consultant into the dynamics of this misunderstood sector. GG is the author of *Kasinomics*, the colloquial term given to the township economy. GG is adamant that while the unemployment figures may be accurate when measured

against the standard of formal jobs as we understand them, they exclude those with no job but some form of non-grant income. GG estimates this to be around the 13% to 15% level. This paints an entirely different picture of the South African economy.

In the recent Lightstone Property newsletter, some analysis of the data provides some interesting insight based on actual property transactions. The trend of emigration has been horrendous in the last 5 years, accelerated by the recent unrest and looting. This would most likely manifest itself in residential property prices as sellers outnumber buyers. While we are not contesting that emigration and ‘semigration’ are ongoing, we do think that the data points to additional facts in this story. We all understand that every property sale to go through the deeds office needs a seller and a corresponding buyer, so this data is not anecdotal. Between 2016 and 2021 in the Mid (R250,000 - R700,000) and High (R700,000 - R1,500,000) value sectors, the number of transfers reduced, but the average value of the property increased by 6.45% per annum. This is better than inflation over the same period, which measured 4.2% per annum. To buy property, you have to have some form of demonstrable income. If earnings were falling as quickly as employment numbers suggest, this would certainly reflect in these statistics. We can only deduce that the South African consumer is not as badly off as the formal employment statistics would suggest and that a certain resilience exists.

If we listen to GG Alcock, he paints a picture of an active and vibrant informal economy. We have quoted some of his estimated statistics in the accompanying table. These activities all underpin and indirectly feed into the

formal economy. The real winners in the formal economy will be those organizations that cater to this informal trade or find a way to capitalize on it. There are already companies that have achieved this fairly successfully – such as Shoprite, Fairvest, and Transaction Capital to name a few.

Harvard House has always believed that diversification into businesses outside of South Africa makes perfect sense. Many of the shares in portfolios have healthy revenue streams in hard currencies or are entirely located and operate outside of South Africa. However, in building robust dividend streams to provide for income and long-term compounding we cannot ignore businesses that are priced very reasonably and underpinned by solid fundamentals, strong balance sheets, great management, and good business models. Many of these opportunities lie squarely in the South African economy. We have long held the refrain that “Companies are not Countries and Countries are not Companies”. While not without risk, we believe this holds for many of the counters currently held in our portfolios.

THE INVISIBLE INFORMAL ECONOMY		
Estimated Participants (Businesses)	Source	Estimated Annual Value to the Economy
100,000	Spaza Outlets	R 150 billion
50,000	Fast Food Outlets (Shisinyama)	R 50 billion
10,000	Hair Salons	R 10 billion
250,000	Taxis	R 50 billion
	Building & Rental (Rooms & Spazas)	R 50 billion
50,000	Licensed Taverns & Shebeens	unknown
80,000	Mechanics & Panel Beaters	unknown

Largely unmeasured, the table shows GG Alcock’s estimate of the contribution to the economy by parts of the informal sector.



Spaza shops contribute a vast amount to South Africa’s hidden economy.



Our seminar schedule for 2022 will be published shortly
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Topic: **To be confirmed**

Natal Midlands

Date:	TBC
Venue:	Oasis Conference Centre, 72 Main 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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Performance figures quoted for the portfolio is from Morningstar, as at the date of this document for a lump sum investment, using NAV-NAV with income reinvested and do not take any upfront manager's charge into account. Income distributions are declared on the ex-dividend date. Actual investment performance will differ based on the initial fees charge applicable, the actual investment date, the date of reinvestment and dividend withholding tax. Performance fees do not apply to any funds managed by Harvard House. The manager does not provide any guarantee either with respect to the capital or return of the portfolio. A schedule of fees, charges, and maximum commissions are available on request from the manager.

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