

Can we be optimistic about the economy and reforms?

News articles and hard statistics can sometimes send our emotions into despair about the South African economy. We look at some of these news items from the last week or two. Albeit it slow and hard to see for the average person on the street, government and the private sector have started to implement some reforms. JP Landman calls these “Connecting the Dots”. We found his comments interesting and summarised them for your convenience.



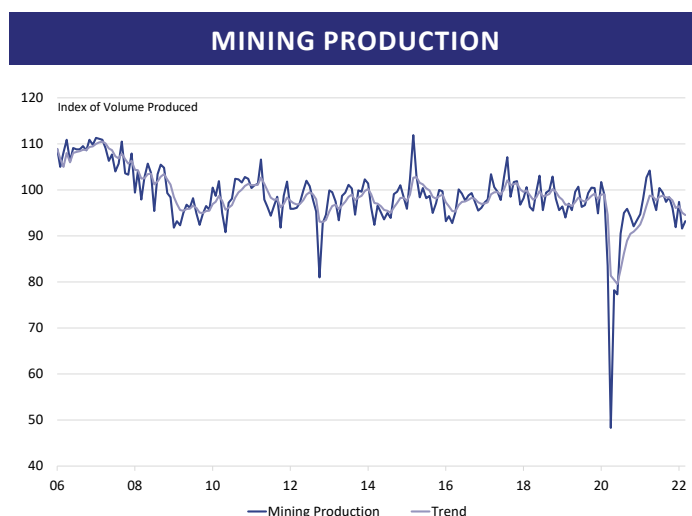
**Willie
Pelsner**

Hardly a day passes without reading something about South Africa that pushes you into despair. For example, you only have to open your Eskom load-shedding app to see if load-shedding is either starting or has been suspended. During the last few weeks, newspaper headlines have voiced various concerns around South Africa - even our weather stations are seemingly falling apart - and then there are

articles highlighting reforms and transformations that are happening, albeit slowly.

Last week South Africa published two statistics that gave an update on the real workings of the economy – Mining and Manufacturing statistics.

Mining production (expressed as a volume indicator in



The volume of mining production has been stagnant for years as SA has lost its competitive advantage. Recent weakness has been exacerbated by strikes, weather and Transnet's inability to provide efficient rail services to the industry.

SPEED READ

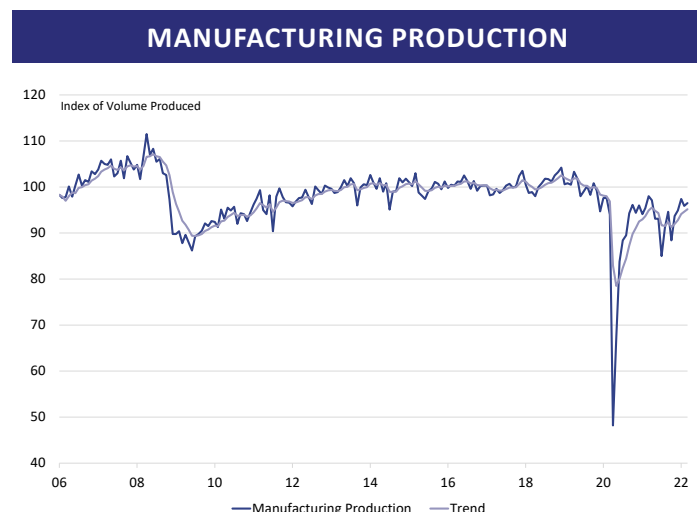
- Mining activity in South Africa is lagging and is falling behind its own standards and capabilities. The volume of production remains constrained.
- Manufacturing statistics have started to improve. The volume of production has lifted its head and appears to have upward momentum, especially after the Covid period.
- JP Landman wrote in his latest note about the various spheres of the economic agenda where implementation has been real and confirmed.

the graph below) decreased by 9.3% year-on-year in March 2022. Large contributors to the slower production came from the gold sector (-25.6%), iron ore (-24.4%), manganese (-19.8%), and platinum group metals (-8.2%). The percentage reflects the decrease in production on a year-on-year basis. During the first quarter of 2022 mining production was down 1.5% compared to the 4th quarter of 2021. Whilst there may be specific reasons for the large monthly declines in March – such as the strike at Sibanye's gold operations, or excessively wet weather – it nonetheless still carries a negative implication for the broader economy.

The Sunday Times recently carried an article articulating that the mining sector should be a key source of revenue and more projects should be approved and bottlenecks removed. The article sees SA as its own worst enemy as we keep on talking about these fixes yet by dragging our feet on reforms we have declined in terms of global competitiveness – SA now ranks 75th out of 84 countries when measured on the attractiveness of mining and exploration to investors. The mining sector peaked in 1980 when it contributed 21% of GDP and employed around 790,000 people. Since the turn of the century, its contribution has fluctuated between 5% – 10% and in 2021 it fell to just 9.1% of GDP with ± 450,000

employed. Although one can argue that South Africa has diversified its economy significantly post the sanctions and Apartheid era, which would account for some of the decline in the contribution from mining, there is no doubt that we failed to capitalise on the commodity super-cycle from 2002 to 2015.

The manufacturing engine is also struggling but the chart below hints at improving momentum. Production decreased in March 2022 by 0.8% on a year-on-year basis, however manufacturing production has increased by 4.7% in the first quarter of 2022 compared to the fourth quarter of 2021.



The manufacturing sector is showing signs of recovery after the devastating impact of both Covid and civil unrest.

When you read articles about entities such as Denel, the State's arms manufacturer, not having any luck in finding an equity partner, you realize that production numbers could be even better if we can only get beyond the wrongdoing of the past.

South Africa would never have been part of AGOA (American Growth & Opportunities Act) had Nelson Mandela not chatted with Bill Clinton back in the late 1990s. Under this piece of legislation, African economies are given preferential access to US markets. Lower import duties in the USA for cars made in South Africa have been the most obvious and lucrative reward, and exports of wine, citrus and other fruits have benefitted as well. AGOA expired in 2015 but was fortunately extended by the US for another 10 years. Unfortunately, South Africa's exports to the US have stagnated around \$ 8 billion over the last 15 years, which means that in real terms we have not been able to capitalise on this opportunity. Furthermore, it would appear that the Minister of Trade & Industry and the Competition authorities are not too keen to agree to American demands, namely, to have a similar "give and take" agreement to what we currently enjoy with the EU. The future of our membership of AGOA is in doubt.

These examples of momentum in mining and manufacturing probably echo what an economist would say: on the one hand we struggle (mining) but on the other hand, we see some hope (manufacturing). I had the pleasure of working for a short while with JP Landman during my formative years as an economist and analyst. What I remember most was the time that Mike Schussler and I spent with JP and Ruda (from Carte Blanche) listening to their upbeat take on life and inquisitive nature. JP's latest note entitled "Connecting the Dots", published earlier in May does make for some more upbeat reading. I have summarized some broader points from the report in the table below. The left column shows the various areas of decision making or focus areas. The right column highlights the progress made, i.e. connecting the dots. The full article can be found on his website.

Connecting the Dots: JP Landman makes the statement that the "dots" are not connecting activities that will be done or that are still only promises. It only connects what has actually been achieved.

Monetary Policy

From the ANC's Nasrec conference in December 2017, the independence of the South Africa Reserve Bank came under attack. A resolution was passed to nationalize the Bank and change its mandate.

Dots to connect - June 2019: Statement confirmed the independence and mandate of the Reserve Bank.

Fiscal Framework

Although we all know the effects of State Capture, it could have been worse. Recall the "weekend special" Minister of Finance debacle in 2016, and the dismissal of Pravin Gordan and Mcebisi Jonas in 2017.

Dots to connect – Extra spending due to Covid and emergency relief was financed by cutting other expenditure. The dot confirmed no splurging, although it is acknowledged that we did get a bonus from favourable terms of trade from higher commodity prices.

Structural reform

The biggest reform here is additional spectrum in the telecommunications industry. The digital migration and spectrum auction have been completed after 10 years of delay.

Dot to connect – enhancement on the roll-out of better connection and advanced Internet-of-things. The auction also netted R14 billion of revenue for the State

Railways and Harbours – change is starting to accelerate. Private operators can enter railway and port operations

Dots to connect – in April 2021 it was announced that a new pier at Durban harbour will be built by the private sector for R100 billion

Energy Reform

The biggest reform of all is taking place in electricity. Since 2020 there has been significant progress, including municipalities being allowed to procure their own power, new bid windows for renewable power, and the lifting of the threshold for private companies to generate their own power. The separation of Eskom into three different entities is also on track.

Dots to connect – the opening of non-Eskom generation capacity will cumulatively add more than 11 500 MW to the National Grid by 2025

Infrastructure

Infrastructure is really the backbone of economic recovery. After 3 years of struggling, the Infrastructure Fund is starting to gain momentum and is now operational.

Dots to connect – seven projects (R21 billion) have been approved by the Fund and will be handled by the private sector and development institutions. The projects include housing and water projects.

Reading through JP's note I realized that the dots he referred to are real and can't be argued against but using the words of Chris Pappas (the new mayor of the Umngeni Municipality): "we inherited some things in a bad state, and it will take hard effort and commitment to turn the wheels." The dots

do line up and State Capture has laid SA barren. We can all hope that the words used by the President at the 2019 Investment Conference: "The man who moves a mountain begins by carrying away small stones" will continue to align for the dots to be connected continuously.



Durban's harbour is being upgraded with private capital and resources.



Topic: **Building an Investment Mindset**

Natal Midlands

Date:	9 June 2022
Venue:	Oasis Conference Centre, 72 Main Road, Howick
Morning Time:	10am for 10.30am
Evening Time:	5.30pm for 6pm

Johannesburg

Date:	14 June 2022
Venue:	Rosebank Union Church, Cnr William Nichol and St Andrews Road, Hurlingham
Time:	7am for 7.30am



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