INTUITION
26 JULY 2024

The GNU: stats to watch for signs of progress

It has been almost 2 months since our election, and much progress has been made on the GNU, the cabinet and government policy, which culminated in an upbeat speech at the opening of parliament. Indeed, there is much to be celebrated, with the period ahead being christened "Ramaphoria 2.0" – a reference to the rally and positivity that emerged after Ramaphosa won the ANC's succession battle in December 2017. Yet plenty of scepticism remains – understandably so. Critics will claim that they have heard this all before, that nothing ever changes. So, how do we measure whether the GNU is heralding a new era? Over the medium term, we should see an acceleration in growth. But that will not happen overnight. In this article, we look at six statistics that are released frequently that might help us to gauge whether the GNU is on the right track.

Michael Porter

I think it is fair to say that there is much to be celebrated post our elections. We have managed a transition of power without violence, formed a GNU within a few weeks, which demonstrated significant maturity, and now have a cabinet with broad representation across parties. If we had outlined such a scenario in January, few would have believed us. We would have dismissed it too! Yet if we had been given that choice, we would have grabbed it with both hands. Now that it has come to pass, the sceptics are out in force. That is also understandable. We have been promised change before, yet there has not been much to show for it.

SPEED READ

- **The election is out of the way. Cabinet has been appointed and a policy framework decided. The opening of parliament saw Ramaphosa deliver an upbeat prognosis.**
- **Yet sceptics remain and it will take time for better growth to manifest itself. How do we measure whether things are actually changing?**
- **We highlight 6 statistics – from confidence and credit growth to electricity and freight, that will help to gauge momentum.**
- **Another key indicator will be commentary from company results – an insight into what is happening at the coalface.**

After Ramaphosa was elected leader of the ANC in December 2017, markets enjoyed what is now referred to as the "Ramaphoria Rally". Markets soared on renewed optimism of a brighter future, but the rally soon fizzled out as reality set in. It is therefore not surprising that the market's reaction has been more muted this time round. Investors have been caught before. As the saying goes, "Fool me once, shame on you. Fool me twice, shame on me."

Yet regular readers will know that we have been emphasizing the importance and progress of reforms for the past eighteen months. Crucially, this remains a central theme in the new government, and they remain a key driver for higher growth in the future. But evidence of higher growth will only materialise in twelve to eighteen months' time – a long time to wait for impatient markets. This week, we highlight six statistics that are worth watching for evidence that the mood, and economy, is improving. In addition, we should watch for changing commentary from company results. Already Mr Price has hinted that "prospects in SA are improving…." due to some of the factors mentioned below. Combined, these will support markets and encourage foreigners to reconsider SA as an investment destination.

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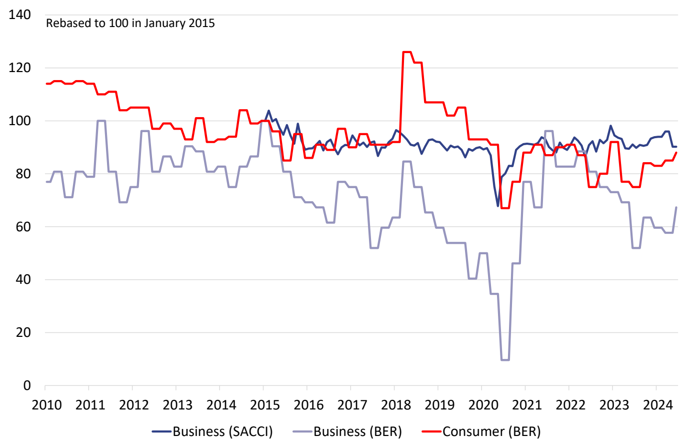
Confidence

One of the key implications of the Zuma era and State Capture has been a deterioration in confidence – from both businesses and consumers. That is not surprising. South Africans have had little reason to be optimistic about the future, which has resulted in apathy and a moribund economy. That is also reflected in what feels like a perpetual "wait-and-see" attitude. The elections could (or should) be a pivotal turning point for confidence in the country. There are two indices that track business confidence – one calculated by the BER and one by SACCI. Likewise, the BER calculates consumer confidence. For all three indices, the last release was in June for periods ending April or May. The next releases – due in August and early September – will provide the first hint of whether confidence is turning.

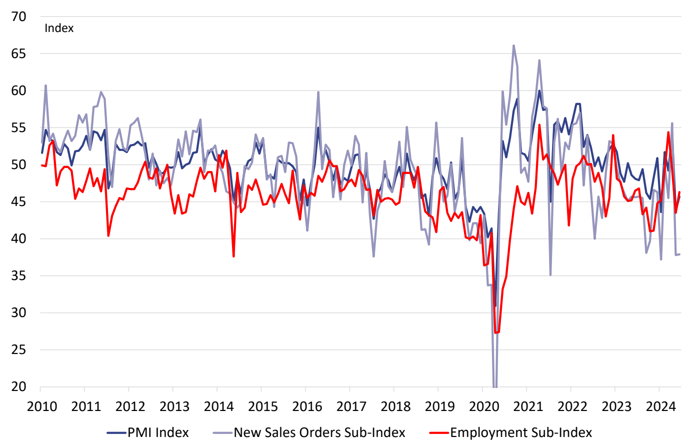
SA BUSINESS & CONSUMER CONFIDENCE



Manufacturing

We often refer to the PMI Index – a gauge of the state of the manufacturing industry in the country. A reminder that the PMI Index is a diffusion index, meaning that readings above 50 indicate growth, whilst those below 50 indicate contraction. Normally, we just refer to the composite index – the dark blue line in the chart – which has generally been below 50 for the past 15 months (with the odd monthly exception.) That is not surprising given the impact of loadshedding, logistics and water issues. However, the composite index is made up of nine sub-components – two of which we highlight here. Firstly, the "new sales orders" index, which tracks new demand across the economy, and secondly, the "employment" index which tracks the intention to hire more workers. These two sub-indices will provide an early read into whether improved confidence is translating to action "on the ground." The PMI is released on the 1st of every month.

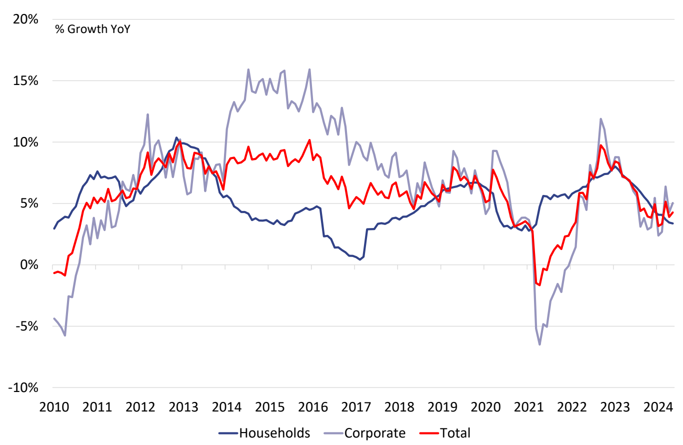
SA PMI INDEX



Credit Growth

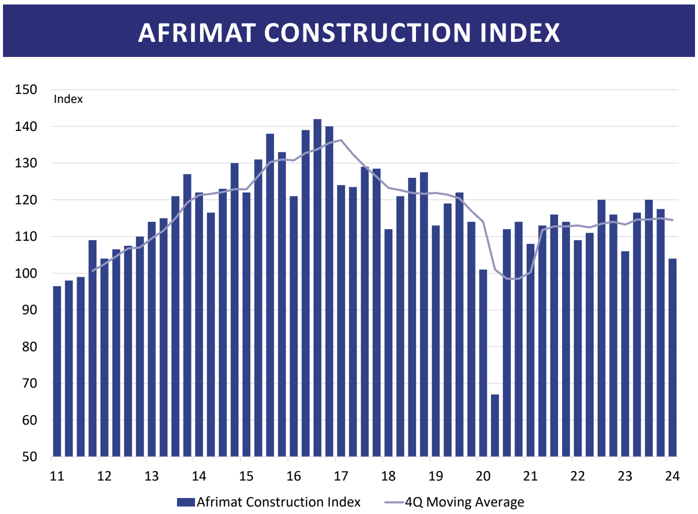
Allied to the above two indicators is credit growth. One is hardly going to borrow money – whether it be for a new car, alterations to your house, or a new factory – if confidence is low. Generally, household credit demand continues to deteriorate – a reflection of higher interest rates, weak confidence and a lack of employment growth. On the other hand, corporate credit growth is showing the first signs of growth. It is widely acknowledged that corporates generally have excess cash on their balance sheets, so it may not be necessary to borrow to finance expansion. But given the lack of investment for so many years, we think there is plenty of pent-up demand, provided conditions turn more conducive. A cut in interest rates (forecast for September) would also help. Private sector borrowing data is released monthly.

SA PRIVATE SECTOR CREDIT GROWTH



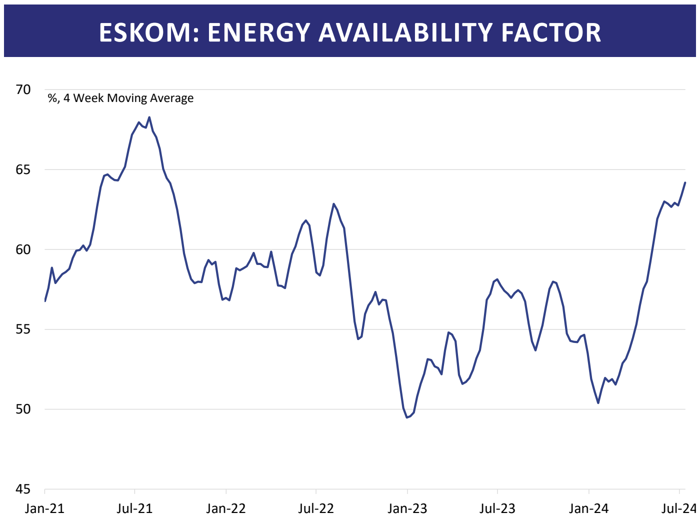
Construction Industry

Afrimat should be well-known to clients. After all, it has long been a favourite of ours. For the past ten years, they have calculated and released a composite index to measure the state of the construction industry. This index is comprised of various indicators that all measure components of the construction industry – both for major projects and for home improvement. It includes the value of plans passed at municipal level, hiring across the construction industry, the volume of building materials produced (such as cement, aggregates and bricks), the number of mortgage bond approvals, and the wholesale sales of construction materials, amongst others. The index has trended sideways for the past three years, but if Ramaphosa's claim to turn SA "into a construction site" has any merit, then we should see it being reflected here.



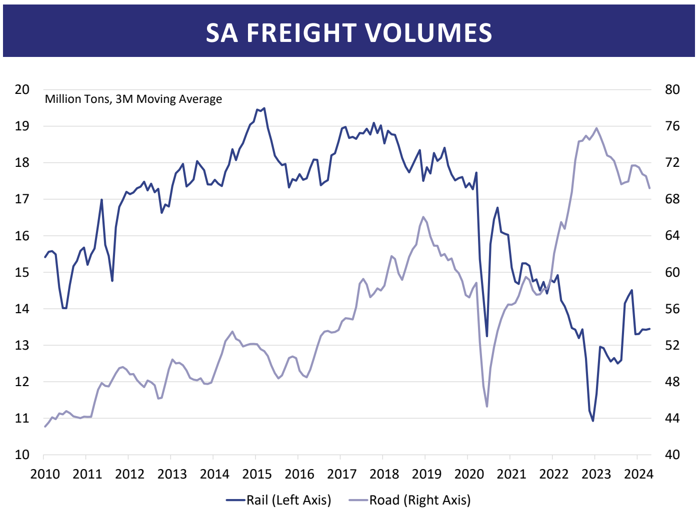
Eskom

Clients will know that we have been excited about the reform in the electricity sector. The reform started in 2020, but really gathered pace in 2022 when the ceiling on the size of self-generation plants was abolished. At the time of writing, we have enjoyed 119 consecutive days without loadshedding, a significant boost to the economy. The Reserve Bank estimated that loadshedding subtracted 2% from growth in 2023. The chart shows the EAF – the percentage of Eskom's fleet that is operational. It is almost at 65%, a level last seen in mid-2021. The absence of loadshedding is a material boost – for both the economy and confidence. If this level can be maintained, then one of the largest constraints to growth may finally be behind us.



SA Logistics

Much progress has been made on electricity. Now the focus is firmly on Transnet, which (hopefully) reached its nadir last year. The chart shows the steady decline in rail freight volumes since 2017, and the corresponding rise in road freight – something that every motorist can attest to. There is no doubt that Transnet's new CEO, Michelle Philips, is a breath of fresh air. Whilst there are numerous challenges to overcome, we hear anecdotally from companies that there is a "can-do"" attitude and a willingness to engage to resolve problems. Consequently, rail volumes are rising again – albeit off a very low base. Evidence of a sustained turnaround at Transnet is another key cog in the "confidence" chain, and would be a huge boost to the mining industry – and government coffers. The next release is scheduled for mid August.



Our next seminar will be held in September. The topic will be advertised in due course.

Topic:	TBC
Natal Midlands	
Date:	12 September, 2024
Venue:	Christ Church Howick, 23 Mare Street, Howick
Morning Time:	10am for 10.30am
Evening Time:	5.30pm for 6pm
Johannesburg	
Date:	10 September, 2024
Venue:	Rosebank Union Church, Cnr William Nichol and St Andrews Road, Hurlingham
Time:	7am for 7.30am
Cape Town	
Date:	n/a
Venue:	SSISA Conference Centre, Boundary Road, Newlands, Classroom 1, 3rd Floor
Time:	7.30am
Venue:	ABRU Motor Studio, Lourensford Wine Estate, Somerset West
Time:	5.30pm for 6pm

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