

# THE STATE OF SOUTH AFRICAN ECONOMY NUM COLLECTIVE BARGAINING CONFERENCE

26 FEBRUARY 2018

SATRI



# Outline

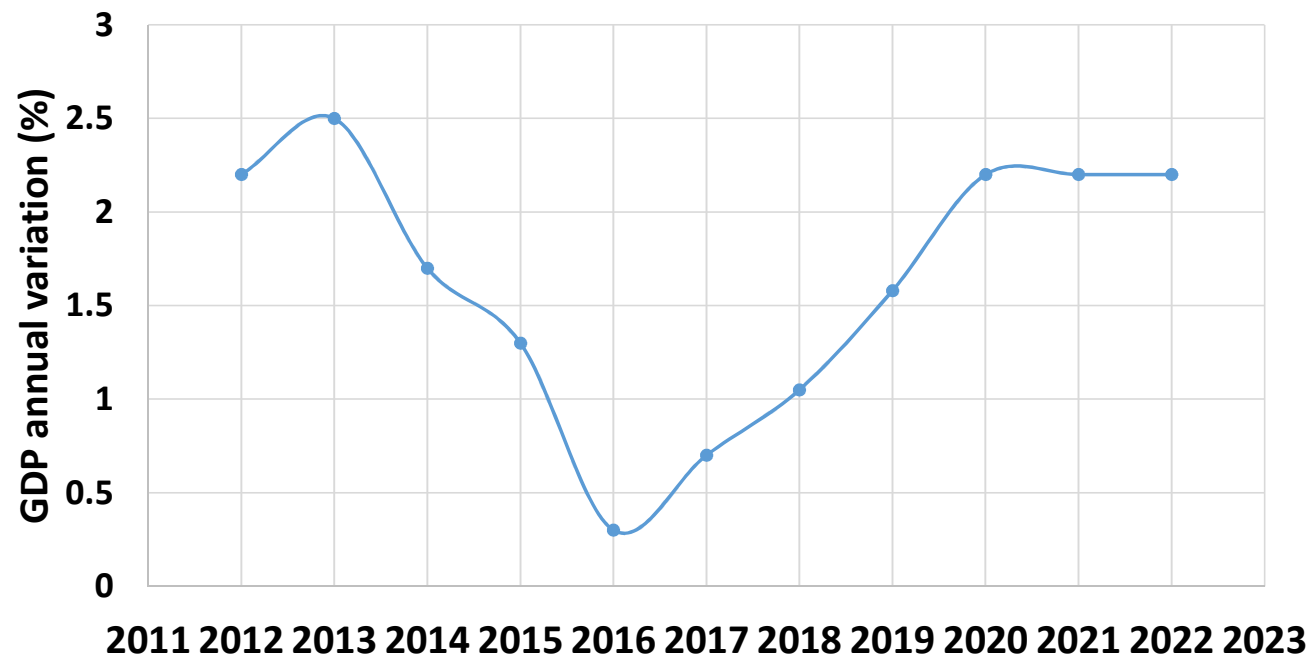
- ▶ Introduction
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# Introduction

- ▶ The performance of any economy has a bearing on employment and by extension the welfare of workers.
- ▶ Although the South African economy sometimes experiences jobless economic growth, it is important that organised labour keeps track of the country's economic performance such that it can leverage any benefits that comes from realising it.
- ▶ Otherwise, the benefits of economic growth will be expropriated by the employers alone.

# Gross Domestic Product (GDP) growth rate

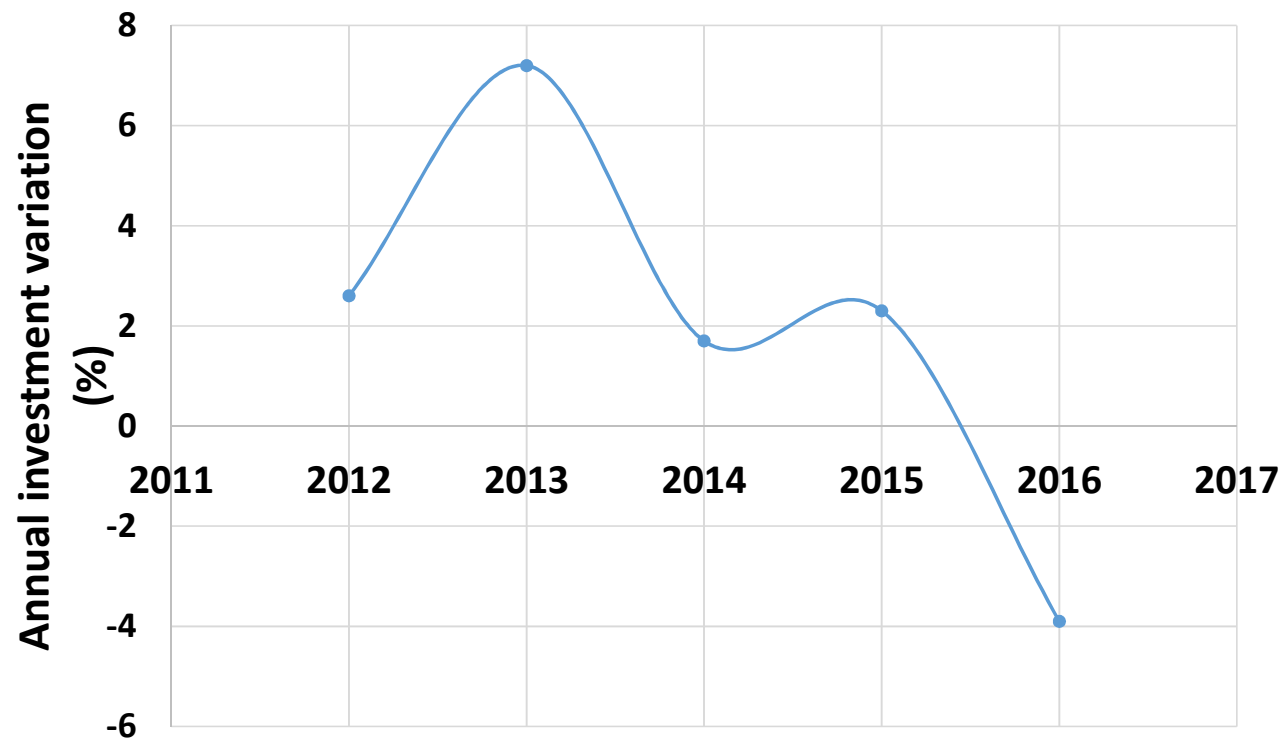
- GDP refers to the total market value of all goods and services that are produced within a country per year. It is an important indicator of the economic strength of a country.
- SA GDP growth level has been low
- Moving forward, the economy is expected to grow steadily around 2.5%



Source: (StatsSA, 2017); (FocusEconomics, 2016); (Statista, 2016)

# Investment in the South Africa's economy

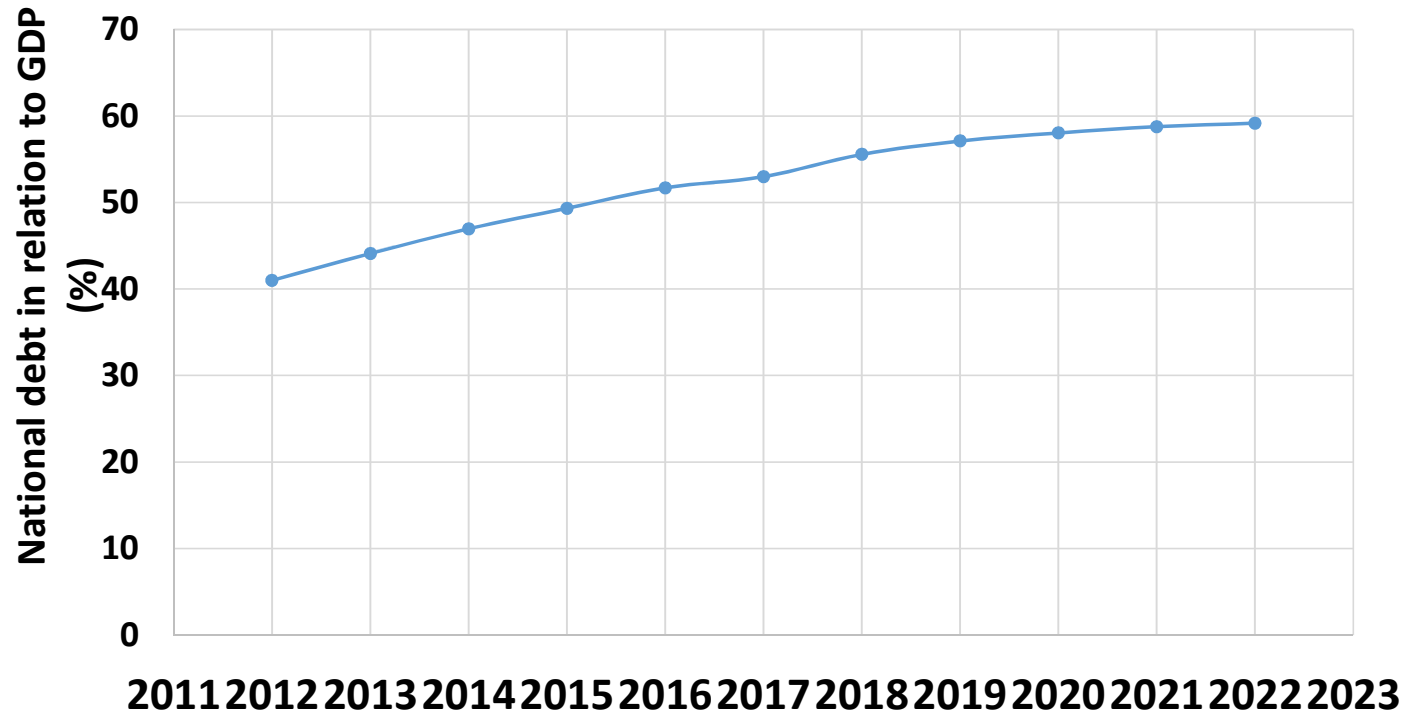
- Investment is the fuel of economic activity of any country. Hence, it is a good indicator of how a country's economy is likely to perform in the near future.
- Overall, Investment has been declining
- Contributing factors include;
- Credit Rating
- Political and perceived labour unrest
- There is a probability that things may change due to increasing business confidence owing to new administration
- Positive credit rating



Source: (FocusEconomics, 2016)

# National Debt in relation to GDP

Government debt as a percentage of GDP is used by investors to measure a country's ability to make future payments on its debt, thus affecting the country borrowing costs and government bond yields



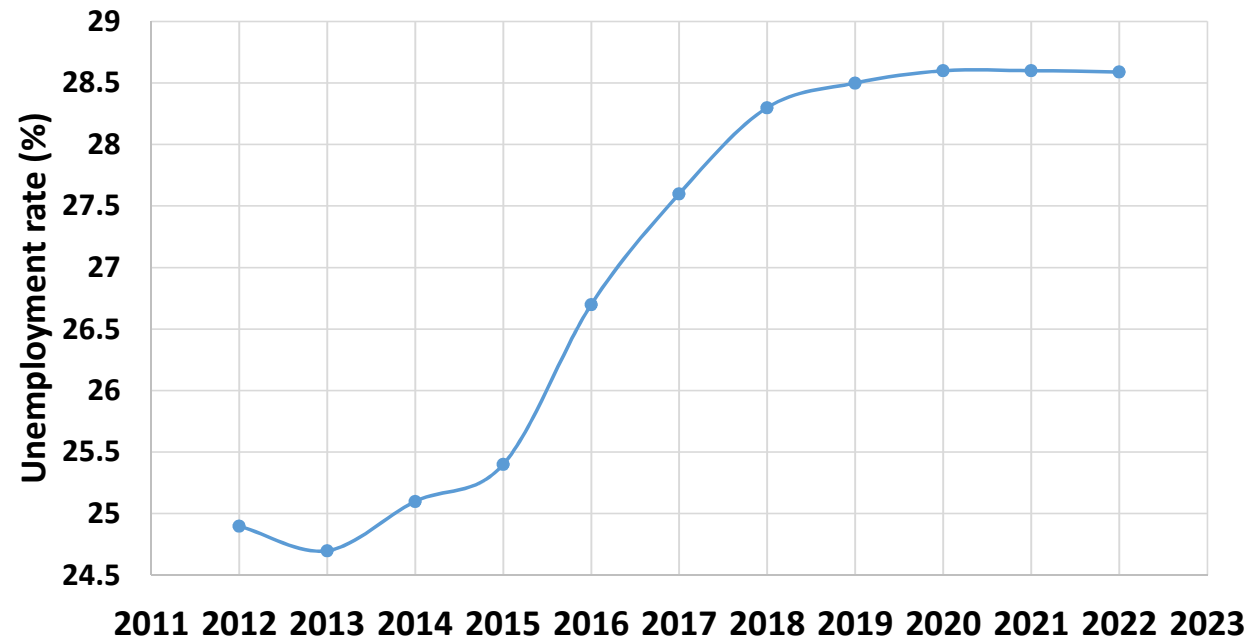
Source: (FocusEconomics, 2016); (Statista, 2016)

# Employment Status National

- ▶ **National Unemployment Rate**
- ▶ **Sectoral Employment Performance**
- ▶ **Expanded and Official Unemployment Rate**

# National Unemployment rate

- Unemployment remains a perennial problem for South Africa
- Unemployment rate decreased to 26.7% in the fourth quarter of 2017



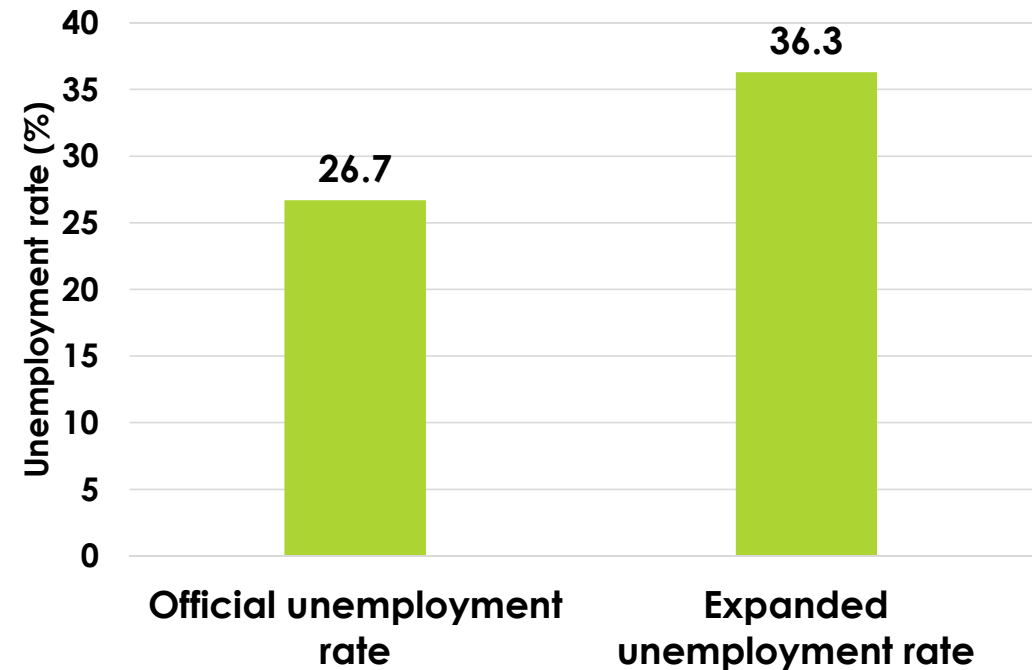
Source: (StatsSA, 2017); (FocusEconomics, 2016); (Statista, 2016)

# Sector employment performance

- ▶ Formal sector employment declined by 135 000 while the informal sector employment increased by 119 000 compared to Q3: 2017.
- ▶ Declines in Finance (91 000), Trade (45 000), private households (43 000), and Mining industries (35 000) contributed mostly to the net loss in employment.
- ▶ Employment was created in Community, social and personal services (75 000), Manufacturing (42 000), Agriculture (39 000), Construction (26 000) and Transport (13 000) in the same period.
- ▶ Compared to the Q4:2016, employment increased by 102 000 or 0,6 per cent while unemployment grew by 99 000 or 1,7 per cent in Q4:2017.

# Expanded vs Official Unemployment Rate

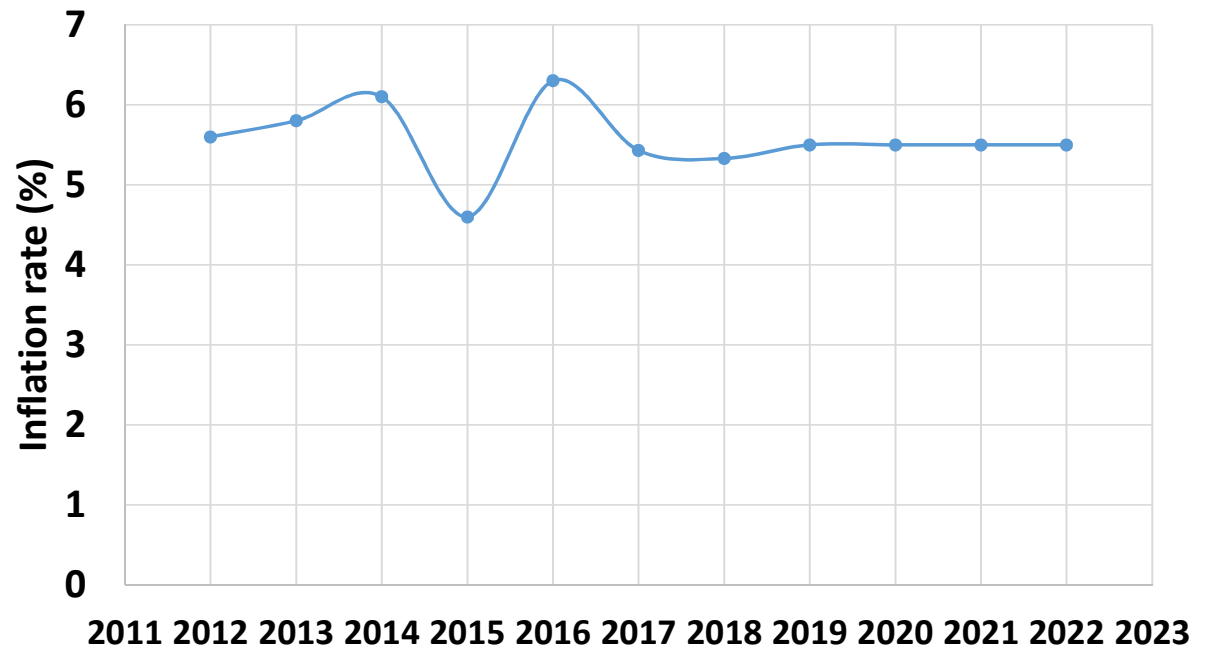
- The **expanded definition of unemployment**: include people who have stopped looking for work.
- Currently the expanded unemployment is at 36.3%
- **How it affects the economy?**
- Socioeconomic problems
- Crime, high dependence, low demand, high level of debt



Source: (StatsSA, 2017)

# Inflation Rate

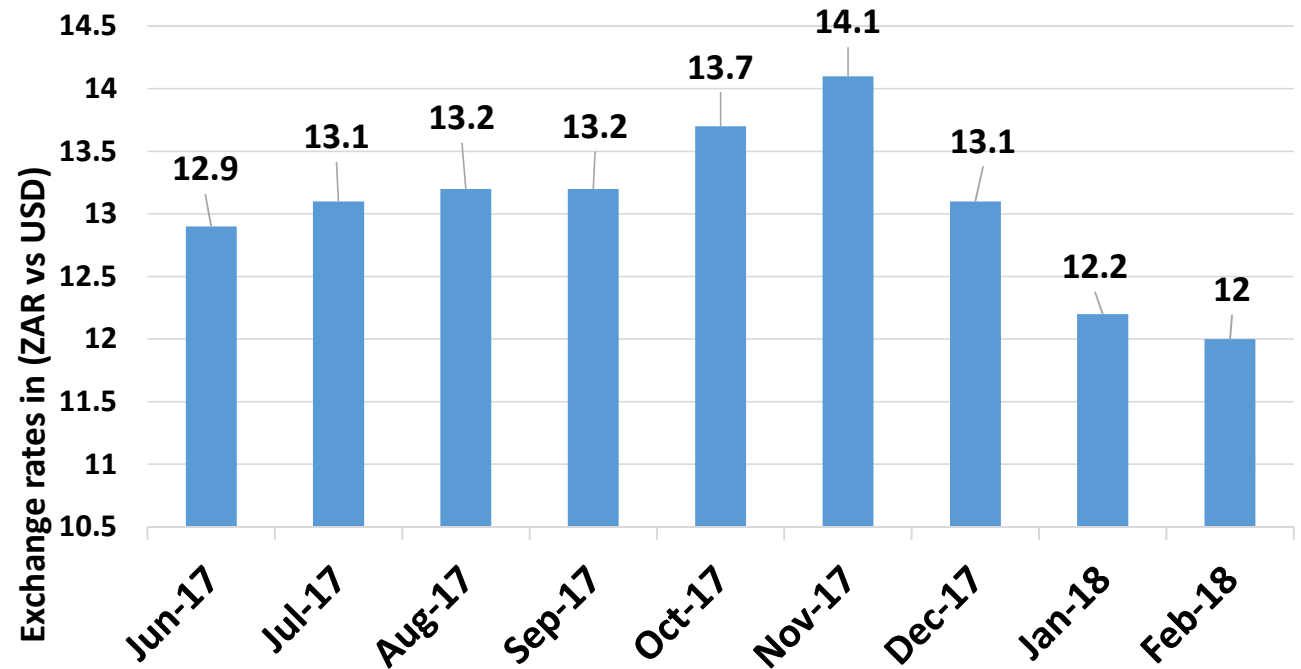
- Inflation, the general rise in price of goods and services of a country, has a direct bearing on the welfare of the workers and all citizens.
- Steals away their purchasing power, leaving them poorer despite getting the same income.
- Hence, it is an indicator that labour should always keep track of and use to motivate wage adjustments



Source: (StatsSA, 2017); (FocusEconomics, 2016); (Statista, 2016)

# Exchange Rate

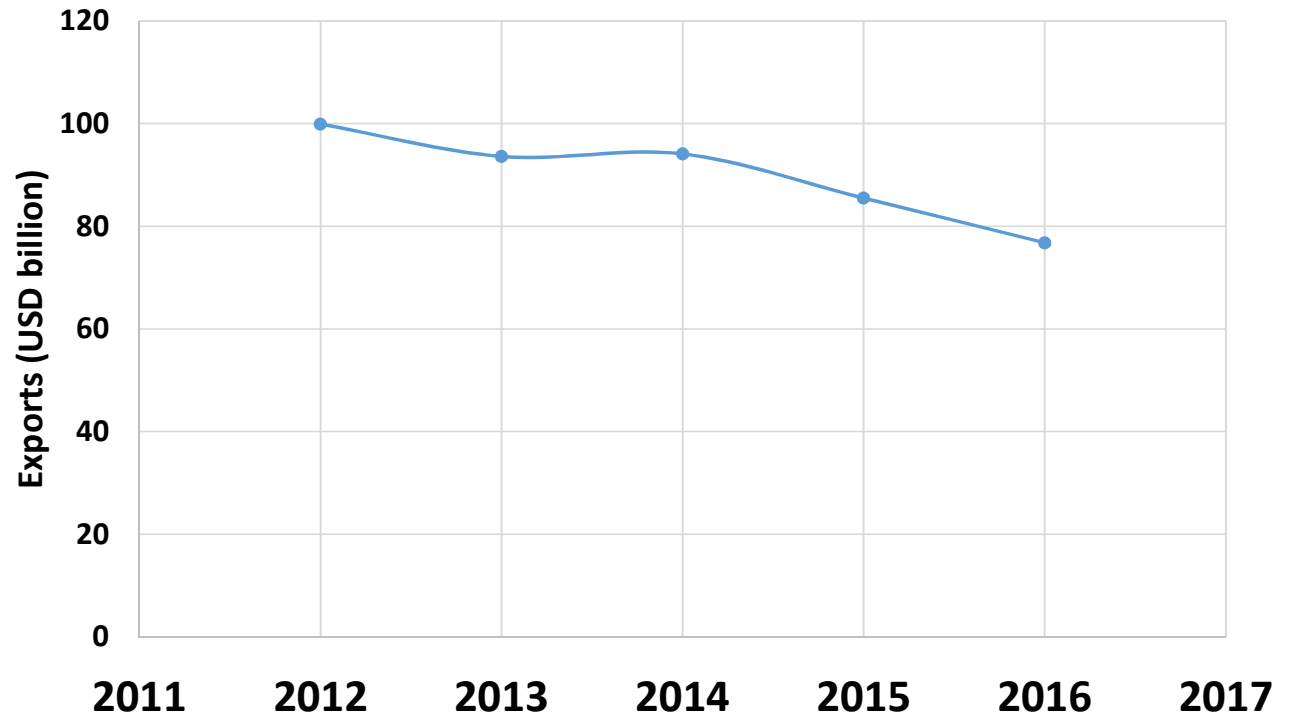
To any country that is engaged in international trade, exchange rate is important because it affects relative competitiveness and subsequently sales on international markets, this will affect local economic activity



Source: (Exchange-Rate, 2018)

# Exports

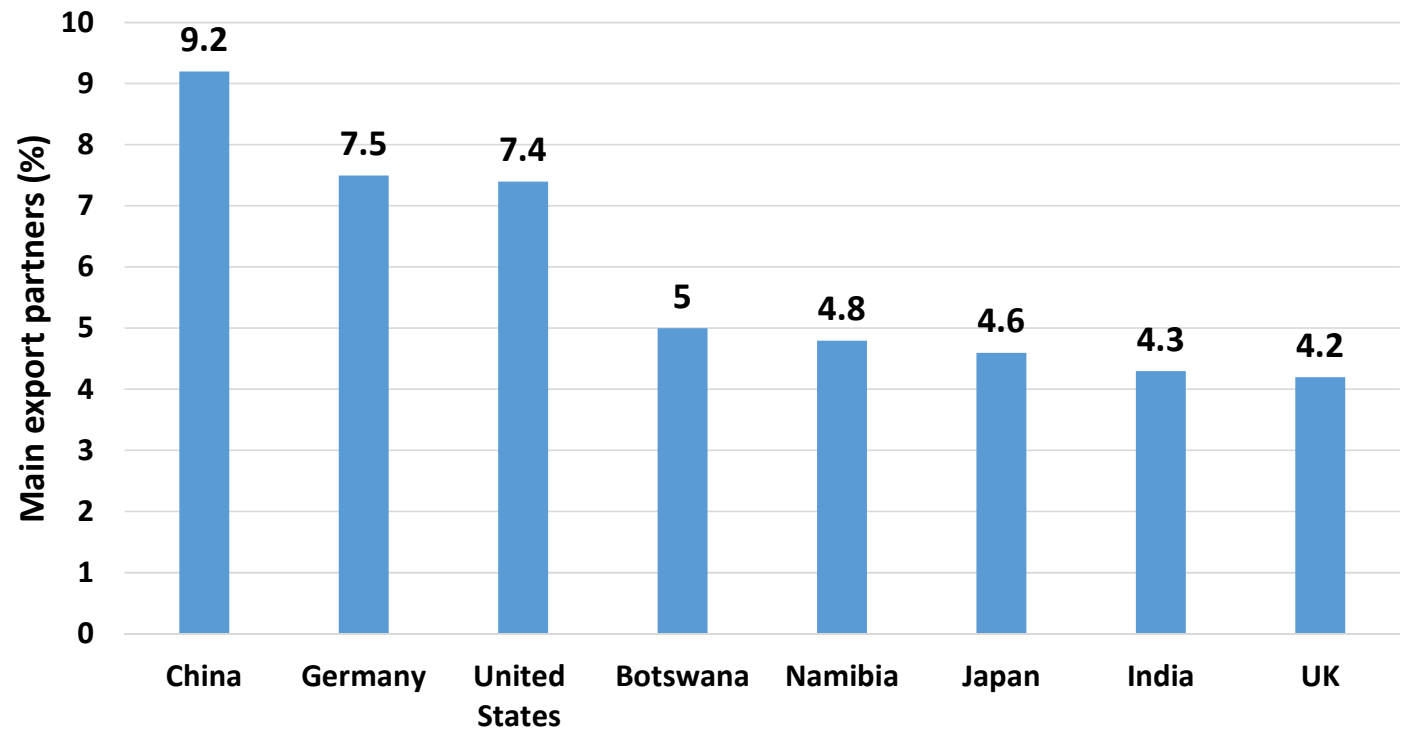
Exports stimulate local production by providing market opportunities for products or commodities produced in the local economy and bring in income from external sources.



Source: (FocusEconomics, 2016)

# Most important export partners for South Africa in 2016

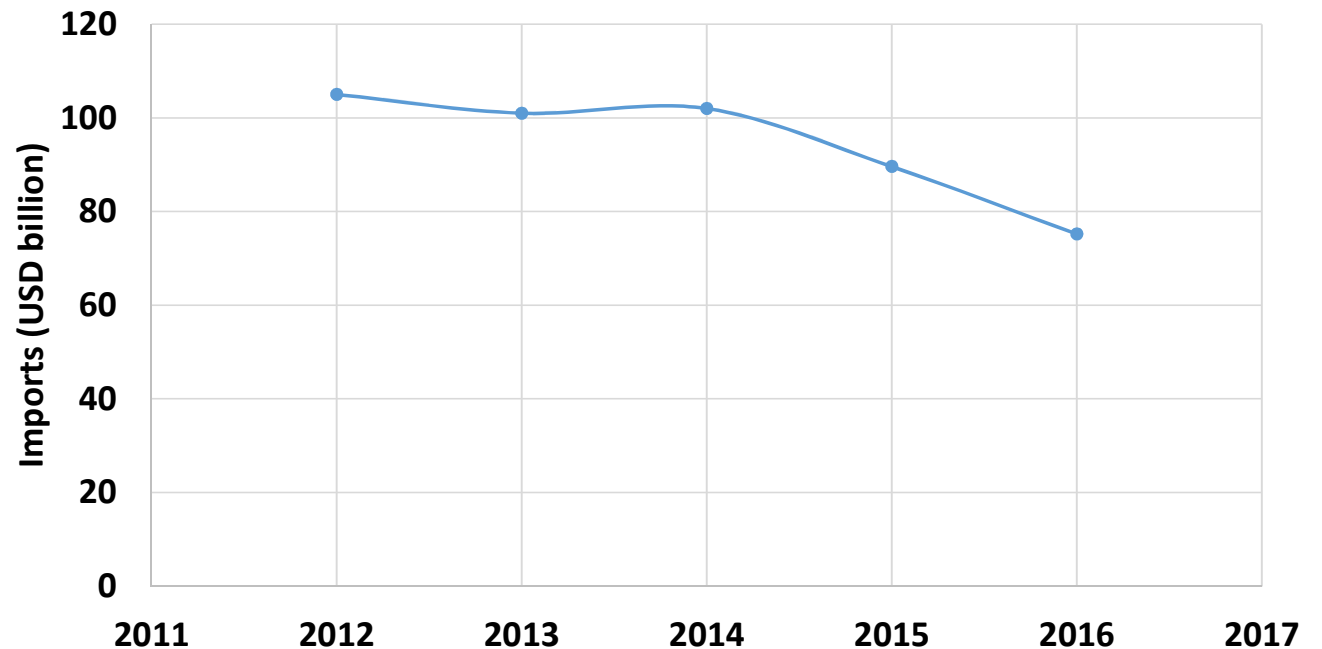
- It is important to note that exports are not only a function of what is happening in the local economy.
- They also have to do with the economic performance of the countries to which exports are destined



Source: (Statista, 2016)

# Imports

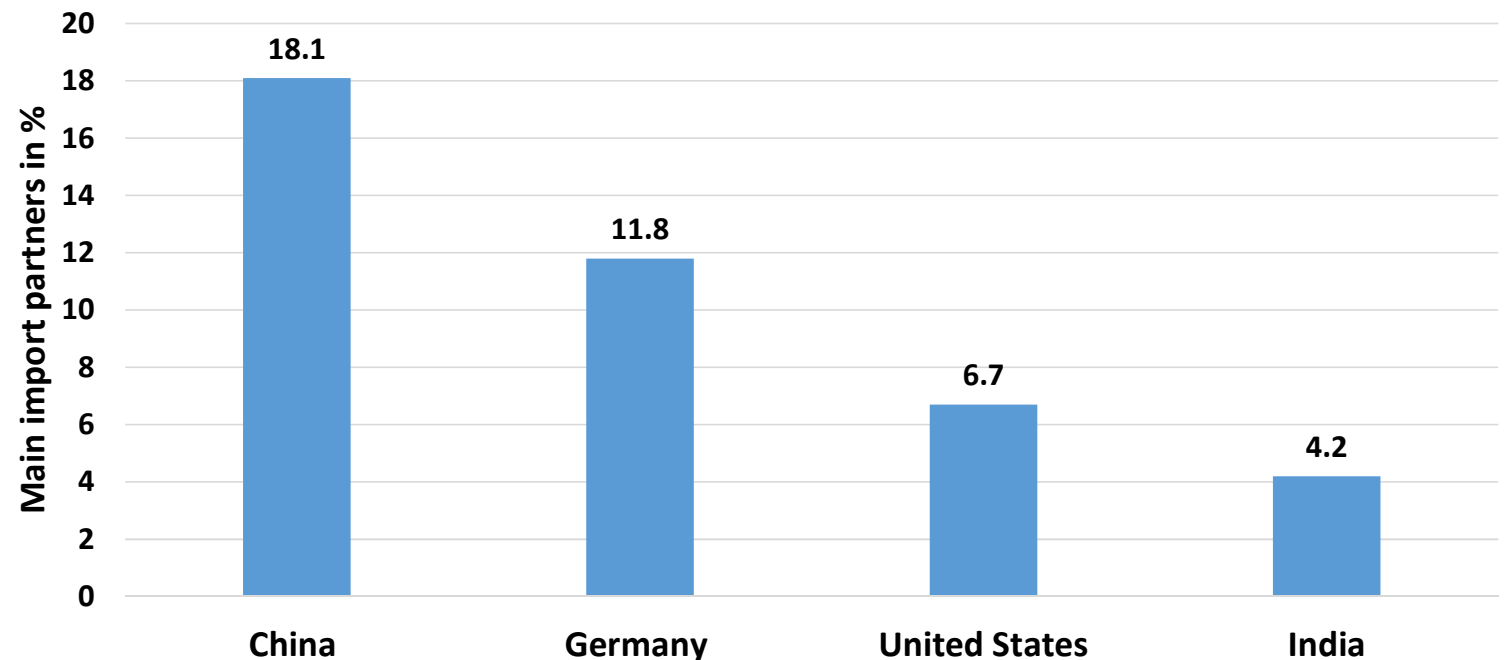
- Imports tend to have a displacement effect of local production unless it is the imports of factor inputs to be used in local production.
- If the imports displace local production, then adversely affect economic participation opportunities for the citizenry



Source: (FocusEconomics, 2016)

# Main Import Partners

- It is important to have information and keep track of those countries that are sending imports to the economy at least for planning and learning purposes



Source: (Statista, 2016)

# Interest Rate

- ▶ Interest rate is the cost of capital for investors and the cost of debt for consumer. It is an important determinant of investment and consumption levels in the country
- ▶ Interest rate in South Africa averaged 12.67 % from 1998 until 2018, reaching an all-time high of 23.99 % in June of 1998 and a record low of 5 % in July of 2012.
- ▶ It is expected to stand at 6.50 % by the end of the first quarter of 2018 and to be 6.75 % at the end of 2018. It is also projected to trend around 7.00 % in 2020

# Performance of Mining

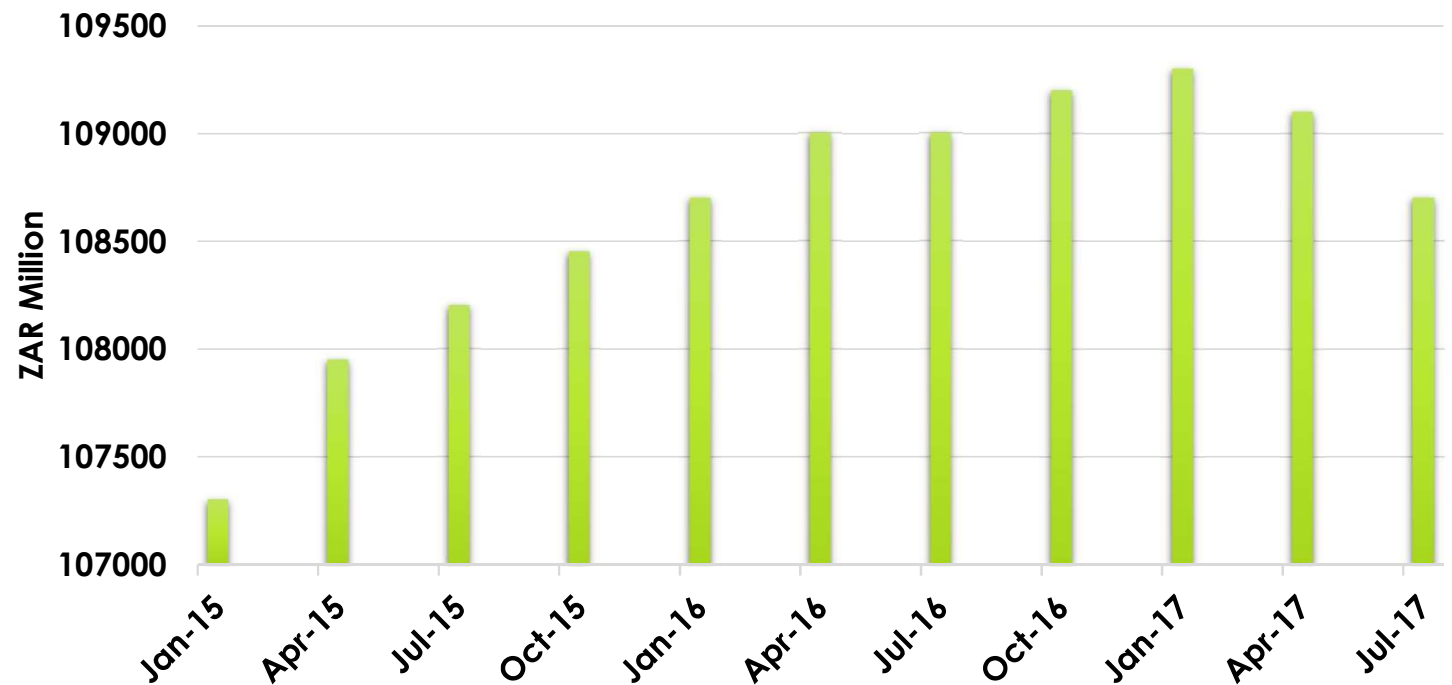
| Mineral group and mineral   | Weight        | Jul – Sep 2017 | Oct – Dec 2017 | percentage change between Jul – Sep 2017 and Oct – Dec 2017 | Contribution (percentage points) to the percentage change in total mining production |
|-----------------------------|---------------|----------------|----------------|---|--|
| Gold                        | 15,49         | 98,8           | 87,5           | -11,4   | -1,7   |
| Iron ore                    | 13,61         | 101,2          | 108,9          | 7,6   | 1,0  |
| Chromium 1                  | 2,96          | 109,5          | 105,9          | -3,3  | -0,1   |
| Copper                      | 1,24          | 93,9           | 87,1           | -7,2  | -0,1   |
| Manganese ore               | 3,27          | 124,3          | 133,5          | 7,4   | 0,3  |
| PGMs                        | 23,27         | 95,6           | 92,9           | -2,8  | -0,6   |
| Nickel                      | 1,85          | 89,6           | 84,9           | -5,2  | -0,1   |
| Other metallic minerals     | 2,57          | 104,4          | 103,1          | -1,2  | 0,0  |
| Diamonds                    | 3,89          | 129,9          | 115,6          | -11,0   | -0,5   |
| Coal                        | 24,69         | 101,3          | 101,0          | -0,3  | -0,1   |
| Building materials          | 1,81          | 107,2          | 115,8          | 8,0   | 0,1  |
| Other non-metallic minerals | 5,35          | 103,4          | 106,5          | 3,0   | 0,2  |
| <b>Total</b>                | <b>100,00</b> | <b>101,7</b>   | <b>101,0</b>   | <b>-1,7</b>   | <b>-1,7</b>  |

# Energy Sector Performance

- ▶ Value added in the electricity sector fell by 2.9 % in the first three quarters of 2016 as electricity-intensive sectors such as mining contracted.
- ▶ The electricity, water and gas industry experienced a 5, 5% contraction, a result of falling electricity generation and demand.
- ▶ A combination of increased power supply from independent power producers (IPPs), Eskom's enhanced maintenance programme and low demand stabilised supply (National Treasury, 2017).

# Construction sector contribution to GDP – ZAR Million

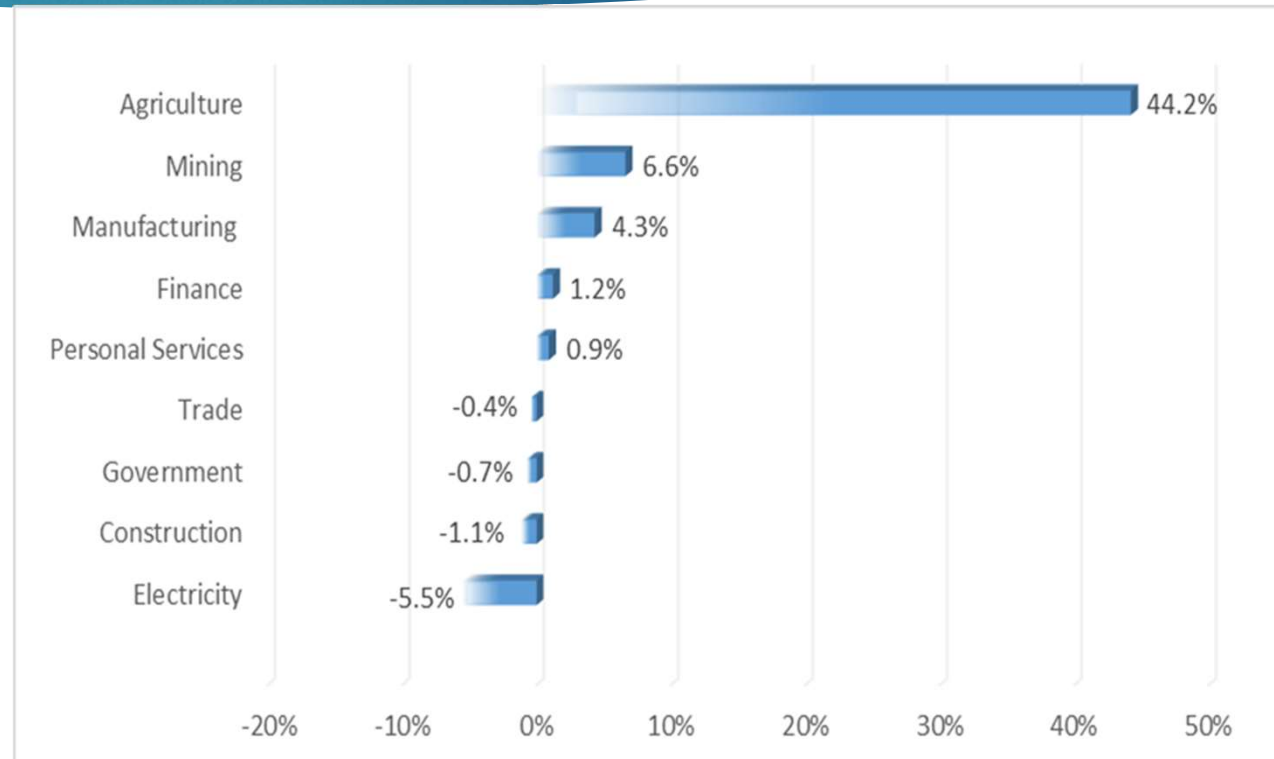
- The construction industry is and has always been a very low-margin industry.
- However, data shows slight growth in real Rands figures



Source: Trading Economics, 2018

# Performance of sectors-2017

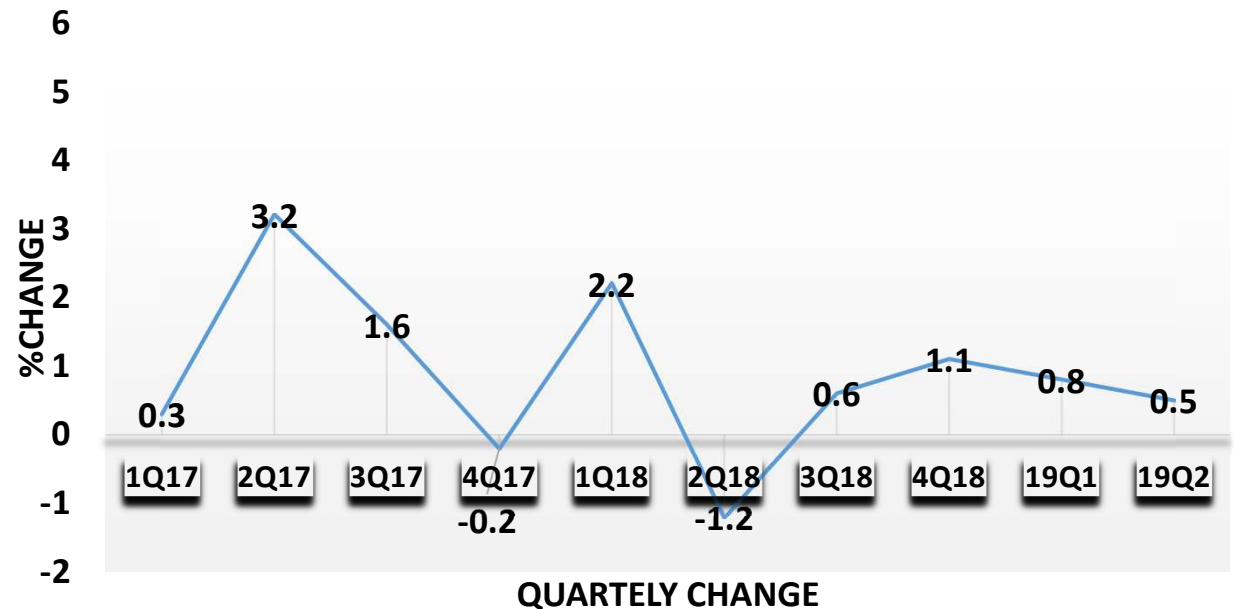
Overall, some sectors did not perform in 2017 but agriculture, mining, manufacturing contributed to the GDP of a country.



Source: (StatsSA, 2017)

# Commodity Prices-Gold

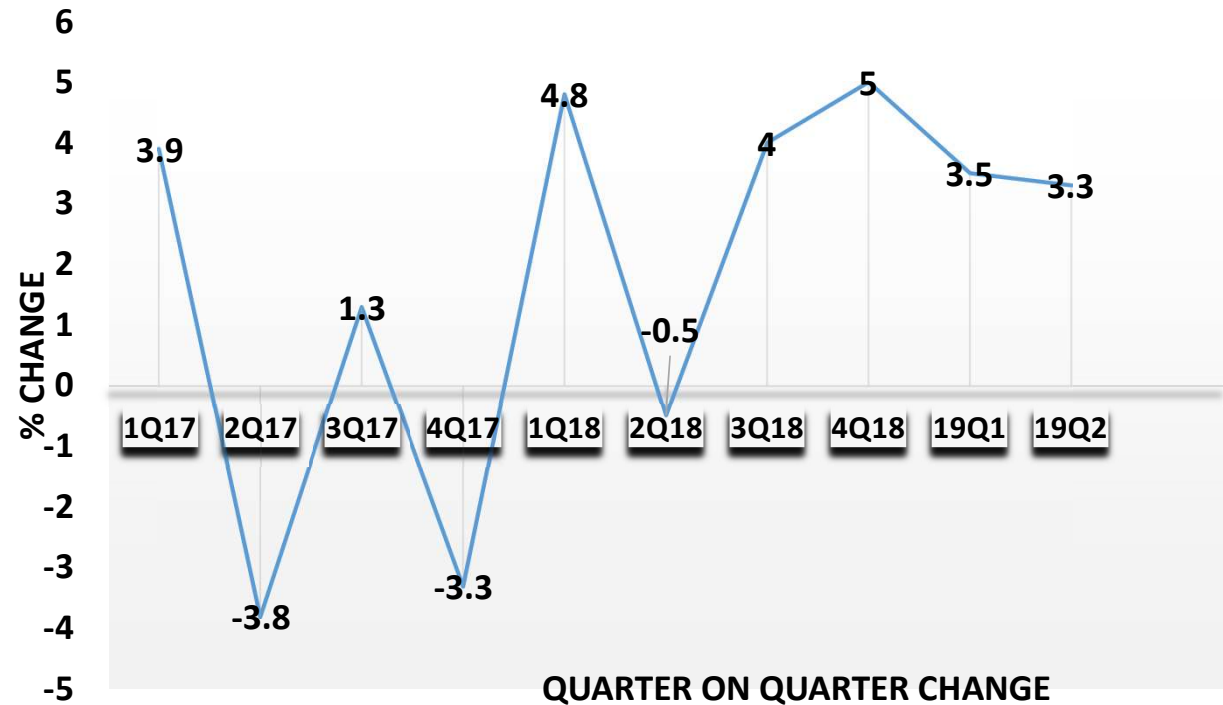
- Gold price was boosted over the 2017 year-end by weaker dollar, but is expected to fall in the first half 2018 on expectations of higher interest rates and a firming dollar.
- The uncertainty about runaway debt in the world and geopolitical tensions may increase safe-haven demand of gold over the forecast period



Source: (Afriforesight, 2018)

# Commodity Prices-Platinum

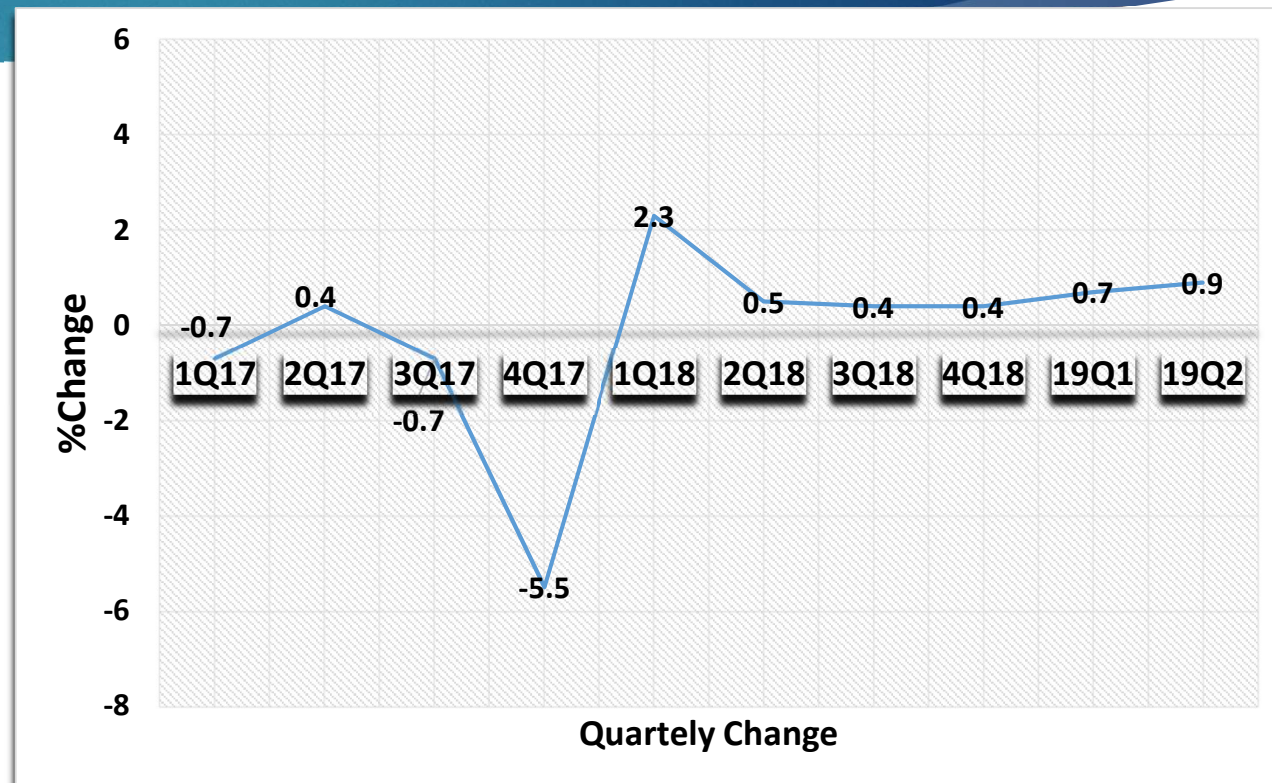
- Platinum prices are expected to rise up to mid-2018.
- The price rise is expected to be driven rising jewellery and investment demand, as well as more stringent emission standards and replacement of more expensive palladium



Source: (Afriforesight, 2018)

# Commodity Prices-Diamonds

- Diamond prices are expected to increase at a low but a steady rate.
- The prices are expected to rise as increasing jewellery sales outpaces production growth as most new mines reach full capacity



Source: (Afriforesight, 2018)

# Concluding Remarks

- ▶ Due to positive business sentiments about the new administration, the projections are that SA may see growth in investment
- ▶ Commodities prices are very volatile and unpredictable. The few forecasts presented above are just tentative.
- ▶ One needs to keep track, on almost on daily basis, what is happening to commodity prices to increase certainty on their trends.
- ▶ This country cannot and will not grow economically unless we start creating good-paying, private sector jobs.
- ▶ To put it in perspective, as Patton wrote in Forbes: "Employment is to economic growth what oxygen is to the human existence. You can't have one without the other."



**The End**  
**Thank You For Your Time.**