The end of the commodity boom: Some implications for SA

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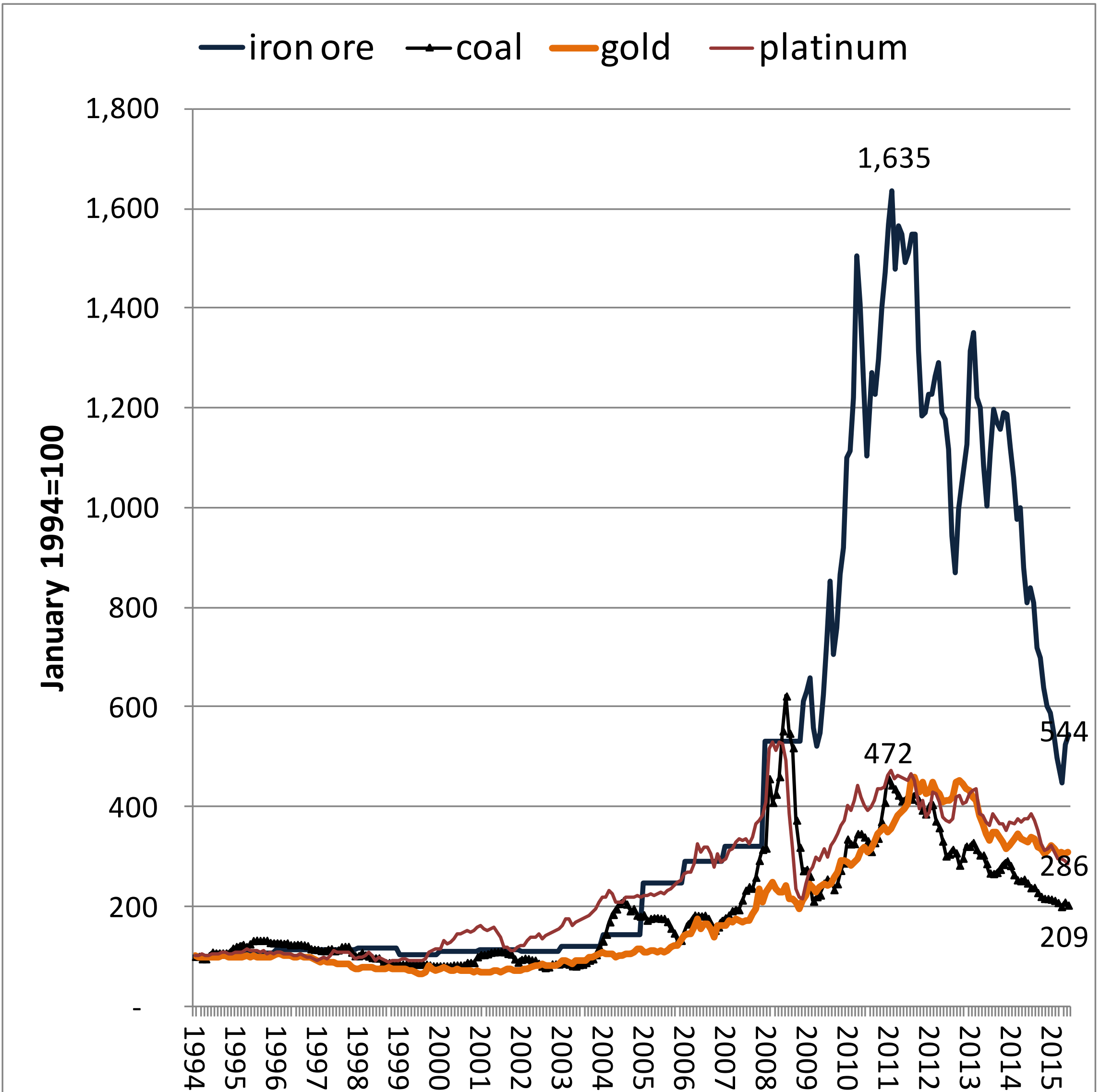
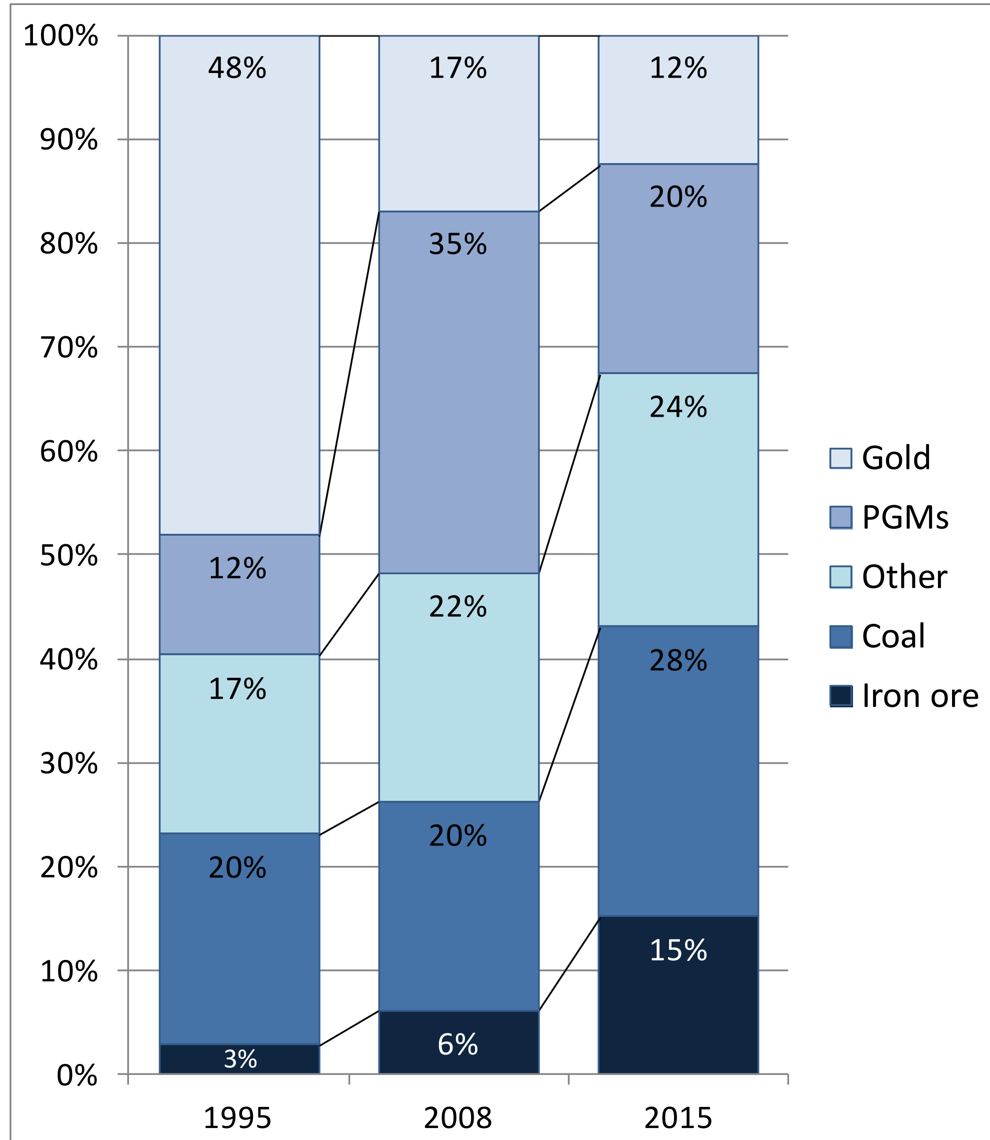
The end of the commodity boom



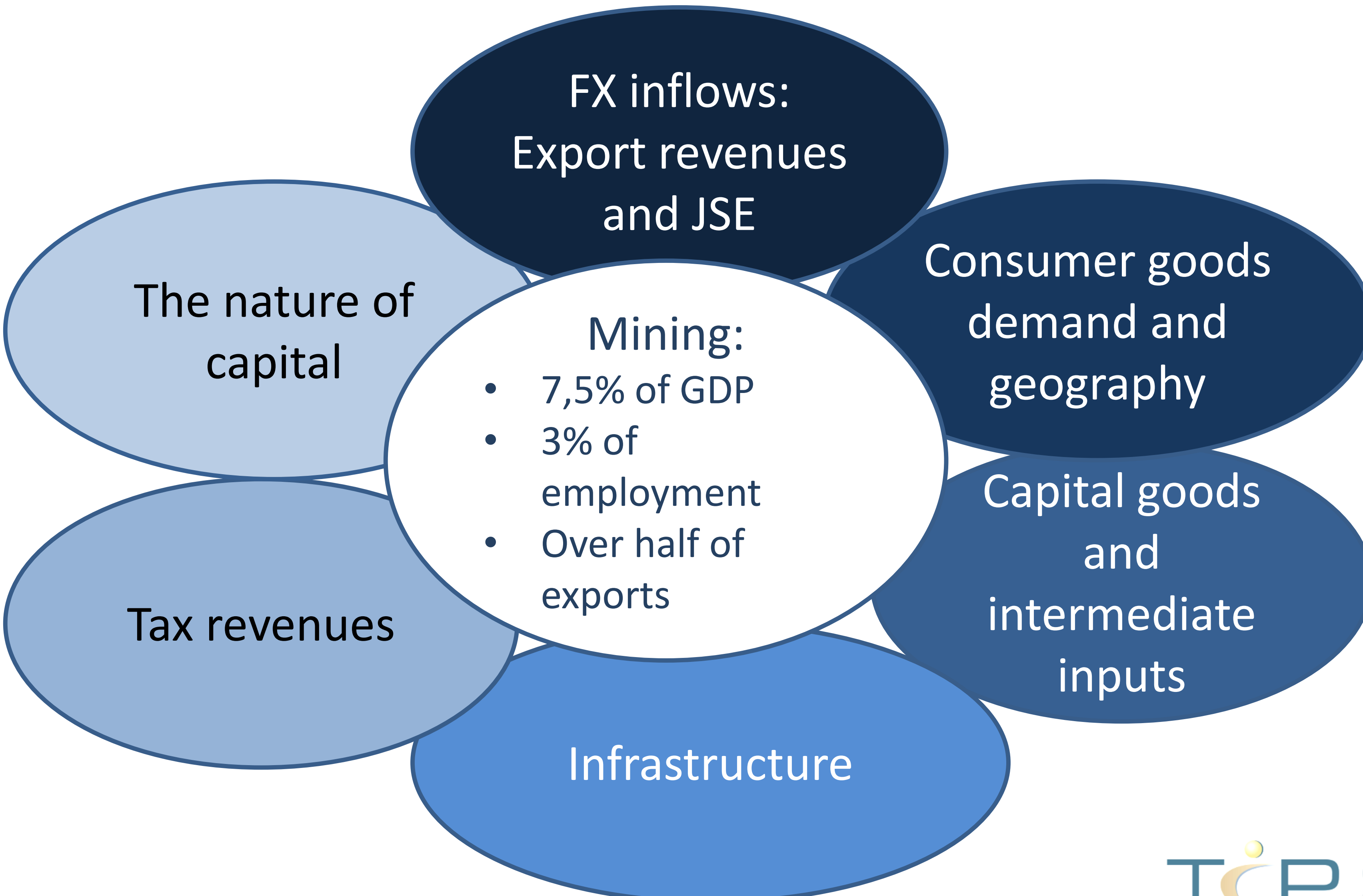
- April 2011 to June 2015:
  - Iron ore price fell 67% (mostly from November 2013)
  - Coal price fell 54%
  - Platinum price fell 39%
  - Gold price fell 13%

The changing composition of mining

- Sharp decline in gold, from almost half of mining output in 1995 to just over a tenth in 2015
- Other products saw increased share, with iron ore growing fastest
- Platinum and iron ore are now SA's two largest exports
- Change in commodity structure had major implications for jobs, location of mining activities and nature/source of inputs



Mining and the economy



Exports

South African export revenues in billions of current US dollars, 2001, 2011 and 2014

Export	Current USD bns		
	2001	2011	2014
All products	*26.0*	*107.9*	*90.6*
Top five exports:			
Precious metals and gems	5.2	24.1	14.1
Ores	1.1	14.3	11.7
Coal and other fuels	3.1	11.4	9.5
Transport vehicles	2.1	8.7	8.8
Iron and steel	2.1	8.2	7.0

Source: TradeMap export data

- South African exports fell by USD17 billion from 2011 to 2014, or 16%
  - 60% of the fall was due to declining revenues from gold, platinum and diamonds
  - Over 30% was due to coal, iron ore and steel
- In rand terms deflated by CPI, depreciation meant almost 3% annual growth in export revenues - but had been over 6%

The FX rate

- Two key factors for SA: export revenues and portfolio capital flows
- Capital flows affected by a host of speculative factors, but investment in mining companies has been central to the increase in foreign holdings in JSE
- Value of mining shares now less than 50% of what they were a year ago
- Obviously an opportunity, not just a threat – remember how dependency theory emerged?

Miners and the economy

- Mining employment shrank from the mid-1980s until 2001.
- From 2001 to 2012, it grew by 100 000, to peak at 525 000 in 2012.
  - Growth mostly in platinum and coal
  - Gold continued to lose jobs
  - Iron ore employs just 20 000
- Since then, some 35 000 miners have lost their jobs, with more retrenchments looming.

- Miners historically formed core of demand for SA agriculture and manufacturing
  - Median income at twice the national average
- Linked to shift in geography as commodities changed
  - Boom in platinum belt and parts of Limpopo
  - Seen in relatively fast growth in employment in poor regions (increase in employment ratio in former homeland areas)
  - Relatively well-paid jobs for people without matric in poor regions
- FS as example of what to expect – but they had stronger towns

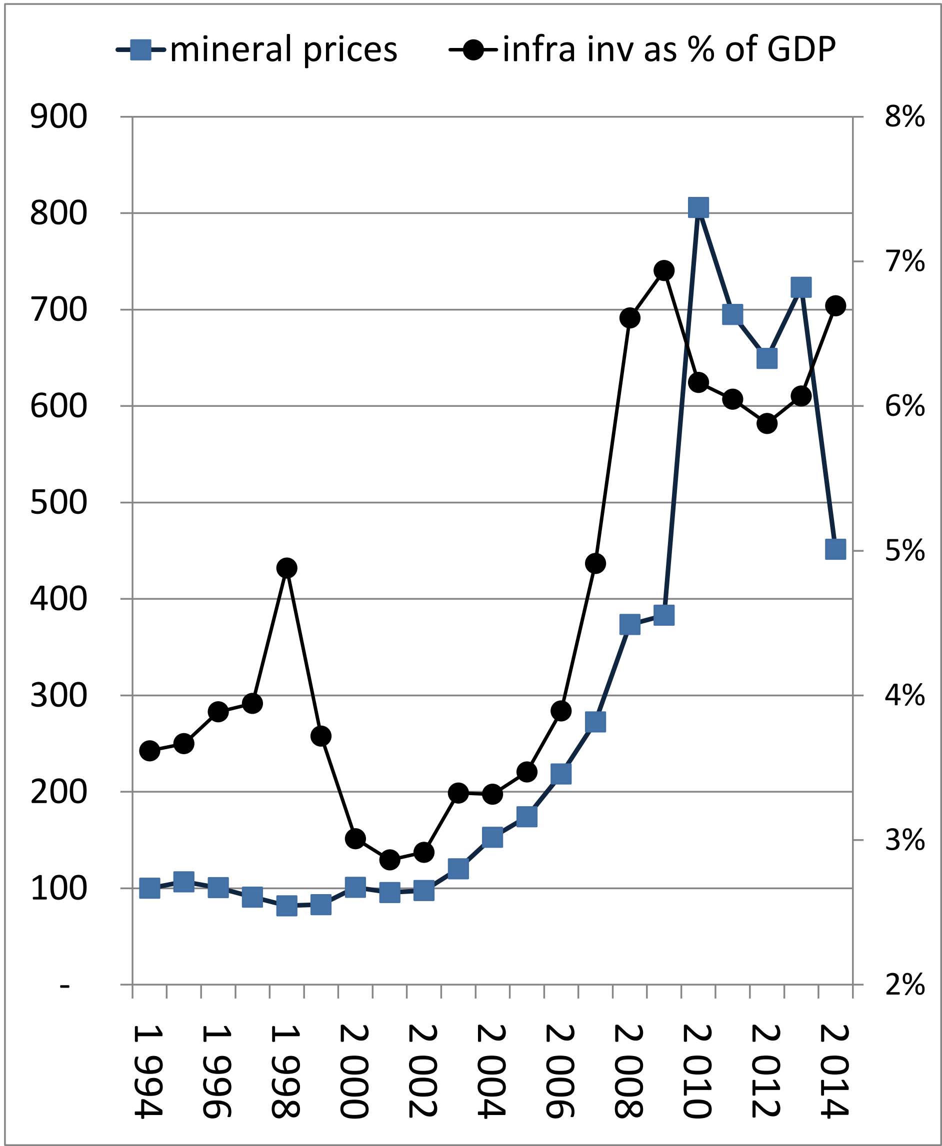
Demand from mining production

- Historically key for capital goods sector, construction and chemicals
- Greater import dependence in past 20 years
  - Economic opening at a bad time
  - Shift in commodity structure leading to new relations
  - BEE requirements
- But input-output tables show:
  - Consumes over 10% of chemicals production and almost a quarter of machinery
  - Highest sectoral investment multiplier for general machinery
- Basis for SA's global construction firms

- Declining investment and production will affect important sectors of the economy
- Potentially offset in part by higher local procurement
  - FX rate
  - Industrial policy supports
  - Next-generation mining
- But would require changes in Charter

Infrastructure

- Current infrastructure projects worth some R375 billion depend largely on sales to the mines.
  - For Eskom, mining and refining account for a third of demand,
  - For Transnet, iron ore and coal generate around two fifths of revenues.
  - Many major water projects, notably the DeHoop Dam, rely on off-take agreements from the mines.



Effects of the commodity bust

- Transnet has already delayed plans to expand rail for iron ore exports.
- Slowdown in steel and ferro alloys underpinned a 10% decline in electricity use in the first half of 2015 (and brought an end to loadshedding)
- Again, major knock-on effects for manufacturers and construction

Tax revenues

- Slowdown affects revenues from company and personal income tax, VAT and royalties
- In 2011, 12 companies accounted for more than three quarters of mining production.
    - In 2011, they paid R25 billion in company income tax in 2011.
    - By 2013, the figure had fallen to under R13 billion.
- The six top gold and platinum companies paid R11 billion in company taxes in 2011, but only R2,5 billion in 2014.

The nature of capital

- International mining companies shedding less profitable mines in the bust – including most of SA gold and much of its platinum
- Local mining houses buying what they leave
  - Virtually all of SA gold now owned by local companies (Sibanye, AngloGold Ashanti, Harmony)
  - Anglo selling much of its platinum mines to Sibanye
- Substantial direct foreign ownership now mostly in coal and iron ore – which remains relatively profitable
- In gold, shift has led to stronger commitment to sustaining production

Some policy implications

- Macro:
  - Lower revenues and demand for infrastructure leading to pro-cyclical cutbacks
  - How to modify build programme without aggravating slowdown?
  - Off-budget sources of financing – why are we tolerating the UIF/Compensation Fund surpluses?

- Industrial policy:
  - Scope for diversification
  - But major shifts in the economy – how to manage creative destruction?
    - What industries should survive?
    - Where are new areas of growth?
    - Does SA ownership make a difference?
  - Price projections?

- Governance
  - Lack of coordination and prioritisation over past 20 years viable due to commodity boom
  - Now business has less space or incentive to adapt
  - How to improve responsiveness and effectiveness?

Re a leboha!