Unemployment and GDP in perspective

2019

Input to TIPS June Development Dialogue

The downturn

- In the first quarter of 2019:
  - The GDP fell by 0.8%
  - Investment dropped 1.1%
  - Exports shrank 2%.
  - SA lost 240 000 jobs, or 1,1%.
    - Compared to average loss from 2010 to 2018 of 0.1% in first quarter
- Latest data on portfolio capital flows is fourth quarter of 2018 – R35 billion left SA
  - Largest outflow since 2008
  - Only the second quarter since 2008 with a net outflow

- Aims of input:
  - Diagnostic as basis for more effective responses
  - Challenge that roots are complex
    - National and international
    - Some very short term, some deep rooted
- Wary of silver bullets and ideological responses

A perfect storm:

International economic trends:

- Slowdown in all of South Africa's major trading partners except the US
- Slowdown in the region with the end of commodity boom, deepening from 2015

International policy:

- Unpredictability of the Trump Administration affecting international investment climate and consumers, especially but not only through trade wars
- Uncertainty about US and EU interest rates leading to unpredictable financial flows
- Brexit affecting EU and UK, both major trading partners for South Africa

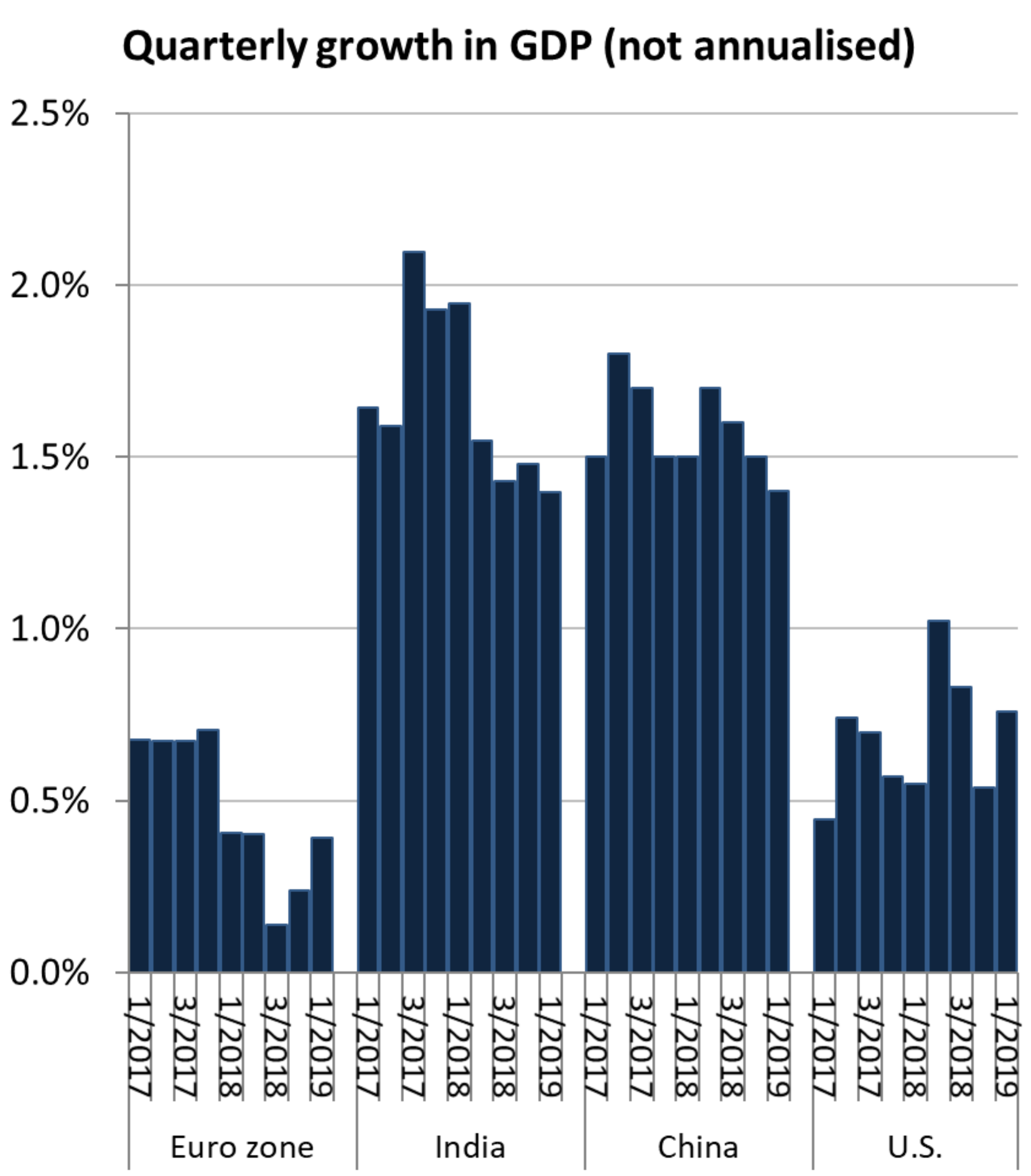
Domestic policy:

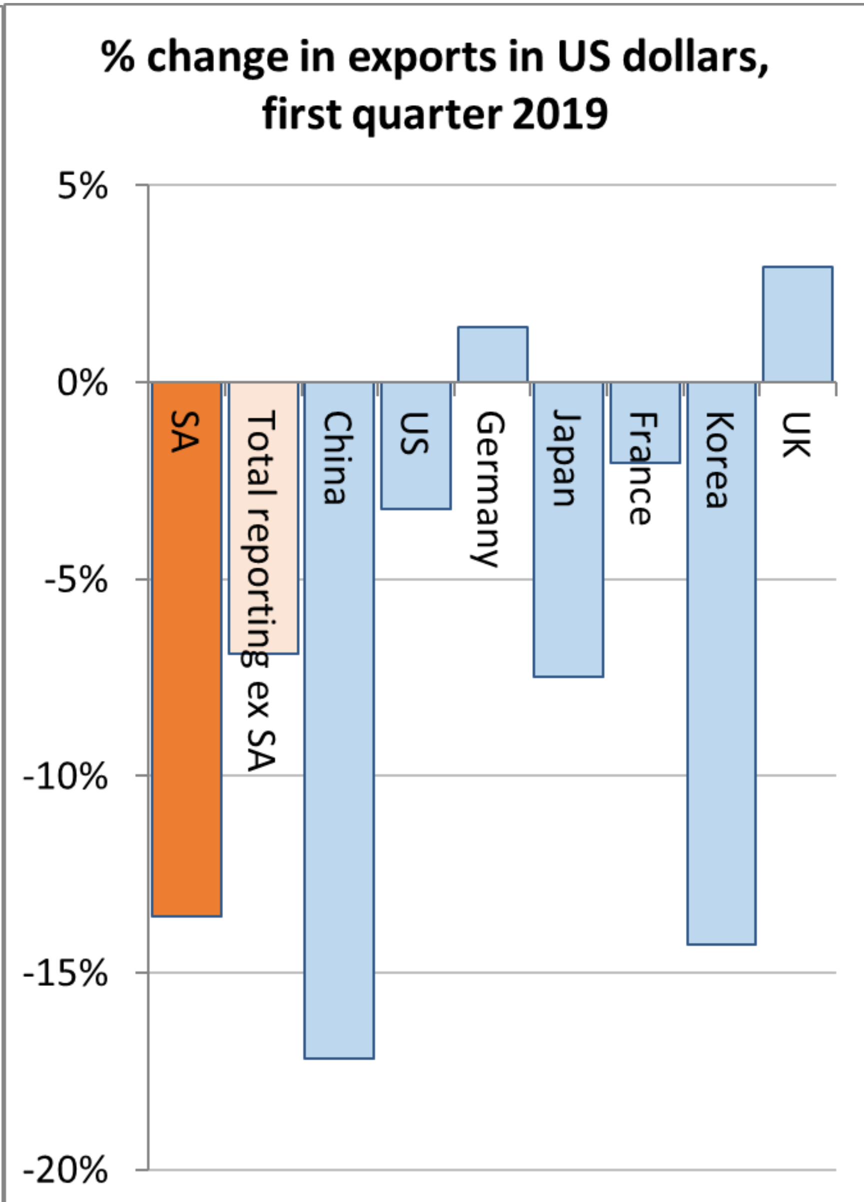
- Uncertainty due to elections and divided ruling party affecting high-end consumer confidence
- Uncertainty in aftermath of revelations about state capture

Domestic economic trends:

- Downward glide path from end of commodity boom (stagnation in heavy industry and mining)
- Repeated droughts (linked to climate change)
- Slowdown in government spending and SOC investment
- Failure to address long-standing blockages to growth, especially electricity and logistics prices, permits of all kinds, workplace inequality and the associated conflict, and limits on skilled in-migration

The global context





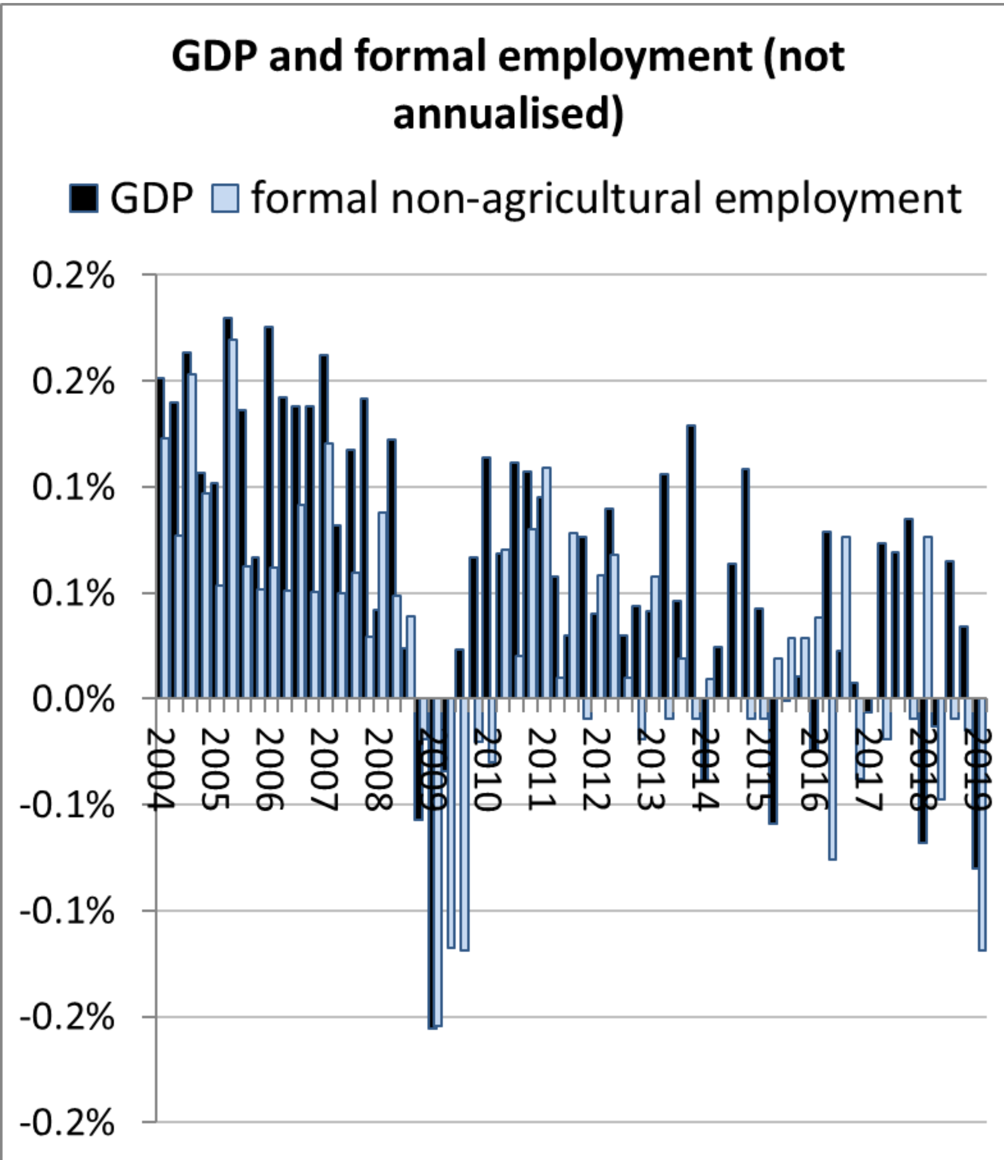
The global malaise

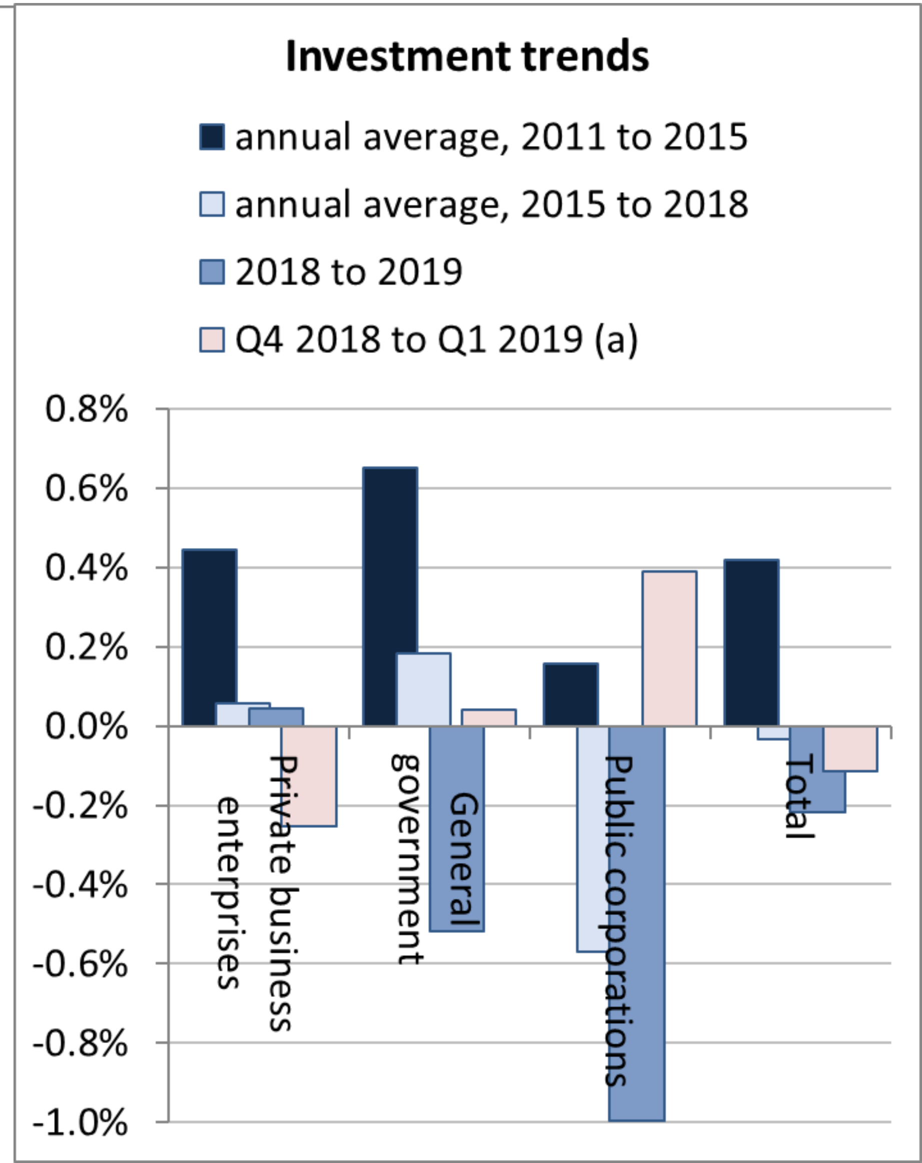
- 2008 crisis marked long-term structural shift
  - ➢ End of the Cold War: movement of manufacturing to Asia and dilution of social-democratic safety nets in the global North
  - ➢ One result: Increasing importance of financial activities for global North (especially US and UK) – push for deregulation and consequent increase in risks and bubbles
  - ➢ Growing inequality in global North, with most gains fr m growth going to top 5% - slowe growth in mass consumer market offset by credit
  - ➢ 2008 crisis showed advent over-production, undermining the Chinese (and German) export-based model

- Policy responses:
  - ➢ Tight fiscal policies and loose money in Europe and the US
    - Drove capital flows to emerging markets, including SA
    - But limited safety net after crisis
  - ➢ Growing populist responses in the global North centred on economic nationalism
    - Aim in part to prevent industrialisation in global South – reversing the global growth model since the 1990s
    - Tariff wars already slowing global trade and return to lawlessness
    - Harder to develop coherent response to climate change, which in itself a rapidly growin hreat to growth

Implications for SA: Above all, slowing growth in China means lower metals and energy prices – a major drag on the SA economy since 2011

The domestic context





Domestic challenges

- The commodity boom (based largely on China stimulus) made it seem as if SA had recovered from 2008
- End of commodity boom in 2011
  - ➢ Slowdown in mining and heavy industry
  - ➢ Over-investment in infrastructure, especially electricity and GT roads, appearing largely in higher user fees
  - ➢ State capture project no longer hidden by overall expansion

- Longer-term context
  - ➢ The 1994 compromise effectively enabled path dependency and did not address fundamental causes of inequality
    - Production structure centred on refineries despite growth in auto and food; limited clothing and appliances compared to successful industrialisers
    - Workplace and wage inequalities
    - High joblessness rather than low-level self employment
    - Profoundly inequitable education system
    - Spatial challenges
  - ➢ Climate change leading to periodic downturns in agriculture and tourism
  - ➢ Mismatch of economic and political power
    - On-going contestation over policy leading to state paralysis and promoting path dependency
    - Rising populist responses in turn fostering investor uncertainty and opposition to any structural change

Toward an effective response

- Short to medium term:
  - ➢ Meet voters' demands through more rigorous but also realistic measures to improve equality in incomes, assets and workplace relationships in the short to medium term
    - Asking for patience is now the risky option
    - From the Job Summit:
      - Township and rural economy projects,
      - West Rand agricultural development
      - State jobs programmes geared to local development, not infrastructure, notably around ECD
      - Workplace transformation programme
  - ➢ Innovative approaches to stimulate growth
    - Extend investment drive to mobilise private savings to support long-term innovations in production and infrastructure
    - Stronger strategy on UIF and Compensation Fund surpluses
    - Fast track Job Summit commitments to expand industrial finance both state and private, as well as support for small business
  - ➢ Urgently roll out programmes to promote drought resistance and other adaptation strategies in agriculture

- More rigorous structural policy centred on:
  - Diversification of production (driven by industrial policy)
  - Factors underpinning inequality (workplace, ownership and education)

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Prerequisites

- Agreement within government on priorities in short and long run, including
  - ➢ End state for production and ownership structure (large vs small, public, collective/ worker/ community, representivity)
  - ➢ Need to accept risks to bring about change on the necessary scale
  - ➢ Consistency and discipline in engagements with stakeholders

- Systems to manage risks of change rather than just avoid it
  - ➢ Feedback and continual evaluation and course correction rather than rigid plans and projects
  - ➢ Minimise unnecessary costs to business without shrinking from necessary burdens
- Requires resources (personnel, time, structures) for
  - ➢ Engagement and mandating
  - ➢ Unblocking and improving programmes