THE REAL ECONOMY BULLETIN

TRENDS, DEVELOPMENTS AND DATA THIRD QUARTER 2023

*The Real Economy Bulletin is a TIPS review of quarterly trends, developments and data in the real economy, together with a comprehensive analysis of the main manufacturing industries and key data in Excel format.**

GDP

In seasonally adjusted terms, Statistics South Africa reported that the GDP declined by 0.2% in the third quarter of 2023, meaning the economy shrank in year-on year-terms. The main driver of the quarterly contraction was a 10% fall in agricultural production. Manufacturing value added shrank 1.2% in the quarter, but was still larger than a year earlier. Eskom and Transnet output both dropped around a quarter off their peaks, increasingly dragging down industrialisation.

As Graph 1 shows, the 0.2% decline in the third quarter of 2023 came after three quarters of disappointing growth. As a result, the GDP in the third quarter was half a percent down on the third quarter of 2022.

Volatile growth since the pandemic masks a longer slowdown, which began in the late 2010s. The GDP has grown only 2% in the past five years (Graph 2). In this period, the population expanded around 7%.

*Available at www.tips.org.za/the-real-economy-bulletin

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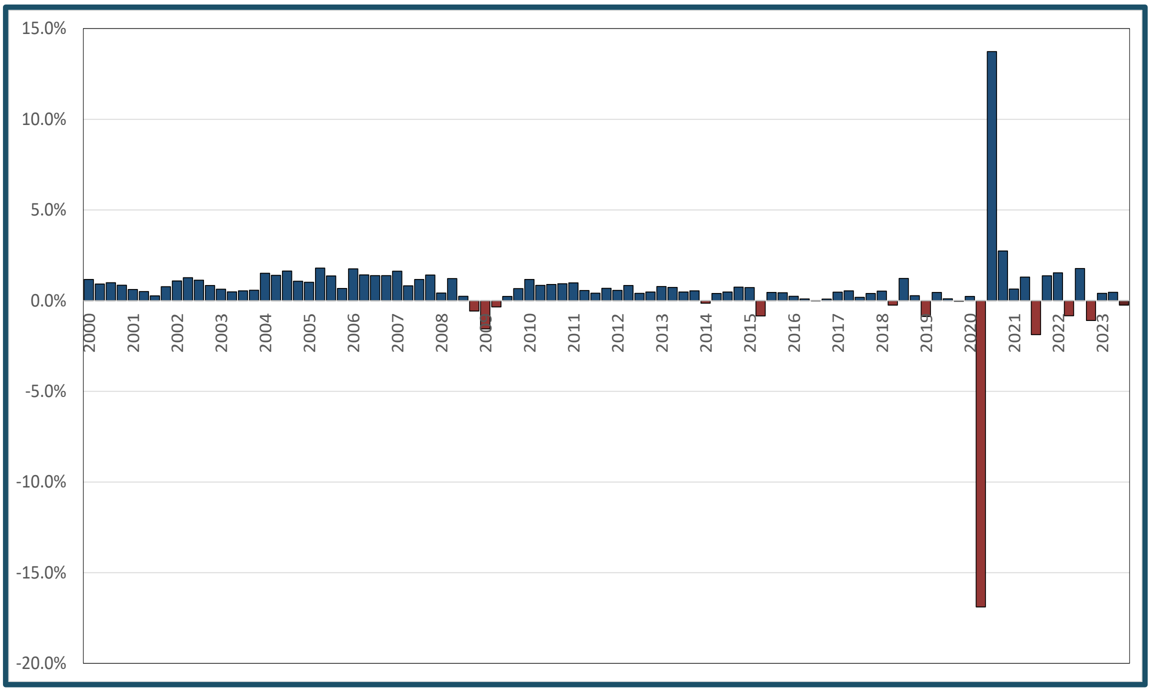
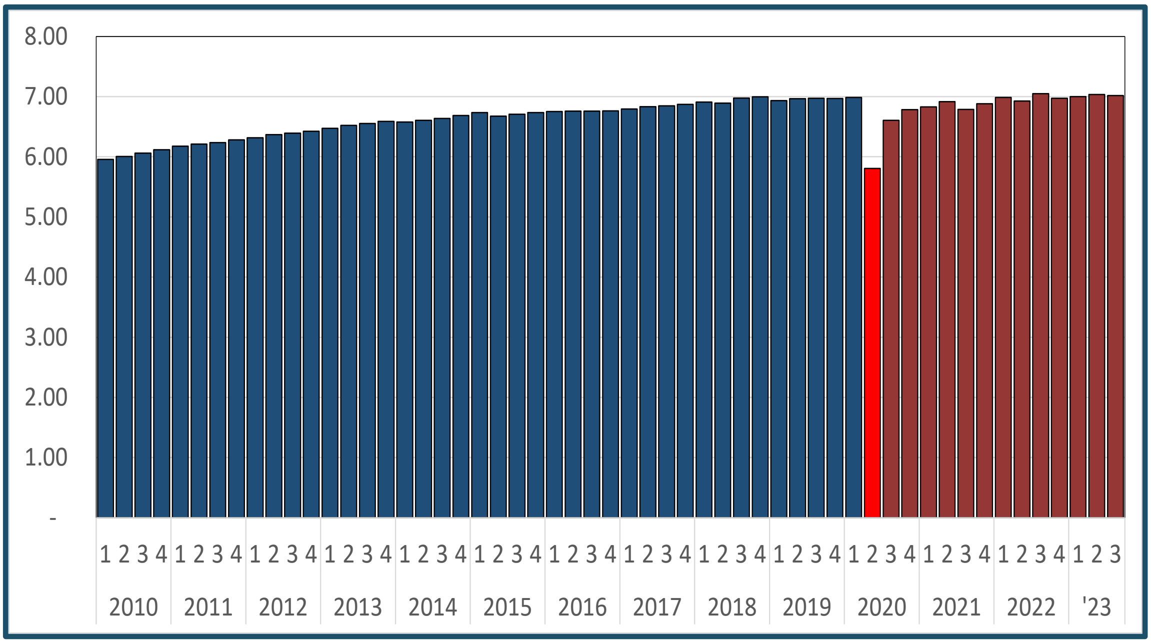
Graph 1. Quarterly change in GDP, seasonally adjusted, 1994 to third quarter 2023



Source: Calculated from Statistics South Africa. GDP quarterly figures. GDP P0441 – 2023Q3. Excel spreadsheet.

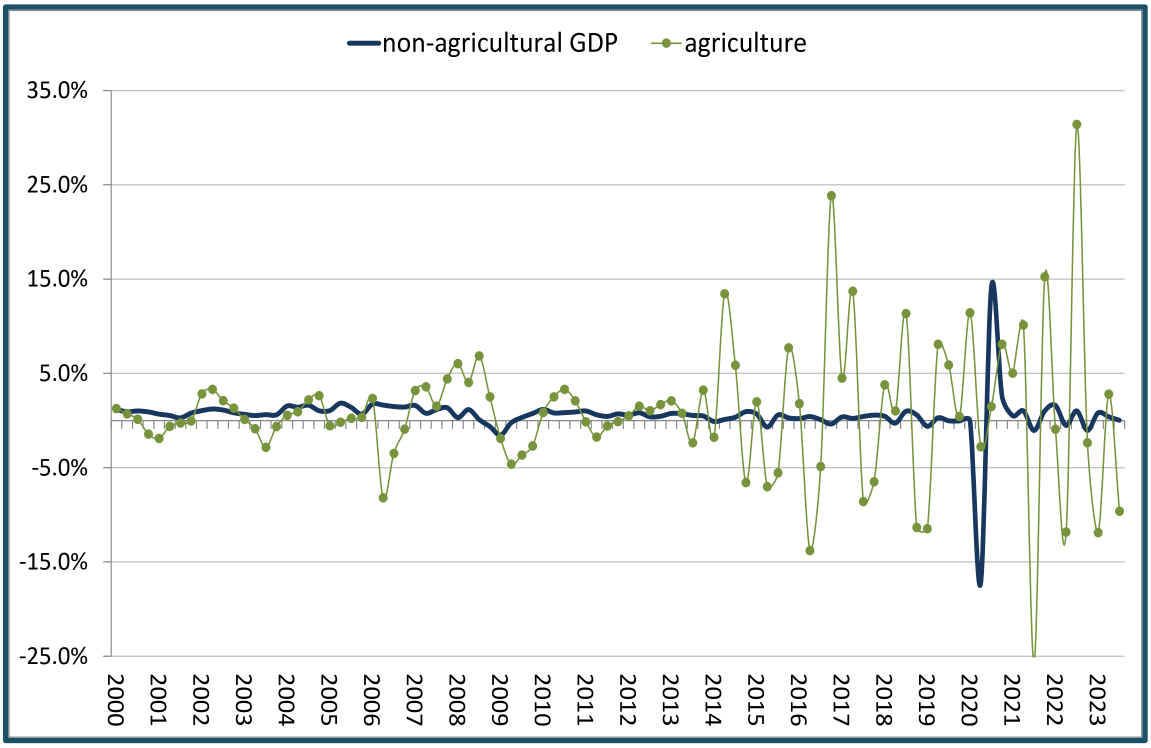
Graph 2. Quarterly GDP in trillions of constant (2023) rand (a) from 2010



Note: Reflated using implicit GDP deflator rebased to third quarter 2023. Source: Calculated from Statistics South Africa. GDP quarterly figures. GDP P0441 – 2023Q3. Excel spreadsheet.

The main factor behind the quarterly decline in GDP was a 10% contraction in agriculture. Given slow growth across the economy in recent years, the extraordinary volatility in the (seasonally adjusted) figures reported for agriculture has a disproportionate impact on overall growth. Yet agriculture generates only 3% of the GDP. The standard deviation for the quarterly growth rate in agriculture has more than tripled since 2014. In the rest of the economy, excluding the pandemic year of 2020, the standard deviation is up by around 50%. (Graph 3) It seems likely that the swings in value added reported for agriculture are due at least in part to the way the data are processed, although climate change has also had a growing impact. The Agricultural Business Chamber (Agbiz) argued that the decline in the third quarter of 2023 resulted from a spike in diseases affecting livestock, despite good harvests for field crops. (See *Briefing Note 2: Impact of the avian flu outbreak*.)

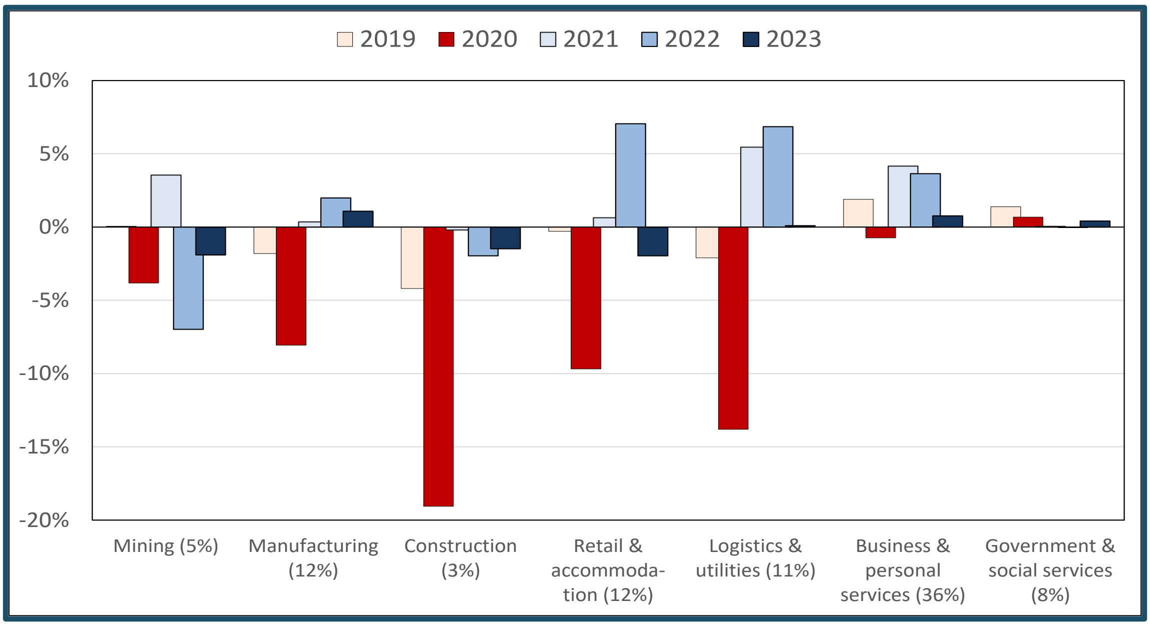
Graph 3. Quarterly change in agriculture and the rest of the GDP, 2000 to third quarter 2023



Source: Calculated from Statistics South Africa. GDP quarterly figures. GDP P0441 – 2023Q3. Excel spreadsheet.

In the year to the third quarter 2023, mining, construction, retail and accommodation all shrank. Manufacturing enjoyed its third growth year, although it contracted 1.3% in quarter-on-quarter terms. Logistics and utilities as well as business and personal services – which together account for almost half the GDP – also grew in year-on-year terms, although the rate slowed dramatically.

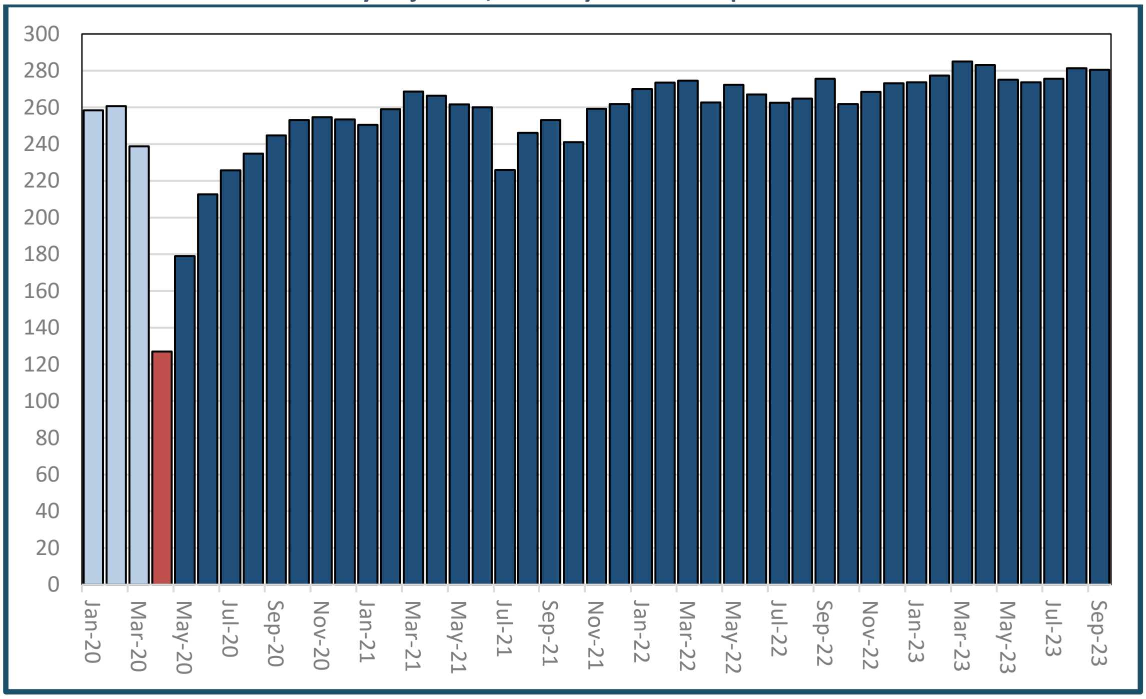
Graph 4. Growth in value added by sector, year to third quarter, 2019 to 2023 (share in GDP in brackets)



Source: Calculated from Statistics South Africa. GDP quarterly figures. GDP P0441 – 2023Q3. Excel spreadsheet.

Seasonally adjusted manufacturing sales showed a similar pattern, with reasonable growth from September 2022 to March 2023 followed by a stagnation over the next six months. (Graph 5). Sales for the year to September 2023 were almost 4% higher than in the previous year.

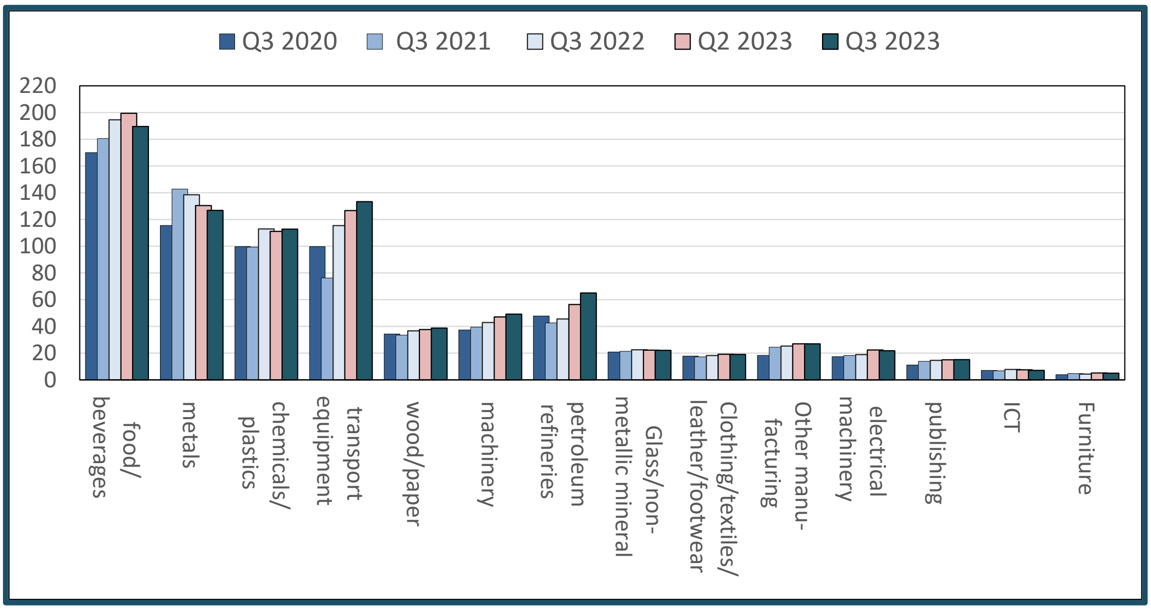
Graph 5. Monthly manufacturing sales in billions of constant (2023) rand (a), seasonally adjusted, January 2020 to September 2023



Note: (a) Reflated with CPI. Source: Calculated from Statistics South Africa. Manufacturing: Production and Sales, September 2023

Significant differences emerged between the manufacturing industries, as Graph 6 shows. Year-on-year, sales of petrochemicals climbed 6.5% and transport equipment by 4.7% in constant rand. In contrast, food processing and metals experienced declines both quarterly and annually. In the year to the third quarter of 2023, food processing shrank 2.6% and metals some 8% in constant rand terms. Shrinking market demand was a central factor in ArcelorMittal South Africa (AMSA's) decision to cut a third of its production at the cost of around 3 200 jobs. The implications of this decision for the economy and industrial policy are explored in *Briefing Note 1: Downsizing at AMSA: Impacts, causes, and industrial policy implications*.

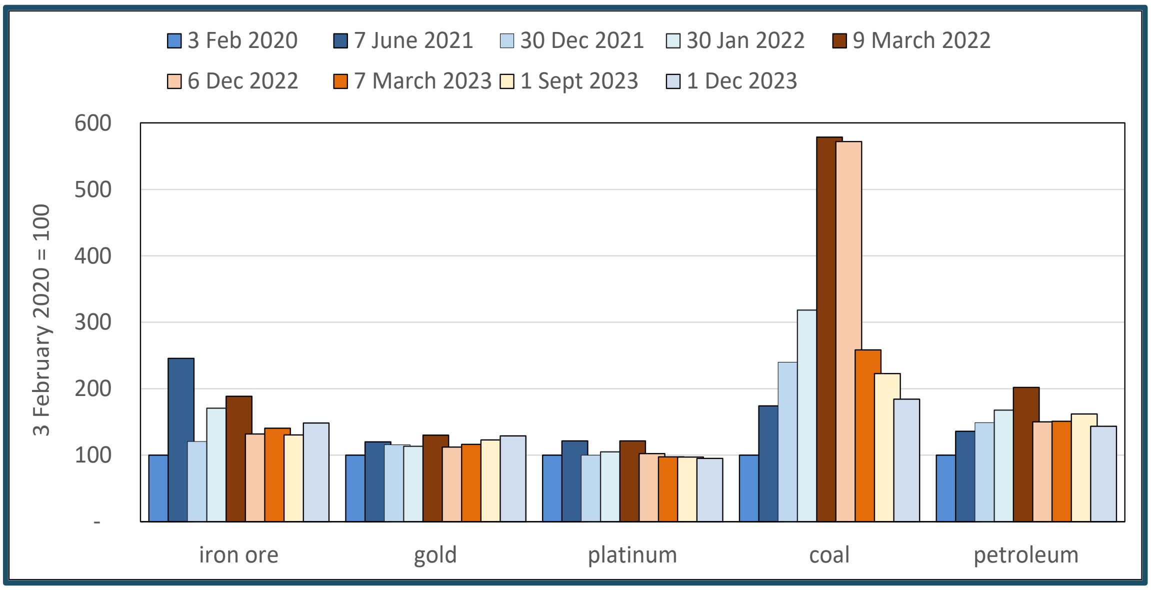
Graph 6. Third quarter sales by manufacturing industry from 2020 to 2023, and second quarter 2023, in billions of constant (2023) rand (a), seasonally adjusted



Note: (a) Reflated with CPI. Source: Calculated from Statistics South Africa. Manufacturing: Production and Sales, September 2023.

South Africa remains subject to the speculative whims of international mining markets, which largely explain the decline in mining and metals value added in the third quarter of 2023. Coal prices spiked from early 2022, but have since then come back to earth. In US dollar terms, they dropped by over 50% from December 2022 to March 2023 (Graph 7). They continued to decline through the third and fourth quarters of 2023. Platinum prices also dropped in the third quarter, although far more slowly than coal, with some recovery in the fourth quarter. Gold and petroleum prices both climbed in the third quarter. Gold reached record highs in December 2023. It now accounts for just 4% of South African exports, however, down from a quarter in 1994. As noted in the section on trade, lower export prices overall combined with logistics problems brought a sharp fall in mining export revenues in the third quarter of 2023.

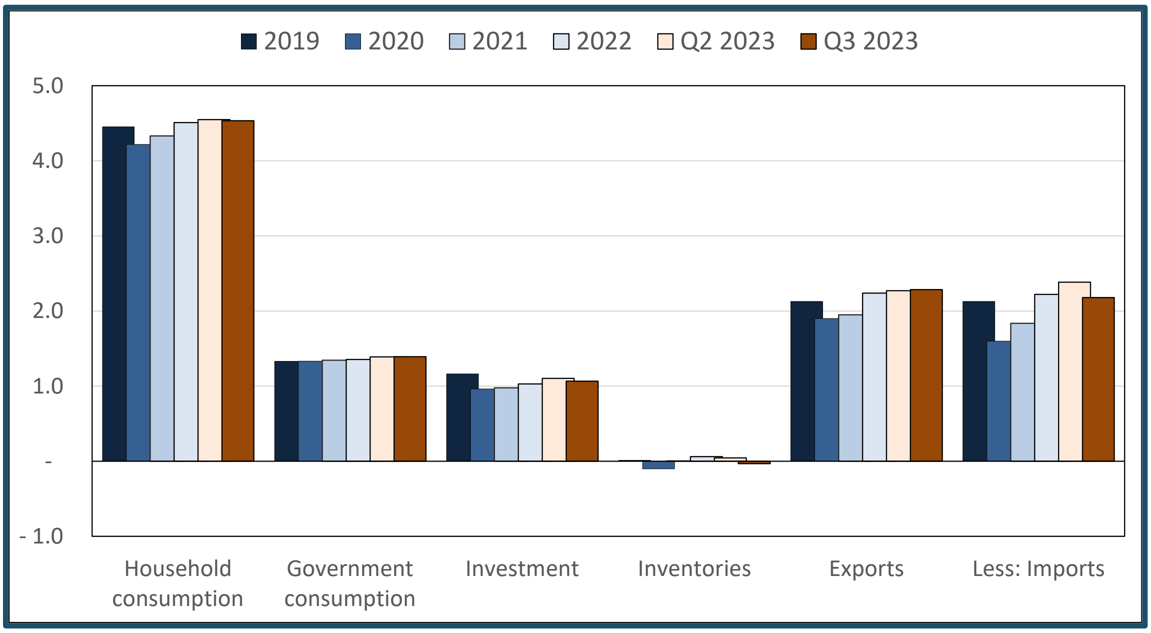
Graph 7. Index of prices for South Africa's major export commodities and for petroleum (3 February 2020 = 100)



Source: Calculated from commodity prices from Tradingeconomics.com.

On the expenditure side, both household consumption and investment fell in the third quarter of 2023. The decline in capital formation is discussed in more detail in the section on investment and profitability. The GDP fell primarily because of a steep decline in inventories, which is always subject to varying interpretation. In year-on-year terms, every component of the GDP except inventories grew.

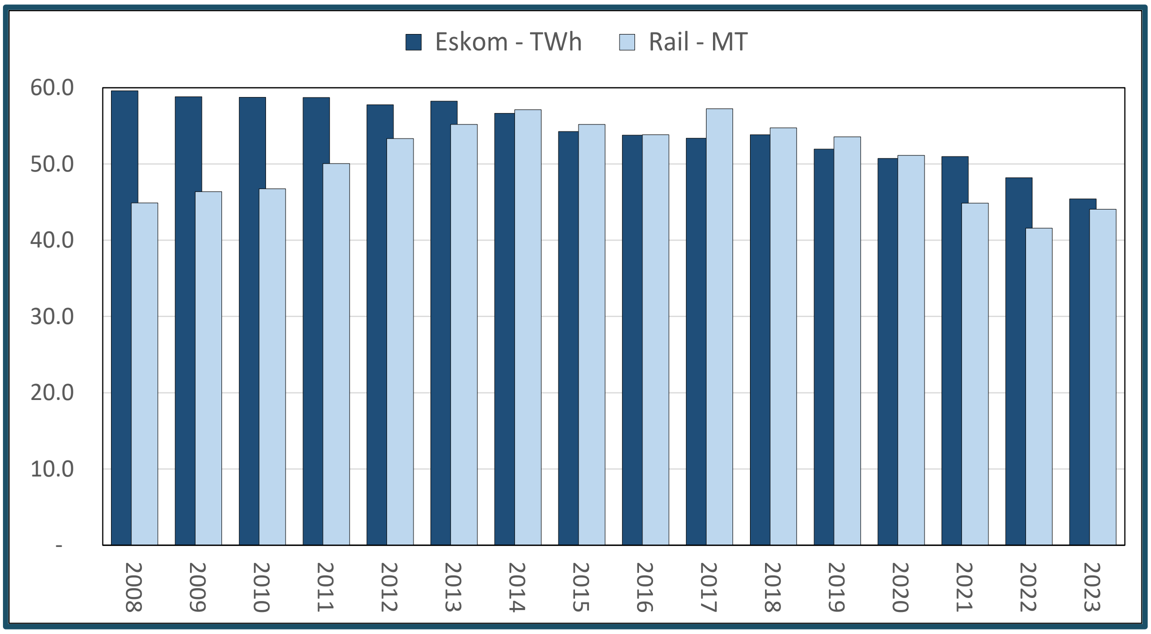
Graph 8. Expenditure on GDP in seasonally adjusted and annualised terms, third quarter from 2019 to 2023 and second quarter 2023



Source: Calculated from Statistics South Africa. GDP quarterly figures. GDP P0441 – 2023Q3. Excel spreadsheet.

The regular disruption of electricity and rail services for business has become a growing challenge for the economy. As Graph 9 shows, Eskom's supply of electricity has dropped by a quarter since 2008. The volume of freight carried by rail has declined a similar amount from its peak in 2017. As discussed in the briefing note on AMSA, the accelerated decline in Eskom and Transnet services calls into question some basic tenets of South Africa's historic industrialisation path.

Graph 9. Eskom output in TWh and rail transport in millions of tonnes, third quarter, 2008 to 2023



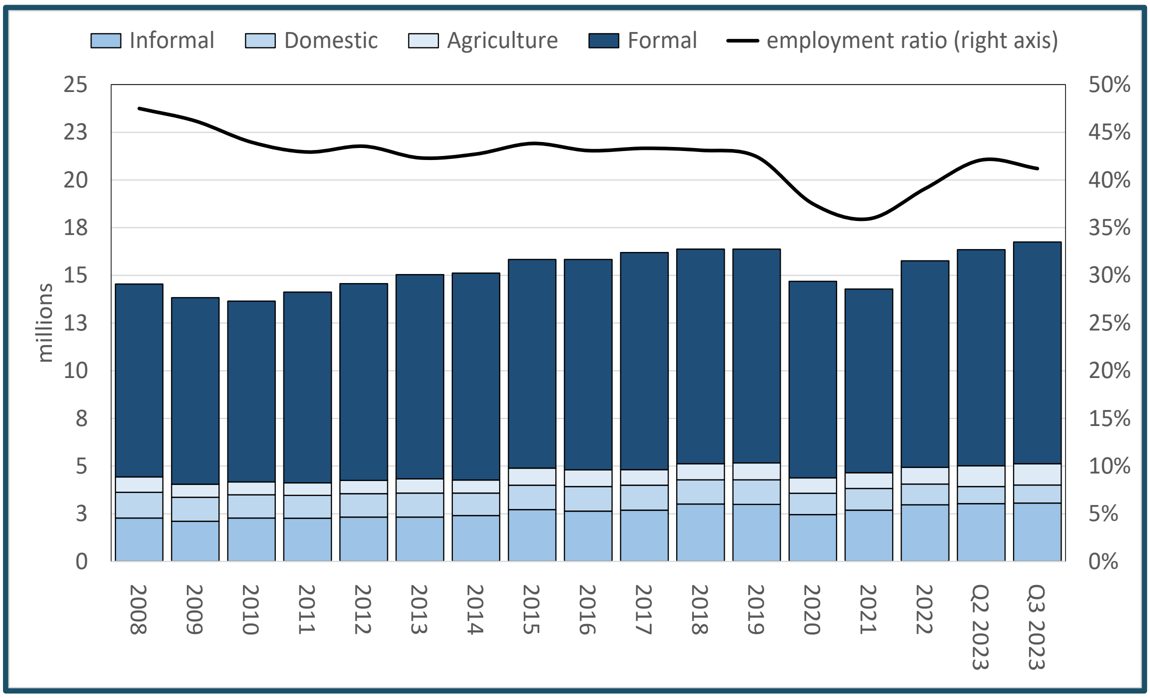
Source: Calculated from Statistics South Africa. Land Transport Survey. P7162. Excel spreadsheet; and Electricity generated and available for distribution. P4141. Excel spreadsheet. Accessed at www.statssa.gov.za in December 2023.

Employment

In contrast to the GDP data, the employment figures suggest a spurt in jobs growth, especially in the formal sector. They find a modest fall in manufacturing employment for the quarter. The sector remains 250 000 jobs behind pre-pandemic levels.

According to the Quarterly Labour Force Survey, which covers 30 000 households, total employment in South Africa climbed by almost a million in the year to the third quarter of 2023, reaching 16.7 million. That was more than 2% higher than before the pandemic. The non-agricultural formal sector created four out of five new jobs in the year to the third quarter. As a result, its share in total employment rose to 69%, up from a low of 67% but still somewhat lower than for most of the 2010s.It is not clear how these findings square with the reported decline in the GDP.

Graph 10. Third quarter employment by type of work, and the employment ratio (a), 2008 to 2023

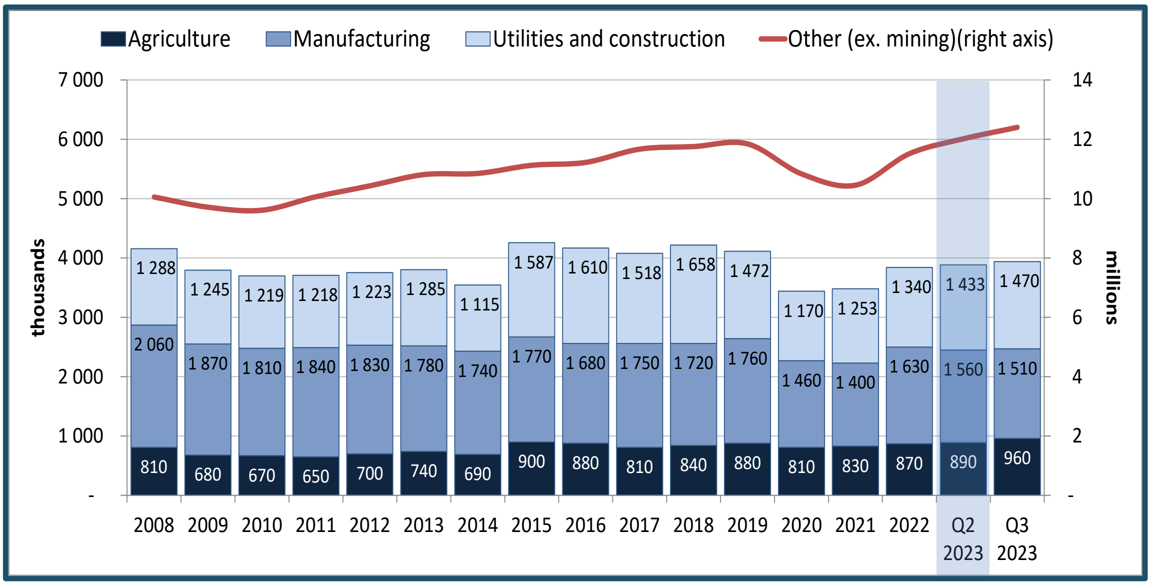


Note: (a) *Employed as percentage of total working aged population. Source: Calculated from Statistics South Africa. QLFS Trends 2008-2023Q3. Excel spreadsheet.*

Despite the recovery in formal employment since 2021, the working aged population climbed even faster. As a result, the share of working-aged adults with employment was still only 41% in the third quarter of 2023. That was only marginally above the figure at the transition to democracy, around 39%, and far below the 2008 peak of 47%. Internationally, the employment ratio averages around 60%.

Within the real economy excluding mining (which is better represented by the Quarterly Employment Statistics data, as discussed below), virtually all growth in employment occurred in construction and agriculture. The labour force surveys found a drop in manufacturing employment from 2022, after the initial recovery from the pandemic. As a result, employment in manufacturing, at just over 1.5 million in the third quarter of 2023, was still reportedly 250 000 smaller than before the pandemic. (Graph 11)

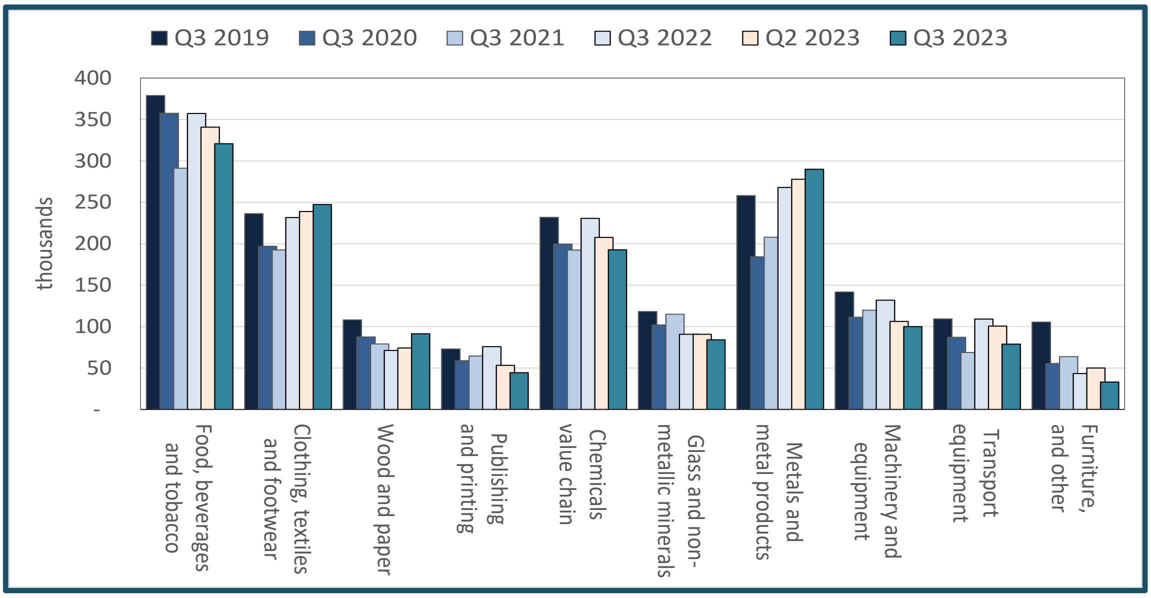
Graph 11. Employment in agriculture, manufacturing, utilities and construction compared to the rest of the economy, 2008 to third quarter of 2023 and second quarter of 2023



Source: Calculated from Statistics South Africa. QLFS Trends 2008-2023Q3. Excel spreadsheet.

Manufacturing, clothing, metals and wood saw net employment growth over year to the third quarter 2023, while all the other industries shed jobs. Only clothing and metals now provide more employment than before the pandemic.

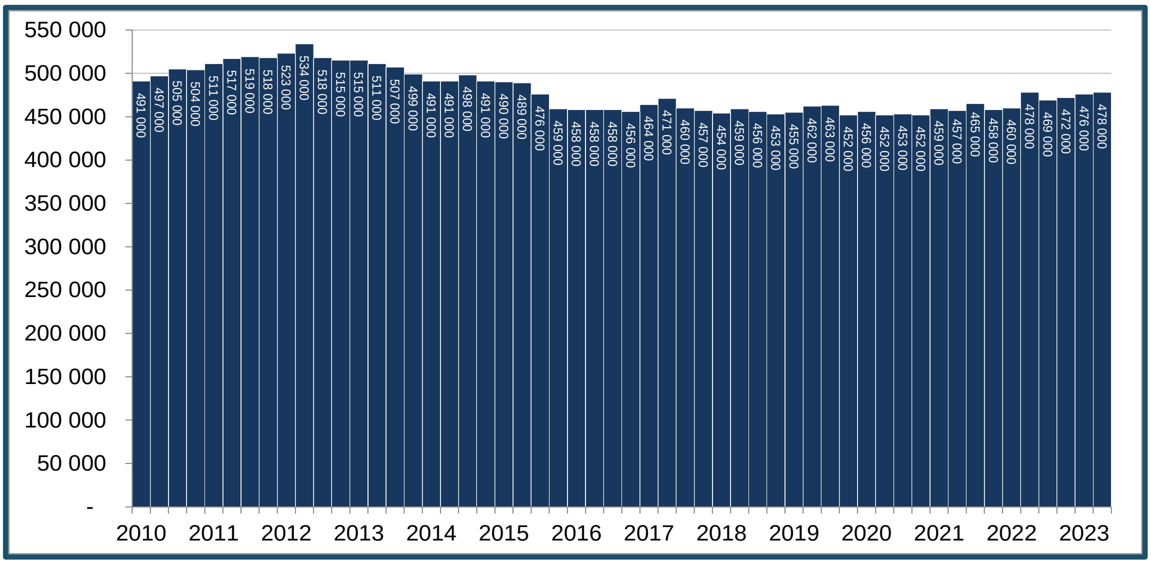
Graph 12. Employment in manufacturing industries, third quarter 2019 to 2023 and second quarter 2023



Source: Calculated from Statistics South Africa. QLFS for relevant quarters. Electronic databases.

Statistics South Africa recommends using the employer survey, the Quarterly Employment Statistics, for mining. It shows a modest recovery from the pandemic, presumably because of the speculative boom in world metals prices through early 2023. As long as mining prices continue to stagnate, however, it seems unlikely that mining employment will grow much more.

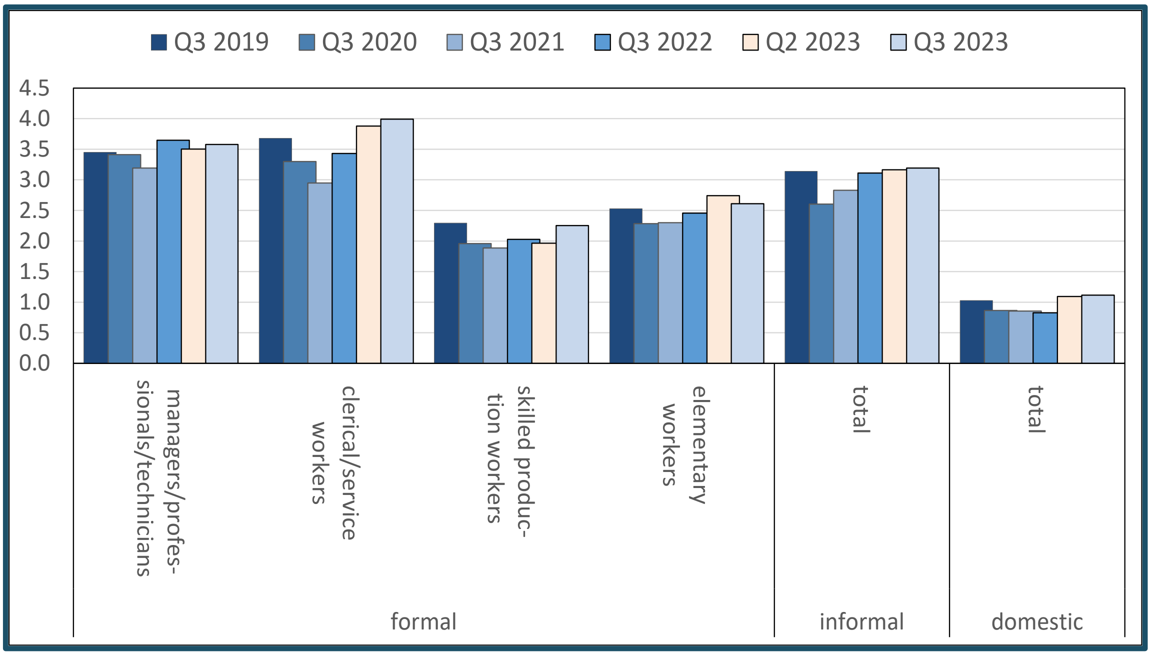
Graph 13. Mining employment, second quarter 2010 to second quarter 2023



Source: Statistics South Africa. Quarterly Employment Statistics. Detailed breakdown. Second quarter 2023 Excel spreadsheet.

Lower-skilled production workers continued to see a relatively slow recovery in employment from the pandemic. In contrast, professionals and managers barely lost jobs in the downturn, while clerical and service workers experienced rapid growth over the past year. With more formal jobs available, informal employment growth slowed over the past year. In 2023, domestic work finally recovered the jobs lost to the pandemic. However, as noted, incremental gains in employment that match economic growth have proven inadequate to overcome the jobs deficit generated before 1994.

Graph 14. Employment by main occupation and sector, third quarters of 2019 to 2023, in millions



Source: Calculated from Statistics South Africa. QLFS Trends 2019Q2-2023Q3. Excel spreadsheet.

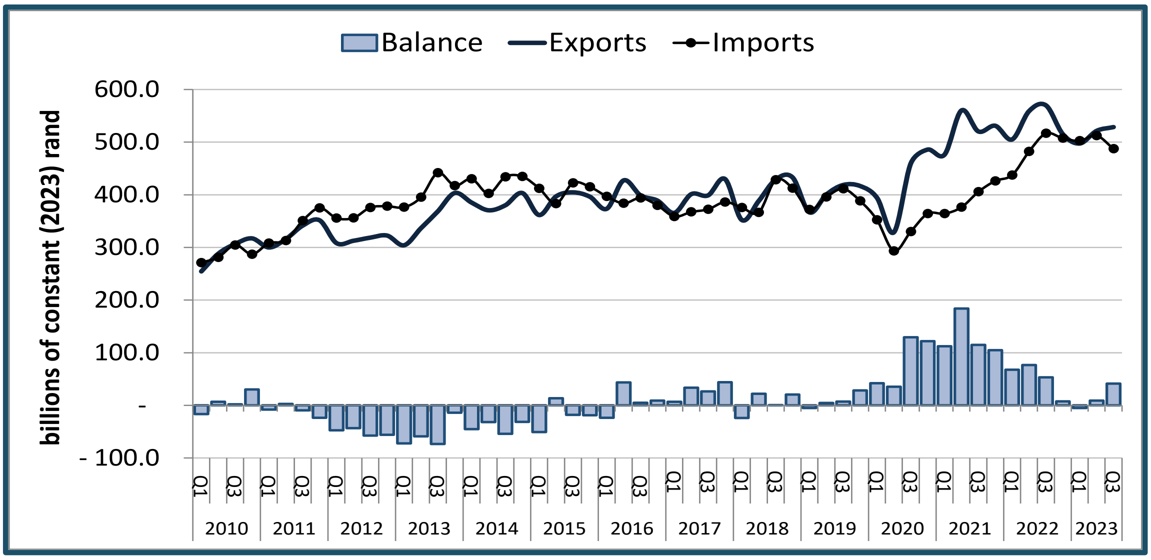
International trade

A strong surplus in goods trade returned in the third quarter of 2023. Exports climbed 2.9%, largely thanks to growing exports of transport equipment and agricultural products. In contrast, mining sales fell sharply as a result of lower prices and Transnet's woes. The falling international price of petroleum contributed to the decline in imports.

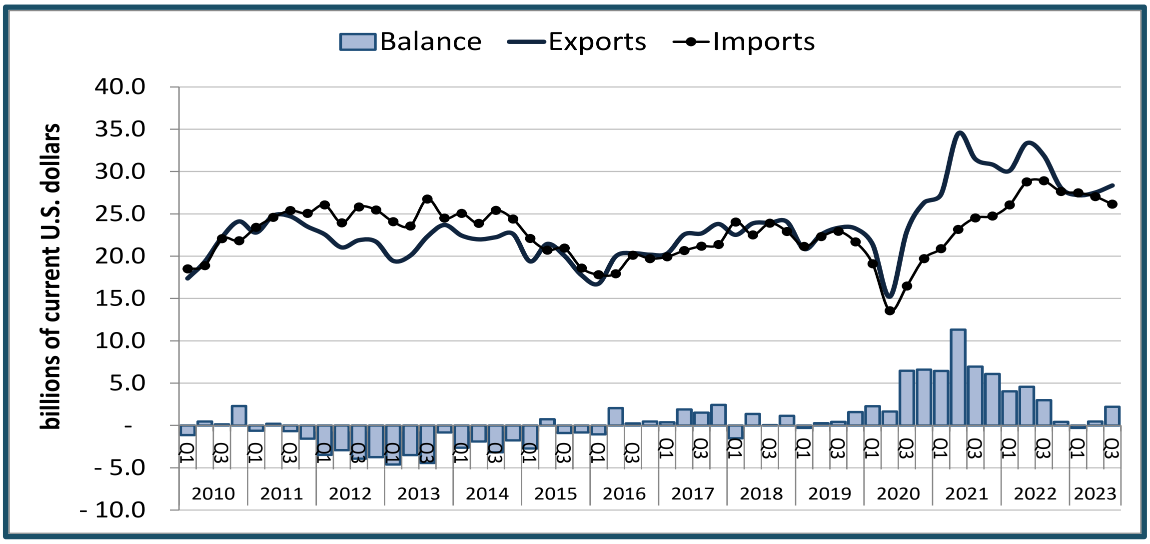
South Africa returned to a strong surplus in goods trade in the third quarter of 2023, as export revenues jumped 2.9% while imports dropped 3.5% in constant rand. These developments reversed the trend toward falling trade surpluses over the previous three quarters. Before that, since the pandemic South Africa had seen an unusually strong balance of trade, mostly due to speculative hikes in world commodity prices while slow economic growth limited import demand (Graph 15).

Graph 15. Exports, imports and balance of trade in billions of constant rand and current US dollars

A. Billions of constant (2023) rand (a)



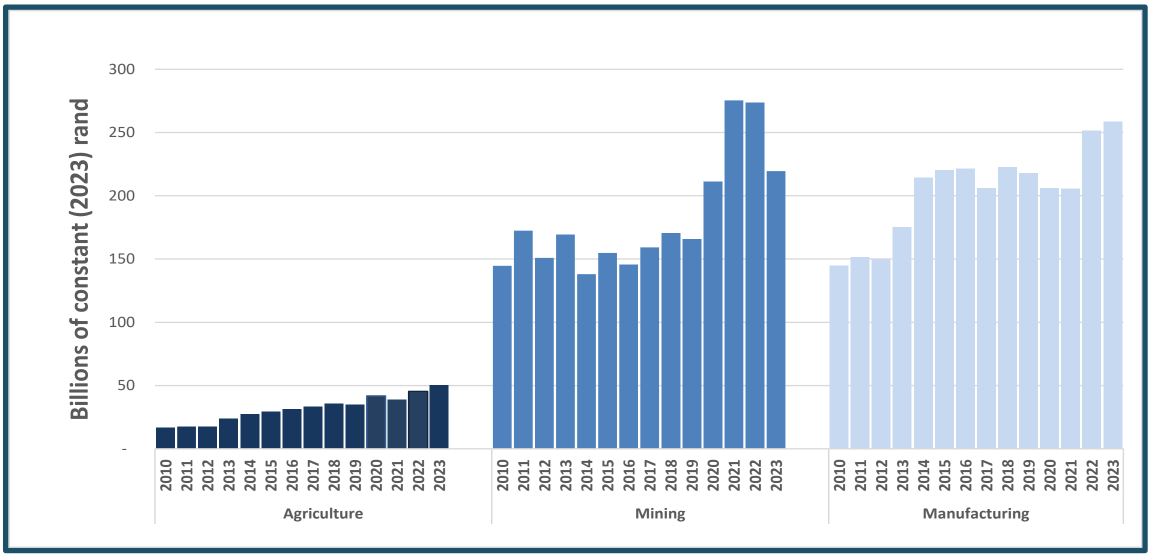
B. Billions of current US dollars



Source: Calculated from South African Revenue Service data.

The spectacular decline in mining prices, especially for coal, as well as the challenges at Transnet rail and ports in recent months saw export revenues for the sector plummet by 20% in the year to the third quarter 2023. Still, mining exports remained well above most pre-pandemic years. In contrast, agricultural exports showed steady growth. Manufactured exports climbed slightly in constant rand terms, almost exclusively thanks to rapid growth in auto exports (Graph 16). Except for food, all the main commodity-based manufacturing sectors saw significant declines in export revenues.

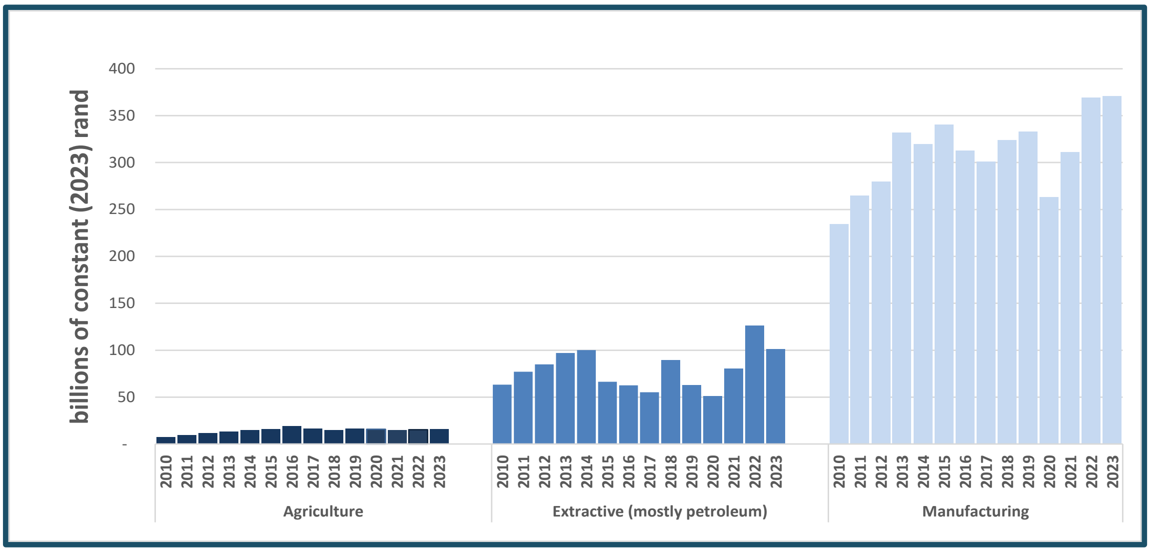
Graph 16. Third quarter goods exports in billions of constant (2023) rand (a), by sector, 2010 to 2023



Note: (a) Deflated with CPI. Source: Calculated from South African Revenue Service data.

While South Africa continues to rely primarily on commodity-based exports, its imports are mostly relatively advanced manufactures. The fall in petroleum prices brought some relief to the import bill, and manufactured imports only crept up marginally in the year to third quarter 2023.

Graph 17. Third quarter goods imports in billions of constant (2023) rand (a), by sector, 2010 to 2023



Note: (a) Deflated with CPI. Source: Calculated from South African Revenue Service data.

Table 1 provides more detail on trade by manufacturing industry. In the year to the third quarter 2023, exports of transport equipment sector climbed 45% in constant rand. Auto imports climbed almost 25%. Still, the auto industry faced a substantial trade deficit, at R11.3 billion in the third quarter of 2023. Most other manufacturing industries saw a significant decline in imports, notably in the chemicals and wood/paper value chains. Imports also shrank in these industries, however.

In contrast, sectors like food processing, wood products, and metals are maintaining a trade surplus. Metals achieved the largest surplus at R81 billion, despite a decline in metal exports in the third quarter.

Table 1. Trade by manufacturing subsector

INDUSTRY	Value (billions)		% change from Q3 2022		Change in Billions	
	USD	Rand	USD	Rand	USD	Rand
EXPORTS						
Food and beverages	1.22	22.8	-2.4%	1.7%	-0.03	0.39
Clothing and footwear	0.37	7.0	-13.7%	-10.2%	-0.06	-0.79
Wood products	0.13	2.5	-24.1%	-20.9%	-0.04	-0.66
Paper and publishing	0.43	8.0	-43.5%	-41.9%	-0.33	-5.79
Chemicals, rubber, plastic	2.05	38.3	-20.1%	-16.7%	-0.52	-7.69
Glass and non-metallic mineral products	0.11	2.0	-10.6%	-6.8%	-0.01	-0.15
Metals and metal products	2.95	54.9	-7.1%	-3.0%	-0.23	-1.73
Machinery and appliances	2.28	42.4	-3.1%	1.1%	-0.07	0.44
Transport equipment	4.09	76.3	38.9%	44.6%	1.15	23.54
IMPORTS						
Food and beverages	0.93	17.3	-13.7%	-9.7%	-0.15	-1.86
Clothing and footwear	1.19	22.1	-16.9%	-13.3%	-0.24	-3.39
Wood products	0.10	1.8	-8.1%	-4.1%	-0.01	-0.08
Paper and publishing	0.79	14.8	-4.0%	0.2%	-0.03	0.03
Chemicals, rubber, plastic	3.60	67.2	-23.4%	-20.0%	-1.10	-16.85
Glass and non-metallic mineral products	0.26	4.8	-8.2%	-4.2%	-0.02	-0.21
Metals and metal products	1.30	24.2	-12.6%	-8.9%	-0.19	-2.36
Machinery and appliances	6.63	123.4	4.1%	8.5%	0.26	9.64
Transport equipment	4.70	87.5	18.5%	23.4%	0.73	16.60

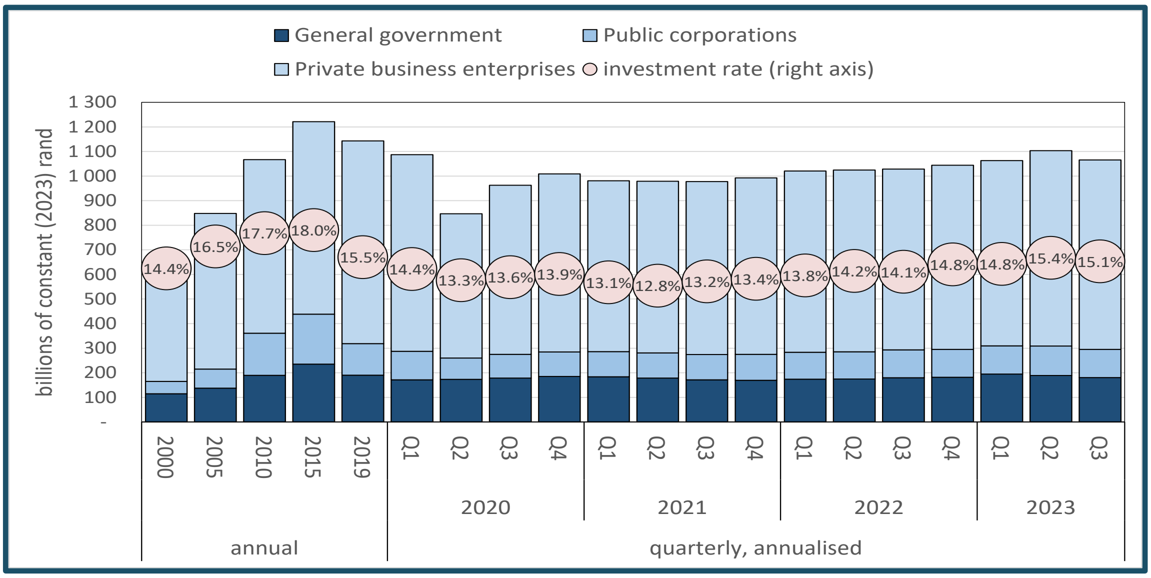
Source: SARS monthly data.

Investment and profitability

Investment climbed 3.6% in the year to the third quarter 2023, driven almost exclusively by growth in private capital expenditure. As a result, the investment rate rose from 14% in the third quarter of 2022 to 15% in the third quarter of 2023. Profitability in manufacturing improved somewhat, but mining continued its downward trend.

Private investment dropped 3.1% in the third quarter of 2023, following the 5.4% growth in the previous quarter. Public investment dropped even faster, at 4.5% for general government and 4.1% for public corporations. As a result, total investment declined 3.4% for the quarter. Still, it was 3.6% up for the year to the third quarter 2023. In year-on-year terms, public investment increased by less than 1%, while private investment rose 4.8%.

Graph 18. Investment by type of investor and the investment rate, annual from 2000 to 2019 and quarterly from 2020 to the third quarter of 2023, in constant 2023 rand (a)



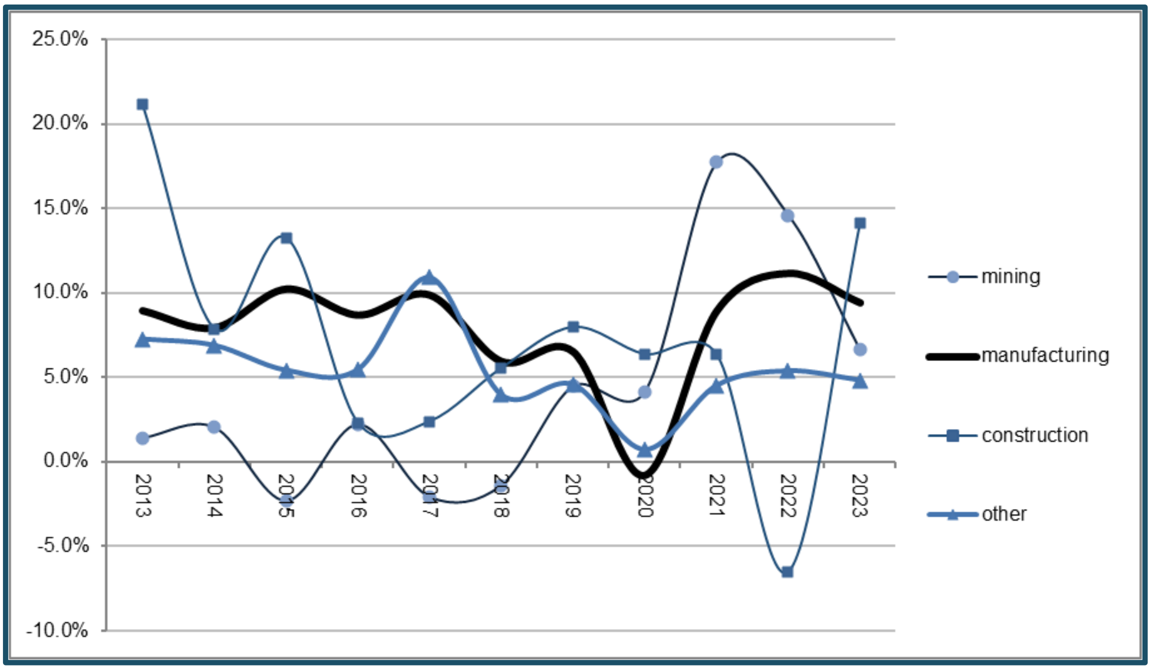
Note: (a) Figures for investment are reflated with implicit deflator rebased to third quarter 2023. The investment rate is gross fixed capital formation as a percentage of expenditure on the GDP. Source: Calculated from Statistics South Africa. GDP quarterly figures. GDP P0441 – 2022Q4. Excel spreadsheet.

South Africa still ranks among countries with the lowest rate of investment in the world. In 2021, of 38 upper-middle income countries excluding South Africa, only two – Libya and Iraq – had investment rates under 16%. Nineteen, including Brazil, Argentina, Mexico, Russia and Malaysia, had rates under 20%. China's investment rate was 42%, which was broadly seen as causing both increasing inefficiency and depressed consumption. The average for other upper-middle-income economies was 22%.[1]

Both the mining and manufacturing sectors in South Africa saw profitability decline in the second quarter of 2023, the latest available information (Graph 19). The mining sector, in particular, witnessed a downturn, with profitability decreasing from 14.6% in 2022 to 6.6% in 2023. In contrast, the construction sector recovered from substantial losses in the third quarter of 2022, returning to a rate of return of almost 15% a year later.

[1] Calculated from World Bank. World Development Indicators. Interactive dataset. Accessed at https://databank.worldbank.org/reports.aspx?source=world-development-indicators in December 2023.

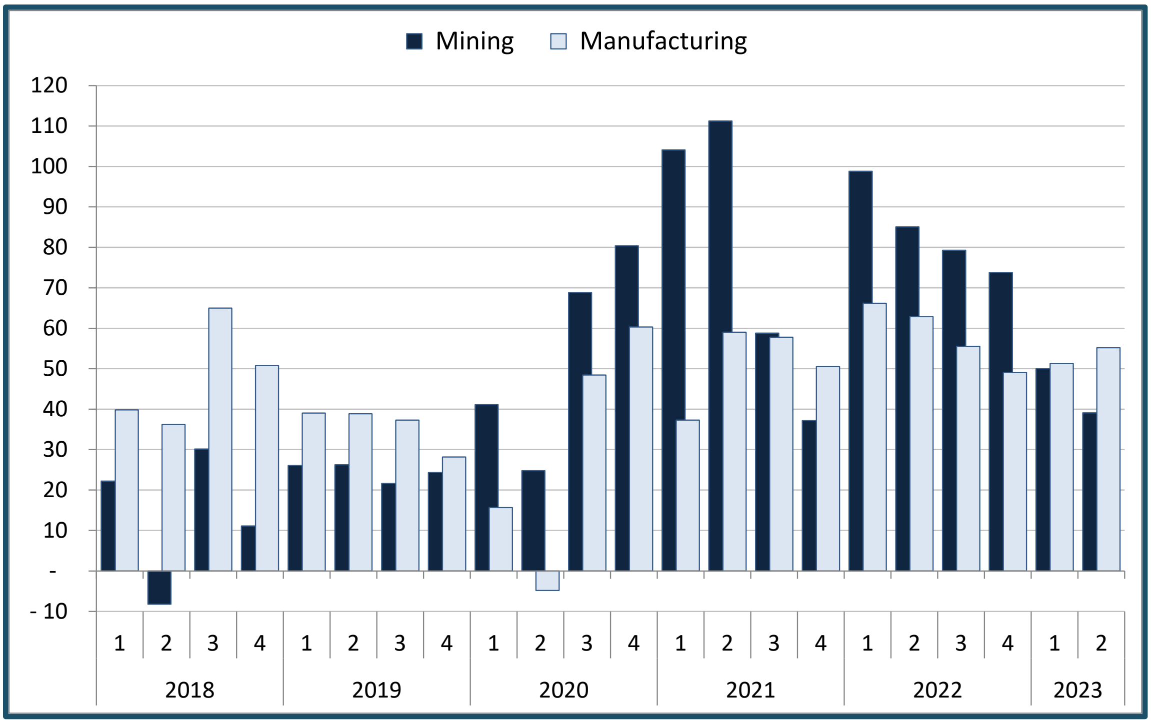
Graph 19. Return on assets by sector, third quarter, 2013 to 2023



Source: Calculated from Stats SA, Quarterly Financial Statistics. Excel spreadsheet.

In constant rand terms, mining profits have dropped consistently from early 2022. By comparison, manufacturing profits have been fairly stable, with an upward trend in the past three quarters.

Graph 20. Quarterly profits in manufacturing and mining in billions of constant 2023 rand (a), 2013 to second quarter of 2023



Note: (a) Deflated with CPI. Source: Calculated from Stats SA, Quarterly Financial Statistics. Excel spreadsheet.

Foreign direct investment projects

The TIPS Foreign Direct Investment Tracker monitors FDI projects on a quarterly basis, using published information. In the third quarter of 2023 the Tracker added 28 new projects across six industries. The total pledged investment value for the reporting period amounts to R53.6 billion from 11 projects. This quarter, 10 pre-existing projects were updated in the Tracker.

New and existing projects

Two projects by Amazon Web Services, at R35 billion, accounted for two thirds of new investment recorded this quarter. As a result, services contribute the bulk of the projects in value terms, with mining coming in at almost R10 billion, utilities at R5 billion, retail at R2 billion, and construction at R1 billion. Eleven commitments were recorded in manufacturing, totalling almost R1 billion. Gauteng, the Western Cape and the Eastern Cape hold most of the projects recorded this quarter, and only the Free State and Mpumalanga did not register any. European companies accounted for the largest number of projects, although the Amazon investment, from the US, dwarfed them in value terms.

Table 2. FDI projects captured in third quarter 2023

Investor Company	Country of Origin	Pledged Value R billions	Location	Project Summary
Services: R35.2 billion				
Amazon Web Services	United States (US)	30	Multiple locations	Investment in local operations over the next 10 years
Amazon Web Services	US	4.5	Western Cape	Multi-purpose complex which will also house new African headquarters.
Moove	Netherlands	0.248	Multiple locations	Address the lack of access to vehicle financing through specialised fintech services for mobility entrepreneurs
Virgin Active South Africa	United Kingdom (UK)	0.430	Multiple locations	Refurbishing facilities (clubs) across the country and expanding activity offerings
Huawei	China	Not reported	Gauteng	Innovation centre that features Huawei's latest technologies and solutions including 5G and Cloud services.
Amazon Web Services	US	Not reported	Western Cape	Free training centre open to the community
Mining: R9.9 billion				
HBIS Group/ Palabra Mining Company	China	9,3	Limpopo	The Lift II copper project aims to extend the life of the underground mine to 2033.
Sylvania Metals (Sylvania Platinum	Bermuda	0.693	Limpopo	Processing of PGM and chrome ores from the Limberg Chrome Mine and, and new secondary beneficiation plant.

Investor Company	Country of Origin	Pledged Value R billions	Location	Project Summary
Limited)/ Limberg Mining Company (South Africa)				
Utilities: R5.1 billion				
Scatec	Norway	5.1	North West	Developing three Grootfontein solar power plants. Preferred bidders in the fifth round of Renewable Energy Independent Power Producer Procurement Programme (REIPPPP)
Air Products South Africa/ Mulilo	US	Not reported	Northern Cape	Solar farm that will be jointly owned by Air Products and Mulilo
Pan African Resources	UK	Not reported	Gauteng	10 MW solar PV facility at its Mogale operations
G7 Renewable Energy/ ENGIE	France	Not reported	Western Cape	Oya Energy 128 MW Hybrid Project
AMEA Power	United Arab Emirates (UAE)	Not reported	North West	85MW solar PV power plant
AMEA Power	UAE	Not reported	Gauteng	New regional hub to focus on developing local market
Wholesale and retail trade: R2 billion				
Tinley Leisure Pty Ltd./ Fosun International (Club Med)/ Collins Residential and others	China	2	KwaZulu-Natal	Club Med Tinley beach resort and safari.
Stellantis/ Eurorepar	Netherlands	Not reported	Not Reported	Retail of Automotive parts and accessories.
Construction: R1.2 billion				
Lurra Capital	Switzerland	1.2	Western Cape	Biophilic mixed-use residential and commercial development
Manufacturing: R89 million				
Nestlé South Africa	Switzerland	0.079	Gauteng	Manufacturing plant that for coffee mixes including Nescafé Gold range which were previously imported

Investor Company	Country of Origin	Pledged Value R billions	Location	Project Summary
ABB	Switzerland	0.01	Gauteng	ABB expanded capacity of production plant to manufacture previously switchgear
Benteler South Africa	Austria	Not reported	Eastern Cape	Expansion of the manufacturing plant and addition of new hot forming line at the plant.
Reifenhäuser Group	Germany	Not reported	KwaZulu-Natal	Established a subsidiary that will serve that will directly serve the Southern African market
CRH-Africa	Ireland	Not reported	Eastern Cape	Collectively pledged investment at the 2023 National Association of Automotive Component and Allied Manufacturers (NAACAM). Specific information on what respective investment would entail was not reported.
IBO Group	Spain	Not reported	Not Reported	
PG Group	France	Not reported	Multiple Locations	
Bridgestone	Japan	Not reported	North West	
Continental tyres	Germany	Not reported	Eastern Cape	
Goodyear	US	Not reported	Eastern Cape	
Sumitomo Rubber South Africa/ Dunlop	Japan	Not reported	KwaZulu-Natal	Local production capacity and product lines. Also made a commitment at NAACAM

Note: Numbers may not always sum to the exact total investment amounts due to rounding.
Source: TIPS FDI Tracker database.

In terms of investment phase, most of the projects have only been announced, including the Amazon investment.

Table 3: Value of projects by investment stage and type, third quarter 2023, in billions of rand

Investment stages		Announced	Pre-feasibility	Project-preparation	Construction/ Implement-ation	Complete	Total value by stage	Number of projects by type
Investment type	Greenfield	2	Not reported	5.1	4.5	Not reported	11.6	9
	Brownfield	0.693	-	-	10.5	0.079	11.2	4
	Expansion	30	-	-	0.284	-	30.2	6
	Upgrade	Not reported	-	-	0.430	0.01	0.147	3
	Not reported	Not reported	-	-	-	2	Not reported	6
Total value by stage		32.7	Not reported	5.1	15.7	0.09		
Number of projects by stage		11	1	4	5	7		

Note: Numbers may not always sum to the exact total investment amounts due to rounding.
Source: TIPS FDI Tracker database.

Briefing Note 1: Downsizing at AMSA: Impacts, causes, and industrial policy implications

Neva Makgetla

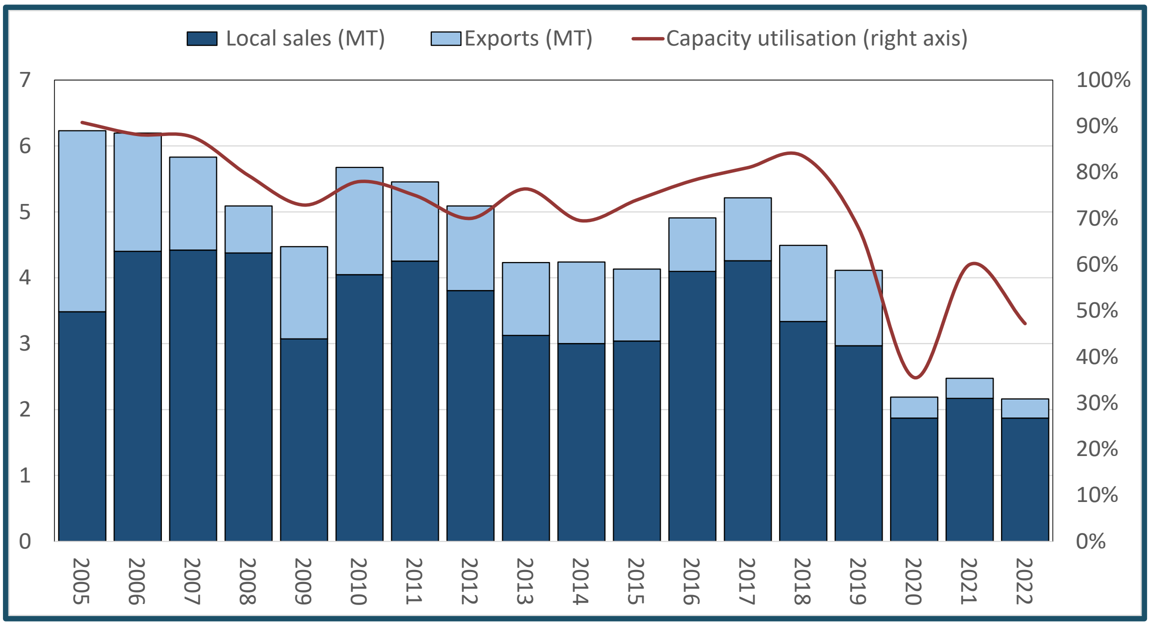
On 28 November, ArcelorMittal South Africa (AMSA) announced that it was closing down its production of long steel products, around a third of its capacity, located mostly in Newcastle and Vereeniging. These products, which include coil and rods, account for a quarter of its steel output and a third of its employment. The decision does not affect AMSA's flat steel production, which covers steel plate and structural beams and is located at Vanderbijlpark.

AMSA's downsizing will not have large direct economic impacts in the short run. Still, it is a warning signal for industrial policy. From the 1920s, the steel value chain has been central to South African industrialisation. From this standpoint, downsizing at AMSA reflects the crumbling of the minerals-energy complex (MEC) that underpinned mining-based growth through the apartheid era. The decline in AMSA also points to areas for improvement in the master plan process. After all, the Steel Master Plan was only published two years ago.

The AMSA decision affects 3 200 employees and probably about R10 billion in sales, although AMSA stopped publishing separate figures for flat and long steel 10 years ago. Basic steel products can increasingly be produced by mini-mills or imported at competitive prices. By extension, downstream users – mostly in metals fabrication (which has around 100 000 employees) and construction – should be able to adapt, although delays on imports remain a problem.

AMSA faced a perfect storm in 2022/23, with falling sales and rising competition coinciding with increasingly disrupted and expensive electricity and freight.

Graph 21. AMSA local and export sales in millions of tonnes and capacity utilisation, 2005 to 2023



Source: AMSA Annual reports for relevant years.

In the 2020s, AMSA's sales collapsed by 50%. (Graph 21) Exports, which go almost exclusively to other African countries, dropped particularly sharply. But AMSA's sales have been gradually shrinking for much longer. In the late 2010s, before the pandemic, its sales by volume were already lower than a decade earlier.

The collapse in steel demand had three obvious roots. Slow growth after the recovery from the pandemic bit into sales in general. Rising imports also hurt. They climbed from 4% of total steel sales in South Africa in 2003 to 16% in the first nine months of 2023. More recently, growing production by scrap-based mini-mills increased competition with AMSA's vastly larger and older plants.

At the same time, AMSA began to pay an increasingly heavy price for the dysfunction at Eskom and Transnet. In 2022, it estimated that loadshedding reduced output by R95 million. The escalating problems at Transnet proved even more costly. AMSA argued that, in 2022, it lost R600 million in sales because of transport delays. In addition, its freight costs rose by R500 million as it shifted to road carriers.

It is telling that Eskom and Transnet contributed so much to AMSA's woes. AMSA originated as the state-owned Iscor in 1928; it was privatised in 1989, and in 2006 ultimately integrated into ArcelorMittal, the international steel firm. Iscor's success was predicated on high quality, cheap local iron ore; low-cost coal-fuelled electricity from Eskom; and efficient, affordable freight transport from Transnet. The trinity of Eskom, Transnet and Iscor formed the central pillar of the MEC, understood here as the collaboration between mining, the state and the metals and coal refineries that drove South African industrialisation through the 1970s.

A complex of economic and political factors unravelled this pathway to industrialisation over the past 30 years. Key issues included the emergence of more competitive and smaller scale technologies; the opening of the economy from 1989; and increased contestation around government policies.

- On the technological front, AMSA is dealing with the emergence of steel mini-mills that have far lower initial costs. Eskom faces even steeper challenges. Above all, renewable energy is now both cheaper and cleaner. Meanwhile Eskom's coal plants are aging and badly managed. In response, it has tended to raise its tariffs, further squeezing demand and pushing up its unit costs. In 2009, AMSA used 2% of Eskom's electricity. By 2022, as it shifted to less electricity-intensive technologies, its share had fallen below 1%.

- The opening of the economy is most obviously associated with the surge in steel imports. The opening of the economy also boosted input costs. A tenet of the MEC was that upstream coal and iron ore mines charged cost-plus prices to domestic partners, effectively relinquishing some rents to expand domestic demand. In the past two decades, however, both the coal and iron ore mines have increased their domestic prices closer to international levels, raising costs for both AMSA and Eskom.

  Some observers have argued that after the acquisition by ArcelorMittal, AMSA used export pricing and management contracts to shift liquidity out of the country. In constant rand, the value of AMSA's assets dropped by half over the past 20 years. AMSA reports that, despite lower production costs per tonne than the rest of Arcelor Mittal, its EBITDA[2] hovered near zero through the late 2010s, far below its parent company's norm.

- The transition to a vibrant, inclusive democracy made it more difficult for the state to prioritise a few big industrial companies and capital-intensive heavy industry. After all, these activities provided little visible benefit to most citizens. The result was often long delays in addressing challenges such as loadshedding, ports congestion and excessive delays in freight rail. Even after solutions were nominally agreed on, implementation often proved halting.

The Steel Master Plan did little to resolve these systemic challenges. To start with, it did not define an over-arching strategy for the industry. Instead, it included a list of competing claims from different segments of the value chain. The trade-offs emerged graphically around proposals to reduce the price of scrap by limiting exports. The master plan presents this as a consensus position that benefited all producers. AMSA now contends, however, that it effectively subsidised competing mini-mills.

The negotiation of claims and proposals in the Steel Master Plan contrasted with the approach in the auto industry, which was supposed to be its model. The published auto master plan centres on a coherent analysis of core strategic constraints and options. Absent that kind of evidence-based narrative, master plans may just reflect short-term lobbying and horse-trading by competing interests.

In addition, it has proven difficult to mobilise government agencies to secure fulfilment of the Steel Master Plan, notably to improve Transnet services for inland producers. As initially envisaged, the master plan process would ensure that all state agencies prioritised and supported industrial policy. In practice, the master plans have at best opened some new communication lines.

Ultimately, the downsizing at AMSA highlights three industrial-policy tenets. First, if government lacks capacity to do everything, then it should focus on its core functions – which in the economy means infrastructure, building human and social capital, and maintaining security. Second, government's role in industrial policy is to shape an environment that improves the alignment between national and business aims. It is not to mediate short-term compromises between stakeholders. Finally, industrial policy should be used to rescue uncompetitive industries or companies only when the long-term socio-economic benefits – in terms of employment and opportunities for small business, technological advances, or exports – unambiguously outweigh the costs. By extension, before considering trade protection or incentives, industry-level initiatives should identify the potential for more inclusive growth, and propose strong strategies to manage down the main cost drivers.

[2] Earnings before interest, taxes, depreciation and amortisation.

Briefing Note 2: Impact of the avian flu outbreak

Gillian Chigumira and Neva Makgetla

The South African poultry industry has often suffered from bird flu, but from June this year a new variant specific to South Africa has had a devastating impact. Over six million birds have been culled in the egg industry, or between 20% and 30% of layers. Some 3.5 million broilers were also culled. Commercial farmers have reported losses so far in excess of R5.5 billion.

In late November, the Department of Agriculture announced that the epidemic was under control. It is expected, however, that it will take 17 months for the national flock to recover fully. In the meantime, the impact on the egg supply is particularly large. Layers normally live for a year before slaughter, compared to less than six months for broilers.

Until October, the mass culling did not lead to jumps in consumer prices for eggs or poultry. Instead, retail shortages emerged, especially for eggs. In October, however, the retail egg price climbed some 13%, and frozen chicken prices by 2%. For comparison, non-food prices rose just 0.9%. Before that, from June to September egg prices merely kept pace with other food prices, while frozen chicken actually fell behind.

From August, egg imports grew exponentially. From February to July, South Africa imported virtually no fresh eggs; in August, it imported 0.2 tonnes; 5.7 tonnes in September; and some 530 tonnes in October. The value of imports rose at a similar rate, from insignificant in August to R1.6 million in September and R45 million in October. Data for November are not yet available.

Higher egg and chicken prices have a decidedly regressive impact. According to the 2014/15 Living Conditions Survey, the latest data available, eggs accounted for 0.7% of total expenditure by the poorest 50% of households, but only 0.1% for the richest decile. The poorest 50% of households spent around 4% of their total budgets on poultry, compared to 0.5% for the richest. Eggs and poultry together far outweighed other sources of protein for working-class families, with beef and milk each accounting for only 1% of spending.

Poultry is a significant part of agro-industry in South Africa. Broiler sales came to R54 billion in 2021/2, and eggs to R11.5 billion. Broilers accounted for 13% of agricultural revenues in 2021/22, and eggs for 3%. Neither was a major exporter, although they had some regional sales. The industry as a whole employs around 55 000 people, or about 10% of all farmworkers.

The poultry industry is highly concentrated. A handful of agro-industrial conglomerates dominate broiler production. They produce broilers themselves; contract with major farmers for more birds; and produce key inputs, including chicks and feed. Two companies account for half of broiler production, and five companies for two thirds. In 2021/2, the top two producers operated over 400 sites, including both farms and processing facilities; employed more than 30 000 people; and made around R30 billion from poultry sales. Similar figures are not available for egg production, but three producers held a dominant position.

Culling causes the main flu-linked economic losses for farmers. They have to find finance to restock, and often lose markets and contracts. Namibia, Botswana and Mozambique have banned poultry products from South Africa. Most insurance policies do not cover bird flu because of the high costs and risks. The Department of Agriculture says it cannot afford to compensate farmers fully for culled birds, although it is investigating a scheme worth around half the estimated cost. It has, however, said it will start a vaccination programme. The effectiveness of vaccines is subject to debate. It may affect future exports, since some authorities argue the vaccines may merely mask the disease.

Most authorities agree that a critical step in preventing future outbreaks is a stronger phytosanitary system. That has been a key demand of the industry for some time. It is an important strategy in both the Agriculture and Agro-Processing Master Plan and the Poultry Master Plan. Given the current highly constrained fiscal policy, however, a qualitative improvement in the near future seems unlikely.