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ECONOMIC COMMENTARY

- By Francois Stofberg

A Fading Economy

In the week that passed, a lot of attention was once again given to economic growth in South Africa (SA). Or to be precise, the lack of economic growth in SA. The media was in a flurry about the 2.5% our economy grew quarter-on-quarter (q-o-q). "We're out of recession, the worst is over", many wrote. Well, we have a different interpretation.

Even when looking at the growth (2.5%) in isolation, it's still rather insignificant. It's well below the global averages. Even the "zombie country", Japan, is growing at a similar rate. When one puts the growth in context, the picture gets really scary. For one, a single good quarter with 2/3 subsequent weaker quarters, has become somewhat of a trend in SA economics. Growing from a low base isn't really growing, it is simply getting back to where you were before your economy shrunk. This means no new wealth and no new jobs, which is the really sad context of not growing your economy. The poor are getting poorer, even with the government's full-on "steal from the rich and give to the poor" tax policies.

Some good news did come from the figures. The agricultural sector grew 33.6% q-o-q, annualised. In terms of percentage change, the agricultural sector has now made up 57% of the 66% lost during the two-season drought. In absolute terms, however, the sector is only producing at 2014 levels. This implies that the agricultural sector still has a lot of room left for growth! Also, supported by an uptick in the global commodity cycle, our mining industry was pulled out of its long recession. Furthermore, the finance industry is back to its pre-dip growth. During the last quarter, the finance sector contracted for the first time since 2013 by -1.2% but has now recovered with a growth of 2.5%. Finally, the government sector has contracted for another quarter. This is the only sector that we don't mind seeing a contraction in. The reason is simple; if the government sector is not growing, it means the size of government is decreasing – which is, of course, good news for multiple reasons.

In the end, SA's economy will most likely only grow between 0.5% and 0.8% in 2017. Far short of the 4% to 5% needed to significantly reduce the number of individuals living in poverty (30.4 million), and to create sustainable jobs for those who are still unemployed (9.3 million). This unnerving environment fuels social tension and makes doing business even tougher. According to the RMB/BER Business Confidence indicator, confidence fell to an all-time (32-year) low. In the survey, businesses expressed their distrust in government over recent policy uncertainty, political turmoil, and attacks on independent institutions.

The good news, however, remains, change is imminent as people continue to grow weary of promises not being met. We hope that the change will be deep, and structural because setting up committees won't help SA out of its current predicament.