



## ECONOMIC COMMENTARY

- Francois Stofberg

### Newsletter

15 February 2019

#### Load shedding! Ouch, or not so much?

It's not easy calculating the cost of load shedding. Estimating the initial loss of production caused by power outages is rather simple. It's much more difficult to estimate the likely second round and indirect effects of not having power. These include, the loss of production because employees are stuck in traffic, time lost starting up factory and mining processes, a slowdown in spending due to malls not having power, and the list goes on. What's even more difficult to estimate, is the short- and long-term impact load shedding has on investor and business sentiment and how these, in turn, impact on economic growth. One of the key ingredients to a successful business, is being able to "keep the lights on". If electricity is scarce or expensive (both of which are the case in South Africa), long-term investors divert their capital to more safer havens, like Namibia, or even Slovakia. The impact this has on our economy is severe.

So, to try and determine what the likely cost to the economy was, we used three broad forecasting techniques and reached our conclusion. Our conservative estimate was around R350 billion. In fact, our economy would have been at least 10% bigger with almost 1 million more jobs. But, this estimate was done in 2015, and the thing about GDP is that a once-off reduction has lasting implications. So, the roll-on effect implies that this initial estimate will now be larger. Then of course, one would have to add the additional cost of those load shedding events that occurred after our initial estimate was done. But now, how we load shed and consequently the cost of load shedding has changed dramatically.

When load shedding started in early 2008, after the first power outages occurred after the final quarter of 2007, consumers and businesses were caught off guard. Now at least we can plan. The nature of power outages has changed; controlling the size of outages allows consumers to temporarily relocate their spending activities and even some small businesses can temporarily relocate their activities. Larger businesses have mostly started using generators, which is less costly than unproductive employees. So, having more information helps to reduce the cost of load shedding. I'm sure if we redo our estimations now the combined cost to our economy would be closer to 15%, and the loss of jobs closer to 1.5 million. But, these estimates seem silly. We are all aware of the problems at Eskom and the discussion should rather be about how to improve the utility. For this reason, we support decisions that have been made by President Ramaphosa since he took over from Zuma. Better and more accountable leaders, as well as the decision to split the large utility into three units, are all good changes in what no doubt will be a long and tedious process of turning the utility around.

In other, less tedious news: Friday 15 February was the deadline for United States (US) President Donald Trump to accept or reject the \$1.4 billion offer made by lawmakers for the building of his wall. Trump initially asked for \$5.7 billion and had the deadline been missed, their government would have gone on another strike. So, he did the next best thing – he accepted their lousy deal and declared a "national emergency", a special type of declaration that gives the president special, temporary powers to deal with a crisis. There are currently about 28 national emergencies active in the US, most of which are connected to foreign policy and international concerns, like wars and global trade threats. Occasionally, however, presidents use emergency declarations to further their domestic policy goals. In theory, the declaration would let Trump redirect federal money allocated for other purposes and use it to get construction started on the wall. However, side-stepping lawmakers in this manner will definitely be challenged and then the US Supreme Court will have to decide whether or not the president's declaration is, in fact, a national emergency. Nevertheless, not having the US government shut down again and talks about further trade-war negotiations between the US and China have supported a much stronger US Dollar and consequently, a much weaker rand. Relative to a struggling European Union, the dollar now reached very strong levels.

