EDITORIAL: The other side of SA mining's 'mini-boom'

13 SEPTEMBER 2022 - 05:10

Picture: GETTY IMAGES/CHRISTOPHER FURLONG

The downside of foreign investment is that the inflows of capital into equity and bond markets inevitably result in outflows by way of dividend and interest payments.

That can certainly be expected when mining companies, many of whose shareholders are foreign, are reporting rich profits and declaring even richer dividends — as they were for the end-June reporting period.

Arguably, then, it should not have been as much of a surprise as it was when the current account of SA's balance of payments swung into deficit in the second quarter of this year.

The current account had been in surplus for over two years and the market had been expecting that to continue into the second quarter, with the consensus forecast a 1.6% surplus. In the event the Reserve Bank reported a 1.3% deficit, citing higher company dividend outflows.

That was likely to have been driven by strong mining house earnings growth in the wake of what economists such as Absa's Peter Worthington are now calling the commodities "mini-boom". Trade and Industrial Policy Strategies are dubbed a 'speculative boom'. Clearly those commodity supercycle hopes have faded fast.

The latest quarterly figures were a reminder that the current account is not just the trade account, as it is often called, but includes both the imports and exports of goods and the "income" side, where the Bank accounts for cross-border flows such as dividends and interest, as well as service-related items such as tourism and royalty payments.

The deficit on the income side of the current account deteriorated sharply, from -3.4% of GDP to -5.5% in the second quarter, while the trade surplus fell from +5.8% of GDP to 4.1% as imports jumped and exports languished.

The overall balance was a deficit. Once those dividend flows wash out of the system economists expect the current account will be back in surplus for the rest of this year. But the surplus will be lower than earlier expected and certainly lower than the 2% of GDP the Reserve Bank has recently projected.

That is a negative for the rand exchange rate. (The current account tends to be a big driver essentially because a deficit means SA is more dependent on volatile capital inflows while a surplus makes SA less dependent and therefore less vulnerable.) A weaker exchange rate, in turn, feeds through into higher inflation and puts pressure on the Bank to hike interest rates faster than it otherwise might do to combat price pressures.

Bottom line then is that the shock second-quarter current account deficit might clinch the case for a 75-basis point interest rate hike at the monetary policy committee’s September meeting.

But the current account shock was also a disturbing reminder of the extent to which SA has missed the opportunity of the commodities boom to boost output and exports. Imports jumped in the second quarter in part because of high oil prices — petroleum products make up 10%-25% of SA’s imports, depending on world market prices. They jumped too because the economy is recovering and importing more, which is no bad thing.

Eskom and Transnet

But mining and mining-related exports account for 40%-60% of our exports, TIPS notes. And the second-quarter figures show export volumes rose by only 0.2%. That is a shocking outcome at a time when Europe was desperate for SA coal and demand for commodities generally was still high, even if lower than earlier peaks. It is a worrying trend too in a context in which global growth is slowing and demand for exports could get worse in future.

Meanwhile, SA's ability to export has been severely damaged by the dysfunction at Eskom and Transnet in particular.

Eskom could not keep the lights on in the second quarter, hence output declined in key export industries such as mining. Transnet has struggled to get its trains to run to carry commodities such as coal and even manufactured exports such as automobiles to the ports.

There have been constraints to exports too at the ports, as well as on the roads, and at the border posts.

So while the current account may go back into surplus in the third quarter, if the economists are right, the latest numbers just serve as a reminder of how much stronger SA's trade account should have been — and how urgent it is to address the energy and logistics constraints weighing on it.

Andrea Robertson 7 DAYS AGO

Images a regime so dysfunctional it cannot cash in on guaranteed sales of its commodities. That must hurt. The criminal cabal aka as the anc, are all lolling around without clothes. We see you.

REPLY 2 0

Mani None 7 DAYS AGO

So we've squandered the little cash bonanza from the commodities boom, as predicted. We had no significant uptick in investment (e.g. as a ratio to GDP), few new businesses or growth and unemployment just went up and up. Government is running around pretending that the fiscal crisis has been solved, and is spending like it was 2009. And no wonder when you consider the precipitous collapse in our economic freedom rating - SA is not investable while the current government remains in place.

REPLY 3 0

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