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NEVA MAKGETLA: SA can’t just ride out its economic storm

As long as the economy remains unusually inequitable and mining dependent, it won’t sustain rapid growth

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A South African flag on the Donkin Reserve. Picture: THE HERALD/MIKE HOLMES

A perfect storm occurs when everything goes wrong at once with the weather. Similarly, SA’s current economic malaise arises from an unusual collision of international and domestic policy uncertainties and economic trends. Effective responses have to deal with this complex situation. It won’t help to fall back on the more usual approach of blaming everything on domestic policy shortfalls, frequently with a view to justifying longstanding conventional policy demands.

In the first quarter of 2019, SA’s GDP fell 0.8%; investment 1.1%; and exports 2%. Employment dropped 1.4%, or 240,000 jobs. In contrast, from 2008-2018 the seasonal job loss in the first quarter averaged only 0.1%. Meanwhile, in the fourth quarter of 2018 — the most recent data available — SA lost R35bn in net portfolio outflows, marking only the second net outflow since the 2008 global financial crisis.

At the international economic level, every one of SA’s trading partners except the US experienced a slowdown in 2018. In the first quarter of 2019, growth slowed in both China and India. While the EU grew faster than in the previous six months, it was still below its 2017 average. Only the US sustained strong growth, but even there signs of underlying weakness emerged. SA’s neighbours, which buy half of SA’s manufactured exports outside of cars, basic chemicals and metals, also posted softer growth. Overall, their expansion slowed with the end of the commodity boom in 2011, with increasingly slow and uncertain growth from 2015.

In terms of international policy, US tariffs and threats of tariffs have aggravated the decline in global trade and investment. They have contributed to slower growth in China and seem likely to dampen future expansion in the US. Meanwhile, Brexit makes growth in the EU, SA’s largest single export market, more precarious.

For SA, all this has meant weaker trade outcomes. Total US imports fell 9% in the first quarter of 2019 and Chinese imports dropped 11%, while EU imports were essentially flat. SA’s exports to the US, EU, Japan and Korea all dropped by more than 10%, and its exports to China dropped 3%.

Uncertainty around trade policy also influenced US monetary policy, affecting short-term capital flows into emerging markets such as SA. US interest rate hikes in 2018 encouraged capital outflows. As the trade wars take their toll, however, rate cuts have become more likely, which should reverse the losses.

At the domestic level, growth has been slow and uncertain since 2015 and the underlying causes haven’t changed much. In this period, public investment and government spending slowed sharply and Eskom resorted repeatedly to load-shedding. A series of severe droughts deeply affected agriculture and tourism, leading to unusual instability in GDP figures and underscoring the imperative of stronger strategies towards the climate emergency. More broadly, as long as the economy remains unusually inequitable and mining dependent, it won’t sustain rapid growth.

As for domestic policy, in the past six months high-stakes national elections accompanied a drumbeat of reports on the state-capture project and the dire situation at Eskom. In statistical terms, a fall in consumer purchases drove the contraction in early 2019. In SA, because the richest 10% of households account for more than half of retail sales, consumer uncertainty tends to align with investor concerns, which were reflected in the capital outflow at the end of 2018.

If you’re out sailing, the normal response of battening down the hatches and riding out bad weather may prove catastrophic in the violence of a perfect storm. Similarly, SA can’t fall back on narrow conventional responses to this downturn. The election outcomes should help calm domestic policy uncertainty. But only stronger and more innovative strategies can counter the effects of slowing commodity exports and uncertain international capital flows, tackle structural blockages in the domestic economy and manage the effects of the climate emergency.

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