

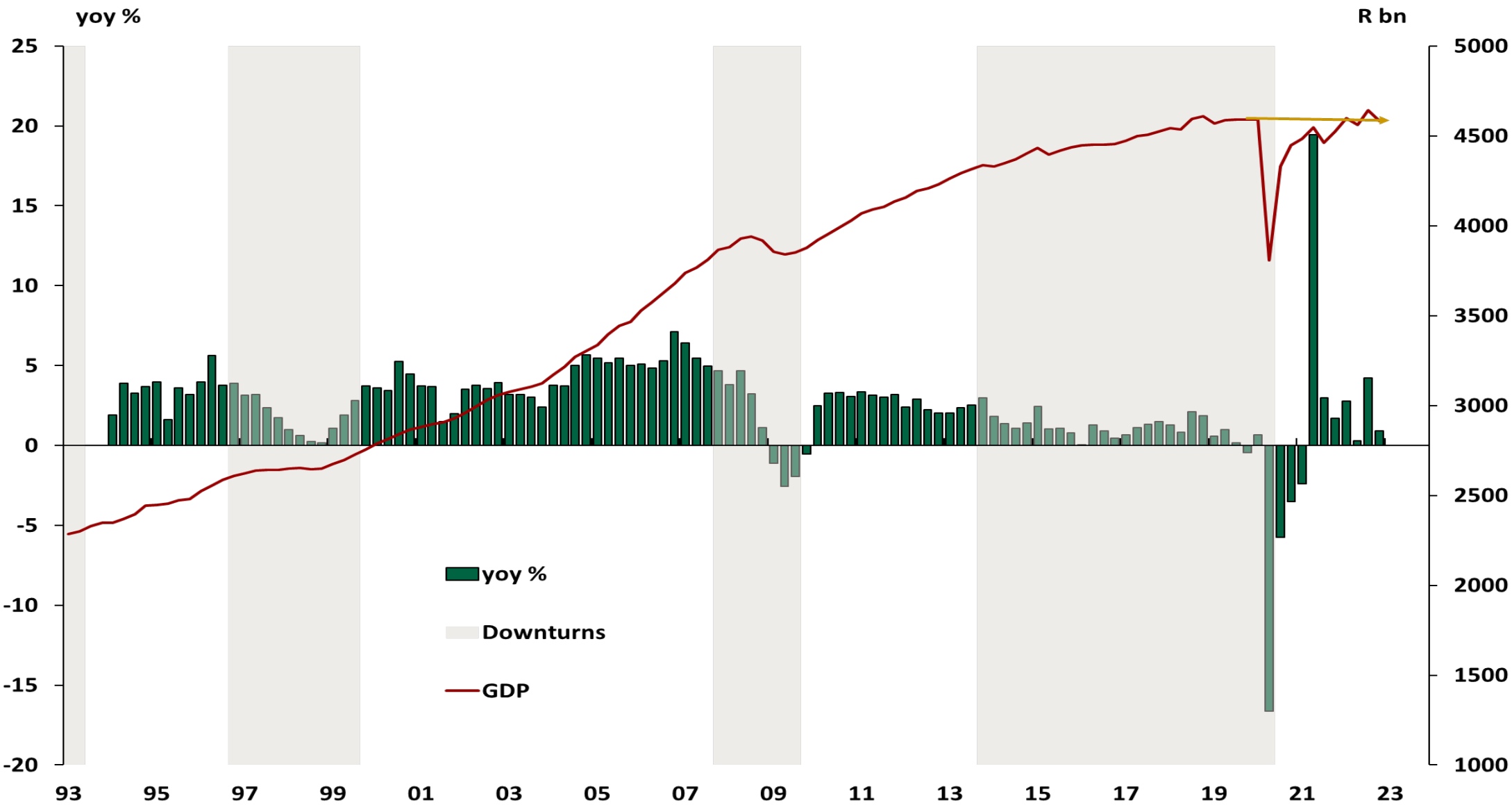


SA Economic Prospects: Bracing for another tough year

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20 April 2023

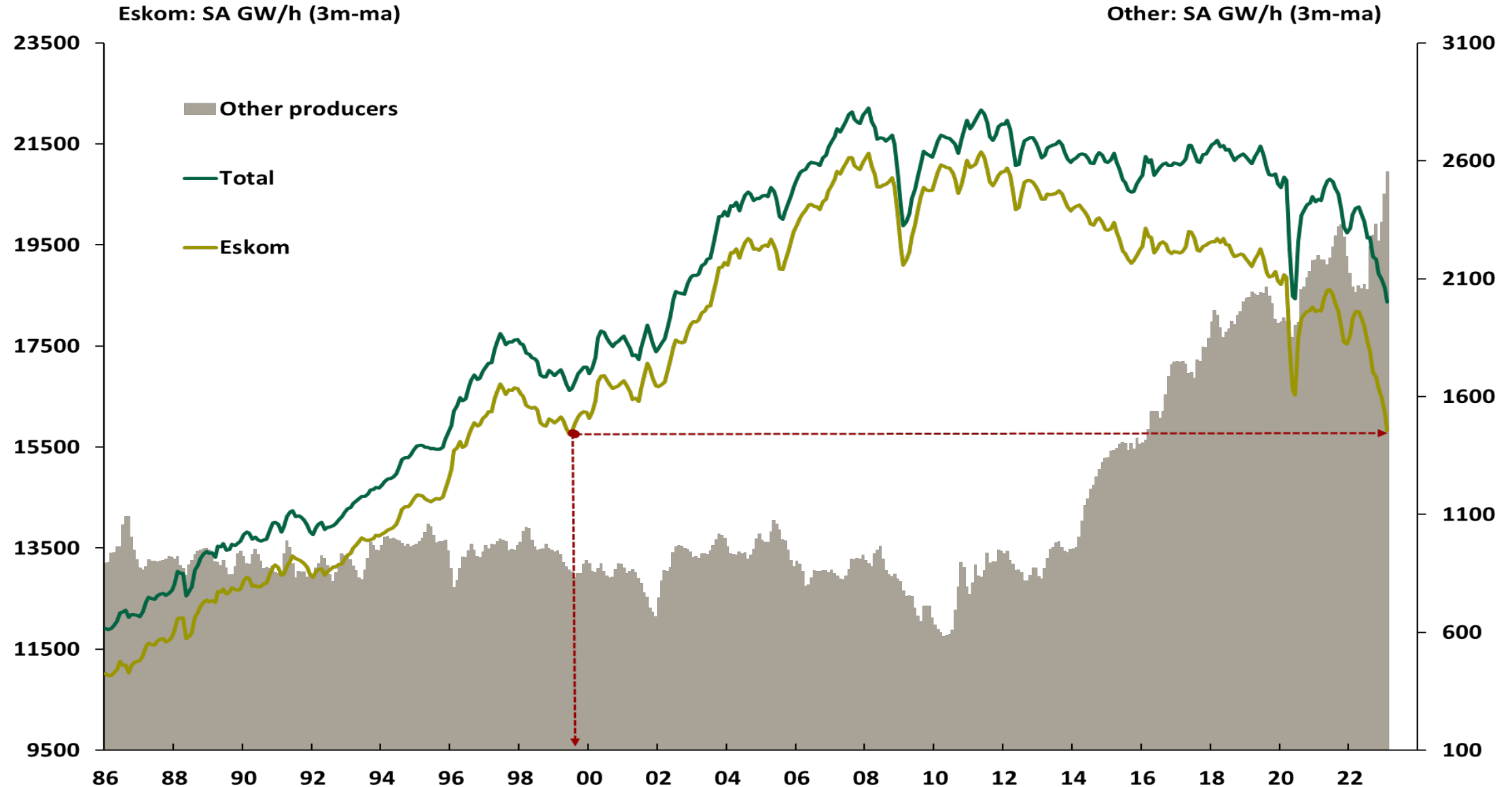
see money differently

NEDBANK



Source: Stats SA

The growth outlook is marred by an acute electricity shortage



Source: Stats SA



There is a lot we simply do not know...

• The knowns...

- Households are subjected to all stages of load-shedding
- Large energy users (miners and manufacturers) are subjected to load-curtailement
- The large energy group indicated that load-shedding at stages 4 and above starts to hit production materially
- The grid is extremely unstable
 - Eskom indicated that it is highly likely that new stages will be introduced in the winter – stages 7-8
 - At these levels, unintended consequences such as prolonged water outages could follow.
- It is clear that the economy needs to adjust to a whole new level of load-shedding. As a result, growth will suffer.
- The question is how much?

Requiring too many assumptions...

• The unknowns...

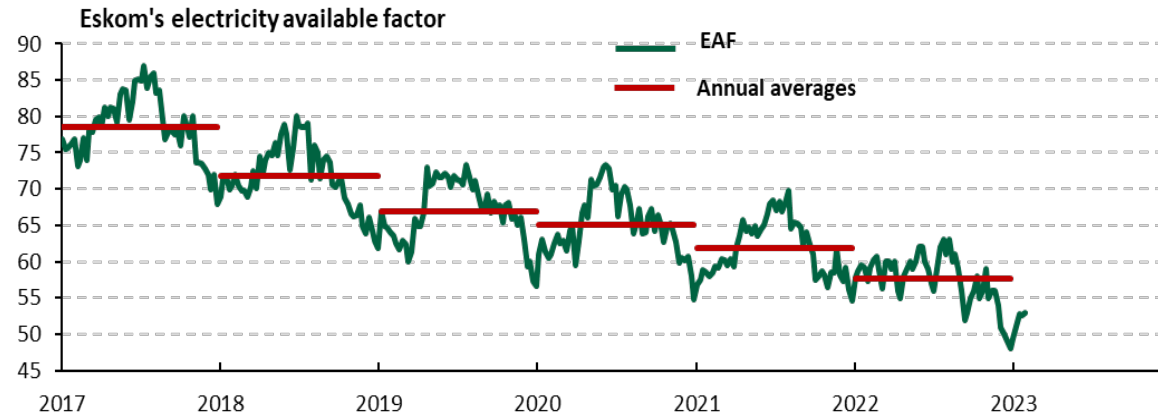
- How many days of load-shedding will SA experience in 2023?
- What stages of load-shedding will the economy be subjected to every day?
- The extent to which private companies have adapted by installing alternative or backup energy generation, whether diesel generators or solar panels with batteries and inverters.
 - Eskom believes that there is significant private capacity out there
 - It is impossible to measure because it is not declared

• Our assumptions

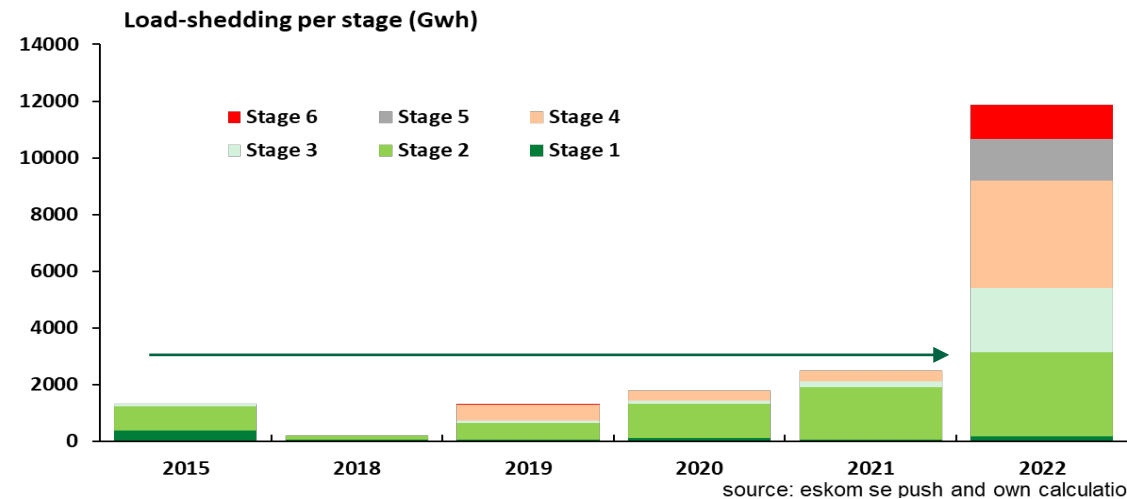
- The economy operates at stages 4-5 on average for much of 2023
- The switch to renewable and/or alternative energy sources accelerate
- Economic growth is materially affected in 2023, but conditions improve from 2024 onwards

The economy now has to adjust to much more frequent and prolonged power outages

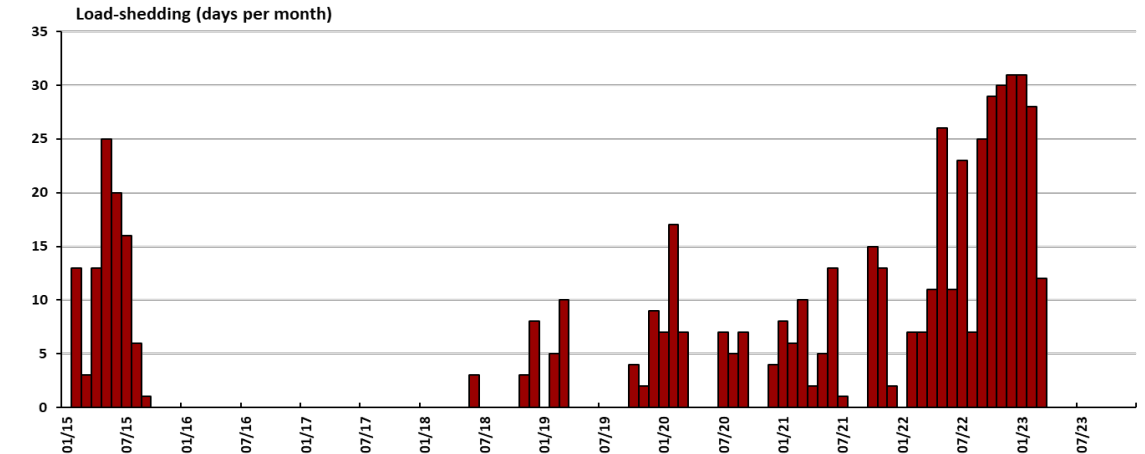
Eskom's operational efficiency has deteriorated dramatically, resulting in a sharp escalation in rolling black out, particularly from Q4 2022



The economy will have to adjust to more frequent and prolonged power outages per working day



The economy was subjected to 207 days of load-shedding in 2022, up from 75 and 54 in 2021 and 2020, respectively



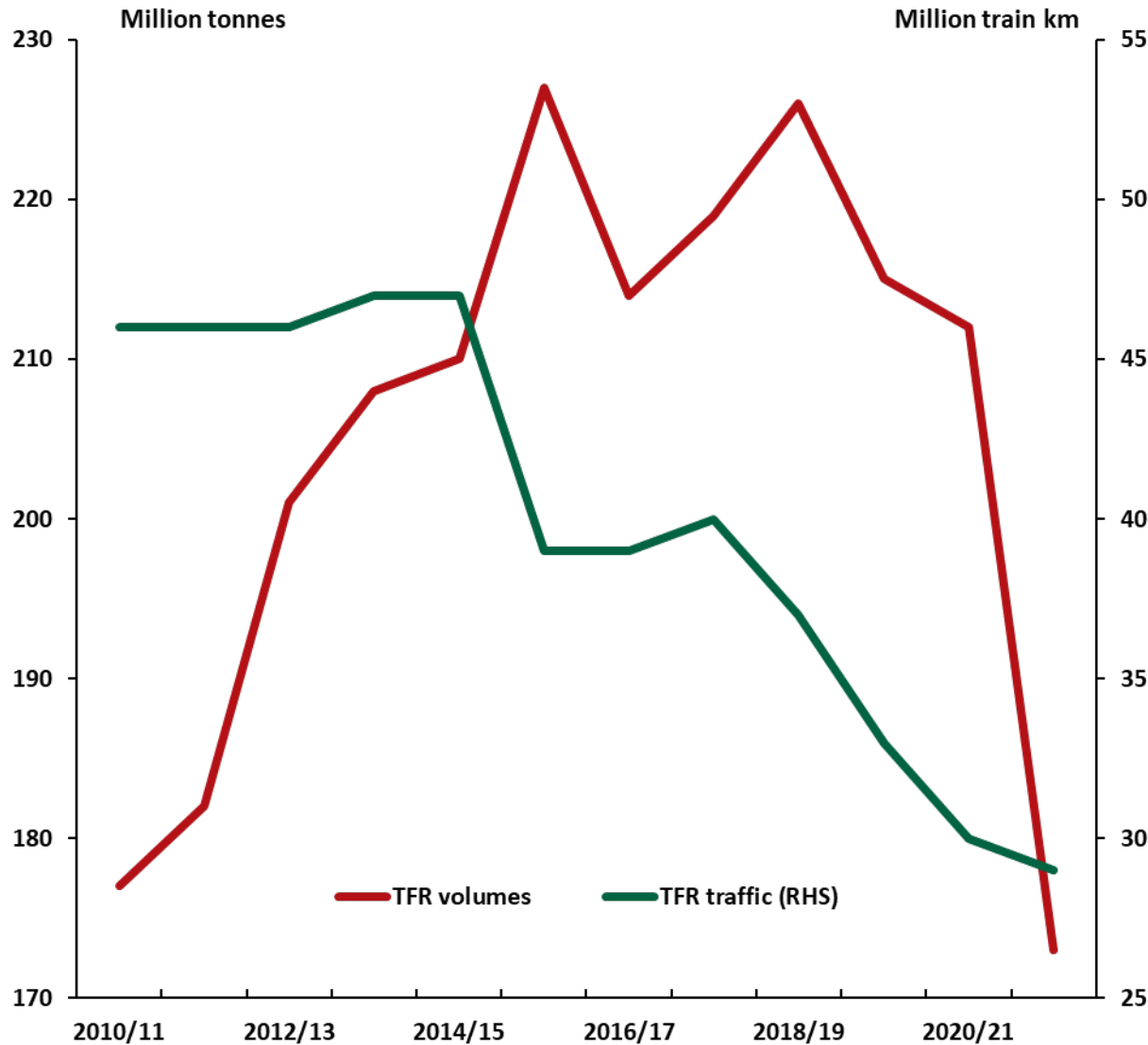
The South African Reserve Bank's estimates of the economic costs of load-shedding at the different stages

| | Nominal GDP lost (R'mn per week day) | Real GDP lost (R'mn per week day) |
|------------------|---|--------------------------------------|
| Stages 1-2 | 0 -1.2 | 0-0.8 |
| Stage 3 (3000MW) | 204 | 136 |
| Stage 4 (4000MW) | 408 | 272 |
| Stage 5 (5000MW) | 725 | 484 |
| Stage 6 (6000MW) | 899 | 499 |

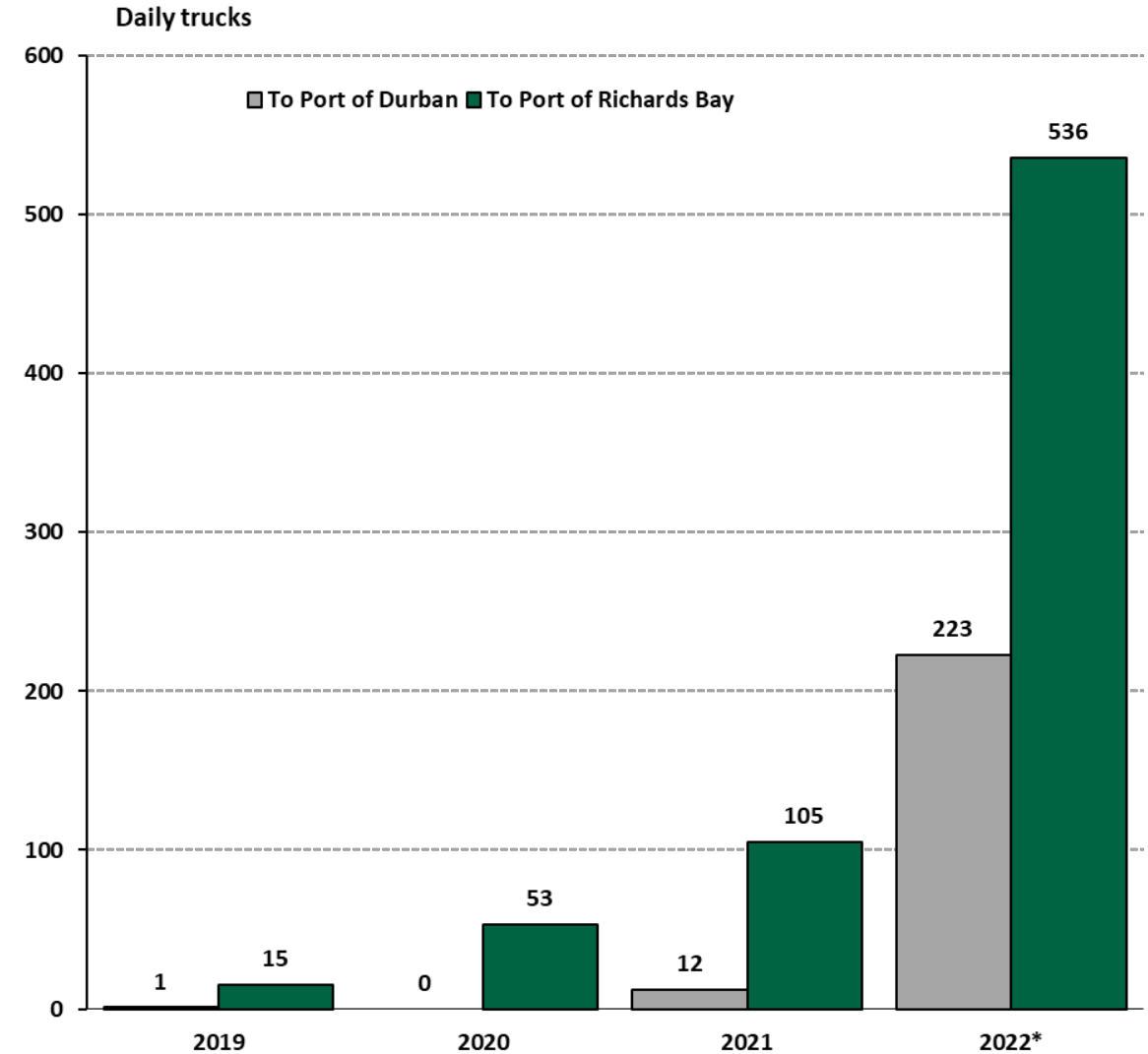
Electricity is not the only problem



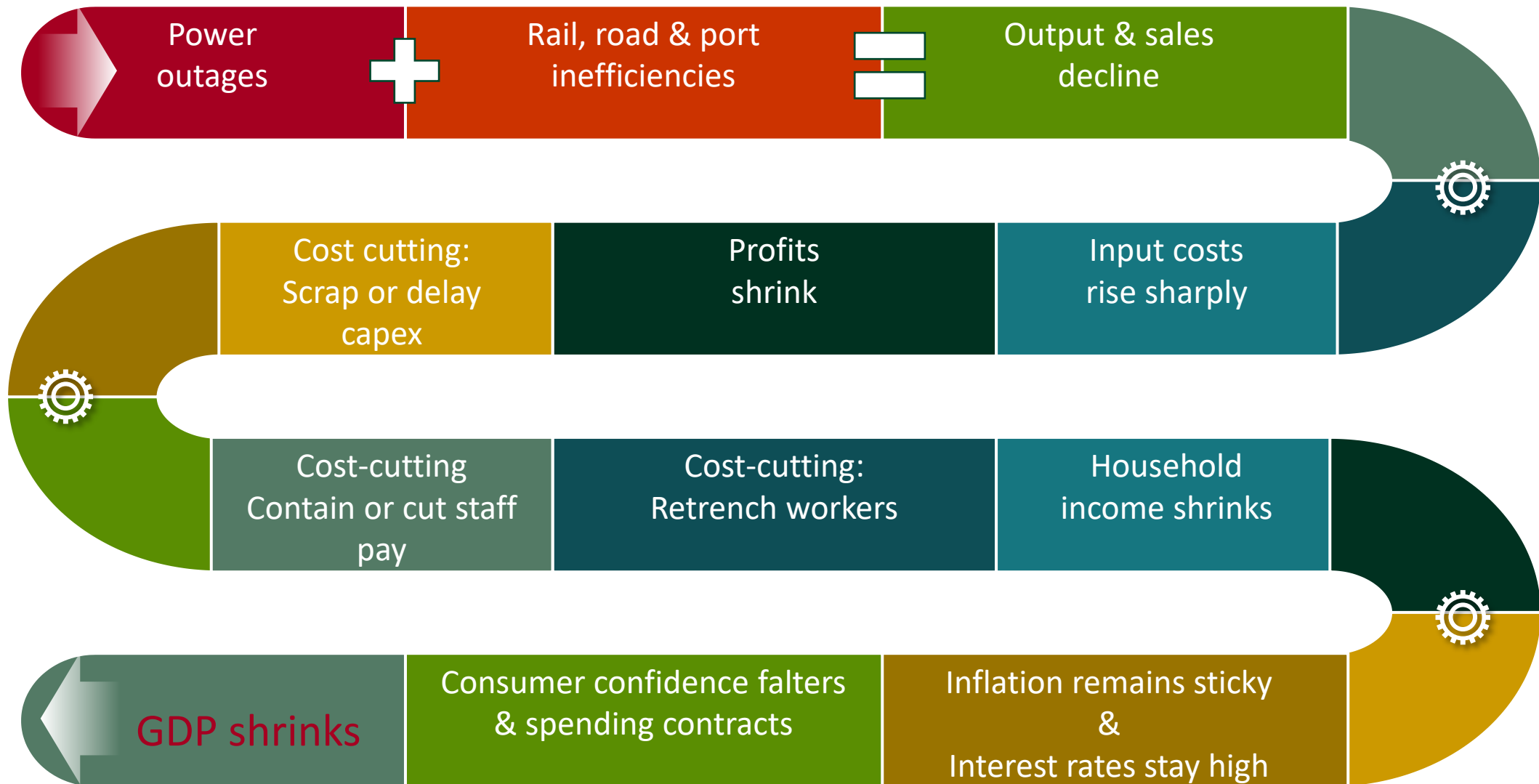
The inefficiency of rail have resulted in a sharp drop in bulk rail transport



As a result, more goods and bulk commodities travel by road, driving up production costs and damaging road infrastructure



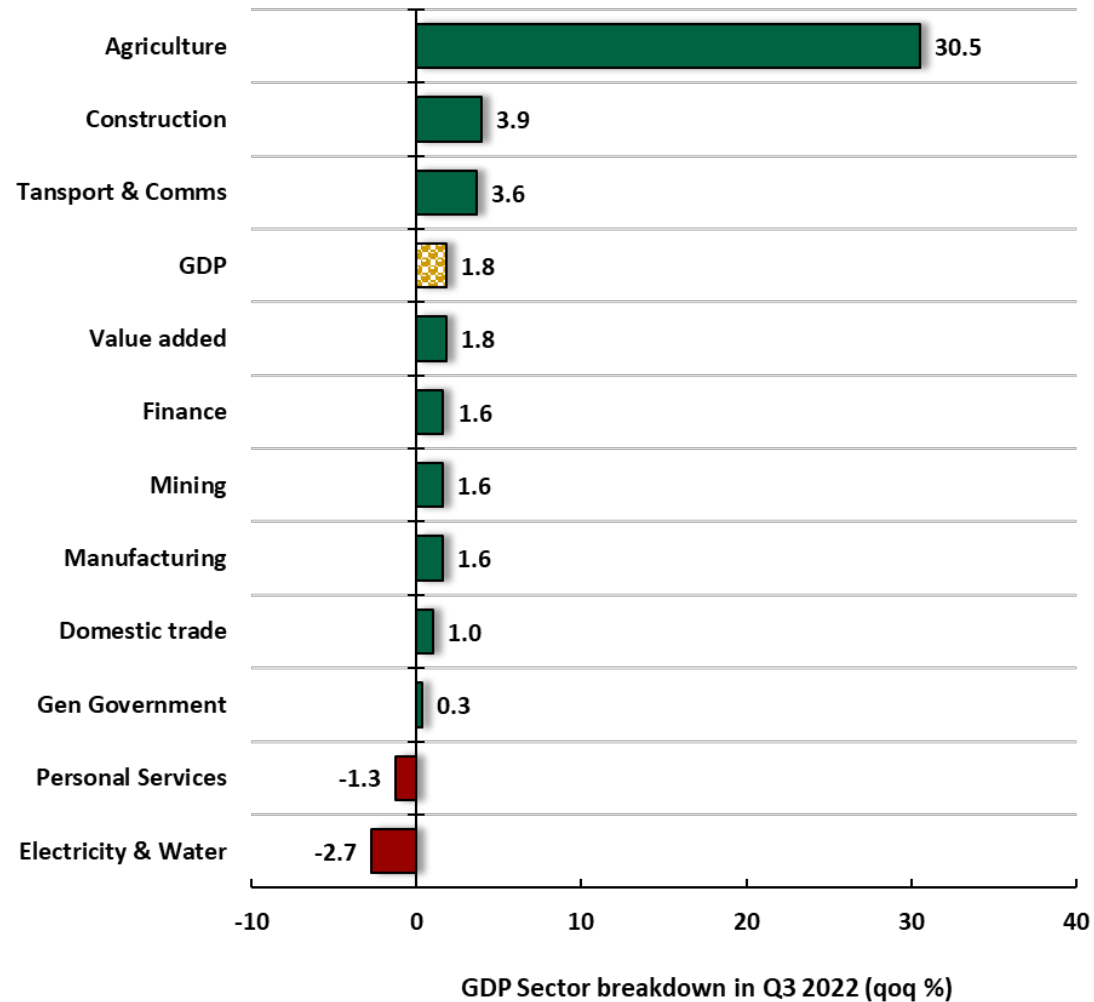
The likely chain reaction...



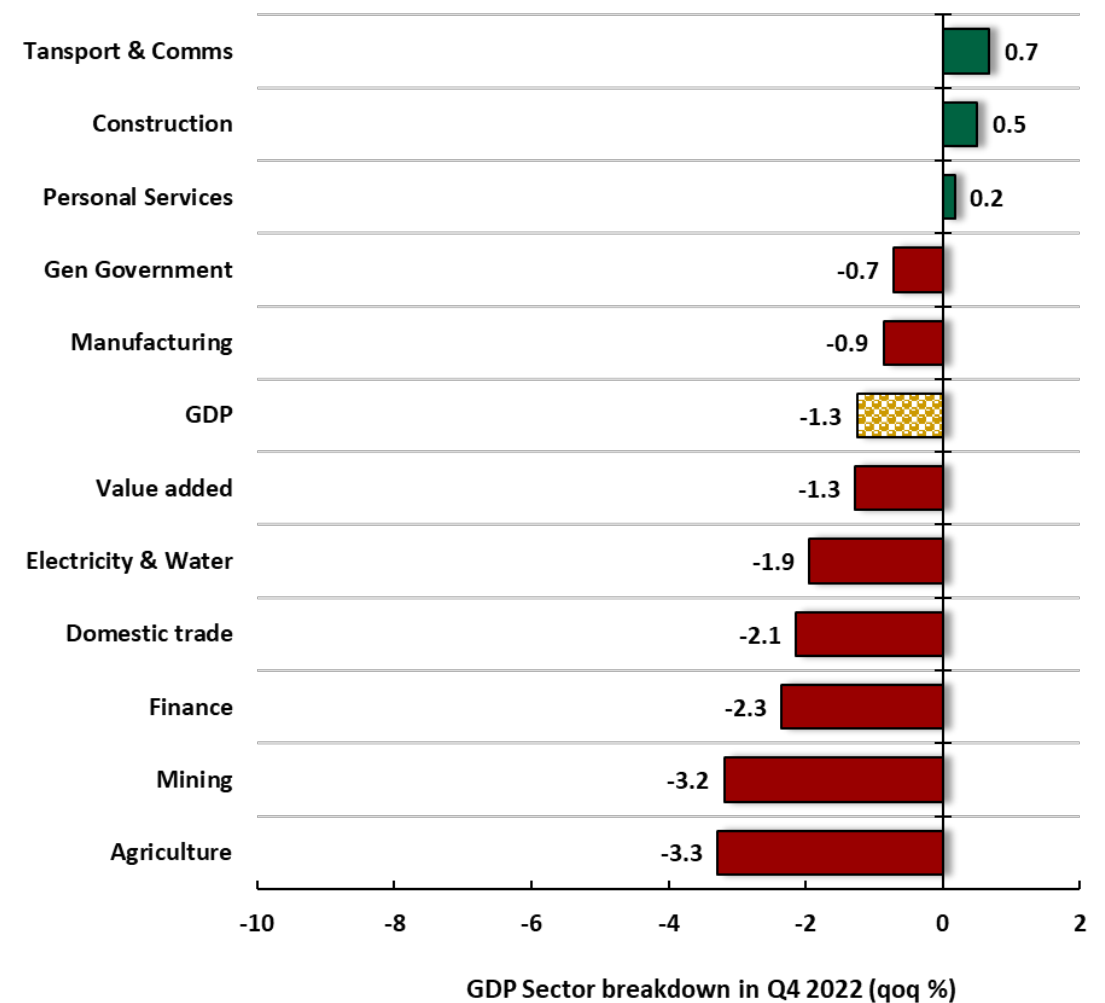
The impact of load-shedding was particularly visible in Q4 GDP



From Q3...



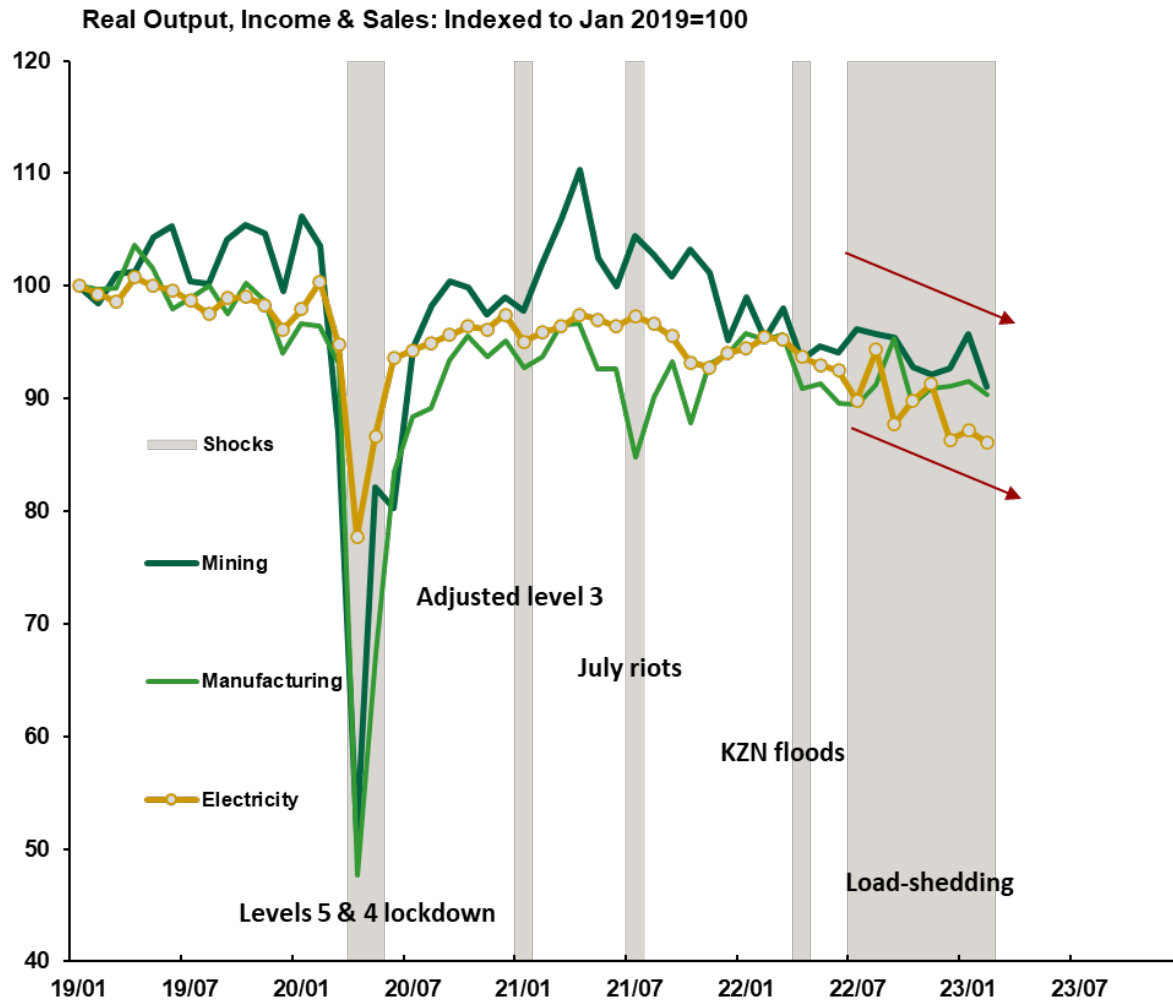
...to Q4



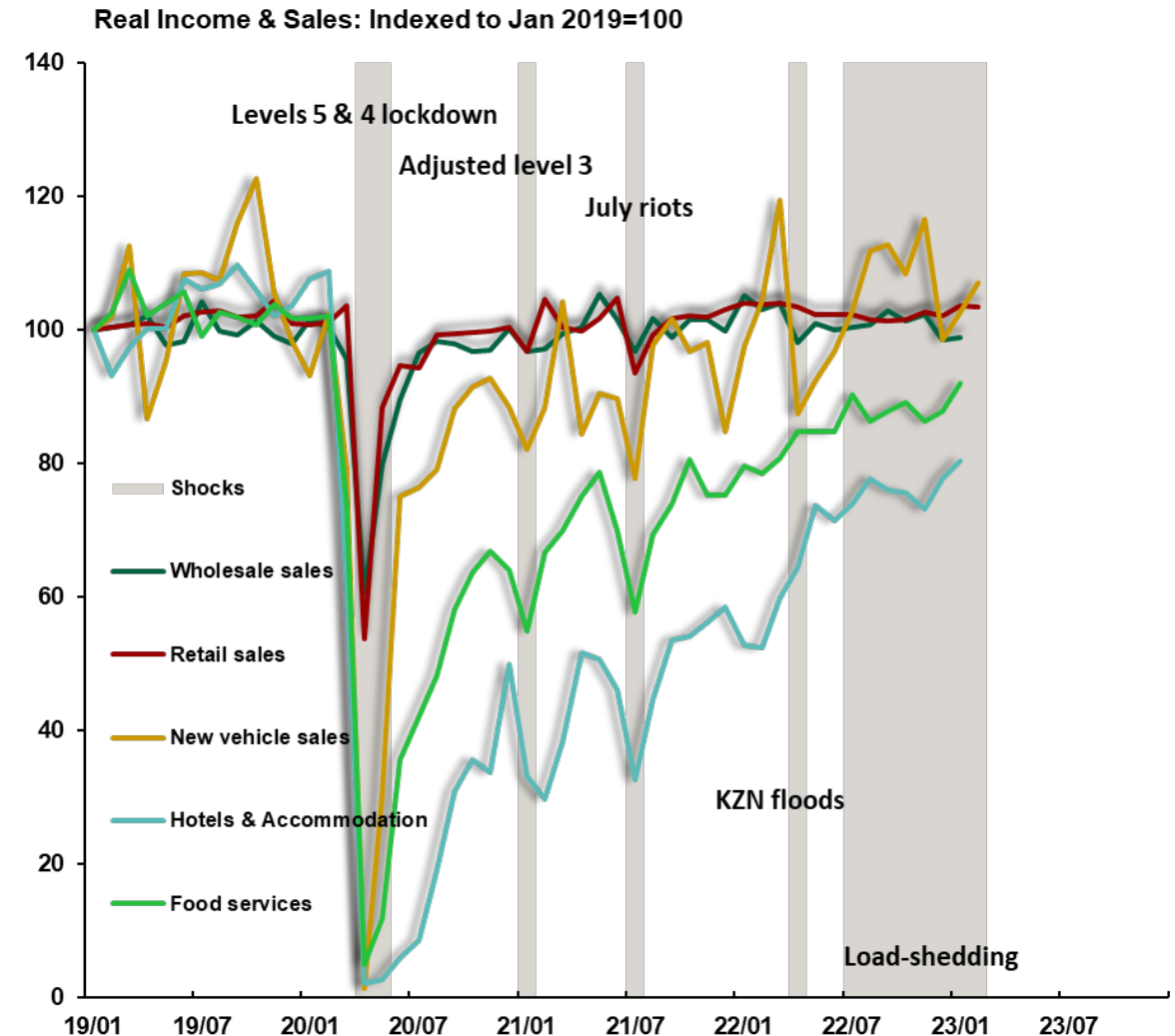
The pressure and the disruptions worsened in early 2023



The impact of load-shedding is clearly visible among heavy-energy users



Services have held up better



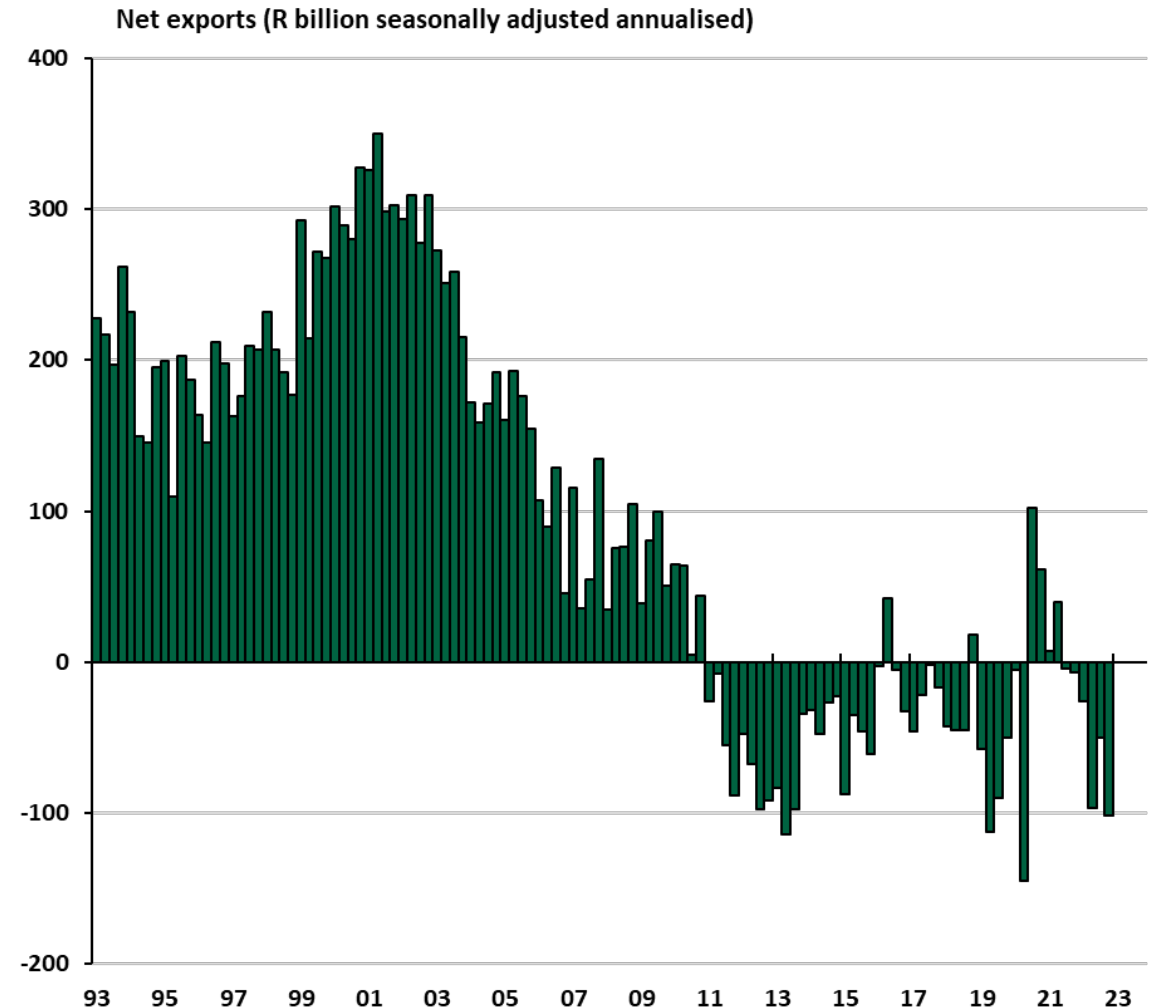
The drag from a negative net export position will intensify in 2023



Exporters face numerous challenges, which is likely to hit production hard in 2023

- The electricity crisis
- Other logistical constraints
- Weaker global demand as higher interest rates start to bite & China's reopening dividend fades
- Lower commodity prices will result in further deterioration of the country's terms of trade
- The drag from a negative net export position will intensify
- Both export volumes and prices will fall short of those of imports, translating into a widening current account deficits

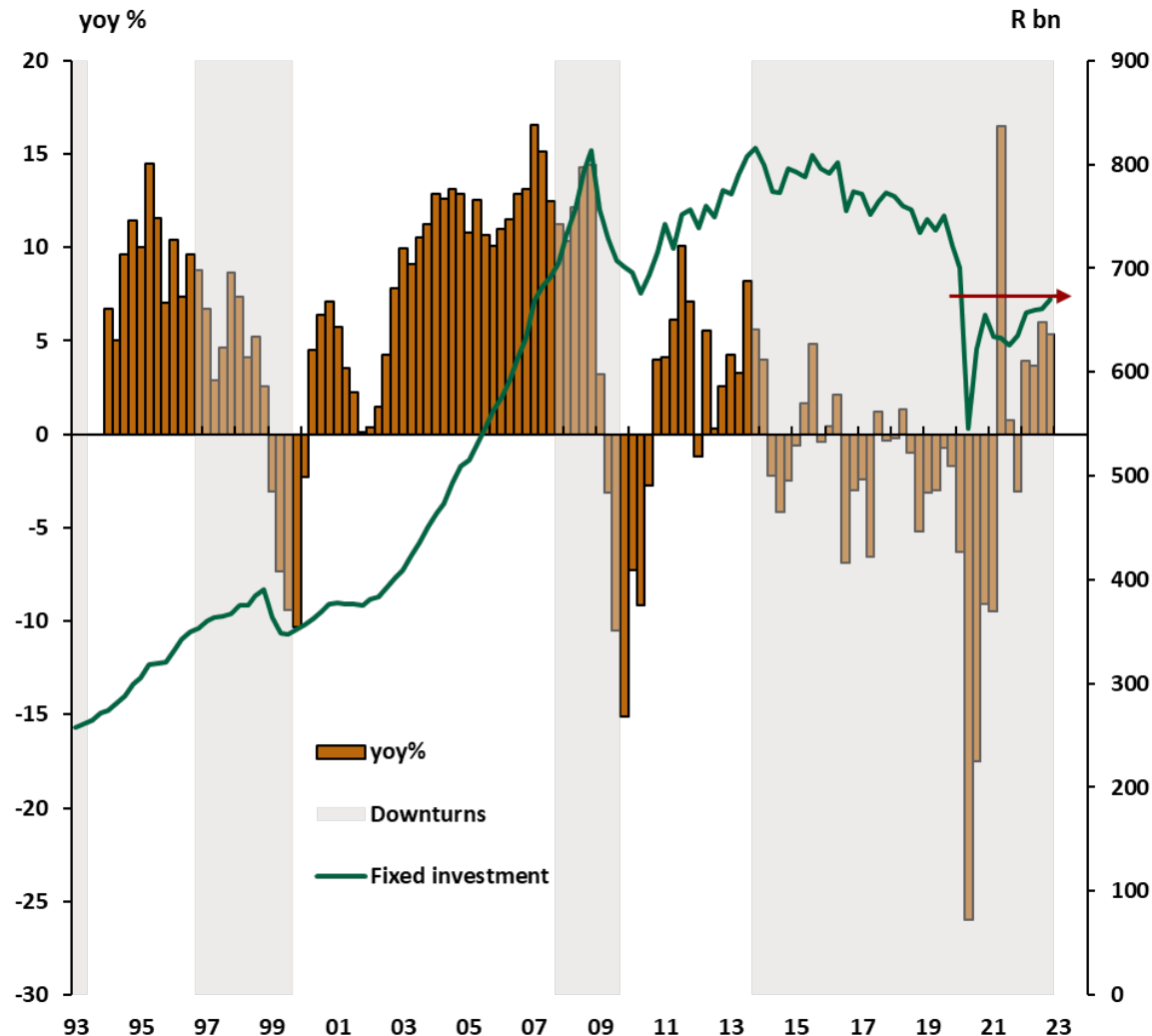
Exports volumes likely to fall by more than imports



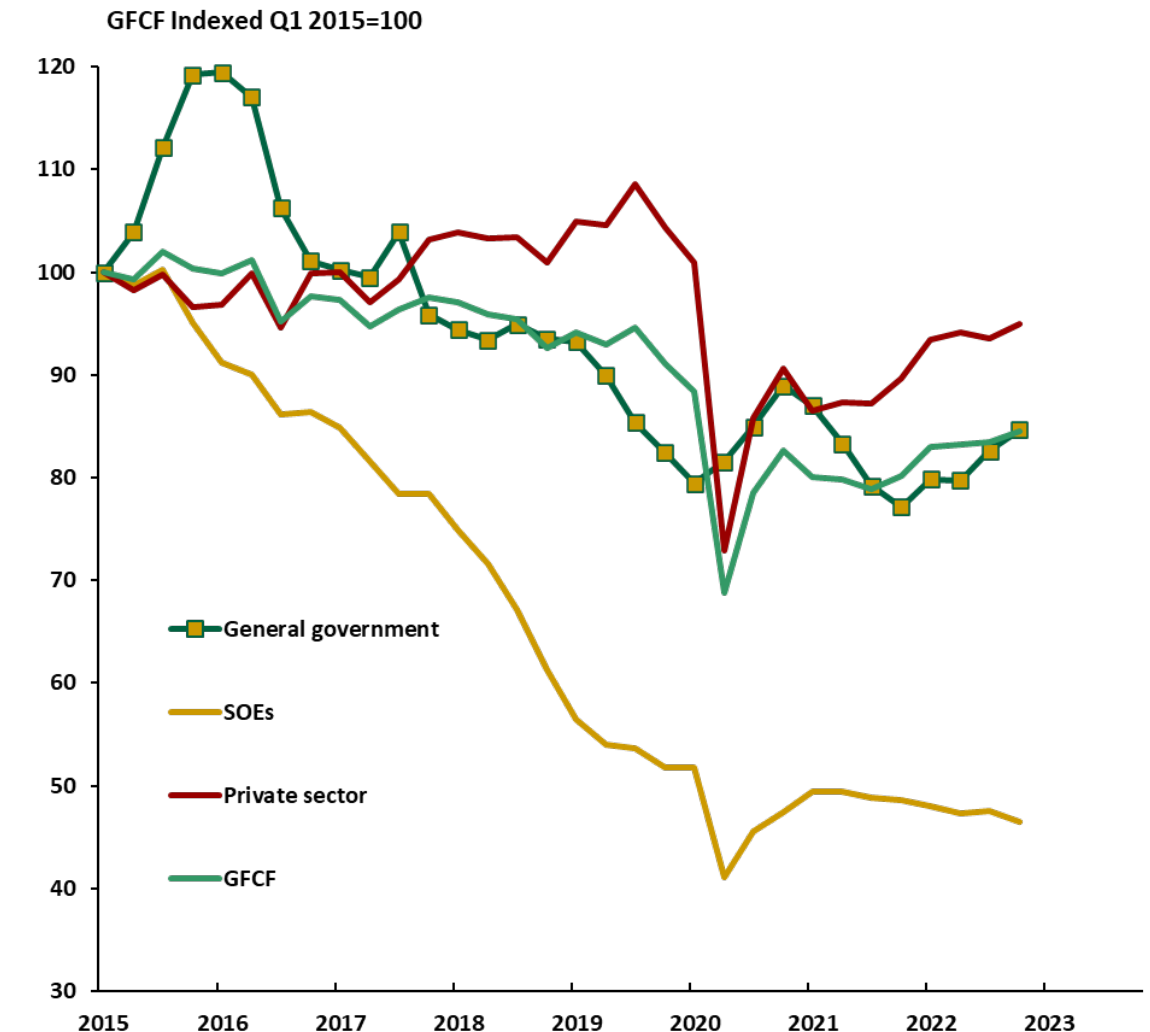
Fixed investment will also be affected by the adverse operating environment



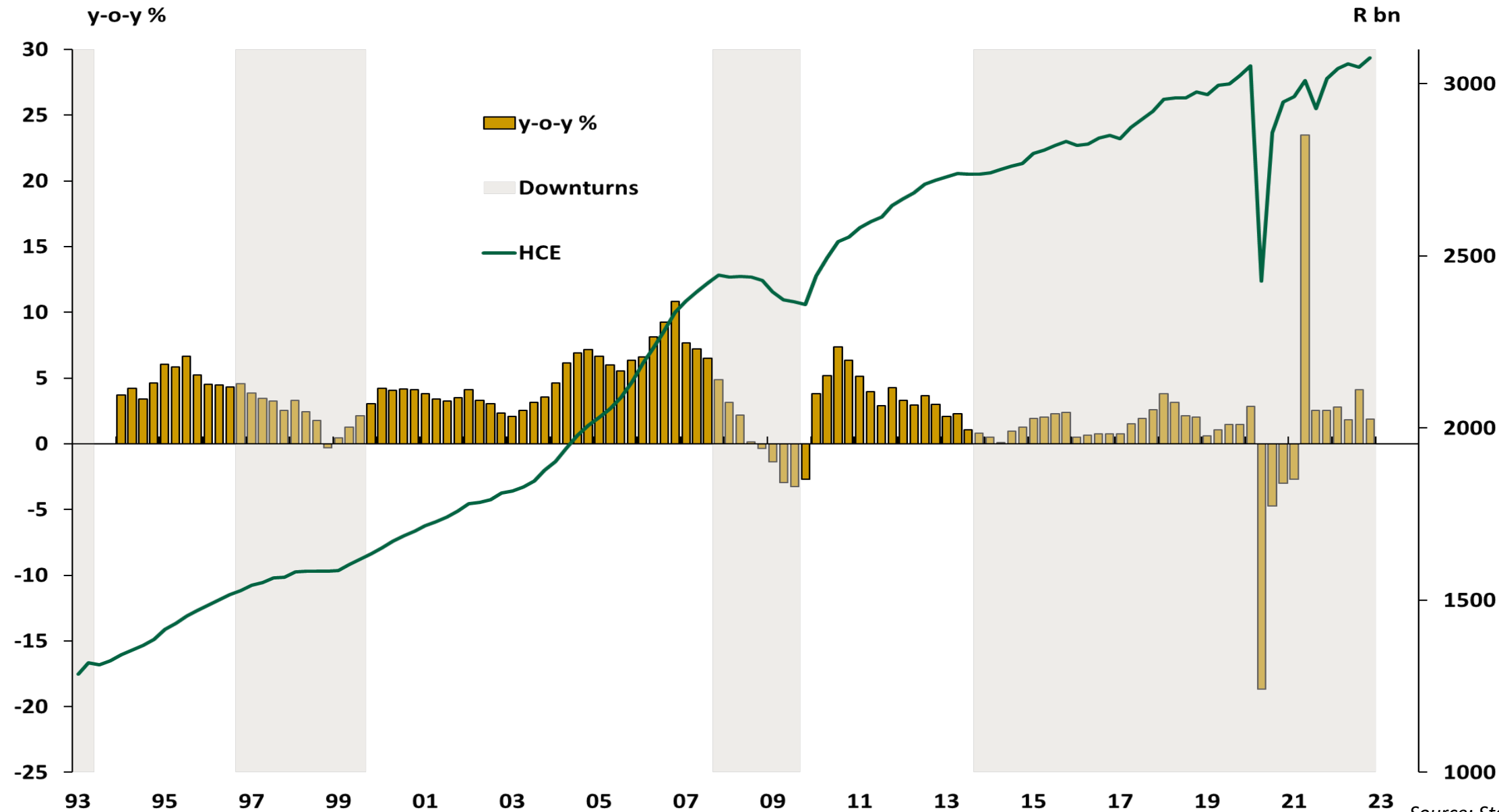
So far, fixed investment activity has held up relatively well



...lifted by increased capital outlays by the private sector & general government



Consumer spending remained relatively resilient in Q4

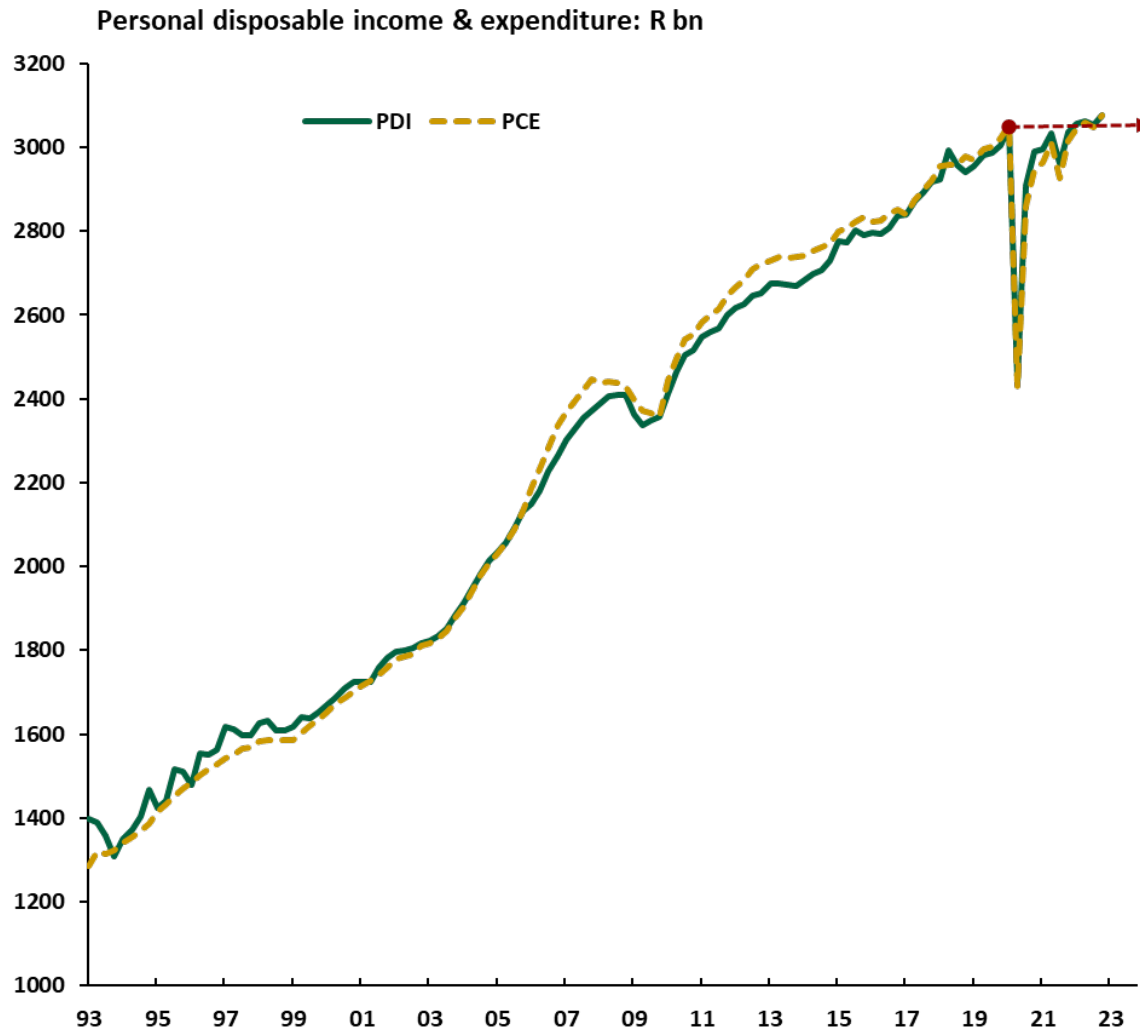


Source: Stats SA

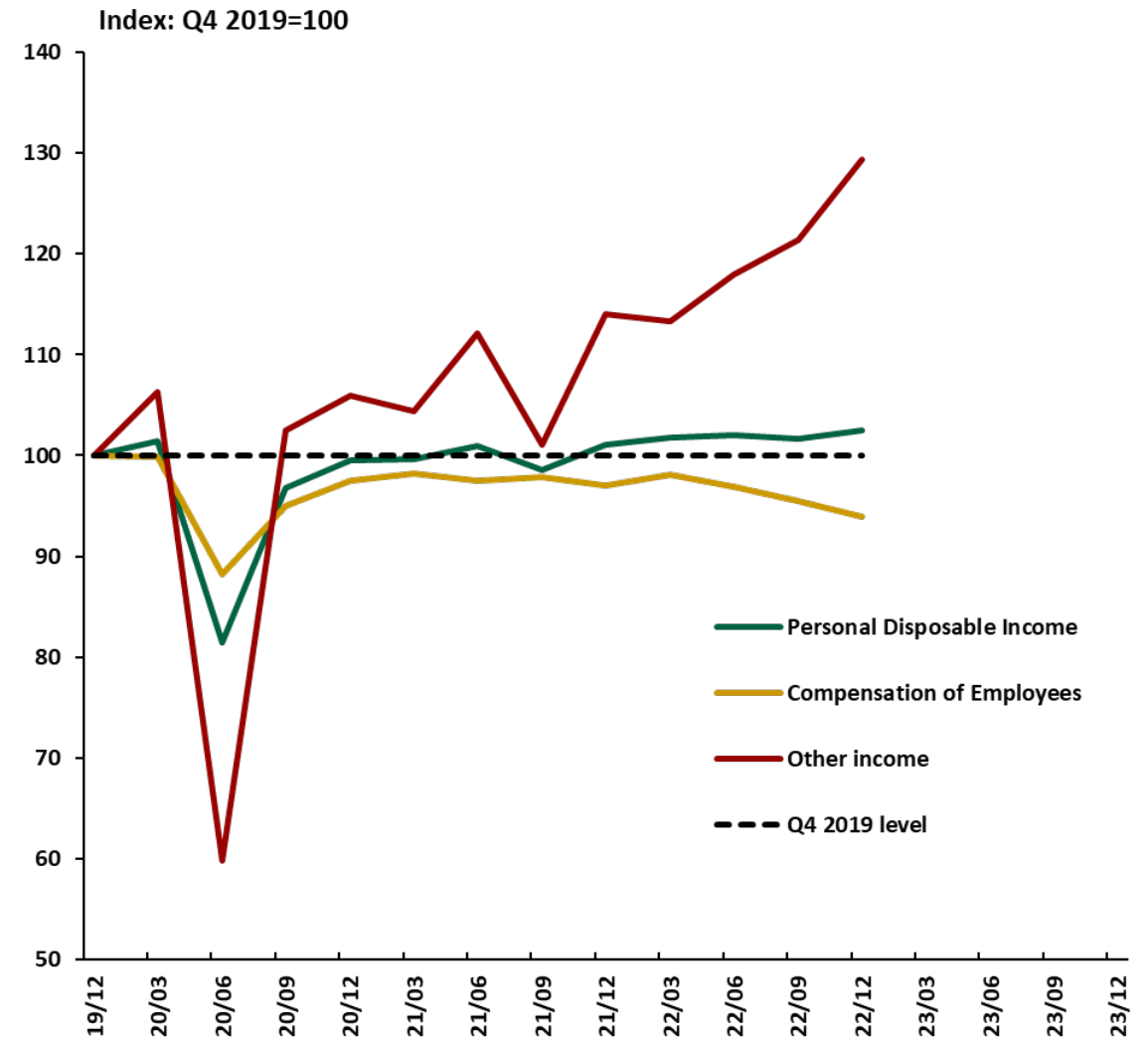
The squeeze on household incomes will intensify



Disposable income growth is expected slow



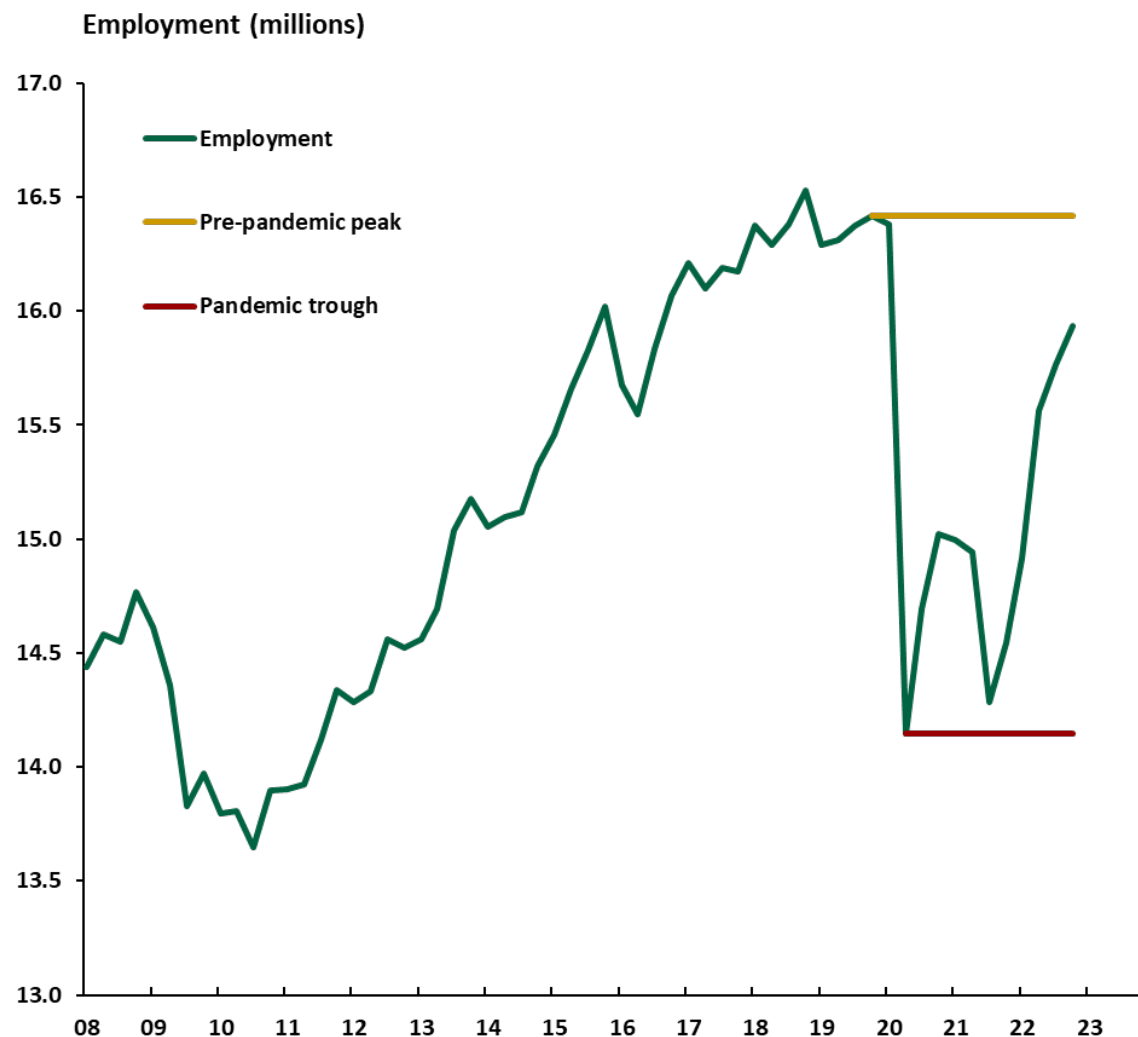
Employee compensation is already drifting down



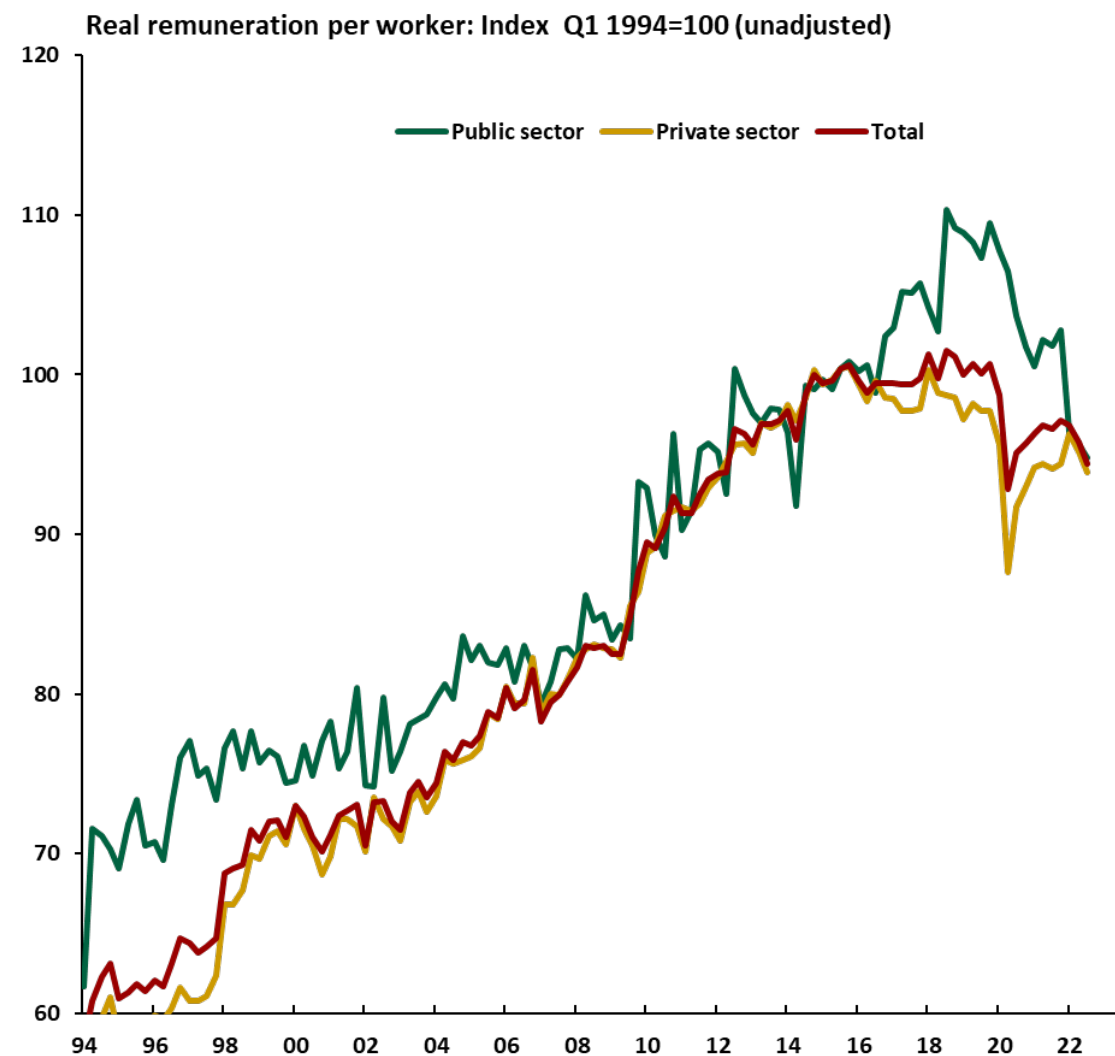
Employment is still improving, but pay is under pressure



The economy created more jobs in 2022. However, employment remains well below pre-pandemic levels



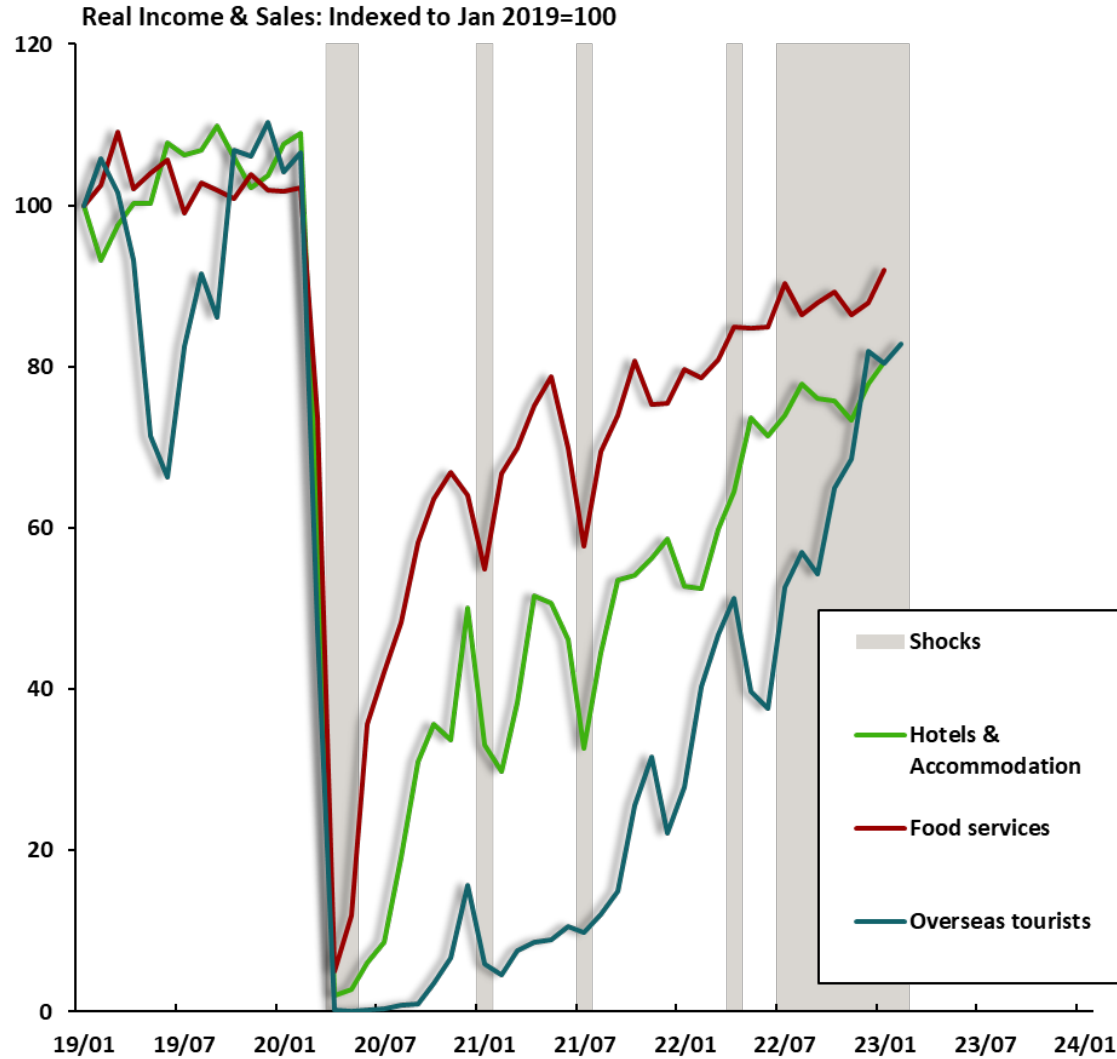
The drag on compensation is coming from the public sector. We expect private sector pay to come under greater pressure.



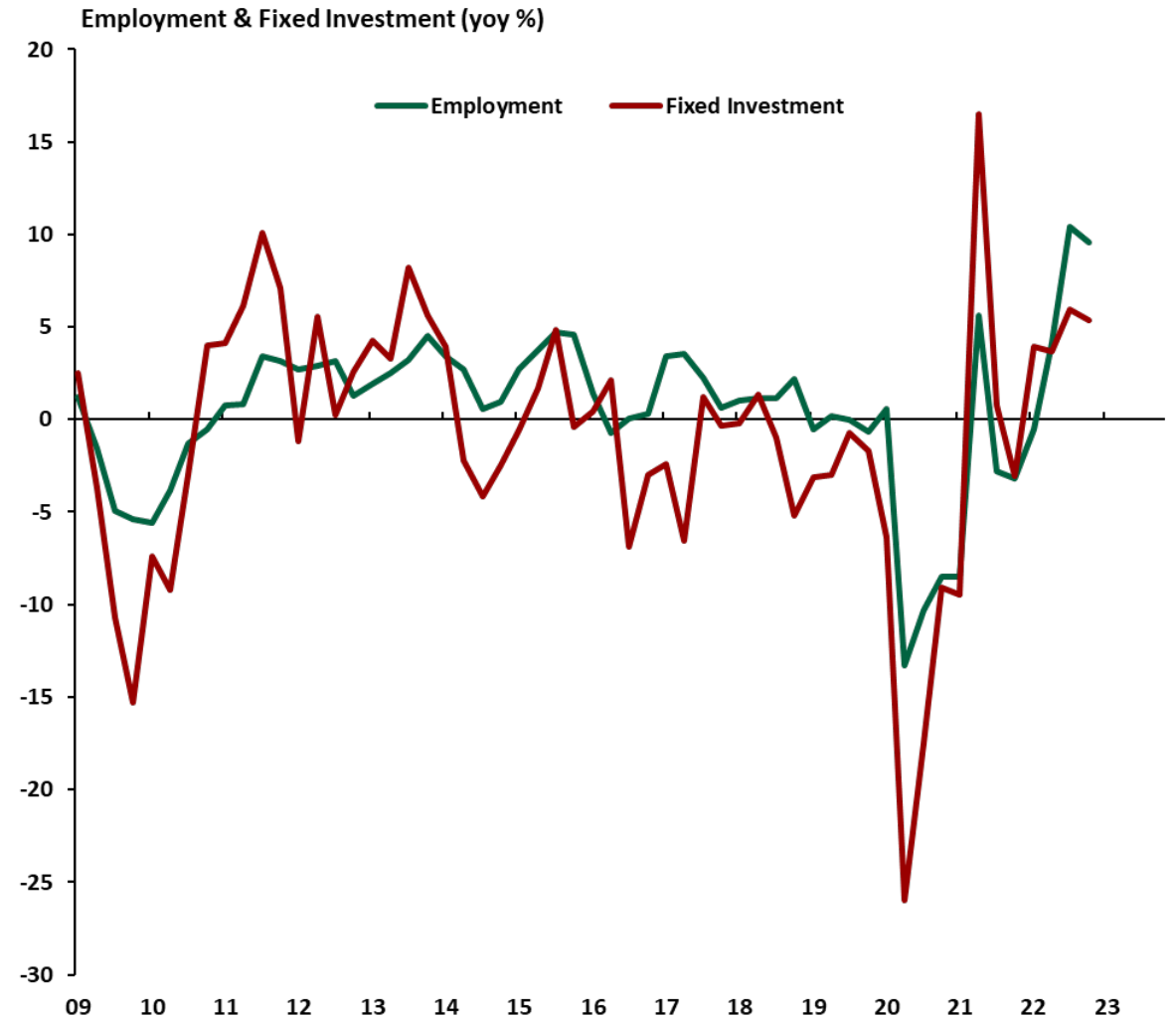
Some counteracting forces could help prevent a job bloodpath



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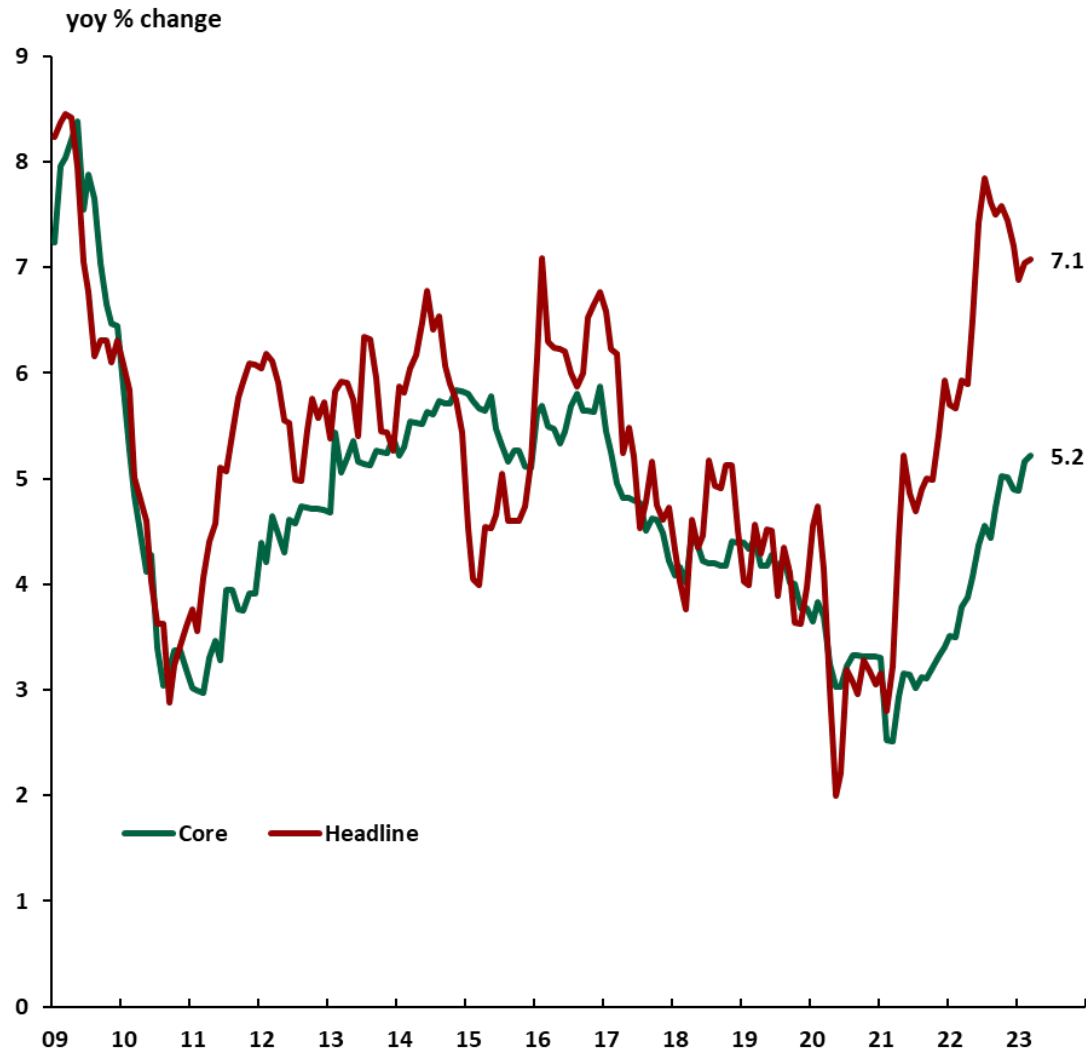
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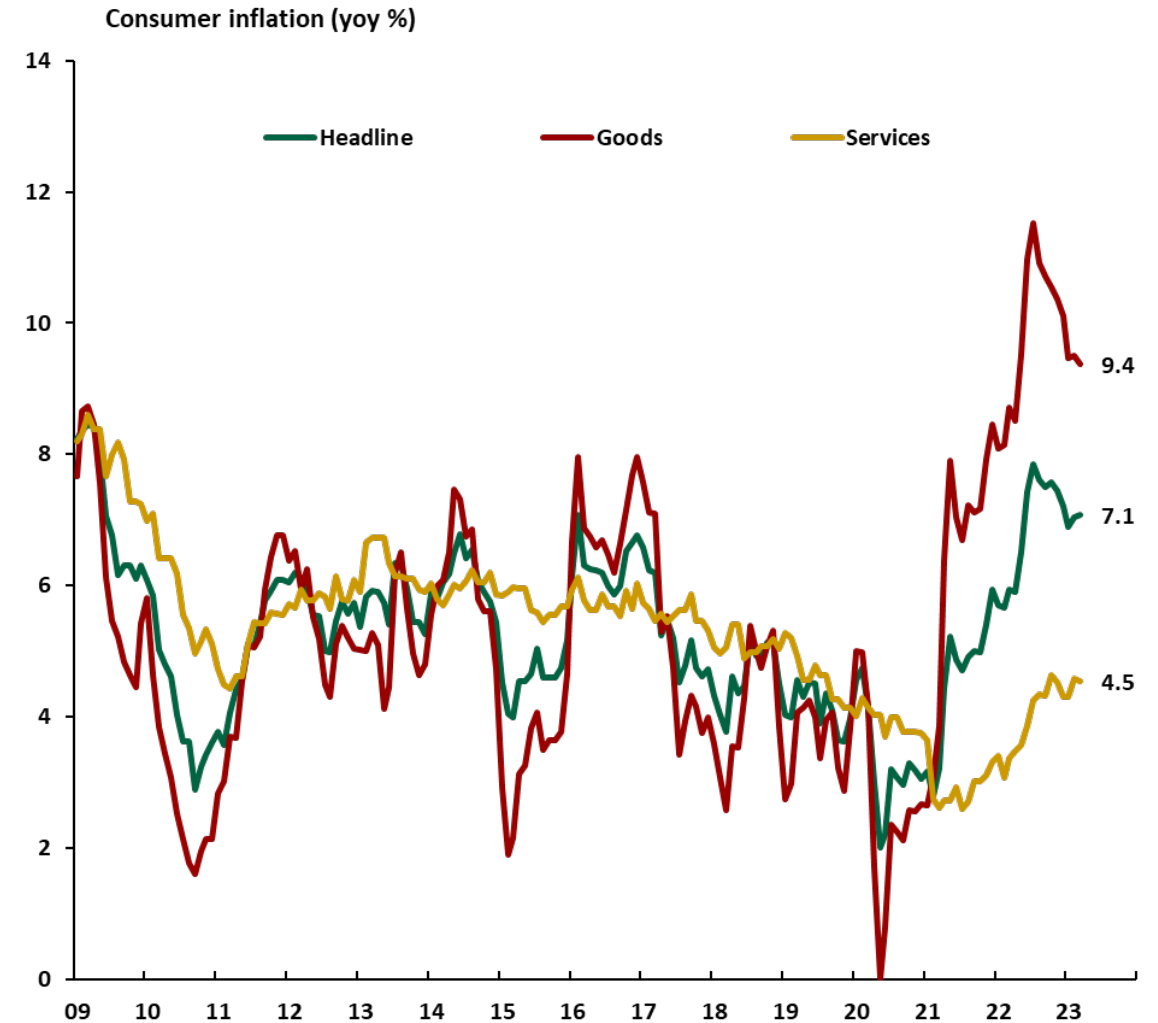
Even so, inflation will remain an erosive force



Headline inflation is proving sticky at around 7%



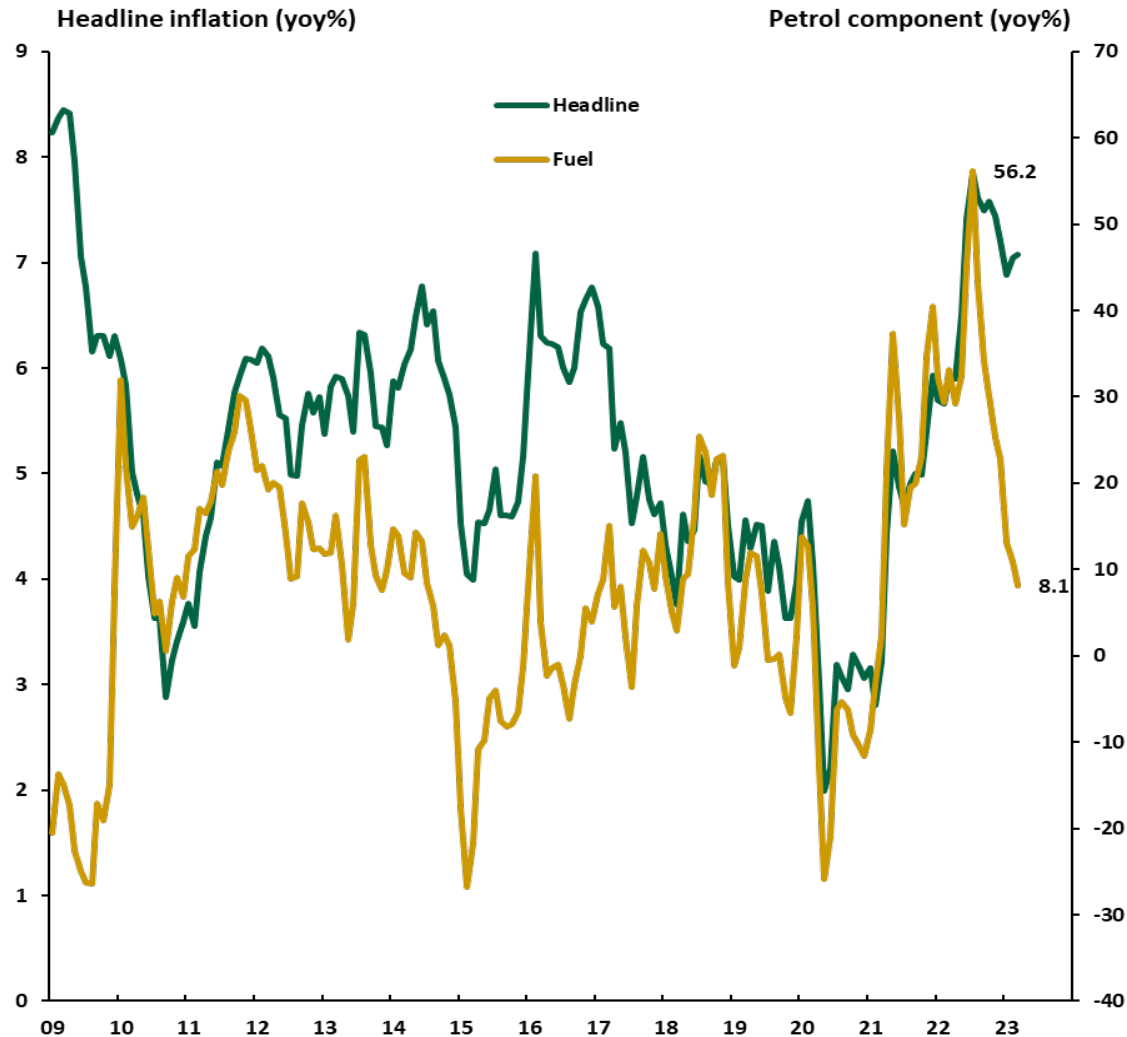
Price pressures are becoming more broad-based



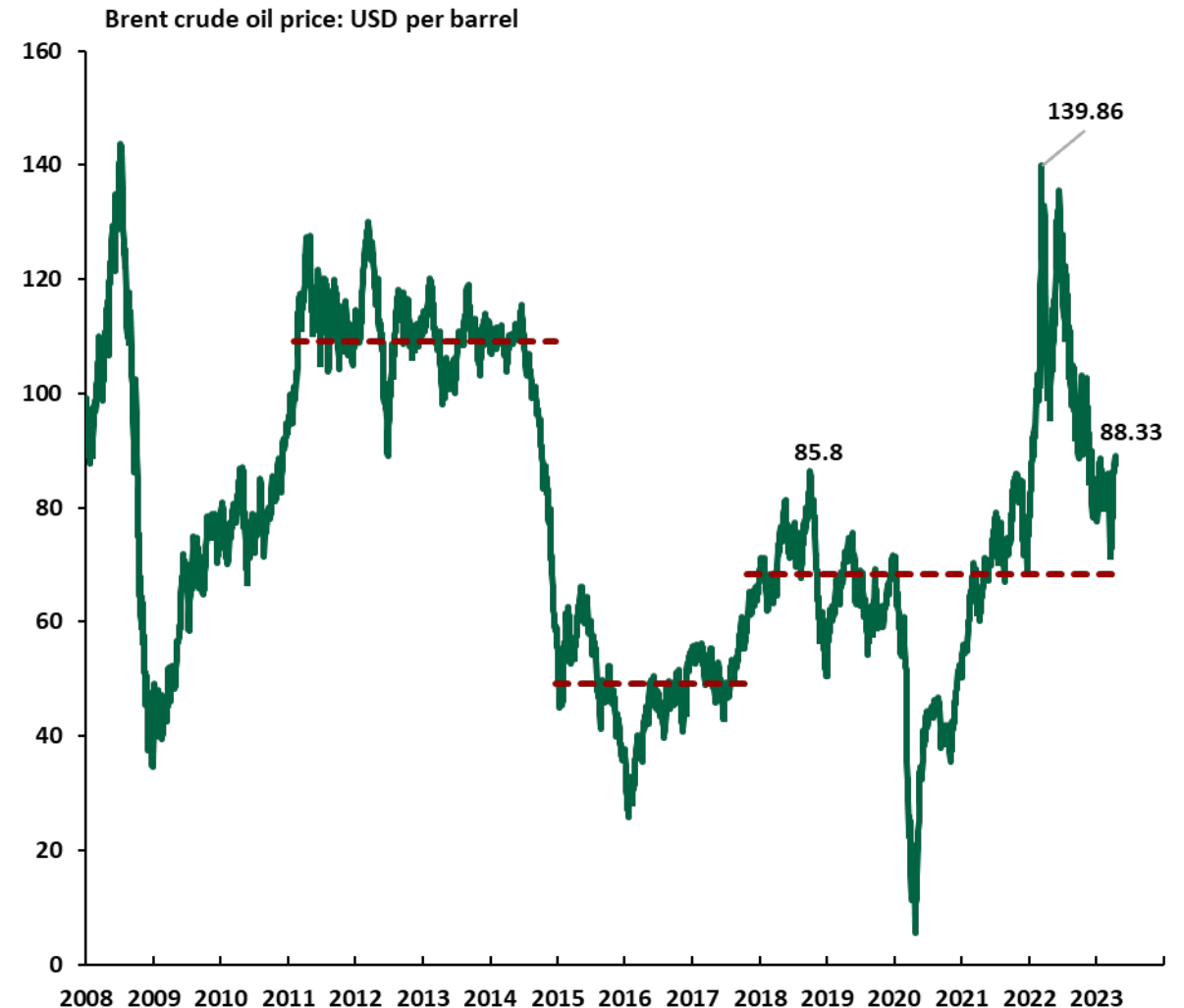
Downward pressure will come from lower global oil prices off a high base



Fuel prices should be a source of disinflation



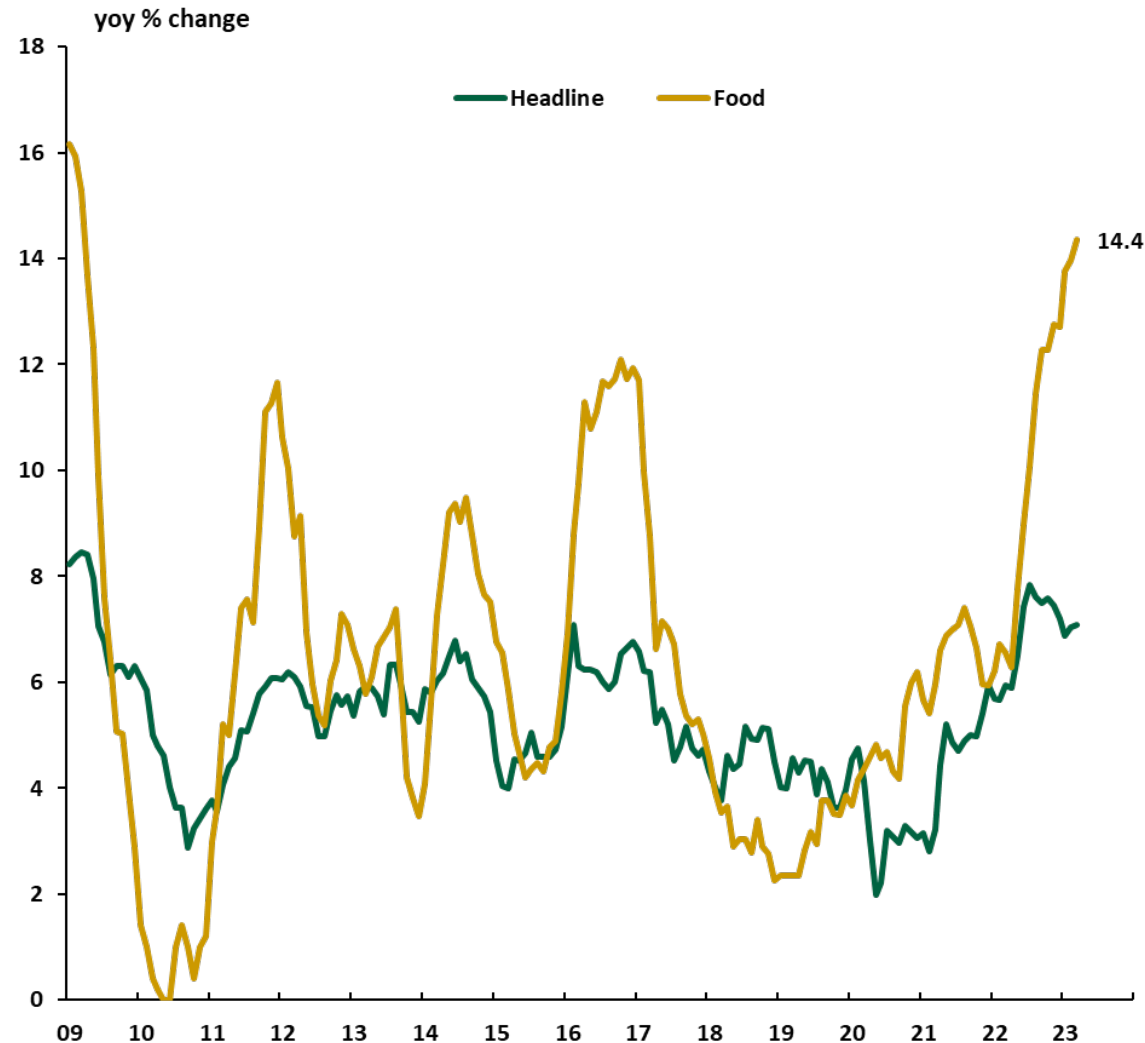
The downward pressure will come from oil prices



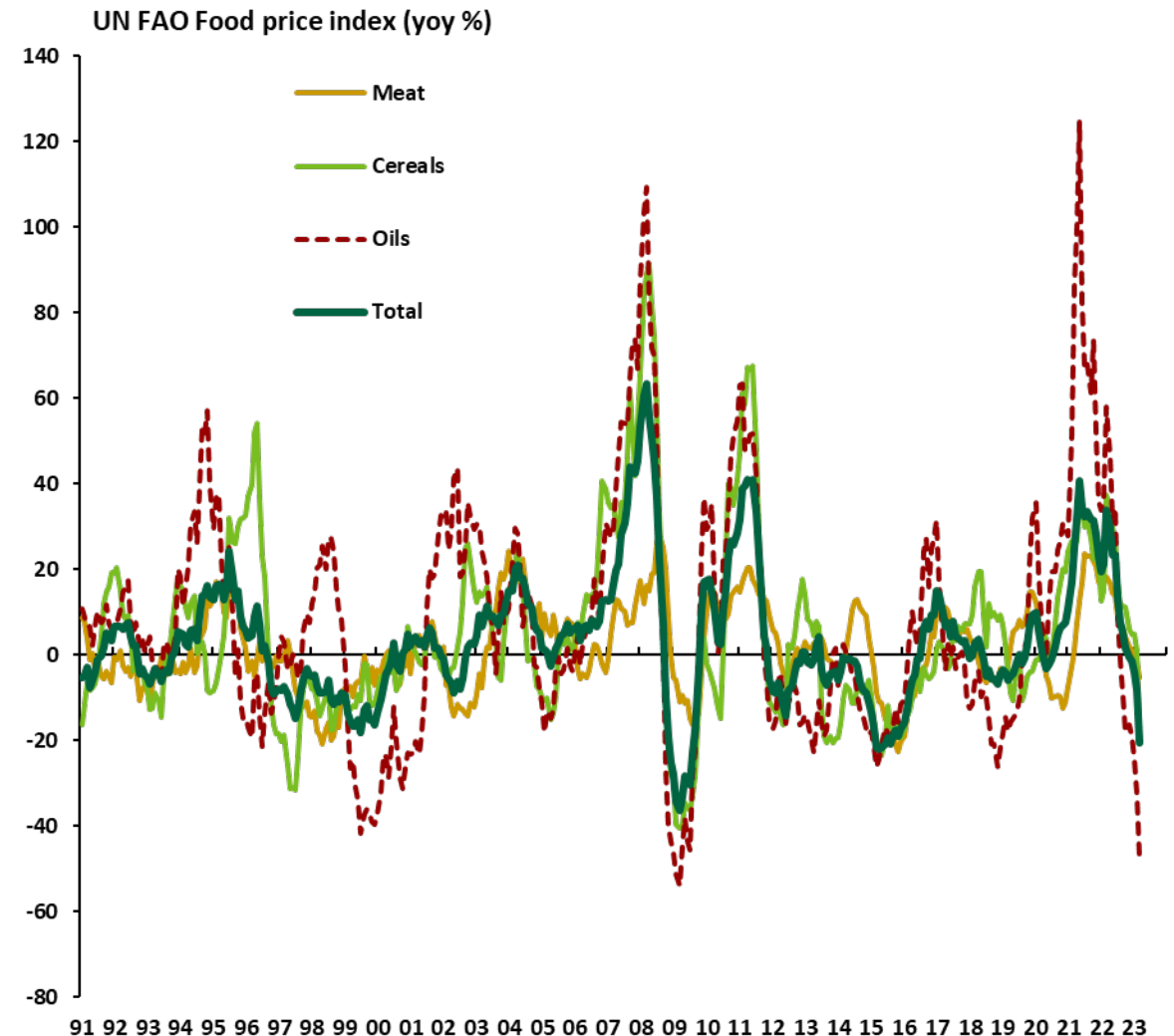
Food inflation remains a key worry



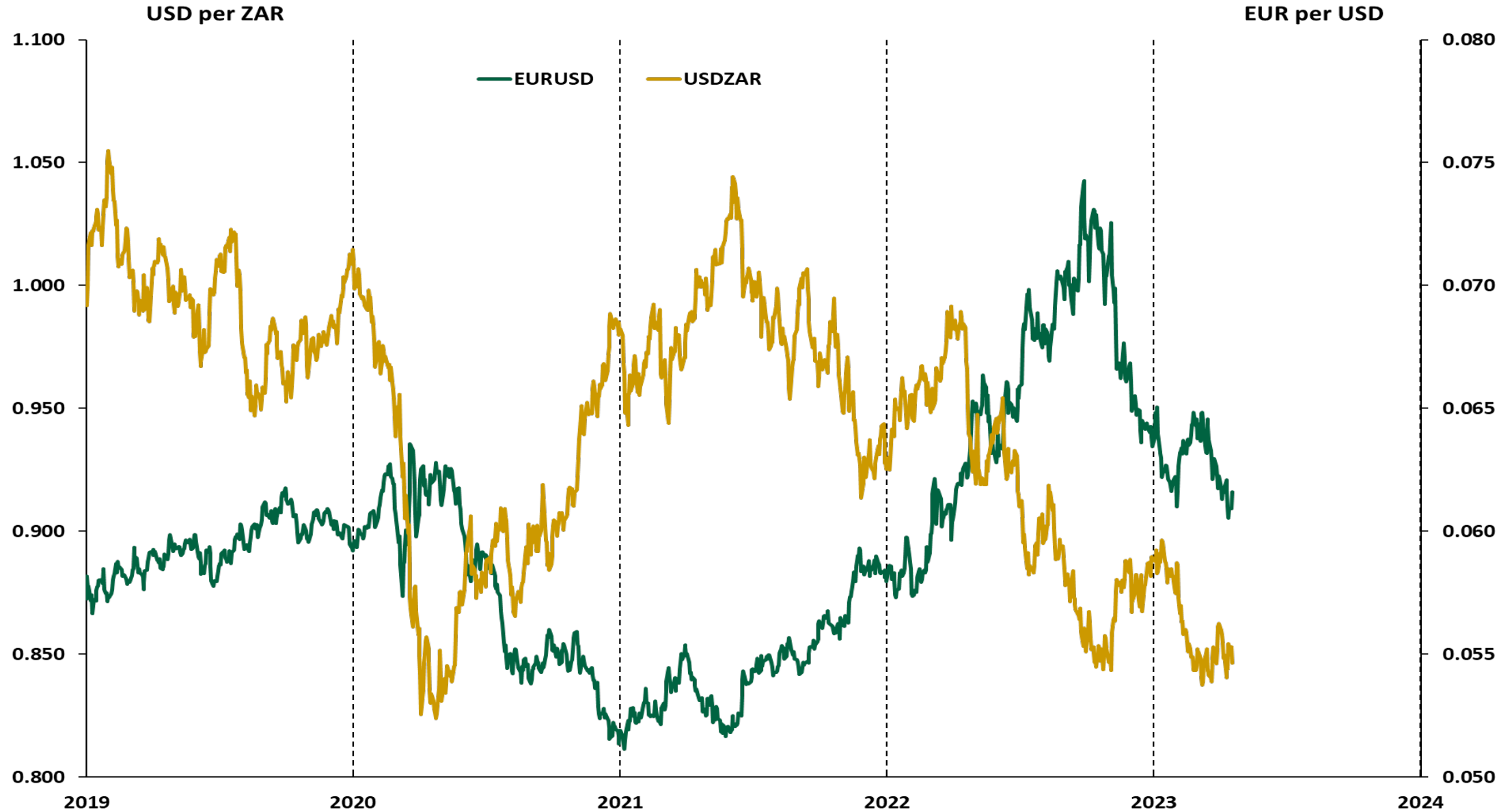
Food inflation is still rising



However, global food prices have eased significantly



The rand is another concern

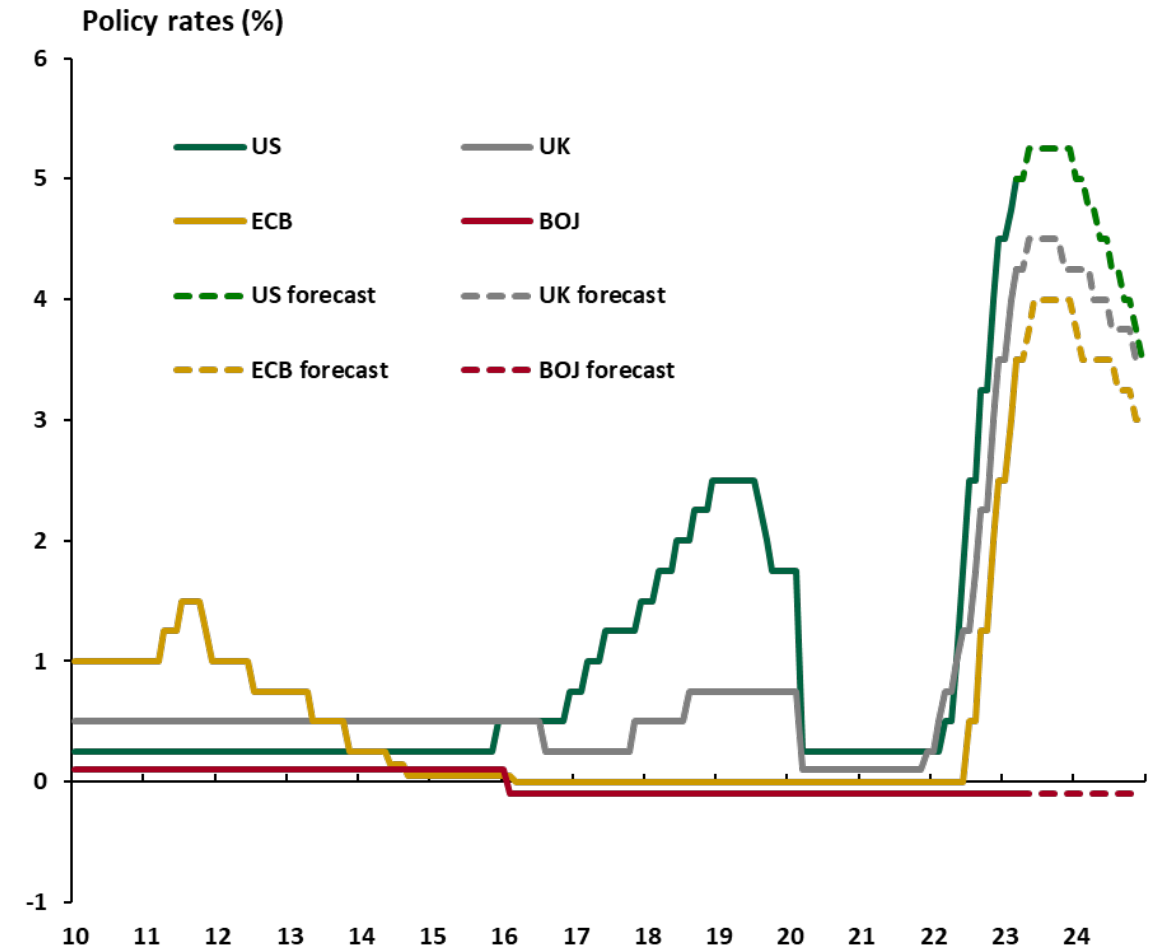
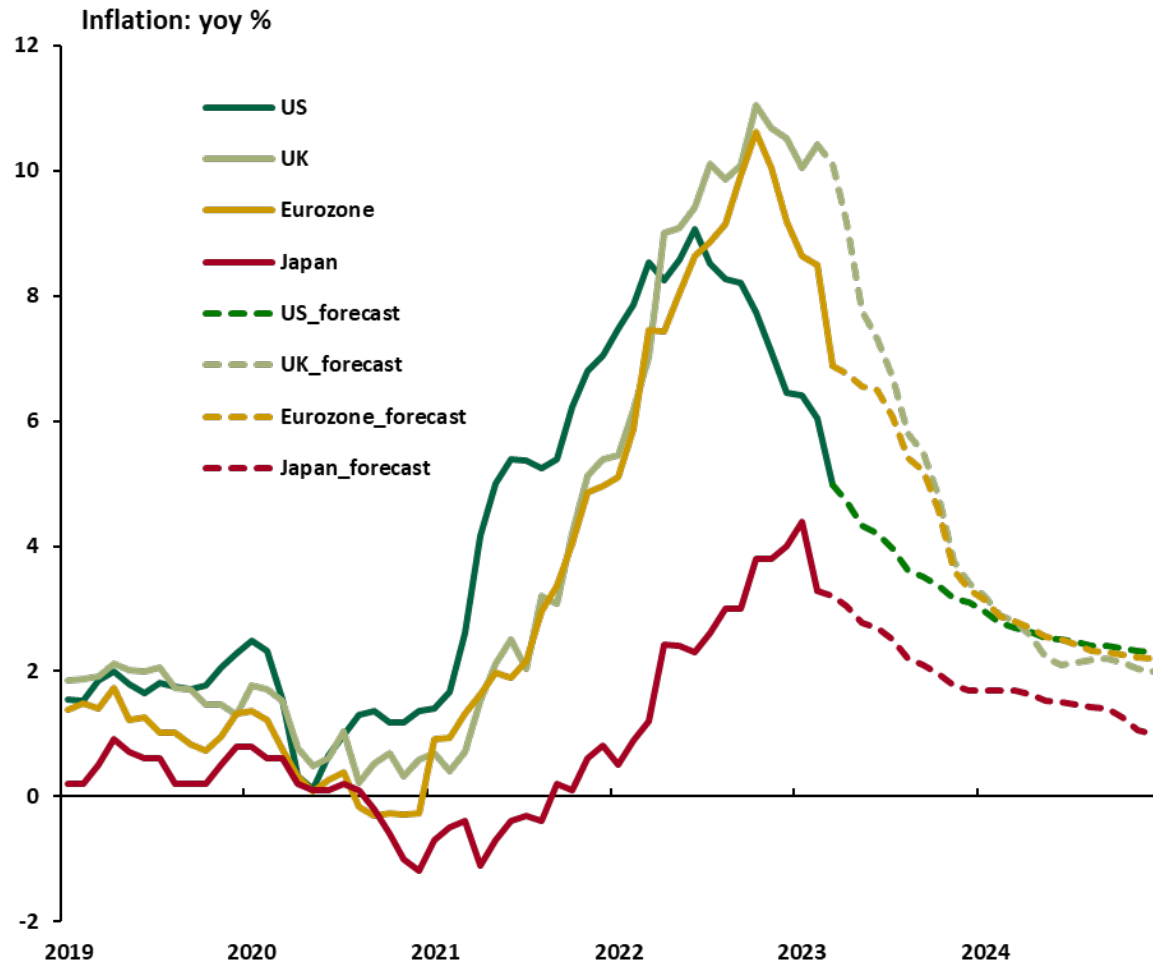


Emerging market risk sentiment could improve once US interest rates stabilise

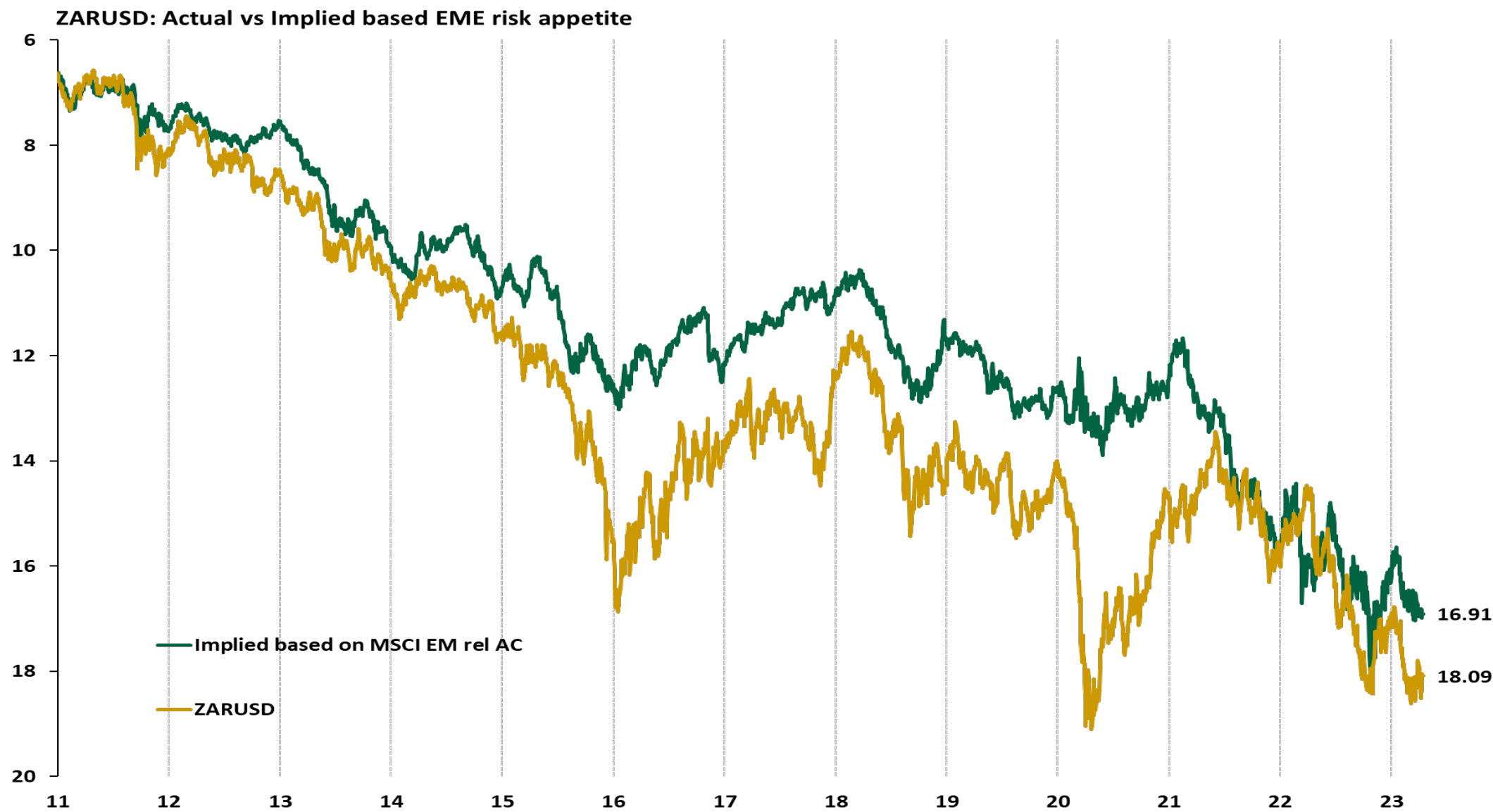


The downward trend in US inflation is intensifying

US interest rates are likely at or near its peaks



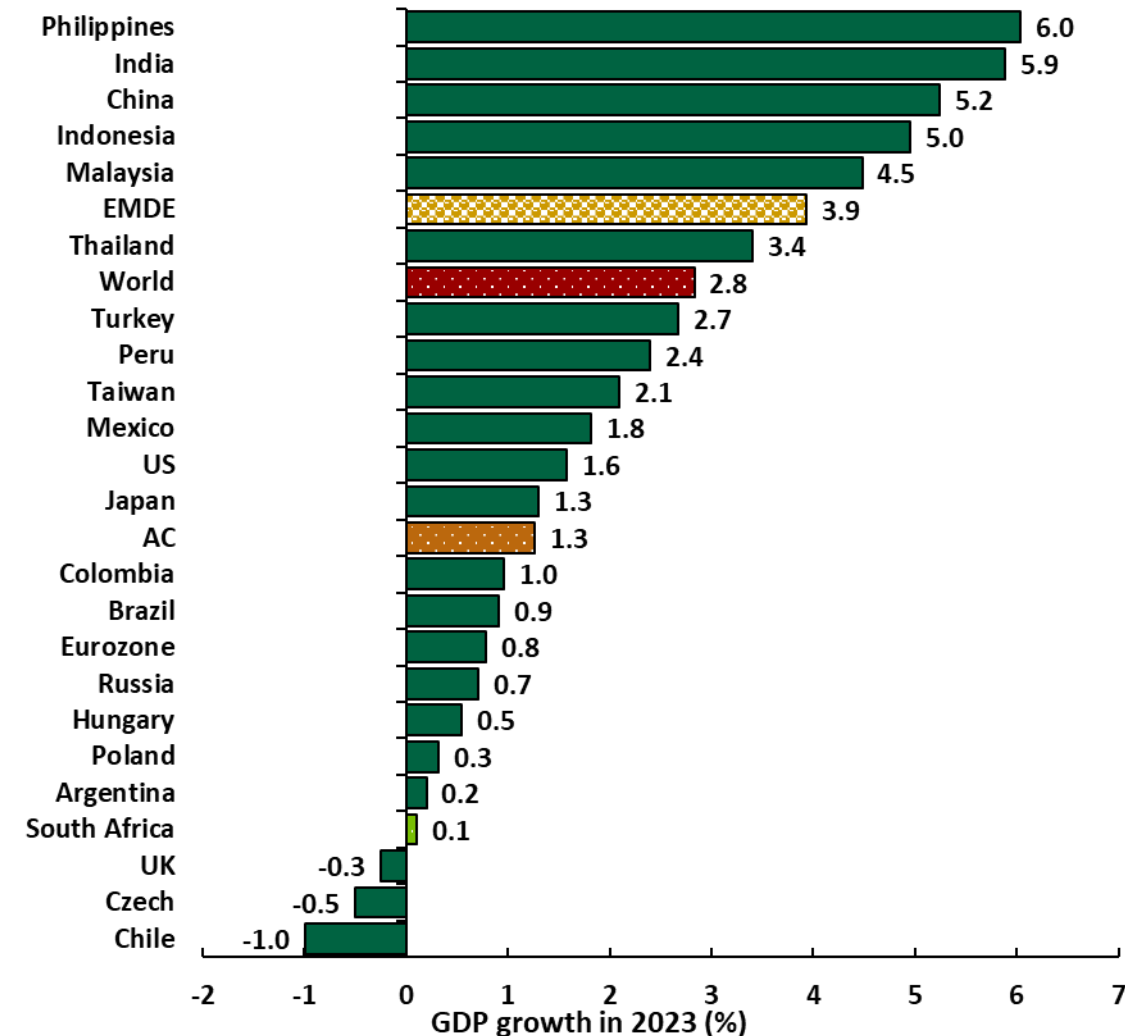
Even so, the rand is trading at a discount of EME risk appetites



The major cause of the rand's underperformance is SA's relatively poor growth prospects

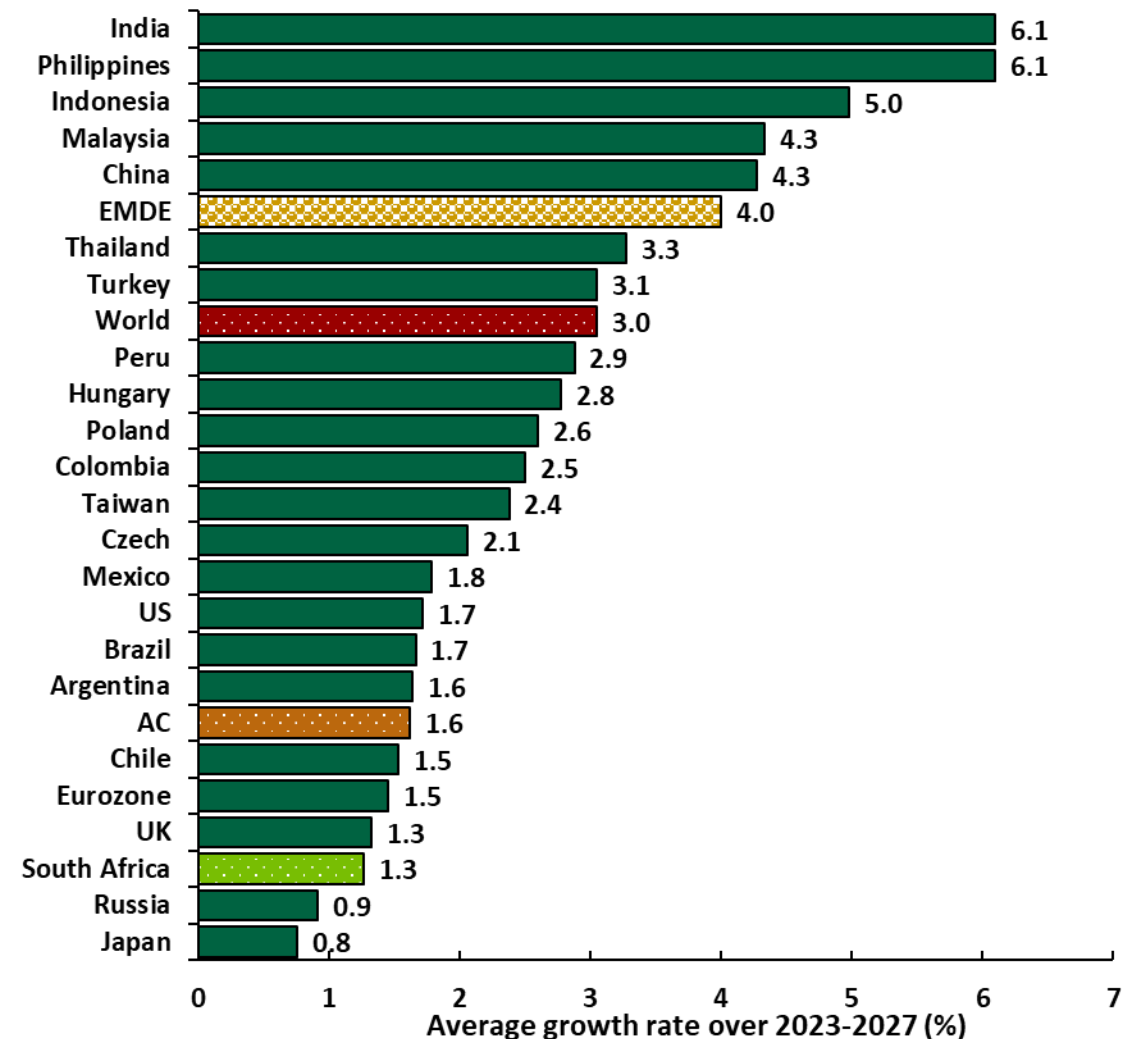


The IMF forecasted weak growth for SA, well below that of other EMDEs



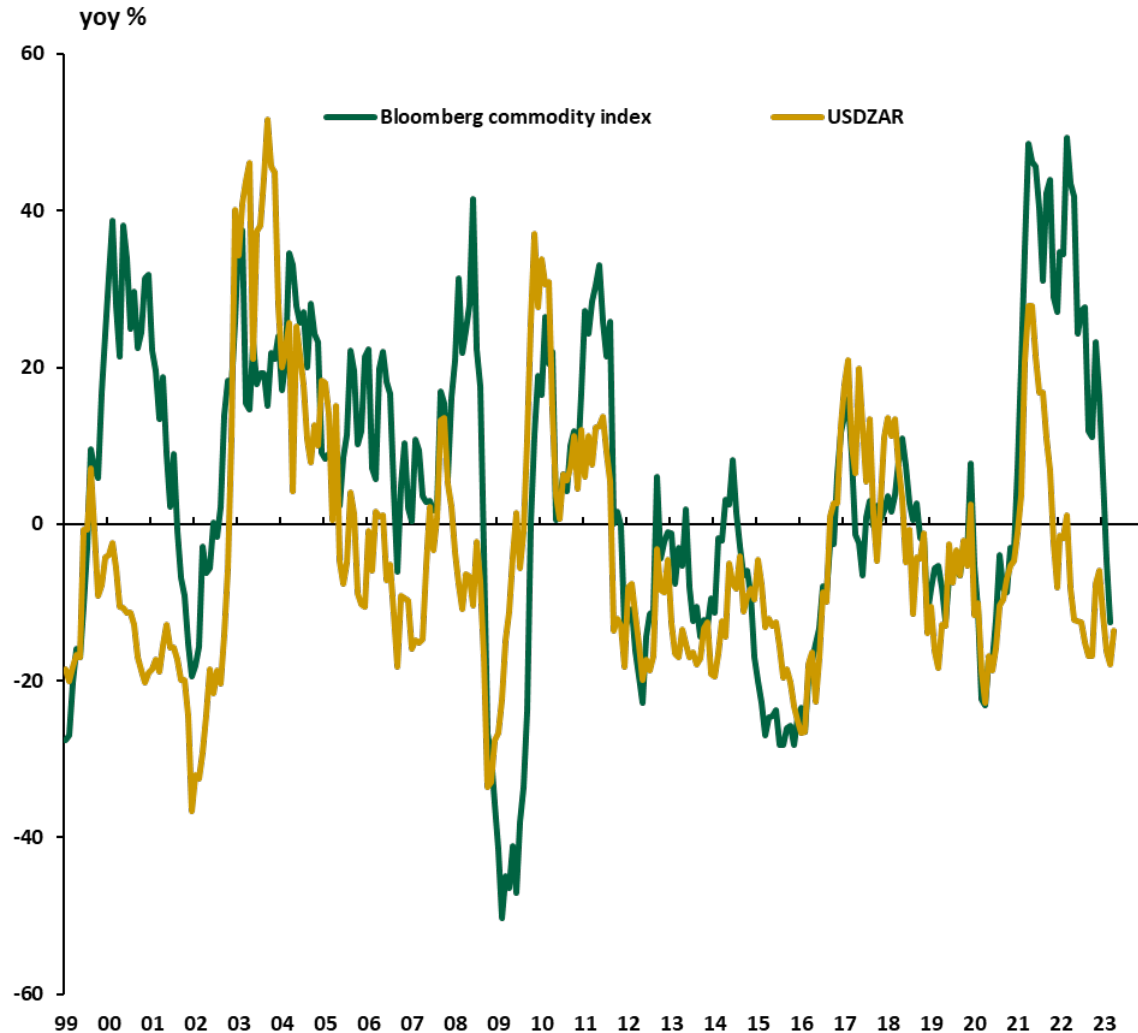
IMF WEO April 2023

SA will remain among the worst performers over the next three years

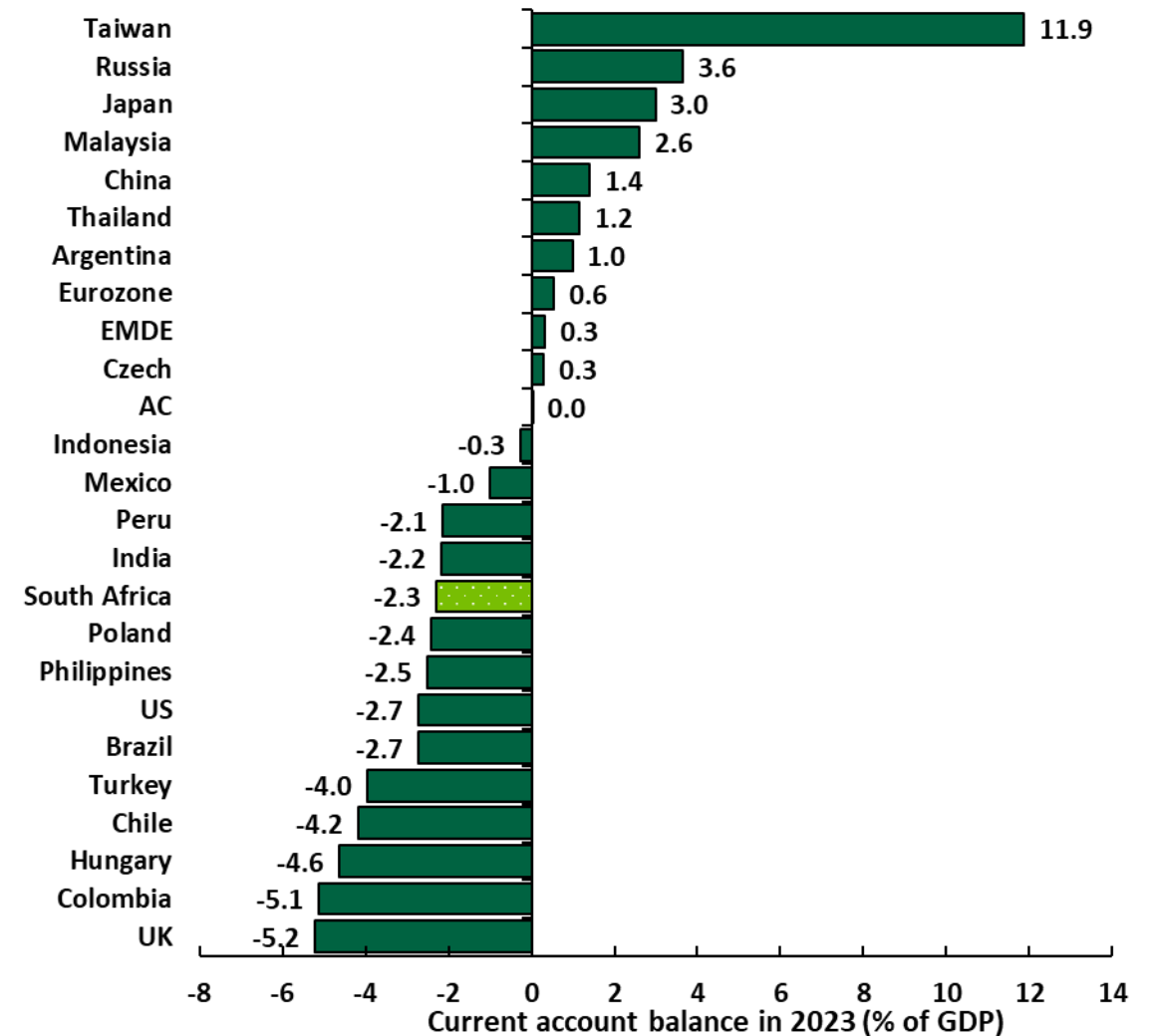




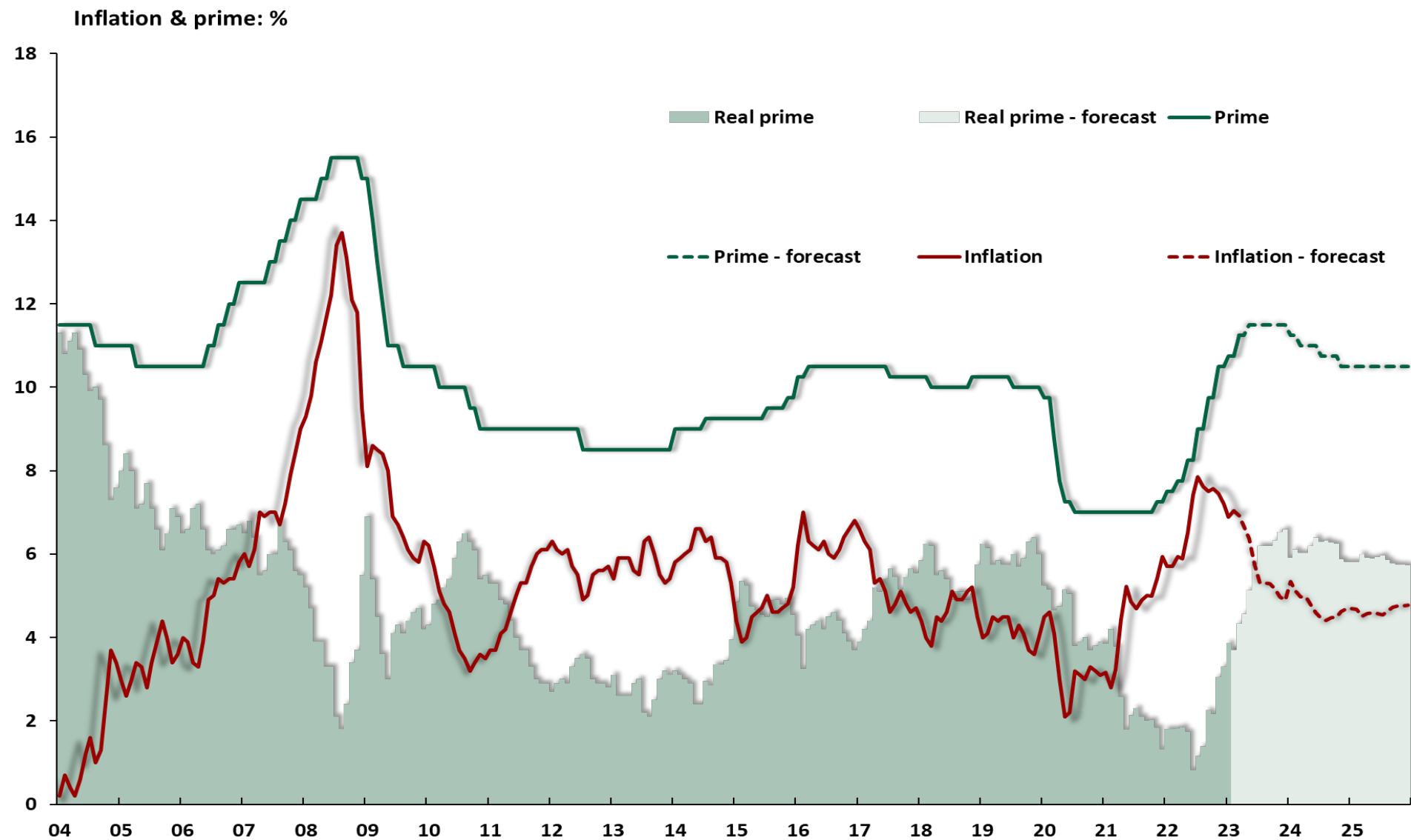
The downturn in commodity prices is also weighing on the rand



On this front, SA is not the most vulnerable among EMDEs



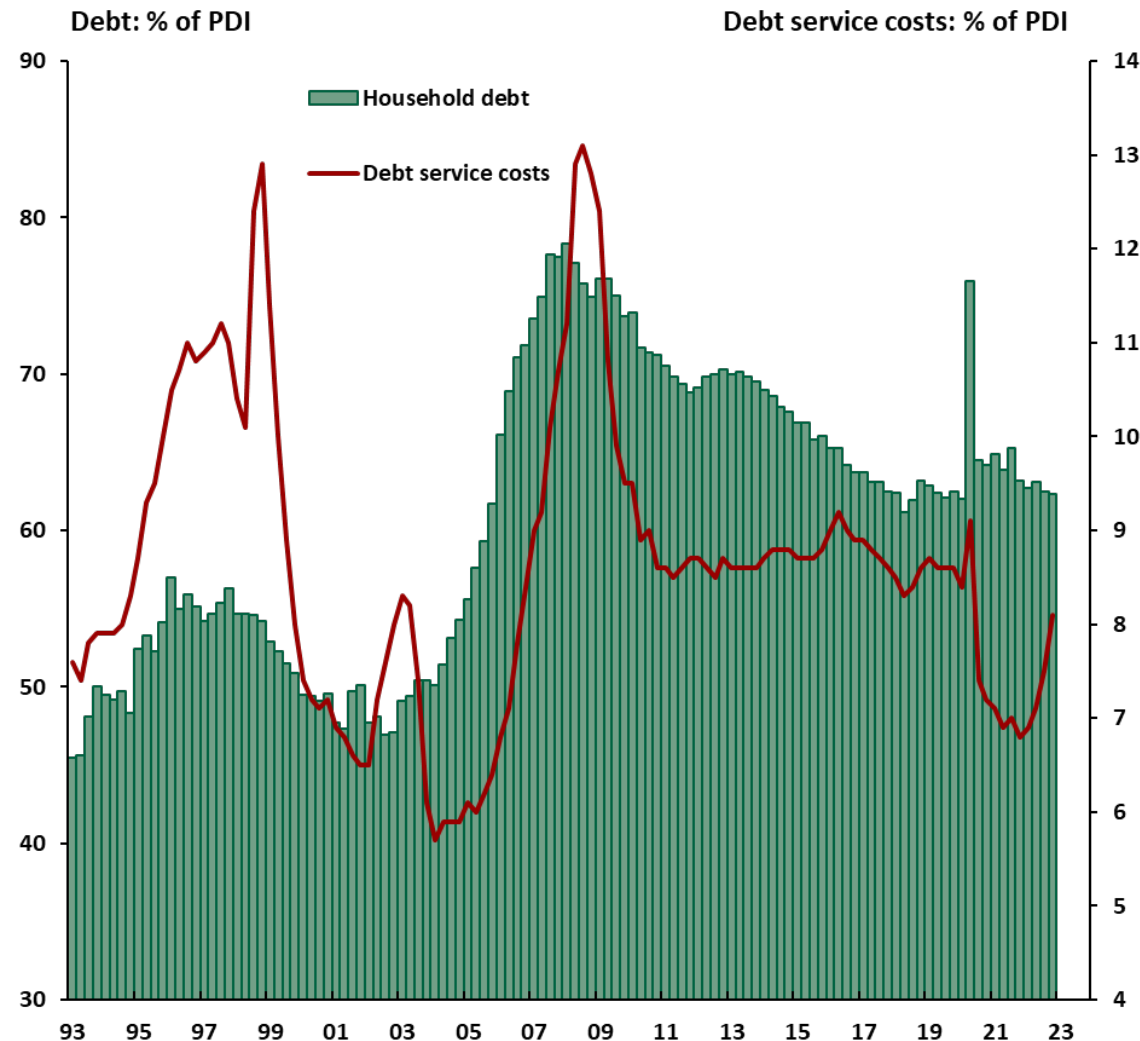
With inflation sticky at around 7%, the Reserve Bank will continue to tighten



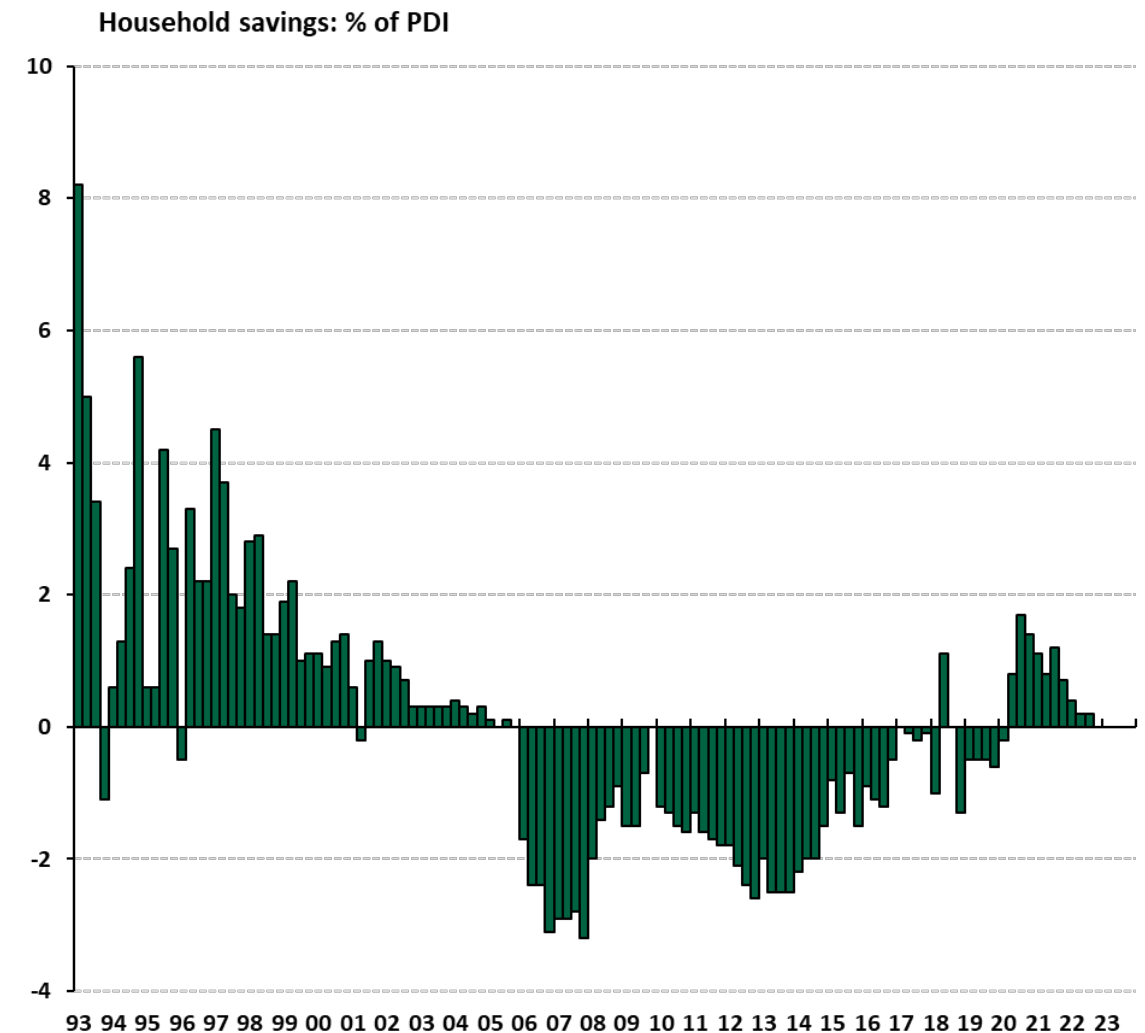
Households have depleted some of their buffers



Debt levels are still manageable but debt service costs are climbing



Households have eroded their savings



We expect a significant loss momentum in 2023, followed by a mild recovery

| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|--|--------|--------|--------|--------|-------|-------|-------|--------|--------|--------|
| Economic growth - Annual growth rates (%) | | | | | | | | | | |
| Consumer spending | 0.7 | 1.7 | 2.7 | 1.2 | -5.9 | 5.6 | 2.6 | 1.0 | 1.4 | 1.9 |
| Fixed investment | -1.9 | -2.0 | -1.3 | -2.1 | -14.6 | 0.2 | 4.7 | 2.3 | 1.5 | 1.9 |
| Exports | 0.4 | -0.3 | 2.7 | -3.4 | -11.9 | 10.0 | 7.5 | -2.7 | 4.7 | 4.1 |
| Imports | -4.1 | 1.5 | 3.2 | 0.4 | -17.4 | 9.5 | 14.2 | -0.9 | 3.9 | 4.5 |
| GDP | 0.7 | 1.2 | 1.5 | 0.3 | -6.3 | 4.9 | 2.0 | 0.2 | 1.3 | 1.6 |
| Balance of Payments | | | | | | | | | | |
| Current Account (R'bn) | -127.4 | -120.2 | -157.4 | -144.2 | 109.6 | 227.7 | -31.8 | -101.9 | -172.2 | -210.6 |
| As % of gdp | -2.7 | -2.4 | -2.9 | -2.6 | 2.0 | 3.7 | -0.5 | -1.5 | -2.3 | -2.7 |
| Interest rates - Year-end rates | | | | | | | | | | |
| 3-month JIBAR | 7.36 | 7.16 | 7.15 | 6.80 | 3.63 | 3.87 | 7.21 | 8.18 | 7.16 | 7.15 |
| Prime | 10.50 | 10.25 | 10.25 | 10.00 | 7.00 | 7.25 | 10.50 | 11.50 | 10.50 | 10.50 |
| Long bond | 8.92 | 8.82 | 9.22 | 8.96 | 8.93 | 9.65 | 10.84 | 10.87 | 10.01 | 9.97 |
| Exchange rates - Annual averages | | | | | | | | | | |
| ZAR/USD | 14.68 | 13.26 | 13.24 | 14.48 | 16.45 | 14.93 | 16.41 | 17.87 | 17.38 | 16.88 |
| ZAR/EUR | 16.19 | 15.06 | 15.59 | 16.20 | 18.86 | 17.63 | 17.23 | 19.56 | 19.52 | 19.50 |
| ZAR/GBP | 19.81 | 17.21 | 17.58 | 18.49 | 21.15 | 20.54 | 20.06 | 22.28 | 21.96 | 21.48 |
| JPY/ZAR | 7.45 | 8.46 | 8.38 | 7.54 | 6.49 | 7.40 | 8.03 | 7.39 | 7.49 | 7.58 |
| USD/EUR | 1.10 | 1.14 | 1.18 | 1.12 | 1.15 | 1.18 | 1.05 | 1.09 | 1.12 | 1.15 |
| Inflation - Annual averages | | | | | | | | | | |
| CPI | 6.3 | 5.3 | 4.6 | 4.1 | 3.3 | 4.6 | 6.9 | 6.0 | 4.8 | 4.7 |



The end
Thank you for listening