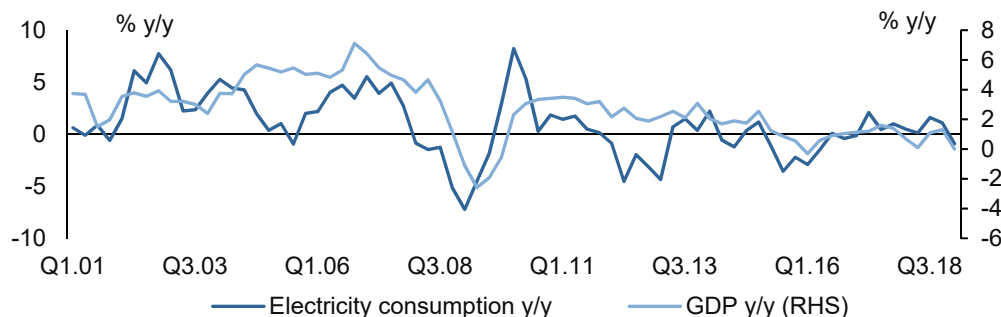


Electricity update: Consumption figures continued to contract in June and remain constrained by weak domestic activity

1st August 2019



Figure 1: Electricity consumption vs economic growth (% change y/y)



Source: Stats SA

- Electricity production lifted marginally by 0.1% y/y in June, following May's 0.6% y/y slide. Including June's reading, generation numbers for the year-to-date are down -0.9% y/y, owing largely to elevated supply constraints in the first quarter of the year.
- Conversely, the volume of electricity consumed contracted further in June, by 1.6% y/y, following May's 1.3% y/y decline, bringing the year-to-date consumption reading to -0.8% y/y.
- A review of the outcome on a provincial basis indicates that distribution fell across five of the nine provinces in June, on a year-on-year basis, led by the North West province and the Free State, which experienced drops of 5.3% y/y and 4.9% y/y respectively.
- Eskom continues to face critical operational and financial challenges, recently announcing a net loss after tax of R20.7 billion for the year to March, thus reflecting the severity of their predicament.
- The fall in electricity sales recorded over the year was partly ascribed to the decline in consumption by mining customers, "(d)ue to the economic downturn leading to the closure of a number of mines and shafts" according to a media report released by Eskom. Additionally, international sales also slid as neighbouring countries consumed "(m)ore of their own generation", the statement advised.
- Treasury announced the allocation of an additional R59bn in support to Eskom over the next two years, tabled in a special appropriation bill in parliament recently. The amount allocated is in addition to the R230bn assigned to the struggling utility in the February budget for the next 10 years and will put additional strain on the fiscus.
- Credit agencies reacted adversely to the announcement, raising concerns over the additional consequences the bailout will have on the budget deficit and expenditure ceiling set.
- Moody's deemed the additional funding as "credit negative", while Fitch downgraded the country's outlook to negative from stable.
- Jabu Mabuza, who currently serves as Executive Chair for Eskom, was additionally appointed as acting Group Chief Executive of the company with effect from 1 August 2019, replacing Phakamani Hadebe. At Eskom's annual results announcement he stressed that "Although we face serious financial and operational challenges, we as the Board are committed to achieve our turnaround plan through disciplined execution and stewardship".

Eskom Figure 2: Electricity production and consumption (%)

% y/y	2014	2015	2016	2017	2018	2019 YTD
Production	-0.5	-1.9	1.0	1.0	0.3	-0.9
Consumption	0.2	-1.3	-1.0	0.5	0.9	-0.8

Source: Investec, Stats SA

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