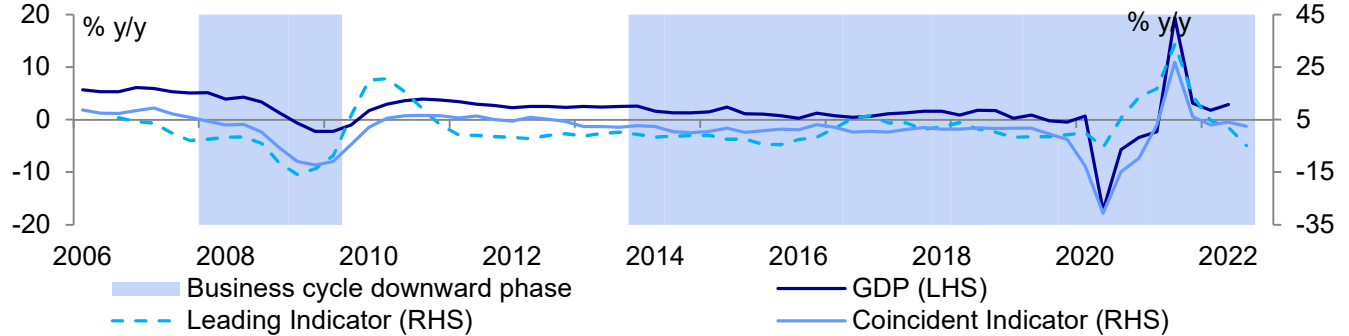




Business cycle update: to improve longer-term on energy actions

Tuesday 26 July 2022

Figure 1: GDP vs the business cycle indicators



Sources: SARB, Stats SA

- The leading indicator of future economic activity (compiled by the SARB to inform on economic activity six months out, i.e. Q2.22 informs on Q1.23) fell by -8.5% y/y in May after a revised drop (lower) of -5.4% y/y in April, as the business cycle in Q2.22 remained affected by the floods in KZN in that quarter, along with a base effect of strong activity a year ago.
- Additionally, the impact of the Russian/Ukraine war, economic lockdowns in China, negatively affected supply chains and slowing global growth affected the reading, as did load shedding. The composite leading business cycle indicator for South Africa's major trading-partner countries fell -0.9% in April (latest reading), also reflecting these factors above.
- The energy crisis came to a head in July on stage 6 load shedding, prompting last night's presidential announcements on a set of actions, which include "improving the performance Eskom's existing fleet of power stations", "accelerat(ing) the procurement of new generation capacity", "massively increase private investment in generation capacity", "enable businesses and households to invest in rooftop solar" and "fundamentally transform... the electricity sector and positioning it for future sustainability".
- Some of the growth stifling energy constraints were rolled back, although overall the mix of energy actions announced last night will not resolve the crisis immediately, but should bolster battered business confidence somewhat, while over the medium-term adding substantially to the grid, while in the immediate to short-term some electricity can now be purchased domestically from private producers, and also from neighbouring countries.
- The President added "(t)he shortage of electricity is a huge constraint on economic growth and job creation. It deters investment and reduces our economy's competitiveness." However, the success of the planned actions will depend wholly on the rapidity of implementation, which has historically been very tardy.
- "With improvements in the regulatory environment and mobilisation of society, Eskom will be well positioned to carry out its maintenance and investment programmes. There can be no longer any excuses."

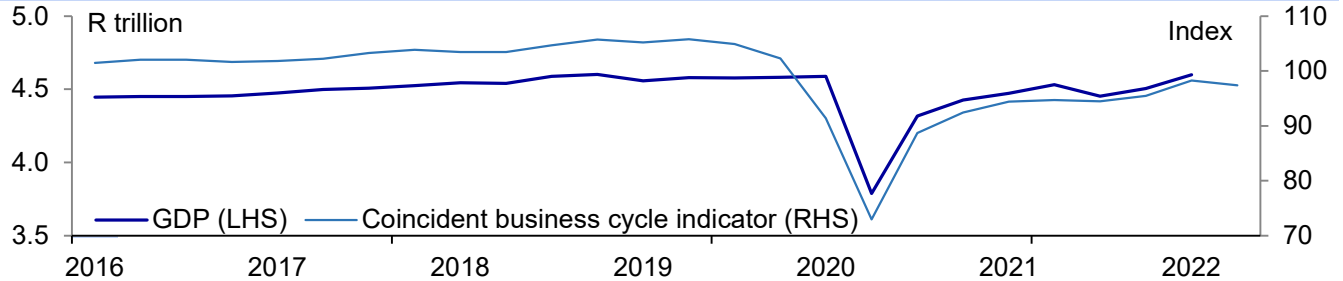
Figure 2: Summary of the composite business cycle indicators*

Indices 2015 = 100	2021					2022				
	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	
Leading indicator	125.0	124.7	125.9	125.5	126.7	125.8	126.6	125.6	124.7	
12-month % ch	9.3	5.6	4.9	3.7	5.3	1.9	-0.6	-5.4	-8.5	
Coincident indicator	94.5	94.2	94.8	95.5	97.2	97.9	98.3	97.4	-	
12-month % ch	6.1	3.3	2.1	2.9	5.1	5.0	4.1	2.5	-	
Lagging indicator	95.0	95.1	94.3	94.5	93.6	94.6	95.5	95.2	-	
12-month % ch	1.4	2.1	1.6	2.2	2.7	5.1	8.0	8.6	-	

Source: SARB. Note: The historical data is subject to revision



Figure 3: GDP vs Coincident business cycle indicator



Sources: SARB, Stats SA

- The President added that “National Treasury is working to finalise a sustainable solution to Eskom’s debt. The Minister of Finance will outline how government will deal with this matter in an effective manner when he presents the Medium-Term Budget Policy Statement in October. We will use climate funding provided through the Just Energy Transition Partnership to invest in the grid and repurpose power stations that have reached the end of their lives.”
- On the recent Eskom strike, and intimidation of workers and destruction of property the President added that “(t)he South African Police Service has set up a special law enforcement team to help Eskom in confronting crime and corruption. A number of people have been arrested in recent days and several others are already being prosecuted for corruption and fraud involving Eskom contracts”.
- “The performance of some of Eskom’s power stations have been further worsened by extensive theft, fraud and sabotage. We were told of ongoing theft of oil in a massive scale and the deliberate damaging of equipment so that Eskom should hire equipment from private contractors”, with “deliberate sabotage by well-organised criminal syndicates that are destroying the utility and damaging our economy. We heard of maintenance spares being stolen and sold back to Tutuka and other power stations”.
- Regulatory hurdles and the extremely slow pace of state bureaucracy has impeded the development of the private energy sector and a large-scale crowding in of private sector generation is rapidly needed, which the President has now given strong support for, along with the need for a severe clampdown on theft and criminal activity, payment of services, stabilising Eskom and improving its plant performance. A competitive energy market is envisioned, along with a strong increase in renewable energy investment.

Figure 4: Component time series of the May 2022 composite leading business cycle indicator

Positive contributors

- Job advertisements: The Sunday Times (six-month smoothed growth rate)
- Interest rate spread: 10-year government bonds minus 91-day Treasury bills
- Real M1 (six-month smoothed growth rate)

Negative contributors (ranked from largest to smallest)

- Commodity price index for South Africa’s main export commodities (US dollar based)
- Number of building plans approved: Flats, townhouses & houses larger than 80m²
- BER*: Average hours worked per factory worker in manufacturing (half weight)
- Composite leading business cycle indicator for South Africa’s major trading-partner countries
- RMB/BER* Business Confidence Index
- Number of new passenger vehicles sold (six-month smoothed growth rate)

Unavailable component series

- Gross Operating Surplus as a percentage of Gross Domestic Profit

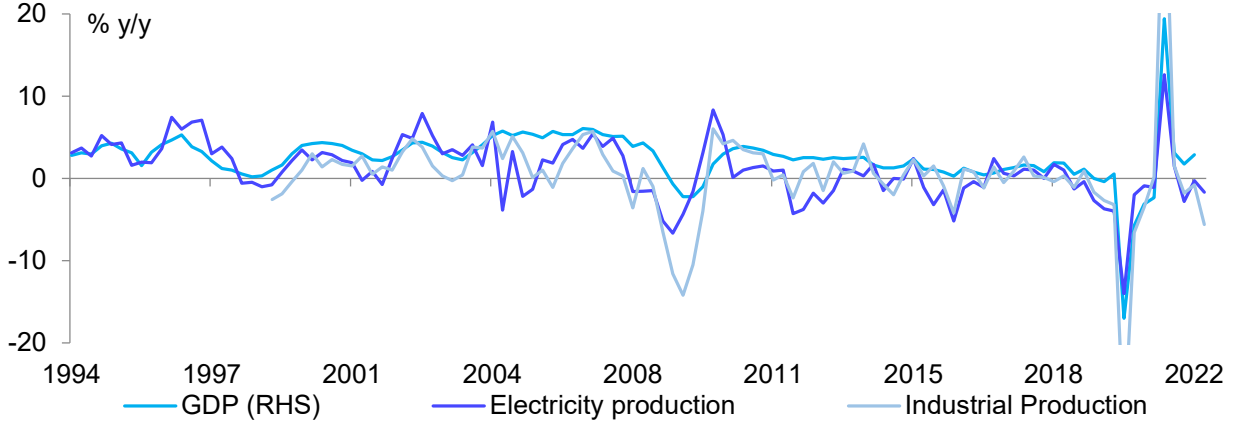
Source: SARB, BER



Business cycle update: to improve longer-term on energy actions

Tuesday 26 July 2022

Figure 5: South Africa: industrial production, electricity production, GDP



Source: Stats SA

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Business cycle update: to improve longer-term on energy actions

Tuesday 26 July 2022



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Business cycle update: to improve longer-term on energy actions

Tuesday 26 July 2022



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