



South African Economic Outlook
Be wary of the consensus



15 September 2017

Economic Association of Namibia

Outline

1. That could not possibly happen
2. But it did. Why?
3. The SA experience 1999 - 2007
4. Growth constraints 2012 - 2016
5. H1 2017 data and 2017 forecast
6. The way forward


That could not possibly happen

- Polls ahead of the Brexit vote said Britons would not vote for exiting the European Union
- Polls ahead of the 8 November 2016 US Presidential election said that there was no chance that Donald Trump would win








Final polls before 23 June vote

Pollster	Dates	Method	Leave (%)	Remain (%)	Over-estimate of Remain support (%)
Populus	21-22 June	Internet	45	55	+7
Ipsos MORI	21-22 June	Phone	48	52	+4
Opinium	20-22 June	Internet	51	49	+1
YouGov*	20-22 June	Internet	49	51	+3
ComRes	17-22 June	Phone	47	53	+5
TNS	16-22 June	Internet	51	49	+1
Survation	20 June	Phone	49	51	+3
ORB	14-19 June	Phone	46	54	+6
ICM	10-13 June	Both	53	47	-1

How did the media and pollsters get Election 2016 so wrong?



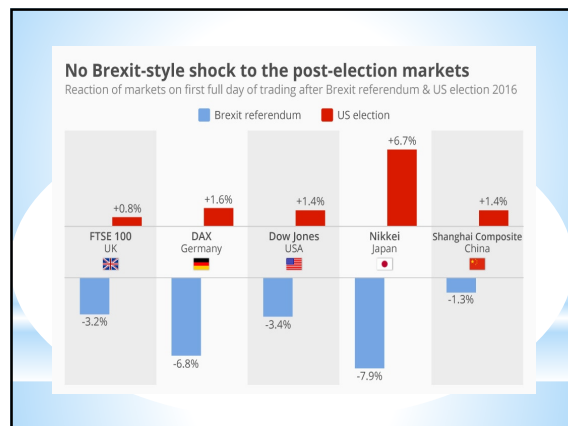
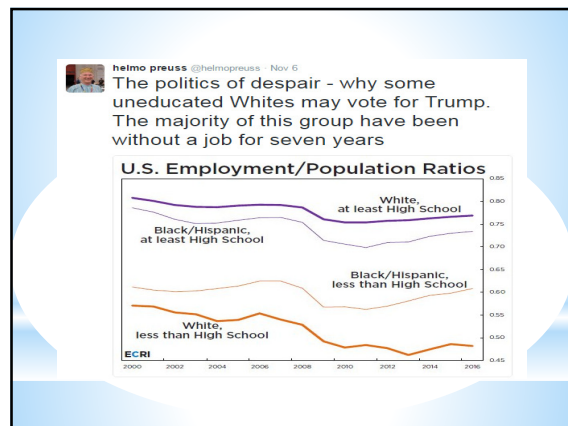
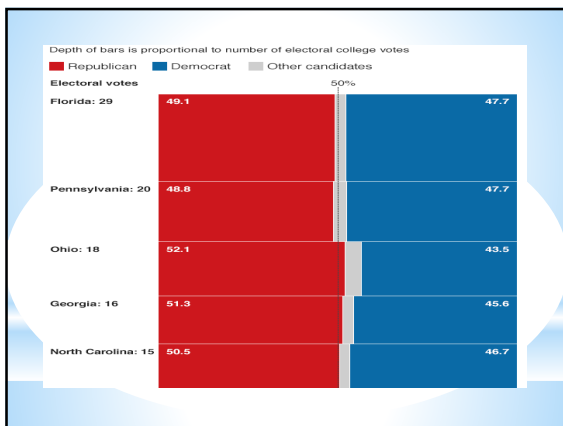
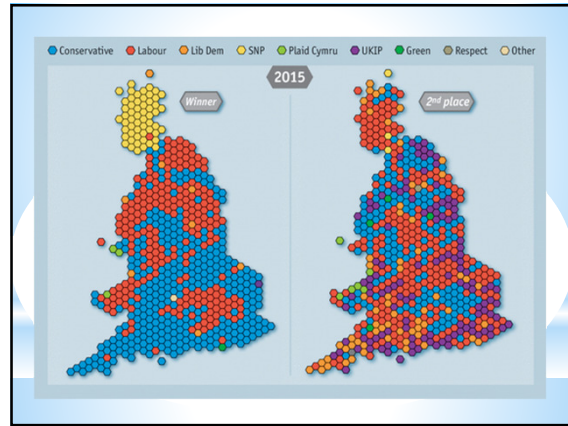
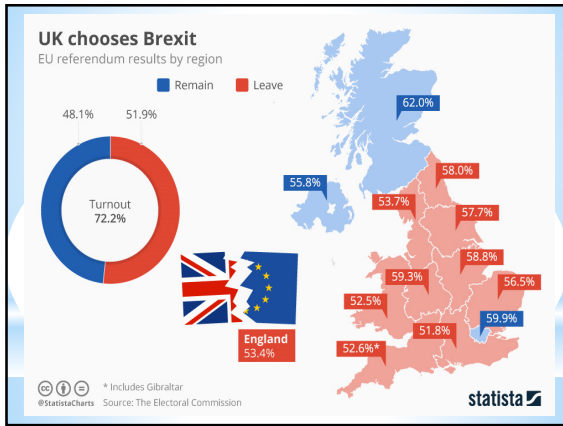
The day before the 2016 US Presidential Election, most pollsters and statistical models had pegged Hillary Clinton's chances of winning at greater than 90%.

99%	98%	92%	91%	89%	85%	72%
						

Source: Visual Capitalist

But it did. Why?

- In the UK, rainy weather kept the youth, who would have voted to stay, in bed, while the over 55 old voters were made of sterner stuff and voted to go back to when Britain was "Great"
- In the US, the poor uneducated youth voted for Trump as he promised that he would make America Great Again

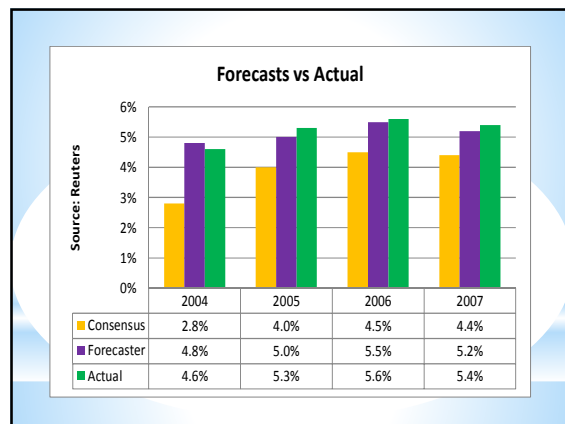
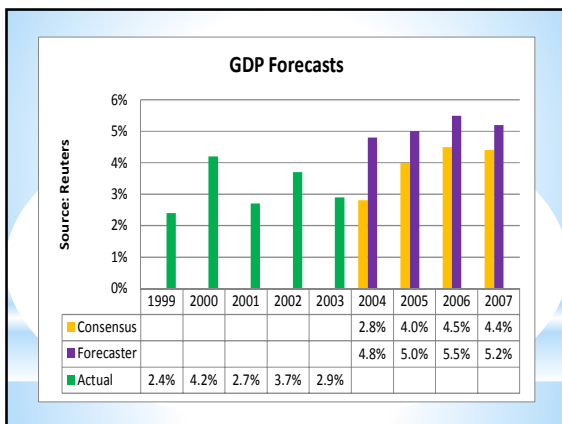
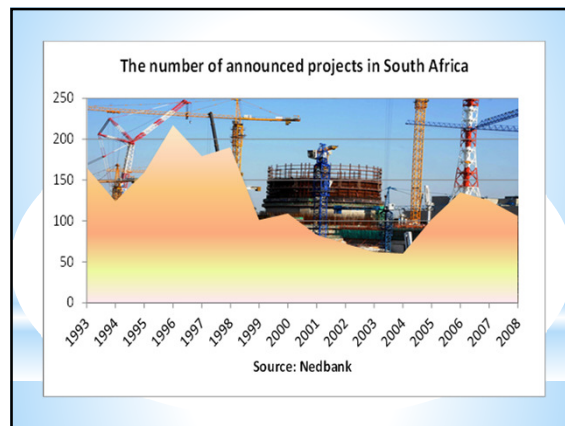
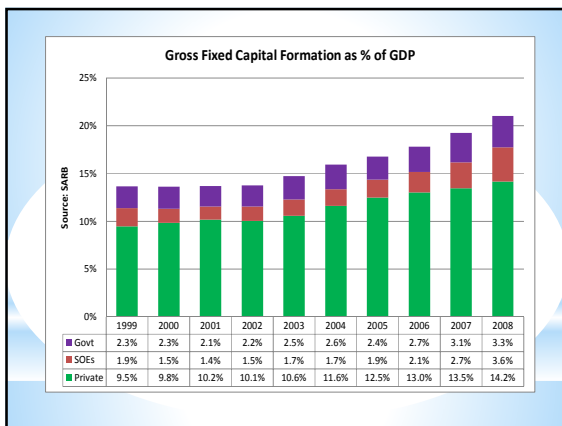


The SA experience 1999 - 2007

- Recovery from 1998 Asian currency crisis
- Economist as President with growth as first priority, ably supported by two other TMs
- Rand crisis at end-2001 a wake-up call
- In January 2002 Standard Bank (among many) expected rand to exceed R20/US\$1 in coming years, yet rand went below R6/US\$1

On 29 May 1998, Thabo Mbeki, the President of South Africa, gave his "Two Nations" speech in Parliament in a special debate on reconciliation.

In 1999 I wrote that the "Two Nations" split means that conventional analysis based on more homogenous Western economies is not necessarily valid in South Africa. Monetary policy is far less effective due to the large amount of "unbanked" individuals that are not affected by interest rate changes. That means that economic growth rates are far more stable than is the case in Asian countries, which have seen severe declines in consumer demand. Addressing the legacy of the "Two Nations" will also provide a long-term underpinning of economic growth via infrastructure investment and job creation.



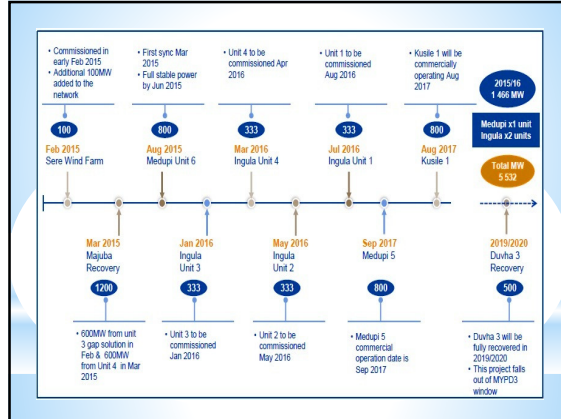
Growth constraints 2012 - 2016

- Electricity supply - the first unit of Medupi was due to be commissioned in April 2011, but this only took place in August 2015
- Zuma Presidency was concerned with avoiding jail and state capture, which led to policy uncertainty
- The policy uncertainty resulted in poor business and consumer confidence
- Drought impacted agriculture in 2014 to 2015

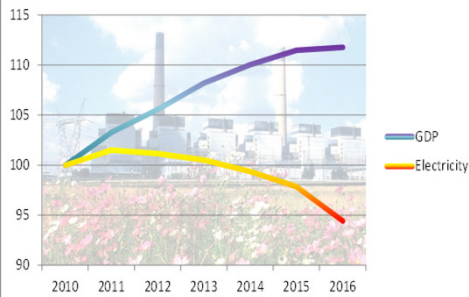
APPROVED PROJECTS

	Installed Megawatts	1st unit ERA Dates	Approved ERA Dates Last unit ERA Dates
CAMDEN	1520	March 2005	March 2008
GROOTVLEI	1200	April 2007	April 2010
KOMATI	965	September 2008	October 2011
INGULA	1352	March 2012	December 2012
ANKERLIG AND GOURIKWA	1044.4	January 2006	April 2006
ANKERLIG AND GOURIKWA GAS 1	1039.9	December 2008	May 2009
TUBATSE	1500	On Hold	On Hold
SERE	100	On Hold	On Hold
MAJUBA RAIL	N/A	On Hold	On Hold
KUSILE	4800	March 2012	December 2015
MEDUPI	4764	April 2011	January 2015

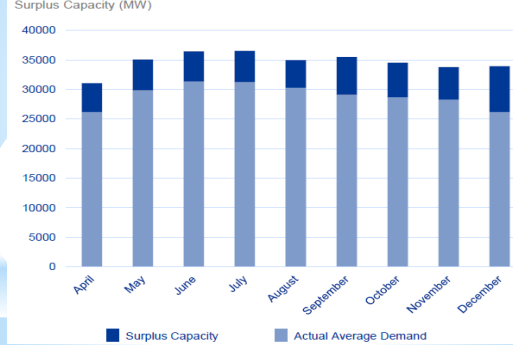
Project	Planned						Total
	Year to 31 Mar 2014	Year to 31 Mar 2015	Year to 31 Mar 2016	Year to 31 Mar 2017	Year to 31 Mar 2018	Year to 31 Mar 2019	
Grootvlei (return to service)	30						30
Komati (return to service)	100						100
Medupi (coal fired)		1 588	1 588	1 588			4 764
Kusile (coal fired)		800	800	800	1 600	800	4 800
Ingula (pumped storage)		1 332					1 332
Sere wind farm (renewable)		100					100
Total (MW)	130	3 820	2 388	2 388	1 600	800	11 126

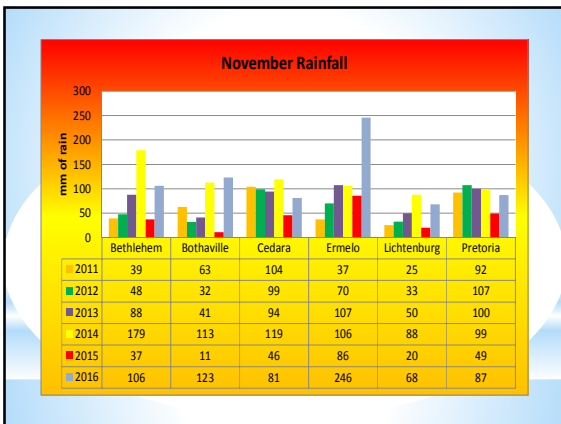
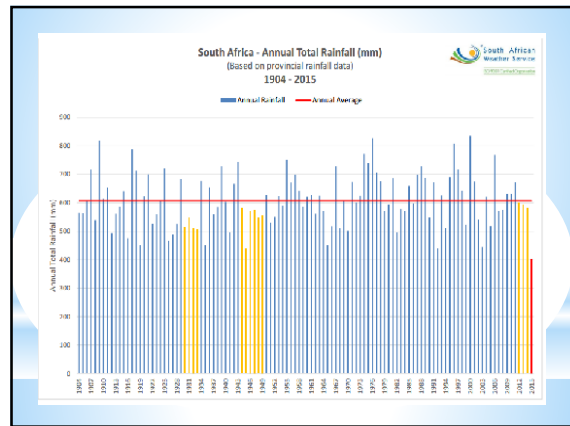
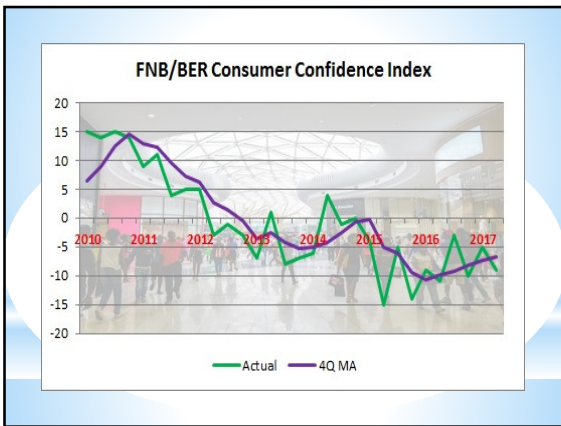
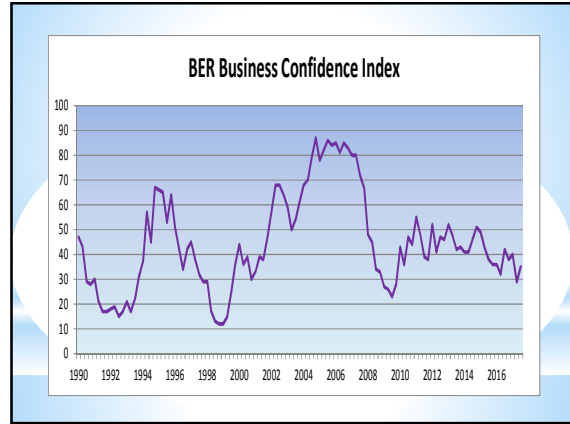
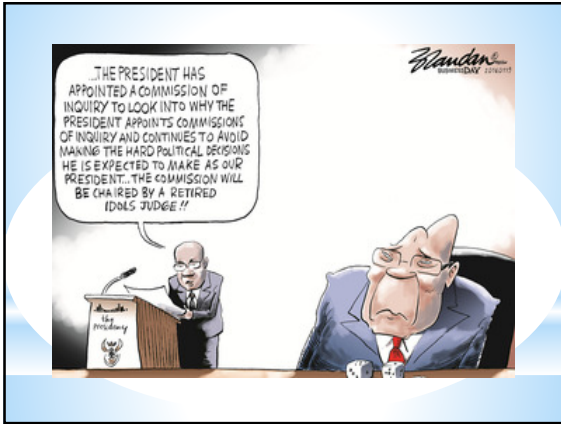


GDP vs Electricity Supply



Average monthly surplus Capacity





- H1 2017 data and 2017 forecast**
- Record maize harvest and other summer crops
 - Despite downgrade, rand and financial markets remain robust
 - Easing consumer inflation allows rate cut and improves consumer disposable income
 - Exports and inventory replenishment will be major GDP growth drivers

GSB/ Sake24 Consensus poll: February 2016

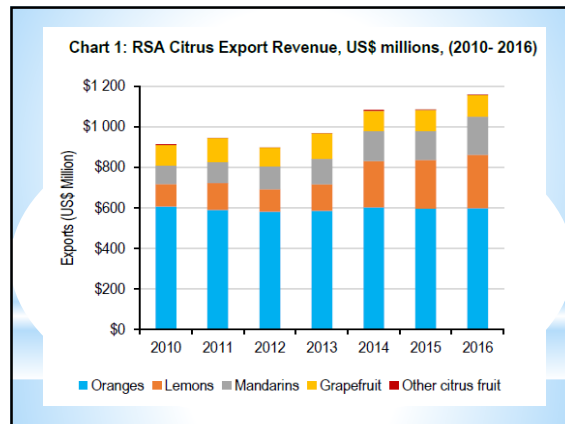
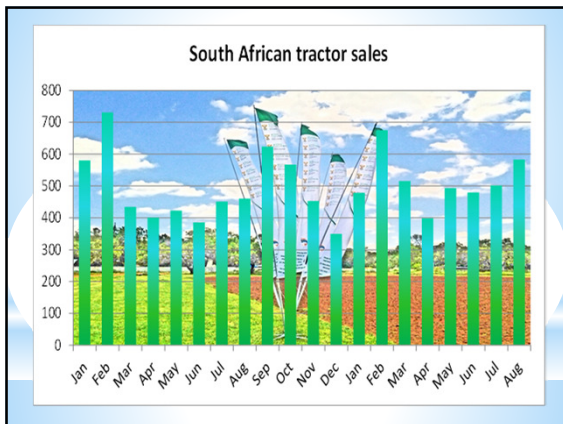
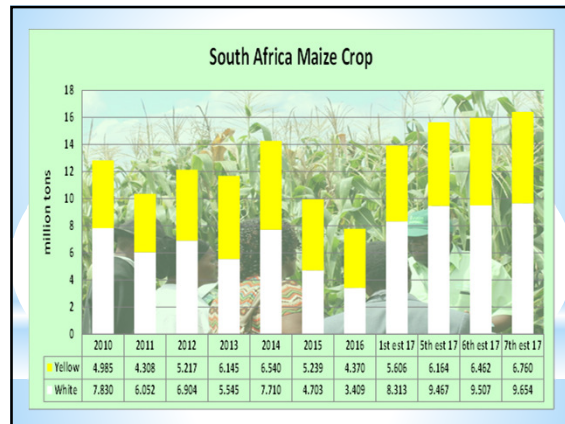
	2016
Real FCE growth (% for the full year)	0.7
Real GDP growth (% for the full year)	0.5
Balance on the current account (R billion for the full year)	-162.7
R/Euro exchange rate (average SA rand per Euro for the last quarter)	17.2
R/US\$ exchange rate (average SA rand per US dollar for the last quarter)	15.9
Gold price (average US\$ per ounce for the last quarter)	1190.6
R186 government bond yield (average % for the last quarter)	9.5
Average 3 month rate for NCD's (average % for the last quarter)	7.5
CPI inflation (average % for the year)	6.6
Prime lending rate (average % for the last quarter)	10.7
Platinum price (average % for the last quarter)	964.9
Oil price (average % for the last quarter)	39.1
	2017
Real GDP growth (% for the full year)	1.4
CPI inflation (average % for the year)	6.3

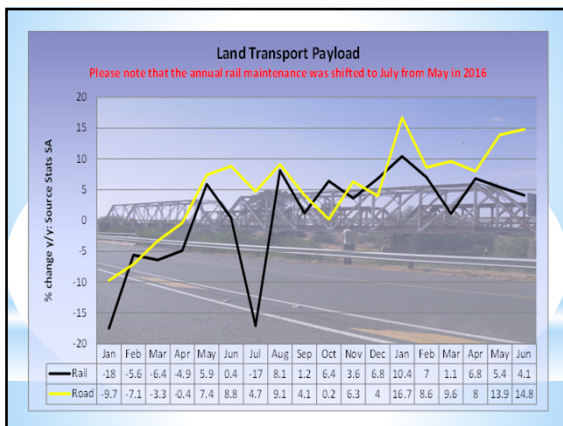
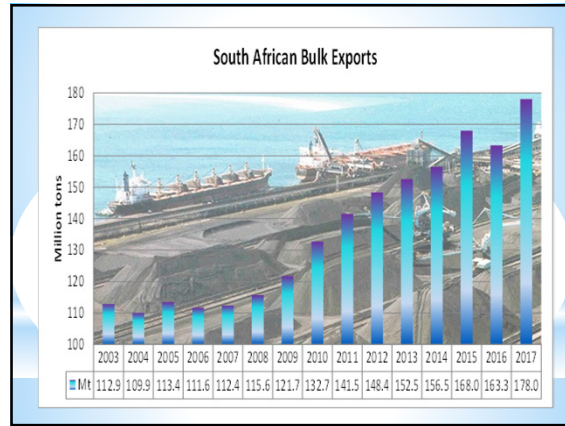
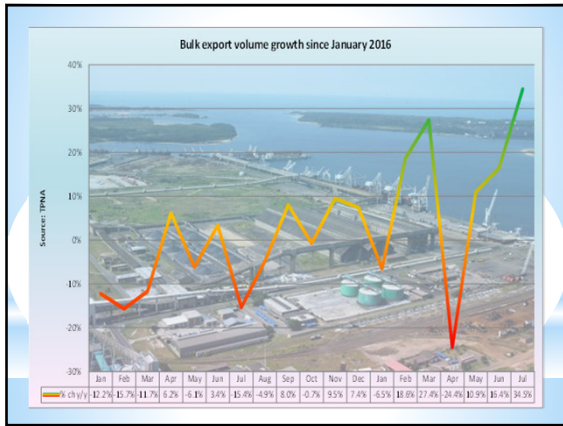
GSB/ Sake24 Consensus poll: February 2017

	2017
Real FCE growth (% for the full year)	1.2
Real GDP growth (% for the full year)	1.2
Balance on the current account (R billion for the full year)	-156.0
R/Euro exchange rate (average SA rand per Euro for the last quarter)	14.38
R/US\$ exchange rate (average SA rand per US dollar for the last quarter)	13.52
Gold price (average US\$ per ounce for the last quarter)	1259.3
R186 government bond yield (average % for the last quarter)	8.64
Average 3 month rate for NCD's (average % for the last quarter)	7.18
CPI inflation (average % for the year)	5.77
Prime lending rate (average % for the last quarter)	10.24
Platinum price (average for the last quarter)	1058.8
Oil price (average for the last quarter)	56.3
	2018
Real GDP growth (% for the full year)	1.7
CPI inflation (average % for the year)	5.4

GSB/ Sake24 Consensus poll: AUGUST 2017

	2017
Real FCE growth (% for the full year)	0.60
Real GDP growth (% for the full year)	0.56
Balance on the current account (R billion for the full year)	-131.80
R/Euro exchange rate (average SA rand per Euro for the last quarter)	15.00
R/US\$ exchange rate (average SA rand per US dollar for the last quarter)	13.38
Gold price (average US\$ per ounce for the last quarter)	1254.02
R186 government bond yield (average % for the last quarter)	8.65
Average 3 month rate for NCD's (average % for the last quarter)	7.00
CPI inflation (average % for the year)	5.39
Prime lending rate (average % for the last quarter)	10.12
Platinum price (average % for the year)	974.05
Oil price (average % for the year)	50.52
	2018
Real GDP growth (% for the full year)	1.18
CPI inflation (average % for the year)	5.23





JANUARY 2017

SOUTH AFRICAN RAND

Rands per US\$	Consensus	% Chge	Forecast
	of 19 Ecsts	Spot	High Low
Spot Rate (Jan. 9)	13.70		
Forecasts (end-Feb. 2017)	14.11	-2.9	13.60 15.33
(end-Apr. 2017)	14.32	-4.3	13.40 15.43
(end-Jan. 2018)	14.23	-3.7	12.50 15.77
(end-Jan. 2019)	13.92	-7.6	11.00 16.57

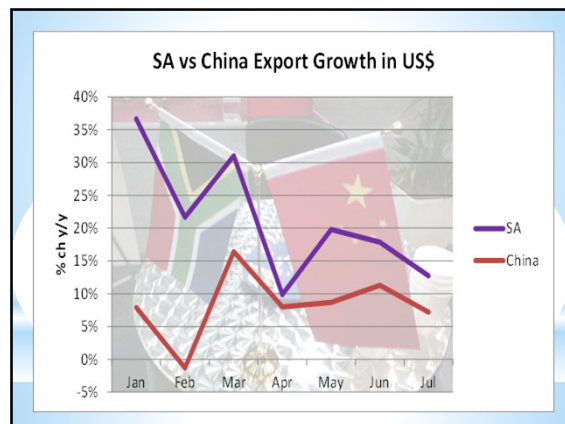
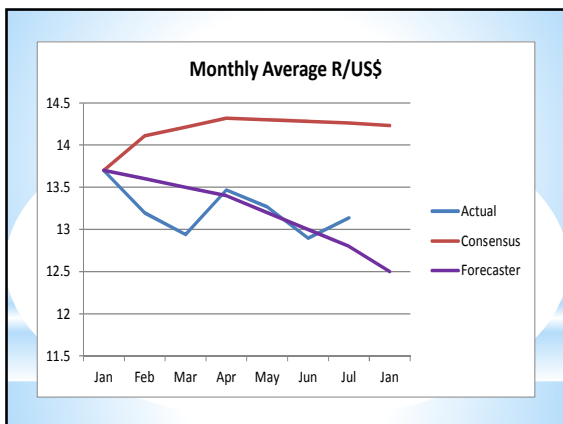
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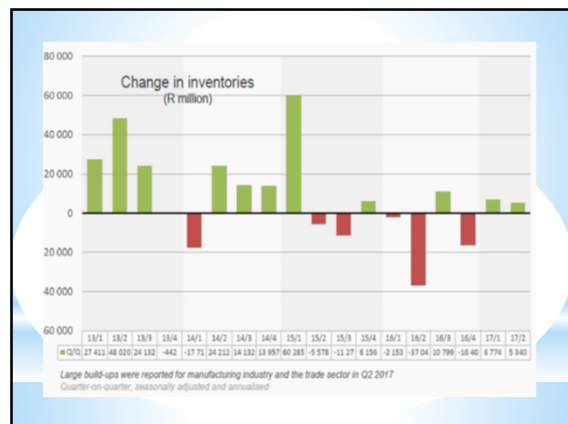
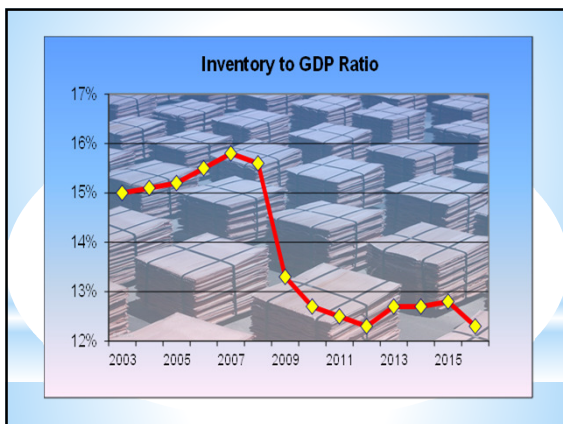
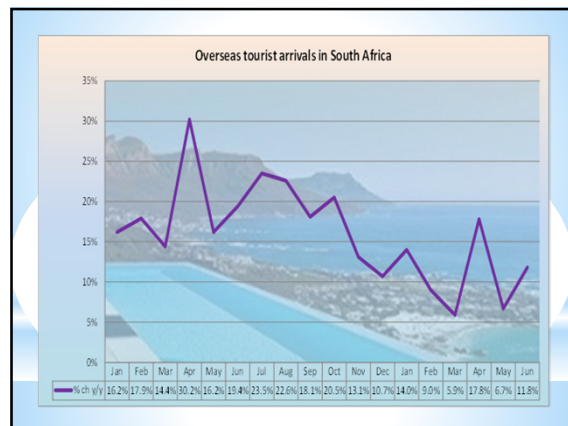
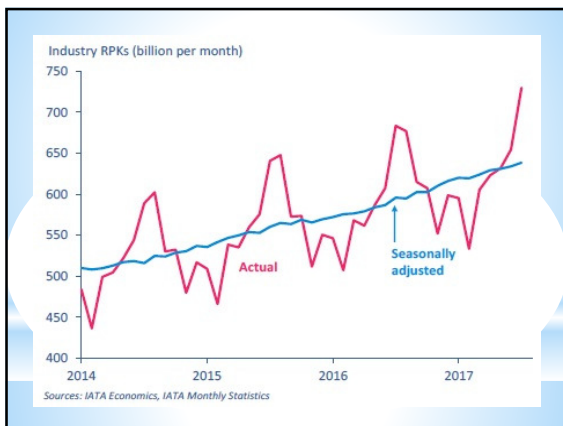
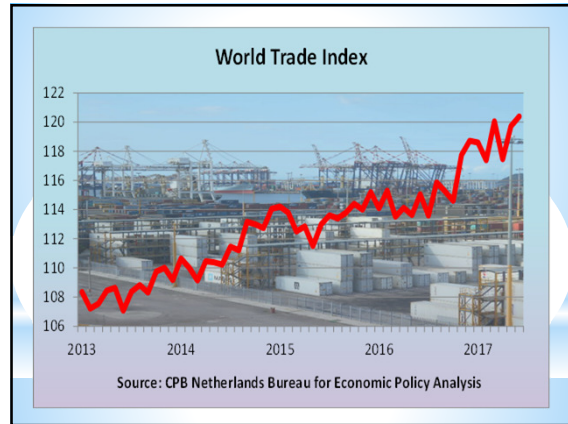
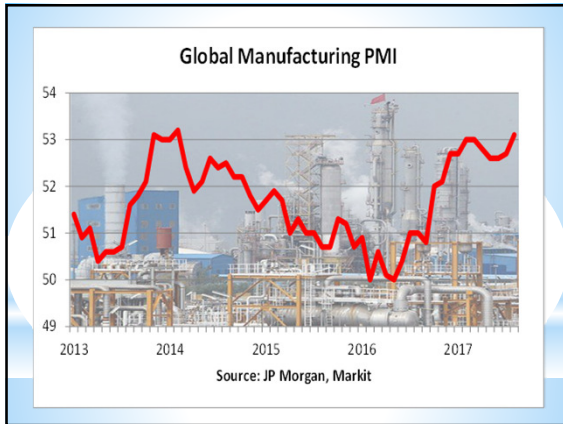
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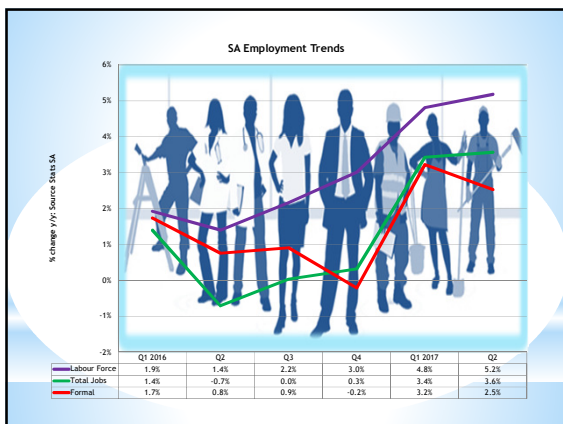
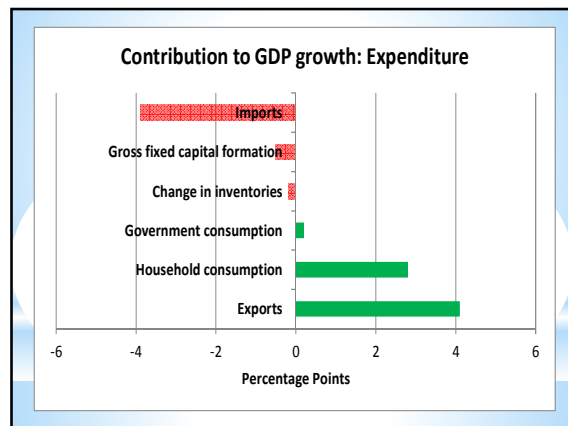
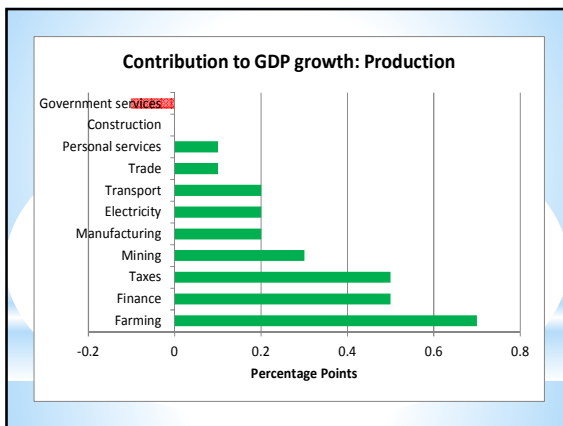
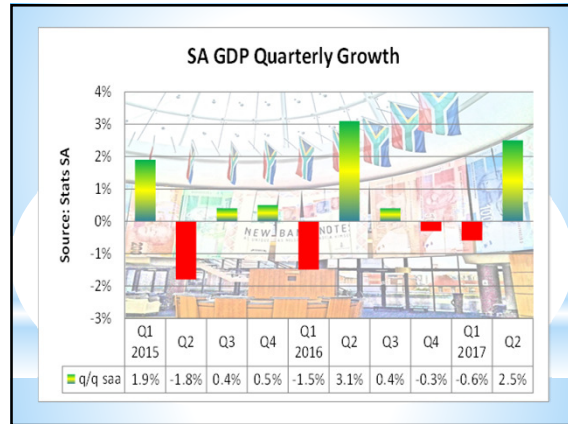
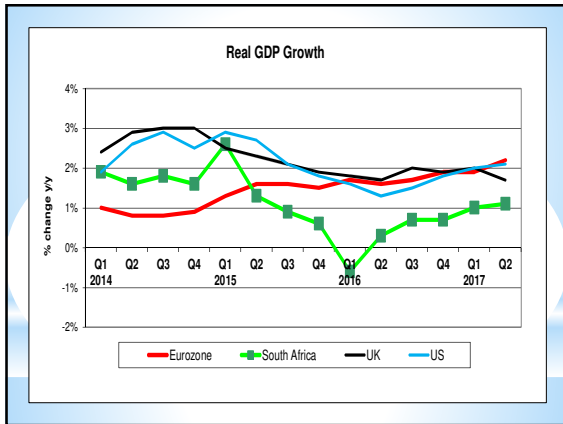
FOREIGN EXCHANGE FORECASTS SURVEY - JANUARY 2017 "DEADLINE" **Monday January 9**

Africa and Middle East

Forecasts vs US Dollar	(Currency units per US Dollar)			
Rate	Feb. '17	Apr. '17	Jan '18	Jan '19
South African Rand	13.70	13.60	13.40	12.60 11.00







Expenditure on GDP

Constant 2010 prices

% change year-on-year	2010	2011	2012	2013	2014	2015	2016	Forecast	Treasury
Final consumption expenditure by households	5.1	3.7	2.0	0.7	1.7	0.8	1.2	1.2	1.3
Final consumption expenditure by general government	2.6	3.5	3.1	1.1	0.5	-2.0	0.9	0.9	0.9
Gross fixed capital formation	5.5	2.6	7.2	1.7	2.3	-3.9	-0.5	1.5	1.5
Gross domestic expenditure	5.3	3.5	3.2	0.4	1.7	-0.7	1.5	1.3	1.3
Exports of goods and services	3.5	0.8	3.6	3.2	3.9	-0.1	2.5	1.9	1.9
Imports of goods and services	11.9	4.2	5.0	-0.5	5.4	-3.7	1.5	2.0	2.0
Expenditure on gross domestic product	2.8	2.5	2.8	1.5	1.2	0.5	1.8	1.3	1.3
Final Sales	2.4	2.4	2.8	2.1	1.1	1.2	1.1	1.2	1.2

2016 Local Government Election

Expenditure on GDP									
Constant 2010 prices									
							2017 Forecasts		
R million	2010	2011	2012	2013	2014	2015	2016	Forecaster	Treasury
Final consumption expenditure by households	1 621 836	1 705 240	1 768 365	1 803 825	1 816 234	1 846 822	1 862 014	1 884 359	1 886 221
Final consumption expenditure by general government	555 912	571 279	591 275	609 499	616 365	619 183	631 790	637 477	637 477
Gross fixed capital formation	529 451	550 755	573 310	614 502	624 948	639 383	614 225	611 153	623 438
Change in inventories	6 787	21 640	24 775	24 780	8 646	12 398	-11 201	10 522	-10 048
Gross domestic expenditure	2 713 966	2 856 914	2 957 725	3 052 397	3 066 083	3 117 587	3 096 829	3 143 511	3 137 087
Exports of goods and services	786 349	813 841	820 302	850 102	877 510	911 366	910 892	933 664	928 199
Less: imports of goods and services	752 233	841 839	877 362	921 356	916 621	965 814	930 513	944 471	949 123
Expenditure on gross domestic product	2 748 082	2 828 917	2 900 665	2 981 143	3 026 981	3 063 139	3 077 207	3 132 704	3 116 163
<i>Final Sales</i>	2 741 295	2 807 277	2 875 890	2 856 363	3 018 336	3 050 741	3 089 408	3 122 182	3 126 211

The way forward

- ANC December 2017 Elective Conference will see regime change and more policy certainty
- Wild Coast highway and Durban “Big Dig” port expansion are major infrastructure projects
- SA will largely be isolated from turmoil elsewhere (geography and exchange controls)

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Thank you



Medupi	Commercial operation dates	Kusile	Commercial operation dates
Unit 6 (794MW)	23 August 2015	Unit 1 (800MW)	July 2018
Unit 5 (794MW)	March 2018	Unit 2 (800MW)	July 2019
Unit 4 (794MW)	July 2018	Unit 3 (800MW)	August 2020
Unit 3 (794MW)	June 2019	Unit 4 (800MW)	March 2021
Unit 2 (794MW)	December 2019	Unit 5 (800MW)	November 2021
Unit 1 (794MW)	May 2020	Unit 6 (800MW)	September 2022

