

economists.co.za

**A country renewed with hope but
not yet reformed.**

Good and the bad & some context

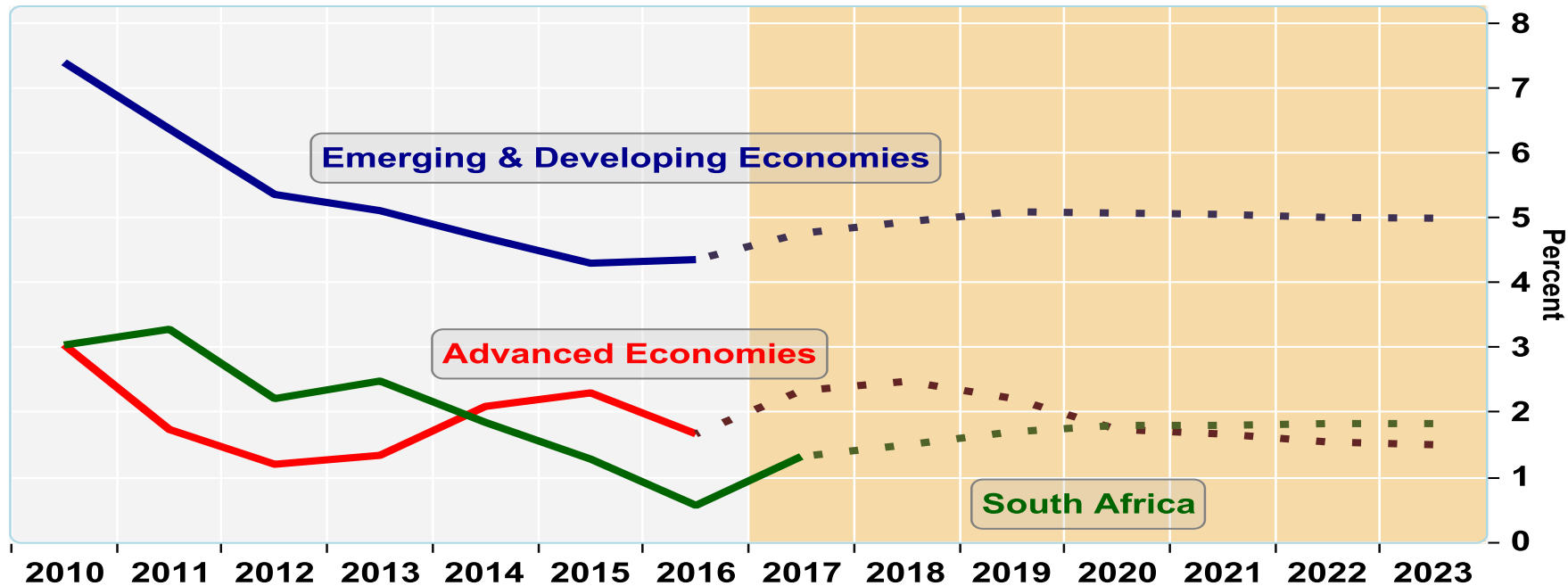


- Context international and local economy
 - Growth improves World vs SA
- SA Myths about debt and assets.
- Taxes and burdens
- Vanity, Sanity and reality.
- A long view on the public Transport industry
- Some predictions.

Emerging Markets are still racing ahead. SA lagging.

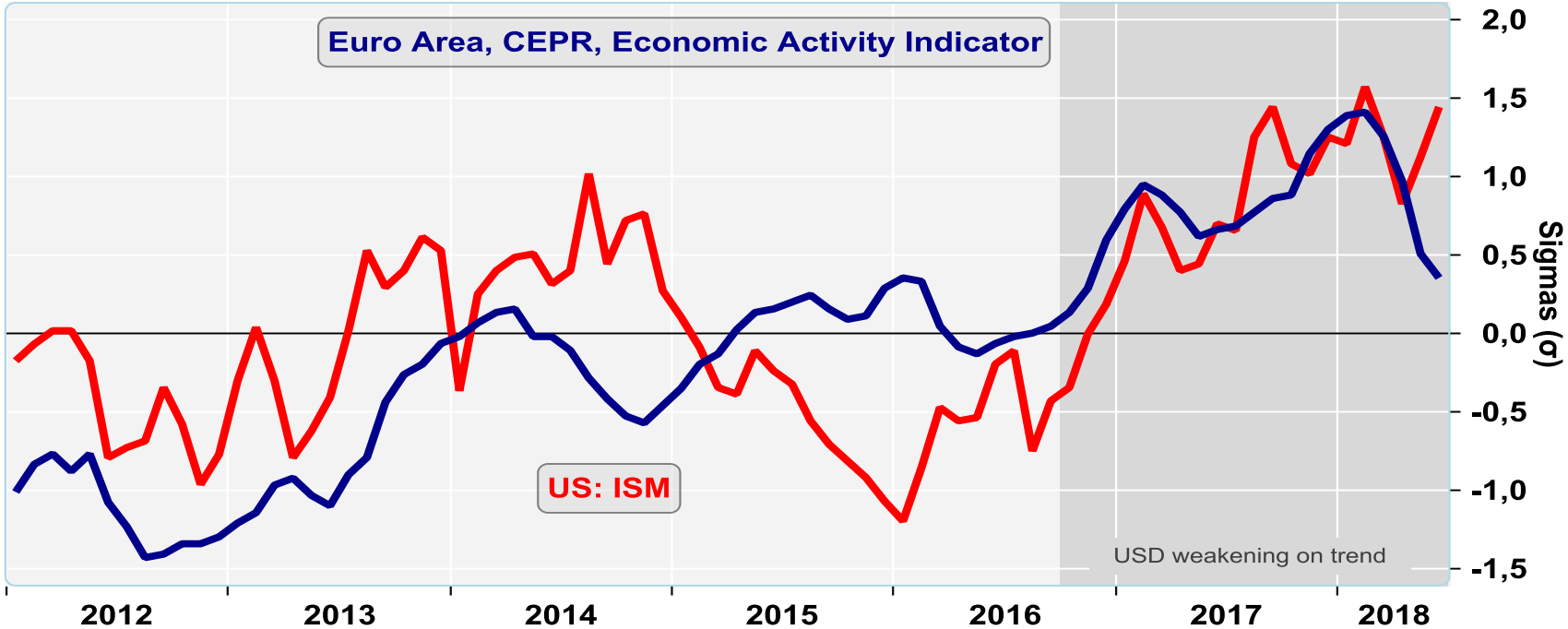
GDP History and Forecasts.

IMF World Economic Outlook.



Business surveys strongest in over a decade

Business surveys are looking strong



Some general facts that will impact



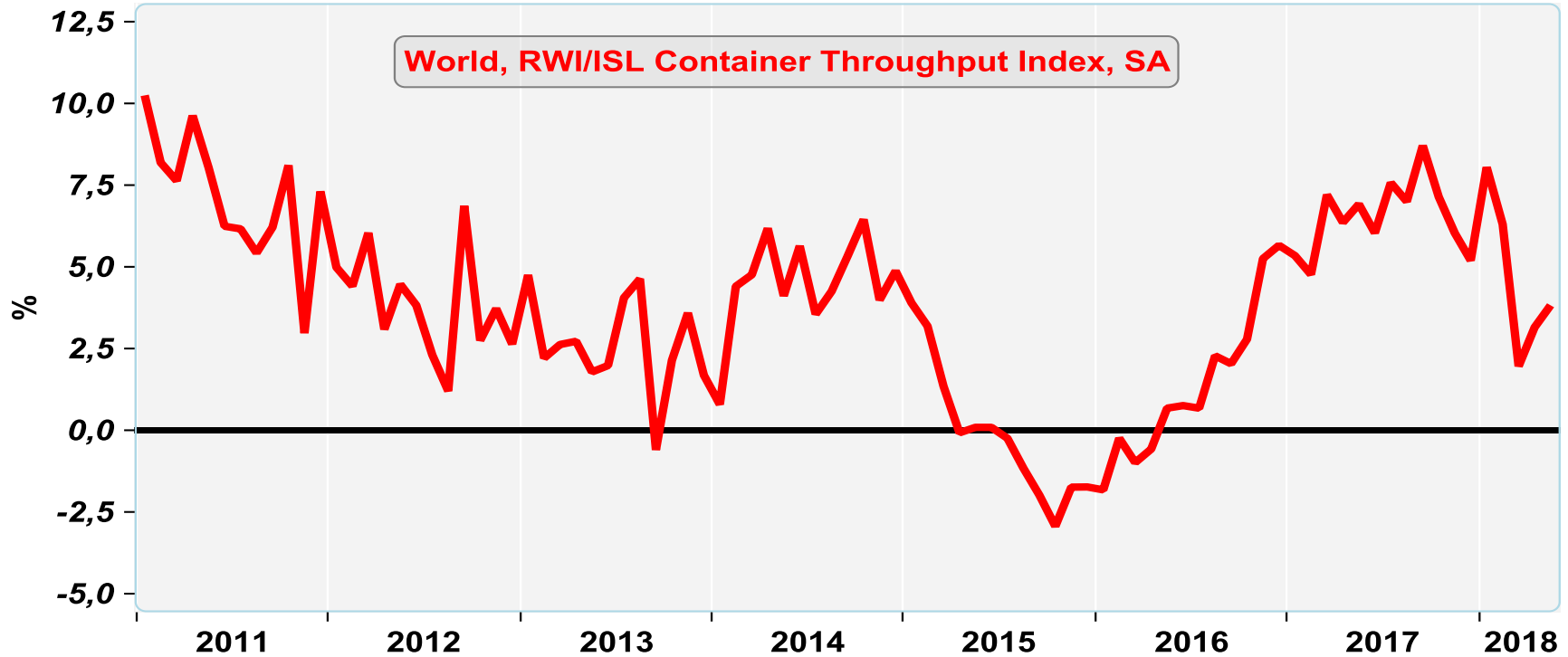
- US rate cycle is on the up.
 - Not good for commodities when this takes place.
 - Not positive for US growth.
- Europe will have to work through Brexit and so will UK.
 - Euro area could gain in short-term as firms switch to continent from London.
- China Growth slowing to 6% or so.
- India is the new big growth star but still very poor.
- Latin America is getting growth back.
- Africa has slowed but still faster growth than before commodity boom. But varied growth across region.

World Trade is growing but at a vastly slower rate!!

Container throughput in 85 harbours.



World, RWI/ISL Container Throughput Index, SA



- It seems likely that at least in part the trade war will impact trade growth.
 - Overall the tariffs implemented so far are \$50 billion worth of goods by US on China about the same on other trade partners and others are implementing them on US. So about \$200 billion of trade is impacted.
 - Trade in goods was R15,3 trillion in 2016.
 - So very small thus far.
 - But the bigger impact of another \$200 billion on China alone and then threats to others plus counter tariffs could add another \$500 or so.
 - So still less than say 5% of trade impacted yet.....
 - And this is the problem that no one knows how this will impact
 - My guess is that the war will stop before too long and World loses a few points in growth. Say from 3,7% to 3% or so.
 - Enough to dent commodity prices

Currencies and the commodity cycle

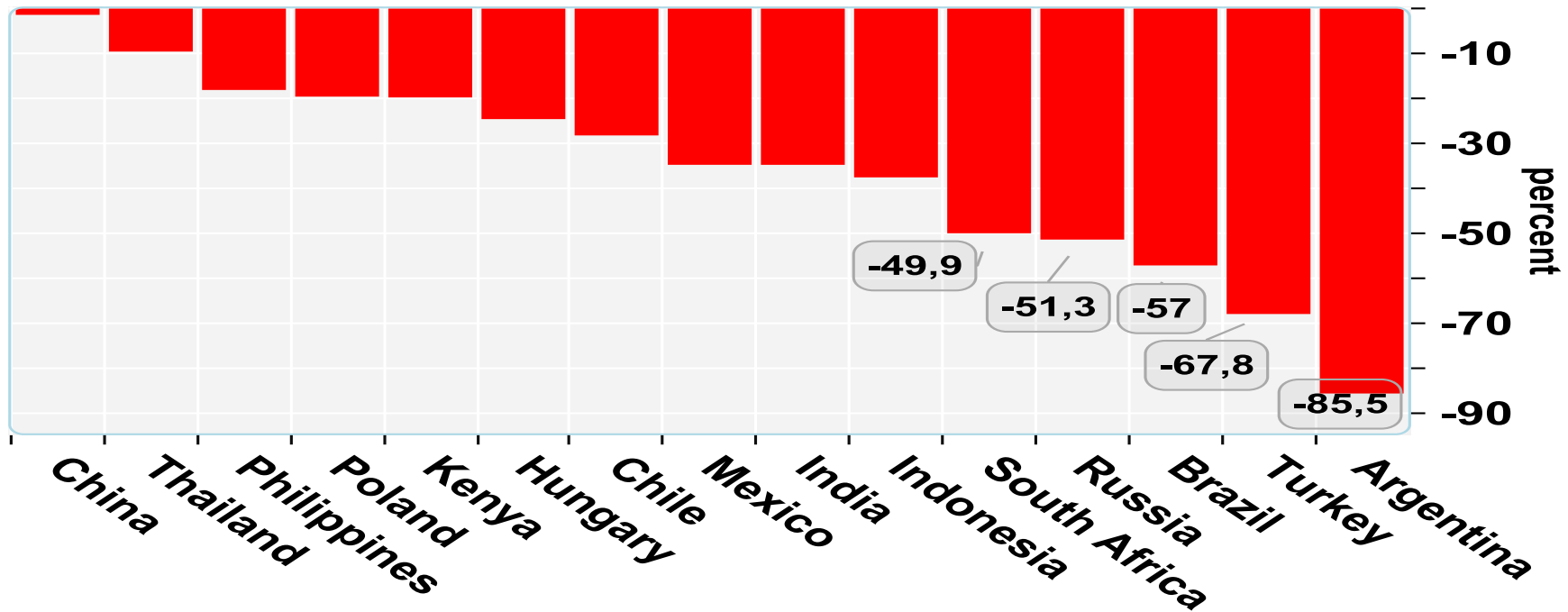


economists.co.za

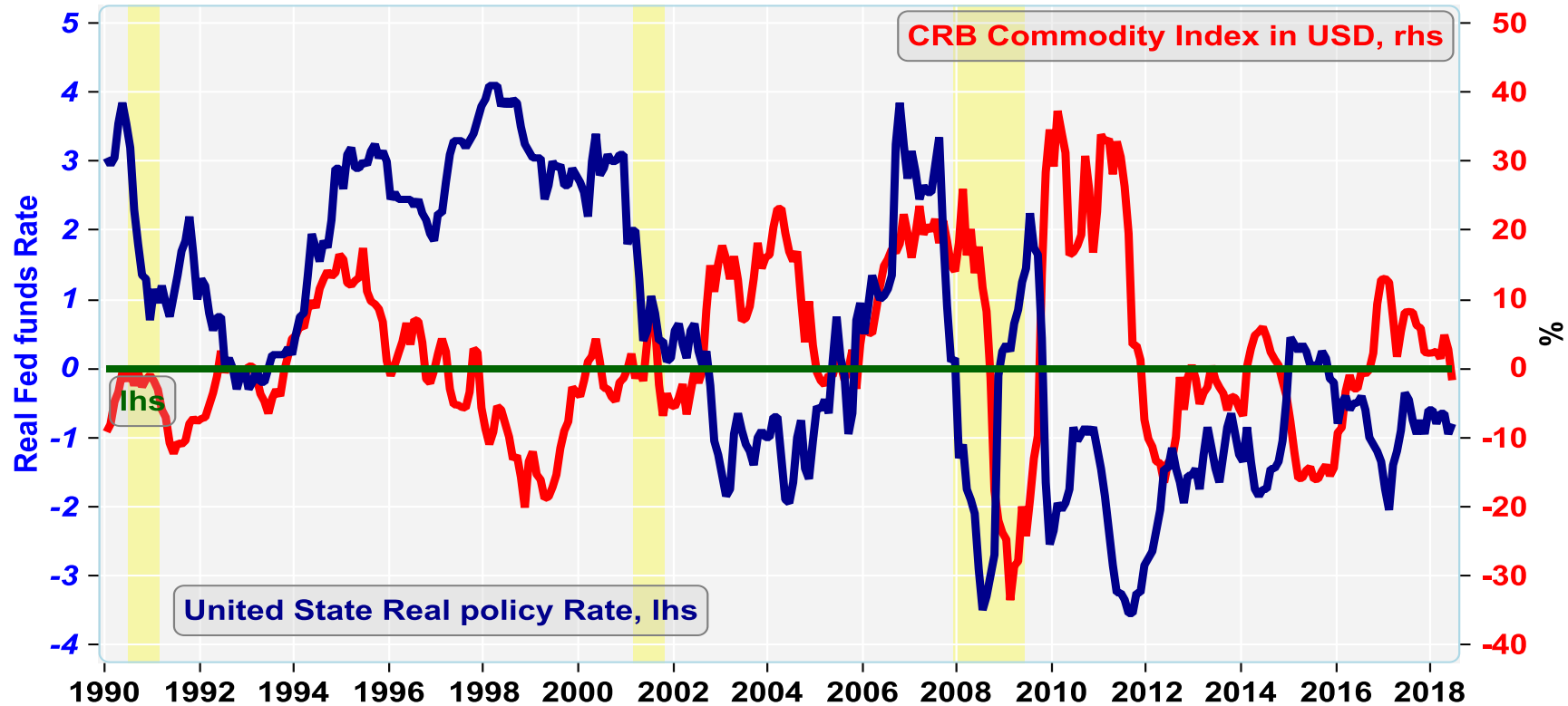
Change since 2011 (ties into commodity cycle).



EM currencies to USD since start 2011

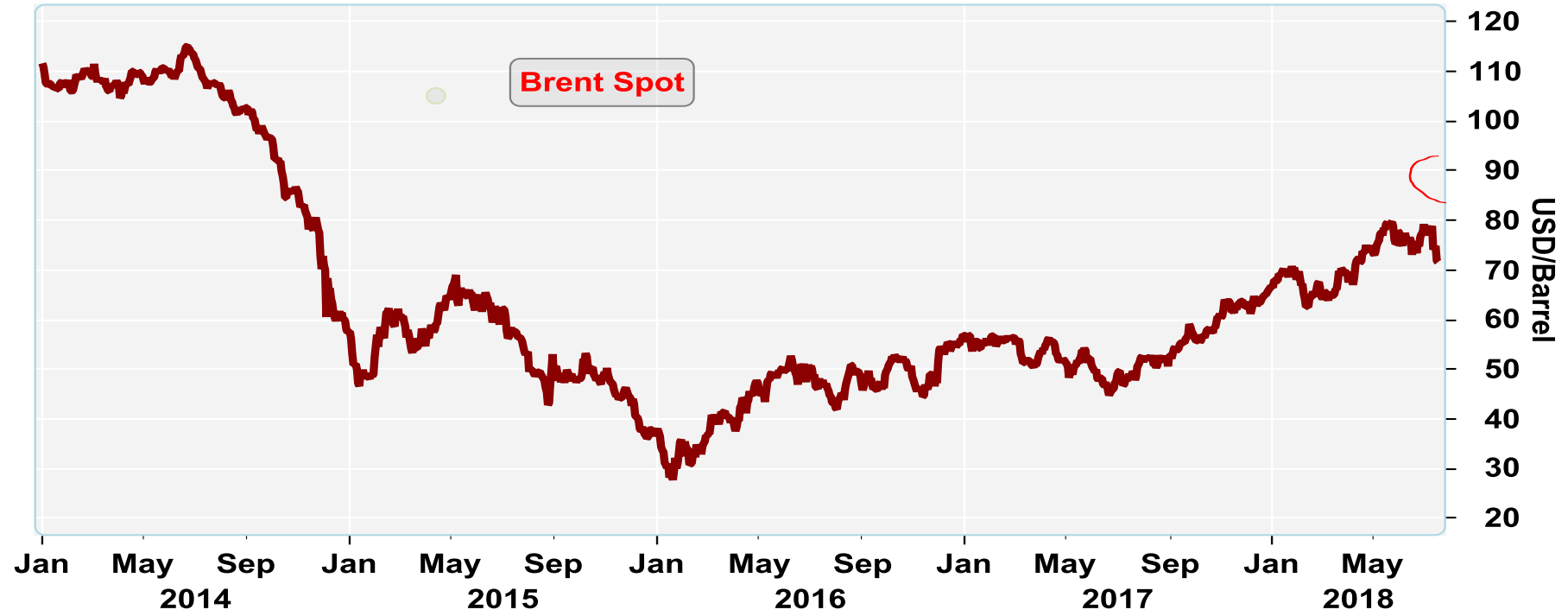


Also US rate increases are not good for commodity prices



Has Oil Peaked? I think so as the cartel never holds for a very long time.

Brent Spot



Consumer and business side of economy.

SA Assets are good and consumer debt is declining.

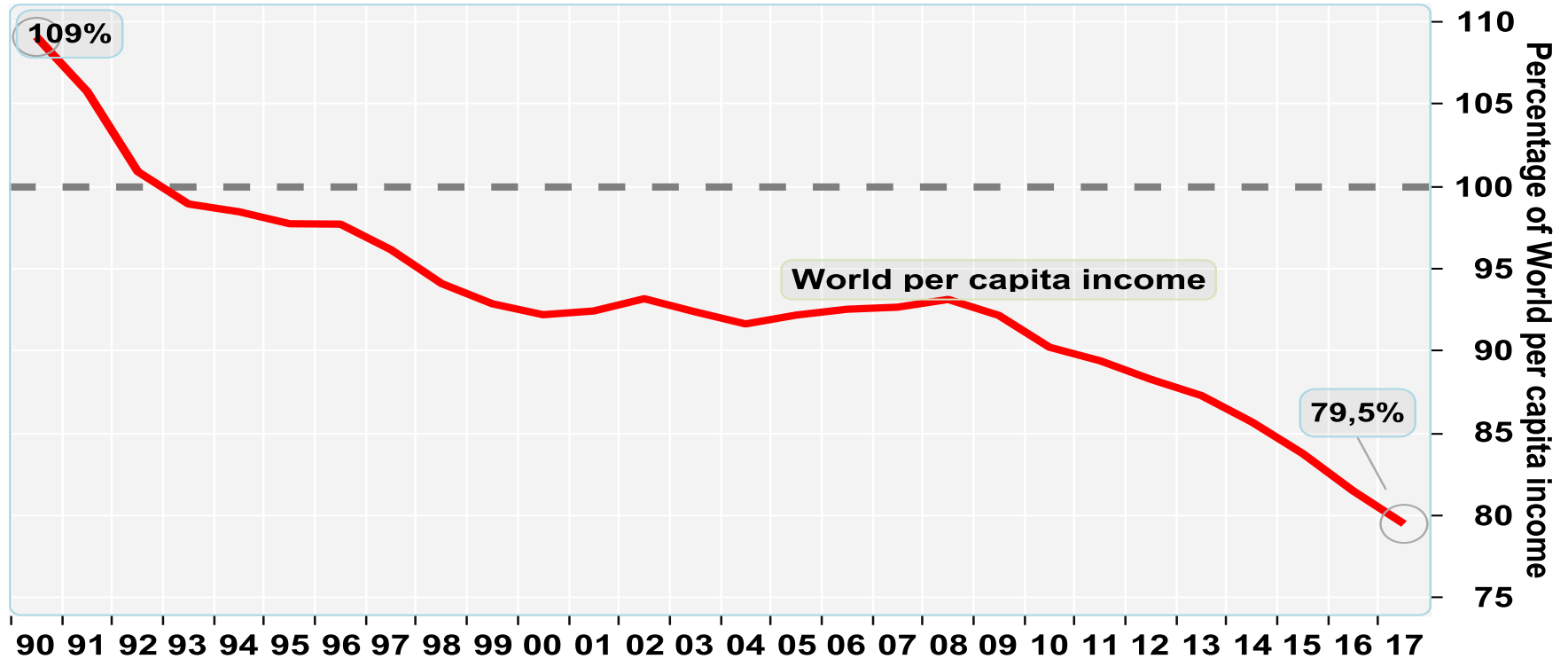
Thought on Land; assets etc. Inequality of wealth.

Per capita income SA vs. World:

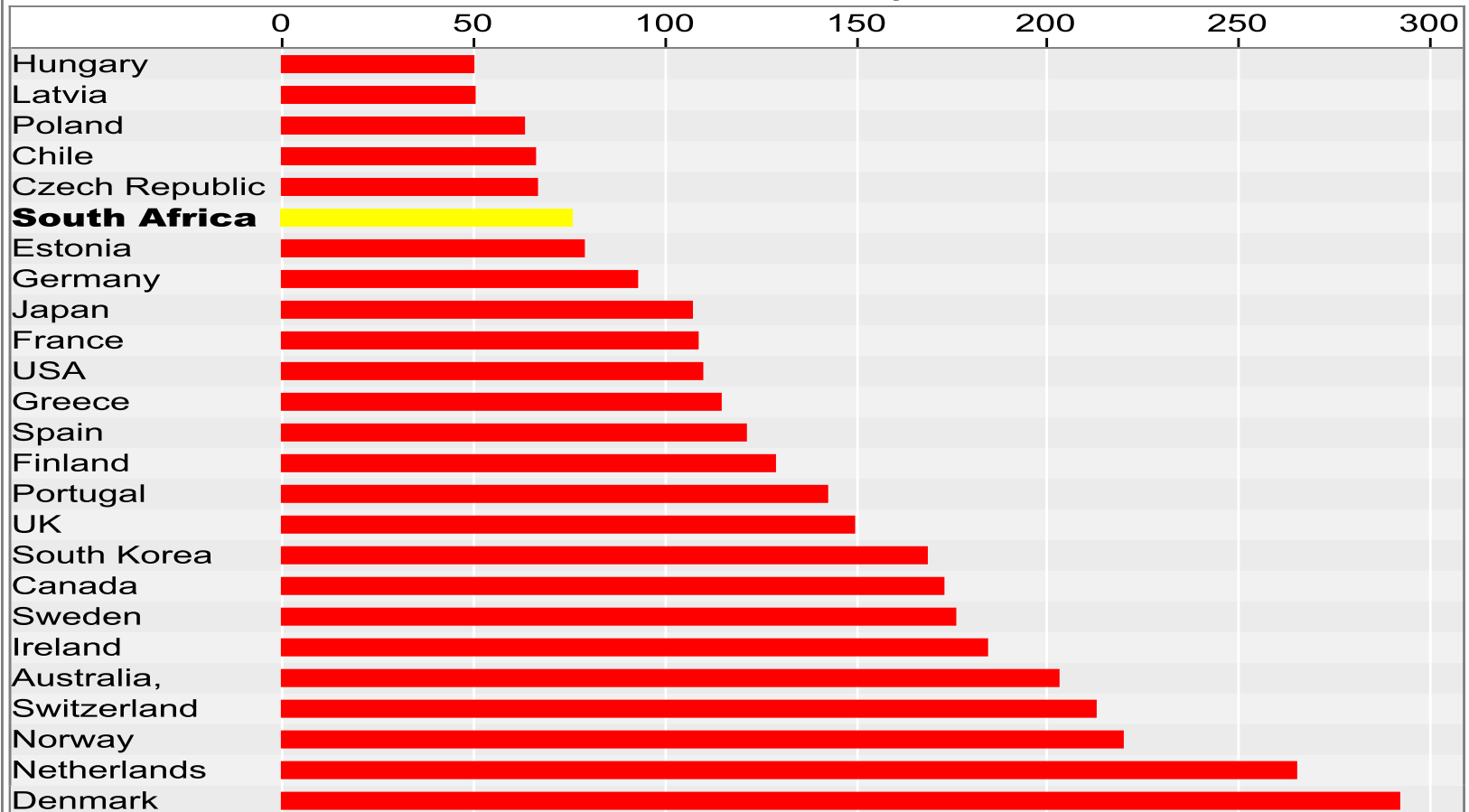


economists.co.za

South African per capita income as % of World per capita income



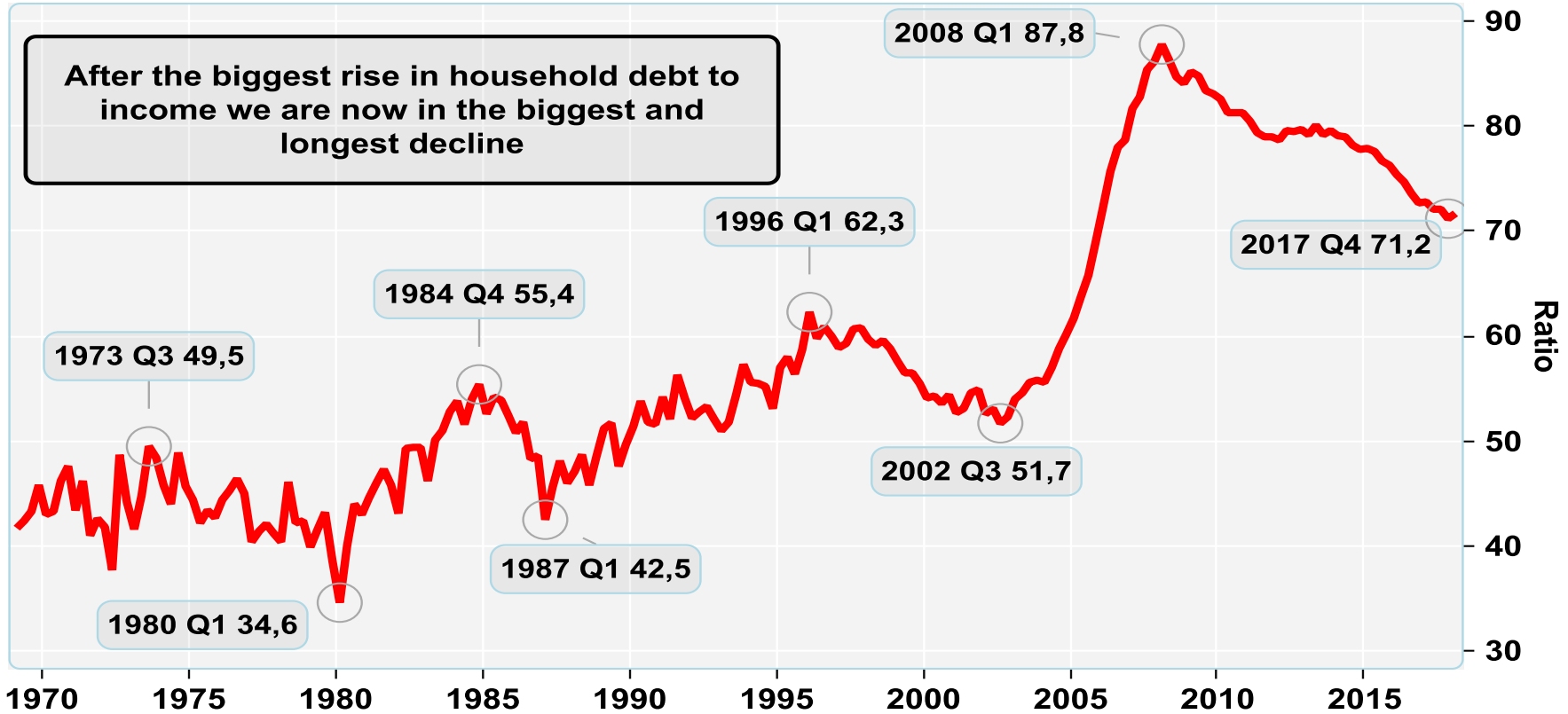
Household Debt to Household disposable income



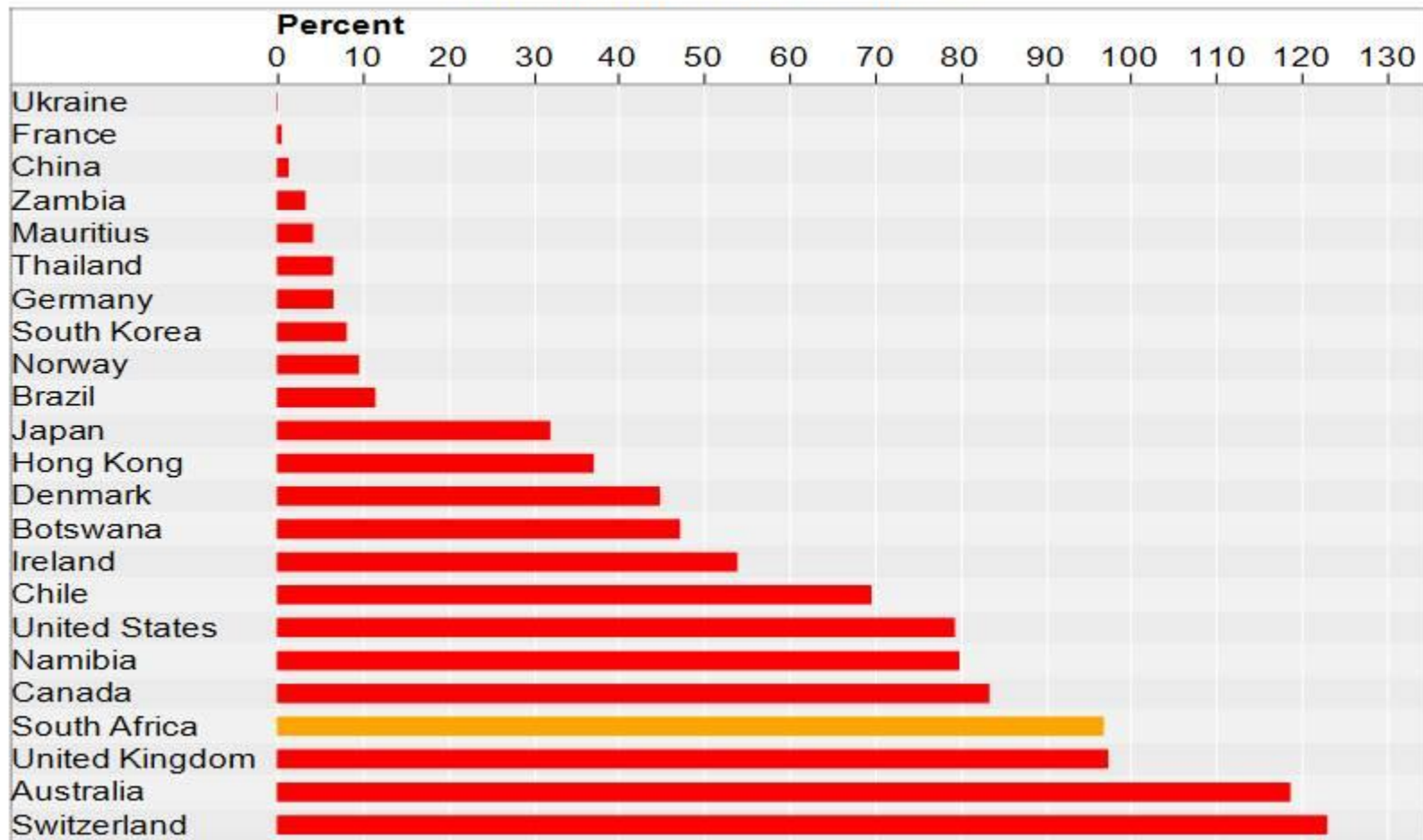
■ Latest debt to disposable income ratio [Close 2013 - 2015, sort asc.]

Soucre: OECD and economistscoza

Longest decline will also now be biggest decline in household debt to household income.

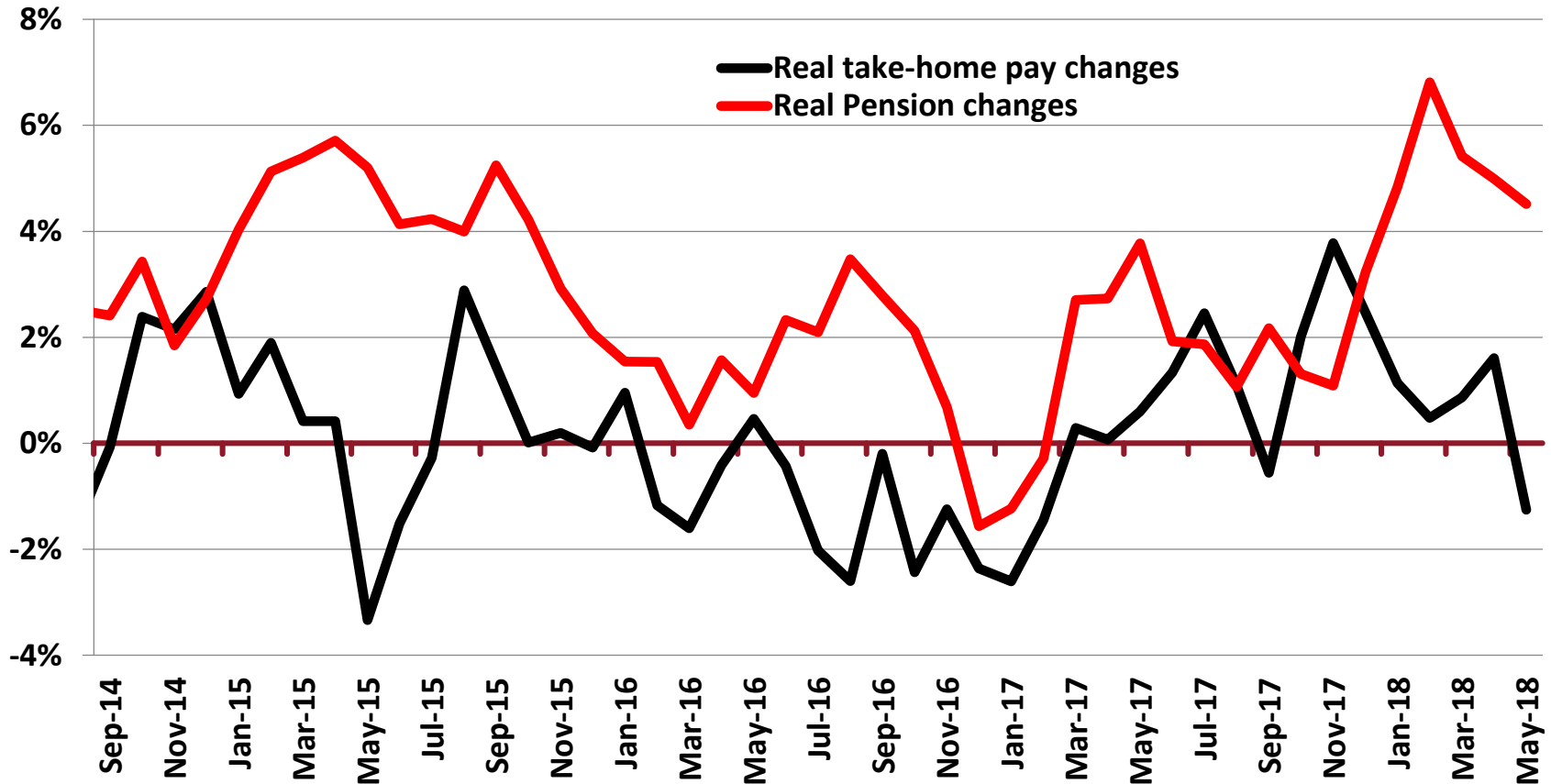


Pensionfund assets as % of GDP



OECD and Economistscoza

Gross wages are rising just above inflation but take-home pay is moderate



SA has one of the highest tax burden in the world anyway one looks at it.

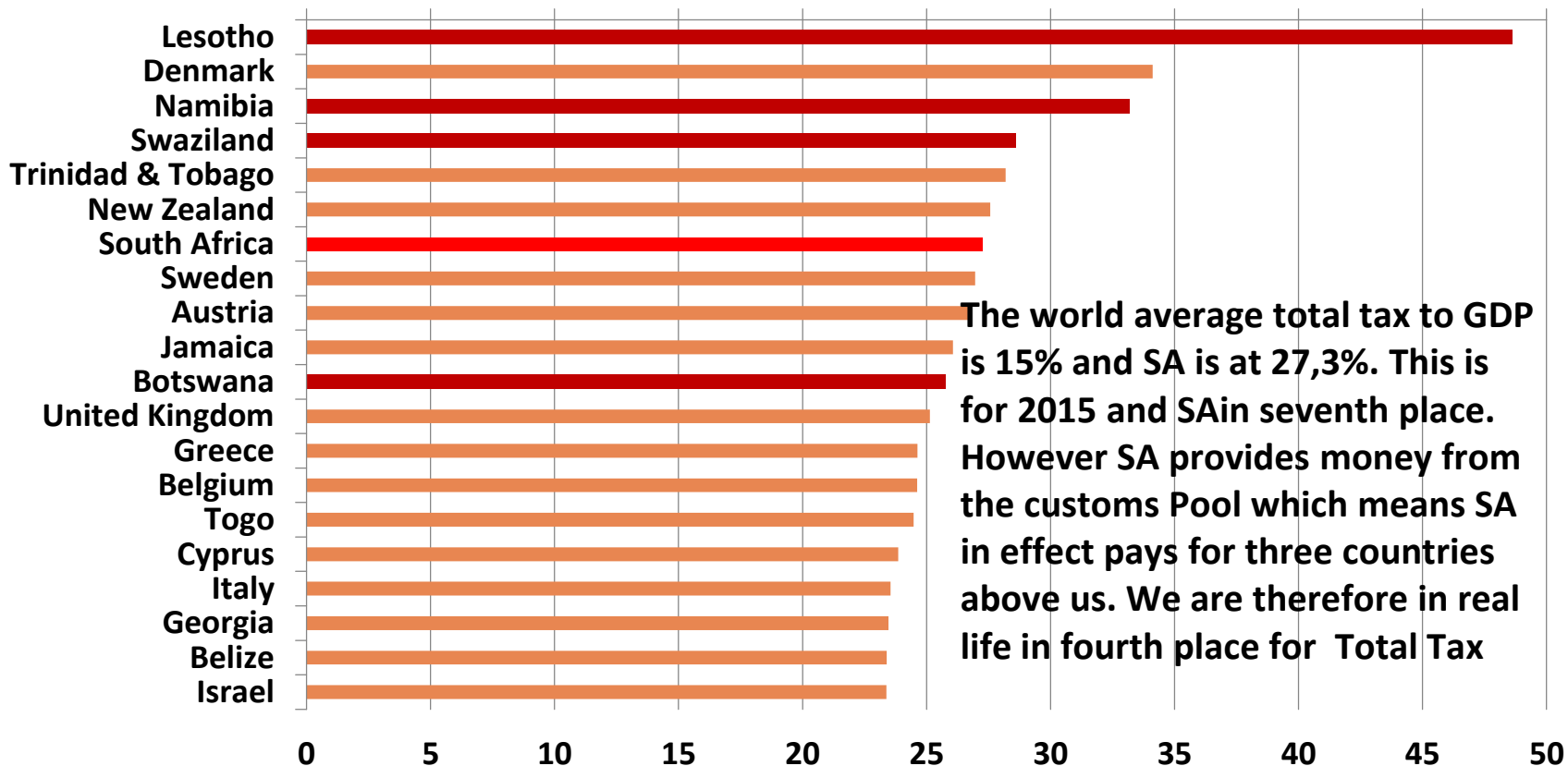
And what this means for the NHI or even the social security reform.



economists.co.za



Total Tax revenue (only) to GDP -2015



The results of the high taxes are really dismal to say the least.



- The World Average for the number of children per teacher is 24. High Tax Europe is at 14, South Africa is at 32 and without the fee paying schools this will be close to 34 children to a teacher.
- Our International test results are shocking e.g. PISA etc
- Our success at finishing school i.e. passing Matric is at 40% odd despite very low standards
- We have 1,8 doctors per 100 000 people while the world is at over 5 doctors per 100 000 people.
 - We have just above the world average in number of nurses but I believe not all are deployed.



economists.co.za

Burdens; profits and growth indicators.

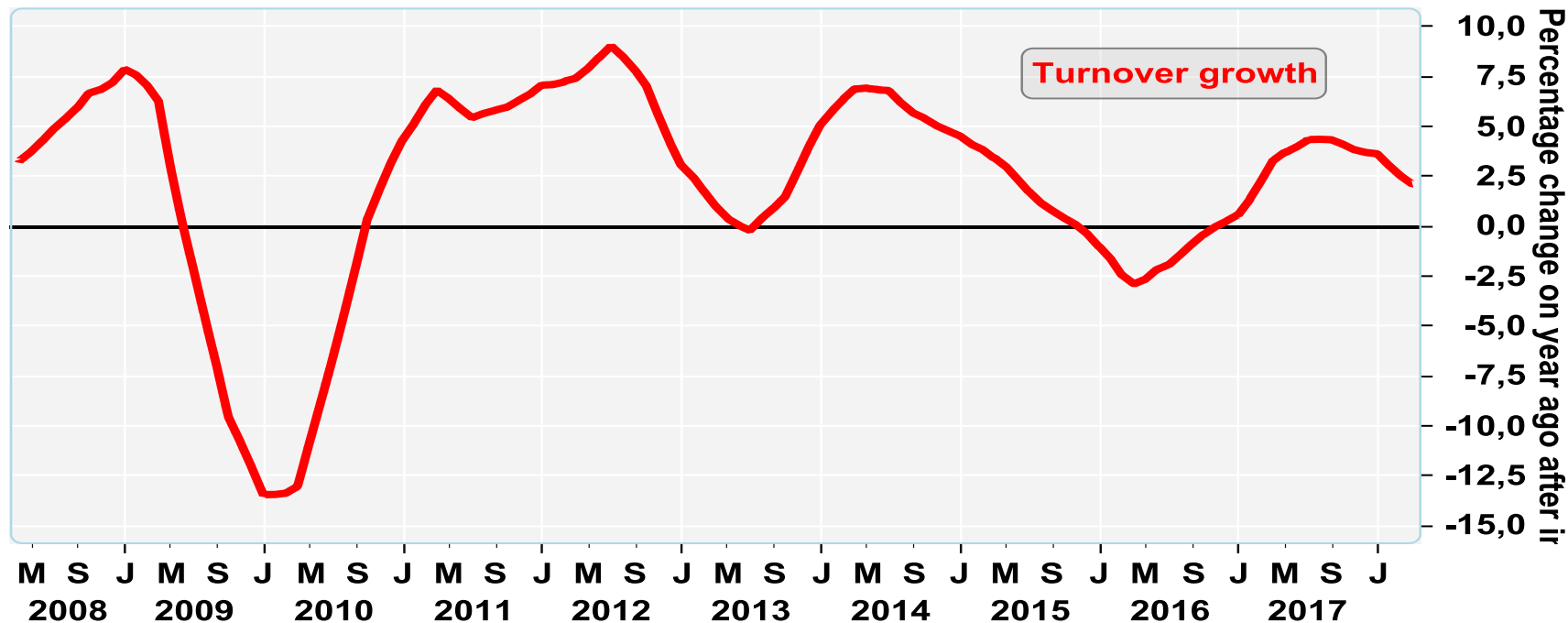
Vanity Sanity and reality

And something on mining charter / BEE

Vanity is growing above inflation



Real Vanity: Real growth in turnover

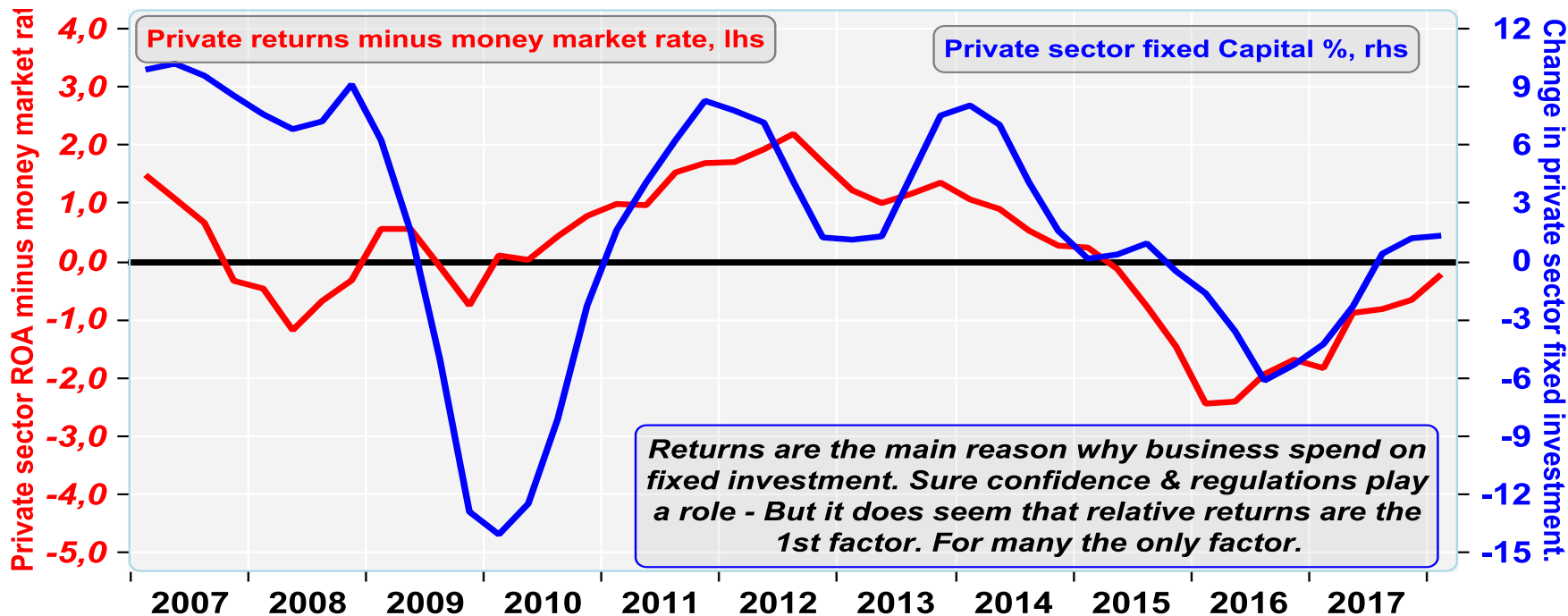


Economistscoza

Non-Financial Non-Agricultural Private sector

This is why the money stays in the bank and not into new projects

Business returns matter for investment returns minus money market vs. private fixed investment.



Returns are the main reason why business spend on fixed investment. Sure confidence & regulations play a role - But it does seem that relative returns are the 1st factor. For many the only factor.

Economistscoza

Note: Non-farm Non financial private sector before tax profits on fixed assets employed.

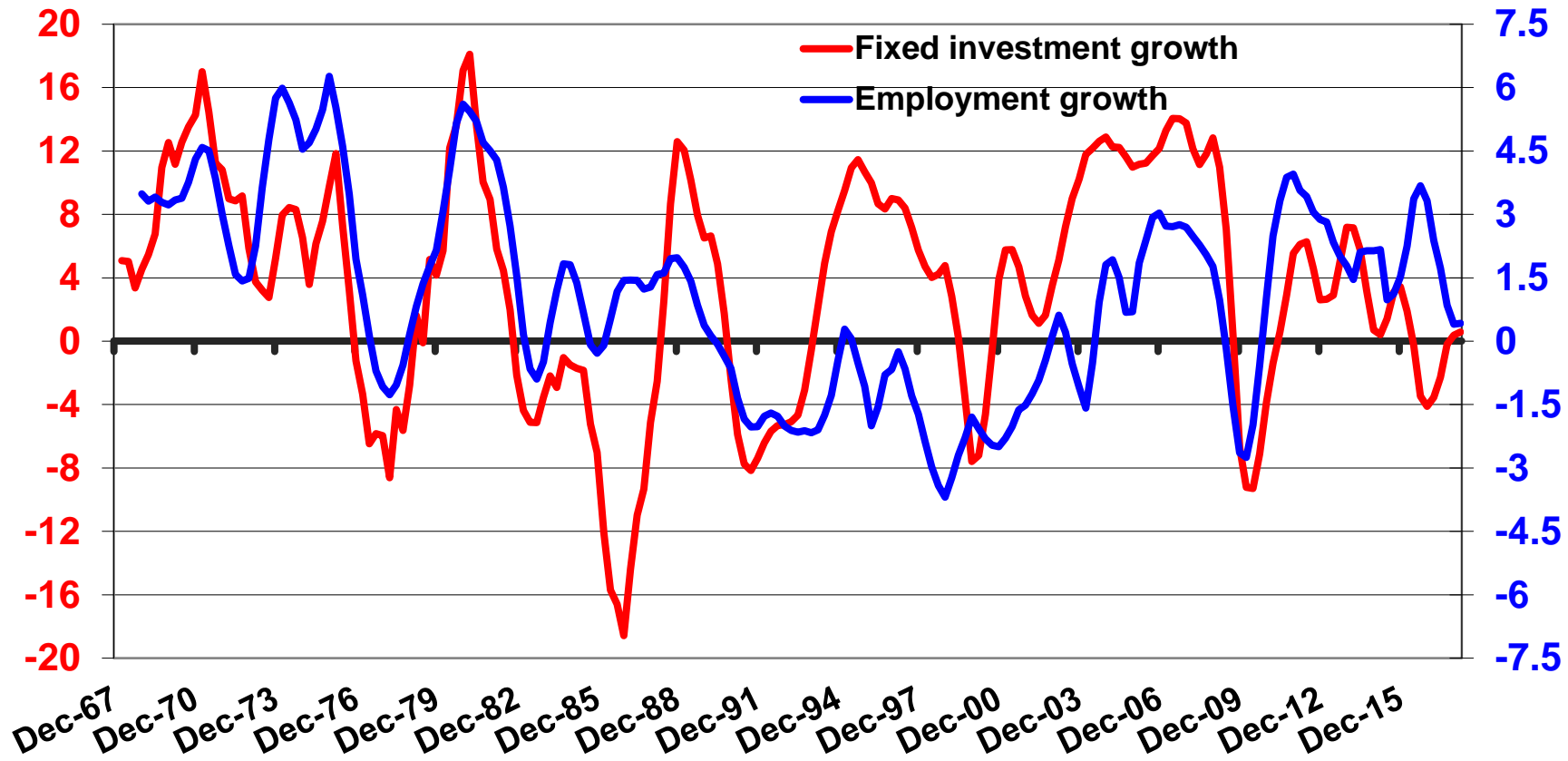
Reality is however very positive – even after inflation.

Real Reality: Income minus expenditure

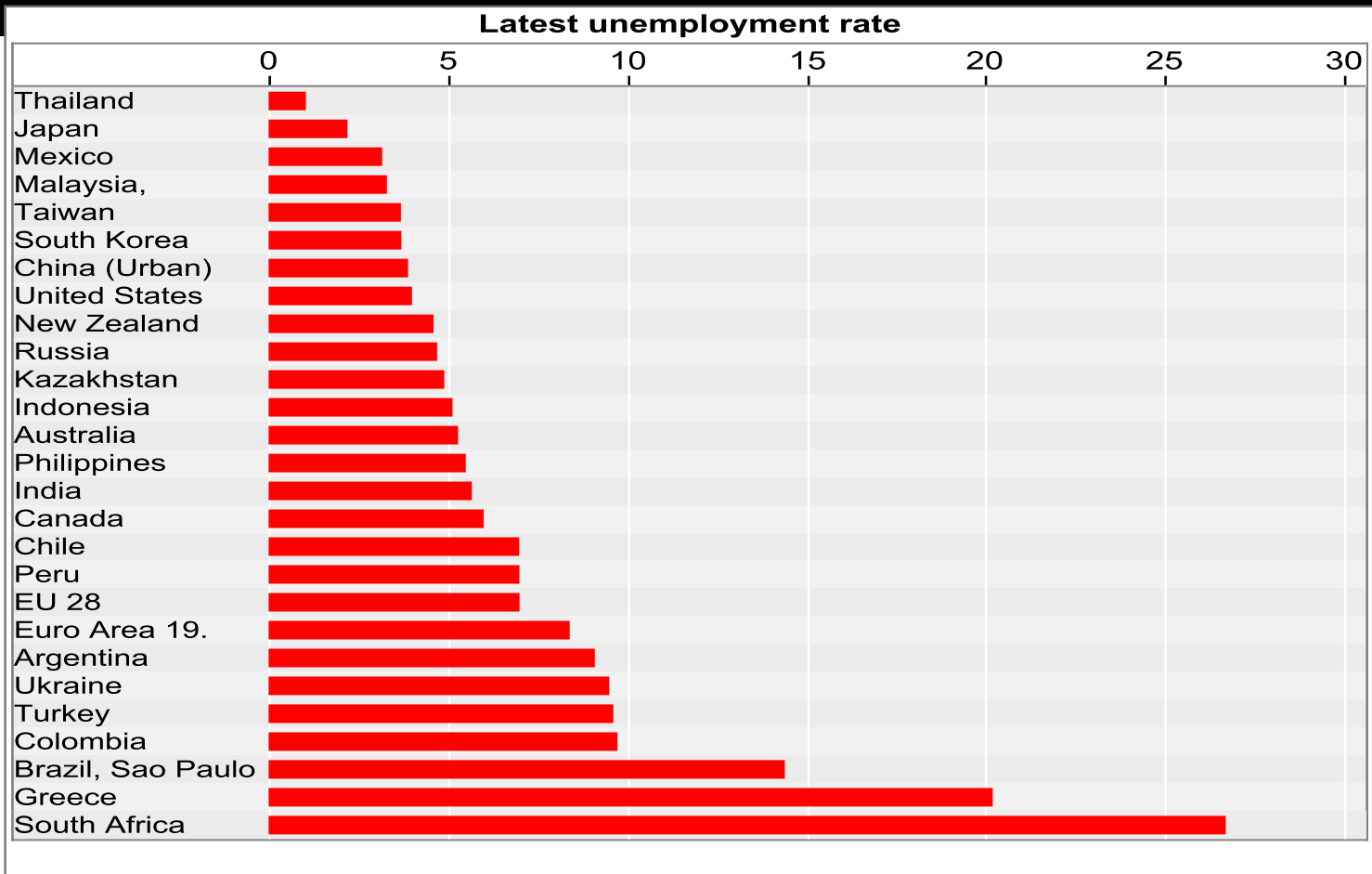


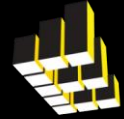
Economistscoza
Non-farm; Non financial private sector cash income from normal operations minus normal cash expenses.

Why investment is important. Closest relationship to formal employment change.



Perspective on unemployment.





economists.co.za

Some economic indicators for the property sector

The normal suspects

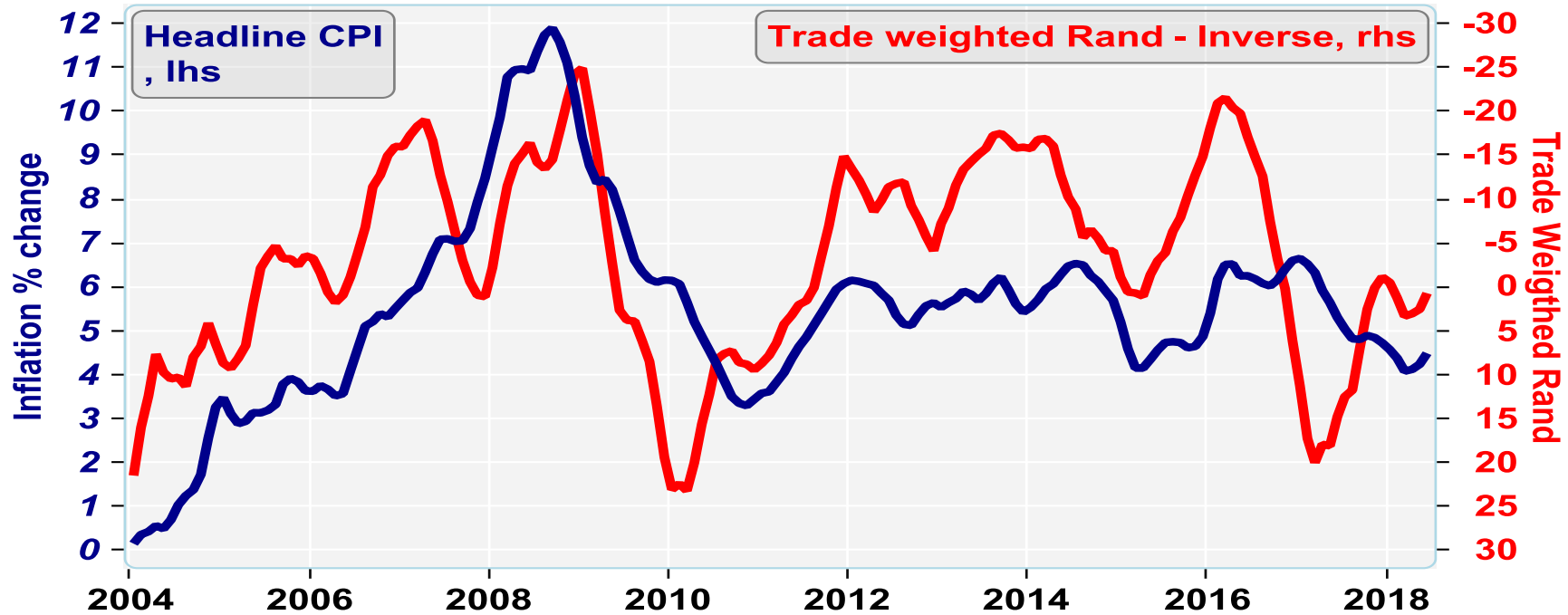
Rand influences inflation.

Many importers price R/\$ at R15 anyway



economists.co.za

Inflation and the Rand



Economists.co.za

© 2018 Economists.co.za

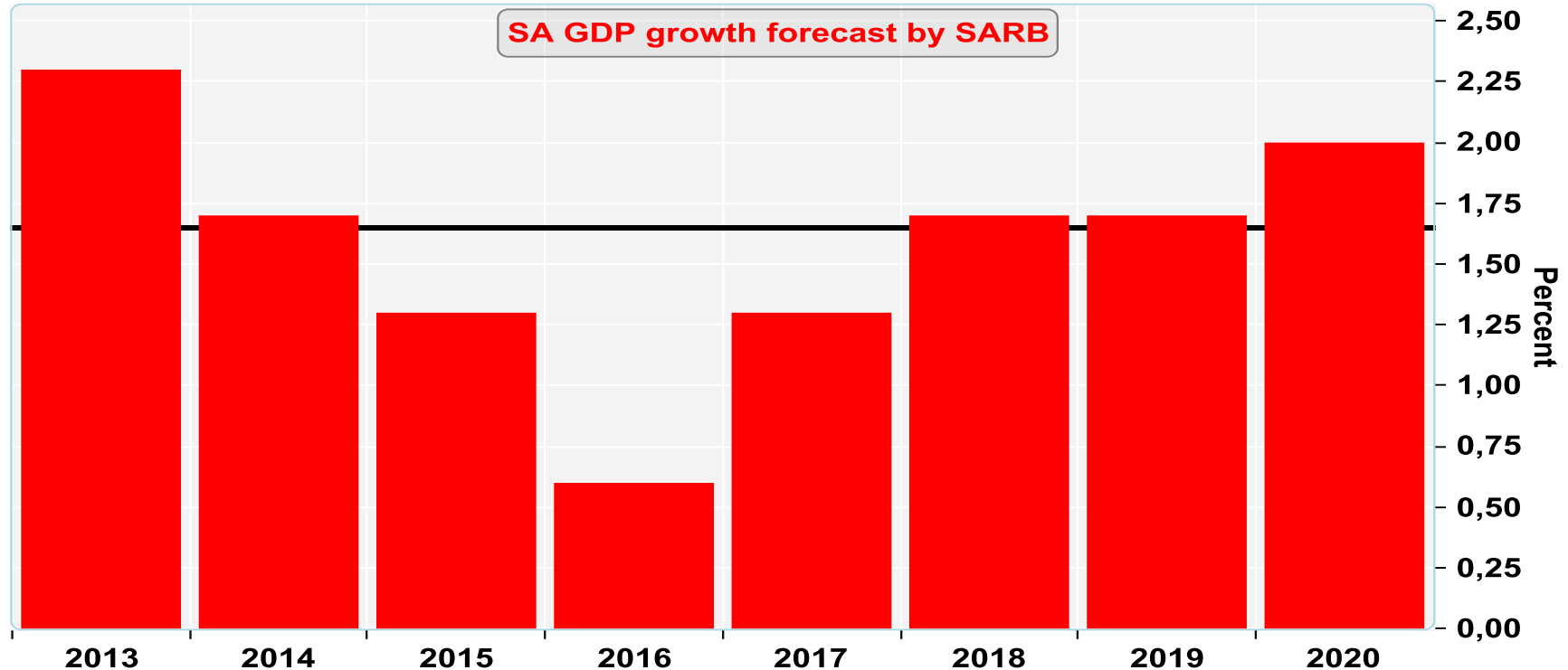
- I believe that inflation will head higher now to over 5% and closer to 6%.
 - On average this year will have an inflation rate of just over 5%
 - Next year will be closer to 5,5% average with a small chance of breaching 6% for a month or two.
 - But inflation averages between 5% and 6% for the next three years is what not only economists but trade unions etc. expect.
 - So Rates may not decline but they will not rise either (small changes yes but steady)

Growth history & forecast from SARB.

Private sector average for this year is 1,6% and 1.9% next

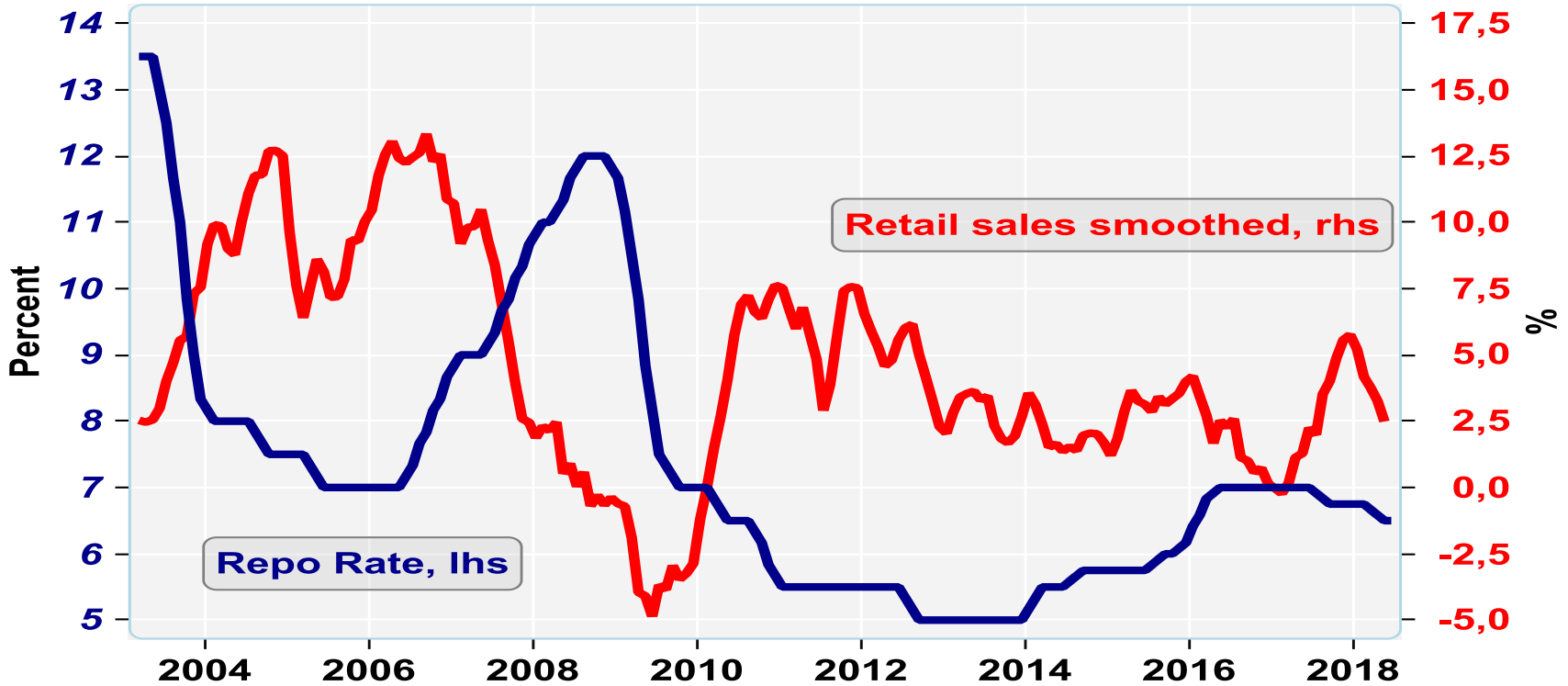


economists.co.za



The Sectors

Retail sales growth. VAT; fuel and sugar taxes hurt



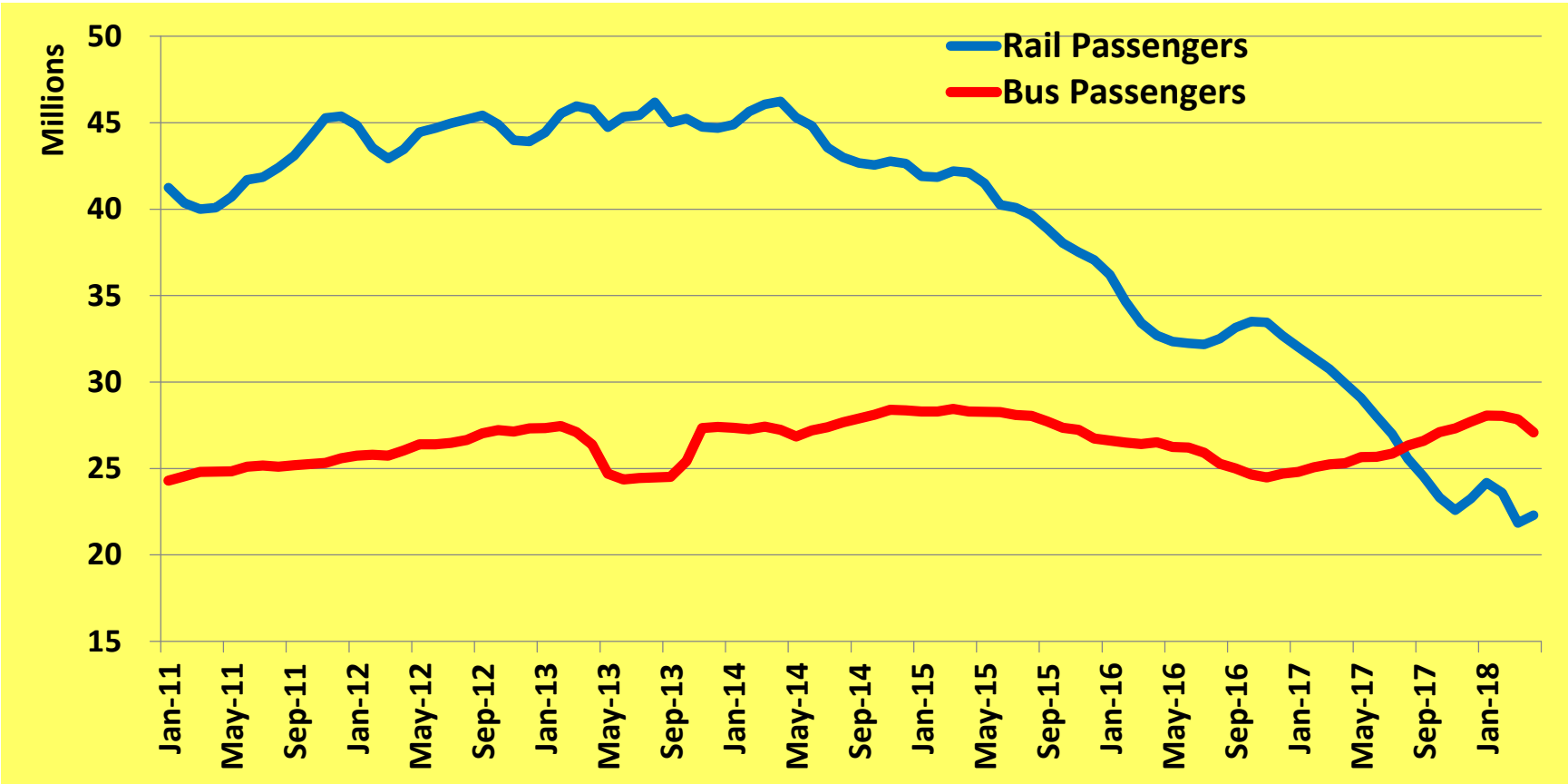
% change foreign tourists on year ago. (visitors staying overnight)



Something on Passenger Transport

A longer view on the sector. Are people getting richer and heading to Taxis and Cars.

Where have all the passengers gone?

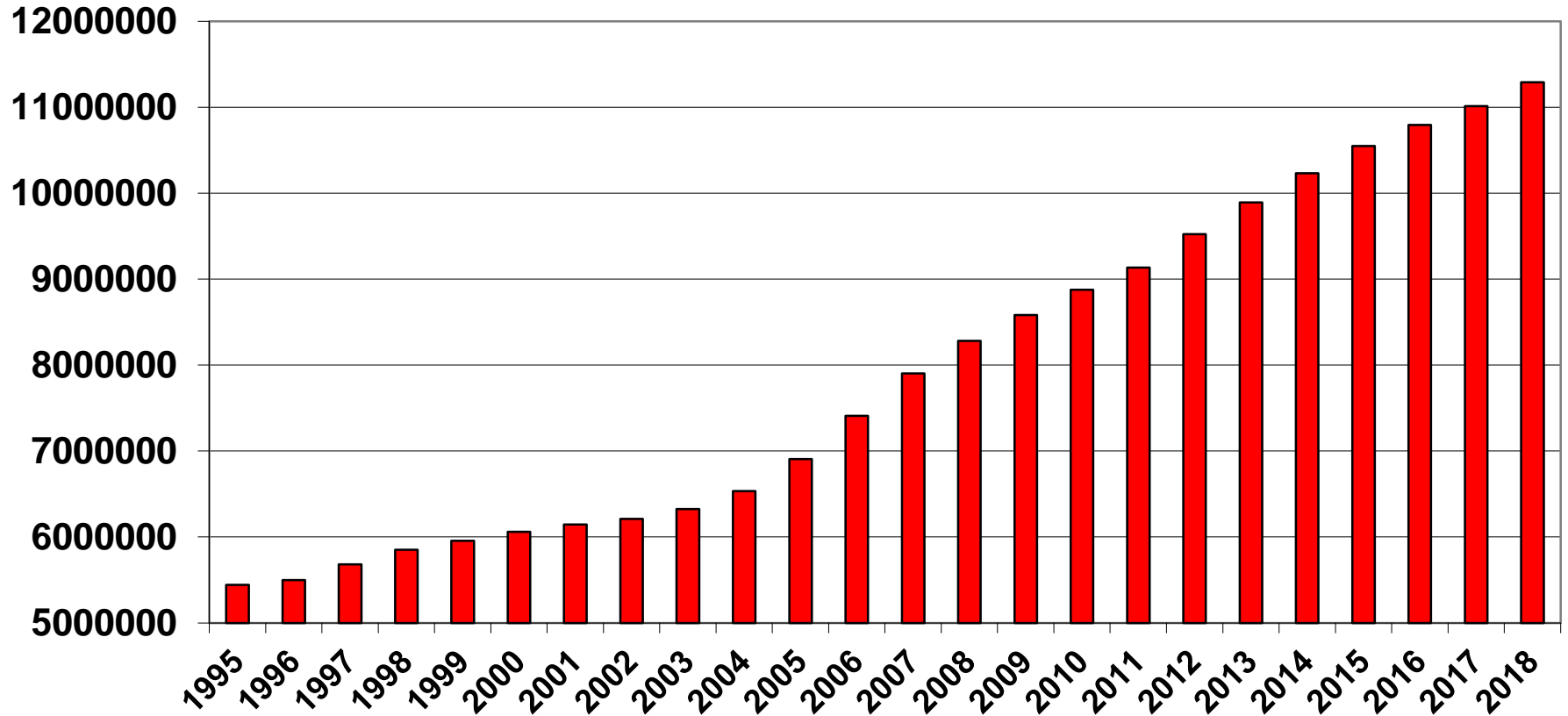


Passenger numbers in context.



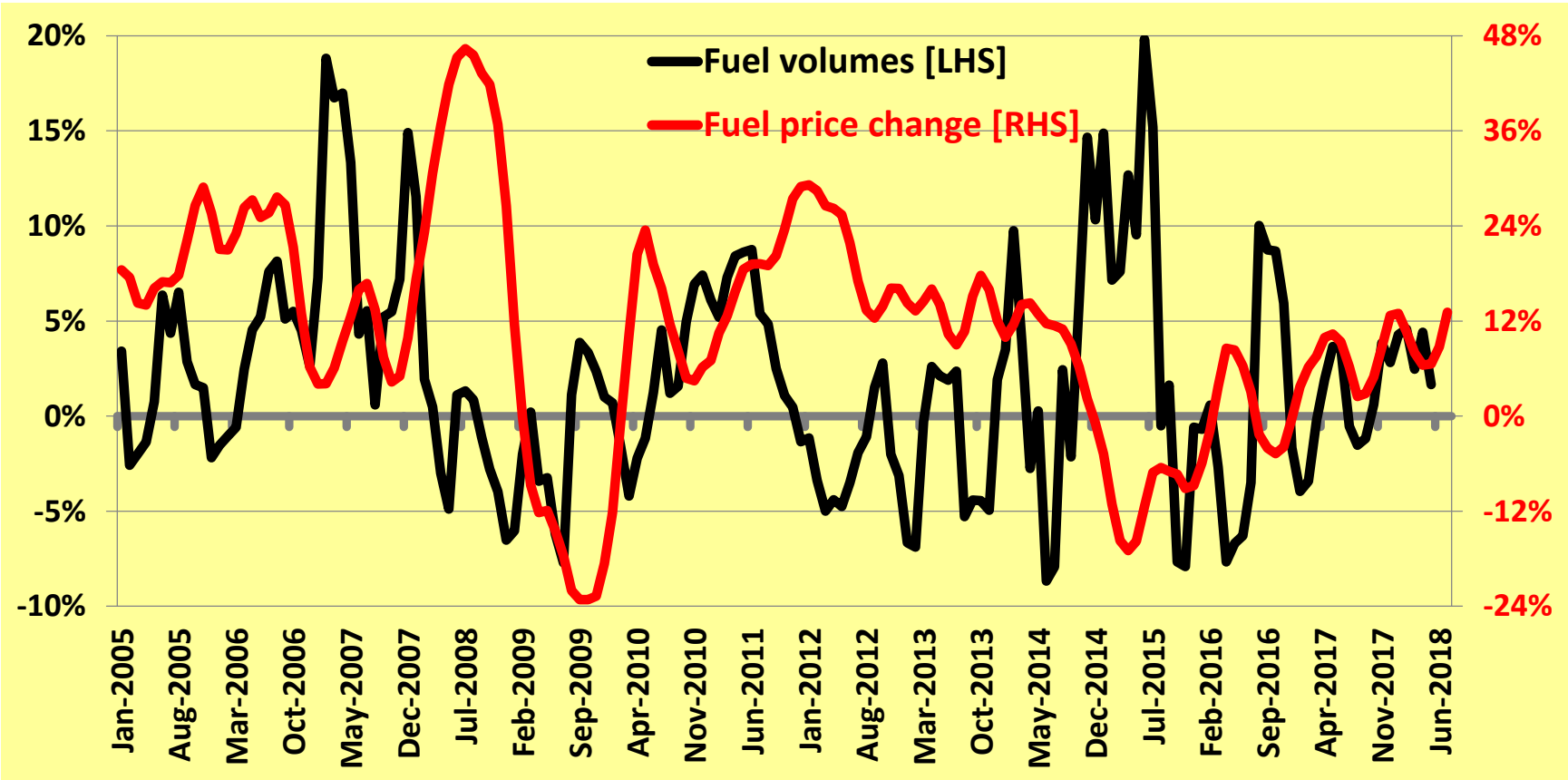
- Late 1980's and early 90's there were about 60 million passenger journeys a month on Rail.
 - I do not have Bus Numbers but busses were around too.
 - I have 20 million passengers a month as a number in my head.
- In 2009 the combined number of Journeys was averaging around 77 million at a stage.
 - Now down to 49 million!
- More adults work now from a non-farm payroll of say 6.5 million to 9,5 million.
 - From 136 million passenger journeys to 200 million.
- Public transport has gone from say 58% to 25% of people working in formal sector.
- Where are they working adults going?

Vehicle population in SA. More than doubled.



- In 1993 there were 3,150 million motor cars registered.
- In June 2018 there were 7,270 million motor cars registered!
 - That is 131% increase while the population increased with 43%.
- There are also unregistered and Foreign registered cars so the true number maybe a little higher.
- In 1993 there was about half a car per person in non-farm formal sector; while now there is a car for close three quarters of the workforce.
- People see cars as the solution and life style.
- Do we change that?

Fuel Volumes and fuel prices – inverse relationship but a little delayed.



- 322 000 mini busses on our roads at present.
 - Not all taxi's for sure and up from 202K in 1993 to 322K in 2018.
 - Have more become taxi's?
 - Are other vehicles being used i.e. private cars sharing?
- We are looking at further marketshare declines if we do not think out of the box.
- I was at Transnet when meeting were held about one ticket for Rail and Road in the mid 1990's
 - Just saying.....

So what now?

Some quick predictions and thoughts on the economy future

Summary for 2018



- World Growth best in three years.
 - Slowing down now?
- SA business is doing alright but would get more confidence and real positive action would ignite a barrage of investment.
- **SA consumer is better off** as she has Assets and lower debt
 - Bounce back could be very good.
- Inflation slowly moving up so rate changes on hold for say 18 months.
- Growth will be slower than expected OK for 2018 as VAT hike and confidence are stumbling blocks.
 - Despite VAT increase Inflation should average below 6%. (5,1% average)
- SOE delivery on efficient delivery will take time.

- **2019** SA may get to **2% growth** but due to Eskom & Rand; inflation will increase to around 5.5% - no rate relief; could be closer to 1,5%
- Consumer may start coming back near 2nd half of the year.
- **Unemployment** will increase to closer to 30% by end 2019 or early 2020.
- Many strikes and other protests to continue.

- **2020** should see better growth but with a slower world economy SA may only get say 2,5% or so – but if no leadership after 2019 election then 1,8% is likely.
- Inflation should fall back so rate could start to decline say 50 to 100 basis points.
- **SA should be addressing more issues such as getting low hang fruit such as tourism.**
 - **SOE's should be performing better** but some like SAA may no longer be what they are today.
- The building blocks will be getting into place.



economists.co.za

It looks like the fruits of the past are still lingering. They will for a while.

The disaster of the last decade will take time and effort to undo. It is not clear that SA will just get higher growth. But SA has some very hard & honest people working in all sectors and levels. We need to remain supportive of those and know that **crooks do not leave willingly.**