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Op-ed

Growth drivers coming to the fore

By Dr Roelof Botha and Daryl Swanepoel

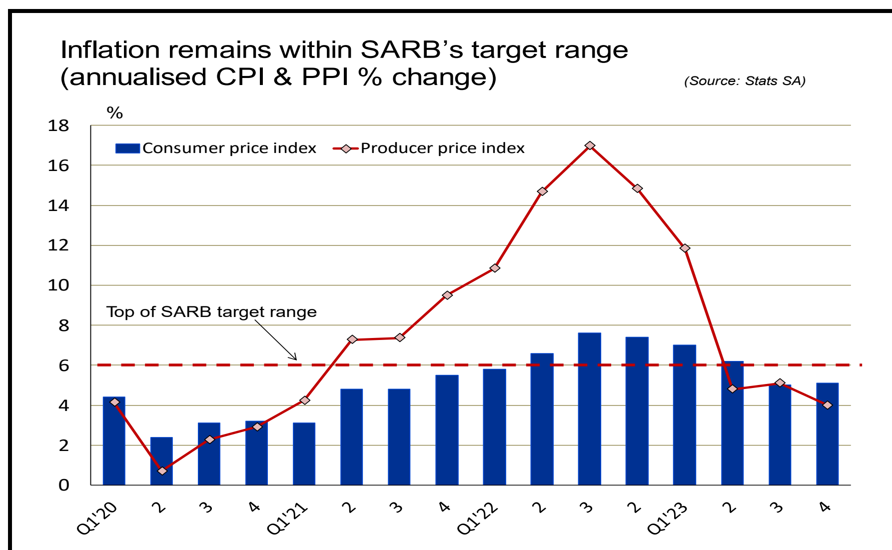
Piecemeal economic news and data will forever be characterised by the motions of a pendulum. Not long ago, the International Monetary Fund (IMF) was predicting a growth rate of 1.8% for South Africa in 2024, but this has now been lowered to just one percent.

In December, the Absa/BER purchasing managers' index (PMI) rebounded to above the neutral 50-mark but fell to 43.6 index points in January (which is traditionally a poor month for productivity, due to extensive summer holidays). During December, emerging market currencies took revenge on the US dollar, with the rand the top performer, strengthening by 3%. Merely 30 days later, a marginal recovery of the US 10-year bond yield proved to be enough for the umpteenth switch to a (temporary) risk-off sentiment amongst fund managers, taking its toll on every global currency of note, except the Indian rupee.

The list of contradictions flowing from short-term economic data goes on and on. In order to provide a more informed view of prospects for the South African economy over the next 12 months, it is necessary to highlight a number of potential growth drivers that have recently emerged, some of whom may generate momentum as the year progresses.

Inflation under control

First and foremost is the moderation of price pressures, both for consumers and producers. The December reading of Statistics SA's consumer price index (CPI) sees consumer inflation down to 5.1%, from 5.5% in November and 5.9% in October.



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The producer price index, which invariably acts as a leading indicator for consumer prices, has also resumed a clear downward path, with the December reading of 4% suggesting that inflation will continue to fall in 2024 – good news for consumers and the prospects for lower interest rates.

Closer scrutiny of the latest CPI data confirms the moderation of food price increases, which, next to electricity, have represented the main reason for the recent stubbornness of the CPI's downward trend. Food and non-alcoholic beverages represent more than 17% of the CPI weighting and any meaningful change in their price trends inevitably impacts on the CPI.

According to the Agricultural Business Chamber (Agbiz), the prospects for further declines in food prices are good. Despite the current El Niño phenomenon, weather conditions across South Africa continue to be quite favourable for agriculture. Farmers have planted most of the intended 4.5 million hectares of summer crops and good yields are expected in most regions.

Declining bond yield

Other good news for the millions of households with credit facilities (especially home-owners) is the welcome decline in South Africa's long-term bond yield, which could be indicative of an imminent turning point for mortgage bond rates. Since early October last year, the 10-year bond yield has shed more than 130 basis points – a clear indication that international capital markets are pricing in a lower interest rate scenario for South Africa in 2024.

Hopefully, the Reserve Bank's Monetary Policy Committee (MPC) will take its foot off the brake soon and lower the cost of credit, which will undoubtedly stimulate capital formation and private consumption expenditure. After all, there is no sign whatsoever of demand inflation in the south African economy.

It is important to note that the economy managed to create 2.2 million jobs over the past seven quarters, during which an overly restrictive monetary policy stance led to the highest interest rates in 14 years. Once the Reserve Bank starts to also consider the second part of its policy mission, namely, to encourage economic growth and employment creation, via lower interest rates, new job creation should continue and gain momentum.

Balance of payments stability

According to trade statistics compiled by South African Revenue Services, a trade surplus was generated in 2023 for the eighth successive year, spearheaded by a sterling performance for exports of base metals, agriculture and food, and vehicles and spares. This performance is especially noteworthy against the background of weak prices for many of the country's export commodities and the huge oil import bill.

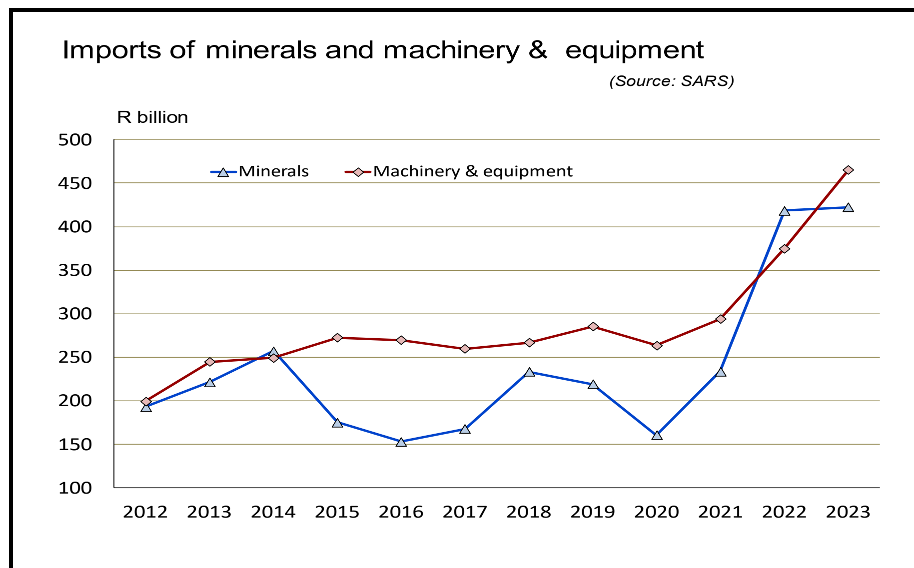
Gross foreign direct investment has also been forthcoming, with the average quarterly inflow rising from R9.4 billion in 2021 (excluding the Naspers share swap transaction) to R26 billion in 2022 and R32.4 billion during the first three quarters of 2023.

Capital formation back on track

Capital formation seems to have decisively turned the corner after the debilitating effects of state capture and the Covid pandemic. Not only does this key demand-side indicator add value to the economy during the implementation stages, but it also facilitates future growth by virtue of expanding

the country's productive capacity in all sectors. At a level of more than R270 billion during the 3rd quarter, gross fixed capital formation was 6% higher than a year ago (in real terms) and has been boosted by new investment in machinery and equipment.

Sufficient imports of machinery and equipment (as was experienced last year) are a prerequisite for economic growth, particularly in a developing country. During 2023, imports of machinery and equipment rose dramatically to a level of R465 billion, representing almost a quarter of total imports, its highest share since 2016. The stellar performance of machinery & equipment imports is also closely associated with higher investment in renewable energy by small and large businesses alike.



Renewable energy transition

Herein lies another key growth driver, which is bound to last well into the future. Unfortunately, decision makers and the public in general often view energy adaptation policies as endangering existing occupations, despite the facts proving otherwise. The gradual transition towards renewable energy through policy initiatives, supportive infrastructure, and financing mechanisms invariably fosters innovation and creates new jobs in a variety of sectors.

Most authoritative global simulations of the impact on labour markets of a transition to lower-carbon energy point to a net positive impact, mainly due to the new jobs encompassing the full spectrum of skills. Engineering and project management professions are heavily involved in the roll-out of renewable energy technologies, whilst labour-intensive sectors such as construction also play an important role in building the required infrastructure. In 2023, an estimated 14.8 million people worked in the global manufacturing, installing, and operating of renewable energy power, heat generation and biofuel facilities.

Against this background and from a relatively low base, GDP growth of around 2% in 2024 seems realistic. The economic pendulum is turning into positive territory.

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