Our Weekly Paid Newsletter

Richard Cluver Predicts

In our 35th year of service to the investing public of South Africa

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Since South Africa is this week hosting Cyril Ramaphosa's latest appeal to international investors to bring their money here to invest in job-creating projects, I thought it would be interesting to consider what conference delegates might be seeing.

Meanwhile, top of our list of local industrialists' complaints is probably the cost and availability of electricity which is just as likely to discourage potential overseas investors, I will start with the following world map created by Britain's Cable Company in order to note that at US$ 0.076 per kilowatt hour we rank at position 48 on a list of 230 countries worldwide. That implies we are among the cheapest 20 percent of power consumers. So that is not really a problem except for cities like Durban.

< 0.10 USD   0.10-0.19 USD   0.20-0.29 USD   0.30-0.69 USD

Putting that into perspective, manufacturing countries with whom we compete, like China where the average cost of power is $0.084 which puts it at position 56 on the list from the cheapest to the most expensive

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countries in the world, South Africa actually has a considerable advantage. India's average is $0.092, Thailand at position 77 averages $0.107, Indonesia at position 73 averages $0.101, Pakistan at position 55 averages $0.081, the Philippines at position 138 averages $0.165.

Sadly, Durban, the last ANC-controlled metro, is charging its users US$0.1525 which puts it out of the running and suggests that it alone is likely to continue stagnating industrially!

Power-hungry industries therefore have a good reason for opting to invest in other SA cities if electricity costs were the sole criterion.

Another issue is obviously the cost of labour? World Bank figures set us at position 64 among the 158 countries worldwide which have minimum wage legislation. At R21.69 which equates to $1.45 an hour or $11.60 per day, we are competing with China's $13.28, Bangladesh's $4.75, Pakistan's $6.40, Indonesia's $6.05, Malaysia's $14.15, Thailand's $1.35 and India's highest rate of $1.38 to lowest regional rate of $0.27 per day. And note the list on the right which indicates how cheap labour really is in South Africa. So here again there is an absolute advantage against most of the countries we might consider competing with.

Netherlands	$10.44
Belgium	$10.38
United Kingdom	$10.34
Ireland	$9.62
Canada	$9.52
Israel	$7.94
United States	$7.25
South Korea	$6.84
Spain	$5.83
Portugal	$5.76
Slovenia	$5.72
Czech Republic	$5.17
Greece	$4.98
Lithuania	$4.78
Latvia	$4.30
Slovakia	$3.43
Estonia	$3.40
Costa Rica	$3.37
Poland	$3.35
Hungary	$2.90
Colombia	$2.66
Russia	$2.27
Chile	$2.25
Brazil	$2.18
Turkey	$1.93
Mexico	$1.05

1. Canada — 56.27%
2. Japan — 50.50%
3. Israel — 49.90%
4. South Korea — 46.86%
5. United Kingdom — 45.96%
6. United States — 45.67%
7. Australia — 43.74%
8. Finland — 43.60%
9. Norway — 43.02%
10. Luxembourg — 42.86%

What about skills levels. Well in South Africa the World Population review suggests that 15.8 percent of our population has completed tertiary education. Unfortunately figures are not available for competing countries like India and China but we compare well with Indonesia which has 11.9%. We are, however, far behind the education levels of the Developed World whose tertiary education levels are listed in the table on the left.

However, we do far better where average literacy levels are concerned where World Bank figures set South Africa at 94.6% compared with India's 72.23%, China's 96.36%, Indonesia's 95.44% and Pakistan's 56.44%.

So you might conclude that South Africa ranks well on a global scale with respect to the essential ingredients for would-be industrialists setting up labour-intensive industries like clothing manufacturing and the like. Why then do we have a current growth ceiling of under two percent a year and the world's highest unemployment rate?

Well we all know how overseas agencies view South Africa. But the opinion of the US-based International Trade Administration probably sums it up best: "*Due to cyclical, structural and regulatory/policy challenges in the economy, government capital and operational spending has been severely curtailed since 2016, and a double deficit (budget and household) suggests that economic decline may accelerate over the short term.*

We are diverting far too much of the national purse towards civil service salaries and the national dole. Almost 40 percent of taxes are being diverted towards consumption expenditure which is starving the country of money for job-creating infrastructure spend. Furthermore, since more than 18-million South Africans receive state aid while the bulk of tax income comes from just 1.6 million people it must be very obvious to the entrepreneurs whom Ramaphosa is hoping to attract that the key personnel they would need to send here to oversee their projects would face some of the world's highest tax burdens....even if they were fortunate enough to obtain work permits!

International Trade Administration additionally takes the view that, "*There is growing concern about a host of political, economic, and regulatory factors that affect foreign businesses adversely. These include reports about corruption and mismanagement in government, significant unemployment, violent crime, insufficient infrastructure, and poor government service delivery to impoverished communities.*"

Probably seeing a few high-profile political figures in orange overalls might go a very long way towards solving many of the latter issues, so recent assurances by prosecutions chief Shamila Batohi that a priority list has now been created to make short work of plucking the low-hanging fruit of corruption might shortly start sending just the right shock waves through those who believe it is business as usual for the rent-seekers in our society.

Arguably the two other greatest deterrents to foreign investment are our unreliable water and electricity supplies while the ANC's refusal to officially drop its policy of property expropriation without compensation must surely deter most foreigners.

However, I strongly suspect that the average South African would, in return for the certainty of a decent job, immediately drop whatever entitlement he might believe he has to free agricultural land in respect of which he probably lacks both the skills and the resources to effectively exploit even if he could be sure that he, rather than only the politically-connected, might benefit.

So, if Cyril Ramaphosa and his colleagues hope to remain in power after 2024, it is arguably a good time to ditch that idea as pie in the sky and move on towards solving the much more pressing jobs problem which, as things currently stand will probably cost them the next election. Furthermore, given that Team Cyril has been quietly fixing our greatest structural problems, it is incomprehensible that the expropriation clause still hangs over the SA economy like a Damoclesian sword.

Turning to the electricity generation shortfall which is responsible for our repeated load-shedding problems, it is important to recognize that we are not alone in this. Much of the developed world currently lags on electricity generation because global-warming concerns have been preventing the construction of replacement fossil-fuelled generation stations and, following the Fukushima nuclear plant disaster in 2011, a similar reluctance to build new atomic plants.

The lesser sunlight available to northern hemisphere countries furthermore limits their solar power replacement option while South Africa boasts some of the world's most abundant sunlight. Furthermore solar generation is becoming so cheap that we have a perfect storm situation. Add to that the fact that, because of our currently extremely high pollution levels, the developed world is prepared to heavily-subsidise the rollout of solar plants, it is clear that we have a massive advantage in this respect.

In South Africa, load shedding is the result of insufficient generating capacity. Against an installed generation capacity of 52 000 MW, because of operational failures, maintenance issues and breakdowns at ageing, poorly-maintained, power stations, the country actually only produces around 47,000 MW. That means a deficit of around 5 000 MW. However, as a result of already approved bid-windows, eight municipalities are in the process of procuring a total of 1 400 MW. Solar contracts were allocated to 27 successful bidders last year and energy experts claim that an estimated 4 000 MW of projects are being pursued by various players under the new regulations. Together with projects already under way, this means that 9 300 MW is in the process of being added to the grid: nearly twice the deficit.

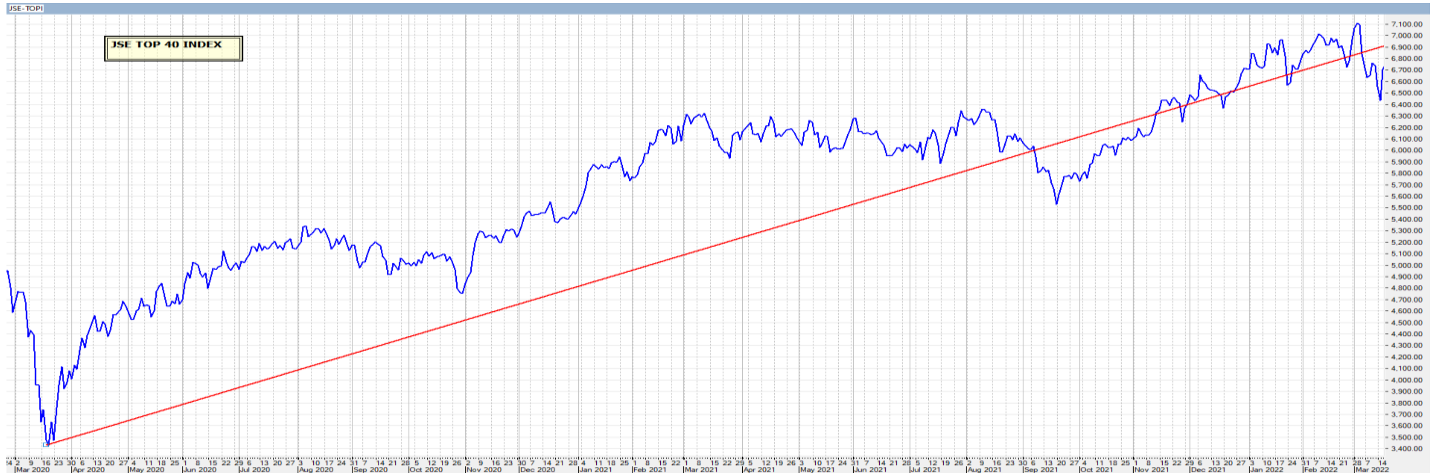
Three further bid windows will open soon: bid window 6 for 2 600 MW of renewable generation this month; a small window for 513 MW of battery storage (April) and bid window 7 for 3 000 MW of gas six months later.

So the end to load-shedding is actually in sight. Meanwhile the, until recently, seemingly impossible plan to free up the radio spectrum in order to facilitate 4G data transmission actually happened this month.

Amazingly, that leaves only our road and rail bottlenecks to be dealt with. And already a public/private participation agreement is in place which will soon see privately-owned trains running on the State-owned rail network and experienced local companies freeing up two of our harbours; Durban and Ngqura.

Given the three percent growth that the International Monetary Fund has calculated might result from the removal of these constraints, it is not too difficult to see that the country could return to an above five percent growth rate which economists have calculated could create 500 000 jobs a year.

Perhaps that explains why the Rand has been gaining strength at an amazing annualised rate of 25.54 percent currently and the JSE has been gaining at an even more amazing annualised rate of 42 percent!



Something remarkable is happening…only most South Africans are currently too pessimistic to see the wood for the trees!

The month ahead:

New York's SP500: I correctly predicted that the long-awaited recovery had begun and should last until mid-June.

Nasdaq: I correctly predicted gains until late June.

London's Footsie: I correctly predicted a recovery. Now I see some brief losses until the end of the month ahead of a two-month recovery.

Germany's Dax: I correctly predicted the current brief recovery should last until the end of this month ahead of a decline until mid-month and then a recovery from mid-May until mid-August.

France's Cac 40: I correctly predicted gains within a yo-yo phase until early-June when the next down-phase is likely until mid-July.

Hong Kong's Hangsen: The recovery I predicted came through in spades and should last to the end of April ahead of a two-month further decline followed by gains until October.

Japan's Nikkei: I wrongly predicted weakness lasting until late April when a sharp two-month recovery appears likely. However I believe it has merely been delayed.

Australia's All Ordinaries: I correctly predicted the brief recovery which has lasted longer than I expected. However I still expect a year of declines.

JSE Top 40 Index: I correctly predicted the decline would slow but continue until late April ahead of a three-month recovery until the end of July ahead of declines for the rest of the year.

ShareFinder JSE Blue Chip Index: I did not expect this week's gains to continue beyond April 20 before heading down until late August. Now I think a reversal is imminent lasting until the end of August.

Rand/Dollar: I correctly predicted a recovery which I continue to expect to last until the end of June.

Rand/Euro: I correctly predicted gains which I continue to expect will briefly end today and then resume from the first week of April to the second week of June ahead of seven week of weakness.

Predicts accuracy rate on a running average basis since January 2001 has been 86.57 percent. For the past 12 months it has been 94.51 percent.