Our Weekly Paid Newsletter

Richard Cluver Predicts

In our 36th year of service to the investing public of South Africa

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These days, while my primary role is as an investment guide, I find myself constantly having to wrestle with my inclination to write about politicians destroying our once fair and prosperous land. Admittedly the two issues have become so intimately entwined that it is difficult to separate them because without a viable economy it is hard for investment to prosper…..and yet is this what my readers want to hear from a writer who is admittedly no expert about politics?

So please forgive me if I once again vent my spleen in a diatribe against politicians who have lost sight of the fact that their very existence is owed to the public….. whom they have patently forgotten it is their responsibility to serve. Their official role, reduced to its basics, was always to be a conduit between the communities which elected them and the decision-making process. But, watching the shenanigans in our top municipalities recently has made it clear that politicians now have an utter disregard for the people who pay their salaries. Power is all they seek and service is the last thing on anyone's mind.

Back at the dawn of democracy someone decided that politicians would no longer be elected by the people and we, the electorate, did nothing to disabuse them. So things got steadily out of hand until we are daily faced with unedifying scenes of uninspiring people fighting over mayoralties whose roles most simply are either unqualified or too inexperienced to fulfil.

Because of a flawed electoral system which the new Electoral Act will not change, they are instead chosen by political parties and as a result they now dance only to the dictates of party policy-makers and we, the tax-payers and rate-payers are left out in the cold. That is why there is a growing movement to withhold taxes which, carried to its extreme, would put the public at war with the politicians….and this latter is the **true** nature of a failed state….which the evidence suggests is imminent because incompetence seems to have pervaded every sector of the public service.

Were this not so, the politicians would surely be putting the needs of the community first by ensuring the potholes were filled, water flowed constantly and the power stayed on.

Then there is the fact that back in the days when South Africa was an economic powerhouse, politicians other than Members of Parliament were unpaid. Back then they were men and women motivated by a strong desire to put something back into the communities which had nurtured them during successful private sector careers.

Now, in a land where half its citizens are unemployed, politics is a well-paid career for which no formal education is necessary. So it should be no surprise that many are prepared to kill for jobs in politics…. Literally!

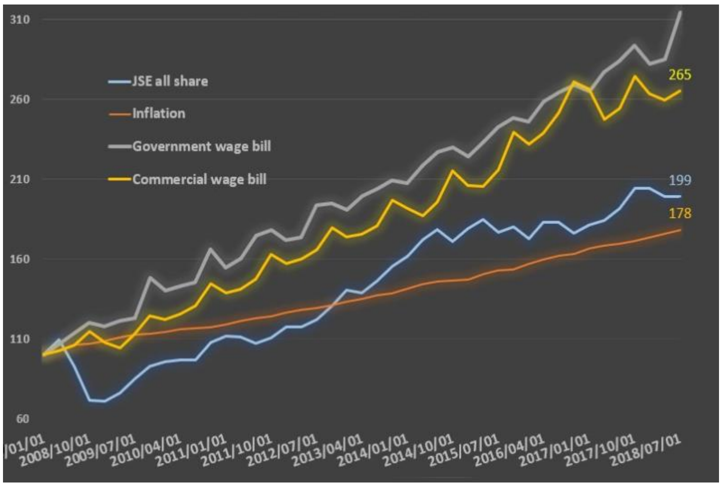
In sharp contrast is the lived experience of the average private sector worker, few of whom can ever have been unaware that their job security ultimately rested in the prosperity of the company they worked for and their own contribution to its profitability. That is why successful businesses are lean and mean with few surplus employees because the latter normally represent the costliest operational expense of any business.

For the politician, the equivalent of the private sector business failing is his party losing power which in turn fully explains why he is prepared to go into unstable coalitions to hang onto power, which also explains the mayoral revolving doors we have lately been witness to as the handmaiden of collapsing municipal infrastructure. Who, after all, has time for the needs of ratepayers when all your energy has to be directed towards fighting to retain control of the city?

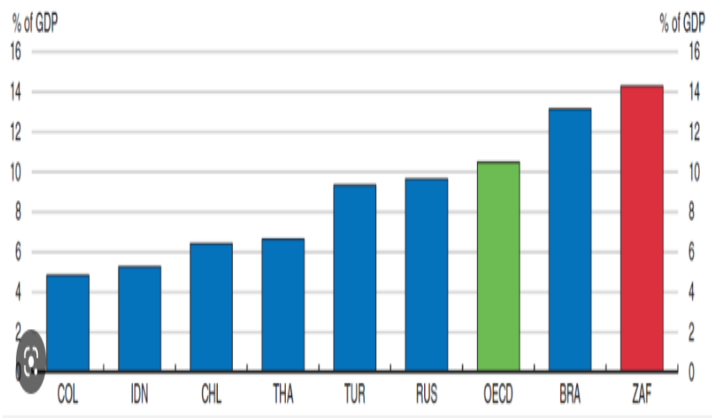
But I don't have to tell you these things. They are all too apparent. What is not so apparent is the misplaced resource allocation which these issues bring. So, for example, when private businesses are battling to stay alive they understandably shed expensive workers. In sharp contrast, political parties take on more and, furthermore, ensure that they are well-paid….because their votes are so vital.

Public utility Eskom amply illustrates this point. Currently Eskom workers are close to a strike to achieve their demand for a 15 percent pay increase together with other benefits that will raise their average cost by an estimated 30 percent a head. Yet, with 44,772 employees, that means Eskom employees already receive an average salary package of R737 000 per year and are expecting to increase it to R958 100: making every one of them a near millionaire in a year. Compare that with Stats SA latest quarterly employment survey figures which indicate that the average South African currently earns R321 756 and it is plain how the State pampers its employees!

Now if you want to see your national economy grow, it's an internationally accepted fact that the best way is to be business friendly and invest in infrastructure maintenance and upgrades. Instead, given the ever-increasing unemployment rates which the African National Congress Government has caused by its enormous wealth re-distribution policies - which has starved the private sector of development capital - the SA Government has tried to compensate by manufacturing jobs within its own ministries and State-owned enterprises. The government wage bill has accordingly outstripped most South African growth indices for well over a decade as this graph so clearly illustrates.



The trouble with such trends is that once they become entrenched it is far easier to accept ever-increasing trade union wage-increase demands than have to face the disruption that strikes cause.... until the party stops when wages topple everything else. So, in the graph on the right is the proof that, as a percentage of South Africa's gross national product the public sector wage bill has now outstripped most of our global peers:



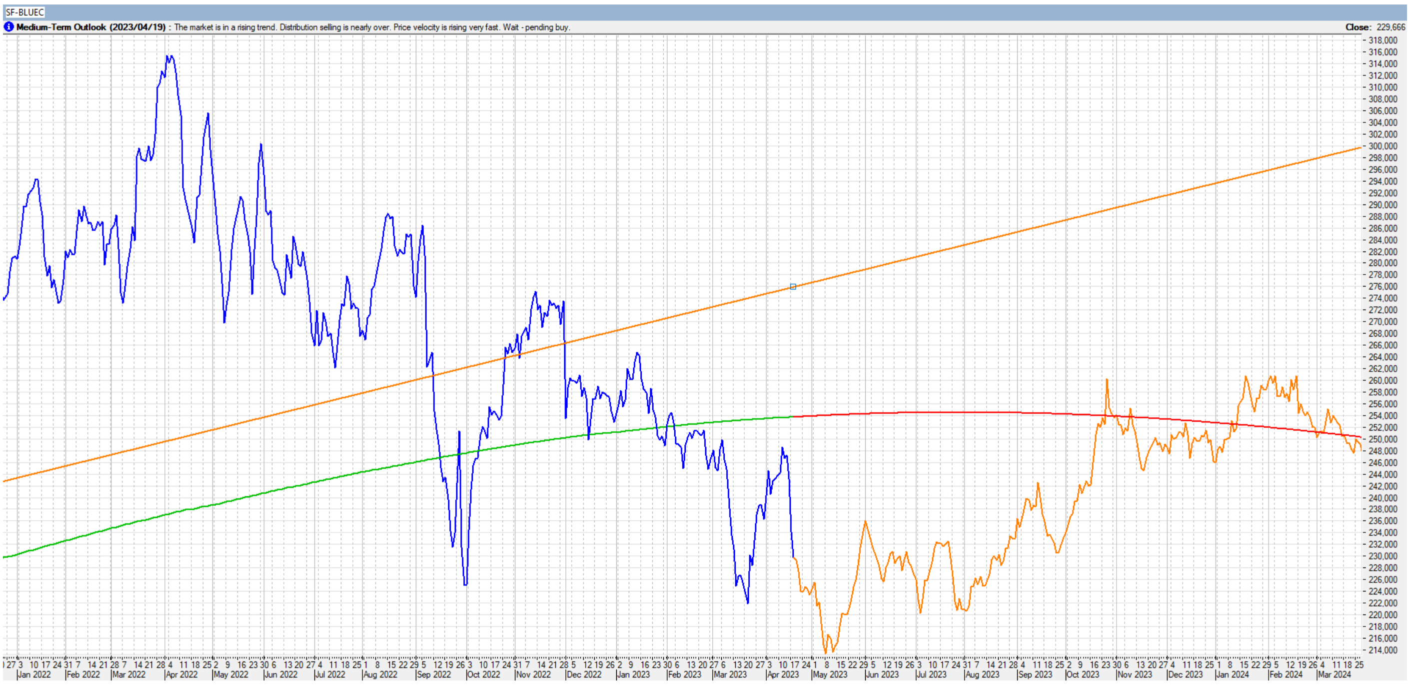
That is the prime reason why our economic growth has slowed steadily over the past few years and why our unemployment rate has now become the **worst in the world.**

To change that fact it is imperative that we go for economic growth. Our best economists tell us we need to get GDP growth to 6 percent if we are to mop up unemployment and achieve prosperity for all. That is the magic number which will transform everything: reduce crime, attract foreign investment and make local investors happy in the form of record-breaking share price gains.

It's easily done. But I fear we need to get rid of the current government to achieve it because the present lot either cannot or will not see this fact!

Meanwhile, the withdrawal of overseas investors has made our share market a bargain basement. However, the good news is that change is coming. The 12-month bear market we have lately experienced is drawing to a close and ShareFinder projects that the next ten months will see blue chip gains.

The buying moment has arrived!



The month ahead:

New York's SP500: I correctly predicted gains which I expect to last until early July when I see the next retraction until early September. However, I warned that a brief retraction was now likely and it is now under way…likely until May 8.

Nasdaq: I correctly predicted weakness which I now see lasting until May 18 followed by modest gains until the end of August when the recovery should accelerate into a long-term rising trend well into the New Year.

London's Footsie: I correctly predicted that the current recovery represented the start of long-term gains until the end of the year. Within it, however, I correctly sensed brief weakness which I expect to last until May 19 and a second phase of weakness from mid-June to early-September.

France's Cac 40: The brief reversal I warned about is now over and I see gains until the end of May ahead of a protracted decline.

Hong Kong's Hangsen: I correctly predicted that the current gain was likely to have been temporary and now I see declines likely to last until mid-May before a long recovery starts.

Japan's Nikkei: The retraction I forecast has got under way and should last until early May before the next long but volatile recovery trend begins and is likely to last until the end of the year.

Australia's All Ordinaries: I correctly predicted a brief retraction ahead of a long recovery starting around the 27th and lasting to early June which should mark the start of a 5-month decline.

JSE Top 40 Index: I correctly predicted that the very brief interim recovery was over ahead of a long decline to late-October.

ShareFinder JSE Blue Chip Index: I correctly warned of a decline to mid-May which I now expect to be over by May 15 followed by gains until the end of the month when a two-month decline is likely ahead of gains beginning at the end of July and lasting until mid-February.

Rand/Dollar: I correctly predicted the start of a recovery which I expect to last until mid-May followed by another month of weakness and then continuing recovery until the New Year.

Rand/Euro: I wrongly predicted gains until May 18. They were, however delayed and I now see them lasting until May 18 before the next bout of weakness.

The Predicts accuracy rate on a running average basis since January 2001 has been 86.92 percent. For the past 12 months it has been 93.66 percent

Published by ShareFinder International
http://www.sharefinderpro.com
richard@rcis.co.za

According to PwC's 26th Annual Global CEO Survey, two out of five South African respondents believe their company will no longer be economically viable a decade from now. Therefore, building business resilience is a critical undertaking at this juncture.

The more prepared a business is to manage disruption, the less destructive and long-lived the crisis will be for the enterprise. What we are seeing is that most business leaders are confident in their organisations' ability to respond to various risks, i.e. be resilient against unexpected disruptions. Despite this, our Global Crisis and Resilience Survey 2023 found that too many companies are lacking the foundational elements of business resilience they need to be successful.

By incorporating lessons learned and leading global practices and standards, proper resilience planning can help South African businesses withstand disruption and reduce the overall impacts of a crisis. In the long term, building resilience will strengthen a company's ability to respond and adapt across key organisational pillars like operations, technology, workforce, data and finances.

Key content in this report includes:

- Socio-economic headwinds: Megatrends add pressure to South Africa's societal challenges.
- Focussing on today: Building business resilience and staying operational in a polycrisis world.
- Human resource planning: Developing a resilient workforce by using people analytics.
- FATF greylisting: South African companies need to take action with context-specific solutions.
- Environmental, social and governance (ESG) focus: Tax transparency as a tool for rebuilding trust and social cohesion in South Africa.

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