Press Release

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South African Institute of Race Relations
The power of ideas

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South Africa headed for recession in 2019 – IRR

Media statement by IRR CEO Frans Cronje and chief economist Ian Cruickshanks

GDP data released by Statistics South Africa today shows year-on-year growth at 0% and quarter-on-quarter at -3.2%. This suggests that South Africa is headed for recession in 2019.

Stock exchange indices and foreign sales of SA Inc are indicative of plummeting investor confidence. Bloomberg data shows that by May year-to-date, foreigners had sold off R44bn of SA equities. In addition, bond flows reversed sharply in the month of May with a R3.6bn outflow.

Business confidence is down across most major sectors, led by manufacturing where the Purchasing Manager's Index (PMI) fell to 45.4 index points in May, down from 47.2 in April. Agriculture, mining, energy, construction, and trade sectors all contracted year-on-year.

Consumer confidence has drastically slowed, as shown by the results of retail sector companies as well as household final consumption expenditure. Household final consumption expenditure decreased by 0.8% in the first quarter.

Zero growth a function of hostile policy

IRR analysts say that the weak growth performance is ultimately a function of hostile government policy.

First and foremost is the issue of ruling party ideology that seeks to place the state at the centre of the economy, crowding out private investment, and introducing all manner of inefficiencies, costs, and unintended consequences. It is an ideology that identifies investors and the private sector as a public enemy. The state of affairs at Eskom is a case study of the consequences of this ideology in operation.

Second, is the related policy of Expropriation without Compensation (EWC), which is a major obstacle to South Africa’s economic recovery, job creation and raising the living standards of poor people. The threat of EWC extends far beyond land and no asset classes are safe from seizures. Unless the policy is taken off the table in its entirety, South Africa will not stage an economic recovery.

Third, is race-based empowerment policy, which is a tax on investment, an inhibitor of job creation and contributes to SA’s high skills outflow. There is a need to turn to a non-racial policy of Economic Empowerment for the Disadvantaged (EED), as proposed by the IRR.

Fourth, is hostile labour market regulation, including the National Minimum Wage, which prices poor people out of jobs and deters investment.

Fifth, is the very weak performance of South Africa’s schools. Even today, less than half of people over the age of twenty have a matric qualification.

All five areas will have to see wholesale policy reversals if South Africa is to stage an economic recovery. However, President Cyril Ramaphosa’s new Cabinet appointments offer no apparent prospects for such a reverse in policy. The likelihood is rather that the Cabinet announced last week will shepherd South Africa into a recession amidst significant job losses and declining standards of living. Should that occur, further credit rating downgrades are inevitable, which will increase the cost of capital as South Africa slips further down the economic spiral.

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