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ECONOMIC COMMENTARY - By Francois Stofberg

Low Prices, High Unemployment – The Full Circle

Petrol prices should decrease by about 25 cents in June. This has been fuelled by Rand-strength (the Rand came down from R13.30 levels to its current strength around R12.80) and lower international oil prices. However, there seems to be more good news for motorists in SA as oil prices continue to slip. Just a couple of weeks ago we were talking about $56 a barrel, now crude prices are back at $49 a barrel. Originally the OPEC countries and Russia decided to halt production of oil, in an attempt to increase international prices and fatten their purses. Although they have been successful in reducing their output, other countries have made up for their output reductions. The US has shown robust production figures and record export numbers; production has also been increasing consistently in both Libya and Nigeria. Analysts are also expecting the US to continue with strong production growth after President Trump decided to remove America from the Paris climate agreement. Overall, lower petrol prices are good news for consumers in SA – they should help to keep inflation at muted levels around 5.7%.

After his latest stunt to upset both South Africa's political- and economic-spheres, President Jacob Zuma's approval rating sank to an all-time low. In fact, his current approval rating is the lowest any South African president has ever had (since the inception of the poll in 1993 by Ipsos). More than 65% of the 3500 demographically representative individuals, who partook in the poll, felt that Zuma had to resign, only 27% thought that he was still doing a good job. Although polls don't play such a big role in South African politics, they still give valuable information to a ruling party that has been losing votes and important metropolitans.

Unemployment reached another all-time high in South Africa, 27.7%; a very concerning figure. We are all aware of SA's structurally high unemployment issue. The concern however is that we've been moving the upper-limit higher and higher. In the past, unemployment figures would only flirt with the upper limit of around 26%. But, over the last two years' unemployment has persistently breached this limit, setting new all-time highs ever so often. The only solution is to grow this economy, rapidly, for many years! The problem however, is that a large chunk of our economy is underperforming.

To bring the story full-circle. In our estimates we usually assume that government is about 35% of SA's economy. However, recent research has shown that state-owned-enterprises (SOEs) alone, constitute about 27% of SA's economy. Add central government services (civil service) and you quickly realise that "government" contributes about 44% to the size of our economy. Unfortunately, this implies that a larger share of our economy is not run effectively. We need only mention the likes of SAA, Eskom, and Transnet. We are also all aware of the lack of leadership and low efficiency levels in government. The same study puts a figure to government's effectiveness in doing business – return on investment in SOEs is only 2.9%. Compare this to a study done by Bloomberg that showed how companies in SA have been able to produce an average return on investment of 7.5%, each year for the past 120 years. A larger government is therefore quite concerning as it places an unrealistic burden on the private sector to grow this economy, and create wealth and jobs.

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