

Freeing up electricity generation could boost growth

The latest economic data highlights that both economic growth and employment has not recovered to pre-COVID levels. However, economic recovery should be boosted by government's long awaited announcement to free up electricity generation.

Whilst the growth in GDP of 2.7% during the first quarter of this year - boosted by mining - in "normal times" would have been significant it was still 2.9% lower than in the first quarter of 2019. At the same time, government's announcement that it would urgently escalate the National Energy Regulator of South Africa (NERSA) licensing threshold for embedded generation projects from 1MW to 100MW, "promises enormous benefits, but also entails some risks."

This emerged as central themes from the first quarter Real Economy Bulletin (REB) for 2021, released today by Trade and Industrial Policy Strategies (TIPS). The REB conducts a deep dive into the latest economic data. It notes, as highlighted in previous REB's, that mining (as a result of export prices) continues to boost economic growth whilst manufacturing saw a recovery in exports to pre pandemic levels (only metals refineries lagged behind) as well as in terms of sales (seasonally adjusted). The authors of the REB caution, however, that such progress could be "undermined by the resurgence of the pandemic, which affects manufacturing primarily through the impact on some kinds of consumer demand, especially food and alcohol prepared for restaurants, and through the pressure of absenteeism as workers have to quarantine or isolate."

Turning to other sectors, auto which is the country's largest manufactured export outside of the mining value chain recovered both in terms of domestic and export sales. Construction shrank slightly, "which was worrying because it had already shed a disproportionate number of jobs during the pandemic" and hospitality (in terms of bars and restaurants) continued to be the hardest hit industry in the economy.

In terms of employment, recovery continues at a slower rate than GDP, with the worst hit among lower level workers – as was the trend throughout the pandemic. From the first quarter of 2021, the country had recovered almost 800 000 jobs, but total employment was still 8% below the level for the corresponding period last year (or 1.4 million fewer jobs than a year ago). Formal managers and professionals have now gained jobs compared to the first quarter of 2020, but other workers remain 10% behind pre-pandemic levels.

Turning to President Cyril Ramaphosa's announcement that the government will open up the electricity market to facilitate smaller private generation at a commercial scale, TIPS senior economist Neva Makgetla notes that the change is "disruptive" although it should lead fairly quickly to cheaper, more reliable and cleaner energy. She points out that for companies, worker representatives and policymakers, the challenge "will be to maximise the rewards while managing the inevitable costs and risks attendant on any major change."



Makgetla points to five specific policy issues. First, the permits for embedded electricity have to be fast and easy, as promised. Second, the national grid must have the resources to upgrade to meet the new demands on it, as new small producers enter production. Third, to take full advantage of the new measures, the metros in Gauteng will have to improve their local grids, especially to serve industrial and commercial sites. These regions constitute the industrial core of the country, but they have let their electricity supplies deteriorate to the point where they harm the entire economy. Fourth, as Eskom has to compete more on the generation side, it will be harder to ask it to be the supplier of last resort for poor and rural communities. Currently it directly supplies half of all households, and carries substantial debt because many cannot afford to pay for the services. And finally, as Eskom loses market share over the coming years, government is responsible for minimising the burdens on its more vulnerable stakeholders affected – workers, small suppliers and communities, mostly in Mpumalanga, that depend on coal-fired plants and coal mines.

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