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ECONOMIC WEEK AHEAD

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Storm clouds gather over power issue as load-shedding to weigh on growth

The risk of persistent, severe load-shedding will be the primary focus of the economy this week as economists begin to warn that growth may have contracted in the second quarter.

Data on the electricity generated and available for distribution in May will be published by Stats SA on Thursday.

Electricity production (not seasonally adjusted) declined 3.7% year on year in April, after declining 1.1% year on year in March and by 0.4% year on year in February. Electricity consumption declined 2.0% year on year and 0.4% month on month in April.

Investec expects that the generation and distribution of electricity contracted further in May as load-shedding continued. It believes that SA is unlikely to achieve real economic growth of more than 2% in 2022 and warns that the economy likely contracted outright in the second quarter.

"Heightened load-shedding, with Eskom's recent escalation to stage six during certain periods, owing largely to unlawful industrial action, will continue to weigh heavily on the economy," Investec economist Lara Hodes warns.

"Small and medium-sized businesses are most vulnerable, especially those which cannot afford expensive generators or inverters," she adds. "Insufficient electricity supply remains one of the country's key challenges and has added to the subdued consumer and business confidence readings."

The FNB/BER consumer confidence index plunged to -25 index points in the second quarter, from -13 in the first quarter of the year.

Bar the index's collapse to -33 at the onset of the Covid-19 pandemic, the second-quarter reading, released last week, is the lowest in three decades. It signals a marked slowdown in consumer spending in the coming months. Should stage six load-shedding persist or worsen, SA could even experience a second, consecutive economic contraction in the third quarter which would tip the economy into a technical recession, Investec warns.

Data on SA's foreign exchange reserves for June will be published on Thursday. SA's gross foreign reserves amounted to $59.26bn in May, down from $60.28bn in April.

"The decline in gross foreign reserves was driven by the fall in the dollar-denominated gold price as well as payments made on behalf of government," FNB chief economist Mamello Matikinca-Ngwenya says.

Partially offsetting these were valuation adjustments and matured foreign exchange swaps that were conducted for sterilisation purposes.

BNP Paribas economist Jeff Schultz expects that reserves picked up to $54.7bn in June mainly on the back of SA's $480m World Bank loan, as well as revaluation adjustments.

North West University Business School's policy uncertainty index for the second quarter will be released on Monday, showing an increase to 60.9 index points from 59.7 in the first quarter. This is the highest level recorded since the inception of the index in 2016.

The further rise in the index was driven by heightened global economic unpredictability arising from the Russia-Ukraine war, which is reinforcing persistent domestic policy uncertainties, according to NWU economics professor Raymond Parsons.

The IMF's world uncertainty index has also risen this year.

Domestic factors fuelling economic uncertainty include chronic and persistent load-shedding, escalating food and fuel prices, flood damage in KwaZulu-Natal, continued local government delivery failures and progressively higher borrowing costs, says Parsons.

With consumer inflation in May coming in above expectations and breaching the top of the target band at 6.5%, more aggressive Reserve Bank tightening is expected in the second half of the year.

Globally, the combination of war, sanctions, supply-chain disruptions and shifting geopolitical forces continue to fuel global inflation and growth fears, causing heightened market uncertainty and volatility.

"Global economic uncertainty remains high as it seems no-one yet has a sufficient grip on how strong these unique inflationary pressures will eventually be, or their ultimate effect on growth, trade, jobs, and income," says Parsons

"Economists are becoming more pessimistic about the likelihood of an economic contraction in the US and Europe. The risks of social instability in the wake of food and fuel price hikes have also risen," he adds.

● *Bisseker is a Financial Mail assistant editor*