What the South African anti-foreign riots say about the country's economy

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As anti-immigration protesters take the streets of South Africa's capital, Pretoria, it is instructive to look at the nation's economy.

South Africa's economic performance since the 2008/09 global recession is disturbing. The economy's growth seems stunted, posting 1.3 per cent year-on-year change in 2015[1] and a more measly average of 0.8 per cent in the first three quarters of 2016[2]. Per capita income in 2015 stood at $5,691 — 3.8 per cent lower than the amount reported in 2009, a recession year. This suggests that the protraction of the country's anaemic growth is gnawing into household incomes. The after-effects of a regional food crisis (2016) and a weakening currency, the Rand, continue to elicit fears that rising inflation could do a lot more to subdue incomes and purchasing power.

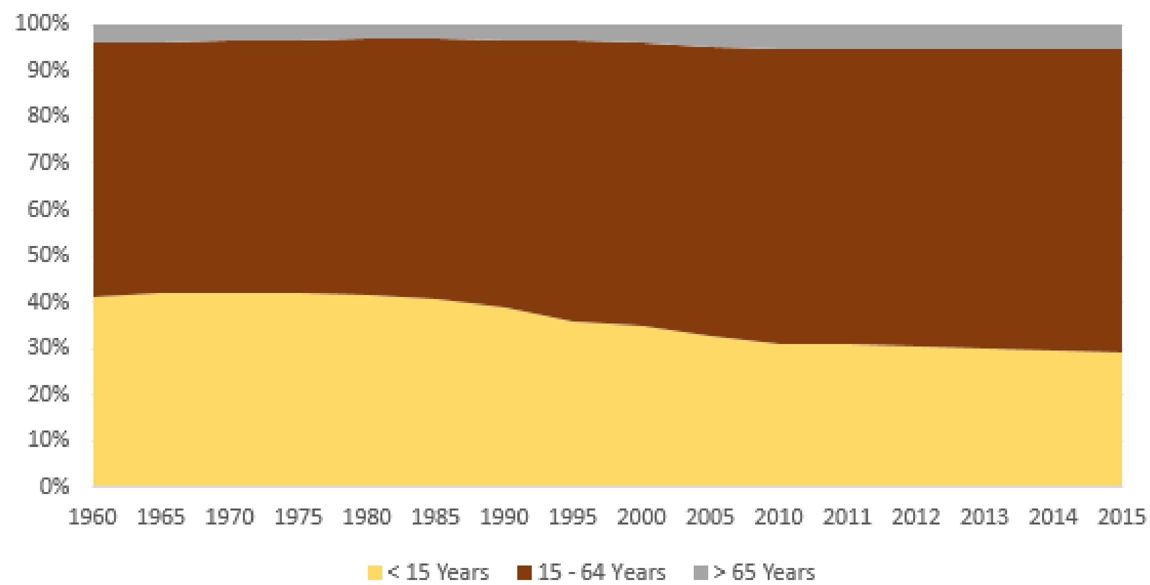
Further, available data shows that four sectors ─ agriculture, manufacturing, electricity and trade — contracted in the third quarter of 2016, leaving investors with few bright spots to bank on and casting doubts over hopes that sectors other than mining could help ramp up the pace of recovery in the coming quarters. It has not helped that the country is mired in a political storm that saw President Jacob Zuma survive an impeachment motion in April 2016 and the ruling Africa National Congress register unprecedented loss in key strongholds in the August 2016 local elections. Whereas these issues are of grave concern to most Africa-focused investors, it is surprising that the subject of certain aspects of the country's demographics has scarcely informed the narrative on South Africa's growth outlook.

Declining population support ratio

An indicator of interest in this regard would be the decline in the population support ratio (PSR) ─ the number of persons aged between 15 and 64 years for every one person aged 65 years and above. In essence, PSR gives an indication of the weight borne by the working age population in view of the size of the elderly population. South Africa's PSR stood at 13 in 2015, placing it slightly lower than where it was in 1960, at 14, and significantly lower than the high of 18 in 1990[3]. This compares, in 2015, with Nigeria's 19, Kenya's 20 and Ghana's 17. This trend is pregnant with implications for two reasons:

- It says that increasingly, South Africa's demography is tipping towards fewer people with an employment income for every single over-65-year-old person likely to be subsisting on their savings. For the government, the demand for social safety nets and pension in such an environment can be daunting, especially when growth is muted over a prolonged period and low revenue impedes the increase of expenditure on growing needs. For households, there emerges the headache of a greater need to beat the inflationary erosion of savings, especially at a time when commodity prices are showing signs of assuming an upward trend and threatening to bring to an end the period of low inflation that has dominated parts of the globe.

Figure 1. South Africa population structure



Source: Data from the World Bank Development Indicators

- What's more? This is happening at a time when long-term unemployment (persons in continuous unemployment for a period of at least one year) is rising in the country. In 2002, long-term unemployment accounted for 28.4 per cent of the country's unemployment. By 2015, this proportion had risen to 35 per cent, implying more people are increasingly taking longer to join the labour force, either for the first time or while in search of re-employment. The economy loses out not only on revenue that could have been generated through tax on such individuals, but also on the human capital that lies in waste. Bearing the brunt of these adverse conditions are the youth, persons in the age bracket 15 — 24 years, whose labour participation has declined from 31.9 per cent in 2002 to 26.4 per cent in 2015, pointing to the fact that fewer young people are either employed or actively searching for income-generating opportunities, as conditions continue to deteriorate. The socio-economic fragility emerging from this trend tends to be hidden until, of course, it finds full vent in episodes of xenophobic attacks that plague the country from time to time, with foreigners becoming the object of pent-up frustration from disenfranchised citizens.

This does not suggest that South Africa is in a moribund state, but that there is a lot more than external forces buffeting the economy in its search for sustained recovery. To salvage it from the present woes, the focus over the next five years ought to be in jump-starting growth in labour productivity from the present lull (year-on-year growth averaged 1.6 per cent between 2011 and 2016[4]) and towing sectors such as agriculture and manufacturing from the ongoing growth rout.

- *[1] World Bank Development Indicators*
- *[2] National Bureau of Statistics*
- *[3] World Bank Development Indicators*
- *[4] International Labour Organization Data*

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Notes:

- *The post gives the views of its author, not the position of LSE Business Review or the London School of Economics.*
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