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SA misery not at its worst

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South Africa's Economic Misery Index is currently not as bad as seen during the 1991-94 political transition, the 1997-98 Asian financial crisis, the 2001 bursting of the dot-com bubble, or the 2007-08 global financial crisis.

This is according to Christie Viljoen, senior economist of KPMG in South Africa, who offers the following analysis.

The South African economy has apparently ground to a halt with the country's central bank expecting 0% growth during 2016. The narrowly defined unemployment rate registered 26,7% during the first quarter of the year – the highest in more than a decade – and consumer price inflation was high enough to convince the South African Reserve Bank (SARB) to lift interest rates by 75 bps in the year so far. Rating agencies are also contemplating removing the country's investment-grade sovereign rating.

The country's citizens are justifiably unhappy with the prevailing economic conditions that have been brought on by both domestic and international factors. However, how do current conditions compare with other economic crises over the past three decades? Considering only one metric – for example, economic growth or inflation – seems inadequate to capture the broader situation in the economy. It is important to consider multiple factors weighing on the sentiment of South Africans.

South Africa's Economic Misery Index was introduced by KPMG South Africa, and is based on the Misery Index developed by Professor Steve Hanke of the Washington-based Cato Institute. This index is calculated by adding the unemployment rate, consumer price inflation and interest rates, and subtracting the real change in GDP per capita. The resulting index captures three factors that people would like to see less of – unemployment, inflation and interest rates – and one that they desire – higher real GDP per capita.

Using annual averages for these four indicators, the results indicate that, while the levels of economic misery in the country has been broadly increasing since 2011, conditions are not as bad as seen during the 1991-94 political transition, 1997-98 Asian financial crisis, the 2001 bursting of the dot-com bubble, or the 2007-08 global financial crisis. South Africa's Economic Misery Index was significantly higher during these periods of external shocks.

South Africa’s Economic Misery Index was at its lowest during 2004-06. Strong levels of overall economic growth resulted in real GDP per capita rising by an average of 3,7% per annum. During this period. Inflation average just 3,1% during the three-year period and unemployment was trending lower. The Bureau for Economics Research’s (BER) assessment of consumer confidence was at the time the highest since measurements started in 1982.

During the 2007-08 global financial crisis, South Africa’s Economic Misery Index increased to its highest level since the 2001 bursting of the dot-com bubble. In 2008, consumer price inflation increased to an average of 11,5%, resulting in the prime interest rate rising by an average of more than three percentage points compared to the previous year. Real GDP per capita increased by only 1,9% from an average of 3,8% during the preceding four years.

Last year, South Africa’s Economic Misery Index was measured at 38,2 compared to an average of 39,1 seen in the preceding 10 years. Average inflation of 4,6% was the lowest since 2010 though the prime interest rate increased by 1,5 percentage points during 2015 as the SARB continued to normalise monetary policy. Real GDP per capita increased by only 0,3% – the lowest since the 2009 recession – as the gains of (weak) economic growth were confronted with population growth.

Considering the performance of the South African economy in 2016 so far and forecasts for economic data during the second half of the year, including a negative change in real GDP per capita, South Africa’s Economic Misery Index is expected to rise to a seven-year high reading of 41,3 for the 2016 calendar year. For 2017, economists expect a slight moderation in inflation and positive growth in real GDP per capita. This should bring down the index to around 40,5 during 2017.

The country’s National Development Plan (NDP) aimed to reduce unemployment to 14% of the labour force by 2020 on the back of average real GDP growth of more than 5% per annum. Based on this scenario, as well as historical trends in inflation and interest rates since the advent of the inflation-targeting monetary policy framework (in 1999), South Africa’s Economic Misery Index would read around 28 by 2020. However, current projections suggest a notably higher reading of 36,5.

To be clear, South Africa’s Economic Misery Index excludes the direct impact of the country’s political climate in the economy, something that is a significant factor in South Africans’ moods at present. The municipal elections held on 3 August have yet to be fully concluded with many large metropolitan areas still uncertain about the makeup of the coalitions that will be governing municipal service delivery for the next five years. This adds another layer of political uncertainty to the local economy.