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Effects of the Mining Strikes on the South African Economy

A wave of violent, wildcat strikes that erupted periodically in 2012 rooted in a turf war between AMCU and the National Union of Mineworkers, cost platinum and gold producers over R16-billion that year, when the current account gap was 5,2% of gross domestic product (GDP).

Mining production decreased by 6,5% year-on-year in May 2014, reports Statistics SA. The crippling strike action that began on 23 January in the platinum sector has had a negative impact on total mining production.

The largest negative growth rates were recorded for PGMs (-48,5%), other non-metallic minerals (-13,3%) and building materials (-11,7%).

Main contributor

The main contributor to the 6,5% decrease was PGMs (contributing -10,4 percentage points). Iron ore was a significant positive contributor (contributing 3,1 percentage points).

For the first five months of 2014, total mining output contracted by 1,9% compared with the first five months of 2013. The largest contributor was PGMs (-6,1 percentage points).

The cost of the present strike may exceed that, as the strike impact was both direct and indirect. Losses would relate not only to production foregone but also to spending that did not take place because mineworkers were not being paid and the losses will continue to mount, as operations will take a long time to get back to full production.

GDP fell 0,6% in the first quarter compared with the final three months of last year, when it expanded 3,8%. Mining production output slumped 24,7%, the biggest quarterly drop since the second quarter of 1967. The strike also hurt output in manufacturing, which makes up about 15% of the economy locally and about 40% of global production of the precious metal, which is used for catalytic converters in vehicles and is a key source of hard currency for South Africa.

Industries such as petroleum, basic chemicals and iron ore were also directly affected. Sluggish economic growth prompted the Reserve Bank to keep the repo rate unchanged at 5,5% for a second consecutive meeting, even as inflation exceeded the bank's 6% upper target. The companies have lost revenues of R9,2-billion rand ($850-million) and counting.

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The current account deficit is already a key weakness in South Africa's economy, putting its rand currency under even more pressure. It grew in 2013 to 5,8% of GDP, its widest since 2008. For the current account, the losses will be magnified as South Africa's government embarks on a spending binge for big ticket items such as over 1 000 trains that will be imported from foreign companies.

Workers are losing wages and at this stage it is estimated to be around a R1-billion that has been lost in potential wages. That leads to reduced spending by those people which in itself has broader impact on the economy. Real consumption expenditure by households rose at a slower pace as growth in spending on consumer durable goods decelerated considerably, and real expenditure on non-durable goods, such as food and fuel, recorded a "rare contraction".

As a result the first step consumers, and companies, can take to mitigate the reduced income is to reduce spend and the easiest way is to reduce costs, is to focus on spend of consumables with the likes of telecoms and on IT infrastructure bearing the brunt. This contagion will spill over to slowed performance in all sectors of the economy from the primary to the tertiary sector.

Discouragingly, job creation in the domestic economy slowed notably for the second successive year as enterprise-surveyed employment outside the agricultural sector showed virtually no gains. The exchange rate of the rand remained vulnerable to international developments and domestic idiosyncratic factors, including prolonged industrial action and electricity supply constraints.

Sentiment remains weak with the general consensus for the GDP to grow by a crippling 1.1% for the yet developing economy. Government is in the process of addressing labour law in the country to mitigate the power given to labour unions such as the likes of AMCU and NUM.

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