

South Africa Macro View

Macro themes for 2014: Theme #1 - Politics

This report introduces the first of a series of macro themes we will be watching closely this year.

- **The national elections are upon us** — South Africa faces its fifth democratic national election this year. There are two unique aspects that promise to make this election a turning point for South Africa's political landscape, in our view.
 1. **The 'born frees'** — The 18-19 year olds who are now eligible voters were born into a democracy, yet the lack of jobs, basic services and poor governance means there hasn't been a significant improvement in their economic livelihood vs. if they had been born under the previous regime. We believe this has made the youth less loyal to the ANC and is a significant draw card for opportunistic opposition parties.
 2. **A weaker tripartite alliance** — Another 'first' for the upcoming elections is the weakness in Cosatu, the largest trade union in the country. Representing 13% of Cosatu, Numsa has withdrawn its voting support for the ANC in the upcoming elections. While it is near-impossible to measure the spillover effects of Numsa's influence over other unions and voters, we do believe this development adds downside risk to the ANC votes in the election.
- **So will the ANC lose power?** — The above-mentioned factors, together with heightened political scandals and poor governance, lead us to believe that the ANC could win fewer votes in the 2014 elections. From a peak of 69.8% in the 2004 national elections, this would continue the downward trend in ANC votes measured in the 2009 national elections (65.9%) and the most recent 2011 municipal elections (63.7%).
- **The polls say 'yes'** — A recent Ipsos survey shows that support for the ANC has fallen to 53% in 2013 from 63% in 2008. What's more, the poll also shows an increase in support for the major opposition party, the DA (to 18%), and an interesting lead for newcomer, the EFF (4%), when compared with the other new entrant, Agang (1%).
- **What is likely?** — Our base case is that the ANC loses support (but remains above 60% majority), the DA gains support and critically, that the EFF proves stronger than expected. We believe this would send a clear message to the ANC's party to improve service delivery, employment and governance. Against this, the risk is that the ANC wins less than a 60% majority which may result in a populist backlash. This is not an impossible scenario, given that fewer than 1 million voters would need to switch to other parties (from a pool of 16 million voters) for this to occur. Finally, we are watching the EFF closely as we believe that service delivery protests are at the heart of the party's objective to change the current political leadership.

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The national elections are upon us

We believe an undertone of political uncertainty will remain a feature of the South African economy in 2014.

South Africa faces its 5th democratic national election this year

Since the first fully democratic national election in 1994, South Africa has held 4 democratic elections. A five-year electoral cycle means that the fifth democratic national election will be held in May 2014 (date to be confirmed).

Will the ANC ruling party continue to lose support?

The overriding question: will the ANC lose power?

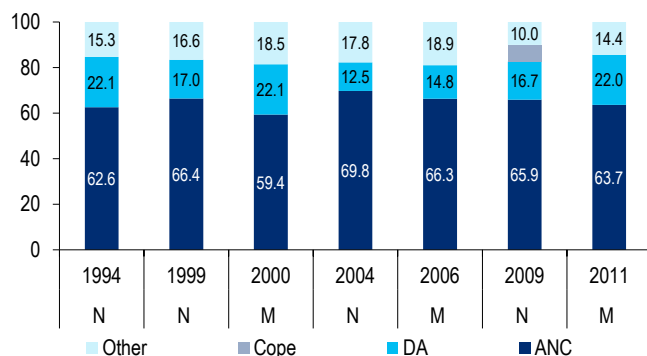
The ANC has enjoyed majority rule since 1994, peaking at 69.8% in 2004. Since then, it has consistently lost voting power and more recently managed to win 65.9% in the 2009 national elections but a lower 63.7% in the 2011 municipal elections. A downward trend is already underway (figure 1).

In our view, a combination of high youth unemployment, poor service delivery, President Zuma's alleged corruption allegations and a weaker tripartite alliance are key reasons as to why the ANC is likely to lose voting power in the upcoming 2014 national elections. A recent Ipsos survey found that the ruling party is currently less popular than before: from 63% support in November 2008, the survey shows that the ANC only enjoyed 53% support in November 2013. What's more, the opposition has gained support with the Democratic Alliance (DA) rising to 18% (from 13% in 2008) and new opposition party the Economic Freed Fighters (EFF) rising higher in support (4%) than another newcomer, Agang (1%) (figure 2).

Polls suggest the ANC has less voting support than before

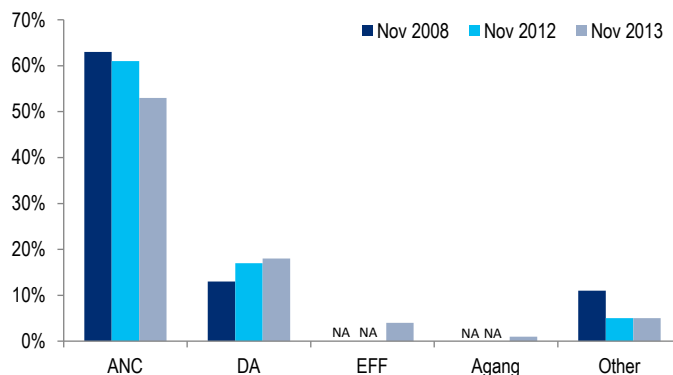
While Ipsos claims that its survey is by no means predictive of the 2014 elections¹, the results have triggered a substantial amount of interest and may have lowered public expectation of ANC voting power, in our view.

Figure 1. Election outcomes: municipal and national



Source: IEC, Citi Research *M = municipal election, N = national election

Figure 2. Ipsos survey of voter support



Source: Ipsos, Citi Research

How, and will, the born frees vote?

An additional 1.9 million young voters are eligible to partake

A unique aspect of the 2014 elections is the fact that 18 and 19 year olds are now eligible to vote. Statistics South Africa estimates the voting age population in this age group to be 1.9 million. They are generally known as 'born frees' as they were born into a democratic South Africa post-1994 yet life in general (as seen in

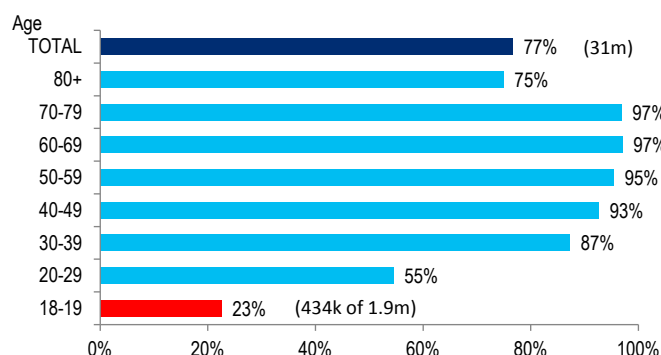
¹ The survey captures all eligible voters yet is no guarantee that all these voters will vote.

These 'born frees' grew up in a democracy however, unemployment remains rife and service delivery is poor

unemployment and poor service delivery) under the rule of the ANC has not improved significantly. A school of thought has thus emerged that these 'born frees' could prove far less loyal to the ruling party than their forefathers. Evidence of this is found in the Oct/Nov 2013 election registration round which saw a registration rate of only 23% for 18-19 year olds and 55% for 20-29 year olds². This compares with an average rate of 91% for all older age groups (figure 3).

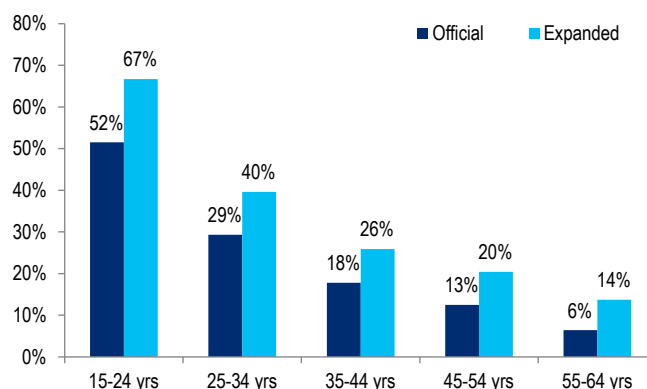
In our view, a key reason for the youth's potential disloyalty to the ANC is the stark reality of employment, or rather, the lack thereof. StatsSA shows that the official unemployment rate has risen from 20.0% in 1994 to 25.6% in 2013. Including discouraged work seekers, the expanded definition has increased from 31.5% to 36.8% over the same period. For the youth, the results are more discouraging. In 2013 the age group 15-24 years suffered an unemployment rate of 52.9% (or 67.2% by the expanded definition) while ages 25-34 years measured an unemployment rate of 29.6% (or 40.2% by the expanded definition) (figure 4). What's more, the absorption rate for new job entrants (15-24 years old) is a mere 12.1% versus an average of 41.1%. The ANC appears well-aware of the risk of losing votes from the 'born frees' and have recently introduced the Employment Incentive Bill (AKA Youth Wage Subsidy) which encourages companies to hire first-time job entrants. What's more, the ANC has also introduced the possibility of a national minimum wage (something which also appeases Cosatu who has been lobbying for a minimum wage since 2012).

Figure 3. First round registration rate for 2014 elections



Source: SAIRR, Citi Research

Figure 4. Official and expanded unemployment rate by age, 2013



Source: StatsSA, Citi Research

These factors may leave the youth less inclined to vote for the ANC

Another reason we find for the youth's disenchantment with the ANC is poor service delivery. Major service delivery protests have risen rapidly over the years, and now average 112 per year versus 21 per year before Zuma came into power in 2009 (figure 5). The Presidency's Development Indicators 2012 report suggests a possible reason why more protests are occurring: only 51% of people are currently happy with the delivery of basic services compared with 77% in 2004. Adding to this, a 2013 survey³ showed that an overwhelming majority of 68% of individuals do not believe that the ANC has kept to its promises of the last election. Finally, research by the SAIRR shows that the backlog for basic services is high: 20% of households that should have access to running water still don't, while the backlog for sanitation, electricity and refuse removal is a respective 33%, 27% and 40%⁴. It also doesn't help that 58% of Africans are homeless. Compared to youth

² A final registration round takes place in February 2014

³ *Pondering Panda*, July 2013: Do you feel the ANC has kept the promises it made in the last election?

⁴ Data as of mid-2012

employment schemes, the ANC has not put forward any major scheme for poor service delivery.

We believe that how young eligible voters cast their votes in this election begs many questions: How many will support the ANC?; How many will move to an opposition?; and, how many will choose to simply not vote at all? We believe that while absolute outcomes are near-impossible to forecast, there remains sufficient evidence for less ANC support.

Does a weaker Cosatu matter?

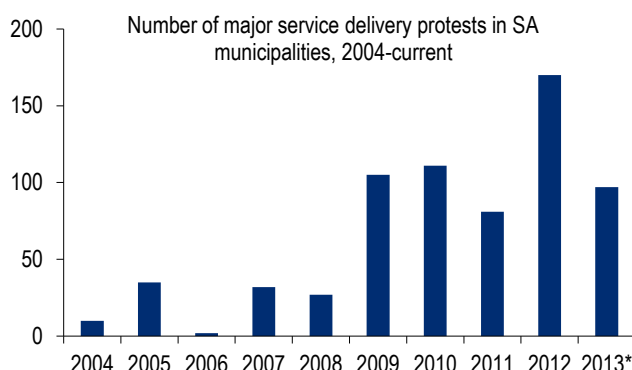
Another challenge for the ANC is trade union, Numsa, pulling support from the elections

Another 'first' for the upcoming election is the fact that Cosatu – the largest trade union – is proving a weaker ally for the ANC than in previous elections. In its tripartite alliance with the ANC and the SACP, Cosatu has always provided the necessary 'foot soldiers' but with the National Union of Metal Workers (Numsa) (13% of Cosatu) publically pulling its support for President Zuma, fewer ANC votes is possible.

Directly, Numsa has 291k members⁵ (figure 6). This looks small against the voting age population of 31 million and against the average number of voters over recent elections of 16 million. However, there may be influence by Numsa on other Cosatu unions. Sadtu (the South African Democratic Teachers Union) could be influenced given its public support for suspended-Cosatu secretary-general Zwelinzima Vavi which in turn, suggests it may also be anti-Zuma.

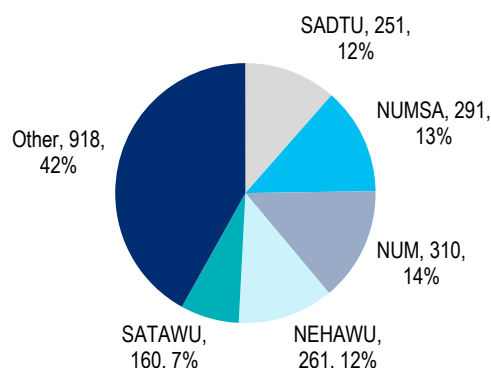
Overall, as near-impossible as it is to measure the indirect public perception of a weaker Cosatu, we believe it adds to the potential downward pressure to ANC support.

Figure 5. Major service delivery protests



Source: Municipal IQ, SAIRR, Citi Research * UP to Q3 13

Figure 6. Cosatu breakdown by union, thousands, % share



Source: SAIRR, Citi Research

How will the opposition fare?

Evidence that the ANC is proving weaker among the voting population is the emergence of more influential opposition parties.

The opposition have increased in number and influence

The Democratic Alliance (DA) has traditionally been the greatest opposition to the ANC. A strong showing in the 2011 municipal elections by the DA (22% of votes versus 16% before) sparked public opinion it would fare even better in the 2014 elections (figure 1). In addition, notable entrants into the election race have been Agang and the EFF; the former is led by ex-ANC participant, Dr Mamphela

⁵ As of 2012.

We are watching the EFF closely given its radical ideologies

Ramphele, while the latter is headed by ex-ANC Youth League president, Julius Malema. Both parties were registered in 2013.

We believe that the DA and Agang are viewed as quite similar in their political strategies and ideologies: (1) they 'follow the rules', (2) they stand for good governance and, (3) they are often criticized for equally pointing out what the ANC does incorrectly, yet failing to point out what they would do differently. The EFF, on the other hand, are more left-wing and more radical, which in our view gives them an edge in attracting a frustrated youth base. We further believe that the EFF's underlying strategy is to change the current leadership of the country by highlighting poor service delivery. The many service delivery protests spearheaded by Julius Malema is an example of this.

Who wins? Who loses?

Our baseline is that the ANC loses support but remains above 60% majority rule

The run-up to any national election has a lot of moving parts. And because we believe it is near-impossible to forecast how many people will vote and who they will vote for, we avoid specific forecasts of the election results. Nevertheless, our base case is broadly in line with the trends identified in the aforementioned Ipsos poll:

- The ANC will lose support,
- The DA will gain support,
- The EFF will prove far stronger than expected, and
- Agang will disappoint.

This is likely to spur on improved service delivery and government efficiency

Our base case assumes that ANC votes remain above 60% of the total. If this is correct, we believe the downturn would inject a sense of urgency for improved service delivery, governance and job creation which we believe would be positive for the economy. If instead, ANC votes fall below 60% of the total, the risk of populist backlash could rise, increasing the risk of another sovereign ratings downgrade and further ZAR weakness. All this would make fiscal and monetary policy that more difficult to read. The chance of this type of scenario isn't small. All that it would take is around 1 million people switching from the ANC to another party⁶. This cannot be ruled out in our view.

1 million voters would need to switch to other parties for the ANC to fall below 60% rule

Aside the outcomes of the national election, many questions remain: Is it safe to assume that current ANC deputy president, Cyril Ramaphosa, will be Deputy President of South Africa? Will the ANC's tripartite alliance survive the conflict within Cosatu? Will the non-successful candidate form a coalition? Can a labour party emerge? What is to become of the EFF?

No matter the outcome, we believe the 2014 elections will affirm that the country is reaching a political turning point

Answers to these questions are near-impossible right now, but what we are sure of is that South Africa is nearing a tipping point in its political landscape and if not now, then certainly by the 2017 ANC elective conference, we believe the country will hit a turning point.

⁶ Assuming 16 million people vote - the average since 1999 (we exclude the 1994 elections as there was no registration)

Appendix A-1

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