



When TODAY is DAY ZERO.

The current water crisis in the Western Cape is difficult to comprehend for those who haven't experienced it first-hand. It is equally difficult to imagine how one would manage on 50 litres of water per day – that is, for those of us who have access to running water.

DAY ZERO is approaching fast (between 12 and 22 April 2018) and it is equally incomprehensible how a major region of our country will survive. Technical discussions about desalination is commonplace these days, but neither national, province nor municipal governments have taken the general populace into their confidence about possible long-term plans when DAY ZERO becomes TODAY.

Aside from the impact of a crisis on humanity, it is perhaps prudent to ask how DAY ZERO will impact retirement funds. Firstly, economic growth in the Western Cape will be severely hampered. Stats SA put the Western Cape's contribution to our national Gross Domestic Product (GDP) at approximately 13.6% in 2015 and recent reports put the regional GDP growth rate of 1.6% at a multiple of national GDP growth. The same source shows the composition of the Western Cape economy to be:

Economic activity	% of total
Finance	26.7%
Wholesale	17.0%
Manufacturing	11.8%
Government Services	10.2%
Taxes	10.0%
Transport	9.1%
Personal Services	5.1%
Construction	4.3%
Agriculture	3.5%
Electricity	2.0%
Mining	0.3%

One would imagine that manufacturing, construction, agriculture and mining operations ($\pm 20\%$ of the regional economy) will all be affected severely. Wholesale, personal services and transport (including mobile communications) will also experience headwinds (31% of the regional economy), but perhaps not as severely. The remaining 49% of the regional economy will no doubt be affected, but not critically so. Another way of looking at it, is that tourism – a major revenue generator – may suffer a blow. It is not difficult to imagine that the regional GDP growth can be reduced from 1.6% to 1.0% and that the national GDP growth rate could equally be reduced by 0.1% to 0.2% from an already modest forecast of 1% for 2018.

Aside from economic growth, some shares listed on the JSE with more concentrated exposure to the Western Cape economy will experience downward trends. Companies that depend on tourism or exports of fruit and wine would be affected more than others. At the same time, as the water crisis affects individuals, labour-intensive industries will also be affected more than others.

The Western Cape is home to 11.3% of South Africa's approximately 56 million people, with nearly 10% living in the greater Cape Town area. Access to potable water is a basic human right. As with most calamities, the impact of the water crisis on poor people might be much harsher than the impact on others. The water crisis does not impact all areas in the Western Cape equally. Some towns such as Betty's Bay, Kleinmond and Hermanus have no or limited water restrictions.

The irony is that some use the water crisis as an economic opportunity: firstly, as water tankers transport "top-up" water for non-human consumption to the Western Cape; and secondly, as investment in desalination plants provides a further economic opportunity. As mentioned previously, Government has not communicated a long-term post-DAY ZERO plan yet.

DAY ZERO will also bring some infrastructure related risk. Once a water reticulation system runs dry, it takes many days to bring the system to full pressure once water becomes available again. In addition, burst supply lines becomes a common problem. Another risk that is not necessarily fully appreciated, is the health risk associated with DAY ZERO as sewerage removal systems become inoperable. These risks may impact property values in the Western Cape.

DAY ZERO will have a significant impact on South Africa's economic growth.

Finally, financial services providers cannot alleviate the drought in the Western Cape. A sensible DAY ONE retirement strategy is still as important as ever!

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