Box 1 Impact of the recent industrial action in the steel and engineering industry

Following an impasse in negotiations between the National Union of Metalworkers of South Africa (Numsa) and the Steel and Engineering Federation of South Africa (SEIFSA), a national strike by the Union was declared which commenced on 1 July 2014. The industrial action involved around 220 000 of the Union's claimed membership of 340 000, and was marred by reports of violence, with many people being arrested for vandalising businesses and intimidating non-striking workers. The union, however, claimed that these acts of violence were perpetrated by non-union members under the guise of belonging to the union.

Labour demands preceding the commencement of industrial action comprised a salary increase of 15 per cent along with a R1 000 housing allowance and other non-wage related demands such as the banning of labour brokers, while the employer body offered an increase of between 7 per cent and 8 per cent. The wage demand by the Union was subsequently lowered to an effective 10 per cent increase annually during the full duration of the three-year agreement. The final three-year wage agreement reached between the two parties towards the end of July 2014 comprised increases of between 8 and 10 per cent in the first year; 7,5 and 10 per cent in the second year; and 7 and 10 per cent in the third year. The agreement moreover stipulates that section 37 of the Metal and Engineering Industry Bargaining Council Collective Agreement will remain unchanged, with a provision that existing company-level agreements stay in force. As part of the agreement, labour brokers will not be banned as requested by Numsa, but a number of regulatory instruments will be introduced – such as compliance officers to act on complaints of alleged abuse and non-compliance.

The National Employers Association of South Africa (Neasa) represents mainly small and medium-sized businesses and was not party to this agreement. Neasa was expected to also implement the agreement within the centralised bargaining system, despite having indicated that the agreement was unaffordable and jeopardised the continued existence of its members. Neasa subsequently embarked on legal action to have the agreement set aside for its members.

In early December 2014, the Labour Court dismissed the attempt by Neasa to prevent the wage agreement from being extended to the rest of the metals and engineering sector. Following the judgment, Neasa, however, lodged an appeal because according to its interpretation, the judge had erred and premised the judgment on incorrect information.

According to industry sources the direct cost of the strike to the economy amounted to around R300 million per day or 0,4 per cent of gross domestic product for the full duration of the month-long strike. With the metals and engineering sector being strategically linked within the supply chain to other important industries in the economy such as the mining, construction and auto-manufacturing industries, the impact of the strike was greatly amplified. The metals and engineering sector represents around 34 per cent of manufacturing production with a total annual turnover of around R335 billion.

The damaging impact of the strike on the economy was underscored by a seasonally adjusted decline of 6 per cent in manufacturing production in July 2014, contributing to an annualised decline of 6,6 per cent in manufacturing production in the third quarter of 2014.

Preliminary estimates from consolidated data emanating from SEIFSA's members and other sources, covering 10 200 companies, indicate that employment in the steel and engineering industry has contracted by around 2 per cent from July to October 2014, with around 7 000 employees having been made redundant during that period.

South African Reserve Bank (the Bank) staff calculations show that the impact of the strike in the third quarter of 2014 equates with a decrease of 0,25 per cent in real gross domestic product, or 1,0 per cent at an annualised rate. However, secondary effects such as the decrease in household consumption expenditure due to no-work-no-pay contractions in salaries and wages should also be taken into account. Estimates based on simulation exercises done with the Bank's core econometric model indicate that annualised real economic growth in the third quarter of 2014 would have been higher by 1,7 percentage points (1,0 per cent due to direct effects and 0,7 per cent due to secondary effects) if industrial action in the steel and engineering sector had not occurred during that period. Annualised growth in real gross domestic product in the third quarter of 2014 could therefore have been closer to 3,1 per cent had industrial action not taken place, in contrast to the increase of 1,4 per cent which materialised. Unfortunately, the consequences of strikes and lockouts extend far beyond mere measurables, also tarnishing the image of the country as a preferred investment destination.

Estimated impact of industrial action on gross domestic product

Per cent

	3rd qr 2014	
	Actual	Normal
Growth in real gross domestic product *	1,4	3,1

* Seasonally adjusted and annualised