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LOCAL APPROACH, GLOBAL PERSPECTIVE

Current Trends in South Africa

From CYCAN (Pty) Ltd, Johannesburg, South Africa
As of July 2009

Inflation in general

South Africa's targeted consumer inflation slowed to 8% year-on-year in May, slightly above expectations, from 8,4% in April, official data showed.

Statistics South Africa said headline CPI inflation stood at 0,4% on a monthly basis in May compared with 0,5% the previous month.

From January, a revised and re-weighted CPI replaced CPIX -- which stripped out mortgage costs -- as the central bank's targeted inflation measure.

According to Fanie Joubert, an economist at Efficient Group, "It's as we expected, it is slightly higher than the market consensus, but only marginally.

"It confirms that the general deceleration trend of inflation is still intact, but the level of inflation is still a concern for consumers."

Mike Schussler, economist at Economists.co.za, said: "Proves again that inflation is nowhere near where SARB would like to see it. By now we should have been under 6%, but we are unlikely to see it near that level for the next year or so.

"Inflation is certainly not in a good place. It is unlikely that we will get good inflation outcomes for the next few months. This is not good news for bonds or for rates going forward."

The central bank has cut its repo rate by 450 basis points to 7,5% since December and is widely expected to drop it another 50 basis points on Thursday, even though inflation is still outside the 3% to 6% band.

The OECD said annual inflation, which stood at 8.0 percent in May, was likely to return to target in 2010.

The economy, it added, was seen contracting this year before policy stimulus, a global recovery and the impact of hosting the Soccer World Cup in 2010 lift it back to

Investments

The National Energy Regulator of South Africa (Nersa) has approved tariff guidelines that it believes will both cover generation costs and ensure a

reasonable profit to motivate investors, helping the government to meet its supply target of 10 000 gigawatt hours of "green energy" by 2013.

Nersa released the Renewable Energy Feed In Tariffs (Refit) - "The approved Refit guidelines will create an enabling environment for achieving the government's 10 000 GWH renewable energy targets by 2013 and sustaining growth beyond the targets," Nersa's electricity sub-committee chairman, Thembanani Bukula, said at the release.

The four identified renewable energy technologies, and the approximate prices that energy suppliers would pay the renewable energy generators, were: wind (R1.25 per kilowatt hour); small hydro (94 cents/KWH); landfill gas (90 cents/KWH); and concentrated solar (R2.10/KWH).

What is "hot"

- Exceptional hospitality, world-class stadiums, watertight security, passionate fans, pulsating football, and a major step-up in the national team's performance – the Confederations Cup bodes well for a successful World Cup, says Fifa, although there are some "challenges to be addressed" ahead of 2010. Fifa president, Sepp Blatter, said South Africa had done an "exceptional job" on the World Cup warm up event.
- The government views South Africa's vehicle manufacturing industry as "strategic" and will continue supporting it, while steering it more towards the manufacture of components and commercial vehicles, says Trade and Industry Minister Rob Davies.

Trend in a specific market

Ernst & Young Financial Services Index Q2 2009:

The 2nd quarter Bank confidence index results, released today, indicate a slight improvement in sector confidence. However, a breakdown by category illustrates that retail bank' prospects remain weak, whilst investment banks have seen an upsurge in sentiment, largely driven by business fundamentals.

Retail banking confidence fell from 32 points in the 1st quarter of 2009 to a slightly weaker 28 points in the 2nd quarter, while investment banking confidence rose quite sharply, from 32 to 50.

This is the 30th quarterly survey conducted to measure confidence in the banking industry, and the research is conducted by the Bureau for Economic Research in Stellenbosch.

Movement of international firms

Global companies with a presence in South Africa all cite numerous advantages for setting up shop in the country, from low labour costs to excellent infrastructure - and a base to export products internationally.

Jim Myers, president of the American Chamber of Commerce in South Africa, says that nearly 50% of the chamber's members are Fortune 500 companies, and that over 90% operate beyond South Africa's borders into southern Africa, sub-Saharan Africa and across the continent.

"The sophisticated business environment of South Africa provides a powerful strategic export and manufacturing platform for achieving global competitive advantage, cost reductions and new market access," says Myers.

Trends in executive markets

The Internet has revolutionized the recruitment world, drastically changing the way companies and recruitment agencies look for quality talent. The Internet is probably one of the greatest recruitment resources available to Recruiters. More HR managers and recruitment agencies are recruiting on the Web whether through online job boards, corporate recruitment websites or E-Recruitment solutions.

The Internet makes huge numbers of Job Seekers available to Recruiters, as millions of Job Seekers surf the Web to search for jobs, post their CVs and fill out job applications daily. The immense power of the web enables Recruiters to make use of online recruitment solutions like recruitment websites or job boards to ensure that the recruitment process becomes simplified and cost-effective. The nascent Internet recruitment industry is poised for explosive growth

Issues related to specific industries

South Africa's telecommunications industry has seen significant regulatory changes, however, spectrum and pricing issues need to be addressed for market liberalization to have a tangible impact on lower prices and increased access for end users, said Neotel head of regulatory affairs Tracy Cohen.

Cohen added that because Value Added Network Services (Vans) providers now have the legal right to compete directly with telecoms incumbents, there would be a definite and inevitable increase in merger and market consolidation activity.

Yet, she emphasized that spectrum and pricing issues, which fell under the Independent Communications Authority of South Africa (Icasa) needed to be addressed. "For example, the license itself, while a welcome start for increased competition, is not sufficient in itself to significantly alter the dynamics of our local market," noted Cohen.

Key for real change was how many of the new infrastructure licensees would ultimately use these licenses in their current form. "Even though a review of access regulations is currently under way in different processes, it is imperative that the interconnection framework, essential facilities and termination rates get urgently addressed for there to be any major shift in the South African market. Regulatory certainty is going to be critical and the rules of the game need to be well defined and the playing field needs to be leveled," Cohen said.

She said that other factors slowing market entry included the issue of funding, which was a challenge to secure in the current global economy, and the current lack of progress on spectrum policy and allocation, especially high demand spectrum, which needed to be urgently addressed by Icasa.

Issues related to specific functions

The South African ICT industry is now being impacted on the one hand by companies that are cautious, cutting costs and not recruiting, and on the other by a growing need for ICT skills and a market that is shifting as a result of growing socio-economic pressure.

Due to cost constraints, consolidation and downsizing - which translates into higher overheads – larger, more established operators are not in a strong position to recruit. In effect there are a now a number of skilled ICT professionals that find themselves in the unusual position of being in the job market.

Wage inflation

After living with a high inflation rate for more than two decades, South Africans will have to start getting used to living with a low inflation rate and lower salary increases. With a lower inflation rate (3,9%), this means that workers would have to settle at 3% or less

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