

TRENDS & ISSUES in SOUTH AFRICA

As reported by Cycan (Pty) Ltd.

April 2010

Inflation in general:

The inflation rate in South Africa was 5.70 percent in February of 2010

INFLATION slowed in January, defying forecasts of an increase and suggesting that interest rates would remain lower for longer, despite the economy's recovery. The consumer price index rose 6,2% versus that of January last year, compared with December's 6,3%, Statistics SA said. Consensus forecasts from Reuters had predicted a 6,4% rise, given the effect of higher petrol prices and several additional price surveys during the month.

Investments:

South Africa's Transnet Limited is to sell bonds worth US\$2-billion (about R15.3-billion) on the London Stock Exchange to help the state company fund its R80.5-billion infrastructure investment programme.

While confident that it offers an attractive investment proposition, the transport and logistics company is planning road-shows in key centres in the US and UK to assess investor appetite.

"We believe investors will find Transnet's offering compelling given their drive for infrastructure investment in well-managed companies in developing countries with sound economic management," Transnet acting CEO Chris Wells said this week.

Thanks to the Global Medium-Term Note (GMTN) programme, the company does not have to go through the process of preparing documentation for listing a bond every time it wishes to raise debt funding.

The GMTN programme enables Transnet to issue bonds in either the United States or European debt capital markets when the markets are favourable and cost-competitive.

It will thus become the first South African state company to tap international markets without an explicit government guarantee in recent years.

Wells, said this would allow Transnet to diversify its sources of funds.

"This achievement will enable us to tap international markets to complement our R30-billion Domestic Medium-Term Note Programme," Wells said. "Crucially, it will help us to further diversify our sources of funds – a key objective of our funding strategy."

Whats Hot

South Africa's 2010 Comrades Marathon is a hot ticket – so hot, in fact, that the final 2 000 tickets that were made available on Sunday, 30 January were snapped up in four-and-a-half minutes! That marked the final opportunity to enter this year's race.

The total number of entries will total about 23 000. An official figure will be released towards the end of February, once all entries have been processed.

Comrades Marathon Association (CMA) Chairman Dave Dixon stated that the CMA Board has been overwhelmed by the interest from local and international runners alike. He commented: "The fact that we have received huge interest in this year's race, bodes well for the future of athletics and the Comrades Marathon as a whole. The future looks bright."

Trend in a specific market:

In a boost for local e-commerce, a new partnership between First National Bank and PayPal will enable South Africans to sell to PayPal's global customer base and move the proceeds to their qualifying FNB accounts - without having to share their personal or financial information online.

The service also allows customers to top up and withdraw funds to their qualifying FNB accounts from their PayPal accounts. PayPal has more than 81-million accounts in 190 markets around the world

"Our agreement with PayPal also enables international businesses and individuals to transact with South African service providers via a secure and convenient payment service", FNB chief executive Michael Jordaan said in a statement this week, adding that it would help South Africans to join the global e-commerce marketplace.

"The exclusive top-up and withdraw service with PayPal allows South Africans to make payments and receive money internationally without sharing their financial or personal information."

Movement of International Firms:

Those doing business in China presented a mixed picture of the role of currency controls and constraints common to China. Merle A. Hinrichs, chairman and CEO of Global Sources, one of the world's leading B2B companies, said exchange rates are naturally of crucial concern to thousands of buyers and sellers using his network. The recent financial crisis had changed the landscape radically, with more businesses looking at some form of hedging to prevent against exposure to currency volatility.

Trends in Executive Markets:

Expectation's around the World Cup in SA – much gearing up to meet interim demand, Interim / Transition management elevating as a model that corporates are prepared to embrace, China becoming SA's largest trading partner with SA viewed as a gateway into Africa.

Issues related to specific industries:

Unfavourable macroeconomic conditions induce slow growth in Clothing and Footwear industry

The clothing and footwear market in South Africa experienced a marked overall slow-down of growth over the review period, in both volume and value terms, on account of unfavourable macroeconomic variables such as high interest rates and inflation, which eroded consumers' disposable incomes. The implementation of the National Credit Act also impacted on consumers' access to credit and negated the overall growth in retail sales.

Prospects look bright as trading conditions are set to improve

Improved market performance in the forecast period will depend on the expected changes in macroeconomic conditions. Interest rates are likely to decline while the rate of inflation is expected to fall. This will lead to a rise in consumers' disposable incomes, and in their discretionary spending, at a time when the ending of import quotas on Chinese clothing and textiles will lead to a flooding of the market with cheap merchandise, although continued restrictions on access to consumer credit on account of the National Credit Act may slow down the anticipated growth.

Issues related to specific functions

Business is in a global fight for skills and South Africa is not in a position to create enough new skills to make up for those being lost. Once recessionary caution vanishes, international opportunities will attract more of our best and brightest away. In light of this, companies need to ensure that they have sufficient succession planning in place for all key employees.

To make matters worse, if government goes ahead and implements its national health scheme, national pension scheme, major Eskom price hikes and so forth, effectively increasing taxes significantly, the average taxpayer will be crippled. The National Health Scheme, if implemented in its present format, is not only unaffordable, but will drive a substantial numbers of the medical profession out of the country and, consequently, we should expect to see a new drive by skilled professionals to leave the country.

Wage Inflation:

Low Inflation Rate, Low Pay Increase.

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.