

World Search Alliance

LOCAL APPROACH, GLOBAL PERSPECTIVE

Current Trends in South Africa

From CYCAN (Pty) Ltd, Johannesburg, South Africa
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1. Inflation in general

South Africa's inflation rate is expected to ease next year, the University of Stellenbosch's Bureau for Economic Research said in a statement.

Consumer price inflation was seen as moderating to 5.7 percent in 2010, down from 7.2 percent in 2009, according to an inflation expectations survey for the fourth quarter of 2009. It would then accelerate to 5.9 percent, and average 5.4 percent, in 2011. The forecasts of business people and trade union representatives followed the same pattern, but were at a noticeably higher level.

2. Investments

Gold price has trebled in past decade:

Investors who bought gold or commodities at the beginning of the decade tripled their money by 31 December 2009. This emerges from a Bloomberg analysis to determine how much \$100 would have returned over the past decade if it had been invested in six asset classes: gold, commodities, oil, high-grade bonds, US Treasuries and stocks.

"Accordingly, canny long-term investors who have been steadily accumulating Krugerrands are well satisfied with their strategies," says Alan Demby, executive chairman of The South African Gold Coin Exchange.

"Although ten years is a long investment horizon, the way things stand at present it would not surprise me if a similar phenomenon eventuated in the decade to 2019. Indeed, with several trillion dollars in circulation now compared to ten years ago, the outlook for gold must be compelling as the dollar continues to devalue."

3. What is "hot"

South Africa's economy has moved out of recession, recording slight positive growth for the third quarter of 2009, Statistics SA said on Tuesday.

The seasonally adjusted real gross domestic product (GDP) at market prices for the third quarter of 2009 increased by an annualised rate of 0.9 percent compared with the second quarter of 2009, the Pretoria based agency said.

This followed decreases of real annualised economic growth rates of a revised 7.4 percent and a revised 2.8 percent in the first and second quarters of 2009, compared with the fourth quarter of 2008 and the first quarter of 2009 respectively.

However, Statistics SA's executive manager of national accounts Joe de Beer sounded a word of caution regarding the latest GDP figure.

"GDP has returned to positive growth, but the underlying trend is still negative," he said.

The main contributors to the growth in economic activity for the third quarter of this year were the manufacturing industry, general government services, construction industry and personal services.

Negative contributions by other industries included the finance, real estate and business services and mining and quarrying industry, agriculture, forestry and fishing and wholesale and retail trade sales and restaurants industry.

Commenting on the data, economist Mike Schussler said he was relieved that the recession had ended "although for many people it may not feel like it".

He said many parts of the private sector, such as agriculture and the restaurant industry, were still in negative territory "But at least Tuesday's figure adds a positive spin," Schussler said.

He said it was unlikely that South Africa would slip into negative growth in the fourth quarter of 2009.

"However, I am worried about the second half of 2010 when Eskom increases its tariffs," he said

4. Trend in a specific market

The shortage of middle management has reached critical point and there is widespread acknowledgement in developing countries that this is potentially the most fatal constraint to accelerated growth. Headhunters worldwide are being retained to head hunt middle management more frequently in recent years, whereas this methodology was previously exclusively utilised to search for executives. Clients are definitely feeling the pinch as middle management elude their hiring strategies and crucial positions go unfilled.

This global phenomenon is a critical trend that was highlighted at the AIMS International Conference held in South Africa recently, where over 50 global headhunters converged to discuss and debate international recruitment issues.

5. Movement of international firms

Foreign investors flocked to South African equities in 2009, snapping up 75.418 billion rand worth of local shares as appetite for emerging markets rose after worries over the credit crisis lessened.

Data released by bourse operator JSE Ltd on Tuesday showed foreign investors were net buyers of local stocks in 2009, compared to 2008, where sales of 54.439 billion rand outstripped purchases.

Foreigners were also net buyers of South African bonds in 2009, purchasing 23.959 billion rand worth of local bonds versus sales of 16 billion rand in 2008.

"The record foreign buying of South African equities in 2009 was effectively part of a pronounced global trend by investors to accumulate assets in emerging markets," Stanlib Chief Economist Kevin Lings said in a note, adding the increased interest reflected a reduction in global risk aversion.

Local resource stocks were heavily favoured by foreign investors, spurred by higher precious metals prices, which hit record levels in 2009.

6. Trends in executive markets

CXOs join Search for New Jobs:

The tables have turned - Executive Search firms that were working on mandate-based assignments which involved wooing candidates for jobs are now witnessing a reverse trend in senior management placements.

An increasing number of CFOs, COOs, CPOs and CEOs are now proactively approaching search firms looking for 'more exciting opportunities', thus forcing headhunters into reverse marketing. Candidate placement (as opposed to mandate-based headhunting) has 'increased significantly' in the last one year and that Executive Search companies may start a separate service for such placements.

7. Issues related to specific industries

South Africa's manufacturing industry is catching up with improved global conditions. That's according to Kagiso's head of fixed income, Andre Coetzee, after the purchasing managers index (PMI) increased for the fifth consecutive month.

Kagiso Securities said the PMI rose to 52.5 in December, from 50.3 in November.

The PMI broke above the key 50 mark that indicates expansion in November, for the first time in 18 months.

"After an initial lag, the South African manufacturing rebound is now very close to being on par with the global trend," said Coetzee.

South Africa's manufacturing sector expanded by 7.6 percent in the third quarter, helping to lift the economy out of its first recession in almost two decades, and the performance of the sector will greatly determine the pace of the broader recovery.

Monthly data from Stats S.A. have indicated the rate of decline in manufacturing output is slowing, in line with expansionary PMI readings.

"In Q3, the PMI averaged 41 index points, while in Q4 the average PMI rose strongly to 50.1 points. The gain bodes well for December's factory output data and in a broader sense also the 2009 Q4 GDP report," Kagiso said in a statement.

Business activity sub-index of the PMI jumped to 55.1 in December, the highest reading since mid-2007, from 47.3 in November.

New sales orders increased to 54.7 from 54.4 in November, providing hope for a real expansion in manufacturing output, Kagiso said in a statement.

The PMI also showed participants were optimistic on the near-term outlook of the sector, with the expected business conditions sub-index rising to 69.5 in December from 65.0 in November.

8. Wage inflation

According to the University of Stellenbosch's Bureau for Economic Research, CPI inflation is expected to slow down in 2010 before picking up once more during 2011, but it is anticipated to exceed eight percent during both years, to be more than two percentage points above the (SA Reserve Bank) target. Household inflation expectations for 2009 edged up further, from 11.2 percent during the third quarter to 11.4 percent in the fourth.

Viewed casually these results seem unrealistic, as such high levels are at odds with the reported decline in measured inflation. However, international studies found a close relationship between household inflation expectations and wage increases.

The bureau said if the same relationship held in South Africa, the high wage increases of 2009 agreed with the high household inflation expectations. The survey was commissioned by the SA Reserve Bank and conducted between 29 October and 27 November 2009.