Grant Thornton

An instinct for growth™

Focus on: South Africa

International Business Report 2013 – Economy focus series

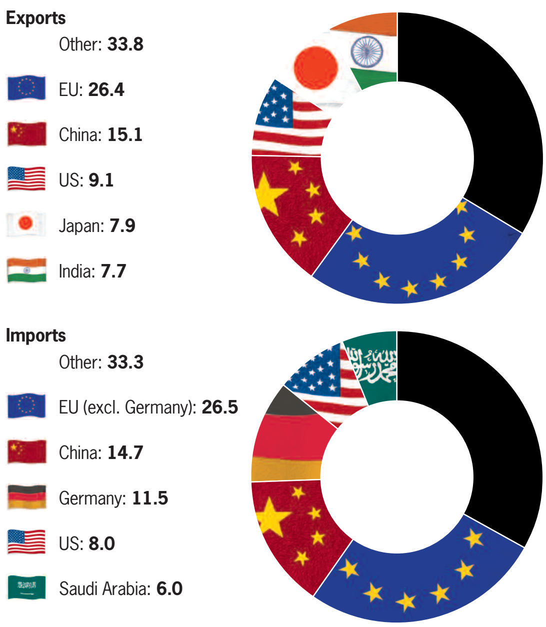
The economy

A wave of strikes rocked the key mining sector at the end of 2012, further dampening growth in an economy already suffering from the global slowdown. A subdued economy will further hamper efforts to reduce levels of poverty and unemployment which remain stubbornly high.

The key indicators[1] are highlighted below:

- GDP growth slowed to 1.2% in Q3, down from 3.4% in the previous three month period and the slowest since Q2-2009
- following the widespread unrest, the mining sector contracted by 12.7% in Q3, although construction (3.3%) and manufacturing (1.2%) did expand
- South Africa moved up to 39 in the 2013 World Bank 'Ease of doing business' rankings, climbing two places from 12 months previously
- inflows of FDI into South Africa climbed to US$5.8bn in 2011, up from US$1.2bn in 2010
- inflation remained at 5.6% in November, within the Reserve Bank's 3–6% target range.

Figure 1: Major trading partners (2011)
Percentage of total trade (goods and services)



Source: Economist Intelligence Unit, European Commission

Trade

South Africa has a relatively open economy. Foreign trade accounts for almost two thirds of GDP. The EU, China and the US are among its largest trading partners but trade with other African countries has increased significantly over recent years. The economy ranked 63 in the 2012 Enabling Trade Index, up from 72 in 2010.

[1] source: Economist Intelligence Unit, International Monetary Fund, World Bank, World Economic Forum.

The business perspective

The Grant Thornton International Business Report (IBR) surveys more than 12,500 businesses in 44 economies around the world. This report focuses on businesses in South Africa and their expectations for the next 12 months, as illustrated in figure 1.

The IBR survey tells us that businesses in South Africa are about as optimistic as peers in the BRIC economies for 2013, although confidence is down significantly from the 2011 average. Expectations for hiring workers are well down on the BRIC average with a lack of skilled workers identified as the key growth challenge for business leaders in 2013.

The outlook

The economy is forecast to have expanded by 2.6% in 2012, with the exposure of key sectors such as mining and manufacturing to global trade headwinds weighing on growth. Growth is expected to accelerate to 3.1% in 2013 and 3.8% in 2014 in line with a modest global recovery, although further strikes represent a major downside risk.

A number of challenges, including skills shortages, high unemployment, crime and corruption remain and could prove to be key battlegrounds in the run up to the 2014 election. A recent World Bank report has called on the country to tackle high inequality if it is to make a dent in unemployment which is running at over 25%. Removal of these structural barriers could see the economy enter a phase of faster, more labour-intensive growth.

Growth is expected to pick up in 2015-17 as the ranks of the middle class swell, boosting consumer spending on durable goods and services such as telecommunications and banking, global conditions improve and new transport and power networks come online.

Talk to us to find out how we can help you deal with the challenges your business is facing today.

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Figure 2: Key indicators for businesses

South Africa compared with the BRIC economies	2010 SA	2011 SA	Q4 2012 SA	Q4 2012 BRIC
Outlook for the economy over the next 12 months				
Net optimism over pessimism	60%	58%	38%	39%
Change in employment levels				
Net hiring expectations	25%	30%	26%	36%
Constraints on expansion				
Lack of skilled workers	34%	36%	47%	36%
Regulations/red tape	32%	37%	42%	43%

Source: Grant Thornton IBR 2013

International Business Report results

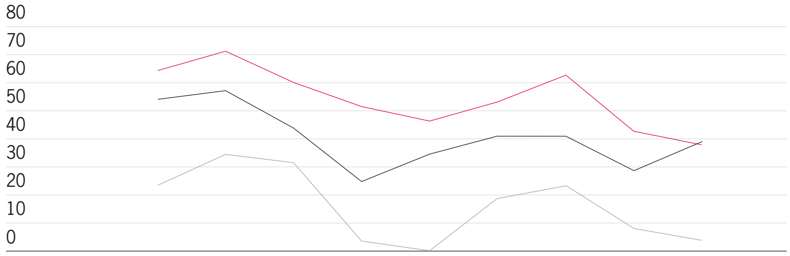
The results reveal that global business optimism[2] dipped again in Q4-2012, falling to just net 4%. This was down from 8% three months previously.

The sovereign debt crisis is weighing heavily on businesses confidence in Europe; business optimism across the European Union (EU) dropped to -17% in Q4. Optimism in the United States for 2013 is also low at -4%. However confidence in the BRIC economies ticked upwards to 39%.

Optimism/pessimism

- net business optimism stood at 38% in Q4-2012, down from 63% in Q2-2012
- this is in line with the BRIC average (39%) which rose ten percentage points over the past three months
- the global average (4%) continues to disappoint.

Figure 3: Outlook for the economy over the next 12 months: Q4-2010 to Q4-2012
Net percentage businesses indicating optimism less those indicating pessimism



	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012
South Africa	64	71	60	52	47	53	63	43	38
BRIC	54	57	44	25	34	41	41	29	39
Global	23	34	31	3	0	19	23	8	4

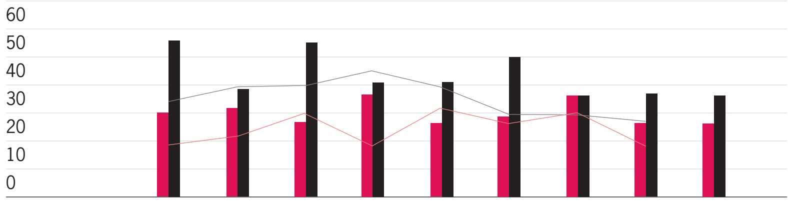
Source: Grant Thornton IBR 2013

[2] the net figure is the proportion of businesses reporting they are optimistic less those reporting they are pessimistic.

Employment

- net 26% of South Africa's businesses expect to hire in 2013, unchanged from Q3-2012
- this is below the BRIC average of 36%
- a further net 28% of businesses reported hiring in South Africa in 2012, slightly above the BRIC average (27%).

Figure 4: Employment history: Q4-2010 to Q4-2012
Net percentage businesses



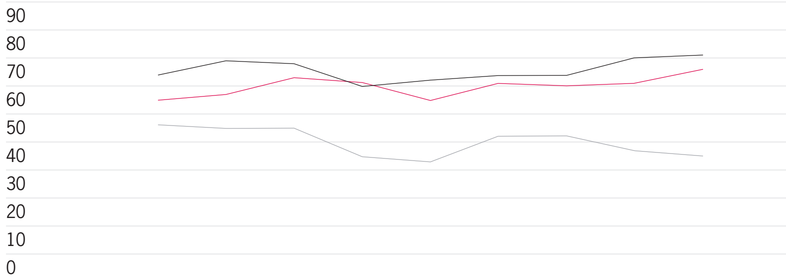
	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012*
Exp. S Africa	30	32	27	37	26	29	36	26	26
Exp. BRIC	56	38	55	41	41	50	36	37	36
Actual S Africa	19	22	30	18	32	26	30	28	–
Actual BRIC	34	39	40	45	39	30	29	27	–

*Q4 2012 actual data will be documented in Q1 2013
Source: Grant Thornton IBR 2013

Revenue expectations

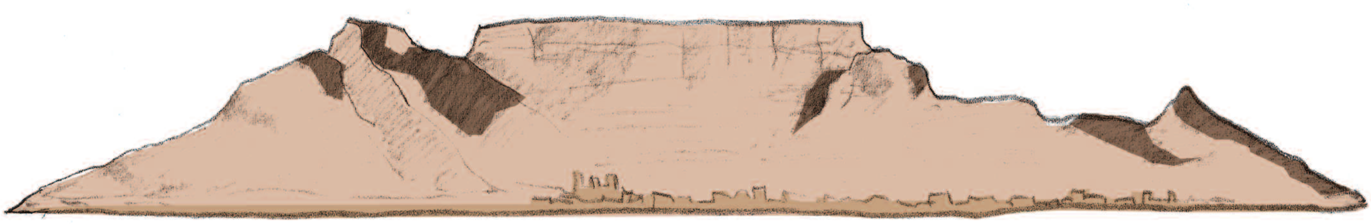
- business expectations for growing revenues look healthy at net 76%, up from 71% in Q3
- this is the highest level seen for two years
- expectations are below the BRIC average (81%) but well above the global figure (45%).

Figure 5: Revenue expectations: Q4-2010 to Q4-2012
Net percentage businesses indicating an increase less those indicating a decrease



	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012
South Africa	65	67	73	71	65	71	70	71	76
BRIC	74	79	78	70	72	74	74	80	81
Global	56	55	55	45	43	52	52	47	45

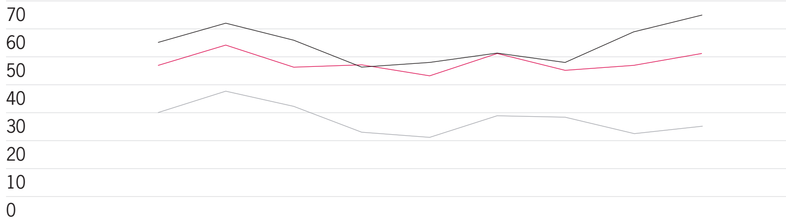
Source: Grant Thornton IBR 2013



Profitability expectations

- expectations for growing profits improved over the past three months, rising from net 57% to 61%
- the BRIC average stands much higher at 75%
- however, the global average remains subdued at 35%, still below the level observed in Q4-2010.

Figure 6: Profitability expectations: Q4-2010 to Q4-2012
Net percentage businesses indicating an increase less those indicating a decrease



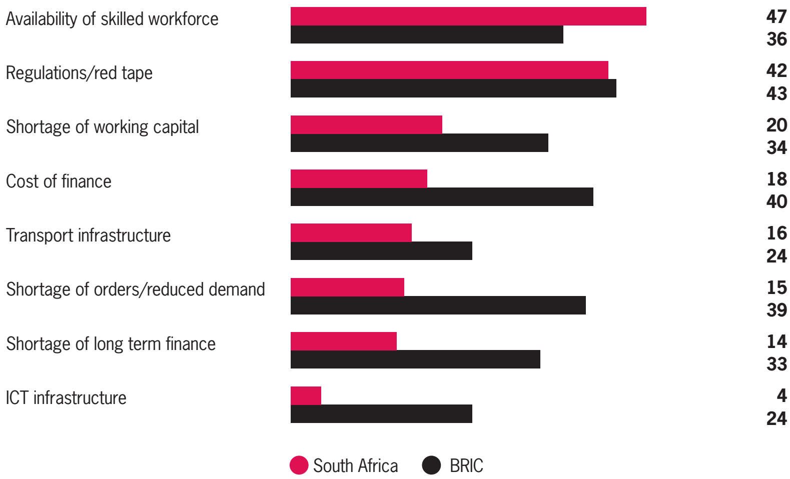
	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012
South Africa	57	64	56	57	53	61	55	57	61
BRIC	65	72	66	56	58	61	58	69	75
Global	40	47	42	33	31	39	38	33	35

Source: Grant Thornton IBR 2013

Constraints

- a lack of skilled workers (47%) remains the key growth constraint cited by South Africa's business leaders, well above the BRIC average (36%)
- regulations/red tape is cited by 42% of business leaders, in line with the BRIC average
- BRIC business leaders are far more concerned with financial and infrastructure issues compared with their peers in South Africa.

Figure 7: Constraints on expansion: Q4-2012
Average percentage of businesses rating constraint 4 or 5 on a scale of 1 to 5 where 1 is not a constraint and 5 is a major constraint

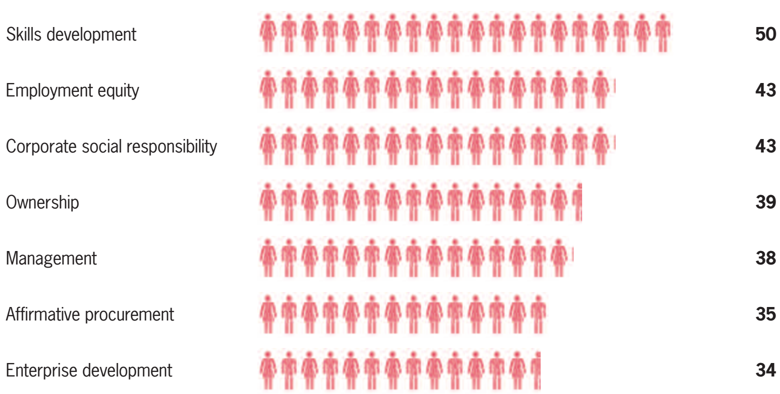


Source: Grant Thornton IBR 2013

Black economic empowerment (BEE)

- BEE is an issue for 63% of businesses in South Africa in terms of winning business
- skills development (50%) is cited as the most important aspects of scorecards, followed by employment equity (43%)
- developing people (95%) emerges as the key tactic being used to help businesses achieve targets, followed by corporate social (81%) and fast tracking key employees (67%).

Figure 8: Importance of aspects of BEE scorecards
Percentage of businesses answering 'of great importance'



Source: Grant Thornton IBR 2013

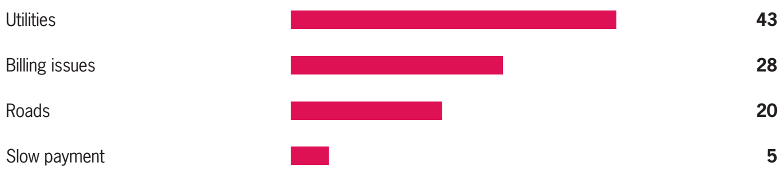
Government & public policy

- over half of business leaders (54%) feel well informed about the New Companies Act; 46% will require a an audit in line with the act, and 22% a review
- 58% of businesses have been affected by poor government service delivery; 43% of those affected cite utilities as the cause for their complaint, followed by billing issues (28%) and roads (20%)
- just under half of business leaders (48%) say uncertainty about the future political direction of the country is impacting on their decisions.

Crime & security

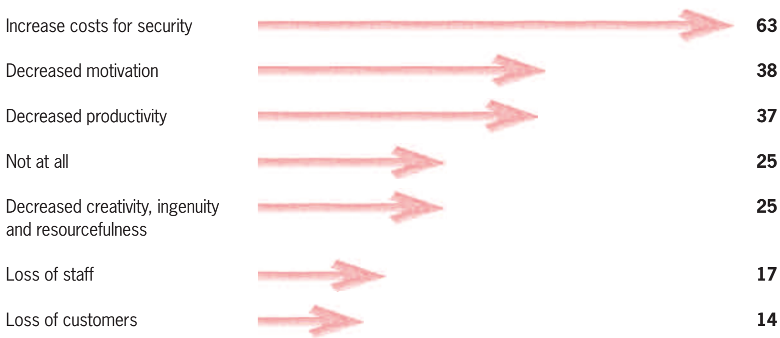
- three in five South Africa business leaders report either their families or staff have had their personal security threatened
- as a consequence 63% report increased costs for security and more than a thirds decreased motivation (38%) and productivity (37%)
- however, just 22% have given serious consideration to leaving South Africa over the past 12 months.

Figure 9: How businesses have been affected by poor government service delivery
Percentage of businesses affected by poor government service delivery



Source: Grant Thornton IBR 2013

Figure 10: Main effects of security threats on business
Percentage of businesses affected by crime



Source: Grant Thornton IBR 2013

The Grant Thornton International Business Report (IBR) is a quarterly survey of more than 3,000 senior executives in businesses all over the world. Launched in 1992 in nine European countries the report now surveys more than 12,500 business leaders in 44 economies on an annual basis providing insights on the economic and commercial issues affecting the global economy.

In South Africa, 150 businesses were surveyed across all industry sectors. These businesses ranged from medium to large in size with total employment of between 100 and 399. Data for this report were drawn from interviews conducted between November and December 2012.

To find out more about IBR, obtain copies of reports and access the results: **www.internationalbusinessreport.com**.

Participating economies

Argentina
Armenia
Australia
Belgium
Botswana
Brazil
Canada
Chile
China (mainland)
Denmark
Estonia
Finland
France
Georgia
Germany
Greece
Hong Kong
India
Ireland
Italy
Japan
Latvia
Lithuania
Malaysia
Mexico
Netherlands
New Zealand
Norway
Peru
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