

Focus on: South Africa

International Business Report 2010 – Country focus series

The recovery

Having tanked in the first quarter of 2009 as the global economic downturn hit commodity prices and demand, the South African economy exited its first recession since 1992 in the third quarter. However, outdated infrastructure – highlighted by last year's energy crisis – and rampant unemployment are serious threats to the long-term growth prospects.

The key indicators are highlighted below:

- real GDP grew by 0.9 per cent in the third quarter of the year, although the expected contraction across 2009 is almost two per cent
- the Consumer Price Index stood at 6.3 per cent in December, below the average of 7.1 per cent for the year
- the unemployment rate fell by 0.2 per cent to 24.3 per cent in the three months to December; job losses over the year stood at 870,000
- the expanded definition of unemployment, which includes those who have stopped looking for work, stood at 34.2 per cent at the end of 2009.

Impact on businesses

The Grant Thornton International Business Report (IBR) 2010 surveyed the views of over 7,400 privately held businesses (PHBs) in 36 economies around the world. This report focuses on South Africa, the experiences and attitudes of its privately held businesses and how they have been affected by the economic crisis along with how they are dealing with recovery, as illustrated in figure 1.

The IBR survey tells us that businesses in South Africa are considerably more optimistic on the outlook for the economy over the next 12 months in 2010, than they were in 2009, with the majority of businesses believing that they will see an upturn in the global economy in the second half of 2010 to 2011. Expectations for revenue, profitability and employment growth are all markedly more positive this year.



Looking ahead

Having contracted by over two per cent across 2009, real GDP – boosted by the World Cup – is forecast to grow by 2.7 per cent this year, expanding to 4.5 per cent in 2011. The current account deficit is expected to narrow to 5.7 per cent of GDP this year but may widen to six per cent in 2011 as exports lag behind imports. Inflation is forecast to fall back to within the target range, averaging 6.1 per cent across the year, slowing to 5.2 per cent in 2011.

Planned increases in government spending to support the tentative recovery are expected to see the budget deficit widen to 5.3 per cent of GDP this year, falling to 3.5 per cent in 2011. Restoring the health of the labour market and maximising the long-term benefits of the World Cup are major challenges.

As the economy exits recession, all businesses will need to face new challenges and take advantage of new opportunities to achieve consolidated growth and lead the way to recovery.



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Figure 1: Key indicators for PHBs

South Africa compared to the global average	2008	2009	2010	2010
	SA	SA	SA	Global
Outlook for the economy over the next 12 months				
Balance of optimists over pessimists	+75%	+35%	+60%	+24%
Change in employment levels				
Balance of PHBs expecting an increase over those expecting a reduction	+43%	+11%	+25%	+20%
Constraints on expansion				
Lack of availability of a skilled workforce	48%	41%	34%	21%
Regulations/red tape	37%	33%	32%	32%

Source: Grant Thornton IBR 2010



International Business Report results

The Grant Thornton IBR 2010 reveals that businesses in almost all countries are more optimistic about economic prospects for the year ahead. Businesses in South Africa are much more optimistic about prospects for 2010; their optimism/pessimism balance¹ has risen 25 per cent from +35 per cent in 2009 to +60 per cent in 2010.

For the first time in six years, India has been overtaken as the most optimistic country by Chile. Chile now tops the league table with a net balance of +85 per cent (-24 per cent in 2009), India comes in a very close second with +84 per cent, whilst Japan remains at the bottom with a balance of -72 per cent.

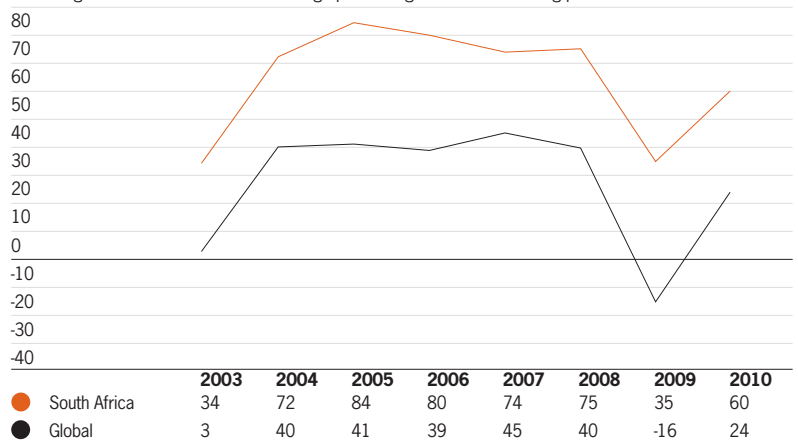
Overall optimism amongst businesses globally has risen from 2009; this year a balance of +24 per cent of businesses across all countries are positive about their country's economy – compared to a balance of -16 per cent in 2009.

Optimism/pessimism

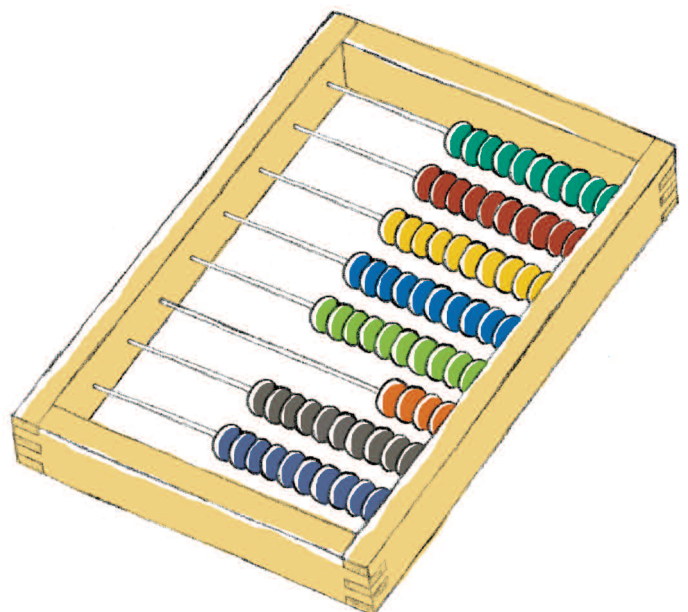
- businesses in South Africa are considerably more optimistic about their country's economic outlook (+60 per cent) compared to 2009 (+35 per cent)
- optimism amongst businesses globally has risen by 40 percentage points this year.

Figure 2: Outlook for the economy over the next 12 months: 2003-2010

Percentage balance of businesses indicating optimism against those indicating pessimism



Source: Grant Thornton IBR 2010



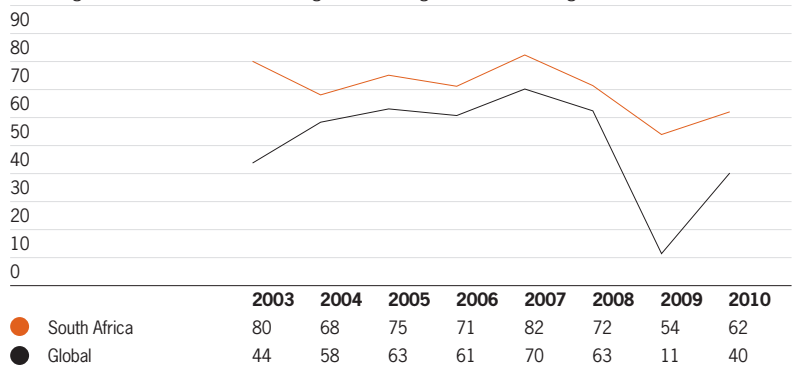
¹ the balance is the proportion of companies reporting they are optimistic less those reporting they are pessimistic.

Revenue expectations

- expectations for revenue prospects, which stayed relatively positive in 2009 (+54 per cent), have risen by eight per cent to +62 per cent this year
- the global business average has risen by 29 percentage points.

Figure 3: Revenue expectations: 2003-2010

Percentage balance of businesses indicating an increase against those indicating a decrease



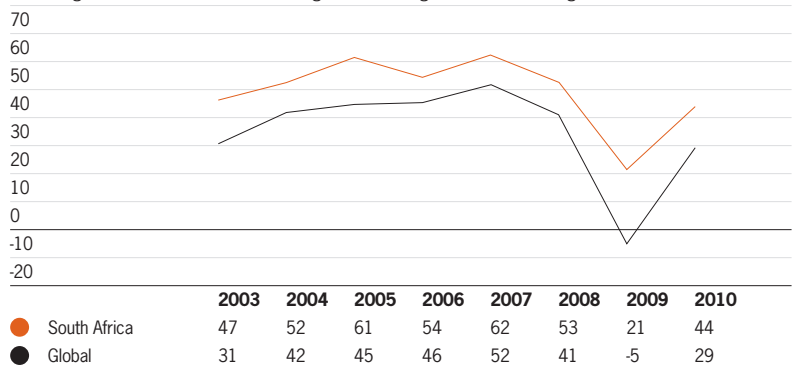
Source: Grant Thornton IBR 2010

Profitability expectations

- profitability expectations amongst businesses in South Africa have increased markedly this year; a balance of +21 per cent of businesses expected profits to rise in 2009, compared with +44 per cent this year
- the global business average has bounced back even more sharply, climbing by 34 per cent, from -5 per cent to +29 per cent.

Figure 4: Profitability expectations: 2003-2010

Percentage balance of businesses indicating an increase against those indicating a decrease



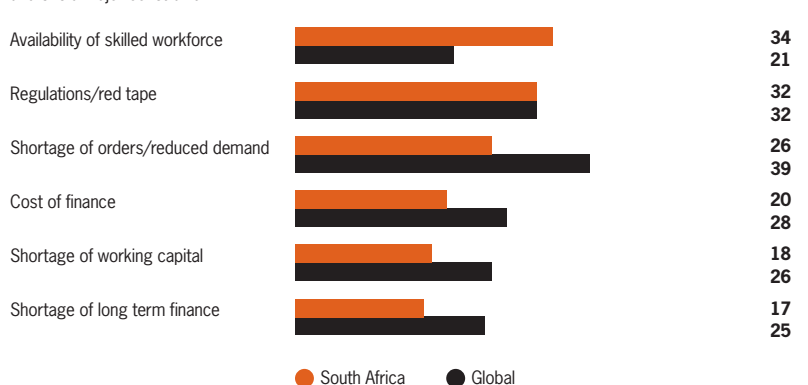
Source: Grant Thornton IBR 2010

Constraints

- since 2007, a lack of availability of a skilled workforce has been cited as the major constraint restricting expansion for businesses in South Africa; this year 34 per cent of businesses cite it as a major constraint compared with 41 per cent in 2009
- the greatest concern for businesses globally is shortage of orders/reduced demand (39 per cent) but this is cited by just 26 per cent of businesses in South Africa.

Figure 5: Constraints on expansion

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

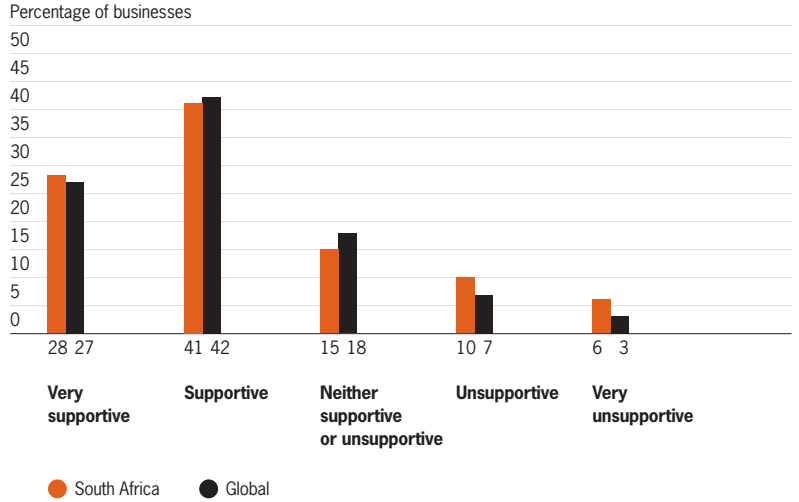


Source: Grant Thornton IBR 2010

Support of lender

- the majority of businesses in South Africa are happy with the level of support provided by lenders; 69 per cent class lenders as supportive or very supportive towards their business, identical to the global average
- 16 per cent of businesses in South Africa believe that lenders are unsupportive or very unsupportive of their business, compared to ten per cent globally.

Figure 6: Level of support provided by lenders

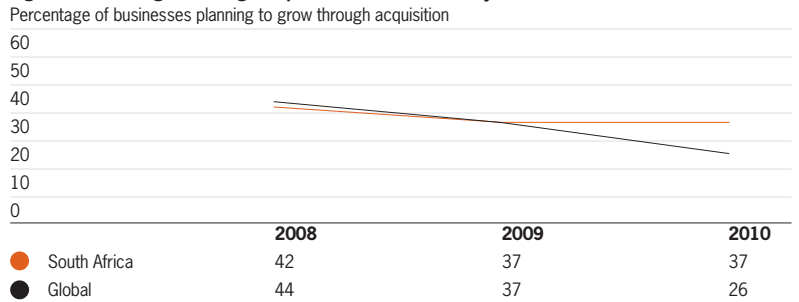


Source: Grant Thornton IBR 2010

Mergers & acquisitions

- at 37 per cent, the proportion of businesses in South Africa planning to grow through acquisition this year did not move from last year; the global average fell by 11 per cent
- 88 per cent of those planning to grow in this way expect to acquire domestic businesses, whilst 41 per cent expect to acquire foreign businesses
- for two-thirds of businesses planning to acquire the key driver is access to new geographic markets.

Figure 7: Plans to grow through acquisition in the next three years

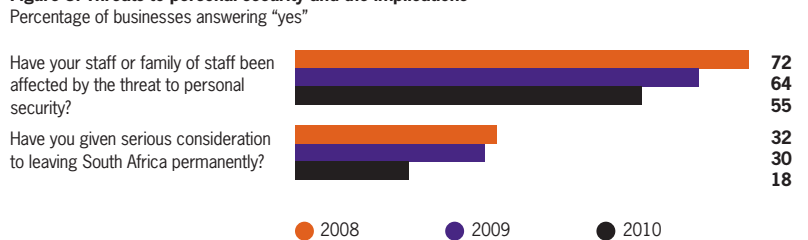


Source: Grant Thornton IBR 2010

Crime

- the proportion of businesses reporting threats to the personal security of themselves, colleagues and family fell again this year to 55 per cent, down from 72 per cent in 2008
- concurrently, the proportion of respondents giving serious consideration to leaving South Africa permanently fell to just 18 per cent, almost half the 2008 level.

Figure 8: Threats to personal security and the implications



Source: Grant Thornton IBR 2010

The Grant Thornton International Business Report (IBR) is an annual survey of the views of senior executives in privately held businesses (PHBs) all over the world. Launched in 1992 in nine European countries the report now surveys over 7,400 PHBs in 36 economies providing insights on the economic and commercial issues affecting a segment often described as the ‘engine’ of the world’s economy. In South Africa 350 businesses were surveyed across all industry sectors. These businesses ranged from medium to large in size, employing between 100 and 399 workers.

To find out more about IBR and to obtain copies of reports and summaries visit: www.internationalbusinessreport.com. The site also allows users to complete the survey and benchmark their results against all other respondents by territory, industry type and size of business.

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Participating economies

- | | |
|----------------|----------------|
| Argentina | Japan |
| Armenia | Malaysia |
| Australia | Mexico |
| Belgium | Netherlands |
| Botswana | New Zealand |
| Brazil | Philippines |
| Canada | Poland |
| Chile | Russia |
| Mainland China | Singapore |
| Denmark | South Africa |
| Finland | Spain |
| France | Sweden |
| Germany | Taiwan |
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