

Focus on: Western Cape

International Business Report 2010 – Regional focus series

The recovery

The Western Cape accounts for around 15 per cent of South African GDP, but this is growing every year as high value-add sectors such as finance, real estate, information and communication technologies (ICT), retail and tourism have all grown substantially in recent years. However, the downturn hit the residential property market hard, and the region's high exposure to international trade meant it also suffered from global commodity price fluctuations.

Having collapsed 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 However, outdated infrastructure – highlighted by last year's energy crisis – and rampant unemployment are serious threats to the long-term growth prospects.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 3.2 per cent in the fourth quarter of 2009, up from 0.9 per cent in Q3
- 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 the Western Cape, 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 the Western Cape are considerably more optimistic regarding the outlook for their country's economy over the next 12 months this year, than they were in 2009. Expectations for revenue, profitability and employment growth are all markedly more positive this year, although a lack of skilled workers and levels of bureaucracy remain the biggest burden to business growth prospects.



Looking ahead

Having contracted by around two per cent across 2009, South African 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.

In the Western Cape, the previously vibrant real estate market slumped in 2009, but the house price index has risen by 11.1 per cent since the low of June 2009, which – combined with the nine scheduled World Cup matches in Cape Town this summer and higher rates of employment and productivity than other regions – should help drive growth. However, the openness of the regional economy to foreign trade – which makes up around 30 per cent of gross regional product – means the robustness of the global recovery is a major risk.

Figure 1: Key indicators for PHBs

Western Cape compared to the South African average	2008 Western Cape	2009 Western Cape	2010 Western Cape	2010 South Africa
Outlook for the economy over the next 12 months				
Balance of optimists over pessimists	+67%	+33%	+70%	+60%
Change in employment levels				
Balance of PHBs expecting an increase over those expecting a reduction	+43%	-2%	+23%	+25%
Constraints on expansion				
Lack of availability of a skilled workforce	52%	35%	35%	34%
Regulations/red tape	41%	41%	31%	32%

Source: Grant Thornton IBR 2010

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.



Neil Miller
T +27 (01) 21 481-9000
E nmiller@gtct.co.za
W www.gt.co.za



International Business Report results

The Grant Thornton IBR 2010 reveals that privately held 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.

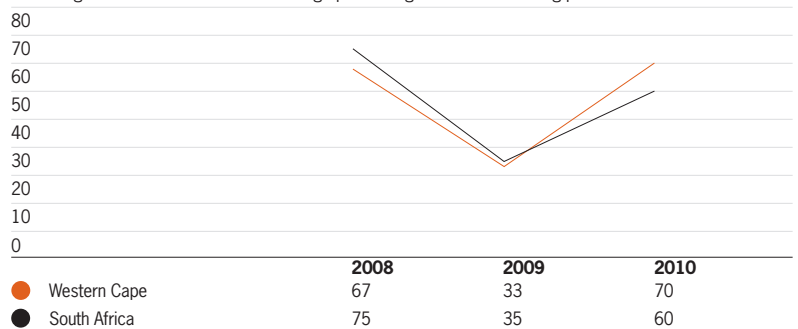
Overall optimism amongst businesses globally has risen from 2009; this year a balance of +24 per cent of businesses across all countries are positive about their country's economy – compared to a balance of -16 per cent in 2009.

Optimism/pessimism

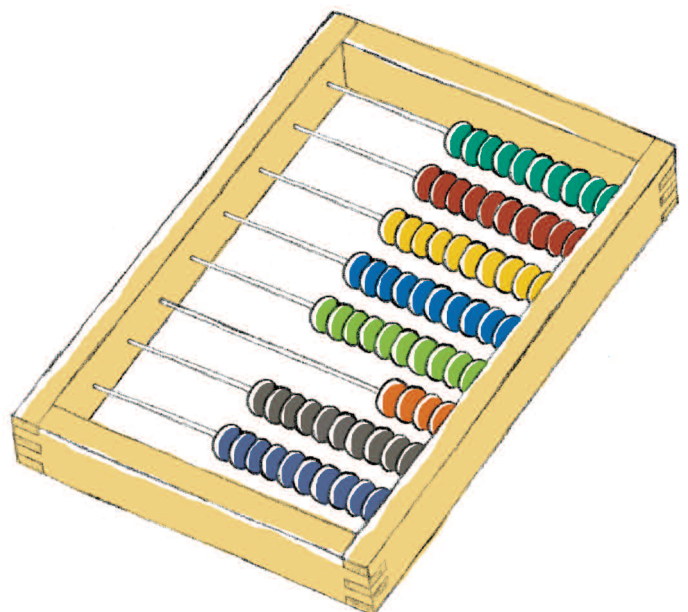
- businesses in the Western Cape are considerably more optimistic about their country's economic outlook (+70 per cent) compared with 2009 (+33 per cent)
- optimism amongst businesses across South Africa this year has risen by 25 per cent.

Figure 2: Outlook for the economy over the next 12 months: 2008-2010

Percentage balance of businesses indicating optimism against those indicating pessimism



Source: Grant Thornton IBR 2010

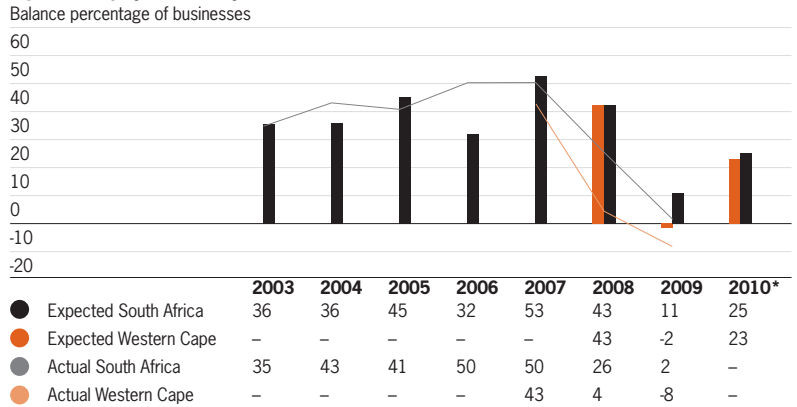


¹ the balance is the proportion of companies reporting they are optimistic less those reporting they are pessimistic.

Employment

- a balance of 23 per cent of businesses in Western Cape expect employment to grow in 2010, compared with 25 per cent of businesses in South Africa as a whole
- actual employment contraction reported by businesses in Western Cape in 2009 (-8 per cent) was more severe than expected 12 months previously (-2 per cent).

Figure 3: Employment history: 2003-2010

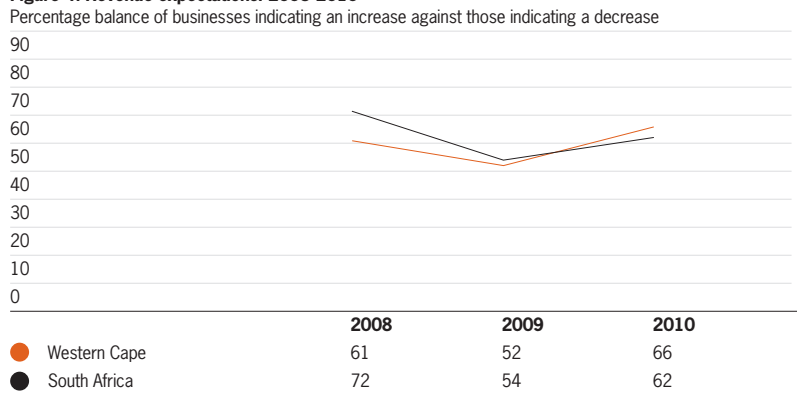


*actual 2010 data will be documented in IBR 2011
Source: Grant Thornton IBR 2010

Revenue expectations

- expectations for revenue prospects, which stayed relatively positive in 2009 (+52 per cent), have risen by 14 per cent to +66 per cent this year
- the South African average has risen by a more modest eight per cent.

Figure 4: Revenue expectations: 2008-2010

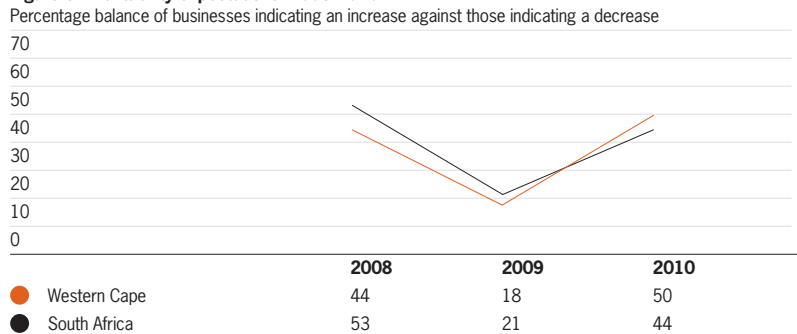


Source: Grant Thornton IBR 2010

Profitability expectations

- profitability expectations amongst businesses in the Western Cape have increased markedly this year; a balance of just +18 per cent of businesses expected profits to rise in 2009, compared with +50 per cent this year
- the South African average has bounced back more modestly, climbing by 23 per cent, from +21 per cent to +44 per cent.

Figure 5: Profitability expectations: 2008-2010



Source: Grant Thornton IBR 2010

Constraints

- a lack of availability of a skilled workforce has overtaken regulations/red tape this year as the major constraint restricting expansion for businesses in the Western Cape
- this year, 35 per cent of businesses cite a lack of skilled workers as a major constraint, just above the South African average (34 per cent)
- financial issues are cited as less constraining for businesses in the Western Cape than for businesses in South Africa as a whole.

Figure 6: 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



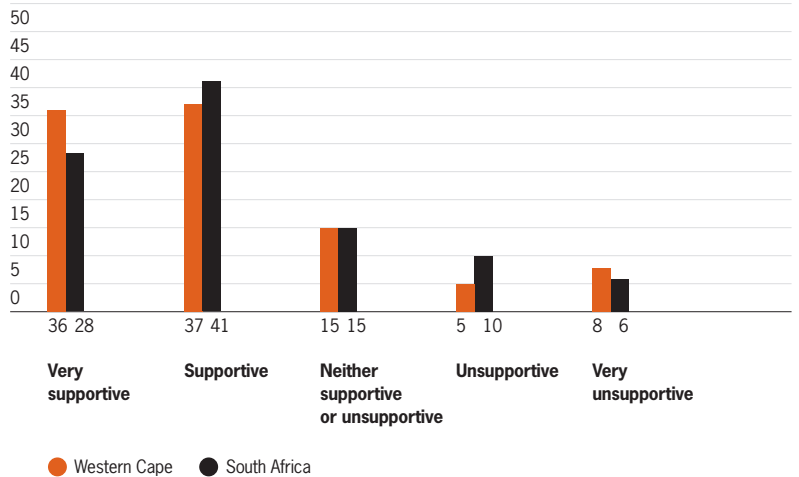
Source: Grant Thornton IBR 2010

Support of lender

- the majority of businesses in the Western Cape are happy with the level of support provided by lenders; 73 per cent class lenders as supportive or very supportive towards their business, just above the South African average of 69 per cent
- 13 per cent of businesses in the Western Cape believe that lenders are unsupportive or very unsupportive of their business, compared to 16 per cent in South Africa as a whole.

Figure 7: Level of support provided by lenders

Percentage of businesses

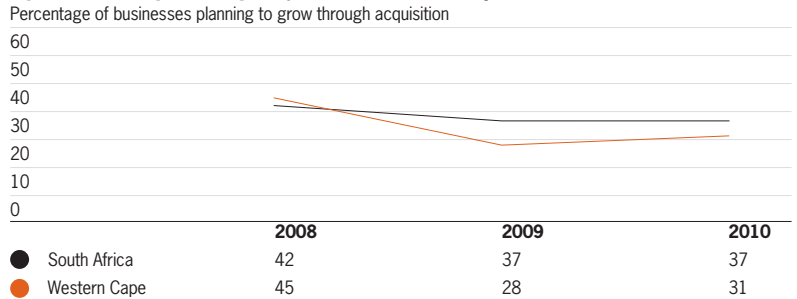


Source: Grant Thornton IBR 2010

Mergers and acquisitions

- at 31 per cent, the proportion of businesses in the Western Cape planning to grow through acquisition this year has risen from the 28 per cent observed in 2009
- in South Africa as a whole, the proportion of businesses planning to grow through acquisition remained the same as last year at 37 per cent.

Figure 8: Plans to grow through acquisition in the next three years

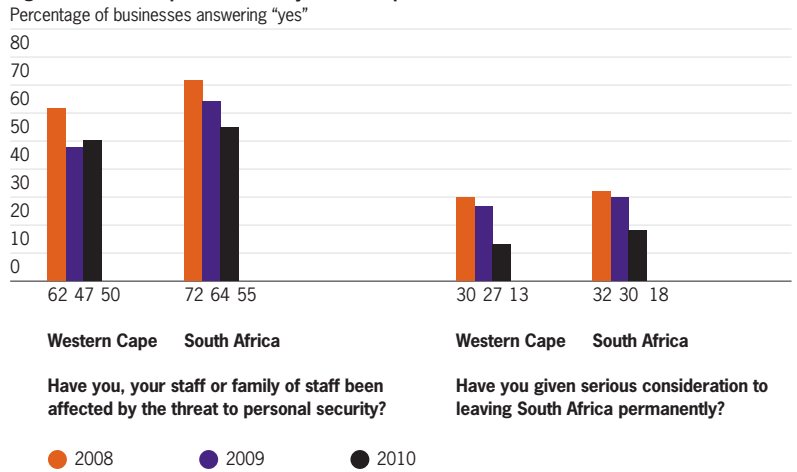


Source: Grant Thornton IBR 2010

Crime

- the proportion of businesses reporting threats to the personal security of themselves, colleagues and family in the Western Cape rose slightly to 50 per cent; however this is still below the 62 per cent observed in 2008, and the South African average of 55 per cent
- concurrently, the proportion of respondents in the Western Cape giving serious consideration to leaving South Africa permanently fell to just 13 per cent, less than half the level observed in 2009.

Figure 9: 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, 101 from the Western Cape. 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.

Privately Held Business Champions (South Africa)

Media enquiries

Leonard Brehm
National Chairman
T +27 (0)11 322-4500
E info@gt.co.za

Cape Town

Neil Miller
Deputy-Managing Partner
T +27 (0) 21 481-9000
E mail@gtct.co.za

East London

Tony Balshaw
Managing Partner
T +27 (0)43 726-9898
E gtel@gtec.co.za

Pretoria/Tshwane

Lawrence Hummel
Deputy-Managing Partner
T +27 (0)12 346-1430
E gtpta@gtpa.co.za

National Marketing

Pamela Grayman
National Marketing Principal
T +27 (0) 860-GTLINE (485463)
E info@gt.co.za

National

Johan Blignaut
Managing Partner
T +27 (0)12 346-1430
E gtpta@gtpa.co.za

Durban

Ebrahim Lakhi
Partner
T +27 (0) 31 576-5500
E mail@gtdbn.co.za

Port Elizabeth

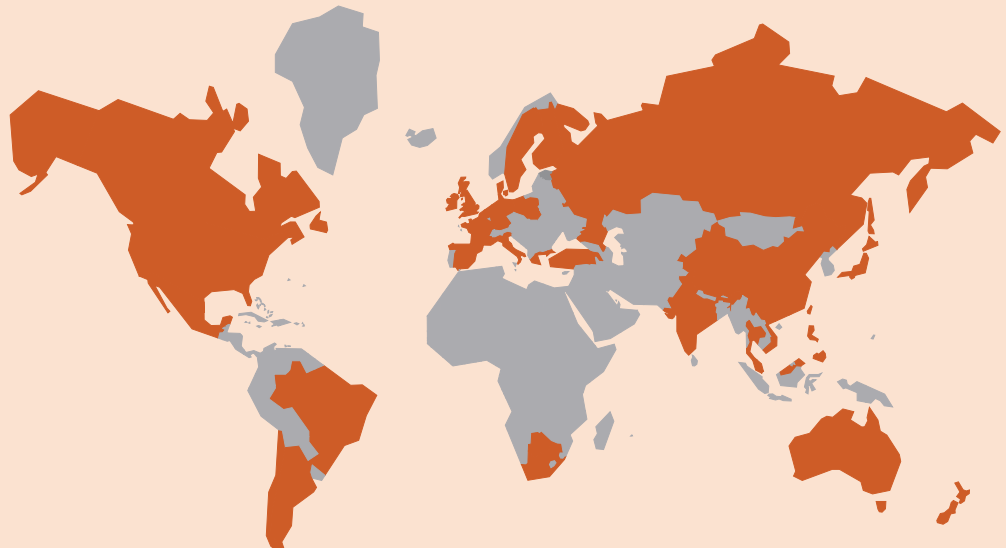
Rudi Scholtz
Managing Partner
T +27 (0)41 373-4200
E gtpe@gtec.co.za

Johannesburg

David Reuben
Head of Audit
T +27 (0)11 322-4500
E info@gt.co.za

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 |
| Greece | Thailand |
| Hong Kong | Turkey |
| India | United Kingdom |
| Ireland | United States |
| Italy | Vietnam |



www.gt.co.za
www.internationalbusinessreport.com

© 2010 Grant Thornton International Ltd. All rights reserved.
Grant Thornton International Ltd (Grant Thornton International) and the member firms are not a worldwide partnership. Services are delivered independently by the member firms.