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SACCI

Monthly Economic and Policy Report

August 2010

ECONOMY

Growth, output and employment

Country	2009 GDP growth (%)	2008 GDP (US$ '000 000)	GDP growth rate (%)			Industrial production (%)	Unemployment rate (%)
			Latest quarter figures	2010[1]	2011[1]		
RSA	-1.8	489,700	3.2 (Q2)	2.8	3.7	8.8 (Jun)	25.3 (Jun)
Egypt	4.7	442,600	5.8 (Q1)	5.2	5.5	4.4 (Q1)	9.1 (Q1)
Brazil	-0.2	1,990,000	9.0 (Q1)	7.8	4.5	11.1 (Jun)	7.0 (Jun)
China	9.1	7,800,000	10.3 (Q2)	9.9	8.3	13.4 (Jul)	9.6 (2009)
India	5.7	3,267,000	8.6 (Q1)	8.0	8.1	7.1 (Jun)	10.7 (2009)
Mexico	-6.5	1,559,000	4.3 (Q1)	4.6	3.5	8.4 (Jun)	5.1 (Jun)
Russia	-7.9	2,225,000	5.2 (Q2)	4.8	4.0	5.9 (Jul)	6.8 (Jun)
USA	-2.4	14,290,000	3.2 (Q2)	3.0	2.8	7.7 (Jul)	9.5 (Jul)
UK	-4.9	2,231,000	1.6 (Q2)	1.4	1.9	1.3 (Jun)	7.8 (Jun)
Euro area	-4.1	14,820,000	1.7 (Q2)	1.2	1.3	8.2 (Jun)	10.0 (Jun)
Japan	-5.2	4,348,000	2.0 (Q2)	3.0	2.8	7.7 (Jul)	9.5 (Jul)

[1] Estimates/forecasts

The seasonally adjusted real GDP at market prices for the second quarter of 2010 increased by an annualised rate of 3,2 per cent compared with an increase of 4,6 per cent during the first quarter of 2010. The main contributors to the increase in economic activity for the second quarter of 2010 were the manufacturing industry; the wholesale, retail, motor trade and accommodation industry; finance, real estate and business services; and general government services. The seasonally adjusted real annualised value added by primary, secondary and tertiary sectors recorded a decrease of 12,5 per cent and increases of 5,3 per cent and 4,0 per cent respectively, during the second quarter of 2010. The unadjusted real GDP at market prices for the second quarter of 2010 increased by 3,0 per cent compared with the second quarter of 2009. According to a Sunday Times report, South Africa's leading economic indicator, published by the SA Reserve Bank, recorded a decline of 1,8 per cent (m/m) in June, which could point to a loss of growth momentum in the local economy later in the year.

Data as at July 2010 showed that employment decreased by 61 000 between Q1:2010 and Q2:2010 with the formal sector losing 129 000 jobs, the informal sector gaining 115 000; while Agriculture and Private Households lost 32 000 and 14 000 jobs respectively. There has not been subsequent employment data released during August 2010.

Trade, interest rates, inflation

Country	Latest trade balance (US$ billion)	Current account		Inflation	
		Latest balance (US$ billion)	Expressed as a percentage of GDP (2009)	Latest CPI	A year ago
RSA	-1.1 (Jun)	-11.4 (Q1)	-5.0	3.7 (Jul)	6.9
Egypt	-24.2 (Q1)	-3.6 (Q1)	0.2	10.7 (Jul)	10.0
Brazil	17.8 (Jul)	-40.9 (Jun)	-2.7	4.6 (Jul)	4.5
China	174.7 (Jul)	282.2 (Q1)	4.2	3.3 (Jul)	-1.8

Country	Latest trade balance (US$ billion	Current account		Inflation	
		Latest balance (US$ billion)	Expressed as a percentage of GDP (2009)	Latest CPI	A year ago
India	-110.2 (Jun)	-38.4 (Q1)	-1.7	13.7(Jun)	9.3
Mexico	-2.4 (Jun)	-5.0 (Q1)	-1.3	3.6(Jul)	5.4
Russia	152.6 (Jun)	82.2 (Q2)	5.2	5.5(Jul)	12.0
USA	-592.4 (Jun)	-391.9 (Q1)	-3.1	1.2 (Jul)	-2.1
UK	-135.0 (Jun)	-33.7 (Q1)	-1.4	3.1(Jul)	1.8
Euro area	26.7 (Jun)	-60.0 (May)	-0.3	1.7(Jul)	-0.6
Japan	81.7 (Jun)	175.2 (Jun)	3.3	-0.7 (Jun)	-1.8

The official inflation rate (i.e. the percentage change in the CPI for all urban areas in July 2010 compared with that in July 2009) was 3,7 per cent at July 2010. This rate was 0,5 of a percentage point lower than the corresponding annual rate of 4,2 per cent in June 2010 (i.e. the Consumer Price Index for all urban areas in June 2010 compared with that in June 2009).

President Jacob Zuma said on the first day of his state visit to China, that South Africa was open for business "in a big way". Zuma emphasized that strengthening and enhancing South Africa's political, economic and commercial relations with China was critical to South Africa’s national priorities[1]. Increased trade between the two countries would help South Africa meet its development needs as well as improve infrastructure and the livelihoods of its people. Zuma said there were numerous untapped opportunities in various sectors in South Africa, adding that it was the responsibility of the business sector to make the wheels of trade turn and to keep them properly oiled.

Equity markets

Country	Equity market		3-month yield	10-year government bond yield
	Percentage change (in local currency)	Percentage change (in US dollars)		
RSA	-1.4	-0.1	6.48	7.90
Egypt	2.4	-1.3	9.71	5.09
Brazil	-1.4	-2.0	10.66	6.16
China	-18.7	-18.3	2.47	2.92
India	4.5	4.5	6.27	8.15
Mexico	0.9	4.4	4.50	6.09
Russia	1.4	1.0	7.75	5.50
USA	-0.1	-0.1	0.27	2.61
UK	-2.0	-5.4	0.80	3.12
Euro area	-6.3	-16.1	0.89	2.32
Japan	-12.4	-4.4	0.20	0.93

News of HSBC Holdings plc's proposed acquisition of a controlling shareholding in Nedbank Group added some positive sentiment to the local bourse during August 2010. The deal is rumoured to be in the region of US$4,4 billion, and would boost merger and acquisition

[1] “Zuma to China: we’re open for business”. www.southafrica.info. 25 August 2010

activity in South Africa and abroad. It will also provide HSBC with a bigger “footprint” on the African continent.

Despite this positive news, market sentiment on the JSE all-share index continued to be dominated by global equity markets. Discouraging international economic data during August, especially from the US, dominated the local bourse and resulted in declines in most sectors. Fears of a stagnating US economic recovery and a double-dip global recession continue to grow.

Exchange rates

Exchange rate	April	May	June	July	Aug
R/AUS$	0.146	0.149	0.152	0.151	0.151
R/US$	7.31	7.60	7.62	7.51	7.26
R/£	11.20	11.15	11.24	11.47	11.38
R/€	9.82	9.57	9.30	9.59	9.38
R/CAN$	0.137	0.136	0.136	0.138	0.142

Despite disappointing international economic data, the rand remained relatively steady during the month of August 2010. The local currency moved mostly in line with the euro, which came under increased pressure toward the end of the month after Standard & Poor's cut its ratings on Ireland and gave the country a negative outlook.

The US dollar fluctuated broadly during the month of August. Discouraging economic data out of the US heightened concerns about the pace of the global economic recovery, and boosted the appeal of the US currency as a safe-haven from risk. .

POLICY AND RELATED DEVELOPMENTS

Crime and security

The Independent Complaints Directorate (ICD) examined 1 900 case dockets from police stations in George, Paarl and Oudtshoorn, and announced that it had found instances in which dockets had been altered[2]. Charges which had been opened had been changed towards the end of a month. Some, such as housebreaking or arson, had been changed to the lesser crime of malicious damage to property. The ICD concluded that Police officers manipulate crime statistics because they are under pressure to produce results that look good. If their statistics show high crime rates, or a high rate of serious crime, they are humiliated in front of their colleagues at monthly meetings with their provincial chiefs. Some fear they will be transferred to police stations far afield if their crime statistics are high.

ICT

Telkom has officially rolled out its 10 Mb/s ADSL offering, along with an online tool to check availability[3]. The 10 Mb/s offering was launched in mid-August, with 4Mb/s customers being upgraded to the faster package free of charge if their line supported it. Customers can now also check whether their home supports the faster speed with Telkom's availability tool. Users may not be able to sync at 10 Mb/s, depending on the distance from the exchange. In that case, Telkom will drop the speed to 8 Mb/s and below. MWEB said that the speed upgrades would apply to their capped products, although an uncapped package would be launched near the end of September 2010.

Infrastructure

South African President Jacob Zuma urged China to invest more in infrastructure and manufacturing in South Africa, as the local government looks to broaden South Africa's economic appeal beyond mines and resources[5]. South Africa is looking for expanded trade and investment to meet its development needs by improving roads, communications and power and by generating more manufacturing jobs, Zuma told a forum of business executives from China and South Africa. "China is indeed a key strategic partner for South Africa", he said. "We envisage meaningful future cooperation in infrastructure, the benefaction of minerals, engineering, energy, information and communications technology and electronics. There are also opportunities to be explored in manufacturing", he added. The President's comments underscored the attractiveness of China for African countries, while hinting at the frustrations of African governments and companies that want to see more Chinese investment and orders spreading beyond mines and resources.

Labour

Labour brokers will no longer be used by the automotive industry in terms of a wage deal struck with unions during August 2010, making it the first sector to accede to this demand. The Automobile Manufacturers Employers Organisation (AMEO) said that it was agreed that the use of labour brokers would be discontinued from January 2011, except for pre-existing contracts, which would be allowed to run their course[6]. This was part of a wage settlement that ended an eight-day strike by the National Union of Metalworkers of SA (NUMSA) and

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[2] "Police manipulating stats". www.iol.co.za. 18 August 2010.
[3] "Telkom rolls out 10Mb/s". http://technology.iafrica.com/news/technology/2609320.htm. 23 August 2010.
[5] "South Africa looks to China for infrastructure lift". http://af.reuters.com. 24 August 2010.
[6] "Motor industry scraps labour broking". www.busrep.co.za. 23 August 2010.

AMEO in the car-manufacturing industry, which resulted in the loss of production of about 17 000 vehicles and a loss to employees of R64 million in wages and benefits.

A strike by public servants in South Africa began during the month of August, which has resulted in turmoil in many sectors of the economy, such as, patients at hospitals not being treated timeously (and has resulted in death in some instanced) and the preliminary matric examinations in Gauteng being postponed by two weeks. The Congress of South African Trade Unions (COSATU) has asked the private sector in South Africa to support the strike action and join hands with the public servants during the strike action. SACCI condemns the undisciplined behaviour of workers in particular instances, notably the intimidation by teachers of pupils attending schools, and by striking health workers of those who willingly report for work. Such behaviour will impact negatively on global perceptions of the business environment in South Africa. The strikes have also added to pressures relating to service delivery backlogs. SACCI confirms its view that the failure to reach an agreement has an impact on the economy that stretches beyond the Public Service Commission. Additional pressure on public sector finances and the subsequent need to increase the taxes will have consequential downstream impact on both business and consumers. Increased taxes will hamper the growth of particularly of small and medium enterprises, and make it more difficult for them to remain viable. This has the possible result of increasing the number of closures of small and medium enterprises that have not yet recovered from the global downturn. This comes at a time when liquidations are still at an unacceptably high level, an indication that the country has not recovered from the recent global downturn.

Ease of doing business

A report from a World Bank team working with the South African Department of Trade and Industry found that South Africa could improve its productivity and competitiveness by increasing the market share of efficient producers[8]. The reporting team clearly understands that doing this might have an anti-competitive outcome because its authors add that "given the high concentration of South African industry, this requires further efforts to enhance competition through more activist and innovative policies". The report also calls for investments in employee training in small and medium enterprises to be increased with better targeted government support, and also thinks that South Africa could do more to improve access to finance by micro and small enterprises and support productive informal enterprises. According to the report, South Africa's business environment compares favourably to its peer group of upper-middle-income economies globally.

Environment

One-half of South Africa's electricity generation could come from renewable energy sources by 2030, the World Wide Fund for Nature (WWF) said in a report[9]. The report said that reaching the 50 per cent renewable energy target by 2030 was distinctly feasible, despite the South Africa's heavy reliance on coal to produce electricity, and added that it was necessary to ensure low-carbon reindustrialisation, which would be required under emission reduction commitments in the climate change arena. The report argued that South Africa had the potential to rapidly upscale its use of renewable energy, and with a combination of energy-efficiency measures, this would result in cheaper electricity over the medium-term.

The South African government is considering a carbon dioxide (CO2) vehicle emission tax on old vehicles as well, according to the Finance Minister[10]. He said that this would be

[8] "Grow market share of efficient firms: World Bank". www.busrep.co.za. 30 July 2010.
[9] "SA should target 50% renewable energy by 2030 – WWF". www.engineeringnews.co.za. 17 August 2010
[10] "CO2 tax possible on all cars, old and new : Gordhan". www.timeslive.co.za. 24 August 2010.

implemented by reviewing the approach to vehicle licence fees implemented by the provinces. As public transport was improved, higher fuel levies could also be imposed and "we can also demand better quality of fuel" than was available in South Africa at present. The Minister said that "all in all there is a place for all these mechanisms if we want to reduce the emission of greenhouse gases and ensure we leave our children with a better legacy when it comes to air quality and reducing the risks of climate change".

Legislation and Parliamentary Processes

1. **Rental housing amendment bill, 2010**
   The purpose is to amend the Rental Housing Act, 1999, so as to substitute certain definitions; to extend the application of Chapter 4 to all provinces; to require the MEC's and local authorities to establish Rental Housing Tribunals and Rental Housing Information Offices, respectively; to extend the powers of the Rental Housing Tribunals to rescind any of its rulings; and to provide for matters connected therewith.

2. **Announcement of Intention to Extend the Accreditation of the Services Sector Education and Training Authority (SSETA)**
   The South African Qualifications Authority (SAQA) hereby notifies the public that it intends to extend the accreditation of the Services Sector Education and Training Authority (SSETA) to include the Qualification listed below and the associated unit standards which are registered on the National Qualifications Framework.

SACCI's RETAIL SALES FORECAST

2010	**Actual Retail Sales** (R million)	**SACCI Retail Sales Forecast** (R million)	**% difference**
Jan	42 589	43 074	-1.14
Feb	41 585	42 521	-2.25
March	46 343	44 573	+3.82
April	43 697	44 975	-2.92
May	45 511	44 987	1.15
June	45 419	44 132	-2.83
July		44 641	
Aug		44 463	

During this year, actual retail sales data for January and February were below the SACCI forecasts, showing that consumers were still reluctant to spend against the backdrop of the global economic downturn of 2009. However, in March, actual retail sales data was higher than SACCI's forecast, showing an improvement in both consumer confidence and market sentiment for that month. Nevertheless, April saw retail sales dip once again to below the SACCI forecast level, hinting that although business and consumer confidence have both begun an upward trajectory, retail spending has still not begun to feel the true benefits thereof. Increasing domestic unemployment also contributed to the reduction in consumer spending. SACCI's retail sales index[11] predicted a 2,95 per cent month-on-month (m/m) percentage change increase for the month of May 2010. However, official retail sales data from Statistics South Africa for May 2010 beat expectations and showed an increase of 4,15 per cent (m/m).

[11] Note that the purpose of SACCI's retail sales index is not to predict the level of retail sales itself, but rather to better gauge current business conditions in South Africa.

The better-than-expected retail sales data can largely be attributed to the positive sentiment in May surrounding the Fifa 2010 Soccer World Cup (SWC) tournament.

SACCI's retail sales index forecasted that retail sales would fall slightly in June 2010 to approximately R44 132 (million) because this has been the historic pattern in South Africa. However, after taking into consideration the effects of the SWC, actual retail sales for June came in at R45 419 (million), which was higher than SACCI's forecast, but still below retail sales for the previous month. Activity is set to pick up during July 2010, and August should see another dip in retail sales. This volatility in retail spending patterns is primarily due to uncertainty regarding the pace of global economic recovery, with the domestic economy experiencing a slight lull after the SWC.

***Disclaimer**

The groupings in the first 2 tables are ordered to reflect the following zones: the first group is for the comparable economies to South Africa within the Africa/Middle-East zone, the second grouping is the BRIC countries (Brazil, Russia, India, and China) and Mexico, and the final grouping is our major trading partners. This structure was employed to facilitate comparison with our neighbours, with comparable emerging markets and against the economies which are most influential in terms of our imports and exports.
Data was sourced from The Economist, The Department of Trade and Industry, The Reserve Bank, Stats SA, ABSA Bank, Standard Bank and commodity exchanges in the USA such as Chicago Board of Trade and New York Mercantile exchange, the International Monetary Fund, the BPO, and the United Nations World Food and Agriculture Organisation, amongst others.