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The SA economy faces challenges, but liquidations are down

By Saijil Singh

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South Africa's projected GDP growth remains at 2.9 percent for 2012.However, this growth may not be sustainable because of the recent strike actions, especially in the mining industry.

The gross domestic product (GDP) in South Africa expanded by 3.2 percent in the second quarter of 2012, q/q (SAAR) from a previous 2.7 percent for Q1, 2012.Historically,from 1993 to 2012, the GDP growth rate averaged 3.3 percent, reaching an all-time high of 7.6 percent in December, 1994 and a record low of -6.3 percent in March, 2009.

South Africa has a two-tiered economy: one rivalling other developed countries and the other with only the most basic infrastructure. SA is, therefore, a productive and industrialised economy that exhibits many characteristics associated with developing countries, including a division of labour between formal and informal sectors and an uneven distribution of wealth and income.

Large-scale unemployment and inequality

It should be noted that it is difficult to compare GDP growth with other developing countries, because South Africa is more mature and doesn't have the growth potential associated with newly established economies. The economy is, however, not a developed economy because there is large-scale unemployment and inequality.

South Africa's economy accounts for 24 percent of the total African continent's GDP in terms of PPP, and is ranked as an upper-middle-income economy by the World Bank.

South Africa's current infrastructure is inadequate as a result of years of underinvestment. From a starting budget of R370 billion, announced in 2005, the government's multi-year infrastructure investment drive has ballooned to nearly R850 billion to be spent over the next three years and as much as R3.2 trillion to be invested over the next eight years. The government plans to achieve real growth of 10 to 15 percent per annum in investment spend.

A widening of the trade balance deficit

Import growth has resulted in a widening of the trade balance deficit. The deficit widened to R6.7 billion from R5.7 billion in June, showing a deficit for seven consecutive months. Exports and imports both increased in July by 2.9 percent and 4 percent (m/m), respectively, compared to June. On an annual basis, exports rose by 12.4 percent in June 2012 and imports by 16.2 percent, compared to June 2011.

The agricultural sector expanded from R18 billion in the first quarter to R31 billion in the second quarter of 2012. Further expansions are anticipated for the remainder of the year. Mining and quarrying have also seen a significant increase of 3.2 percent q/q (SAAR).

However, this trend is not sustainable due to the unrest at certain mines, causing reduced production. Manufacturing also decreased slightly by 1 percent over the first two quarters of 2012. This is attributed to lowered production in basic iron and steel, non-ferrous metal products, metal products and machinery.

In the year to date, we have seen a decrease in both the number of civil summonses and civil judgments decreasing by 7.7 percent and 9.5 percent year-on-year, respectively. Company and close corporation liquidations have also declined, with a 12.4 percent decrease in the first seven months of 2012 compared to the same period in 2011.

Decrease in the number of insolvencies

With South Africa still using sole proprietorships as a choice of business, we have also seen a decrease in the number of insolvencies, down by 16 percent year-on-year. We expect this trend in civil judgments, liquidations and insolvencies to continue decreasing in the coming months. But considering the slowdown of the global markets, this trend may be erratic in the near future.

The unemployment rate was 24.9 percent for the second quarter of 2012, down from the first quarter at 25.2 percent. In the last 10 years, unemployment has ranged from 21.9 percent to 31.2 percent. However, the government has identified that the unemployment rate is a major issue, especially with the younger generations, and has set out a new growth strategy to reduce unemployment and create an additional five million jobs by the year 2020.

ABOUT THE AUTHOR

Saijil Singh is lead analyst of Coface South Africa.