

Macroeconomic analysis of south africa



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Introduction

The financial crisis, in fact, affects the global world since 2008. There is high inflation, increasing unemployment rate, low export, decreasing GDP and so on. In every country as well as in South Africa that also faces the macroeconomic problems, representing by the falling of the output, high inflation, and the microeconomic problems also affect to the economic market.

Therefore, the objective of this report is to analyze and focus on the macroeconomic environment and formulate a strategy in responding to the Economic crisis in South Africa. The reason to know and analyze the macroeconomic in a country is, because the microeconomic, institutional changes are unlikely to be implemented if the economy is in a state of macroeconomic chaos-plummeting widespread unemployment and hyperinflation. Macroeconomic stabilization must and can precede the more fundamental microeconomic, institutional transformation.

Macroeconomics in terms of business is dealing with the performance, structure and the behavior of national or regional economy as a whole. It is also a study about GDP, unemployment rates, national income, output, inflation, savings, investment, international trade and economic growth.

Macroeconomic Background

South Africa

Located in base of the continent of Africa, South Africa is a diverse nation with an appealing mix of people, culture, faith and languages. Despite the people, South Africa's physical state also has its own distinctive features. It

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has its own unique geological formations that aids in producing the mountains, plains and coasts. South Africa also has large amount of fertile land. Furthermore, a more extraordinary feature about South Africa is that it is home to the rarest species of wildlife and plant life.

The nation has a total area of 1, 127 200 square kilometers and it is divided in four provinces, which are the Cape Province, the Transvaal, the Orange Free State and Natal.

Being located in a subtropical area, South African generally enjoys warm weather all year round. Naturally, being located in Southern Hemisphere, winter is experienced during June and summer is experienced in December.

Demographic

South Africa has a population of 49 billion people (2009). It has particular demographic due to the heterogeneity in population base, apartheid, ethnic groups and emigration

Table: Population % (Wikipedia, 2010)

Basically the black people they're the ethnic group like Zulu, Xhosa as well as immigrant form the other parts of Africa (mostly from Nigeria and Zimbabwe). The whites they're the descendants of French, British or German settlers whom arrived to Cape Town from the late of 17th century. Some of them are from immigrants from Europe and Portuguese colonies left over. Coloureds are the descendants of earliest settlers, their slaves and indigenous people. The last part of racial population can be counted as Indian or Asian (Chinese)

Table: Age structure % (Wikipedia, 2010)

The average total fertility rate from 2001s to 2009s is 2.41 children born per woman. So that's why each family in South Africa usually has more than 2 children

In the country they have around 11 official languages, the most spoken language of black people is 30.1% speak Zulu, 22.3% speak Xhosa while most the white residents speak Afrikaans at home (59.1%), 39.3 speak English... (Wikipedia, Demographics of South Africa, 2010)

Political situation

South Africa has multi-party system where the President Jacob Zuma is the head of government and the parliament. The African National Congress is the ruling party in the national legislature, which received 65.9% of the votes during the 2009 general elections and has 74.25% of total seats in the parliament. Democratic Alliance is the second major party that received only 16.66% of the votes and has 11.75% of total seats. All the other parties represent less than 20%. From this huge gap between the ruling party and the democrats' we can see that political situation is stable and will stay like that in near future. (Parliament monitoring group 2009); (Number of Political Party Seats: National Assembly – May 2009 | Parliamentary Monitoring Group | Parliament of South Africa monitored)

Laws & regulations

South Africa has progressive legal framework. The legal system is based on Roman-Dutch law and English common law. Commerce and labour legislation is well developed while laws relating to competition policy, copyright,

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patents, trademarks and disputes conform to international norms and conventions. South African commercial laws and company laws are similar to the laws of the United Kingdom. Sanctity of contract is protected under common law, and independent courts ensure respect for commercial rights and obligations. The independence of the judiciary is guaranteed by the Constitution.

South Africa's financial systems are sophisticated, robust and well regulated. Banking regulations rank with the best in the world, while the sector has long been rated among the top 10 globally. Foreign banks are well represented and electronic banking facilities are extensive. (South Africa info 2008); (South Africa: open for business – SouthAfrica. info)

South Africa's economy

South Africa is one of the most stable economies in the African continent. It's a middle-income country, emerging market with rich supply of natural resources. The country has fully developed infrastructure supporting efficient distribution of goods throughout the southern African region, with well-developed financial, legal, energy, communications, a stock exchange ranked among the top 20 in the world. The primary sector, based on manufacturing, services, mining, and agriculture is well developed.

Economic growth was strong from 2004 to 2008 due to macroeconomic stability and a global commodities boom. Because of world financial crisis in the second half of 2008 economy began to slow down. GDP was growing 5.1 % in 2007 and 3.1 % in 2008. In 2009 it fell nearly 2 %. Unemployment is high (24 % in 2009). Daunting economic problems remain like poverty (47 %

in 2009 below poverty line), lack of economic empowerment among the disadvantaged groups. South African economic policies, which are focused on controlling inflation and attaining budget surplus, are efficient. Inflation rate in 2009 was 7.2%. To welcome the foreign investment in South Africa, the government has made it clearly by investor-friendly policies. Corporate tax is 29%. VAT on hotels and retirement hostels are charged at 8.4%.

South Africa has a huge potential as an investment destination, offering the first world developed infrastructure with a vital emerging market economy. It is also one of the most advanced and useful economies in Africa. (CIA World Factbook 2010); (CIA – The World Factbook — South Africa)

Monetary Policy and Exchange Rate

Monetary policy can be defined as the measures taken by the monetary authorities to influence the quantity of money or the rate of interest with a view to achieving stable prices, full employment and economic growth. The South African Reserve Bank conducts monetary policy in South Africa. (About SA – Economy, 2009)

Exchange rate: Rand (ZAR) per US dollar – in 2009 (8.54), in 2008 (7.95); (About SA – Economy, 2009)

As we know the macroeconomic discussion focuses on monetary policies in the country. And any decision of the government can affect the business-cycle changes in output, inflation, exchange rate or employment.

South Africa emerged out of a recession in Q3 2009. A pick up in capital inflows and support from expansionary monetary and fiscal policy is

contributing towards its recovery: (Euromonitor's Economic Review of Emerging Market Economies: January 2010)

A rebound in the manufacturing sector and increased government spending on the construction of roads, railways and infrastructure for the 2010 World Cup helped stimulate growth. The manufacturing sector, which accounts for 15 % of GDP expanded by 7. 6% over the previous quarter in Q3 2009;

The South African rand appreciated to R7. 48 per US\$ in December 2009 from R9. 97 per US\$ in the same month of 2008, suggesting a gain of 25. 0% in 2009. It has been one of the best performing emerging market currencies in 2009 attracting capital inflows due to rising liquidity and commodity prices. Nonetheless, this limits the recovery process as a stronger rand weakens exports. So far, the government has not intervened in the foreign currency markets to help curb the unprecedented rise in the rand;

In November 2009, the annual rate of inflation eased for the ninth consecutive month to 5. 8%, below the central bank's target rate of 3. 0-6. 0% for 2009. The South African Reserve Bank is likely to keep its key interest rate (repo rate) unchanged at 7. 0% in the beginning of 2010, despite calls from labour unions for an interest rate cut.

Unemployment problem

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(South Africa – Country Profile – 2010, December)

Year

Unemployment rate

Rank

Percent Change

Date of Information

2003

37.00 %

18

2001 est.

2004

31.00 %

24

-16.22 %

2003 est.

2005

26.20 %

161

-15.48 %

2004 est.

2006

26.60 %

168

1.53 %

2005 est.

2007

25.50 %

172

-4.14 %

2006 est.

2008

24.30 %

169

-4.71 %

2007 est.

2009

22.90 %

170

-5.76 %

2008 est.

2010

24.00 %

171

4.80 %

2009 est.

(South Africa – Country Profile – 2010, December)

The unemployment rate was 24% (2009 est.) and was highest among 15 to 24 year old, at 48.4 percent, and lowest among 55 to 64 years old, at 6.8 percent. Of South Africa's estimated 49.3-million people, around 31-million people are between 15 and 24 years old. Today, the government gives some change for SA's unemployed who don't have education by create the training of unemployed project that aims to minimize the negative effects of the recession. The project trains people as electricians, boiler-markers, welders and mechanics, so when they are trained and easy to get the job and facing with the world with confidence.

Inflation

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Market structure

Automotive industry

The country is one of the best performing automobile market in the world. In 2006, it brought around R118 billion of increasing to sales. In 2007, vehicle exports were about 170 thousand unit sales which were expected to jump up to 285 thousand in 2008. The vehicle market had a huge development when comparing to year 1997, the unit exported only 20 thousands. The sector is about 10% in account of manufacturing exports, 7.5% of contribution in GDP with the employment of around 36 thousand people. The government aims to increase the vehicle production to 1.2 million units by 2020 because of the definition of the automotive industry is a key growth sector

Many of multinational companies such as Ford, Toyota, GM...use South Africa as source components and assemble vehicles for both the local and overseas markets. From 2000 to 2006, the investment in production and export infrastructure was multiplied by four, which was R1.5-billion to R6.2-billion. An R4-billion in investment was expected in 2008. Most of the investment came from foreign where the parent companies wanted to expend the local operations to improve product capacity, support export and infrastructure (Big Media Publishers, South Africa's automotive industry, 2008)

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Table: Automotive revenue (Big Media Publishers, 2008)

Mining and mineral resources

South Africa is well-known in the world by its wealthy in mineral resources. The wealthy of the country has been built on the country's vast resources.

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There are various kinds such as: Platinum, Chrome (which the quality is the 1st in the world), Gold (1st largest producer), Diamond (4th largest producer) ...but only crude oil and bauxite is those that the country doesn't have.

Mining was an industry that contributed 21% total exports of goods in 2006

Gold was once the keystone of South Africa but it has been diminished in importance due to economy's diversity. From 1970s to 1980s, the exports of gold were the predominant source of country foreign exchange earnings which made up a 14% of total value added in economy. In the year of 2007, this shifted to 5.8% contribution to country GDP of mining and quarrying.

The mining industry is South African biggest employer. It attracts more than 860 thousand employees of labor force

Currently, more than 70% of mining industry's labor force is black. Opposite of that number, it's just only less than 5% of managerial positions belongs to black people. The mining sector's key issue is transformation. The target has been set by the government that an expect of 40% managerial positions would be held by South Africans in all mining companies (Big Media Publishers, 2008)

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Table: Mineral resources (Big Media Publishers, 2008)

Agriculture

South African agriculture isn't dominated by subsistent farming. In fact, it has both well developed commercial farming which is predominant and more subsistent influenced in deep areas. The country has more than enough

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output to export massive amounts of agricultural produce. Because of the variousness of climates, there are good conditions (such as mix farming in winter rain fall and in summer rain fall) for growing different crop production in South Africa. The diversity in climate, which is tropical, sub tropical and desert allows diversity in products either. South Africa also has advantages in marine resources which is 3000km of coastline that is appreciated to develop mariculture and aquaculture. The main agriculture export production can be listed as: maize (some southern African countries rely on this import), wine (South Africa is the 5th largest producer worldwide), fruits (grapes, pears, peaches...), livestock farming (sheep, cattle...)

Agricultural contribution represents less than 4% of GDP but 10% of total reported employment in accounts while farming is 8% of country's total exports. The key agricultural trading partners of South Africa are America and some countries in EU. They gain the benefit from the market by exporting through number of trade agreements. The agriculture sector is highly protected and evolved to government's control. In 1996, the Marketing of Agricultural Products Act they closed agricultural marketing boards, eliminated subsidies and set the import tariffs to protect South African farming from unfair international competition. So the South African farmers and agribusiness could be placed themselves as players in a globally competitive environment. Nowadays there are still some factors that even though the government has tried to implement, these couldn't bring any efforts to the rest of the economy. For examples: most of indigenous people are subsistence farmers, subsidies from other developed countries, climate

change...are reducing sector growth (Big Media Publishers, South African agriculture, 2008) (Wikipedia, 2010)

Infrastructure

Energy infrastructure

Among the countries that have the lowest cost of electricity, however South Africa has to face its problem of the demand for power outstripping supply. The economy grows strongly, a lot of rapid industrialization development, the electrification programme is being mass led and distinct lack of investment are all the issues which cause the power supply crisis in South Africa. As a result, the state energy company Eskom and the government has come up with a projected ZAR 343 billions over five years to fund new power stations for energy increasing such as nuclear and electricity storage. Eskom also aims to reduce the demand of electricity by 3 000 megawatts in 2012 and 5 000 megawatts more in 2025

Table: Energy Overview (Big Media Publishers, 2008)

There are some thought about using natural energy as wind or solar. Despite South African sunny weather, the ideas haven't really taken off and there are some concerns that the country somehow isn't appreciated with the wind energy. Energy contributes an amount of 15% country GDP. The country is 11st country in the world that has highest commercial primary energy intensities due to its large scale economy structure, mining industries and some benefit based on minerals activities which push the usage of energy above average (Big Media Publishers, South Africa's energy supply, 2008)

Source: EIA

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Transportation

The transport network has been identified and highlighted as a competitive advantage in global market. The road system in South Africa has a total of 754 thousand km in which 9. 6 thousand km is national road. 2. 4 thousand km are toll roads. However the road infrastructure needs to be constructed due to overloading of heavy vehicles and volumes increasing of road freight vehicles. It has approximately 95% of country trading business are done by passing through the sea as well as the traffic from others countries like Europe, Asia, America and even Africa itself. The railway system is also one of the main transportation which is 10th longest in the world. It connects all the parts in the country together so it can be used for transporting goods or even tourism. The airline industry carries about 33 million passengers a year. There are a lot of airports such as Johannesburg, Cape Town, Durban which are the 3 main international airport and the others at South Africa (ArriveAlive, 2010) (Publishers, 2008)

Technology sector

Technology sector is well developed with modern manufacturing sectors like machinery, scientific equipment and motor vehicles. South Africa has strong technological research centers. South Africa has developed a number of leading technologies, principally in the fields of energy and fuels, steel production, mining, and telecommunications. There is all necessary technology for hospitality industry. (South Africa info 2008)

Tourism in South Africa

South Africa's major attractions for tourists are mainly involved with nature. They are the large variety of game parks, nature parks and a magnificent

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scenic diversity of landscape varying from desert plains blooming with spring flowers to mountains overlooking vineyards, valleys and large farmlands, tribal communities and modern cities.

The country's coastline, which represents many names to our world today, such as; Africa's southern most coastline and the base of the large continent, is 3000km long. This 3000km long coastline is nothing but serene sandy beaches with charismatic seaside resorts scattered along. Some of these locations are famous beaches and surfing areas. For animal lovers, there are other attractions that are available. For example, in Pretoria there are various botanical gardens, bird sanctuaries, aquariums and zoo. The National Zoological Gardens in Pretoria is ranked to be the top ten zoos in the world. Some examples of daytime activities are coach tours, ocean cruises, museums, art galleries and a wide range of sports. Other famous attractions in South Africa are the wines produced. South African wines are categorized under New World Wines. These wines are famous all over the world. South Africa is the world's most known hunting destination. It offers hunting at large land areas that are protected under legislative laws and hunters can find many rare species. Hunting seasons are usually between May to July. And the Professional Hunter's

Other outdoors activities for tourists that are famous in South Africa are canoeing, river rafting, safaris, wilderness trails and rambling. Hiking as well has a rising popularity as the National Hiking Way has been developed and improved.

All activities mentioned are easily accessible by the generally good infrastructure in South Africa. Overall, most tourist attractions in South Africa are not for the faint hearted and for nature lovers.

According to some reports, international travel to South Africa has increased, in 1994 the year South Africa's first democratic elections, only 3.9 million foreign tourists to the country. By 2004, the international visitors have more than doubled to 6.7 million. And in 2007 the total number of 9.07 million foreigners visited South Africa- 8.3% increase compared to 2006- as the country broke its annual tourist arrivals record for the third year running. In South Africa, nowadays, Cape Town has become an important retail and tourism centre, and attracts the largest number of foreign visitors come here for their holidays. (South Africa's tourism industry – SouthAfrica. info)

International tourist arrivals (in millions)

International tourist arrivals in South Africa

(Source: Department of Tourism); (South Africa's tourism industry – SouthAfrica. info)

Tourism is also one of the fastest growing sectors of economy in South Africa, and it contributed to the Gross Domestic Product (GDP) of country increasing from 4.6% in 1993 to 8.3% in 2006.

Tax system

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Table: Paying taxes (IFC, 2010)

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SWOT analysis

Strength

South Africa has a world class infrastructure as their competitive input, like 3 deep water ports, 3 international airports, a network of roads and high ways, well developed cold chain facilities and a sophisticated financial sector.

These infrastructures are even comparable to first world developed countries and its cost is favourable (the cost of electricity is still remain inexpensive and competitive in labour rates as well) (Big Media Publishers, South African agriculture, 2008)

The free trade agreement and high technology, high infrastructure offering are the key values for international investment from America and European Union

The strength includes the mineral resources as well as South Africa is considered as a major mining country. It's the world largest producer and exporter of gold and platinum. They also have a high level of technology (such as a ground-breaking process that converts low-grade superfine iron ore into high-quality iron units) and production expertise (the raw materials such as iron, carbon steel...were added more values before exporting) which make mining industry is one of the key sectors of the country

Weakness

South Africa has a high ratio of unemployment which is from 30% - 40%. The education of the labour force is still very low, especially black people. A result showed us that just 22% of Black Africans have completed high school.

When we do comparison, it has difference amount of 70. 7% of Whites have completed high school

More than 5. 7 million South Africans are infected with HIV in which 350 thousand have already died of Aids with millions of South Africans have been victims of violent crime

Opportunities

The FIFA World Cup 2010 will be held at South Africa this summer so this will be not only the opportunities for the South Africa itself to increase their international images and reputations. It's a good change to advertise and promote the values of the country so it'll attract more investment and partnership from foreign and internal either. For the FIFA World Cup 2010, South Africa has a plan to include a Bus Rapid Transit system which will promote the use of public transportation between host cities as Cape Town, Durban with other cities. They also received an amount of R9 billion investments and an incentive from FIFA to improve the infrastructure in the nine host cities due to the expected massive visitors. It means a lot of upgrades to country's airports and general transportation including taxi system, passenger trail and bus (Osec, 2010)

Threat

Because South Africa is an export led economy, it's very easy to be influenced by global demand. The depreciation in price of commodities which go deeper to very low levels could be resulted to job losses

The power supply crisis leads to needs of diversity in energy mix including natural gas, nuclear power and various forms of renewable energy as well.

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The indigenous source of energy is coal which use to produce electricity and it's one of the causes of greenhouse gases. The activity to increase electricity by using coal can pollute the environment and it requires the government have to have plans to prevent global warming

The roads system needs to be constructed because of massive traffic and transportation. An official report said that it would be cost around R65 billion for urgent repair. Otherwise the cost for a year due to overloading will be surpassed R650 million in destruction to roads (Osec, 2010)

Future development

When South Africa decides to invest into other countries of Africa, they are helping to diversify African economies and reduce the dependent on primary sector industries. South Africa doesn't focus only on oil and gas, but they concentrate about telecommunicating, banking service, mining also. They enter the African market, but creating them as well by building infrastructure, transferring technology and knowledge, encouraging the foreign country to enforce laws and strengthen democratic institutions. For examples: South Africa exported to the rest of Africa a R43 billion worthy, most of involved import related to oil from Nigeria which was R5 billion. That number show an imbalance in South African goods and services with African consumers. The country's companies also try to integrate themselves with the local economies by hiring local staff or buying materials from local procedures. In return, South Africa received the favour by investment from the other African countries which is good for South African own domestic economy. That's why South African engine is very important for economic development across the African continent (Leon, 2004)

In 2009, the government spent a total amount of R787 billion on public infrastructures over the next 3 years which would push the country's budget deficit to 3.8% of GDP in 2009. They explained that it was necessary to borrow the funds to finance planned public infrastructure projects due to the decreased demand for South African commodities and lower output. In the R787 billion:

R390 billion would be spent on state owned enterprises

R25 billion for Rail Computer Corporation

R12 billion for the Bus Rapid Transit system

R1.6 billion South African Airways

Conclusion

After we analyzed the economy of South Africa and predict the future of the country, we realize that South Africa has potential to invest money in this country which can create profit for us as entrepreneurs as well as for the country's economy. South Africa has many strong sectors but we decide to invest our money in health care sector which is currently not strong in this country. We believe this is the right decision which will bring to us return on investment and profit for the future.