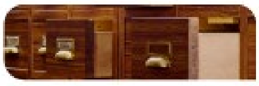
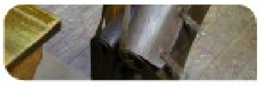
how can we help you?

Services for your School

Services for your Teaching Staff



Services for your Non-Teaching Staff



Services for your Learners

An Economic Look Into 2012

You invest your time and knowledge into educating the future of our country, and to better help you plan the future of your school, FNB would like to offer you some expert opinions on the economic outlook for 2012.

In order to look forward into 2012, we first have to look at past trends and their impact on the current global economic crisis.

The South African economic growth has about a 95% correlation to global GDP growth, so what ever happens in the world happens here and it is essential to understand what the risks are globally and the implications for South Africa.

The Global Big Picture

The world economy has been characterized by serial balance sheet contamination. To explain, foreign households in advanced economies had over-extended themselves, and when the house prices fell their assets became lower than their liabilities – so their balance sheet became contaminated. Then the trouble that advanced economy households got into led to trouble with the banks they borrowed money from, and the combination of that led to the credit crisis and the great recession. The government then mopped up all these rotten assets from the private sector and put them on their balance sheet, which led to government debt and contamination of the government's balance sheet.

The massive increase in government debt level in advanced economies is a legacy of the credit crises, but this was necessary to prevent the recession from being worse than it could have been, even though we're now left with acute government debt in countries like Greece for example.

Greece government debt is about 142% of the GDP, which is the output or income of a country. So if you take the government debt and divide it by the income, the debt is 42% bigger than their GDP. (Imagine your school's debt being 42% more than your income!)

Nominal Greek GDP is growing by about 0.6%. If Greece was to borrow money, they would be borrowing at around 16% in terms of interest rates and that would make it a Ponzi scheme. So if this situation continues you'll never close the gap, it just becomes larger, thus making the country insolvent. Investors look at the situation and don't want to invest there, and it's a similar story in Ireland, Italy and Portugal.

The second problem is that if you let these countries default on their loans, the banks would have to write off their loans, which would be like the disastrous Lehman Brothers collapse all over again. All attempts by the IMF and the Euro Zone governments have been insufficient to convince the market that they are solving the problem in a sustainable manner.

Global growth is also slowing down, for example the US was expected to grow in the second quarter by 3% but only grew by 1.3%. There were problems in terms of Japanese growth because of the devastating Japanese earthquakes, the Euro Zone (even with healthier countries like Germany) has not seen good growth and the UK's growth was also disappointing.

So in a nutshell that's what happened and what's causing all the financial market volatility.

Implications for South Africa

We have a 10% interest rate while the countries we've just spoken about have interest rates close to 0%. So it pays for people to borrow money from overseas and come and invest it here. There have been huge inflows into South Africa searching for higher yields here and this led to a strong rand. Which in turn meant that whatever we imported was cheaper. This tends to keep inflation low, which leads to low interest rates.

Coupled with that is the fact that we've had very strong wage growth last year, due to union pressure. This meant that household disposable income in South Africa was increasing. And this led to increasing consumer confidence, which laid the foundation for a very strong household consumption led recovery in the South African economy. Our recovery from the recession is pretty much been driven by household consumption because of the above factors.

The problem is that the growth is starting to slow down. There was very strong growth in the second half of last year, and into the first quarter of this year. But now, in the second quarter, from April to June, it's loosing momentum in industries such as retail sales, mining and manufacturing production and car sales. This was due to industrial action, the negative impact on supply chains of the Japanese earthquake and wage growth that has been lower this year, despite the union wage demands, the actual increases have ranged between 7 to 8%.

In terms of business confidence, companies have massive amounts of cash on their balance sheets but are not investing because of the lack of confidence and uncertainty...

So those are the constraints but fundamentally the world has been very supportive of the South African economy going buy of foreign portfolio inflows coming into the country – The strong portfolio inflows , have for a long time supported the rand, keeping inflation low and the interest rates low underpinning household consumption.

There has also been an underperformance in exports due to the strong rand and the competiveness in the market. In order to be competitive against trade partners we need productive labour, and the productivity must match the wage growth, which tends to be a problem in South Africa. There is also insufficient infrastructure, which leads to capacity constraints, for example: South Africa produces more coal than what can actually be exported because the rail capacity in insufficient. Electricity is also an example of insufficient infrastructure. Our logistics chain is also very expensive and all of this makes us less competitive and constrains our GDP growth.

The South African economy tends to do well when international conditions are supportive but underperforms when the world economy slows. What is required for faster, more sustainable and labour absorbing growth are the micro economic reform that will improve our education systems and infrastructure; so that we can build the productive base of the economy and furthermore make ourselves more competitive in the long term.

The Importance of Education in the Economy

In the long term South Africa needs to compete in the high value add industries. . We don't have the numbers to compete with the India's and China's in low cost volume based production, but being competitive higher up the value chain requires a well educated labour force.

These skills are insufficient in SA at present and that’s why improving education is so important. .

Education also tends to enhance productivity, and productivity is what ultimately drives economic growth - that’s the bottom line. The better the output per worker you can get, the higher your value add is as an economy, the higher your growth is, and the more prosperous a country becomes.

Another worrying trend is that of the negative impact of technology on low skilled labour. Globally, he increasing use of technology in business and the switch from manual to electronic platforms is causing unemployment among the unskilled labour force to rise while at the same time creating opportunities that skilled can take advantage off. It is becoming increasingly clear that the technology driven future will belong to the skilled and innovative which requires education.

Education can play a huge role in moving South Africa up the value chain to where we need to be in terms of sustainable productivity. We need to pitch ourselves as a high value add nation, for which we will need good education. The kind of education schools like yours provides.