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The Global Economic Meltdown & Influence on Construction and Building Industry in South Africa Dr Iraj Abedian

Presented on 11 November 2008 at the incorporation of the De Villiers Partnership into the BIGEN AFRICA team

Global Financial & Economic Crises

- Global financial crisis is spilling over to economic problems.
- All parts of the world is adversely affected, but not to the same measure.
- Unless the G20 can carve out a well-coordinated package of monetary and fiscal solutions, the prospects for the global economy remains fairly bleak.
- If a global recession sets in, it will be “long and deep” with huge social ramifications over the next decade.
- The root-cause of the problem is a simultaneous failure of “markets” and “the State”.
- Rising global gap between the “haves” and the ‘have-nots” is a real threat to social stability
- No single country can deal with the problem alone!
- Even if the right mix of policies are adopted, it is a decade-long turn around for the global economy.
- Unless international value attrition is stopped, any solution is likely to be short-lived.
- The effect on construction/building sector will be mixed.

Global Financial Crisis & South Africa

- ❖ South Africa’s banks are safe for now from the global financial crisis
e.g. healthy balance sheets with limited exposure to troubled markets (Old Mutual)
- ❖ Medium term effects are indirect and clearly unfavourable
 - Bad debt of the banking system is a concern
 - Volatility of the Rand is a major source of vulnerability

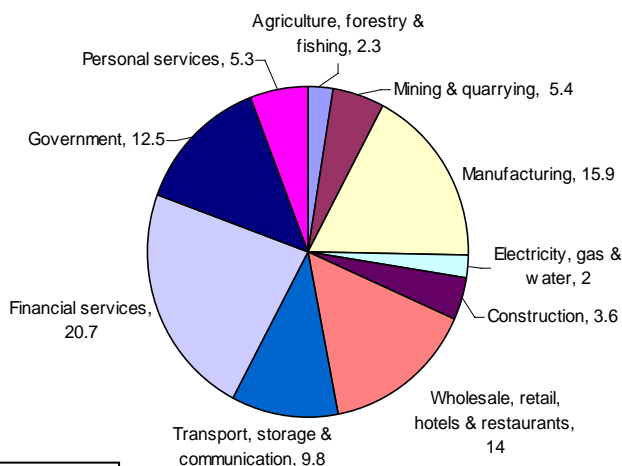
SA GDP: Battered, but Resilient

Growth has slowed down, and will fall further

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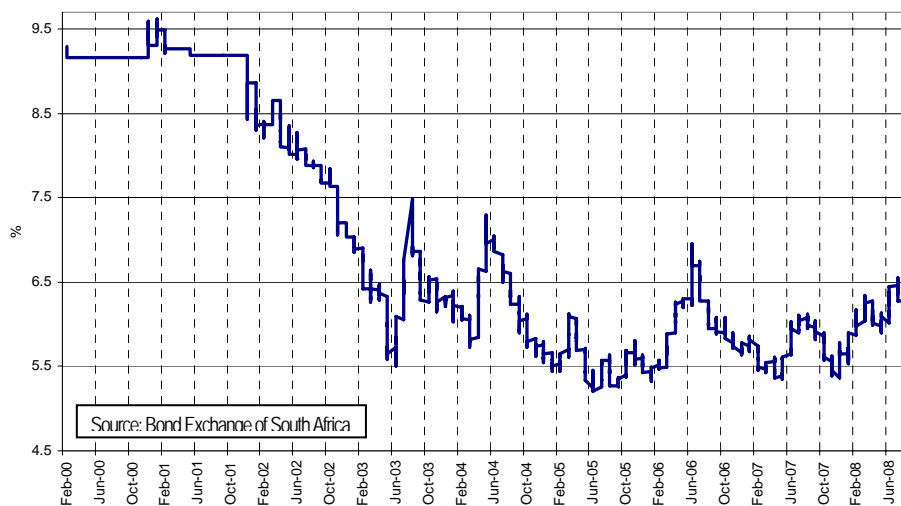
engineer'
(-nj-).*n.* **1.** One who designs and constructs military works, esp. a soldier so trained (ROYAL Engineers); (**civil**) ~, one who designs or maintains works of public utility (roads, bridges, canals, etc.); one who works in a branch of engineering, esp. as qualified professional (*chemical, electrical, mechanical, engineer*); maker of engines; person in charge of engine; *engine-driver. **2.** *v.i. & t.* Act as engineer, construct, manage (bridge, work, etc.) as engineer; (colloq.) contrive, bring about **3.** ~**ing** *n.*, application of science for control and use of power, esp. by means of machines.

GDP: a Diversified Portfolio



Source: SA Reserve Bank (2008Q2)

SA Sovereign Risk has Declined RSA 2017 (USD) Bond



Source: Bond Exchange of South Africa

Note: Concerns over the sovereign rating are serious, have cost

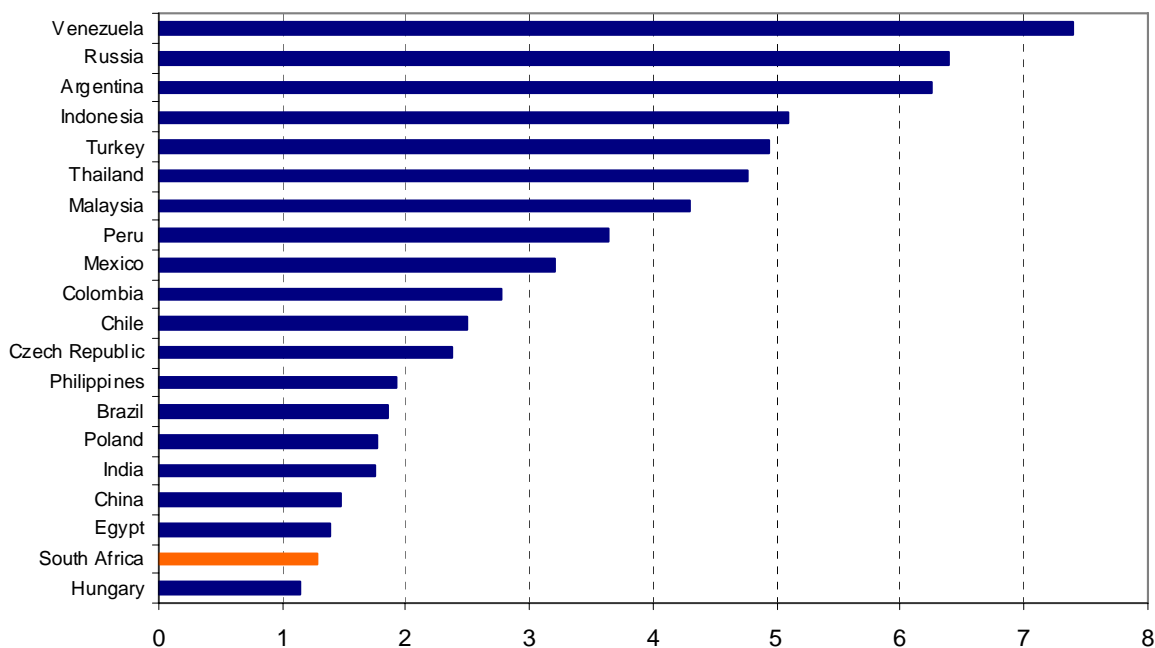


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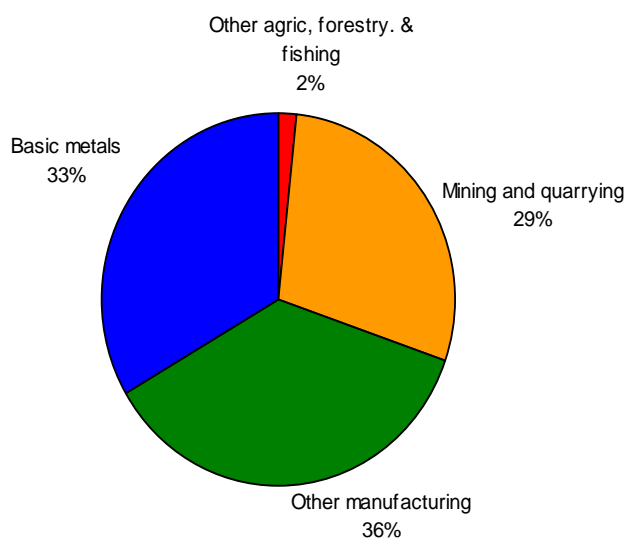
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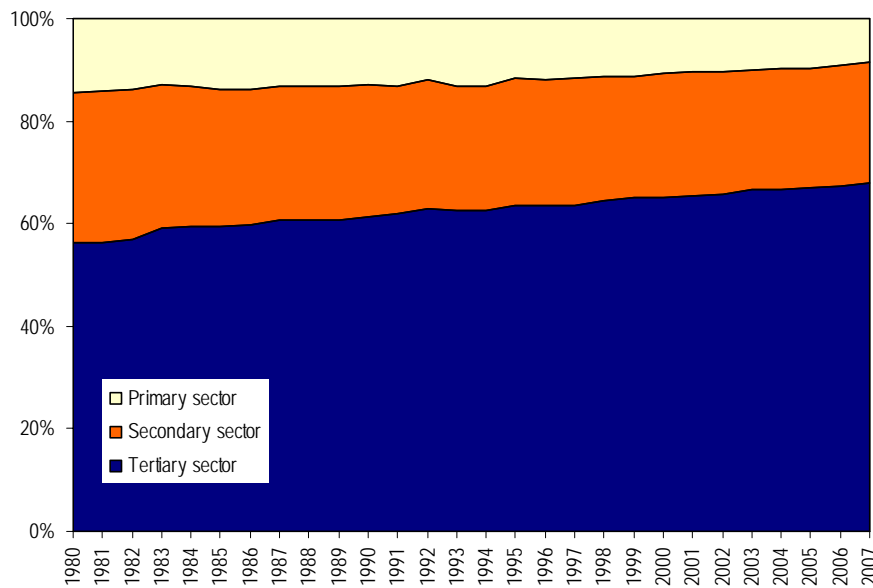
GDP: History of low growth volatility 1994 - 2007 Standard deviation



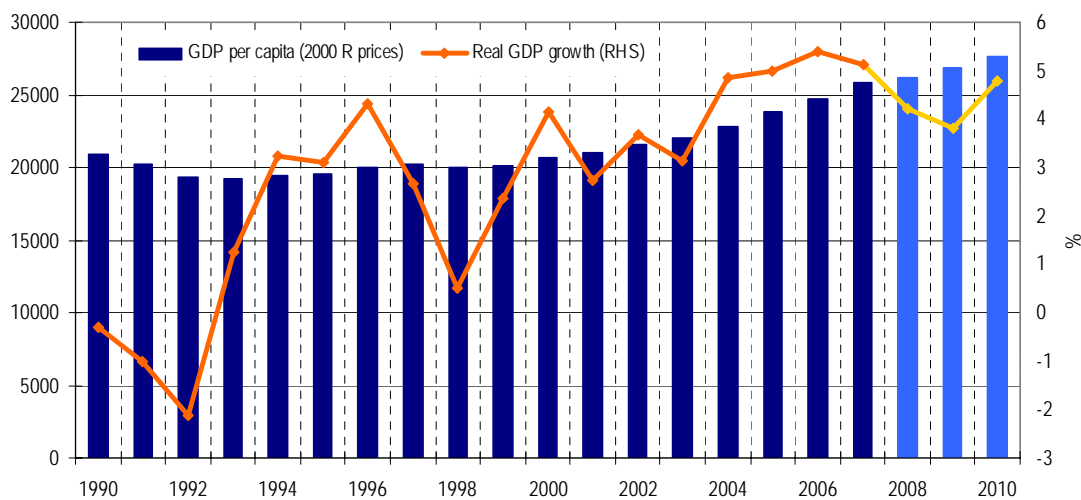
PPI composition for exported commodities



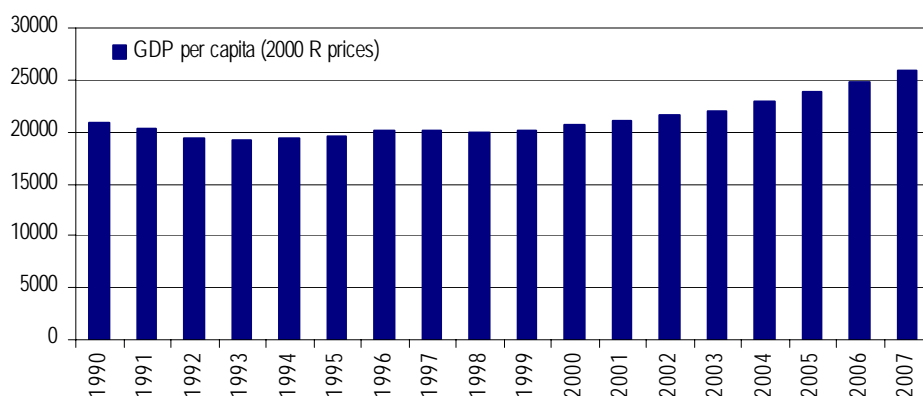
GDP: Relatively Immune to Commodity Price Reversal



GDP: Per Capita and Real Growth Prospects



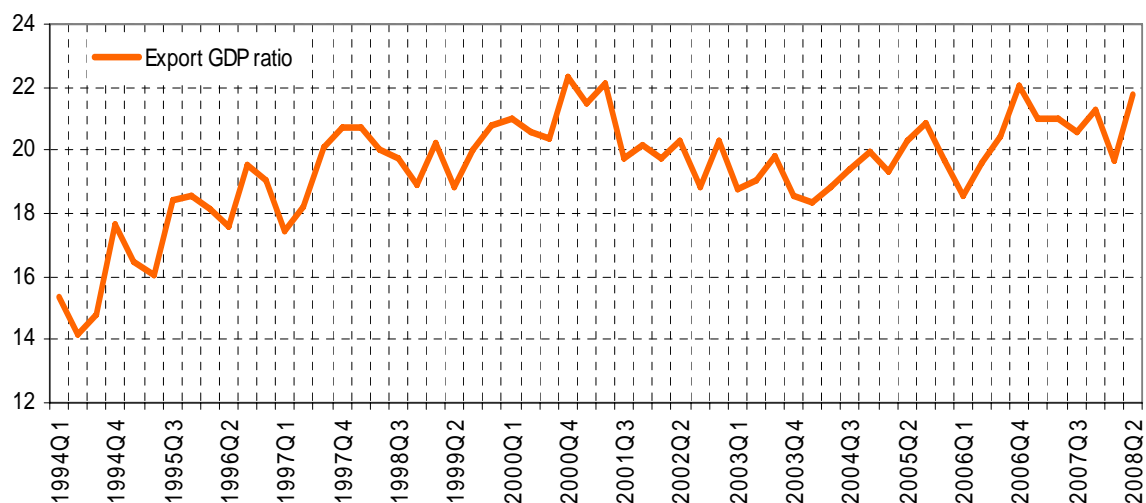
Rising Growth & Income Inequality: Positive and Negative Trends



Inequality Shifts by Race: Gini Coefficients for 1995 & 2005

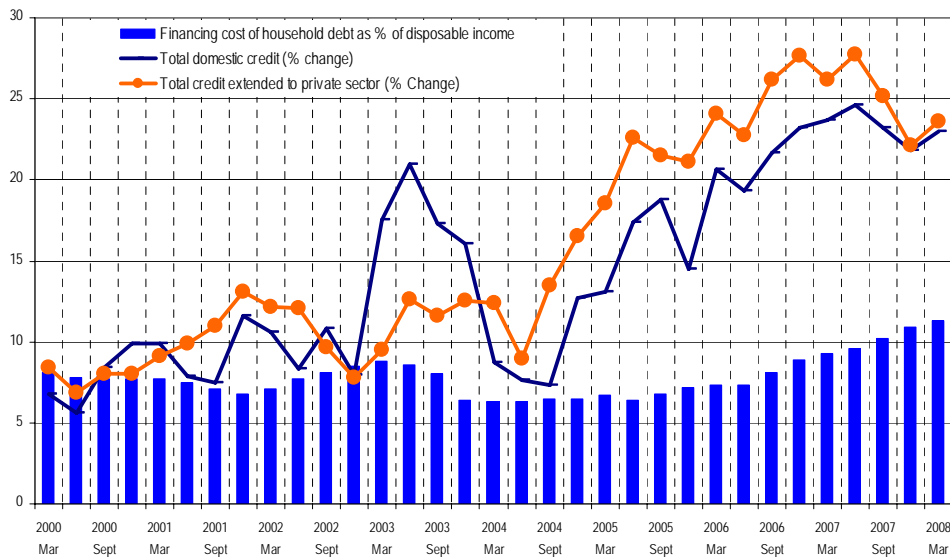
Category	1995	2005
African	0.55	0.56
Coloured	0.49	0.58
Asian	0.45	0.53
White	0.39	0.45
Total	0.64	0.69

Ratio of Real Merchandise exports to GDP

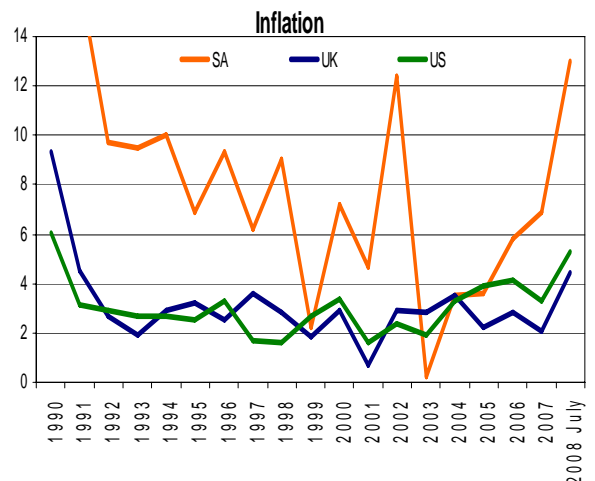
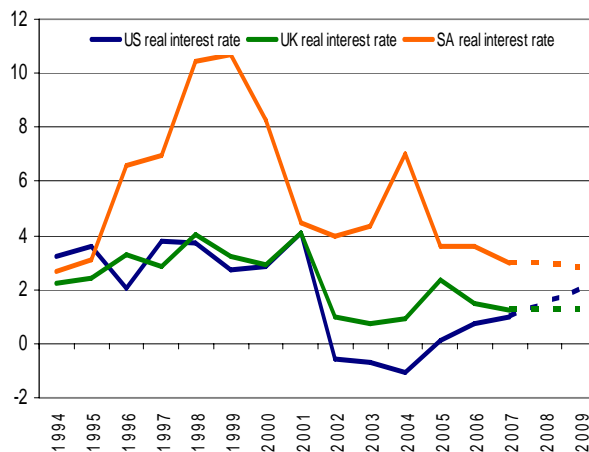


Financial & Fiscal Impact: Cyclical Pressures, Sound Platform

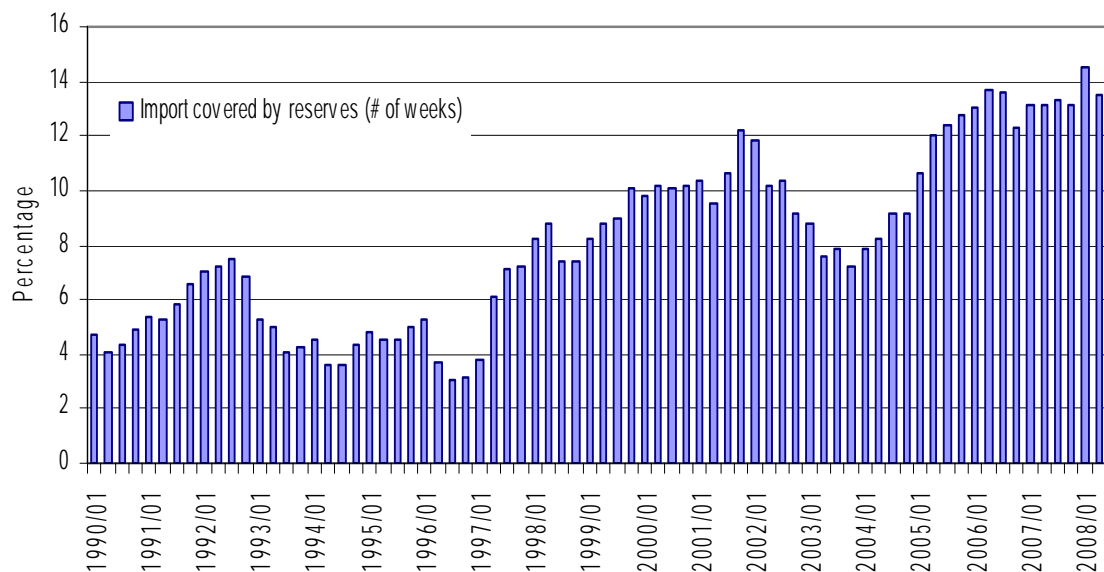
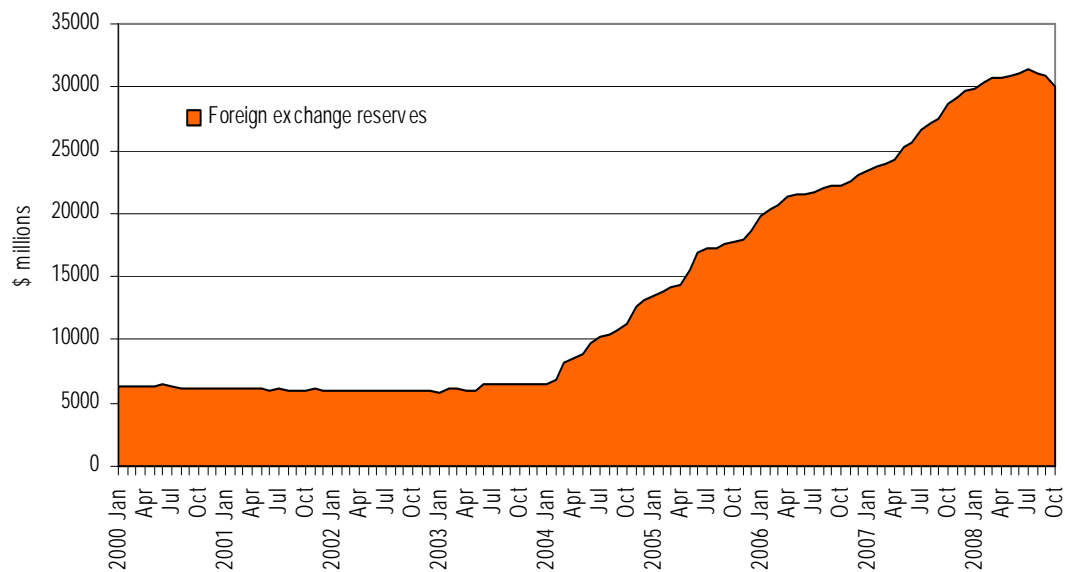
Household Debt Rising, but Manageable



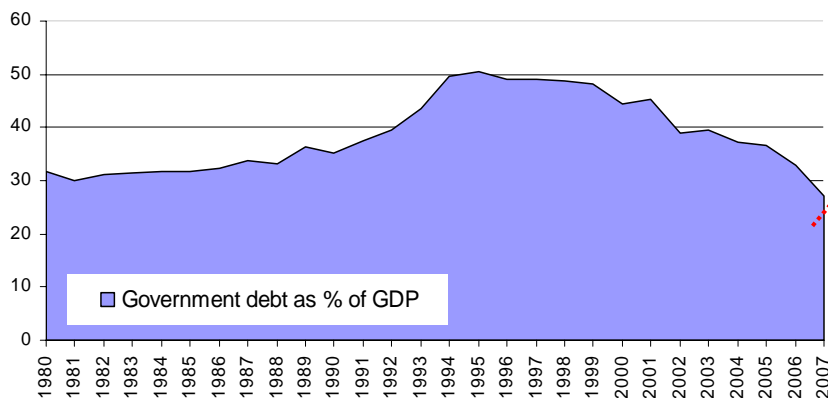
Financial: Real Interest Rates Differential Rising



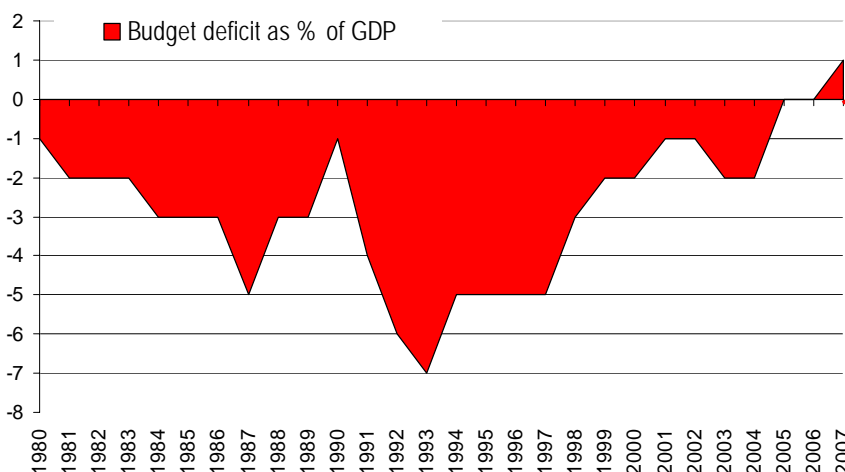
Forex reserves & import cover



Fiscal Status: Public Debt & Deficit low, but rising

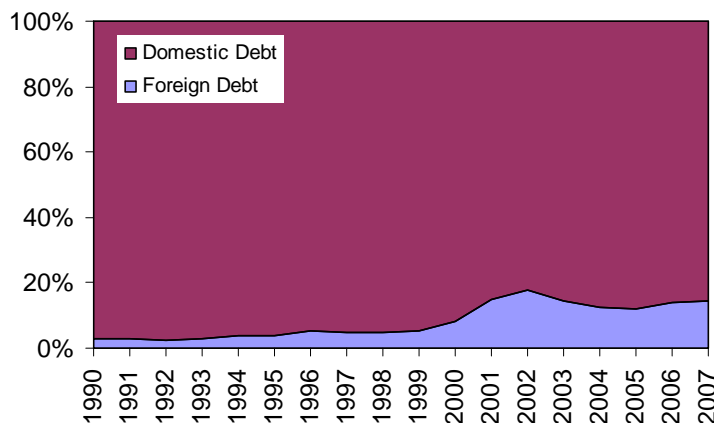


Government debt is unlikely to hold
2008 likely to see an upward trend



Budget deficit to worsen
From a surplus to a deficit

Fiscal Debt: Foreign Debt is Relatively Small



Note: Global borrowing is getting harder and more



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Impact on Construction & Building Sector:

Generally, a mixed picture

Effects on Construction & Building Sector

- General effects on the demand side is negative; private sector more adversely affected than the public projects!
- Already, some major capex projects are being reviewed, cost-benefit ratios have changed.
- Mining-linked projects are likely to be reviewed.
- Supply-side pressures are easing, the general need is for efficiency gains!
- South Africa's major demand over the next period is likely to come from urban revival and infrastructure projects, that is where the backlog is the greatest!

Concluding Remarks

- SA's economic prosperity is intertwined with the global conditions- no one is immune!
- The change in the country's sovereign rating is what needs to be watched carefully.
- The economy is weathering the storm, but rapid commodity price reversal is problematic- the growth prospects remain positive, but at lower levels.
- 2010 Soccer World Cup and the fiscal stance are the two short term advantages.
- The Rand will remain under pressure for now.
- Economic meltdown has mixed blessings for the Construction and Building Sector.