SOUTH AFRICAN BUSINESS SHOULD BRACE FOR A SHOCK

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According the recent Mastercard Worldwide Index of Consumer Confidence, South Africans are very optimistic about the immediate future, scoring 78.7 on a scale of 100. Only 14.7% expected the economy to worsen in the next six month. But given the rapid slowdown now underway both globally and in SA, they're in for a nasty shock. So are the businesses that rely on them.

If local conditions are already tightening fast, imagine what will happen when consumers wake up to reality. They're going to turn off the taps in a flash. Companies will see their revenues fall off a cliff.

Through much of 2008, economists, executives – and, notably, Finance Minister Trevor Manuel – remained confident that while GDP growth might slow from a heady 5%-plus, it would remain reasonably strong (2.5 – 3.5%). Recession was out of the question.

Reasons for this confidence included massive infrastructure investment, the windfall benefits from hosting the 2010 football World Cup (and the Confederations Cup in 2009), strong demand for commodities, the growing black middle class, and surging car exports. In addition the "experts" saw robust growth in emerging markets – especially China, India, and Brazil, but also in many African countries – and had bought in to the story that financial problems in the US would not spill outwards, as the global economy had become "decoupled" over the past decade.

Yet even while many pundits held their optimistic line, the international picture was becoming bleaker. And it was evident from many parts of the SA economy that problems were mounting at home.

The world is in the grip of the worst financial crisis in history. Countries are begging for help. Banks are going bust. Global car sales are nosediving. Commodities are in a funk. Property prices have collapsed. Job losses are rising fast. Consumer spending and business investment are drying up. The notion of decoupling has been thoroughly debunked. Now, everyone is in a hole.

And every day, the news gets worse. The bottom is nowhere in sight. Leaders are groping for solutions to a problem with no precedent.

This, says *Newsweek* (January 26, 2009) is "the age of thrift." And a tsunami of thrift is already washing over SA.

Unfazed, however, SA president Kgalema Motlanthe assured an audience at the World Economic Forum's Davos meeting in late January that this country could achieve 4% GDP growth in 2009. "South Africa remains a global leader in the resources sector and our industrial policy will seek to enhance beneficiation," he said. "Special emphasis is being placed on labour intensive sectors and in diversifying competition. We are prioritising those sectors that will maximize the multiplier effect on downstream industries."

This recipe ignores the fact that demand for resources has plummeted, SA's efforts at beneficiation have yielded dismal results, and SA's chances of competing in labour intensive industries are poor to hopeless.

Not surprisingly, few economists agree with the president. Growth of 1% now looks ambitious. And given the weak figures that are now feeding through, no growth – or a dip into *negative* territory – are just months away.

Accordingly, local firms should expect 1) a sharp shift in customer attitudes from optimistic to pessimistic before the end of the first quarter; 2) a much worse decline in revenues than almost anyone expects; 3) a tougher time selling anything to anyone.

How will your company fare in these circumstances? Have you thought about it … and planned a sensible response? Surely, this is your most critical challenge for February.