

## **WHEN INFRASTRUCTURE SPEND COMES TO AN END**

### **Tony Manning**

The SA economy is slowing faster than almost anyone predicted only a short time ago. One sector after another is falling into recession. Yet, we are told, this country is likely to survive the global economic crisis better than many others.

The optimists cite two factors – the 2010 Football World Cup and government's massive infrastructure commitment – as reasons for confidence. But they fail to tell us what happens when both are behind us.

So far, foreign tourism has held up quite well. But the foreigners who might have come here next year are surely having second thoughts.

Globally, job losses are soaring to historic levels, and chances are that the trend will accelerate between now and mid-2010. In Britain, two pubs are closing every day. In France, two coffee shops close each week. Fine hotels everywhere are trimming their offerings and slashing rates. Restaurants are adjusting their menus to attract suddenly frugal customers. Airlines are losing fortunes. Luxury goods are hard hit – not least because airport shopping is down as fewer people travel. SA-born hotel mogul Sol Kerzner says travelers are increasingly booking at the last minute; visibility in the industry is all but gone (CNBC, January 29, 2009).

Taken together, these indicators offer a stark warning. More people are staying at home ("staycations" was a trend identified in 2008), and when they do go out they spend less. Assumptions about visitor numbers in 2010 need to be rapidly reviewed.

Disappointing crowds will have serious implications for anyone banking on a surge in trade during the World Cup (and this year's Confederations Cup).

At the same time, thought should be given to what happens after the party. A massive hangover is a growing certainty.

Already, private sector projects are drying up. More will be put on indefinite hold in the next few months. The positive multiplier effect that was expected from the investment binge is likely to be muted. On the contrary, a negative multiplier effect could speed up and spread economic hardship across the economy.

Contractors will be first to feel the squeeze. Equipment and component sales will slow. A vast network of suppliers of every kind will find their contracts trimmed, cancelled, or not renewed. Many workers hired for infrastructure projects will join the exploding ranks of the unemployed.

SA urgently needs a strategy to cope with these realities. Wishing them away will not work. We need a long-term point of view, not more short-term band-aid.

Government needs to take the lead in developing a strategy that tells a sensible, cohesive story about where we're headed over the next 10 – 20 years in a world that is in the throes of a tectonic shift.

Companies, too, need to consider what all this means to them. The future holds many opportunities, but the problems are piling up fast.