

**OMIGSA Comment – Johann Els, Senior Economist: Economic Research**

**Inflation reaches new low .....and 2010 growth forecast of 3.5% remains unchanged**

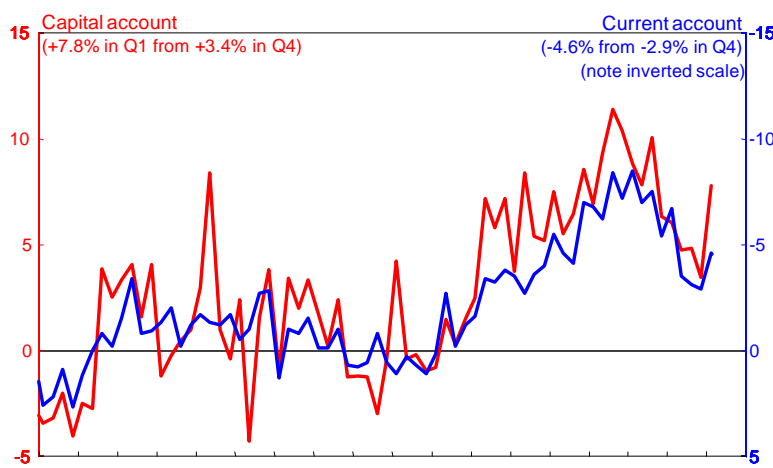


In line with our expectations, consumer prices (CPI) eased to 4.6% in May from 4.8% in April, the lowest level since mid-2006 and well down on the cyclical peak of 13.7% in August 2008. Our long-held view that inflation will ease sharply on account of the strong rand, decelerating food inflation and a relatively slow recovery in consumer spending has been playing out. We expect inflation to level out around 4.5% in the months to come. A moderate rise is expected during the second half of the year.

In addition, we expect interest rates to remain unchanged over the remainder of the year, with the tightening cycle unlikely to start before the second quarter of 2011 – barring a currency shock.

**Higher current account deficit more than adequately covered by capital inflows**

Balance on capital & current accounts as % of GDP



Sources: Stats SA & OMIGSA

On the economy front, the local economy is not only recovering, but growth has in fact surprised strongly on the upside since the final quarter of last year. Gross domestic product (GDP) growth came in at 4.6% annualised during the first quarter of 2010, following on a 3.2% annualised gain in the final quarter of last year. Our growth forecast of 3.5% for the full 2010 calendar year remains unchanged.

**18 - 24 June 2010 in a nutshell**

**Global:** A mixed bag of weak economic news from the US, and concerns over austerity measures in the Euro-zone left most global bourses reeling this week. The S&P 500 in the US tumbled 3.85%, while its counterpart in Europe crumbled 3.04%, and emerging market shares were the winners of the week, rising 0.53%.

**South Africa:** The local market was not left unscathed, with the FTSE/JSE All Share Index dipping 1.38% for the week, owing to the weak global environment. Listed property was the winner of the week, climbing 0.58%.

**Markets and Economics - Highlights**

**Global**

- Sales of new US homes fell 32.7% last month to the lowest level in at least four decades as the boost from a popular tax credit faded, adding to worries of a slowing economic recovery. The drop unwound two months of gains, which had been inspired by government tax credits for home buyers.
- Banks in Greece, Portugal, Ireland and Spain account for more than two-thirds of the European Central Bank's increase in lending to Euro-zone financial institutions since the summer of 2008 as many struggle to access financial markets.
- China announced that it would resume making the yuan more flexible, signalling that it was ready to break a 23-month-old peg to the dollar that had come under intense international criticism.

## South Africa

- Consumer inflation fell to 4.6% last month – the lowest level since May 2006 when it came in at 3.9%. The figure, which is in line with expectations, promoted some economists to predict a further rate cut – either when the Reserve Bank’s Monetary (MPC) meets next month or later this year.
- The outlook for the domestic economic recovery remained on track in April. The Reserve Bank’s composite lead index rose to 128.2 from 126.9 points in March, 21.1% higher than its level a year earlier.
- SA’s deficit on the current account, its broadest measure of trade in goods and services, widened more than expected in the first quarter of this year, putting pressure on the rand. The shortfall ballooned to 4.6% of gross domestic product (GDP) from a four-and-a-half year low of 2.9% in the previous quarter, the Reserve Bank said in its quarterly bulletin.
- Employment prospects in South Africa remain bleak. The Adcorp Employment index showed that between April and May employment fell by an annualised 6.2%, with the hardest hit sector being construction, as many infrastructure-related projects for the World Cup were completed.

### Key Indicators:

Market	Index	Movement for the period		Year to Date
		%	Index Value @ 24.06.2010	% Performance Return
United States	S & P 500 (US\$)	-3.85%	1,073	-3.78%
Europe	Euro Stoxx 50 (Euro)	-3.04%	2,645	-10.83%
Emerging Mkts	MSCI Emerg Mkts (US\$)	0.53%	952	-3.79%
South Africa	FTSE/JSE All Share (ZAR)	-1.38%	27,414	-0.91%
Global	MSCI (US\$)	-2.79%	1,082	-7.36%
ZAR/Dollar	Rand/US \$ (ZAR)	0.00%	7.57	2.44%
ZAR/Pound	Rand/£ (ZAR)	0.80%	11.31	-4.64%
ZAR/Euro	Rand/Euro (ZAR)	-0.32%	9.35	-10.87%
JSE	Industrials	-0.69%	25,306	0.24%
JSE	Financials	-0.70%	19,790	2.40%
JSE	Resources 20	-1.52%	48,362	-5.33%
JSE	Small Companies	0.02%	28,186	1.08%
JSE	Listed Property	0.58%	345	6.81%
JSE	RAFI@ ALSI	-4.79%	5,530	-3.86%
JSE	RAFI@ 40	-1.06%	5,530	-1.11%
JSE	SWIX	-1.61%	5,750	0.26%

 Editor: [kbuthlezi@omigsa.com](mailto:kbuthlezi@omigsa.com)

OMIGSA: Tel. 021 509 7622

[www.omigsa.com](http://www.omigsa.com)

The information in this document is obtained from OMIGSA, Morningstar and Reuters as at 24 June 2010. While every effort has been made to ensure the accuracy of information contained on this document, the Old Mutual, the Old Mutual Investment Group, its associated companies, its Directors or employees provide no representation or warranty, express or implied, regarding the accuracy, completeness or correctness of information contained in this website.

Any opinion expressed is intended for general information, and is subject to change at any time without notice. Old Mutual Investment Group (South Africa) (Pty) Limited is a licensed financial services provider, FSP 604, approved by the Registrar of Financial Services Providers ([www.fsb.co.za](http://www.fsb.co.za)) to provide intermediary services and advice in terms of the Financial Advisory and Intermediary Services Act 37 of 2002. Old Mutual Investment Group is a wholly owned subsidiary of Old Mutual South Africa Limited. Reg No 1993/003023/07.