Old Mutual Investment Group | Equity Research

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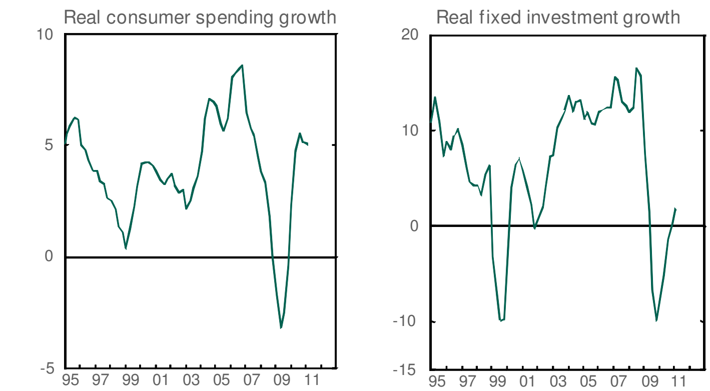
OMIGSA Comment – Johann Els, OMIGSA Senior Economist

SA consumer spending and investment bolster recovery

During the second quarter, we saw continued evidence that the local economic recovery remained on track. First quarter GDP growth came in at a seasonally adjusted annualised rate of 4.8%. Within this performance was a strong showing from consumer spending, supported by strong real income growth. However, given the uptrend in inflation, we expect this real income boost to wane somewhat over the rest of the year. This should result in somewhat slower consumer spending growth going forward.

Consumer spending and fixed investment growth



Source: OMIGSA (Iris)

Fixed investment growth continued on the recovery path – albeit slower and later than consumer spending. Fixed investment growth normally lags the rest of the economic cycle. Investment by the private sector and public corporations (Transnet and Eskom) rebounded nicely, while that by general government continues to lag behind.

Despite decent first quarter growth data, the economy is certainly not booming. Car and retail sales, as well as indicators such as consumer credit extended and building plans passed, suggest growth is still moderate and even slow when compared to the previous upcycle. Despite this, we expect 3.7% GDP growth in 2011, rising to about 4% by next year.

01 – 07 July 2011 in a nutshell

Global: Global markets extended last week's gains on the back of ongoing investor confidence as Greek debt concerns eased, although European sentiment was dented by the downgrade of Portugal's credit rating to "junk" status by Moody's. The S&P 500 rose 2.4%, while its European counterpart lost a marginal 0.14%, and emerging market stocks gained 1.92%.

South Africa: Thanks to improved global investor sentiment and renewed risk appetite, the FTSE/JSE All Share Index gained 1.35%, roughly in line with emerging markets. The biggest winner was listed property, up 2.62%, followed by industrials with a 2.16% gain. The ALSI is now back in positive territory for the year, up 0.55%.

Markets and Economics – Highlights

Global

- US President Obama warned of dire consequences for the US and global economies, including a recession in the US, should Congress fail to approve an increase in the US$14.3 trillion US debt ceiling by 2 August. Obama and Republicans in Congress remained at loggerheads this week over the critical issue of the government budget, despite meeting late in the week to discuss how to achieve spending cuts of between $2-4 trillion. The fierce political dispute continues to weigh on business and investor sentiment, as the US faces possible policy gridlock with a budget deficit expected to reach $1.3 trillion this year.

- Dampening positive sentiment over the successful debt restructuring in Greece, credit ratings agency Moody's slashed Portugal's sovereign rating by four notches to "junk" status, while warning there was a growing risk the country would not be able to achieve its deficit reduction targets and would require a second bailout from the IMF and EU. The European Commission reacted by accusing the ratings agencies of bias against Europe.

- China hiked its interest rates for the third time this year, with the one-year rate rising to 6.56% from 6.31% previously, as the People's Bank of China responded to news of continued rising inflation. The tightening has further fuelled concerns over a possible sharp slowdown in Chinese economic growth. Consumer prices rose 5.5% in May, the most since July 2008, mainly driven by higher food prices.

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South Africa

- South Africa's GDP growth is set to lag many other African countries in 2011, projected at 3.6% this year compared to 6.9% in Nigeria, 7.7% in Mozambique, 7.9% in Angola and 6.9% in Botswana, among others, according to the latest African Economic Outlook report compiled by the African Development Bank, the OECD and the UN. Overall growth in Africa should reach 3.7%, weighed down by the unrest in North Africa, compared to only 2.2% in advanced economies, the report said
- Total new vehicle sales growth slowed to 15.7% y/y in the first half of this year, versus 16.4% in the first five months of 2011, Naamsa reported. Still, new vehicle sales are outperforming other sectors, supported by low interest rates and falling real new car prices.
- South Africa's gold and foreign currency reserves jumped to US$47.2bn in June from $45.9bn in May, boosted by the finalisation of Walmart's acquisition of Massmart during the month, as well as a rise in the forward position, the SA Reserve Bank reported. Analysts expect reserves to continue to rise over the next few months as the Reserve Bank continues to buy foreign exchange and sell rand.

Key Indicators:

Market	Index	Movement for the period		Year to Date
		%	Index Value @ 07.07.2011	% Performance Return
United States	S & P 500 (US$)	2.42%	1,353	7.55%
Europe	Euro Stoxx 50 (Euro)	-0.14%	2,845	1.86%
Emerging Mkts	MSCI Emerg Mkts (US$)	1.92%	1,168	1.48%
South Africa	FTSE/JSE All Share (ZAR)	1.35%	32,296	0.55%
Global	MSCI (US$)	1.58%	1,352	5.63%
ZAR/Dollar	Rand/US $ (ZAR)	-1.63%	6.65	0.61%
ZAR/Pound	Rand/£ (ZAR)	-1.57%	10.66	3.39%
ZAR/Euro	Rand/Euro (ZAR)	-2.24%	9.58	8.37%
JSE	Industrials	2.16%	28,650	-5.79%
JSE	Financials	1.43%	21,874	1.05%
JSE	Resources 20	1.42%	54,700	-2.85%
JSE	Small Companies	1.54%	32,647	-3.18%
JSE	Listed Property	2.62%	392	1.29%
JSE	RAFI® 40	1.31%	6,734	1.19%
JSE	RAFI® ALSI	1.43%	6,510	0.66%
JSE	SWIX	1.30%	6,767	0.34%

Contact: njacobs@omigsa.com OMIGSA: Tel. 021 509 6984 www.omigsa.com

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