OLD MUTUAL Investment Group | Investment Research

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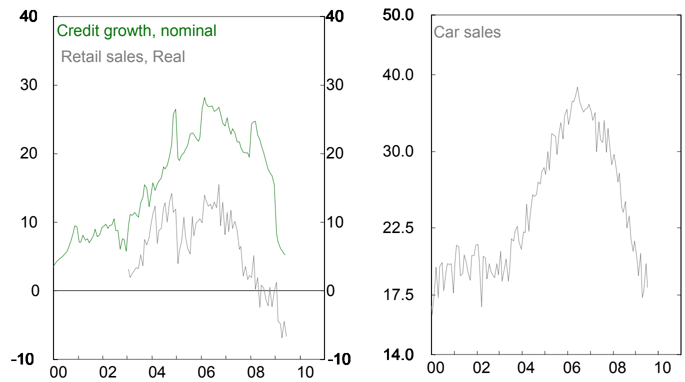
OMIGSA Comment – Rian Le Roux, Chief Economist: Economic Research

Interest rate cut surprise – good news for “cash-strapped” consumers

The Reserve Bank's Monetary Policy Committee (MPC) yesterday surprisingly cut the key repo rate by 50 basis points, bringing it down to 7%, with the prime lending rate dropping to 10.5%. This was in contrast to the broad consensus forecast of ‘no change’ at the MPC’s August meeting. This is indeed welcome relief for financially stressed consumers whose buying power has been eroded by high debt levels, job losses and still-high cost increases (food, electricity, municipal charges, etc), despite lower interest rates and fairly high wage settlements.

Consumer related spending remains depressed



Real economic data remains very weak and volatile. South Africa is clearly lagging the global business cycle with local stabilisation signs only emerging – very tentatively – over the last few weeks as reflected by car and commercial vehicle sales, manufacturing and mining production and electricity generation. Similarly, the manufacturing purchasing managers' index (PMI) and electricity production data also improved in the latest round. Near-term growth prospects are still poor. While we expect some improvement during the second half of the year, the economy will continue to face strong headwinds. A decent recovery is only expected in 2010.

On a more positive note, inflation surprised on the downside in June by falling to 6.9% from the 8.0% recorded in May. Slowing food inflation, in particular, is starting to make a positive contribution towards lower inflation. However, services inflation remains very sticky. It also remains to be seen what impact this last rate cut may have in further spurring inflation over the medium-term, given that the previous 450 basis points in cuts have yet to make themselves felt.

07 - 13 Aug 2009 in a nutshell

Global: Major global bourses around the world ended the week in the black on improved sentiment about the state of the global economy. The US S&P 500 climbed 1.60% while the European market stocks rose 1.65% and emerging market shares were flat at 0.0%

South Africa: The local market was in the red on weak economic data, signalling the worst is not over, just yet. The FTSE/All Share Index was down 0.18% and the winners were miners on strong commodity prices, ending the week 0.45% higher.

Markets and Economics - Highlights

Global

- US unemployment rate dipped to 9.4% in July – its first drop in 15 months – but economists predict it will start climbing again and could still top 10% this year.
- British inflation would be below target in 2011 if interest rates rose next year, but the economy would

take a long time to recover properly, the Bank of England said. The number of people seeking work in the UK in the three months through June rose 220 000 to 2.44 million, the most since 1995, the Office for National Statistics said.

- China's economy slowed slightly in July as state banks heeded Beijing's instructions to rein in excessive lending, with the volume of new lending falling 77% from a month earlier.

South Africa

- The South African Reserve Bank's (SARB's) monetary policy committee (MPC) yesterday cut the key repo rate by 50 basis points, bringing it down to 7%, with the prime lending rate dropping to 10.5%.
- Factory output shrank 17.1% in the year to June, roughly at the same pace in May, official data showed – signalling the economy's second-biggest sector is still under enormous pressure.
- The number of people employed in South Africa's new vehicle manufacturing industry fell in the second quarter of this year to a level last seen 22 years ago, the National Association of Automobile Manufacturers of SA (Naamsa) said.
- South African mining output fell 7.3% in June from a year earlier after companies cut production because of fatalities at mines. Output of minerals other gold fell 6.4%, while gold production declined 12.2%, Statistics SA said.

Key Indicators:

Market	Index	Movement for the period		Year to Date
		%	Index Value @ 13.08.2009	% Performance Return
United States	S & P 500 (US$)	1.60%	1,013	12.18%
Europe	Euro Stoxx 50 (Euro)	1.65%	2,706	10.40%
Emerging Mkts	MSCI Emerg Mkts (US$)	0.00%	856	50.97%
South Africa	FTSE/JSE All Share (ZAR)	-0.18%	25,000	16.23%
Global	MSCI (US$)	1.13%	1,071	16.41%
ZAR/Dollar	Rand/US $ (ZAR)	-0.87%	7.99	-16.16%
ZAR/Pound	Rand/£ (ZAR)	-1.85%	13.24	-3.50%
ZAR/Euro	Rand/Euro (ZAR)	-1.21%	11.40	-13.37%
JSE	Industrials	-1.78%	22,487	4.61%
JSE	Financials	-0.07%	17,868	13.24%
JSE	Resources 20	0.45%	46,204	19.98%
JSE	Small Companies	-0.47%	24,915	9.70%
JSE	Listed Property	-0.33%	305	-1.61%
JSE	RAFI® ALSI	-0.10%	5,215	21.34%
JSE	RAFI® 40	-0.32%	5,015	17.67%
JSE	SWIX	0.06%	5,232	14.99%

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