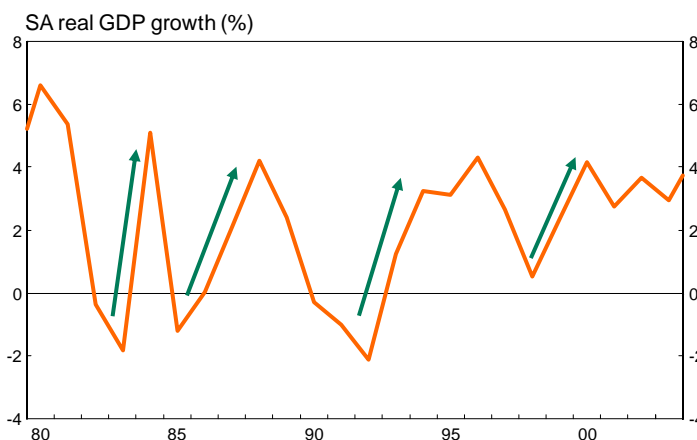


OMIGSA Comment – Johann Els: Senior Economist

DESPITE RISKS, THIS IS NOT 2008



South Africa's growth has slowed in quarters two and three of 2011, but in spite of these headwinds, the local economy still managed to trudge slowly up. While consumer spending has been the major driver behind positive GDP growth in this recovery, there are worries that consumers will cut back as rising inflation eats away at their after-tax income. In addition, credit growth is still muted. This means that there is a risk that consumer spending growth will come under pressure. In addition, fixed investment growth – both public and private sector – has remained very slow. Thus we expect local GDP growth of around 3% this year and next – not another recession.



While we believe that the most likely scenario to play out on the world stage is one of continued slow growth, the actions of policymakers have caused a sharp increase in uncertainty around the world, badly denting consumer and business confidence, and therefore spending. This impact on spending, combined with the negative wealth effect of recent market moves, could, in fact, tip the world into recession. As such, much of the recent market volatility is the consequence of policy errors on the part of politicians - mainly in Europe and the USA - as actual data do not yet signal a recession.

However, it does seem likely that the Eurozone will experience a recession – although we do not expect it to be as deep as the 2008/2009 recession. But this alone will not be enough to cause a global recession.

14 – 20 October 2011 in a nutshell

Global: Concern about the Eurozone sovereign debt debacle continued to affect markets. The S&P 500 rose 0.97%, its European counterpart was down 2.60%, and emerging markets fell 2.45%.

South Africa: South African stocks delivered low returns, with the FTSE/JSE All Share Index increasing by a mere 0.01%. The small companies and listed property sectors were the only ones that showed growth this week, albeit less than 1%.

Markets and Economics – Highlights

Global

- Factory activity in the U.S. Mid-Atlantic region rebounded in October and the number of Americans claiming new jobless benefits fell 6,000 to 403,000 last week, a sign that the economy may avoid a new recession. Separately, the Philadelphia Federal Reserve Bank's business activity index rebounded to 8.7 in October, the highest reading in six months, from minus 17.5 in September. A reading above zero indicates factory activity is expanding. However, despite this the Bloomberg Consumer Comfort Index's monthly expectations gauge still dropped to minus 45, the worst reading since February 2009, indicating lower consumer confidence levels.
- Moody's has cut Spain's credit rating to A1, from Aa2, a notch below Standard & Poor's and Fitch, adding more pressure on European leaders to accelerate progress on solving the debt crisis or face insurmountable borrowing costs. Moody's reasoning was that no credible resolution of the current sovereign debt crisis has emerged. Meanwhile, a split between the International Monetary Fund and the European Union over Greece's debt mountain threatens to delay a vital next aid payment to Athens in another blow to European efforts to stem the debt crisis. Greece remains mired in recession and its overall debt is forecast to climb to €357bn this year, or 162% of annual economic output - which few economists believe can be paid back.
- Russian retail sales jumped the most since October 2008 last month as unemployment fell to a more than three-year low, showing consumer demand may help revive the stalling economy. To add to the good news, the Central Bank announced that 2011's inflation won't exceed 7% and will slow to 4-5% by 2014. However, manufacturing stalled in the third quarter on dwindling export orders and Russians' spending may dip as the effects of the global financial turmoil filter through the economy.

South Africa

- The Consumer Price Index (CPI) ticked up to a 20-month high of 5.7% y/y in September. This was as a result of higher food prices and a weaker currency; the rand has fallen 16% against the US dollar since the start of August. Consumer prices rose by 0.4% m/m seasonally adjusted with a 1.1% m/m rise in food prices (driven mostly by sugar and fish). Core inflation fast-tracked to an annual pace of 3.8%. The SARB has kept interest rates on hold at 5.5%, a 30-year low, since November 2010.
- South Africa's largest manufacturer of defence, security and aerostructures products and solutions, Denel, is gradually making a positive contribution to the country's economy. Denel's Group CEO, Talib Sadik said that the company is increasing its contribution to SA's advanced manufacturing sector through job creation, promoting innovation, technical skills development and SMME development with more than R730m in procurement orders. Denel provides work to specialised locally based SMME engineering companies, and offers technical exposure and training opportunities to more than 5 500 South African school learners and university students.

Key Indicators:

Market	Index	Movement for the period		Year to Date
		%	Index Value @ 20.10.2011	% Performance Return
United States	S & P 500 (US\$)	0.97%	1,215	-3.39%
Europe	Euro Stoxx 50 (Euro)	-2.60%	2,272	-18.66%
Emerging Mkts	MSCI Emerg Mkts (US\$)	-2.45%	908	-21.14%
South Africa	FTSE/JSE All Share (ZAR)	0.01%	30,837	-3.99%
Global	MSCI (US\$)	-0.20%	1,167	-8.83%
ZAR/Dollar	Rand/US \$ (ZAR)	3.30%	8.14	23.15%
ZAR/Pound	Rand/£ (ZAR)	3.62%	12.85	24.64%
ZAR/Euro	Rand/Euro (ZAR)	3.72%	11.23	26.99%
JSE	Industrials	-0.06%	27,028	-11.12%
JSE	Financials	-0.66%	21,155	-2.27%
JSE	Resources 20	-0.01%	49,821	-11.51%
JSE	Small Companies	0.45%	31,490	-6.62%
JSE	Listed Property	0.27%	387	-0.12%
JSE	RAFI@ 40	-0.18%	6,377	-4.17%
JSE	RAFI@ ALSI	-0.22%	6,100	-5.68%
JSE	SWIX	-0.29%	6,494	-3.71%

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