

OMIGSA Comment – Johann Els, Senior Economist: Economic Research

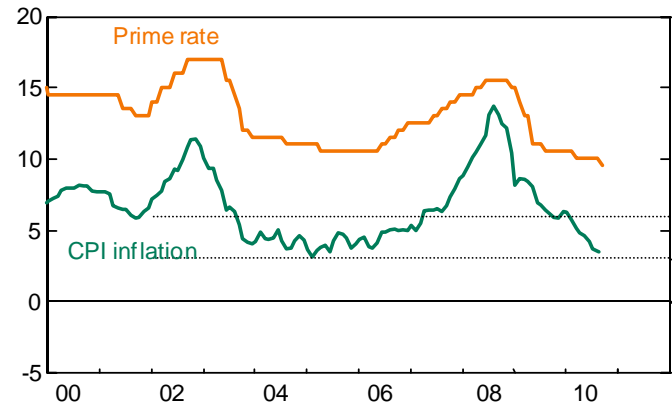
Low interest rates and inflationgood for SA consumers



Although recent news headlines have highlighted the negative impact of the strong rand on the SA economy, the current global environment of easy money and low price pressures, along with the economic troubles in many developed

countries, is proving to be surprisingly positive for most South African consumers, who are benefiting from exceptionally low interest rates and inflation. And the good news for SA is that these conditions are likely to continue through 2011 and even 2012, barring unforeseen shocks.

Low inflation & low prime interest rate



Source: OMIGSA (Iris)

Although our economic recovery has been slower than that in some other emerging economies, our growth has still picked up, we have been able to cut interest rates to a 30-year low (to 9.5%), and inflation (at 3.5% p.a. in August) is at its lowest rate in five years.

These conditions have been very favourable for South African consumers, who have helped to lead the recovery. Those who were able to hold on to their jobs have seen their real disposable incomes rise significantly due to lower inflation and improving income growth.

At the same time, households are paying far less interest on their mortgage bonds and other outstanding debts: those with a bond of R500,000 would have paid around R6,700 per month in repayments in August 2008; this would have fallen to around R4,600 in September 2010. Consumers would be wise to take advantage of this and try to pay down their debt more quickly, and save and invest more for the future.

15 - 21 Oct 2010 in a nutshell

Global: Global markets were a mixed bag this week, following China’s decision to raise interest rates for the first time in three years. The S&P 500 in the US rose marginally by 0.51%, while the European market shares climbed 1.62% and emerging market stocks fell 1.86%.

South Africa: The local bourse tracked Wall Street higher this week, with the FTSE/JSE All Share Index gaining 0.62%, on the stronger rand and weaker commodities prices. The winners were industrials and listed property, both collecting 1.57%.

Markets and Economics - Highlights

Global

- Officials at the US Federal Reserve are considering a fresh monetary stimulus. Although no decision has been made to launch a new round of quantitative easing, Fed officials are weighing an approach that allows more discretionary meeting-by-meeting decisions than the unconditional “shock and awe” stimulus it launched during the depths of the crisis in 2008 and 2009.
- The UK’s Conservative-led coalition has ushered in a new era of public sector austerity in Britain, outlining plans for \$128.4bn in cuts to government spending which far outstrip measures taken by other advanced economies. An announcement was also made that

490 000 jobs would be lost in the public sector by 2014-15.

- After China's decision to raise interest rates for the first time in almost three years, analysts expect inflation and growth for the third quarter to be high. The consensus forecast is that economic growth slowed to 9.5% year on year last quarter, down from 10.3% on the second quarter.

South Africa

- Direct intervention to weaken a currency's exchange rate was expensive and "never works – or only for a short time," South African Reserve Bank governor Gill Marcus said.
- The confidence of chief executives has dipped for the first time in over a year. Confidence levels dropped slightly by 3.5 points to a score of 60.7 in the third quarter as the global recovery slowed, according to the Merchantec CEO Confidence index
- HSBC abruptly pulled out of its bid for Nedbank without citing a reason, sparking concerns of hidden problems at the bank and sparking a drop of over 6% in its share price. SA's Financial Services Board publicly criticised HSBC's move, calling it "irresponsible" and "cavalier".
- Statistics on building for August showed some signs of improvement. But this has yet to translate into action, with square metres of residential building completed having declined 21.14% over the same period, meaning the residential building sector is still "extremely" weak, said FNB Home Loans.

Key Indicators:

Market	Index	Movement for the period		Year to Date
		%	Index Value @ 21.10.2010	% Performance Return
United States	S & P 500 (US\$)	0.51%	1,180	5.82%
Europe	Euro Stoxx 50 (Euro)	1.62%	2,882	-2.84%
Emerging Mkts	MSCI Emerg Mkts (US\$)	-1.86%	1,106	11.78%
South Africa	FTSE/JSE All Share (ZAR)	0.62%	30,439	10.02%
Global	MSCI (US\$)	-0.08%	1,225	4.88%
ZAR/Dollar	Rand/US \$ (ZAR)	2.95%	6.97	-5.68%
ZAR/Pound	Rand/£ (ZAR)	1.01%	10.95	-7.67%
ZAR/Euro	Rand/Euro (ZAR)	1.68%	9.70	-7.53%
JSE	Industrials	1.57%	28,767	13.95%
JSE	Financials	-1.25%	21,616	11.85%
JSE	Resources 20	1.01%	51,898	1.59%
JSE	Small Companies	0.70%	31,466	12.84%
JSE	Listed Property	1.57%	389	20.43%
JSE	RAFI@ ALSI	0.02%	6,342	10.26%
JSE	RAFI@ 40	0.44%	6,126	9.55%
JSE	SWIX	0.53%	6,422	11.98%

Editor: kbuthlezi@omigsa.com

OMIGSA: Tel. 021 509 7622

www.omigsa.com

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