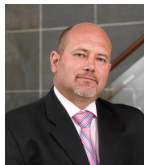


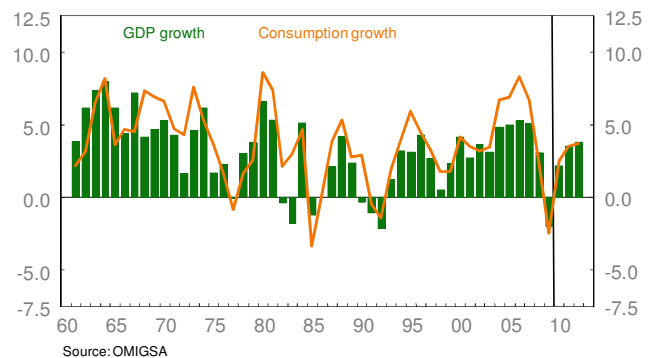
## OMIGSA Comment – Johann Els, Senior Economist: Economic Research

### SA likely to escape recession in third quarter 2009



Recent economic data are pointing to the likelihood that South Africa came out of recession during the third quarter of 2009, with third quarter GDP data likely to show economic growth of around 2.0% (on a seasonally adjusted annualised (saar) basis). Following contractions of -6.4% q/q (saar) in the first quarter and -3.0% q/q (saar) in the second quarter of this year, the local economy is starting to show solid signs of recovery following the consolidation of economic growth in the rest of the world.

SA growth cycle: Sharp slump, slow recovery



Although consumer demand remains weak, the strong government demand, improved exports and the inventory cycle are all supportive of growth. Key indicators like manufacturing output and new orders are rising, while electricity production and cement sales are higher, as are commercial vehicle sales. Even corporate credit extension has seen some small growth after two quarters of decline.

However, the South African consumer has yet to experience the recovery, as shown by the -7.0% y/y fall in retail sales in August, the -8.8% drop in car sales in September and the contraction of 0.9% in consumer credit over the third quarter of the year. Other factors supporting the recovery include the improving current account, which has moved from a deficit of over 8.0% of GDP in 2008 to around 3.0% of GDP currently, and the stronger rand, which has helped keep inflation in check.

Looking beyond the third quarter, we are forecasting a relatively slow recovery, with average GDP growth of about 2.5% y/y for 2010, accelerating to around 4.0% y/y in the following two years.

#### 16 - 22 Oct 2009 in a nutshell

**Global:** Positive investor sentiment about better-than-expected company earnings in the US was not enough to lift most global bourses out of negative territory this week. The S&P 500 in the US slid 0.36% while its European peers gave up 1.26% and the emerging market stocks lost 1.54%.

**South Africa:** The local market cheered the positive company earnings in the US with the FTSE/JSE All Share Index (ALSI) climbing 2.10%. Resources led the rally, rising 3.59% on stronger metals prices and a weaker rand.

#### Markets and Economics - Highlights

##### Global

- US Treasury figures showed that the government spent \$46.6bn more than it received in September, a month that normally records a surplus. That boosted the shortfall for the full fiscal year that ended last month to \$ 1.42 trillion. The previous year's deficit was \$459 bn. This budget deficit is more than the US's total national debt for its first 200 years and more than \$4700 for every American man, woman and child.
- Britain had the biggest budget deficit for any September since records began in 1993 as the recession ravaged tax revenue and drove up welfare cost. The £14.8bn shortfall compared with a deficit of £8.7bn a year earlier, the Office for National Statistics said.

- China's economy has expanded at the fastest pace in a year as stimulus spending and record lending growth helped the country lead the world out of recession. Gross domestic product rose 8.9% in the third quarter from a year earlier, the statistics bureau said in Beijing.

### South Africa

- As predicted by Johann Els, OMIGSA's senior economist, the South African Reserve Bank's (SARB's) Monetary Policy Committee (MPC) has left the key repo rate unchanged at 7%, leaving the prime lending rate steady at 10.5%. However, the bank pointed out that its benign inflation outlook did not account for the prospect of huge electricity price increases.
- Finance Minister Pravin Gordhan told a conference in Cape Town that SA's economy probably contracted 2% this year, in line with consensus forecasts.
- Confidence in the civil construction industry has plunged, signalling a potentially lower contribution to economic growth from this sector. A local bank's civil construction index dropped by 19 points to an index value of 29 in the third quarter. It has plunged more than half from a value of 60 in the first quarter.

#### Key Indicators:

Market	Index	Movement for the period		Year to Date
		%	Index Value @ 22.10.2009	% Performance Return
United States	S & P 500 (US\$)	-0.36%	1,093	21.04%
Europe	Euro Stoxx 50 (Euro)	-1.26%	2,902	18.40%
Emerging Mkts	MSCI Emerg Mkts (US\$)	-1.54%	961	69.49%
South Africa	FTSE/JSE All Share (ZAR)	2.10%	26,732	24.28%
Global	MSCI (US\$)	-0.26%	1,164	26.52%
ZAR/Dollar	Rand/US \$ (ZAR)	1.65%	7.38	-22.56%
ZAR/Pound	Rand/£ (ZAR)	4.16%	12.28	-10.50%
ZAR/Euro	Rand/Euro (ZAR)	2.59%	11.10	-15.65%
JSE	Industrials	0.79%	25,712	19.61%
JSE	Financials	0.89%	19,385	22.85%
JSE	Resources 20	3.59%	48,193	25.14%
JSE	Small Companies	0.34%	26,739	17.74%
JSE	Listed Property	0.00%	325	4.84%
JSE	RAFI® ALSI	2.05%	5,574	29.69%
JSE	RAFI® 40	2.18%	5,380	26.23%
JSE	SWIX	1.51%	5,587	22.79%

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