

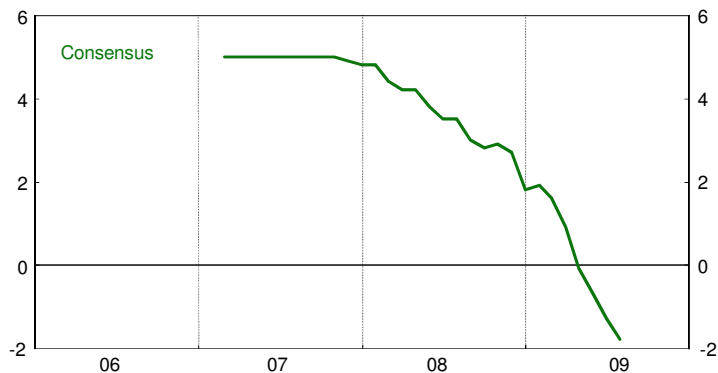
OMIGSA Comment – Rian Le Roux, Chief Economist: Economic Research

Economic recovery delayed until 2010 as SA lags global cycle



Although some tentative signs of stabilisation have emerged over the last few weeks, the local economy is unlikely to see a decent recovery until next year. We had earlier forecasted a recovery for the second half of this year, in line with the global business cycle, but it now looks as though the headwinds facing the local economy are stronger than expected, so this recovery will be slow and possibly even delayed. We are expecting a contraction in GDP of -2.0% this year and a recovery of only about 2.0% next year, including the likely stimulatory impact of the World Cup.

GDP forecasts for 2009



Source: OMIGSA, IRIS

Some of the headwinds include: Bleak global growth prospects, high inflation, struggling consumers and the strong rand is hurting our manufacturing and mining exports. These create strong cost-push pressures that make the medium-term outlook for inflation less than rosy, giving rise to questions around the “generally accepted” level of South Africa’s longer-term growth potential of just over 4.0%. Factors that could contribute to slowing this potential include, among others:

- Structurally slower world growth;
- A too-strong and volatile rand, amidst already difficult global economic conditions;
- SA’s low overall savings rate;

On the positive side, there have been some signs of stabilisation appearing in the local economy in the past few weeks, with car and commercial vehicle sales showing some improvement. And the effects of the cumulative 450 basis points in interest rate cuts by the SARB have yet to be fully felt by consumers and businesses, which should help bolster the economy in the coming six months.

17 - 23 July 2009 in a nutshell

Global: Bourses around the world rallied on better-than-expected earnings in the US and Europe and Goldman Sachs’ raising of its Standard & Poor’s 500 Index forecast. The S&P in the US climbed 3.72% while the European market shares surged 5.16% and emerging market stocks soared 6.34%.

South Africa: The local market gained on the back of strong global equities momentum and higher metals prices. The FTSE/JSE All Share Index rose 1.76% and the miners were the winners for a second consecutive week, gaining a strong 3.18%.

Markets and Economics - Highlights

Global

- Home sales in the US rose 3.6% last month, giving hope to investors that the hard-hit housing market might be improving, said the National Association of Realtors. The index of US leading indicators rose last month for a third consecutive month, reinforcing signs the economy may be

emerging from the worst recession in five decades.

- The number of unemployed people in Britain increased by 281 000 to a 13-year high of 2.38 million in the three months to May, the largest quarterly rise since records began in 1971.
- Beijing's foreign reserve holdings have surged past \$2.000bn, as money pours back into China to take advantage of economic growth and rapidly inflating asset prices.

South Africa

- Four out of every 10 employed South Africans are unable to cope with account payments, and at least one-fifth of civil servants are under garnishee orders, in which they are locked for the next four years. The number of civil summonses issued for debt increased by more than 10% in the three months to May, compared with the same period last year, said Stats SA.
- SA's business cycle indicator, which predicts trends in six to 12 months, rose for the second month in a row in May, backing hopes the recession's end is in sight, SARB figures showed.
- The rand rallied to a two-week high, cheered by the announcement that former central bank deputy governor and the head of banking group, ABSA, Gill Marcus, will succeed Tito Mboweni as the head of the Reserve Bank in November. At this stage, the rand was bid at R7.92 against the greenback. It was aided also by risk appetite that hit the dollar.
- The price of bread was likely to come down by September provided that all material inputs costs remained at current levels, experts in the bread industry agreed.

Key Indicators:

Market	Index	Movement for the period		Year to Date
		%	Index Value @ 23.07.2009	% Performance Return
United States	S & P 500 (US\$)	3.72%	976	8.08%
Europe	Euro Stoxx 50 (Euro)	5.16%	2,586	5.51%
Emerging Mkts	MSCI Emerg Mkts (US\$)	6.34%	8.22	44.97%
South Africa	FTSE/JSE All Share (ZAR)	1.76%	23,914	11.18%
Global	MSCI (US\$)	4.28%	1,023	11.20%
ZAR/Dollar	Rand/US \$ (ZAR)	-4.22%	7.72	-18.99%
ZAR/Pound	Rand/£ (ZAR)	-3.93%	12.72	-7.92%
ZAR/Euro	Rand/Euro (ZAR)	-4.13%	10.92	-17.02%
JSE	Industrials	1.12%	22,067	2.66%
JSE	Financials	1.98%	17,596	11.52%
JSE	Resources 20	3.18%	43,018	11.71%
JSE	Small Companies	1.82%	24,067	5.97%
JSE	Listed Property	3.07%	302	-2.58%
JSE	RAFI@ ALSI	1.63%	4,938	14.89%
JSE	RAFI@ 40	2.19%	4,757	11.61%
JSE	SWIX	1.55%	5,047	10.92%

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