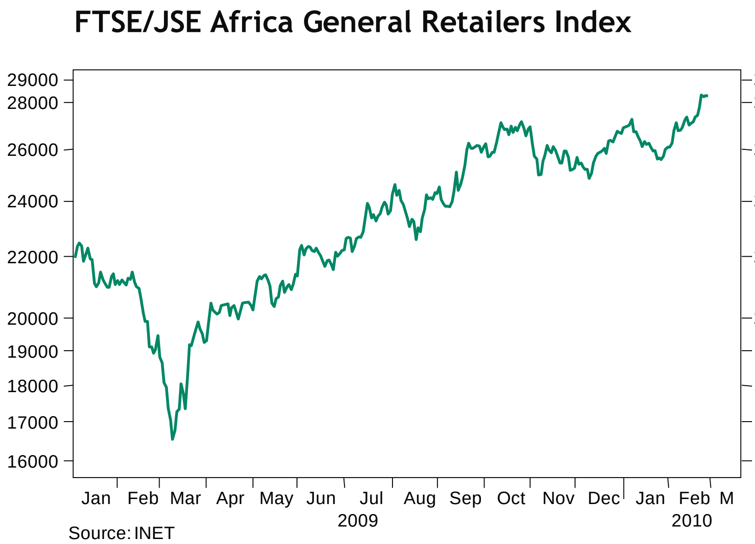
OMIGSA Comment – Jeanine van Zyl, Sector Head: Industrials

The consumer has turned the corner ……..if not a boom ahead!



Signs are emerging that the consumer has finally turned the corner, even if there's no boom ahead. The latest Retail Liaison Committee (RLC) sales figures (which include sales for many of the larger discretionary retailers) for December 2010 showed that nominal sales grew by 10.5%. This number is up significantly from the range of 0% - 5% growth we had seen in previous months, and certainly indicates a turnaround in consumer appetite, as it represents most of the more discretionary categories like clothing, footwear and appliances.

Results from Woolworths, Truworths and Massmart mirror this upward trend in most instances, with trading in recent months having improved quite considerably, and staying at those higher growth levels in the first few weeks of the New Year. Gross margins of clothing retailers were also, somewhat surprisingly, trending strongly upwards, except in the case of Edcon, which remained flat.

This indicates that retailers managed their stock levels very well and did not have to discount excessive amounts of stock at the end of the festive season (as they had had to do in previous years when the consumer was weak). When compared to what happened in the previous consumer downturns when our retailers failed to manage stock levels well, primarily due to less sophisticated stock systems, the latest retail numbers were a big improvement.

19 - 25 Feb 2010 in a nutshell

Global: The bears gained the upper hand this week on most global bourses on a mixed bag of negative macro-economic data, casting doubt on the strength of the recovery of the global economy. The S&P 500 in the US shed 0.36%, while the European market stocks lost 3.38% and emerging market shares 2.12%.

South Africa: The local market tracked Wall Street, with the FTSE/All Share Index falling 2.01%, led by resources, which plummeted 4.27%. The winner of the week was Listed Property, collecting a healthy 3.36%.

Markets and Economics - Highlights

Global

- Federal Reserve chairman Ben Bernanke said the US economy was in a "nascent" recovery that still required low interest rates to encourage demand by consumers and businesses once federal stimulus expired.
- The European Commission left its growth outlook for the euro zone for this year unchanged despite concerns about Greece and other reports painting an increasingly grim picture. The euro zone should squeeze out 0.7% growth, it said, as it tweaked up its forecast for the first two quarters.

- India's economic growth might surpass 8% in the coming financial year, Finance ministry projections showed, allowing scope for a reduction in stimulus measures that would help the nation restrain its debt burden.

South Africa

- Producer prices are rising once more after falling for most of last year. Stats SA reported that prices of goods as they leave farms, mines and factories had risen 2.7% y/y in January and 1.3% in the month alone.
- Inflation slowed last month, defying forecasts of an increase and suggesting that interest rates will remain lower for longer, despite the economy's recovery. The consumer price index rose 6.2% versus that of January last year, compared with December's 6.3%, Stats SA said.
- SA's economy grew much faster than expected in the final quarter of last year, boosted mainly by a hefty rebound in factory output, which dampened speculation that interest rates would be cut again next month. Economic growth jumped 3.2%, well above market forecasts for a 2.5% rise and quickening from 0.9% in the third quarter, when SA first emerged from recession, said Stats SA.

Key Indicators:

Market	Index	Movement for the period		Year to Date
		%	Index Value @ 25.02.2010	% Performance Return
United States	S & P 500 (US$)	-0.36%	1,103	-1.09%
Europe	Euro Stoxx 50 (Euro)	-3.38%	2,684	-9.52%
Emerging Mkts	MSCI Emerg Mkts (US$)	-2.12%	923	-6.72%
South Africa	FTSE/JSE All Share (ZAR)	-2.01%	26,732	-3.38%
Global	MSCI (US$)	-1.32%	1,124	-3.77%
ZAR/Dollar	Rand/US $ (ZAR)	0.91%	7.73	4.60%
ZAR/Pound	Rand/£ (ZAR)	-0.59%	11.76	-0.84%
ZAR/Euro	Rand/Euro (ZAR)	1.16%	10.45	-0.38%
JSE	Industrials	-2.78%	24,508	-2.92%
JSE	Financials	-0.44%	19,679	1.82%
JSE	Resources 20	-4.27%	47,215	-7.57%
JSE	Small Companies	-0.18%	27,885	0.00%
JSE	Listed Property	3.36%	338	4.64%
JSE	RAFI® ALSI	-1.95%	5,584	-2.92%
JSE	RAFI® 40	-2.02%	5,248	-2.93%
JSE	SWIX	-1.50%	5,600	-2.35%

Editor: kbuthelezi@omigsa.com OMIGSA: Tel. 021 509 7622 www.omigsa.com