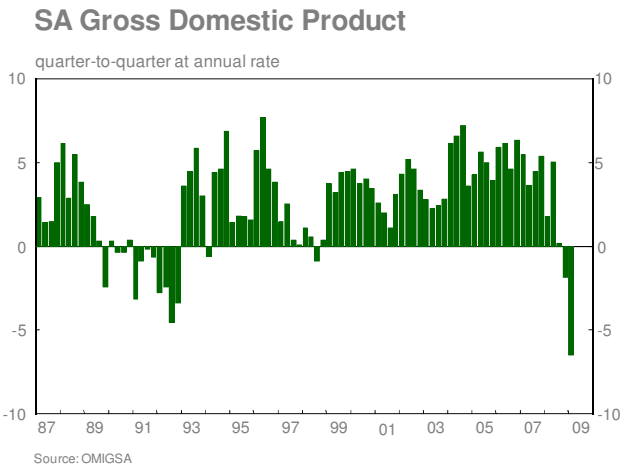
OMIGSA Comment – Rian Le Roux, Chief Economist: Economic Research

It's official – SA is in recession …… it will be more difficult before things get better

The Reserve Bank's cut of the repo rate by another 100 basis points yesterday came as no surprise following the unexpectedly severe slump in Gross Domestic Product (GDP) during the first quarter of 2009. The GDP figures released by Statistics SA showed that the economy had shrunk in the first quarter of this year by a massive 6.4% at an annual rate, after contracting 1.8% in the last quarter of 2008.



This decline was larger than our forecast of -4.5% and confirms the fact that the economy has slipped into a recession. An economy is officially in recession when it contracts for two consecutive quarters.

While the weakness in the economy was widespread, mining and manufacturing was the hardest hit, contracting by a 32.8% and 22.1% respectively. This extremely weak data has resulted in growth forecasts for the full year being slashed further. And while the outlook for consumers may be a little rosier on the back of lower interest rates and easing inflation pressures, the biggest risk is that the downturn in the economy will cause a renewed wave of layoffs.

Furthermore, while the strengthening rand will have a positive impact on the inflation outlook, it is not doing any favours to the struggling key manufacturing and mining sectors. It may indeed aggravate the local downturn and deal a severe blow to any prospects for recovery in the second half of the year.

22 - 28 May 2009 in a nutshell

Global: Major global bourses raced higher this week on positive sentiment that the world economy is showing signs of recovery. The S&P 500 in the US climbed 2.14% while European market stocks rose 1.20% and emerging market shares were 2.83% higher.

South Africa: The local market was firm on the back of the global markets. The FTSE/JSE All Share Index gained 1.36%, led mainly by resources counters, which rose 2.47%, on firmer commodity prices and the weak US dollar.

Markets and Economics - Highlights

Global

- New orders for durable US manufactured goods saw their biggest gain in 16 months last month and fewer workers filed for new jobless benefits last week, according to data that suggested the deep recession was abating. US confidence surged to 54.9 points this month from a revised 40,8 last month, well up from economists' predictions of 42,3, setting global bourses alight.
- Euro-zone economic sentiment improved more than expected in May, signalling the low point of the recession may have passed, but inflation expectations fell again, raising the spectre of deflation.

- **Emerging markets fight back:** There were indications of a revival in economic growth in India, said India's Finance Minister. Turkey would introduce new incentives to encourage companies to invest, aimed at pulling the economy out of recession after unemployment hit a record 16.1% in February, said the Treasury.

South Africa

- Reserve Bank governor Tito Mboweni warned that SA's run of successive rate cuts may have come to an end. He said this after announcing a 100 basis point cut in the Reserve Bank's official repo rate to 7.5%, which led the benchmark prime and mortgage rates to fall to 11%.
- The economy shrank 6.4% in the first quarter, the sharpest decline since the third quarter of 1984, when there was a contraction of 6.5%.
- The economy's dismal first quarter performance is likely to continue into the present quarter, according to the Treasury.
- Growth in retail sales slowed to an annual 6.6% last month from 7.1% in March as job losses undermined consumer spending, said the Retailer Liaison Committee.

Key Indicators:

Market	Index	Movement for the period		Year to Date
		%	Index Value @ 28.05.2009	% Performance Return
United States	S & P 500 (US$)	2.14%	907	0.44%
Europe	Euro Stoxx 50 (Euro)	1.20%	2,453	0.08%
Emerging Mkts	MSCI Emerg Mkts (US$)	2.83%	762	34.39%
South Africa	FTSE/JSE All Share (ZAR)	1.36%	22,315	3.75%
Global	MSCI (US$)	1.81%	955	3.80%
ZAR/Dollar	Rand/US $ (ZAR)	-3.73%	8.00	-16.05%
ZAR/Pound	Rand/£ (ZAR)	-3.26%	12.76	-7.00%
ZAR/Euro	Rand/Euro (ZAR)	-3.12%	11.17	-15.12%
JSE	Industrials	1.33%	20,568	-4.32%
JSE	Financials	0.03%	15,468	-1.97%
JSE	Resources 20	2.47%	41,673	8.21%
JSE	Small Companies	0.69%	22,685	-0.11%
JSE	Listed Property	0.68%	296	-4.52%
JSE	RAFI® ALSI	1.76%	4,517	5.10%
JSE	RAFI® 40	3.42%	4,354	2.16%
JSE	SWIX	2.71%	4,695	3.19%

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

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