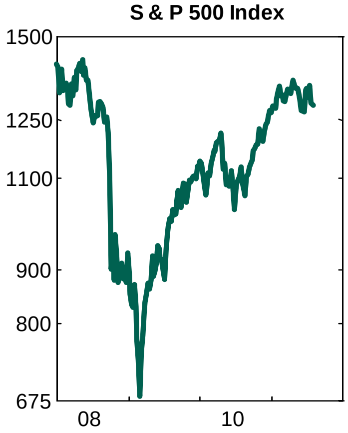
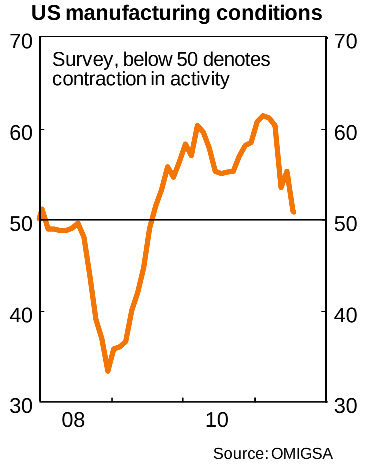
2 September 2011

OMIGSA Comment - Rian le Roux, OMIGSA chief economist

SA growth seen at 3%-3.5% in 2011 and 2012

Stock markets around the world are under pressure from the high level of uncertainty in global economic conditions, and investor sentiment is particularly fragile. Renewed concerns over slowing US and global growth, plus the European debt crisis, continue to knock the market.





The biggest risk globally is that sustained market panic could itself trigger a recession as falling asset values seriously dent consumer and business sentiment. This, in turn, could cause cutbacks in household and corporate spending - exactly the stuff recessions are made of. The risk to the global economy has clearly increased sharply, and it is still too early to say that another recession will definitely be avoided.

Despite this, the SA economy is still likely to maintain growth of a little over 3% in both 2011 and 2012. Although our exports will be impacted, there is still strength in consumer and government spending which will help bolster the pace of growth.

With SA's fiscal metrics relatively healthy, local interest rates still relatively high, and strong precious metal prices, an outright slump of the rand, such as occurred in the 2008 crisis, seems relatively unlikely. Indeed, assuming no rand slump, local interest rates are likely to remain at current levels for longer than previously expected. The start of the up-cycle in local rates is likely to be postponed until well into 2012.

26 August – 01 September 2011 in a nutshell

Global: Global markets showed encouraging signs for the week, despite lower-than-expected US economic growth and a cooling European economy. The S&P 500 jumped 3.89% and its European counterpart improved 4.02%, while emerging markets improved 6.67%.

South Africa: The FTSE/JSE All Share Index was higher, rising 5.92% mirroring global movements. Industrials, this week's winner, showed relatively steep upward movement during the week, up 6.21%, while the loser for the week was Small Companies, growing 2.01%.

Markets and Economics – Highlights

Global

- In a mid-year fiscal review, the White House's Office of Management and Budget (OMB) reported that the US economy will avoid falling back into recession this year, and instead grow 1.7%. However, this is still down from a 2.7% prediction in February 2011. The unemployment rate in July was 9.1%, the US manufacturing output slowed in August to a two-year low and the country is grappling with high oil prices and debt concerns – exacerbating investor concerns. Meanwhile, the Federal Housing Finance Agency is preparing to file suit against a number of banks, for misrepresentation of mortgages packaged and sold during the housing bubble.
- The European economy is showing signs of cooling as governments implement strict spending cuts, and consumers' willingness to spend dampens. Europe's economic confidence slumped the most in about three years in August. Economic growth, according to Markit, has slowed to 0.2% in the second quarter, down from 0.8% in the previous three months – indicating the worst performance since the 2009 recession. The manufacturing sector has contracted more than expected, with the Purchasing Managers Index (PMI), falling to 49 from 50.4 - its lowest in two years and well below the initial estimate of 49.7.
- India has experienced a surge in food inflation, driven by vegetable prices and reaching its highest level in over four months by late August. The wholesale price index-based food inflation jumped to 10.05% from a year earlier, compared with 9.80% in the previous week, according to data issued by the Ministry of Commerce and Industry. Rising prices of non-food articles, high government spending as well as

supply hindrances in India's distribution chain are also stoking inflationary pressures. It was likely that inflation control would remain the focus of monetary policy, and intensifying price pressures could result in continued monetary tightening by the central bank.

South Africa

- According to StatSA, South Africa's second quarter economic growth has slowed to 1.3% from 4.5% in the first quarter – well below the minimum of 7% required to seriously address the high unemployment rate in the country. Volatile global market conditions, local industrial action and policy uncertainty were among the factors contributing to the slowdown. The mining, manufacturing and agricultural sectors were the hardest hit during the quarter. In light of the slowed growth, interest rates are expected to remain flat for the rest of the year
- According to the National Association of Automobile Manufacturers of SA (Naamsa), new vehicles sales in August 2011 showed gains in relation to August 2010. Aggregate industry domestic sales grew by 5,144 units or 11.1% to reach 51,436 vehicles from 46,292 in August 2010. The domestic macro environment is, however, expected to become less conducive to this kind of growth. Recent low numbers in the Purchasing Managers' Index may indicate slower medium-term expansion. Modest growth in private sector credit extension and in money supply, higher administered price increases, including electricity and fuel costs, would pressurise consumer disposable income and demand for durable goods. As a result, new vehicle sales over the balance of the year are expected to continue to show growth, but at a lower rate.

Key Indicators:

Market	Index	Movement for the period		Year to Date
		%	Index Value @ 01.09.2011	% Performance Return
United States	S & P 500 (US$)	3.89%	1,204	-4.26%
Europe	Euro Stoxx 50 (Euro)	4.02%	2,306	-17.45%
Emerging Mkts	MSCI Emerg Mkts (US$)	6.67%	1,038	-9.82%
South Africa	FTSE/JSE All Share (ZAR)	5.92%	31,088	-3.21%
Global	MSCI (US$)	4.20%	1,203	-6.00%
ZAR/Dollar	Rand/US $ (ZAR)	-3.12%	7.00	5.82%
ZAR/Pound	Rand/£ (ZAR)	-3.75%	11.31	9.69%
ZAR/Euro	Rand/Euro (ZAR)	-4.01%	9.97	12.78%
JSE	Industrials	6.21%	27,521	-9.50%
JSE	Financials	5.37%	21,511	-0.63%
JSE	Resources 20	5.68%	50,374	-10.53%
JSE	Small Companies	2.01%	31,323	-7.11%
JSE	Listed Property	2.74%	394	1.87%
JSE	RAFI® 40	6.29%	6,456	-2.99%
JSE	RAFI® ALSI	5.64%	6,181	-4.42%
JSE	SWIX	6.40%	6,618	-1.82%

Contact: njacobs@omigsa.com OMIGSA: Tel. 021 509 6984 www.omigsa.com