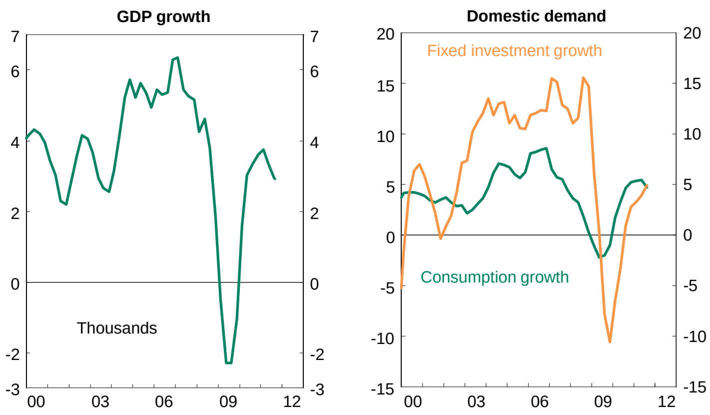
OMIGSA Comment – Rian le Roux: Chief Economist

Local economic outlook takes a turn for the worst

The local economy continues to expand, but at a very pedestrian pace. Third quarter gross domestic product (GDP) increased by only 1.4% at an annual rate from the second quarter, but was still 2.9% higher than it was a year before. A key characteristic of the economy over the past year is the wide divergence between sectors. Whereas output in agriculture, mining, manufacturing and electricity all contracted by between 1% and 3.5% over the past year, output in trade, the financial sector, government, transport and communication all rose between about 3.5% and 4.5%.

The outlook for the local economy has taken a turn for the worse, largely owing to deteriorating global economic prospects. So, while growth for the 2011 calendar year will still exceed 3%, forecasts for 2012 have generally been lowered to around 2.5%.

SA economy growing slowly



Source: OMIGSA ERU

During the past month, panic about the Eurozone crises and deteriorating prospects for the world economy caused a sharp weakening of the rand, and the exchange rate weakened to levels last seen in May 2009. Yet, as the panic subsided, the rand clawed back a part of its earlier losses

Inflation edged up further in October to 6.0%. Yet, the so-called 'core rate' has remained unchanged at 3.8%. This implies that the rise in inflation is still primarily being driven by food, fuel and electricity prices. Looking forward, inflation risks have clearly increased, owing to the weakening of the rand. However, we still think inflation will peak at between 6% and 7% in the months to come, and then start to drift lower. This crucially assumes that the rand stabilises, oil remains around $110, and food inflation also starts to ease early in 2012.

With the economy still growing slowly, and risks skewed to the downside, interest rates are set to remain on hold well into 2012, despite the weaker rand and the uptrend in inflation.

2 December – 8 December 2011 in a nutshell

Global: Global markets took a knock this week following the Standard & Poor's (S&P) warning to the European Union (EU). The Standard & Poor's 500 Index (S&P 500) declined 0.82%, the Euro Stoxx 50 fell 1.11%, while emerging markets also delivered a negative return of 1.20%.
South Africa: The local market on the other hand performed quite well, with positive returns recorded for most sectors, with the FTSE/JSE All Share Index gaining 0.03%. The small companies sector recorded the best gain at 3.04%. The resources sector was the only one with a negative return of 0.31%.

Markets and Economics – Highlights

Global

- The US economy's accelerating pace of growth has eased some of the pressure on the Federal Reserve to purchase additional bonds. This advancement will also buy some time for the Fed to fine tune how it informs the public on the outlook for interest rates. Since its last meeting in November, improved employment statistics, as well as manufacturing and retail sales, have put to rest any concerns that the world's largest economy may fall back into a recession. Last week's coordinated central bank action to ease the debt crisis in the Eurozone, assisted in driving the biggest rally in the S&P 500 since March 2009.
- On Wednesday, S&P issued a warning that it could cut the credit ratings of both the EU and large Eurozone banks if EU leaders failed to resolve the debt crisis at Friday's summit. This move could escalate the EU's borrowing costs and make it more expensive to for it to fund financial aid programmes for member states. The S&P placed the EU's AAA credit rating on "Creditwatch negative".
- The Eurozone debt crisis is to blame for Brazil's poor economic growth in the third quarter, according to official statistics. Latin America's largest economy posted 0.0% growth for the third quarter, and consumer spending fell by 0.1% in the third quarter. The industrial sector also took a knock, down 0.9% in the period, and capital spending fell 0.2%. Finance Minister Mantega tried to ease fears by saying that this low growth is "temporary" and will pick up in the fourth quarter.

South Africa

- Local manufacturing growth slowed to 1% in October, undermining the recovery in Africa's biggest economy. Statistics South Africa said that factory input eased from a revised figure of 8.1% in September. Europe, which purchases a third of the country's manufactured goods, has already exhausted its demand for exports. This could convince the South African Reserve Bank (SARB) Governor, Gill Marcus, to leave the benchmark interest rate unchanged at its 30-year low of 5.5%. An expert said that the manufacturing sector is clearly under pressure, and the unfavourable external environment means it will likely stay that way for some time.
- Retail sales slowed to 7.4% year-on-year in October, suggesting that consumers are still hesitant and that interest rates may remain low a little while longer. The economic outlook deteriorated six months ago due to the debt crisis in the Eurozone and analysts have cut their growth forecasts, while the National Treasury has trimmed its 2011 expectations to 3.1% from 3.4% previously. The SARB's next monetary policy meeting will take place in mid-January 2012.

Key Indicators:

Market	Index	Movement for the period		Year to Date
		%	Index Value @ 08.12.2011	% Performance Return
United States	S&P 500 (US$)	-0.82%	1,234	-1.88%
Europe	Euro Stoxx 50 (Euro)	-1.11%	2,288	-18.08%
Emerging Mkts	MSCI Emerg Mkts (US$)	-1.20%	948	-17.67%
South Africa	FTSE/JSE All Share (ZAR)	0.03%	32,760	2.00%
Global	MSCI (US$)	-0.83%	1,175	-8.23%
ZAR/Dollar	Rand/US $ (ZAR)	1.77%	8.22	24.36%
ZAR/Pound	Rand/£ (ZAR)	1.51%	12.85	24.64%
ZAR/Euro	Rand/Euro (ZAR)	0.95%	10.98	24.21%
JSE	Industrials	0.86%	28,690	-5.66%
JSE	Financials	1.31%	22,130	2.23%
JSE	Resources 20	-0.31%	54,044	-4.01%
JSE	Small Companies	3.04%	32,875	-2.51%
JSE	Listed Property	1.12%	385	-0.47%
JSE	RAFI® 40	0.43%	6,773	1.78%
JSE	RAFI® ALSI	0.46%	6,487	0.31%
JSE	SWIX	0.51%	6,914	2.52%

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