



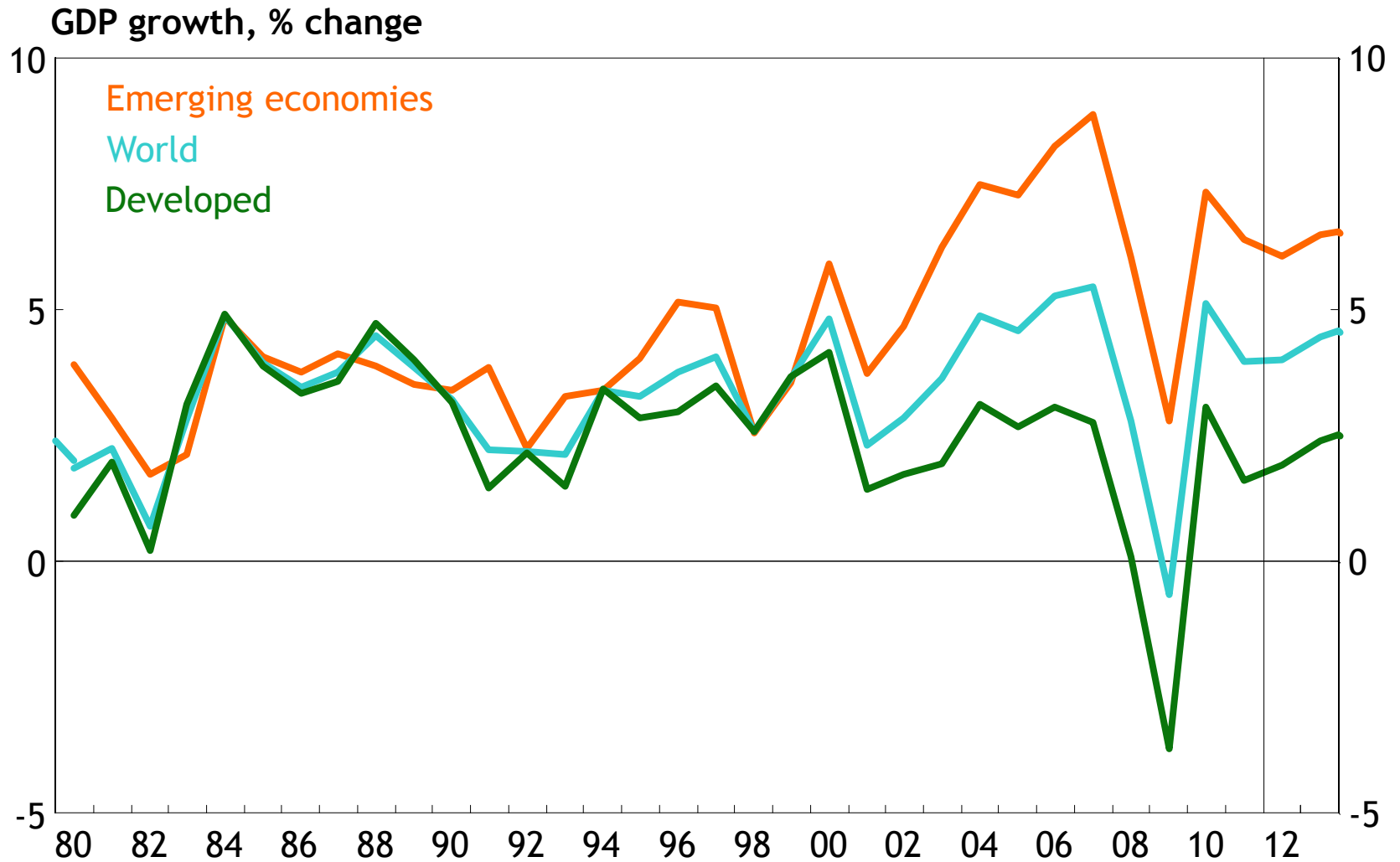
This is not 2008

JOHANN ELS
Senior Economist, OMIGSA

Our view of the global economy in 2012

- **Gradual healing & normalisation (55% probability)**
 - EU & US debt issues sufficiently addressed to prevent full-blown crisis
 - Slow global recovery continues; no double-dip, moderate acceleration in 2013
 - Aggressive monetary accommodation while fiscal tightening continues (= low rates, quantitative easing (QE))
 - Favour risk assets over interest bearing & cash

Gradual healing set to continue



Alternative scenario's

- **Alternative 1: Fairly strong cyclical rebound** (20% probability)
 - Growth surprises on the upside
 - Focus turns back to inflation...
 - ...and need for reversal of recent emerging market policy easing
 - Fiscal troubles in developed world fade as growth & tax revenues accelerate
- **Alternative 2: Growth slump** (25% probability)
 - Growth slowdown turns to outright double-dip
 - Commodities & emerging market (EM) currencies tumble, global recession, deflation fears return
 - QE 3, 4, 5...

Global economy - recent developments

- **Lots of volatility in October & November**
 - Good USA earnings season + better USA data
 - Hopes of decisive Euro policy action
 - Panic about Greece referendum + worries over Italy
 - Downward revision to growth forecasts
- **Some stability returned to markets during December/early January**
 - Late November: new Greek & Italian governments and quick action
 - Central bank action early December; liquidity measures:
 - European Central Bank (ECB) & EM cut rates
 - China cut bank's Reserve Ratio Requirement
 - European Union summit on future fiscal rules
 - Better-than-expected USA data during December
 - Deal to extend USA payroll tax cuts

Global economy - recent developments

Euro area

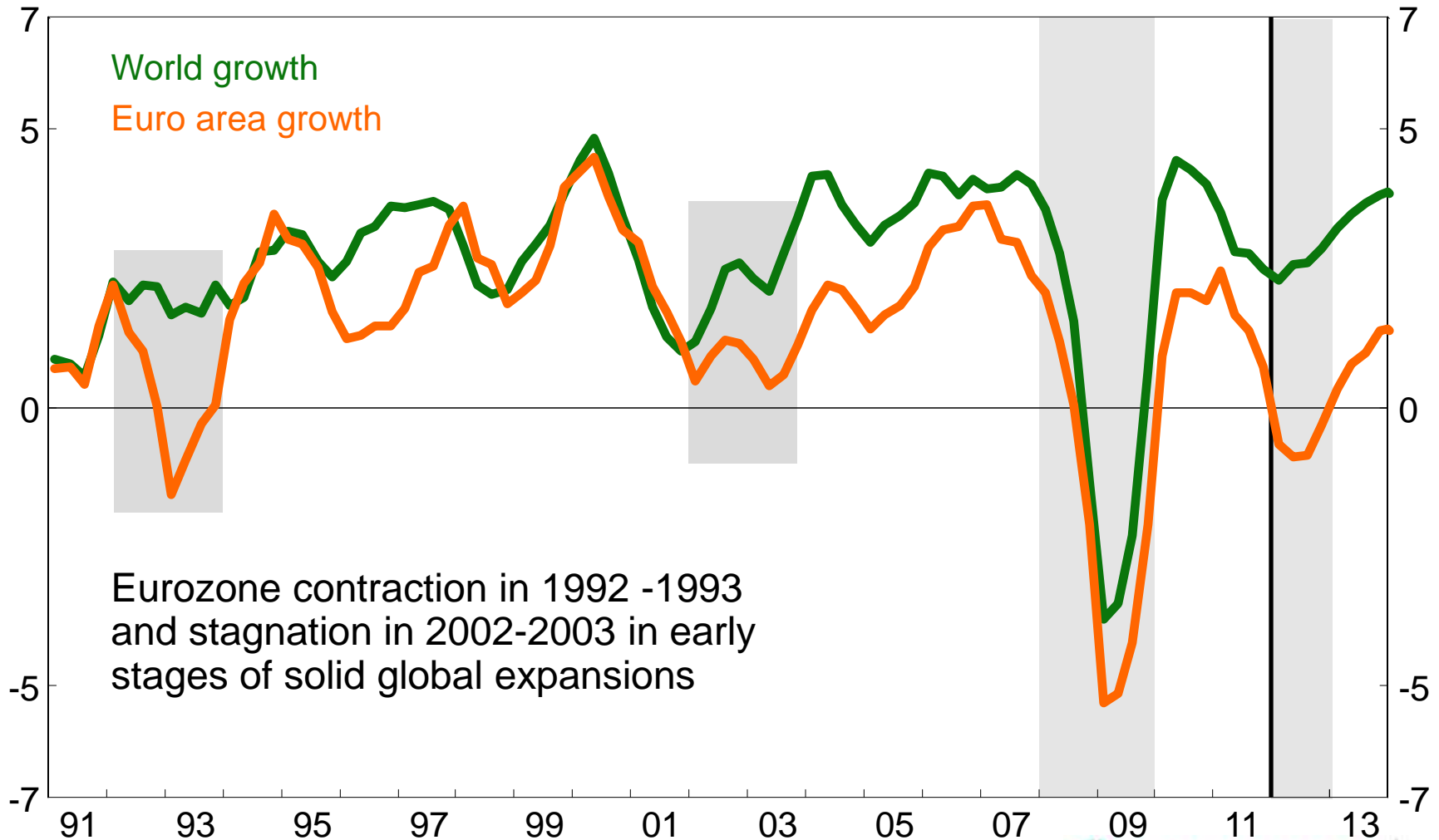
- Huge risks for global financial system/global economy = huge volatility
 - Italy & Spain need to raise €290bn in coming 6 months
 - Greece needs to implement private sector involvement (PSI)
- Economy in recession
- Inability of policymakers to provide workable solution
- Still large fiscal slippage (e.g. Spain 2011 deficit over 8% vs target 6%)
- **BUT**, Euro area expectations too pessimistic?
 - **ECB providing unprecedented support**
 - Long-term Refinancing Operation facility provided 523 banks with €489bn 3-year funds at 1% (another opportunity end February)
 - 2 rate cuts late last year, plus expected to take repo rate to 0.5% in next two months
 - Slowdown in economy has thus far been less acute than feared
 - Weaker € will provide some stimulus
- Euro area recession likely to be mild (IMF thinks area as a whole might even avoid a technical recession)
- **More room for positive surprises than negative surprises**



Reminder - Euro recession \neq global recession

BUT - big risk is freezing up of financial system if Euro debt problems not fixed

This is not 2008!



Eurozone contraction in 1992 -1993 and stagnation in 2002-2003 in early stages of solid global expansions

Global economy - recent developments

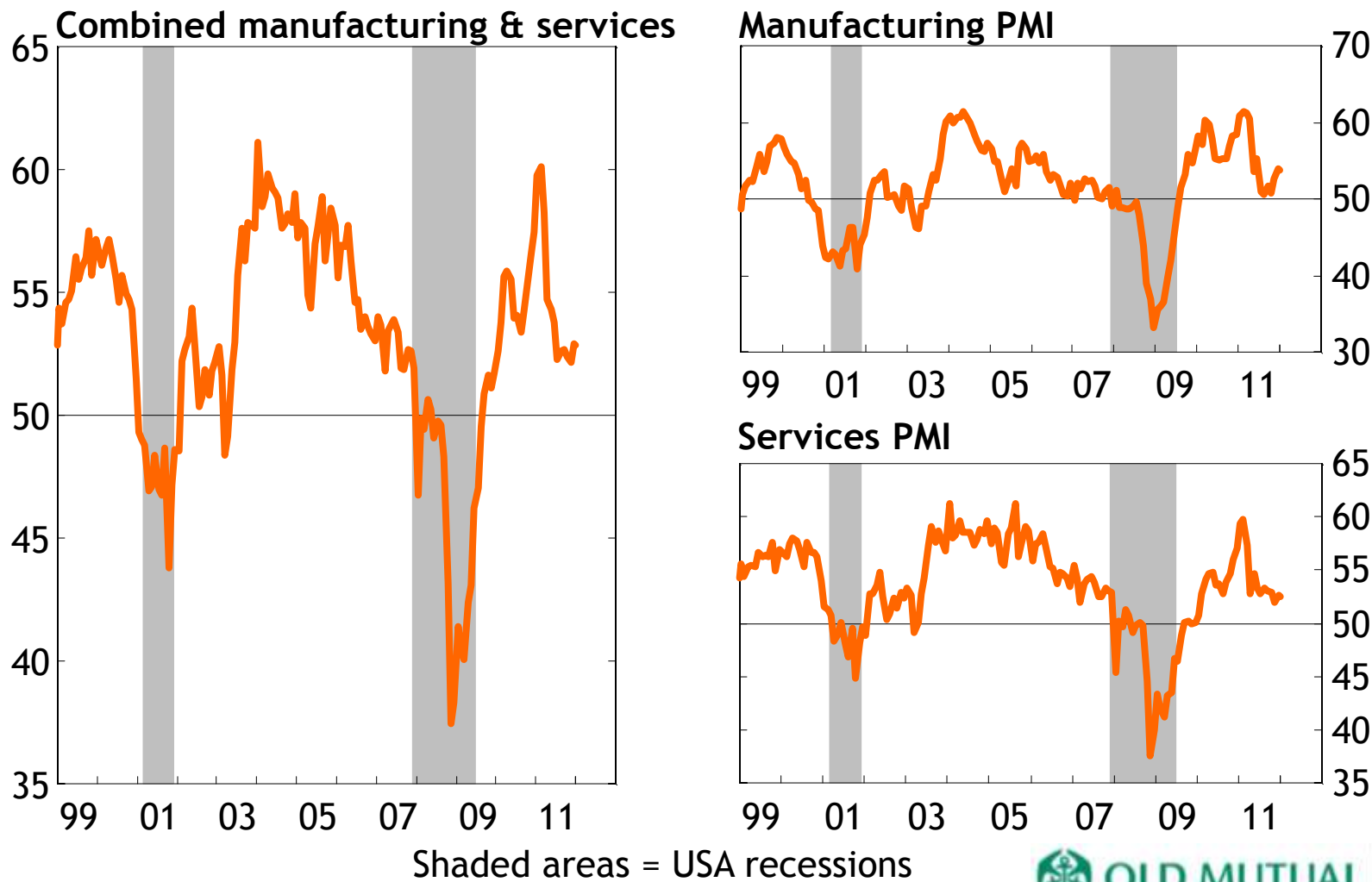
■ USA

- Better-than-expected data over past month
 - Q4 2011 GDP likely 3.5% saar vs 1.8% in Q3
- Credit-sensitive sectors (fixed investment, durable consumer spending) reviving
- Payroll tax cut likely extended for full year
- Profits healthy
- USA a mini-engine for world economy?
- BUT, USA will have to weather the weaker patch elsewhere in the world
 - Weaker export growth likely
 - Recent gains in manufacturing and employment might not be as strong in early 2012
- Certainly **no boom, but better than feared** – around 2.5% growth expected in 2012 vs 1.8% in 2011

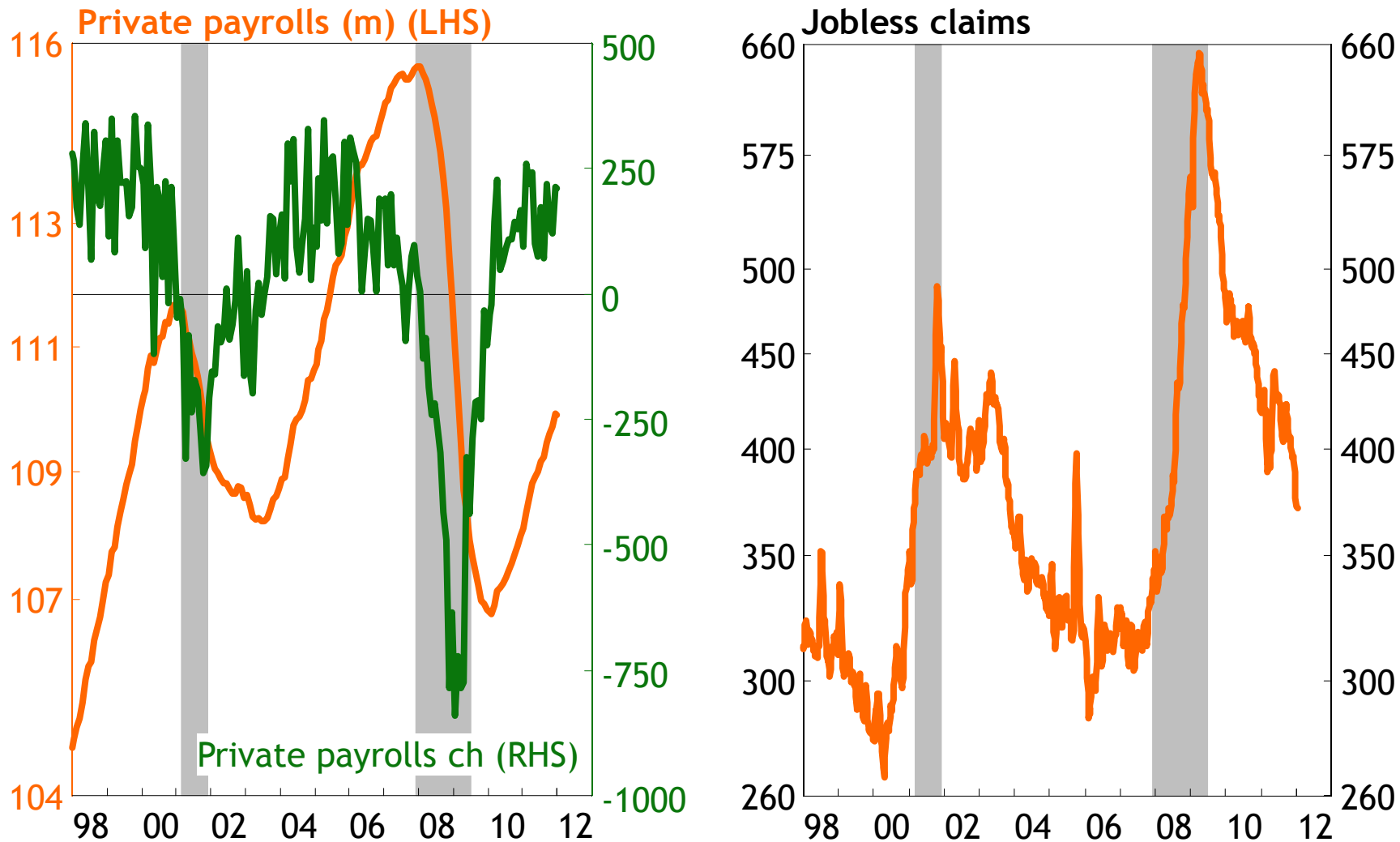
USA - combined PMI remains in expansionary mode

PMI = purchasing manager's index

Neutral = 50; above 50 denotes expansion; below 50 denotes contraction

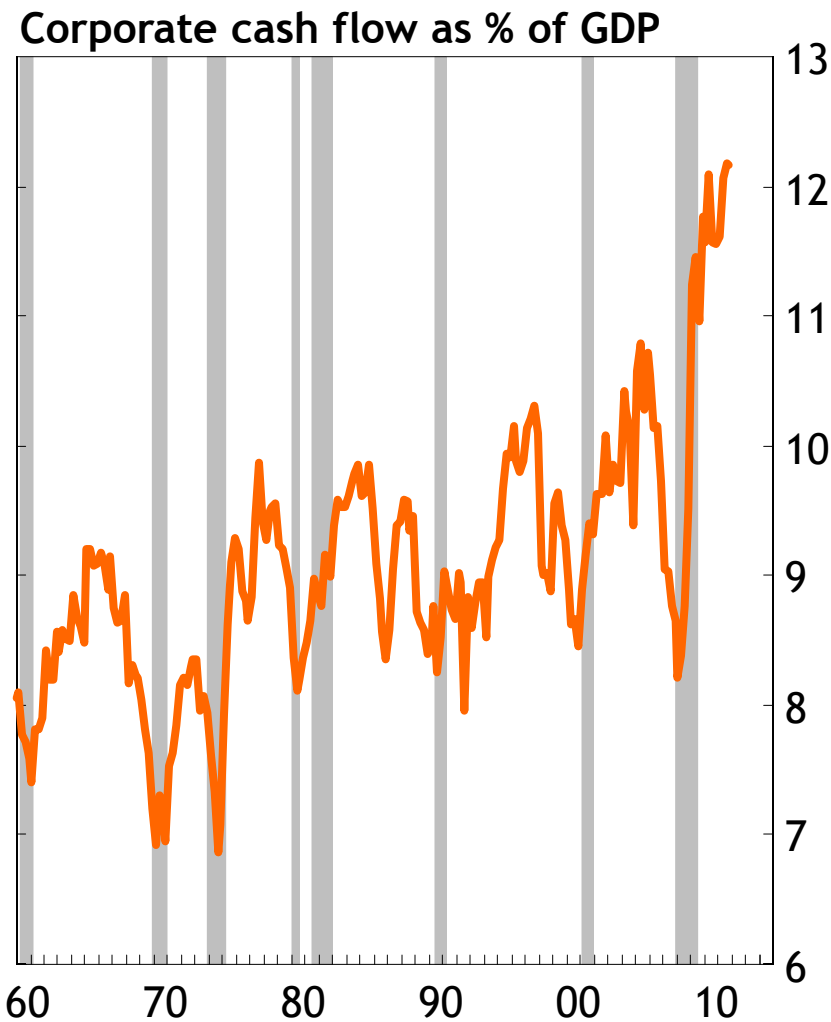
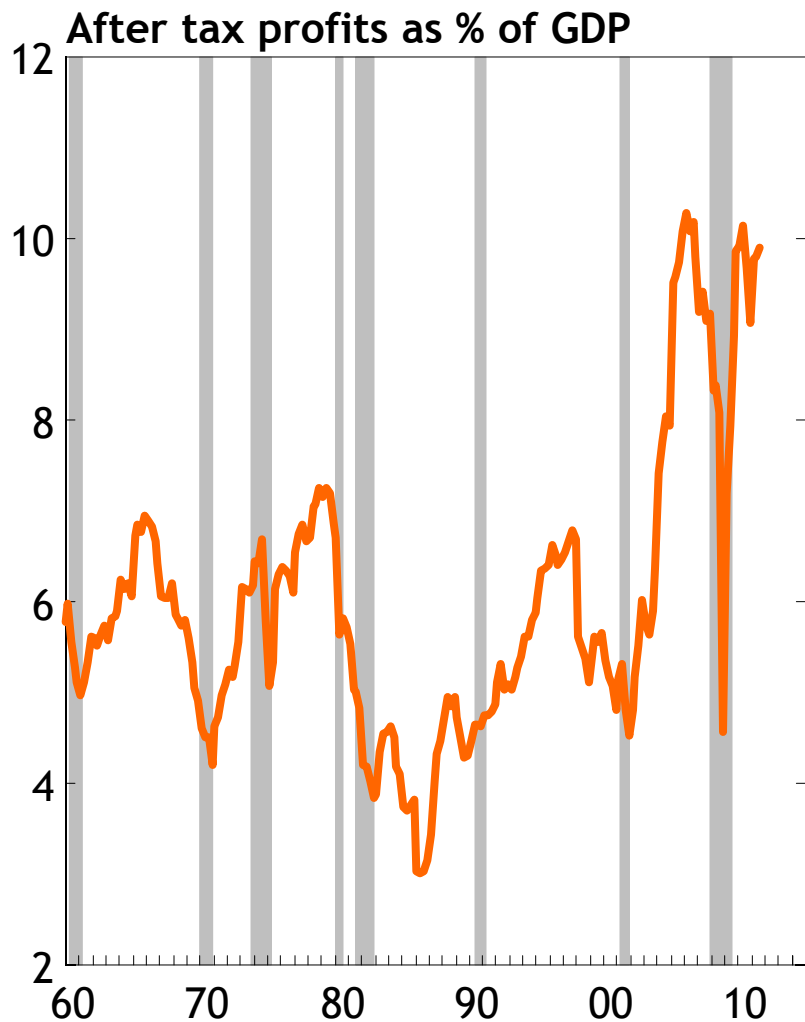


USA - labour market improvement continues



Shaded areas = USA recessions

USA - corporates healthy



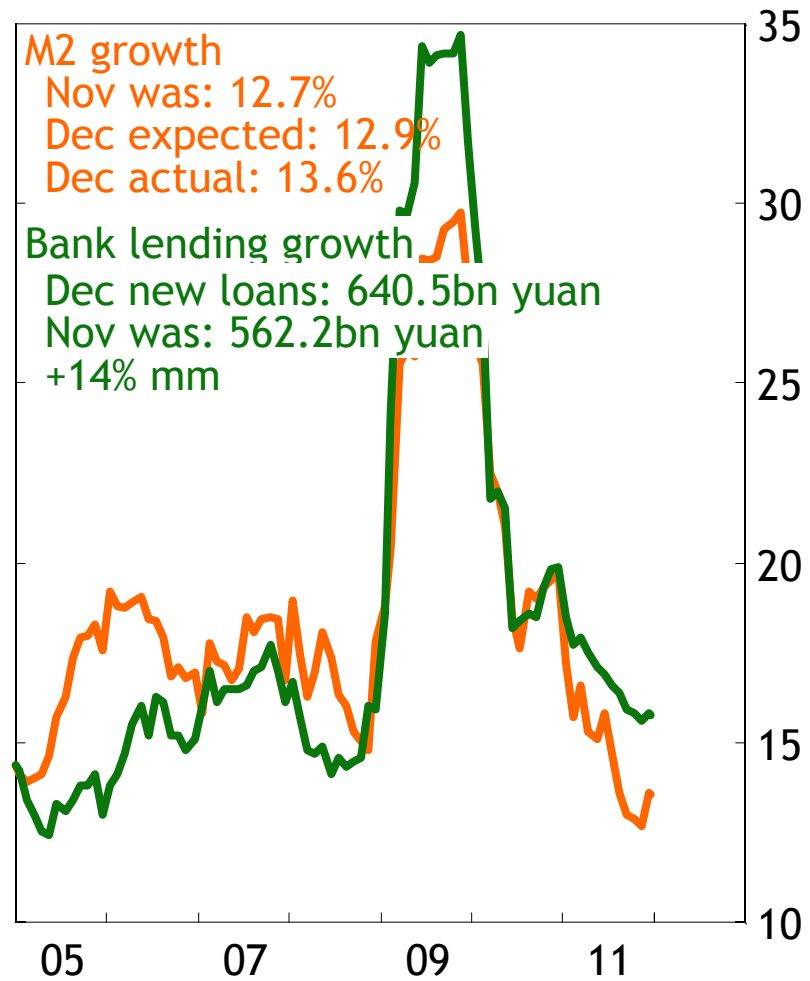
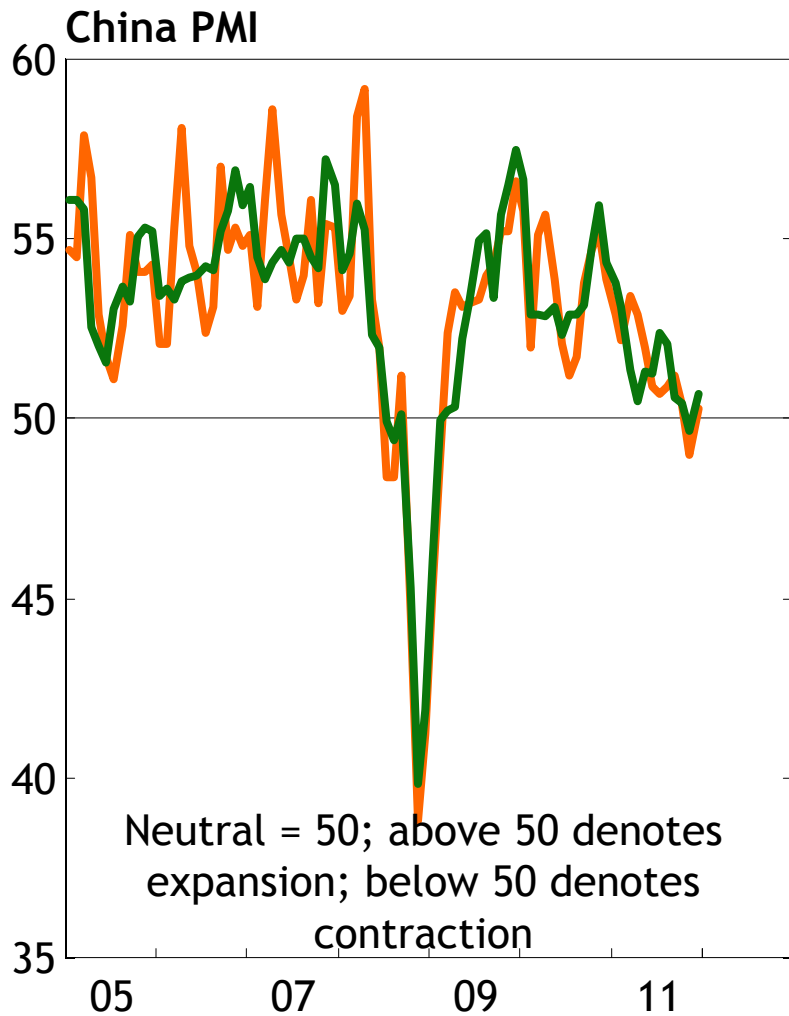
Shaded areas = USA recessions

■ China

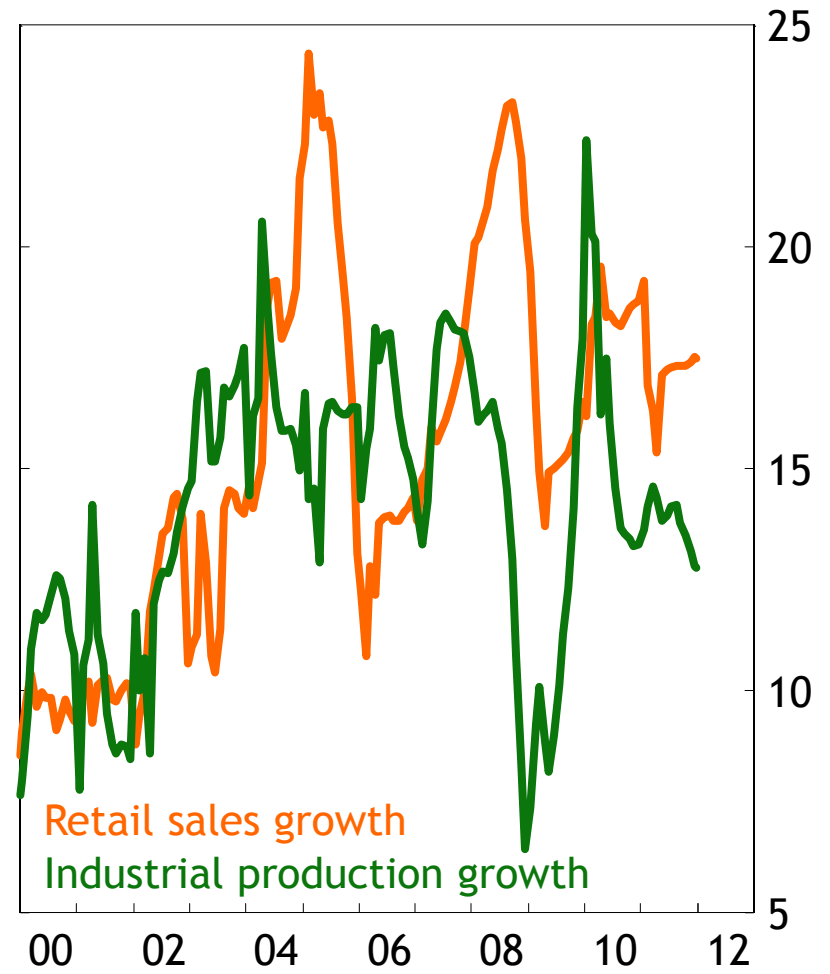
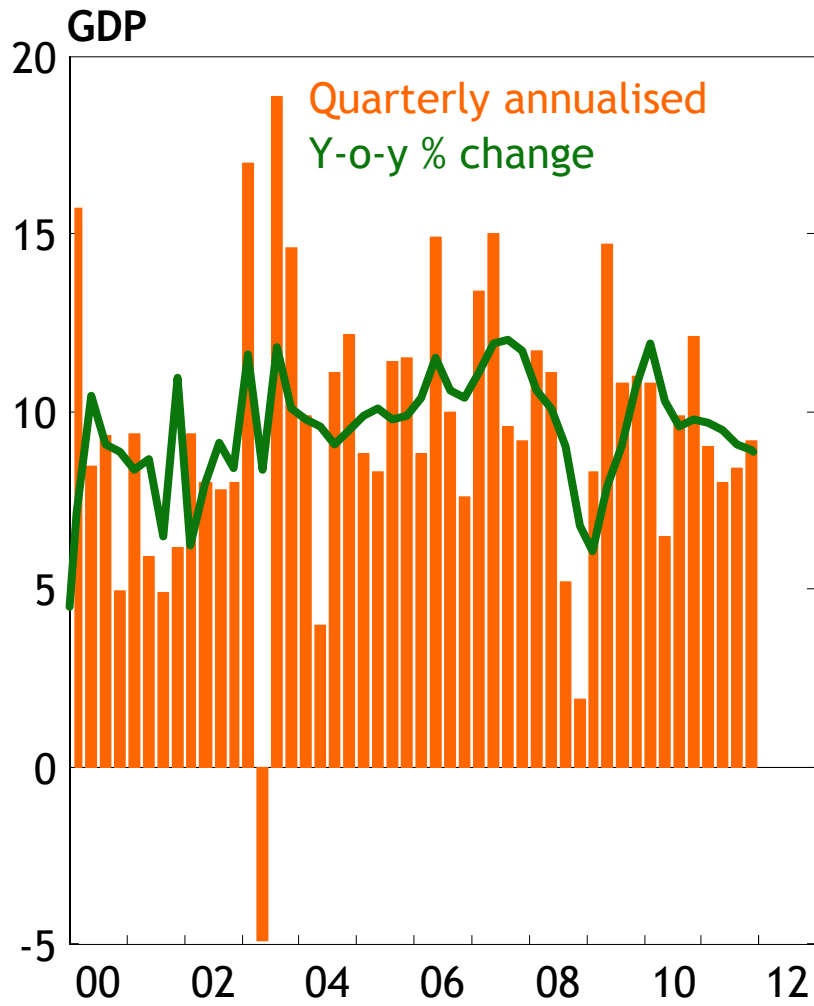
- Worries about a growth slowdown
- BUT, some better indicators recently
 - latest GDP, IP & retail sales growth better than expected
 - PMI rebounding to above 50
 - Latest M2 money supply and lending growth showing signs of credit easing
 - Inflation falling
 - Central Bank cut Reserve Ratio Requirement (RRR) in December
 - Lots of room for more policy easing
 - RRR, interest rates, fiscal support
- Slower growth for a few quarters...
- But rebounding from Q2 2012
- **Hard landing unlikely**



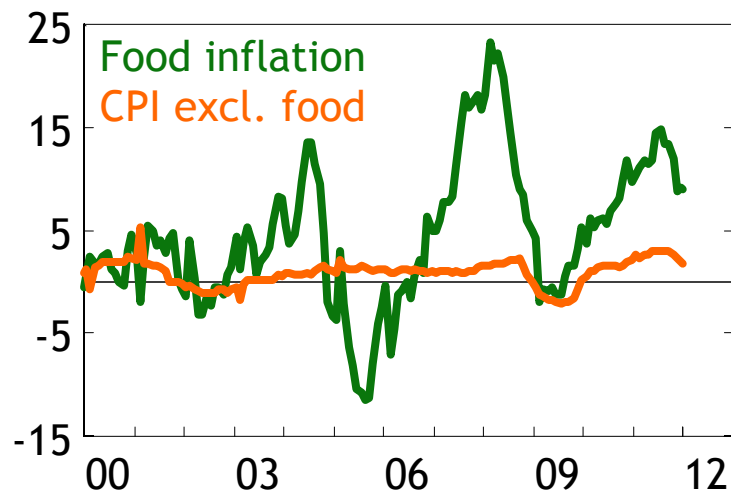
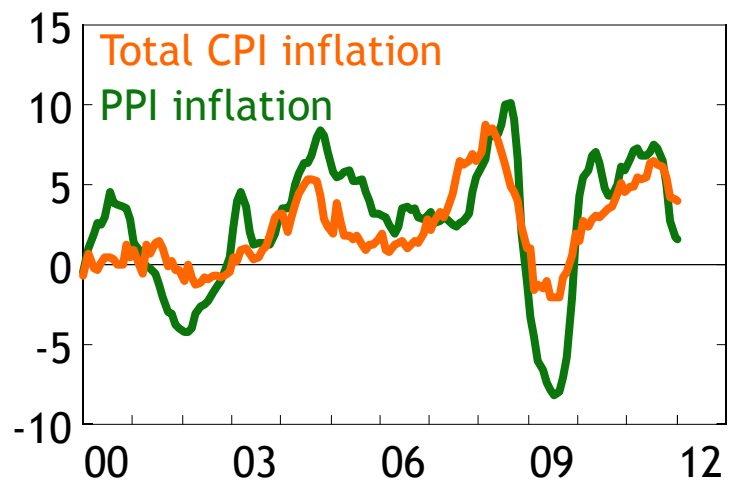
China - PMI back above 50 + signs credit crunch easing



Latest Chinese data in line with our “soft landing view”

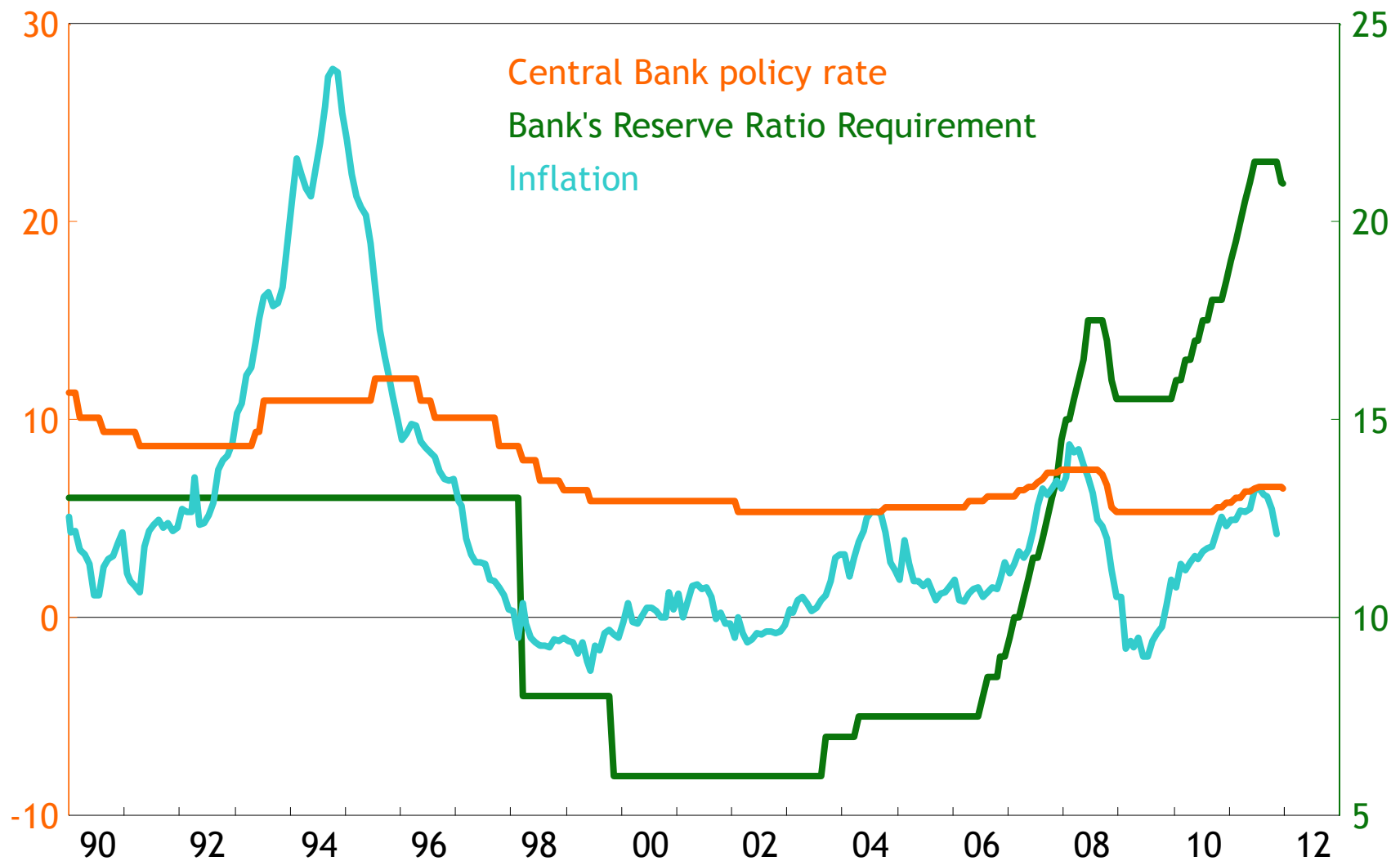


China - Lower inflation should help policy easing...



Chinese inflation, y-o-y % change						
	2011					
	Dec	Nov	Oct	Sep	Aug	July
Total	4.1	4.2	5.5	6.1	6.2	6.5
Urban	4.1	4.2	5.4	5.9	5.9	6.2
Rural	4.1	4.3	5.9	6.6	6.7	7.1
Consumer goods	4.9	5.0	6.6	7.3	7.3	7.6
Services	2.0	2.4	2.8	3.0	3.4	3.7
Food	9.1	8.8	11.9	13.4	13.4	14.8
Non-food	1.9	2.2	2.7	2.9	3.0	2.9
Tobacco & alcohol	3.9	3.8	3.7	3.4	2.9	2.8
Clothing	3.8	3.5	3.7	3.2	2.9	2.2
Household items	2.5	2.9	3.1	3.0	2.8	2.7
Medical	2.8	3.2	3.5	4.1	4.1	3.6
Transport & comm	0.3	0.5	0.8	1.0	1.0	0.9
Recreation & education	0.1	0.1	0.0	0.0	0.4	0.5
Housing	2.1	3.0	4.4	5.1	5.5	5.9

China - Lower inflation should help policy easing...

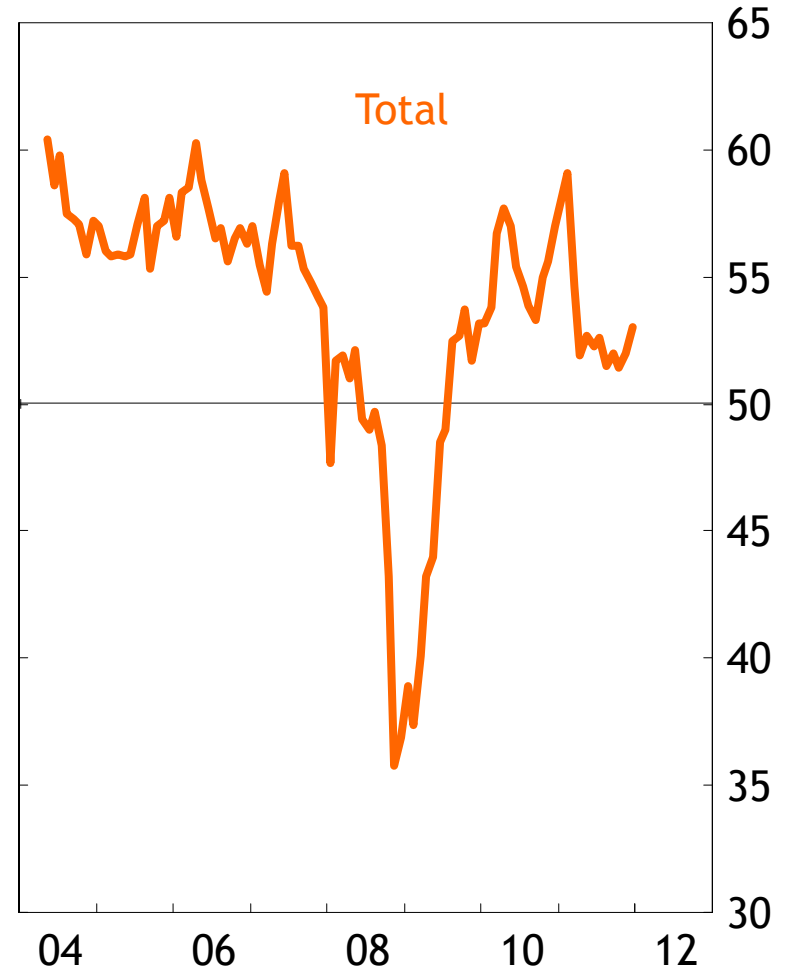
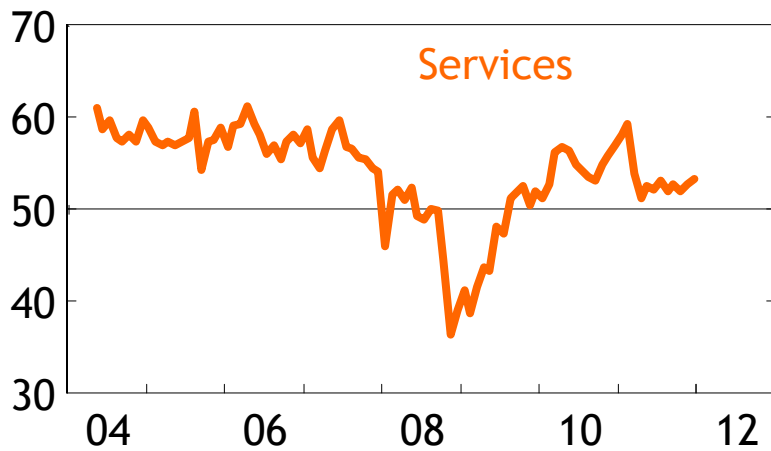
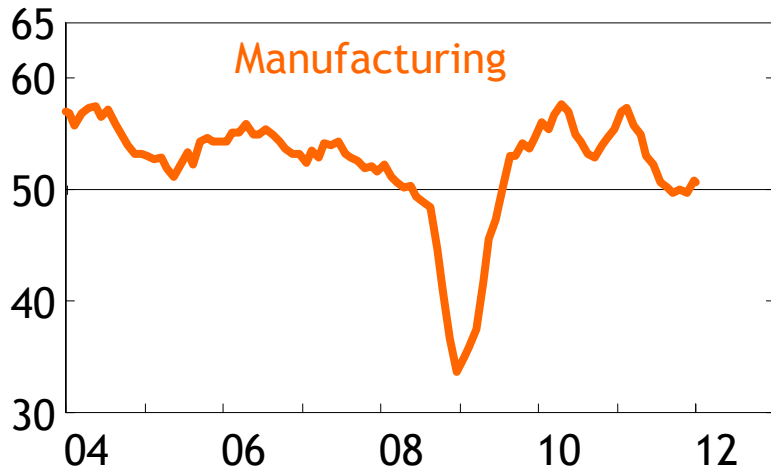


Global economy looks better than a few months ago

JP Morgan Global PMI

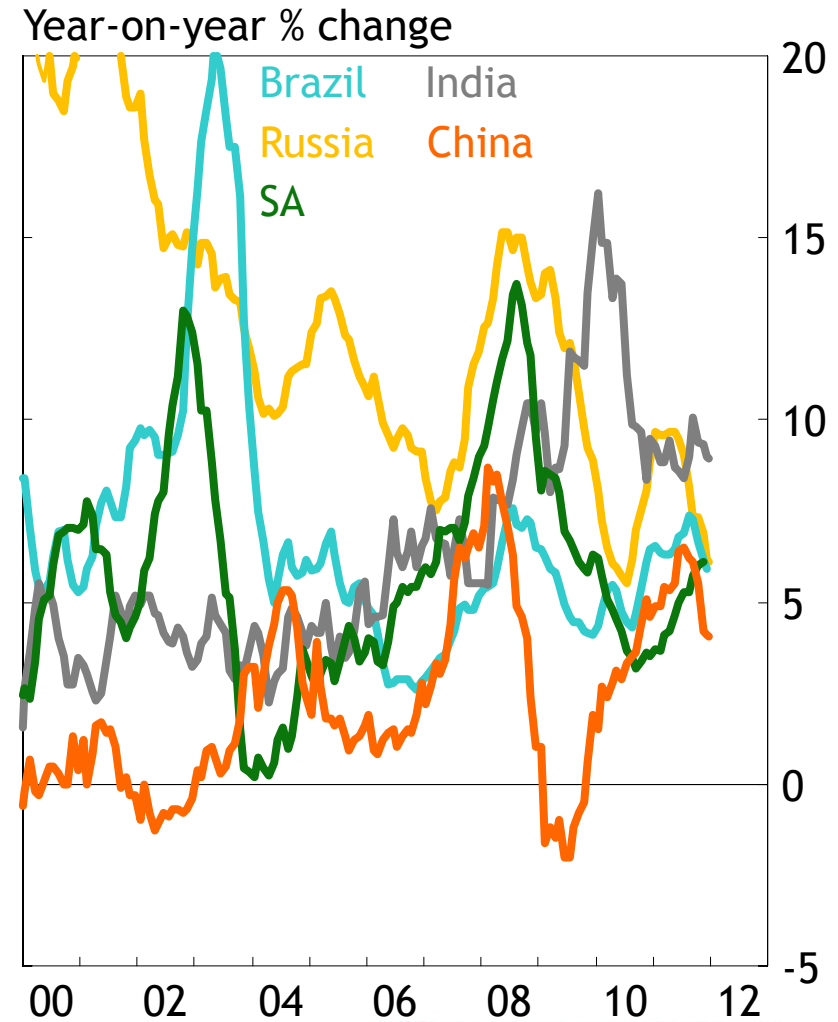
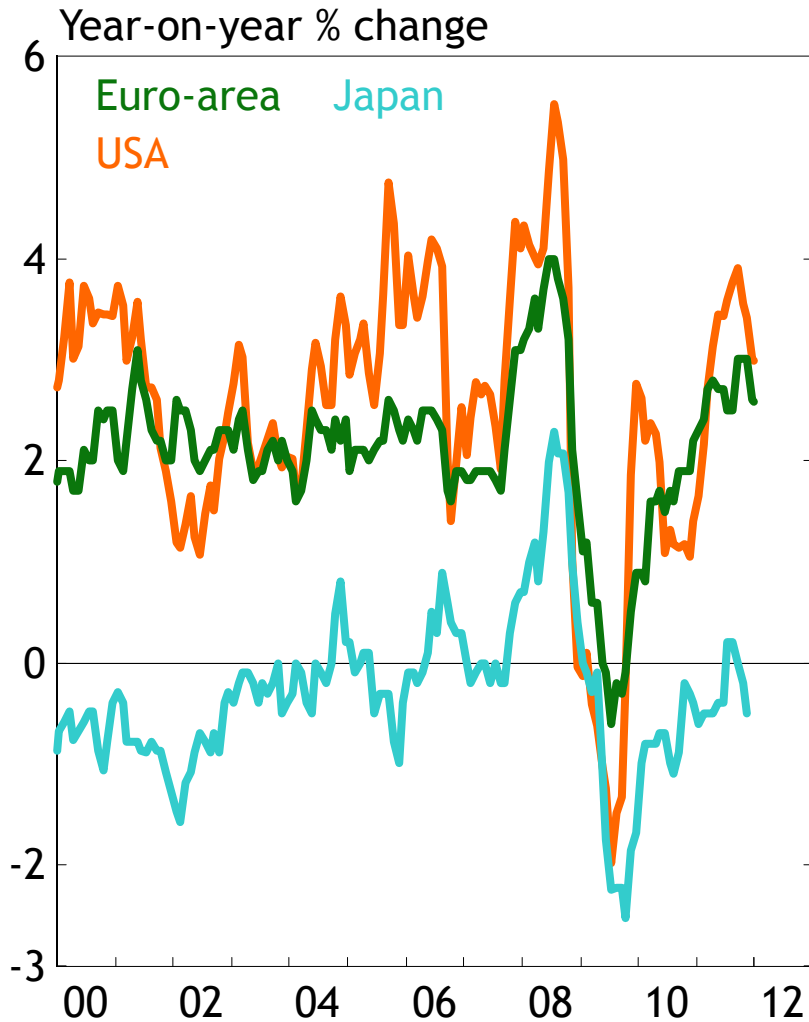
PMI = purchasing manager's index

Neutral = 50; above 50 denotes expansion; below 50 denotes contraction



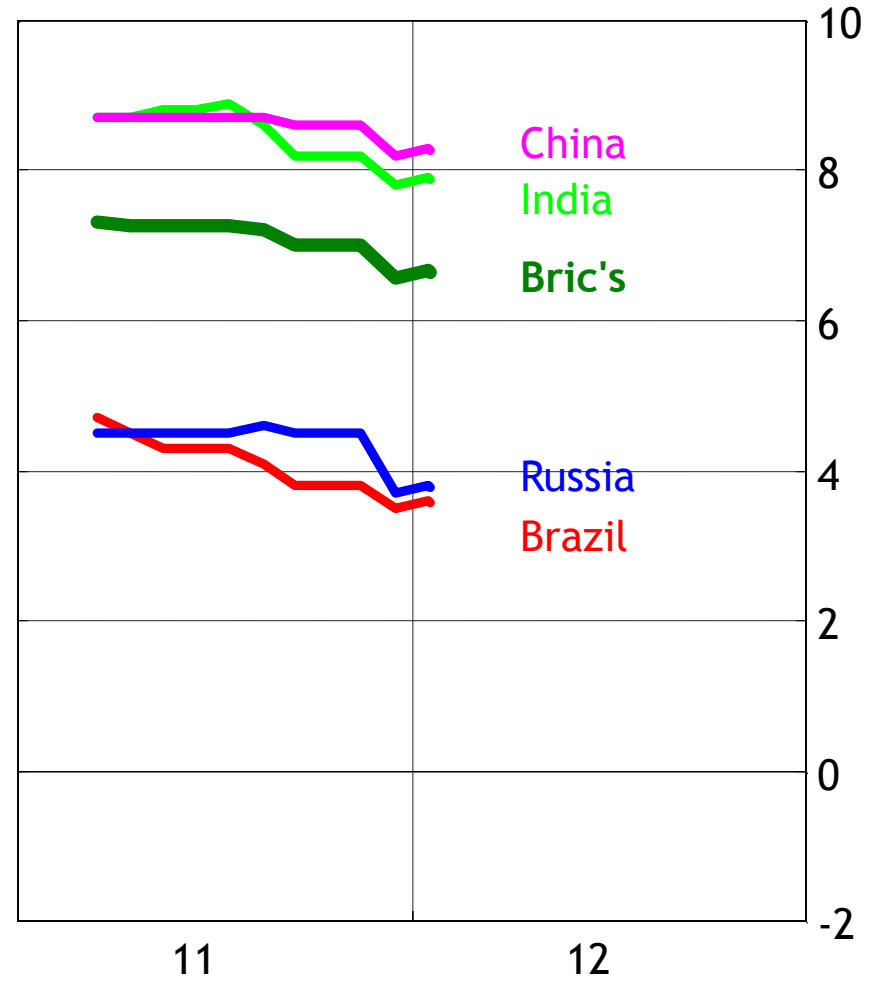
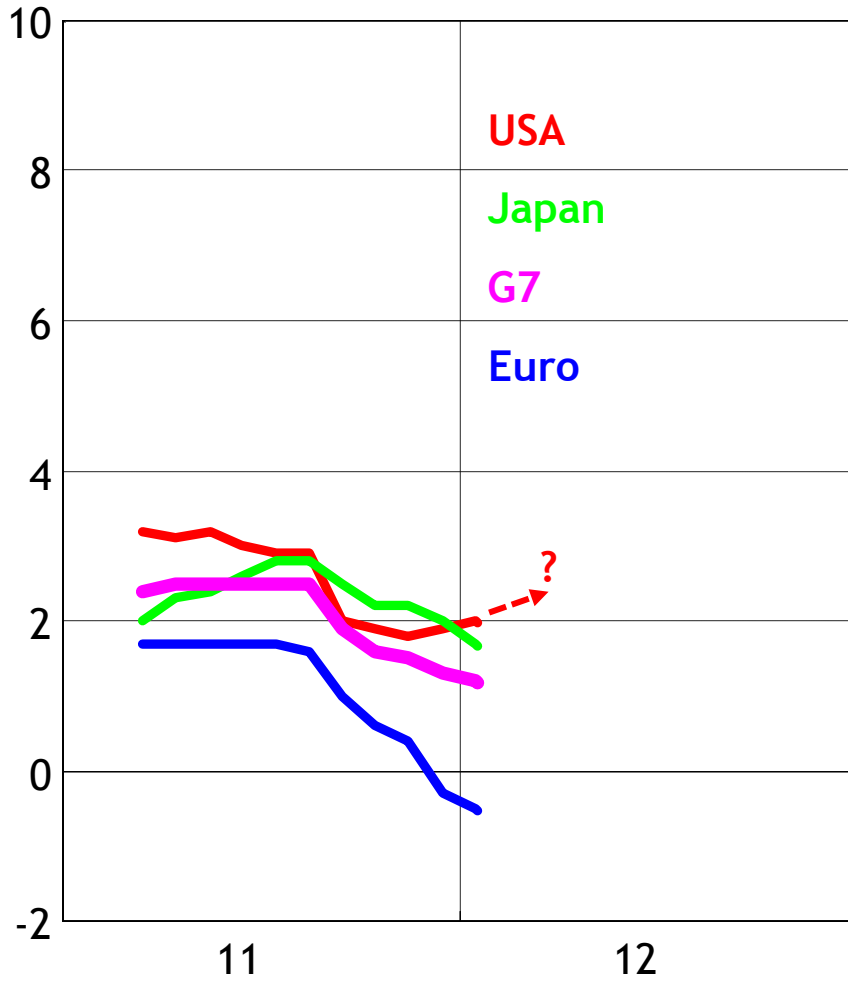
Lower inflation rates should help consumers - and policymakers (SA inflation still rising...)

Global inflation rates



GDP growth forecasts for 2012

Economist survey



Global summary

- **Focus still squarely on risks**
 - Euro debt problems
 - USA deficit issues
 - Slow growth + growth risks
 - Chinese growth risks
- **But incoming macro data shows improvement**
 - Real data in USA; some better numbers also in Euro area and China
 - Inflation also easing
- **Continued easy (and even easier - Euro, China) monetary policy**
- **Still in OMIGSA base case scenario**
- **But volatility & market fears to continue for some time**
- ➔ **More possibility of positive surprise than negative surprise?**

Remember 2011's shocks? MENA, Japan earthquake & tsunami, Euro & USA debt issues

Our view of the SA economy in 2012

- **Moderate growth (probability 60%)**
 - Global muddle through: debt & growth issues remain drags & concerns
 - Moderate growth (2.7% in 2012; 3.5%+ in 2013; potential of 3½%)
 - Inflation to peak below 7% in H1 '12, then trend lower
 - Trade-weighted rand broadly sideways from end-2011 levels, may firm in 2012
 - Rates on hold through 2012, next move likely still up (moderately)

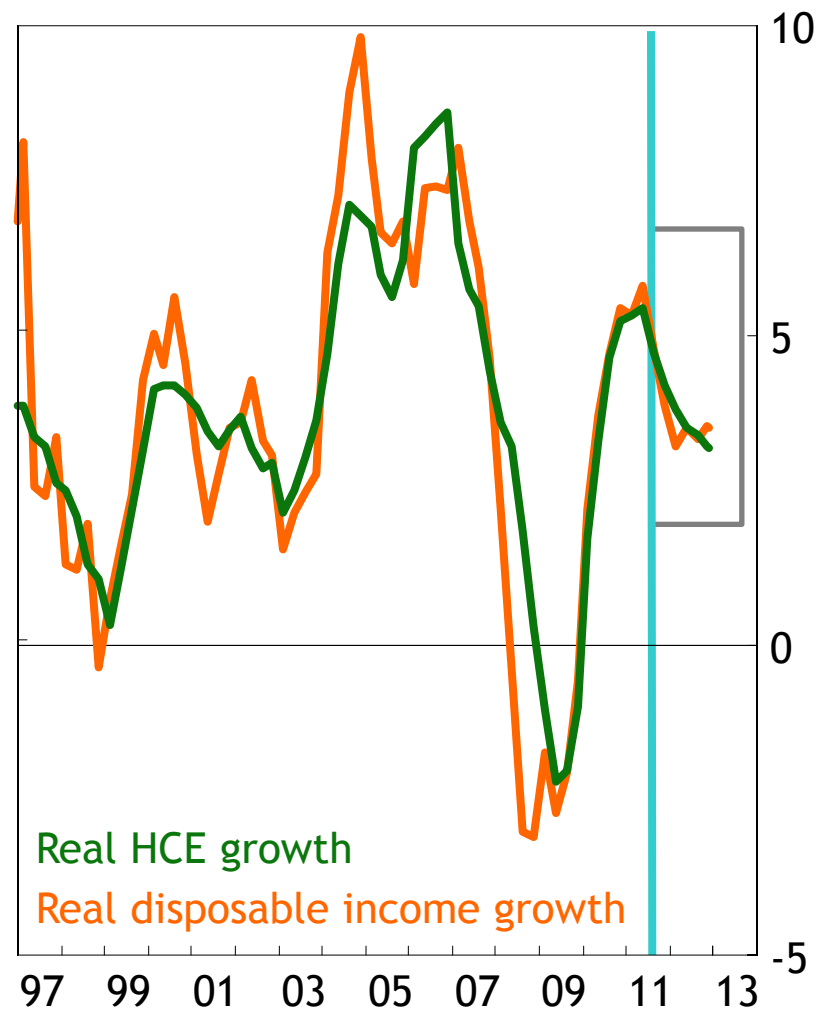
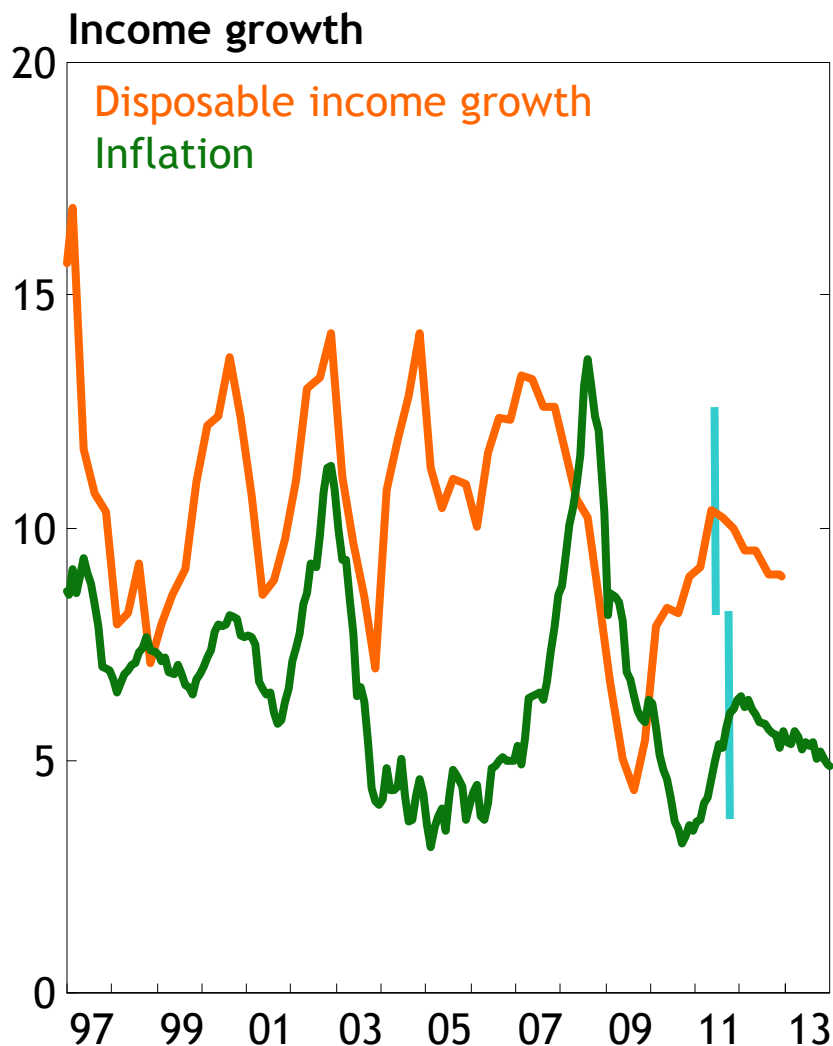
Alternative scenario's

- **Alternative 1: Global chaos (probability 25%)**
 - Rand slumps, inflation heads up to 10%
 - Growth slumps
 - Rates flat or lower initially, up later
- **Alternative 2: SA troubles: (probability 15%)**
 - Rand slumps for 'SA reason' - politics or policy worries or current account
 - Inflation rises sharply (10% or higher)
 - Rates rise

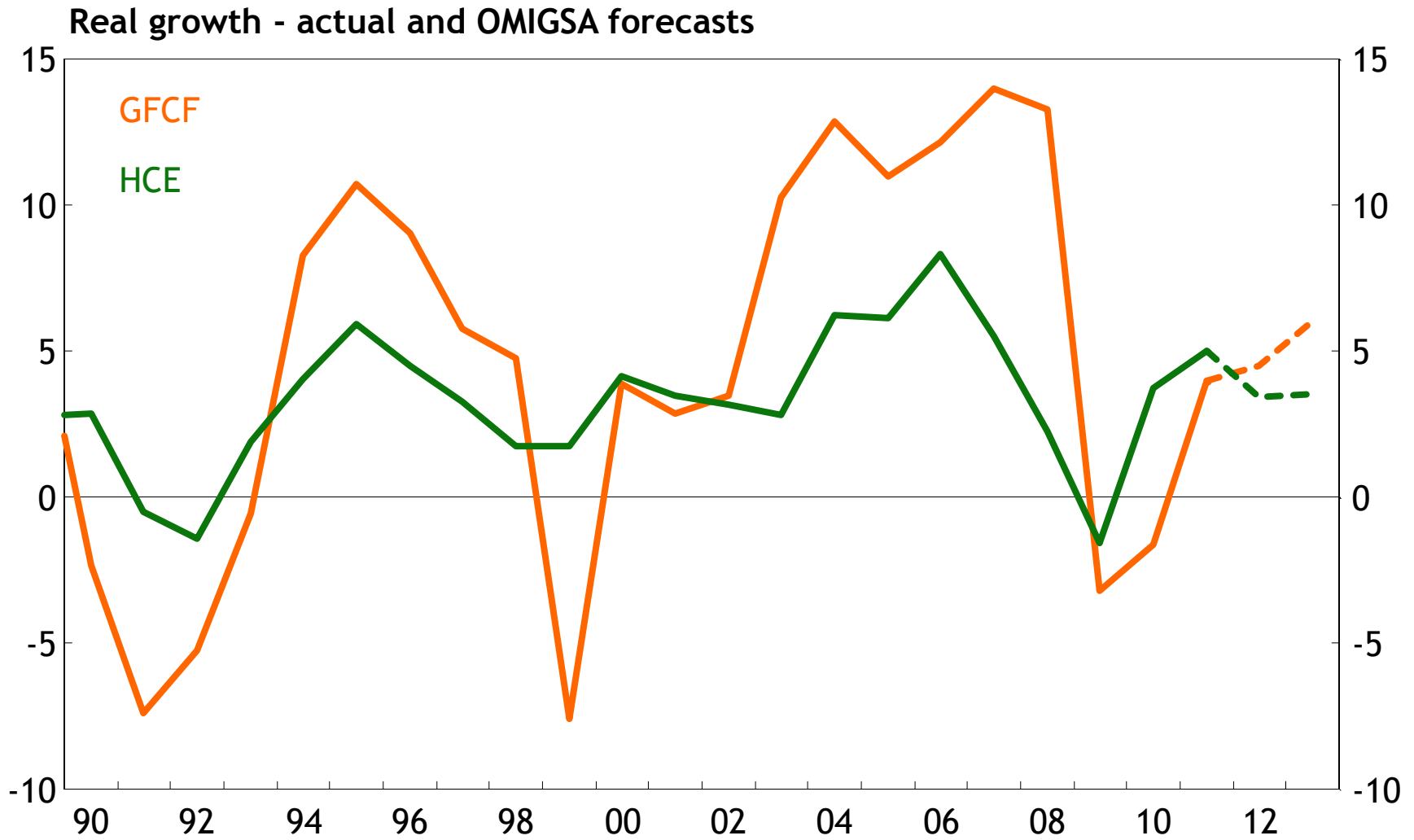
SA real economy in 2012

- **Real GDP growth to slow to 2.7%**
 - From 3.1% in 2011
 - But slowdown not as severe as 2008/9
- **Household Consumption Expenditure has been the main driver of growth**
 - **But HCE growth to slow - 3.4% growth in 2012 from 5.0% in 2011**
 - Slower real disposable income growth
 - Tight lending standards
 - Still high debt burden
 - Administered prices
- **Fixed-investment growth to continue recovery**
 - 4.5% growth in 2012 from 3.8% in 2011

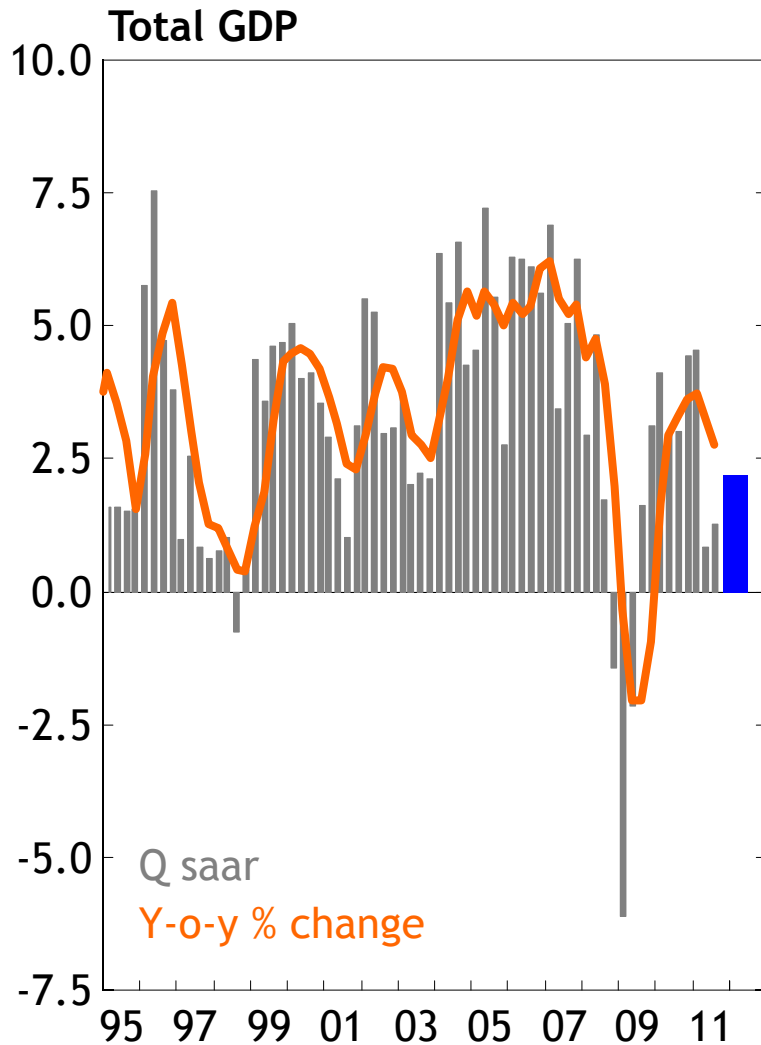
Slower nominal income growth plus higher inflation to lead to slowing consumer spending growth



Growth rotation between HCE and GFCF



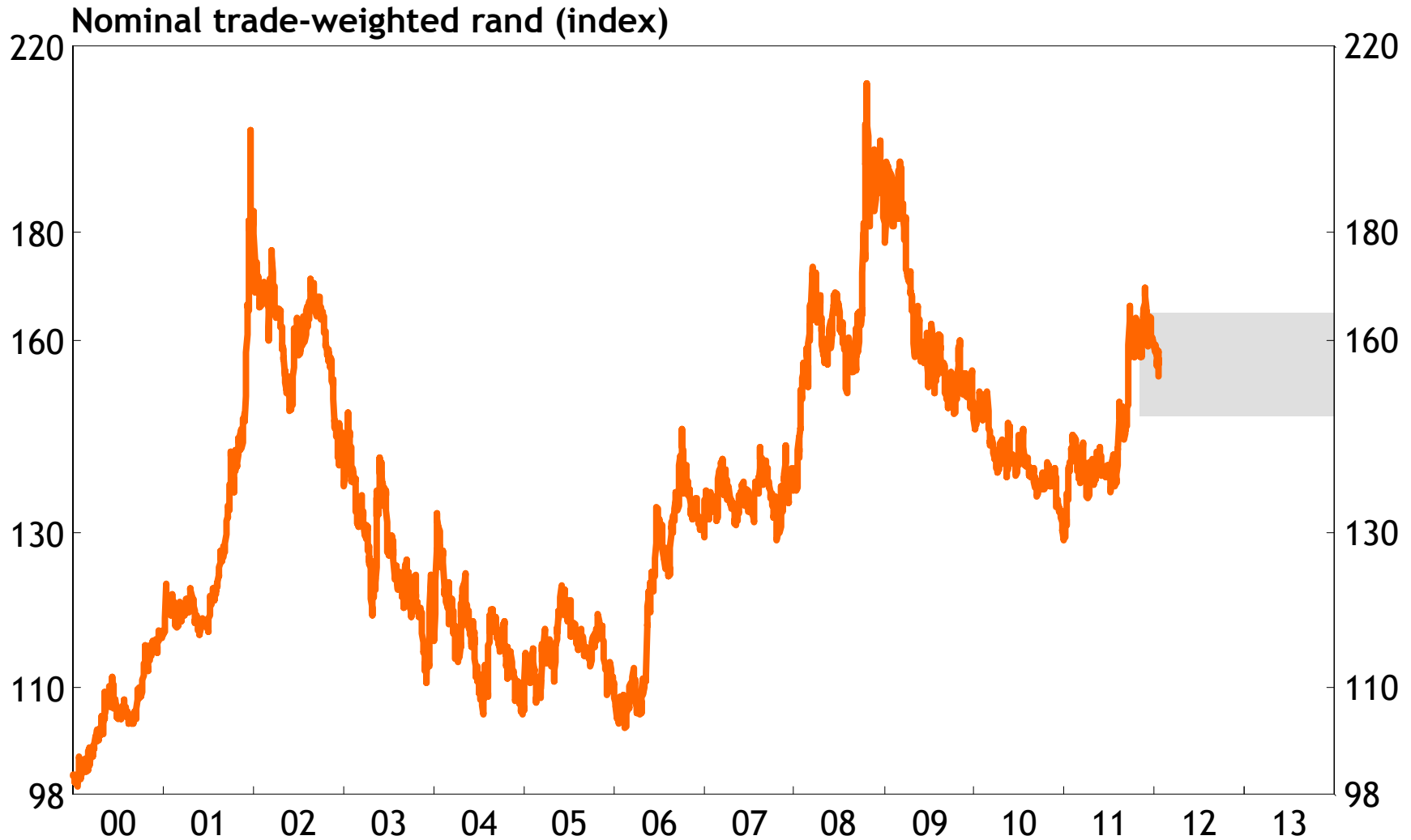
Q4 GDP growth around 2.0% - 2.5%+ saar from 1.3% in Q3



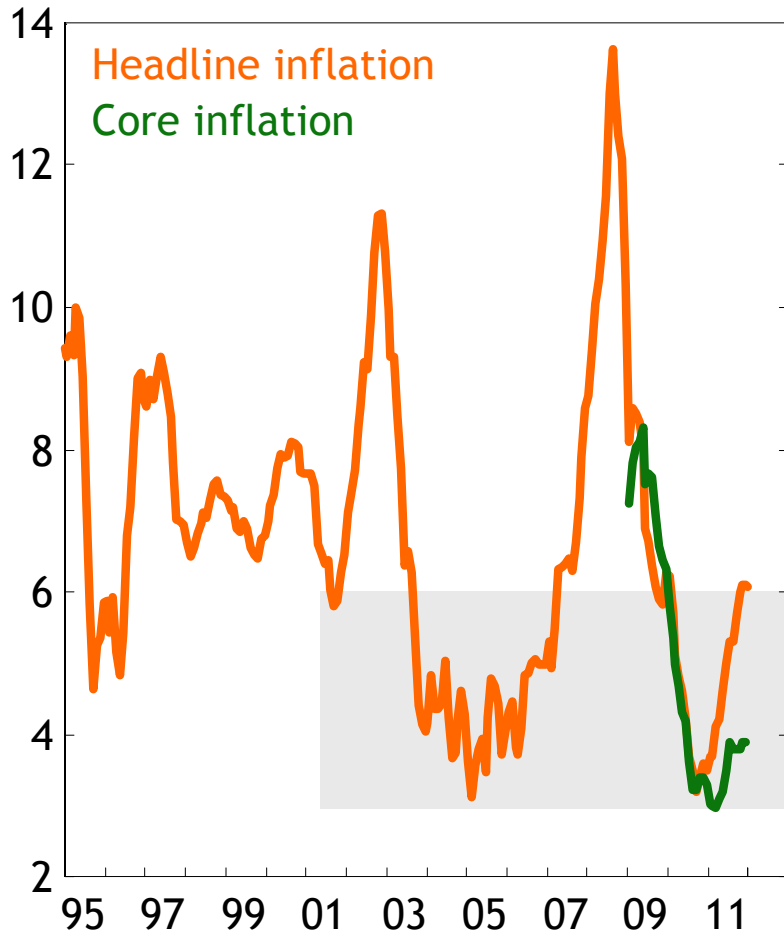
	<i>data edge</i>	Q4	Q3	Q2
		Q-o-q saar		
Mining	<i>Nov</i>	-9.7	-17.6	-4.3
Manufacturing	<i>Nov</i>	2.6	-0.6	-8.1
Electricity	<i>Nov</i>	2.4	-8.8	-1.3
Wholesale sales	<i>Nov</i>	0.7	6.3	12.6
Retail sales	<i>Nov</i>	7.3	13.6	2.7
Building plans passed	<i>Nov</i>	39.8	41.1	-26.8
Cement sales	<i>Dec</i>	8.0	12.0	11.0
Car sales	<i>Dec</i>	50.0	18.0	-7.0
Commercial vehicle sales	<i>Dec</i>	12.7	59.8	-23.8
Consumer credit extended	<i>Nov</i>	2.0	2.0	4.1
Corporate credit extended	<i>Nov</i>	10.5	15.6	10.1
Factor cost GDP		2.0% - 2.5%?	1.3	0.8

Rand fairly stable after last year's adjustment

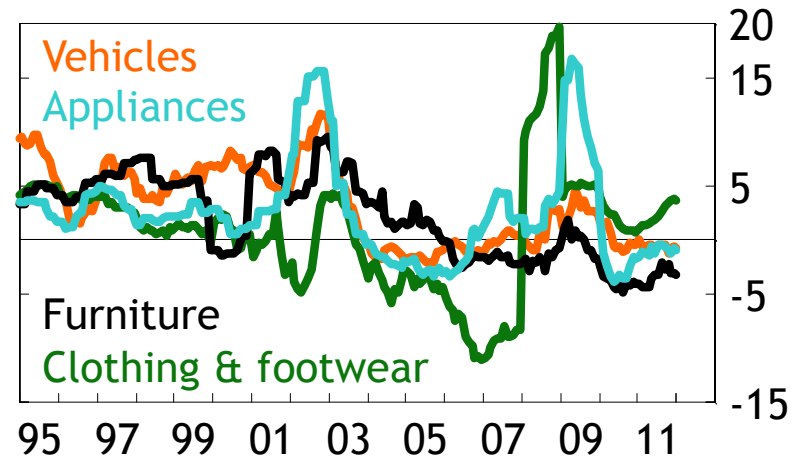
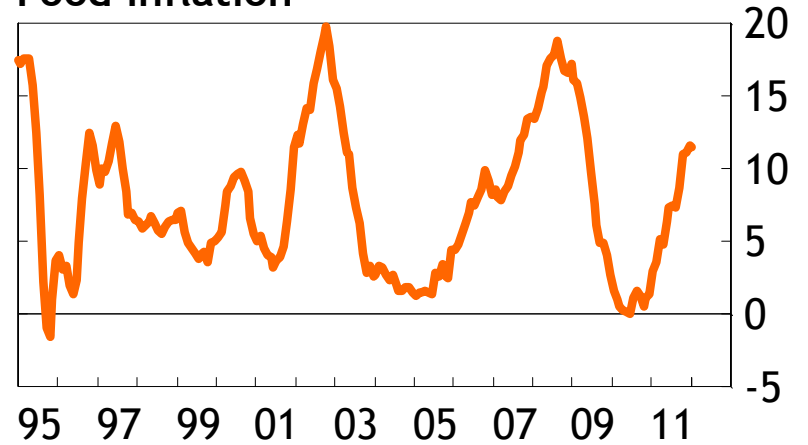
We expect this stability to continue - with risk for more strength



Headline inflation up on food and energy; underlying and consumer goods inflation rates still contained

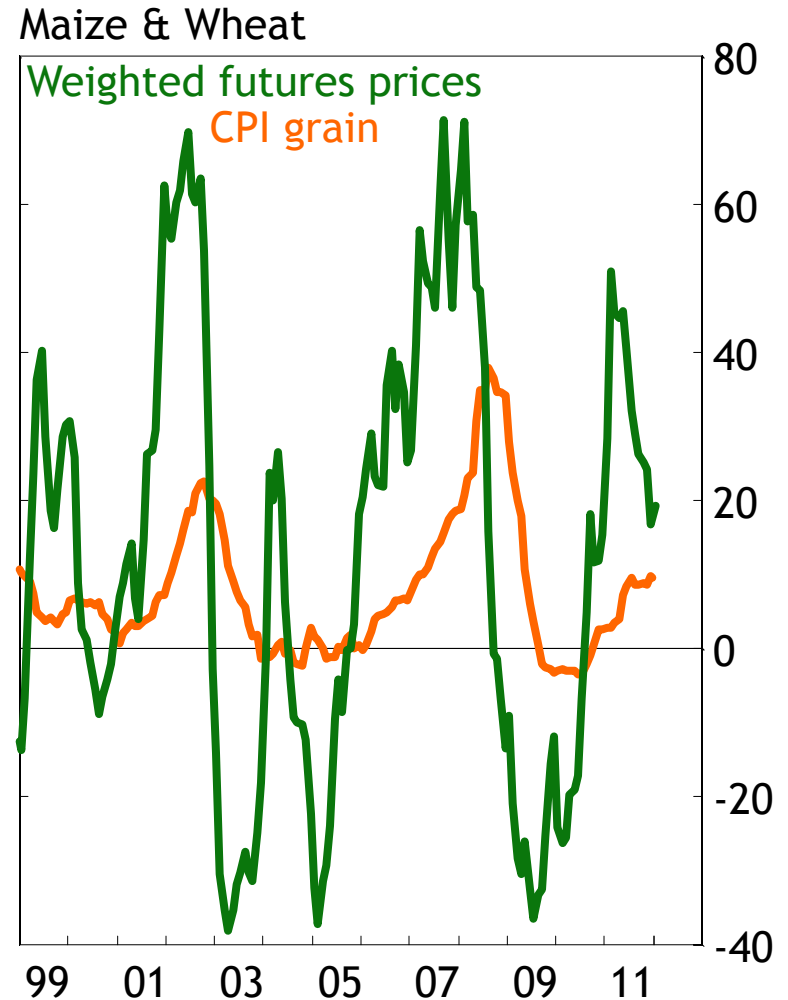
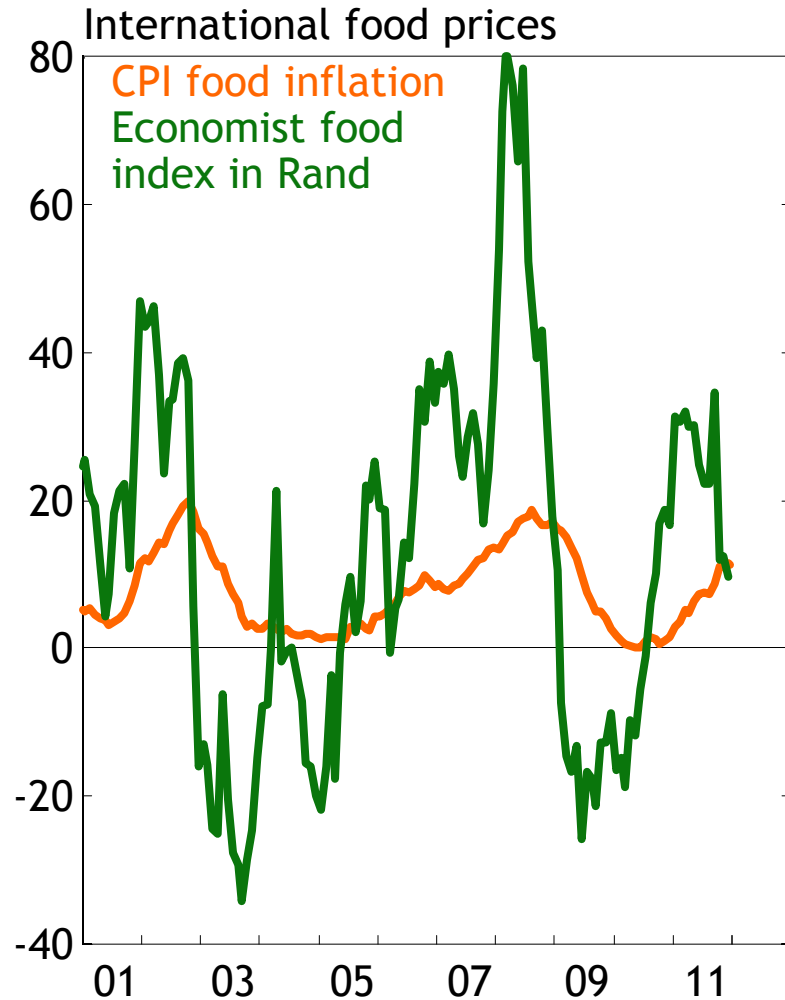


Food inflation

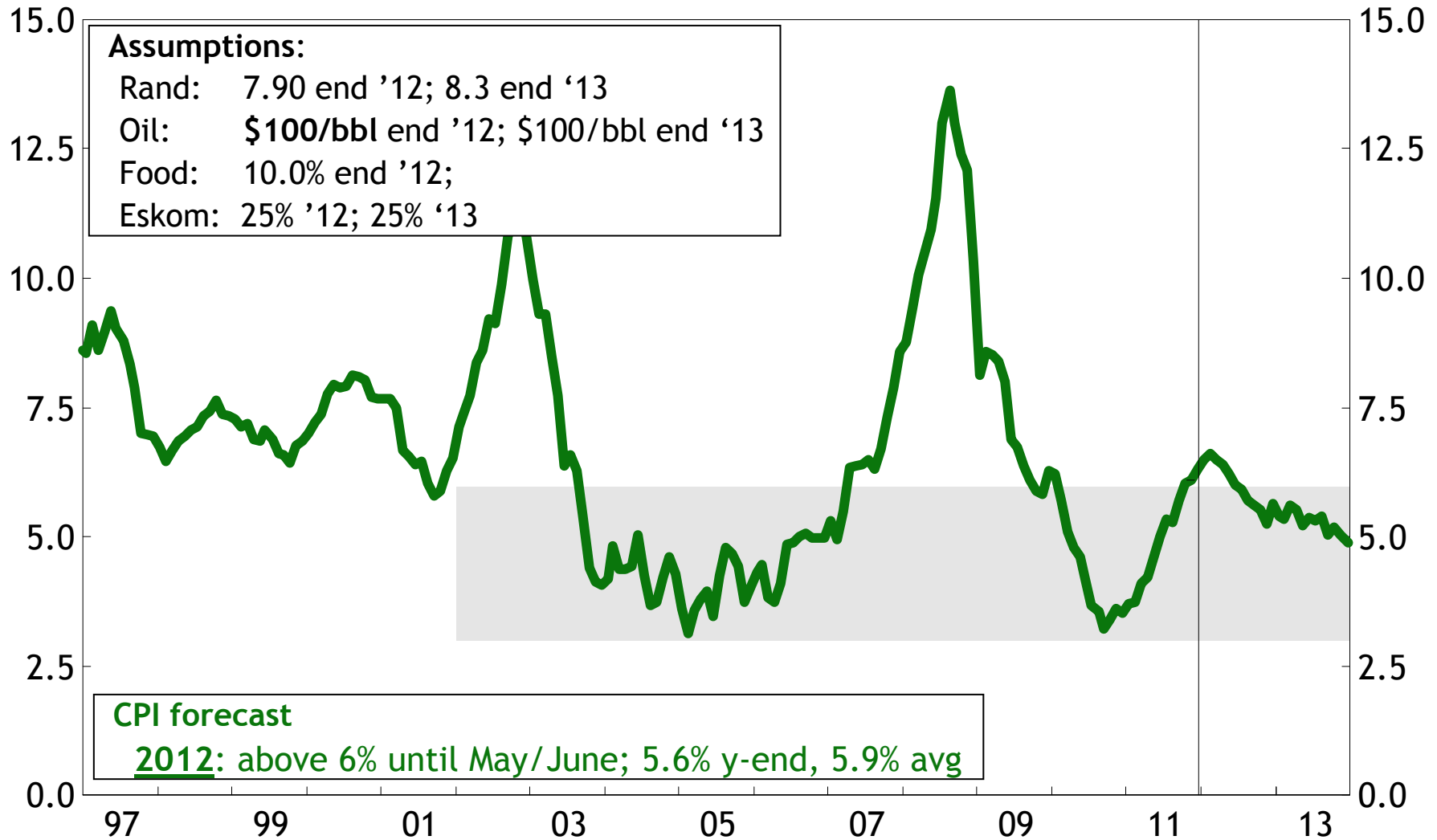


Food indicators looking better

Year-on-year % change



CPI forecast



Interest rate outlook

▪ Lower rates unlikely:

- Inflation still rising (with risks from volatility drivers)
- Global & SA economies not expected to see 2008/2009-style recession
- Rand weakened quite a bit last year

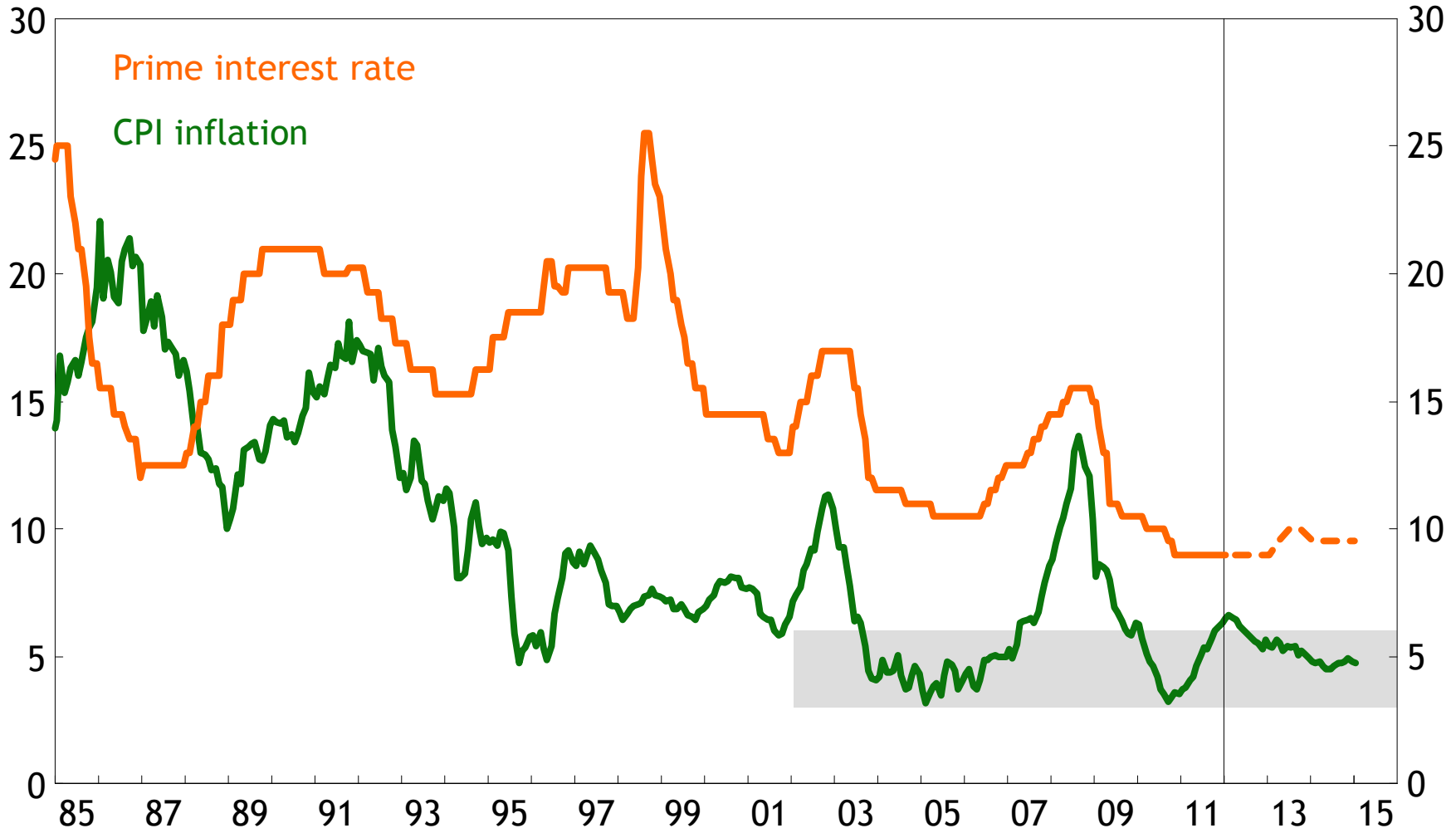
▪ Not enough reason to hike soon:

- Economy far from booming
- Inflation peak in sight
- Rand has stabilised
- Our expectation of some fiscal tightening (wages, taxes)
- Global rates: low for long in developed markets; lower in emerging markets

▪ Our view:

- interest rates unchanged through 2012
- first hike in mild cycle in Q1 2013

SA interest rate outlook



- Moderate growth expected
- Rand stabilising
- Inflation still rising, but peak in sight...
- Rates likely flat for the year

SA macro forecasts for 2011-2013

INDICATOR	<u>Avg 84-93</u>	<u>Avg 94-03</u>	<u>Avg 04-07</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
HCE	1.4	3.5	6.6	2.2	-1.6	3.7	5.0	3.4	3.5
GFCF	-2.9	5.1	12.5	13.2	-3.2	-1.6	4.0	4.5	6.0
GDP	1.0	3.0	5.2	3.6	-1.5	2.9	3.1	2.7	3.5
C/A : GDP	2.2	-0.7	-4.8	-7.2	-4.1	-2.8	-3.5	-4.0	-4.5
R/\$: y/e	2.54	6.36	6.46	9.39	7.40	6.63	8.09	7.90	8.25
Target CPI : y/e	15.0	7.4	5.5	10.3	6.3	3.5	6.1	5.6	5.0
Prime : y/e	17.78	16.88	12.13	15.00	10.50	9.00	9.00	9.00	9.50

updated : 19.01.2012

Regulatory Information

Old Mutual Investment Group (South Africa) (Pty) Limited

Physical Address: Mutualpark, Jan Smuts Drive, Pinelands, 7405

Telephone number: +27 21 509 5022

Old Mutual Investment Group (South Africa) (Pty) Limited is a licensed financial services provider, FSP 604, approved by the Registrar of Financial Services Providers (www.fsb.co.za) to provide intermediary services and advice in terms of the Financial Advisory and Intermediary Services Act 37 of 2002. Old Mutual Investment Group is a wholly owned subsidiary of Old Mutual (South Africa) Limited. Reg No 1993/003023/07.

The investment portfolios may be market-linked or policy based. Investors' rights and obligations are set out in the relevant contracts. Market fluctuations and changes in rates of exchange or taxation may have an effect on the value, price or income of investments. Since the performance of financial markets fluctuates, an investor may not get back the full amount invested. Past performance is not necessarily a guide to future investment performance.

Personal trading by staff is restricted to ensure that there is no conflict of interest. All directors and those staff who are likely to have access to price sensitive and unpublished information in relation to the Old Mutual Group are further restricted in their dealings in Old Mutual shares.

All employees of Old Mutual Investment Group are remunerated with salaries and standard short-term and long-term incentives. No commission or incentives are paid by Old Mutual Investment Group to any persons. All inter-group transactions are done on an arms lengths basis.

In respect of pooled, life wrapped products, the underlying assets are owned by Old Mutual Life Assurance Company (South Africa) Limited who may elect to exercise any votes on these underlying assets independently of Old Mutual Investment Group.

In respect of these products, no fees or charges will be deducted if the policy is terminated within the first 30 days. Returns on these products depend on the performance of the underlying assets.

Old Mutual Investment Group has comprehensive crime and professional indemnity insurance. For more detail, as well as for information on how to contact us and on how to access information please visit www.omigsa.com.