

2012: Not all doom and gloom

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Although South African investors have had to cope with a great deal of bad news and market volatility from around the globe in 2011, next year is very likely to see some improvement.

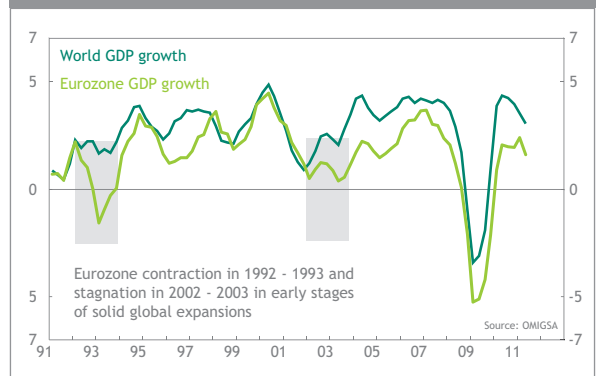
While we do expect market volatility and investor jitters to continue for the foreseeable future, there are quite a few factors that point to a brighter 2012 for many.

Globally, there has been some credible progress in resolving the debt issues facing the Eurozone, and recent economic data in the US has pointed to an improving, rather than a deteriorating, growth path. These two issues have been the main drivers behind investor pessimism and uncertainty this year – and the ones grabbing the headlines. So while there are still other risks also clouding the picture, and lingering uncertainty around these major issues as well, the improvement in the outlook for the Eurozone and US should help lift sentiment and calm investor nerves to some degree going forward. We've already seen some positive market reaction with the strong run-up in equities in October.

The MSCI World Index gained 10.4% in October, while the MSCI Emerging Markets Index was up 13.3% (both on a total return basis in US\$ terms). In South Africa, the FTSE/JSE All Share Index jumped 9.3%.

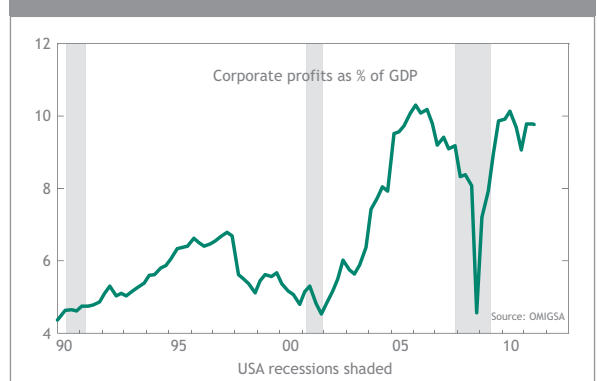
I believe that the most likely scenario to play out on the world stage will be one of continued slow growth, as actual data do not signal a recession. Although it does appear that the Eurozone will experience a recession, this should not be as severe as the 2008-2009 downturn, and on its own will not be enough to spark a worldwide recession.

EUROZONE RECESSION DOES NOT AUTOMATICALLY MEAN A GLOBAL RECESSION



Although the risks of a global recession are still real, there is robust growth among most emerging markets that is helping to drive global growth. In the US, meanwhile, third quarter 2011 growth came in above expectations at 2.5%, up from 1.3% in the second quarter, and US corporates are in especially strong positions. So while US economic growth may remain at low levels, it is not likely to slip into another recession.

USA ECONOMY NOT HUGELY VULNERABLE PROFITS HEALTHY; CORPORATES VERY CAUTIOUS AND THUS VERY LEAN



In South Africa, although growth has slowed in the second and third quarters, we have still managed to maintain positive growth, and I expect GDP growth of slightly above 3.0% both this year and in 2012. This is certainly not in recessionary territory, although there are still some risks to our forecast...

While consumer spending has been the major driver behind positive GDP growth in this recovery, there are worries that consumers will cut back as rising inflation eats away at their after-tax income. In addition, credit growth is still muted. This means that there is a risk that consumer spending growth will come under pressure. In addition, fixed investment growth – both public and private sector – has remained very slow.

Rising inflation is certainly a risk going into 2012, but this will depend largely on the strength of the rand. Until recently, rand strength has shielded local inflation from the full impact of higher oil and food prices globally, but recent weakness has raised the spectre of higher prices. However, it is important to note that this was not a reaction to local factors, as

conditions at home actually favour a stable currency; the weakness has been due to generalised global risk aversion.

If the rand stabilises, inflation should still peak slightly above the upper end of the inflation target of 6.0%. However, in the current global environment, the SA Reserve Bank (SARB) is more concerned about the real economy than inflation, and therefore interest rates will probably not rise before the third quarter of 2012.

There is a very real possibility that rates could actually stay flat throughout the cycle. There is also a possibility that the SARB could actually cut rates – but only if growth is a lot worse than expected. Either way, low interest rates are favourable for consumers and should support spending into 2012. This should provide a sound basis for continued growth in South Africa next year, as should a gradual improvement in global sentiment.

So although volatility is likely to remain at relatively high levels due to lingering investor concerns, global conditions do appear to be improving such that 2012 will hopefully be a better year for us all. ■

