

Economic Outlook: Rian le Roux
Chief Economist, OMIGSA

“The challenges facing economic growth”



What did we say last time?

Global

- ▲ Economic stabilisation setting in, downside risks ease
- ▲ Recovery still some way off, but initial strength may surprise
- ▲ Many risks in the meantime
- ▲ Market volatility to remain high
- ▲ Policy settings to remain expansionary for a long time

Local:

- ▲ Growth risks skewed to the downside
- ▲ Inflation outlook OK, but not great
- ▲ C/A deficit to narrow as economy slows
- ▲ Risk of rand getting 'too strong' growing (then at R8.64/\$)

What has happened the past three months?

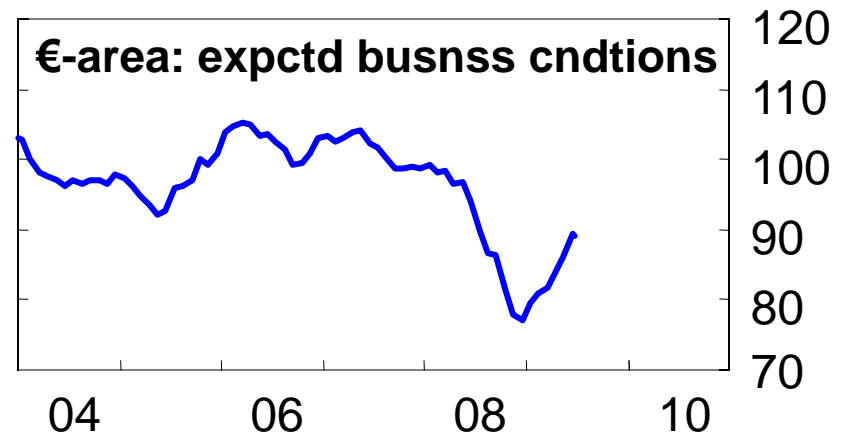
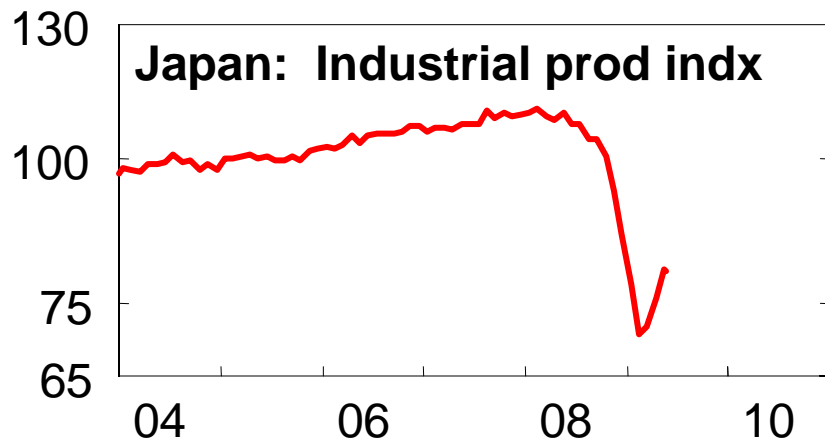
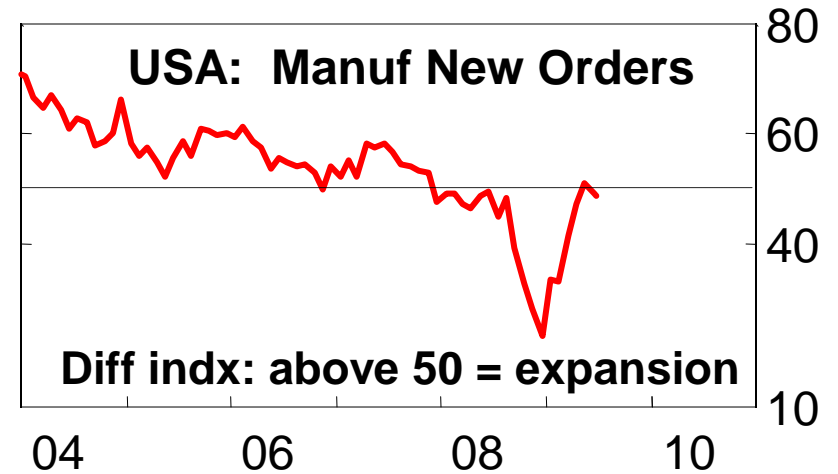
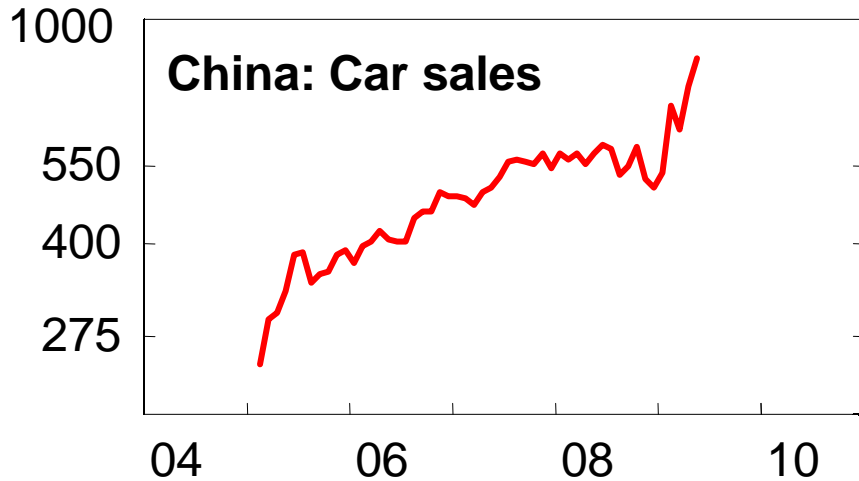
Global: **USA stabilisation, Asian recovery**

- ▲ Stabilisation signs mount further, worst fears dissipate
- ▲ Asia rebounds solidly, USA stabilising, recovery expected in H2
- ▲ But, many risks still around too
- ▲ Equities price out Doomsday, bonds price out depression, price in some inflation risk
- ▲ Policy outlook unchanged: expansionary for a long time

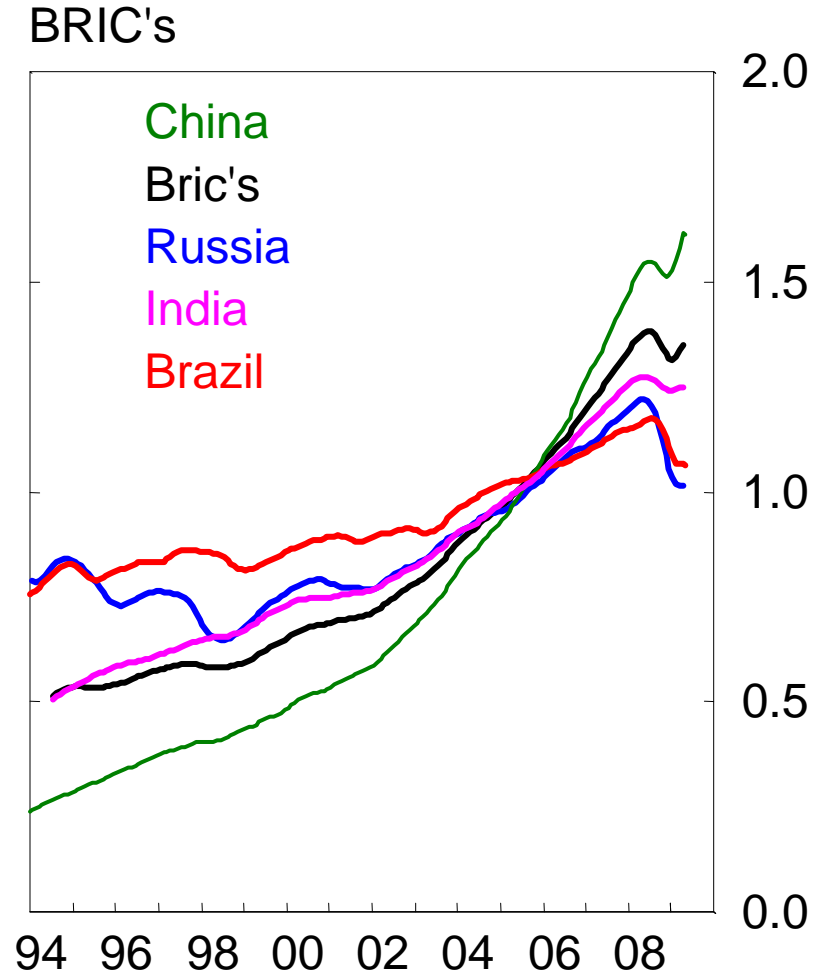
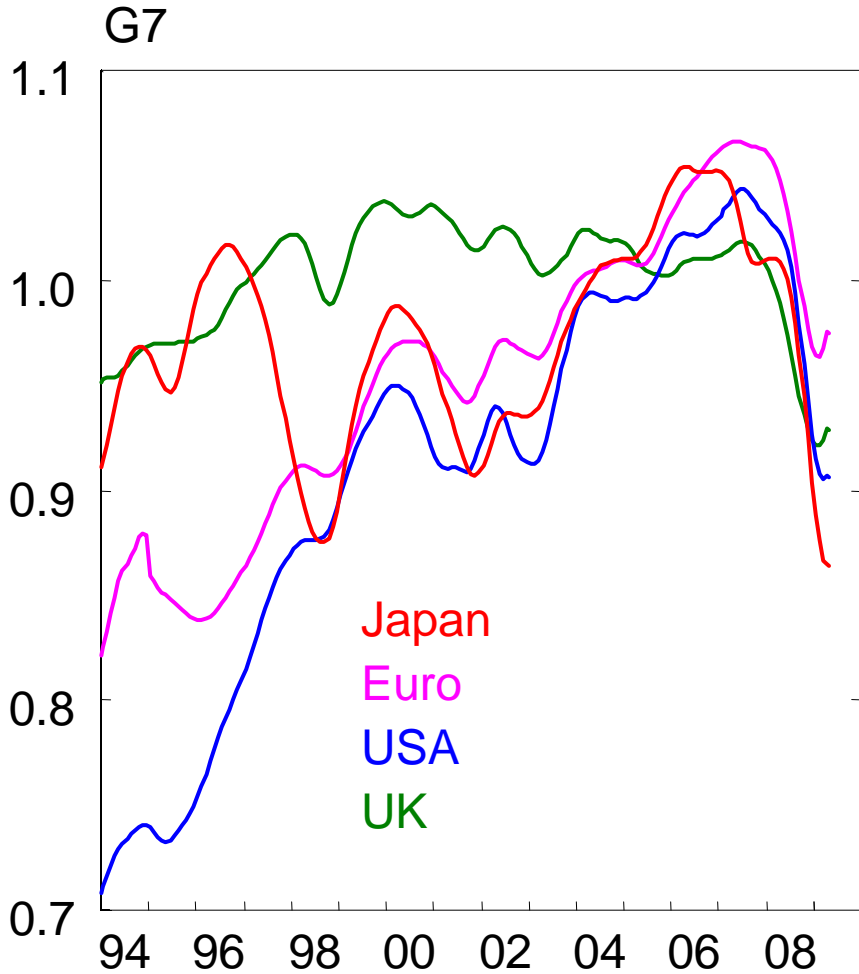
Local: **Series of surprises**

- ▲ Growth shock in Q1, prospects poor
- ▲ Govt tax revenues slump, shortfall R50bn+ (2½% of GDP)
- ▲ Inflation stickier than expected, SARB surprises with no cut
- ▲ C/A: trade balance improves sharply (more needed)
- ▲ Rand gets even stronger

Global 'green shoots' of stabilisation

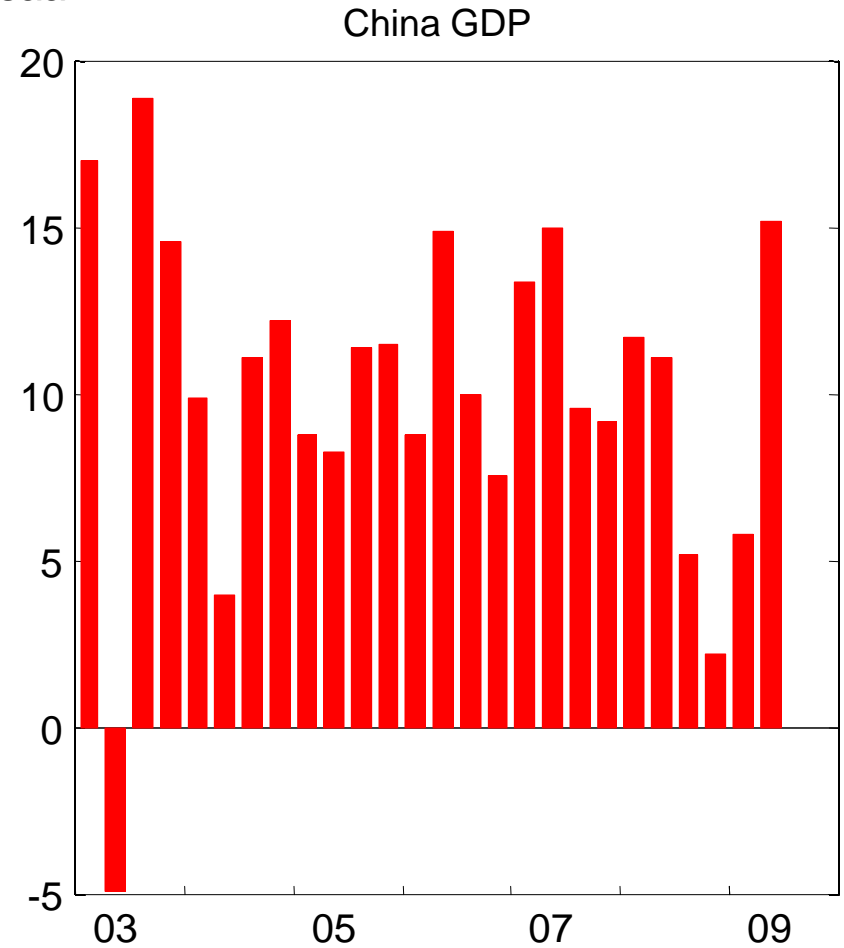
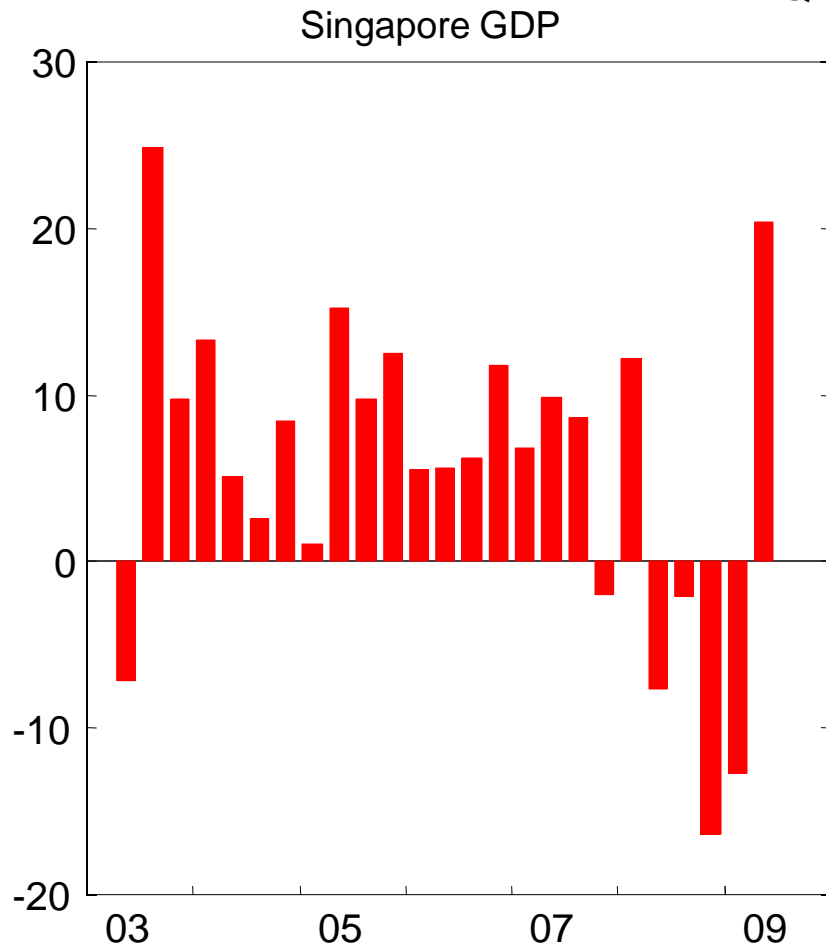


OECD leading indicators



Asia to lead the recovery

Q-o-q saar



GDP forecasts

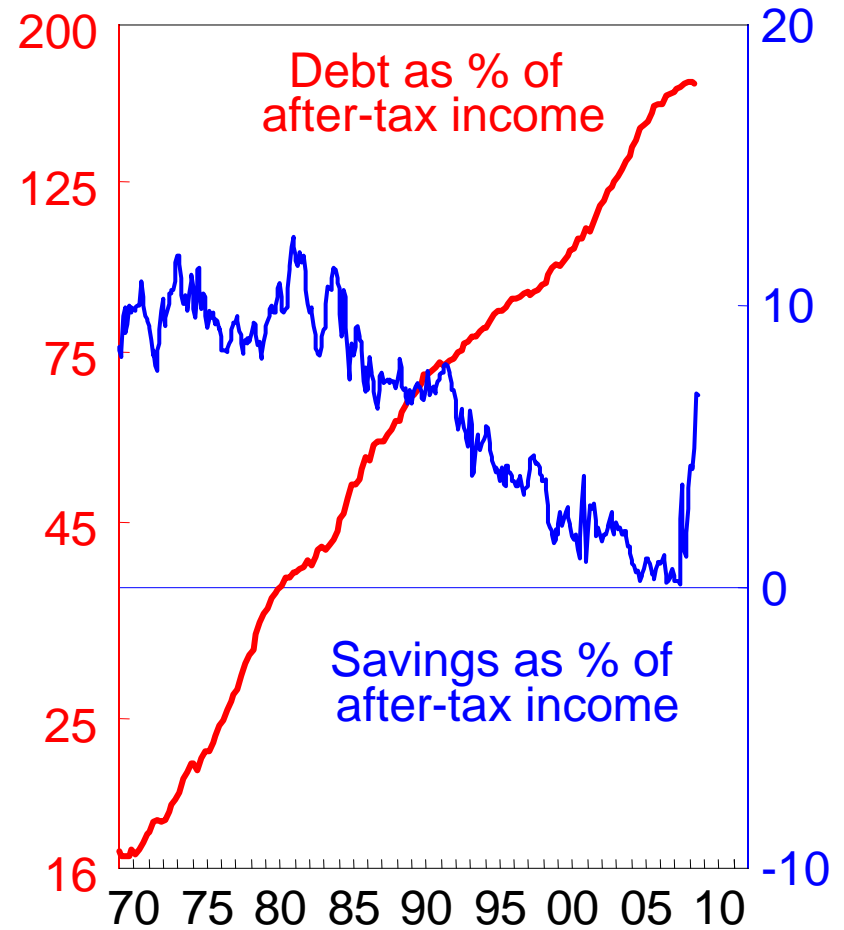
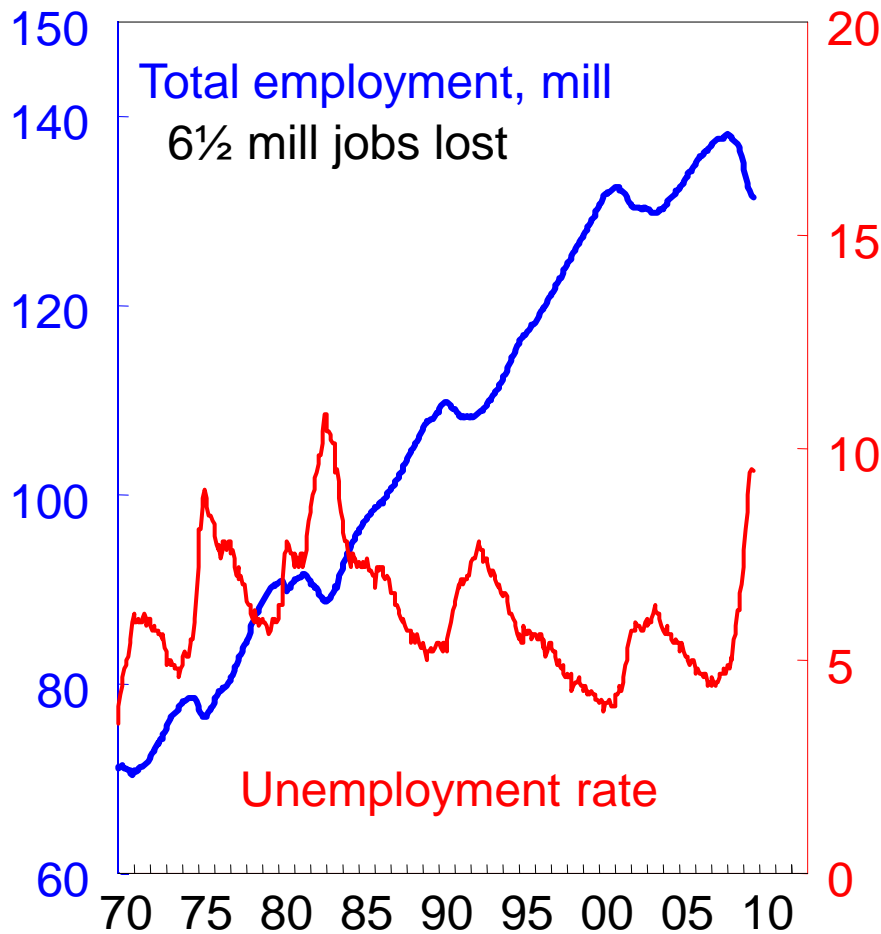
Economist survey (%)

	2006/07	2008	2009	2010
United States	2.4	1.1	-2.7	2.0
Japan	2.2	-0.7	-6.1	1.0
Euro area	2.9	0.7	-4.4	0.6
Britain	2.9	0.7	-3.7	1.1
China	11.8	9.0	6.5	7.3
Brazil	4.9	5.1	-1.5	2.7
India	9.4	6.0	5.5	6.4
Russia	7.9	5.6	-5.0	2.0

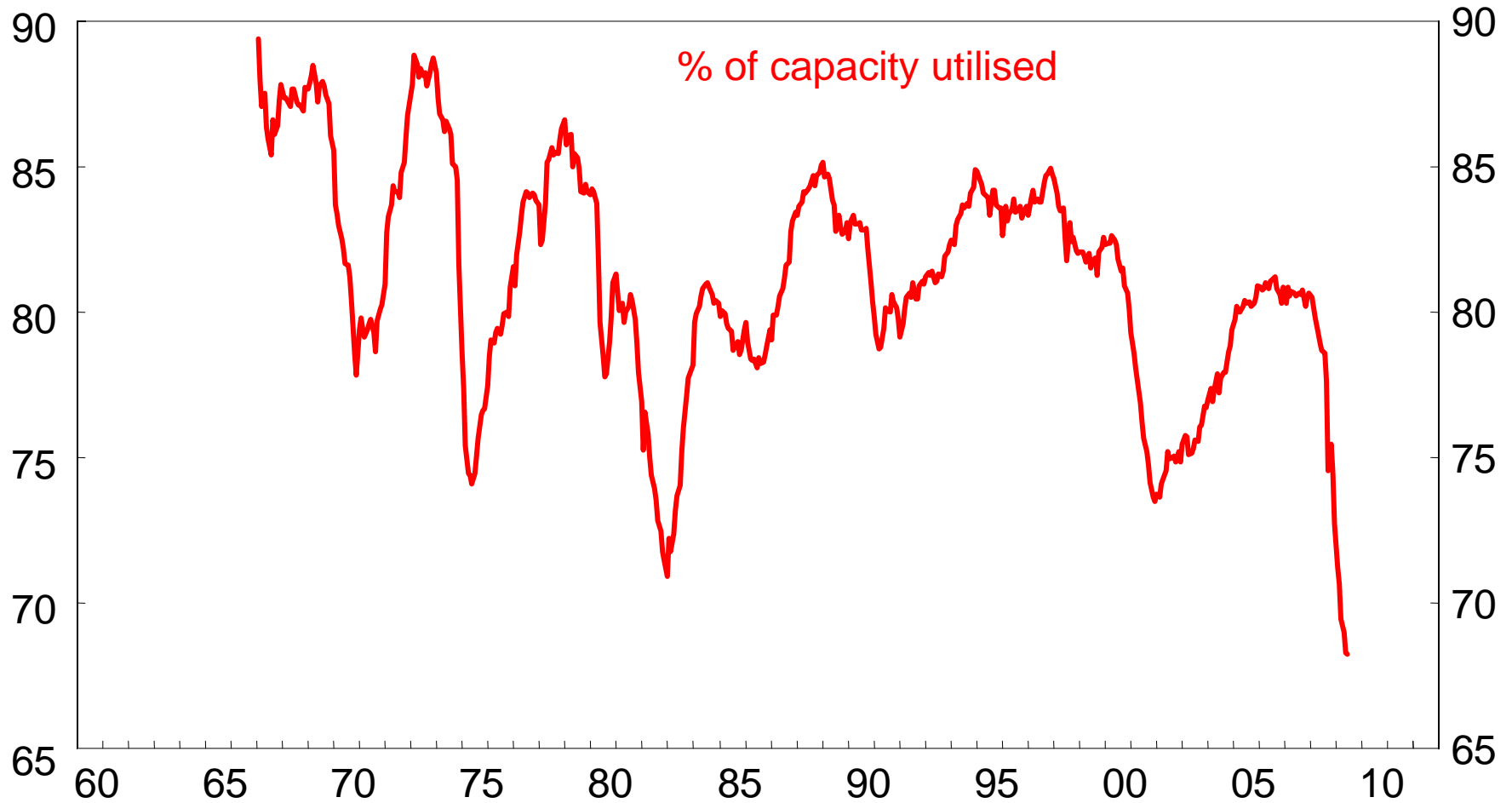
But, some considerable downside risks remain

- ▲ Still mostly related to consumer and capital spending
 - Job losses continue, savings rates rise, debt levels high
 - Significant excess capacity

US Consumer spending risks



US manufacturing capacity utilisation

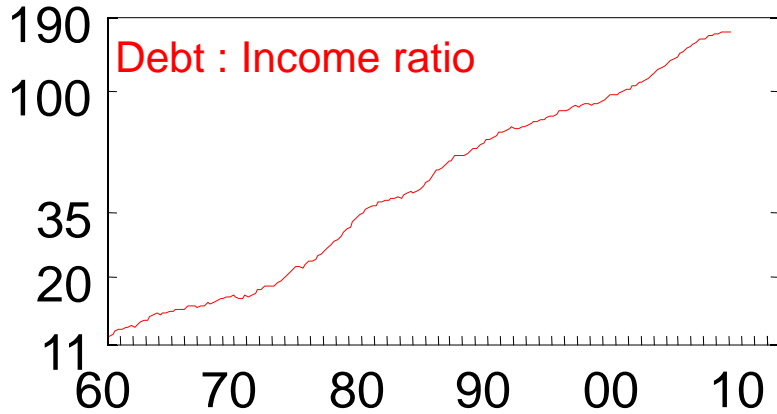


Medium-term prospects OK, but no repeat of 2003/7 boom

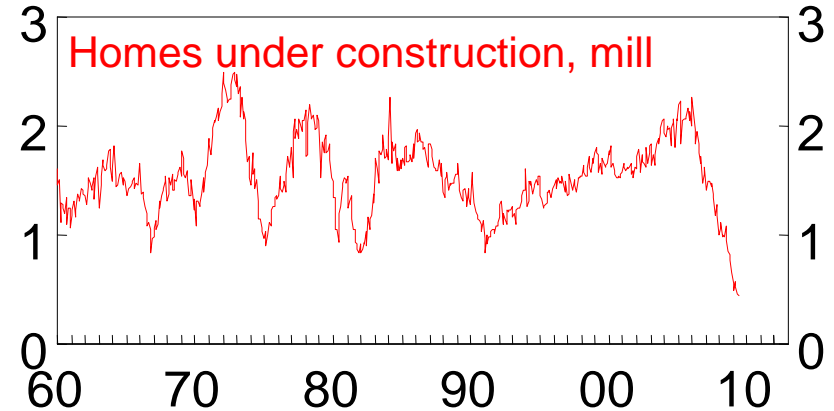
- ▲ US economy facing considerable structural headwinds
- ▲ Global investment drive more subdued
 - Lots of excess capacity around
- ▲ Global trade unlikely to revive to the 2003/7 glory

USA faces structurally hard time

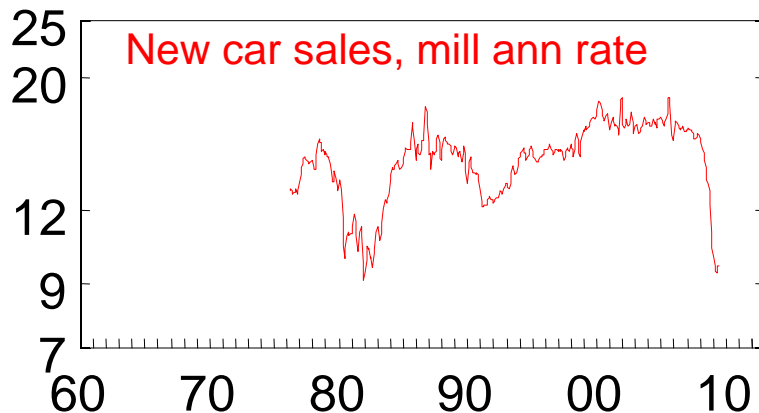
Debt deleveraging for households



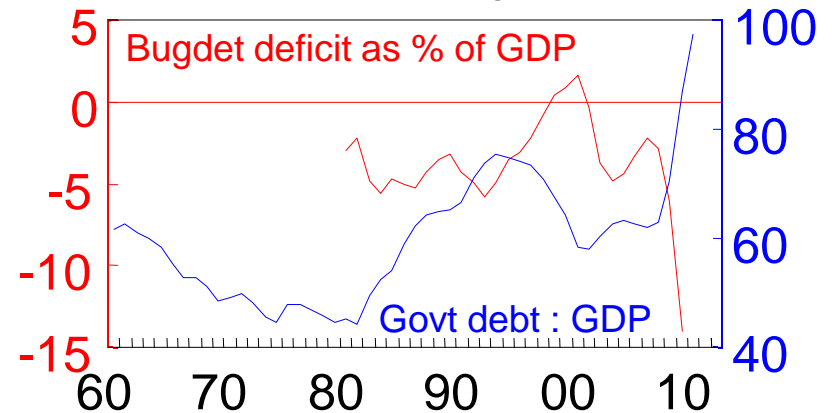
Homebuilding structurally depressed



Car sales structurally depressed



And a fiscal hangover

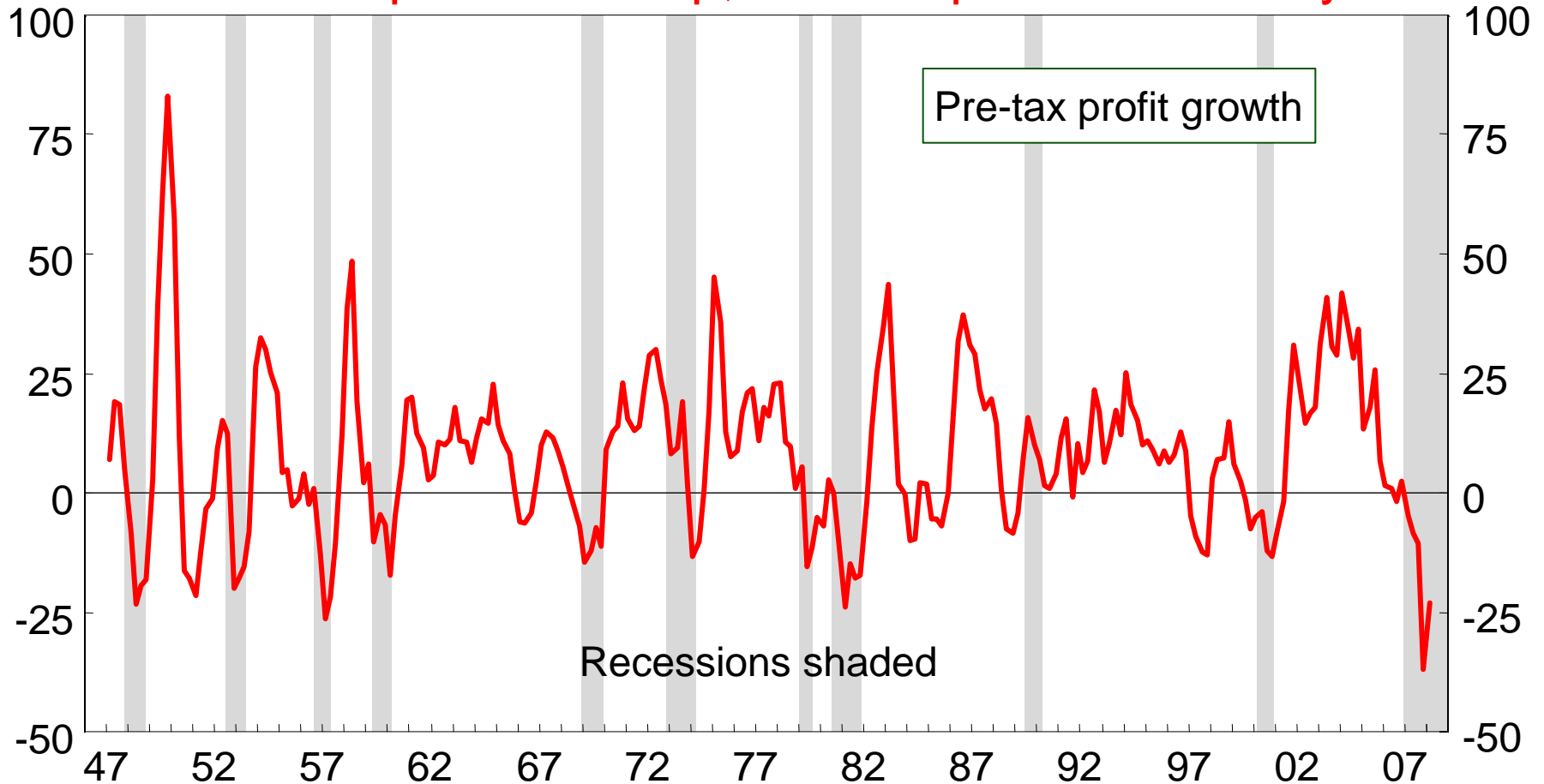


What to expect in H2 '09 and H1 '10

- ▲ Economic and profit recovery, expansionary policy
 - H2 '09 will be uneven, erratic and slow due to sectoral and country differences and structural headwinds
 - Clearer, more co-ordinated recovery only in 2010
 - Decent profit recovery from late '09 - aggressive corporate cost-cutting and moderate demand recovery
 - Policy set to remain very expansionary until all recovery doubts removed
- ▲ Overall, likely still a rough ride ahead with considerable market volatility
- ▲ Medium-term global growth prospects still dull

US profits: Post-recession surge coming

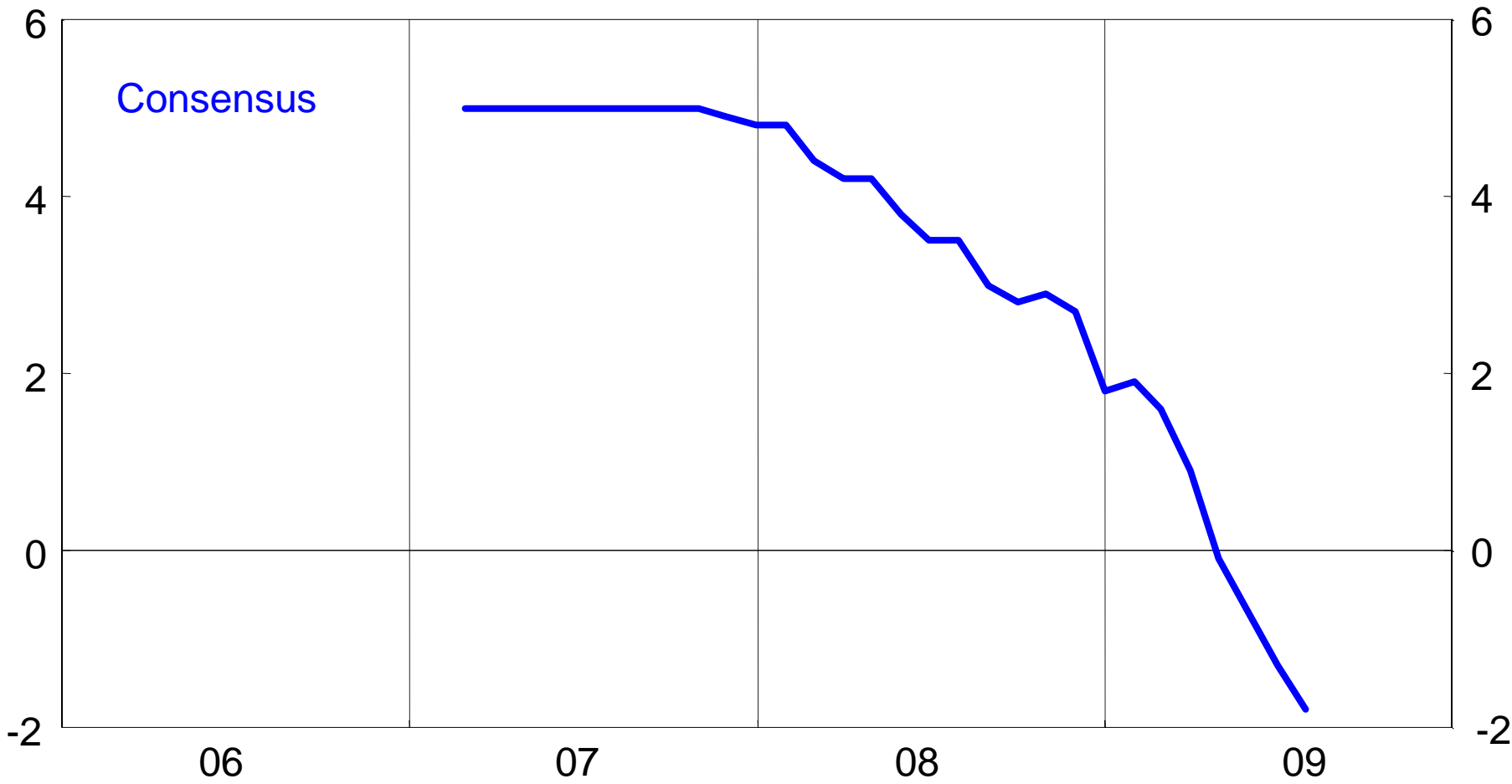
The deeper the slump, the sharper the recovery



Current local situation

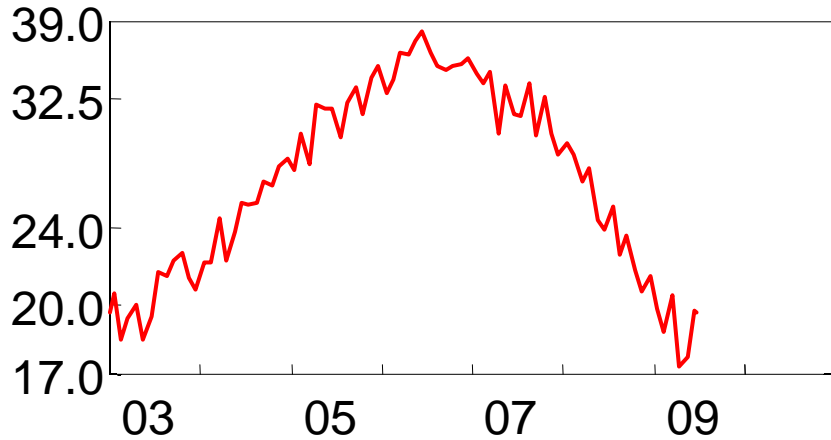
- ▲ Growth: Weak, but stabilising
 - GDP likely fell again in Q2, high frequency data points to stabilisation
 - Concerns over growth potential: Is even widely assumed $\pm 4\%$ too high?
- ▲ Inflation
 - Outlook OK, but not great
 - Some better news recently on food, rand
- ▲ Foreign trade: Finally improving?
 - Both trade and services deficits narrow
- ▲ Policy: Offsetting influences
 - Firm rand, tight bank lending standards and effective public sector taxes (municipal, education, electricity) partly offsetting lower interest rates

GDP forecasts for 2009

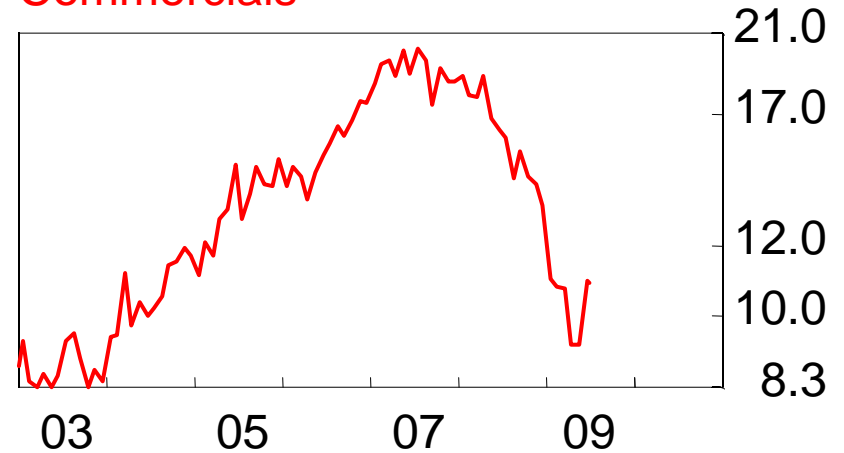


SA: Stabilisation signs

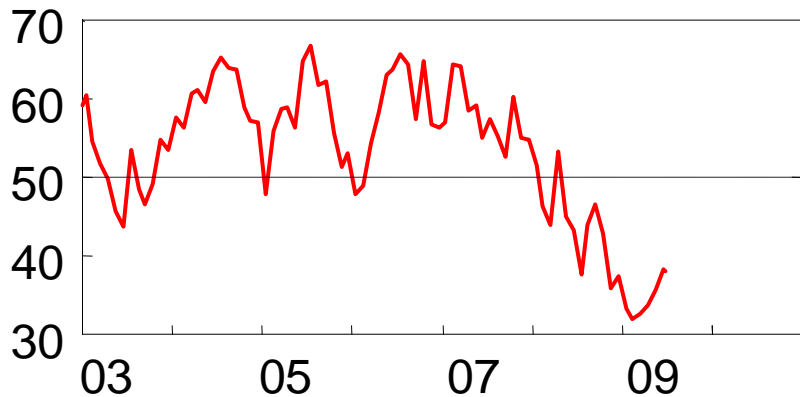
Car sales



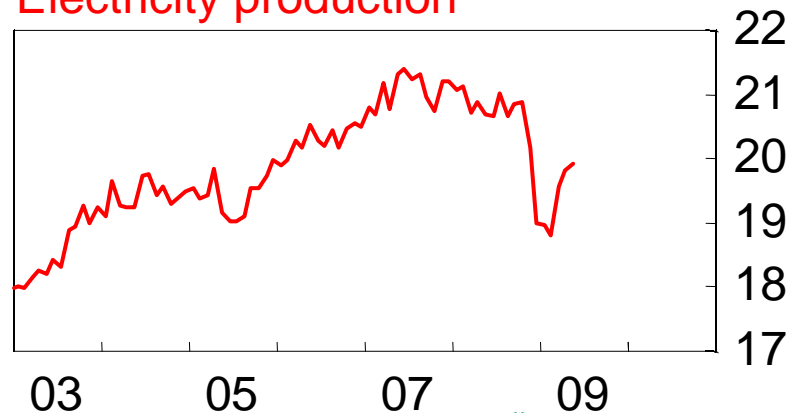
Commercials



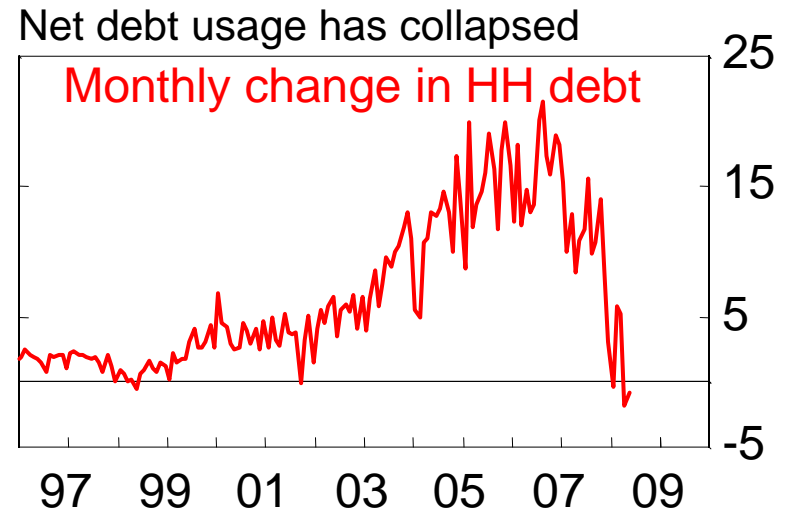
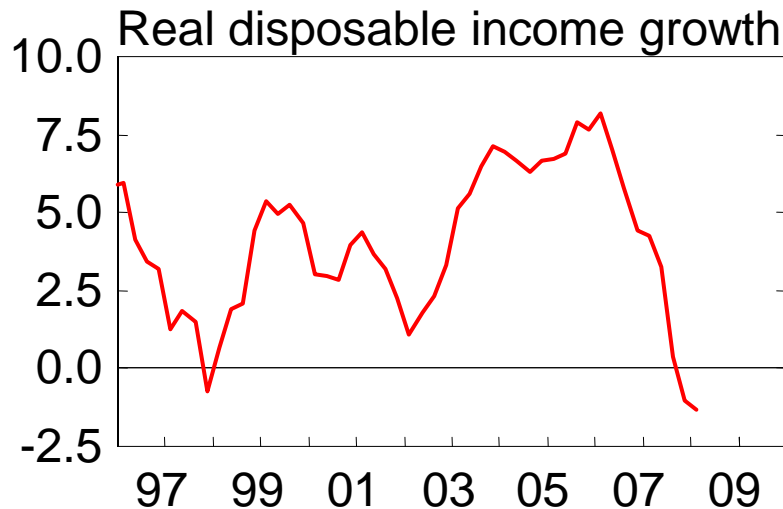
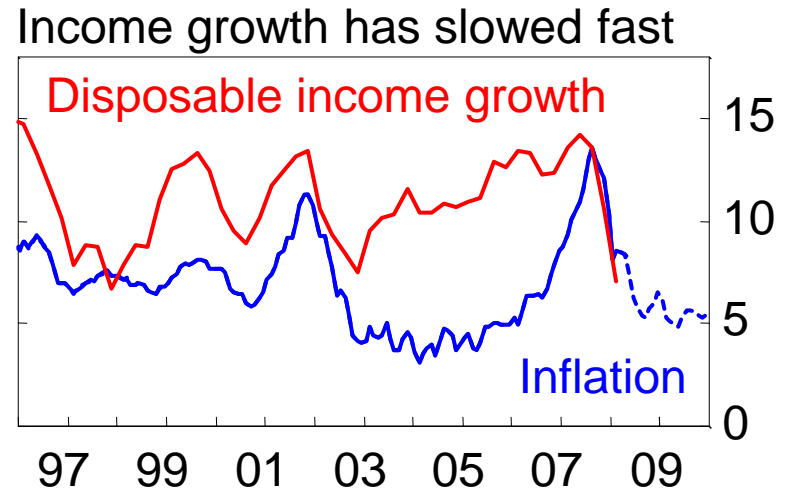
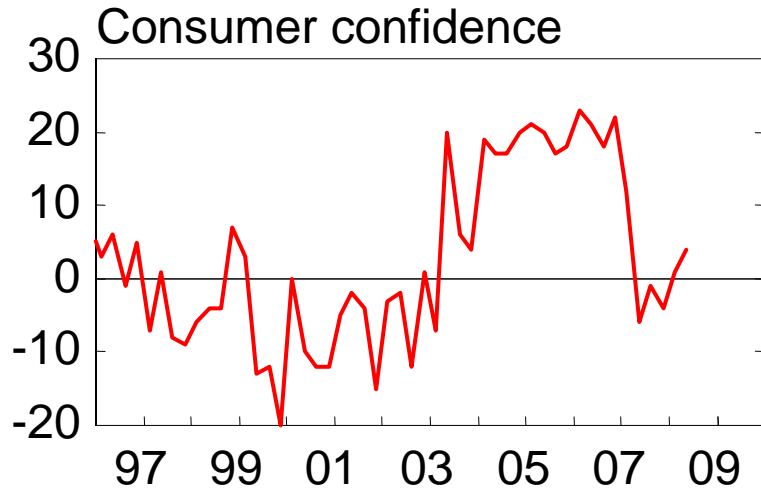
BER PMI New orders



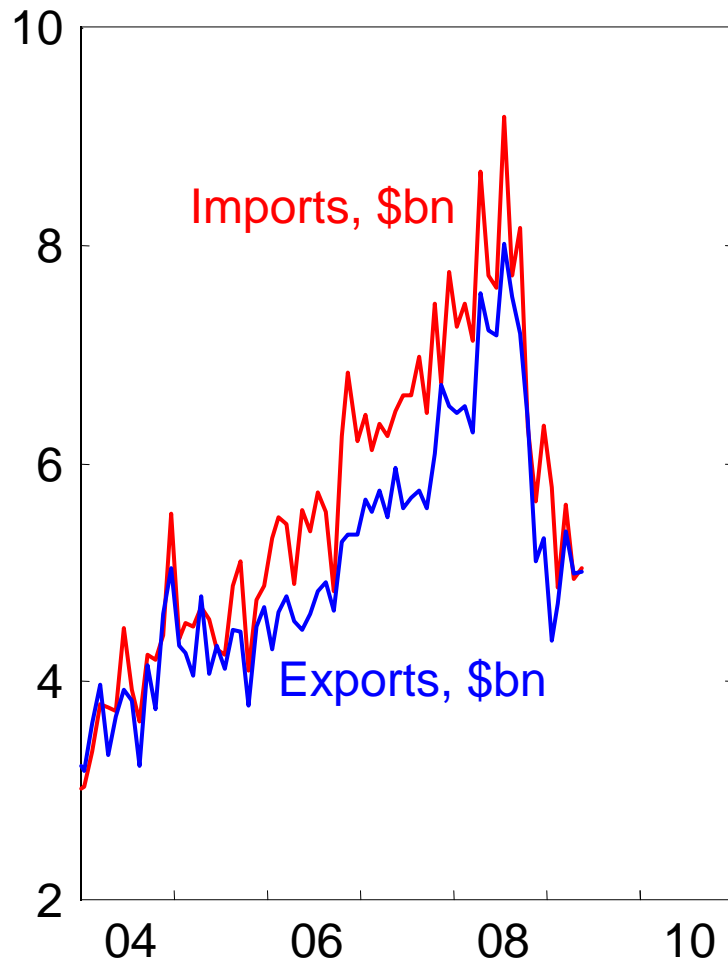
Electricity production



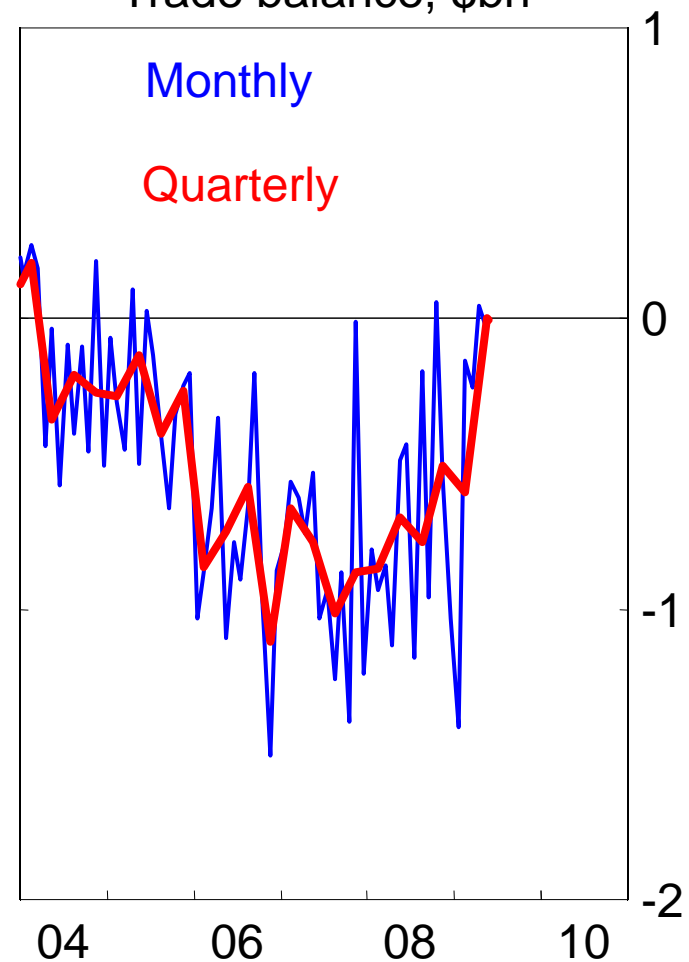
Consumer finances a worry



Balance of payments improving



Trade balance, \$bn



Interest rates

At the end of the cutting cycle, or more to come?

More cuts will require:

- ▲ Sustained real economy weakness
- ▲ Downside inflation surprises: Actual and inflation 'drivers' (rand, oil, food, wage settlements, expectations)

Our view:

- ▲ Stable for longer, rather than more cuts (inflation troubles)
- ▲ But, more cuts cannot be ruled out entirely

Questions arise about SA's growth potential

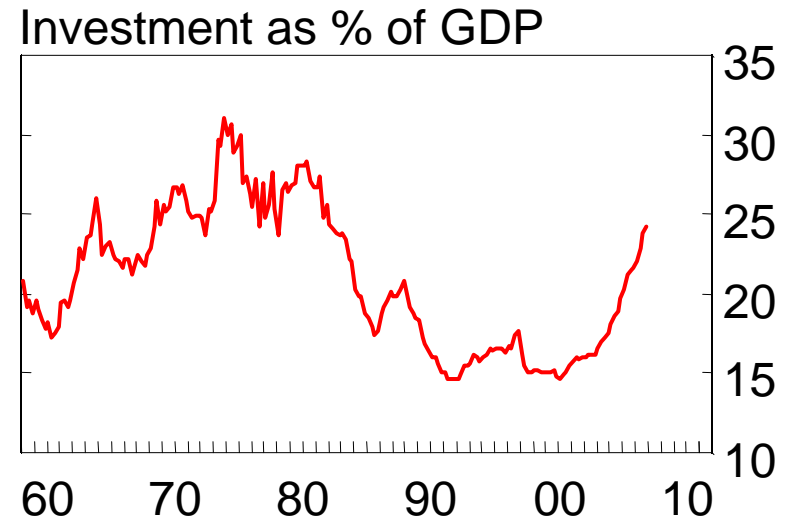
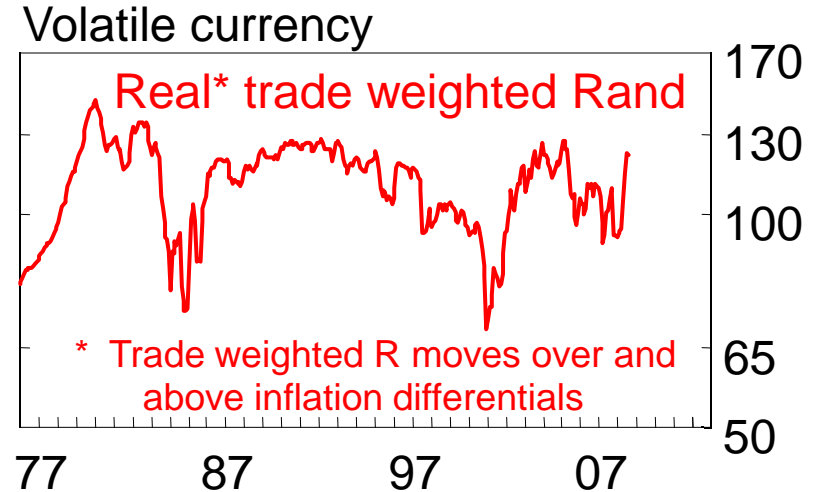
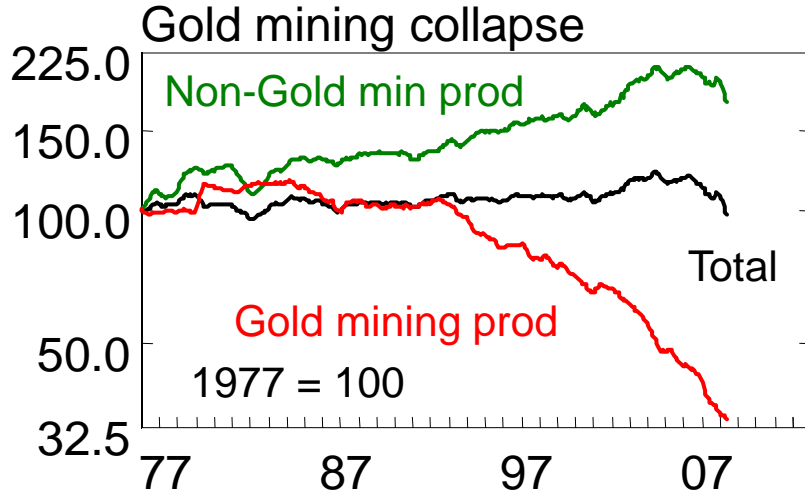
'Commonly accepted' little over 4% being questioned

▲ Why?

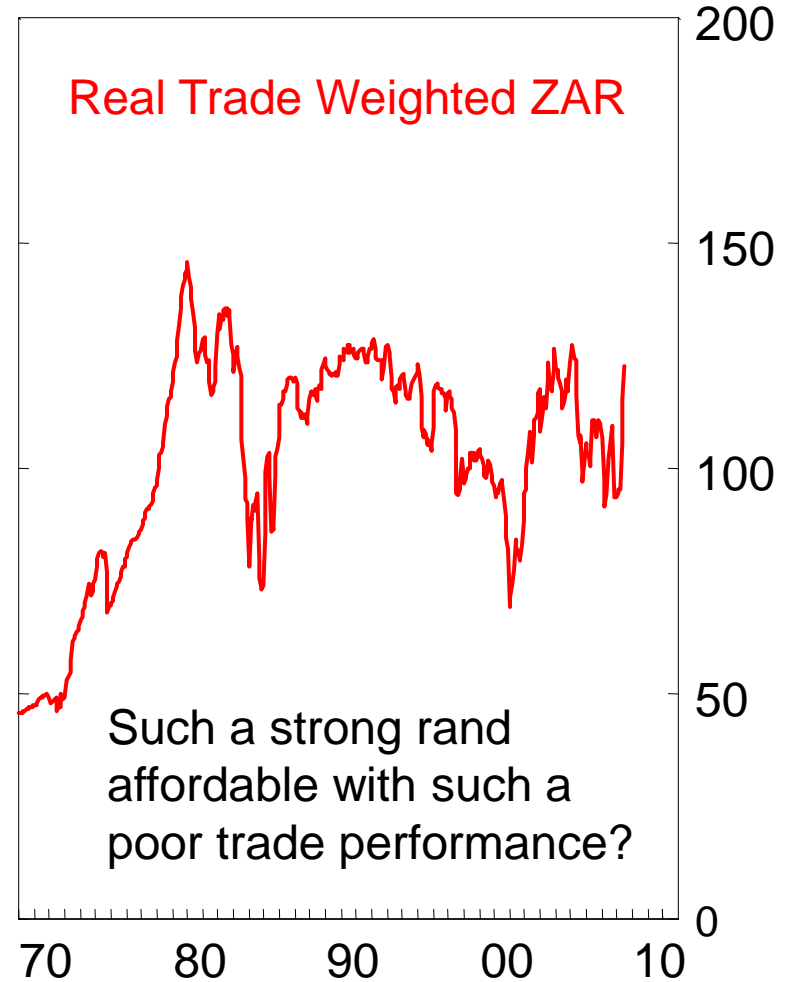
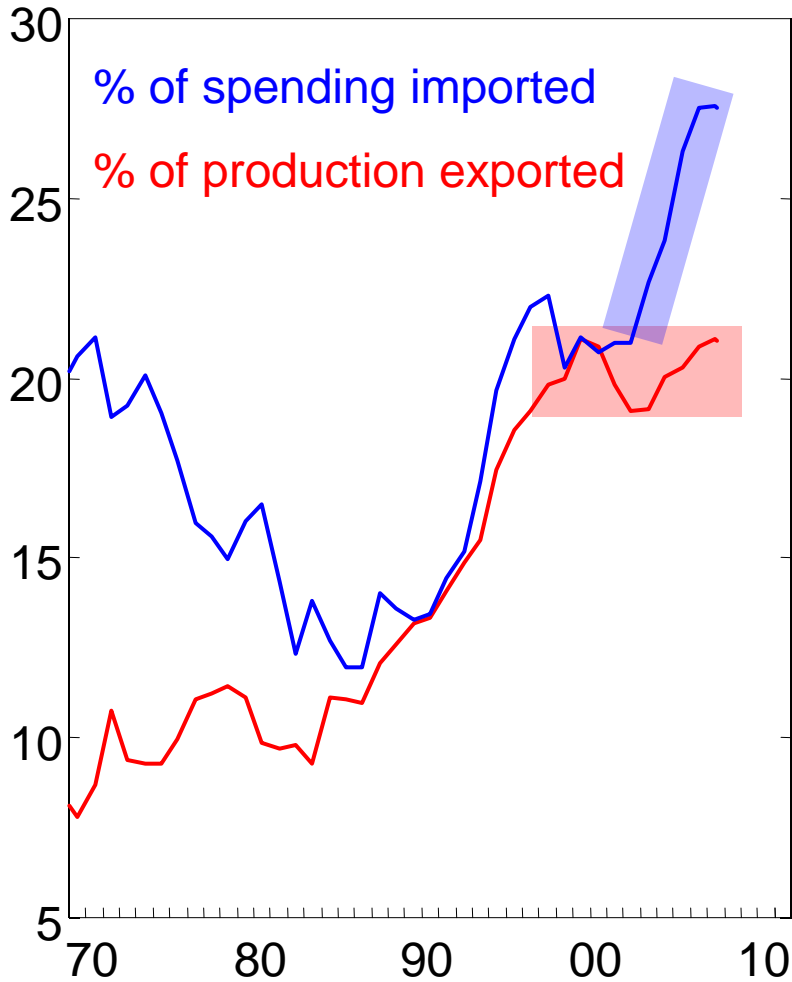
- Structurally slower world growth
- Poor global competitiveness (trade pattern 'proof')
- Too strong and volatile rand
- Low overall savings rate and consumers full of debt
- Demise of gold mining (offsetting other mining growth)
- Poor public sector service delivery, remaining infrastructure limitations
- Skills shortages, crime, etc

▲ Biggest positives currently are infrastructure boom, region's recovery

Some growth-potential influences

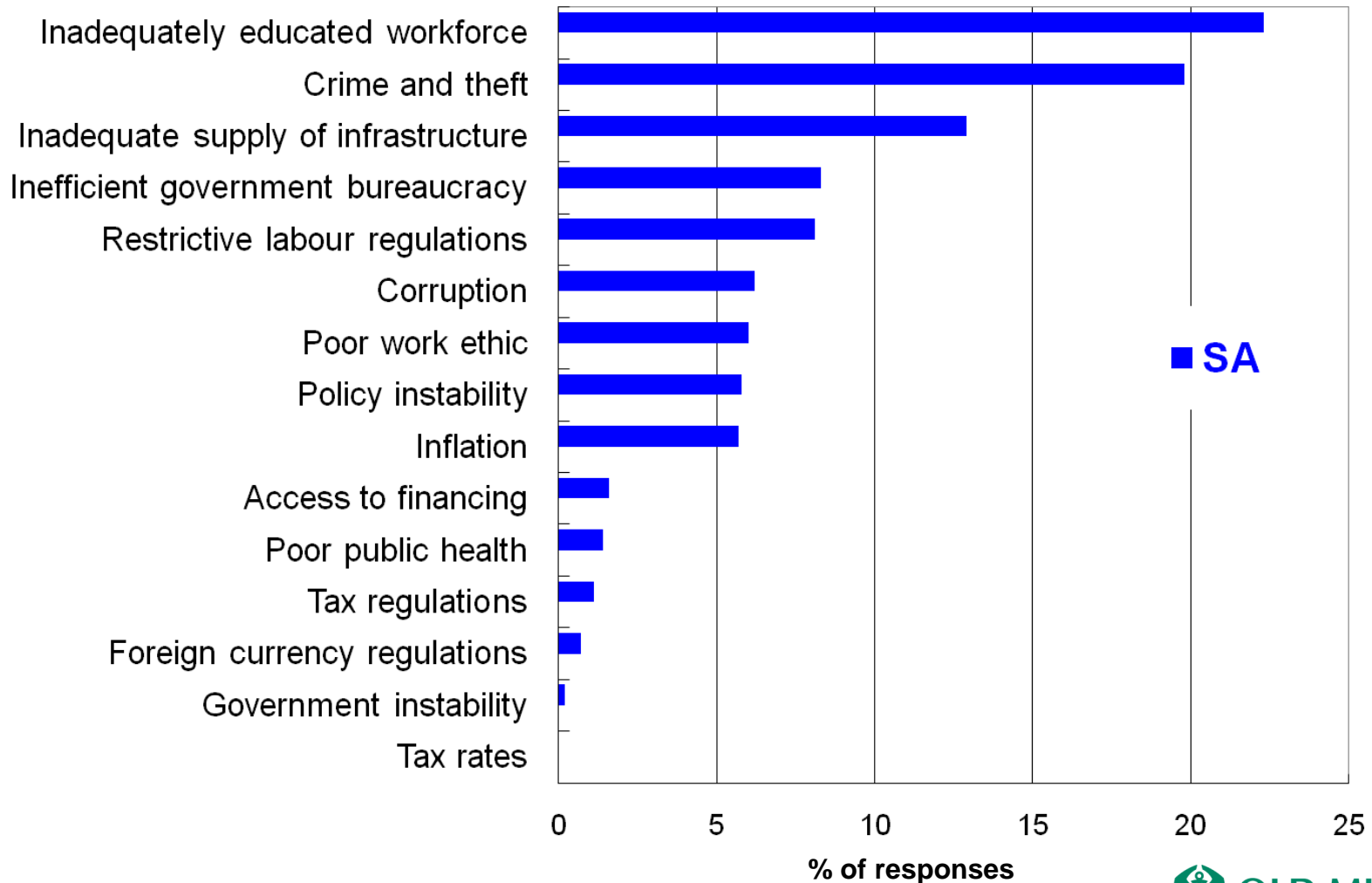


Foreign trade 'proof' of SA's competitiveness problems



The most problematic factors for doing business

WEF's Global Competitiveness Report 2008/9



Can the growth potential be improved?

- ▲ Yes, but with most obstacles it's a very slow process
- ▲ Will require concerted Govt, Business, Labour, SARB co-operation to improve competitiveness
- ▲ Biggest *positive* is infrastructure boom
- ▲ Cyclical bouts of above-potential growth of course very possible

SA Summary

- ▲ Economy weak:
 - Deep cyclical slump
 - Structural issues highlight need for broad-based co-operation
- ▲ Inflation outlook OK, but not great
- ▲ External risks have eased, but have not gone away
- ▲ Now a waiting game:
 - For global and local recovery