

**MEDIA RELEASE****19 January, 2010****SA'S ECONOMIC GROWTH COULD BRING POSITIVE SURPRISE IN 2010**

Although likely to remain subdued in the opening months of the year, there is a good chance that following the FIFA World Cup economic growth could be surprisingly solid and South Africa could end 2010 with annual GDP growth of over 3% y/y, according to Rian le Roux, chief economist at Old Mutual Investment Group's Economic Research Unit. This is notably above consensus forecasts.

"We are expecting both consumer spending and private sector investment to remain weak for another quarter or so – these are the main drags on economic growth right now – but growth momentum should accelerate from the second quarter onwards as private demand recovers," says le Roux. "The combination of a recovery in consumer demand, ongoing robust public sector spending, an end to the cycle of destocking, moderate export gains and the World Cup Soccer, could combine to generate a surprisingly robust acceleration in growth during the middle quarters of 2010. We could even see another interest rate cut from the Reserve Bank adding to the positive conditions, should inflation surprise on the downside and the rand remain strong."

Le Roux points out that the global recovery is solidly underway, and he believes the risks of a "W"-shaped downturn is relatively small. This means South Africa will benefit from revivals in both the developed and emerging markets, particularly China, helping underpin our export volumes and prices of our commodity exports. Not only will this help the trade deficit, which le Roux predicts should stay steady at around 4.5% of GDP this year, but the country should also continue to attract foreign capital inflows so that the rand depreciates only moderately against the US dollar over the year.

Other good news is that inflation should remain under control for the year – barring any unforeseen shocks in the prices of oil or food, or the exchange rate – at the upper end of the Reserve Bank's 3-6% CPI target range. "Our forecast is for CPI of 5.6% y/y at the end of 2010, not much changed from 5.8% y/y in November 2009 (the latest data)," notes le Roux. "This has been driven by the stronger rand, lower food prices and weak consumer demand; however, there are still medium-term risks for inflation, as these trends will begin to reverse, combined with pressures from rising electricity and other administered prices, as well as lagged effects from the implementation of substantial wage hikes over the past year. Eskom will prove to be a thorn in the side of the economy for many years, probably throughout the first half of new decade."

With inflation relatively tame for now, le Roux says, the most likely scenario is for interest rates to remain unchanged (with prime at 10.5%) for all of 2010. However, the Reserve Bank could surprise with a 50 basis point rate cut – possibly in the first quarter – should consumer spending prove particularly sluggish or inflation

especially benign. However, in 2011 a more robust growth environment and gathering inflationary pressures could see rates starting to rise again, although the timing and speed of the next tightening cycle is hard to predict with any accuracy at this stage.

“So after the year of big macroeconomic surprises that was 2009, on first examination our forecasts for 2010 paint a much quieter scenario - with relatively steady inflation, interest rates, currency and economic growth ahead,” le Roux observes. “This should be welcome by most South Africans. However, experience tells us that there are always unexpected shocks from some source, and this year will probably no different.”

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