







SAVINGS & GROWTH

GROWTH & SAVINGS

RIAN LE ROUX



WHO SAVES AND WHY?

 Households	 Companies	 Government	 As a Nation
<ul style="list-style-type: none">• Foregoing current consumption to enhance future consumption• i.e. HH's save to finance future big expenses & retirement	<ul style="list-style-type: none">• Savings = undistributed profits• These retained profits used to finance replacement & expansion	<ul style="list-style-type: none">• Saving = tax revenue > current spending• Excess tax revenues finance physical & social infrastructure investment	<ul style="list-style-type: none">• Saving = HH's + Co's + Govt• If Saving < Investment, we rely on foreigners to plug the gap or investment suffers

If we save too little?
Investment is a key driver of growth



A FEW IMPORTANT REMINDERS

Saving and investment interplay !

- Sufficient saving is a necessary, *but not a sufficient*, prerequisite for investment
- Or, without savings, investment cannot occur (or little saving = little investment)
- *But*, sufficient savings **do not guarantee that investment will occur**

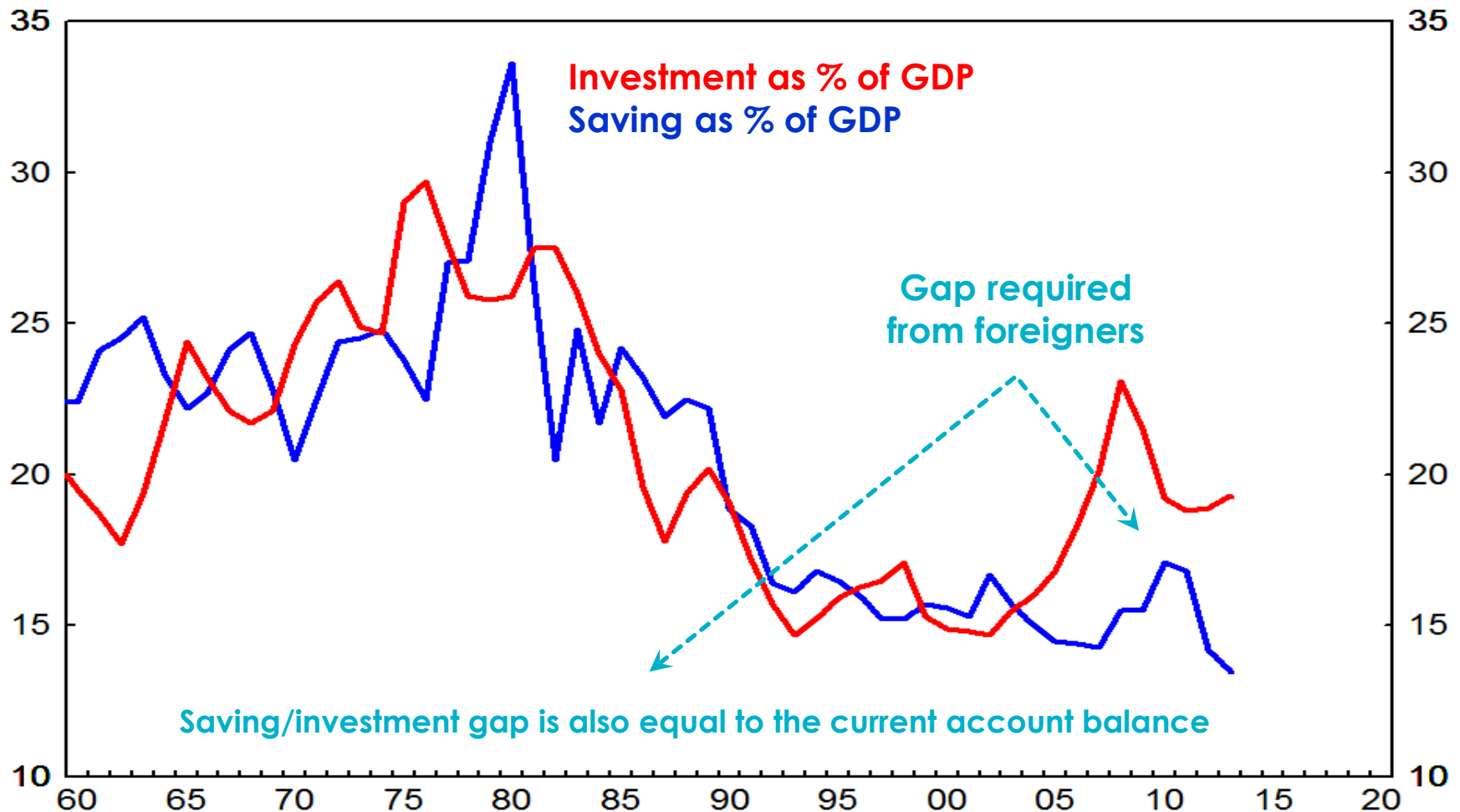
For investment to occur, macro-conditions must be conducive, e.g: !

- Good macro-economic conditions and prospects
- A business-friendly environment, incl policy certainty and predictability (at macro and industry levels), good infrastructure, bureaucratic efficiency, political stability, entrenched property rights, etc, etc

Excess savings over investment will either seek a home elsewhere (abroad) or be returned to shareholders !

JULY 2014: SA'S NATIONAL INVESTMENT & SAVINGS

TROUBLE HAS ARRIVED





JULY 2013: WHY ARE FOREIGNERS CONCERNED ABOUT SA?

TALK ABOUT A PERFECT STORM...

(ZAR HAD MOVED FROM R8.25/\$ TO R10.00 OVER 1 YEAR...)

1 Current account deficit

(how will it narrow?)

2 Portfolio flows

(at risk from Fed 'tapering')

3 Budget deficit

(slow growth = another year of slippage?)

4 Growth

(slow & slowing)

5 Labour troubles

(more of 2012?)

6 Electricity shortages

(a short term risk and a long term bind)

7 Employment

(where will the jobs come from?)

8 Inflation

(risks from the ZAR?)

9 Politics & policy

(policy paralysis as 2014 election nears?)

10 SARB policy reaction function

(what if inflation spikes?)



WHY ARE FOREIGNERS CONCERNED ABOUT SA?

ALL REMAINED BAD OR GOT WORSE OVER THE PAST YEAR, TRIGGERING A GENERAL CONFIDENCE SLUMP AND RATINGS DOWNGRADES...

1 Current account deficit

Little improvement, strike(s) still to hit

2 Portfolio flows

Still positive, but slower, volatile & at risk

3 Budget deficit

Another year of slippage now very likely

4 Growth

2014 now set to be slower than 2013

5 Labour troubles

Worse, far worse, than 2012/13

6 Electricity shortages

Major blackouts avoided, bind remains

7 Employment

Weak growth & strikes = even less hope

8 Inflation

Surprisingly muted, but pressures building

9 Politics & policy

Hopes remain, but expectations are low

10 SARB policy reaction function

SARB's position getting more difficult



WHAT DO THE “10 CONCERNS” HAVE TO DO WITH SAVINGS?

10 INDIVIDUAL CONCERNS BOIL DOWN TO 3 BROAD ONES...

1

**Slow growth trap,
little employment,
heavy government
dependency**

- All three above harm economic role players' ability & willingness to save
- As a lack of saving can harm investment, a self-feeding vicious circle can occur

2

Big deficits

- C/A financing may not always be available, forcing investment & growth lower
- Current-spending driven fiscal deficit implies:
 - limited room for infrastructure expansion
 - risks crowding out private investment
 - raising Govt saving through higher taxes will lower private sector saving ability/willingness
- The results of both above may be same as in 1

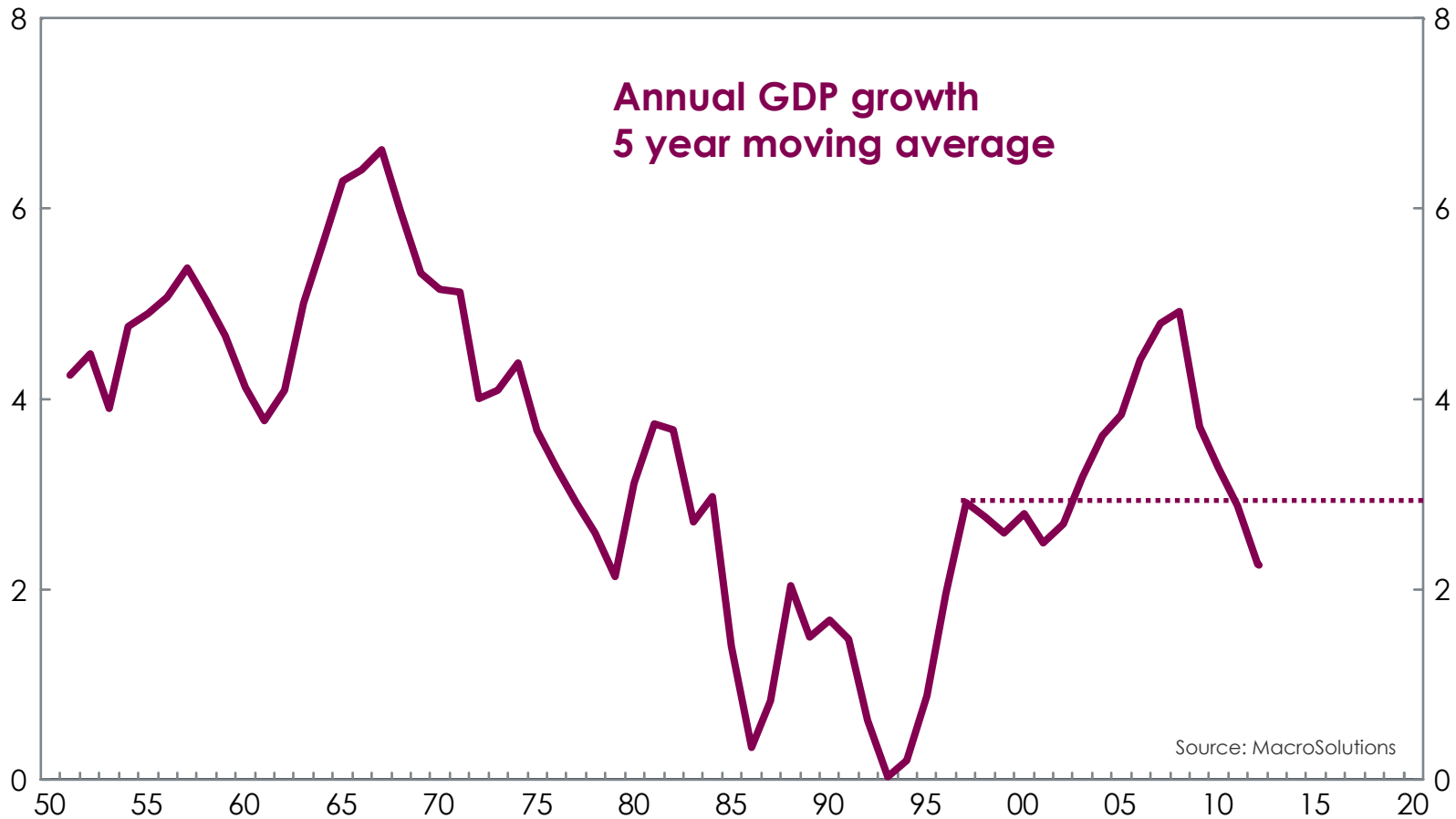
3

**Social and/or fiscal
stability at risk?**

- Both these are bad for growth & saving (the latter will flee abroad)
- Yet again, the risk of a vicious circle occurs

SA SEEKING A GROWTH MODEL; POTENTIAL STUCK AT LESS THAN 3% P.A.

SA DID ENJOY FAST GROWTH IN THE 1950/60'S AND AGAIN IN 2003/7

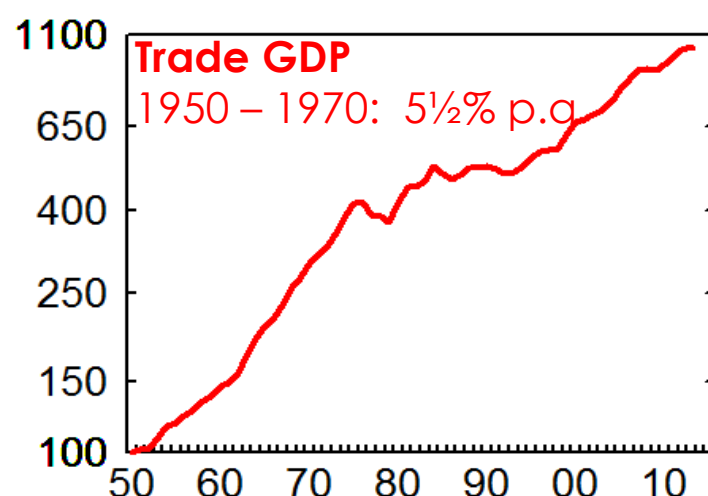
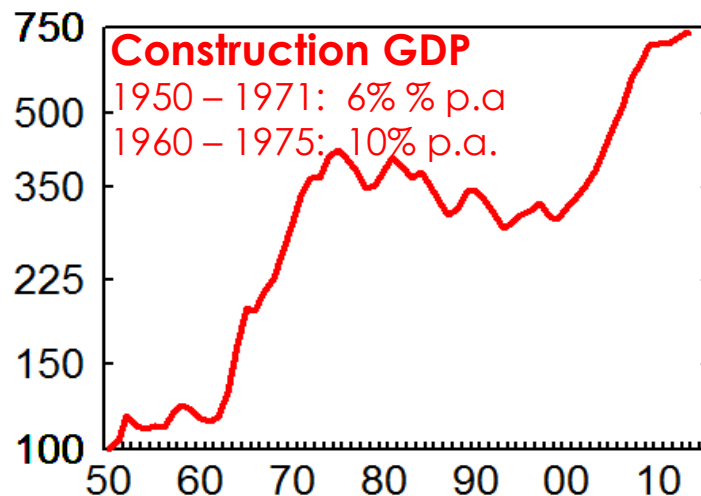
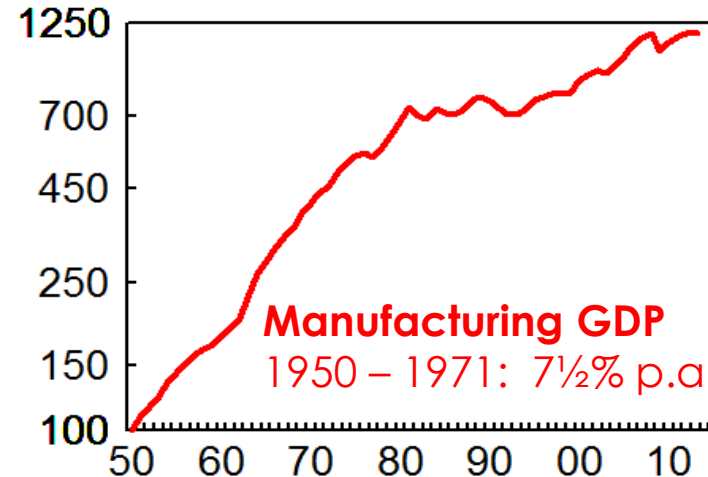
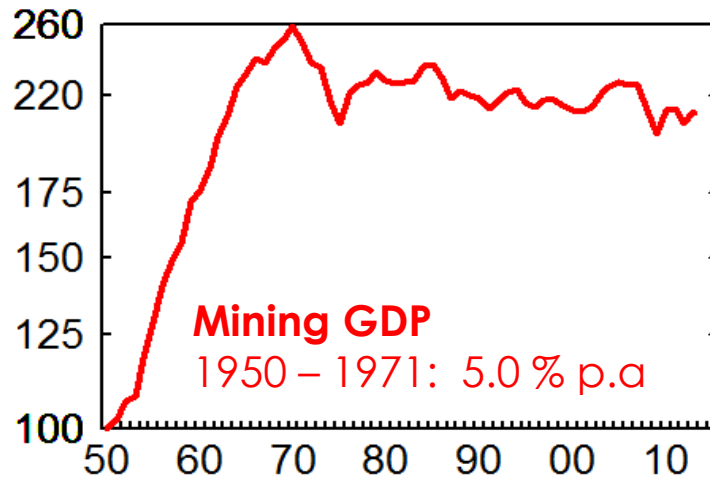


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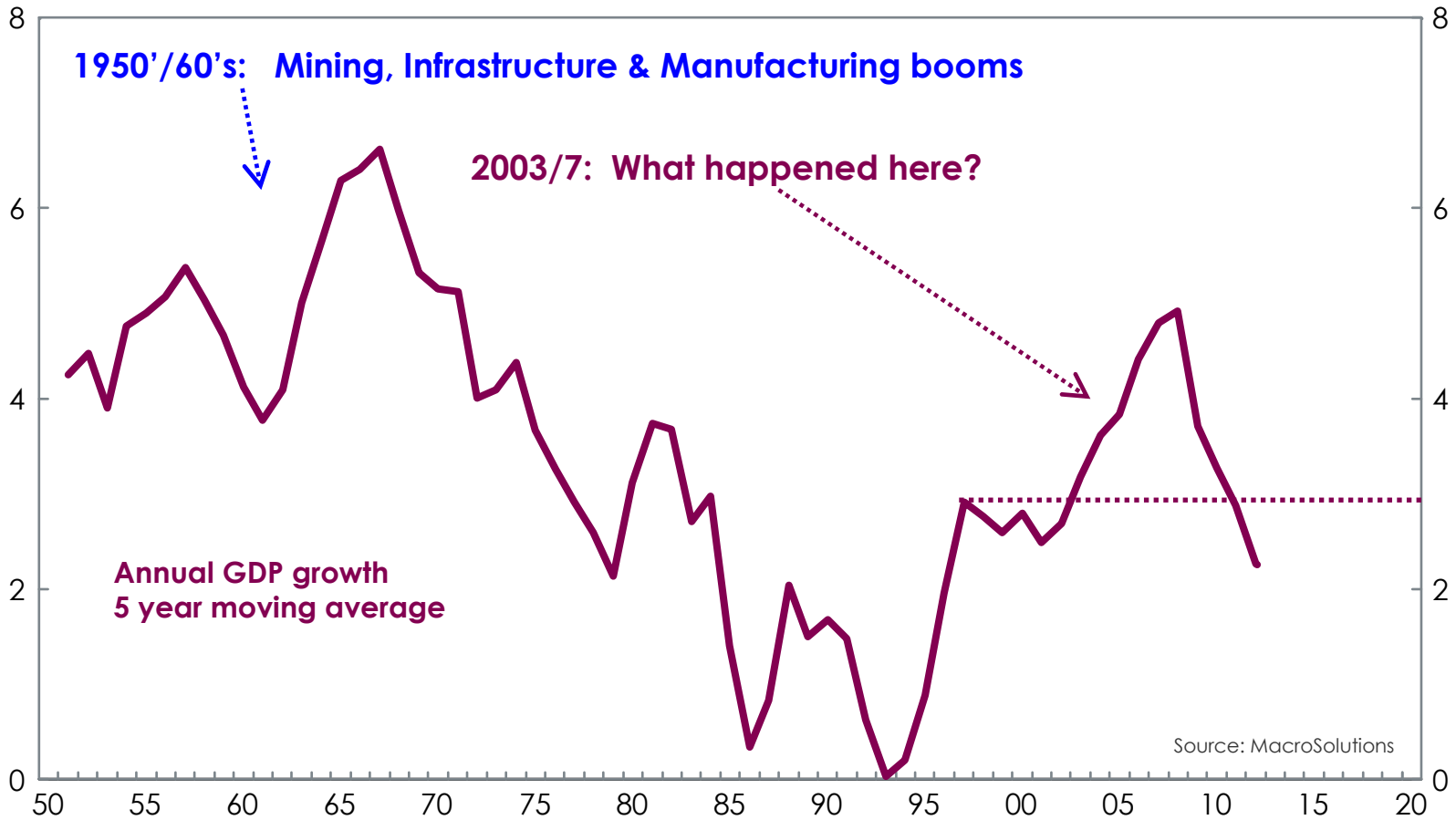
WHY DID THE ECONOMY GROW SO FAST IN THE 1950'S & 1960'S?

BOOMING MINING STIMULATES INDUSTRY, INFRASTRUCTURE AND TRADE



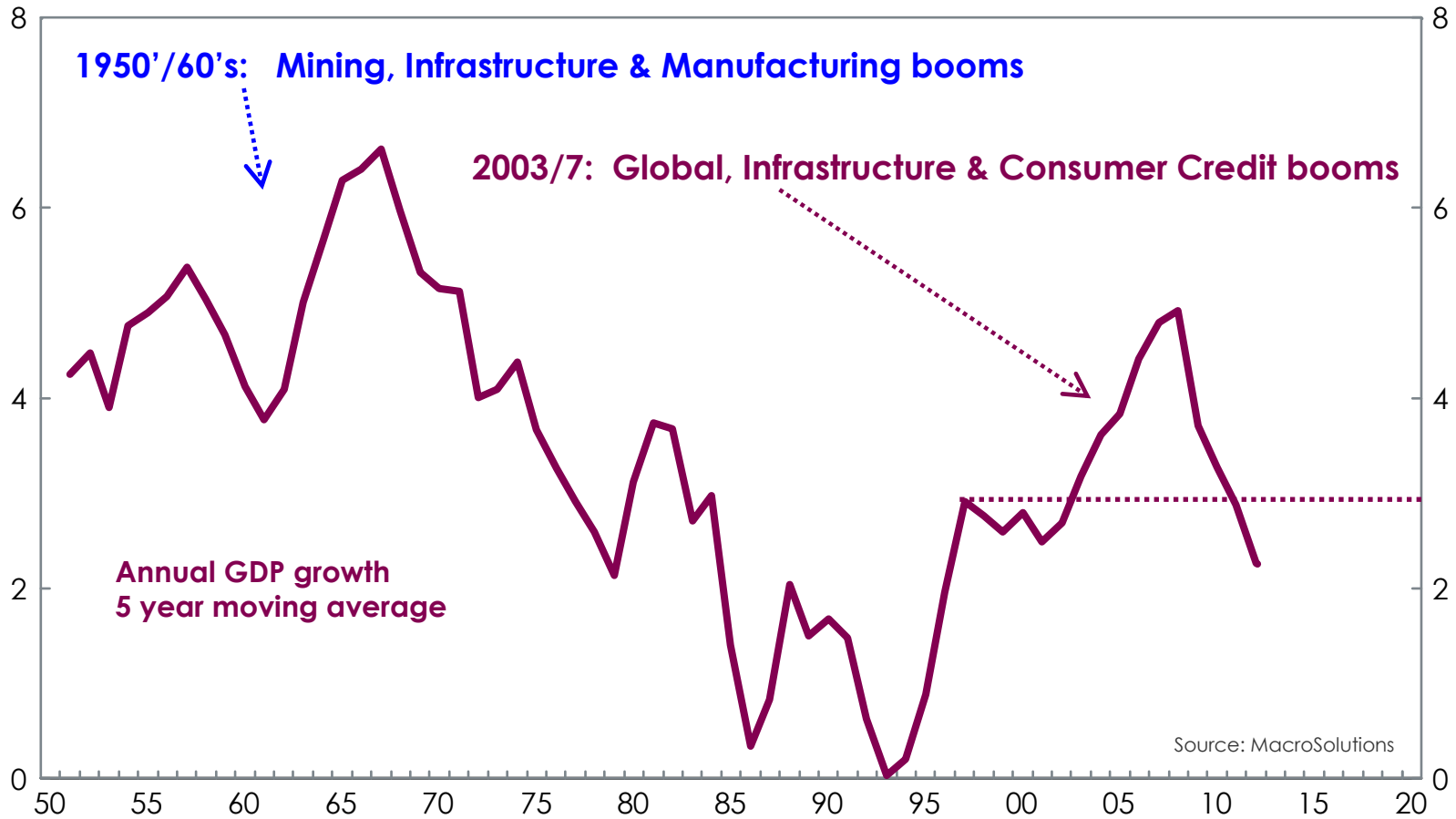
SA SEEKING A GROWTH MODEL

POTENTIAL STUCK AT LESS THAN 3% P.A.



SA SEEKING A GROWTH MODEL

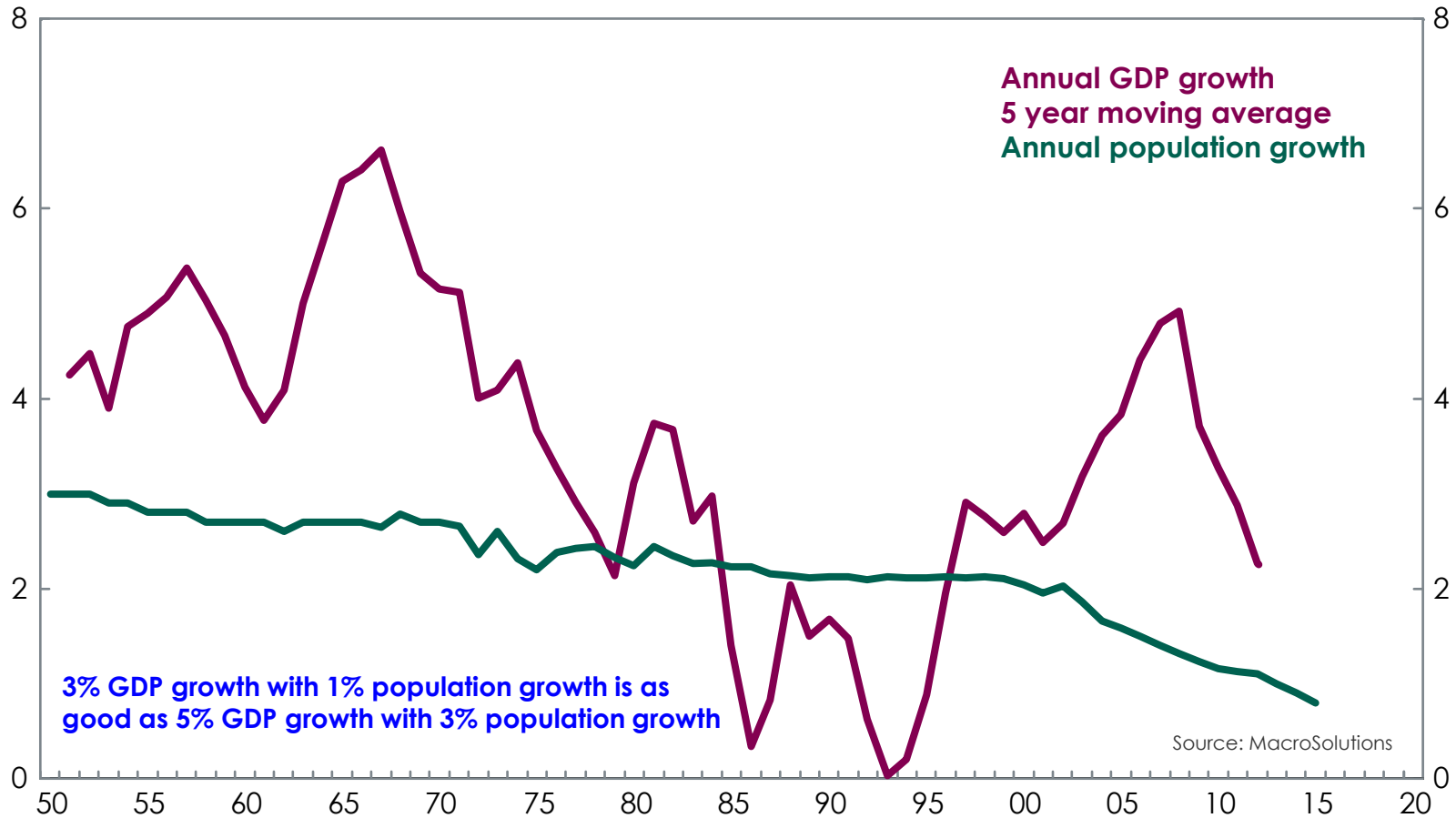
POTENTIAL STUCK AT LESS THAN 3% P.A.



Source: MacroSolutions

10

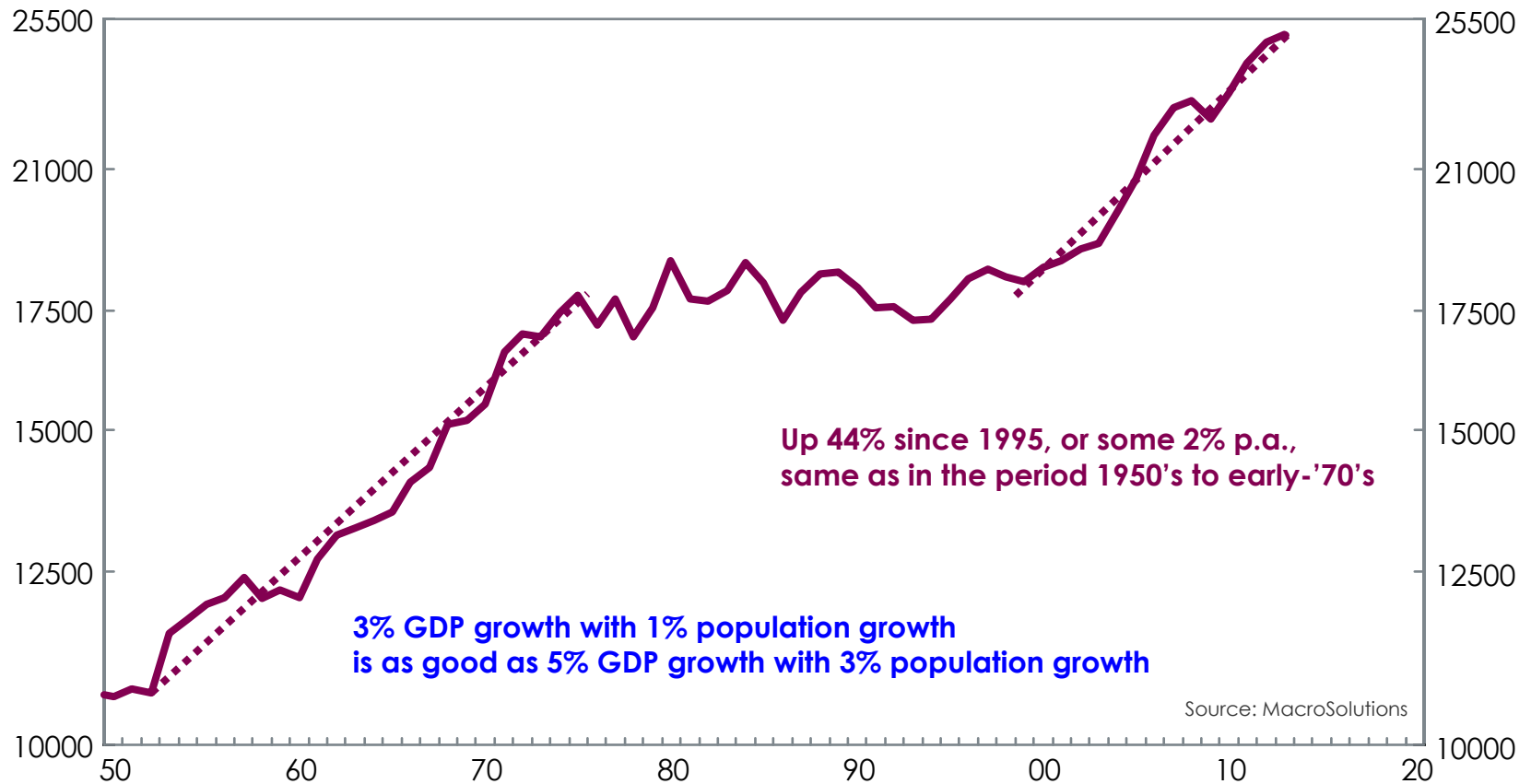
PERHAPS 3% P.A. GDP GROWTH IS NOT AS BAD AS WE THINK...



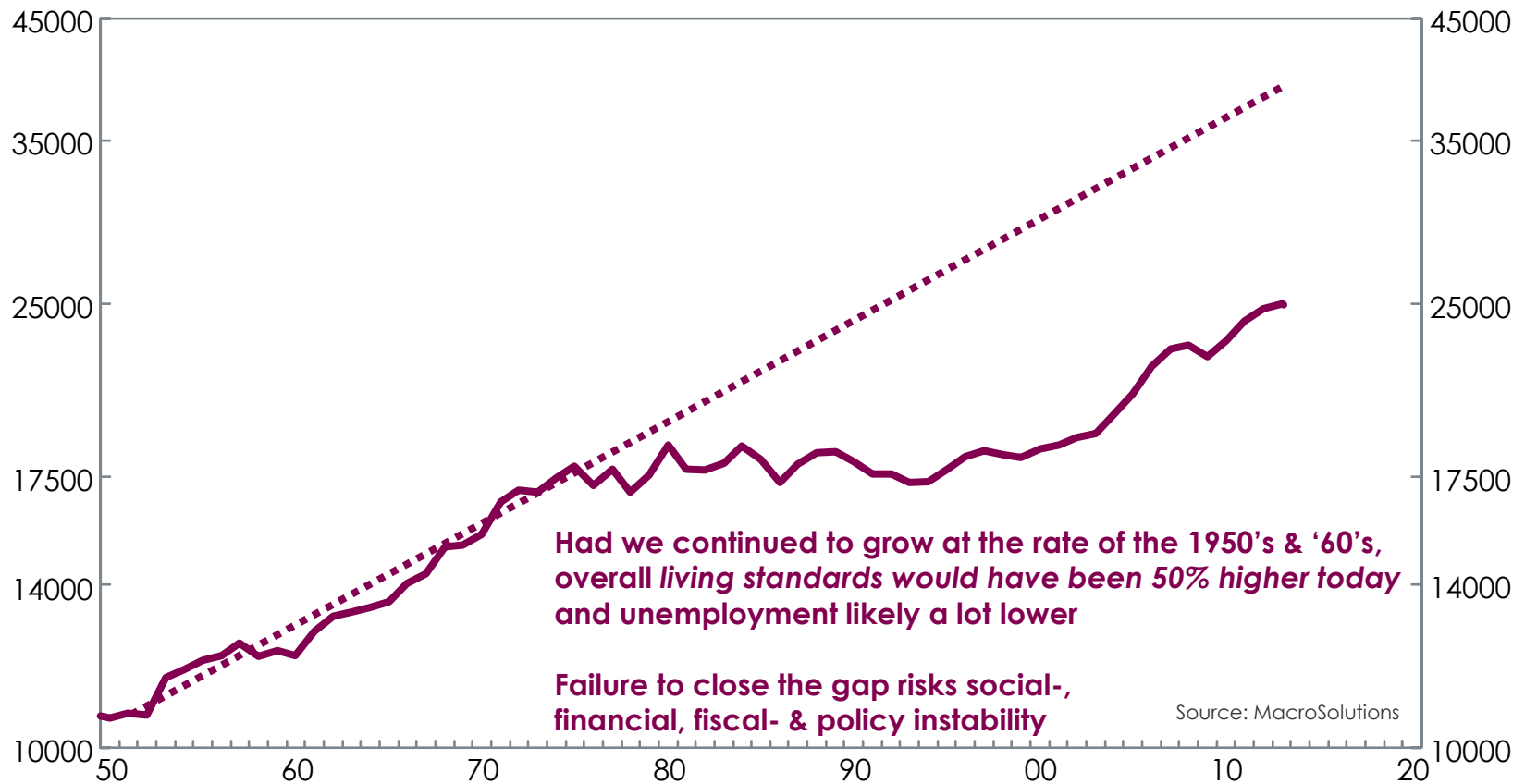


SO, REAL DISPOSABLE INCOME PER CAPITA HAS RISEN SOLIDLY SINCE 1995

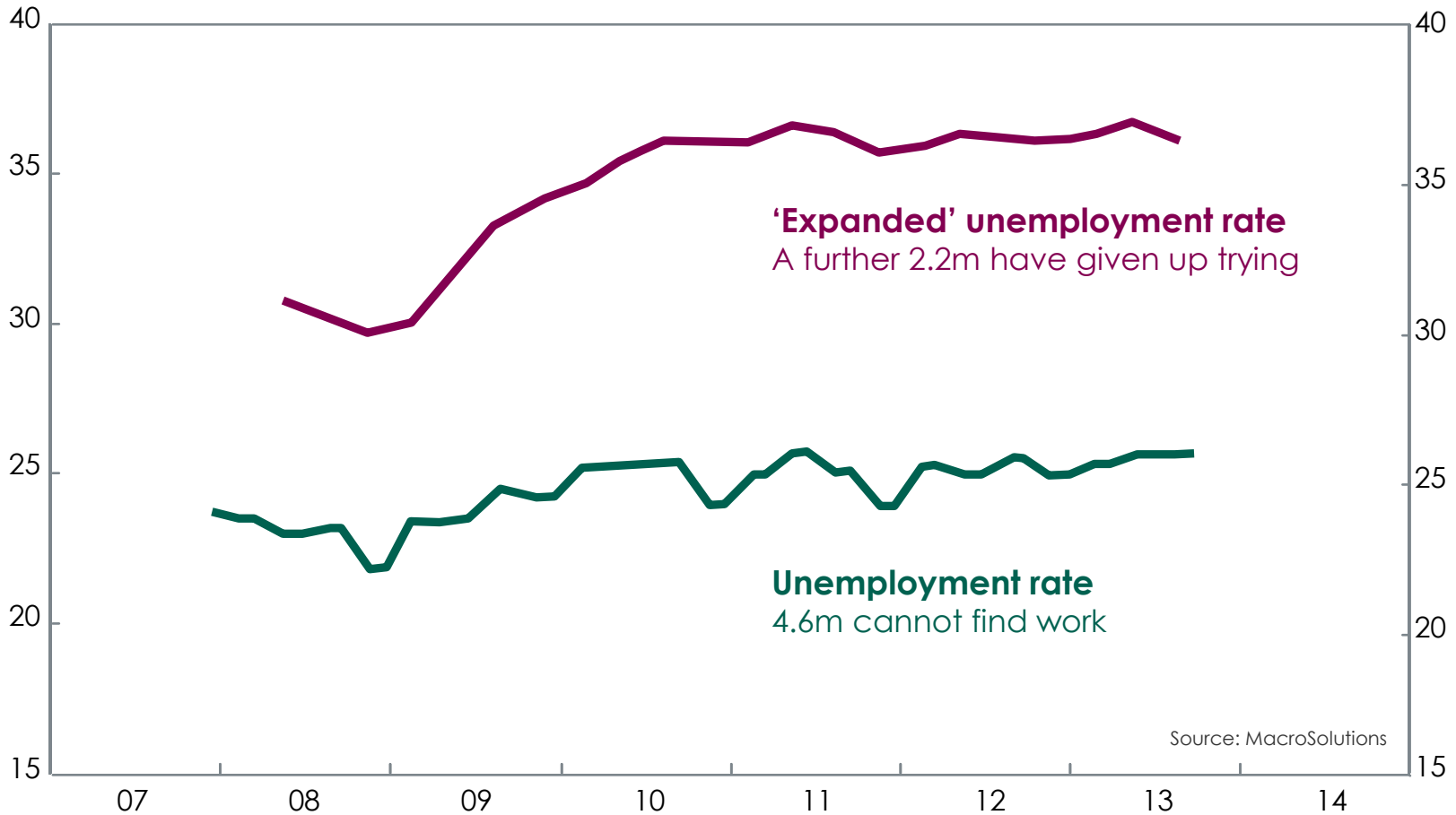
AND AT THE SAME PACE AS IN THE 1950'S & '60'S



BUT A HUGE BACKLOG HAS OPENED UP DURING 2 DECADES OF STAGNATION



AND, WE HAVE MADE NO PROGRESS WITH UNEMPLOYMENT...



...ESPECIALLY YOUTH UNEMPLOYMENT

BETTER MATRIC PASS RATES HAVE DONE ZERO FOR THE YOUTH UNEMPLOYMENT RATE



Source: MacroSolutions



OUR JOB SEEKERS FACE HUGE OBSTACLES...

Higher quantitative
pass rates, **YES**

Better qualitative
supply of skills, **NO**

- Few get tertiary education admission (lots then drop out too)
- For the rest finding meaningful employment is very, very hard

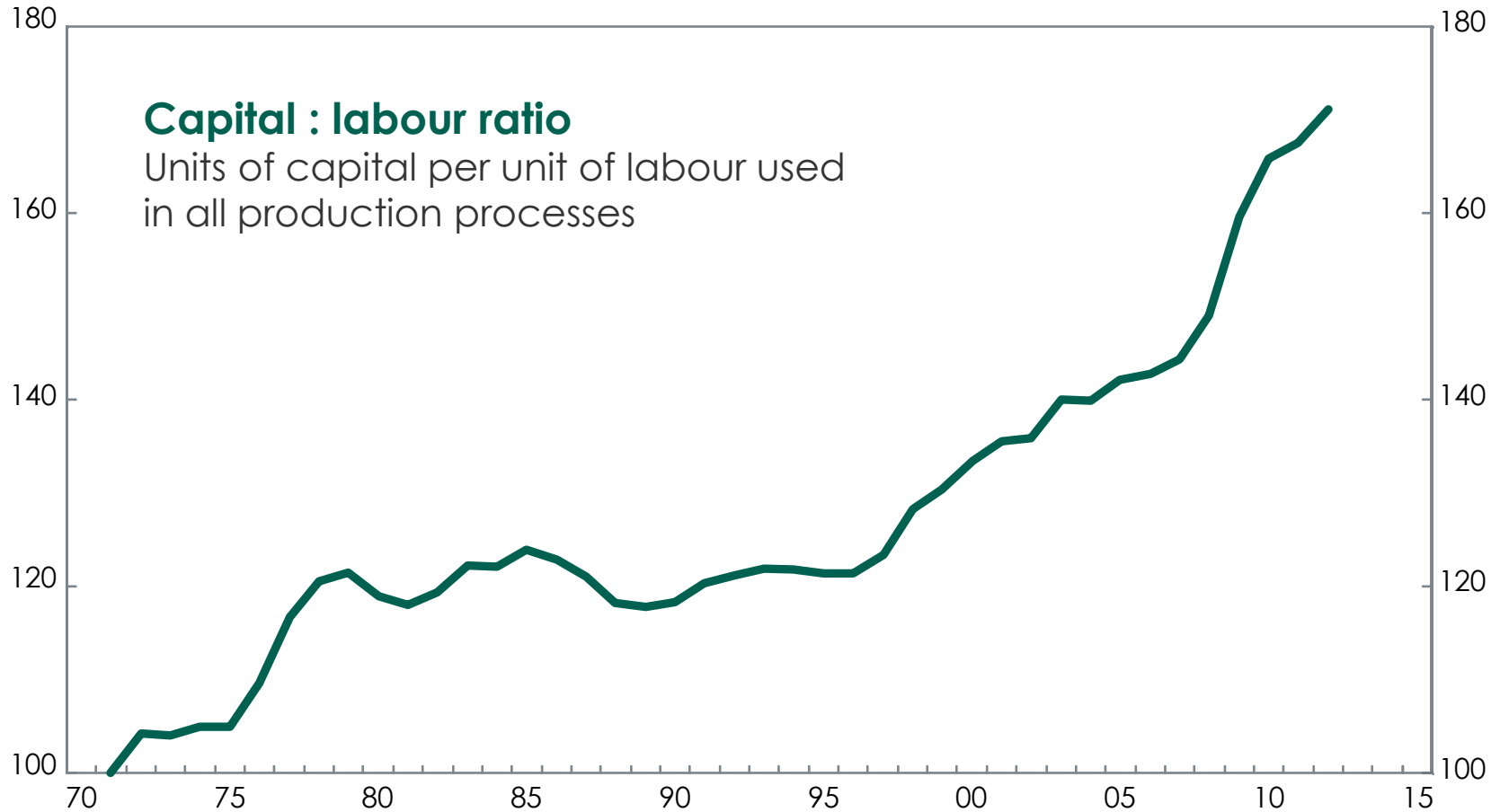
SA's
troublesome
labour
environment
is a huge
obstacle to
job seekers

- Labour relations are keeping the unemployed outsiders out

IMF:

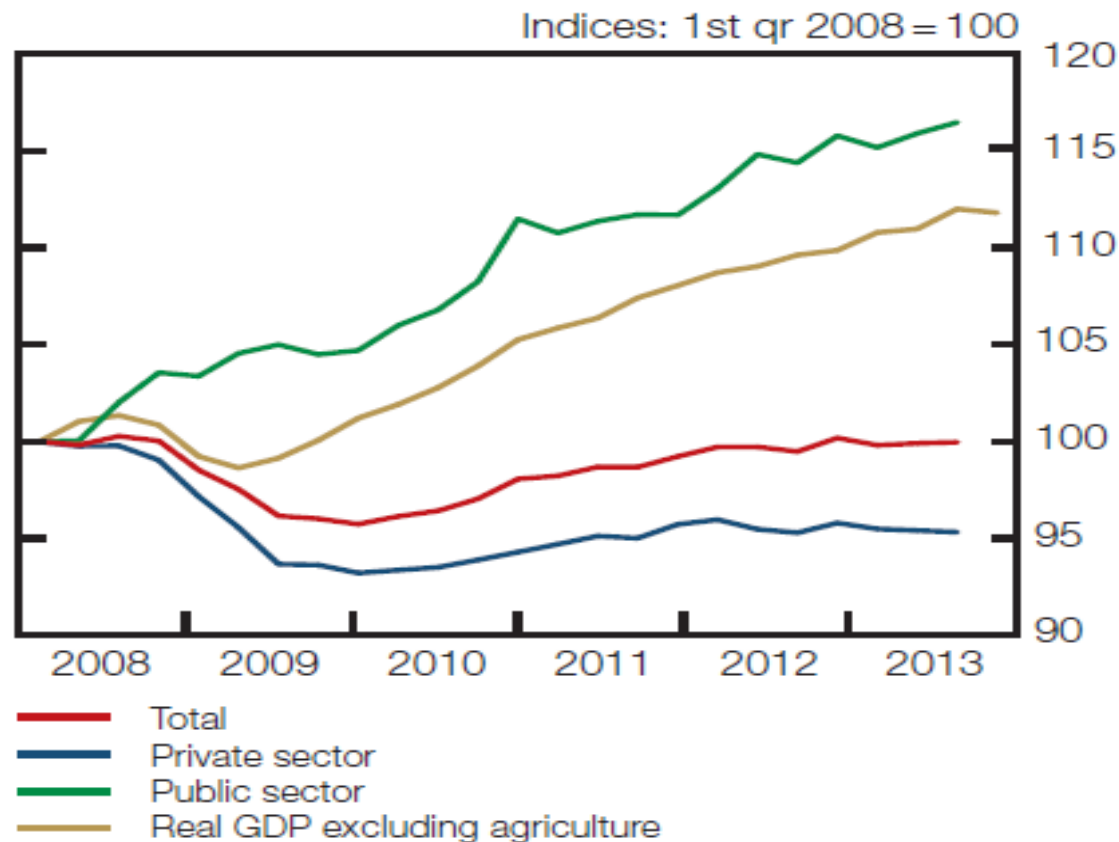
"SA does not exhibit the characteristics of fast job-creating countries"

...AS INCREASING MECHANISATION CLEARLY DEMONSTRATES...



PRIVATE SECTOR EMPLOYMENT IS INDEED WEAK

Figure 32 Formal non-agricultural-sector employment and GDP*



SA'S MANY STRENGTHS SUGGEST A HIGH GROWTH POTENTIAL

SA is a constitutional democracy, politically stable, entrenched property rights, contract enforcement is high, independent judiciary & high tax compliance

SA economy generally flexible
(‘survived’ many, many crises)

Huge mineral wealth,
huge tourism potential & proximity
to Africa are key strengths

Strong financial sector with sound
regulatory oversight & deep
capital markets



Macro-economic institutions
have credibility & macro
policy generally conservative

Many world class
companies, a solid culture of
entrepreneurship

Young population with a rapidly growing
middle class & well-developed social security system
are sources of growth & stability

THEN WHAT IS THE TROUBLE...?



- No global boom (driving exports or commodity prices)
- No sector boom (a la mining in the 1950/60's), stimulating other forms of activity
- No infrastructure boom (big numbers yes, but *little net growth*)
- No consumer credit boom
- No big pool of skilled, productive & competitive labour to attract production facilities
- No Monetary or Fiscal room for support for the economy



WHAT NEEDS TO BE DONE...?

- **Address cyclical problems: Current account & fiscal deficits & inflation pressures**
- **Address the deep distrust between Govt, Labour and Business**
- **Create greater policy certainty, both on a macro and sectoral level**
- **Address SA's highly problematic labour relations (may include elements of labour law)**
- **Speed up social & economic infrastructure spend (still many bottlenecks)**
- **Aggressively address underperforming areas in the public service (incl education)**
- **Ensure the more competitive ZAR is not undermined by higher inflation**
- **Targeted support for key industries**



CAN, AND WILL, IT BE DONE...?

Confidence remains generally very depressed and expectations low

- Rating Agencies & analysts skeptical over Govt's willingness to effect the right reforms
- So, fears of little more than lip-service to the NDP, despite Govt's contrary comments
- India: optimism surges as a strong, reform-minded government is elected

Still, an opportunity exists

- Govt bombarded with calls for growth-enhancing reforms (sense of crisis is building)
- A good plan is on the table and Govt has committed to it
- Politics will give 5 years breathing space (but political will is still required)
- The Rand is more competitive
- The SARB has shown it will protect the ZAR's new-found competitiveness

Failure to reform & grow faster risks social, fiscal & financial instability



SA HOUSEHOLDS AND SAVINGS

Only 2 things drive savings

1. Ability to save
i.e. need sufficient income
2. Willingness to save
income available, choose to save or not



SA situation

- Many simply do not have ability to save: will rely on Govt/ family aid
- Many do have ability to save, but choose not to or simply fail to realise that they need to save more



FOR THOSE WHO CAN SAVE...

SA households save way too little
(& make poor investment decisions)



For future liabilities:
kids' education, depreciation of residence, etc

For retirement
(most discover this with a shock, far too late)

Discretionary savings often go into low yielding investments or ones that lose people all of their capital

DC members:
Largely oblivious as to whether their retirement provision is sufficient
I suspect many are badly under-provided

DB Members:
Largely oblivious as to whether their retirement provision is sufficient
Do not fully consider the possibility of below-inflation pension increases (requiring additional provision)

Many, many will discover 3 years into retirement they could not really afford the luxuries of the previous 25+ yrs



AVERAGE TOTAL RETURNS (% P.A.)

1960 – MAY 2014

Sector	10 years 60-69 (%)	10 years 70-79 (%)	10 years 80-89 (%)	10 years 90-99 (%)	15 years 00-14* (%)	55 years 60-14* (%)	What we expect* (%)
Shares	15.8	21.3	26.7	16.6	18.1	19.6	11.0
LT Gilts	4.5	6.8	11.8	19.5	13.7	11.5	7.5
Cash	4.4	8.2	14.8	16.2	8.6	10.3	6.5
Inflation	2.5	10.3	14.7	9.4	6.2	8.4	5.5

* Our estimates over the longer term

Balanced Fund of 60:30:10

Over 53 years: 16.2% vs 8.4% inflation = 7.8% real

Going forward: 9.6% vs 5½% inflation = 4.1% real

HOW MUCH MUST YOU SAVE? – A GUIDE

35 years worked			
% saved	Inv. Return	% of pension taken	Pension as % of last salary
13	9.0	6.5	32
30	9.0	6.5	75
13	13.5	6.5	75
13	9.0	15.0	75
17.5	12.0	6.5	75

- All examples above assume 9% p.a. salary gain & 6% p.a. inflation
- Realistic overall Investment Returns going forward ± 8% - 10% p.a. (vs 17½% previous 14 years)
- **Message? Can't rely on high investment returns to build your capital, people will have to save far more**



SUMMARY AND CONCLUSIONS

SA'ans
save too little
& often make
poor
investment
decisions

So,
many are
ill-prepared
for retirement,
without
knowing it

It will be
very difficult
to rectify

Remember:
In retirement
you need
a growing
income



- Ability to save inhibited by various factors
- Investment returns will be lower
- Large percentage of people already 'far behind'



SOME WISE WORDS SOMEONE ONCE TOLD ME...

*The biggest present you
can give your children
is to never become
dependent on them*
(retirement provision)

*The biggest present you
can give yourself is to
make your children
independent of you*
(education)



WHAT SHOULD PEOPLE DO NOW?

A FEW THINGS...



- retirement
- 'big asset' replacements
- health
- children's studies
- caring for parents and/or children
- inflation
- etc

REMEMBER: Time is your best friend when it comes to capital building



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Old Mutual Investment Group (Pty) Limited

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

Telephone number: +27 21 509 5022

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