

The global and SA economy: The long and short of it...

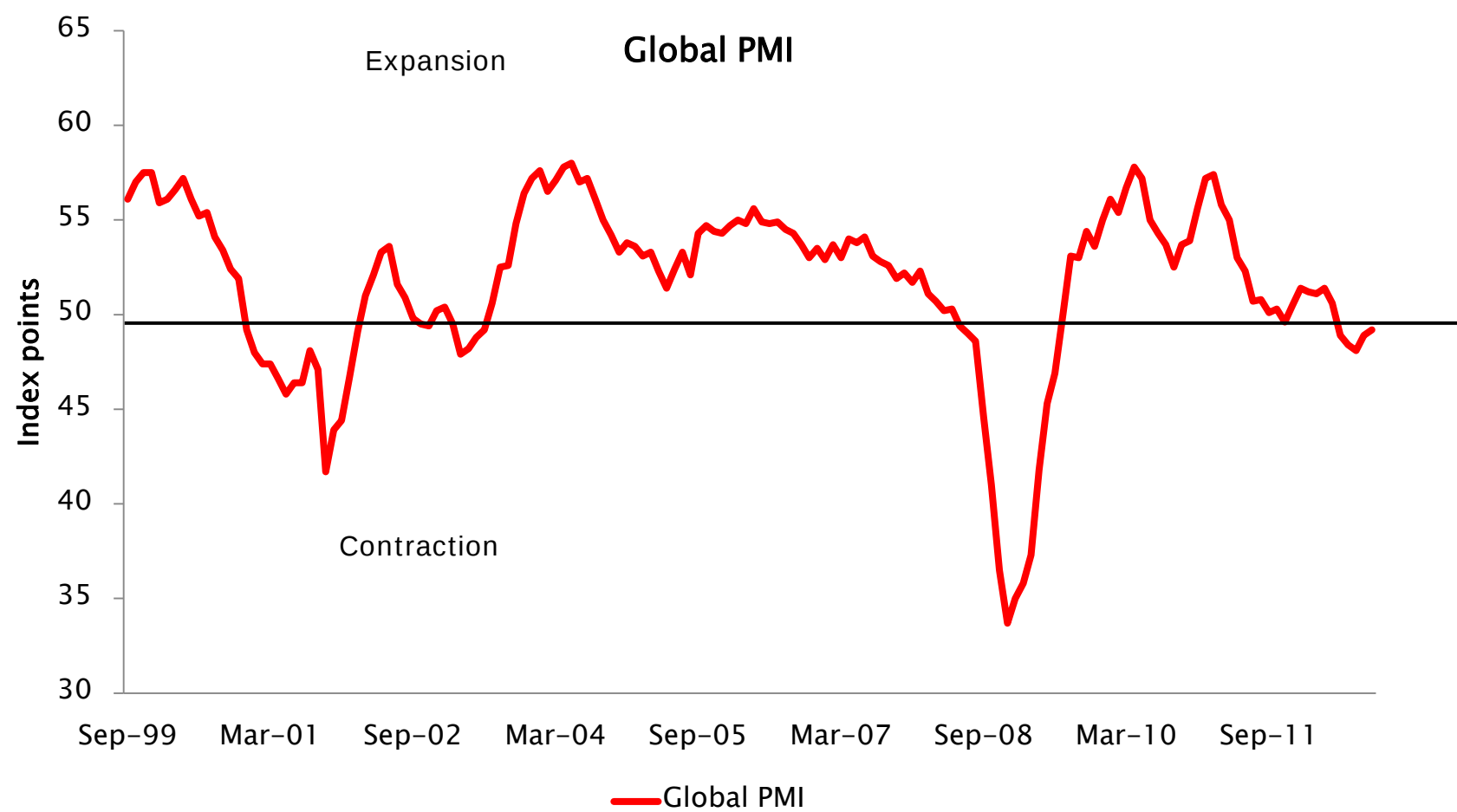
CESA conference
5 November 2012
Craig Lemboe



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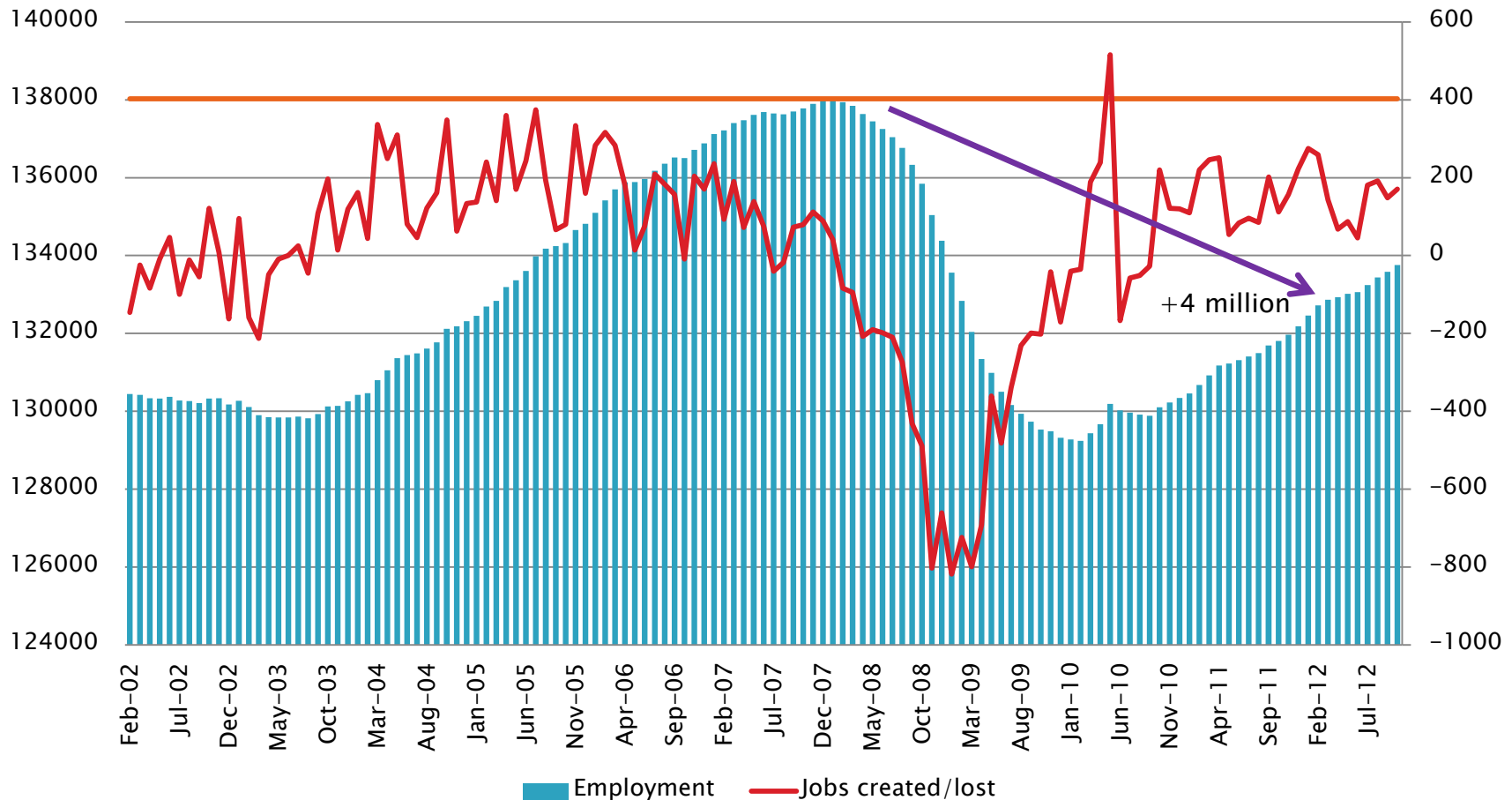
Global growth set to have remained pedestrian in Q3: Global manufacturing PMI below 50 last 4 months



Source: JP Morgan



US employment growing...but still way below best levels ('08)...



Fiscal debt ceiling and impeding cliff dangerous cocktail...



End of tax cuts and spending, resulting in 1H13 recession

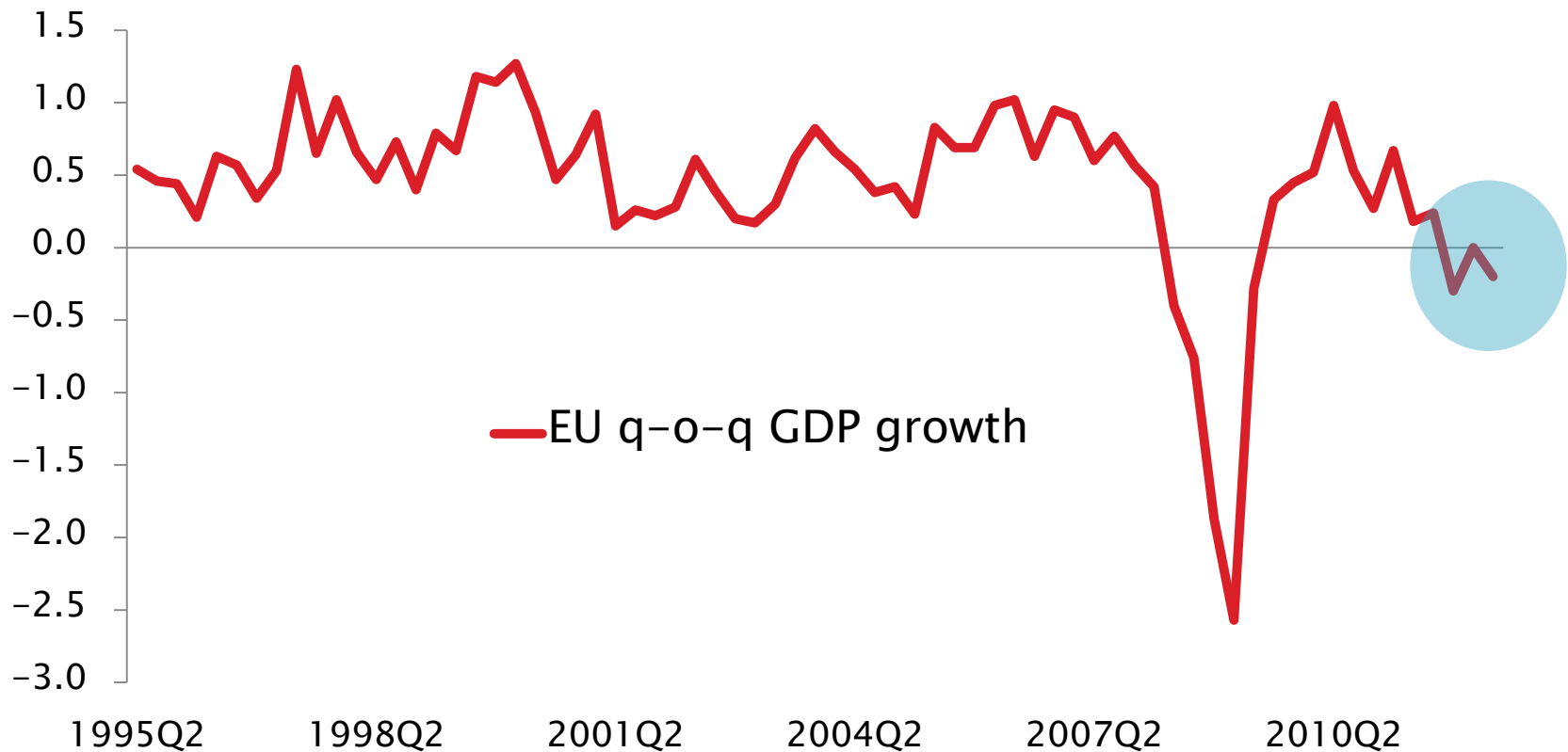


-0.8 percentage points off Q4 GDP

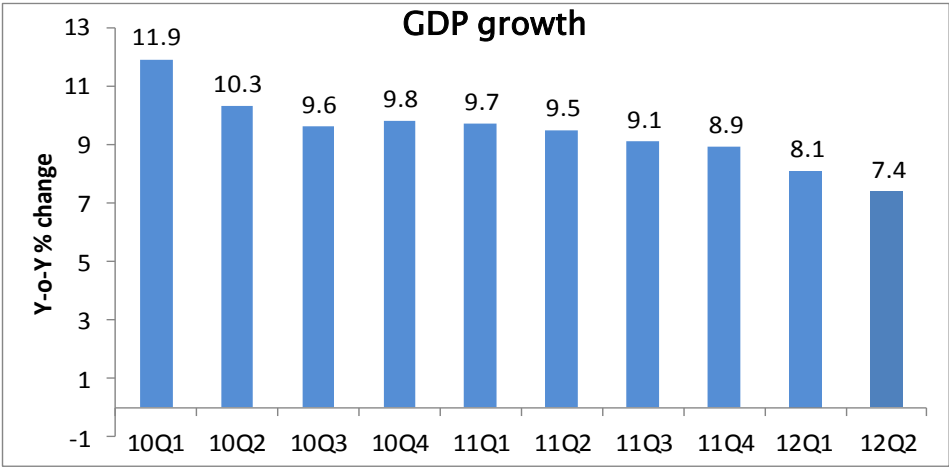
On the other side of the Atlantic...



But real economy remains weak...



With Chinese GDP growth continuing to slow...



What does all this mean?

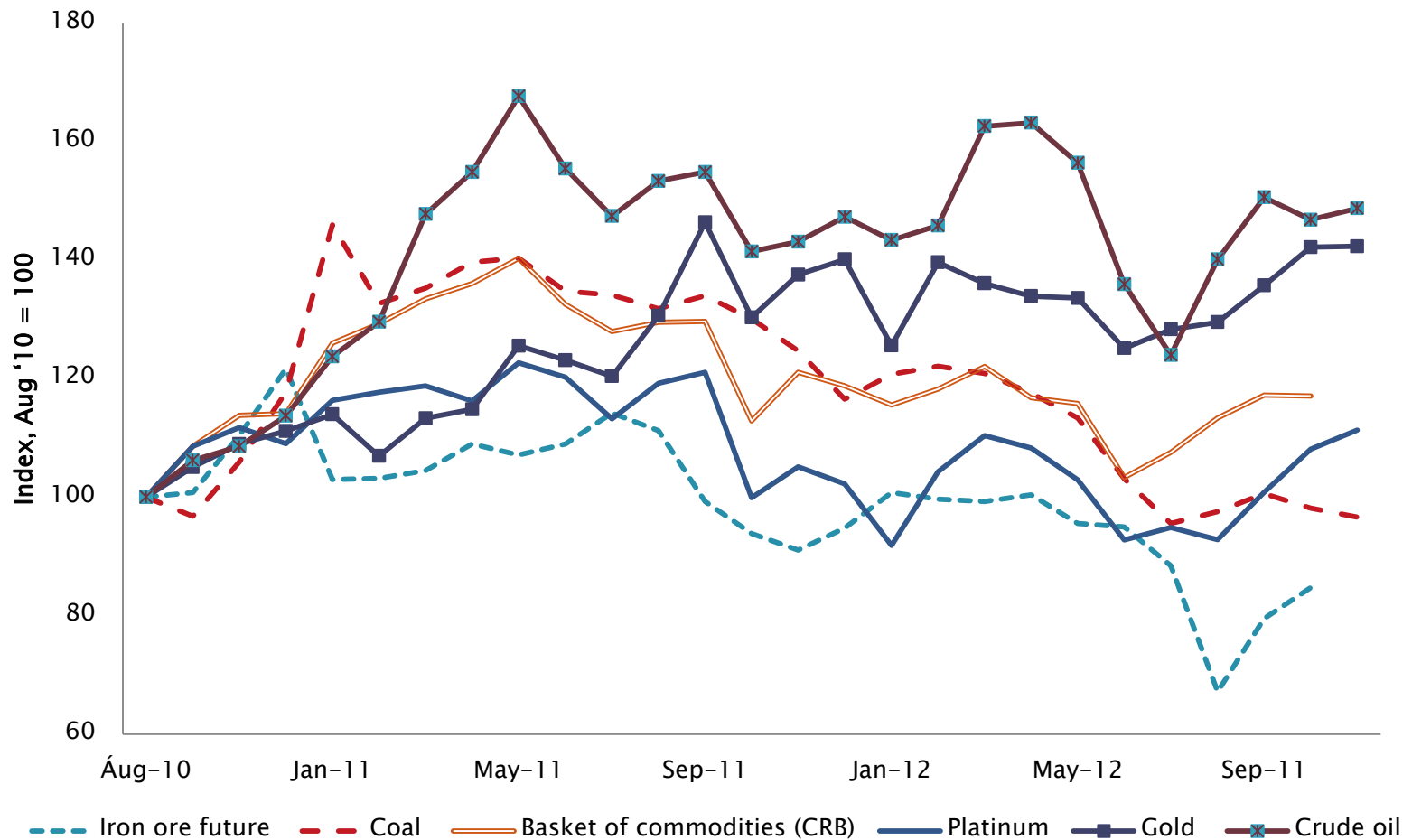
Global Growth Outlook

	2011	2012	2013	2014	2015	2016	2017
USA	1.8	2.2	2.1	2.9	3.4	3.4	3.3
Euro Area	1.4	-0.4	0.2	1.2	1.5	1.7	1.7
Japan	-0.8	2.2	1.2	1.1	1.2	1.1	1.1
Developing Asia	7.8	6.8	7.2	7.5	7.6	7.7	7.7
– China	9.2	7.8	8.2	8.5	8.5	8.5	8.5
Latin America	4.5	3.2	3.9	4.1	4.0	4.0	4.0
Sub-Saharan Africa	5.1	5.0	5.7	5.5	5.8	5.7	5.8
Global	3.8	3.3	3.6	4.1	4.4	4.5	4.6

Key assumptions:

- No “cliff”
- Political resolution in Euro Area

Recent commodity price trends softer...



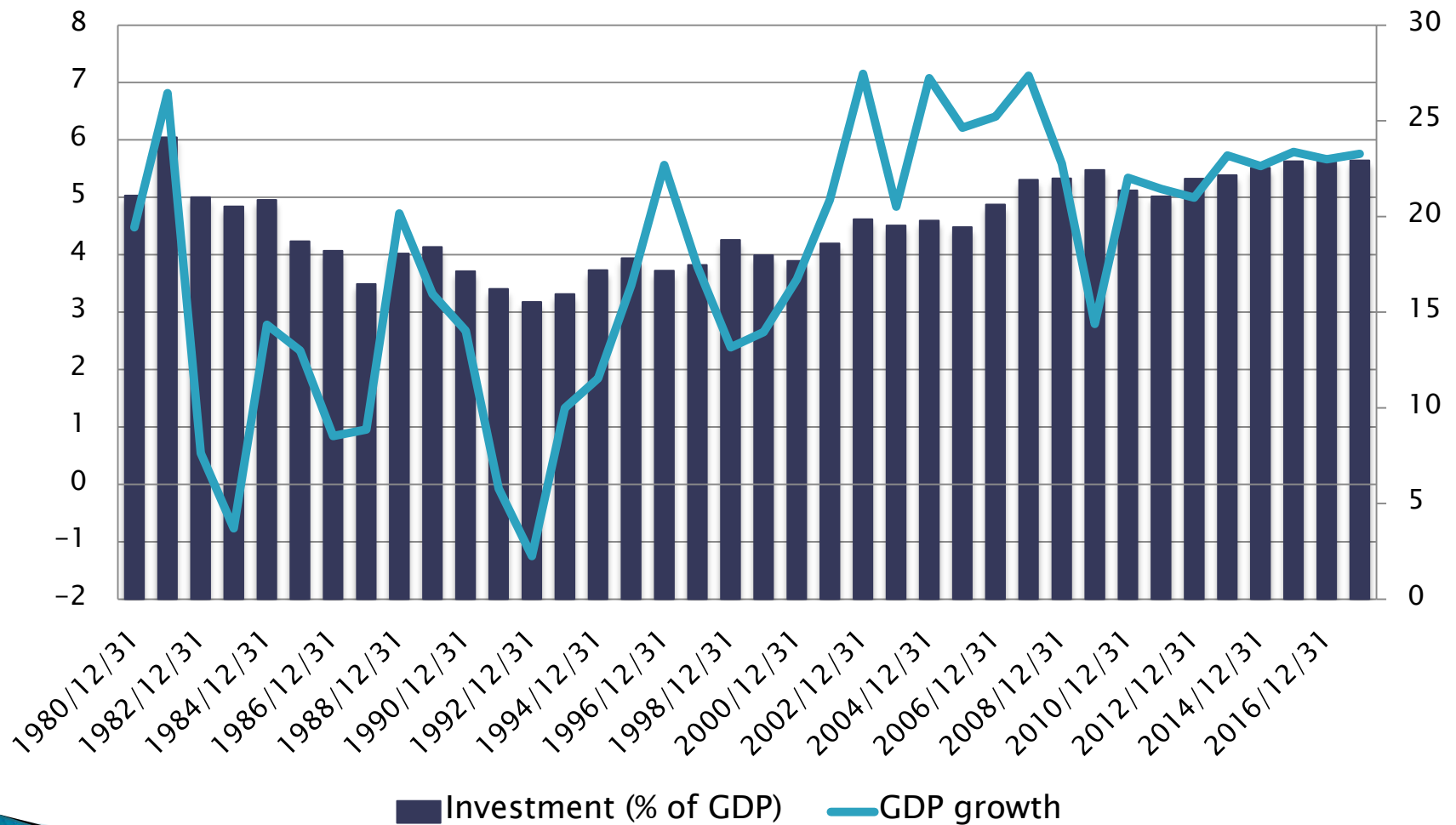
Almost 60% of SA's exports destined for EU, China, US and Africa in first half of 2012

Region	2006	2012H1	
	% of Total	% of Total	
Africa	13.3	16.7	Still robust growth
EU	30.1	20.8	Recession in '12
US	10.5	8.4	Slow recovery
UK	8.0	4.1	Impacted by EU woes
Japan	10.7	6.1	Prospects poor
China	3.6	12.3	Growth moderating
India	1.3	4.2	Decade low growth

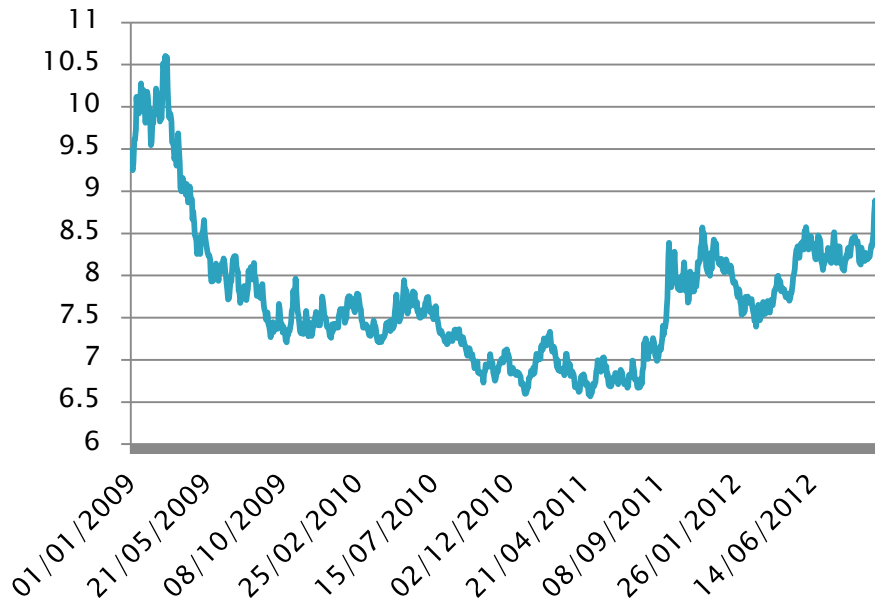
18.2 → 33.2

59.3 → 39.4

SSA investment rising...



Rand normally linked to international developments, but past few weeks domestic concerns more prominent...



➤ Short-term developments

- Moody's and S&P rating downgrade outweighed by SA inclusion in Citi bond index – foreigners bought R7.2bn worth of SA bonds 1st week of Oct
- But, fears mounting about extended strikes – foreigners sold R3.7bn of equities last week and more than R1 billion in bonds
- Current account funding in jeopardy
- Rand under pressure over short term as domestic constraints outweigh global developments

➤ Medium-term factors

- Wage issues resolved
- More concrete signs of global recovery
- Increased risk appetite, flows to EMs and recovery in commodity prices
- Structural weakness?



**The
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OCTOBER 20TH–24TH 2011

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Time to intervene in Syria

Britain's barmy immigration policy

The lessons from Citigroup's shock

Obama's town-hall brawl

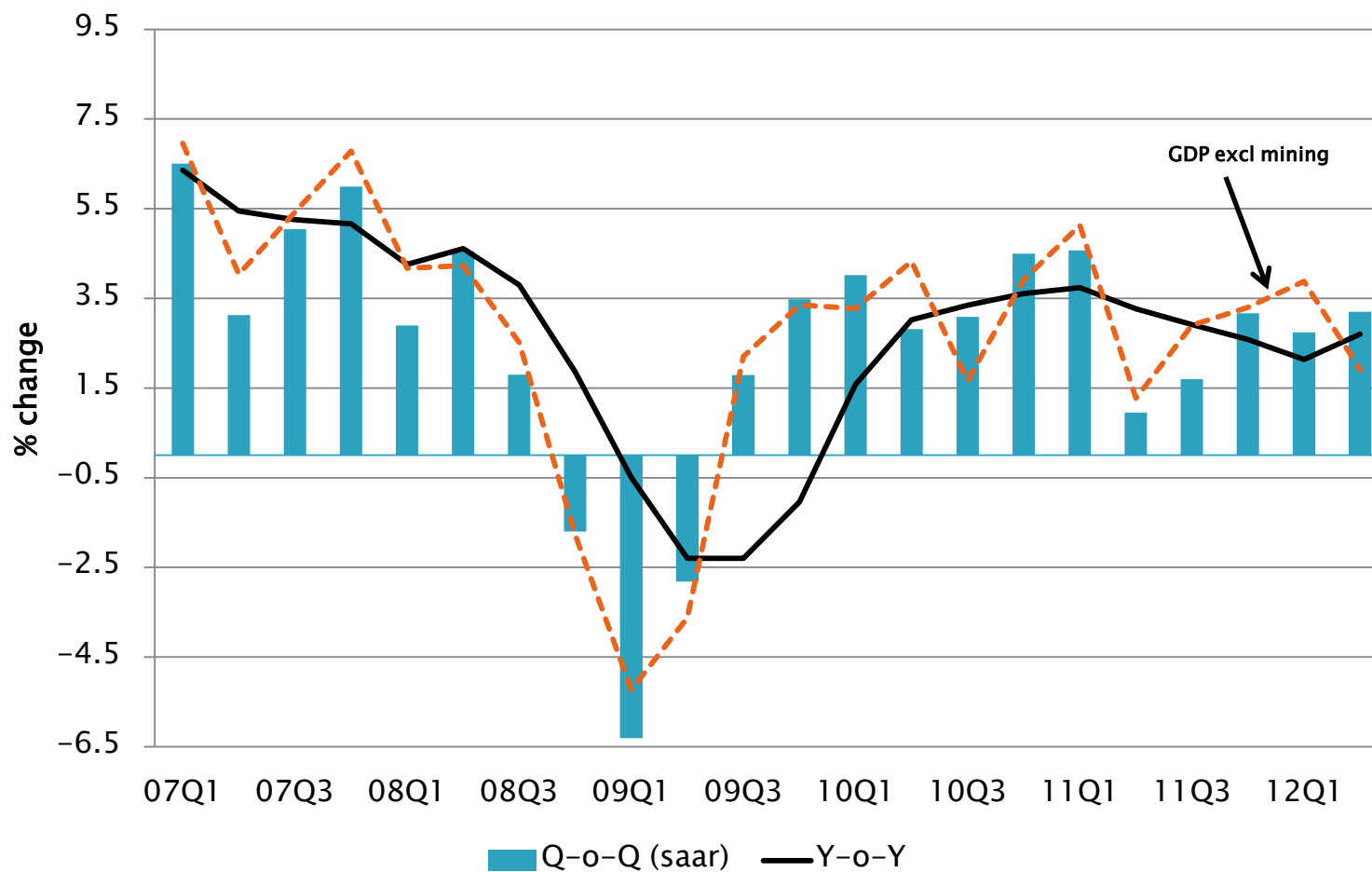
How driverless cars will change the world

Cry, the beloved country

South Africa's sad decline



Excl mining, Q2 GDP growth eased notably

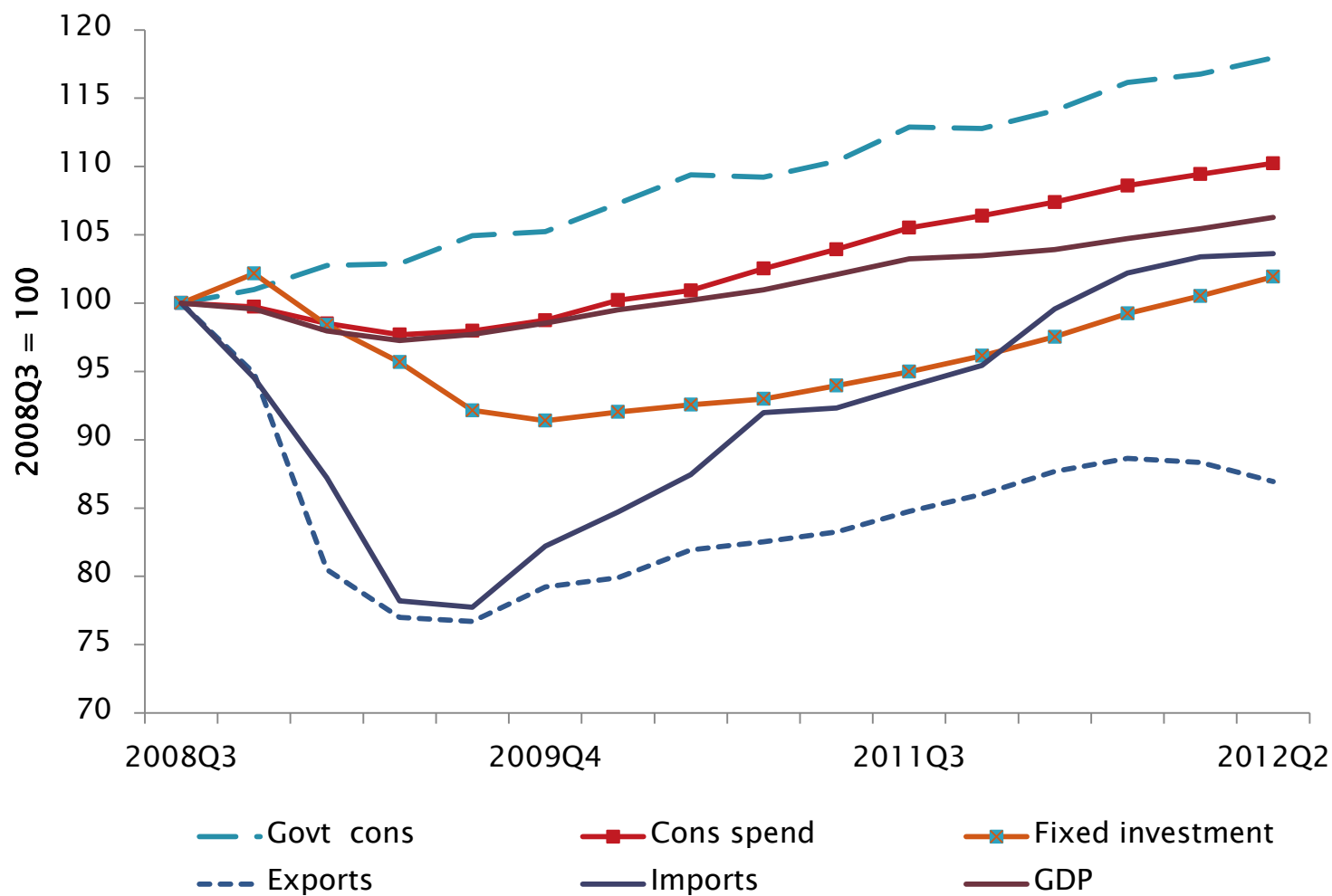


Possible impact of labour unrest - Sectoral GDP split (q-o-q, saar)

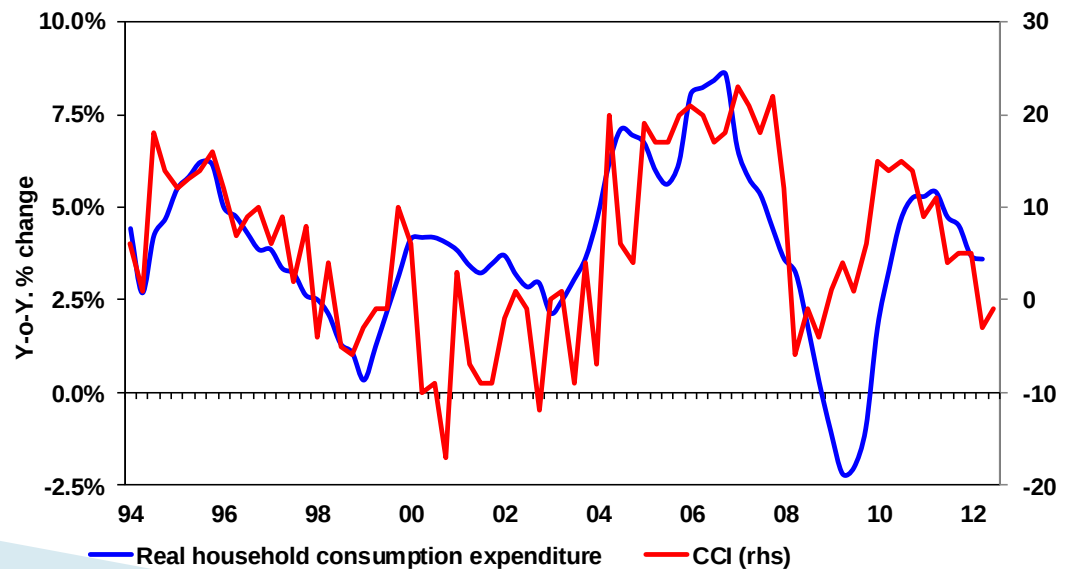
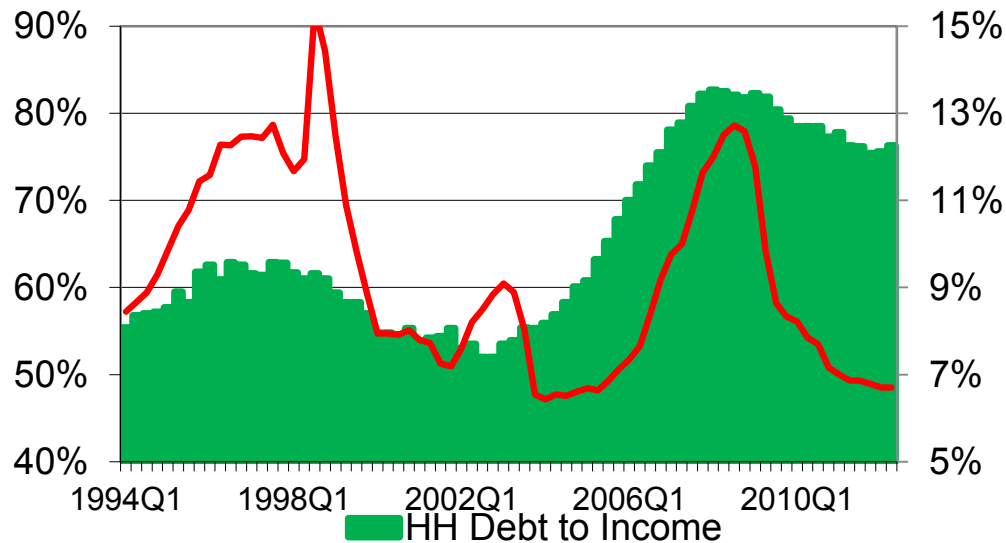
Sector	Weighting	2011	2012Q1	2012Q2	2012Q3	2012Q4	2012
Agriculture	2.8	-0.4	3.4	6.8	5.0	3.0	0.2
Mining	5.0	0.2	-16.8	31.2	-11.0	-50.0	-7.4
Manufacturing	15.1	2.4	7.7	-1.0	1.0	-5.0	1.6
Electricity and Water	2.0	1.4	-0.1	-4.2	10.0	4.0	0.6
Construction	3.9	0.8	3.8	4.3	4.5	4.0	3.2
Trade	13.6	4.4	3.0	2.8	2.5	2.5	3.8
Trans and comm.	10.1	3.3	2.5	2.3	1.5	-1.0	2.3
Finance	20.3	3.5	4.1	2.3	2.3	2.5	3.1
General government	12.8	2.4	2.3	1.9	3.0	3.0	3.1
GDP	100	3.1	2.7	3.2	1.8	-2.0	2.2

Source: Stats SA

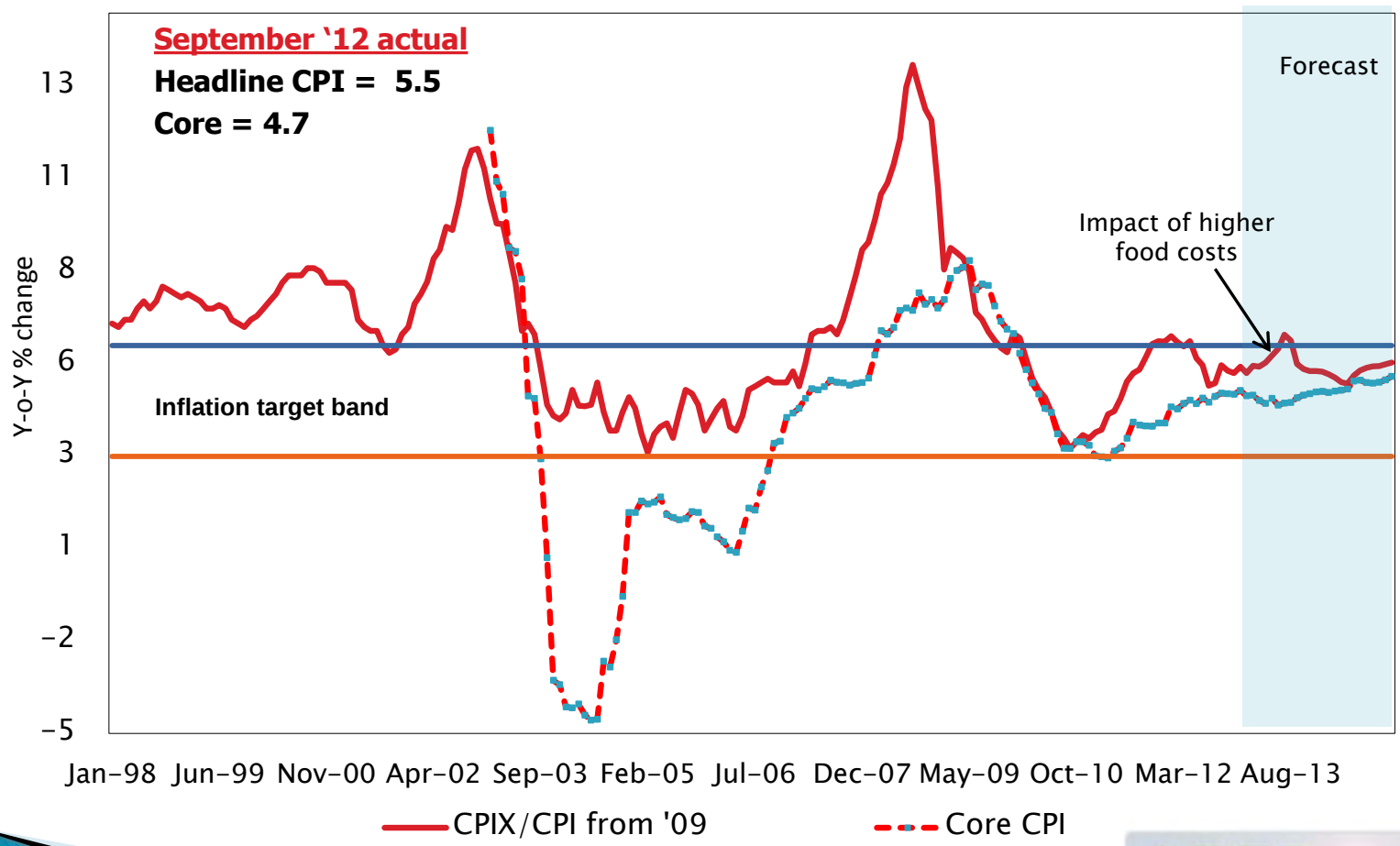
Government, consumer leading the recovery



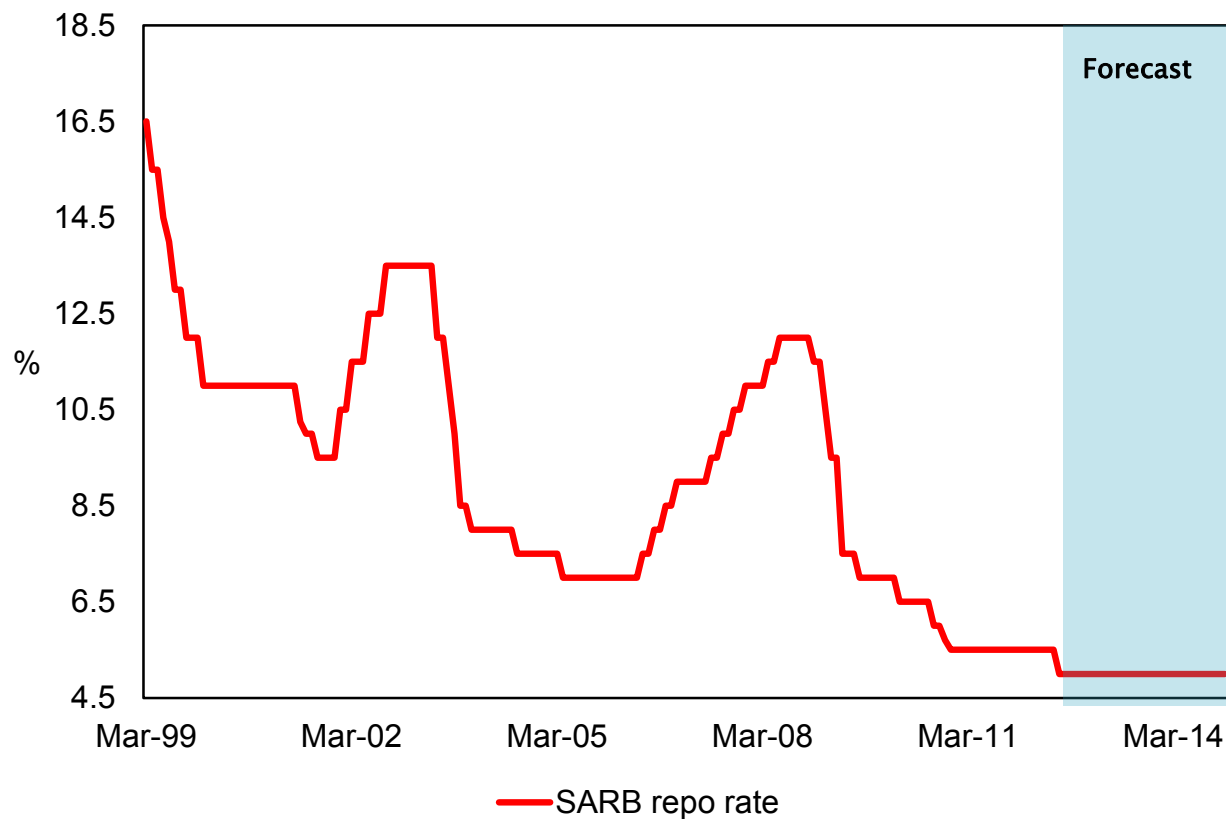
Consumption under pressure: Household debt starts to rise, CCI remains low...



Weaker rand assumption & higher food prices could see CPI temporarily breach target band in mid-2013

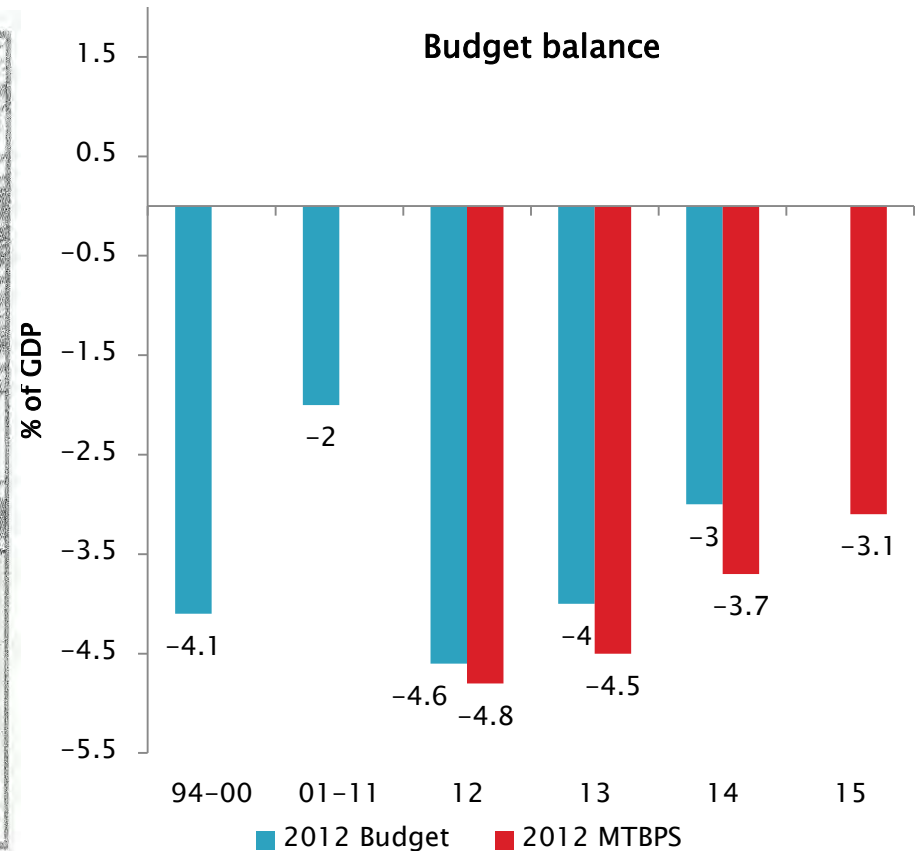
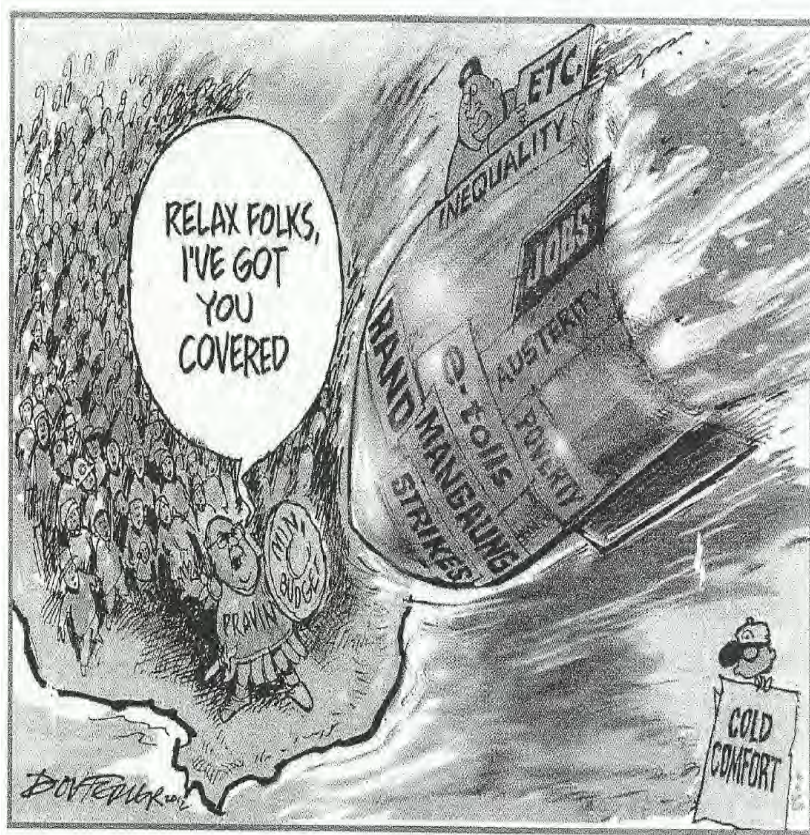


Interest rates set to remain lower, with some room for a cut...



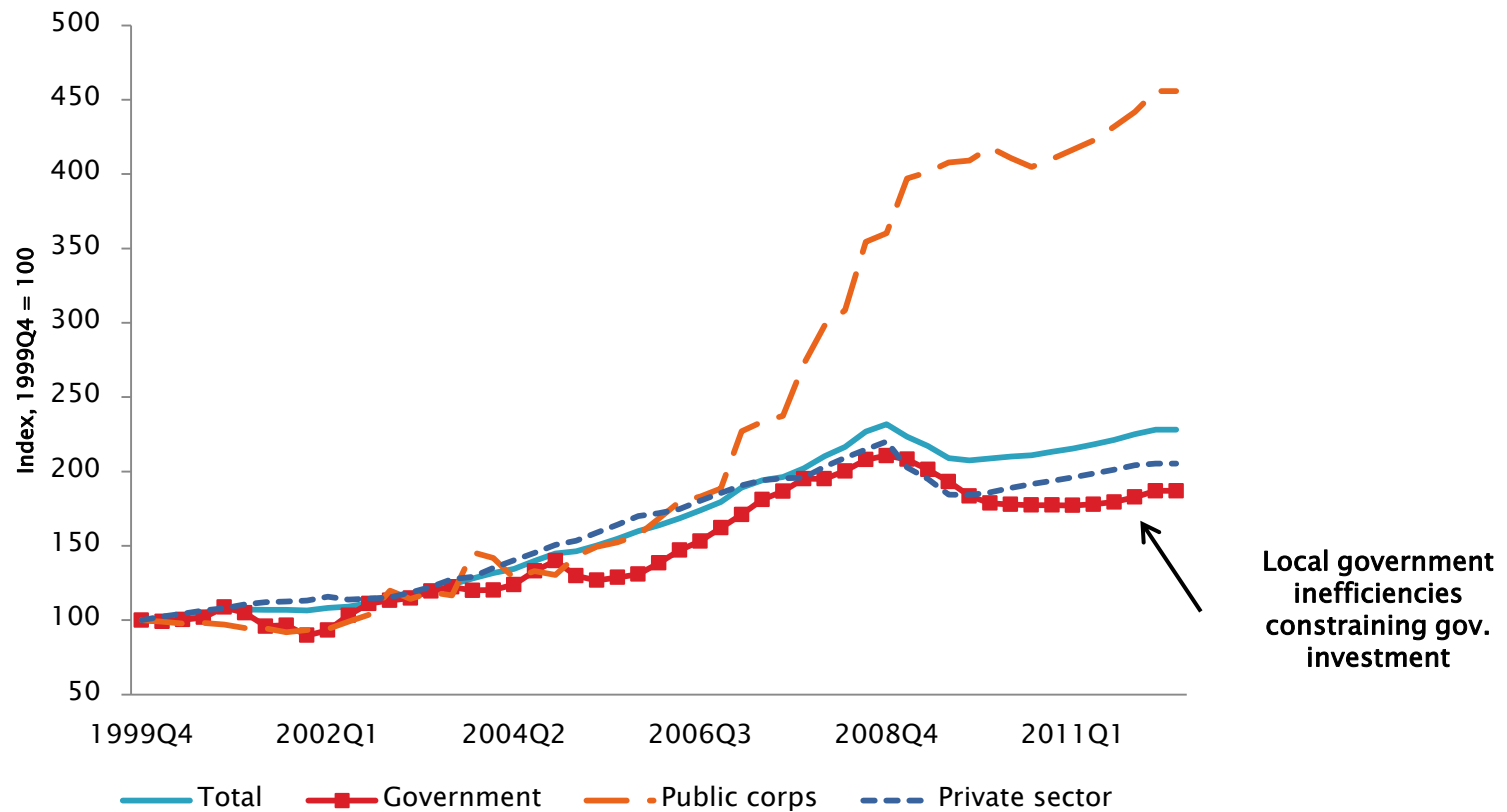
- Growth vs. inflation concerns
- Weaker ZAR reduces likelihood of another cut
- BER baseline: rates on hold through 2014

Softer growth outlook means slower fiscal consolidation

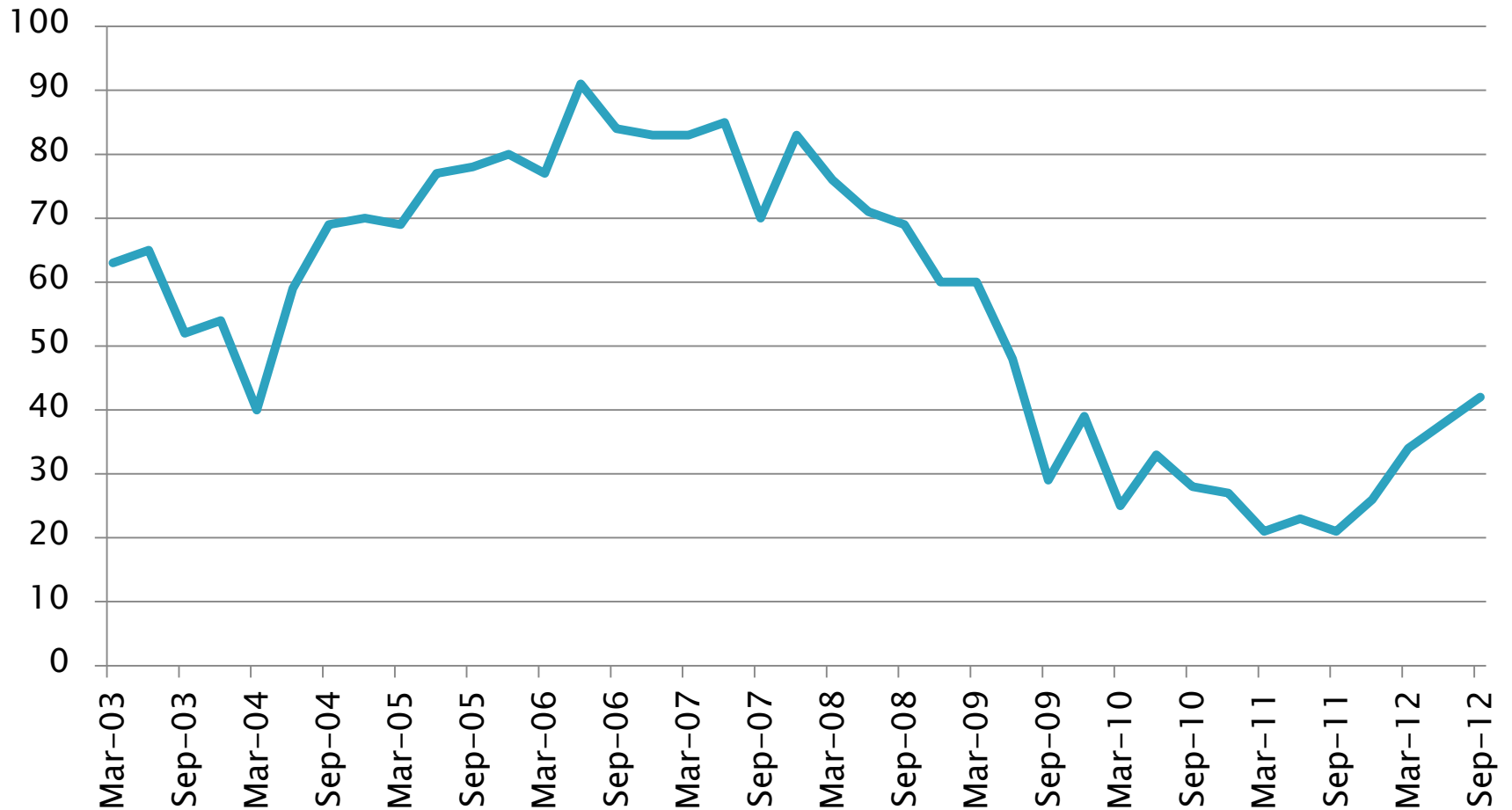


Source: National Treasury

Fixed investment trends: State-owned enterprises leading the way



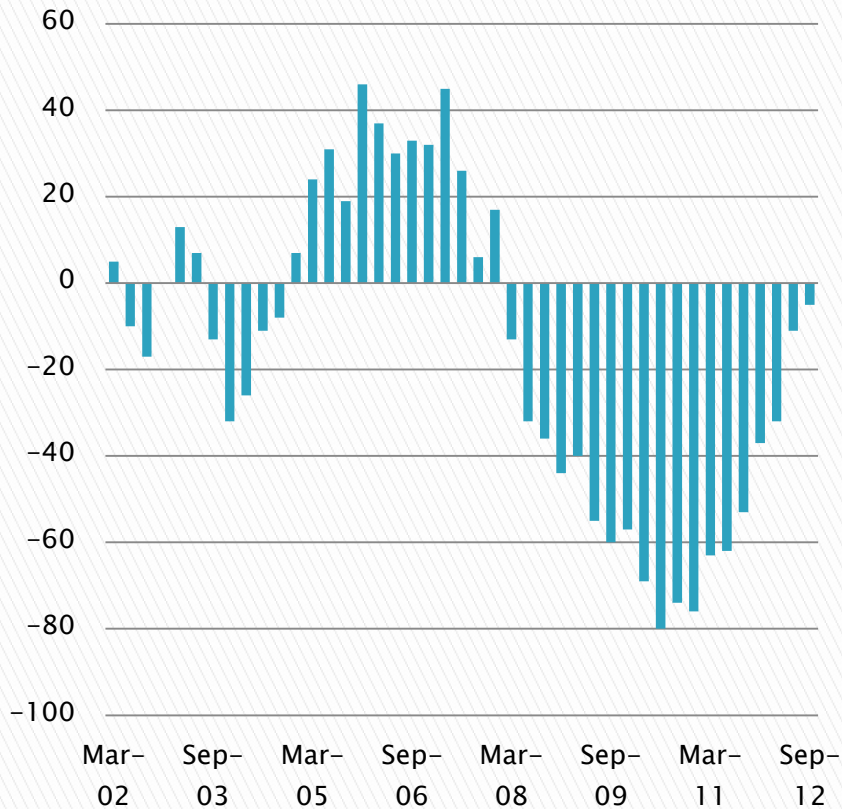
FNB/BER civil confidence



Source: BER

Activity and demand constraint

Activity



Demand constraint

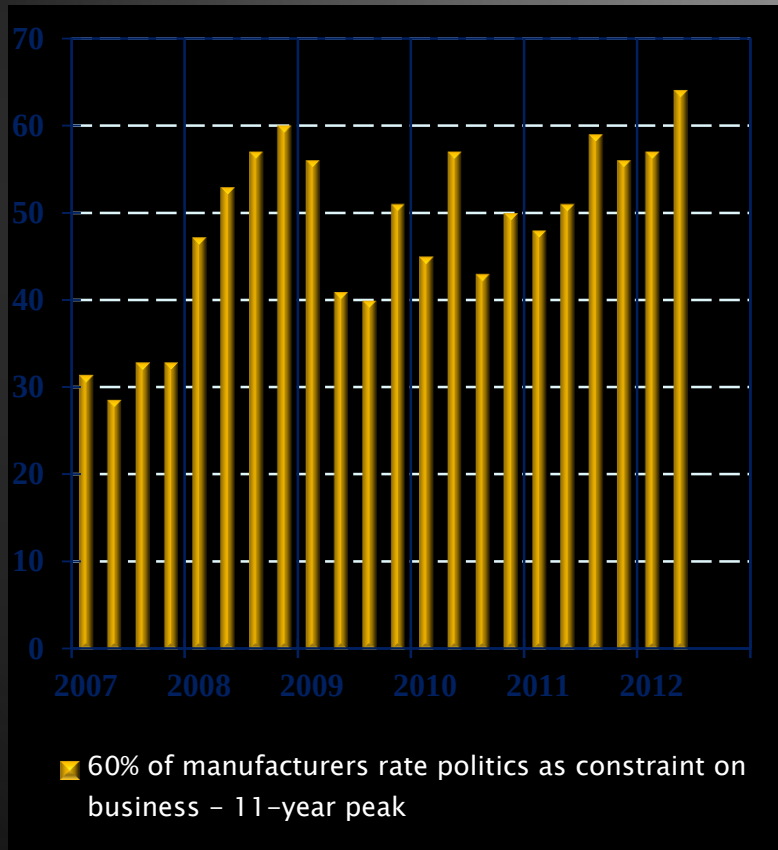


Source: BER

What is holding back private fixed investment?

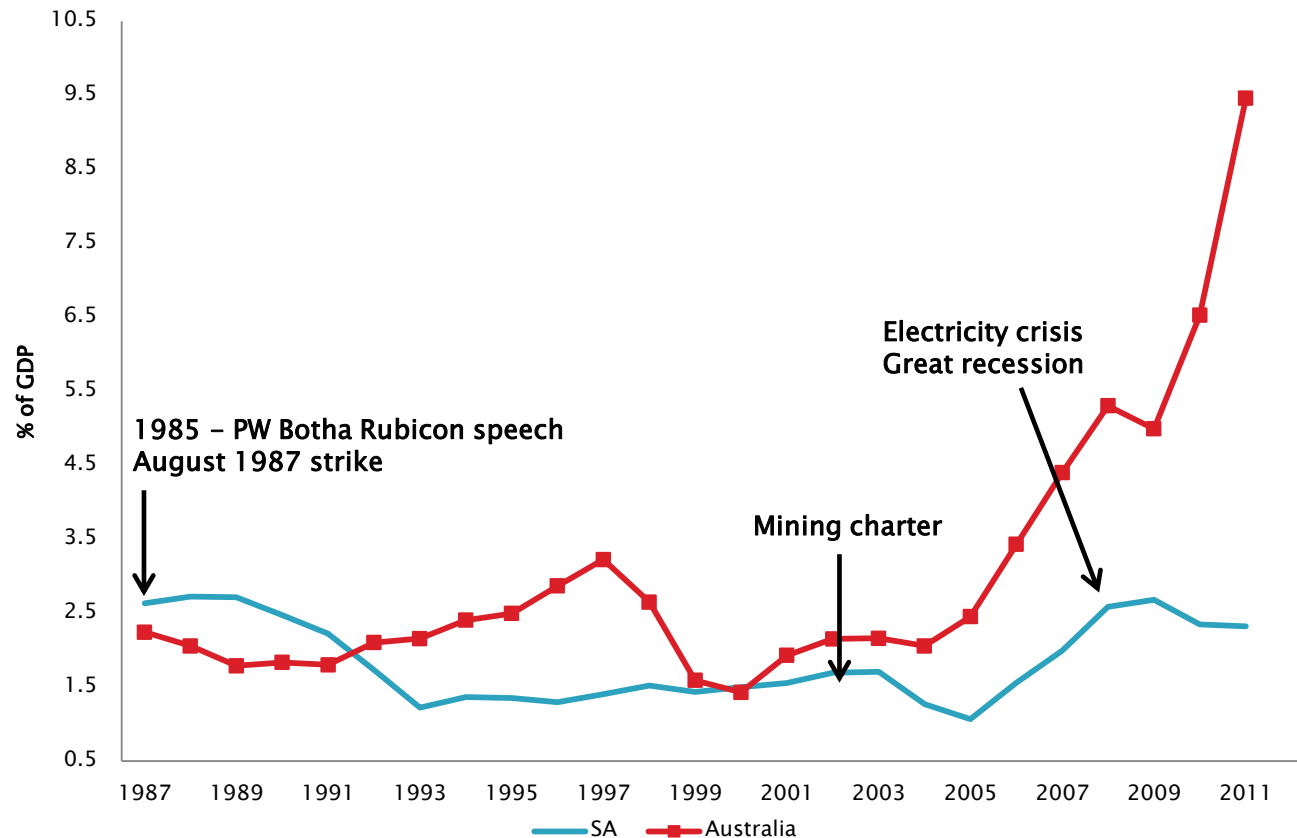
Policy uncertainty leading up to ANC elective conference in December

Lack of business confidence



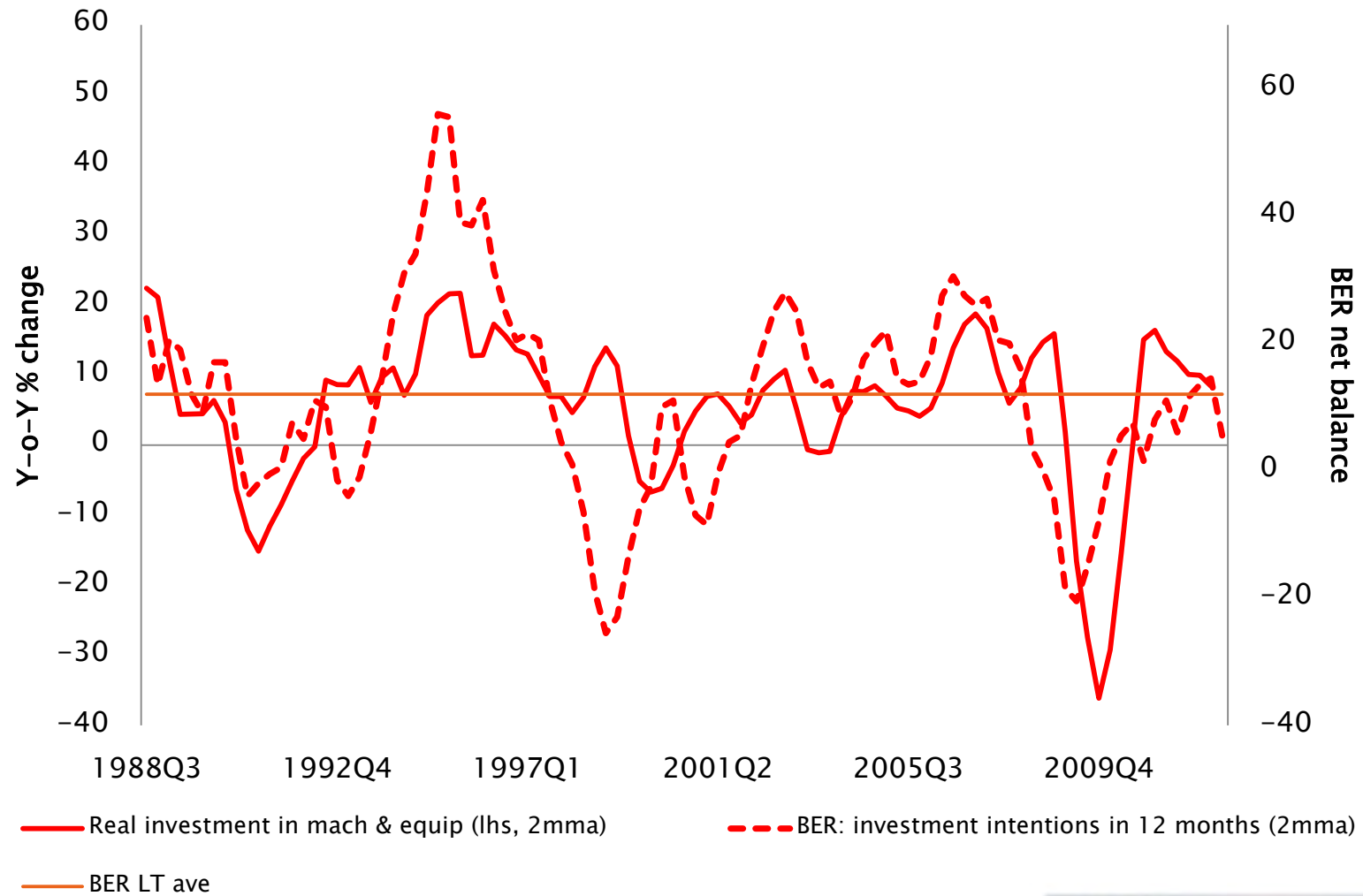
Source: BER

Marikana fallout – mining fixed investment boom bypassing SA



- As % of GDP, SA mining fixed investment has never reached '87 level again

Factory sector executives downbeat on investment intentions



Fixed investment forecast (Y-o-Y % change)

	05-10	2011	2012	2013	2014
Private Sector (64%)					
Total	4.7	5.3	3.3	2.2	5.2
Residential	3.3	-4.3	0.2	3.3	4.0
Total excl residential	5.0	6.4	3.6	2.1	5.3
Public Corporations (22%)	22.2	4.2	9.2	6.1	6.9
Government (14%)	6.6	0.8	8.4	5.8	6.6
Grand Total (100%)	7.5	4.4	5.3	3.6	5.8

SA macro outlook in a nutshell

	2010	2011	2012	2013	2014
Consumer spending	3.7	5.0	3.3	3.4	4.2
Govt consumption	4.9	4.5	4.2	3.8	3.9
Fixed investment	-1.6	4.4	5.3	3.6	5.8
Gross domestic expend	4.2	4.3	4.1	3.4	4.7
Exports	4.5	5.9	-2.1	3.2	7.6
Imports	9.6	9.7	5.8	6.0	9.4
GDP	2.9	3.1	2.2	2.6	3.8
Employment (formal)	-0.8	2.2	1.4	1.5	2.0
CPI (ave)	4.3	5.0	5.6	5.6	5.3
PPI (ave)	6.0	8.4	6.0	4.9	4.5
Prime rate (end of period)	9.00	9.00	8.50	8.50	8.50
R/\$ (Q4 ave)	6.91	8.09	8.63	8.12	8.30

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