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Recent developments in the Global and South African economies

Presented by:

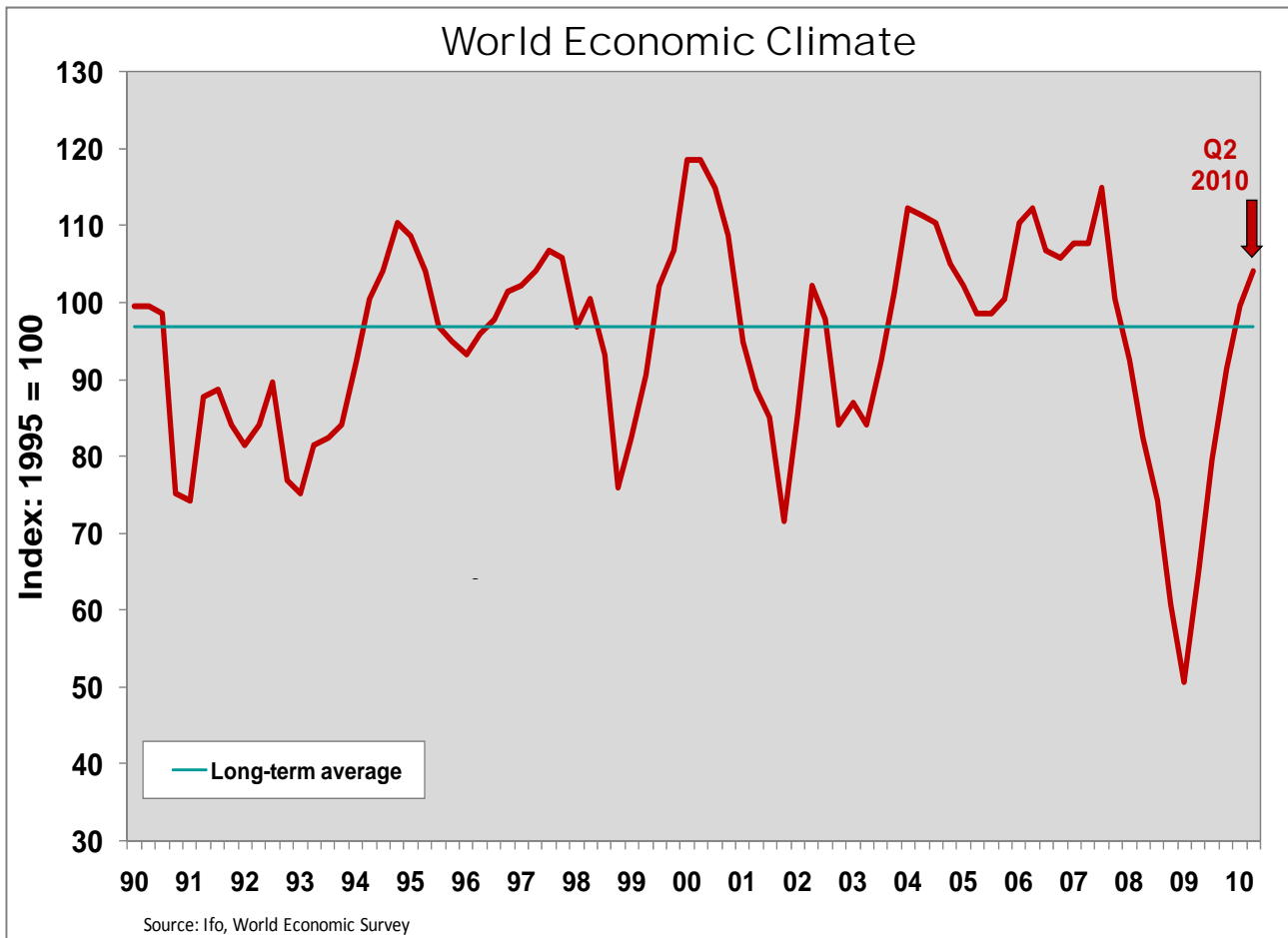
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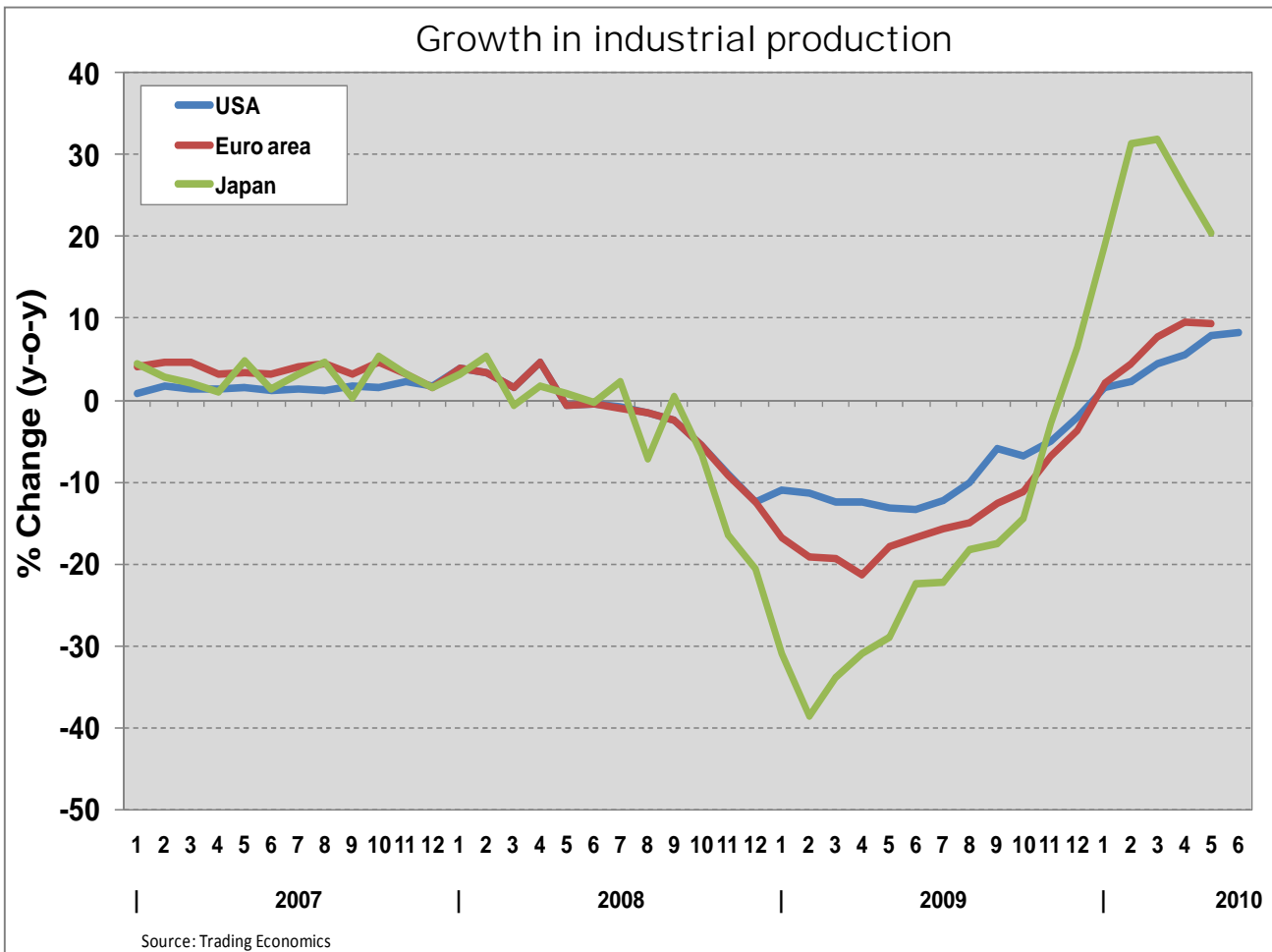
2010 Growth, Development and Investment Programme
Johannesburg, 28 July 2010

Global economic conditions: Increasing evidence of a global economic recovery



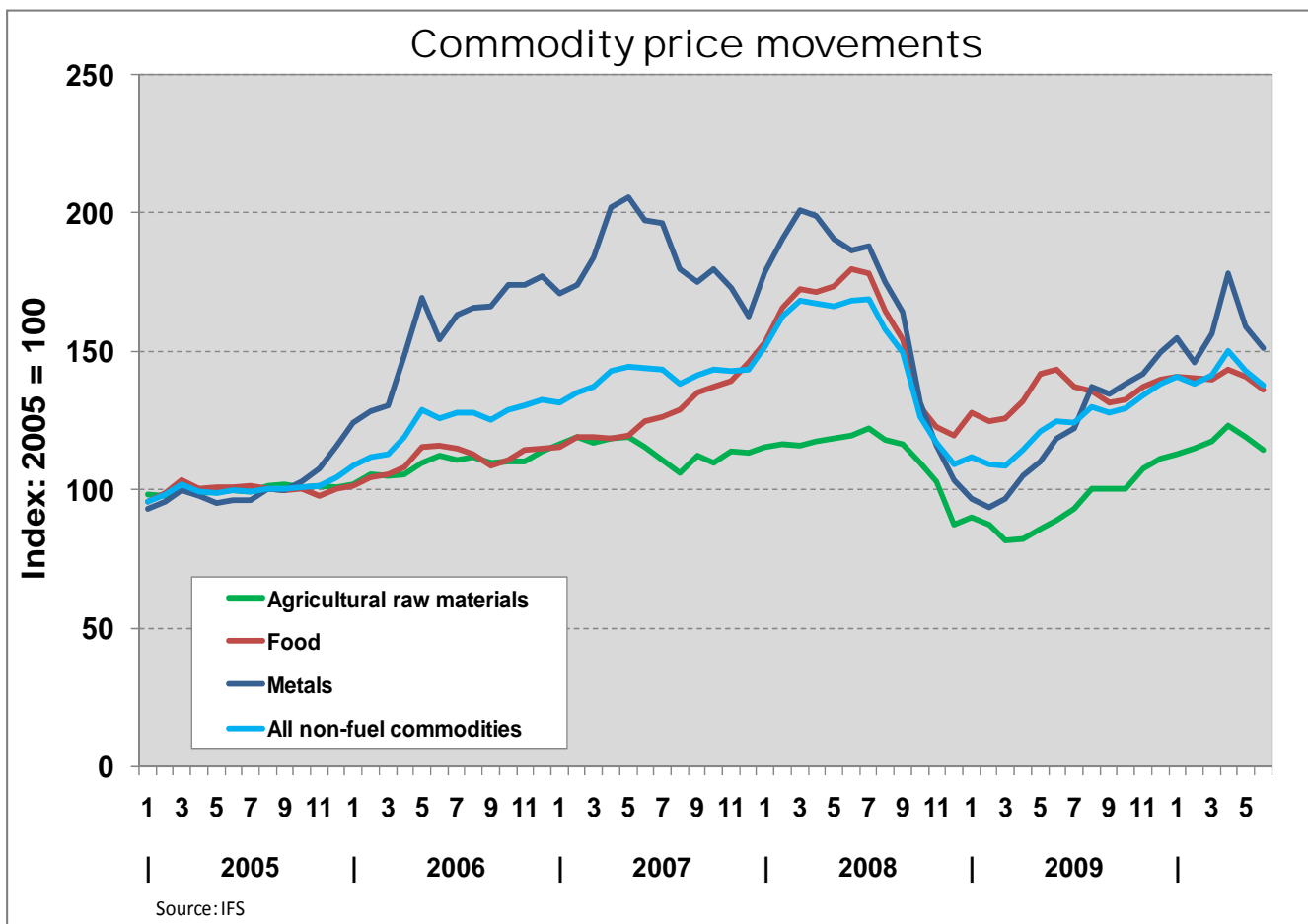
- The Ifo World Economic Climate improved further during the second quarter of 2010, with the latest reading being the highest in close to 3 years.
- The improvement of the climate indicator has also become more broad-based across the various regions, with the assessment of the current situation having improved further.
- Such a trend would have suggested a stronger global economic recovery.
- However, this survey was conducted in April 2010, prior to the unfolding sovereign debt crisis in parts of Europe.
- It is, thus, perhaps premature to deduce renewed optimism about this trend as a number of short-term indicators do point to some moderation in economic growth in the quarter to June 2010.

Global economic conditions: Industrial production slowing down



- After a period of solid recovery in industrial production (which comprises mining, manufacturing and electricity), although off very low bases, some moderation is being observed more recently. This was expected, as it was preceded by substantial re-stocking.
- This movement is also being confirmed by declining manufacturing output as indicated by recent lower PMI trends.
- For example, in China, the PMI for June 2010 measured 52.1, compared to an index value of 55.7 in April, indicating that manufacturing output is slowing down.
- Moreover, business and consumer confidence levels have also moderated, highlighting the risks of a possible weaker growth performance going forward.
- Equity markets have also showed increasing volatility more recently as concerns about the sustainability of global growth have increased.

Global economic conditions: Commodity prices fall as global prospects deteriorate



- Commodity prices continued on a gradual recovery path during the opening months of 2010.
- This was in line with stronger economic growth over this period and by expectations of a continuation of the growth momentum.
- However, the drop in commodity prices since the recent highs achieved in April 2010 reflect increasing concerns over a potential economic slowdown globally.
- The sovereign debt crisis in Europe and its potential impact on that region's economic prospects, coupled with the knock-on effects on global growth, provide reason for concern.
- Moreover, commodity demand from China, for example, has also moderated, as indicated by lower import demand for iron ore more recently.

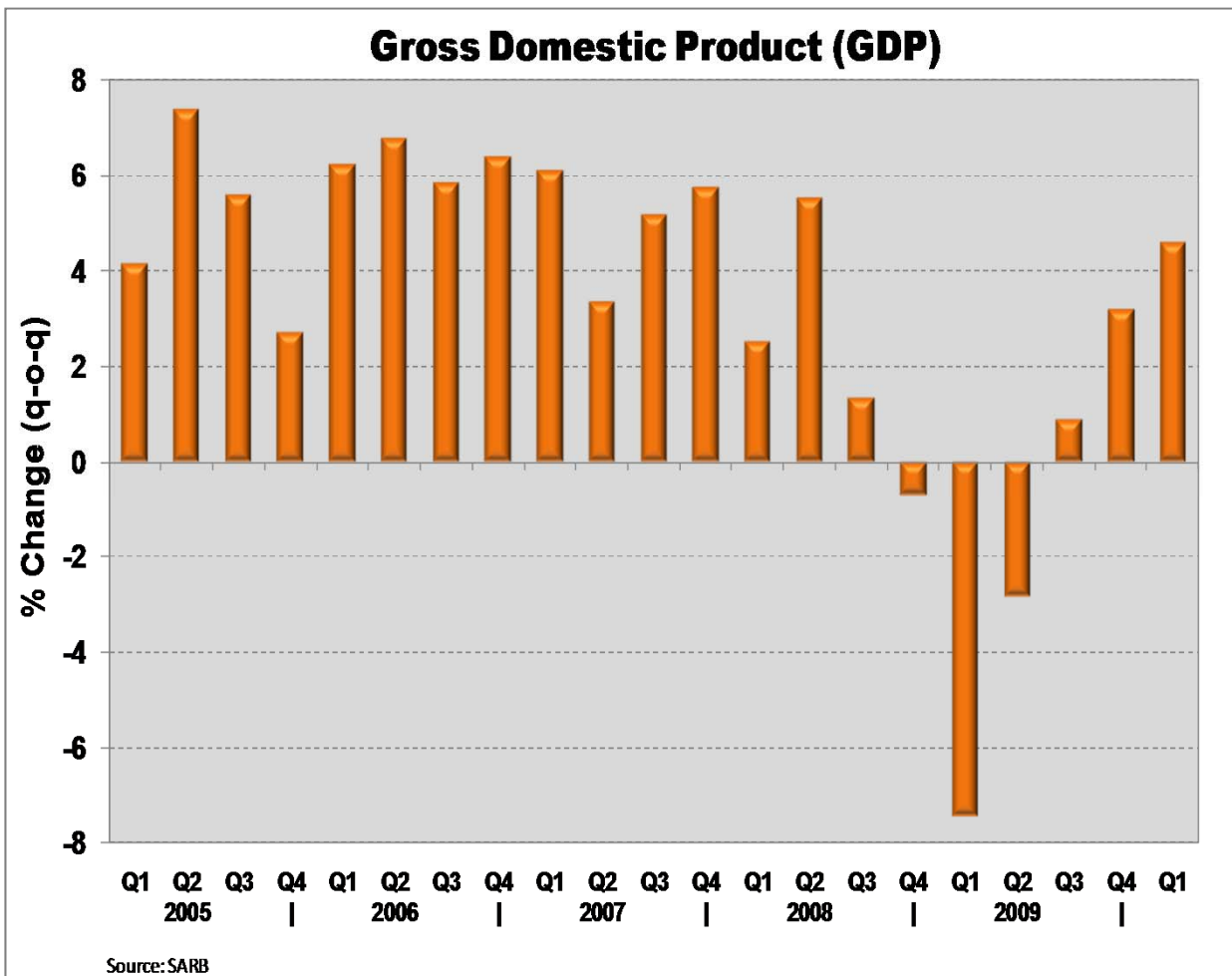
Economic outlook: Global prospects improved, but downside risks have risen

Economic growth and outlook around the globe				
Region / Country	2008	2009	Projections	
			2010	2011
World output	3.0	-0.6	4.6	4.3
Advanced Economies	0.5	-3.2	2.6	2.4
United States	0.4	-2.4	3.3	2.9
Euro area	0.6	-4.1	1.0	1.3
Germany	1.2	-4.9	1.4	1.6
France	0.1	-2.5	1.4	1.6
Italy	-1.3	-5.0	0.9	1.1
Spain	0.9	-3.6	-0.4	0.6
Japan	-1.2	-5.2	2.4	1.8
United Kingdom	0.5	-4.9	1.2	2.1
Emerging and developing economies	6.1	2.5	6.8	6.4
Sub-Saharan Africa	5.5	2.2	5.0	5.9
Central and eastern Europe	3.1	-3.6	3.2	3.4
Russia	5.6	-7.9	4.3	4.1
Developing Asia	7.7	6.9	9.2	8.5
China	9.6	9.1	10.5	9.6
India	6.4	5.7	9.4	8.4
Western Hemisphere	4.2	-1.8	4.8	4.0
Brazil	5.1	-0.2	7.1	4.2
Mexico	1.5	-6.5	4.5	4.4

Source: IMF, WEO - July 2010

- The pace of economic recovery globally has been better than initially anticipated, but has varied widely from a regional perspective.
- GDP growth in advanced economies is expected to be rather sluggish in 2010 and 2011, although it was recently revised upwardly by the International Monetary Fund to 2.6% for 2010 (2.3% previously).
- However, economic prospects in the advanced world could be constrained by high levels of public debt and the associated fiscal austerity measures, as well as by high rates of unemployment in many countries.
- Emerging economies are forecast to expand at a fairly fast pace, mainly driven by strong internal demand.
- China is expected to continue growing rapidly in 2010 on the back of a rebound in exports and stronger domestic demand. A slight moderation in growth is projected for 2011 due to credit control measures aimed at preventing a build-up of excessive capacity.
- Downside risks to the global economic recovery not only remain high but have escalated, particularly in advanced economies, with serious concerns over a sovereign debt crisis and real economy implications.

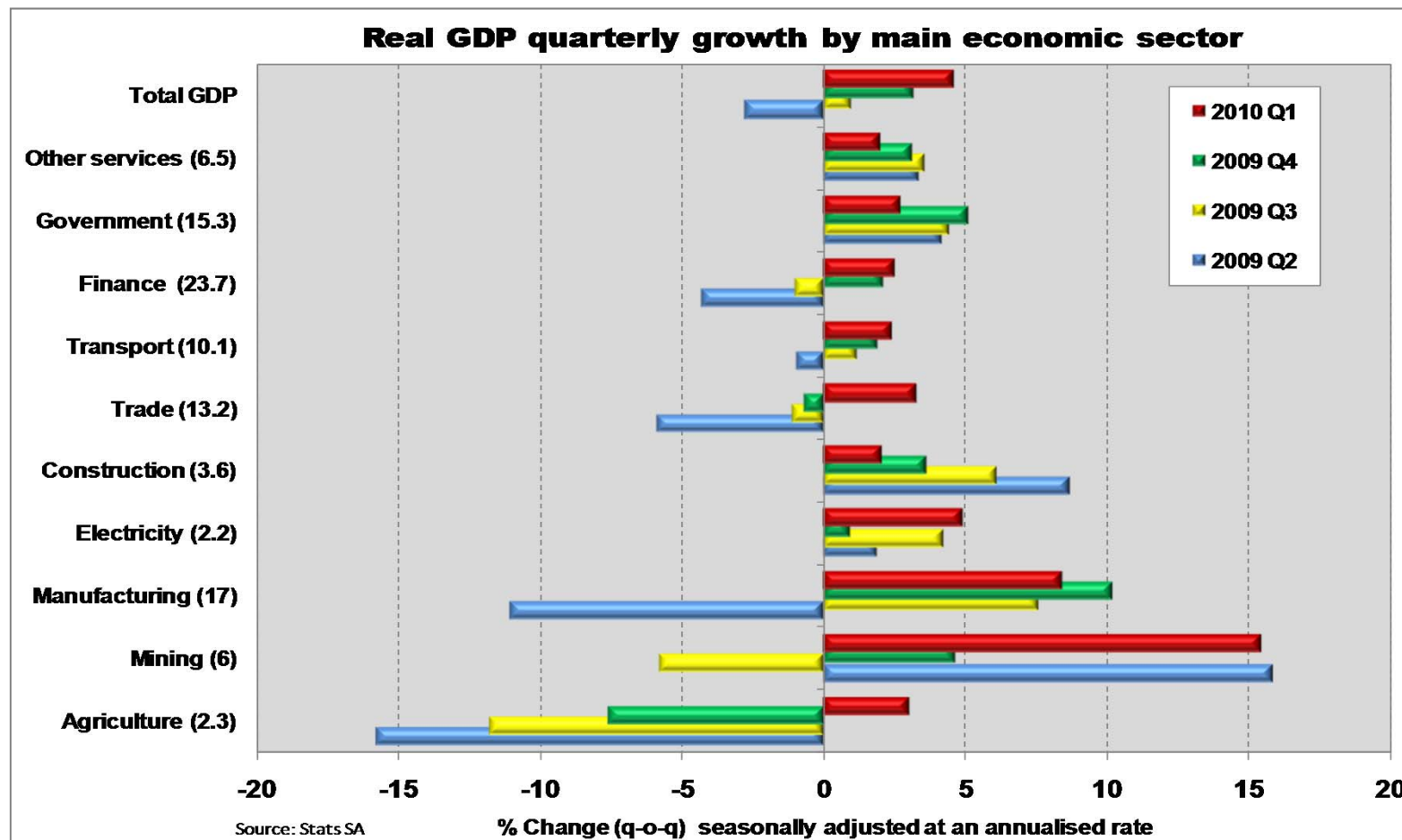
Recent economic trends: Economic growth has gained further momentum



- Economic growth in South Africa gained further momentum in the opening three months of 2010, with real GDP growth measuring 4.6% on a quarter-on-quarter (q-o-q) basis.
- However, notwithstanding this positive growth trend, real GDP growth only measured 1.6% when compared to Q1 of 2009.
- The improved performance in Q1 of 2010 was underpinned by strong growth in the manufacturing sector (8.4% q-o-q), although still highly concentrated among a few sub-sectors, by solid growth in the mining sector (15.4%), as well as by improved activity in the trade (3.3%) and transport (2.4%) sectors.
- The construction sector continued to report positive growth, albeit at a substantially lower rate than in preceding quarters as lower fixed investment has weighed quite heavily on the level of building and construction activity.

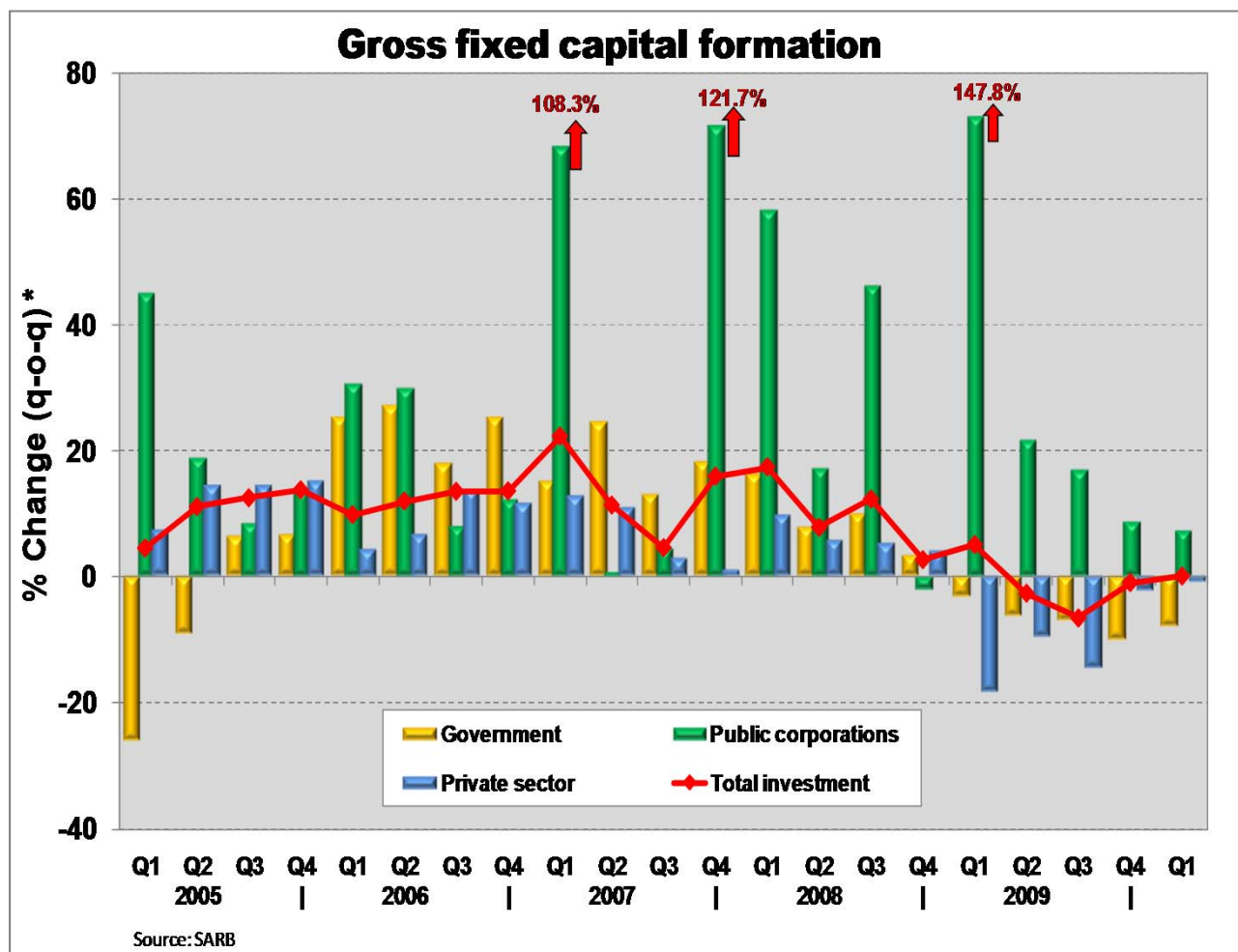
South African economy: Mixed performance at a sub-sectoral level

Another solid performance by the manufacturing sector in the first quarter of 2010, whilst the mining sector reported very strong growth. The trade sector has reported its first positive growth since Q1 of 2008, whilst growth in the construction sector is moderating.



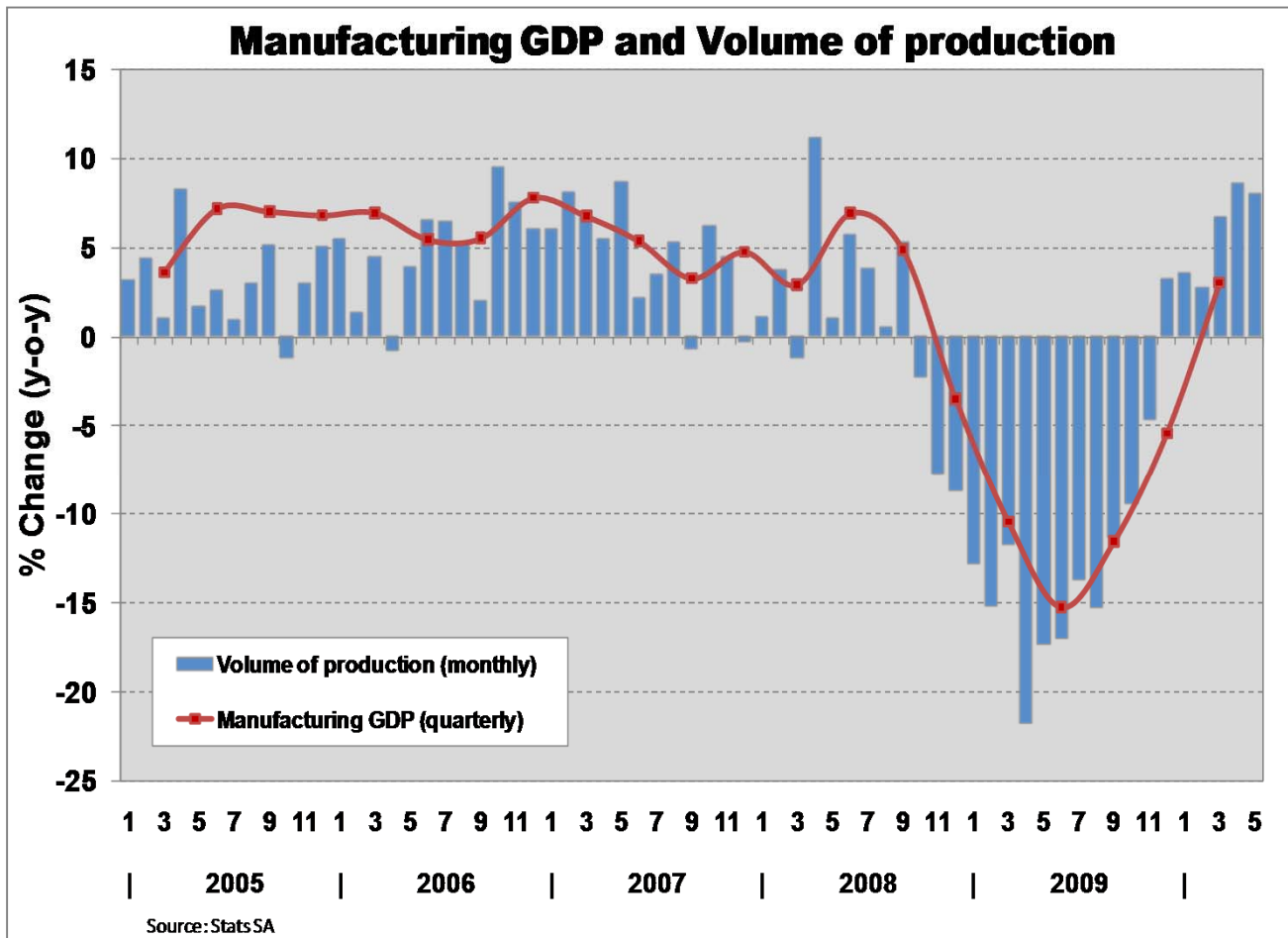
Figures in brackets in the above graph refer to the sector's percentage share of total GDP at basic prices in Q1 of 2010 (constant 2005 prices).

South African economy: Fixed investment activity under strain



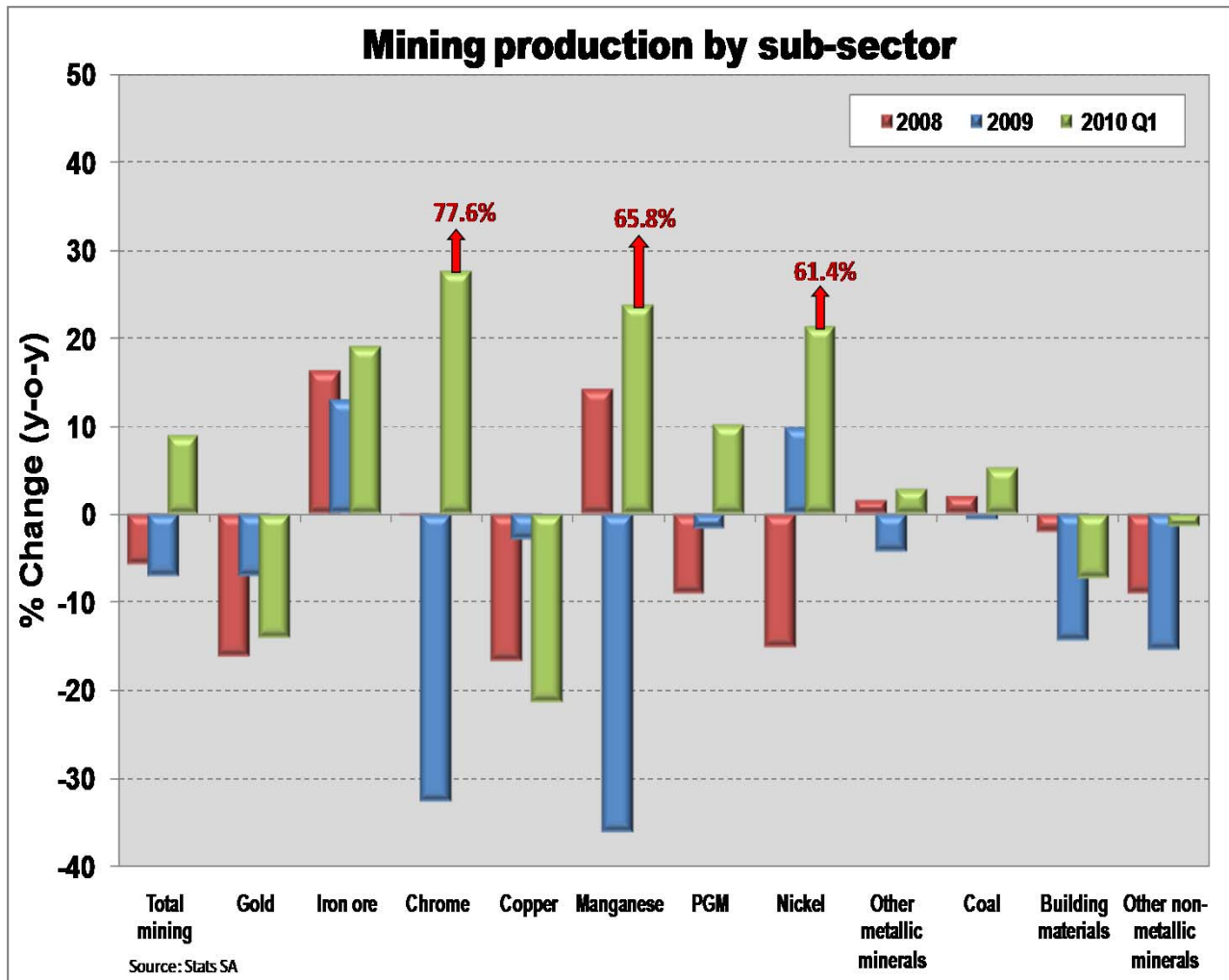
- Real fixed investment spending by public corporations continued to be the main driver of overall investment activity in the country. However, the pace of growth in investment spending has slowed down substantially in recent quarters.
- The lower level of capital outlays by general government is of concern, as a continued contraction could delay the provision of key economic and social infrastructure.
- Despite a strong surge in output volumes, investment spending by the mining and manufacturing sectors disappointed, adding to the dismal performance of overall private sector fixed investment activity in the first quarter of 2010.
- The manufacturing sector is still experiencing excess capacity in various sub-sectors due to weaker demand conditions, whilst the mining sector's revival is concentrated in a few of its sub-sectors.

South African economy: Manufacturing sector showing gradual, yet narrowly-based signs of improvement



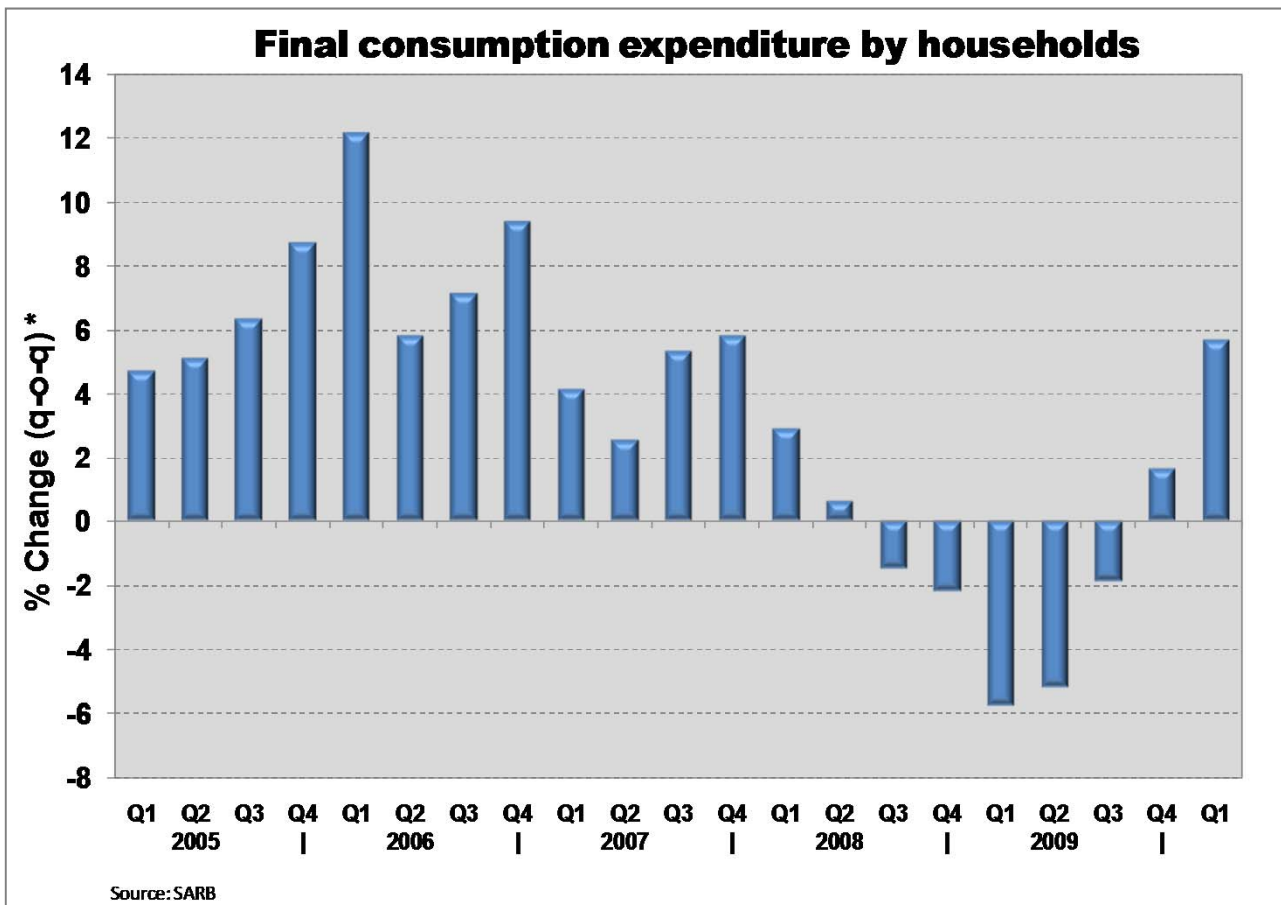
- The manufacturing sector is showing signs of a recovery. A solid growth performance has been reported since Q3 of 2009 (if measured on a q-o-q basis), albeit from a rather low base.
- Nonetheless, compared to a year earlier, manufacturing GDP growth was negative throughout 2009, contracting by 10.7% for the year as a whole, whilst posting a 3.1% growth in Q1 of 2010.
- However, the revival in the manufacturing sector is still concentrated in a few sub-sectors, such as the automotive industry, basic iron and steel and the chemicals sub-sector, and off very low bases.
- The manufacturing sector's growth momentum is likely to ease in coming months as indicated by a decline in the purchasing managers index (PMI) and a moderation in confidence levels.

South African economy: Mining sector has benefitted from stronger global demand



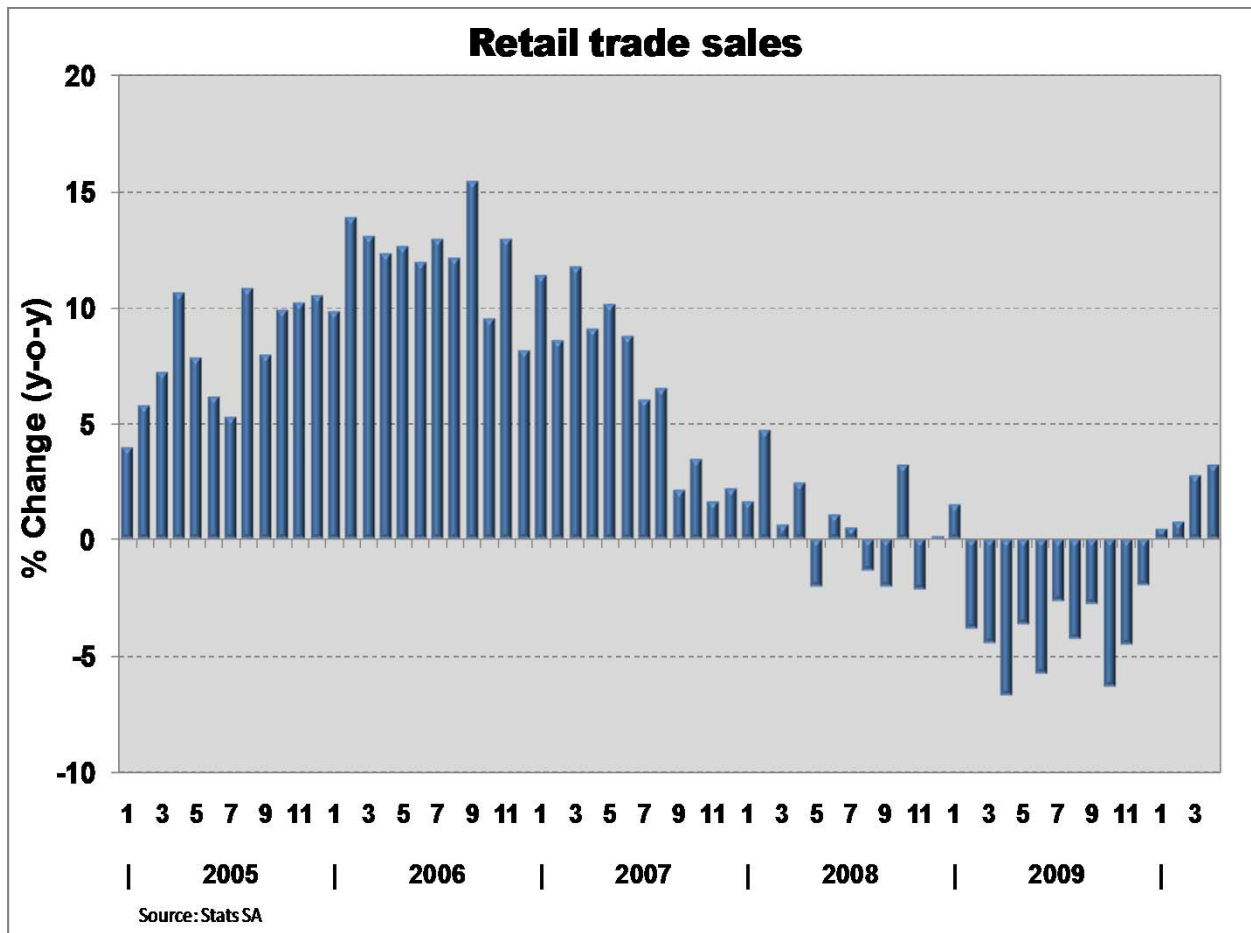
- The mining sector has experienced a sturdy recovery, albeit limited to a number of its sub-sectors, following contractions in 2008 and 2009 as the world's most severe crisis in 70 years took its toll on global demand.
- External demand has been the key driver behind the turnaround in some of the segments of the mining sector.
- Globally, crude steel production increased by 32% over the period January to April 2010, when compared to the same period in 2009.
- Hence the solid performance of the local iron ore, manganese and nickel segments since the beginning of 2010.
- The platinum group metals (PGMs) sub-sector has benefitted from stronger global and domestic demand due to the revival of the automotive industry.
- Gold production continued on a declining trend, with South Africa having dropped to 4th place in the global rankings.

South African economy: Consumer spending on the rebound



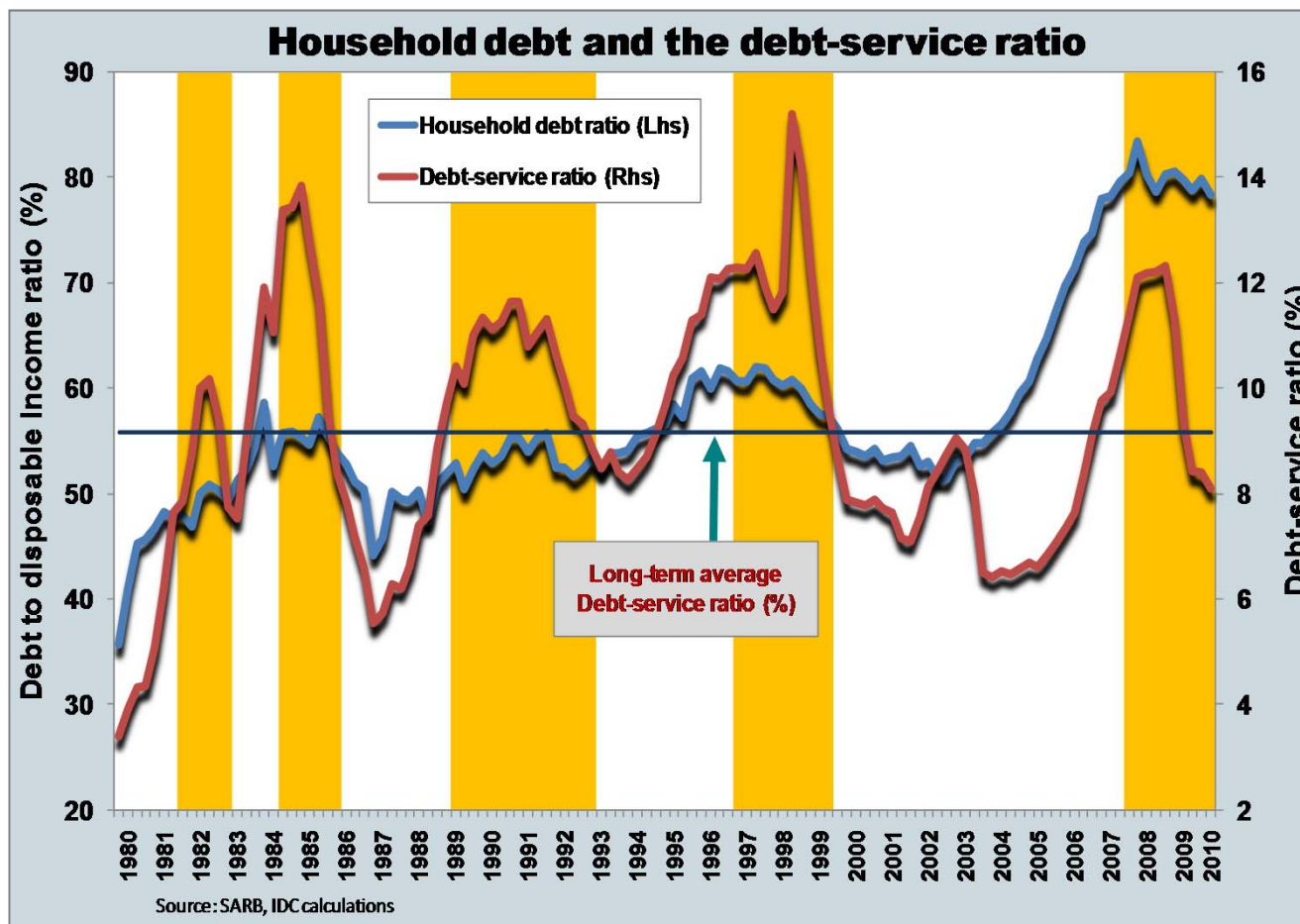
- Consumer spending expanded by 5.7% in the opening quarter of 2010, with rapid growth in both the semi-durable and durable goods categories at 28.4% and 16.8%, respectively.
- Household expenditure on non-durable goods increased by 9.5%, whilst spending on services contracted by 4.6% in the first quarter of 2010.
- Spending on durable goods was largely due to a substantial increase in the purchasing of new vehicles, whilst higher spending on semi-durable items, albeit from a very low base, was reflected in increased buying of clothing and footwear, as well as on recreation and entertainment goods.
- A rebound in consumer confidence levels, stronger growth in real disposable incomes, a low interest rate environment, relatively low inflation and higher asset prices (due to rising house and other asset prices) all contributed to this solid performance by households.

South African economy: Retail sector still taking strain, but signs of an improvement are emerging



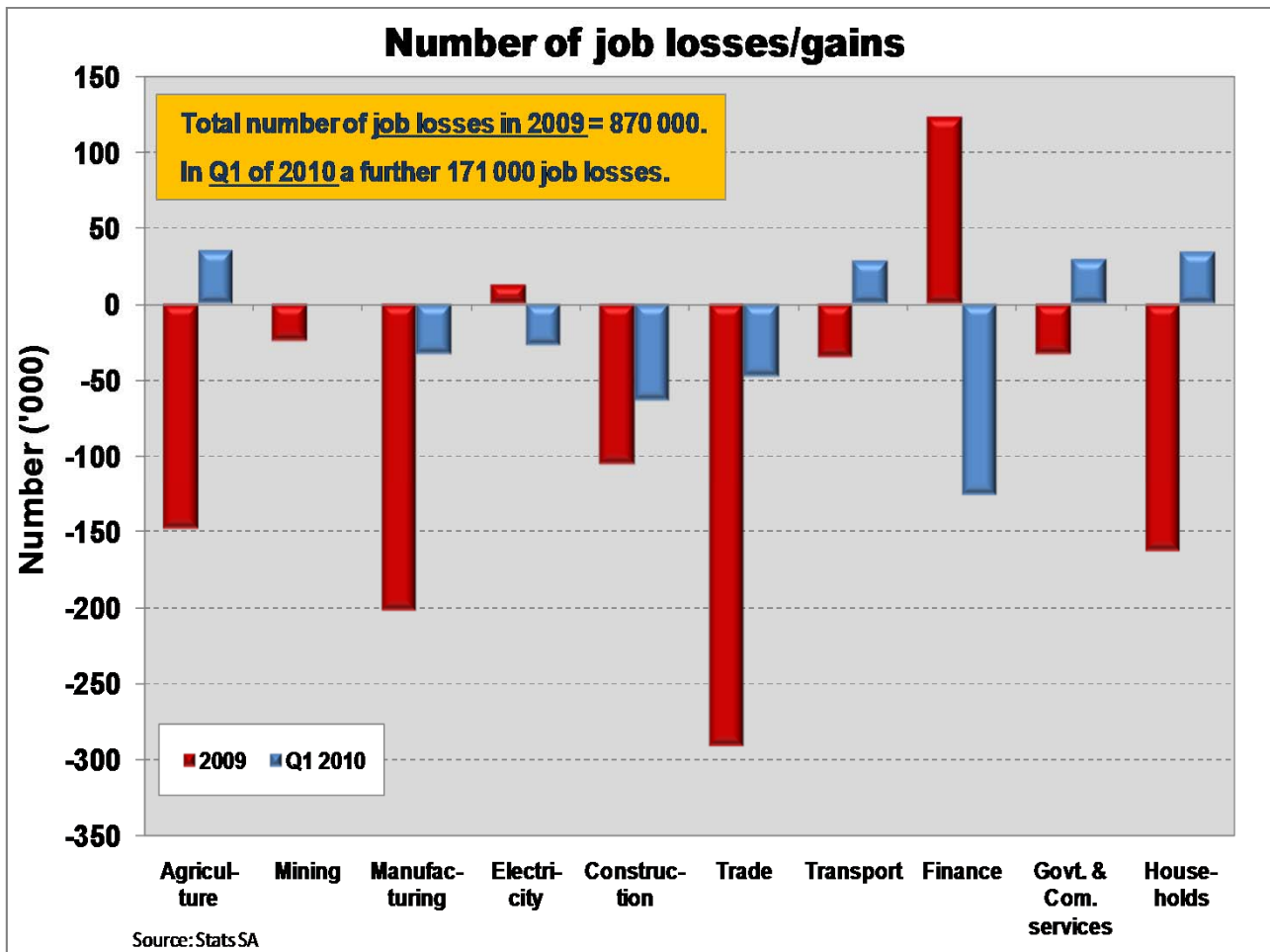
- After having contracted by 3.6% in 2009, retail trade sales returned to positive growth since the beginning of the year.
- By April 2010, retail trade reported relatively strong growth of 3.2%, as consumer spending gained momentum following a rather difficult period last year.
- Spending on furniture and appliances, pharmaceutical products, as well as on textiles, clothing, footwear and leather products, gained momentum since the beginning of the year.
- However, the opening months of 2010 saw consumer spending on hardware, paint and glass, in particular, contracting sharply.
- The BER's latest retail survey indicates that spending on non-durable goods (which accounts for almost 40% of total consumer spending) slowed down in the three months to June, which could see some moderation in retail trade in coming months.

South African economy: Household debt remains high



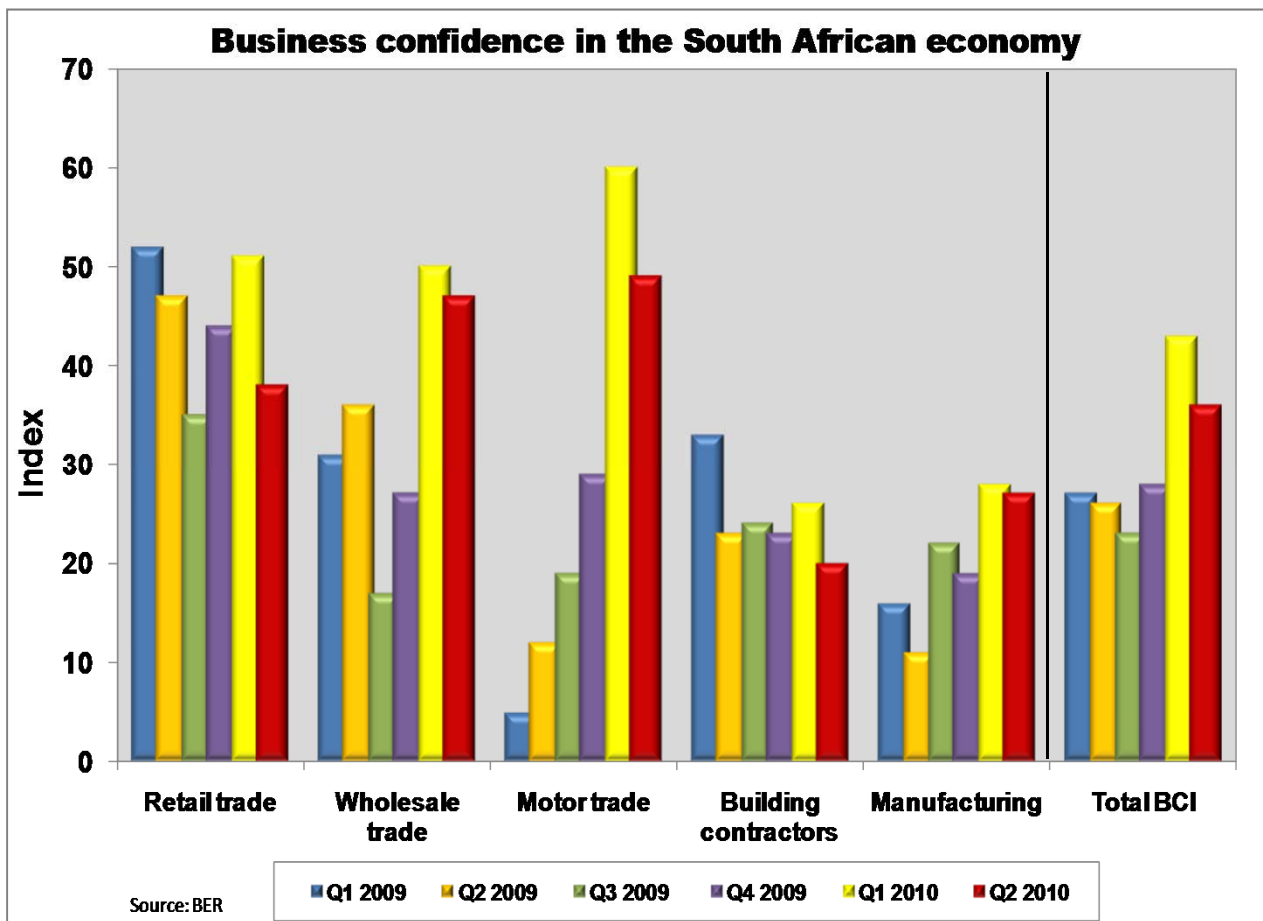
- A revival in consumer spending, both domestically and globally, is of paramount importance to support the economic recovery on a sustainable basis.
- In South Africa, the outlook for consumer spending is, perhaps, less than satisfactory.
- Households remain highly indebted, but the debt-to-disposable income ratio is showing a declining trend.
- Demand for new credit by households increased in recent months. By April 2010, total loans to consumers were just more than R39 billion higher than 12 months ago.
- The 550 basis points drop in interest rates since December 2008 did, however, lead to a significant decline in the ratio of debt-servicing costs to the disposable income of households.

South African economy: Continued employment losses, with a few sectoral exceptions



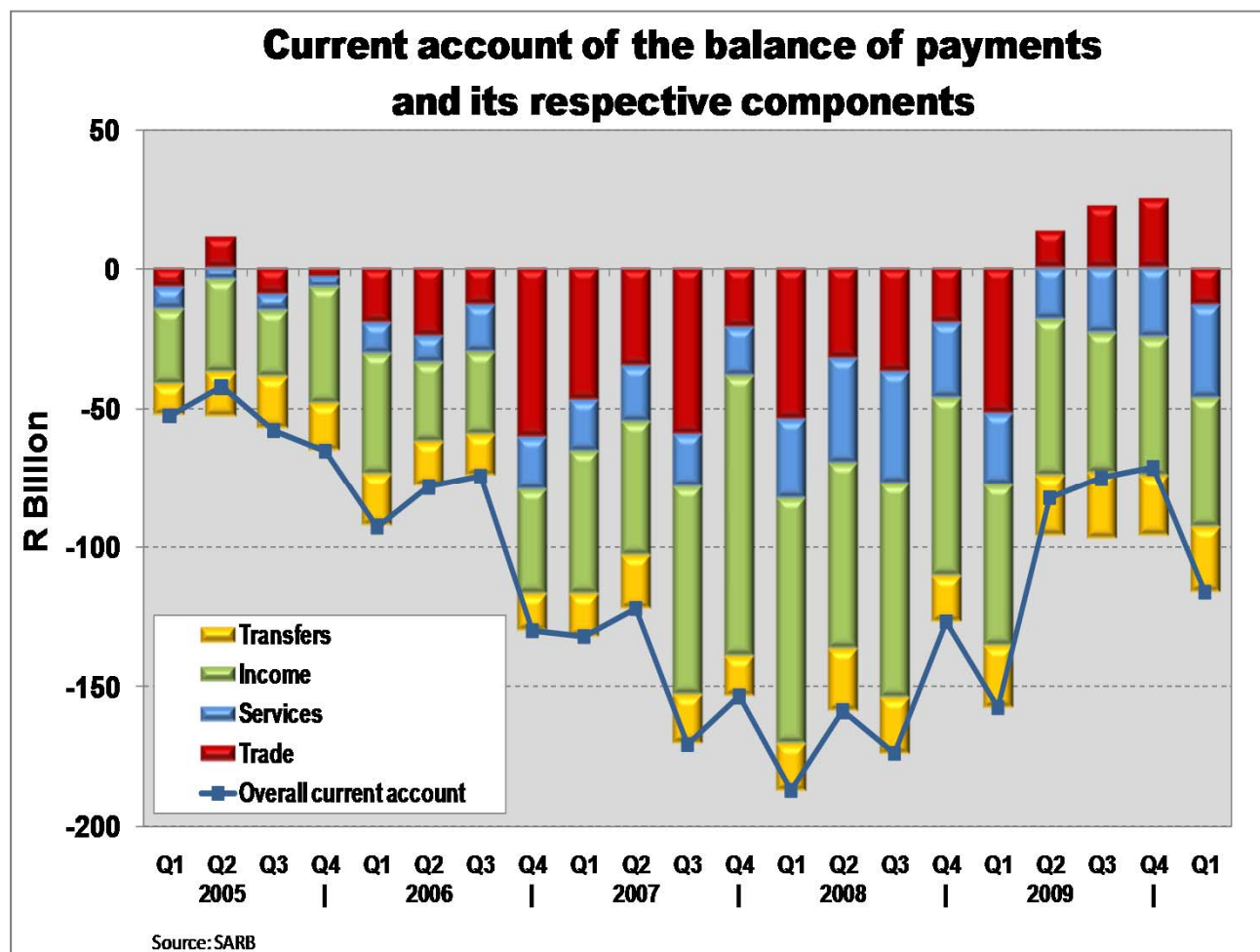
- Although 89 000 new jobs were created in Q4 of 2009, the economy lost 870 000 jobs in its formal and informal segments last year.
- Moreover, a further 171 000 people lost their jobs between December 2009 and March 2010. Most of these employment losses were reported in the financial services sector (126 000 job losses), construction (64 000), trade (48 000) and manufacturing (33 000).
- All other main sectors of the economy managed to create additional employment in Q1 of 2010, although employment levels in the mining sector remained unchanged relative to those reported in the final quarter of 2009.
- South Africa's unemployment rate rose to 25.2% by March 2010, from 24.3% in Q4 of 2009, representing more than 4.3 million unemployed people.

South African economy: Business confidence higher, but moderating in Q2



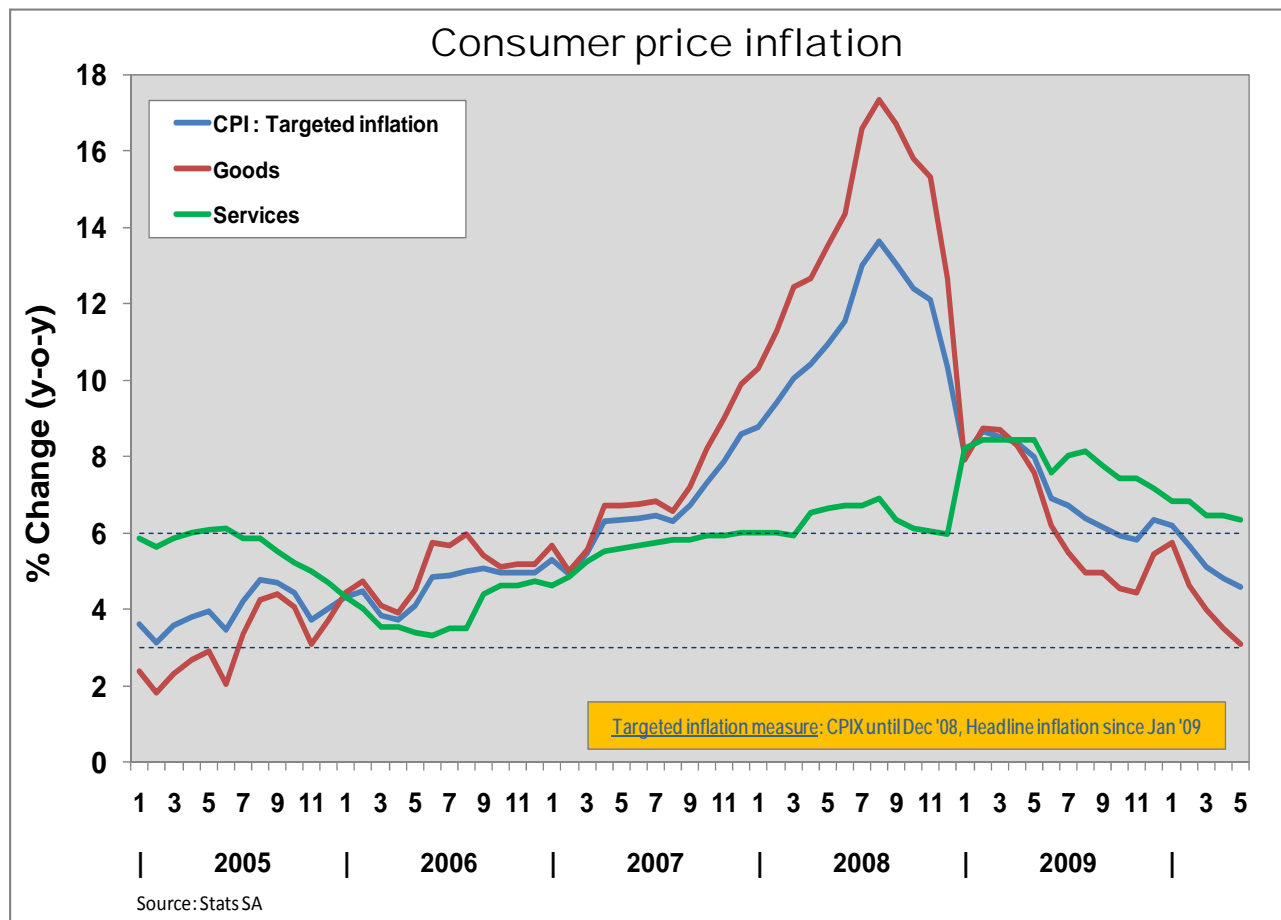
- Following a strong recovery in the preceding quarter, business confidence levels declined across all the sectors being surveyed during Q2 of 2010.
- Weaker demand, both globally and domestically, has been the core reason behind this decline.
- Concerns about the speed of the global economic recovery have re-surfaced as fears about Europe's debt crisis are mounting.
- Nonetheless, new vehicle dealers (motor trade), in particular, reported sharply higher confidence levels more recently.
- The low confidence levels in the building sector is a clear reflection of the rather unsatisfactory conditions in the residential property market.
- Although confidence levels in the manufacturing sector have improved, these remain at fairly low levels.

South African economy: Balance of payments improving



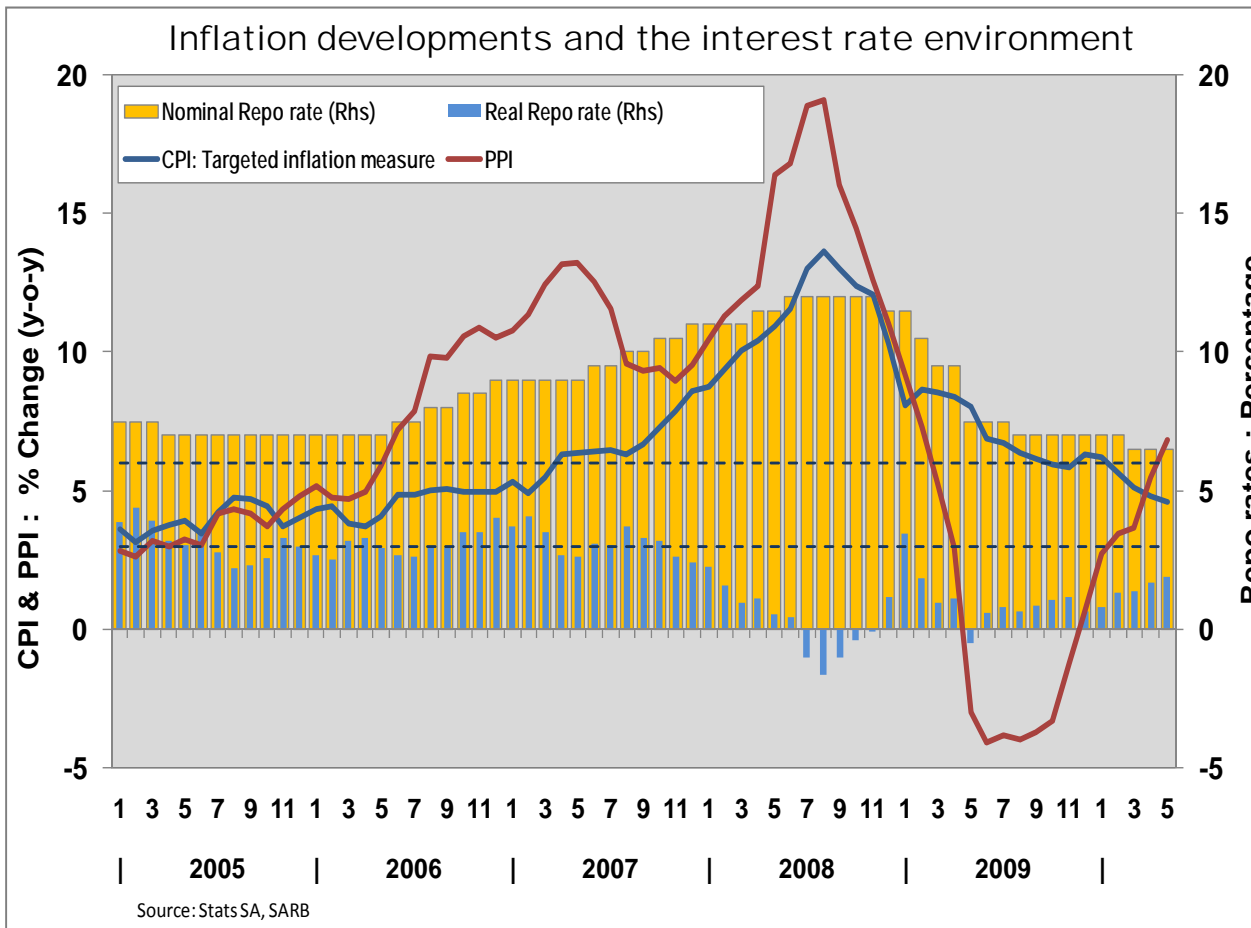
- The deficit on the current account of the balance of payments widened in the first quarter of 2010 to a ratio of 4.6% of GDP, compared with a ratio of 2.9% in the fourth quarter of 2009.
- This larger deficit was mainly due to the turnaround on the trade account, which reported a deficit of R12.9 billion (surplus of R24.9 billion in Q4 of 2009), whilst net service payments also increased.
- The acceleration in domestic economic activity and the subsequent higher demand for imported goods was reflected in an increase in payments for freight-related transport services in the opening quarter of 2010.
- Although income payments (dividend and interest) to non-residents increased on the back of better corporate performances, overall income receipts increased at a faster pace. Hence, net income receipts of almost R3.4 billion were recorded for the first quarter of 2010.

South African economy: Consumer prices trending downwards



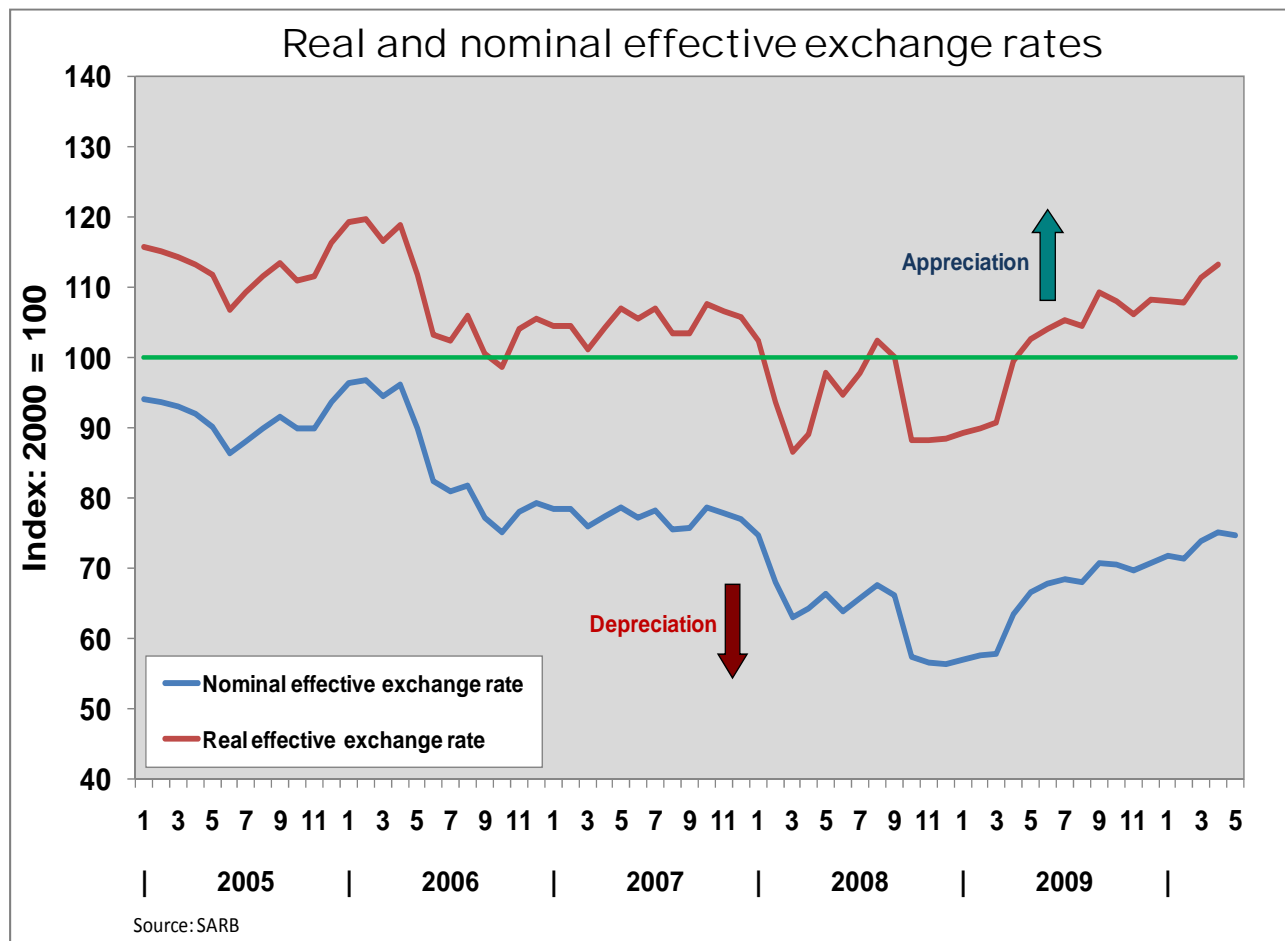
- Inflationary pressures in the South African economy continued abating towards the end of 2009 and in the opening months of 2010, underpinned by weak domestic demand and by favourable inflation trends globally.
- Moreover, consumer price inflation dipped below the 6% upper-band of the Reserve Bank's target range in recent months. After measuring 5.7% in February 2010, consumer inflation declined to 4.6% in May, with expectations of a further moderation in coming months.
- A deceleration in the rate of increase in consumer goods prices contributed to the downward trend. Services inflation, however, which largely captures trends in administered prices, is still at a pace in excess of the target ceiling, although it is moderating.
- The drop in global crude oil prices from an average of USD85 per barrel in April to around USD75 at present, along with a firmer currency, has helped to contain inflationary pressures.

South African economy: Inflation and interest rates



- Although inflation is likely to slow down in coming months, an upward trend is expected in the latter part of the year.
- Double-digit wage settlements, as well as a sharp increase in electricity and other administered prices are likely to apply upward pressure on inflation in future.
- Such developments, along with a gradual economic recovery since mid-2009 and a revival in consumer spending more recently, do not justify a further repo rate cut, unless global economic conditions deteriorate.
- Accordingly, interest rates are likely to remain unchanged at current levels for some time.
- After adjusting for inflation, the low level of real interest rates is providing little incentive for increased savings domestically, although these are desperately needed.

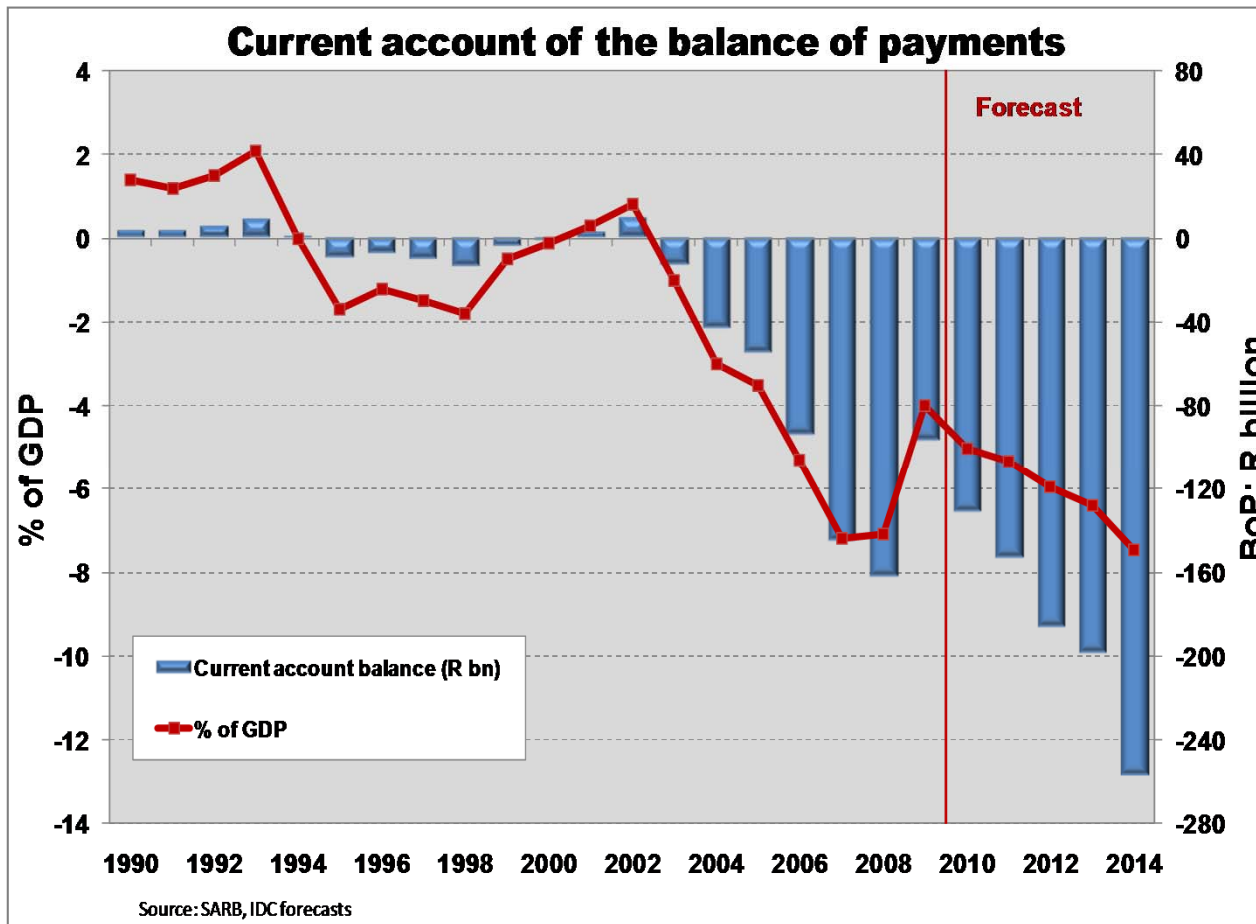
South African economy: Exchange rate remains relatively strong



- After having strengthened substantially over the first three quarters of 2009, the nominal effective exchange rate of the rand showed only a modest appreciation in more recent months. However, the real effective exchange rate displayed continued strength more recently.
- The substantial strengthening of the local currency since the beginning of 2009 is undermining the international competitiveness of South African businesses, both from an export perspective, as well as for those companies focusing on the domestic market.
- Whilst a strong currency has positive consequences from an inflation point of view, an excessive appreciation of the exchange rate is of concern, as it has implications for macroeconomic balances.
- A firm rand could jeopardise the ability of local exporters to take advantage from the anticipated global recovery.

South African economy: Outlook

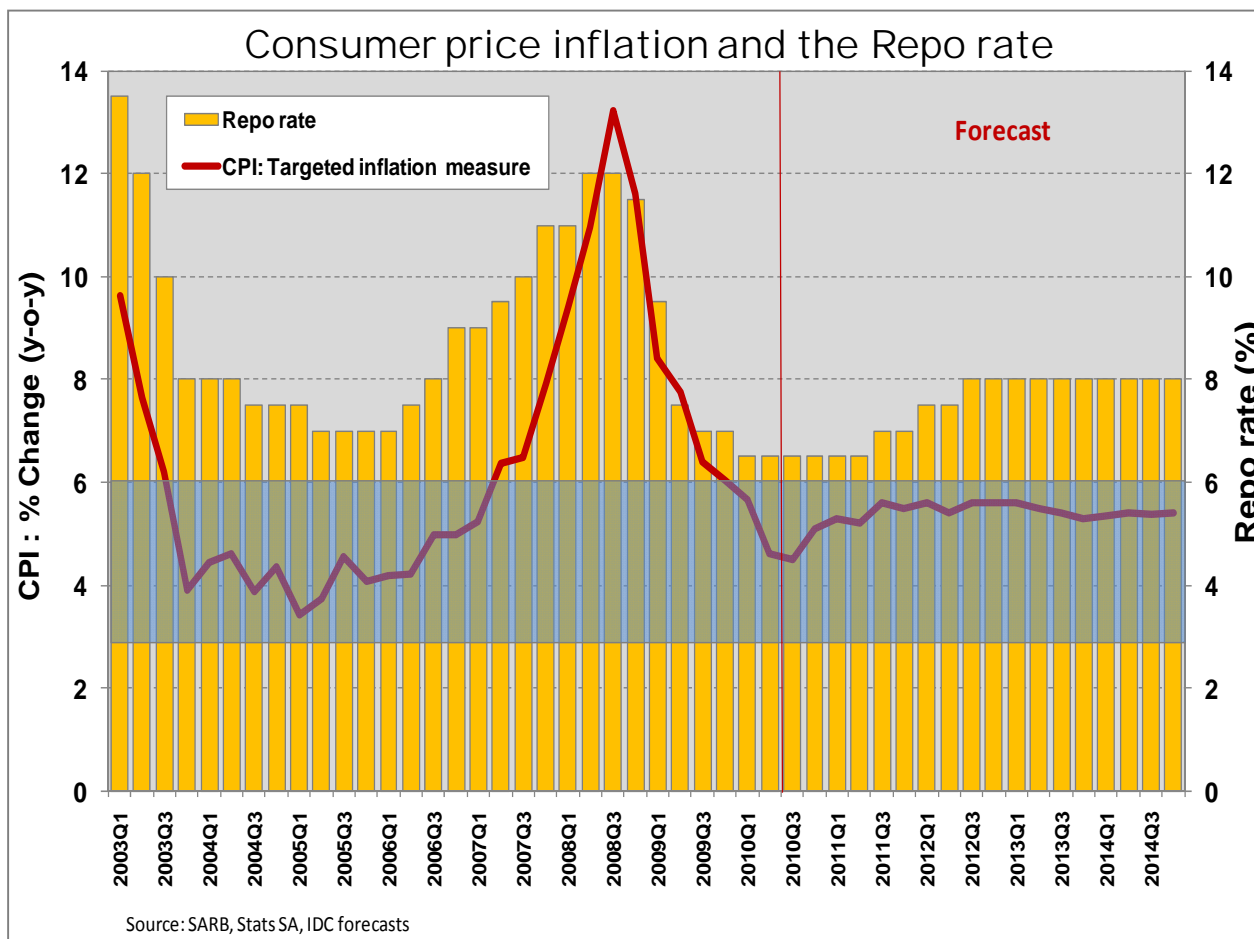
Balance of payments to remain under pressure



- The gradual recovery in the domestic economy will be reflected in a widening of the deficit on the current account of the balance of payments in 2010 and beyond.
- Fixed investment, although rather muted in 2010, will gain momentum going forward, raising the demand for capital goods and other input material.
- Infrastructure spending by public corporations is anticipated to remain fairly robust over the forecast period, applying pressure on the trade account.
- Increased demand for imported consumer items is also expected as household spending recovers from 2011 onwards.
- Although exports are projected to increase on the back of stronger global demand, this growth will be outpaced by that of imports. Hence, a larger current account deficit is forecast over the next five years.

South African economy: Outlook

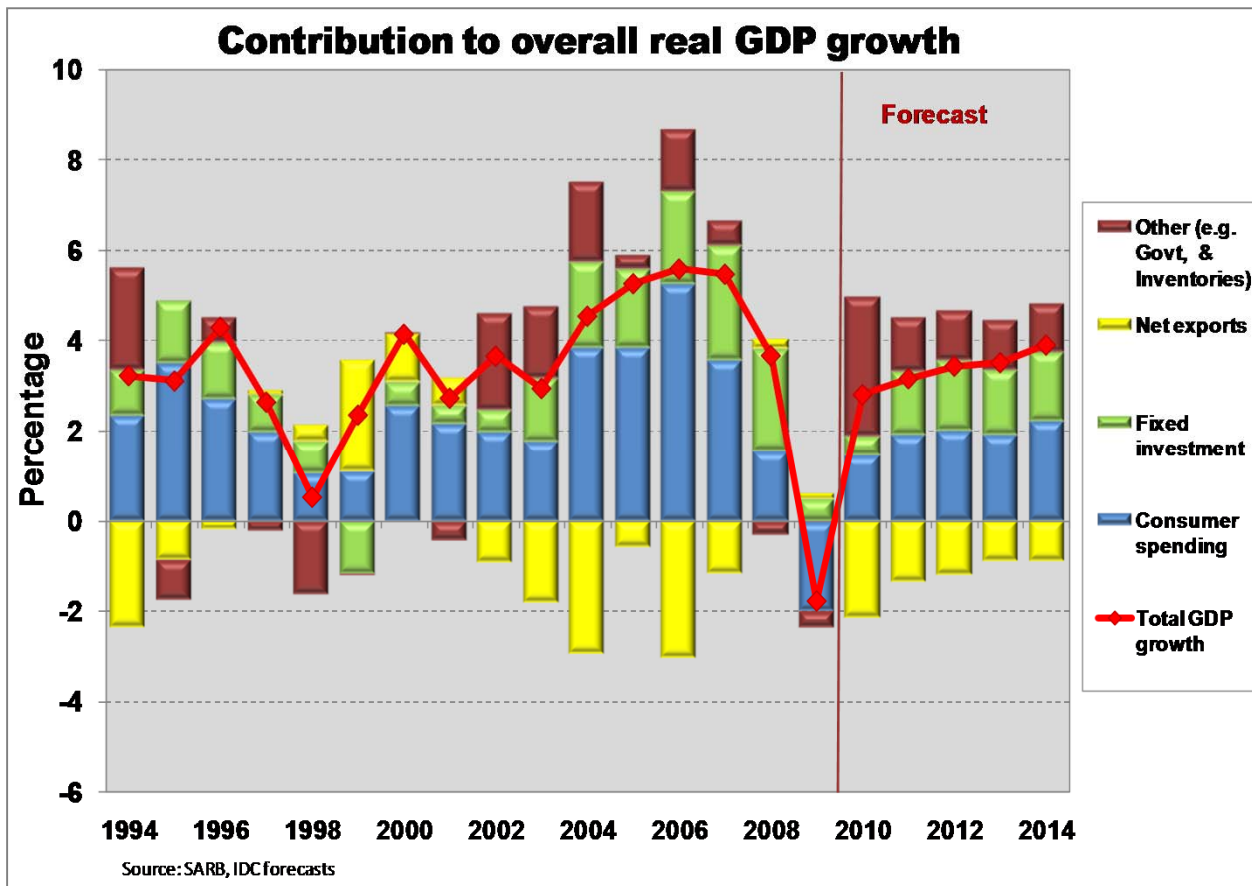
Interest rates on hold due to wage inflation



- Although consumer inflation is expected to remain subdued in coming months, upward price pressure is projected towards the latter part of the year.
- Inflation is, however, not expected to exceed the 6% upper target band over the forecast period.
- Factors in support of a rather benign inflation outlook include modest domestic economic growth (keeping demand-pull inflation under control) and subdued global inflation trends (holding back imported cost-push pressures).
- Of concern, however, are wage settlements well in excess of average inflation, steep increases in electricity tariffs over the next three years, whilst from a global perspective a substantial rise in crude oil prices could also apply upward pressure on domestic prices.
- Interest rates are expected to remain at current low levels for some time, with only a gradual increase projected over the forecast period.

South African economy: Outlook

Economic growth subdued in 2010, accelerating subsequently



- Barring a deterioration of the economic environment internationally, domestic growth is projected at 2.8% in 2010.
- However, a gradual improvement in the growth outlook is forecast over the period 2011 to 2014.
- In 2010, consumer spending is likely to be rather muted, with a gradual increase in the growth momentum in subsequent years.
- Private sector fixed investment will remain under pressure in 2010, whilst the main thrust behind the moderate growth in investment activity will come from public corporations.
- Later supplemented by private sector activity, fixed investment growth is forecast to average a fairly solid 6.5% per annum over the period 2011 to 2014.
- Exports are expected to recover on the back of stronger global demand.
- As the economy gains further momentum, the demand for imports will also increase.



IDC

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Thank you

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