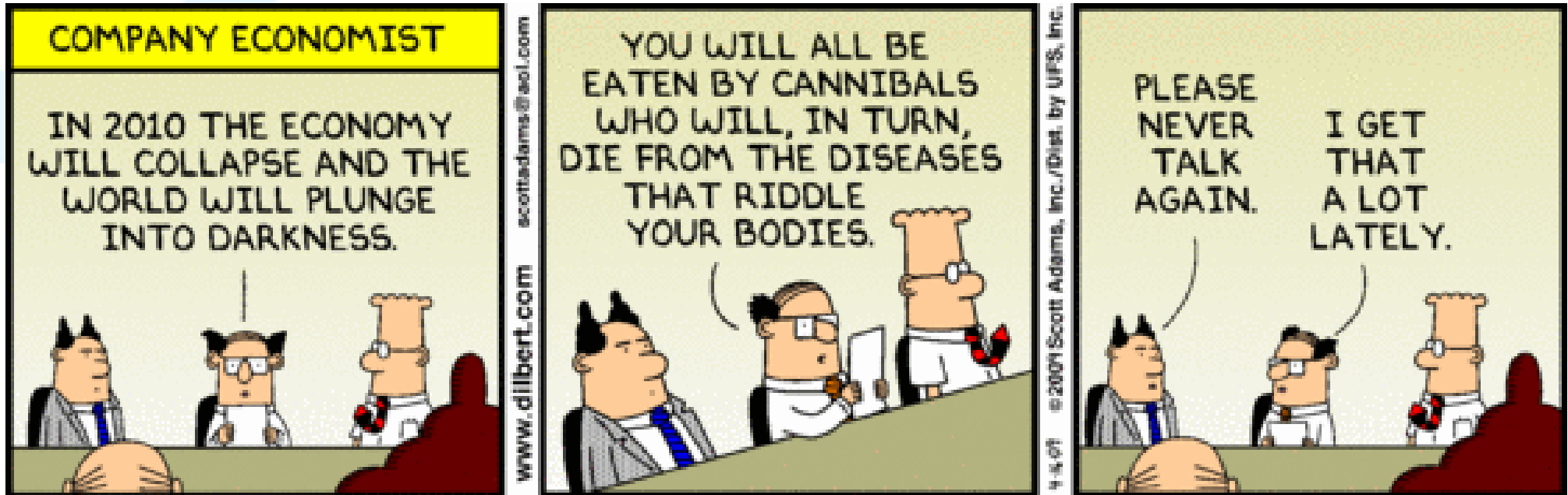


# Challenging times

May 2009

Jeff Gable  
Head of Research  
Absa Capital

# Setting the stage...

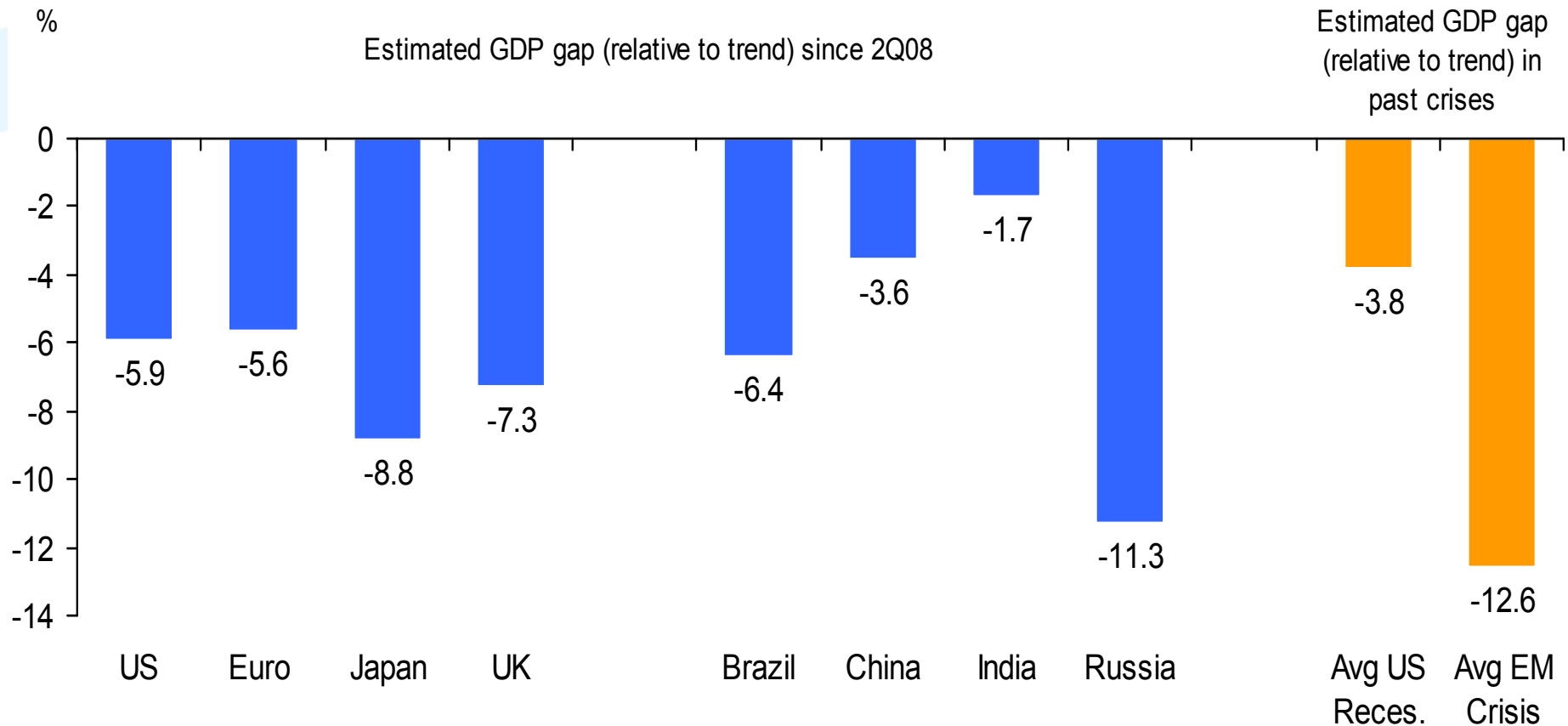


# The global backdrop

**Massive economic challenges led to unprecedented policy responses**

# Where does the global economy stand?

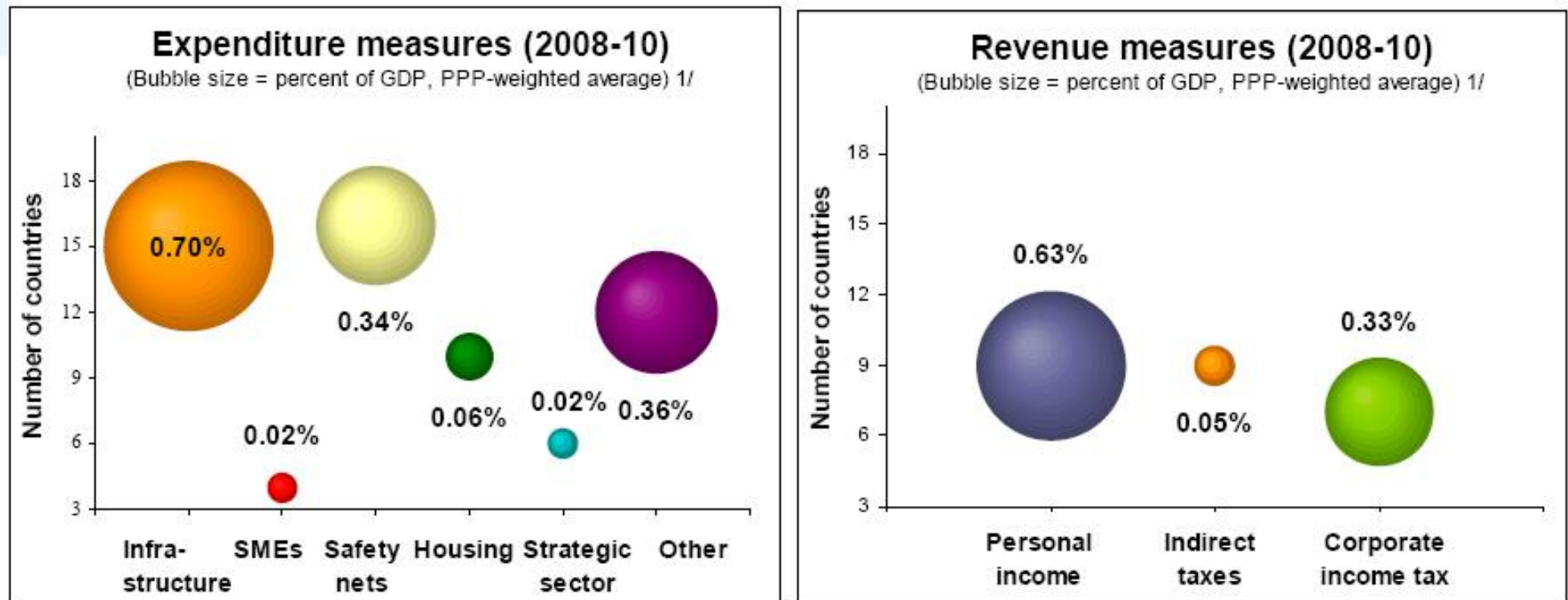
- Most severe global slump since the 1930s...
- ... that coupled a normal recession (oil and housing) with massive global financial crisis



# Policy response plans seeds of recovery

- Fiscal policy response: On average G-20 countries adopted stimulus measures amounting to ½% of GDP in 2008, 1 ½% in 2009, and 1% in 2010.

## Composition of discretionary fiscal measures (G-20 countries)

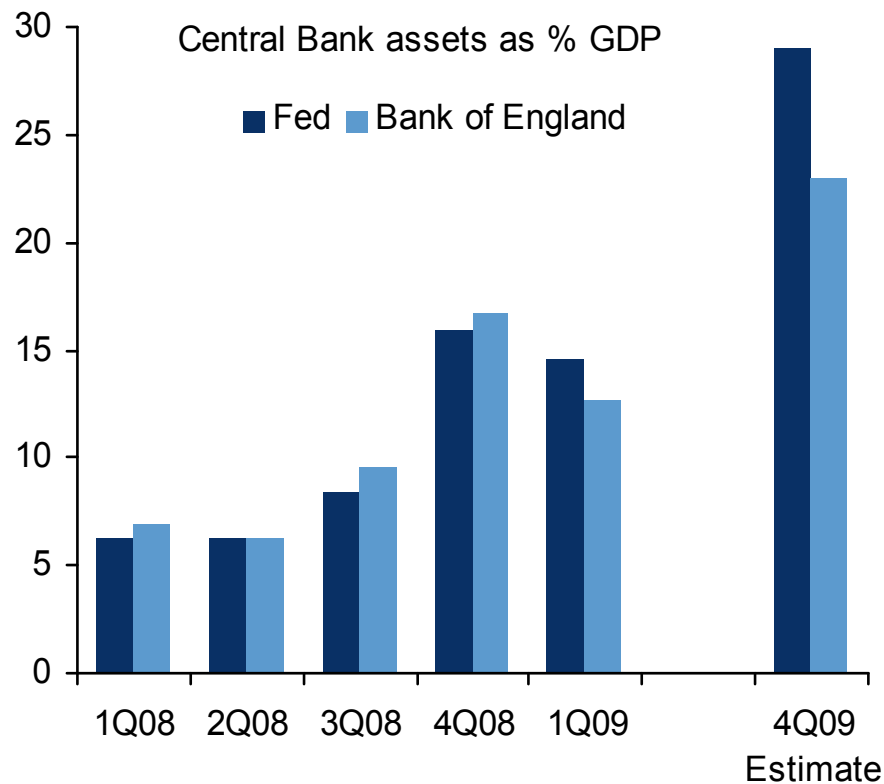


Source: IMF staff estimates.

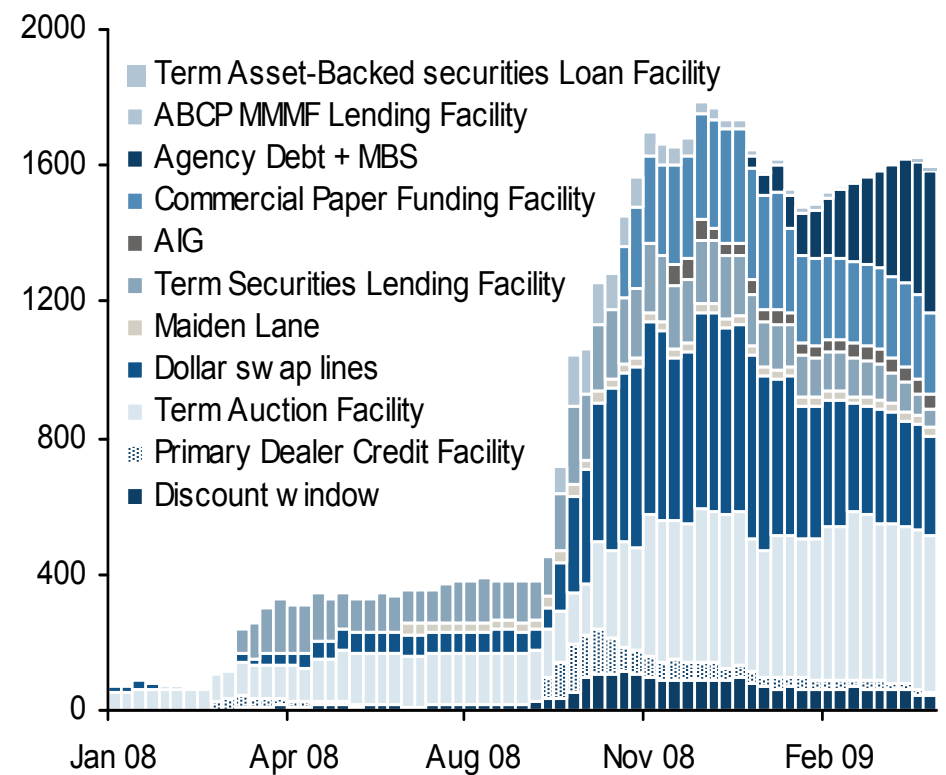
# Policy response plans seeds of recovery

- Monetary policy rates pushed to zero
- Quantitative easing – in size!

## Doubling of central bank's balance sheets

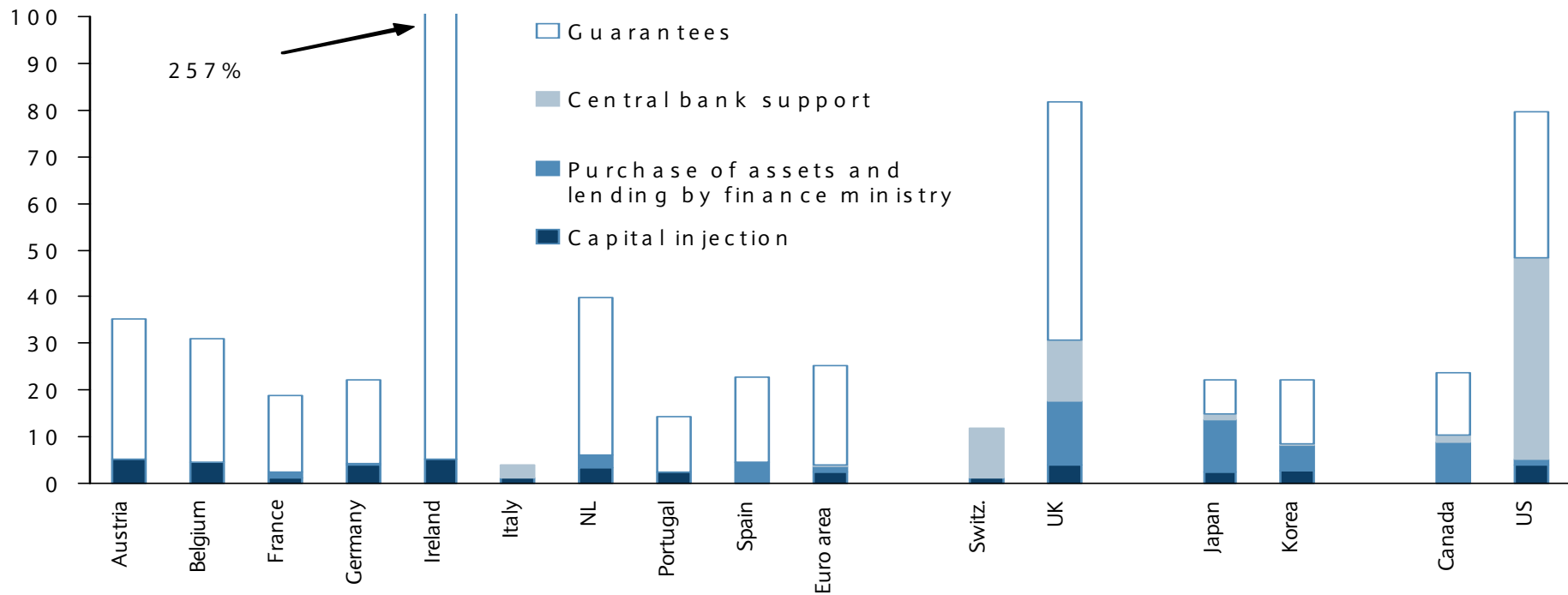


## US Fed – sidestepping banking sector



# Major package of measures to support financial system **ABSA CAPITAL**

## Financial support measures in major countries (%GDP)



Source: Barclays Capital

A turn is in sight

Evidence has emerged that global recession is losing force



# Early signs that worst of recession is easing in major markets

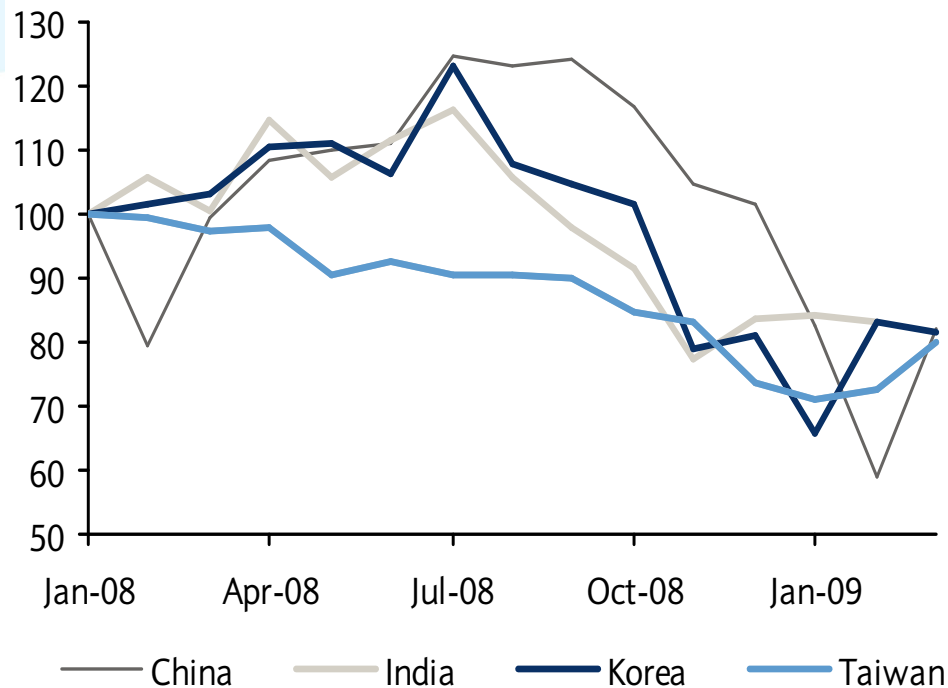
## Snapshot of monthly indicators

	EM Asia	US	UK	Japan	Euro area
Manufacturing Confidence	✓✓	✓✓	✓	✓	✓✓
Auto Industry	✓	x	✓	xx	✓✓
Exports	✓	✓	✓	✓✓	o
Consumer Confidence	✓	✓✓	✓	✓✓	✓
Business Confidence	✓✓	✓	o	o	✓
Retail Sales	✓	x	✓	xx	xx
Imports	✓	xx	o	✓	xx
Industrial Production	✓✓	xx	xx	✓	xx
Unemployment rate	xx	xx	xx	xx	xx

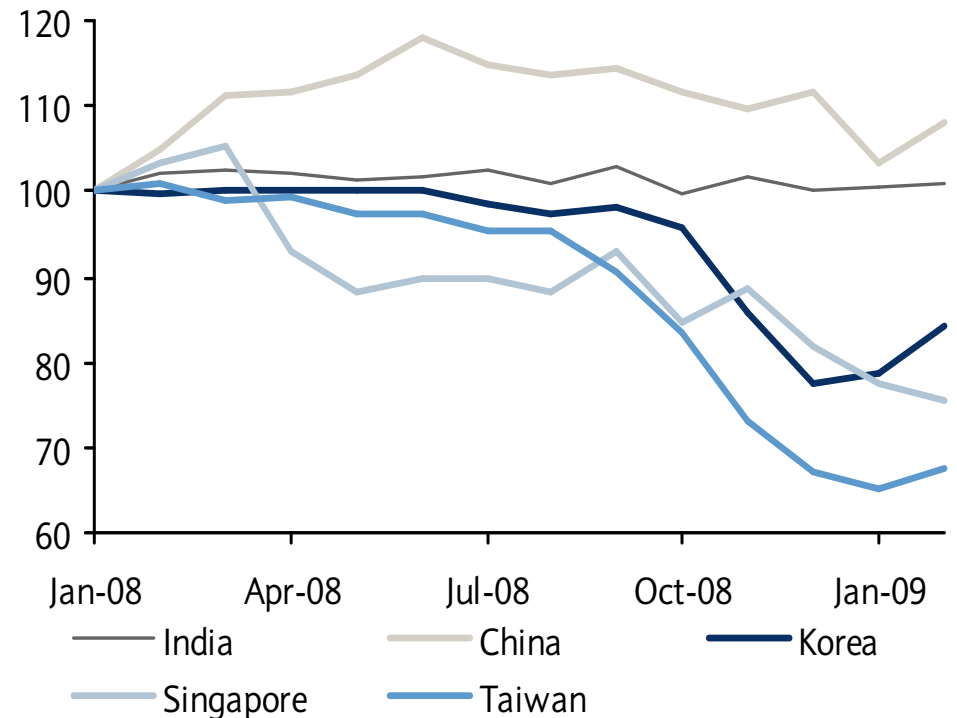
# Signs that recession is easing

- EM Asia: Industrial production starts to recover as exports stabilise

### Exports turn the corner



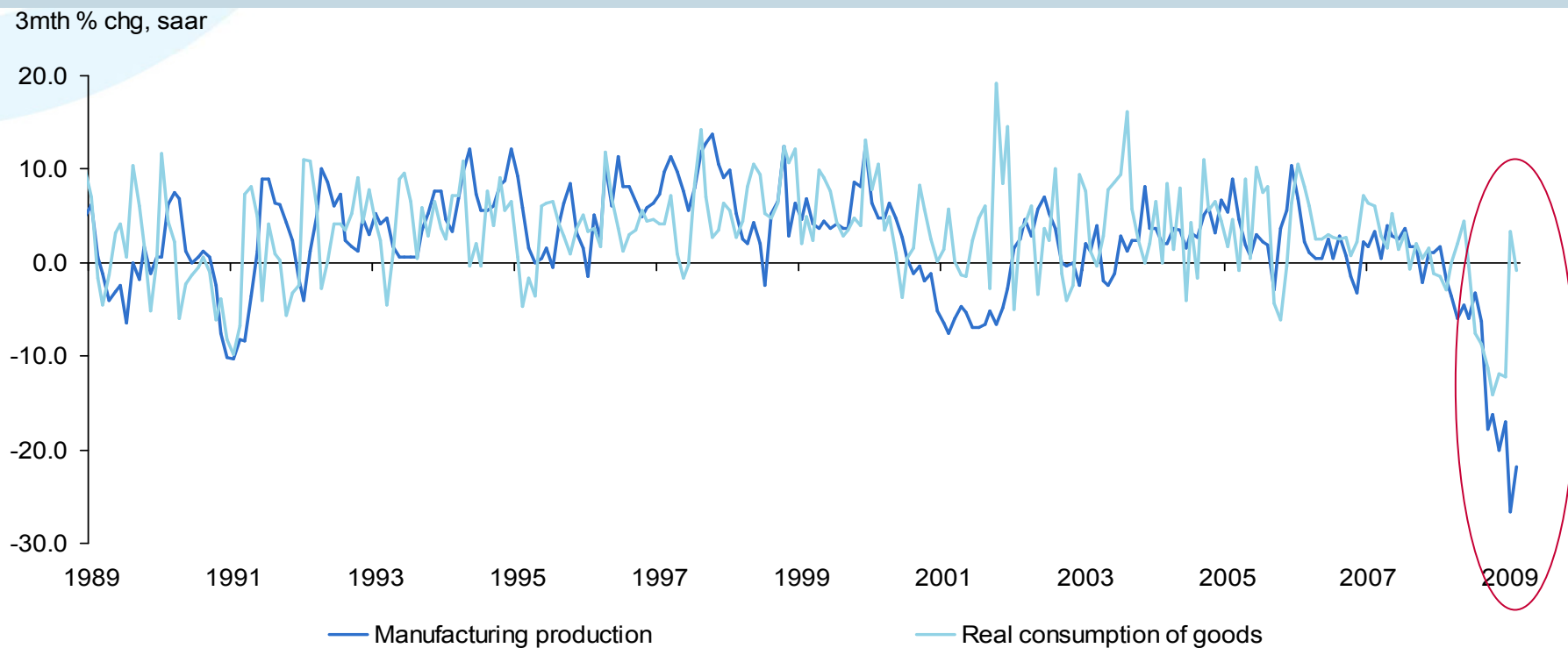
### IP finds a floor



## Signs that recession is easing

- US: Sales-production gap sets economy up for a bounce

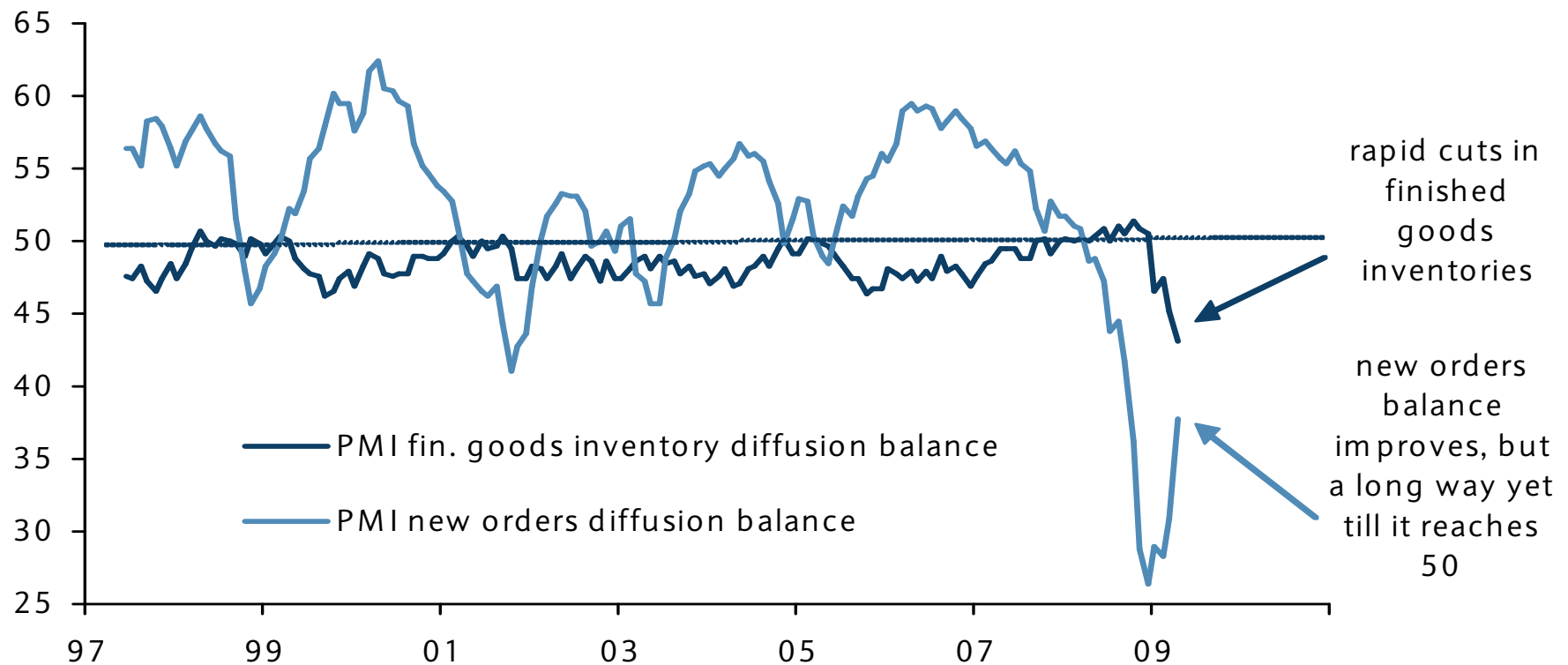
### Consumption recovery implied record inventory drop



## Signs that recession is easing

- Euro areas: Inventories have also dropped

**Inventories low, and the deterioration in new orders has started to turn**



## Caution about medium-term

**Reasons to be less optimistic about medium-term growth**

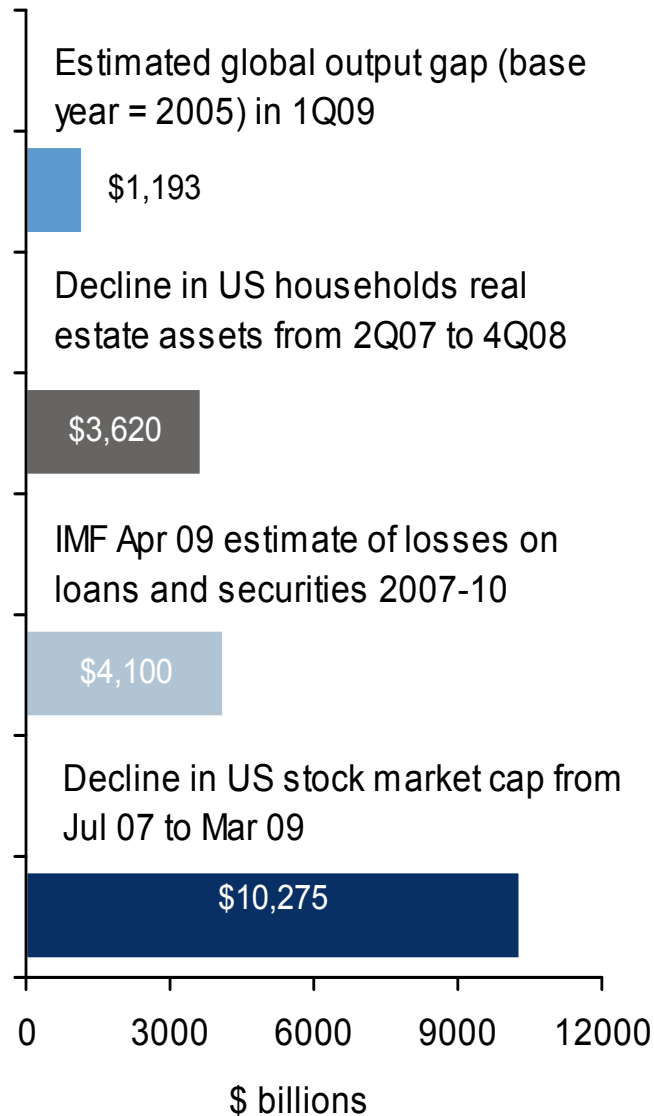
# Fewer jobs, less wealth, smaller credit

## Global job crisis

Weak employment conditions will persist through 2010

US unemployment expected to rise to 9.8% by end of 2009...

...and we expect Euro area unemployment to gradually rise from 8.7% now to over 11% by end-2010 (with over 20% in Spain)



## No credit in sight

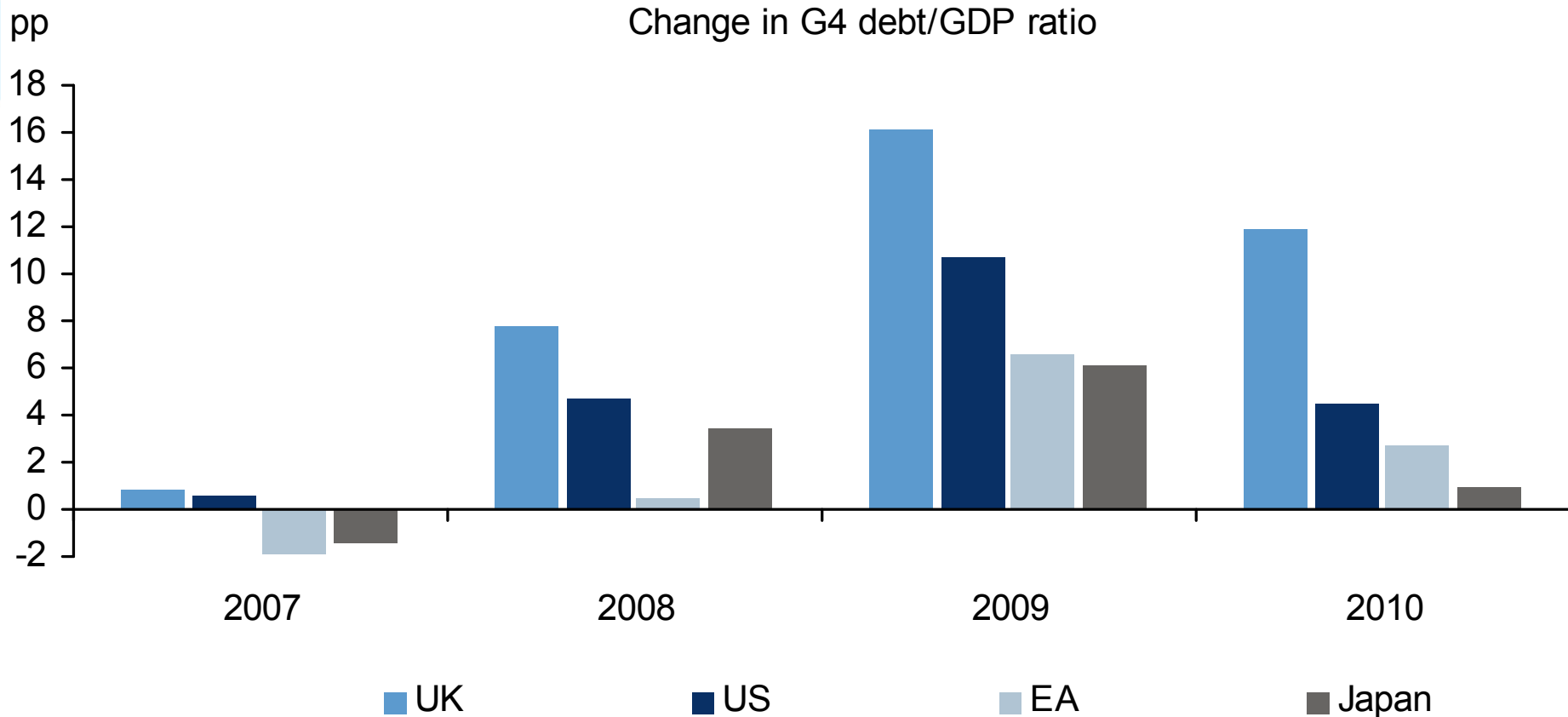
- Half-way from IMF's projected losses (\$4.1 trn)
- Credit growth may take years to return

Credit Indicator	Units	1Q07	Current
US			
Lending survey (% tightening)	%	11	61
Investment grade spreads	bps	86	493
Euro area			
3-month LIBOR - OIS spread	bps	6	57
Japan			
CP Issuance	¥, trn	21.6*	19.7

\*CP issuance in 3Q07

# Fiscal stimulus comes at a cost

Enormous surge in debt in G4 economies will force governments to eventually reduce spending and raise taxes



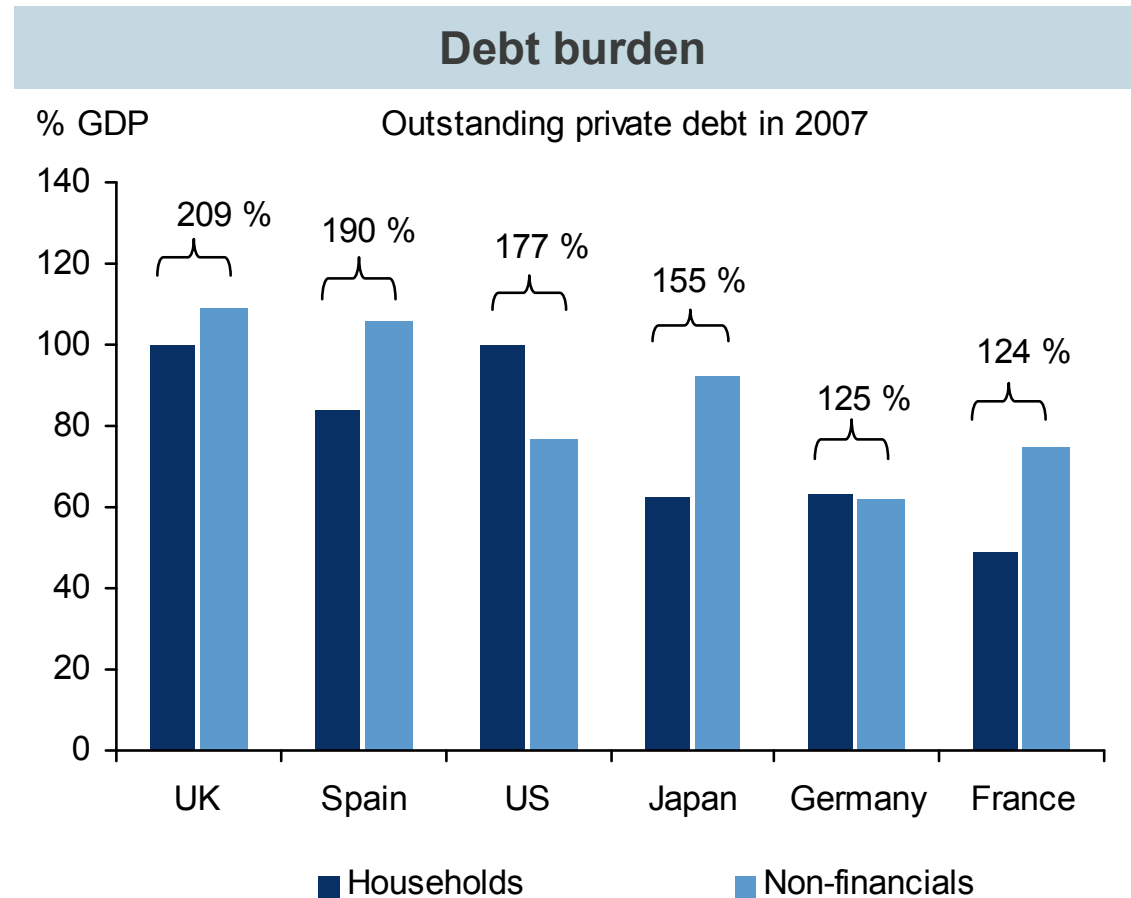
# High debt may lead to low growth

## How high debt weighs on growth

Lower household debt implies the need for higher savings

Debt “overhang” leads to lower investment by firms

“Zombie” firms can reduce medium-term growth

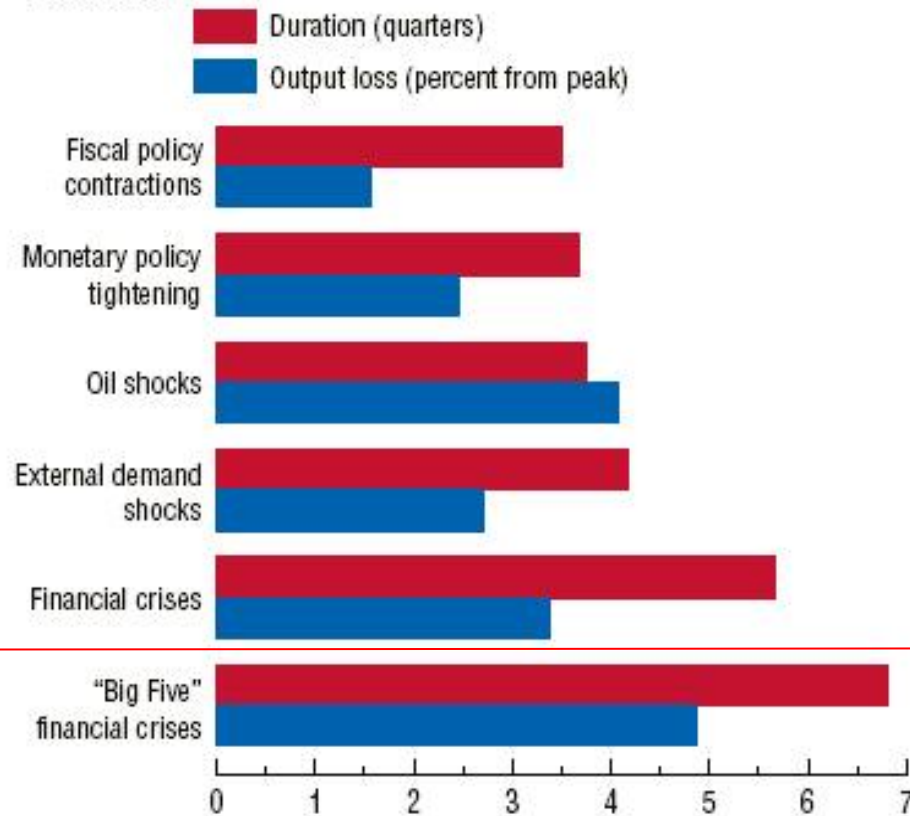




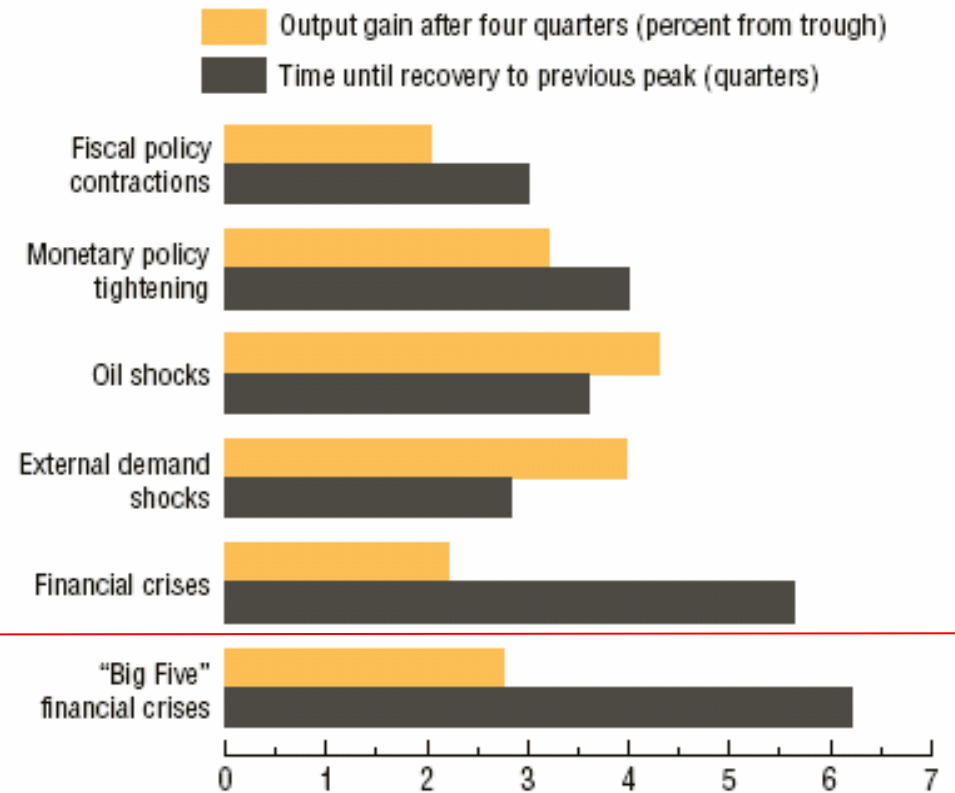
# Financial crisis makes recession worse

## Typical output losses and gains during recessions and recoveries

### Recessions



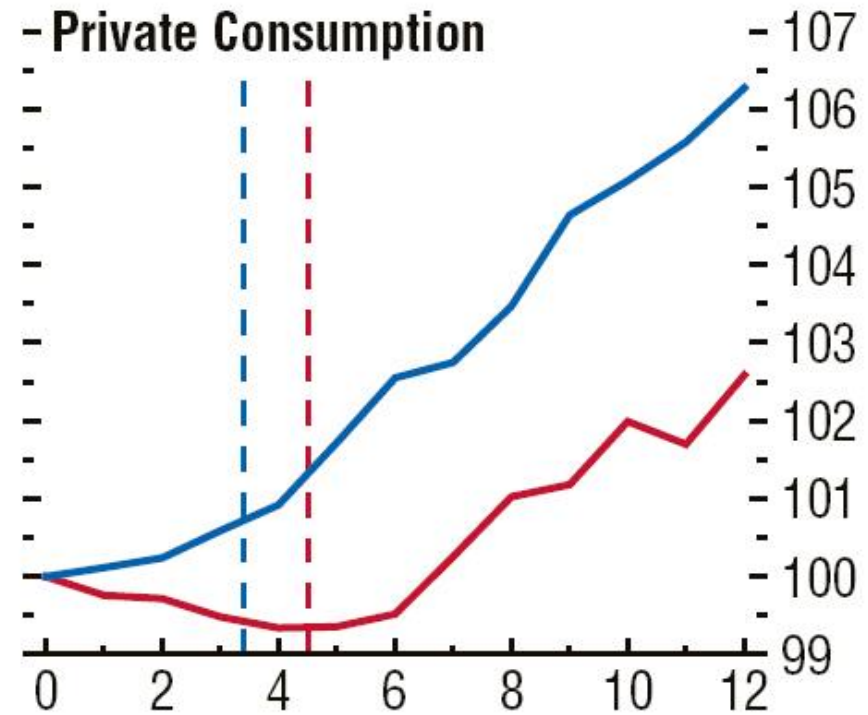
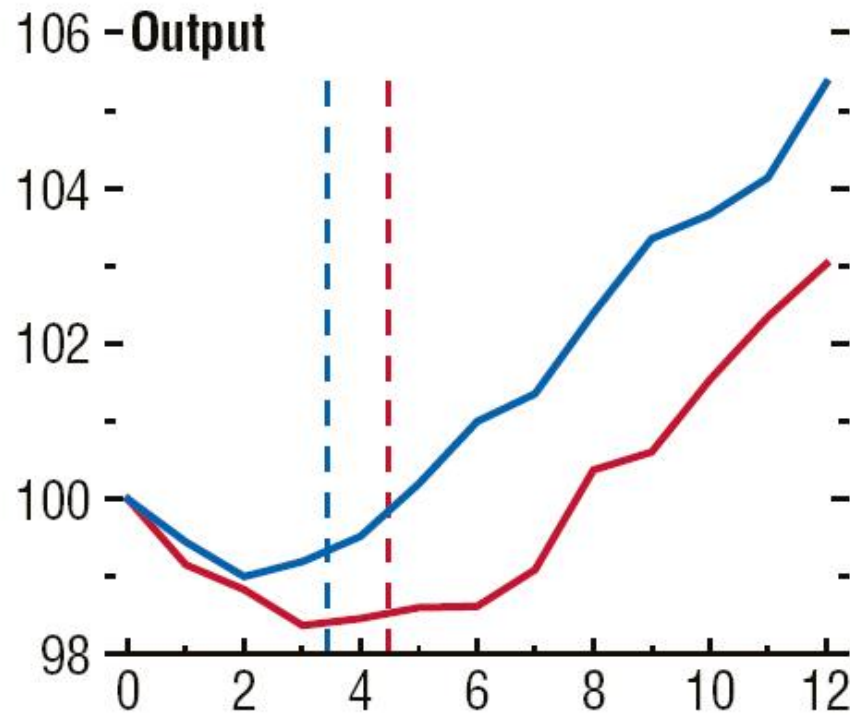
### Recoveries



# Synchronized recessions are even worse

## Typical output losses and gains during recessions and recoveries

- Highly synchronized recessions
- All other recessions
- - - Mean time to trough in output for highly synchronized recessions
- - - Mean time to trough in output for all other recessions



## Conclusions

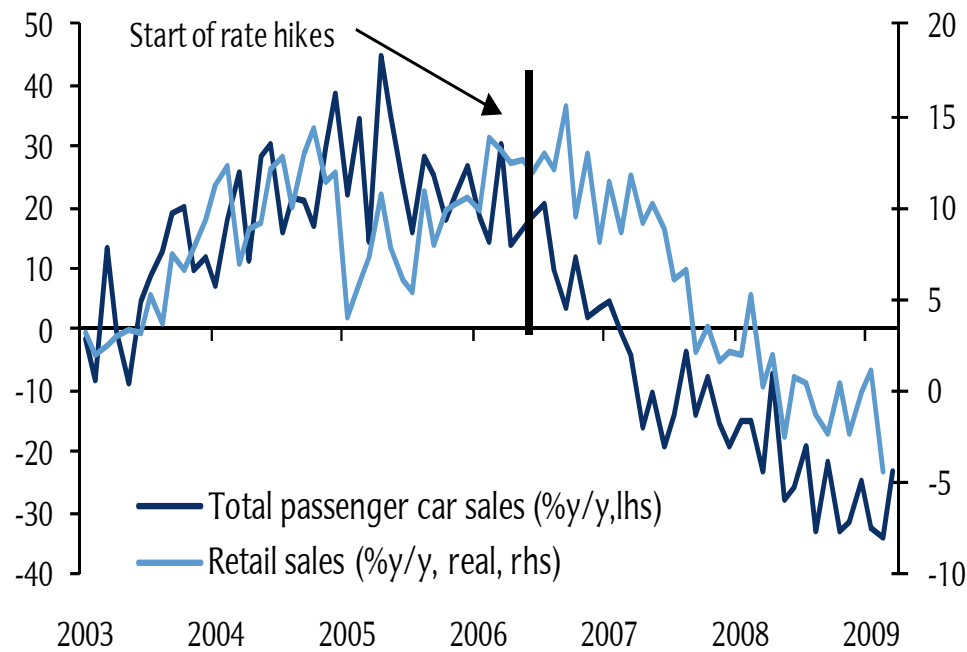
- Recent data suggests that economic activity found a floor (or getting close to it)
- Sharp inventory adjustments are setting the stage for a bounce
- Unprecedented global policy stimulus is likely to boost output over next quarters
- However, beyond an immediate bounce it is more difficult to be optimistic, as some fundamental problems are likely to weigh on growth in medium term

# Weathering the storm in South Africa

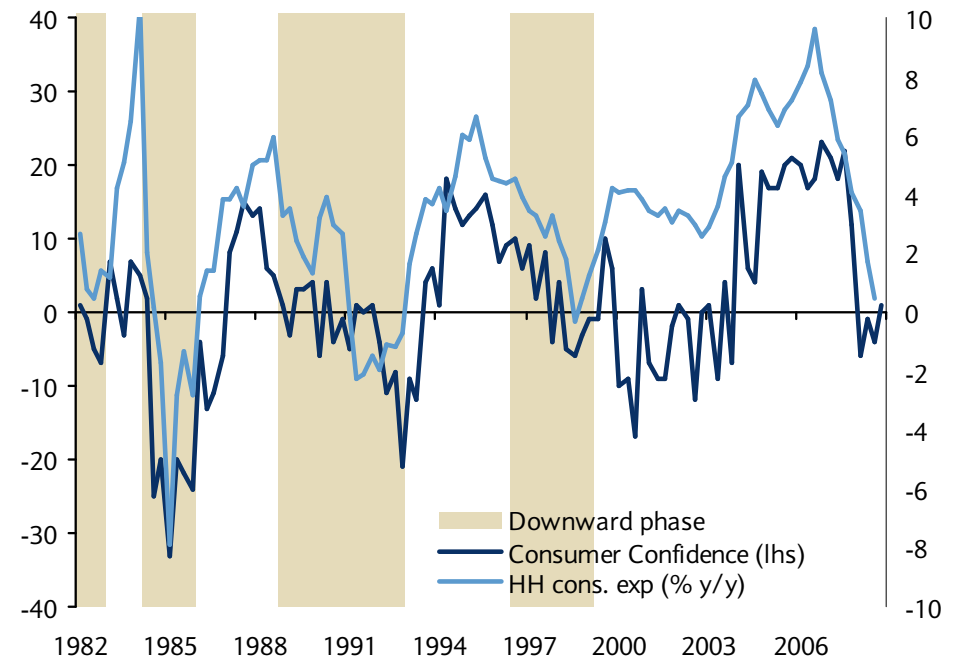
**Consumers, business showing the strain**

# High frequency data shows strained consumer

## Spending and rates



## Consumer confidence suggest weak spending outlook

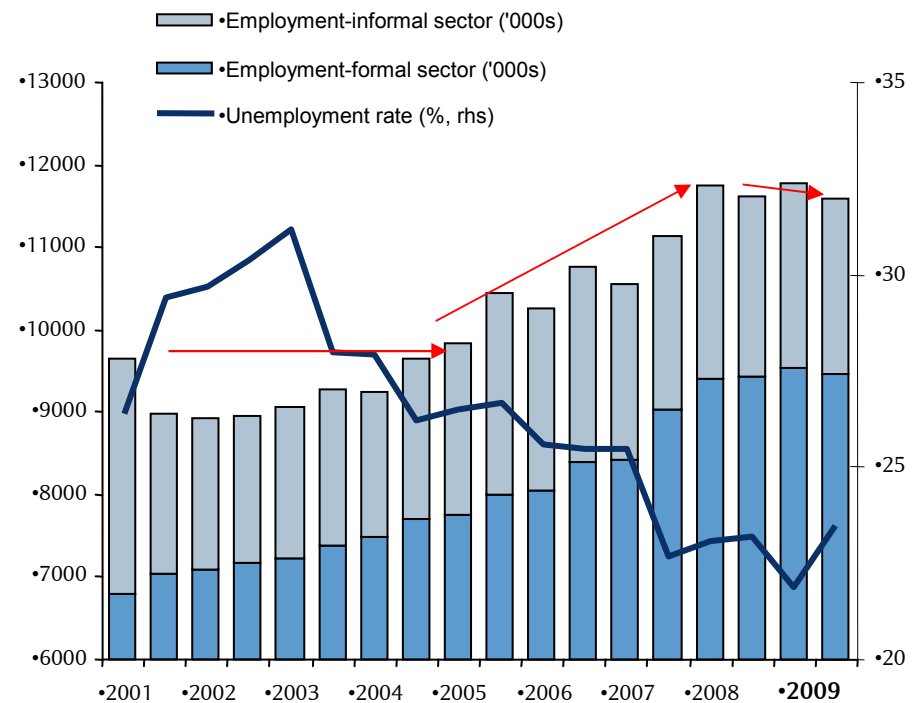


# Employment is key for confidence, for spending, and for social stability

## Q1 figures show the turn in the economy

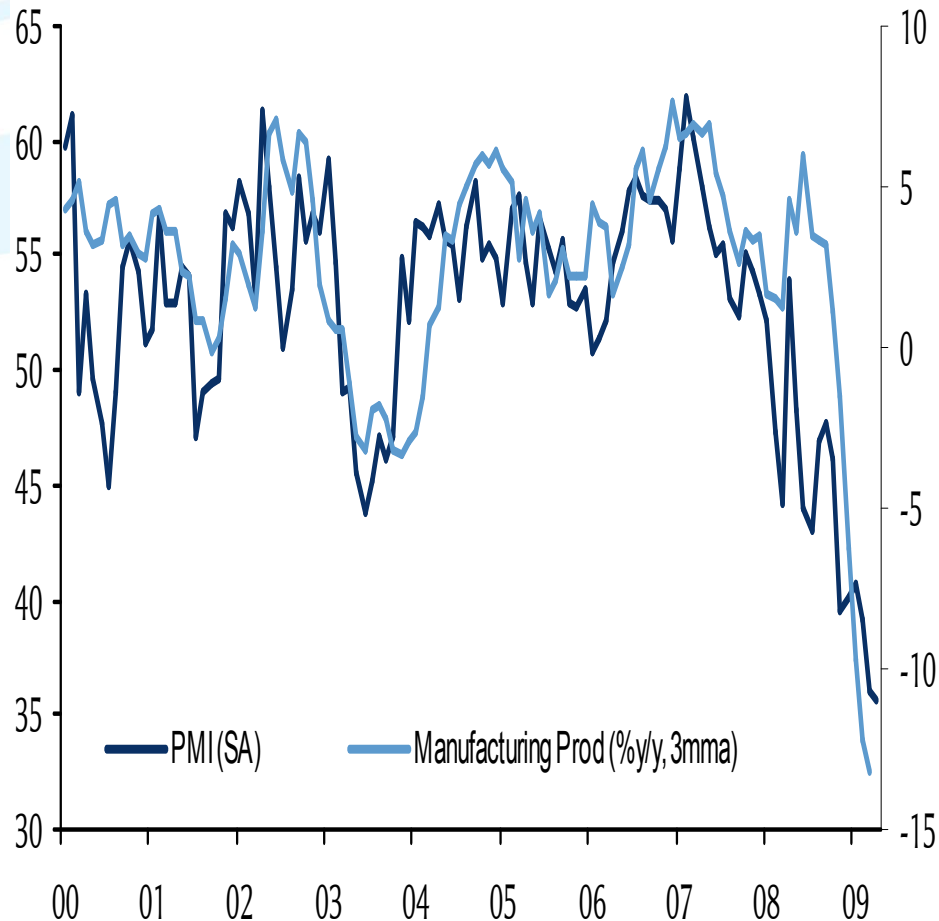
	Q4 2008 Employment chg ( '000)	Q1 2009 Employment chg ( '000)
Total economy	189	-208
Mining	7	12
Manufacturing	27	-62
Tertiary	8	-83
Construction	89	-65
Community & Social services	58	-10
Formal sector	132	-44
Informal sector	75	-184

## Employment creation in reverse



# Manufacturing shows pressure on businesses

## PMI/manufacturing remain at record lows

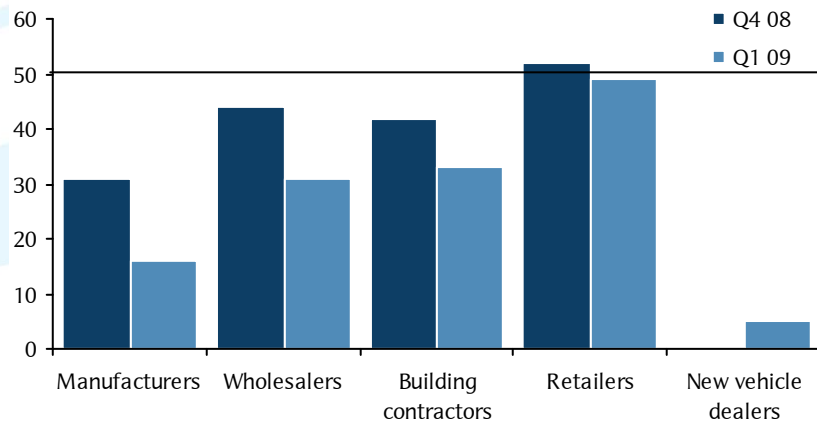


## Broad based weakness remain a feature of the PMI

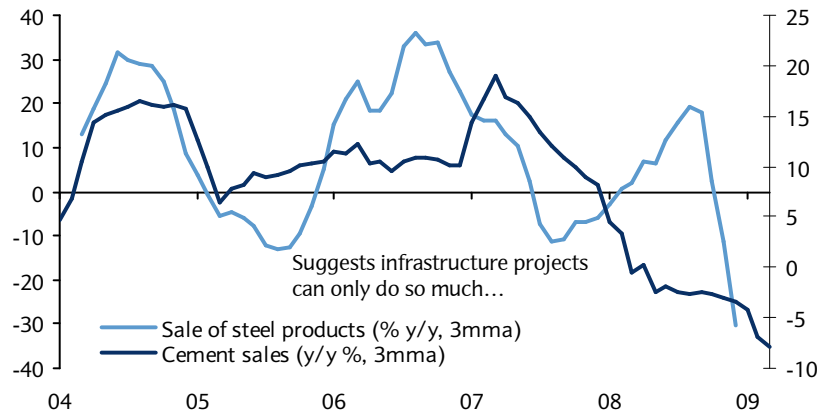
	Jan-09	Feb-09	Mar-09	Apr-09
Business activity	36.9	34.0	31.2	32.8
New sales orders	33.2	31.9	32.6	33.7
Backlog of sales orders	30.8	28.8	21.1	20.5
Inventories	55.0	46.6	37.1	28.7
Purchasing commitments	36.6	31.2	34.3	29.9
Expected business conditions	40.6	38.3	46.6	48.3
Suppliers' performance	49.3	55.3	45.7	47.7
Prices	59.9	60.9	60.0	58.0
Employment	43.0	40.8	39.2	36.2
PMI (NSA)	35.6	37.0	35.3	33.2
PMI (SA)	40.7	39.2	36.0	35.6

# Weak demand hits confidence, and then investment

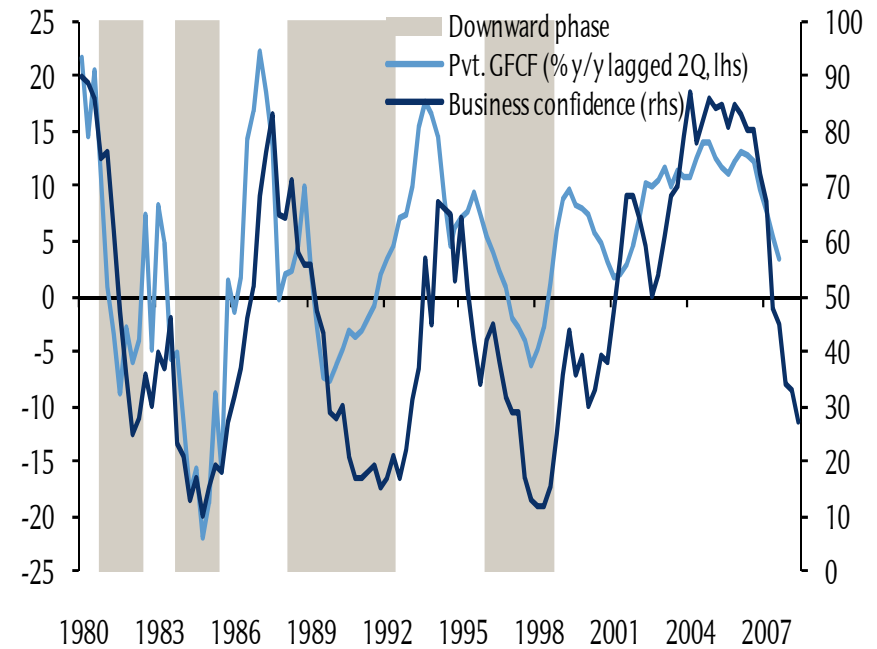
## Business confidence slumps



## Signs already evident



## Suggesting soft investment





# Weathering the storm in South Africa

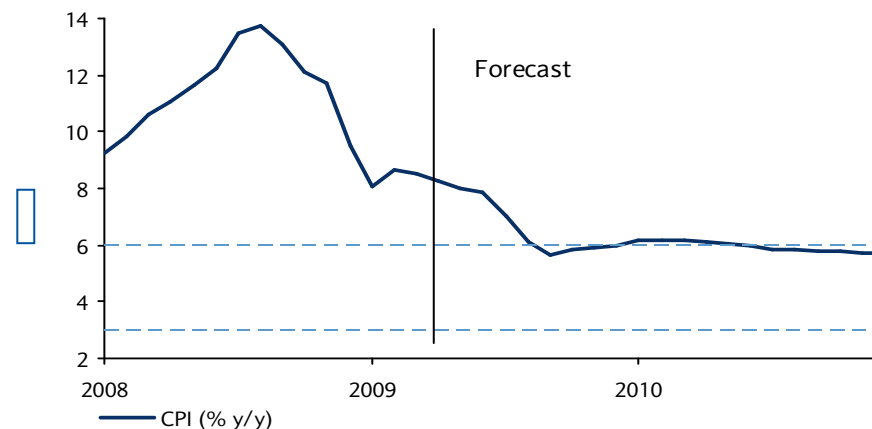
**Monetary policymaking has responded**

# The message from the SARB: Growth concerns overriding inflation concerns, but for how long?

## Key takeaways from the April MPC meeting

- MPC still extremely concerned over impact of global recession on SA
- “Pace” of rate cuts has been aggressive
- “Extent” is not yet clear
  - Inflation and Inflation expectations remain problematic
  - Turn in local/global economy?

## Headline inflation remain sticky

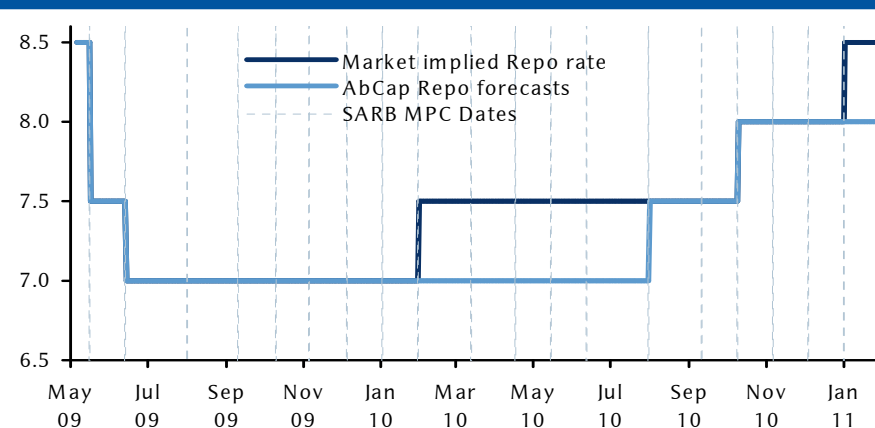


## Inflation expectations still well above target!

	2009	2010	2011
Analysts	6.1 (7.0)	5.4 (5.8)	5.5
Business	9.2 (9.4)	8.6 (8.4)	8.3
Trade unions	9.7 (9.4)	10.1 (8.4)	9.6
<b>Average</b>	<b>8.3 (8.6)</b>	<b>8.0 (7.5)</b>	<b>7.8</b>

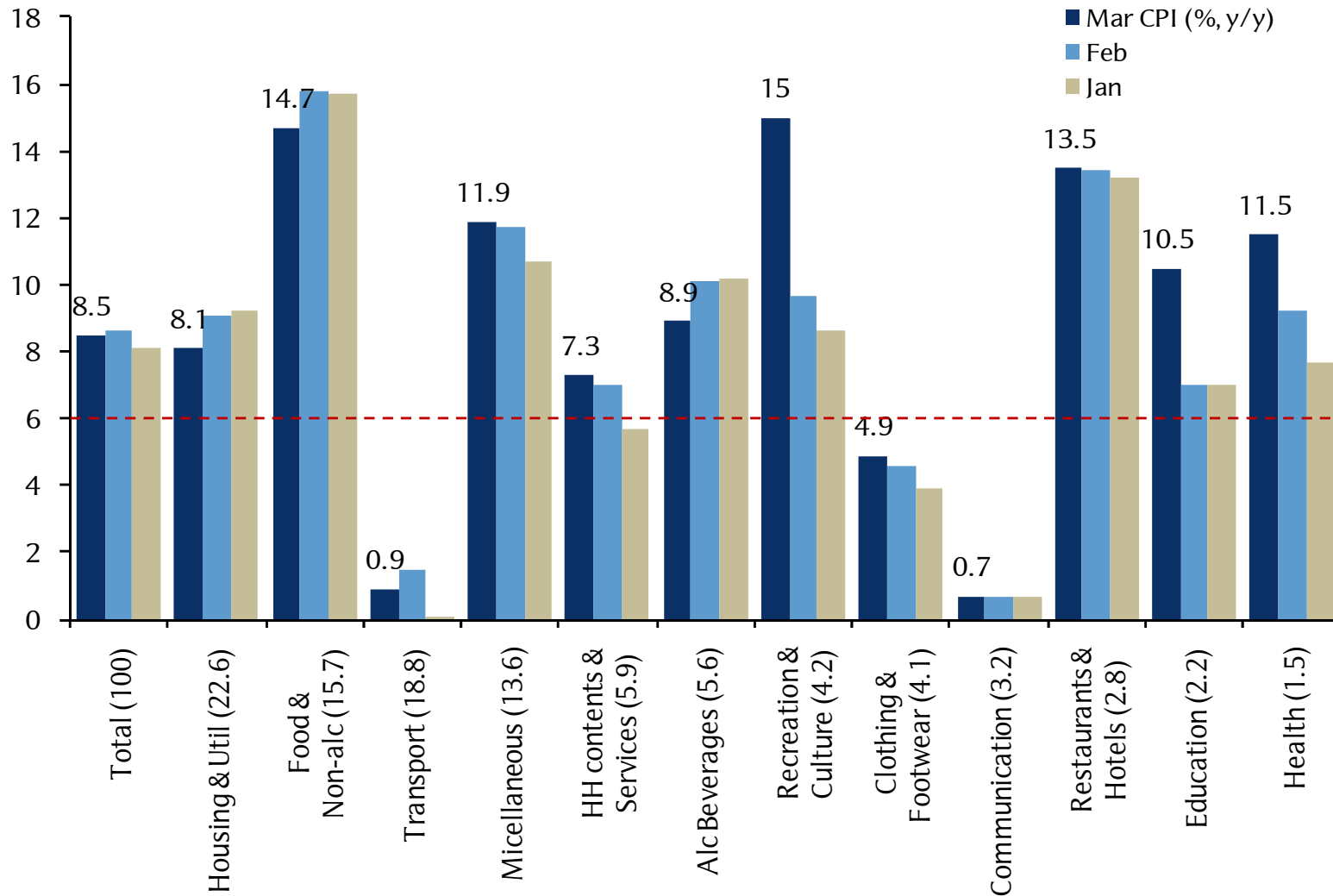
Q4 2008 projections in parenthesis. Source: BER, Absa Capital.

## Market is pricing in 7% policy rates



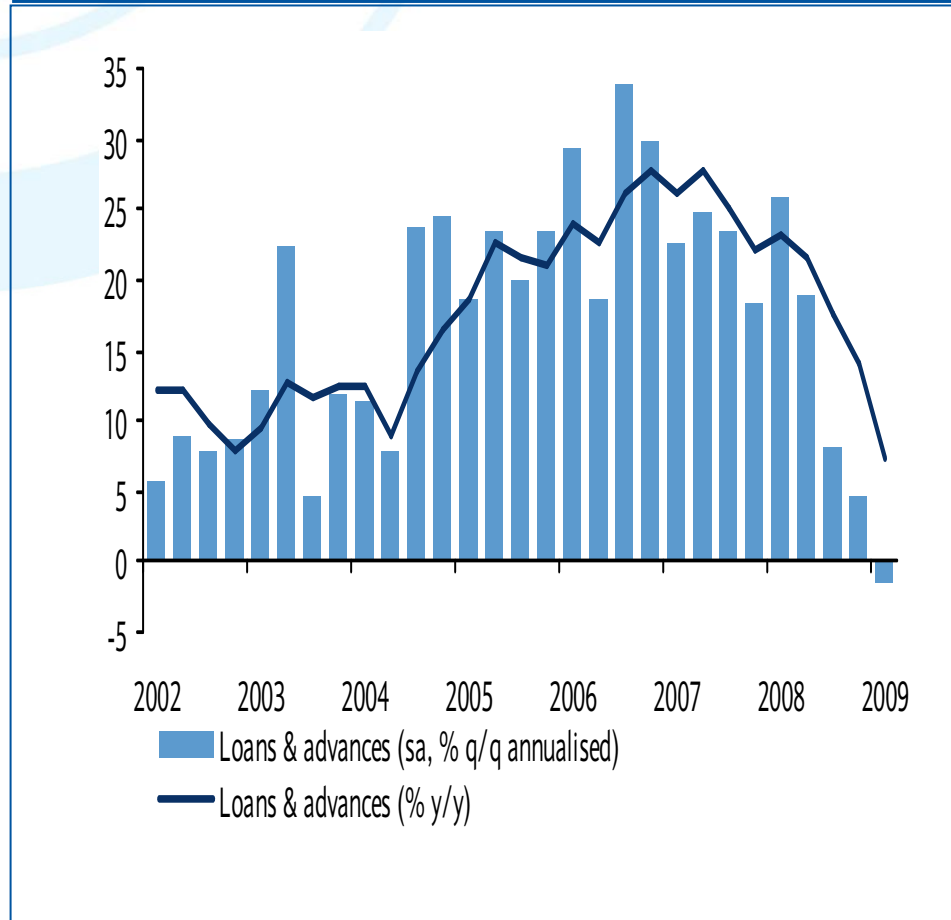
# Inflation lower, 6% reachable, a return to 4% unlikely

Unpacking the March CPI: About 75% of the basket still rising >6%

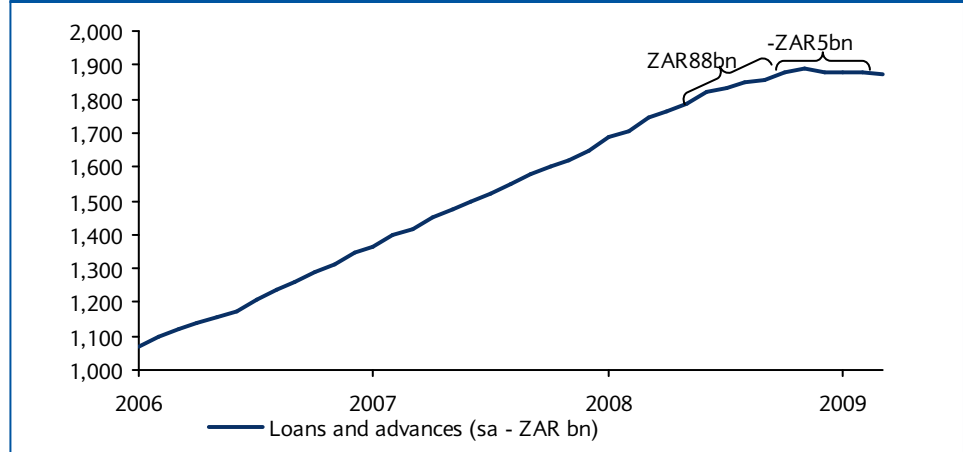


# A weakened credit channel complicates transmission

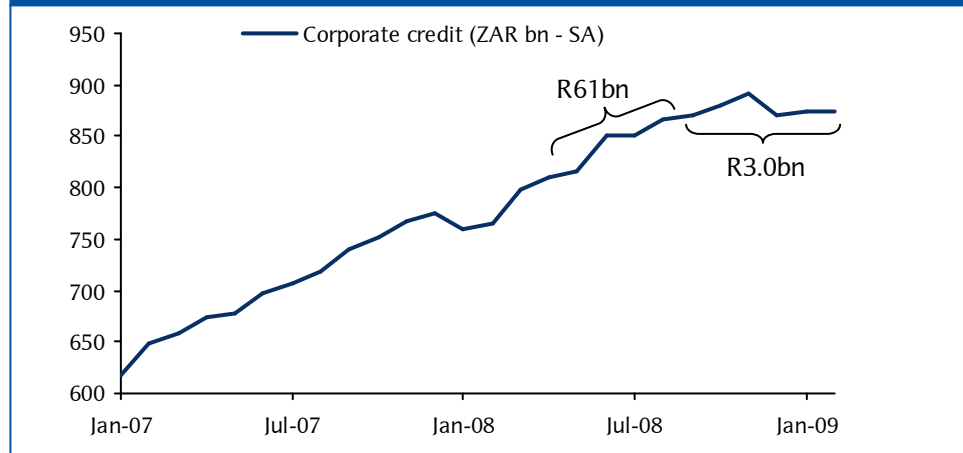
## The y/y falls are only part of the story



## Loans and advances actually falling in levels



## Corporate credit now flat to falling

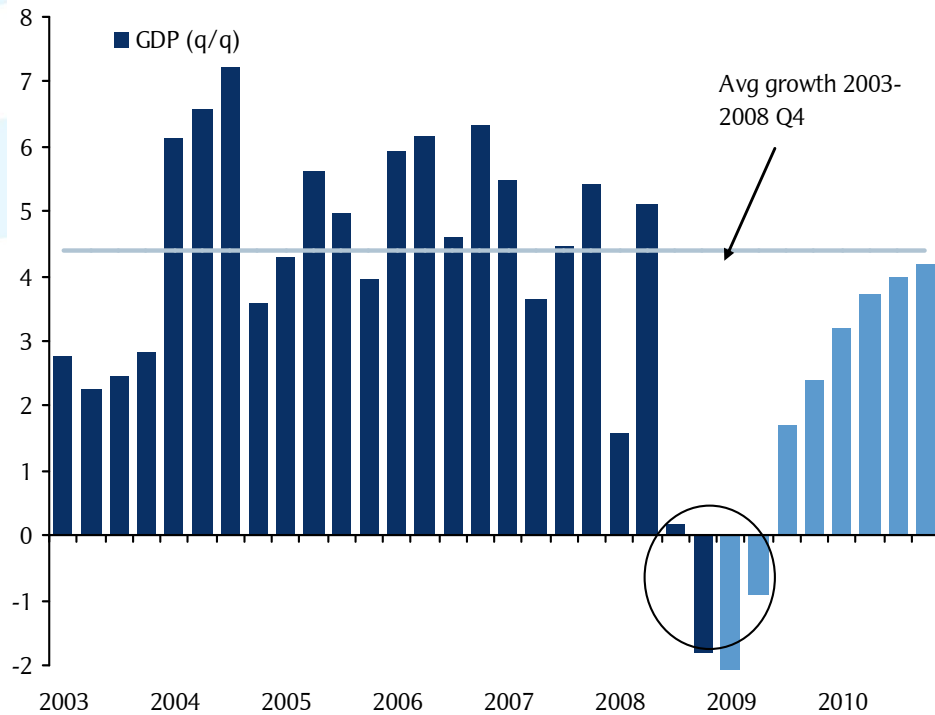


# Weathering the storm in South Africa

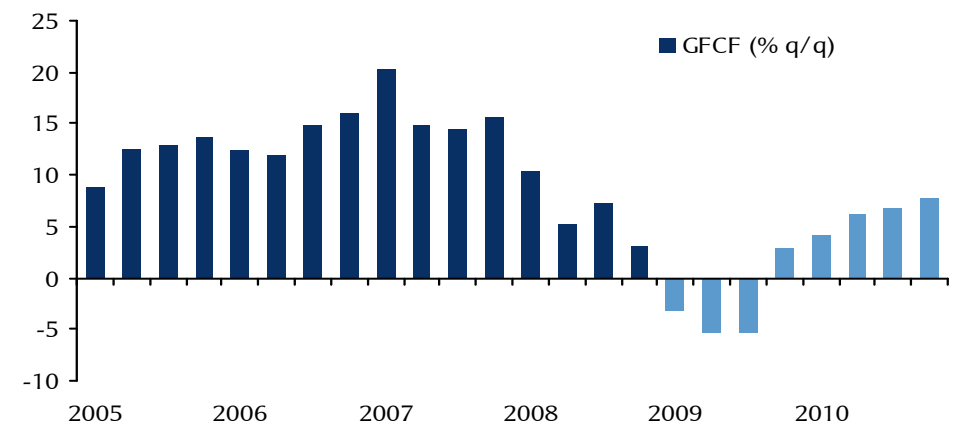
**South Africa's first recession since 1992**

# Another write-down to our SA GDP projection

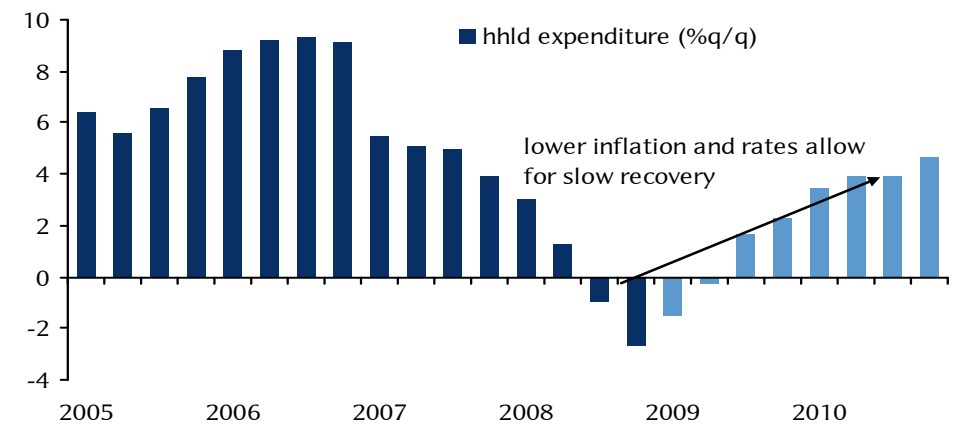
## Negative GDP numbers forecasted for Q4 08-Q2 09



## Investment growth to go through the floor

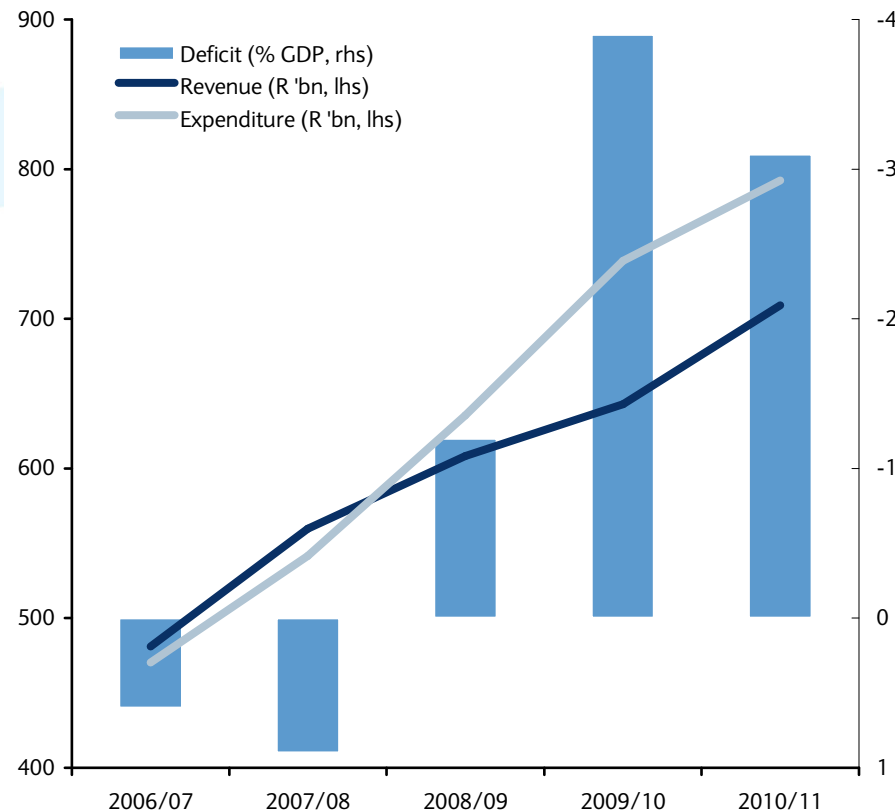


## Lower inflation and rates help households, but do not expect a heady return to 2004-2007 spending

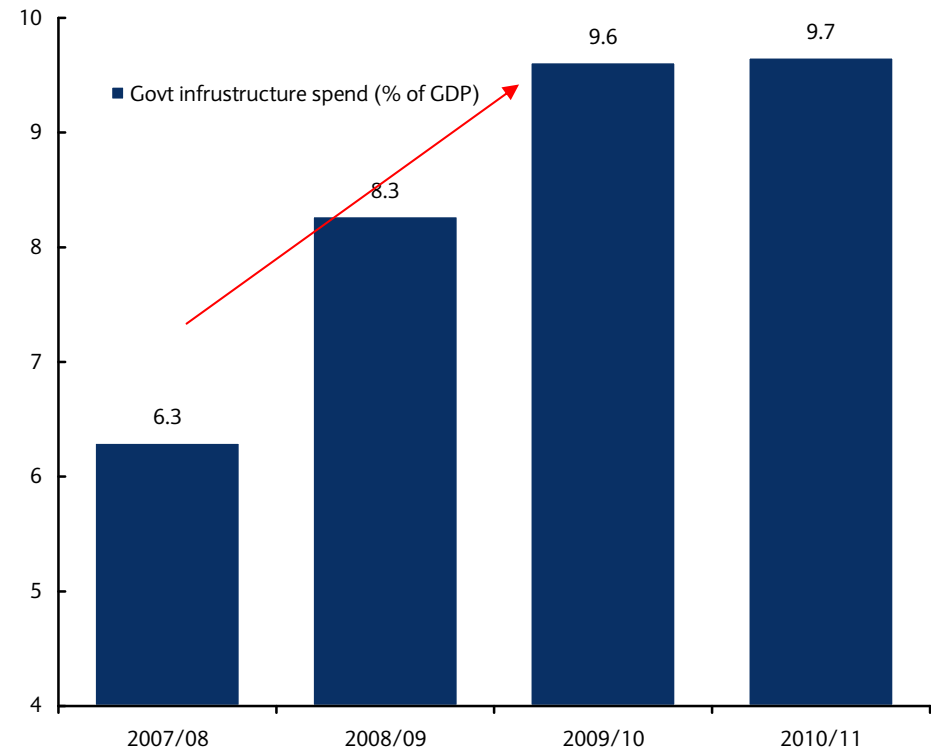


# The recession would be worse, were it not for the public sector

Fiscal consolidation in earlier years allows for deficits now in the counter-cyclical budget

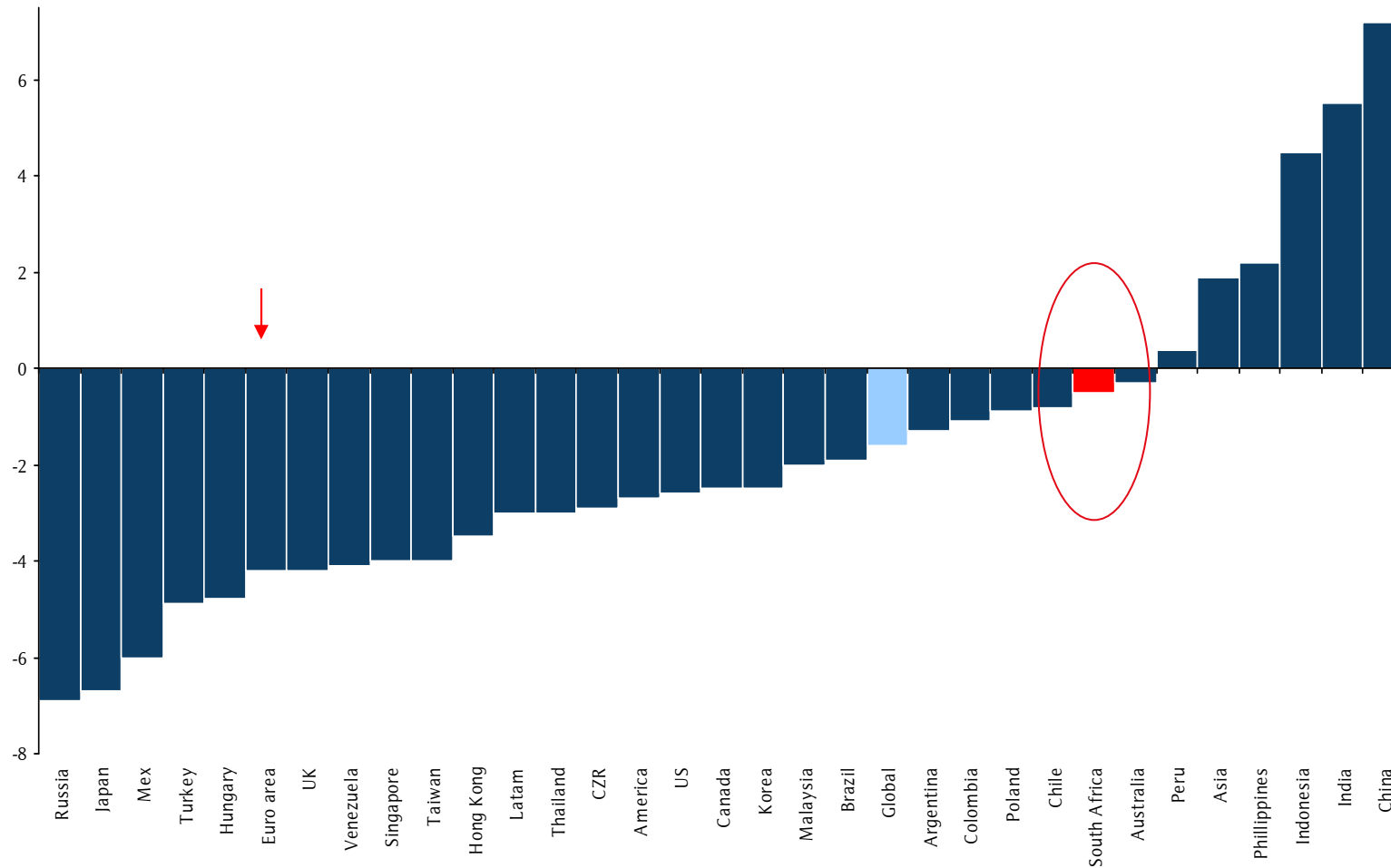


Trevor Manuel: "We are already shovelling"



# 2009 will be our best relative GDP performance ever!

- Of the 50-odd countries that Absa/Barclays forecasts in detail, SA ranks 8<sup>th</sup> in terms of relative growth performance!





# Weathering the storm in South Africa

## Conclusions

- South Africa not immune from global downturn, with consumer and businesses feeling the pressure
- Lower interest rates help, but can only do so much
- The first recession since 1992, but it could have been much worse

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