

Outlook for the International & Domestic Economies

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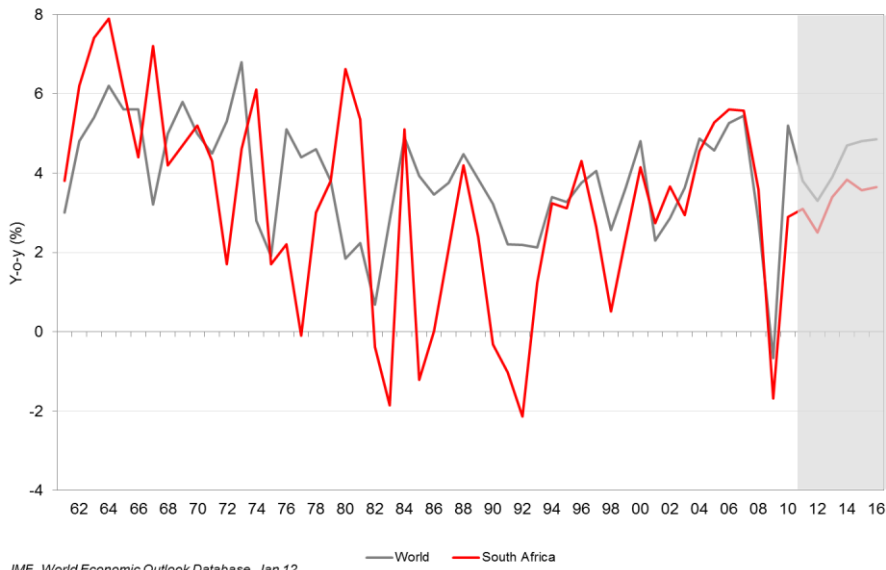
IBTTA

12 March 2012

ECONOMETRIX | Leaders in Economic Insight



The Age of Globalisation
World GDP vs South Africa GDP

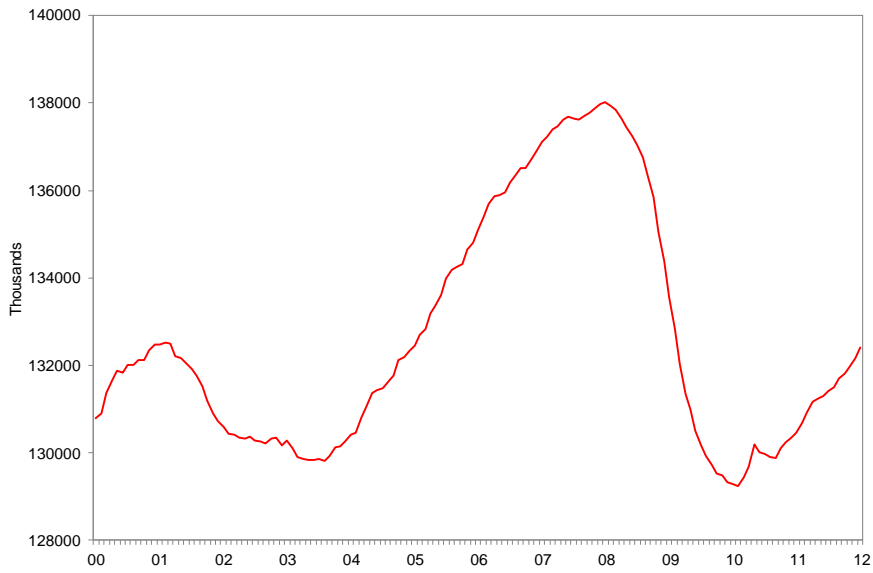


IMF, World Economic Outlook Database, Jan 12

— World — South Africa



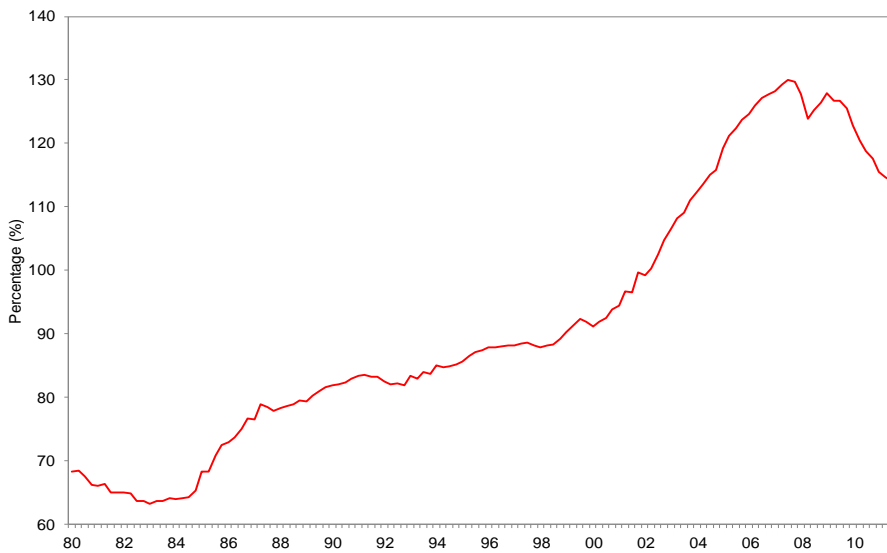
USA: Total Nonfarm Payrolls All Employees



Source: Federal Reserve Bank of St. Louis



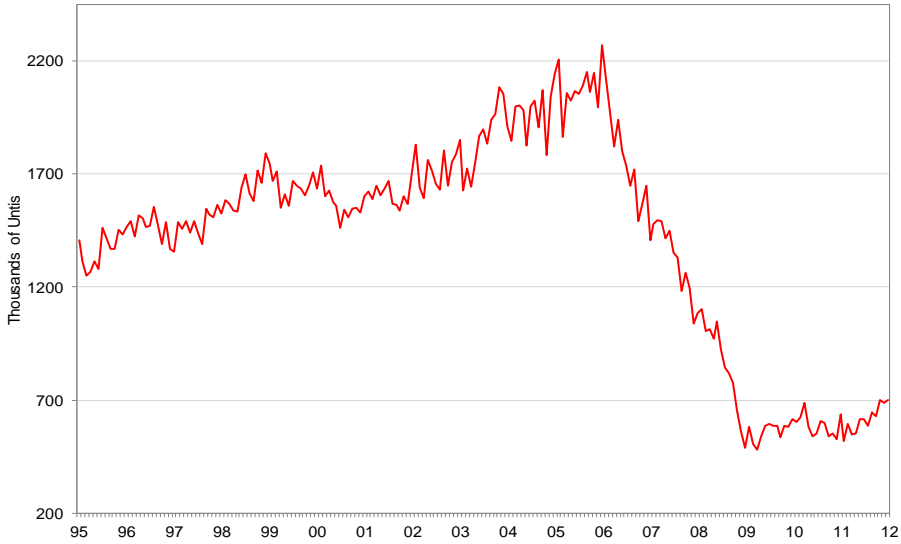
USA: Household Credit Market Debt as % of Disposable Income



Source: Federal Reserve Bank of St. Louis



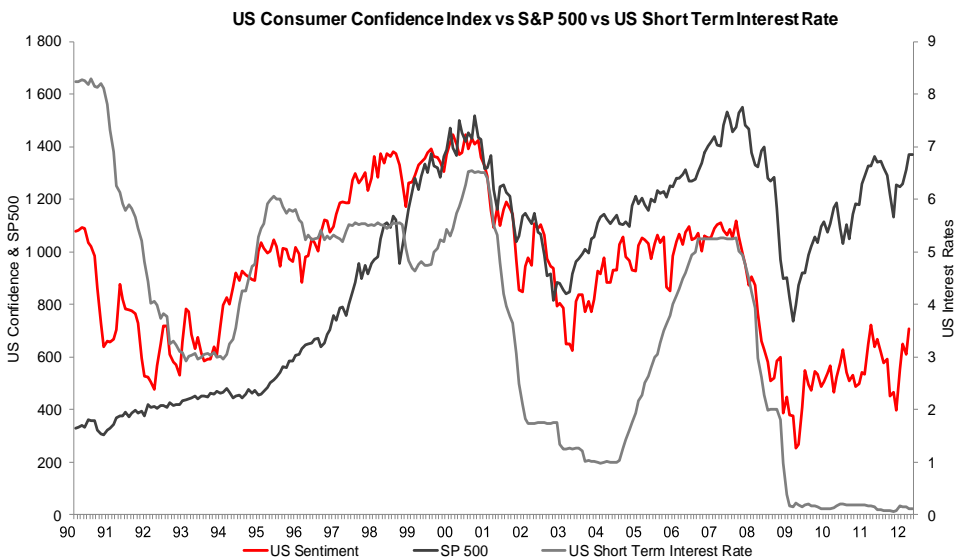
US Housing Starts: New Privately Owned Housing Units Started



Source: Federal Reserve Bank of St. Louis

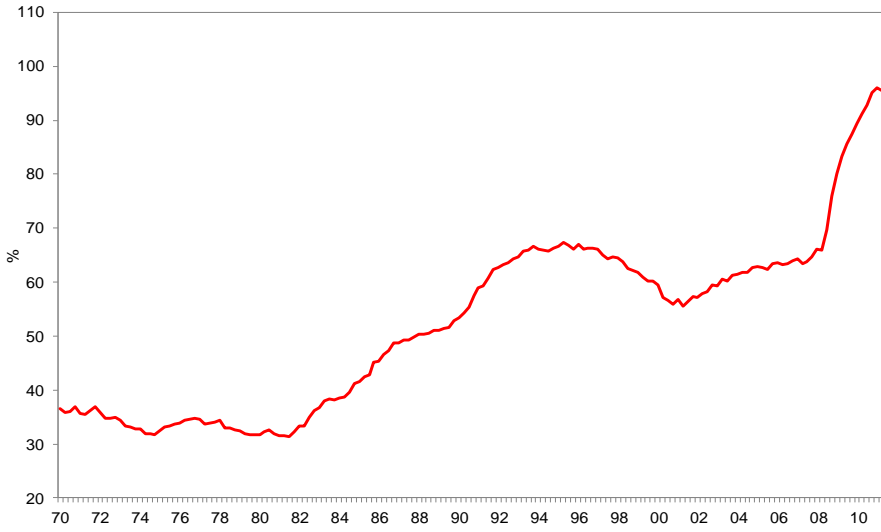


Challenge Remains Global Outlook



Source: The Conference Board, Omega and Federal Reserve Bank of St. Louis

US: Total Public Debt as a % of GDP

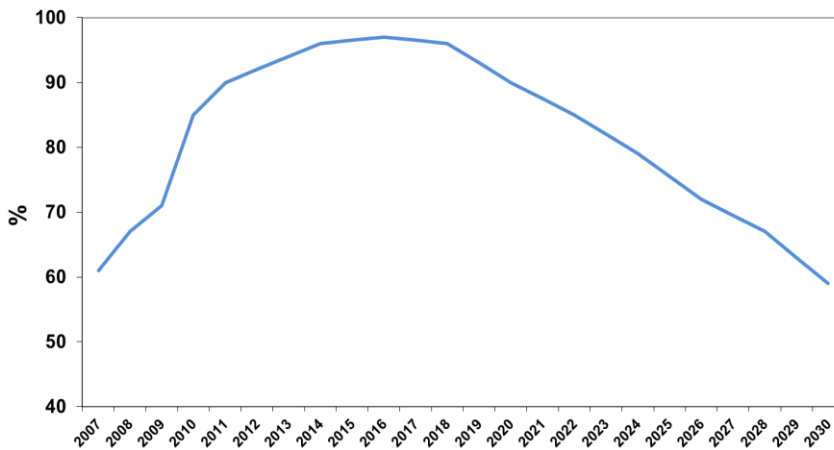


Source: US Federal Reserve Bank of St Louis



Challenge Remains Global Outlook

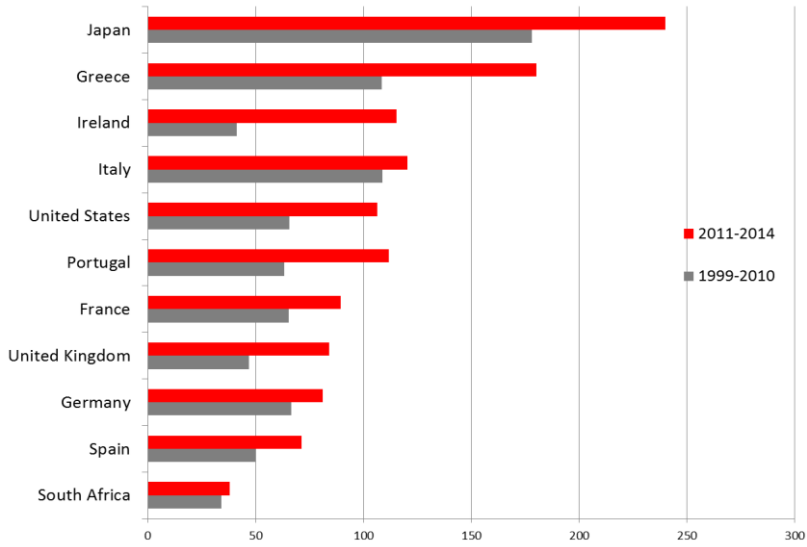
Government Gross Debt in Advanced Economies as % of GDP



Source: IMF



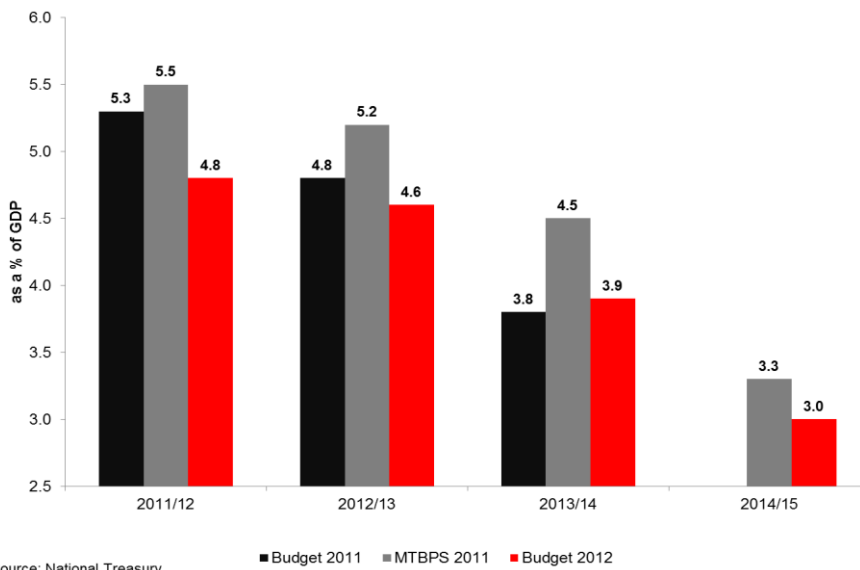
General Government Gross Debt as a % of GDP



Source: IMF, World Economic Outlook Database, Sep 11



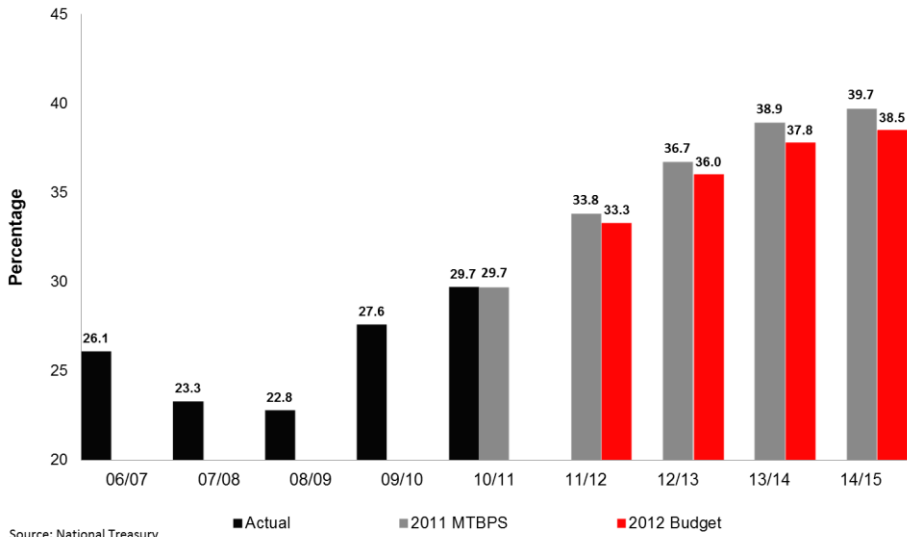
Budget deficit as a % of GDP



Source: National Treasury



Public debt as a percentage of GDP

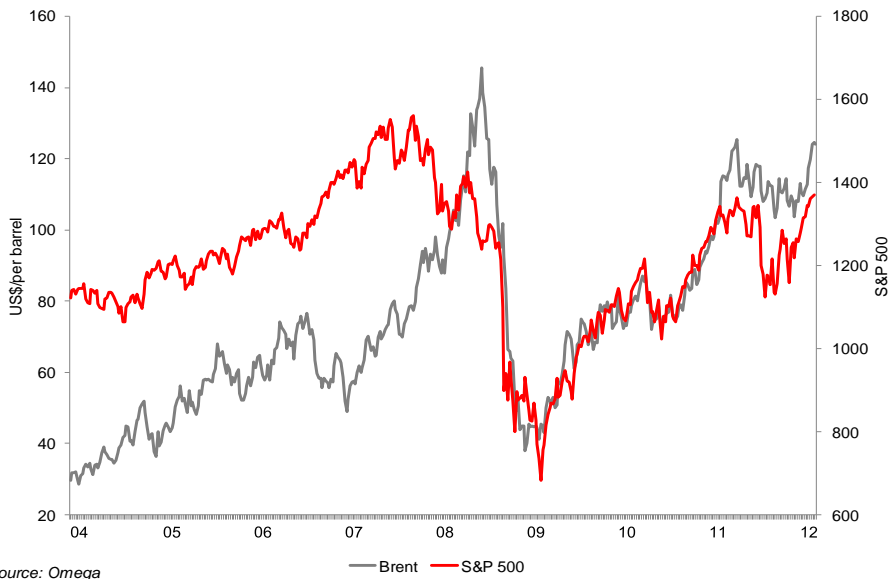


Potential short boom/busts cycles

- Further monetary loosening every time effect of stimulus slows
- Fed (\$1.3trillion 2009-10, \$600bn 2010-11)
B of E (\$350bn 2009-10, \$80bn 2011) (more to come?)
Now ECB (\$655bn 2011-12, \$700bn 2012)
B of J (\$825bn 2010-12)
Total \$4.51 trillion, or 12% of GDP of these countries, or 7% of world GDP
- But loosening slows if growth takes traction
(cf Bernanke's recent statement)
- Makes for potential short cycles of boom/bust
- Could we be facing short term 2012 boom?
- Maybe Gordhan was too conservative rather than optimistic (for 2012)



Crude Oil Price vs. S&P 500

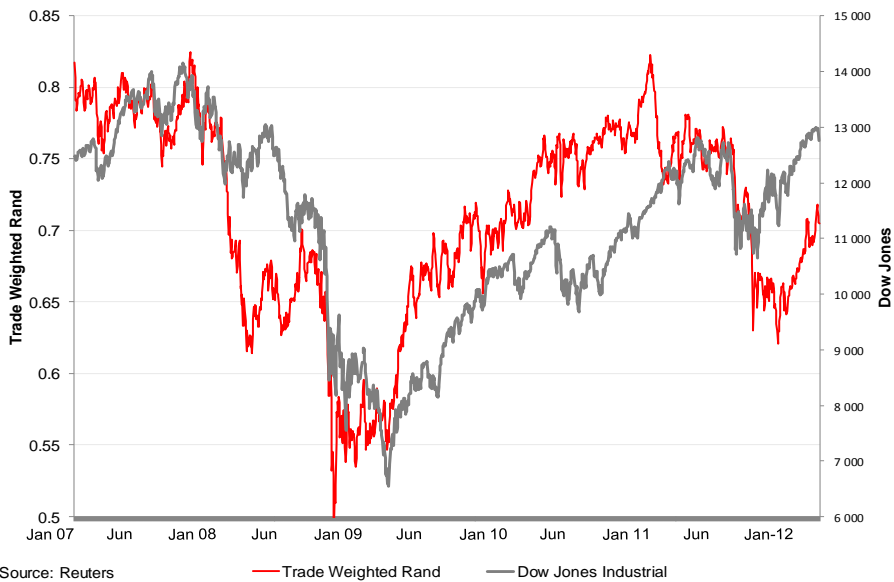


Source: Omega

— Brent — S&P 500



Dow Jones vs Trade Weighted Rand

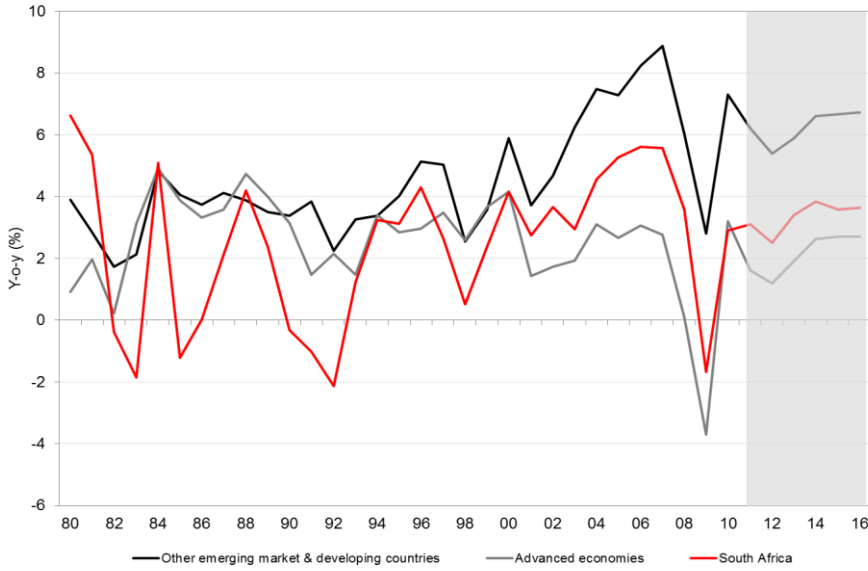


Source: Reuters

— Trade Weighted Rand — Dow Jones Industrial



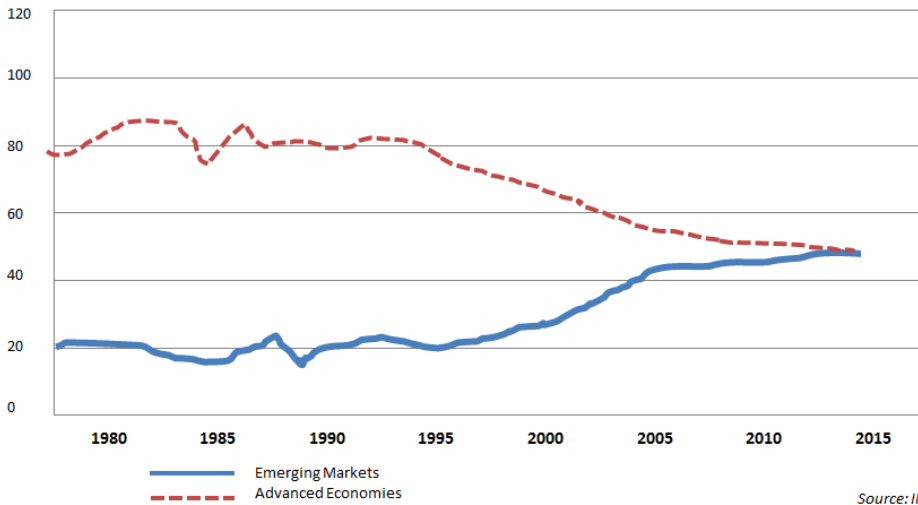
GDP: South Africa vs Advanced Economies vs Emerging Economies



IMF, World Economic Outlook Database, Jan 12



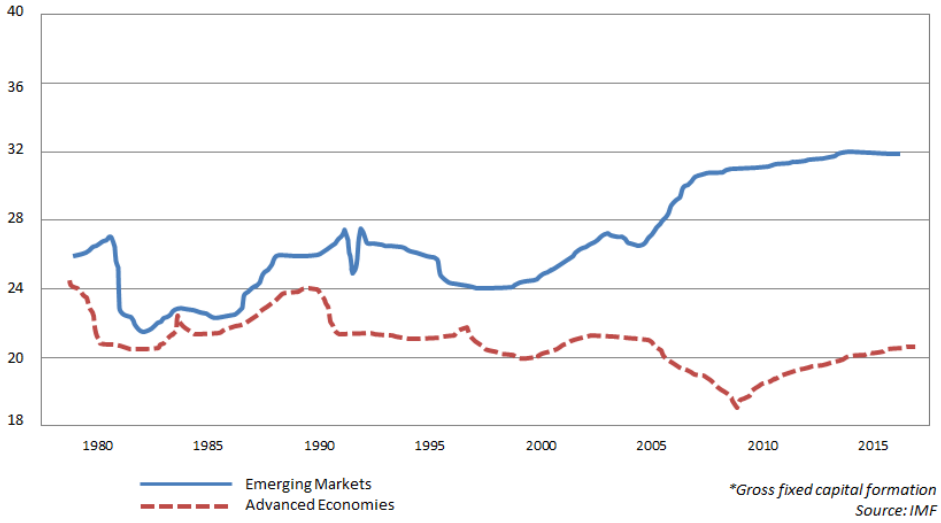
Share of World Investment (%)



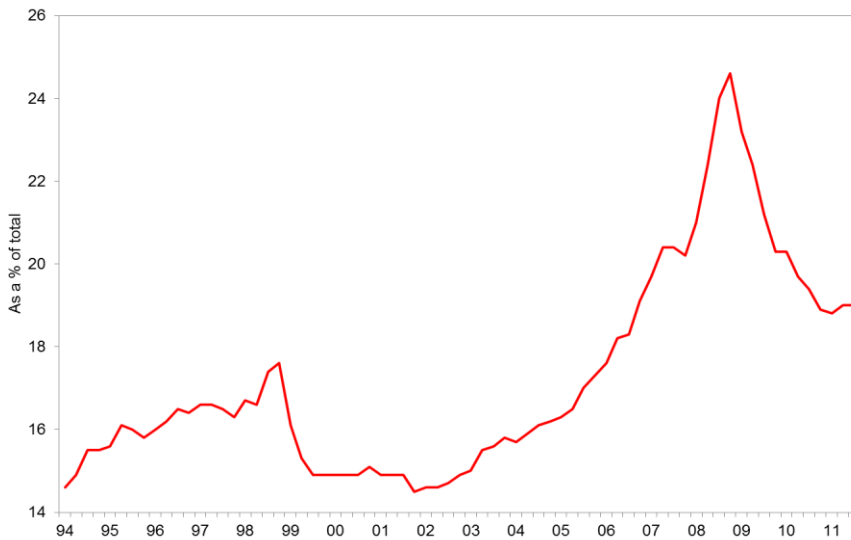
Source: IMF



Investment* (% of GDP)

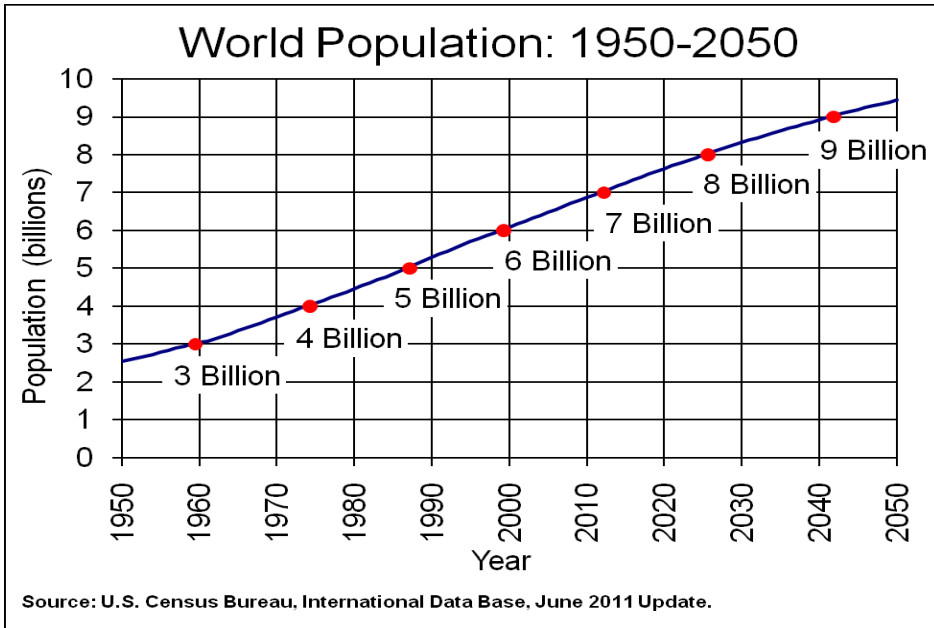


Real Gross Domestic Fixed Investment as % of GDP



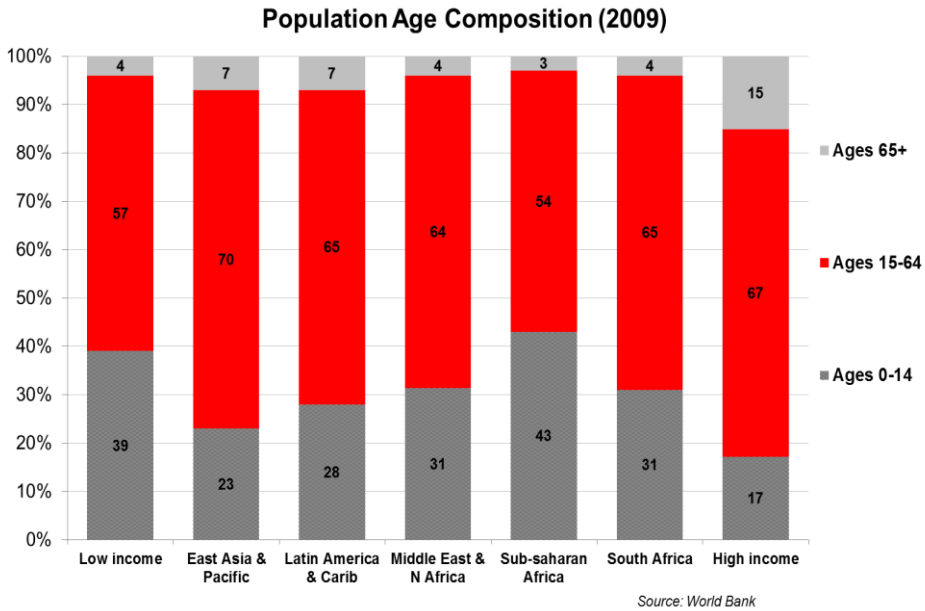
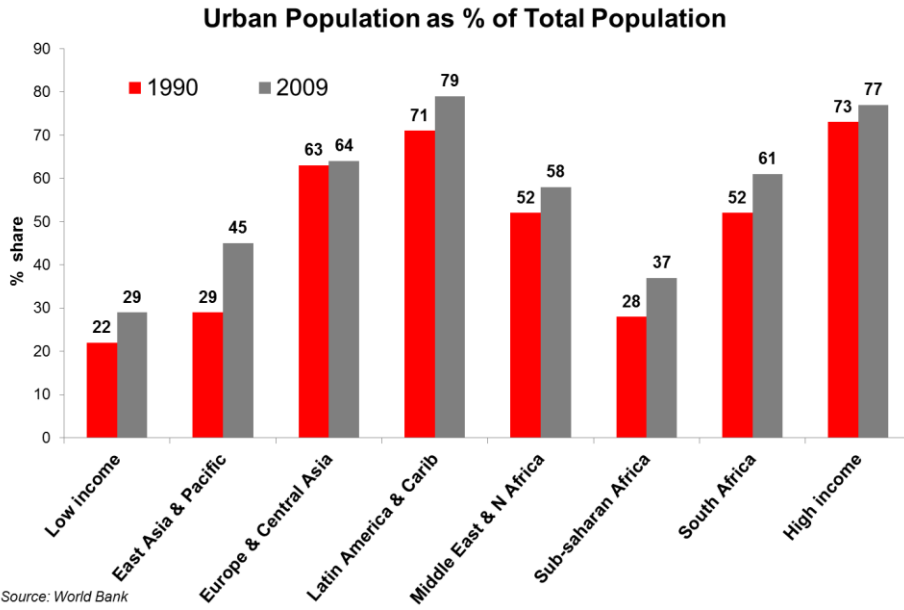
Source: SARB



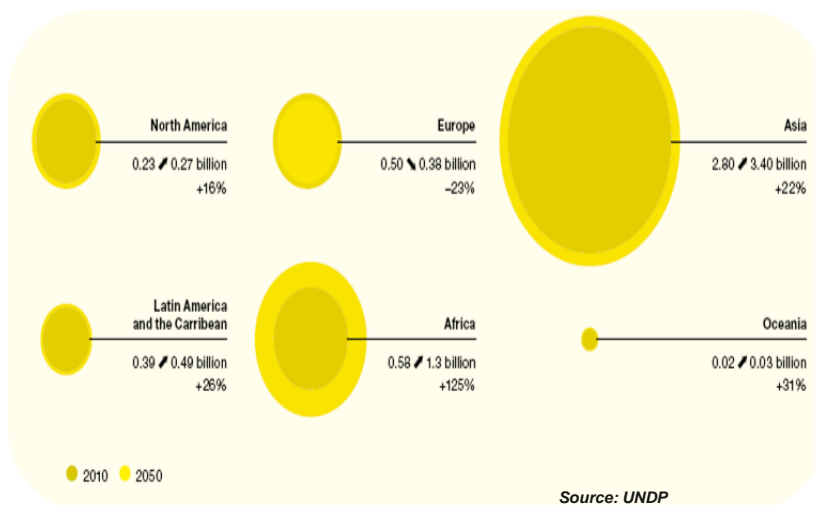


Pre - 1950	1950 - 1960	1970 - 1980 (Pre-1980, doubling time 10 years)	New oil needed 2000 - 2020 for continued 3.46% a year growth
1960 - 1970			
Oil produced 1980 - 2000 (Post-1980, OPEC doubling time 20 years)			





Working-age population will increase in developing regions (Projections of working-age population by region, 2010-2050)



IMF Forecasts for Growth of Sub-Saharan Countries

	2012-2016
Angola	7.3
Mozambique	7.8
Zambia	7.5
Tanzania	7.0
Rwanda	6.7
Uganda	6.7
Kenya	6.4
Democratic Republic of Congo	6.4
Nigeria	6.2
Ethiopia	6.2
Côte d'Ivoire	6.1
Ghana	6.1
Botswana	5.3
Senegal	5.1
Lesotho	4.9
Namibia	4.3
Mauritius	4.3
Malawi	3.9
South Africa	3.4
Zimbabwe	3.0
Swaziland	1.9

Source: IMF WEO, Sep 11 & Jan12



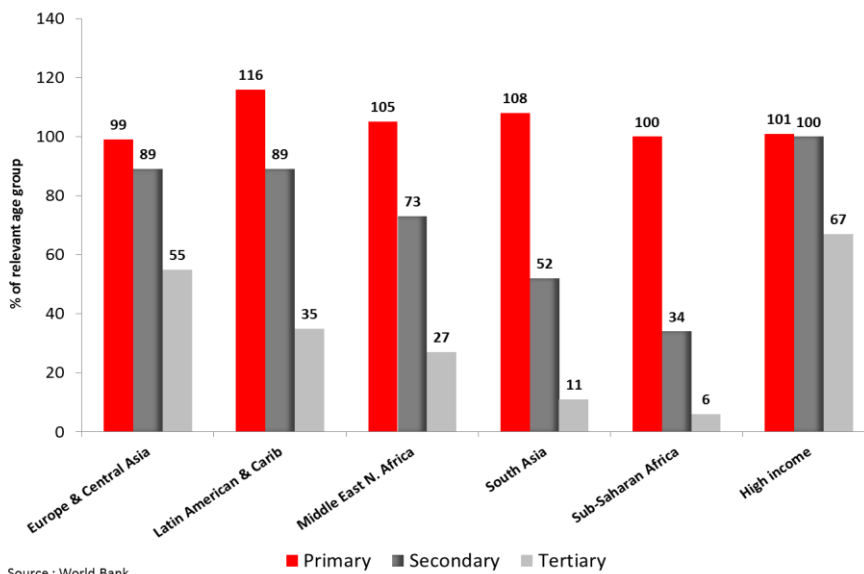
Geographic Breakdown of Trade as a Percent of Total

	2000	2011	% Growth 2011	2000	2011	% Growth 2011
	Imports			Exports		
Africa	3	8	21	13	15	19
Europe	43	33	19	30	26	12
America	15	13	32	11	12	20
Asia	36	45	26	18	35	27
Oceania	3	2	20	2	1	-9
Total	100	100	24	100	100	20

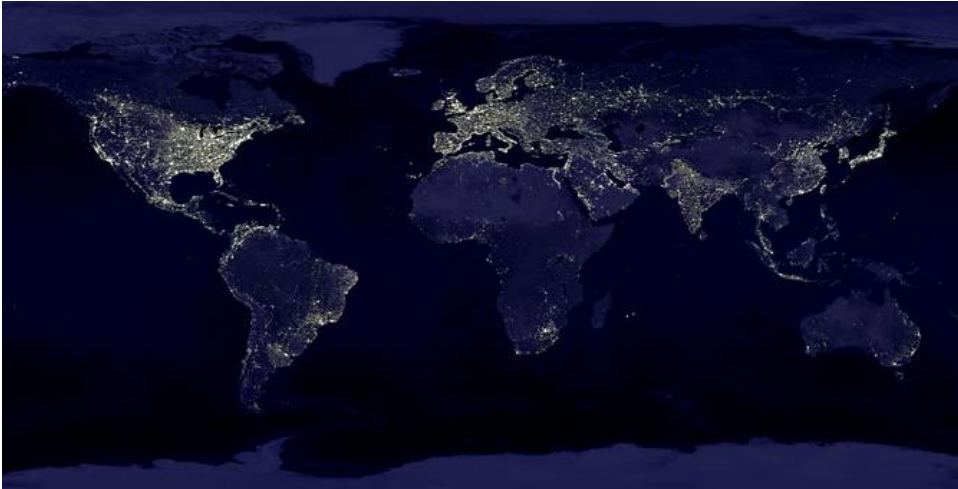
Source: SARS



Gross Enrollment Ratio - 2009



Electricity



Source: Nasa



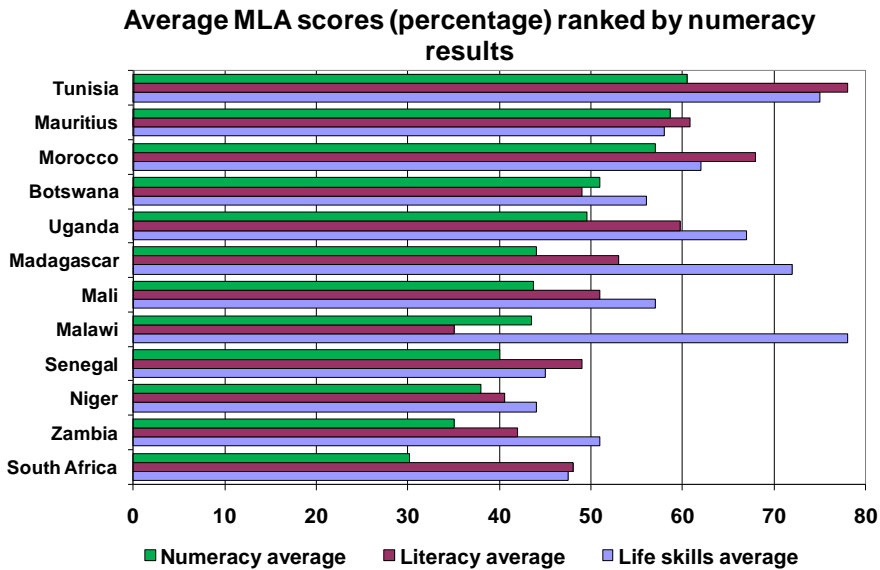
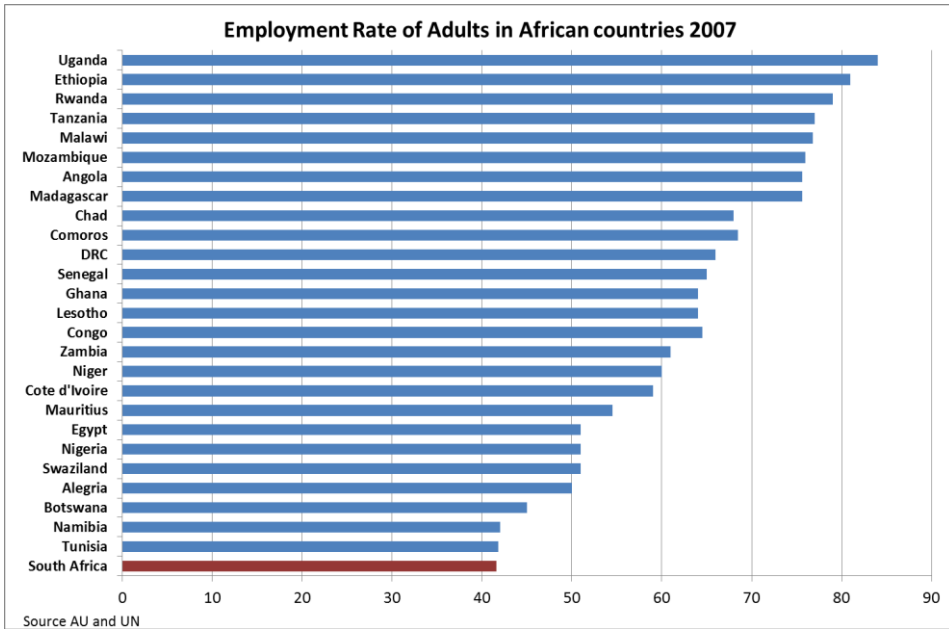
SA in Context of SADC & World

Gross Domestic Product, Current Prices

	1995	2009	2010	2030
SA as % of SADC	78.3	60.8	62.9	48.1
SA as % of Sub-Saharan Africa	47.4	31.8	33.8	23.7

Source: IMF





Quarterly Labour Force Survey : Rates (%)

	4th Qtr 2009	3rd Qtr 2011	4th Qtr 2011
Unemployment Rate	24.3	25.0	23.9
Employed/population ratio (absorption)	41.5	40.9	41.3
Discouraged work-seekers as % of Labour force	9.8	12.4	13.0
Unemployment Rate incl discouraged Workers	34.1	37.4	37.0

Source: Statistics South Africa



Quarterly Labour Force Survey

Unemployment Rate by Population Group

	2nd Qtr 2009	3rd Qtr 2011	4th Qtr 2011
Black/African	27.9	28.9	27.7
Coloured	19.5	23.6	21.1
Indian/Asian	11.3	10.8	8.5
White	4.6	5.6	6.7
TOTAL	23.6	25.0	23.9

Source: Statistics South Africa



Inequality in Education

Proportions of over 20's

	Black	Coloured	Indian	White
Educational Qualification	2010			
Up to Grade 7	29.3	21.0	9.0	0.7
Grade 8-10	26.0	34.0	19.9	14.9
Grade 11-12	35.6	33.6	46.2	44.9
Degrees/Diplomas	8.1	7.3	15.9	37.6

Source: Stats SA, General Household Survey



Matric Results Public Schools

	2011	% of Total who started school in 2000	% of who passed matric
Started School 12 yrs earlier	1 055 397	100.0	
No writing matric	496 090	47.0	
No passing matric	348 117	33.0	100.0
No receiving university endorsement	120 550	11.4	34.6
No receiving university technology endorsement	139 676	13.2	40.1
Part-time matric	80 116	7.6	23.0
Maths > 30%	104 033	9.9	29.9
Science > 30%	96 441	9.1	27.7

Source: Department of Education



**Internet Usage
June 2010**

	Internet Users	User Growth (2000-2010)	Penetration (% of Popu)
Tunisia	3 600 000	3500.0	34.0
Morocco	10 442 500	10342.5	33.0
Nigeria	43 982 200	21891.1	28.9
World	1 966 514 816	444.6	28.7
Egypt	17 060 000	3691.1	21.2
Algeria	4 700 000	9300.0	13.6
Zimbabwe	1 422 000	2744.0	12.2
Africa	110 931 700	2357.3	10.9
South Africa	5 300 000	120.8	10.8
Kenya	3 995 500	1897.8	10.0
Uganda	3 200 000	7900.0	9.6
Zambia	816 700	3983.5	6.8
Namibia	127 500	325.0	6.0
Botswana	120 000	700.0	5.9
Libya	353 900	3439.0	5.5
Ghana	1 297 000	4223.3	5.3
Angola	607 400	1924.7	4.6
Lesotho	76 800	1820.0	4.0
Cameroon	750 000	3650.0	3.9
Tanzania	676 000	487.8	1.6
Congo, Dem. Rep.	365 000	72900.0	0.5

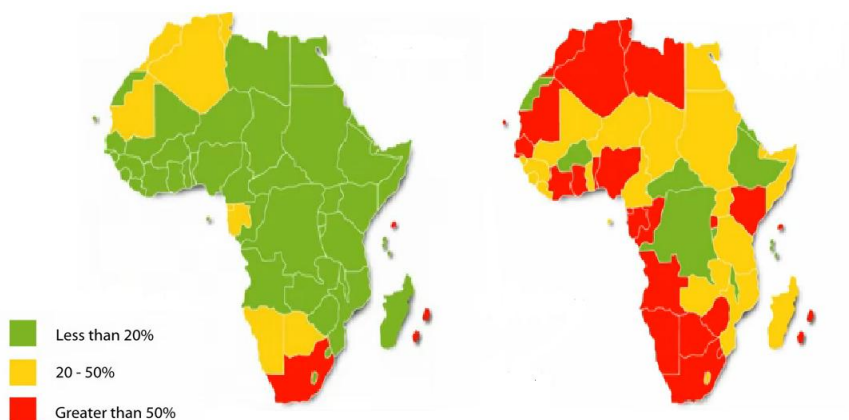
Source: Internet World Stats



Mobile Penetration in Africa

Q4 2005

Q3 2010



Source: Africa & Middle East Telecom News, Blycroft



Average Annual Growth Rate in GDP (%) by Sector

	1981-1993	1993-2001	2001-2011
Agriculture *	0.6	1.2	2.1
Mining *	-0.2	-0.6	0.0
Manufacturing *	-0.4	3.1	2.3
Electricity *	3.5	1.8	2.4
Construction	-2.8	1.8	7.7
Trade Sectors	0.7	3.9	3.6
Transport & Comms	0.8	6.7	4.7
Financial Services	2.0	4.7	5.5
Personal Services	2.6	1.1	3.1
General Government	2.6	0.1	3.1
TOTAL	0.6	2.9	3.6

* Export oriented sectors

Source: Stats SA



**Public Sector Infrastructure Expenditure by Sector (R' bn)
2012/13 - 2014/15**

	Total	% of Total
Economic Services	677.1 (664.1)	80.2
- Energy	296.2 (291.4)	35.1
- Water & Sanitation	75.2 (80.4)	8.9
- Transport & Logistics	262.0 (212.1)	31.0
- Other	43.6 (80.2)	5.2
Social Services	140.2 (108.7)	16.6
- Health	36.0 (46.0)	4.3
- Education	40.7 (30.7)	4.8
- Community Facilities	57.6 (20.2)	6.8
- Other	5.9 (11.8)	0.7
Justice & Protection Services	10.6 (20.6)	1.3
Central Govt Admin & Financial Services	16.6 (15.2)	2.0
Total	844.5 (808.6)	100

() Budget 2011 for 2011/12-2013/14

Source: National Treasury



Key Projections
Feb 12 Budget vs MTBPS 11

	2011/12	2012/13	2013/14	2014/15	Cumulative 2011/12 - 2013/14
Plus: State Owned Enterprises <i>(Funding of Non-Financial Public Enterprises)</i>	68.2 <i>(73.7)</i>	76.9 <i>(79.7)</i>	77.5 <i>(78.9)</i>	74.1 <i>(63.8)</i>	296.7 <i>(296.1)</i>

() MTBPS 2011

Source: National Treasury



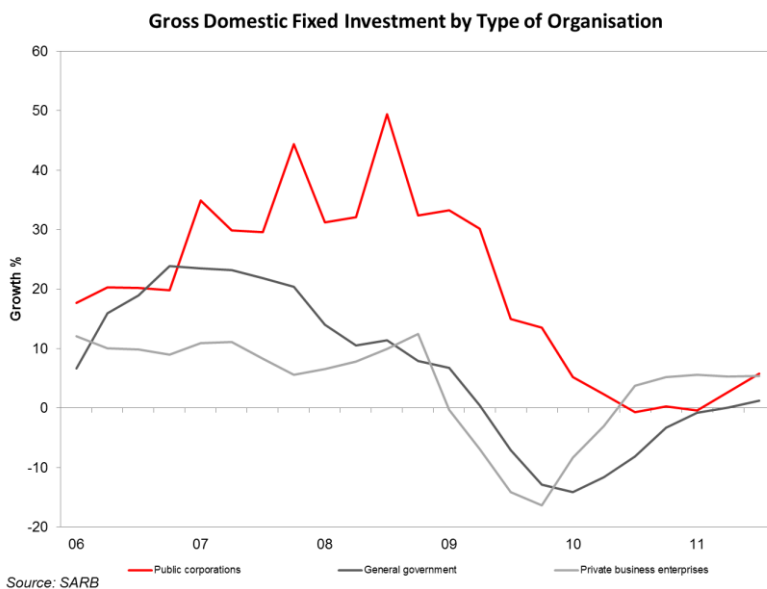
Public Sector Infrastructure Expenditure by Area of Responsibility
Percentage Spent

	2008/09	2009/10	2010/11
National departments	90.3%	89.6%	99.8%
Provincial departments	82.8%	90.5%	85.6%
Local government	85.1%	82.9%	73.2%
Parastatals	114.6%	78.9%	60.1%
<i>of which</i>			
Transnet	96.7%	84.0%	94.2%
Eskom	91.0%	68.5%	84.6%
CEF	17.6%	15.8%	2.0%
Total	98.6%	83.0%	68.3%

Source: National Treasury



Inability of Govt to Implement Infrastructural Investment



Central Government Spending Growth %

	2012/13	2013/14	2014/15
Compensation of employees	7.1	6.3	7.1
Debt-service cost	16.6	12.8	8.2
Transfers and subsidies	8.6	9.3	7.2
Payments for capital assets	3.7	6.3	9.3
Goods & Services	7.2	7.9	6.6
Total expenditure	8.8	8.6	7.9

Source: National Treasury

Central Government Expenditure % of Total

	2012/13	2013/14	2014/15
Compensation of employees	35.1	34.3	33.7
Debt-service cost	8.4	8.8	8.8
Transfers and subsidies	32.2	32.4	32.2
Payments for capital assets	6.7	6.6	6.7
Goods & Services	16.2	16.1	15.9
Total expenditure	100.0	100.0	100.0

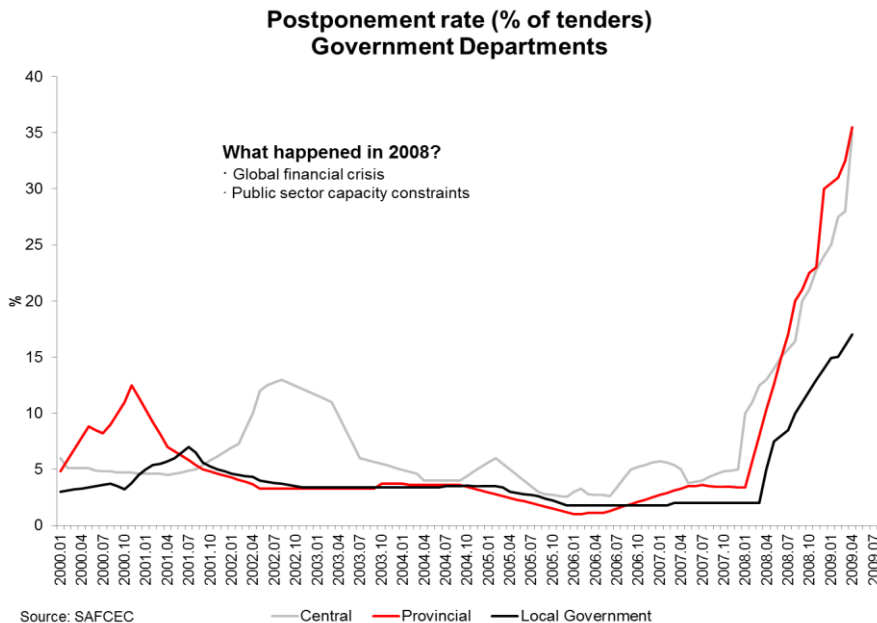
Source: National Treasury



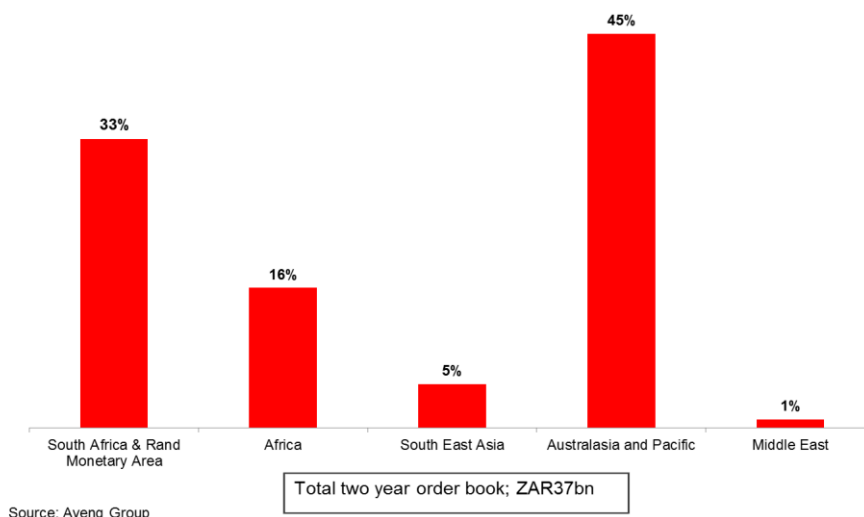
Challenge is Delivery

Industry Tipping Point

- Infrastructure spend has declined
- Job losses
- Declining financial strength of construction companies
- Work on hand moving outside of South Africa
- Significant loss of skills to foreign markets
- Supply side constraints/backlogs - rail, power, logistics
- Ageing engineering fraternity - younger engineers; experience gap



Aveng Group order book (June 2011)
Two year order book by geography



Service Delivery Hampering Investment

- 21% of SACCI respondents believe service delivery problems hampering business
- 66 of 278 municipalities are in financial distress
- 37 more are on the borderline of financial distress
- 7 of 237 municipalities received unqualified reports in 2009/10
- SACCI survey service delivery problems:-
 - Road maintenance 39.7%
 - Electricity distribution 32.9%
 - Water & sanitation 12.3%
 - Parks & recreation 11.0%
 - Solid waste removal 4.1%



Gauteng Freeway Improvement Project (GFIP)

- Currently 19% (3170kms) of national roads (16,600kms) tolled. GFIP to account for just 2.6% of network
- 23% of population of Gauteng to use network
- R15m per hour being lost due to congestion
- In 2007, Sanral estimated road maintenance backlog of R149bn
- 20,000 jobs created during road improvement



Gauteng Freeway Improvement Project (GFIP)

- Estimated annual revenue was to be R3.6bn, of which 2/3 is households & 1/3 business
- Original cost of 66c/km was reduced to 49.5c/km with e-tag; 16c/km for public transporters
- Estimated revenue 0.13% of GDP % 0.22% of PCE
 - provides idea of inflationary impact
- Budget reduced cost to just 30c/km with e-tag; taxi's exempt
- Estimated revenue might now only be R2.5bn, or 0.9% of GDP, equal to 0.16% of PCE
- Implies inflationary impact far smaller than most speculate



Gauteng Freeway Improvement Project (GFIP)

- Repayment time of loan being 20yrs is being contested
 - could it be shorter
- SANRAL argues using increased fuel levy inequitable, hitting the poor
- Revising fuel levy by 20c/l would raise inflation by 0.08% directly
- Business argues administrative ease of collection should have favoured fuel levy route
- Huge concerns about security & collections of tolls
- Politicians clearly didn't market idea well
- Integrated approach with other forms of transport did not receive sufficient attention

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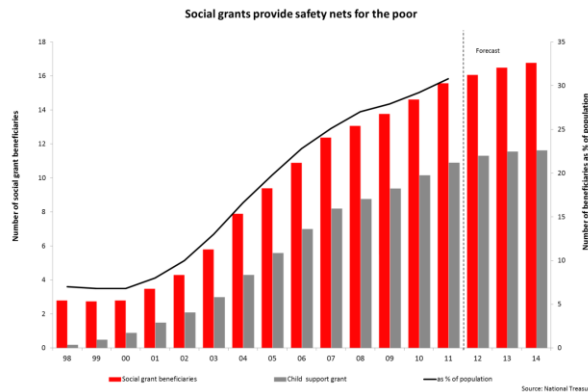
Impediments to Job Creation

- Inadequacy of education & skills development
- Unfriendly labour market environment
- Insufficient focus on small business & entrepreneurship



Increasing Dependency Syndrome

- Access to social grants to rise to 16.8m by 2014
- 6.2m registered taxpayers
- 4.5% of taxpayers account for 37.3% of personal tax
- 22.6% of taxpayers account for 32.0% of personal tax
 - > i.e. 27.1% of taxpayers or 1.7m account for 69.3% of personal tax in population of over 50m

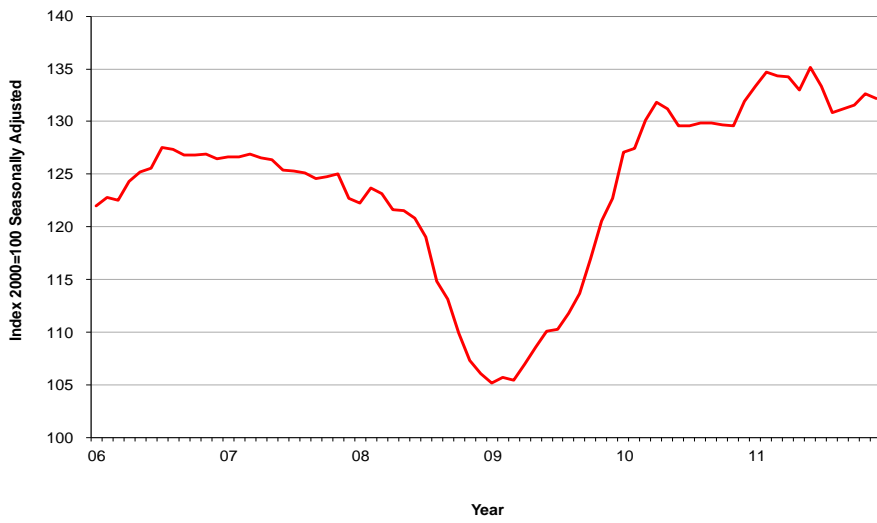


NDP Proposals to Increase Employment & Growth

- **Raise exports** – specifically in mining, construction, mid-skill manufacturing, agriculture & agro-processing, tourism & business services
- **Increase size & effectiveness of innovation system** & closer alignment with companies that operate in sectors consistent with growth strategy
- **Improve functioning of labour market** to help economy to absorb more labour, through reforms & specific proposals concerning dispute resolution & discipline
- **Support small businesses** (better coordination of activities in small business agencies, development finance institutions & public & private incubators)
- **Improve skills base** though better education & vocational training
- **Increase investment** in social & economic infrastructure to lower costs, raise productivity & bring more people into mainstream of economy
- **Reduce regulatory burden** in sectors where pvt sector is the main investor to achieve greater capacity & lower prices
- **Improve capacity** of the state to effectively implement economic policy



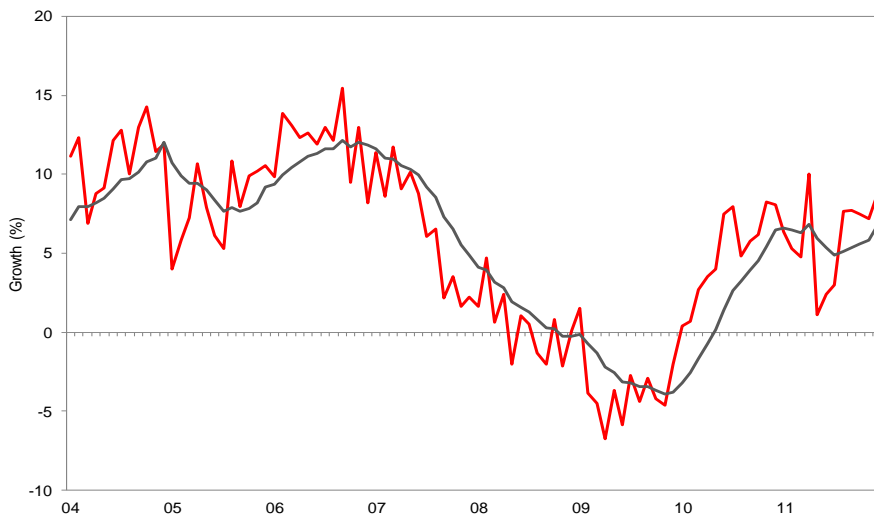
Leading Indicator of South Africa



Source: South African Reserve Bank

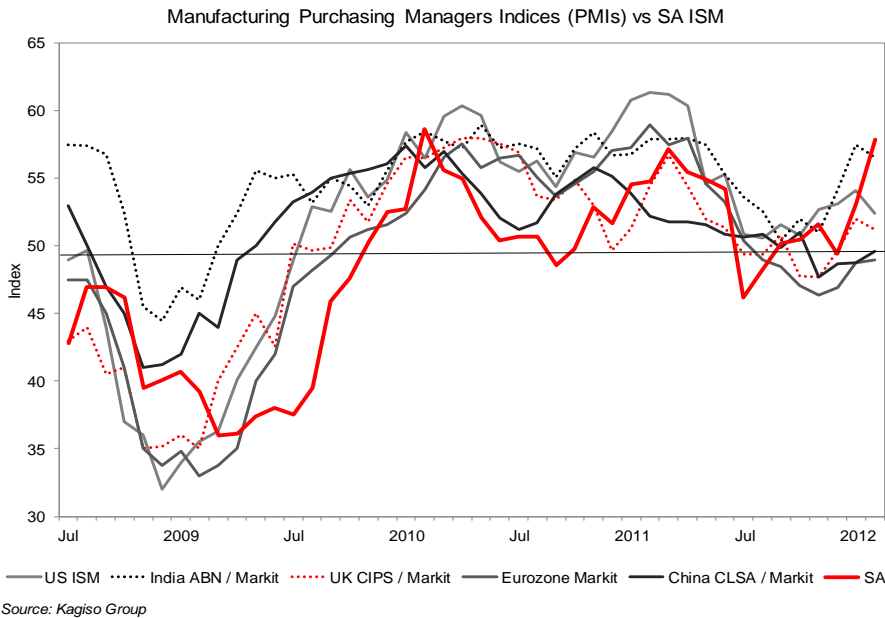


Growth in Retail Sales



Source: Statistics South Africa



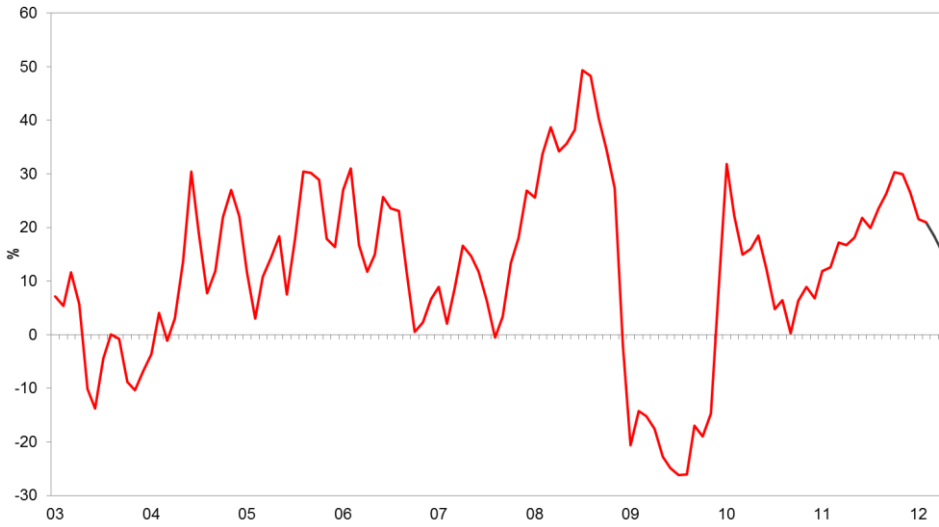


Positives for South African Outlook

- Although growth weaker than other emerging markets, it is likely to outperform developed economies.
- Low government debt levels compared with developed economies
- Sound fiscal & monetary policy being sustained
- Beneficiary of commodity price cycle & African recovery
- Fully fledged democracy, coupled with media freedom & independent judiciary & sanctity of contracts prevent socio-political turmoil
- Magnificent work being done by NGO's
- Private sector still functioning relatively efficiently
- SA invited to join BRICS



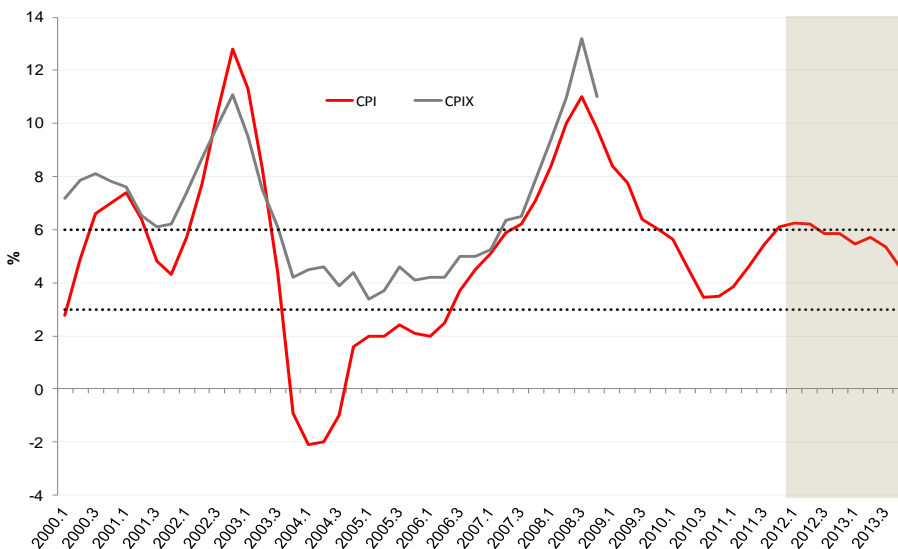
Growth in pump price of petrol : 93 octane Gauteng/
ULP & LRP from January 2006



Source : Department of Energy

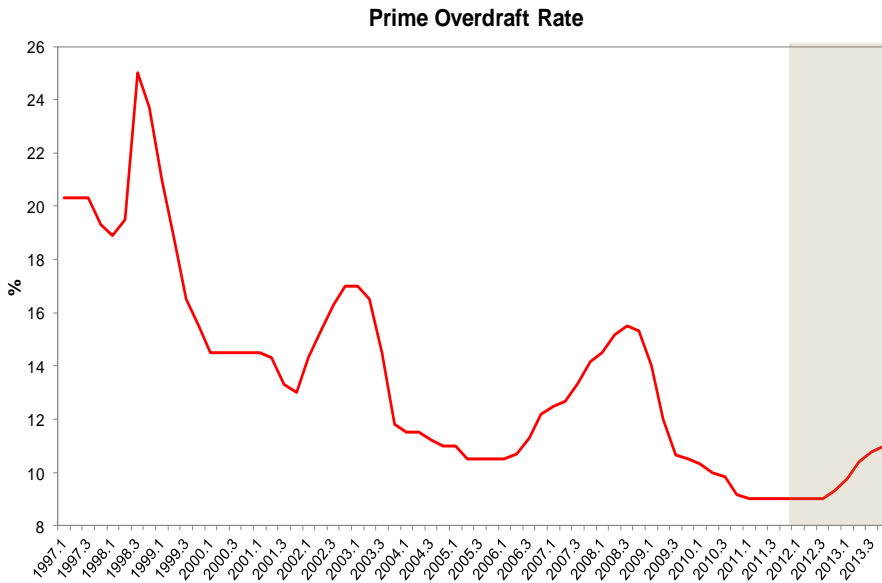


Forecast: CPI vs CPIX



Source: StatsSA, Econometrix





Source: SARB, Econometric



Inflation Prospects Improve

- Recovery in the Rand
- Underrecovery for April falls sharply, from 46cl, to 28cl
- Even with 28cl March hike & 33cl April hike (20cl fuel levy hike, 8cl RAF hike, 5cl underrecovery), petrol inflation to decline (to 11.8% by May, from 21.6% in January)
- Petrol to knock 0.4% off inflation by May
- Decline in maize & wheat prices to temper food inflation
- 25% electricity tariff hike not a done deal yet (Eskom sitting on cash pile)
- From 2013 onwards, electricity tariff hikes could be 8 – 10%
- Toll fees to add just 0.2% to inflation (R2.5bn out of R1.5tn PCE)



-THANK YOU-

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