

## Economic Analysis and Prospects

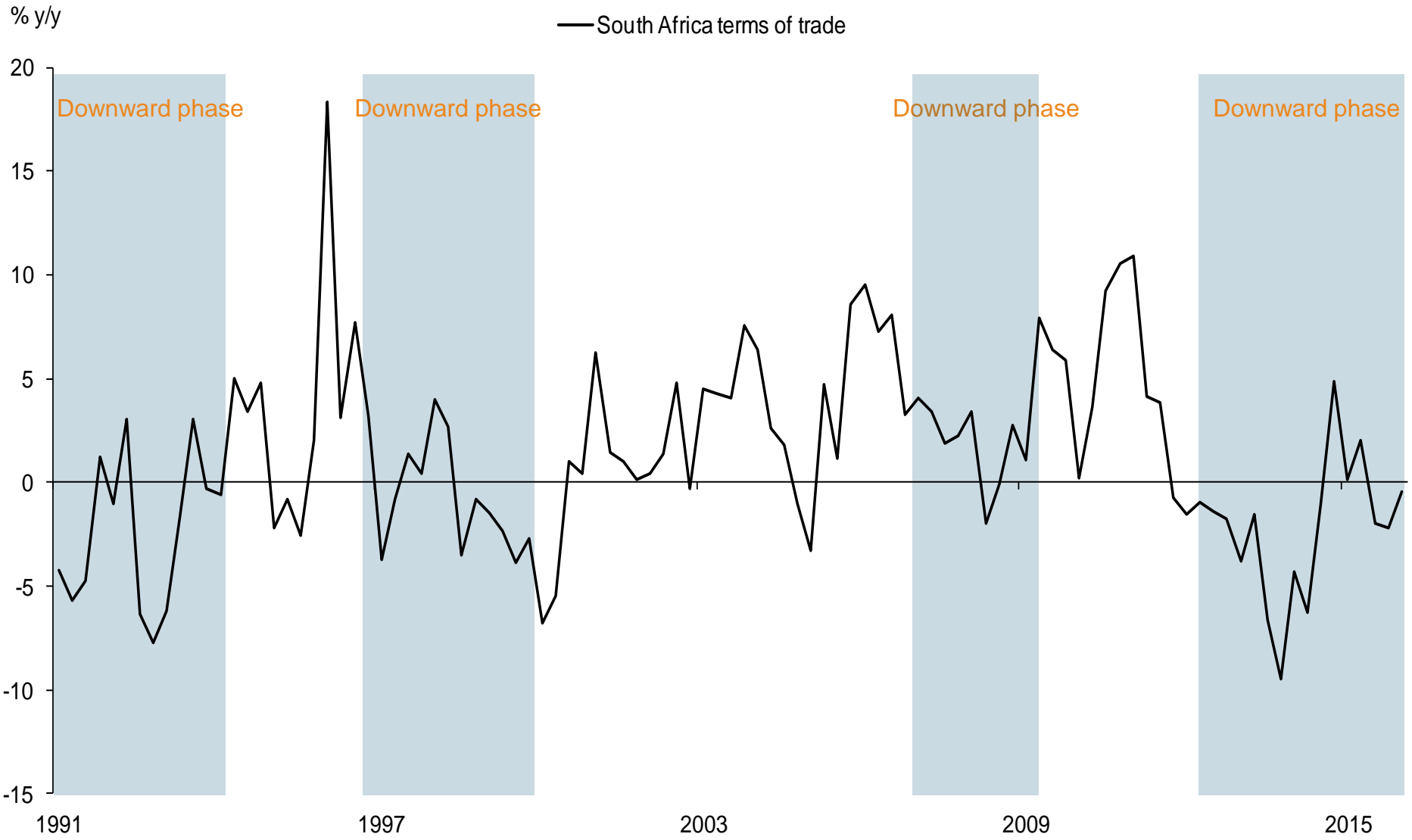


Ettienne Le Roux, chief economist

June 2016



# Falling terms of trade coinciding with economic downswings

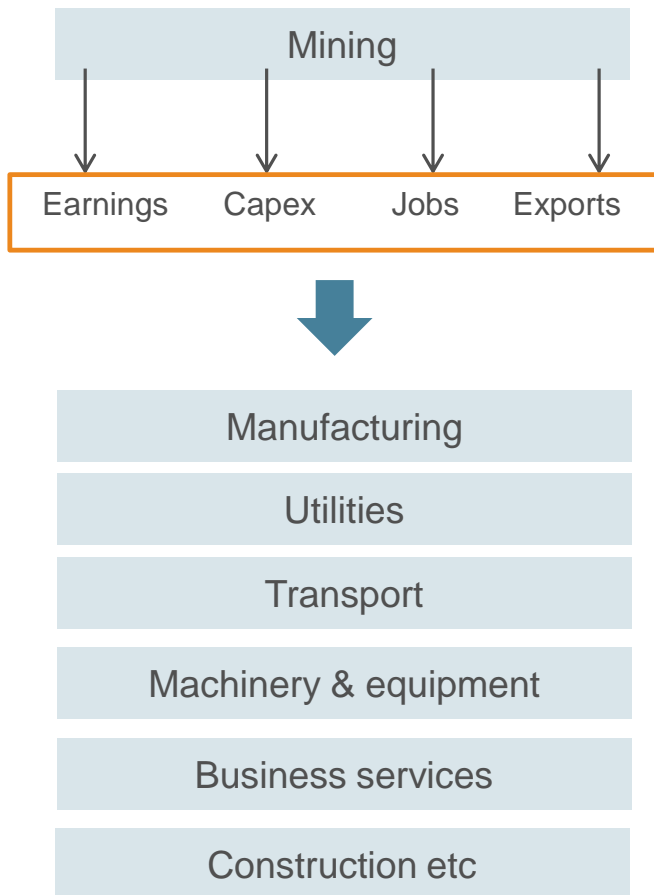


Source: SARB



# Explaining the mechanics

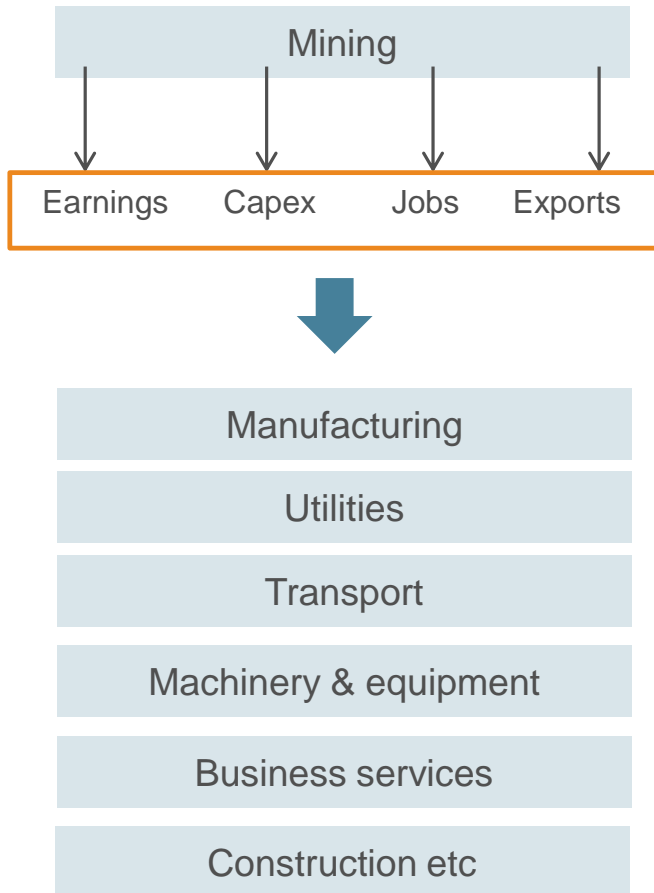
## Sector impact



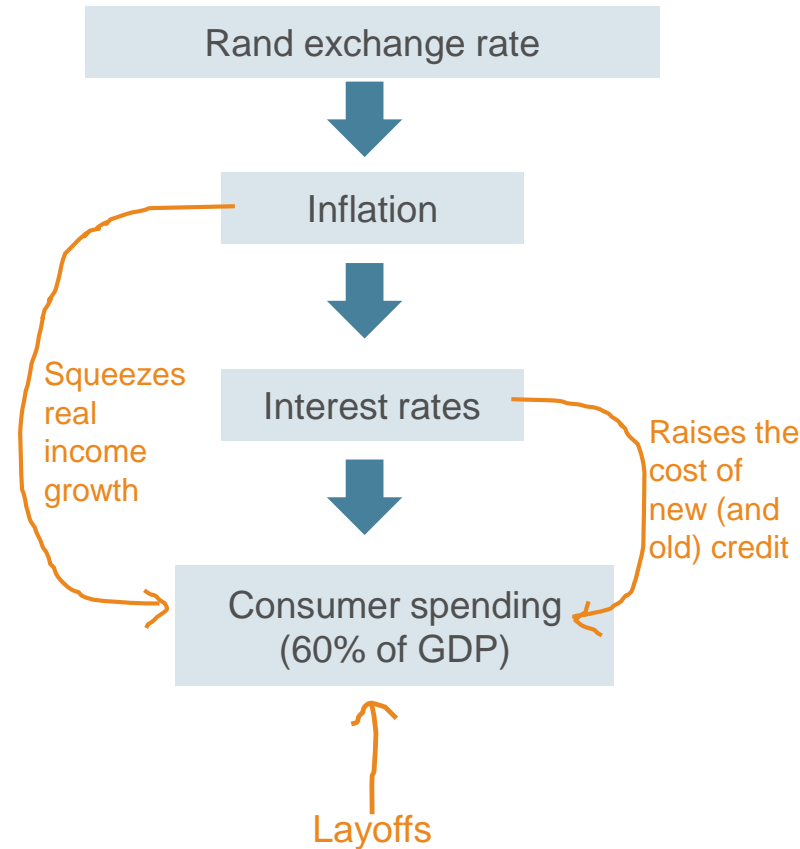


# Explaining the mechanics

## Sector impact

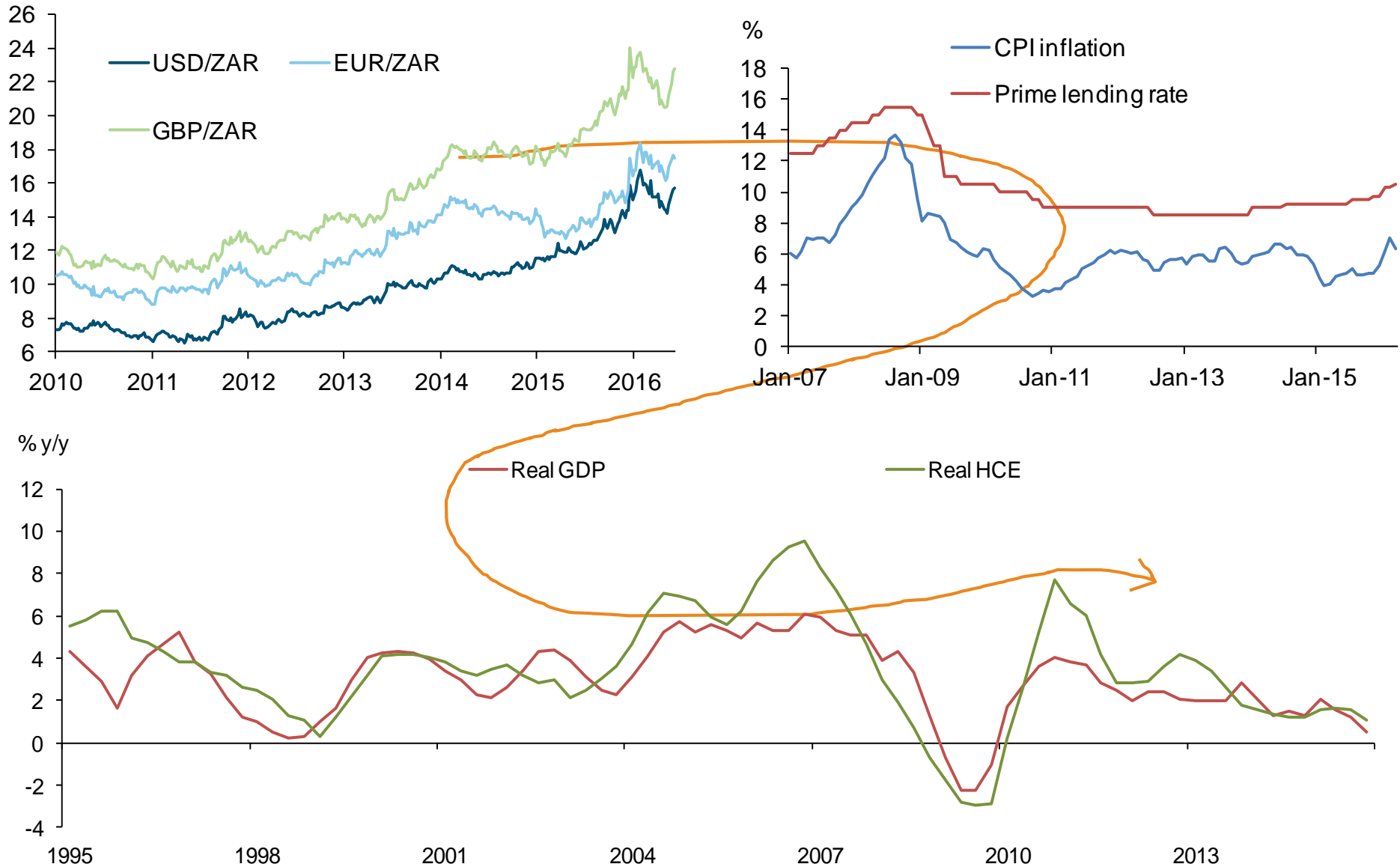


## Macroeconomic impact



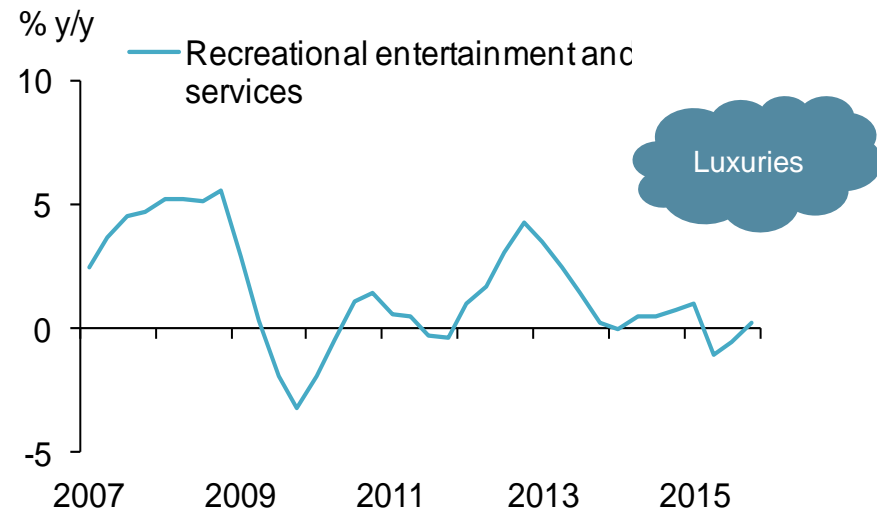
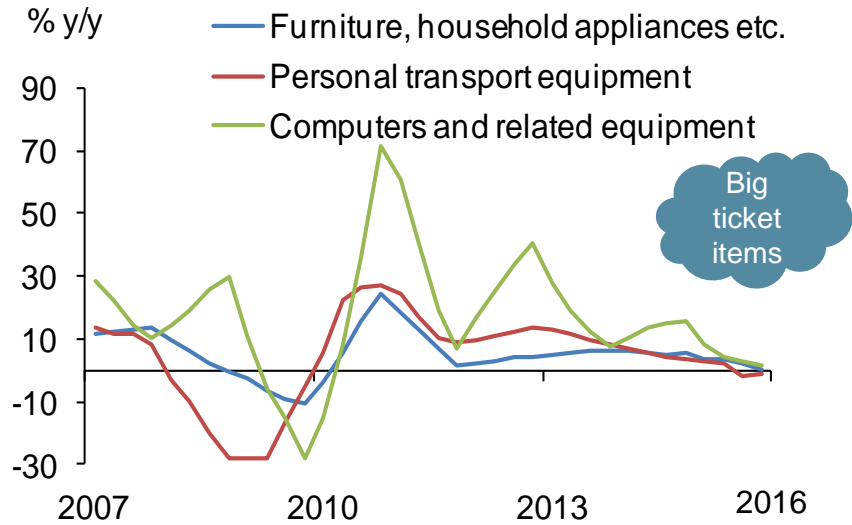


# The macroeconomic impact for example is clear in the data



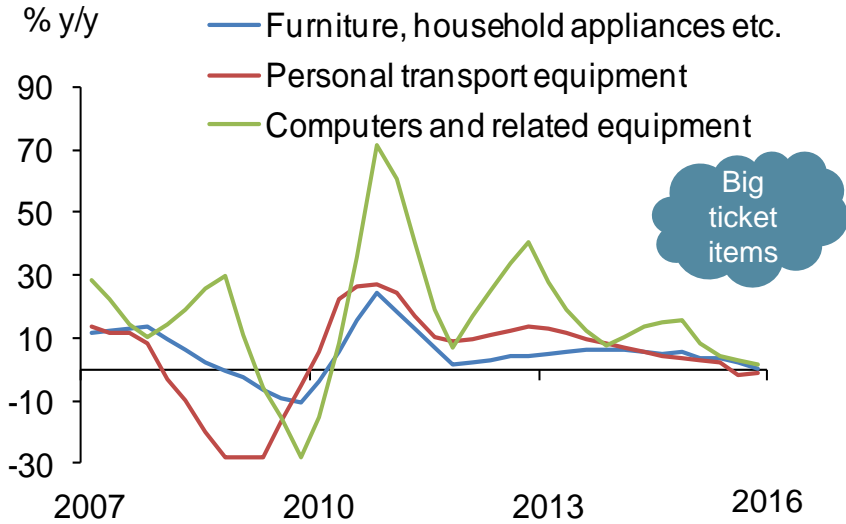


# From consumerism to conservatism

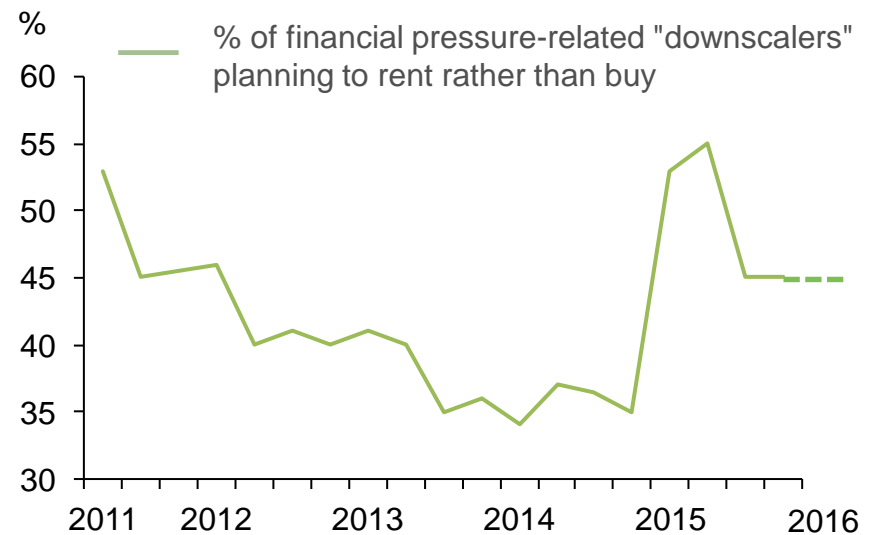
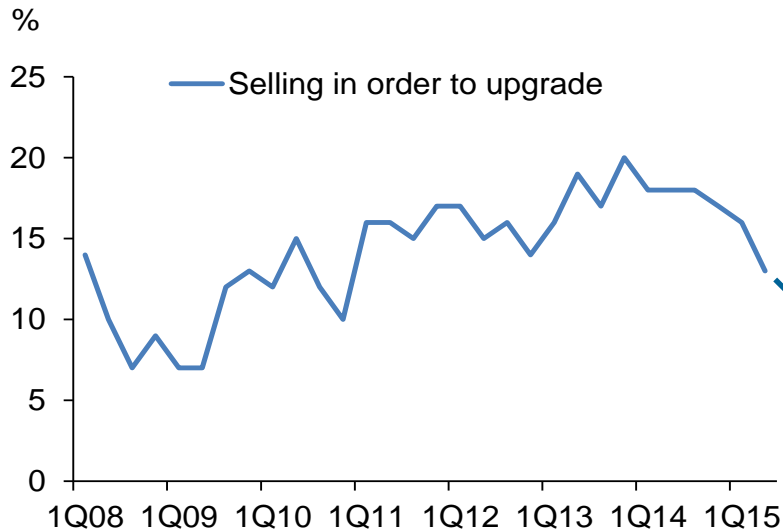




# From consumerism to conservatism

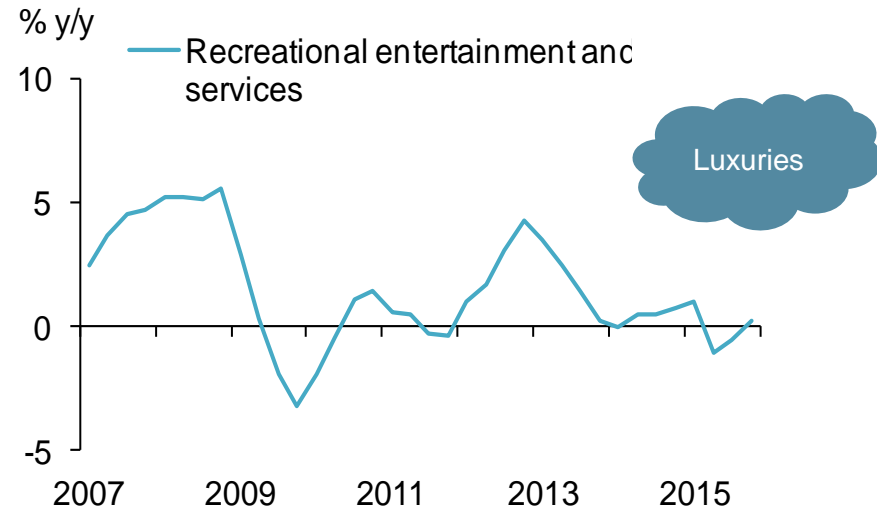
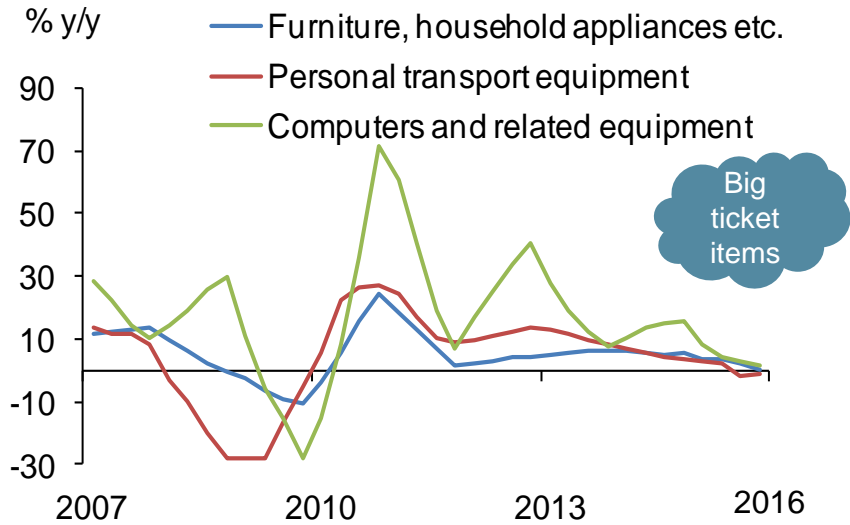


## Similar patterns in the residential property market

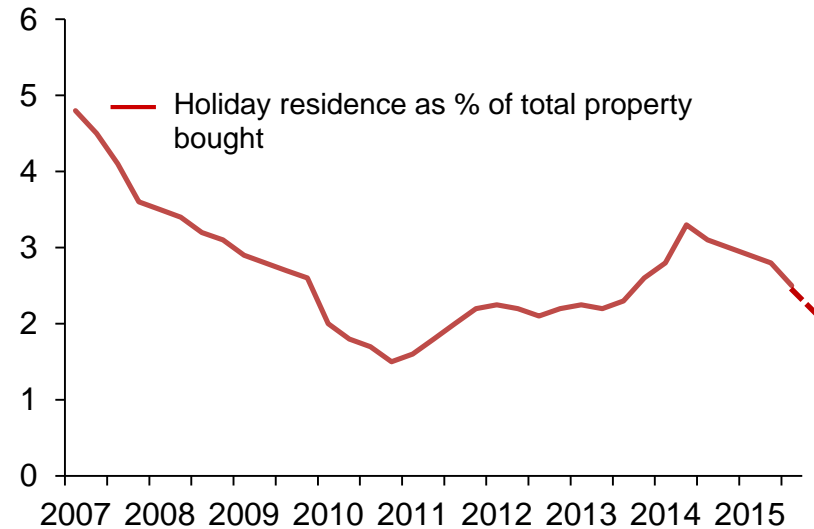
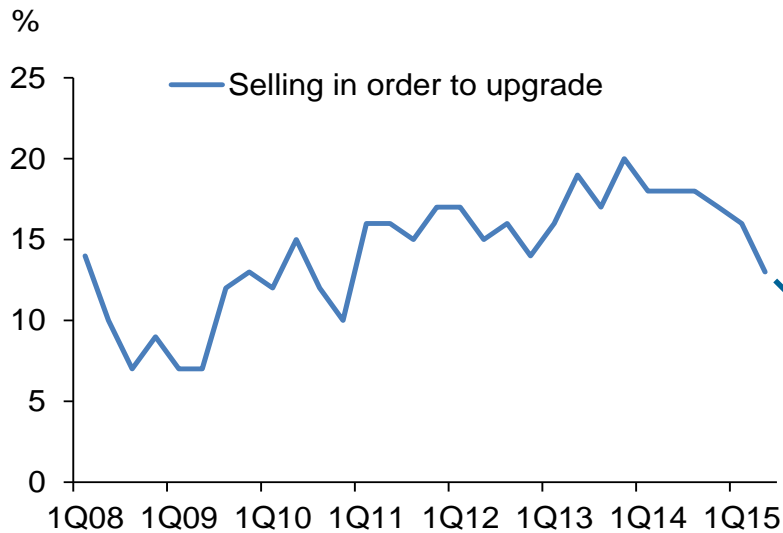




# From consumerism to conservatism



## Similar patterns in the residential property market







## Signs that :

More and more “downscalers” are choosing to rent rather than buy

Cars are increasingly being financed over longer periods

Consumers are ever more downshifting to cheaper medical aid plans

Consumers are increasingly accessing their pension and provident funds when switching jobs

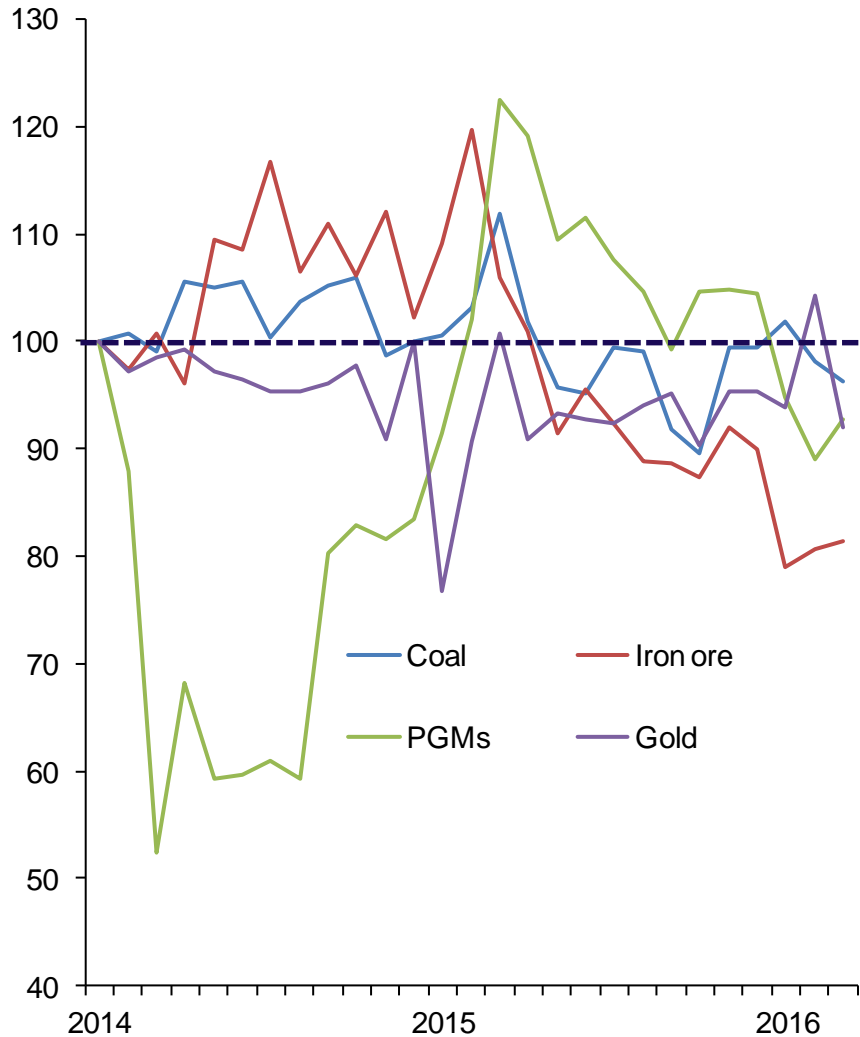
Consumers are making changes to short term insurance policies to reduce monthly payments etc



# Evidence of life on the export front

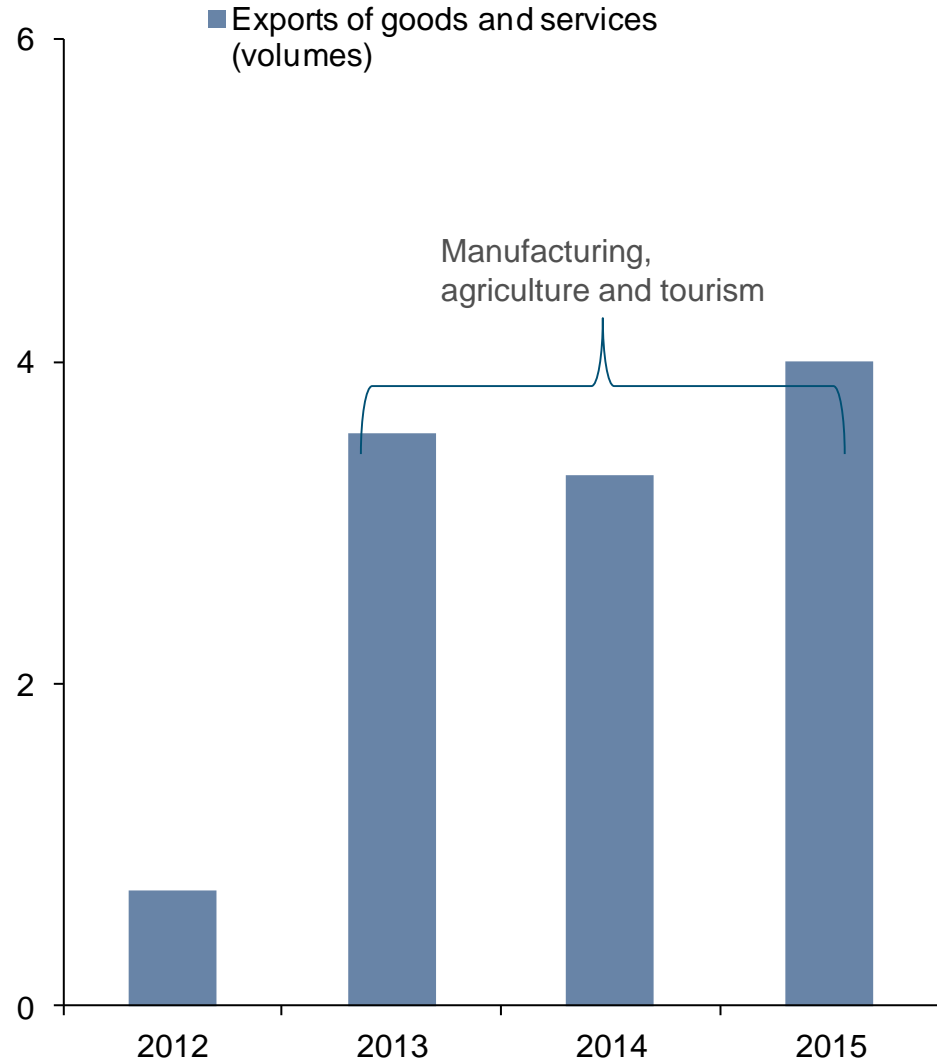
## Despite mining output being a drag

Index (volumes)



## Exports in aggregate is growing

%





# Industries that are doing relatively well despite the downturn

## Winners/ coping

### Agriculture

- Exporters of citrus, fruit, nuts etc

### Tourism

### Mining

- Building materials (sand, stone etc)

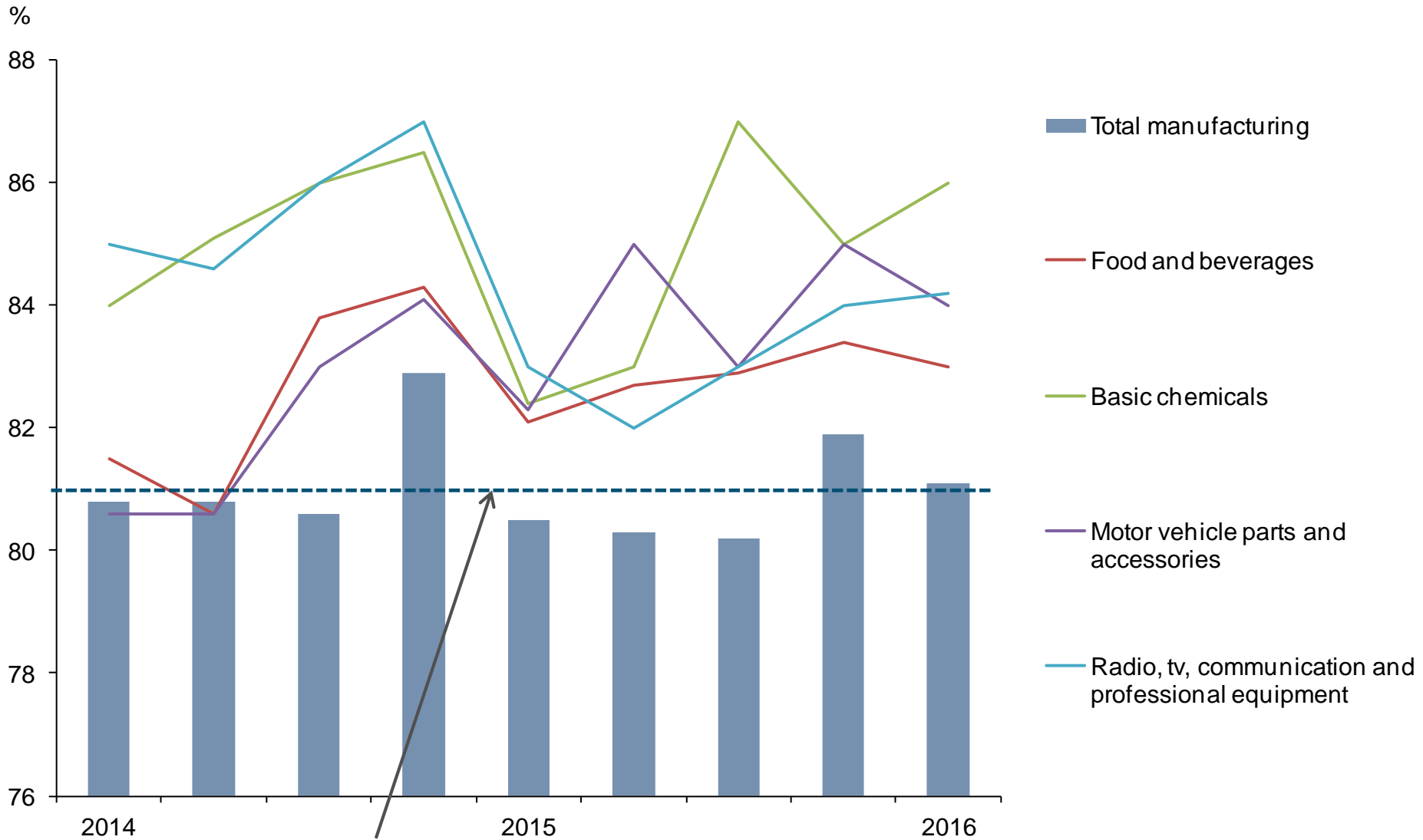
### Manufacturing

- Beverages
- Basic chemicals
- Motor vehicle parts and accessories
- Radio and TV communication apparatus
- Sawmilling and planing of wood

High and/or rising capacity utilisation rates



# Capacity utilisation rates by industry



Average for total manufacturing since downturn began in December 2013



# Industries that are doing relatively well despite the downturn

## Winners/ coping

### Utilities

- Renewable energy (and suppliers into this sector)

### Construction

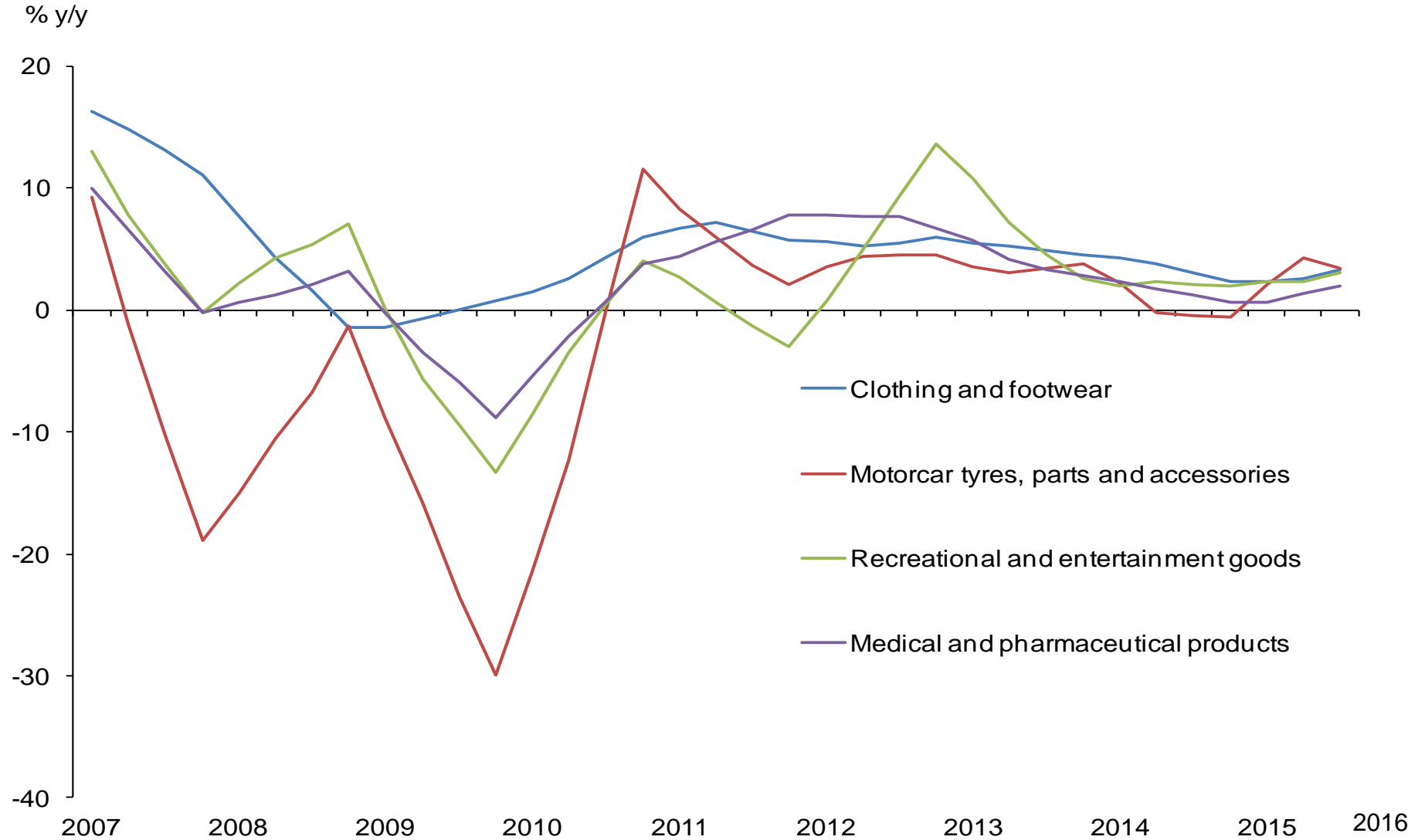
- Property developers in the “gap-market”, mid-sized residential property market (to buy and/or rent)/ student accommodation, retirement villages etc

### Retail

- Clothing and footwear
- Medical and pharmaceutical products
- Sports equipment and camping gear, hobbies etc
- Motor tyres, parts and accessories

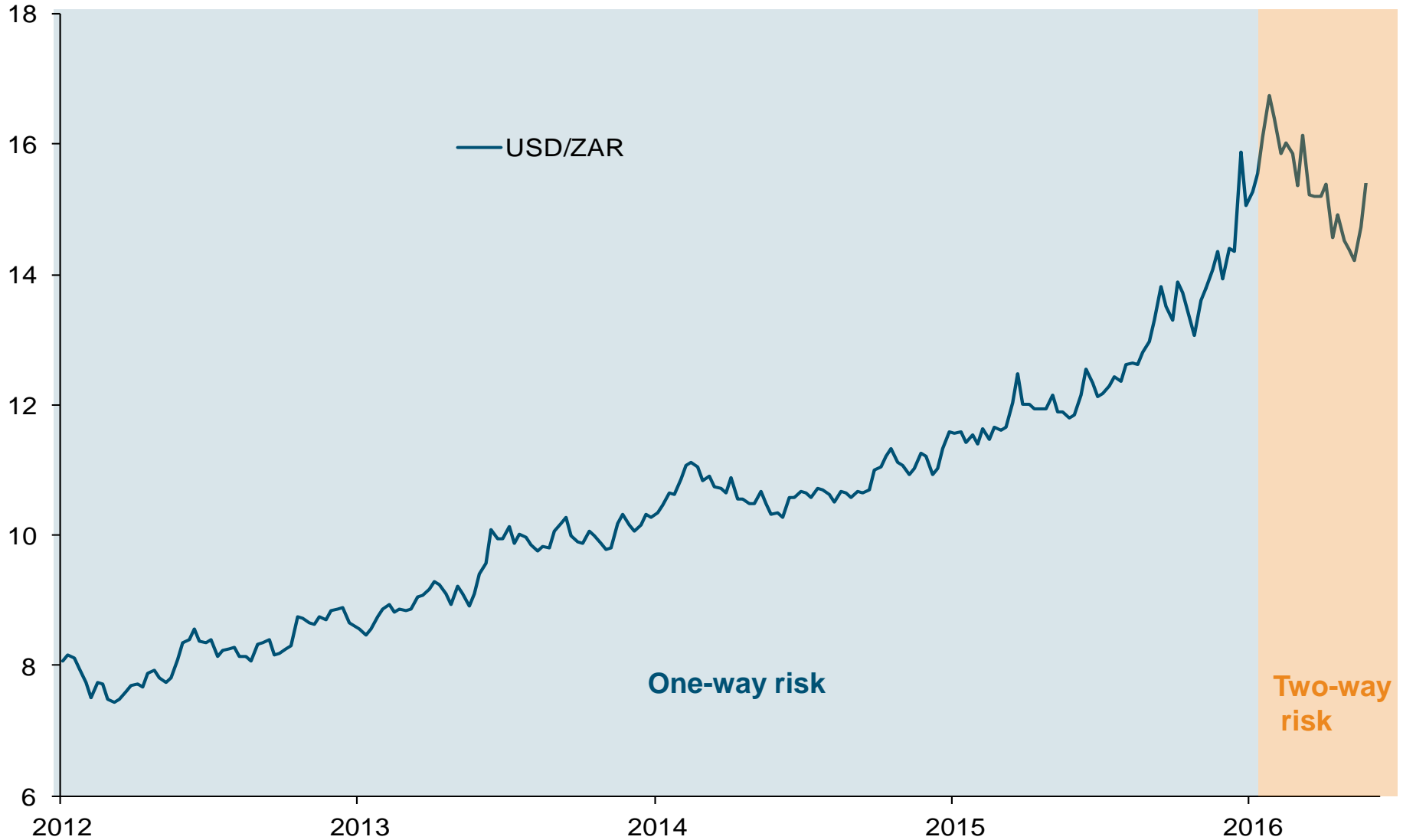


# Still decent volume growth despite challenging times





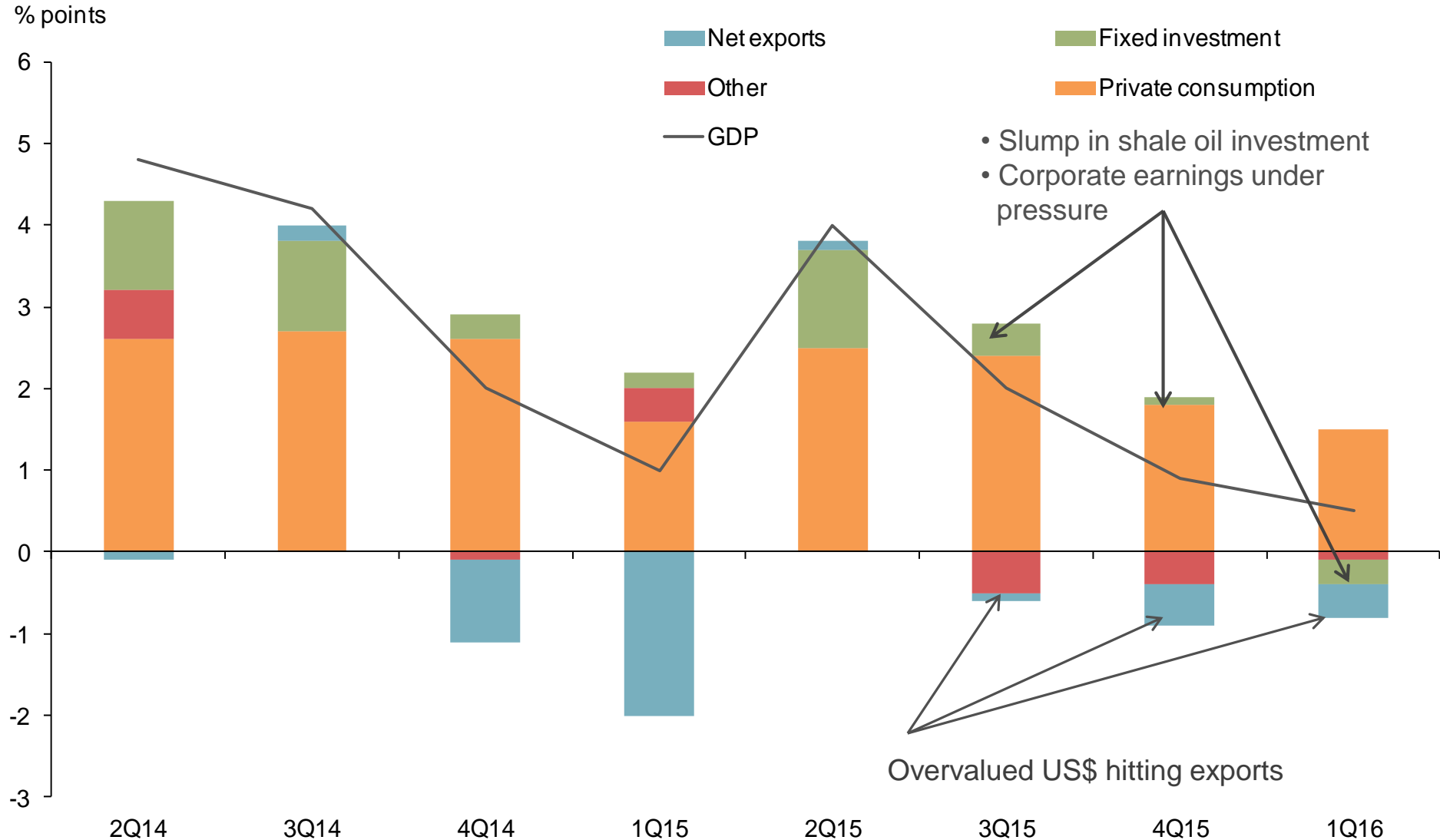
# More two-way risk on the rand





# Why? Rising doubts about the strength of the US recovery

## Contributions to quarterly US GDP growth







# Why? Concerns are easing about a hard landing in China

## Signs of stimulus starting to take effect

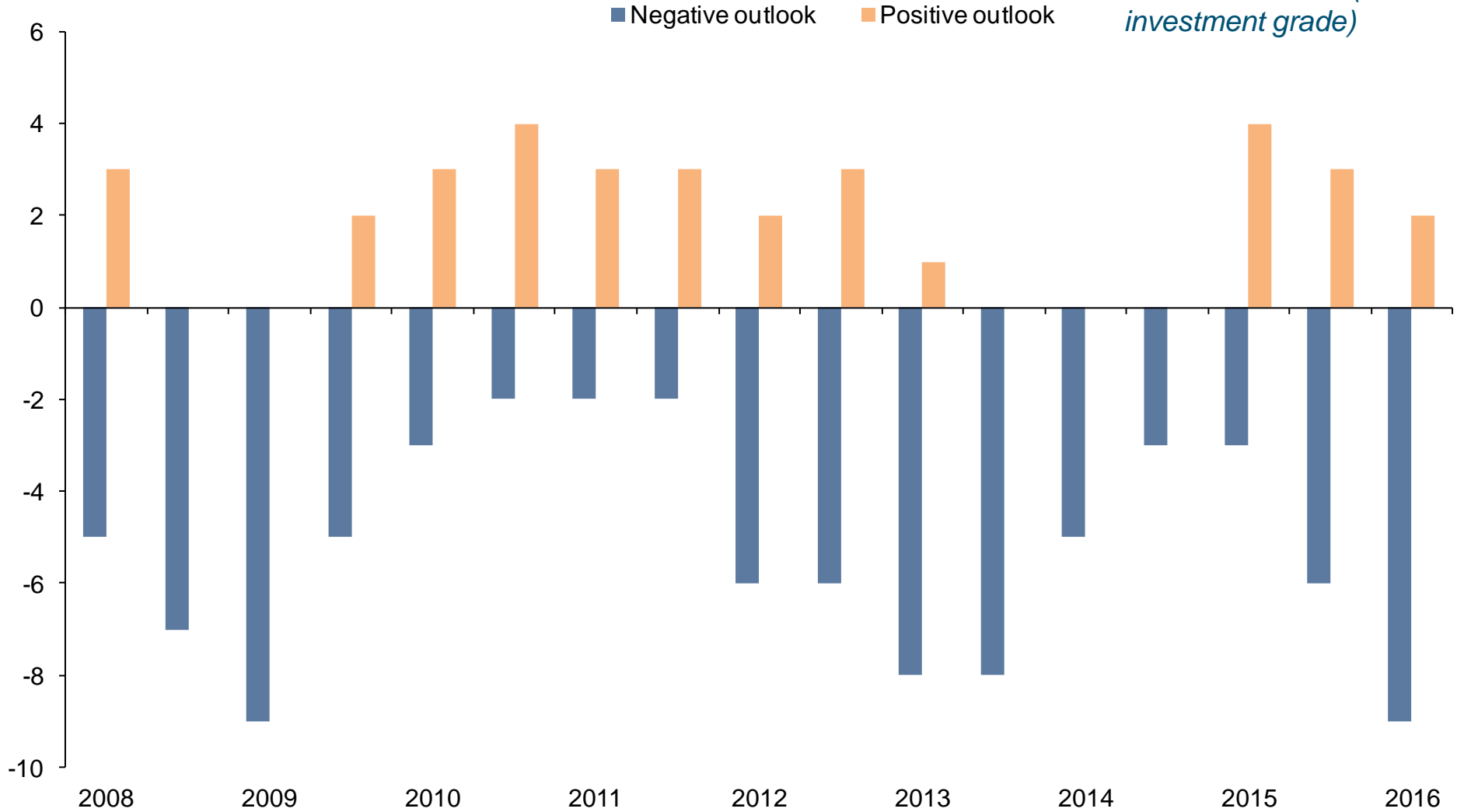




# Outlook distribution of 20-largest sovereign borrowers rated by S&P

★ Average foreign currency rating of this EM group has fallen to BB+ (or sub-investment grade)

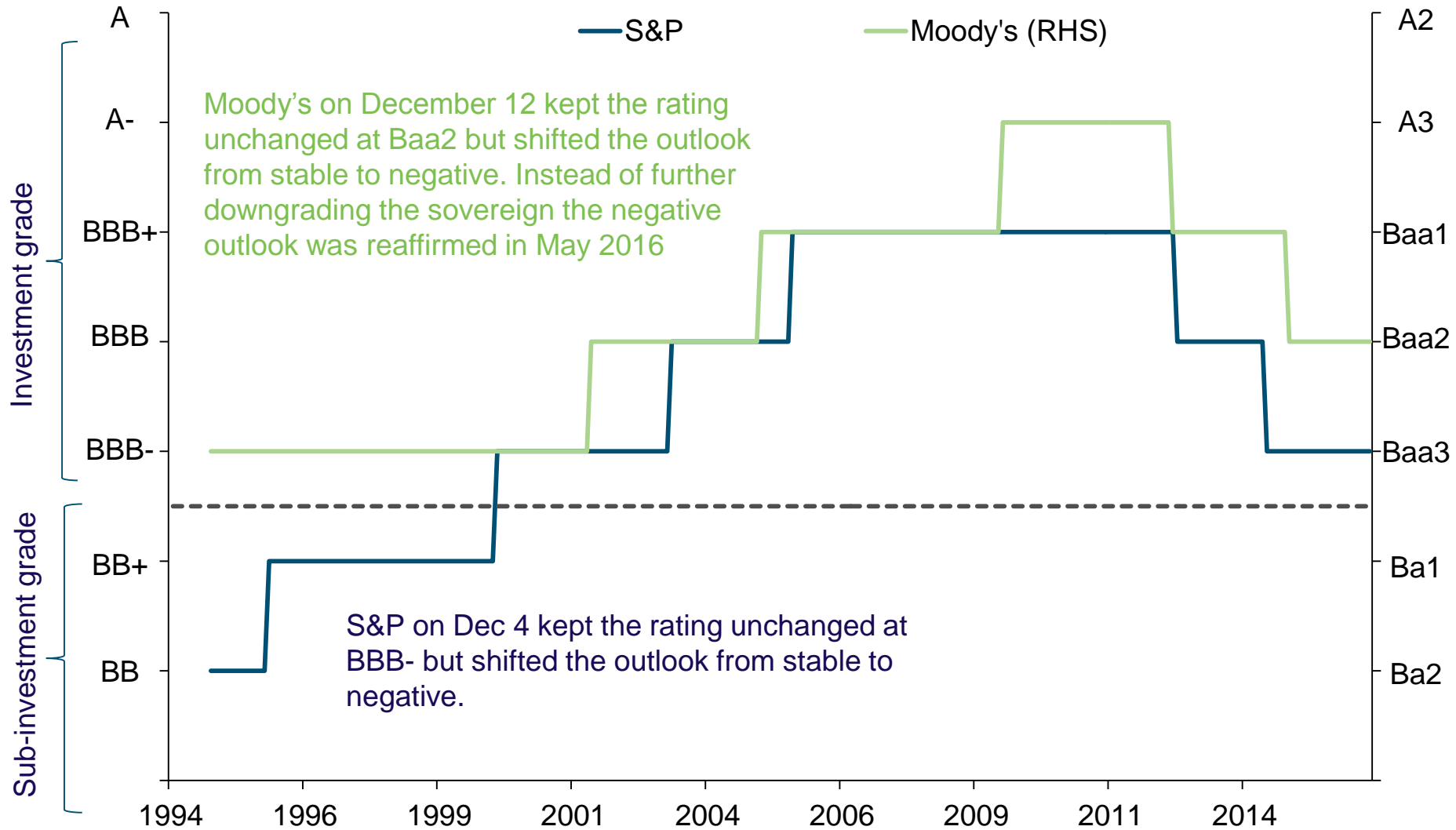
Number of 20-largest EM countries





# SA's foreign currency (FC) rating history

Downgrades started in 2012



Source: S&P, Moody's, Fitch, I-Net Bridge



# SA's local currency (LC) rating status

Distinctly better rated



It's the local currency rating that for example determines SA's inclusion in the Citibank World Government Bond Index

Both S&P and Moody's have to cut SA's local currency rating to sub-investment grade before SA will lose its spot

S&P

Moody's

Foreign currency rating

BBB- (negative outlook)

BBB (negative outlook)

Local currency rating

BBB+ (negative outlook)

BBB (negative outlook)

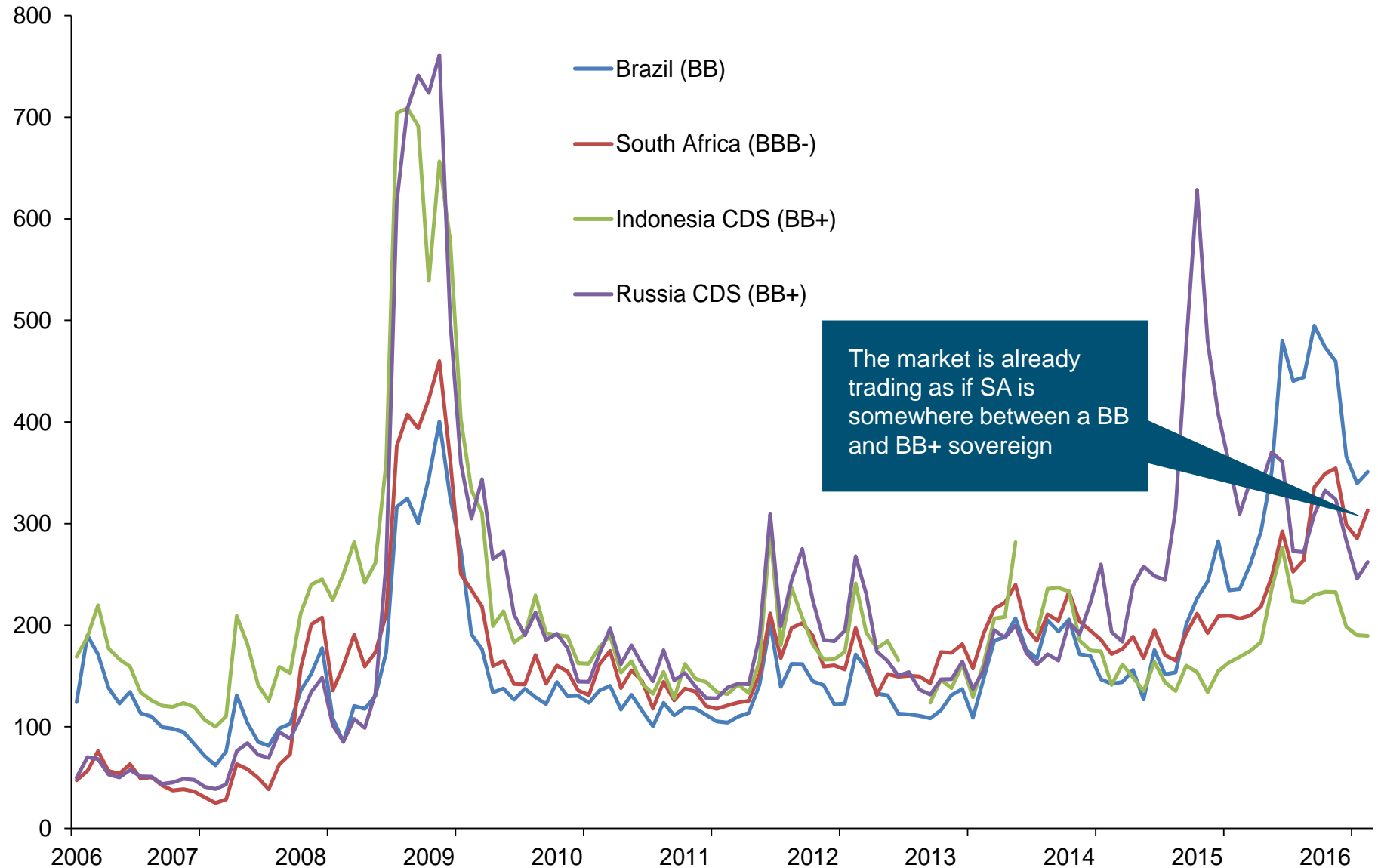
Two notches higher

The same rating



# Is FC sub-investment grade already in the price?

5-year CDS basis point spread



The market is already trading as if SA is somewhere between a BB and BB+ sovereign



# Why did Moody's refrain from further cutting SA's FC rating?

## Some growth boosting initiatives highlighted in the February Budget

- To expand IPP model of renewable energy into gas and coal
- To launch Invest SA
- CCMA to take a more active role in settling labour disputes
- To merge/rationalise SOEs to save costs and improve efficiencies
- To ease the VISA regime
- To ensure migration policy helps ease the skills constraints
- To modernise public tendering processes to cut corruption and save costs

## Progress report

- DOE will canvas IPPs' appetite to help develop, operate and finance three new solar parks and a new 600 MW gas-fired power generation project in partnership with SOEs
- Happened already
- Examples of success in the recent Comair and Pikitup strikes
- SAA and SA Express, Broadband Infracore and Sentect etc
- Some regulations have already been relaxed with further adjustments to come
- White Paper on immigration policy will be published in coming months
- Office of the CPO has been expanded from 1 to 125 employees in three years. Success has already been achieved (e.g. detected irregularities in a correctional services contract)



# Macroeconomic forecast summary 2016 - 2018

Low economic growth throughout our forecast horizon: Range 0% - 2%

Inflation averaging around 6% over the next two years: Range 5.5% - 7.5%

Interest rate normalisation to continue: Repo rate peak of around 7.25%

Rand as volatile as ever with a wide trading range: USD/ZAR14 - 17



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July 2012



