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## Economic Review and Outlook 2016

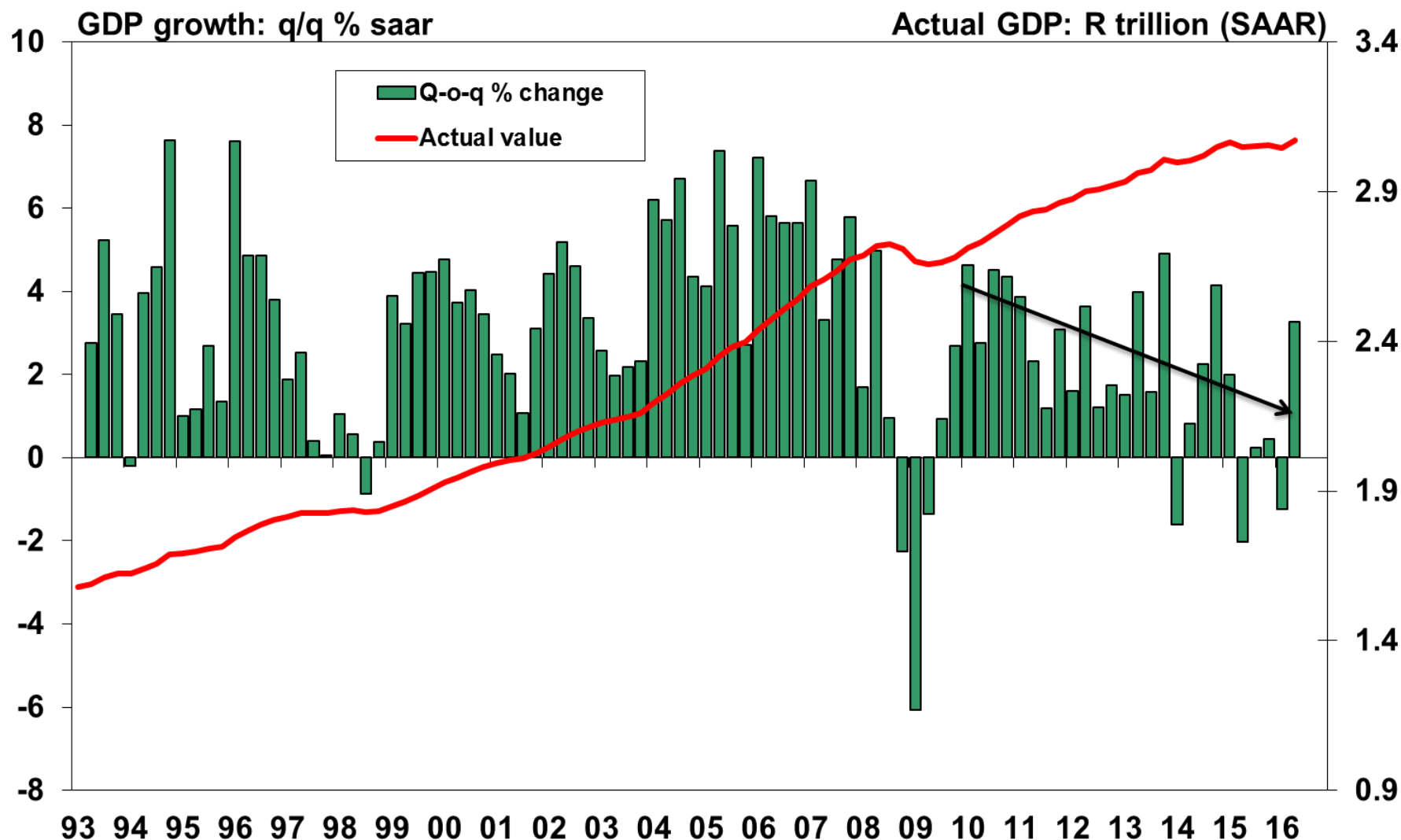
Nicky Weimar

September 2016

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# The economy fared better in Q2 2016, growing 3.3% over the quarter, but still only up 0.6% over the year

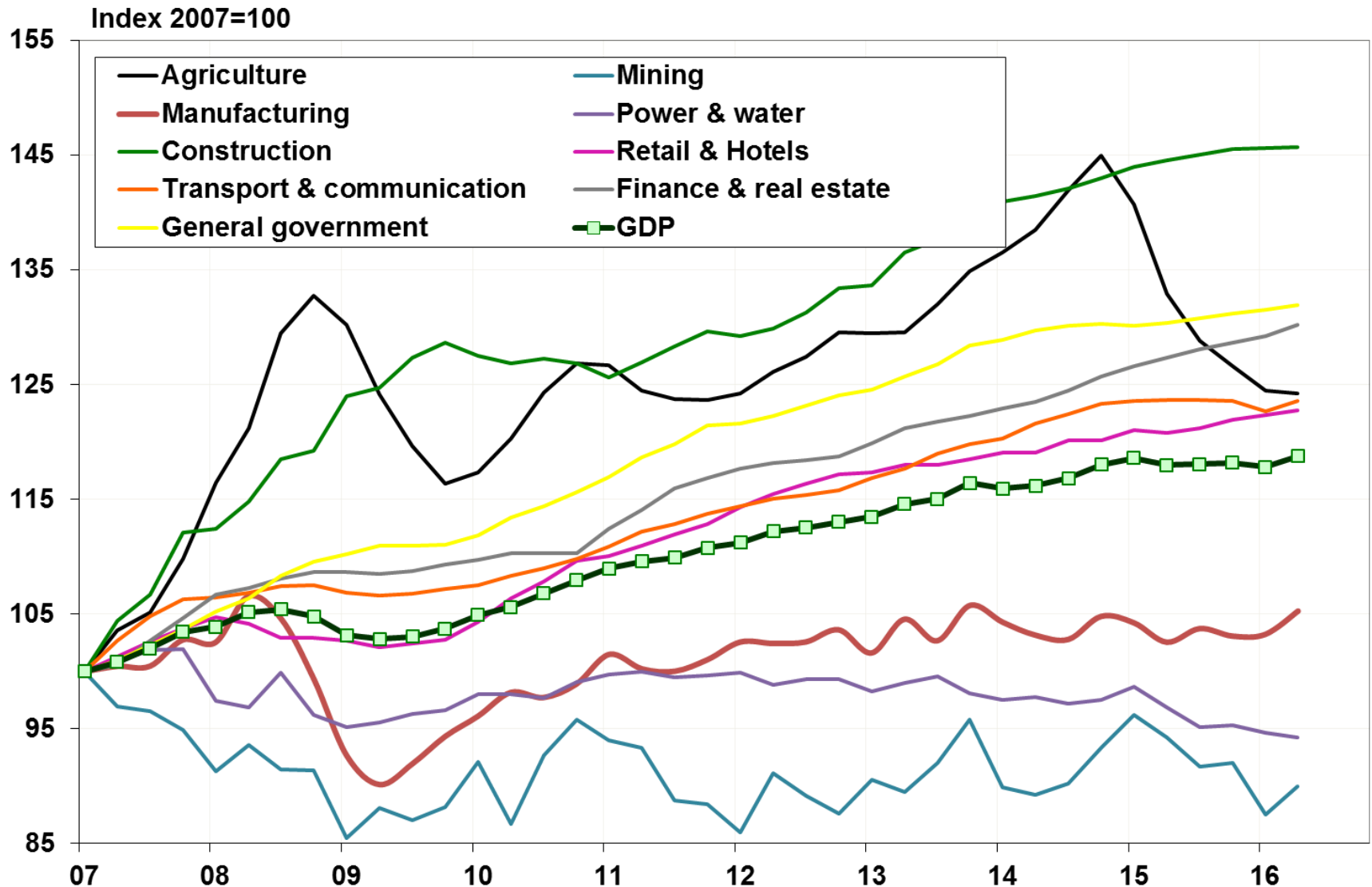
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Source: Stats SA

# Mining and manufacturing improved in Q2, while some stability returned to agriculture

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- Subdued global demand & the slump in global commodity prices

# The IMF's latest forecasts: "too slow for too long"

*Global recovery continues but at an ever-slowing and increasingly fragile pace*

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Countries and regions								Forecasts July 2016		Forecasts April 2016		
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2016	2017	2018
<b>World</b>	<b>-0.1</b>	<b>5.4</b>	<b>4.2</b>	<b>3.5</b>	<b>3.3</b>	<b>3.4</b>	<b>3.1</b>	<b>3.1</b>	<b>3.4</b>	<b>3.2</b>	<b>3.5</b>	<b>3.6</b>
<b>Advanced economies</b>	<b>-3.4</b>	<b>3.1</b>	<b>1.7</b>	<b>1.2</b>	<b>1.2</b>	<b>1.8</b>	<b>1.9</b>	<b>1.8</b>	<b>1.8</b>	<b>1.9</b>	<b>2.0</b>	<b>2.0</b>
US	-2.8	2.5	1.6	2.2	1.5	2.4	2.4	2.2	2.5	2.4	2.5	2.4
Japan	-5.5	4.7	-0.5	1.7	1.4	0.0	0.5	0.3	0.1	0.5	-0.1	0.4
UK	-4.2	1.5	2.0	1.2	2.2	2.9	2.2	1.7	1.3	1.9	2.2	2.2
<b>Euro area</b>	<b>-4.5</b>	<b>2.1</b>	<b>1.6</b>	<b>-0.9</b>	<b>-0.3</b>	<b>0.9</b>	<b>1.6</b>	<b>1.6</b>	<b>1.4</b>	<b>1.5</b>	<b>1.6</b>	<b>1.6</b>
Germany	-5.6	3.9	3.7	0.6	0.4	1.6	1.5	1.6	1.2	1.5	1.6	1.4
<b>Emerging and developing</b>	<b>3.0</b>	<b>7.4</b>	<b>6.3</b>	<b>5.3</b>	<b>4.9</b>	<b>4.6</b>	<b>4.0</b>	<b>4.1</b>	<b>4.6</b>	<b>4.1</b>	<b>4.6</b>	<b>4.8</b>
<b>Developing Asia</b>	<b>7.5</b>	<b>9.6</b>	<b>7.8</b>	<b>6.9</b>	<b>6.9</b>	<b>6.8</b>	<b>6.6</b>	<b>6.4</b>	<b>6.3</b>	<b>6.4</b>	<b>6.3</b>	<b>6.3</b>
China	9.2	10.6	9.5	7.7	7.7	7.3	6.9	6.6	6.2	6.5	6.2	6.0
India	8.5	10.3	6.6	5.6	6.6	7.2	7.3	7.4	7.4	7.5	7.5	7.6
<b>Middle East and N Africa</b>	<b>1.5</b>	<b>5.2</b>	<b>4.6</b>	<b>5.1</b>	<b>2.1</b>	<b>2.6</b>	<b>2.3</b>	<b>3.4</b>	<b>3.3</b>	<b>2.9</b>	<b>3.3</b>	<b>3.4</b>
<b>Sub-Saharan Africa</b>	<b>4.0</b>	<b>6.6</b>	<b>5.0</b>	<b>4.3</b>	<b>5.2</b>	<b>5.1</b>	<b>3.3</b>	<b>1.6</b>	<b>3.3</b>	<b>3.0</b>	<b>4.0</b>	<b>4.4</b>
South Africa	-1.5	3.0	3.2	2.2	2.2	1.5	1.3	0.1	1.0	0.6	1.2	2.1
Angola	2.4	3.4	3.9	5.2	6.8	4.8	3.0	n/a	n/a	2.5	2.7	3.2
Nigeria	9.0	10.0	4.9	4.3	5.4	6.3	2.7	-1.8	1.1	2.3	3.5	3.9
Zimbabwe	7.5	11.4	11.9	10.6	4.5	3.9	1.5	n/a	n/a	2.7	3.5	3.7
Namibia	0.3	6.0	5.1	5.1	5.7	6.4	4.5	n/a	n/a	4.2	5.8	5.9
<b>Latin America</b>	<b>-1.2</b>	<b>6.1</b>	<b>4.9</b>	<b>3.2</b>	<b>3.0</b>	<b>1.3</b>	<b>0.0</b>	<b>-0.4</b>	<b>1.6</b>	<b>-0.5</b>	<b>1.5</b>	<b>2.1</b>
Brazil	-0.1	7.5	3.9	1.9	3.0	0.1	-3.8	-3.3	0.5	-3.8	0.0	1.1
Mexico	-4.7	5.1	4.0	4.0	1.3	2.3	2.5	2.5	2.6	2.4	2.6	2.8
<b>Emerging and developing Europe</b>	<b>-3.0</b>	<b>4.7</b>	<b>5.4</b>	<b>1.2</b>	<b>2.8</b>	<b>2.8</b>	<b>3.6</b>	<b>3.5</b>	<b>3.2</b>	<b>3.5</b>	<b>3.3</b>	<b>3.3</b>
Russia	-7.8	4.5	4.3	3.5	1.3	0.7	-3.7	-1.2	1.0	-1.8	0.8	1.0

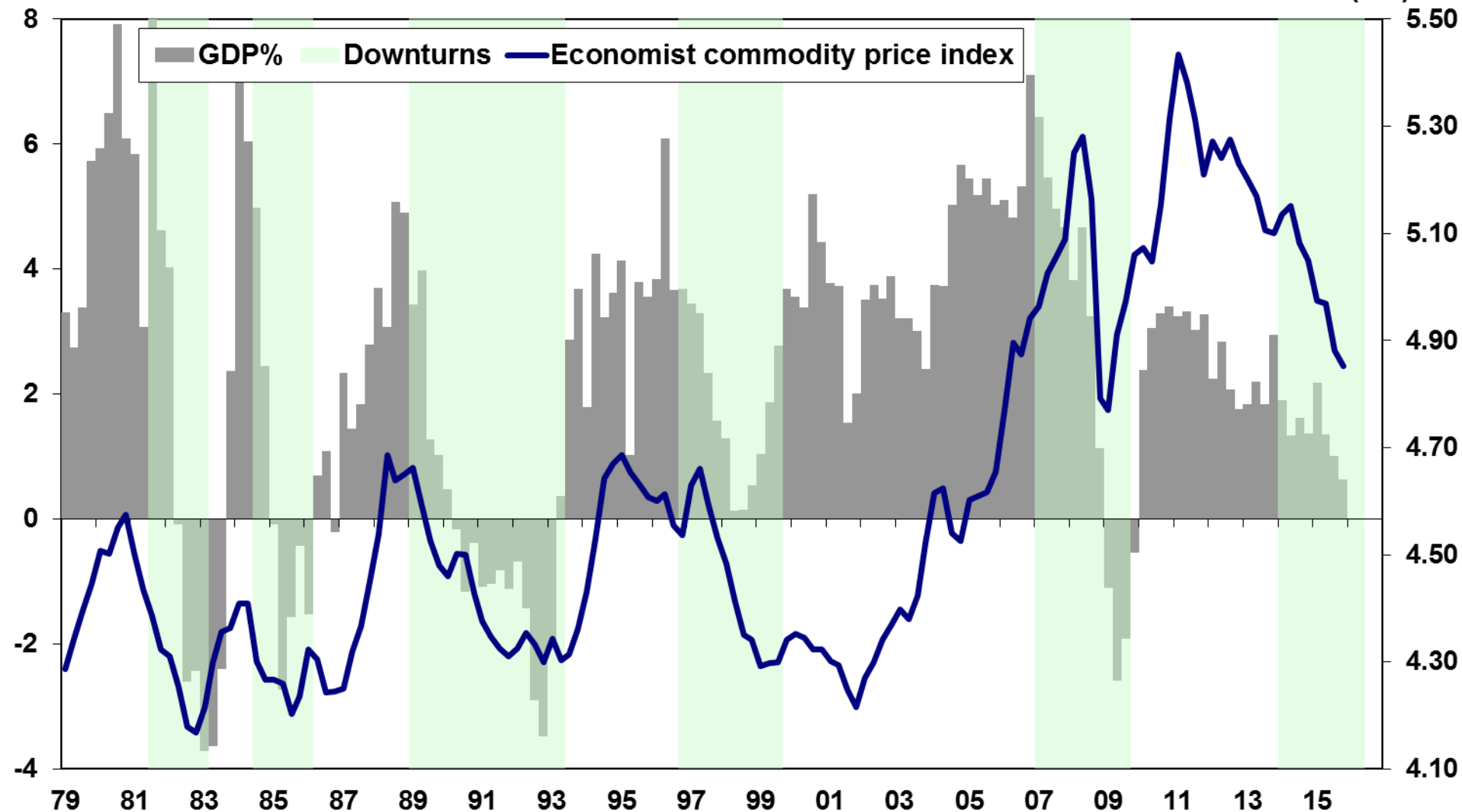
# The domestic economy is inextricably linked to the global environment

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GDP: Y-o-y % change

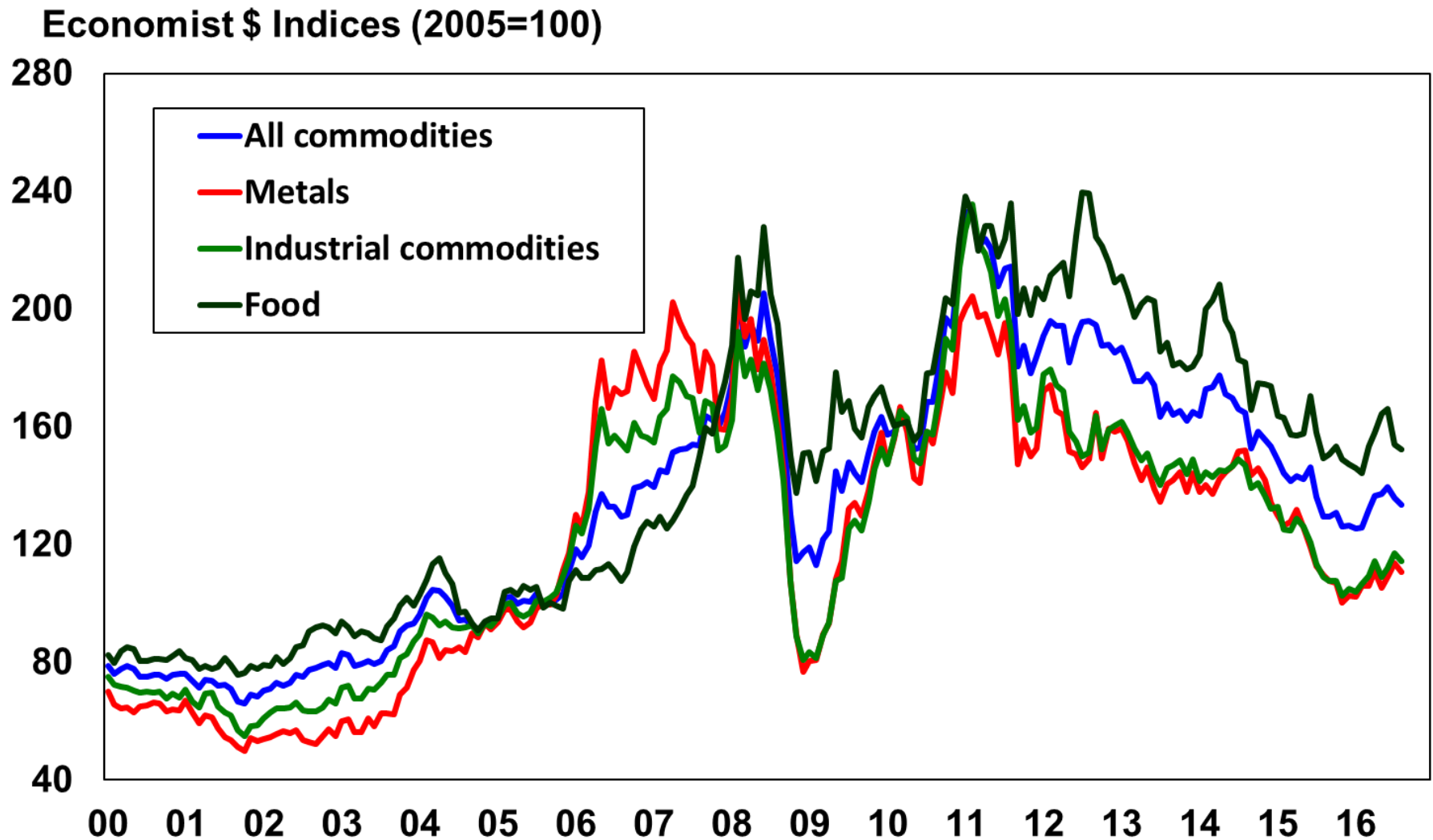
Economist all commodities \$ index (LN)



There has been some good news on this front – commodity prices off their earlier lows

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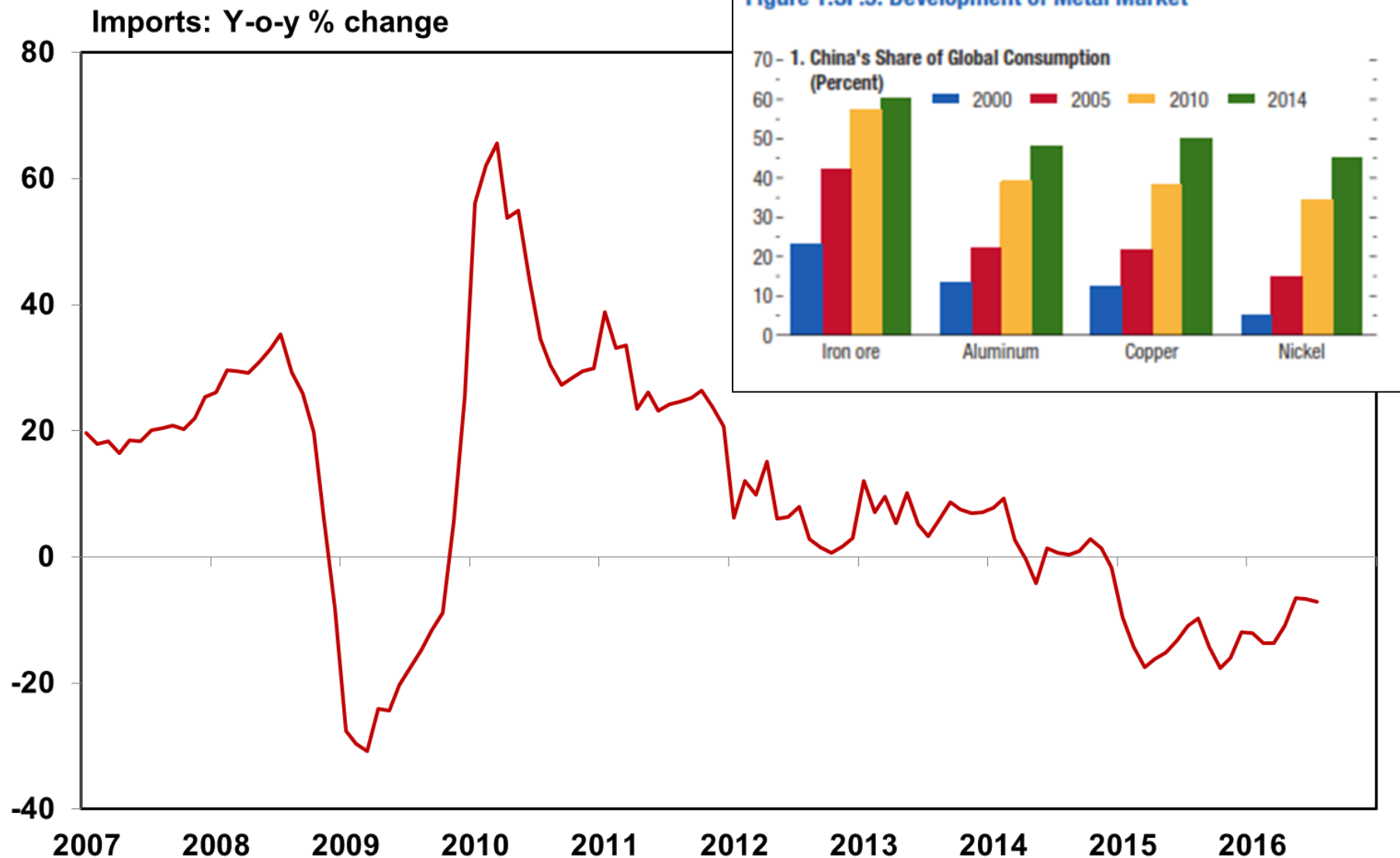
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Source: EIU

# Demand for commodities supported by some improvement in China in Q2

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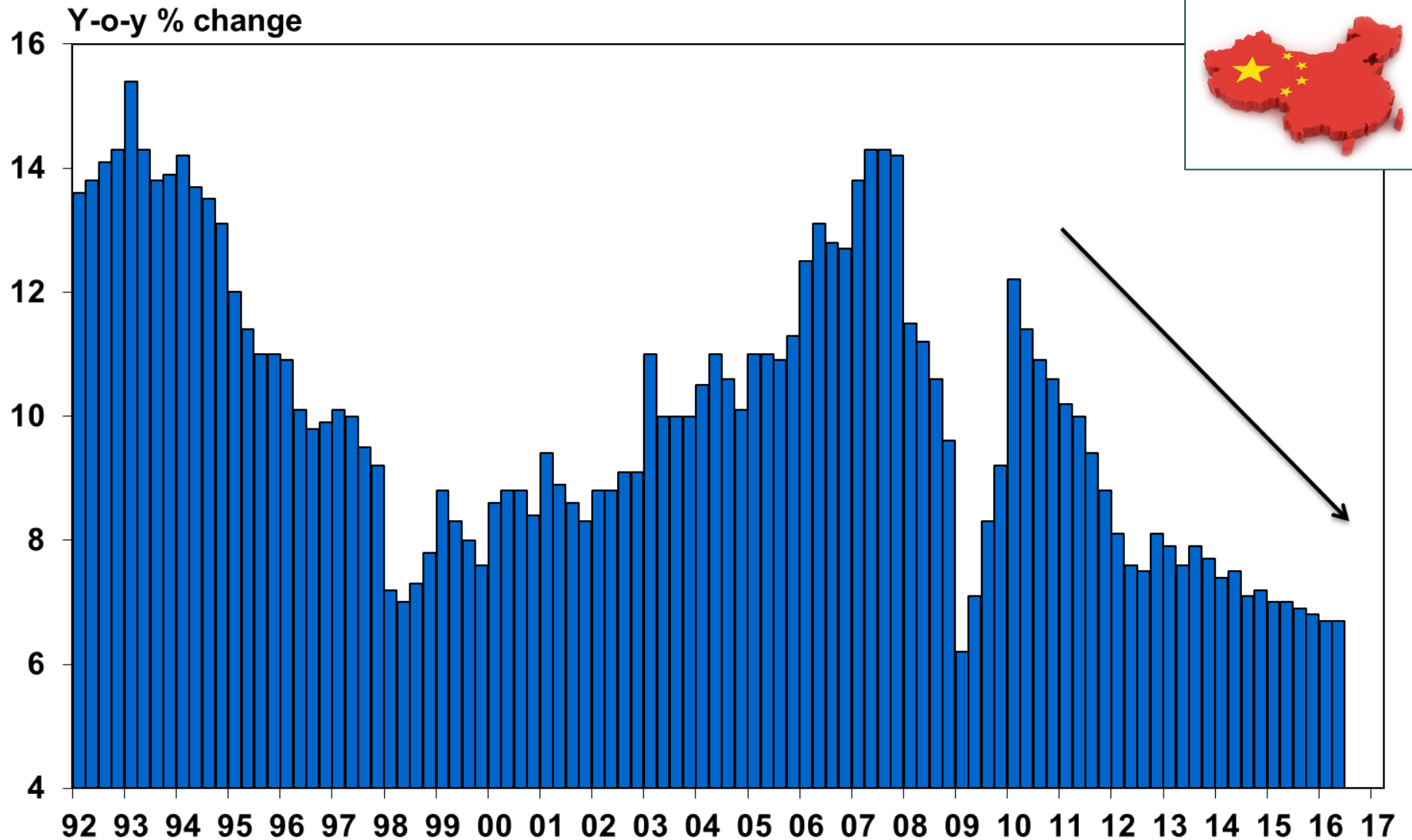


Source: Reuters Thompson



# China's growth rate was supported by stimulatory fiscal & monetary policies, but the longer term trend is still softer

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Source: Reuters Thompson

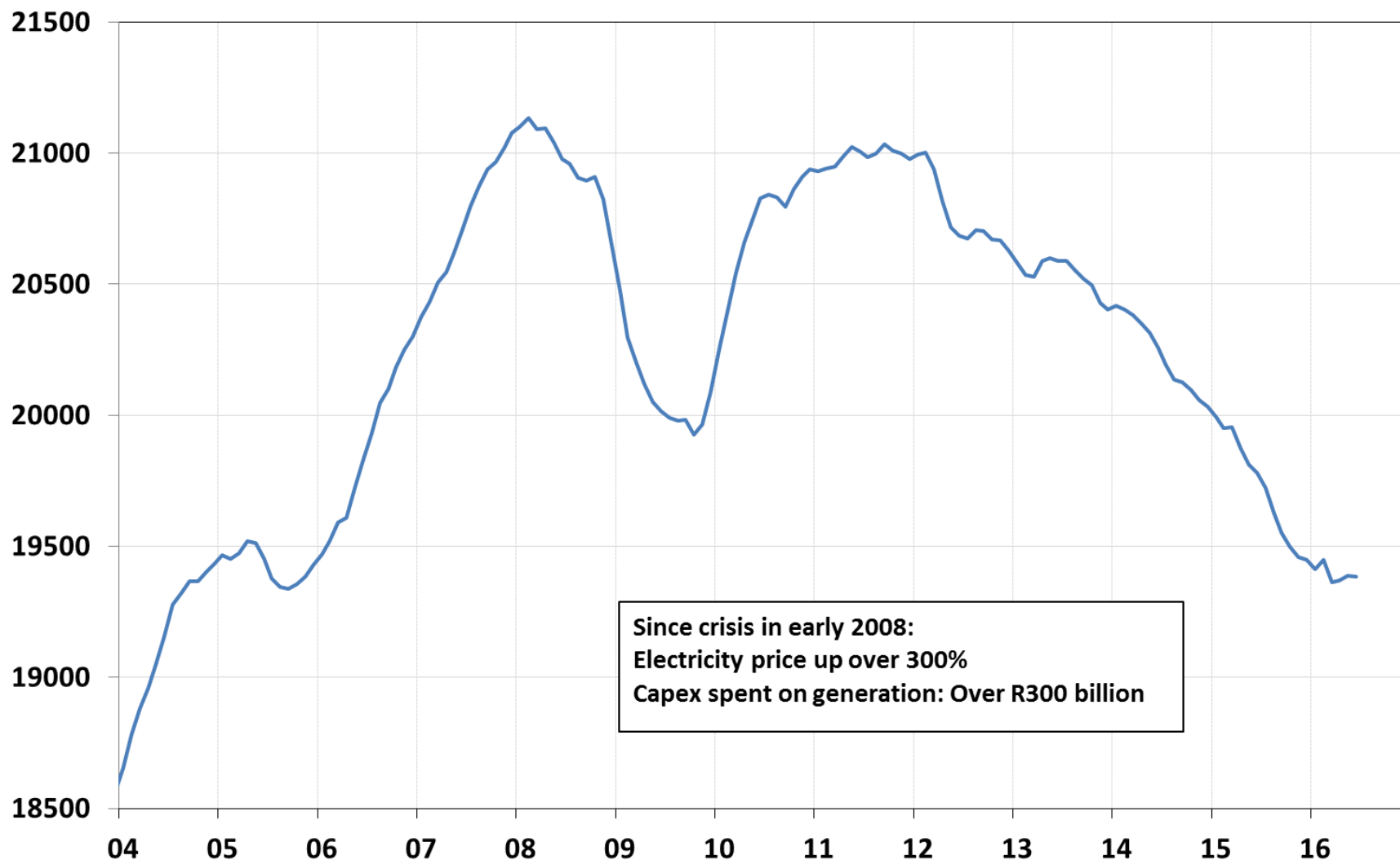
- **Subdued global demand & the slump in global commodity prices**
- **Rising local production costs**
  - **Negative relationship between cost and productivity of labour**
  - **Surging costs of utilities and basic economic services – power, transport (road, rail, ports), water, telecommunications**
  - **Compliance costs & red tape**
  - **Inefficient government services & corruption**
- **Capacity constraints amplifying costs pressures & constraining expansion**

# The reality has been different – significantly lower demand in response to the massive price increases and unreliable supply

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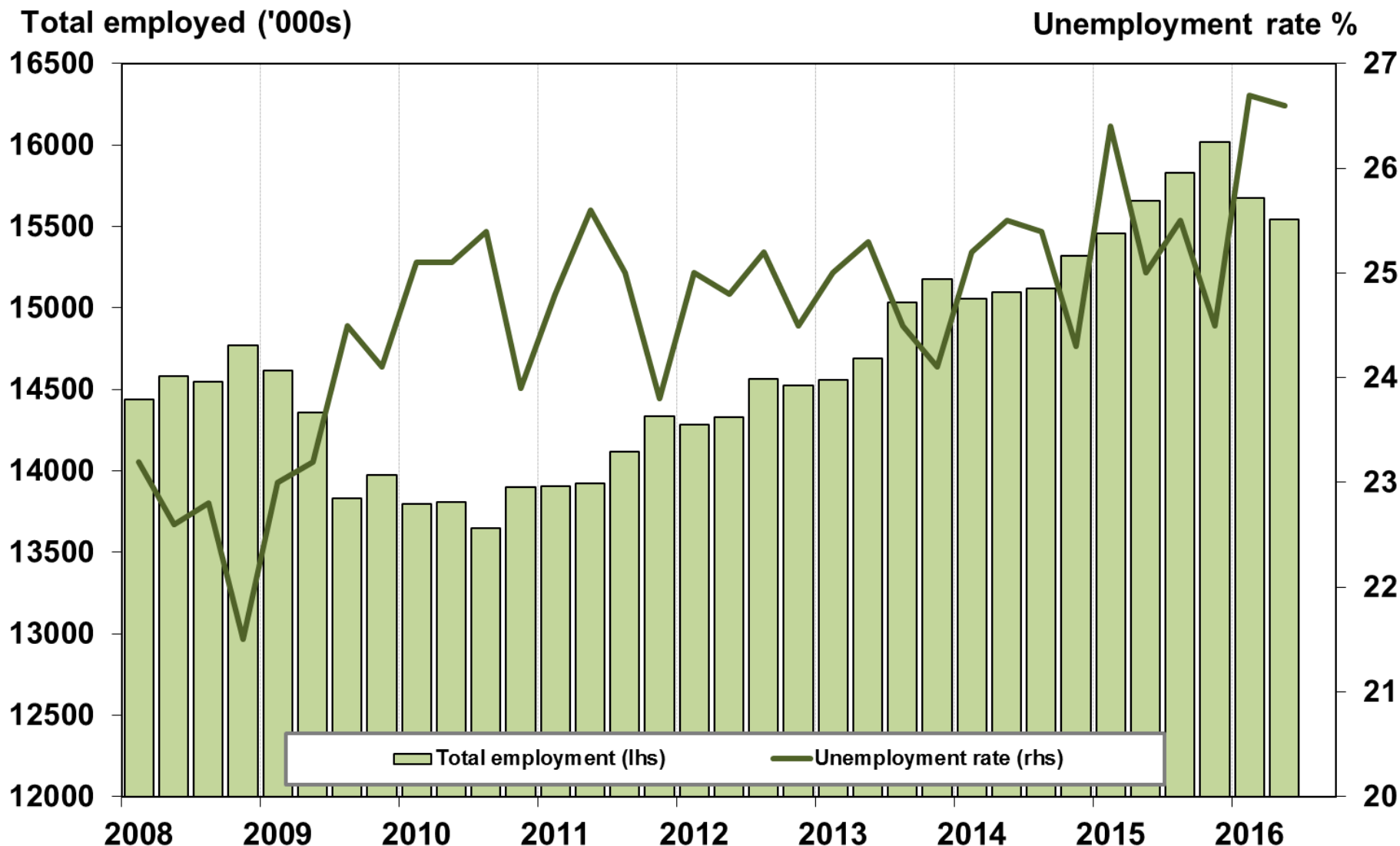
Electricity produced by Eskom: GWh (12-month moving average)



- **Subdued global demand & the slump in global commodity prices**
- **Rising local production costs**
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  - **Surging costs of utilities and basic economic services – power, transport (road, rail, ports), water, telecommunications**
  - **Compliance costs & red tape**
  - **Inefficient government services & corruption**
- **Capacity constraints amplifying costs pressures & constraining expansion**
- **Increased policy uncertainty & political turmoil**
- **Households are also feeling the pinch**

# Even on the more optimistic measure of employment, the narrow unemployment rate has shot up over 26%

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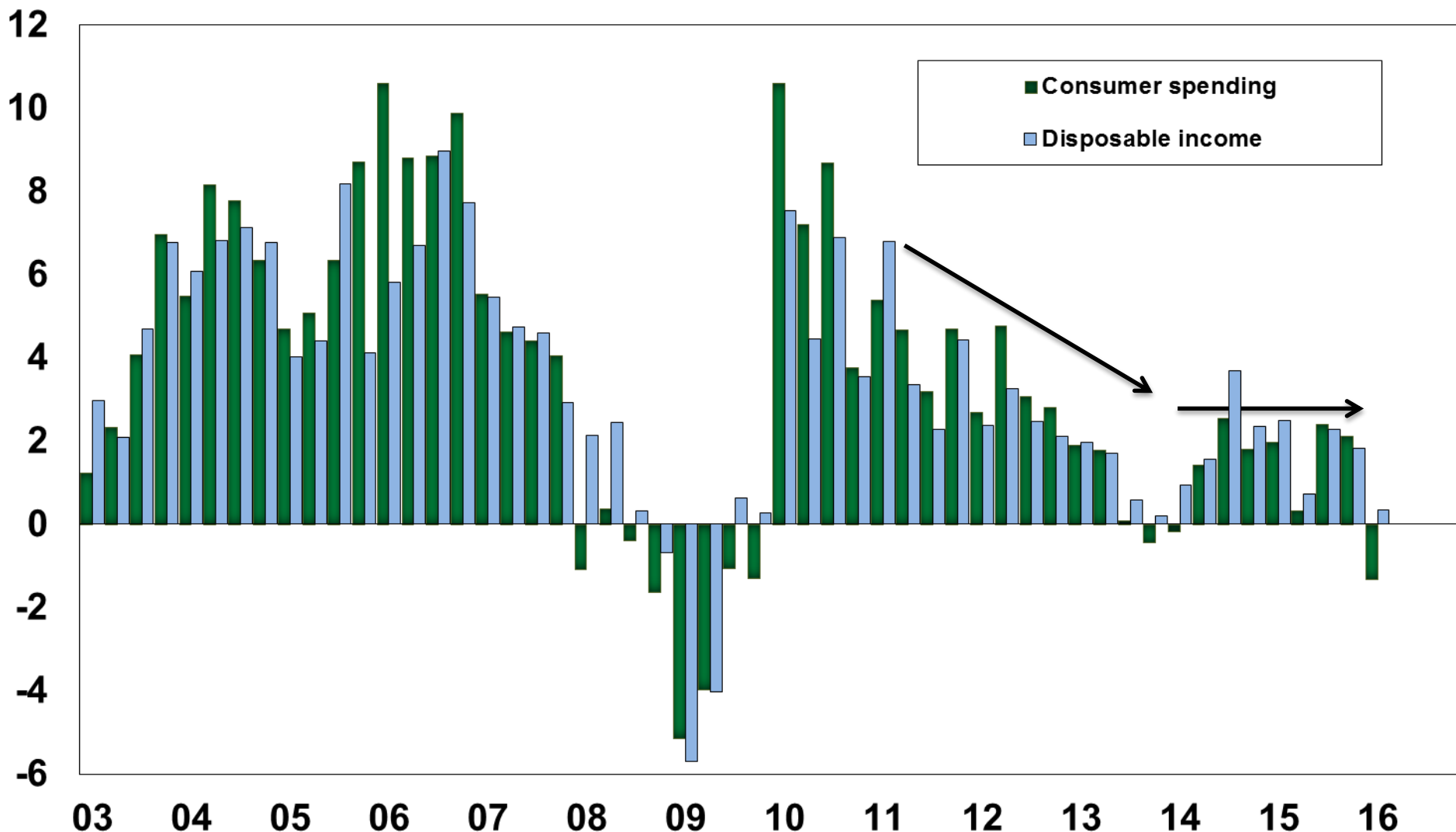
**Source: SARB QB September 2015**

# Slowdown in consumer spending is likely to intensify (only 0.7% growth in 2016)

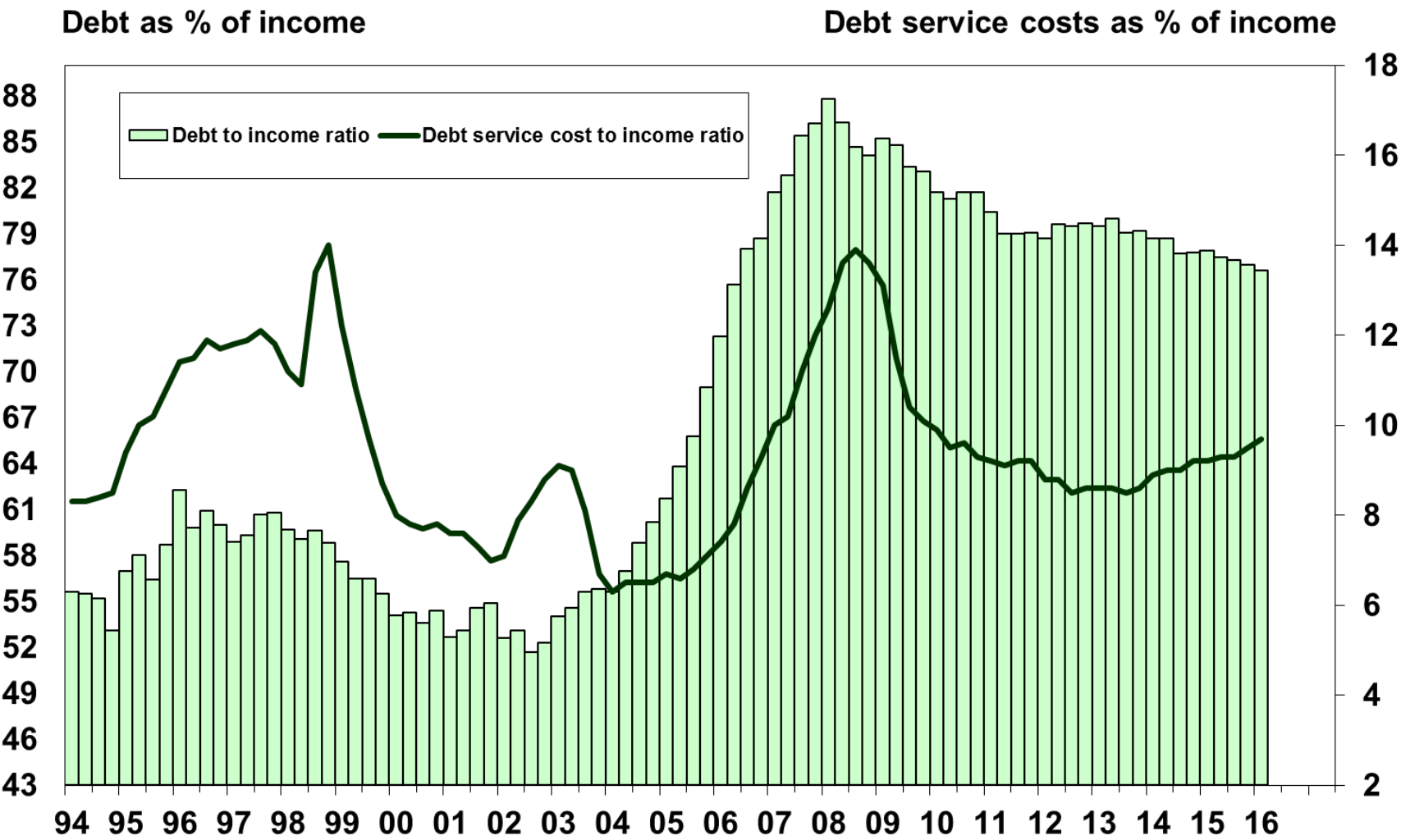
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Q-o-q % saar



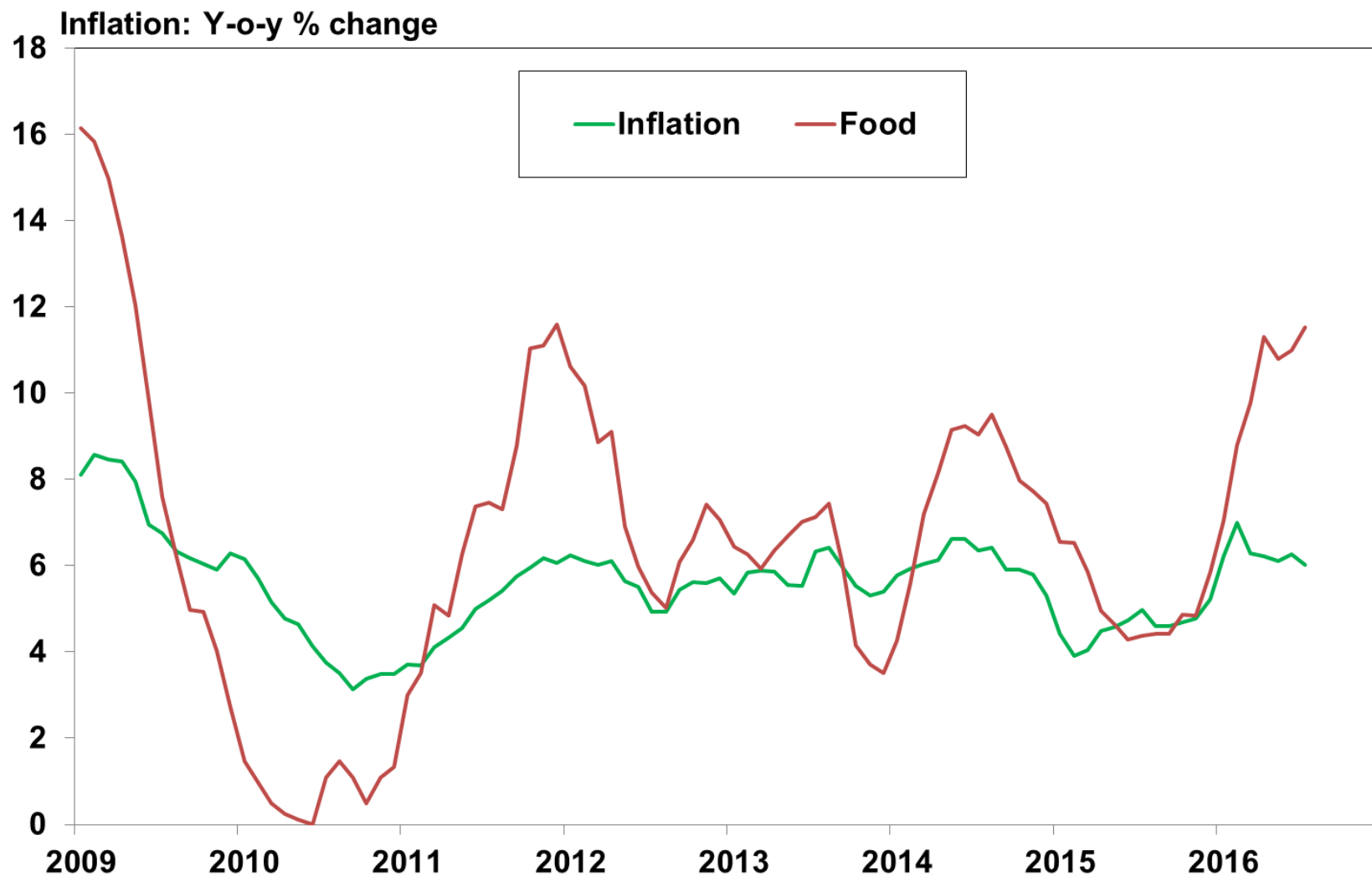
# The high debt burden is also starting to hurt again



Source: SARB QB June 2016

# Inflation is running at 6% and food inflation at 11.5%

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**Source: Statistics South Africa**

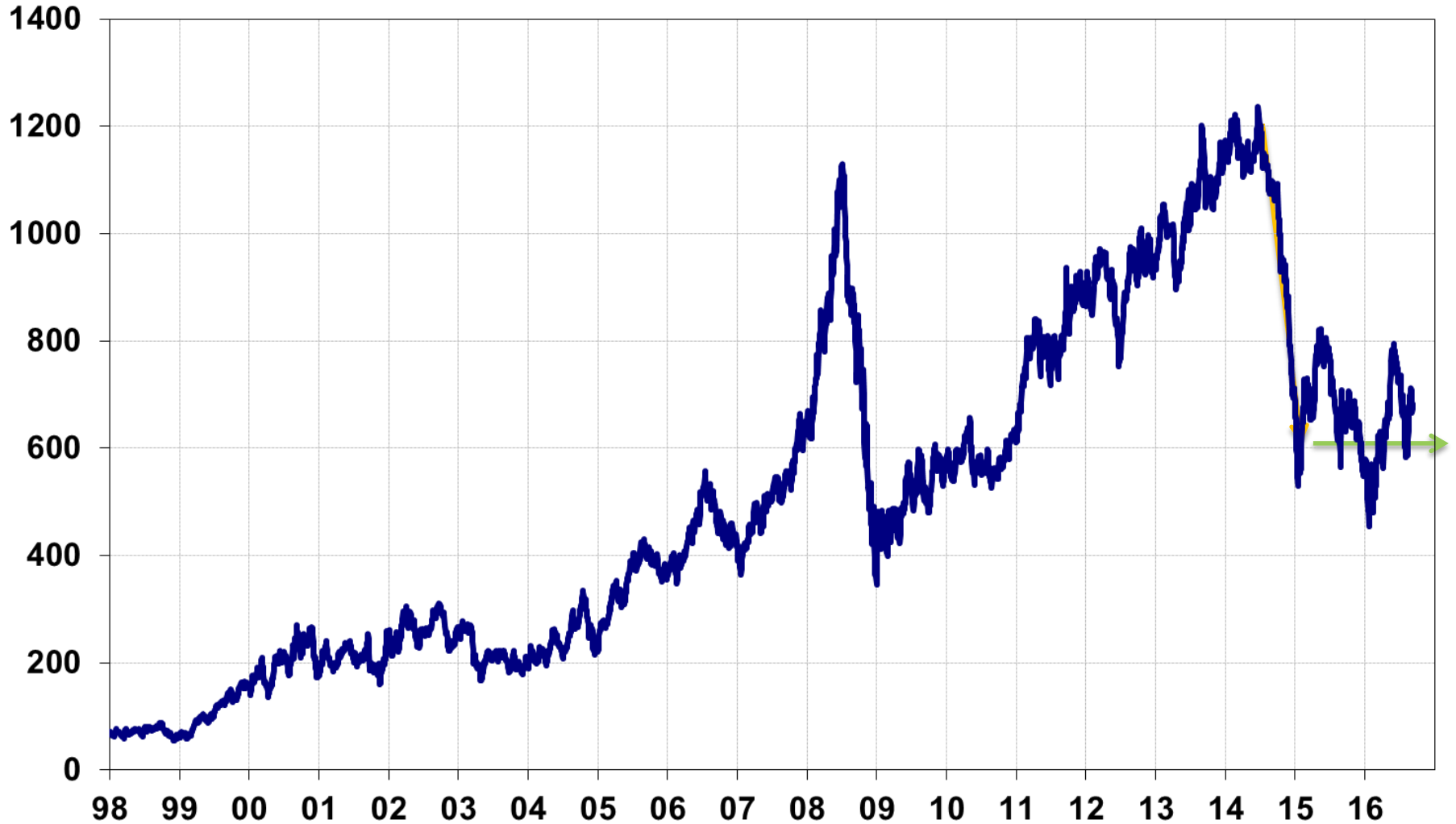


# The worst of the decline in global oil prices are behind up, with prices starting to drift higher

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Rand/barrel



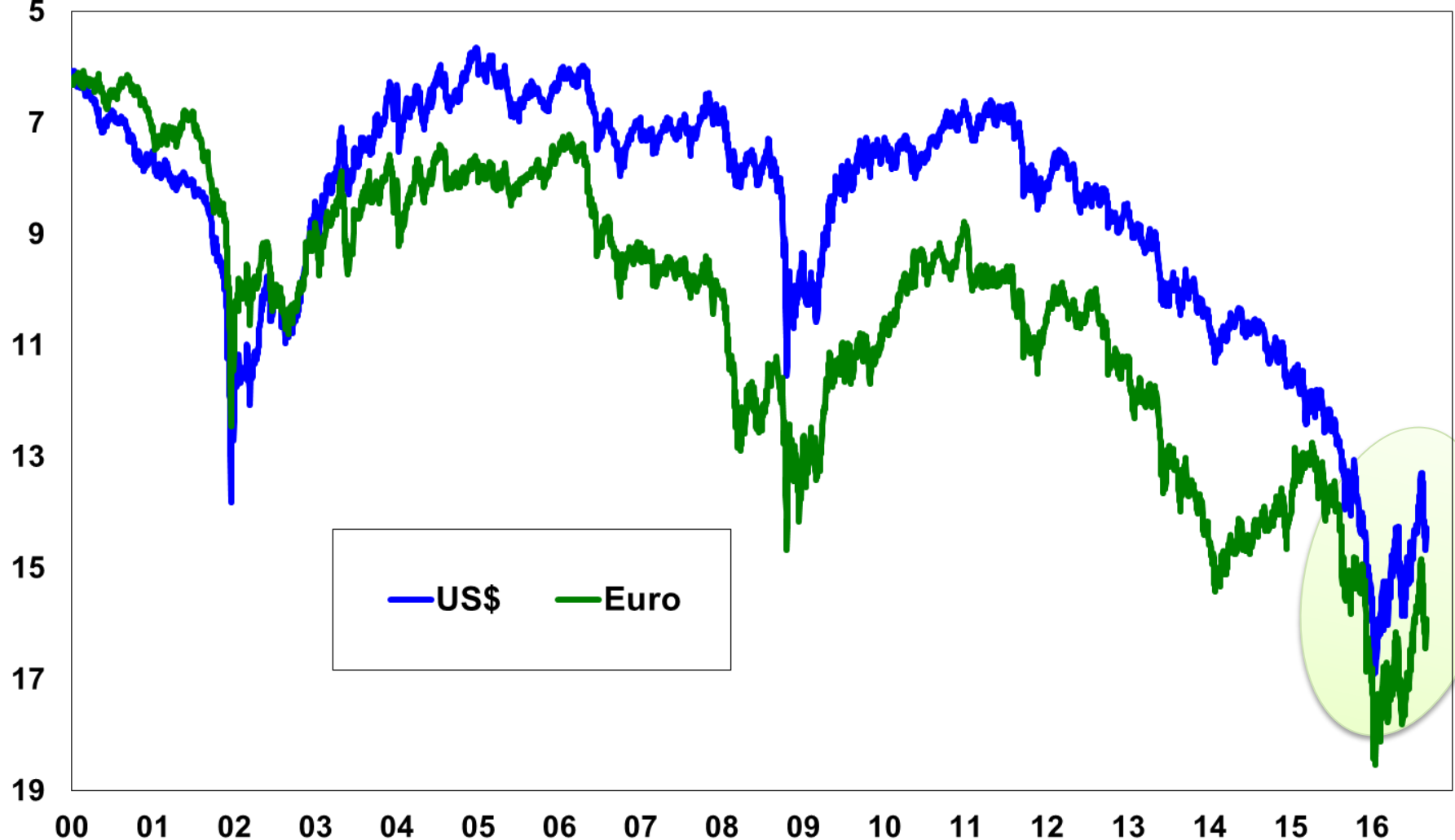
Source: Reuters Thompson Datastream

But so much depends on what happens to the rand....

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Rand/ US\$ and euro



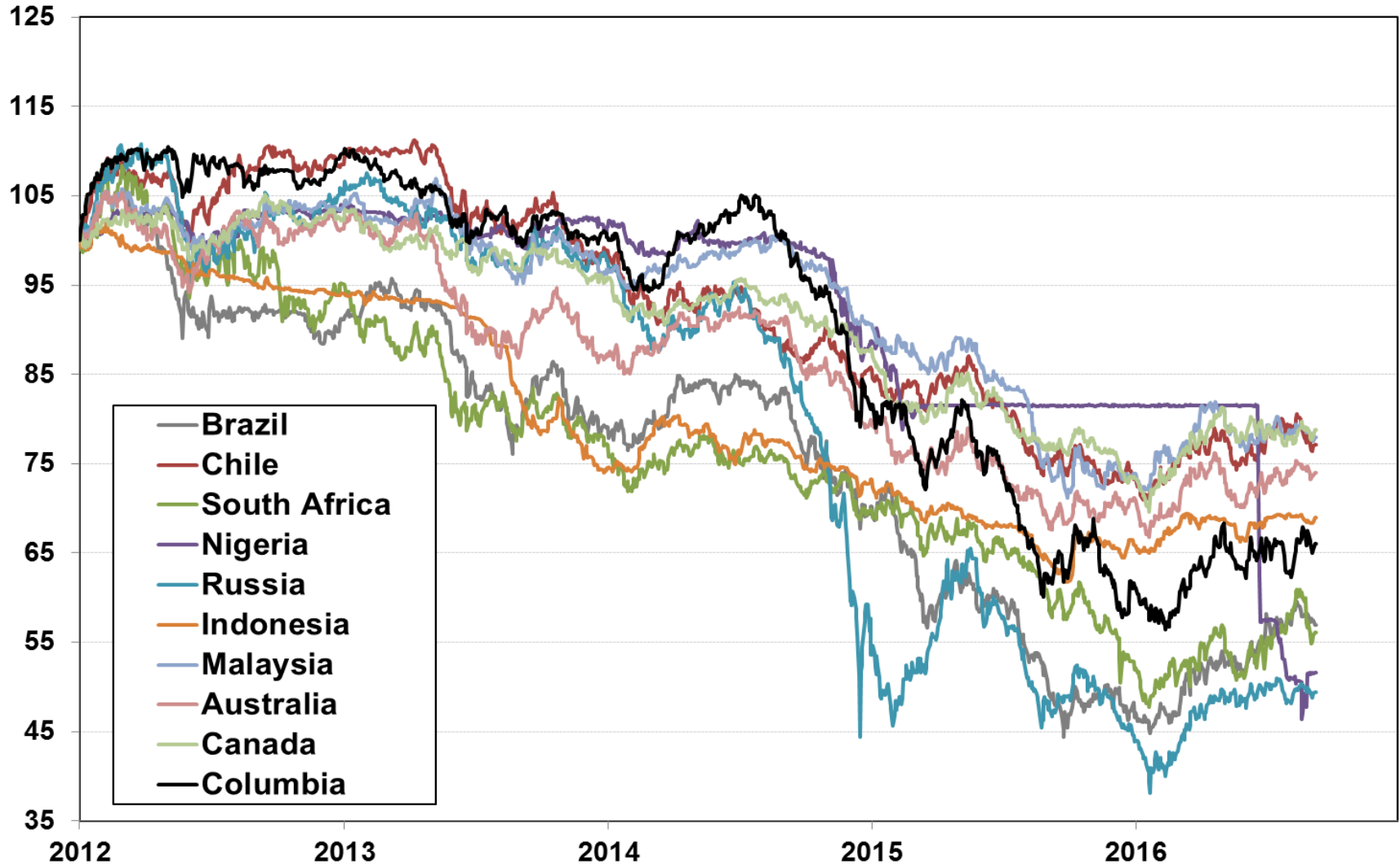
Source: Reuters Thompson

# Rand lost ground recently after crawling its way back from the abyss from February

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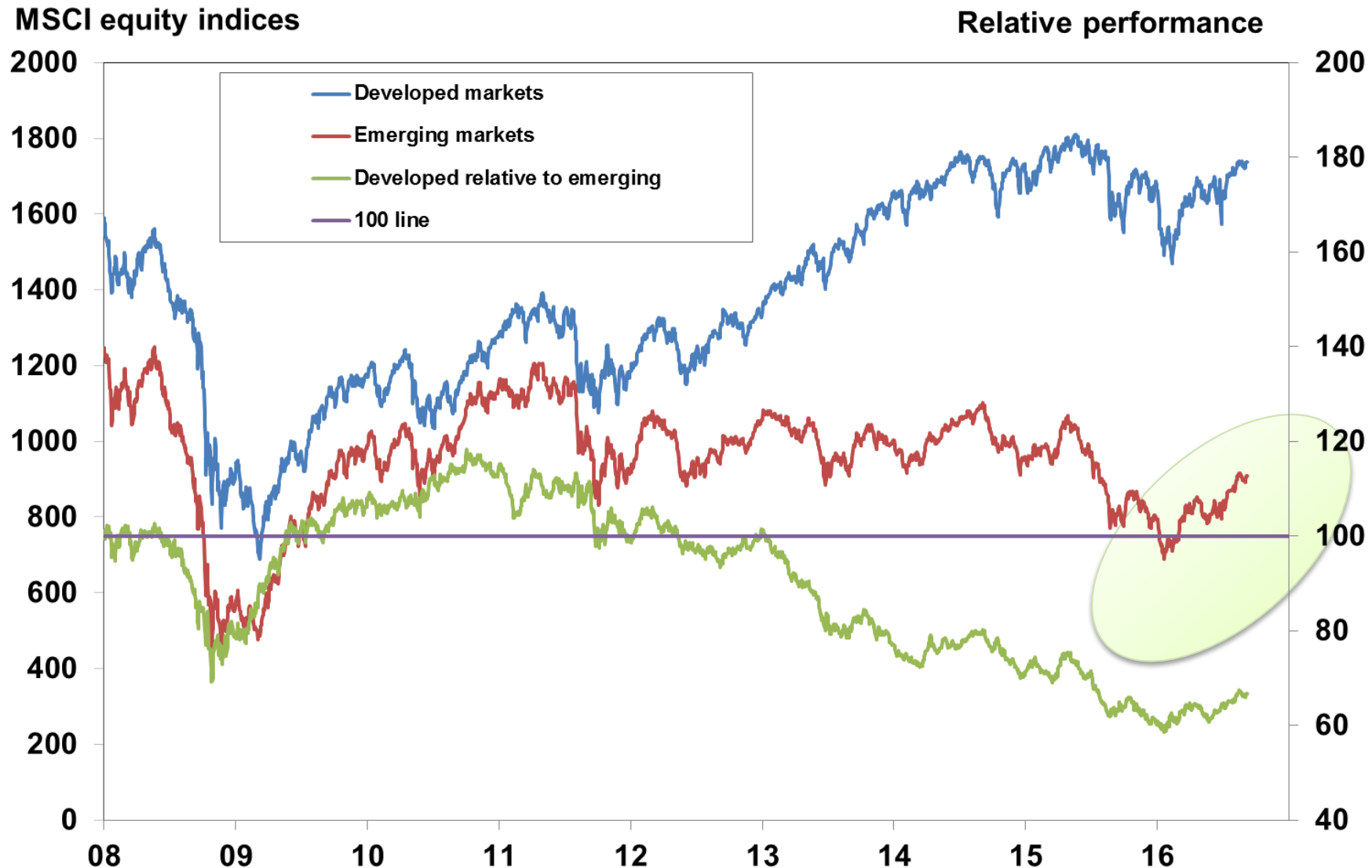
Currencies against the US\$: Index 2012=100



Source: Thompson Reuters Datastream

# Global investors are searching for higher yields again...

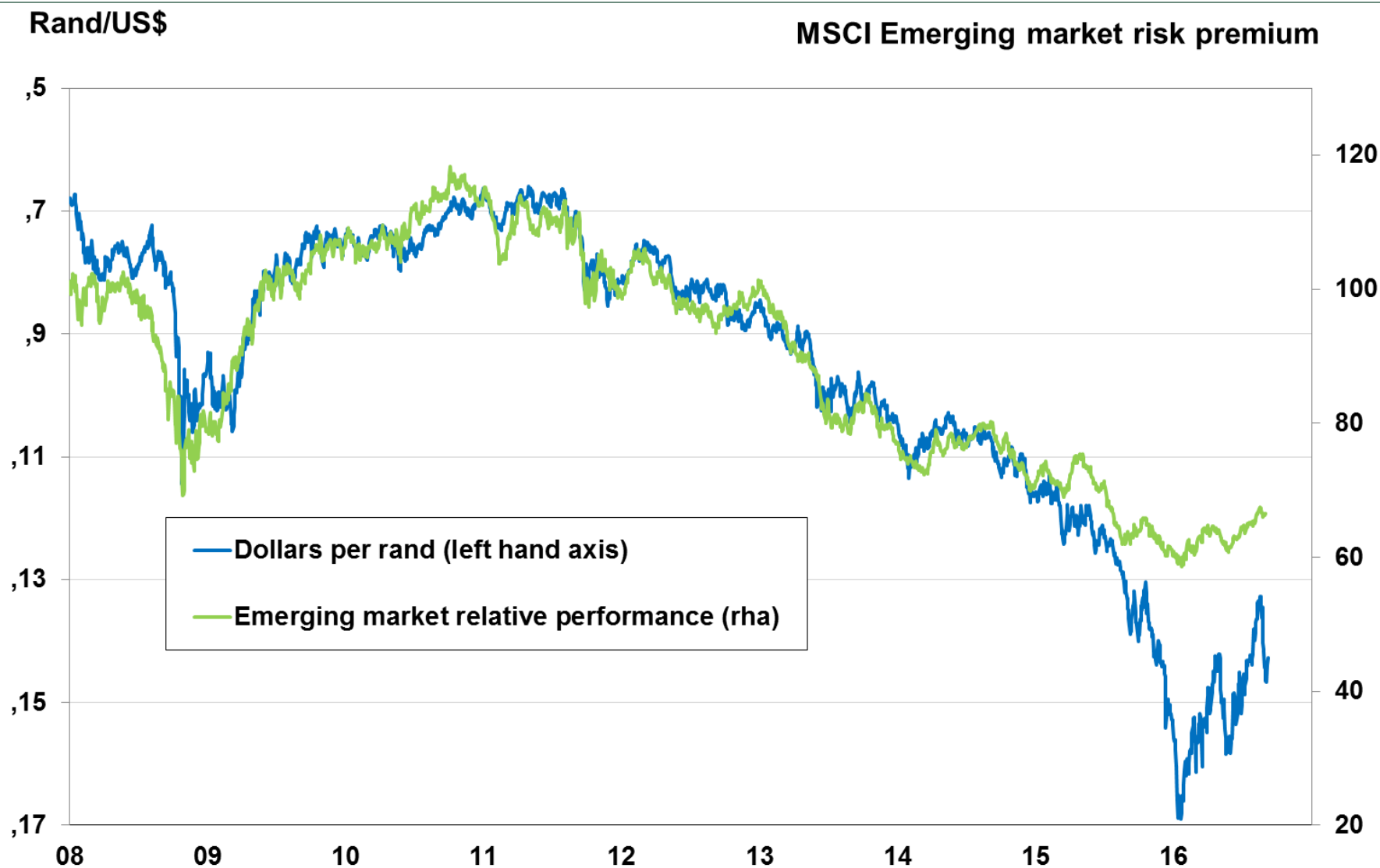
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*Source: Reuters Thompson*

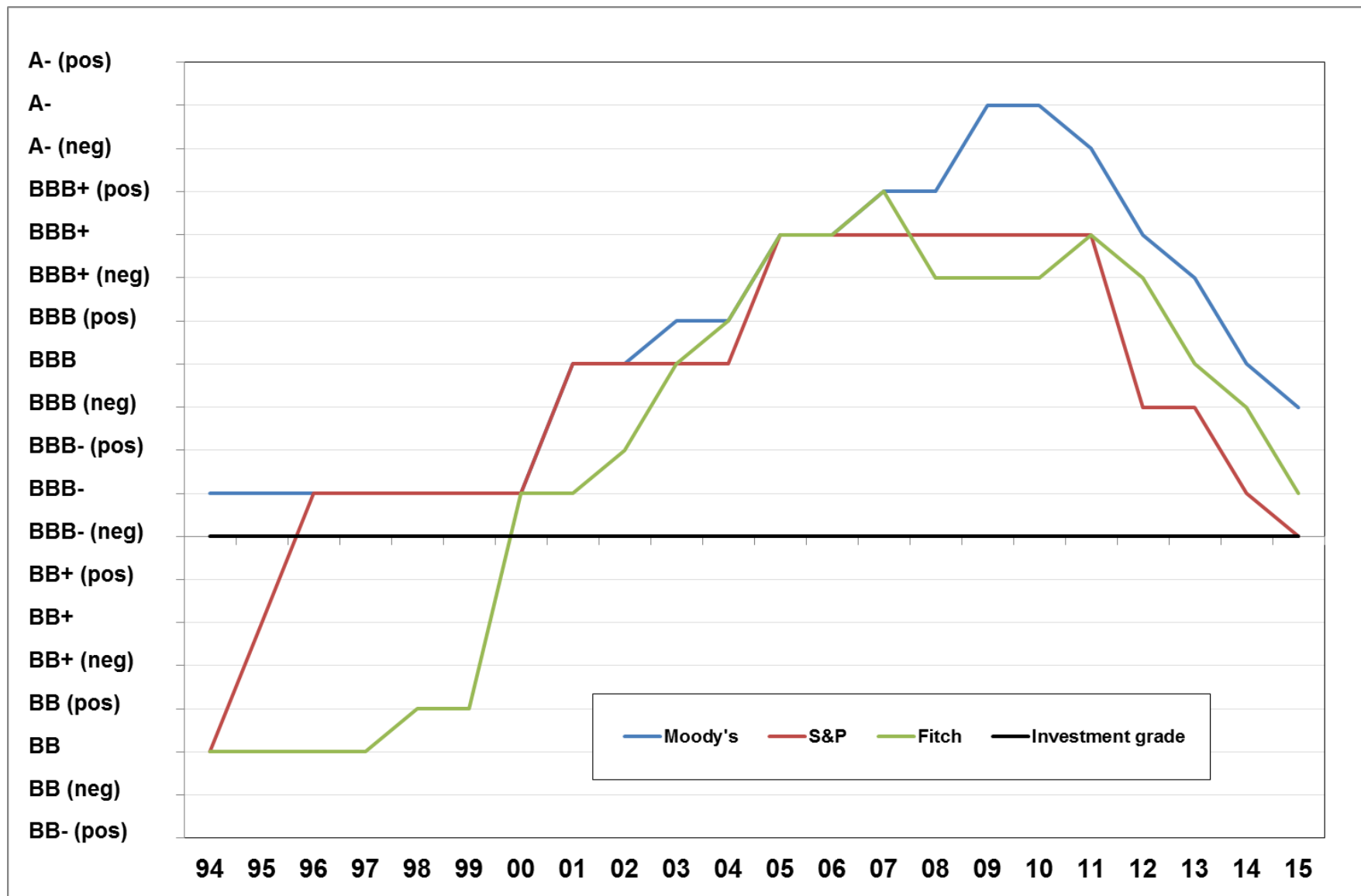
# SA specific risks are again surfacing

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# SA can still be downgraded at the end of this year or throughout next year

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## ■ Slow economic growth

- Lack of confidence & falling business confidence
- High unemployment & labour market reform
- Infrastructure constraints & SOEs
- Lack of cohesion at the executive branch of government

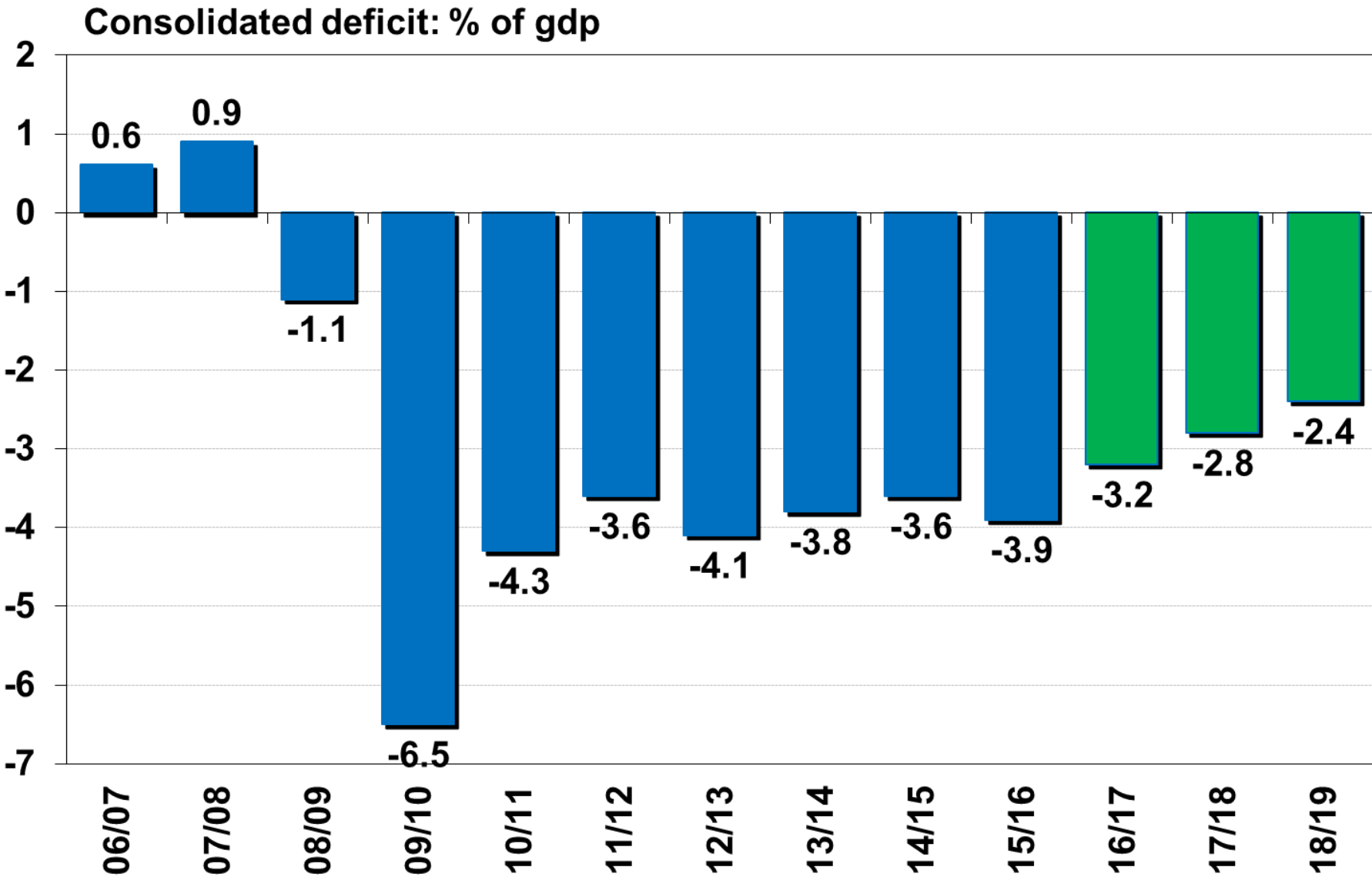
## ■ Restoration of fiscal discipline

- Budget deficit targets
- Progress in containing wasteful spending
- Containment of public sector wage bill (employment & nominal wages)
- Stick to spending ceilings
- SOEs reform

## ■ Good governance & accountability (political interference)

## ■ Economic policy certainty & vision

Meeting budget deficit targets are part of the problem but by no means the only worry

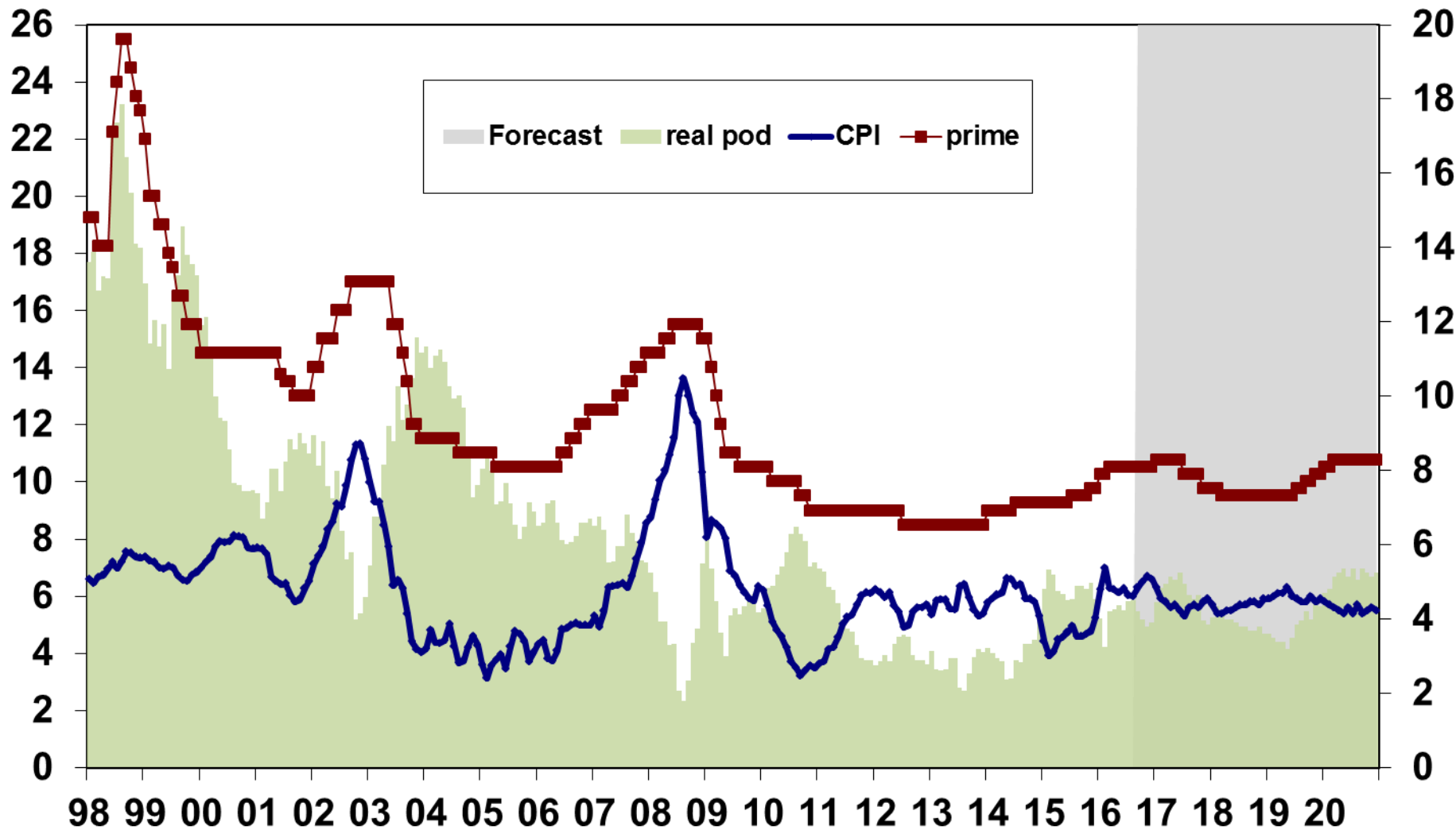


Source: 2015 MTBPS



CPI, Prime (%)

Real prime (%)



	2011	2012	2013	2014	2015	2016	2017	2018
<b>Economic growth - Annual growth rates (%)</b>								
Consumer spending	5.1	3.7	2.0	0.7	1.7	0.7	1.0	1.5
Fixed investment	5.5	2.6	7.0	1.5	2.5	-2.0	0.5	2.3
Exports	3.5	0.8	3.6	3.3	4.1	1.3	2.8	4.4
Imports	11.9	4.2	5.0	-0.5	5.3	-0.3	4.1	4.8
GDP	3.3	2.2	2.3	1.6	1.3	0.2	1.0	1.5
<b>Balance of Payments</b>								
Current Account (R'bn)	-116.3	-130.2	-135.4	-138.0	-139.9	-158.1	-189.0	-193.3
As % of gdp	-2.2	-5.1	-5.9	-5.3	-4.3	-3.6	-4.0	-3.7
<b>Interest rates - Year-end rates</b>								
3-month JIBAR	5.6	5.1	5.2	6.1	6.6	7.2	6.2	6.2
Prime	9.0	8.5	8.5	9.3	9.8	10.5	9.8	9.5
Long bond	8.1	6.8	8.0	7.9	9.7	8.6	8.6	8.6
<b>Exchange rates - Annual averages</b>								
Rand/US\$	7.27	8.22	9.66	10.85	12.93	15.09	15.62	15.98
Rand/Euro	10.12	10.57	12.83	14.33	14.28	16.66	16.65	16.66
Rand/GBP	11.66	13.09	15.14	17.83	19.73	20.68	20.55	20.58
Yen/Rand	10.96	9.74	10.04	9.82	9.35	7.19	6.73	6.59
<b>Inflation - Annual averages</b>								
New CPI	5.0	5.7	5.8	6.1	4.6	6.4	5.7	5.6

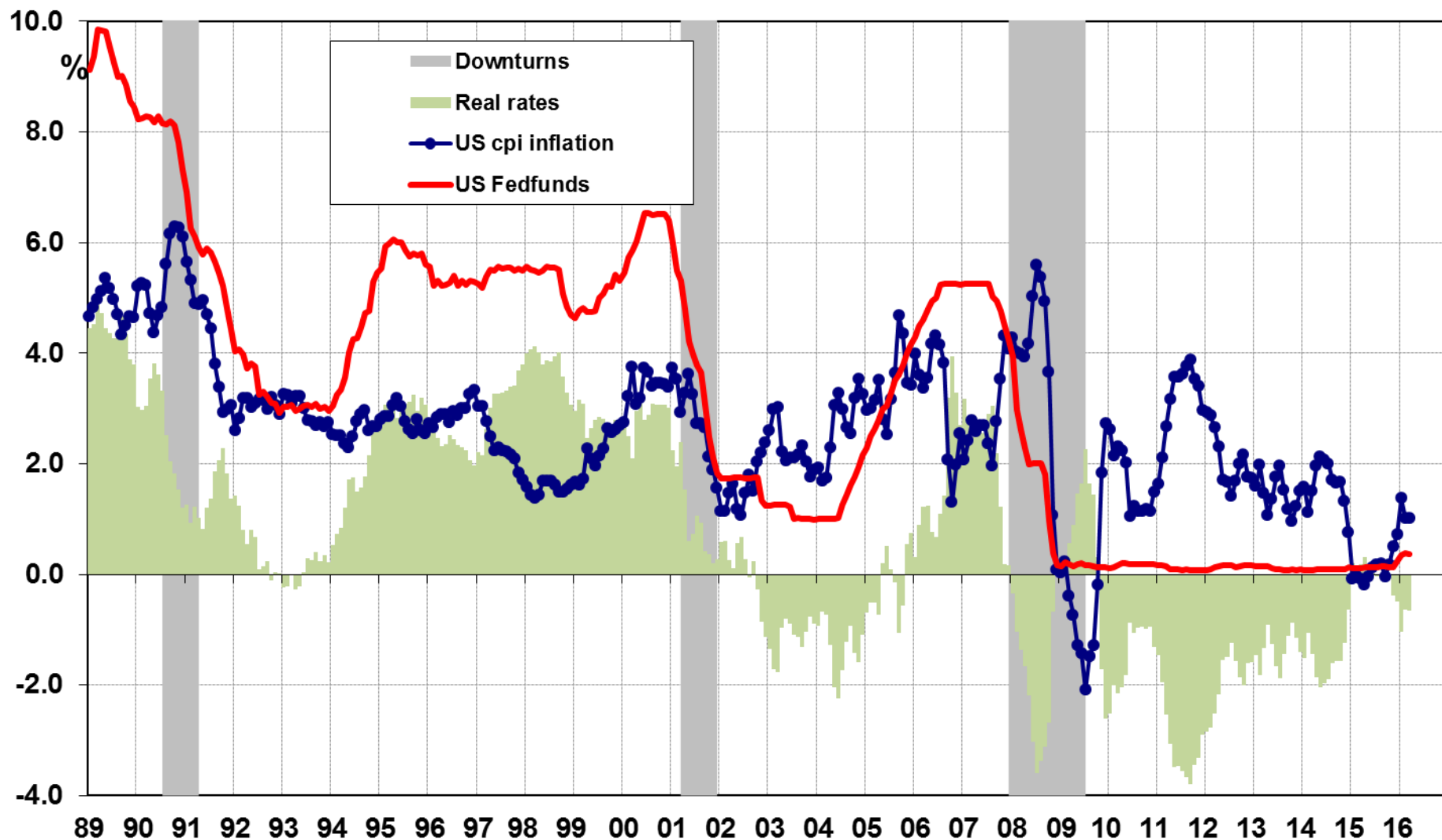
Thank you for your time

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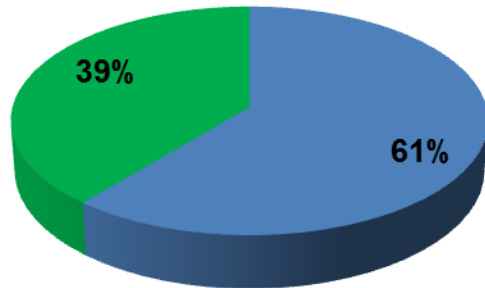
# Very slow pace of US interest rate normalisation are starting to frustrate investors

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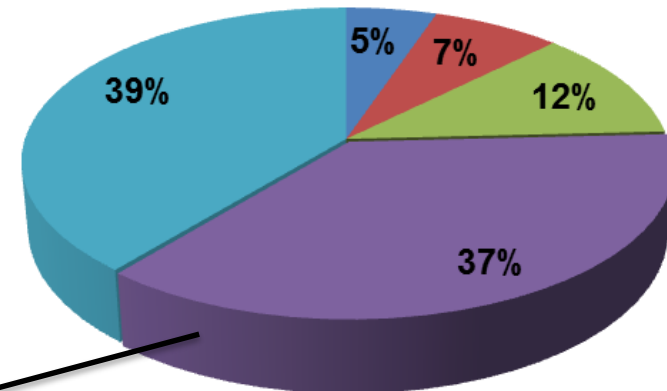
# How exposed is South Africa?

Breakdown of SA exports



■ Commodity-related ■ Other

Breakdown of commodity exports



■ Agriculture ■ Chemicals  
■ Basic metals ■ Mining

4 commodities feature strongly

	% of total exports
Coal	6.8
Gold	6.0
Iron ore	8.1
Platinum	14.1
	35.0

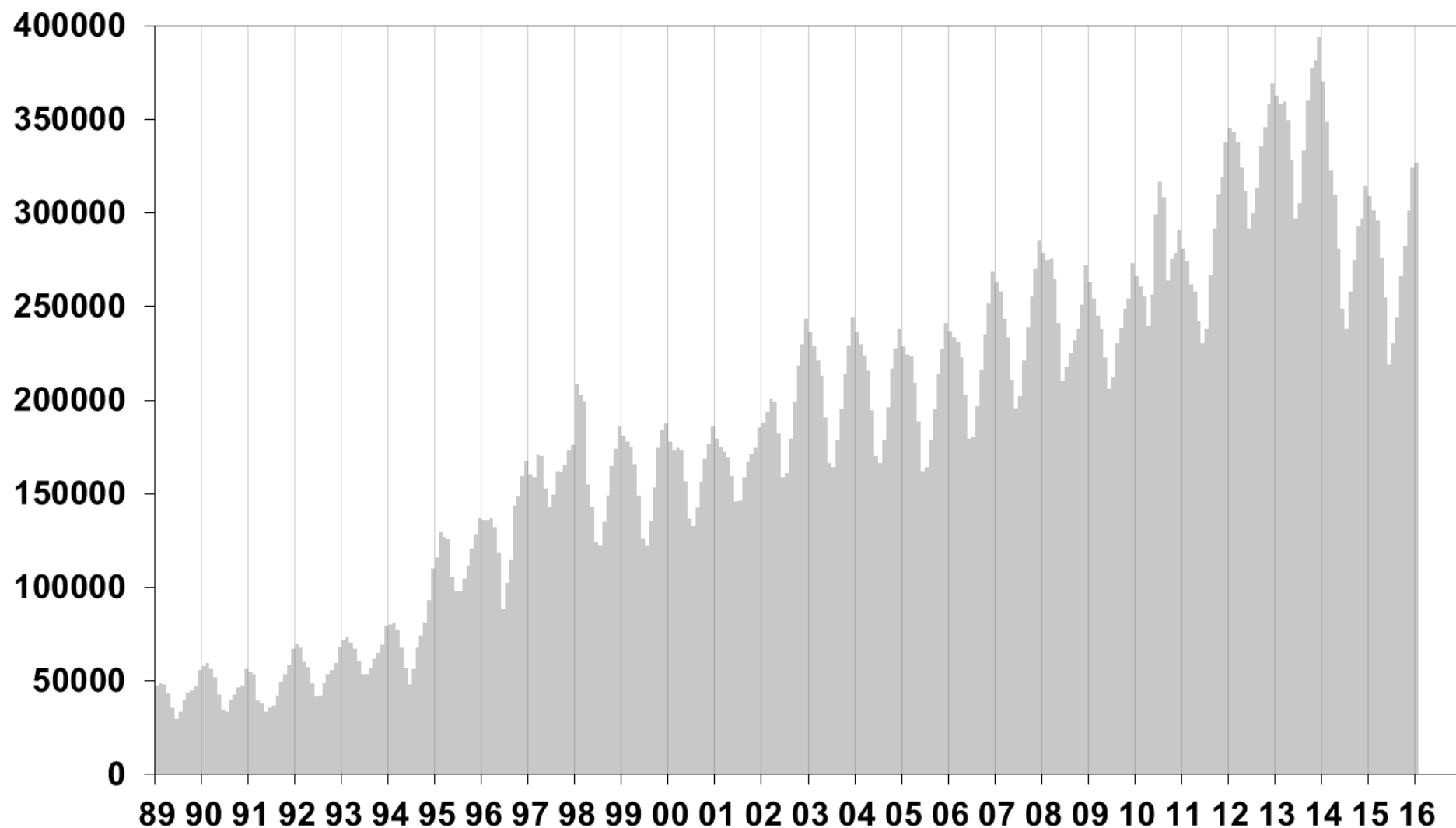
Source: Customs & Excise

# There has been some good news on tourism

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Foreign arrivals (number 3-month moving average)

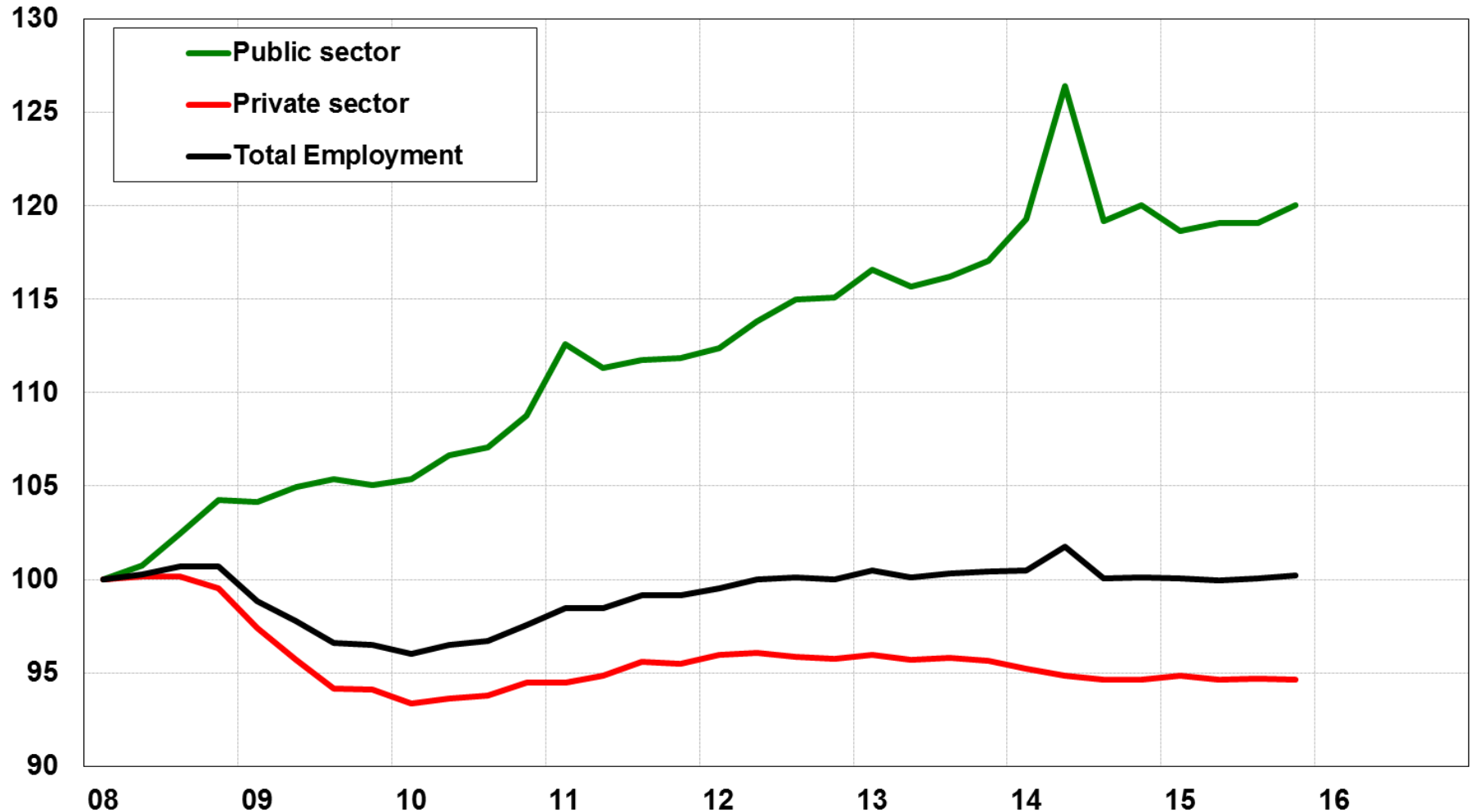


# Explosion in public sector jobs insufficient to compensate fully for stagnant to falling private sector employment

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Employment trends: Index 2008=100



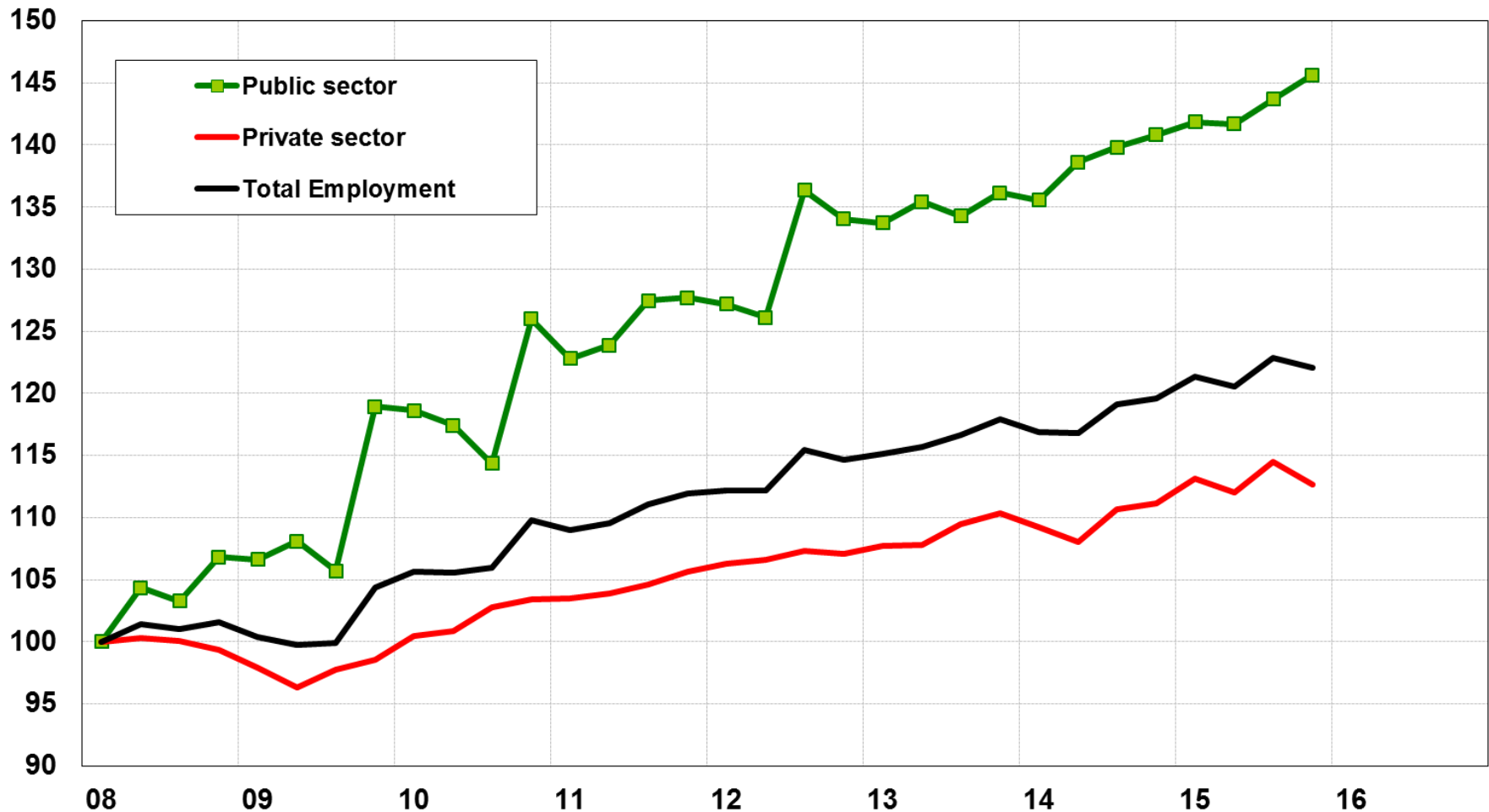
Source: SARB QB June 2016

# The impact of high unemployment on income has to a degree been contained by strong wage growth

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Real total wage bill: Index 2008=100



Source: SARB QB June 2016