Efficient group

Efficient Group (Pty)Ltd • FSP No: 859
Authorised Financial Services Provider

5
Dec
2008

International Update – State of the Nations

Report by Fanie Joubert (Economist) and Wilna Bonthuys (Assistant)

Global growth cooled significantly during 2008, with the outlook for 2009 getting gloomier by the day. As growth eased, numerous central banks opted to drop interest rates significantly to stimulate financial markets and support investment sentiment. Lower global demand should (and have already) lead to lower inflationary pressure in the short term, but the worry remains how long the inflation genie will remain in the bottle. Below is a snapshot of a few countries, which are the major engines behind world growth, with their current growth performances and inflationary trends.

Heavyweight Snapshot

Rank	Country	GDP, 2007 nominal (millions of USD)	% World GDP	2007 GDP Growth (Annual %)	2007 Inflation, GDP deflator (Annual %)	Most Recent Growth figure (2008Q3, q/q, annualized)	Most Recent inflation figure (Oct, y/y)
1	United States	13,811,200	25.4	2.2	2.7	-0.5	4.7
2	Japan	4,376,705	8.1	2.1	-0.6	-0.4	1.9
3	Germany	3,297,233	6.1	2.5	1.8	-0.5	2.4
4	China (PRC)	3,280,053	6.0	11.9	5.2	9.0	4.0
5	United Kingdom	2,727,806	5.0	3.0	2.6	-0.5	4.5
6	France	2,562,288	4.7	2.2	2.2	0.1	2.7
7	Italy	2,107,481	3.9	1.5	2.8	-0.5	3.5
8	Spain	1,429,226	2.6	3.8	3.1	-0.2	3.6
9	Canada	1,326,376	2.4	2.7	-3.8	1.3	2.2
10	Brazil	1,314,170	2.4	5.4	4.5	1.6 (Q2)	6.4
11	Russia	1,291,011	2.4	8.1	13.5	1.2	15.1 (Sep)
28	South Africa	277,581	0.5	5.1	8.1	0.2	12.1
	World	**54,347,038**	**100.0**	**3.8**	**4.3**		

Source: World Bank, IMF, various Central Banks

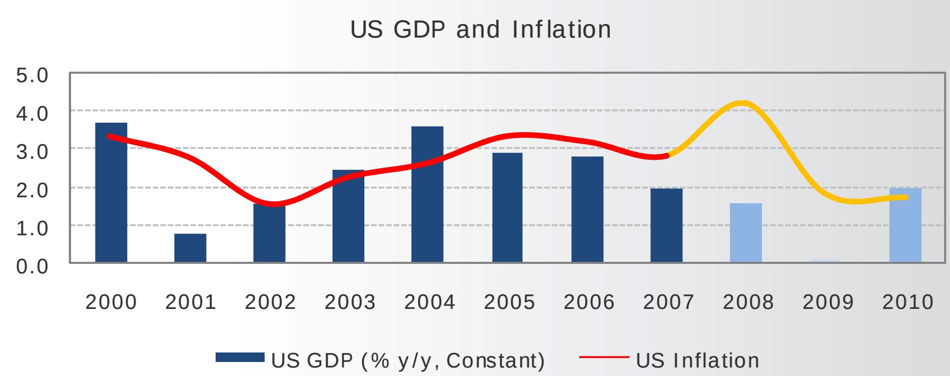
Russia is the eighth member of the G8 of countries. The four countries of the above list, not included in the G8 are China, Spain, Brazil and South Africa. Together the G8 countries make up around 65% of the World's GDP, has the majority of military and nuclear power, yet represent only 14% of the world's population. With questions looming over future global growth, we turn to a few of the heavyweights' performances to provide some insight.

United States (Big brother)

The US economy has entered one of its **most challenging economic periods,** since the Great Depression and World War II, as job losses mount and credit dries up. The Great depression lasted 43 months (August 1929 to March 1933) while other major economic downturns occurred around 1975 and 1982 (both lasted around 16 months). According to the National Bureau of Economic Research (NBER) the last time the US was in recession was from March to November 2001. Adding worries, is that Japan and the Euro area are both in recession – which could make this the first time all three these major economic powers are in recession at the same time since WWII.

US Job losses amount to 1.2 million jobs during the year to date, with the **unemployment rate up to 6.5 percent** – the highest level in 14 years according to the Labor Department. Manufacturing in the US (as measured by the ISM) contracted by the strongest measure in 26 years during November and the GDP shrank 0.5% in Q3. **The US arbiter of recessions announced that the US had already been in a recession since December 2007 and estimates as low as -5.0% q/q has been made for the fourth quarter's growth.** It seems evident that the Federal Reserve will cut its benchmark overnight lending rate to (only) 0.5 percent later this month, that would be the lowest since mid-1950's.

All the ruptures occurred amidst a political change, which took much attention away from pressing financial issues and are luckily now finished.



Source and forecasts: International Monetary Fund (IMF)

Outlook

The latest news is that new President elect, Mr. Obama (and his House of Representatives Democrats) is working on a **$500bn stimulus package** aimed at middle class tax cuts and spending on infrastructure projects.

This comes after the **Troubled Assets Relief Program (TARP)** that was rolled out by the US Treasury which could amount to $700bn, of which $290bn has already been allocated by November. Possible support plans for three of the US's major car manufactures are also in the making.

Efficient group
Efficient Group (Pty)Ltd • FSP No: 859
Authorised Financial Services Provider

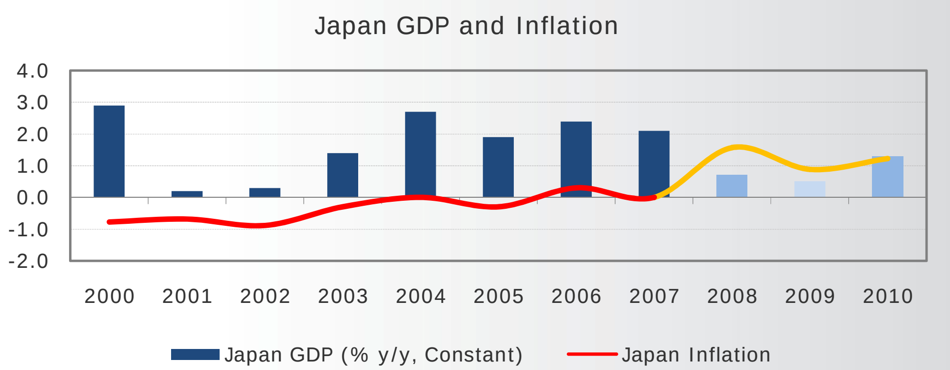
5 Dec 2008

Japan (Second in command)

Japan slid into its first **technical recession** in seven years as exports slowed sharply, with expectations that the economy **could record four quarters of negative growth**. During 2001, the world's No. 2 economy contracted for 3 quarters after the bursting of the dot-com bubble. Exports of goods and services rose by only 0.7% q/q in the third quarter of 2008, after dropping 2.6% during the second quarter. Consumption expenditure (which makes up more that half of the Japanese economy) rose a meager 0.3% q/q in the third quarter.

Japan's Manufacturing Purchasing Managers' Index dropped to 36.7 points in November, which is the lowest on record and well below the critical 50 points mark.

Japan introduced a near-zero rate in March 2001, to try and flood the market with cash (quantitative easing policy). The policy ended in July 2006 when rates were lifted to 0.25%, followed by another 0.25% in February 2007.



Source and forecasts: International Monetary Fund (IMF)

Outlook

The Japanese government announced a **27 trillion yen ($275.0bn) stimulus package**, which include expanded credits for small businesses and a cash payback to every household. $20bn will be in the form of **fixed-sum benefits to households**, meaning a $600 payment for a family of four. It also guarantees **expanded loans and credits to struggling small- and mid sized firms** and includes a **cut in payroll deduction for employment insurance** as well as **reduced fees on highways**.

The Bank of Japan (BOJ) cut its key **interest rate (now at 0.3%)** during October, for the first time in seven years, to support the falling stock market and to rein in the surging yen.

Efficient group

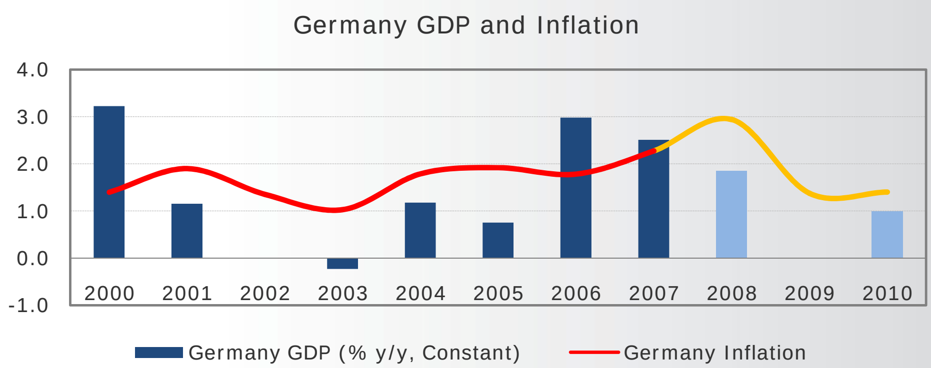
Efficient Group (Pty)Ltd • FSP No: 859
Authorised Financial Services Provider

5 Dec 2008

Germany

Germany, Europe's largest economy, fell into a **technical recession** as its GDP contracted by 0.5% and 0.4% during the third and second quarters respectively. Declining global demand has weakened exports, the main driving force behind the German economy. German carmakers are preparing for a harsh winter, with both Opel and Daimler closing its production plants for between two weeks and one month, to reduce production and force workers to take vacation.

Germany's engineering giant Siemens had to scale down its outlook for 2009 and announced a savings program which could include 16,750 job cuts by 2010.



Source and forecasts: International Monetary Fund (IMF)

Outlook

Germany's government announced an economic stimulus package of 50 billion euro as growth for 2009 are expected to be zero and business confidence is at its lowest level since 1993.

Official figures confirmed that the 15 countries that share the Euro currency are in a recession, and that inflation is falling faster than anticipated due to sliding energy and commodity costs. This should lead the European Central Bank to cut its benchmark rate by half a percent to 2.75% at the beginning of December. In November, the European Commission approved a tax and spending stimulus package worth 200 billion euro (around 1.5% of Euro GDP).

81 Dely Rd, Waterkloof, Pretoria, South Africa, 0181 Tel: +27 (0)12 424 9632 Fax: +27 (0)12 346 4785

Efficient group

Efficient Group (Pty)Ltd • FSP No: 859
Authorised Financial Services Provider

5 Dec 2008

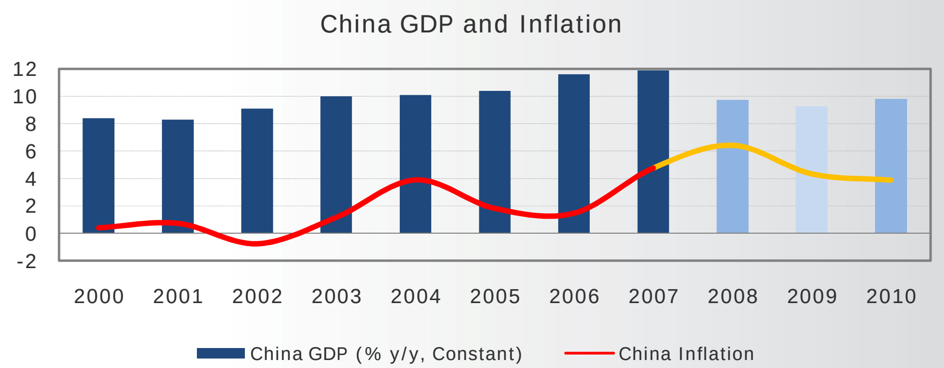
China

If the 2008 Olympic Games, hosted in Beijing is anything to go by, China is definitely able to plan and pull of huge projects. It is however evident that China will be (and has already been) affected by the slowdown in demand for its exports, from especially the US, Japan and Europe. The size of China's population remains mind blowing, with the number of people estimated at around 1.32 billion in 2007, i.e. 28 times more than SA's! To absorb new workers entering the workforce, **a minimum growth rate of around 8 percent per annum needs to be maintained**, hence the central government has set 2009's economic growth target at above 8 percent (The World Bank's estimate for China is 7.5 percent). Growth for 2009 is expected to be similar to the 9.0% recorded in the third quarter, and although this is still very strong relative to developed countries, it is a definite slowdown compared to the 11.9% recorded for 2007.

House prices in Shanghai, Shenzhen and Guangzhou are plunging and construction of homes, offices and factories fell 16.6% in October (after rising 32.5% a year earlier), according to Macquarie Securities Ltd. Building is a major contributor to China's growth, adding a quarter to fixed asset investment and employing around 77 million people.

China's **export orders and output shrank** in November by the most on record, with dampened demand for toys, textiles and computers. Exports and property together have contributed to about half the expansion in China's GDP.

The Chinese government imposed strict price controls on a range of energy products, food and other key commodities in fear that inflation could spiral out of control. These measures were removed in December as inflation cooled significantly from its peak of 8.7% y/y (12 year high) in February.



Source and forecasts: International Monetary Fund (IMF)

Efficient group

Efficient Group (Pty)Ltd • FSP No: 859
Authorised Financial Services Provider

5 Dec 2008

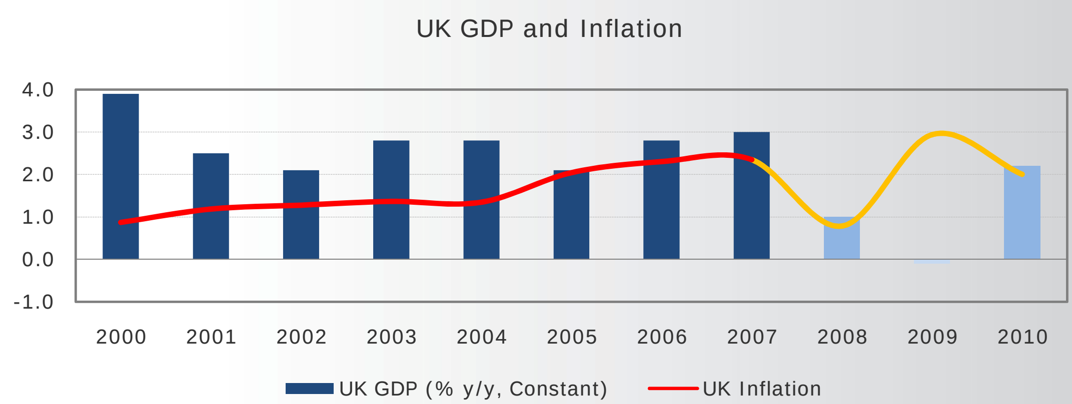
Outlook

The People's Bank of China **cut its benchmark interest rate** by 1.08 percentage points to 5.58% in November. It cut the **reserve money requirements** ratios for banks by 1 percentage point at large banks and 2 percentage points at other banks and removed curbs on lending. The reduced reserve requirements alone will pump an estimated $90bn into the financial system.

United Kingdom

The U.K.'s GDP fell by half a percent in the third quarter as household consumption expenditure, capital formation and the export of goods and services cooled. **Unemployment** increased sharply and the number of people receiving unemployment benefits rose to almost 1 million, a seven year high.

The Bank of England's (BoE) main fear is that the recession will take **inflation** to below the 2% target. In response to this, the BoE decided on an unprecedented 150 bp rate cut in October, which took the Bank Rate to a 57 year low of 3.0%. Inflation eased significantly in the UK during October and the Office for National Statistics reported a rise of 4.5% y/y, down from the 5.2% peak in September. The BoE slashed its rates by another 100 bp during their December meeting.



Outlook

The UK government announced a ''fair and responsible'' **fiscal stimulus package** of $30bn (1 percent of GDP), including a **cut in value added tax** from 17.5% to 15.0% until the end of 2009.

81 Dely Rd, Waterkloof, Pretoria, South Africa, 0181 Tel: +27 (0)12 424 9632 Fax: +27 (0)12 346 4785

Efficient Group (Pty)Ltd • FSP No: 859
Authorised Financial Services Provider

5 Dec 2008

Conclusion

Taking the outlook for the heavyweight economies as a benchmark, the prospects for global GDP growth in 2009 seems very weak. The US, Japan and the Euro area are all in (or on the brink of) a recession – which could make this the first time all three these major economic powers are in recession at the same time since WWII.

What is evident is that unprecedented amounts are being provided by monetary and fiscal authorities as stimulus to try and counter the slowdown. The speed and effectiveness of these measures will vary, making it difficult to determine their actual impact on growth. What is certain is that without these packages the world's outlook on growth would have been much worse.

South Africa is a small (contributed 0.5% to global GDP in 2007) and open (2007 imports 28% of GDP, exports 24% of GDP) economy and will feel the brunt of a global economic slowdown. The SA economy grew by a meager 0.2% q/q during the third quarter of 2008, and circumstances will get worse before they get better.