Events To Watch: 26 – 30 October 2009

Report by Freddie Mitchell and Merina Willemse (Economists)

- ***Medium Term Budget Policy Statement (MTBS)****: Tuesday 14:00*
- ***Consumer Price Index*** *(September): Wednesday 11:30*
- ***Producer Price Index:*** *(September): Thursday 09:30*
- ***M3:*** *(September): Thursday*
- ***PSCE:*** *(September):Thursday*
- ***Trade Balance:*** *(September): Friday*

Data	Year Ago	Previous Period	Efficient Expectation
CPI	+11.2%	+6.4%	+6.2%
PPI	+16.0%	-4.0%	-3.1%
Trade Balance	-R5.1 bn	-R1.9 bn	- R1.67 bn
M3	+16.4%	+5.5%	+4.7%
PSCE	+16.4%	+2.3%	+2.0%

Medium Term Budget Policy Statement (MTBS):

The effect of the global economic slowdown has also been felt by fiscal finances this year. An expansionary fiscal policy framework was adopted to counter the recession in South Africa. Over the past year, there have been various infrastructure development projects with an eye on the 2010 Soccer World cup and beyond. There were also significant increases in the unplanned funding to state owned institutions (ESKOM, DENEL, SAA) and social grants expenditure. The extra expenditure on state owned entities also placed continues pressure on state finances. Uncertainty about future expenditure patterns makes it very difficult to estimate the government expenditure for 2010/2011 accurately. It is however very worrying that fiscal expenditure increased substantially during 2009/2010 whilst fiscal revenue is much lower than expected.

Declining tax revenue, especially from companies, will inevitably cause the fiscal deficit to be far greater than projected by the budget in February 2009. Efficient's forecast for the fiscal deficit as a percentage of GDP for 2009/2010 is a frightening -8.0%. This is much worse than the -3.8% budgeted for this period by National Treasury. If the domestic economy recovers during the last quarter of 2009 at 0.5% (constant seasonally adjusted

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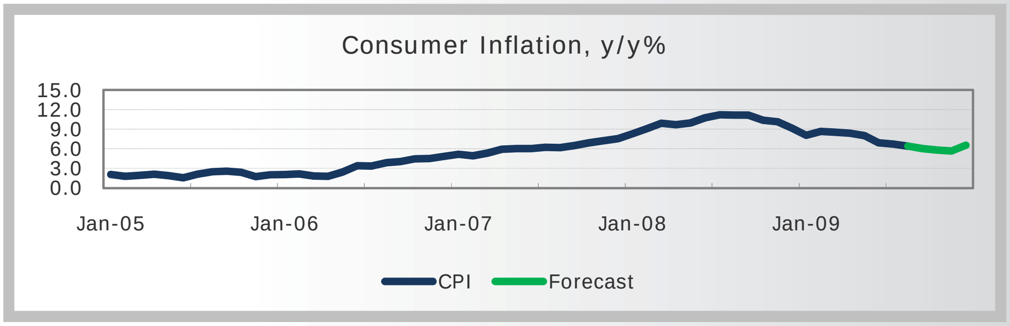
quarter on quarter) and throughout 2010 at an estimated 1.8%, it may improve tax revenue collection and ease the pressure on the fiscal deficit as a percentage of GDP. Reduced pressure on fiscal finances will lead to relatively acceptable debt levels and subsequently improve the Public Sector Borrowing Requirement (PSBR).

Consumer Inflation:



Consumer inflation averaged 7.8% y/y during the 2nd quarter of 2009 and the August figure (+6.4%) came in at a slightly lower margin. The resilience of price increases remains worrying as consumer prices remains sticky downwards as CPI measured 6.7% (y/y) at the end of July. The prices of the ***food and non-alcoholic beverages*** category was very sticky downwards for most of 2009. Some slowing in food prices were witnessed during August as food prices escalated by 6.8% y/y compared to the 8.4% (y/y) in July the. Only three of the 12 major inflation categories recorded rises of less than 6.0% in July – i.e. clothing and footwear (+5.4% y/y), transport (-3.5%) and communication (+0.8%).

Other upside contributors in the June CPI were; housing and utilities (+22.6%) and miscellaneous goods and services (+13.6%) that continue to increase. Amongst provinces, Mpumalanga (+7.4%) recorded the highest provincial inflation, while the Limpopo province recorded the lowest inflation (+5.7%). Amongst all the sub-categories, the highest price rises were recorded by electricity and other fuels (+26.0%) followed by recreational and cultural services (+21.5%) and hot beverages (+20.7%). We expect CPI to start decelerating moderately to around 6.2% (y/y) in September but the effects of the higher electricity prices is still filtering through and may keep inflation at higher than expected levels.

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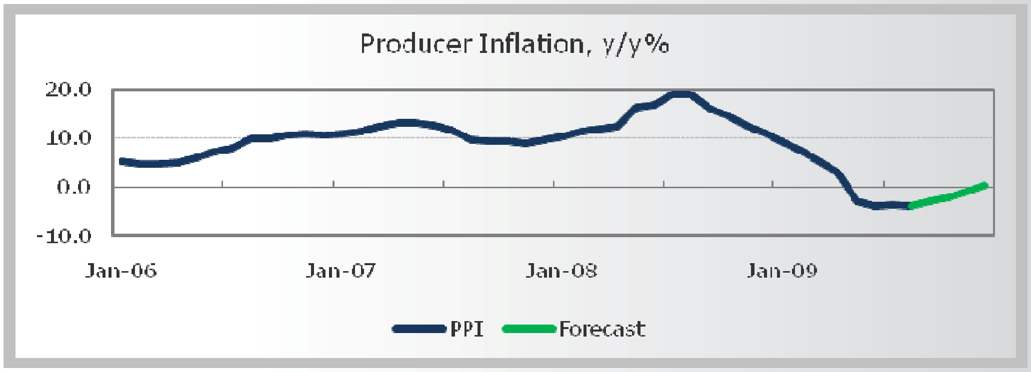
Producer Inflation:



The June PPI data will be released on Thursday 11:30 am. PPI yet again recorded another contraction as producer prices declined by -4.0% (y/y) in August 2009.

Huge volatility and reduced in international demand for metal and other commodities affected prices during the last 18 months and had serious impacts on the PPI trend during this period. ***Mining and quarrying*** has a weight of almost 20.0% in the PPI basket and producer prices measured within this category. The contraction of -14.2% (y/y) in ***mining and quarrying*** on the back of a 15.2% y/y decline during July therefore provides ample support for the continuous downward trend witnessed in PPI during June.

Basic iron and steel prices created havoc during May to December of 2008 as this item (fuelled by a boom in international metal prices at that stage) jumped from 12.0% y/y in April, to 75.8% in June 2008. (These prices are measured quarterly by StatsSA). Prices of *basic iron and steel* have steadily declined since the wake of the international financial crisis and a contraction of 14.3% (y/y) was recorded during May 2009 followed by another contraction of 14.7% in June. This sector experienced a further decline of 15.5% y/y in July while August recorded another 13.2% y/y decline. These declines come as a consequence of the high base effect that still plays a notable role in the year-on-year decrease.

Developments in producer food inflation provides some positive outlook to consumer food prices as food at manufacturing level eased to 3.7% (y/y) in June. This trend continued as the increase in food at manufacturing level to slowed to only 0.8% y/y during July while the August figure was barely positive at 0.1% y/y.

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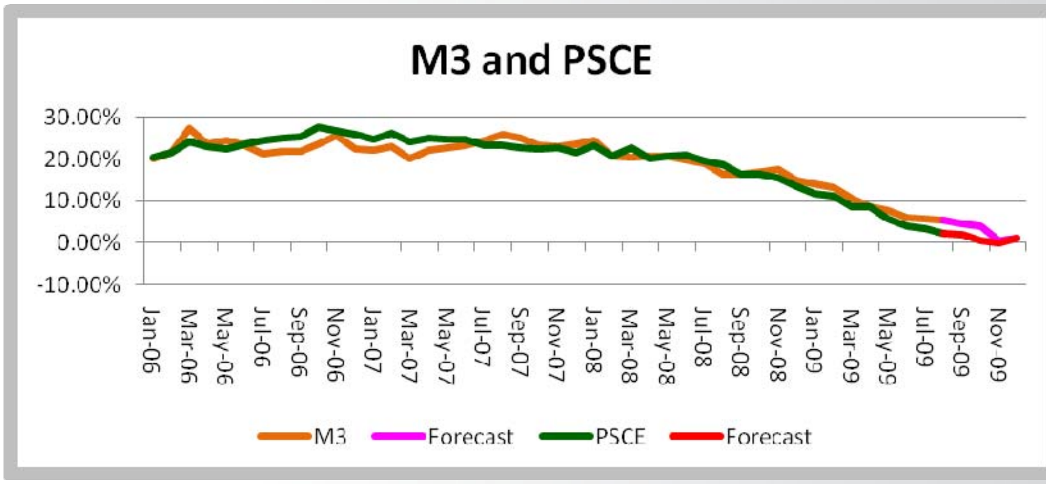
M3:

The recessionary conditions in the South African and global economy are mirrored by behaviour in movements in the monetary and credit aggregates, which consequently affects the real economy. Money supply **(M3)** within the economy slowed further on a quarterly basis during the 2nd quarter of 2009 from 4.1% in the 1st quarter to 1.4% in quarter two. Analysis on an annual basis reveals that there is a serious the slowing in the pace of money supply since the beginning of 2009. The pace of growth in Money Supply (M3) declined from 13.9% y/y in January to 5.5% in August 2009. The large deceleration in M3 growth is also reflected in the slowdown in economic activity and lower inflation levels.

Private Sector Credit Extension (PSCE):

The growth in banks' ***total loans and advances extended*** to the private sector declined sharply since the wake of the financial crisis in September 2008 from an average of 19.4% in 2008 to 6.9% in 2009 year to date. Levels this low was last observed in the 1960's. This decline in PSCE came as a result of a slowdown in overall economic activity and stricter lending conditions imposed banks and clients. Growth in PSCE on an annual basis decelerated sharply since the start of 2009, coming down from 11.9% (y/y) in January to 2.3% (y/y) in August 2009.



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Trade Balance:

The trade balance in August came in at R1.9bn in the red from over R400 million positive in July. This negative figure was not expected as most analysts expected a R500 million positive figure. On the imports side, SA received the bulk of its imports from Asia followed by Europe during August. Imports decreased by 3.8% during August while exports fell by nearly 9.2%. This larger proportionate decrease in exports resulted in a negative trade balance for August.

On the **exports** side, SA's biggest clients in current export figures are **Asia** and **Europe.** The year-on-year change in these exports turned negative in February 2009 for the first since Oct 2007. The contraction trend in exports remains unchanged since February as exports contracted by 27% during August. Exports to South Africa's' main trading partner **Asia** and **Europe** contracted on an annual basis by 29.3% and 36.4% respectively. These developments underscore the **slowdown in international economic activity** that is also impacting the local export sector.