

Efficient Group

Growth Under Severe Pressure

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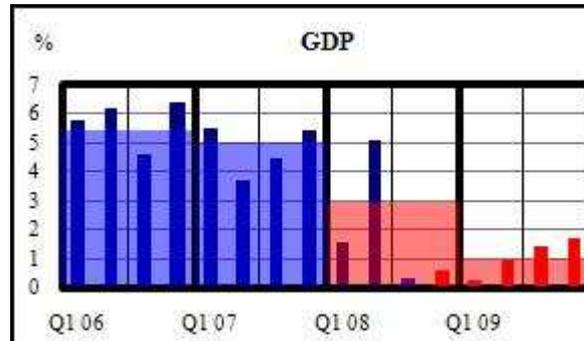
Gross Domestic Product, 2008Q3 (q/q seasonal, annualised):

- **GDP of South Africa: 0.2%** (2008Q2: 5.1%)
- **Efficient expectation: 1.0%** (I-net consensus: 0.4%)

The table below is a summary of the annual growth rates from 1998:

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Growth Rate	0.5%	2.4%	4.2%	2.7%	3.7%	3.1%	4.9%	5.0%	5.3%	5.1%
Previous									5.4%	

Notes:



The 0.2% q/q rise is the weakest growth figure since 1998Q3 (-0.9% q/q), and confirms that economic growth is currently under severe stress. It also confirms that the economy has not entered a technical recession (two consecutive quarters of negative growth).

Significant adjustments were made to previous quarters' growth, with real annualised economic growth rates for

2008Q1 down to 1.6% (revised from 2.1%) and for 2008Q2 up to 5.1% (revised from 4.9%).

A large divergence exists between the performances of GDP sub-sectors, complicating the forecast for growth into 2009. This can be expected as sub-sectors react within different timeframes and to different degrees to changes in monetary policy, export volumes and consumer demand.

On the upside, *finance, real estate and business services, construction* as well as *transport, storage and communication* made the largest contributions during the third quarter.

Countering these were *manufacturing, mining and quarrying* and *wholesale and retail trade, restaurants and hotels*, which all recorded significant contractions. Again the reasons for the contractions differ, blurring the outlook on GDP's future direction.

The following table is a summary of the contributors to GDP growth:

	Actual; annualised		
	Relative size (2008Q3)	Q3'08Q:Q	Q2 '08Q:Q
Gross Domestic Product	100.0	0.2	5.1
Agriculture, forestry and fishing	2.5	16.1	19.4

Mining and Quarrying	5.1	-8.0	19.2
Manufacturing	16.4	-6.9	14.3
Electricity, gas, and water	2.0	3.0	-2.1
Construction	3.6	15.0	9.1
Wholesale Retail Trade; Restaurants and Hotels	13.8	-6.9	-4.0
Transport, storage and communication	10.0	4.5	4.3
Finance, real estate and business services	19.9	3.2	3.3
General government services	12.4	3.9	2.5
Personal Services	5.3	6.3	4.1
Taxes less subsidies on products	8.8	-1.0	2.2

Notes on sub-sectors:

Agriculture, forestry and fishing are performing spectacularly with average growth of almost 17.0% q/q during the last four quarters. According to StatsSA, field crops, horticulture and animal products supported it during the third quarter.

Mining and Quarrying has been extremely volatile this year as the first quarter's electricity shortages created a very low base from which to work. However, from the monthly StatsSA data, it can be seen that mining production has been contracting by 7.3% y/y on average during the first nine months of 2008.

The second largest GDP sub-sector, **manufacturing**, provided the largest negative effect to the third quarter's growth (-1.1 percentage points). Future production performance will likely be a trade-off between better export prospects (due to weak rand) countered by weaker demand (both domestic and global).

Being responsible for much of the first quarter's gloomy growth figure, the **electricity, gas, and water** sector managed to up its performance during the third quarter albeit from a low base. Sufficient electricity (and more recently, water) supply remains a serious concern to future growth prospects.

Construction has been a star performer and, with exception of its (downwardly revised) second quarter growth, this item has recorded double digit rises since 2004Q1!

The effect of higher interest rates, ballooning inflation and lower consumer demand is most evident in the **wholesale and retail trade; restaurants and hotels** sector. The two contractions during 2008Q2 and Q3 is the weakest performance of this item since the start of our quarterly data in 1993. According to StatsSA, weakness specifically stemmed from the motor trade and retail industries.

Transport, storage and communication came in stronger than we expected and was supported by land transport, transport support and communication services.

The **finance, real estate and business services** are the largest sub-sector and its second quarter growth was revised higher to 3.3% from 2.3% previously. Together with **construction**, this item contributed the most percentage points to third quarter growth. The performance was mostly due to activities in insurance, real estate and finance.

According to the national accounts, community, social and personal services are divided into two categories, **personal services** and **general government services**.

General government services contributes a meaningful part to GDP (12.4% of GDP basket) and is made up from the activities of general government in producing non-market community and social services, e.g. public administration, defence, health and education. It contributed a meaningful 0.5 percentage points to the third quarter growth and could be one of the few supporting sectors going into 2009.

Personal Services include private enterprises as well as non-profit organisations serving households (NPISH) and domestic workers. The 6.3% q/q rise recorded during the third quarter is this items strongest growth since 2006Q3.

indicates that, for now, this weakness is limited to certain sectors. The discrepancy between sub-sectors complicates forecasting but could help SA to not enter into a technical recession. What seems clear however is that 2009 is going to be a tougher year and we expect growth to drop from around 3.0% y/y in 2008 to 1.0% y/y in 2009. As general economic activity slows, future consumer and business activity (and confidence) will remain low which limits the prospects of job creation. Hopefully, some monetary easing during 2009 and the prospects of the 2010 World Cup could help in spurring optimism, while we watch the global economic turmoil play out.

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