The big bad wolf

The week in economic perspective

4 November 2011

Report by Merina Willemse

Greek Prime Minister George Papandreou is certainly not the most popular statesman in the European Union (EU) after the stunt he pulled this week. Following his call for a national referendum on last week's proposed EU debt deal he really painted himself as the EU's big bad wolf. The deal, comprising a €130bn rescue package for the eurozone, including an €8bn slice for Greece, almost unravelled before it could kick in. Global financial markets tumbled in reaction, losing most of the progress made last week.

Talk about a slap in the face for everyone who has been working day and night to find a solution! The fact that the call for a referendum last week was made shortly after the entire rescue deal had been painstakingly formalised, is what got on everyone's nerves. It is being debated as the political gamble of Papandreou's career, probably made to silence growing opposition to his policies.

When considering all the facts, everyone knows that Papandreou, on behalf of Greece, didn't have much of a choice in the end. However, the scenario that could have followed the rejection of the rescue package is not a pretty one. Greece would have defaulted on its debt payments by next week, got booted out of the eurozone and would have had to return to the drachma. EU subsidies would have dried up, leaving no way out of this mess. Greece's own currency cannot cover the debt from big European banks (and other global banks), consequently causing its own banking sector to fail (and seriously damaging others'). This would have resulted in turmoil on international financial markets in the short-term. On the whole however, I believe Europe (and therefore also the world) would have survived Greece. All things said, the markets seem anxious to get the whole Greece debacle over and done with – it is time to look ahead.

Elsewhere in the world the economic outlook unfortunately also remains dim. The US Federal Reserve has downgraded its economic growth forecast at the policy meeting on Wednesday, increased unemployment projections for this and next year and forecast lower inflation over the next three years. There is no indication yet whether further quantitative easing will be implemented by the US Fed.

Global sentiment was also affected by disappointing manufacturing data for the US and China - the world's largest oil and energy consumers. The Institute of Supply Management reported slowing growth in the US manufacturing sector in October: the US Purchasing Managers Index (PMI) slipped to 50.8 from 51.6 in September. The official Chinese PMI dropped to 50.4 in October from 51.2 in September. On the positive side, official data published on Tuesday indicated that Britain's economy grew faster than expected in the third quarter. Signs of high inflation, government cutbacks and the eurozone debt crisis, could still derail the country's very delicate growth prospects.

The Group of 20 advanced and developing nations, also known as the G20 summit, took place in Cannes, France, this week. Our own president, accompanied by (among others) our minister of finance joined the talks. Highlights of the summit included issues such as the global economic situation, strengthening of the financial sector, the volatility of commodity markets and their effects on food prices. The reformation of the International Monetary Fund to increase the voice and participation of sub-Saharan Africa was also a priority topic.

Local economic data released during the week provided mixed results. While lower than expected growth in private sector credit extensions in September pointed to subdued consumer demand, NAAMSA (National Association of Automobile Manufacturers of South Africa) released further double digit growth figures for the vehicle sales during October. The continued growth momentum in vehicle sales is occurring despite the low levels of local business confidence reported by SACCI (South African Chamber of Commerce and Industry).

Looking ahead to next week, the South African Reserve Bank (SARB) will release the figures of foreign exchange and gold reserves for the month of October and Stats SA will release its estimate of manufacturing and mining production for September. On Thursday, the SARB's Monetary Policy Committee will discuss the repo rate, which we believe will remain unchanged due to the prevailing uncertainties in the current international economic climate.

81 Dely Road • Hazelwood • Pretoria, South Africa •Tel: +27 (0)12 460 9580 • Fax: +27 (0)12 346 6135 • www.efgroup.co.za
Efficient Group Ltd Reg no: 2006/036947/06

This Report is confidential and for the information of clients only. Information and sources in this document are from sources believed to be reliable, but cannot be guaranteed due to the nature thereof. Information contained in the report should not be construed as financial advice. Professional financial advice should be sought before any course of action is pursued. Efficient Group (Pty) Ltd shall not be responsible and disclaims all liability for any loss, liability, damage (whether directly or consequential) or expense of any nature whatsoever which may be suffered as a result of or which may be attributable, directly or indirectly, to the use or of reliance upon any information contained in this report. The company, directors and staff may from time to time have interests in the shares mentioned in this report.