The sceptical optimist:
– Mike Schussler Economists.co.za

SAICA Northern region.
Economy global risk and prospects.

- Global Update.
  - The BIG Debt Story.
  - Commodities.
- Africa.
- South Africa.
  - Overall Economy long term vs. short term.
  - Budget
  - Labour market and salaries.
    - Debt and retail.
  - Spending; Rand and inflation.
International Leading indicators.
Two track world growth

GDP History and Forecasts.
IMF World Economic Outlook.

Emerging & Developing Economies

Advanced Economies

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Could be three track growth with SA close to the slowest track....
Vehicles sales numbers

Number of Vehicles sold.

Four month moving average.

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Nearly all income groups got richer up to 2008. No race to the bottom.

Average nearly 25% improvement in real terms.

Global income growth from 1988 to 2008

- Booming global elite
- Rising incomes in emerging economies, mainly China
- Decline of developed world middle-class
- Very poorest locked out of growth

Poorest ← Percentile of global income distribution → Richest
Growth forecast pick up for first time in 4 years.

- Growth around 3% in 2013 and expected 3.6% in 2014. Perhaps similar in 2015.
  - Advanced economies' grew 1.2% in 2012 and estimates of 1.2% in 2013. Improves to 2.1% in 2014
    - But America much better than Europe.
  - Emerging markets grew 4.9% in 2012, and are expected to grow at a little less than 4.9% in 2013 with a pick up in 2014 to above 5%.
  - China made 7.7% and is expected to make 7.3% in 2014 - lowest in over two decades.
    - China is the worry at present as it may be slowing faster than many believe. Growth still say 4% plus at worst this year or next but could result in slower world growth if slows.
This however remains a debt crisis; but one that will heal over time.
USA Total debt to GDP - Government and Private sector

United States Debt to GDP outstanding


Percentage of GDP

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Government Debt summed up in two worlds.

Average, General Government Gross Debt, IMF Fiscal Monitor, Estimate, Percent of GDP

- Advanced Economies
- Emerging Markets

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Loose monetary policy is something you can bank on......

Very low interest rates keep the world going at present.

They are unlikely to raise any time soon perhaps not even in 2015!
Central banks pumped more than $20 trillion into world economy!

- Overall Central bank balance sheets now have over $20 trillion in assets as they bought debt and the World Debt burden is just over $100 Trillion!
  - That $33,333 for every working adult!
- The money is helping but it has to go somewhere ....Asset bubbles?
- Slowly stopping but rates will be generally on hold all over but EMERGING MARKETS may have to increase now.
Commodity cycle with this in the back ground.
Commodity indices in USD

Commodity Indices, The Economist, USD

Non-Food Agricultural Index
Food Index
All Industrials Index

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Debt free consumers with weak institutions.

Africa. The new SA frontier.
The True Size of Africa
A small contribution in the fight against rampant Inmappancy, by Kari Krause

Graphic layout for visualization only (some countries are cut and rotated) But the conclusions are very accurate refer to table below for exact data

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>AREA x 1000 km²</th>
<th>%</th>
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<tbody>
<tr>
<td>China</td>
<td>9.597</td>
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<tr>
<td>USA</td>
<td>9.629</td>
<td>9.30</td>
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<tr>
<td>India</td>
<td>3.287</td>
<td>3.19</td>
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<tr>
<td>Mexico</td>
<td>1.964</td>
<td>1.91</td>
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<td>Peru</td>
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<td>1.25</td>
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<tr>
<td>France</td>
<td>633</td>
<td>0.61</td>
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<tr>
<td>Spain</td>
<td>506</td>
<td>0.49</td>
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<tr>
<td>Papua New Guinea</td>
<td>462</td>
<td>0.46</td>
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<tr>
<td>Sweden</td>
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<tr>
<td>New Zealand</td>
<td>270</td>
<td>0.26</td>
</tr>
<tr>
<td>United Kingdom</td>
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<tr>
<td>Nepal</td>
<td>147</td>
<td>0.14</td>
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<tr>
<td>Bangladesh</td>
<td>144</td>
<td>0.14</td>
</tr>
<tr>
<td>Greece</td>
<td>132</td>
<td>0.13</td>
</tr>
</tbody>
</table>

TOTAL AFRICA 30.102

30.221

In addition to the well known social issues of illiteracy and immameracy, there also should be such a concept as "inmappancy", meaning insufficient geographical knowledge.

A survey with random American schoolkids let them guess the population and land area of their country. Not entirely unexpected, but still rather unsettling, the majority chose "1-2 billion" and "largest in the world", respectively.

Even with Asian and European college students, geographical estimates were often off by factors of 2-3. This is partly due to the highly distorted nature of the predominantly used mapping projections (such as Mercator).

A particularly extreme example is the worldwide misjudgement of the true size of Africa. This single image tries to embody the massive scale, which is larger than the USA, China, India, Japan and all of Europe......combined!

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African Growth

World Bank, Sub-Saharan Africa, GDP growth and GDP per Capita - 10 year moving averages
African GDP forecasts based on Population & Dependency forecasts

- Sub-Saharan Population
- Africa @20% of World Per capita GDP.
- 0.5% higher growth per capita
- 1% higher growth per capita
- Age and dependency related growth
Big improvement in educational enrolment.

Sub-Saharan Africa, Participation in Education.

- Primary enrolment %: From 52% to 100% in 40 years!
- Secondary enrolment %: From 11% to 41% in 40 years
- Tertiary enrolment %: From less than 1% to 7.5% in 40 years

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GDP changes in Africa are big or could be game changing

- Ghana GDP up 60% on review while Zambia Recently had 25% added!
- On 31 March Nigeria will have between 40% and 80% added to its GDP potentially making it bigger than SA.
  - This could upset our leadership role in Africa as Nigeria will be seen as new powerhouse.
    - Population and GDP bigger?
- Others will also have GDP changes.
Does the South African Economy have anything left in the tank?

Slow growth and a share of problems as capacity constraints and strikes bite.
Longer term GDP growth.

SA Decade long moving average GDP growth in % change


0.0 1.0 2.0 3.0 4.0 5.0 6.0

SA Decade long moving average GDP growth in % change
## Much lower consensus growth forecasts

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP Growth Consensus (Last year budget time forecasts)</th>
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<tbody>
<tr>
<td>2012 (actual)</td>
<td>2.5</td>
</tr>
<tr>
<td>2013 (actual)</td>
<td>(2.71) 1.9</td>
</tr>
<tr>
<td>2014</td>
<td>(3.53) 2.43</td>
</tr>
<tr>
<td>2015</td>
<td>(3.84) 2.93</td>
</tr>
<tr>
<td>2016</td>
<td>(3.53) 3.32</td>
</tr>
<tr>
<td>2017</td>
<td>(3.59) 3.38</td>
</tr>
<tr>
<td>2018</td>
<td>3.6</td>
</tr>
</tbody>
</table>
Treasury GDP Forecasts (declining)
Current Account Deficit (Forecasts)

- MTBPS 2012: -5.6%
- Budget 2013: Average over 3 years -5.9%
- MTBPS 2013: -6.2%
- Budget 2014: -6.4%
Treasury Inflation Forecasts

Average over 3 years

- MTBPS 2012: 5.2%
- Budget 2013: 5.5%
- MTBPS 2013: 5.6%
- Budget 2014: 5.9%
Budget Deficit (% of GDP)

<table>
<thead>
<tr>
<th>MTBPS 2012</th>
<th>Budget 2013</th>
<th>MTBPS 2013</th>
<th>Budget 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>-4.5%</td>
<td>-4.6%</td>
<td>-4.2%</td>
<td>-4.0%</td>
</tr>
<tr>
<td>-3.7%</td>
<td>-3.9%</td>
<td>-4.1%</td>
<td>-3.6%</td>
</tr>
<tr>
<td>-3.1%</td>
<td>-3.1%</td>
<td>-3.8%</td>
<td>-4.0%</td>
</tr>
<tr>
<td>-3.0%</td>
<td>-3.1%</td>
<td>-4.0%</td>
<td>-4.0%</td>
</tr>
<tr>
<td>-2.5%</td>
<td>-3.8%</td>
<td>-4.1%</td>
<td>-4.0%</td>
</tr>
<tr>
<td>-2.0%</td>
<td>-4.0%</td>
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</tr>
<tr>
<td>-1.5%</td>
<td>-2.5%</td>
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</tr>
<tr>
<td>-1.0%</td>
<td>-2.0%</td>
<td>-4.0%</td>
<td>-4.0%</td>
</tr>
<tr>
<td>-0.5%</td>
<td>-1.5%</td>
<td>-4.0%</td>
<td>-4.0%</td>
</tr>
</tbody>
</table>

Legend:
- 2013/14
- 2014/15
- 2015/16
Revenue forecast as % of GDP
Ever higher....

- MTBPS 2012: 27.6%
- Budget 2013: 28.1%
- MTBPS 2013: 28.6%
- Budget 2014: 29.0%

2014/15 2015/16
Expenditure forecast as % of GDP. Also higher
What was not said.

- NHI kicked further down the road. Just what must first be done.
- Not a word on strikes and their damaging effect on economy.
- The Social security that was promised in 2008 is also missing.
- Government delivery mentioned but not against previous targets.
Possible new tax on acid mine drainage.
Carbon tax only in 2016.
No mention of means test for old age grants which was supposed to go.
Gross Debt to climb to 48.5% of GDP but many are expecting that to move to well over 50%.
- This will be record level for SA at 48.5%
SA forecasts

- Higher than forecast inflation on the way.
  - Both as oil and currency play a role.
- Growth in SA potential now looks lower as constraints come to the fore.
  - Less than average growth for next two years.
- The trade deficit and government deficit will weaken currency over time.
  - But weak Rand is not helping exports as capacity constraints such as power are hurting.
Employment and the not employed (not the same as unemployed as that is a definitional problem)

Labour markets and consumers.
Employed adults vs. Not employed

South Africa employed vs Not Economically Active Adult population

Q1 2008, Q3 2008, Q1 2009, Q3 2009, Q1 2010, Q3 2010, Q1 2011, Q3 2011, Q1 2012, Q3 2012, Q1 2013, Q3 2013

Not employed

Employed

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Employment

- 4 out of 10 adults work.
  - 2,5 in the formal non farm sector. (similar to non-farm payrolls in USA and also 98% of tax payers in this sector)
  - 1,5 work in informal, domestic or farm and subsistence sector.
- Formal employment outside of government sector constrained.
Government salaries as % of GDP. There you’re growing clientele.
Creating work is a bigger problem than salaries.

- SA not creating meaningful work outside of public sector.
- Those in work are getting real salary increases.
  - But taxes, medical insurance and garnishee orders are eating evermore of take-home pay.
  - Opportunity to sell more product to beat the taxman as RA will soon have same status as Pension fund and up to 27.5% can be saved.
Something on take-home pay. From BankservAfrica data.

- Only 40.5% of people took home R10 000 or more from their formal job.
- Only 12.4% took home more than R20 000 or more.
- Only 1.6% took home more than R50 000 in February.
- The median income is between R8000 and R9000 for take-home salary.
Consumers continue to remain under pressure despite higher salaries. Consumer credit records.
The risks are going on to the Rand and Rates.
Yield curve higher.

South Africa, Government Benchmarks, Yield

- Yields, 2009
- Yields, Latest
- Yields, 2012

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Leading to a weaker Rand.

South Africa, FX Indices, South African Reserve Bank, Nominal Effective

The 0 Balance line, rhs

South Africa, Foreign Trade, Total Balance, ZAR, rhs

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Performance of the Rand vs. other EM currencies (Weak rand)

Emerging market currencies to USD since start 2013

Dollar strength to EM currencies

- Argentina: -60%
- Russia: -50%
- Turkey: -40%
- Chile: -30%
- Brazil: -20%
- Philippines: -10%
- India: 0%
- Thailand: 10%
- Mexico: 20%
- Hungary: 30%
- Kenya: 40%
- China: 50%
- Poland: 60%

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Leading to higher inflation
Big Strokes for folks to take with.

Summary
Growth well below 2.5% in 2014.
- About the same for 2015.
- Not the end but sure slow – stagnation.

Inflation 6,5%.
- Slightly lower in 2015
- Just higher overall – making life difficult.

Rand weakness persists.

Rates to rise to 10,5% prime at year end. Perhaps 11,5% by mid year. (12,5% possible)
More Summary

- No big formal work creation although salaries will remain on the up.
  - Unemployment to stays at 23% - 26% for while.
- No great changes in commodity prices.
  - All eyes on China for commodity prices now.
- Infrastructure spend helps to keep current account negative.
  - CA deficit stays at 5% plus.
  - Cause of Rand weakness and inflation.
Hold on Hold Out is a good motto for now. But also look for new business too.

Thanks.