

A report compiled by Citadel Investment Strategists

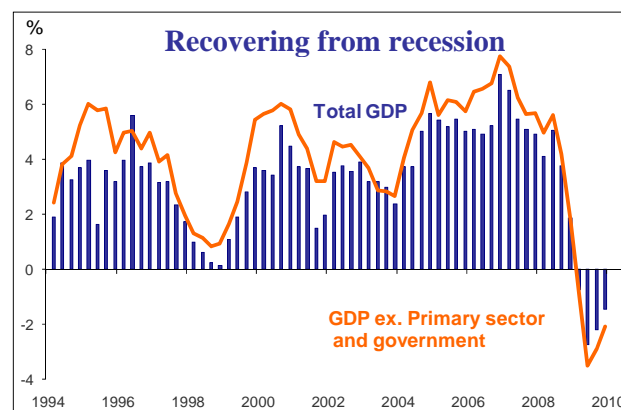
SA economy picked up in 4th quarter

The South African economy recovered further in the 4th quarter as most sectors recorded positive growth. Real activity improved 3.2% (saar) in the quarter, although real GDP decreased 1.8% in 2009. The pickup in local economic activity in the second half of 2009 was in line with global trends. The recovery is mainly export led, and will continue to be in 2010 while the recovery in local demand is expected to be modest.

The agriculture sector experienced a poor year, contracting 3.2%. Mining production recovered in the 4th quarter but was disappointingly weak during the rest of 2009. The manufacturing sector rebounded in the second half of the year, following the global trend. However, production was still 10.7% lower in 2009 compared to 2008. Although activity in the construction sector slowed during 2009, the sector still recorded strong growth of 7.8% in 2009, mainly on the back of infrastructure activity.

Growth in finance and real estate, the biggest sector, was 1.3% in 2009. The retail sector struggled to get out of recession in 2009 as consumers remained under pressure. Households' ability to spend was hampered by wage bill growth of less than 6% outside the government sector in 2009. This is in contrast to the government wage bill that jumped 14.5% in 2009.

In order to cut the huge fiscal deficit, spending restraints were announced in the recent budget. Government's wage bill growth will have to be slashed significantly in the 2010/11 fiscal year. The 7% (annualised) growth in the government sector in 4Q09 will have to come down sharply to around 0% in 2010. Lower government wage increases and spending will impact on consumption and curtail a strong recovery in local demand.



- South African economic growth accelerated to 3.2%, seasonally adjusted annual rate (saar), during the 4th quarter of 2009. For 2009 as a whole the SA economy contracted by 1.4%.
- Manufacturing and mining contributed to growth in the quarter although both were negative for 2009 as a whole. The construction sector growth slowed further, but was still positive for the whole year.
- Agriculture and retail trade activity contracted in the 4th quarter and both sectors were negative for the year as a whole. Growth in the government sector picked up strongly towards the end of the year and showed positive growth of 4.2% in 2009.

	Weight	4 th quarter 2009	3 rd quarter 2009	2 nd quarter 2009
GDP*	100%	3.2%	0.9%	-2.8%
Mining*	6.0%	4.6%	-5.8%	15.8%
Manufacturing*	15.4%	10.6%	7.6%	-11.1%
Retail trade*	12.4%	-0.7%	-1.1%	-5.9%
Finance and real estate*	21.7%	1.1%	-1.5%	-3.8%
Construction*	2.8%	3.6%	6.1%	8.7%

* Seasonally adjusted real annualised quarterly growth.

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