

Sept 9

NATIONAL OFFICE

First Floor, 3 Gwen Lane, Sandown, 2196

P.O. Box 652807, Benmore, 2010

Tel: +27 11 784-8000/1/2/3 | Fax: +27 (0) 86 609 8248

E-mail: busa@busa.org.za | Website: www.busa.org.za

PARLIAMENTARY OFFICE

9 Church Square, 1st Floor Graaffs Trust Building

Cape Town, 8001

P.O. Box 3867, Cape Town, 8000

Tel: +27 21 465 1633 | Fax: +27 21 461 5470

MEDIA STATEMENT

IMMEDIATE RELEASE

BUSA CUTS ITS GROWTH FORECAST FOR 2011

At its meeting on 9 September 2011 the BUSA Economic Policy Committee assessed the current economic and business outlook in the light of recent global and domestic economic trends.

Taking account of the following economic and business factors:

1. The expected slowdown in the global economy to about 4% in 2011, compared to earlier IMF forecasts. We are now looking at 3.9% (advanced economies 1.7% and developing economies 6.3%), with possible downside potential;
2. The risk of a “double dip” recession abroad – the OECD recently cut its growth forecasts for the US and Japanese economies;
3. The economic and financial challenges facing the Eurozone economy;
4. The African Development Bank has reduced its forecast for African economic growth in 2011 from 3.7% to 3.2%;
5. The less-than-robust growth and business conditions in the SA in the second and third quarters of 2011;
6. Manufacturing output fell by a sharp 6% m-o-m and 6% y-o-y in July, after growing by a subdued 0.8% y-o-y in June. The drop in output was far worse than the average 0.6%





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decline anticipated by the market. Over the month, output in most manufacturing industries dropped sharply. Protracted strike action disrupted production in the fuel, chemicals and metals industries, while ongoing outages at key iron and steel plants added further pressure. Underlying demand conditions also weakened due to slower global growth, a strong rand and softer domestic spending;

7. Competitiveness and profitability are being strained by higher electricity and transport costs, as well as rising labour costs;
8. As measured by the BER/RMB index, business confidence fell to its lowest level in more than a year in 3Q 2011;

the BUSA Economic Policy Committee concluded that - although SA's growth rate will be positive this year - the downside risk has increased. It is a supply-side picture that is led by government while dragged down by key sectors like mining and manufacturing, while some of the better performing private sectors could be losing some of their growth momentum. Overall growth, with some sectoral exceptions such as retail, is likely to remain less-than-optimal in coming months and unable to support widespread job creation.

Although BUSA has been consistently conservative in its real growth forecast of 3.4% for 2011 to date, the above considerations suggest a review. *BUSA has therefore decided to reduce its growth forecast from 3.4% to 3.1% for 2011 as a whole, which is broadly in line with what many business economists are now indicating in the light of new realities.*

It implies that interest rates will need to stay low for longer, probably well into 2012, and a further cut in the repo rate may become necessary soon. Turkey and Brazil have already cut interest rates recently and Chile, Israel, Mexico and South Africa are seen as possibly doing so in coming months. Other appropriate policy interventions may have to be considered depending on future global and internal developments.

It also remains important to generate productivity gains, implement structural reforms agreed to under the New Growth Path (NGP) and build the necessary social and political consensus around reduction in debt, if SA is to do better. BUSA agrees with Finance Minister Pravin Gordhan that the SA economy is resilient enough to cushion any new negative global factors, but that the basic challenge remains to address the structural elements that inhibit higher job-rich growth in SA, for which the NGP is an opportunity.

In summary, therefore, although the economic recovery is continuing, it is at a much more sluggish pace than originally anticipated. BUSA will continue to monitor the economic situation closely and revise its forecasts again if necessary.

SOME KEY ECONOMIC INDICATORS

	<u>% INCREASE 2011</u>
Consumer Spending	4.4 %
Fixed Investment	1.9 %
Exports	4.3 %
GDP	3.1 %
Inflation	5%

ENDS

9th September 2011.

Media Enquiries:

Masego Lehihi

PR and Communications Officer



082-444-7987