

**ECONOMIC COMMENT BY LUKE DOIG,
SENIOR ECONOMIST, CREDIT GUARANTEE INSURANCE CORPORATION**

The almost 22% year-on-year fall in manufacturing production and sales in April 2009, hard on the heels of the sector's similar contraction in GDP for the first quarter of 2009, provides the starkest evidence of the precipitous decline in the domestic business cycle. Whilst it would be folly to assume that no further shocks by way of negative economic indicators may emanate, the vital issue is whether we are currently at the bottom of the cycle.

After recording a record low of 35.6 in April 2009, the Kagiso Purchasing Managers Index (PMI) ticked up to 37.3 in May and should manage to eke out further gains in the months ahead. Three of the nine sub-indices perpetuated their poor performance in April, with employment and purchasing commitments remaining subdued, reflecting weak demand and a lack of short-term confidence. However, expected business conditions indicated net optimism for the first time since September last year.

But this does not mask the pain that many are experiencing: manufacturing sales of iron and steel products (22.9% contribution to total sales) declined 26.4% year-on-year, while motor vehicle products (10.9%) fell by almost half and furniture (5.2%) saw sales plummet 31.1%. Food and beverages (15.4% weighting of sales) managed to contain their sales losses to 4.8% in April 2009 compared to a year earlier. In March, we were forthright in warning that April would be adversely affected by disruptions caused by public holidays and advocated front-loading interest rate cuts at that time.

The business environment is going to remain challenging for months to come. Outlandish labour union wage demands do very little to help matters; rather cognisance should be taken of efforts by Bell and Volvo, amongst others, in which practical solutions were fashioned by all parties. Bell management have taken pay cuts in order to reduce additional potential retrenchments while, at Volvo, shorter working hours and gross wage cuts have seen redundancy numbers reduced. Everyone needs to have their hand on the tiller now from a productivity perspective as well as making sacrifices. Attempts to provide ideological solutions to problems need to take account of the tax burden. Further pressures to costs in the short term may also be expected – fuel price under-recoveries of almost 40 cents per litre and 31cents per litre for petrol and diesel respectively, underline these fears.

We would not be surprised if second quarter 2009 GDP delivers a 3-4% contraction following the first quarter's -6.4%. Local demand should begin to recover marginally in the third quarter of 2009 as lower interest rates begin to take effect, while hopefully an apparent stabilisation in the global cycle will similarly assist. Moderate risks to the inflation outlook may curb additional interest rate relief to 50 basis points as opposed to 100 basis points, and a 2% decline in GDP for 2009 as a whole, holds no silver linings. However, by the time the Soccer World Cup 2010 kicks off in a year's time, we should be in a much healthier state.

Issued on behalf of:

Credit Guarantee Insurance Corporation of Africa Limited
Contact: Roger Munitich, General Manager - Marketing and R&D
Tel (011) 889-7327
Fax (011) 686-9627
e-mail: rogerm@cgic.co.za

For further information:

Corporate Communications Consultants (Pty) Limited
Contact: Loraine Harris
Tel: (011) 783 8926 or 084 244 0510

About Credit Guarantee:

Credit Guarantee Insurance Corporation of Africa Limited, registered in 1956, is the largest (by premium income) and leading (80% market share) South African underwriting company operating in the field of debtors insurance. Credit Guarantee is a subsidiary of listed company, Mutual & Federal which owns 51% of the company, ultimately making it part of the Old Mutual Group.

Credit Guarantee's major business is the insurance of domestic (local) and export payment risks where its client companies sell to other companies on credit terms.

Credit Guarantee's unique strength lies in its ability to secure a vast store of confidential information and market intelligence from a network of contacts and to interpret this data to support the business of its clients - in both local and international markets.

It is ISO 9001/2000 compliant across all aspects of its operations and sports an AA+ (double 'A' plus) rating from Global Credit Ratings Company.