Old Mutual Plc 16th July 2008

JONATHAN NICHOLLS:

Delighted to welcome you here today, which I think is a very impressive day, very pleased to have Dennis Dykes who has come up from Johannesburg who has worked for Nedbank for 25 years I think, a hell of a long time, so well done *[laughter].* So for those up here it's fine, for the last 14 years he's been doing this job as Chief Economist and being used a lot in terms of forming our views on South Africa going forward and with a large part of our South African exposure. So I think today you'll find an absolutely fascinating insight. In terms of the rules of engagement and sorry to be boring, but both of our businesses Old Mutual and Nedbank are in close period so we won't be able to give you any details on lapses or current value ratios on Nedbank even if we did know it so pleased to say that beyond that questions at the end of this presentation, it would be helpful if you could just say who you are and who you work for, as you are professionals so that spend a lot of time answering questions. Enjoy the session and over to you.

DENNIS DYKES:

Thanks very much. The country is also in a closed period as well, so no question about *[laughter]* no just kidding. We were debating prior to the presentation whether this was an appropriate sort of picture to have, that someone must either commit suicide or someone who got the toilet paper caught in their trousers *[laughter]*; so I'm not going to dwell on the first line.

But just in terms of the agenda, going to look at the South African economy over the last four years and discuss what was behind the strength, because as you know the economy grew at something like a 5% growth rate, very very powerful growth, it had some very attractive features to that growth. And then suddenly, beginning of this year, sentiment completely changes; the growth rate comes down quite dramatically, why the sudden weakness and then we'll go into both the short term as well as the medium term sort of outlook and then have plenty of time for questions and answers.

So first of all why the strength? Well if you look at this graph it shows you that growth ratcheted up over a period of time starting from the early 1990's obviously very, very weak, associated with an agricultural downturn, a global downturn, you will recall the US was in recession at the time. Dr Stoltz had just taken over the Reserve Bank and he was squeezing inflation out the system, by raising interest rates very strongly as well. So we

started off the 90's with a recession, quite a severe one and subsequent to that we've seen ratcheting up of economic growth, to the extent of about 5% as I said over the past half decade or so. The question is what happens from hereon out.

Obviously in terms of government's agenda in terms of ASGISA the accelerated share growth initiative and various other programmes; the idea is to try and get it to a 6% growth rate and keep it there, so that we can absorb, so that basically employment can be halved, or unemployment can be halved by around about 2014 or so, which is the objective.

So what is behind that growth; if you look at this graph here, it just shows you personal disposable income versus consumer spending and you can see certainly one of the features behind this, it wasn't simply people just delving in to credit for example, very much backed by good growth in disposable income and in this case as you know you extract inflation and you extract the effect of taxes; and part of that was that wages and salaries were growing at above inflation, but not the greatest part of that, simply due 2005/2006 and into 2007 we saw a fairly strong employment growth, so about a million jobs created over that period, adding quite significantly disposable income growth. So that boosted consumer spending quite significantly.

At the same time we saw fixed investment spending going up quite significantly as well; this graph here shows you GDP growth and the red line shows you fixed investment spending as a percent of GDP; most economists, private sector as well as government, would say that you need to get to around about 25% of GDP to sustain a growth rate of approximately 6% or so. So that red line basically moving in the right direction; for years you can see it was pretty much locked around about 15% - 16% of GDP, which quite frankly was just enough to replace investment rather than actually to add to capital stock in the economy. So that was an encouraging development; and if you look at it in terms of the actual growth rate achieved, this graph here just shows you fixed investment spending or capital formation in the green, outstripping fixed consumer spending by a long way as well as government consumption expenditure in the red, growing at rates in excess of 13 and at times even 14%. Slowing somewhat just recently, but nevertheless still pretty much in double-digit sort of territory into the first quarter of 2008.

And also encouraging is that not only that, but in terms of plans announced - fixed investment plans announced - this graph is just something we do at the Nedbank Economic Unit; we record all projects that we announced in the technical press as well as the financial press and we reduce everything to real constant 2007 prices in this case and you can actually see the last four years very, very significant fixed investment plans announced, both on the private sector side as well as on the public sector side; obviously

on the public sector 2004 being quite notable in the sense that Eskom announced all its expansion; Transnet announced its expansion as well. But nevertheless you can see during 2005/2006 the focus then turned more to the private sector, where we saw mining projects, retail projects, property and so forth coming to the fore. Slowing in 2007; we just at this very moment are doing the first half of 2008 and haven't released that yet; but so far just scanning the results that are coming in, not maybe as negative as I would have anticipated, given the very big change in business sentiment in the early part of this year.

The other feature of this upswing was the strong rise in asset prices; obviously share prices moving up very very powerfully, this is the All Share Index in the red, matched against the house prices in the blue; and you can see accelerating somewhere around about 2002/2003, particularly on the housing side all starting in 2003, but also the share prices coming to light during the course of 2004/2005 and ringing up by significant multiples.

So, what was behind that strength. I've mentioned some of the features already, but I think the first main driving force was what has happened in the global economy. And as you would have seen in the press as well as in the literature, over the last few years we've had what's been called the great moderation, which has really been strong global growth, strong economic growth combined with low inflation. Absolutely the sweet spots in the sense that export volumes benefiting from the global growth coming through and at the same time on the inflation side being constrained through this global phenomenon which helped interest rates come down; so that helped generate domestic growth as well.

If you look at South African growth versus global growth in the next slide; you can see there that downturns in the South African economy have often been associated with downturns in the global economy and I don't think it's South Africa influencing the global economy in this particular case; and just more recently the last four years or so we've seen that exceptional global growth coming through and that's been associated with very good South African economic growth.

More importantly though, it's not just been global growth in the traditional sense, it's also been very much driven by China and India, so if you turn to the next slide, China and India's percentage share of the global economy rising very, very powerfully and in particular China of course, rapidly industrialising, very very much commodity intensive growth and consequently commodity prices as you would anticipate would actually perform quite nicely; South African economy, exports around about +50% dominated by metals and minerals, both non beneficiated as well as beneficiated. So obviously benefiting from that and very much so on the price side.

This next graph just shows the economist commodity indices; and quite a remarkable change over that period. For quite a few decades you simply saw commodity prices going up and down, up and down with economic cycles but never really breaking previous highs and never really breaking previous lows. Well the past 4/5 years have been very, very different and of course all commodities have gone to very much new highs. We would incidentally be buyers of the super cycle in commodities, given the increase in fundamental demand, but that doesn't mean that you won't actually see new troughs at some other point; but our basic premise over this period has been that the next trough in commodity prices is not going to be as low as the previous highs, so that would be the kind of idea that we would use when we're talking about the super cycle.

And that obviously not only benefiting just South Africa, but also very much benefiting other African countries. This graph here shows you the terms of trade which as you know is the ratio of export to import prices. So very basically if you've got a line that's moving positively, it means that you've got improvement in wealth; and what was behind the upward move in those lines from the African perspective, of course is that commodity price is going up and at the same time manufactured goods, consumer goods prices being held quite low as a result of what was happening in China, those massively expanded economies of scale keeping prices depressed in areas where Africa is not necessarily producing.

So a sea change taking place from around about 1998, something we haven't seen at least since the 1960's and obviously injecting a lot in the way of wealth, as well as in the way of capital as I'll show you in the next little while as well. This is just a graph from the IMF showing you that the growth rate in Africa, sub-Saharan Africa in this case, certainly better than anything we've seen in the last three decades. Again, very resource intensive growth, no question about that; but also starting to see fairly significant amounts of foreign direct investment into the region – Africa as a whole, looking actually quite respectable now against, for example Western Hemisphere and Asian countries, whereas in the past it's been a miniscule part of the total share.

So again, a very very much changed type of position from anything that we've seen over the last couple of decades; and as was noted I have been in the game since around about 25 years ago unfortunately, it had to be highlighted. I of course did leave just straight after primary school, I did join the*…[laughter]* - no.

The other feature which I think is quite key to this whole process; commodity prices doing very well, global growth doing exceptionally well and driven by commodity intensive countries, but at the same time a massive increase in global liquidity; and obviously we'll come back later on to some of the changes in the international outlook later on. But from

around about the early 1990's you can see global liquidity as a percentage of total GDP and this is really just using global reserves, dollar reserves, plus US monetary base expressed as a percentage of global GDP. More than doubling over that whole period. I think pretty much influenced in the initial years by maybe things like financial de-regulation; might also have been influenced by fairly loose monetary policies during the middle part of that period and also better intermediation in financial market place, sort of issues I think also came to the fore; but in the latter part of that period very much influenced by these huge current account surpluses being generated by Opec, the oil producing countries as well as of course China and the rest of Asia – and expressed in this graph here. These are just current account surpluses and deficits; you can see there are fewer producers in the green, massive massive surpluses, just the numbers I've taken from the high net. If you add the fuel producers and the Chinese obviously the rise of the Southern wealth funds and the recycling of all this capital back into emerging markets and South Africa getting its fair share of those funds.

Right so, needless to say, the sweet spot being hit in terms of what was happening in the international environment. Domestically of course you had a changed policy environment; and I thought just for those of you who might not be that initiated in this; the fiscal policy over the last few years I think has created a lot of space for additional spending, below it the government has actually managed to reduce the deficit, the percentage of GDP quite significantly, I'll show you a graph in a moment or two's time. It's reduced the interest service burden quite substantially; it's created new efficiencies on the expenditure side after, I would have to say a fairly dismal start. It's also created a lot of space for social spending and infrastructure spending and at the same time there's been quite a bit in the way of tax reform.

So if you look at the fiscal deficit since the mid-1990's, those two numbers there, the 8,3% and 9,1% of GDP were maybe a little bit exaggerated in a sense that there was a recapitalisation of the pension fund during those couple of years, so one shouldn't draw too much into that, but in those years the deficit was running about 5%, 6% of GDP and is now in surplus territory as a percent of GDP; obviously very much helped by the bonanza on the commodity price side, the terms of trade effect coming through there quite significantly. But also helped by better tax collections and more discipline on the expenditure side of the budget.

So if you look at debt and this just shows you government debt as a percent of GDP. Starting to threaten as if it was meaning to kind of like a debt trap, moving up towards around about 50% of GDP. But projected to go down to the lower 20's over the next couple of years in the government's medium term budget policy statement, or rather their plans.

What's also notable and I'll draw your attention to it a little bit later on is that government, the percentage of foreign debt in this is miniscule, very, very low. Partly because of the inherited past, no one wanted to lend to South Africa prior to the elections anyway. But also the new government coming in didn't want to actually use external resources until they had fully utilised internal resources. So although they've been active in the bond markets certainly they have not been aggressive in taking up additional foreign debt.

I mentioned tax reform, I'm not going to go into detail here, you've got it in your packs and also on the internet as well. But suffice to say that the tax regime for personal income tax has been greatly simplified. The number of thresholds reduced quite significantly and very much allowed for fiscal drag over this whole period. So there has been significant fiscal reform or rather tax reform on the individual side. And then quite a lot of tax reform on the company side as well with a reduction in the overall company tax rate from 50% originally, down to the 28% now. And also the phasing out now of the secondary tax on companies, which again is a very very major reform and quite an interesting one to have done in the climate that was prevailing earlier this year, the political climate that was prevailing post Polokwane and I will come back to that in a moment or two's time.

At the same time social welfare spending has gone up, but I think in a responsible way. The number of beneficiaries have increased. So it's not just been about giving back tax cuts. It's also been about increasing social spending and then at the same time and very importantly now, there's massive infrastructural spending going on in the public sector, both in terms of public sector corporations, Eskom, Transnet, as well as general infrastructure projects, the Koega Project, the Gautrain Project and so forth. A huge amount of spending going on and particularly prior to the 2010 FIFA World Cup coming up.

So fiscal space being created and used I think fairly well. There remain of course areas of government spending which the efficiencies have not been good. And that is a big focus of ASGISA, accelerated shared growth initiative that I referred to earlier on. And it's going to take years for that really to be bedded down properly, but nevertheless the initiatives are there.

On the monetary side, things were looking quite well, as well. After that massive boost in interest rates in the early 1990's, with Dr Stoltz coming in and raising interest rates in the early part of a recession. Inflation was gradually squeezed out of the system. Inflation expectations reduced quite significantly and inflation and interest rates followed a downward trend. Obviously that's reversed now. But this was just giving you the long

term perspective. So in the early 2000's we also had the introduction of inflation targeting, 3-6% zone. And it survived one or two difficult tests, in particular the 2002 rise in inflation which was associated with a massive hit on the currency. But nevertheless the Reserve Bank stuck to their guns and they managed to bring it back within the zone. Almost too successfully actually in the early part of 2004, where inflation had dropped to the low end of the zone.

So that I guess was pretty much a success story and obviously with interest rates trending down, what you tend to have is asset prices trending up. And that also helps boost both fixed investment as well as consumer spending.

The third leg on the policy side I think is a more open economy. And there has been trade liberalisation since the early 90's. I won't go into great detail there, capital controls obviously being lifted as well, to the extent that companies still have to apply, foreign investors with no capital controls. The real constraint now mainly on individuals where there's a R2 million limit per tax payer. But nevertheless each budget there tends to be some relaxation that comes through there; so a general opening up and that remains government's policy.

And then finally on the policy side, the broader economic participation around about 2004, we had a number of developments on the mining side in particular. The Mining Charter was signed. And that was followed by the Financial Sector Charter. A number of agreements to try and actually build participation in the economy. And obviously Black Economic Empowerment or Broad Based Black Economic Empowerment now very much a feature and I think starting to actually gain some momentum. Obviously there are features within that which are controversial, and there's a lot of debate around for example the Department of Trade and Industries empowerment codes, as to whether it's given the right emphasis in the right places. But nevertheless there's no doubt that it has actually helped bolster and create the black middle class, the rising black middle class.

So that all looked pretty good, until we got to the early part of 2008, the early part of this year. The early part of this year, we've got the GDP numbers from the first quarter. And as you can see there a dramatic change, barely 2% growth, not looking great, having in the prior quarter a rising GDP of around about 5%. Suddenly this big big contraction and it would have been even more significant had there not been improved agricultural conditions. I think it was about 1.7%, or even slightly lower than that.

So let's just have a look at what the reason of that was. And if you look at the table within this graph, you can actually see the first quarter 2008 mining contracting by 22.1% on an annualised basis. Manufacturing down by 1%, power and water down by 6.2%, and

obviously the big feature in the first quarter was the electricity crisis. We will get to that in a bit more detail later on. But the fact that the mining industry shut down for a couple of weeks effectively, the deep level mining industry shut down, in response to an unexpected cut on the electricity supply, that also impacted directly on power and water. Other sectors of the economy still expanding at a reasonable rate, but you can see domestic trade for example which would take wholesale and retail trade into account, also slowing somewhat and has probably slowed somewhat further.

Before we move off this graph, I just want to look at the longer term perspective here as well. And this just shows you the relative performance in these sectors. Since around about 2000 you can see the star performer and particularly over the last couple of years has been construction industry, not too surprisingly. Given that's what's been happening in that sector, all the preparations ahead of 2010, the catch up on the infrastructure side that has had to take place in any case, even if there weren't a 2010. The next star performer there has been finance and real estate. Equity volumes and so forth are doing very very well. Real estate doing particularly well and then of course the banking sector doing quite well. That the momentum obviously slowing now with the high, the increases in interest rates. So that's not likely to be an outperformer over the next little while. The next one down is transport and communications, cellphones as well as physical, transport and infrastructure doing particularly nicely and that has been a consistent outperformer. And then wholesale and retail trade, outperforming the general economy which is the black boxed line that you can actually see there, which I'm just pointing out on the line there. And then slightly below that you've got manufacturing; manufacturing was bolstered very much by motor vehicle manufacturing, iron and steel and so forth doing very very nicely. Obviously the underperformance now very much related to the downturn in the motor vehicle industry, which I'll refer to a little bit later on as well.

But at the bottom you can see we've got three sectors that have underperformed. And are symptomatic of some of the problems which we'll go into now. But the first one is power and water, now obviously if you've got your general economy expanding at a much much more significant rate than your power and water, your utilities. It is going to lead to a problem down the line and that is exactly what has actually happened. We'll discuss that in a bit more detail. Mining and quarrying particularly disappointing though, bear in mind a massive global boom in commodities - I referred to it a bit earlier on. And since 2004 the economy has barely actually expanded at all. So what was behind that? I think initially infrastructure, infrastructure was insufficient to actually keep up with what was happening on the mining side, the mining volume side. And consequently projects were put on hold. And then of course there were big legislative changes. And that was maybe one of the negative sides. Although the legislation, I don't think there was necessarily anything wrong with the legislation itself, the implementation has been incredibly slow

and held back progress during this period. The conversion of old order rights into new order mining rights.

And in agriculture, very much guided by what's happening as far as climate is concerned. But again one would have anticipated more of a response there particularly given that non-durable spending was rising very significantly during this period. And again I think held back by a lack of clarity in terms of land reform. So again a legislative impediment, if I can put it in those particular sectors.

Right, so, why the slowdown? I think the first point, high interest rates. Interest rates went up during 2006, and then resumed their upward trend during 2007 and have unfortunately continued moving marching higher during the course of 2008. And I think the negative thing here is that debt over the same period has during, prior to 2004, debt had risen quite significantly and obviously high debt combined with high interest rates and the higher inflation, obviously that bites into consumer demand.

The other feature obviously being the National Credit Act, those of you probably familiar with that; but in the middle part of 2007, this legislation was introduced. But the bottom line being that banks had to lend responsibly to their clients. Most probably did in the first place but, and some of the banks tightened their lending criteria post the introduction of the National Credit Act because there was a feature of the legislation which suggested that if you lent irresponsibly then the person could actually take a claim against the bank. So that certainly led to at least a pause and probably some tightening in lending criteria post June 2007.

But I think the big negative that came through and that’s obviously not a domestic feature, it’s a global feature, was this massive rise initially in energy prices, the oil price; and then of course food prices moving up very very significantly. So if you exclude food and energy, South African inflation probably now at around about 6.2%. But including them as you know, marching well above into double digit territory. So that leading to quite a significant monetary response, just the same graph that I showed you earlier on, updated. Unfortunately I didn’t put this one in the [printed] pack, but you can actually see the inflation moving rapidly up, and the Reserve Bank obviously responding by hiking interest rates up fairly significantly. Trying to keep real interest rates actually fairly constant, you can see but not quite succeeding. And in that way fairly unusual from a global perspective where central banks certainly have not been trying to do that. So very, very tight monetary policy in the global context.

I must say the difficulty with that, was that in the meantime the debt to income ratio, personal debt, household debt, as a percentage of personal income, had risen to above

70% and had marched up towards 80%, which is historically high; and by South African standards the previous sort of peak was in the 60's; and that combined with the increase in interest rates took this debt, interest service cost as a percentage of personal disposable income up to over 11%, approaching 12% at the moment and likely to go beyond 12%. And the difficulty with that, so if you just move to the next graph, is that anything above the long term average and anything in particular above 10% has generally been associated with some pain on the consumer side and quite often associated with the downturn in the overall economy. So it was not so much that we haven't seen these levels of interest rates, but it was combined with higher debt levels. And if you look at what's happening to consumer spending, on the durable goods side in particular, slowed very, very dramatically for the last year or so, we've been in negative territory. So as passenger vehicles sales growth is concerned, again, not an uncommon sort of feature if you look at a lot of economies around the world at the moment; and retail sales growth, the overall picture excluding passenger vehicle sales on a year-on-year basis measured on the left hand axis you can see they're also pretty much level with what we've seen over the last little while, compared to a year ago. So really no growth coming through there; services side some growth coming through, but nevertheless the overall picture slowing quite significantly. As far as credit is concerned; taking a bit of time to slow down, but you are going to see real credit growth slowing down now to on the right hand axis about 8% and will probably come a bit lower, before it actually bottoms up and starts moving up again.

But responding to that slow down in consumer spending, but obviously held up to some degree by the fact that fixed investment spending continues to grow relatively quickly. And then another key feature is that house prices again in line with a number of economies after a very, very strong run up you can see are starting to move down on a month on month basis, not quite negative in the year-on-year territory on this particular measure, but nevertheless looking as though it is actually going to grow from these kind of levels.

If you look at this graph, I would suggest that although the run up over the last few years was very, very dramatic, South Africa has pretty much missed out on a lot of the global growth that you saw in house prices in the 1990's so a lot of catch up took place; in relative terms and a lot of catch up took place in terms of physical lack of housing. So while we do think it will correct, it will correct further; we do think that the housing market is nevertheless, there is a structural element, significant structural element to the increase in house prices over the last couple of years, but for the next little while we will probably see cyclical down turn.

As far as the actual debt numbers are concerned these are insolvencies, you can see they have started to pick up, but they're coming off a very, very low base, starting to rise. The banks generally, you would have seen are reporting and are starting to say that generally that bad debts are starting to come through, which is completely unsurprising so you'll see on a year-on-year basis those numbers will be fairly large, but certainly nothing like some of the previous downturns that we have seen for example the early 90's – 1998 where you saw a significant rise there; we haven't seen anything like that come through yet. But nevertheless the change will be fairly significant during the course of 2008 and into 2009.

The question is what does the Monetary Policy Committee do now, the South Africa Reserve Bank, they've raised the interest rates quite significantly, there has been quite a big demand response, unfortunately what they haven't seen is a response on the inflation side; and we think inflation is going to continue rising over the next little while. We think it will probably rise to just under 13% and if they were to continue on their original strategy that would imply at least another two moves, a 50 basis points rise in August and possibly another 50 basis points in October. We think 50 basis points in August is very likely, but if you look at the tone there does seem to be more of a recognition that the economy is now responding. At least the demand side of the economy is responding and consequently I think the Reserve Bank is going to move into more of what other Central Banks have been doing which is talking very tough, but not raising rates by nearly as much as what has happened to actual overall inflation.

This is a bit of a messy slide here and it was really an exercise we did for our external publication and you're welcome to get the article; but what we did is we ranked countries in terms of real interest rate; in terms of monetary response relative to the rise in inflation and a couple of other criteria; stage of the economic cycle for example and just took a very crude ranking of average of those rankings and you get more or less that sort of ranking order. And what's notable is that the dollar trackers and as well as the US itself of course is running very, very loose monetary policy. The dollar trackers are all running loose monetary policy and at the other end of the spectrum you've got the more independent perhaps countries, the ones who are actually extremely serious about their inflation targets and so forth, who have actually been responding a little bit more harshly to the inflation threat. But the key difficulty as far as I can see it from the southern tip of Africa is that until the US starts tightening monetary policy, it's pretty much inconceivable that really after all there is going to be tightening monetary policy. And from an overall point of perspective, you probably would expect tighter monetary policy under the conditions that we've now seen, but big rise in commodity prices, the general rise in inflation in economies in Asia, as well as in a lot of the developing world.

People say well they should be tightening, but unfortunately it is because they are linked to the US and it's going to take a bit of time for it to come through. Right so this is just the Financial Industrial Index in real terms, not a pretty picture recently, you can actually see there the correction in the Financial Industrial Index taking place against this background of rising interest rates, again not surprising; that is typically what has happened over time. From the historical perspective, certainly the ratings are not that demanding, but of course that is based on the historical earnings growth. But it certainly doesn't approach anything that we saw in the early 1990's and clearly doesn't approach anything that you saw in the late 1960's, but nevertheless during this phase, the rise of the [unclear] you would anticipate some correction to come through there.

So the high interest rates environment very much a feature. The second feature I think which came home, which had been coming home over a period of time, was capacity difficulties if you're growing at above normal growth rates; ultimately you are going to run into capacity issues, unless you can actually keep pace with higher fixed investment spending and I think in South Africa's case the country started a bit too late. So that reduces the potential growth, if you just look at manufacturing capacity utilisation for example, you can see a steep rise in utilisation taking place and then suddenly you hit around about 85, 86% and that demand that additionally fixed investment actually has to be put in place before you can actually expand at the same rate of growth. And right across the board, from refined fuel to steel production and so forth, the economy was running into capacity issues.

The key one though and I'm just going to jump through this next graph here, the key area where we saw the difficulty coming through, in the early part of this year though was electricity, which as I said was a bit of a shock because most people thought well we might just have a few difficulties arising when we get to winter. We knew that there was a tight demand supply balance that emerged, that was only really going to be actually addressed properly by around about 2012. Those things were known, but it was somewhat surprising in the early part of this year, that we had so much in the way of difficulty. I think the story that has subsequently emerged is that it wasn't so much to do with a very low reserve margin as expressed in this particular graph here, but it was more about terrible inventory management to the extent that inventories were run down; and depleted quite considerably, for reasons which remain a mystery unless you look at the incentivisation of the executives in charge; so I think there was something of that. There was also bad weather conditions which apparently made it more difficult to both transport as well as burn the coal and consequently we had that big crunch in the early part of the year.

The positive side on that side is that the inventory issues have been addressed, those inventory levels are quite significantly up again, so that's not going to be an issue, I'd be very surprised if that's an issue over the next couple of years, but nevertheless you've got this very, very tight supply, demand balance which if not addressed properly could lead to a constraint on growth going forward over the next couple of years. However those issues are being addressed and there is a huge amount of attention both in the private as well as the public sector. My own view is that there should be facilitating of legislation which would actually help facilitate the private sector participation a lot more quicker than it is being done at the moment. But nevertheless there is no doubt that the private sector is going to become more involved in that sector in terms of co-generation plants and the like, over the next couple of years.

So that was a bit of a shock, no one really anticipated it would hit home that quickly; and the third shock or big change was the political and the policy environment. In December the ANC held their conference, their leadership conference in Polokwane in the northern part of the country and we had a complete change to the National Executive Committee. Now that's the last time I'm going to listen to any political analyst, they always point fingers at economists if anything is wrong, but I don't know of any political analyst who really saw it coming. And yet in retrospect it was actually quite a likely thing to have happened in the sense that there had been a massive increase in ANC membership; when I say massive increase around about, it moved from about 400,000 to about 650,000, big recruitment drive by the Cosatu lead organisation. And consequently a significant increase in those delegates; and Thabo Mbeki not getting his third term in terms of the party political leadership. So that obviously now is a fait accompli and obviously we're going to see quite a significant change in Government. And that raises the number of questions, because if you look at for example the Cosatu policy documents, the Trade Union policy documents or the SACP, the South African Communist Party who to some extent enabled Jacob Zuma to come into the party leadership, they've obviously got some fairly strong ideas on fiscal stance. They'd rather be running fiscal deficits to address the social issues in the economy, they've got strong views on inflation targeting, would like to either raise them or abolish them all completely, trade organisation one suspects would come on the agenda, it hasn't really featured too much so forth up until now and then ownership redistribution all those sort of issues you think would come to the light given the change in the flavour.

So I have to say my own personal view was one of trepidation when I saw all this, and I think it still remains an issue out there. We still have to see how this actually materialises. What I would say though is judging from the behaviour of people like Jacob Zuma, Matthews Phosa and so forth, very, very happy to come and discuss the changes or the non-changes in policy they quite often say - with international investors is that very,

very clear realisation that a dramatic policy switch would lead to a dramatic cessation of capital inflows; and if you want to actually have fixed investment spending with the sort of GDP at 25, 26% we're going to require massive capital inflows over the next few years. So there is that strong realisation that it still has to be investor friendly. So it's going to be interesting to see what happens. I was at a, I think the debate is much more open, I was at a workshop that was arranged by Nedlac which is the group in between Government and the Trade Unions and business, I sit on that body, on the public finance and monetary policy chamber where they were discussing this Harvard growth panel conclusions and a very senior member of the new ANC, labour was not there for that particular session; they haven't got their mandate together. A very senior ANC member said we'll how are we going to sell this to labour and he was talking about a labour sensitive matter and he has got a Trade Union background. So all I'm saying is that I think these issues are now wide open for debate and they are being debated, it is not a fait accompli by any manner and means.

And finally from where I started out the international environment obviously a whole lot less conducive. The Euro is looking very, very weak; I'm not going to spend a lot of time on this, but the danger of course is a US recession drags other major economies down and if other major economies are down it starts to actually impact on Asia and that so called decoupling doesn't actually occur. And the difficulty with this downturn or this slow down is that it's not just a case of being able to just re-flate our way out of it; as you would in a equity market crash type of situation, it goes right down to the heart of the economy which is the banking. There's a credit crisis as well as a housing crisis and therefore it becomes somewhat less solvable, at least there aren't that many in the way of short-term solutions. The big plunge down in US house prices as you know meant to be bigger than even during the 1920's and 30's. The big bank losses, Bloomberg is now reporting something like US$400 billion as of 18th June. It's affecting employment in the States and the response of course has been to actually loosen monetary policy and the response to loosen monetary policy in our view certainly would be that it has helped to some extent encourage this big additional rise in the commodity price leg. What you've got here is the CRB Index and actually you can see this last leg up in the commodity price cycle coincides with the big cut in US interest rates. I think there must be some sort of relationship there and clearly it's the last asset class and I don't think the global inflation situation necessarily changes until you actually do see somewhat of a tighter monetary policy stance which is the conclusion that the ECB has come to and which maybe the US is going to come to later in the year or possibly in 2009, which means that we are in for a period of slower growth.

In terms of the IMF growth assumptions in April 2008 – and I won't go into a great deal detail there – very much a decoupled scenario. I'll just draw your attention maybe to

some of the African growth rates coming through here; Angola has been rising at an excess of 15%, 20% over the last couple of years very much driven by oil and construction and so forth; Nigeria doing very, very well; Zimbabwe not doing terribly well that's another issue which I'm sure we could discuss in a fair amount of detail as well; Namibia doing well and then South Africa until more recently doing well and you will see my forecast a little bit later on there.

So still very much linked to the growing part of the global economy but obviously there are some question marks about what might happen. And the way it might impact of course would be through exports as I detailed earlier on. Exports have so far held up quite well and I think the reason for that is that exports obviously a large percentage in the mining and the mineral beneficiated area and then also I think exports have been held back by capacity. So in a very strange sense I think South African exports will not suffer that badly even in a global downturn in the sense that as capacity catches up there's still room for volume improvement. If you don't understand that maybe you can question me a bit later on but I do feel that – say demand levels were 180 and we've been supplying at 120 if demand levels come down to 150 and we improve our capacity to 130 you'll still see that improvement coming through.

As you can see the import volumes have been rising rapidly. The movement up in 2005/2006 very much associated with consumer goods. But more recently the volume increases in imports and clearly the value increase in imports are very much associated with oil. Oil meaning oil and refined petrol moving up from about 12% of imports to about 20% and possibly even more at the moment of overall imports and the result obviously being a current account crunch. It puts us in the same territory as Australia, Turkey, New Zealand; not the club you necessarily want to be in and does put the spotlight – obviously, as an emerging economy running a big current account deficit, when a lot of emerging economies particularly those who are commodity intensive are running very, very large current account surpluses.

Up until now, and even into the first quarter, those current account outflows, in other words the difference in the exports of goods and services and the imports of goods and services, easily match by very, very large capital inflows to the extend that you can see reserves over this whole period have actually been rising very, very strongly. To some extent I think almost too strongly. The reason why I say that is the Reserve Bank has been very actively sucking out dollars out of the market even during periods for example the early of part 2006 and then early 2008 they have been taking dollars out the market when perhaps you would have thought they would less aggressive at accumulating reserves. But as you can see the overall picture looking very, very positive; a lot of that and obviously you get the question quite often. A lot of that has been portfolio flows; net

portfolios flows, equities and bond flows into the economy during that 5% phase obviously a lot of demand for South African equities.

That has now faded out and it's been replaced by net investment, fixed investment the rates in the first part of this year and then the so-called net other which would be more your short-term flows coming through. Does that mean it becomes less sustainable if it's not so much portfolio dominated? I personally don't think, because I think a large component on the import side is becoming capital goods related and that often comes with its own financing but we can discuss it in more detail later. But what is true is that the Rand took quite a knock in the early part of 2008 with this change in sentiment. Not so much because of the direct balance of payments affected because with the sentiment change in the market was quite significant so we weakened against the dollar and then of course weakened even more dramatically against third currencies. And interestingly enough, the Rand certainly has been a lot weaker than so-called peer currencies, commodity related and emerging market currencies. Again in Australia, in particularly since the early part of 2008 that sentiment change coming through there. So not a good picture and adding somewhat to the inflation pressures in the economy which of course led to high interest rates.

From a purchasing power parity point of view, this is just using the Reserve Bank's measure and obviously I'm choosing a base which is the early part of 1970, you have to choose a base, this over time does average out to pretty close to zero. On this measure you would actually say; well the Rand is pretty much undervalued to the tune about of about 20, 22% or so at the moment away from fair value. If the currency had fallen by the inflation differential over that whole period you would have anticipated it would be up at the 100 level or the zero level in terms of deviation from neutral. Our end view is that it's not likely to return to the neutral line and that's simply because there's some structural features in this including tariff liberalisation, including incorrect measurement of the actual PPP which should include for example unit labour cost. We would then see it settling more around about minus 10%, minus 15%; so somewhat undervalued at the moment but not maybe as dramatically as is indicated by this particular graph.

There are some mitigating features. External position has quite a cushion. Reserves are significantly higher than they had been in the past about four or five months of import cover. If you look at this graph, reserves have been built up as I said maybe a little bit too significantly to compare to during periods of Rand weakness. They continue to be built up, the Reserve Bank has been actually steadfast in this particular policy but nevertheless it does provide some cushion. And foreign debt is still very low – sorry this is not in your [printed] pack but I just thought I'd give you some comparisons and some of these ratios – a total debt to GDP around about 27% or so very, very much lower than a

lot of other emerging market countries. Debt-service ratio under 10% that's the debt service as a percentage of exports of goods and services; generally most of the ratios actually looking pretty respectable. So country debt generally not too much of an issue in stark contrast for example to a country like Turkey where you've got those ratios very, very much significantly higher.

Lastly, although it didn't materialise in the first quarter simply because we had that loss in mineral production, I do think the current account is likely to improve from here on out. Consumer imports are likely to actually slow to some degree. Most of the deterioration on the import side has been due to energy imports, obviously that depends on your oil view. If you believe that there might be some bubble-ish aspect to it and we do some easing off there, it will directly impact positively on the current account, but of course there are some fairly high forecasts out there as well. And then export volumes as those constraints that I was talking about are alleviated we likely to actually see export performance come through notwithstanding the fact that the global economy is not looking that strong.

Just a few conclusions, some outlook here; I think that one has to be honest that the short-term outlook in line with, I guess the global outlook is in for quite a bit more in the way of a tough environment. The international climate is certainly worse than it's been for quite some time; the solutions, the nature of the crisis not good. So far South Africa is relatively sheltered from an export point of view but severely impacted from an inflation as well as an interest rate point of view. Domestically; high inflation; high interest rate environment, we're likely to see that continuing into the third quarter of this year into possibly even the fourth quarter of this year. The consumer will be constrained, we think, until the second half of 2009. Eskom, as I said Eskom and the political situation creating a certain amount of uncertainty. This may be less of a factor than it was earlier in the year but nevertheless those levels of uncertainty have increased quite significantly.

On the medium term to longer term picture though, I think the overall environment is likely to be positive and the reason why I say that is the basic premise of a China dominated global growth cycle I think is going to be intact until 2015/2020 in our view. That's simply based on what they need to do to absorb labour over that whole period. I think that is going to be very positive for South Africa. I think it's been very positive for its African neighbours and that South African companies will continue benefiting in that context. So we will see corrections in commodity prices. We will see changes and we will see a lot of volatility but the basic premise of the improving terms of trade I think will remain in place and will add significant impetus to the region and not just South Africa.

Locally the economy is becoming more inclusive and I think that will also boost potential. A few things need to be done on that side as I said. One of the SABA Growth panel – and we can discuss some of their conclusions – but one of their conclusions is that there needs to be more emphasis on employment rather than ownership and I think those sort of policies will come through in the new administration. And indeed that will actually, and that's one of the recommendations that will then be of the OECD report which was released yesterday as well, is to improve that 'inclusivity' and boost overall economic performance. So I think the proper responses, and again the proper response to the Eskom crisis, the legislative response and so forth will probably restore South Africa to a 4.5% growth trajectory somewhat lower than what we saw. The 5% I think was probably above potential but 4.5% is certainly quite possible over the medium-term. 6% I think is going to be a bit of a stretch until these pre conditions are actually met.

So if you look at our near-term forecast, just some of the numbers. Starting there with household consumption expenditure you can see we're looking for much reduced growth in household consumption expenditure; less than 3% very much more on the non-durable side perhaps a bit in the semi-durable side before picking up in 2010. I think 2010 also puts a little bit of a line in the sand as far as this downturn or this slowdown is concerned simply because so much actually has to happen then and because of the actual injection given by the event during that period.

Fixed investment spending, the second line down there, I think this year slightly less buoyant than what we've seen over the last couple of years but then picking up once more very aggressively in 2009. We think that is going to remain pretty much intact but the corporate sector will have to continue investing just to meet its requirements as well as the public sector. On the export side, export volumes; a little bit more constrained in this early 2008 and 2009 and then picking up once again and imports slightly more buoyant this year but picking up next year on capital goods expenditure rather than on consumer goods expenditure. Leading to two years of very much below trend growth, just below 3% or so but the second half of 2009 picking up once again and then 2010 looking a lot more healthy, slightly above trend I would actually suggest.

I won't go through all this but you can see some of the functions that we've got there. We've got the interest rate coming down during the course of 2009; a lot of excitement in the market at the moment, people locking onto the new rates that are coming out. We're not quite doing an Argentina and rerating every day sort of thing but there is a new weighting system which gives more weight to services and consequently inflation is likely to come down maybe a bit quicker than people had anticipated. That might be to monetary relief a little bit sooner than anticipated but a lot depends of course on what happens to oil and food prices. The Rand, we think, will go through a period of

consolidation, so not likely to see dramatic weakness from these sort of levels given the big correction in 2006 and in the early part of 2008 and I've got our inflation assumptions at the bottom there as well.

Right that is what I have prepared. I have probably overshot as usual, but I am very happy to – I think we have got something like half an hour allocated to questions and answers and happy to take some of those questions.

Yes?

BRUNO PAULSON:

Bruno Paulson, Sanford Bernstein. The two years of slow growth, the 3% growth, what is the implication of that for unemployment and isn't that likely to create quite a bit of pressure on the incoming government to throw bones?

DENNIS DYKES:

Yes I think the answer is, it does create problems. I think you know obviously the 6% - if we had been growing at 6% out to 2014 we would have reached our targets. Anything lower, around about 3.5% you are not adding. So there could even be an implication now that you might actually have some decline in employment during phases of this happening

BRUNO PAULSON:

In absolute numbers?

DENNIS DYKES:

Quite possibly.

BRUNO PAULSON:

An absolute decline?

DENNIS DYKES:

No, absolutely because – well yes, I mean increasing unemployment level. So it has been trending downwards, it might trend slightly upwards over the next couple of years.

So yes, that does add another dimension and does add further pressure for - you know - maybe let's try and actually boost the economy and that sort of debate. But I think there is – certainly if Trevor Manuel for example is finance minister and so forth, there is a recognition, there is a realisation that you've got to see through cycles and that the global environment as well as the local environment has actually changed. And that if you've tried to do things artificially from a fiscal point of view, you might actually run into difficulties down the line. So yes, I think it will certainly intensify the debate, but I think that is probably going to be the reality and we will have to see what the response is.

BRUNO PAULSON:

Another question, sorry. On the back of the growth, the massive growth in house prices and associated major leveraging on the debt side by individuals and are individual savings, given the disaggregation - are individuals paying the same?

DENNIS DYKES:

Yes, individual savings, very, very low … but I don't know if your question – you say there is sort of a disaggregation that we can actually look at which -

BRUNO PAULSON:

There's a problem, right, when you've got a hypothetical country, not a million miles from here where you've had this massive increase of debt and the housing market turns over – and it's a big issue…..

DENNIS DYKES:

Yes, look, there is no doubt there will be stress in certain areas. I think some of the differences I can see to the international experience, is that South African consumers are used to fairly volatile interest rates. So they generally – and I won't say they would have factored in quite fully what we have actually seen in this interest rate cycle, because there were surprises in there. They would generally be a little less surprised by a large rise in interest rates and the banks are also used to that sort of volatility. So when they are stressing scenarios they have obviously got a lot more in the way of volatility than you would find in a UK or a US sort of situation. So obviously they adjust their lending criteria correspondingly. But there would be low stress, I mean there certainly is going to be some stress in the system over the next year or so and until we actually start seeing those interest rates actually even off to some degree.

Yes?

OLIVER STEELE:

Oliver Steele, Deutsche Bank. I'm looking at the chart on page 11, where you showed the global and the local growth rate. And it is only in the last few years that it would be essentially, broadly matched both the local and the global growth rate. In the past it peaked at roughly the same levels but then dropped and the troughs were substantially lower. I suppose some of it has been covered over the last hour in your talk - but what is it that you think means that South Africa in the future will actually broadly keep to the global growth rate?

DENNIS DYKES:

Well, if you go back to the 1980's and those sort of periods, I think there was a very much constrained, isolated economy and an inability to actually put in fixed investment as a result of an inability to actually import capital. So I think those years there was very, very much a different structure to the economy and what was actually possible. So it was only really I guess from 1994 that you can start to actually draw the comparison as the economy started actually opening up. One would have anticipated that you would actually see more of a matching. But I think as I said to you in the early part of the talk, the nature of the economic growth has become more conducive and I think – and that I concluded with as well – you are likely to actually see it remaining conducive into the future because it likely to be a more commodity-intensive type of growth and that is the focus of the economy at the moment.

Whereas during the 1980's and the 1990's - much of the 1990's you actually had a decline in terms of trade - you actually had a much, much more hostile environment and one not conducive to that. But I think there is quite apart from the policy changes as well that I mentioned - it is not only policy changes in South Africa - there is also significant policy changes in some of the neighbouring countries, to the extent that there is some really good things coming out of economies where we really just had not seen any movement for years. Like Malawi for example, expanding agriculture to such an extent that they are now a net food exporter - which is the first time in a really long period of time - as a result of good direction from the centre. Botswana has got a president who phones foreign investors and asks them if they have got any problems when they arrive, he will sort them out for them. So there is a very, very different attitude in a number of those countries. That is not to say that in all of them that is the attitude and that there are no problems whatsoever, but nevertheless I think the environment has changed.

Yes?

YOUSSEF ZIAI:

Youssef Ziai from RBS. In your projection on the rate of inflation, what have you assumed for the price of oil?

DENNIS DYKES:

On our inflation side we have got oil going up slightly to around about $150 or so, over the next couple of months and then easing off. I think it goes down to about $135 or so into the first half of next year and then down to about $120 or so. We are actually busy doing an exercise at the moment where we adjust the sensitivities on the exchange rate, the oil price and food prices and we will come out with an article on that as well. But clearly I mean if you assume that we're going to $200 a barrel, it is not only going to change the position here, but obviously the impact from a lot of economies and very negatively as well.

Yes?

JAMES AGNEW:

James Agnew, Deutsche Bank. Just looking at the reserves accumulation, that would seem to strengthen the case for some kind of foreign exchange - for acceleration of the liberalisation of the foreign exchange control. Is that right and/or how is that likely to be impacted by the sort of loss of confidence that we have seen over the last year or so?

DENNIS DYKES:

Yes, just to repeat the question there. It is around the foreign exchange reserves accumulation, does that actually lead to some capital control relaxation, or does the new environment actually change the thinking on capital exchange control relaxation?

If you go back on that graph that I showed you and maybe I will just page there while I am chatting to it - what we saw is a few years ago - 1996, 1998 - the country really actually didn't have foreign exchange reserves at all. So the first policy directive that came through was to get rid of this so-called net open forward position and that was done pretty effectively by the Reserve Bank. So you can see that real international liquidity only went positive in 2003. So the psychology has been to build that up. There has really been no thought as to what to do with it once you actually got to a more enviable

sort of position, except for assurance to the market that they will never use it in terms of exchange control intervention and so forth. I think the fact that they've built up reserves doesn't necessarily increase their appetite on the exchange control relaxation side.

I think that they – provided again that the main players who are influencing things at the moment continue post-2009 – the thinking there would be that we have declared that we are going to get rid of the exchange control but that we are going to do it at a controlled pace. So if you look at what they have done so far, on the institutional side they are clearly moving more towards credential requirements. They have moved it up to 20% as you are aware in this last budget, 20% of assets. And they are likely, I think, to go ultimately to about 30% where they will start pointing to countries like Australia and so forth and say that you've got to match your liabilities with your assets in terms of currency mix and so forth. So they will continue along that track. I don't have too much doubt.

On the individual side, I think they will probably not go the big bang approach, they will probably just continue ratcheting up those allowances and for that reason they can't go big bang approach on companies. Because obviously individuals and companies are pretty much the same thing, so companies - although in theory they can invest as much as they like abroad, there is no exchange control necessarily applied - they still do have to apply to the Reserve Bank for approval and make a case that it is net positive for the country.

I don't know if that answers it. I think they will continue along that route. I certainly would be very surprised if they went into reverse for example as a result of the regime change because that would send a very, very negative signal and be counterproductive.

Yes?

JONATHAN NICHOLLS:

Hi. You had the chart earlier where you showed relative sectors and how they had underperformed and the one that did surprise me was agriculture. I've always kind of felt that for – not all of the African countries but – if they could sort out agriculture it would be a very powerful drive for the economies going forward. Is there any sense in your mind that the new powers that be have identified that as a real opportunity, can they actually turn that around such that you get that turning up the other way?

DENNIS DYKES:

Well, I think there it is very much linked to the land reform side of things. And there I think it is one of those departments where we need to take our Receiver of Revenue and take him away from being a good Receiver of Revenue - because that hurts us - and put him into something like Land Reform or one of those underperforming departments. Unfortunately it is a very emotive thing, land reform and it has not been handled well and it is impacting obviously. The existing white farmers, if I can put it that way, don't have confidence to put in additional investment and there is not sufficient support being given to emerging black farmers to actually boost that. But I think there is a sense now that that has to be addressed and it will be addressed very seriously, obviously in the context – the global context – of food prices and food shortages and so forth being the order of the day. And so I would not be surprised if, not only in South Africa but other African countries, it becomes a bigger focus. As I said there are a couple of examples already.

In the region if you look at countries like Angola and Zambia and those sort of countries, there is enormous potential in terms of soils and rain and so forth, but the infrastructure is the big issue and that needs to be addressed very, very urgently.

Yes?

YOUSSEF ZIAI:

I haven't visited the country for a while so I would be interested to hear your comments around some social issues, like what's happening to crime figures, like car jacking, theft, what is happening with AIDS and how is the government handling that side and what is the situation in the country…...

DENNIS DYKES:

Okay for those phoning in, some questions about the social issues. Sorry we have just run out time - AIDS and crime and xenophobia, all my favourite topics! No, look as you may or may not know the crime stats I guess I have been relatively stable but violent crimes, house break-ins, that sort of thing, have actually risen. So from a psychology point of view, I think that the general perception is that there is a worsening. And that people feel maybe a bit more threatened, so that certainly I think one can't really report too much in the way of progress there.

On AIDS, again, we don't get updated statistics unfortunately as you know. It is not a certifiable disease, it is not something where they get proper statistics and so the only

thing that the government does, is they look at antenatal clinics and follow the trends there. And there it has been, again, fairly consistent; maybe some improvement starting to come through there, not of any significance. The antenatal clinics, obviously would be your worst population group to examine because it would be the relatively uneducated part of the population who use those particular clinics and there the infection rates are very, very high. So it remains a big, big issue. The only positive thing there of course is that government has been forced into the provision of antiretroviral drugs and so the care side has improved quite significantly.

And then as far the immigrant population, the numbers that get thrown around – and again we just do not have good statistics on that – but you know some people talk of five million people as being a possibility and I can't comment because I don't know. There are not good surveys that have actually been done to verify whether that is correct, but again, quite a bit of tension there flaring up in the xenophobic story earlier – a few months ago and relatively difficult to solve. Because the government on the one side has quite a liberal policy on the immigration side and an understanding policy and the population itself is less understanding in those groups where there is most penetration.

So there are difficulties, unquestionable difficulties and a huge amount of debate now what to do post those events. Trying to reintegrate people back into the societies that they were in originally or treat them as a separate part of the population, not easy at all. And a lot of tensions between provincial and central government and local authorities and so forth, so not resolved.

Yes?

JAMES PEARCE:

James Pearce, Cazenove**.** Why are you so confident that there will not be a negative force of GDP, given 15 years of expansion in the global economy?

DENNIS DYKES:

Yes, the question is why not a recession and one which lasts maybe a year or two? I think the reason why I'm, relatively confident on that side that you have got almost an artificial aspect in the sense that fixed investment spending is likely to continue expanding notwithstanding what is happening. As I showed you a bit earlier on, government does have a lot in the way of fiscal resources and the infrastructure spending which has been declared has to actually take place, otherwise it will derail a future upswing. So I don't think that is likely to actually change and the financial ability is there

to actually go ahead and actually spend. I think obviously if you have a significant worsening in the global circumstances and you have a global recession which then extends into Asia then you know clearly you can paint a scenario where the South African economy would be quite a bit weaker than trade. What I would say though is that I am probably at the low end of the spectrum in terms of general analyst's expectations because there is generally feeling that the corporate side, the fixed investment side, the government infrastructural spending side will actually carry the day. My own view is that it will offset but not completely and the reason for that is a lot of fixed investment spending obviously does go into shopping complexes and commercial property and so forth which might not therefore take place if you have a general slow down on the household side. But we've done an exercise just recently looking at you know consumer recessions and they are extremely rare and you'd really have to have quite an unusual confluence of factors before you have an out and out consumer recession and those confluence of factors are not present at the moment. Obviously if you do see interest rates going significantly higher you know bets might be off, but for the moment it doesn't look as though they flagging.

JONATHAN NICHOLLS:

Are we all done? Excellent. Thanks very much indeed. Very interesting presentation and good questions and answer; thank you for that and let's hope that GDP growth picks up and that we are going to see higher results. So thank you very much indeed, very good. Thanks.