



# *Welcome to the New Normal*

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**NATIONAL  
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*How can we help you?*



## ***The discussion...***

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- ❖ Where do we come from?
  
- ❖ The policy response
  
- ❖ Where we are now?
  
- ❖ What about South Africa?
  
- ❖ Conclusion: Welcome to the New Normal



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# ***Where do we come from?***

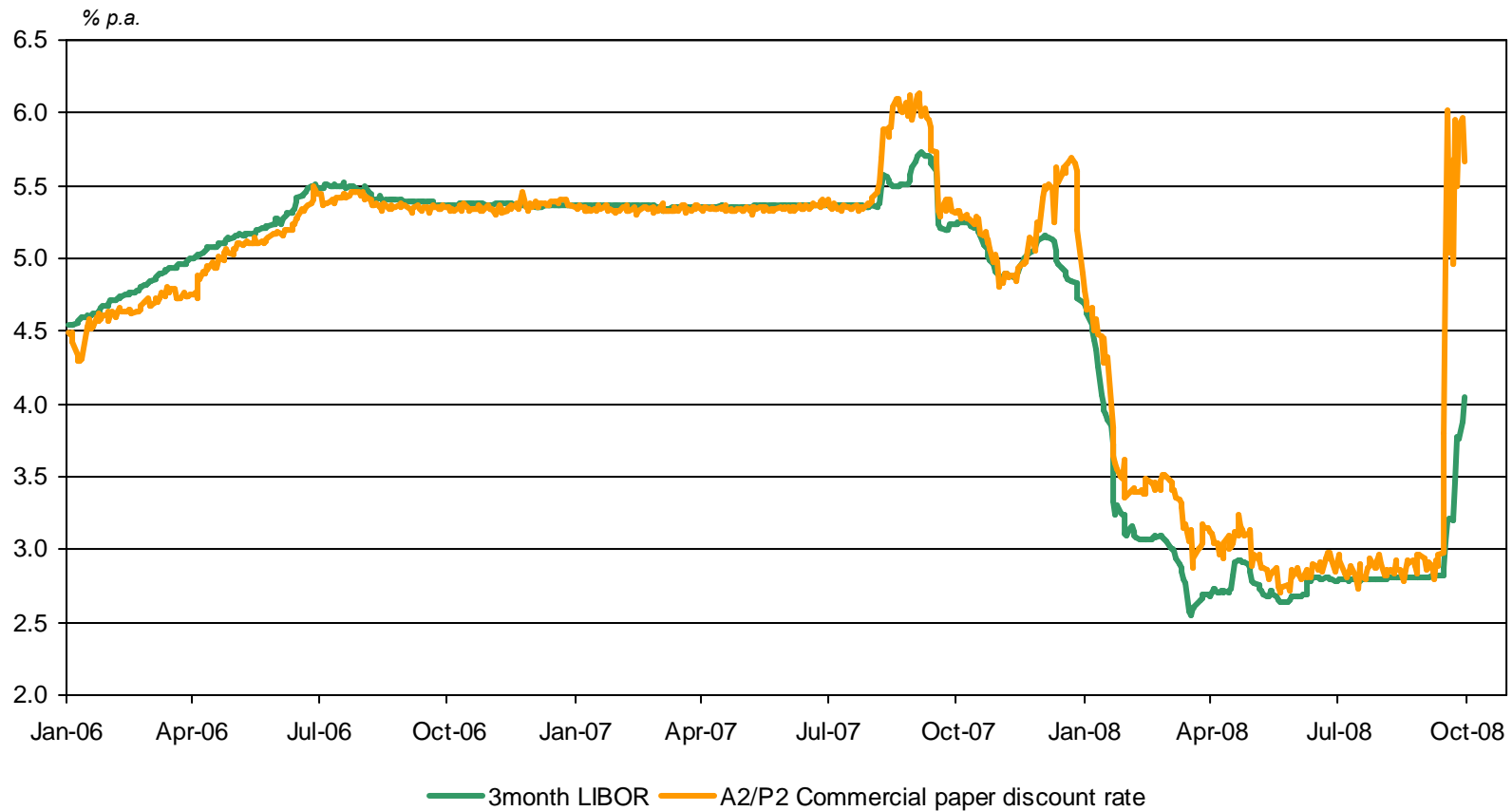


## ***On the 15<sup>th</sup> of September 2008 Lehman Brothers filed for bankruptcy...***

- ❖ The main cause of the Lehman bankruptcy was the massive losses incurred on assets linked to the property market
- ❖ This was due to
  - a sharp rise in default rates on home loans by US households
  - the associated rise in house repossessions
  - and declining house prices
- ❖ The collapse of Lehman Brothers led to a break down in the banking system of some of the world's major economies



## The credit crunch...



Source: Reuters Ecowin

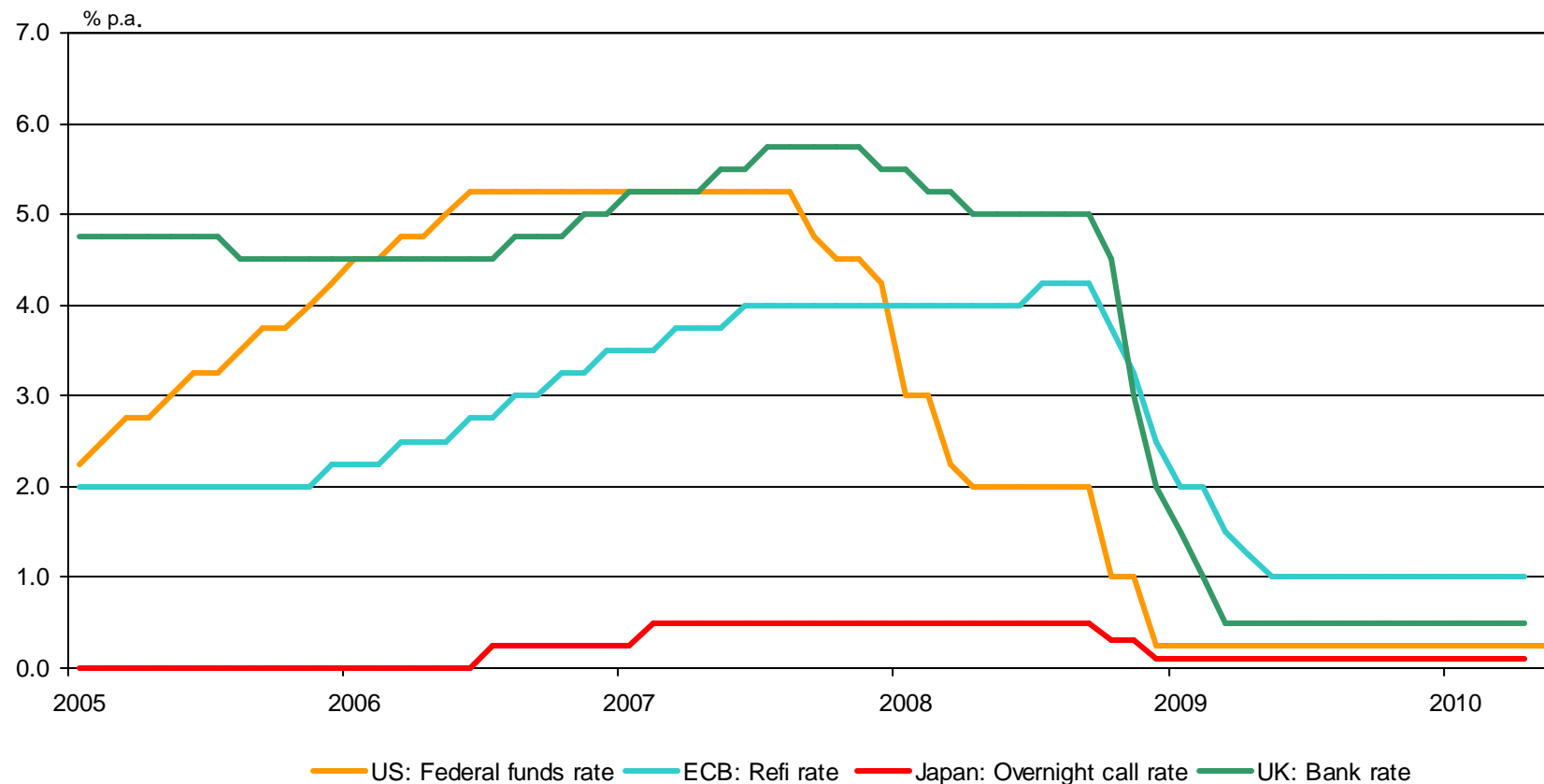


# ***The policy response***



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## Central banks responded by cutting interest rates to record lows...

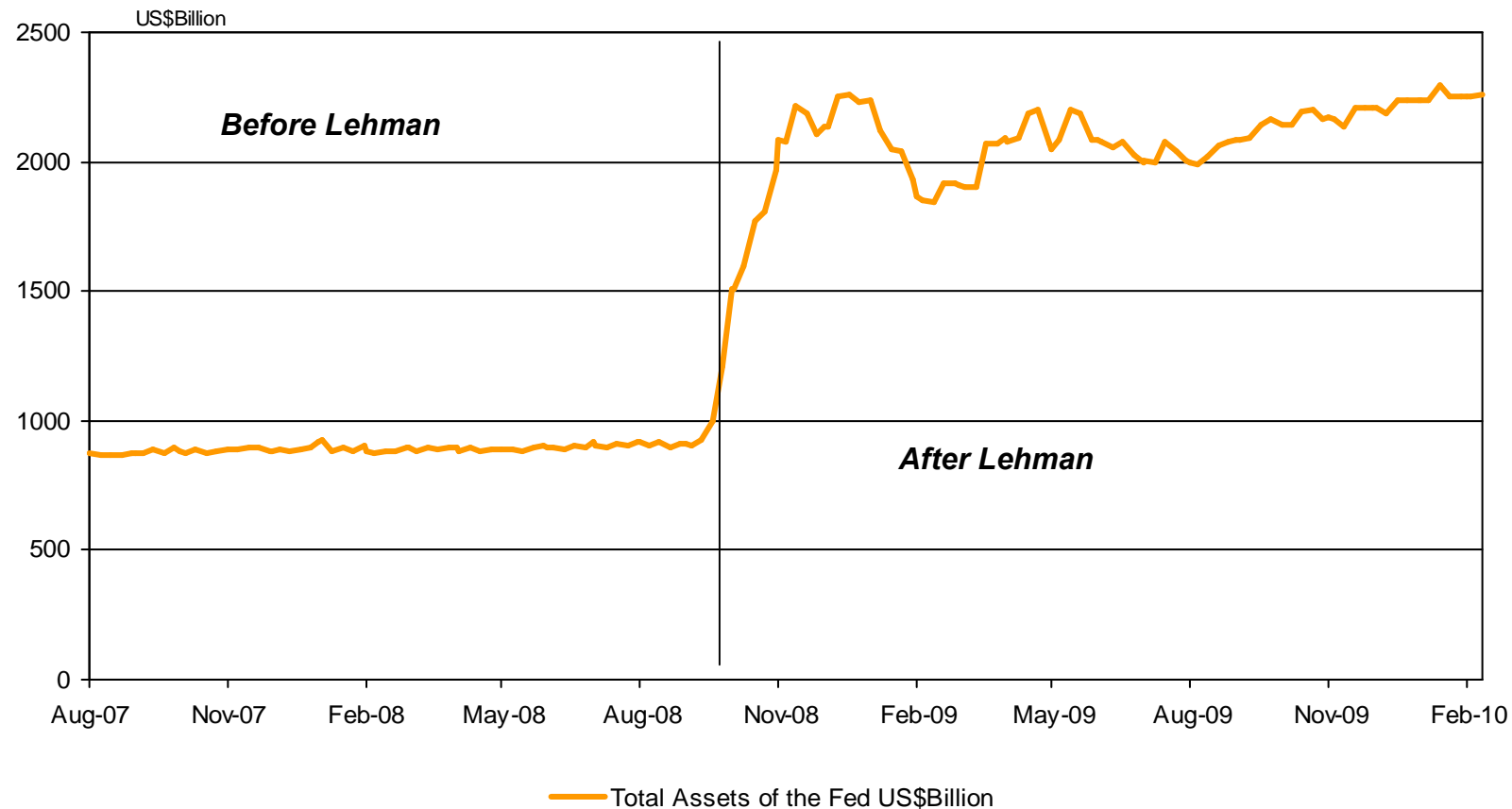


Source: Reuters Ecowin



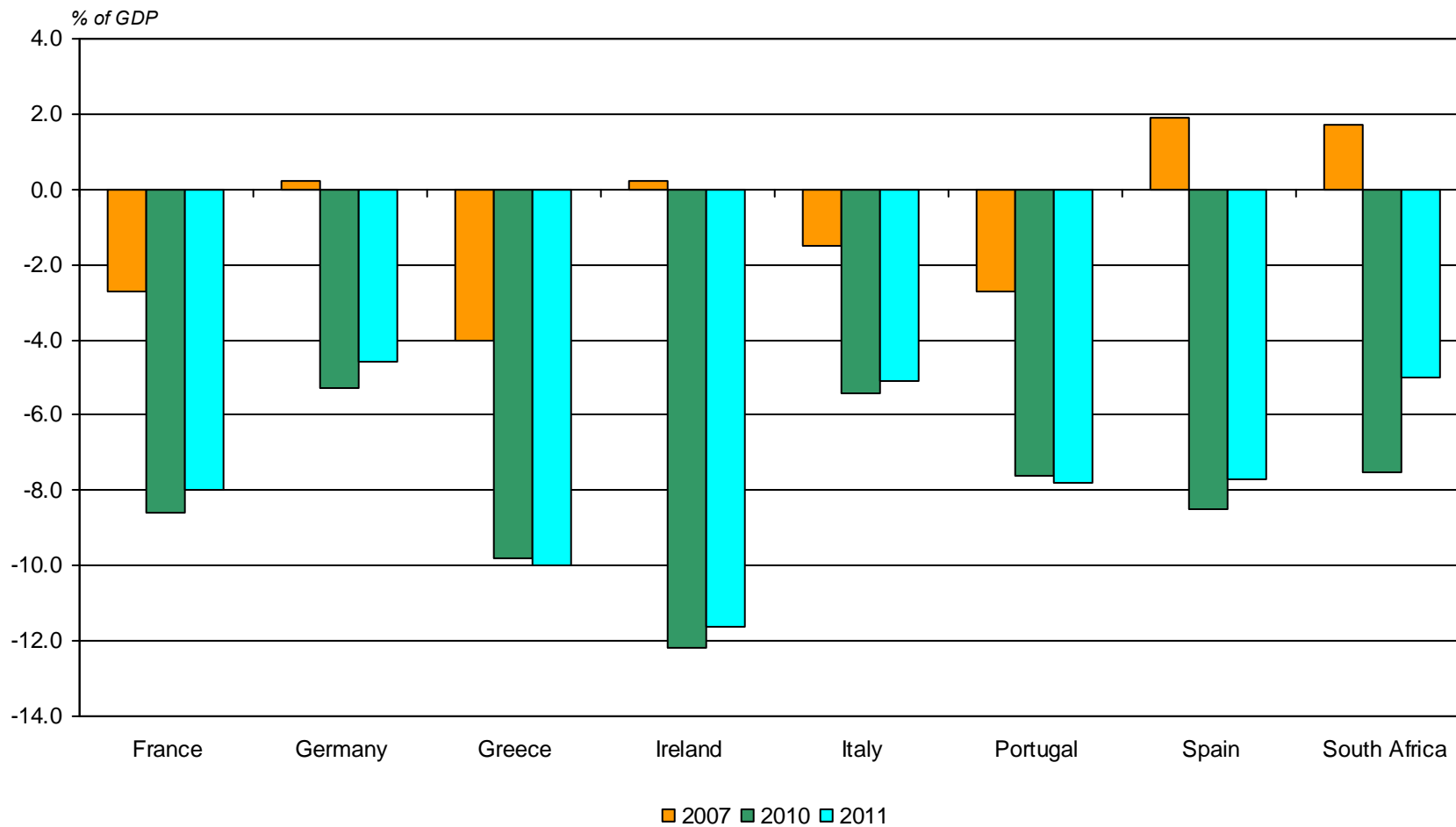
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## Followed by the implementation of quantitative easing...



Source: Federal Reserve Bank

## Governments responded with extremely aggressive fiscal policy...



Source: IMF and BIS

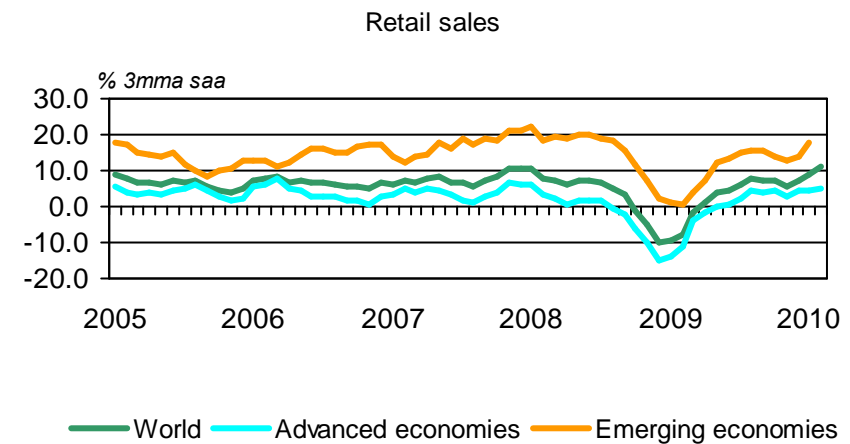
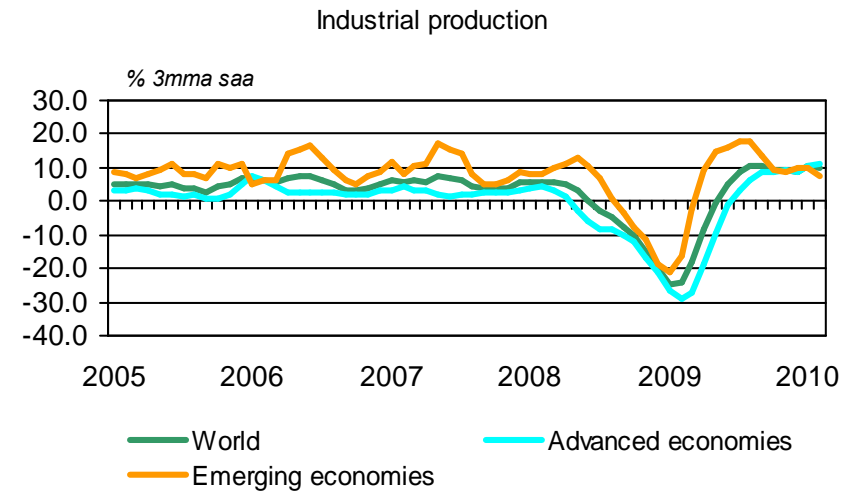
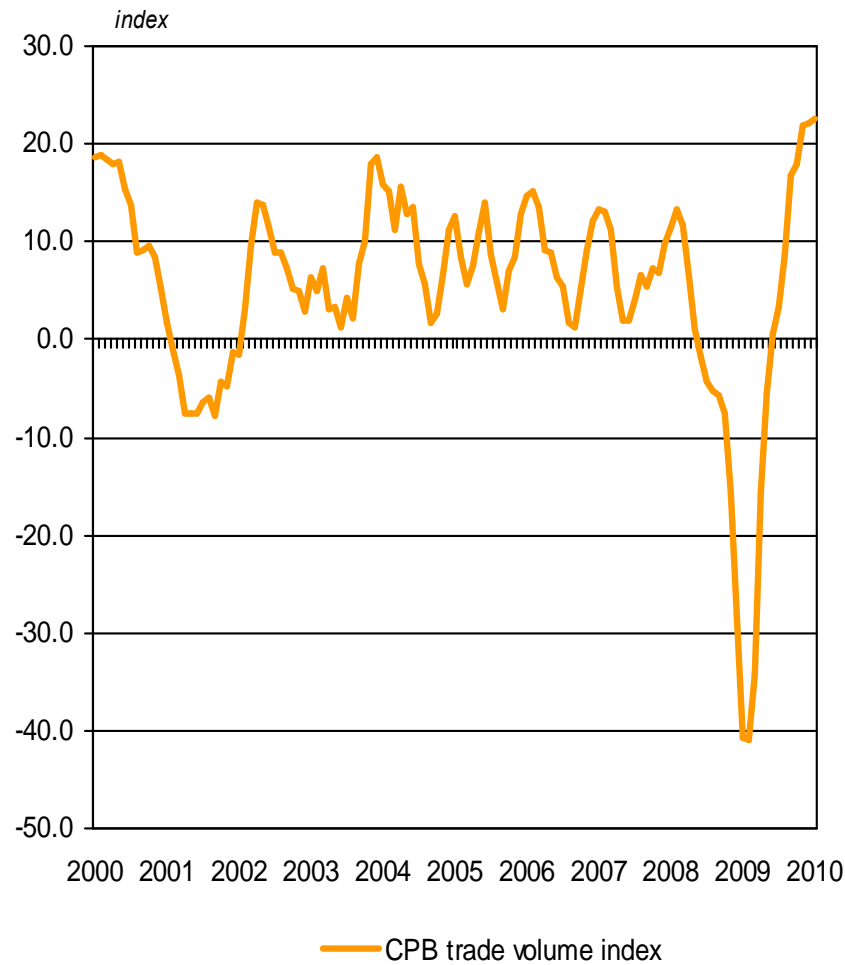


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# ***Were the interventions successful?***



## Yes, initially there was a strong but uneven global recovery...



Source: IMF WEO



# ***Where are we now?***



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## ***What was initially a strong recovery has been followed by a noticeable loss of momentum...***

- ❖ The policy stimulus is wearing out
- ❖ There is a chronic lack of private sector demand in the advanced economies
- ❖ Advanced economy households are saving and not spending
- ❖ While private business is not investing due to
  - Weak consumer demand
  - Low levels of capacity utilisation
- ❖ Economic activity in the advanced economies is slowing as result
- ❖ This is manifest in
  - Moderating Purchasing Managers Indices
  - Very weak home sales and home prices
  - Falling OECD business confidence and consumer confidence
  - Declining bond yields
  - High rates unemployment
  - And a rising threat of deflation
- ❖ The risk of a second recession, the so called double dip, is not insignificant

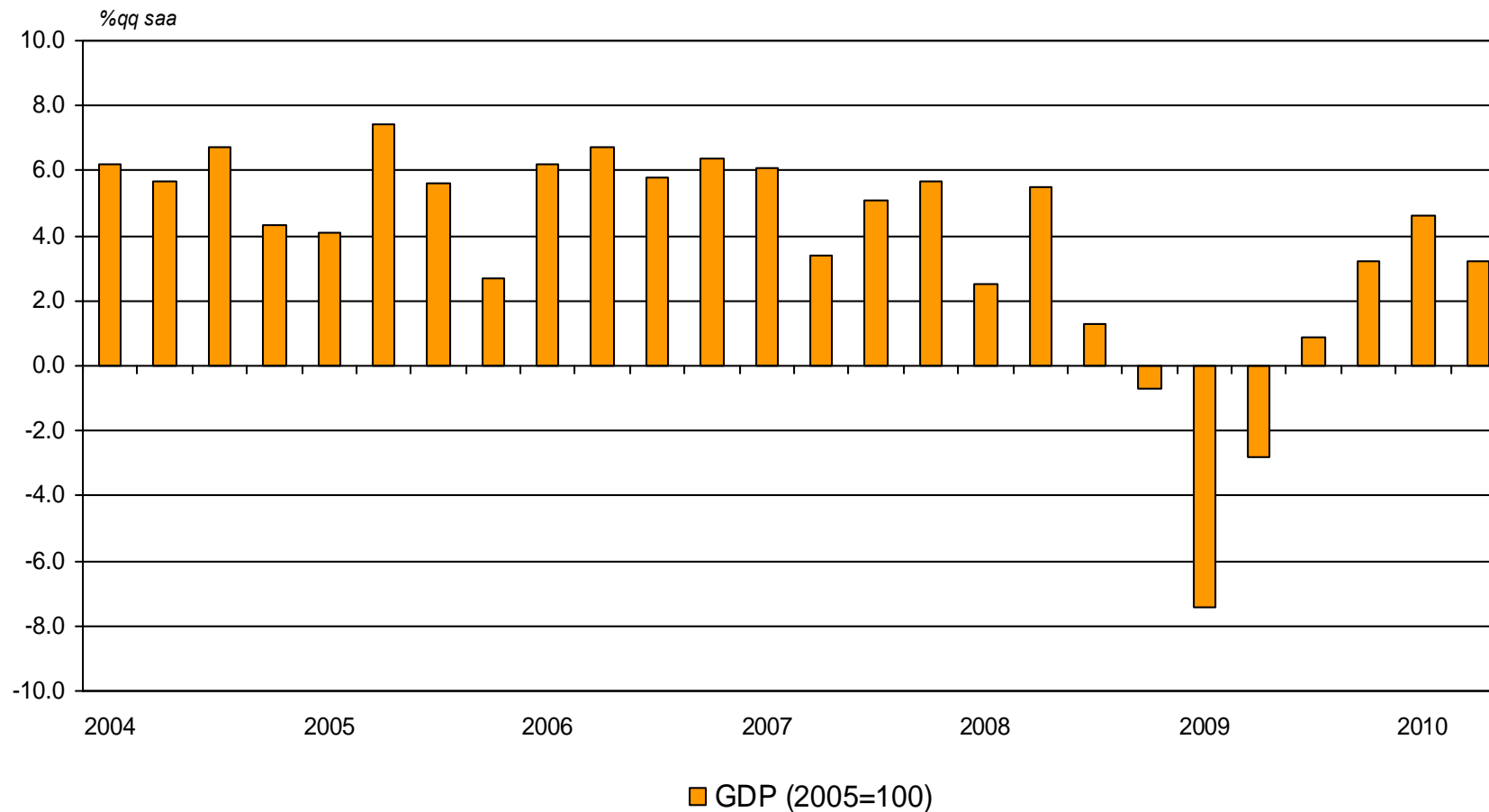


# ***What about South Africa?***



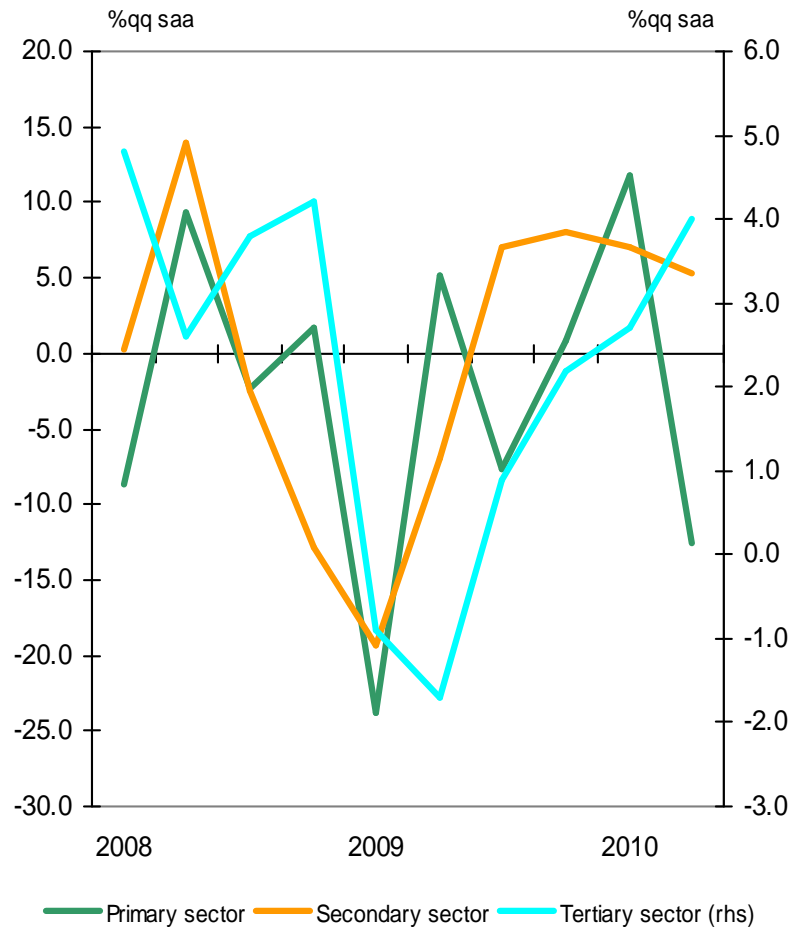
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## The South African economy, slight loss of momentum but recovery should continue...



Source: StatsSA

## Recovering internal trade expected to compensate for slower supply side growth...



- ❖ In the primary sector of the economy, mining output fell by an annualised 21%qq Q210
- ❖ A repeat of this is not expected
- ❖ The secondary sector also lost momentum in Q2 expanding at a slower rate than in Q1 due to a slower manufacturing production
- ❖ However, the recovery in the tertiary sector, which tends to be driven by domestic demand, remains intact and this is likely to continue

Source: StatsSA



## ***The drivers of consumer spending are healing...***

- ❖ Why we are confident of continued gradual recovery in consumer spending
  - Consumer confidence is at levels consistent with strong growth in household spending
  - There has been a rapid moderation in inflation
  - Interest rates are at the lowest levels in 30 years
  - Household disposable income is growing
  - Households are becoming wealthier (house and equity prices)
  - There has been very strong real wage growth
- ❖ However, there are speed bumps namely
  - Low levels of credit extension
  - High levels of household indebtedness



## ***Welcome to the new...***

- ❖ The advanced economies are facing weak growth that threatens deflation
- ❖ The current debate is whether more policy stimulus is necessary to fight of a second recession
- ❖ In the medium term
  - The fiscal stimulus will have to be repaid (higher taxes and lower government spending)
  - Interest rates will eventually have to rise
  - There will be more financial sector regulation
  - Households still have to reduce debt
- ❖ In short, global growth will not be as strong as it was in the years leading up to the crisis
- ❖ Welcome to the New Normal



***End***

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