



## **Economic Review**

Middle East and Africa

June, 2009

## Thomas White Global Investing

It has never been more important for you to understand what is occurring in the world beyond your country's borders. Whether you realize it or not, we are now all fellow citizens...Global Citizens.

The Thomas White organization was founded 1992 with the goal of bringing the benefits of globalization to investors around the world. We believed that once investors understood that globalization was a positive force, they would also see the advantages of adding international equities to their portfolios. It only makes common sense that professional investors would begin searching the globe for the most attractive opportunities. Researching a wider universe of companies should improve long-term performance. Moreover, broad diversification typically lowers return volatility. Multinational corporations have been using this global strategy for years; why shouldn't investors do the same?

Now 15 years later, our firm growth and strong subsequent portfolio performance has confirmed our investment premise. Currently, Thomas White professionals are performing research and managing over one billion dollars in close to 50 countries. We believe one reason for our success is that the nationalities of these analysts are as globally diverse as our portfolios.

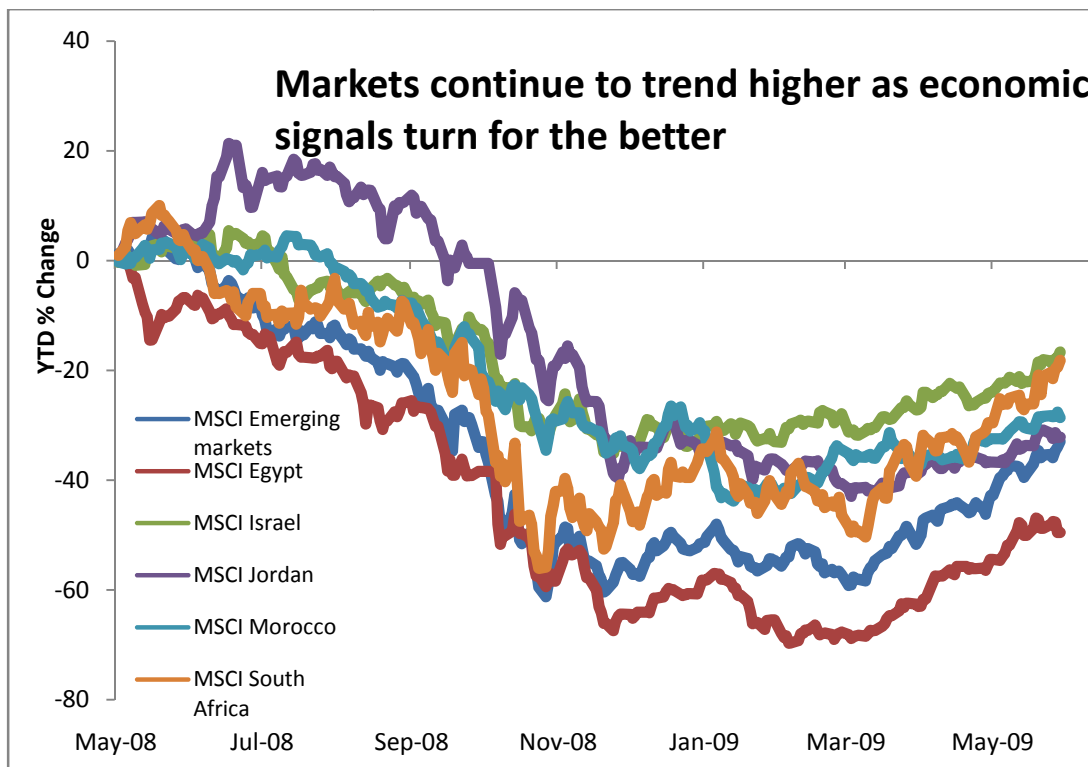
# Economic Review

## Middle East and Africa: June 2009



According to a report by the Economist Intelligence Unit, the Middle East will displace Asia as the fastest growing region in 2009. Israel is one of the countries which was ranked as one of the best economies overall in the Middle East while Egypt moved up in its

rankings. This is not surprising considering that Egypt actually improved its economic growth rate even as most other economies are struggling. The one laggard in this group is South Africa, which is contending with a plunging manufacturing output and a sputtering economy.



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## AT A GLANCE

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**South Africa:** The Central Bank has cut repo rates down by 100 basis points to 7.5%. Consumer prices went up in April but inflation rates stabilized.

**Israel:** Israel's GDP is projected to decline 1.5% this year while industrial output is expected to drop by 8%.

**Egypt:** Encouragingly, Egypt has managed to record a growth rate of 4.3% in the first quarter mainly due to expansion in construction and telecommunications.

**Morocco:** Tourism in Morocco is teetering on the edge, as revenues in the first quarter of 2009 plunged by 19% compared to the same period last year.

**Jordan:** Exports in Jordan declined by 0.3% in the first quarter of 2009 while imports decreased by 21.8%.

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## South Africa: Central bank slashes repo rate

Although the surge in inflation has been curbed, the South African economy is still doubled up under the strain of a sagging manufacturing output and general concern over the state of the domestic economy. These and a lot more issues were discussed in the 19<sup>th</sup> World Economic Forum on Africa, which began on June 10 in Cape Town, [South Africa](#), attended by more than 800 participants from over 50 countries.

Meanwhile, the Reserve Bank of South Africa has cut its repo rate by 100 basis points bringing it down to 7.5%. The prime interest rate now stands at 11% after the bank's fourth rate cut this year. The rand jumped 18% against the dollar this year, reining in import costs, easing pressure on inflation and making way for rate cuts.

**Consumer prices rose at an annualized 8.4% in April** compared to 8.5% the previous month, going well beyond the inflation target of 3% to 6%. While GDP fell an annualized 6.4% in the first quarter, pushing South Africa into its first recession in 17 years, manufacturing fell a record 22% along with mining, which plunged 33%, the biggest drop since 1960.

But inflation rates stabilized at 8.4% in April down by 0.1 point from March. The Consumer Price Index (CPI) stood at 0.5% compared to 1.3% the previous month. The Producer Price Index (PPI) rose by 2.9% year-on-year in April from 5.3% year-on-year in March. Food prices increased by 0.4% month-on-month while food inflation dropped by 13.7% year-on-year.

South Africa's Business Confidence Index (BCI) clocked in at a low 81.8 points in May due to worries over declines in manufacturing output, a big threat to jobs and investment. Adding to this, manufacturing slid by a record 22.1% in the first quarter of this year due to waning local as well as global demand.

The MSCI South Africa Index rose by 16.29% through May

## Israel: GDP might decline 1.5% this year

In [Israel](#), the GDP is projected to decline 1.5% this year even as local industries are suffering due to a lack of demand. In the past one year, 13,000 industrial workers have lost their jobs and 8,000 more are expected to lose

their jobs if global demand does not pick up. Unemployment is projected to reach 9% by the end of this year, which means another 40,000 workers might suddenly find themselves without a job.

Dealing with a recession for the first time in eight years is not an easy task. Israel is ploughing through one of its hardest times, as exports plummeted and investments in fixed assets declined. The economy shrank at an annualized pace of 3.6% in the three months to March 31 after contracting by merely 0.5% in the previous quarter.

Industrial output has fallen by 6.5% since the global financial crisis broke out in September 2008 and is expected to drop by 8% this year. It is forecasted that the economy will contract by 2.1% and the business sector will decline by 2.6%, while the unemployment rate will touch 8.7% in 2009.

**Exports of goods and services fell an annualized 46% in the first quarter and imports dropped 63%**, compared with a 19% decline the previous quarter. In April, exports plummeted by 26% to \$2.59 billion, while imports fell 33% to \$3.19 billion. As well, consumer spending dipped an annualized 4.3% after a 3.1% drop in the previous quarter, and investment in fixed assets dropped 28%.

The decline in exports and imports was reflected in the trade deficit, which narrowed in April, as overall economic growth became sluggish following a slowdown in imports. The deficit narrowed to \$603.3 million from a revised \$1.31 billion compared to the same month of 2008.

The MSCI Israel Index rose by 9.77% through May.

## **Egypt: Economy records 4.3% growth in first quarter**

Amidst stories of gloom from other markets, [Egypt](#) has managed to cling on tightly and actually record a growth rate of 4.3% in the first quarter mainly on the back of an upshot in the construction and telecom industries. Construction expanded 16% in the first quarter year-on-year and telecommunications went up by 14%. Egypt's growth picked up from 4.1% in the previous three months boasting an economy more resilient than the rest. The government is now forecasting a growth rate ranging from 4% to 4.5% in the fiscal year through June.

However, **tourism and Suez Canal revenues, which have helped expand the nation's economy by more than 7% in the last three years, tumbled**

by **13.2%** in the first quarter to \$3.6 billion. The number of visitors to the country fell by 10.3%. Due to piracy and the general lethargy of the global markets, Suez Canal revenues declined by 29% to \$342.4 million in May compared to \$479.4 million in the same month last year.

The MSCI Egypt Index rose by 10.77% through May.

## **Morocco: Tourism revenues plunge**

Tourism is one of the main breadwinners for the Moroccan economy, which is why the government has allotted \$37.3 million to boost tourism. But Morocco's tourism sector is very close to entering crisis mode as its revenues in the first quarter of 2009 plunged by 19% compared to the same period last year. Revenues from tourism stood at \$1.9 billion in April down by around \$373 million from the same period in 2008. Morocco's tourism contributes to 9% of the GDP and provides more than 400,000 jobs.

**Consumer prices in Morocco eased to 2.6%** year-on-year from 3.6% in March as food inflation slackened.

The MSCI [Morocco](#) Index rose by 5.71% through May.

## **Jordan: Declines seen in exports and imports**

Exports in [Jordan](#) declined by 0.3% in the first quarter of 2009 while imports decreased by 21.8%. **The trade deficit narrowed by 36.5%** during this year's first quarter and is set to widen in 2009 to \$1.55 billion or 7% of the GDP. Finance Minister Bassem al-Salem expects a slowdown in remittances and foreign investment, which in turn will lower GDP growth to about 3.5% in 2009 from 5.6% in 2008.

The MSCI Jordan Index rose by 7.25% through May.

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