

03 May 2016

Consumer outlook 2016: a macroeconomic perspective

- We analyse the SA consumer from a macroeconomic perspective, and present our consumer outlook for 2016.
- **SA has one of the most unequal societies in the world. The Gini coefficient declined only slightly between 2006 and 2011, from 0.72 to 0.69; change has been slow indeed.** The emergence of the middle 60% of the population contributed to these improvements, while the poorest 20% of the population saw a decline in the share of national income. **Nevertheless, poverty levels are slowly declining. Between 2006 and 2011, the proportion of the population living in poverty (using the national upper bound poverty line) fell from 57.2% to 45.5%.** We believe that this could be attributed partly to the aggressive expansion in the social grants programmes.
- **We expect cyclical consumption to slow, while non-cyclical consumption may be more resilient than in previous downward phases of the business cycle due to increased support from the public sector.** Households in the lower income groups, many of whom rely on social grants for income, contributed approx. 32% to total expenditure in 2015. Notwithstanding, the extent of the countercyclical support from the government will be limited with respect to employment expansion. Further, we expect wealth-backed spending to be constrained, as wealth took strain last year. Upper income households (deriving significant incomes from investments) contributed over 7% to total spending in SA in 2015.
- Despite the rising cost of money, **demand for credit remains healthy, although over half of all credit applications end up being rejected.** We think that growth in employment in 2015, particularly in Trade, Finance and Public sectors, supported demand for credit. **Lower commodity prices and the effects of the ongoing drought will weigh on employment prospects in 2016, which could affect debt-servicing.**
- SA consumers have deleveraged since 2008. **High debt levels may be a threat for consumers in the context of rising cost of debt-servicing** (we expect the SARB to raise interest rates by a further 50 bps this year); **higher taxes coupled with our expectation of net job losses and slightly negative real wage growth in 2016. In the past, insolvencies have tended to rise alongside rising interest rates during the downward phases of the business cycle.** However, in the current downward phase of the business cycle, we note that insolvencies have not risen despite rising interest rates, which may indicate more resilience by consumers, compared to previous phases.
- **Notwithstanding the high number of accounts in arrears and/or impaired, the credit profile of the South African consumers has improved marginally relative to the same time last year,** as depicted by rising capital and interest repayments as a ratio of debt stock, and a declining number of individuals with impaired records.
- Food inflation is expected to peak around 12% y/y in H2:2016 as high domestic maize prices feed through; we expect bad debts to rise as a result. We believe that the current drought will be a double whammy for poor households. According to Stats SA's Poverty Trends 2006-2011, **poor households spend 33.5% on food, while non-poor spend 10.8% on food. Further, there may be detrimental effects on subsistence farming. About 18% of SA households are involved in subsistence farming.** The effect of the drought on these households is a loss of income and the overall worsening of already bad food insecurity situation in SA. **Approximately 23% of households in SA have inadequate access to food.**

Economists

Siphamandla Mkhwanazi

Siphamandla.Mkhwanazi@standardbank.co.za

+27-11-415-4060

Zaakirah Ismail

Zaakirah.Ismail@standardbank.co.za

+27-11-415-4499

Kim Silberman

Kim.Silberman@sbgsecurities.com

+27-11-415-4430

www.standardbank.com/research

Role of the consumer in the SA economy

- **SA is a consumer-driven economy**, as opposed to say China which is industry-driven. **SA GDP is 60% driven by household consumption expenditure (HCE)**. Consequently, fluctuations in household expenditure patterns affect the economy's output performance.
- In 2006, private consumption (in USD Bn) in SA was similar to that of Brazil and Russia but is now 45% below these countries despite it being the driver behind SA's growth since the 2008/9 financial crisis (fig 2).
- On a per-capita basis, our consumption is now below that of China, although still well above India and Nigeria (fig 3).

Why the need to look at the SA consumer at disaggregated level?

- **SA has one of the highest Gini coefficients in the world, depicting one of the most unequal societies in the world.** Between 2006 and 2011, the **Gini coefficient dropped from 0.72 to 0.69, suggesting a slight improvement.** The high unemployment rate (ranging between 25% and 35% depending on the measure used) may have contributed to this sluggish transformation.
- Note that the Gini coefficient gives a holistic measure of inequality. It does not give an indication of where, within the segments of the population, the improvements come from. Further investigations reveal that the **improvements might be coming from the middle 60% of the population whose share in total income has increased**, even though the share of the bottom 20% has declined (fig 7). The share of the richest 20% also declined.
- **SA also fares the worst when compared to the BRICS countries on income distribution (fig 7).** SA's richest 20% of the population have 69% of the income, the largest share of income compared to that of the other EMs. Meanwhile, SA's poorest 20% of the population have 1% of the income, the smallest share of income compared to that of other EMs.
- **The share of national consumption between the richest and poorest remains skewed and stagnant** (fig 4). The richest 20% of the population accounted for over 61% of consumption in 2011 (down from 64% in 2006). Meanwhile, the share of the bottom 20% remained unchanged at below 4.5%.
- **Nevertheless, poverty levels are also slowly declining.** Between 2006 and 2011, the proportion of the population living in poverty (using the national upper bound poverty line of R620 per capita per month) fell from 57.2% to 45.5% (fig 5). We believe that this could in part be attributed to the aggressive expansion in the social grants programmes and "expansion of credit" and "growth in incomes over the period", according to Stats SA.
- Therefore, it is our view that SA consumer is not homogenous, and that a more disaggregated view on a consumer is required.

SA consumer: stagflation to intensify in 2016

- **The rand has structurally adjusted to lower commodity prices and fair value for the USDZAR is currently estimated at 15.00. We do not expect commodity prices to stage a meaningful recovery over the short- to medium term.** Weak foreign demand will continue to restrain export volumes, but weak domestic demand will hopefully act to reduce imports, facilitating some narrowing of the CAD (current

account deficit), although not enough to keep SA out of the woods in terms of currency risks.

- Currency depreciation and the consequent rise in inflation, leads to a decline in real wages and real disposable income, thus negatively impacting on real household expenditure and real GDP growth.
- **We estimate that HCE growth will be subdued and will average 0.6% in 2016, before worsening to 0.2% y/y in 2017 (fig 10).**
- **We expect cyclical consumption to slow while non-cyclical consumption may be more resilient than in previous downward phases of the business cycle due to increased support from the public sector.**
- In 2014/15, government spent close to R650Bn on social grants and wages, and this is expected to increase (fig 12). This affects low income earners (which we define as those individuals earning R0-R49,000 or households earning a combined income of R0-R86,000) who typically rely on social grants and other transfers as sources of income. These households contributed approximately 32% to total expenditure in 2015.
- **Notwithstanding, the extent of the countercyclical support from the government will be limited compared to the 2009 recession, given the unlikelihood of further expansions with respect to employment.**

Constrained household wealth

- **We expect wealth backed spending to be constrained, as wealth to continue to be under pressure.** Stock markets returned an average 5.6% in 2015 versus over 18% in 2014 and house prices grew 5.7%. (This is against average inflation of 4.6% in 2015) (figs 14 & 15). Constrained household wealth impacts mostly **upper income earners (which we define as those individuals earning above R783,000 pa, or households with a combined income of above R1,481,000 pa), who have a significant reliance on investments as a source of income. In our estimation, these households accounted for over 7% of total household spending in SA in 2015.**

Household debt and exposure to rising interest rates

- **We expect a further 50 bps rate hike in 2016. Debt-servicing costs and the average interest rates on debt move with the repo rate (figs 18 & 20).**
- **In general, SA consumers have deleveraged since the global financial crisis.** Debt levels have declined from a high of 89% in Q1:2008 to 78% average in 2015.
- Levels of indebtedness will differ from one economy to the next, and may also depend on the advancement of the country's financial markets. Compared to OECD economies, SA is on the lower end of the scale (fig 17). The optimal level of indebtedness in the SA context still remains a research question. We note that debt is not necessarily a bad thing for a consumer. For example, according to Stats SA, strong credit extension between 2006 and 2011 (unsecured credit doubled over this period) contributed to poverty reduction during that period. However, as a general point, excessively high debt levels may be a risk for consumers in the context of the ongoing stagflation (high inflation, slow economic growth and steadily high unemployment) (fig 21). **Insolvencies tend to rise with rising interest rates during the downward phases of the business cycle. However, this has not yet happened in the current cycle, and this may be a sign of more resilience by consumers under challenging macroeconomic conditions.**

- While the financial position of households may be under pressure heading into 2016 (as stagflation intensifies), comparison of key ratios pre-the GFC versus 2015 suggests that they may be in a marginally better position (fig 22) :
 - The current debt burden is lower (at 78%), compared to 2007 and 2008, when it averaged approximately 85% and 87% respectively;
 - While likely to rise, consumers face a lower debt service cost ratio than they did in 2007 and 2008. Average interest rate charged on consumer debt is also lower in 2015 at 12.2% compared to 16.8% in December 2008; and
 - Household debt as a percentage of household assets (gearing ratio) is marginally better.
- Therefore, with a better rate of indebtedness and debt-servicing cost coming off a lower base (compared to previous downward phases of the business cycle), SA consumers may somewhat be in better position heading into 2016, compared to the recession of 2009.
- This could explain why insolvencies have not risen with the rising interest rates in the current phase (fig 21).

Demand for credit, and creditworthiness

Stable but vulnerable demand for credit as employment outlook deteriorates

- **Despite the rising cost of money (figs 18 & 20), appetite for credit remains healthy (figs 23 & 24).** However, the rejection rate on these applications is currently above 50%, indicating that credit providers are less accommodative and/or consumers generally have unsatisfactory credit profile. We expect this trend to worsen in 2016 as a result of, among other factors the new, stricter NCR lending guidelines.
 - The NCR introduced new laws that govern conducting affordability assessments on consumers. These are widely expected to make it relatively more difficult for consumers to access credit.
 - Second, the NCR introduced laws that prescribe the maximum interest rate that can be charged on unsecured credit. This is expected to provide some relief on the consumer, while on the other hand dis-incentivize credit providers from taking on risky customers.
- **Credit active consumers reached 23.7 million (about 43% of the population) in Q4:2015, as 900,000 more customers accessed credit for the first time in Q4:2015 compared to Q4:2014.**
 - These consumers make up a total of 83.55 million accounts in SA. Currently, approximately a third of these accounts is in arrears or impaired, indicative of a consumer in under financial pressure.

Modest growth in employment helped support demand and debt-servicing quality in 2015

- Employment continued to improve in 2015. According to QLFS, **16 million people are currently employed in both the formal & informal sectors, compared to 15.3 million at the end of 2014 and 15.2 million at the end of 2013 (fig 25).**

- **Trade, Finance and Public sectors held the fort in 2015, employing 65,000 people while Mining, Manufacturing, Construction and Transport all shed 59,000 jobs in the same period (fig 26 & 27).**
- **Lower commodity prices and the effects of the domestic drought will weigh on employment prospects in 2016.** We expect a net loss in overall formal sector employment in 2016 (fig 28). This could dampen demand for and supply of credit, and ultimately HCE. Debt-servicing quality could also suffer, and we expect NPLs to rise.

Moderately improving creditworthiness of SA consumers

- Notwithstanding the high number of accounts that are in arrears and/or impaired, credit profile of the South African consumers **improved marginally** in 2015 relative to 2014 (fig 29). The proportion of accounts that are in good standing to the total number of accounts increased from 65% in Q4:2014 to 68% in Q4:2015.
- **Capital and interest repayments** as a ratio of debt stock have risen in recent times (fig 32), solidifying the general deleveraging trend by the SA consumer. There also has been a **decline in the number of individuals with impaired records**. In general, however, it appears that the Credit Information Amnesty of March 2014 did little to rid consumers of bad credit servicing behaviour. Number of individuals with impaired records declined and quickly reverted to the levels prior the initiative (fig 31). However, this has since reversed and we are now seeing a decline in the number of individuals with impaired records.
- Thus, there has been a moderate improvement in the creditworthiness of SA consumers.

Effects of drought on households

- **We expect the drought to impact on households via two channels: food inflation and subsistence farming.**
- Domestic food production is expected to drop, as it did in many previous episodes of drought (fig 34). Crops and livestock production in particular are expected to be affected, causing food inflation to shoot up.
- Declining levels of domestic food production will necessitate food imports. Initial crop estimates indicate that South Africa will likely need to import between 5-6 million tons of maize starting from May 2016. We estimate that the drought will shave about 0.4 percentage points off GDP growth in 2016. Moreover, food producer and retailer margins are expected to come under pressure as consumers' disposable incomes shrink in 2016.

Inflationary pressure

- SA is a net importer of wheat (approx. 60% of domestic consumption). Price of wheat for a SA buyer is normally determined by the international wheat price, the exchange rate and the domestic supply and demand for wheat.
- With growing demand (SA consumed 59.3 kg per capita in 2014 compared to 57.4 kg per capita in 2013), depressed supply due to the ongoing drought, and a weaker currency, domestic price of wheat (SAFEX) has been approaching import parity levels (figs 35, 36 & 37). These spikes in wheat will feed into food inflation over the coming 12 to 18 months, as producers attempt to pass costs on to retailers and they in turn pass costs on to consumers.

- Further, SA is set to become net importer of maize, as domestic yields will likely not be sufficient to satisfy the domestic demand. This means that SA maize prices are at the mercy of the USDZAR exchange rate. Domestic prices of maize sky rocketed earlier this year (figs 38 & 39), although there seems to be some moderation of late, with the rand gaining some of its strength. **These spikes are feeding into food inflation, which we expect will peak in the second half of 2016 at around 12% y/y** (figs 40 & 41). We expect bad debts to rise with food inflation (fig 42).
- This will have a negative impact on households. However, we note that according to Stats SA's Poverty Trends 2006–2011 **poor households spend 33.5% on food while non-poor spend 10.8% on food.**
 - The largest component of a poor household's food expenditure was on bread and cereals (34.7%), accounting for more than a third of households' monthly expenditure (fig 43).
 - On the other hand, "non-poor" households (as defined by Stats SA) spend approximately a fifth (21.1%) of their food expenditure on bread and cereals. For non-poor households, the largest component of their food expenditure was meat and fish, accounting for more than a quarter (28.9%) of their total expenditure (fig 43).
- Therefore, poor households will suffer more as they allocate higher portion of their income to food.
- **The SA consumer paid 9.8% more for the entire food basket (based on which the food CPI is computed) in March 2016 compared to March 2015 (fig 44).**

Impact on subsistence farming

- The not so obvious impact of the drought on households is its detrimental effect on subsistence farming. **Approximately 2.9 million households (18% of households in SA), and 1.4 million individuals are involved in agricultural activities, either through small scale farming or subsistence farming** (figs 45 & 46).
- For these households, farming provides a source of income as well as accrued savings on agricultural products they might otherwise have bought from commercial sources. Limited data on subsistence and small-scale farming reveals that about 0.1% of households rely on **"farm products and services" as the main source of income**. Note that this figure excludes the contribution of subsistence and small scale farming as **an additional source of income**.
- The effect of the drought on these affected consumers is a loss of income and the overall worsening of already bad food insecurity situation in SA. **Approximately 3.6 million households in 2014 (23% of total households) already had inadequate access to food. This is up from 3.1 million (20%) in 2009** (fig 48).
- This could necessitate a rise in social spending by the government, thus putting pressure on an already stretched fiscus, adding weight behind the arguments for further tax increases in the short term.
- Overall, the ongoing drought is a double whammy for poor households.

Disclaimer

Certification

The analyst(s) who prepared this research report (denoted by an asterisk*) hereby certifies(y) that: (i) all of the views and opinions expressed in this research report accurately reflect the research analyst's(s') personal views about the subject investment(s) and issuer(s) and (ii) no part of the analyst's(s') compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed by the analyst(s) in this research report. Standard Bank research analysts receive compensation that is based, in part, on the overall firm revenues, which include investment banking revenues.

Disclaimer and Confidentiality Note

Standard Bank Group Limited (SBG) is the holding company of The Standard Bank of South Africa Limited (SB) and is listed on the JSE Limited and is regulated by the Financial Services Board (FSB).

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject SBG to any registration or licensing requirement within such jurisdiction. All material presented in this report, unless specifically indicated otherwise, is under copyright to SBG. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of SBG. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of SBG or its affiliates.

The information, tools and material presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. SBG may not have taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. SBG will not treat recipients as its customers by virtue of their receiving the report. The investments or services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise constitutes a personal recommendation to you. SBG does not offer advice on the tax consequences of investment and you are advised to contact an independent tax adviser. Please note in particular that the bases and levels of taxation may change.

SBG believes the information and opinions in the Disclosure Appendix of this report are accurate and complete. Information and opinions presented in the other sections of the report were obtained or derived from sources SBG believes are reliable, but SBG makes no representations as to their accuracy or completeness. Additional information is available upon request. SBG accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that liability arises under specific statutes or regulations applicable to SBG. This report is not to be relied upon in substitution for the exercise of independent judgment. SBG may have issued, and may in the future issue, a trading call regarding this security. In addition, SBG may have issued, and may in the future issue, other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. Those reports reflect the different assumptions, views and analytical methods of the analysts who prepared them and SBG is under no obligation to ensure that such other reports are brought to the attention of any recipient of this report. SBG is involved in many businesses that relate to companies mentioned in this report.

Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgment at its original date of publication by SBG and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments. Investors in securities such as ADRs, the values of which are influenced by currency volatility, effectively assume this risk.

Structured securities are complex instruments, typically involve a high degree of risk and are intended for sale only to sophisticated investors who are capable of understanding and assuming the risks involved. The market value of any structured security may be affected by changes in economic, financial and political factors (including, but not limited to, spot and forward interest and exchange rates), time to maturity, market conditions and volatility, and the credit quality of any issuer or reference issuer. Any investor interested in purchasing a structured product should conduct their own investigation and analysis of the product and consult with their own professional advisers as to the risks involved in making such a purchase.

Some investments discussed in this report have a high level of volatility. High volatility investments may experience sudden and large falls in their value causing losses when that investment is realised. Those losses may equal your original investment. Indeed, in the case of some investments the potential losses may exceed the amount of initial investment, in such circumstances you may be required to pay more money to support those losses. Income yields from investments may fluctuate and, in consequence, initial capital paid to make the investment may be used as part of that income yield. Some investments may not be readily realisable and it may be difficult to sell or realise those investments, similarly it may prove difficult for you to obtain reliable information about the value, or risks, to which such an investment is exposed.

SBG maintains information barriers between its Research Analysts and the rest of its and its shareholders business divisions, more specifically the Investment Banking business. SBG's analysts', strategists' and economists' compensation is not linked to Investment Banking or Capital Markets transactions performed by SBG or its shareholders. Facts and views presented in SBG's research have not been reviewed by, and may not reflect information known to, professionals in other SBG or Standard Bank business areas, including investment banking personnel.

This report may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the report refers to website material of SBG, SBG has not reviewed the linked site and takes no responsibility for the content contained therein. Such address or hyperlink (including addresses or hyperlinks to SBG or SB's own website material) is provided solely for your convenience and information and the content of the linked site does not in any way form part of this document. Accessing such website or following such link through this report shall be at your own risk.

This report is issued and distributed in Europe by Standard Advisory London Limited 20 Gresham Street, London EC2V 7JE which is authorised by the Financial Conduct Authority ("FCA"). This report is being distributed in Kenya by Cfc Stanbic Bank Limited; in Nigeria by Stanbic IBTC; in Angola by Standard Bank de Angola S.A.; in China by Standard Bank Limited; in Botswana by Stanbic Bank Botswana Limited; in Democratic Republic of Congo by Stanbic Bank Congo s.a.r.l.; in Ghana by Stanbic Bank Ghana Limited; in Hong Kong by Standard Advisory Asia Limited; in Isle of Man by Standard Bank Isle of Man Limited; in Jersey by Standard Bank Jersey Limited; in Madagascar by Union Commercial Bank S.A.; in Mozambique by Standard Bank s.a.r.l.; in Malawi by Standard Bank Limited; in Namibia by Standard Bank Namibia Limited; in Mauritius by Standard Bank (Mauritius) Limited; in Tanzania by Stanbic Bank Tanzania Limited; in Swaziland by Standard Bank Swaziland Limited; in Zambia by Stanbic Bank Zambia Limited; in Zimbabwe by Stanbic Bank Zimbabwe Limited; in UAE by The Standard Bank of South Africa Limited, Dubai branch.

In respect of the United States, this report is solely intended for distribution to US institutional investors that qualify as Major US Institutional Investors under Securities Exchange of 1934 Rule 15a-6.

Recipients who no longer wish to receive such research reports should call +27 (11) 415 4272 or email SBGSEquityResearchSupport@sbgsecurities.com.

Please note that this report was originally prepared by SBG for distribution to SBG market professionals and institutional investor customers. Recipients who are not market professionals or institutional investor customers of these firms should seek the advice of their independent financial advisor prior to taking any investment decision based on this report or for any necessary explanation of its contents. This research may relate to investments or services of a person outside of the UK or to other matters which are not regulated by the PRA or in respect of which the protections of the PRA for private customers and/or the UK compensation scheme may not be available, and further details as to where this may be the case are available upon request in respect of this report.

In jurisdictions where Standard Bank Group is not already registered or licensed to trade in securities, transactions will only be effected in accordance with the applicable securities legislation, which will vary from jurisdiction to jurisdiction and may require that the trade be made in accordance with applicable exemptions from registration or licensing requirements.

Standard Bank Group Ltd Reg.No. 1969/017128/06 is listed on the JSE Limited.

Copyright 2016

Private and confidential

The SA consumer: striking dissimilarities

Siphamandla Mkhwanazi*
Economist
Siphamandla.Mkhwanazi@standardbank.co.za
(011) 415 4060

Zaakirah Ismail*
Economist
Zaakirah.Ismail@standardbank.co.za
(011) 415 4499

May 2016

Analyst certifications and important disclosures are in the disclosure appendix. For other important disclosures, please refer to the disclosure & disclaimer at the end of this document



Standard Bank

Contents

Section	Page
1. Introduction: the role of the consumer in the SA economy	2
2. Income inequality	5
3. Consumer outlook: 2016 and beyond	9
4. Household debt levels, and exposure to rising interest rates	15
5. Demand for credit, and creditworthiness	19
7. The effects of the drought on households	26
8. Conclusion	34

Go to Master Slide and
insert client logo here

Introduction

The role of the consumer in the SA economy

Figure 1: Circular flow diagram

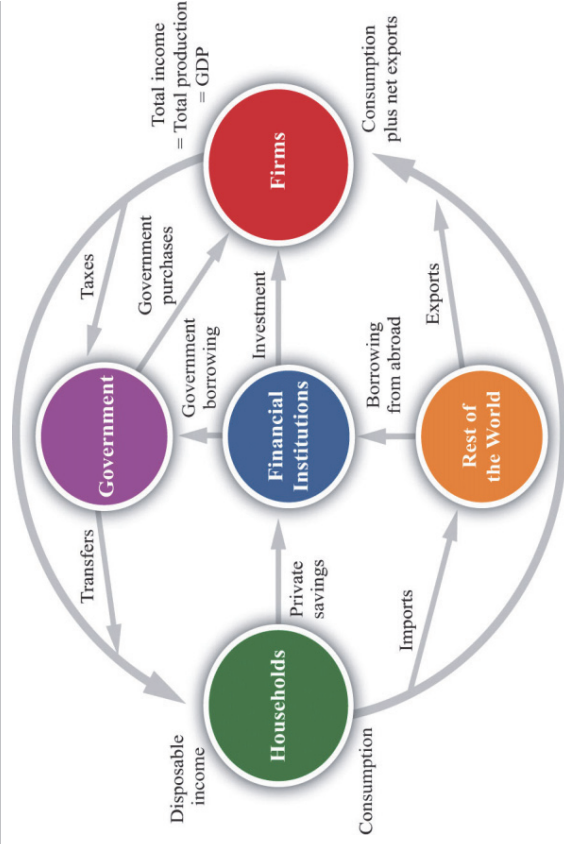


Figure 2: Private consumption, USD bn

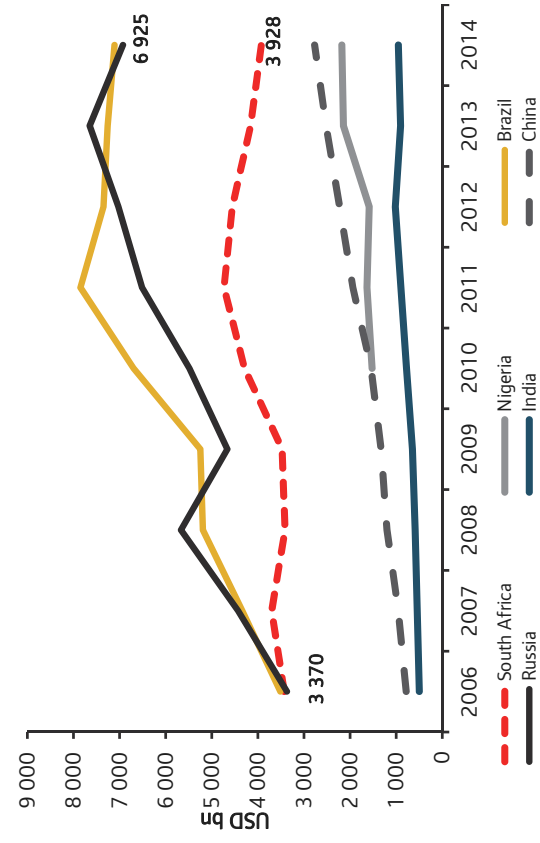
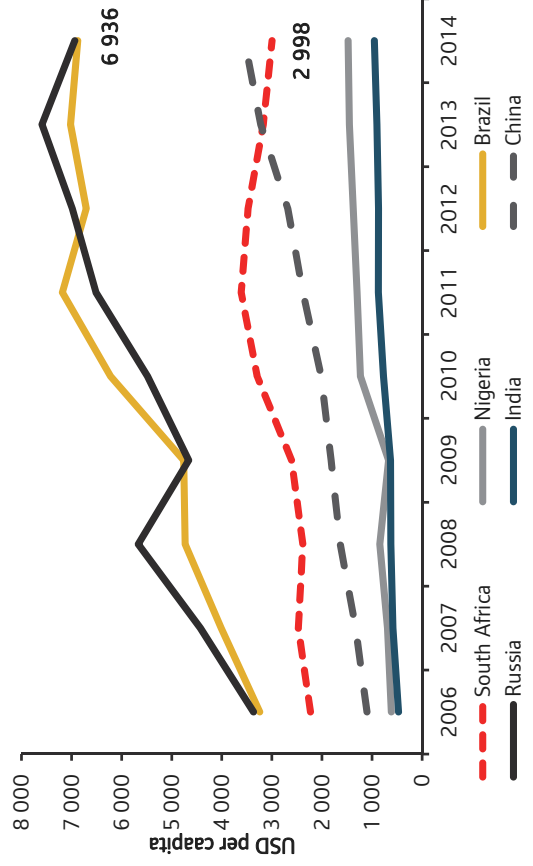


Figure 3: Consumption per capita, USD



Source all charts: World Bank, World Development Indicators, Standard Bank Research

- **SA is a consumer-driven economy**, as opposed to say China's investment/industry-oriented economy. SA's GDP comprises 60% household consumption expenditure (HCE)
 - Constraints on consumer spending, policy-driven or otherwise, significantly hampers SA's economic growth
- Generally, households derive income from salaries and wages as well as from government grants
- **In 2006 private consumption (in USD bn) in SA was similar to that of Brazil and Russia but is now 45% below these countries despite it being the driver behind SA's growth since the 2008/9 financial crisis**
- **On a per-capita basis, SA's consumption is now below that of China, although still well above India and Nigeria**



The SA consumer bears striking dissimilarities

- We analyse the South African consumer with respect to:
 - 1) Population and income distribution dynamics
 - 2) Debt accumulation and debt-servicing
 - 3) Potential effects of the drought
- We highlight the headwinds the consumer faces in 2016 and beyond.

Income inequality

SA consumer: stark income inequality

Figure 4: Indicators of inequality

Inequality Indicators	2006	2009	2011
Gini Coefficient (income per capita including salaries, wages and social grants)	0.72	0.70	0.69
Gini Coefficient (expenditure per capita excluding taxes)	0.67	0.65	0.65
Share of national consumption of the poorest 20% (per capita)	4.4%	4.4%	4.3%
Share of national consumption of the richest 20% (per capita)	64.1%	61.4%	61.3%

- SA has one of the most unequal societies in the world, as depicted by a very high Gini coefficient
- The share of national consumption between the richest and poorest remains skewed, and stagnant
 - The richest 20% of the population accounts for over 61% of consumption in 2011 (down from a high of 64% in 2006)
 - Meanwhile, the share of the bottom 20% remained unchanged at below 4.5%

Figure 5: Poverty trends

Poverty headcount	2006	2009	2011
Percentage of population that is poor	57.2%	56.8%	45.5%
Number of poor persons (millions)	27.1	27.8	23
Percentage of the population living in extreme poverty	26.6%	32.4%	20.2%
Number of extremely poor persons (millions)	12.6	15.8	10.2

- However, between 2006 and 2011, the proportion of the population living in poverty (using the national upper bound poverty line) fell from 57.2% to 45.5%
- This could be attributed to rising income levels and South Africa's expanding social assistance system
 - The coverage of social grants has expanded since 2003's 6 million grants to 16 million by 2014 and is expected to rise to 18 million by 2018/19
 - According to Stats SA, growth in incomes and credit extension contributed to declining poverty levels

Source all charts: StatsSA, Standard Bank Research

SA consumer: stark income inequality

Figure 6: Inflation adjusted poverty lines (per capita per month in rand)

Year*	Food poverty line	Lower-bound poverty line	Upper-bound poverty line
2000	141	209	308
2001 (September)	148	219	323
2002	166	241	352
2003	197	280	401
2004	199	282	403
2005	202	288	413
2006 (March)	210	300	431
2007	227	321	458
2008	259	360	507
2009 (March)	305	416	577
2010 (March)	307	424	594
2011 (March)	321	443	620

*Unless otherwise stated, the values are linked to January prices

- **Upper bound poverty line=R620 per capita per month**
 - 45.5% of SA population lives on R620 or less a month

- **Income disparity is also apparent in tax statistics**
 - Only 0.9% of SA's population is in the "upper income band" (R500,001+)
 - ▶ this band is responsible for 37% of taxable income
 - The "middle income segment" (R120,001 and R500,000) 49% of taxpayers
 - ▶ they are only 4.5% of the SA population
 - Taxpayers earning less than R150,000 a year in taxable income make up 2 million people or 41% of taxpayers
 - ▶ but contribute only 11% of all taxable income

Figure 7: Burden of the tax payer

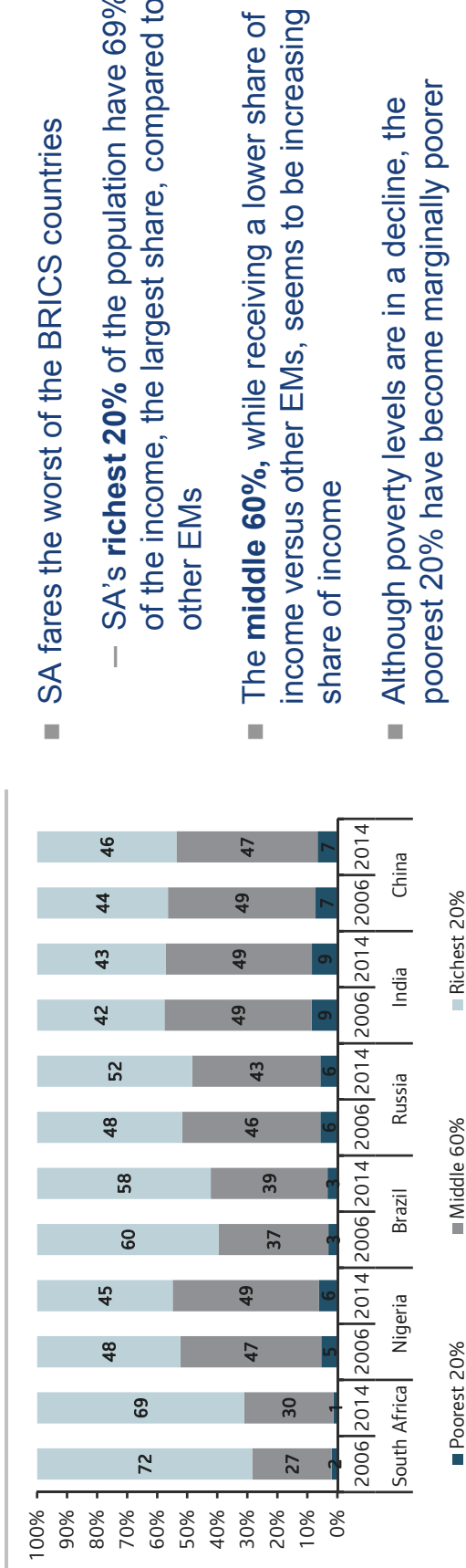
Taxable Income	No. of Tax Payers	% of Tax Payers	% of Taxable Income
<= R0	161 486	3%	-2%
R1 – R70 000	605 560	12%	2%
R70 001 – R150 000	1 278 817	26%	11%
R150 001-R250 000	1 266 160	26%	20%
R250 001 – R500 000	1 148 932	23%	31%
R500 001 +	480 435	10%	37%
	4 941 390	100%	100%

Source of all tables: SARS, National Treasury, Standard Bank Research



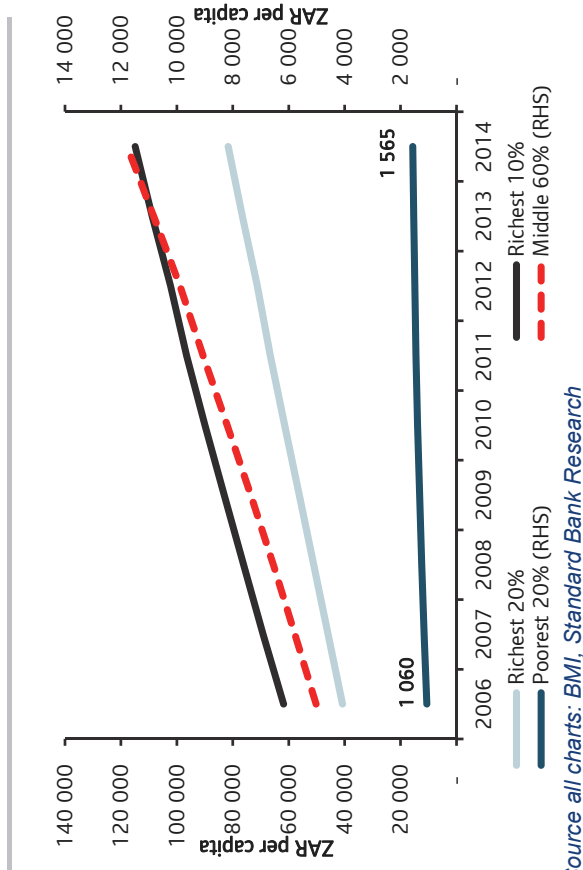
SA consumer: SA income distribution worse than other EMs

Figure 8: Percentage share of income between different segments of population 2006-2014



- SA fares the worst of the BRICS countries
 - SA's **richest 20%** of the population have 69% of the income, the largest share, compared to other EMs
- The **middle 60%**, while receiving a lower share of income versus other EMs, seems to be increasing share of income
- Although poverty levels are in a decline, the poorest 20% have become marginally poorer

Figure 9: Net income per capita (ZAR) for different segments of the population



- On a **per-capita basis**, the middle 60% have seen the most growth in net income, reaching R12,000 in 2014, 10x less than SA's richest 10% counterparts
- The poorest 20% have not seen a meaningful increase in income, at less than R2,000

Source all charts: BMI, Standard Bank Research

Consumer outlook: 2016 and beyond

SA macroeconomic forecasts: stagflation intensifies

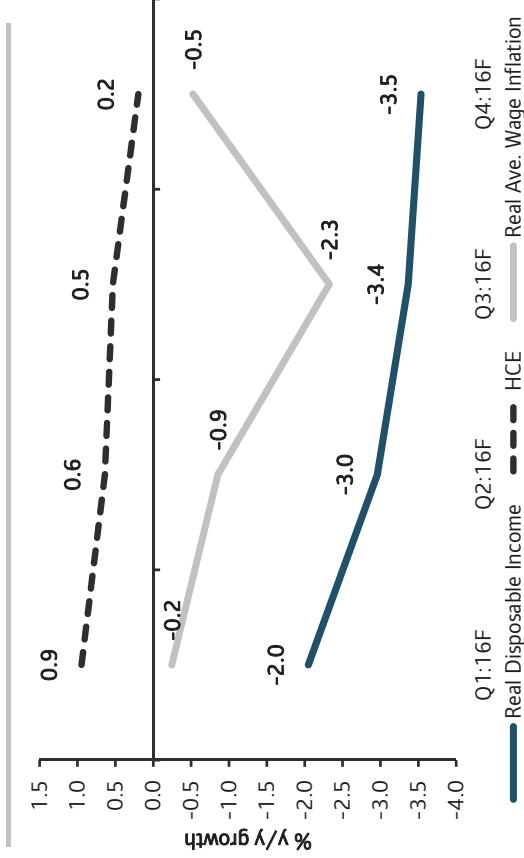
	Q1:16F	Q2:16F	Q3:16F	Q4:16F	Q1:17F	Q2:17F	Q3:17F	Q4:17F	2016F	2017F
Growth data (saar)										
Expenditure on GDP % y/y	-0.4	0.6	1.0	1.0	1.4	1.3	0.9	1.0	0.6	1.2
Household Consumption Expenditure % y/y	0.9	0.6	0.5	0.2	0.2	0.2	0.2	0.2	0.6	0.2
Durable consumption % y/y	-1.0	-1.8	-0.6	-1.5	-1.1	-0.5	-0.4	-0.1	-1.2	-0.5
Semi-durable consumption % y/y	2.6	1.3	-0.6	-2.7	-2.9	-3.0	-2.8	-2.4	0.1	-2.8
Non-durable consumption % y/y	0.1	0.3	0.2	-0.3	-0.6	-0.9	-1.1	-1.1	0.1	-0.9
Services consumption % y/y	1.9	1.5	1.4	1.7	1.9	2.1	2.1	2.0	1.6	2.0
Prices										
Inflation % y/y	6.5	5.9	6.5	7.3	7.1	6.8	6.0	5.3	6.6	6.3
Electricity Price Index	11.2	11.2	9.4	9.4	9.4	9.4	13.0	13.0	10.3	11.2
House Price Index	5.6	5.9	6.0	6.2	6.2	6.1	6.1	6.1	5.9	6.1
Interest rates										
Prime rate (year-end)	10.50	10.75	11.00	11.00	11.25	11.25	11.00	10.75	11.00	10.75
Government bond 3-5 years	8.39	8.37	8.40	8.46	8.41	8.39	8.28	8.14	8.41	8.30
Government bond 5-10 years	8.90	8.89	8.92	8.98	8.94	8.93	8.84	8.71	8.92	8.86
Government bonds 10 years and over	9.04	8.83	8.72	8.68	8.60	8.57	8.49	8.39	8.82	8.51
Exchange rates										
USDZAR (average)	15.81	15.59	15.83	15.58	15.50	15.50	15.16	15.00	15.70	15.29
EURZAR (average)	17.08	16.82	16.62	15.84	15.75	15.63	15.92	16.37	16.59	15.92
GBPZAR (average)	21.98	22.01	22.17	21.82	21.95	22.34	22.24	22.37	21.99	22.23
Commodity prices										
Brent (\$/bbl)	35.21	39.00	41.00	45.70	46.00	48.70	50.00	50.00	38.81	48.68
Consumer credit & Income										
Household credit extension % y/y (Nominal)	5.6	5.3	5.2	4.5	5.0	5.3	5.2	5.3	5.2	5.2
Compensation of employees (nominal)	5.4	3.7	2.3	2.8	4.5	6.2	6.7	5.9	3.6	5.8
Disposable income % y/y (Real)	-2.0	-3.0	-3.4	-3.5	-2.5	-1.1	-0.1	-0.1	-3.0	-0.9
Debt-to-disposable income ratio %	79.1	79.4	78.7	78.5	79.0	78.6	78.0	77.7	78.9	78.3
Nominal Wage Rate Index (per worker)	6.3	5.0	4.2	6.8	4.8	6.5	7.1	6.3	5.6	6.2
Employment	-0.1	-0.2	-0.4	-0.7	-0.8	-1.0	-1.2	-1.2	-0.4	-1.1

■ **The rand has structurally adjusted to lower commodity prices and fair value for the USDZAR is currently estimated at 15.00. We do not expect commodity prices to stage a meaningful recovery over the short- to medium term.**

■ **Weak foreign demand will restrain export volumes, but weak domestic demand will hopefully act to reduce imports, facilitating some narrowing of the CAD (current account deficit), although not enough to keep SA out of the woods in terms of currency risks.**

SA consumer: slowing wage & disposable income growth to constrain HCE

Figure 10: Declining disposable income, wage growth to drag down HCE in 2016



Currency depreciation, and the consequent rise in inflation, leads to a decline in real wages and real disposable income, thus negatively impacting on real household expenditure and real GDP growth

- We expect cyclical consumption to slow while non-cyclical consumption may be more resilient than in previous downward phases of the business cycle due to increased support from the public sector
- Expect HCE to slow to **0.5%** in 2016 & **0.1%** in 2017
- **Real wage inflation** to fall from around **2.0%** in 2015 to **-1%** in 2016
 - CPI rises to **6.6%** in 2016 from **4.6%** in 2015, and
 - Nominal wage inflation falls to **5.6%** in 2016 from around **6.6%** in 2015
- **Job losses:** mining; manufacturing and construction

SA consumer: noncyclical consumption to be resilient

Key points

Social grants and wages comprise 40% of total earnings in SA, up from 32% before the GFC

This affects low income earners (which we define as those individuals earning R0-R49,000 or households earning a combined income of R0-R86,000) who typically rely on social grants as a source of income.

These households contributed approx. 32% to total expenditure in 2015

Figure 11: Social grant coverage

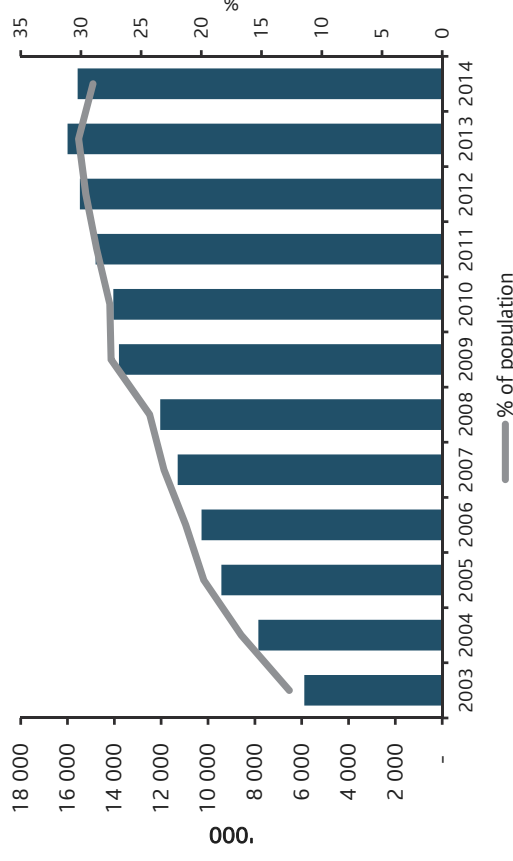


Figure 12: Public sector wage and social grant expenditure

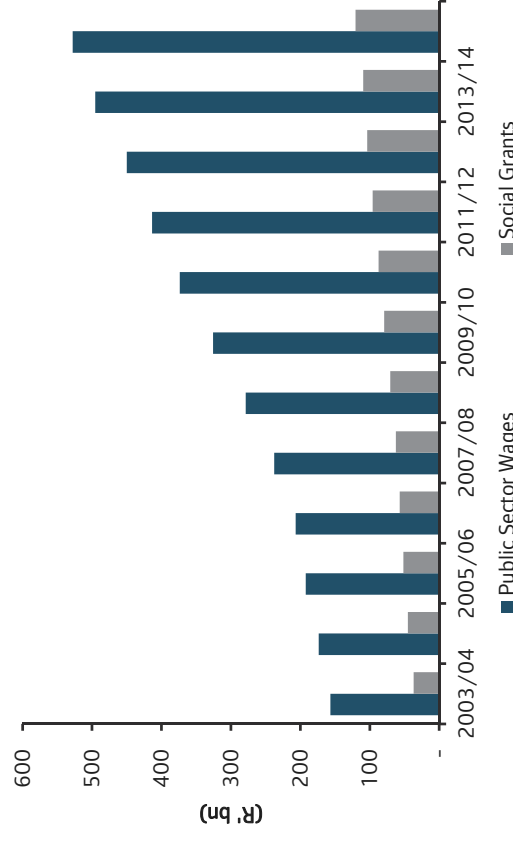
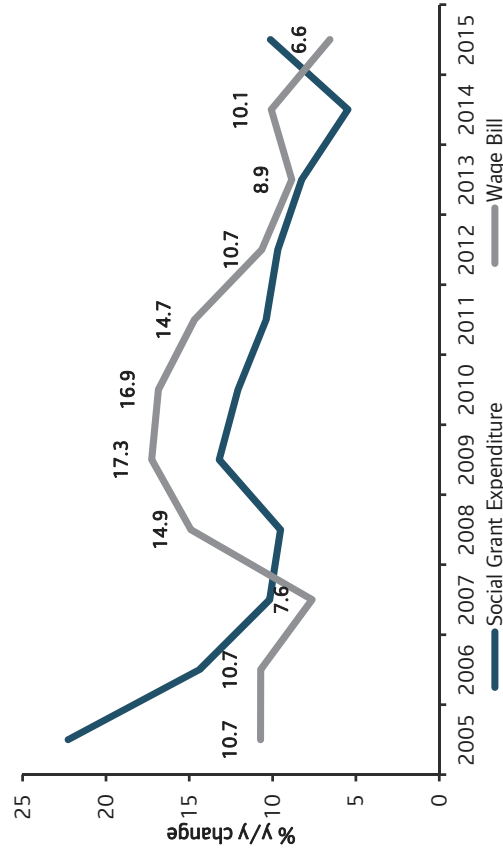


Figure 13: y/y growth in public sector wage bill and social grant expenditure



Source all charts: National Treasury, Standard Bank Research

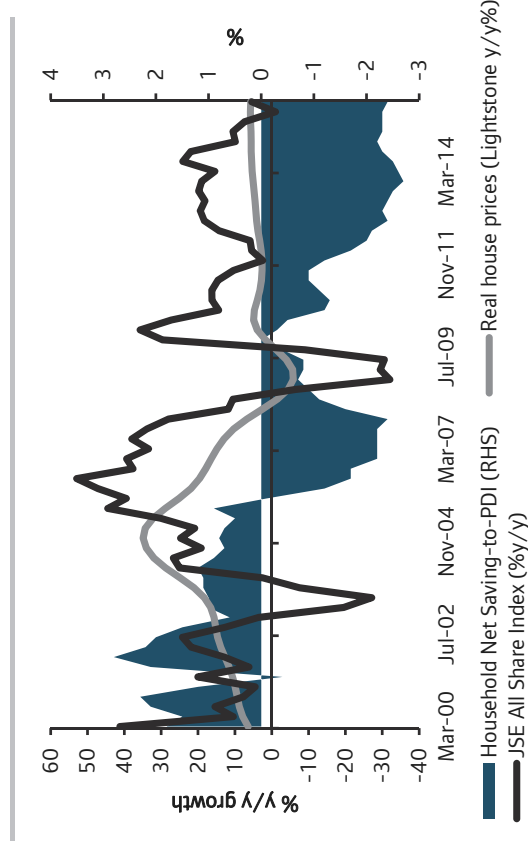
- SA has 4.9 million tax payers, supporting close to 30% (16 million) of the population in the form of social welfare grants. This is a ratio of 1:3.3. That is, 1 taxpayer supports about 3.3 social grant beneficiaries

- In 2014/15, government spent close to **R650bn** on social grants and wages

- While wage bill is still expected to grow at above inflation rate:** an attractive segment of consumers to lend to on a risk-adjusted basis, i.e. rising wages and a virtually non-existent risk of retrenchment

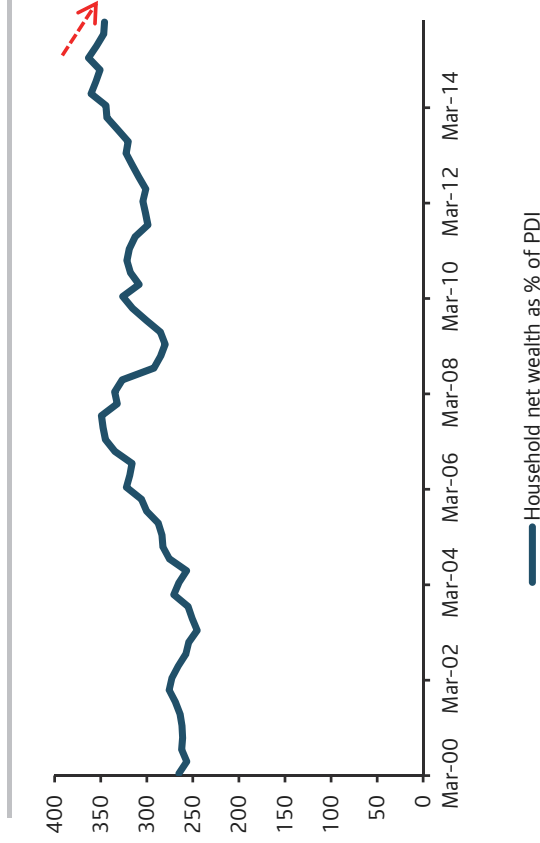
SA consumer: household wealth under pressure

Figure 14: Dis-saving, low returns from financial assets and mortgage assets



- We expect wealth-backed spending to be constrained, as wealth effects remain under pressure
- Stock markets returned an average 5.6% in 2015 versus over 18% in 2014 and house prices grew 5.7% (average inflation of 4.6% in 2015)

Figure 15: Wealth takes a knock as a result of lower asset prices



- HH wealth as percentage of disposable income declined in 2015
- This affects mostly affluent earners (which we define as those individuals earning above R783,000 pa, or households with a combined income of above R1,481,000 pa), who have a significant reliance on investments as a source of income
- These households contributed just over 7% to total spending in SA in 2015

Source all charts: SARB, Standard Bank Research

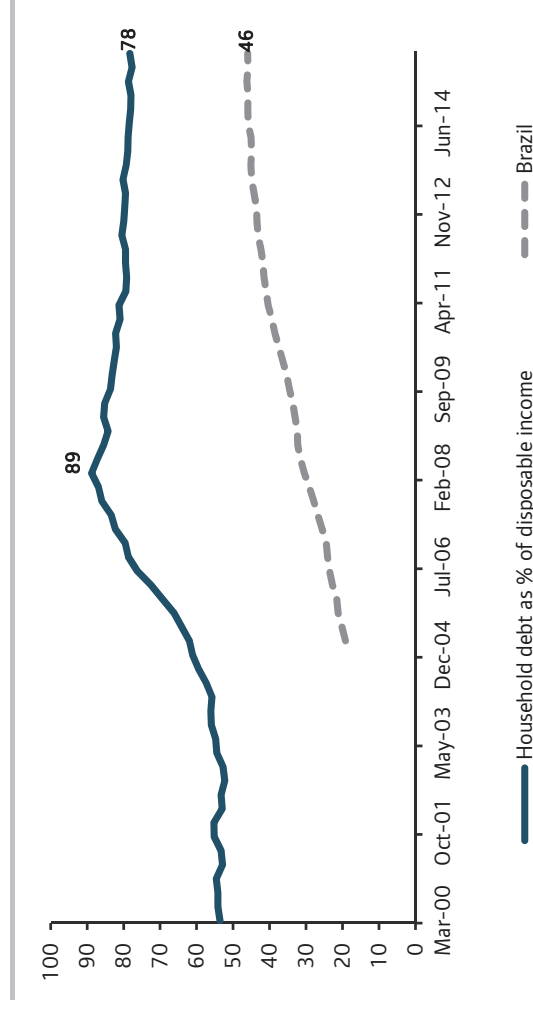
SA consumer headwinds in 2016 and beyond

- The consumer is likely to be constrained by several factors:
 - Firstly, we expect real wage inflation to fall as inflation reverts to an average of 6.6%, up from an average of 4.6% in 2015, and nominal wage increases come under pressure.
 - Secondly, we expect the mining and manufacturing sectors to continue shedding jobs.
 - Thirdly, the public sector is now also far more limited than it was during the previous downward phase of the business cycle in its ability to act counter-cyclically with respect to employment creation.
 - Lastly, we see financial conditions tightening as banks reduce risk appetite to extend credit, especially unsecured credit to consumers, in reaction to fears about job security, less disposable income and higher debt-servicing costs.

Household debt levels, and exposure to rising interest rates

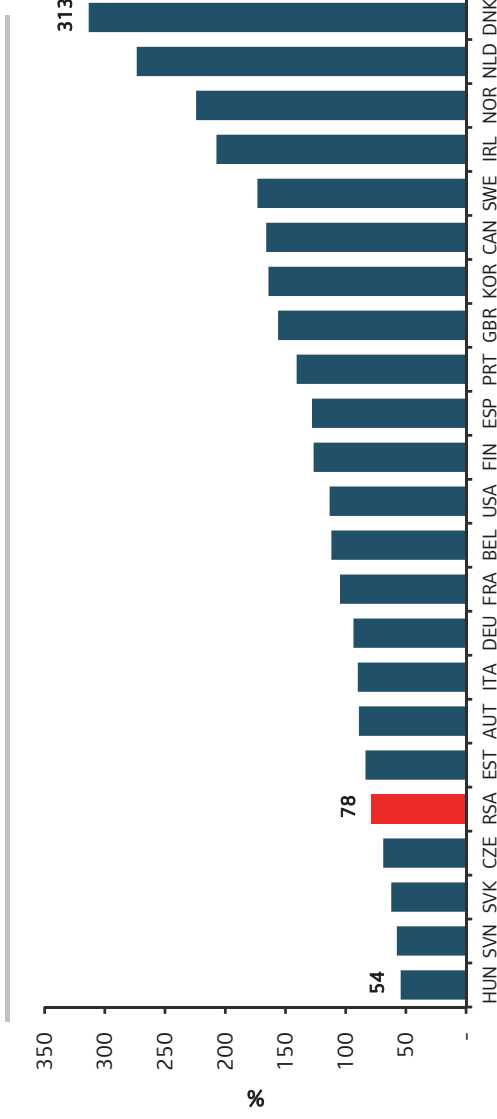
SA consumer: debt accumulation

Figure 16: SA consumers deleveraging



- **SA consumers have deleveraged since the global financial crisis**
 - debt levels have declined from a high of 89% in Q1:2008 to an average 78% in 2015
- **The optimal debt levels in the SA context are a research question, and these differ from one economy to another**
- **Excessively high debt levels reduce consumers' ability to spend on goods as rates continue to rise**

Figure 17: SA consumer on the lower end of curve, compared to developed world



- **Micro level data suggests that households at the lower end of the income curve live beyond their means**
- **Compared to OECD countries, SA is still on the lower end of the curve.** Data suggests that developed countries tend to have higher debt-to-disposable income ratios

Source all charts: Bloomberg, SARB, OECD, Standard Bank Research

SA consumer: debt-servicing costs

Key points

As interest rates rise, cost of servicing debt likewise increases, thereby eating into disposable income

This limits the ability to spend on goods and services that spur the economy

Despite the rising cost of debt-servicing, debtors are showing resilience so far, as indicated by a declining number of insolvencies

Figure 18: Interest rates on the rise-but still far below historical highs

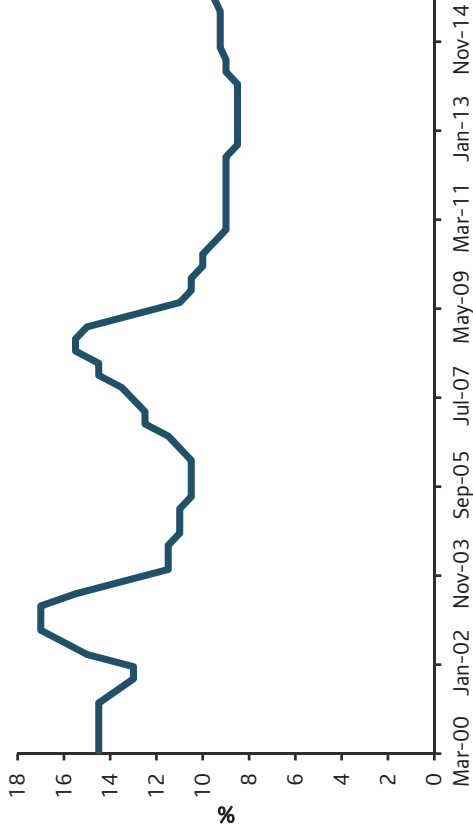


Figure 20: On average, consumers pay approx. 12.5% interest rate, approx. 100 bps above prime

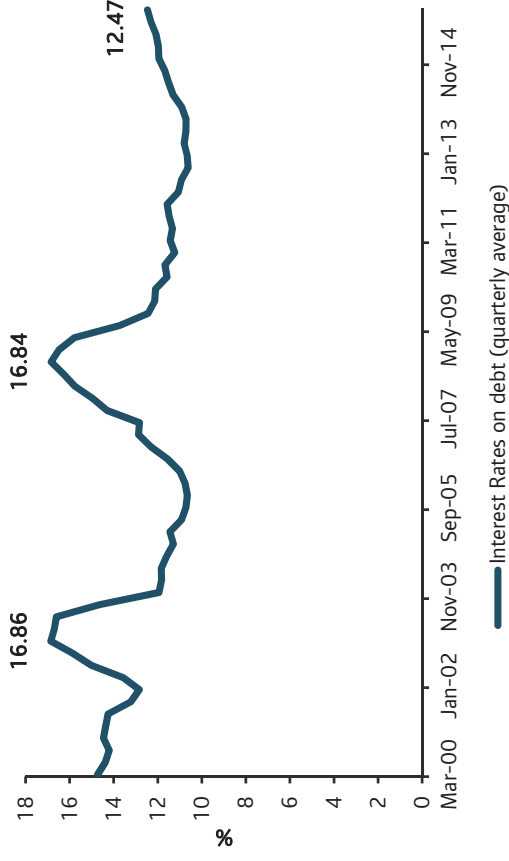


Figure 19: Approx. 10% of disposable income goes to servicing debt

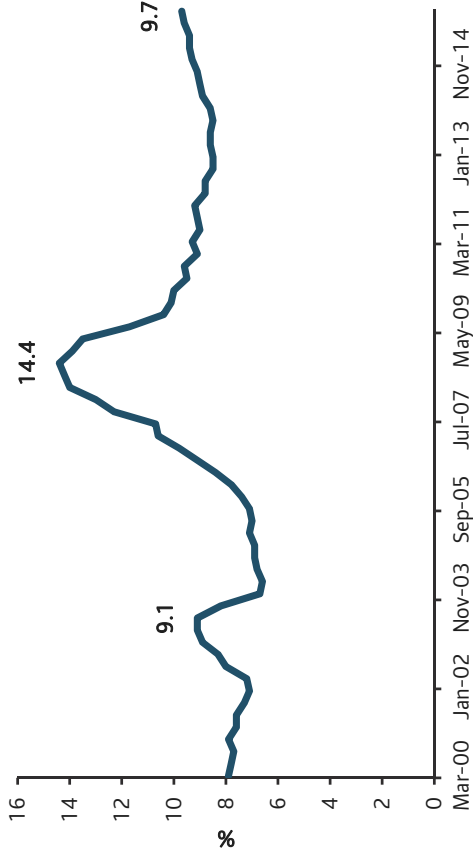
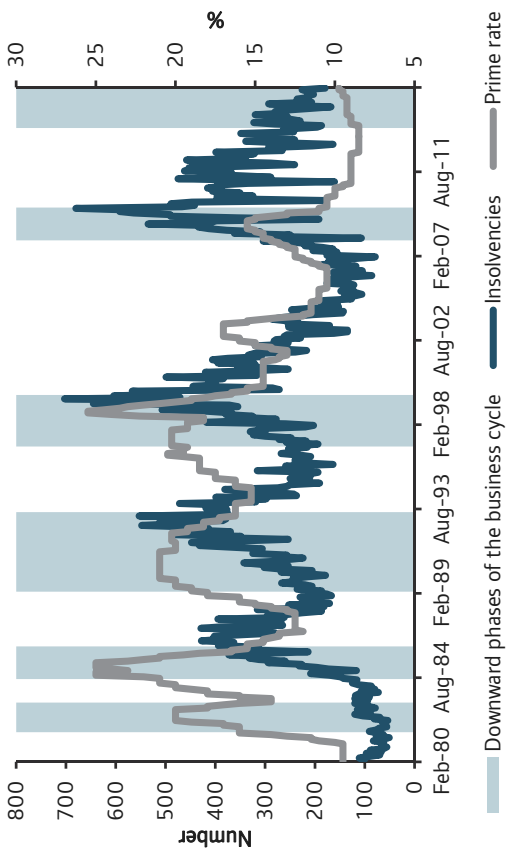


Figure 21: Insolvencies generally rise with rising rates in downward phases of the business cycle



SA consumer: debt levels, and exposure to rising interest rates

Figure 22: Debt exposure: 2007/2008 versus 2015

Ratios	2007	2008	2015
Debt to Disposable Income ratio	84.7%	86.5%	78.0%
Debt Service Cost ratio	11.7%	14.1%	9.5%
Average Interest on Debt	13.7%	16.3%	12.2%
Net Savings to Disposable Income	-2.3%	-1.1%	-2.3%
Household Debt as % of Household Assets	19.3%	22.4%	18%

- While the financial position of households is under pressure heading into 2016, a comparison of key ratios pre-the GFC versus 2015 **suggests that they may be in a marginally better position:**
 - Levels of debt compare better than the 2008 average
 - While likely to rise further in the next quarters, consumers face a **lower debt service cost ratio than they did in 2007/8**
 - **Average interest rate charged on debt is also lower in 2015**
 - Household debt as a percentage of household assets (capital gearing ratio) is lower
 - However, savings rate remains unchanged, suggesting that consumers would rather spend than save.
- Therefore, with a better rate of indebtedness and debt-servicing cost coming off from a lower base (compared to most of the previous downward phases of the business cycle), SA consumers are in a somewhat better position heading into tougher times, compared to the recession of 2009
 - Could explain the resistance shown by consumers in regard to declining insolvencies

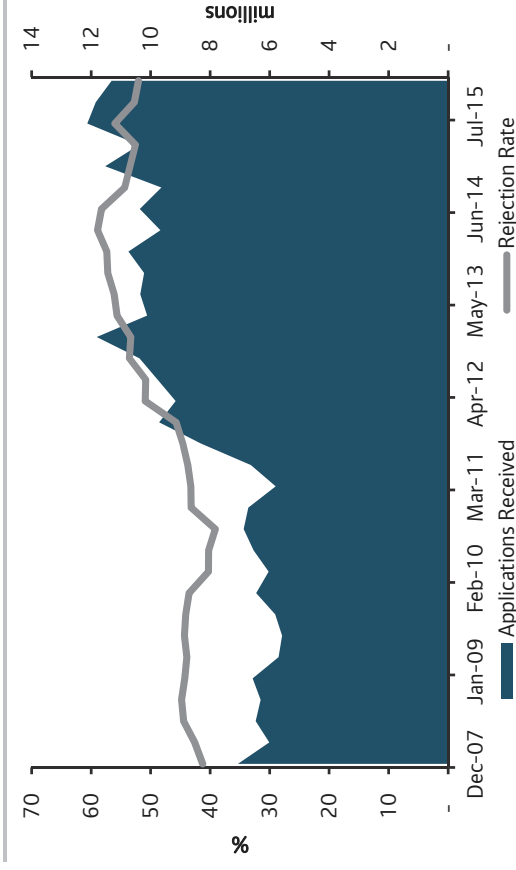
Source all charts: SARB, Standard Bank Research

Demand for credit, and creditworthiness

SA consumer: stable demand for credit, at least for the time being

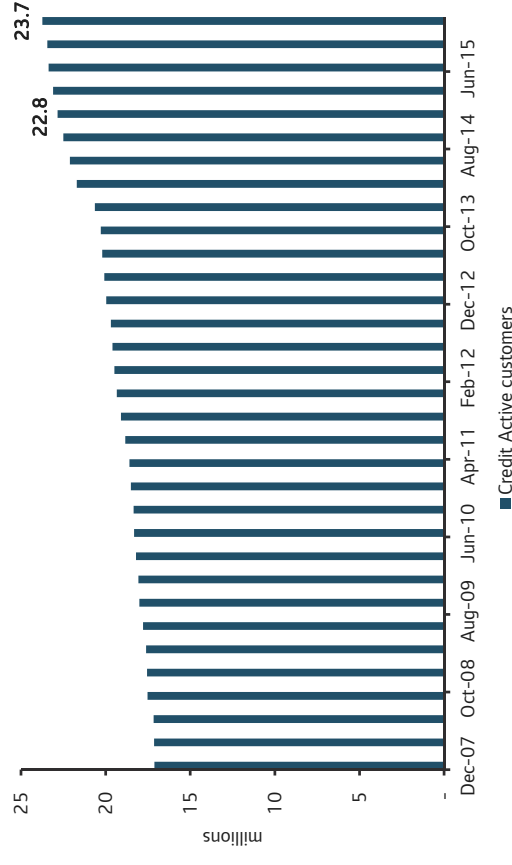
The NCR introduced new laws that govern conducting affordability assessments on consumers. These are widely expected to make it relatively more difficult for consumers to access credit. Second, the NCR introduced laws that prescribe the maximum interest rate that can be charged on unsecured credit. This is expected to provide some relief to the consumer, while on the other hand disincentivize credit providers from taking on risky customers

Figure 23: Rejection rate set rise further as NCR tightens grip



- **Despite the rising cost of money, appetite for credit remains healthy**
 - However, over half of applications for credit are being rejected, indicating that credit providers are less accommodative
 - We expect this continue into 2016 as a result of, among other factors the new, stricter NCR lending guidelines

Figure 24: Credit active consumers rise to 23.7 million



- **Credit-active consumers reached 23.7 million (about 43% of the population) in 2015, as 900,000 more customers accessed credit for the first time in Q4:2015 compared to Q4:2014**

Source all charts: NCR, Standard Bank Research

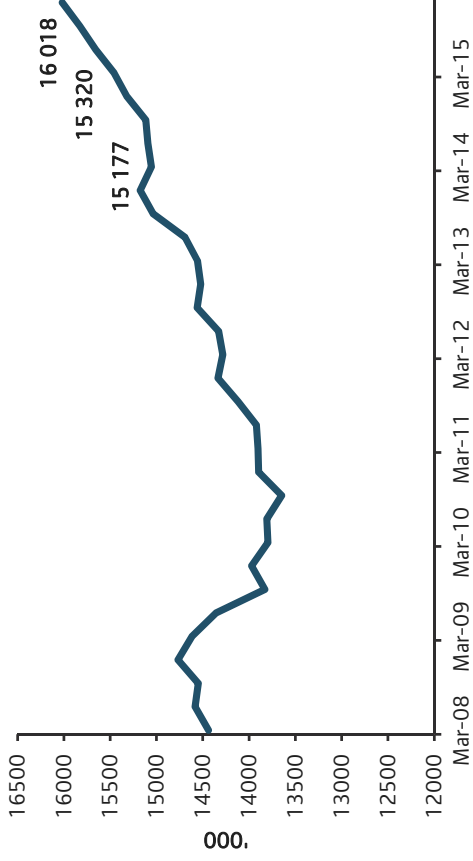


SA consumer: growth in employment positive for demand

Key points

For employment statistics, we rely on StatsSA's QLFS data, which could differ with QEF. However, trends are generally similar

Figure 25: Employment continue to rise, thus supporting demand for credit - for the time being

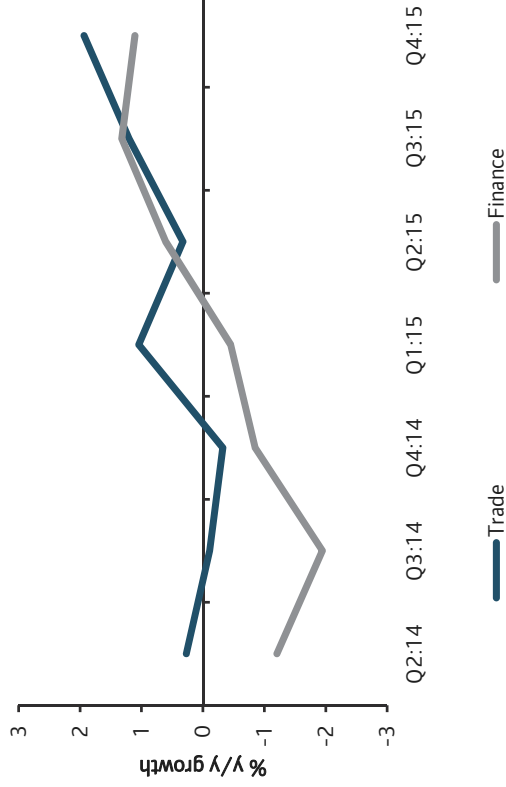


■ Employment continued to improve in 2015

- According to QLFS, over 16 million people were employed in Dec-15, compared to 15.3 million and 15.2 million in Dec 2014 and 2013 respectively

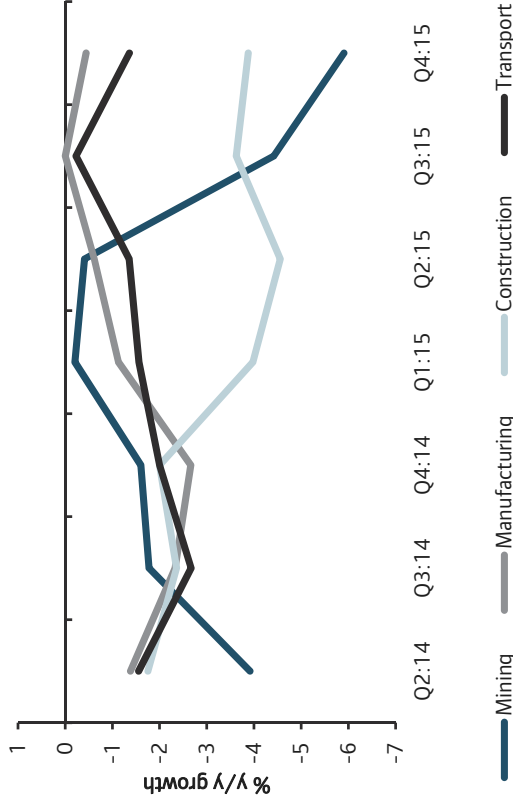
Employment forecasts are based on QEF historical data

Figure 26: Trade, Finance held the fort in 2015



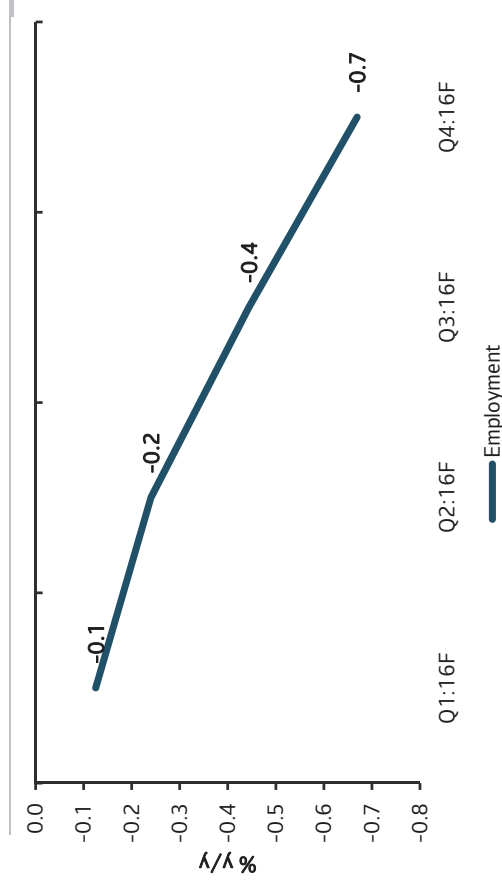
Source all charts: StatsSA, Standard Bank Research

Figure 27: Mining, manufacturing, construction, transport at the forefront of job losses



Job-shedding ahead to threaten demand and debt-servicing quality

Figure 28: Job cuts expected as weak global demand persists



Employment forecasts are based on QEF historical data

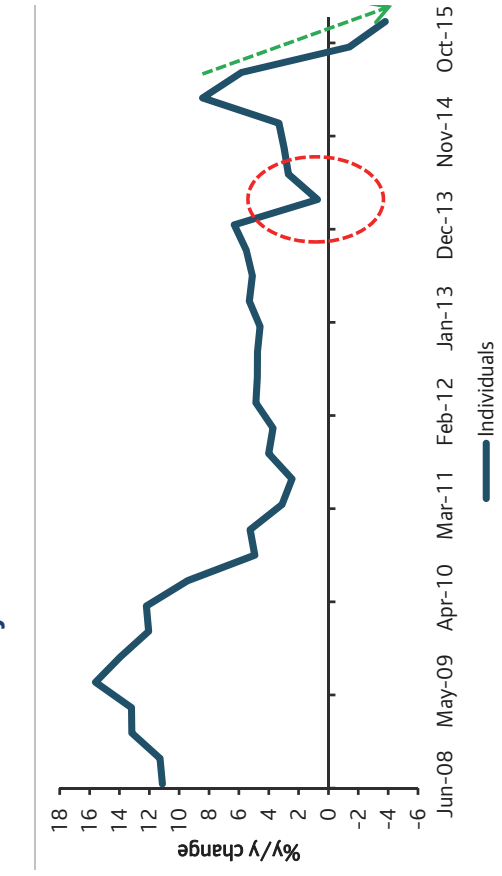
- However, as commodity prices continue to fall, employment prospects look weaker in 2016
- This could dampen demand for credit, and ultimately HCE
- Debt-servicing quality could also suffer

Credit standing of consumers and amnesty: consumers failed to capitalise

Key points

The Credit Information Amnesty was a one-off removal of adverse information from consumers' credit profile. However, the payment history and all judgements against consumers remained intact. This means that even though adverse listing was removed, a consumer's payment history would still reflect the missed payments

Figure 31: A one-off decline in the number of individuals with impaired credit record, due to the March 2014 credit amnesty, reverses within a year



Consumers failed to capitalise:

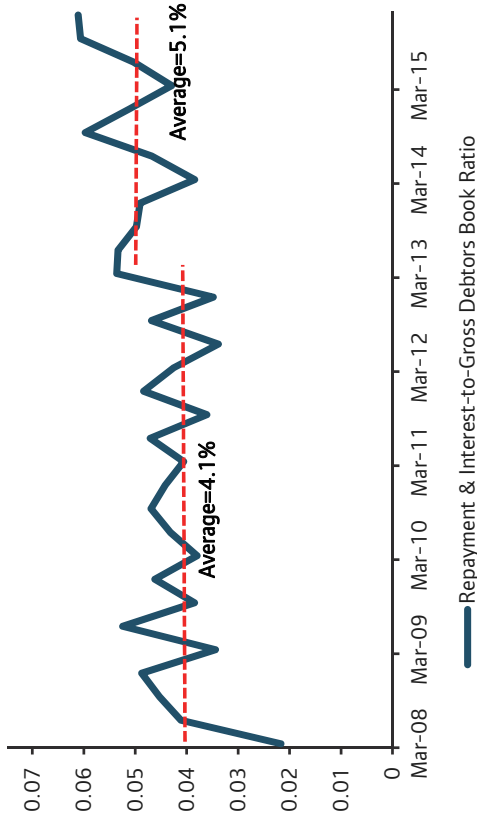
- Individuals with impaired record declined from 10.26 million in Q4:14 to 9.87 million in Q4:15
- NB: Based on all stages of impairments, and all forms of credit
- NB: CIA removed adverse listings against consumers

Source all charts: NCR, Standard Bank Research



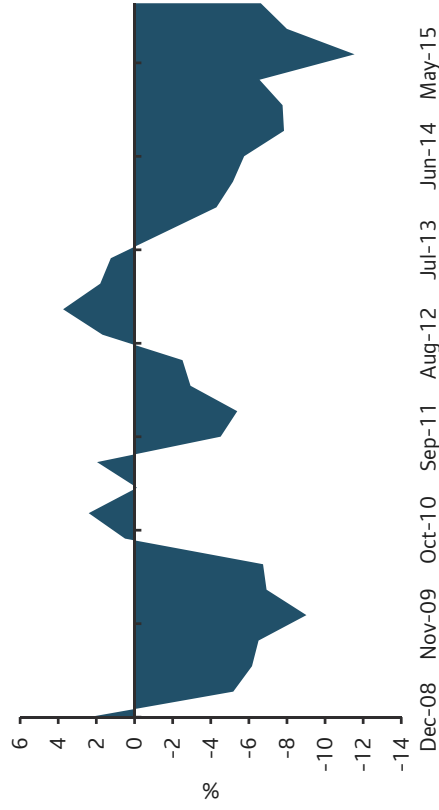
Signs of deleveraging as financial conditions tighten

Figure 32: Repayments rising relative to debt stock



- Capital and interest repayments are now averaging 5% of the total debt, up from 4% historical average

Figure 33: Growth in credit active consumers outstrips that of the debt stock



- Debt stock has been accumulating at a slower pace compared to the number of consumers accessing credit since mid-2013

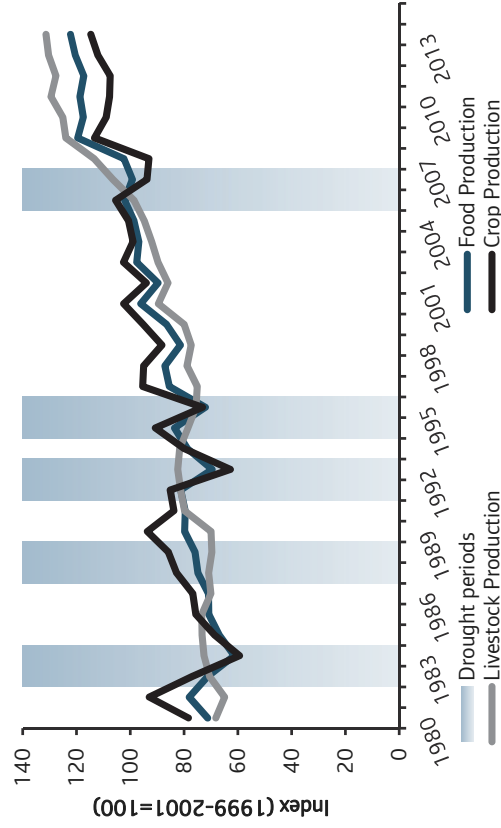
- Although new customers are coming into the market, this currently does not translate into material growth in debt
- This could also be as a result of low risk appetite from credit providers, electing to reduce exposure in these uncertain times

The effect of the drought on households

SA consumer: domestic food production may drop

Key points

Figure 34: Food production indices



- We expect the drought to impact on households via two channels: food inflation and subsistence farming
- Domestic food production is to drop significantly, as it did during the previous episodes of drought
- Crops and livestock production in particular are expected to be affected, causing food inflation to shoot up, particularly staple foods and red meat
- Initial crop estimates indicate that SA will need to import between 5-6 million tons of maize, starting from May 2016 at a cost of approx. R70bn
 - this will be made worse by the weak rand
 - shaves about 0.4 percentage points off GDP growth

Source all charts: BMI; Standard Bank Research

On the drought: inflationary pressures

Key points

These spikes in wheat will feed into food inflation over the coming 12 to 18 months, as producers attempt to pass costs onto retailers and they in turn pass costs onto consumers

Food producer and retailer margins are expected to come under pressure as consumers disposable incomes shrink in 2016

Figure 35: Wheat prices approaching import parity

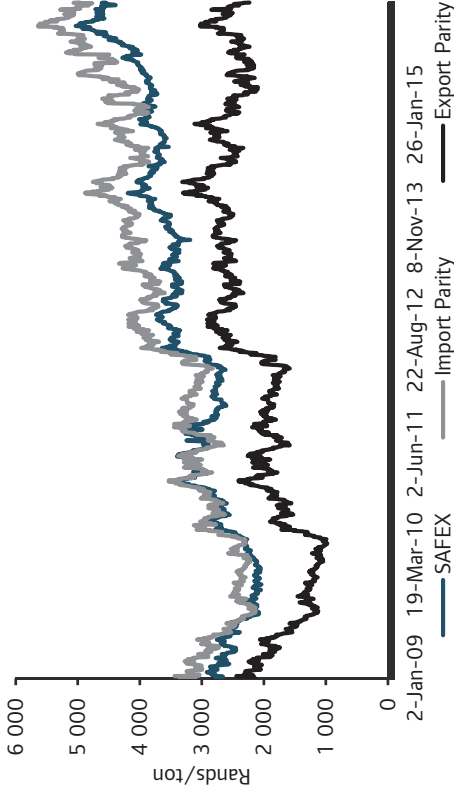
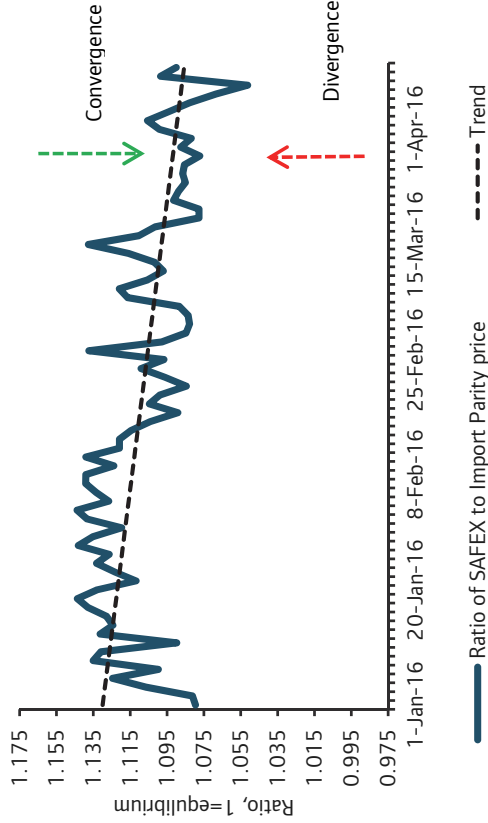
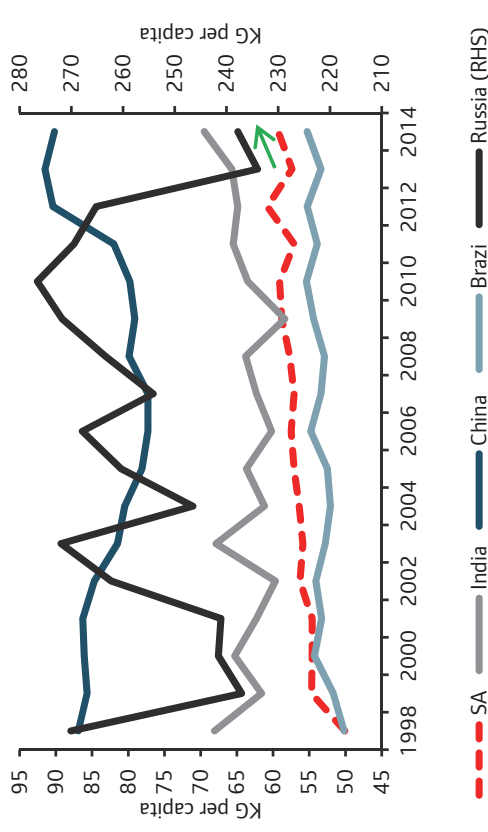


Figure 36: Domestic and international prices converging



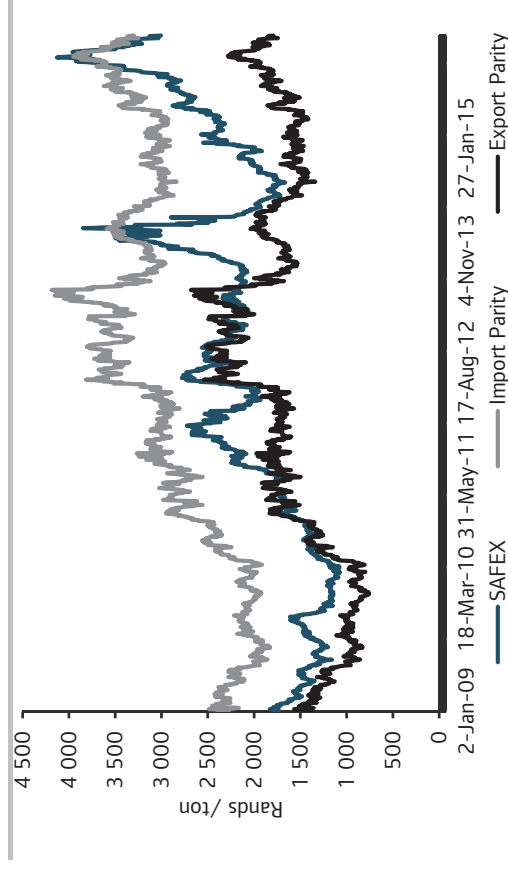
- SA is a **net importer of wheat** (approx. 60% of domestic consumption)
- Price of wheat for a SA buyer is normally determined by the international wheat price, the exchange rate and the local supply and demand for wheat
- Growing demand, depressed supply, weak currency mean higher domestic price

Figure 37: Wheat consumption per capita: growing demand



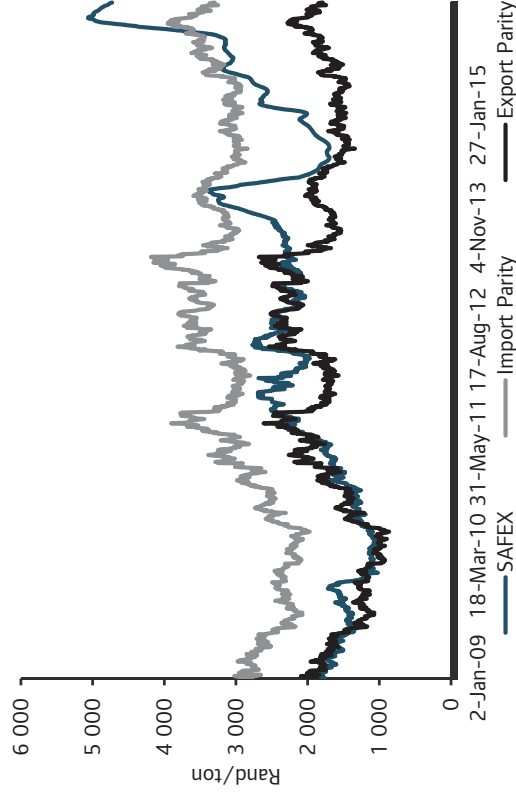
On the drought: inflationary pressures

Figure 38: Yellow maize remains at import parity due to the drought. Import parity has been falling as the ZAR strengthens



- SA set to become net importer of maize, as domestic yields would not be sufficient to satisfy the domestic demand.
- This means SA maize prices are at the mercy of the USDZAR exchange rate.

Figure 39: White maize shoots up



- With the weak currency, maize prices have sky rocketed, feeding into food inflation, **which we expect will peak in the second half of 2016 at around 12% y/y.**

Source all charts: Bloomberg; BMI, Standard Bank Research

On the drought: inflationary pressures

Figure 40: Maize feeds through to food inflation

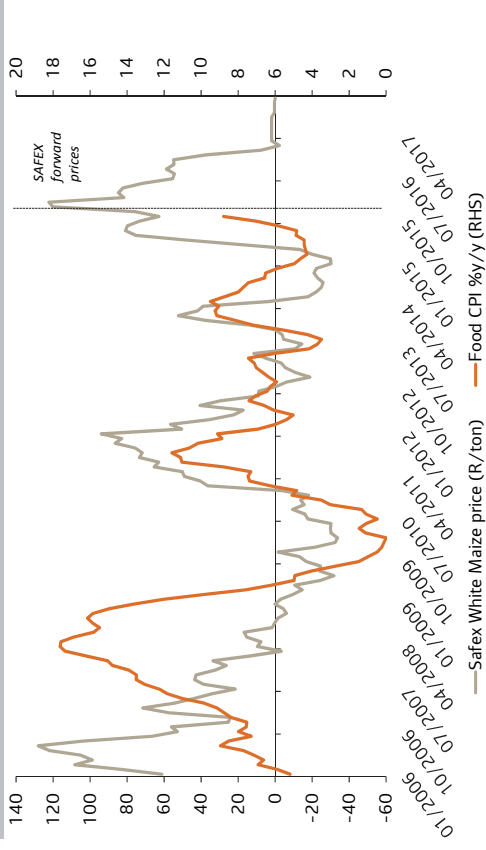


Figure 41: Inflation expected to peak at 12% in 2016

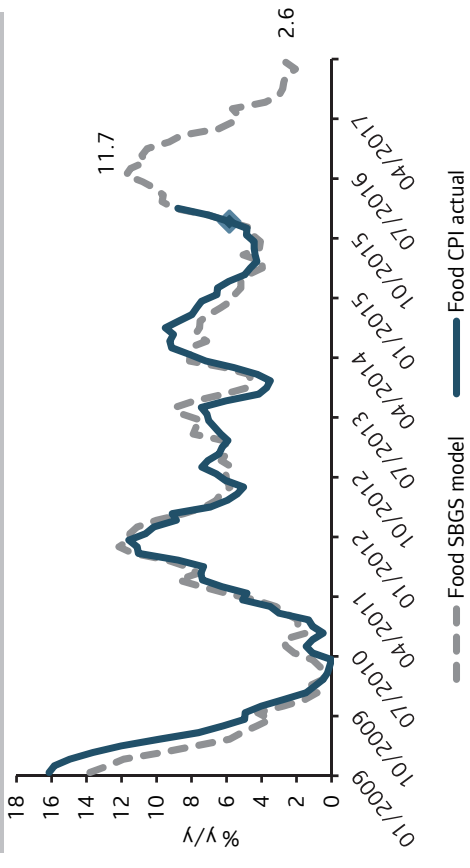
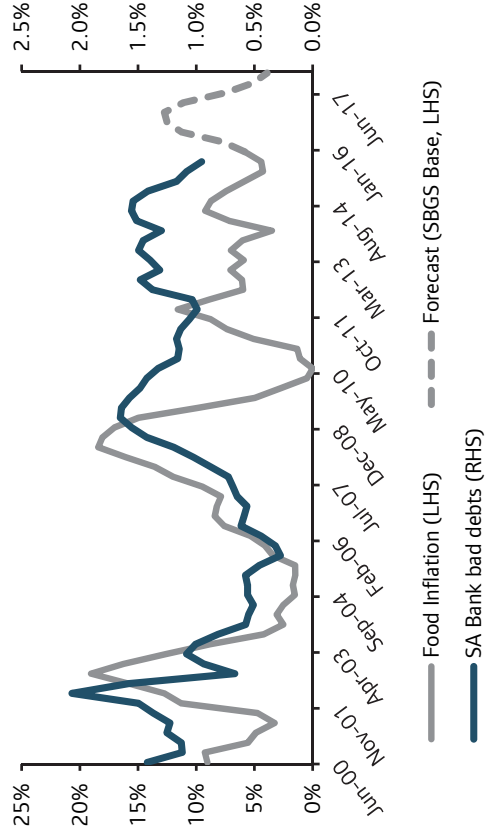


Figure 42: Bad debts to rise with food inflation



Bad debts rise with food inflation

SA consumer risks: poor households the more exposed

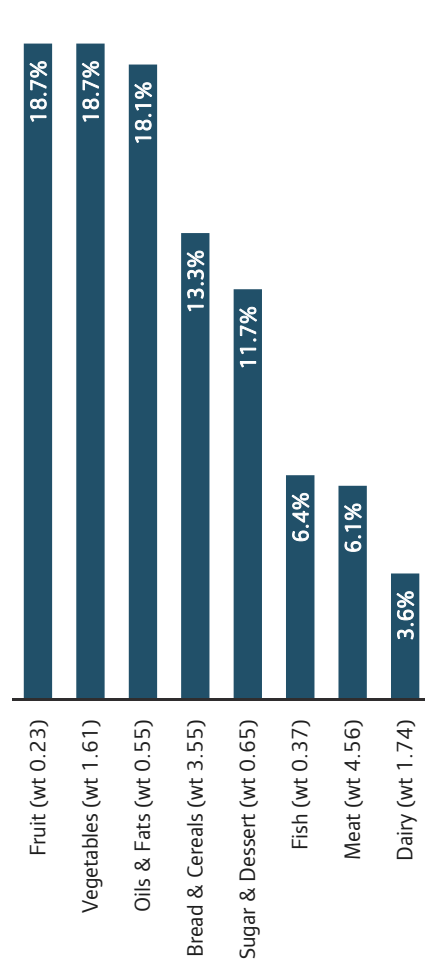
- Household spending patterns reveal just how important these grains are to the livelihood of some South Africans
- According to StatsSA's Poverty Trends 2006-2011, **the largest component of a poor households' food expenditure was on bread and cereals (34.7%), accounting for more than a third of these households' monthly expenditures**
- On the other hand, non-poor households spent **approximately a fifth (21.1%) of their food expenditure on bread and cereals**
- For non-poor households, the largest component of their food expenditure was meat and fish, **accounting for more than a quarter (28.9%) of their total expenditure**
- SA consumers paid an average of 9.8% more for the basket in March 2016 than they did in March 2015.**
 - This rise is the highest monthly year-on-year rise in food since February 2012

Figure 43: Food products as component of expenditure

	Brown bread	Maize flour	Mealie meal/ Maize flour	White bread	Rice	Meat and fish
Poor	8.4	11.4	11.4	3.5	5.1	28.9
Non-Poor	4.4	3.9	3.9	3.5	5.1	28.9

Figure 44: Items in the grocery bill: March 2016

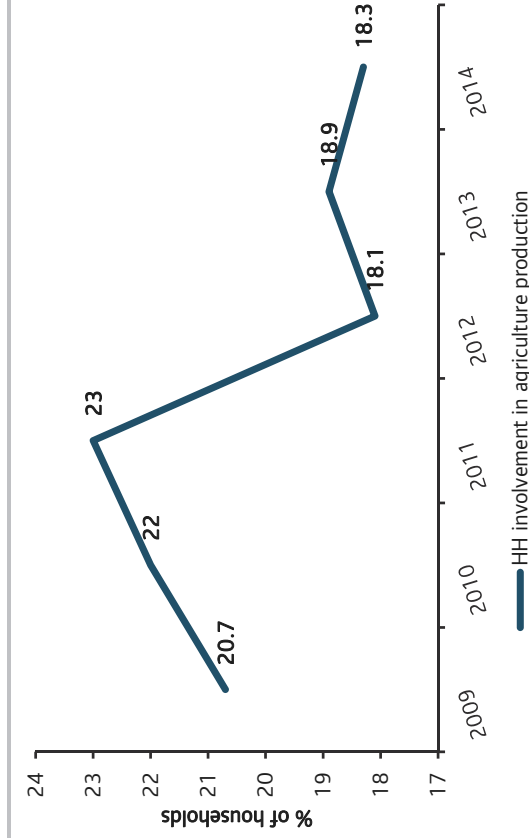
Entire Food Basket price grew by 9.8% between Mar-15 and Mar-16



Source: StatsSA, Standard Bank Research

SA consumer: effect of drought on subsistence farming

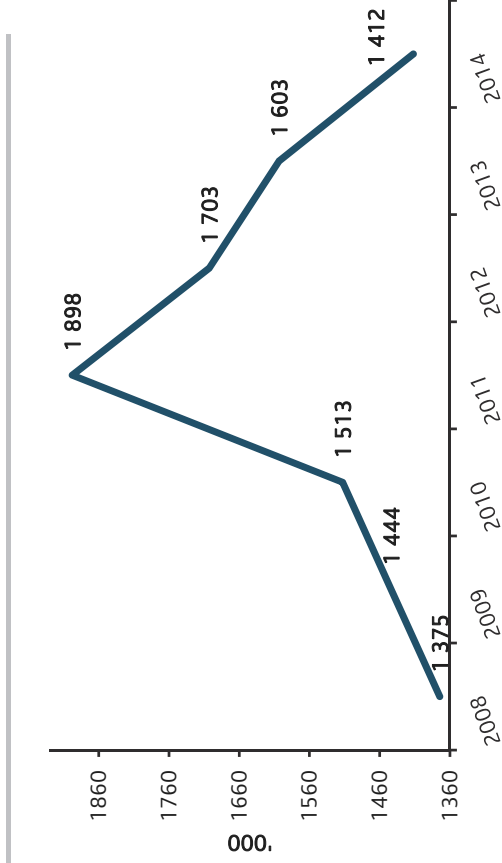
Figure 45: Household involvement in agriculture



- **Approximately 18% (2.9 million) of households in SA are involved in agricultural activities**
 - According to Stats SA, two thirds of agricultural households are in Kwazulu-Natal (24.4%), the Eastern Cape (20.7%) and Limpopo (16.3%)
- Limited data on subsistence and small-scale farming

— Stats SA’s GHS reveals that about 0.1% of households rely on from trading in “farm products and services” as their *main source of income

Figure 46: Individuals involved in subsistence farming



- **Note that this figure does not represent the share to total income, and also excludes savings consumers accrue on agricultural products they might otherwise have bought from commercial sources*

■ According to the QLFS, individuals involved in subsistence farming activities have been declining, reaching approximately 1.4 million in 2014

Source all charts: StatsSA, Standard Bank Research

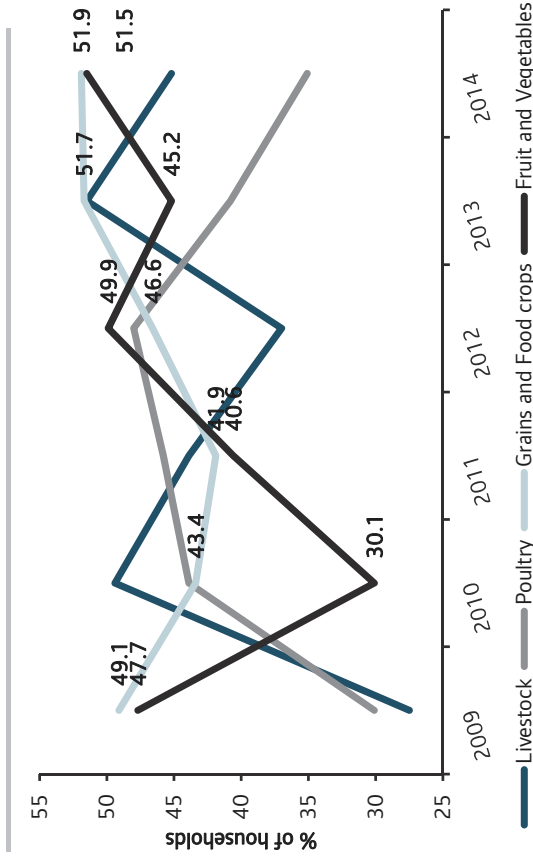


SA consumer: drought a real concern for food security

Key points

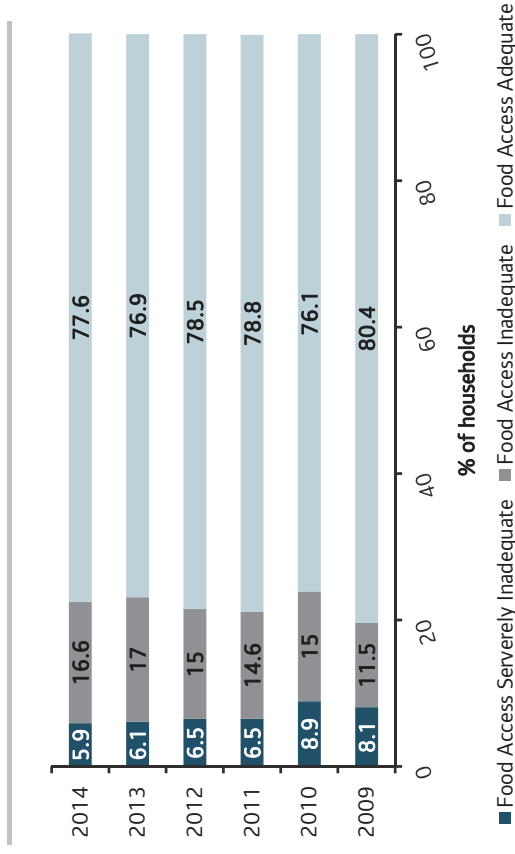
Food security is generally defined as the situation when all people have physical or economic access to sufficient, safe and nutritious food at all times to meet their dietary needs and food preferences for an active and healthy life

Figure 47: Self-sufficient households to suffer



- Of the household involved in agricultural products, about 50% opt for grains and crops and fruit and vegetables respectively
 - The effect of the drought on these affected consumers is a loss of income and a rise in food insecurity

Figure 48: Food security under threat



- Approximately 3.6 million (23%) households already have inadequate access to food
 - up from 3.1 million (20%) in 2009
- This could trigger a rise in social spending by the government
 - pressure on an already stretched national fiscus
 - more tax increases may be considered

Source all charts: StatsSA, Standard Bank Research

Conclusion

- The SA economy is consumer-driven.
 - Consumer spending important for economic recovery.
- Income inequalities still high, and changes in this regard are slow. The efforts to alleviate poverty (e.g., through social grants) are yielding results, although around 20% of SA households still live in poverty.
- SA consumer faces a series of headwinds in 2016, including declining real wage inflation and weak employment prospects. This threatens HCE and ultimately GDP growth.
- Although in a declining trend, SA consumers remain indebted and the poor quality of debt-servicing is indicative of a consumer still in distress, but nevertheless starting to recover. In sum, consumers failed to capitalize of the Credit Information Amnesty initiative by the DTI.
 - However, recently, positive signs are beginning to show.
- Household wealth took a knock in 2015 due to low financial and residential assets returns and a low savings rate. We expect household wealth to continue to be under pressure, under the challenging macroeconomic conditions. This may dampen non-cyclical consumption.
- Moreover, given the tight fiscal constrains, we expect limited counter-cyclical support from the public sector in respect of job creation, certainly not in the magnitude we saw during the recession of 2009.
- The current drought may be a double whammy for poor households as they will likely have to spend more of their income on food. Further, a number of households in SA rely on subsistence farming for food security.

Certification

The analyst(s) who prepared this research report (denoted by an asterisk*) hereby certifies(y) that: (i) all of the views and opinions expressed in this research report accurately reflect the research analyst's(s') personal views about the subject investment(s) and issuer(s) and (ii) no part of the analyst's(s') compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed by the analyst(s) in this research report. Standard Bank Fixed Income research analysts receive compensation that is based, in part, on the overall firm revenues, which include investment banking revenues.

Standard Bank's rating opinions do not necessarily correlate with those of the rating agencies.

Conflict of Interest

It is the policy of The Standard Bank Group Limited and its worldwide affiliates and subsidiaries (together the —Standard Bank Group) that research analysts may not be involved in activities in a way that suggests that he or she is representing the interests of any member of the Standard Bank Group or its clients if this is reasonably likely to appear to be inconsistent with providing independent investment research. In addition research analysts' reporting lines are structured so as to avoid any conflict of interests. For example, research analysts cannot be subject to the supervision or control of anyone in the Standard Bank Group's investment banking or sales and trading departments. However, such sales and trading departments may trade, as principal, on the basis of the research analyst's published research. Therefore, the proprietary interests of those sales and trading departments may conflict with your interests.

Disclaimer and Confidentiality Note

Standard Bank Group Limited (SBG) is the holding company of The Standard Bank of South Africa Limited (SB) and is listed on the JSE Limited and is regulated by the Financial Services Board (FSB).

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject SBG to any registration or licensing requirement within such jurisdiction. All material presented in this report, unless specifically indicated otherwise, is under copyright to SBG. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of SBG. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of SBG or its affiliates.

The information, tools and material presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. SBG may not have taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. SBG will not treat recipients as its customers by virtue of their receiving the report. The investments or services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise constitutes a personal recommendation to you. SBG does not offer advice on the tax consequences of investment and you are advised to contact an independent tax adviser. Please note in particular that the bases and levels of taxation may change.

SBG believes the information and opinions in the Disclosure Appendix of this report are accurate and complete. Information and opinions presented in the other sections of the report were obtained or derived from sources SBG believes are reliable, but SBG makes no representations as to their accuracy or completeness. Additional information is available upon request. SBG accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that liability arises under specific statutes or regulations applicable to SBG. This report is not to be relied upon in substitution for the exercise of independent judgment. SBG may have issued, and may in the future issue, a trading call regarding this security. In addition, SBG may have issued, and may in the future issue, other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. Those reports reflect the different assumptions, views and analytical methods of the analysts who prepared them and SBG is under no obligation to ensure that such other reports are brought to the attention of any recipient of this report. SBG is involved in many businesses that relate to companies mentioned in this report.

Disclosure and disclaimer (continued)

Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgment at its original date of publication by SBG and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments. Investors in securities such as ADRs, the values of which are influenced by currency volatility, effectively assume this risk.

Structured securities are complex instruments, typically involve a high degree of risk and are intended for sale only to sophisticated investors who are capable of understanding and assuming the risks involved. The market value of any structured security may be affected by changes in economic, financial and political factors (including, but not limited to, spot and forward interest and exchange rates), time to maturity, market conditions and volatility, and the credit quality of any issuer or reference issuer. Any investor interested in purchasing a structured product should conduct their own investigation and analysis of the product and consult with their own professional advisers as to the risks involved in making such a purchase.

Some investments discussed in this report have a high level of volatility. High volatility investments may experience sudden and large falls in their value causing losses when that investment is realised. Those losses may equal your original investment. Indeed, in the case of some investments the potential losses may exceed the amount of initial investment, in such circumstances you may be required to pay more money to support those losses. Income yields from investments may fluctuate and, in consequence, initial capital paid to make the investment may be used as part of that income yield. Some investments may not be readily realisable and it may be difficult to sell or realise those investments, similarly it may prove difficult for you to obtain reliable information about the value, or risks, to which such an investment is exposed.

SBG maintains information barriers between its Research Analysts and the rest of its and its shareholders business divisions, more specifically the Investment Banking business. SBG analysts', strategists' and economists' compensation is not linked to Investment Banking or Capital Markets transactions performed by SBG or its shareholders. Facts and views presented in SBG research have not been reviewed by, and may not reflect information known to, professionals in other SBG or Standard Bank business areas, including investment banking personnel.

This report may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the report refers to website material of SBG, SBG has not reviewed the linked site and takes no responsibility for the content contained therein. Such address or hyperlink (including addresses or hyperlinks to SBG or SB's own website material) is provided solely for your convenience and information and the content of the linked site does not in any way form part of this document. Accessing such website or following such link through this report shall be at your own risk.

This report is issued and distributed in Europe by Standard Advisory London Limited, 20 Gresham Street, London EC2V 7JE which is authorised by the Financial Conduct Authority ("FCA"). This report is being distributed in Kenya by CFC Stanbic Bank Limited; in Nigeria Standard Bank South Africa | Corporate Credit 11 March 2016

24 by Stanbic IBTC; in Angola by Standard Bank de Angola S.A.; in China by Standard Bank Limited; in Botswana by Stanbic Bank Botswana Limited; in Democratic Republic of Congo by Stanbic Bank Congo s.a.r.l.; in Ghana by Stanbic Bank Ghana Limited; in Hong Kong by Standard Advisory Asia Limited, in Isle of Man by Standard Bank Isle of Man Limited; in Jersey by Standard Bank Jersey Limited; in Madagascar by Union Commercial Bank S.A.; in Mozambique by Standard Bank s.a.r.l.; in Malawi by Standard Bank Limited; in Namibia by Standard Bank Namibia Limited; in Mauritius by Standard Bank (Mauritius) Limited; in Tanzania by Stanbic Bank Tanzania Limited; in Swaziland by Standard Bank Swaziland Limited; in Zambia by Stanbic Bank Zambia Limited; in Zimbabwe by Stanbic Bank Zimbabwe Limited; in UAE by The Standard Bank of South Africa Limited, Dubai branch.

In respect of the United States, this report is solely intended for distribution to US institutional investors that qualify as Major US Institutional Investors under Securities Exchange of 1934 Rule 15a-6. If you received this research report from ICBC Standard Securities Inc., a US broker-dealer affiliate of the Standard Bank Group registered with the SEC and a FINRA Member, it is third party research. Please see additional disclosures relating to ICBC Standard Securities Inc., and its affiliates at <https://www.icbcstandardbank.com/CorporateSite/Home/RegulatoryAndDisclosures/ThirdPartyResearchDisclosures>.

In jurisdictions where SBG Sec is not already registered or licensed to trade in securities, transactions will only be effected in accordance with applicable securities legislation, which will vary from jurisdiction to jurisdiction and may require that the trade be made in accordance with applicable exemptions from registration or licensing requirements. In jurisdictions where SBG is not already registered or licensed to trade in securities, transactions will only be effected in accordance with applicable securities legislation, which will vary from jurisdiction to jurisdiction and may require that the trade be made in accordance with applicable exemptions from registration or licensing requirements.

Please note that this report was originally prepared by SBG for distribution to SBG market professionals and institutional investor customers. Recipients who are not market professionals or institutional investor customers of these firms should seek the advice of their independent financial advisor prior to taking any investment decision based on this report or for any necessary explanation of its contents. This research may relate to investments or services of a person outside of the UK or to other matters which are not regulated by the PRA or in respect of which the protections of the PRA for private customers and/or the UK compensation scheme may not be available, and further details as to where this may be the case are available upon request in respect of this report.

US Investors wishing to effect a transaction in the securities featured or mentioned in this research report must deal directly through Standard New York Securities Inc. a U.S. Registered broker-dealer.

Standard Bank Group Ltd Reg.No. 1969/017128/06 is listed on the JSE Limited.

Copyright 2016 SBG. All