

South African economy returns to growth

JOHANNESBURG (AFP) — The battered South African economy, pulled along by the global rebound, staged a sharp recovery in the third quarter when economic momentum expanded 0.9 percent, official data showed on Tuesday.

The dramatic turnaround compared with a contraction of 2.8 percent in the second quarter and shrinkage of 7.4 percent in the first three months of the year.

Azar Jammie, chief economist at consultancy Econometrix, said the growth could be attributed to "the high correlation between the South African economy and the international economy."

The national statistics agency Statistics SA, which published the data, said: "The seasonally adjusted real gross domestic product (GDP) at market prices for the third quarter of 2009 increased by an annualized rate of 0.9 percent compared with the second quarter of 2009."

The third quarter figure represents the first positive growth in a nine-month recession, South Africa's first in 17 years.

Johan Rossouw, chief economist and strategist at Vector Securities and Derivatives, said that although technically the country had emerged from recession, there were no signs of jobs being created.

"One of the challenges is to create wealth and one way of doing that is to create jobs and this is not happening."

He said the positive growth trend would likely continue until next year as the country was set to benefit from hosting the football World Cup in 2010.

"We will see the benefits in construction ... but going forward, if we going to solve our unemployment rate, in the long run we have address certain (structural) issues such as labor, for example."

The country in the third quarter was saddled with a 24.5 percent unemployment rate, with the manufacturing sector losing 150,000 jobs and the wholesale and retail sectors 110,000.

The Business Unity of South Africa organization said that although the economy was beginning to recover from recession, it was early to celebrate.

U.S. home prices rise for 4th month in a row

WASHINGTON (AP) — Home prices rose slightly in September, the fourth straight monthly increase and a clear sign the housing market recovery is continuing.

The Standard & Poor's/Case-Shiller home price index of 20 major cities released Tuesday rose 0.3 percent to a seasonally adjusted reading of 144.96 in September. Prices rose month-over-month in 11 metro areas, a weaker showing than in recent months.

Compared with a year earlier, prices were down 9.4 percent, the smallest year over year decline since January 2008.

"We have seen broad improvement in home prices for most of the past six months," David M. Blitzer, chairman of the Standard & Poor's index committee. "However, the gains in the most recent month are more modest than during the seasonally strong summer months."

Imports restrain U.S. growth in Q3



WASHINGTON (Reuters) — The U.S. economy grew more slowly than initially thought in the third quarter, held back by strong imports and weak investment in nonresidential structures, hinting at a lackluster recovery.

Corporate profits surged, however, as businesses managed to ramp up output even as they were still sharply cutting payrolls, a report from the Commerce Department showed on Tuesday.

In its second reading of third-quarter gross domestic product, the department said the economy grew at a 2.8 percent annual rate, rather than the 3.5 percent pace it estimated last month.

That was a touch below market expectations for a growth pace of 2.9 percent. It was still the fastest pace since the third quarter of 2007. GDP measures total goods and services output within U.S. borders.

"This demonstrates that the rebound was a little bit more subdued than the first print had suggested and highlights some of the headwinds to growth that could continue," said Julia Coronado, senior U.S. economist at BNP Paribas in New York.

U.S. stock index futures pared gains following the report, while Treasury debt prices rose slightly.

The return to growth after four straight quarters of decline in output probably ended the most painful U.S. recession in 70 years. The economy contracted at a 0.7 percent rate in the April-June period.

Surging imports, which outpaced the growth in exports, restrained the economic growth rate in the third quarter. Imports jumped 20.8 percent, the biggest gain since the second quarter of 1985, instead of 16.4 percent. They knocked 2.53 percentage points off real GDP, the department said.

Another drag on GDP came from the construction of non-residential structures, which dropped 15.1 percent in the last quarter rather than 9.0 percent, highlighting the problems in the commercial property market. That shaved just over half a percentage point off GDP.

Eurozone factory orders rise in September

BRUSSELS (AFP) — Factories in the 16-nation eurozone reported a rise of new orders in September, although more recent data has suggested economic recovery in Europe may be peaking.

Industrial new orders compared to August 2009 rose by 1.5 percent in the euro area after a 0.6 percent increase the previous month, according to figures released on Tuesday by the European Union's statistics agency.

However, when the volatile ships, railway and aerospace equipment sectors are stripped out, the increase turned into a decrease of 1.2 percent.

New orders for durable consumer goods such as fridges and televisions rose by 1.5 percent in the eurozone, with capital goods orders up 3.7 percent and non-durable consumer goods



Employees work to assemble business aircraft at EADS Socata's Tarbes factory in France in 2008. (AFP/File/Lionel Bonaventure)

orders rising 1.5 percent.

Across the 27-nation EU as a whole, which includes Britain and Poland, new orders were up 1.7 percent -- but only down 0.6 percent when ships, railway and aerospace equipment were taken out of the equation.

Overall orders were down by more than 16 percent across the EU compared to one year earlier.

Private sector business activity across the eurozone grew at the fastest rate for two years in November, but sent signs that growth may be "peaking," a survey showed on Monday.

Europe officially shook off its deepest downturn since World War II in the third quarter, but with growth lower than expected.

Pakistan to export 3.5m tons of rice in 2009-10

ISLAMABAD (Dawn) — Pakistan expects to export up to 3.5 million tons of rice in the 2009-10 financial year, government officials and traders said on Tuesday, but a top miller said any state intervention might hurt that target.

Pakistan, the world's fifth-largest rice exporter, was hoping to export about 4 million tons in the previous year, that ended on June 30, but sold about 2.9 million tons after government intervention in the market pushed up prices, traders said.

Government buying of rice and paddy was aimed at helping farmers and maintaining stability in the domestic market in the face of a bumper crop of 6.9 million tons of milled rice.

But traders say the intervention left Pakistan uncompetitive in the international market.

Government officials and millers are expecting output of 6.4 million tons of rice this year, and the chairman of the private Rice Exporters Association of Pakistan said they were aiming to export about 3.5 million tons.

"Our estimates are that we should be able to export 1.2 million tons of basmati and about 2.3 million tons of IRRI-6 and other varieties this year," association chairman Malik Mohammad Jehangir told Reuters.

"But the government should not involve itself in the export business. If they do, it will definitely hurt exports." The state-run Trading Corporation of Pakistan (TCP) issued an international tender in October to sell and export 25,000 tons of super basmati rice, which was due to close on Tuesday.

A TCP spokesman said the rice of-

fered was purchased in the previous season but it could not be exported then after the government ended its intervention following an outcry from traders.

The TCP has not made any further purchases since then, and a Food Ministry spokesman, Qadir Bukhsh Baluch, said there were no plans for now for state agencies to export rice.

A cabinet minister said this month Pakistan would have 5.76 million tons of rice available for export, some of its stock from the previous crop. But Baluch said the quantity included varieties which were not traditionally exported.

Jehangir said his association members had visited several countries in recent months to explore new export markets and had a good response from South Africa and Persian Gulf countries.

Could sovereign debt be the new subprime?

By Gillian Tett

A few weeks ago, Claudio Borio, head of research at the Bank for International Settlements, warned in a solemn note to Group of 20 leaders that modern financial policymakers are "driving while just looking in the rear-view mirror": western finance officials have focused so much on past risks that they fail to spot new dangers.

Worse still, as policymakers rush to implement reforms in response to one financial calamity, they are apt to create distortions that pave the way for the next disaster. Just such an unintended consequence could now be festering in the banking sector, as its balance sheets are increasingly stuffed with government bonds.

These days, there is a near-unanimous belief among western regulators that one way to prevent a repeat of the 2007-08 crisis is to stop banks taking crazy risks with subprime mortgage bonds or complex instruments such as collateralized debt obligations (CDOs). Instead, banks are being urged to hold a higher proportion of their assets in the form of "safe" instruments, most notably sovereign or quasi-sovereign debt. G20 regulators are holding regular meetings in Basel to draw up rules on how banks should do this, as part of a wider reform of financial regulation.

In theory, that move sounds very sensible. One reason why large banks crumbled last year was that many were carrying vast quantities of highly rated CDOs and other toxic paper. These not only lost their value during the crisis, but also became impossible to trade, creating a liquidity shock for the banks.

Government bonds, by contrast, remained liquid during the recent crisis (and have been so in the past few decades). So it appears appealing to hold more of them, particularly given that sovereign debt is also widely presumed to be ultra safe; so safe that the yield on government bonds is known as the "risk-free rate".

But could this flight to the "safety" of government bonds in itself be creating subtle new dangers? Government debt, after all, has soared to levels not seen in peacetime for centuries, if ever, in many countries, not least the U.S. and UK. Fiscal deficits are swelling across the western world. And the level of political commitment to curbing those deficits remains uncertain -- not least because with yields currently so low there is less pressure on politicians to push through reform.

That does not necessarily mean an outright default looms any time soon; indeed, default seems highly unlikely. However, it is easy to imagine that some countries will end up eroding the value of their bonds by debasing their currencies in the coming years, printing money and stoking inflation.

It is even easier to anticipate a sharp rise in bond yields -- and a corresponding sharp fall in bond prices -- particularly when central banks stop their quantitative easing programs. Some smart hedge funds are betting on just that.

Yet there has been precious little debate about whether banks should keep loading up on sovereign debt. In Sydney, some Australian banks are grumbling about the Basel liquidity reforms. Ironically, that is because Australia is in the rare, happy position of having low(ish) debt levels, and its local banks fear they will struggle to find the bonds they need to meet the new G20 liquidity rules.

In countries where there is likely to be a surplus of government bonds for sale, there is little public discussion at all. Perhaps that is because the banks do not wish to rock the boat; or maybe central banks themselves do not wish to draw attention to the swelling volumes of government bonds they now hold themselves.

Finance ministries are hardly likely to complain about the banks' investments. Major industrialized countries will need to sell more than \$12,000bn worth of government bonds this year and next to fund their fiscal hole. This is a rise of at least a third, or \$3,000bn, in just two years.

As Mr. Borio notes, focusing only on that rear-view mirror is dangerous; whatever causes the next banking shock, it will not be mortgage CDOs. So I, for one, fervently hope that those banks holding government bonds are being cautious enough to hedge themselves against any future crash in their price; so too, for those holding quasi-government instruments, such as agency bonds.

I also hope that when the Basel regulators finally produce their new liquidity rules, the banks will have to build in a significant margin of error to reflect a potential fall in government bonds. This would underline the point to both banks and investors that government bonds are not automatically "risk-free". Most important of all, though, I hope that the current calm in sovereign debt markets does not lull politicians into thinking that they can indefinitely avoid the need to take difficult fiscal choices. For if they do, those "safe" government bonds might start to look considerably less secure -- not just to bankers, but to everybody.

The writer is an FT assistant editor.

(Source: Financial Times)