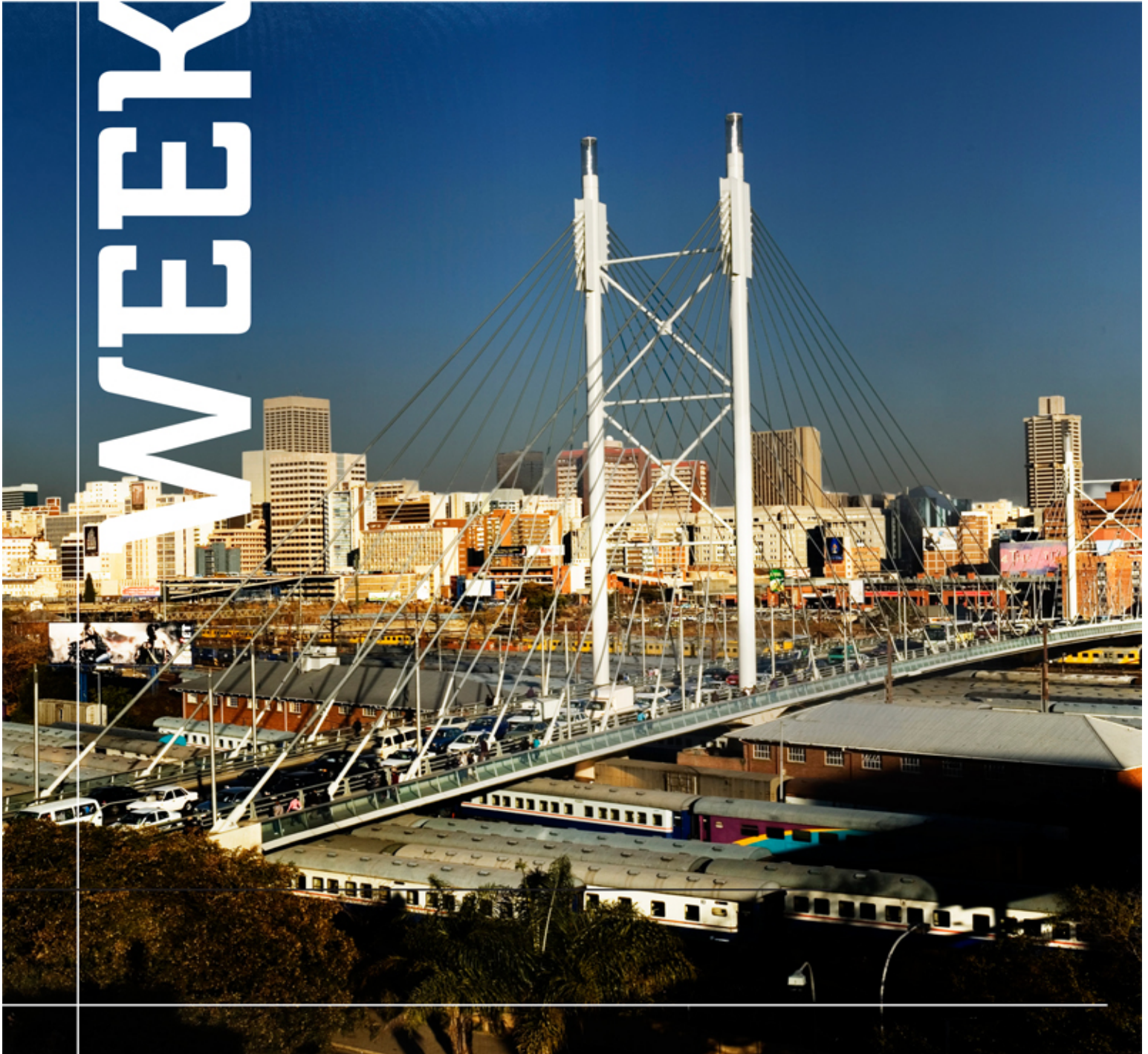


WEEKLY ECONOMIC INSIGHTS

WEEKLY



GAUTENG PROVINCE
ECONOMIC DEVELOPMENT
REPUBLIC OF SOUTH AFRICA

Growing Gauteng Together

WEEKLY ECONOMIC INSIGHTS

08 – 12 FEBRUARY 2021

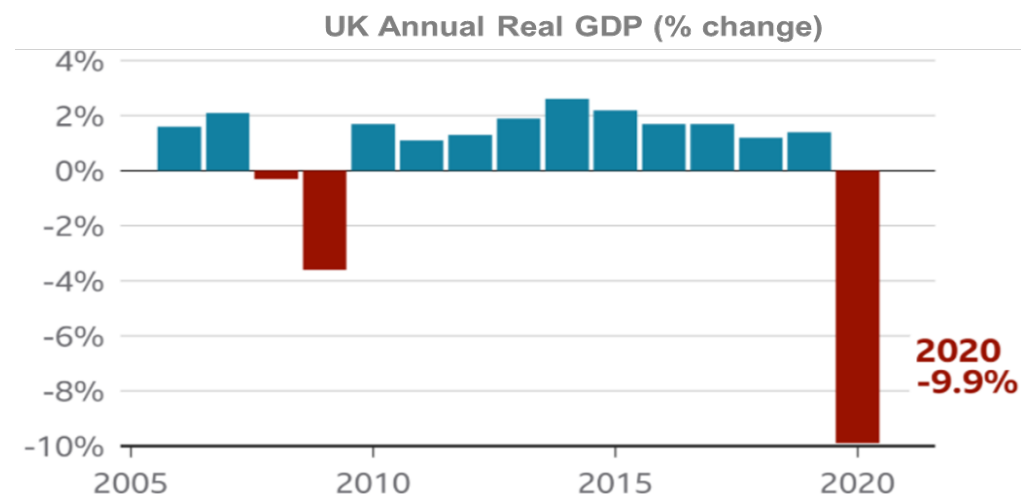
- **UK ECONOMY REGISTERS RECORD ECONOMIC DECLINE IN 2020**
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- MINING PRODUCTION INCREASED MARGINALLY IN DECEMBER 2020
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WEEKLY REVIEW

On the global front, the UK economy registered a record contraction of 10% in 2021. However, the successful implementation of the inoculation programme is expected to boost its economy from the second quarter of 2021. This in conjunction with the successful implementation of the re-planned vaccination programme domestically which will likely support a much-needed economic rebound from the third quarter of 2021. In the meantime, economic performance in the last quarter of 2020 is expected to have mixed results as quarterly mining and manufacturing data give a mixed view. Nonetheless, the SACCI BCI suggests a recovery in the business climate in 2021.

UK ECONOMY REGISTERS RECORD ECONOMIC DECLINE IN 2020

The UK economy contracted by a record 9.9% in 2020 according to official figures released by the Office for National Statistics. Following a year riddled with Brexit and COVID-19 uncertainty, the weaker economic performance came as no surprise to economists.



Data source: Office of National Statistics (United Kingdom)

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Nonetheless, the UK is set to avoid a recession after a stronger growth performance towards the end of the year. Specifically, the economy grew by 1.2% in December 2020 after contracting by 2.3% a month earlier with the fourth quarter (Q4:2020) reading coming in at a steady 1%.

Overall, output levels in the UK remain well below pre-pandemic levels and with COVID-19 restrictions expected to remain for a while longer, further volatility and weakness is expected. Analysts expect a sharp decline in economic activity during the first quarter of 2021, with growth only forecast from the second quarter onwards as restrictions can gradually be eased as the vaccination programme sees full implementation.



As one of South Africa's key economic and trade partners – fourth largest export market behind China, Germany and the US and seventh largest supplier of imported goods in 2018 – the UK economy continues to play a critical role in supporting the domestic economy. As such, any significant economic disruptions in the UK will likely translate in some shock to SA's trade and economic performance. The year ahead will be a telling one, as global economies (including SA) reprioritise domestic stabilisation policies in the aftermath of the pandemic, it will be important for policy makers to consider how this will affect trade as well as foreign direct investment flows.

HIGHLIGHTS

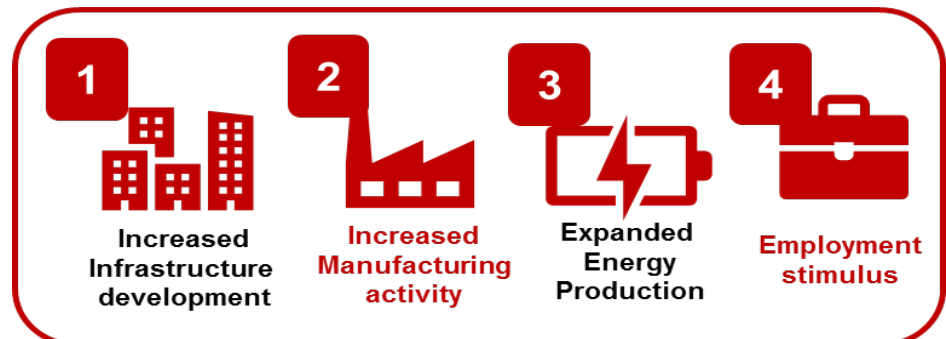
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COVID-19 FOCUS CAUSES A SHIFT IN CONVENTIONAL SONA PRONOUNCEMENTS

President Cyril Ramaphosa delivered the first hybrid State of the Nation Address (SONA) on 11 February 2021. Unlike previous addresses, this year's SONA centred on rebuilding the country rather than tabling envisioned socio-economic activities for the near to medium term. As such, the priority for the year ahead is to address the country's dire socioeconomic conditions following a year-long (and ongoing) pandemic - the foremost being the eradication of COVID-19, alongside fast-tracked economic recovery and economic reform that will catalyse inclusive growth and sustainable job creation. In addition, the fight against corruption and strengthening the state will remain key priorities.

Concerning the impacts of the pandemic on livelihoods, the government has decided to extend special COVID-19 social relief packages. The unemployed-youth directed R350 grant is expected to continue for another 3 months, whilst the Temporary Employer/Employee Relief Scheme (TERS) will be extended until 15 March 2021; as a robust rebound in employment figures driven by the formal sector, is estimated by the end of 2021. In addition, 500 000 (of the 8 million) Johnsons and Johnson COVID vaccines will reach SA shores in the next 4-weeks. The first 80 000 vaccines of the batch, expected in the upcoming week, are earmarked for healthcare professionals and frontline workers.

ECONOMIC RECOVERY | 4 PRIORITY AREAS



As illustrated above, four priority interventions were outlined as catalysts for SA's economic recovery and 42 Sector Master Plans are expected to underpin increased localised production and improve the global competitiveness of South African exports. This is anticipated to lead to a 20% decline in import dependency over the next five years. To date, the poultry; sugar; clothing,

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textile, footwear and leather; auto master plans are in effect and have performed well within projections. For instance, the poultry master plan has resulted in the production of an additional R 1million chickens per week and the sugar master plan has secured off-take agreements with large sugar users to procure 80% of their inputs from domestic growers. Meanwhile, the auto master plan has accumulated numerous pledges from international industry giants which are anticipated to boost construction activity, local Original Equipment Manufacturers (OEMs) capacity and reinforce South Africa as the gateway in Africa through the African Continental Free Trade Agreement.

In addition, the President noted the stellar performance of the agriculture sector since the beginning of the pandemic began and the need to maintain the rally in activity through the promotion of transformation and programmes that assist emerging farmers to enter bigger markets through skills development - which could lead to an increase in commercial farmers.

KEY TAKE-AWAYS FOR GAUTENG

The 2021 SONA emphasis on sector master plans to reinvigorate the economy should be prioritized by the Gauteng Provincial Government, particularly the implementation of the auto master plan. With efficient implementation, the auto master plan is expected to lead to considerably increased activity throughout the value chain with a likely permeation to the rest of the provincial economy. The President emphasised the success of the auto master plan which has brought increased investment into Gauteng as a notable success story, which is hoped to be replicated across other key sectors.

SECTOR MASTER PLANS



HIGHLIGHTS

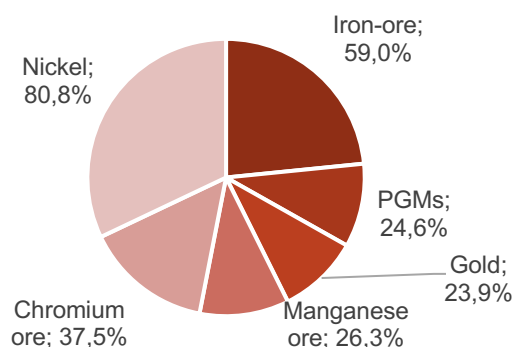
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MINING PRODUCTION INCREASED MARGINALLY IN DECEMBER

South Africa's mining production increased by 0.1% year-on-year (y/y) in December 2020. The largest positive contributors were manganese ore (up 32.5%, contributing 2.2 percentage points); diamonds (up 51.4%, contributing 1.4 percentage points) and coal (up 5.7%, contributing 1.2 percentage points). On the other hand, the overall production was weighed down by platinum-group metals (PGMs) which declined by 19.4%, contributing 5 percentage points to the monthly reading. For the full year, mining production contracted sharply by 10.7%, marking its third consecutive decline behind contractions of 0.5% and 1.5% in 2019 and 2018 respectively.

Following a three months contraction, seasonally adjusted mining production increased by 0.5% in December 2020 compared to the previous month, bringing the quarterly average to -0.5%. During the fourth quarter of 2020, the decline in production was largely affected by the contraction in the PGMs (-13.2%; contributing -3.0 percentage points). On the other hand, the biggest positive contributor was iron-ore (13.3%; contributing 1.2 percentage points) cushioning the blow.

MINERAL SALES (DEC') 2020



Despite the marginal increase in production, mineral sales increased by 23.8% y/y in December 2020. The stronger figures were supported by higher sales of iron-ore (59.0%); PGMs (24.6%); gold (23.9%); manganese ore (26.3%); chromium ore (37.5%) and nickel (80.8%). Total mineral sales were 10.4% higher in 2020 compared with 2019. The yearly mineral sales followed increases of 10.8% in 2019 and 5.2% in 2018.

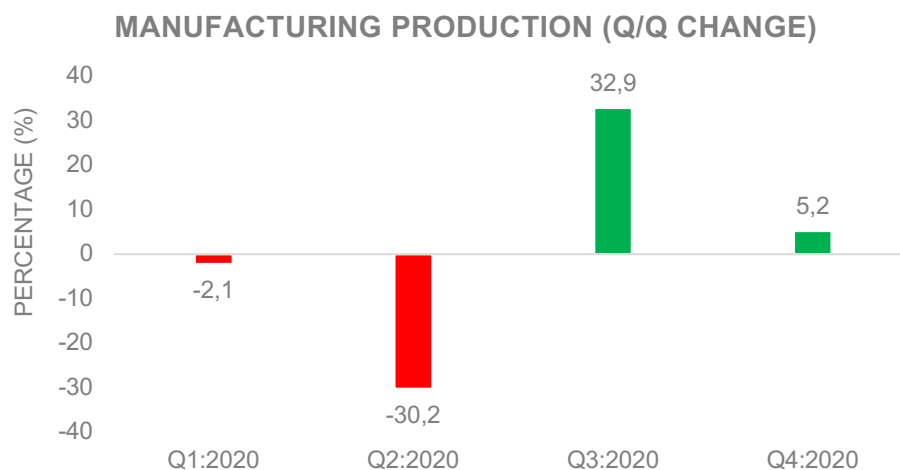
Following the sector's stellar performance in the third quarter of 2020, mining activity seems to have lost its momentum in the fourth quarter. Looking ahead, globally, improving industrial activity and firmer commodity prices create ideal conditions for higher production. Domestic factors, however, remain major constraints, with the uncertain legislative framework and persistent power shortages being the key obstacles.

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MANUFACTURING SLIPPED BY 11% IN 2020 DESPITE GROWING FOR THE FIRST TIME IN 18-MONTHS IN DECEMBER

South Africa's manufacturing industry recorded an unexpected rebound in December 2020, rising by 1.8% y/y - the first increase in production since May 2019. Data from Statistics South Africa (StatsSA) showed that the main contributors to this surprising rebound were production of food and beverages, motor vehicles, parts, accessories and other transport equipment. However, for the year of 2020, the manufacturing output plunged 11% mainly due to the heavy lockdown restrictions imposed earlier in the year, with 10 manufacturing divisions reporting negative growth rates over the year.



Data source: Statistics South Africa

Similarly, q/q seasonally adjusted manufacturing production also had an uptick of 5.2% in the fourth quarter of 2020 compared with the previous quarter. This increase was mainly attributed to 9 of the 10 divisions increasing over the period. The main contributors being food at 5.4% (1.7 pp), followed by motor vehicles, parts and accessories and other transport equipment increasing by 22.3% (1.5 pp).

The annual decline in manufacturing production has seen a decline in 13 sub-categories of metals and engineering sector, adversely affecting other industries such as construction as shortages led to the industry operating below capacity. Notwithstanding, manufacturing production ended the year stronger than anticipated, providing much-needed hope of a better-than-expected fourth-quarter gross domestic product number.

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IMPROVING ECONOMIC CLIMATE RAISES CONFIDENCE LEVELS

According to the South African Chamber of Commerce and Industry's (SACCI) latest report, the country's Business Confidence Index (BCI) increased marginally in January 2021. The index rose to a 24-month high of 94.5, gaining 0.2 index points from the December 2020 reading. The SACCI BCI is a local barometer for gauging various aspects of the economic and business landscape, primarily; the market related business climate as influenced by economic developments.



The index suggests that there has been a slow but consistent recovery in the business climate since May 2020 despite the minor decline reported in September. The monthly gain posted in January was testament to the combined effects of recovery in economic activity and improvements within the financial environment, with both variables having impact factors of 66% and 34% respectively. Despite the notable progress, the SACCI report also highlighted that the 2020 average BCI of 86.5 was the lowest recorded over the 36-year history of the index which was in large consequent to the impact of the prolonged lockdowns necessitated by the COVID-19 outbreak.

On an annual basis, the index recorded a 2.3-point increase in January 2021 compared to January 2020. The improved sentiment came on the back of a conducive financial environment which muffled the negative pressure emanating from a fall in real economic activity and progress made in business interpretations; and reactions to developments within the real economy over the January term. Further, the combined effects of low inflation and interest rates helped stimulate business appetite for trade.

Citing structural challenges coupled with historical excesses, SACCI has cautioned that South Africa is still trapped in a fiscal rut which requires a balanced and unbiased push to stimulate economic activity and quell all COVID-related hazards. Analyst sentiments suggest that mounting debt service costs are adding strain to the already pressured fiscus. Also, amongst the suggested interventions, the identification and rollout of a vaccine was cited as top priority in securing economic survival.

INDICATORS: Week 08 – 12 Feb 2021

SACCI BCI



↑
94.5 points
Jan'21

MANUFACTURING PRODUCTION



↑
1.8% y/y
Dec'20

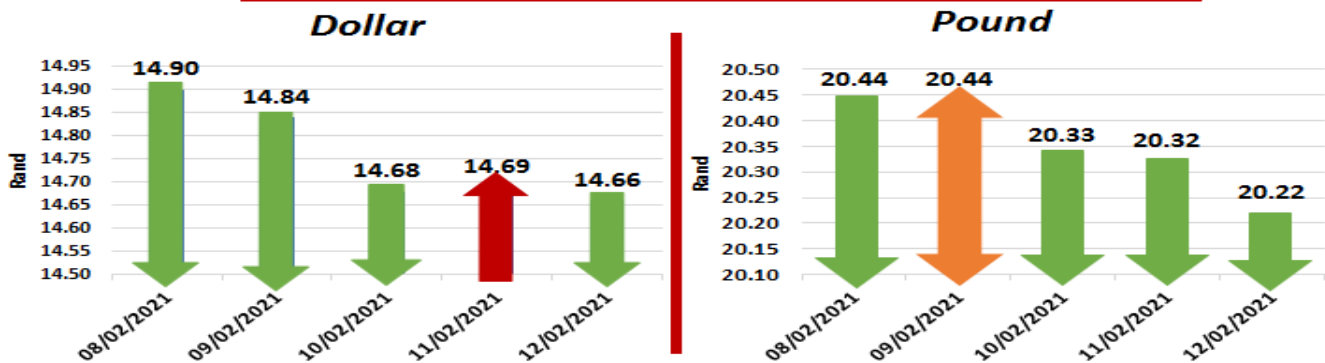
MINING PRODUCTION



↑
0.1% y/y
Dec'20

Source: Statistics South Africa

RAND/DOLLAR/POUND EXCHANGE RATE



Source: SARB & Trading Economics 15:00, 12 Feb'21

COMMODITIES



BRENT CRUDE OIL PER BARREL

\$60.85
12 Feb'21
↑
\$ 59.35
05 Feb'21

GOLD PER OUNCE

\$1817.97
12 Feb'21
↑
\$ 1798.53
05 Feb'21

PLATINUM PER OUNCE

\$1221.77
12 Feb'21
↑
\$ 1106.46
05 Feb'21

Source: Trading Economics, 15:00, 12 Feb'21

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