# WEEKLY ECONOMIC INSIGHTS

GAUTENG PROVINCE
ECONOMIC DEVELOPMENT
REPUBLIC OF SOUTH AFRICA

Growing Gauteng Together

# WEEKLY ECONOMIC INSIGHTS

**15 - 19 FEBRUARY 2021**

- ***GLOBAL INDUSTRIAL PRODUCTION SLOWLY ON THE MEND WITH VACCINE HOPES AT FOREFRONT OF RECOVERY***
- TRADE CONDITIONS SURVEY REMAIN DOWNBEAT DUE TO SECOND COVID WAVE
- INFLATION RISES SLIGHTLY BUT STILL WITHIN TARGET RANGE
- RETAIL SALES RETRACT TO A FOUR-YEAR LOW
- 2020 WHOLESALE TRADE SALES SLUMP DESPITE A POSITIVE CLOSING MONTH

## Weekly Overview

There are promising signs for global industrial production as the latest figures point to that the ongoing weakness may be coming to an end. Locally, the annual headline consumer inflation increased marginally, however remained at the bottom end of the South African Reserve Bank (SARB) target range of 3%-6%. Inflation is expected to remain stable; hence, the Reserve Bank is expected to keep interest rates stable for the remainder of this year. Retail sales for the year 2020 slipped back to levels last registered in 2016 and Massmart has reported that COVID-19 restrictions cost the group R6 billion in lost sales in 2020. The South African Liquor Brandowners Association (SALBA) has reported that the alcohol ban could potentially cost the sector 200 000 jobs. Meanwhile, wholesale trade sales decreased by 6.6% in 2020 compared with last year and decreased by 2.0% compared with the previous quarter. Also, motor trade sales decreased by 4.3% in the fourth quarter of 2020, driven by a decrease in fuel sales. Overall trade conditions remain downbeat due to second COVID wave and six months' expectations also dipped by 11 points, however employment conditions are be expected to improve in the medium-term.

## GLOBAL INDUSTRIAL PRODUCTION SLOWLY ON THE MEND WITH VACCINE HOPES AT FOREFRONT OF RECOVERY

As the last few economic and industrial data points for 2020 are released, the real and devastating effects of the COVID-19 pandemic are being confirmed. Recently, the industrial production data for Japan, the Euro Area and US has highlighted the plight of businesses integrated with industrial sectors of the economy such as manufacturing and mining. Specifically, industrial production in Japan and the Euro area decreased by 2.6% and 0.8% year-on-year (y/y) respectively in December 2020. Meanwhile, the latest data shows a 1.8%

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## HIGHLIGHTS

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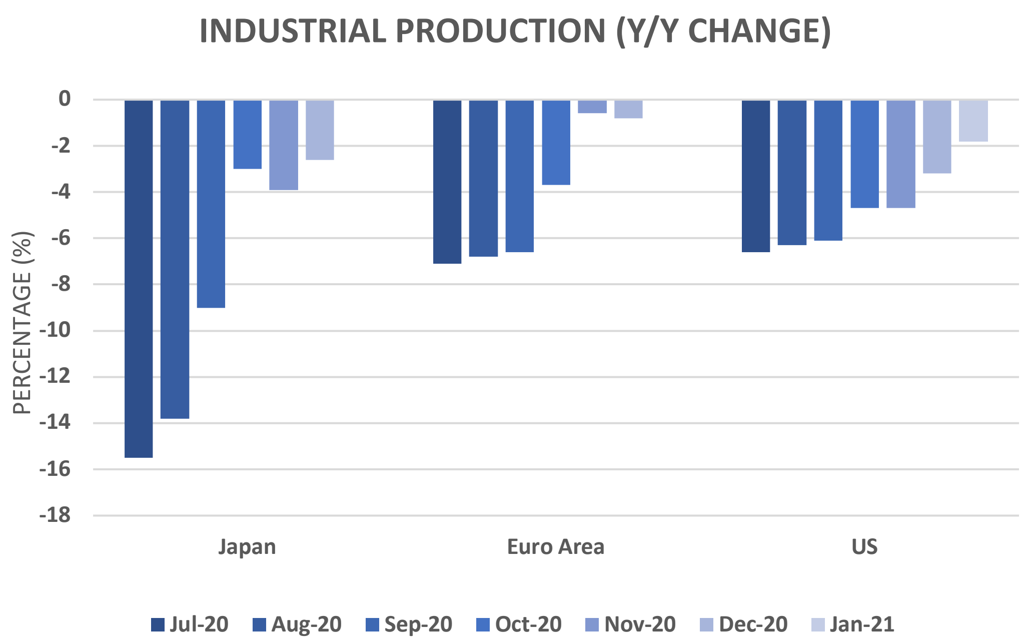
decline in US industrial activity in January 2021 - a slight improvement on the 3.2% decline recorded in December 2020. The ongoing weakness in industrial activity stemmed from sustained declines in manufacturing of durable general purpose and business machinery as well as motor vehicles and other electrical machinery. The weaker readings were generally expected, given the closure of several industrial operations over the Christmas break.

**Data source**: Trading Economics




Nonetheless, as vaccine related manufacturing activity picks up steam, and economies gradually return to normal operations, the expectation is that industrial activity will begin a steady recovery (as evidenced by the US's January reading). The global roll-out of inoculation programmes will offer much needed support for the re-opening of economies and suspension of stringent lockdown measures, which should bode well for overall industrial activity as well as operations across all related global value-chains.

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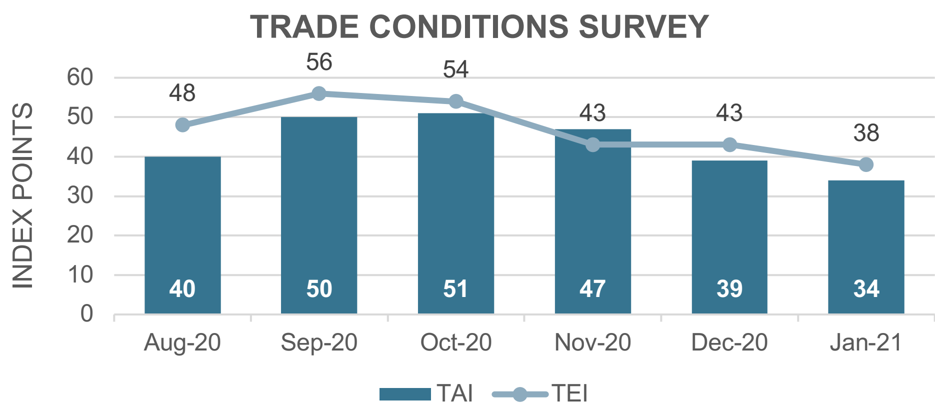
## TRADE CONDITIONS REMAIN DOWNBEAT DUE TO SECOND COVID WAVE

The seasonally adjusted Trade Activity Index (TAI) released by the South African Chamber of Commerce (SACCI) registered at 34 index-points in January 2021, down by a substantial 5 index-points from the reading of 39 points in December 2020. This marks the third consecutive decline since the index registered at 51 in October 2020 following the easing of lockdown restrictions to Level 1.

For January 2021, contractions were observed in all sub-indices, barring supplier deliveries which decreased by 3 index-points to 35 index-points for January 2021. Declines were most pronounced in demand-related sub-indices such as new orders and sales volumes, likely evidencing the strain on customer demand as the second COVID-19 wave gained momentum.




**Data source**: South African Chamber of Commerce and Industry (SACCI)

Looking ahead, the six-month Trade Expectation Index (TEI) slumped by 11 points to 38 index-points in January 2021, after remaining flat at 43 index-points in November and December 2020. Respondents seemed optimistic about future trade conditions and employment levels, however, they foresee lower supplier and inventory levels in the first half of 2021.

Despite the troubling implications of COVID-19 on trade conditions, sentiment has been further dampened by slow business momentum, collapsing infrastructure, lack of maintenance and poor service delivery at local government level. However, in terms of employment conditions, respondents expect a recovery in job numbers over the next six months, with 40% of respondents being positive about employment in January, compared with 38% in November 2020.

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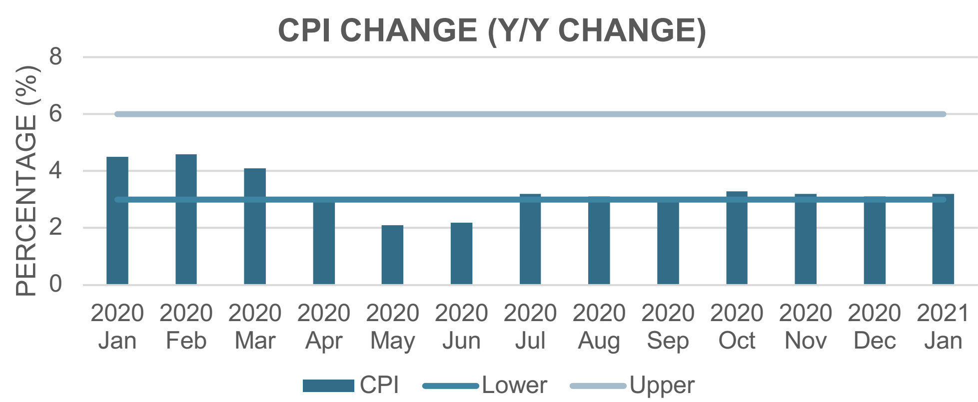
## INFLATION RISES SLIGHTLY BUT STILL WITHIN TARGET RANGE

Annual headline consumer inflation edged up to 3.2% y/y in January 2021 from 3.1% y/y in December 2020 - remaining in line with market expectations. The main contributors were the food and non-alcoholic beverages (5.4%), housing and utilities (2.6%) and miscellaneous goods and services registering 6.5%. However, other categories such as clothing and footwear' and 'restaurant and hotel' grew at a softer pace due to changes in consumer behaviour and preferences due to the lockdown in 2020.  Food price inflation softened to October 2020 levels, although meat prices remained elevated at 1.5% while fuel prices continued to increase coming at 3.2%.

Over the month, the index increased by 0.3% m/m, with the food, transport and miscellaneous goods and services categories contributing 0.1 percentage points each. Retail price pressures have been below-average during the lockdown. Between the period of April 2020 – January 2021, consumer price inflation averaged only 2.9%. Amidst an economic recession, with dampened consumer demand, retailers have not been able to pass on supply-side cost increases to consumers.




**Data source**: Statistics South Africa

In addition, certain companies were able to avoid increasing their service tariffs due to significant changes in their operating costs. For example, several medical insurance providers did not implement annual price increases in January 2021. This was due to a significant change in healthcare consumption patterns last year which resulted in an increase in cash reserves.  However, inflation is expected to increase in the near-term, with the SARB forecasting in January that headline inflation will average 4.5% during the second quarter. With some upward pressure coming from higher fuel prices and electricity tariffs, prices will be contained by subdued domestic demand and a stronger Rand.

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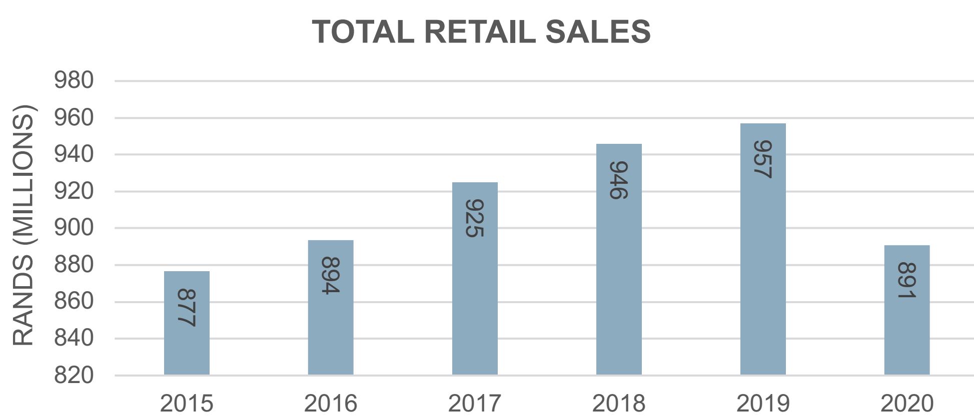
## RETAIL SALES RETRACT TO A FOUR-YEAR LOW

Compared to the previous year, domestic consumer demand remains frail. As such, retail sales contracted by -1.3% y/y in December 2020. Total sales declined for the ninth consecutive month, but the 1.3% decline reported in December was the slowest since April 2020. The contraction was driven by the decline in sales recorded by “all other retailers” (-14%); food, beverages and tobacco (-4.3%); textiles, clothing, footwear and leather goods (-4.0%); and household furniture, appliances and equipment (-1.4%). Meanwhile, higher sales recorded by general dealers (2.1%); pharmaceuticals and medical goods, (3.3%); and hardware, paint and glass (8%) cushioned the overall contraction with a contribution of 1.6 percentage points.

Following a disastrous year for the retail sector amid the different levels of lockdown, sales for the year, totalled R891 million, retracting back to levels last recorded in 2016. Compared to the previous year, total sales were 6.9% lower, the worst annual decline since 2009 when sales contracted by 3.2%. Monthly, sales declined by -0.8% - impacted by the higher base from the month-long Black Friday specials. This brought the quarterly average to a solid 2.8%, in line with the surge in the retailer confidence index in the fourth quarter of 2020, albeit considerably lower compared to the previous quarter's average.




**Data Source**: Statistics South Africa

The deceleration in the quarterly average is aligned with the expectations of a slowdown in the pace of economic recovery in the last quarter of 2020 from the stellar recovery in the third quarter. Key to this downturn is a myriad of factors including, lower employment levels, distressed disposable income and weaker consumer spending. Notwithstanding, sales are expected to improve due to the low base effects formed in 2020 and supported by relatively lower inflation levels and muted interest rates.

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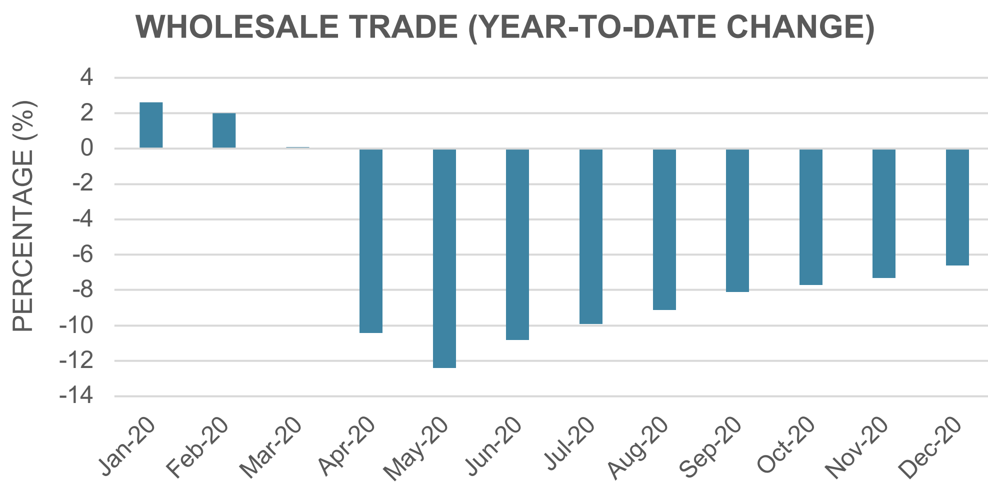
## 2020 WHOLESALE TRADE SALES SLUMP DESPITE A POSITIVE CLOSING MONTH

Overall wholesale trade sales for the year 2020 registered much lower compared to 2019 levels on the back of significant pandemic strain, which placed a toll on business activity. Notably, the year saw a lot of stutter in the sector, with month-on-month changes sending a mixed picture. According to a report recently released by Stats SA, the 2020 calendar year saw wholesalers collectively bag 6.6% fewer sales compared to the preceding calendar year. From the same report, it was established that December closed off on a slightly positive figure of 1.6% from the previous month, with an upward revision in the annual wholesale trade sales at 0.9%. However, over the final quarter of 2020, wholesaler revenues saw a 2% downward revision from 2019 levels, fanned by significant losses from the mining and energy sectors which trumped gains from other sectors. A total of R587 billion in wholesaler revenues was reported over the 4th quarter, with the highest contribution coming from the fuel sector despite its comparative fall from 2019 levels.




**Data Source**: Statistics South Africa

A review of the data suggests that the sectors most affected by the COVID-19 pandemic in 2020 were precious stones, jewellery and silverware; solid, liquid and gaseous fuels and related products; textiles, clothing and footwear; “other goods” and machinery equipment and supplies. Gains were led by agriculture raw materials and livestock, and fee or contract basis wholesalers.

Nonetheless, analysts suggest that 2021 may see a significant recovery for the sector and the rest of the economy, following a series of government-led interventions.

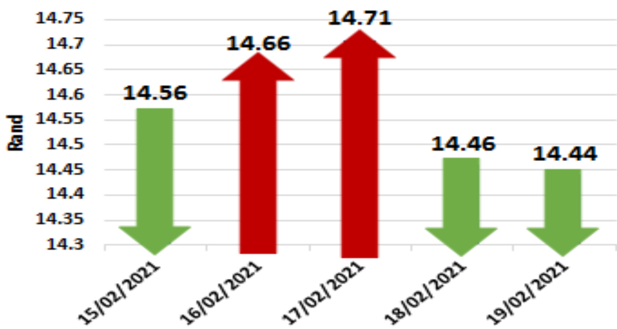
# INDICATORS: *Week 15 – 19 Feb 2020*

| CONSUMER INFLATION | SACCI TRADE CONDITIONS | RETAIL TRADE | WHOLESALE TRADE |
| --- | --- | --- | --- |
| ***3.2% y/y Jan’21*** | ***34 Index Points Jan’21*** | ***1.3% y/y Dec’20*** | ***6.6% y/y Dec’20*** |

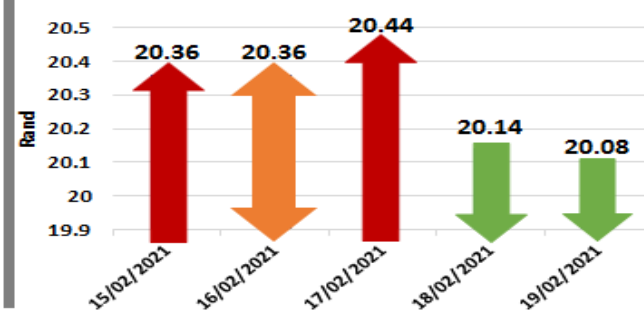
Source: Statistics South Africa & SACCI

## RAND/DOLLAR/POUND EXCHANGE RATE

***Dollar***




***Pound***




Source: *SARB & Trading Economics 15:00, 19 Feb‘21*

## COMMODITIES

| BRENT CRUDE OIL PER BARREL | GOLD PER OUNCE | PLATINUM PER OUNCE |
| --- | --- | --- |
| ***$63.26 19 Feb’21*** | ***$ 1 817.97 12 Feb’21*** | ***$1 268.75 19 Feb’21*** |
| ***$ 60.85 12 Feb’21*** | ***$1 774.20 19 Feb’21*** | ***$ 1 221.77 12 Feb’21*** |

Source: *Trading Economic, 15:00, 19 Feb’21*

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