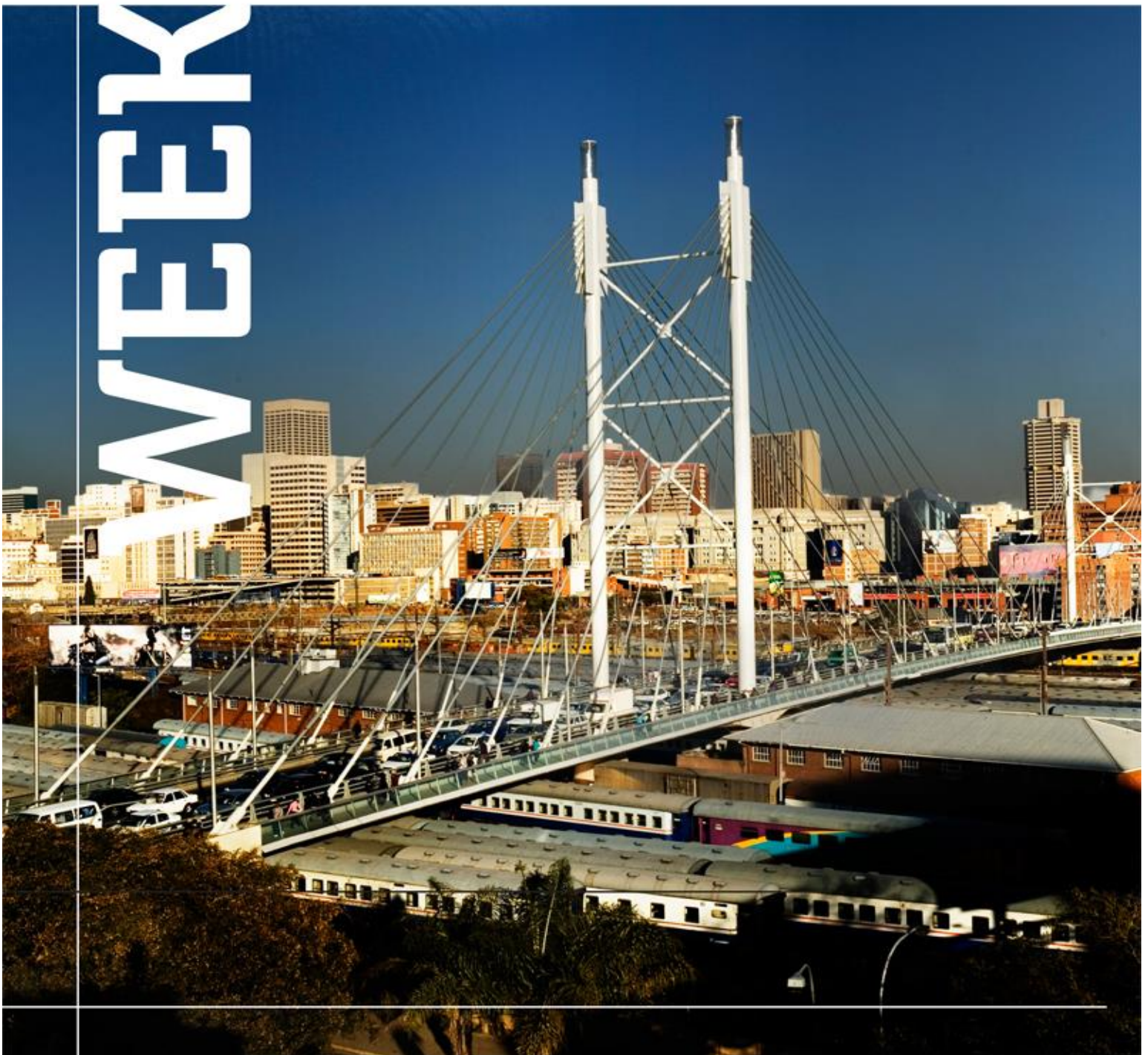


WEEKLY ECONOMIC INSIGHTS

WEEKLY



GAUTENG PROVINCE
ECONOMIC DEVELOPMENT
REPUBLIC OF SOUTH AFRICA

Growing Gauteng Together

WEEKLY ECONOMIC INSIGHTS

14 - 18 FEBRUARY 2022

- **EUROPEAN ECONOMY REBOUNDS BUT GLOBAL INFLATION RISK ON THE UPSIDE**
- **CPI EASES HOWEVER REMAINS ELEVATED**
- **FOURTH QUARTER RETAIL SALES REGISTER A REBOUND**
- **WHOLESALE TRADE SALES BUOYED BY GLOBAL CONDITIONS AND OMICRON OUTBREAK**
- **MOTOR TRADE SALES IMPROVED IN DECEMBER 2021**

OVERVIEW

Like other advanced economies, the European economy rebounded in 2021 from the COVID-19 induced recession in 2020, although growth was stunted by the rising COVID-19 cases in the last quarter of 2021. The global economic recovery momentum is expected to be marred by the upward inflationary risks. The UK economy started the new year on a backfooting, with inflation rising to 30-year highs in January. Meanwhile in China, inflation cooled off, mostly due to the continued government support aimed at containing rising input costs.

Domestically, consumer prices eased slightly but continue to linger closer to the upper limit of the South African Reserve Bank's (SARBs) inflation target. The final view of 2021 points to improved domestic consumption in the fourth quarter of 2021, with the trade sector expected to contribute positively to the fourth quarter (Q4:2021) GDP growth. Specifically, the trade sector was buoyed by the strong rebound in retail sales whilst wholesale trade moderated, and real motor trade sales grew.

EUROPEAN ECONOMY REBOUNDS BUT GLOBAL INFLATION RISK ON THE UPSIDE

Emulating other advanced economies, the Euro Area economy rebounded in 2021, reporting a GDP growth of 5.2% after plunging by 6.4% in 2020. Reining in the magnitude of the annual rebound was the moderate increase of 0.3% in Q4:2021 - the slowest growth in three quarters. This, as household consumption declined, deterred by the new lockdown restrictions which mostly left the services sector battered. Lockdown restrictions were reinstated across Europe as the Omicron variant spread fast across continent during the fourth quarter.

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Looking into the current year, the UK economy kicked off with higher inflation, confirming the threat of rising prices to the global economic rally in 2022. The UK inflation rate accelerated to 5.5% year-on-year (y/y) in January 2022 from 5.4% in December 2021, reaching a 30-year high. The largest contributors were housing and utilities (7.1%); on the back of a surge in gas prices (28.3%) and electricity prices (19.2%). In addition, food (4.3%); and clothing and footwear (6.3%) also saw notable price increases. Monthly, prices fell by 0.1% - the first fall in 12 months - suggesting that prices may be nearing their peak. However, with the expected increase in energy prices scheduled for April, the Bank of England expects inflation to surge in the second quarter of 2022, prolonging the deceleration in prices and further squeezing the Brits' cost of living.



In contrast, consumer prices in China eased to 0.9% (y/y) in January from 1.5% in December, the lowest reading since September 2021. The lower inflation was driven by the decline in food prices, underscored by the steeper decline in pork prices. In addition, the weakening demand in the property sector coupled with new coronavirus curbs as well as government's efforts to contain surging raw material costs, also slowed the rise in prices. However, despite the softer growth in prices, the threat to inflation remains on the upside and as a result, the People's Bank of China is expected to ease policies to put a curb on prices but will also continue to support the weak economy.

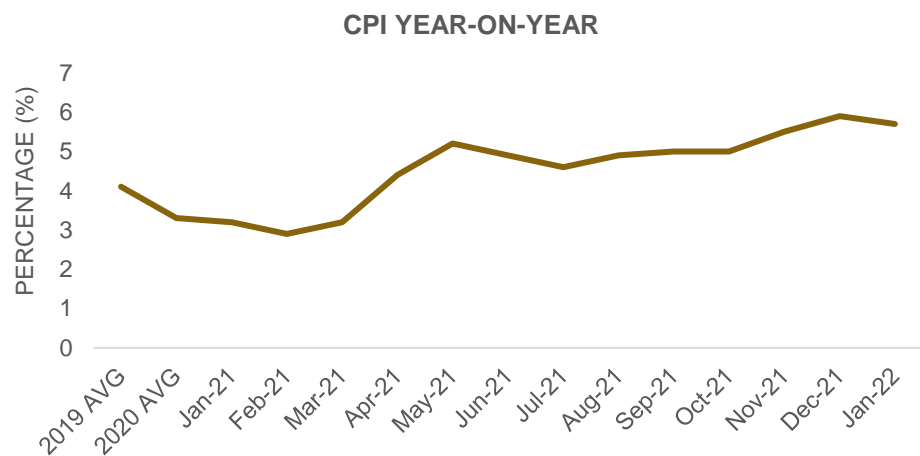
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CPI EASES HOWEVER REMAINS ELEVATED

The headline consumer price index (CPI) showed signs of easing as it marginally dipped to 5.7% (y/y) in January 2022, from 5.9% in December 2021. The reading represents the ninth (9th) consecutive month the CPI has been above the 4.5% mid-point range set by the South African Reserve Bank (SARB). The main contributors to the elevated annual inflation rate were transport (14.5%), as fuel inflation jumped up by a staggering 32.2%. Meanwhile, food and non-alcoholic beverages increased by 5.7% on the back for elevated prices for meat (8.2%); oils and fats (22.9%); and vegetables (8.6%). Miscellaneous goods and services; and housing and utilise also rose by 4.6% and 4.3%. respectively.

Monthly, consumer prices increased by 0.2% in January 2022 largely underpinned by higher food prices (1.0%). The excessive rainfall in December across various parts of South Africa has resulted in some crop damage, which has considerably reduced the supply of various crops. On the other hand, core inflation ticked up to 3.5% in January from 3.4% a month earlier. Core inflation has been on a gradual upward trend since July 2021.



Data source: Statistics South Africa

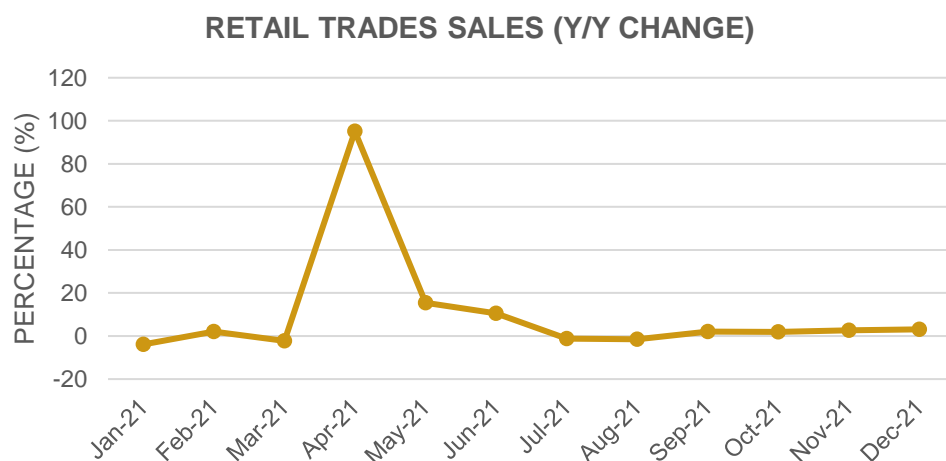
The inflation outlook remains on an upward trajectory as food and fuel prices continue to increase with some analysts anticipating a breach of the upper limit of 6% in the coming months. This is expected to prompt the Bank to further hike interest rates, a massive blow for many who will have to pay more to service their debt.

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FOURTH QUARTER RETAIL SALES REGISTER A REBOUND

Retail trade sales increased by 3.1% (y/y) in December 2021, up from 2.7% in November 2021. Primarily ramping up sales were textiles, clothing, footwear, and leather goods which surged by 15.2% (y/y) and contributing 3.1 percentage points to the top reading. This comes on the back of softer lockdown restrictions compared to December 2020. Additionally, pharmaceuticals and medical goods, cosmetics and toiletries trade sales increased by 3.1% (adding 0.2 percentage points) on the back of increased demand due to the Omicron outbreak. For the year 2021, retail sales rebounded by 6.4% from a decline of 7.1% in 2020.



Data source: Statistics South Africa

Monthly, retail sales increased by 1.5% owing to improved consumer confidence, Black Friday sales, and festive seasonal spending bumps which resulted in an aggregate growth rate of 5.3% in retail sales for 2021 Q4. The quarterly reading points to the sector's likely positive contribution to the 4th quarter GDP figure.

The upturn in trade sales is somewhat corroborated by retailer sentiment for the same period. The BER Retail confidence tallied above the 50-midpoint mark to 52 points in the fourth quarter of 2021. Despite the upbeat aggregate sentiment, retailers in the food and beverage industry find the business environment challenging because of lower pricing power which dampens returns. Looking ahead, retailers expect business conditions to improve as COVID-19 outbreaks continue to have minimal effect on economic activity. However, higher inflation combined with high levels of unemployment are likely to constrain the recovery.

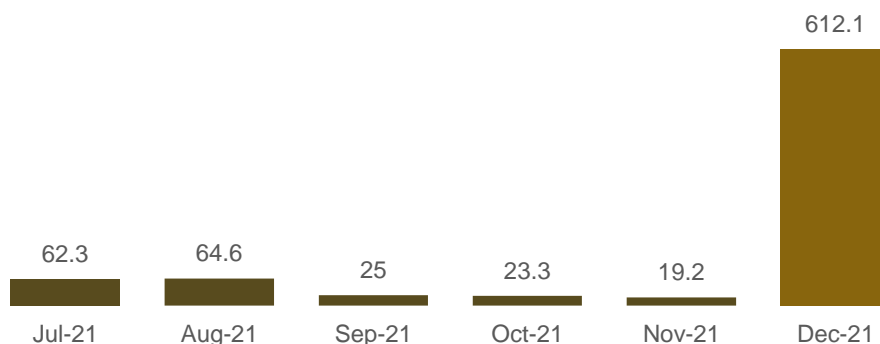
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WHOLESALE TRADE SALES BUOYED BY GLOBAL CONDITIONS AND OMICRON OUTBREAK

Wholesale trade sales (constant 2015 prices) decreased by 1.6% (y/y) in December 2021. Similarly, monthly sales declined by 1.8% in December, resulting in the quarterly average of 4.7% relative to the previous quarter.

WHOLESALE TRADE SALES: PRECIOUS STONES, JEWELLERY AND SILVERWARE



Data Source: Statistics South Africa

The yearly increase was attributable to more favourable global conditions. For example, supply shocks in Brent crude oil pushed domestic fuel prices to above R20 per litre in the last quarter of 2021, resulting in higher solid, liquid, and gaseous fuels and related products (15.1%) in December 2021. The local Omicron outbreak heightened fears of a diamond supply shortage as De Beers (the biggest diamond producer globally) which is based in South Africa faced risks of ceasing operations in the wake of the new outbreak. The increased demand led to a sudden and sizeable rally in the price of diamonds. As a result, wholesale trade sales of precious stones, jewellery, and silverware increased by 612.1% (y/y).

The diamond price rally continued to gain steam in February 2021. Analysts do not expect a correction of the global diamond price in the medium term. Alongside the normalisation of COVID-19 outbreaks and the upturn in diamond prices, wholesale trade sales prospects are on the upside for 2022.

For the year 2021, wholesale trade sales increased by an aggregate 6.6% compared with 2020, recovering from the weaker COVID-19 induced weakness in trade activity.

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MOTOR TRADE SALES IMPROVED IN DECEMBER 2021

Motor trade sales improved in December 2021 amid challenges of the COVID-19 pandemic. Measured in nominal terms (current prices), motor trade sales increased by 11.6% (y/y) in December 2021. The largest annual growth rates were recorded for fuel sales (23.5%), sales of accessories (9.8%) and new vehicle sales (9.1%).

For the year 2021, motor trade sales increased by 20.5% a rebound from a contraction of 16.7% in 2020, in part driven by increased demand – albeit still weak – on the back of softer lockdown restrictions. On other hand higher prices of new and used vehicles as well as fuel drove up the value of total sales.

Seasonally adjusted motor trade sales increased by 0.1% in December 2021 compared with November 2021. This followed month-on-month changes of 2.4% in November 2021 and 0.2% in October 2021. In the last quarter of 2021, motor trade sales grew by 7.5%.

The demand in the automotive industry is projected to continue on a positive trajectory in 2022, as more economic activities are restored. However, the higher prices and the expected increase in interest rates pose downward risks to the industry.



INDICATORS: *Week 14 – 18 February 2022*

JANUARY '22



CONSUMER INFLATION 5.7
%Change (y/y)

DECEMBER '21



RETAIL TRADE SALES 3.1
% change (y/y)

DECEMBER '21



WHOLESALE TRADE SALES -1.6
% change (y/y)

DECEMBER '21

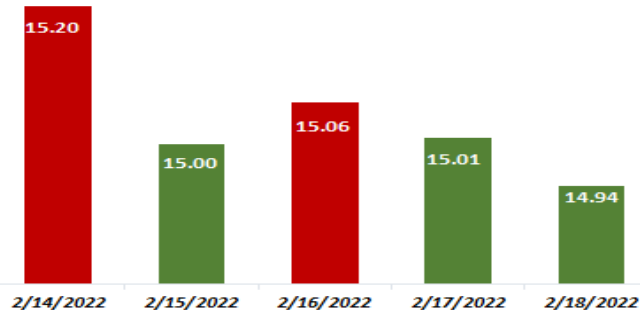


MOTOR TRADE SALES 11.6
% change (y/y)

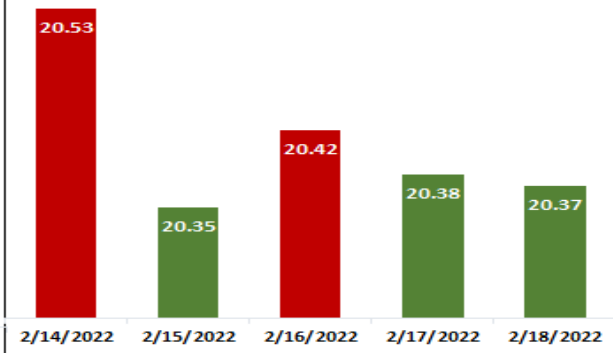
Data Source: Statistics South Africa

EXCHANGE RATES

US DOLLAR/ZAR



BRITISH POUND/ZAR



Data Source: SARB 15:00, 18 February 2022

COMMODITIES

	BRENT CRUDE OIL <i>Per barrel</i>	GOLD <i>Per fine ounce</i>	PLATINUM <i>Per fine ounce</i>
11 Feb 2022	\$92.45	\$1831.29	\$1031.05
18 Feb 2022	\$91.50	\$1894.67	\$1090.90
	Decline	Increase	Increase

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