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GAUTENG PROVINCE
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INTRODUCTION

This report highlights the key economic data and insights published during the month of January 2021. The report outlines the key global economic developments which included updates to global economic growth forecasts by both the International Monetary Fund and World Bank. Domestically, data released in January (which was mostly November and December 2020 data) highlighted a struggling and constrained energy and manufacturing sector as well as subdued consumer and business confidence due to the ongoing uncertainty stemming from the COVID-19 pandemic. In addition, the embattled tourism sector continued to see weak accommodation and income numbers. Other economic data outlined in the report includes trade (wholesale and retail) trade; inflation as well as the recent Monetary Policy Committee decision on interest rates.

The next two sections of the report unpack these key developments beginning with a global overview, followed by a local analysis.

GLOBAL ECONOMIC DEVELOPMENTS

IMF REVISES ECONOMIC PROSPECTS FOR 2021 FOLLOWING POLICY SUPPORT AND VACCINE ROLL-OUTS

In its latest (January 2021) *World Economic Outlook Update* report, the International Monetary Fund (IMF) outlined the factors it considers as key drivers and deterrents of growth in the coming two years (2021 – 2022). In light of the calamitous economic fallout and ongoing strain stemming from the effect of the COVID-19 pandemic on the global economy, most of the report is underpinned by a consideration of the likely impact of an efficient and effective global vaccine rollout effort as well as the re-thinking of county-level policy interventions to further support economic recovery and growth.

The global economic growth story – Since the October edition of the World Economic Outlook, global economies have registered stronger-than-projected economic activity and output with average growth being much stronger in the second half of 2020. Global investment levels also edged slightly higher, whilst industrial activity and global trade were notably higher mostly on the back of pent-up demand. This, coupled with several approvals of vaccination plans across the global has raised hopes of speedy containment and end to the pandemic, despite the surge in infections in late-2020 across several European countries and the US.

As such, the IMF now projects the global economy to grow 5.5% in 2021 (0.3 percentage point higher) and 4.2% in 2022. In addition, an estimated 3.5% global economic contraction is expected in 2020 – 0.9 percentage point higher than the October 2020 projection supported by stronger-than-anticipated recovery in the second half of 2020.

IMF WORLD ECONOMIC OUTLOOK PROJECTIONS (Y/Y % CHANGES)			
Region	**2020 Estimate**	**2021 Projection**	**2022 Projection**
Global Economy	**-3.5**	**5.5 [0.3]**	**4.2 [0]**
Advanced Economies	**-4.9**	**4.3 [0.4]**	**3.1 [0.2]**
United States	-3.4	5.1 [2.0]	2.5 [-0.4]
Euro Area	-7.2	4.2 [-1.0]	3.6 [0.5]
United Kingdom	-10.0	4.5 [-1.4]	5.0 [1.8]
Emerging Market & Developing Economies	**-2.4**	**6.3 [0.3]**	**5.0 [-0.1]**
China	2.3	8.1 [-0.1]	5.6 [-0.2]
Russia	-3.6	3.0 [0.2]	3.9 [1.6]
India	-8.0	11.5 [2.7]	6.8 [1.2]
Brazil	-4.5	3.6 [0.8]	2.6 [0.3]
Sub-Saharan Africa	**-2.6**	**3.2 [0.1]**	**3.9 [-0.1]**
South Africa	-7.5	2.8 [-0.2]	1.4 [-0.1]
Nigeria	-3.2	1.5 [-0.2]	2.5 [0]

Values in [ ] show difference from October 2020 WEO projections
Data source: IMF World Economic Outlook (January 2021)

Domestically, the South African economy is forecast to contract by 7.5% in 2020, before seeing a 2.8% and 1.4% economic recovery in 2021 and 2022. The recovery will likely be supported by supportive financial conditions, which the IMF believes will improve gradually for emerging market and developing economies such as South Africa (although the domestic debt and fiscal position may dampen these prospects following last year's credit ratings downgrades). In addition, commodity prices are expected to edge higher in 2021 with oil prices forecast to increase by over 20% from the low base values observed in 2020. Non-oil commodity prices (which for South Africa, include key export products such as gold and platinum) are also expected to rebound strongly this year, with metals in particular driving this recovery.

Supported by the recovery in economic activity, the IMF expects global trade volumes to advance by about 8% in 2021, before slowing to 6% in 2022. The degree of recovery will vary across countries and will depend heavily on the severity of the health crisis, disruptions to economic activity and exposure to exogenous shocks. As such, great uncertainty surrounds the IMF's baseline projections with several upside and downside risks threatening their attainment. Specifically, the speedy and effective manufacture, distribution and efficacy of COVID-19 vaccines could ensure a sooner-than-expected end to the pandemic than assumed, which could in turn promote increased economic activity and confidence and ultimately a much stronger recovery. However, should we see a resurgence in infections (including from new variants) before such vaccines are rolled out, the IMF predicts that this could dampen the growth outlook and even compromise vaccine up-take.

Considerations for the year ahead - Whether economies will be able to balance these, and other emerging socioeconomic and health risks will depend on the policies formulated and implemented to strengthen the recovery. The effectiveness of responsive policies implemented in 2020 will need to be closely analysed and even extended should there be evidence supporting their continued need. The key objective of such policies should be to support economic recovery over the medium-term with an emphasis on building resilience and equitable growth. Central these efforts will be sufficient resources for the health care sector specifically for the acquisition and roll-out of vaccines.

However, the IMF has also highlighted the need to maintain fiscal and monetary support whilst also keeping debt sustainability and inflation expectations within reasonable bounds. According to the IMF, as economies gradually begin to rebuild, policymakers will need to prioritise the key lessons from the crisis – some of which may be an intensification of pre-existing (structural, fiscal, productivity) challenges – and formulate coordinated responses to ensure policy effectiveness going forward.

WORLD BANK FORECASTS IMPROVED GLOBAL ECONOMIC PROSPECTS, BUT GROWTH LIKELY TO REMAIN BELOW PRE-PANDEMIC LEVELS

Similar to the upward revision in global growth forecast by the IMF, the World Bank's January 2021 iteration of its *Global Economic Prospects* publication paints a slightly more positive economic picture compared to its June 2020 publication. According to the report, the World Bank expects global economic output to contract by 4.3% in 2020 (compared to -3.5% by the IMF), before expanding by 4.0% in 2021 (compared to 5.5% by the IMF) and then moderating to 3.8% in 2022 (compared to 4.2% by the IMF). The global recovery, which has been dampened by the recent resurgence of COVID-19 cases, is expected to improve over the forecast horizon as confidence, consumption, and trade gradually improve all of which will be supported by vaccination roll-outs.

WORLD BANK GLOBAL ECONOMIC PROSPECTS PROJECTIONS (Y/Y % CHANGES)

Region	2020 Estimate	2021 Projection	2022 Projection
Global Economy	**-4.3 [0.9]**	**4.0 [-0.2]**	**3.8**
Advanced Economies	**-5.4 [1.6]**	**3.3 [-0.6]**	**3.5**
United States	-3.6 [2.5]	3.5 [-0.5]	3.3
Euro Area	-7.4 [1.7]	3.6 [-0.9]	4.0
Emerging Market & Developing Economies	**-2.6 [-0.1]**	**5.0 [0.4]**	**4.2**
China	2.0 [1.0]	7.9 [1.0]	5.2
Russia	-4.0 [2.0]	2.6 [-0.1]	3.0
India	-9.6 [-6.4]	5.4 [2.3]	5.2
Brazil	-4.5 [3.5]	3.0 [0.8]	2.5
Sub-Saharan Africa	**-3.7 [-0.9]**	**2.7 [-0.4]**	**3.3**
South Africa	-7.8 [-0.7]	3.3 [0.4]	1.7
Nigeria	-4.1 [-0.9]	1.1 [-0.6]	1.8

Values in [ ] show difference from June 2020 projections
Data source: World Bank Global Economic Prospects (January 2021)

Although the World Bank expects all regions to grow in 2021, the pace of recovery will vary considerably, with greater weakness likely to occur in countries that have more severe outbreaks or that are characterised by greater exposure to exogenous factors particularly through their tourism and industrial commodity exports. In addition, several countries are forecast to lose a decade or more of per capita income gains due to the long-lasting (as long as a decade) adverse effects of the crisis. According to the World Bank, the impact of the pandemic on investment and human capital is expected to erode growth prospects in emerging market and developing economies.

The short-term outlook remains highly volatile following a subdued rebound in output towards the end of 2020 following a resurgence of infections. Meanwhile, aggregated GDP in emerging market and developing economies, including China, is expected to grow by 5.0% in 2020. China's economy is expected to grow by 7.9% in 2021 following growth of just 2% in 2020. In line with a similar concern raised by the IMF, the World Bank has argued that the pandemic has greatly exacerbated debt risks in emerging market and developing economies; weak growth prospects will likely further increase debt burdens and erode borrowers' ability to service debt.

Looking ahead, the Bank has advised that policymakers continue to sustain the recovery, gradually shifting from income support to growth-enhancing policies. Over the medium to long-term, emerging market and developing economies should prioritise policies aimed at improving health and education services, digital infrastructure, climate resilience, and business and governance practices all of which will assist in mitigating the economic fallout caused by the pandemic, reduce poverty and promote shared prosperity

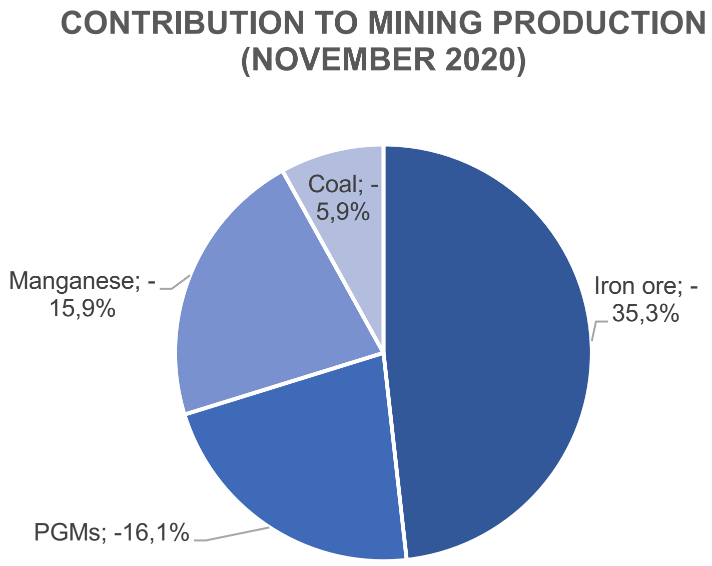
LOCAL ECONOMIC DEVELOPMENTS

ENERGY SECTOR UNDER STRAIN AS MINING OUTPUT AND ELECTRICITY GENERATION LIMITED BY EXOGENOUS AND DOMESTIC FACTORS

South Africa's official mining output deteriorated by 11.6% y/y in November 2020, worsening from the 5.9% contraction recorded in October. The rate of contraction in mining activity had been moderating gradually since the tough times in April 2020 when the economy was placed under stringent Level 5 lockdown regulations. Weaker output in mining was largely anticipated due to slowing demand following rigorous lockdown restrictions in some of South Africa's major export markets, particularly across Europe, which was experiencing a s second wave of COVID-19 infections at the time. All the mining subcategories, except diamonds, recorded declines in annual output with the key drivers being iron ore, which fell by 35.3%, this was followed by Platinum Group Metals (PGMs), manganese ore and coal, which recorded a 16.1%, 15.9% and 5.9% respective decline in output during the month.

The weaker mining readings for the first two months of the fourth quarter of 2020 (October and November) point to an increased likelihood of yet another year-on-year decline in mining output in Q4 and a much weaker reading for 2020 as whole compared to 2019. This is further supported by the mining sales statistics which revealed that the value of mining sales declined by a seasonally adjusted 4.4% month-on-month in November following five successive months of expansion. This dragged annual sales growth down to 15.1% from 31.2% in October.

The decrease was mainly a result of lower sales of gold, which fell by 14.2% following a 65% jump in October, as well as slower sales of PGMs, which eased to 37.8% from 76%. The decline in sales of copper and chrome also contributed to the weaker reading. The main contributors to the positive annual sales figure were PGMs (up 37.6%), iron ore (28.8%) 'other' non-metallic minerals and manganese ore (29.5%).



Data source: Statistics South Africa

Mining activity at both the domestic and international level remain volatile given the ongoing uncertainties surrounding the COVID-19 pandemic and consequent effect on demand. Although the latest figures are discouraging, some moderation in the pace of recovery was expected over the final quarter. Mining production is not expected to make a positive contribution to GDP in the fourth quarter. Nonetheless, going into 2021, the recovery in output is anticipated to continue with the upside gains being limited by the recent return to a stricter Level 3 lockdown and by the persistent power outages. A sustainable recovery will depend on how long South Africa and other global economies remain at stricter lockdown levels. Local factors such as infrastructure constraints, particularly electricity shortages and the uncertain policy environment will also remain key concerns into 2021.

Meanwhile, electricity generation and distribution contracted by 2.4% and 2.1% y/y respectively in November 2020. This came as the economy buckled under the weight of the measures implemented to control the spread of COVID-19 which reduced electricity consumption due to certain industries not being able to operate at full capacity. However, monthly, seasonally adjusted production and consumption increased by 0.5% and 0.3% respectively.

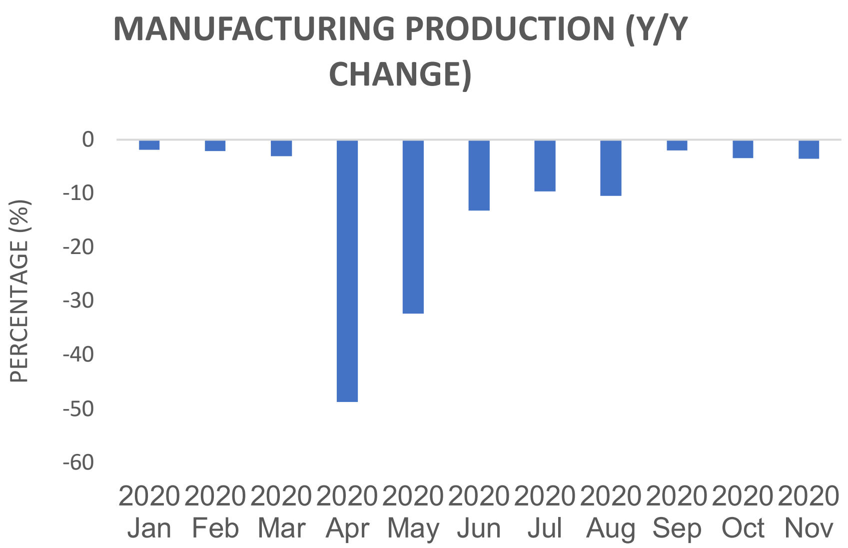
Burdened with a debt of R464 billion, the national power utility – Eskom – is trying to transform the business and increase its efficiency and profitability by splitting its operations into generation, transmission and distribution units which would allow for more power from private producers. Nonetheless, in early January 2021, the utility had to implement stage 2 load-shedding due to scheduled maintenance and overdue repairs on its fleet of aging coal-fired stations with this being further complicated by a lack of personnel due to a spike in COVID-19 cases among its employees. Furthermore, and worrisome for the economy, Eskom's forecast suggests that there is a risk of further load-shedding into the second quarter of 2021.

Overall, the domestic energy sector has been battered under the strain of COVID-19 related complexities including lockdown measures, weaker global and domestic demand as well as other long-standing challenges at Eskom. Mining activity is likely to continue to be driven by changes in exogenous factors such as global demand and volatile financial markets. As we await the release of the December statistics, the outlook for the sector and the economy remains on the downside as the intricacies of the pandemic further constrain prospects into 2021.

MANUFACTURING OUTPUT AND FREIGHT ACTIVITY SLOWS FURTHER IN NOVEMBER

According to the most recent data released by Statistics South Africa, domestic manufacturing activity registered another disappointing reading in November 2020. Manufacturing production dipped by 3.5% y/y in November 2020 after a 3.4% decrease in the previous month. November's reading was the largest annual decrease since August 2020 and was much worse than market expectations of a 1.5% decline. The largest contributors to the annual contraction in production were petroleum and chemicals which declined by 9.6%, followed by food and beverages and metals and machinery which slowed by -2.8% and -3.9% respectively.

On the other hand, the seasonally adjusted monthly output figures fell by -1.3%, the decline was the first since April's 43.5% plunge. However, the monthly decrease occurred before the implementation of stricter lockdown measures which moved the country form Level 1 to Adjusted Alert Level 3. The latest lockdown regulation is expected to have an adverse impact on the liquor and related industries, particularly the hospitality and tourism industry. Outside of those industries, current measures are not nearly as prohibitive as those seen in April.



Data source: Statistics South Africa

Further highlighting the ongoing strain in the manufacturing sector are the land freight statistics for November 2020. Although not a direct indicator, freight activity is closely associated with the transportation of manufactured goods and can as such provide a useful gauge for sector activity. The volume of goods transported (payload) decreased by 4.6% y/y in November 2020, this came despite a 4% increase in payload income compared to the same period last year. Encouragingly, the volume of goods transported in the three months ended November 2020 increased by 3.8% y/y compared to the preceding three months. The increase was mostly driven by road freight which increased by 5.9% while rail freight slipped by 2.7% during the month.

Given the subdued levels of demand and constrained economic environment, it is highly likely that aggregate manufacturing production will see a drastic decline in 2020 compared to a year earlier. This prediction is affirmed by the Absa Purchasing Managers Index (PMI) reading for December 2020. After easing to 52.6 in November from a record high in October, the Absa PMI declined further to register 50.3 index points in December 2020. As a result, the average reading for the fourth quarter is mostly unchanged from the third quarter suggesting that while another quarterly uptick in manufacturing output is likely, the pace of the recovery momentum has slowed. Export sales were under continued pressure, while renewed lockdown restrictions and load shedding are likely to depress domestic demand going forward.

Meanwhile, new vehicle sales declined by 3.9% m/m in December, translating to a 10.1% y/y fall. Encouragingly for Q4 GDP, total new vehicle sales were about 12% higher in Q4:2020 compared to the previous quarter. However, for the full year, new vehicle sales volumes were down by 29.1% in 2020 following a 2.8% drop in 2019. Export sales fell by 29.8% in 2020 despite a 36.3% y/y surge in December.

However, looking ahead, 2021 could bode slightly better for manufacturing and land transport activity provided that the pandemic is contained, and the country avoids a complete shutdown of economic activity. Both domestic and export vehicle sales are expected to perform better in 2021, although it is unlikely that pre-COVID levels will be achieved this year already, especially given the growing headwinds at the start of the year.

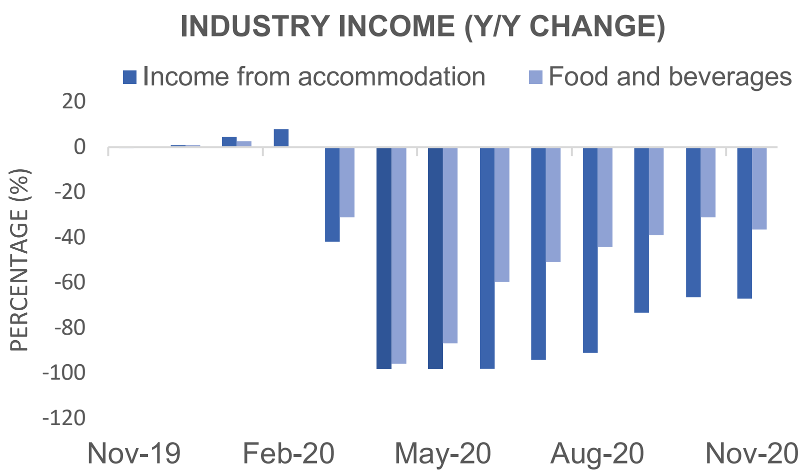
TOURISM SECTOR AND ASSOCIATED INDUSTRIES REGISTERS UPTICK IN NUMBERS BUT REVENUES REMAIN CONSTRAINED

As the country began to find its feet amidst a less stringent Alert level 1 lockdown, which resumed about three weeks into September 2020, travel data for November 2020 revealed that 470 701 travellers passed through South Africa’s ports of entry. The November figures were 7.3% higher relative to a month prior and was supported by the slightly more relaxed restrictions on travel. Of the total movements, 292 069 were foreign travellers whilst 178 069 were South African travellers. While the move to Level 1 was expected to significantly boost tourism activity, the move still came with a number of travelling restrictions which likely weighed on the travelling uptake by foreigners.

Adding to the reluctance to travel internationally, several countries re-imposed international travel restrictions, some of which placed South Africa as a high-risk country. To counter this and in an effort to boost the tourism sector, on the 11th of November 2020, all international travel restrictions were relaxed by South Africa. Following which, foreign travellers into South Africa increased by 23% month-on-month (m/m) to 152 694. Of these, 101 096, were classified as tourists and 84 231 (83.3%) - a monthly increase of 43.8%. Specifically, 69 738 of the holidaymakers were from Africa dominated by visitors from the SADC region. On the other hand, visitors from overseas totalled 14 255 dominated by travellers from Europe.

Whilst the monthly data paints a positive and promising picture, the tourism sector and associated industries remains delicate. In fact, total travellers (foreign and domestic combined) declined by 86.6% y/y in November. Foreign traveller arrivals declined by 88.6% whilst foreign holiday makers declined by a marked 89%.

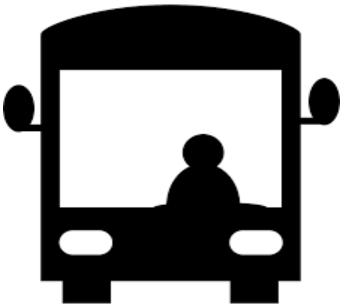
The tepid levels of aggregate travel have severely impacted the tourism sector's income such that, in November total income (current prices) from tourist accommodation declined by 65.5% y/y. Despite the relaxation of all international travel regulations in early November, income declined by 0.4% from 20% in October, possibly owing to the reintroduction of lockdown restriction as the second wave of COVID-19 infections kicked off overseas. Moreover, on the domestic front, the severe pressure on household finances could have added to the lacklustre appetite for domestic travel or holidaying. This is evidenced in the data for income from tourist accommodation which declined by 66.8% y/y driven by a decline of 69.6% in hotels; -41.5% in income from caravan parks; -53.1% in guesthouses and guest-farms; and -62.3% in other accommodation. The "other accommodation" category includes income from restaurant and bar sales which declined by 60.7% y/y and -18% m/m despite the easing of restrictions.



*The **tourist accommodation** and the **food and beverages** industries remained strained, despite the deceleration in the decline in income which is supported by the easing of restrictions.*

Data source: Statistics South Africa

In view of food and beverages sector, which is impacted due to the spill over effects from the tourism sectors combined with the strained demand driven by financial and health circumstances. At R3.2 billion, the income from the food and beverages sector recorded a decline of 1.9% (constant prices) relative to October. This was a result of a 6.4% decline in takeaway and fast foods outlets, countered by the muted growth of 0.8% in restaurants and coffee shops; and a 9.9% increase in catering services. Relative to the previous year, income from the food and beverages sector declined by 36.3%, echoing the strain faced by the sector such that its income remains substantially below any level recorded prior to the lockdown going back to 2008.



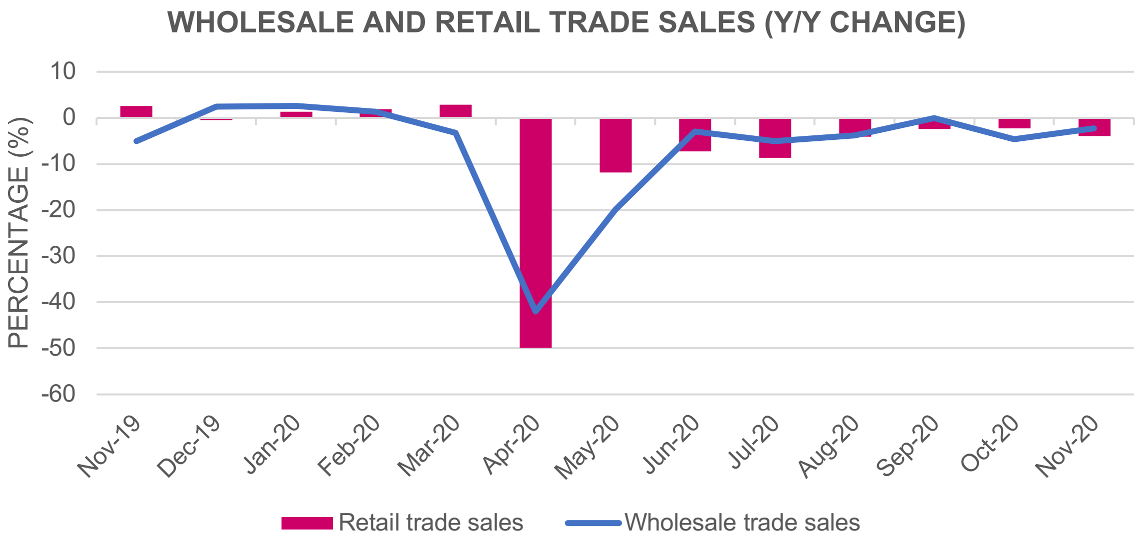
In line with the generally weaker economic environment, one of the key findings for passenger transportation during the month of November was the continued decline in the number of passenger journeys, which decreased by 48.8% during the month compared with November 2019. Similarly, the corresponding income from passenger journeys decreased by 40.9% over the same period. However, in the three months ended November 2020 compared with the previous three months, passenger journeys increased by 27.7% which was largely attributed to an increase in road (24.3%) and rail passenger journeys (202.9%) following the easing of travel restrictions and as both economic and social activity peaked up steam.

The renewed restrictions in December – the peak period for both the tourism and hospitality sectors – are likely to have weighed down tourist and passenger transport activity. Furthermore, the increase in COVID-19 infections during the second wave and the subsequent delays in the roll out of vaccination in South Africa, tourism activity is likely to remain depressed into the first quarter of 2021. As such, the pressure on the sector is only expected to ease from the second quarter of 2021 as countries reach higher grounds with their inoculation programs.

WHOLESALE AND RETAIL TRADE ACTIVITY DAMPENED BY PANDEMIC INDUCED SHOCKS

The domestic trade sector has been under tremendous strain since the onset of the COVID-19 pandemic. Both the wholesale and retail trade data for November 2020 showed a continuation of the more than 7-month long slump in trade sales, fanning worries of further economic pressure. Wholesale trade sales for November were down 2.2% from 2019 levels while retail trade sales in turn slipped 4.0% lower over the same period (in real terms). Year-to-date figures show an even grimmer picture with wholesale trade sales slipping by 7.1% in the 11 months till November 2020 while retail trade sales shed 7.6% over the same period.

Delving deeper into the numbers, losses on the wholesale trade side were chiefly driven by weaker sales of solid, liquid and gaseous fuels and related products which contributed -5.8 percentage points to the overall nominal figure, having suffered a 25% loss in sales. The mining sector (which registered weaker productions volumes as outlined in an earlier section) also significantly contributed to the negative pressure, with a 27.6% slump in sales culminating in a -0.7% contribution to the indexed number. While orders for wholesale dealer groups (such as fee or contract basis dealers and other household goods, except precious stones) had significant nominal growth between November 2019 and 2020, the growth was not enough to quell the strain from the fuel sector which accounted for much of the negative pressure and had a significantly higher contribution.



Data source: Statistics South Africa

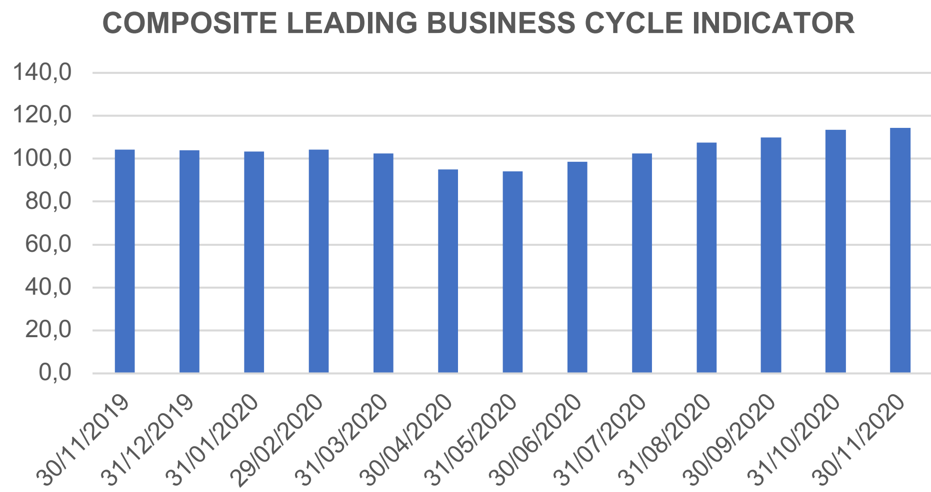
The retail sales numbers highlight the heightened pressure on consumer spending with losses spread across sectors that normally enjoy high festive and pre-festive season sales. Of the 7 dealer groups the only ones to record annual gains were pharmaceuticals and medical goods, cosmetics and toiletries (0.3%), household furniture, appliances and equipment (7.8%) and hardware, paint and glass (14%). Significant losses were reported for all other retailers which shed 26.1%, contributing -3.2 percentage points to the real figure. With pronounced cashflow pressures on consumers, textiles, clothing, footwear and leather goods also took a 5.6% knock as shoppers de-prioritized spending on apparel.

The November trade data is yet another confirmation of the dire economic effects of the pandemic. In addition, it is clear that the phasing-out of relief support from government to both businesses and individuals had a significant impact on the overall pace of recovery. Analysts speculate that both the wholesale and retail sales outlook for December and the first quarter of 2021 is likely to remain in the negative given the loss in consumer buying power propelled by the pandemic along with rising food and fuel prices. While the rand stands as a beacon of hope with its recovery from its late 2020 weakness, there is little trickle down of the gains to local buyers (business and individual) noting sustained pressures on the domestic front. With a new COVID-19 strain plaguing South Africa, the risk of sustained lockdowns and further clampdowns on business and economic activity bodes ill for the economy and may see both wholesale and retail sales limp over the short to medium term. Focus is directed to vaccine identification and sourcing efforts which may bring some much-needed relief to the economy given an efficient and speedy rollout. Along with that, there is need for a policy-side push on both the local and national front to ensure businesses and consumers do not tumble under the sustained pressure.

COMPOSITE LEADING BUSINESS CYCLE INDICATOR POINTS TO MUTED GROWTH PROSPECTS

On Tuesday, 26 January 2021, the South African Reserve Bank published the Composite Business Cycle Indicators for November 2020. The report indicated that the composite leading business cycle indicator rose by 1.0% in November 2020, after a 3.1% improvement in October 2020. The improvement was due to increases in RMB/BER Business Confidence Index and Commodity price index for South Africa's main export commodities.

The composite coincident business cycle indicator, which moves in line with current economic growth, also improved by 0.2% in October 2020 from the previous month. Meanwhile, the composite lagging business cycle indicator increased marginally by 0.2% on a month-to month basis in October 2020.



Data source: South African Reserve Bank

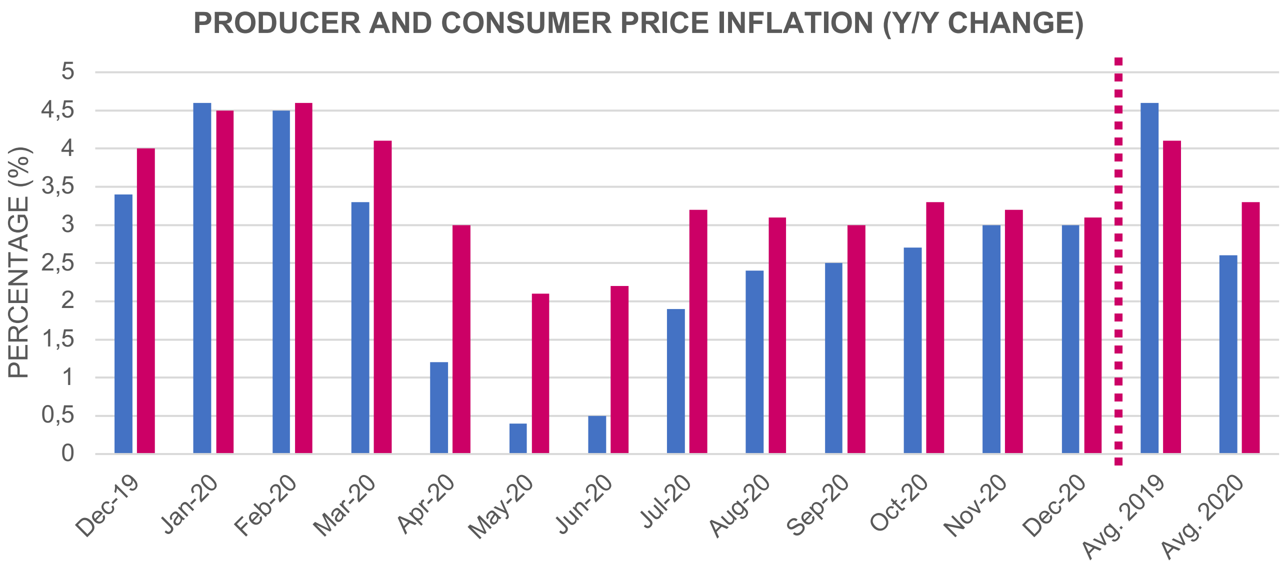
Even in the midst of the pandemic, a gradual improvement has been observed in the leading business cycle indicator since the beginning of June 2020, pointing towards a steady but muted economic recovery for the second half of the year.

INFLATIONARY PRESSURES MOSTLY MUTED WITH FOOD AND FUEL DRIVING PRICE PRESSURES

On the inflation front, Producer Price Inflation (PPI) remained unchanged at 3% in December 2020 following an uptick in producer prices to 3% in November 2020. The Producer Price Index improved by 0.2% between November and December 2020. The increase in producer prices is mainly attributed to increases in the headline PPI for food products, beverages and tobacco products (5.7%); and transport equipment (7%) which collectively contributed 2.6% to the 3.0% reading.

Within the manufacturing value chain, the PPI for intermediate manufactured goods continued to rally, registering at 6.8% for December 2020, owing to higher fabricated metals (5.5%) and recycling and manufacturing N.E.C. (1%). The PPI for electricity and water increased by 0.5% to 8.2% for the same period chiefly due to higher electricity costs.

The flat PPI reading seems to suggest that consumer inflation should remain aligned with the latest Monetary Policy Committee forecast which anticipates that prices will remain mute (below the 4.5% midpoint) for the remainder of 2021. However, the rally in the PPI for food products, beverages and tobacco products is likely to spill over into further increases in food prices for already constrained consumer.



Data Source: Statistics South Africa

Meanwhile, Consumer Price Inflation (CPI) increased by 3.1% (y/y) in December 2020, following a 3.2% reading for November 2020. The higher prices were driven by increases in food and non-alcoholic beverages (6.0%), housing and utilities (2.7%), and miscellaneous goods (2.7%). Food and non-alcoholic beverages prices rose for the 11th consecutive month in December 2020 on the back of higher fruit (11.8%), oils and fats (10.2%); sugar, sweets and deserts (8.4%); and meat (7.3%) prices. Due to the continued rally in food prices, inflation has remained within the South African Reserve Bank monetary policy inflation target band of 3% - 6% - dwarfing the COVID-related disinflation in the economy. However, when excluding food and non-alcoholic beverages, headline inflation falls below the monetary policy at 2.5% (y/y) and 0.1% (m/m). In this instance, inflation is driven by moderate seasonal adjustment made for owners' equivalent rent (1.1%), rental prices (1.2%) and miscellaneous items such as insurance (7.8%) and financial services (7.4%) that are updated every three (3) months.

Lastly, inflationary pressure in the domestic construction sector has remained somewhat elevated. In December 2020, month-on-month percentage changes in the CPAP work group indices ranged from -0.4% for work group 125 to 3.2% for work group 110. Noteworthy changes were in December 2020 where the work group 110 index increased by 3.2% month-on-month. There was an increase of 5.3% month-on-month in the PPI for cement (accounting for 45.0% of this work group) and an increase of 2.7% month-on-month in the PPI for aggregated stone (accounting for 20.0% of this work group).

For work group 173, the index increased by 2.1% month-on-month. There was an increase of 5.1% month-on-month in the PPI for steel pipes (accounting for 40.0% of this work group) and an increase of 2.6% month-on-month in the PPI for fibre glass (accounting for 12.0% of this work group).

Work group 125: The index decreased by 0.4% month-on-month. There was a decrease of 0.5% month-on-month in the SEIFSA index for aluminium products 99.7 EC grade rod (accounting for 90.0% of this work group). Overall the total construction index increased by 1.2% month-on-month while the civil engineering material total index increased by 1.8% month-on-month.

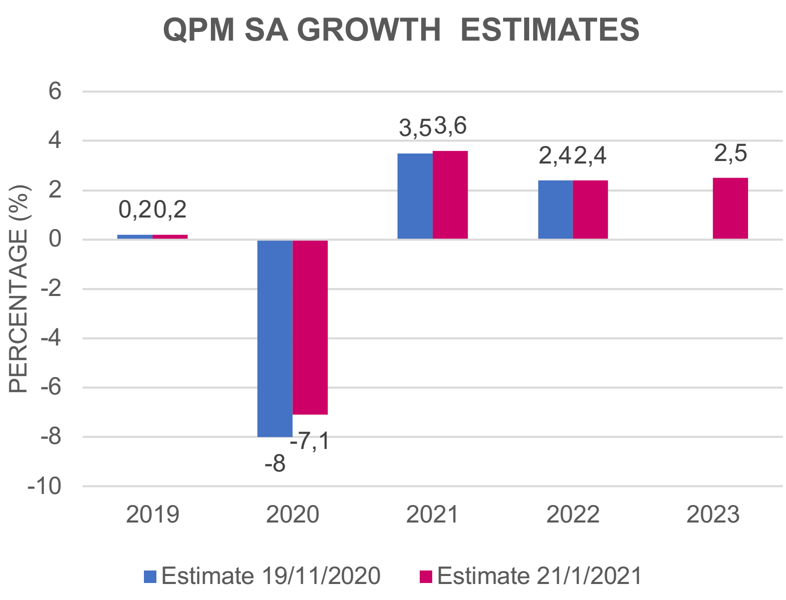
Going forward, estimates indicate that global inflationary pressures will overshadow domestic price stability factors, such as the predicted maize bumper crop and higher non-oil commodity prices which are likely to lead to higher food, fuel and construction materials prices in the near term. However, CPI excluding food and non-alcoholic beverages is expected to remain muted and register below the lower bound inflation target of 3%.

MPC KEEPS REPO RATE UNCHANGED AT 3.5% AS IT AWAITS TRICKLE-DOWN EFFECTS OF PANDEMIC

On 21 January 2021, the Monetary Policy Committee (MPC) decided to keep the repurchase rate unchanged at 3.5%. The wait-and-see stance was attributed to the country's slow economic recovery which is expected to keep inflation within the inflation target range but below the 4.5% mid-point in 2021. Inflationary pressure is expected to stem from rising food prices but will likely remain contained within the target range. Given the lower supply-side restrictions during the second COVID wave in SA, inflation risks are anticipated to be driven by weakened exchange rate conditions and demand-side pressures in the form of hikes in administer prices.

In relation to growth prospects, the MPC predicts that the South African economy contracted by -7.1% in 2020, down from the -8% forecast announced in the previous sitting (19 November 2020). The revision is credited to higher than expected - 66.1% (q/q) - growth in the third quarter of 2020 in comparison to the Quarterly Projection Model (QPM) estimate of 50.3% for the same period.

Growth prospects for the year ahead (2021) are expected to be mostly balanced due to improved global growth prospects induced by vaccine distribution, low capital costs and higher commodity prices. The economy is projected to rebound to 3.6% in 2021, then increase by 2.4% and 2.5% in 2022 and 2023, respectively. The MPC acknowledges that new COVID waves are likely to have a bearing on the current growth outlook. Nonetheless, is cognisant of domestic-related growth limitations presented by energy supply disruptions, weak investments and uncertain local vaccine distribution plans in the country.



Data source: South African Reserve Bank

The QPM policy rate path indicates that the MPC is likely to increase the repurchase rate by 25-basis points in the second and third quarters of 2021. The upward revision will depend heavily on the extend of second-round effects induced by the 300 basis-points cut in 2020, as well as on the rate of recovery in global and domestic economic and financial conditions. Notwithstanding the outlook, growth and inflation forecasts are highly reliant on the COVID tide.

CONCLUSION

The month of January 2021 was dominated by global discussions and negotiations about plans to ensure the effective manufacture and distribution of COVID-19 vaccines. The continued spread of the virus across the globe has raised the urgency of vaccine roll-out plans with governments having to act both swiftly and decisively to implement measure to cushion the anticipated economic and financial blows of any further delays. Forecasts by the IMF and World Bank both point to a slightly better global economic performance in 2020 and moderate recovery in 2021 and 2022. However, the forecasts are heavily reliant on the swift implementation of vaccination plans as well as country specific policies aimed at addressing the effects of the pandemic in an equitable and fiscally sound way. The South African economy is expected to grow by between 2.8% (IMF forecast) and 3.3% (World Bank forecast) in 2021, whilst the South African Reserve Bank forecasts growth of 3.6% in 2021.

Domestically, SA's energy sector remained constrained in November following declines in mining output and electricity generation and the outlook is mostly bleak given the ongoing challenges at the nation's power utility Eskom. Meanwhile, manufacturing and trade activity came in weaker in November as businesses struggled to fully resume operations following the operational effect of stringent lockdown measures in preceding months. Domestic tourism activity also remained under growing pressure, despite the lifting of travel restrictions, which somewhat contributed to the weaker performance of the food and beverages and passenger transport figures during the month.

On the price front, both producer and consumer prices registered subdued readings in November with food and beverages and fuel pressures being the top source of inflationary pressure. As such, the MPC has kept the repo rate unchanged at 3.5% sighting low upside inflationary risks as a key reason.

Overall, economic data released over the month highlights an economy struggling to support growth in its key sectors with the overall picture and outlook remaining mostly subdued and as consumer and business confidence remains volatile. The outbreak of COVID-19 will continue to put a damper on the country's economy and financial markets, the magnitude of which could be somewhat abated with an effective and efficient vaccine roll-out plan as well as the much needed fiscal and policy reforms to support growth over the medium and long term.

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INDICATORS: Week 01 - 28 Jan 2021

PRODUCER INFLATION
3.0% y/y
Dec’20

CONSUMER INFLATION
3.1% y/y
Dec’20

MINING PRODUCTION
11.6% y/y
Nov’20

MPC RATE DECISION
3.5%
Jan:2021

LEADING BUSINESS INDICATOR
1.0% y/y
Nov’20

MANUFACTURING PRODUCTION
3.5% y/y
Nov’20

ELECTRICITY GENERATION
2.4% y/y
Nov’20

FOOD & BEVERAGES
36.3% y/y
Nov’20

TOURIST ACCOMMODATION
HOTEL
65.5% y/y
Nov’20

WHOLESALE TRADE
2.2% y/y
Nov’20

RETAIL TRADE
4.0% y/y
Nov’20

LAND TRANSPORT
4.6% y/y
Nov’20

CONSTRUCTION MATERIALS
1.2% m/m
Dec’20

NEW VEHICLE SALES
10.1% y/y
Dec’20

TOURISM & MIGRATION
470 701
Nov’20

Source: StatsSA & SARB 2021

COMMODITIES

BRENT CRUDE OIL PER BARREL
$55.99
28 Jan’21
$ 55.21
08 Jan’21

GOLD PER OUNCE
$1866.20
28 Jan’21
$ 1891.93
08 Jan’21

PLATINUM PER OUNCE
$1095.11
28 Jan’21
$ 1074.81
08 Jan’21

Source: *Trading Economics, 15:00, 28 Jan’20*