

WEEKLY ECONOMIC INSIGHTS

WEEKLY



GAUTENG PROVINCE
ECONOMIC DEVELOPMENT
REPUBLIC OF SOUTH AFRICA

Growing Gauteng Together

WEEKLY ECONOMIC INSIGHTS

21 – 25 OCTOBER 2019

HIGHLIGHTS

- **CHINESE ECONOMY SUFFERS TRADE WAR BLOWS**
- **SA'S DOING BUSINESS RANKING SLIPS TWO SPOTS, DESPITE marginally HIGHER SCORE**
- **FOOD AND BEVERAGES INDUSTRY INCOME RECOVERS SLIGHTLY AUGUST**
- **COMPOSITE BUSINESS CYCLE INDICATORS CONTRACT ACROSS BOARD IN AUGUST**
- **CORE INFLATION DECLINES TO 8-YEAR LOW IN SEPTEMBER**

CHINESE ECONOMY SUFFERS TRADE WAR BLOWS

The Chinese economy grew by 6% year-on-year (y/y) in the third quarter of 2019, contracting from the 6.2% growth in the previous quarter. This marks the country's weakest growth rate since the first quarter of 1992 and highlights the effects that the persistent trade tensions with the US are beginning to have on the Chinese economy. Specifically, although Chinese exports rose 5.2% in the first nine months of the year, exports for the month of September dropped 3.2% y/y – the steepest annual decline since early 2019. Despite the lower y/y growth rate, several Chinese economic measures recorded strong performances between January and September 2019 compared to the same period last year including, industrial production (5.6%); retail sales (8.2%) and fixed-asset investment (5.4%), supported by stronger performance in September.

Analysts expect China's growth to continue to slow over the next two quarters due to slowing growth in its services sector.

US-CHINA TRADE WAR



VS



China records lowest GDP growth rate in 11 years in Q3:2019

UPDATE: US suspends October tariff increase and 'phase one deal' agreed & will address intellectual property & financial services concerns as well as Chinese purchases of US agricultural goods.

The latest round of trade talks between the world's two largest economies ended in Washington, in early October, with the US agreeing to suspend the tariff increases on Chinese goods that were planned for this month. In addition, the two nations agreed to an early 'phase one deal' to be concluded in the next couple weeks.

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SA'S DOING BUSINESS RANKING SLIPS TWO SPOTS, DESPITE A MARGINALLY HIGHER SCORE

On 24 October 2019, the World Bank released the 2020 edition of its '*Doing Business*' study report. The report compares business regulation across 190 global economies and is a useful measure that governments can use to design and reform their regulatory policies directly affecting businesses and investment. It is also an insightful benchmark for good practice across the five broad *Doing Business measures* namely: opening a business; getting a location; accessing finance; dealing with day-to-day operations and operating in a secure business environment.

Overall, the study shows that developing economies are catching up with developed economies with regards to ease of doing business. However, the gap between these economies remains large. For example, an entrepreneur in a low-income country typically spends an estimated 50% of the country's per capita income to launch a business compared to just 4.2% for an entrepreneur in a high-income country. In addition, on average, it takes close to six times as long to start a business in the economies ranked in the bottom 50 (of which 29 are African nations) compared to the top 20.

















































Ranking in the top 5 are New Zealand, Singapore, Hong Kong, Denmark and Republic of South Korea, with Denmark slipping from its 3rd position and Hong Kong jumping from 4th to 3rd. The lowest ranked countries are Libya, Yemen, Venezuela, Eritrea and Somalia.

EASE OF DOING BUSINESS RANKINGS – 2019						EASE OF DOING BUSINESS RANKINGS - 2020					
TOP 5: Sub-Saharan Africa			BRICS			TOP 5: Sub-Saharan Africa			BRICS		
Rank	Country	EODB Score	Rank	Country	EODB Score	Rank	Country	EODB Score	Rank	Country	EODB Score
20	Mauritius	79.58	31	Russia	77.37	13	Mauritius	81.5	28	Russia	78.2
29	Rwanda	77.88	46	China	73.76	38	Rwanda	76.5	31	China	77.9
60	Morocco	71.02	77	India	67.23	53	Morocco	73.4	63	India	71.0
61	Kenya	70.31	82	South Africa	66.03	56	Kenya	73.2	84	South Africa	67.0
80	Tunisia	66.11	109	Brazil	60.01	78	Tunisia	68.7	124	Brazil	59.1

Despite South Africa's ease of doing business score improving from 66 to 67 in the 2020 report, the country ranked 84th, falling (two spots) from 82nd in the 2019 edition. The country also maintained its position as the second lowest ranked BRIC nation, lagging Russia (28th); China (31st) and India (63rd) – while Brazil ranked 124th. Below is a detailed outline of SA's ranking across the various measures:

Overall
PerformanceSA's RANKING SLIPPED TO 84th FROM 82nd IN 2019

SA's DOING BUSINESS SCORE INCREASED TO 67 FROM 66.03 IN 2019

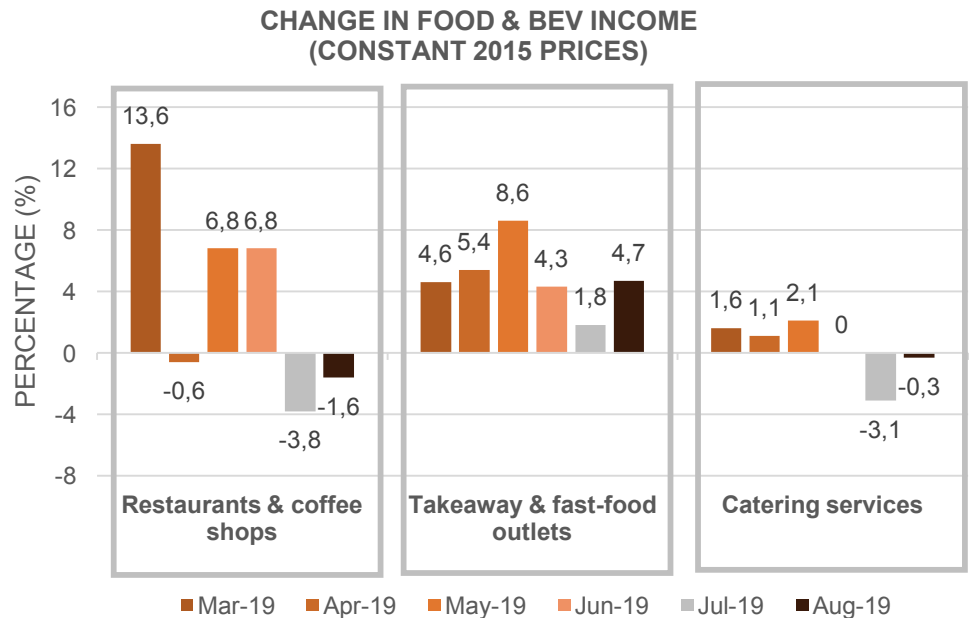
Opening a business	STARTING A BUSINESS 	 Score [82.1] Rank [139 th]	 Av. Score [80.1]	 Score [94.5] Rank [20 th]
Getting a location	DEALING WITH CONSTRUCTION PERMITS 	 Score [68.3] Rank [98 th]	 Av. Score [58.5]	 Score [85.8] Rank [8 th]  Score [75.6] Rank [44 th]  Score [70] Rank [84 th]
	GETTING ELECTRICITY 	 Score [68.8] Rank [114 th]	 Av. Score [50.4]	 Score [88] Rank [28 th]  Score [78.3] Rank [76 th]
	REGISTERING PROPERTY 	 Score [59.5] Rank [108 th]	 Av. Score [53.6]	 Score [82.5] Rank [23 rd]  Score [65.8] Rank [82 nd]
	GETTING CREDIT 	 Score [60.0] Rank [80 th]	 Av. Score [45.2]	 Score [65] Rank [67 th]  Score [60] Rank [80 th]  Score [60] Rank [80 th]
Accessing finance	PROTECTING MINORITY INVESTORS 	 Score [80] Rank [13 th]	 Av. Score [38.5]	No other African nation ranked higher
Managing day-to-day operations	PAYING TAXES 	 Score [82.2] Rank [54 th]	 Av. Score [57.8]	 Score [94] Rank [5 th]
	TRADING ACROSS BORDERS 	 Score [59.6] Rank [145 th]	 Av. Score [53.6]	 Score [86.7] Rank [55 th]  Score [81] Rank [72 nd]  Score [61.5] Rank [138 th]
Operating in secure business environment	ENFORCING CONTRACTS 	 Score [56.9] Rank [102 nd]	 Av. Score [49.6]	 Score [72.2] Rank [20 th]  Score [63.4] Rank [64 th]
	RESOLVING INSOLVENCY 	 Score [54.6] Rank [68 th]	 Av. Score [31.3]	 Score [73.8] Rank [28 th]

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FOOD AND BEVERAGES INDUSTRY INCOME RECOVERS SLIGHTLY IN AUGUST

According to the latest y/y data released by Statistics South Africa, the income generated by the food and beverages industry increased by 0.7% in August 2019, following a contraction of 1.9% in July. The income gain was supported by higher incomes for takeaway and fast food outlets (4.7%), whilst restaurants and coffee shops and catering service providers reported declining incomes, shrinking by 1.6% and catering services by 0.3% respectively.



Data source: Statistics South Africa

In addition, food and bar sales generated slightly higher incomes in August, recovering from the negative numbers recorded in July. Income generated from food sales grew 0.8% in August (from -1.5% in July) and bar sales generated 3.8% more income, recovering from the 4.7% decline in income in the previous month. On the other hand, according to year-to-date data, the sector recorded a 3.7% increase in income between January and August 2019.



The higher food and non-alcoholic beverages prices (3.9% y/y increase) and alcoholic beverage prices (6.2% y/y increase) in August could have a bearing on the industry income over the month. Nonetheless, the sector's moderate performance has largely been

driven by a contraction in restaurant income as consumers move away from the costs associated with eating at a restaurant rather than the cheaper alternatives offered by takeaway shops.

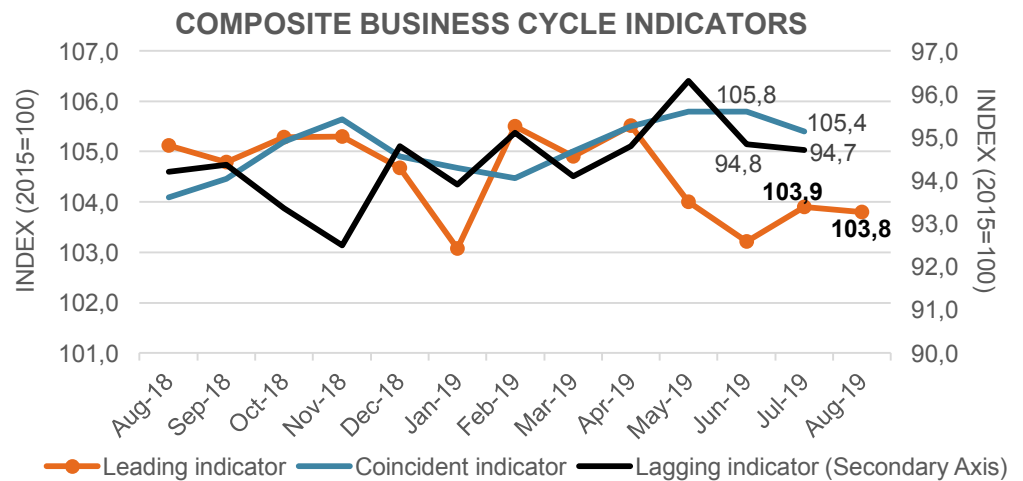
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COMPOSITE BUSINESS CYCLE INDICATORS CONTRACT ACROSS BOARD IN AUGUST

On 23 October 2019, the South African Reserve Bank (SARB) released the composite business cycle indicators for the month of August. The publication revealed that all three business cycle indicators contracted moderately in August and July.

The leading business cycle indicator decreased by 0.1% (m/m) to 103.8 index points in August whilst both the composite coincident and lagging business cycle indicators regressed by 0.4% and 0.1% to 105.4 and 94.7 index points respectively, in July.



Data source: South African Reserve Bank (SARB)

On an annualized basis (y/y), the leading business cycle indicator declined by 1.3% index points in August. Whereas, the coincident and lagging business cycle indicators improved by 1.7% and 0.2%, respectively in July.

The contraction in the leading business cycle indicator has been credited to an unfavorable trade environment that was evidenced by a weak commodity price index and sluggish leading business cycle indicator figures for South Africa's key trading partners. Other negative contributors to the reading were declines in business sentiments, job advertisements (y/y change) and average hours worked per manufacturing factory worker.

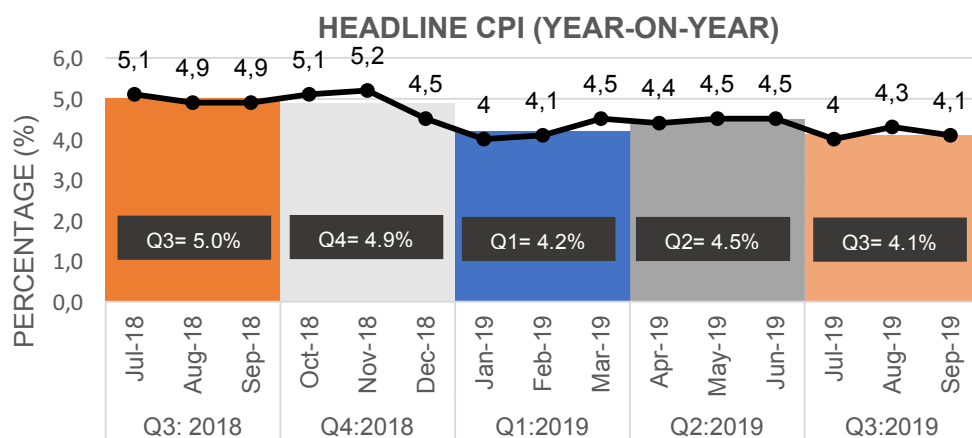
As such, the outlook for SA's economic output remains on the downside for the next 6 to 12 months. Moreover, the improvement in economic output projected for 2020 may be stifled by the intensification of geopolitical tensions, which have adversely affected performance figures, particularly in the manufacturing and mining sectors.

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CORE INFLATION DECLINES TO 8-YEAR LOW IN SEPTEMBER

South Africa's headline Consumer Price Index (CPI) slowed to 4.1% y/y in September 2019, down from 4.3% in August. This marks the 30th consecutive month that inflation has remained within the Reserve Bank's target range of 3% - 6%. The main contributors to the 4.1% annual inflation rate were housing and utilities, miscellaneous good and services as well as food and non-alcoholic beverages which contributed 1.2%; 0.9% and 0.7%, respectively to the change in CPI. Specifically, miscellaneous goods and services prices increased by 5.7% y/y while housing and utilities and food and non-alcoholic beverages prices increase by 4.8% and 3.9% y/y, respectively. Quarterly, the average headline CPI dipped to 4.1% in Q3 compared to 4.2% and 4.5% in the first two quarters of the year.



Data source: Statistics South Africa

At the individual product level, electricity, university boarding fees as well as wine recorded the highest annual price increases in September - rising by 11.8%; 10.7% and 10.2% y/y respectively. Prices for accommodation increased mainly due to rising demand. Wine prices have increased steadily since the 2016 drought, and have been further exacerbated by the low 2019 harvest – the lowest since 2005.

Meanwhile, core inflation, which excludes the cost of food and non-alcoholic beverages as well as fuel and energy, fell to 4% in September, marking its lowest rate since December 2011. The slowdown in core inflation highlights the declining underlying price pressures. However, given the country's deteriorating fiscal situation, there may be limited scope for another interest rate cut this year. The MPC's quarterly projection models shows the benchmark interest rate remaining at 6.5% for the rest of 2019.

INDICATORS: Week 21 - 25 Oct 2019

CONSUMER INFLATION



4.1% y/y
Sep'19

FOOD & BEV



0.7% y/y
Aug'19

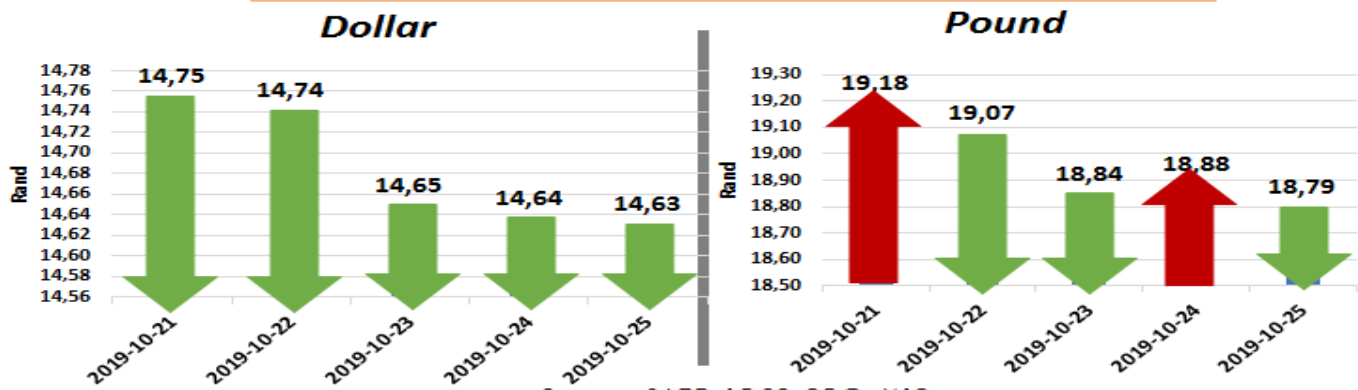
LEADING BUSINESS CYCLE INDICATOR



0.1% m/m
Aug'19

Source: Statistics South Africa

RAND/DOLLAR/POUND EXCHANGE RATE



Source: SARB 15:00, 25 Oct'19

COMMODITIES



BRENT CRUDE OIL PER BARREL

\$61.67
25 Oct'19
\$59.62
14 Oct'19

GOLD PER OUNCE

\$1 518.53
25 Oct'19
\$1 495.96
14 Oct'19

PLATINUM PER OUNCE

\$927.79
14 Oct'19
\$889.94
25 Oct'19

Source: Trading Economic, 16:00, 25 Oct'19

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