# WEEKLY ECONOMIC INSIGHTS

GAUTENG PROVINCE
ECONOMIC DEVELOPMENT
REPUBLIC OF SOUTH AFRICA

Growing Gauteng Together

# WEEKLY ECONOMIC INSIGHTS

**04 – 08 NOVEMBER 2019**

## HIGHLIGHTS

- *US AND CHINA TRADE BALANCES IMPROVE, DESPITE LOWER BILATERAL TRADE*
- **BANK OF ENGLAND KEEPS RATE ON HOLD AS BREXIT JITTERS FADE**
- **CONSUMER CONFIDENCE DIPS INTO NEGATIVE TERRITORY IN Q3**
- **BUSINESS CONFIDENCE LOWER IN OCTOBER FOLLOWING POWER OUTAGES**
- **MANUFACTURING CAPACITY UTILISATION SLIPS IN AUGUST 2019**
- **MANUFACTURING OUTPUT CONTRACTS FOR 4TH CONSECUTIVE MONTH**
- **FUEL PRICE CUT OFFERS SOME RELIEF TO MOTORISTS**

## US AND CHINA TRADE BALANCES IMPROVE IN OCTOBER, DESPITE LOWER BILATERAL TRADE

The US trade deficit narrowed by 5% year-on-year (y/y) in October 2019 to $52.5 billion, as both imports and exports edged lower during the month. Exports declined by 0.9%, driven by lower soybean and vehicle exports. Imports, specifically from Germany and China, declined by 1.7% on the back of lower imports of consumer goods; cell phones and sporting equipment as well as semi-conductors and vehicles. US exports to China and Japan declined by 8.8% and 6.9% respectively. Chinese imports into the US also edged lower, decreasing by 2.3% in October.

| | US | CHINA |
|---|---|---|
| **TRADE BALANCE** | - $52.2 billion | + $42.81 billion |
| **EXPORTS** | ↓ 0.9% | ↓ 0.9% |
| **IMPORTS** | ↓ 1.7% | ↓ 6.4% |
| **BILATERAL TRADE BALANCE** | *Imports from China*: ↓ 2.3%<br>*Exports to China*: ↓ 8.8% | *Imports from US*: ↓ 14.3%<br>*Exports to US*: ↓ 16.2% |

**Data source**: Trading Economics

Conversely, China's trade surplus widened to $42.81 billion in October 2019, compared to $32.97 billion in October 2018. The stronger reading came despite the 0.9% y/y and 6.4% y/y decline in Chinese exports and imports, respectively. To add, China's exports to and imports from the US contracted by 16.2% and 14.3%, respectively in October.

Based on the latest trade data, the US and China are evidently feeling the effects that their ongoing trade talks are having on their levels of bilateral trade. The much-needed finalisation of a new trade deal and rolling back of tariffs will assist in remedying the volatile trade situation in the two nations as well as the impact this has had on global trade patterns and economic prospects.

GAUTENG PROVINCE
ECONOMIC DEVELOPMENT
REPUBLIC OF SOUTH AFRICA

[1] Compiled by the Economic Planning Branch (Enquiries: Rebaone.Mokgotla@gauteng.gov.za)

## HIGHLIGHTS

- **US AND CHINA TRADE BALANCES IMPROVE, DESPITE LOWER BILATERAL TRADE**
- *BANK OF ENGLAND KEEPS RATE ON HOLD AS BREXIT JITTERS FADE*
- **CONSUMER CONFIDENCE DIPS INTO NEGATIVE TERRITORY IN Q3**
- **BUSINESS CONFIDENCE LOWER IN OCTOBER FOLLOWING POWER OUTAGES**
- **MANUFACTURING CAPACITY UTILISATION SLIPS IN AUGUST 2019**
- **MANUFACTURING OUTPUT CONTRACTS FOR 4TH CONSECUTIVE MONTH**
- **FUEL PRICE CUT OFFERS SOME RELIEF TO MOTORISTS**

## BANK OF ENGLAND KEEPS RATES ON HOLD AS BREXIT JITTERS FADE

The Bank of England's Monetary Policy Committee voted to keep the Bank Rate on hold at 0.75% during its latest policy meeting. The key reason for the stable position were expectations of an orderly transition to a deep free trade agreement between the UK and the European Union (EU) as Brexit-related volatility, underpinning UK growth, has slowed notably in recent months.

In October, the EU granted the UK another extension to its Brexit deadline and both parties agreed to a Withdrawal Agreement and Political Declaration, which has reduced the perceived likelihood of a no-deal Brexit. In addition, the Committee expects UK GDP growth to increase in 2020, supported by higher demand levels and lower inflationary pressures.

Nonetheless, the bank will continue to respond to changes in the domestic and global economic outlook and will continue to be weary of any development concerning Brexit negotiations. As one of SA's largest trading partners, any negative shifts in the EU and the UK will have an adverse effect on SA's already stagnant economy.

## CONSUMER CONFIDENCE DIPS INTO NEGATIVE TERRITORY IN Q3

The negative reading of the FNB/BER Consumer Confidence Index (CCI) during the third quarter of 2019 (Q3:2019), suggests that household consumption is likely to remain subdued over the medium-term, which could translate into weaker economic growth. During Q3:2019, the CCI contracted drastically to -7 from +5 in Q2:2019 and +2 in Q1:2019. This marks the lowest reading since the fourth quarter of 2017.

## HIGHLIGHTS

- **US AND CHINA TRADE BALANCES IMPROVE, DESPITE LOWER BILATERAL TRADE**
- **BANK OF ENGLAND KEEPS RATE ON HOLD AS BREXIT JITTERS FADE**
- *CONSUMER CONFIDENCE DIPS INTO NEGATIVE TERRITORY IN Q3*
- **BUSINESS CONFIDENCE LOWER IN OCTOBER FOLLOWING POWER OUTAGES**
- **MANUFACTURING CAPACITY UTILISATION SLIPS IN AUGUST 2019**
- **MANUFACTURING OUTPUT CONTRACTS FOR 4TH CONSECUTIVE MONTH**
- **FUEL PRICE CUT OFFERS SOME RELIEF TO MOTORISTS**

The decline in sentiments is attributable to a complete reversal in the economic outlook sub-index as well as a further deterioration in the 'time-to-buy durable goods' index, as consumer budgets remained strained and discretionary spending gets postponed. The net majority of consumers that rated the present time as inappropriate to buy durable goods, increased from 10% in the previous quarter, to 15% in the third quarter.

Cementing the waning sentiments is the plunge in new vehicles sales as well as in the decline in furniture and household appliance sales. This is despite the uptick in household credit growth which, since the start of the year, has grown by an average of 6.4% relative to an annual average of 4.6% in 2018. Nonetheless, given the weak economic growth, the growth in household credit could imply that the borrowing is meant to meet cash flow needs rather than an indication of positive sentiment. The growth in credit could also be due to the 25-basis point cut in the repo rate in July 2019.

**CONSUMER CONFIDENCE INDEX**

| | Q1:2019 | Q2:2019 | Q3:2019 |
|---|---|---|---|
| Overall FNB/BER CCI | +2 | +5 | -7 |
| Economic outlook | 0 | +11 | -17 |
| Household Financial outlook | +13 | +13 | +12 |
| Suitability of present time to buy durable goods | -8 | -10 | -15 |

**Data source**: FNB/BER

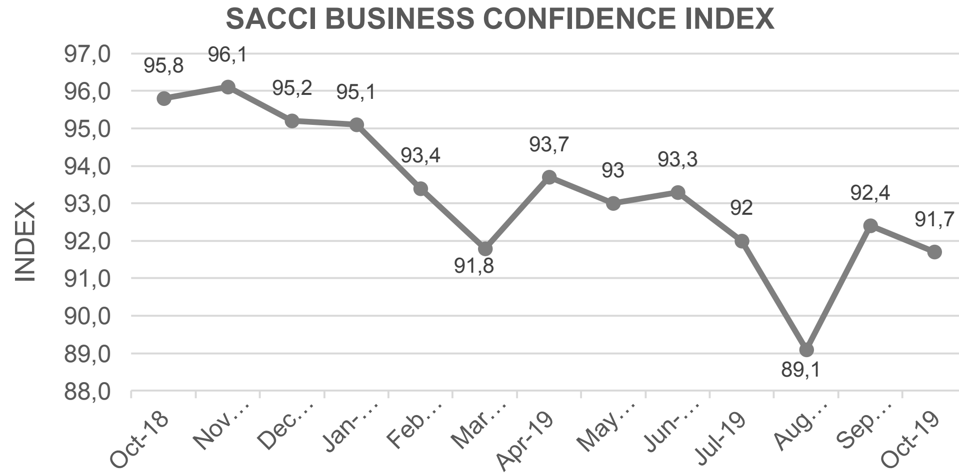
The sombre consumption sentiments, coupled with a weaker business confidence over the quarter and a combination of poor performing economic factors (such as rising unemployment and electricity generation), indicate that the economy is unlikely to stage a strong recovery in the short to medium term, particularly not one driven by household consumption expenditure.

## HIGHLIGHTS

- **US AND CHINA TRADE BALANCES IMPROVE, DESPITE LOWER BILATERAL TRADE**
- **BANK OF ENGLAND KEEPS RATE ON HOLD AS BREXIT JITTERS FADE**
- **CONSUMER CONFIDENCE DIPS INTO NEGATIVE TERRITORY IN Q3**
- *BUSINESS CONFIDENCE LOWER IN OCTOBER FOLLOWING POWER OUTAGES*
- **MANUFACTURING CAPACITY UTILISATION SLIPS IN AUGUST 2019**
- **MANUFACTURING OUTPUT CONTRACTS FOR 4TH CONSECUTIVE MONTH**
- **FUEL PRICE CUT OFFERS SOME RELIEF TO MOTORISTS**

## BUSINESS CONFIDENCE LOWER IN OCTOBER FOLLOWING POWER OUTAGES

The cost of power outages to South Africa's economy is significant, it makes existing businesses and potential investors uneasy and negatively impacts their decisions about doing business in the country. In October 2019, the South African Chamber of Commerce and Industry (SACCI) Business Confidence Index (BCI) measured at 91.7, down 0.7 index points from the September reading.




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

The deterioration in business sentiments comes on the back of a decline in six of the thirteen index sub-components. Specifically, the decline in merchandise export and import volumes, and to a lesser degree from the depreciation in the Rand exchange rate during early October trade (the Rand gained momentum towards the end of the month) and disrupted energy supply. Unexpected load shedding, that disrupted business operations for 2 days during October, highlighted the severity of SA's power situation and added further risk to local investment and business prospects.

On the other hand, five sub-indices improved over the month including, new vehicle sales, lower consumer inflation, and retail sales. The National Association of Automobile Manufacturers of South Africa (NAAMSA), reported strong new vehicle sales figures for October, mostly driven higher purchases from by the vehicle rental industry.

Looking ahead, the upcoming second-round investment summit, recently announced by President Ramaphosa, could aid in supporting more investment into SA. However, the country would need to address challenges facing Eskom if it is to succeed in this feat.

## HIGHLIGHTS

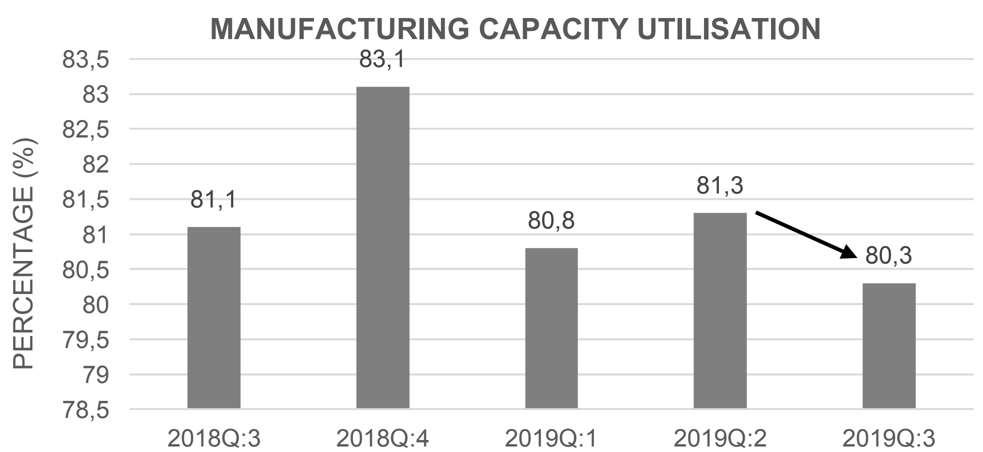
- **US AND CHINA TRADE BALANCES IMPROVE, DESPITE LOWER BILATERAL TRADE**
- **BANK OF ENGLAND KEEPS RATE ON HOLD AS BREXIT JITTERS FADE**
- **CONSUMER CONFIDENCE DIPS INTO NEGATIVE TERRITORY IN Q3**
- **BUSINESS CONFIDENCE LOWE IN OCTOBER FOLLOWING POWER OUTAGES**
- *MANUFACTURING CAPACITY UTILISATION SLIPS IN AUGUST 2019*
- **MANUFACTURING OUTPUT CONTRACTS FOR 4TH CONSECUTIVE MONTH**
- **FUEL PRICE CUT OFFERS SOME RELIEF TO MOTORISTS**

## MANUFACTURING CAPACITY UTILISATION SLIPS IN AUGUST 2019

The utilisation of production capacity by large manufacturers registered at 80.3% in August 2019, down from 81.3 % in August 2018 and down from 81.3% in May. This marks the lowest reading since August 2015. The results of the quarterly manufacturing utilisation of production capacity survey by Statistics South Africa are used to assess the degree of capacity constraint experienced in the country's manufacturing industry.

Out of the ten manufacturing divisions, eight showed decreases in the utilisation of production capacity on a year-on-year basis. The largest decreases were recorded in the following divisions:

- glass and non-metallic minerals (-6.0 percentage points)
- basic iron and steel, non-ferrous metal products, metal products and machinery (-2.7 percentage points)
- textiles, clothing, leather and footwear (-1.7 percentage points)
- wood and wood products, paper, publishing and printing (-0.9 of a percentage point).




**Data source**: Statistics South Africa

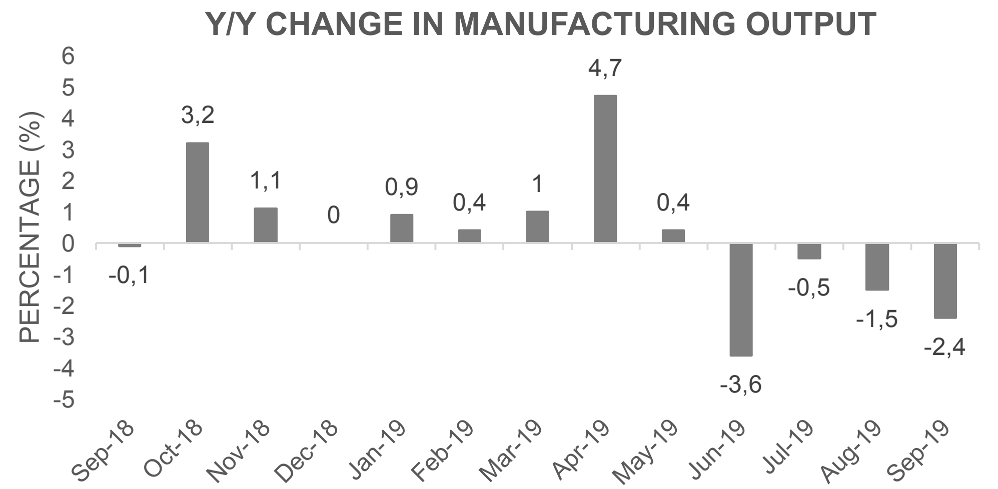
The capacity utilisation rate is useful as it provides an insight into the value of production and the resources being utilised. Notwithstanding, the South African manufacturing sector is crucial to the nations GDP and jobs, however, the sector contributed a mere 0.3 percentage points to the GDP in Q2:2019. For the sector to get on a growth trajectory, certain risks such as electricity supply, insufficient local and international demand, and rising production costs need to be mitigated.

## HIGHLIGHTS

- **US AND CHINA TRADE BALANCES IMPROVE, DESPITE LOWER BILATERAL TRADE**
- **BANK OF ENGLAND KEEPS RATE ON HOLD AS BREXIT JITTERS FADE**
- **CONSUMER CONFIDENCE DIPS INTO NEGATIVE TERRITORY IN Q3**
- **BUSINESS CONFIDENCE LOWE IN OCTOBER FOLLOWING POWER OUTAGES**
- **MANUFACTURING CAPACITY UTILISATION SLIPS IN AUGUST 2019**
- *MANUFACTURING OUTPUT CONTRACTS FOR 4TH CONSECUTIVE MONTH*
- **FUEL PRICE CUT OFFERS SOME RELIEF TO MOTORISTS**

## MANUFACTURING OUTPUT CONTRACTS FOR 4TH CONSECUTIVE MONTH

Manufacturing output declined by 2.4% (y/y) in September 2019. This follows three consecutive contractions since June 2019 of 3.6%, 0.5% and 1.5%, respectively. Correspondingly, the protracted bout of contractions led to a 0.9% contraction for the third quarter of 2019.




**Data Source:** Statistic South Africa

On an annual basis (y/y), the contraction stemmed from declines in nine (9) of the ten (10) sub-divisions. Notable declines in production activity were observed in wood and wood products, paper, publishing and printing (-6.5%); basic iron and steel, non-ferrous metal products, metal products and machinery (-4.8%); motor vehicle, parts and accessories and other transport equipment (-3.6%) and petroleum and chemical products, rubber and plastic products (-2.8%). The only sub-division to record an increase was food and beverages, which grew by 2.9%.

Quarterly, manufacturing production contracted by 0.9% during the third quarter of 2019. This was mostly due to declines in the output of basic iron and steel, non-ferrous metal products, metal products and machinery (-4.0%) and petroleum and chemical products, rubber and plastic products (-2.1%). However, this was cushioned by growth in motor vehicle, parts and accessories and other transport equipment (3.3%) and food and beverages (0.7%).

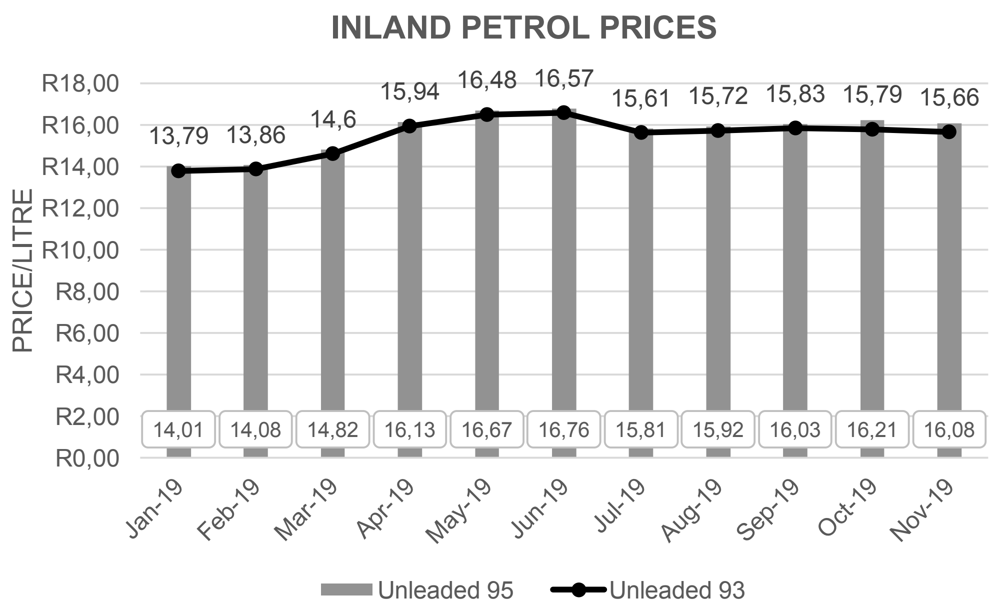
The increase in the motor vehicle, parts and accessories and other transport equipment is attributable to an uptick in export demand for new vehicles in recent months. Notwithstanding the improvement, the contraction in manufacturing activity is likely to not bode well for the South Africa's aggregate output for the third quarter of 2019.

## HIGHLIGHTS

- **US AND CHINA TRADE BALANCES IMPROVE, DESPITE LOWER BILATERAL TRADE**
- **BANK OF ENGLAND KEEPS RATE ON HOLD AS BREXIT JITTERS FADE**
- **CONSUMER CONFIDENCE DIPS INTO NEGATIVE TERRITORY IN Q3**
- **BUSINESS CONFIDENCE LOWER IN OCTOBER FOLLOWING POWER OUTAGES**
- **MANUFACTURING OUTPUT CONTRACTS FOR 4TH CONSECUTIVE MONTH**
- **MANUFACTURING CAPACITY UTILISATION SLIPS IN AUGUST 2019**
- *FUEL PRICE CUT OFFERS SOME RELIEF TO MOTORISTS*

## FUEL PRICE CUT OFFERS SOME RELIEF TO MOTORISTS

Following a month of weaker oil prices in October, the price of both grades of petrol and diesel were adjusted downward on 6 November 2019. The average international oil price decreased by 5% from $62.96 per barrel to $59.73 per barrel during October 2019, contributing positively towards local fuel prices. On average, the local currency appreciated against the dollar during the month. However, the average Rand/Dollar exchange rate for October (R14.93) was slightly higher than the September average of R14.84, resulting in a higher contribution to basic fuel prices by more than four cents per litre.




**Data source**: Automotive Association (AA)

The inland price of both 93 and 95 ULP/LRP petrol decreased by 13 cents per litre (c/l) to R15.66/l and R16.08/l, respectively. Other price adjustments were for the wholesale price of diesel 0.05% sulphur which decreased by 16c/l; paraffin decreased by 23c/l and the maximum retail price for LP-Gas declined by 30 cents per kilogram.

The decrease in fuel prices will offer motorists some relief, more so given inflationary pressures stemming from higher food and electricity prices in recent month. Nonetheless, given the volatile exchange rate and higher oil prices in early November trade, it remains uncertain whether further price reductions will be recorded in December

# INDICATORS: Week 04 - 08 Nov 2019

**SACCI BCI**

***91.7 points***
***Oct'19***

Source: SACCI, 2019

**FNB CONSUMER CONFIDENCE INDEX**

***-7 index points***
***Q3:2019***

Source: FNB/BER, 2019

**MANUFACTRUING PRODUCTION & SALES**

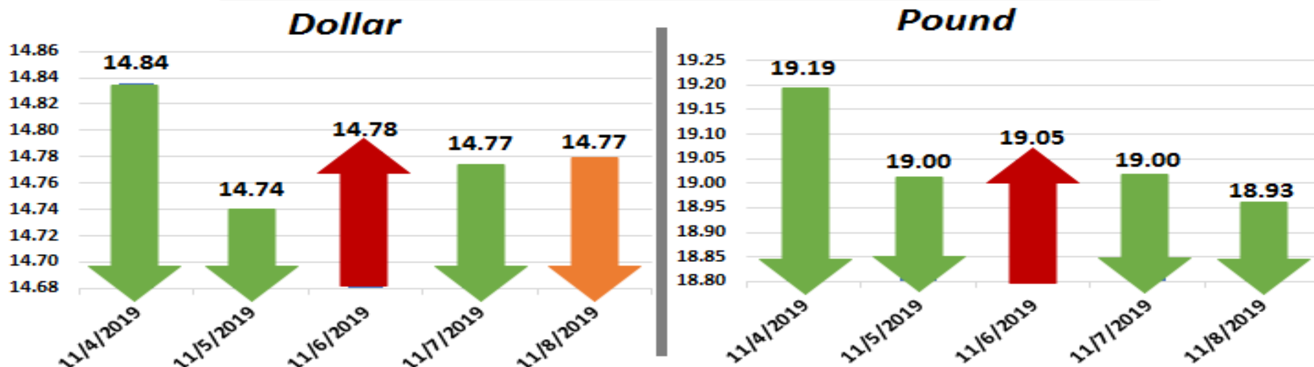
***80.3% y/y***
***Aug'19***

**MANUFACTURING CAPACITY UTLISATION**

***2.4% y/y***
***Sep'19***

Source: Statistics South Africa 2019

## RAND/DOLLAR/POUND EXCHANGE RATE




Source: *SARB, 15:00, 08 Nov '19*

**COMMODITIES**

**BRENT CRUDE OIL PER BARREL**

***$61.32***
***08 Nov'19***

***$60.20***
***01 Nov'19***

**GOLD PER OUNCE**

***$1 509.43***
***01 Nov'19***

***$1 460.84***
***08 Nov'19***

**PLATINUM PER OUNCE**

***$931.43***
***01 Nov'19***

***$893.14***
***08 Nov'19***

Source: *Trading Economics, 15:00, 08 Nov '19*

---

**Chief Content Editor**: Motlatjo Moholwa

**Content Editor**: Bokang Vumbukani-Lepolesa

**Contributors**:

Motshidisi Mokoena, Mmalehlohonolo Sekoaila, Makhanana Malungane,
Khanya Fakude, Rendani Siwada, Nthabiseng Rakgotho