

# WEEKLY ECONOMIC INSIGHTS

WEEKLY



**GAUTENG PROVINCE**  
ECONOMIC DEVELOPMENT  
REPUBLIC OF SOUTH AFRICA

Growing Gauteng Together

# WEEKLY ECONOMIC INSIGHTS

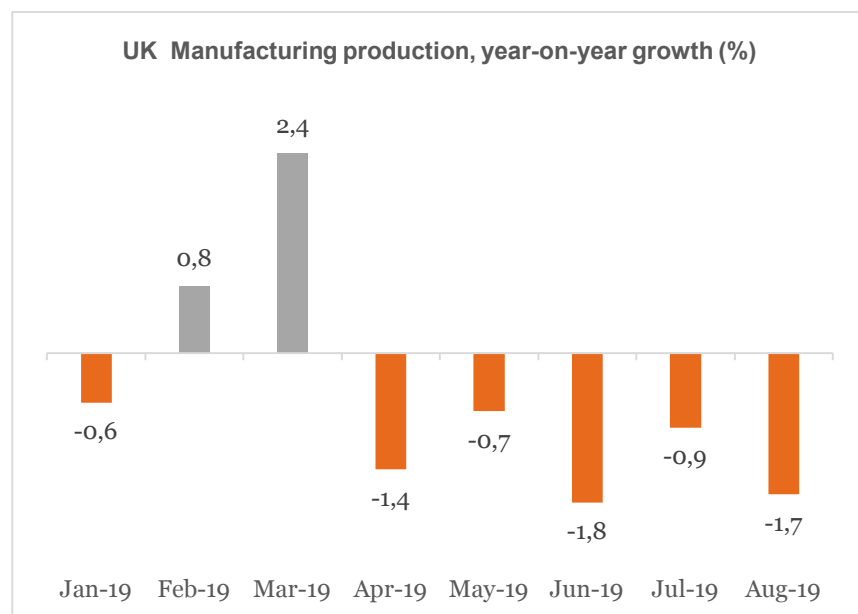
07 – 11 OCTOBER 2019

## HIGHLIGHTS

- UK MANUFACTURING ACTIVITY WORSENS
- *AFRICA'S 3 LARGEST ECONOMIES WEIGH DOWN ON GROWTH IN SSA IN 2019*
- SA IMPROVES ITS LEVEL OF GLOBAL COMPETITIVENESS
- *MANUFACTURING PRODUCTION SLOPES DOWNWARDS*
- *MINING OUTPUT CONTRACTS FOR THE SIXTH TIME IN 2019*
- *SACCI'S BUSINESS CONFIDENCE IMPROVES*

## UK MANUFACTURING ACTIVITY WORSENS

United Kingdom's manufacturing production in August contracted for the fifth consecutive month, underlining a bleak economic outlook. In August, UK's manufacturing production once more, declined by 1.7% year on year (y/y), sharply beating expectations of -0.7%. Since the start of the year, UK's manufacturing production contracted for six of the eight months. This shrinkage is in part attributable to fading demand from UK's major trading partners as the global economy slows down. Further, this is also a result of firms holding back on investments due to the uncertainties regarding the Brexit, which has further caused uncertainty over UK's trading relationships.



Data source: Trading economics

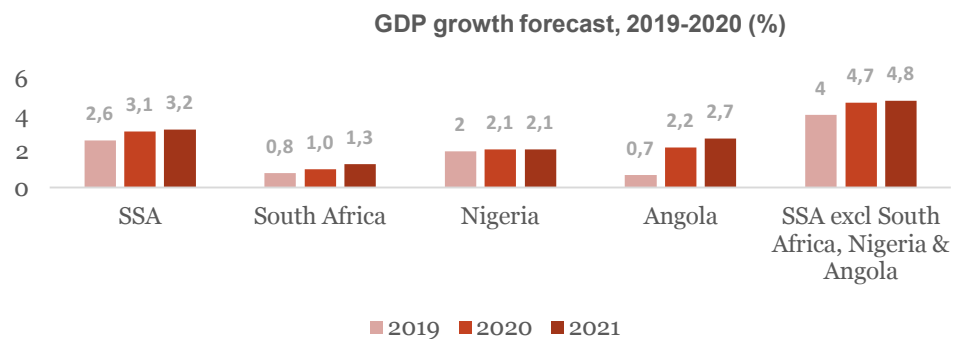
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## AFRICA'S 3 LARGEST ECONOMIES WEIGH DOWN GROWTH IN SSA IN 2019

The World Bank's Africa Pulse report for October 2019 has reported a downwardly revised economic growth forecast for 2019 for the Sub Saharan African (SSA) region, as the economic prospects within the three largest economies deteriorate. In 2019, economic growth in SSA is expected to grow at 2.6% (0.2 percentage point lower than the April forecast), up from 2.5% in 2018. The sluggish growth in SSA is hampered by the persistent uncertainty in the global economy as well slow pace of structural reforms - which has largely impacted on South Africa, Nigeria and Angola.

South Africa's economy is now forecast to expand only by 0.8% in 2019, down from 1.3% forecasted in April. The moderate economic performance in SA is largely underpinned by low investor and consumer sentiment. Meanwhile, economic growth in Nigeria is expected to reach 2.0%, slightly down from the 2.1% forecasted in April, following a sluggish non-oil sector performance. In Angola, economic growth for 2019 is projected at 0.7%, down from 1.0% as forecasted in April. The downward revision came on the back of an underperforming oil sector, as commodity prices weakened. Excluding the three economies, economic growth in SSA is expected to rise by at 4% in 2019.



**Data source:** Africa's Pulse: October 2019

Looking ahead, growth in SSA is expected to rise by 3.1% in 2020 and 3.2% in 2021 following expectations of stronger domestic demand, supported by the gradual increase in investments. At country level, following downward revisions from the April forecasts, South Africa's economy is expected to remain sluggish in

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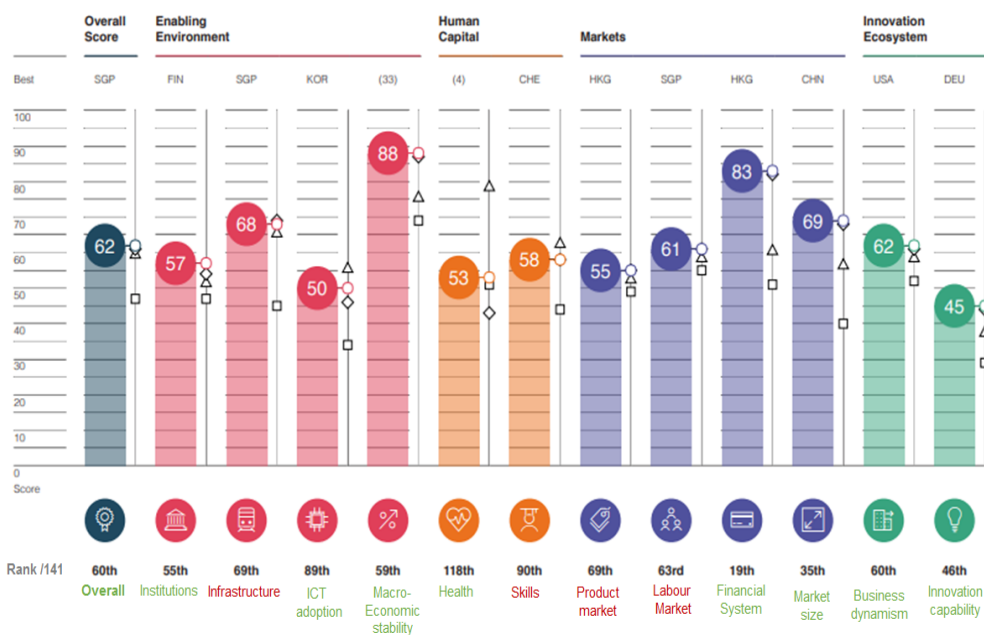
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the next two years, rising by 1% in 2020 and 1.3% in 2021 due to lower investor sentiment and fiscal challenges at state-owned entities. Meanwhile, in 2020 and 2021, economic growth in Nigeria is expected to pick up 2.1% for each year whilst reaching 2.2% and 2.7% respectively in Angola. The slow pace of economic growth in Nigeria is mainly of the slow pace of structural reforms. Meanwhile, the rebound in Angola's economy is attributable to the rebound in investments in the oil sector.

### SA IMPROVES ITS LEVEL OF GLOBAL COMPETITIVENESS

According to the World Economic Forum (WEF) 2019 Global Competitiveness Report, SA advanced its position in the rankings from 67<sup>th</sup> in 2018 to 60<sup>th</sup> in 2019, beating its fellow BRICS members India (68<sup>th</sup>) and Brazil (71<sup>st</sup>). Meanwhile, China came in 24<sup>th</sup> and Russia 43<sup>rd</sup>.

WEF defines competitiveness as “the set of institutions, policies and factors that determine the level of productivity of a country” and its measure is a useful tool for governments, private sector and civil society work together to boost productivity and generate prosperity, while highlighting best practices around the world. A country's level of competitiveness is measured across 12 pillars including the quality of institutions, infrastructure, ICT adoption and macroeconomic stability, as indicated below.



Source: World Economic Forum (WEF)

SA saw an improvement in scores in 8 of the 12 pillars, ranking in the top 50 in 3 pillars namely, financial system (19<sup>th</sup>), market size (35<sup>th</sup>) and innovation capability (46<sup>th</sup>). According to the report, South Africa is the second most competitive economy in Africa after the island nation of Mauritius.

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The recent change in SA's political landscape has been sighted as a key factor underpinning the improved score. Specifically, SA's advanced equity, insurance and credit markets all achieved a perfect score of 100. The finance sector was rated the 19<sup>th</sup> most competitive out of 141 countries while scores on health improved, with 3.3 years added to the average healthy life expectancy since the last assessment.

The country's institutional quality also improved, with notable progress being made in several areas including, the balance of powers across different public entities, which now ranks 16<sup>th</sup> in the world. SA also improved its ratings (by 6 places) on administrative efficiency of the public sector to 39<sup>th</sup> while corporate governance improved by 3.3 places to 26<sup>th</sup>.

Nonetheless, the WEF remains concerned about security (SA ranks 135<sup>th</sup>), while transparency (62<sup>nd</sup>) and government adaptability to change (100<sup>th</sup>) were also raised as key concerns. Further, South Africa's competitiveness is being held back by relatively low business dynamism (60<sup>th</sup>), which is inhibited by insolvency regulation and administrative burdens to start a business, and a persistently insufficient labour market flexibility (111<sup>th</sup>). For instance, flexibility of wage determination is limited (134<sup>th</sup>) and hiring foreign labour is noted to be difficult (123<sup>rd</sup>).

Given the recent ratings, the WEF has highlighted the importance of effectively implementing structural reforms to re-ignite the economy. Making up the top five is Singapore, which is the world's most competitive economy in 2019 with a score of 84.8, overtaking the US, which fell to second place. Hong Kong (3rd), Netherlands (4th) and Switzerland (5th) round up the top five.

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## MANUFACTURING PRODUCTION SLOPES DOWNWARDS

Thus far in the third quarter, manufacturing production in SA has continued to fall, in line with the contraction in the Absa Purchasing Managers Index (PMI) for August. SA's manufacturing production in August fell by 1.8% y/y from -0.7% in July. This decline was underpinned by the decline in eight of the ten categories, following subdued domestic and global demand. Production was largely dragged down by the following sectors:

- Basic iron and steel, which declined by 7%, contributing -1.3 percentage points;
- Petroleum and chemical products – with a decline of 4.1%, contributing -0.9 percentage points; and
- Wood and wood products, which declined by 7.3%, contributing -0.8 percentage points.

On the upside, production in motor vehicles expanded by 10.9% whilst food and beverages increased by 3.5%, in part attributable to preparations for the upcoming peak consumption season (November-Black Friday & December).

At the start of the third quarter (in July), early indications hinted at an uptick in production, following notable improvements (52.1) in the Absa PMI in that month. However, by the end of the quarter, the expected improvements in production had died down, as the Absa PMI quarterly average dropped to 46.5, dragged down even further by the dip in the September PMI. As a result, production in September is projected to continue to fall, despite the coming peak consumption season, as consumer demand remains subdued, despite the promise of discounted prices. This in part further suggest that any notable increases in retail sales in November and December will emanate from the sale of inventory stock rather than new sales orders.

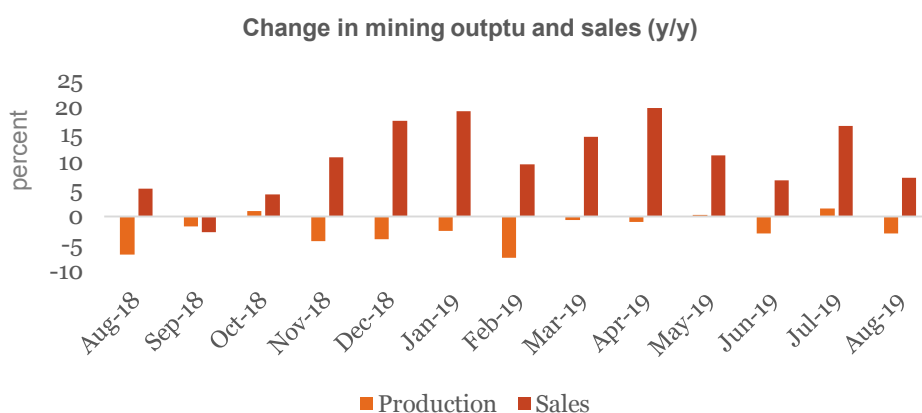
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## MINING OUTPUT CONTRACTS FOR THE SIXTH TIME IN 2019

Mining production contracted by 3.2% y/y for in August from 1.4% the previous month. The major negative contributors to the poor production levels were PGMs (-12.5%), diamonds (-29.8%) and coal (-3.4%). On the other hand, manganese ore had a substantial positive contribution of 34.3%, however, due to its low weighting, this was not enough to reverse the negative mining output.

On a month on month basis, mining production increased by 0.3% in August 2019 from a contraction of 4.9% in July. Meanwhile, in the three months ended August 2019 mining production increased by 1.3%. The largest positive contributors were manganese ore (12.5%) and 'other' non-metallic minerals (14.2%).



**Data source:** Statistics South Africa, 2019<sup>2</sup>

On the other hand, mineral sales increased by 7.1%, largely attributable to sales of iron ore (31.2%), PGMs (15.2%) and gold (19.0%).

Notwithstanding, the contraction in August suggests that the economy is struggling to gain momentum in the third quarter, largely believed to be attributable to a persistently uncertain policy environment, rising operating costs and periods of labour unrest. Furthermore, the sector also faces an increasingly challenging global environment as slower growth - particularly in China and the US, continue to dampen the global demand for commodities.

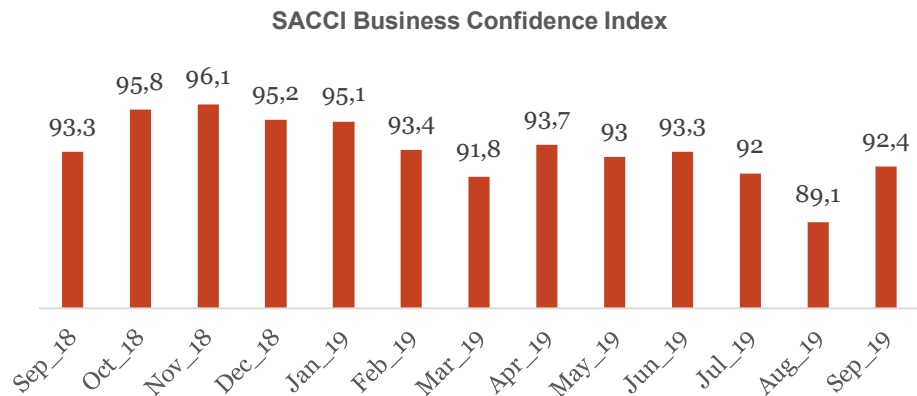
<sup>2</sup> This is the first publication with weights based on national accounts value added data for 2015–2017. Previously, the total mining production index was calculated using weights based on national accounts value added data for 2014–2016.

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## SACCI'S BUSINESS CONFIDENCE IMPROVES

In September, the South African Chamber of Commerce and Industry (SACCI) monthly business confidence index (BCI) improved to 92.4 from 89.1 in August, reaching its highest level since June 2019 and coming in above the Bloomberg forecast of 89. This uptick was underpinned by improvements in seven sub-indices whilst the other three remained unchanged. As such, September's BCI was boosted by the rise in merchandise export volumes; a stronger rand exchange rate weighted against major trading and investment currencies; increased new vehicle sales; and increase in the real value of building plans passed.



**Data source:** South African Chamber of Commerce and Industry


On the contrary, in the third quarter of 2019, the quarterly SACCI BCI measured at 91.2, down 2.1 index points from the second quarter average. Similarly, year-on-year, the index decreased by 0.9 index points, attributable to a marginal reduction in merchandise export volumes, slightly higher core inflation, a notable lower all-share price index on the JSE, and below the trend manufacturing output.

Whilst, business sentiment improved on a monthly basis, cumulative sentiments – suggest that SA's economic prospects remain downbeat, and the likelihood of a rebound in economic activities remains on the lower end.



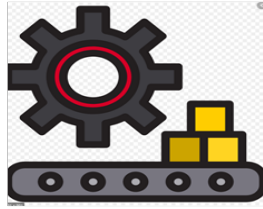
# INDICATORS: Week 07 - 11 Oct 2019


## SACCI BCI

 **92.4 points**  
Sept'19




## MANUFACTURING



 **1.8% y/y**  
Aug'19

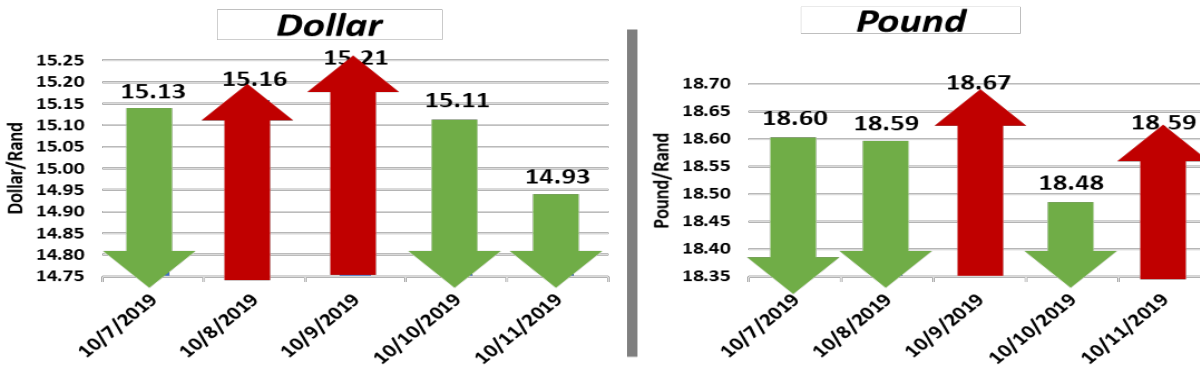
## MINING



 **3.2% y/y**  
Aug'19

Source: Statistics South Africa

## RAND/DOLLAR/POUND EXCHANGE RATE



Source: SARB 15:00, 11 Oct'19

## COMMODITIES




### BRENT CRUDE OIL PER BARREL

**\$59.53**  
11 Oct'19

 **\$58.83**  
04 Oct'19

### GOLD PER OUNCE

**\$1495.96**  
04 Oct'19

 **\$1484.94**  
11 Oct'19

### PLATINUM PER OUNCE

**\$889.94**  
11 Oct'19

 **\$874.74**  
04 Oct'19

Source: Trading Economic, 15:00, 11 Oct'19

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