WEEKLY ECONOMIC INSIGHTS

GAUTENG PROVINCE
ECONOMIC DEVELOPMENT
REPUBLIC OF SOUTH AFRICA

Growing Gauteng Together

HIGHLIGHTS

- US AND ECB KEEP RATES UNCHANGED
- *FOOD & BEV INDUSTRY INCOME DIPS IN OCTOBER*
- *MANUFACTURING PRODUCTION REMAINS WEAK*
- MOTOR TRADE SALES DECLINE FOLLOWING KNOCK ON FUEL SALES
- WHOLESALE & RETAIL SALES A MIX-BACK IN OCTOBER
- SACCI TRADE EXPECTATIONS WEAKER
- MINING PRODUCTION CONTRACTS FURTHER
- SLOWER EMPLOYMEMENT & WAGE GROWTH SIGNALS WEAK ECONOMY
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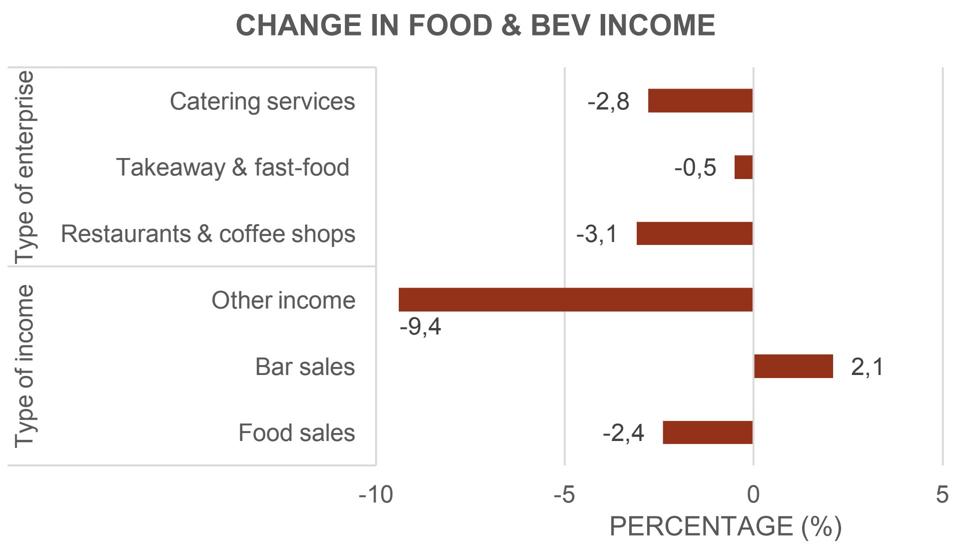
- FURTHER DECLINES IN CPI & PPI

FOOD & BEVERAGES INDUSTRY INCOME DIPS IN OCTOBER

According to the latest report released by Statistics South Africa on Tuesday, 10 December 2019, the total income generated by the food and beverages industry decreased by 2.2% in October slipping from a 0.1% year-on-year (y/y) increase a month earlier. As illustrated below, the negative reading was due to decreases in other income (-9.4%) and food sales (-2.4%). Bar sales increased by 2.1%, marking the third consecutive month of increased income.



Data source: Statistics South Africa

Similarly, the y/y food and beverages income by type of enterprise declined by 2.2% in October 2019. The decline was driven by lower income generated by restaurants and coffee shops (-3.1%); catering services (-2.8%) and takeaway and fast-food outlets (-0.5%).

MANUFACTURING PRODUCTION REMAINS WEAK

Following the release of the October 2019 Purchasing Managers' Index (PMI) data in late November, Stats SA recently published the same month's preliminary Manufacturing production and sales report. Manufacturing production registered a 0.8% decline compared to the same period in 2018. On a month-on-month basis, the volume of manufacturing production increased by 2.7% in October, recovering from the 2.4% decline in September. The largest declines in manufacturing production volumes were recorded in the following sub-sectors: wood and wood products, paper, publishing and printing (-6.1%); basic iron and steel, non-ferrous metal products (-2.2%), textiles, clothing, leather and footwear (-9.6%) and glass and non-metallic

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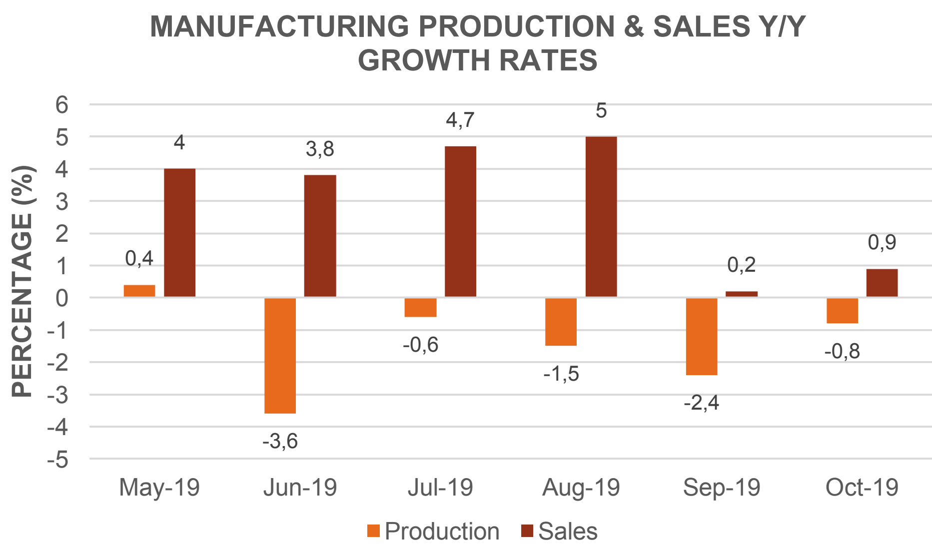
mineral products (-10.7%). Interestingly, the volume of manufacturing production within the food and beverages sub-sector rose by 4% y/y in October, contributing 1.1 percentage points to the annual change.

Meanwhile, manufacturing sales increased by 0.9% and 1.5% on a year-on-year and month-on-month basis, respectively. The higher sales reading was supported by higher sale of motor vehicles, parts and accessories and other transport equipment, which rose by 6.1% and contributing 0.9% to the total change.



Data source: Statistics South Africa

A myriad of challenges experienced lately are likely to further put significant pressure on the manufacturing sector. Chief of these is the Eskom woes which have seen the country facing Stage 6 load shedding, consequently forcing several mining operations to temporarily cease operations. Uncertainty on the global economic outlook, strained consumer domestic demand and relatively flat domestic demand are some of the key factors that may yet see manufacturing slump further. Gauteng remains as vulnerable to these negative forces as the rest of the country and may be further exposed should the economic climate remain unchanged.

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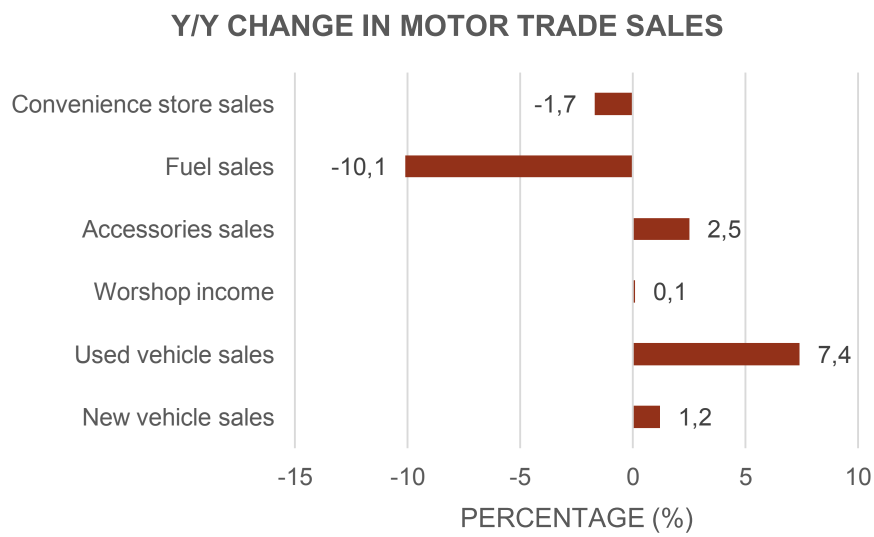
MOTOR TRADE SALES DECLINE FOLLOWING KNOCK ON FUEL SALES

Trade sales in the motor industry declined by 1.2% y/y in October 2019, compared with October 2018. The lower trade sales reading was driven by notably lower fuel sales, which declined by 10.1% (contributing -3.1 percentage points), while used vehicle sales accelerated by 7.4% (contributing 1.3 percentage points). The lower fuel sales came in a month when the price of 93 petrol decreased by 4 cents per litre (c/l) while the price of 95 petrol and diesel increased by 18 c/l and 25 c/l, respectively at the beginning of October.



Data source: Statistics South Africa

As shown above, the sale of both new and used vehicles edged higher in October with the car rental industry continuing to substantially support new vehicle sales volumes. According to the National Association of Automobile Manufacturers of South Africa (NAAMSA), despite the slight improvement in new vehicle sales numbers, the turnaround that had been anticipated for the second half of the year, has not yet been realised. In addition, prospects for domestic new vehicle sales could continue to be dampened by several factors including the depressed macro-economic environment, pressures on household disposable income as well as low business and consumer confidence. Nonetheless, the continued strong vehicle export numbers will aid in sustaining trade in the sector, having hit the third highest level of vehicle exports earlier this year, the industry is set to achieve a new export trade record in 2019.

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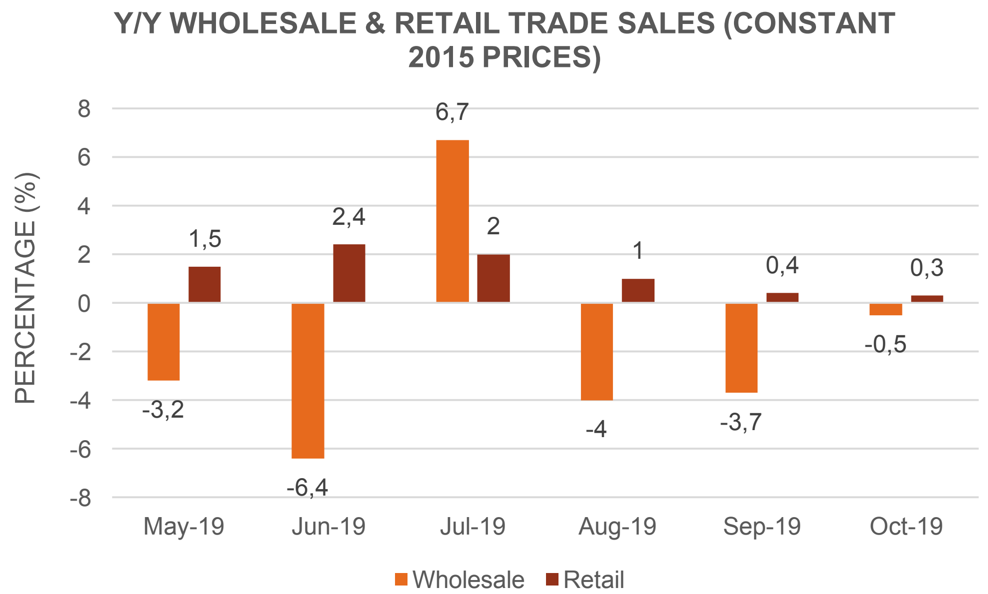
WHOLESALE AND RETAIL TRADE SALES A MIX-BAG IN OCTOBER

Following notable declines in the sales of wholesalers in the gaseous fuels and related products (-15.6%) and metals and metal ores (-13.1%) sectors, aggregate sales by wholesalers declined by 0.5% y/y in October 2019. On a seasonally adjusted monthly basis, sales by wholesalers increased by a further 0.7%, following a 1.9% m/m increase in September.



Data source: Statistics South Africa

On the retail end, retail sales increased by 0.3% y/y in October 2019. The largest positive annual growth rates were for retailers in food, beverages and tobacco stores (4.5% and contributing 0.4 percentage point); and household furniture, appliances and equipment (3.2% and contributing 0.2 percentage point). However, retail sales decelerated by 0.2% monthly between September and October 2019.

SACCI TRADE EXPECTATIONS WEAKEN IN NOVEMBER

According to the South African Chamber of Commerce and Industry (SACCI), trade conditions remained muted in November 2019 with the outlook on the downside. The seasonally adjusted Trade Activity Index (TAI), which measures recent trade conditions, increased slightly by to 43 in November 2019 from 42 in October.

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TRADE ACTIVITY INDEX (TAI)			
Activity	**Sept-19**	**Oct-19**	**Nov-19**
Sales volumes	42	48	50
New orders	34	44	47
Backlog of orders received	31	33	36
Supplier deliveries	37	45	42
Inventory levels	43	42	41
Selling prices	58	55	55
Input prices	67	73	71
Employment	38	41	40
TAI	**40**	**42**	**43**

Data source: SACCI

Despite the fact that the current levels of trade activity and trade expectations are on similar levels to those observed in November last year, trade is expected to decline over the next six months. Specifically, all the components trade activity, including sales volume and new orders are expected to decline in coming months, with only sales prices and input costs are expected to ease further. Respondents of the survey noted power instability as a key factor negatively impacting the business and trade environment and indicated that they expect the volatile situation to continue for some time into the future.

MINING PRODUCTION CONTRACTS FURTHER IN OCTOBER

The annual mining output declined by 2.9% y/y in October, marking the third consecutive contraction for the sector. Monthly, the volume of mining producing increased by 1.0% in October, following a 1.1% increase in the previous month. The main drivers for the annual decline were contractions in the production of diamonds (-39.3%), Platinum Group Metals (PMGs) (-4.8%) and manganese ore (-12.5%). On the positive side iron ore and other non-metallic minerals recorded positive growth rates of 11.1% and 14.2% y/y, respectively.

In October, total mining sales increased by 8.4% y/y from 16.3 % in September. The main contributors to the higher sales number were sales of manganese ore, PGMs and gold which increased by 40.2%; 27.6% and 8.1%, respectively.

Potential growth prospects for the mining sector remain constrained due to the resumption of load-shedding and increased in operational costs. In addition, the uncertain global economic growth outlook as well as low commodity prices place further challenges on the growth potential of the mining sector.

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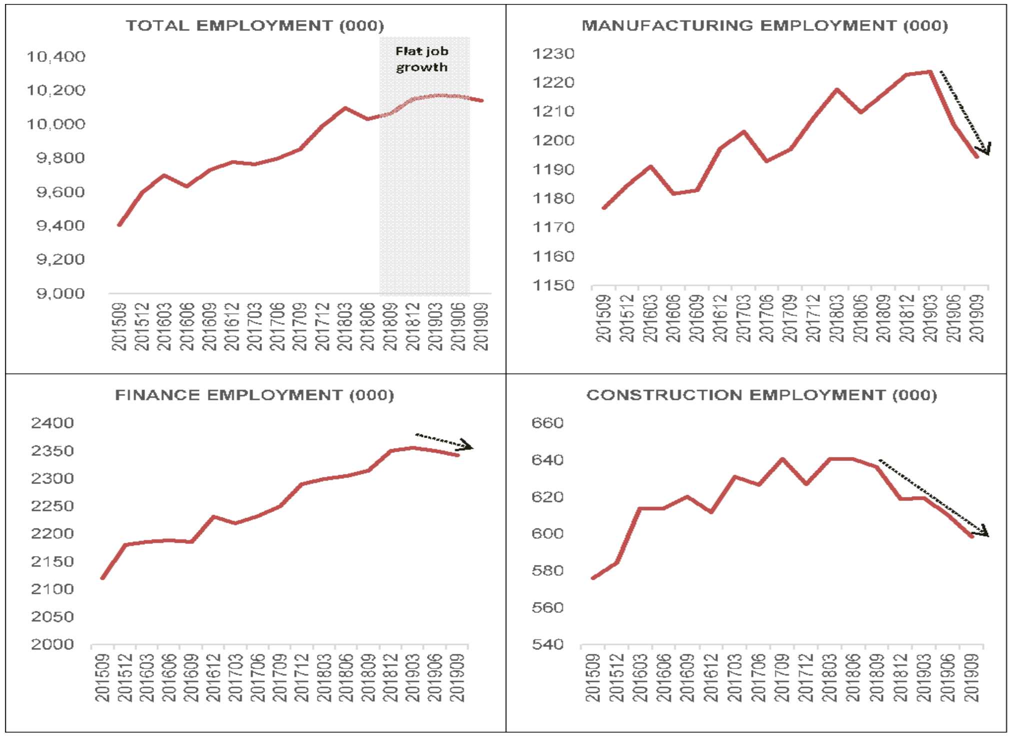
SLOWER EMPLOYMENT & WAGE GROWTH A SIGN OF SLOW ECONOMIC PERFORMANCE

According to the latest Quarterly Employment Statistics for the third quarter of 2019, employment in the formal sector declined by 28 000 (-0.3%) q/q to 10.14 million from 10.17 million in the second quarter. This adds to the muted formal sector employment growth which has been evident since the last quarter 2018.



Data source: Statistics South Africa

The decline in employment was evident in five of the eight industries. In the lead was Manufacturing (-12 000), Construction (-12 000) and Community services (-11 000). Conversely, meanwhile the Trade (+17 000) was the only sector that recorded gains in employment.

The ripple effects of pedestrian economic growth since the beginning of the year include stagnant employment growth as well as low wage growth, which together, perpetuate low consumer demand. In view of gross earnings, the total average monthly earnings grew by 3.7% y/y in line with the latest low inflation levels. At an industry level, the average monthly earnings grew below inflation in all industries except mining and community services. In mining, the average monthly gross earnings grew significantly (above inflation) by 7.8%, largely attributable to the above inflation wage increase settlements in the gold sector. Meanwhile, in community services, the average monthly earnings increased by 5.1%.

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CONSTRUCTION MATERIALS PRICE INDICES EDGE LOWER

According to the latest Construction Materials Price Indices publication, the month-on-month Contract Price Adjustment Provisions (CPAP) ranged between -5.9% and 1.9%. The change in materials prices was primarily due to significant changes in major work group components including the total construction index, which decreased by 1.3% while the civil engineering material total index decreased by 2.6%.

The most notable index changes in November 2019 were as follows:

There were increases of 3.6% month-on-month in the Steel and Engineering Industries Federation of Southern Africa (SEIFSA) for stainless steel flat products cold rolled 304b (accounting for 25.0% of this work group) and 3.4% month-on-month in SEIFSA for stainless steel flat products cold rolled 316b (accounting for 25.0% of this work group). The index increased by 0.7% month-on-month.

Looking at the construction materials such as ceiling boards, mixtures and roof tiles, there was an increase of 1.1% month-on-month in the PPI for ceiling boards (accounting for 60.0% of this work group). The index decreased by 2.4% month-on-month. On the construction mixtures, there was a decrease of 8.7% month-on-month in the PPI for bituminous mixtures (accounting for 21.0% of this work group). The index decreased by 2.6% month-on-month. There was a decrease of 6.7% month-on-month in the PPI for roof tiles (accounting for 40.0% of this work group). The index decreased by 5.9% month-on-month. There was a decrease of 8.7% month-on-month in the PPI for bituminous mixtures.

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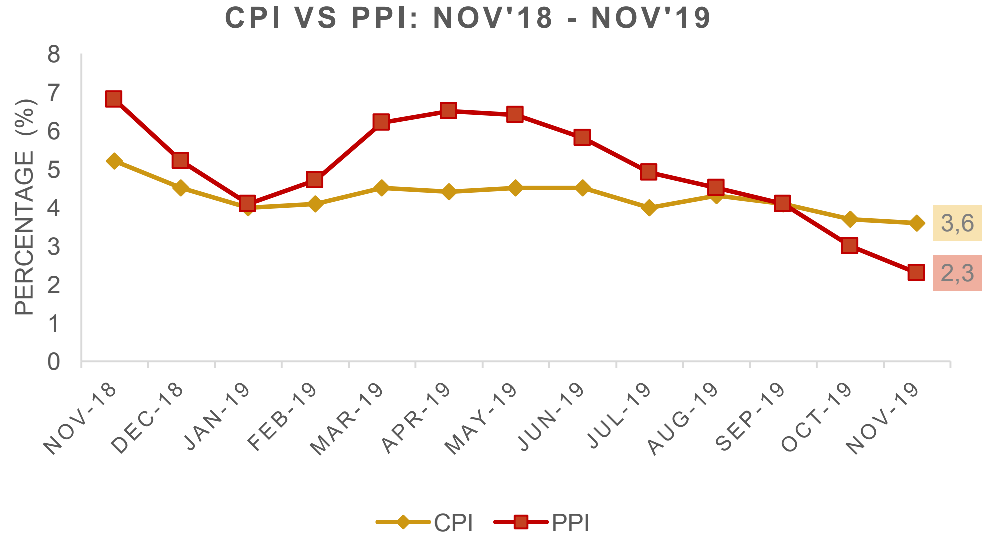
FURTHER DECLINES IN CPI & PPI SHOW SUPPRESSED DOMESTIC DEMAND

Both the Consumer Price Index (CPI) and Producer Price Index (PPI) decelerated further in November 2019. CPI slowed to 3.6% (y/y), after registering at 3.7% in October. While, PPI increased moderately to 2.3% shedding 70-basis-points from October's reading of 3.0%.



Data Source: Statistics South Africa

The subdued increase in PPI was chiefly attributable to increases in manufactured food products, beverages and tobacco products (3.1%) metals, machinery, equipment (3.7%) and transport equipment (5.1%). Interestingly, the uptick in the PPI for food products, beverages and tobacco products could have incited the 3.5% increase observed in the CPI for food and non-alcoholic beverages which contributed 0.6% to the headline CPI of 3.6% for November 2019. Other contributors to the increase in CPI were observed in housing and utilities (4.8%) and miscellaneous goods and services (5.7%).

On the other hand, the increase in the PPI for electricity and water of 13.4% was not translated to consumers. The CPI for administered prices was only 3.0% for November 2019. This variance in growth rate is indicative of supressed domestic demand which has led producers to bear the brunt of cost-push inflation rather than pass it on to consumers. Given the protracted bout of disinflation, analysts are of the view that Monetary Policy Committee (MPC) ought to shy away from its current hawkish stance which has seen divergent from the dovish stance taken by many of the country's counterparts which intends to spur economic growth.

INDICATORS: Week 09 - 13 Dec 2019

FOOD & BEV
2.2% y/y
Oct'19

MANUFACTURING
0.8% y/y
Oct'19

CPI
3.6% y/y
Nov'19

MOTOR TRADE
1.2% y/y
Oct'19

PPI
2.3% y/y
Nov'19

MINING
2.9% y/y
Oct'19

WHOLESALE
0.5% y/y
Oct'19

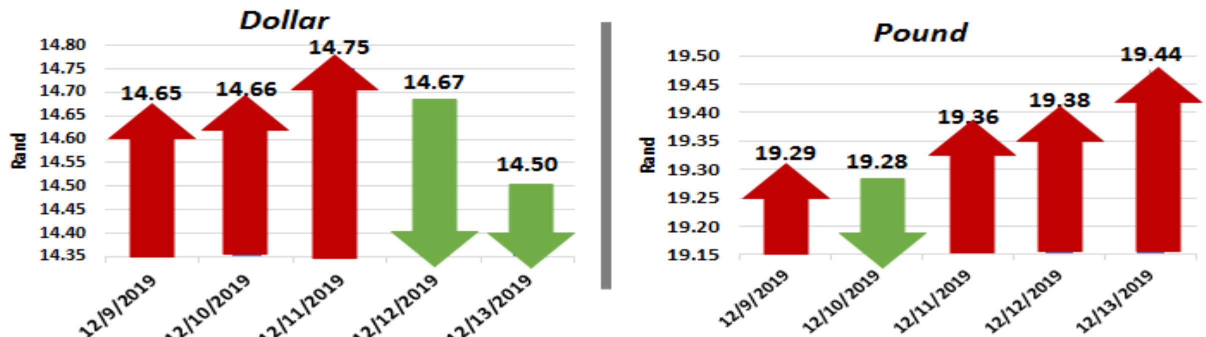
RETAIL TRADE
0.3% y/y
Oct'19

SACCI TRADE CONDITIONS
43 Index points
Nov'19

CONSTRUCTION MATERIALS
1.3% m/m
Nov'19

QUARTERLY EMPLOYMENT
Employment results:
10.1 million
Q3:2019

RAND/DOLLAR/POUND EXCHANGE RATE



Source: SARB, 15:00, 13 Dec '19

COMMODITIES

BRENT CRUDE OIL PER BARREL
$65.05
13 Dec'19
$64.74
06 Dec'19

GOLD PER OUNCE
$1 473.25
13 Dec'19
$1 462.80
06 Dec'19

PLATINUM PER OUNCE
$937.36
13 Dec'19
$897.44
06 Dec'19

Source: Trading Economics, 15:00, 13 Dec'19

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