WEEKLY ECONOMIC INSIGHTS

Together, Moving Gauteng City Region Forward

GAUTENG PROVINCE
ECONOMIC DEVELOPMENT
REPUBLIC OF SOUTH AFRICA

WEEKLY ECONOMIC INSIGHTS

11 – 15 NOVEMBER 2019

HIGHLIGHTS

- *GLOBAL ECONOMIC DEVELOPMENTS*
- EURO AREA GROWTH FLAT IN Q3:2019
- MINING PRODUCTION 1.6% LOWER IN Q3:2019
- MOTOR TRADE SALES FLAT IN SEPTEMBER BUT MARGINALLY HIGHER IN Q3:2019
- TRADE SALES EDGE HIGHER IN Q3:2019 DESPITE WEAKER WHOLESALE PERORMANCE
- TRADE ACTIVITY INDEX HIGHLIGHTS LESS THAN OPTIMAL TRADE CONDITIONS
- MULTIDIMENSIONAL INEQUALITY APPOACH REVEALS MARGINAL IMPROVEMENTS IN SA

UK ECONOMY SHOWS CONTINUED WEAKNESS AS INVESTMENT INTENTIONS HIT 9-YEAR LOW

The UK economy has been under severe strain in recent months, partly due to uncertainty stemming from ongoing Brexit negotiations. From a rising trade deficit in September, to weak levels of business investment, slowing industrial and manufacturing production as well as shrinking month-on-month (m/m) retail sales in October (which decreased by 0.1%), the latest data reveals the magnitude of the economic strain.

The UK trade deficit increased to over £3 billion in September 2019 from £1.76 billion in the previous month. This came on the back of a 3.9% and 1.1% increase in imports and exports, respectively. With export to non-EU countries growing by only 0.8%. Meanwhile, business investment in the UK for the third quarter of 2019 was flat at £49 billion and the Bank of England, in its latest Agents' Summary of business conditions, reported that investment intentions remained at a nine-year low; and members of the Bank of England Decision Maker Panel stated that their recent investment growth has been subdued. Overall industrial production declined by 1.4% in September, mainly attributable to weak manufacturing production, which contracted by 1.8% year-on-year (y/y), in September.

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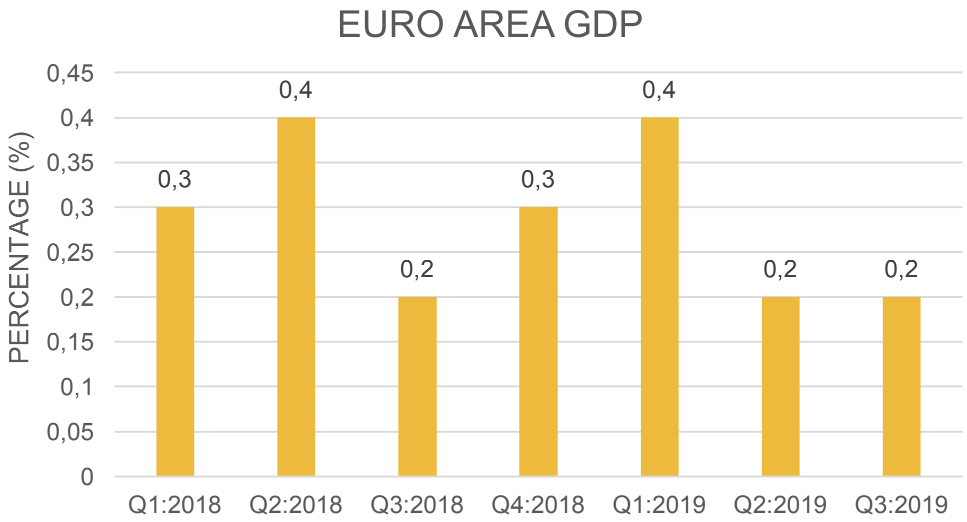
EURO AREA GROWTH FLAT IN Q3:2019

The Eurozone quarterly economic growth was confirmed at 0.2% in the third quarter of 2019, the same as in the previous three-month period, a second estimate showed.



Data source: Trading Economics

Germany's economy avoided entering a recession in the third quarter (0.1% vs -0.2% in Q2), largely driven by public spending and construction. Also, exports rose, while imports remained roughly at the level of the previous quarter. Meanwhile, Gross Domestic Product (GDP) growth was unchanged in several EU states including France (0.3%), Spain (0.4%), Italy (0.1%), the Netherlands (0.4%) and Austria (0.1%).

Compared with the same quarter in 2018, the Euro Area economy grew 1.2% in the third quarter, the same as in the previous period and slightly above preliminary estimates of 1.1%. Overall, the Euro Area's economic output accelerated to 0.3% on a quarterly basis, only marginally higher than the 0.2% growth in Q2.

The Euro Area has been faced with several challenges this year, all of which have dampened the region's economic performance. The looming Brexit and economic slowdown in its other large economy, Germany, as well as a weaker global economy and trade environment has meant the region has had to manage growing uncertainty as well as slowing economic output. With the UK and the Netherlands being South Africa's largest trade and investment partners, this has direct negative consequences for the domestic economy.

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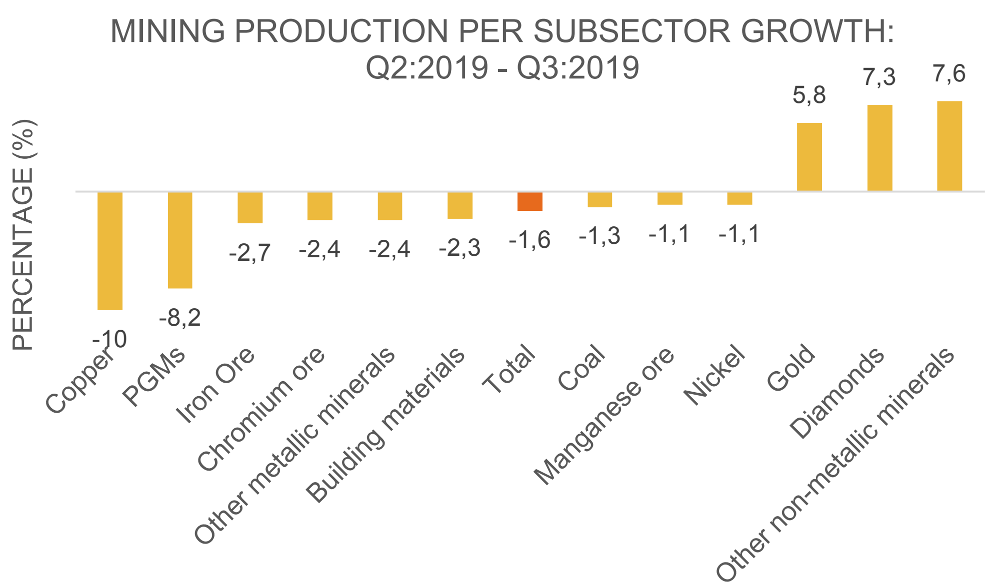
MINING PRODUCTION 1.6% LOWER IN Q3:2019

Mining production increased marginally by 0.2% (y/y) in September 2019, following a 3% contraction and 1.6% expansion in August and July, respectively. On a m/m basis, production volumes increased by 1.5% after registering no growth in the preceding month and a -5.1% contraction in July 2019. On a quarterly basis, mining production volumes contracted by -1.6% in the third quarter of 2019 in comparison to the second quarter of 2019. Albeit subdued, the annualized growth of 0.2% for September is welcomed given the sector's weaknesses for most of the year.

Underpinning the uptick in production were 'other' metallic minerals (38.0%), 'other' non-metallic minerals (13.6%) and iron ore (8.2%) production. While, the largest deterrents to growth were observed in the lacklustre production volumes of diamonds (-15.7%), manganese ore (-7.3%) and the Platinum Group Metals (-2.0%). Noteworthy, diamond production contracted for the fifth (5th) consecutive month in September 2019.



Data source: Statistics South Africa

Despite the protracted spell of contractions in diamond production, an expansion of 7.3% was registered in Q3:2019. However, the increase failed to surpass contractions in nine of the twelve subsectors, specifically in the Platinum Group Metals (PGMs) sub-sector. The PGMs subsector declined by 8.2% contributing -2.0% to the -1.6% contraction for Q3:2019. Given the global downturn in manufacturing production, mining production figures are likely to remain subdued in the near to medium term. Moreover, the contraction registered for the sector is unlikely to aid the growth prospects for the country in Q3.

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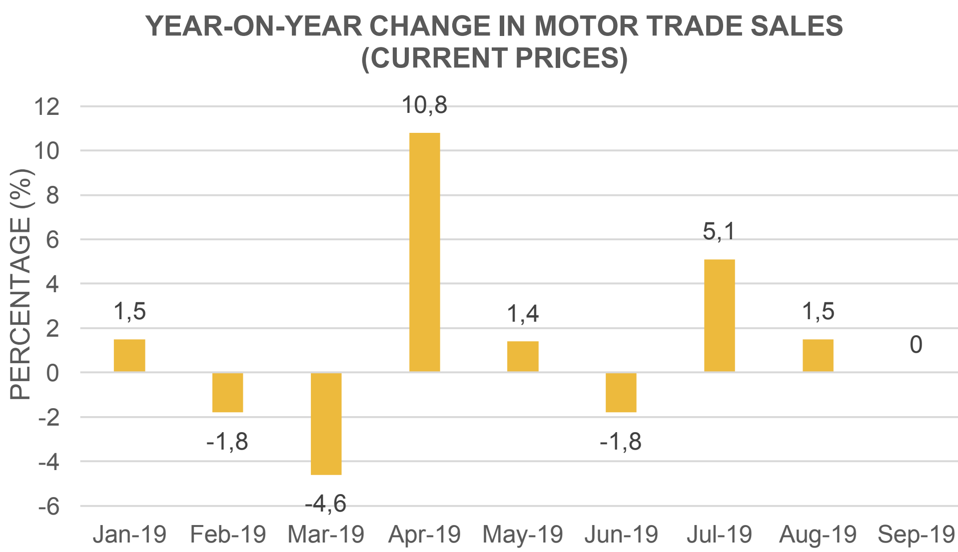
MOTOR TRADE SALES FLAT IN SEPTEMBER BUT MARGINALLY HIGHER IN Q3:2019

According to Statistics South Africa's latest motor trade sales report, South Africa's motor trade industry remained flat (registering 0% year-on-year growth) in September 2019. Despite having registered no growth in sales during the month; workshop income, sales of accessories and the sale of used vehicles were the largest positive contributors; each increasing by 6.1%,4.9% and 3.8%, respectively. However, these positive readings were offset by lower fuel sales, which declined by 6.6% y/y in September 2019.

On a quarterly basis, the seasonally adjusted motor trade sales for the third quarter of 2019 increased marginally by 0.1% compared with the previous quarter. In addition, motor trade sales were 2.2% higher in third quarter of 2019 compared with the third quarter of 2018, with the main contributors being new vehicle sales (6.3%) and used vehicle sales (5.9%). This suggests that although the local economic output has remined weak in 2019, vehicle sales have been mostly positive compared to a year ago.



Data source: Statistics South Africa

Notwithstanding, the sale of new vehicles to the local market is likely to remain weak for the remainder of 2019, as South Africans continue to battle a slowing economy, higher food prices and volatile fuel prices. However, the outlook for motor trade sales could see a rally if the price of fuel continues to rise and export demand – which has supported the overall vehicle sales numbers - remains positive.

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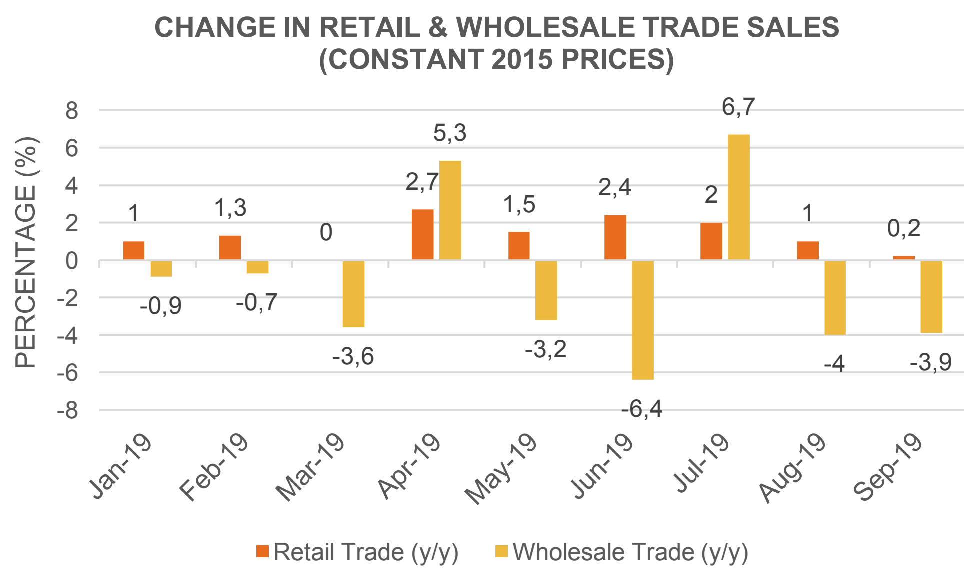
TRADE SALES EDGE HIGHER IN Q3:2019 DESPITE WEAKER PERFORMANCE BY WHOLESALERS

Weakening sentiments on the consumer economy have persisted throughout the third quarter of 2019. Wholesale trade sales at constant prices contracted for the second consecutive month, declining by 3.9% in September 2019, following a contraction of 4% in August. However, despite the two contractions, on aggregate, wholesale trade sales increased by 2.9% in Q3:2019 compared to the previous quarter.

On the retail end, although retail sales have registered positive y/y figures for most of 2019, the subdued growth (below 3%) correlates with muted growth in most sectors across the economy and emphasises the weakened state of consumer activity bedevilling the economy which remains a major concern. The latest figures from Stats SA show a meagre 0.2% change in y/y retail trade sales for September, marking the lowest y/y reading in six months. Retailer sales in textiles, clothing, footwear and leather goods increased by 3% (contributing 0.5 percentage point), while sales by general dealers dipped by 0.7% (contributing -0.3 of a percentage point) in September 2019.



Data source: Statistics South Africa

In addition, month-on-month changes for the year have failed to breach the 1.5% mark, confirming the overall growth forecast, which is expected to be below 2%. Thus far the highest change posted for the year is for January (1.5%), with the lowest experienced in August (-1.1% month on month). This grim picture may be attributed to various factors including the country's

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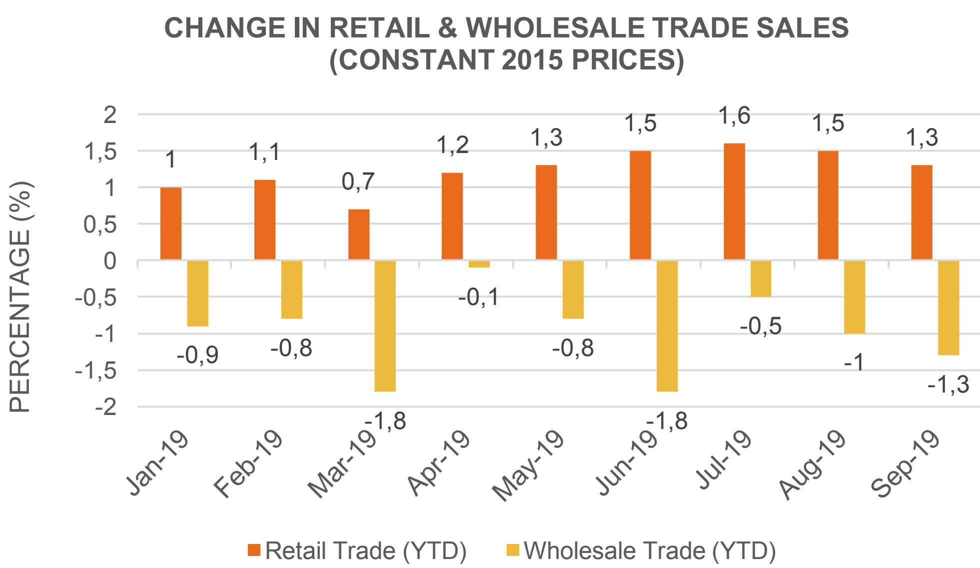
vulnerability to the US-China trade tensions, overall currency weakness and oil price shocks which have continuously nibbled at consumer buying power over the year.

Conversely, year-to-date (YTD), for the first nine months of 2019, cumulative wholesale trade sales have contracted by 1.3%, highlighting the strain felt from a consumption perspective. With wholesale sales in part being a leading indicator for consumer/retail trends, the wholesale data implies that the future household consumption outlook should be to the down side. However, as illustrated below, changes in retail trade sales YTD have been positive throughout 2019, despite the negative wholesale trade figures.



Data source: Statistics South Africa

The data seems to suggest that the production side of the economy has taken, and will continue to take a few more knocks in the months ahead. This data together with other economic variables measuring the quarter's performance – such as manufacturing and mining data – suggest that the next Gross-Domestic Product release will indicate that the pulse of the economy was weak during the third quarter.

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TRADE ACTIVITY INDEX HIGHLIGHTS LESS THAN OPTIMAL TRADE CONDITIONS

The seasonally adjusted Trade Activity Index (TAI) that reflects present conditions, improved in October – up to 42 from 40 in September 2019. Trade conditions remained stable but still subdued in over the month as the index level persisted below the 50-neutral mark. Trade expectations were slightly higher in October compared to a year ago, with the Trade Expectations Index (TEI) staying firm at 44 in October, a 3 index-point improvement to the same time last year.

All the components of trade activity were at better levels than in September 2019, except for inventories that was one index point lower. Worth noting were the higher new orders and sales volumes, with supplier deliveries also improving. Trade activity components are expected to remain steady to positive over the next six months.

Weak demand in the local economy is containing inflationary pressures. And the unchanged inventory levels are indicative of ongoing uncertainty and subdued trade environment.

Industry players have cited increasing interregional trade in Southern Africa as a key driver of trade growth in coming months, with some expecting a pickup in seasonal trade during the holiday period. Nevertheless, slower global growth is expected to impact on local business.

Overall, trade conditions are also expected to remain flat over the next six months, in line with global trends and expectations.

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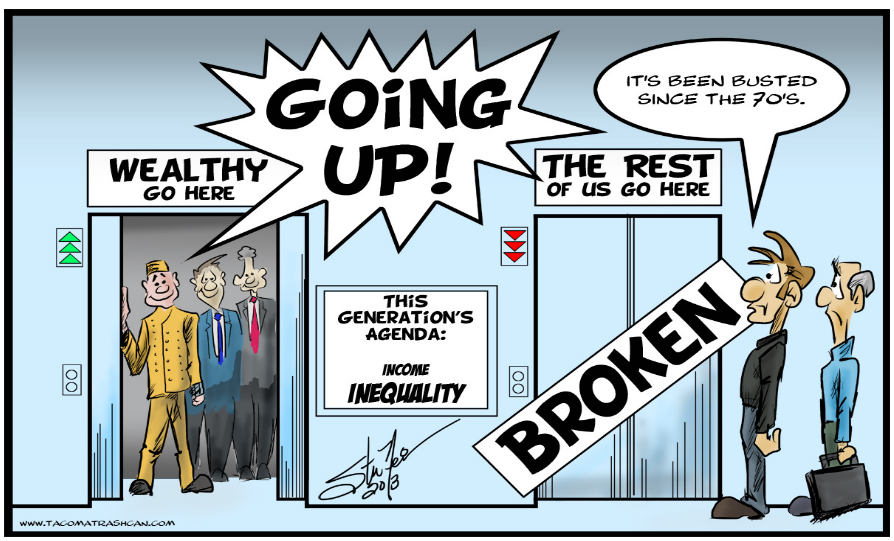
MULTIDIMENSIONAL INEQUALITY APPOACH REVEALS MARGINAL IMPROVEMENTS IN SA

On 14 November 2019, Statistics South Africa released a report titled *"Inequality Trends in South Africa: A multidimensional diagnostic of inequality*". This is the first report of its kind for the country as it encompasses a holistic approach to the quantification of inequality. The methodology utilized expands on conventional income inequality quantification by including analysis of other dimensions of inequality such as employment, earnings, assets, social mobility, health, education, access to basic services and infrastructure inequality.

The report revealed that improvements were observed in inequality by race, chiefly due to government programmes such as free basic education, increase in the public sector workforce and social transfers to marginalized groups. Whilst highlighting that these interventions have resulted in unexpected externalities such as vertical inequalities within particular ethnic groups/races. This is indicative in the emergence of the bulging black middle class and the prevalence of "black tax" among this cohort. Moreover, the report noted that the gains in closing the gap in the income inequality by race was dwarfed by lacklustre improvements inequality in earnings and educational attainment.



Whilst Gauteng registered amongst the one of least unequal provinces in the country, it is still marred with high levels of inequality. According to the report, Gauteng is the second least unequal province in the country after the Western Cape. The province initially registered among the highest Gini coefficient in 2006 of 0.64 which decreased to 0.61 by 2015. Whereas the national Gini Coefficient moderated slightly from 0.67 to 0.65 during the same period. The

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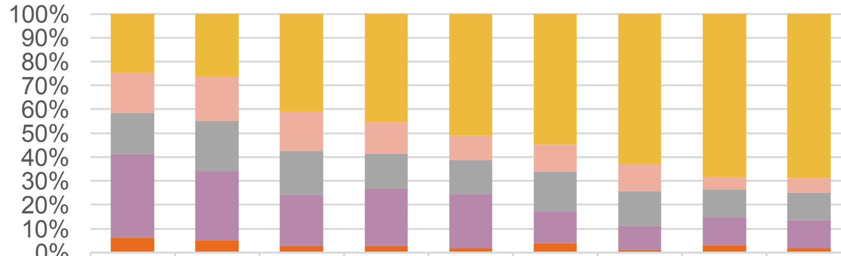
improvement in Gauteng is evidenced by the provinces' high average assets scores for the period which peaked at 11.3 in 2015 and the fact that it had the lowest share of "no-fee" learners (47.3%) and the highest share of learners enrolled in a school feeding scheme (67.3%). In addition, the province has the largest share of middle-class households and the lowest share of households considered to be chronically poor.

PROPORTION OF HOUSEHOLDS BY PROVINCE & SOCIAL CLASS (2008-2017)



	GP	WC	NC	FS	NW	MP	LP	KZN	EC
Chronic Poor	24,7	26,2	41,2	45,3	50,9	54,8	63	68,6	68,6
Transient Poor	17	18,7	16,5	13,3	10,2	11,3	11,5	5	6,3
Vulnerable	17	20,8	18,2	14,8	14,3	16,6	14,5	11,6	11,5
Middle Class	35,1	29,1	21,4	23,9	22,9	13,4	10	11,7	11,7
Elite	6,2	5,2	2,9	2,7	1,7	3,8	1,2	3,1	1,8

Data source: Statistics South Africa

Notwithstanding, the report cautions against the sole use of poverty alleviation as a remedy towards an egalitarian society. The view is that such an effort only addresses income inequality and neglects the other dimensions and aspects that can also deepen inequality. Therefore, instead, the report advocates for economic structural reform, improvement in quality of basic service as well as equal positive outcomes in relation to health and education across the population of South Africa.

Despite the amicable recommendation offered in the report, economic structural reform in the country could take a long time and will require careful planning and financial support. In addition, these efforts could be dwarfed by the unforeseen implications of the impending Fourth Industrial Revolution which could deepen the gap between the "haves" and the "have nots", particularly in relation to earning inequality and access to digital assets/social infrastructure. Furthermore, exogenous economic shocks such as the US-China trade war and the forthcoming Brexit decision could further complicate this pursuit given SA's reliance on and high dependency on global economies including the UK and China.

INDICATORS: Week 11 - 15 Nov 2019

MINING PRODUCTION

0.2% y/y
Sep'19

RETAIL TRADE SALES

0.2% y/y
Sep'19

WHOLESALE TRADE SALES

3.9% y/y
Sep'19

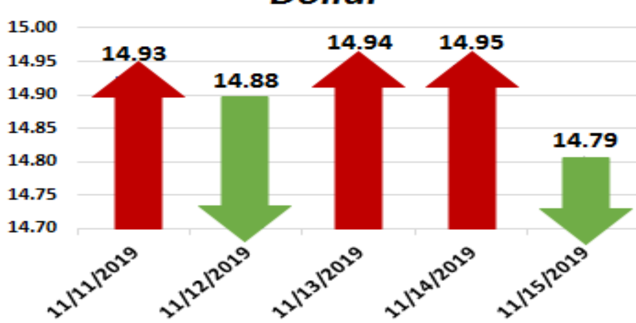
MOTOR TRADE SALES

0.0% y/y
Sep'19

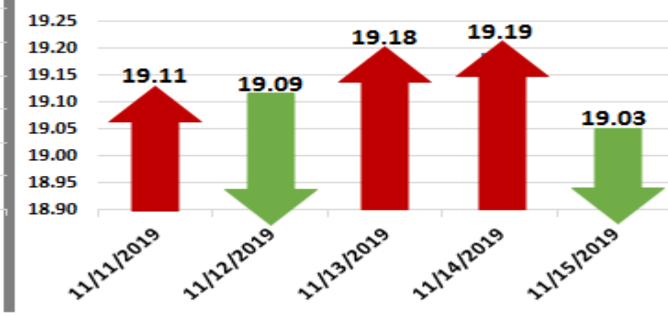
Source: Statistics South Africa, 2019

RAND/DOLLAR/POUND EXCHANGE RATE

Dollar



Pound



Source: SARB, 15:00, 15 Nov 2019

COMMODITIES

BRENT CRUDE OIL PER BARREL

$61.91
15 Nov'19

$61.32
08 Nov'19

GOLD PER OUNCE

$1 467.45
15 Nov'19

$1 460.84
08 Nov'19

PLATINUM PER OUNCE

$893.14
08 Nov'19

$880.89
15 Nov'19

Source: Trading Economics, 15:00, 15 Nov 2019

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