WEEKLY ECONOMIC INSIGHTS

Together, Moving Gauteng City Region Forward

GAUTENG PROVINCE
ECONOMIC DEVELOPMENT
REPUBLIC OF SOUTH AFRICA

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15 – 19 JULY 2019

HIGHLIGHTS

- ***US JOBLESS CLAIMS RISE AS ANTICIPATED***
- **EVEN MORE EMERGING MARKET ECONOMIES CUT INTEREST RATES**
- **JAPAN'S TRADE WEAKER AS CHINA-BOUND EXPORTS DECLINE**
- **SARB RATE DECISION IN LINE WITH GLOBAL MONETARY POLICY STANCE**
- **SUBDUED TRADE SALES MIMIC DEPRESSED DOMESTIC DEMAND**
- **MOTOR TRADE SALES DWINDLE IN MAY 2019**

US JOBLESS CLAIMS RISE AS ANTICIPATED

The preliminary number of jobless claims in the US rose moderately by 8 000 to 216 000 for the week ending 13 July 2019, but remained at historically low levels. This signals a strong US labour market, despite the current economic uncertainties and subdued outlook for the rest 2019.

Nonetheless, American firms continue to face a labour mismatch and have seemingly been unable to fill vacant posts, as job openings continue to exceed the number of unemployed. Moreover, according to the US Federal Reserve's latest Beige Book report, which provides a qualitative review of economic conditions in the US economy, manufacturing and information technology firms that rely on international trade have been cutting down on their workforce since mid-May 2019.

Encouragingly, the number of jobless claims remains below the five-year average of 250 000 and is likely to contract further in the near-to-medium term. Solid job growth has helped support economic output in the US, which has been resilient but notably slower as last year's tax and public spending stimulus begins to subside. Despite the more accommodative (dovish) monterary policy stance of the Federal Reserve, the further escalation of the trade war with China could overshadow the current labour market conditions.

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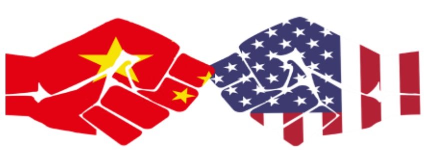
EVEN MORE EMERGING MARKET ECONOMIES CUT INTEREST RATES

Following rate cuts in several Asian Pacific countries - such as New Zealand, India, Malaysia and the Phillipines - in April 2019, both the South Korean and Indonesian Central Banks announced interest rate cuts of 25 basis-points to register at 1.5% and 5.75%, respectively.

The interest rate cut was the first in 3 years for the South Korean Central Bank, inferring that the country's 'growth miracle' phase has lost momentum. While, the downward revision by the Indonesian Central Bank baffled analysists as the bank has been mostly hawkish in its monetary policy stance, having raised interest rates by an aggregate 175 basis-points in 2018. In both cases, the central banks highlighted global economic uncertainties stemming particularly from the tit-for-tat trade war between China and the US as the key reason for the downward revision.

JAPAN'S TRADE WEAKER AS CHINA-BOUND EXPORTS DECLINE

Japanese exports contracted by 6.7% year-on-year (y/y) in June 2019 - the seventh consecutive monthly contracton. Meanwhile, imports recorded a smaller contraction of 5.2% for June 2019. The lengthy contraction in export figures was attributed to the negative externalities of the US-China trade war that resulted in a 10.1% contraction in Chinese-bound car parts. The weaker import demand levels in China have somewhat contributed to a deceleration in the Chinese economic growth, for the first time in 27 years, to 6.2% in the second quarter of 2019.



Analysts are of the view that the contraction can likely be credited to the implementation of tariff increases on Chinese imports bound for the US, which came into effect in the beginning of June.

Other contributors to the decline in exports were decreases in the export of tankers and steel pipes. Despite this, increases in hi-tech equipment, semi-conductor making equipment and car parts bound for South Korea and the US curbed the ailing Japanese trade market.

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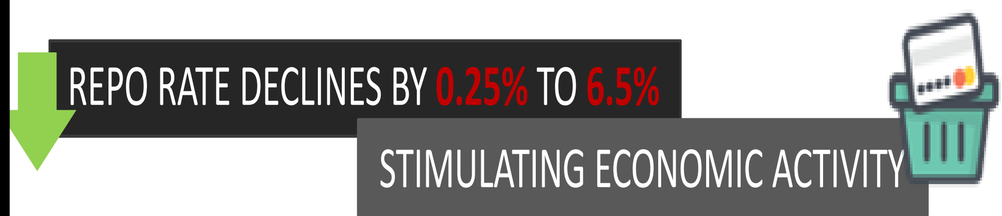
SARB RATE DECISION IN LINE WITH GLOBAL MONETARY POLICY STANCE

The South African Reserve Bank (SARB) reduced the repo rate by 25 basis points to 6.5% on Friday, 19 July 2019. This was in-line with the market consensus that the SARB would cut interest rates in the wake of depressed domestic demand and unfavourable global conditions. The rate cut was the first downward revision since March 2018 and is hoped to stimulate domestic economic activity. The prime lending rate will decline to 10%, which means the cost of borrowing from commercial banks will be lower, allowing consumer to pay-off existing debt or to take on more debt at a cheaper rate.



The key reasons for the rate cut were concerns about global growth and the continued weakening of domestic growth and outlook, lower inflation and weaker inflation outlook. Specifically, the protracted bout in food inflation in expected to lose steam and reach a maximum of 5.6% in the second and third quarters of 2020. In addition, fuel inflation is expected to average 3.2% in 2019. Correspondingly, the SARB has downwardly revised the SA's growth prospects to 0.6% in 2019, down from 1% in the May statement.

Despite the accommodative monetary policy stance, the SARB reiterated the urgent need for prudent macroeconomic interventions that are supplemented by structural reforms and lower economic cost structures.

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SUBDUED TRADE SALES MIMIC DEPRESSED DOMESTIC DEMAND

Retail sales for May 2019 increased by 2.2% (y/y) from an upwardly revised 2.7% in April. The favourable reading provides some indication that the sector is likely to rebound in the second quarter, following a contraction in the first quarter. The annual growth in retail sales was credited to general dealers (4%); household furniture, appliances and equipment (2.3%); pharmaceuticals and medical goods, cosmetics and toiletries (2.9%); as well as food, beverages and tobacco in specialized stores (2.7%).

Month-on-month (m/m), retail sales also recorded a positive reading, rising by 0.1% from 1% in the previous month. Year-to-date, retail sales have grown by 1.6%, further indicating the generally depressed levels of consumer spending.

At the wholesale trade level, sales contracted by 0.7% y/y and by 1.4% m/m in May 2019. Whilst retail sales data for the two months into the second quarter suggest that the Trade sector is likely to stage a rebound in the second quarter, the extent of the rebound might be weighing down by negative performance in wholesale sales.

Going forward the trade sector is expected to improve over the medium term, following, the announcement of a repo rate cut. The lower interest rates are expected to lessen household debt servicing costs, which stood at 9.3% in the first quarter of 2019. In addition, this will provide some relief on strained disposable income and subsequently boost consumption, albeit minimally. However, the positive changes in disposable income could be countered by the higher municipal tariffs which came into effect on 1 July 2019.

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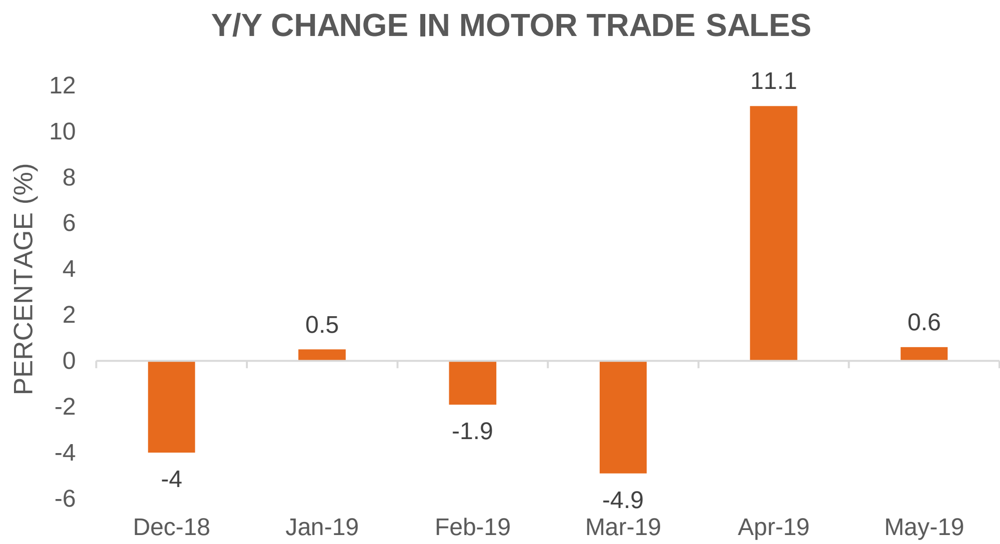
After rebounding to 11.1% (y/y) in April 2019, motor trade sales growth registered at 0.6% in May 2019. The weaker sales figures were due to contractions in 3 out of the 6 activity types including, used vehicle sales (-3.8%), workshop income (-3.8) and new vehicle sales (-2.0%).

While, improvements in the income generated from fuel sales (4.7%) and sales of accessories (4.4%) cushioned the magnitude of the sluggish figures registered by other activity types, motor trade sales came in significantly weaker compared to a month prior. The increase in fuel sales was likely superficially increased by the increase in fuel prices rather than fuel volumes after the increase in the fuel levy and the carbon tax levy was put into effect.



Data Source: Statistics South Africa

Improved motor trade sales are likely to be registered in the last half of 2019 following an increase in manufacturing activity at the Ford plant in Silverton, in a response to an increase in demand. Nonetheless, growth prospects could be overshadowed by exogenous shocks, particularly commodity prices.

INDICATORS: *Week 15 – 19 July 2019*

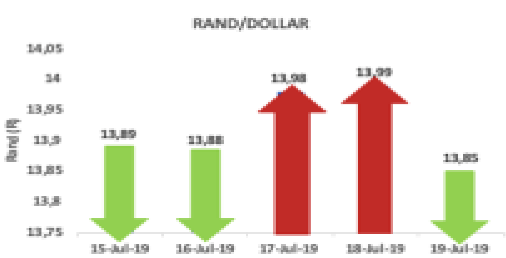
MOTOR TRADE SALES	WHOLESALE TRADE SALES	RETAIL TRADE SALES
0.6% (y/y) May '19	-0.7% (y/y) May '19	2.2% (y/y) May '19

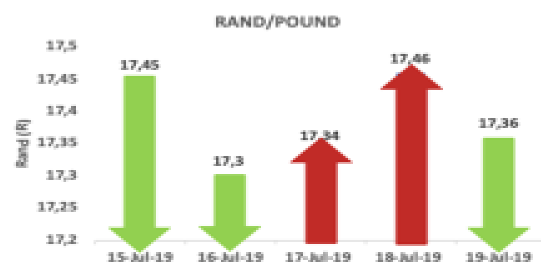
Source: Statistics South Africa, 2019

REPO RATE DECLINES BY 0.25% TO 6.5%
STIMULATING ECONOMIC ACTIVITY

Source: SARB, July '19

RAND/DOLLAR/POUND EXCHANGE RATE





Source: SARB, 19 July '19

COMMODITIES

BRENT CRUDE OIL/BARREL	GOLD PER FINE OUNCE	PLATINUM PER OUNCE
$55.36 19 Jul '19	$1 430.21 19 Jul '19	$850.13 19 Jul '19
$66.61 12 Jul '19	$1 407.20 12 Jul '19	$816.25 12 Jul '19

Source: Trading Economics ,19 July '19

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