WEEKLY ECONOMIC INSIGHTS

GAUTENG PROVINCE
ECONOMIC DEVELOPMENT
REPUBLIC OF SOUTH AFRICA

Growing Gauteng Together

WEEKLY ECONOMIC INSIGHTS

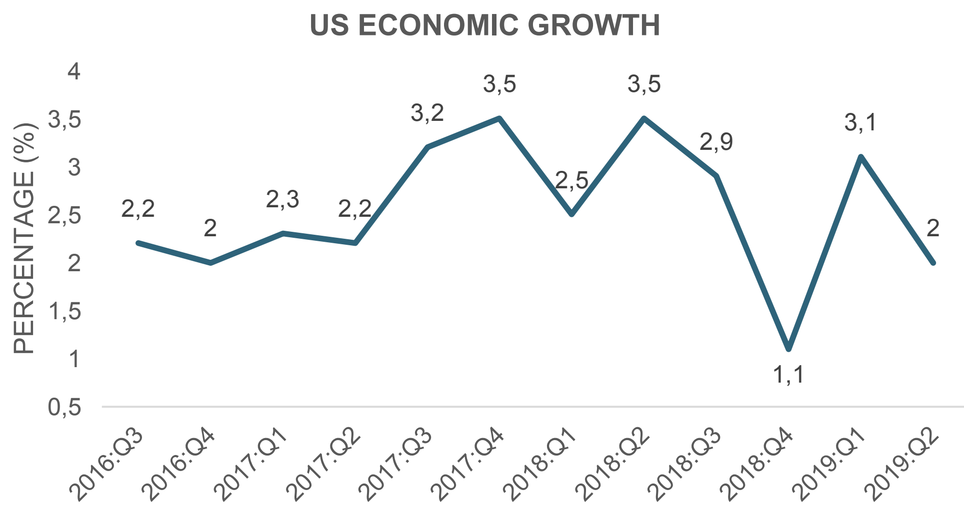
23 – 27 SEPTEMBER 2019

HIGHLIGHTS

- ***US ECONOMIC GROWTH SLOWS IN Q2***
- **BREXIT TALKS RESUME AND SA SECURES NEW DEAL WITH UK**
- **FORMAL EMPLOYMENT DECREASES IN Q2**
- **FOOD AND BEVERAGES SECTOR INCOME SLIPS YET AGAIN**
- **LEADING BUSINESS INDICATOR SIGNALS IMPROVING CLIMATE**
- **CONSTRUCTION INPUT PRICE INDICES EDGE HIGHER**
- **PRODUCER INFLATION CONTINUES DECREASING TREND**

US ECONOMIC GROWTH SLOWS IN Q2

The US economy grew by an annualised 2% in the second quarter of 2019, down from a 3.1% expansion in the first quarter. Positive contributions to the growth were private consumption expenditure, as well as federal and state/local government spending. Personal consumption expenditure climbed 4.6%, mainly supported by increased consumption of durable goods – which increased by 13% compared to 0.3% in the previous quarter.



Data source: Trading Economics

The increases were partly offset by negative contributions from private investment, exports as well as lower levels of non-residential and residential fixed investment. Exports plunged 5.7% over the quarter, compared to 4.4% growth a quarter earlier. Following a 4.4% increase in the previous quarter, business investment declined for the first time in three years - 1 percent decline. Meanwhile, investment in intellectual property continued its upward trend, rising 3.6% over the quarter.

GAUTENG PROVINCE
ECONOMIC DEVELOPMENT
REPUBLIC OF SOUTH AFRICA

[1] **Compiled by the Economic Planning Branch (Enquiries: Laurencia.Loving@gauteng.gov.za)**

HIGHLIGHTS

- **US ECONOMIC GROWTH SLOWS IN Q2**
- ***BREXIT TALKS RESUME AND SA SECURES NEW DEAL WITH UK***
- **FORMAL EMPLOYMENT DECREASES IN Q2**
- **FOOD AND BEVERAGES SECTOR INCOME SLIPS YET AGAIN**
- **LEADING BUSINESS INDICATOR SIGNALS IMPROVING CLIMATE**
- **CONSTRUCTION INPUT PRICE INDICES EDGE HIGHER**
- **PRODUCER INFLATION CONTINUES DECREASING TREND**

The weaker exports and investment readings highlight the effects of the ongoing trade dispute with China which has seen the two nations continue to battle it out over tariffs, shaking business and investor sentiment and raising geopolitical uncertainty across the globe, as economies grapple with the impacts from the warring of the world's two largest economies.

BREXIT TALKS RESUME AND SA SECURES NEW DEAL WITH UK

With the UK scheduled to leave the European Union (EU) on 31 October 2019, Members of Parliament have passed a law requiring the Prime Minister to seek a further extension if he is unable to pass a deal in Parliament or get MPs to approve a no-deal Brexit, by 19 October. Following heated rounds of debate in the UK parliament over the past few weeks, the UK's proposed alternative to the Irish backstop, which aims to avoid a hard border between the UK and Ireland following Brexit, has been deemed unworkable by the EU, implying that the talks remain at an impasse on this matter. This has lessened chances of a revised Brexit agreement being finalised by the next summit of EU leaders to be held on the 17th of October.

South Africa has since renegotiated its standing terms of trade with both the region, as trade is currently facilitated under the SADC-EU Economic Partnership Agreement (EPA) – which provides preferential market access between the regions. SA's Minister of Trade and Industry, Mr Patel, recently confirmed that SACU and the UK have come to a new 'in-principle' trade agreement which will effectively roll over and replicate the current terms of trade under the existing SADC-EU Partnership Agreement (EPA). Failure to conclude the arrangement would have implied new tariffs on 114 export lines directly affecting South African exports.

The 'new' agreement, which will be known as the SACUM [Mozambique]-UK Economic Partnership Agreement will ensure that SA retains its preferential trade relationship with the UK in the event of a no-deal Brexit. SA also secured a new tariff-free quota for approximately 70 000 tonnes of unrefined and refined sugar, 18 000 tonnes of canned fruits and 70 million litres of wine. Current terms regarding livestock trade with the EU will continue to apply to British poultry until March 2022. Overall, the agreement between the two trading blocs is crucial, as an estimated 175 000 jobs have been created as a result of UK-SA trade at an estimated market value of R145 billion.

HIGHLIGHTS

- US ECONOMIC GROWTH SLOWS IN Q2
- BREXIT TALKS RESUME AND SA SECURES NEW DEAL WITH UK
- *FORMAL EMPLOYMENT DECREASES IN Q2*
- FOOD AND BEVERAGES SECTOR INCOME SLIPS YET AGAIN
- LEADING BUSINESS INDICATOR SIGNALS IMPROVING CLIMATE
- CONSTRUCTION INPUT PRICE INDICES EDGE HIGHER
- PRODUCER INFLATION CONTINUES DECREASING TREND

FORMAL EMPLOYMENT DECREASES IN Q2

In the current economic turmoil, job losses do not come as a surprise. According to the recent Quarterly Employment Survey (QES), formal sector employment in the second quarter of 2019 (Q2:2019), declined by 2 000 compared to the first quarter to measure at 10.17 million. The overall decline came as employment declined in six of the eight sectors including Manufacturing (-15 000), Finance (-14 000, with 7 000 jobs lost in the banking sector alone), Trade (-10 000) and Construction (-9 000).

Within the Manufacturing sector, jobs were lost in nine of the ten sub-sectors, with the most jobs lost by Food and beverages (-5 600) and Furniture (-2 300) operations. On the other hand, the gains in Community services (44 000), attributable to the employment relating to the national elections that took place in the second quarter cushioned the extent of the decline.

Employment remained muted in the first half of the year, expanding by only 0.2% or 20 000. Between January and June 2019, the gains in employment were driven by three of the eight sectors, with Community services (63 000) in the lead. Conversely, major job losses were recorded in Trade (-14 000), Manufacturing (-13 000) and Finance (-9 000). Within the Manufacturing sector, jobs were lost in seven of the ten sectors, with Petroleum and chemicals (-5 800) and Furniture (-4 300) driving the losses. Within the Finance sector, the banking sub-industry shed about 15 000 jobs since the start of the year. This could be a signal that the restructuring in the banking sector is going to adversely affect the resilience which the Finance sector has shown over the years.

For the remainder of the year, with the economy not expected to rebound, there are no expectations of any major gains in employment. Instead, further job cuts are expected from the following sectors: (i) Community services - as seasonal employment ends; (ii) Mining - following plans by Sibanye Gold to cut 5 200 jobs as well as (iii) the Banking sector, whose further job cuts are delayed by the unions. The job losses in the banking sector have experienced a double blow from the weak economy as well as the digitalisation drive.

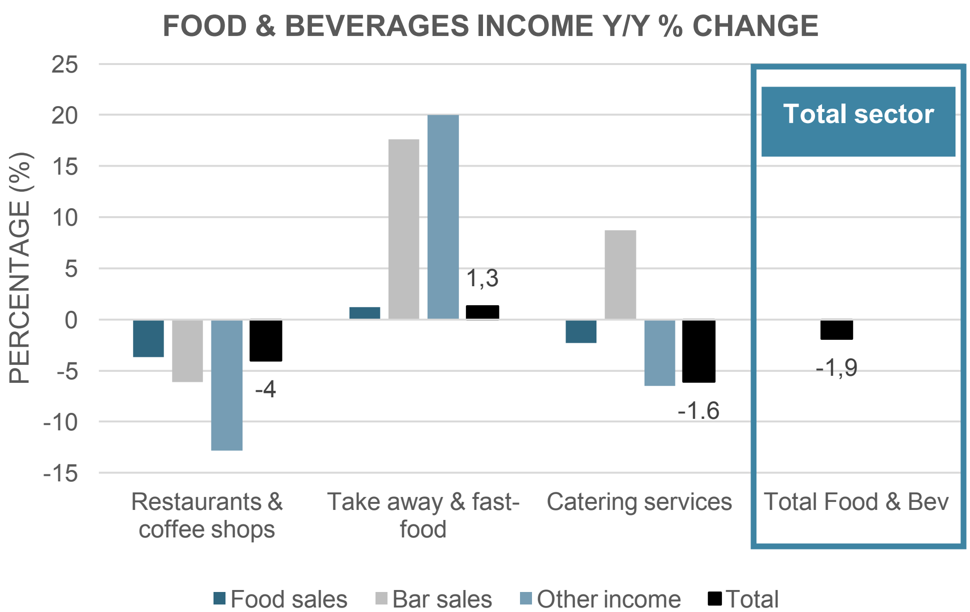
HIGHLIGHTS

- US ECONOMIC GROWTH SLOWS IN Q2
- BREXIT TALKS RESUME AND SA SECURES NEW DEAL WITH UK
- FORMAL EMPLOYMENT DECREASES IN Q2
- ***FOOD AND BEVERAGES SECTOR INCOME SLIPS YET AGAIN***
- LEADING BUSINESS INDICATOR SIGNALS IMPROVING CLIMATE
- CONSTRUCTION INPUT PRICE INDICES EDGE HIGHER
- PRODUCER INFLATION CONTINUES DECREASING TREND

FOOD AND BEVERAGES SECTOR INCOME SLIPS YET AGAIN

According to the latest data released by Statistics South Africa (Stats SA), total annual income generated by the food and beverages industry decreased by 1.9% in July 2019 compared to 4.9% in June. Similarly, month-on-month (m/m) food and beverages income decreased by 4% in July 2019. Contrarily, for the three months ended July 2019, the total income in the industry increased by 3.1% compared to the same period in 2018.

The negative figures recorded in July were mainly be attributed to restaurants & coffee shops which recorded a 4.0% decrease in income and catering services, the income of which decreased by 1.6%. For the three months ended in July 2019, the main contributors to the 3.1% increase were takeaway and fast-food outlets, and restaurants and coffee shops which contributed 1.6 and 1.5 percentage points respectively.



Data source: Statistics South Africa

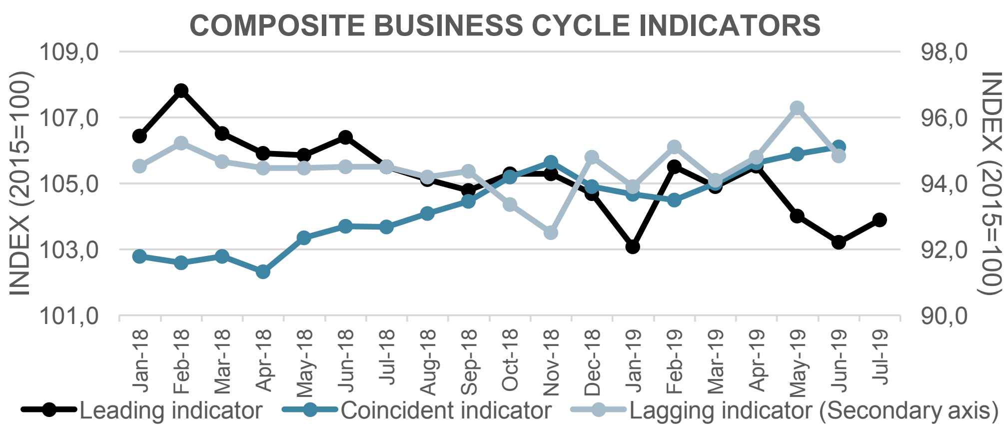
Overall, the latest food and beverage data is disappointing and is indicative that consumers are tightening their belts. The figures are reflective of the tough and uncertain economic environment.

HIGHLIGHTS

- US ECONOMIC GROWTH SLOWS IN Q2
- BREXIT TALKS RESUME AND SA SECURES NEW DEAL WITH UK
- FORMAL EMPLOYMENT DECREASES IN Q2
- FOOD AND BEVERAGES SECTOR INCOME SLIPS YET AGAIN
- *LEADING BUSINESS INDICATOR SIGNALS IMPROVING CLIMATE*
- CONSTRUCTION INPUT PRICE INDICES EDGE HIGHER
- PRODUCER INFLATION CONTINUES DECREASING TREND

LEADING BUSINESS INDICATOR SIGNALS IMPROVING CLIMATE

On 25 September 2019, the South African Reserve Bank (SARB) released the composite business cycle indicators for South Africa. Both the leading and coincident business cycle indicators edged higher by 0.7% and 0.2% (m/m), for July and June respectively. Meanwhile, the composite lagging business cycle indicator contracted by 1.5% (m/m).



Data Source: South African Reserve Bank

The uptick in the leading indicator, the first in three months, was attributable to notable improvements in the twelve-month percentage change in job advertisement space and South Africa's export commodity price index (US dollar based). Other positive contributors to the improvement in the leading indicator stemmed from an increase in the number of building plans approved, the Bureau of Economic Research (BER) measure for volume of manufacturing orders and the composite leading business cycle indicator of the country's major trading partners. The more favourable leading indicator reading signals the possibility of improved business and economic climate in coming months.

These improvements trumped the lacklustre figures in the twelve-month percentage change in the number of new passenger vehicles sold, the protracted downturn in the BER Business Confidence Index, real M1 (Money supply), interest rate spread and the BER average hours worked per factory worker in manufacturing. Notwithstanding the improvement in the leading composite business cycle indicator for July, the latest SARB Quarterly Bulletin states that the economy entered its 70th consecutive month in the downward cycle in September 2019. This is the longest business cycle trough since the 1940s.

HIGHLIGHTS

- **US ECONOMIC GROWTH SLOWS IN Q2**
- **BREXIT TALKS RESUME AND SA SECURES NEW DEAL WITH UK**
- **FORMAL EMPLOYMENT DECREASES IN Q2**
- **FOOD AND BEVERAGES SECTOR INCOME SLIPS YET AGAIN**
- **LEADING BUSINESS INDICATOR SIGNALS IMPROVING CLIMATE**
- ***CONSTRUCTION INPUT PRICE INDICES EDGE HIGHER***
- **PRODUCER INFLATION CONTINUES DECREASING TREND**

The outlook for the economy in the short-term remains shaky in the wake of uncertainties in policy and geopolitical tensions. However, the lag effects of the interest rate cut in July 2019 could cushion the impact of the business cycle downturn.

CONSTRUCTION INPUT PRICE INDICES EDGE HIGHER

Changes in the Contract Price Adjustment Provisions (CPAP) construction work group indices (which are used for making adjustments based on cost fluctuations in labour, plant and materials) ranged from -0.6% to 2.1%. Specifically, the Producer Price Index (PPI) for granite, sandstone and monumental or building stone (within Work group 118) increased by 3.4% m/m in August. Similarly, the Steel and Engineering Industries Federation of Southern Africa (SEIFSA) copper prices (within work group 172) increased by 3.7% m/m. Other price increases were recorded for prefabricated cement and concrete components (work group 122), bituminous mixtures (work group 120), and the SEIFSA stainless steel flat product prices (work group 141).

The Construction Input Price Indices (CIPI) for the construction sector as a whole, increased marginally by 0.4% m/m, whilst the CIPI for civil engineering material increased by 0.6% m/m, reflecting higher material purchases within the construction industry.

The continued increases in the construction sector's input prices will continue to be a damper on the sector's output and growth potential. The sector contracted by 2.2% and 1.6%, respectively in the first and second quarters of the year and shed over 100 000 jobs during the first half of the year. The fact that the construction producer prices are rising as aggregated producer prices decelerate (as discussed below) is concerning and a clear indicator of growing pressures within the sector.

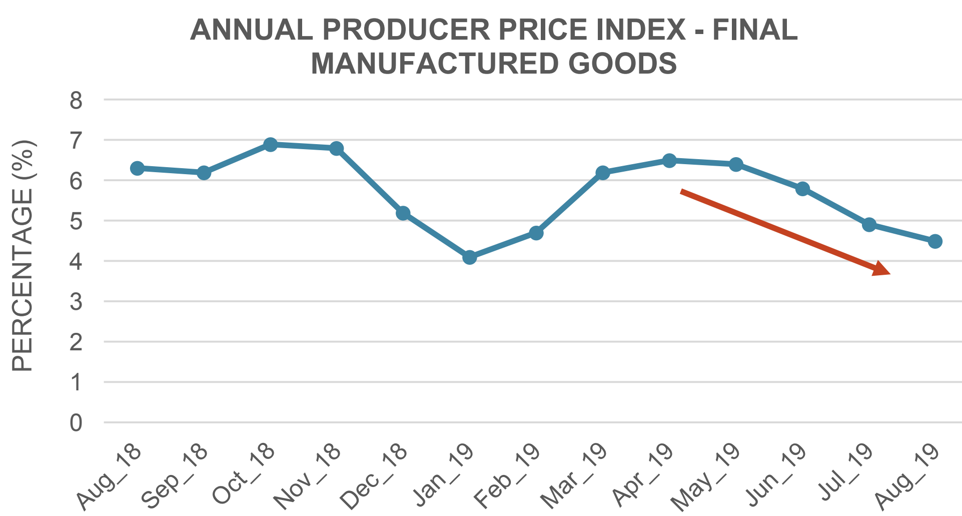
HIGHLIGHTS

- US ECONOMIC GROWTH SLOWS IN Q2
- BREXIT TALKS RESUME AND SA SECURES NEW DEAL WITH UK
- FORMAL EMPLOYMENT DECREASES IN Q2
- FOOD AND BEVERAGES SECTOR INCOME SLIPS YET AGAIN
- LEADING BUSINESS INDICATOR SIGNALS IMPROVING CLIMATE
- CONSTRUCTION INPUT PRICE INDICES EDGE HIGHER
- ***PRODUCER INFLATION CONTINUES DECREASING TREND***

PRODUCER INFLATION CONTINUES DECREASING TREND

According to Statistics South Africa, the annual Producer Price Index for final manufactured goods decelerated to 4.5% in August 2019 from 4.9% a month earlier. This marks the fourth consecutive month of decline in the index as producer prices decreased by 0.4 percentage point in August, slightly more than analysts' forecasts. According to Bloomberg economists, producer inflation was expected to fall to 4.6% in August 2019. On the other hand, the producer price index for intermediate manufactured goods increased from 1.7% year-on-year (y/y) in July to 1.9% in August 2019.

The main contributors to the annual percentage change in producer price index for the final goods were: food products, beverages and tobacco products which increased 4.6% y/y; metals, machinery, equipment and computing equipment which rose 5,4% y/y; coke, petroleum, chemical, rubber and plastic products grew 3,3% y/y; and paper and printed products increased 7,8% y/y.



Data source: Statistics South Africa

With fuel price being the largest contributor to the headline produce price index, analysts anticipate that the producer inflation for final manufactured goods will likely be affected by increasing energy and fuel prices. The recent fuel increases in September 2019 by 11c/l is expected to put added pressure on producer prices.

INDICATORS: Week 23 - 27 September 2019

Producer Inflation

4.5% y/y
Aug'19

Leading Business Cycle Indicator

0.7% m/m
Jul'19

Source: SARB 2019

Quarterly Employment Statistics

2 000 jobs
Q2:2019

Construction Materials

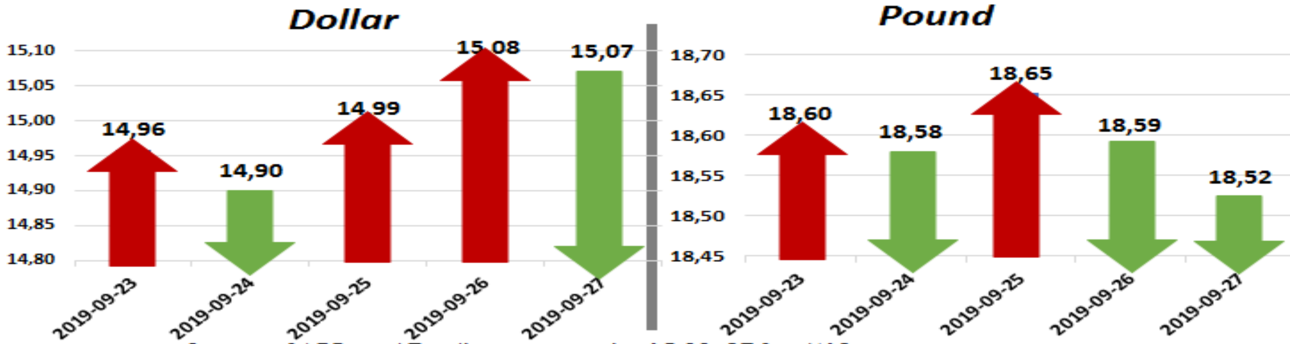
0.4% m/m
Aug'19

Food & Bev

1.9 y/y
Jul'19

Source: Statistics South Africa 2019

RAND/DOLLAR/POUND EXCHANGE RATE



Source: SARB and Trading economics 15:00, 27 Sept'19

COMMODITIES

BRENT CRUDE OIL PER BARREL

$64.90
20 Sept'19

$61.59
27 Sept'19

GOLD PER OUNCE

$1499.15
20 Sept'19

$1490.73
27 Sept'19

PLATINUM PER OUNCE

$946.51
20 Sep'19

$922.63
27 Sept'19

Source: Trading Economic, 15:00, 27 Sept'19

Chief Content Editor: Motlatjo Moholwa

Content Editor: Bokang Vumbukani-Lepolesa

Contributors:

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