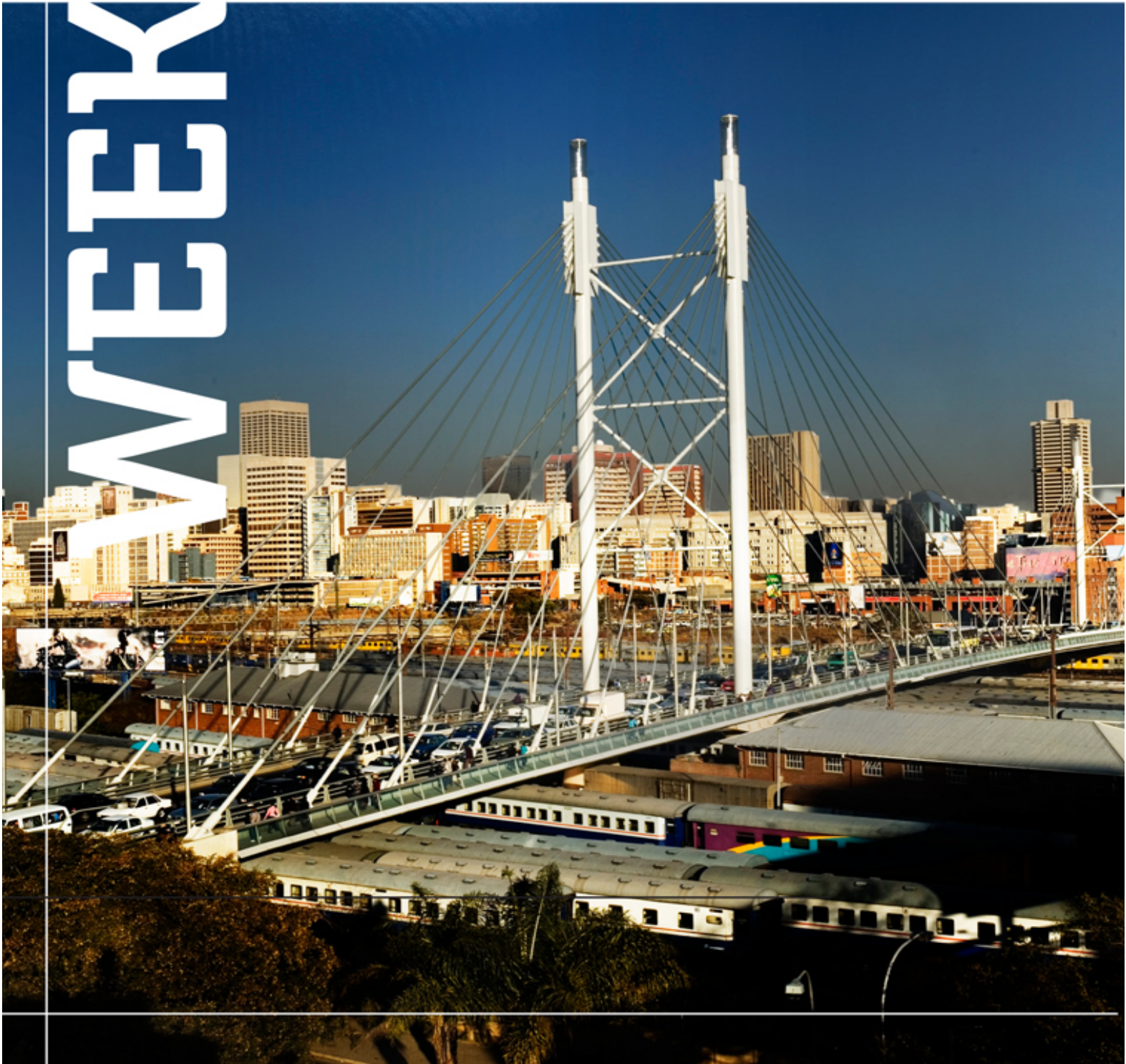


# WEEKLY ECONOMIC INSIGHTS

WEEKLY



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

Growing Gauteng Together

# WEEKLY ECONOMIC INSIGHTS

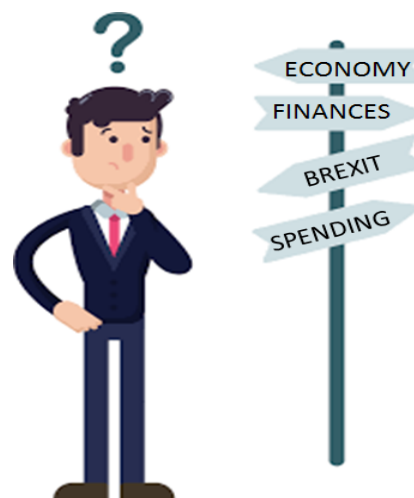
25 – 29 NOVEMBER 2019

## HIGHLIGHTS

- **GLOBAL ECONOMIC AND BUSINESS SENTIMENTS REMAINED SUBDUED**
- **BUSINESS CONFIDENCE PICKS UP FOLLOWING 20-YEAR LOW**
- **COMPOSITE BUSINESS CYCLE INDICATORS TAKE A DIVE**
- **PRODUCER INFLATION DIPS FOR SIXTH CONSECUTIVE MONTH**
- **CONSTRUCTION MATERIALS PRICE INDICES EDGE HIGHER IN OCTOBER**

## GLOBAL ECONOMIC AND BUSINESS SENTIMENTS REMAIN SUBDUED

According to the latest Euro Area and UK consumer confidence data, sentiments remained in the negative, registering a reading of -7.2 and -14, respectively. Although the Euro Area consumer confidence indicator improved from -7.6 in October to -7.1, consumers are only slightly more optimistic about their economic and future financial situations. Lastly, Brexit uncertainty remains a key issue in the UK although some consumers believe the imminent general election might clear the impasse.



The Euro Area Business Climate Indicator decreased slightly by 0.03 points from -0.2 in October to -0.23 in November 2019. Manager's assessments of overall order books and past production levels were much lower. Nonetheless, production expectations and assessments of the stocks finished products improved. Meanwhile, economic sentiment in the region rose to 101.3 in November. The reading was supported by improved confidence among manufacturers, consumers, service providers and retailers. However, confidence among players in the construction sector deteriorated.

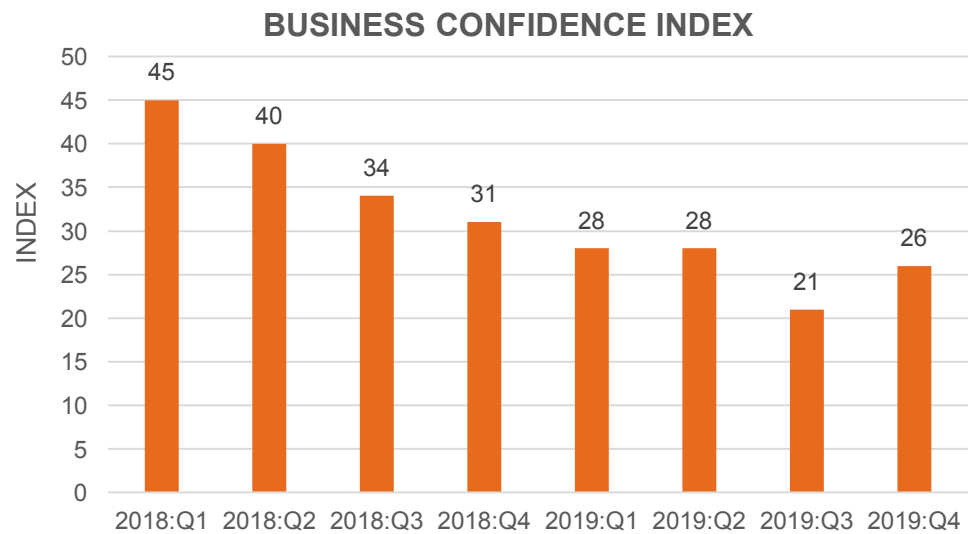
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## BUSINESS CONFIDENCE PICKS-UP FOLLOWING 20-YEAR LOW

The RMB/BER Business Confidence Index (BCI) rose to a reading of 26 in the fourth quarter, this being the first improvement in two years. The BCI has been under some pressure of late, after slipping from 28 for the first two quarters of this year to a 20-year low of 21 in the third quarter.

Although the recent improvement was welcomed, it was a mere five index points improvement and was not broadly-based across the sectors. Specifically, confidence rebounded in three of the five sectors making up the BCI namely, building, manufacturing and retail trade. Confidence levels in the new motor trade sector declined slightly and remained mostly unchanged in the wholesale trade sector.



**Data source:** Bureau for Economic Research

Some analysts argue that the recent reading may be a sign that business sentiments and conditions are improving following two years of dwindling confidence - but other analysts warn that the increase is not enough and that the low readings remained consistent with a struggling economy near recession-like conditions. However, the recent figures come at a time when the country's fiscal position being in question and finally to overturn the long and persistent downturn of the BCI the government should take a strong stance to enhance economic growth.



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## COMPOSITE BUSINESS CYCLE INDICATORS DIP LOWER

The composite business cycle leading indicator, for September 2019, declined by 0.6% m/m, implying that SA's economic growth trend is likely continue on the downside in 2020. The decline in the monthly composite index was underpinned by a notable decline in four of the nine subcomponents. The negative and positive contributors were as follows:

NEGATIVE CONTRIBUTORS	POSITIVE CONTRIBUTORS
<b>Ranked from largest to smallest</b>	
<b>Number of building plans approved:</b> Flats, townhouses & houses larger than 80m <sup>2</sup>	<b>BER*:</b> Volume of orders in manufacturing (half weight)
<b>Job advertisements:</b> The Sunday Times (percentage change over 12 months)	<b>Commodity price index for South Africa's main export commodities</b> (US dollar based)
<b>Real M1</b> (six-month smoothed growth rate)	<b>BER*:</b> Average hours worked per factory worker in manufacturing (half weight)
	<b>Number of new passenger vehicles sold</b> (% change over 12 months)
	<b>Composite leading business cycle indicator for South Africa's major trading-partner countries</b> (% change over 12 months)

**Data Source:** South African Reserve Bank

Meanwhile, the coincident indicator declined by 0.7% in August bringing the quarterly average to -0.7% following a decrease of 0.8% in July. This increases the likelihood of a subdued economic trend in the third quarter GDP data. Notwithstanding, the lagging indicator for August remained muted after it only increased by 0.1% in July. This confirms the muted growth in the first half of 2019.

The downward trend in the composite business cycle leading indicator since the beginning of the year suggests the growing possibility of subdued growth in the first half of 2020. This sentiment is mirrored in the multiple downward revisions of the GDP forecast for 2020. In the November MPC statement, GDP forecast for 2020 was forecasted to 1.4% from a starting point of 2.0% in January.

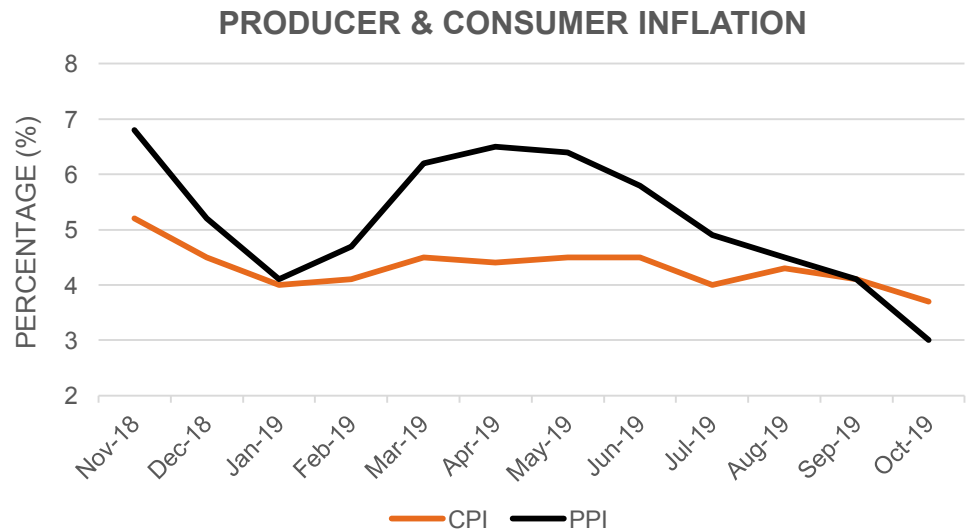
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## PRODUCER INFLATION DIPS FOR SIXTH CONSECUTIVE MONTH

On the 28th of November, Statistics South Africa published the October Producer Price Index (PPI) statistical release. The data signals continued price relief for final goods consumers with the PPI dipping further in October to 3.0% compared to 4.1% in September. Conversely the data also showed a month-on-month gain of 0.3% between September and October, raising the need for caution at the prospect of potential, albeit minimal, price increases.

Food products, beverages and tobacco products; and metals, machinery, equipment and computing equipment registered the main contributions to headline PPI annual inflation, with annual increases of 3.8% and 3.7% respectively. Monthly, coke, petroleum, chemical, rubber and plastic products supported the moderation in the prices for manufactured goods - with a 0.2 percentage point increase between September and October.



**Data source:** Statistics South Africa

As outlined in the figure above, when taken together, South Africa's producer and consumer inflation figures have edged notably lower since June 2019. In a recent statement, the Steel and Engineering Industries Federation of Southern Africa warned that the decline in PPI is a challenge for companies operating in the metals and engineering sector as producers face added cost pressures from imported inputs. The further decline in selling price inflation also reduces businesses options when it comes to sustainability.

The underlying momentum of the economy remains weak. The manufacturing sector activity is expected to increase minimally in November to cater for festive season demand. On the other hand, food products, beverages and tobacco products are envisaged to lead gains to cap the year.

## HIGHLIGHTS

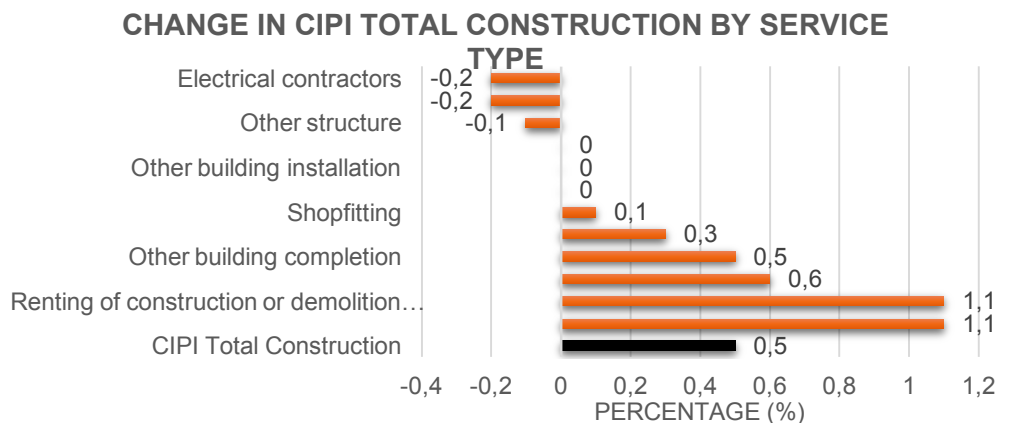
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## CONSTRUCTION MATERIALS PRICE INDICES EDGE HIGHER

According to Statistics South Africa's latest Construction Materials Price Indices report, changes in the Contract Price Adjustment Provision (CPAP) ranged between -0.7% and 3.7% month-on-month (m/m) in October 2019.

Prices in the brick and blockwork work group contracted by 0.7% m/m, which was mostly due to 1.4% decrease in the Steel and Engineering Industries Federation of Southern Africa (SEIFSA) price for copper (accounts for 45% of the work group). The highest price increase, of 3.7%, stemmed from an increase in prices in the stainless steelwork work group which was underpinned by an uptick in the SEIFSA for stainless steel flat products cold rolled 304b and 316b of 7.0% and 7.4%, respectively. Other significant movements were observed in the waterproofing (2.9%) and ceilings (0.6%).

On the other hand, the Construction Input Price Indices (CIPI) for total construction and civil engineering material increased moderately by 0.5% and 1.1%, correspondingly.



**Data source:** Statistics South Africa

Despite subdued inflation of construction materials in recent months, the construction sector continues to register regressive growth, which has dampened national output for most of 2019. Analysts are of the view that downbeat figures will likely persist into the medium term, given the high rate of business rescue applications and offshoring by industry leaders such as Murray and Roberts, Basil Read, Liviero Group and Escor Construction. Importantly, these developments will continue to pose serious implications for Small and Medium Enterprises in the sector that are reliant on sub-contracts from the larger players. A clearer indication of the performance of South Africa's construction sector in the third quarter of 2019, will be released on 3 December 2019.

# INDICATORS: Week 25 - 29 Nov 2019

## PRODUCER PRICE INDEX



**3.0% y/y**  
Oct'19

## CONSTRUCTION MATERIALS PRICES



**0.5% & 1.1%**  
y/y Oct'19



Source: Statistics South Africa, 2019

## LEADING BUSINESS CYCLE INDICATOR



**0.6% m/m**  
Sep'19

Source: SARB, 2019

## BUSINESS CONFIDENCE

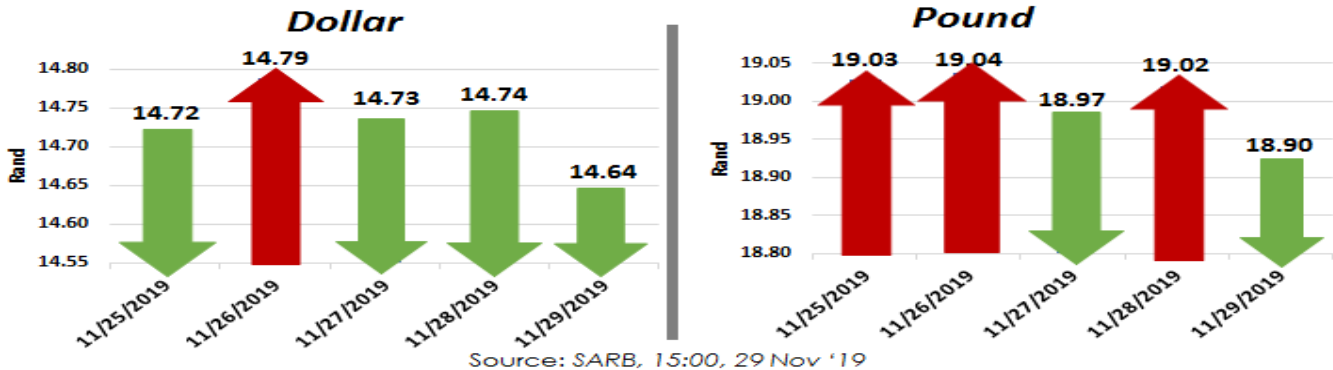


**26 Index points**  
Q4:2019



Source: RMB/BER, 2019

## RAND/DOLLAR/POUND EXCHANGE RATE



## COMMODITIES



### BRENT CRUDE OIL PER BARREL

**\$63.85**  
22 Nov'19



**\$63.34**  
29 Nov'19

### GOLD PER OUNCE

**\$1 468.30**  
22 Nov'19



**\$1 462.57**  
29 Nov'19

### PLATINUM PER OUNCE

**\$908.74**  
22 Nov'19



**\$902.05**  
29 Nov'19

Source: Trading Economics, 15:00, 29 Nov'19

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