

WEEKLY ECONOMIC INSIGHTS

WEEKLY



GAUTENG PROVINCE
ECONOMIC DEVELOPMENT
REPUBLIC OF SOUTH AFRICA

Growing Gauteng Together

WEEKLY ECONOMIC INSIGHTS

26 – 30 AUGUST 2019

HIGHLIGHTS

- **US MANUFACTURING ORDERS INCREASE IN JULY, BUT SHIPMENTS DIP LOWER**
- **LOWER CONSUMER CONFIDENCE IN JAPAN & EURO AREA AS GLOBAL WOES PERSIST**
- **THE NATIONAL TREASURY'S PROPOSED ECONOMIC STRATEGY FOR SA**
- **PRODUCER INFLATION DROPS BELOW 5% IN JULY**
- **CONSTRUCTION MATERIALS PRICES RISE YET AGAIN**
- **NON-FINANCIAL CENSUS OF MUNICIPALITIES SHOWS IMPROVEMENTS IN GP**

US MANUFACTURING ORDERS INCREASE IN JULY, BUT SHIPMENTS DIP LOWER

New orders for manufactured durable goods in the US increased by 2.1% in July compared to a month earlier, marking the highest increase since August 2018. The higher reading was due to a second consecutive month of increased demand for transport equipment, which spiked 7% following a 4.1% increase in June. Despite the higher new order numbers, shipments of manufactured durable goods declined by 1.1% in July as unfilled orders (production backlog) increased slightly by 0.1%, highlighting uncertainties surrounding economic conditions in the US and abroad.



LOWER CONSUMER CONFIDENCE IN JAPAN & EURO AREA AS GLOBAL WOES PERSIST

Data from Asia showed that Japan's consumer confidence index declined by 0.7 points from 37.8 to 37.1 in August 2019, the lowest point in over 5 years. The weaker confidence levels were due to a deterioration in consumer's willingness to buy durable goods, overall confidence in livelihood and employment prospects.

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Similarly, consumer confidence in the Euro Area was confirmed at -7.1 in August, dipping from the -6.6 reading in July as households remained concerned about the general economic and financial situation.

Conversely, both the business climate and economic sentiment indicators in the Euro Area recorded improved readings in August. Business confidence improved by 0.22 points to 0.11, following a negative reading of -0.11 in July. Improved sentiments about industrial production and export orders contributed to the higher reading. Manufacturers and retailers in the Euro Area were generally more optimistic about the prevailing economic climate. However, players in the services and construction sectors as well as consumers recorded a deterioration in economic sentiments.

The backlog in manufacturing production in the US, coupled with less favourable consumer sentiments in Japan and the Euro Area all highlight the uncertain global economic environment. The US-China trade war continues to dampen perceptions across the globe. Recent developments pertaining to Brexit have improved business and economic sentiments in the Euro Area, however risks (of a no-deal Brexit) remain.

THE NATIONAL TREASURY'S PROPOSED ECONOMIC STRATEGY FOR SA

On the 27th of August 2019, the Minister of Finance, Mr Tito Mboweni, released a paper titled "*Economic transformation, inclusive growth, and competitiveness: Towards and Economic Strategy for South Africa*" for public comments. Prepared by the National Treasury, the paper outlines specific growth programmes and policy priorities that the Treasury believes can aid in achieving government's priorities of promoting and supporting (i) inclusive (labour-intensive) growth, (ii) economic transformation, and (iii) competitiveness.

Drawing from domestic and international literature and guided by the National Development Plan (NDP), the paper highlights six fundamental building blocks for sustainable long-term socio-economic development in South Africa. Furthermore, the document outlines six key themes encompassing the underlying growth reforms that Treasury believes will aid in shaping the attainment of the three abovementioned priorities. The Treasury estimates that the impact of the proposed interventions could raise potential economic growth

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by 2 to 3 percentage points and create over 1 million job opportunities. The paper is currently open for public comments until 15 September 2019.

The fundamental building block underpinning efforts towards economic transformation, inclusive growth and increased competitiveness identified in the paper include:

- Improved educational outcomes;
- Youth employment interventions
- Addressing the constrained skills environment
- Urban spatial transformation (focus on transport and human settlements)
- Promoting a capable state through a public-private compact
- Ensuring a stable macroeconomic policy environment

These building blocks are further supported by specific growth reforms including:

- Modernising network industries (electricity, transport, water and telecoms)
- Reducing barriers to entry and addressing distorted ownership patterns
- Prioritising labour-intensive growth (focus on agriculture and services)
- Ensuring flexible and focused industrial policy
- Export competitiveness and capitalising on regional growth opportunities
- Quantifying the impact of proposed reforms

Although the proposed interventions are chiefly at the macro, more national level, they do pose some areas to consider at the provincial (Gauteng) level. Firstly, as the key economic hub of SA, Gauteng should play a key and leading role in ensuring an innovative approach to implementing and promoting the proposed industrial reforms. Secondly, the province should prioritise manufacturing sector and services sector (particularly tourism) through a deliberate support to SMMEs and cooperatives. Third, at the centre of industrial policy is the push for both export promotion and ensuring fair pricing of intermediate goods along value-chains. Below are highlights of the proposed growth reforms:

ECONOMIC TRANSFORMATION | INCLUSIVE GROWTH | COMPETITIVENESS



TOWARDS AN ECONOMIC STRATEGY FOR SOUTH AFRICA

FUNDAMENTAL BUILDING BLOCKS

IMPROVED EDUCATIONAL OUTCOMES



YOUTH EMPLOYMENT INTERVENTIONS

SKILLS CONSTRAINTS



URBAN SPATIAL TRANSFORMATION



CAPABLE STATE (PUBLIC-PRIVATE COMPACT)



STABLE MACRO-ECONOMIC POLICY



1. MODERNISE NETWORK INDUSTRIES

- **Integrated Resource Plan (IRP)** should be supported & updated regularly
- Transparent tariff management
- **Independent transmission company** from Eskom unbundling to **source electricity from independent producers**
- H/holds & firms to sell excess electricity
- Eskom should sell coal-fired power stations through auctions



TELECOMS

- **Spectrum** released through **auction**
- Finalise rapid deployment guidelines for installation of telecoms infrastructure
- ICASA's economic regulation component should be **independent & funded by industry levies**
- Leverage private-sector expertise in broadband roll-out



SIX GROWTH REFORMS

TRANSPORT

- Finalisation of the **Economic Regulation of Transport Bill** to ensure competitive pricing & better service
- Separate accounting/ financial statements for Transnet divisions
- Local government take responsibility for **public transport integration & land use planning**
- Review **fuel price regulation**
- Formalise taxi industry



WATER

- Develop comprehensive **water investment management strategy**
- Finalise institutional options for service delivery & establish **Independent water regulator**
- Implement **national water conservation programme** to reduce water waste and demand



2. REDUCE BARRIERS TO ENTRY & ADDRESS DISTORTED OWNERSHIP PATTERNS

NEW LEGISLATION, POLICIES & REGULATIONS to address competition & market structure issues (**banking, telecoms & supermarkets**)

MORE ACCESSIBLE DEVELOPMENT FINANCE & INCENTIVE PROGRAMMES for new entrants

SMALL BUSINESS & INNOVATION FUND being created to support start-ups & SMMEs. Need to leverage public procurement & reduce red-tape reduction

3. PRIORITISE LABOUR-INTENSIVE GROWTH (AGRICULTURE & SERVICES)



AGRICULTURE INVESTMENT

- **Innovative financing solutions & insurance**
- **Extension services & markets access** to smallholder & emerging farmers

SERVICES SECTOR

- Focus on **services exports**, incl. tourism through
- Increased budget & support in navigating highly regulated environment.
- Amendment of visa regulations



4. FLEXIBLE & FOCUSED INDUSTRIAL POLICY

POLICY PRIORITISATION & RATIONALISATION by identifying key sectors

MORE EXPERIMENTATION & PILOTING OF POLICY OPTIONS

FLEXIBLE POLICY based on lessons from previous implementation

INDUSTRIAL POLICY IS ABOUT MORE THAN EXPORT PROMOTION – pricing of intermediate goods also key

5. EXPORT COMPETITIVENESS & REGIONAL GROWTH OPPORTUNITIES

IMPROVE QUALITY & ACCESS TO INFRASTRUCTURE



LEVERAGE BILATERAL AGREEMENTS

EXPORT MARKETING/CREDIT & INSURANCE



REGIONAL APPROACH TO SUPPLY CHAINS

- Logistics
- Energy
- Industrialisation (construction)

6. QUANTIFY IMPACT OF PROPOSED REFORMS

↑ Potential growth by 2-3 percentage points **AND** Create over 1 million job opportunities

HIGHLIGHTS

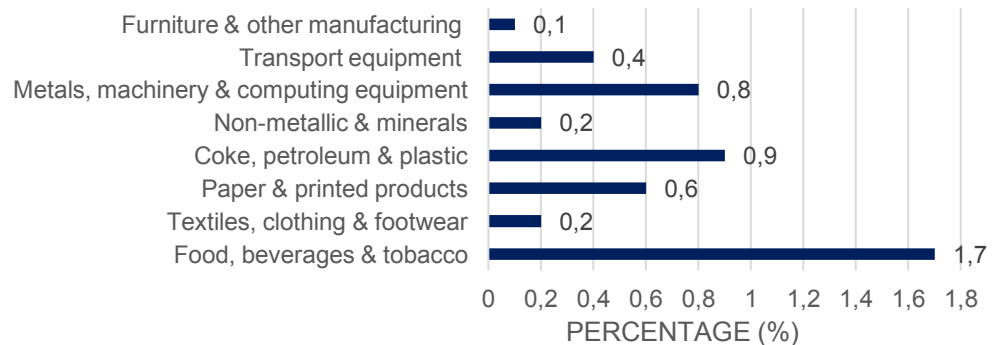
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PRODUCER INFLATION DROPS BELOW 5% IN JULY 2019

According to the latest data, annual producer inflation for final manufactured goods decreased to 4.9% year-on-year (y/y) in July from 5.8% in June 2019. In addition, the PPI decreased 0.2% month-on-month (m/m) in July 2019. This marked the first producer inflation reading below 5% since February this year and was weaker than general expectations from a Bloomberg survey of a slight decline in PPI to 5.6% in July.

The lower annual and monthly readings imply that producer prices grew slightly slower in July 2019 compared to the same time last year and compared to June this year. The slower growth in producer prices is believed to have been mainly due to a large decrease in petrol prices at the beginning of July, which was attributed to the lower international oil prices at the time.

CONTRIBUTIONS TO Y/Y CHANGE IN PPI - FINAL GOODS



Data source: Statistics South Africa

The main contributors to the headline PPI were food, beverages, and tobacco products which increased by 5.1% y/y and contributed 1.7 percentage points to the PPI reading. Meanwhile, coke, petroleum, chemical, rubber, and plastic products also increased by 4% y/y while metals, machinery, equipment, and computing equipment increased by 5.6% y/y.

The latest PPI and the lower consumer prices reported on 21 August, confirm that inflationary pressures remain muted. Year-to-date, consumer inflation has averaged 4.3% and producer inflation has averaged 5.5%, highlighting the constrained consumer environment which is likely to lead to retailers passing on price increases to consumers. Analysts believe that the lower inflation levels are supportive of another rate cut decision at the MPC's September meeting. However, upside risks to the inflation outlook, including the exchange rate and food prices could force the SARB to keep interest rates unchanged.

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CONSTRUCTION MATERIALS PRICES RISE YET AGAIN

The construction sector in South Africa continues to be under pressure as the cost of construction projects remains on the rise. Data released by Statistics South Africa revealed that the Contract Price Adjustment Provisions (CPAP) which are used to adjust contracts based on cost fluctuations in labour, plant and materials, for the various work groups, increased by up to 4.3% month-on-month (m/m) in July 2019.

In addition, overall prices of construction materials (construction input prices) increased by 0.1% m/m, whilst aggregate civil engineering prices decreased by 0.4% m/m. The higher prices were mainly driven by increases in the price of specialist trade contractors (increased by 1.2% m/m) and the cost of constructing building (up 1.1%).

On a year-on-year basis, construction prices increased by 5.3% between July 2018 and July 2019.

These numbers prove the increasing cost of construction in the country.



After more than a decade of limited government spending, coupled with subdued economic growth, South Africa's once vibrant and globally competitive construction sector faces ongoing challenges. To reverse this trend, South Africa policymakers should enhance the capacity in the domestic construction sector while driving transformation through the empowerment of emerging construction companies.

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According to the latest Non-Financial Census of Municipalities 2018 publication from Statistics South Africa, Gauteng continues to lead with regards to service delivery and access to basic services. The service delivery areas covered in the report include access to (i) water; (ii) electricity; (iii) solid waste management and (iv) sanitation.



Of the 11 municipalities situated in Gauteng, 9 (82%) were found to have the right infrastructure to provide basic service to its people. Gauteng leads in the provision of solid waste management with 3.37 million consumer units provided with the service. The provision of solid waste management services in the province increased by 0.9% between 2017 and 2018 and 24% (826 000) of the total consumer units were provided access to free solid waste management services.



Access to water was provided to 3.36 million consumer units, an increase of 2.3% from the previous year. In addition, 34% (1.26 million) of these consumer units were provided access to free water.

On the other hand, access to sewer and sanitation was provided to 2.83 million consumer units, an increase of 3.1% from the previous year, with 31% of these consumer units accessing free sewer and sanitation services.



Access to electricity was provided to 2.61 million consumer units, an increase of 1% from the previous year. An estimated, 31% (532 thousand) of these consumer units had access to free electricity.

In view of employment equity, the municipalities in Gauteng had 33% female Municipal managers (Section 56 of Local Government Municipal System Act, 2000) relative to the national average of 30% in 2018. Furthermore, with regards to the managerial positions (excluding Section 56 managers), Gauteng had a 44% representation relative to a 38% representation at national level.

Gauteng's economic power-hub status continues to translate into better living conditions to its citizens through better service delivery. Despite this progress, high levels of in-migration continue to create a growing backlog in service delivery and is a strain on spending plans.

INDICATORS: Week 26 - 30 August 2019

PRODUCER INFLATION



4.9% y/y
Jul '19



CONSTRUCTION MATERIALS PRICES

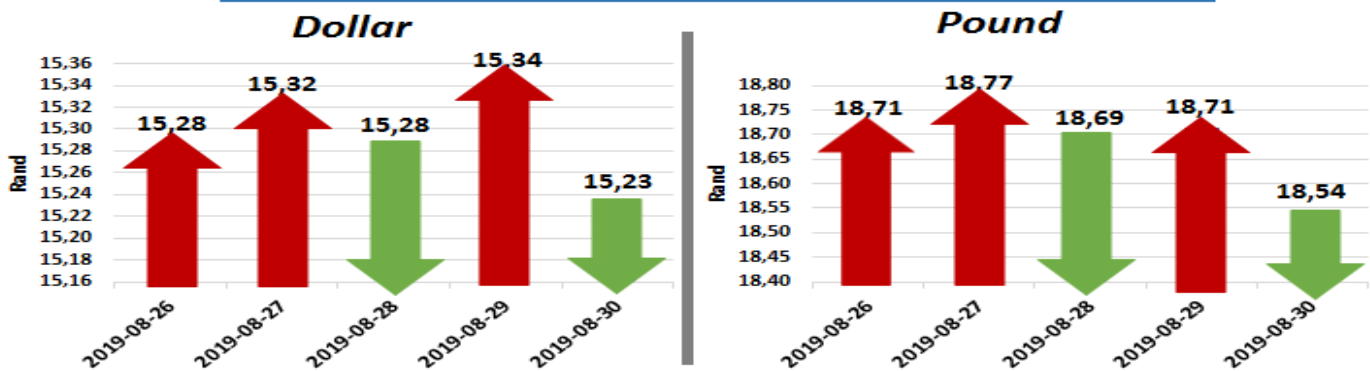


0.1% m/m
Jul '19



Source: Statistics South Africa 2019

RAND/DOLLAR/POUND EXCHANGE RATE



Source: SARB, 15:00, 30 Aug '19

COMMODITIES



BRENT CRUDE OIL PER BARREL

\$61.13
30 Aug'19



\$58.94
23 Aug'19

GOLD PER OUNCE

\$1 529.39
30 Aug'19



\$1 499.65
23 Aug'19

PLATINUM PER OUNCE

\$936.52
30 Aug'19



\$847.60
23 Aug'19

Source: Trading Economic, 15:00, 30 Aug'19

Chief Content Editor: Motlatjo Moholwa

Content Editor: Bokang Vumbukani-Lepolesa

Contributors:

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