WEEKLY ECONOMIC INSIGHTS

GAUTENG PROVINCE
ECONOMIC DEVELOPMENT
REPUBLIC OF SOUTH AFRICA

Growing Gauteng Together

WEEKLY ECONOMIC INSIGHTS

28 OCTOBER – 1 NOVEMBER 2019

HIGHLIGHTS

- *GLOBAL MANUFACTURING IMPROVES IN OCTOBER*
- EU GRANTS UK ANOTHER BREXIT EXTENSION
- US FED CUTS RATES
- MOODY'S REVISES RATING AFTER MTBPS
- UNEMPLOYMENT LEAVES YOUTH MORE VULNERABLE
- PRODUCER PRICES SLOW TO 4.1%
- SA'S TRADE SURPLUS WIDENS
- ELECTRICITY PRODUCTION FALLS
- CONSTRUCTION MATERIALS PRICES FLAT
- ABSA PMI UP, STAYS BELOW MID-POINT

GLOBAL MANUFACTURING IMPROVES SLIGHTLY IN OCTOBER

The Manufacturing Purchasing Manager's Indices (PMI) for China, the US and UK, all improved slightly during October 2019. China's PMI rose to 51.7 from 51.4, marking the strongest pace of expansion in the manufacturing sector since February 2017. Similarly, the US PMI rose to 51.3, a modest improvement in the health of the sector. The increases were supported by higher output growth and a notable increase in new orders as companies increased their purchasing activity, keeping the two country's manufacturing sectors in an expansionary phase (despite the ongoing trade deal discussions).

The UK Manufacturing PMI increased to 49.6, this came despite declines in new orders amid Brexit and political uncertainties. Nonetheless, growth in inventories of final goods and purchases were at a 6-month high in October, aiding the increase. The latest reading does, however, point §to the ongoing contraction in the sector as the PMI remains below the 50-point mark.

PMI	SEPT'19	OCT'19
China – Caixin Manufacturing PMI	51.4	51.7
Japan – Jibun Bank Manufacturing PMI	48.9	48.4
UK – Markit/CIPS Manufacturing PMI	48.3	49.6
US – Markit Manufacturing PMI	51.1	51.3

Data source: Trading Economics

Japan's PMI dipped to 48.4 in October, marking the sixth consecutive contraction in the sector as the nation suffers the effects of the typhoon and tries to balance the effects of the ongoing trade war between its two largest trading partners.

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

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EUROPEAN UNION GRANTS UK ANOTHER BREXIT EXTENSION

On Monday, 28 October 2019, the national leaders of the European Union (EU) have granted the UK another extension to its Brexit deadline – now shifted to the end of January 2020. However, the UK can still leave the EU earlier if its government can manage to get parliamentary approval for Prime Minister Johnson's Brexit deal. Specifically, the extension will allow the UK sufficient time to scrutinise the second Brexit deal, that was agreed to in mid-October.

The EU has insisted it will not renegotiate the withdrawal agreement again and aims to ensure that the UK continues to abide to its commitment to cooperate with the EU as well as satisfy its obligations as an EU member, including nominating a candidate for appointment as a member of the European Commission. With the EU general election scheduled for early December 2019, the immediate political future of the region remains uncertain.

US FED CUTS RATES FOR 3RD TIME THIS YEAR

During its October meeting, the US Federal Reserve cut the target range of the federal funds rate to 1.5%-1.75% (75 basis point below the June 2019 rate) - citing muted inflation pressures and concerns about the domestic economic outlook as the key reasons for the further easing of rates. Aggregate inflation and inflation for goods other than food and energy have registered below 2% and measures of longer-term inflation expectations remain subdued.

The US economy grew steadily in the third quarter, expanding by 1.9% quarter-on-quarter (q/q), from 2% in the second quarter. Although, business fixed investment and exports remained weak, the Federal Reserve signalled a pause in the easing cycle as the US labour market remained strong and household spending continued to rise. Overall, the recent cut supports the Committee's view that sustained expansion in economic activity, strong labour markets, and low inflation are the most likely outcomes; however, the outlook uncertainties – stemming mostly from the US-China trade war – remain.

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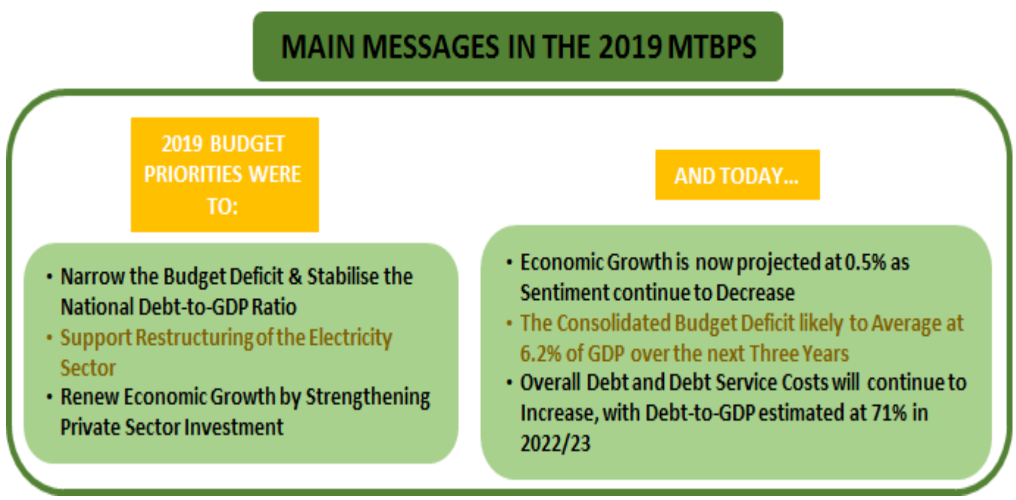
MOODY'S REVISES RATING AFTER MINI-BUDGET HIGHLIGHTS SA'S AILING FISCUS

On 30 October 2019, the Finance Minister delivered his Medium-Term Budget Policy Statement (MTBPS). The statement highlighted a deterioration in the country's fiscal position, due to a combination of weaker economic growth, lower tax revenue forecasts as well as additional support for the electricity utility Eskom. The Minister noted that this year's national debt exceeded R3 trillion and is expected to rise to R4.5 trillion over the next three years. Furthermore, without any policy adjustments, debt will most likely exceed 70% of gross domestic product (GDP) by 2022/23.

Reacting to the policy statement, the local currency and government bond yields took a knock during trade on Wednesday and Thursday. On Wednesday, the Rand depreciated by 2.8%, moving closer to the R15/$ level while the 10-year government bond yield spiked by 24 basis points to 8.44%.

The main in-year expenditure projections for 2019 are:

- R26 billion in additional financial support to Eskom
- R11 billion to several smaller state-owned companies in financial distress
- R430 million approved through the Budget Facility for Infrastructure for student housing



Notwithstanding, the overall message of the MTBPS was that the fiscus is under more pressure than when the budget was tabled in February earlier this year. In the absence of substantial corrective measures (mainly on government expenditure), key fiscal metrics are projected to worsen notably over the next few years.

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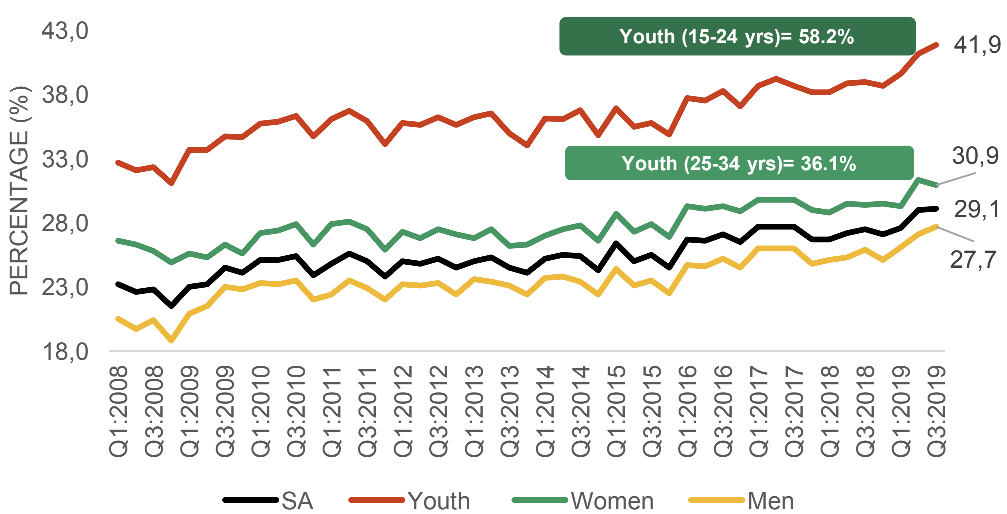
The weaker fiscal position was an important contributor to Moody's decision to keep South Africa's sovereign debt at BAA3, the lowest investment grade. Citing a deterioration in the economic growth outlook and rising debt, the ratings agency revised its outlook for SA to negative. Compared to other rating agencies, Moody's is the only agency that has not yet downgraded South Africa to junk status and the decision to not downgrade gave some reprieve for financial markets, with the Rand trading slightly stronger on Friday (1 November). The key takeaway from the MTBPS was that the country needs to decrease its expenditure and implement much needed structural reforms so that South Africa can get back on a growth trajectory.

HIGHER UNEMPLOYMENT LEAVES SA'S YOUTH EVEN MORE VULNERABLE

The face of unemployment in South Africa remains black, young and female. However, job losses since the start of the year have left the youth even more vulnerable. In the third quarter of 2019 (Q3:2019), the national unemployment rate measured at 29.1%, increasing by 0.1 percentage point relative to the previous quarter. The increase came as the number of unemployed individuals rose by 78 000 (to 6.7 million) and those in employment increased of 62 000 (to 16.37 million), falling short of accommodating the 141 000 additional individuals entering the labour force. The increase in the labour force came as the working age population increased by 149 000 between Q2 and Q3.

SA UNEMPLOYMENT - YOUTH & BY GENDER



Data source: Statistics South Africa

Meanwhile, the youth unemployment rate increased by 0.7 percentage point q/q, to peak at 41.9%. The increase was underpinned by an increase in unemployed

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youth – which rose by 87 000 to register at 4.3 million – as well as a decline in employment levels. The number of employed youth declined by 60 000 over the quarter, to register at 5.9 million. Further highlighting the severity of the youth unemployment dilemma is the fact that the number of unemployed youth accounted for 63% of total national unemployment in Q3:2019. Conversely, albeit high, the unemployment rate amongst women dipped slightly to 30.9% from its peak of 31.3% in the previous quarter. The number of unemployed women declined by 6 000, to 3.2 million and accounting for 44% of total unemployed in SA.

Since the beginning of the year, cumulative figures paint an even dimmer picture. Year-to-date, total employment has declined by 154 000, whilst youth and women employment levels have declined by 233 000 and 8 000, respectively. Furthermore, the overall unemployment rate increased by 2 percentage points, whilst that of youth and women increased by 2.7 and 2.8 percentage points, respectively.

In Gauteng, the unemployment rate declined by 0.1 percentage point to 31% q/q, as the number of employed and unemployed individuals declined by 6 000 (to 5.1 million) and 21 000 (to 2.3 million), respectively. Likewise, the youth unemployment rate measured at 43.9%, a decline of 0.6 percentage points as the number of unemployed youth decreased by 26 000 (to 1.2 million) - accounting for 56% of total Provincial unemployment. The lower youth unemployment rate was likely due to a decline in the youth labour force of 20 000 rather than an increase in jobs. Overall, Gauteng's employment increased by 6 000 to 1.6 million.

The unemployment rate amongst Gauteng women measured at 34.3%, increasing by 0.2 percentage point to 1.1 million. This was despite the increase in women employment (to 2.4 million). Year-to-date, total employment in Gauteng has declined by 103 000 while that of youth and women has declined by 63 000 and 58 000, respectively.

The job loss trend is worrying; particularly amongst the youth, considering the concerted efforts being made towards fighting youth unemployment as a means of reducing overall unemployment.

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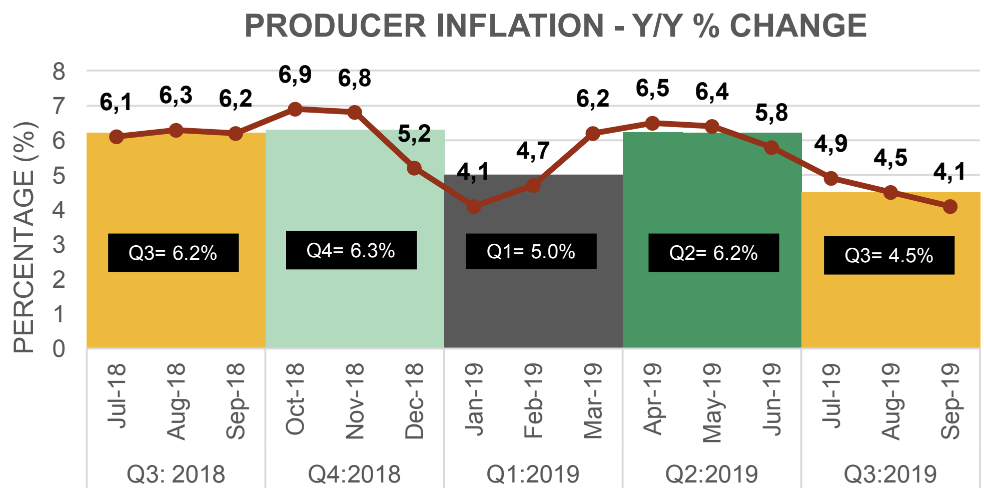
PRODUCER PRICES SLOW TO 4.1% IN SEPTEMBER

Annual producer price inflation for final manufactured goods registered at 4.1% in September, slowing from 4.5% a month earlier. The largest contributor to the headline rate were food, beverages and tobacco products, which increased by 4% and contributed 1.3 percentage points to the September reading. Other price increases were observed for metals, machinery, equipment and computing equipment as well as coke, petroleum and chemical products which increased by 4.5% and 2.8% respectively, contributing 0.6 percentage points. The price of paper and printed products increased the most (by 8%), although only contributing 0.6 percentage point to the change.



Data source: Statistics South Africa

Quarterly, average producer price inflation hit its lowest level this year at 4.5% in the third quarter, significantly lower than the 5% and 6.2% average rates during the first two quarters of the year.

The price of intermediate manufactured goods was 0.5% in September, compared with 1.9% registered in August 2019. Meanwhile, the annual percentage change in the price of utilities was 17.1% in September compared with 14.3% a month earlier, and was heavily driven by higher electricity prices which contributed 16%.

As would be expected, the weaker PPI figures are closely correlated with lower consumer prices (which declined from an average rate of 4.5% to 4.1% between Q2 and Q3), as lower producer prices usually translate into lower consumer prices. The two indices remain comfortably below the Reserve Bank's inflation target range, offering some leeway for the MPC to consider a possible rate cut during its next meeting.

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SA'S TRADE SURPLUS WIDENS IN SEPTEMBER AS VALUE OF IMPORTS DECLINES

According to the South African Revenue Services (SARS), South Africa's exports registered at R110 billion in September 2019, whilst R105 billion worth of goods were imported into the country, resulting in a trade surplus of R5.16 billion. This follows a revised trade surplus of R4.54 billion recorded in August 2019. The positive trade balance was recorded despite respective declines in both exports by 7.8% and imports by 8% compared to the previous month. The decline in the value of exports during the month under review was underpinned by the lower exports of Vegetable products (-17%); Machinery and Electronics (-15%), Vehicles and transport equipment (-11%), Minerals (-10%) and Base Metals (-5%). Similarly, lower imports were recorded for all the above-mentioned products, except for Vegetable products, which increased by 46% during the month.

In September, the value of trade with the country's top trading partners declined across several regions including, America, Europe, Asia and Africa. The overall decrease in trade in the country's trading partners can be attributed to weaker global demand as well as the current trade tensions facing Asia that is a trading partners to many countries worldwide.

Region	Change in Exports	Change in Imports
America	-10.4%	-24.0%
Europe	-11.9%	-9.3%
Asia	-6.9%	-4.6%
Oceania	16.1%	-44.5%
Africa	-4.6%	1.2%

Data source: South African Revenue Services (SARS)

Between January and September 2019, SA's trade account registered a positive balance of R2.5 billion, compared with R1.8 billion for the same period last year. Given that the deficit on the current account (which is the broadest measure of trade in goods and services, and the local currency) widened to 4% of Gross Domestic Product in the second quarter, the current surplus should bode well for SA's current account. Current account deficits have been an ongoing risk to SA's economy, especially given that the country also runs a fiscal deficit, which is forecast to widen to an 11-year high of 6.5% of GDP in 2020-2021, as the government addresses challenges at cash-strapped Eskom.

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ELECTRICITY PRODUCTION FALLS FURTHER IN SEPTEMBER

On Thursday the 31 October 2019, Statistics South Africa (StatsSA) published a concerning report on electricity generated for September 2019, underscoring the challenges facing the nation's power utility, Eskom. The publication shows that electricity generation (production) decreased for the third consecutive month, slipping by 0.5% y/y from 21 481GWh in August to 20 751 GWh in September 2019. According to StatsSA, this followed month-on-month changes of -1.8% in August 2019 and -1,4% in July 2019.

On a quarterly basis, seasonally adjusted electricity generation decreased by 1.8% in the third quarter of 2019 compared to the second quarter of 2019.

Electricity distribution (consumption) decreased by 1.3% year-on-year in September 2019. Monthly, the electricity distribution increased by 3.3% month-on-month in September 2019, following -2.5% and -0.6% decreases in August and July 2019, respectively. Quarterly, the distribution decreased by 1.8% in the third quarter of 2019 compared with the second quarter of 2019. In addition, the amount of electricity distributed to Gauteng declined by 2.3% y/y in September while that of Northern Cape increased by 9.7% (the largest increase in electricity distribution).

The lower levels of electricity consumption could be attributed to weaker demand due to slowing economic and industrial activity. Households could also be finding alternative energy sources in the wake of electricity price hikes. Should Eskom fail to address its administrative, financial and operational challenges, the nation's electricity situation could worsen, raising the possibility of further round of load-shedding in coming months.

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CONSTRUCTION MATERIALS PRICES FLAT IN SEPTEMBER

Changes in the Contract Price Adjustment Provision (CPAP) work indices ranged between -2.6% and 1.7% in September 2019 (m/m). Increases were observed for several indices including the brick and blockwork (1.7%) and stainless steel (1.4%) work groups.

The increase in the brick and blockwork work group was underpinned by a 3.7% rise in the Producer Price Inflation (PPI) for clay bricks which account for 45% of the work group. On the other hand, the upswing in the stainless-steel work group was due to an increase in the Steel and Engineering Industries Federation of South Africa (SEIFSA) index for stainless steel flat products cold rolled 304b and 316b, which rose by 3.4% and 1.5%, respectively. On the other hand, contractions were observed in the waterproofing work group, particularly in the PPI for bituminous mixtures, which decreased 4% m/m.

In contrast, the Construction Input Price Indices (CIPI) for the construction sector and civil engineering material registered subdued growth of 0% and 0.4%, correspondingly.

Despite subdued growth in the price of construction inputs, South Africa's construction sector remains under strain. This is evidenced in the latest Quarterly Labour Force Survey (QLFS) (Q3:2019) which showed that compared to the same quarter in 2018, employment in the construction sector had registered 163 000 job losses in the third quarter of 2019.

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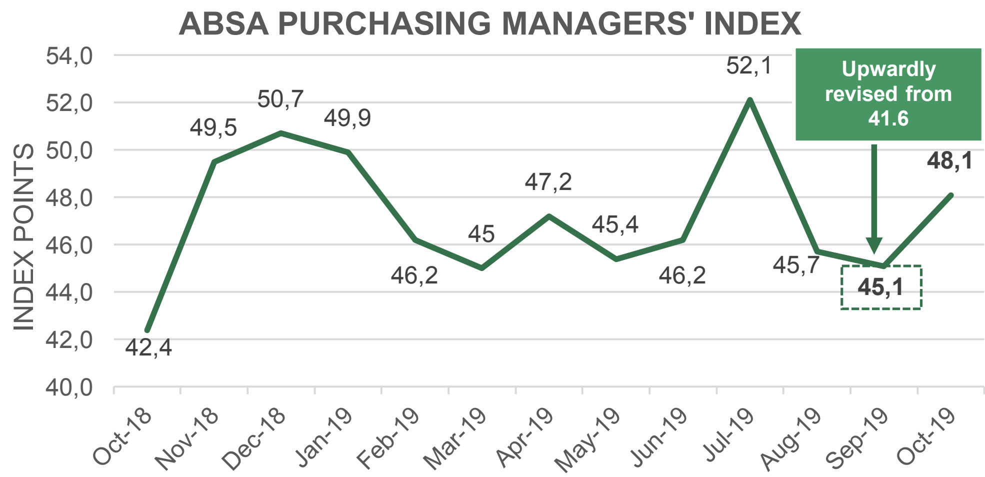
ABSA PMI RISES BUT, STAYS BELOW MID-POINT

The seasonally adjusted Absa Purchasing Managers' Index (PMI) rose to 48.1 index points in October, up from an upwardly revised 45.1 index points in September (originally recorded at 41.6). The higher reading was supported by improvements in four of the PMI's sub-components, with only manufacturing inventories slipping lower.



Data source: Bureau for Economic Research

Specifically, the business activity; new sales orders and employment indices increased, although remaining below the 50-point mark that separates an expansion from contraction in manufacturing demand and output. The supplier deliveries index improved further beyond the 50-poing mark. In addition, despite the domestic currency weakening somewhat during the month, the purchasing price index dipped slightly, indicating lower purchasing prices for manufactured goods.

SUB-COMPONENT	AUG'19	SEPT'19	OCT'19
Business activity	47.8	41.0	45.6
New sales orders	50.2	43.6	44.5
Employment	39.6	40.5	42.3
Inventories	45.2	39.6	39.2
Supplier deliveries	48.4	51.2	56.5
Purchasing prices	73.6	76.7	69.0
Headline PMI	***45.7***	***45.1***	***48.1***

Data source: Bureau for Economic Research

The October level was slightly higher than the average of 47.3 recorded during the third quarter and in line with the average of 48.3 points recorded during the first nine months of the year.

INDICATORS: Week 28 Oct - 01 Nov 2019

UNEMPLOYMENT RATE

SA 29.1%
Q3:2019

GP 31.0%
Q3:2019

TRADE

Surplus
R5.16 billion
Sep'19

Source: SARS, 2019

CONSTRUCTION INPUT PRICE INDICES

0.0% m/m
Sep '19

ELECTRICITY

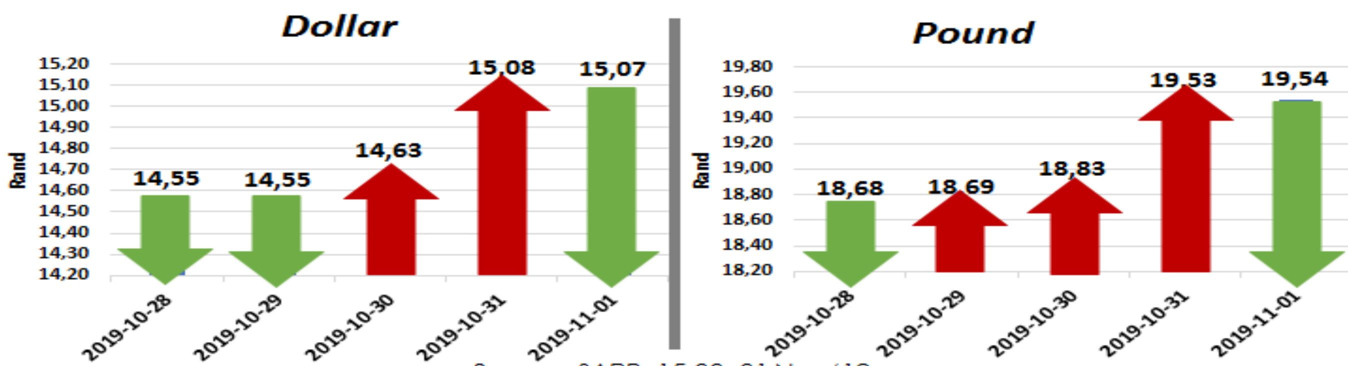
0.5%y/y
Sep'19

PRODUCER INFLATION

4.1%
Sep'19

Source: Statistics South Africa 2019

RAND/DOLLAR/POUND EXCHANGE RATE



Source: SARB, 15:00, 01 Nov '19

COMMODITIES

BRENT CRUDE OIL PER BARREL

$61.67
25 Oct'19

$60.20
01 Nov'19

GOLD PER OUNCE

$1 518.53
25 Oct'19

$1 509.43
01 Nov'19

PLATINUM PER OUNCE

$931.43
01 Nov'19

$889.94
25 Oct'19

Source: Trading Economics, 15:00, 01 Nov'19

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