WEEKLY ECONOMIC INSIGHTS

GAUTENG PROVINCE
ECONOMIC DEVELOPMENT
REPUBLIC OF SOUTH AFRICA

Growing Gauteng Together

WEEKLY ECONOMIC INSIGHTS

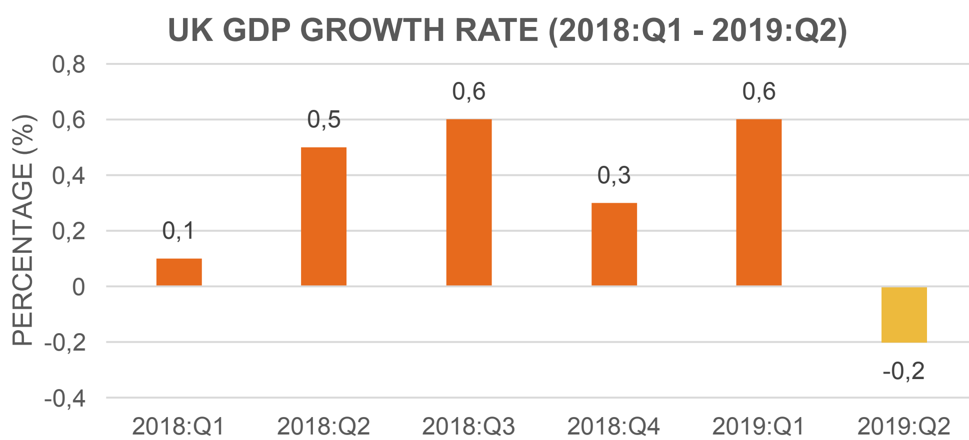
30 SEPTEMBER – 04 OCTOBER 2019

HIGHLIGHTS

- *UK GDP CONTRACTS IN THE THREE-MONTHS- ENDING JUNE*
- GLOBAL MANUFACTURING SECTOR REMAINS SUBDUED
- SA SLIPS SLIGHTLY ON THE AFRICA RISK-REWARD INDEX
- GLOBAL OIL TROUBLES IN SEPTEMBER PUT PRESSURE ON SA'S FUEL PRICES
- ELECTRICITY GENERATION & CONSUMPTION DIP FURTHER
- SA RECORDS A TRADE SURPLUS IN AUGUST
- ABSA MANUFACTURING PMI FALLS TO 10-YEAR LOW

UK GDP CONTRACTS IN THE THREE-MONTHS-ENDING JUNE

The UK economy expanded 1.3% year-on-year (y/y) in the second quarter of 2019, notably lower than the revised 2.1% y/y growth in the first quarter. Quarterly however, the UK's Gross Domestic Product (GDP) contracted by 0.2% in the second quarter, from a 0.6% expansion recorded in Q1. This marks the UK's lowest economic growth rate since the first quarter of 2018, highlighting an economy riddled with slowing fixed investment growth, declining business investment and slowing growth in exports and services sector performance.



Data source: Trading Economics

Worth noting, is the 13% decline in business investment in the second quarter which has been attributed to uncertainty surrounding Brexit. Ongoing talks between the UK and European Union and disagreements in the UK parliament are expected to continue to weigh heavily on the risk appetite of UK-based businesses. Furthermore, as one of SA's largest trading partners, threats to the UK's and EUs economic performance will present threats for SA too.

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

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GLOBAL MANUFACTURING SECTOR REMAINS SUBDUED

As outlined below, the latest manufacturing Purchasing Manager's Index (PMI) data reveals a mostly passive manufacturing environment characterised by low levels of output, dwindling new orders and purchases. Both the Euro Area and Japan saw their PMIs dip further below the 50-midpoint that separates expansion from contraction. The EU IHS/Markit Manufacturing PMI decreased to 45.7 in September from 47 in August 2019. Similarly, Japan's Jibun Bank Manufacturing PMI slipped from 49.3 to 48.9 over the same period.

PURCHASING MANAGER'S INDICES	August 2019	September 2019
EU – IHS/Markit Manufacturing PMI	47.0	45.7
UK – Markit/CIPS Manufacturing PMI	47.4	48.3
Japan – Jibun Bank Manufacturing PMI	49.3	48.9
US – IHS/Markit Manufacturing PMI	51.0	**51.1**
China – Caixin Manufacturing PMI	50.4	**51.4**

Data source: Trading Economics

Meanwhile, Chinese and the US Manufacturing PMIs rose to 51.4 and 51.2, respectively in September. The higher readings points to the strongest pace of expansion in manufacturing activity since February 2018. In China, output grew the most in over a year, and new orders increased at the fastest pace since March 2018, despite a further decline in overseas sales. Although slightly higher in September (at 48.3), the UK's Manufacturing PMI reading remained below the 50-midpoint mark despite improvements in input buying levels, which were mainly due to increased spending in lieu of Brexit preparations. Given that the UK economy contracted in the second quarter, the weaker PMI readings over the July-September period relative to the preceding three months, may be an indication of an equally poor GDP reading for Q3.

The global economy has faced several challenges throughout 2019, with much of the uncertainty and growing risk sentiment being fuelled by geo-political (trade) tensions specifically between China and the US as well as the ongoing Brexit negotiations. Weaker growth in the UK and slowing manufacturing activity across several leading economies is a sure sign of an economy under great strain. In addition, the outlook for the rest of 2019 remains mostly negative, implying even deeper strain for developing and emerging market economies such as South Africa. This may call for increased measures to support and stimulate domestic economic activity.

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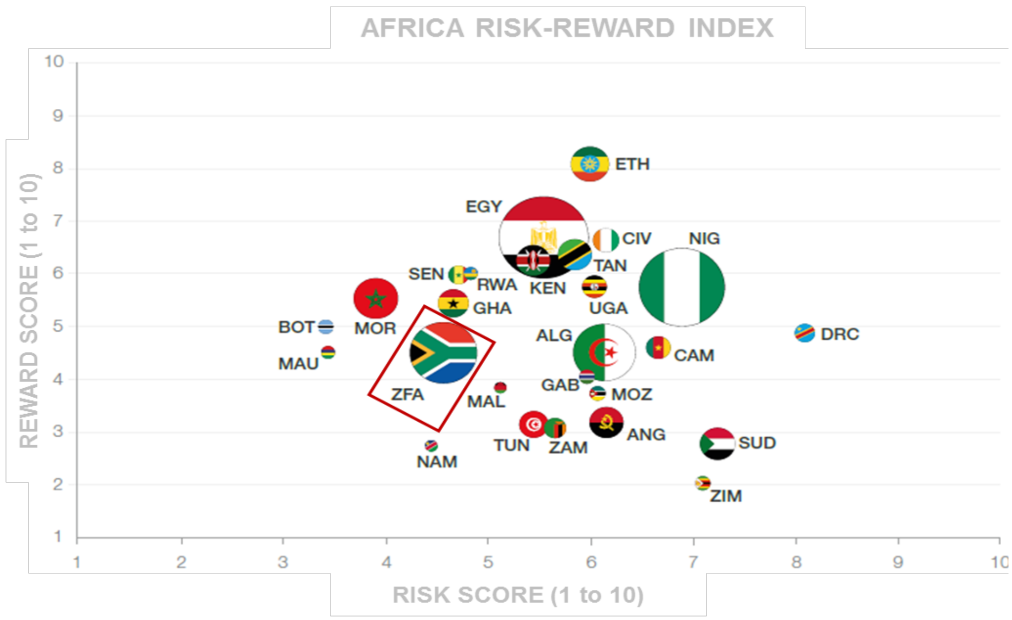
SA SLIPS SLIGHTLY ON THE AFRICA RISK-REWARD INDEX

Control Risks - a specialist risk consultancy, together with Oxford Economics recently published the fourth edition of the Africa Risk-Reward Index. The index captures changes in the domestic investment landscape in 26 major economies across Africa, and provides a comparison snapshot of market opportunities (rewards) and risks across these economies. The analysis is based on the consultancies' views as informed by their analysis of the structural, political and economic characteristics of these markets. Each of the scores are out of a total of 10 where a 'high' reward score represents opportunities for investors and a 'high' risk score indicates that potential investors will face several risks when investing in that country.



Source: Oxford Economics & Control Risks, September 2019

As shown above, South Africa's risk and reward scores are relatively low, implying that while political and economic risks are low, the economic outlook- which takes up the most weight of rewards - is not enticing. With scores of 4.51 (reward) and 4.61 (risk), South Africa is trailing behind countries such as Morocco, Botswana, Ghana and Senegal. While some of Africa's biggest economies (Nigeria and Egypt - as reflected by the size of the bubble) are relatively riskier than South Africa, their rewards are more pronounced; hence are likely to attract more investors compared to South Africa. The main 'reward' highlighted for SA is the structural reform mandate under recently elected President Ramaphosa. However, the report notes that SA must ensure it is able to effectively implement these reforms in the face of intra-party tensions within the ruling party.

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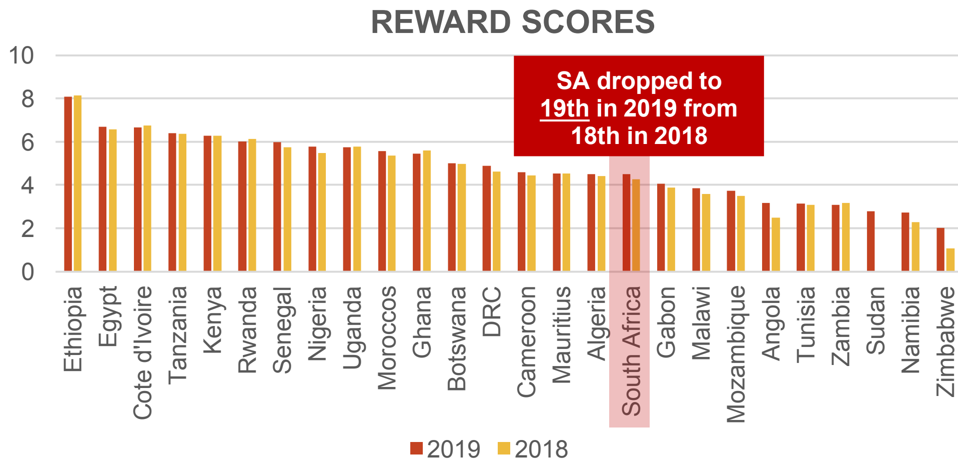
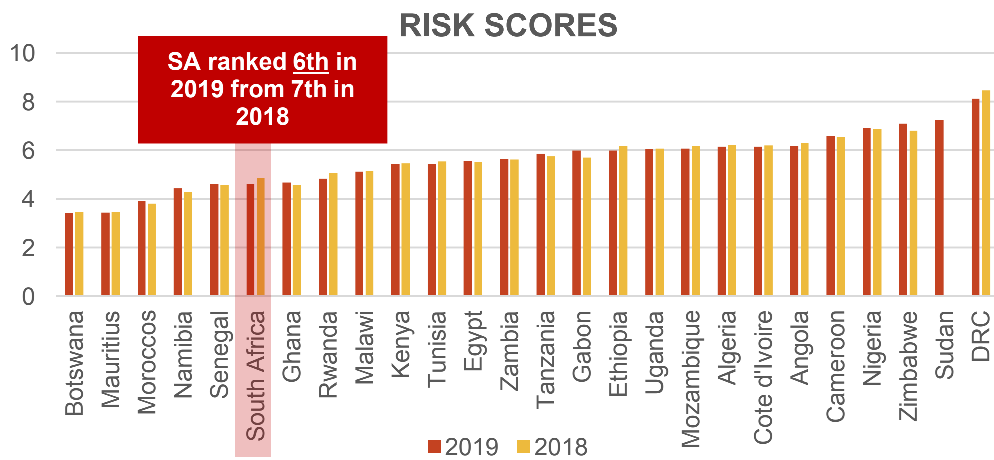


Data source: Oxford Economics & Control Risks, September 2019

SA's risk ranking improved from 7th in 2018 to 6th lowest risk level in 2019. Identified risks include: failure to correctly map intentions against actual capabilities as well as a weak economic outlook, lower business and consumer confidence levels and expectations that both investment and consumption spending will remain under serious pressure over 2019. The poor state of government finances, issues surrounding Eskom and the possible pass-through effects on the volatile exchange rate could impact inflation.



Data source: Oxford Economics & Control Risks, September 2019

Also highlighted in the report are the potential investment opportunities arising from closer intra-Africa cooperation through the African Continental Free Trade Area (AfCFTA) as well as the increasing geo-political competition across the continent shaping domestic political dynamics specifically and the business landscape in general. African governments are competing to attract investment capital to grow non-resource based sectors such as manufacturing and services, an area China continues to play a key role in.

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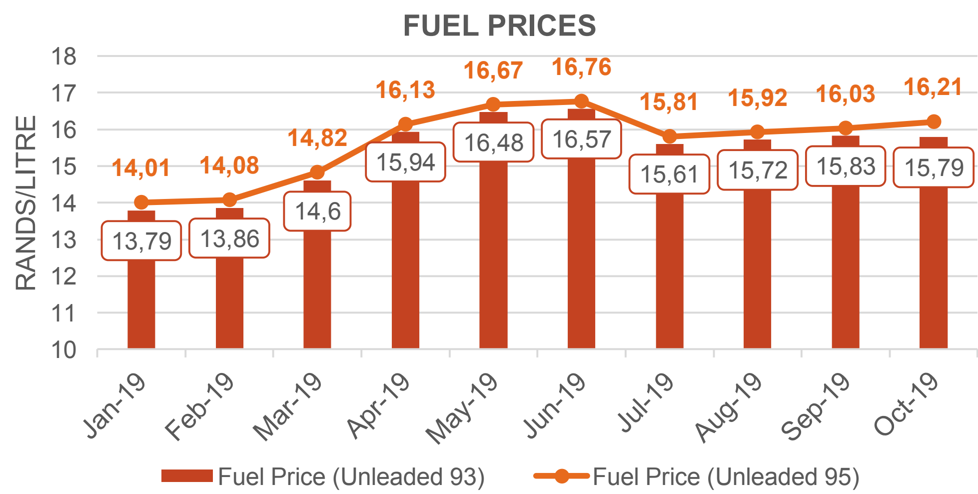
GLOBAL OIL TROUBLES IN SEPTEMBER PUT PRESSURE ON SA'S FUEL PRICES

On Wednesday 2 October 2019, the price of 95 Octane petrol increased by 18 cents per litre (c/l) as announced by the Department of Energy. As depicted below, this marks the eighth increase in the price of 95 Octane since the beginning of 2019, with the price having declined only in July. Conversely, the price of 93 Octane decreased by 4c/l, bringing the inland price of 95 and 93 Octane to R16.21 cents and R15.79 per litre, respectively. According to The Energy Department, the main reason for the fuel price increases was higher oil prices during second quarter when compared with the first quarter of 2019. However, the higher prices were offset by a stronger exchange rate compared to the previous month. The average rand/US dollar exchange rate in September was R14.84 compared to R15.17 during the previous period. The wholesale price of both grades of diesel and illuminating paraffin increased by 25 cents per litre, respectively.



Data source: Department of Energy

The country's fuel prices are adjusted monthly, informed by international and local factors. International factors include the fact that South Africa imports both crude oil and finished products at a price set at the international level, including importation costs, like shipping costs. For example, recent drone attacks on Saudi oil facilities saw the price of fuels in SA increase by as much as R1.00 a litre in just three days after the attack, before settling back slightly. This turned a generally stable price outlook into a negative one. The ramifications of the fuel price increase will unfortunately hit the consumers hard as the price of food, transport and other commodities will also increase, amidst other increases such as municipal electricity bills.

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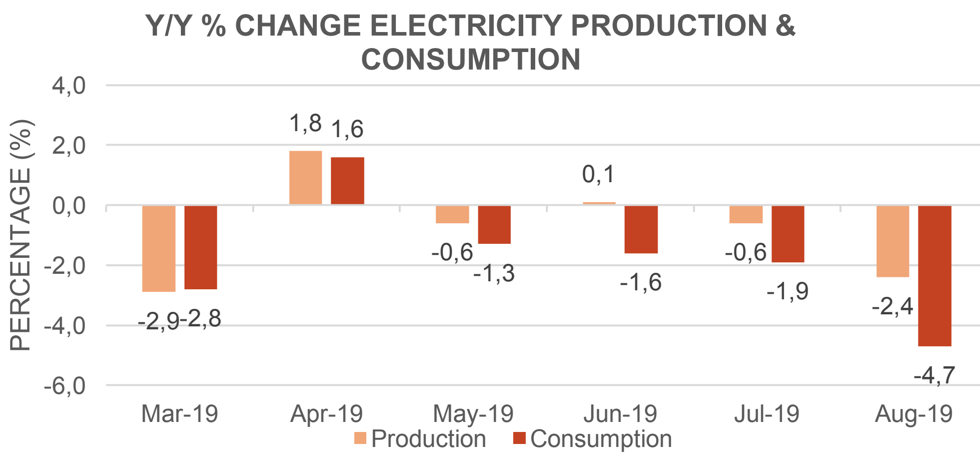
ELECTRICITY GENERATION & CONSUMPTION DIP FURTHER

Electricity generation (production) decreased by 2.4% y/y in August 2019, following a 0.6% decline in July. Similarly, the total volume of electricity distributed (consumed) decreased for the fourth consecutive month, falling by 4.7% y/y in August. Overall, the volume of electricity generated and distributed has declined by 1.1% and 1.5% respectively since the beginning of 2019, further highlighting the severe constraints facing the country's largest power producer Eskom, as well as weaker electricity demand, which is a key characteristic of a slowing economy.



Data source: Statistics South Africa

The aggregate volume of electricity delivered to provinces decreased by 4.7% from in August 2019 compared to a year ago. The electricity delivered to Gauteng declined by 4.6% y/y and 11.1% on a month-on-month basis - from 5 621 gigawatt-hours (GWh) in July to 4990 GWh in August 2019.

Adding to SA's energy sector woes, Fitch Ratings recently (in a statement released on 1 October) downgraded Eskom's credit one-notch from ccc to ccc-, signalling the power utility's worsening ability to repay its debt without additional government support. Key reasons sighted for the downgrade include: weakening revenue growth, lower profit-margin due to lower tariff increases as well as higher primary energy costs, low liquidity and high debt levels (which are the worst among its peers). Furthermore, the ratings agency assessed the government's support for Eskom as 'inconsistent', stating that it has led to an unsustainable financial profile.

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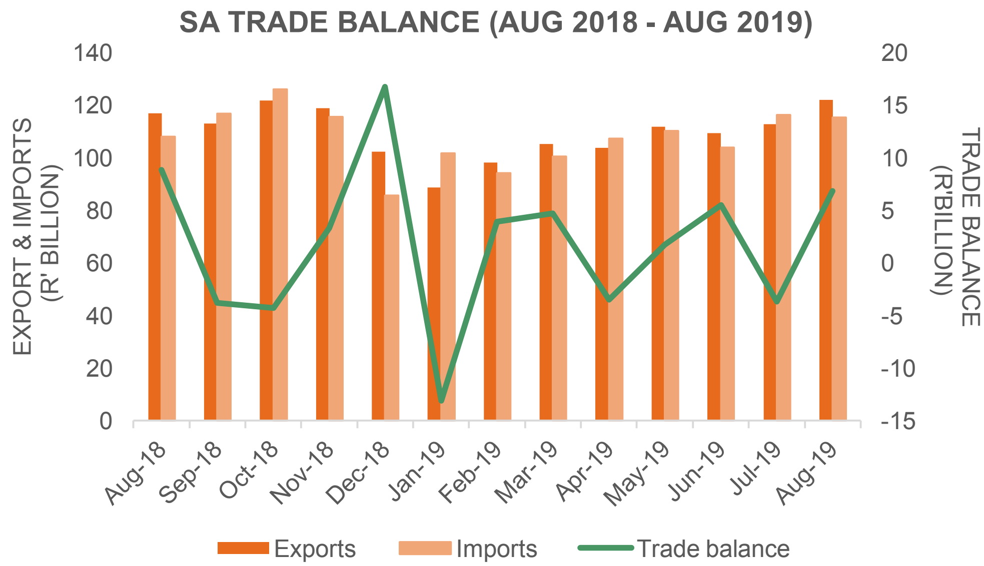
SOUTH AFRICA RECORDS A TRADE SURPLUS IN AUGUST

In August 2019, SA's trade balance edged higher as the country recorded a trade balance of R6.8 billion, an improvement from the upwardly revised deficit of R3.7 billion recorded in July. The surplus came on the back of an 8.4% growth in exports to R122 billion, mainly underpinned by the increase in exports of mineral products of 18% and a decline in the oil price in August. Meanwhile, imports recorded at R115.2 billion, following a decline of 1%.



Data source: South African Revenue Service (SARS)

While the monthly performance is positive, year-to-date, South Africa's trade (amid weak global economic performance) has been faltering. Year to date (January to August 2019), the trade balance measured at a surplus of R849 million relative to a deficit of R4.7 billion recorded in the same period in 2018.

The deterioration in the trade balance does not bode well for any plans of a recovery in the SA economy. In view of the expenditure side of GDP, the trade balance or net exports contributed negatively (-5.6 percentage points) to the second quarter's GDP. This negative trend is likely to continue for the remainder of the year, more so, following the recent (August) drone attacks on oil facilities in Saudi Arabia which will have a negative impact on oil prices. This suggests that any recovery in South Africa's economy will most likely emanate from domestic factors as opposed to global drivers.

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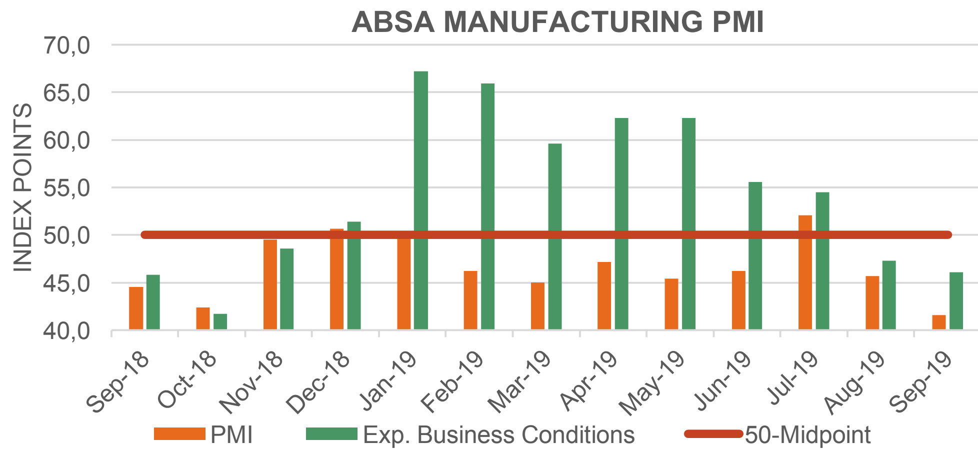
ABSA MANUFACTURING PMI FALLS TO 10-YEAR LOW

Following an improvement above the 50-midpoint in July, the ABSA Manufacturing Purchasing Manager's Index (PMI) dipped for the second consecutive month to register at 41.6 index points in September 2018, from 45.7 index points in August. This marks the lowest reading since August 2009, during the height of the global financial crisis.



Data Source: Statistics South Africa

The contraction was credited to declines in three (3) out of the five (5) subcomponents namely; new sales orders, purchasing inventories and business activity. The PMI for new sales orders fell by 7.8 index points to 40.7 index points in September 2019. This was the largest contraction among the sub components and was likely due to the decline in new vehicle sales as well as the depressed demand for SA exports on the back of a slowing global economy - particularly in the Eurozone. The generally subdued domestic and global economic climate is further evidenced by the decline in the expected business conditions in six months' time index since June 2019 (see graph above).

On the other hand, improvements were registered in the supplier performance and employment subcomponents. The improvement in the supplier performance subcomponent registered above the 50-point midpoint, following a drop in the preceding month that ended the rally above the 50-point midpoint since April 2018. Given the latest ABSA Manufacturing PMI data, the outlook for the manufacturing sector's performance for the third quarter of 2019 is dim. The preliminary manufacturing figures for July and August, coupled with the 70-month-long business cycle downturn poor performance of manufacturing output do not bode well for the aggregate output figures for the third quarter of 2019.

INDICATORS: Week 30 Sep - 04 Oct 2019

ABSA PMI

41.6 points
Aug'19

ELECTRICITY

2.4% y/y
Aug'19

Source: Statistics South Africa

TRADE BALANCE

Surplus
R6.84 billion
Aug'19

Source: SARS 2019

FUEL PRICES

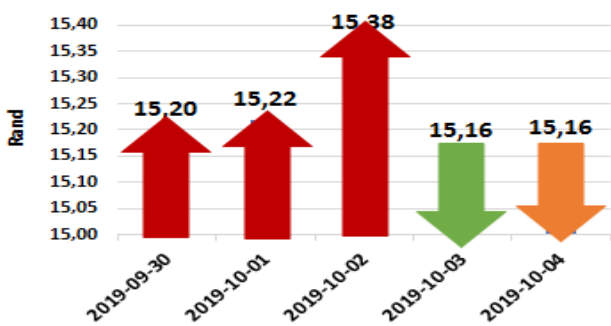
R16.21
95 unleaded
02 Oct'19

R16.03
95 unleaded
04 Sept'19

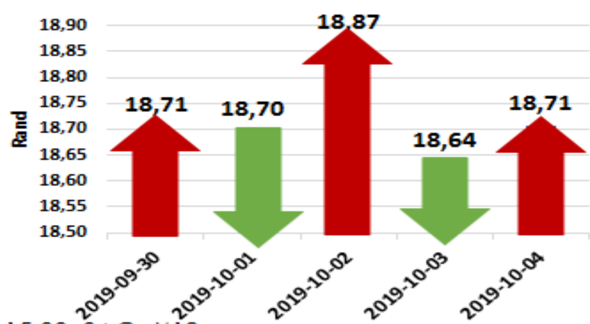
Source: Department of Energy 2019

RAND/DOLLAR/POUND EXCHANGE RATE

Dollar



Pound



Source: SARB 15:00, 04 Oct'19

COMMODITIES

BRENT CRUDE OIL PER BARREL

$61.59
27 Sept'19

$58.83
04 Oct'19

GOLD PER OUNCE

$1 495.96
04 Oct'19

$1 490.73
27 Sept'19

PLATINUM PER OUNCE

$922.63
27 Sept'19

$874.74
04 Oct'19

Source: Trading Economic, 15:00, 04 Oct'19

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