WEEKLY ECONOMIC INSIGHTS

GAUTENG PROVINCE
ECONOMIC DEVELOPMENT
REPUBLIC OF SOUTH AFRICA

Growing Gauteng Together

WEEKLY ECONOMIC INSIGHTS

13 - 17 DECEMBER 2021

- ***FITCH UPGRADES SA'S CREDIT RATING OUTLOOK***
- PUBLIC PROGRAMMES SUPPORT FORMAL EMPLOYMENT
- TOURISM AND MIGRATION NUMBERS CONTINUE TO IMPROVE
- FOOD AND BEVERAGES INCOME RISES SLIGHTLY
- CONSUMER AND PRODUCER INFLATION INCREASE FURTHER
- BROAD-BASED IMPROVEMENT IN COMPOSITE BUSINESS CYCLE INDICATORS
- CONSTRUCTION INPUT PRICE INDEX SLIPS BELOW PPI
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WEEKLY HIGHLIGHTS

This past week's economic developments included a revision in South Africa's credit rating outlook by Fitch rating agency from a negative to stable outlook following stronger than anticipated recovery as well as favourable public debt expectations.

The recovery in the domestic formal employment numbers in the third quarter, were supported by strong job numbers across government as it continued to support employment through its COVID-recovery plan programmes. Meanwhile, tourism and migration numbers registered a further improvement in October 2021. Similarly, income by the food and beverages industry edged higher as restaurants continued to register higher sales.

Unsurprisingly, consumer and producer prices have continued to rise further as fuel costs reach record highs. There was however, a broad-based improvement in the composite business cycle indicators and the construction input price index slipped below the PPI for the first time in months. Lastly, consumer sentiment improved in the last quarter of the year despite rising pressures and COVID-19 related uncertainties.

FITCH UPGRADES SA'S CREDIT RATING OUTLOOK

On Wednesday, 15 December 2021, Fitch Ratings announced that it had upgraded its outlook on South Africa's credit rating from 'negative' to 'stable', despite keeping the foreign and local currency ratings at BB-, three levels below investment grade. The ratings agency sighted a faster than expected economic recovery; strong fiscal performance and notable improvements in key Gross

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Domestic Product-based credit metrics following the change in the way GDP is calculated.

Fitch now expects SA's GDP to return to pre-pandemic levels during 2022, despite the July-unrest induced 1.5% quarter-on-quarter contraction in the third quarter. Specifically, the agency's forecast see the domestic economy grow by 4.7% in 2021 before growing by a slower 2% in 2022 and 2.4% in 2023. However, the pandemic continues to weigh on economic performance, with the risk of fresh COVID-19 outbreaks being a source of downside rise for public finances. On the positive, severe negative effects on SA's creditworthiness have declined over the last year, which has supported the revised outlook.

As recently outlined in the Medium-Term Budget Policy Statement (MTBPS), SA's debt position expected to improve significantly – to peak at 78.1% of GDP in the 2026 fiscal year, which is 10 percentage points lower than government's February 2021 estimate – following the windfall mining revenue and upward revision in GDP.

RATINGS AGENCY	RATING	OUTLOOK	DATE
Fitch	BB-	Stable	15 December 2021
Moody's	Ba2	Negative	20 November 2020
S&P	BB-	Stable	20 November 2020

Data source: Trading Economics

Overall, SA's debt assessment by the three major ratings agencies namely, Moody's Investors Service; Standard and Poor and Fitch, is at its lowest levels since the country first obtained ratings in 1994. Moody's has placed the country's rating two levels below investment grade at Ba2, whilst S&P ranks it on the same level as Fitch at BB-. Moody's remains the only agency to have SA's credit rating on a negative outlook and has not revised its position in over a year.

Should the national economy register the anticipated recovery in 2021, as well as a sustained improvement in its debt and fiscal positions into the new year (possibly after the 2022 budget speech), we could see further revisions in credit ratings and or outlooks in early 2022.

FitchRatings Moody's S&P Global Ratings

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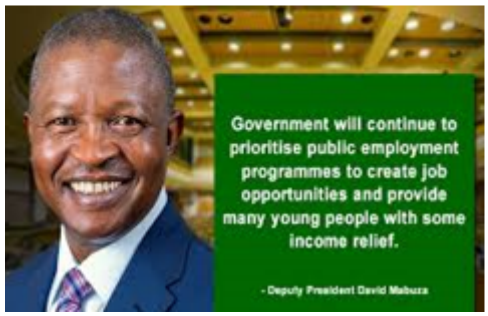
PUBLIC PROGRAMMES SUPPORT FORMAL EMPLOYMENT

According to Statistics South Africa, formal employment increased by 52 000 (0.5%) to 9.62 million quarter-on-quarter (q/q) in the third quarter of 2021 (Q3:2021). The rise in employment was supported by part-time employment gains which rose by 87 000 (8.8%) whilst full-time employment decreased by 35 000 (-0.4%). Compared to a year ago, total formal employment increased by 56 000 (0.6%) year-on-year (y/y), with part-time employment increasing by 133 000 and full-time employment contracting by 77 000.



At the industry level, the increase in employment is solely due to job gains in community and social services (+63 000), driven by the government sector (+62 000). This is attributable to South Africa's economic recovery plan where the government has invested in public employment programmes to boost job creation in the short-term. These jobs are usually part-time in nature and as such, part-time employment in the community and social services sector increased by 89 000 whilst full-time employment declined by 26 000. Mining also recorded net job gains of 7 000. Contrarily, trade dragged down employment with 13 000 (-0.6 % q/q) jobs – a likely result of the July unrest. However, relative to the estimates in the Quarterly Labour Force Survey for Q3:2021, the trade sector lost 10% of jobs (q/q) with the formal and informal sectors losing 14% and 3% of jobs, respectively. Other quarterly job losses were registered for business services (-3 000) and manufacturing (-2 000) sectors.

Yearly, formal employment increased in four (4) of the ten (10) sectors with community and social services recording 100 000 job gains, whist mining and trade recorded 11 000 and 4 000 additional jobs respectively. Conversely major job losses were recorded in Construction (-32 000) and Manufacturing (-25 000).

Post-COVID, employment is expected to be driven by part-time work. The mass public employment programmes have greatly supported employment in the quarter. However, to achieve the target of 2.5 million cumulative jobs by end of the financial year 2021/22, a more concerted effort in implementing these public employment interventions has to be made.

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TOURISM AND MIGRATION NUMBERS CONTINUE TO RECOVER

The South African tourism sector is one of the key economic sectors that generate income for the country. However, the sector continues to be severely hard hit by the effects of COVID-19 since March 2020.

According to the recently released tourism and migration report for the month of October 2021, a total of 1 001 594 (increase of 16.8%) travellers (arrivals, departures, and transits) passed through South Africa's ports of entry/exit. They were made up of 349 432 South African residents and 652 162 foreign travellers. Foreign arrivals (337 611) were made up of 44 055 non-visitors and 293 556 visitors. The visitors consisted of 45 723 same-day visitors and 247 833 overnight visitors (tourists).

The breakdown of the tourists by region was as follows; 59 475 from overseas, 182 532 from the SADC countries and 5 305 from 'other' African countries.

The volume of arrivals, departures and travellers in transit between October 2021 and the same month last year (2020) increased for both South African residents and foreign travellers, though not enough to generate positive turnover for the industry.

While tourism is currently at the centre of attention in COVID-19 relief efforts, the consequences of the pandemic on tourism needs an in-depth review.

The emergence of the Omicron variant of COVID-19 discovered by South African scientists led to United Kingdom (UK) closing its borders. The South African tourism and migration sector breathed a sigh of relief as UK removed South Africa and 10 other countries from its "red list" of travel restrictions. Travellers from countries on the list were required to do a mandatory ten-day hotel quarantine. The listed countries included South Africa, Angola, Botswana, Eswatini, Lesotho, Malawi, Mozambique, Namibia, Nigeria, Zambia and Zimbabwe. These countries were put on the red list in late November as a precaution after the Omicron variant was identified by scientists in South Africa.

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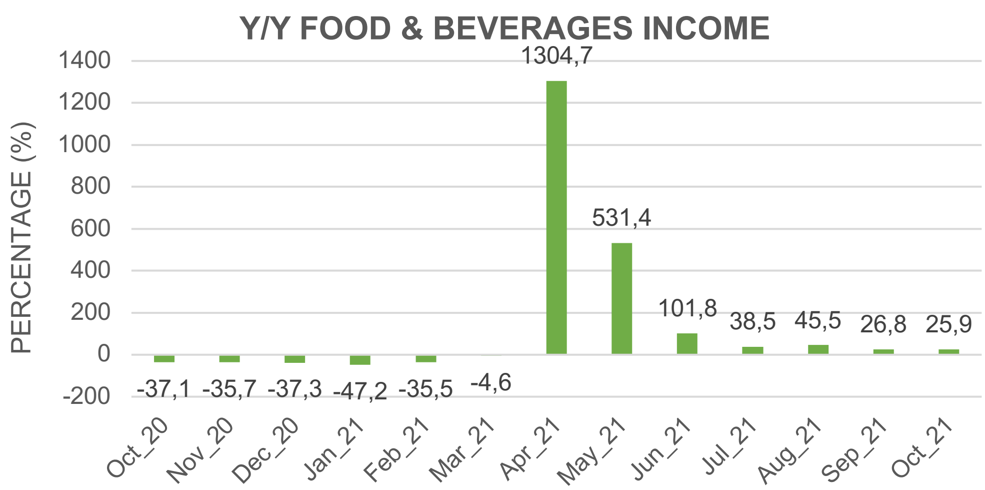
FOOD & BEVERAGES INDUSTRY INCOME RISES SLIGHTLY SLOWER IN OCTOBER 2021

According to Statistics South Africa, the total income generated by the food and beverages industry increased by 25.9% (y/y) in October 2021. The main positive contributors to this increase were restaurants and coffee shops, which recorded increases of 32.9% and 21.9% for takeaway and fast-food outlets, respectively. The largest annual growth rate in October 2021 was seen in food sales, which contributed 29.2%

Seasonally adjusted income for the food and beverages industry grew by 4.5% in October 2021 compared with September 2021. In addition, the total income generated by the food and beverages industry increased by R3.9 billion from R3.5 billion in September 2021.



Data source: Statistics South Africa

With the recent rise in COVID-19 infections (fourth wave), economists believe that implementation of any stringent lockdown measures during the holiday period could have a severe negative revenue impact in the industry. However, as the vaccine programmes roll out and economic conditions improve, sales could recover further – although at a somewhat subdued rate. This, as households continue to battle rising food and fuel prices and the highest levels of inflation in 4 years. The ongoing struggle to secure employment by many of the unemployed could also dampen the outlook and recovery.

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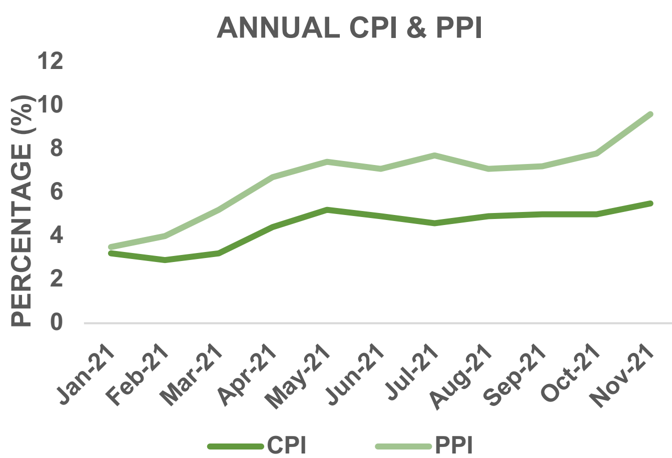
CONSUMER AND PRODUCER INFLATION INCREASE FURTHER

The Consumer Price Index (CPI) continues to steadily creep up, accelerating to 5.5% (y/y) in November 2021, the highest rate since March 2017. Food and non-alcoholic beverages prices increased by 5.5% with the price of oils and fats being the main contributor, increasing by 21.0%. Meanwhile, the price of alcoholic beverages increased by 5.3%. Electricity prices increased for the third consecutive month by 14%. Private transport operations also had a significant impact on the headline inflation as it went up by 27.9%, with the cost of fuel being a massive 34.5% higher than a year ago ─ increasing for the fourth consecutive month. Additionally, the price of public transport also increased sharply by 8.3%, while vehicles are 5.6% more expensive than they were in November 2020.

On the other hand, monthly, the CPI increased by 0.5%, fuel was the biggest contributor with 7.1%. Food and non-alcoholic beverages remained flat at 0.1% with fruits increasing by 1.8% while vegetables decreased by -3.6%, telecommunication equipment decrease by -2.5%.



Data source: Statistics South Africa

Similarly, from the factory floor end, the Producer Price Index (PPI) jumped to 9.6% in November, the highest reading since the introduction of headline PPI (a measure for inflation for final manufactured goods) a decade ago. The key drivers to the record increase were petrol and diesel, which increased by 39.3% and 41.7% respectively. Furthermore, on a monthly basis, PPI increased by 1.4% as inflation of intermediary good rose by 1.9%. The PPI for electricity and water nudged up by 2.0% and the PPI for mining decreased by 0.6% while that of agriculture, forestry and fishing increased by 0.8%.

As both the CPI and the PPI continue to edge higher, the South African Reserve Bank is expected maintain the tightening cycle it started in November 2021. Analysts warn South Africans to expect a series of interest rates hikes in 2022.

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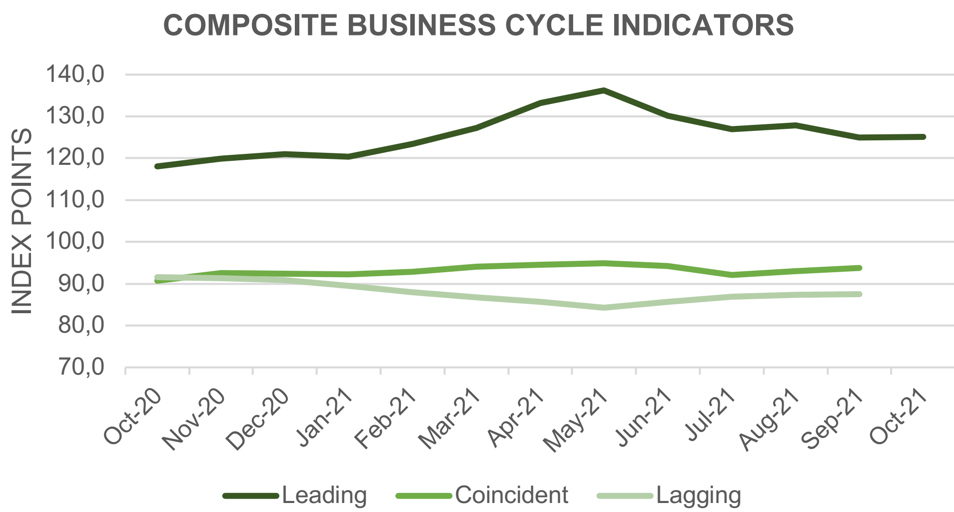
BROAD-BASED IMPROVEMENT IN COMPOSITE BUSINESS CYCLE INDICATORS

The latest Composite Business Cycle Indicator recorded a broad-based improvement in all indicators. The largest increase was observed in the coincident indicator (0.7%) in September 2021, followed by the lagging indicator (0.2%) in September 2021 and lastly, the leading indicator (0.1%) in November 2021.



Data Source: South African Reserve Bank

The rise in the leading indicator, although moderate, was underpinned by improvements in five (5) of the 10 of the available sub-indicators, specifically in the expansion of interest rate spread and US dollar-denominated export commodity price index. The reading was stifled due to a lower six-month smoothed growth rate in new passenger vehicle sales and downbeat composite leading business cycle indicator for South Africa's main trading partners. Meanwhile, the coincident indicator was aligned to the July unrest rebound. The increase in the indicator was underscored by an uptick in production activity as well as retail and new vehicle sales

Looking ahead, the outbreak of the Omicron variant is expected to weigh heavily on trade and domestic activity in the last quarter of the year. This is likely to result in the deceleration of the leading indicator into negative territory in the next release scheduled for 25 January 2021.

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CONSTRUCTION INPUT PRICE INDEX SLIPS BELOW PPI IN NOVEMBER 2021

Construction Price Adjustment Provisions (CPAP) work group indices fluctuated between -0.7% and 5.2% in November 2021. The latest reading tallied below the Producer Price Index (PPI) of 9.6% for the same month. The dip in construction input price adjustments was unexpected given relatively high PPI's for essential inputs such as intermediate manufactured goods (23.1%), electricity and water (16.7%) and mining (7%).

Meanwhile, the total construction and civil engineering material indices increased by 1% and 2%, respectively.

The range's upper bound was credited in a 5.2% increase (m/m) in the waterproofing work group due to a 7.3% improvement in the PPI bituminous mixtures. Bituminous mixtures registered the most significant month-on-month increase of 45.5% in November 2021, up from 7.3% in October 2021. Conversely, the lower bound was attributable to the 0.7% contraction reinforcement work group.

Despite moderate inflation among work groups, the Construction Input Price Index (CIPI) recorded above PPI at 15.5%, chiefly due to higher rates for specialist trade contractors, which increased from 0.7% in October to 21.8% in November 2021. According to the FNB/BER Civil Confidence Index Q4:2021, the uptick in specialist labour rate has bode well for profitability. However, it has done little to improve sentiment amongst contractors. The index reveals that 9 out of 10 (85%) contractors were pessimistic about the sector's performance, despite increasing activity (mainly through government tenders).

Construction activity remains well below pre-COVID-19 levels – a point where the sector was on the brink of collapse. The divergence between input prices and sentiment within the construction sector is a cause for concern, particularly as construction activity (number of building plans approved) is a leading indicator for the economy. The sector's current state likely indicates the domestic economic recovery forecast for 2022 could be delayed further.

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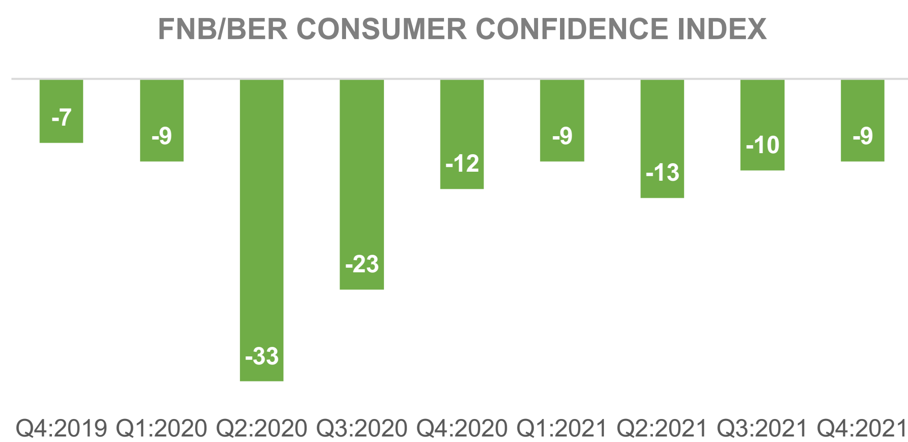
As the country eased its lockdown restrictions to adjusted level 1, consumer sentiments became upbeat. As such, the FNB/BER Consumer Confidence Index (CCI) ticked up slightly to -9 from -10 index points in the fourth quarter of 2021. This marks its second consecutive rebound, a bounce to levels recorded in the first quarter of 2021 and pre-COVID. Overall consumer sentiment was boosted by and improvements in the sub-indices measuring economic outlook (which increased) from -14 to -12 as well as household financial position which (lifted from 12 to 14). Conversely, weighing down sentiment was the sub-index measuring time to buy durable goods, which slipped from -29 to -30.



Data Source: Bureau of Economic Research

A breakdown by household income shows that consumer confidence remained unchanged amongst high income households (earning more than R 20 000 a month) at -11. Meanwhile, the index improved by 1 index point to -9 for middle income households (earning between R2 500 and R20 000 per month) whilst it extended its recovery from -12 to -9 amongst low-income households (consumers earning less than R2 500 per month). Overall, high income households remain more pessimistic compared to their middle- and low-income counterparts.

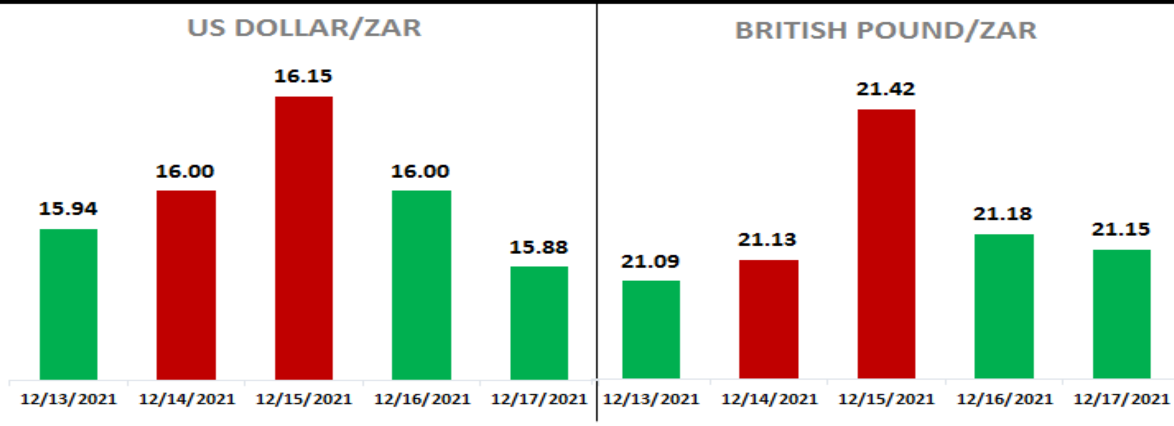
The fourth quarter has been loaded with several adverse developments such as soaring fuel prices, load-shedding, strikes, supply chain disruptions and stock shortages which weighed down the rebound in consumer sentiment. Furthermore, the survey was conducted prior to the discovery of the new COVID variant, and this could have weighed further on sentiments. As a result, the CCI is expected to deteriorate sharply in the first quarter of 2022 which is likely to be reflected in persistently weaker demand.

INDICATORS: *Week 13 – 17 December 2021*

SEPTEMBER '21	FORMAL EMPLOYMENT	0.5	% change (q/q)
NOVEMBER '21	CONSUMER INFLATION	5.5	% change (y/y)
NOVEMBER '21	PRODUCER INFLATION	9.6	% change (y/y)
OCTOBER '21	FOOD & BEVERAGES INCOME	25.9	% change (y/y)
NOVEMBER'21	CONSTRUCTION MATERIAL PRICE	1.0	% change (m/m)
QUARTER 4 '21	LEADING BUSINESS CYCLE INDICATOR	0.1	change (m/m)

Data Source: Statistics South Africa & SARB

EXCHANGE RATES



Data Source: SARB & Trading Economics 15:00, 17 December 2021

COMMODITIES

	BRENT CRUDE OIL *Per barrel*	**GOLD** *Per fine ounce*	**PLATINUM** *Per fine ounce*
10 Dec 2021	$75.04	$1 773.22	$944.48
17 Dec 2021	$73.60	$1 809.22	$936.79
	Decrease	**Increase**	**Decrease**

Data Source: Trading Economics 15:00, 17 December 2021

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