

WEEKLY ECONOMIC INSIGHTS



GAUTENG PROVINCE
ECONOMIC DEVELOPMENT
REPUBLIC OF SOUTH AFRICA

Growing Gauteng Together

- **GLOBAL ECONOMY PERSEVERES AMIDST GROWING RISKS**
- 2022 NATIONAL BUDGET CENTERED ON ECONOMIC RECOVERY
- GAUTENG SOPA OUTLINES PLANS FOR SOUND RECOVERY
- PRODUCER PRICES EASED IN JANUARY BUT REMAIN ELEVATED
- CONSTRUCTION MATERIAL PRICE INDEX RISES FURTHER IN JANUARY

WEEKLY REVIEW

Just as the global economy begins to show signs of a steady post-COVID recovery, the explosion of geopolitical tensions between Russia and Ukraine as well as the ongoing climate changes and uncertainties have increased risks and elevated the likelihood of further global economic strain.

Domestically, the national budget speech outlined the downward revision of South Africa's growth forecasts to 4.8% (from 5.1% at MTBPS) in 2021, but upped forecasts for 2022 to 2.1% (from 1.8%). GDP projections were unchanged at 1.6% and 1.7% for 2023 and 2024, respectively. Risks to the growth outlook include further COVID-19 waves, elevated inflation, fiscal instability, power outages and rapid global interest rate hikes. On the positive, the January 2022 Producer Price Index (PPI) reading eased more than was anticipated. However, the Price Index of Construction Materials recorded an increase of 1.6% in January 2022 compared to the previous month.

Provincially, the Gauteng State of the Province Address (SOPA) emphasised the need to improve and maintain infrastructure to ensure the attainment of service delivery, employment and economic growth targets. The Gauteng government aims to focus on infrastructure as the central and driving tenet towards building the economy

GLOBAL ECONOMY PERSEVERES AMIDST GROWING RISKS

The global economy entered 2022 on a back-footing as the Omicron COVID-19 variant continued to spread and countries reviewed their mobility restrictions. Further compounding the risks to the global recovery in 2022 are rising energy prices and supply chain disruptions which have resulted in higher

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and more broad-based inflation – notably in the United States and many emerging markets and developing economies – than previously anticipated.

Risks to the global baseline remain on the downside. The emergence of new COVID-19 variants could prolong the pandemic and induce renewed economic disruptions. Moreover, supply chain disruptions, energy price volatility, and localized wage pressures mean uncertainty around inflation is high. As advanced economies hike interest rates, risks to financial stability and emerging market and developing economies capital flows, currencies, and fiscal positions (especially with debt levels having increased significantly in the past two years) may emerge.



Another key global risk to the global economy are the rising geopolitical tensions between Russia and Ukraine which will have severe negative consequences for the global economy. Global producer inflation is expected to rise further over the short term, fuelled by Russia's (a key player in the global oil market) invasion of Ukraine, which is likely to push the already elevated global oil prices even higher. Global oil prices could increase to over the \$100 mark following Russia's invasion of Ukraine. These pressures are likely to be amplified by a weaker rand and could translate to even higher domestic fuel prices over the short term. This will weigh heavily on the already constrained households income that continue to battle subdued domestic economic conditions.

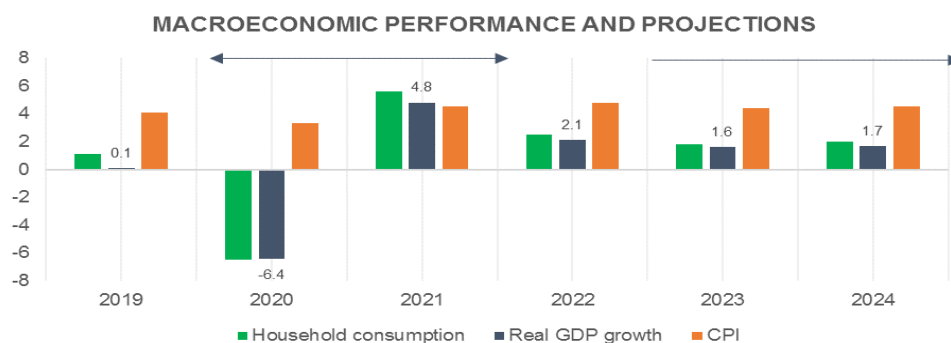
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2022 NATIONAL BUDGET CENTERED ON ECONOMIC RECOVERY

On 24 February 2021, Minister Enoch Godongwana tabled the 2022 budget, reflecting a relatively upbeat economic outlook than previously forecasted.

The South African economy is expected to reach pre-pandemic levels in 2022. Economic activity is estimated to improve by 2.1% in 2022, slowing from estimated growth of 4.8% for 2021. The economy is forecast to moderate to 1.6% and 1.7% in 2023 and 2024, respectively. Meanwhile, inflation is projected to hover around the 4.5% mid-point target of the South African Reserve Bank (SARB). Domestic economic activity is highly correlated with global movements (particularly in input prices and logistics), as such, new COVID-19 outbreaks, inconsistencies in electricity supply, and fiscal risks will pose further risks.



Data Source: National Treasury

The lion's share (59.4%) of the 2022 budget will be spent on social safety nets and economic recovery efforts. Economic development was awarded R227.1 billion to be spent on economic regulation and infrastructure (R117.5 billion), industrialization and exports (R39.2 billion), agriculture and rural development (R27.5 billion), job creation and labour affairs (R24.8 billion), and innovation, science, and technology (R18.1 billion). In addition, there is a planned SMME bounce-back scheme for businesses adversely affected by the pandemic, which comprises R15 billion worth of small business loan guarantees and a government subsidy on 20% of losses incurred by participating banks and development finance institutions. Corporate income tax will decline by 1% to 27% and R5.2 billion tax relief will aid to stimulate economic activity. The R0 increase in the Road Accident Fund (RAF) levy was also announced.

The 2022 budget continues to supplement projections that the post-COVID-19 economy is on the horizon. However, the improved stability in the economic outlook is likely to be dampened by pre-existing structural impediments.

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GAUTENG SOPA OUTLINES PLANS FOR SOUND RECOVERY

The Gauteng State of the Province Address (SOPA) 2022 was delivered on Monday 21st February 2022 by the Gauteng Premier David Makhura. It emphasised the need to improve and maintain infrastructure if the province is to reach its service delivery, employment and economic growth targets. The Gauteng Provincial Government's (GPG) number one priority remains the economic recovery as a key driver for job creation over the next two years. This will require "all hands-on-deck" as the country and the province seek to recover from the challenges of the COVID-19 pandemic.

The focus is directed to crucial projects such as accelerated service delivery, improved access to housing, electricity, water, sanitation, road maintenance, visible policing, quality education and health. The GPG aims to work closely with municipalities and the national government to urgently accelerate service delivery and improve access to housing, electricity, water, sanitation, road maintenance, visible policing, quality education and health.

Gauteng remains a significant contributor, not just to the economy of South Africa but to the continent at large. Between 2015 and 2020, the economic output of Africa was dominated by three countries, Nigeria, Egypt, and South Africa. Gauteng was the seventh-largest economy on the continent in that period and its contribution to South Africa's GDP was more than 35%. Even in the wake of the pandemic, Gauteng continued to contribute an estimated 35% to the national GDP. Gauteng remains a leading player in the national economy and a critical contributor to the continental economy.

Gauteng will still pursue the implementation of the GGT2030 action plan to cement the position of GPG nationally and in the continent by doubling the size of the Gauteng economy and the number of people employed. Efforts will be exerted towards increasing exports to the continent, reduction of poverty and promotion of economic empowerment of those who continue to be excluded from the mainstream of the economy. Gauteng continues to draw attention to transformation, modernisation and re-industrialisation of the 10 high-growth sectors, which are linked to the roll-out of the Special Economic Zones (SEZs) in the five corridors.

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The focus is on ICT and digital services sector, e-Waste, Tourism and Hospitality sector, Food, Beverage, agro-processing and agribusiness sectors and the Cannabis industry which have had concrete results from the economic war room engagements.



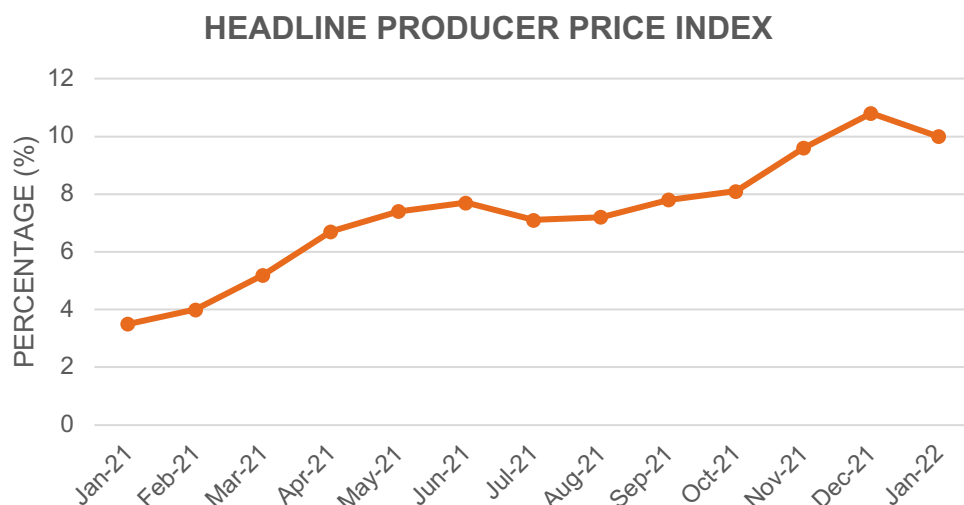
Furthermore, SOPA 2022 outlined the Township Economic Development Bill which was presented to the Gauteng Provincial Legislature in 2021, the enactment of which and is keenly awaited. The legislation seeks to make it easier and cheaper to formalise more than 90% of informal businesses into a successful enterprises. The Act will also facilitate the establishment of a Township Economy Partnership Fund to support the development of township real estate and turning taxi ranks into business hubs, amongst key economic interventions. The Premier lastly added that there needs to be a shift in focus to address the triple challenge that the Gauteng economy is going through.

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PRODUCER PRICES EASED IN JANUARY 2022 BUT REMAIN ELEVATED

The annual Producer Price Index decelerated to 10.1% in January 2022, lower than market forecasts of 10.5% from 10.8% in December 2021. The main driver of the annual figure was the coke, petroleum, chemicals, rubber and plastic products category, which remained elevated at 21.5% year-on-year, although the rate of increase eased from the 25.8% recorded in December 2021. Moreover, the metals machinery, equipment and computing equipment increased by 12.2%, contributing 1.8 percentage points to the headline index. Meanwhile, food products, beverages and tobacco products rose by 6.1%, contributing 1.6 percentage points to the index.



Data source: Statistics South Africa

On the year-on-year basis, petrol and diesel contributed (36.9%) and 3.8% respectively exerting the most upward pressure. However, prices of chemicals and rubber products also remained high, rising by double digits. Prices of metals, machinery, equipment and computing equipment and food products, beverages and tobacco products also rose further, up 12.1% and 6.1%, respectively. Prices of all the subcomponents of these two categories rose due to global supply shortages.

Intermediate manufactured goods inflation eased to 21% in January 2022, from 23.1% in December 2021. The main contributors to the annual rate were chemicals, rubber and plastic products and basic and fabricated metals, which added 11.1% and 9.3%, respectively. Producer inflation for electricity and water tariffs accelerated to 16.1% from 15.4%, mainly due to higher electricity prices.

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Mining inflation increased to 6.4% from 5.9%, driven by coal and gas. Non-ferrous metal ores also added another 3.4%

The PPI for agriculture, forestry and fishing eased to 6.9% from 8.4%, with the upward pressure coming from agriculture, which contributed 6.4%, reflecting the impact of unusual weather conditions. Producer inflation is expected to rise further over the short term, fuelled by Russia's invasion of the Ukraine, which is likely to push the already elevated global oil prices even higher. Global oil prices shot over 100 USD on the morning after Russia's invasion. These pressures will likely be amplified by a weaker rand, with the global conflict supporting the US dollar. Furthermore, world trade flow disruptions, higher shipment costs and raw material shortages will add further upward pressure.

CONSTRUCTION MATERIAL PRICE INDEX RISES FURTHER IN JANUARY

In line with generally higher inflation levels outlined above, the construction sector continues to battle rising price pressures. According to the latest Construction Material Price Indices report, month-on-month percentage changes in the Contract Price Adjustment Provisions (CPAP) work group indices ranged from -3.6% for work group 152 (painting) to 6.3% for work group 110 (concrete). The construction materials price index tracks movements in the price of a variety of input materials used across the sector.



The Price Index of Construction Materials for January 2022 recorded an increase of 1.6% compared to the previous month. The civil engineering material index increased by 3.0% m/m. On a yearly basis, the civil engineering material index increased by 21.2% due to the increase in the prices of roads refurbishment (21.8%), structures (21.2%) and roads reseal (29.9%). The challenges of ongoing supply chain disruptions and high-energy prices continuing in 2022, posed a threat for the construction firms.

INDICATORS: *Week 22 – 25 February 2022*

JANUARY '22



**PRODUCER
INFLATION**

10.1

% change (y/y)

JANUARY '22



**CONSTRUCTION
MATERIAL PRICES**

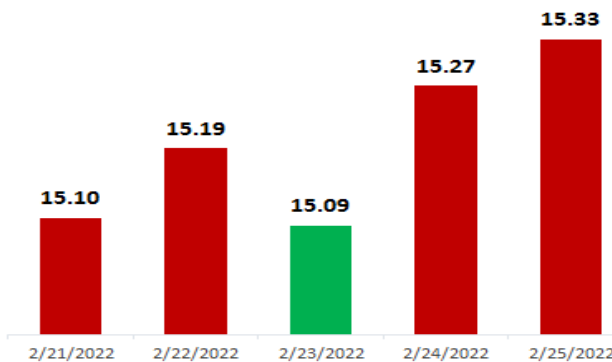
1.6

% change (m/m)

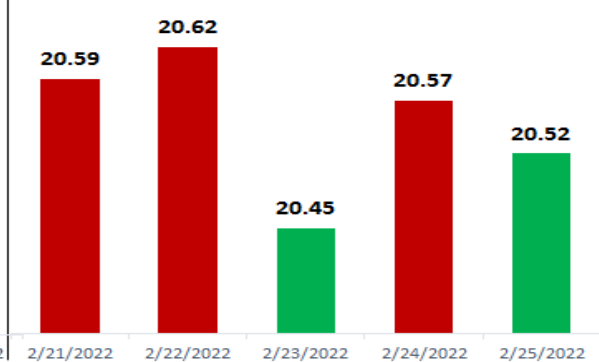
Data Source: Statistics South Africa

EXCHANGE RATES

US DOLLAR/ZAR



BRITISH POUND/ZAR



Data Source: SARB 15:00, 25 February 2022

COMMODITIES

| | BRENT CRUDE OIL <i>Per barrel</i> | GOLD <i>Per fine ounce</i> | PLATINUM <i>Per fine ounce</i> |
|-------------|--------------------------------------|-------------------------------|-----------------------------------|
| 18 Feb 2022 | \$91.50 | \$1894.67 | \$1090.90 |
| 25 Feb 2022 | \$98.29 | \$1895.89 | \$1050.53 |
| | Increase | Increase | Decline |

Data Source: Trading Economics 15:00, 25 February 2022

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