

# WEEKLY ECONOMIC INSIGHTS

# WEEKLY



**GAUTENG PROVINCE**  
ECONOMIC DEVELOPMENT  
REPUBLIC OF SOUTH AFRICA

Growing Gauteng Together

# WEEKLY ECONOMIC INSIGHTS

21 - 25 JUNE 2021

## Weekly Overview

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- **GLOBAL INDUSTRIAL PRODUCTION SLOWLY ON THE MEND**
- AN INCREASE IN THE COMPOSITE LEADING BUSINESS CYCLE INDICATOR A GOOD OMEN FOR THE EMBATTLED ECONOMY
- CONSUMER PRICE INFLATION SURGES IN MAY
- PPI JUMPS IN MAY AND PILES PRESSURE ON CONSUMERS
- CONSTRUCTION INPUT COSTS REMAIN ELEVATED
- FOOD AND BEVERAGES RECOVERS IN APRIL

There are promising signs for global industrial production. The latest figures show that the Euro zone has grown at its fastest pace in fifteen years, with its two biggest economies – France and Germany, posting impressive PMI figures. Relatedly, the U.S PMI climbed whilst slipping for U.K, Japan and Australia. Domestically, the composite leading business cycle indicator rose, indicating a positive economic outlook for the beginning of 2022. CPI accelerated to a thirty-month high, as food inflation increased for the third straight month. PPI recorded its highest reading since July 2016, passing cost pressures on mining, construction and consumers.

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## GLOBAL INDUSTRIAL PRODUCTION ON THE MEND

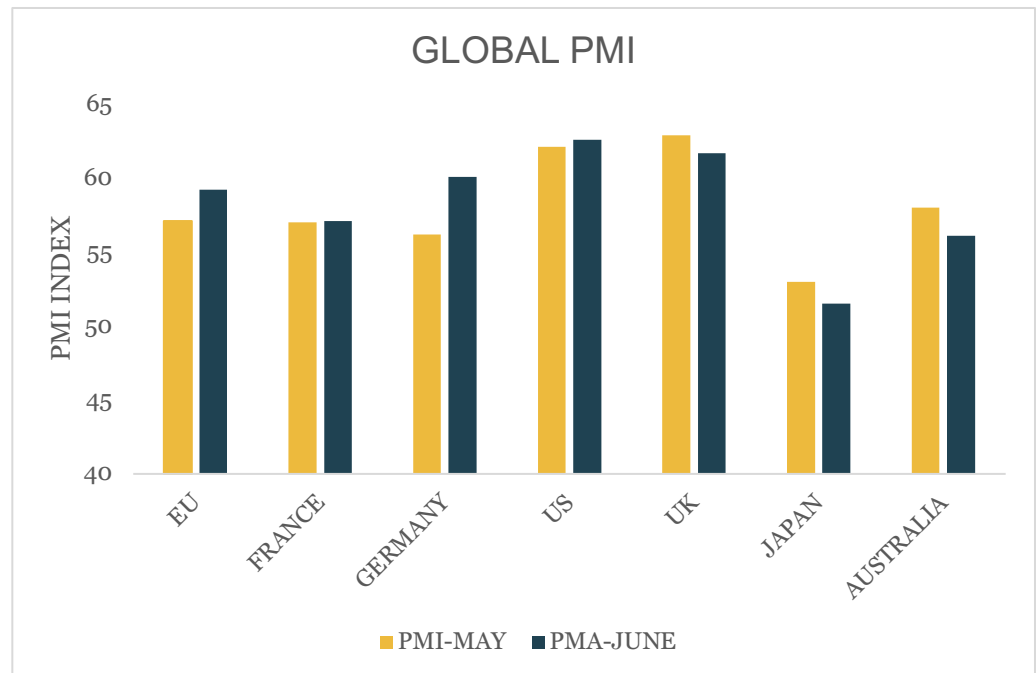
Business activity in the Euro zone grew at its fastest pace in fifteen (15) years in June 2021, as the region's nineteen (19) economies adopted different measures in re-opening their respective economies. The IHS Markit's flash composite PMI for the euro zone increased to 59.2 points in June, up 2.1 points from May's 57.1 points. Furthermore, business activity & new orders also recorded their fastest growth in 15 years. Furthermore, the survey also showed that there was a record rise in manufacturers' material prices that was accompanied by a steep climb in service-sector costs. As such, the European Central Bank (ECB) revised its March outlook, projecting that the euro zone could grow at a rate of 4.6% this year and 4.7% in 2022.

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For France, firms experienced back-to-back expansions as the composite output index came in at 57.1 points in June, from 57.0 points in May 2021 – an eleven (11) month high. Policymakers in France lifted some of the Covid-19 restrictions and contributed to the increase in new orders placed with manufacturers, recording the fastest increases since the pandemic hit at the beginning of 2020. Meanwhile, Germany’s flash PMI composite output index hit a 10-year high, reaching 60.4 points in June from 56.2 in May 2021, up by 4.2 points. Additionally, the impressive PMI figures for the euro zone’s two strongest economies are expected to keep the momentum and carry over to the third quarter of 2021.

For the United Kingdom, outside the euro zone and the EU, the IHS Markit/CIPS UK Composite PMI dipped marginally to 61.7 points from May’s unprecedented 62.9 points. In the U.S, factory activity climbed to a record high in June, marginally rising to a reading of 62.6 points in June from 62.1 points in May 2021. For the world’s third-largest economy, Japan, activity expanded at the slowest pace in four (4) months in June to 51.5 points in June from 53.0 points in March 2021. The IHS Markit Flash Australia Composite PMI fell to a three (3) month low of 56.1 points in June compared to 58 in May 2021.



Data source: IHS Markit



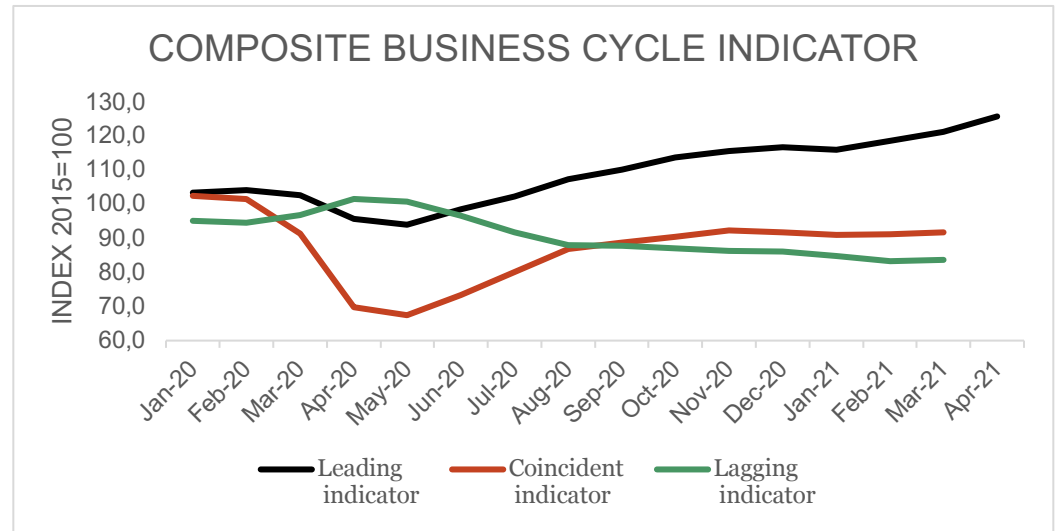
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## AN INCREASE IN THE COMPOSITE LEADING BUSINESS CYCLE INDICATOR A GOOD OMEN FOR THE EMBATTLED ECONOMY

The composite leading business cycle indicator increased by 3.7% in April 2021, rising to 125.8 points from 121.4 points in March 2021, as eight (8) of the ten (10) available component time series improved. Moreover, and most importantly, the leading business cycle indicator which provides insight to GDP in six months' time, suggests that April's increase may signal that economic activity is likely to start 2022 on a strong footing.

According to the Reserve Bank, the upward movement in the leading indicator is primarily attributable to the uptick in the composite leading business cycle indicator for South Africa's major trading-partner countries, and an improvement in the RMB/BER Business Confidence Index (BCI) – improving to 50 points in Q2:2021 from 35 points in the previous quarter. However, Real M1 (monies that are very liquid such as cash, demand deposits, and traveller's checks) were the main drag on the April print.



Data Source: South African Reserve Bank

Relatedly, the composite coincident business cycle indicator went up to 91.8 points (+0.6%) in March 2021, following an increase in the industrial production index. Similarly, the composite lagging business cycle indicator increased to 83.7 points (+0.4%) in March 2021. The positive economic outlook may likely extend to the beginning of 2022 as suggested by the April's composite leading business cycle indicator, however, the threat of the 3rd Covid-19 wave and the subsequent restrictions, particularly in Gauteng, are likely to deflate the positive signals.

## HIGHLIGHTS

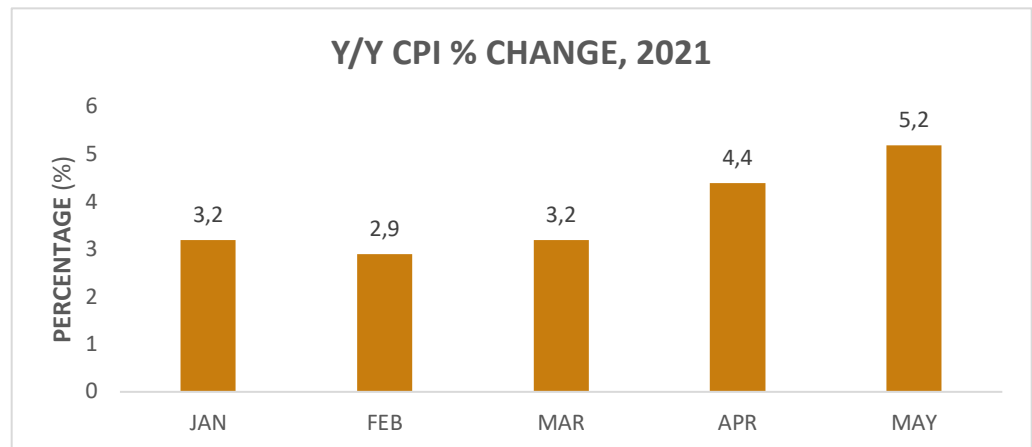
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## CONSUMER PRICE INFLATION SURGES IN MAY

As per market expectations, the annual headline consumer price inflation (CPI) surged above the 4.5% midpoint of the SARB target range, accelerating to 5.2% in May 2021- its fastest pace since February 2020. According to Stats SA, this is the highest reading since November 2018 when the rate was also 5.2%; this, as the annual figure of May comes off a low base recorded a year earlier.

Fuel prices surged by 37.4% in May, accelerating for the fifth straight month. Similarly, food increased by 6.8% – the third straight month increase. Other positive contributors were; housing and utilities, transport and miscellaneous goods and services which increased by 2.3%, 15.3% and 4.1% respectively.

However, core inflation – which excludes food and energy, only recorded 3.1% in May 2021; much lower than the headline rate, showing the notable impact that fuel and food inflation has had on overall inflation levels. On the other hand, monthly prices marginally increased by 0.1%, with the only significant contributor being food and non-alcoholic beverages at 0.7%, with core inflation unchanged over the same period.



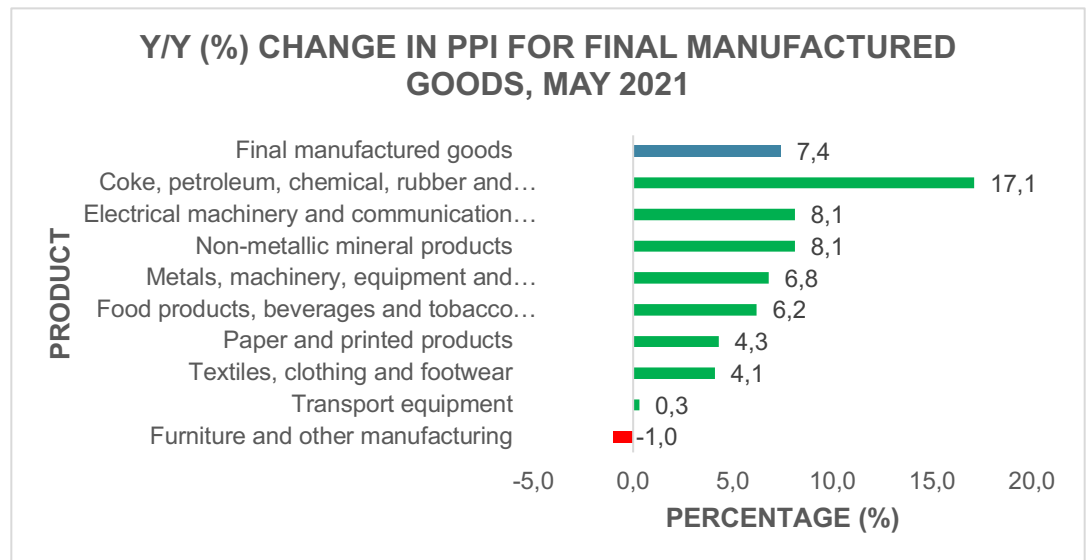
Data source: Statistics South Africa

Notwithstanding the developments, the thirty-month high annual headline consumer price inflation may catch the attention of the SARB as it has crept over the midpoint of 4.5%. Nevertheless, it is believed that the Bank is likely to hold off on hiking interest rates in 2021. However, some analysts warn consumers not to purchase big-ticket items as another interest rate hike cannot be ruled out.

## PPI JUMPS IN MAY AND PILES PRESSURE ON CONSUMERS

Data from Stats SA showed that annual headline producer price inflation (PPI) jumped by 7.4% in May 2021 from 6.7% in April 2021. This is highest y/y PPI reading since July 2016, when it also came in at 7.4%. The main contributors to the headline PPI annual inflation rate were coke, petroleum, chemical, rubber and plastic products & food products, beverages and tobacco products which added a combined 5.5 percentage points (p.p) to the headline figure.

Furthermore, oil prices have been another driver of inflation since the beginning of the year, with petrol and diesel prices surging up by 49% and 30.8% respectively. The PPI for mining also jumped 21.7% y/y; prices for agriculture, forestry and fishing also accelerated by 9.4% while prices for utilities increased by 8.9% y/y. Additionally, prices of intermediate manufactured goods rose by 15.2% y/y in May 2021, with the main contributors being basic and fabricated metals and chemical, rubber and plastic products, with a contribution of 21.5%.



Data source: Statistics South Africa

However, monthly producer prices only rose by 0.4%, suggesting that the current environment is still subdued. Notwithstanding this, the leap in the annual PPI figure for the last five months was expected and has led to mounting inflation pressures passed on to the consumer. However, analysts expect producer prices to be relatively contained going forward.

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## CONSTRUCTION INPUT COSTS REMAIN ELEVATED

Recently, Stats SA released the Construction Materials Price Indices (CIPI) for May 2021. According to the release, monthly percentage changes in the contract price adjustment provisions (CPAP) work group indices ranged from -0.4% for waterproofing and ceilings to 8.7% for metal roofing. Meanwhile, the Construction input prices for total construction remained elevated, with an increase of 1.2% month to month (m/m) in May, a deceleration from 1.4% in April 2021. However, the total for civil engineering material increased by 1.5% m/m.



Data source: Statistics South Africa

The higher input costs combined with the stalling momentum as construction works remain scarce has stunted confidence. Furthermore, Stats SA data shows that the value added in construction shrunk by 17.5% y/y. The latest Afrimat Construction Index also decreased by 5.6% to 109 points in the first quarter of 2021 from 111.2 points in the fourth quarter of 2020. Similarly, the FNB/BER Civil Confidence Index fell to a dismal 13 points in the second quarter of 2021 from 20 points in the previous quarter.

Notwithstanding the latest developments, infrastructure spending has been on top of the list in government's strategic interventions to drive the economic rebound. However, the pool of available work remains a challenge and has forced firms to price tenders more aggressively in the fight to remain competitive. In turn, this eats away at the firms' already constrained profit margins. Adding to the detriment of firms are the added delays in the procurement processes likely due to Covid-19 and rotating working schedules.

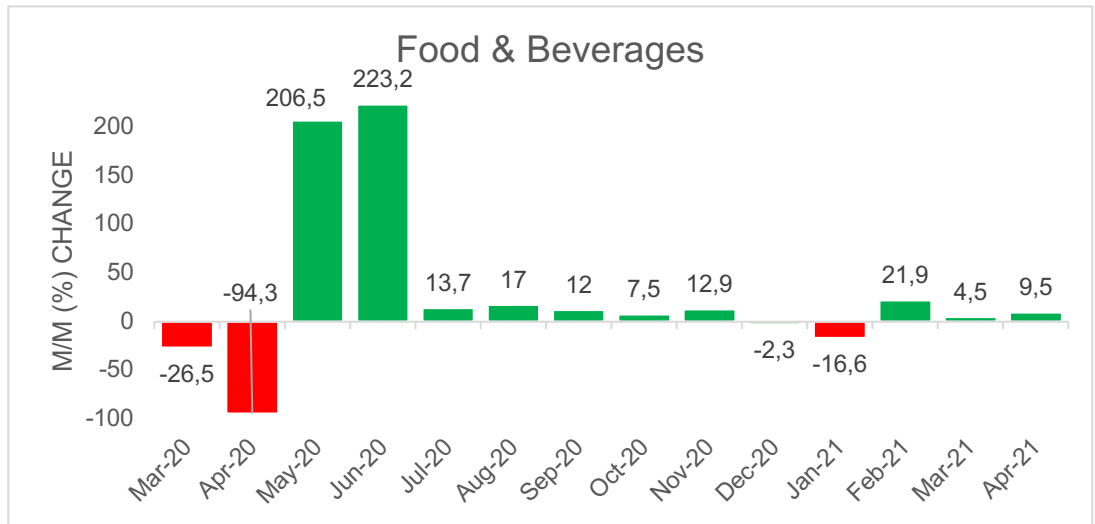
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## FOOD AND BEVERAGES RECOVERS IN APRIL

According to a Stats SA's food and beverages publication of 21 June 2021, the total annual income generated by the food and beverages industry in South Africa surged by 1961.1% y/y in April 2021 – reaching its highest level on record, following a modest increase of 4.7% in March 2021. The extremely large spike in April's figure was due to the low base from the previous year, attributed to the newly imposed lockdown regulations which wreaked havoc in the food and beverages industry.

The largest contributors to the increase were from food sales and other income, which both contributed 2040.9% and 278.2% y/y respectively. Furthermore, demand for catering services rebounded as it saw an increase of 85.7% y/y in April 2021, as people started attending events due to the number of restrictions being lifted.

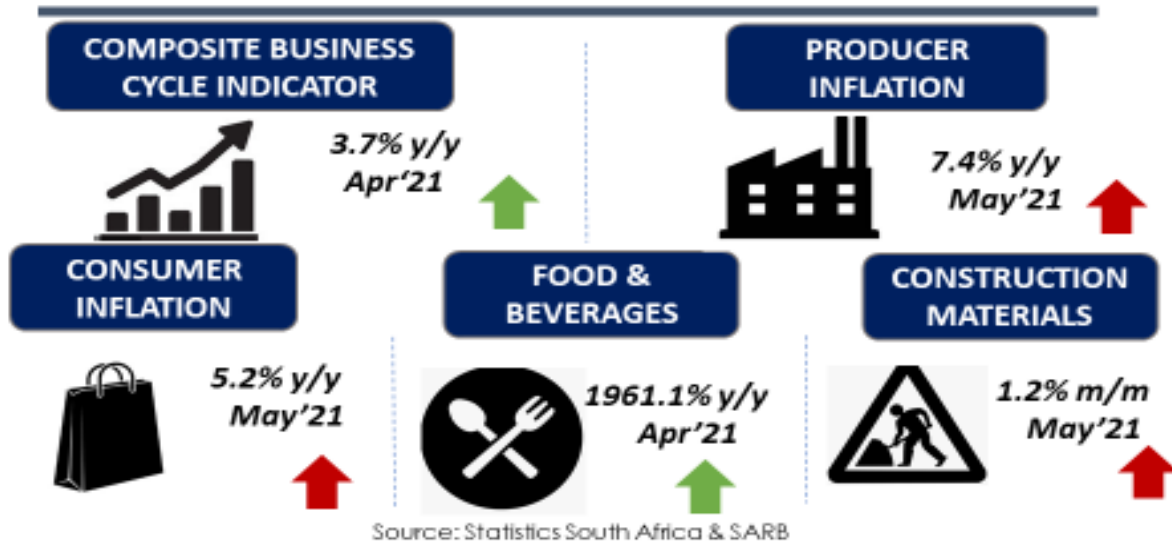


Data source: Statistics South Africa

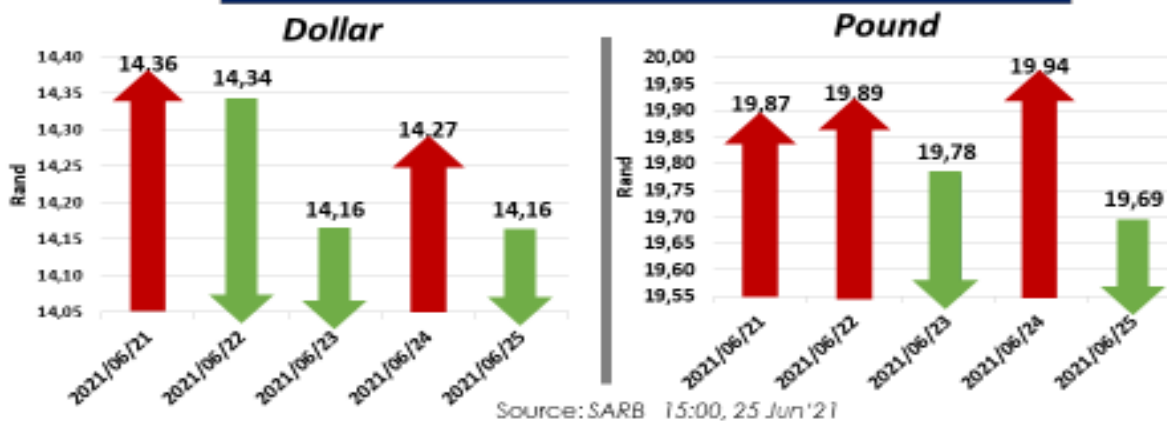
On the other hand, seasonally adjusted income for the food and beverages industry increased by 9.5% in April 2021, following monthly changes of 4.5% in March 2021 and 21.9% in February 2021. Furthermore, the total income generated by the food and beverages industry increased by 33.2% in the three months ended April 2021, compared to April 2020. Encouragingly, income in the sector breached the R4 billion mark for the first time since February 2020, implying that in terms of income generated, the sector is at pre-pandemic levels. However, the food and beverages sector are likely to decelerate as the country has now moved to level 4 lockdown restrictions.



## INDICATORS: Week 21 – 25 June 2021



## RAND/DOLLAR/POUND EXCHANGE RATE



## COMMODITIES



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