WEEKLY

ECONOMIC INSIGHTS

GAUTENG PROVINCE
ECONOMIC DEVELOPMENT
REPUBLIC OF SOUTH AFRICA

Growing Gauteng Together

WEEKLY ECONOMIC INSIGHTS

22 - 26 MARCH 2021

GLOBAL MANUFACTURING PMI ON THE MEND

- NEW COVID WAVES AND ENERGY SUPPLY CONCERNS KEEPS REPO RATE AT 3.5%
- CONSUMER PRICE INDEX DECELERATES BELOW THE RESERVE BANK'S TARGET RANGE WHILE PPI INCREASES
- CONSTRUCTION MATERIAL PRICE RANGED BETWEEN -0.3% AND 7.1% IN FEBRUARY 2021

Weekly Overview

Annual consumer inflation decelerated to an 8-month low of 2.9% from 3.2% in January. The rise in the food and non-alcoholic beverages category slowed to 5.2% y/y, while fuel prices were still down on an annual basis. Monthly, headline CPI increased by 0.7% m/m, the fastest increase since July 2020. In contrast to the CPI, PPI inflation for final manufactured goods accelerated to 4% in February. Monthly, PPI rose by 0.7%. The Monetary Policy Committee (MPC) of the SARB kept the repo rate at a multi-decade low of 3.5%. The SARB's Quarterly Projection Model continued showing two interest rate hikes this year. The SARB expects GDP growth of 3.8% in 2021 from the previously projected 3.6%. Growth forecasts for the next two years were unchanged at 2.5% and 2.4%, respectively.

GLOBAL MANUFACTURING PMI ON THE MEND

In the US, initial jobless claims declined by 97 000 to 684 000 last week. This marks the first time since the start of the pandemic (March 2020) that the weekly claims fell below 700 000 and implies that the labour market is starting to improve as more people get vaccinated and businesses continue to open up. Meanwhile, personal income in the US fell 7.1% m/m in February, following an increase of 10.1% previously. The impressive jump in January had largely been driven by the $600 stimulus checks that millions of Americans received at the beginning of the year. On the other hand, the drop in income in February led to a 1% decline in personal spending. This was slightly worse than expected.

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

HIGHLIGHTS

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Turning to the flash PMIs for March, the output index of the IHS Markit US composite PMI declined slightly but remained well within a positive territory at 59.1 index point. The manufacturing PMI increased marginally to 59 from 58.6 in February, although the output index fell to a five-month low of 54.5 points. Severe supply chain disruptions and input delays continued to put upward pressure on input costs. Manufacturers registered the steepest rise in input costs in ten years. The services PMI output index increased to an 80-month high of 60.0 index points, from 59.8 in February.

In the Eurozone (EZ), business activity returned to growth, according to Markit’s preliminary PMI estimates. The composite PMI output index increased to 52.5 index points in March, from 48.8 previously. The manufacturing PMI came in at a record high of 62.4 as global demand continued to recover. Factory activity was once again driven by a record performance in Germany, while France and the EZ combined, registered the best production growth since January 2018. The services PMI also performed better than expected, with a 3.1point rise but remained in negative territory (48.8 index points) due to continued lockdown restrictions. While the flash estimates surprised markets, it is expected that a third wave of COVID-19 infections, renewed lockdown measures and a slow rollout of vaccines will continue to weigh on European activity going forward.

In the UK, the flash PMIs also performed better than expected. The composite PMI output index increased to a 7-month high of 56.6, from 49.6 previously. The manufacturing PMI hit a 40-month high of 57.9, from 55.1 in February, while activity in the services sector registered a sharp increase to 56.8, from 49.5.

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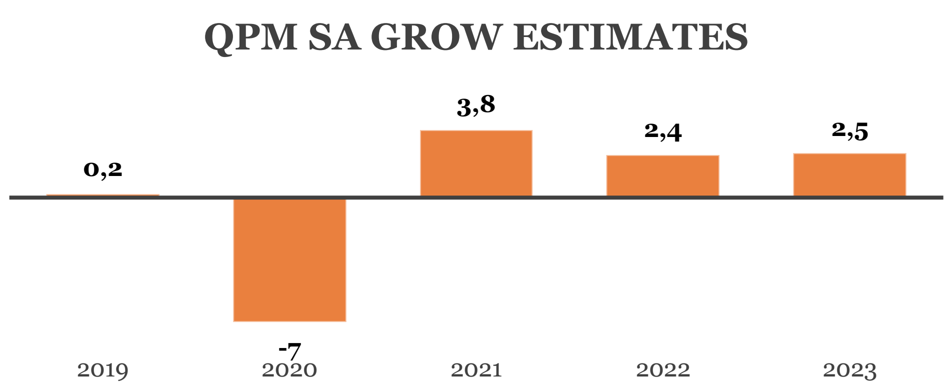
NEW COVID WAVES AND ENERGY SUPPLY CONCERNS KEEPS REPO RATE AT 3.5%

The Monetary Policy Committee (MPC) unanimously voted to keep the repurchase rate unchanged at 3.5%. The decision was credited to the probable economic effects of new Covid-19 waves on the domestic and global economy, limited domestic energy supply and uncertainty about the national vaccine rollout. On the global front, the South African Reserve Bank (SARB) anticipates a 5.8% expansion in economic activity in 2021 before slowing to 3.7% in 2022. The economic expansion is expected to ride on the back of global accommodative policies which bolster financial markets and international capital flows. However, the SARB cautions that sluggish vaccine rollouts could lead to an uneven economic recovery at a global scale.



Data Source: South African Reserve Bank

The South African economy is projected to contract by -0.2% (down from 1%) in the first quarter but register solid growth figures for the remainder of the year. Given the current estimates, economic activity is expected to increase by 3.8% in 2021 before moderating to 2.4% and 2.5% in 2022 and 2023, respectively. The economic outlook is somewhat attributed to limited energy supply instead of lockdown restrictions-related disruptions to activity. The MPC foresees petrol prices increasing by 12.7% due to the ongoing super commodity cycle and expect electricity prices to increase by 9.7% (up from 8.1%) in 2021. Going forward, the Quarterly Projection Model (QPM) policy rate path estimates that the repo rate will reach 4% at the end of 2021 due to 25 basis-points increases in the second and fourth quarters of 2021.

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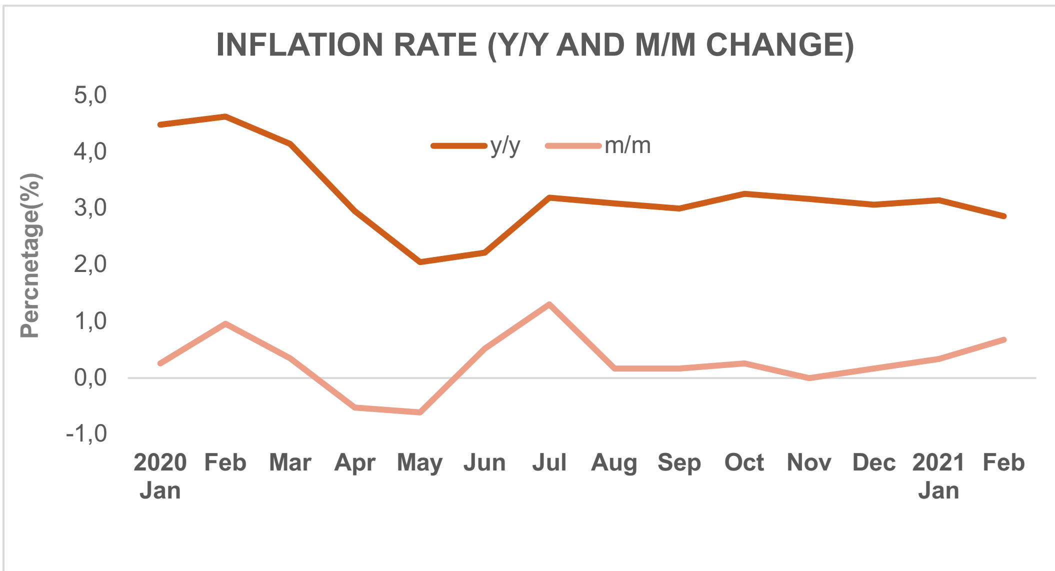
CONSUMER PRICE INDEX DECELERATES BELOW THE RESERVE BANK'S TARGET RANGE WHILE PPI INCREASES

Domestically, overall consumer prices remained subdued, underpinned by weak domestic demand. The Consumer Prices Index (CPI) inflation rate measured at 2.9% y/y in February, down from 3.2% in January and below the South African Reserve Bank target range. The deceleration in overall prices was due to the softening in food prices to 5.4% y/y from 5.6% in January. This was specifically due to meat prices, which measured at 6.7% y/y retracting from 7.2%; bread and cereals prices at 4.6% from 5.1%; and fruits at 4.8% y/y from 6%. Additionally, the ongoing disinflation on fuel which measured at -3.3% y/y in February amid depressed demand continues to weigh down overall the inflation rate.



Data Source: Statistics South Africa

Monthly, inflation increased by 0.7%, registering its second consecutive increase since the start of the year and the largest monthly increase since July last year. The successive monthly increases in prices are aligned with the outlook of a higher inflation rate which is expected to see a rise from next month in part driven by the increase in fuel in April, the increase in taxes, higher municipal rates and taxes; and the rise in electricity tariffs. On the other hand, slower food prices are forecasted to curtail the rise in overall inflation amid stronger domestic currency, the forecast of a reduction in regional demand for maize exports which contributed to the rise in prices in 2020 and favourable weather conditions.

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In view of the production prices, the Producer Price Index (PPI) recorded its 8th consecutive increase and measured at 4.4% y/y in February, up from 3.5% in January. On a monthly basis, the PPI measured at 0.7% from 0.8%. The main contributors to the annual headline PPI were food products, beverages and tobacco products which decelerated by 5.5%, contributing 1.9 percentage points. The slowdown in food prices is on the back of softer prices on meat, fruits and vegetables, and grain. Additionally, metals, machinery, and equipment increased by 5,1% and contributed 0.7 percentage points to headline inflation. Likewise, transport equipment increased by 5,2% much slower than in the previous month and contributed 0,5 of a percentage points. The trends in producer prices correspond with the views that headline consumer prices are likely to see a rise this year, which has subsequently prompted the South African Reserve Bank to keep the repo rate unchanged in its second Monetary Policy Committee meeting this year.

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CONSTRUCTION MATERIAL PRICE RANGED BETWEEN -0.3% AND 7.1% IN FEBRUARY 2021

Statistics South Africa (Stats SA) released the Construction Materials Price Indices (CMPI) for February 2021. According to the Stats SA publication, the main findings show that month-on-month, percentage changes in the Contract Price Adjustment Provisions (CPAP) CPAP work group indices ranged from -0.3% for work group 104 to 7.1% for work group 114. Furthermore, key findings for the Construction Input Price Indices (CIPI) were the total construction index increase by 2.4% month-on-month and the Civil Engineering Material Index (CEMI) increase by 3.7% from the previous month.

The lower construction material prices in February 2021 were primarily influenced by the lockdown regulations. The government unveiled tougher lockdown restrictions in response to the second wave of Covid-19 which was then described as an “extremely dangerous point in the fight against the pandemic”.

Although the sector could operate under alert Level 3, as this sector is critical to saving jobs and the economy in the country, the sector was already under enormous strain as both direct and indirect jobs were lost in the previous year during hard lockdown due to the impact of Covid-19.

INDICATORS: Week 22 – 26 March 2021

CONSUMER INFLATION

2.9% y/y
Feb'21

PRODUCER INFLATION

4.0% y/y
Feb'21

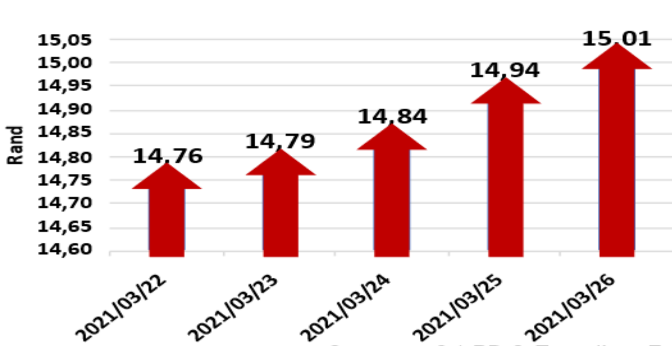
CONSTRUCTION MATERIALS

2.4% m/m
Feb'21

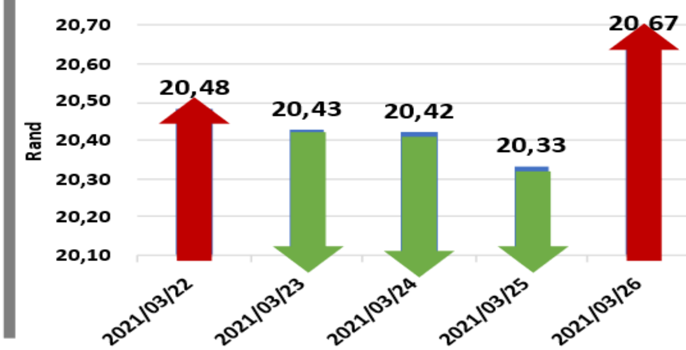
Source: Statistics South Africa

RAND/DOLLAR/POUND EXCHANGE RATE

Dollar



Pound



Source: *SARB & Trading Economics 15:00, 26 Mar '21*

COMMODITIES

BRENT CRUDE OIL PER BARREL

$ 63.42
26 Mar'21

$62.53
19 Mar'21

GOLD PER OUNCE

$1738.89
19 Mar'21

$ 1724.98
26 Mar'21

PLATINUM PER OUNCE

$1200.37
19 Mar'21

$ 1149.92
26 Mar'21

Source: *Trading Economic, 15:00, 26 Mar '21*

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