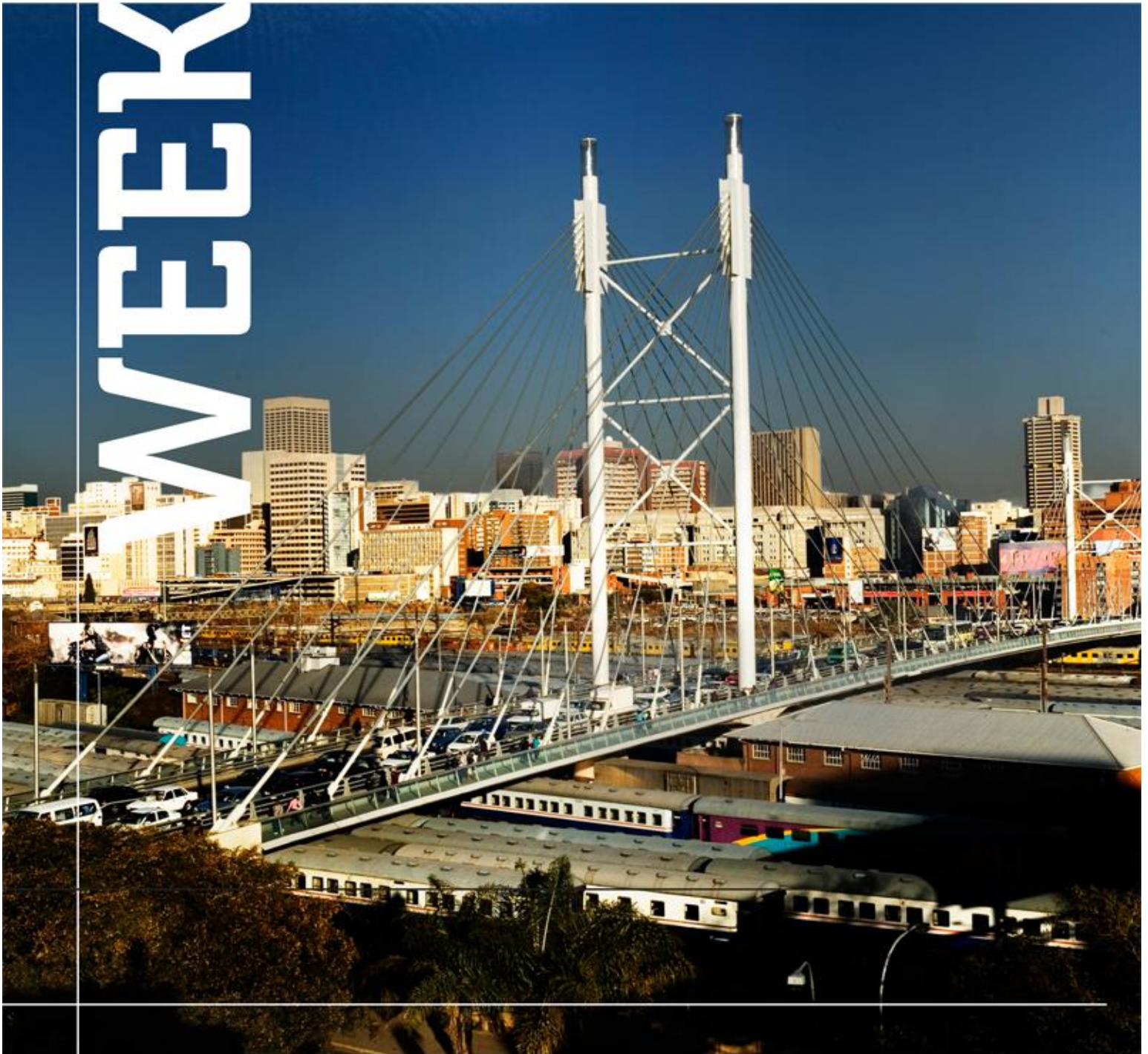


# WEEKLY ECONOMIC INSIGHTS

WEEKLY



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

Growing Gauteng Together

# WEEKLY ECONOMIC INSIGHTS

28 FEBRUARY – 04 MARCH 2022

- **GLOBAL MANUFACTURING PMIs REMAIN RESILIENT**
- RUSSO-UKRAINIAN WAR COULD STIFLE NATIONAL AND PROVINCIAL SUPPLY CHAINS
- SOUTH AFRICA RECORDS A REDUCED TRADE SURPLUS IN JANUARY 2022
- ELECTRICITY PRODUCTION DIPS FOR FOURTH CONSECUTIVE MONTH
- MANUFACTURING SECTOR CONTINUES ITS RALLY INTO FEBRUARY 2022
- NEW VEHICLE SALES SURGED IN FEBRUARY 2022

## WEEKLY REVIEW

Despite the mixed signals in the manufacturing PMI for most advanced economies, the global manufacturing index remains resilient. The Russo-Ukraine war threatens price stability, trade activity, and domestic production levels in the medium-term for SA and Gauteng. The South African trade balance recorded a trade surplus of R3.55 billion in January 2022. Absa PMI Manufacturing sector continues to rally into February, increasing for the third consecutive month. Electricity generation decreased for the fourth consecutive time, this as Nersa recently approved a 9.6% tariff increase for the power utility, increasing the average electricity tariff in SA from R1.33 per kWh to around R1.46. South African motor industry sales surged in February with new vehicle sales rising by 18.4%, while exports sales increase by 12.3%.

## GLOBAL MANUFACTURING PMIs REMAIN RESILIENT

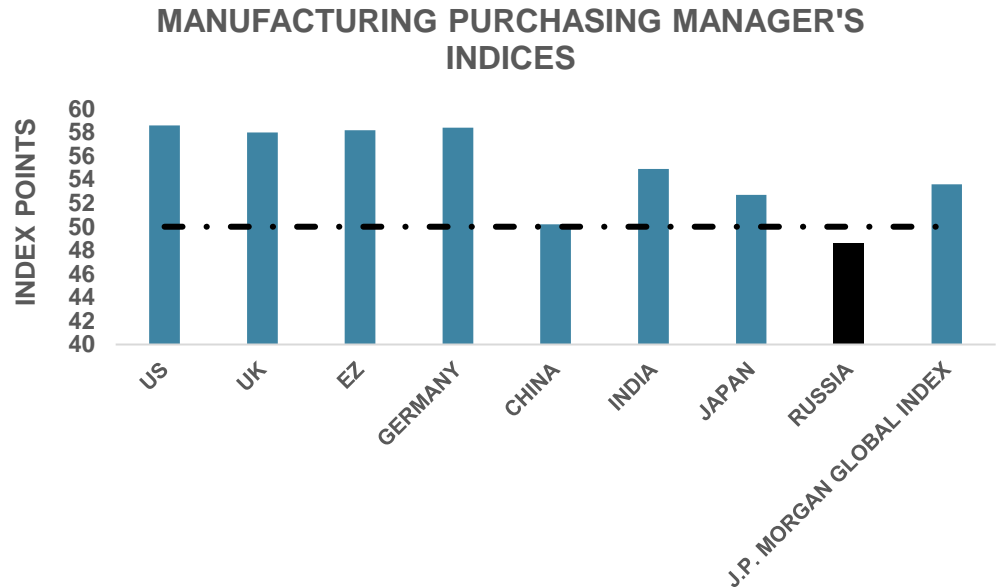
The Manufacturing Purchasing Managers' Index (PMI) for the United States (U.S.) improved for the 21<sup>st</sup> consecutive month in February 2022. The index increased by 1 point to register at 58.6 index points, mainly attributable to the uptick in new sales orders. The UK manufacturing PMI hit a three-month high and registered 58 point, up from 57.3 registered in January, fuelled by healthier domestic demand. On the other hand, the PMI for the Eurozone (EZ) area dipped by 0.5 points to 58.2 points in February, contributors being increases in new sales orders and in export sales. Similarly, in Germany – Europe's largest economy – manufacturing PMI also decreased to 58.4 in February from January's five-month high of 59.8 points.



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Meanwhile, the Indian manufacturing PMI rose to 54.9 from 54 in January, aided by modest rise in the new orders component. China's manufacturing sector came in at 50.2 in February, up from 50.1 in January, supported by rising demand and improved business performance. On the other hand, the manufacturing PMI for Japan slipped by 2.7 point to register 52.7 in February, as there was decline in production levels due to material shortages. Russia Manufacturing PMI registered 48.6— indicating contraction— as output and new orders fell for the first time in six months.



**Data source:** IHS Markit

Despite the mixed signals in the manufacturing PMI for most advanced economies, the overall global picture is encouraging. The JPMorgan Global Manufacturing PMI – a composite index produced by JPMorgan and IHS Markit – rebounded to 53.6 in February 2022 from a 15-month low of 53.2 in January 2022; an encouraging sign of resilience at the back of the Omicron wave of the COVID-19 pandemic. However, renewed disruptions in supply chains across the globe amid the escalating Russia/Ukraine conflict could adversely impact sentiment going forward and is likely to translate in a weakening of global manufacturing activity as manufacturers grapple with new supply-side constraints and pressures.



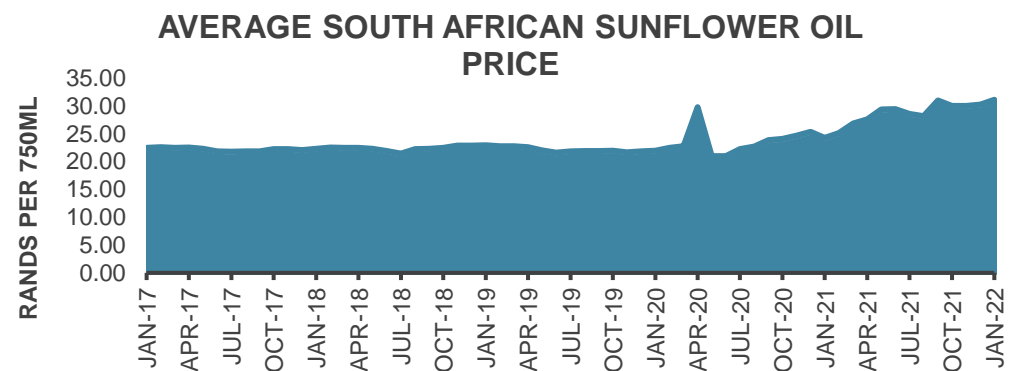
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## RUSSO-UKRAINIAN WAR COULD STIFLE NATIONAL AND PROVINCIAL SUPPLY CHAINS

On 24 February 2022, Russian armed forces invaded Ukraine due to ongoing geopolitical tensions. The invasion sparked fears of a drastic spike in global energy and food prices as Russia is the largest gas exporter to the European Union (EU). Meanwhile, Ukraine is the fourth biggest corn exporter and the largest sunflower oil exporter globally.

The Russo-Ukrainian war is expected to have severe implications for the South African and Gauteng economies due to the interconnectedness of domestic firms to global values chains. The energy crisis will likely erode the R3.5 billion tax relief on general fuel levies on petrol, and diesel prices announced in the 2022 budget and adversely affect economic activity in the logistics and transport sectors. In addition, the food crisis will be a double blow for households as domestic sunflower and wheat prices are pegged on international futures. Sunflower oil prices are likely to reach unprecedented highs in the coming months, implying that the average urban price of R31.12 per 750ml recorded in January 2022 (Statistics SA, 2022), could be surpassed.



**Data source:** Statistics South Africa

Gauteng is a net importer of Russian and Ukrainian goods and services with respective trade balances of -R5,96 billion and -R334 million in 2021 (Quantec, 2022). The ongoing war is expected to adversely affect gas supply to the EU, which will in turn hamper the region's production, which is essential for domestic value chains, particularly in the automotive and capital and machinery sectors. The ongoing unrest doesn't bode well for the South African and Gauteng economies. It threatens price stability measures, trade activity, and domestic production levels in the medium term. In addition, it increases the need for higher levels of import substitution for products related to the livelihoods of citizens, such as food and energy

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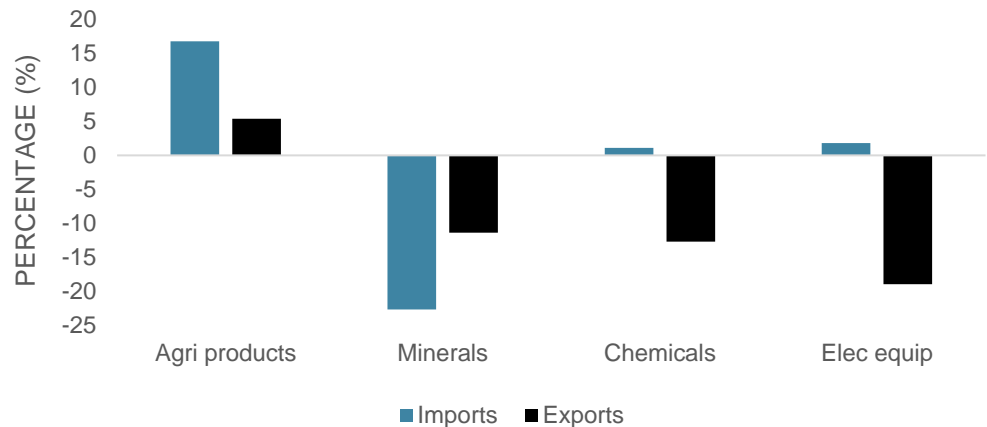
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## SOUTH AFRICA RECORDS A REDUCED TRADE SURPLUS IN JANUARY 2022

Following the steep fall in South Africa's trade surplus in January, it seems the gap between imports and exports is normalising. South Africa recorded a trade surplus of R3.55 billion in January 2022, notably lower than the revised trade balance surplus of R29.02 billion in December 2021. The shrinkage in the trade surplus can be mainly attributed to a dip in global demand on a number of products, this as imports increase by 29.6% while exports lagged behind with a 18.2% increase. Yearly, the trade surplus in January 2022 was also a deterioration from the R12.98 billion trade surplus recorded at the same time a year ago.

Monthly, the 16.1% decrease in exports between December 2021 and January 2022 was due to a decline in shipments of precious metals & stone (26.3%); vehicles & transport equipment (26.9%); machinery & electronics (19%); and mineral products (11.6%) to other countries. On the other hand, imports remained flat at 0.3% and were driven by increases in purchases of equipment components (34%) and wood pulp & paper (46%).

### M/M % CHANGE SELECTED PRODUCTS



**Data source:** South African Revenue Services

Looking ahead, the South African international trade conditions are likely to suffer from the ongoing uncertainty fuelled by the COVID-19 pandemic as well as the deepening of supply chain disruptions due to the Russian invasion of Ukraine. The Russian invasion of Ukraine has put certain South African export products on hold, such as wine. However, the domestic export market could benefit as there could be global shortages, with local analyst predicting that the mineral and agricultural products will see a surge in global demand.

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## ELECTRICITY PRODUCTION DIPS FOR THE FOURTH CONSECUTIVE MONTH

Electricity generation decreased for the fourth consecutive month as it dipped by 1,1% year-on-year (y/y) in January 2022. The January generation figures show that the national power utility is still struggling with maintenance of critical infrastructure. Monthly, electricity generation increased by a marginal 0.7% in January 2022 compared with December 2021. Similarly, electricity distribution decreased by 0.2% (y/y) in January 2022, also decreasing for the fourth consecutive month. Monthly, electricity distribution increased by a marginal 0.9% in January compared with the previous month.

South African consumers are expected to grapple with not only an unstable electricity supply, but also a spike in the price of electricity. The National Energy Regulator of South Africa (Nersa) recently approved a 9.6% tariff increase for the power utility. The price push will be implemented from April 2022 for all Eskom customers and from May 2022 for Municipalities. The electricity price hike will take the average electricity tariff in South Africa from R1.33 per kWh to around R1.46 per kWh for the 2022/23 financial.



Notwithstanding the price changes, Eskom's continued challenges with planned and unplanned power outages will continue to place added strain on the already struggling economy. On a positive note, in a public-private partnership, Amazon has launched a solar power plant in the Northern Cape, which is expected to generate up to 28,000MWh of renewable energy annually. This amounts to the yearly electricity consumption of approximately 8,000 South African homes. Furthermore, it is expected that the rollout of energy-mix diversification efforts will help stabilise electricity supply and aid in supporting economic growth and recovery.

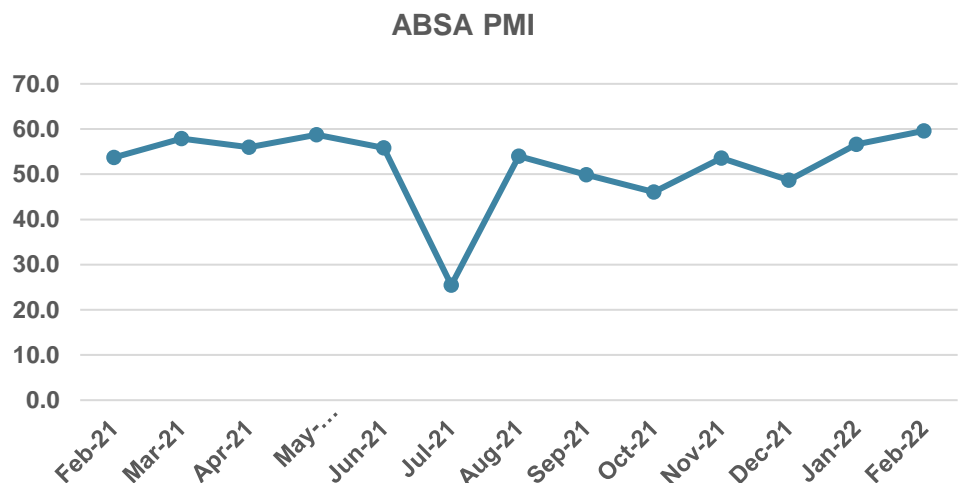
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The manufacturing sector is well on its way to supporting improved GDP growth in the first quarter of 2022. As Absa Purchasing Managers Index (PMI) continues its gradual rally, increasing by a further 1.5 points to 58.6 in February 2022, which marks its third consecutive increase. The increase was all encompassing with all five (5) sub-categories edging higher. Displaying steadfast growth were new sales orders, up by 1.4 points to 50.7, underpinned by the rising demand which, in turn pushed up exports. In addition, improved demand supported a further increase in production volumes, lifting the index to a strong 59.6, despite the bouts of loadshedding at the start of the month.

The rebound is expected to continue in the short-term as business conditions are forecast to remain favourable, with the index measuring business conditions in six months' time remaining at 69.5 marginally lower from the 71.3 in January. This sentiment was softened by the possible risk of a further rise in input costs. It is important to note that the survey may have been conducted prior to the Russians invasion of Ukraine.



**Data source:** Bureau of Economic Research

The Purchasing price sub-index increased by 0.1 point to 89.8, on the back of multi-year highs due to the sharply rising freight costs. The effect of the increasing transportation costs may have been muted by the stronger rand. However, looking ahead, the surging Brent crude oil price – which above \$110/barrel at the start of March, together with the renewed disruptions in global supply chains amid the Russia-Ukraine conflict, are likely to increase freight costs even further. This will propel manufactures to forge ahead with the price

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increase pass-through to customers, dampening demand even further. This is after months of manufacturers absorbing the price escalations in an effort to not depress demand.

Other improvements were reported in the employment index which edged back to expansionary territory (50.7) after two (2) months of contraction. This is an indication that employment in the manufacturing sector could be stabilising. The supplier deliveries index remained almost muted at 65.8, increasing by only 0.3 points.

The upward movement in the Absa PMI suggests improvement in the manufacturing activity in the first quarter of 2022. However, the upward trajectory could be interrupted by the conflict between Russia and Ukraine through, disrupted demand, rising input costs and disruptions in global supply chains. These effects are likely to be more pronounced in the second quarter and possibly worsened by the potential pickup in COVID-19 reinfections as the country heads into winter.

### NEW VEHICLE SALES SURGED IN FEBRUARY

According to the National Association of Automobile Manufacturers of South Africa (Naamsa), sales in South Africa's motor industry surged in February, with new vehicle sales rising by 18.4% compared to the same period last year. Aggregate domestic new vehicle sales in February 2022 recorded 44,229 units, which reflected an increase of 6 860 units from the 37 369 vehicles sold in February 2021. Export sales also recorded an increase of 3 590 units (12.3%) to 32 867 units in February 2022 compared to the 29 277 vehicles exported in February 2021.

From the total reported industry sales, 84.9% represented dealer sales, an estimated 10.1% represented sales to the vehicle rental industry, 3.8% sales to government, and 1.2% to industry corporate fleets. The February 2022 new passenger car market had registered a sound increase of 5 419 cars, or a gain of 22.4%, compared to the 24 144 new cars sold in February 2021. The car rental industry supported the new passenger car market during the month and accounted for 13.3% of car sales in February 2022.

The February 2022 exports sales reached 32,867 units which reflected an increase of 12.3%, compared to the 29,277 vehicles exported in February 2021. On the other hand, monthly exports sales increased by a considerable

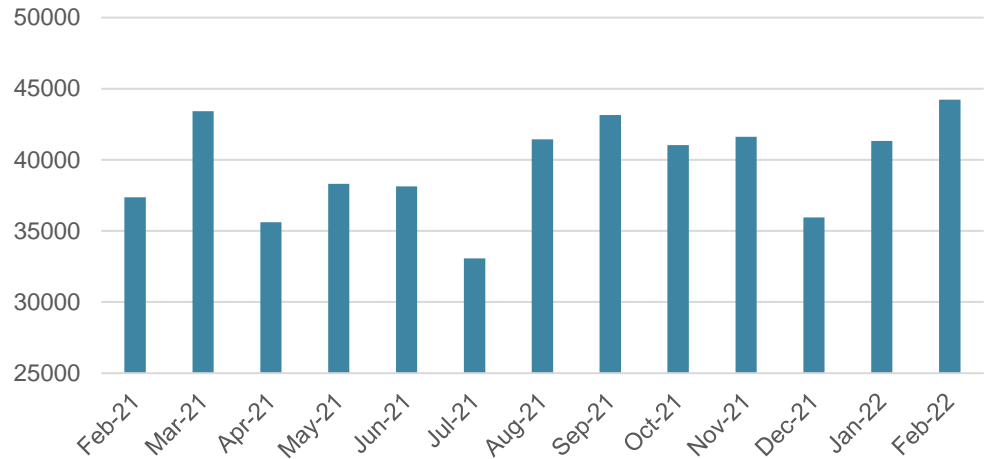


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73.3%. Following an extended downward trajectory period since the second half of 2021, the increase during the month perhaps marked the start of a renewed upward momentum in vehicle exports for the balance of the year.

### AGGREGATE VEHICLE SALES



**Data source:** National Association of Automobile Manufacturers of South Africa

The growth-positive National Budget passed during the month of February 2022 provided some good news for business and consumers, with a cut in corporate income tax, accommodating adjustments in personal income tax brackets and no hike in the fuel or Road Accident Fund levy, for the first time since 1990. However, South African motorists' relief was short-lived as fuel prices hit record highs in March 2022, with petrol now costing more than R21 a litre for the first time ever.

The domestic automotive industry is also concerned about the escalating geopolitical tensions due to the Russian invasion of Ukraine. The Automotive Business Council says the current hostilities pose another potential global supply chain challenge for the auto industry because of Europe's strategic significance to the global automotive ecosystem. The timing of the confrontation between Russia and Ukraine, the European Union, the United States and all their allies in the West, comes at the time when the global auto industry is trying to recover from the devastating impact of COVID-19 disruptions and global shortages of semiconductors and many other supply chain related challenges experienced by the industry since the beginning of 2020.

# INDICATORS: *Week 28 Feb – 04 March 2022*

FEBRUARY'22



**ABSA PMI** **58.6**  
Index points

JANUARY'22



**ELECTRICITY** **-1.1**  
% change (y/y)

FEBRUARY'22



**NEW VEHICLE SALES** **18.4**  
% change (y/y)

JANUARY'22

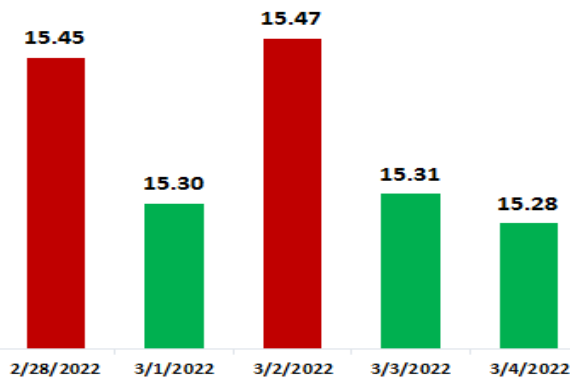
**EXPORT  
IMPORT**

**TRADE STATISTICS** **Trade surplus  
R3.55bn**

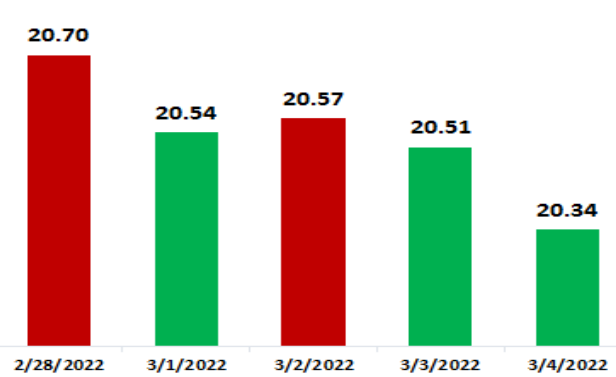
Data Source: Statistics South Africa, Bureau of Economic Research & NAAMSA

## EXCHANGE RATES

US DOLLAR/ZAR



BRITISH POUND/ZAR



Data Source: SARB 15:00, 04 Mar 2022

## COMMODITIES

	<b>BRENT CRUDE OIL</b> <i>Per barrel</i>	<b>GOLD</b> <i>Per fine ounce</i>	<b>PLATINUM</b> <i>Per fine ounce</i>
25 Feb 2022	\$98.29	\$1 895.89	\$1 050.53
04 Mar 2022	\$113.60	\$1 945.95	\$1 087.30
	<b>Increase</b>	<b>Increase</b>	<b>Increase</b>

Data Source: Trading Economics 15:00, 04 Mar 2022

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