WEEKLY

ECONOMIC INSIGHTS

GAUTENG PROVINCE
ECONOMIC DEVELOPMENT
REPUBLIC OF SOUTH AFRICA

Growing Gauteng Together

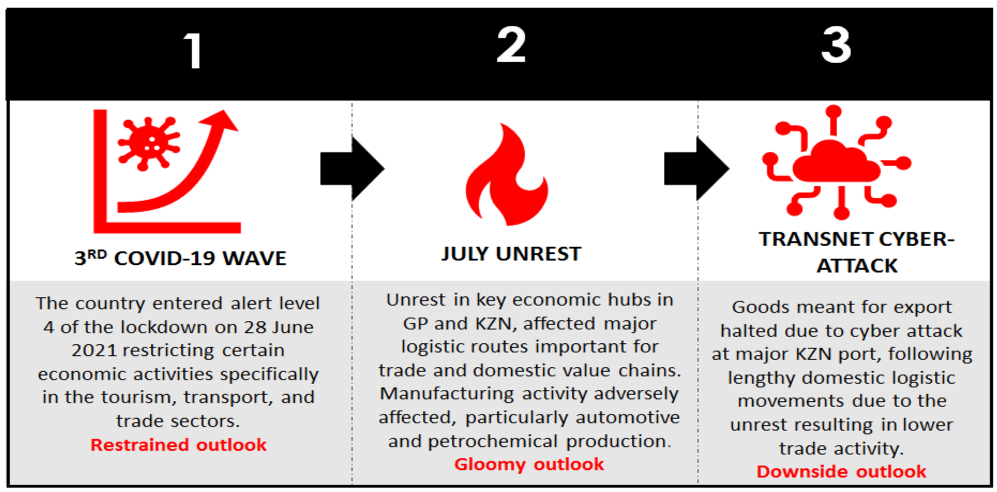
WEEKLY ECONOMIC INSIGHTS

06 - 10 DECEMBER 2021

- US TRADE BALANCE NARROWS IN OCTOBER 2021
- TRIPLE CRISIS HALTS ECONOMIC RECOVERY MOMENTUM
- SENTIMENTS REBOUND TO PRE-EXISTING COVID CHALLENGES
- CURRENT ACCOUNT QUANTIFIES DOMESTIC Q3:2021 SHOCK ON TRADE
- MINING PRODUCTION BOUNCES BACK
- TRADE SALES SLOW IN OCTOBER
- MANUFACTURING OUTPUT DECLINES FURTHER THAN JULY UNREST READING

WEEKLY HIGHLIGHTS

This past week's domestic economic release quantified the impact of the triple crisis of the third COVID-19 wave, July unrest and Transnet cyberattack on Gross Domestic Product (GDP) and trade activity. The data has also signalled the normalisation of economic activity and highlighted the effect of pre-existing COVID-19 related challenges on domestic economic recovery following the third quarter shock.



In addition, domestic economic and trade activity contracted in the third quarter of 2021. Meanwhile, October figures were mixed with the growth of mining, retail, and wholesale trade sales and manufacturing activity declining at a rate lower than the July unrest reading. Sentiments were also mixed, initially boosted by a normalisation in activity then dampened by COVID-19 related challenges.

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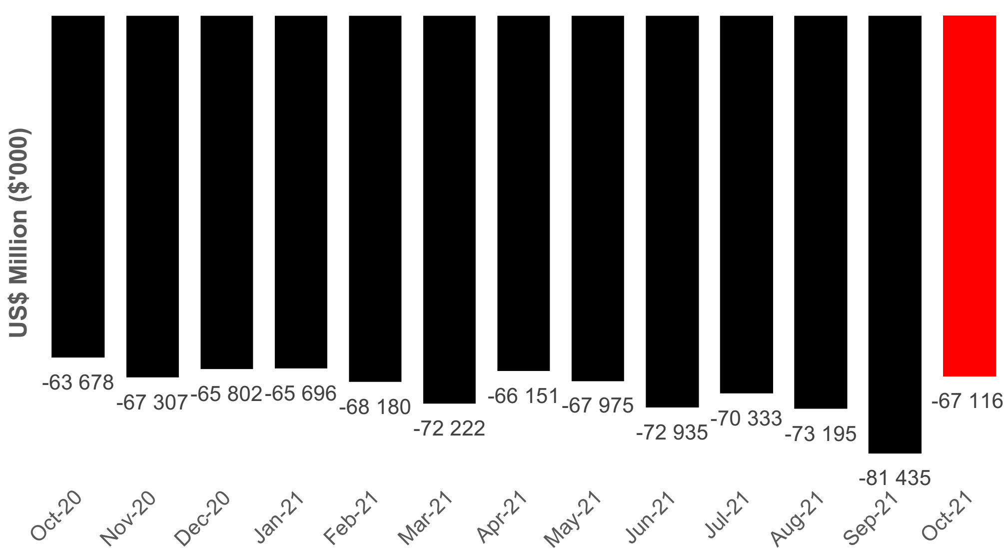
US TRADE BALANCE NARROWS IN OCTOBER 2021

The US trade deficit for goods and services narrowed to $67.1 billion in October 2021, following a record high of $81.4 billion in September 2021. The improvement comes on the back of an uptick in exports (8.1%) as drill rigging and refinery production normalised after hurricane Ida and supply chain disruptions caused by the outbreak of the Delta COVID-19 variant.

The recovery led to a $16.8 billion rise in exports to $223.6 billion while imports registered a moderate increase of $2.5 billion, tallying at $290.7 billion in October 2021. For the year-to-date, the US goods and services trade deficit was 29.7% ($161.7 billion) in comparison to the same time last year. Imports increased faster than exports at 20.7% and 17.9%, respectively.

US TRADE BALANCE: OCT 2020 - OCT 2021



Data Source: US Census Bureau

The US trade deficit outlook remains precarious in the wake of the global Omicron Covid-19 outbreak, which has already disrupted global value chains. However, the normalisation of domestic drill rigging, and refinery production is likely to increase further and somewhat soften the impact of the pandemic on trade.

Global trade conditions are expected to improve further into the new year as economies continue to return to some form of economic normality. However, COVID-19 and global supply chain risks still remain and could dampen trade outcomes, should further shocks be experienced.

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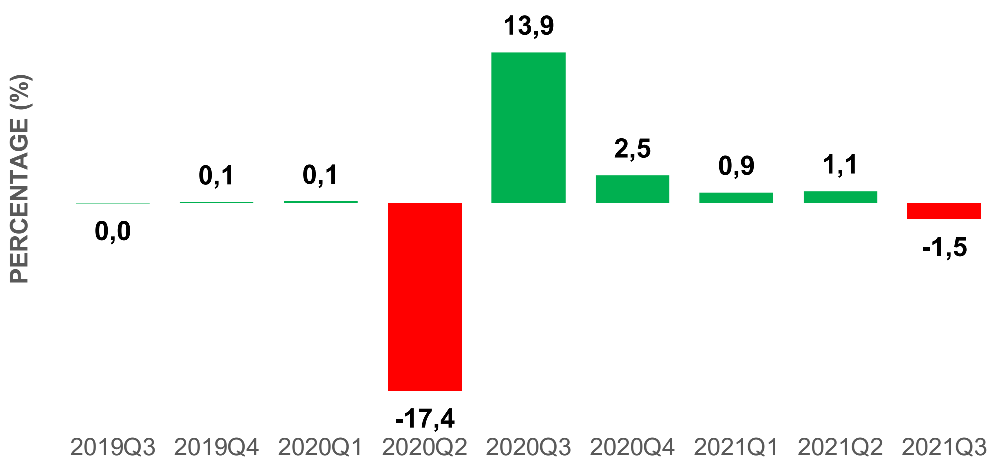
GDP Q3:2021 | TRIPLE CRISIS HALTS ECONOMIC GROWTH

The domestic economy's third quarter (Q3:2021) performance illuminates the devasting second-round effects of the triple crisis experienced during the quarter. The period observed three consecutive blows that compounded pre-existing weaknesses in the economy, halting the domestic economic recovery that began in the third quarter of 2020. The South African economy contracted by 1.5% (quarter-on-quarter) due to the triple crisis of the 3rd COVID-19 wave, July unrest in major economic hubs in KwaZulu-Natal and Gauteng, and the cyber-attack at Transnet ports.

SA ECONOMIC GROWTH: 2019Q3 - 2021Q3



Data Source: Statistics South Africa

The latest reading highlights South Africa's high dependency on international trade and reliable local supply value chains. Meanwhile, Gross Domestic Product (GDP) expanded 5.8% for the three quarters ending September 2021 and is 2.9% (year-on-year) higher than a year ago.

Although the economic shocks were concentrated in Gauteng and KwaZulu-Natal, with specific sectors being hardest hit, the secondary effects negatively affected aggregate output. Expressly, six (6) of the ten (10) sectors declined in the third quarter of 2021, leading to broad-based industrial contractions. Primary industries led the decline at -5.6%, mainly due to global and domestic logistics challenges stemming from the July unrest and Transnet cyber-attack. The Secondary and Tertiary industries trailed at -3 and -0.6%, respectively.

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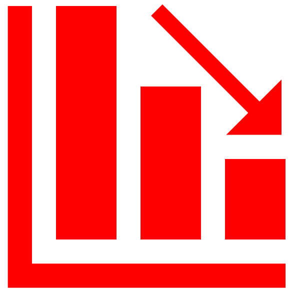

At a sectoral level, supply chain challenges were the main reason for declines in output in agriculture (-13.6%), manufacturing (-4.2%), and transport (-2.2%). Agricultural production decreased owing to reduced field crops and animal products, despite elevated commodity and desirable weather conditions. Manufacturing contracted chiefly due to lower automotive, food and beverages and machinery production levels on the back of factory closures and supply disruptions, particularly in KwaZulu-Natal. Notwithstanding, the manufacturing sector grew in nominal terms to R188 billion in the third quarter of 2021. The decrease in the transport sector was credited to reduced land and air transport activity.

The extent of the supply chain challenges on economic activity is evidenced in muted Gross Fixed Capital Formation growth (0%) and fewer exports (-5.9%) and imports (-2.8%) activity for the period.

Trade activity decreased by 5.5% in the third quarter of 2021. The weaker quarterly reading was expected given subdued domestic activity amid the 3rd COVID-19 wave and the mass looting of semi-durable and durable goods that cost much more than non-durable goods such as food. The demand for food spiked due to panic buying at the height of the July unrest. The price variance between the goods categories resulted in mixed results, with durable goods wholesalers and retailers worse off than non-durable good merchants. Income losses among durable goods wholesalers and retailers due to lower or depleted inventory levels are somewhat explained in muted fixed capital formation growth (0%) for the period. Durable goods recorded the largest contraction of -9.3%, followed by semi-durable goods (-5.2%) and non-durable goods (-3.1%). Consequently, household consumption expenditure registered -2,4% lower than the previous quarter (Q2:2021).

Notwithstanding the output contraction in most sectors, the financial sector saw an increase in output (1.2%), partly due to increased insurance claims which led to increased financial mediation, auxiliary activities, and other business services. The sector has been notably resilient amid the current challenging economic circumstances. Preliminary high-frequency data indicates that the domestic economy has begun to recover from the triple crisis.

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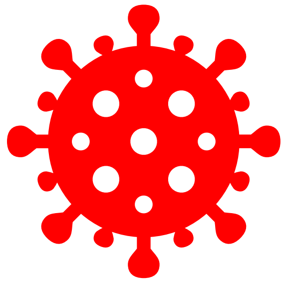
SENTIMENTS REBOUND FOLLOWING TRIPLE CRISIS TO PRE-EXISTING COVID-INDUCED CHALLENGES



Following the triple crisis, the rebound in economic activity was short-lived as businesses normalised to pre-existing COVID-induced challenges such as global supply chain disruptions, inflationary pressures, and weak domestic and international demand persisted. The AgBiz/IDC Agribusiness Confidence Index (ACI) regained losses incurred due to the triple crisis to its second-highest reading on record to 74 points in the fourth quarter of 2021, up from 67 in the third quarter. The reading comes on the back of broad-based improvements in all sub-indices owing to stabilised domestic conditions, elevated commodity prices, and favourable weather conditions.

The increase in sentiment, following the triple crisis, is evidenced in the recovery of the economic conditions, capital investments, and economic conditions sub-indices which registered increases above 18 points – readings last seen in the record-breaking second quarter of 2021. Notably, the improvement in the volume of export sentiment sub-index was mainly attributed to the resumption of activity at Transnet ports. Notwithstanding the favourable outlook, agribusinesses were concerned about higher input prices on the back of domestic and global inflationary pressures.

Similarly, businesses interviewed in the SACCI Business Confidence Index (BCI) flagged higher input prices and energy uncertainty as key concerns. Akin to the AgBiz/IDC Agriculture Confidence Index, the SACCI BCI dipped due to the triple crisis from 97 points in May to 93.2 points in July. The BCI recovered moderately in October (94.9), only to drop again to 92.4 points in November 2021, mainly owing to pre-existing COVID-induced challenges. The decline was credited to weak trade activity on a month-on-month (m/m) and year-on-year (y/y) basis, likely due to disruptions associated with the outbreak of the Omicron COVID-19 variant as well as prejudices surrounding the origin of the virus mutation. This slump in activity overshadowed the rise in automotive production, favourable financial market conditions and the real value of building plans passed on a month-on-month basis.

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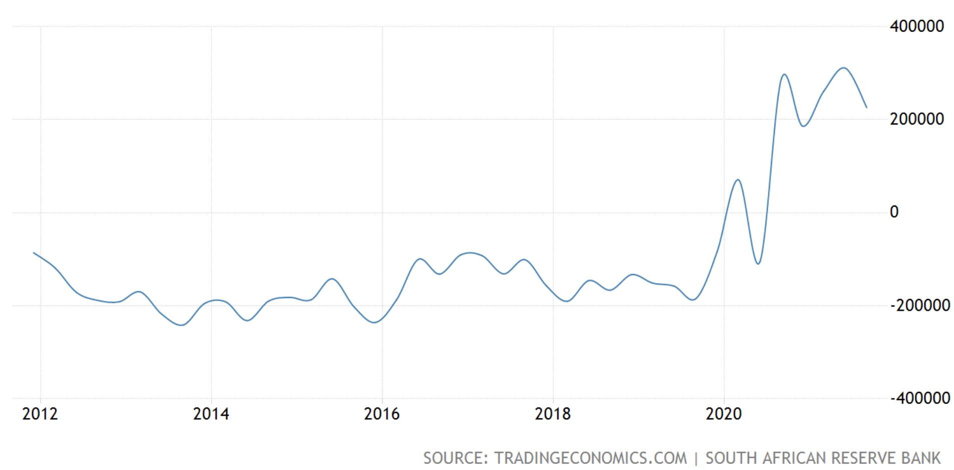
CURRENT ACCOUNT QUANTIFIES DOMESTIC Q3:2021 SHOCK ON TRADE

The current account surplus measured at R226 billion in the third quarter of 2021 (Q3:2021), narrowing from R331 billion in the second quarter of 2021. As a ratio of GDP, the current account surplus measured at 3.6%, moderating from 5.1% in the previous quarter. The shift in the current account is chiefly attributable to the notable narrowing of the trade surplus, the most significant determinant of the current account. The trade surplus measured at R455 billion in Q3:2021 from R582 billion in Q2:2021 following a decline of 6.7% in exports and an unchanged value of imports.

The fall in exports reflects lower volumes, owing to the triple crisis (3rd COVID-19 wave, July unrest, Transnet cyberattack), which halted production in the economic hubs of Gauteng and KwaZulu-Natal. Meanwhile, the shortfall on the services, income and current transfer account (which measures the net of receipts and payments of services as well as primary and secondary income transactions) decreased to R228 billion from R271 billion in the second quarter.

SOUTH AFRICAN CURRENT ACCOUNT BALANCE



The current account has consistently reported a surplus since the third quarter of 2020, an unusual tendency, in part reflecting a weak rebound in domestic demand after the pandemic. Household Consumption Expenditure (HCE) contracted by 2.4% in Q3 from an almost muted 0.8% in the previous quarter. The fall in HCE, together with the fall in exports, detracted a combined 3.2 percentage points from the top line reading of GDP expenditure of -1.6% in Q3:2021.

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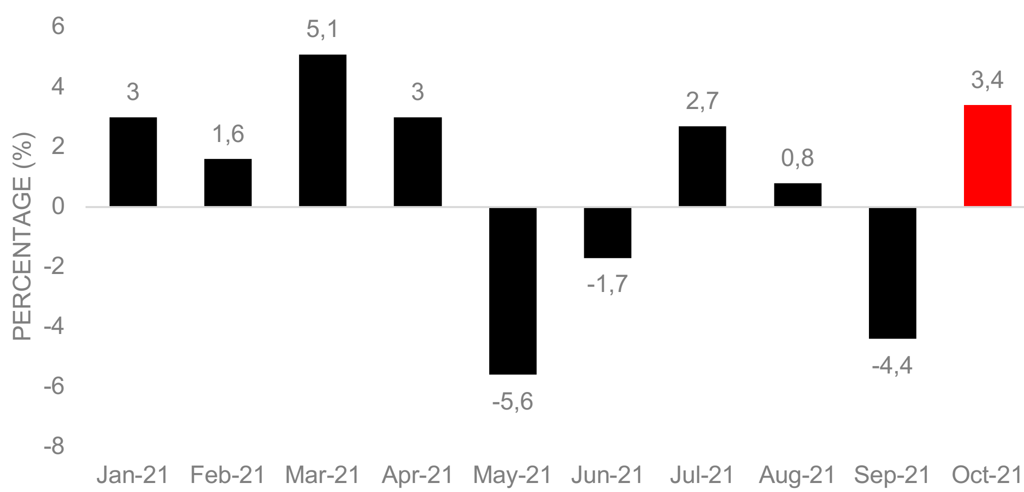
MINING PRODUCTION BOUNCES BACK IN OCTOBER 2021

Mining production started the fourth quarter on a solid footing. Statistics South Africa (Stats SA) shows that mining production bounced back by 2.1% (y/y) in October 2021 after dipping to 0.8% in September 2021. The most significant contributors to the bounce back were Platinum Group Metals – PMGs - (24.0%), chromium ore (28.7%) and iron ore with 11.5%, contributing a combined 7.8 percentage points to the October reading. On the other hand, the coal industry continued to struggle, declining 9.9% in October 2021.

Similarly, seasonally adjusted mining production bounced back by 3.4% in October 2021 compared with the previous month. The largest contributor was PGMs at 31.4%, while the most prominent negative contributor was that of diamonds with -25.9%. Meanwhile, seasonally adjusted mining production increased by 0.1% in the three months ended October 2021 compared with the previous three months. Furthermore, mining sales rose at 4.8% (y/y) and 12.2% (m/m), respectively.

M/M PERCENTAGE CHANGE IN MINING PRODUCTION: (JAN-OCT '21)



Data Source: Statistics South Africa

Analysts were surprised by the upturn in mining production activity given prior expectations that the sector would struggle due to ongoing power cuts. The fourth quarter mining production outlook is mixed due to the impending fourth COVID-19 wave as well as threats of continued power outages, which may disrupt production capacity. However, the weaker exchange rate is expected to somewhat cushion disruptions in the sector through higher revenues from commodity exports.

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TRADE SALES SLOW IN OCTOBER 2021

Retail and wholesale trade sales slowed in October 2021. Although retail trade sales increased by 1.8% (y/y) in October 2021 - a slip from 2.1% in September 2021. Meanwhile, wholesale trade sales registered at 0.2%, 10 basis points below the September reading. The deceleration in trade sales signals a normalisation in activity following the Q3:2021 triple crisis.

The rise in retail sales was credited to higher pharmaceuticals and medical goods, cosmetics, and toiletries (14.8%) and the textiles, clothing, footwear and leather goods which contributed 6.2% to sales. On a month-on-month basis, retail trade sales decreased by 1.3% in October 2021, following readings of 5.1% in September 2021 and 4.9% in August 2021. In the three months ending October 2021, seasonally adjusted retail trade sales decreased by 0.1% compared with the previous three months.

Data Source: Statistics South Africa

On the other hand, wholesale trade sales increased by a marginal 0.1% in October 2021 compared with September 2021. This followed month-on-month changes of -0.9% in September 2021 and 2.9% in August 2021.

On aggregate, the South African trade sector has been under severe pressure, operating amid externalities such as COVID-19 pandemic lockdown regulations which started in March 2020, July 2021 unrest, power supply shortages and the recent interest rate hike of 25 basis points. However, a slight uptick in trade activity is expected during the December holidays, where the demand for services and commodities will be higher as consumers prepare for festivities.

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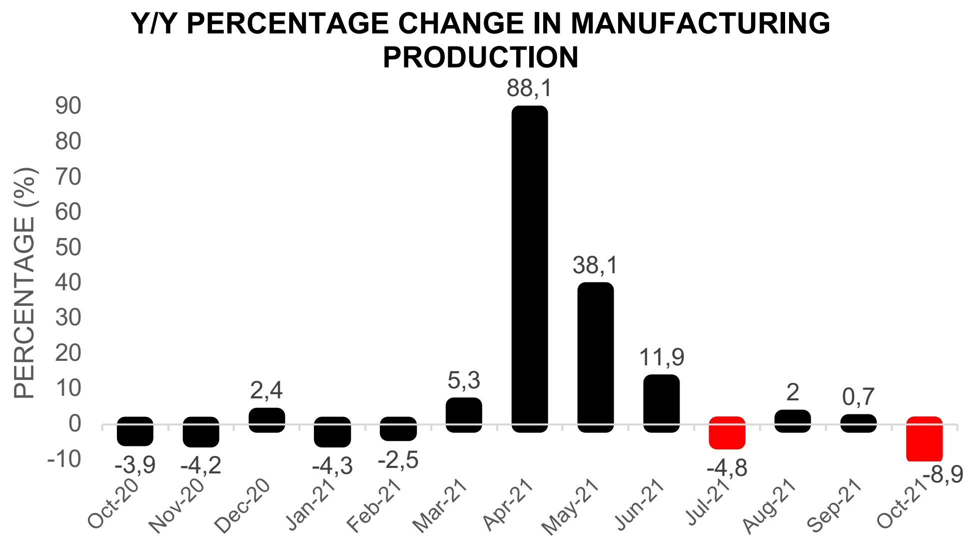
South African Manufacturing production decreased by 8.9% (y/y) in October 2021, following an expansion of 0.7% in September 2021. The October reading indicates that manufacturing activity declined further than the -4.8% contraction during the July unrest. The decrease in output reflects a deceleration in SA's economic recovery momentum. The largest negative contributors were petroleum, chemical products (-17.5%); basic iron and steel, non-ferrous metal products, metal products and machinery (-14.1%); and motor vehicles, parts and accessories and other transport equipment (-13.4%).

Similarly, annualised and monthly manufacturing sales decreased by -1.4% (y/y) and -5.8% in October 2021, respectively. For the year-to-date, manufacturing production increased by 7.8%, while sales were 18.2% higher than the same period last year.



Data Source: Statistics South Africa

Economists attribute the recent decline in production to the National Union of Metal Workers of SA (NUMSA) strike in the steel industry, highlighting the impact of industrial action on economic activity. The downbeat performance in the manufacturing sector is likely to continue into the coming months, considering the risks related to the fourth wave of the COVID-19 pandemic and uncertainty surrounding load shedding, which will weigh on local manufactures. This is evidenced in the BER/ABSA manufacturing business confidence survey drop to 38 points in the fourth quarter.

INDICATORS: *Week 06 – 10 Dec 2021*

QUARTER 3: 2021

GDP **- 1.5**

% change (q/q)

OCTOBER '21

MANUFACTURING PRODUCTION **- 8.9**

% change (y/y)

OCTOBER '21

MINING PRODUCTION **2.1**

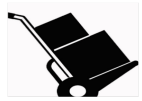
% change (y/y)

OCTOBER '21

RETAIL TRADE **1.8**

% change (y/y)

OCTOBER'21



WHOLESALE TRADE **0.2**

% change (y/y)

QUARTER 3: 2021

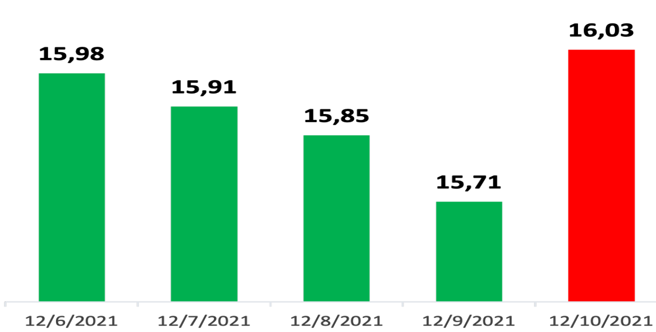
CURRENT ACCOUNT BALANCE: Q3 **Surplus R226bn**

change (q/q)

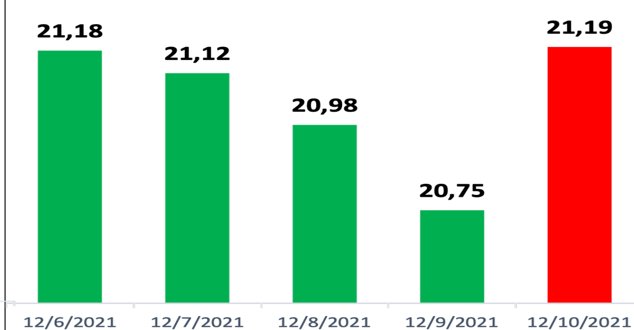
Data Source: Stats SA & SARB

EXCHANGE RATES

US DOLLAR/ZAR



BRITISH POUND/ZAR



Data Source: SARB 15:00, 10 December 2021

COMMODITIES

	BRENT CRUDE OIL *Per barrel*	**GOLD** *Per fine ounce*	**PLATINUM** *Per fine ounce*
03 Dec 2021	$71.68	$1112.60	$945.05
10 Dec 2021	$75.04	&1773.22	$944.48
	increased	**increased**	**decline**

Data Source: Trading Economics 15:00, 10 December 2021

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