WEEKLY

ECONOMIC INSIGHTS

GAUTENG PROVINCE
ECONOMIC DEVELOPMENT
REPUBLIC OF SOUTH AFRICA

Growing Gauteng Together

WEEKLY ECONOMIC INSIGHTS

01 – 05 FEBRUARY 2021

- ***GLOBAL MANUFACTURING KICKS OFF NEW YEAR ON SLUGGISH NOTE***
- CONTINUED DECLINE IN BUSINESS ACTIVITY INDEX DOES LITTLE TO CURB INCREASE IN ABSA PMI
- ELECTRICITY CONSTRAINTS FUEL FURTHER DECLINE IN MANUFACTURING CAPACITY UTILISATION
- ELECTRICITY FIGURES WEAKENED FURTHER IN 2020 AS OPERATIONAL STUGGLES AT ESKOM LINGER
- NEW VEHICLE SALES KICK OFF 2021 ON A SOMBRE NOTE
- DEVASTATING IMPACT OF COVID-19 LEAVES SEVERAL INDUSTRY GIANTS SHAKEN

GLOBAL MANUFACTURING KICKS OFF NEW YEAR ON A SLUGGISH NOTE

Manufacturing activity registered extreme volatility for most of 2020, as prevailing economic conditions were stifled by the outbreak of the Coronavirus pandemic. All major global economies, except for China, registered drawn out weakness in manufacturing activity following broad-based restrictions to economic operations and social interactions under various levels of lockdown.

Upon entering the new year, manufacturing conditions across the global economy have remained mostly resilient although sluggish with the US being the only major regions to register improved conditions. Specifically, the IHS Markit US Manufacturing PMI increased to 59.2 in January 2021 from a reading of 57.1 in December 2020. The latest reading points to strong growth in factory activity following expansions in output and new orders. Meanwhile, cost pressures intensified as manufacturers faced raw material shortages.

In Europe, both the IHS Markit/CIPS UK Manufacturing and Eurozone Manufacturing PMIs slipped to 54.1 and 54.8 in January 2021, slightly below 57.5 and 55.2 respectively in December 2020. The UK and Euro Area manufacturing sectors slowed somewhat at the start of 2021 as output growth eased and new orders fell slightly. This comes after weaker inflows of new export work and temporary supply-chain disruptions caused by

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COVID-19 restrictions and transport delays following the end of the Brexit transition period. However, factory activity expanded (remained above the 50 mid-point) with the best manufacturing growth was again seen in those countries with strong export bases.

Further east, the Caixin China General Manufacturing PMI fell to a seven-month low of 51.5 in January 2021 from 53.0 in December. Both output and new orders rose at a slower pace, while export sales declined for the first time in six months due to a resurgence in COVID-19 infections globally. Also, buying levels expanded the least since last May. Meanwhile, the Jibun Bank Japan Manufacturing PMI slipped marginally to 49.8 in January 2020 from a final 50 in December 2020. It was the second highest PMI reading since May 2019, pointing to a stabilization in operating conditions, as some business anticipated a recovery in demand in 2021.

Although the PMI readings were slightly weaker across several major economies in January 2021, manufacturing activity generally remains in expansionary territory. This is much welcome position given the sustained weakness observed in 2020. Manufacturing activity should be mostly resilient in coming months as the manufacturing of the various COVID-19 vaccines increases and roll-out plans are implemented. Upside risks do remain however, should value chain disruptions arise and cases do not subside speedily enough.

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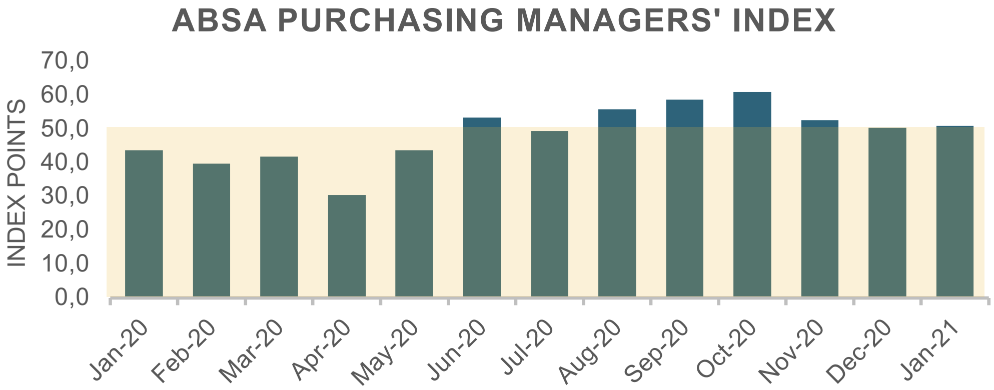
CONTINUED DECLINE IN BUSINESS ACTIVITY INDEX DOES LITTLE TO CURB IMPROVEMENT IN ABSA PMI READING

Despite the protracted decline in the business activity sub-index since September 2020, the overall ABSA Purchasing Managers' Index (PMI) increased moderately by 0.6 index-points to 50.9 index-points in January 2021. The latest reading is credited to improvements in four of the six sub-indices.



Data source: Bureau for Economic Research

The uptick in the purchasing price index (to 82.6 index points) was due to global inflationary pressure induced by a higher Brent crude oil price and the deterioration of the Rand. The sharp rebound in purchasing prices is expected to weigh heavily on consumers in the form of fuel price and manufactured goods price increases in the upcoming months. The higher supplier deliveries index reading can be explained by unplanned disruptions to value chains fuelled by the second wave of COVID-19 rather than increased demand.

The impact of the second wave is evidenced by the fourth consecutive decline in the business activity index to 43.5 index points in January 2020. The downturn is attributed to the recalibration of domestic manufacturing activity, following the negative effects of lockdownd regulations imposed in late December 2020 that mainly affected brewers and the hospitality sector. Despite the protracted decline in business activity, the employment index improved to 48.6 index points for the same period. Analysts credit the anomaly to slower job losses compared to those registered in the earlier lockdowns.

Looking ahead, purchasing managers expect business conditions to improve over the next six months supported by favourable global growth prospects that are projected to bolster exports. However, manufacturing activity could be hindered by energy supply disruptions and further outbreaks of the virus despite the anticipated upturn in activity.

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ELECTRICITY CONSTRAINTS FUEL FURTHER DECLINE IN MANUFACTURING CAPACITY UTILISATION

On the 4th of February 2021, Statistics South Africa released the production capacity utilisation by South African large manufacturing companies for the month of November 2020. The utilisation of production capacity by large manufacturers registered at 79.3% in November 2020 compared with 81.1% from the previous year, slipping by 1.8 percentage points (pp). The latest reading highlights the extent to which the industry has been reeling from the effects of lockdown restrictions.

According to the publication, the key driver for weakening levels of capacity utilisation were electricity downtimes due to maintenance and changes in productivity at the ailing power utility, Eskom. This led to an annual decline in capacity utilisation in eight of the ten manufacturing divisions. The largest decreases for November 2020 were recorded in the furniture and ‘other’ manufacturing (-13.7 pp), basic iron and steel (-3.0 pp), motor vehicles (-2.7 pp), chemical products (-1.7 pp), and food and beverages (-1.1 pp) categories.

Although South Africa went through changing levels of lockdown restrictions in 2020, with the less stringent coming around November, aggregated demand levels remained mostly muted. However, the power utility has presented its plans to transform its pricing structure to the National Energy Regulator of South Africa (NERSA) as it had last reviewed its tariff structure in 2012. It is expected that a stable power supply coupled with further recovery in consumer and business confidence as well as increased economic activity should benefit the domestic economy. The domestic manufacturing sector is however likely to continue to grapple with the dynamic global manufacturing scene which has seen tremendous technologically driven advances all of which will influence and shape domestic manufacturing capacity and potential in coming years.

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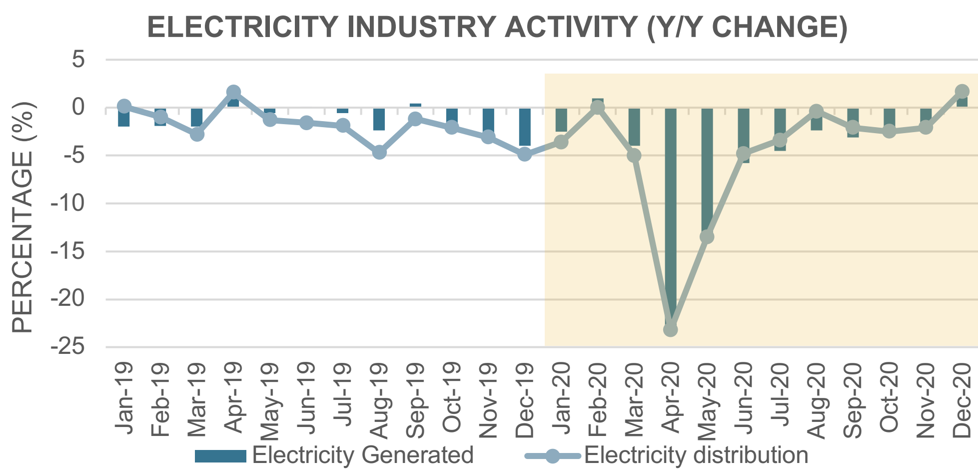
Domestic electricity generation declined for a second consecutive year in 2020, falling 5.2% below 2019 levels. This follows a decline in the level of electricity generation of 1.5% between 2018 and 2019, raising further concern over the state of the country's energy sector. Similarly, electricity distribution in 2020 was 5% lower than in 2019, with cumulative declines over 10 of the 12 calendar months. The country distributed 216 010 gigawatt hours of electricity in 2020, 11 326 gigawatt hours below the 2019 figure. While electricity imports were marginally higher over the 2019 to 2020 period (0.3% up), power exports were significantly impacted with outflows declining by close to 10% over the same period.



Data source: Statistics South Africa

More recently, Eskom confirmed that it would implement stage two load shedding from midday on Friday, 5 February 2020 with power cuts continuing into Sunday evening. Load shedding has been exacerbated by the forced shutdown of five generation units at the Medupi power station due to the inability to get coal to the station due to the recent heavy rains in the Lephalale area. In January, South Africans had to endure load shedding after Eskom failed to bring some units back online, following maintenance.

While the data confirms the extent of Eskom's woes, some hope may yet be drawn from the president's recent proclamation that the country would soon secure stable power supply. Whether these proclamations will translate to real changes on the ground is dependent on the drive of policy makers working with private partners to converge on solutions to the country's impending energy crisis.

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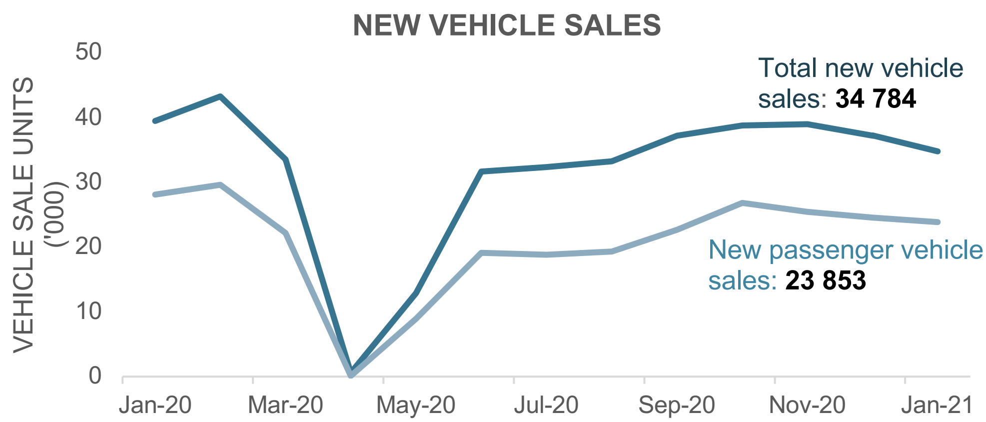
NEW VEHICLE SALES KICK OFF 2021 ON A SOMBRE NOTE

South Africa's new vehicle industry kicked off 2021 kicked on a sombre note. This comes after a tough 2020, where new vehicle sales plunged to lowest aggregate sales in 18 years on the back of an already pressured industry hard-hit by sustained demand weakness due to the effects of the lockdown. With 34 784 units sold in January 2021, new vehicle sales declined by 6.6% (-2 466) relative to December 2020. The vehicle market recorded a decline across all categories with new passenger vehicles declining by 2.8% (-688 units) to 23 853 whilst the light commercial vehicle sales slipped 4.8% (1474 units) to 9 310. On a year-on-year basis, new vehicles sales declined by a gross 13.9% as sales volumes declined by 5 629 with the bulk of the decline of 5 220 units (18%) reported on new passenger vehicles.



Data Source: National Automobile Association of South Africa (NAAMSA)

On the other hand, cushioning the auto industry, the export sector performed much better boosted by the weak rand which remained favourable to the export market. At 22 771 units, the export of new vehicles increased by 27% (4 828) relative to the previous month. Annually, new vehicle exports increased by a robust 40% as the volume increased by 6 468 units.

Whilst the current domestic economy encompasses low interest rates and low inflation, which are expected to boost the struggling vehicle market, the appetite for big ticket items such as new vehicles remains suppressed. Industry experts expect a delayed recovery (of up to three years) to pre-COVID levels in the vehicle market. The recent announcement of a planned investment of R15.8 billion by the Ford Motor Company in SA should boost vehicle manufacturing activity and export capacity and is expected to create 1 200 jobs in coming years. All of which should bode well for an industry under much strain.

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DEVASTATING IMPACT OF COVID-19 LEAVES SEVERAL INDUSTY GIANTS SHAKEN

Adding yet another blow to the embattled domestic economy, bus transport service providers Greyhound and Putco both announced that they would be making some major operational changes. After 37 years of operations, transport group Greyhound announced that it will close its bus operations in mid-February 2021. Meanwhile, Putco, which services a network across Gauteng, Mpumalanga and Limpopo, announced that it would cut a total of 214 jobs, less than the initial 300 jobs it had originally planned to cut.

Media group Ster-Kinekor also recently announced that it would enter voluntary business rescue following a long stretch of mandatory cinema closures during the majority of 2020. The closures have severely impacted revenues forcing the group into business rescue. On the retail end, retail group Clicks announced that it will also be shutting down its Musica stores in SA, after several years of decline and sighting its inability to keep pace with the rise in digital streaming and online entertainment as the key reason for the move.

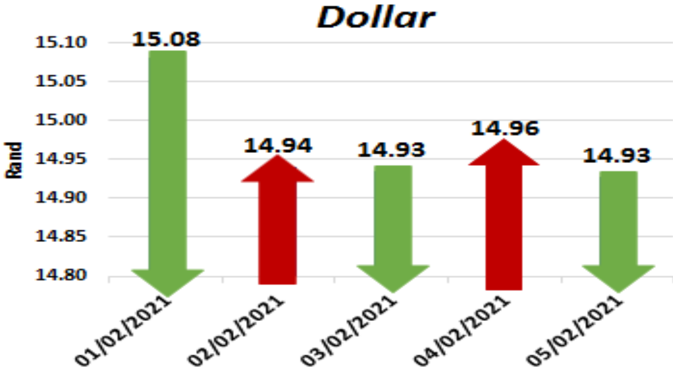
The recent announcements come in an economic climate that has been rocked by nearly a year of COVID-19 pandemic driven volatility and lockdown restrictions. These restrictions have drastically limited demand for transport and on-site entertainment services such as cinemas and music stores and placed growing pressure on businesses to adapt to the changing and constrained economic environment. Any prospects of a significant recovery in 2021 will depend the speedy and effective eradication of the virus and resumption of well planned and funded socioeconomic support initiatives.

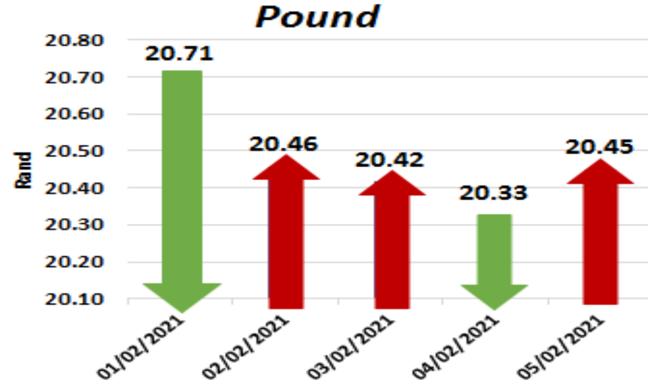
INDICATORS: *Week 01 – 05 Feb 2020*

ABSA PMI	MANUFACTURING CAPACITY UTILISATION	ELECTRICITY GENERATION	NEW VEHICLE SALES
			
50.9 points Jan'21	***79.3% y/y Nov'20***	***1.1% y/y Dec'20***	***13.9% y/y Jan'21***

Source: Statistics South Africa & NAAMSA

RAND/DOLLAR/POUND EXCHANGE RATE





Source: *SARB & Trading Economics 15:00, 05 Feb'21*

COMMODITIES

BRENT CRUDE OIL PER BARREL	GOLD PER OUNCE	PLATINUM PER OUNCE
$59.35 05 Feb'21	*$1 866.20 29 Jan'21*	***$ 1 106.46 05 Feb'21***
$55.21 29 Jan'21	***$ 1 798.53 05 Feb'21***	*$1 095.11 29 Jan'21*

Source: *Trading Economics, 15:00, 05 Feb'21*

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