WEEKLY ECONOMIC INSIGHTS

GAUTENG PROVINCE
ECONOMIC DEVELOPMENT
REPUBLIC OF SOUTH AFRICA

Growing Gauteng Together

WEEKLY ECONOMIC INSIGHTS

02 – 05 NOVEMBER 2021

- ***UK MPC EXPECTS ECONOMY TO REACH PRE-PANDEMIC GROWTH LEVELS IN Q1:2022***
- US TRADE DEFICIT BREAKS RECORD IN SEPTEMBER 2021
- ABSA PMI DIPS IN OCTOBER
- MANUFACTURING UTLISATION IMPROVES FOLLOWING JULY UNREST
- MYRIAD OF FACTORS DAMPEN NEW VEHICLE SALES IN OCTOBER
- ELECTRICITY PRODUCTION DECREASES IN SEPTEMBER

WEEKLY HIGHLIGHTS

The Bank of England maintained the repo rate at 0.1% owing to inflationary pressures and global supply chain disruptions. However, it expects the British economy to rebound to pre-pandemic levels in the first quarter of 2022. Moving west, the US trade deficit reached an all-time high due to climate change-related stoppages in petroleum production.

On the domestic front, the ABSA PMI dipped slightly in October 2021, however, it remains above the 50-midpoint mark. Production capacity utilisation of larger manufacturers improved in August 2021 following the July unrest. Meanwhile, a myriad of factors contributed to the slow-down in new vehicle sales in October 2021. Domestic electricity production decreased further on the back of seasonal changes, in addition Eskom woes have deepened further with the power utility implementing Stage 2 load shedding for most of the week following technical faults at some of its plants.

UK MPC EXPECTS ECONOMY TO REACH PRE-PANDEMIC GROWTH LEVELS IN Q1:2022

The Bank of England Monetary Policy Committee (MPC) maintained the repo rate at 0.1% on 4 November 2021. The decision comes after depressed domestic consumption demand and supply chain disruptions induced by slowing global growth and a possible uptick in UK unemployment following the termination of furlough schemes in September. Notwithstanding these inhibitors, the British economy is expected to rebound to its pre-pandemic level (Q4:2019) in the first quarter of 2022.

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

HIGHLIGHTS

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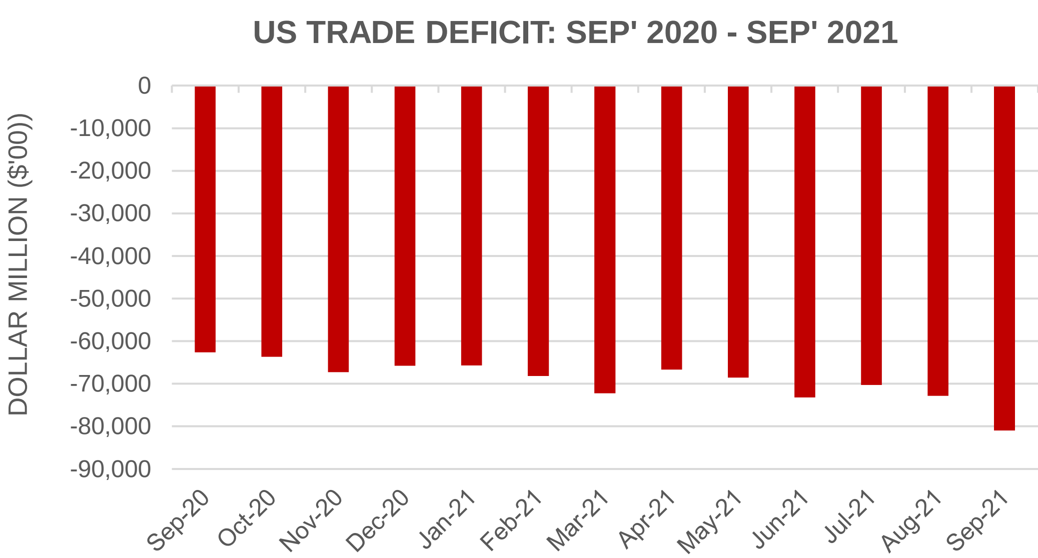
Meanwhile, British inflation is forecast to breach the Bank of England upper bound target of 4% at 4.5% in November 2021 due to increased gas, core goods and food inflation. Inflation is anticipated to climb to 5% in April 2022, coming down in the second half of 2022 owing to stabilised supply chains, lower energy prices, and global demand.

US TRADE DEFICIT BREAKS RECORD IN SEPTEMBER 2021

The United States (U.S) registered a trade deficit for goods and services of $80.9 billion in September 2021 – the highest reading ever. The September reading follows a trade deficit of $72.8 billion in August 2021. Despite a record-high volume of consumer good exports, US aggregate exports declined by $6.4 billion, registering at $207.6 billion in September 2021. As a result, the deceleration in exports overshadowed the relatively low rise in imports of $1.7billion (to $288.5 billion) for the same period.

Analysts credit the plunge in exports, despite rising oil prices, to the seized drilling rig and refinery activity during hurricane Ida in the Gulf of Mexico during the period. For the year-to-date, the US goods and services trade deficit expanded by 33.1% ($158.7 billion) in comparison to the same time last year.



Data Source: United States Census Bureau

Looking ahead, the US trade deficit is expected to narrow in the near term owing to stabilisation in petroleum-related production. However, a faster uptick in import demand due to increased economic activity could curtail the narrowing of the trade deficit.

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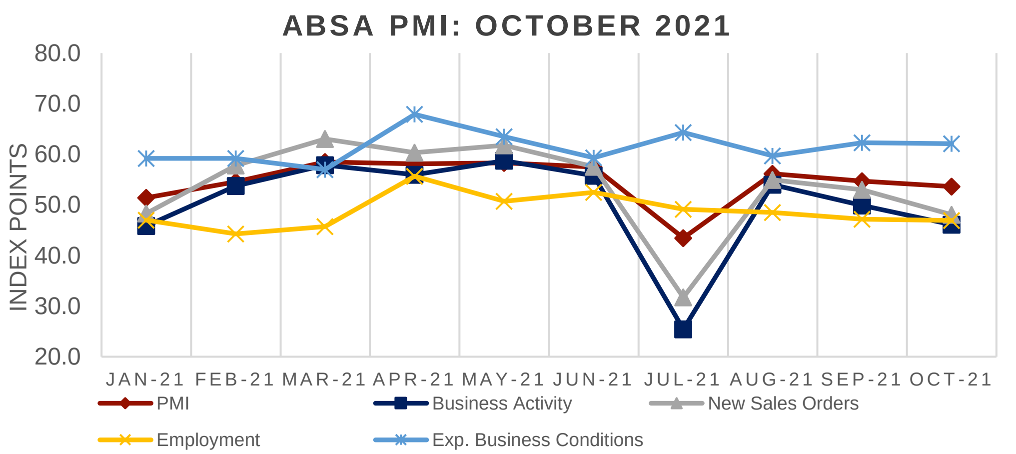
ABSA PMI DIPS IN OCTOBER BUT REMAINS ABOVE THE 50-MIDPOINT MARK

The seasonally adjusted ABSA Purchasing Managers' Index (PMI) declined further to 53.6 points in October 2021, down from the downwardly revised figure of 54.7 points in September 2021. As in September, the business activity and new sales orders indices deteriorated by 3.8 and 5.0 points, respectively. The employment index remained firmly below the neutral 50-point mark for the fourth consecutive month to record at 47.0 points in October 2021. The outlook for the employment index remains gloomy due to issues around reliable power supply and labour unrest, particularly for the steel industry.

Encouragingly, the inventories index increased by 4.4 points to 54.4 points in October 2021, indicating an uptick in manufacturing production. Meanwhile, the supplier deliveries index decreased by a marginal 1.1 points but remained firmly above the neutral 50-point mark coming in at 72.5 points.



Data Source: Bureau of Economic Research

Analysts credit the deterioration in the PMI to bottlenecks in supplier deliveries, including the impact of higher shipping costs due to intensified global supply chain disruptions. The rise in the price of inputs is evidenced in the Purchasing Price Index (PPI) in the last three months. Notwithstanding the rise in input prices and supplier lead times, respondents remained upbeat about improving business conditions over the next six months as the index recorded 62.1 points.

The slight dip in the ABSA PMI can be attributed to lengthy strikes in the steel and engineering sector and the return of load-shedding for extended periods during the month. Nevertheless, the PMI is expected to improve over the coming months as the country was recently moved to Level 1 lockdown restrictions.

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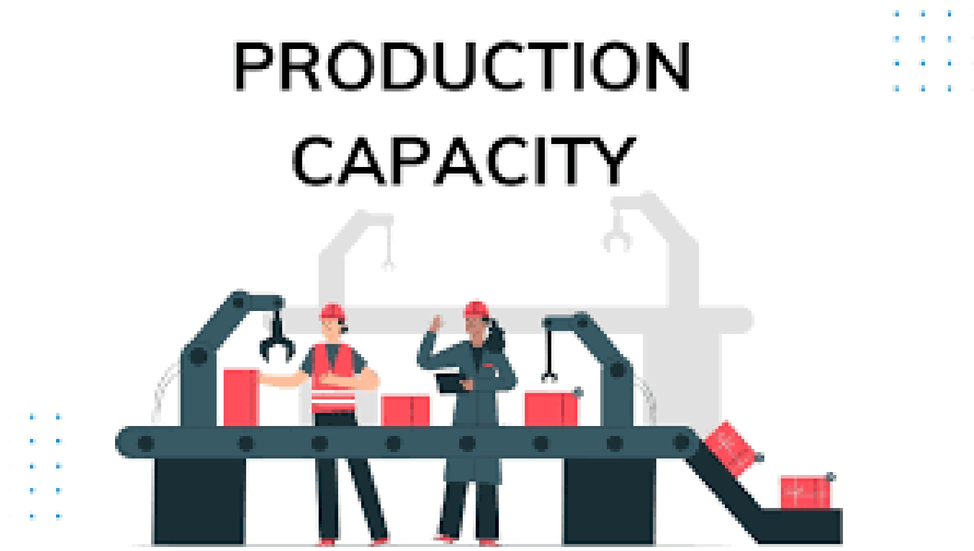
UTILISATION OF PRODUCTION CAPACITY AMONGST MANUFACTURERS IMPROVES FOLLOWING JULY UNREST

Large manufacturers' utilisation of production capacity increased by 6.3% to 78.0% year-on-year (y/y) in August 2021, up from 71.7% in August 2020. The improvement in manufacturing sector capacity utilisation, despite the lockdown regulations, is encouraging and signals improving conditions amongst manufacturers.

The increased utilisation of production capacity is attributable to improvements amongst nine (9) of ten (10) manufacturing divisions namely, electrical machinery (16.3%); wood and wood products, paper, publishing and printing (12.7%); radio, television and communication apparatus and professional equipment (12.6%); textiles, clothing, leather and footwear (11.8%); and food and beverages (9.3%).



Despite larger manufacturers' increased utilisation of production capacity, under-utilisation due to labour shortages and insufficient demand remains a concern for the sector. Given the accommodative lockdown regulations and higher vaccination levels, production levels are expected to increase for the remainder of 2021. In addition, as the domestic and global economies continue to recover, demand should begin to record stronger growth, which should offer much needed support for the struggling sector.

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A MYRIAD OF FACTORS DAMPEN NEW VEHICLE SALES IN OCTOBER

New vehicle sales totaled 41 035 units in October 2021, down by 2 111 units (-4.9%) for September 2021. The decline in sales was masked by a myriad of factors, including the three (3) week-long strike in the steel and engineering sector; the return of acute load shedding, which impacted new vehicle market and vehicle export; and the ongoing supply chain disruptions in vessel and container shortages resulting in higher logistical costs.

Nonetheless, vehicle exports rose by 11 885 units, double the value exported in September 2021. The strong growth vehicle exports should not be mistaken for real growth. It is likely attributable to the low base of a tough third quarter underpinned by numerous factors such as the mid-July unrest and the Transnet cyber-attack, which hampered exports. Annually, vehicle exports declined by 30% (10 159 units). However, export volumes were 12% higher than the same period last year (year-to-date), indicating a rebound from 2020.

Meanwhile, new vehicle sales increased by 2341 units (6.1%) y/y supported by a 3.1% increase new passenger car market, in part buoyed by the increased demand by the rental car industry. The demand from the rental car industry is boosted by the easing of the lockdown restriction to Level 1, which has increased domestic travel.

Going forward, the new vehicles industry will continue to benefit from the strong rebound in global economic activity and favourable conditions abroad. However, domestic factors such as rising joblessness and record-high fuel prices will likely affect the new vehicle sales outlook in a negative way.

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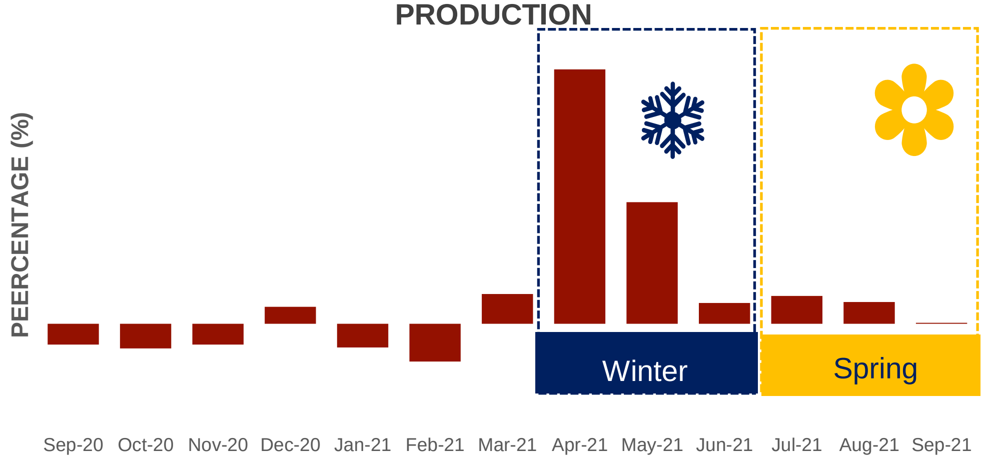
ELECTRICITY PRODUCTION DECREASES IN SEPTEMBER 2021

Statistics South Africa published the electricity generated (production) and available for distribution (consumption) on Thursday, 04 November 2021. The report indicates that electricity generation declined by 0.2% in September 2021 compared with August 2021. The downturn in production follows month-on-month changes of -0,4% in August 2021 and 0,6% in July 2021. Meanwhile, seasonally adjusted electricity generated decreased by 0.5% in the third quarter of 2021 compared with the second quarter of 2021. The dip in electricity production is likely credited to seasonal changes (warmer temperatures) in the third quarter of 2021.

Y/Y CHANGE IN VOLUME OF ELECTRICITY PRODUCTION



Data source: Statistics South Africa

The generation of electricity in South Africa has been under severe pressure for years, and the problem was exacerbated by the disruptions that came with the nationwide lockdown. South Africa generated 165 830 GWh between January and September 2021 (year-to-date), up 2.9% from the 161 098 GWh recorded for the same period in 2020. At the provincial level, Gauteng electricity demand declined from 5 435 GWh in August 2021 to 4 717 GWh in September 2021.

South Africa continues to experience protracted bouts of load shedding as a result of Eskom inability to produce sufficient electricity required by the economy. The electricity interruptions across the country were adversely disrupting the economic activities of many businesses and households. Currently, electricity generated and available for distribution figures are expected to remain depressed for the coming months towards the end of 2021.

INDICATORS: *Week 02 – 05 November 2021*

OCTOBER '21

ABSA PMI **53.6**

index points

AUGUST '21

MANUFACTURING UTILISATION **78.0**

% change (y/y)

OCTOBER '21

NEW VEHICLE SALES **41 035**

units

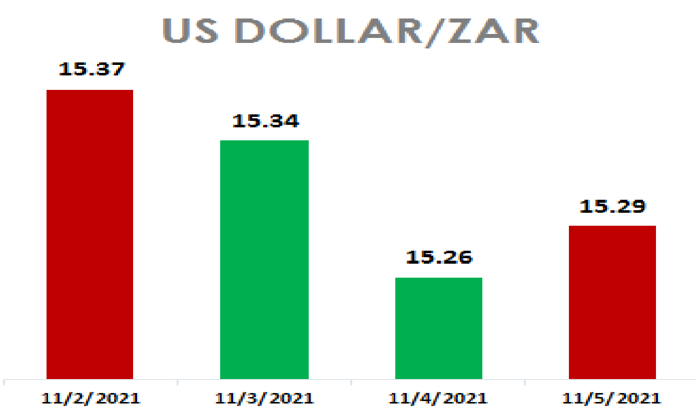
SEPTEMBER'21

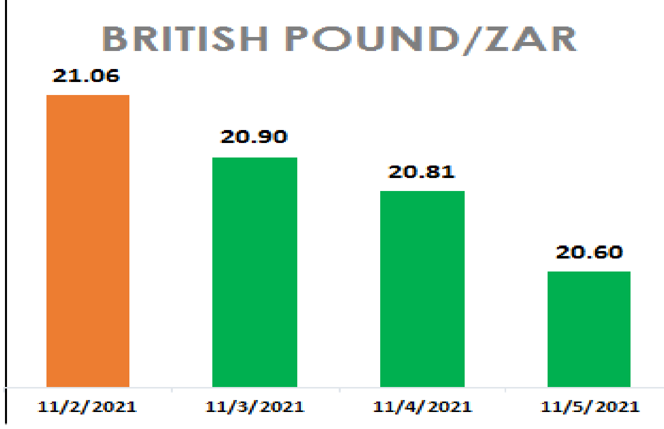
ELECTRICITY **-0.2**

% change (y/y)

Data Source: Statistics South Africa & NAAMSA

EXCHANGE RATES





Data Source: SARB 15:00, 05 November 2021

COMMODITIES

	BRENT CRUDE OIL *Per barrel*	**GOLD** *Per fine ounce*	**PLATINUM** *Per fine ounce*
29 Oct 2021	$83.86	$1 779.80	$1 006.00
05 Nov 2021	$81.12	$1 792.71	$1 028.99
	Decline	**Increase**	**Increase**

Data Source: Trading Economics 15:00, 29 October 2021

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