WEEKLY ECONOMIC INSIGHTS

GAUTENG PROVINCE
ECONOMIC DEVELOPMENT
REPUBLIC OF SOUTH AFRICA

Growing Gauteng Together

WEEKLY ECONOMIC INSIGHTS

22 – 25 MARCH 2022

- ***DISRUPTIVE FORCES OF RUSSIA AND UKRAINE PRESENT NEW CHALLENGES TO THE GLOBAL ECONOMY***
- CONSUMER PRICES REMAIN UNCHANGED AT ELEVATED LEVELS AS SARB INCREASES REPO RATE
- FOOD AND BEVERAGES INDUSTRY REGISTERS 10TH CONSECUTIVE INCREASE IN INCOME

WEEKLY REVIEW

The geopolitical conflict between Russia and Ukraine continues to be a major cause for concern, particularly for European countries. The invasion of Ukraine by Russia is a complete economic disruptor with a potential to reconfigure the global economic balance of forces.

Domestically, as many economic sectors are gearing up to normal productivity after a ruthless attack by the COVID-19 pandemic, inflationary pressures have remined elevated. The annual Consumer Price Index remained unchanged at 5.7% between January and February 2022, though it has increased slightly on a month-on-month basis in February 2022. Elevated inflationary pressures coupled with uncertainty stemming from the war in Ukraine pushed the Monetary Policy Committee to increase the repo rate yet again, raising it by 0.25 basis point to 4.25% per annum. Meanwhile, the food and beverages industry has shown resilience as impressive gains were recorded in January 2022.

DISRUPTIVE FORCES OF RUSSIA AND UKRAINE PRESENT NEW CHALLENGES TO THE GLOBAL ECONOMY

The geopolitical conflict between Russia and Ukraine is a complete disruptive force with the potential to reconfigure the global economic balance of forces. While Europe is aligned with the United States of America (USA) on sanctions, its economy is bearing the bulk of the negative spillages of the war given its dependency on Russia for 40% of its energy supplies. The increase in energy and commodity costs is likely to impact European growth outlook and keep inflation stubbornly high for longer than previously thought.

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HIGHLIGHTS

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Looking at the involvement of global landscape forces, other European countries such as Germany are deciding to significantly boost defence spending, meeting NATO's 2% of GDP target. At the same time, Japan is inviting the USA to install nuclear weapons on its soil and Switzerland is breaking from its traditional neutrality by matching EU sanctions on Russia. A new version of Cold War mentality may be emerging, with the potential to greatly affect growth dynamics going forward as well as the global investment landscape.

Undoubtedly, Ukraine, Russia and their neighbouring European countries will feel the greatest direct impact as the conflict escalates. On the other hand, Russia and Ukraine account for 3% and 0.4% of global gross domestic product on a purchasing power parity basis, respectively, so the direct impact on broader global economic growth will likely be limited. However, outside of Russia and Ukraine, European markets particularly are likely to experience the greatest impact from rising tensions in three ways: disrupted trade, tighter financial conditions, and interdependent gas supplies.

Inflation is arguably the major uncertainty and driver of investor behaviour in 2022. It remains to be seen how the tightening of financial conditions affects inflation. Risk to the economic outlook has very much to do with inflation and the reactions of central banks in their efforts to curb it.

Inflation is not what people would usually think of as disruptive, however in the current context this is probably the biggest disruptive force as it will determine how and where businesses and consumers invest and how you think of the world.

Some sources of inflation, such as housing, will be more effectively curbed through a recession as demand decline may deflate prices. Another disruptive force is technology growth as it is closely interrelated with two other trends that will disrupt markets and the global economy in the future. The sooner the geopolitical confrontations between Russia and Ukraine come to an end, the sooner the global economic recovery, especially after the waves of the COVID-19 pandemic.

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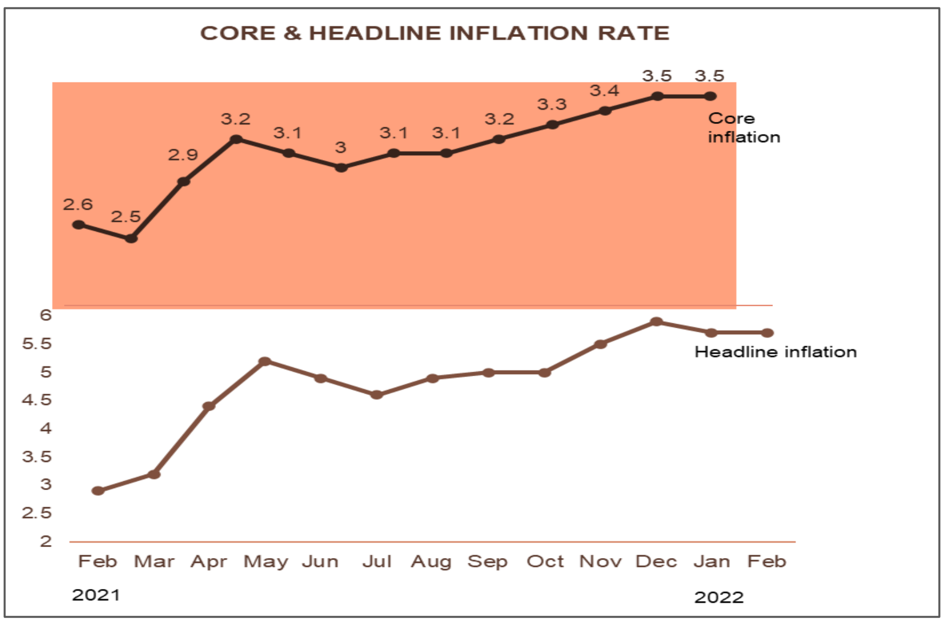
CONSUMER PRICES REMAIN UNCHANGED AT ELEVATED LEVELS AS SARB INCREASES REPO RATE

Consumer prices have remained elevated in recent months, growing by 5.7% year-on-year (y/y) in February, unchanged from the previous month. Monthly, the inflation rate increased by 0.6%. Significant price increases were recorded in food and beverages (6.4%, contributing 1.1 percentage points), underpinned by the rising food prices (6.7%, contributing 1.0 percentage points) – in line with the higher global prices. Specifically, oil and fats, meat and bread and cereal increased by 22.7% (y/y); 8.6% (y/y) and 3.7% (y/y), respectively.

Furthermore, fuel inflation increased by 29.4% (y/y), adding 1.4 percentage point as petrol prices (95 unleaded, inland) increased from R15.67 per litre in February 2021 to R20.14 per litre in February 2022. Monthly, fuel inflation increased up by 2.9% on the back of a R0.81/l increase in petrol prices in February. Moreover, the persistently high fuel prices have further aggravated public transport prices, pushing them up by 12.3%y/y.



Data Source: Statistics South Africa

The impact of the persistently high consumer prices has been more harmful amongst the lower income groups. Inflation amongst income Deciles 1 and 2 (the poorest) measured at 7.0% and 6.6% respectively, above the headline reading. More detrimental effects are expected in the coming months with inflation expected to rise even faster as the direct and indirect impacts of the Russia/Ukraine conflict are felt throughout the financial system.

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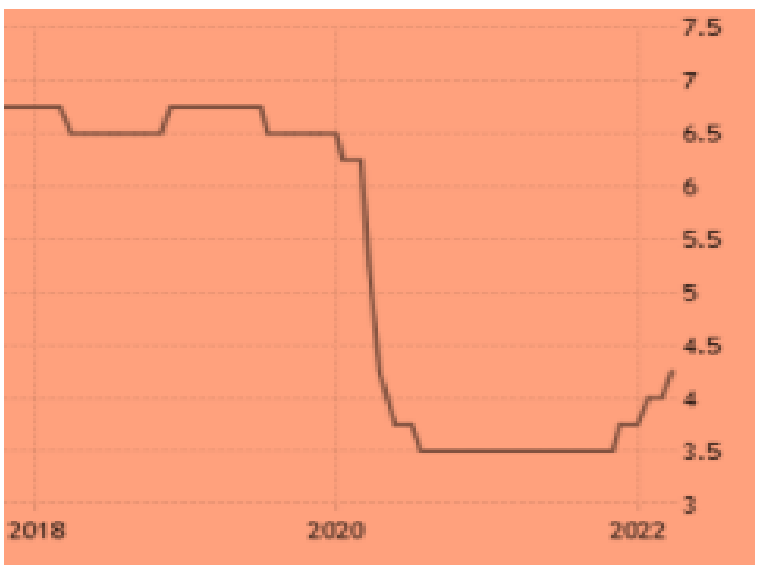
On the other hand, core inflation measured at 3.5% (y/y), unchanged from the previous month. The moderate inflation (core) reflects weak domestic demand. In spite of this, the rising headline inflation has pushed the South African Reserve Bank (SARB) to increase interest rates, yet again, in efforts to contain the erosion effects of higher inflation.

In its March 2022 Monetary Policy Committee (MPC) statement, the SARB decided to increase the repurchase (repo) rate by 25 basis points to 4.25% per annum. This marks the third consecutive increase and is attributable to rising inflationary risks stemming from exogenous factors such as the war in Ukraine. The overall risks to the medium-term growth outlook are assessed to be balanced, while the risk to the inflation outlook remain on the upside. Specifically, the headline inflation forecast has been sharply revised higher to 5.4% in 2022 (from an estimate of 2.9% in January) – this is mainly due to notably higher fuel and food price pressures. Meanwhile, headline inflation for 2023 is forecast at 4.6% (up marginally from the previous forecast of 4.5%).

SOUTH AFRICA'S REPO RATE (2018 – 2022)



Source: Trading Economics

On the upside, Gross Domestic Product (GDP) growth projections for the current (2022) and coming (2023) financial years have been upwardly revised to 2% (vs 1.7%) and 1.9% (vs 1.8%) respectively. This is likely to be supported by several factors, including the stronger growth registered in 2021 as well as higher commodity export prices. The implied policy rate path of the SARB indicates the likelihood of a gradual normalisation through to 2024, which means the MPC is likely to implement further rate increases in coming months.

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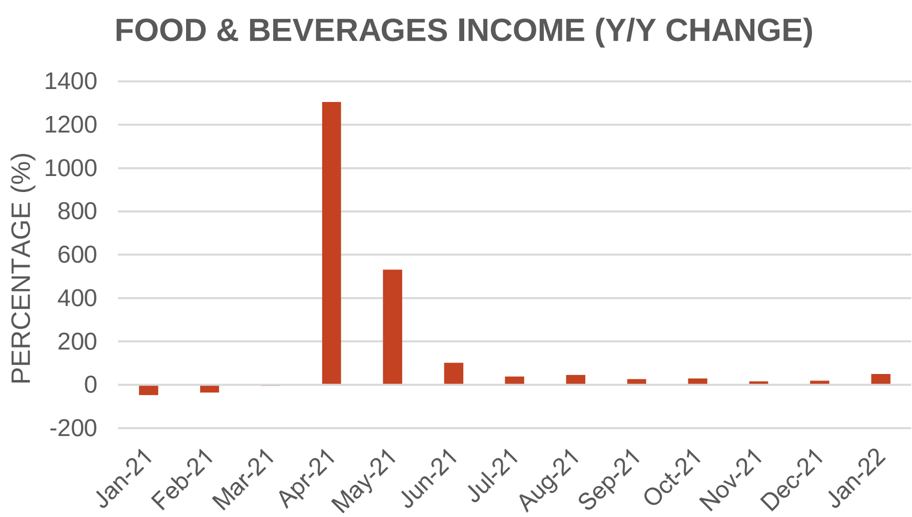
The food and beverages industry saw impressive gains for January 2022 like many other sectors. The total income generated by the food and beverages industry increased by a massive 50.4% compared to a year earlier, when the country was placed on a strict lockdown which was accompanied by curfews and a ban of alcohol sales.

Income generated by restaurants and coffee shops increased by 74.6%, while that of takeaway and fast-food outlets increased by 35.7%, contributing 33.8 and 14 percentage points respectively. Monthly, the food and beverages industry increased by 5.9% in January 2022 compared with the previous month. Boosted by restaurants and coffee shops and takeaway and fast-food outlets with 9.5% and 8.2% respectively.



Data source: Statistic South Africa

There is a consensus that the South Africa's Food & beverage industry will be on track to reach its pre-pandemic levels in the coming months. However, with the current global supply chain disruption that have resulted in a shortage of certain products and consequently led to a surge in prices. These include the price of fuel, which has increased to record highs in recent months, pushing up associated transportation costs which are likely and thus the price of several goods.

INDICATORS: *Week 21 – 25 March 2022*

FEBRUARY'22

CONSUMER INFLATION 5.7

% change (y/y)

JANUARY'22

FOOD & BEVERAGES 50.4

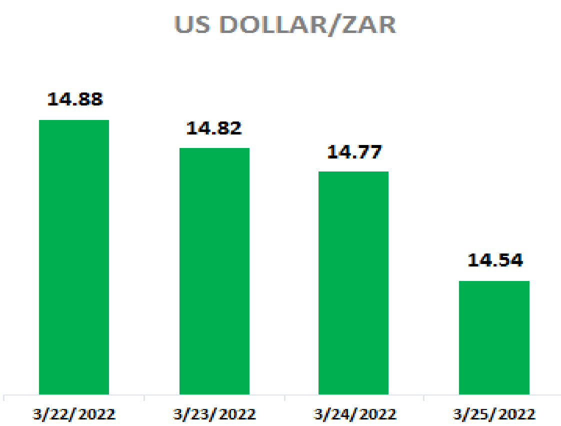
% change (y/y)

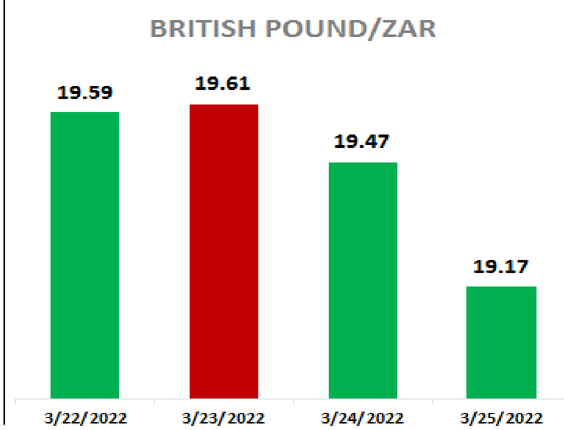
MARCH'22

REPO RATE INCREASED BY 0.25 BPS TO 4.25%

Data Source: Statistics South Africa and South African Reserve Bank

EXCHANGE RATES





Data Source: SARB 15:00, 25 Mar 2022

COMMODITIES

	BRENT CRUDE OIL *Per barrel*	**GOLD** *Per fine ounce*	**PLATINUM** *Per fine ounce*
18 Mar 2022	$105.83	$1 938.39	$1 035.48
25 Mar 2022	$116.35	$1 955.84	$1 017.13
	Increase	**Increase**	**Decline**

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