WEEKLY ECONOMIC INSIGHTS

GAUTENG PROVINCE
ECONOMIC DEVELOPMENT
REPUBLIC OF SOUTH AFRICA

Growing Gauteng Together

WEEKLY ECONOMIC INSIGHTS

26 - 30 APRIL 2021

- ***ROBUST US ECONOMY OFF PRE-COVID LEVELS***
- EURO ZONE IN DOUBLE-DIP RECESSION
- SA EXPORTS SET A RECORD HIGH
- PRODUCER PRICE INDEX INCREASED TO AN ALMOST TWO-YEAR HIGH
- CONSTRUCTION MATERIAL INDEX CONTINUE TO INCREASE
- SA TOURISM REACHES RECORD LOWS IN 2020

WEEKLY OVERVIEW

The U.S economy displayed strong signs of recovery, with a 1.6% increase in GDP in the first quarter of 2021. On an annualized basis, the Q1 growth rate was 6.4%, aided by several rounds of government relief payments. However, the EU zone disappointed with a second consecutive quarterly contraction; as the GDP slumped by 0.6% quarter-on-quarter (q/q), plummeting EU into a technical recession following a 0.7% quarterly GDP contraction in the last quarter of 2020. Domestically, trade data shows that exports accelerated monthly at 28.9%, setting a year-on-year (y/y) record high growth at 45.6%. Imports also increased 22.7% (y/y) after recording a robust 16.3% monthly increase. On the other hand, the annual producer price inflation (PPI) increased by 5.2% in March 2021, up from 4% in February 2021, the largest annual rise in headline PPI since June 2019.

ROBUST US ECONOMY OFF PRE-COVID LEVELS

The U.S. Economy had a strong start to 2021 as the Relief Funds drove consumer spending on goods in the first quarter. Overall, the broadest measure of the economy — gross domestic product — grew by 1.6% in the first quarter of 2021, compared with 1.1% in the final quarter of 2020. On an annualized basis, the growth rate for the first quarter of 2021 (Q1:2021) was 6.4%, aided by several rounds of government relief payments. Households were sitting on a collective $4.1 trillion in savings in Q1:2021, up from $1.2 trillion before the Covid pandemic began. However, the striking aspect of the first quarter's economic activity was spending on motor vehicles and parts, which increased by almost 13% from the previous quarter. Furthermore, strong consumer demand and tight inventories drove prices higher.

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

HIGHLIGHTS

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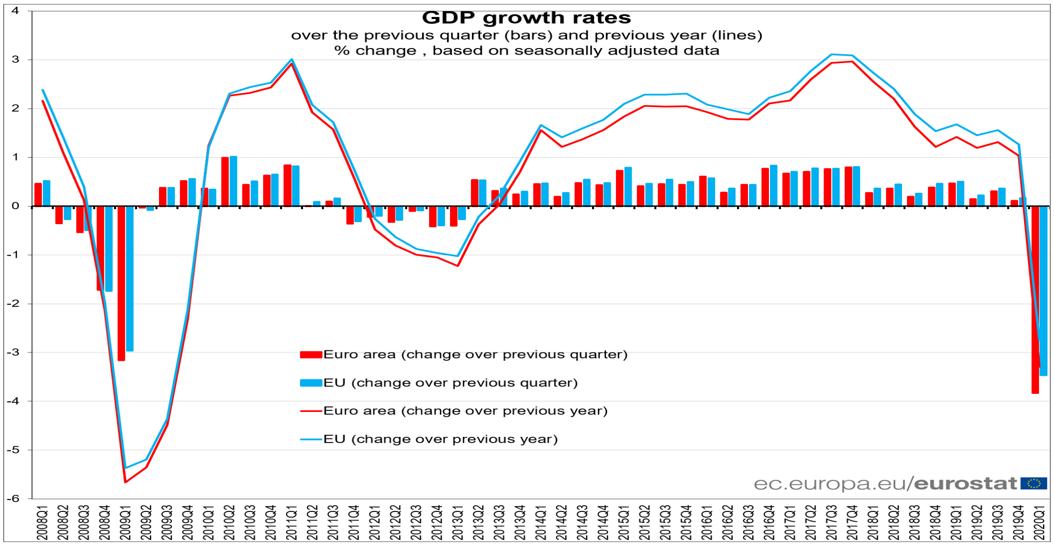
Lower interest rates, readily available credit, rising home values and stock prices, as well as strong trade-in values for used models are also easing the path for consumers. However, outside of lifting of the lockdown restrictions which fuelled the third-quarter surge in 2020, this was the best period for GDP growth since the third quarter of 2003. This left the world's largest economy (U.S) within 1% off its peak, reached in late 2019, just before the coronavirus pandemic hit the U.S.

EURO ZONE IN DOUBLE-DIP RECESSION

New lockdown restrictions amid a third wave of coronavirus infections saw the euro zone contract in f Q1:2021. The GDP in the region fell by 0.6% q/q, plummeting the region into a technical recession after a 0.7% quarterly GDP fall in the last quarter of 2020. The recession comes as most of the region's largest economies — Germany, Italy and Spain — saw a decline in activity during the first quarter of 2021. In Germany, the economy contracted 1.7%, in Italy, the latest numbers showed a contraction of 0.4%, whilst the Spanish economy also shrank by 0.5%. Portugal had the steepest fall (-3.3%) in activity as the country went on a second lockdown. On the other hand, France — euro zone's second-largest economy, posted a better-than-expected growth of 0.4% in the first quarter of 2021. Looking ahead, however, analysts are confident about the rest of 2021 for the euro zone as vaccination programs allow governments to lift restrictions, with countries in the region also set to start receiving EU-wide Covid support funds in the second half of the year.



Data source: EU_Eurostat

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SA EXPORTS SET A RECORD HIGH

Exports recorded a (y/y) growth of 45.6%, after a robust monthly increase of 28.9%; with the mining sector being the main contributor due to rising commodity prices and stronger global demand since the beginning of the year. The big jump of 29% in copper prices also served as a boon on exports. Similarly, imports recorded a 22.7% (y/y) growth after a strong 16.3% monthly equivalent as mineral products and electrical equipment and chemical products rose to benefit from the gradual domestic demand. However, the trade surplus surged to a monthly record of R52.8 billion in March, reaching R96.6billion in the quarter. The uptick is attributed to mineral products, base metals, and semi-precious stones.

Data source: South African Revenue Services

Domestic trade volumes are expected to improve as global merchandise trade recovers - more so given that global trade volumes have already risen to their pre-Covid levels. Domestically, trade surpluses will be maintained as the economic rebound in South Africa's trading partners remains stronger. However, analysts warn of setbacks in the global vaccination drive, domestic power outages and local industrial action.

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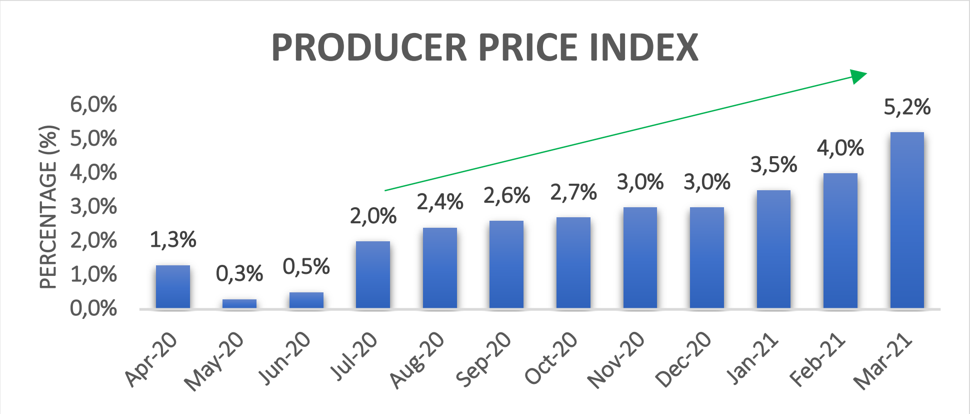
PRODUCER PRICE INDEX (PPI) INCREASES TO AN ALMOST TWO-YEAR HIGH

Statistics South Africa (Stats SA) has reported an increase of 5.2% in annual producer price inflation (PPI) in March 2021, from 4% in February 2021. According to Stats SA, this was the largest annual rise in headline PPI since June 2019, when the rate was 5.8%. The PPI figure surprised most analysts, coming in well above market expectations of 4.5%.



Data Source: Statistics South Africa

The main contributors to the uptick were food products, beverages and tobacco products which went up by 6.8% y/y/, adding 2.4 percentage points (p.p) to the headline figure. Coke, petroleum, chemical, rubber and plastic products rose by 4.2% while metals, machinery, equipment and computing equipment increased by 5.2% over the same period.

As expected, producer prices have risen sharply over the past three months, while consumer prices have also picked up, albeit at a much slower pace. This trend is expected to continue in the months ahead as the annual hike in electricity tariffs will exert further pressure on input costs, while the pass-through will remain limited amid subdued consumer demand. Once the first-round effects have passed, both consumer and producer prices are expected to be relatively contained until demand is completely lifted from its depths. In light of the current uncertain economic environment both domestically and abroad, the view that rates will remain steady throughout this year is maintained.

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CONSTRUCTION MATERIAL INDEX CONTINUE TO INCREASE

Stats SA published a report on Construction Material Price Indices for March 2021 indicating that a (m/m) percentage change in the Contract Price Adjustment Provisions (CPAP) work group indices ranged from -1.8% for work group 118 to 5.3% for work group 113. Furthermore, the total construction index increased by 1.5% m/m and on a yearly basis the total construction index also increased by 8.7%. The increase was due to civil engineering which increased by 10.4%, plumbing (12.3%) and electrical contractors which had an uptick of 13.7%.

Notwithstanding the increase in the index, construction GDP slumped by 20.3% in 2020, marking the industry's fourth consecutive year of decline. However, going forward, as the economy opens and the rolling of government infrastructure projects such as roads, affordable housing, water provision and energy continues, demand for construction and building materials is likely to improve. It is expected that the sector will bounce back in 2021, however, analyst believe that domestic growth remains at risk due to load shedding and a slow vaccination rollout.

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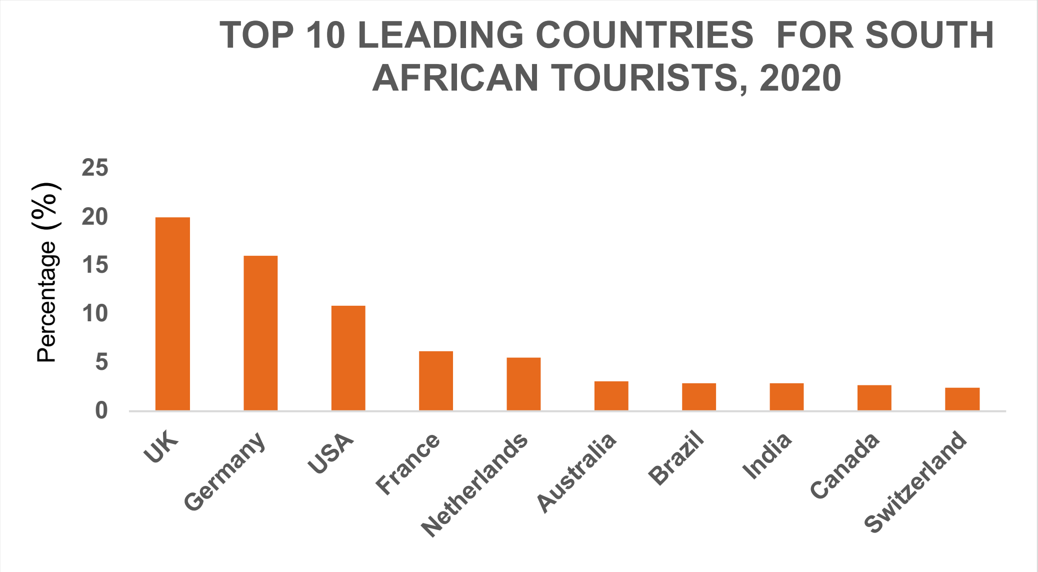
For most of 2020, activity in the tourism industry had been ground to a halt, leaving the industry amongst the worst hit. Furthermore, due to its high dependence on international travellers and the easing of restrictions, particularly from September 2020, the industry continued to face protracted difficulty afforded to the lack of international travellers amid travelling restrictions. Mirroring the magnitude of the impact, Stats SA's publication on Tourism 2020 stipulates that travellers in and out of South Africa totalled 12.15 million, a decline of 71% from the 41.95 million travellers in 2019. Of the overall travellers, 3.45 million were South African residents, whose total declined from 12.09 million in 2019, thus reversing the upward trajectory recorded since 2013.

Meanwhile, 8.84 million foreign residents travelled in and out of South Africa, declining sharply by 71% from 30.68 million in 2019. From this total, 4.59 million were arrivals into the country whilst 4.12 million were departures and the rest were travellers in transit. Of the total arrivals, a large portion of the travellers (89%) came into SA for holiday, largely benefitting the tourism industry while 4.5% came for work, 4.2% for business and the rest (1%) came to study.



Data source: Statistics South Africa (2020)

In view of tourists, 2.8 million of them came to SA in 2020. This was a drastic decline of 72.6% from the 10.23 million in 2019. The SA tourism industry was mainly dominated by travellers from SADC (75%), compared to 24% of those from overseas and just 1.5% from other African countries. Furthermore, a significant number of overseas tourists were from the United Kingdom (23.6%) while, Germany (16%), the USA (10.9%), France (6.2%), The Netherlands (5.5%) contributed slightly less.

The majority of overseas countries have so far realised successful roll-out of COVID-19 inoculation programmes, which is expected to bode well for SA tourism. However, the glacial pace of the vaccination roll-out locally will likely delay any recovery in the sector based on variants in the virus and the fear that the current vaccines might not work against them. Furthermore, as the country heads into winter, the 3rd and possibly the 4th waves of infections are expected. As such, the tourism industry is expected to take at least another year before realising any recovery. Henceforth, in the interim, the tourism industry should direct their marketing strategies to cater to locals to keep afloat.

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INDICATORS: Week 26 - 30 April 2021

PRODUCER INFLATION

5.2% y/y
Mar'21 ↑

CONSTRUCTION MATERIALS

1.5% m/m
Mar'21 ↑

TOURISM

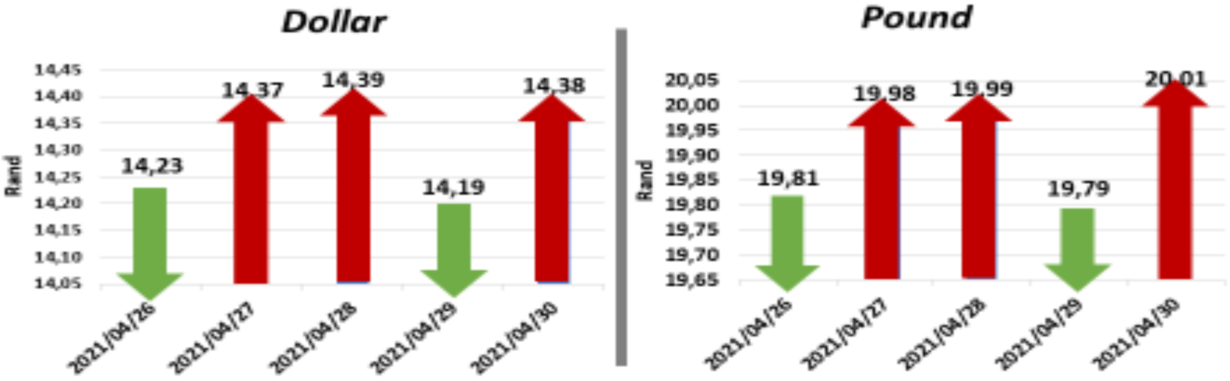
4 586 387
Foreign
visitors
2020 ↓

TRADE BALANCE

↑ Surplus
R52.77 billion
Mar'20

Source: Statistics South Africa & SARS

RAND/DOLLAR/POUND EXCHANGE RATE



Source: SARB & Trading Economics 15:00, 30 April'21

COMMODITIES

BRENT CRUDE OIL PER BARREL

$67.28
30 Apr '21
↑
$ 65.60
23 Apr'21

GOLD PER OUNCE

$ 1787.40
23 Apr'21
↓
$1767.35
30 Apr'21

PLATINUM PER OUNCE

$1219.01
30 Apr'21
↑
$ 1216.59
23 Apr'21

Source: Trading Economic, 15:00, 30 April'21

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