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The week in perspective: August data confirmed Q3 GDP contraction remains on the cards

As forestalled by the monthly survey data, the SA actual high-frequency activity data for August released last week indicated that activity bounced back from the sharp declines in July. However, on balance, the pace of the August recovery was on the disappointing side. This supports our view that overall GDP likely contracted in 2021Q3. The domestic section has the details of the releases for August. We updated the macro forecast last week - clients can find a summary of the numbers and the narrative of the forecast here. On the global front, inflation dynamics were again in focus with the release of US inflation data for September. The international section has more on this.

In financial markets, there was some respite from the rise in long-term interest rates seen in recent weeks. The yield on 10-year US

Treasuries dropped by about 10bps by Thursday's market close. This was despite the slightly higher-than-expected US CPI print for August and a positive print on the latest weekly US jobless claims. US bond yields did trade higher again on Friday after the release of surprisingly strong US retail sales for September, which further supported the view of earlier monetary policy normalisation by the US central bank. However, the preliminary read on US consumer sentiment for October was a disappointment. The local

bond market ignored the higher US yields on Friday, with the **10-year government bond** yield falling below 9.50%. The **rand exchange rate** also had a much better week, moving notably stronger than R15/\$ on Friday. Riskier assets were in favour last week as global stock markets had a good week. Indeed, the US, UK and German stock markets all ended the week around 2% higher. Sentiment was bolstered by stronger-than-expected earnings reports from the US banking sector. The US equity market may also have been supported

Weekly Key Indicators

	Close	w-o-w
R/\$	R14.62	-2.0%
R/€	R16.97	-1.7%
R/£	R20.13	-1.1%
\$/€	\$1.16	0.3%
Brent	\$84.13	2.0%
Gold	\$1 773	0.8%
Platinum	\$1 049	1.9%
JSE ALSI	67 029	2.7%
10y gov. bond	9.41	-11 bps
FRA (1x4)*	3.74	0 bps

*Forward rate agreement

by announcements that the key Los Angeles and Long Island ports, as well as major US retailers, would extend off-peak working hours to try and alleviate severe bottlenecks at the ports.

The local **JSE** tracked global stock markets higher. Shares in cement producers surged on Monday after news broke of a Treasury circular banning the use of imported cement in construction activity put on tender by public sector entities. This forms part of government's localisation drive. The Department of Trade, Industry and Competition is considering similar moves in other sectors. We are not convinced that these moves are the most optimal approach to protect jobs and grow local industries over the longer term. Preferable would be an approach where the playing field for domestic producers are levelled relative to their international competitors through a reduction in the cost of doing business in SA. This would include addressing the unacceptable high levels of crime, logistical challenges and the increased regulatory burden on business. Resource-heavy stock markets like the JSE could be under pressure in early trade today after a raft of Chinese data released this morning mostly came in on the weaker side of the consensus. Perhaps most important was confirmation that **Chinese real GDP** growth slowed notably in 2021Q3 to 4.9% y-o-y, from 7.9% in 2021Q2. On a quarterly basis, estimates are that sequential growth also eased sharply to 0.2% (non-annualised), down from 1.3% in the previous quarter. In other Chinese data, industrial output and fixed asset investment came in lower than expected in September, while retail sales (also for September) were somewhat better.

A concern for the global and the SA economy last week was a further rise in the **Brent crude** oil price. Brent has averaged \$82.5/bbl so far in October, up from roughly \$75 in September. The Central Energy Agency provided a mid-month update of the over/under recovery on the domestic petrol price on Friday. Given the sharp oil price rise and a weaker rand so far in October, this unsurprisingly signalled that a large **petrol price hike** is on the cards for November. The average under recovery for 95 octane petrol up to 14 October was at 98c/litre, while for diesel it was more significant at R1.42/litre. The implication of a sharp rise in fuel costs in November is for SA headline CPI to accelerate in 2021Q4.

Week ahead: SA consumer inflation in focus

Speaking of inflation, the key domestic data release will be the **CPI numbers** for September, released on Wednesday. We expect headline CPI to increase by a modest 0.2% m-o-m, with the annual rate set to accelerate slightly to 5% from 4.9% in August. The transport component is likely to provide a temporary respite after the petrol price was only slightly higher in September, while the price of diesel dropped. The quarterly **rental survey** will be key focus in the September CPI figure. We anticipate the rental components to remain relatively subdued, which helps to explain the view that core CPI will only increase by 0.1% m-o-m (3% y-o-y).

Domestic: August manufacturing production and domestic trade data show only a partial recovery from July unrest. **Manufacturing production** recuperated some of its losses in August after the sector was knocked by a range of demand and supply-side shocks in July. On a monthly seasonally adjusted basis, manufacturing output was up by 7.6%, following the 8.4% contraction in July. On an annual basis, real factory output increased by 1.8% y-o-y after a 4.8% fall in July. The largest contributors to annual growth were food and beverages (rising by 9.7% and contributing 2.3% pts), followed by motor vehicles, parts and accessories and other transport equipment (17.7%; 1.4% pts). Importantly, while total manufacturing output improved in August, it did not completely recover from the significant decline registered in July.

Meanwhile, **retail trade sales** fell short of market expectations, revealing the lingering impact of the civil unrest. Real retail sales contracted by 1.3% y-o-y, following the 1.2% y-o-y decline in July. Most of the continued weakness was due to a 3.0% y-o-y fall in sales by general dealers (subtracting 1.3% pts from annual growth). On a monthly basis, retail sales increased by 4.9%, which did not come close to undoing July's huge 11% m-o-m fall. In contrast to retail sales, **wholesale trade sales** improved by 4.3% y-o-y (+2.7% m-o-m) in August. Nominal **motor trade sales** also fared well, growing by 12.4% y-o-y. In all, domestic trade data points to mixed consumer demand in August. Even if retail trade sales pick up noticeably in September, the broader trade sector is likely to subtract from real GDP in 2021Q3.

Finally, annual growth in **mining production** lost momentum, rising by only 2.0% in August, following an upwardly revised 12.3% increase in July. This was mainly driven by gold, which climbed 17.0% y-o-y (and contributed 2.0% pts to overall growth mining production), followed by iron ore output (+22.9% y-o-y and contributing 1.9% pts). These notable increases were counteracted by sharp output declines for a range of minerals, including nickel, copper and coal. On a monthly, seasonally adjusted basis, total production was down by 2.4% in August, after rebounding by 4.1% in July.

International: US producer and consumer prices at multi-year highs amid persistent global supply chain disruptions. In the **US**, the producer price index (PPI) rose by 8.6% y-o-y to an 11-year high in September, due to elevated energy prices. Meanwhile, the CPI increased by 5.4% y-o-y to a 13-year high, slightly above the market consensus of 5.3%. On a monthly basis, the CPI accelerated to 0.4%, from 0.3% in August. The rise in annual consumer inflation was mainly driven by escalating prices of food, rent, energy and new vehicles. However, it was food and rent which accounted for more than half of the uptick. Continued, and in some cases worsening, supply chain disruptions suggest that US and global inflation could remain at current elevated levels for longer. The minutes from the September US central bank policy meeting also point to this reality. The US Fed signalled that it may start scaling back its pandemic-induced \$120bn asset purchase programme as

early as November. While the policy interest rate was left unchanged in September, a sustained recovery in the US labour market, overall GDP, and persistent elevated inflation could see the first Fed interest rate hike towards the end of 2022.

In other US data releases, real **retail sales** rose by 0.7% m-o-m in September despite stock shortages. On an annual basis, sales were up by 13.9%. This confirms that the consumer was reasonably resilient despite rising Delta variant infections in August and September. Consumer spending did, however, shift away from the services sector towards goods.

China's external trade remained robust in September despite lingering supply chain constraints, factory power shortages and a resurgence of COVID-19 infections. Exports rose by a better-than-expected 28.1% y-o-y, mainly supported by still strong global growth, albeit on a weakening trend. Likewise, imports rose by 17.6% y-o-y, albeit below market consensus and less than August's 33.1% increase. Looking ahead, even as the base effects from 2020 begin to fade in the fourth quarter, China's trade balance is still expected to trend upwards. Exports should be sustained by the surging global demand for electronic products and entertainment items ahead of the Christmas shopping season in western economies. Meanwhile, the anticipated growth in imports may weaken amid a slowdown in property construction and as commodity prices retreat from the pent-up demand following countries easing their lockdown restrictions.

The week ahead

Date	Event	Previous	Consensus
Monday (18 Oct)	US: Industrial Production (Sept)	5.9% y-o-y 0.4% m-o-m	n/a 0.2% m-o-m
Wednesday (20 Oct)	SA: Headline CPI (Sept)	4.9% y-o-y	5.0% y-o-y
Wednesday (20 Oct)	UK: CPI (Sept)	3.2% y-o-y	3.2% y-o-y
Friday (22 Oct)	EZ, UK: Flash Composite PMI (Oct)	56.2, 54.9	55.2, 54.5
Friday (22 Oct)	US: Flash Composite PMI (Oct)	55.0	n/a

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