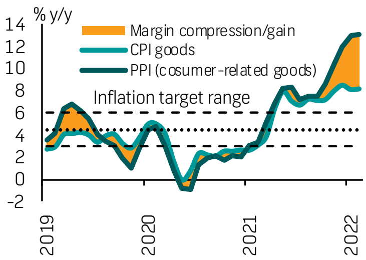
Economics
weekly

1 April 2022

Prices remain centre stage

Figure 1: CPI vs PPI goods



Source: Stats SA, FNB Economics

Consumers are contending with rising domestic prices, which will have profound implications for their purchasing power and decisions. Meanwhile, underlying inflation and the spread between goods price inflation (at the retail level) and producer price inflation implies that higher production prices have not been completely passed on to consumers. Any further increases in overall retail prices alongside higher fuel (and transportation) costs could reduce aggregate sales volumes, while higher input costs could affect output.

While higher retail prices have already confronted consumers, producer price pressures are still mounting and could steepen further in the near term before stabilising in the second half of this year. Monthly data from Stats SA showed that surveyed producer prices increased by 1.1% in February from the previous month. February's gain was the 21st consecutive month-over-month increase, and was nearly two times higher than the February median increase of 0.6% since February 2013. Since the low in May 2020, producer prices have increased by 16.0%, while retail goods prices (proxied by CPI for goods) have increased by just over 14%.

On a 12-month basis, producer prices increased by 10.5%, reflecting a further acceleration after increasing by 10.1% in January. Excluding energy-related product, producer prices advanced by 0.7% m/m and 8.3% in February on a 12-month basis. Intermediate producer prices (i.e., prices of goods as they enter the production process) increased by 0.5% m/m (19.3% y/y), reflecting a steep albeit moderating rate from the 0.6% m/m (21.0% y/y) in January.

Food price inflation remains steep. In February, producer and consumer food inflation measured 6.7% y/y from 6.4% and 6.2% y/y in January, respectively. At a producer level, meat prices increased by 9.7% y/y in February, reflecting a moderation from 10.1% y/y, while oils and fats prices increased by 21.6% y/y after increasing by 24.2% y/y. Fresh produce prices increased by 7.8% y/y after increasing by 8.2% y/y, while cereal and baked product prices respectively increased by 7.3% y/y and 3.2% y/y, from 4.3% y/y and 2.9% y/y previously.

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The largest monthly price pressure at the consumer level was in bread and cereals, which had an increase of 2.4%. In particular, the retail price of a loaf of brown bread increased from R13.99 to R14.64 (nearly 5% m/m) while the average price of 2.5kg of maize meal increased from R26.65 to R28.11 (5.5% m/m). In the near term, elevated global wheat prices, a commodity of which SA is a net importer, should push several baked products and pasta prices up. Meat prices had no monthly pressure, supported by improving slaughter trends. An outbreak of foot-and-mouth disease could eventually raise domestic supply if export bans ensue, alleviating consumer price pressures.

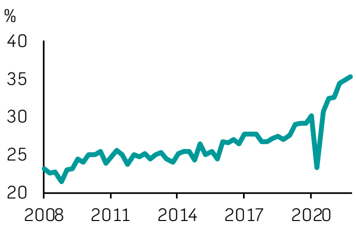
SA is also a net importer of oils and fats, where elevated international prices have placed pressure on both producer and consumer prices. Fresh produce prices experienced pressure towards the end of 2021 and going into 2022, given the damage caused by excessive rains, but have lowered and are expected to continue moderating in March. For example, consumers would have paid R13.67 for a kilogram of potatoes in February, versus R14.18 in January (-3.6% m/m). Other key product prices are also lower, 2 litres of fresh milk (full cream) fell moderately from R29.89 to R29.63.

Overall, we expect price inflation to continue experiencing upward pressure in the near term, primarily reflecting increases in input costs – particularly the R1.46 per litre petrol price hike in March. Fortunately, the Minister of Finance announced fuel tax relief of R1.50 per litre in April and May, while the US has announced plans to release 1m barrels per day of strategic oil reserves for the next six months, and this should alleviate prevailing fuel price pressures. Nevertheless, the protracted rise in producer prices continues to present the risk of more of these price pressures being passed onto consumers. Overall, elevated inflation could affect both producer and consumer behaviour.

Week in review

The official unemployment rate reached 35.3% in 4Q21

Figure 2: Unemployment rate

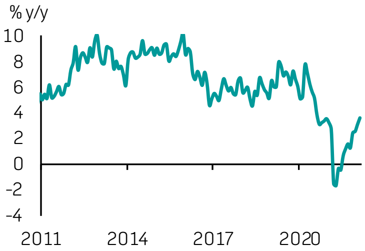


Source: Stats SA, FNB Economics

The official unemployment rate (not seasonally adjusted) increased to 35.3% in the last quarter of 2021 from 34.9% in the third quarter. After a delay in the publication of the Quarterly Labour Force Survey (QLFS) data due to quality checks, Stats SA eventually published the data on 29 March (initially scheduled for publication on 22 February). Concerningly, South Africa's QLFS survey response rate reached 44.6% in 4Q21, reflecting a deceleration (since the introduction of Computer Assisted Telephone Interviewing) from an average response rate of 76.9% in 2Q20. Nevertheless, the increase in the official unemployment rate reflected a faster quarterly increase of 3.6% in the level of unemployment and a slower quarterly increase of 1.8% in the total employment level. In other words, the unemployment level increased faster than the total labour force increase of 2.5%, while employment's increase was slower. Compared to 4Q19, unemployment increased by 17.8%, while employment declined by 11.4% in 4Q21. Employment-to-working age population ratio was measured at 36.5% in 4Q21, still significantly below the 42.4% recorded in 4Q19. This reflects the persistent slack in the labour market that has implications for domestic demand and the overall socio-economic wellbeing.

Private sector credit extension increased further in February

Figure 3: Private sector credit

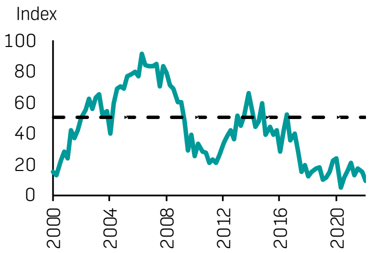


Source: SARB, FNB Economics

Private sector credit extension (PSCE) climbed further to 3.6% y/y in February, from 3.1% in January. This was on the back of increased credit uptake by both the household and corporate sectors. Household credit uptake marginally ticked up to 5.6% y/y from 5.5% previously, largely supported by an acceleration in general loans and advances as well as credit cards (unsecured credit components). Demand for asset backed credit remains reasonably robust, with housing and car finance growing by 6.9% y/y and 5.8% respectively in February. Credit extended to corporates ticked up from 1.2% y/y in January to 2.0% in February, but is still burdened by persistently low business confidence and uncertainty over the strength of the economic recovery.

Civil confidence declines further in 1Q22

Figure 4: FNB/BER Civil Construction Confidence Index

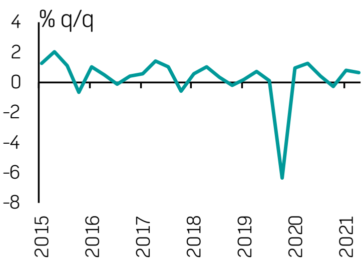


Source: BER, FNB Economics

The FNB/BER civil confidence indicator declined further to 9 index points in 1Q22, from an already low 15 index points in 4Q21. Depressed sentiment is largely on the back of construction activity remaining constrained, as well as the inexplicable delays in adjudicating and awarding of tenders. Despite the negative outcome for confidence, respondents remain upbeat about prospects for next quarter: expectations for activity and profitability point to a marked improvement. Nevertheless, National Treasury's announcement to suspend all tenders advertised by the public sector on or after 16 February 2022, with no new tenders until they've reviewed and amended the procurement framework, could have a detrimental effect on the sector depending on how long it persists. Civil construction activity is much more dependent than other sectors on public sector spending. In all, even after years of decline, the odds remain stacked against a meaningful recovery in the civil construction sector during 2022.

Non-farm employment increased in 4Q21

Figure 5: Employment

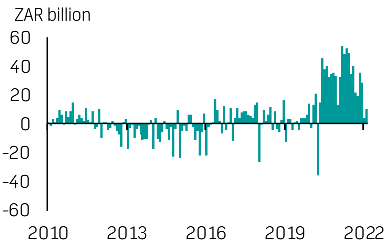


Source: Stats SA, FNB Economics

Employment in the formal non-agricultural sectors of the economy, published in the Quarterly Employment Statistics, increased in 4Q21. Employment increased by 63 000 jobs or 0.6% q/q in 4Q21. Compared the 4Q20, employment gains amount to 152 000 or 1.5% y/y. However, employment is still lower than the pre-pandemic 4Q19 level, by nearly 288 000 or 2.8%. Also of concern is that full-time jobs have declined while part-time jobs have increased, particularly in community services. Nevertheless, incomes have recovered at a faster pace. Total gross earnings improved by 6.7% y/y and have surpassed 4Q19 levels by 4.6%. It is important to note that these statistics have been revised in history, reflecting an annual practise of updating the sample (since 2015 but excluding 2020). This practise supports the quality of these statistics. Lockdown not only delayed the updating of the sample but also adversely affected the response rate and may have raised non-sampling error. Going forward, the slowing momentum in global growth, induced by the prevailing geopolitical tensions, pose a risk to the recovery in domestic output and employment.

Trade surplus improves in February

Figure 6: Trade balance

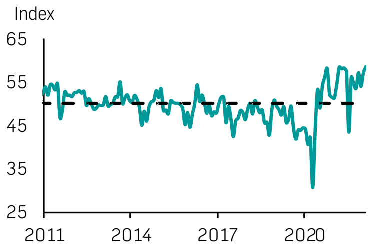


Source: SARS, FNB Economics

The nominal trade surplus (not seasonally adjusted) widened to R10.60 billion in February from an upwardly revised surplus of R4.07 billion (previously R3.55 billion) in January. Year-to-date (i.e., cumulative) the trade surplus amounted to R14.67 billion in February, significantly narrower than the R45.21 billion recorded in the corresponding period last year. Exports amounted to R141.15 billion while imports amounted to R130.55 billion, resulting in the aforementioned trade surplus in February. Exports grew by 8.1% y/y (8.0% m/m, equivalent to R10.51 billion m/m) while imports grew by 31.5% y/y (3.1% m/m, equivalent to R3.98 billion m/m). Notably, the value of mineral products exports grew by 7.8% m/m, reflecting a rebound from an 8.8% m/m decline in January, while precious metals exports contracted by 11.7% m/m after contracting by 26.3% m/m in January (the data is not seasonally adjusted). We expect elevated near-term commodity prices to boost export values, but supply chain disruptions and production-related disruptions could limit export volumes.

Week ahead

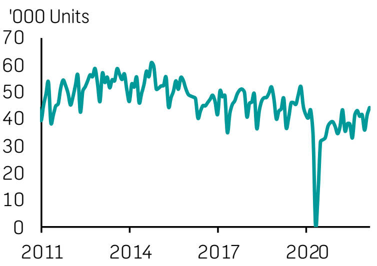
Figure 7: Absa PMI



Source: Absa, BER, FNB Economics

The **Absa manufacturing PMI** for March will be published later this morning. The manufacturing PMI recorded 58.6 index points in February, up from 57.1 in January. Seasonally adjusted business activity lifted to 59.6 index points, from 56.6 previously, and new sales orders increased from 55.5 index points to 56.9 – supported by export demand. Improved demand bodes well for output and the ongoing recovery in the manufacturing sector. Nevertheless, expectations of near-term business should pare down as the Russia-Ukraine conflict poses downside risk to trading partner growth and, potentially, export demand. Furthermore, higher fuel costs and the possibility of further supply chain disruptions should also weigh on the sector. In line with this, supply delivery times have lifted marginally and purchasing prices elevated to 89.8 index points, from 88.9 previously.

Figure 8: New vehicle sales



Source: Naamsa, FNB Economics

Data on **new vehicle sales** for March will also be published later today. Domestic new vehicle sales increased by 18.4% y/y in February and 7.0% m/m. Exports also increased, by 9.3%, showing renewed strength after extended losses in the second half of 2021. The domestic new car market grew by 22.4% y/y, supported by the seasonal car rental industry (which accounted for 13.3% of car sales) as tourism continued its ongoing recovery. Light commercial vehicle sales grew 9.4% y/y, medium commercial vehicles grew 7.5% y/y and heavy trucks and busses grew 23.5% y/y. Going forward, continued conflict between Russia and the Ukraine and the ripple effects of elevated fuel prices, the potential lengthening of supply chain disruptions and elevated vehicle prices amid raw material shortages, rising interest rates, as well as weak consumer confidence could dampen demand for new vehicles.

SA's **foreign exchange reserves** figures for March will be published on Thursday. South Africa's foreign exchange reserves increased to $57.69 billion in February from $57.20 billion in January. A stronger dollar-denominated gold price and weaker dollar contributed to the increase in reserves and was only partially mitigated by payments made on behalf of government.

Data on **electricity generated and available for distribution** for February will also be published on Thursday. Electricity production (not seasonally adjusted) contracted by 1.1% y/y in January, after contracting by 3.7% previously. On a seasonally adjusted basis, electricity production increased by 0.7% m/m, after rising by 1.6% m/m in the month prior. Electricity consumption also slowed by 0.2% y/y, following a contraction of 2.7% previously. Seasonally adjusted consumption was up 0.9% m/m, after growing 1.8% m/m previously.

Tables

The key data in review

Date	Country	Release/Event	Period	Act	Prior
29 Mar	SA	Unemployment rate	4Q	35,3%	34,9%
30 Mar	SA	Private sector credit y/y	Feb	3,6%	3,1%
31 Mar	SA	PPI y/y	Feb	10,5%	10,1%
	SA	PPI m/m	Feb	1,1%	0,2%
	SA	Trade balance R billion	Feb	10,6	4,1

Data to watch out for this week

Date	Country	Release/Event	Period	Survey	Prior
7 Apr	SA	Gross Reserves ($)	Mar	--	57.69b
	SA	Net Reserves ($)	Mar	--	55.54b
	SA	Electricity Consumption y/y	Feb	--	-0,2%
	SA	Electricity Production y/y	Feb	--	-1,1%

Financial market indicators

Indicator	Level	1 W	1 M	1 Y
All Share	75 497,15	1,5%	-0,8%	13,6%
USD/ZAR	14,61	0,6%	-5,0%	-1,1%
EUR/ZAR	16,17	1,2%	-6,3%	-6,7%
GBP/ZAR	19,20	0,2%	-6,9%	-5,7%
Platinum US$/oz	986,25	-3,7%	-5,8%	-16,9%
Gold US$/oz	1 937,44	-1,0%	1,5%	13,5%
Brent US$/oz	107,91	-9,3%	6,9%	69,8%
SA 10 year bond yield	9,59	-0,4%	1,9%	1,1%

FNB SA Economic Forecast

Economic Indicator	2020	2021	2022f	2023f	2024f
Real GDP %y/y	-6,4	4,9	1,7	1,6	1,5
Household consumption expenditure %y/y	-6,5	5,7	2,1	1,3	1,2
Gross fixed capital formation %y/y	-14,9	2,0	2,0	3,6	3,2
CPI (average) %y/y	3,3	4,5	5,9	4,7	4,6
CPI (year end) % y/y	3,1	5,9	5,1	4,5	4,6
Repo rate (year end) %p.a.	3,50	3,75	5,25	5,75	5,75
Prime (year end) %p.a.	7,00	7,25	8,75	9,25	9,25
USDZAR (average)	16,60	14,80	15,20	15,70	16,40

Source: FNB

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