FNB First National Bank

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Economics WEEKLY

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Highlights

- **SA**: September retail trade sales disappointed by some margin, gaining a mere 0.7% y/y, and up only 1.5% q/q.
- **SSA:** Mozambique consumer headline inflation eased to 4.7% y/y in October from 4.9% the previous month. Botswana consumer headline inflation quickened to 3.6% y/y in October, up from 2.9% in September. Namibia's headline CPI slowed moderately to 5.1% y/y in October, from 5.2% previously.
- **Global**: Chinese industrial production edged up 0.1 ppt to 5.9% y/y in October. UK consumer headline inflation remained unchanged at 2.4% y/y in October. Economic data continued to disappoint in the Eurozone as industrial production contracted 0.3% m/m in September. US consumer headline inflation climbed to 2.5% y/y in October from 2.3% the previous month, largely due to higher energy prices.

The key data in review

Date	Country	Release/event	Period	Actual	Prior
14 Nov	SA	Retail Sales (% y/y)	Sep	0.7	2.5
	China	Industrial Production (% y/y)	Oct	5.9	5.8
	UK	CPI (% y/y)	Oct	2.4	2.4
	Eurozone	Industrial Production (% m/m)	Sep	-0.3	1.1
	US	CPI (% y/y)	Oct	2.5	2.3

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Financial Market Indicators	Close	1 week	1 month	1 year
All Share	52 146.04	-3.5%	-0.6%	-11.9%
USD/ZAR	14.18	0.3%	-1.3%	-1.4%
EUR/ZAR	16.06	0.0%	-3.5%	-5.3%
GBP/ZAR	18.11	-1.9%	-4.2%	-4.5%
Platinum US$/oz	842.20	-2.5%	0.0%	-9.6%
Gold US$/oz	1 213.36	-0.9%	-1.1%	-5.1%
Brent US$/oz	66.62	-5.7%	-17.5%	7.7%
SA 10-year bond yield	9.16	0.2%	-0.5%	-2.5%

Source: I-Net, FNB (data as at Thursday's close)

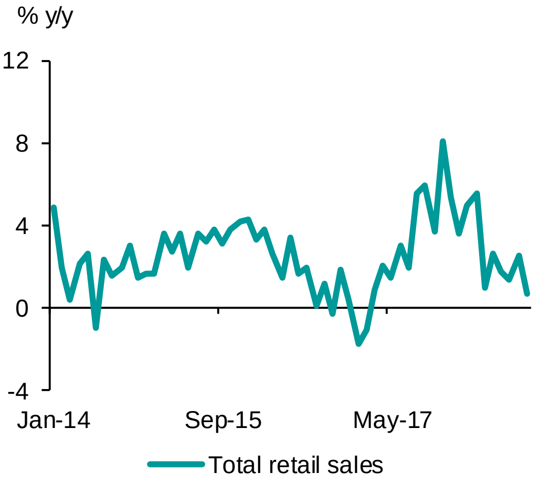
South African Economy

September retail trade sales disappointed by some margin, gaining a mere 0.7% y/y, and up only 1.5% q/q. Food and beverage, clothing and hardware stores saw sales contract by 3% y/y, 0.3% and 3.9%, respectively. General dealers expanded by a meagre 0.2% y/y, while pharmaceutical and furniture retailers saw sales increase by 2.3% y/y and 10.9% respectively. It is difficult to pinpoint the exact cause of the deceleration, but we suspect the accumulation of fuel price hikes in the preceding months left consumers far more circumspect, given the currency and oil price volatility at the time. We expect to see some relief for consumers in the final quarter of the year, as hefty fuel price cuts and decent real wage growth ease strained household finances. That said, we caution that a likely interest rate increase of 25bps next week could blunt much of the support. To be sure, the sector will still deliver a positive contribution to 3Q18 GDP.

In other expenditure data out this week, **wholesale trade sales** were up 2.6% q/q, while **motor trade sales** were 2.7% higher than the second quarter.

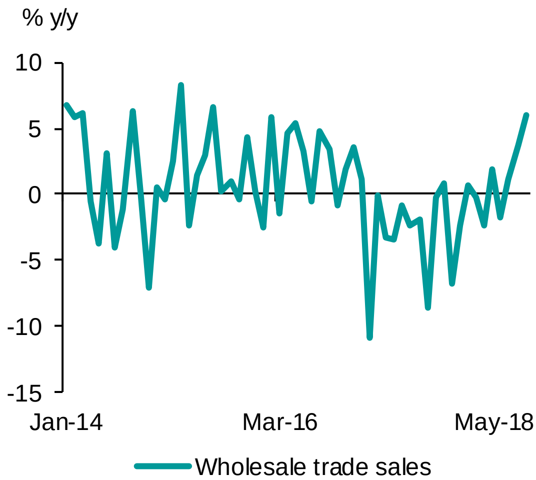
Looking at the September numbers for mining, manufacturing and retail sales, we estimate that **3Q18 GDP** will rebound by approximately 2.7% q/q seasonally adjusted and annualised, but not have an impact on our full-year forecast for growth of just 0.7%.

Figure 1: Retail trade sales



Sources: Reuters, FNB

Figure 2: Wholesale trade sales



Sources: Reuters, FNB

Sub-Saharan Africa

Mozambique consumer headline inflation eased to 4.7% y/y in October from 4.9% the previous month. Despite the relatively low 4Q17 base, food inflation, which accounts for the majority of the CPI basket, remains well contained – increasing by a mere 1.4% y/y in October from 1.5% the previous month. Moreover, the appreciation of the currency against Mozambique's main import partner, South Africa, has helped stem inflationary pressures this year. If oil prices remain near current levels for the remainder of the year, the inflation profile could well surprise to the downside in the November and December prints.

Botswana consumer headline inflation quickened to 3.6% y/y in October, up from 2.9% in September. Transport inflation was mostly responsible for the upward pressure in inflation, with the category registering an increase of 3.5% m/m. This increase is attributable to the uptick in the constituent section index of Operation of Personal Transport (5.6%), due to the rise in domestic fuel costs. Retail pump prices for petrol and diesel grades increased by P0.65 and P0.73 per litre respectively in October. In all, the October CPI print confirms our view that inflationary pressures will remain subdued, as demand pressures continue to abate. Nevertheless, some upward pressure will likely emanate from the supply side of fuel prices and other administered prices. Our expectation is for a modest rise in price growth and we are forecasting 3.3% for 2018 and 4.1% for 2019.

Namibia's headline CPI slowed moderately to 5.1% y/y in October, from 5.2% previously. The 0.1 ppt slowdown came against the backdrop of decelerations across a broad range of categories, which reflects weak consumer demand in the Namibian economy. Among these were housing, water, electricity, gas and other fuels inflation, which slowed to 3.8% y/y in the survey month from 8.6% in September. Food and non-alcoholic beverage inflation also moderated to 3% y/y, from 3.7% previously. Nevertheless, higher domestic fuel prices kept headline inflation somewhat elevated. Indeed, pump prices increased by 25% y/y, lifting transport inflation to 13.6%. Higher fuel prices have triggered higher public transport and transport operational costs, which in turn have pushed up distribution costs in the food inflation line. In all, we expect inflation to average 4.3% for 2018. From a policy perspective, we foresee monetary policy remaining as accommodative as possible. However, given the high probability of another hike in SA and further policy rate normalisation in the US, domestic policy rates will likely lift in line with SA, which will set the precedent for local monetary policy action.

Figure 3: Mozambique consumer headline inflation

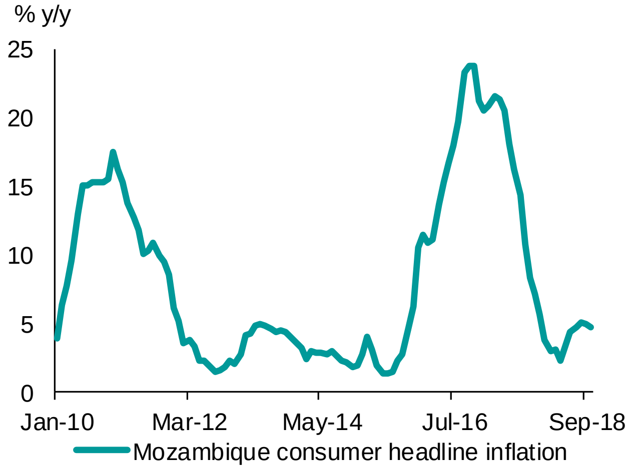
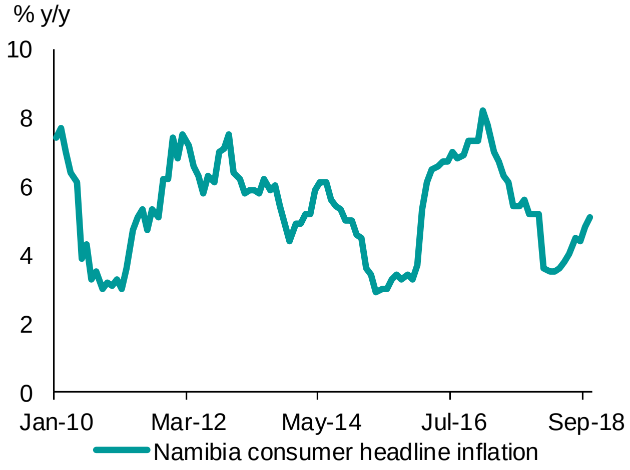


Figure 4: Namibia consumer headline inflation



Sources: I.H.S, FNB Economics

Global Snapshot

Chinese industrial production edged up by 0.1 percentage point to 5.9% y/y in October. This can largely be ascribed to an acceleration in output in the mining and manufacturing sectors relative to the previous month. Output in the utilities sector, however, softened. While the overall uptick in production is welcomed, it remains low by historical standards. Moreover, an escalation in tariffs by the US and retaliatory measures by China do not bode well for production levels going forward. This could well result in an abrupt slowdown in global growth, perhaps more than we initially anticipated, if policy certainty between the world's two largest economies does not come to fruition.

UK consumer headline inflation remained unchanged at 2.4% y/y in October. A downturn in prices in food and non-alcoholic beverages, clothing and footwear and fuel was partially offset by higher utilities, communication and recreational costs. The inflation profile has remained relatively rigid in recent months, despite an elevated 2H17 base, as a weaker pound amid Brexit-related uncertainty continues to keep import prices elevated. As such, we expect the inflation profile to remain relatively sticky for the remainder of the year.

Economic data continued to disappoint in the **Eurozone as industrial production** fell 0.3% m/m in September. Non-durable consumer goods and energy production were the largest detractors in the month, contracting 1.3% and 1.7% m/m respectively. If the October Markit manufacturing PMI survey is anything to go by, a meaningful rebound in production levels is highly unlikely in the foreseeable future. Not only is domestic demand muted, but new export orders volumes remain under significant pressure despite a much weaker euro. This provides credence to the increasing evidence of a more severe slowdown in global trading conditions than we initially anticipated.

US consumer headline inflation climbed to 2.5% y/y in October from 2.3% the previous month, largely due to higher energy prices. Services inflation also remained relatively resilient, particularly transport services and shelter prices which rose 3.8% y/y and 3.2% respectively. We anticipate that the inflation profile will likely moderate in the coming months, following the fall in oil prices in recent weeks on the back of growing concerns over a marked slowdown in the global growth cycle. A stronger dollar should also limit any meaningful rise in import prices.

Figure 5: Chinese industrial production

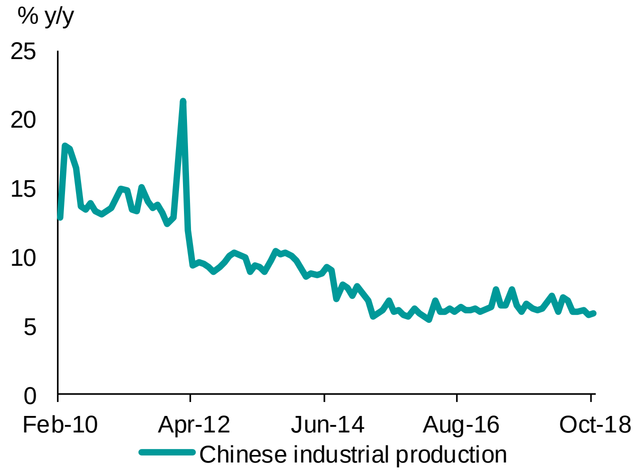
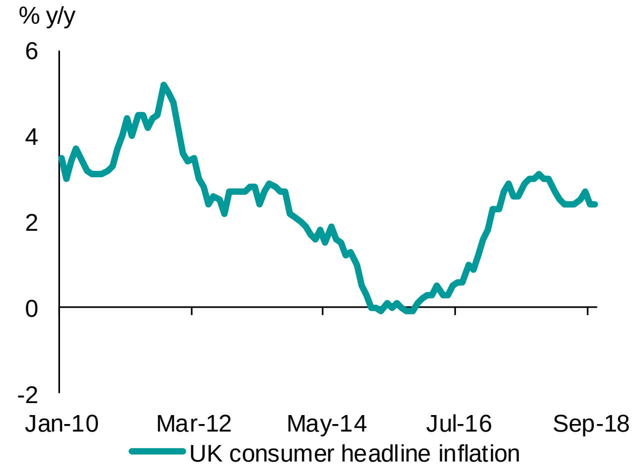


Figure 6: UK consumer headline inflation



Sources: Reuters, FNB

The Week Ahead

Inflation and rates

Next week, attention shifts to the October inflation print on Wednesday, as well as the SARB MPC rates decision on Thursday. Monday will see the release of tourism, accommodation, land transport and food and beverage data, all for September.

There are some important **CPI** survey items in October, among them bus fares, television licences and funeral expenses, all of which we expect to nudge inflation higher. The month also saw a 99 cent per litre petrol price increase, and we forecast that inflation will quicken to 5.1% in October from 4.9% in September. The number itself will have no bearing on the MPC's rates decision as the committee takes a longer-term view. Key concerns for the domestic inflation profile will be the pace of Fed monetary policy tightening, with the next hike in the US expected in December. The SARB may well decide to get ahead of the Fed's rate hike with one of their own. The arguments against a hike, however, are equally compelling given the recent currency gains, oil price declines and the exceptionally weak growth environment. At the last meeting, the committee was split 3/4, with the no-hike supporters edging out the hawks. From next week's meeting, the committee will be composed of only six members, with the governor, a known hawk, casting the final decision in the event of a 3/3 split. We expect to see a hike of 25bps.

Data to watch out for next week ...

Date	Country	Release/event	Period	Survey	Prior
16 Nov	Eurozone	CPI (% y/y)	Oct	2.2	2.1
	US	Industrial output (% m/m)	Oct	0.2	0.3
20 Nov	SA	SARB leading indicator	Sep	-	104.9
21 Nov	SA	CPI (% y/y)	Oct	5.2	4.9
	US	Existing home sales (% m/m)	Oct	1	-3.4
22 Nov	SA	Repo rate (%)	Nov	6.75	6.5
	Japan	CPI (% y/y)	Oct	1.4	1.2

Source: Bloomberg ("Survey" is the consensus forecast)

FNB SA Economic Forecasts

Economic Indicator	2015	2016	2017	2018f	2019f	2020f
Household consumption expenditure %y/y	1.8	0.7	2.2	2.0	1.5	1.9
Government consumption expenditure %y/y	-0.3	1.9	0.6	0.5	0.4	1.4
Gross fixed capital formation %y/y	3.4	-4.1	0.4	0.1	1.6	2.4
Real GDP %y/y	1.3	0.6	1.3	0.7	1.4	1.6
Total exports %y/y	2.8	1	-0.1	1.0	0.7	1.1
Total imports %y/y	5.4	-3.8	1.9	2.1	2.2	2.5
Current account (% of GDP)	-4.4	-3.3	-2.3	-3.1	-2.9	-2.8
CPI (average) %y/y	4.6	6.3	5.3	4.7	5.5	5.2
CPI (year end) %y/y	5.3	6.7	4.7	4.9	5.8	4.8
Repo rate (year end) %p.a.	6.25	7.00	6.75	6.75	7.0	7.25
Prime (year end) %p.a.	9.75	10.5	10.25	10.25	10.5	10.75
USD/ZAR (average)	12.8	14.7	13.3	13.4	14.6	15.5

Source: FNB

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