FNB First National Bank

how can we help you?

Economics WEEKLY

19 October 2018

Contact

Mamello Matikinca
Chief Economist
087 343 1678
Mamello.matikinca@fnb.co.za

Jason Muscat
Senior Economic Analyst
087 335 5189
Jason.Muscat@fnb.co.za

Jarred Sullivan
Economist
087 328 0622
Jarred.sullivan@fnb.co.za

Matlhodi Matsei
Economist
087 312 2009
Matlhodi.matsei@fnb.co.za

Content

Highlights

- **SA**: Retail trade sales posted a respectable 2.5% y/y increase from 1.4% in July, despite the high base of August 2017. August mining production figures were in sharp contrast to the relatively upbeat retail numbers, contracting -9.1% y/y. Production of only two of the twelve commodity groups (manganese and coal) expanded.

- **Global**: After contracting -0.7% m/m in June and July, Eurozone industrial production rebounded in August, rising 1% m/m. US retail sales expanded for the eighth consecutive month, edging up 0.1% m/m in September, unchanged from August. US industrial production eased to 0.3% m/m in September from 0.4% the previous month. UK consumer headline inflation eased to 2.4% y/y in September from 2.7% in August.

The key data in review

Date	Country	Release/event	Period	Actual	Prior
12 Oct	Eurozone	Industrial production (% m/m)	Aug	1	-0.7
15 Oct	US	Retail sales (% m/m)	Sep	0.1	0.1
16 Oct	US	Industrial production (% m/m)	Sep	0.3	0.4
17 Oct	SA	Retail sales (% y/y)	Aug	2.5	1.4
	UK	CPI (% y/y)	Sep	2.4	2.7
18 Oct	SA	Mining production (% y/y)	Aug	-9.1	-5.2

Financial Market Indicators	Close	1 week	1 month	1 year
All Share	52,132.60	-0.2%	-7.5%	-10.4%
USD/ZAR	14.45	-1.2%	-3.1%	6.5%
EUR/ZAR	16.55	-2.4%	-4.8%	3.4%
GBP/ZAR	18.81	-2.8%	-3.9%	4.9%
Platinum US$/oz	827.80	-1.6%	1.7%	-10.2%
Gold US$/oz	1,225.81	0.1%	2.3%	-4.3%
Brent US$/oz	79.29	-1.2%	0.3%	36.4%
SA 10-year bond yield	9.17	-1.0%	-0.4%	4.6%

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

South African Economy

Retail trade sales and mining figures, both for August, were the focus of this week's releases.

Retail trade sales posted a respectable 2.5% y/y increase from 1.4% in July, despite the high base of August 2017. The biggest contributors to the expansion were clothing and general dealers, which expanded 6% y/y and 1.7% respectively, adding a combined 1.6 percentage points (pps). Furniture sales, which rose 10.4% y/y, contributed a further 0.5 pps, while pharmaceutical retailers accelerated sales by 3.1% y/y. The only sector to detract from growth was hardware retailers (-2% y/y), where sales have contracted for 7 consecutive months. The three-month seasonally adjusted change for the retail growth is now up 0.5% q/q, suggesting that the sector will make a mild positive contribution to 3Q18 GDP. We attribute the positive print to above-inflation public sector wage increases and back pay filtering into the consumption cycle as well as relatively benign VAT pass-through. A likely interest rate increase of 25bps next month should cap any further acceleration for the balance of the year, despite some respite from a slightly stronger rand and weaker oil price.

August mining production figures were in sharp contrast to the relatively upbeat retail numbers, contracting -9.1% y/y. Production of only two of the twelve commodity groups (manganese and coal) expanded. Gold production fell -15.5% y/y, registering an eleventh consecutive contraction, while iron-ore production and PGM output were -19.9% and -7% lower. With slowing Chinese growth, subdued commodity prices and mounting trade tensions, we see little prospect of the sector turning a corner over the medium term. That said, the sector will likely make a modest positive contribution to 3Q18 GDP on a quarterly basis, but the annual outlook is substantially worse (-1.7% YTD).

Figure 1: Retail trade sales

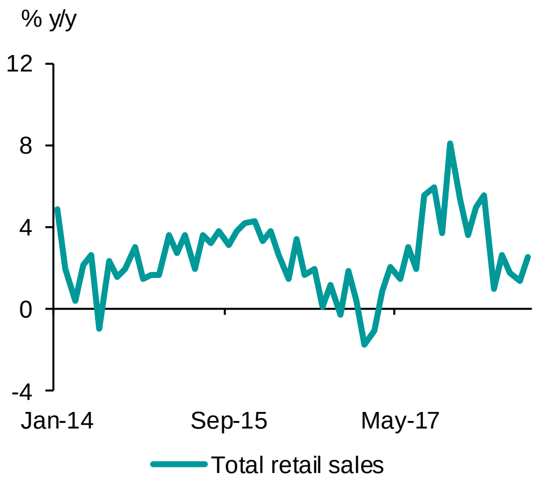
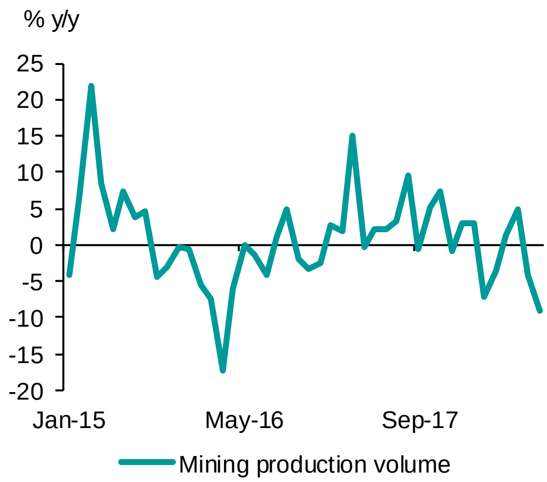


Figure 2: Mining production



Sources: IHS, FNB

Global Snapshot

After contracting -0.7% m/m in June and July, **Eurozone industrial production** rebounded in August, rising 1% m/m. Increases in energy and durable consumer goods production were largely responsible for the upturn in overall output. Year-to-date, industrial production has risen 2.3% y/y, slightly lower than the 2.4% registered in the same period last year. The particularly high 4Q17 base, combined with waning external demand, will likely result in lower production gains this year relative to 2017.

US retail sales expanded for the eighth consecutive month, edging up 0.1% m/m in September, unchanged from August. Furniture and electronic sales posted the largest gains in the month, climbing 1.1% m/m and 0.9% respectively. There was, however, a notable downturn in sales at food services and drinking places (-1.8% m/m), which weighed on the overall reading. Nevertheless, robust employment gains, recent tax cuts, historically elevated confidence levels and near-decade-high wage growth will likely continue to support consumer spending prospects. It is worth noting that the latter has, however, been somewhat eroded in real terms on the back of a relatively higher inflation backdrop.

US industrial production eased to 0.3% m/m in September from 0.4% the previous month. Mining continued to post the largest gains, climbing 0.5% m/m. This can predominately be ascribed to an increase in oil and gas output. US energy companies continue to ramp up crude oil production amid elevated energy prices. Manufacturing production climbed 0.2% m/m, while utilities output was flat. The survey revealed that Hurricane Florence dampened growth prospects, with the adverse impact estimated to be lower than 0.1 percentage point. On a yearly basis, industrial production continued to trend higher, surging 5.1% – the largest increase since December 2010. This underpins how buoyant domestic economic growth prospects have been recently, as the index ended the third quarter on a strong note.

UK consumer headline inflation eased to 2.4% y/y in September from 2.7% in August. The deceleration in inflation was caused by a moderation in food and non-alcoholic beverage, recreation and culture, as well as transport prices. While the softer print is certainly welcome, inflation has remained above the 2% target for 20 consecutive months. Higher-than-anticipated oil prices continue to be the main culprit behind the relatively sticky inflation profile and may well keep inflation from falling more meaningfully for the remainder of the year.

Figure 5: US retail sales

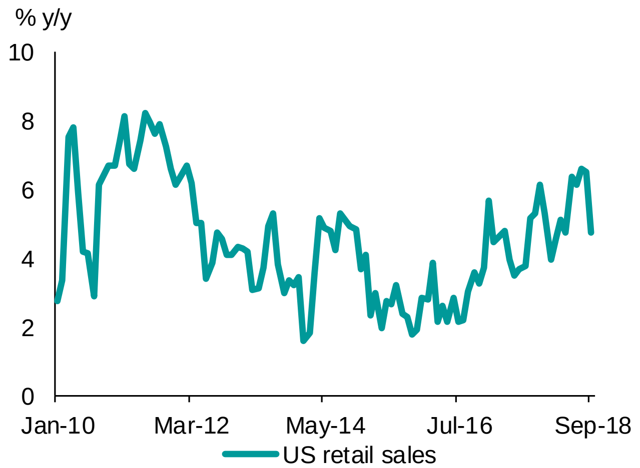
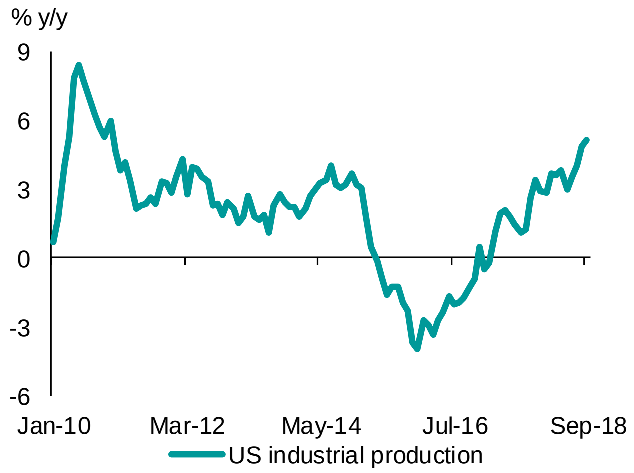


Figure 6: US industrial production



Sources: Reuters, FNB

The Week Ahead

MTBPS and CPI

Most of the data out next week is second tier, and will be overshadowed by the September CPI print and the 2018 Medium Term Budget Policy Statement (MTBSP or mini-budget), both due on Wednesday. September PPI is out on Thursday.

We expect September CPI to remain unchanged from August at 4.9%, largely due to government's intervention on the fuel price in the month, which saw a 25c per litre increase not passed on to consumers. The fuel price under-recovery as of this morning stood at 15c per litre for petrol but a substantial 50c per litre for diesel. These figures do not include the 25c per litre that needs to be recovered. Timing around when this cost will be passed on remains uncertain, and is likely to make the inflation profile choppy over the short term.

Finance Minister Tito Mboweni will take to the podium to deliver the MTBPS, which once again takes place against a challenging economic backdrop. Staying the course of measured fiscal consolidation while trying to stimulate economic growth will prove a difficult task. Fiscal ratios will likely be adjusted to mainly reflect weaker-than-anticipated growth. Based on our growth projections, we expect the main budget deficit for the current financial year to be widened by around 0.3% to -4.1% of GDP before moderating to -3.9% of GDP in FY20/21. Net debt estimates are likely to have been revised marginally higher. Our estimates suggest that net debt-to-GDP should rise to 50.9% in FY18/19, compared to the estimated 50.3%. While marginal, the rise in government debt should be maintained throughout the Medium Term Expenditure Framework (MTEF). With almost no scope to raise taxes further, and without any concessions being made on privatisation, meaningful adjustments required to narrow the fiscal deficit will have to come from the expenditure side. We believe that the 2018 MTBPS will stick to the script ushered in by the 2018 Budget Review, and provide little in the way of surprises. We see little chance of any negative ratings action from Moody's post-MTBPS as some fiscal slippage is already baked into their assumptions, giving us a little more time to right the ship.

Data to watch out for next week ...

Date	Country	Release/event	Period	Survey	Prior
23 Oct	EU	Consumer confidence	Oct	-3	-2.9
24 Oct	SA	CPI	Sept	4.7	4.9
24 Oct	SA	MTBPS	2018	-	-
25 Oct	SA	PPI	Sept	-	6.3
26 Oct	US	GDP	3Q18	3.3	4.2

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

To visit the FNB Economics commentary site paste the following link in your browser: https://www.fnb.co.za/economics-commentary/.

Economics WEEKLY

19 October 2018

Contact

Mamello Matikinca
Chief Economist
087 343 1678
Mamello.matikinca@fnb.co.za

Jason Muscat
Senior Economic Analyst
087 335 5189
Jason.Muscat@fnb.co.za

Jarred Sullivan
Economist
087 328 0622
Jarred.sullivan@fnb.co.za

Matlhodi Matsei
Economist
087 312 2009
Matlhodi.matsei@fnb.co.za