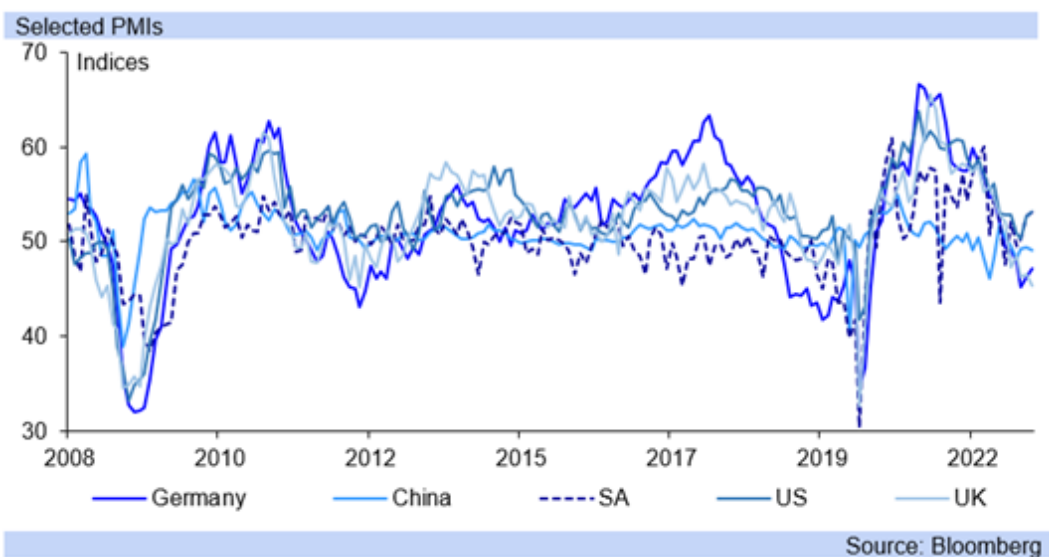


SA Economics

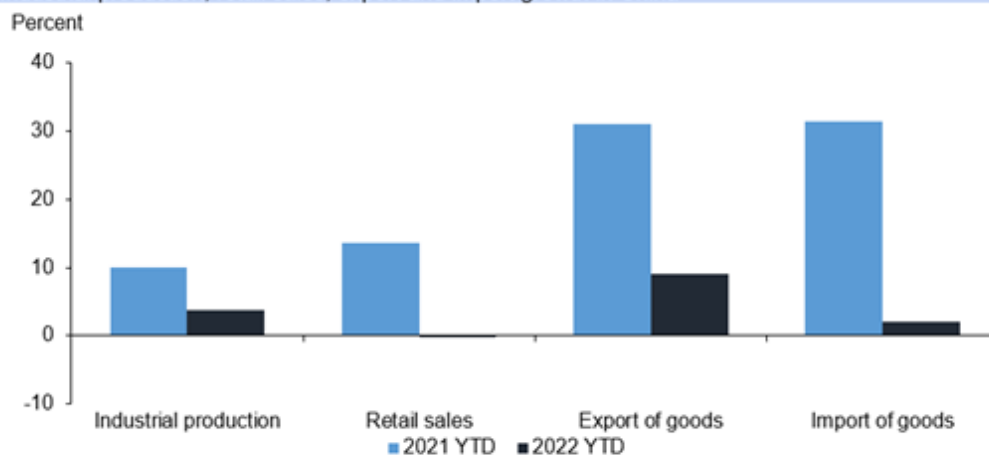


Industrial production note: contracts in SA mainly on the deepening electricity crisis

Tuesday 17 January 2023



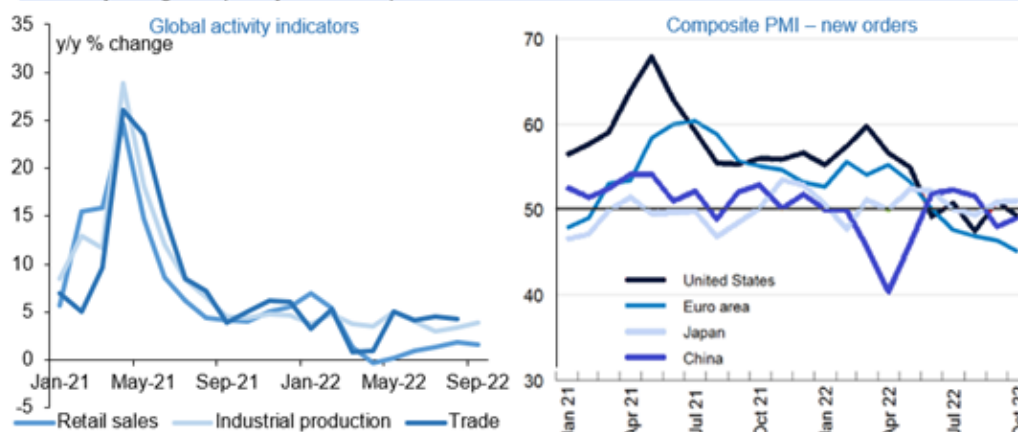
Industrial production, retail sales, export and import growth in China



Sources: World Bank, Global Economic Prospects January 2023

Note: Bars denote the year-to-date real growth of industrial production from January to November and year-to-date nominal growth of retail sales and goods exports and imports from January to November. Last observation is November 2022.

A variety of high-frequency indicators point to a slowdown



Source: OECD, Economic Outlook November 2022

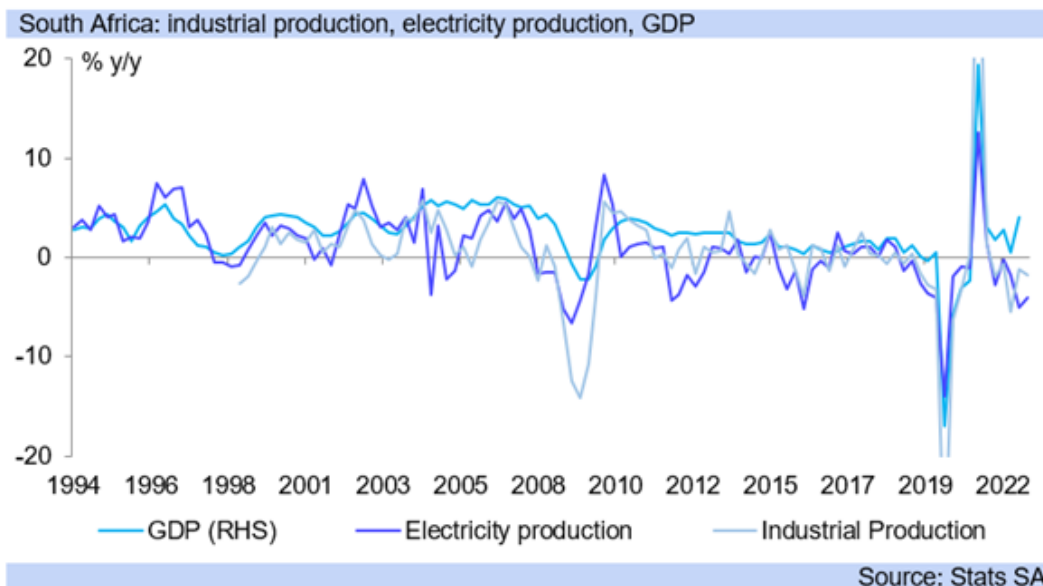
Note: Data in left hand chart are PPP-weighted aggregates. The retail sales measure uses monthly household consumption for the United States and the monthly synthetic consumption indicator for Japan.

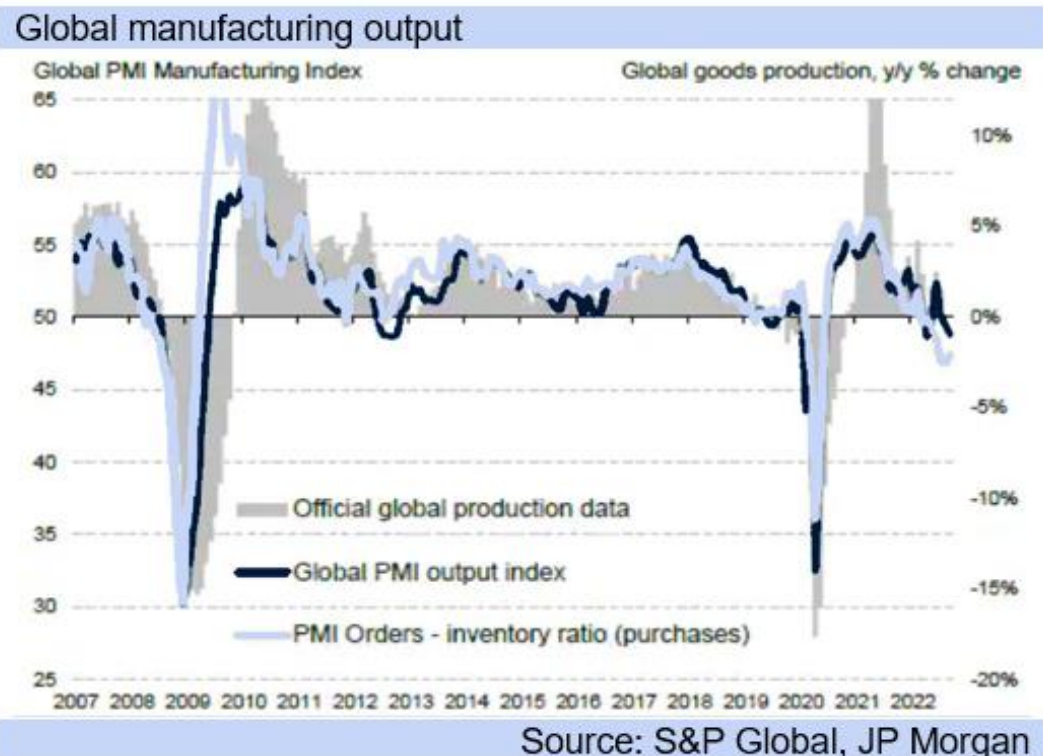
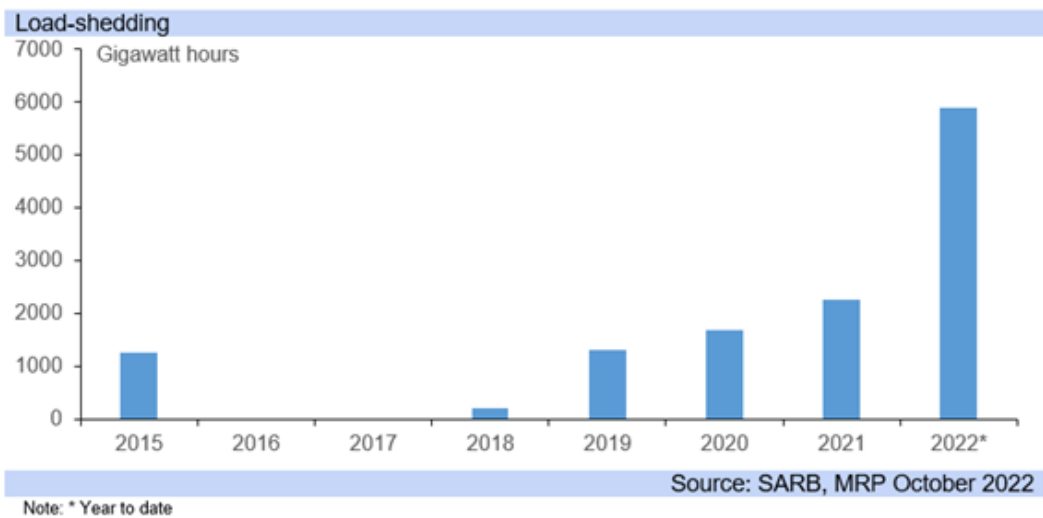
- Industrial production has contracted in Q4.22 to date, down by -1.4% for the first two months of Q4.22 versus the same period in Q3.22 (seasonally adjusted), as global growth slowed over the fourth quarter, impacting domestic activity.
- The drop in Q4.22's industrial production activity so far comes on weaker electricity production than in the first two months of Q3.22, down -2.7% on further breakdowns of units, to 56.0% from 58.2% of available electricity capacity (EAF).
- The last month of Q4.22 saw SA's EAF (Energy Availability Factor) fall to 50.4%, heralding an even weaker December than October and November. Mining production fell by -3.7% in the period on the fall in electricity production, as well as the Transnet strike.
- The minerals council notes "(s)melters require sufficient time to ramp down as sudden loss of power will result in catastrophic damage. With loadshedding,

smelters ... (experience) uncharacteristic trips as they were not designed to operate under these conditions.”

- “The adverse operating environment of unreliable and expensive electricity, and a crisis in transport logistics for bulk mineral exports erode the mining sector’s global competitiveness”. This in turn negatively impacts industrial production.
- “The mining sector, ... smelters and refineries ... consume about 30% of Eskom’s output. Eskom will remain a source of baseload electricity supply for the mining industry because solar and wind energy are intermittent.”
- “Over the medium to longer term, these uncertainties bode ill for starting new mines”, with “the ability to accurately estimate long-term electricity prices and supply ... critical factors in deciding whether to start new project”.
- “(C)onfidence in securing reliable and cost-efficient transport and export channels” are also critical, and SA’s collapsing electricity availability is increasingly negatively impacting the industrial production sector.
- Little communication has come from government on solving the electricity crisis, with electricity supply from Karpowerships’ blocked by the lack of environmental regulatory approval in SA in H2.22.

Please scroll down to the second section below



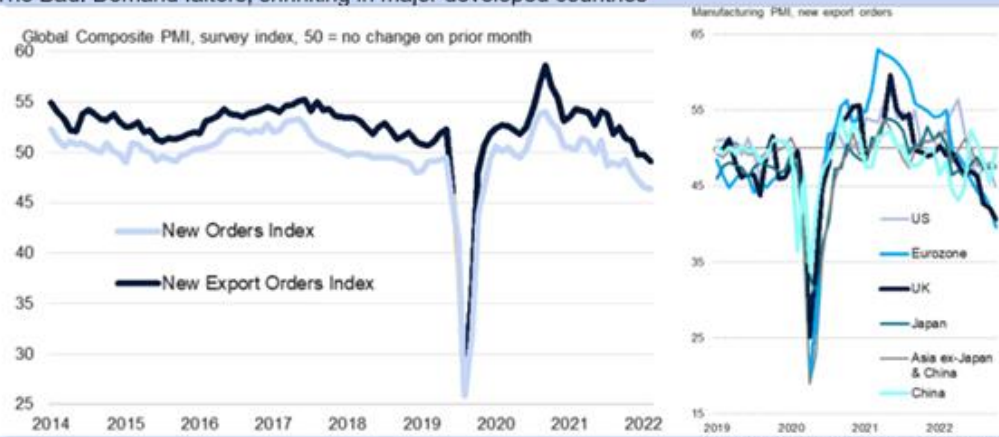


- Industrial production comprises of mining, manufacturing and electricity production, and makes up 19.6% of GDP, with the largest sector on its own in the economy the business services, real estate and finance services sector.
- Globally, the latest PMI shows five months of contraction, with job creation at a “near-standstill” and “new order intakes ... (falling) at the fastest pace in over two-and-a-half year (J.P. Morgan Composite PMI by S&P Global).
- The reading, among the weakest of the past fifteen years, also shows “broader-based weakness in the services economy, with all three categories of activity covered (business, consumer and financial services) seeing declines.”

- “In comparison, the manufacturing downturn was centered on the intermediate goods sector, as consumer and investment goods producers both registered mild upturns”.
- Furthermore, “(r)ates of increase in input costs and output charges eased further, to 24- and 22-month lows, respectively”, echoing the moderation in the pace of price inflation (disinflation) occurring globally.
- In South Africa, manufacturing production rose 0.7% in the first two months of Q4.22 versus the previous period, insufficient however to overshadow the contraction in the mining sector in the same period.
- Looking forward, global steel users saw the pace of contraction in their activity slow in December, with Asia showing a slow pace of contraction in new orders than other key regions (S&P Global Steel Users PMI).
- Industries using copper also reported a slowing in the pace of decline in activity, “mainly due to ... Asia which recorded slower falls in new orders and output and a stabilisation in employment” (S&P Global Copper Users PMI).
- The slowdown in new orders by Asia was also replicated by industries which have aluminum as a material input, (S&P Global Aluminum Users PMI), with Asia (particularly China) expected to lead the global recovery by H2.23.



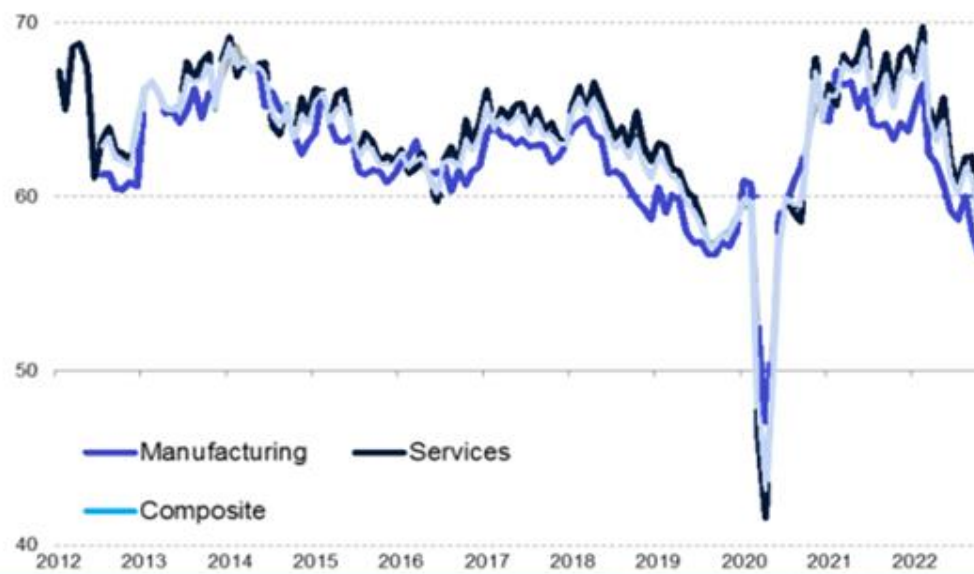
The Bad: Demand falters, shrinking in major developed countries



Source: S&P Global, JP Morgan

The Ugly: Business optimism at 28-month low

Global PMI Future Expectations (optimism), 50 = no change in output over next 12 months



Source: S&P Global, JP Morgan