

SA Economics

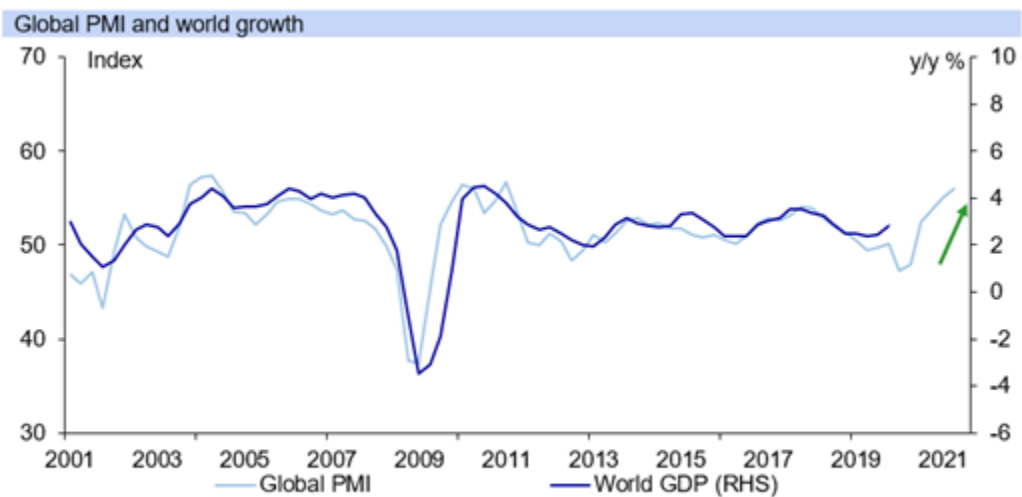


Thursday 24 June 2021

Industrial production note: still strong, and lifting metals and industrial commodity prices reflect the ongoing supply chain pressures on strong economic recoveries around the world, supported by high industrial production performances



Sources: Bloomberg



Source: Bloomberg, IHS Global Insight

Note: Monthly Global PMI data is converted to quarterly data.

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- Globally, PMI readings continue to show extremely strong recoveries in manufacturing production, while industrial commodities prices continue to show good growth, up 83% y/y and 2.1% m/m, with metals prices up 3.5% m/m, 101% y/y (June Economist indices).
- Most key commodities which are necessary for the global supply chain retain strong price levels, and are tracking stronger as global economic recovery continues, which also provides some underpin for the rand, despite recent weakness after the US FOMC meeting.
- Quicker FOMC expectations on US rate hikes saw the rand lose 72c against the US dollar, but recently it made back 21c, on the Fed's placatory comments, while commodity prices retain support, underpinning the commodity nature of the domestic currency.
- In particular, the rand is very heavily influenced by metals prices, as well as foreign investor portfolio flows and market risk sentiment, the latter being bolstered somewhat last night as Fed chair Powell reiterated the Fed will not raise rates quickly despite inflationary pressures.
- High commodity prices have been feeding through into inflationary pressures globally, although this has been driven in particular by energy and food, while June's readings for agricultural food and non food prices now show some moderation after a slowing in May.
- The Economist indices show a June drop of -4.0% m/m for food and -5.7% m/m for non-food agricultural prices, which should slow price pressures somewhat in that month, after May's -2.1% m/m and -7.6% m/m drops, but base effects are pushing up annual inflation.
- Overall price increases on a year ago are heady due to base effects, but strengthening demand has also lifted commodity prices materially, while industrial production for most key economies is at or near historic highs.
- June's global copper users PMI (operating conditions for heavy users of copper) is at its highest level since 2010, with aluminium users PMI seeing the fastest growth also since 2010, as is the steel users' PMI, with supply chain pressures still a key issue (IHS Markit).
- South Africa's IHS Markit PMI shows production expanded in May, with new orders rising for its manufactured goods, mainly from domestic, as opposed to foreign clients, while confidence on future output was strong, the highest in three years.

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Sources: Bloomberg

The BankservAfrica Take-home Pay Index data

Month	Nominal average take-home pay	Real take-home pay	Nominal BTPI % ch y/y	Real BTPI % ch y/y	Nominal average pensions paid	Real private pensions paid	Nominal BPPI % ch y/y	Real BPPI % ch y/y
Jan-20	15150	13064	12,6%	8,3%	8124	7064	7,5%	3,3%
Feb-20	15104	12844	9,8%	5,1%	8297	7246	8,4%	3,7%
Mar-20	14543	12672	4,3%	-0,3%	8413	7230	8,8%	4,0%
Apr-20	14127	12567	2,6%	-1,4%	8403	7184	4,5%	0,4%
May-20	14040	12617	3,5%	0,3%	8311	7225	1,6%	-1,3%
Jun-20	14341	12535	7,9%	5,3%	8310	7352	1,6%	-0,5%
Jul-20	14018	12083	5,7%	3,1%	8438	7407	5,0%	2,7%
Aug-20	14057	11892	4,3%	1,5%	8575	7464	7,0%	3,7%
Sep-20	14085	12058	1,7%	-1,3%	8660	7482	6,7%	3,5%
Oct-20	14837	12774	6,2%	3,0%	8563	7388	5,0%	1,9%
Nov-20	14841	12918	3,8%	0,6%	8850	7523	9,6%	6,1%
Dec-20	15415	13161	5,4%	2,1%	8879	7532	9,4%	6,1%
Jan-21	15608	13037	3,0%	-0,2%	9096	7673	12,0%	8,6%
Feb-21	15821	13058	4,7%	1,7%	9037	7651	8,9%	5,6%
Mar-21	15092	12758	3,8%	0,7%	9139	7635	8,6%	5,6%
Apr-21	15083	12958	6,8%	3,1%	9286	7693	10,5%	7,1%
May-21	14594	12650	4,5%	0,1%	9268	7577	11,5%	6,8%

Source: BankservAfrica and economists.co.za

- Also positive is that SA's PMI shows job numbers rose at a quicker rate as firms rehired staff after shedding employees last year on the harsh lockdowns imposed by the state, and indeed at the quickest rate since November 2012 as SA's manufacturing sector increased hiring.

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- Optimism was strong on SA's future business activity in the PMI survey, although supply shortages continued to be reported, with metals and timber identified in particular, while price pressures increased across the board, with new hires and high commodity prices.
- Increased employment in the manufacturing sector reported in May's PMI ties in with the lift in take home pay in May (BankservAfrica), at a rate of 5% y/y, similar to the inflation rate reported today of 5.2% y/y for May's CPI inflation rate.
- The economy is recovering quicker than expected at the start of the year. BankservAfrica also shows employment is broadening as lower paid employees are returning to work, evidenced by the slowing in real salary increases, but rising numbers of monthly payments.
- "The median salary decreased by 1.5% from May 2020 as the numbers of weekly paid employees reappeared on the payrolls. Moreover, the tax holiday given to many last year has had an impact on the median take-home pay more than on the average".
- However, the number of monthly take home salaries in May 2021 recorded by BankservAfrica were still below the numbers in both May 2019 and May 2018, and BankservAfrica notes that there is still a "long way for ... wages to reach 2019 and 2018 levels."
- In SA's mining sector, the latest available data shows growth of 3.2% m/m in current sales prices, and for the year to date around 10% m/m. Still strong commodity prices will remain supportive for a current account surplus while there is likely to be a slow rise in imports.
- South Africa's PMI readings for April and May indicate the economy continued to see good growth in Q2.21, with April seeing a recent peak at a reading of 53.7, and May 53.2, still in positive territory (above 50 and demonstrating expansion).
- Indeed, the rate of growth in the PMI has been one of the quickest recorded since the data began to be collected in 2012. We believe the SA economy remains on track for growth of around 4.0% y/y this year, specifically likely about 4.3% y/y on incoming data.

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