momentum investments

in the moment

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Weekly macro roundup for 17 to 21 February 2020

Highlights

Key data in review

	Period	Latest		Consensus*	Previous	
		% y/y	% m/m		% y/y	% m/m
Headline inflation	January	4.5% y/y	0.3% m/m	4.6% y/y	4.0% y/y	0.3% m/m
Core inflation	January	3.7% y/y	0.1% m/m	3.9% y/y	3.8% y/y	0.2% m/m
Total building plans passed	2019	-9.0%		N/A	-1.6% y/y	
Residential plans passed	2019	-11.6% y/y		N/A	3.1% y/y	

Collected from Bloomberg and Iress

- Headline inflation rose marginally to 4.5% in January 2020, but was below the consensus expectation of 4.6%. The January 2020 number marked the 14th consecutive month of headline inflation tracking close to the midpoint of the target range.
- Core inflation eased to 3.7% in January 2020 from 3.8% in December 2019 underpinned by a continued slowdown in services inflation.
- Although prices of non-durables (namely food and fuel) rose meaningfully in January 2020, inflation in more than half of the items in the inflation basket recorded comfortably within the 3% to 6% inflation target range.
- Similarly, there were only six items in the inflation basket which printed above the upper 6% limit of the target in January 2020, including administered prices, bank charges and insurance costs.
- Total building plans passed in 2019 contracted by 9.0% from 1.6% in 2018, due to a slowdown in residential building plans.
- The house price index also weakened in January 2020 underpinned by price normalisation and weak confidence and demand.

Our view

Inflation has been contained below the upper limit of the inflation target and closer to the midpoint of the target for a persistent period and is forecasted to remain that way for some time. Another repo rate cut is therefore expected in 2020. Easier monetary policy could lift consumer spending at the margin, but continued consumer headwinds will cap a recovery in spending. An oversupply of residential property and weak demand will continue to suppress residential building activity and house prices in 2020.

Tepid rise in inflation to 4.5% in January 2020

The January 2020 consumer price inflation (CPI), released by Statistics South Africa (Stats SA), rose 0.1% slower than the consensus expectation to 4.5% y/y, up from 4.0% y/y in December 2019. This is the 14th consecutive month inflation was in line with or below the midpoint of the target range (see chart 1).

Chart 1: Headline CPI hovering at the midpoint (% y/y)

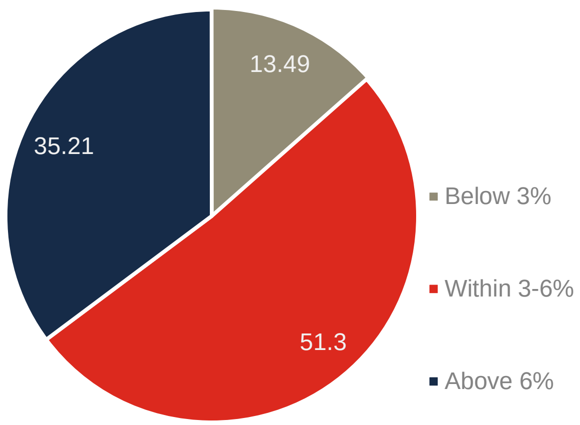
Source: Stats SA, Momentum Investments

January is generally a low survey month but a significant rise in administered prices, the gradual normalisation in food prices and the low base in the fuel price in January 2019 have modestly lifted the January 2020 inflation number from December levels. Headline inflation reported an unchanged monthly momentum of 0.3% m/m in January 2020. Core inflation eased to a tepid 3.7% y/y in January 2020 from 3.8% y/y in December 2019 underpinned by a 0.1% slowdown in services inflation to 4.0% in January 2020. This was the first time since March 2017 that services inflation dropped below goods inflation to the same extent.

Housing and utilities added 1.2% to the January number and grew by 4.7% y/y, up from 4.6% y/y underpinned by a 0.5% rise in maintenance and repairs. Transport inflation alongside miscellaneous goods and services, respectively added 0.9% to the January 2020 number. Food and beverage inflation added 0.6% and grew by 3.7% y/y.

Services inflation slowed to 4.0% y/y in January 2020 from 4.1% y/y in December 2019. Inflation in goods however increased significantly to 4.9% y/y in January 2020, up from 3.9% y/y. The increase was predominantly reflected in inflation of non-durable goods which rose to 6.1% y/y from 4.6% y/y in December 2019. This was the first time in over a year that such a meaningful increase was recorded. Inflation in durable (furniture and cars) and semi-durable (clothing and footwear) goods declined to 2.3% y/y (down from 2.5% y/y) and 1.8% y/y (down from 2.0% y/y) in January 2020. More than half of the items in the consumer basket have however still recorded well within the 3% to 6% inflation target range (see chart 2).

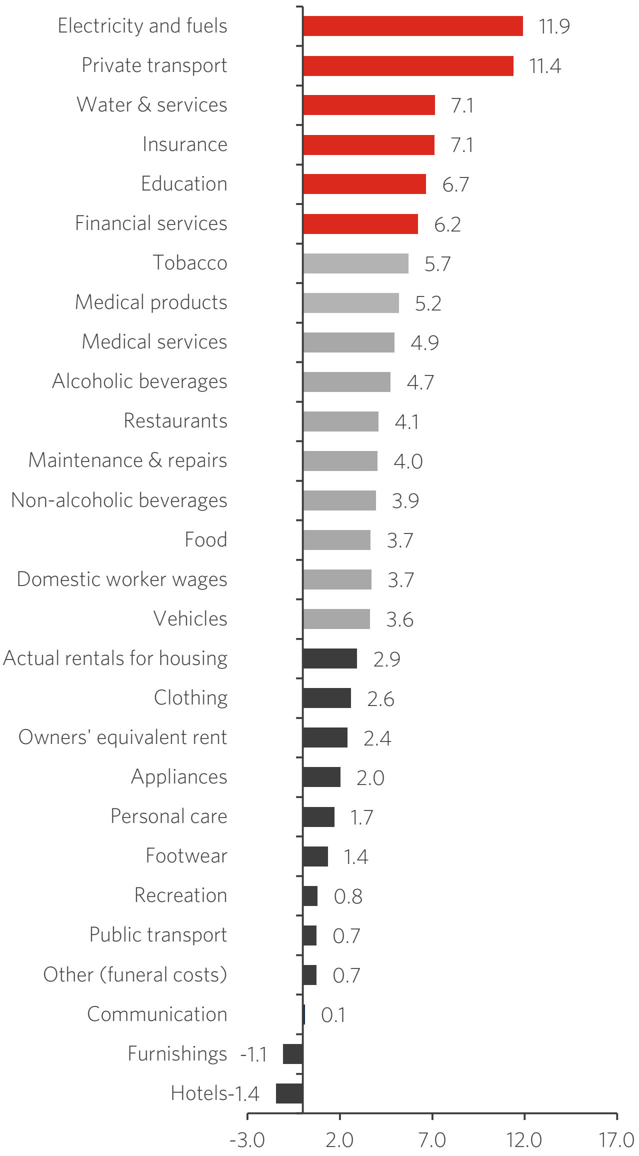
Chart 2: Bulk of inflation basket tracking below the upper inflation target band (% y/y)



Source: Stats SA, Momentum Investments

Similarly, there were only six items in the inflation basket which printed above the upper 6% limit of the target in January 2020 (see chart 3). A significant portion of the basket falls either within or below the target. Hotels and furnishings reported the largest decline to 1.4% y/y and 1.1% y/y, respectively. Fuel detracted by a significantly large 2.1% y/y, having previously detracted 1.6% y/y.

Chart 3: Inflation skewed within and below target (% y/y)

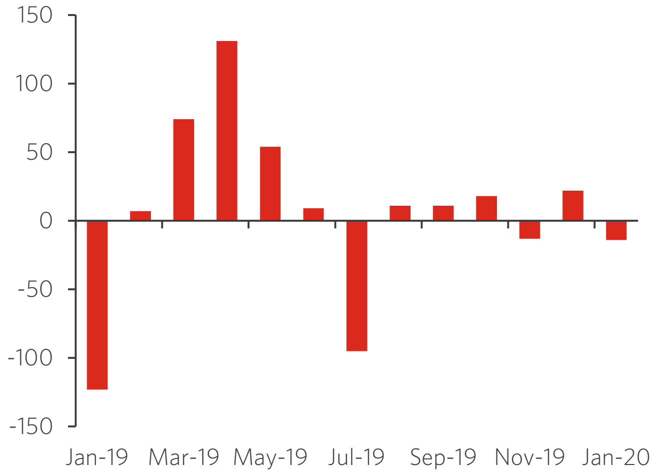


Source: Stats SA, Momentum Investments

Although inflation is expected to continue hovering around the midpoint of the target range, administered price inflation remains an upside risk to inflation specifically because of electricity and municipal prices.

Transport inflation grew by 6.4% y/y in January 2020, up from 3.3% y/y in December 2019. Private transport inflation showed a significant uptick to 11.4% y/y in January 2020, up from 2.7% y/y in December 2019. This was significantly lower than the 1.2% y/y contraction in January 2019. There was a R0.14 c/l petrol price decrease and a R0.9 c/l diesel price increase in January 2020, compared to the R1.23 c/l petrol price and R1.55 c/l diesel price decline in January 2019 (see chart 4).

Chart 4: Petrol price change (95 octane c/l)



Source: Iress, Momentum Investments

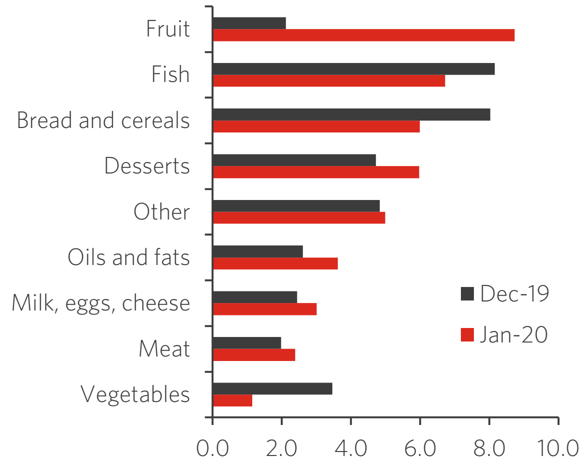
Public transport inflation weakened to 0.7% y/y in January 2020 from 3.7% y/y in December 2019. Vehicle inflation fell to 3.6% y/y, from 3.9% y/y in December 2019 underpinned by a continued decline in consumer appetite for big-ticket items such as vehicles.

The fuel price declined by R0.13 c/l in February 2020 relative to a R0.7 c/l decline in February 2019 which will help arrest transport inflation in February. Recent rand weakness could limit the reprieve of the current over-recovery of 21 cents for March. The price of Brent crude oil is expected to weaken to US$58/bbl in February 2020 according to Iress estimates, down from US$58/bbl in January 2020.

Food and non-alcoholic beverage inflation declined to 3.7% y/y in January 2020 from 3.9% y/y in December 2019 but the monthly momentum rose mildly. Food inflation slowed to 3.7% y/y from 3.8% y/y in December 2019. Three out of nine goods in the food inflation basket reported a slowdown in January 2020 (see chart 5). Bread and cereal inflation reported the most significant reduction in January 2020 to 6.0% y/y from 8.0% y/y. Meat inflation rose marginally to 2.2% y/y, up from 2.0% in December 2019, explained by a gradual normalisation in meat prices.

The longer-than-expected ban on foot-and-mouth disease was lifted in February 2020 which will likely accelerate the normalisation in meat prices going forward.

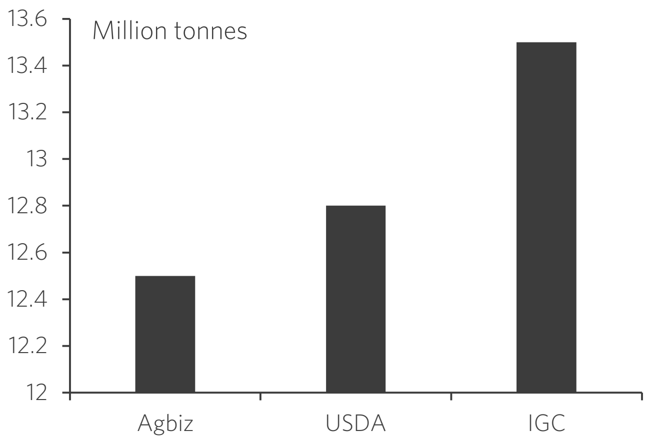
Chart 5: Food inflation by contribution (%)



Source: Stats SA, Momentum Investments

The Agricultural Business Chamber (Agbiz) has a below consensus estimate for the 2019/20 maize harvest underpinned by uncertain weather conditions and the late planting due to late rains (see chart 6). This below-market harvest expectation by Agbiz leads to a high likelihood of SA being a net maize exporter in the 2019/20 marketing year. The SA Weather Service however expects below normal rainfall between February and April 2020 which may limit summer crops but climate change has elevated the uncertainty element in these forecasts which may not materialise.

Chart 6: Maize harvest for 2019/20 marketing year



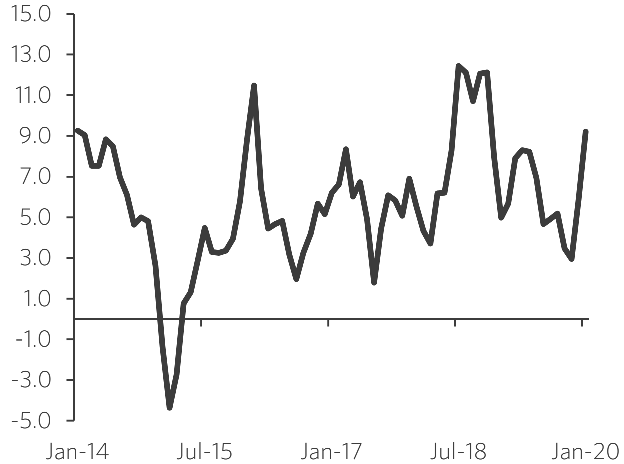
Source: Agbiz, United States Department of Agriculture (USDA), International Grains Council (IGC), Momentum Investments

We expect food inflation to continue to rise gradually and reach around 5% in 2020 and peak marginally above 6% in 2021.

Administered prices rose to 9.2% y/y in January 2020, up from 5.9% y/y in December 2019 underpinned by a higher fuel contribution of 3.9% (from 0.7% in December 2019) (see chart 7). Assessment rates, electricity and school fees added 0.1% more to administered prices in January 2020 relative to December 2019.

We expect inflation in 2020 to remain close to the midpoint of the target range, administered prices are however an upside risk to the forecast. Surveyed inflation expectations have a high likelihood of slowing further in the near term given a further drop in services inflation and the historic relationship between the two. Consumer spending remains limited because of high administered prices and limited growth and employment opportunities in the economy. Despite the electricity supply crisis remaining a high risk to the electricity price trajectory, the lack of inflation pressure elsewhere in the basket suggests space for another interest rate cut.

Chart 7: Administered prices rose significantly in January 2020 (% y/y)

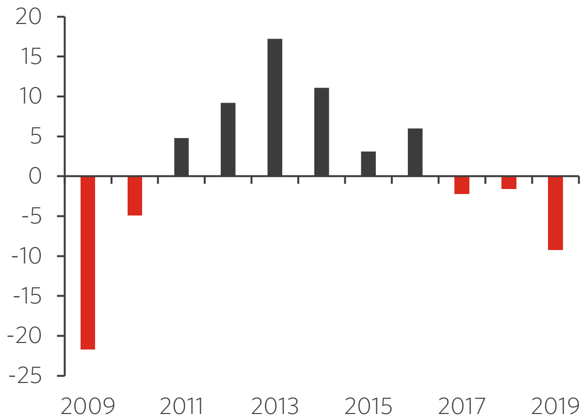


Source: Stats SA, Momentum Investments

Building plans passed slowed significantly in 2019

Total building plans passed for the 2019 calendar year was released by Stats SA and the data showed a deeper contraction of 9.0% from the 1.6% contraction reported in 2018 (see chart 8). Although 2019 reported a robust decline it was still better than the double-digit decline reported in 2009.

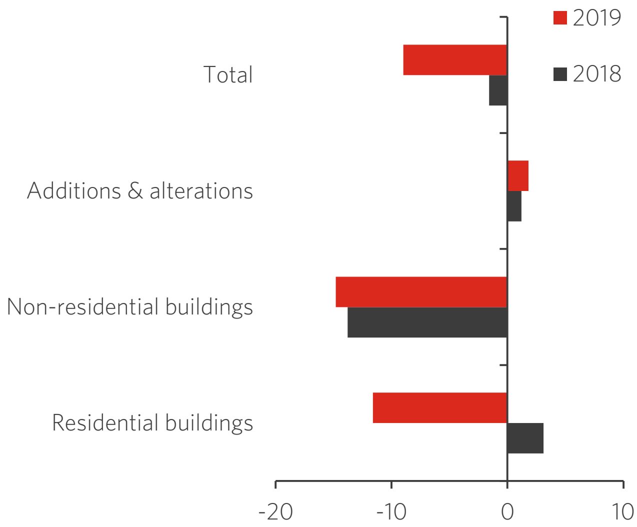
Chart 8: Total building plans passed (% y/y)



Source: Stats SA, Momentum Investments

Residential buildings plans passed reported the most significant decline in the 2019 calendar year. Two of the three components that constitute total building plans passed decreased in 2019, meanwhile only additions and alterations grew (see chart 9).

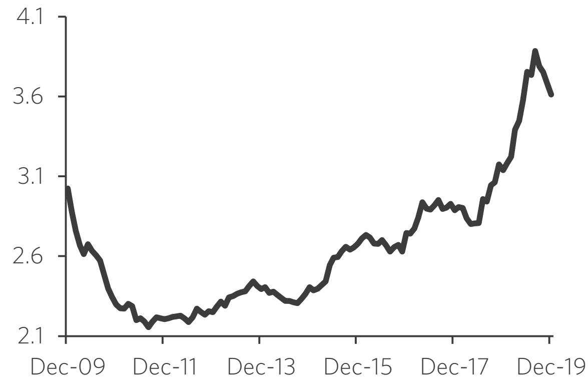
Chart 9: Performance in building categories (% y/y)



Source: Stats SA, Momentum Investments

Growth in residential building plans passed has slowed significantly in the last year (see chart 10). The oversupply in residential buildings amid a slowdown in the economy has weakened property prices but a normalisation in supply appears to be underway.

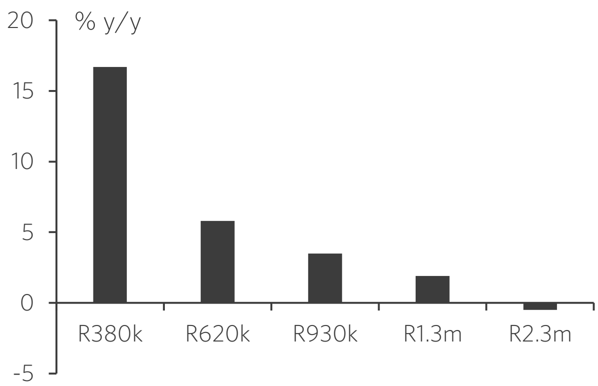
Chart 10: Residential buildings passed



Source: Stats SA, Momentum Investments

The third quarter First National Bank (FNB) Property Barometer showed that in 2019 the bottom end of the residential property market showed meaningful activity explained by approximately 13 enquiries on these residential properties. These properties spent only six weeks on the for-sale market. The rest of the market averaged 9.5 views and spent 15 weeks on the market for sale. The latest third quarter data for 2019 reported firm growth in the lower end of the market, meanwhile the upper end continues to face weakness (see chart 11).

Chart 11: Bottom end of market still firm (Q3 2019) is this enquiries or prices?



Source: FNB, Momentum Investments

The third quarter FNB Property Barometer reported a tepid drop in the house price index which grew by 3.3% y/y in January 2020, down from 3.5% y/y in December 2019. They conduct a survey for sellers to indicate their reasons for selling and the bottom end of the market continues to report financial downscaling and moving to be closer to work as the key reasons for selling (see table 1). This highlights the financial constraints these consumers face in an attempt to cut costs.

Emigration and downscaling for lifestage are key reasons in the upper end of the market which highlights the loss of high-income earners due to the deteriorating state of affairs domestically and old age.

Although the SA Reserve Bank (Sarb) lowered the repo rate in January 2020 and another rate cut is expected in the second half of 2020 the consumer has limited spending power and will likely use the increased purchasing power for sustenance spending rather than spending on big-ticket items. We do not see the likelihood of a significant improvement in the property market given a constrained consumer, limited signs of business investment prospects and a low economic growth trajectory.

Table 1: Reasons for selling property in quarter three of 2019

Reasons for selling	SA	>R250k	R250k-R500k	R500k-R750K	R2.6m-R3.6m
Downscaling due to financial pressure	16.21	16.35	22.06	25.42	10.0
Downscaling with lifestage	20.4	8.85	14:86	25.42	25.76
Emigrating	14.59	8.4	2.97	2.92	22.64
Relocating	8.3	10.15	5.92	11.25	6.6
Upgrading	10.41	11.4	15.97	7.5	7.12
Moving for safety reasons	9.39	8.15	9.58	2.5	9.52
Change in family structures	11.54	12.35	13.19	8.33	13.84
Moving to be closer to work	9.17	24.35	15.44	16.67	4.52

Source: FNB Property barometer, Momentum Investments

Contained inflation will help the constrained consumer in the near term

Inflation has been contained below the upper limit of the inflation target and closer to the midpoint of the target for a persistent period and is forecasted to remain that way for some time. Another repo rate cut is therefore expected in 2020. Easier monetary policy could lift consumer spending at the margin, but continued consumer headwinds will cap a recovery in spending. An oversupply of residential property and weak demand will continue to suppress residential building activity and house prices in 2020.

More first-tier high-frequency data releases for the first quarter of 2020 will be out next week. Tourism growth for January 2020 will likely remain tepid underpinned by traveling reforms still under the piloting phase. Business conditions and sentiment have been dire therefore we do not expect a significant slowing in liquidations and insolvencies.

There might be a mild uptick in credit growth supported by the 25-basis point repo rate cut in January 2020. The trade balance for January 2020 could likely improve, bolstered by the phase one trade deal .

Economic releases for the week ahead: 24 to 28 February 2020

Release	Period	Date	Previous	Consensus*
Stats SA Liquidations and insolvencies	January 2020	14:30, Tuesday, 24 February 2020	134 317	N/A
Stats SA Tourism and migration	January 2020	09:00, Tuesday, 25 February 2020	0.0% y/y 2.0% m/m	N/A
Sarb Business cycle indicators	January 2020	08:00,Tuesday, 25 February 2020	104.4 index points	N/A
Sarb Private sector credit extension	January 2020	08:00, Friday, 28 February 2020	6.1% y/y	N/A
Sars Trade statistics	January 2020	14:00, Friday, 28 February 2020	R14.8 billion surplus	N/A

**Collected from Bloomberg and Iress*

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