

# Nedbank

## Economic commentary

09 December 2009

### MANUFACTURING

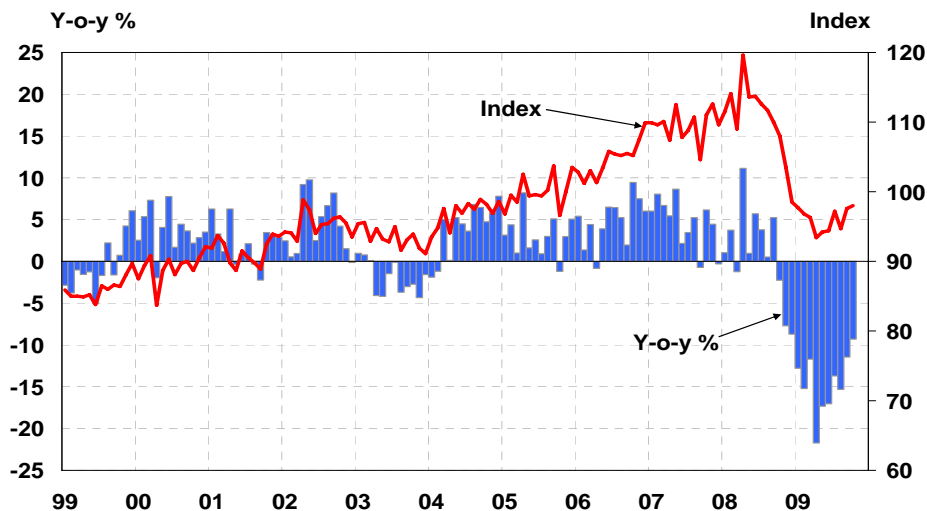
#### *Manufacturing production improved further in October*

- Manufacturing rose modestly over the month, while the annual rate of decline continued to moderate
- Improvement in global activity will support local production
- Interest rates are expected to remain unchanged until 2011

#### Latest (October 2009)

**Total: -9,3% y-o-y (-11,4% y-o-y in September)**

**Seasonally adjusted: 0,4% m-o-m (3,1% m-o-m in September)**



#### COMMENT

Manufacturing production rose modestly over the month, increasing by 0,4% following a 3,1% increase in September. The annual rate of decline moderated more than market expectations, easing to -9,3% in October from -11,4% in September, in line with improving global conditions.

However, the performance across sectors was mixed. Sectors that supply to the local retail market continued to struggle, as consumer spending remained extremely weak. Furniture production fell by 17,7% y-o-y, down from 15,8% y-o-y in September, while the radio and television category dropped by 13,3% y-o-y, following a 6,3% y-o-y decline in the previous month.

Some sectors that supply to the export market continued to lead the recovery. Production of iron and steel fell by a more modest 11,7% y-o-

#### Research

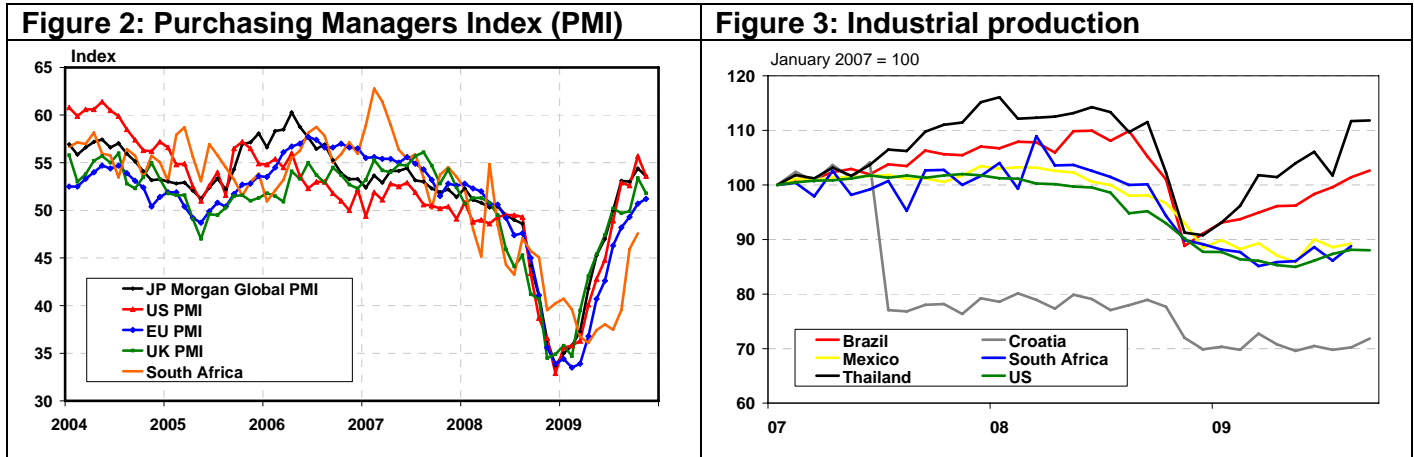
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y, following a 14% y-o-y decline in the previous month. However, over the month output in this category fell modestly. In contrast, output of vehicles and related parts continued to improve, rising by 4,2% m-o-m, up from a 3,8% increase in September. This reflects a combination of a modest improvement in local demand off an extremely low base as well as increasing export demand.

Output of electrical machinery remains weak and volatile, reflecting generally weak demand for capital equipment both locally and globally. Glass and non-metallic mineral output declined further, due to weak private sector investment spending.



## **OUTLOOK**

South Africa's manufacturing production continued to improve in line with international trends. Globally manufacturing production has benefited from the turn in the inventory cycle and massive fiscal stimulus measures as well as the recovery in Chinese demand. More recent purchasing managers' indices in both the US and UK, which provide an indication of future conditions in the manufacturing sector declined last month due to fewer new orders, suggesting that the pace of improvement may be losing some momentum.

In South Africa, the latest Kagiso PMI index suggests that conditions continued to improve, with the index rising above 50 for the first time since April 2008. The manufacturing sector will benefit in the months ahead from low interest rates and inflation as well as further stabilization in economic activity in our major trading partners.

The recovery will, however, be tested by weaker demand in the retail sector as consumer confidence remains depressed by continued job losses and high debt levels, while the strong rand could hamper exports.

## **IMPLICATIONS**

Today's manufacturing data, in contrast to the retail sales figures released earlier today, show that conditions continued to improve, helped to a large degree by improving conditions abroad. Since the recovery, both locally and globally, is likely to be weak the Reserve Bank will likely keep interest rates at current levels for longer than most currently anticipate, we believe that the first hike will probably come in 2011.

**BREAKDOWN OF MANUFACTURING PRODUCTION - MAJOR CATEGORIES**
**Growth over the 3 months to October 2009**

Industries	Y-o-y %	Industries	Q-o-q %
Food & beverages	1.7	Iron, steel, non-ferrous and metal products, machinery	5.2
Electrical machinery	-8.1	Motor vehicles, parts & accessories & other transport	4.3
Radio, television & professional equipment	-8.9	Petroleum, chemicals, rubber & plastics	3.0
Petroleum, chemicals, rubber & plastics	-9.0	<b>Total</b>	<b>1.6</b>
<b>Total</b>	<b>-12.0</b>	Other manufacturing	1.3
Glass & non-metallic mineral products	-13.6	Glass & non-metallic mineral products	0.6
Iron, steel, non-ferrous and metal products, machinery	-15.4	Electrical machinery	0.3
Textiles, clothing, leather & footwear	-17.7	Food & beverages	-0.6
Wood, paper, publishing & printing	-17.8	Wood, paper, publishing & printing	-2.0
Motor vehicles, parts & accessories & other transport	-19.7	Textiles, clothing, leather & footwear	-5.7
Other manufacturing	-20.3	Radio, television & professional equipment	-6.0

**BREAKDOWN OF MANUFACTURING PRODUCTION**
**Growth over the 3 months to October 2009**

Industries	Y-o-y %	Industries	Q-o-q %
Other transport	7.7	Vehicle parts & accessories	16.0
Other food	6.1	Special machinery	13.7
Food processing	3.1	Basic chemicals	13.1
Dairy products	1.2	Plastic	9.6
Grain mill products	-0.3	Wood preparation	5.9
Beverages	-1.9	Food processing	5.8
Petroleum	-2.4	Dairy products	4.2
Vehicle parts & accessories	-4.2	Other manufacturing	2.7
Footwear	-4.3	Other chemicals	2.5
Non-ferrous metals	-4.5	Paper	1.9
Glass	-6.3	<b>Total</b>	<b>1.6</b>
Electrical machinery	-8.1	Grain mill products	1.4
Radio, TV & professional equipment	-8.9	General machinery	1.2
Other chemicals	-9.9	Footwear	0.9
<b>Total</b>	<b>-12.0</b>	Glass	0.8
Household appliances	-13.4	Other non-metallic products	0.5
Basic iron & steel	-13.5	Electrical machinery	0.3
Leather	-13.8	Rubber	0.2
Special machinery	-14.5	Leather	-0.5
Knitted clothing articles	-14.9	Other textiles	-0.6
Rubber	-14.9	Beverages	-0.8
Printing	-15.1	Wood products	-1.6
Other non-metallic products	-15.8	Non-ferrous metals	-1.8
Paper	-16.8	Other fabricated metal products	-2.0
Wood products	-16.8	Furniture	-2.8
General machinery	-17.3	Other transport	-2.8
Furniture	-18.2	Other food	-3.5
Clothing	-18.3	Bodies for motor vehicles	-4.4
Wood preparation	-19.5	Printing	-4.7
Other textiles	-20.8	Petroleum	-5.2
Other manufacturing	-21.0	Motor vehicles	-5.3
Other fabricated metal products	-21.7	Radio, TV & professional equipment	-6.0
Publishing	-23.4	Household appliances	-6.6
Metal products	-24.4	Metal products	-7.1
Textiles	-27.1	Clothing	-8.7
Basic chemicals	-28.1	Textiles	-9.7
Motor vehicles	-36.9	Publishing	-9.9
Bodies for motor vehicles	-36.9	Knitted clothing articles	-12.4
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