

Economic Commentary

Manufacturing production

Manufacturing production slowed sharply

- Annual growth in manufacturing production slowed sharply to 1,4% in September, down from 5,3% in August.
- Over the month, output fell by 0,4% on a seasonally adjusted basis, due to falling output mainly in export-facing industries, such as iron and steel as well as chemicals. The strike in the vehicle components industry, which continued into September, was a key factor in the weaker figure.
- Manufacturing production growth will improve in October as the effects of the strike dissipate. However, output is expected to be relatively subdued in the months ahead, mainly reflecting the impact of a higher base in the second half of last year, softer global growth, a strong rand and subdued domestic spending.
- Continued rand strength, labour market weakness and policy concerns over the effect of rand strength on both mining and manufacturing make a further easing in monetary policy likely. Today's weak manufacturing number will also add to the case for further easing. Previously, we expected this to happen in the first quarter of 2011, but we now think that a 50 basis point cut will happen at the November MPC meeting.

Table 1 :Manufacturing production

	September 2010		August 2010	Reuters Forecasts	
	Y-o-y%	M-o-m% (SA)	Y-o-y%	Nedbank Y-o-y%	Market Y-o-y%
Total manufacturing production	1,4%	-0,4%	5,3%	6,3%	2,1%

Source: Statistics South Africa

Comment

Growth in the manufacturing sector slowed sharply in September to 1,4% y-o-y from 5,3% in August, due to falling output in some export-facing industries as well as the strike in the automotive components industry. On an annual basis, the petrol and chemical, electrical machinery as well as the automotive sectors experienced the sharpest slowdown in growth.

Over the month, six out of the ten categories recorded declines. The largest fall was recorded by the motor vehicle and related parts sector, which fell by 4,7% m-o-m, due to a 18,5% m-o-m drop in the production of parts and accessories. The furniture and other manufacturing category declined by 3,7% m-o-m, while petrol and chemical products fell by 1,9% over the month.

Manufacturing production fell by a seasonally adjusted 1,5% q-o-q in the third quarter, with five out of the 10 categories recording declines. The decrease was due to lower production in the automotive sector (down 11,8%), basic iron and steel, metal products and machinery (down 4,9%) as well as furniture and other manufacturing (down 8,5%).

Group Economic Unit

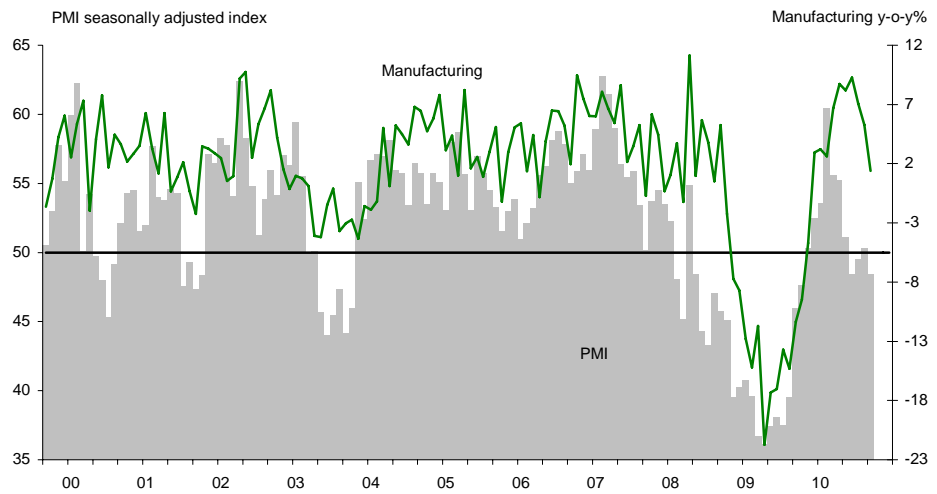
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Chart 1 : Total manufacturing production and PMI



Source: Statistics South Africa

Outlook

Manufacturing production will correct in November (to around 4% y-o-y growth) as the effects of the strike dissipate. However, thereafter it will grow at a slower pace as the impact of the low base established last year fades. Export-orientated industries are expected to feel the effects of a softer global economy and a strong rand over the coming months.

Inward-orientated industries are also likely to experience subdued demand. Manufacturers supplying inputs to local retailers will probably see demand moderate as the boost from the World Cup fades and worries about job security and high debt levels continue to weigh on local households. Manufacturers providing inputs to the local construction and engineering industries will also be contained by weak fixed investment activity in the private sector and the loss of momentum in the public sector infrastructure expansion programme.

Implication

Continued rand strength, labour market weakness and policy concerns over the effect of rand strength on both mining and manufacturing make a further easing in monetary policy likely. Today's weak manufacturing number will also add to the case for further easing. Previously, we expected this to happen in the first quarter of 2011, but we now think that a 50 basis point cut will happen at the November MPC meeting.

Table 2 : Breakdown of manufacturing production**Growth over the 3 months to September 2010**

Industries	Y-o-y %	Industries	Q-o-q %
Printing	16.4	Printing	11.2
Basic chemicals	15.6	Petroleum	10.3
Paper	15.1	Food processing	6.4
Petroleum	13.9	Wood products	6.2
Wood preparation	11.5	Grain mill products	5.9
Bodies for motor vehicles	11.1	Dairy products	4.7
Other chemicals	8.6	Paper	4.3
Food processing	7.2	Non-ferrous metals	3.5
Furniture	7.0	Other food	3.3
Non-ferrous metals	6.4	Other non-metallic products	2.6
Other fabricated metal products	5.7	Glass	2.1
Electrical machinery	5.6	Other fabricated metal products	1.7
Wood products	5.3	Radio, TV & professional equipment	1.4
Leather	5.3	Other chemicals	1.2
Other transport	5.2	Wood preparation	1.2
Grain mill products	5.0	General machinery	0.9
Household appliances	4.9	Beverages	-0.1
Other food	4.6	Electrical machinery	-0.1
Total	4.6	Furniture	-0.9
Plastic	3.5	Total	-1.5
Dairy products	2.9	Metal products	-1.6
Glass	2.4	Household appliances	-1.6
Beverages	0.6	Plastic	-1.7
Metal products	0.4	Textiles	-1.7
Special machinery	-1.0	Clothing	-2.3
Rubber	-1.2	Other textiles	-2.4
Other non-metallic products	-1.2	Publishing	-2.9
Vehicle parts & accessories	-1.4	Footwear	-5.5
Textiles	-1.6	Basic chemicals	-5.8
Publishing	-2.4	Bodies for motor vehicles	-6.8
General machinery	-3.2	Leather	-8.1
Basic iron & steel	-4.1	Special machinery	-9.2
Knitted clothing articles	-4.2	Rubber	-10.5
Clothing	-6.7	Other manufacturing	-11.1
Other manufacturing	-7.0	Knitted clothing articles	-12.0
Footwear	-7.6	Basic iron & steel	-14.1
Radio, TV & professional equipment	-8.3	Motor vehicles	-15.1
Other textiles	-9.0	Vehicle parts & accessories	-15.6

Source: StatsSA

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