

Economic Commentary

Manufacturing production

Manufacturing production slows but by less than expected

- Growth in manufacturing output slowed in July, but was substantially above market expectations of 6% y-o-y growth.
- Over the month, output in most industries either edged up slightly or declined modestly off the high base set the month before. Over the year, the big increases in output came predominantly from the export-orientated industries.
- Manufacturing production is expected to slow further 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.
- July's manufacturing production figures also suggest that the local recovery is losing some momentum and the economy is likely to grow at a slower pace in the second half of the year. Given the fragile growth picture, a strong rand and subdued inflation, the Reserve Bank's Monetary Policy Committee (MPC) is still expected to announce another 50 basis point cut in interest rates at the conclusion of the MPC meeting tomorrow.

Table 1 :Manufacturing production

	July 2010		June 2010	Forecasts	
	Y-o-y%	M-o-m% (SA)	Y-o-y%	Nedbank Y-o-y%	Market Y-o-y%
Total manufacturing production	7.5	0.7	9.3	6.0	6.0

Source: Statistics South Africa

Comment

Growth in manufacturing production eased in July, but by much less than the market expected. The seasonally adjusted monthly figures are relatively erratic, mostly influenced by base considerations while revealing no real underlying momentum. Over the month, output in most industries either edged up slightly or declined modestly off the high base set the month before. The only exceptions were manufacturers of textiles, wood products, printing, rubber and motor vehicles, where output rose by more than 4% over the month. Over the year, the big increases in output came predominantly from the export-orientated industries. The following major categories of industries recorded the strongest y-o-y increases in July:

- 'Petroleum, chemical products, rubber and plastics' rose by 11,6% and contributed 2,8 percentage points to the annual increase.
- 'Motor vehicles, parts, accessories and other transport' jumped by 24,5% and accounted for 2,4 percentage points of the annual increase, with the momentum mainly coming from motor vehicle and part manufacturers.
- 'Wood and wood products, paper, publishing and printing' rose by 14,3%, contributing 1,3 percentage points to the annual increase.
- 'Basic iron and steel, non-ferrous metal products, metal products and machinery' increased by 6,5% and also made up 1,3 percentage points of the annual increase.

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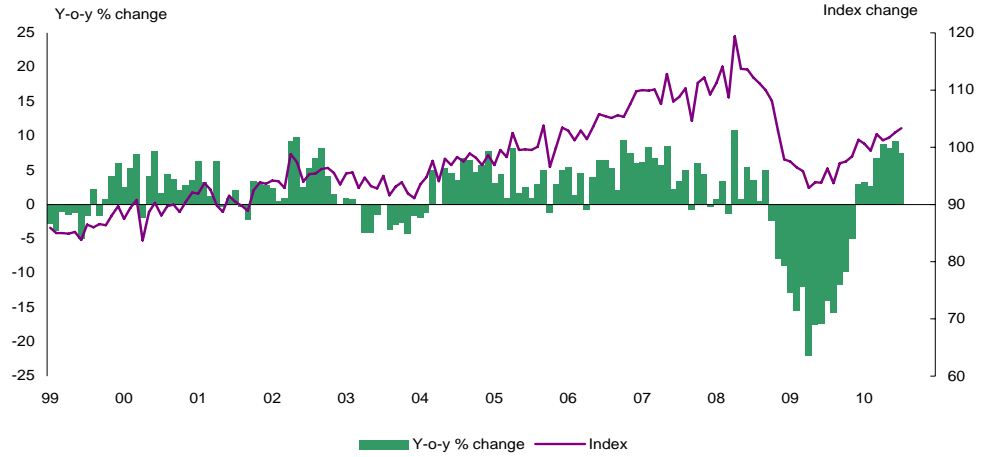
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In the three months to July, manufacturing production rose by a relatively impressive 8,3% on a year-on-year basis and by 1,5% on a quarter-on-quarter basis. Over the past three months, the rise in manufacturing production remains mainly due to last year's low base, the recovery in export demand and a strong performance by food manufacturers.

Chart 1 : Total manufacturing production



Source: Statistics South Africa

Outlook

Manufacturing production is likely to grow at a slower pace in the months ahead as the impact of the low base established last year fades, industrial action hits some industries, export sales ease on softer global growth and local sales feel the effect of still weak fixed investment activity in the private sector and slower infrastructure spending by the public sector.

The export-orientated industries are expected to feel the effects of a softer global economy and a strong rand in the second half of this year. Recent indicators suggest that the global recovery has lost some momentum, with fears of a double-dip recession rising as the world economy appears to be stumbling under the weight of fiscal adjustments in Europe, high unemployment and household debt in the US and official attempts to cool growth in China. These developments suggest that local exporters are likely to experience more subdued demand for their products during the remaining months of the year.

The inward-orientated industries are also likely to experience weaker conditions. Manufacturers supplying inputs to local retailers will probably see demand moderate as the boost from the World Cup disappears 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

July's slower manufacturing output figures also point to softer conditions, suggesting that the economy is likely to grow at a slower pace in the second half of the year. With most indicators suggesting that the global and local recoveries are losing momentum while local inflation continues to surprise on the downside, the rand remains strong and substantial excess capacity and impaired balance sheets make deflation the bigger worry globally, the Reserve Bank's Monetary Policy Committee (MPC) is expected to take the opportunity to cut interest rates by 50 basis points for one last time in this cycle tomorrow. The prime rate is therefore expected to fall to 9,5% this week, before remaining unchanged well into 2011.

Table 2 :Y-o-y growth by the various industries

Growth over the 3 months to July 2010	
Industries	Y-o-y %
Basic chemicals	35.3
Vehicle parts & accessories	26.6
Bodies for motor vehicles	22.8
Basic iron & steel	20.0
Special machinery	16.7
Wood preparation	15.7
Leather	14.0
Paper	13.2
Printing	12.5
Rubber	12.2
Plastic	9.8
Other chemicals	9.4
Total	8.3
Food processing	7.3
Furniture	6.2
Other food	6.2
Electrical machinery	6.0
Other fabricated metal products	5.9
Household appliances	3.3
Dairy products	3.2
Grain mill products	3.1
Beverages	1.9
Petroleum	1.5
Non-ferrous metals	0.9
Other non-metallic products	0.5
Wood products	-0.6
Glass	-1.3
General machinery	-1.6
Other manufacturing	-1.6
Footwear	-2.0
Knitted clothing articles	-3.1
Other textiles	-6.1
Metal products	-6.3
Publishing	-6.5
Other transport	-7.5
Radio, TV & professional equipment	-8.6
Textiles	-9.5
Clothing	-10.4

Source: Statistics South Africa

Table 3 : Q-o-q growth by the various industries

Growth over the 3 months to July 2010	
Industries	Q-o-q %
Petroleum	10.0
Other food	9.4
Other transport	8.9
Motor vehicles	7.8
Leather	7.7
Basic chemicals	5.1
Other non-metallic products	5.0
Household appliances	5.0
Dairy products	4.1
Food processing	3.6
Bodies for motor vehicles	3.5
Glass	3.2
Paper	3.2
Grain mill products	2.6
Furniture	2.3
Publishing	2.1
Other fabricated metal products	1.7
Total	1.5
Clothing	1.1
Beverages	0.3
General machinery	0.2
Metal products	0.1
Electrical machinery	0.0
Wood products	-0.1
Other chemicals	-0.8
Wood preparation	-1.4
Footwear	-1.5
Rubber	-1.5
Non-ferrous metals	-2.3
Vehicle parts & accessories	-2.3
Other textiles	-2.7
Special machinery	-3.0
Plastic	-3.5
Textiles	-3.8
Radio, TV & professional equipment	-4.0
Other manufacturing	-5.6
Basic iron & steel	-8.9
Knitted clothing articles	-9.1

Source: Statistics South Africa

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