Manufacturing growth rate slows in November: Stats SA

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10 Jan 2014

The rate of growth in SA's manufacturing production slowed to 0.3% year on year (y/y) in November after a revised increase of 1.7% (1.5%) y/y in October 2013, data released by Statistics SA on Thursday (9 January 2014) showed.

(Image: Mxabest, via Wikimedia Commons)

Economists believe that in the near term, forward-looking indicators, such as the purchasing managers index, suggest expansion in manufacturing production will be maintained, but at a moderate rate.

"The underlying momentum in the sector remains relatively weak, as indicated by the 12-month rolling average, which slowed to 1.4% from a prior 1.7%, while the seasonally adjusted rate for the three months ended November registered a growth contraction of 1.0% versus a prior (contraction of) 2.5%," said Investec economist Kamilla Kaplan.

Stats SA noted that the 0.3% y/y increase in manufacturing production in November was mainly due to higher production in motor vehicles, parts and accessories and other transport equipment (7.2% and contributing 0.6 of a percentage point); food and beverages (1.4% and contributing 0.3 of a percentage point); and glass and nonmetallic minerals (5.5% and contributing 0.3 of a percentage point).

Kaplan said much of the growth could be ascribed to a further recovery in vehicle production following the disruptions caused by industrial action that persisted from the end of August to the first week of October.

"Attempts to recover lost production suggest that vehicle production growth is likely to remain relatively buoyant into the first quarter of 2014," she said.

Manufacturing undre pressure

Stanlib economist Kevin Lings noted that on a trend basis it was clear that South African manufacturing activity remained under pressure, with the sector becoming an increasingly smaller component of the economy.

This, he said, reflected a wide range of factors, including problems with low productivity, sporadic labour market disruptions, infrastructure bottlenecks, a lack of research and development, and skills shortages.

"There is still no clear indication that the weaker rand is having a beneficial impact on production.

"Nevertheless, we remain hopeful that SA manufacturing activity will improve somewhat in 2014-2015, supported by the ongoing expansion of South African business activity into southern Africa (including increased infrastructural development in Africa); increased infrastructural investment domestically; a pick-up in residential property building activity; and a steady improvement in world economic conditions," he said.

Nedbank economists said that the outlook for the manufacturing sector remained uncertain and trading conditions would probably remain relatively difficult in the first half of this year.

They said trading conditions were expected to be undermined by fragile confidence ahead of the elections in April; doubts about the speed and effect of the US Federal Reserve's tapering of monetary stimulus; softer commodity prices; and modest global demand conditions, especially in the eurozone.

"However, local production is likely to pick up in the second half of the year helped by a weaker rand and some improvement in global demand. The low base in the second half of 2013 due to strike activity will also boost annual comparisons," they said.

Economists agreed, however, that the data would have minimal effect on interest rates as the Reserve Bank continued to balance weak economic growth prospects against the upside risks to inflation caused by the weaker rand.

The central bank meets from January 27 to January 29 for its first monetary policy committee meeting for 2014. The interest rates decision is announced on the final day at about 3pm.