Data show poor state of key sectors

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Manufacturing is the sick man of the South African economy, data out Thursday, 8 October confirmed.

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Production fell again in August and has shrunk every month this year except for March and July, compared to a year ago.

Statistics SA data showed manufacturing output fell 0.2% in August compared with a year ago.

Mining, which is another sector in difficulty, slowed production to 3.8% year on year in August. The figure for July was revised sharply lower to 4% from 5.6%.

Together they make up about 20% of the economy.

Some economists have suggested that the poor manufacturing figures indicate extremely weak economic growth in the third quarter after the shock contraction in the second quarter.

Low commodity prices, power outages and weak demand were blamed for the slowdown. Not even state support programmes such as the Manufacturing Competitiveness Enhancement Programme and the Industrial Policy Action Plan have helped to alleviate the pressure on these sectors.

Investec chief economist Annabel Bishop said the weak data increased "the chance of recession" in the third quarter.

The data support downward revisions to economic growth forecasts for this year by the Reserve Bank, World Bank and the International Monetary Fund to between 1.4% and 1.5% from 2%.

The government's support initiatives were "hamstrung" by weak global demand, electricity supply constraints, weak domestic demand and regulatory burdens in SA, Bishop said. Rising input costs such as those for labour and electricity were also putting pressure on productive sectors.

"Energy is no longer cheap, when it is available at all, and labour costs are rising, which is squeezing margins and stemming growth," said MD at online broker UFX.com Dennis de Jong.

A strike by coal mine workers, which started this week, could cause more declines in coal production if it is protracted.

Although mining and manufacturing data highlighted lacklustre economic conditions, their weakness and that of the economy were not expected to deter the Reserve Bank from continuing with its rate-hiking cycle.

Some still expect the Bank to hike rates by 25 basis points at its last meeting for the year next month.

Source: Business Day