ECONOMY

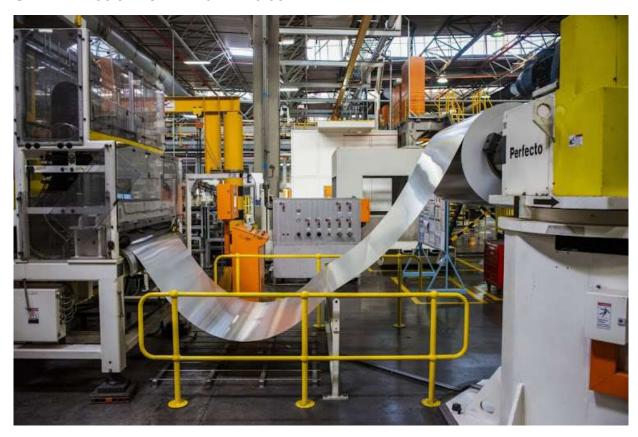
Manufacturers more optimistic, index suggests

The index rose to 50.9 in December, suggesting manufacturers are more positive about business conditions over the longer term

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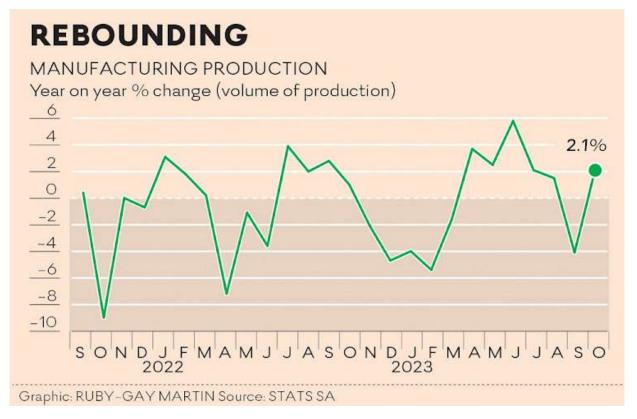
A sheet of aluminium at a factory in Springs. Picture: WALDO SWIEGERS/BLOOMBERG

Manufacturing activity closed the year on a somewhat stronger footing, after seven consecutive months in contractionary territory, pointing to expansion in the sector.

The Absa purchasing managers' index (PMI), compiled by the Bureau for Economic Research (BER) at Stellenbosch University, rose to 50.9 in December from 48.2 in November, suggesting that manufacturers are more optimistic about business conditions over the longer term.

"Regarding the current level of the index, it is perhaps useful to flag that the index remains below its long-term average, so while purchasing managers are notably more optimistic than through most of 2023, they are still not excessively upbeat," the report posted on the BER website read.

The sector's recovery is crucial for the country's economic prospects, as it has the potential to boost exports, investment, innovation and job creation.



Manufacturing is a R513bn sector in real gross value-added terms and comprises 11.2% of the economy, down from 15% in 1995.

A sustained rebound could also be seen as strong ammunition to take into the election campaign by President Cyril Ramaphosa, who helped the ANC cruise to victory in the 2019 elections on promises to revive the economy whose fragile prospects took a pounding from pandemic-induced restrictions.

However, the sector still faces many risks and uncertainties such as the return of loadshedding, bottlenecks at Transnet's sprawling logistics infrastructure and policy uncertainty ahead of the 2024 national and provincial elections.

Stats SA figures for October showed manufacturing activity rebounded, increasing 2.1% year on year after September's downwardly revised 4.1% fall. The outcome was above market estimates of a 1.8% increase.

The advance was led by the petroleum, chemical products, rubber and plastic products category, which grew 7.8% year on year.

The policy uncertainty index, a measure of the level of uncertainty in the economic and political environment, declined slightly to 55.5 in the fourth quarter of 2023 from 56.1 in the previous quarter, according to a report by the North-West University Business School.

Even so, the index remained above the 50-point threshold, indicating high policy uncertainty, which has implications for business confidence and the investment climate.

The PMI is an economic activity index conducted with a representative group of purchasing managers in SA's manufacturing sector.

At 50, the index indicates no change in activity, a value above 50 indicates increased activity and a value below 50 indicates decreased activity.

Absa senior economist Miyelani Maluleke said part of the uptick came from an encouraging increase in business activity. "Businesses operating through the festive period may have benefited from relatively less load-shedding in December," he said.

A breakdown of the data shows the business activity index rose to 51.4 points, from 46 index points previously, as a result of less intense load-shedding through most of the month.

After a solid improvement in November, the new sales orders index was largely unchanged at 46.3, after November's 46.6 and October's 39.7.

Maluleke said this was because export sales nudged up somewhat, but remained in negative terrain.

The employment index rose slightly in December to 44.8 from 41.8 previously.

After three declines, the inventories index increased slightly, registering at 44.4 in December from 42.8 previously.

Still, the index remains low and suggests that stock levels remain subdued — possibly due to logistical challenges at the ports preventing manufacturers from restocking, Maluleke said.

The supplier deliveries index rose to 67.7 in December, most likely due to the intensifying problems at SA ports.

"This, in turn, hurts trade flows as a slowdown in supplier delivery times increases this index." he said.

The purchasing price index also ticked up in December but remained at a low level. This is mainly due to the lower Brent crude oil price and the fuel price decline at the start of December.

"Falling fuel prices helped alleviate some pressure on costs, with last week's further decline in the diesel price another relief for producers," Maluleke said.

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