Manufacturing activity picks up in November

Manufacturing production increased for a second consecutive month in November despite an intensification in scheduled power outages and worsening port congestion.

Stats SA reported on Thursday manufacturing production increased 1.9% year on year in November. It said the sector was boosted mainly by wood and wood products, paper, publishing and printing, as well as motor vehicles, parts and accessories and other transport equipment.

On a monthly basis output increased by 0.8% after a downwardly revised 0.1% decline in October and just below market estimates of a 1% rise.

Manufacturing is a R513bn sector in real gross value-added terms and comprises 11.2% of the economy, down from 15% in 1995 and recovery in the sector is crucial for the country's economic prospects because it has the potential to boost exports, investment, innovation and job creation.

Senior economist at Oxford Economics Jee-A van der Linde said the data provides more clues on growth in the sector in the fourth quarter of 2023.

Manufacturing was one of the main drags in third-quarter GDP, contracting 0.2% quarter on quarter. The sector also recorded a weak start to the fourth quarter, with monthly output falling 0.2% in October.

FNB said November's monthly outcome suggests some positivity for fourth-quarter GDP growth.

FNB senior economist Thanda Sithole said manufacturing output appears to have achieved marginal growth in 2023 marking a modest rebound from the 0.4% decline in 2022.

"In the near term, production is expected to remain lacklustre, influenced by weak domestic and external demand, along with ongoing infrastructure challenges," Sithole said. "However, there is potential for manufacturers to increase production beyond the near term as demand conditions improve and infrastructure capacity expands."

The industry has faced a number of constraints over the past few years. Globally, poor demand caused by sluggish growth in the eurozone and the UK — both are important export markets for local manufacturers — continues to affect manufacturing activity.

Locally, manufacturers have had to contend with intensifying power cuts, logistical constraints, above-inflation cost pressures as well as fluctuations in commodity prices, exchange rates and a general lack of consumer and business confidence.

Absa senior economist Miyelani Maluleke said infrastructure constraints remain a risk to the cost of doing business.

A breakdown of the manufacturing production numbers indicates eight of the 10 categories included in the manufacturing basket increased on an annual basis in November.

The largest positive contributor to the headline result was the wood and wood products, paper, publishing and printing category which comprises 10.48% of the manufacturing index, adding 0.8 of a percentage point to the headline reading on the back of annual growth of 8%.

The motor vehicles, parts and accessories and other transport equipment segment increased 5.7% year on year, adding a further 0.6 of a percentage point to the top line number.

Investec economist Lara Hodes said that despite November's moderate annual growth, conditions in the manufacturing sector remain lacklustre.

"According to the Absa manufacturing survey for the fourth quarter, the index measuring confidence showed little improvement over the past three years and remains far below the long-term average of 37 index points."

The current level implies that seven out of 10 respondents were not satisfied with prevailing business conditions, Hodes said.

Van der Linde said data from the productive sectors thus far has not been terrible suggesting that the industry could make a small positive contribution to overall GDP — lowering the odds of an economic recession in the fourth quarter.

"Our base case is for the SA economy to narrowly avoid a recession in the fourth quarter, but growth is expected to remain weak, with the economy forecast to grow by a meagre 0.5% in 2023," he said.

He added that SA enters 2024 with hardly any economic momentum and that real GDP growth is expected to pick up only modestly to reach 0.7% this year.

Supply-side constraints will continue to undermine growth in the first half, with the peak impact of tighter monetary policy also likely to still weigh on households' disposable incomes during the first half of 2024, he said.

Source: Thuletho Zwane – Business Day

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