SA manufacturing bounces in November

Manufacturing production in SA bounced by 2.9% in November from October but still remained below its September level, data released by Statistics SA (Stats SA) on Thursday (12 January 2012) showed.

The 2.6% year-on-year (y/y) increase in November was better than the upwardly revised October rise of 1.2% (previously 1.0%, but still down significantly on the 8.2% y/y jump in September. One of the reasons for the high September was due to base effects as September 2010 was impacted by industrial action in the motor division.

Barclays Capital said in its reaction to the data that seven of the 10 manufacturing sub-divisions in November tracked by Stats SA were in positive growth territory, while the remaining three (textiles, clothing and footwear; motor vehicles, parts and accessories; and furniture and other manufacturing divisions) remain in negative territory.

Momentum growth in production on a quarterly seasonally adjusted and annualised growth basis has remained positive at 8.1%. Barclays cautioned, however, that monthly growth will have needed to sustain in December in order for SA's manufacturing sector to be able to contribute meaningfully to the fourth quarter 2011 gross domestic product (GDP) growth after two consecutive quarters of contraction.

In their view, global growth challenges pose one of the largest downside risks to 2012 manufacturing production. This is despite the improvement in domestic headline Purchasing Managers' Index (PMI) over the past three months. This is the PMI leading index (new sales orders divided by inventories) slipped to 0.94 in November from 1.01 in October on the back of lower new order demand and a rise in inventories.

Barclays were nevertheless encouraged by the seeming stabilisation in global industrial production data in the early parts of 2012 and generally more constructive macro data out of the US and China, which hopefully suggest that by the middle of 2012 SDA's manufacturing sector will be better positioned to help the lagging supply-side of the SA economy pull itself out of recession.

Economist Kevin Lings from Stanlib noted that the monthly as well as the annual rate of change in manufacturing activity has been extremely volatile for a considerable period, with a substantial divergence in performance at sector or industry level. For example, cement production was up 14.4% y/y in November 2011, while total vehicle production was down 12.6% y/y in November 2011.

There has also been increased maintenance in the petroleum industry, which has distorted the data, and exaggerated the weakness in the manufacturing sector.

In his view it is better to look at the trend cycle index for manufacturing, which clearly shows that although SA manufacturing has recovered from the 2008/2009 severe recession, it has being stagnating for the past year and remains under pressure.

The performance of manufacturing has certainly not kept pace with the performance of the retail sector. Instead it has been negatively impacted by a range of factors including higher import demand (helped by the strong currency), a relatively poor performance in the domestic mining and agricultural sectors, a slump in construction activity as well as a general lack of fixed investment spending.

This is one reason why analysts keep suggesting that the economy is sending mixed signals. Unfortunately, the demand at the retail level is increasingly being satisfied by imports. Hence SA's import intensity has continued to rise. It also tell us that stimulating the consumer further, say by a rate cut, could have very little impact on local manufacturing, but rather just lead to increased imports. Instead, SA needs a broader policy response that focuses on an increase in fixed investment activity, especially business-related infrastructure.

Economist Shireen Darmalingam from Standard Bank said while the manufacturing sector seems to be improving, the global environment is still on tenterhooks and expectations are for little recovery anytime soon. In fact, with the eurozone, one of SA's largest trading regions, on the brink of faltering, there might be some room for the South African Reserve Bank (SARB) to cut rates. However with consumer inflation already above the official target, is expected to remain above 6% y/y through to December 2012, and may sway the SARB to keep interest rates unchanged in 2012.

She felt that the improved November manufacturing production growth data boded well for the GDP growth outlook and for the rand, even though the rand has been significantly influenced by international developments lately and mainly drawing direction from EUR/US$ movements.