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Contractions in factory and mine output bode ill for the economy

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Mining and manufacturing - which together make up 20% of the economy - began the year in the negative, indicating just how poor economic growth will be, as SA battles to stave off a credit ratings downgrade.

The contraction in mining production deepened to 4.5% year-on-year in January, from 1.2% in December, while manufacturing output fell 2.5% after a 0.5% increase in December, Statistics SA data showed on Thursday. The data indicates that economic growth would likely be less than 1% this year, as forecast by many, including the Treasury and the Reserve Bank.

Although the data provided further evidence that the economy remains fragile, they would not be enough to prevent a 25 basis points increase in interest rates next week, Nedbank economist Johannes Khosa said. The Bank would be more focused on the risks to rising inflation caused by severe drought and a sharply weaker rand, he said.

The threat of a strike at one of the gold mines threatens to make things worse for mining. Declining mining production and rising input costs could mean more job losses in the sector.

The mining output decline was mainly due to lower iron ore, copper and manganese ore production. The slowdown in Chinese demand for these commodities, coupled with low global commodity prices, is dragging down the sector.

Gold production was higher, but this could have been boosted by low base effects created by a sharp decline in January last year, according to Investec economist Kamilla Kaplan. Electricity supply constraints and sharp increases in electricity tariffs were among factors inhibiting mining production, she said.

Manufacturing production was forecast to remain weak this year, because of muted global demand, excess capacity, depressed commodity prices, high input costs, and fading local demand, Khosa said.

But both mining and manufacturing reported a slight increase in sales, which could partly reflect the effects of a weaker rand.

Source: Business Day