

SA manufacturing output drops 2.3% in May

Stats SA reports that South Africa's manufacturing output fell 2.3% year-on-year in May, following a sharp decline of 7.6% in April. This reflected a contraction in four out of five major manufacturing subdivisions.



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Seasonally adjusted factory production fell 0.2% month on month in May, following a downwardly revised contraction of 5.7% m/m in April. Analysts had predicted a 2.4% decline in annual terms in May and a 1.5% month-on-month increase.

Commenting on the statistics, FNB senior economist Thanda Sithole, says "The monthly contraction corroborates the manufacturing PMI business activity index, which had signalled a mild contraction in manufacturing output in May relative to April.

"Furthermore, the latest manufacturing PMI survey results showed that the business activity index fell to 46 index points in June from 49.3 in May, signalling a further contraction in manufacturing output amid elevated input costs and a higher load shedding intensity. As a result, we expect the manufacturing sector to have made a material negative contribution to the 2Q22 GDP growth."

Headwinds

Sithole states that while the manufacturing sector contributed positively to 1Q22 economic growth, the momentum will most likely not be sustained amid several headwinds, some of which have intensified.

"In particular, the manufacturing sector was severely impacted by KZN flooding in April, and load shedding has since intensified. Supply chain pressures and raw material shortages are still constraining manufacturing production. Intermediate producer price inflation remained elevated at 15.6% y/y in May. The high-frequency production data currently shows a material quarterly contraction in the manufacturing sector's GDP in 2Q22, and we think that the recovery in the 3Q22 is also likely to be muted with persistent load shedding at the start of the quarter.

"In addition, manufacturers' sentiment about near-term business conditions deteriorated in June. This is in line with our current view that the manufacturing sector's growth contribution to annual GDP is severely impaired."



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Subsector performance in July 2022

The 2.3% annual decline in manufacturing output in May primarily reflects poor growth performance in four major manufacturing subdivisions. The largest negative contribution emanated from the motor vehicles, parts and accessories and other transport equipment division, which contracted 19.2% y/y (and contributed -2.1ppt) after contracting by 29% y/y in April.

Food and beverages production declined by 4.1% y/y in May (shaving of 0.9ppt) after contracting by 0.8% y/y in the prior month. Wood and wood products, paper, publishing and printing declined by 8.1% y/y after declining by 9.5% y/y in the prior month, and basic iron and steel declined by 2.3% y/y after declining by 4.9% y/y in April.

The petroleum, chemical products, rubber and plastic products was the only major manufacturing division that grew, by 7.5% y/y, reflecting a rebound from a 10.1% y/y contraction in April.

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