

Metals and engineering sector 'critical'

By [Mark Allix](#)

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The Steel and Engineering Industries Federation of Southern Africa (Seifsa) says the metals and engineering sector in SA is on a cliff edge and not at the bottom of a trough.



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It also says anecdotal evidence from primary metals producers and merchants taking orders from downstream industries - including the mining and construction sectors - shows "the bottom has fallen out of demand", leading to them becoming stockists again.

"The metals and engineering sector is in a critical condition and it seems more certain that (it) will suffer more setbacks over the next six months before improvements can be expected," Seifsa chief economist Henk Langenhoven said on Friday, 5 August.

He said exports of metals products were soft, mining was in the doldrums, demand from the domestic automotive sector "was dead" and "construction is going nowhere".

The poor outlook comes amid Investec's slightly more upbeat commentary ahead of June production updates for mining and manufacturing. Investec economist Kamilla Kaplan said on Friday the fall in mining output in the first quarter of 2016 was a big contributor to the contraction in GDP, while manufacturing had only made a small positive contribution.

"Based on the data available so far for the second quarter, production in both sectors appears to have improved. The rate of contraction in mining production has decelerated, while manufacturing production lifted further from the growth registered in the first quarter," she said.

But Langenhoven said the metals and engineering sector, which made up about 23% of SA's overall manufacturing output, was "languishing". He said after a slight improvement in resource utilisation in the first quarter, the sector contracted by nearly 0.8% in the second quarter, with capacity utilisation of 77% against the full capacity benchmark of 85%.

"The latest capacity utilisation data for the sector ... do not indicate the bottoming out of the current contraction experienced by the metals and engineering sector."

He said capacity utilisation during the first half of 2016 was 1% lower than during the first half of 2015 and had fallen 2.4% over the 12 months.

Seifsa was "extremely concerned" about persistently lower confidence and production levels, which could lead to possible further job losses.

Statistics SA's quarterly labour force survey released last month said the number of people employed in manufacturing was 2.5% lower than the same period last year.

Source: Business Day

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