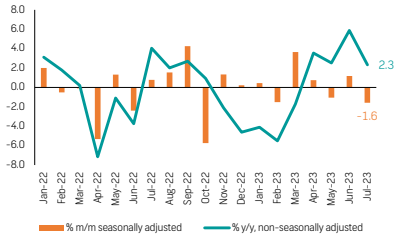


Flash Note: Manufacturing

September 2023

Manufacturing output expanded by 2.3% y/y in July

Figure 1: Manufacturing output expanded by 2.3% y/y, declined 1.6% m/m



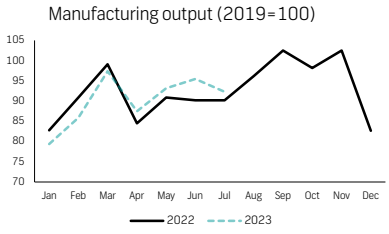
Source: Stats SA, FNB Economics

Total manufacturing output (not seasonally adjusted) expanded by 2.3% y/y in July, reflecting a moderation from an upwardly revised 5.9% y/y (previously 5.5% y/y in June), marking the fourth consecutive month of annual expansion. The outturn was weaker than the 4.8% y/y expansion predicted by Bloomberg consensus.

Seasonally adjusted manufacturing output, which aligns with the official calculation of quarterly GDP growth, shrank by 1.6% m/m, a deterioration from the 1.2% monthly increase in June. This marked a weak start to the third quarter and is consistent with the PMI business activity, which surprisingly tanked by 10.8 points, reaching 38.1 points. After experiencing load-shedding reprieve in June, Eskom somewhat ramped-up load-shedding intensity in July but did not reach the severe levels we had expected. It is, therefore, unclear what could have dragged monthly output in July relative to June. Nevertheless, the PMI business activity index for August recovered sharply by 11.9 points, indicating that the monthly decline in July would have been transitory.

Outlook

Figure 2: Base effects slightly unfavourable, y/y growth likely to be limited



Source: Stats SA, FNB Economics

Manufacturing output has increased by 0.4% YTD (January-July), reflecting an improvement from the 0.5% decline recorded over the corresponding period last year. Despite several headwinds, the sector maintained its quarterly growth momentum in 1H23, contributing the most to 2Q23 real GDP growth. The YTD growth performance is primarily attributed to increased activity in the motor vehicles, parts and accessories and other transport equipment division (up 6.8% YTD), as well as food and beverages (up 1.5% YTD) and basic iron and steel, non-ferrous metal products, metal products and machinery (up 1.4% YTD). Manufacturing output is likely to have rebounded in August, but the near-term outlook remains precarious amid continued load-shedding, logistics challenges, and weak demand.

Selected sector analysis

The annual increase in manufacturing output in July reflected an increase in six out of ten manufacturing divisions. The largest contribution emanated from the **petroleum, chemical products, rubber and plastic products division**, which expanded by 6.8%

Economist

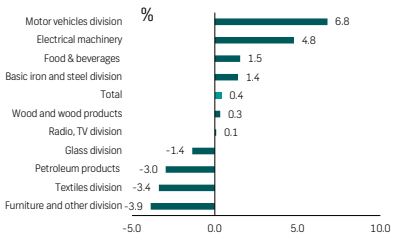
Thanda Sithole

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Flash Note:
Manufacturing

Figure 3: YTD growth peformance in total manufacturing output & its dvisions



Source: Stats SA, FNB Economics

y/y, following an expansion of 1.6% y/y in June. This was followed by the **motor vehicles, parts and accessories and other transport equipment division**, which increased by 9.5% y/y but reflected a moderation from 19.0% in the previous month. The **wood and wood products, paper, publishing and printing division** also expanded by 7.0% y/y, reflecting an acceleration from 0.8% y/y in June. Output also increased in other minor divisions, with **electrical machinery** posting 14.1% y/y, **radio, TV and communication apparatus, professional equipment division** posting 5.9% y/y and **glass and non-metallic mineral products** recording 1.5% y/y.

Among divisions that dragged manufacturing growth, **food and beverages** contracted 3.5% y/y in July, after expanding by 6.6% y/y in June, reflecting decreased output in dairy products, other food products and beverages. Output in the **basic iron and steel, non-ferrous metal products, metal products and machinery division** fell slightly by 0.8% y/y following growth of 7.4% y/y. **Textiles, clothing, leather and footwear** declined mildly by 0.5% y/y, after expanding by 6.8% y/y and output in the **furniture and other manufacturing division** slipped by 4.3% y/y from growth of 3.4% y/y in the previous month.

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