MANUFACTURING CIRCLE

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MANUFACTURING CIRCLE INVESTMENT TRACKER

A quarterly index tracking investment spending in the manufacturing sector

Q4 2017 Summary findings and outlook

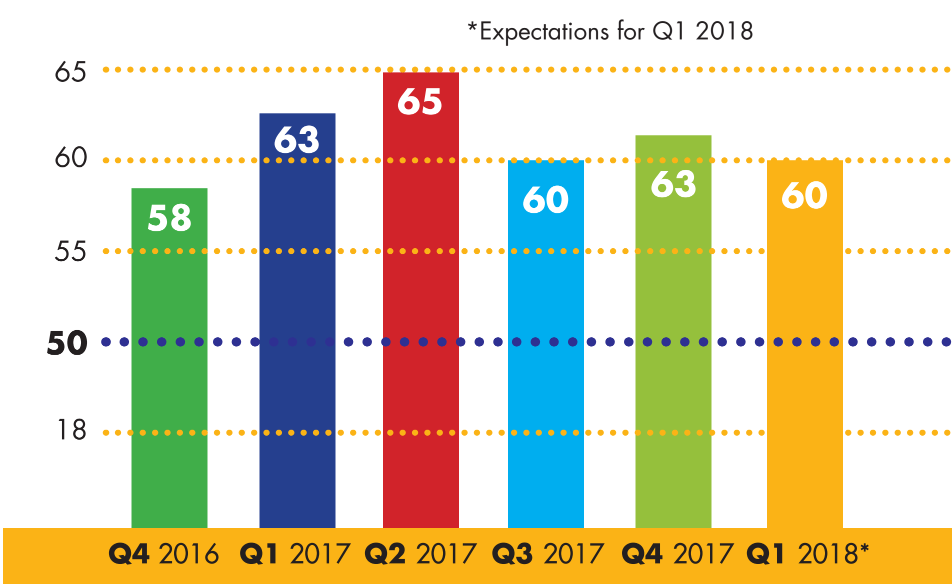
The MCIT composite index consists of the following sub-components:

1. Property (Land and Buildings)
2. Plant and Equipment
3. Inventory
4. Human Capital
5. Research and Development

The composite index rose to 63 points in Q4 2017 compared to 60 in Q3 indicating an increase in investment by the surveyed manufacturing enterprises. The higher investment was mainly in property and salaries and wages.

The expansion in new property is an indication of the growing optimism in the prospects of the South African economy. The final quarter of every year sees increased expenditure on salaries and wages as firms hire more temporary employees to meet higher demand.

Composite Index: Q4 2016 - Q4 2017



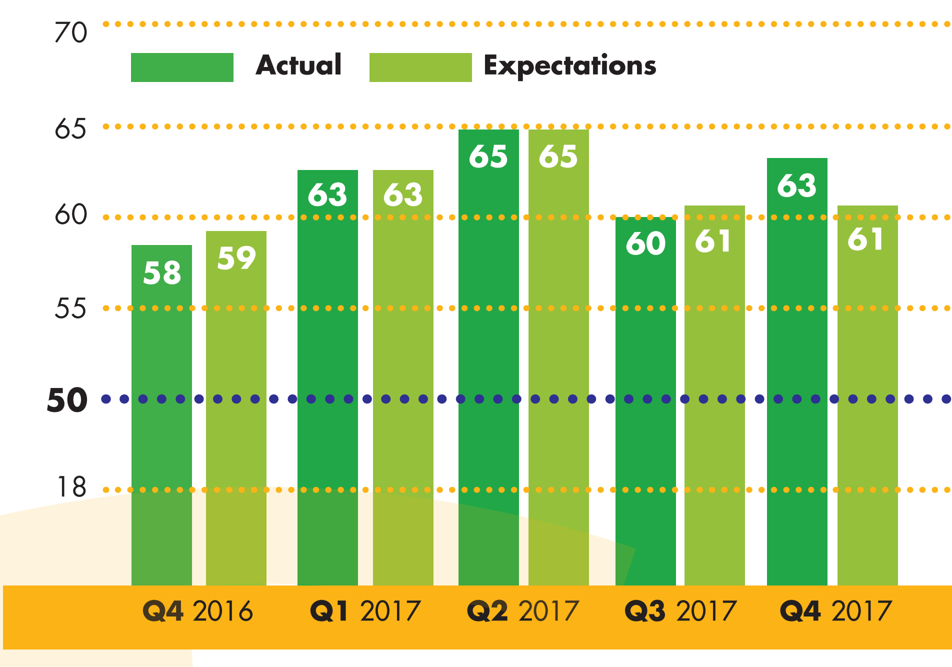
Composite Index: Actual vs Expectations

The figure to the right depicts a comparison of actual expenditure patterns compared to expectations of the surveyed enterprises of the composite index from Q4 2016 to Q4 2017.

During the period from Q4 2016 to Q4 2017, the actual MCIT has generally been close to or equal to the forecast values.

Throughout this time, the index recorded results which were consistently above the neutral 50-point mark, indicative of an increase in overall investment by manufacturing firms.

Alignment between forecast and actual expenditure is a reflection of the resilience of the companies surveyed, most of which are large in size, with the skills and resources to not only budget accurately, but also to respond and adapt effectively and efficiently to external circumstances.



Sub-Index

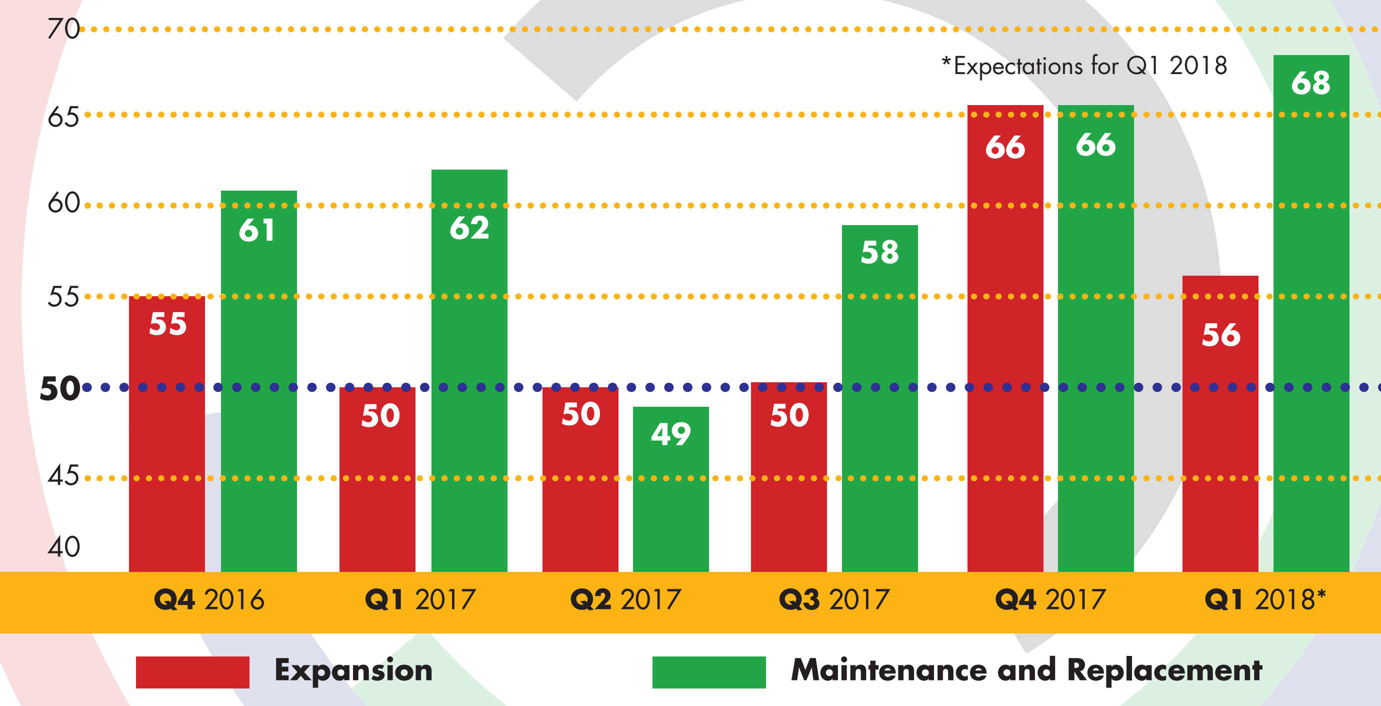
1. Property (Land and Buildings)

The sub-index, Property (land and buildings) is divided into two categories.

1. Expenditure on expanding existing property or the purchasing of new buildings
2. Expenditure on maintaining existing property

New property expenditure rose in Q4 2017, after remaining unchanged in Q3 2017. The increase in expenditure on the maintenance of existing property in Q3 2017 was followed by a rise of 8 index points from 58 to 66 in Q4 2017.

Looking ahead, surveyed manufacturing enterprises indicated that they expect to increase expenditure on property expansions in Q1 2018 albeit at a lower rate, suggesting a drop from 66 to 56 points. They foresee their spending on the maintenance of existing property, to grow by 2 index points in the upcoming quarter.



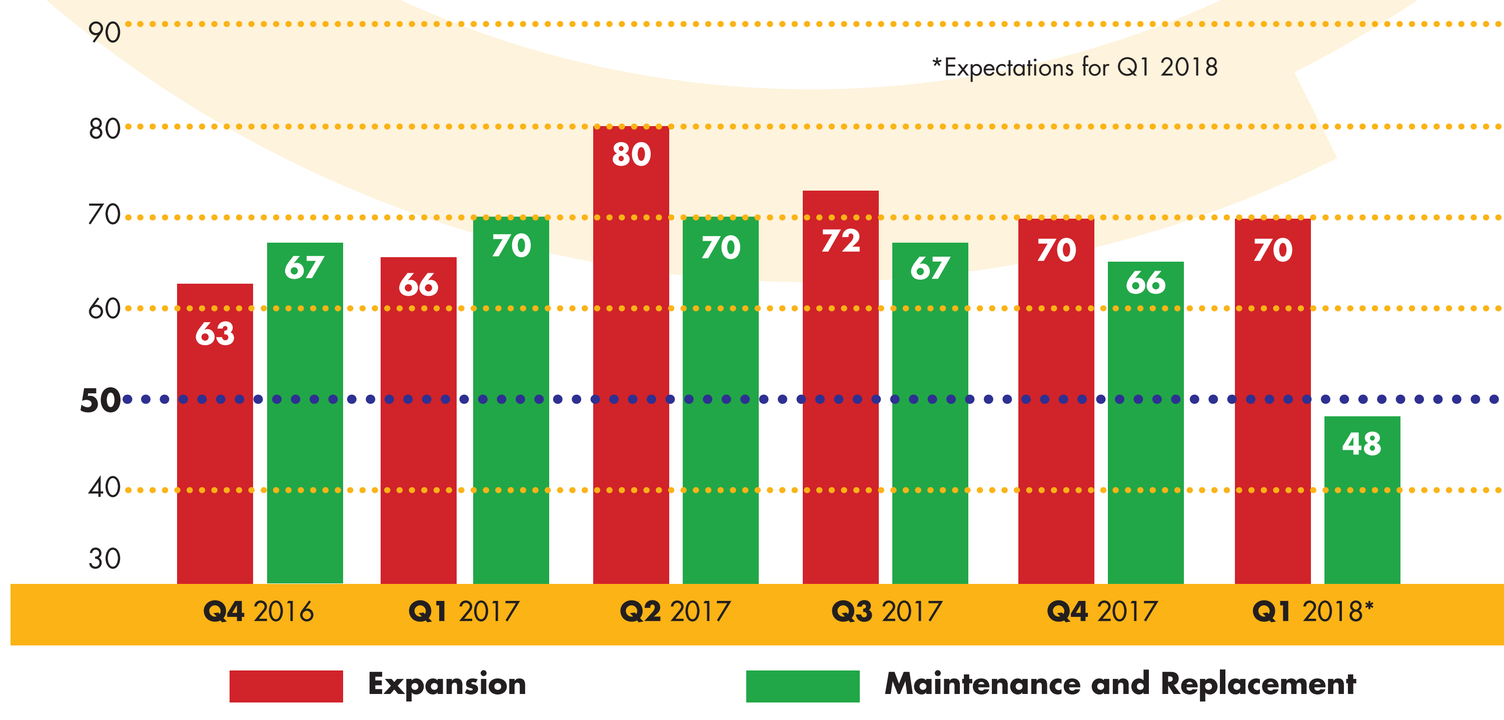
2. Plant and Equipment

The sub-index, Plant and Equipment, is divided into two categories.

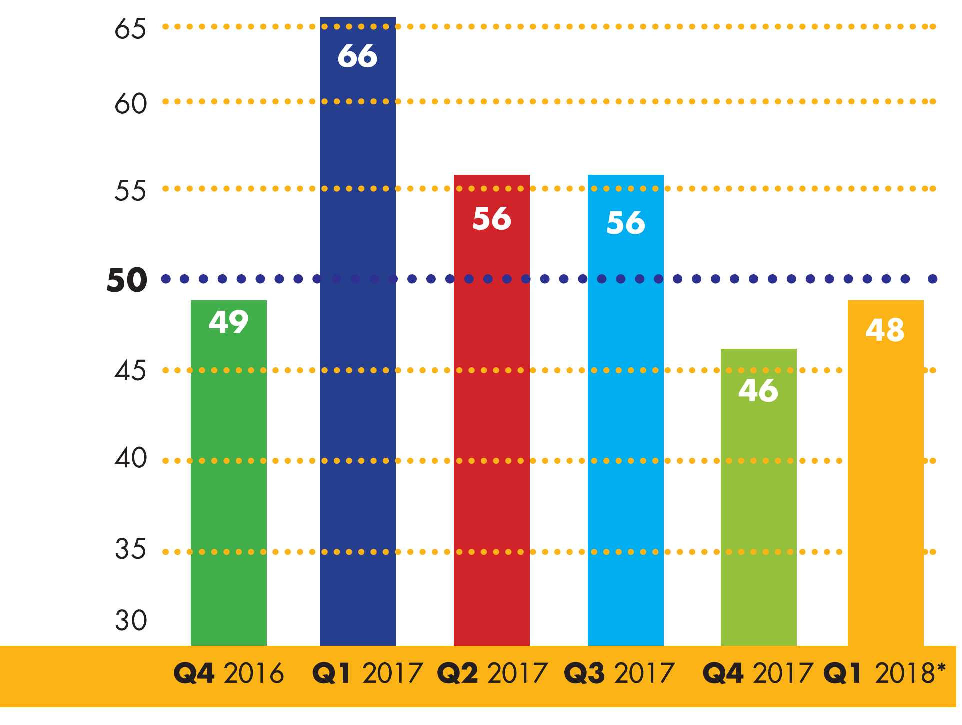
1. Expenditure on acquiring new plant and equipment
2. Expenditure on maintaining and replacing existing equipment

Expenditure on new plant and equipment remained above the 50-point mark between Q3 2017 and Q4 2017 but dropped from 72 points to 70. Similarly, spending on the maintenance of existing plant and equipment was also above the 50-point mark for the same period, but dropped from 67 points in Q3 to 66 points in Q4.

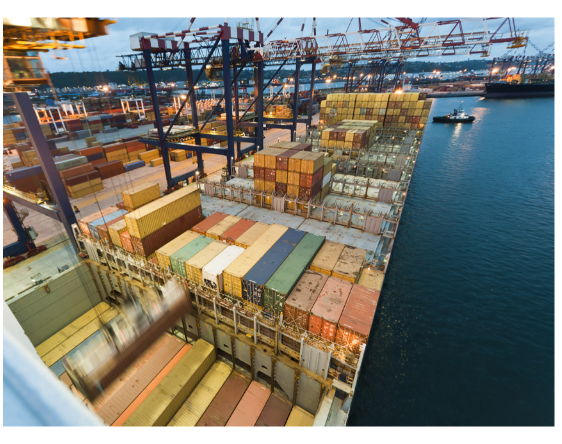
Manufacturers noted that investment in new plant and equipment is likely to increase by the same rate in Q1 2018 as it did in Q4 2017, while expenditure on the maintenance of existing plant and equipment is likely to fall below the neutral 50-point threshold to 48.



3. Inventory



*Expectations for Q1 2018



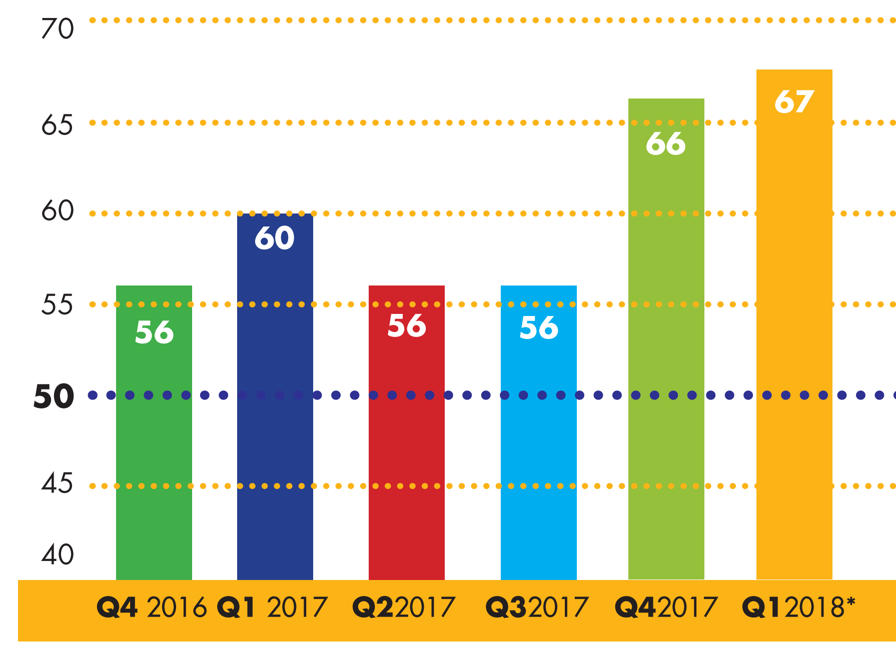
Investment in inventory follows demand patterns. In Q4 2017, it fell below the neutral 50-point threshold to 46 points after it had risen to 56 in the previous quarter. This is expected since sales generally increase in Q4 every year, drawing from existing inventories.

Companies in the survey expect spending on inventories to fall in Q1 2018 although not to the same extent as in Q4 2017.

4. Research and Development

Investment in research and development increased in Q4 2017 by a further 10 index points from 56 to 66.

For 2018, manufacturing enterprises remain optimistic about increasing expenditure on research and development, keeping it significantly above the neutral 50-point mark.

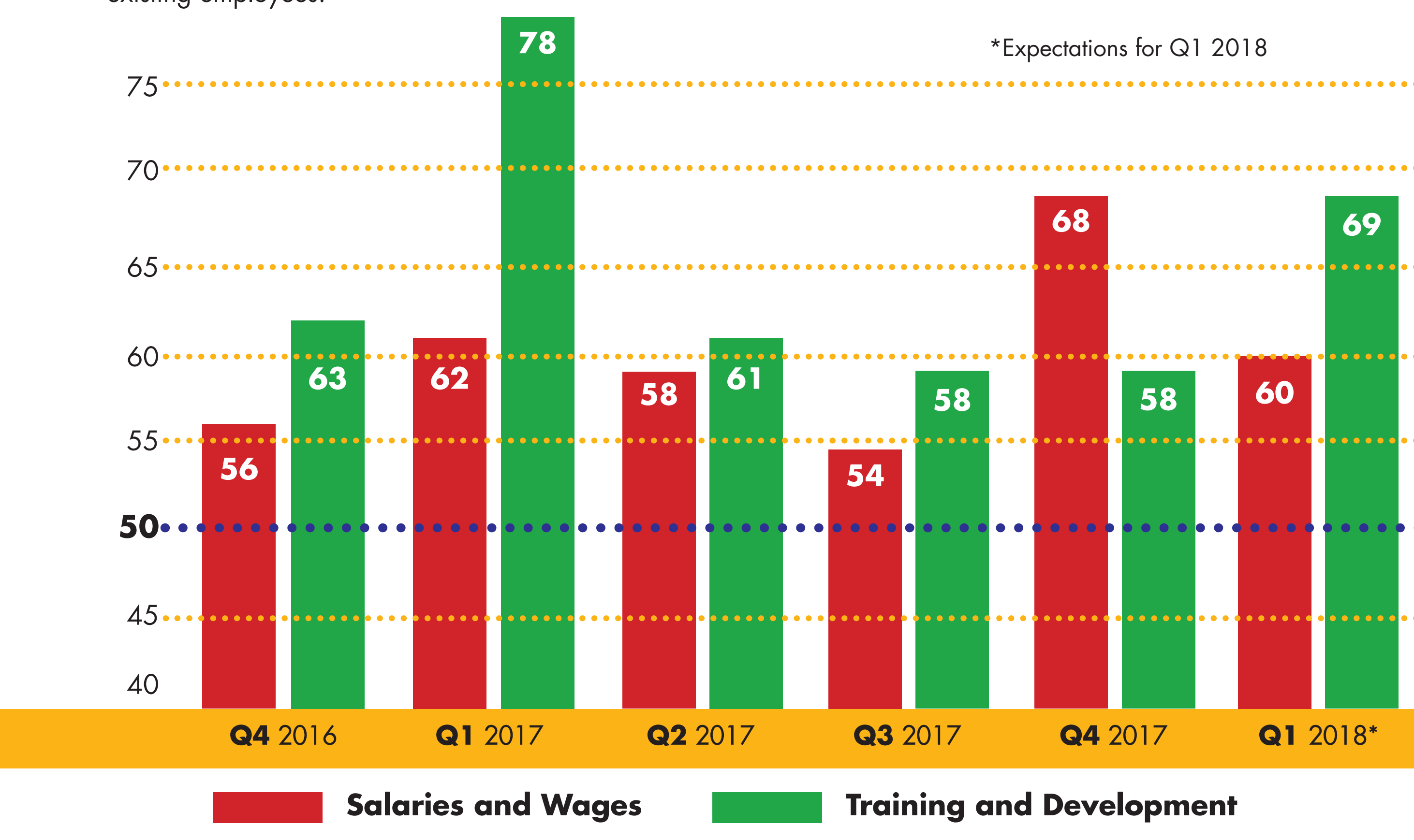


*Expectations for Q1 2018

5. Human Capital

In Q4 2017 there was an increase in the expenditure on salaries by a further 14 index points compared to Q3, a rise from 54 to 68. This is due to firms taking on more (temporary) workers to meet increased demand.

Investment in training grew by the same amount in Q4 2017 as in the previous quarter. Manufacturers indicated that they are likely to increase expenditure on salaries and training, both of which are above the 50 level; at a lower rate for salaries and wages as the use of temporary workers will be discontinued, but at a higher rate for training and development as firms upskill existing employees.



Background

The Manufacturing Circle Investment Tracker (MCIT) is an index which tracks investment trends in the manufacturing sector on a quarterly basis. The objective is to develop and derive insights about investment patterns of manufacturing enterprises in the South African economic environment. Additionally, the micro-level MCIT data aims to supplement existing macro-level data of trends in order to deepen the understanding of trends in the manufacturing sector.

The focus of this composite index is on actual expenditure patterns of a sample of manufacturing firms. It surveys enterprises across all sub-sectors of the manufacturing sector. A reading above the neutral 50-point threshold indicates that expenditure is expanding; below the neutral 50-point threshold indicates that expenditure patterns are declining.

This publication is compiled by Trade and Industrial Policy Strategies (TIPS) on behalf of the Manufacturing Circle.
The latest MCIT result for Q4 2017 is the sixth edition.

The profile of the sample of manufacturing enterprises is summarised below:
Dominant subsectors represented in the survey are:

- Basic iron and steel, non-ferrous metal products, metal products and machinery (32%)
- Motor vehicle, parts and accessories and other transport equipment (25%)

Based on the number of employees and annual revenues of the respondents, the majority of enterprises surveyed are large firms (i.e. with employees of more than 200). In total the respondents employed 41 351 employees, with an average annual revenue of R2.6 billion and a median revenue of R817.5 million. Most respondents have the majority of their operations in Gauteng (43%) followed by the Eastern Cape (14%), Kwa Zulu Natal (11%) and the Western Cape (11%).

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