INVESTMENT DECLINES IN MANUFACTURING SECTOR BUT COMPANIES REMAIN RESILIENT

The Manufacturing Circle released its third quarter investment tracker this morning. The Manufacturing Circle Investment Tracker (MCIT) is a quarterly index, tracking investment trends in the manufacturing sector. The focus is on actual expenditure patterns in the areas of property, plant and equipment, inventory, human capital and research and development.

In the third quarter, MCIT fell by 5 index points to 60, indicating a contraction in investment, specifically in plant and equipment and salaries and wages. This reflects the rationalisation of the manufacturing industry due to sluggish local and global demand. The surveyed manufacturing enterprises indicated that investment would improve marginally in quarter four, an increase quarter on quarter and year on year.

André de Ruyter, chairman of the Manufacturing Circle noted, “Although MCIT reflects a downward trend, from 70 points in 3Q16, results were consistently above the neutral 50-point mark, which is evidence of the resilience of the respondents, who are mostly medium to large firms.”

There was a 9 index point increase in expenditure on **property** maintenance and replacement, while investment in expanding existing or new property remained unchanged from the second quarter, but has dropped 18 index points over the year. General property expenditure is expected to increase around 6 index points in the next quarter.

Overall spend on **plant and equipment** declined, driven by investment on new plant and equipment dropping 22 index points. A similar pattern is expected going forward with lower maintenance expenditure and higher investment on new plant and equipment.

Spending on **inventory** follows demand patterns and was constant over the past 3 months, but is likely to decline by a further 5 index points over the rest of the year.

While expenditure on **salary and wages** declined by 4 index points, and 3 index points on training and development, both of these will rise in the next quarter.

Investment in **research and development** remained unchanged and above the neutral 50-point mark, with respondents showing optimism about an increase in the last quarter.

Companies indicated a few key drivers of the resilience in the past year. These included access to markets outside of South Africa, management of costs and optimisation of businesses. While respondents have felt the impact of political issues, reduced confidence and the postponement of investment decisions until after the December ANC conference, some believe that the country has an underlying resilience which has allowed it to cope in the past.

On a different topic, de Ruyter notes, "we also asked our members about the impact of the proposed 19.9% electricity increase. It is hardly surprising that such a price hike will raise the cost of production and reduce profit margins. As companies will not be able to fully recover this from customers, who will also be negatively impacted, it could result in reduction of employment levels and withholding of investment. South Africa can ill afford both of these measures and we strongly advocate that any increase in the electricity price cannot be above CPI."

The release of the MCIT was hosted by Howard Gabriels, chairperson of Proudly South African, at its Rosebank offices. The Manufacturing Circle and Proudly SA collaborate closely to encourage private sector and Government to buy local - provided that manufacturers remain competitive - as a means of supporting the growth of the SA manufacturing industry, job creation and the local economy. Both Gabriels and de Ruyter emphasised the importance of supportive trade policy to aid the manufacturing sector. de Ruyter said, "we are pro trade, and we understand the need for imports and exports in the global economy, but we are in favour of a level playing field. We believe there is room for more supportive trade policy and for faster reaction to imports that threaten South African manufacturing. We need appropriate tariffs and duties."

He concluded that manufacturing is the sector with the greatest potential to create inclusive growth in the economy.

For further information and interviews:

Jo Bryden

Background Notes:

The Manufacturing Circle Investment Tracker (MCIT) is a composite index compiled by Trade and Industrial Policy Strategies, tracking investment trends in the manufacturing sector on a quarterly basis. The focus is on actual expenditure patterns of a sample of manufacturing firms across all sub-sectors of the manufacturing industry, in order to develop and derive insights about investments patterns in the sector.

Dominant sub-sectors represented include motor vehicle, parts and accessories and other transport equipment (30%); basic iron and steel, non-ferrous metal products, metal products and machinery (26%); and petroleum, chemical products rubber and plastic products (20%). The majority of enterprises surveyed are medium to large sized firms.

In total the respondents employed 86, 919 employees, with an average annual revenue of R1.8 billion and a median revenue of R95 million. The majority of firms operate in Gauteng (46%) followed by Kwa Zulu Natal (22%) and the Western Cape (16%).