Factory sector on cusp of recession

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SA's manufacturing sector is on the edge of a recession, data released on Tuesday showed.

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Output shrank for the second month in a row in November, as the sector buckled under depressed demand and lower commodity prices.

Manufacturing is the economy's fourth-largest sector and lower output suggests possible job cuts and a less than meaningful contribution to fourth-quarter economic growth.

Already last year, some manufacturers, notably in the steel industry, restructured and laid off workers as commodity prices plunged.

Statistics SA (Stats SA) data showed a 1% decline in manufacturing production in November compared to the previous year. The pace of the contraction was smaller than the 2.1% recorded in October.

"It seems fair to argue that the manufacturing sector is effectively in recession," Stanlib chief economist Kevin Lings said. The weakness reflected a wide range of factors including low productivity, regular labour-market disruptions, high imports, poor business confidence and infrastructure bottlenecks, he said.

A risk remained that the slowdown in manufacturing and mining could lead to increased job losses. That would force the economy closer to recession, Mr Lings said.

Mining and manufacturing together make up 20% of gross domestic product. The contractions in October and November were likely to drag down production figures for the fourth quarter.

Barclays Africa economist Peter Worthington said assuming output had stayed at these low levels last month and that there were no substantial revisions to past data, manufacturing would register a quarter-on-quarter contraction of 3.8% in the fourth quarter of last year.

This was in spite of growth of 5.5% in the third quarter.

Tuesday's data also suggested that the weak rand was not boosting the sector.

A softer rand is supposed to make goods produced in SA cheaper, but low demand is preventing any meaningful benefit. For instance, SA exported 17,391 vehicles last month, down from the 21,833 exported a year ago, according to the latest data from the National Association of Automobile Manufacturers of SA.

Failure to capitalise on rand weakness could be due to two factors: lower electricity output, which has limited energy-intensive manufacturers, and producers importing foreign-made components at a higher price, said Capital Economics Africa economist John Ashbourne.

A crucial indicator of activity in the manufacturing sector - the Barclays purchasing managers' index - to be released on Thursday will offer a guide to last month's output.

But Nedbank economist Nicky Weimar said a sharply weaker rand was unlikely to compensate for the adverse effects of the many obstacles the manufacturing sector faced.

In addition to those listed by Mr Lings, Ms Weimar said the sector had to contend with an uncertain policy environment and higher compliance costs.

The Stats SA data showed lower production in iron and steel, metals and machinery in November.

Source: Business Day