

Manufacturing and mining remain depressed

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Manufacturing and mining output remain constrained, providing little prospect for employment and GDP growth.



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The two sectors together account for 20% of the value add in the economy.

Weak performance in the two sectors is unsurprising as the economy expanded by a mere 0.7% in the third quarter of last year.

Monthly data released by Statistics SA on Thursday showed manufacturing production to have risen 0.4% in December compared with a year earlier. But production fell on a seasonally adjusted and annualised basis in the fourth quarter. This means manufacturing will have contributed negatively to economic growth over the period.

Mining production was also in negative territory, but in December it contracted at a slower rate of 0.3% compared to the previous year, from a 1.3% year-on-year decline in November. However, the sector will only make a slight positive contribution to economic growth in the fourth quarter

Given the larger size of the manufacturing sector compared to the mining sector, it seemed likely that overall economic growth slowed in the final quarter of last year, said Capital Economics senior emerging markets economist William

Jackson.

Factors weighing on the two sectors — continued weakness in commodity prices, low global demand and rising input costs — are still expected to continue for most of this year, implying modest growth and job creation.

Of the two sectors, manufacturing seems the most in trouble. The latest leading indicator of activity in the sector — the Barclays purchasing managers' index (PMI) — has shown that output will be strained at least in the first few months of this year and that more jobs could be on the line.

Total manufacturing production showed no growth last year compared with 2014.

BNP Paribas Securities SA economist Jeff Schultz said even though a weaker rand is helping to cushion some of the blow to larger, more export-oriented manufacturers, faltering global and domestic demand, weaker commodity prices and manufacturing business confidence which remained "at crisis lows" were all unlikely to see a turnaround anytime soon.

While most economic indicators suggest that the economy remained weak, the Reserve Bank was likely to focus on the upside risks posed to inflation by severe drought and a sharply weaker rand, Nedbank economist Nicky Weimar said. The Bank raised the repo rate by 50 basis points to 6.75% last month.

Nedbank sees rates being hiked by 25 basis points at each of the meetings in March, May and July.

Total mining production was 3.3% higher last year after a 1.4% decrease in 2014.

Last year's increase in total output was partly supported by slightly higher actual production as well as by base effects — created because production was unusually low in 2014 due to a prolonged strike at platinum mines.

Investec economist Kamilla Kaplan on Thursday referred to the renewed risk of labour unrest in the platinum sector as wage agreements which expire in June were renegotiated.

The negotiations would occur against a backdrop of increased operating costs for producers that, among others, include electricity tariff hikes, Kaplan said.

Source: Business Day

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