Strikes hurt metal output in SA

By Mark Allix

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The month-long strike by metal workers in July had a drastic effect on the output of the metals and engineering sector, the Steel and Engineering Industries Federation of Southern Africa (Seifsa) says.

Steel output from manufacturers has reduced sharply as a result of the strike among metal workers earlier this year. Image: ArcelorMittal

Month-on-month data from Statistics SA show a 17% fall in metals production in July compared with June. And July production was 40% lower than the peak in 2007 and 20% lower than in July last year.

Seifsa says a 20.4% year-on-year decline in July output of basic iron and steel, non-ferrous metal products and metal products and machinery, and a 29% plunge in the production of motor vehicles, parts, accessories and other transport equipment, accounted for 7% of the 7.9% year-on-year decrease in total manufacturing in that month.

The worst hit sub-industries in the sector in July were the basic iron and steel industry, where production declined 18%, structural steels, which plunged 25%, and other fabricated metals, which dropped by 27%. Electrical machinery and equipment output also plunged by 25%.

Seifsa Chief Economist Henk Langenhoven says the sector will almost certainly contract this year compared with last year. "These numbers reflect the short-term effect of the production disruptions," he says.

The medium-term implications for employment in the sector could be as detrimental, Langenhoven says, through layoffs or greater automation in factories, which will reverse 16 years of declining investment-to-output ratios.

Industry still hurting after strike action

Investec says the short-term, negative effects of the strike will dissipate in subsequent months as production returns to normal. But it sees the purchasing managers index remaining depressed in August.

Evraz Highveld Steel and Vanadium is also in the doldrum and two steel producers are facing business rescue include Duro Pressings and Alert Steel. Image: Evraz Highveld Steel

The banking group says that overall manufacturing production in SA is constrained by high operating costs, weakening domestic demand and sluggish export growth.

It says further constraint comes from the slow implementation of the government's infrastructure programme, and non-compliance with public procurement policy and regulations.

Langenhoven says that in the longer term, already low profit margins in the metals and engineering sector will see companies go out of business.

Duro Pressings, a large privately held maker of metal doors and windows, is in liquidation, and Alert Steel Holdings, an AltX-listed retailer of steel products and services to the construction, manufacturing and building industries, went into business rescue this year.

The two largest listed steel producers ArcelorMittal SA and Evraz Highveld Steel and Vanadium are also in the doldrums.

Pricing model needs to change

Trade and Industry Minister Rob Davies says the local pricing models for steel will have to change otherwise the Competition Commission will be tasked with adjusting prices to make steel more affordable in South Africa. Image: GCIS

Langenhoven says it will take time for any damage to the confidence of SA's international metals customers to show. But he says the sector might see diminished exports, which represent 60% of its market.

Trade and Industry Minister Rob Davies wants monopoly industrial producers in SA to dramatically discount their domestic prices to help implement the National Development Plan.

He says ArcelorMittal SA and gas and synthetic fuels producer Sasol will face action in terms of the Competition Act if they do not reduce their local prices. But subsidising the domestic industry through non-market pricing does not remedy the economic fallout from industrial action.

Master Builders SA Executive Director Itumeleng Dlamini says the aftermath of the strike has been dreadful for the building industry.

She says there is still a shortage of certain steel products in the construction and building sectors, although overall tonnage is acceptable.

Source: Business Day via I-Net Bridge