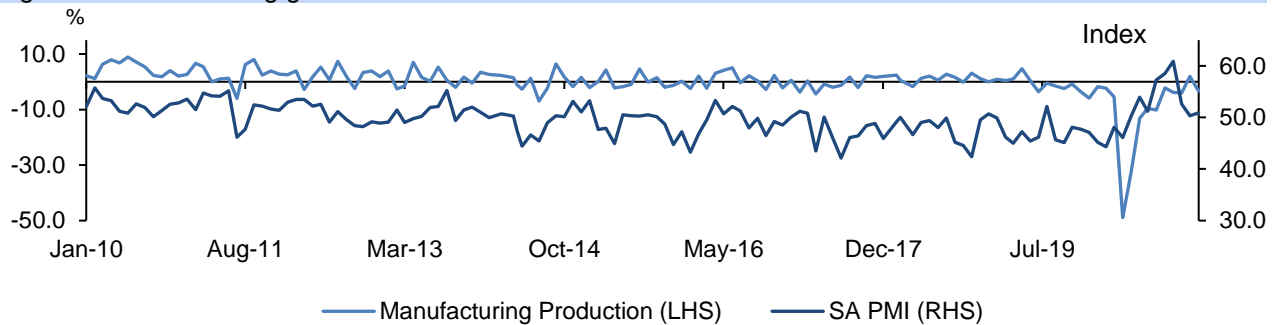




## Manufacturing update: Manufacturing production fell by -3.4% y/y in January, dragged down largely by the petroleum and chemical products category

Thursday 11 March 2021

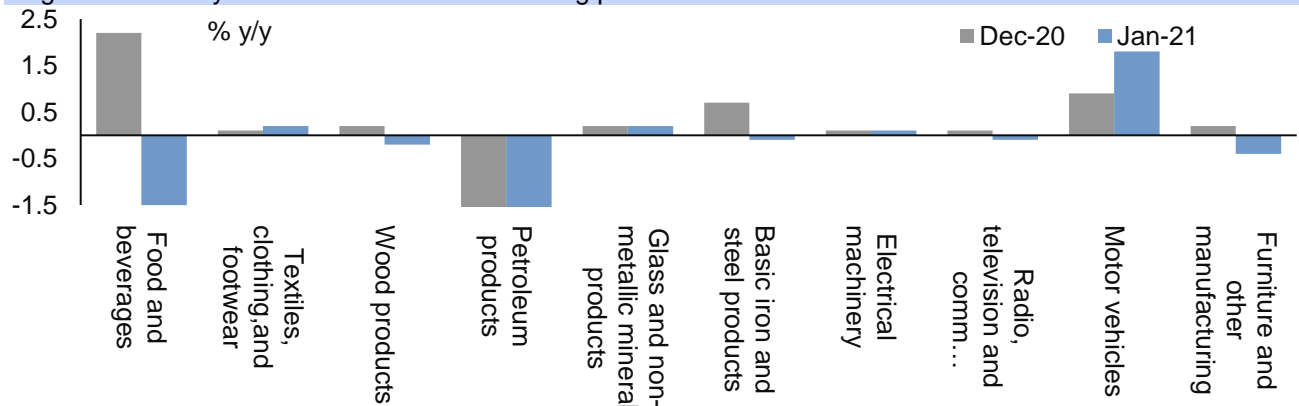
Figure 1: Manufacturing growth vs Absa PMI\*



\*seasonally adjusted, Source: BER, Stats SA

- Manufacturing production fell by -3.4% y/y in January, following December's 1.9% y/y (revised) lift. The outcome was markedly weaker than Bloomberg consensus expectations of a -1.1% y/y (median estimate) decline and was dragged down largely by the petroleum, chemical products, rubber and plastic products and food and beverages categories.
- These divisions which combined make up just under 50% of the manufacturing basket, declined by -13.9% y/y and -4.9% y/y respectively, detracting -4.9% points from January's headline outcome.
- Conversely, production of motor vehicles, parts and accessories and other transport equipment grew by a notable 28.1% y/y, adding 1.8% points to the topline reading.
- January's manufacturing outcome is in line with the results of the January Absa manufacturing PMI survey which suggests that the decline in output quickened in January. Aside from the impact of weak demand, the survey report notes that production was likely undermined by load-shedding during the month as well as the restrictions on some industries like alcohol.
- Business optimism regarding conditions over the next six months however improved, with sentiment supported by expectations of a further recovery in global conditions as the vaccination rollout gains momentum and accordingly an increase in export orders.
- Indeed, "the performance of the global manufacturing sector remained solid at the start of 2021," as measured by the JP Morgan Global Manufacturing PMI.
- Supply chain pressures however remain, lengthening vendor lead times, while risks to the projected global growth forecast, which is estimated at 5.5% by the IMF include logistical challenges in the distribution of the vaccine and the threat of emerging new variants of the virus.

Figure 2: Industry contributions to manufacturing production



Source: Stats SA, Investec

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Thursday 11 March 2021



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Thursday 11 March 2021



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