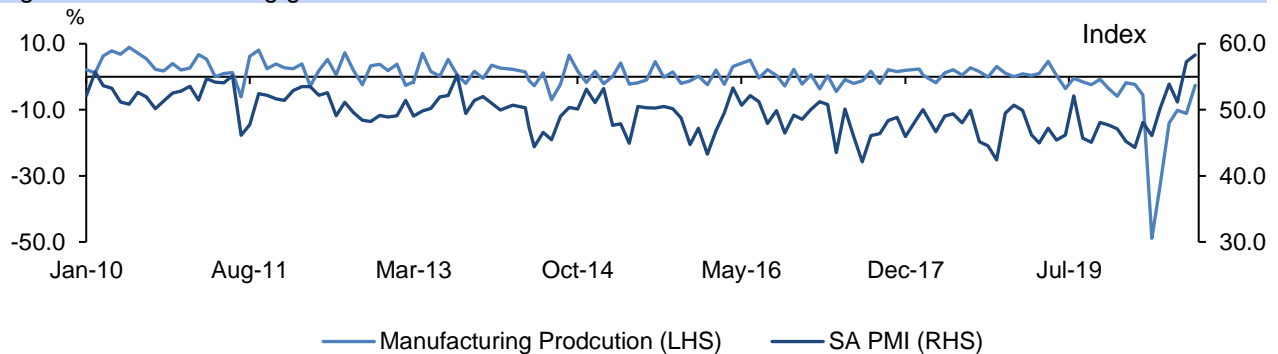




Manufacturing update: The contraction in manufacturing sector activity decelerated markedly in September, however, demand still remains subdued.

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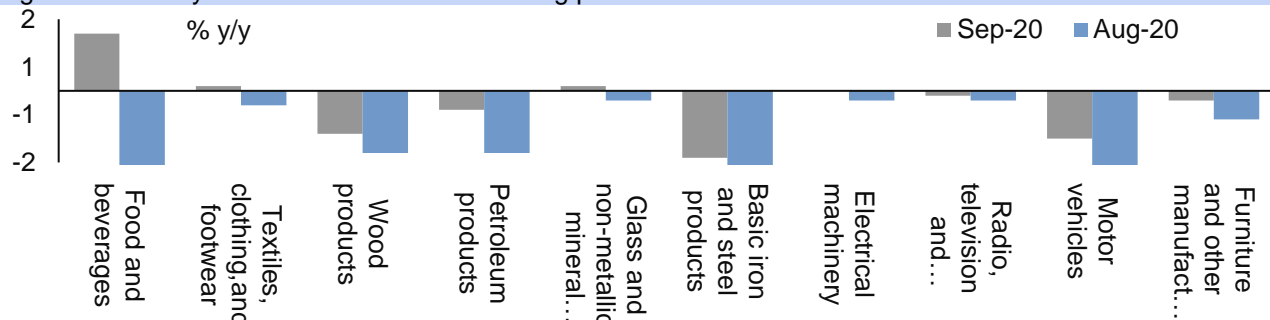
Figure 1: Manufacturing growth vs Absa PMI*



*seasonally adjusted, Source: BER, Stats SA

- The contraction in manufacturing activity eased markedly to -2.6% y/y in September from -11.1% y/y (revised) in August and was far stronger than consensus expectations of a -7.7% y/y (Bloomberg median estimate) fall in production. A re-weighting of the index, with a larger share apportioned to the food and beverage sector (which rose year-on-year in September), also modestly influenced the headline outcome.
- Specifically, food and beverage manufacturing activity grew by 4.2% y/y in September, following five consecutive months of declines. Accordingly it added 1.2% to the top line reading, on account of its substantial 27.14% (revised) weighting in the manufacturing basket. Textiles, clothing, leather and footwear production also edged up, rising by 1.9% y/y, following August's -9.4% y/y slide. The iron and steel sector, however continued to underperform, contracting by -7.5% y/y and thus slicing -1.4% off September's headline number.
- The improved performance is reflective of advance indications provided by the Absa manufacturing PMI survey results. Specifically, the September PMI index which rose to 58.3 from 57.3, signalled a sustained monthly improvement in manufacturing business conditions, in a continued recovery from the sharp Q2.20 downturn.
- The overall improvements in business conditions failed to prevent further job losses in the manufacturing sector however, although the rate of retrenchments slowed. This is partly reflective of ongoing spare capacity.
- Specifically, while utilisation of production capacity has increased notably from levels seen in Q2.20, it remains somewhat below those recorded during the same period last year. Stats SA's latest capacity utilisation release indicates that the manufacturing capacity of large companies was 72.9% in August, compared to 80.3% during the same period in 2019.
- While production and demand have found support in the gradual easing of domestic lockdown restrictions and improved global trade activity, with October's PMI results evincing a further improvement in activity, the return to pre-pandemic levels of output is expected to be protracted, underpinned by insufficient demand as consumers continue to face financial uncertainty.

Figure 2: Industry contributions to manufacturing production



Source: Stats SA, Investec

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