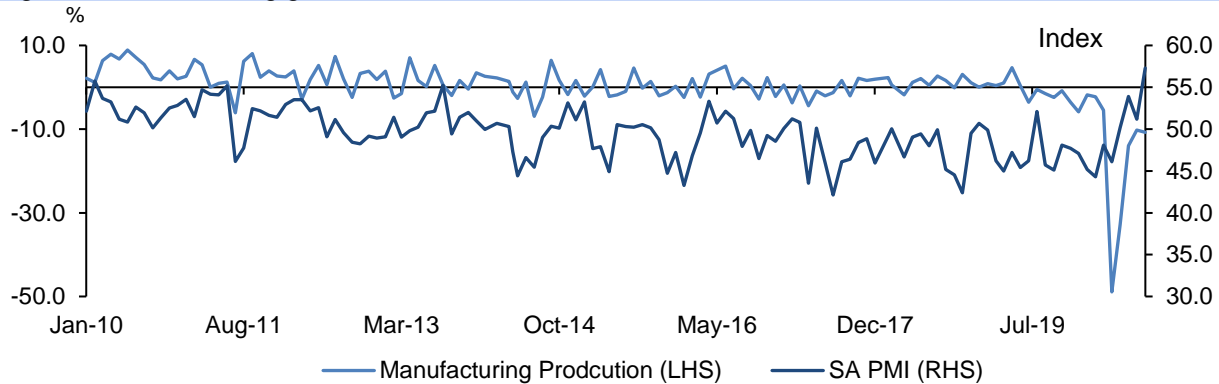




Manufacturing update: Manufacturing activity fell by a further -10.8% y/y in August reflective of the dire economic climate

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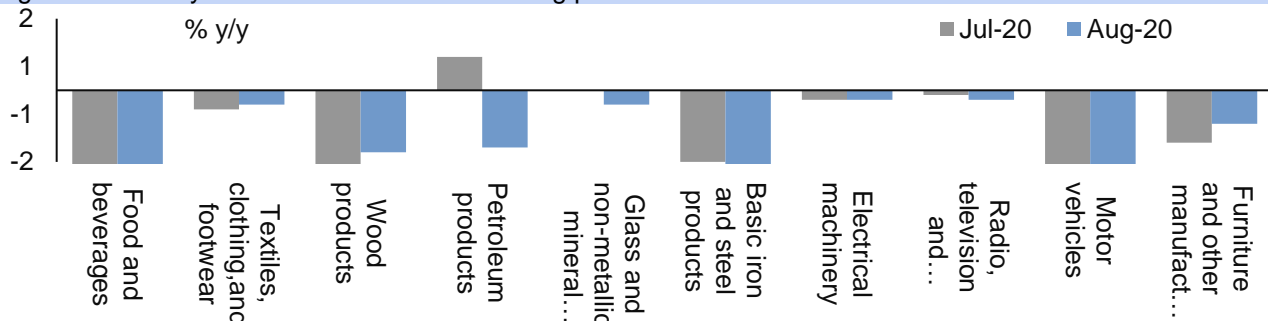
Figure 1: Manufacturing growth vs Absa PMI*



*seasonally adjusted, Source: BER, Stats SA

- Manufacturing production fell by a further -10.8% y/y in August from -10.2% y/y (revised) in July, this following a sharp deceleration in the rate of contraction in June and July, from levels experienced in April and May, when stringent lockdown measures were in place. Indeed, August's outcome was notably weaker than consensus expectations of a -7.8% y/y (Bloomberg median estimate) fall in production.
- The dip in manufacturing production in August was broad-based, with all sectors contracting, however the motor vehicles, parts and accessories and basic iron and steel categories were the largest negative contributors to the headline reading. Specifically, these sectors which make up 26.25% of the manufacturing index, detracted a combined 4.8%, on the back of production declines of -30.6 y/y and -11.7% y/y respectively.
- August's headline outcome is inconsistent with advance indications provided by the ABSA August PMI survey, published by the BER, which saw the PMI gauge climb by 6.1 index points to 57.3. However, the survey report does caution that the rise in the PMI may not be mirrored in actual production.
- Overall, the manufacturing sector is still deemed to be operating below normal capacity, partly evidenced by the ongoing reduction of workforce numbers in August (albeit at a slower pace).
- The outlook for the remainder of the year has improved, but remains subdued. Specifically, manufacturing business confidence has edged up from the historic low recorded in Q2.20. However, the return to pre-pandemic levels of output is expected to be protracted, underpinned by weak underlying demand and electricity supply constraints.

Figure 2: Industry contributions to manufacturing production



Source: Stats SA, Investec

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