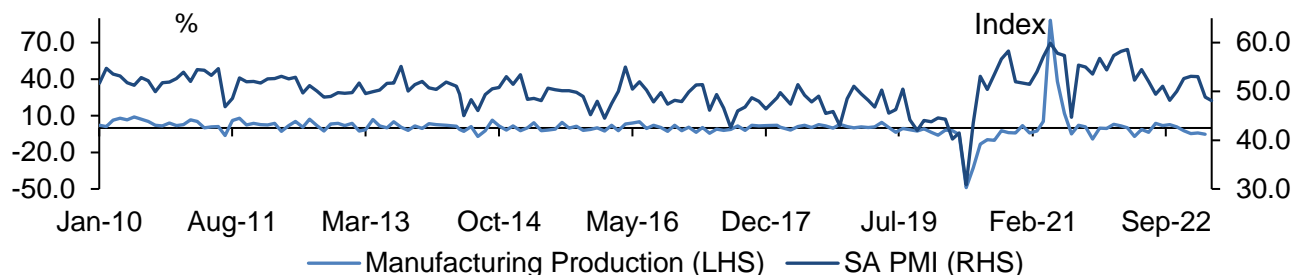




## Manufacturing update: production contracted by -5.2% y/y in February

Tuesday 11 April 2023

Figure 1: Manufacturing growth vs Absa PMI\*



\*Seasonally adjusted, Source: BER, Stats SA

- Manufacturing production contracted by a further -5.2% y/y in February, from -4.1% y/y (revised) in January. The result was weaker than consensus expectations (Bloomberg) of a -3.7% y/y decline. The dire electricity supply situation remains a key downside risk to the energy intensive manufacturing sector. Indeed, electricity production and consumption fell by a marked -9.7% y/y and -8.7% y/y respectively, in February, with Eskom's Energy Availability factor (EAF) hovering below 55.
- The decline was broad based with only two of the sub-sectors included in the manufacturing index increasing on an annual basis in February (namely the motor vehicles, parts and accessories sector and the radio, television and communication apparatus and professional equipment sector).
- Food and beverage production which makes up over 20.0% of the manufacturing index declined by -6.1% y/y in February, following a rebound at the beginning of 2023. Accordingly, the sector detracted -1.3% points from the headline reading. The decrease was largely underpinned by a -12.9% y/y slide in beverage output.
- Moreover, the petroleum and chemical products segment, together with the basic iron and steel sector sliced a further -2.1% points off the topline number on the back of declines of -4.7% y/y and -5.3% y/y respectively.
- February's manufacturing production result is in line with the movement of the ABSA headline Purchasing Managers' index (PMI) which slid into contractionary territory in February, for "the first time since September 2022", according to the BER. In turn, "pointing to a marked deterioration in business conditions in the factory sector". The business activity sub-index moved below 50 (neutral reading) in February, weighed down by heightened load shedding during the month. Specifically, "an unprecedented seven consecutive days of stage 6 load-shedding" was undertaken during the PMI survey period, according to the BER.
- Similarly, March's PMI reading remained in contractionary territory weighed down by domestic specific challenges, with the PMIs of some advanced economies showing some improvement. Specifically, across the euro area, manufacturing production "signalled the strongest monthly performance in factory output since May last year," according to S&P Global.
- Moreover, the BER's manufacturing survey results for Q1.23 indicate that business confidence amongst manufacturers has decreased notably, dragged down in part by the negative effects of persistent power outages "on production, costs and confidence".

Figure 2: Key growth rates in the volume of manufacturing production

	January 2023	February 2023
Year on year %	-4.1	-5.2
Month on month %, seasonally adjusted	0.5	-1.3
3-month %, seasonally adjusted	-1.0	-1.0

<sup>4</sup> Source: Stats SA



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