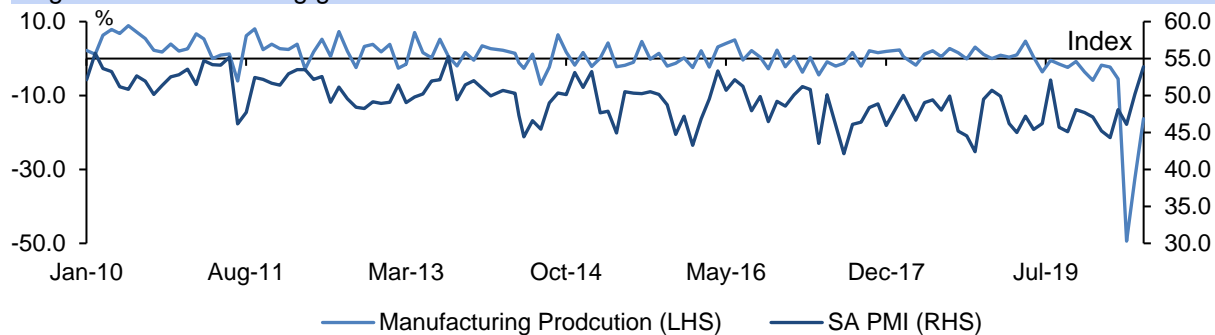




Manufacturing update: Lockdown related measures had a devastating effect on manufacturing activity in Q2.20

11th August 2020

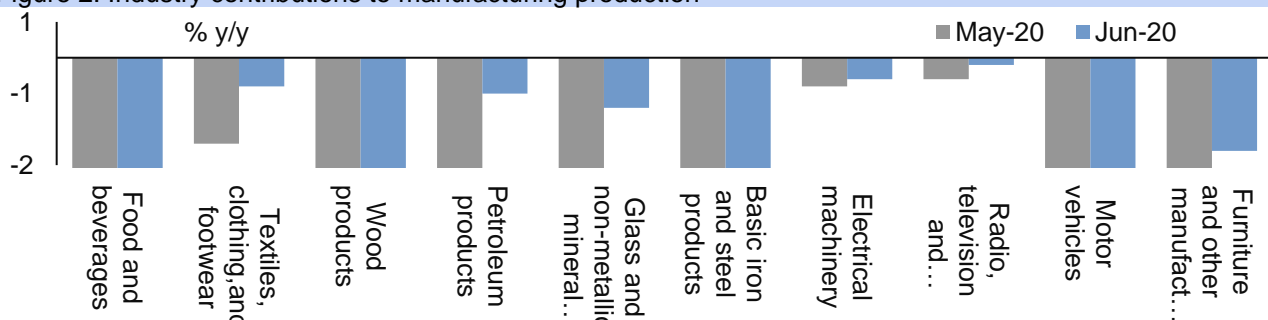
Figure 1: Manufacturing growth vs Absa PMI*



*seasonally adjusted, Source: BER, Stats SA

- Both May and June manufacturing figures were published by Statistics SA today, owing to the delays in data collection caused by the Covid-19 pandemic. Specifically, manufacturing production plunged by a further -32.4% in May, following its steep -49.3% y/y decline in April. Still rigorous level 4 lockdown measures implemented between 1st May and 31st May prevented large parts of the economy from restarting their operations.
- Moreover, manufacturing activity continued to decline during the month of June, but at a significantly decelerated rate of -16.3 % y/y. This is consistent with the BER's June PMI release which signalled an expansion of the manufacturing sector with the PMI gauge rising to 53.9 from 50.2 in May. The increase is reflective of the effects of the further easing of lockdown restrictions in June, which allowed for a wider range of goods to be produced.
- The dip in manufacturing production in June was broad-based, with all sectors experiencing declines. The basic iron and steel, food and beverages and motor vehicles, parts and accessories' categories were the largest negative contributors to June's headline reading. Specifically, these sectors which together make up just under 53.0% of the manufacturing index, detracted a combined 10.3%, on the back of production declines of -19.6% y/y, -11.4% y/y and -38.8% y/y respectively.
- Q2.20 also saw a notable fall in employment and hours worked in line with the steep decline in production, according to the BER's manufacturing survey.
- The outlook for Q3.20 remains lacklustre. Manufacturing business confidence levels, which were already depressed before the onset of Covid-19, underpinned by weak domestic demand, plummeted to a record-low in Q2.20, according to the BER. Notably, survey respondents "(r)emained downbeat about expected sales in Q3, with a net 73% expecting a decline in sales and only a slight uptick in selling price inflation."
- Indeed, the return to pre-pandemic levels of output will likely take time. Global supply-chain disruptions remain a hindrance to trade, while many manufacturers have had to shut their operations permanently, reducing overall manufacturing capacity.
- South Africa as a small open economy remains reliant on a global recovery. Further infection waves and subsequent restrictions in some countries has heightened growth concerns, weighing on the domestic predicament.

Figure 2: Industry contributions to manufacturing production



Source: Stats SA, Investec

- Data has been imputed for April, May and June due to Covid-19 collection limitations.

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