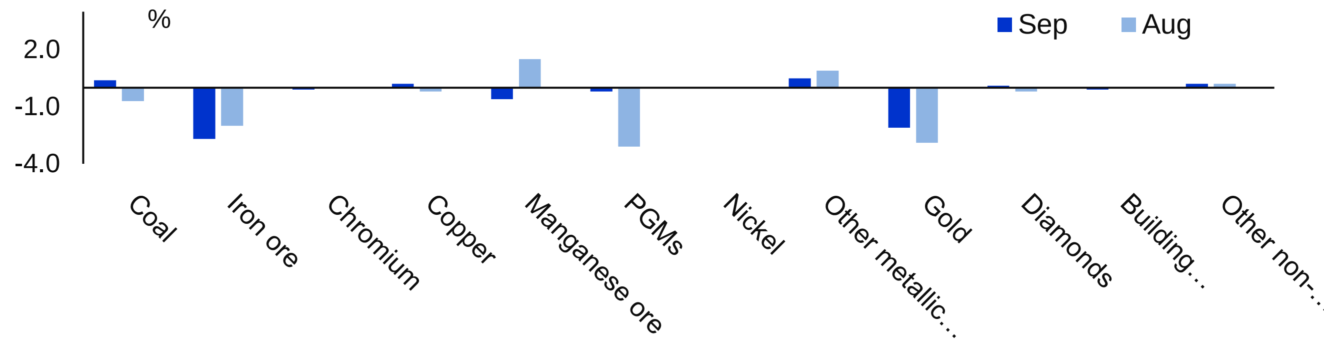
Investec

Mining and manufacturing update: Both sectors expected to contribute positively to Q3.22 GDP

Thursday 10 November 2022

Figure 1: Contributions to mining production growth



Source: Stats SA, Investec

- Mining production fell by a further -4.5% y/y in September, following August's -6.4% y/y slide, below consensus expectations (Bloomberg) of a -4.1% y/y decline. Measured on a quarter-on-quarter seasonally adjusted (qqsa) basis however mining output increased by 2.2%.
- A decrease in production of iron ore and gold, which together detracted -4.8% points from the topline reading, on the back of contractions of -23.1% y/y and -12.4% y/y respectively were largely responsible for the annual decline in mining production.
- Demand for iron ore, an essential input into steel production continues to be afflicted by the weakening global environment. Indeed, the JP Morgan Global Manufacturing PMI slid below 50.0 in September, with a further decline in output and new orders logged. While the results from the S&P Global Steel Users PMI Survey for October revealed that the US and Europe saw the "steepest fall in demand since May 2020".
- Moreover, monetary tightening by the Fed to contain heightened inflation has buoyed the greenback (although it has lost some ground recently) and this has accordingly weighed on precious metals. Specifically, the gold price is currently trading at $1707/oz, notably down from levels attained earlier on in the year.
- Additionally, domestically, the energy intensive mining sector continues to deal with logistical challenges, while persistent, heightened load shedding, which was particularly severe in September, reaching stage 6 at times remains a key operational hinderance.
- September's electricity production and consumption numbers published by Stats SA show that generation fell by a marked -8.2% y/y and by -6.9% month-on-month seasonally adjusted (mmsa), while electricity distributed declined by -7.5% y/y and -7.7% mmsa. Indeed, Eskom's Energy Availability Factor (EAF) is below 60.
- While Eskom currently remains a significant drag on the economy there are some positive developments on the horizon. On 4th November the World Bank "approved a $497 million (approximately R9 billion) concessional loan facility to Eskom for the repurposing of Komati Power Station".

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

	August 2022	September 2022
Year on year %	1.7	2.9
Month on month %, seasonally adjusted	2.2	4.9
3-month %, seasonally adjusted	-2.8	1.9

Source: Stats SA

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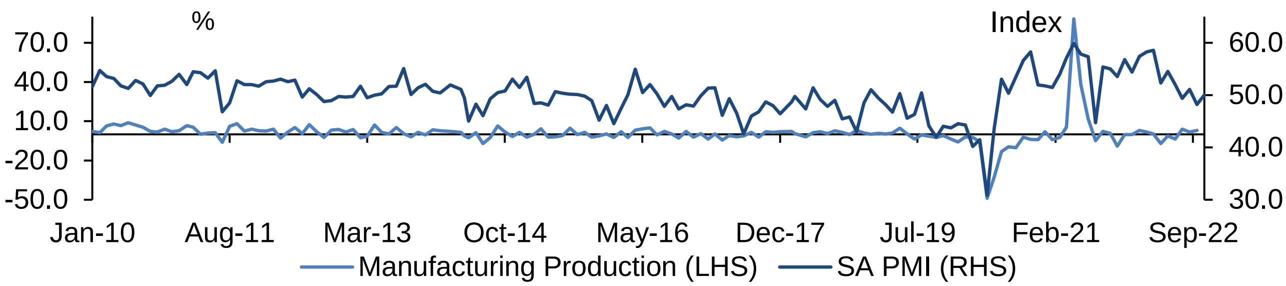
Figure 3: Manufacturing growth vs Absa PMI*



*Seasonally adjusted, Source: BER, Stats SA

- This is a vital “development for South Africa’s Just Energy Transition to renewable energy”. Additionally, Eskom recently announced the introduction of its “crowdsourcing digital platform”, to attract industry experts in the electricity space to assist in its turnaround.
- September’s manufacturing production reading surprised on the upside, coming in at 4.9% mmsa and 2.9% y/y, notably ahead of market expectations of a -2.4% y/y slide, this despite the severe load shedding experienced during the month. Measured on a quarter-on-quarter seasonally adjusted (qqsa) basis manufacturing output increased by 1.9%.
- This is also in contrast to the results of the seasonally adjusted (SA) headline Purchasing Managers’ index (PMI) which moved back into contractionary territory in September underpinned by a sharp fall in the business activity and new sales orders sub-indices (the export index recorded its fourth consecutive decline in September).
- A break-down of the manufacturing production numbers indicates that the motor vehicles, parts and accessories and other transport equipment subsector was the largest contributor to the headline number, adding 3.7% points on the back of marked growth of 43.2% y/y, while the food and beverages category added a further 1.9% points (on growth of 8.1% y/y).
- The reopening of Toyota SA’s plant in Durban in August following damage caused by the April KZN floods will have boosted automotive capacity, while an easing of semi-conductor supply issues is also supportive.
- Advance indications provided by October’s Manufacturing PMI survey results show that while the headline reading moved back to 50.0 (from 48.2 in September), business activity and new sales orders remained subdued, while expectations of business conditions in six months’ time deteriorated. Moreover, the employment index worsened, dropping to its lowest reading in two years. Continuous load shedding and logistical bottlenecks continue to detract from fixed investment, hindering growth and job creation.

Figure 4: Electricity production and consumption (%)

% y/y	2017	2018	2019	2020	2021	2022 YTD
Production	0.9	0.4	-1.5	-5.2	2.0	-3.6
Consumption	0.5	0.9	-1.9	-5.0	2.3	-2.4

Source: Investec, Stats SA

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