Manufacturing update: Production climbed 4.6% y/y in April, markedly ahead of market estimates

11th June 2019

Manufacturing production grew by a marked 4.6% y/y in April, following March’s modest 1.3% y/y lift. The outcome was notably ahead of consensus expectations of a further 1.3% y/y increase and follows a dismal first quarter, wherein manufacturing activity was the biggest drag on the economy detracting 1.1% from the Q1.19 headline GDP outcome (see figure 3).

Annual reweighting of the various manufacturing sub-indices is apparent in the April data (calculated based on national accounts value added data up to 2017). However, the changes are unlikely to have materially affected the headline reading as “(h)istorically, changes in manufacturing weights have been small”, according to Stats SA.

The improved momentum in manufacturing production was broad based, with seven of the ten manufacturing divisions experiencing growth. The basic iron and steel sub-sector, which occupies an 18.7% weighting in the index, made the largest positive contribution of 1.8% to the topline result, on the back of growth of 9.4% y/y (see figure 2). This was followed by the motor vehicles, parts and accessories and transport equipment segment which climbed 18.6% y/y, adding 1.3% to the headline outcome.

Production within the food and beverages division, which occupies the largest weighting in the index, recovered somewhat in April, growing by 3.3% y/y and adding 0.9% to the topline reading, this following its modest 1.1% y/y uptick in March. Strong growth within the dairy products and beverages categories were largely responsible for this uptick. However, the “(p)otential lower harvest of summer grains and oilseeds in the coming months could lead to a contraction of South Africa’s agricultural economy in 2019”, according to Agbiz which would see production in this category wane.
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Figure 3: Contributions to Q1.19 GDP (production approach), qqsaa - %

- The absence of high level rotational load shedding, experienced in Q1.19 would have supported the improved manufacturing performance in April, however prospects for the sector still remain fragile. Local demand conditions remain muted, underpinned by a highly constrained consumer, with only a very modest pickup in domestic growth expected for 2019, while elevated administered prices continue to weigh heavily on operational performance.
- This was reiterated by the BER in their latest PMI release for May, which saw a deterioration in manufacturing activity, ascribed to falling internal demand.
- Additionally, export demand remains a concern, against a backdrop of waning global export order growth, exacerbated by trade tensions. That is, the (t)rend in international trade continued to weigh on the sector” in May, “(w)ith new export business contracting for the ninth month running”, according to Markit (see figure 4).
- The president of the republic and his newly elected cabinet are expected to move ahead ambitiously with reforms that drive growth, reduce unemployment and foster a policy environment conducive to fixed investment.

Figure 4: Global manufacturing PMI: new export orders

Source: Markit

Sources: Stats SA
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