Strikes hurt mining, factory output

Mining and manufacturing production both fell during September, reflecting the effects of widespread labour unrest and weaker global demand for domestic exports.

The two sectors combined account for a fifth of South Africa's economic output and the problems these sectors face will curb job creation and the economy's pace of growth.

Mining output contracted 8% during September, while manufacturing activity shrank 2.3%, figures released by Statistics South Africa showed.

Compared with the same month last year, mining declined 8.3% and manufacturing 1.1%.

There is little to suggest that there will be much relief for either sector in the months ahead.

"The outlook is fairly bleak in the sense that both manufacturing and mining face massive cost increases from labour, electricity and other administered prices," Pan African Investment and Research managing director Iraj Abedian said on Thursday.

"The cumulative effect of these fairly substantial increases happening in a globally unfavourable environment is going to have adverse effects on output and prospects," Abedian said.

A fall in mining output had been widely expected due to the strikes which paralysed much of the sector in September, but the severity of the contraction was a surprise.

Production of platinum group metals plummeted 17.8% year-on-year while gold fell by 11.1%; and copper by 60.2%.

Minerals account for more than 40% of South Africa's exports, so if output continues to wane, the already enormous trade deficit will widen. This could force the rand to weaken and fan inflation.

Analysts said the poor performance of the mining sector was likely to subtract about half a percentage point from South Africa's pace of growth during the third quarter of this year.

"It doesn't look good - the economy could slow more than we expected. Our concern now is that the fourth quarter may look worse as the strikes have not ended in many mines," Standard Bank economist Thabi Leoka said on Thursday.

The South African economy expanded 3.2% during the second quarter, but is expected to grow by just 2.5% for the year.

The fall in September manufacturing output suggests that the sector, the economy's second biggest, performed poorly during the third quarter, although it may have avoided a contraction.

Production of food and beverages fell 5.2%; basic iron and steel 2.6%; electrical machinery 11.1% and production of glass and non-metallic mineral products 7.7%.

Manufacturing was affected by a transport strike during September.

Pressure on the sector is unlikely to ease in the coming months because of the recession in Europe, the destination for most of the country's manufactured exports.

The purchasing managers index, regarded as a reliable health gauge for the sector, fell below the neutral 50-point level last month, suggesting that there was a sharper fall in output during that period.

However, Manufacturing Circle executive director Coenraad Bezuidenhout believes that the worst could be over for this year. A quarterly survey conducted by the industry body recently showed that, over the next six months, 50% of its members expected stable conditions while the other 50% expected conditions to worsen.

Nonetheless, there were issues that needed to be addressed, including the proposed hikes in electricity tariffs and competition from cheap imports, Bezuidenhout said.

Bezuidenhout said representatives of the Manufacturing Circle plan to meet with government in a bid to influence policy decisions ahead of the African National Congress' elective conference in December.

Source: *Business Day* via I-Net Bridge