Weaker rand boosts manufacturing

By Mariam Isa

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Manufacturing is likely to have extended a modest revival early in the year, supported by a pick-up in exports, the weaker rand and the effects of the end of a wave of strikes in the mining sector.

Most analysts expect that the official figures for manufacturing, due to be released on Thursday (10 January) will show that production rose during November, after notching up a surprisingly strong year-on-year increase of 2.5% in October.

But the range of forecasts is wide, with some predicting a contraction in output. The figures are likely to have been distorted by a return to normality of the mining sector after widespread strikes in September and October, which affected demand for manufactured inputs.

"We don't expect any implosion in November or December - my sense is that very mild, sluggish growth will continue," Nedbank economist Nicky Weimar said last week.

According to the South Africa's purchasing managers' index, manufacturing activity improved significantly during November.

Manufacturing is key to the economy as it accounts for about 15% of overall output, making it the second-biggest sector.

Absa Capital economist Ilke van Zyl expects production to have increased by a relatively robust 3% year-on-year in November. This would be driven in part by a revival in demand from the mining sector and also by a sharp 8.4% increase in exports during the month, she said.

Looking ahead, economists say the outlook for the sector this year will be determined mainly by the state of the global economy, which affects demand for locally produced exports. Europe's economic woes will take a toll on the country as the region is one of South Africa's main trading partners.

Growth elsewhere in the world is unlikely to be strong enough to provide much of a boost to the manufacturing sector, even though the rand's depreciation last year theoretically makes local exports more competitive.

"We don't think external demand will be particularly strong - we still have 2013 as a fairly sluggish year," said Econometrix Treasury Management managing director George Glynos.

Weimar said the government's infrastructure spending programme would provide a "pearl of hope" for the sector, as local industries would provide inputs for the projects.

Figures from the Reserve Bank show capital investment by the government surged by 23.4% during the third quarter, far outstripping a 2.8% increase in investment by private companies.

A business confidence index from the South African Chamber of Commerce and Industry on Wednesday (9 January) is likely to show that the mood in the private sector remained subdued in December.

However, an improvement is likely early this year, driven by both the global background and domestic events.

The outcome of the electoral conference of the African National Congress (ANC) last month - which had unsettled markets beforehand - was viewed as positive by the business community.

Firstly, there was a good deal of emphasis on the government's National Development Plan, seen as a business-friendly blueprint for accelerating economic growth and job creation.

Furthermore, prospects of nationalisation in the mining sector were stamped out, while the election of business tycoon Cyril Ramaphosa as deputy president of the ANC was welcomed by the private sector.

"The actions taken at Mangaung suggest an acute awareness that we are at a very critical point and cannot afford to send the wrong signals," said Weimar.

Source: *Business Day* via I-Net Bridge