Lowest investment in manufacturing in seven years

By Fifi Peters

22 Sep 2016

Investments by local manufacturers in the first half of 2016 dropped by the most in seven years as weak domestic demand, declining orders and pressure on selling prices eroded profits.

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The level of investment in the sector on machinery and capital equipment contracted 9.6% year on year, the biggest decline since 2009, Barclays Africa economist Miyelani Maluleke said.

Although private-sector investment in SA was broadly weaker during the period, in line with dwindling economic growth, the manufacturing sector fared the worst. Manufacturing contributes 15% to GDP.

Maluleke estimated that about 400,000 manufacturing jobs had been lost since 2008, based on data provided by Statistics SA's quarterly labour force survey.

"The sector that is meant to be the key driver of employment in SA is bleeding jobs," he said.

Newly released results of a survey by Absa and the Bureau of Economic Research show that only 30% of manufacturers are satisfied with prevailing business conditions. Lisette IJssel de Schepper, an economist at the Stellenbosch-based research hub, said this was the eighth year that the Absa/ Bureau of Economic Research manufacturing index was in negative territory.

The level of fixed investment by local manufacturers was expected to remain weak in the fourth quarter, constrained by pressures to profitability and the fact that most manufacturers were operating below capacity, she said.

The outlook for the next 12 months was more upbeat, mainly due to expectations of increased investment from food, beverage, clothing and electrical machinery manufacturers. As producers of mostly nondurable goods, these sectors fare better during tough economic conditions as consumers tend to forfeit spending on "luxury" items such as furniture and cars to meet their basic needs.

In response to questions about the government's support of the sector, De Schepper said the Department of Trade and Industry wanted to do more, but its hands were tied by fiscal constraints.

The department has announced the partial reopening of the manufacturing competitiveness enhancement programme, which will enable manufacturers to access working capital loans, as well as start-up capital for black industrialists. The programme was created to assist manufacturers in improving their competitiveness by providing funding for capital equipment, training and other competitive-enhancing initiatives.

It was suspended in October 2015, after the number of applicants far exceeded the R5bn that was originally set aside for it. The programme's production incentive component, whereby manufacturers can access grants, remains shut, pending the allocation of further funding from the Treasury in the medium-term budget speech.

Supply-side constraints have eased following the improvement of electricity supply from Eskom and receding drought conditions.

Source: Business Day