

## Manufacturing recuperates as exports struggle

South Africa's manufacturing production is expected to advance further as the global economy crawls out of recession.

However, fragile export markets, a strong currency, and weak producer sentiment pose downside risks to the near-term outlook, according to Moody's [Economy.com](#).

It points out that, according to Statistics South Africa's latest manufacturing report factory output is slowly recuperating.

The nation's manufacturing output increased 0.7% m/m in November, exceeding consensus expectations for a 0.4% contraction. On an annual basis, the pace of contraction moderated to 4.7% from 9.6% in October.

The improvement was mostly due to higher production of petroleum, chemical and plastic products as well as basic metals, metal products and machinery, which, combined, account for 45% of the index.

Motor vehicle parts and accessories, which account for almost 5% of the index, were also major contributors to the increase.

"Though monthly data are volatile, the second half of 2009 has been encouraging," says Moody's Economy.com. "Manufacturing production expanded 5% between June and November and only once did production contract on a month-to-month basis. The current report also confirms November's Kagiso purchasing managers' index, which showed improvement in manufacturing.

"Whilst the data show the recovery in factory production is intact, given its high exposure to the global economy, the vigour of its advance will largely depend on the strength of external demand.

"According to the South African Chamber of Commerce and Industry, about 35% of South Africa's output was exported in 2008. By the third quarter of 2009, the share had fallen to about 26% of GDP. Feeble recoveries in South Africa's major trading partners are inhibiting a return to prerecession export levels," the analysts add.

"Consumers are still under pressure in the U.S., Japan and Germany, where about 30% of South Africa's exports are destined. To add to manufacturing's woes, the rand has appreciated 22% against the US dollar and 19% against the euro since early 2009," they say.

Having shed more than 10% of its workforce since 2007, manufacturing employment is another area of concern, according to Moody's Economy.com.

The analysts say: "A turnaround in factory employment would require consistent improvement in producer sentiment, which has yet to be seen. If producers fail to regain confidence in the global recovery, they will likely hold back from investment and hiring.

"Manufacturing production is expected to advance further as the global economy crawls out of recession.

However, fragile export markets, a strong currency, and weak producer sentiment pose downside risks to the near-term outlook. The Kagiso PMI for December, due to be released next week, will show how South African industry finished 2009."

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