

Nedbank

Economic commentary

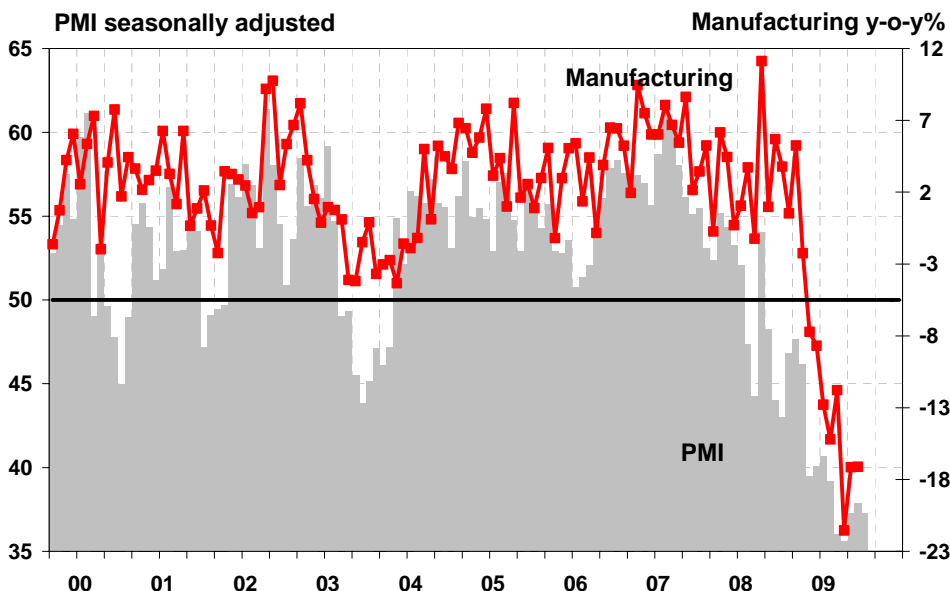
11 August 2009

MANUFACTURING

Manufacturing production remains weak

Latest (June 2009)

Total: -17,1% y-o-y (-17,2% y-o-y in May: revised from -17,1%)
Seasonally adjusted: 0,1% m-o-m (0,5% m-o-m in May)



COMMENT

Manufacturing production remained weak in June, but is showing signs of leveling off after the precipitous fall in the nine months to April. All ten major categories recorded declines for the third successive month on an annual basis. The overall 17,1% y-o-y decline in June was attributed to mainly to sharp drops in production in 'motor vehicles, parts, accessories & other transport equipment', 'basic iron & steel, non-ferrous metal products, metal products, machinery' and 'other manufacturing' categories that fell by 32,8%, 24,3% and 22,3% respectively following 32,2%, 24,9% and 18,8% declines recorded in the previous month. The decline in 'motor vehicles, parts, accessories & other transport equipment' in particular reflects weak demand for big ticket items by cash cash-strapped households, while the drop in production of 'basic iron & steel, non-ferrous metal products, metal products and machinery' reflects weak export demand and fixed investment activity.

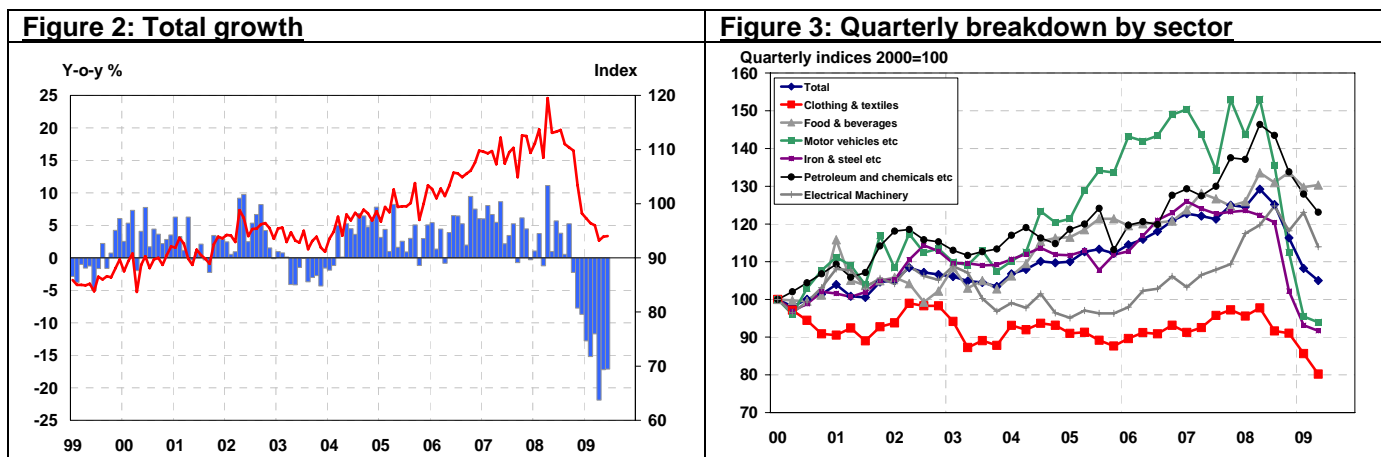
Over the three-month period to June, manufacturing production fell by a seasonally adjusted 3% compared with the previous three months and was down by a massive 18,7% compared with the second quarter of 2008. For the year to date, manufacturing production dropped by a 16% compared with the first half of 2008, and is down by 17,5% compared with the second half of the year.

Research

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BREAKDOWN OF MANUFACTURING PRODUCTION - MAJOR CATEGORIES			
Growth over the 3 months to June 2009			
Industries	Y-o-y %	Industries	Q-o-q %
Food & beverages	-2.3	Radio, television & professional equipment	3.1
Electrical machinery	-5.1	Food & beverages	0.4
Radio, television & professional equipment	-9.7	Iron, steel, non-ferrous and metal products, machinery	-1.6
Petroleum, chemicals, rubber & plastics	-15.6	Motor vehicles, parts & accessories & other transport	-1.7
Wood, paper, publishing & printing	-16.7	Total	-3.0
Textiles, clothing, leather & footwear	-17.8	Other manufacturing	-3.0
Glass & non-metallic mineral products	-17.8	Petroleum, chemicals, rubber & plastics	-3.8
Total	-18.7	Textiles, clothing, leather & footwear	-6.4
Other manufacturing	-23.8	Wood, paper, publishing & printing	-6.5
Iron, steel, non-ferrous and metal products, machinery	-25.2	Glass & non-metallic mineral products	-7.0
Motor vehicles, parts & accessories & other transport	-38.0	Electrical machinery	-7.4

OUTLOOK

The underlying conditions in manufacturing production will remain weak in the months ahead as the local and global economic climate stays depressed. Production in sectors that supply the local consumer market may moderate further as consumers demand is restrained further by the increase in unemployment, the decline in disposable income as well as high household debt levels. The sectors that depend on capital formation are also expected to experience further weakness as fixed investment activity by private sector, in particular, is forecast to decline in 2009 and 2010, mostly offsetting the boost from continued growth in infrastructure spending by general government and public corporations. Export-orientated industries will remain under pressure as developed economies are forecast to remain weak throughout 2009. Some recovery is expected during the course of 2010 as the local economy recovers due to lower interest rates, more comfortable debt levels and improved confidence, while the massive fiscal stimulus packages announced in 2008 and 2009 in most of the world's major economies impact more convincingly on the world demand, supporting local exports and global commodity prices.

IMPLICATIONS

The latest manufacturing statistics, combined with weak vehicle sales and consumer credit numbers, show that demand conditions remained depressed during the second quarter of the year, suggesting that economic growth probably contracted again during the period. However, the Reserve Bank's MPC is likely to focus on risks to the inflation outlook and leave interest rates unchanged on Thursday. Towards the end of the year, however, the current optimism around the 'green shoots' of recovery may have faded, with the initial boost provided by fiscal stimulus packages and the turn in the inventory cycle beginning to dissipate. Policymakers' attention will turn to the prognosis for economic growth for 2010, which is likely to remain weak and well below potential. The outlook for inflation will probably also have improved by then. This should tip the scales in favour of further modest rate cuts before the end of the year, bringing prime down to 10% at the bottom of the cycle.

BREAKDOWN OF MANUFACTURING PRODUCTION			
Growth over the 3 months to June 2009			
Industries	Y-o-y %	Industries	Q-o-q %
Other transport	5.5	Basic iron & steel	19.7
Plastic	1.6	Vehicle parts & accessories	13.3
Beverages	0.7	Petroleum	7.8
Knitted clothing articles	-2.1	Leather	7.3
Petroleum	-2.8	Beverages	3.7
Dairy products	-3.0	Knitted clothing articles	3.1
Glass	-3.1	Radio, TV & professional equipment	3.1
Grain mill products	-3.8	Plastic	2.2
Other food	-4.1	Food processing	1.5
Electrical machinery	-5.1	Other transport	1.2
Food processing	-6.2	Non-ferrous metals	0.7
Non-ferrous metals	-8.4	Metal products	-0.9
Household appliances	-9.1	Dairy products	-1.1
Radio, TV & professional equipment	-9.7	Publishing	-1.8
Printing	-10.0	Other manufacturing	-2.6
Footwear	-11.8	Total	-3.0
Clothing	-13.1	Printing	-3.0
Publishing	-13.8	Other food	-3.4
Other chemicals	-14.2	Grain mill products	-3.6
Paper	-17.2	Furniture	-4.3
Furniture	-17.4	Footwear	-4.6
Total	-18.7	Household appliances	-6.5
Wood products	-20.3	Other non-metallic products	-6.8
Other fabricated metal products	-20.3	Electrical machinery	-7.4
Textiles	-20.9	Glass	-7.6
Other non-metallic products	-21.5	Rubber	-7.8
Metal products	-22.6	Paper	-7.8
Rubber	-24.0	Clothing	-8.6
Leather	-24.7	General machinery	-9.7
Other manufacturing	-25.6	Other chemicals	-9.8
General machinery	-26.8	Other fabricated metal products	-10.0
Special machinery	-26.8	Bodies for motor vehicles	-11.6
Other textiles	-28.5	Wood products	-12.3
Wood preparation	-34.2	Textiles	-12.7
Basic iron & steel	-36.4	Wood preparation	-13.0
Vehicle parts & accessories	-39.3	Other textiles	-13.0
Bodies for motor vehicles	-39.9	Motor vehicles	-14.2
Basic chemicals	-40.4	Special machinery	-16.2
Motor vehicles	-45.5	Basic chemicals	-17.2

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