

Nedbank

Economic commentary

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MANUFACTURING

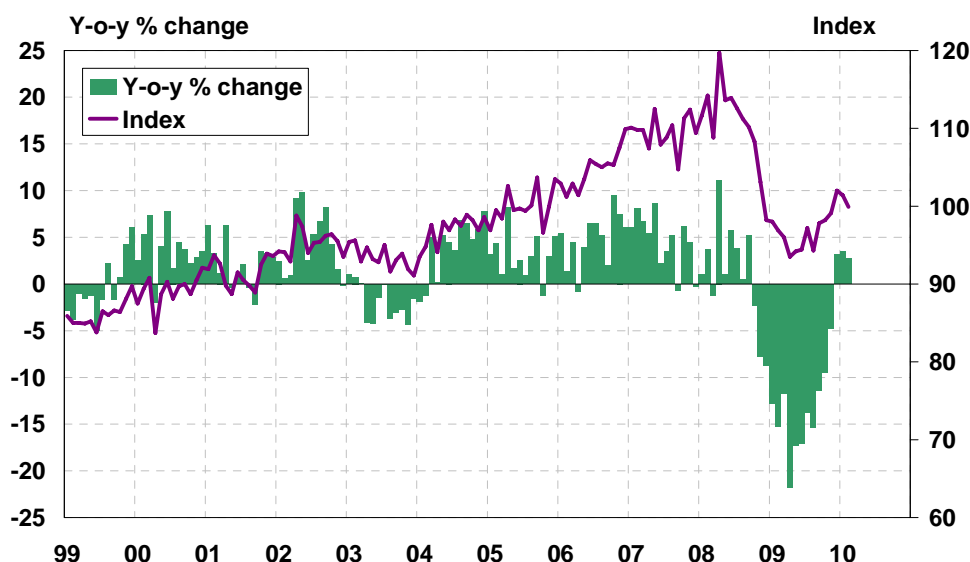
Manufacturing production lower than expected in February, but underlying recovery continues

- Stronger export sales on the back of the global recovery remain the key driver of the recovery in manufacturing production.
- Motor vehicles and metals recorded the strongest gains in output.
- The global economy will continue to set the pace for local manufacturing, but some improvement in local demand should help selective industries later this year.
- Manufacturing is expected to make a positive contribution to overall gdp growth in 2010, which is forecast to average around 2,8% over the year as whole.
- Interest rates are still expected to remain unchanged until 2011.

Latest (February 2010)

Total: 2,7% y-o-y (3,5% y-o-y in January)

Seasonally adjusted: -1,5% m-o-m (-0,6% m-o-m in January)



COMMENT

The underlying recovery in manufacturing production continued in February, although annual growth in output rose at a far more modest pace than the consensus 5% anticipated by the markets. The sources of momentum within the broader sector also remained largely unchanged. Export-facing industries, helped by strong demand for commodities from China and some restocking in industrialised countries, continued to outperform the more inward-looking industries, where orders remained constrained by weak household demand and fading capital expenditure, especially within the private sector.

Research

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Consequently, the biggest contributors to the annual increase in February were the following major industries:

- The 'motor vehicles, parts and accessories, and other transport equipment' industries, where stronger export demand and some recovery in local household demand helped to boost production off an extremely low base.
- The 'basic iron and steel, non-ferrous metal products, metal products and machinery' industries, which mainly benefitted from a recovery in export demand. China's massive infrastructure drive has boosted demand for crude steel, non-ferrous metals, structural steel products and iron ore substantially in late 2009 and early 2010.
- The 'petroleum, chemicals, rubber and plastics' industries also benefitted from stronger export demand on the back of the global recovery.

In contrast, the output in those industries that mainly rely on the domestic market continued to decline on both an annual and monthly basis. The 'textiles, clothing, leather and footwear' as well as the 'furniture and other manufacturing' industries remained the worst performers, with output in both the broad groupings falling further in February. However, there were some early hopeful signs in the February, with the broad 'radio, television and professional equipment' category recording strong increases in output over the month while output of 'food and beverages' also rose further over the month and the year.

BREAKDOWN OF MANUFACTURING PRODUCTION - MAJOR CATEGORIES			
Growth over the 3 months to February 2010			
Industries	Y-o-y %	Industries	Q-o-q %
Motor vehicles, parts & accessories & other transport	27.4	Motor vehicles, parts & accessories & other transport	12.2
Iron, steel, non-ferrous and metal products, machinery	10.3	Other manufacturing	7.1
Petroleum, chemicals, rubber & plastics	3.3	Petroleum, chemicals, rubber & plastics	3.5
Total	3.1	Iron, steel, non-ferrous and metal products, machinery	3.4
Food & beverages	1.6	Total	2.8
Radio, television & professional equipment	-2.1	Wood, paper, publishing & printing	2.5
Other manufacturing	-2.3	Electrical machinery	0.9
Electrical machinery	-3.5	Glass & non-metallic mineral products	0.5
Glass & non-metallic mineral products	-7.5	Textiles, clothing, leather & footwear	-0.3
Wood, paper, publishing & printing	-9.2	Food & beverages	-3.0
Textiles, clothing, leather & footwear	-11.4	Radio, television & professional equipment	-5.8

OUTLOOK

Manufacturing production is expected to improve further off a very low base as the global recovery continues and local firms start to rebuild stock levels. Export-orientated industries will probably continue to outperform the domestically-orientated industries, where performance is likely to be mixed. Production in those industries that predominantly provide inputs to capital projects will probably be held back by weaker capital expenditure by the private sector and the anticipated loss of momentum in the public sector's infrastructure programme due to budget constraints, potential funding difficulties and logistical issues. In contrast, output in those industries that mainly service the local consumer market should fare better as spending gains momentum on the back of lower interest rates, a steadier job market and the injection from the FIFA World Cup.

IMPLICATIONS

Today's figures are disappointing, but the monthly numbers tend to be volatile. Despite this, the underlying recovery remains intact, with manufacturing production edging higher on a year-on-year basis. The production side of the economy is recovering, helped mainly by stronger global demand and some improvement, albeit still very patchy, in isolated pockets of the local market. Overall, the economic recovery is underway but remains subdued and fragile. Consequently, the MPC may still take the opportunity to cut interest rates by another 50 basis points over the next three months or so while inflation falls deeper within the target band, the recovery is relatively slow and the risk of a major build up in demand pressure on prices remote as spending remains subdued and credit extension contained. Although our forecast remains unchanged, with the MPC expected to leave interest rates unchanged during the remainder of 2010 and the first half of 2011, we acknowledge that the risk of further easing in the very short term has increased.

BREAKDOWN OF MANUFACTURING PRODUCTION			
Growth over the 3 months to February 2010			
Industries	Y-o-y %	Industries	Q-o-q %
Vehicle parts & accessories	59.0	Knitted clothing articles	16.9
Plastic	22.5	Basic chemicals	12.1
Motor vehicles	15.4	Basic iron & steel	9.9
Leather	10.0	Wood preparation	7.4
Food processing	5.7	Other chemicals	7.2
Total	3.1	Furniture	7.1
Knitted clothing articles	1.8	Other manufacturing	7.1
Rubber	1.7	Wood products	7.0
Beverages	1.2	Vehicle parts & accessories	6.1
Other food	1.1	Bodies for motor vehicles	5.2
Dairy products	0.9	Rubber	4.2
Petroleum	-0.1	Other fabricated metal products	3.9
Other chemicals	-0.1	Plastic	3.4
Grain mill products	-0.3	Printing	3.3
Basic chemicals	-0.3	Total	2.8
Other transport	-1.1	Other textiles	2.2
Non-ferrous metals	-1.3	Textiles	1.7
Other manufacturing	-1.4	Household appliances	1.7
Footwear	-1.9	Metal products	1.5
Radio, TV & professional equipment	-2.1	Paper	1.5
Wood preparation	-3.2	Electrical machinery	0.9
Glass	-3.4	Other non-metallic products	0.8
Electrical machinery	-3.5	Leather	0.6
Bodies for motor vehicles	-5.2	Dairy products	-0.4
Furniture	-5.6	Non-ferrous metals	-0.7
Printing	-5.8	Glass	-0.7
Wood products	-7.5	Publishing	-0.9
Paper	-8.9	Other transport	-1.3
Other non-metallic products	-9.0	General machinery	-2.0
Other fabricated metal products	-9.6	Clothing	-2.2
Household appliances	-9.7	Food processing	-2.2
General machinery	-10.5	Special machinery	-3.0
Special machinery	-10.7	Other food	-3.1
Other textiles	-12.0	Grain mill products	-3.1
Metal products	-12.3	Beverages	-3.3
Publishing	-16.7	Petroleum	-4.2
Clothing	-16.7	Footwear	-4.5
Textiles	-20.7	Radio, TV & professional equipment	-5.8

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