

Nedbank

Economic commentary

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MANUFACTURING

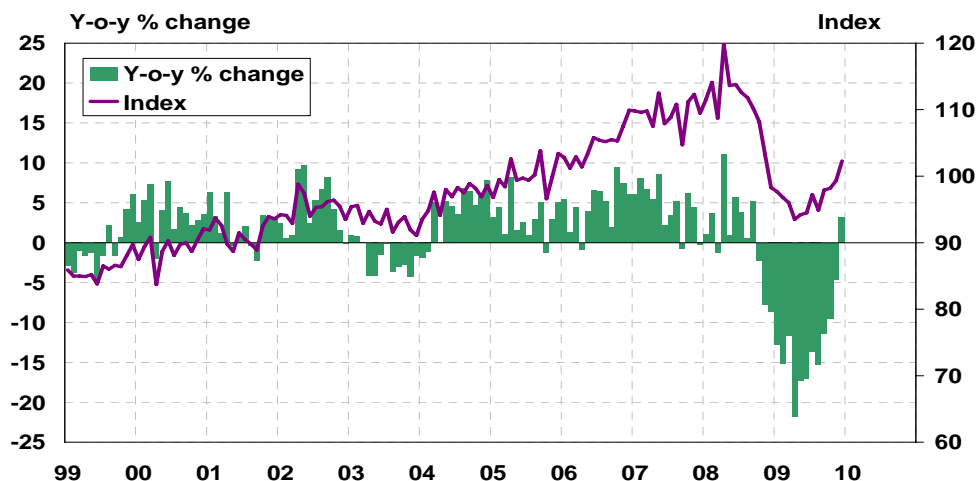
Manufacturing production rallied in December

- Manufacturing increased sharply on a both monthly and annual basis, pushed up mainly by production of motor vehicles and parts
- Improving global activity will continue to support local production
- Interest rates are expected to remain unchanged until 2011

Latest (December 2009)

Total: 3,2% y-o-y (-4,6% y-o-y in November)

Seasonally adjusted: 3,0% m-o-m (1,1% m-o-m in November)



COMMENT

Manufacturing production recorded its first annual increase since September 2008, supported by increased production of export-orientated goods. Over the month, manufacturing output rose by a 3%, with output in the motor vehicles and parts industry rising by 11,3% (up by 34,6% y-o-y), not only the fourth consecutive monthly increase but also the strongest rise since April 2008. Production in the 'glass and non-metallic mineral products' and 'other manufacturing' industries also increased strongly in December, rising by 7,7% m-o-m and 7,6% m-o-m, while production of 'radio and television' and 'food and beverages' rebounded over the month, growing by 3,2% and 2,5% respectively from 0,1% and -1,4% in November. Overall, seven out of ten major categories recorded growth in December, offsetting the declines in the 'basic iron and steel' and 'electrical machinery' industries, where output fell 1,7% and 1,4% respectively following 4,8% and 1,4% growth in November.

The strong increase in production in December boosted the output figures for the fourth quarter, which increased by a seasonally adjusted 3,4% q-o-q, up from 2,8% in the third quarter and a decline of 2,9% in the second quarter. Production of 'motor vehicles and parts' showed good growth, rising by 14,4% over the quarter, while 'basic iron and steel' and 'other manufacturing' increased by 5,0% and 7,5% respectively.

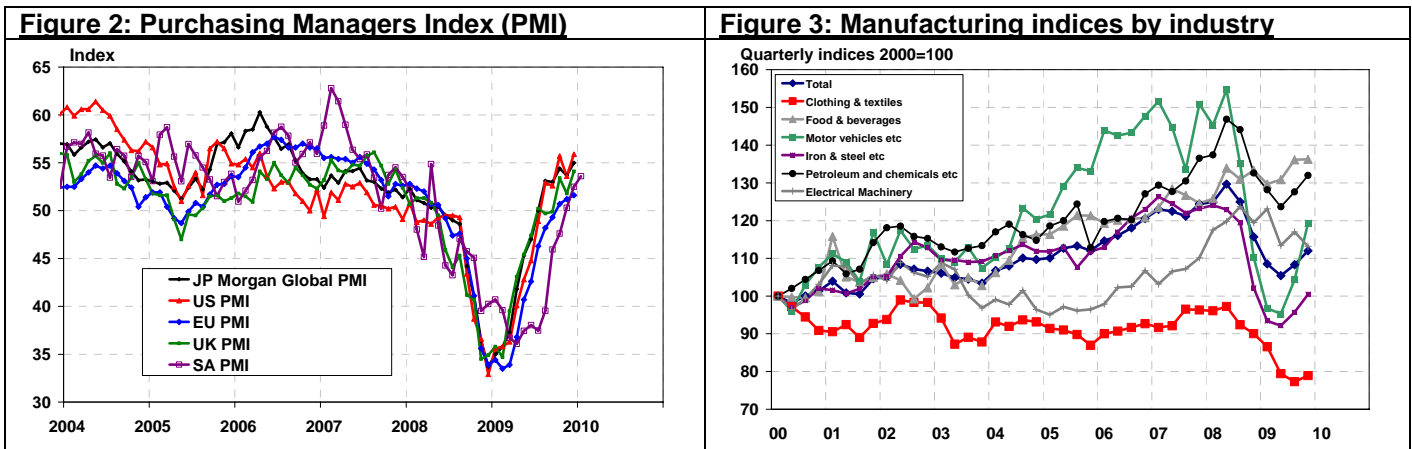
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For 2009 as a whole, total manufacturing production fell by 12,5%, with all the major industries, besides food and beverages, recording sharp drops as the effect of the recession weighed down on global demand. Production of 'motor vehicles and parts' and 'basic iron and steel' was hard hit, with production falling by 24,4% and 18,6% respectively for the year as a whole.



BREAKDOWN OF MANUFACTURING PRODUCTION - MAJOR CATEGORIES			
Growth over the 3 months to December 2009			
Industries	Y-o-y %	Industries	Q-o-q %
Motor vehicles, parts & accessories & other transport	2.8	Motor vehicles, parts & accessories & other transport	14.4
Food & beverages	1.9	Other manufacturing	7.5
Petroleum, chemicals, rubber & plastics	-1.3	Iron, steel, non-ferrous and metal products, machinery	5.0
Iron, steel, non-ferrous and metal products, machinery	-3.0	Petroleum, chemicals, rubber & plastics	3.5
Total	-4.3	Total	3.3
Electrical machinery	-5.6	Textiles, clothing, leather & footwear	2.1
Radio, television & professional equipment	-9.3	Glass & non-metallic mineral products	0.7
Glass & non-metallic mineral products	-9.7	Food & beverages	0.1
Textiles, clothing, leather & footwear	-12.2	Wood, paper, publishing & printing	-1.4
Other manufacturing	-14.3	Electrical machinery	-3.3
Wood, paper, publishing & printing	-17.0	Radio, television & professional equipment	-5.4

OUTLOOK

Manufacturing production is expected to continue to improve gradually in the months ahead, mainly supported by higher export sales on the back of the recovery in global demand. Domestic demand, particularly for durable goods will remain weak due to high household debt levels and poor employment prospects. However, some improvement in consumer confidence is likely to be experienced during the second half of the year as previous interest rate cuts take effect, employment improves and inflation remains low. The expected upwards trend in manufacturing production was also confirmed by the Kagiso purchasing manager's index, a leading indicator of manufacturing activity which increased to 53,6 in January, remaining above the critical 50 level which divides expansion and contraction for the third successive month.

IMPLICATIONS

Today's figures show that the economy is improving. However, the recovery remains uneven, with production picking up in line with stronger global demand while domestic spending remains fragile. Since the recovery in demand and job creation is expected to be slow and subdued, the MPC will probably be reluctant to hike interest rates too quickly. We therefore still expect rates to remain unchanged throughout 2010 with the risk to the downside over the next six months.

BREAKDOWN OF MANUFACTURING PRODUCTION			
Growth over the 3 months to December 2009			
Industries	Y-o-y %	Industries	Q-o-q %
Vehicle parts & accessories	30.6	Motor vehicles	16.8
Plastic	22.1	Vehicle parts & accessories	15.9
Petroleum	16.2	Bodies for motor vehicles	12.1
Leather	8.9	Leather	10.5
Food processing	7.5	Other manufacturing	9.9
Other food	5.8	Petroleum	7.3
Other transport	3.8	Food processing	6.2
Grain mill products	1.1	Textiles	5.5
Dairy products	-0.3	Plastic	5.4
Beverages	-1.3	Wood products	5.2
Total	-4.3	Rubber	4.8
Glass	-4.7	Knitted clothing articles	4.3
Rubber	-4.8	Glass	3.7
Footwear	-5.0	Other transport	3.5
Non-ferrous metals	-5.2	Total	3.3
Electrical machinery	-5.6	Clothing	2.8
Other chemicals	-9.1	Grain mill products	2.6
Radio, TV & professional equipment	-9.3	Special machinery	1.6
Knitted clothing articles	-10.0	Beverages	1.5
Other non-metallic products	-11.6	Paper	1.4
Household appliances	-12.0	Furniture	0.1
Wood products	-12.5	Other chemicals	-0.1
Other manufacturing	-13.4	Other non-metallic products	-0.3
Clothing	-13.6	General machinery	-0.5
General machinery	-14.4	Basic chemicals	-0.5
Printing	-15.5	Dairy products	-0.9
Paper	-15.7	Non-ferrous metals	-1.1
Special machinery	-16.1	Other fabricated metal products	-1.7
Furniture	-16.8	Metal products	-2.2
Motor vehicles	-16.9	Electrical machinery	-3.3
Bodies for motor vehicles	-18.1	Other textiles	-3.9
Other textiles	-18.5	Printing	-4.0
Other fabricated metal products	-19.1	Other food	-4.0
Metal products	-21.4	Household appliances	-4.2
Publishing	-23.0	Footwear	-4.5
Textiles	-23.3	Radio, TV & professional equipment	-5.4
Wood preparation	-23.5	Publishing	-6.4
Basic chemicals	-24.7	Wood preparation	-9.5

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