

Nedbank

Economic commentary

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MANUFACTURING

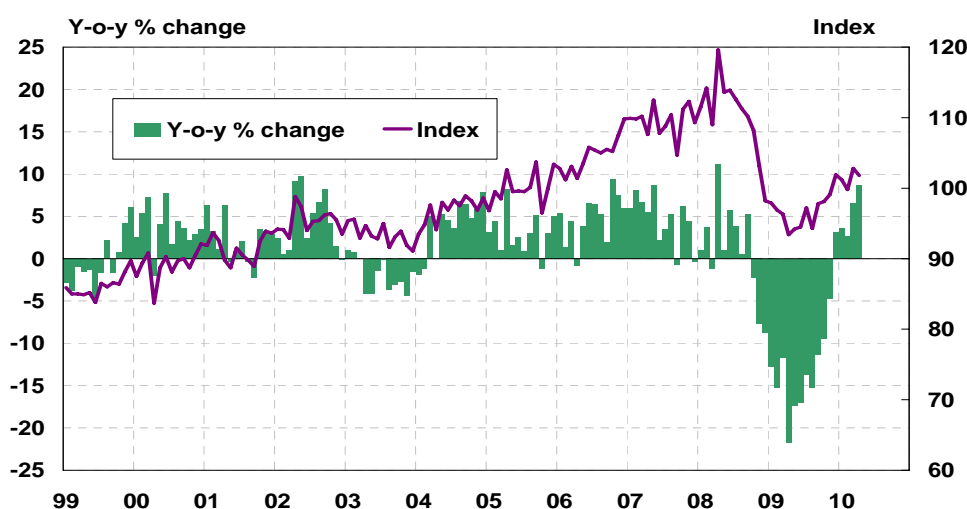
Manufacturing output rose at its strongest annual pace since August 2008

- On an annual basis, output was boosted by a strong increase in production of motor vehicles and parts.
- However, total production is coming off a very low base established last year, but the data also indicates that activity in the sector is improving in line with global trends.
- Over the month, production was dragged down mainly by a sharp drop in the 'food and beverages' category.
- Export-orientated industries should continue to be the main driver of the expansion during the year.
- The data will have little impact on interest rates, which we still expect to remain unchanged during the remainder of this year. However, a further drop in inflation and inflation expectations, coupled with more data pointing towards the fragility of the recovery would strengthen the case for another rate cut.

Latest (April 2010)

Total: 8,7% y-o-y (6,6% y-o-y in March)

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



COMMENT

Manufacturing production continued to increase off last year's low base, with output mainly supported by strong expansion in export-driven industries. Overall output rose faster than market expectations of a 7,1% y-o-y increase, with eight of the ten major categories recording growth. The strongest rise, however, come from 'motor vehicles and parts' (up by 45,9% y-o-y) followed by 'petroleum, chemicals and rubber' as well as 'other manufacturing', which rose by 11,3% and 11,5% respectively. The sectors that supply the local retail sector are recovering at a slower pace as households remain cautious, despite the low

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interest rate environment. Production of 'radio, television & professional equipment' fell by 3,8% y-o-y following a 4,1% y-o-y drop in March, while that of 'food & beverages' eased to 0,1% y-o-y after rising by 5,9% y-o-y.

On a monthly basis, manufacturing production was dragged down mainly by a sharp decline in production of food and beverages, which fell by a seasonally adjusted 7,7% m-o-m following a 7% m-o-m increase in March. Production of 'radio, television & professional equipment' as well as 'textiles , clothing, leather and footwear' also showed weakness during the month.

Over the three month period to April, total production increased by 0,8% compared with the previous three months.

BREAKDOWN OF MANUFACTURING PRODUCTION - MAJOR CATEGORIES			
Growth over the 3 months to April 2010			
Industries	Y-o-y %	Industries	Q-o-q %
Motor vehicles, parts & accessories & other transport	29.2	Radio, television & professional equipment	6.3
Iron, steel, non-ferrous and metal products, machinery	9.8	Electrical machinery	5.1
Petroleum, chemicals, rubber & plastics	7.8	Wood, paper, publishing & printing	4.2
Total	6.0	Petroleum, chemicals, rubber & plastics	2.3
Food & beverages	3.0	Motor vehicles, parts & accessories & other transport	2.0
Electrical machinery	1.4	Iron, steel, non-ferrous and metal products, machinery	0.8
Radio, television & professional equipment	-1.1	Total	0.8
Other manufacturing	-1.7	Food & beverages	-1.3
Wood, paper, publishing & printing	-1.9	Textiles, clothing, leather & footwear	-2.5
Textiles, clothing, leather & footwear	-6.4	Other manufacturing	-3.5
Glass & non-metallic mineral products	-7.2	Glass & non-metallic mineral products	-5.8

OUTLOOK

Manufacturing production should improve further off last year's low base. Production will continue to be driven mainly by the recovery in our major trading countries, while a weaker rand should help to stimulate exports further. Production of local-orientated goods, particularly consumer goods, could recover at a slower pace as high household debt levels and unemployment partly contain growth in consumer spending. Production in the industries that predominantly provide inputs to capital projects could also be held back by weaker capital expenditure by the private sector and the anticipated loss of momentum in the public sector's infrastructure programme in the short term.

IMPLICATIONS

The latest manufacturing production numbers, together with the mining data released earlier today suggest that domestic output continues to recover from the sharp slump recorded during the recession. The recovery, however, is still in its early stages and remains fragile. We expect the economy to expand by 3,1% in 2010.

The data will have little impact on interest rates, which we still expect to remain unchanged during the remainder of this year. However, a further drop in inflation and inflation expectations, coupled with data suggesting any relapse in the recovery would strengthen the case for another rate cut.

BREAKDOWN OF MANUFACTURING PRODUCTION

Growth over the 3 months to April 2010

Industries	Y-o-y %	Industries	Q-o-q %
Basic iron & steel	47.0	Wood preparation	15.7
Motor vehicles	25.2	Special machinery	14.4
Plastic	22.7	Knitted clothing articles	10.4
Wood preparation	17.1	Bodies for motor vehicles	8.8
Leather	15.4	Paper	8.5
Basic chemicals	14.9	Rubber	7.8
Rubber	13.0	Motor vehicles	6.8
Bodies for motor vehicles	12.0	Radio, TV & professional equipment	6.3
Special machinery	10.1	Non-ferrous metals	5.9
Other chemicals	8.0	Other chemicals	5.4
Non-ferrous metals	7.9	Electrical machinery	5.1
Knitted clothing articles	6.2	Household appliances	4.4
Total	6.0	Plastic	2.7
Food processing	4.4	Printing	2.1
Footwear	4.0	Footwear	1.9
Beverages	3.6	Vehicle parts & accessories	1.8
Paper	3.3	Textiles	1.1
Other food	2.9	Other fabricated metal products	1.0
Electrical machinery	1.4	Total	0.8
Grain mill products	0.3	Other food	0.5
Radio, TV & professional equipment	-1.1	Furniture	0.4
Furniture	-1.3	Publishing	-1.0
Other manufacturing	-1.9	Beverages	-1.0
Printing	-2.4	General machinery	-1.4
Household appliances	-3.3	Grain mill products	-2.2
Dairy products	-3.6	Other textiles	-2.6
Petroleum	-4.4	Dairy products	-3.9
General machinery	-5.0	Leather	-4.0
Glass	-5.6	Other manufacturing	-4.6
Other textiles	-6.0	Clothing	-4.9
Wood products	-7.3	Basic iron & steel	-4.9
Other fabricated metal products	-7.4	Other non-metallic products	-5.4
Other non-metallic products	-7.7	Food processing	-5.6
Other transport	-12.5	Wood products	-5.6
Clothing	-13.1	Metal products	-5.6
Textiles	-13.1	Glass	-6.7
Publishing	-15.5	Petroleum	-9.0
Metal products	-16.2	Other transport	-15.3

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