

Nedbank

Economic commentary

12 May 2010

MANUFACTURING

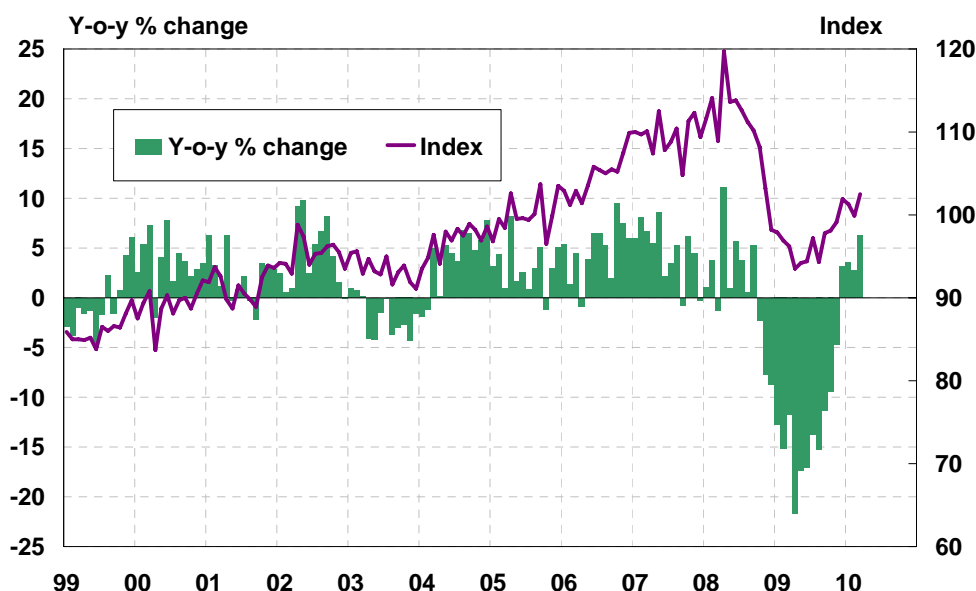
Manufacturing output rose strongly as activity in the sector gathers momentum

- Activity in the manufacturing sector rose strongly during March, in line with recent strong PMI readings
- Export-orientated industries continued to be the main driver of the expansion
- Global developments and the pace of improvement in domestic demand will drive trends in the manufacturing sector in the next few months
- The monthly figures are erratic and do not change our forecast of a 2,8% growth rate for 2010
- We expect interest rates to remain unchanged when the MPC announces its decision tomorrow

Latest (March 2010)

Total: 6,3% y-o-y (2,7% y-o-y in February)

Seasonally adjusted: 2,6% m-o-m (-1,5% m-o-m in February)



COMMENT

Latest manufacturing output data continue to reflect an export-driven recovery, although all the subsectors, except basic metals, recorded increases during the month. Overall output rose faster than market expectations of a 2,9% y-o-y increase in the month. The 1,5% q-o-q increase in the first quarter of 2010 marked the third consecutive quarterly expansion. While the figures are encouraging, activity levels remain relatively weak.

Key performers during the month were 'food and beverages' (7,2% m-o-m),

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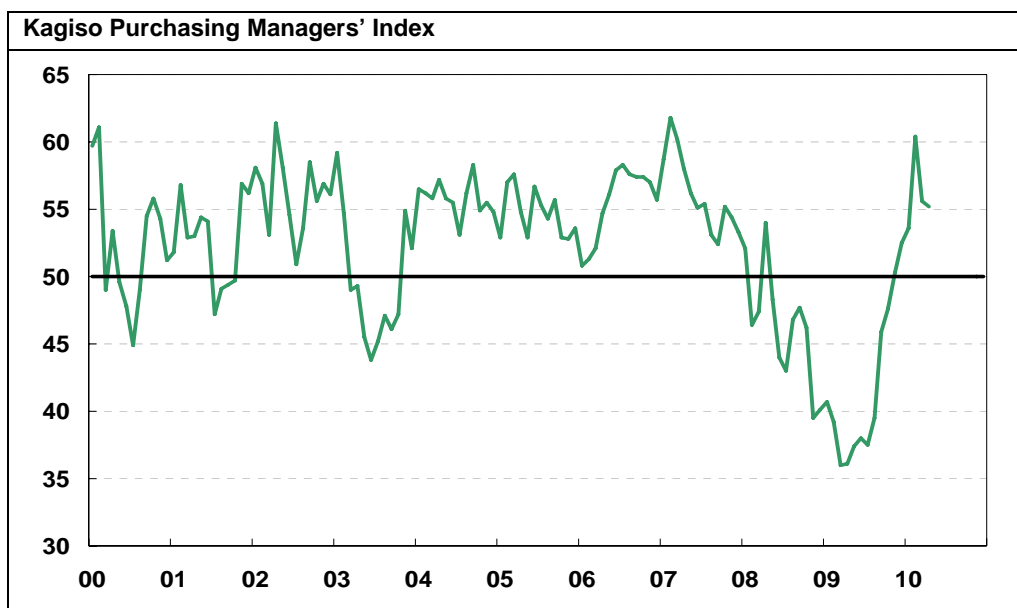
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petroleum, chemicals, rubber and plastics' (1,5% m-o-m) and 'motor vehicles, parts and accessories and other transport' (4,7% m-o-m). Output of 'basic iron and steel, non-ferrous metal products, metal products and machinery' contracted by 1,4% m-o-m.

BREAKDOWN OF MANUFACTURING PRODUCTION - MAJOR CATEGORIES			
Growth over the 3 months to March 2010			
Industries	Y-o-y %	Industries	Q-o-q %
Motor vehicles, parts & accessories & other transport	25.4	Electrical machinery	6.4
Iron, steel, non-ferrous and metal products, machinery	10.0	Wood, paper, publishing & printing	5.9
Total	4.3	Motor vehicles, parts & accessories & other transport	5.2
Petroleum, chemicals, rubber & plastics	3.5	Iron, steel, non-ferrous and metal products, machinery	2.7
Food & beverages	2.4	Other manufacturing	1.6
Electrical machinery	0.4	Total	1.5
Other manufacturing	-0.3	Petroleum, chemicals, rubber & plastics	1.3
Radio, television & professional equipment	-2.9	Textiles, clothing, leather & footwear	-1.1
Wood, paper, publishing & printing	-4.0	Food & beverages	-2.4
Glass & non-metallic mineral products	-8.0	Glass & non-metallic mineral products	-4.0
Textiles, clothing, leather & footwear	-8.7	Radio, television & professional equipment	-4.6

OUTLOOK

Economic conditions, both globally and locally, have continued to improve. This is conducive to a continued recovery in manufacturing. A stronger global economy will support export-dependent industries, while output of consumer goods, which performed well during March, will benefit from the 2010 FIFA World Cup. The Kagiso PMI numbers suggests that manufacturing output will continue to rise in the coming months, although the pace of increase is likely to moderate.



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.

IMPLICATIONS

These figures are encouraging and suggest a sustained improvement in manufacturing activity. However, the domestic economic recovery remains fragile and much will depend on the direction of the global economy in the coming months. Domestically, the impact of the World Cup will be crucial to further improvement in economic activity. We do not expect today's figures to have any impact on tomorrow's MPC decision. Governor Marcus' comments made last week largely rule out a cut at this week's meeting. While we expect rates to remain unchanged, there is still downside risk. Any setbacks in the global and local recoveries, combined with a further drop in inflation and inflation expectations would strengthen the case for another rate cut.

BREAKDOWN OF MANUFACTURING PRODUCTION

Growth over the 3 months to March 2010

Industries	Y-o-y %	Industries	Q-o-q %
Vehicle parts & accessories	52.0	Wood preparation	15.2
Plastic	20.5	Basic chemicals	14.5
Motor vehicles	15.9	Paper	9.7
Leather	9.3	Knitted clothing articles	8.3
Wood preparation	6.7	Furniture	6.8
Basic chemicals	5.9	Electrical machinery	6.4
Food processing	5.8	Other chemicals	5.6
Bodies for motor vehicles	4.9	Rubber	5.1
Non-ferrous metals	4.4	Bodies for motor vehicles	5.0
Total	4.3	Other textiles	4.1
Rubber	4.2	Other fabricated metal products	3.9
Beverages	4.1	Basic iron & steel	3.8
Knitted clothing articles	3.1	Non-ferrous metals	3.5
Other chemicals	1.8	Special machinery	2.9
Grain mill products	1.3	Publishing	2.9
Footwear	0.4	Household appliances	2.6
Electrical machinery	0.4	Printing	2.3
Paper	0.3	Total	1.5
Other manufacturing	0.1	Vehicle parts & accessories	1.3
Other food	-1.0	Plastic	0.8
Dairy products	-1.4	Footwear	0.7
Furniture	-1.9	Other manufacturing	0.1
Radio, TV & professional equipment	-2.9	Grain mill products	-0.5
Printing	-3.3	Wood products	-1.2
Special machinery	-3.4	General machinery	-1.2
Petroleum	-4.6	Clothing	-1.6
Glass	-6.2	Textiles	-1.6
General machinery	-7.9	Metal products	-1.6
Household appliances	-8.3	Beverages	-1.7
Other textiles	-8.5	Other food	-2.4
Other non-metallic products	-8.6	Dairy products	-3.4
Wood products	-8.8	Other non-metallic products	-3.8
Other transport	-8.9	Radio, TV & professional equipment	-4.6
Other fabricated metal products	-8.9	Glass	-4.7
Metal products	-12.5	Food processing	-5.3
Clothing	-13.2	Leather	-9.2
Publishing	-14.8	Petroleum	-9.5
Textiles	-18.3	Other transport	-10.8

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