



MANUFACTURING CIRCLE

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MANUFACTURING CIRCLE INVESTMENT TRACKER

A quarterly index tracking investment spending in the manufacturing sector

Background

Q3 2017

The Manufacturing Circle Investment Tracker (MCIT) is an index tracking investment trends in the manufacturing sector on a quarterly basis. The focus of this composite index is on actual expenditure patterns of a sample of manufacturing firms. The index surveys manufacturing enterprises across all sub-sectors of the manufacturing sector. A reading above the neutral 50-point threshold indicates that expenditure is increasing; below the neutral 50-point threshold indicates that expenditure patterns are declining.

The objective is to develop and derive insights about investments patterns of manufacturing enterprises in the South African economic environment. Additionally, the micro-level MCIT data aims to supplement existing macro-level data of trends in order to deepen understanding of trends in the manufacturing sector.

This publication is compiled by Trade and Industrial Policy Strategies (TIPS) on behalf of the Manufacturing Circle. The latest MCIT result in the third quarter 2017 is the fourth edition. In the period Q3 2016 to Q3 2017, the sample size and response rate of the survey has stabilised. The latest edition of MCIT consists of a sample of 50 respondents.

Dominant subsectors represented in the survey include:

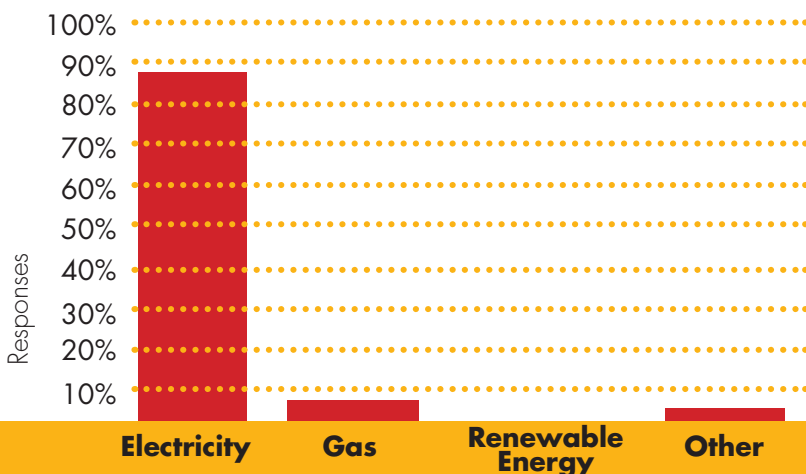
- Motor vehicle, parts and accessories and other transport equipment (30%)
- Basic iron and steel, non-ferrous metal products, metal products and machinery (26%)
- Petroleum, chemical products rubber and plastic products (20%)

Reflecting on the number of employees and annual revenues of the respondents reveals that the majority of enterprises surveyed are medium to large sized firms. In total the respondents employed 86 919 employees, with an average annual revenue of R1.8 billion and a median revenue of R95 million. The majority of firms operate in Gauteng (46%) followed by Kwa Zulu Natal (22%) and the Western Cape (16%).

Eskom's Application for Electricity Price Increases

Main source of energy by type

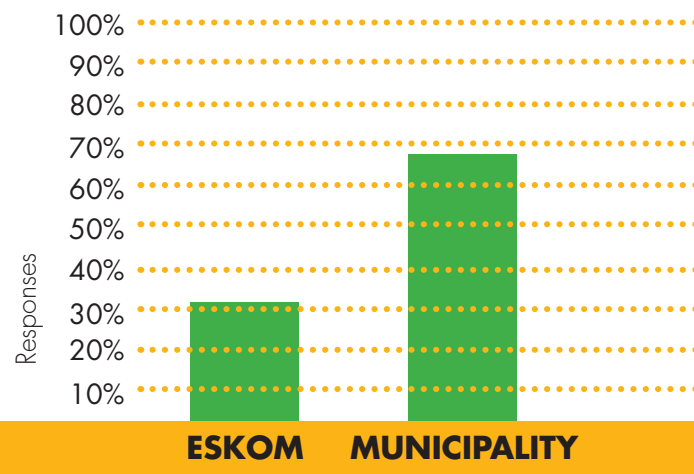
What is your organisation's primary energy source?



Graph 1

Main sources of electricity

Is your electricity supplied by:



Graph 2

In an application to the National Treasury, Eskom has proposed an average 20% increase in electricity price for the 2018/2019 financial year through an adjustment of the tariff structure. This application follows after the National Energy Regulator of South Africa (NERSA) approved a 2, 2% average price increase in the current financial year. The motivation for the price hike is to address financial losses driven by lower than expected electricity demand volumes.

The proposed increase will affect direct customers of Eskom and customers of municipalities. A public consultation process is to be finalised before NERSA can approve the proposed electricity price hike.

The Manufacturing Circle consulted its members to gain insight into the impact of the electricity price hike on manufacturing firms. The sample of members consulted indicated that their primary source of energy was electricity supplied by municipalities (Graph 1 and 2).

In the context of sluggish domestic and global demand, Manufacturing Circle members indicated that the proposed electricity price hike would severely impact operating costs. The increase in the price of electricity would increase the cost of production and in turn this would increase the cost per product and reduce profit margins. Manufacturing firms indicated that the increase in costs would not be fully recovered from customers. Therefore, manufacturing firms are likely to explore rationalising strategies that include reducing employment levels and withholding investment in expanding production capacity.

The Manufacturing Circle proposes that increases in electricity price cannot be higher than increases in the CPI as the sector cannot absorb above-inflation increases.

The drop in demand was largely caused by Eskom's failure to supply sufficient electricity for industry in 2015. Eskom must do what other manufacturing businesses do and address its own efficiencies before it seeks to recover losses from its customers.

