



# Pan-African

INVESTMENT & RESEARCH SERVICES

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*of* SERVICE EXCELLENCE



# MANUFACTURING SECTOR QUARTERLY SURVEY

## THIRD QUARTER 2015

### MANUFACTURING CIRCLE OF SOUTH AFRICA MEETING

17 November 2015

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PAN-AFRICAN INVESTMENT & RESEARCH SERVICES



# Outline

1. Introductory remarks
2. Summary of survey results
3. Concluding remarks

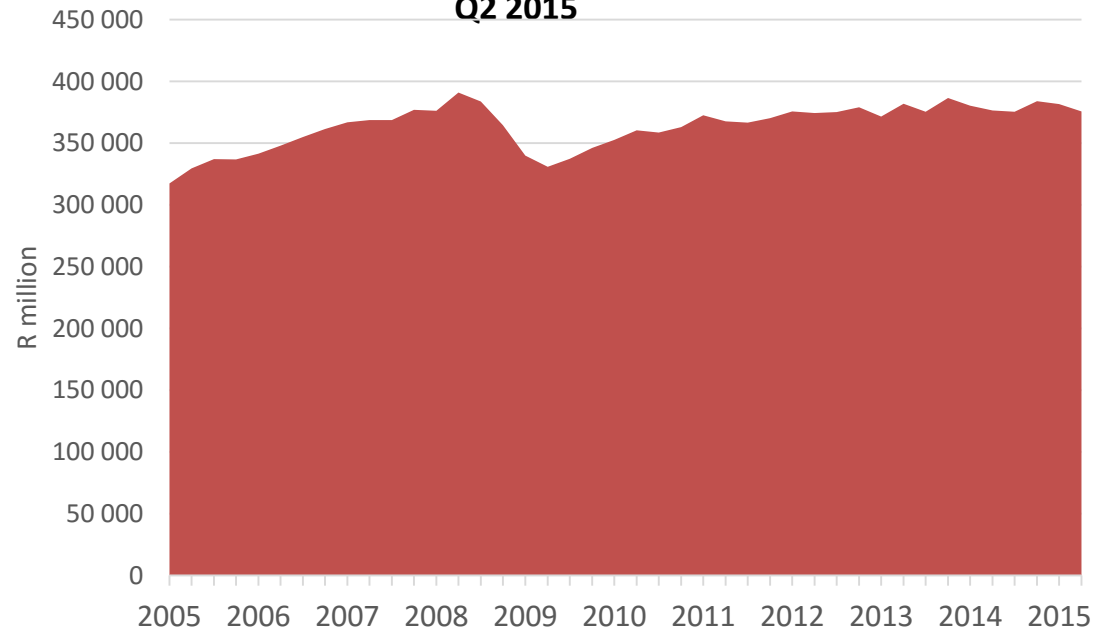
# INTRODUCTORY REMARKS

# Introductory remarks

1. The South Africa manufacturing sector remains a key component of the economy for transforming and achieving the country's industrialization objectives.
2. However, the sector has been facing challenges that are not only the result of the lackluster economic environment, both locally and globally, but also faces structural impediments that are specific to the industry (such as lack of adequate skills) and those that are systemic such as energy constraints, public sector inefficiencies, etc.
3. The sector contributes significantly towards South Africa's GDP and employment. It could do much more....

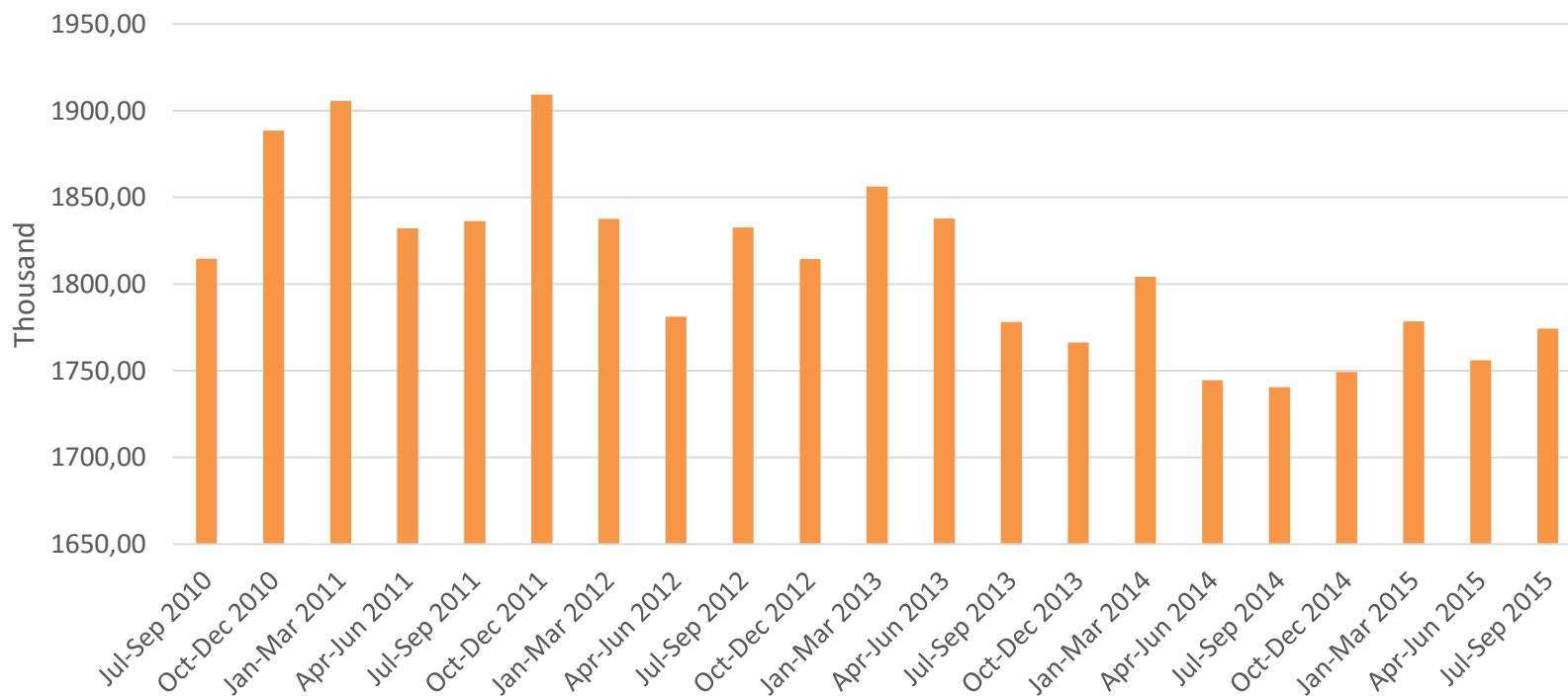
# The manufacturing sector's contribution to GDP has been growing over the past 5 years

**Gross domestic product by industry at constant 2010 prices: manufacturing, Q1 2010 – Q2 2015**



# However, employment in the sector has been volatile over this period

## Employment in the manufacturing industry, Q3 2010 – Q3 2015



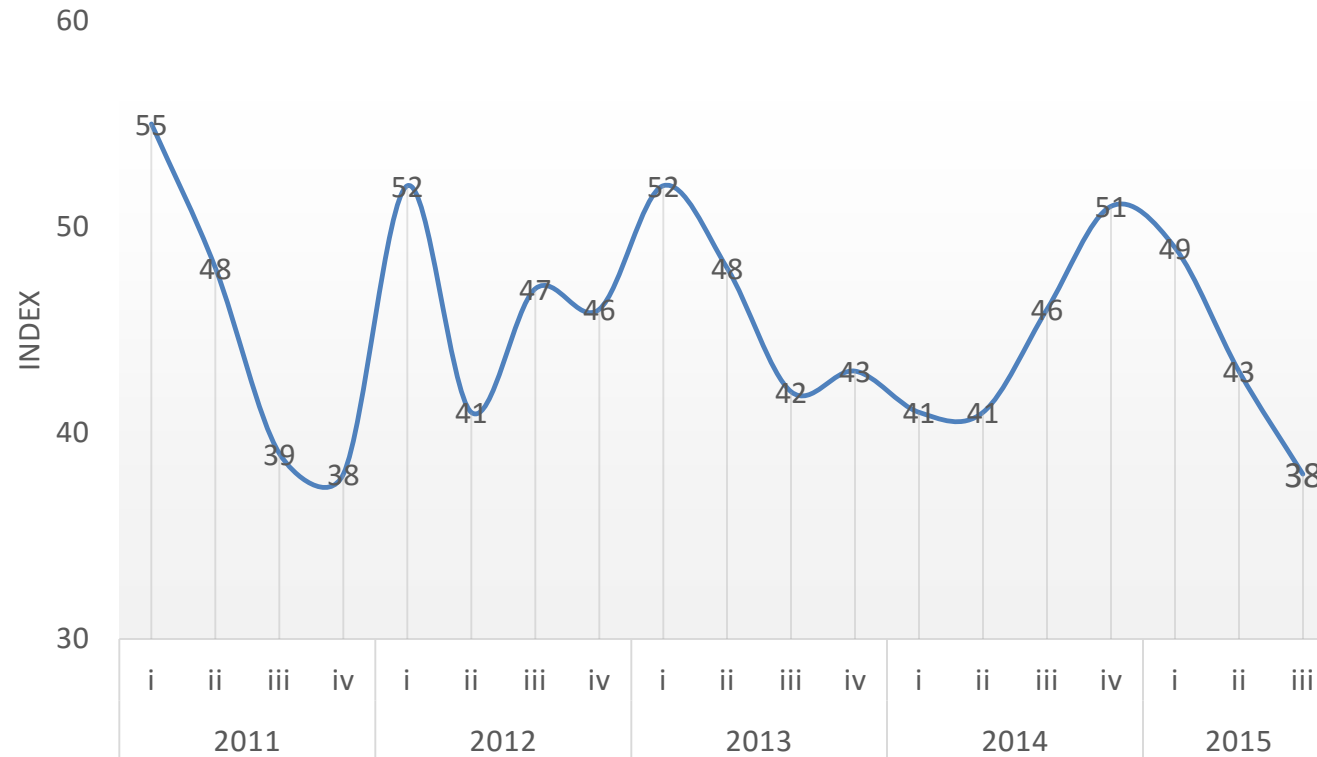
Source: Stats SA and PAIRS

# MANUFACTURING ENVIRONMENT IN Q3 2015



# During Q3 2015, the South African business confidence index continued its downward trend that commenced in the first quarter of 2015

## RMB/BER Business Confidence Index, Q1 2011 – Q3 2015



Source: BER and PAIRS

# Conditions in the manufacturing sector remain fragile amidst the country's struggling economy...

## Quarterly average manufacturing PMI (*index points*)

	Q3 2015
<b><u>PMI</u></b>	<b><u>49.8</u></b>
Business activity	49.5
New sales	52.1
Backlog of order sales	35.4
Inventories	53.8
Purchasing commitments	49.6
Suppliers' performance	49.1
Prices	76.3
Employment	47.2
Expected business conditions	55.0

# ...Nonetheless, manufacturing production expanded during Q3 2015

**SA manufacturing production, Q3 2015, Q/Q growth (per cent, seas. adj.)**

<b>Manufacturing division</b>	<b>Weights , 2012</b>	<b>2015 Q3</b>
Food & beverages	24.4	0.4 ↑
Textiles, clothing, leather & footwear	3.17	0.7 ↑
Wood, paper, publishing & printing products	12.7	1.9 ↑
Petroleum, chemical & rubber products	22.1	4.3 ↑
Glass & non-metallic mineral products	3.9	0.4 ↑
Basic iron & steel, non-ferrous metal products & machinery	19.6	0.2 ↑
Electrical machinery	1.70	13.2 ↑
Radio, tv communication apparatus & professional equipment	1.41	7.9 ↑
Motor vehicle parts & accessories & other transport equipment	7.39	-3.4 ↓
Furniture & other manufacturing division	3.61	0.0 ↔
<b><u>Total</u></b>	<b><u>100</u></b>	<b><u>1.4</u></b> ↑

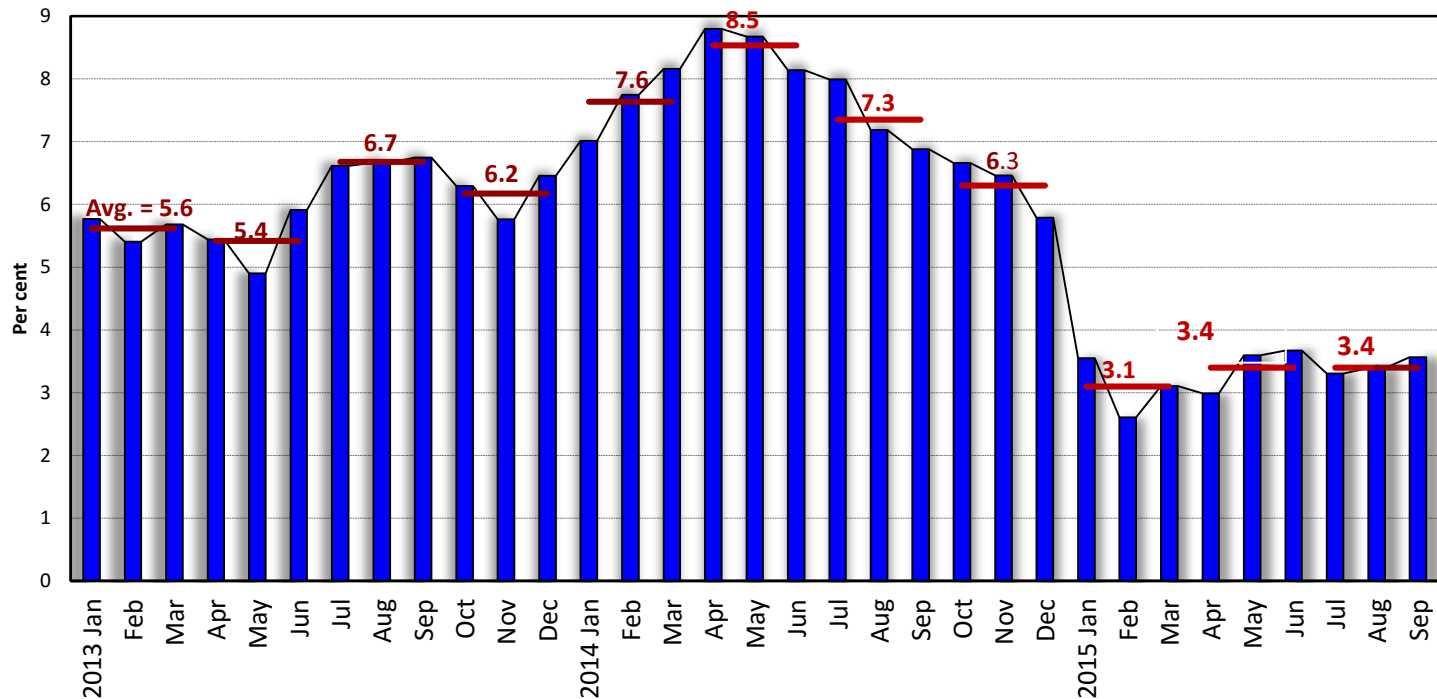
# The international price of oil stays low - exerting downward pressure on inflation

**Brent crude oil price (*USD per barrel*),**



# Producer price inflation remained unchanged from the previous quarter

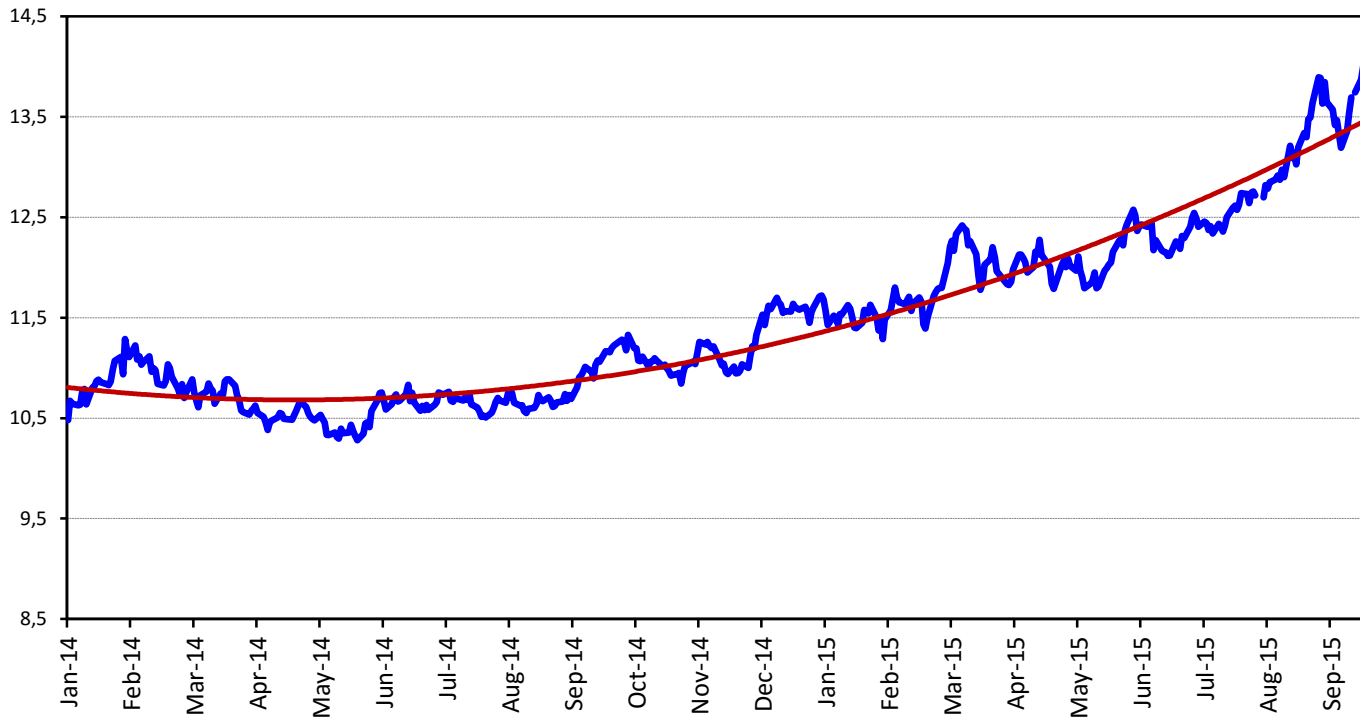
PPI inflation for final manufactured goods, South Africa, Jan 2013 – Sep 2015



Source: StatsSA and PAIRS

# The rand continues to be volatile and weak, reaching its lowest level ever against the USD during November 2015

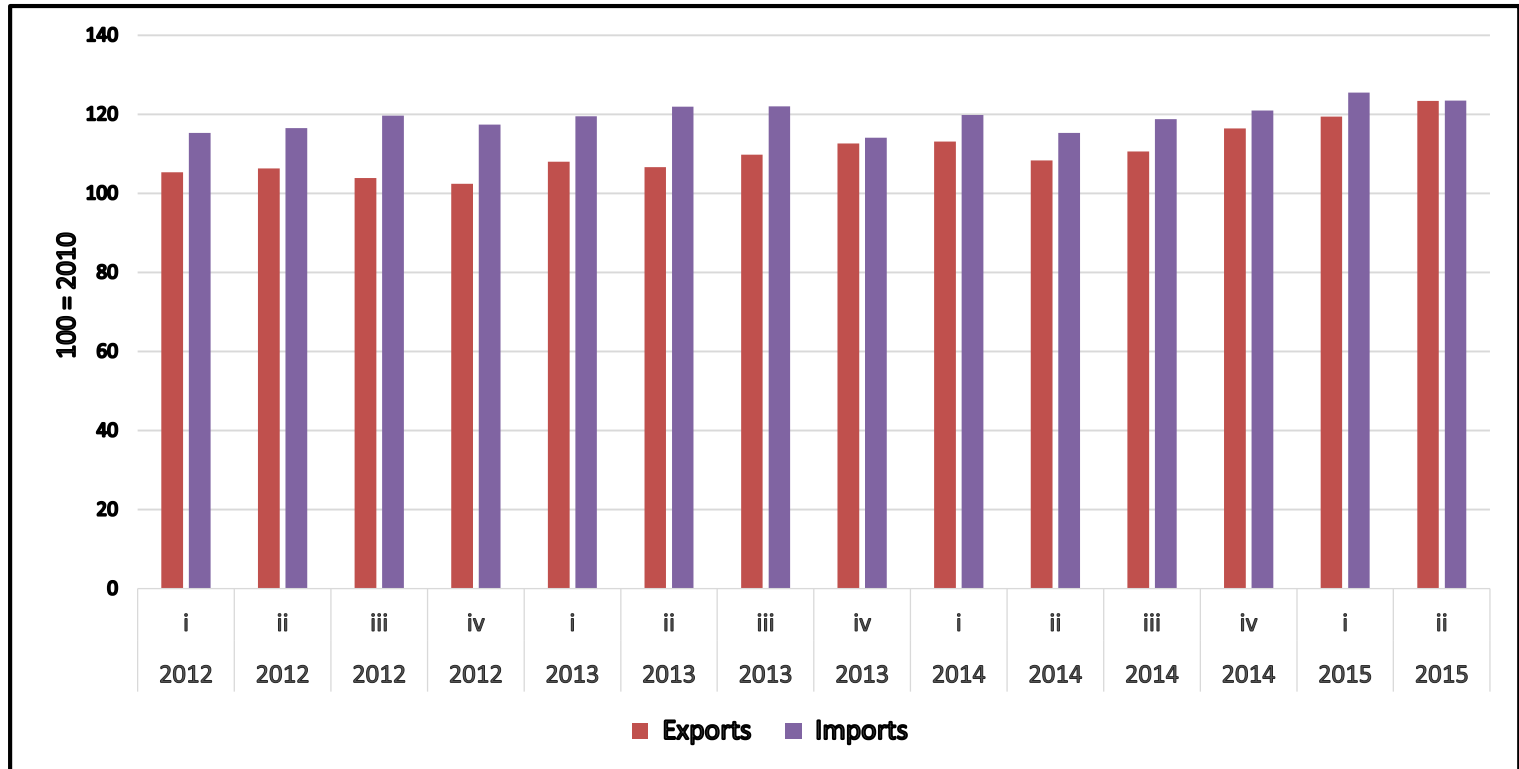
Rand *per* US dollar exchange rate, Jan 2014 – Sep 2015



Source: IHS Econocast and PAIRS

# Trade was relatively resilient during Q2 2015

Imports and exports of goods and services, volume indices, South Africa, Q1 2012 – Q2 2015



Source: SARB and PAIRS

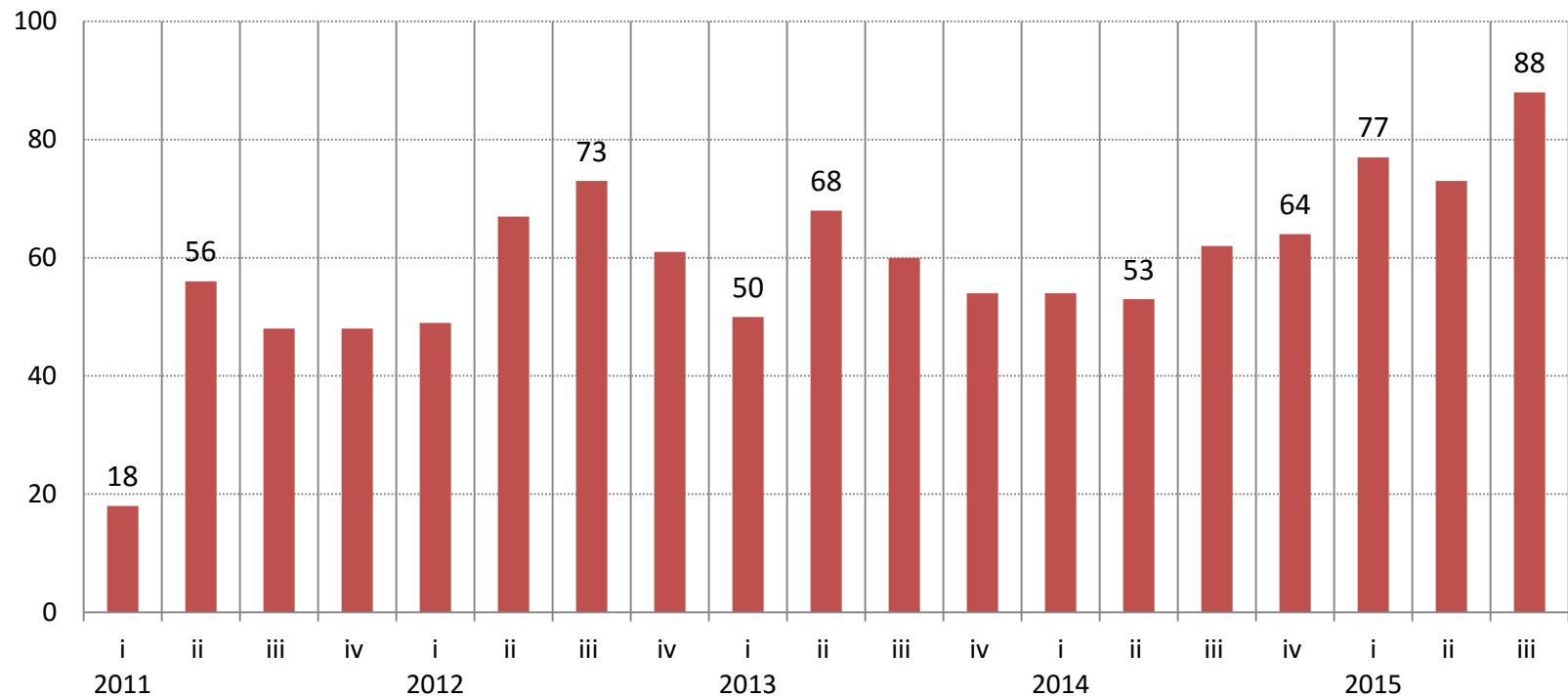
# SUMMARY OF SURVEY RESULTS



# 2015 Q3 RESPONDENTS' PROFILE

# 88 firms participated in the Q3 2015 survey

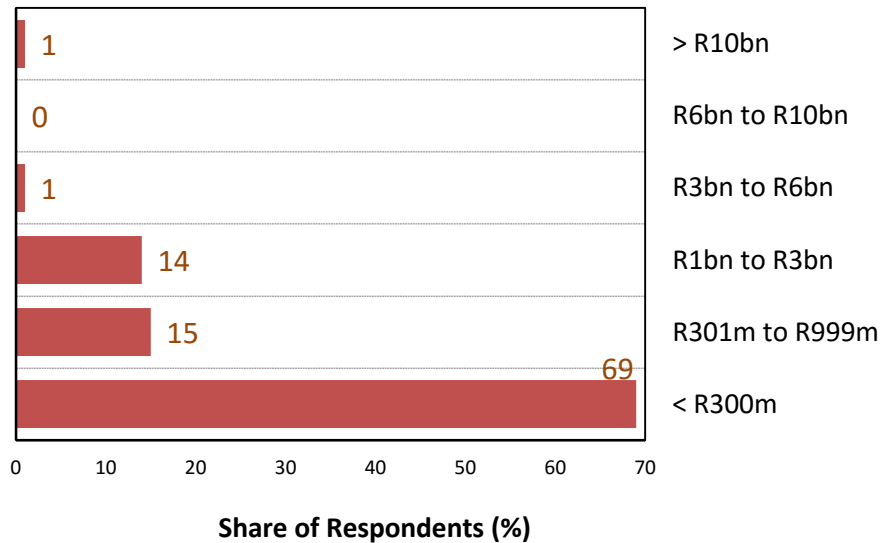
Number of survey respondents, Q1 2011 – Q3 2015 Manufacturing Circle Survey



# Mainly small to medium survey participants

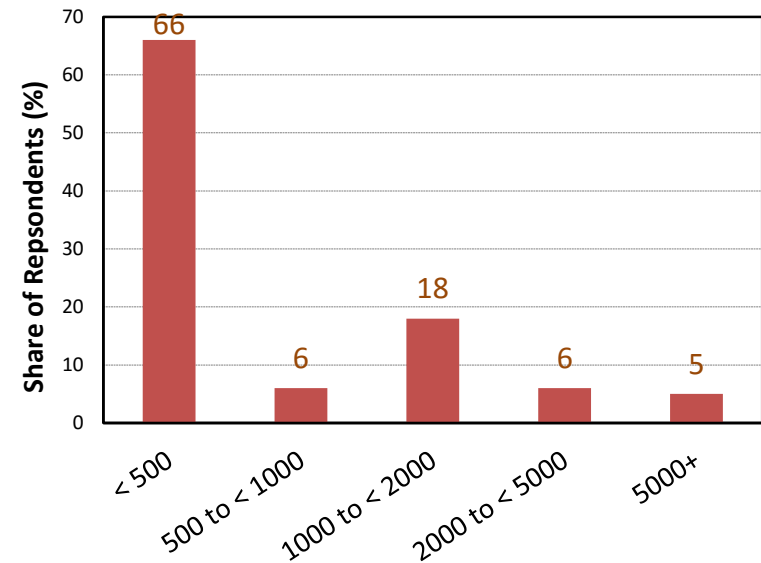
## What was your company's turnover in Q3 2015

Company Turnover



## How many employees did your company have in Q3 2015

Number of Employees

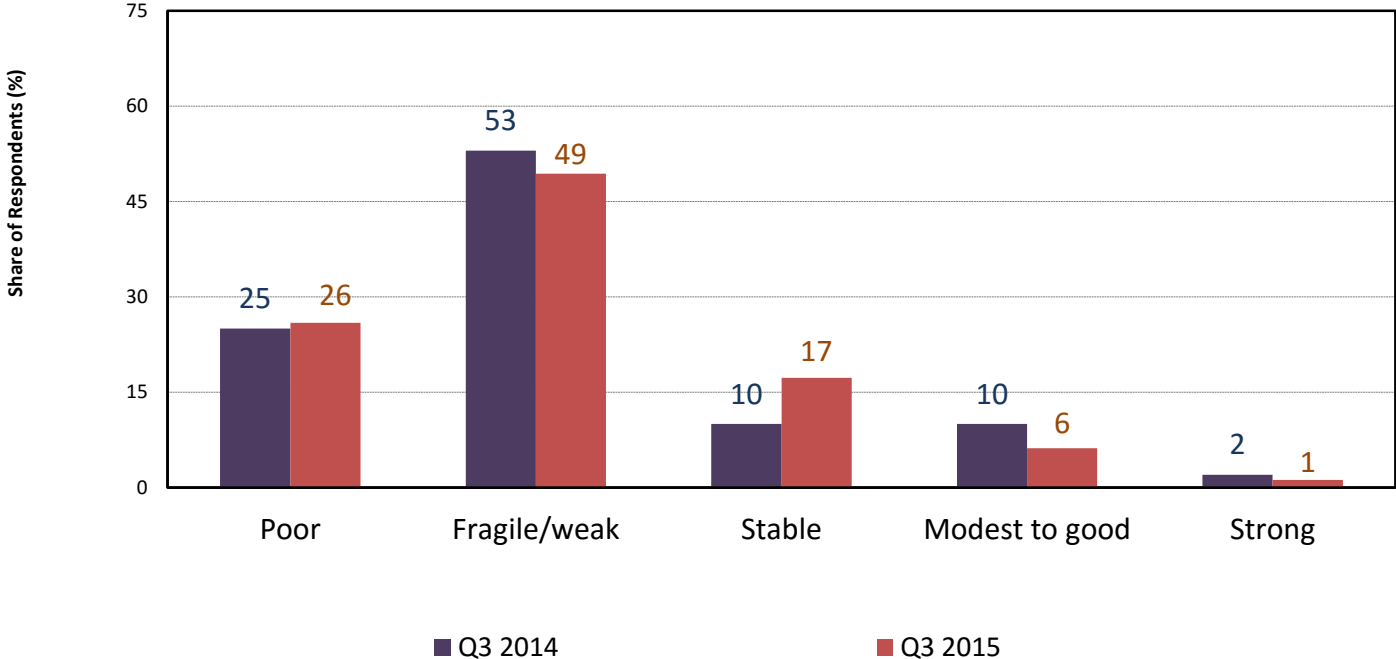


# OVERALL MANUFACTURING BUSINESS CONDITIONS

# Mostly “fragile/weak” and “poor” business conditions

How do you perceive the manufacturing sector' conditions?

Current Outlook



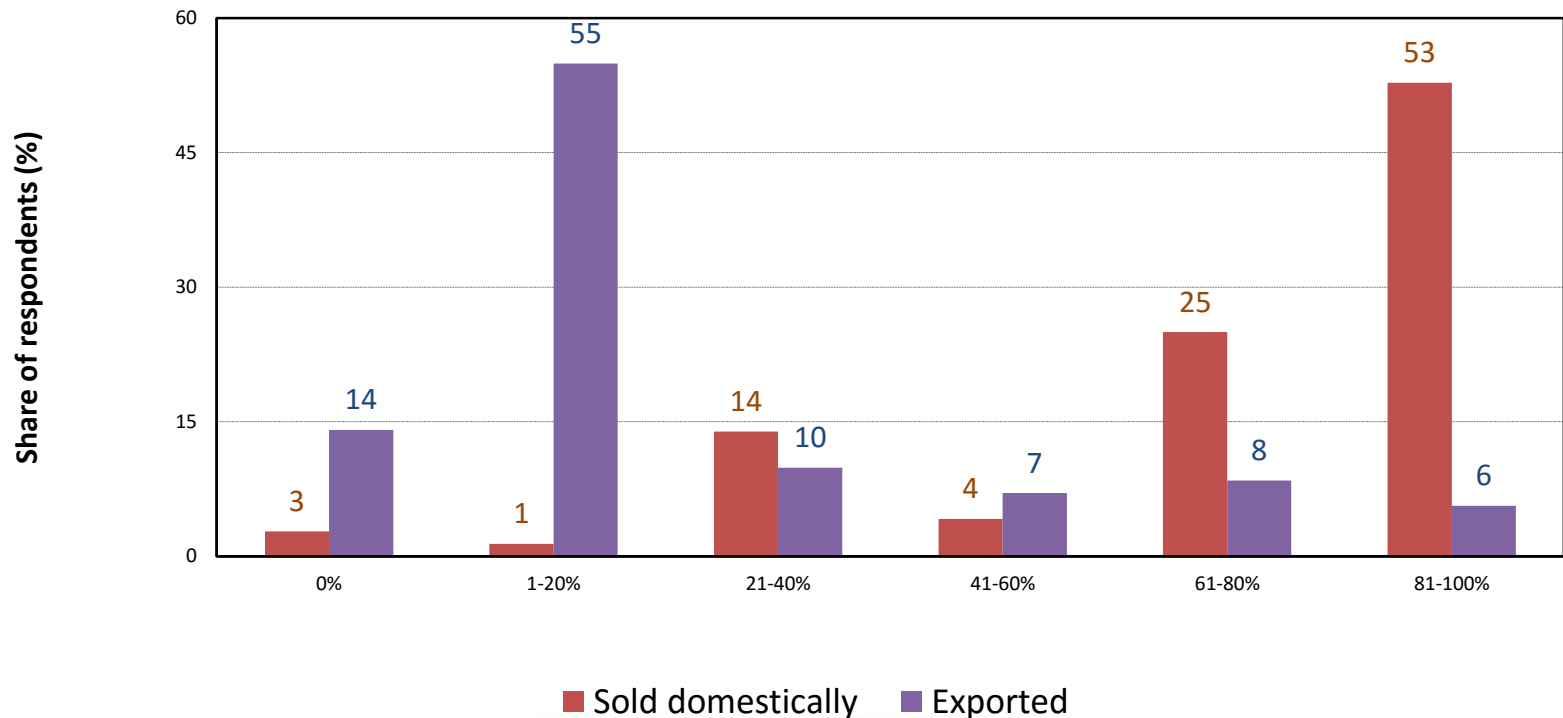
# Factors that undermined business conditions include:

1. Lingering uncertainty associated with electricity provision
2. Rising electricity and labour costs
3. Chronic factors (rand volatility, inputs shortages and elevated competition from imports)
4. Low productivity, lack of skills as well as unrest in labour market (e.g. Strikes)
5. Low government spending on infrastructure programmes

# DEMAND CONDITIONS

# Majority of surveyed firms sold a significant share of their output domestically during Q3 2015

What is the proportion of your production that is “sold domestically” / “exported”?





# Domestic sales for the manufacturing sector were muted, while export sales appear to have fared better

What is the percentage change in the volume of *domestic* sales?

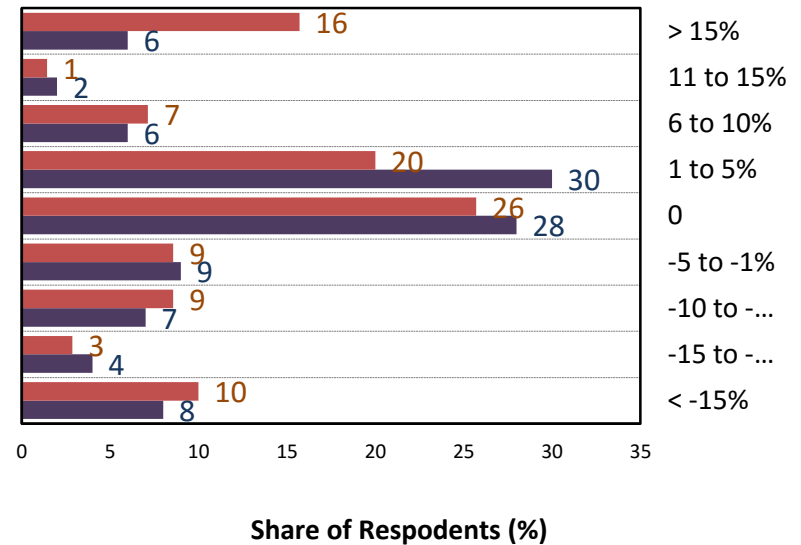
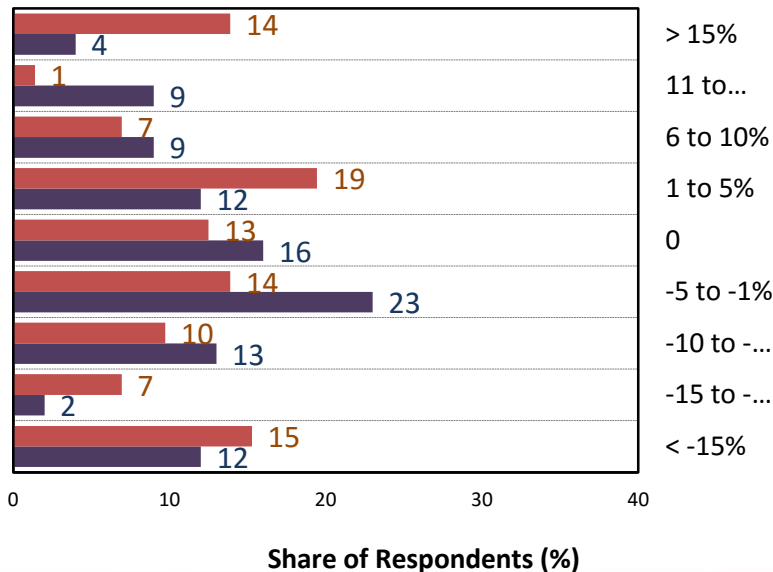
What is the percentage change in the volume of *export* sales?

Domestic Sales (Volume)

Export Sales (Volume)

■ Q3 2015 ■ Q3 2014

■ Q3 2015 ■ Q3 2014

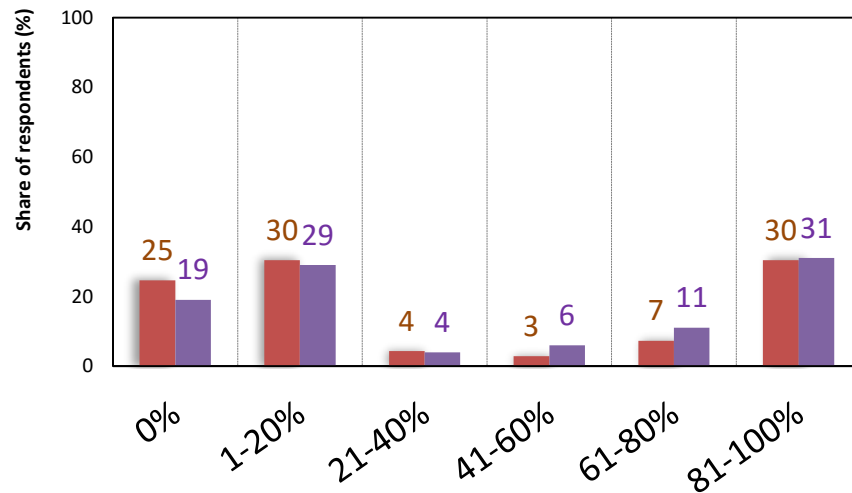


# Africa and Europe remained key export markets albeit dampened exports to Europe

What is the distribution of export shares to Africa and Europe?

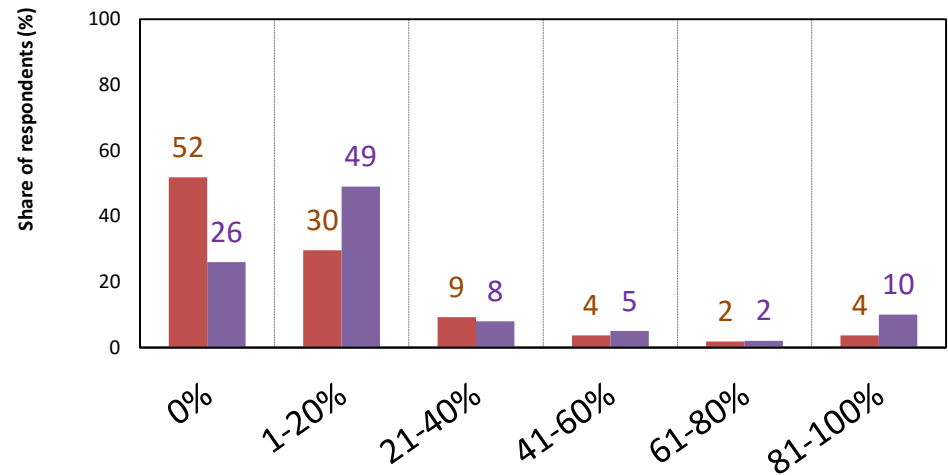
## Africa

■ Q3 2015 ■ Q3 2014



## Europe

■ Q3 2015 ■ Q3 2014



# Some of the factors that have weighed negatively on sales in the third quarter of 2015:

1. Muted domestic and foreign demand,
2. Subdued business from the mining sector due to negative conditions in that sector,
3. Industrial action in the form of strikes and downtime caused by power cuts have resulted in some clients opting to import rather than to face delays, hence this is taking business away from local producers,
4. High freight and general transport costs negatively impacting exports,

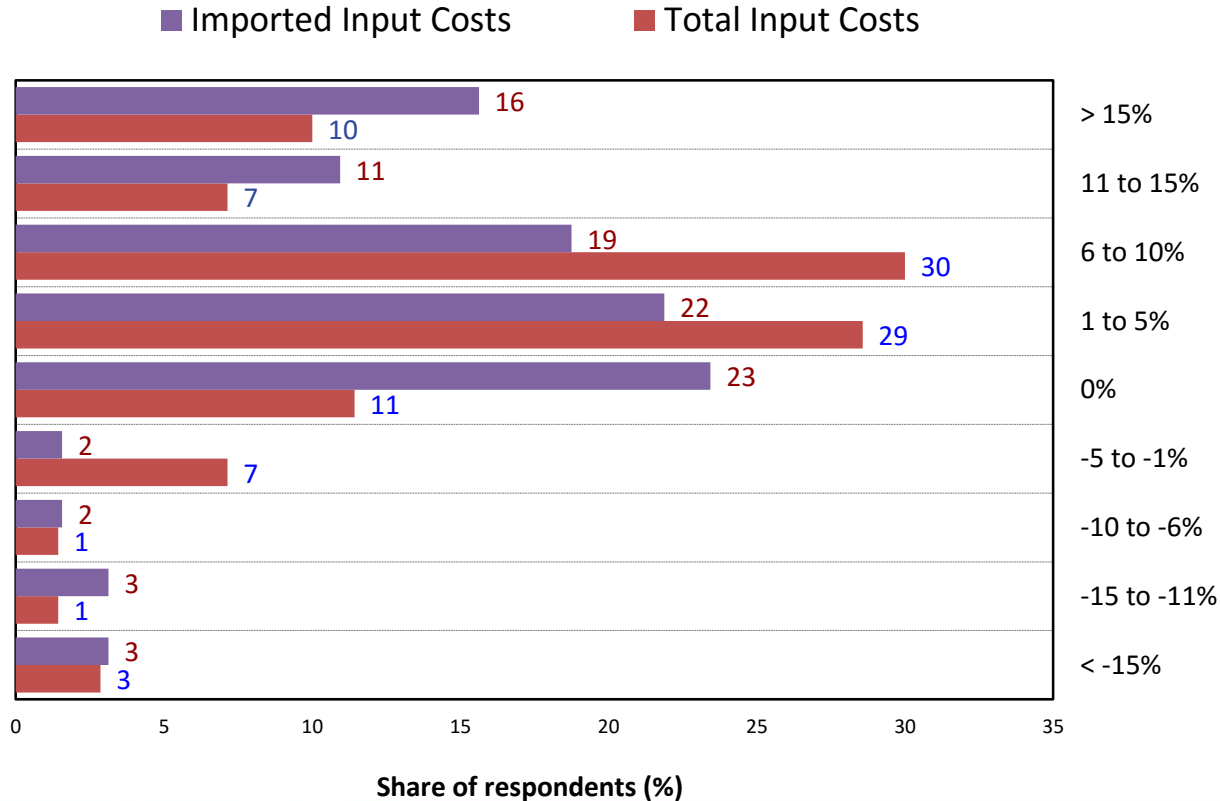
# For firms that indicated growth in sales, below are some of the reasons given for this increase:

1. Increased domestic demand due to muted imports as a result of the weak rand,
2. Seasonal demand increase typical at this time of the year,
3. New business from other overseas countries with assistance from the DTI,
4. Growing mining sectors in North America and Canada increasing export demand,
5. Increased demand form other African countries,

# SUPPLY CONDITIONS

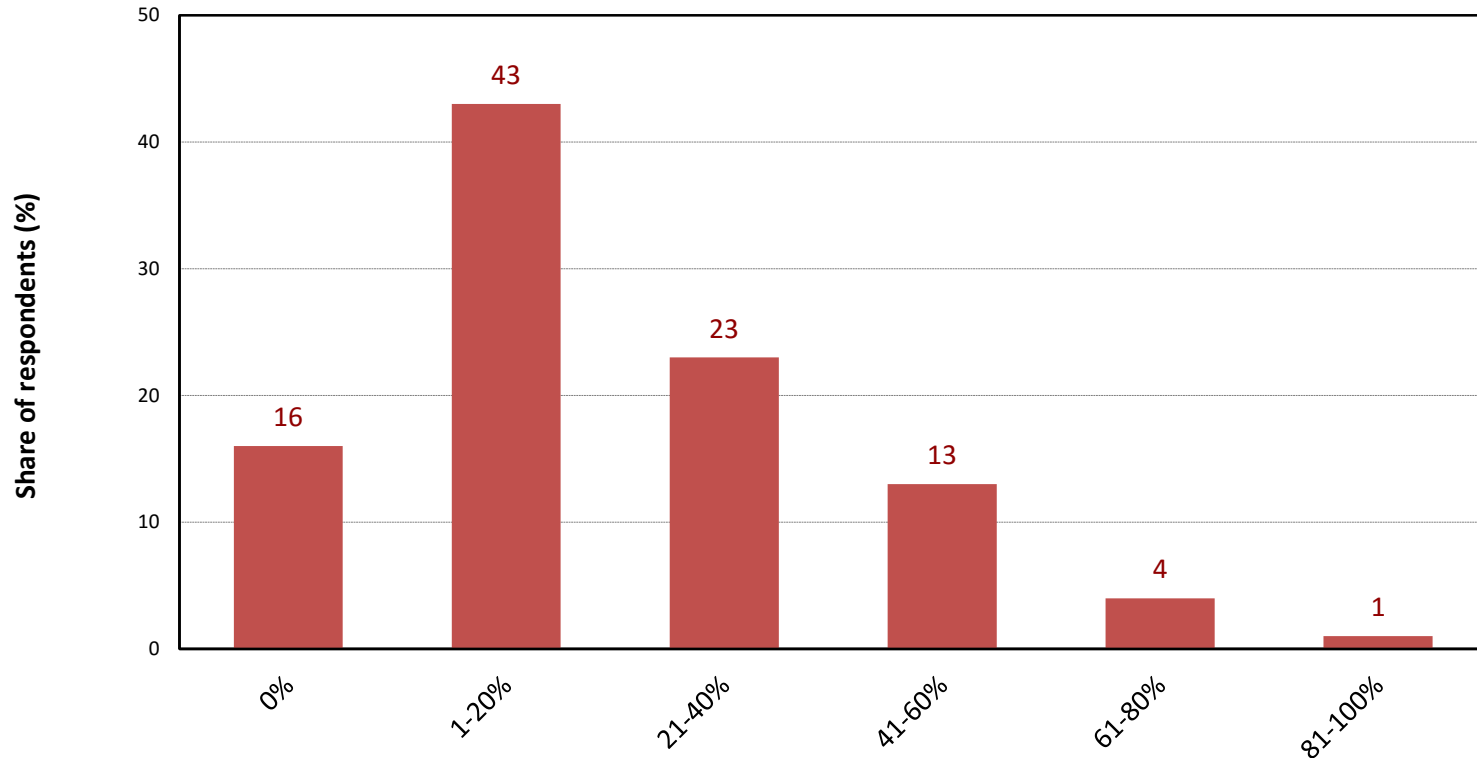
# Total input costs went up for approximately three quarters of the survey respondents, and...

**What is the percentage change in imported and total input costs?**



# ...imported input costs have been rising as the country's exchange rate remains weak

What is the ratio of imported input costs to total input costs in over the quarter?



# Some drivers of elevated input costs:

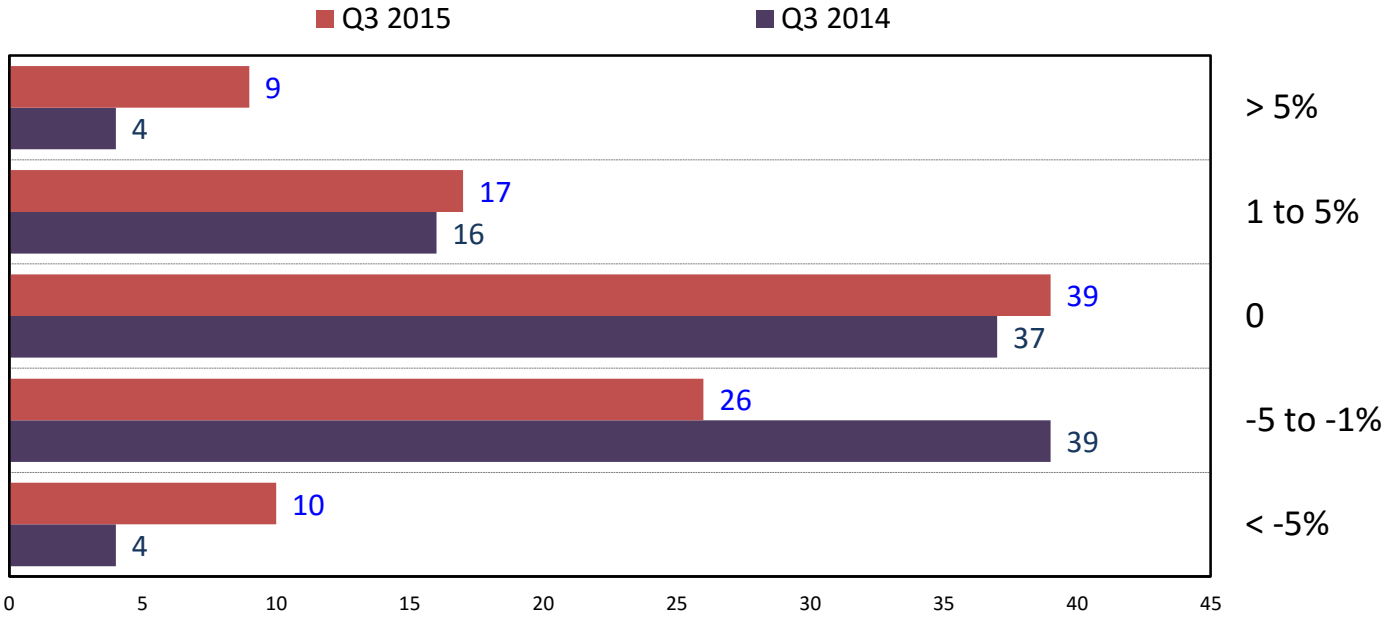
1. Weak and volatile exchange rate
2. Exorbitant labour costs
3. High transport costs
4. Increasing electricity costs



# EMPLOYMENT, SKILLS DEVELOPMENT & LABOUR PRODUCTIVITY CONDITIONS

4 out of 10 manufacturers reported a decrease and approximately a quarter indicated an increase in labour force over Q3 2015. There was, however, a reported y/y increase in employment.

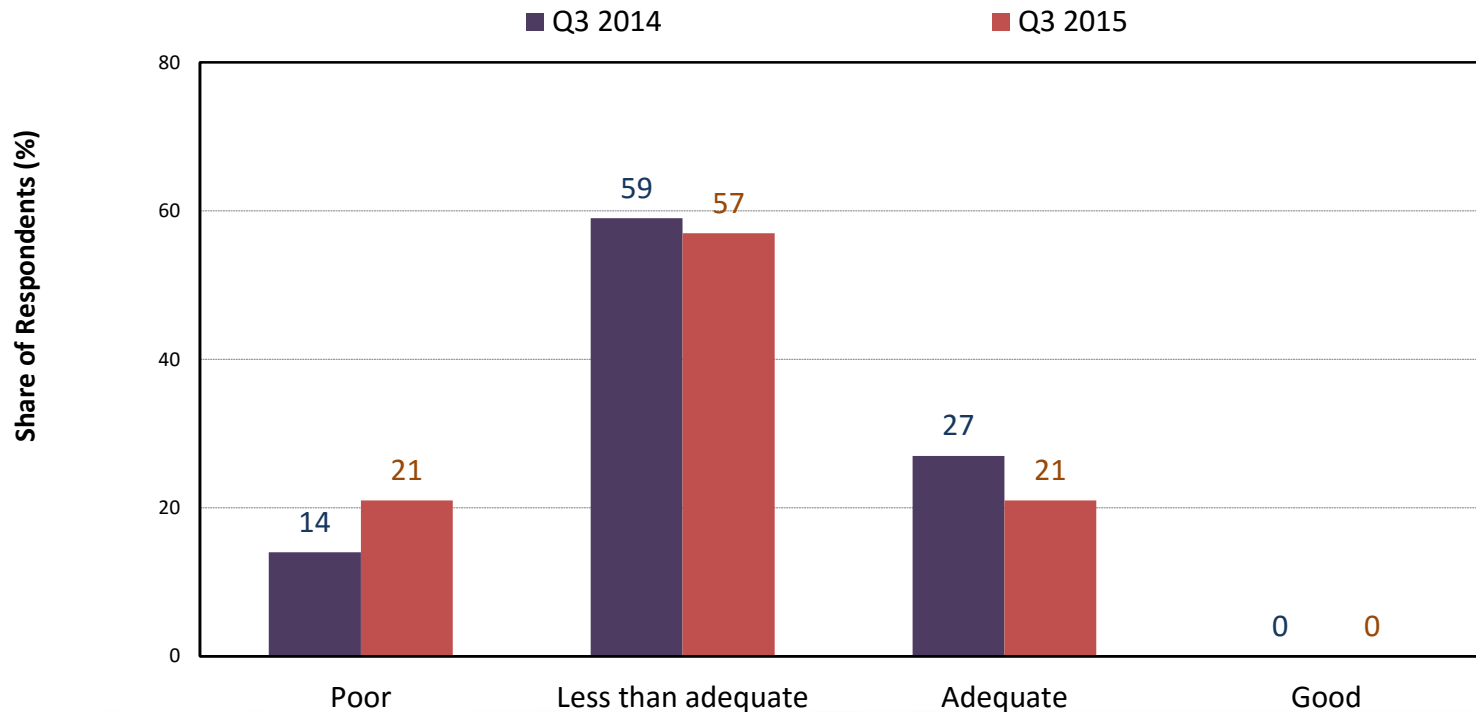
### What was the change in employment level?



Share of Respondents (%)

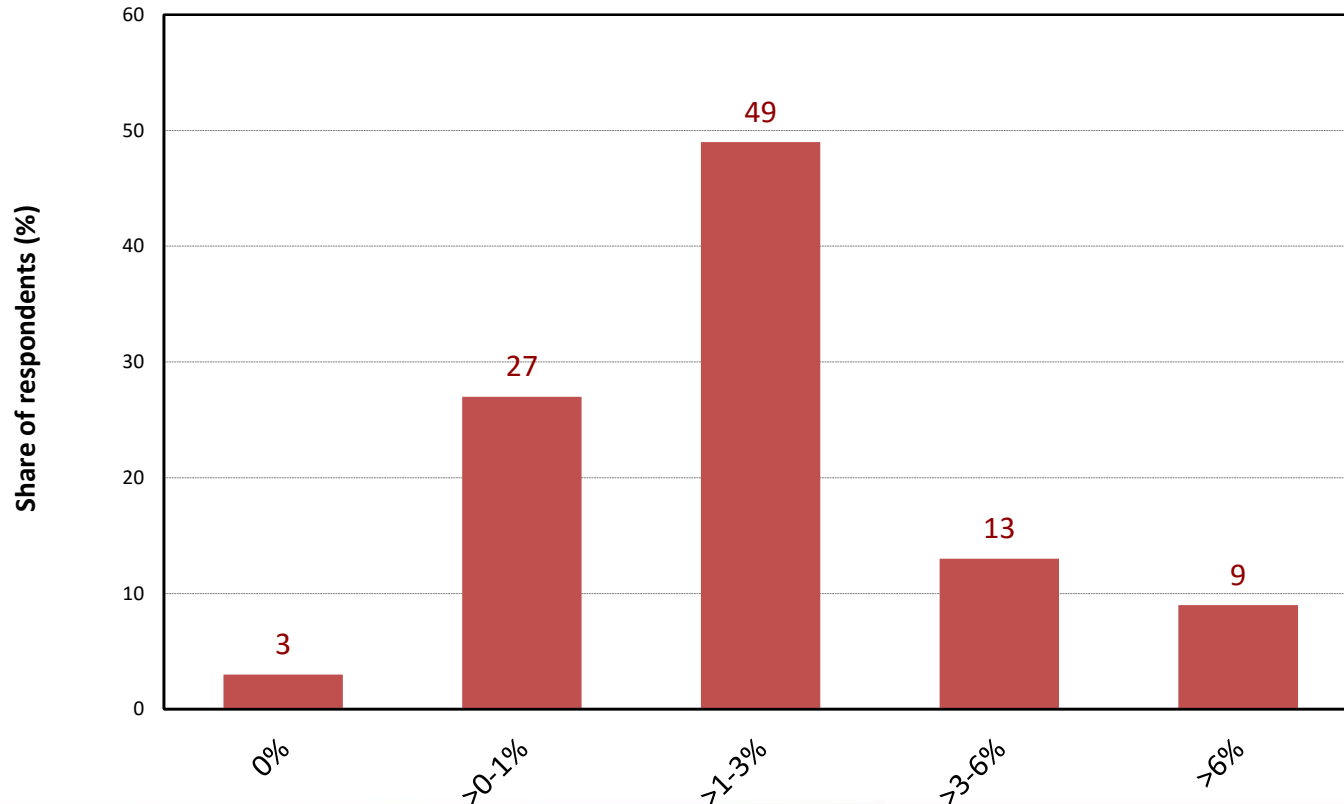
# All in all, skills availability in the manufacturing sector remain inadequate, still...

How do you describe the status of skills availability in your industry?



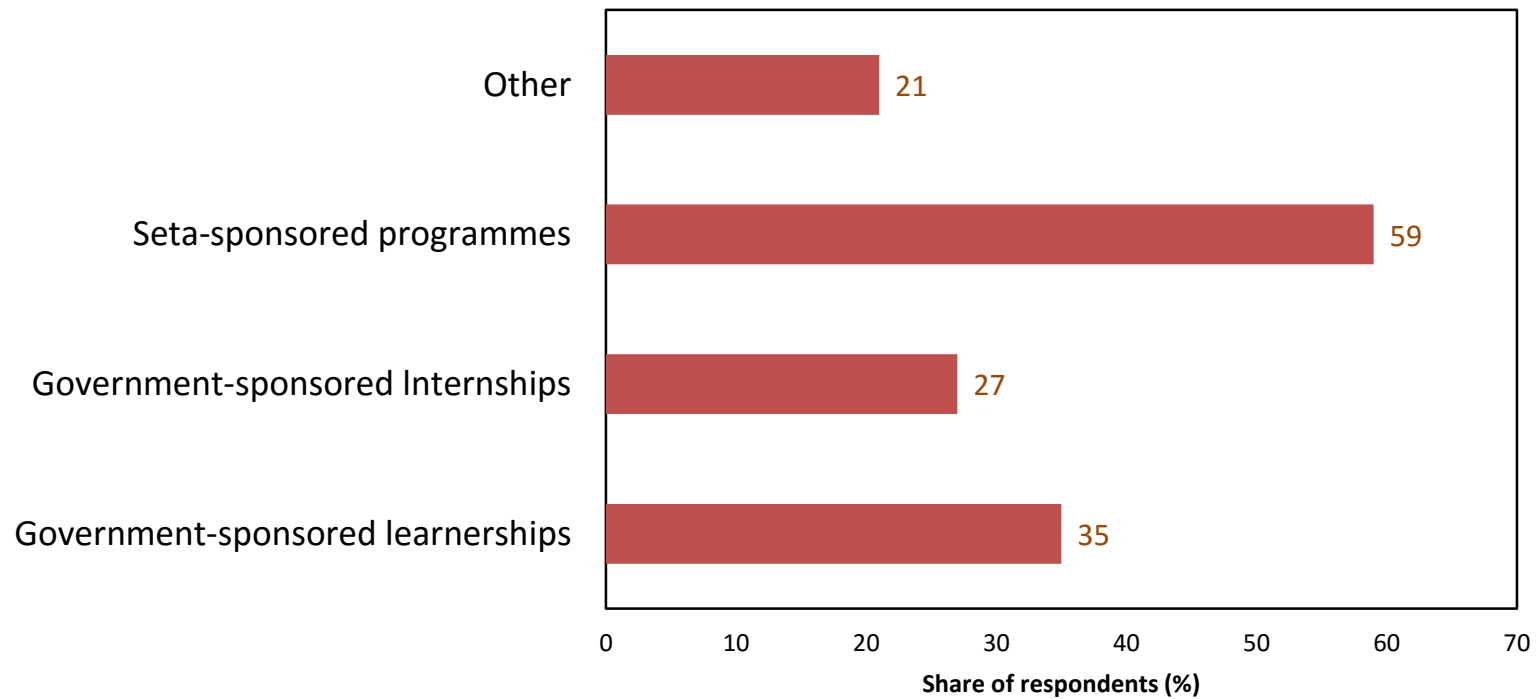
# ...only just over 2 out of 10 of the surveyed firms said they invested over 3 per cent of their turnover in skills development in Q3 2015

As a percentage of turnover, how much does your company invest in skills development?



# The majority of firms taking part in skill development are doing so through SETA and government sponsored programmes

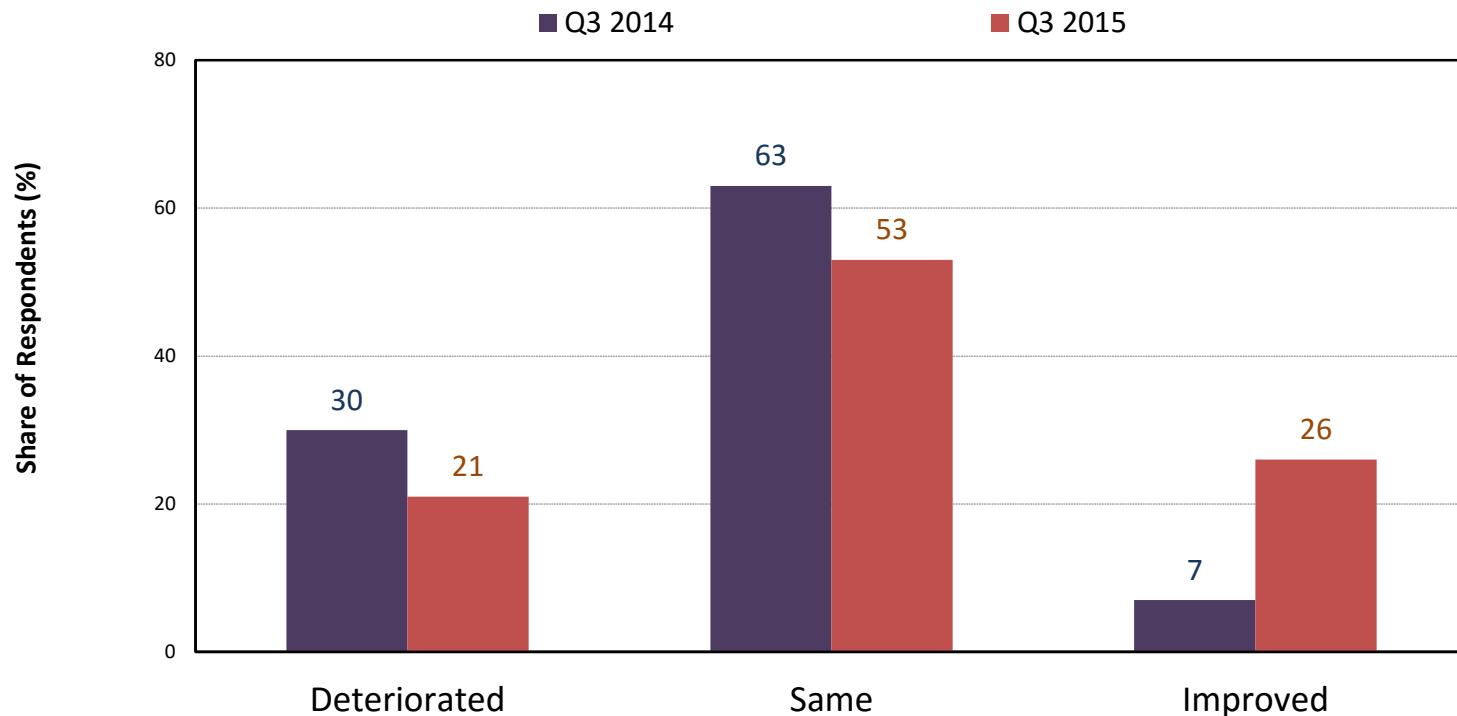
Which of the following skills development programmes does your company make use of?



Note: A respondent could choose more than one option.

# There was some improvement in the reported level of skills from Q3 2014

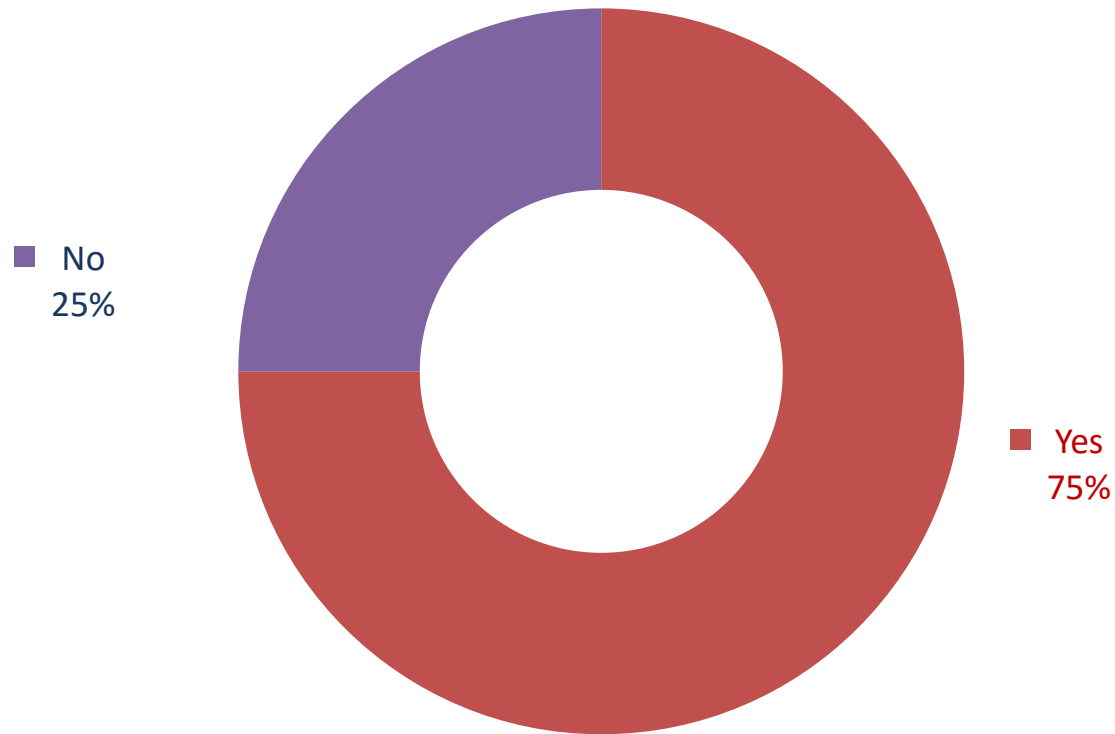
How do you describe the level of labour productivity over the quarter?



# UTILITIES SERVICES CONDITIONS

Water demand is high amongst manufacturers as majority of respondents indicate that water is important for their operations, and...

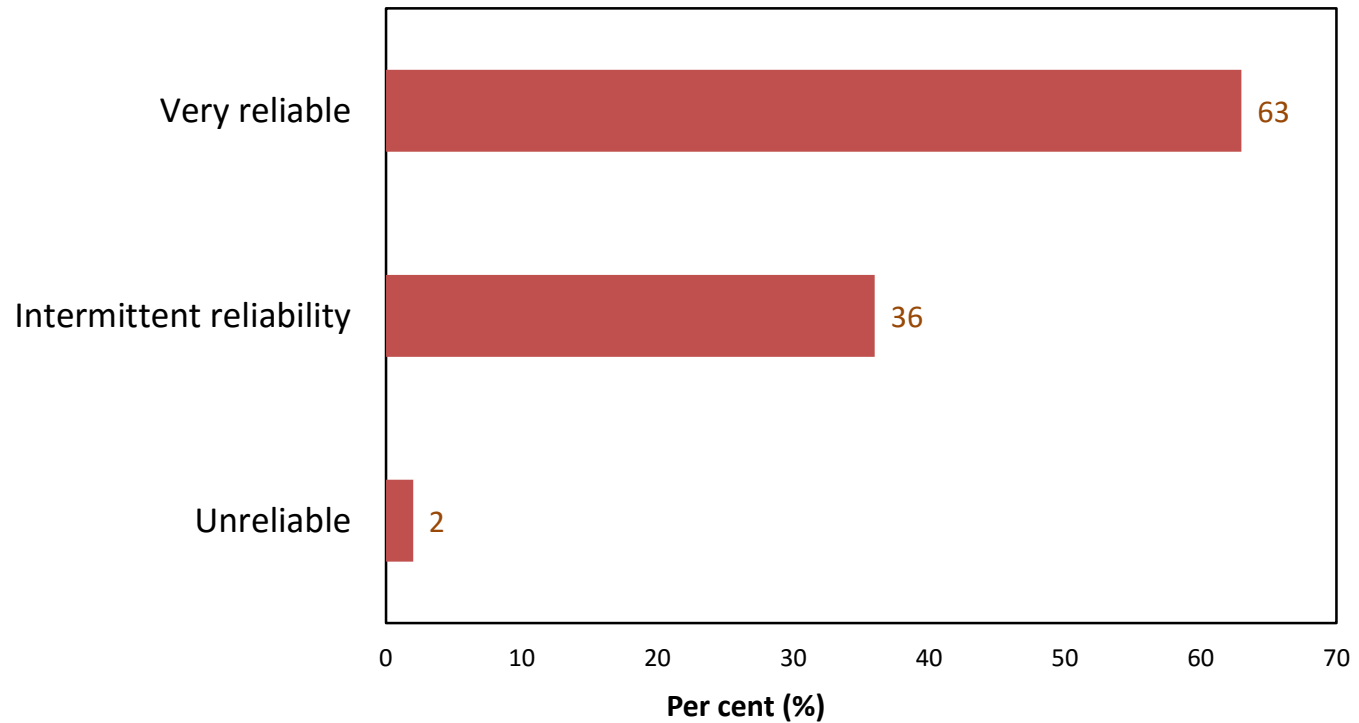
**Is water important for your operations?**





# ...its supply is fairly reliable

## How reliable is your water supply?

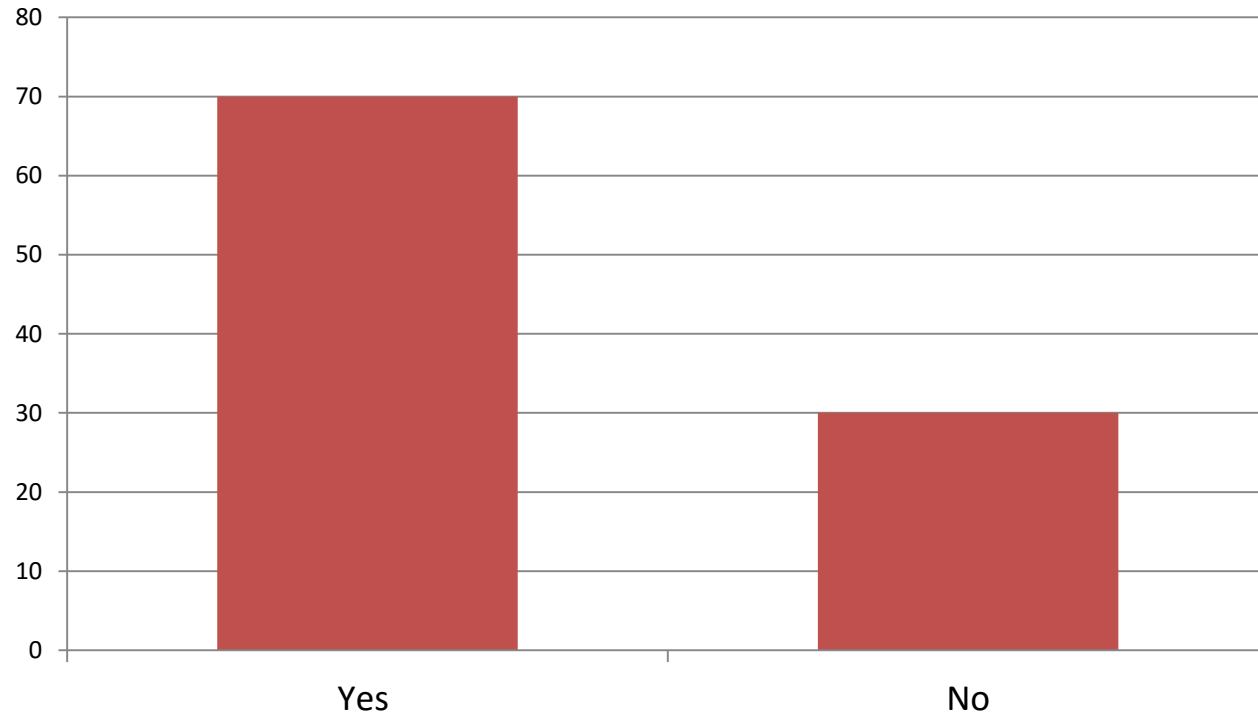


## With regard to water supply and usage, the following emerged from the survey:

1. There are concerns about the on-going drought and the negative impact it is having on production as well as its potential impact on future water supply,
2. It is the view of some that water provision, although reliable, is costly,
3. Some manufacturers have boreholes, water tanks and other measures in place as contingency measures against disruptions in water supply.

# Regarding sustainability, a significant proportion of manufacturers point out that they have initiatives in place to use water more efficiently

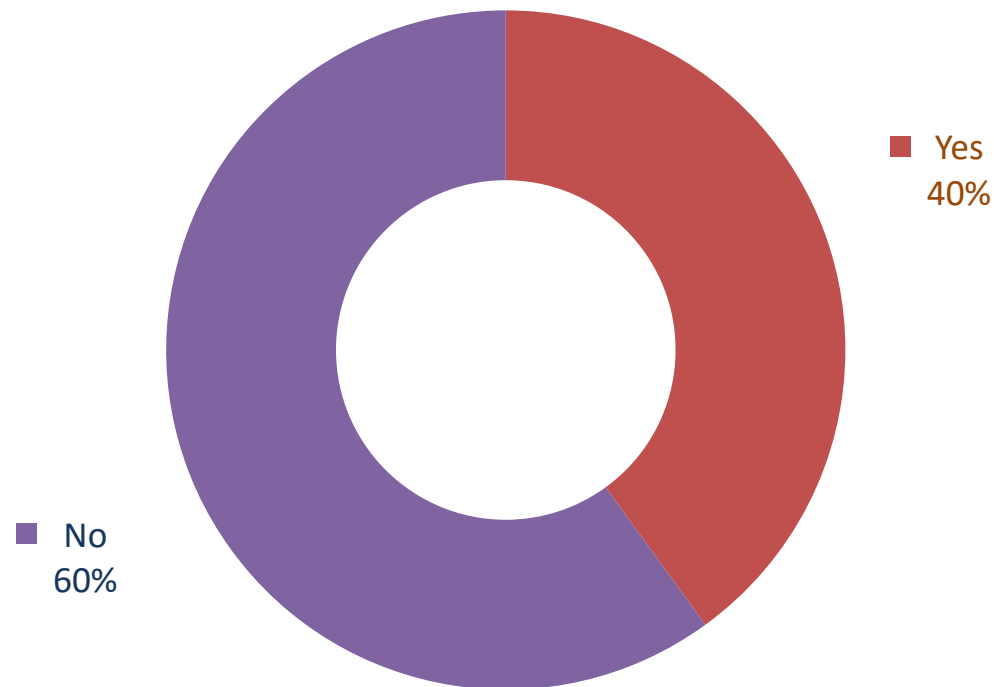
**Do you have any initiatives to save/use water more efficiently?**



# COMPANY LEVEL COMPETITIVENESS CONDITIONS

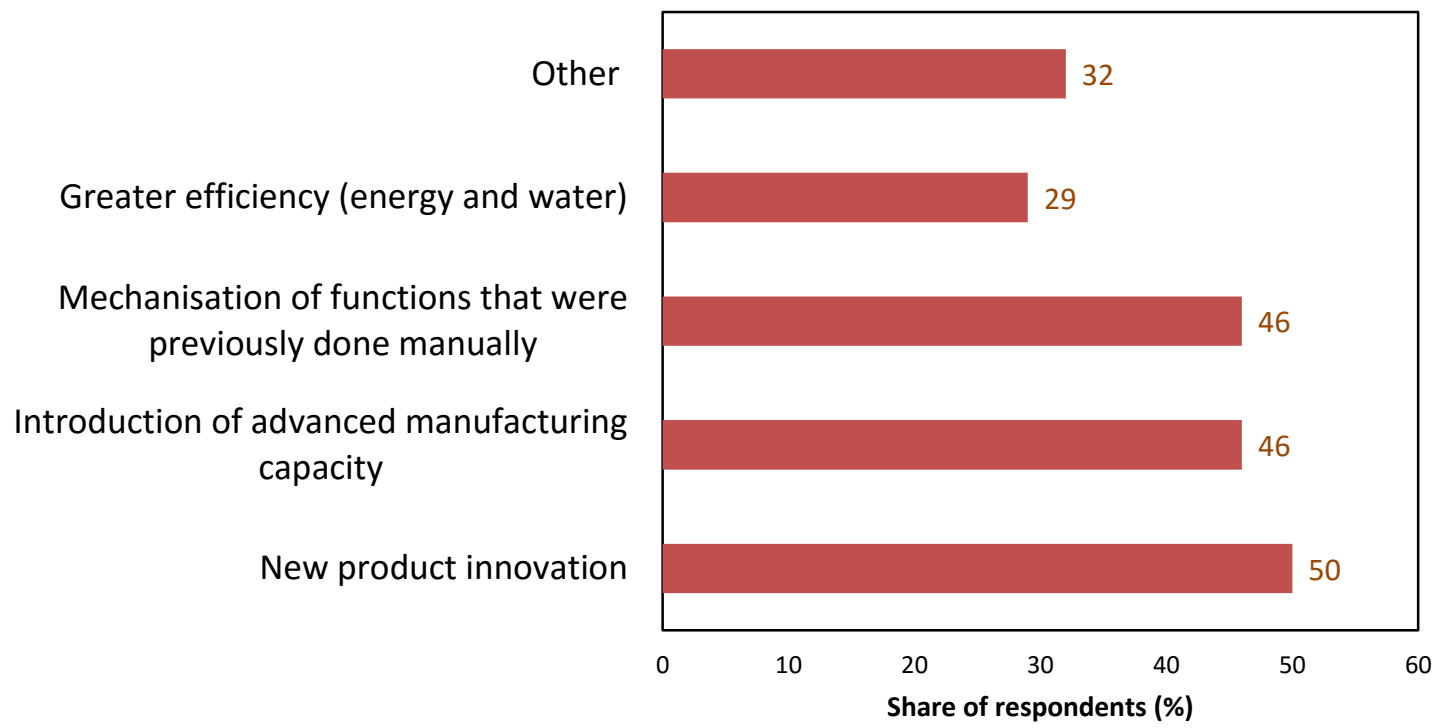
# The majority of surveyed firms did not upgrade plant capacity over the quarter, with the muted economic climate likely a major contributing factor, however...

**Have you upgraded any existing capacity at your plants over the last quarter?**



...those that upgraded capacity did so for various reasons, e.g. to introduce advanced manufacturing capacity and to achieve greater efficiency

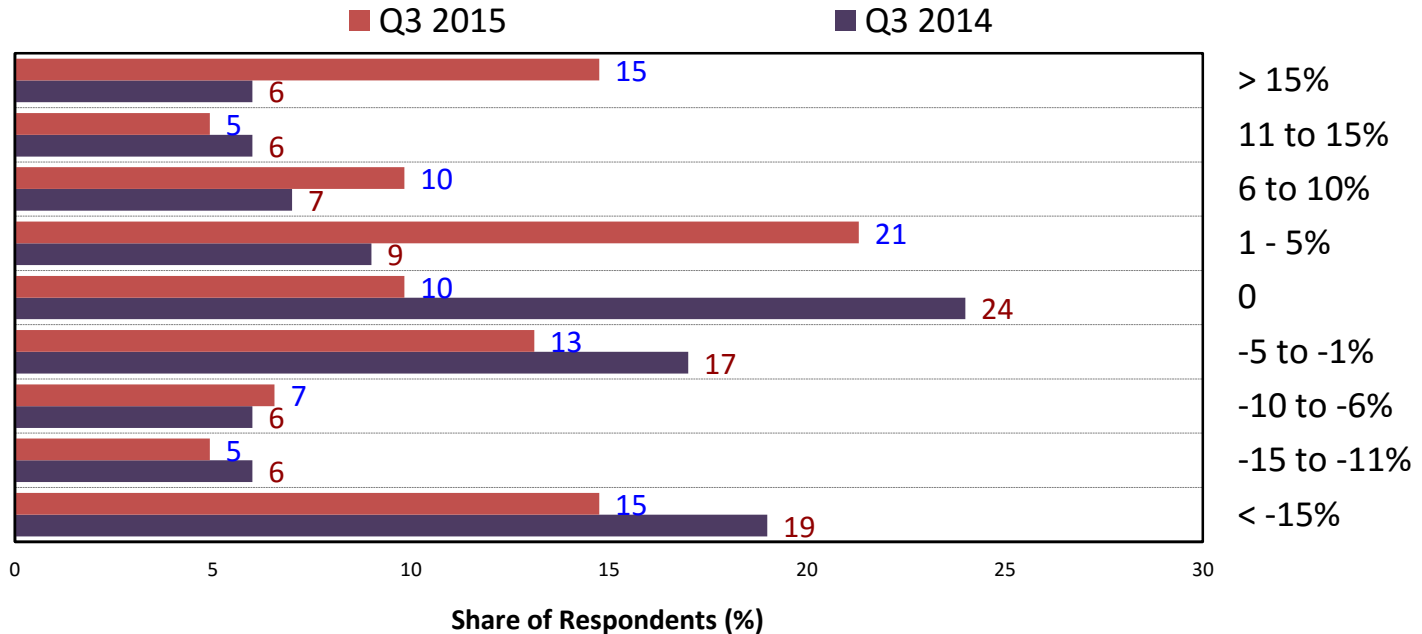
**If the previous answer was yes, what are the main reasons for the upgrades?**



# PROFITABILITY AND ACCESS TO CREDIT CONDITIONS

Firms that recorded an increase in operating profits (before cost of funding) increased to approximately 5 out of 10 during Q3 2015 compared to the almost 3 out of 10 firms in Q3 2014

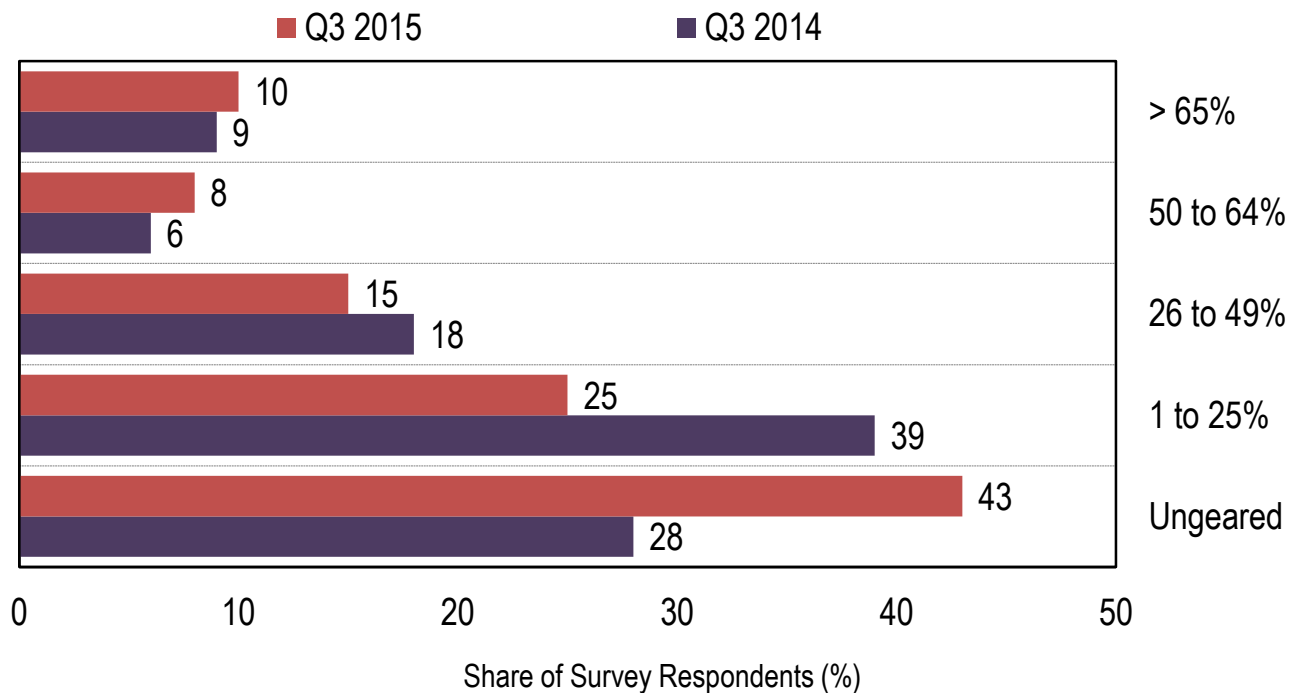
**What is the percentage change in operating profit before cost of funding over the quarter?**





# There was a noticeable drop in the proportion of geared firms from Q3 2014 to Q3 2015...

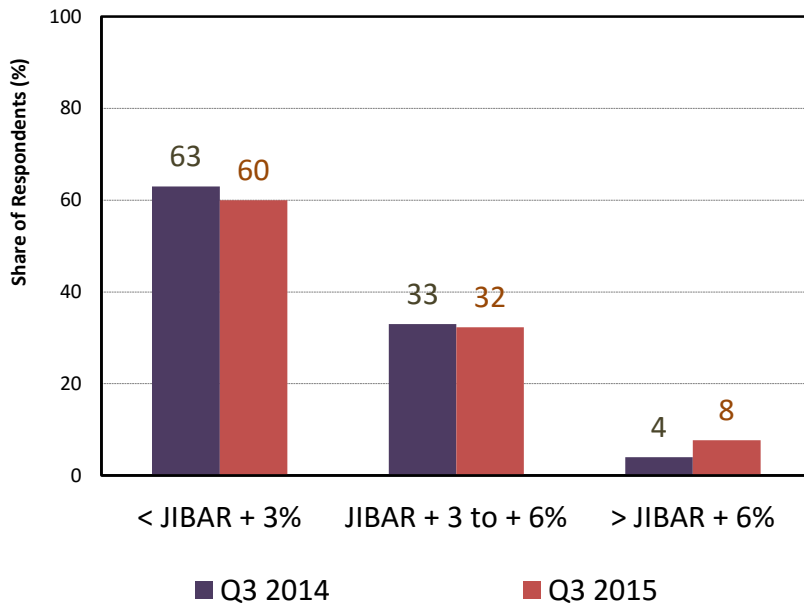
What is your firm's debt to equity ratio over the quarter?



...and not much of a change in the y/y rates at which firms accessed short-term funding. However there was an increase for long-term funding

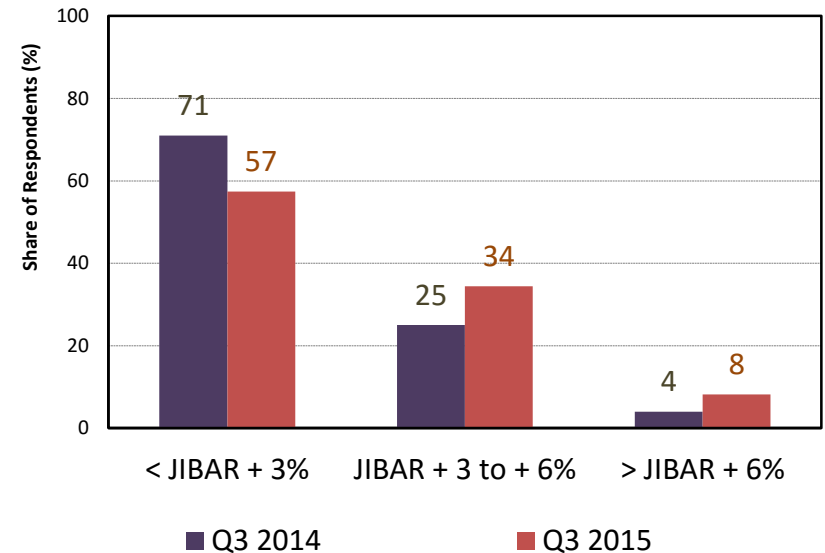
### Short-term funding rate

Short-Term Funding Rate



### Long-term funding rate

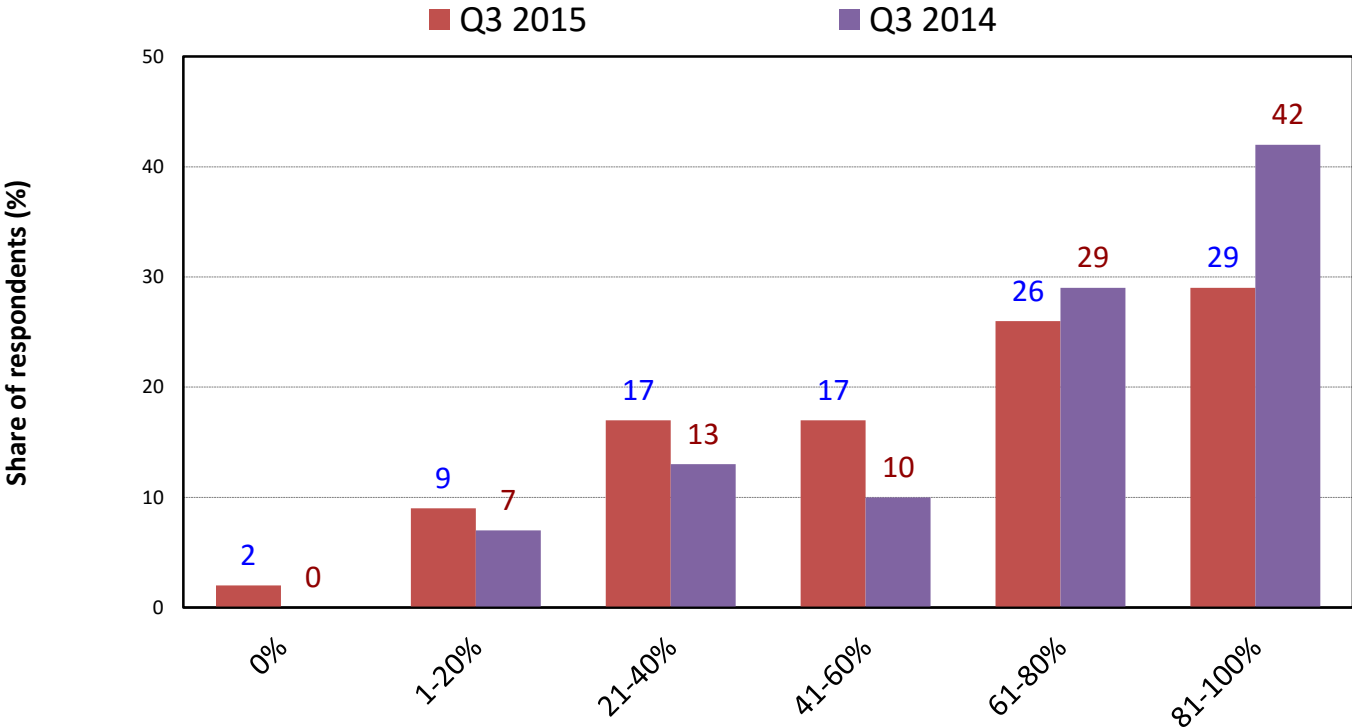
Long-Term Funding Rate



# LOCAL PROCUREMENT

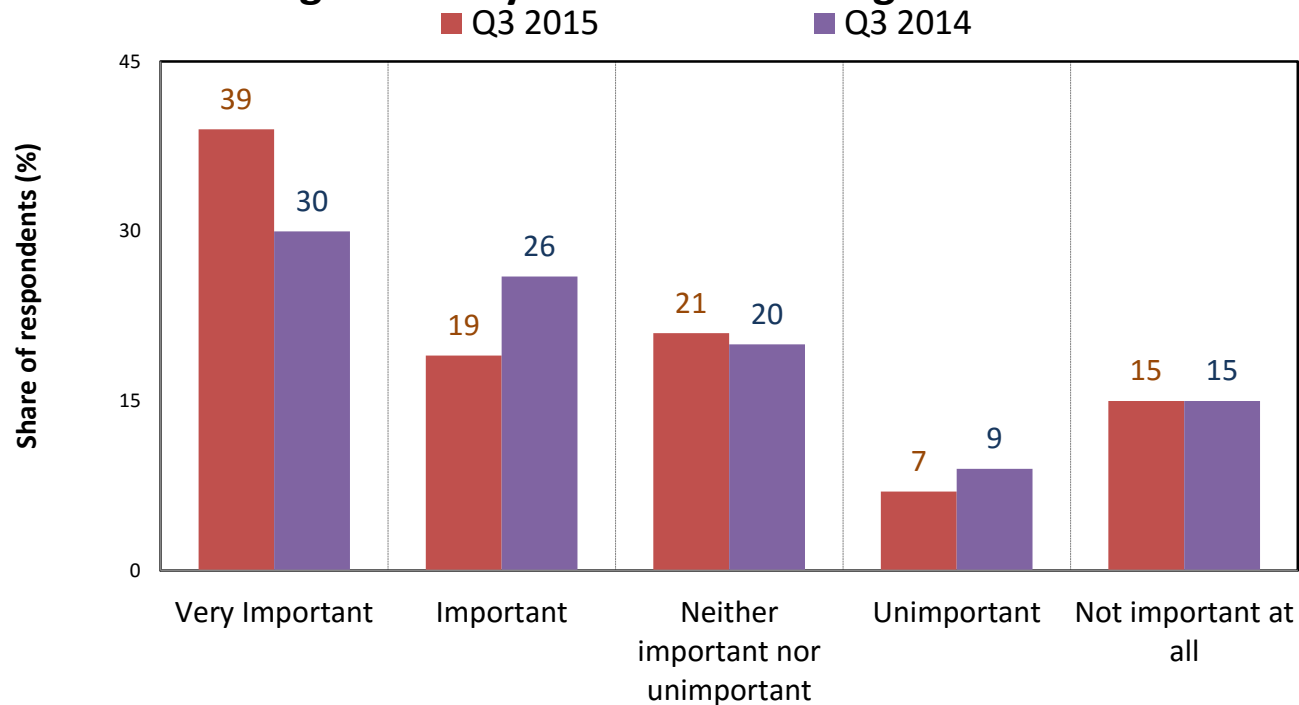
# Results indicate that reliance on locally sourced inputs by firms decreased in intensity from Q3 2014 to Q3 2015

What percentage of your total purchase is locally sourced products?



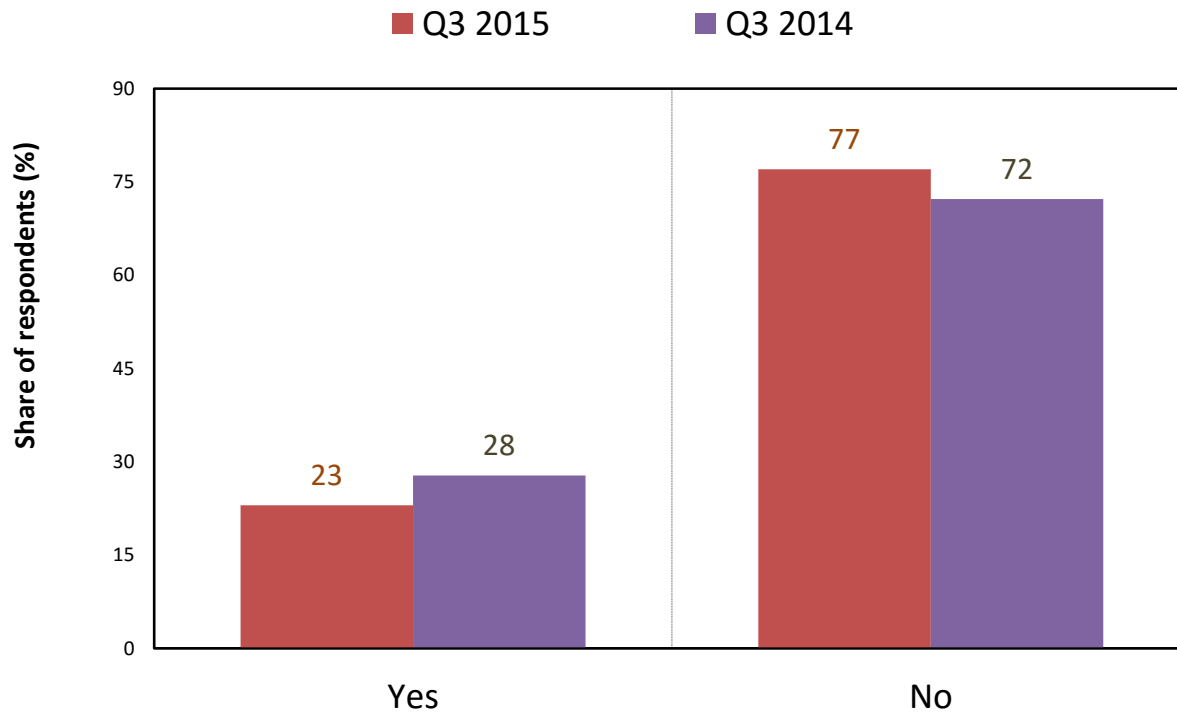
# A larger proportion of manufacturers considered the government's local procurement programme very important during Q3 2015 than in 2014...

**How important is the government's local procurement programme to the maintenance of growth in your manufacturing concern?**



# ...but less benefited from the programme

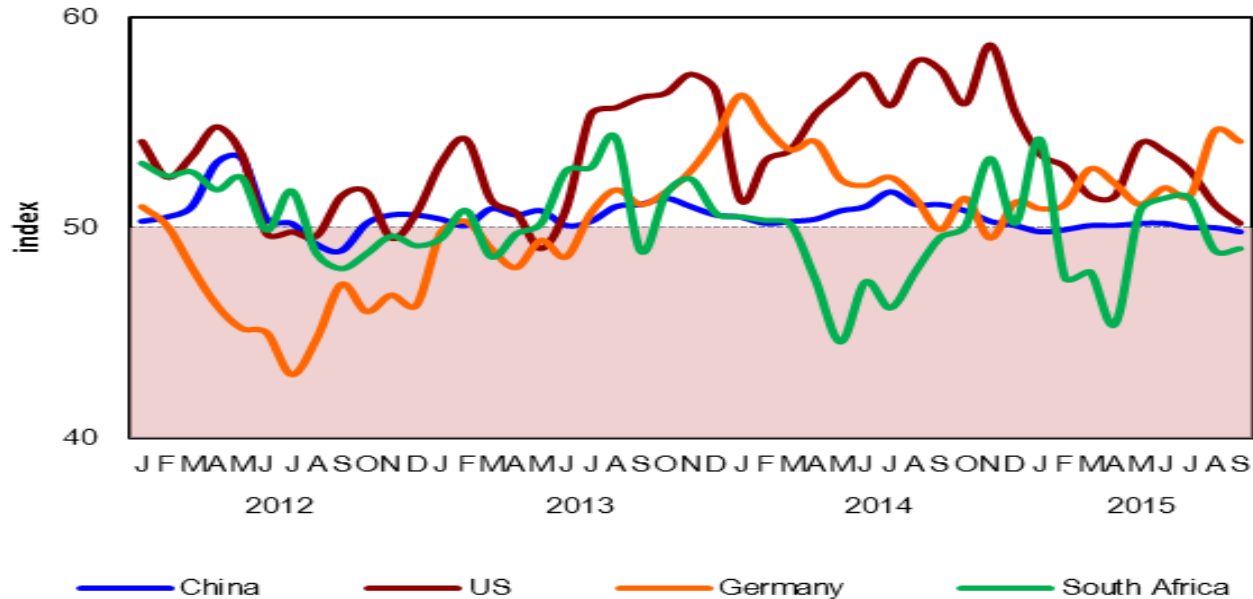
Does your manufacturing concern currently benefit from the government's local procurement programme?



# MANUFACTURING OUTLOOK

# SA's PMI remained low, and so did the PMI's of many of its trading partners – alluding to possible negative spillovers

**Purchasing Managers' Index, SA vs. major trading partners, Jan 2012 – Sep 2015**  
(50 = no change)





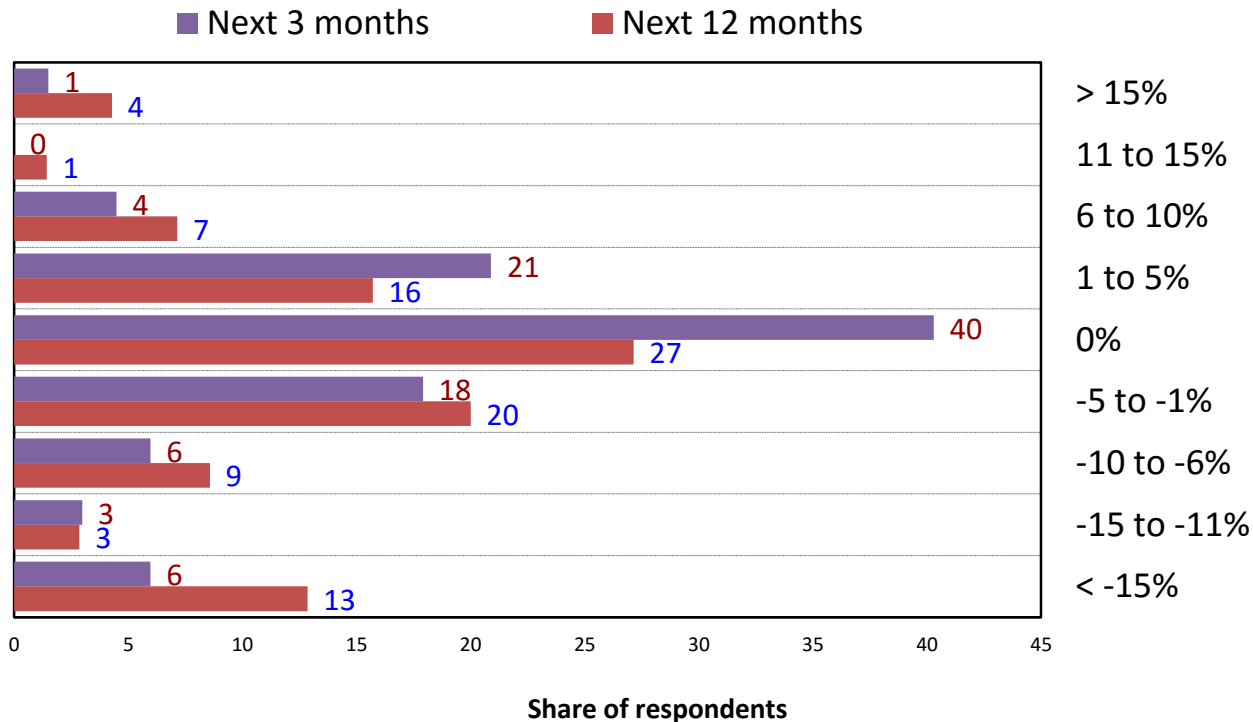
Although respondents remain mostly pessimistic about business conditions, there appears to be less pessimism regarding the near future...

Rise in surveyed firms' pessimism ("fragile/weak" or "poor" outlook)

Horizon	Proportion of pessimistic respondents (in per cent)	
	Q3 2014	Q3 2015
6 months	65	77
12 months	66	69
24 months	47	52

# ...but, fewer firms are planning on increasing employment over this period than those that are planning to cut it

**What is the planned percentage change in employment?**



# CONCLUDING REMARKS

# Concluding remarks

1. The third quarter of 2015 (Q3 2015) Manufacturing Circle survey reveals that business conditions in the manufacturing sector remained fragile in line with the rest of the economy.
2. Poor domestic and global economic conditions are mainly responsible for the manufacturers' negative sentiments with regards to business conditions in the industry, and the survey shows that both the local and foreign markets are important for local manufacturing businesses.
3. Interestingly, the survey reveals that employment increased in the manufacturing sector during Q3 2015 from Q3 2014.

# Concluding remarks

1. The survey reveals that water is important for the manufacturing sector, and in terms of supply, the majority of the survey's participants indicate that it is fairly reliable. However, concerns have been raised in terms of the on-going drought and the negative impact it is having on production as well as its potential impact on future water supply.
2. Finally, the surveyed manufacturers expect conditions in the sector to stabilise somewhat going from the short to the medium term.

Thank you for your attention

## Q&A

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