MANUFACTURING INVESTMENT ON THE RISE

Press Release | Johannesburg | 12 March 2018

The Manufacturing Circle released its 2017 fourth quarter investment tracker (MCIT) this morning. MCIT is a quarterly index, tracking investment trends in the manufacturing sector. The focus is on actual expenditure patterns in the areas of property, plant and equipment, inventory, human capital and research and development.

In the last quarter of 2017, MCIT rose by 3 index points to 63, mirroring the first quarter of 2017 and jumping 5 index points on the same quarter in 2016. The increase was mainly driven by new investments in property, and higher spend on salaries and wages, which is expected in the fourth quarter, as firms hire more temporary staff to meet increased demand at this time of the year.

André de Ruyter, chairman of the Manufacturing Circle noted, "sentiment is changing and there is growing optimism about the prospects of the SA economy. Management teams are more positive about the future." MCIT reflects an upward trend, after a dip in quarter 3, with results consistently above the neutral 50-point mark, which is evidence of the resilience of the respondents, who are mostly medium to large firms."

There was a 16 index point increase to 66 in investment on expanding existing property and/or purchasing of new buildings. Expenditure on property maintenance also rose from 58 to 66 points, the highest level since the introduction of the MCIT. This is partly a result of the fact that general maintenance has been put off for an extended period due to the economic environment. It had reached a critical stage and needed to be attended to. In addition, there is always extra expenditure prior to the festive season.

Companies surveyed expect a further increase in the first quarter of 2018 which can be attributed to the general sentiment that the SA economy is improving.

Expenditure on new plant and equipment remained above the 50-point mark between Q3 2017 and Q4 2017 although at a lower rate, dropping from 72 points to 70. Spending on the maintenance of existing plant and equipment increased in Q4 2017, continuing the increase from the previous quarter and adding a further 10 index points in Q4 to 66. Many companies use the December closure period for large maintenance projects so as to make effective use of downtime.

Looking ahead, manufacturers indicated that investment in new plant and equipment is likely to increase by the same rate in Q1 2018 as it did in Q4 2017, while expenditure on the maintenance of existing plant and equipment is likely to fall following extensive maintenance in the fourth quarter.

Spending on inventory follows demand patterns. In Q4 2017, it fell below the neutral 50-point threshold to 46 points after it had risen to 56 in the previous quarter. This is expected since sales generally increase in the fourth quarter every year, using up existing inventories.

Looking ahead, manufacturing firms expect spending on inventories to fall in Q1 2018 although not to the same extent as Q4 2017.

In Q4 2017 there was an increase in the expenditure on salaries by a further 14 index points compared to Q3, rising from 54 to 68. This was likely due to firms taking on more (temporary) workers to meet increased demand. There was also an increase in training similar to that in the previous quarter.

Looking at expectations, the surveyed manufacturers are likely to increase expenditure on both salaries and training; at a lower rate for salaries and wages as the use of temporary workers will be discontinued, but at a higher rate for training and development as firms upskill existing employees.

Investment in research and development increased in Q4 2017 by a further 10 index points from 56 to 66. This pattern is expected to continue.

In the period from Q4 2016 to Q4 2017, the actual Composite Index has generally been close to or equal to the forecasted values. This alignment is a reflection of the the skills and resources to budget accurately and respond and adapt effectively and efficiently to external circumstances where necessary.

De Ruyter stressed that the uptick in results needs to be sustained and that the manufacturing sector is not out of the woods. He said, "With unemployment at a 14-year high of 27.7%, business confidence at its lowest level in a quarter of a century, and more than half of the population living in poverty, delivering jobs and inclusive growth has to be highest priority for government, business and labour."

He added, "If manufacturing can expand to 30% of GDP, between 800 000 and 1.1 million direct jobs can be created, with 5 to 8 times that number in indirect jobs. Our 'Map to a Million' puts forward detailed proposals to deliver a million jobs in manufacturing in the next decade."

The Manufacturing Circle, the voice of the South African industry, has submitted its Map to a Million proposals to fellow manufacturers, to ministers and administrators, to regulators and policy writers, to labour and to business, and the public at large. "If we succeed in catalysing a debate on how to grow the economy, and put more people to work, we will have achieved the first step on the road towards creating a million new jobs. Our proposals are modest, and can be achieved with ease if the necessary political will is applied," said de Ruyter.

The release of the MCIT was hosted by Alex Thiel, CEO of Sappi SA, at its Rosebank offices. Sappi Southern Africa, which employs 5,217 people, is an integrated forest products company that meets the needs of local and international customers through a wide range of products. Sappi is the world's largest manufacturer of dissolving wood pulp which is converted by customers to textiles, clothing, cellophane wrap, pharmaceutical, beauty and household products.

Sappi's Paper and Paper Packaging division provides graphic papers, newsprint, office and business papers, tissue wadding, containerboard (used to manufacture cardboard boxes) and packaging papers (for the agricultural, industrial and FMCG industries) and structural timber from saw milling.

Sappi Forests division supplies woodfibre. Sappi's own-grown wood is independently certified and ISO 9000 quality assured. Approximately 30% of Sappi land is managed for biodiversity conservation, including wetlands, riparian zones and indigenous forests.

For further information and interviews:

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Background Notes:

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 expanding; below the neutral 50-point threshold indicates that expenditure patterns are declining.

The objective is to develop and derive insights about investment 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 the 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 fourth quarter 2017 is the sixth edition.

The profile of the sample of manufacturing enterprises is summarised below:

Dominant subsectors represented in the survey are:

- Basic iron and steel, non-ferrous metal products, metal products and machinery (32%)
- Motor vehicle, parts and accessories and other transport equipment (25%)

Reflecting on the number of employees and annual revenues of the respondents reveals that the majority of enterprises surveyed are large firms (i.e. with employees of more than 200). In total the respondents employed 41 351 employees, with an average annual revenue of R2.6 billion and a median revenue of R817.5 million. Most respondents have the majority of their operations in Gauteng (43%) followed by the Eastern Cape (14%), Kwa Zulu Natal (11%) and the Western Cape (11%).