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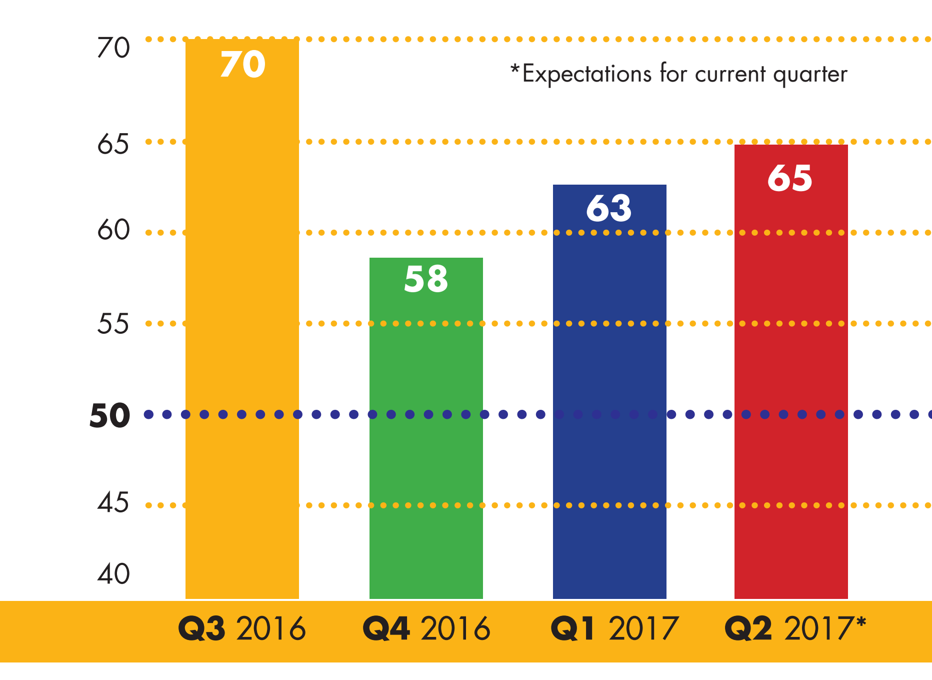
MANUFACTURING CIRCLE INVESTMENT TRACKER

A quarterly index tracking investment spending in the manufacturing sector

Q1 2017 Summary findings and outlook

The Manufacturing Composite Investment Tracker (MCIT) increased 5 index points in the first quarter of 2017 to 63 points, after recording 58 in the last quarter of 2016. A level above 50 means expansion in enterprise investment, while a level below indicates contraction in investment in the sector, and 50 points is neutral.

Composite Index



The increase to 63 points indicates a marginal expansion in investment. The largest contributors to the increase are seen in Inventory as well as expansion in Plant and Equipment - which both recorded 65,3 points. In this regard, it is important to note that the expansion in Inventory comes from a low base – having recorded 48,8 points in the last quarter of 2016.

All sub-indexes remained in expansion territory during the quarter under review, and above the levels seen in the previous quarter, with the exception of Property expansion which was neutral.

Looking ahead to the current quarter (Q2 2017), the index shows responding enterprises plan marginal expansion in investment spending in Plant and Equipment and Inventory, with 65 points.

Given the recent political and economic developments, manufacturing enterprises were asked of the effects of ratings downgrades on their investment plans. Many said they were taking a watch-and-see approach, would continue with already instituted plans, but would halt whatever they can in order to manage risks.

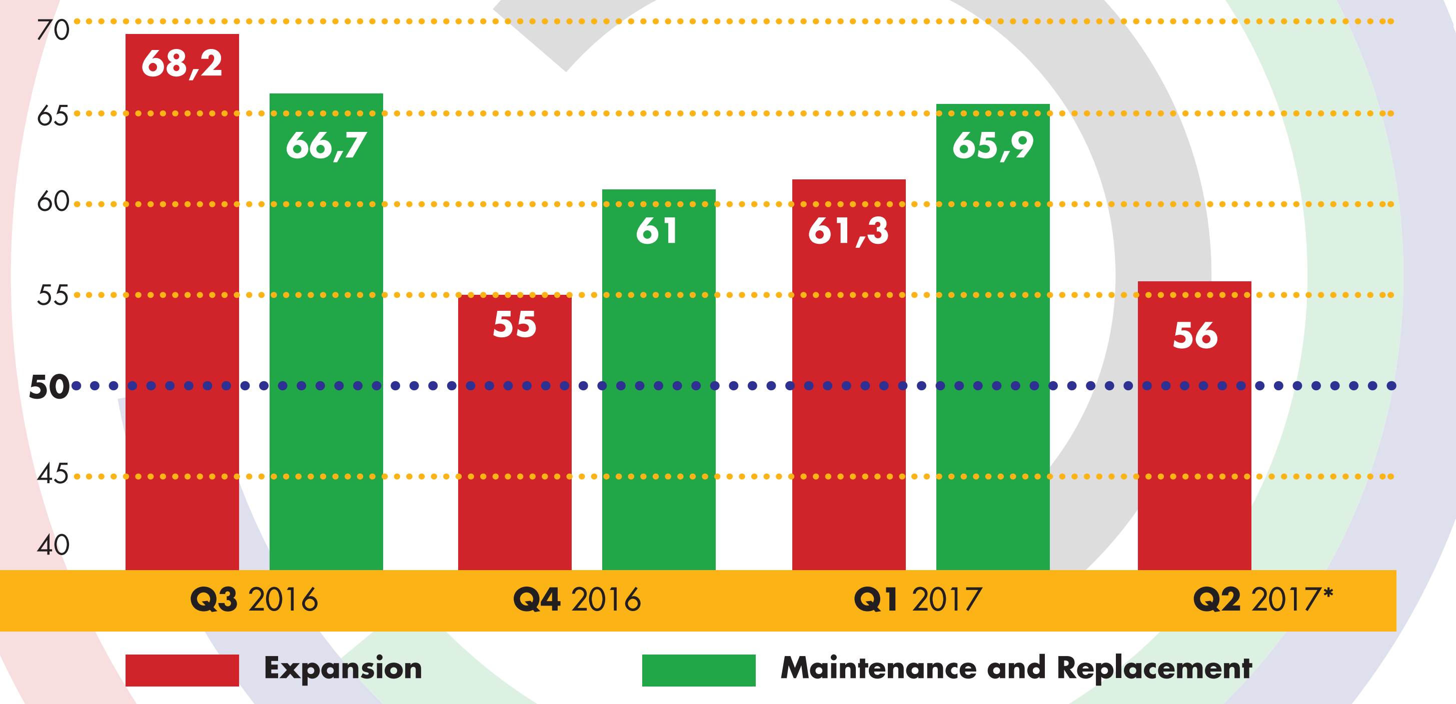
Sub-Index

Property (Land and Buildings)

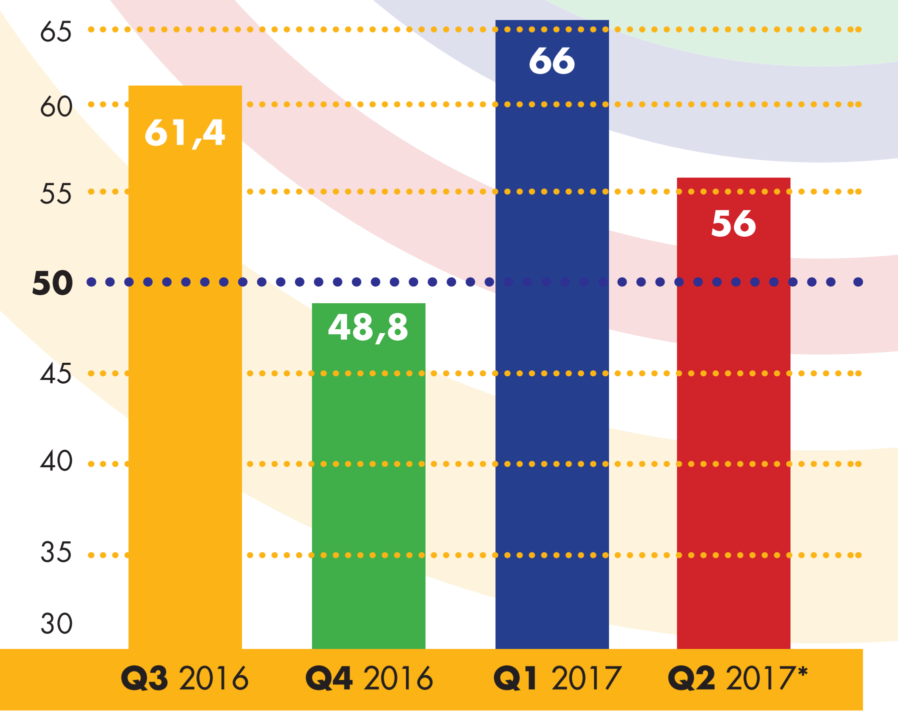
Expenditure in property (land and buildings) is divided into two categories – expenditure in expanding current property or buying new land or buildings; and expenditure in maintaining existing property. Investment in property showed a marked decline, falling by 5 points to the 50 (neutral) level. This is the second decline in a row, and shows that there has been very limited appetite in expanding the physical capacity as it relates to land and buildings – or floor space.

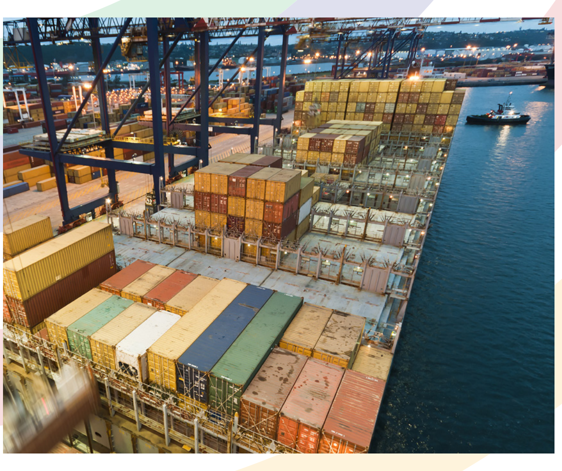
However, looking ahead, manufacturers indicated intentions to invest in more space. While investment spending on space has been expanding at a declining rate, we saw a slight increase in maintenance and replacement of property. This increased by one index point to 62 points, and is expected to moderate in the coming quarter by 4 points.

Investment spending in land and buildings (floor space) has expanded moderately but in a consistent manner. This is not uncharacteristic, and suggests that manufacturers are taking care of their assets in this category.



Inventories





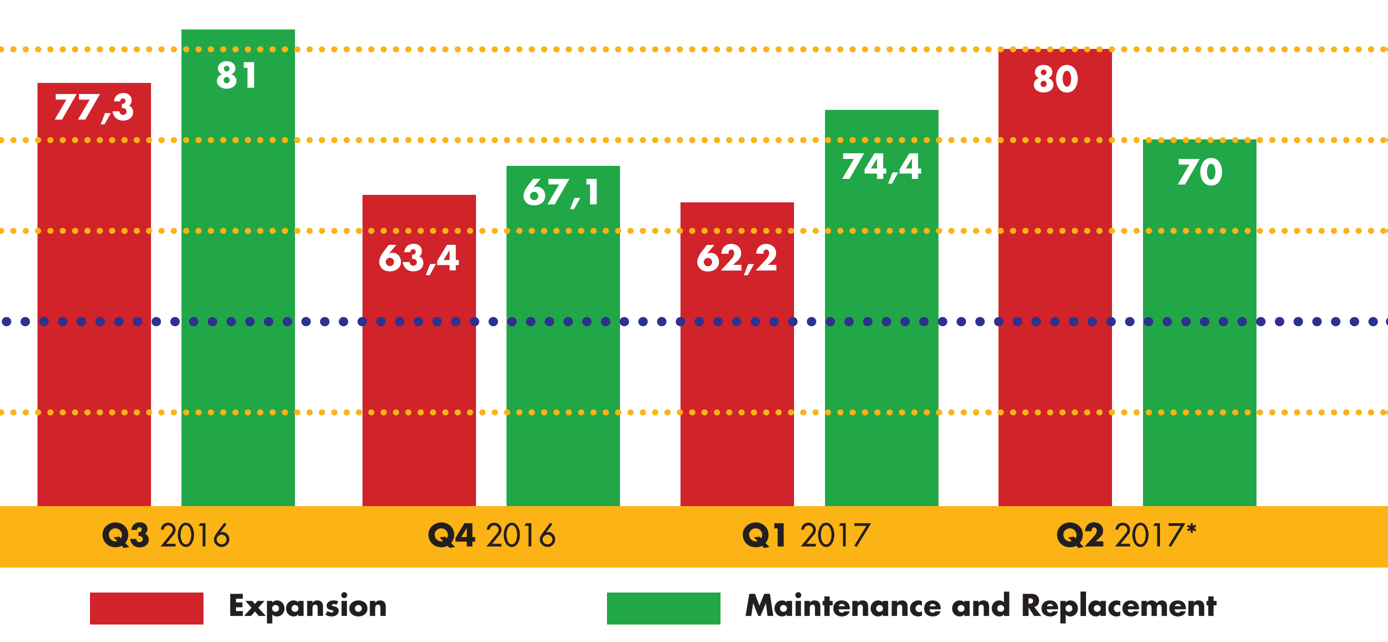
Spending on inventories expanded sharply in the first quarter, recording 66 points from a contraction level of 48,8 points. This results from the building of inventory given the destocking of the festive season. Inventories performed better than the expected 55 points for the period under review. However, expectations for the current (Q2 2017) quarter show a moderation in investment in inventories.

*Expectations for current quarter

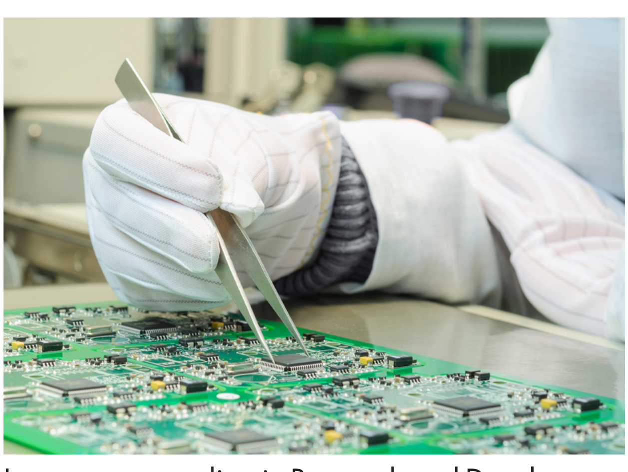
Plant and Equipment

Expenditure in plant and equipment is divided into two categories – expenditure in acquiring new plant and equipment, and expenditure in maintaining existing equipment.

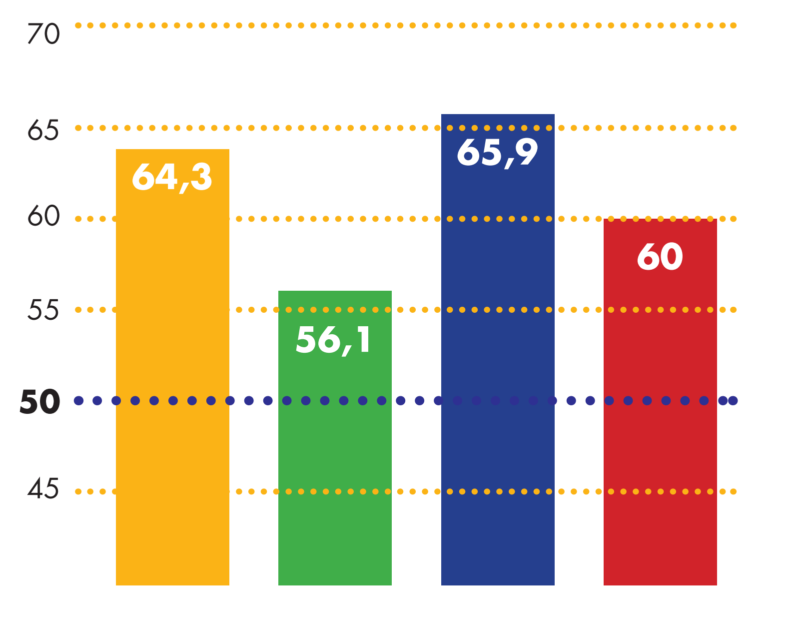
Having seen a marked slowing down into the fourth quarter of 2017, there seems to have been some recovery in spending in plant and equipment on both new equipment and maintaining and replacing equipment. What is encouraging is that responding manufacturing enterprises indicated that they would accelerate investment in new plant and equipment. While maintenance and replacement is seen to remain at 70 points, investment in new plant and equipment is expected to rise sharply to 80 points. This is consistent with the expressed plans to invest in expansion of land and buildings.



Research and Development



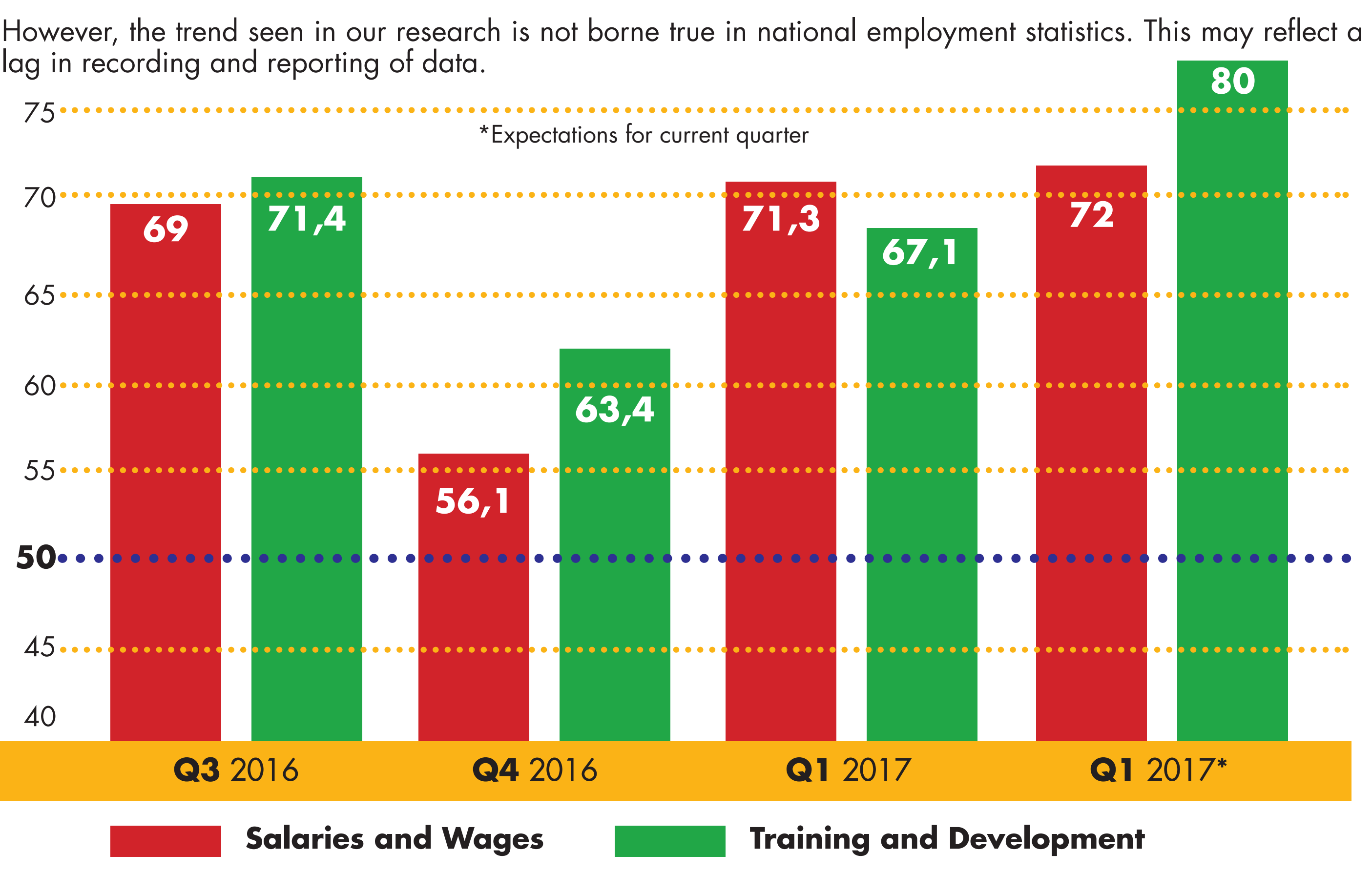
Investment spending in Research and Development rose slightly to 60 points. This trend is expected to continue into the current quarter (Q2 2017). This is encouraging as it suggests that manufacturing enterprises continue to invest in modernising, which could bear fruits in terms of making the sector more internationally competitive.



Human Capital

There has been a consistent expansion in the investment expenditure in human capital. This is one of the most encouraging trends in the index. This trend is expected to continue.

However, the trend seen in our research is not borne true in national employment statistics. This may reflect a lag in recording and reporting of data.



Arising Issues - The Ratings Environment

Responding enterprises were asked if they expected that the ratings downgrades would have an effect in terms of their investment decisions. A third of them responded: yes. Meanwhile, 29% said: no. Another 37% said they were undecided.

Those who were undecided said that they were taking a watch-and-see approach, and that they would act accordingly as more information and events occur. Those who said "no" said they would continue existing plans, but would halt whatever they can in order to manage risks.

Background

The Manufacturing Composite Investment Tracker (MCIT) is a quarterly index tracking investment trends in the manufacturing sector. Compiled by Nascence Advisory and Research on behalf of the Manufacturing Circle, the tracker focuses on manufacturing enterprises, in order to develop industry and economic insights about investment patterns and trends.

This is the third edition, focusing on the first quarter of 2017. The index surveys a variety of manufacturing enterprises from all sub-sectors of the manufacturing industry across South Africa. Dominant subsectors in this edition are motor vehicle, parts and accessories (30%); iron and steel products (18%), petroleum and chemical products (18%); and packaging (9%).

Responding enterprises had 62425 employees in total, with an average annual revenue of R9,8 billion and a median revenue of R 2,1 billion.

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