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MANUFACTURING INVESTMENT INDEX TRACKER REFLECTS SUBDUED ENVIRONMENT

Press Release | Johannesburg | 29th May 2018.

The Manufacturing Circle's index tracker for the first quarter of 2018 was released this morning. This composite index tracks investment trends in the manufacturing sector, focusing on actual expenditure patterns. A reading above the neutral 50-point threshold indicates that expenditure is expanding and below 50 that investment is declining.

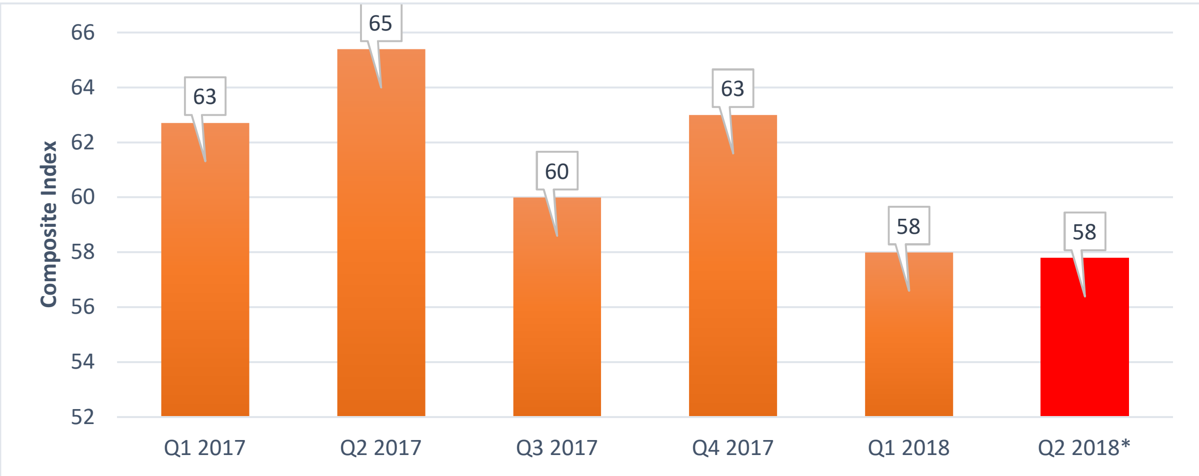
The sample size for Q1 2018 was smaller than usual and the majority of respondents, which have operations mainly in Gauteng, were mainly in the iron and steel, non-ferrous metal products, metal products and machinery and packaging sectors.

Says Manufacturing Circle executive, Philippa Rodseth, "Our members noted that cost savings and cutbacks in investment and capital expenditure have characterised the recent past. Where there has been investment, it has been for small projects, minor upgrades and required maintenance. Increases in salaries, wages and training have been in line with inflation rather than due to greater investment or growth in complement."

She adds, "The operating environment in 2017 was challenging both economically and politically and the tracker shows this. We are encouraged that forecasts for the second quarter of 2018 are not showing a decline and that optimism is evident. We hope that 2018 will show improvements in investments across the board."

Figure 1 below depicts the MCIT results from Q1 2017 to Q1 2018. While these show that there has been constant investment in the past 15 months, the trend shows investment has been declining. However, manufacturing companies expect investment to remain stable in the next quarter.

Figure 1: MCIT Composite Index, Q1 2017 – Q1 2018



Note: (*) denotes expectations for Q2 2018

The contraction in investment in the first quarter of 2018 was mainly driven by a decrease in expenditure on the maintenance of existing plant and equipment and investment in new property, indicating a general cut back. Expansion of existing property or purchasing new buildings has remained fairly constant around the neutral 50 mark, while spend on maintenance and replacement has been restricted to small projects.

Year-on-year expenditure on new **plant and equipment** remained above the 50-point mark between Q1 2017 and Q1 2018, but decreased by 1 index point in Q1 2018 compared to Q1 2017. Spend on the maintenance of existing plant and equipment decreased by 15 index points from 70 points in Q1 2017 to 55 points in Q1 2018. Some companies noted that they have restricted expenditure to small upgrades rather than any major capital improvements.

Capex on new plant and equipment decreased by 5 index points in Q1 2018 compared to Q4 2017, while maintenance and replacement of existing equipment declined by 10 index points in Q1 2018 compared to Q4 2017. Respondents indicated that investment in new plant and equipment is likely to increase in Q2 2018, from 65 points to 70 points but that spend on maintenance should decrease by 7 index points from 55 points in Q1 2018 to 48 points in Q2 2018.

Expenditure on **inventory** mainly follows customer demand and remained above the 50-point neutral mark for the period from Q1 2017 to Q1 2018, although there was a drop of 6 points to 66 year on year. Due to higher demand between Q4 2017 and Q1 2018, inventory expenditure rose from 46 to 60. Manufacturers are anticipating a decrease in inventories in Q2 2018.

While not all respondents are involved in **R&D**, those that are have continued to have fairly low but constant expenditure in this area. Q2 2018 forecasts indicate that firms expect a 10 index point increase in this area.

The questions asked relating to **Human Capital** are divided into two categories: Expenditure on salaries and wages and expenditure on training and development. The results show that both areas have consistently been above the 50 point level for the past 5 quarters as companies maintain their investment in talent, but it has dropped slightly from the high results of Q1 2017. Expenditure on **salaries and wages** decreased by 4 points to 58 in Q1 2018 compared to 62 in Q1 2017.

For some companies, increases and bonuses are paid at the end of the year, generally in line with inflation, and hence the higher score in the Q4 2017 index. A decrease of 5 index points in year-on-year expenditure on **training and development** was observed from Q1 2017 to Q1 2018, while the increase in investment on training and development in Q1 2018 is an indication of new enrolments. Manufacturers will increase expenditure on salaries and wages, in line with inflation, in Q2 2018 and are intent on maintaining their expenditure on training and development at similar levels to Q1 2018.

The launch of the most recent MCIT took place at the National Tooling Initiative Programme (NTIP), a subsidiary of the Tool Making Association, in Centurion. As MCIT assesses investment by manufacturers across a range of aspects, including skills and training, the launch was a good springboard for a more focused skills discussion, which is also one of the Manufacturing Circle's key priority areas

A panel comprising NTIP, the National Business initiative, Ikusasa student financial aid programme, the SA capital equipment export council and Civils Masakheni discussed skills and development. The questions posed to the panel included how the private sector initiatives align with government policy and to what extent recommendations can be implemented and institutionalised; how these initiatives plan for the fourth industrial revolution; whether they are adequately co-ordinated and whether there are gaps that need to be addressed.

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For more information contact

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BACKGROUND NOTES

The majority of the surveyed firms are large, employing more than 200 employees and together employ 41,351 staff members; and the combined annual revenue is R68 325 584 424, the average annual revenue is R 2 627 907 093 and the median revenue of those surveyed is R 817 500 000.

The Manufacturing Circle Investment Tracker (MCIT) is a composite index tracking investment trends in the manufacturing sector on a quarterly basis. The focus of MCIT is on actual expenditure patterns of a sample of manufacturing firms across all sub-sectors of the 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 manufacturing investment patterns in the South African economic environment. The micro-level MCIT data aims to supplement existing macro-level data to deepen the understanding of trends in the manufacturing sector. This seventh edition is compiled by Trade and Industrial Policy Strategies (TIPS) on behalf of the Manufacturing Circle.

The MCIT Composite Index measures the investment by manufacturing firms in the following indices: Property (Land and Buildings); Plant and Equipment; Inventory; Human Capital; Research and Development (R&D).

National Tooling Initiative Programme (NTIP) – NTIP is the Intsimbi National Tooling Initiative's project management company and a wholly-owned subsidiary of the Tool Making Association of South Africa.

National Business Initiative (NBI) - NBI is conducting research on how to address skills requirements in the manufacturing sector commissioned by the Department of Planning Monitoring and Evaluation (DPME).

Ikusasa Student Financial Aid Programme (ISFAP) – ISFAP was established to develop a sustainable funding model for the higher education costs of South Africa's missing middle students.

South African Capital Equipment Export Council (SACEEC) – SACEEC represents the capital equipment and project sector and has established the SACEEC Schools Programme.

Civils Masakheni - Civils Masakheni is conducting an engineering needs and numbers study commissioned by the South African Development Community (SADC) Ministers of Science and Technology, to establish whether we have sufficient skills to support the regions industrialization requirements.

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