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MANUFACTURING CIRCLE INVESTMENT TRACKER

A quarterly index tracking investment spending in the manufacturing sector

Q4 2016 Summary findings and outlook

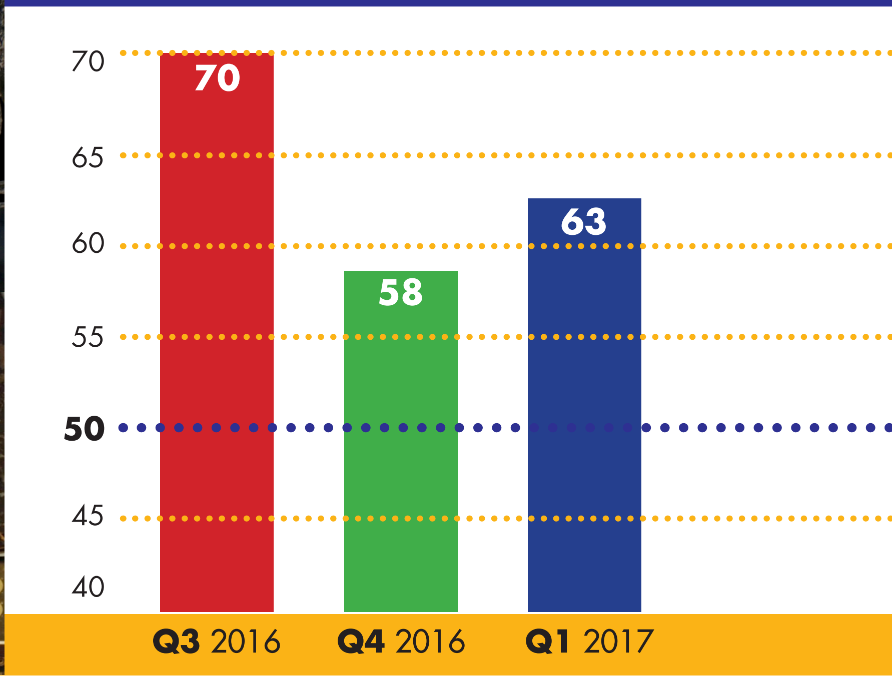
The Manufacturing Circle Investment Tracker (MCIT) fell 12.3 index points in the final quarter of 2016, after recording 70,3 points in its maiden quarter (Q3 2016). The index provides insight into recent sentiment in the sector, looks ahead, and draws together data supplied by manufacturers themselves.

Although the decline in the composite index to 58 points is marked, we are not yet able to provide seasonally adjusted data, and therefore the real fall may not be quite as steep as it seems. A score above 50 still indicates an expansion in investment.

All five sub-indexes showed a decline in the final quarter, with the strongest drops seen in spending in Plant and Equipment, which fell 13 points, and the Inventories sub index, which slipped 12,6 points from its previous level – which indicates a contraction.

The Index also looks ahead to the current quarter (Q1 2017), where a strong improvement is expected – with a rise to 63 index points from the current 58 points . This outlook is based on expansion in Human Capital, higher investment spending in Research and Development, and expansion in Property.

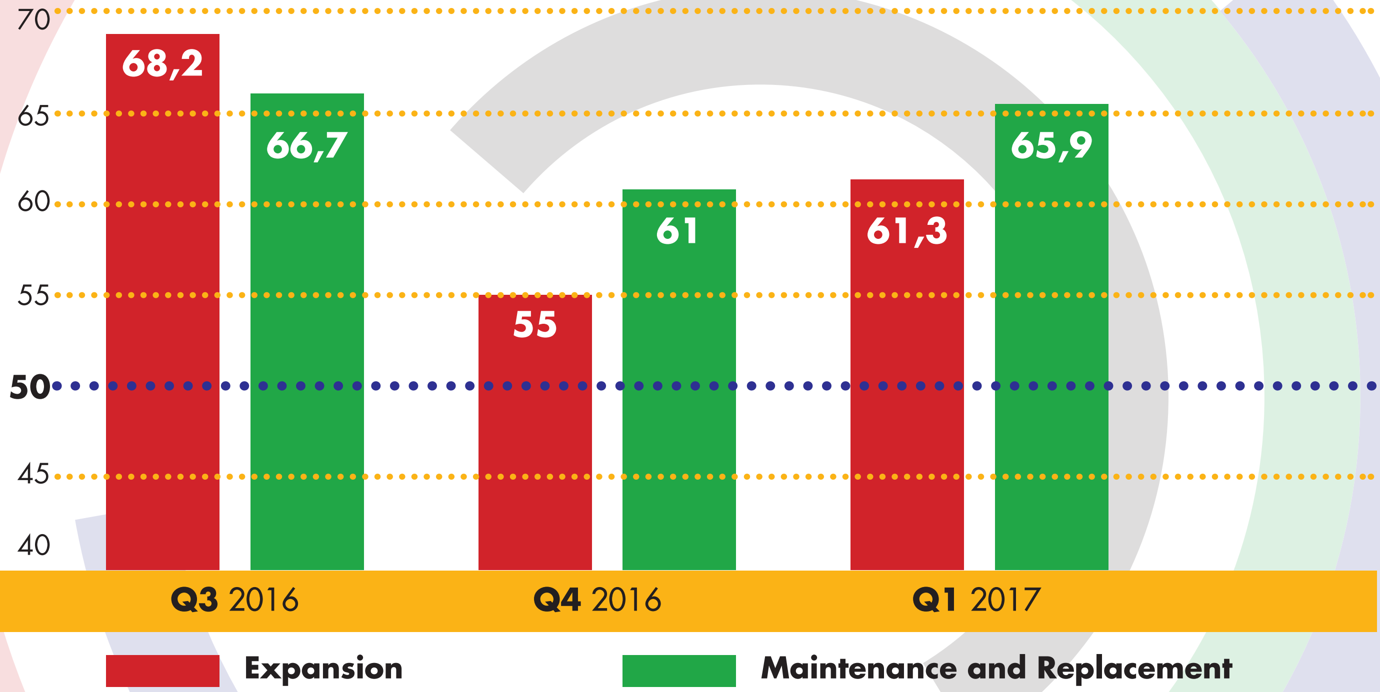
Composite Index



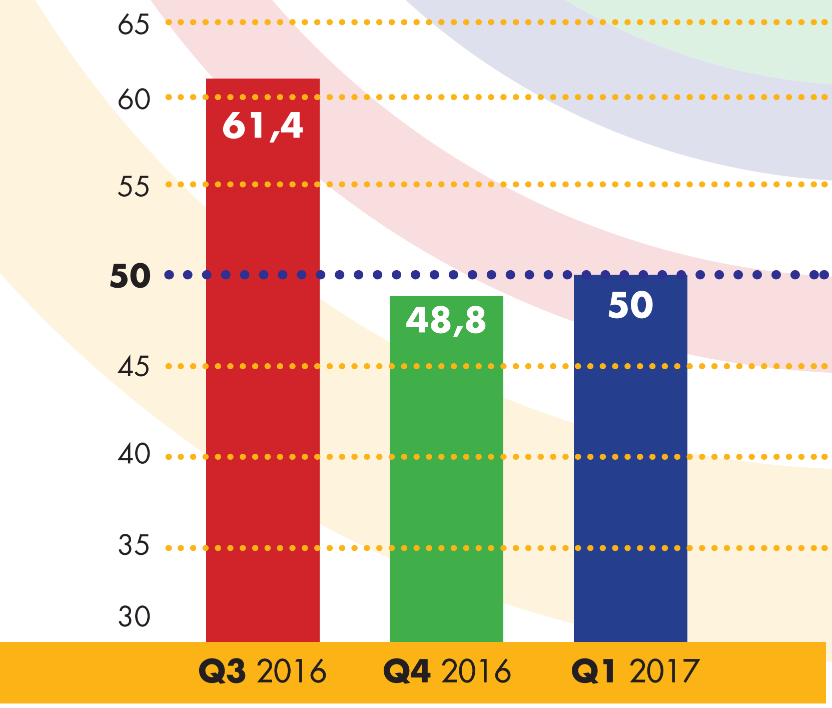
Property (Land and buildings)

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 in the last quarter of 2016, especially in terms of expansion, with the number at only 5 points above the neutral level. Although still in expansion, it was the second lowest performer, following the inventories segment which contracted. Maintenance of Property remained strong, and is expected to expand into the new year, to record 65.9 points, gaining nearly all the ground lost during the last quarter.



Inventories



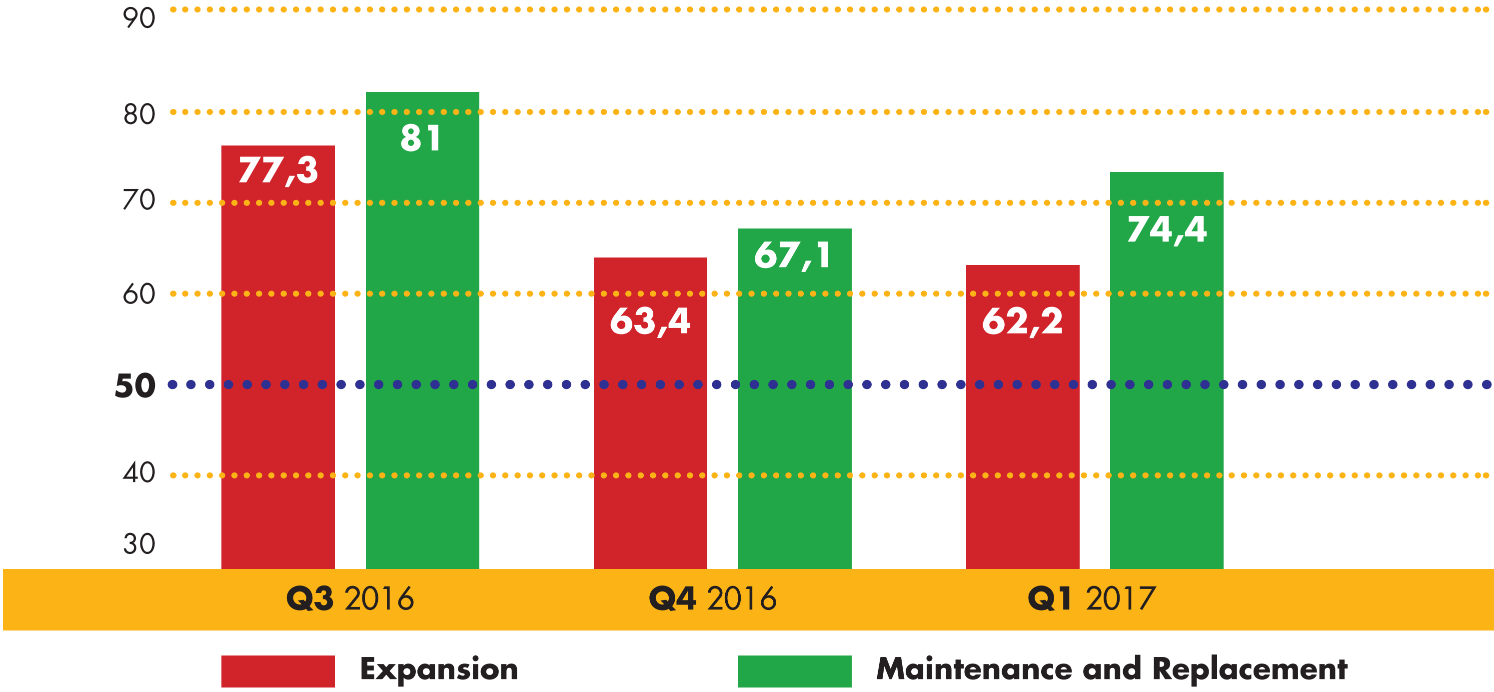
This sub-index declined to below the neutral level of 50 points, revealing a contraction. It should not be surprising that inventories fell, however, as the last quarter of a year typically shows a decline in stock, given that the third quarter sees a build-up in preparation for the festive season. The contraction represents a depletion of stocks given the final period of the year. It is important to note that our index is not yet seasonally adjusted, so seasonal effects will show.

Inventories are expected to recover to a neutral level in the first quarter of the year. This is encouraging. A surge would not have been not expected, and we will not see a pull-back in spending on raw materials.

Plant and Equipment

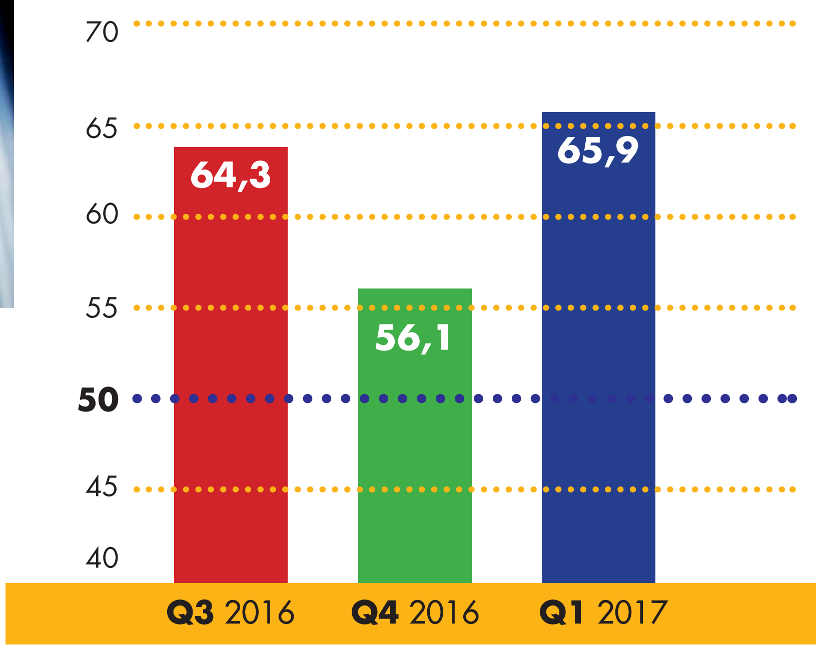
Expenditure in Plant and Equipment is divided into two categories – expenditure in acquiring new Plant and Equipment, and expenditure in maintaining existing Equipment.

Spending on Plant and Equipment declined quite strongly in the last quarter of the year, especially in terms of investment in expansion. The downward trend is expected to continue. However, spending in maintenance and replacement of Plant and Equipment is expected to surge strongly into the first quarter of 2017. This should not be surprising since entities do not continually expand plant and equipment at high rates. It is important to note that at 62,2 points, this sub-index is still in expansion, rather than contraction.



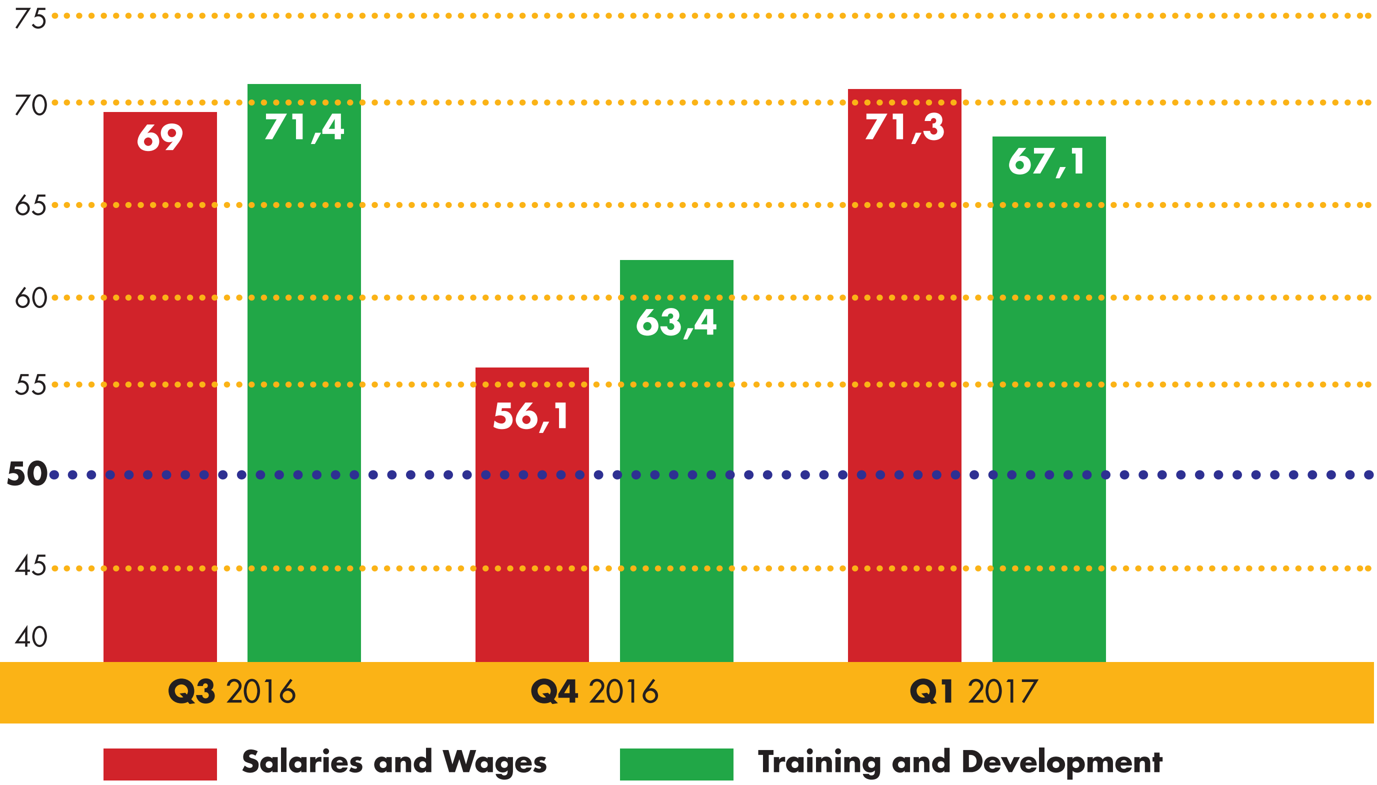
Research and Development

While spending on Research and Development fell 8,2 points in the final quarter of the year, it is expected to experience the second strongest surge of any sub-index in the first quarter of 2017. Manufacturers may want to build efficiencies in production processes. This speaks to a growing drive towards being competitive.



Human Capital

In the final quarter of 2016 we saw a concerning trend in human capital expenditure. The decline in Salaries and Wages by 13,1 points to 56 points suggests that the final quarter of the year was not very encouraging for employment. The index suggests a strong improvement in 2017, with a rise to 71,3 points which would mean an almost full recovery to 2016 third quarter levels. Training and Development will also witness a strong boost in spending. This indicates that manufacturers are attempting to grow labour productivity.



Background

The Manufacturing Composite Investment Tracker (MCIT) is a quarterly index which tracks investment trends in the manufacturing sector. Compiled by Nascence Advisory and Research on behalf of The Manufacturing Circle, the Tracker aims to gather industry and economic insights about investment in manufacturing.

If the index is below 50 points, this indicates a contraction in investment; 50 is neutral; and a figure of above 50 points suggests expansion in investment by manufacturing.

The second of our quarterly surveys is for the fourth and final quarter of 2016. The MCIT includes data from 50 manufacturers from all key sub-sectors of manufacturing.

In terms of responses during our research, the dominant sub-sectors were iron and steel products (45%), petroleum and chemical products (13%) and packaging (8%).

The companies which responded had 62 733 employees in total, with an average annual revenue of R2,5billion.

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