

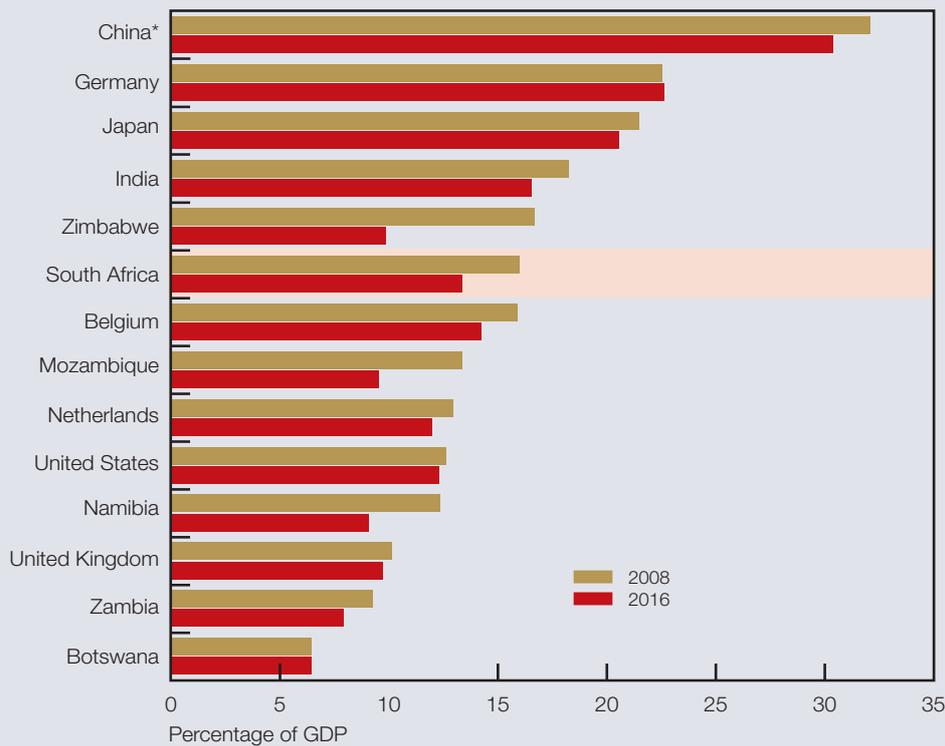


Box 1 Trends in output and employment in the manufacturing sector following the global financial crisis

Globally, manufacturing production is expected to be a main driver of economic growth in 2017. The *World Economic Outlook* published by the International Monetary Fund in April 2017 anticipates an improvement in global manufacturing output emanating from a gradual recovery in fixed investment and the effect of lower international commodity prices, containing input cost inflation.

South Africa's manufacturing sector has struggled to gain traction after the 2008-09 global financial crisis, with its contribution to real gross domestic product (GDP) declining from around 16% in 2008 to about 13% in 2016. This is broadly consistent with the international trend, with the exception of a few countries such as Botswana and Germany.

Real gross value added by the manufacturing sector as a percentage of real gross domestic product

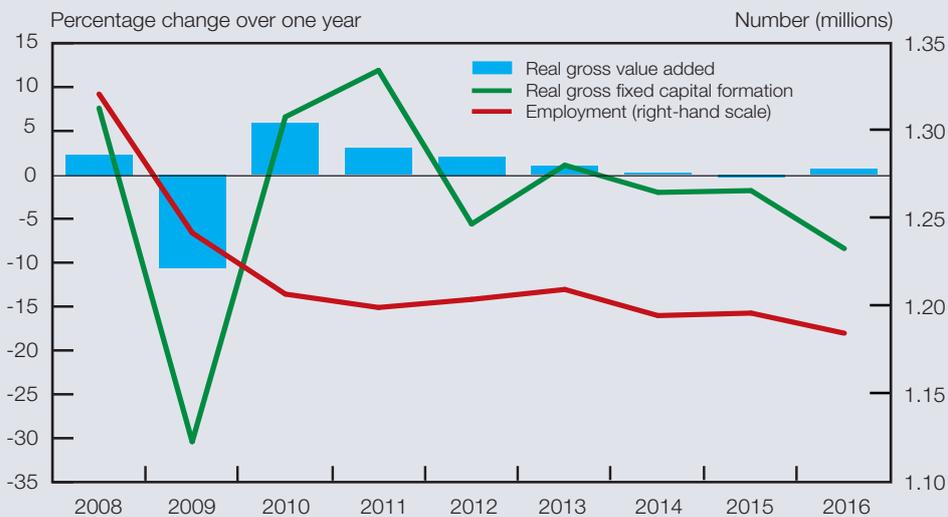


* Data for China represent total industrial production, not just manufacturing production.
Source: World Bank

In South Africa, annual growth in the real gross value added (GVA) by the manufacturing sector improved to a high of 5.9% in 2010 before tapering off to a mere 0.7% in 2016. Employment in the sector did not recover after the 2008-09 recession; a total of 136 000 formal manufacturing jobs was lost between 2008 and 2016. Fixed investment spending in the manufacturing sector also weakened after its post-recession rebound in 2010 and 2011, contracting on an annual basis between 2014 and 2016.

Weak output growth in the manufacturing sector could be ascribed to a gradual weakening in domestic demand, low and deteriorating business confidence, rapidly rising input costs (especially for electricity), a loss of competitiveness as well as skills shortages, which also impeded fixed investment and resulted in employment losses in the sector. The manufacturing sector also experienced a number of severe and prolonged labour strikes in the years following the recession.

Output, fixed investment and employment in South Africa's manufacturing sector



Source: Stats SA

The real GVA by the manufacturing sector increased by 12.5% from 2009 to 2013. An analysis of the manufacturing subsectors shows that, over this period, real output increased the most in the following subsectors: *radio, television and communication equipment* (22.1%); *petroleum products, chemical, rubber and plastic products* (19.5%); and *other non-metallic mineral products* (18.1%). Despite this increase in real output, significant job losses occurred over the period, with almost 33 000 jobs shed. The job losses were fairly widespread across the manufacturing subsectors, with the largest occurring in *textiles, clothing and leather goods* (-17 387); *furniture and other manufacturing* (-10 540); and *metals, metal products, machinery and equipment* (-9 122). In addition to domestic labour relations and input cost challenges, these subsectors faced increased competition from relatively cheap imported products over this period.

Change in real output and employment in the manufacturing sector

Manufacturing subsectors	2009–2013		2014–2016	
	Percentage change in GVA	Change in the number employed	Percentage change in GVA	Change in the number employed
Food, beverages and tobacco.....	4.5	- 513	4.4	26 794
Textiles, clothing and leather goods.....	7.0	-17 387	-3.4	-2 040
Wood and paper, publishing and printing	14.2	- 78	4.5	-9 104
Petroleum products, chemicals, rubber and plastic products.....	19.5	8 076	6.2	-9 460
Other non-metallic mineral products.....	18.1	-6 160	-10.8	-1 439
Metals, metal products, machinery and equipment	11.4	-9 122	-6.7	-21 847
Electrical machinery and apparatus	16.4	4 829	4.5	428
Radio, television and communication equipment	22.1	1 552	7.6	-1 026
Transport equipment	16.3	-3 284	1.7	884
Furniture and other manufacturing.....	8.0	-10 540	-8.0	-3 081
Total manufacturing sector.....	12.5	-32 627	0.6	-19 891

Source: Stats SA

From 2013 to 2016, the real GVA by the manufacturing sector increased by a mere 0.6% while a further 20 000 formal manufacturing jobs were lost. Over this period, output contracted in 4 of the 10 manufacturing subsectors, while job losses occurred in 7 subsectors. Of note is that the *food, beverages and tobacco* subsector managed to create almost 27 000 jobs since 2013 while the *metals, machinery and equipment* subsector shed a further 22 000 jobs in the same period.

Between 2008 and 2015¹, the relative share in overall nominal manufacturing output of only three subsectors increased, namely of *food, beverages and tobacco* (from 18.2% to 25.5%); *wood and paper, publishing and printing* (from 9.3% to 10.8%); and *radio, television and communication equipment* (from 1.3% to 1.5%). Between 2008 and 2016, the employment share decreased the most in the subsectors *textiles, clothing and leather goods* (from 9.5% to 7.7%) as well as *metals, metal products, machinery and equipment* (from 23.3% to 21.9%). Conversely, the employment share increased in the *food, beverages and tobacco* (from 16.5% to 20.6%) as well as *petroleum products, chemicals, rubber and plastic products* (from 12.0% to 13.1%) subsectors.

¹ Relative shares of the manufacturing subsectors are calculated at current prices. The latest available GVA data by subsector is for 2015.

Share of nominal output and employment by manufacturing subsector

Manufacturing subsectors	Share of GVA*		Share of employment	
	2008	2015**	2008	2016
Food, beverages and tobacco.....	18.2	25.5	16.5	20.6
Textiles, clothing and leather goods.....	3.4	3.0	9.5	7.7
Wood and paper, publishing and printing	9.3	10.8	11.3	11.4
Petroleum products, chemicals, rubber and plastic products.....	23.6	22.6	12.0	13.1
Other non-metallic mineral products.....	4.6	3.3	5.6	4.8
Metals, metal products, machinery and equipment	21.3	17.7	23.3	21.9
Electrical machinery and apparatus	2.5	1.6	3.3	3.8
Radio, television and communication equipment	1.3	1.5	1.3	1.6
Transport equipment	7.8	6.4	9.9	9.4
Furniture and other manufacturing.....	7.9	7.7	7.0	5.8
Total manufacturing sector.....	100.0	100.0	100.0	100.0

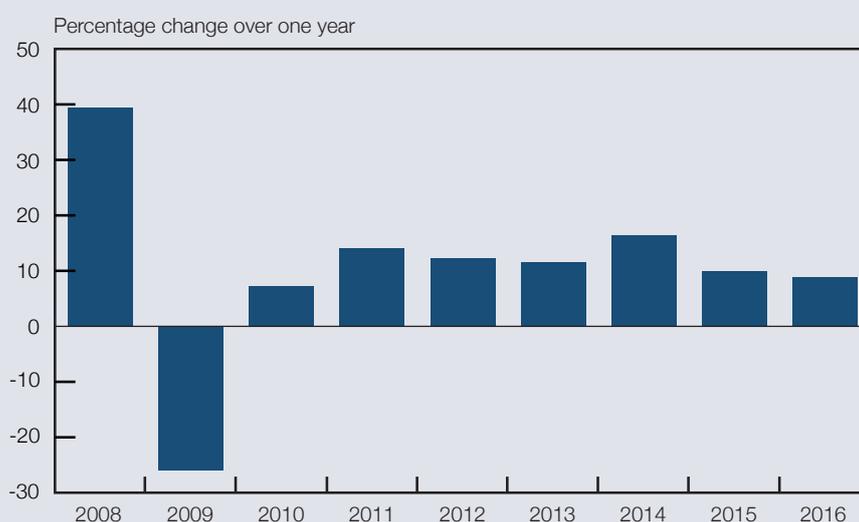
* GVA includes estimates of the informal sector.

** Latest data available (shares calculated at current prices)

Source: Stats SA

While output growth remained weak in the manufacturing sector, some support came from export growth, which in turn was supported by the recovery in global economic growth and the depreciation of the exchange value of the rand against major currencies as from 2011.

Manufacturing exports



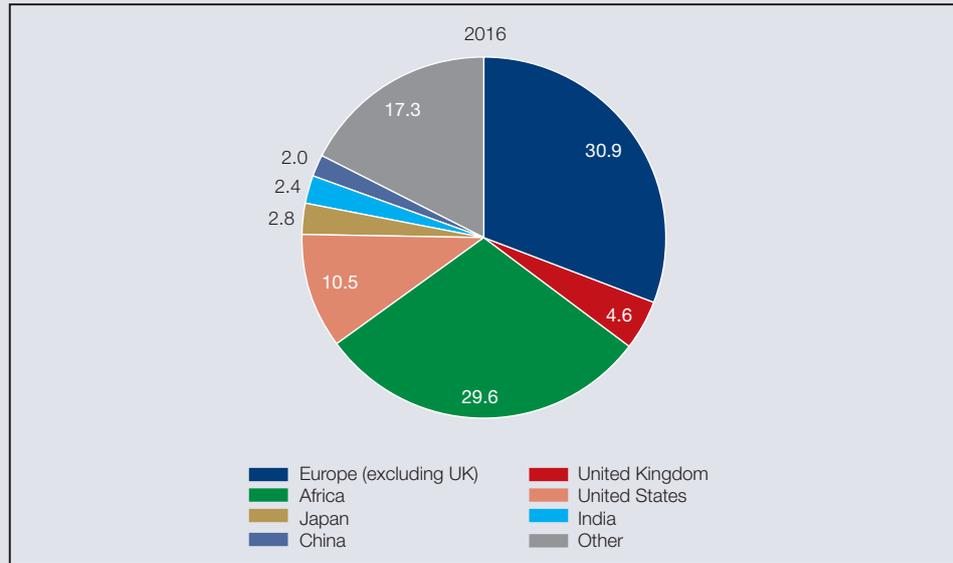
Source: SARB

The share of manufacturing exports to total exports² increased from 35.6% in 2008 to 38.3% in 2016. In 2016, the main regional destinations of South African-manufactured exports were Europe and Africa, followed by the United States.

² All export data used in this box exclude exports to the BLNS countries.

South African manufacturing export destinations

Per cent

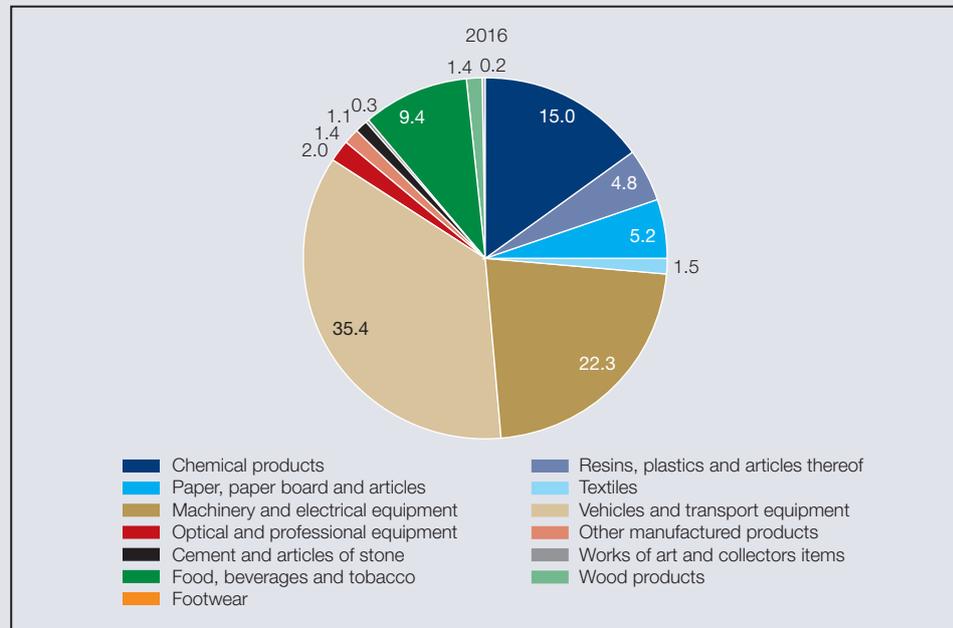


Source: SARS

In 2016, South Africa's largest manufactured export product category was *vehicles and transport equipment* (35.4%), followed by *machinery and electrical equipment* (22.3%), *chemical products* (15.0%) and *food, beverages and tobacco* (9.4%). That same year, Germany was the single largest destination of South African manufacturing exports, comprising mostly vehicles (62.3%) and machinery (22.6%).

South African manufacturing exports by product

Per cent



Sources: Stats SA and SARB