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South Africa

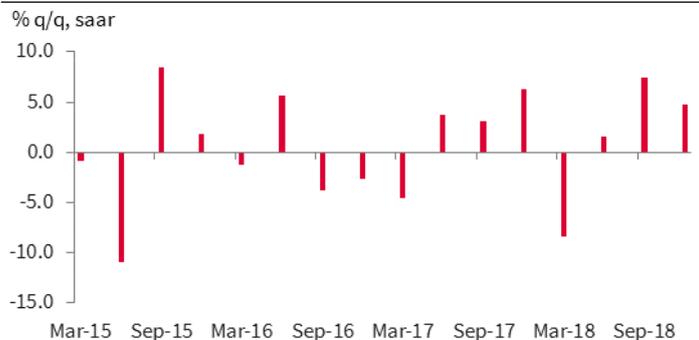
Manufacturing output had another solid quarter in Q4 18

South Africa's manufacturing sector maintained some strength around year-end, with seasonally adjusted output increasing by 0.7% m/m in December, the third consecutive monthly increase. Quarterly growth for Q4 18 came in at 4.7% q/q saar, and this is supportive of our GDP growth forecast of 1.8% q/q saar. The January Absa PMI showed upbeat near-term expectations but the outlook is clouded by electricity constraints.

Manufacturing output continued to expand at year-end. Seasonally adjusted manufacturing production increased by 0.7% m/m in December after posting gains of 1.2% and 0.4% m/m in October and November, respectively. The December increase is equivalent to just 0.1% on a y/y basis, down from 1.3% in November, mainly due to base effects. Still, the outcome was better than our forecast of -0.5% y/y but weaker than a relatively more upbeat Bloomberg median consensus forecast of 1.4% y/y. For Q4 18 as a whole, manufacturing output was up by 4.7% q/q saar, following growth of 7.4% q/q saar in Q3 18. Seven of the 10 reported sub-sectors reported stronger output in Q4 relative to the preceding quarter. Across the major sub-sectors, the continued output growth in Q4 largely came from 'petrochemicals, rubber and plastics', 'food and beverages', as well as 'vehicles and parts', where production rose by 9.6%, 5.0% and 22.9% q/q saar, respectively. This offset contractions in 'wood and paper' (of 8.0% q/q saar) and 'basic iron and steel' (5.6% q/q saar). **Nonetheless, the quarterly increase in overall manufacturing output is consistent with our view of continued GDP growth of 1.8% q/q saar in Q4 18.**

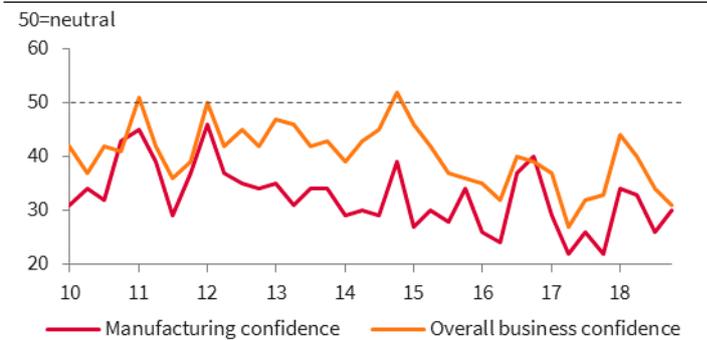
The outlook for the sector is clouded by ongoing electricity supply constraints. Looking beyond Q4, the Absa manufacturing edged lower in January to print at 49.9 (December: 50.7), a print we read as somewhat encouraging, given the recent volatility of the series. But even more encouraging in the January Absa PMI data was a strong improvement in the index measuring expected business conditions in six months' time, which rose by nearly 9 points to 67.2, its highest level since April 2018. However, an intensification of operational problems at Eskom, which has resulted in waves of electricity load-shedding this week, is a big downside risk, particularly for the more energy-intensive parts of the manufacturing sector. Moreover, despite the more investor-friendly tone of President Ramaphosa's State of the Nation Address last week, business confidence in the manufacturing sector, which was just 30 in Q4 18 (implying that 70% of surveyed manufacturers reported unsatisfactory business conditions), could remain weak, further undermining investment growth in the sector.

Figure 1: Manufacturing output rose for the third straight quarter in Q4...



Source: Stats SA, Absa Research

Figure 2:...but electricity shortages may keep business confidence low



Source: BER, Absa Research

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