PRESENTATION OUTLINE

Mandate and functions of Productivity SA
Manufacturing sector performance in South Africa
Manufacturing sector contribution to output and employment
Productivity indicators in the manufacturing sector
Key challenges facing the manufacturing sector (Plastics sub sector)
Manufacturing sector future prospects
Questions and answers
WHO IS PRODUCTIVITY SA?

Productivity SA is established in terms of section 31(1) of the Employment Services Act, No. 4 of 2014 as a juristic person.

Our mandate is to promote employment growth and productivity.
# FUNCTIONS OF PRODUCTIVITY SA

<table>
<thead>
<tr>
<th>The Functions as outlined in section 32 of the Act</th>
<th>Productivity SA's Value Propositions</th>
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</thead>
<tbody>
<tr>
<td>1. To promote a culture of productivity in the workplace</td>
<td>Enterprise productivity and competitiveness</td>
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<tr>
<td>2. To develop relevant productivity competencies</td>
<td>Micro-small enterprises and cooperatives productivity capabilities</td>
</tr>
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<td>3. To facilitate and evaluate productivity improvement and competencies in workplaces</td>
<td>Knowledge Management and Research</td>
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<tr>
<td>4. To measure and evaluate productivity in the workplace</td>
<td>Continuous Improvement Solutions</td>
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<td>5. To maintain a database of productivity and competitiveness systems and to publicise these systems</td>
<td>Productivity awareness</td>
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<td>6. To undertake productivity-related research</td>
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<td>7. To support initiatives aimed at preventing job losses</td>
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<td>8. To perform any other function</td>
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Manufacturing sector performance in South Africa

The manufacturing sector managed to record positive growth in 2016, but only marginally so at 0.8%.

The key contributors were the sub-sectors producing chemicals as well as wood and paper, which together account for 36.2% of overall manufacturing output.

Of concern, however, was the 1.1% drop in manufacturing output in the final quarter of 2016, with 7 out of its 10 sub-sectors recording lower production compared to the previous quarter.

In 2016, manufacturing decreased by 3.1%. This was brought on by a decline in manufacturing of food and beverages, petroleum, chemical products, rubber and plastic products as well as motor vehicles, parts and accessories of transport equipment.

The sector is expected to grow by 0.5% in 2017 and by 1.2% in 2018.

Capital expenditure declined in real terms in 2016 as the sector recorded increased spare capacity.

Research shows that only 80% of the installed manufacturing capacity of South Africa is being used.

Investment spending in manufacturing expanded by only 0.6% in 2016.
The manufacturing sector contributed about 12% to South Africa’s 2016 GDP, slightly lower than the 2015 contribution of 13%.

The sector had stagnant sales during 2016, despite achieving a 0.5% quarter-on-quarter increase in GDP contribution for the third quarter of that year to 13.4%.

The manufacturing sector has claimed an increasing share of the merchandise export basket in recent years, accounting for 61.1% of the total in 2016 the largest share since 2003.

The manufacturing export basket is, nevertheless, highly concentrated, as the top 10 sub-sectors (out of a total of 120) accounted for 58% of total manufactured exports in 2016.

However, weak demand domestically and subdued economic conditions in key external markets continue affecting the manufacturing performance.

Business sentiment deteriorated due to insufficient demand and concerns over the political climate, including policy uncertainty.
Real GDP growth in the manufacturing sector (% terms)

Manufacturing: Growth in volume of production by sub-sector in 2016

% Change (y-o-y)

-3 -2 -1 0 1 2 3 4 5 6 7 8

Total Manufacturing  (24.5%)  Food & beverages  (3.3%)  Textiles & clothing  (3.3%)  Wood & paper  (12.6%)  Chemicals  (23.6%)  Non-metallic mineral products  (4.2%)  Metals & machinery  (18.8%)  Electrical machinery  (1.7%)  Radio and TV  (1.6%)  Transport equip.  (6.9%)  Furniture & other industries  (2.9%)

Source: IDC, compiled from Stats SA data
Manufacturing is the sector that offers the greatest potential to create jobs at respectable pay levels for unskilled and semi-skilled workers.

Fiercely competitive pressures in the face of weak demand has been forcing manufacturers to reduce employment levels since the 1st quarter of 2008.

The graph below shows that the sector has been experiencing negative growth in employment over the past decade from over 2 million in 2008 to approximately 1.7 million employees in 2016.

The manufacturing sector accounted for 11% of all formal sector employment in 2016, with this ratio having decreased from 12.6% in 2015, as other sectors also recorded higher employment losses over this period.
Manufacturing employment figures (2008-2016)

Source: StatsSA QLFS
Sectoral employment contribution (% terms)

Source: StatsSA QLFS

SECTORAL CONTRIBUTION EMPLOYMENT 2016

- Community and social services: 22%
- Finance: 14%
- Trade: 20%
- Transport: 6%
- Agriculture: 6%
- Mining: 3%
- Manufacturing: 11%
- Utilities: 1%
- Construction: 9%
- Private households: 8%
- Other: 0%
Manufacturing contribution to exports

Despite an increase of almost R41 billion in the value of manufactured exports in 2016, the sector recorded a trade deficit of around R300 billion. Motor vehicle exports, which increased by 16.2% or R16.8 billion, contributed the most to the improvement in manufactured exports. Other key contributions emanated from the sub-sectors exporting iron and steel (R9.5 billion); pulp, paper and paperboard (R2.6 billion); parts and accessories for motor vehicles (R2.1 billion); and pharmaceutical products (R1.1 billion). South Africa’s manufactured export basket remains highly concentrated though. Motor vehicles top the list with an 18.7% share of total manufactured exports in 2016, followed by iron and steel (12.1%), refined petroleum and petroleum products (5.2%), as well as parts and accessories for motor vehicles (5.2%).
Manufacturing contribution to exports

SA's leading manufactured exports in 2016

Source: IDC, compiled from SARS data
Productivity indicators in the manufacturing sector

Source: Productivity SA, Productivity Statistics
Case study: Plastics sector

Plastics manufacturing in South Africa had contributed approximately 0.5% to GDP and 3.2% to the manufacturing sector.

The largest contribution of plastic production is the plastic packaging market.

The export value of plastic products in 2012 was R13.1bn compared to the import value of R20.2bn leading to a trade deficit of R7.1bn.

There are approximately 2000 companies in the plastic converting industry in South Africa employing around 60,959 workers.

The South African plastics market is well developed throughout the plastics value chain and caters to both local demand and export markets.

Generally, the leading markets for plastics are in packaging, building, construction and the automotive industries. However, a number of other industries which use some form of plastic are textile, electrical, electronic, mechanical engineering, and agricultural industries.
Challenges affecting manufacturing sector (plastics industry)

Domestic market is under-protected against unfairly incentivised imports, while China, India, Brazil and other countries offer much higher incentives and protection to their plastics manufacturers.

Competition from advanced developing countries is said to be having an impact on domestic demand, as cheap imports of relatively low added-value products are causing some parts of the world's plastics industry to restructure.

As a result, a number of companies had relocated their manufacturing facilities to those low-cost production countries and had themselves become importers.

The rising cost of the polymers used by the plastics conversion industry had made many of its customers resist the inevitable price increases that follow and led them to seek alternative sources of supply, wherever possible.
The sector also faces skills shortage and slow technological upgrading as well as high competition from imports. Plastics engineers (beyond first degree) are reportedly not produced in a quantity that is sufficient for the growth of the industry in the country.

Similarly, at an operations level, mould-setters and plant operators are also in short supply, due to new competency demands arising from innovation and technological development.

Competitiveness of the local industry has been negatively impacted upon by factors such as the cost of polymers, proximity to markets (geographic position relative to major markets), relatively small local and regional market, electricity pricing as well as inland location of production facilities in the case of exports.

Lack of advanced manufacturing practices; lack of downstream focus on R&D effort have also negatively impacted on the performance of the plastics sector.
The impact of the drought on agriculture and a mining sector still feeling the brunt of the downturn affected local demand for manufactured goods.

Weak growth in household spending impacted on producers of consumer goods.

Since demand conditions have been subdued in key external markets for manufactured exports, such as the Eurozone and key African economies, domestic producers have not been able to fully realise the benefits presented by a weaker currency.

Higher borrowing costs as a result of the credit downgrading will also impact on the plastics value chain. This also translate into higher costs of production driven by demands for higher wage increases, which could lead to a loss in production.
To ensure its sustainability and its contribution to the growth of the economy and jobs in South Africa, Manufacturing output must grow at least by 10% per annum.

Investment will be critical to expand existing production further and expand into new areas

It is important for local manufacturers to break into new markets with existing value chains and supplier networks in a global economy that is forecast to grow moderately at 2.7% this year and at 2.9% in 2018 and 2019.

Improvement in policy certainty is also necessary. Recent political volatility in South Africa has impacted negatively on economic sentiment, which, in turn, impacts on decisions to invest in manufacturing plants and new products, owing to the long-term nature of such investments.

Although not anticipated at this stage, major changes to AGOA could affect the performances of the sectors producing motor vehicles, beverages, clothing and footwear, among others.
Get government to be coherent, coordinated and consistent on economic policy and regulation
Ensure efficient public infrastructure cost recoupment and productive spending
Contain electricity price increases to gradual increments, eliminate massive municipal mark-ups and diversify market contestation for baseline electricity generation
Promote and maintain a skills pipeline
Ensure fair trade through the necessary adjustment to tariff and non-tariff barriers implemented timeously
Strengthen regional ties and ties with key export markets, both bilaterally and multilaterally
Improve transport linkages to regional and other key markets
Promote a competitive and stable exchange rate
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THANK YOU