

PRESENTED BY:

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Chief Operations Officer

State of the Metals and Engineering (M&E) Sector 2023





Economic and Commercial Services

- Theory and Calculation of Contract Price Adjustment;
- Research
- Insight & analysis
- International trade analysis
- Economic impact assessments
- Commercial contracts
- Statistical analysis
- Trends evaluation



Human Capital and Skills Development Services

- Skills Development Facilitator (SDF), Facilitator, Supervisory, Assessor, Moderator;
- Skills development Committee Training;
- How to earn maximum B-BBEE points through skills development;
- Workplace Skills Plan (WSP);
- Employment Equity Committee training and submission training;
- Change Management;
- Diversity and Social inclusion;
- Performance Management;
- Talent Management & Succession planning training;
- Self-motivated teams;
- HR Audit.



Industrial Relations Services

- Disciplinary and Grievance Hearings
- Arbitration and Conciliation
- Legal Advice
- Drafting and reviewing employment policies
- Legislations
- Negotiations and Collective Agreements
- Unions
- Labour court proceedings



Safety, Health, Environment and Quality services

- Emergency response
- Ergonomics
- Risk Assessments
- Root cause analysis
- H&S representatives
- Fire fighting
- ISO trainings
- COID Act overview
- Hazardous chemicals
- Incident investigations
- SHEQ skills for supervisors

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The views expressed in this presentation do not necessarily represent those of
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Presentation Outline

1. Preliminary
2. Global Economic Overview
3. The State of the Metals and Engineering Sector
 - i. Structural Dynamics
 - ii. Analysis of high frequency data (Production, Investment, Costs and Employment)
4. The Energy Crisis and the M&E Sector
5. Outlook 2023
6. Policy Reform
7. M&E Economic Statistics Dashboard

Preliminary Overarching Considerations

1. Production in the M&E Sector is a coinciding economic indicator, that is, prevailing economic developments are very often immediately evident in the data
2. The 2008/09 Global financial crisis was structural adjustment point for the M&E sector, in turn creating some structural threats and opportunities. Industrial Policy has a very important role to play in this regard
 - Production in the sector has contracted 1,2% (CAGR)
 - Net investment into the sector has remained considerably weak, resulting in a deterioration of fixed capital stock (-0,3% CAGR) over the period. Long term implications for competitiveness
 - The structure of the export basket shifted from Europe to Africa, which now accounts for the largest contribution to the export basket
3. The covid-19 pandemic has presented a very real business/risk mitigation case to shorten supply chains (buying local). Policy again has a very important role to facilitate opportunity
4. The country's energy crisis is the most significant immediate and long-term threat to the prospects of the country
5. **At the outset: the Best Case Scenario = - 1,5 % (year-on-year) and the Base Case = - 2,2 % (year-on-year) for production, with considerable downside risks to the base case**

Global Economic Overview

- The global economic outlook for 2023 has been revised downward considerably, which presents a less supportive environment.
- The markedly sharp decline in EU's economic projections is concerning given the regions constitutes 21,8% of exports (8,2% of total sales).
- The African continent is the sectors largest export market (39,6% of total exports or 14,6% of total sales). The flat growth expectation between 2022 & 2023 in this region, and the fiscally vulnerable nature of some countries in this group, highlights downside risks to demand from this region
- China's GDP growth rate at 3% (2022), marks the first time in 40 years that the country's GDP growth rate is below the world average

| | Year over Year | | | |
|---|----------------|------------------|-------------|------|
| | 2021 | Estimate 2022 | Projections | |
| | | | 2023 | 2024 |
| World Output | 6.2 | 3.4 | 2.9 | 3.1 |
| Advanced Economies | 5.4 | 2.7 | 1.2 | 1.4 |
| United States | 5.9 | 2.0 | 1.4 | 1.0 |
| Euro Area | 5.3 | 3.5 | 0.7 | 1.6 |
| Germany | 2.6 | 1.9 | 0.1 | 1.4 |
| France | 6.8 | 2.6 | 0.7 | 1.6 |
| Italy | 6.7 | 3.9 | 0.6 | 0.9 |
| Spain | 5.5 | 5.2 | 1.1 | 2.4 |
| Japan | 2.1 | 1.4 | 1.8 | 0.9 |
| United Kingdom | 7.6 | 4.1 | -0.6 | 0.9 |
| Canada | 5.0 | 3.5 | 1.5 | 1.5 |
| Other Advanced Economies 3/ | 5.3 | 2.8 | 2.0 | 2.4 |
| Emerging Market and Developing Economies | 6.7 | 3.9 | 4.0 | 4.2 |
| Emerging and Developing Asia | 7.4 | 4.3 | 5.3 | 5.2 |
| China | 8.4 | 3.0 | 5.2 | 4.5 |
| India 4/ | 8.7 | 6.8 | 6.1 | 6.8 |
| Emerging and Developing Europe | 6.9 | 0.7 | 1.5 | 2.6 |
| Russia | 4.7 | -2.2 | 0.3 | 2.1 |
| Latin America and the Caribbean | 7.0 | 3.9 | 1.8 | 2.1 |
| Brazil | 5.0 | 3.1 | 1.2 | 1.5 |
| Mexico | 4.7 | 3.1 | 1.7 | 1.6 |
| Middle East and Central Asia | 4.5 | 5.3 | 3.2 | 3.7 |
| Saudi Arabia | 3.2 | 8.7 | 2.6 | 3.4 |
| Sub-Saharan Africa | 4.7 | 3.8 | 3.8 | 4.1 |
| Nigeria | 3.6 | 3.0 | 3.2 | 2.9 |
| South Africa | 4.9 | 2.6 | 1.2 | 1.3 |

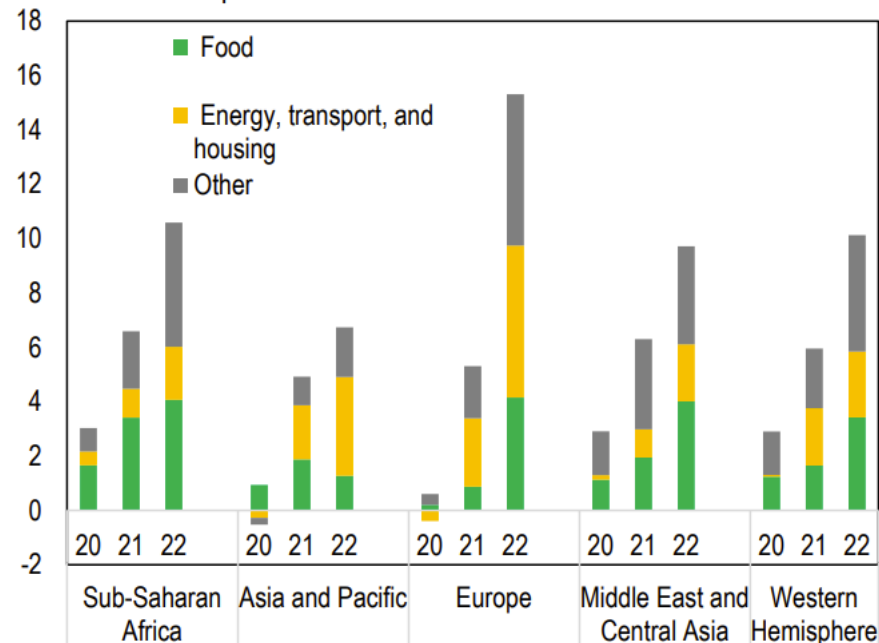
Source: International Monetary Fund (IMF)

Inflation Drivers and the policy response(s)

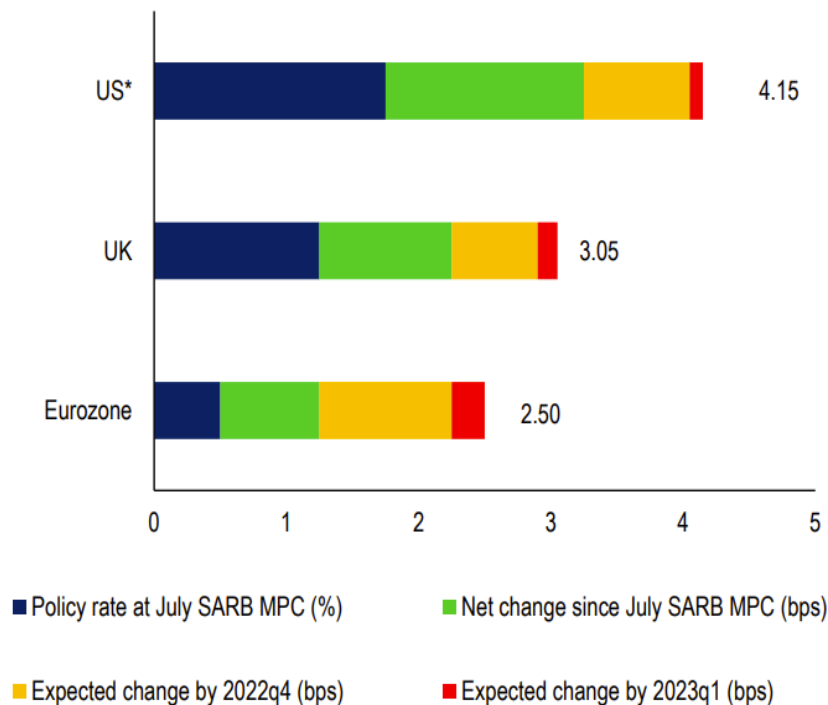
- Inflation emanated as one of the most significant global economic headwinds in 2022.
- The notable developments of the year (resurgence of demand Q1-2022, Russia/Ukraine conflict (major contributor), China lockdown and disruption to supply) reinforced the inflationary pressures
- The overhang from the aggressive monetary policy stances adopted by central banks around the world starting to be felt in 2023.

Inflation drivers

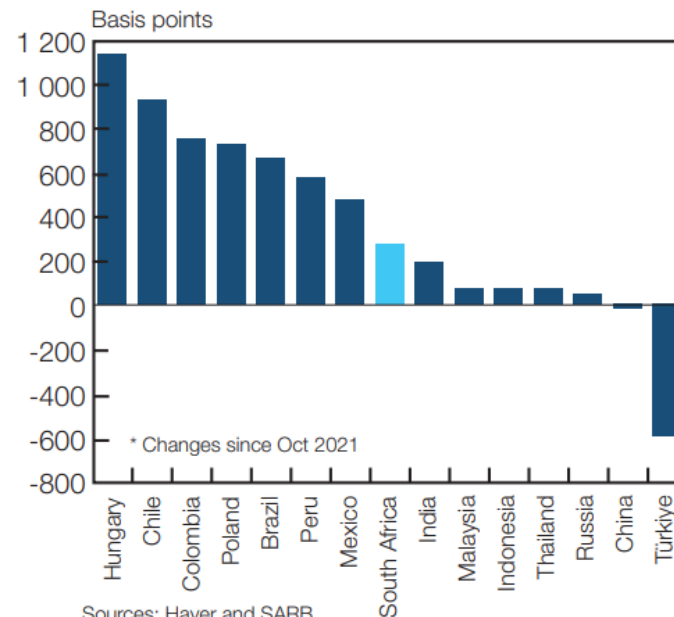
Annualised percent



AE nominal policy rates and forecasts



Emerging market policy rates*

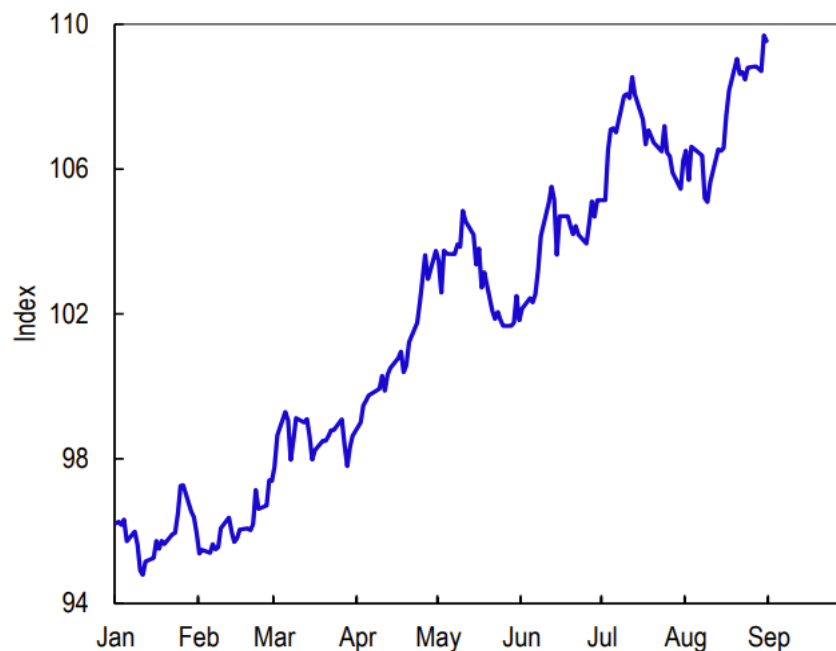


Source: SARB

Implications – Strong dollar also then adding to domestic price pressures

- Although inflation has already started showing signs of tapering off in early 2023, and the IMF estimates that global inflation will average 6,6 in 2023 (from 8,8% in 2022), it is still stubbornly high.
- The persistent nature of the inflation, coupled with the strong United States jobs market, suggests that in the interest of maintaining monetary policy credibility, central banks still have room to move upward on interest rates, albeit at slower pace in the face of slower economic activity.

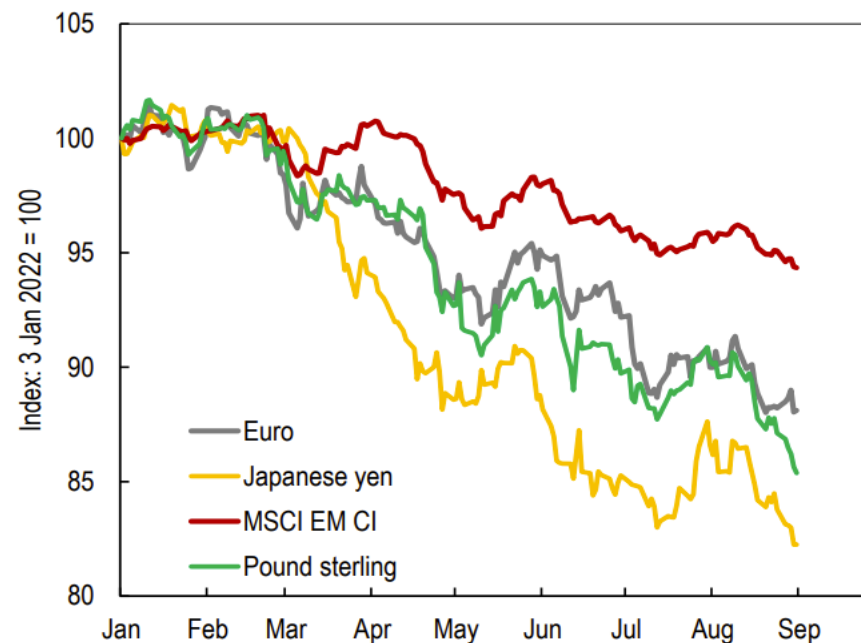
US dollar exchange rate



Source: Bloomberg

2022

AE & EM exchange rates to the US dollar

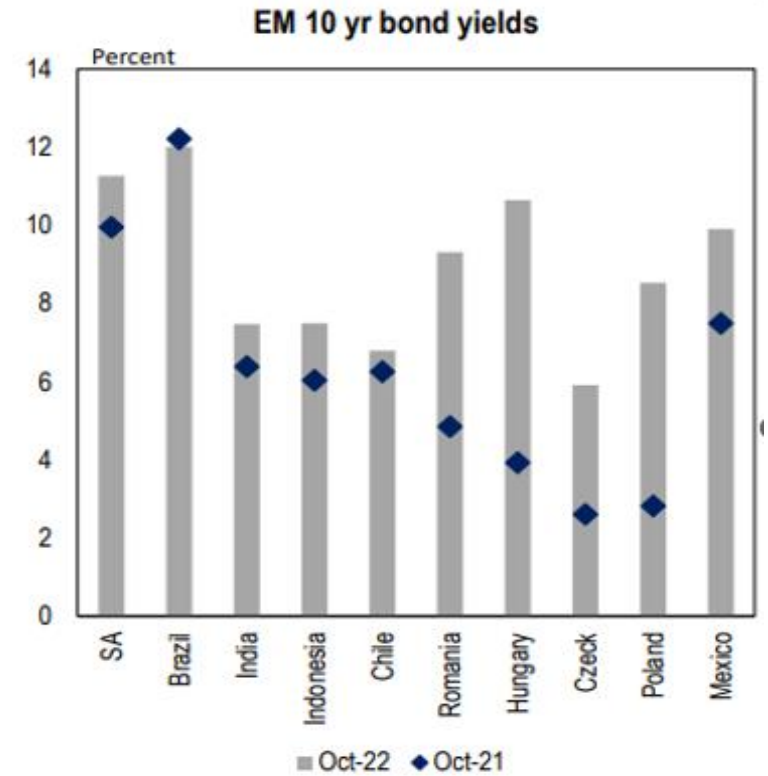
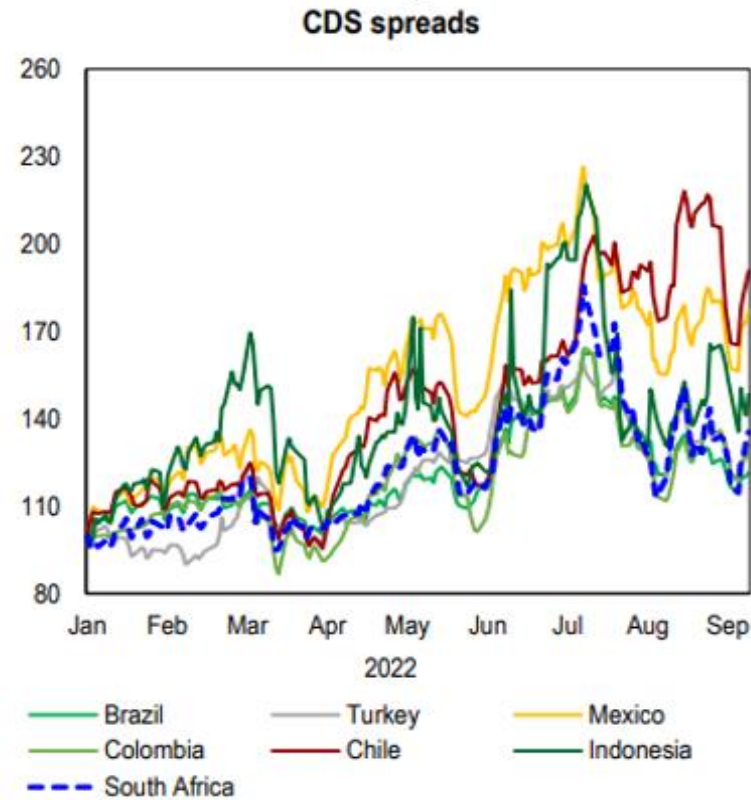
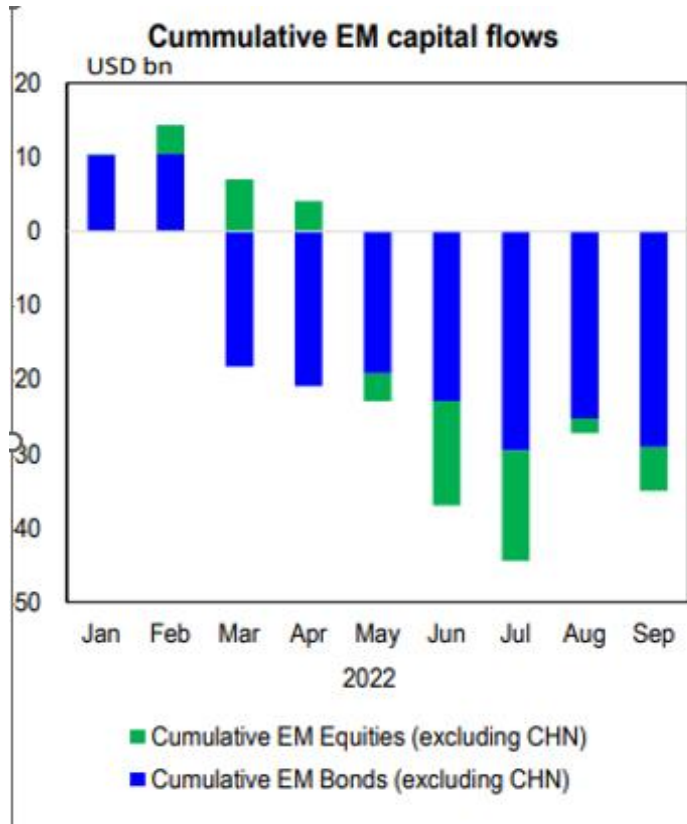


Sources: Bloomberg and SARB

2022

Source: SARB

Implications – Emerging Markets (incl. SA), particularly those with weak fiscal fundamentals are most vulnerable to these developments



Source: SARB

State of the Metals and Engineering Sector – Structural Trends

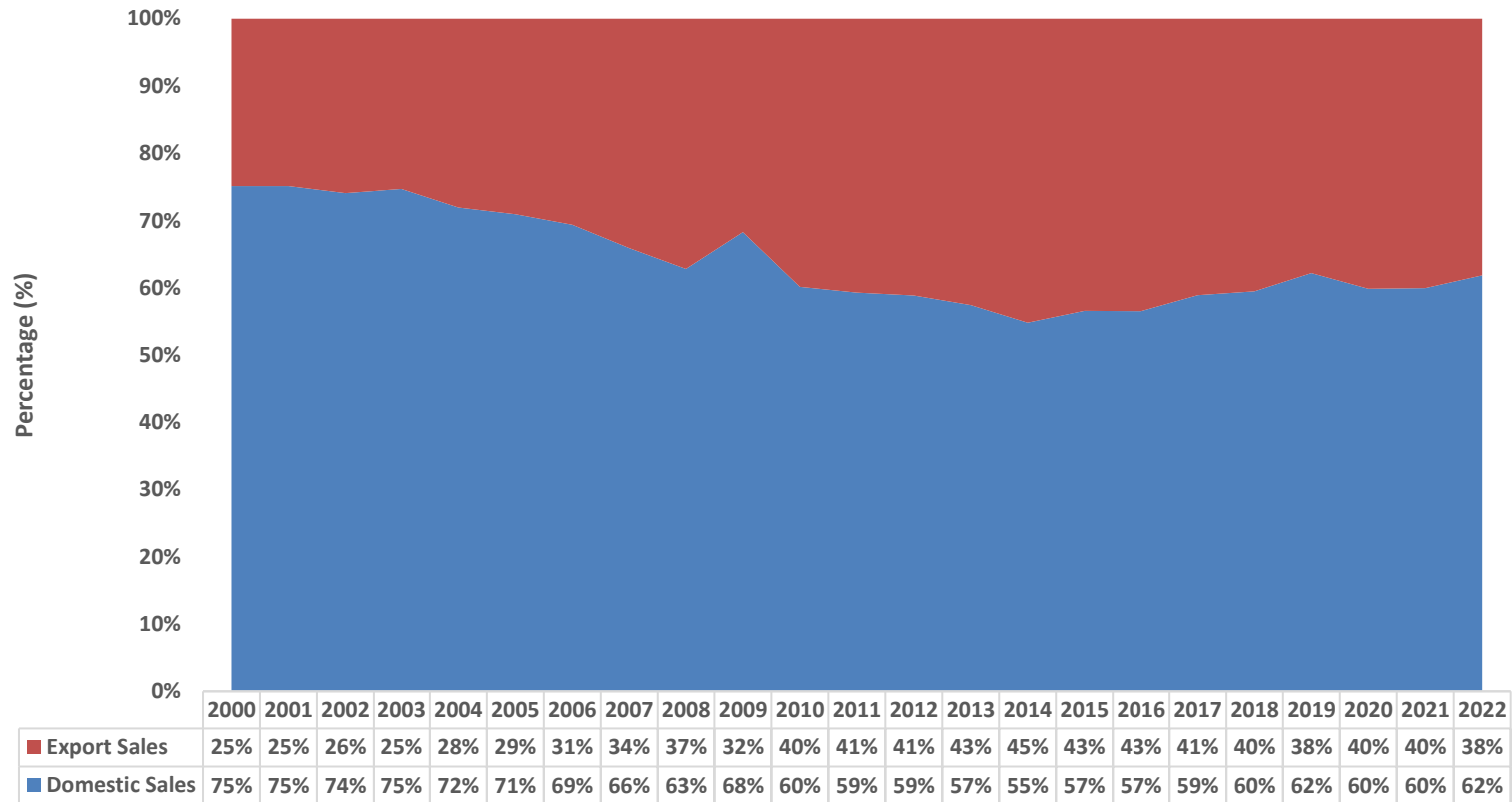
- The sector constitutes 26.15% of the manufacturing sector based on output, representing the metal production, fabrication, the heavy engineering value chain and the plastics product sub-sector.
- The definition of the sector is as per the Metals and Engineering Industries Bargaining Council (MEIBC).
- The respective weights of the sub-sectors relative to total manufacturing and the rebalanced weights to indicate the sub-sectors weighting in the aggregated metals and engineering sector production index.
- The sector represents the real economy and the heartbeat of industrialisation.

| Sub-Sector | % of Manufacturing | M&E Weights (%) |
|---|--------------------|-----------------|
| Plastic products | 2,29% | 8,8% |
| Basic iron and steel products | 2,82% | 10,8% |
| Non-ferrous metal products | 3,26% | 12,5% |
| Structural metal products | 1,98% | 7,6% |
| Other fabricated metal products | 3,35% | 12,8% |
| General purpose machinery | 3,46% | 13,2% |
| Special purpose machinery | 3,87% | 14,8% |
| Household Appliances | 0,73% | 2,8% |
| Electrical machinery and apparatus | 2,31% | 8,8% |
| Bodies for motor vehicles, trailers and semi-trailers | 0,71% | 2,7% |
| Other transport equipment | 1,37% | 5,2% |
| Total M & E Sector | 26,15% | 100,0% |

State of the Metals and Engineering Sector – Structural Trends

- The structure of the export to domestic sales split has shifted considerably over the last two decades in favour of exports.
- Globalisation has been a dominant economic narrative over the period in question therefore this trend is in line with expectation
- The plateauing of the trend and slight regression in the share of exports to total sales post 2020, is something to monitor going forward
- The pandemic highlighted the risks to lengthy supply chains and has prompted a global shift to for organisations to look at supply options closer to market

Export Sales & Domestic Sales



| Continent | M&E Sector Export |
|---------------|-------------------|
| Africa | 39,6% |
| Asia | 24,7% |
| Europe | 21,8% |
| Americas | 12,2% |
| Oceania | 1,3% |
| Antarctica | 0,0% |
| Not Allocated | 0,4% |
| Total | 100% |

State of the Metals and Engineering Sector – Structural Trends

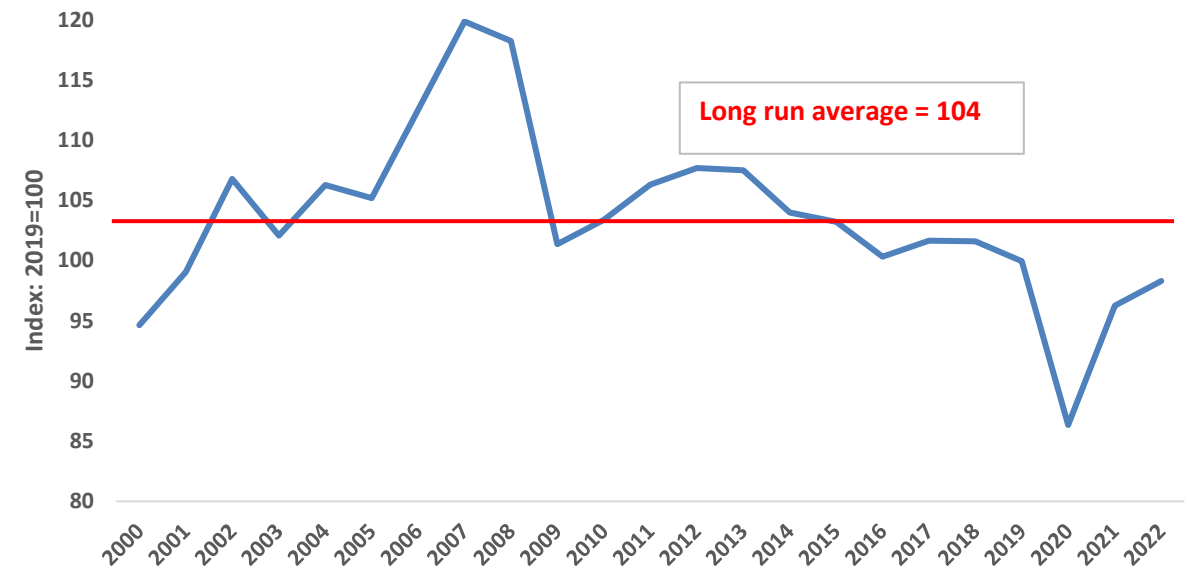
- Juxtaposing the M&E sectors export and import basket structures highlights the important fact that the sector's export intensity is higher in the primary industries, while the import intensity is higher in value added/heavy engineering industries.
- This is very much in line with the traditional international trade composition of developing countries
- However, this also presents a number of very important industrial policy considerations and risks, which policy should gradually seek to shift and mitigate over time.
- The risk lies in the fact that demand for products from primary industries is inherently volatile (and by extension prices)
- Whereas, the higher value added/heavy engineering industries not only enjoy long term stable demand but also characteristically reinvent themselves through business cycles with leading technologies.

| Sub Industry | 2022 | |
|---|---------------|---------------|
| | Export | Import |
| Plastic products | 7,7% | 10,1% |
| Basic iron and steel products | 37,2% | 11,2% |
| Non-ferrous metal products | 18,7% | 6,8% |
| Other fabricated metal products | 0,7% | 1,2% |
| Machinery and Equip (Mechanical, Special Purpose) | 22,6% | 38,9% |
| Electrical machinery and apparatus | 7,9% | 24,6% |
| Parts and Accessories for motor vehicles | 4,1% | 6,6% |
| Other transport equipment | 1,1% | 0,5% |
| Total M&E Sector | 100,0% | 100,0% |

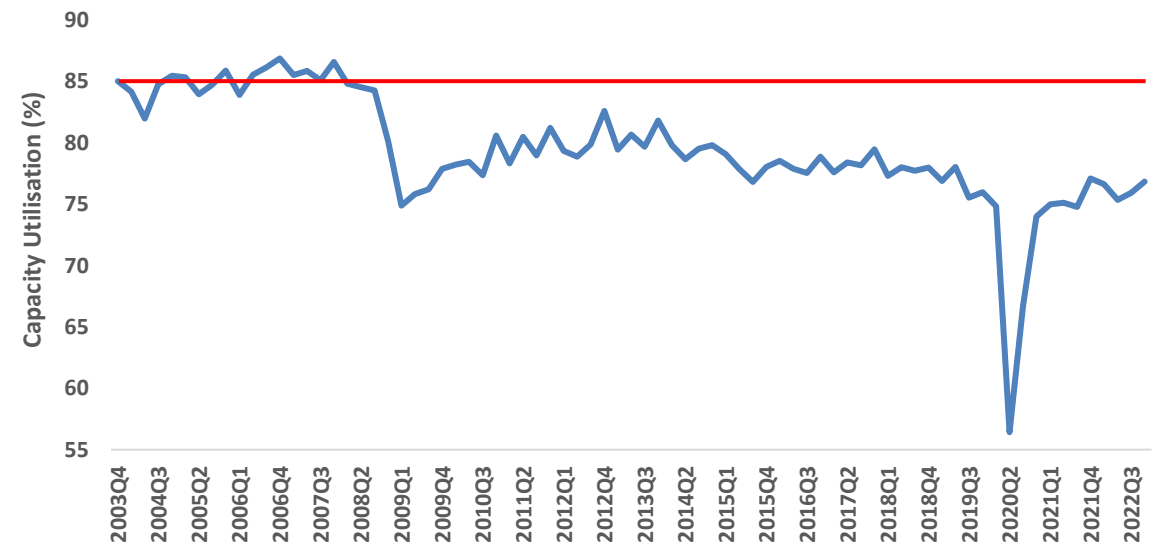
State of the Metals and Engineering Sector – Production and Capacity Util.

- Aggregate production from the sector has contracted at 1,2% CAGR since the 2008 financial crisis from which the sector has never recovered.
- The sector is locked in a deep multi-year structural recession
- The bounce back from the covid-19/lockdown was sharp, however, the production level is still 1,6% below the pre-covid19 levels and 5,2% below the adaptive moving average
- In 2022, production expanded by 1,6%
- The output adjusted capacity utilisation for the sector was recorded at 76,2% in 2022, still below. This is notable below the 85% optimal capacity

Index of M&E Production



M&E Sector Capacity Utilisation (%)



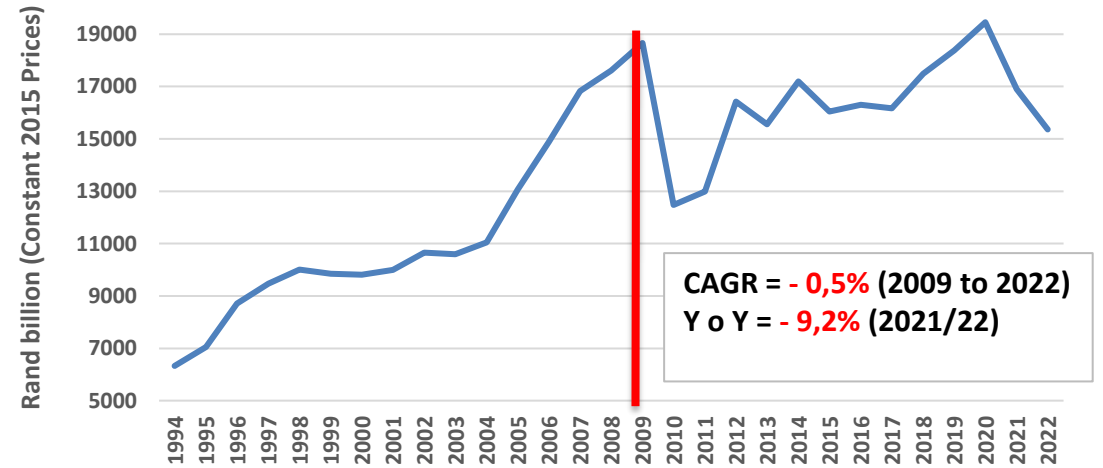
State of the Metals and Engineering Sector – Production

| Sub- Sector | Weight | Jan-22 | Feb-22 | Mar-22 | Apr-22 | May-22 | Jun-22 | Jul-22 | Aug-22 | Sep-22 | Oct-22 | Nov-22 | Dec-22 | 2022 |
|--|-------------|-------------|-------------|-------------|--------------|-------------|--------------|-------------|-------------|--------------|--------------|--------------|--------------|-------------|
| Plastic Products | 9% | 3,5% | 3,8% | 5,5% | -0,1% | 1,1% | 13,9% | 22,2% | 6,0% | 5,3% | 6,7% | 8,6% | 2,8% | 6,6% |
| Basic Iron And Steel Products | 11% | 10,6% | 22,4% | -5,6% | 0,1% | -1,2% | -17,8% | -10,4% | -8,5% | -12,5% | -5,1% | -14,3% | -15,0% | -4,8% |
| Non-Ferrous Metal Products | 12% | -5,0% | -1,2% | -0,1% | -0,5% | -0,8% | -11,1% | -0,6% | 3,5% | 0,3% | 31,1% | 1,1% | -5,0% | 1,0% |
| Structural Metal Products | 8% | -6,8% | -1,4% | 6,1% | -1,1% | -1,0% | -0,5% | -3,5% | 8,4% | 0,1% | 17,7% | 6,9% | 12,8% | 3,1% |
| Other Fabricated Metal | 13% | 4,3% | 9,7% | -0,3% | -1,5% | -0,5% | -2,2% | -1,0% | 10,6% | -1,8% | 17,5% | -7,8% | -7,3% | 1,7% |
| General Purpose Machinery | 13% | 14,1% | 1,6% | 6,4% | -1,6% | 1,7% | 6,0% | 13,4% | 6,3% | 3,7% | 25,9% | 11,3% | -14,4% | 6,2% |
| Special Purpose Machinery | 15% | -1,5% | -3,6% | -9,2% | 0,8% | -0,2% | -4,2% | -2,0% | 3,4% | -7,2% | 7,6% | -8,2% | -0,1% | -2,0% |
| Household Appliances | 3% | -8,3% | 6,0% | 7,5% | 0,1% | 0,0% | 4,0% | 21,6% | 10,3% | 5,4% | 13,1% | 6,8% | -0,8% | 5,5% |
| Electrical Machinery | 9% | 13,5% | 16,4% | 13,7% | 0,6% | 0,9% | -1,1% | 2,0% | -6,9% | -1,1% | 4,2% | -8,8% | -11,4% | 1,8% |
| Parts and Accessories (MV) | 3% | 5,8% | -9,5% | 10,6% | -0,1% | 0,3% | 8,2% | 14,7% | 14,1% | 3,6% | 21,6% | 13,1% | 2,9% | 7,1% |
| Other Transport Equipment | 5% | 3,2% | 8,3% | 7,2% | 0,3% | 0,5% | 6,3% | -6,2% | -5,7% | 7,4% | 6,3% | -5,3% | 3,6% | 2,2% |
| Total M&E Sector (Weighted) | 100% | 3,8% | 5,2% | 1,8% | -3,1% | 0,8% | -1,7% | 2,7% | 3,1% | -1,1% | 13,7% | -1,4% | -4,7% | 1,6% |

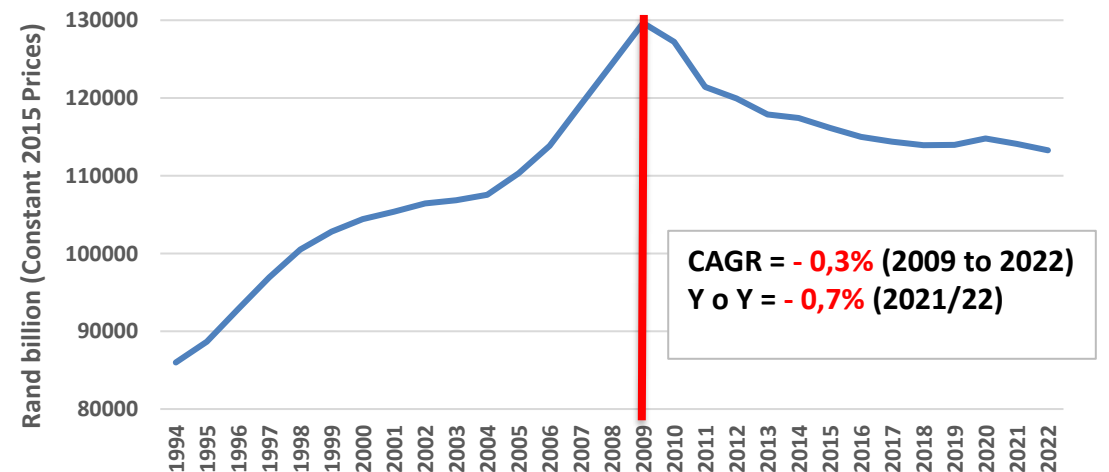
State of the Metals and Engineering Sector – Structural

- Real gross domestic fixed investment declined by 9,2% in 2022.
- Fixed capital stock has also continued to deteriorate, as net investment has not been sufficient
- This presents long term risks to competitiveness

Real gross domestic fixed investment

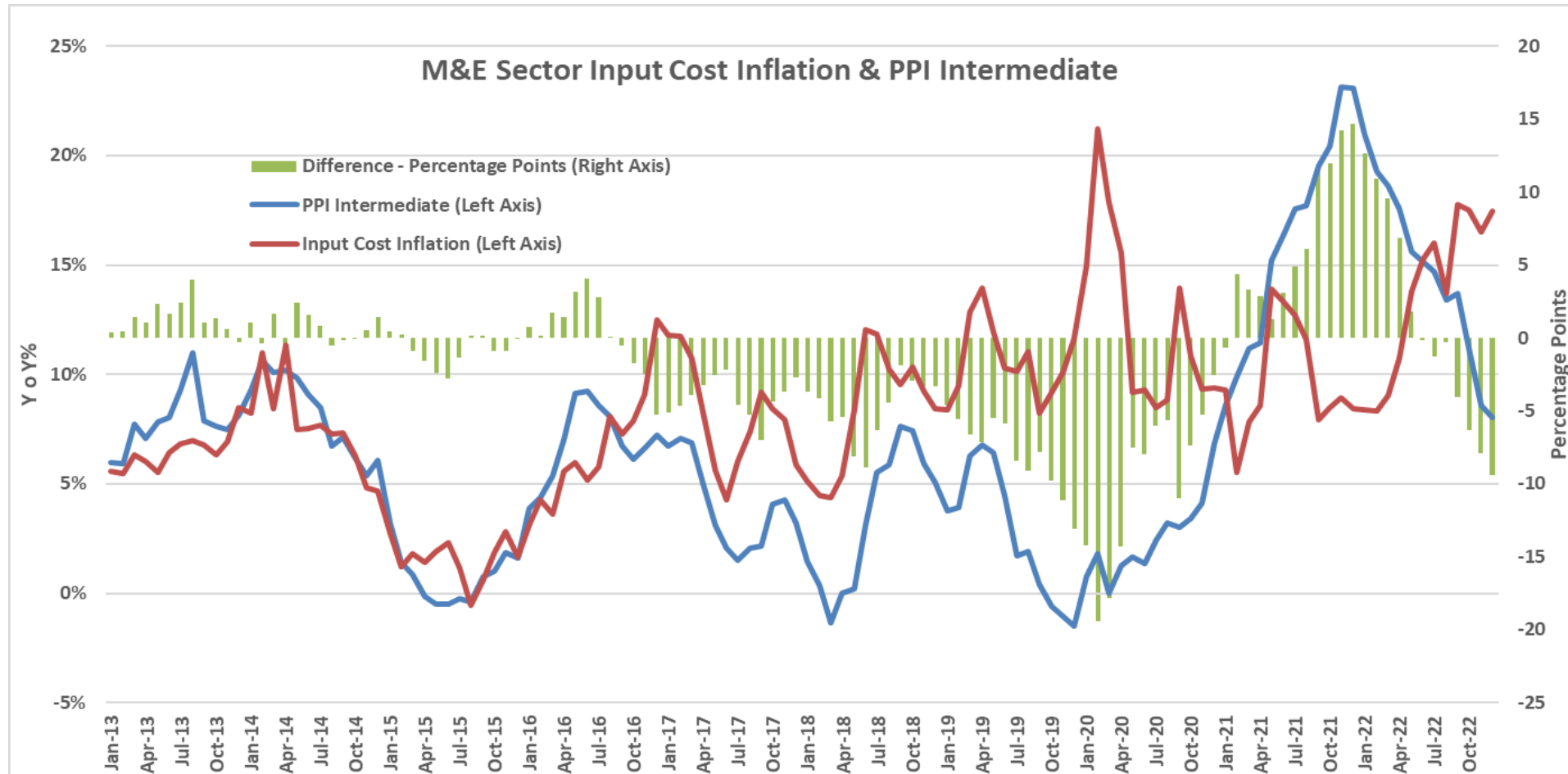


Real fixed capital stock



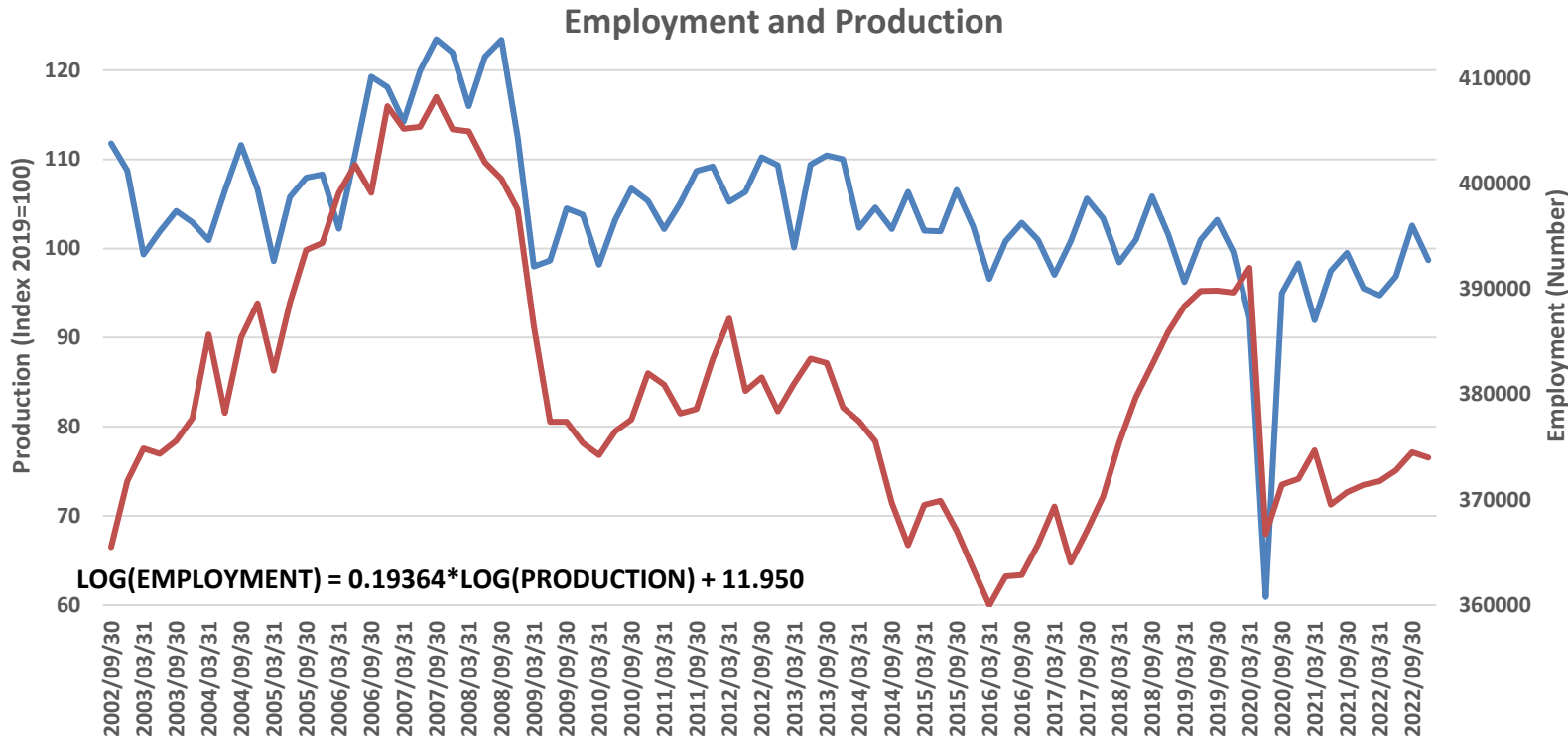
State of the Metals and Engineering Sector – Input and Selling Price Inflation

- In 2022, input cost inflation for the sector was recorded at 13,1%
- PPI Intermediate (which measures factory gate prices) is a proxy for selling price inflation averaged 15% for the year.



State of the Metals and Engineering Sector – Employment

- In 2022, employment in the sector increased by 0,8% of 1622.
- However, the link between production and employment has been weakening.



| Sub-Sector | (Year on Year %) 2022/2021 |
|---------------------------------|----------------------------|
| Plastic products | -0,6% |
| Basic iron and steel | -0,5% |
| Basic Non-ferrous metals | -3,4% |
| Casting of metals | 3,6% |
| Structural metal products | -0,1% |
| Other fabricated metal products | -1,6% |
| General purpose machinery | 1,8% |
| Special purpose machinery | 2,2% |
| Household appliances | 7,2% |
| Electrical machinery | 0,4% |
| Parts and Accessories | 4,4% |
| Transport equipment | -7,9% |

| Dates | Production | Employment |
|------------------------|------------|--------------------|
| Dec 2019 to June 2020 | -38,87% | -5,89% |
| June 2020 to June 2021 | 60,1% | 0,8% |
| Dec 2019 to Dec 2022 | -0,9% | -4,0% - 15667 jobs |

Outlook 2023



Industry **INSIDER GOLD**

SA's cement industry faces multiple threats

Government's 'massive infrastructure expenditure' plan coming to life would help, as would more strategic tariff protection.

By Roy Cokayne 12 Jan 2023 00:03

[Home](#) / [Latest News](#)

Loadshedding is hitting South Africa's agricultural sector and food inflation is 'sticky'



[← Back](#)

Economy **INSIDER GOLD**

Auto industry contribution to the economy threatened by power crisis

Component manufacturers hardest hit, with obvious impact on vehicle production and exports.

By Roy Cokayne 18 Jan 2023 00:02

ECONOMY

Eskom crisis causes sharp fall in mining production

The price of electricity for the mining industry has increased eightfold since 2008 while consumer prices have doubled

BL PREMIUM

17 JANUARY 2023 - 13:02 by THULETHO ZWANE

UPDATED 17 JANUARY 2023 - 21:10

Outlook 2023

| | | | | | | |
|-------|---|-------------------------|---|----------------|-------------------------|-------|
| | | DOMESTIC ECONOMY | | | EXPORT | |
| | | 61,8% | | | 38,20% | |
| M&E % | = | SA GDP | + | Primary Sector | Agriculture | 6,8% |
| | | | | | Mining | 21,0% |
| | | | | Secondary | Basic Iron and Steel | 23,3% |
| | | | | | Machinery and Equipment | 19,8% |
| | | | | | Chemicals | 4,2% |
| | | | | | Construction | 16,7% |
| | | | | | Automotive | 4,9% |
| | | | | Tertiary | Government (direct) | 3,2% |
| | | | | | Africa | 39,6% |
| | | | | | Asia | 24,7% |
| | | | | | Europe | 21,8% |
| | | | | | Americas | 12,2% |
| | | | | | Oceania | 1,3% |
| | | | | | Antarctica | 0,0% |
| | | | | | Not Allocated | 0,4% |

- Best case scenario = - 1,5%
- Base case scenario = - 2,2%

| M&E Sector | 2023 (Y o Y%) |
|----------------------------|---------------|
| Plastics | -3,8% |
| Basic Iron and Steel | 1,5% |
| Non Ferrous | 1,7% |
| Structural Metal | 2,8% |
| Fabricated Metal | -0,4% |
| General Machanery | 2,8% |
| Special Purpose Machiney | 2,0% |
| Household appliances | -3,6% |
| Electrical Machinery | -8,0% |
| Parts and Accessories (MV) | -3,1% |
| Transport Equipment | -8,3% |
| Total | -2,2% |

Outlook 2023

Downside risks to the base case;

- Global economic growth has been downgraded considerably presenting a less supportive economic environment
- Domestically, the energy crisis presents the most significant binding constraint for the metals and engineering sector, and also the industries to which it supplies product
- The composition of the export basket, particularly is gearing to the Africa continent presents some opportunities, however,
- Transnet's capacity constraint present a risk to export capability
- A number of African countries (especially SSA) are fiscally vulnerable, a risk which is heightened given tighter financial conditions, which may affect demand for exports

METALS AND ENGINEERING SECTOR ECONOMIC DASHBOARD

Economic Variable

2020

2021

2022

| Economic Variable | 2020 | 2021 | 2022 |
|--|---------|---------|---------|
| M&E Production (% growth/contraction) | -12,3% | 27,2% | 1,6% |
| M&E GDP (Rand billion) | 115,7 | 130,6 | 131,1 |
| M&E GDP (% growth/contraction) (2015 Prices) | -23,9% | -0,8% | -6,5% |
| Manufacturing Sector Share of GDP (%) | 15,0% | 15,5% | 14,8% |
| M&E Share of Manufacturing (%) | 17,0% | 17,1% | 17% |
| M&E Share of GDP (%) | 2,5% | 2,6% | 2,5% |
| M&E Capacity Utilisation (%) | 66,6% | 75,5% | 75,8% |
| M&E Sector Input Cost Inflation (%) | 12,4% | 9,8% | 13,1% |
| M&E Employment (number) | 371 955 | 371 390 | 374 496 |
| M&E Employment (% growth/contraction) | -5,1% | -0,2% | 0,8% |
| Gross Earnings (Rand billion) | 96,6 | 105,6 | 107,7 |
| M&E Total Sales (Rand billion) | 638,5 | 809,4 | 914,2 |
| M&E Export Sales (Rand billion) | 256,1 | 323,5 | 342,9 |
| Export sales % of total sales | 40,1% | 40,0% | 37,5% |
| M&E Imports (Rand billion) | 347,4 | 416,6 | 471,1 |
| M&E Trade Balance (Rand billion) | -91,3 | -93,1 | -128,2 |



THANK YOU

QUESTIONS AND DISCUSSION

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80 *Years*
OF SERVICE
1943 - 2023

