Coface Expects SA's Mining Production to Improve

By Coface, the international credit insurer

Growth in mining production should continue to improve in the coming months as the effects of last year's five-month platinum strike works through the economy. However, poor global growth, lower commodity prices and interrupted electricity supply will keep output relatively weak.

Annual mining production accelerated to 7,5% in February from a 2,3% decline in January. The biggest drivers of the annual figure were iron ore, platinum group metals as well as manganese ore. On a seasonally adjusted basis, production was up 3,8% m-o-m and down 1,3% q-o-q for the three months to February.

The major contributors to the quarterly decline were gold, diamonds, other metallic minerals, other non-metallic minerals, iron ore and chromium ore. This was counter-acted by increases of 1,1 and 0,1 percentage points respectively by platinum group metals as well as coal production. Annual mineral sales declined by 14,5% in January, following a 3,4% fall in December. The annual decrease was mainly a result of decreased sales of platinum group metals. On a seasonally adjusted basis, mineral sales dropped by 5,1% m-o-m and 3,7% q-o-q for the three months to January.

Manufacturing production remained weak in February but the annual rate of decline slowed. Seven of the ten major industries recorded output contractions, but noticeable drops were experienced in the petroleum, chemical products and rubber and plastic products category. Furniture and other manufacturing and wood and wood products, paper, publishing and printing fell by 2,0%.

The three categories that recorded expansion were food and beverages, basic iron and steel, non-ferrous metal products, metal products and machinery as well as motor vehicles, parts and accessories and other transport equipment, which rose by 1,1%.

The former two categories respectively account for 24% and 20% of the total, while the latter accounted for 7,4%.

On a monthly basis, total output rose by seasonally adjusted 0,7%, but output was 0,8% lower in the three months to February compared with the previous three months. The biggest contributors to quarterly decline were radio, television, communication apparatus and professional equipment, where output dropped by 18,3% q-o-q, motor vehicles, parts and accessories and other transport equipment (-3,7%), as well as 'wood and wood products, paper, publishing and printing' (-2,1%).

Expansion was recorded in the 'food and beverages', 'electrical machinery' as well as 'basic iron and steel, non-ferrous metal products, metal products and machinery' categories. Output growth is expected to continue to improve in 2015 but this will mainly reflect the low base established in 2014.

Generally, conditions in the manufacturing sector remain weak. Export-orientated industries are affected by sluggish global growth. Domestic factors will also add pressure on production. Added to this is the high household debt burden, tight access to credit and weak employment prospects.

Annual retail sales growth accelerated sharply in February, with six of the seven major categories of sales recording growth. This rise was mainly driven by a jump in the 'general dealers' category. This category accounts for over 40% of the total and as a result its 4,8% y-o-y sales growth added 2,0 percentage points to the headline figure.

Other categories made relatively little contribution, with 'hardware, paint and glass' adding 0,7 percentage points, while 'food, beverages and tobacco in specialised stores', 'textiles, clothing, footwear and leather goods' and 'all other retailers' added 0,5 percentage points each. Sales in the 'household furniture, appliances and equipment' remained weak in February, declining for a second consecutive month (down by 4,1% y-o-y), and subtracted 0,2 percentage points.

On a monthly basis, retail sales rose by a seasonally adjusted 1,9%, which kept growth for the three months to February steady at 0,9% q-o-q. February's sales jump did not distract from the underlying weak trend, with retail sales over the three months to February up a seasonally adjusted 0,9% q-o-q, after the same weak growth rate was recorded in the previous three months.

However, sales were 2,6% higher for the three months to February compared with the same period in 2013. Retail sales growth is likely to remain firm during the first half of the year, helped by the base effects and stable interest rates.

The growth rate will moderate during the second half of 2015 as the base effect fades and consumer spending will partly be contained by the weak job market, slower income growth, high household debt and tighter access to credit. Cost pressures will also rise on higher food prices and electricity tariffs hikes. These will cause households to be very cautious about spending on non-essential goods. Electricity supply disruptions will also hamper retail activity.

About Coface

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