# State of the Metals and Engineering Sector 2024

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SEIFSA
Steel and Engineering Industries Federation of Southern Africa

# Introduction to SEIFSA

- The Steel and Engineering Industries Federation of Southern Africa (SEIFSA) represents 18 Employer Associations, who collectively represent in excess of 1 300 companies and employ 170 000 employees in the metals and engineering sector.
- The federation was established in 1943 and celebrates 81 years in 2024
- SEIFSA's primary function is to advocate on behalf of its members for a conducive and business friendly economic environment
- The Federation supports its members in the areas of Industrial Relations, Human Capital and Skills Development, Safety, Health Environment and Quality Services (SHEQ), Economic and Commercial Services.

# Introduction to SEIFSA

### 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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# Presentation Outline

1. SEIFSA Introduction
2. Structure of the Market
3. State of the Sector – high frequency data
4. The labour market
5. 2024 Outlook
6. Assumptions and risks underpinning outlook
7. Conclusion

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# Structural Framework of the Metals and Engineering Sector

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# METALS AND ENGINEERING SECTOR ECONOMIC DASHBOARD

| Economic Variable | 2020 | 2021 | 2022 | 2023 | % |
|---|---|---|---|---|---|
| **M&E Production (% growth/contraction)** | -12,1% | 27,1% | 1,5% | **1,7%** | |
| **M&E GDP (Rand billion) - nominal** | 160,3 | 186,9 | 207,0 | **218,4** | 5,5% |
| **M&E GDP (% growth/contraction) (2015 Prices)** | -11,1% | 5,1% | 0,3% | **-5,9%** | |
| **M&E Share of Manufacturing (%)** | 26,2% | 26,2% | 26,2% | **26,2%** | |
| **M&E Share of GDP (%) - direct** | 3,2% | 3,4% | 3,6% | **3,3%** | |
| **M&E Capacity Utilisation (%)** | 66,6% | 75,4% | 75,7% | **75,3%** | |
| **M&E Sector Input Cost Inflation (%)** | 12,4% | 9,8% | 13,5% | **5,2%** | |
| **M&E Employment (number)** | 375531 | 371576 | 370431 | **362871** | -2,0% |
| **M&E Employment (% growth/contraction)** | -5,10% | -1,1% | -0,3% | **-2,0%** | |
| **Gross Earnings (Rand billion)** | 96,7 | 105,6 | 112,2 | **113,9** | 1,5% |
| **M&E Total Sales (Rand billion)** | 652,6 | 826,4 | 920,9 | **937,0** | 1,7% |
| **M&E Export Sales (Rand billion)** | 263,0 | 331,7 | 385,0 | **423,4** | 10,0% |
| **Export sales % of total sales** | 40,3% | 40,1% | 41,8% | **45,2%** | |
| **M&E Imports (Rand billion)** | 377,7 | 450,5 | 557,3 | **649,3** | 16,5% |
| **M&E Trade Balance (Rand billion)** | -114,7 | -118,8 | -172,3 | **-225,9** | 31,1% |
| **Gross Fixed Capital Investment (Rand billion)** | 22,28 | 20,26 | 27,04 | | |

Source: Stats SA, SEIFSA, SARS, Quantec

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# Metals and Engineering Sector in more detail

- The sector constitutes 26.2% 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.

| Sub-Sector | % of Manfacturing | % of M&E |
|---|---|---|
| Plastic products | 2,05 | 7,8 |
| Basic iron and steel products | 2,92 | 11,1 |
| Non-ferrous metal products | 3,54 | 13,5 |
| Structural metal products | 2,01 | 7,7 |
| Other fabricated metal products | 3,65 | 13,9 |
| General purpose machinery | 3,45 | 13,2 |
| Special purpose machinery | 3,73 | 14,2 |
| Household Appliances | 0,66 | 2,5 |
| Electrical machinery and apparatus | 2,14 | 8,2 |
| Bodies - MV, trailers and semi-trailers | 0,75 | 2,9 |
| Other transport equipment | 1,32 | 5,0 |
| **Total M & E Sector** | **26,22** | **100,0** |

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Source: Stats SA, SEIFSA

# Market Structure – External and SA

M&E % = SA - GDP + Domestic Economy + Export

| | DOMESTIC ECONOMY | |
|---|---|---|
| | 54,8% | |
| Primary | Agriculture | 3,9% |
| | Mining | 16,6% |
| Secondary | Food and Beverages | 3,2% |
| | Wood Paper | 1,5% |
| | Basic Iron, Steel & non-Ferrous | 18,5% |
| | Machinery and Equipment | 11,4% |
| | Chemicals | 1,8% |
| | Construction | 14,5% |
| | Automotive | 5,0% |
| Tertiary | Transport, Com., Finance, Government | 12,6% |
| | Other | 10,9% |

| EXPORT | |
|---|---|
| 45,2% | |
| Africas | 42,9% |
| Asia | 22,9% |
| Europe | 20,9% |
| Americas | 11,6% |
| Oceania | 1,4% |
| No Allocated | 0,3% |
| Antarctica | 0,0% |

| Africas | |
|---|---|
| SADC (excluding SACU) | 59% |
| SACU (Excluding RSA) | 28% |
| Western Africa | 7% |
| Eastern Africa | 4% |
| Central Africa | 1% |
| Northern Africa | 1% |

Source: Quantec, Stats SA, SEIFSA

# State of the Metals and Engineering Sector

- Production
- Capacity Utilisation
- Investment
- Input Cost Inflation

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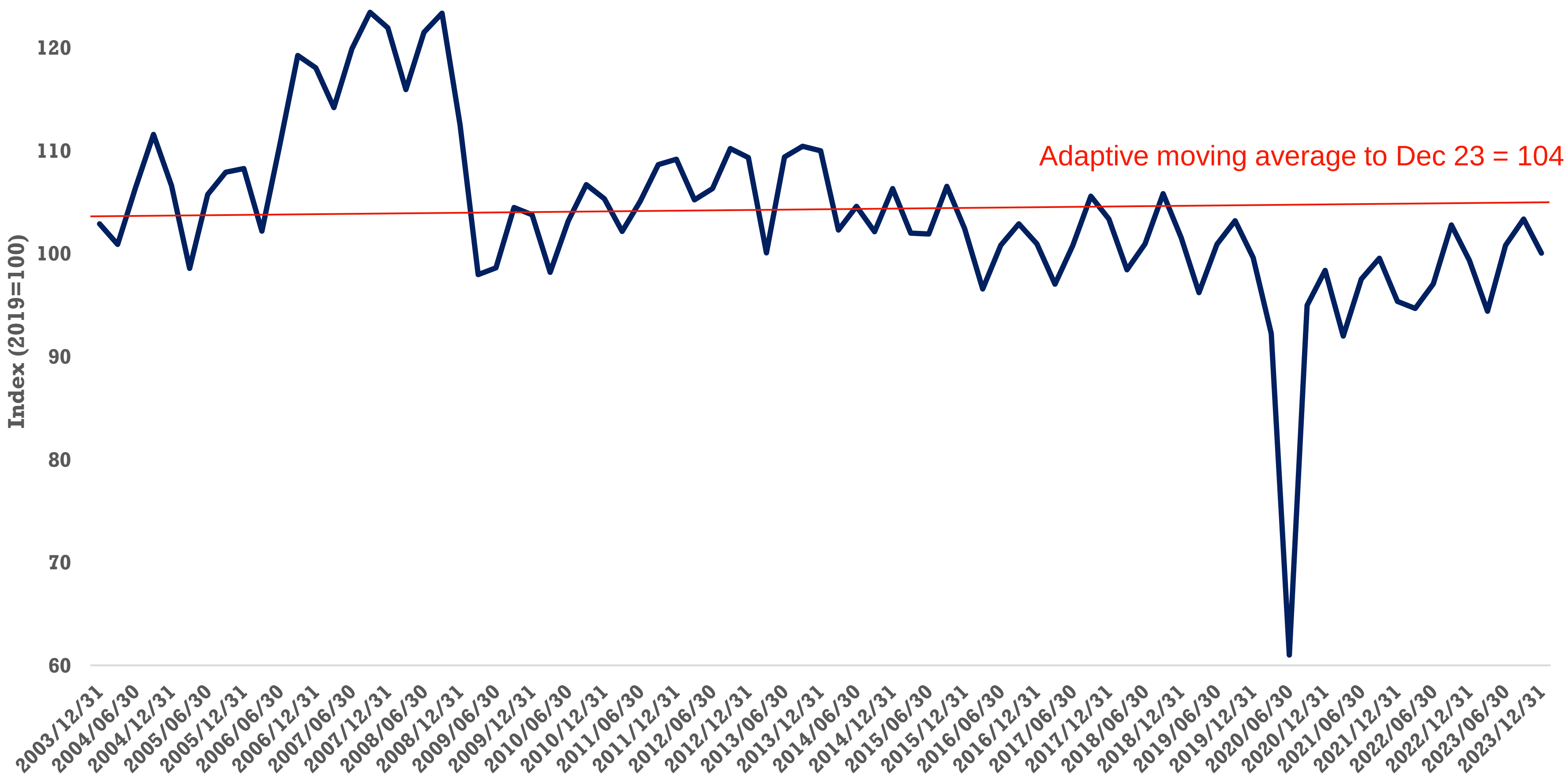
# Production - 18% below the 2008/9 peak and declined at a rate of 1,49% (CAGR)




- In 2023 aggregate production increased by 1,7%.
- In 2023 the index of production averaged ~4,2% below its long run average
- Production has not sustainably attained its pre-covid lock down levels, and has been oscillating between 1-2 index points around this level
- **18% below the 2008/9 peak and declined at a rate of 1,49% (CAGR)**

Source: Stats SA, SEIFSA

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# Production per sub-sector

| Sub- Sector | Weight | Q1 2023 | Q2 2023 | Q3 2023 | Q4 2023 | 2023 |
|---|---|---|---|---|---|---|
| Plastic Products | 7,8% | 2,7% | 2,3% | -0,1% | 1,9% | 1,7% |
| Basic Iron And Steel Products | 11,1% | -8,8% | 0,2% | -7,6% | 0,3% | -4,0% |
| Non-Ferrous Metal Products | 13,5% | -6,7% | 3,9% | -1,1% | 0,6% | -0,8% |
| Structural Metal Products | 7,7% | 6,0% | 16,0% | 3,8% | 3,0% | 7,2% |
| Other Fabricated Metal Products | 13,9% | -6,8% | 11,1% | 1,0% | 4,9% | 2,5% |
| General Purpose Machinery | 13,2% | 6,9% | 7,2% | -4,2% | -6,7% | 0,8% |
| Special Purpose Machinery | 14,2% | -3,3% | 3,9% | 12,3% | 9,7% | 5,6% |
| Household Appliances | 2,5% | -1,2% | 2,9% | 6,5% | 0,7% | 2,2% |
| Electrical Machinery | 8,2% | -3,3% | 11,7% | 12,7% | 2,0% | 5,8% |
| Parts and Accessories (MV) | 2,9% | 1,8% | -8,8% | -6,6% | -0,7% | -3,6% |
| Other Transport Equipment | 5,0% | 7,7% | -2,8% | -4,9% | -6,0% | -1,5% |
| Total M&E Sector (Weighted) | 100% | -1,6% | 5,6% | 1,4% | 1,5% | 1,7% |

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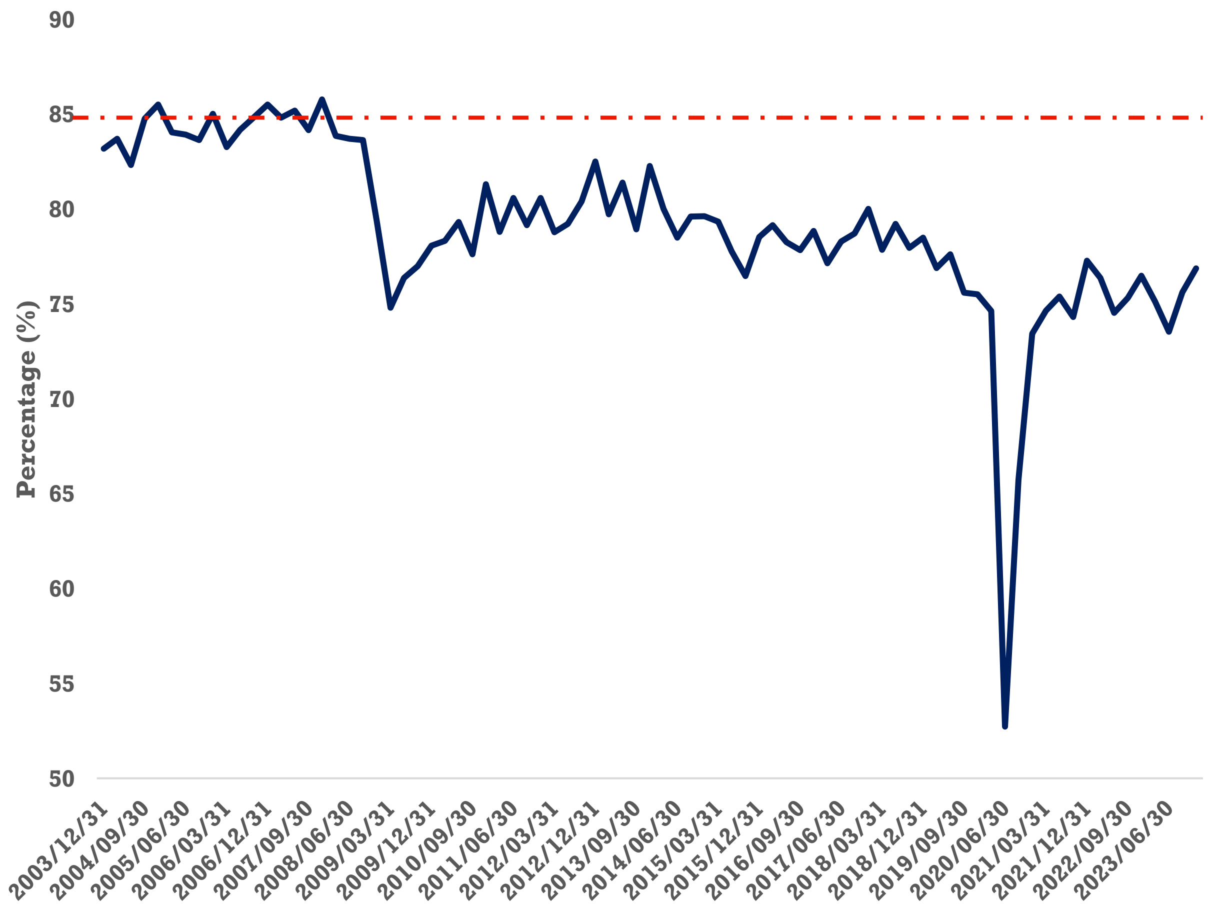
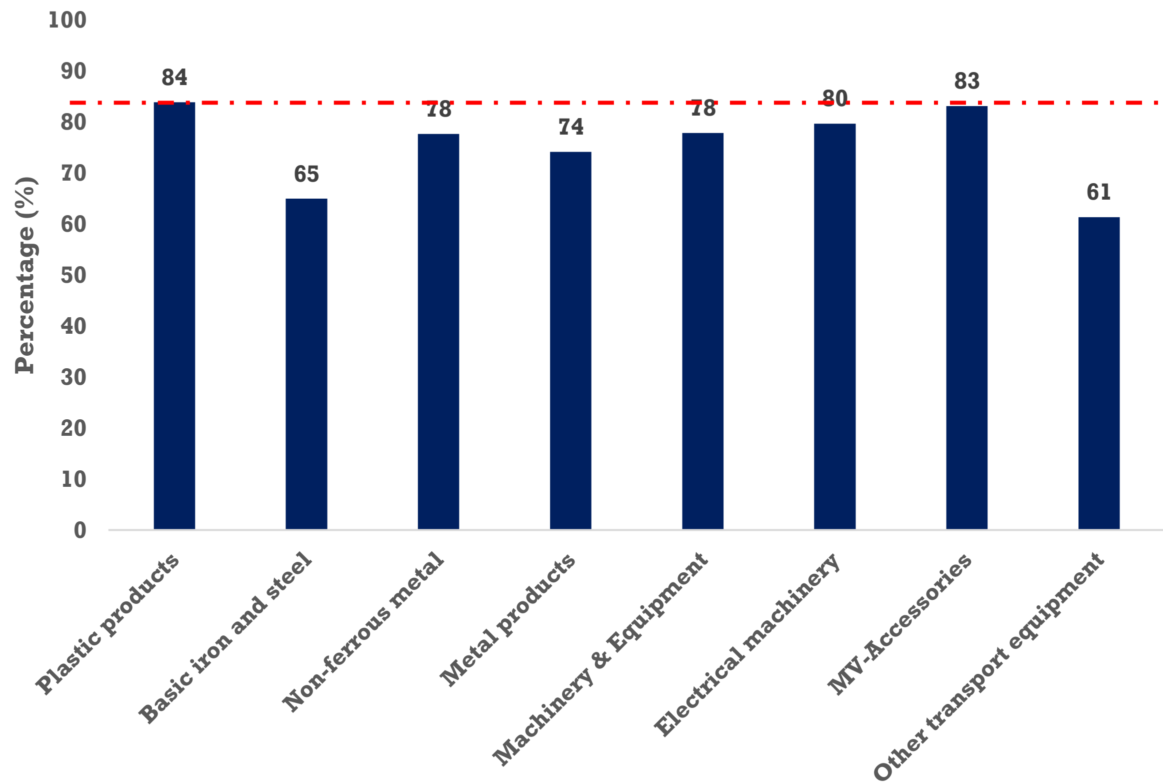
Source: Stats SA, SEIFSA

# Capacity utilization – 75,3% in 2023




Source: Stats SA, SEIFSA

# Gross, Net Investment and Fixed Capital Stock

- Gross investment increased 33,5% (nominal) between 2021 and 2022 to R27,1 billion, however, net investment decreased by R2,3 billion (Gross Investment = R27,1 billion and Consumption of fixed capital = R29,3 billion).
- Net investment has remained negative since 2008. Fixed capital stock deteriorated -1,2% between 2021 and 2022. On a compound basis it has deteriorated at a rate of -0,8%.
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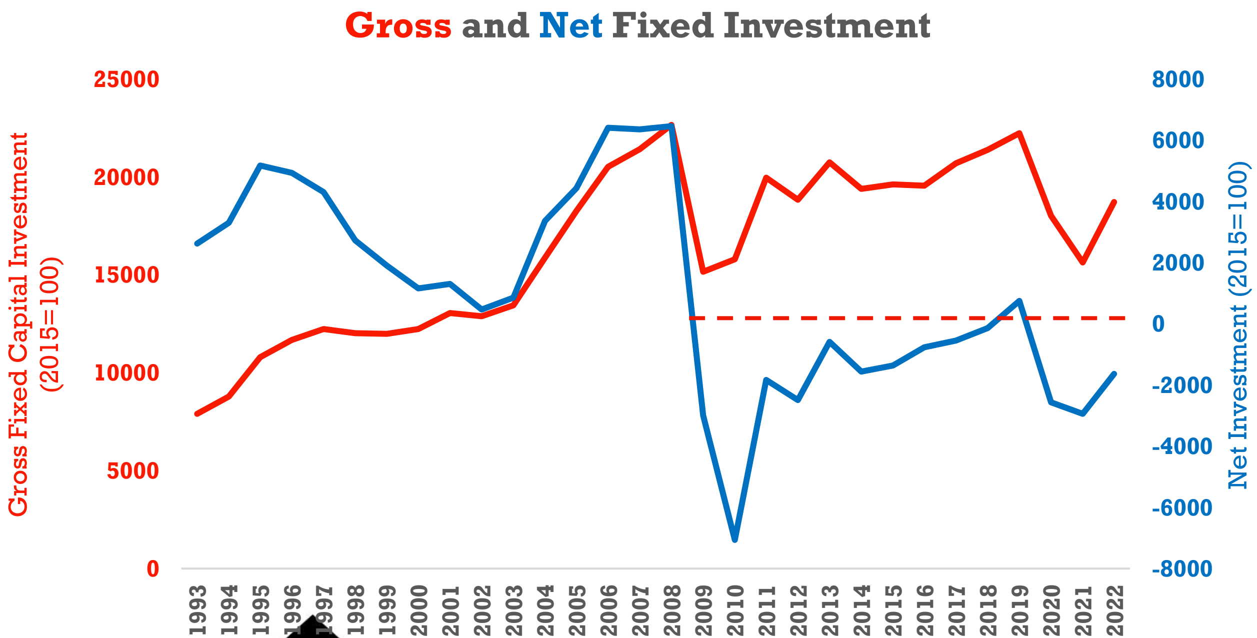
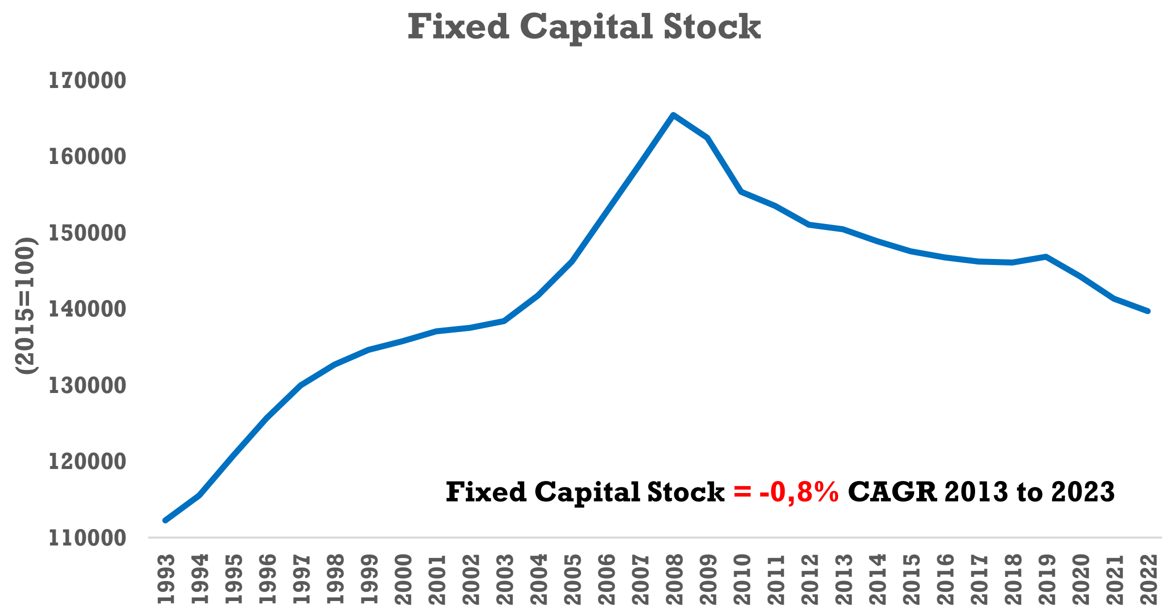
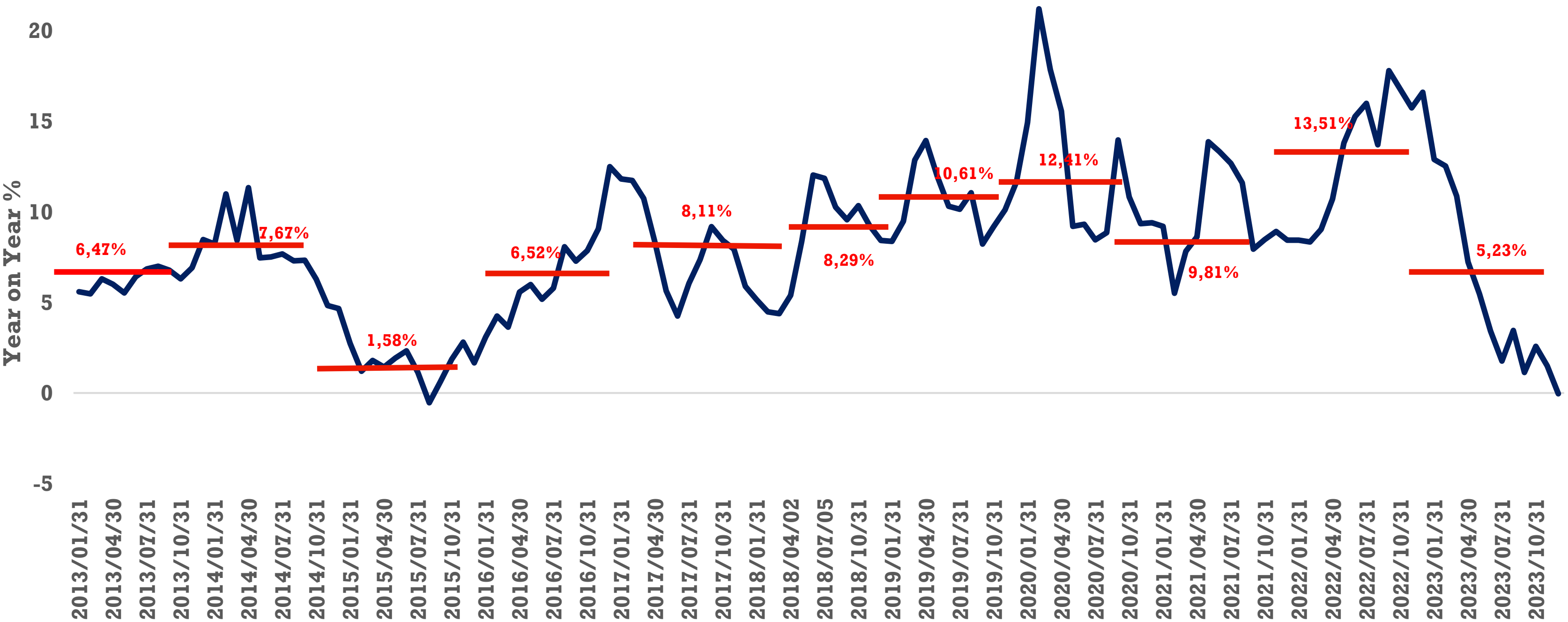



Source: Quantec, SEIFSA

# Input cost Inflation = 5,23% in 2023

- In 2023, input cost inflation averaged 5,23% (Y o Y%), considerably lower than the average of 2022 which was 13,5%.




| Cost Basket | Total Mining |
|---|---|
| | |
| **Intermediate Cost Basket** | |
| Mining & quarrying | 30,84% |
| Wood & wood products | 0,44% |
| Coke & refined petroleum | 1,24% |
| Basic chemicals | 0,06% |
| Other chemicals | 0,23% |
| Rubber products | 0,05% |
| Metal products excluding machinery | 23,34% |
| Machinery & equipment | 3,30% |
| Electrical machinery & apparatus | 0,28% |
| Transport equipment | 0,29% |
| Electricity, gas & water | 2,04% |
| Wholesale & retail trade | 7,55% |
| Transport & storage | 3,30% |
| Finance, insurance, real estate & business services | 4,86% |
| Government and Community | 0,33% |
| Other Intermediate Inputs | 0,07% |
| Imported Intermediate Inputs | 21,78% |
| **Total Intermediate Costs (Ex Labour)** | **100%** |
| | |
| Intermediate Costs | 82% |
| Compensation of Employees | 18% |
| **Total Input Costs** | **100%** |

Source: SEIFSA, SARB, Stats SA, IMF, MEIBC

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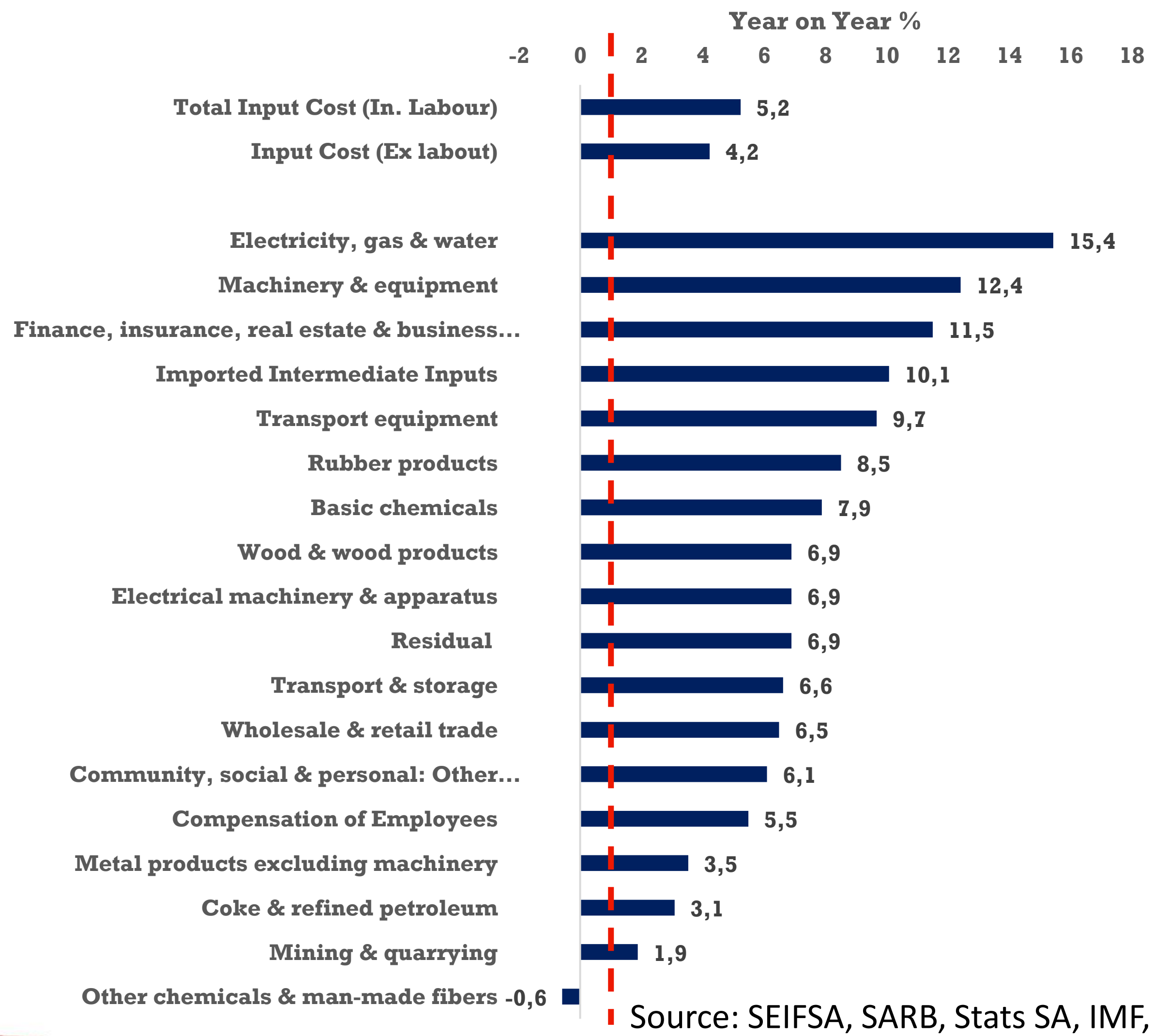
# Input cost Inflation

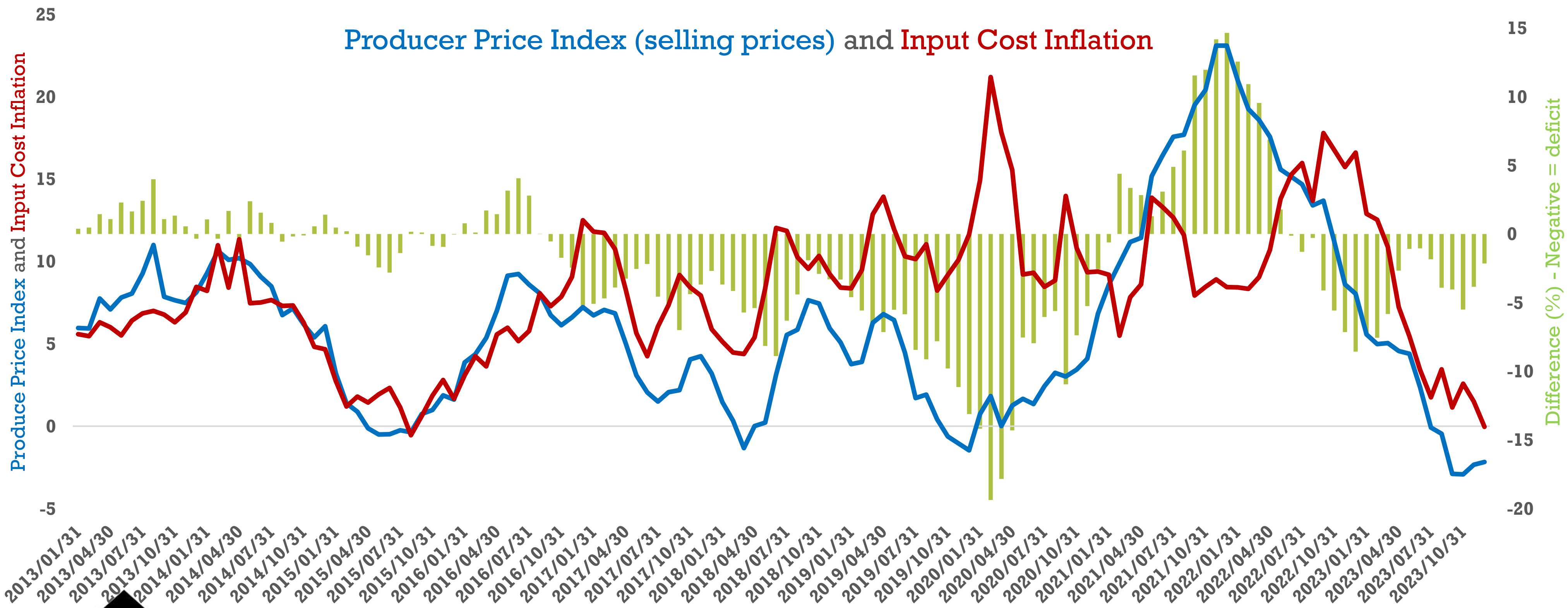
- Total input costs in 2023
  - Including labour costs = 5,23%
  - Excluding labour costs = 4,2%
- All the input costs at a disaggregated level increased considerably above the producer price index, reflecting cost pressure across the board, however the overall lower outcome in 2023 is due to the due to base effects from the elevated costs observed in 2022.
- On a weighted basis the most significant driver of input cost inflation in 2023 was the imported costs which accounted for 21% of costs and increased at 10,1%
- At a disaggregated level electricity costs increased at the highest rate however, relative to the total input cost basket the line item accounts 2,04%




Source: SEIFSA, SARB, Stats SA, IMF, MEIBC

# Input cost Inflation vs Selling Price Inflation

- In 2023 input costs were 3,9 percentage points above factory gate prices, representing considerable margin compression

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Source: SEIFSA, SARB, Stats SA, IMF, MEIBC

# The labour market

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# M & E Employment

- In 2023, the sector employed 362 871 employees representing a 2% decline on the prior year
- Compensation of employees amounted to R113,9 billion, an increase of 1,5% on 2022
- Labour costs make up 18% of total input cost and 79% of metals and engineering sector GDP .
- Net surpluses (a proxy for return on capital) makes up 7% of the sectors GDP.

| Cost Basket | Total Mining |
|---|---|
| | |
| **Intermediate Cost Basket** | |
| Mining & quarrying | 30,84% |
| Wood & wood products | 0,44% |
| Coke & refined petroleum | 1,24% |
| Basic chemicals | 0,06% |
| Other chemicals | 0,23% |
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| Finance, insurance, real estate & business services | 4,86% |
| Government and Community | 0,33% |
| Other Intermediate Inputs | 0,07% |
| Imported Intermediate Inputs | 21,78% |
| **Total Intermediate Costs (Ex Labour)** | **100%** |
| | |
| Intermediate Costs | 82% |
| Compensation of Employees | 18% |
| **Total Input Costs** | **100%** |

| **GDP Component** | **%** |
|---|---|
| Compensation of Employees | 79,1% |
| Consumption of Fixed Capital | 13,9% |
| Net Surplus | 7,0% |
| Total GDP | 100,0% |

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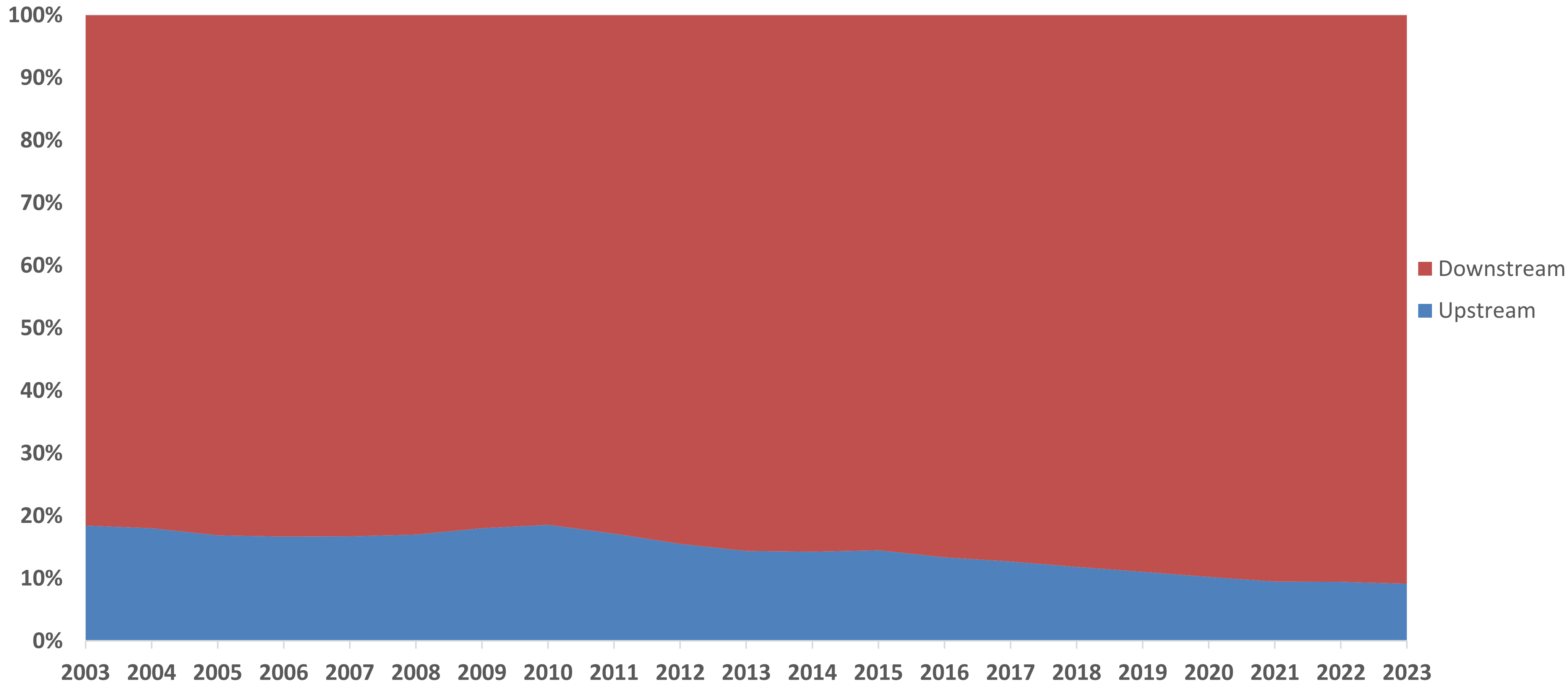
# M & E Employment

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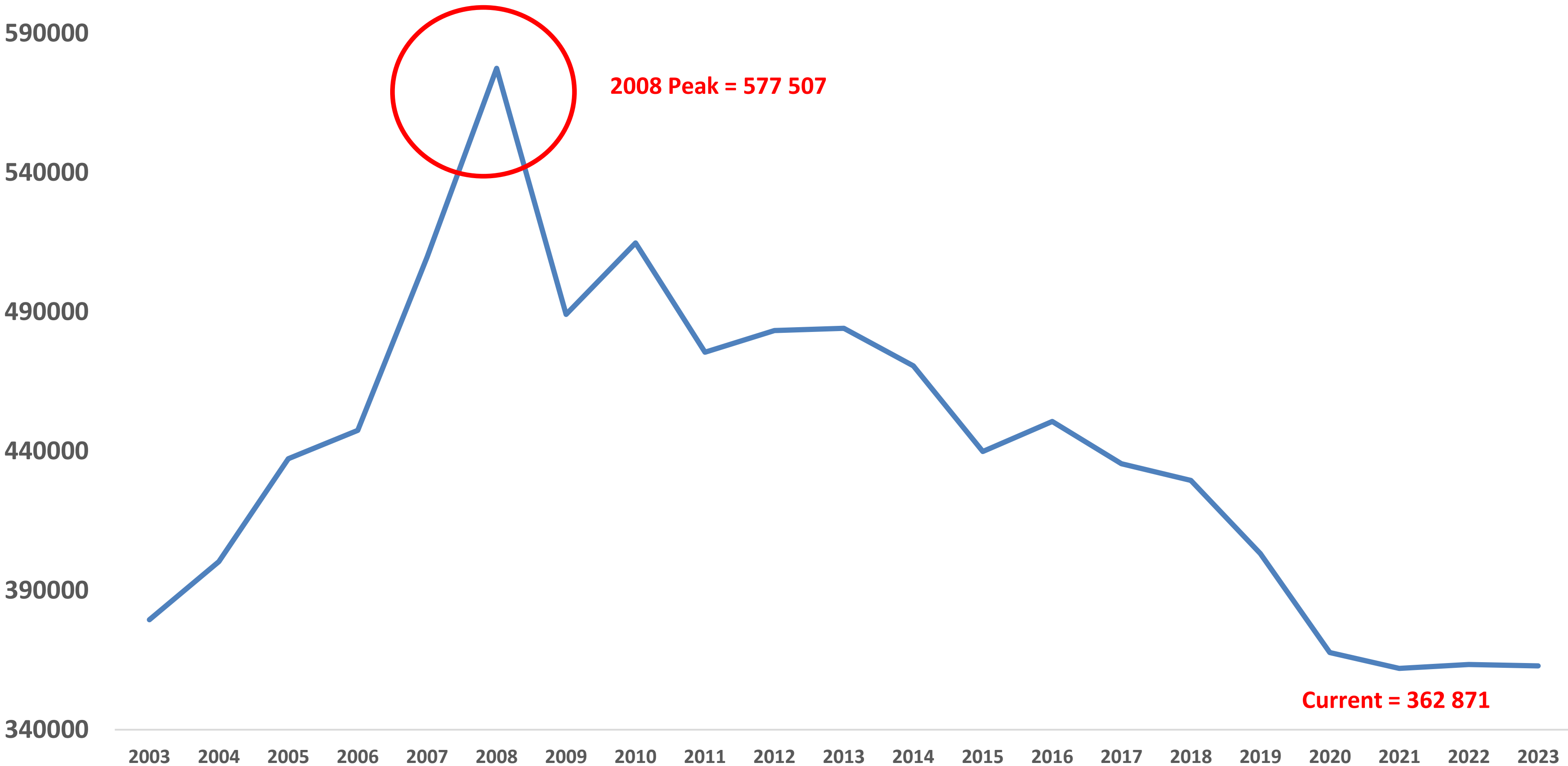
# M & E Employment




- Between 2008 and 2023 the sector lost 214 636 jobs
- 37,2% decline
- -2,9 % (CAGR)
- Between 2022 and 2023 employment contracted 2%

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# Employment statistics detail

| | Contribution to employment | Employment by sub-sector | Employment 2008-2023 | Employment 2008-2023 (weighted) |
|---|---|---|---|---|
| Plastic products | 11,6% | 42039 | -26,3% | -3,0% |
| Basic iron and steel | 8,8% | 31909 | -67,4% | -5,9% |
| Basic precious and non-ferrous metals | 4,7% | 17167 | -63,8% | -3,0% |
| Casting of metals | 1,3% | 4670 | -16,1% | -0,2% |
| Structural metal products | 10,4% | 37797 | -46,1% | -4,8% |
| Other fabricated metal products | 17,6% | 63904 | -42,7% | -7,5% |
| General purpose machinery | 12,3% | 44640 | -24,9% | -3,1% |
| Special purpose machinery | 15,4% | 55996 | -29,3% | -4,5% |
| Household appliances | 1,8% | 6552 | -36,0% | -0,7% |
| Electrical machinery products | 11,4% | 41480 | -14,1% | -1,6% |
| Bodies for mv's, trailers (& semi) | 3,6% | 13121 | -8,9% | -0,3% |
| Transport equipment | 1,0% | 3595 | -57,8% | -0,6% |
| Total | | 362871 | -37,2% | -35,3% |

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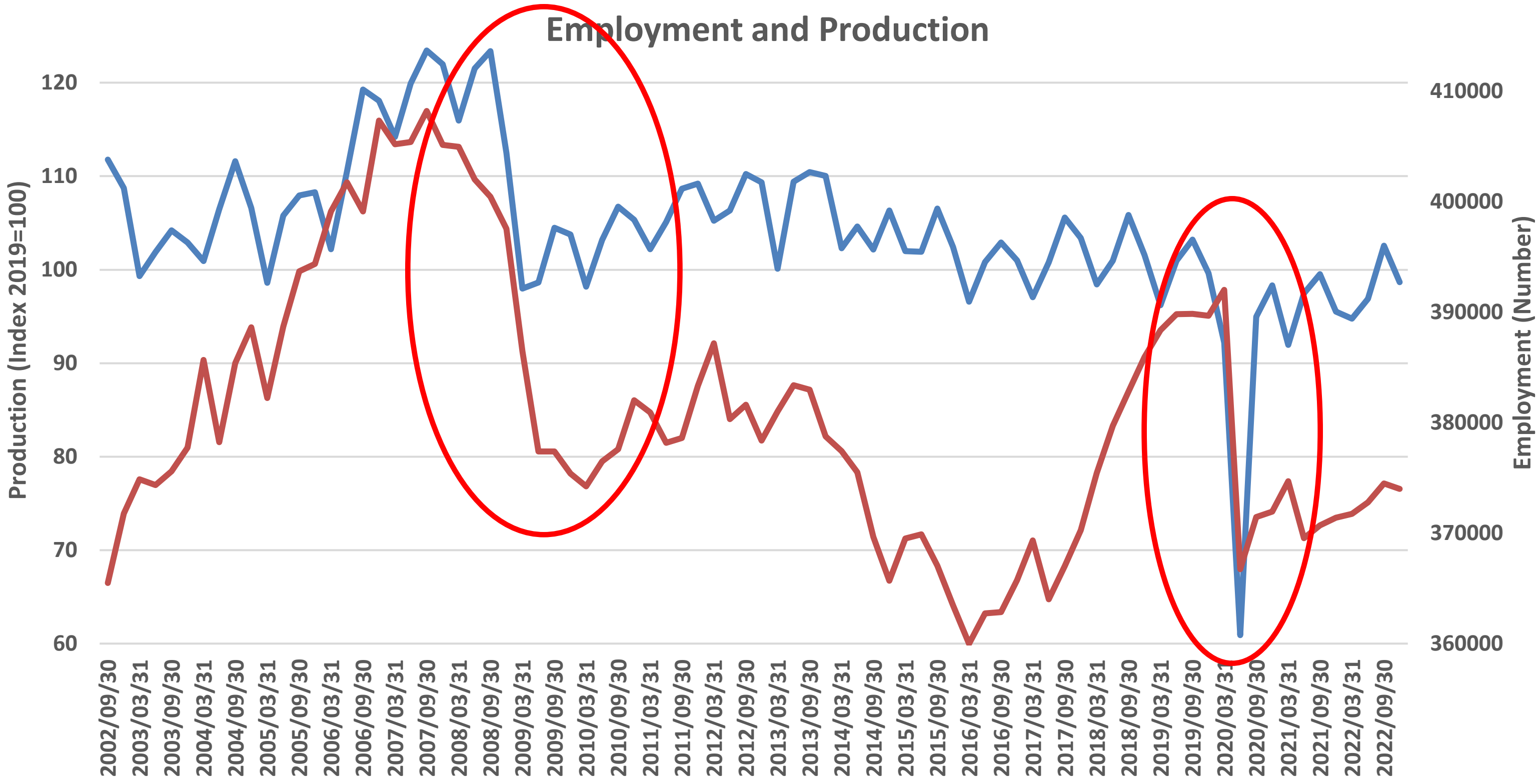
# Production and Employment – Decoupling




- The link between production and employment has continued to weaken.
- Increase in production is becoming less of a sufficient reason for increases in employment (latest estimates indicate that a 5% increase in production will result in a 1,2% increase in employment)
- Periods of structural shock have also shown evidence of worsening this relationship (GFC, Covid, and industrial action)

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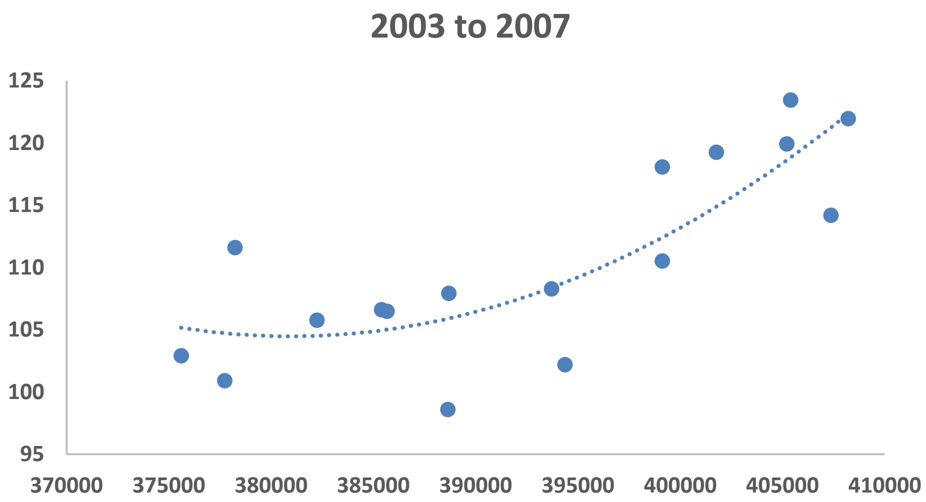
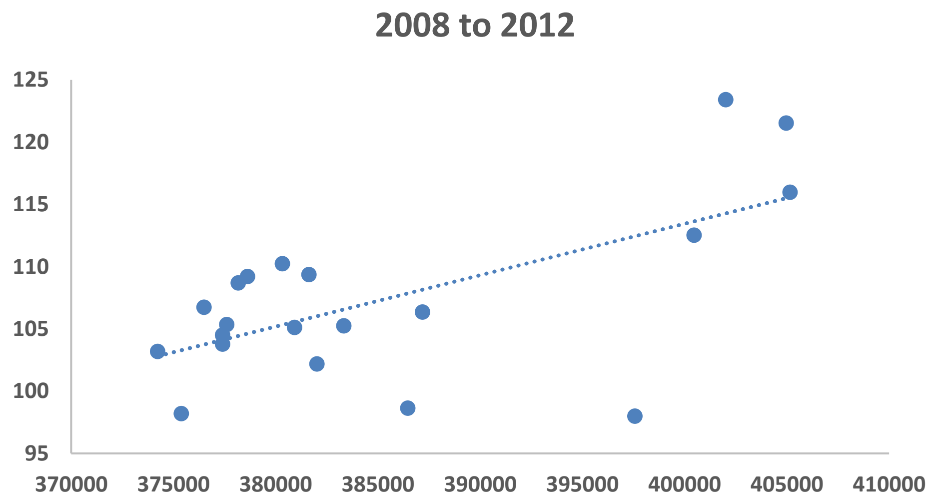
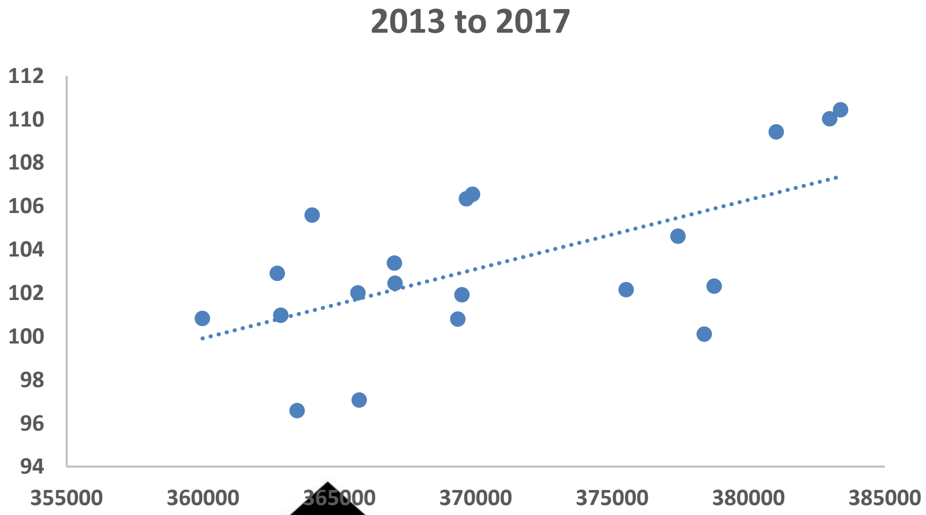
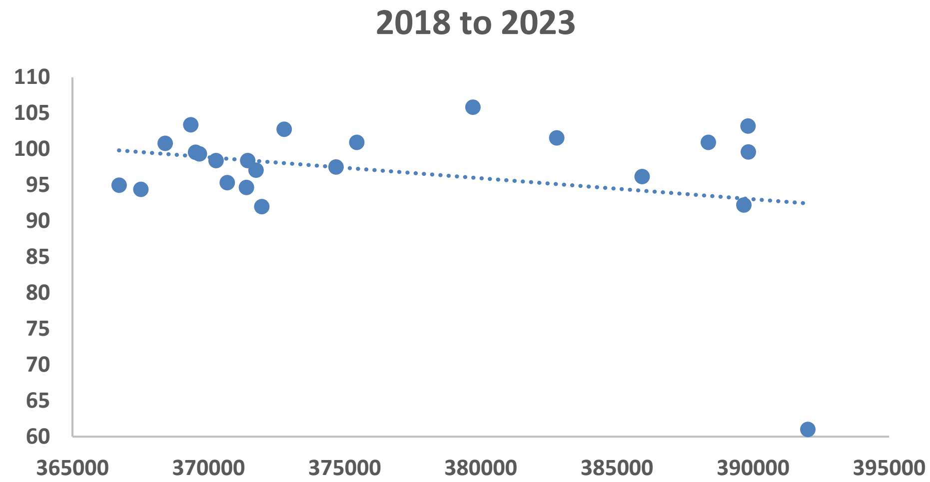
# Production and Employment – Decoupling

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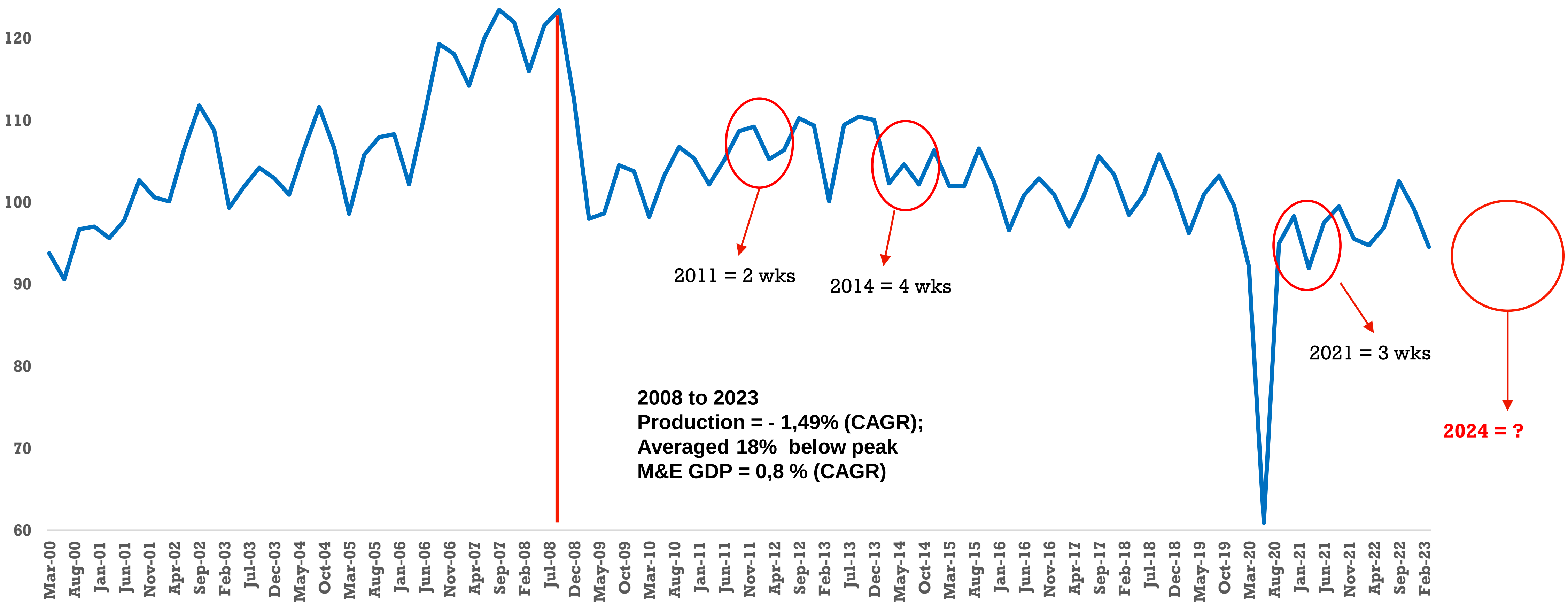
# 2024 is a critical year

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# Outlook 2024

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# Global Economic Outlook – Flatline into medium term

- Global economic growth and growth in key markets is expected to flatline into the medium term

| | 2023 (Est.) | 2024 (Forecast) | 2025 (Forecast) |
|---|---|---|---|
| Global | 3,1 | 3,1 | 3,2 |
| Advanced Economies | 1,6 | 1,5 | 1,8 |
| Emerging Market & Developing | 4,1 | 4,1 | 4,2 |
| Sub-Sahara Africa | 3,3 | 3,8 | 4,1 |

- Global inflation set to decline from 6,8% in 2023 to 5,8% in 2024 and 4,4% in 2025.
- Inflation is subsiding faster than expected particularly in the advanced economies (nearing target in 2024 = 2,6% down from ~ 4% in 2023).
- Interest rates remain elevated – having been raised to restrictive levels in 2023 to contain inflation, but with inflation easing the expectation is for short-term rates to start declining (timeline debated but general consensus is H2 2024). Long-term rates remained elevated due to higher government debt levels (advanced and emerging markets)
- Fiscal policy divergent and localised mainly in response to speed of recovery from the covid- pandemic locally

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Source: IMF, World Bank

# Global Economic Outlook – Flatline into medium term

- Policy makers near term challenge is to successfully manage the final descent of inflation to target, calibrating policy rates in response to underlying inflation dynamics and where inflation is showing a sustainable downward path, restoring less restrictive policy rates, IMF 2024
- The global geo-political temperature is elevated going into 2024 which is expected to deepen fragmentation based on foreign policy positions.
- Commodity volatility due to geo-political tension may also undermine the inflation trajectory, causing central banks around the world to take a cautious approach to the timing of rate cuts, potentially reaffirming the higher for longer narrative.

**Sub-Sahara Africa;**

- Growth is anticipated to rebound to 3,8% and 4,1% in 2025
- High debt burden and interest rates have narrowed the fiscal space for most country's and therefore growth will largely be driven by higher commodity prices (doubled edged for commodity intensive exporters) and localised reform (especially for the less commodity dependant). Debt default risks remain elevated
- East Africa is presenting significant opportunity mainly due to improved business confidence, and higher levels of private sector investment

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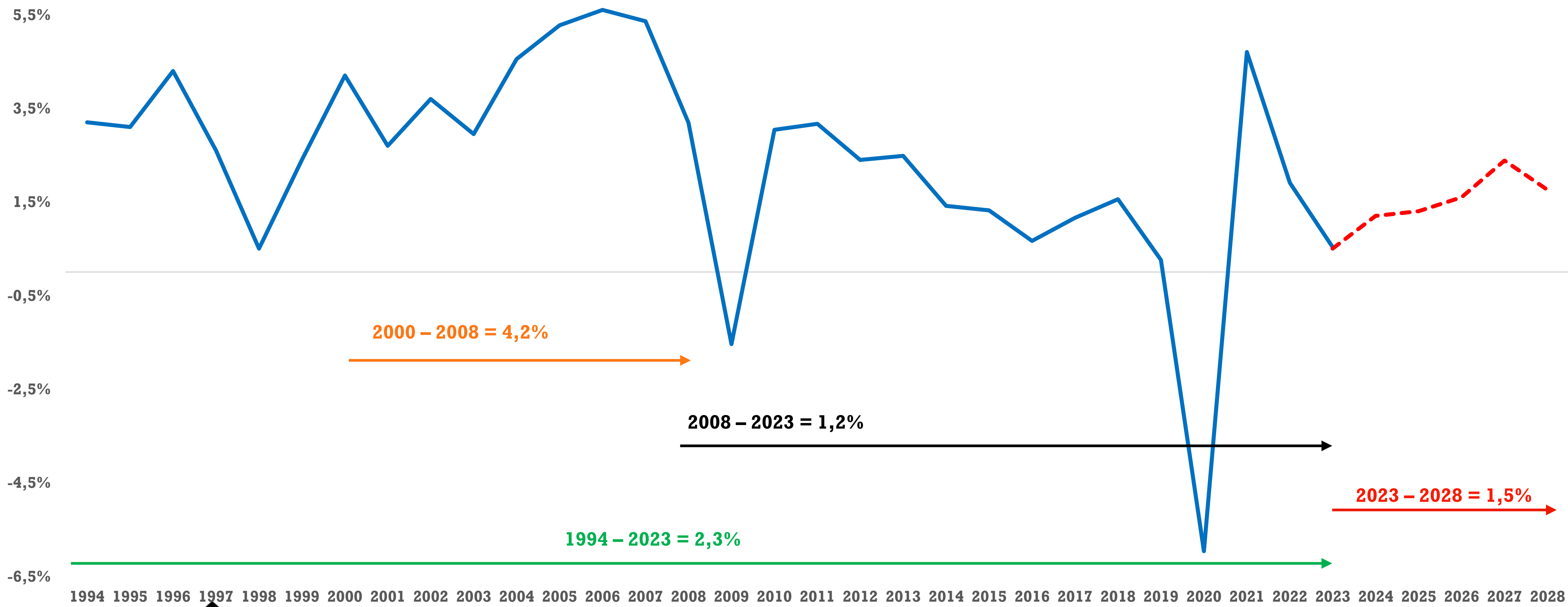
Source: IMF, World Bank

# South Africa GDP – domestic constraints capping growth potential

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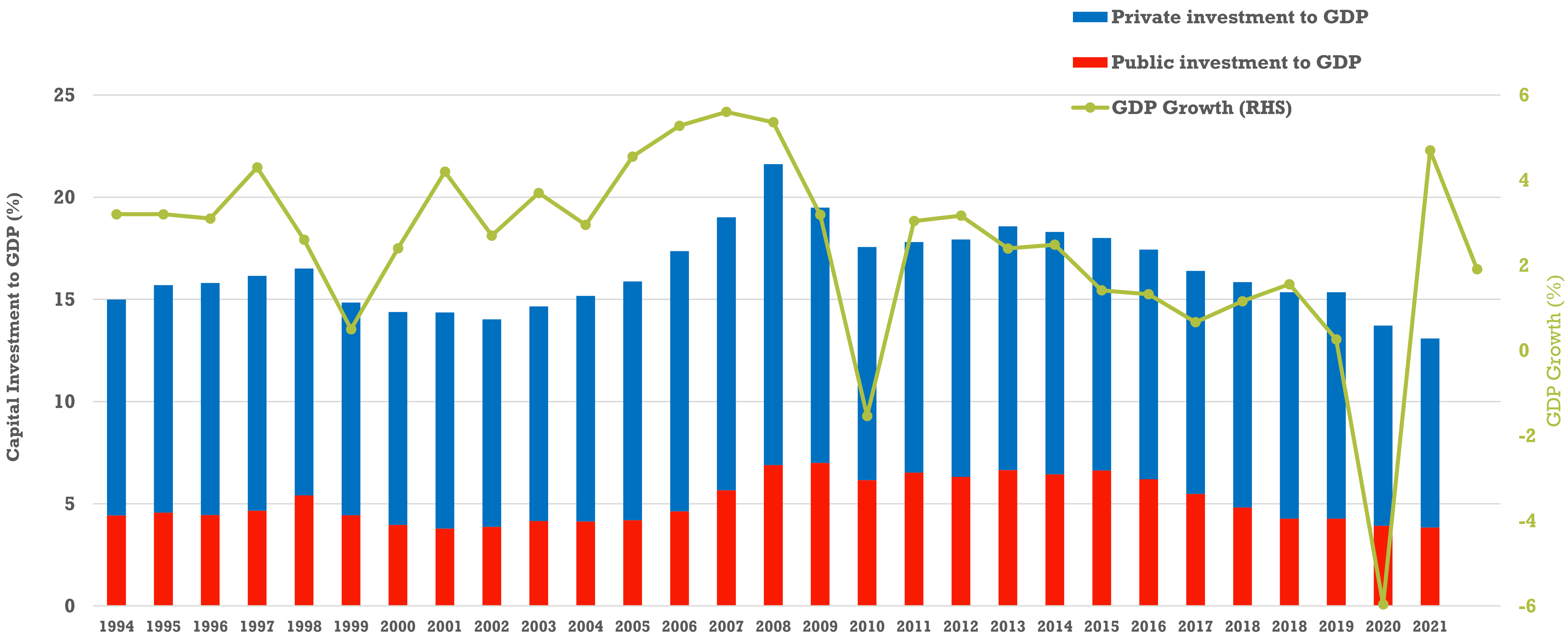
Source: Stats SA, Quantec, SEIFSA

# Public and Private Sector Fixed Capital Investment % of GDP – critical GDP driver

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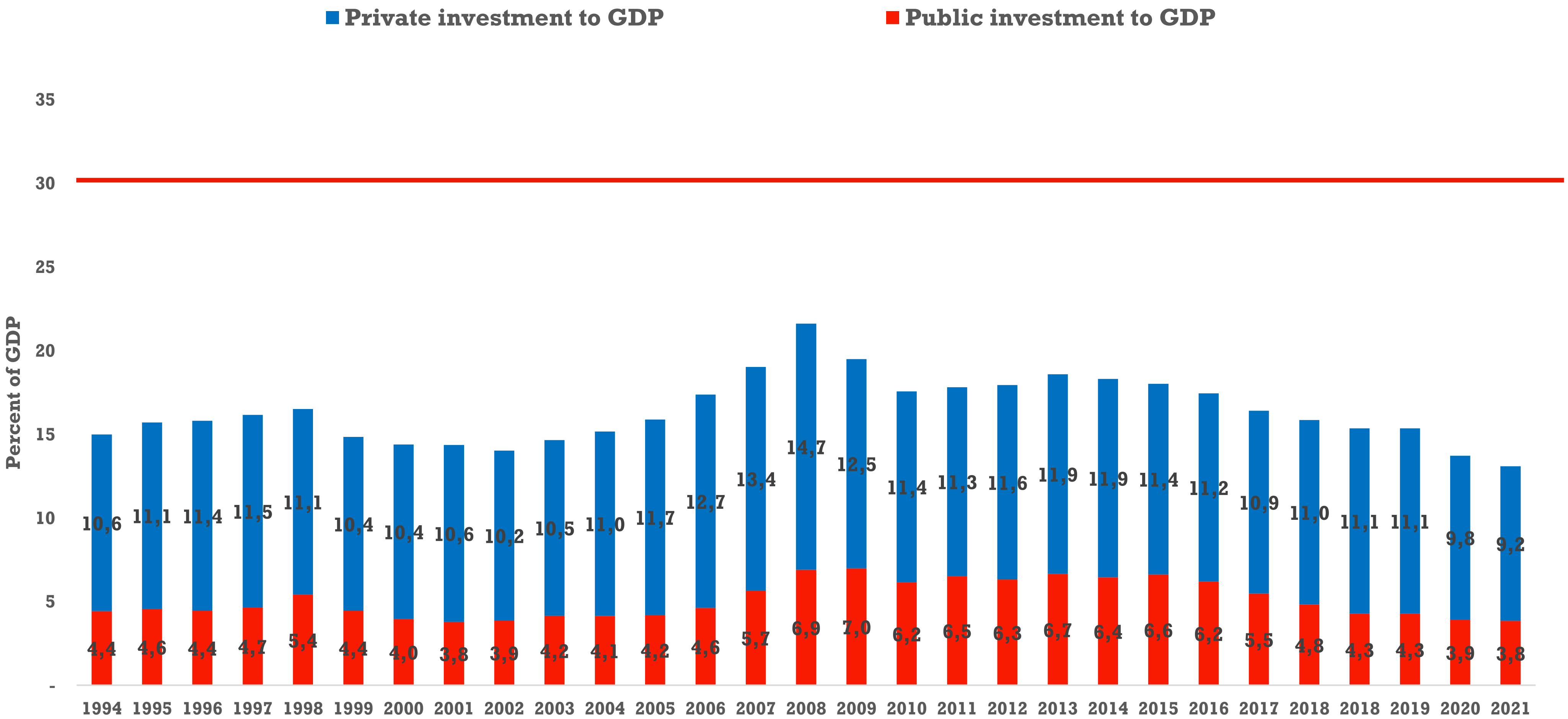
Source: National Treasury

# Public and Private Sector Fixed Capital Investment % of GDP – far from target




Source: National Treasury

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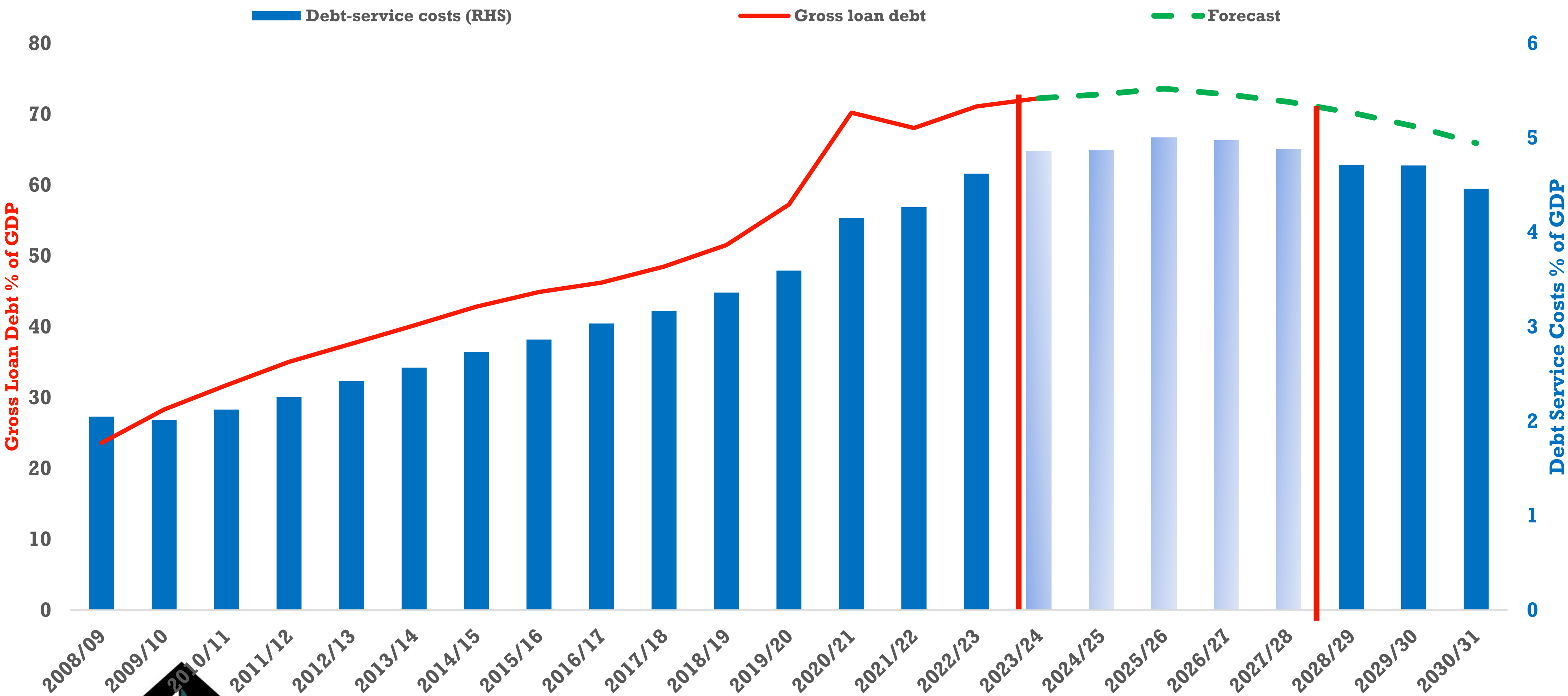
# Gross loan debt &Debt Service Costs % of GDP – very limited fiscal space for public invest.




Source: National Treasury, SEIFSA

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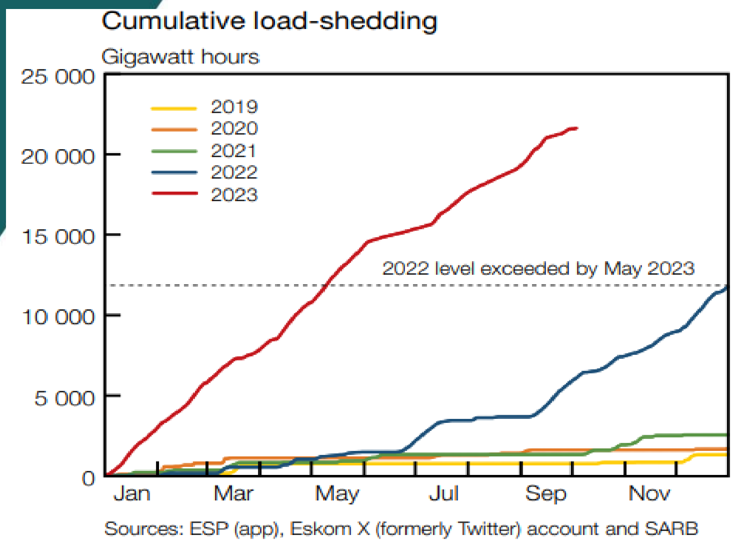
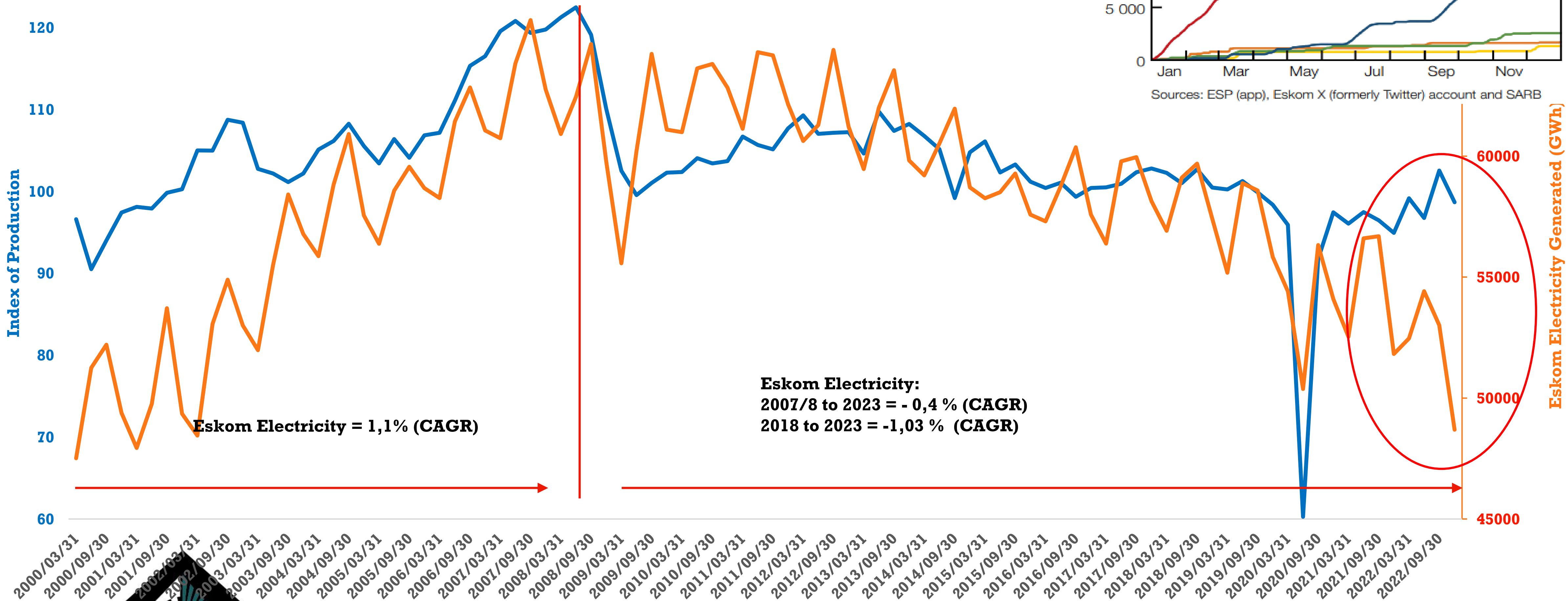
# Index of Production and Electricity – highly correlated to grid performance

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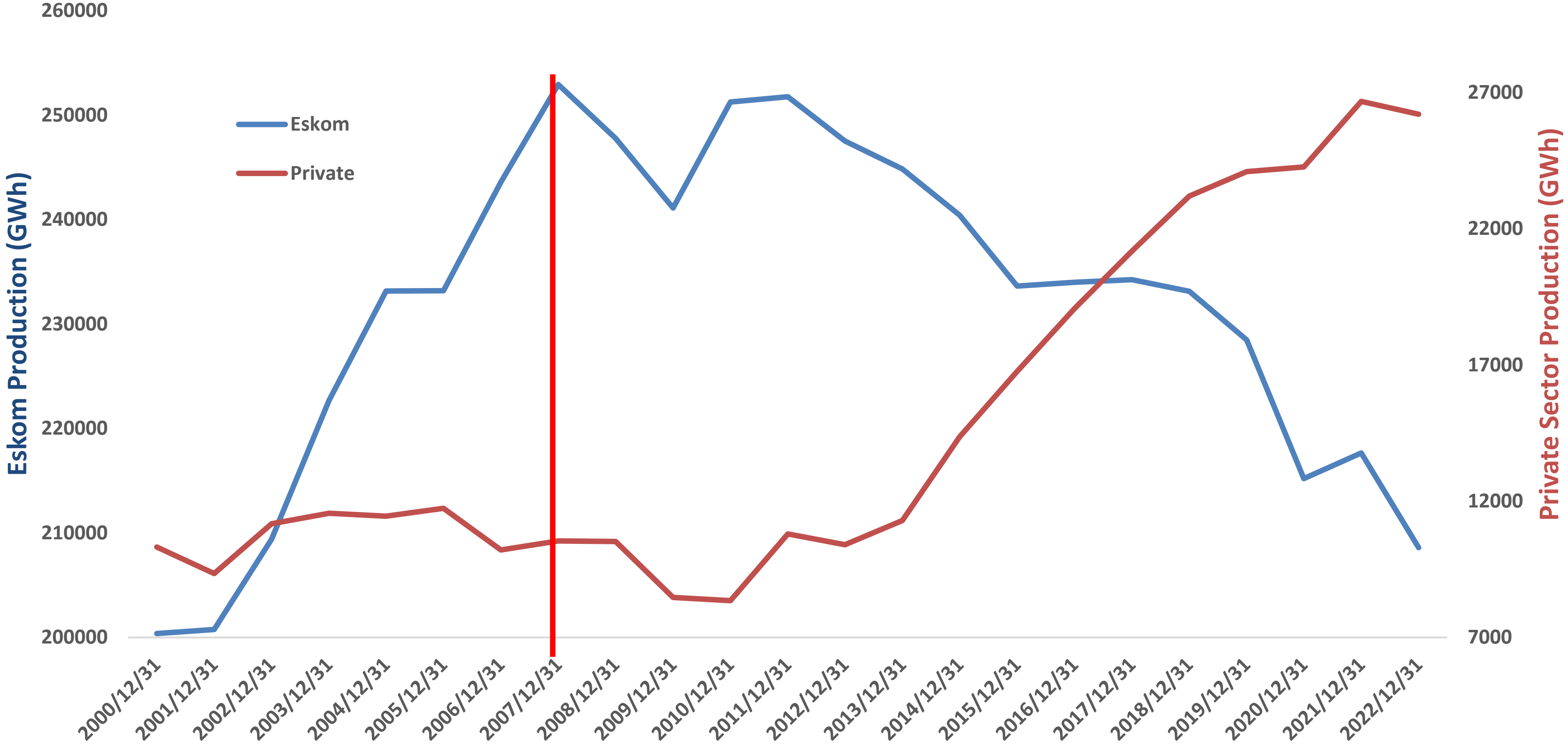
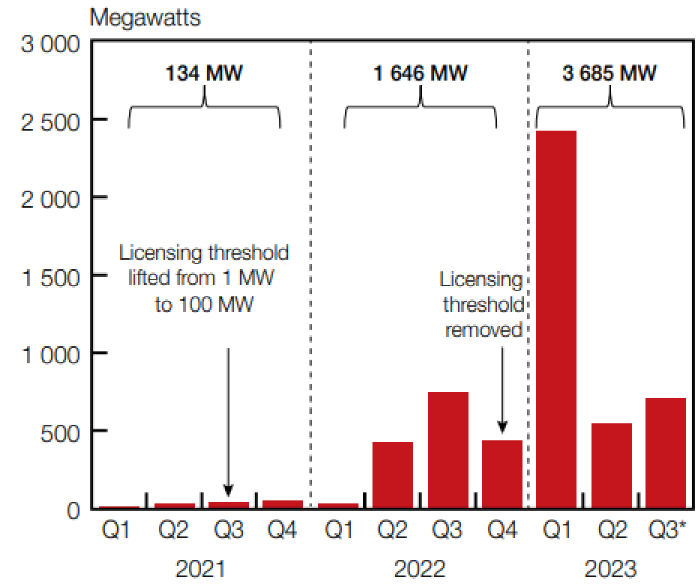
Source: Stats SA, Eskom, SEIFSA

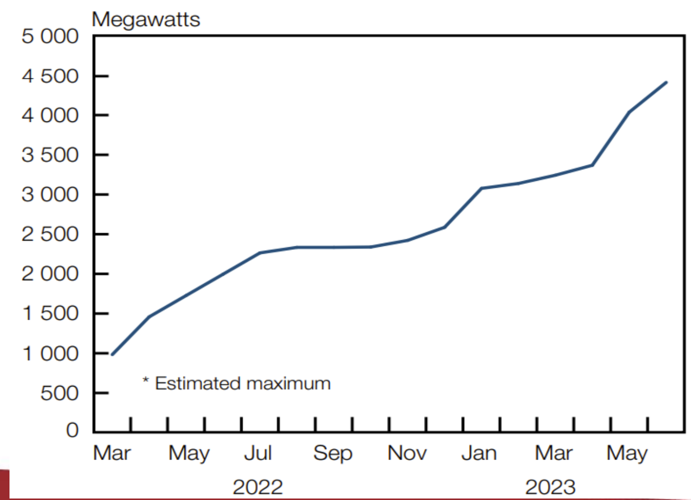
# Electricity Prod. – Eskom vs Private (Reform, Survival?)




Self-generation capacity registered with NERSA




Installed rooftop solar*




Source: Stats SA, SEIFSA, Eskom, NERSA,

| | | Eskom | Private |
|---|---|---|---|
| 2008-2023 | CAGR | -1,3% | 6,9% |
| | 2023/2008 | -17,0% | 214,0% |

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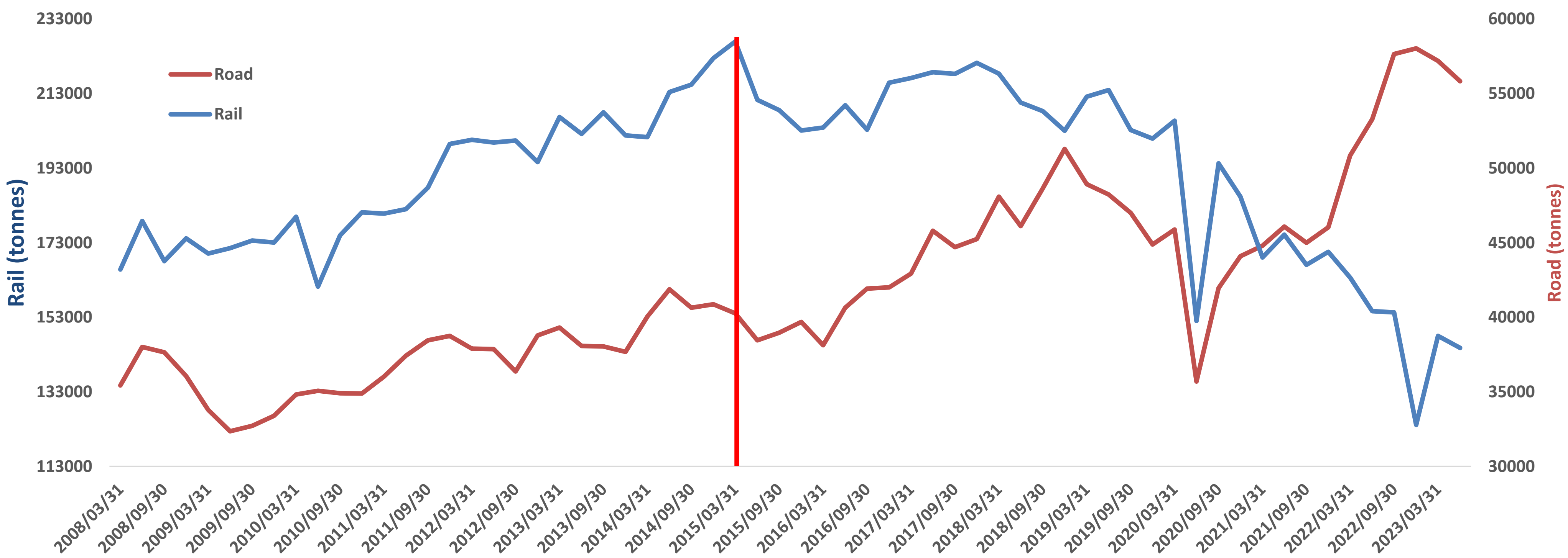
# Freight Transport – Rail vs Road – fueling unsustainable input cost eroding competitiveness

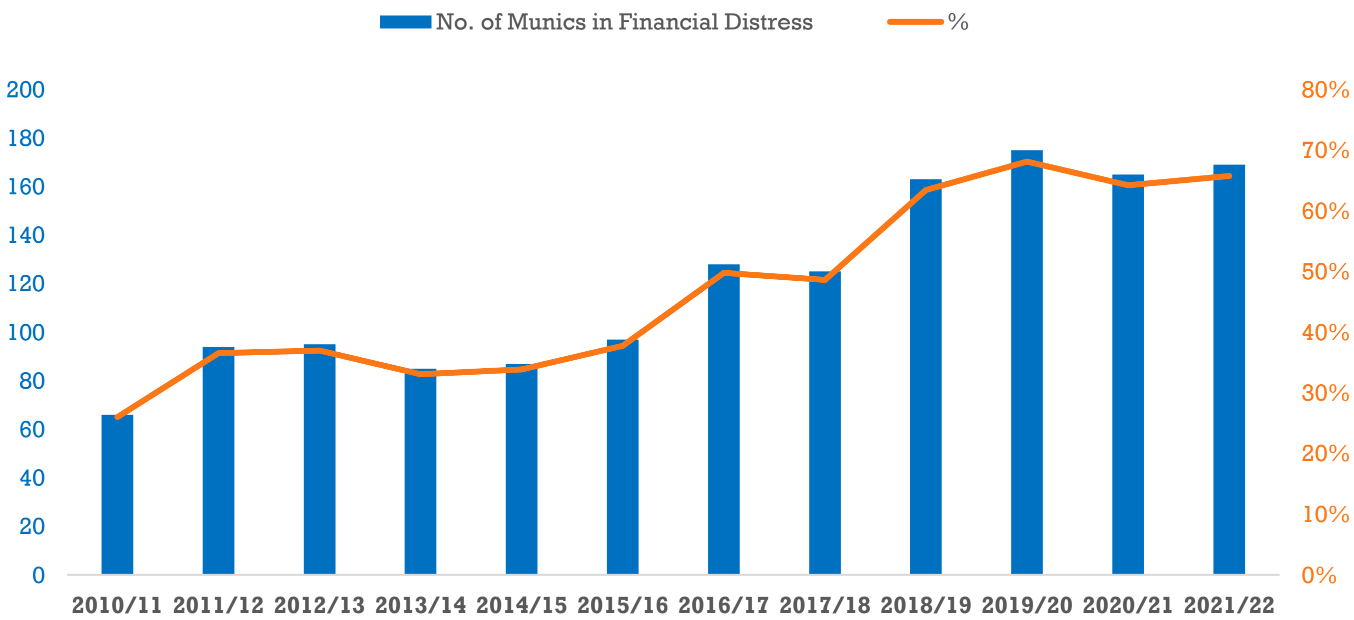


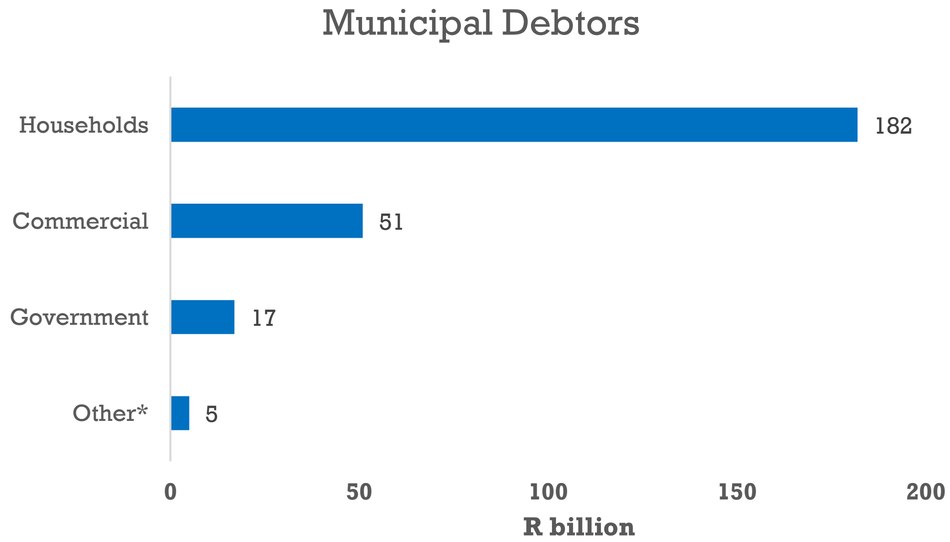

| | | Rail | Road |
|---|---|---|---|
| 2015-2023 | CAGR | -0,9% | 1,2% |
| | 2023/2015 | -35,1% | 40,4% |

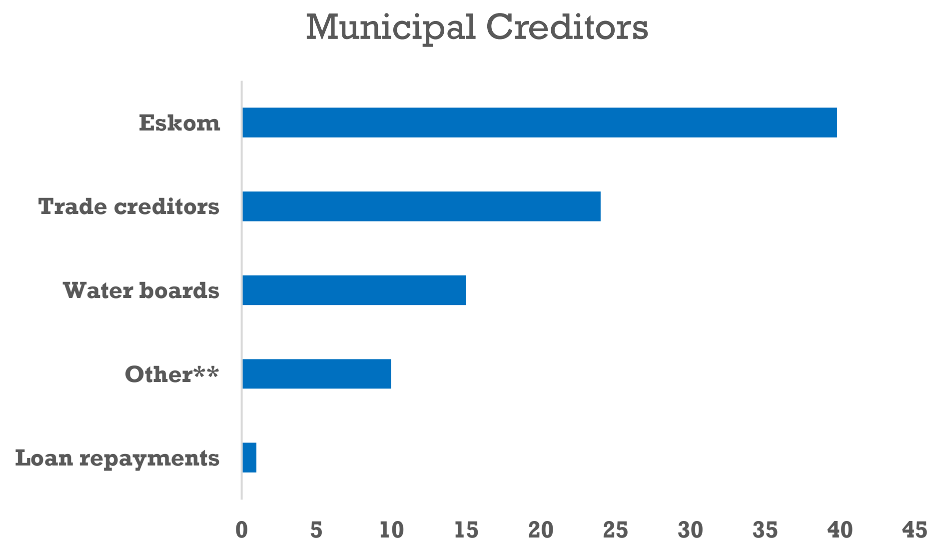
Source: Stats SA, SEIFSA,

SEIFSA

# Municipal Service Delivery – Deteriorating

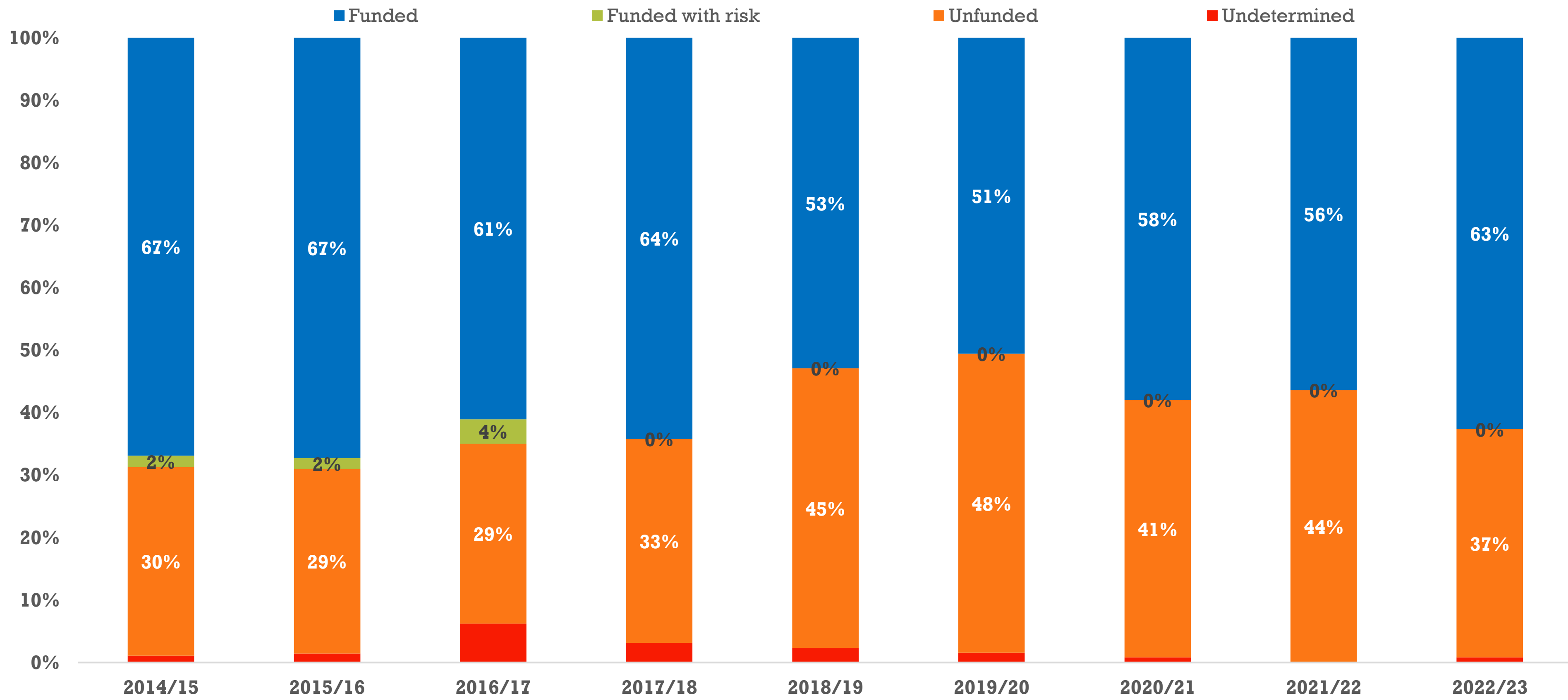



Source: National Treasury, Auditor General

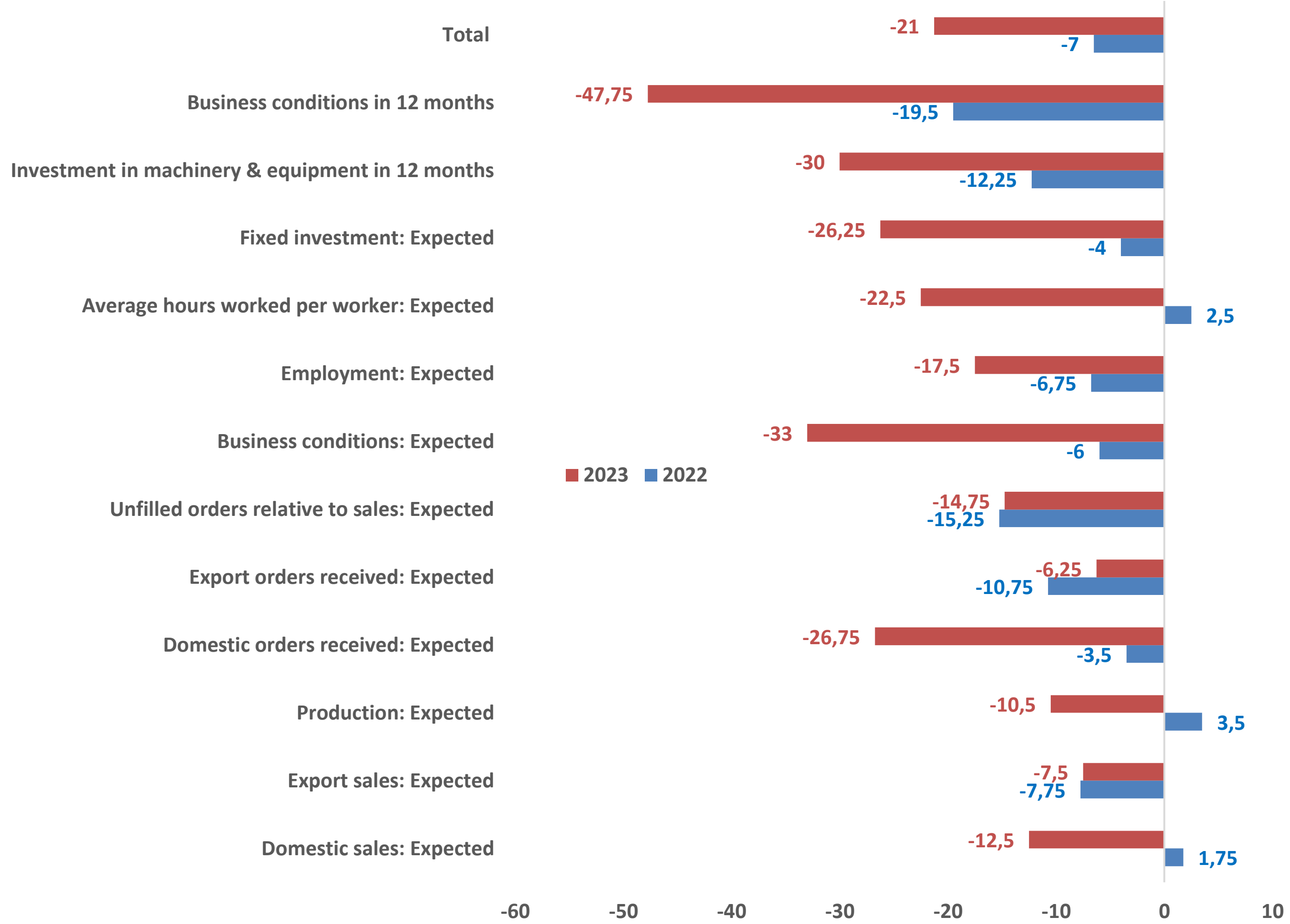
# Municipal Service Delivery – Deteriorating




Source: National Treasury, Auditor General

# BER M & E Sector Survey - Outlook

- The graph depicts the outcomes of the BER's manufacturing surveys specific to the metals and engineering sector
- The forward looking indicators reflecting the expectations of executives in the sector have been selected for this analysis
- At an aggregated level, there is a marked deterioration in the expectations of the respondents between the end of 2022 and the end of 2023 (looking ahead).
- Most notably, the most significant deterioration is in the domestic expectations or aspects that are influenced by domestic factors




Source: BER Manufacturing, SEIFSA

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# Outlook

M&E %

SA - GDP

+

| DOMESTIC ECONOMY | | |
|---|---|---|
| 54,8% | | |
| Primary | Agriculture | 3,9% |
| | Mining | 16,6% |
| Secondary | Food and Beverages | 3,2% |
| | Wood Paper | 1,5% |
| | Basic Iron, Steel & non-Ferrous | 18,5% |
| | Machinery and Equipment | 11,4% |
| | Chemicals | 1,8% |
| | Construction | 14,5% |
| | Automotive | 5,0% |
| Tertiary | Transport, Com., Finance, Government | 12,6% |
| | Other | 10,9% |

+

| EXPORT | |
|---|---|
| 45,2% | |
| Africas | 42,9% |
| Asia | 22,9% |
| Europe | 20,9% |
| Americas | 11,6% |
| Oceania | 1,4% |
| No Allocated | 0,3% |
| Antarctica | 0,0% |

| | |
|---|---|
| SADC (excluding SACU) | 59% |
| SACU (Excluding RSA) | 28% |
| Western Africa | 7% |
| Eastern Africa | 4% |
| Central Africa | 1% |
| Northern Africa | 1% |

Based on 26 assumptions/inputs into the above framework, we estimate two scenarios for aggregate production in 2024

- **Scenario 1 (base case) = 1,47%**
- **Scenario 2 (optimistic case) = 1,67%**

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Source: Quantec, Stats SA, SEIFSA

# Input driving the outlook

| Variable | Assumption/Input |
| --- | --- |
| Global growth | Flat: 3,1 in 2024 |
| Global inflation | Declining, mostly in advanced economies, presenting a scenario for less restrictive rates |
| SSA growth (weighted for higher SADC representation and greater East Africa potential) | Upward: 3,8% - positive export support for M&E sector |
| South Africa GDP | Scenario 1 = 0,9%<br>Scenario 2 = 1,2% |
| Domestic Supply Sectors: downside | 4/10 contracting – construction and mining most severe. |
| Domestic Supply Sectors: upside | Significant opportunity to supply into renewable energy investments and ESI broadly |
| Electricity outlook | Upside, mostly supplemented by private power |

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# Risks to the Outlook

1) Geo-political temperature is high (globally – Middle East, Red Sea,) and the insurgency “wars” at the regional level.
2) Chinese growth not materialising as fast as assumed and SSA commodity depending countries underperforming, limiting export growth
3) Constrained fiscal space domestically limiting the potential of public sector finances
4) Wage negotiations and the prospect of industrial action
5) Decision on AMSA which has been pushed out by 6 months
6) Election outcomes and its impact on critical reform amendment bills
7) Deteriorating municipal performance – the last mile of service delivery presents and impact on costs.

# Conclusion

- The expectation for the global economic growth to flatline into medium term presents a neutral perspective on the demand prospects from the external environment. Growth is primary tilted to the advanced economies, which presents limited export potential given that SSA is the largest export market for the sector.
- In such times the domestic environment should do the heavy lifting with respect to domestic sectors (with the external sector being a bonus), however, the SA specific structural rigidities are not only constraining growth, but also presenting significant downside risks to the outlook.
- Reforms are underway, however, for their full impact cannot be factored into the near term growth scenario – much of the private sector response is currently for survival – so no significant growth prospects can be factored in
- The deterioration of local government service delivery is a major cause for concern. The distributed nature of the challenge makes it much more difficult to resolve – however, this is the last mile where inefficient costs  are compounding.
- **Downside risks are both on the supply and demand side, complicating the nature of the problem facing the sector even more**

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