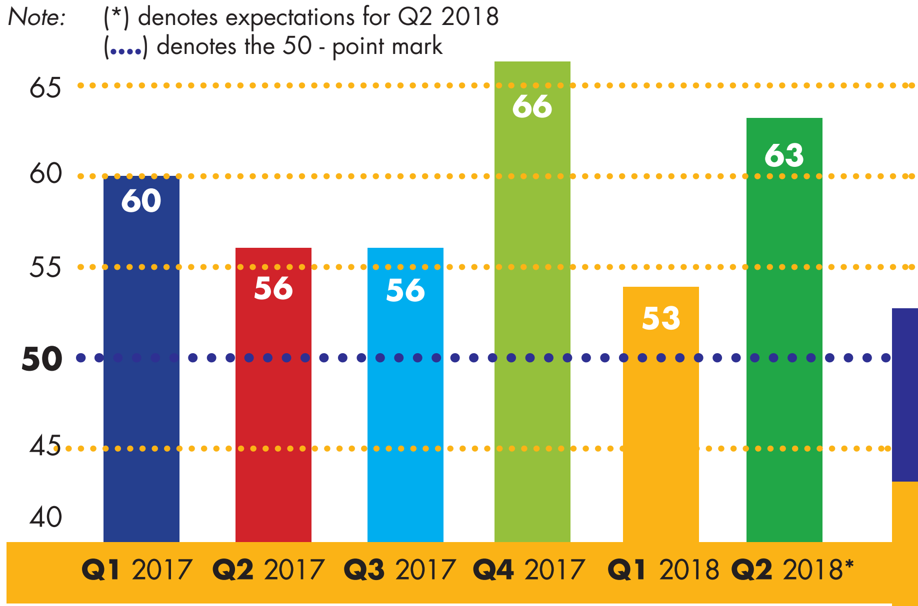
4. Research and Development

While not all respondents are involved in R&D, those that are have continued to invest in research and development, although Q1 2018 was at a lower level than the previous 4 quarters and in particular compared to Q4 2017. Q2 2018 expectations indicate that firms are optimistic about increasing investment in R&D.



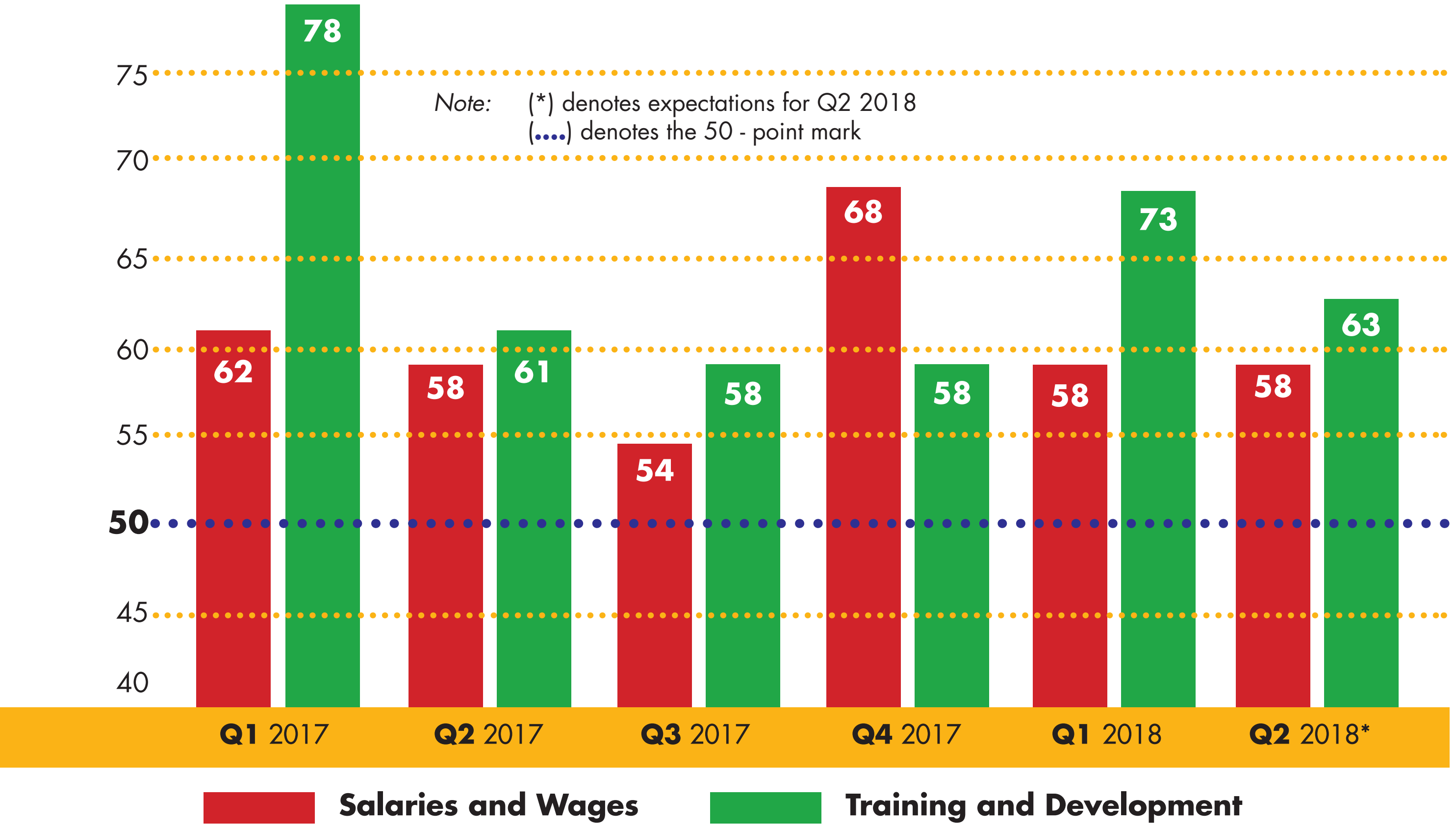
5. Human Capital

Human Capital is divided into two categories:

1. Expenditure on salaries and wages
2. Expenditure on training and development

This sub index has consistently been above the 50 point level for the past 5 quarters as companies maintain their investment in talent, but it has dropped slightly from the high results of Q1 2017. Expenditure on salaries and wages decreased by 4 points to 58 in Q1 2018 compared to 62 in Q1 2017. For some companies, January is when increases and bonuses are paid, generally in line with inflation and hence the increase in results. A decrease of 5 index points in year-on-year expenditure on training and development was observed from Q1 2017 to Q1 2018. The increase in investment on training and development in Q1 2018 is an indication of new enrolments.

Manufacturers will increase expenditure on salaries and wages, in line with inflation, in Q2 2018 and are intent on maintaining their expenditure on training and development at similar levels to Q1 2018.



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MANUFACTURING CIRCLE INVESTMENT TRACKER

A quarterly index tracking investment spending in the manufacturing sector

Q1 2018 Summary findings and outlook

Background and objective

The Manufacturing Circle Investment Tracker (MCIT) is a composite index tracking investment trends in the manufacturing sector on a quarterly basis. The focus of MCIT is on actual expenditure patterns of a sample of manufacturing firms across all sub-sectors of the sector. A reading above the neutral 50-point threshold indicates that expenditure is expanding; below the neutral 50-point threshold indicates that expenditure patterns are declining.

The objective is to develop and derive insights about manufacturing investment patterns in the South African economic environment. The micro-level MCIT data aims to supplement existing macro-level data to deepen the understanding of trends in the manufacturing sector. This seventh edition is compiled by Trade and Industrial Policy Strategies (TIPS) on behalf of the Manufacturing Circle.

Survey sampling: Profiling the firms surveyed in Q1 2018

The sample size for Q1 2018 was smaller than usual and the majority of respondents, which have operations mainly in Gauteng, fall into two main subsectors:

- Basic iron and steel, non-ferrous metal products, metal products and machinery
- Packaging

The majority of the surveyed firms are large, employing more than 200 employees and together employ 41 351 staff members. The combined annual revenue is R68 325 584 424, and the average annual revenue is R 2 627 907 093.

It was noted by some respondents that cost savings and cutbacks in investment and capital expenditure have characterised the recent past. Where there has been investment, it has been for small projects, minor upgrades and required maintenance. Increases in salaries, wages and training have been in line with inflation rather than due to greater investment or growth in complement.

SUMMARY FINDINGS AND OUTLOOK:
Q1 2018 REFLECTS A SUBDUED ENVIRONMENT

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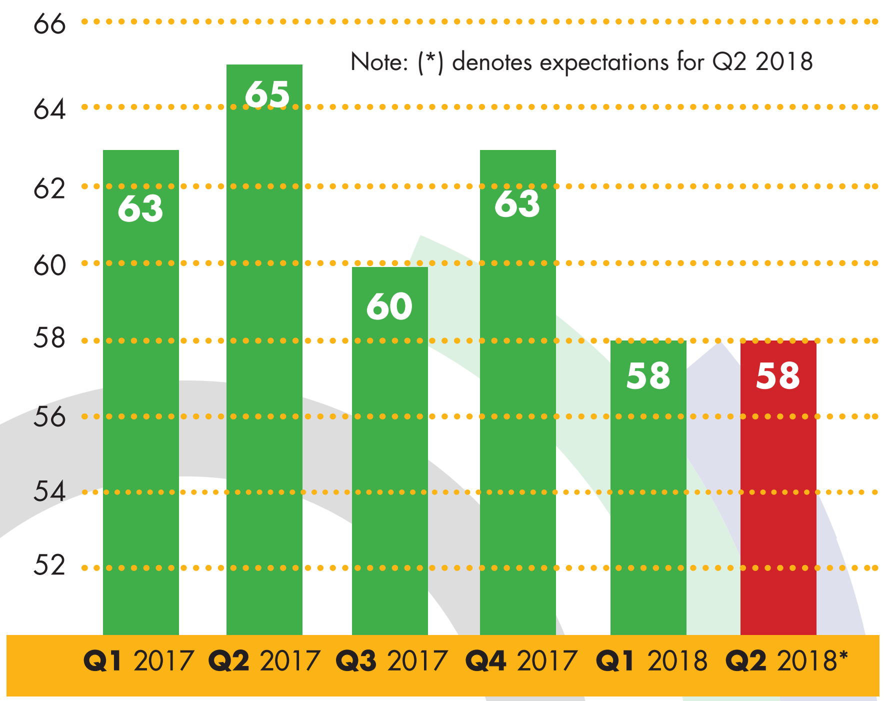
MCIT Composite Index

The MCIT Composite Index measures the investment by manufacturing firms in the following indices:

1. Property (Land and Buildings)
2. Plant and Equipment
3. Inventory
4. Human Capital
5. Research and Development (R & D)

MCIT results from Q1 2017 to Q1 2018 indicate that all the results are above the 50 point level, showing constant investment over the past year, albeit at a reducing rate.

The most recent, Q1 2018, MCIT result indicates a 58 point reading. Year-on-year, the Index decreased by 5 points from in Q1 2017 to 58 in Q1 2018. The contraction in investment was mainly driven by a decrease in expenditure on the maintenance of existing plant and equipment and new property indicating a general cut back in capital expenditure. The respondents indicated that they anticipate little or no change in investment in Q2 2018.



Sub-Index

1. Property (Land and Buildings)

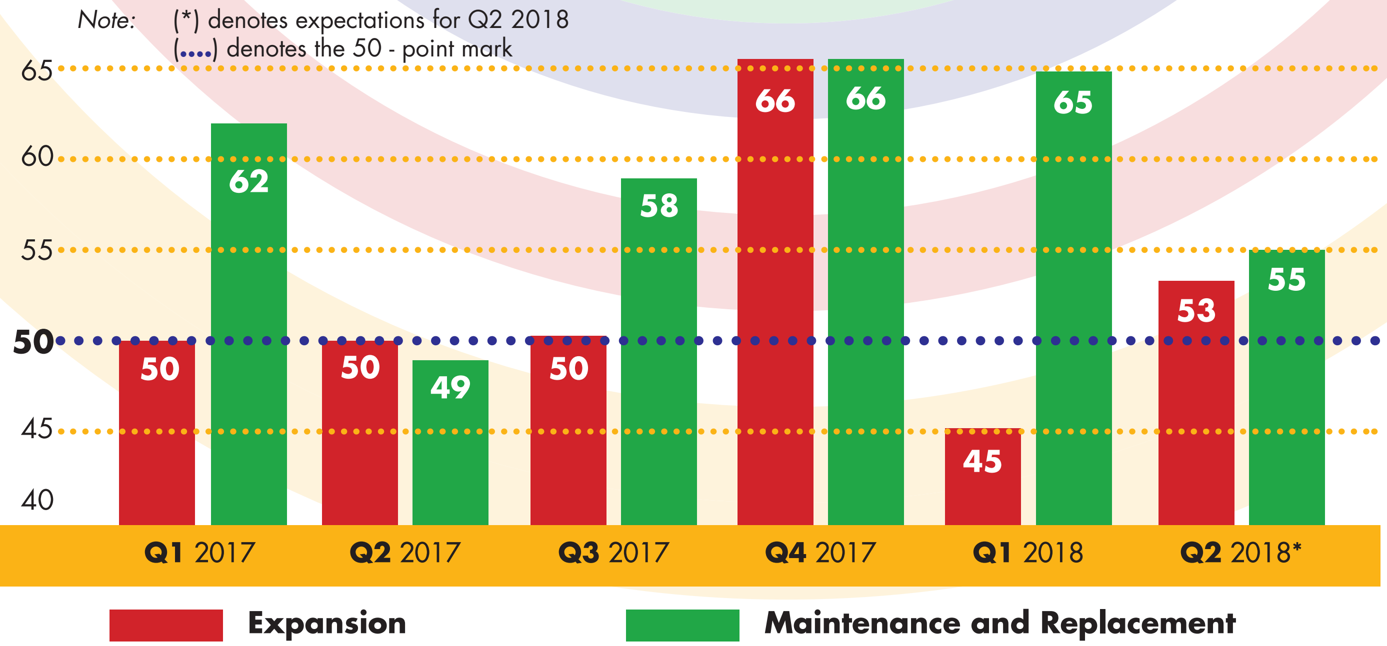
Property (Land and Buildings) is divided into two categories:

1. Expenditure on expanding existing property or the purchasing of new buildings
2. Expenditure on maintaining existing property

Expenditure on expanding existing property or purchasing new buildings dropped below the 50-point mark in Q1 2018, decreasing by 5 index points to 45, compared to Q1 2017, while expenditure on existing property increased from 62 to 65 year-on-year.

There was a significant drop in expenditure on expanding existing property and new buildings from 66 points in Q4 2017 to 45 points in Q1 2018. During the same period, expenditure on the maintenance of existing property remained stable, decreasing by only 1 index point to 65 points, as companies restricted capex to minor improvements only.

Respondents anticipate an increase of 8 points in expenditure on existing property and new buildings in Q2 2018, but a decline of investment in maintenance of existing property.



Sub-Index

2. Plant and Equipment

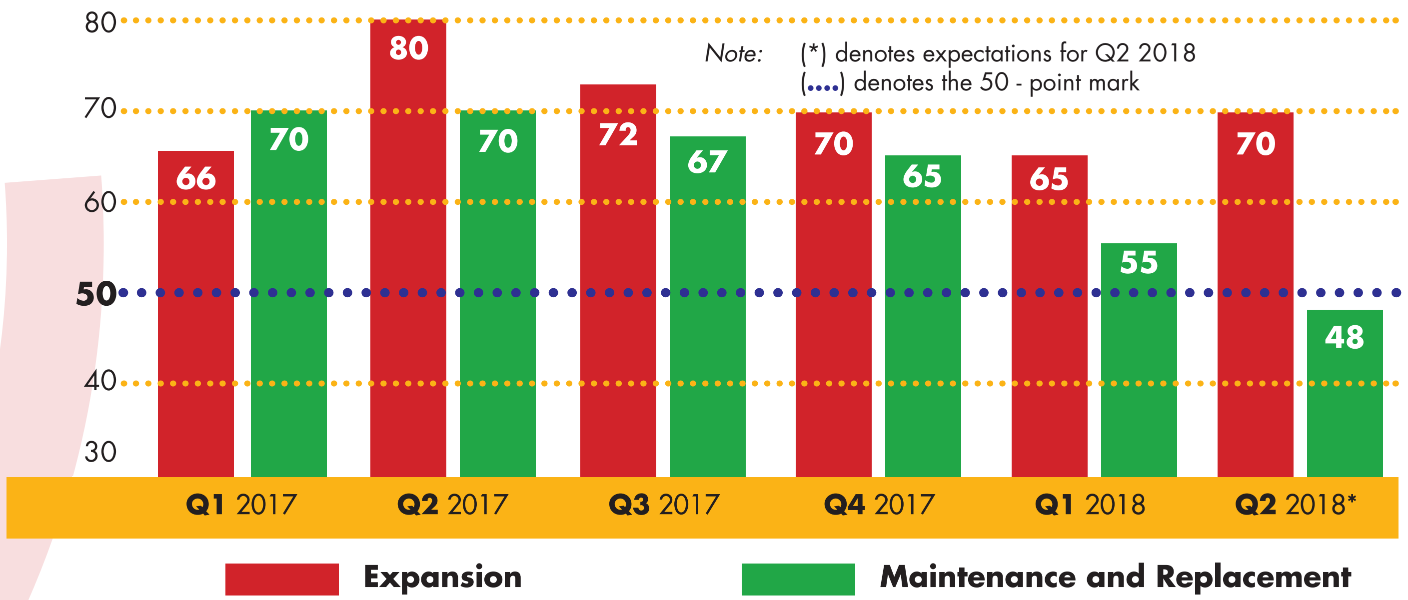
The sub-index, Plant and Equipment, is divided into two categories:

1. Expenditure on acquiring new plant and equipment
2. Expenditure on maintaining and replacing existing equipment

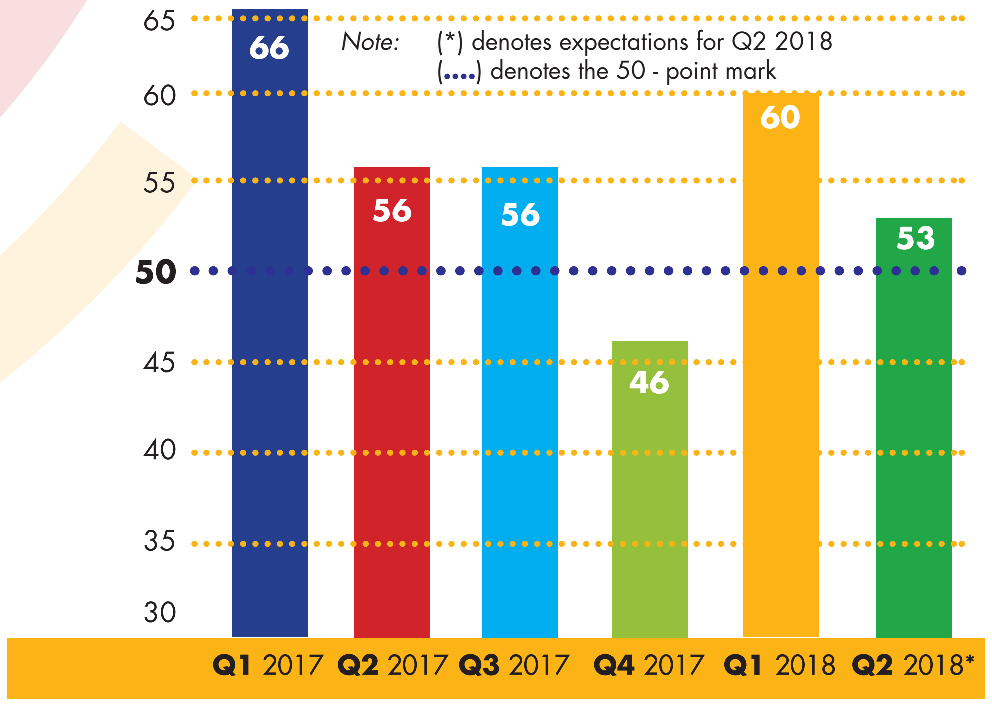
Year-on-year expenditure on new plant and equipment remained above the 50-point mark between Q1 2017 and Q1 2018, but decreased by 1 index point in Q1 2018 compared to Q1 2017. Spend on the maintenance of existing plant and equipment decreased by 15 index points from 70 points in Q1 2017 to 55 points in Q1 2018. Some companies noted that they have restricted expenditure to small upgrades rather than any major capital improvements.

Capex on new plant and equipment decreased by 5 index points in Q1 2018 compared to Q4 2017, while maintenance and replacement of existing equipment declined by 10 index points in Q1 2018 compared to Q4 2017.

Respondents indicated that investment in new plant and equipment is likely to increase in Q2 2018, from 65 points to 70 points but that spend on maintenance should decrease by 7 index points from 55 points in Q1 2018 to 48 points in Q2 2018.



3. Inventory



For some companies, increases and bonuses are paid in December, generally in line with inflation and hence the rise in the index.