

Food and beverages manufacturing output remains positive – 12 July 2016

- Manufacturing data released on 12th July 2016 by Statistics South Africa indicates that the country's total output increased by 4% year-on-year (y/y) in May 2016. More specifically the food and beverages sector's output (which is the largest in the manufacturing sector¹) increased by 2% y/y, thus contributing a 0.5% point to the overall volume of annual manufacturing production.
- The food and beverages manufacturing sector consists of five sub-sectors, namely, "**meat, fish, fruit, etc.**", "**dairy products**", "**grain mill products**", "**beverages**" and "**other food products**". Each sub-sector is allocated a different weight, with the largest single sub-sector being **beverages**, which makes up 26% of the overall food and beverages manufacturing output (see **Chart 1**).
- Within the food and beverages manufacturing sector, the largest output was recorded in the **beverages** subsector, up by 11.4% y/y. The **grain mill products** and **meat, fish, fruit, etc.** subsectors showed increases of 3.9% y/y and 1.8% y/y, respectively. Meanwhile, production of **dairy products** and **other food products** respectively declined by 1.3% y/y and 4.5% y/y (see **Chart 2**).
- The figures of **grain mill products** support our view that South Africa's maize (staple food) demand could remain strong regardless of the higher prices. The increase in **meat** production is reflective of the higher pace of cattle slaughtering, as some farmers continue to struggle with higher feed costs and lack of grazing fields. Moreover, the increase in the fruit industry was in line with the harvesting period in the citrus industry.
- The decrease in **dairy products** output is in line with a seasonal production trend in the milk industry. During winter season, production tends to decrease and that in turn could affect the output in dairy products.

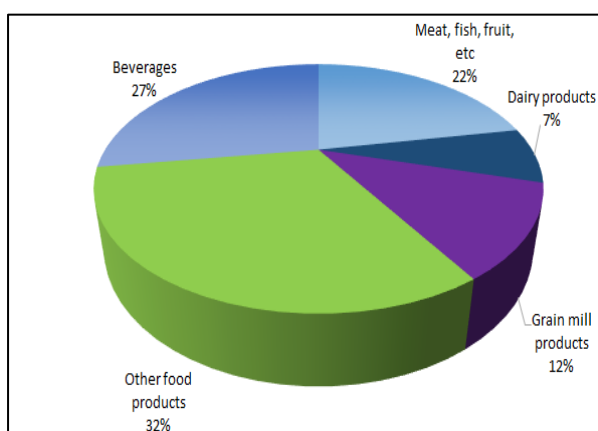


Chart 1: Composition of food and beverages weights

Source: Statistics South Africa, Agbiz Research

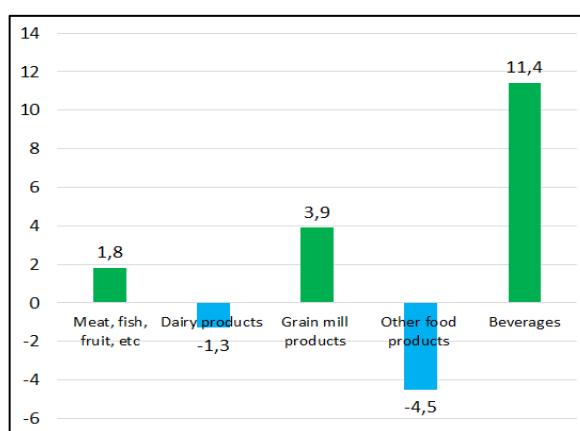


Chart 2: May 2016 y/y % growth changes

Source: Statistics South Africa, Agbiz Research

¹ Food and beverages manufacturing has a weighting of 24.53 of the total overall manufacturing sector (using a 2013 base year).

Looking ahead

- In the coming months, the output in the food and beverages sector is likely to contract, due to expected decrease in cattle slaughtering and milk/dairy output. According to the Red Meat Abattoir Association, cattle slaughtering was at 231 668 cattle in May 2016, down by 2% from the previous month, which is supportive of domestic beef prices.
- We are of the opinion that in the medium term, South African cattle slaughtering pace could continue to decline, especially around spring when the grazing fields recover and farmers start to rebuild their herds.
- Additionally, milk production could also remain under pressure throughout the winter season, and that will subsequently weigh on the dairy products output.
- That said, we expect grain mill production to remain positive in the medium term, regardless of higher prices, as it is a staple food for many South Africans.

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