



CHEMICAL SECTOR QUARTERLY REPORT

DATA: SECOND QUARTER 2024

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EXECUTIVE SUMMARY

The final number for chemical sector value add/gross domestic product for 2023 has been released, but not for first half of 2024, as with total manufacturing. The latter contracted against the second half of 2023 by 0,75% and against the first half of 2023 by 0,82%. Using sales performance, it is estimated that the chemical sector grew by 3% (coke, petroleum & nuclear incl) but the rest of the sector contracted by 2% in the first half of 2024. Using production data, the result is the same; (incl of coke, petroleum & nuclear incl) the total growth was 3% but the rest of the sector is estimated to have contracted marginally (less than 1%). This variation is due to the large increase in petroleum sales (+14%) but slower production growth (+7%). The petroleum sub-sector constitutes 47% of the sector.

Confidence indices from the BER for Q3, 2024 have been published. The optimism of the first quarter 'evaporated' and turned negative in the second and third quarters of 2024, this despite a marginal improved view on the political situation. Capacity underutilisation increased and expectations about domestic and export orders were equally pessimistic in the third quarter.

Production performance shows directionless fluctuations around the (improved) trend line and is a matter of concern. Production growth for the year slowed down to 2% due to July recording a decline of 3,4% on June. Without the petroleum sub-sector contraction (near -11%), production would have grown, but more capacity became idle and confidence about future production turned sharply negative.

Due to the strong July **Sales** performance relative to June and a year ago, the year to date (+9,4%), 12 months to date (+11,2%) and inflation adjusted (+8,6%) sales performances were substantially more robust and in contrast to production trends over the same periods.

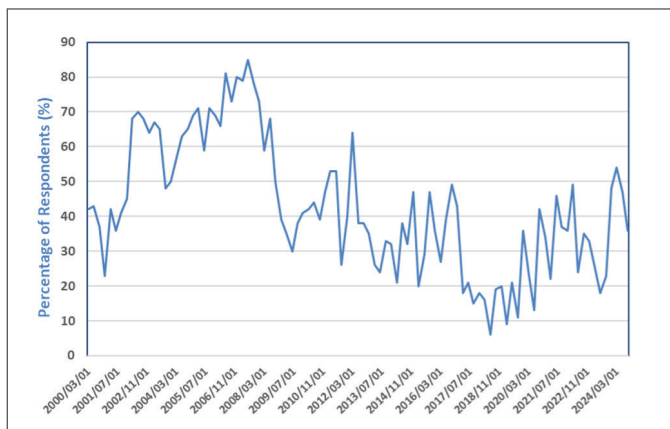
International trade remains an overwhelming feature of the sector; the correlation between the expected export orders and realized export sales (both confidence indices from the BER Survey) versus actual exports realized (inflation adjusted) numbers from SARS, is strong. There seems to be serious challenges with the potential for exports, due to weak markets.

Production price inflation for the chemical sector as a whole seems to have stabilised in a band below 10% with some deviation between intermediary and final product price trend. The conventional inflation metrics (current month on same month 1 year ago), show further declines during July (on June) which is contrary to our earlier conclusion that a lower turning point has been reached in June. This is particularly true for final product price movements which all show deflationary numbers. A stronger rand may have had an impact on prices.

Employment numbers have been restated by StatsSA for the last three quarters; Quarter 1, 2024 shows a decline of 1000 jobs on the previous quarter, but is still higher than Q1, 2023. The full year (average 4 quarters up to Q1, 2024) is also still up and numbers are substantially higher than pre Covid levels. The numbers show some kind of plateau, albeit unstable since the end of 2022.

CONFIDENCE INDICES: Q2 AND Q3 2024

General Business Confidence

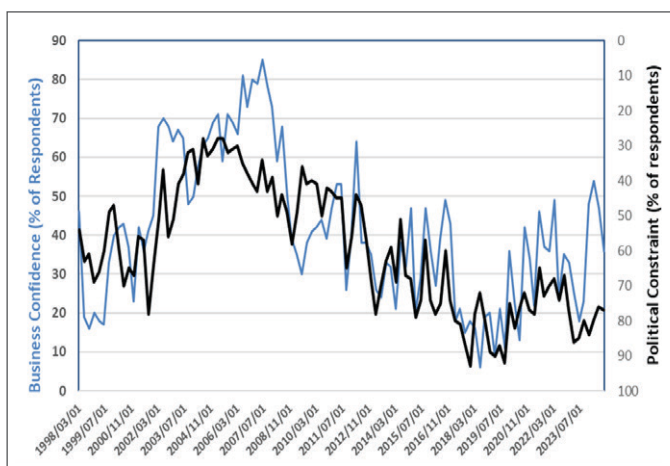


Source: BER: Manufacturing Survey: Chemical sub-sector

Very disappointingly, business confidence in the chemical sector turned negative in the second and third quarters of 2024. Only 36% of respondents reported that they were optimistic in Q3.

It is sincerely hoped that this is not a resumption of the declining trend since the global financial crisis in 2007/8.

Political Climate as constraint vs Chemical Sector Business Confidence



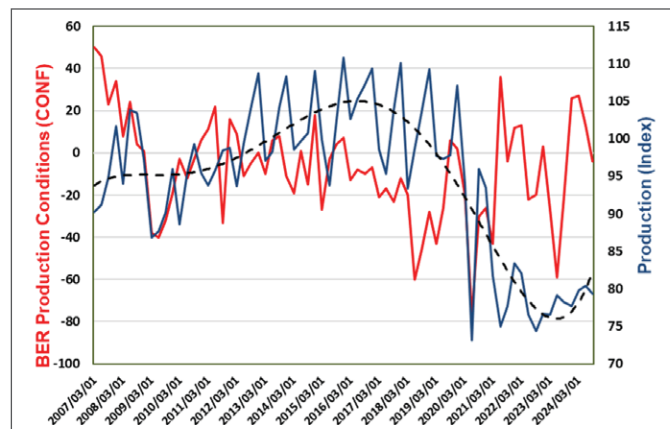
Source: BER: Manufacturing Survey: Chemical sub-sector

The forming of the Government of National Unity (GNU) seems to have had a very marginal positive influence on respondents' views on politics as a constraint.

Positive interaction by the new minister of Trade and Industry with USA bodes well for the future, but only results will be proof of progress. It is known that the department is expected to contribute to a new framework for industrialisation within the next month.



Chemical Sector Production Trends

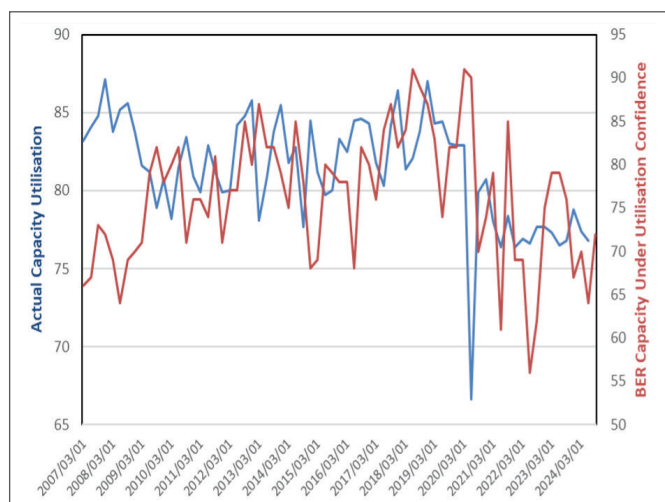
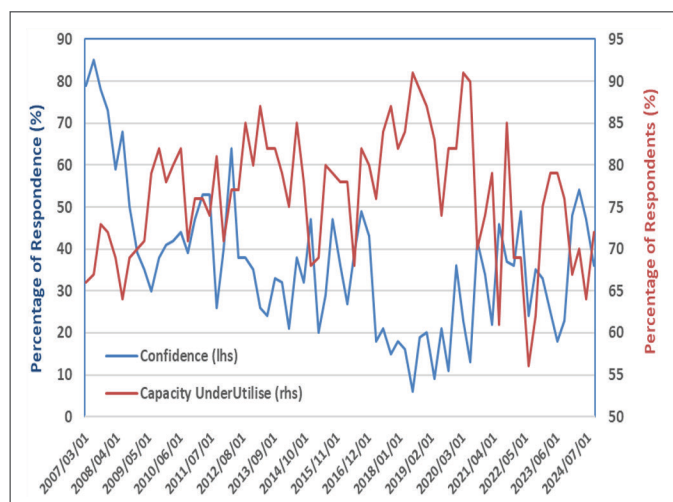


Source: BER: Manufacturing Survey: Chemical sub-sector

Confidence levels about production conditions show a peculiar upward 'structural shift' since the Covid restrictions, not reflected in the actual production performance. Uncertainty seems to have returned though. Confidence has turned negative (net number of respondents being negative) in quarter 3, 2024, and so did production in July (see below). It is expected that quarter three production may very well be, at best, on par with quarter two, due to declining capacity utilization.

Capacity Utilisation

Business Confidence is directly correlated with capacity utilisation. The positive direction (improved utilisation and higher confidence) has reversed during the last 2 quarters



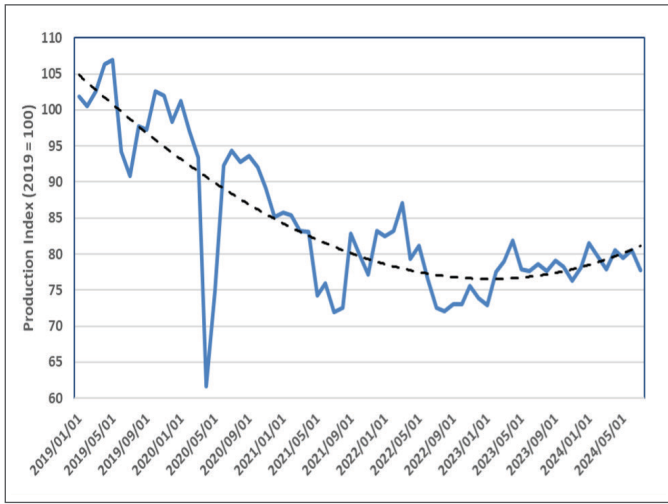
Sources: BER: Manufacturing Survey: Chemical sub-sector; StatsSA: Manufacturing Utilisation of Production Capacity, p3043

A very worrisome fact has emerged with regard to production capacity in the sector. The indicators discussed here capture 'relative patterns', i.e. utilisation of current production capacity. However, fixed capital stock, which equals actual/absolute production capacity is currently 8% lower than pre Covid levels, and actual production in July 21% lower. So, absolute production capacity has declined considerably, and we are only using 76,8% of it at the moment, which must be a matter of huge concern.

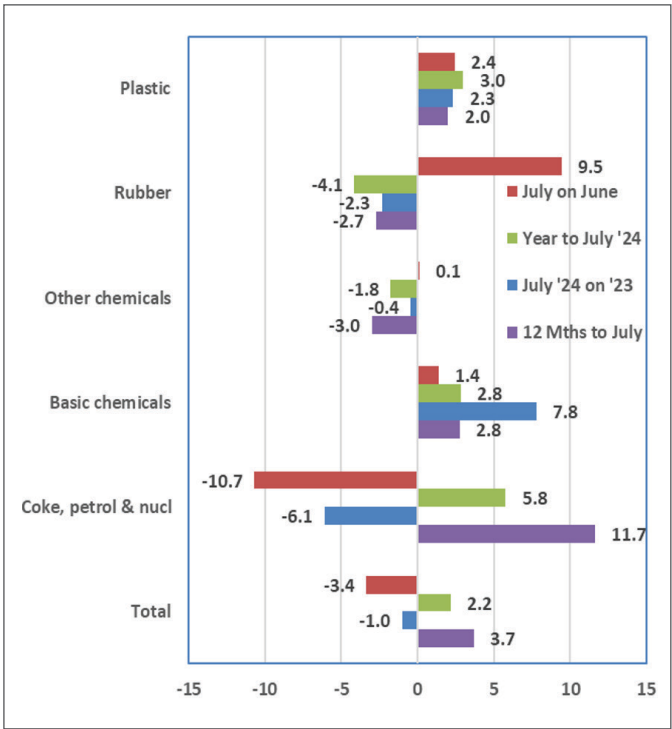
Chemical sector production growth slowed down to 2,2% over the first 7 months of the year compared to the half year of 2024, due to July recording a decline of 3,4% on June. Without the petroleum sector contraction (near -11%) the monthly growth number would have been +1%.

The 12 months comparison to July show a strong improvement (+3,7%) on 12 months earlier, and bodes well for the full year. However, the July '24 weak performance on July 2023 may indicate a slowdown towards year end. The directionless fluctuations around the trend line on the graph below are still a matter of concern. The production trend has clearly turned positive, but lacks impetus.

Production Index Seasonally Adjusted	Jul on Jun '24	Year to July '24	'24 to '23	Q1 '24 on Q4 '23	Q2 on Q1 '24	12 Mths to July '24
Total	-3.4	2.2	-1.0	2.7	0.8	3.7
Coke, petrol & nucl	-10.7	5.8	-6.1	2.2	2.7	11.7
Basic chemicals	1.4	2.8	7.8	-0.7	0.8	2.8
Other chemicals	0.1	-1.8	-0.4	6.1	-1.4	-3.0
Rubber	9.5	-4.1	-2.3	-0.2	-6.4	-2.7
Plastic	2.4	3.0	2.3	1.3	3.0	2.0



Source: Statistics SA, Manufacturing Production & Sales, p3041.2



CHEMICAL SECTOR SALES TRENDS

Realized & expected Domestic Sales Confidence vs Actual inflation adjusted Sales

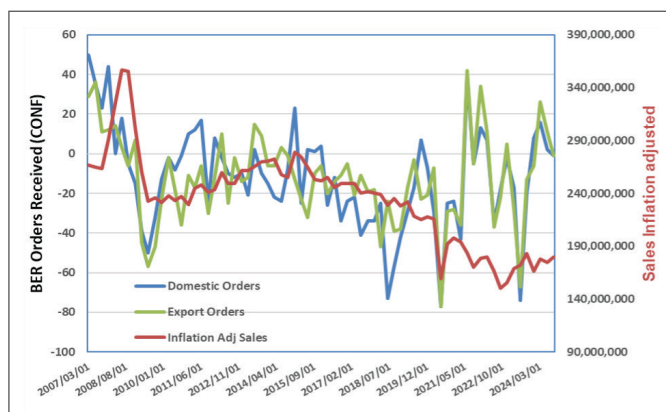
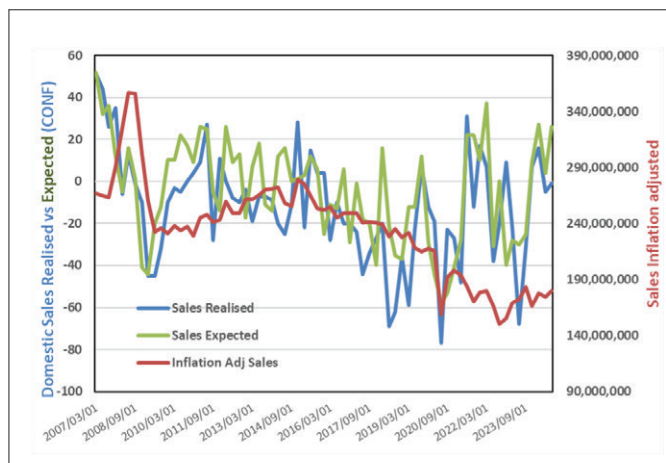
The turning point, and strong recovery, in confidence about future sales seem to be borne out by actual (and Q3 estimated) inflation adjusted sales but not reflected in the overall business confidence.

Domestic and Export Orders vs inflation adjusted Sales

Domestic and export orders should be good indicators of future sales and/or production trends.

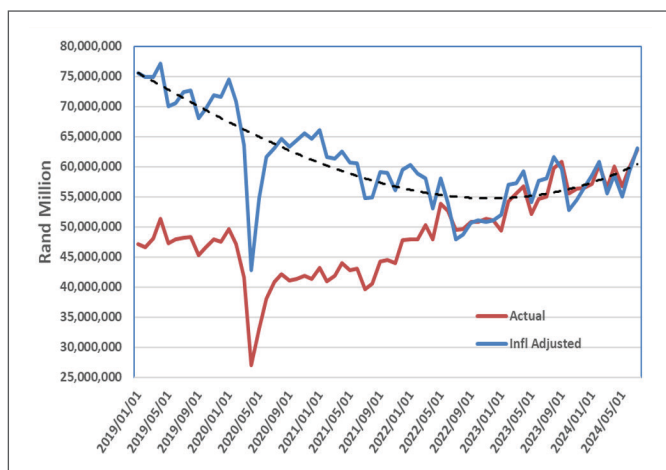
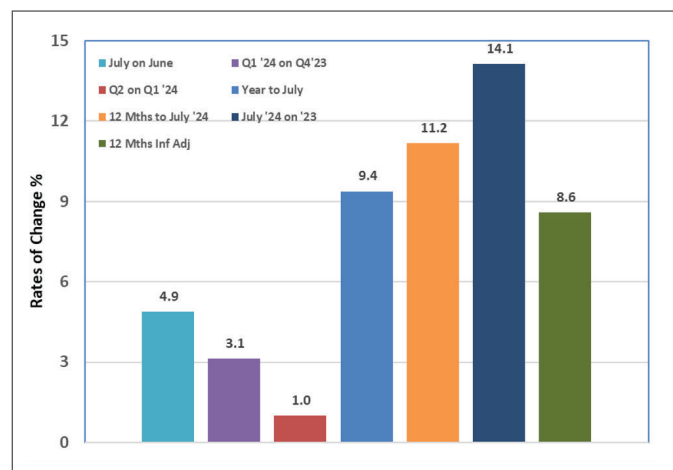
There seems to have been a concurrent improvement in confidence about future orders (as with expected sales) albeit with some 'hesitancy' in Q3.

Sources: Manufacturing Production and Sales Statistics p3041.2, BER Manufacturing Survey



Due to the strong July sales performance relative to June and July '23, the year to date (+9,4%), 12 months to date (+11,2%) and inflation adjusted (+8,6%) sales performances were substantially more robust than production trends over the same periods. Telling is the difference between petroleum production (near -11%) and sales (+18%) in July.

Sales Values Seasonally Adjusted	July on Jun 2024	Year to July 2024	July '2024 on 2023	Q1 2024 on Q4 2023	Q2 on Q1 2024	12 Mths to July 2024
Total	4.9	9.4	14.1	3.1	1.0	11.2
Coke, petrol & nucl	18.1	22.0	26.4	-3.1	-4.3	32.6
Basic chemicals	-8.8	5.9	18.5	13.6	8.4	2.2
Other chemicals	0.4	0.2	3.0	6.9	2.3	0.6
Rubber	8.4	-2.9	-4.8	3.3	-1.6	-1.3
Plastic	0.4	5.8	5.3	2.1	3.7	1.1
Total Inflation Adjusted	8.5	3.3	3.6	6.7	-3.3	8.6



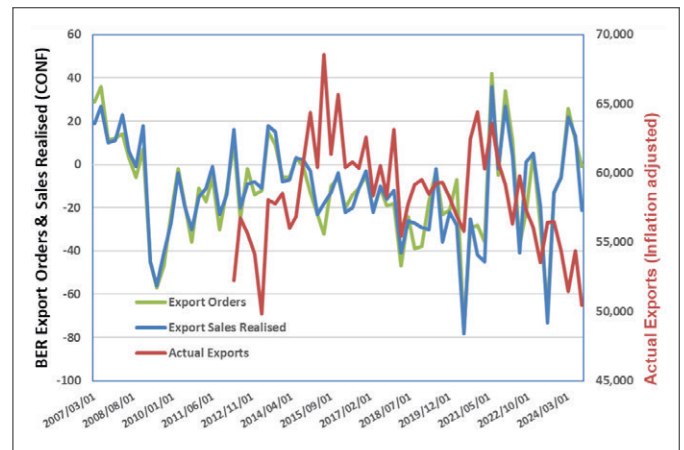
Source: Statistics SA, Manufacturing Production & Sales, p3041.2

INTERNATIONAL TRADE

Export Orders received vs Actual (inflation adjusted) Export Values

The graph shows the correlation between the export orders and realized export sales (confidence reflected by the BER Survey) versus actual exports realized (inflation adjusted) numbers from SARS (estimate for Q3).

There seems to be serious challenges with the potential for exports, due to weak markets.

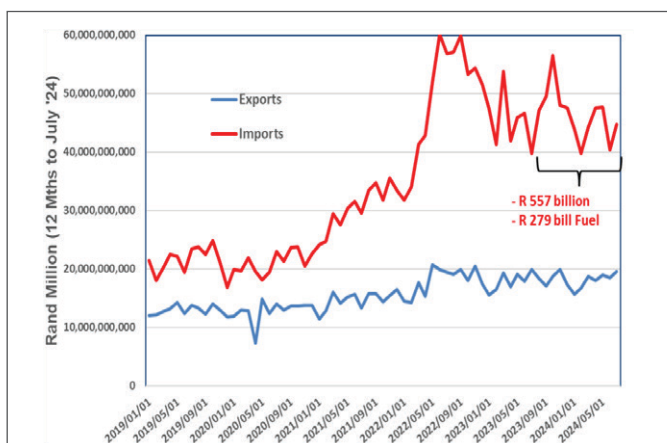


Sources: BER Manufacturing Survey, SARS Export data set

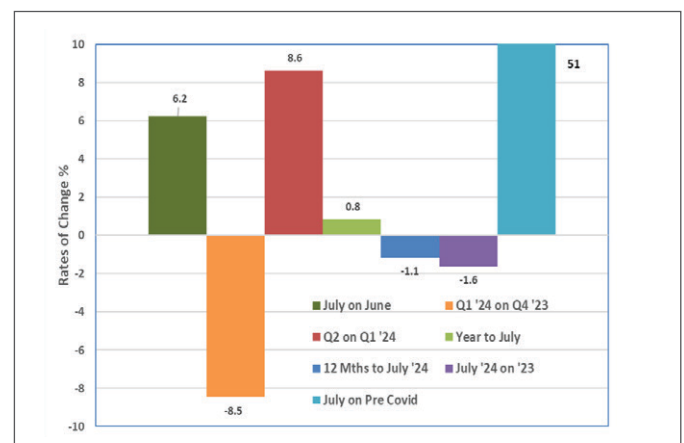
Exports	Jul on Jun 2024 (%)	Jul 2024 on 2023 YTD(%)	12 Mths to Jul 2024 (%)	Jul 2024 on 2023	Trade Balance 12 Mths (billions)
Total	6.2	0.8	-1.1	-1.6	-339,573
Coke, petrol & nucl	235.0	-33.7	128.7	-38.7	-4,120
Petroleum ref	28.2	8.6	6.8	-14.9	-217,995
Nuclear Fuel	100.4	49.5	32.8	34.3	-233
Basic chemicals	11.3	-6.8	-9.9	1.1	-24,592
Other chemicals	6.4	2.0	1.6	12.3	-63,105
Man-made Fib	20.6	-1.1	1.5	21.1	-1,828
Rubber	3.5	-0.0	-0.3	4.7	-13,390
Plastic	0.7	2.4	0.7	-0.5	-14,310

Imports	Feb on Jan 2024 (%)	Feb 2024 on Feb 2023 YTD(%)	12 Mths to Feb 2024 (%)	Feb 2024 on 2023	Trade Balance 12 Mths (billions)
Total	10.7	-2.7	-6.1	12.4	
Coke, petrol & nucl	-20.4	-33.6	-27.2	10.4	
Petroleum ref	2.7	-10.0	-11.4	2.7	
Nuclear Fuel	168.3	59.0	58.5	159.9	
Basic chemicals	20.2	8.6	-3.7	35.7	
Other chemicals	20.6	4.4	2.5	15.8	
Man-made Fib	-10.0	15.3	13.9	6.2	
Rubber	14.0	-3.2	-4.3	4.9	
Plastic	16.3	9.5	8.2	23.0	

The chemical sector trade balances (exports minus imports) remained negative (but largely unchanged over the last year) albeit highly volatile.



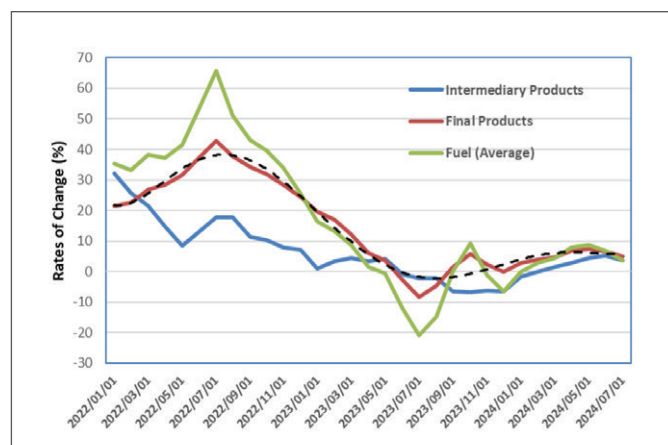
Source: SARS Export/Import data



Chemical Sector Product Price trends

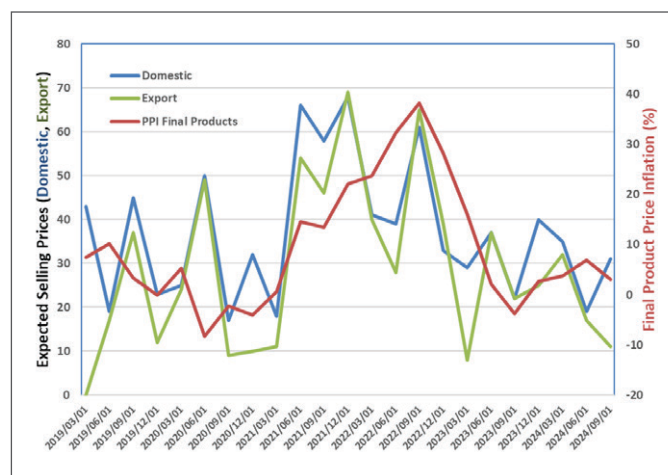
Production price inflation for the chemical sector as a whole seems to have stabilised in a band below 10% with some deviation between intermediary and final product price trends.

The conventional inflation metrics (current month on same month 1 year ago), show further declines during July (on June) which is contrary to our earlier conclusion that a lower turning point has been reached in June (see below; month on month column). This is particularly true for final product price movements which all show deflationary numbers.



Source : Statistics SA, Production Price Indices, P0142.1, Quantec.

Production Price Indices Dec 2023 = 100	Year on year June 2024 on 2023 %
Intermediary Prices	
Total	3.5
Basic & other chemicals	3.4
Rubber	3.7
Plastic	3.0
Intermediary Prices	
Total	5.0
Coal & Petroleum	5.1
Petrol	1.6
Diesel	5.6
Other	7.4
Chemical products	3.3
Rubber & Plastics	6.4



The influence of the exchange rate appreciating seems to have an impact on expectations for the direction of export prices.

	YTD Jul '24 (Index)	Prev YTD Jun '23 (Index)	Change (%)	12mths to date Jul '24 (Index)	Prev 12 mths Jun'23(%)	Change 12 mths (%)	M-o-M Jul on Jun (%)	Y-o-Y Jun'24 on '23 (%)
Production Price	Intermediary products							
Total	104.0	101.8	2.2	102.4	103.6	-1.1	-0.8	3.5
Basic & Other Chem	104.6	102.3	2.3	102.9	104.3	-1.3	-1.4	3.5
Plastics	103.2	100.4	2.8	101.6	102.5	-0.9	0.1	3.7
Rubber	98.9	100.5	-1.6	98.7	98.3	0.5	1.3	3.0
Production Price	Final products							
Total	100.6	95.6	5.3	101.0	97.6	3.5	-1.5	5.0
Coal & Petroleum	100.3	94.7	5.9	101.2	98.4	2.8	-2.5	5.2
Petrol	104.2	98.8	5.5	104.8	101.1	3.6	-4.9	1.6
Diesel	98.5	94.4	4.3	101.2	101.9	-0.7	-1.4	5.6
Other	97.5	91.2	6.9	97.2	92.4	5.3	-0.7	7.4
Chemical Products	100.3	97.0	3.4	100.1	96.1	4.1	-0.2	3.3
Rubber & Plastics	103.5	96.7	7.0	102.2	96.4	5.9	-0.4	6.4

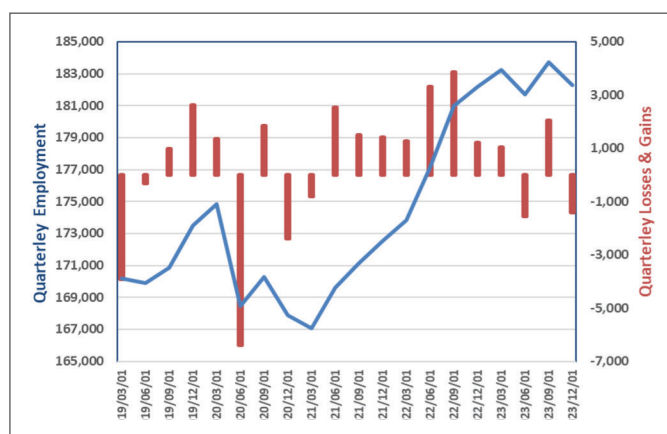
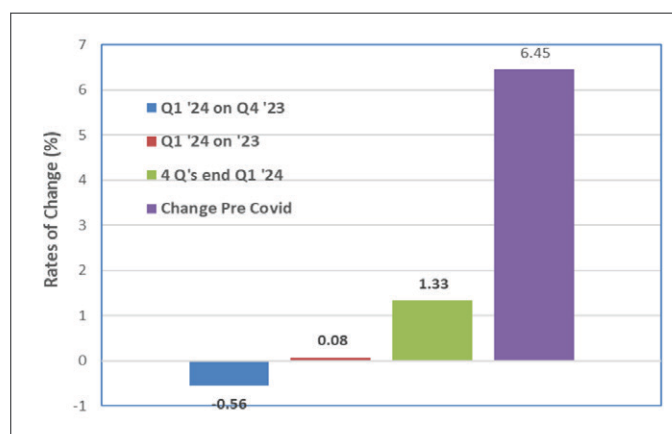
Source: Statistics SA, Production Price Index, p0142.1



Employment Numbers to Q1, 2024

Numbers have been restated as new surveys were collected. Quarter 1, 2024 shows some decline on the previous quarter, but is still higher than Q1, 2023. The full year (average 4 quarters up to Q1, 2024) is also still up and numbers are substantially higher than pre Covid levels.

The restatement of employment numbers is reflected in the graph on the left. It still shows some kind of plateau, albeit unstable since the end of 2022. The slide below shows a very interesting 'rhythm' to employment trends (still quarterly) looking back to the financial crisis of 2007/8.

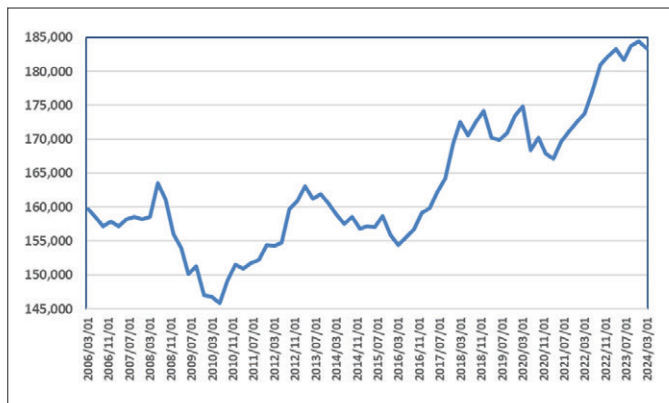


Source: Statistics SA; Quarterly Employment Surveys, p0277

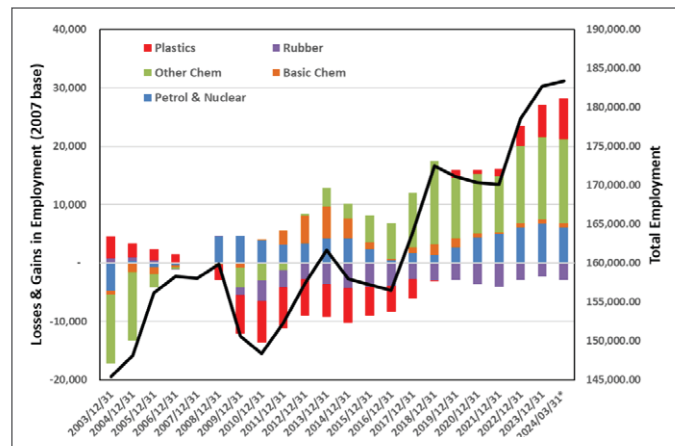
Inflection Points	Quarters (duration)	Employment (Numbers)	High/Lows	Employment (variation)
Q3 2006		157,241	low	
Middle 2008	6 up	163,579	high	6,338
Middle 2010	8 down	145,898	low	-17,681
Q1 2013	12 up	163,031	high	17,113
Q1 2016	12 down	154,470	low	-8,561
Q4 2018	11 up	174,114	high	19,644
Q1 2021	9 down	167,087	low	-7,027
Q1 2023	8 up	183,246	high	16,159
Q1 2024	1 down	183,385	low	-1,032

Exports	Q1 '24 on Q4 '23	Y-to-date	PrevY-to-date	Change	Y-on-Y
EMPLOYMENT					
Total	-0.6	183,385	183,246	0.1	0.1
Petroleum ref	-1.1	28,571	29,608	-3.5	-3.5
Basic chemicals	-3.1	22,189	21,972	1.0	1.0
Other chemicals	0.5	66,227	66,183	0.1	0.1
Rubber	-1.3	12,617	13,245	-4.7	-4.7
Plastic	-0.3	53,781	52,238	3.0	3.0
GROSS EARNINGS					
Total	-7.3	68,706,108,240	65,044,527,946	5.6	3.3
Petroleum ref	3.3	16,886,985,470	17,092,292,238	-1.2	-2.5
Basic chemicals	-0.5	9,455,370,717	9,050,135,613	4.5	2.7
Other chemicals	-10.0	26,430,670,097	24,275,313,256	8.9	5.2
Rubber	-10.3	4,083,829,153	3,865,577,995	5.6	4.3
Plastic	-18.6	11,849,324,802	10,761,208,844	10.1	8.8

The table reflects the levels and rates of change over different time horizons.



Source: Statistics SA; Quarterly Employment Surveys, p0277



The gains/losses per sub-sector over 20 years are shown in the graph above (with Q1, 2024).