

MANUFACTURING

Metals, Engineering and Related Industries

South Africa has the most advanced and diverse metal industry in Africa that creates major spill over effects into other parts of the economy. These industries include, but not limited to, mining, automotive, cables and structural steel that contributes about 15% to the GDP of South Africa.

This industry forms an important part of the local economy as it contributes to job creation, skills development, and the expansion of the local economy. In recent years, the metal industry has seen a downward trend in production due to an increase in production costs as well as a decrease in demand. Employment in metals and metal products fell by almost 100 000 jobs, or over a quarter, from 2008 to 2016. In the year to the third quarter of 2017, however, it reportedly bounced back by more than 20 000, or 8% (Stats SA).



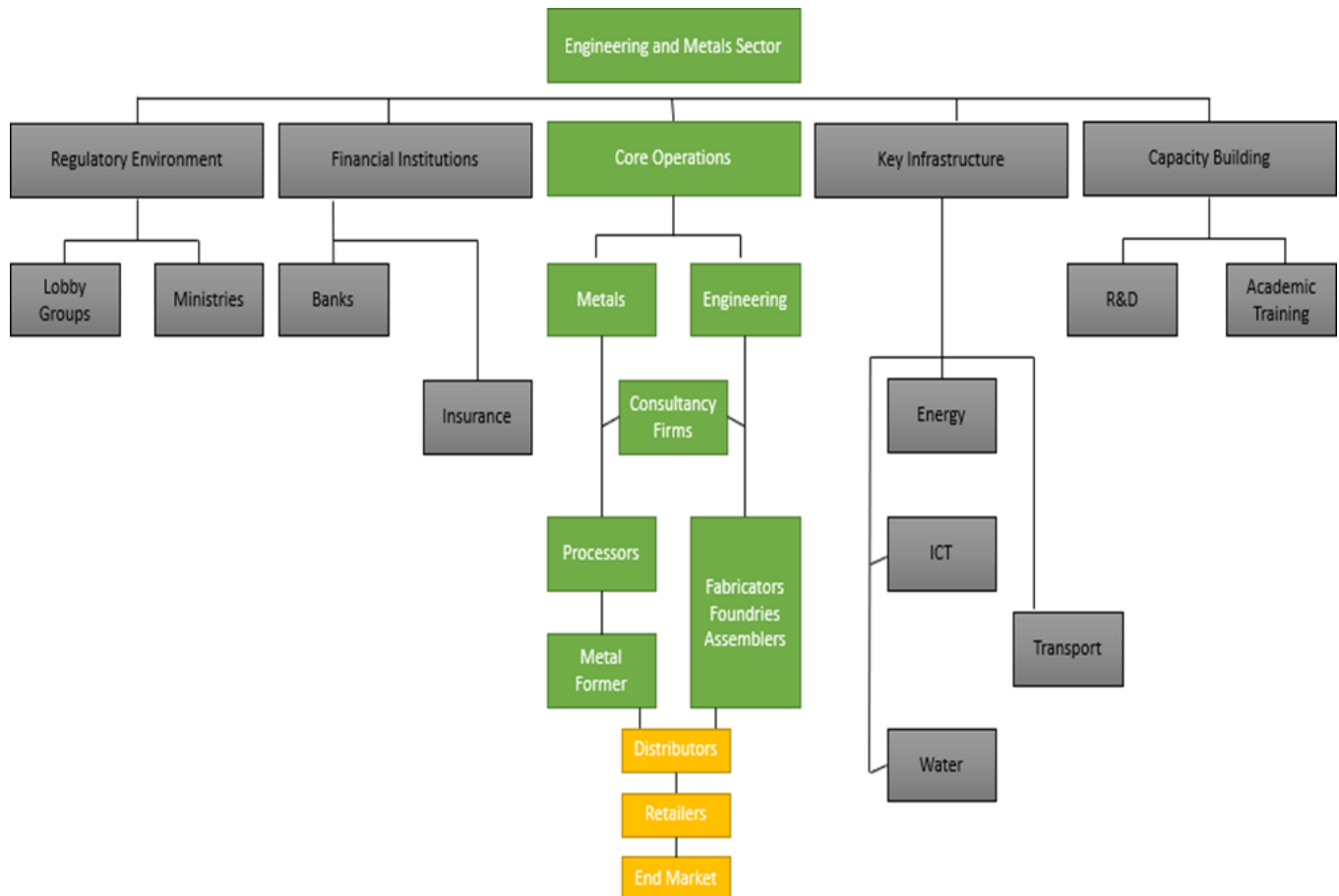
The Steel and Engineering industry is heavily reliant on other industries such as construction, building and mining industries. Basic metals production in the Western Cape is dominated by primary steel production, of both long and flat steel products. The past decade has been characterised by major new investments, notably Saldanha Steel and Duferco, with major government financing. The key question is whether these investments yield any benefits for downstream, steel-using, industries. Initially, steel from Saldanha was all destined for export. Although now being supplied to the local economy, the import parity pricing being practiced means that the competitive conditions for the manufacture of steel in the Province do not translate into competitively priced steel.

Across industries, there have been striking increases in international trade flows, both imports and exports, as the South African economy has become more integrated into the global economy. This represents a major opportunity for coastal locations, such as the Western Cape, to realise the potential gains from trade through building competitive capabilities to access international markets. The Western Cape has a strategic advantage due to its location above other provinces. The Western Cape lies within close proximity to the sea, to reduce the costs of exports and the sea creates more opportunities within the Metal and Engineering industry.

Importantly, the Western Cape has been one of the biggest employers in the country. The Western Cape has kept the employment levels around 10% for metals and metal production. The biggest employer in the industry is Gauteng, companies like Arcelor Mittal is based in Gauteng which employs many of the individuals working in the industry. Furthermore, the biggest role players in the manufacturing industry are the Food and Beverages industry who accounts for 26% of total manufacturing. Basic Iron and Steel account for 19% of total manufacturing. The Motor Vehicles, parts and accessories is an important role player for the manufacturing of metals as a lot of the metal produced is used by car manufacturing.

Metals and Engineering Value Chain

The metals and engineering manufacturing value chain is complex and non-linear comprised of a variety of intricate network of components. An overview of the value chain is visually illustrated below:



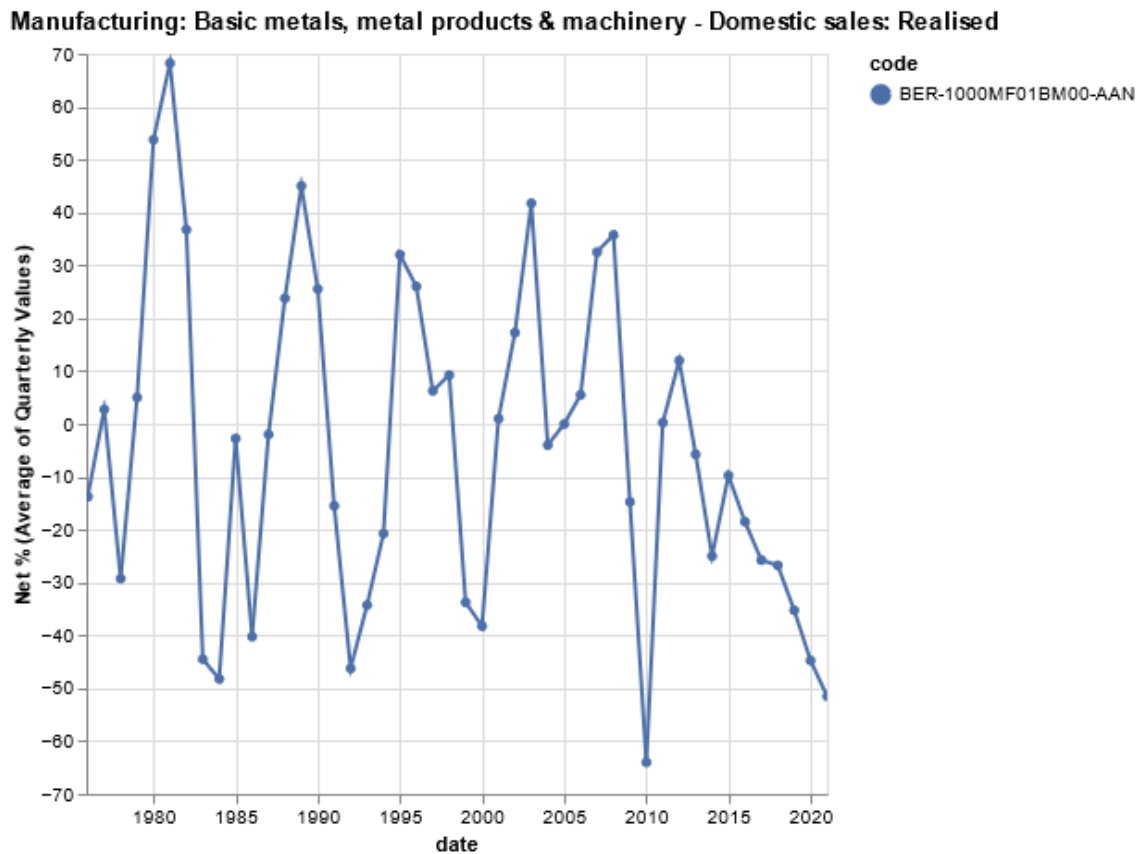
Within the above value chain, several key networks exist within the regulatory environment, financial institutions, core operations, key infrastructure, and capacity building. The key networks identified include lobby groups, ministries, banks, insurance, consultancy firms, processors, metal formers, fabricators, foundries, assemblers, energy, ICT, water, R&D and academic training.

Impact of Covid 19

The recent COVID pandemic had a negative impact on the economy as well as the steel and manufacturing industry as certain industries were closed completely at times. The relaxation of the COVID 19 restrictions late in the fourth quarter of 2020 led to an annualised increase in the GDP of 6,7% (Stats SA). The economic growth for 2020 however was negative and only the agriculture and government sector recording positive economic growth during this time. This can be explained by the Corona Virus restrictions, the Agricultural sector was the industry that was possibly the least affected as it was an Essential service and operations for the most part was able to continue.

The increase in growth in the fourth quarter of 2020 can be explained by the growth of the manufacturing sector which grew by 21.2% during this time and the construction industry grew by 11.2%. The Metals and Engineering sector are dependent on these two sectors as they contribute to more than 70% of the demand for these products and services.

In the Western Cape, the growth of the boat-building industry has been expanding rapidly. The manufacture of yachts and other small craft involve complex assembly and components production ranging from textiles (sail-making) and composites working to the machining of metal products. This industry has largely underpinned the move from trade deficit to surplus in the Province in transport equipment.



Quantec Manufacturing: Basic metals, metal products & machinery—Domestic sales: Realised

The data indicated in the figure above suggests that the industry has experienced a decrease over the years in terms of value generated. The decrease can be linked to low economic growth in the economy over the years as well as an increase in competition.

For more information e-mail:
DEDAT.SectorSupport@westerncape.gov.za

