MEDIA RELEASE: THE MANUFACTURING SECTOR CONTINUES TO INVEST

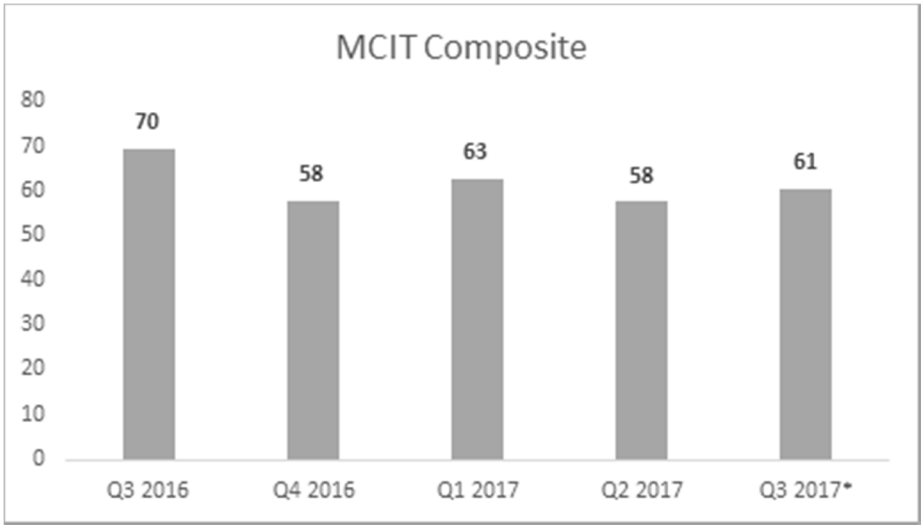
Manufacturing Circle Releases Q2 2017 MCIT, Wednesday, 16 August 2017

The Manufacturing Circle released the 2017 2nd quarter Manufacturing Composite Investment Tracker (MCIT) this morning, indicating that although the index dropped 5 points from 63 in Q1 to 58 in Q2; manufacturing companies continue to invest in plant and equipment, research and development, and human capital.

Manufacturing Circle Executive Director, Philippa Rodseth noted that a level above 50 means expansion in enterprise investment, while a level below indicates a contraction. Fifty enterprises, with average annual revenue of R2.1 billion, participated in the survey.

According to Nampak Ltd CEO and Manufacturing Circle Chairperson, André de Ruyter, "manufacturing has the highest multiplier effect, adding five to eight indirect jobs for every one direct job created. Demand is the big driver of investment - manufacturers are ready to invest if demand grows".

Composite Index



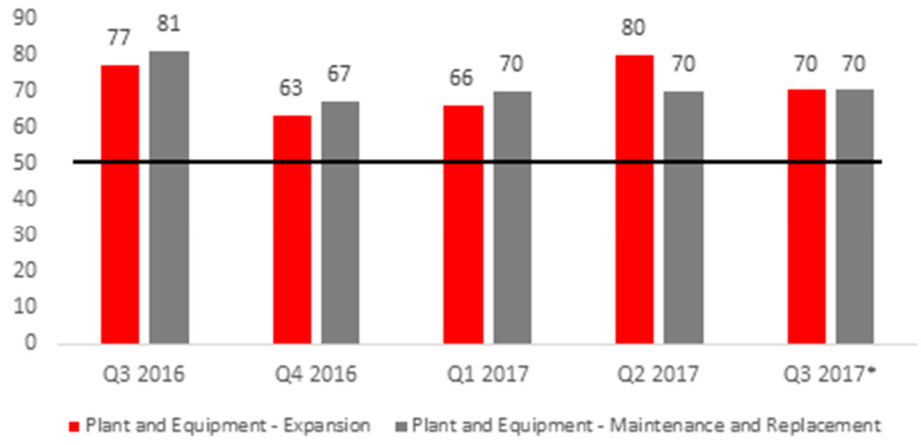
**Expectations for current quarter*

The MCIT analyses four specific areas of investment, namely, property (land and buildings), plant and equipment, human capital and research and development. The main areas of slowing investment were property maintenance which dropped 13 index points to 49, and inventory which fell 10 points to 56.

Expenditure in Property (Land and Buildings) is divided into two categories – expanding current property or buying new land or buildings; and maintaining existing property. The appetite for

physical expansion of floor space and replacement has been muted as capital expenditure in land and buildings remained unchanged at a 50 point-neutral level and dropped 13 points for maintenance and replacement.

Plant and Equipment

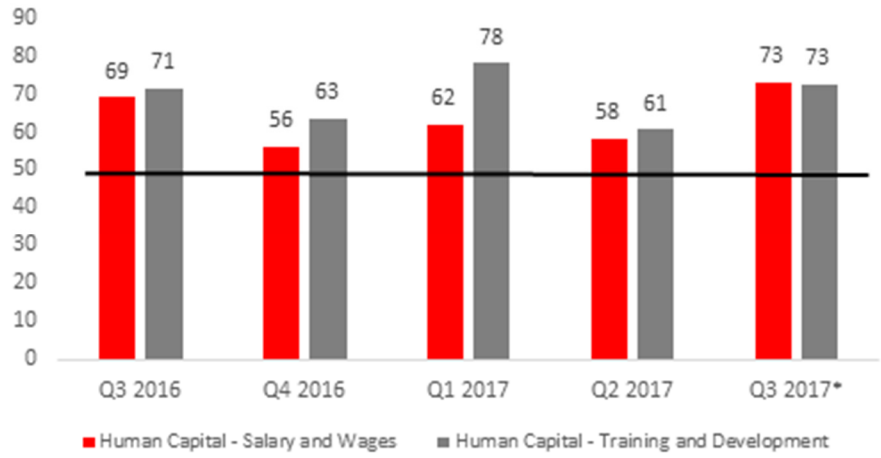


**Expectations for current quarter*

Plant and Equipment is divided into two categories – new and maintenance. As the graph shows, there has been consistent capital expansion in both areas.

Spending on Inventories, recorded at 56 index points compared to 66 in Q1, suggests a slowdown and is in reaction to a drop in customer demand.

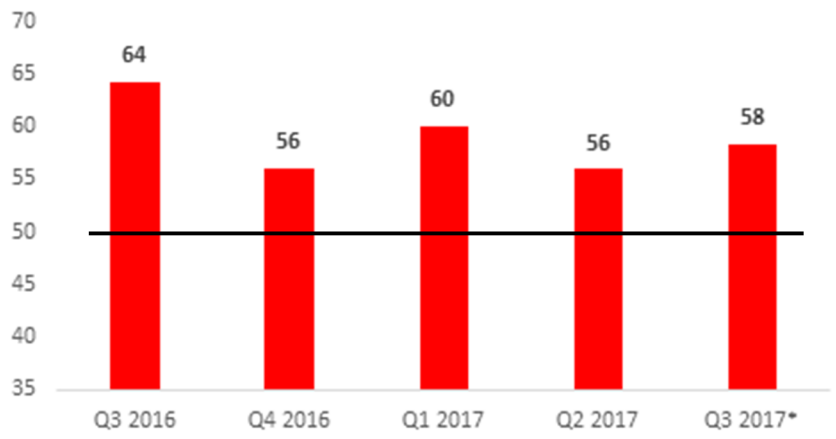
Human Capital



**Expectations for current quarter*

Although expenditure on Human Capital showed a decline from 62 to 58 points, the industry has continued to train and develop employees.

Research and development



**Expectations for current quarter*

Although capex in the vital area of Research and Development fell from 60 to 56 points, it is encouraging to note that manufacturing enterprises continue to invest in innovation, which should make the sector more internationally competitive.

Haroon Kalla, CEO of Amka Products (Pty) Ltd, Manufacturing Circle Member and host for the launch, noted that, "manufacturers have to keep innovating in order to remain competitive and key to innovation is R&D".

Expectations for Q3

Looking ahead to the third quarter of 2017, the MCIT forecasts overall growth to rise to the level of 61 index points, indicating foreseeable expansion in enterprise investment.

In the individual areas, spending on inventories is expected to fall 10 points to 46, while manufacturers indicated intentions to invest marginally in more property, and raise expenditure on training and development to 73 index points. Maintenance and replacement is forecast to remain stable at 70 index points for 3 consecutive quarters, whilst a decline to 70 index points is expected in the investment of new Plant and Equipment.

Conclusion

In spite of current challenging economic conditions, the manufacturing sector remains resilient and committed to growing the economy, and in so doing, jobs. Increasing demand is critical, both in terms of public and private sector procurement.

Haroon Kalla emphasised that, "in order to grow demand, we need all South Africans to believe in and support local products".

Furthermore, André de Ruyter stated that, "it is vital for industry and government to collaborate to unlock the economy to enable job creation. The country needs a 1 point plan to address the crisis of the unemployment we face. We need to make it a national priority to grow the economy and create jobs".

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Notes to editors:

The MCIT tracks investment trends in the manufacturing sector on a quarterly basis. Compiled by Nascence Advisory and Research on behalf of The Manufacturing Circle, the index aims to develop industry and economic insights about investment spending patterns of manufacturing enterprises.

The index surveys a variety companies from all sub-sectors of the manufacturing industry across South Africa, of which the dominant ones in this edition are basic iron and steel, (43%); petroleum and chemical products (12%); furniture (10%) and packaging (10%).