

## MANUFACTURING CIRCLE INVESTMENT TRACKER

A quarterly index tracking investment spending in the manufacturing sector

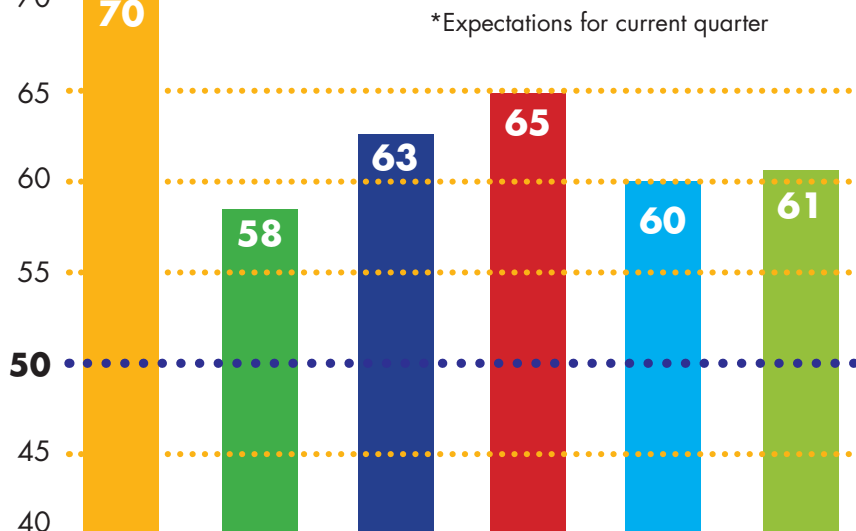
### Q3 2017 Summary findings and outlook

The MCIT composite index consists of the following sub-components:

1. Property (Land and Buildings)
2. Plant and Equipment
3. Inventory
4. Human capital and
5. Research and Development

The Manufacturing Circle Investment Tracker (MCIT) fell by 5 index points in the third quarter of 2017 to 60 points, following a recording of 65 points in the second quarter of 2017. The decline to 60 points indicates a contraction in investment by the surveyed manufacturing enterprises. The decrease in investment is driven by a contraction in expenditure on plant and equipment and salaries and wages.

### Composite Index



In the period Q2 2017 to Q3 2017, there was a sharp contraction in investment in maintenance, plant and equipment. Expenditure on acquiring new plant and equipment fell by 22 index points from 80 points in the second quarter to 58 index points in the third quarter of 2017. Investment in maintaining or replacing plant and equipment fell by 14 index points, from 70 index points in the second quarter to 56 index points in the third quarter of 2017.

Expenditure on salaries and wages fell by 4 index points, from 58 points in the second quarter to 54 points in the third quarter of 2017. This reflects the rationalisation of the manufacturing industry in the third quarter of 2017 in the context of sluggish local and global demand.

Looking ahead, the surveyed manufacturing enterprises indicated that investment would remain relatively unchanged in the fourth quarter 2017.

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### Sub-Index

#### Property (Land and Buildings)

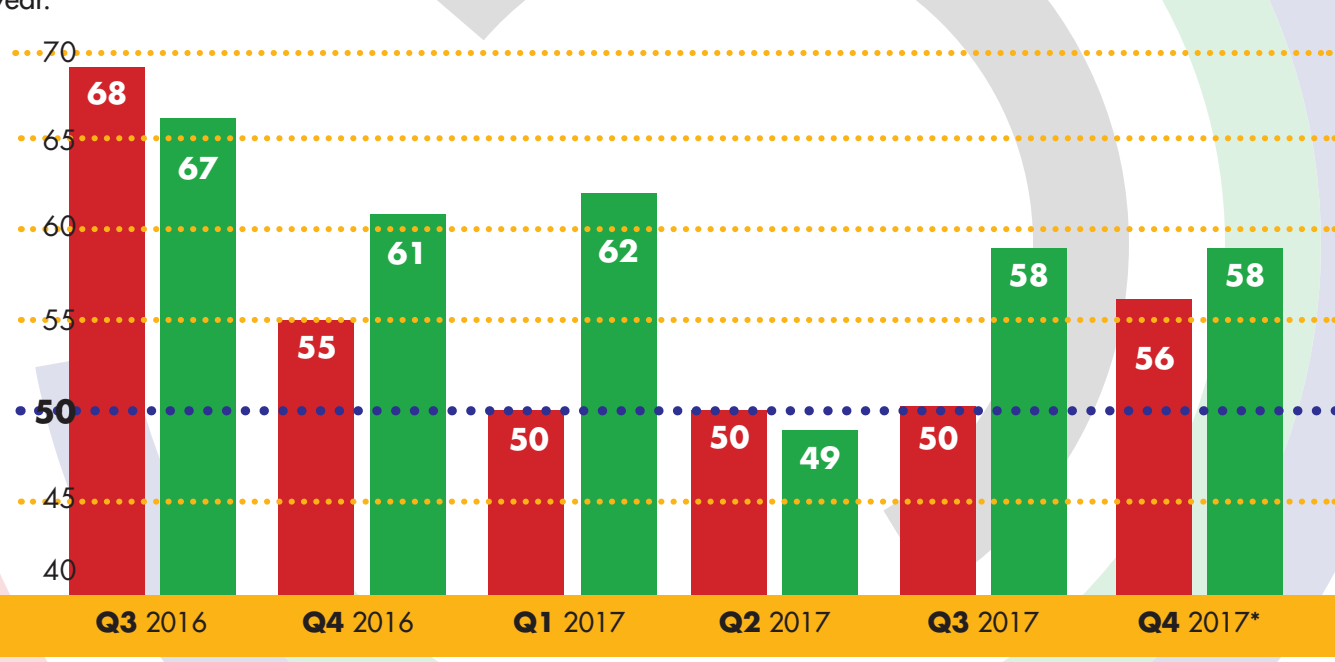
The sub-index, Property (land and buildings) is divided into two categories.

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

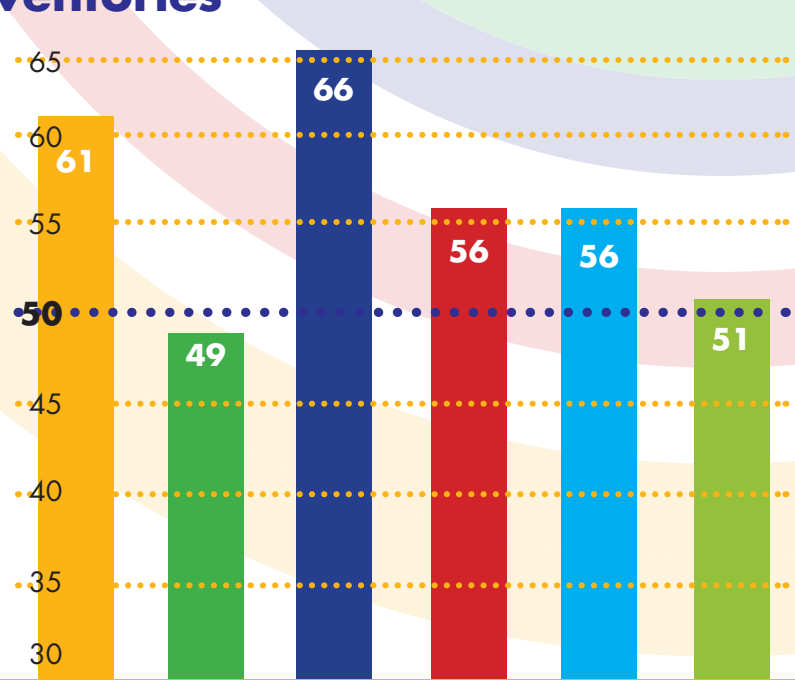
Expenditure on property rose between Q2 2017 and Q3 2017. This was driven by an increase in expenditure, by 9 index points, on maintenance and replacement. Investment in expanding existing or new property remained unchanged between Q3 2017 and Q2 2017.

Looking ahead, surveyed enterprises indicated that they expect to increase expenditure on property. We note that an increase of 6 index points is expected in the upcoming quarter.

Between Q3 2016 and Q4 2017, expenditure on property fell. This was largely driven by a fall in expenditure on expanding existing property. The index reveals that expenditure on expanding property fell by 18 index points over the year.



#### Inventories



Spending on inventory follows demand patterns. Between, Q3 2017 and Q2 2017, spending on inventories remained unchanged. This is surprising as one would expect expenditure on inventory to increase ahead of the fourth quarter of the year. Looking ahead, investment expectation remains conservative. Manufacturers expect expenditure on inventories to decline by 5 index points.

\*Expectations for current quarter

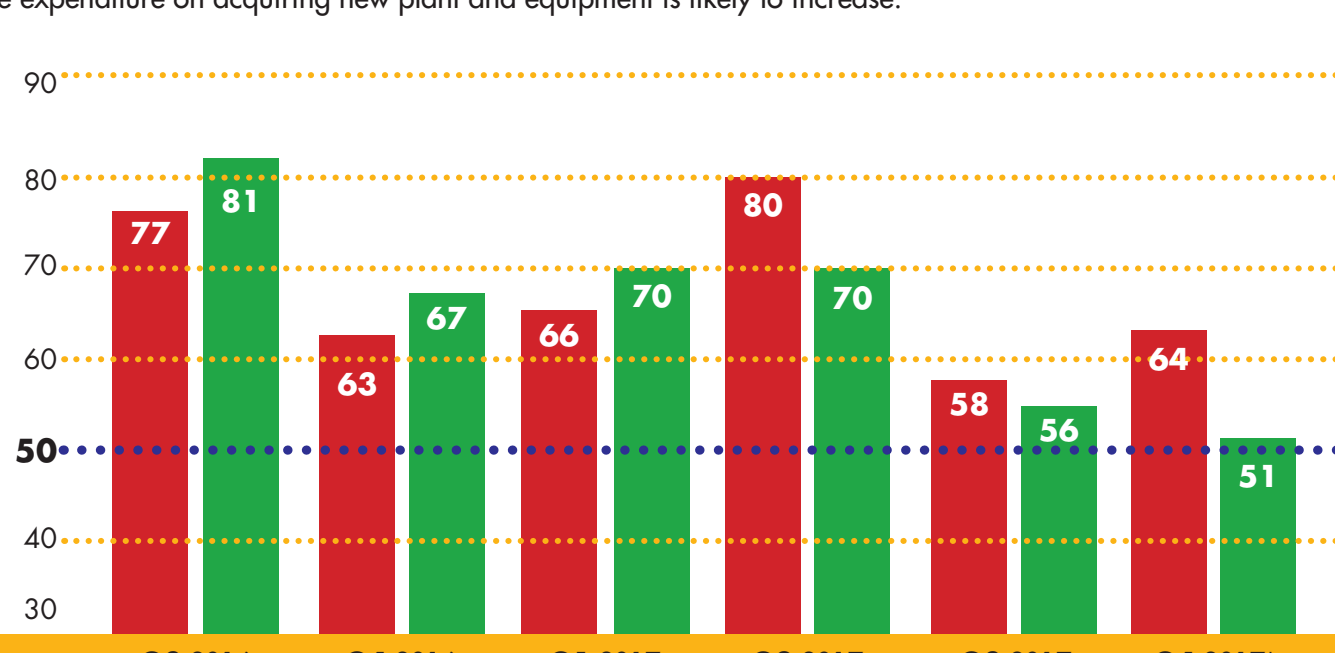
#### Plant and Equipment

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

1. Expenditure on acquiring new plant and equipment and
2. Expenditure on maintain existing

Expenditure on plant and equipment fell sharply between Q2 2017 and Q3 2017. This was driven by a 22 index point contraction in acquiring new plant and equipment. This reverses the upward trend in expenditure on plant and equipment reflected in the period between Q4 2017 and Q2 2017.

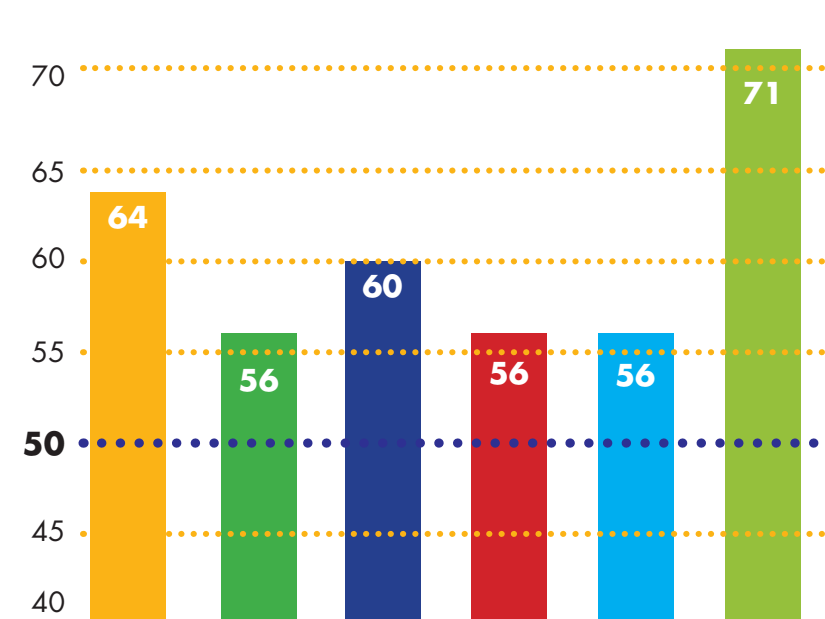
Looking ahead, manufacturers indicated that investment in maintaining plant and equipment is likely to contract while expenditure on acquiring new plant and equipment is likely to increase.



#### Research and Development



Investment in research and development remained unchanged and above the neutral 50-point mark. Over the year, Q3 2016 to Q3 2017, patterns in expenditure on research and development were stable. Looking forward, surveyed manufacturing enterprises appear to be optimistic about increasing expenditure on research and development.

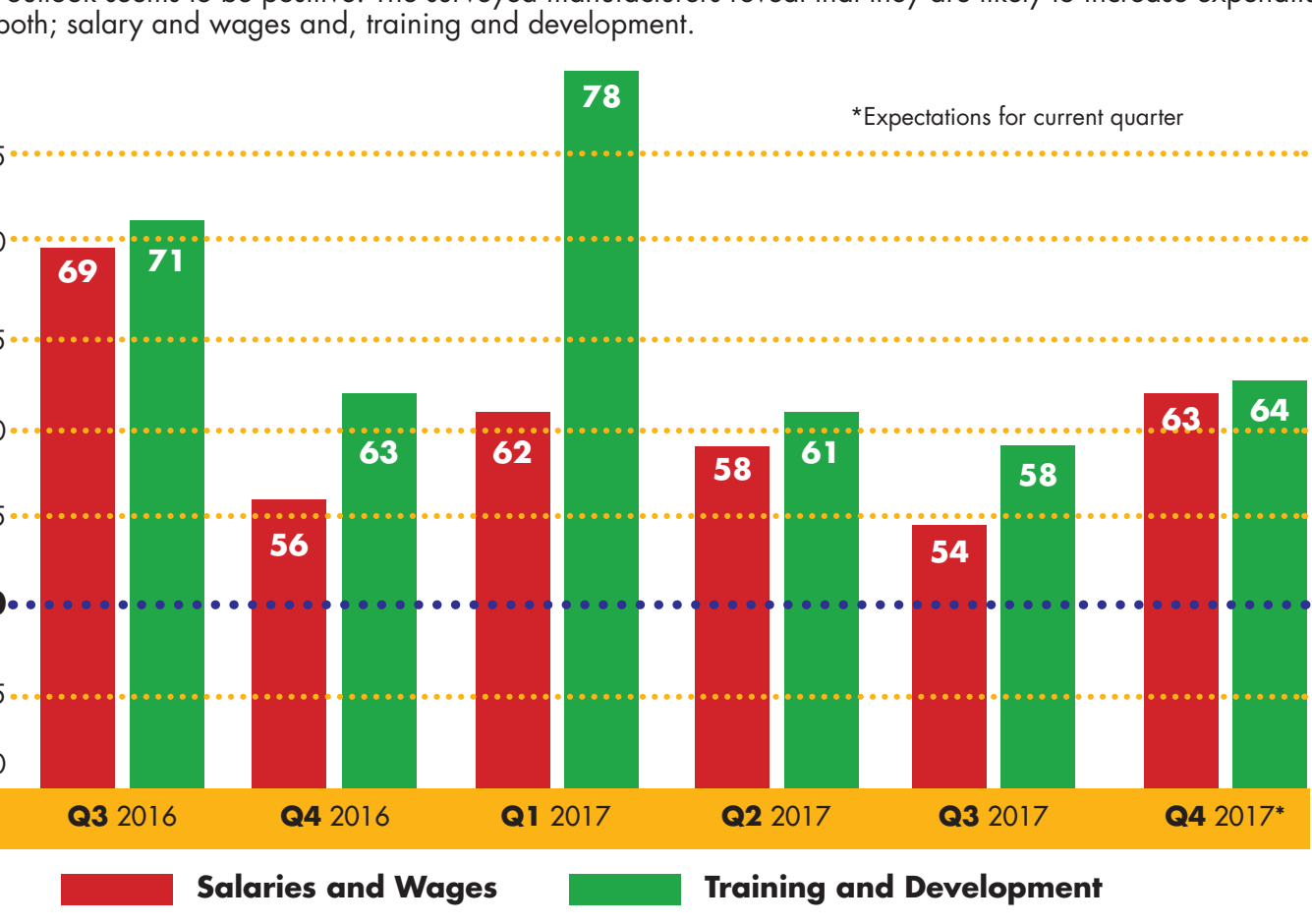


\*Expectations for current quarter

#### Human Capital

Investment in human capital recorded a relatively moderate decline between Q2 2017 and Q3 2017. In the latest quarter of 2017, expenditure on salary and wages declined by 4 index points. Similarly, spending on training and development declined by 3 index points.

The outlook seems to be positive. The surveyed manufacturers reveal that they are likely to increase expenditure on both; salary and wages and, training and development.



\*Expectations for current quarter

