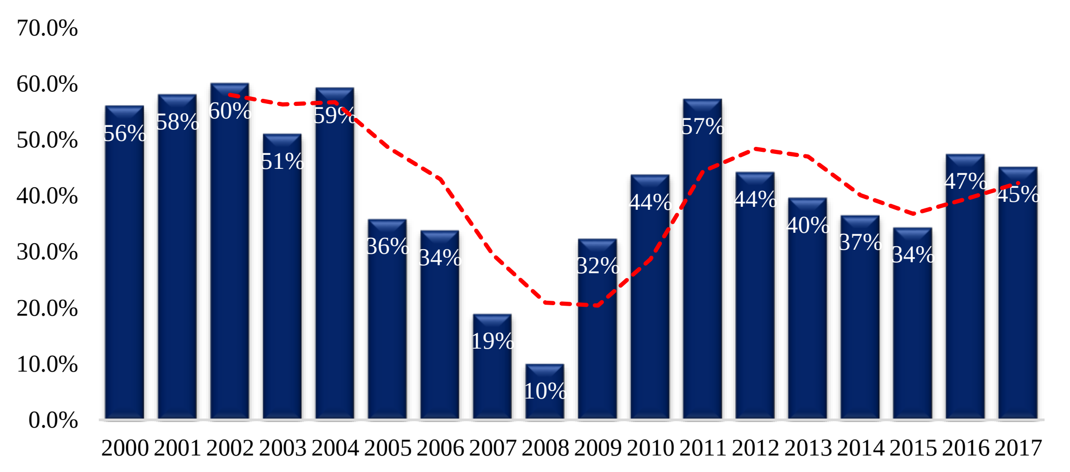
The Confederation of Zimbabwe Industries “CZI” on 25 October 2017 published its 2017 Manufacturing Sector Survey Report. The survey customarily focussed on the level of capacity utilisation, which reflects the relationship between actual output that is being produced from installed equipment, and the potential output which “could” be produced if capacity was fully used. The following were the salient features:

- The weighted capacity utilisation fell by 2.3 percentage points from 47.4% in 2016, to 45.1% in 2017. **Fig.1** below illustrates the trends in this key economic indicator for the manufacturing sector from 2000 (with a 3-year moving average trend line in red).

... The weighted capacity utilisation fell from 47.4% in 2016, to 45.1% in 2017…

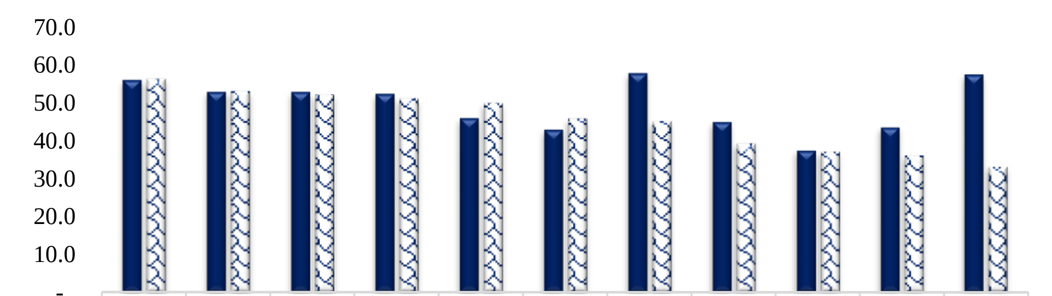
Figure 1: Manufacturing sector capacity utilisation (%)



Sources: Ministry of Finance & CZI

- Meanwhile, with the exception of Foodstuffs; Plastics and Packaging; Textile, Clothing and Footwear as well as Other Manufacturing, all other sub-sectors registered declines in average capacity utilisation - see **Fig.2** below.

Fig.2: Average sub-sector capacity utilisations



	Foodstuffs	Plastics and Packaging	Paper, Printing and Publishing	Drinks, Tobacco and Beverages	Textile, Clothing and Footwear	Other Manufacturing	Wood and Furniture	Transport, Equipment	Metal and Metal Products	Chemical and Petroleum Products	Non Metallic Mineral Products
2016 CU	56.1	52.9	52.9	52.4	46.0	43.0	57.8	45.0	37.5	43.6	57.5
2017 CU	56.3	53.0	52.2	51.2	50.0	45.8	45.2	39.3	37.1	36.1	33.2

Source: 2017 CZI Survey

- In terms of company size, CZI outlined that on average small companies (employing 5 to 19 people) were operating at 34.2% capacity utilisation, while medium companies (between 20 to 99 employees) were at 37.3% and larger firms (+100 employees) stood at 55.9%.

- The major challenges were, among others, cost/ shortage of raw materials, low local demand, foreign currency shortages and competition from imports. Notably, most of these challenges have remained unchanged over the previous years, only differing in terms of scale/ magnitude. **Table 1** below outlines all the constraints identified from the 2017 survey and their rankings.

... The major challenges were shortage of raw materials, low local demand and forex shortages...

Table 1: Capacity constraints

Capacity constraint	%
Cost/shortage of raw materials	19.6
Low local demand	17.8
Forex shortage	13.8
Competition from imports	8.6
Antiquated machinery and machine breakdowns	8.6
Capital Constraints	6.9
High cost of doing business	6.5
Liquidity Crisis	6.2
Drawbacks from current economic environment	4.5
Access to Finance	4.5
Competition from Local producers	1.4
Power and water shortages	1.0
Others	0.7

Source: 2017 CZI Survey

- In terms of sources of competition, South Africa (49%) remained the largest competitor for local products, followed by China (30%), Brazil (9%), Zambia (7%) and India (5%).
- Meanwhile, Zambia and South Africa were the major export destinations for the less than 15% of manufactured output that was exported. Low levels of production, uncompetitive products and high export costs were advanced as the major constraints for low manufactured exports.
- CZI noted that 64% of raw materials were sourced locally in 2017 against 84% in 2016. The reduction reflects the structural inefficiencies, heavy reliance on imports and low business linkages between industry and primary sectors such as agriculture and mining. Once again, South Africa was the major source of raw materials followed by Asian countries (led by China) and European countries.

Comments…

The manufacturing sector evidently continues to face a number of challenges that militate against sustained improvement in capacity utilisation. Moreover, ongoing shortages of foreign currency may also compound the sector's problems in the short to medium term. However, it also imperative that local manufacturers embrace innovation and ***"turn the current crisis into a good crisis".*** For example, the shortages of foreign currency may result in a curtailment of importation of some competing import products. In such a scenario, manufacturers would therefore need to take advantage of the resultant expenditure switching that comes from consumer's inability to import and step up production of alternative products. On the other hand, policy makers would also need to expedite ongoing reforms that are aimed at attracting investment in the economy. Expenditure switching should be the focus for both private sector and the Government, going forward.

Analysts:

Andrew Chirewo
achirewo@cbz.co.zw

Victor Makanda
vmakanda@cbz.co.zw

Godknows Muwandi
gmuwandi@cbz.co.zw

Contact Details
5th Floor, Union House,
60 Kwame Nkrumah Avenue,
P O Box 3313,
Harare, Zimbabwe,

Tel: +263 4 748 050-79
Website: www.cbz.co.zw
Email: research@cbz.co.zw

Disclaimer

CBZ Holdings Limited has prepared this report on behalf of itself and its clients for informative purposes only. Whilst the facts and opinions expressed in this report are based on sources that are believed to be reliable, and every care has been taken in preparing the report, no warranty (implicit or explicit) is made by CBZ Holdings Limited, its employees, directors, associates and affiliates regarding the accuracy, reliability, currency or completeness of the information in this report nor its usefulness for any purpose. CBZ Holdings Limited, its employees, directors, associates and affiliates accept no responsibility or liability, whatsoever, for any loss, damage, cost or expense, howsoever, incurred or arising by reason of any person using or relying on information or opinions expressed in this report. The opinions and estimates expressed in this report are based on the information available as at the date of publication and such opinions and estimates are given in good faith, but without legal responsibility, and may be changed after publication at any time without notice. The information contained in this report does not constitute legal advice or personal recommendation and each recipient may undertake his or her own independent investigation of the issues discussed in this report.