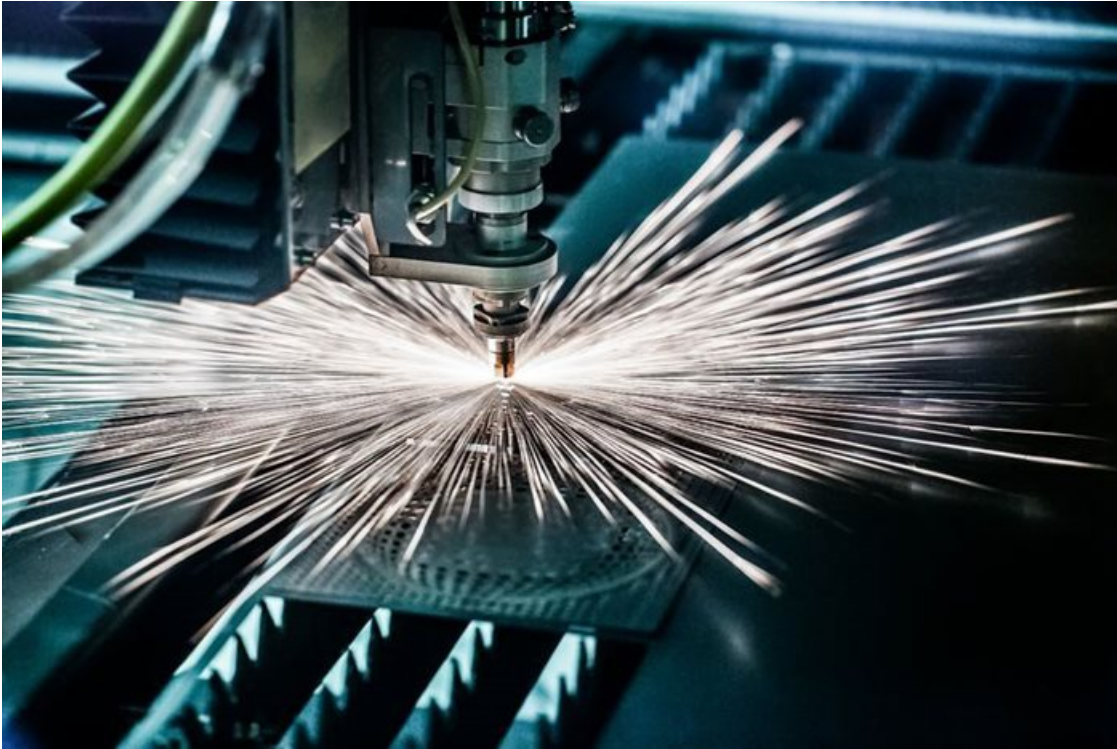


Seifsa COO warns of weakening outlook for metals and engineering sector

Tafadzwa Chibanguza, COO of the Steel & Engineering Industries Federation of SA (Seifsa), has warned that the outlook for the metals and engineering sector has shown a marked deterioration after a strong start to the year.



Source: Andrey Armyagov © [123RF.com](https://www.123RF.com)

The performance of the metals and engineering sector is indicative of the prevailing economic fundamentals. “It is also extremely sensitive to these prevailing global and domestic economic events. In fact, our estimates already point to production contracting by between 1.1% and 1.3% in the second quarter, with notable downside risks for the full-year outlook,” says Chibanguza.

“During the first quarter, inflationary pressures were already building in the global economy. However, this was initially driven by aggregate demand increasing faster than supply chains could respond. The invasion of Ukraine by Russia on February 24 set the proverbial cat among the pigeons in economic and inflation terms,” he says.

Chibanguza has identified the themes behind global and domestic economic fundamentals at present. They include the aggressive monetary policy tightening in the US in response to multiyear record inflation; the effect of the Russia-Ukraine on the EU economy; and China’s aggressive zero-Covid-19 policy which has impacted the country’s economic hubs of Shanghai and Beijing.



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Decline in iron ore prices

“These themes will dominate the global economic narrative and the slowing of global economic growth. Steel production is highly correlated to growth and the early warning signs of a slowing growth rate are evident in the decline in iron ore prices, a key ingredient in steel production,” he says.

“A rising tide lifts all boats, but the inverse is also true. In a less supportive global economic environment, and with headwinds intensifying, domestic economic policy and reform has to do a lot of heavier lifting to support the economy. Domestic intervention to counter these headwinds and support the metals and engineering sector is essential,” concludes Chibanguza.

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