



STATE OF THE METALS AND ENGINEERING SECTOR 2026

**The Industrial Policy era: A New Global Norm and a
Domestic Inflection Point**

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Outline

- **State of the Metals and Engineering Sector**
 - **Production**
 - **Employment**
 - **Capacity Utilisation**
- **Structural Realities**
- **Outlook for 2026**
 - **Key themes**
 - **International**
 - **Domestic**
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STATE OF THE METALS AND ENGINEERING SECTOR

The Metals and Engineering Production

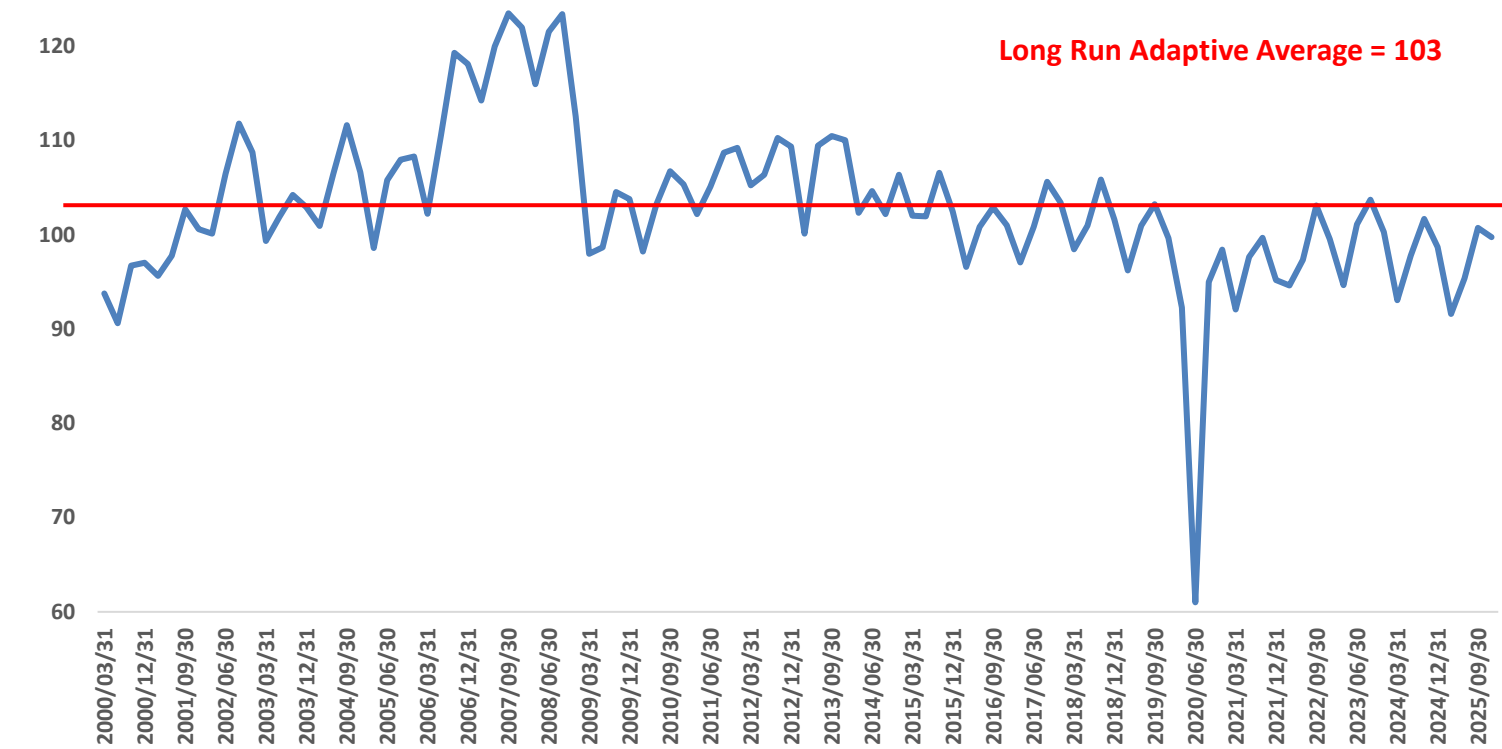
- The sector constitutes 25,5% of the manufacturing sector based on output, representing the metal production, fabrication, the heavy engineering value chain and the plastics product sub-sector.
- The definition of the sector is as per the Metals and Engineering Industries Bargaining Council (MEIBC).
- The respective weights of the sub-sectors relative to total manufacturing and the rebalanced weights to indicate the sub-sectors weighting in the aggregated metals and engineering sector production index.

Sub-Sector	% of Manufacturing	% of M&E
Plastic products	2,05	8,0
UPSTREAM		
Basic iron and steel products	2,92	11,5
Non-ferrous metal products	3,54	13,9
INTERMEDIATE		
Structural metal products	2,01	7,9
Other fabricated metal products	3,65	14,3
HEAVY AND LIGHT ENGINEERING		
General purpose machinery	3,45	13,5
Special purpose machinery	3,73	14,6
Household Appliances	0,66	2,6
Electrical machinery and apparatus	2,14	8,4
Other transport equipment	1,32	5,2
Total M & E Sector	25,47	100,0

Metals and Engineering Sector Economic Dashboard							
Economic Variable	2020	2021	2022	2023	2024	2025	24/25 %
M&E Production (% growth/contraction)	-12,2%	25,6%	1,3%	2,0%	-1,4%	-1,6%	
M&E GDP (Rand billion) - nominal	257,4	316,7	389,8	436,6	426,0	421,7	-1,0%
M&E GDP (% growth/contraction) (2015 Prices)	-17,0%	10,8%	11,8%	5,8%	-4,7%	-2,4%	
M&E Share of Manufacturing (%)	26,2%	26,2%	26,2%	26,2%	25,5%	25,5%	
M&E Share of GDP (%)	4,2%	4,6%	5,1%	5,4%	5,1%	5,0%	
M&E Capacity Utilisation (%)	66,2%	74,8%	75,1%	74,0%	75,4%	74,0%	
M&E Sector Input Cost Inflation (%)	2,5%	16,2%	14,5%	1,3%	3,1%	8,0%	
M&E Employment (number)	365 143	359 483	360853	360 371	362 210	361 072	-0,3%
M&E Employment (% growth/contraction)	-8,9%	-1,6%	0,4%	-0,1%	0,5%	-0,3%	
M&E Employment as a % of Total Employment	3,7%	3,6%	3,4%	3,3%	3,4%	3,4%	
Gross Earnings (Rand billion)	94,4	105,8	120,2	133,0	139,1	138,5	-0,5%
M&E Total Sales (Rand billion)	660,1	838,3	931,3	944,1	960,8	913,0	-5,0%
M&E Export Sales (Rand billion)	262,8	332,6	389,4	421,1	400,9	357,7	-10,8%
Export sales % of total sales	39,8%	39,7%	41,8%	44,6%	41,7%	39,2%	
M&E Imports (Rand billion)	377,2	449,7	556,6	648,4	608,05	620,25	2,0%
M&E Trade Balance (Rand billion)	-114,4	-117,2	-167,2	-227,3	-207,1	-262,6	26,8%
Gross Fixed Capital Investment (Rand billion)	22,1	22,4	29,5	34,4	37,09		8,0%
Fixed Capital Stock (Rand Billion)	184,6	195,5	216,9	235,1	248,95		5,9%

Production

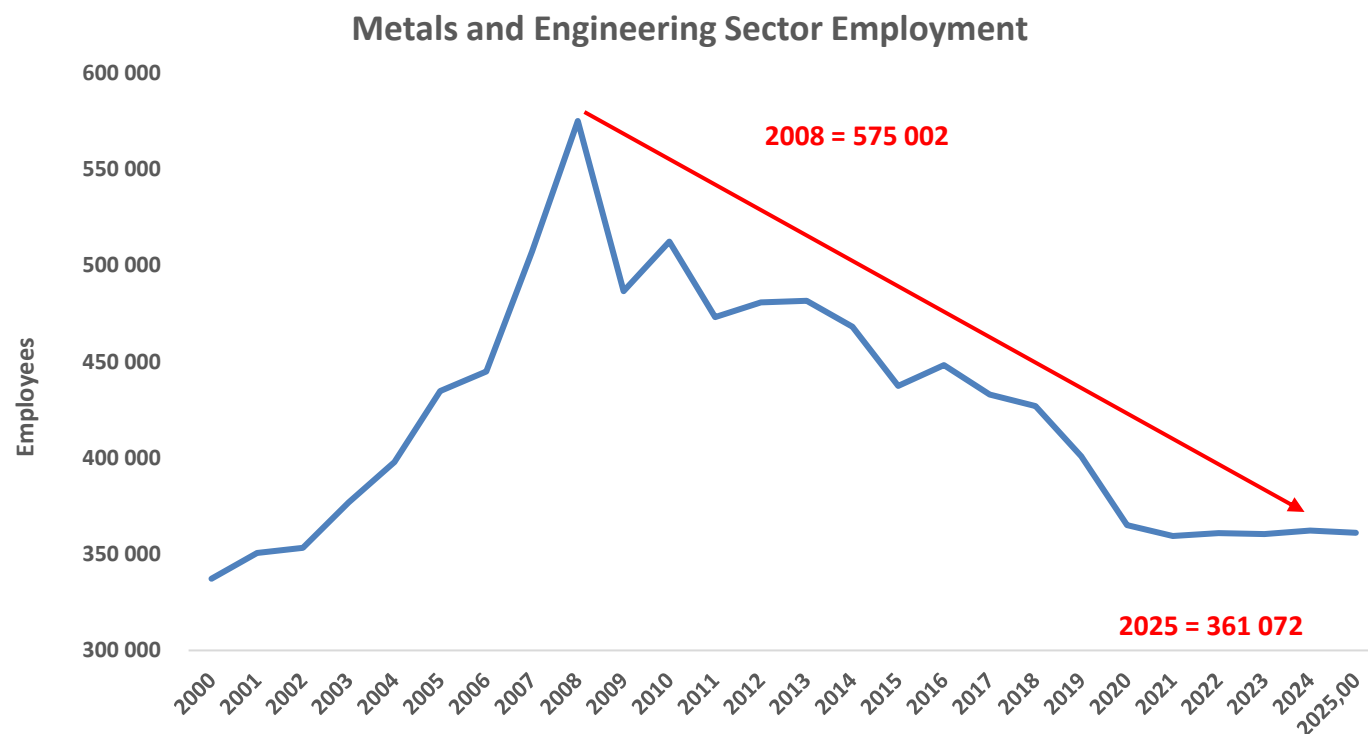
- Full year production decline was **-1,6%**
- The contraction was most prominent in the upstream
- Since 2008 production has continued to deteriorate at a rate of **- 1,7% (CAGR)**
- Below long-run adaptive average.
- Volatile but directionally flat-to-down.



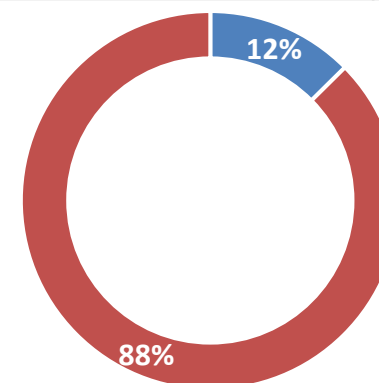
SUB-SECTOR	2025
Plastics	1%
Basic iron and steel	-12%
Non-ferrous metal	4%
Structural metal'	3%
Other fabricated metal	0%
General purpose machinery	2%
Special purpose machinery	-6%
Household appliances	4%
Electrical machinery	-5%
Other transport equipment	-6%
Total	-1,6%

Employment

- YTD 2025, employment decreased by **-0,43%**
- The long-term trend employment continues to disappoint deteriorating at a rate of **- 2% (CAGR)**



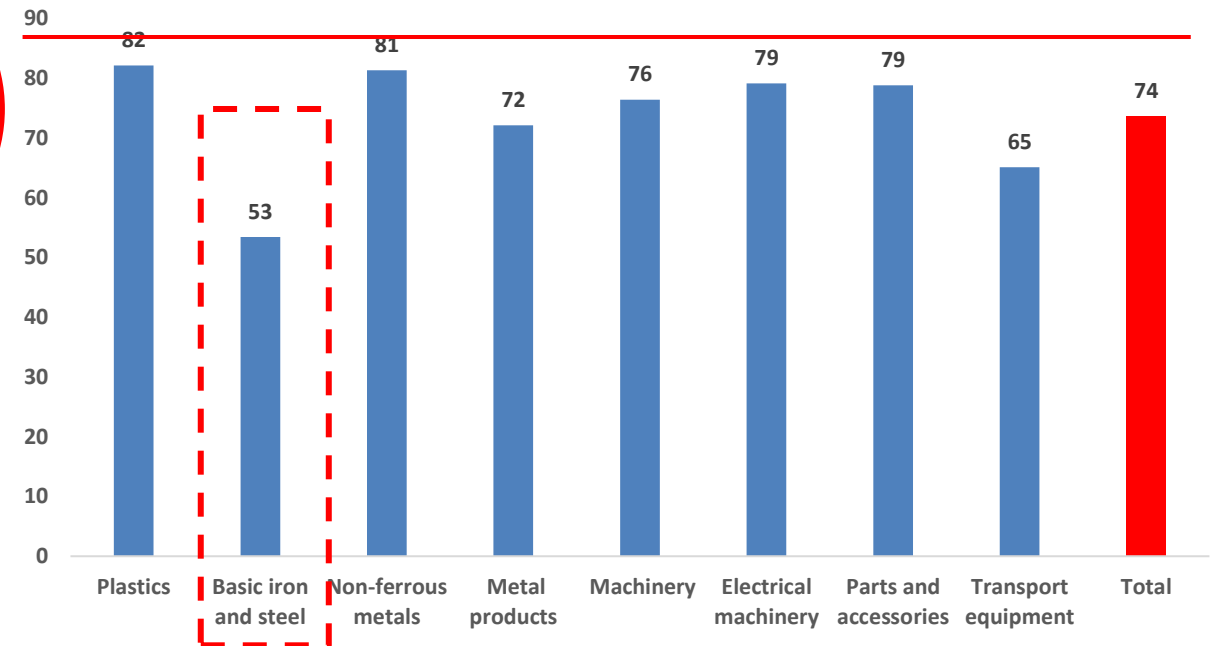
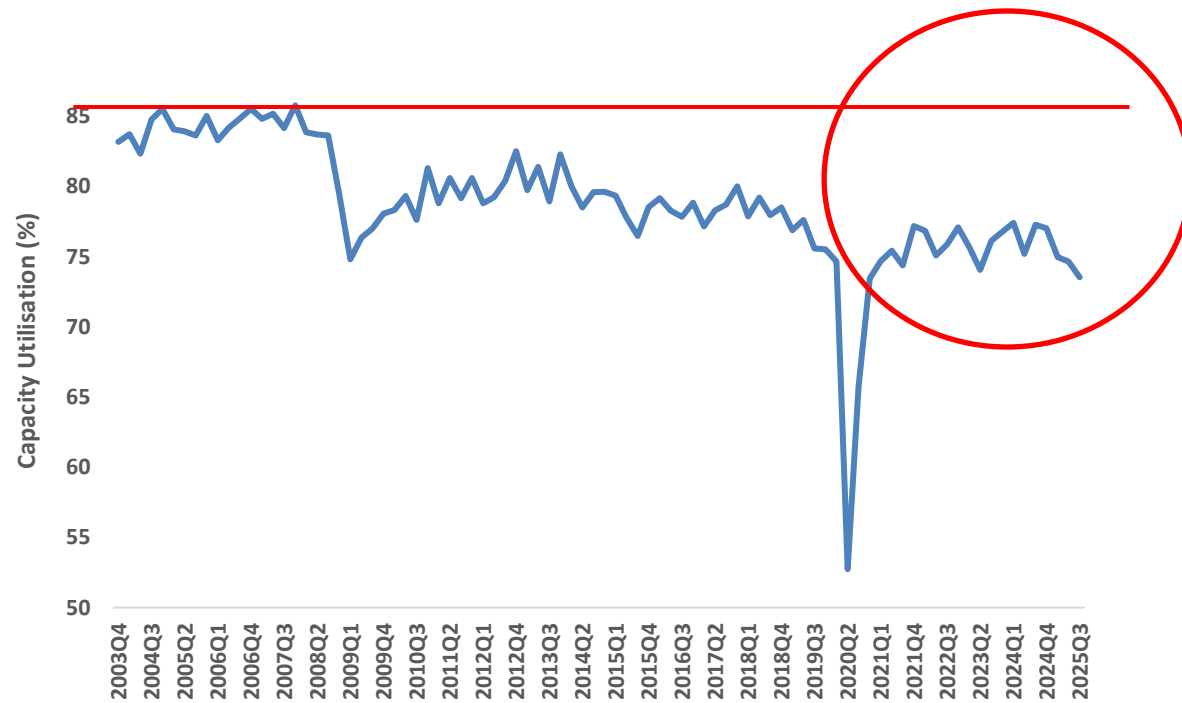
Sub-Sector	2025
Plastic products	-0,1%
Basic iron and steel	-4,7%
Basic non-ferrous metals	0,6%
Casting of metals	-1,7%
Structural metal product	-5,1%
Fabricated metal products	0,0%
General purpose machinery	-1,2%
Special purpose machinery	-1,1%
Household appliances	-4,7%
Electrical machinery	-2,1%
Transport equipment	5,2%
Total	-0,43%



Capacity Utilisation

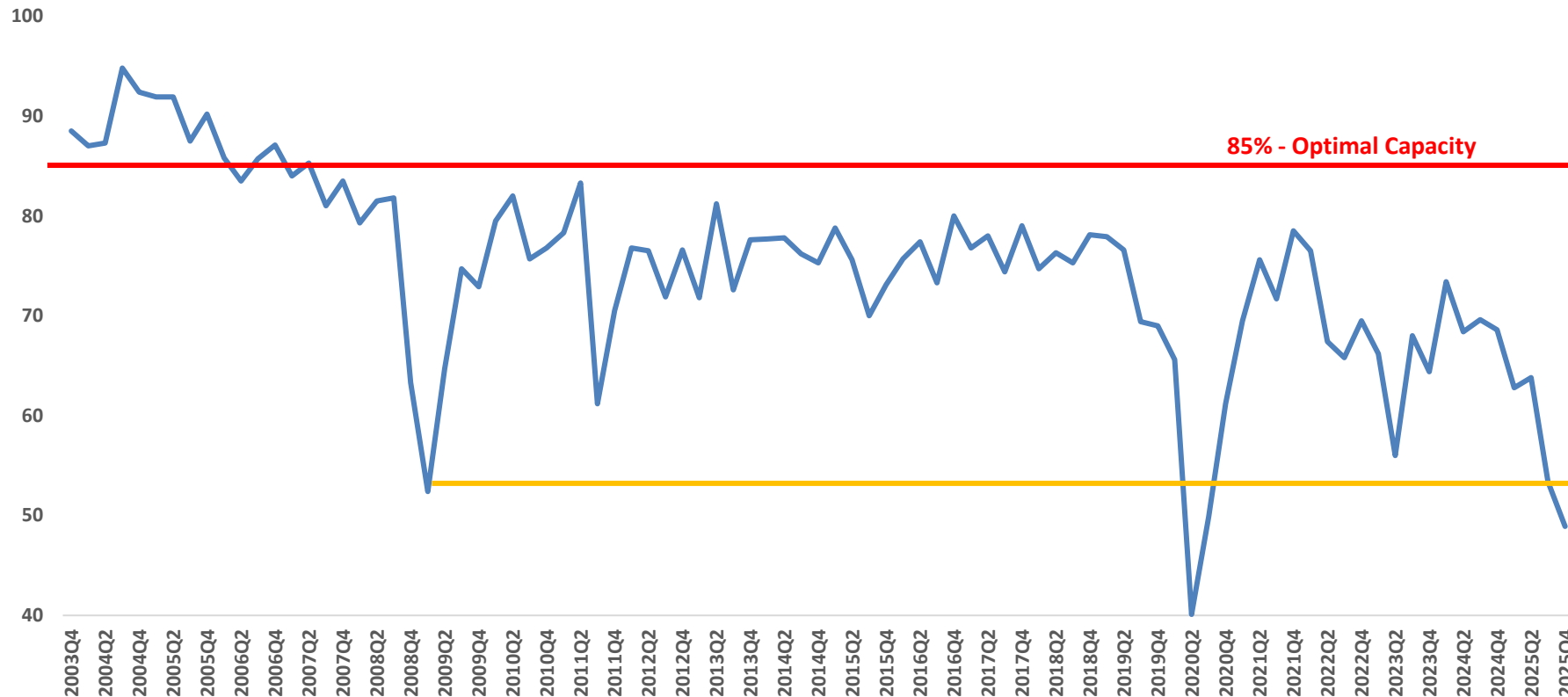


- In 2025, all the sub-sectors recorded capacity utilisation outcomes less than optimal capacity.
- Very weak capacity for a capital intensive sector
- Notably directional trend of the overall sectors capacity utilisation which has continued to deteriorate away from full capacity.
- Of most notable concern is the basic iron and steel capacity utilisation.



Capacity Utilisation – Basic Iron and Steel

- Q4 2025 utilisation at 48%.
- This is crisis-level conditions comparable to the 2008/9 financial crisis
- Since 2022 trend has structurally tended downward
- This utilisation materially undermines cost recovery, investment viability and presents adverse price implications for the downstream
- Elevated risk of permanent capacity loss, consolidation and job erosion

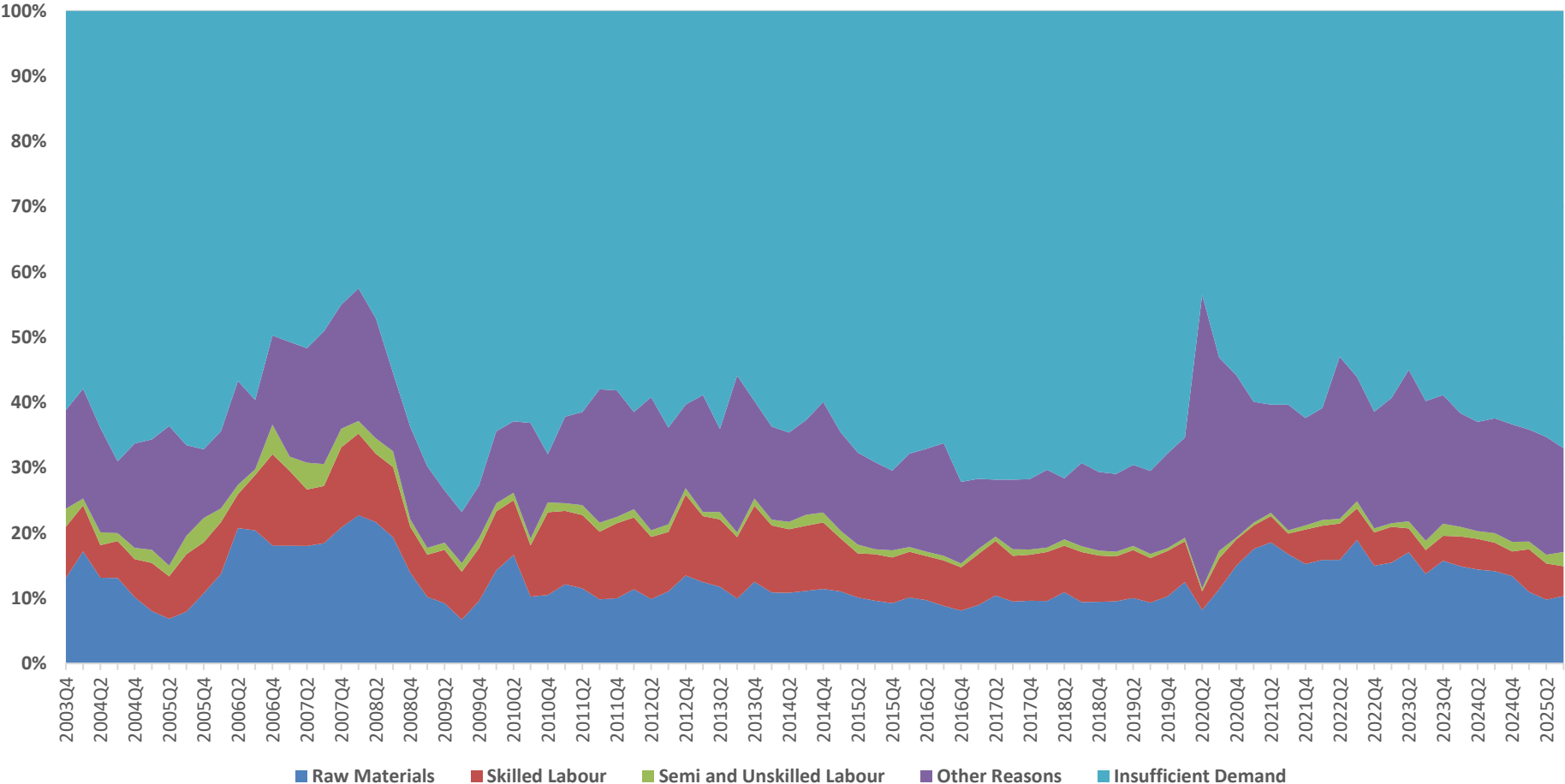




STRUCTURAL REALITIES

Capacity Under-Utilisation

- Insufficient demand is by far the dominant reason for under-utilisation, consistently accounting for between 50 and 60 percent of capacity being idle.
- More than half of all unused capacity is explained not by supply-side constraints, but by weak demand.
- This implies that the sector has capacity to produce more, but the economy is not generating sufficient demand to absorb the output.
- And – if the other factors of production were to be solved for, this would still not compensate for the weak demand

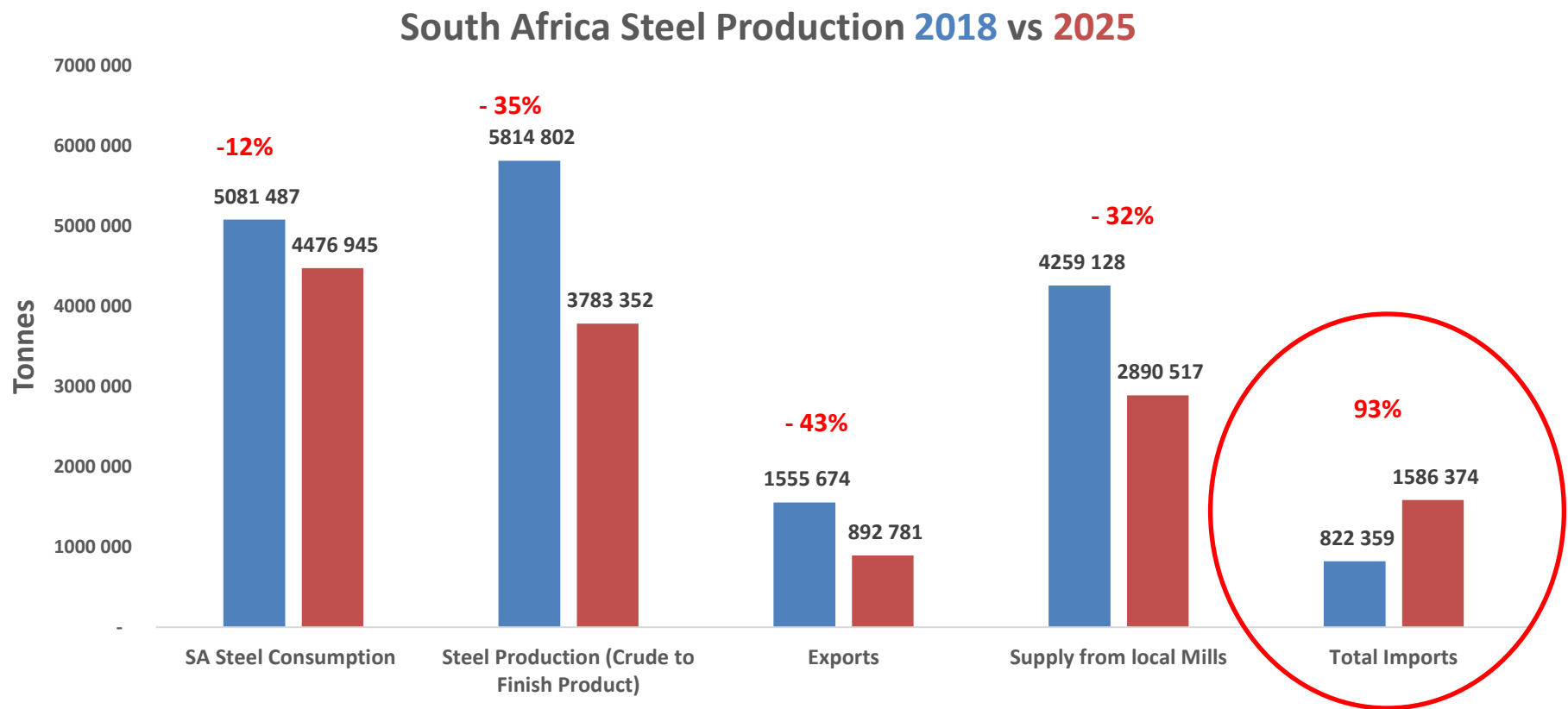


Source: Stats SA

The Problem Statement

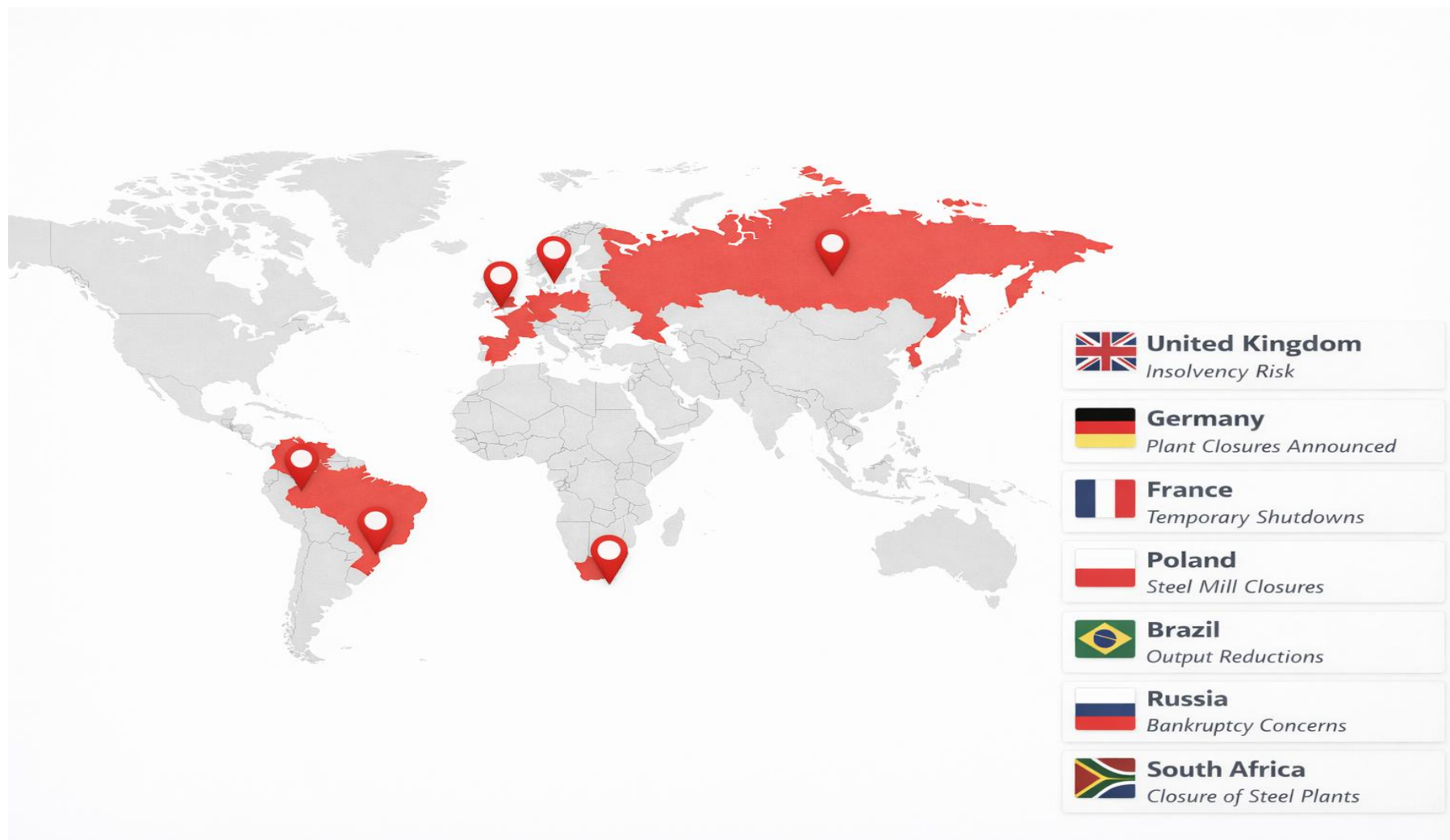
- The country's steel consumption is declining (-12%)
- Production from local mills has declined (-32%)
- **While imports have increased (93%)**
- The data below is based on steel production; however, the trend is replicated across the entire metals and engineering value chain

Domestic production is being displaced by imports in a context of weak demand and rising costs.



International – Steel Crisis

- Global crude steel production down 2.0% in 2025 to 1 849 million tonnes
- Chinese steel exports reached a record 119 million tonnes (up from 111 million tonnes in 2024)
- Ongoing global supply imbalance continues to weigh on producers worldwide





2026 OUTLOOK

Structure of the Market (Macro)

- The market drivers for the sector are;
 - South Africa’s economic performance across the different sectors (60,8%)
 - Export Market (39,52%)
 - Notably the Export/Sales ratio has dropped from 50%/50% over the last 3 years.



		DOMESTIC ECONOMY					EXPORT	
M&E %	=	60,8%					39,2%	
		SA GDP	Primary Sector	Agriculture	6,8%	+	Africa	39,6%
				Mining	21,0%		Asia	24,7%
			Secondary	Basic Iron and Steel	23,3%		Europe	21,8%
				Machinery and Equipment	19,8%		Americas	12,2%
				Chemicals	4,2%		Oceania	1,3%
				Construction	16,7%		Antarctica	0,0%
				Automotive	4,9%		Not Allocated	0,4%
Tertiary	Government (direct)	3,2%						

The Core Argument Underpinning the Outlook



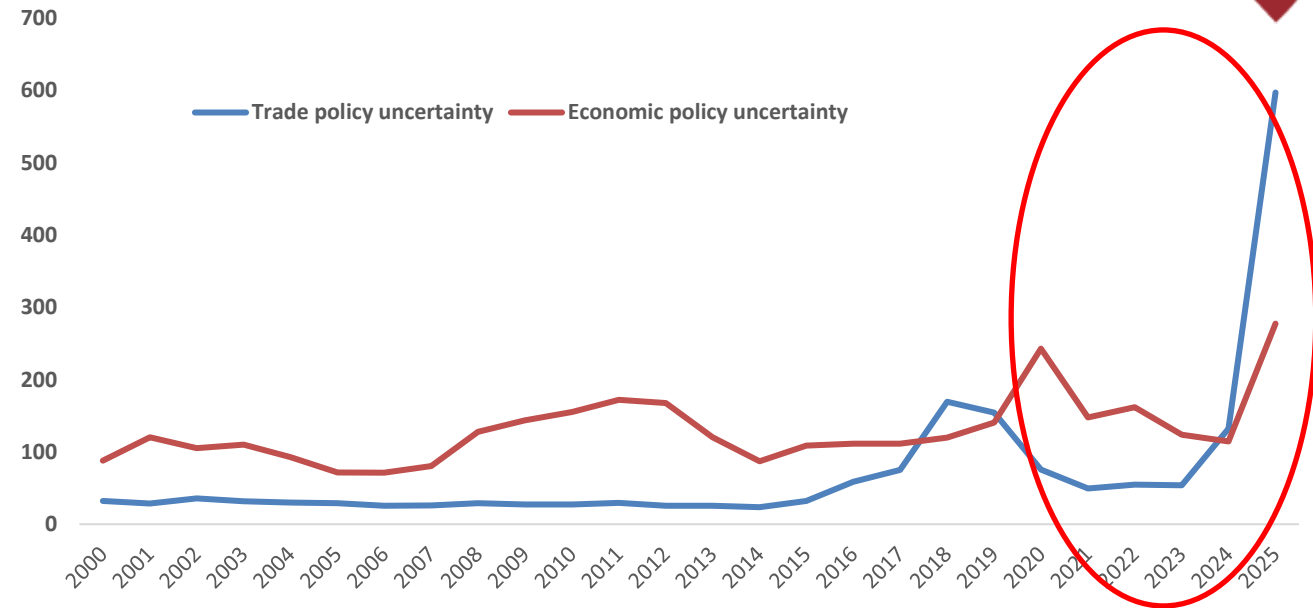
- **The global economy has entered a structurally different policy regime: the age of industrial policy.**
 - Trade, climate, security, and resilience objectives are now embedded directly into economic strategy.
 - Economic cycles will increasingly be shaped as much by policy architecture as by traditional market fundamentals.
- **Domestically, South Africa's developmental state model has reached its fiscal and operational limits (IMF, 2026);**
 - The traditional developmental state model, premised on state-led capital formation and allocation, is now constrained by debt, public balance sheet pressures, and institutional capacity limitations.
 - Social expenditure and debt servicing have crowded out limiting discretionary space for large-scale industrial stimulus.
- **The metals and engineering sector is therefore operating within and must navigate this dual and adverse reality of heightened constraints**
- Infrastructure investment (both repair and expansion) represents the demand “tide that lifts all boats” and in this context the enacted PPP reforms (which are bold and decisive) constitute the most credible institutional response to present realities.



Global = Export Markets

International

- Global growth ~3.1% in 2026
- Advanced economies ~1.5%
- Emerging market and developing economies just above 4%
- Sub-Saharan Africa growth ~4.1% in 2025 with modest pickup in 2026
- The level of economic uncertainty is (mostly from trade) is causing a considerable pressure on policy makers and how they should respond

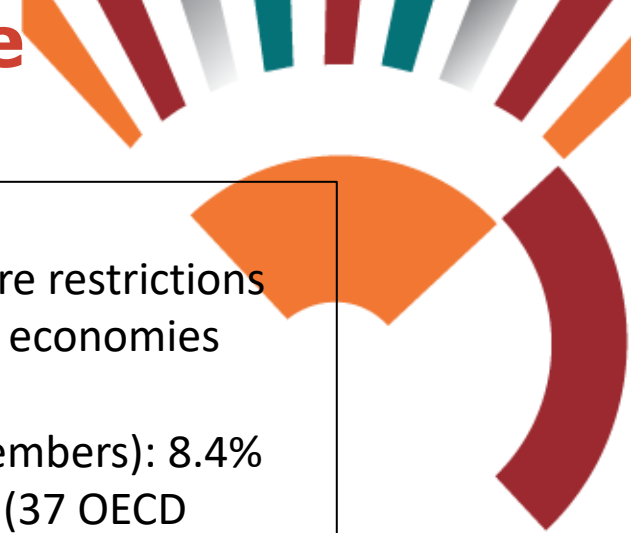


The Industrial Policy Era

- Economic policy is increasingly being written around security of supply, technological sovereignty, energy transition, and resilience, not just comparative advantage and lowest-cost sourcing.
- In practice, that means states are actively shaping industrial structure (through subsidies, procurement rules, localisation, standards, and export controls) and, as a by-product, raising frictions in trade.
- This is not a short-term “cycle”. It is a new policy regime because it is anchored in 4 durable forces:
 - Geopolitical fragmentation and strategic competition
 - Post-pandemic resilience logic
 - Climate industrialisation
 - Domestic political economy cycles



The Industrial Policy Era – Trade Friction on the rise



Globally

- Global trade policy environment remains “unsettled” with interventions in 2025 on track to exceed 2023–2024 levels
- Clear pivot back toward tariff increases, alongside expanding procurement and localisation requirements
- Policy outcomes are increasingly shaped by state intervention rather than market forces
- Export restrictions have risen since 2020 with trade coverage of new measures estimated at ~1.1% of world exports

Global South

- Intra-BRICS trade subject to more restrictions than trade among Global North economies
- Average tariff rate (10 BRICS members): 8.4% compared to average tariff rate (37 OECD members, excluding US): 1.1%
- In 2024, 235 anti-dumping and anti-subsidy measures among BRICS members, compared to 124 measures among OECD members (excluding US)

Collectively

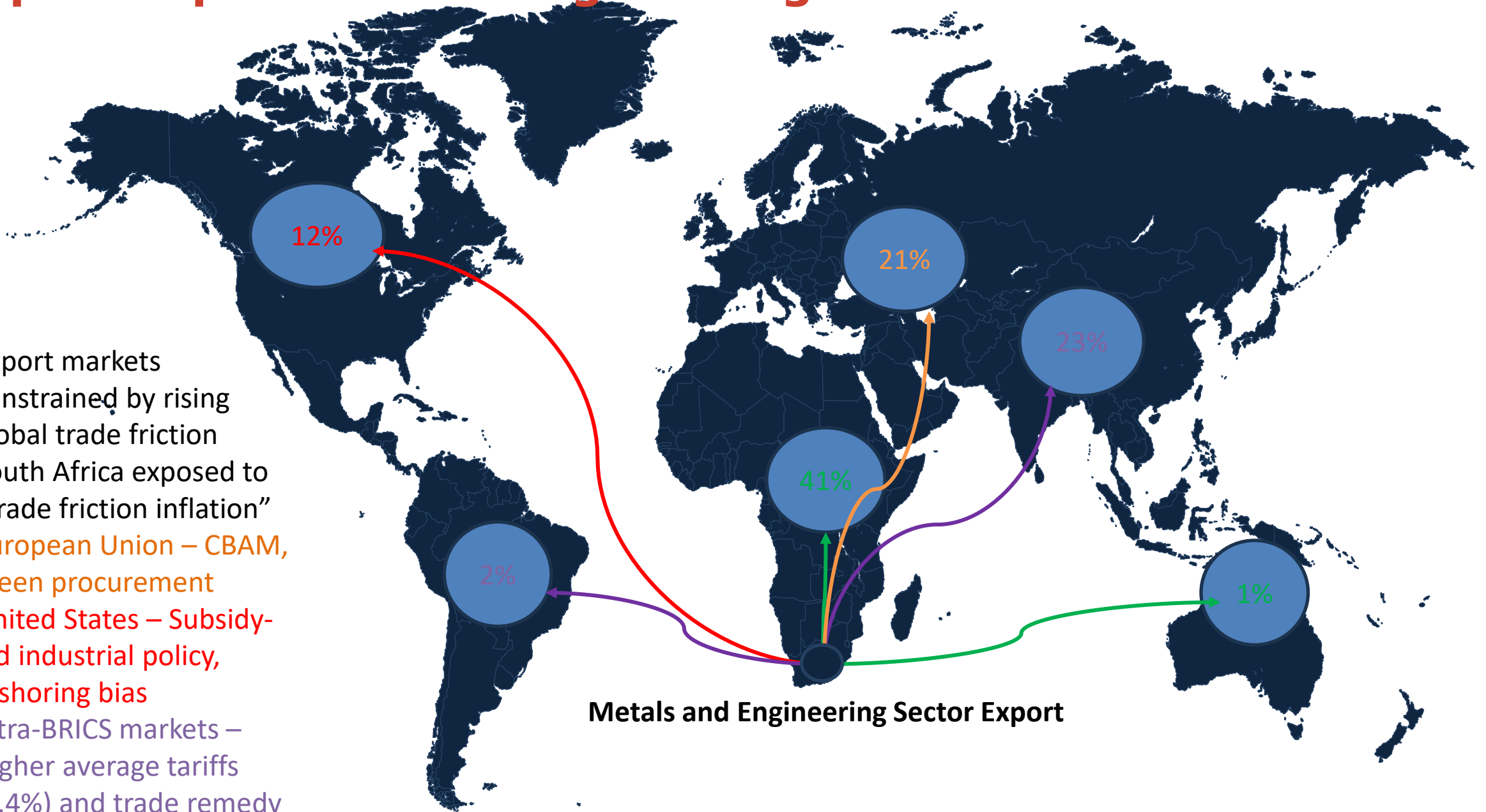
- Trade friction is intensifying and now systemic rather than episodic
 - The multilateral trading system is fragmenting (not yet collapsed)
- Trade friction is rising across both North–South and South–South corridors

Export Exposure in a Fragmenting Global Trade Order

- Export markets constrained by rising global trade friction
- South Africa exposed to “trade friction inflation”
- European Union – CBAM, green procurement
- United States – Subsidy-led industrial policy, reshoring bias
- Intra-BRICS markets – Higher average tariffs (8.4%) and trade remedy measures

Metals and Engineering Sector Export

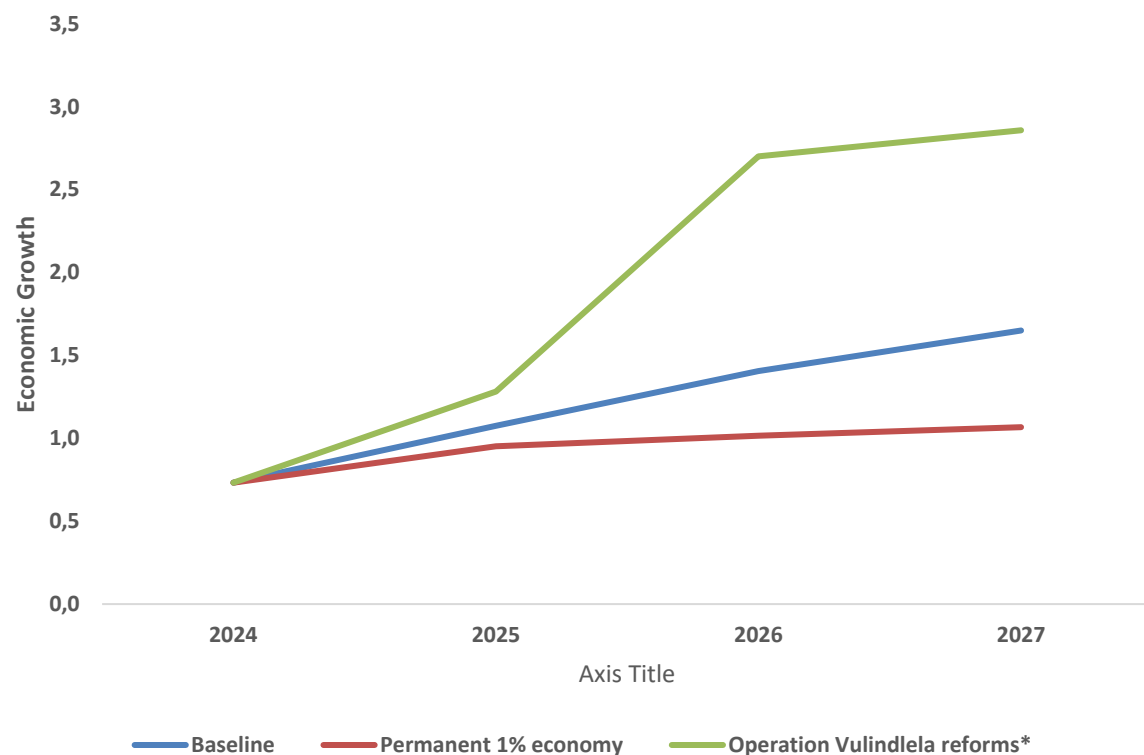
Source: SEIFSA, SARS Customs





South Africa

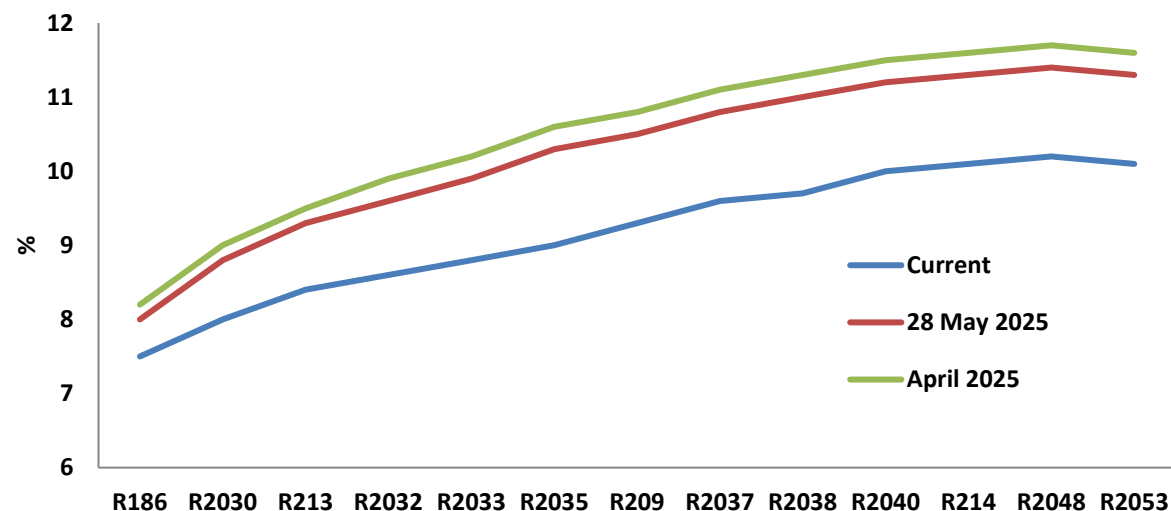
Economic Growth Scenarios



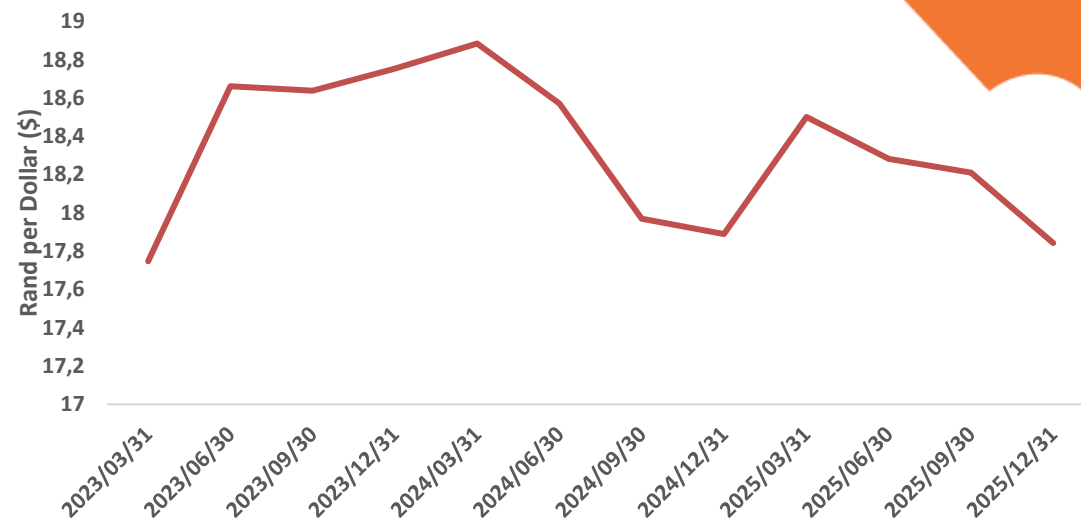
- A joint reform initiative between the Presidency and National Treasury
- Established to accelerate implementation of priority structural reforms
- Focused on removing barriers that constrain economic growth and private investment – fixing the institutional pillar of the economy
- Acts as a “reform delivery unit” driving execution across government departments
- Operation Vulindlela’s purpose is to unblock, coordinate, and accelerate these reforms
- The focus on repairing Institutional Pillar is critically important and starting to bear fruit

Reform based Repair Starting to take shape

South African Bond Yield Curve



ZAR/USD\$ Ex Rate



SA's market surge adds R5-trillion in value

Broad-based momentum is converting into a strong pipeline of deals and JSE listings

November 17, 2025 at 05:00 am

ECONOMY **PREMIUM**

S&P upgrades SA's credit rating for the first time in two decades

First rating upgrade from the agency since 2005 puts S&P in line with Moody's for the first time in years

November 14, 2025 at 11:32 pm

The Developmental State Has Reached its limits

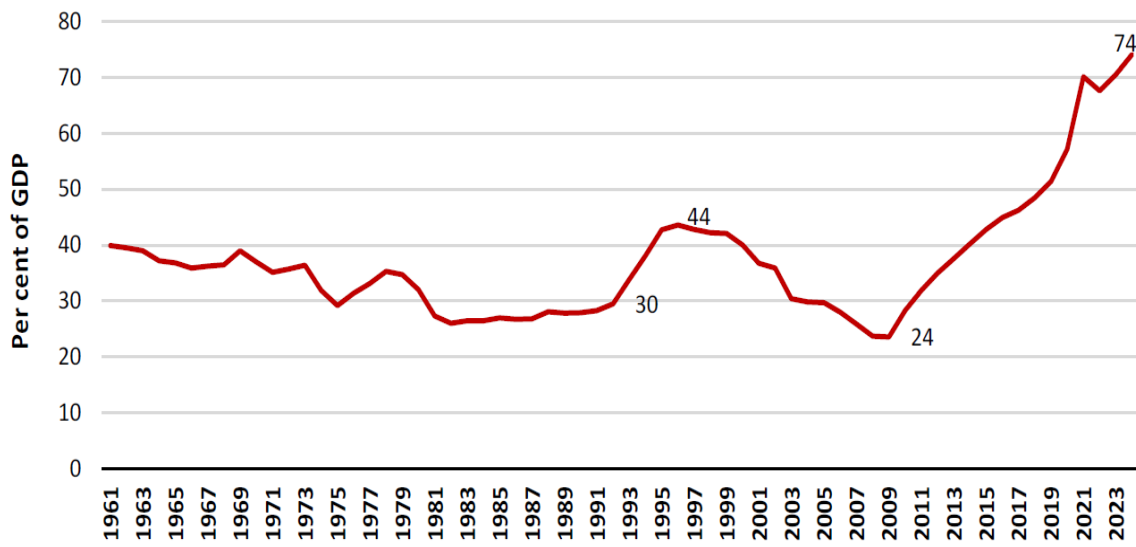


- South Africa's developmental state played a strategic role in institution-building and early industrialisation, **but its financing model and institutional design have reached structural limits**
- IMF analysis signals a financial and operational inflection point where **state-led risk assumptions that are increasingly unsustainable**
- The current model has constrained long-term growth momentum because;
 - The model anchored in direct state control resulted in inefficient capital allocation.
 - The state assumed disproportionate financial and operational risk, concentrating liabilities on the public balance sheet
 - Commitments were often announced without credible funding mechanism
 - High contingent liabilities and limited fiscal buffers reduce space for new expenditure
- Replicating the traditional **“state builds, state pays”** model is no longer tenable under current fiscal and institutional constraints

The Developmental State Has Reached its limits



Figure 1: Gross debt to GDP, fiscal years, 1960/61 to 2023/24



Source: National Treasury

- Increasing debt-service burdens are crowding out spending on infrastructure, maintenance and growth-enhancing investment
- The fiscal position reflects a model where the state has absorbed expanding financial risk, with limited corresponding growth returns
- This traditional debt-financed developmental model is no longer fiscally sustainable and constrains future policy flexibility

Figure 2 South Africa's debt trajectory compared with peers*

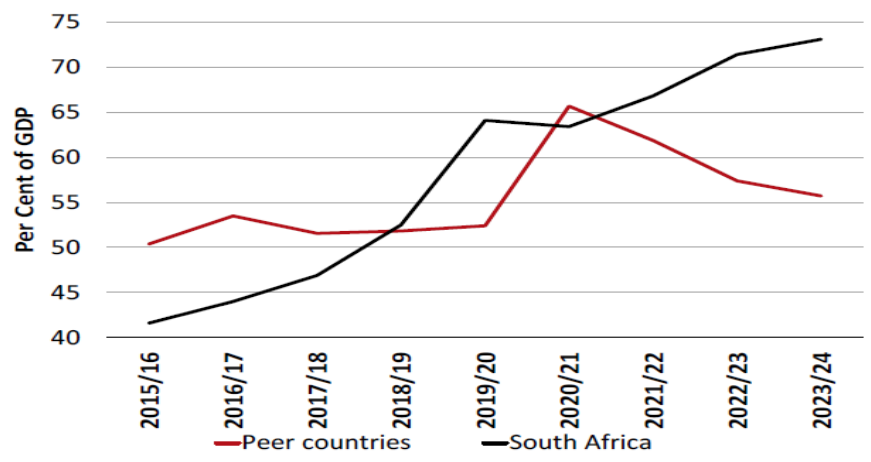
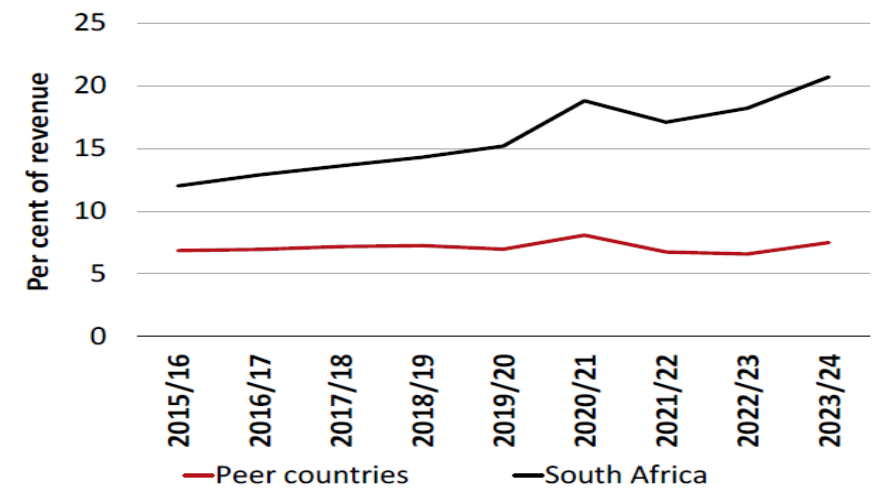


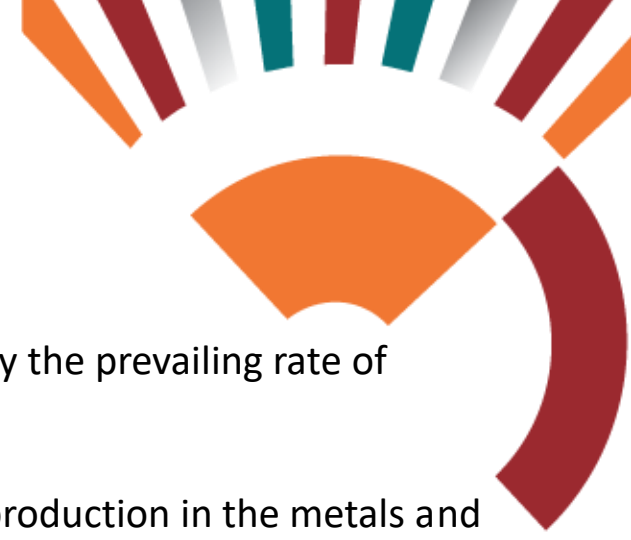
Figure 3 South Africa's debt service costs compared to peers*



* Consists of 94 emerging market economies

Source: National Treasury

The relationship between Economic Growth and the Metals and Engineering Production

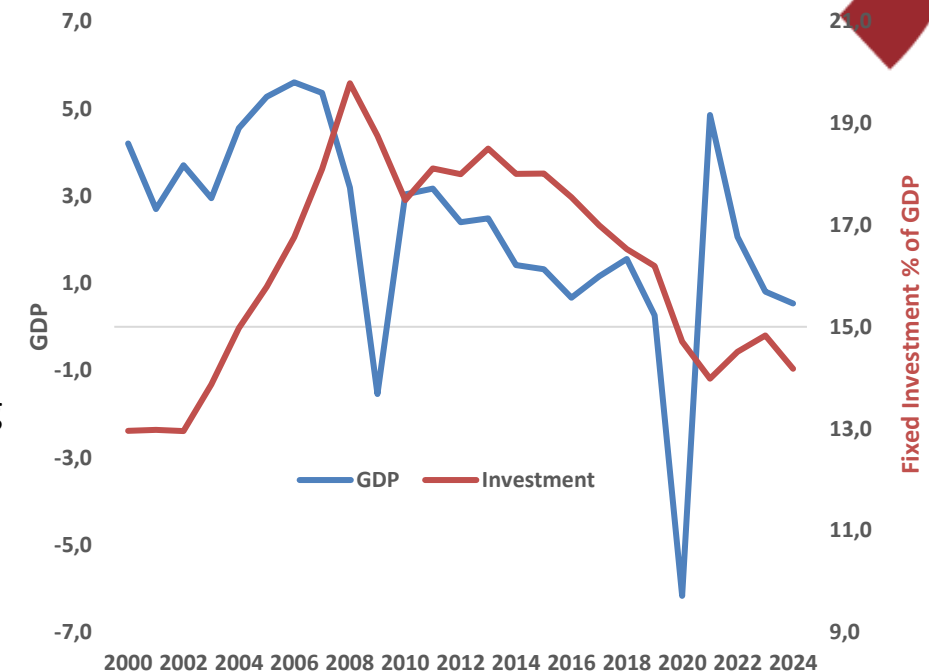


- The metals and engineering sector is a **coinciding indicator** in that its fortunes are directly influenced by the prevailing rate of economic growth.
- Over the past decade, South Africa's economic growth has averaged 0,9% to 1%, and correspondingly, production in the metals and engineering sector has contracted at a rate of 1,2% on a compound basis.
- Estimates indicate that at an economic growth rate **of 2,5% to 3%** steel consumption (and by implication production) expands. Notably, the growth target that the GNU has set for itself is 3%.
- Important to note here;
 - There is historic precedence of this relationship where between 2000 and 2007/8, when South Africa's economic growth rate averaged 3,5% - 4%, metals and engineering production expanded at a rate of 4,5% (CAGR)
 - **At a sub 1% economic growth rate (as per the last decade) metals and engineering production actually contracts.**

Fixed Investment is the most critical indicator

Gross Fixed Capital Formation (GFCF)

- The ratio of Fixed investment to GDP at the current 12% is insufficient to lift economic growth.
- A rate of 30% fixed investment to GDP (at a minimum) is required.
- Importantly, the metals and engineering sector will be a direct beneficiary of this type of investment.
- However, GFCF is a function of two critical elements
 1. Public sector investment – however the public purse is fiscally constrained. Apart from historic financial mismanagement, the current structure of spending 60% of the national budget on the social wage is not optimal for economic growth
 2. Private sector investment – is primarily a function of confidence. The current weak investment confidence, which is a function of;
 - Poor policy implementation and not following through on commitments – example is the long- awaited infrastructure spend that has not materialized

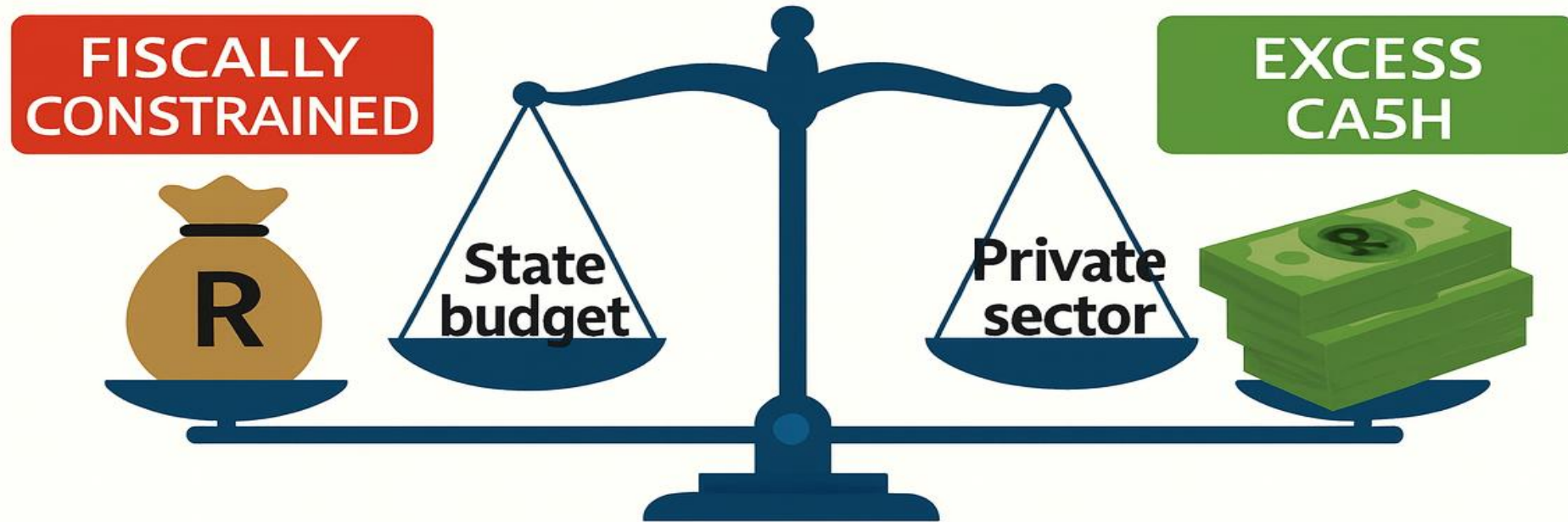


Unlocking Infrastructure as a Growth Multiplier



- Infrastructure drives growth only when supported by efficiency, execution credibility and financial sustainability — spending alone is insufficient
- Infrastructure programmes that rely solely on public balance sheet expansion risk increasing debt without generating proportional economic multipliers
- Unfunded or weakly structured commitments can exacerbate fiscal stress, raise risk premia and deter private investment
- To unlock growth-enhancing infrastructure investment, conditions must include:
 - Strong project preparation and execution frameworks
 - Transparent governance and predictable procurement
 - Risk-sharing structures that crowd in private capital
 - Bankable pipelines aligned with long-term fiscal sustainability
 - Imperative: shift from state-funded infrastructure expansion to credible, blended and partnership-driven investment models

PUBLIC-PRIVATE PARTNERSHIPS **are the most effective way to** **develop infrastructure**



Strengthening the PPP framework:

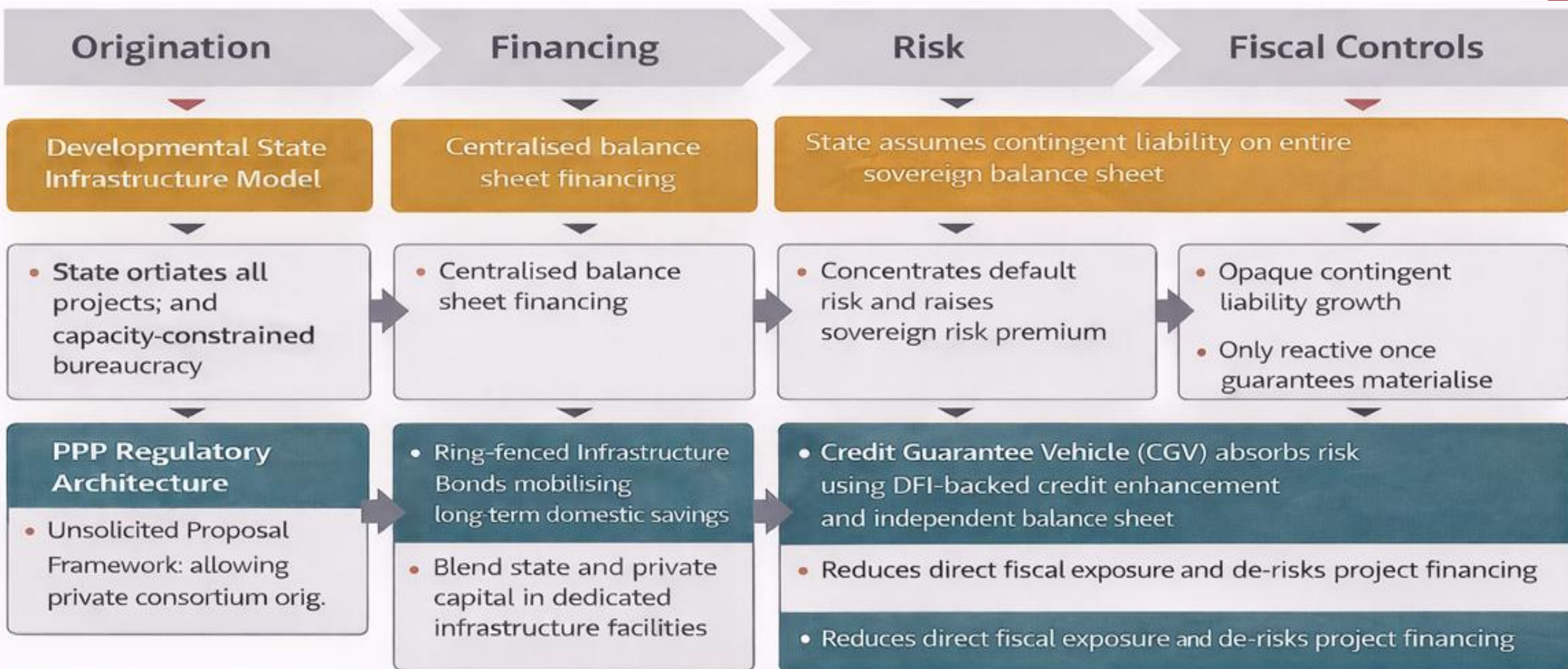
Budget
Facility for
Infrastructure
(R15 billion)

Credit
Guarantee
Vehicle

Unsolicited
Proposal
Framework

Fiscal
Commitments
and Contingent
Liabilities (FCCL)

Developmental State vs PPP Regulations in action



Risks to look out for in



1. Infrastructure Reform Not Translating into Demand (Primary Risk)

- Energy and logistics reforms are improving the operating environment, but not yet converting into quality of order books for companies in the M&E Sector
- Without execution, the transmission into industrial demand remains weak, limiting recovery momentum.

2. Electricity Affordability and Pricing Uncertainty

- While supply has stabilised, electricity tariffs have risen structurally above inflation.
- Regulatory uncertainty (NERSA) and pricing volatility now threaten competitiveness, margins and investment planning in an energy-intensive sector.

3. Policy Decision Delays (2025 Consultation Fatigue). Prolonged indecision erodes credibility and delays capital allocation

- Extensive consultations during 2025 have not yet translated into decisions, creating planning paralysis. Key areas include
- Tariff reviews (steel and renewable energy)
- Price Preference System (PPS)

4. Public Procurement Framework Uncertainty

- Interim arrangements are disrupting localisation enforcement and investment planning.
- Instability in procurement policy weakens one of the state's most powerful industrial policy levers.

Risks to look out for in



5. Municipal Service Delivery Deterioration

- Water reliability failures, wastewater constraints and above-inflation municipal tariffs impose rising hidden costs. Firms are increasingly self-providing utilities, raising operational expenditure and weakening productivity.

6. Intensifying Global Geopolitical and Trade Pressures

- Industrial policy instruments — tariffs, subsidies, localisation rules and supply chain security measures — are increasingly deployed geopolitically. For an open economy, rising trade friction threatens export markets and investment flows.

7. Public–Private Partnership (PPP) Design Risk Emerging PPP frameworks risk

- over-emphasising lowest-cost criteria without embedding domestic capacity development.
- If not structured carefully, programmes may crowd in capital fiscally, but fail to catalyse industrial deepening or strengthen local capability.

Conclusion

- The metals and engineering sector is operating in a structurally different global and domestic environment.
- Growth, not capacity, is the decisive constraint and in an era of rising trade friction, the domestic economy must now do the heavy lifting for sustainability.
- The traditional developmental model has reached its limits and a new investment architecture is required.
- In South Africa's context, infrastructure repair and expansion alone is sufficient to anchor a durable demand base and, as a developing economy, the runway for catch-up investment remains substantial.
- The principal risk is not reform failure, but reform without execution — policy drift, procurement instability, rising administered costs and intensifying global trade fragmentation could entrench stagnation.
- 2026 should not be about managing the decline but about converting reform into sustained domestic demand and the long-term industrial base



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Annextures

SEIFSA Industrialisation Framework

This industrial policy must be premised on the following considerations:

- **Private-public partnership** - private-public partnerships provide an ideal and collaborative approach to policy formulation and execution.
- **Incentives not penalties** - policy instruments should have at their core an incentive as opposed to a penalty to their formulation.
- **Cost competitiveness** - ensure that the costs of doing business in South Africa remain as low as possible.
- **Demand signalling through strategic procurement** - support clear communication of demand pipelines
- **Evidence-based policy** - advocate for policies supported by comprehensive cost-benefit analyses across society.
- **Strategic trade policy** - move beyond import replacement to a focus on fostering industrial growth and export competitiveness.
- **Constant policy review** - regularly assess existing policies to evaluate their effectiveness, costs and unintended consequences. Where it is determined that a policy is not working, it should be stopped, while successful initiatives should be accelerated.





PPP Regulations in Action - Project Identification & Origination

Developmental State Logic (Infrastructure Model)

- State centrally identifies infrastructure needs across the full spectrum: national grid expansion (mega-scale), bridges, rural roads, and municipal infrastructure (micro-scale).
- Pipeline formation is state-driven, often capacity-constrained and politically sequenced.
- Project preparation burden sits entirely with the state.
- Risk of weak feasibility, delayed preparation, and fiscal mis-prioritisation.

PPP Regulatory Solve (New Framework)

- **Unsolicited Proposal Framework** allows private consortiums to originate projects.
- Consortium undertakes early-stage feasibility, financial modelling, and risk scoping before submission.
- Project submitted to the central infrastructure aggregator for structured escalation.
- Project is competitively tendered; originating consortium may bid.
- If unsuccessful, verified early-stage development costs are reimbursed.
- Shifts origination from bureaucratic sequencing to market-tested feasibility discipline.

PPP Regulations in Action - Financing Model – State as Primary Capital Allocator



Developmental State Logic (Infrastructure Model)

- State assumes role of principal financier across macro and micro projects.
- Centralised capital allocation faces natural constraints: fiscal limits, competing priorities, debt sustainability ceilings.
- All projects compete within a constrained sovereign borrowing envelope.
- High probability of fiscal exhaustion and crowding out.
- Infrastructure becomes hostage to budget cycles.

PPP Regulatory Solve (New Framework)

- **Infrastructure Bonds / Budget Facility for Infrastructure** introduced to ring-fence infrastructure financing.
- Dedicated infrastructure funding instruments mobilise long-term domestic savings.
- Moves from pure balance-sheet financing to blended, capital-market mobilisation.
- Ring-fenced funding pools reduce general fiscal leakage and enhance capital allocation discipline.
- Signals structural shift from “state pays” to sustainable infrastructure capital markets architecture.

PPP Regulations in Action - Risk Absorption & Sovereign Guarantees



Developmental State Logic (Infrastructure Model)

- State acts as implicit or explicit guarantor.
- Full default and termination risk absorbed onto sovereign balance sheet.
- Contingent liabilities accumulate and migrate to sovereign debt metrics.
- Cost of capital elevated due to concentrated sovereign risk perception.

PPP Regulatory Solve (New Framework)

- **Credit Guarantee Vehicle (CGV)** replaces traditional sovereign guarantees.
- Structured credit enhancement mechanism reduces direct fiscal exposure.
- Risk allocation clarified between public and private actors.
- De-risks projects to preserve bankability while lowering sovereign contingent exposure.
- CGV majority-owned by Development Finance Institutions, minority state stake.
- Independently governed, regulated by Prudential Authority.
- Operates as independent non-life insurance entity.
- Reduces sovereign risk premium and improves financing terms.

PPP Regulations in Action - Contingent Liability Management & Fiscal Discipline

Developmental State Logic (Infrastructure Model)

- Contingent liabilities often underpriced or ignored until crystallisation.
- Projects approved without quantified demand, currency, refinancing, or political risk modelling.
- Fiscal exposure only becomes visible at stress points.
- Sovereign balance sheet gradually weakened by opaque guarantees.
- Rising sovereign risk premium increases cost of capital economy-wide.

PPP Regulatory Solve (New Framework)

- **Fiscal Commitment & Contingent Liability Framework** institutionalises ex-ante risk assessment.
- Standardised risk taxonomy applied across all projects.
- Mandatory quantification rules and approval gates.
- Projects rejected if fiscal risk thresholds breached.
- Active contingent liability management preserves fiscal credibility.
- Lower sovereign risk premium reduces long-term discount rates.
- Lower discount rates materially improve infrastructure project viability and NPV profiles.

