

Absa Purchasing Managers' Index

August 2020

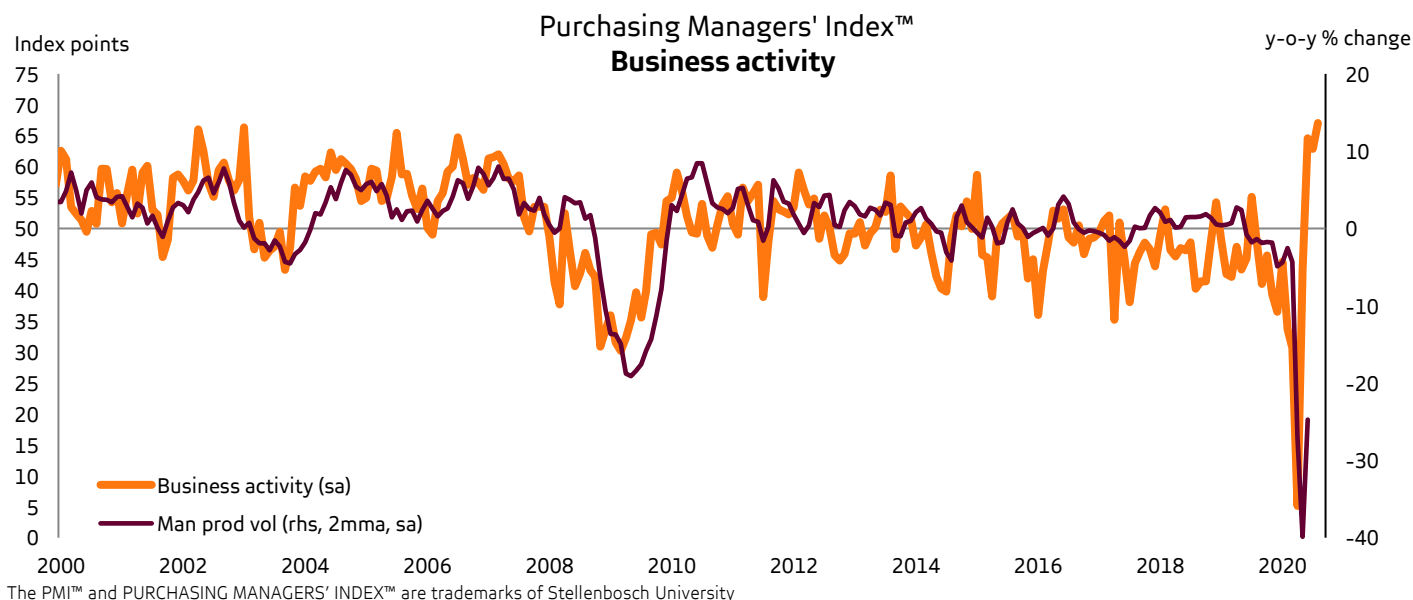
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The **Absa Purchasing Managers' Index (PMI)** posted a robust increase to 57.3 index points in August, up from 51.2 in July. This points to a further improvement in conditions in the manufacturing sector as South Africa's COVID-19 lockdown restrictions eased further to Level 2 in August. As a result, both **business activity** and **new sales orders** rose in August. The improvement in demand was not only due to South Africa moving to a lower lockdown level, but was also supported by an uptick in export orders.

Crucially, while the level of the PMI is now well above pre-pandemic levels, this is unlikely to be the case when the actual manufacturing activity data for August is released later. The performance of the PMI during lockdown has shown that the level of the headline index is arguably less informative than the month-on-month movements. This is both in terms of the direction (up or down) and the magnitude of the monthly change. Actual manufacturing activity (production) crashed in April, but subsequently recorded strong monthly increases in May and June as foretold by the uptick in the PMI's activity index in those months. The PMI suggests that the recovery stalled in July, but likely found renewed momentum in August. Given the magnitude of the drop recorded in April, and the continued restrictions placed on the manufacturing sector until recently, as well as social distancing measures possibly still preventing many factories from returning to full capacity currently, it will take months of strong month-on-month growth to return to the actual level of activity recorded prior to the start of the nationwide lockdown in late March.

Production levels in some subsectors may indeed be back (or even exceed pre-COVID levels) in August, but overall activity is likely to still be lower. Indeed, while activity and demand are clearly recovering from extremely low levels, the **employment index** remains significantly more subdued. This also underscores the point that the uptick in activity is not resulting in output that exceeds current production capacity. The **inventories** and **employment** indices continue to be the main drag on the headline PMI.

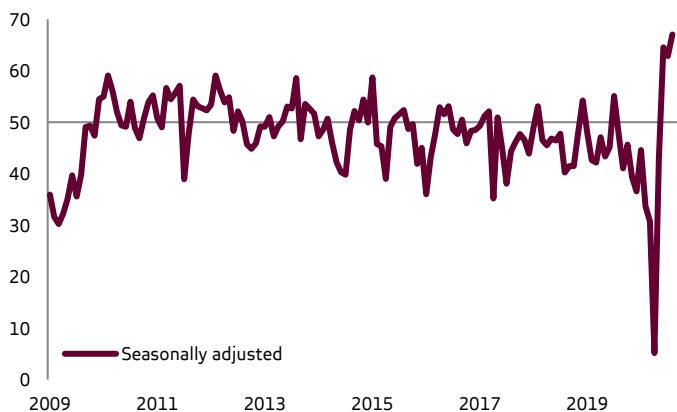
Despite the level of the PMI more than likely overstating the extent of the recovery, the renewed increase in the PMI in August is encouraging, especially as it seems to be supported by both local and export demand improving. Furthermore, purchasing managers have turned notably more optimistic about future business conditions. The index tracking **expected business conditions in six months' time** rose to the highest level in about 18 months.



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The PMI is an economic activity index based on a survey conducted by the Bureau for Economic Research (BER) and sponsored by Absa. Although reasonable professional skill, care and diligence are exercised to record and interpret all information correctly, Stellenbosch University, its division BER, the author(s)/editor and Absa (inclusive of its affiliates and/or subsidiaries) do not accept any liability for any direct or indirect loss whatsoever that might result from unintentional inaccurate data and interpretations provided by the BER, as well as any interpretations by third parties. Stellenbosch University and Absa further accept no liability for the consequences of any decisions or actions taken by any third party on the basis of information provided in this publication. The views, conclusions or opinions contained in this publication are those of the BER and do not necessarily reflect those of Stellenbosch University or Absa. Absa is an authorised financial services provider and registered credit provider reg no NCRCP7.

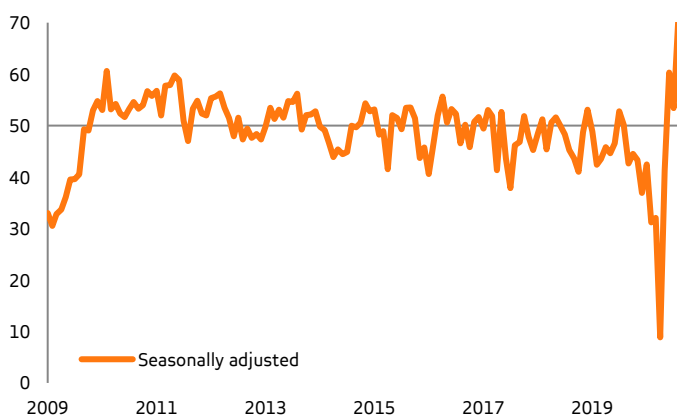
PMI: Business activity



After a drop in July, the **business activity index** rose by 4.1 index points in August. This suggests that official production likely recorded a month-on-month uptick. Crucially, while the level of the business activity index is now well above pre-pandemic levels, this does not mean that the level of actual manufacturing activity is back to those levels. Given the magnitude of the drop recorded in April, it will take months of strong month-on-month growth to return to the level of activity recorded prior to the start of the nationwide lockdown in late March.

	Jun	Jul	Aug
Business activity	64.6	62.9	67.0

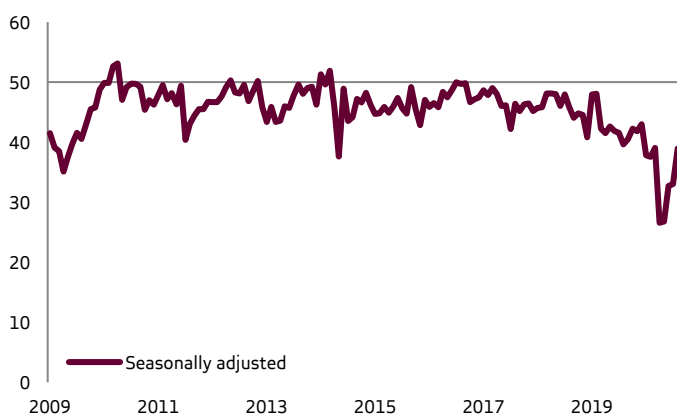
PMI: New sales orders



After falling back somewhat in July, **new sales orders** rose sharply in August. This was likely driven by the lockdown shifting to Level 2 which allowed for more of the local economy to open during the last two weeks of the month. More normal trading conditions in the hospitality industry (although still far from pre-pandemic levels) and the end of the alcohol ban likely benefitted producers not only in the food and beverages subsectors, but also those supplying these subsectors. In addition to local demand picking up, respondents noted a strong uptick in export orders.

	Jun	Jul	Aug
New sales orders	60.3	53.4	71.1

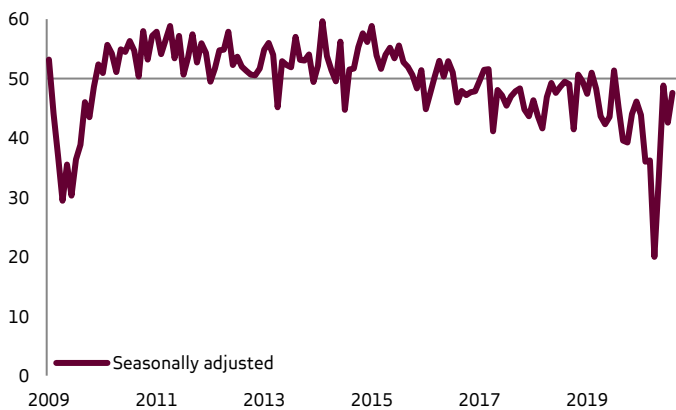
PMI: Employment



The gap between the activity and demand indices on the one hand and the **employment index on the other** remains very large. This suggests that while activity is picking up on a monthly basis, manufacturers are still shedding jobs, although the pace of job losses has slowed somewhat.

	Jun	Jul	Aug
Employment	32.7	33.0	39.0

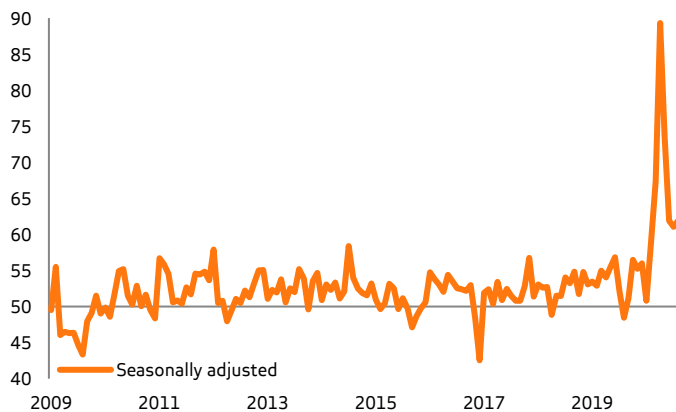
PMI: Inventories



After a 6.2-point decline in July, the **inventories** index rose by 5 points in August. The index has now been below the neutral 50-point mark since July last year.

	Jun	Jul	Aug
Inventories	48.8	42.6	47.6

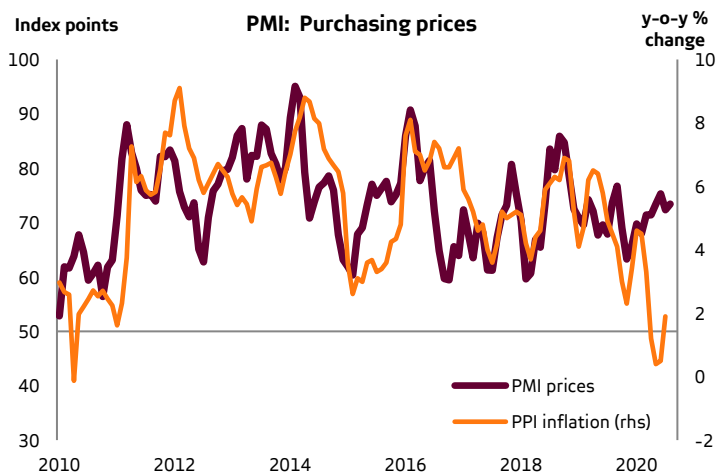
PMI: Supplier deliveries



The **supplier deliveries** index rose back to June's level of 61.9 index points in August. While the level remains high, it is significantly below a peak of 89.3 points reached in April. It is important to explain that this subcomponent is inverted. If goods are less readily available and purchasing performance worsens, this is normally a sign of increased demand for manufactured products. Therefore, such a situation actually lifts the index. However, currently, goods are less readily available due to supply chain disruptions caused by local and global production stoppages and other trade-related disturbances. The still-high level of the index in August thus suggests that supply chains are not yet functioning normally.

	Jun	Jul	Aug
Supplier deliveries	61.9	61.1	61.9

PMI: Purchasing prices



The **purchasing price index** ticked up by 1 index point to 73.4 in August. The price index has been fairly stable of late and the August reading is more or less equal to the average level recorded during the past three months. The relatively muted increase was despite a 45c/litre diesel priced increase at the start of the month.

	Jun	Jul	Aug
Purchasing prices	75.3	72.4	73.4

The PMI is an economic activity index based on a survey conducted by the Bureau for Economic Research and sponsored by Absa. The monthly surveys are conducted under a representative group of purchasing managers in the South African manufacturing sector. These purchasing managers have to indicate each month whether a particular activity (e.g. new sales orders) for their company has increased, decreased or remained unchanged. Diffusion indices are then calculated by taking the percentage of respondents that reported an increase and adding it to one-half of the percentage that reported no change. This results in an index for which a value of 50 indicates no change in the activity, a value above 50 indicates increased activity and a value below 50 indicates decreased activity. The indices are then seasonally adjusted, but no further smoothing method is applied. The headline PMI is calculated as the weighted average of the following indices (weights in parentheses): Business Activity (0.05), New Orders (0.20), Employment (0.20), Supplier Deliveries (0.40) and Inventories (0.15). Note that the inverse of the Supplier Deliveries index is used in the PMI calculation. For more information on the South African manufacturing PMI, the historical data series as well as a description of the questions in the PMI survey, please visit the BER's website (www.ber.ac.za).