

Absa Purchasing Managers' Index

January 2022

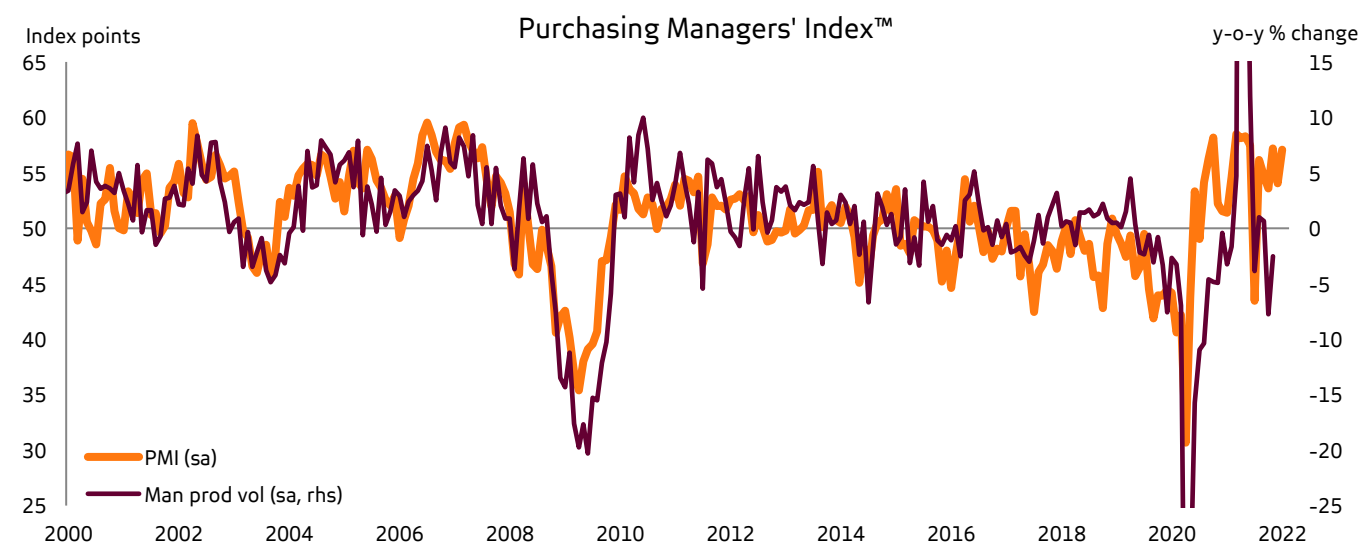
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The seasonally adjusted **Absa Purchasing Managers' Index (PMI)** recovered from December's loss of momentum and rose to 57.1 index points in January 2022, following a dip to 54.1 in December 2021. The current level is in line with November's reading, but above the average recorded in the fourth quarter of 2021 and reflects a strong start to the year for the manufacturing sector.

The improvement in the headline PMI was to a large extent driven by a rebound in the **business activity index**, up from a low 48.7 points in December to 56.6 in January. The series is seasonally adjusted, so it should not merely be a ramp-up in production after a Christmas break that boosted output. Indeed, an improvement in the (also seasonally adjusted) **new sales orders index** suggests that demand looked better. In particular, respondents noted a rise in export sales, which could have boosted output. Further supporting the rise in the headline index was another increase in the **inventories index**. The **employment index**, albeit still below the neutral 50-point mark at 49.2 points, was less of a drag on the headline reading than the month before.

Generally, the PMI and most of the subcomponents rose to November's levels following a decline in December. The forward-looking index paints an even more optimistic picture. The index **tracking expected business conditions in six months' time** rose to an almost four-year high of 71.3 points – this is more than ten points above last year's average reading. Especially amid a likely more challenging global environment of slower real GDP growth and higher interest rates, it is difficult to pinpoint a specific reason that drove the stark improvement in January. Perhaps the rapid downtick in South African COVID cases without the necessity of strict restrictions on activity eased some fears that future COVID waves would directly restrict output growth. With Omicron cases also peaking, or already having peaked, in many of South Africa's trading partners, it could also be expected that export growth improves going forward as demand from the affected services sectors normalises. If sustained, the slight easing of supply chain disruptions in recent months will also be positive for the sector. Another boost to sentiment may come from a bounce back in the local tourism industry following the unwinding of travel bans, aiding manufacturing subsectors with linkages to the hospitality industry.

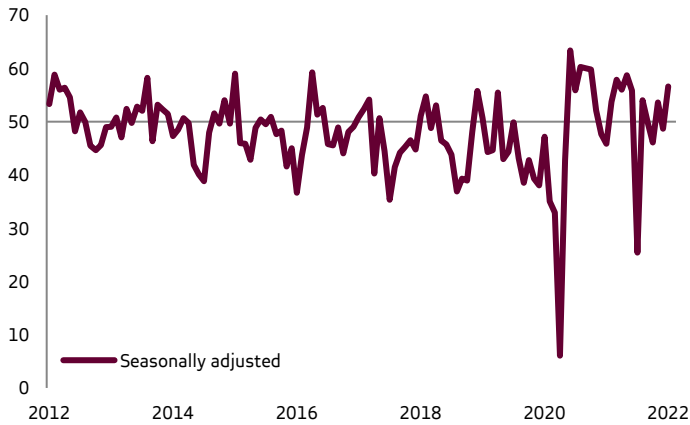
After reaching an almost six-year high last month, the **purchasing price index** nudged only slightly lower and remained high at 88.9 points. The decline in the fuel price at the start of January might explain the slight drop in the index relative to December. If so, the increase in the fuel price effective tomorrow may once again put upward pressure on costs.



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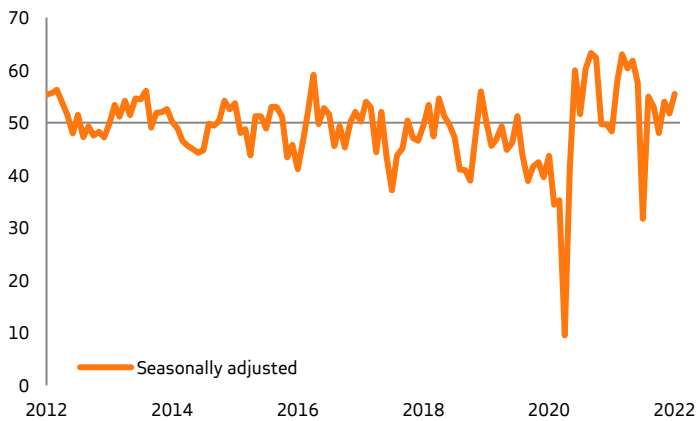
PMI: Business activity



After falling below the neutral 50-point mark in December, the **business activity index** staged a strong recovery in January. The index rose by a solid 7.9 points to 56.6. The series is seasonally adjusted, so it should not merely be the ramp-up in production after the Christmas break that boosted output as that takes place each year and is thus largely accounted for.

	Nov	Dec	Jan
Business activity	53.6	48.7	56.6

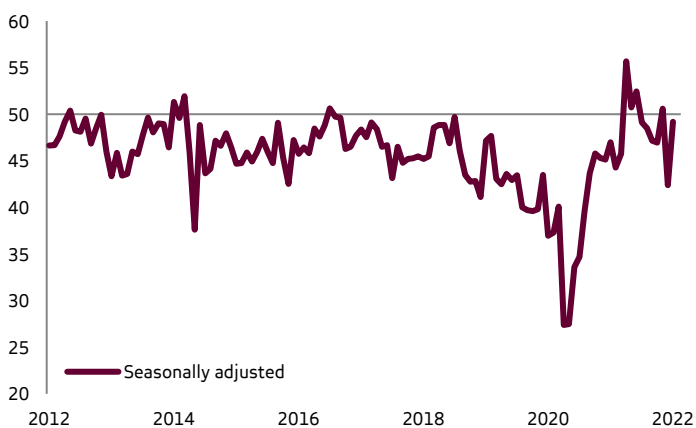
PMI: New sales orders



The **new sales orders index** more than clawed back December's losses as respondents reported a notable improvement in export sales. With many countries now experiencing a peak in Omicron, export sales may continue to perform well as restrictions will be (and have already been) eased and demand from the affected services sectors normalises.

	Nov	Dec	Jan
New sales orders	54.0	51.7	55.5

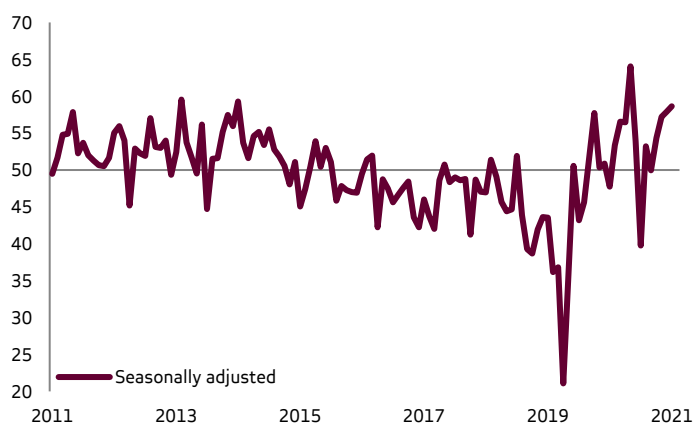
PMI: Employment



As with most of the other indices, the **employment index** also recovered from a decline in December, but unlike the others, was unable to match November's level. As such, the employment index remained stuck below the 50-point mark for a second month.

	Nov	Dec	Jan
Employment	50.6	42.4	49.2

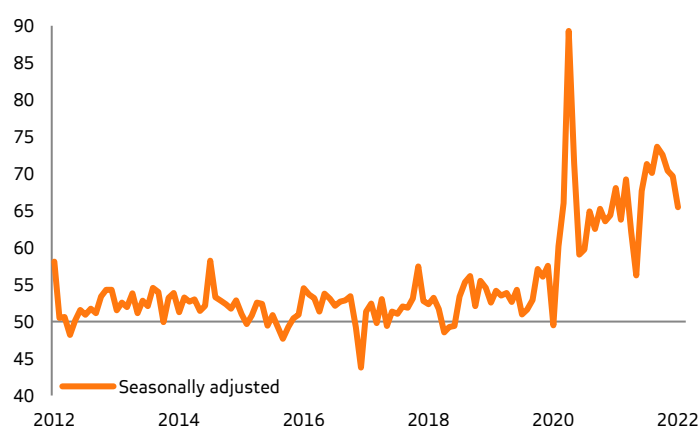
PMI: Inventories



The **inventories index** continued its upward trend and rose for a fourth consecutive month. It remains unclear what exactly is supporting this sustained upward move. A possible reason could be a change in inventory management to pre-emptively stock up more in case of possible shortages and delays a possible reason.

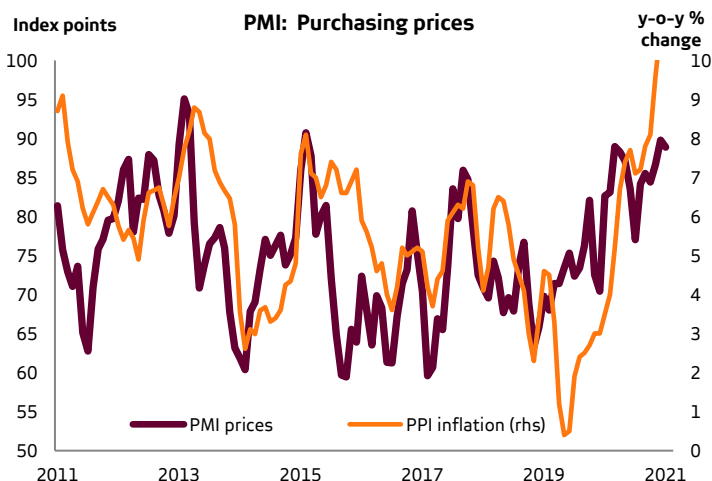
	Nov	Dec	Jan
Inventories	57.2	57.9	58.7

PMI: Supplier deliveries



The **supplier deliveries index** fell for a fourth consecutive month and is now back at a level last seen in 2021Q2. While deliveries remain slow, supply-side bottlenecks may be easing somewhat. However, it seems like specific sectors, such as the automotive industry, remain significantly constrained by shortages. This could inhibit a further improvement in lead times.

	Nov	Dec	Jan
Supplier deliveries	70.4	69.6	65.5



After reaching an almost six-year high last month, the **purchasing price index** nudged only slightly lower. The index remains high and points to a continued rapid acceleration in cost pressures. The decline in the fuel price at the start of January might explain the slight drop in the index relative to December. If so, the increase in the fuel price effective tomorrow may once again put upward pressure on costs.

	Nov	Dec	Jan
Purchasing prices	86.7	89.8	88.9

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 (0.20), New Orders (0.20), Employment (0.20), Supplier Deliveries (0.20) and Inventories (0.20). 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).