

Absa Purchasing Managers' Index

March 2022

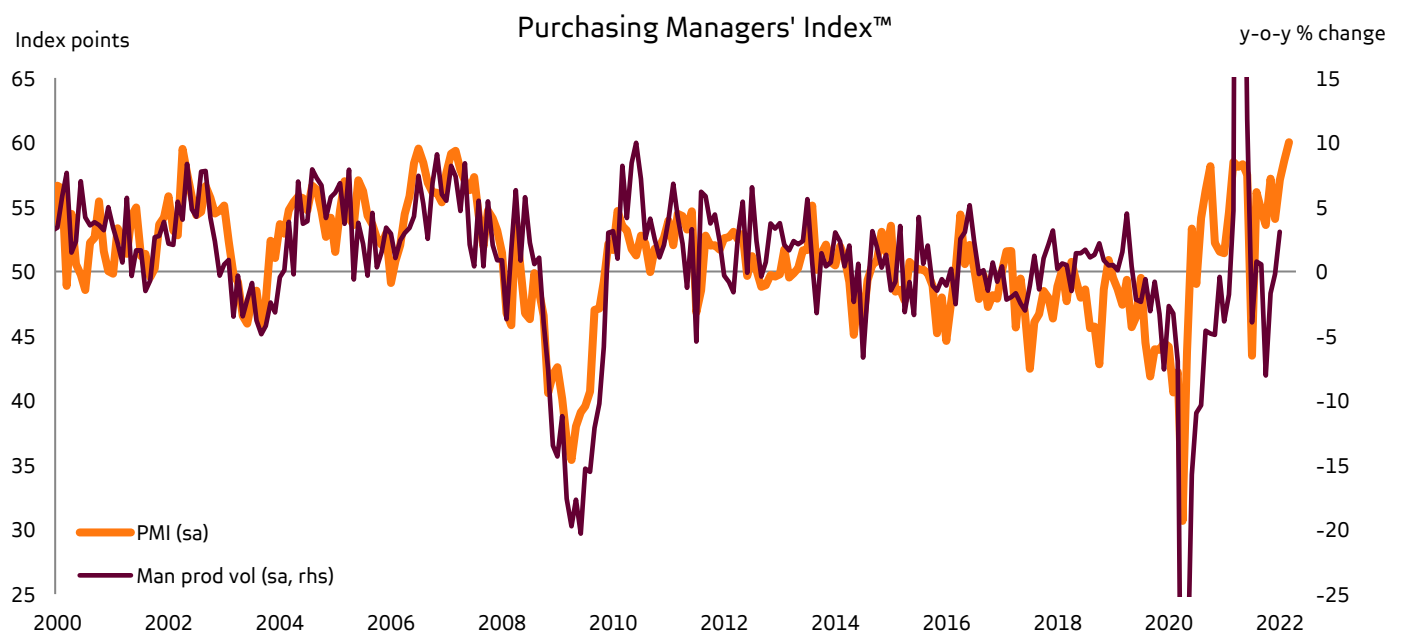
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The seasonally adjusted **Absa Purchasing Managers' Index (PMI)** increased for a third consecutive month to reach 60.0 in March, up from 58.6 in February. The sustained improvement in the headline PMI bodes well for the continued recovery of the manufacturing sector after it was dealt a blow in the third quarter of last year. Indeed, the PMI suggests that the sector should record a robust quarterly expansion in the first quarter of this year.

Further improvements in **new sales orders**, and in turn **business activity**, underpinned the increase in the headline PMI. On the demand front, export orders remained positive (albeit losing some ground) while local demand may have benefitted from the recovery in the tourism and hospitality sector and normalising business conditions in general. Despite better output, the **employment index** dipped below the neutral 50-point mark once again.

While orders and activity remained robust in March, sentiment among respondents about future business conditions turned decidedly less optimistic. The index tracking **expectations in six months' time** fell by 14.4 points to 55.1. This was the biggest single month decline since November 2008 (at the start of the global financial crisis). To be sure, the level of the expectations index remains well above recent lows seen during the height of the pandemic. Respondents are likely worried about the stagflation (lower global growth and thus weaker demand for South African exports, as well as a further rise in domestic input cost pressures) impacts from the war in Ukraine.

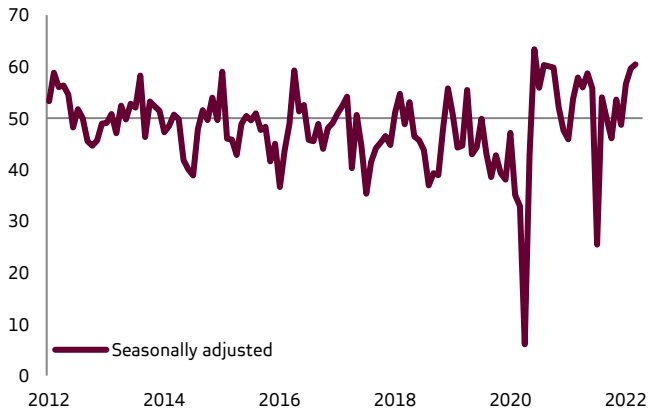
Indeed, a striking outcome of the March PMI survey was on the price front. Like many of its international counterparts, the **purchasing price index** of the Absa PMI surged in March. At 95.9, the series reached the highest level since the BER started publishing the series in 1999. The surge in the oil price is a key driver of the increase, but prices of food, fertiliser and other raw material inputs are also rising rapidly. As flagged last month, the risk is that these prices remain high(er) for longer as the war in Ukraine drags on and sanctions on Russia are possibly intensified. In the very least, over the short term, the hefty fuel price hike expected next week will add additional pressure on costs. Furthermore, supply chains remain strained with (temporary) lockdowns in China amid a surge in COVID-19 cases disrupting global trade flows and possibly also exacerbating shortages of key inputs.



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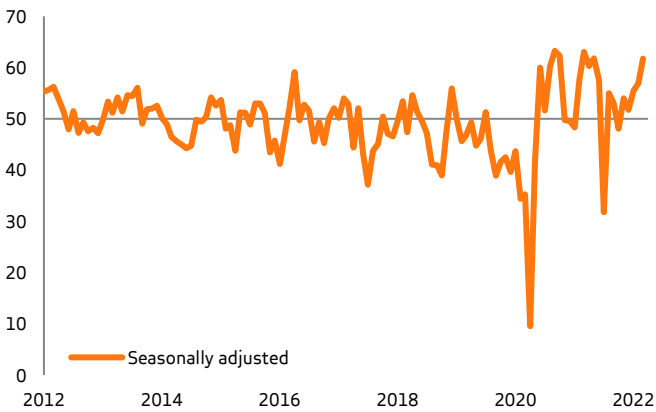
PMI: Business activity



The **business activity index** rose further and has now more than recovered from the slump in 2021Q3. This bodes well for actual manufacturing production growth.

	Jan	Feb	Mar
Business activity	56.6	59.6	60.5

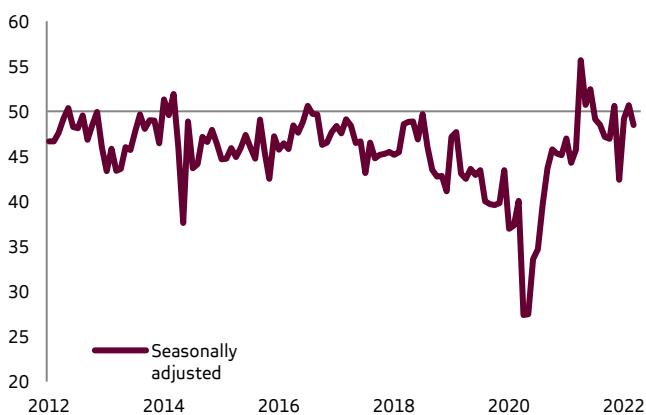
PMI: New sales orders



Demand for factory goods remained solid in March with the **new sales orders index** booking its third consecutive increase. Indeed, the average reading for the first quarter is well above the final quarter of 2021 (for total orders as well as the index tracking exports). A recovery in the local tourism sector could be driving domestic demand for selected manufactured goods. Going forward, the recent surge in some of SA's export commodity prices could buttress demand from local mining companies as they ramp up production or plan investment outlays.

	Jan	Feb	Mar
New sales orders	55.5	56.9	61.7

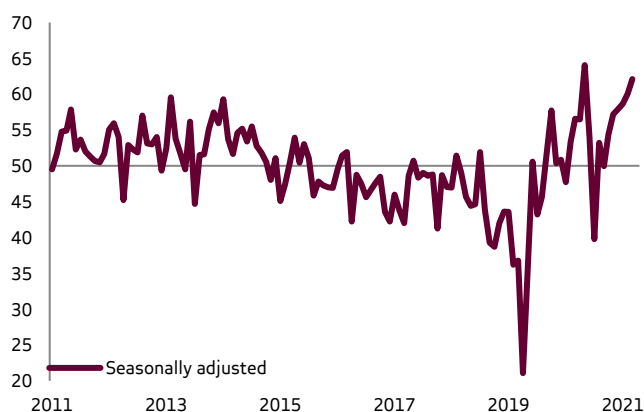
PMI: Employment



The **employment index** nudged down once again in February, albeit still remaining relatively close to the neutral 50-point mark. The latest Quarterly Labour Force Survey from Stats SA showed that the sector continued to bleed jobs in 2021Q4.

	Jan	Feb	Mar
Employment	49.2	50.7	48.5

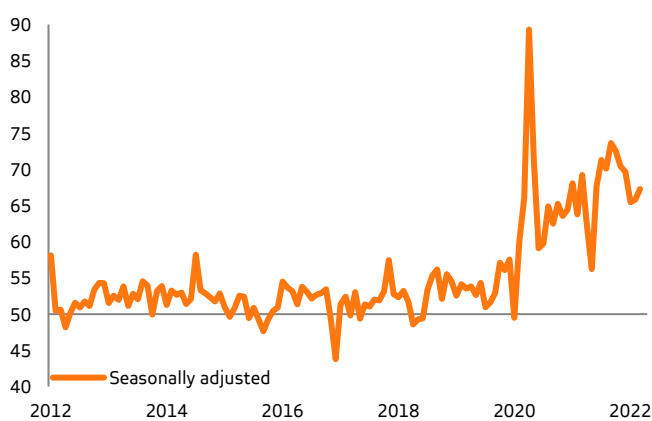
PMI: Inventories



The **inventories index** recorded its sixth consecutive increase. High inventory levels may provide some (temporary) protection from renewed supply chain disruptions and allow for uninterrupted production.

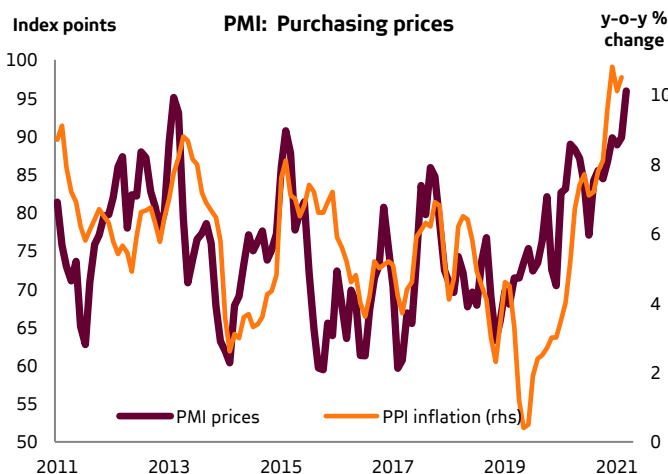
	Jan	Feb	Mar
Inventories	58.7	60.1	62.1

PMI: Supplier deliveries



The **supplier deliveries index** ticked up for a second consecutive month, but the average for the first quarter remains below the level recorded during the fourth quarter of last year. Globally, there have been reports of renewed supply chain frictions amid the war in Ukraine and sanctions on Russia, but the impact of this may take some time to reach SA shores. This index is inverted, so slower delivery times (in normal times a sign of increased demand but now due to strained supply chains) result in the index rising. Of course, with the new sales orders now high for some months, some of the slower deliveries may be due to better demand, which would be a positive sign for the sector.

	Jan	Feb	Mar
Supplier deliveries	65.5	65.8	67.3



Like many of its international counterparts, the PMI's **purchasing price index** surged to a record high in March (series since 1999). With a hefty fuel price on the cards for next week and rising prices for raw materials, the index may stay high for some time. The rand exchange rate has held up well so far this year, but should it suddenly weaken, it will add to the already elevated price pressures.

	Jan	Feb	Mar
Purchasing prices	88.9	89.8	95.9

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).