

# Absa Purchasing Managers' Index

## May 2021

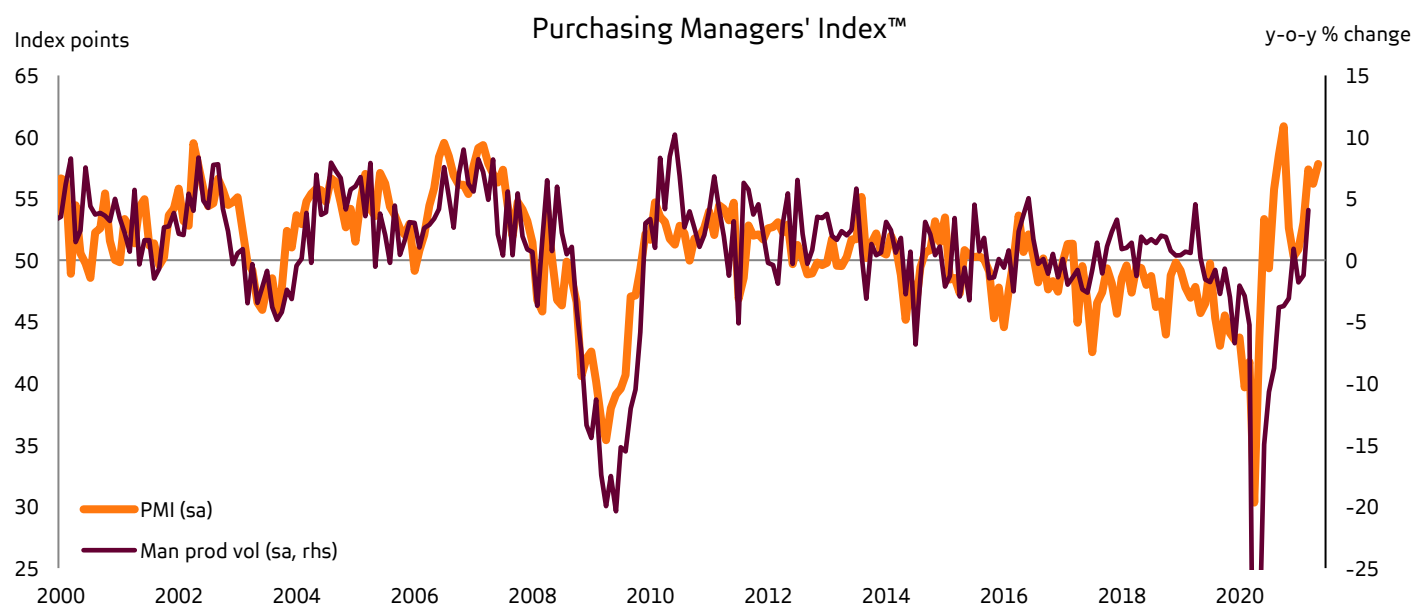
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The seasonally adjusted **Absa Purchasing Managers' Index (PMI)** rose to a solid 57.8 points in May 2021 from 56.2 the month before. Four of the five subcomponents remained well above the neutral 50-point mark with only the employment index dipping back into negative terrain. In all, the average level of the PMI recorded in the first two months of the second quarter of 2021 (57 points) is well above the first quarter's average (53.8), which suggests that the sector is on track to record another quarterly expansion. A significant annual expansion is effectively guaranteed given the extremely low base set in the second quarter of 2020.

The **new sales orders index** regained last month's loss and rose to 60.5 index points in May. This was despite respondents noting a dip in export sales, which means that domestic demand likely drove the improvement. On the back of higher orders, **business activity** increased by a robust 8 points to reach 58.8 points in May. **Inventories** also improved, rising to 61.4 points during the month. However, after a surprising surge in April, the **employment index** dipped back below the neutral 50-point mark in May.

The **purchasing price index** nudged down further in May 2021, albeit that 87.1 points is still an elevated level for this series (for example, last year's average reading was 73 points). While the stronger rand exchange rate helps to alleviate some cost pressure, prices of some raw materials and intermediate goods have risen sharply during recent months. Higher electricity and fuel prices, with another diesel price hike from tomorrow, add to the upward pressure to costs. Indeed, the recent high readings of the PMI's price index correspond to the official producer price index (PPI) data published by Stats SA, which shows a marked acceleration for not only final factory-gate inflation, but also in the prices of intermediate manufactured goods.

While current business conditions improved in May, purchasing managers turned slightly less optimistic about the trading environment going forward. The index tracking **expected business conditions in six months' time** dipped to 63.5 in May, down from 67.9 in April. This could be as a result of concerns over a COVID-19 third wave. Even though government has to date adopted a softer touch to lockdown restrictions, a renewed virus-induced change in spending behaviour by consumers and firms could still hinder domestic demand. The ever-present possibility of disruptive load-shedding likely also remains top of mind for many producers.

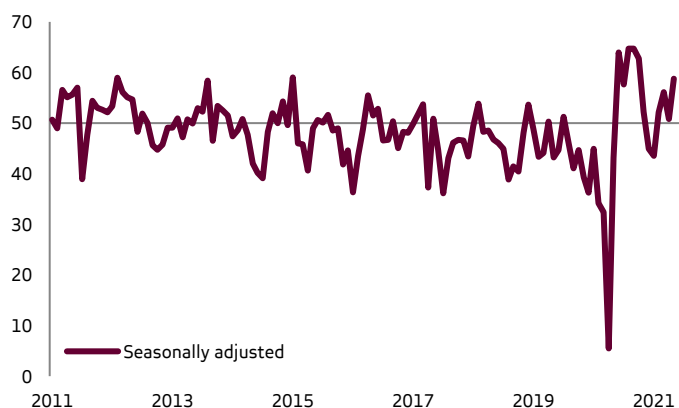


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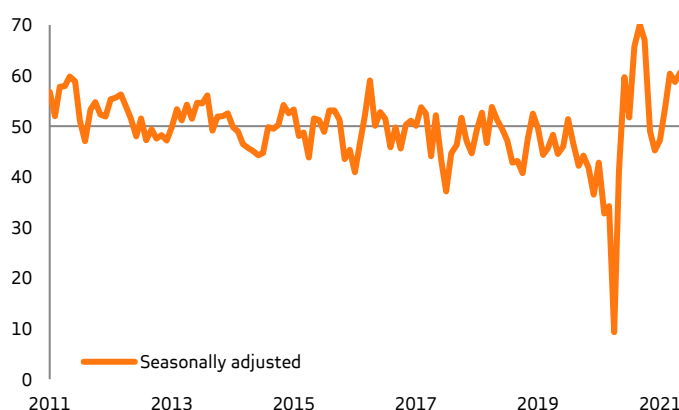
PMI: Business activity



The **business activity index** more than clawed back April's losses and rose to a solid 58.8 index points in May. So far in Q2, the index has averaged about 4 points above 2021Q1's reading. This means that the manufacturing sector could record another quarterly expansion in activity. A significant annual expansion is effectively guaranteed given the extremely low base set in 2020Q2.

	Mar	Apr	May
<b>Business activity</b>	56.1	50.8	<b>58.8</b>

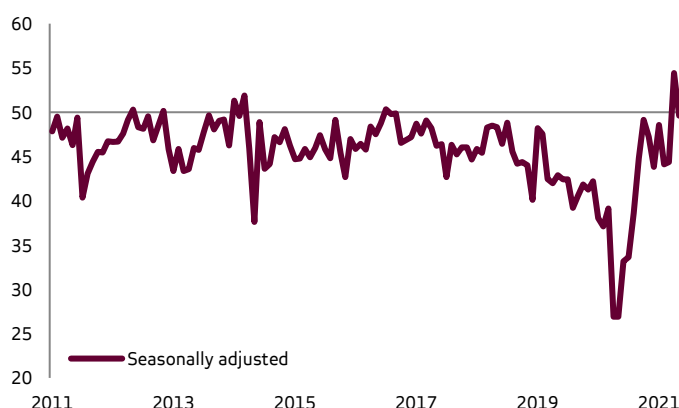
PMI: New sales orders



The **new sales orders index** reversed April's loss and edged back above 60 points in May. This was despite a slight downtick in export sales during the month, suggesting that it was rather domestic demand that lifted orders. Potentially, this reflects increased mining-related activity amid elevated SA export commodity prices.

	Mar	Apr	May
<b>New sales orders</b>	60.4	58.7	<b>60.5</b>

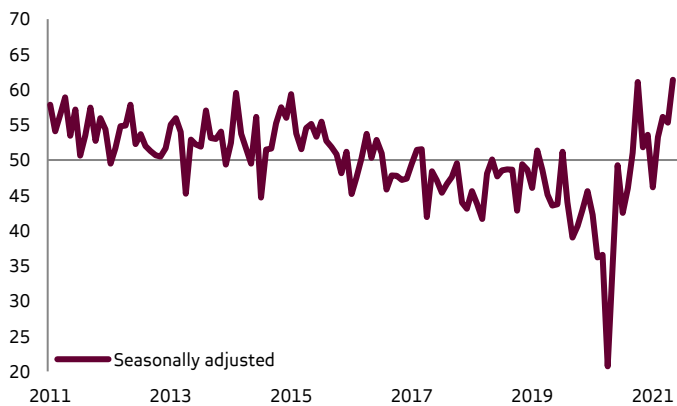
PMI: Employment



After a surprising surge in April, the **employment index** dipped back below the neutral 50-point mark in May. Despite the decline, the index remains relatively high compared to its history. However, as cautioned last month, the index would have to remain at an elevated level for a sustained period before one can confidently say that job creation in the manufacturing sector is on the mend.

	Mar	Apr	May
<b>Employment</b>	44.4	54.4	<b>49.6</b>

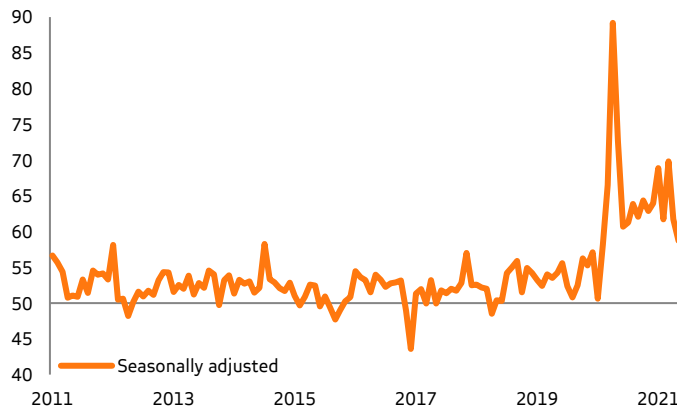
### PMI: Inventories



The **inventories index** rose by more than 6 points to reach the highest level since October 2020.

	Mar	Apr	Mar
<b>Inventories</b>	56.1	55.3	<b>61.4</b>

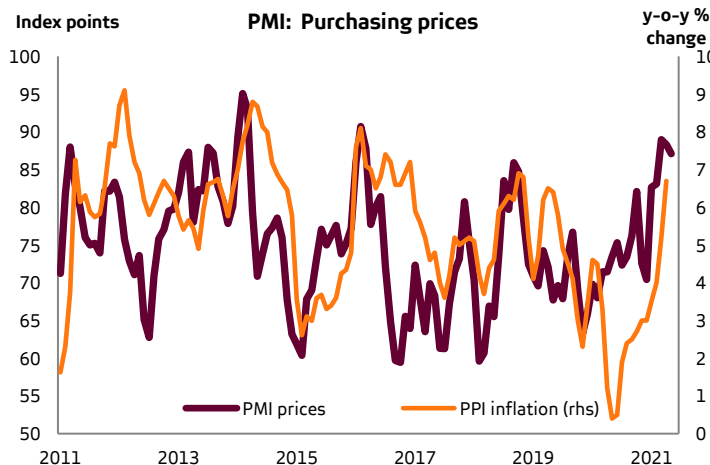
### PMI: Supplier deliveries



The **supplier deliveries index** fell to the lowest level in more than a year. Positively, this could mean that supply chains are slowly starting to unclog, products are more readily available, and deliveries of supplies are thus faster. This is because this index is inverted, so longer delivery times actually lift the index and a better delivery performance results in a lower index value. However, despite the recent downward move, the index remains high from a long-term historic perspective.

	Mar	Apr	May
<b>Supplier deliveries</b>	69.8	61.7	<b>58.7</b>

### PMI: Purchasing prices



The **purchasing price index** nudged down further in May 2021, albeit that 87.1 points is still an elevated level (for example, last year's average was 73 points). The recent high readings of the price index correspond to the official producer price index (PPI) data published by Stats SA. Annual PPI for final manufactured goods accelerated to 6.7% in April, up from 5.2% in March, while the PPI for intermediate manufactured goods rose by 11.4% y-o-y. The diesel price increase effective from tomorrow will put further upward pressure on input costs.

	Mar	Apr	May
<b>Purchasing prices</b>	89.0	88.3	<b>87.1</b>

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](http://www.ber.ac.za)).