Absa Purchasing Managers' Index
March 2020

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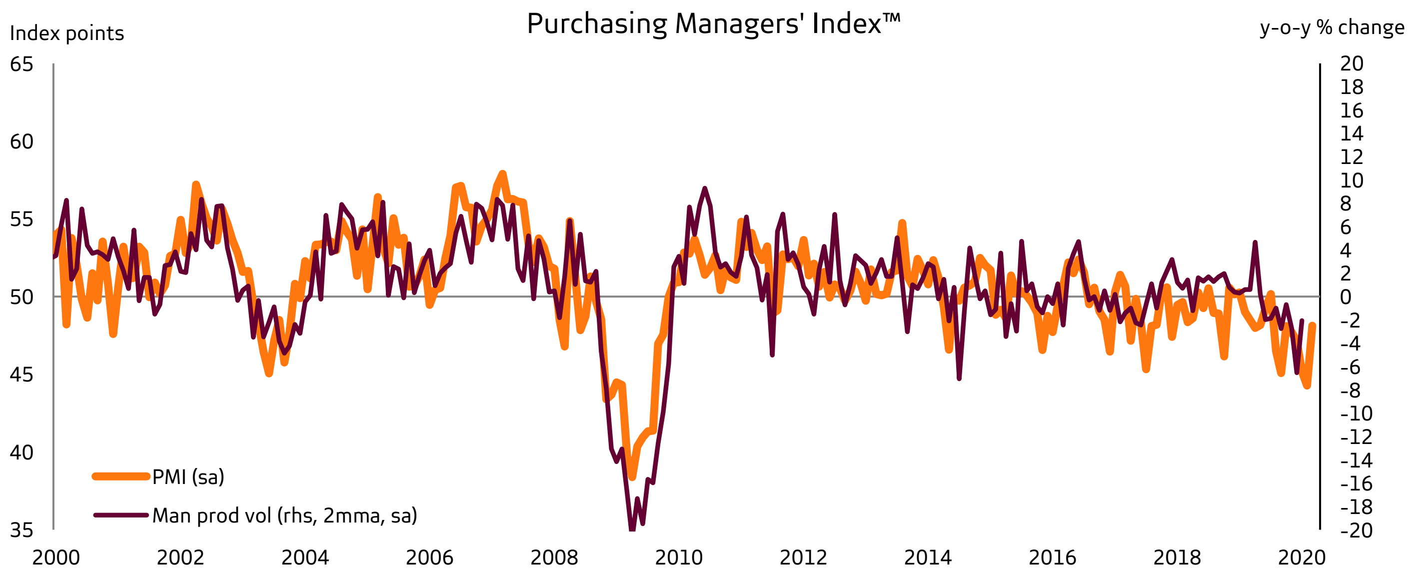
During the first quarter of 2020, the seasonally adjusted **Absa Purchasing Managers' Index (PMI)** experienced the weakest quarterly performance since 2009. The PMI averaged at 45.9 index points, compared to 47.6 in the fourth quarter of 2019. The weak quarterly outcome was despite the PMI improving to 48.1 index points in March from 44.3 index points in February. Nonetheless, the PMI still remained in contractionary terrain for a fourteenth straight month.

The PMI was, to some extent, lifted by the **supplier deliveries subindex** moving higher in March, reflecting slower delivery times**.** In normal circumstances, a slowdown in supplier deliveries is seen as positive for the sector as it suggests suppliers are busier. However, in this case, the slowdown in delivery times is caused by global supply-chain disruptions. This phenomenon is observed in PMIs worldwide, but amplified in the South African manufacturing PMI as this component has a bigger weighting (as the subindex brings much-needed stability to the headline PMI and results in a better correlation with official manufacturing output figures in normal times). Without the inadvertent boost from supplier deliveries, the headline PMI would have turned out lower in March.

With this in mind, it is better to look at the some of the PMI subcomponents that may provide a further indication of the current underlying conditions in the factory sector. Indeed, the **business activity** and **new sales orders indices** lingered around 11-year low levels in March. The nationwide lockdown imposed towards the end of March meant that most factories lost three working days compared to a normal March, while the 21-day lockdown will result in 10 working days lost in April. Supply-chain disruptions mean that production is also not expected to return to full capacity immediately after the lockdown lifts. This suggests that the April factory figures will likely show a deep contraction. An extension of the lockdown is likely to result in some factories having to close permanently. This will have a sustained negative impact on production and could also result in further job losses in the sector. Indeed, respondents turned very pessimistic about **expected business conditions** going forward. The index tracking expected business conditions in 6 months' time fell to 29.1 index points in March. This is below the lowest reading recorded during the 2008/09 recession and, in fact, the lowest level on record (series since 1999). This means that the worst is yet to come for the manufacturing sector.



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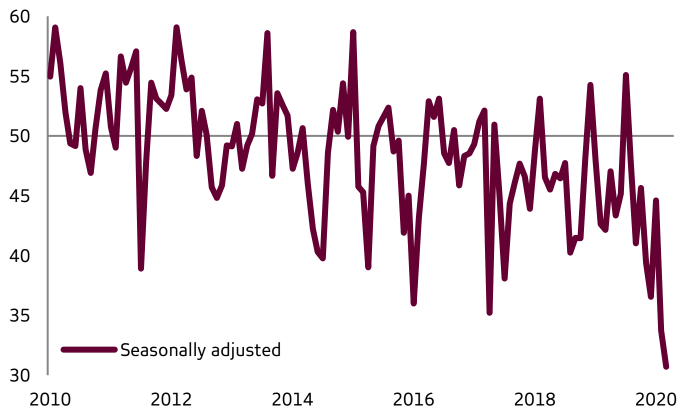
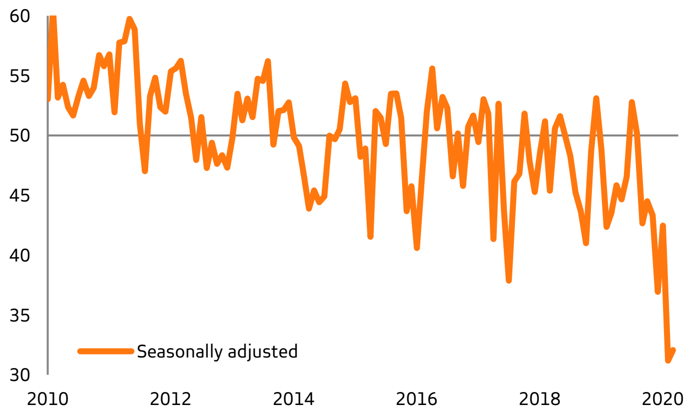
PMI: Business activity



The **business activity index** declined for a second consecutive month to reach a dismal 30.7 index points in March.

	Jan	Feb	Mar
Business activity	44.6	33.7	**30.7**

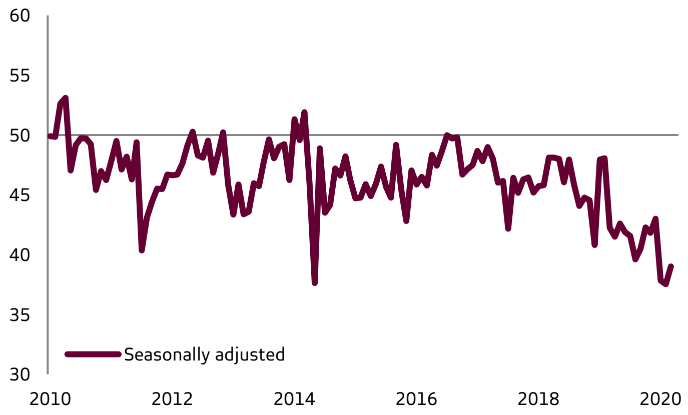
PMI: New sales orders



The **new sales orders index** remained very weak. Indeed, barring last month, the index is at the lowest level since early 2009. Export performance continued to be very poor and is set to remain under pressure in coming months amid a sharp drop in global factory activity and demand.

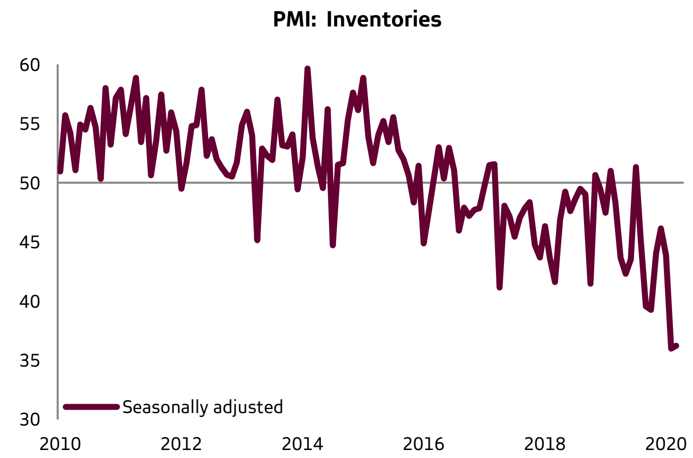
	Jan	Feb	Mar
New sales orders	42.5	31.2	**32.1**

PMI: Employment



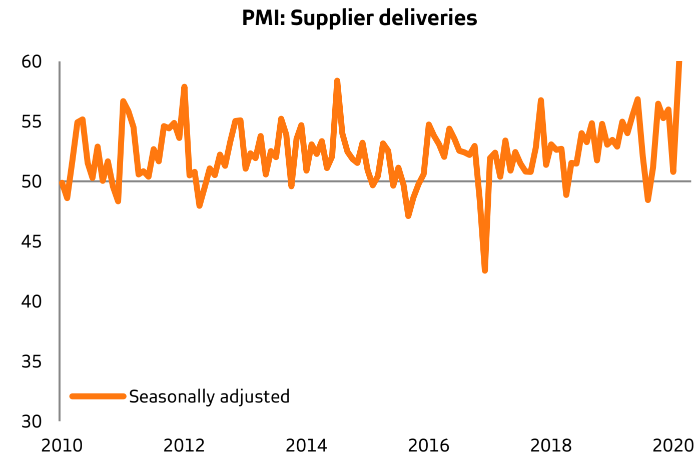
The **employment index** remained close to the six-year low reached in the first two months of 2020. Production stoppages due to the nationwide lockdown, especially if extended, could result in further job losses.

	Jan	Feb	Mar
Employment	37.8	37.5	**39.0**



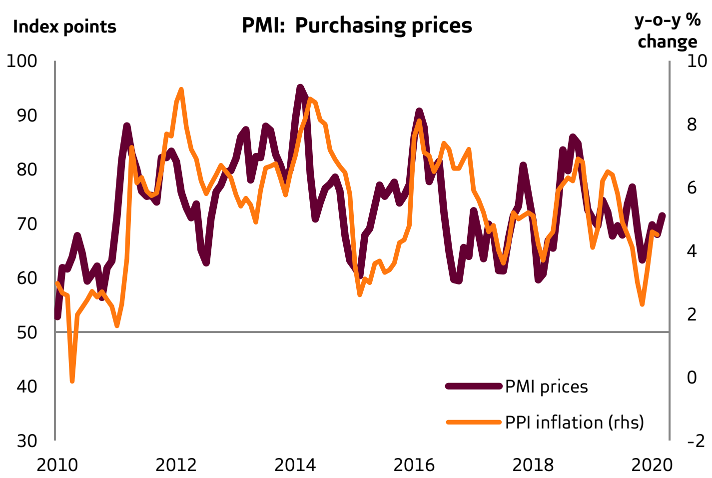
The **inventories index** remained very low and ticked up by a marginal 0.2 index points in March.

	Jan	Feb	Mar
Inventories	43.9	36.0	**36.2**



The **supplier deliveries index** rose for a second month in March, which points to slower delivery times. In normal circumstances, a slowdown in supplier deliveries is seen as positive for the sector as it suggests suppliers are busier. However, in this case, the slowdown in delivery times is most likely caused by global supply-chain disruptions. This phenomenon is observed in PMIs worldwide, where the subcomponent inadvertently lifts the headline PMI higher.

	Jan	Feb	Mar
Supplier deliveries	50.8	58.6	**67.4**



The **purchasing price index** ticked up even further and rose to a six-month high in March. The main driver was likely the significant weakening of the rand exchange rate during the month. A weaker rand results in an increase in the rand-cost of imports of intermediate goods and raw materials. The significant decline in the Brent crude oil price meant that the diesel price fell sharply today, which could alleviate some pressure on costs in April.

	Jan	Feb	Mar
Purchasing prices	69.8	68.0	**71.4**

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).