

Absa Purchasing Managers' Index

April 2021

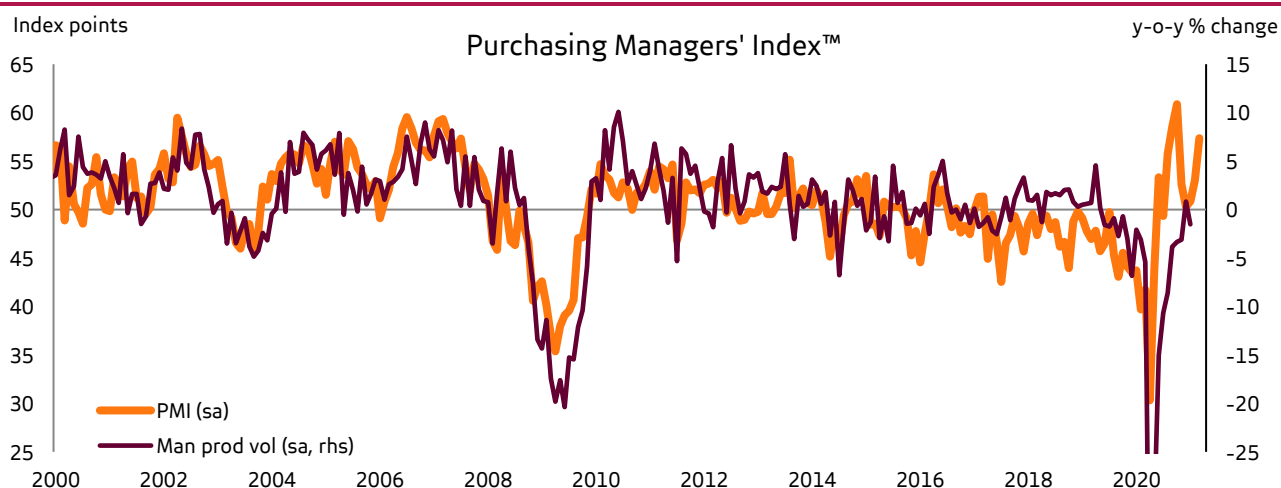
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Following three consecutive months of improvement, the seasonally adjusted **Absa Purchasing Managers' Index (PMI)** declined slightly to 56.2 index points in April from 57.4 in March. Despite the modest pullback, the index is now about 2.5 points above the average recorded in the first quarter of the year and about 26 points above the April 2020 reading recorded during the strictest phase of South Africa's lockdown.

Encouragingly, for the first time since early 2012, all five subcomponents of the PMI were in positive terrain. Even the subcomponent most often trailing below the 50-point mark, the **employment index**, managed to increase to well above 50 in April. It is too early to tell whether this points to a sustained improvement in job creation in the manufacturing sector, but it is a positive development nonetheless.

Business activity continued to increase in April, albeit at a much slower pace compared to the previous month. The index fell back to 50.8 points in April from 56.1 in March. **New sales orders** remained robust, although also increasing at a slightly slower pace than in March, with the index declining from a solid 60.4 points to 58.7. Purchasing managers continued to report improved export sales. Export-orientated manufacturers could continue to benefit from the global economic growth recovery, which is expected to accelerate through the remainder of the year. Indeed, led by a booming US economy, prospects for the global economy have brightened further of late. This could, in part, explain why respondents turned notably more upbeat about **expected business conditions in six months' time**. The index rose to a three-year high of 67.9 index points from an average of 58.5 points recorded in the first quarter of 2021 and a dismal 27.3 points seen this time last year. Furthermore, although the risk of a third wave of COVID-19 infections remains present, relatively low increases in new local infections during the month may have also underpinned the recovery in sentiment. This does mean that should virus metrics turn less favourable, sentiment could sour once again.

Another factor that could quell sentiment is the continued increase in cost pressures. The **purchasing price index** came down slightly from a five-year high reached in March, but remained elevated. The rand exchange rate strengthened slightly compared to March, which could have helped with the costs of imported raw materials and intermediate goods. However, this was countered by a sharp increase in the fuel price at the start of the month. Prices of some key input goods have also trended upwards of late and with a low COVID-induced base set in 2020, annual producer prices are set to increase markedly in the next few months.

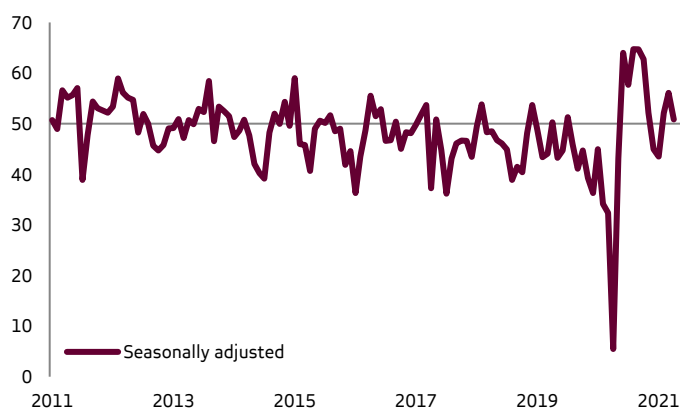


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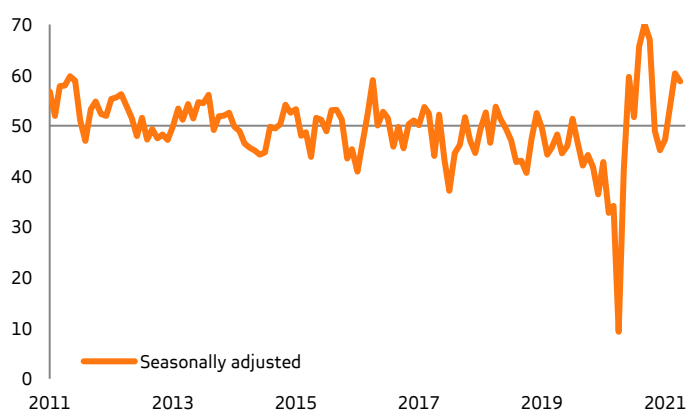
PMI: Business activity



The **business activity index** declined markedly in April after solid improvements in the preceding two months.

	Feb	Mar	Apr
Business activity	52.1	56.1	50.8

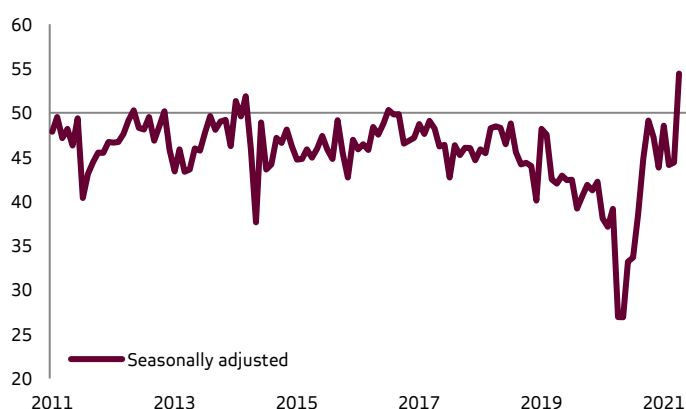
PMI: New sales orders



Following three solid improvements, the **new sales orders index** edged lower. The index points to continued growth in demand and remained firmly above the neutral 50-point mark. Purchasing managers reported a further improvement in export sales, which could continue to benefit as the global economic recovery picks up more speed.

	Feb	Mar	Apr
New sales orders	54.0	60.4	58.7

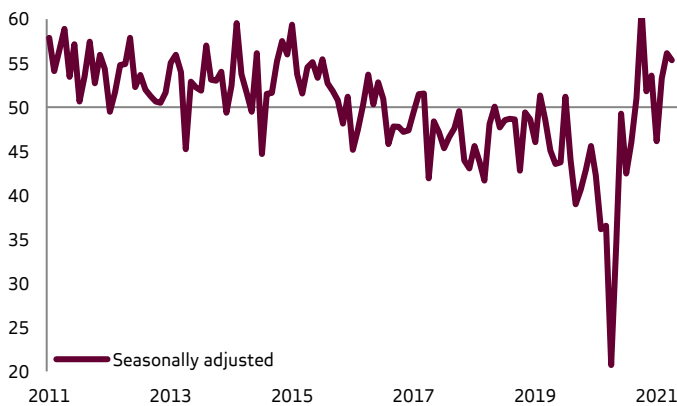
PMI: Employment



The most surprising outcome of the April PMI survey was the surge in the **employment index**, especially as the business activity index lost some ground. The employment index rose by a solid 10 points to reach the highest level since 2007. While the increase is encouraging, it is way too early to tell whether this points to a sustained improvement in job creation in the manufacturing sector.

	Feb	Mar	Apr
Employment	44.1	44.4	54.4

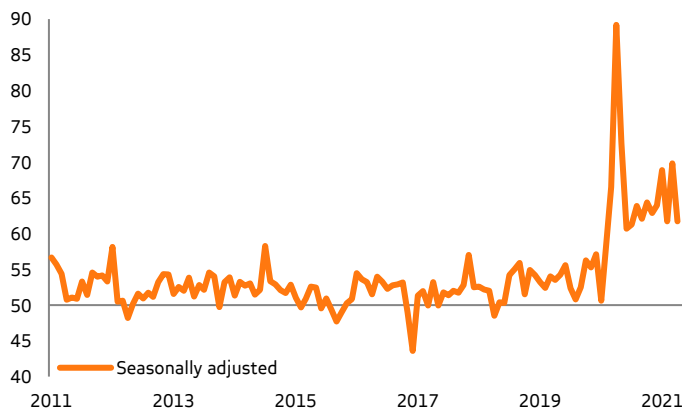
PMI: Inventories



The **inventories index** declined slightly in April, but remained firmly above the neutral 50-point mark for a third straight month.

	Feb	Mar	Apr
Inventories	53.3	56.1	55.3

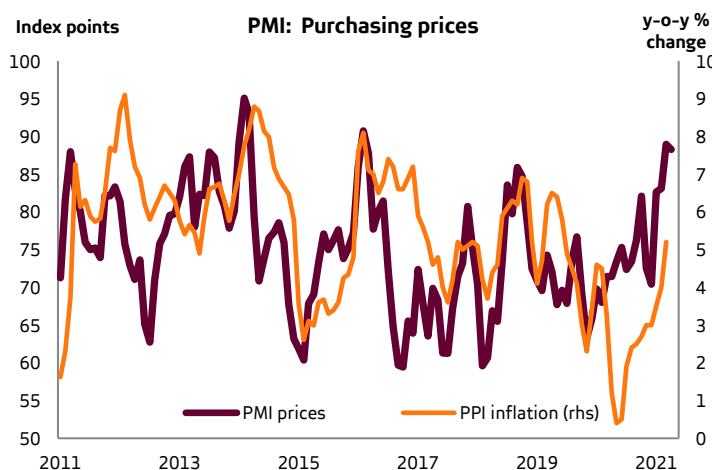
PMI: Supplier deliveries



After surging higher in March, the **supplier deliveries index** fell back to February's level of 61.7 points. This is still high compared to its long-term history. This is likely due to continued supply chain frictions and perhaps even shortages of raw materials. However, more positively, this could to some extent also be driven by demand from manufacturers picking up by more than expected, resulting in suppliers struggling to keep up. This is also observed in some international PMI surveys. It is worth remembering that this subcomponent is inverted. If goods are less readily available, this is normally a sign of increased demand for manufactured products and actually lifts the index. However, it must be noted that other factors, such as lockdowns or material shortages, can also distort the supply chain, lengthen delivery times, and inadvertently lift the index.

	Feb	Mar	Apr
Supplier deliveries	61.7	69.8	61.7

PMI: Purchasing prices



The **purchasing price index** edged down only slightly from the five-year high reached in March 2021. The latest official data from Stats SA also points to cost pressure building in the manufacturing supply chain. The producer price index (PPI) for intermediate manufactured goods measured 11.2% y-o-y in March 2021, while the PPI for final manufactured goods (illustrated on the chart) rose by 5.2% y-o-y in March – the fastest pace since mid-2019.

	Feb	Mar	Apr
Purchasing prices	83.1	89.0	88.3

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).