

Absa Purchasing Managers' Index

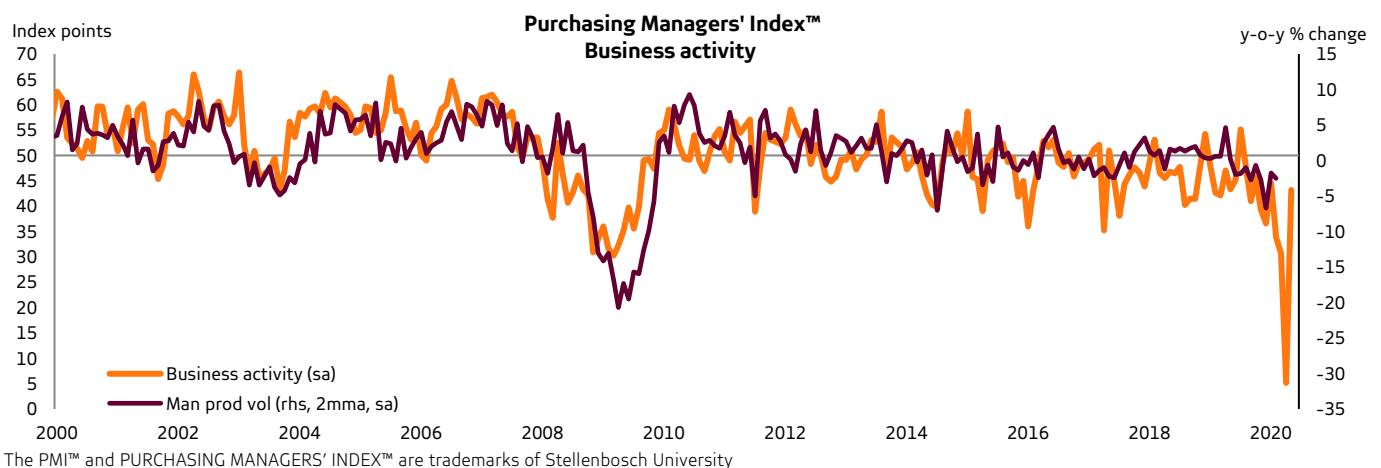
May 2020

Embargoed until 11:00 1 June

After plunging to an all-time low of a mere 5.1 index points in April, the **business activity index** of the **Absa PMI survey** rose sharply to 43.2 index points in May. The increase was driven by most factories returning to production (albeit at reduced capacity) during May, after the Level 5 nationwide lockdown brought manufacturing output to a near standstill in April. Many respondents reported that production was still well below normal capacity in May, but nevertheless higher than that (in some case zero production) recorded in the previous month. To reiterate, the sharp rise in the business activity index in May is relative to virtually nothing in April and still suggests very subdued overall activity levels. Worryingly, some respondents indicated that whereas the lockdown regulations in May would have allowed for a further ramp-up of production, there was not sufficient demand to warrant this. Indeed, the **new sales orders index** did not rebound to the same extent as the output index. Furthermore, the **employment index** remained stuck at an all-time low, rising by a marginal 0.2 points to 26.8 in May.

The sharp month-on-month movement in the output index in May should be visible in the official manufacturing production data as well. April is likely to see an unprecedented drop, with a solid month-on-month rebound expected in May. Assuming Level 3 (or lower) is maintained for the entire country during the full month, output should recover further during June. Indeed, the PMI's **expected business conditions index** rebounded in May from an all-time low reached in April, rising to the best level since mid-2019. However, this does not mean that the level of factory output will return to where it was before the lockdown. It will likely take some time before the supply-chain disruptions are filtered out of the system and for global as well as local demand to return to normal. The risk that load shedding could reappear as the economy gets going could further hamper the recovery. It is also important to note that the South African economy was already struggling before the COVID-19 pandemic reached our shores. In early 2020, the business activity and new sales orders indices of the Absa PMI already fell to levels last seen during the recovery of the 2008/09 recession.

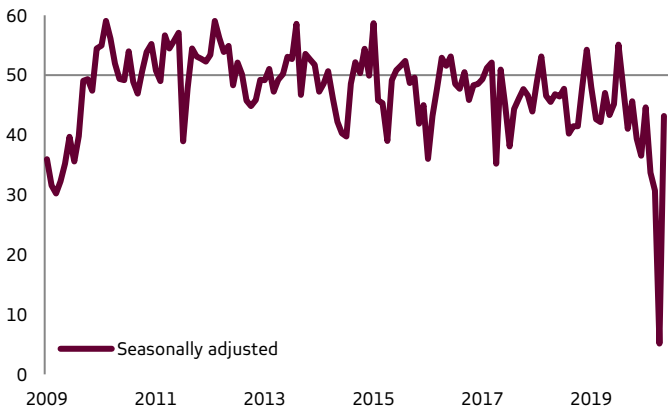
The increase in the output and new sales orders indices supported an increase in the headline manufacturing PMI which rose to 50.2 index points in May. However, as stressed last month, in these unique circumstances, it is better to look at the subcomponents than the headline PMI. This is not only the case in South Africa, but also globally where the **supplier deliveries index** inadvertently lifts the headline PMI. This subcomponent is inverted which means that when goods are less readily available than before and delivery performance worsens, this actually lifts the index. This is because in normal times, an order that takes longer to be delivered is indicative of increased demand by the manufacturing sector for inputs in the production process. Last month, and to a lesser extent in May, COVID-19-related production stoppages disrupted the supply chain to such an extent that deliveries were slower even without increased demand.



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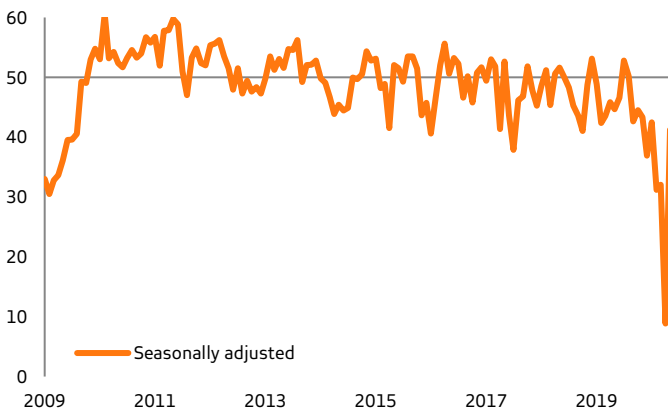
PMI: Business activity



The **business activity index** rose from an all-time low of 5.1 index points reached in April as factories returned to production in May. However, while this is likely to correspond to a sharp improvement in the month-on-month growth rate of official manufacturing production, overall output will take some time to recover to pre-COVID-19 levels. Respondents indicated that while production was higher than in April (with many having seen zero production), it remained far below normal capacity.

	Mar	Apr	May
Business activity	30.7	5.1	43.2

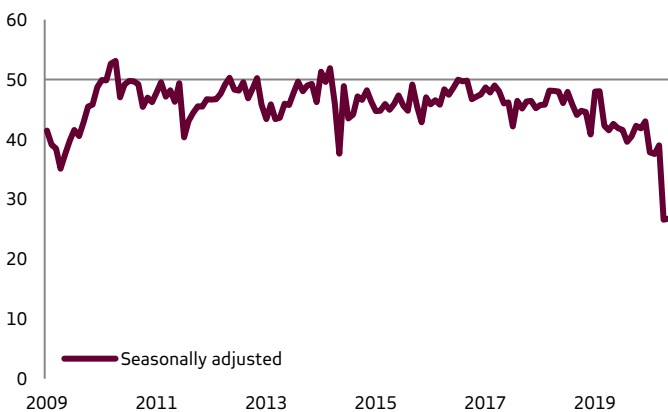
PMI: New sales orders



New sales orders also recovered from an all-time low reached in the previous month. Exports rose during the month, but remained well below long-term average levels. Level 3 should allow for more activity to take place in sectors linked to manufacturing (such as construction and all retail trade), which could help support the recovery in demand in June.

	Mar	Apr	May
New sales orders	32.1	8.9	41.2

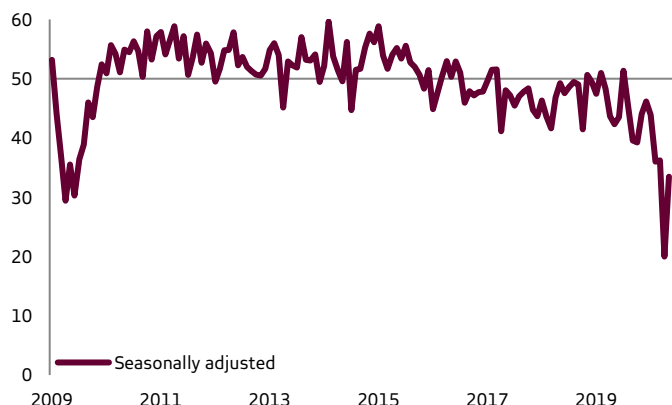
PMI: Employment



The **employment index** remained worryingly low in May. Many businesses that were able to return to production in May, from the lockdown in April, were not permitted to do so at full employment capacity. Until activity picks up firmly on a sustained basis, employment is unlikely to increase meaningfully. We know that formal-sector job levels often lag activity trends. This suggests that employment is likely to remain under pressure going forward.

	Mar	Apr	May
Employment	39.0	26.6	26.8

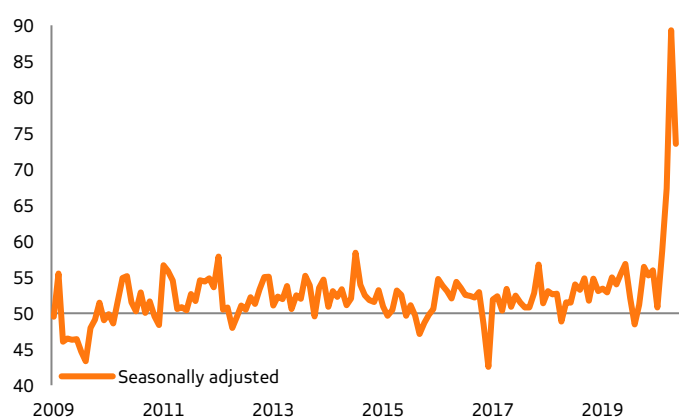
PMI: Inventories



The **inventories index** bounced back to 33.5 index points in May after slumping to 20 in April.

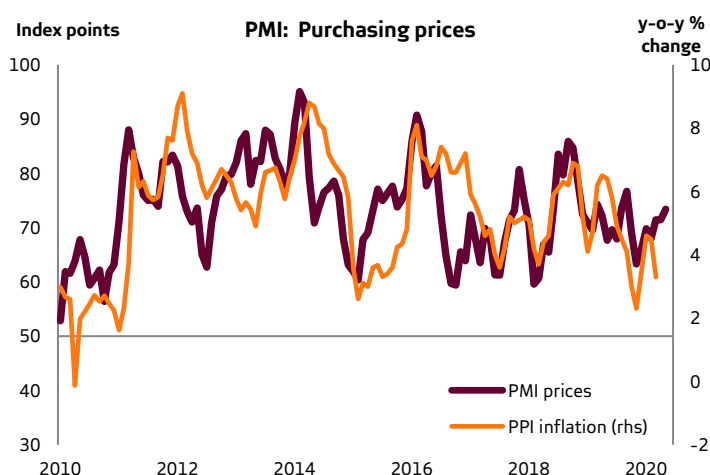
	Mar	Apr	May
Inventories	36.2	20.0	33.5

PMI: Supplier deliveries



The **supplier deliveries index** came down from a record-high reached in April, but nonetheless stayed at an elevated level in May. It is important to explain that this subcomponent is inverted which means that if goods are less readily available and purchasing performance worsens, this actually lifts the index. This is because in normal times, a longer delivery lead time is indicative of increased demand in the broader sector. Last month, and to a lesser extent in May, COVID-19-related production stoppages disrupted the supply chain to such an extent that deliveries took longer to arrive even without increased demand. These disruptions will take some time to filter out of the system, with activity only slowly recovering in South Africa. The, so far, seemingly strong output rebound in China may help domestic producers that source raw materials and intermediate goods from China.

	Mar	Apr	May
Supplier deliveries	67.4	89.3	73.5



The index tracking **purchasing prices** ticked up to 73.4 index points in May, after remaining unchanged at 71.4 points in April. The increase was likely driven by the higher Brent crude oil price towards the end of the month. This also means that, despite a slightly stronger rand exchange rate, the petrol price will increase on Wednesday. Should this trend continue, this could put further pressure on costs in coming months.

	Mar	Apr	May
Purchasing prices	71.4	71.4	73.4

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).