

Absa Purchasing Managers' Index

November 2020

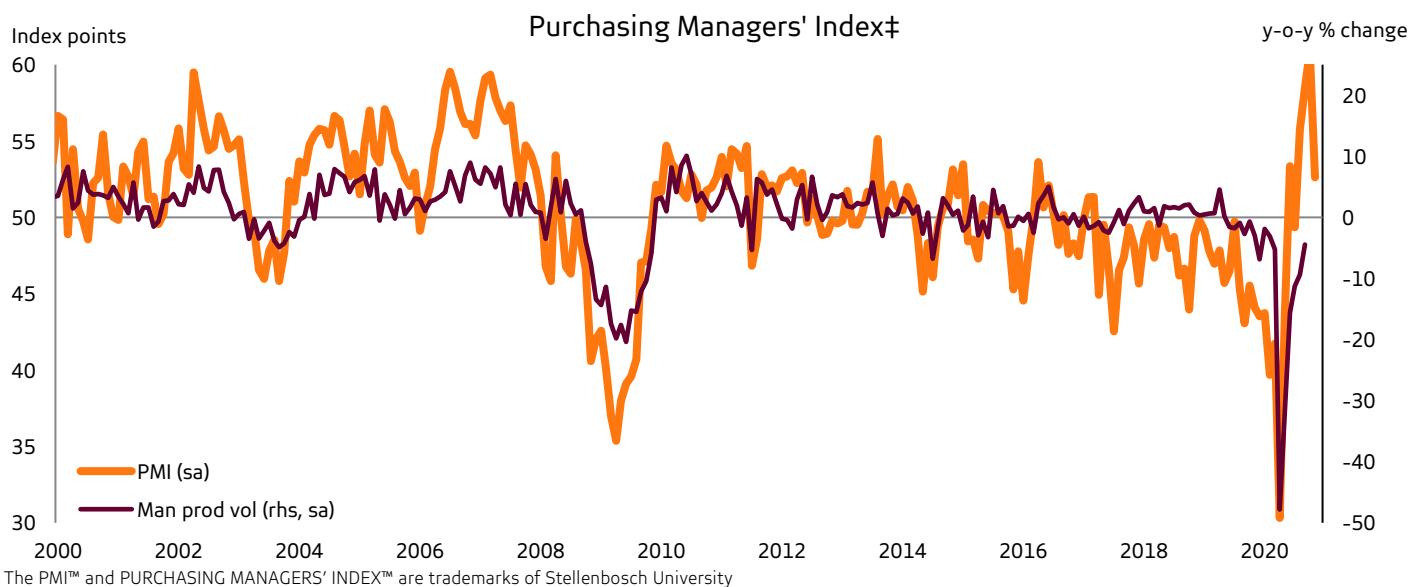
Embargoed until 11:00 1 December 2020

The **Absa Purchasing Managers' Index (PMI)** declined to 52.6 index points in November from the solid 60.9 points recorded in October. The decline comes after three consecutive upward moves and brings the index to the lowest level since July 2020. While still signalling an improvement in business conditions, the drop suggests that the manufacturing sector's recovery is starting to lose momentum. This was to be expected as output levels for many subsectors are nearing pre-pandemic levels and will need sustained demand growth to fuel a further output expansion. In this regard, it was worrying to see the **new sales orders index** dip back below the neutral 50-point mark for the first time since May. This was in part driven by a renewed decline in export sales, which could possibly be linked to lower activity in Europe due to the renewed COVID-19 lockdowns. This, as well as concerns about coronavirus developments in South Africa, likely explains why purchasing managers turned less positive about business conditions going forward. The indicator tracking **business conditions in six months' time** dipped for a second month to 52.7 index points and is now about 12 points below the level of just two months ago. While positive news regarding vaccine developments may result in an improved global growth outlook over the medium term, the next six months remain highly uncertain.

In addition to the new sales orders index, the other four components of the headline PMI also declined relative to October. However, encouragingly, both **business activity** and **inventories** still signalled expansion. Even so, the fact that both indices fell by about 10 points suggests that the pace of the recovery has slowed significantly. Furthermore, the **employment index** dipped lower in November. Unlike the other indices, employment never breached the neutral 50-point mark in its recovery from the lockdown-induced slump in April. The **supplier deliveries index** remained high in November, suggesting that supply chains and product availability are still constraints.

Finally, the **purchasing price index** came down from a two-year high reached in October. The deceleration in cost pressure was likely driven by the, on average, stronger rand exchange rate which lowers the rand-cost of imported raw materials and intermediate goods.

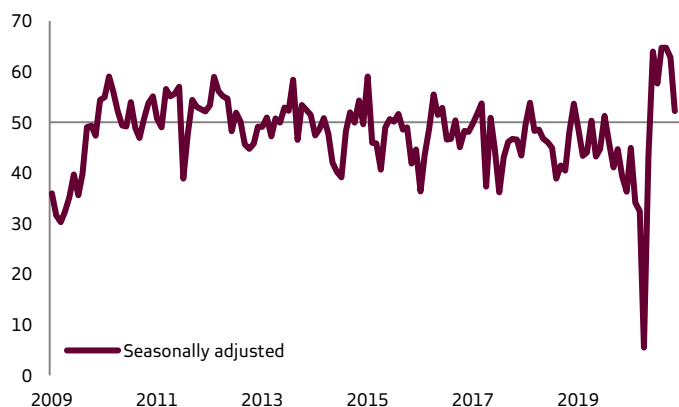
Please note, the December 2020 PMI report will be released on 8 January 2021.



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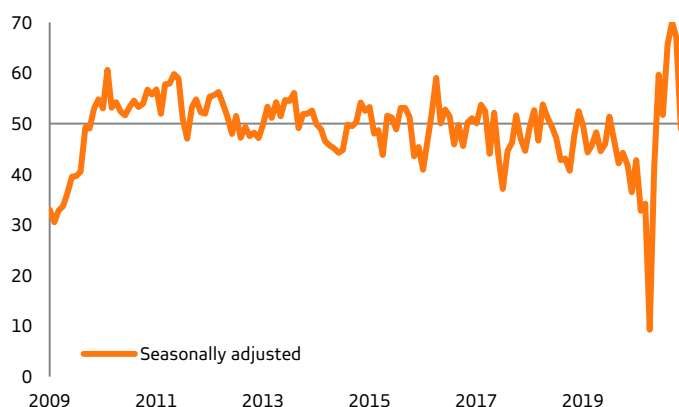
PMI: Business activity



The **business activity index** declined for a second month. Despite the dip, the index has now been in positive terrain for six consecutive months. With the current level now closer to the neutral 50-point mark, it does suggest that the monthly growth momentum for actual manufacturing production is running out of steam.

	Sep	Oct	Nov
Business activity	64.7	62.8	52.2

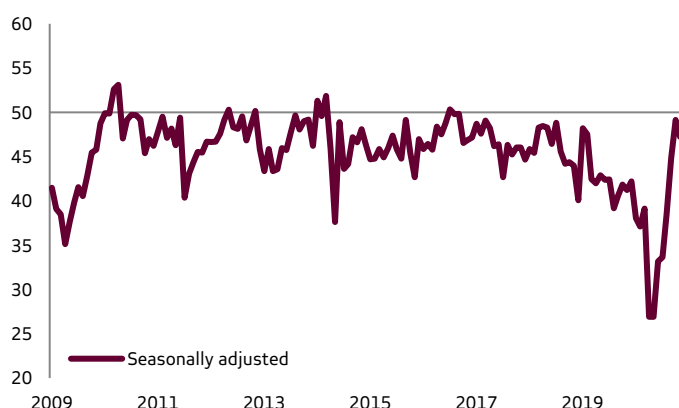
PMI: New sales orders



Worryingly, the **new sales orders index** dipped back below the neutral 50-point mark. Strictly speaking this means that there was a decline in orders compared to the previous month. This is in part driven by a renewed decline in export sales, which could be linked to a slump in activity in Europe amid stricter lockdowns.

	Sep	Oct	Nov
New sales orders	70.1	67.0	49.0

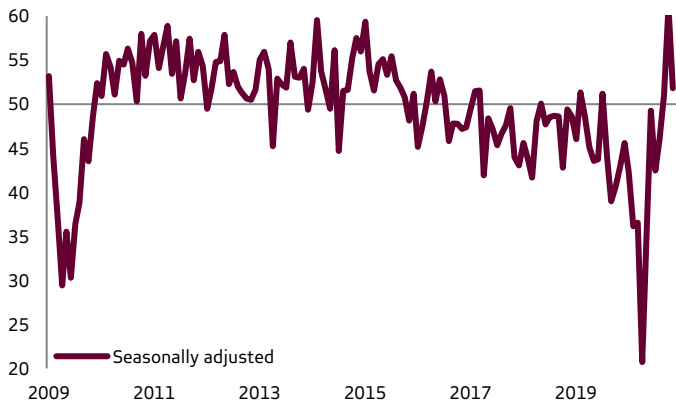
PMI: Employment



Following five consecutive increases, the **employment index** dipped once again in November. Unlike all of the other PMI subcomponents, the employment index has so far failed to breach the neutral 50-point mark during its recovery from the lockdown-induced slump in April. However, it must be said that the current level remains slightly above the long-term average for this index.

	Sep	Oct	Nov
Employment	44.8	49.1	47.2

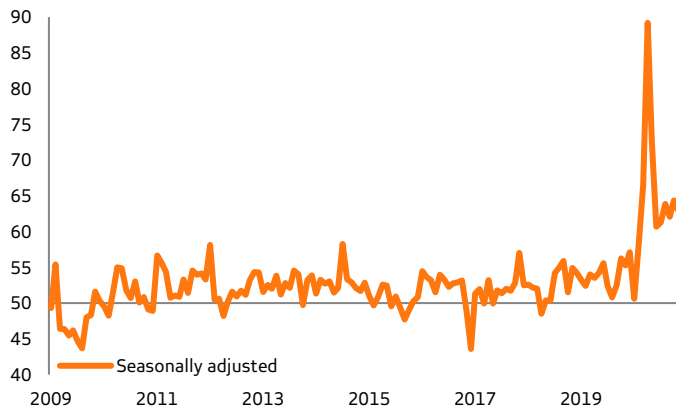
PMI: Inventories



The **inventories index** lost all of last month's gains and fell back to 51.8 index points in November. The index did remain above the neutral 50-point mark for a third straight month. The last time this happened was in the first half of 2016.

	Sep	Oct	Nov
Inventories	51.0	61.1	51.8

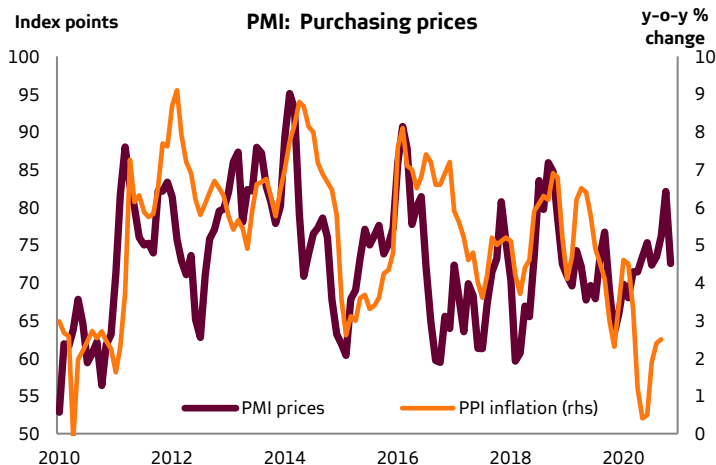
PMI: Supplier deliveries



The **supplier deliveries index** continued to seesaw within the recent range of about 60 to 64 index points. While this is significantly below the record high reached in April, the current level remains elevated compared to the series history. The persistent high level points to some remaining friction in the supply chain with some respondents noting shortages of steel in particular. This is because this subcomponent is inverted. If goods are less readily available and purchasing performance worsens, this is normally a sign of increased demand for manufactured products and actually lifts the index. However, production stoppages and other trade-related disruptions can also distort supply chains and inadvertently lift the index.

	Sep	Oct	Nov
Supplier deliveries	62.1	64.4	62.9

PMI: Purchasing prices



After three consecutive increases, the **purchasing price index** fell again in November. The index declined to the lowest level since July 2020 from a two-year high in October. The deceleration in cost pressure was likely driven by the, on average, stronger rand exchange rate. The diesel price is set to increase on Wednesday due to an increase in the Brent crude oil price, which could put renewed pressure on costs. If the current shortage of selected raw materials continues, it also has the potential to raise input costs.

	Sep	Oct	Nov
Purchasing prices	76.3	82.1	72.5

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).