

# Barclays Purchasing Managers' Index

## December 2016

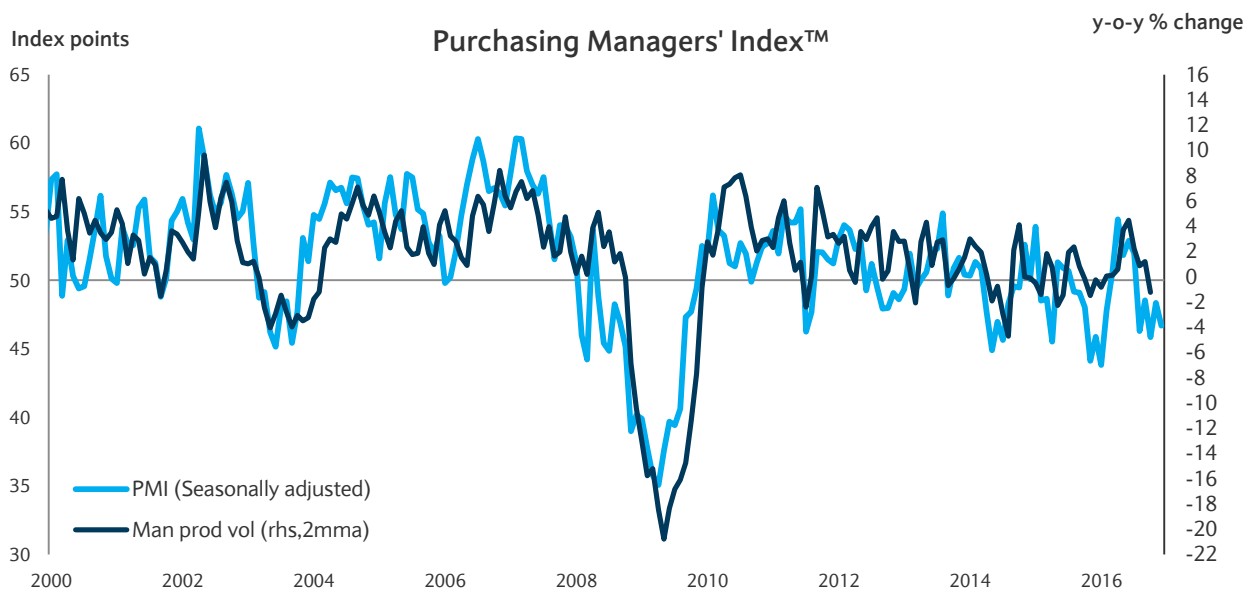
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The seasonally adjusted **Barclays Purchasing Managers' Index (PMI)** declined to 46.7 index points in December 2016 from 48.3 in November. This means that the manufacturing PMI remained stuck below the neutral 50-point for a fifth straight month. This is in stark contrast to the sustained upward momentum seen in global PMI figures since mid-2016. In the US and the Eurozone, manufacturing PMI readings came in above 54 index points in December. The most recent Chinese PMIs are also pointing to accelerating output growth. In all likelihood, the key reason why the South African manufacturing sector is underperforming is the persisting weakness of domestic demand. Key supply constraints (most notably load-shedding and strike activity) actually moderated through 2016. A recovery in agricultural output and an uptick in the mining sector on the back of higher commodity prices could support demand going forward. However, this could be offset by the outlook for the local consumer which is more downbeat. On a positive note, the uptick in global industrial activity could benefit local manufacturers targeting the export market in coming months.

Four of the five major subcomponents of the PMI remained below 50 points in December. Most notably, the index **measuring suppliers' performance** slumped to a historic low of 40.9 from 48 index points in November. This reflected the broad-based weakness of the domestic economy as it implies that suppliers are operating way below capacity. The **business activity index** fell by 2.6 points to 46.3 in December – the sixth straight month that the index reflects a decline in output. Encouragingly, the **new sales orders index** managed to stay just above 50 in December (50.9), likely lifted by continued export orders. The **inventories index** declined for a third month, keeping it well below the new sales orders index. This meant that the **PMI leading indicator** remained above 1, suggesting that output growth could pick up as demand outstrips inventories. Manufacturers were also relatively optimistic about **expected business conditions in six months' time**, albeit that the index fell slightly from 53.9 to 53.2 in December.

The **purchasing price index** remained unchanged at 65.6 index points in December. While the rand exchange rate was slightly stronger compared to November, this was countered by a sharp rise in the Brent crude oil price.

*Starting with the release of the January 2017 PMI, the name of the index will change from the Barclays PMI to the Absa PMI.*

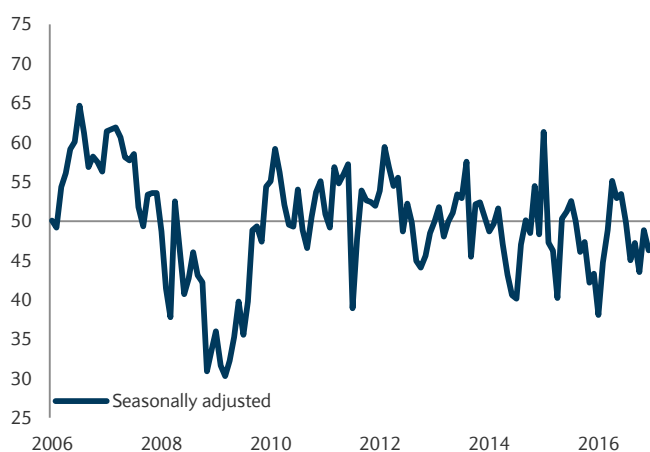


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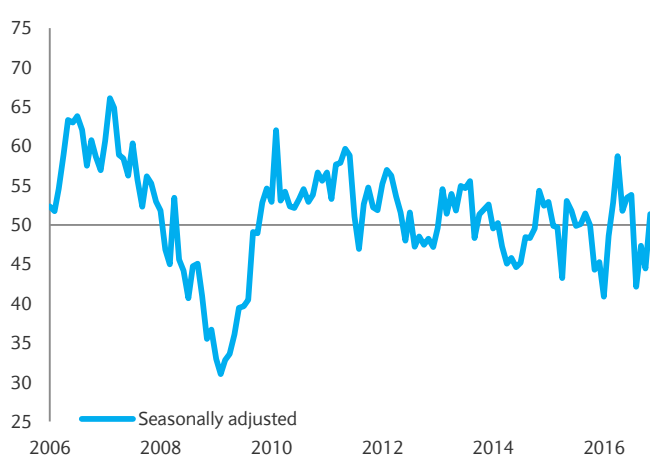
PMI: Business activity



The **business activity index** declined by 2.6 points to 46.3 points in December. This means that after a relatively solid performance during the second quarter, the business activity index remained stuck below the neutral 50-point mark for the entire second half of 2016. In addition, the Q4 average was below that recorded in Q3. This means that manufacturing output could again subtract from overall GDP growth in Q4. The actual November production data released later today by Statistics South Africa should provide further insight into the sector's performance in Q4.

	Oct	Nov	Dec
<b>Business activity</b>	43.5	48.9	<b>46.3</b>

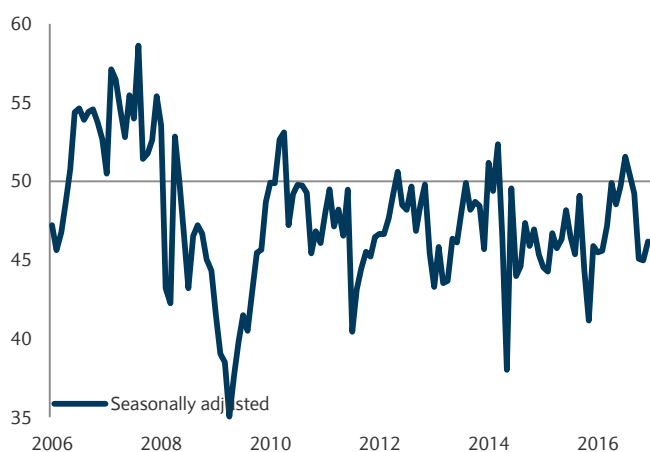
PMI: New sales orders



After a firm improvement in November, the **new sales orders index** dipped slightly lower to 50.9 points in December. Despite the marginal decline, the index remained above 50, reflecting positive demand growth. This was likely driven by continued export orders, as domestic demand conditions remain weak.

	Oct	Nov	Dec
<b>New sales orders</b>	44.5	51.4	<b>50.9</b>

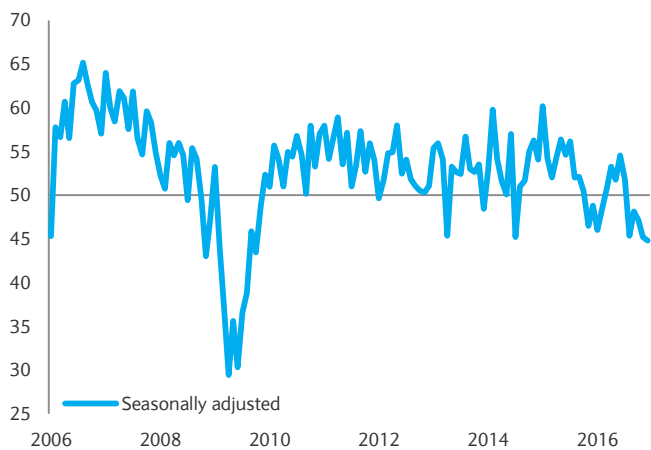
PMI: Employment



After remaining virtually unchanged in November, the **employment index** ticked up by 1.2 points to 46.2 in December. The average for the fourth quarter (45.4) is below the Q3 average (50.4), which means that the factory sector is likely to have shed additional jobs during 2016Q4. According to Statistics South Africa's Quarterly Employment Statistics, the sector lost 3 000 formal jobs in Q3 compared to Q2 and 23 000 on an annual basis.

	Oct	Nov	Dec
<b>Employment</b>	45.1	45.0	<b>46.2</b>

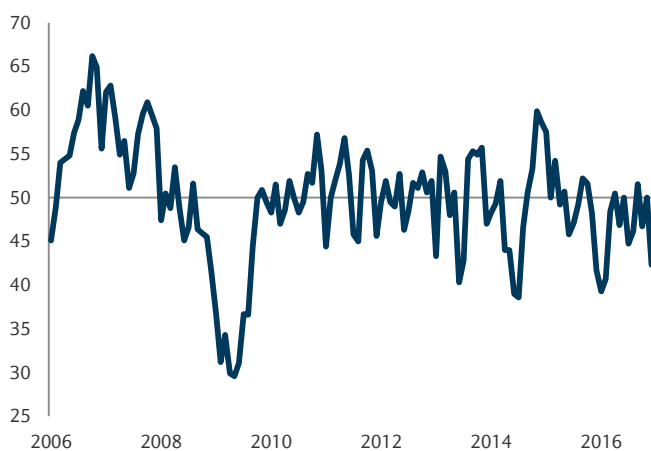
PMI: Inventories



The **inventories index** continued its recent downward move and declined for a third month. At 44.8 index points, the index is at the lowest level since late 2009.

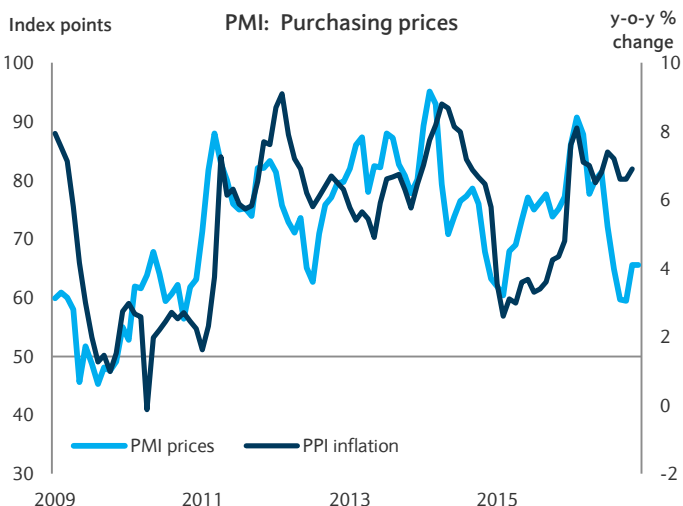
	Oct	Nov	Dec
Inventories	47.2	45.2	44.8

PMI: Purchasing commitments



The **purchasing commitments index** shed 7.7 points to reach 42.3 in December. This is the lowest level since February 2016.

	Oct	Nov	Dec
Purchasing commitments	46.7	50.0	42.3



The **purchasing price index** remained unchanged at 65.6 index points in December. While the rand exchange rate was slightly stronger compared to November, this was countered by the sharp rise in the Brent crude oil price. The hefty fuel price hike which came into effect last week could provide upward pressure on costs in January.

	Oct	Nov	Dec
Prices	59.4	65.6	65.6