

Absa Purchasing Managers' Index October 2022

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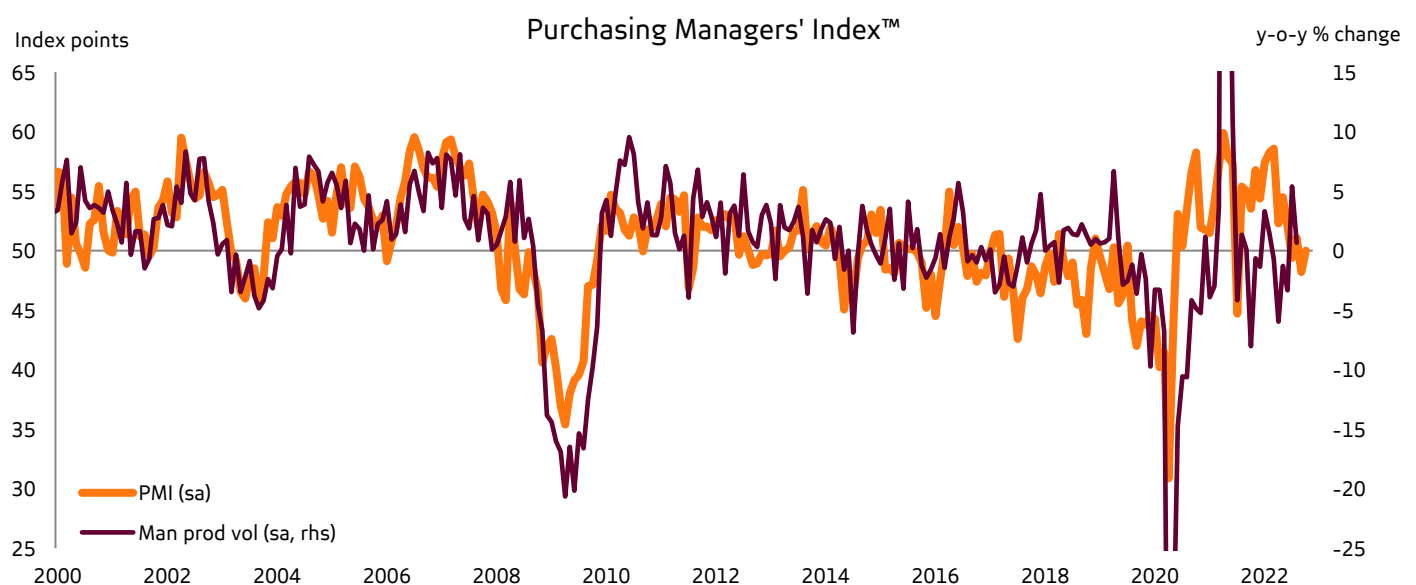
The seasonally adjusted **Absa Purchasing Managers' Index (PMI)** rose from 48.2 index points in September to 50 in October¹. This is slightly better than the average recorded during the previous quarter (49.6). However, the Transnet strike and faltering global demand likely hurt exports, while persistent load-shedding capped the recovery in activity and demand.

However, as the intensity of load-shedding was less severe compared to September, the **business activity index** did improve from the previous month. At 48.8 points, it still indicates weak output, but this was the best reading since March 2022. Worryingly, the **employment index** moved against the improvement in activity and tumbled lower in October. At 41.5 points, the index signals the fastest pace of job shedding in two years.

The **new sales orders index** bounced back in October, but remained stuck in negative terrain for a fifth consecutive month. As was the case in September, some respondents highlighted that in addition to curtailing their production, load-shedding is also hurting demand for their products. Exports remained poor amidst the paralyzing Transnet strike during the month, while global demand is faltering. The PMI readings from Europe, an important SA trading partner, point to a sharp slowdown in activity at the start of the fourth quarter. Indeed, worries about the strength of global growth going forward may help to explain the downtick in the **expected business conditions index**. The index tracking business conditions in six months slipped to 49.2. This is the most pessimistic purchasing managers have been about the outlook since May 2020. The persistence of load-shedding and little hope that this will be alleviated over the near term likely also weighed on sentiment.

There was some positive news as the **purchasing price index** moved lower for a fourth month. The index is now about 20 points below a record high reached in March this year. As foreshadowed by the PMI (which measures prices of goods coming into the factory), official data for factory-gate prices has started to trend lower. While producer price inflation (PPI) remains elevated, it seems clear that input cost pressures have peaked. That said, with a hefty fuel price hike to come into effect later this week, controlling costs remains a challenge (especially for those factories using diesel generators during times of load-shedding).

¹ The October PMI release incorporated updated seasonal adjustment factors (as is done once a year) for all the seasonally adjusted indices. This has resulted in minor changes to the historic data for these subcomponents and the headline PMI. The revised historical data is available on the [BER's website](#).

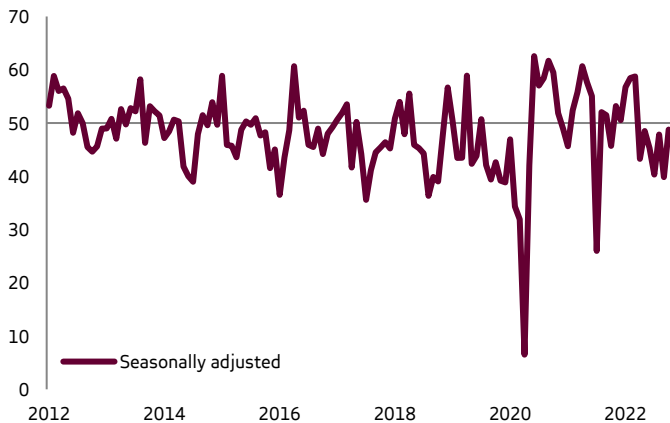


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For further information: Lisette IJssel de Schepper, Senior Economist, BER (Tel: 021 808 9777)

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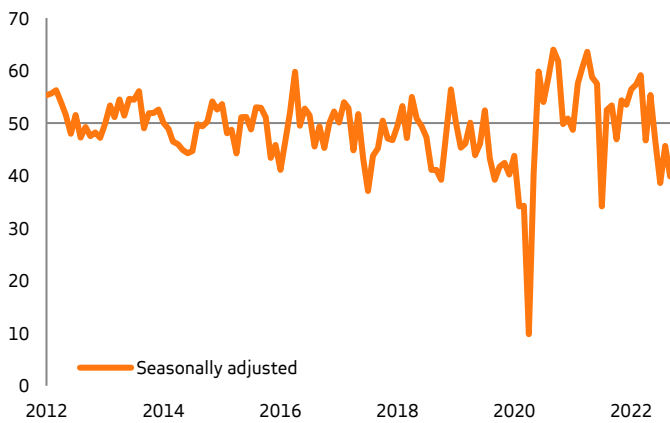
PMI: Business activity



The **business activity index** rose by 9 points to 48.8 in October. This is in line with the average of this subcomponent so far in 2022 (although this of course masks a lot of volatility with a stellar Q1, dismal Q2, followed by a lacklustre Q3). Even so, it is a better start to Q4 than the Q3 average, which bodes well for actual manufacturing output in the final quarter of the year.

	Aug	Sep	Oct
Business activity	47.8	39.8	48.8

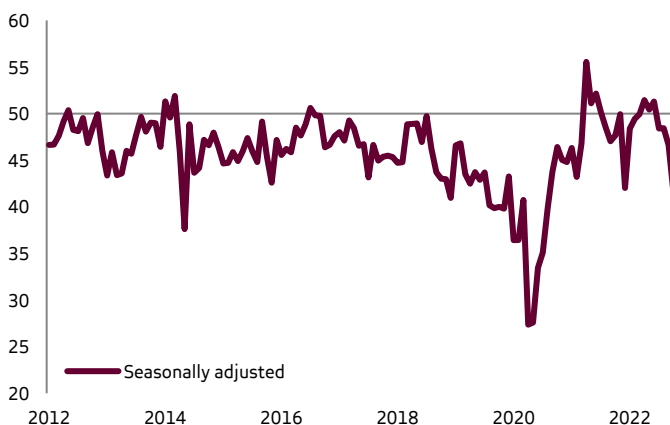
PMI: New sales orders



The **new sales orders index** continued mirroring the business activity movements and improved in October. However, it remained stuck in negative terrain, signalling weak underlying demand. Beyond the impact of load-shedding on domestic demand, exports were affected by the Transnet strike. Slow(ing) global growth could become a bigger constraint on export growth going forward. To be sure, the PMI readings from Europe point to a sharp slowdown in activity at the start of the fourth quarter.

	Aug	Sep	Oct
New sales orders	45.7	39.8	46.4

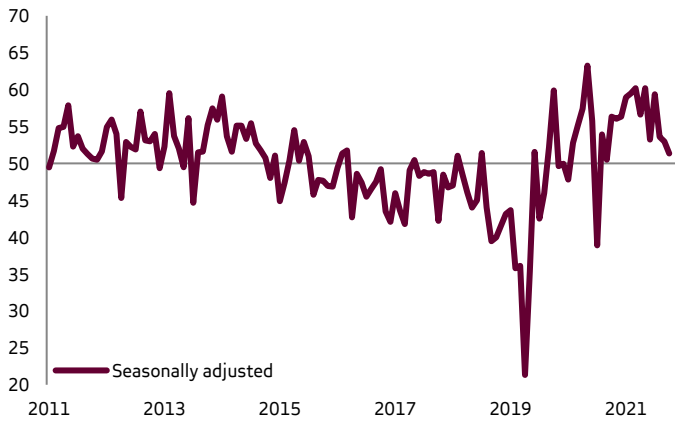
PMI: Employment



Moving against the improvement in business activity, the **employment index** dropped sharply in October. The index fell to its lowest level in about two years. Given the history of this series where sharp declines reverse in subsequent months, we need to be careful to not read too much into the drop. However, for now, this remains a worrying development.

	Aug	Sep	Oct
Employment	48.4	46.6	41.5

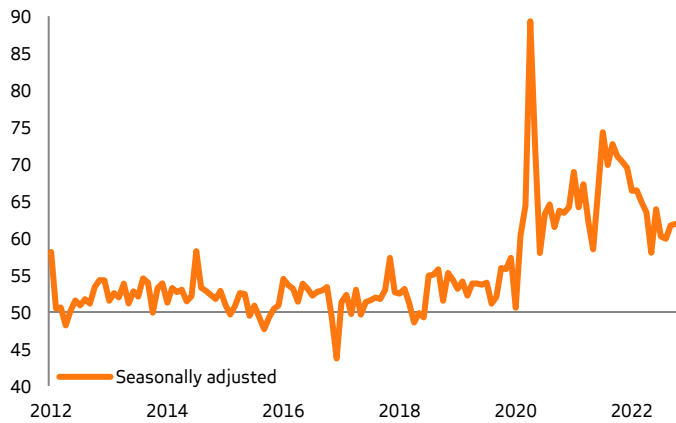
PMI: Inventories



The **inventories index** ticked down somewhat from recent elevated levels. The index has been a key support of the headline PMI during the second half of 2021 and 2022 as it has stayed (well) above 50 points since July 2021.

	Aug	Sep	Oct
Inventories	53.6	53.0	51.3

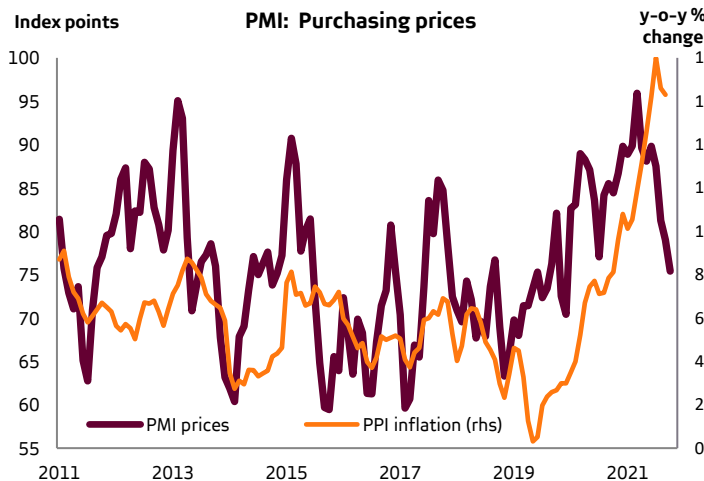
PMI: Supplier deliveries



The **supplier deliveries index** inched slightly higher in October. Given the disruptive impact on the movement of goods because of the Transnet strike, the index could easily have increased by more. This is because the index is inverted so a slowdown in deliveries (in normal times when there are no supply-side constraints this is a sign of improved demand) increases the index.

	Aug	Sep	Oct
Supplier deliveries	59.9	61.7	61.9

PMI: Purchasing prices



There was some positive news with the **purchasing price index** moving lower for a fourth month. The index is now about 20 points below a record high reached in March this year. As foreshadowed by the PMI (which measures prices of goods coming into the factory), official data for factory-gate prices has started to trend lower. While producer price inflation (PPI) remains elevated, it seems clear that input cost pressures have peaked. That said, with a hefty fuel price hike to come into effect later this week, controlling costs remains a challenge (especially for those factories using diesel-powered generators during times of load-shedding).

	Aug	Sep	Oct
Purchasing prices	81.3	79.0	75.4

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 (0.20), 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).