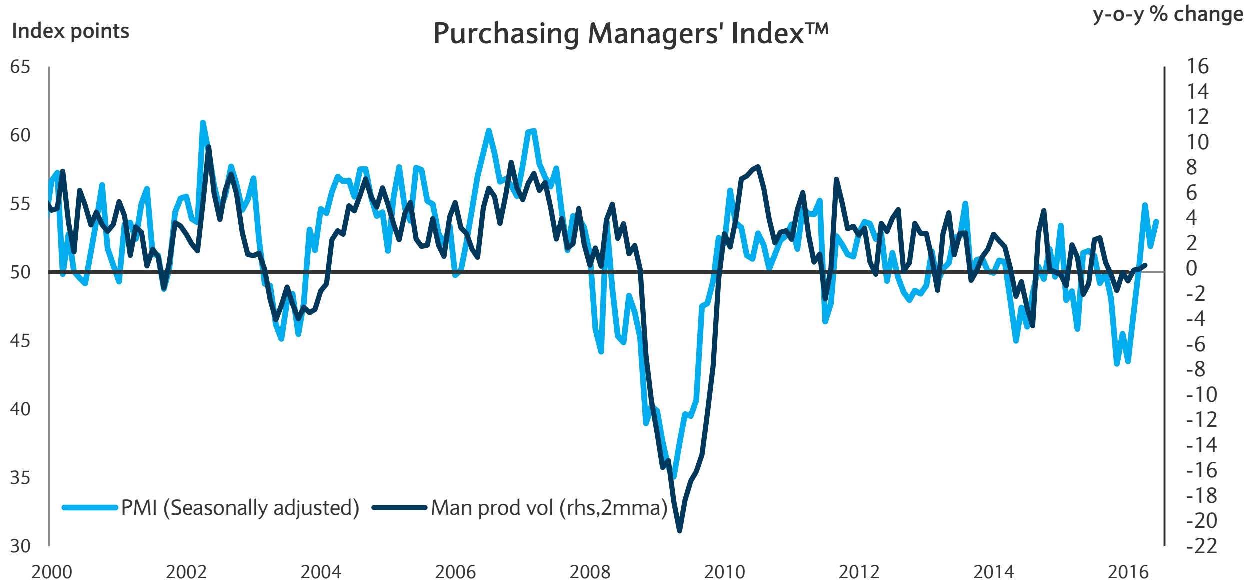
Barclays Purchasing Managers' Index June 2016

Embargoed until 11:00 1 July 2016

The **seasonally adjusted Barclays Purchasing Managers' Index (PMI)** rose to 53.7 index points in June, up from 51.9 in May. The PMI has now remained above the neutral 50-point mark for four consecutive months. This is an encouraging sign that conditions in the factory sector may be improving after a lacklustre 2015 and slow start to 2016.

The solid performance of the PMI was supported by all five major subcomponents coming in above 50 points. Stronger demand, according to some respondents driven by improved exports, helped lift production higher. As a result, the **new sales orders** and **business activity indices** rose to just above 54 index points. However, it remains to be seen whether this will be sustained. Domestic demand remains weak and exports could come under renewed pressure due to weaker UK and Eurozone growth in a post-Brexit world. A few respondents indicated that demand was supported by clients stocking up in anticipation of possible supply disruptions if upcoming wage negotiations in the automotive sector result in labour unrest in the third quarter. This suggests that any improvement in domestic demand may have been temporary. Increased stock levels were also seen in the PMI. The **inventories index** rose to 57 from 51.5 previously. The current level is the highest in almost a year.

The **price index** ticked up for a second straight month to 81.4 points from 80.1 previously. Despite the recent upward move, the average for the second quarter is more than 8 points below the first-quarter average. This corresponds to the official Producer Price Index which also suggests a slight moderation in final manufactured goods' inflation in the second quarter. Through the remainder of the year, upward price pressure could intensify as a sustained weak rand and higher electricity and fuel prices push up manufacturers' costs. This may have contributed to purchasing managers being less upbeat about **expected business conditions in six months' time**. This index fell to 52.9 from 54.1 in May – thereby still suggesting that conditions are expected to improve going forward. However, high inventory levels (compared to new sales orders) pushed the **PMI leading indicator** back below 1 for the first time since January 2016. This usually does not bode well for production growth going forward as inventories outstrip demand.



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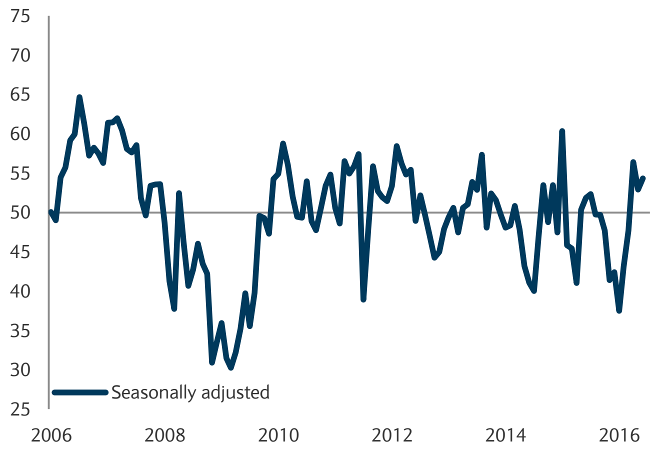
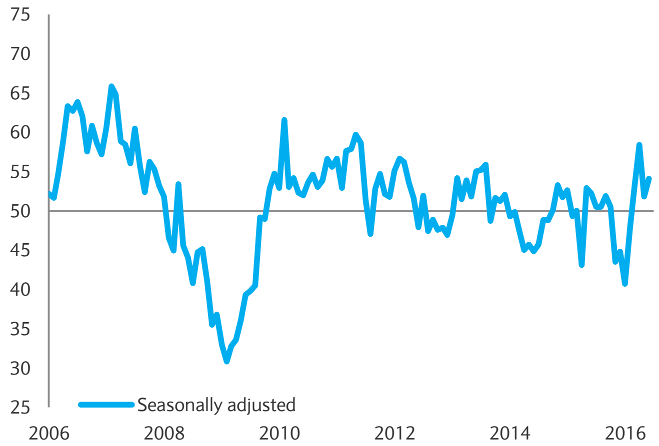
PMI: Business activity



The **business activity index** has improved steadily over the past few months, after tumbling lower through the second half of 2015 and reaching a 6 ½-year low in January 2016. The average level for the second quarter is well above the first quarter, which suggests that output growth in Q2 is likely to be stronger than the 0.1% quarter-on-quarter (seasonally adjusted) rate recorded in Q1. However, the majority of respondents indicated that production levels were unchanged in June from the previous month (rather than up or down). This suggests that, while output growth is stabilising, a sharp acceleration might not yet be on the cards.

	Apr	May	Jun
Business activity	56.4	52.9	**54.3**

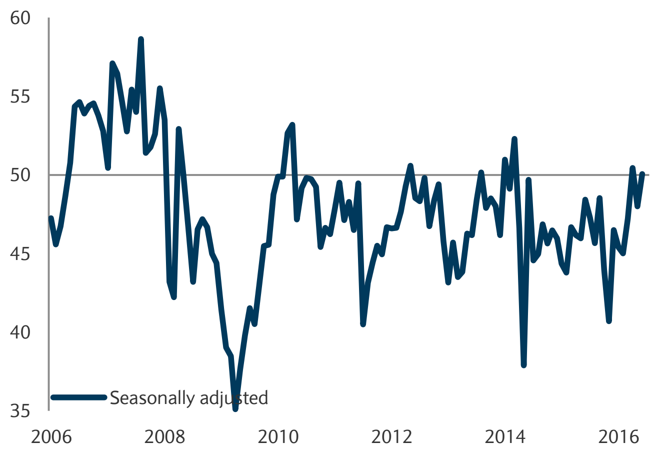
PMI: New sales orders



The **new sales orders index** increased to 54.1 index points from 51.8 in May. While a sustained improvement in domestic demand is unlikely over the short term, some respondents reported higher exports. However, uncertainty after Brexit may result in a slowdown in the UK and Eurozone economies – a key market for SA manufactured goods – which could weigh on export growth going forward.

	Apr	May	Jun
New sales orders	58.4	51.8	**54.1**

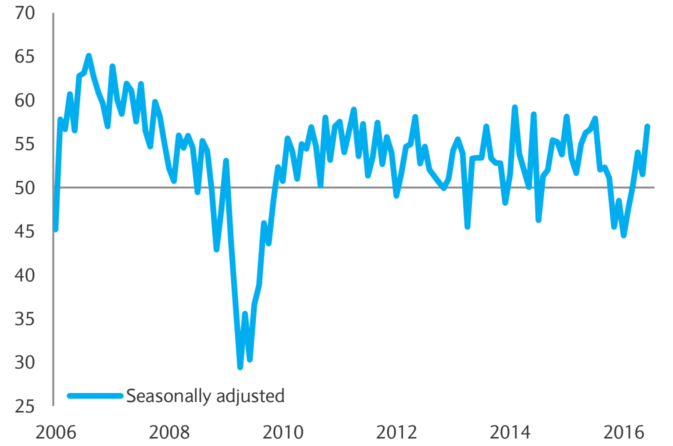
PMI: Employment



The **employment index** is trending up after reaching a recent low of 40.7 points in November 2015. The index is currently just above the neutral 50-point mark (for the second time this year). The uptick is encouraging after the sector lost 141 000 jobs (on an annual basis) in 2016Q1 and suggests that factory employment may have stabilised somewhat in Q2.

	Apr	May	Jun
Employment	50.4	48.0	**50.1**

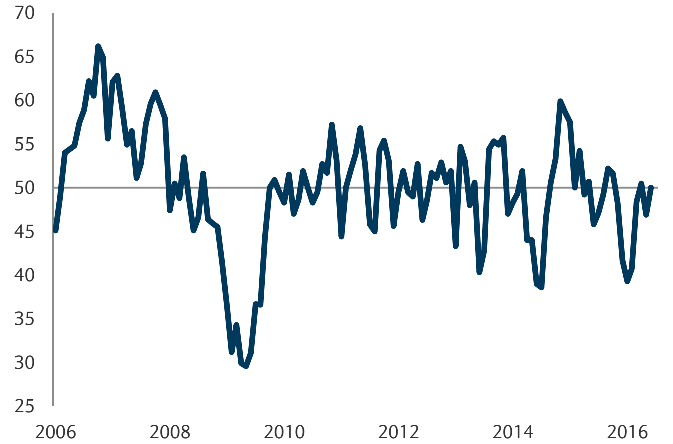
PMI: Inventories



The **inventories index** rose to 57 index points in June, the best level in about a year. The index is now 12.5 points higher than at the start of 2016. Some subsectors may be stocking up in anticipation of possible supply disruptions in the automotive sector where wage negotiations are planned in Q3.

	Apr	May	Jun
Inventories	54.0	51.5	**57.0**

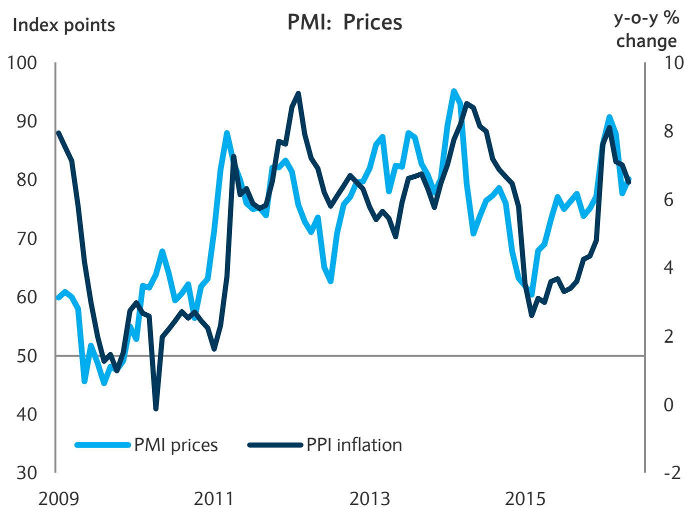
PMI: Purchasing commitments



The **purchasing commitments index** rose to 50 points in June, up from 46.9 in May. The average level recorded during the second quarter is more than 6 points higher than the average level of the first quarter.

	Apr	May	Jun
Purchasing commitments	50.5	46.9	**50.0**

PMI: Prices



The **price index** ticked up for a second straight month in June. Despite the uptick, the average for the second quarter is more than 8 points lower than the average level recorded during the first quarter. This corresponds to the official Producer Price Index which also suggests a slight moderation in final manufactured goods inflation in the second quarter. Through the remainder of the year, however, upward price pressure could intensify as a sustained weak rand and higher fuel and electricity prices (amongst other factors) impact manufacturers' costs.

	Apr	May	Jun
Prices	77.7	80.1	**81.4**