Absa Purchasing Managers' Index
September 2021

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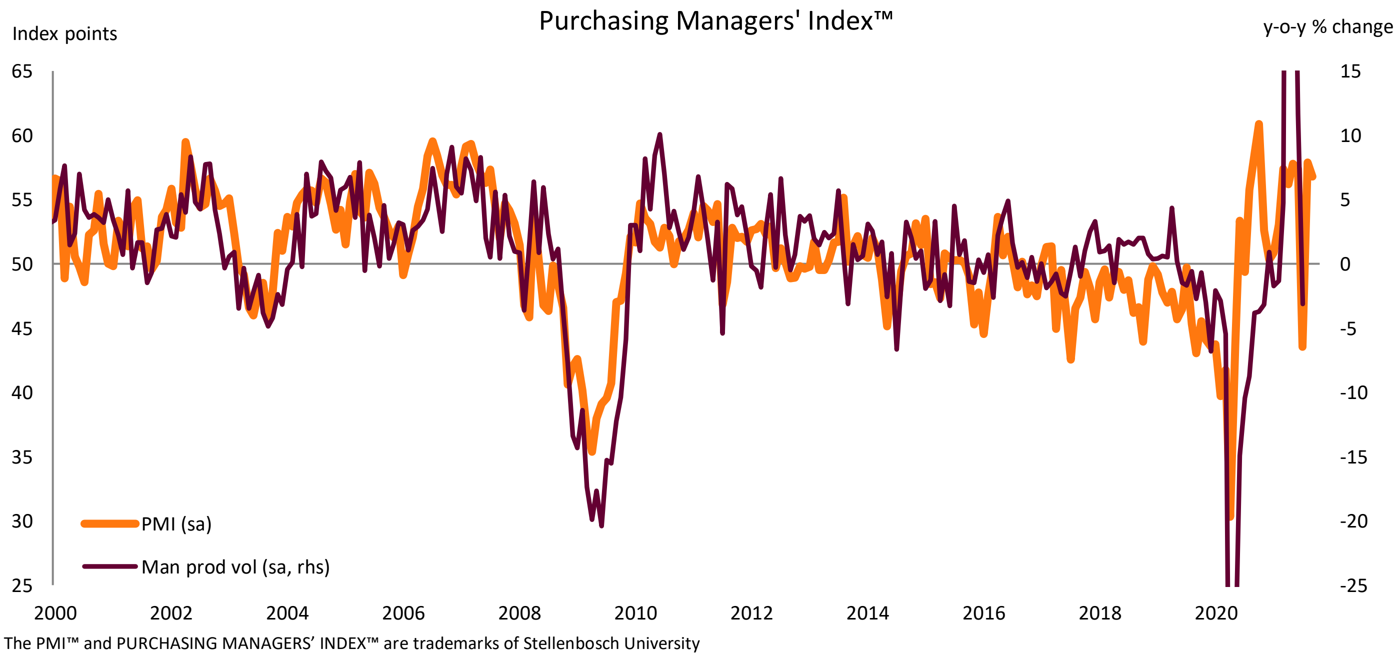
The seasonally adjusted **Absa Purchasing Managers' Index (PMI)** stabilised at an elevated level in September. This comes after large swings in the prior two months when several well-documented shocks pushed the PMI sharply lower in July, followed by a robust rebound in August. At 56.8, the headline PMI index declined somewhat in September from the 57.9 points recorded in August. Even with the decline, the September reading was only slightly lower than the average of 57.1 recorded in the second quarter of 2021. However, the average PMI reading for the third quarter was down by 4.4 points relative to 2021Q2.

In terms of the follow-through to actual Q3 manufacturing production, the **business activity** subindex of the PMI is the more appropriate indicator to consider. In this case, the movement in September was starker. After crashing in July and rebounding significantly in August, this index declined by almost 5 points to 53.8 in September. In terms of the quarterly average, the business activity index measured 46.3 points in 2021Q3, down notably from just more than 55 in the second quarter. The weaker activity levels in 2021Q3 are in line with the trend in the Absa quarterly manufacturing survey and suggests that the manufacturing sector is likely to be a drag on the quarterly GDP momentum in the third quarter.

The **new sales orders** index also lost ground in September, albeit less so than the activity component. Indeed, at 59.2, new sales orders remained elevated. There seems to have been some softening in export demand, which would be consistent with the recent cooling in the PMI indicators for the Eurozone and the UK. Even so, respondents continue to expect an improvement in overall business conditions over the next six months.

After softening in July, the **purchasing price index** increased for the second consecutive month in September. Along with supplier delivery times that lengthened again in September, the rise in input costs may reflect the impact of worsening global supply-side bottlenecks. Looking forward, besides the cost implication of supply and shipping constraints, the much weaker rand exchange rate in the latter part of September and the recent (further) rise in the Brent crude oil price should keep input cost pressures elevated in the foreseeable future.



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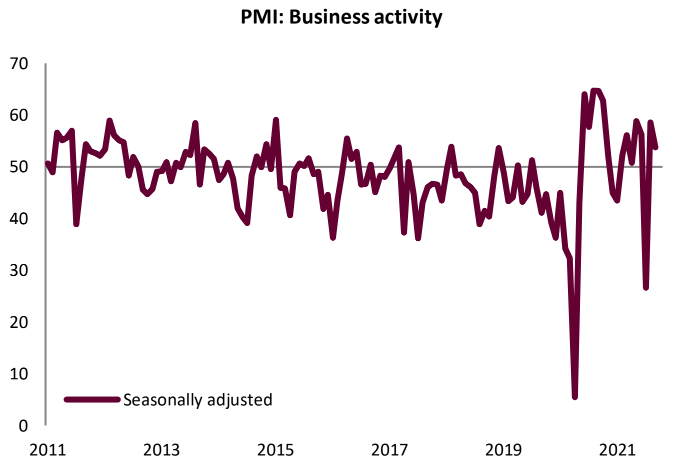
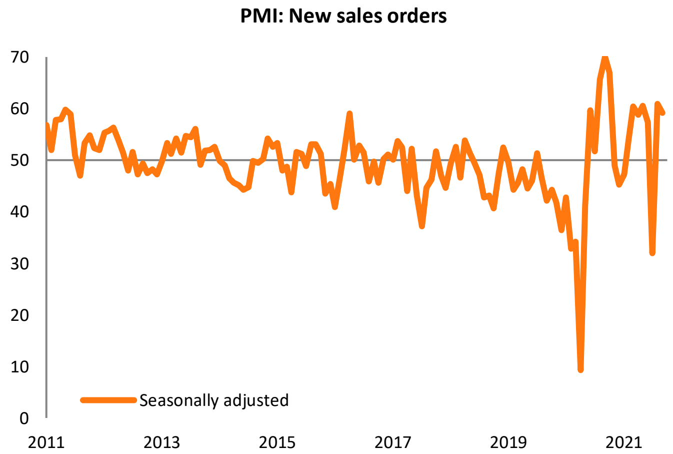


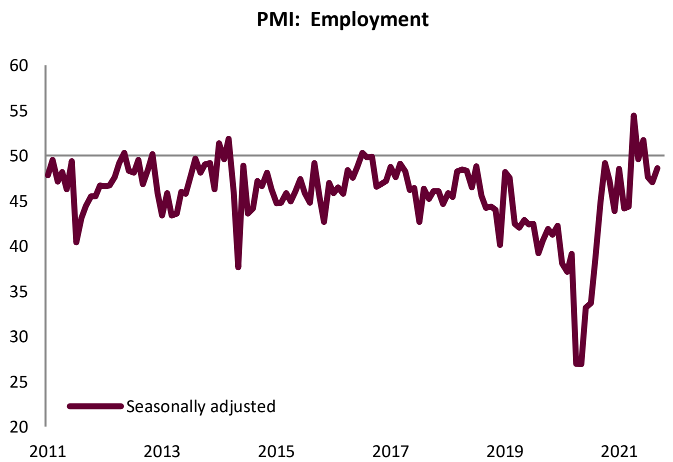
Actual seasonally adjusted real manufacturing production plunged by 8% m-o-m in July. This was forestalled by the second lowest reading ever (series since September 1999) for the PMI **business activity index** during the same month. The PMI business activity index readings for August and September suggest that production recovered smartly in the latter months of the third quarter. Even so, measured quarter-on-quarter, actual output is likely to contract in Q3, weighing on the recovery momentum of overall GDP.

	Jul	Aug	Sep
Business activity	26.6	58.5	**53.8**



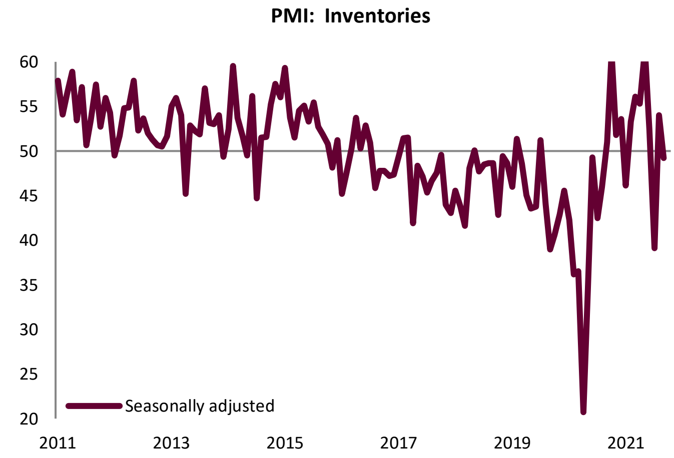
Even after easing somewhat in September, the **new sales orders index** remained at an elevated level. Several factors may be at play here. Although some of SA's key export commodity prices have sold off aggressively from recent peaks, there may still be decent demand for manufactured goods from the domestic mining sector. On the consumer front, less restrictive lockdown regulations as SA exits the third COVID-19 wave are supportive of manufacturing subsectors with exposure to the liquor and hospitality sectors. Finally, despite recent signs of an easing in global growth momentum, aggregate activity remains firm.

	Jul	Aug	Sep
New sales orders	31.9	60.9	**59.2**



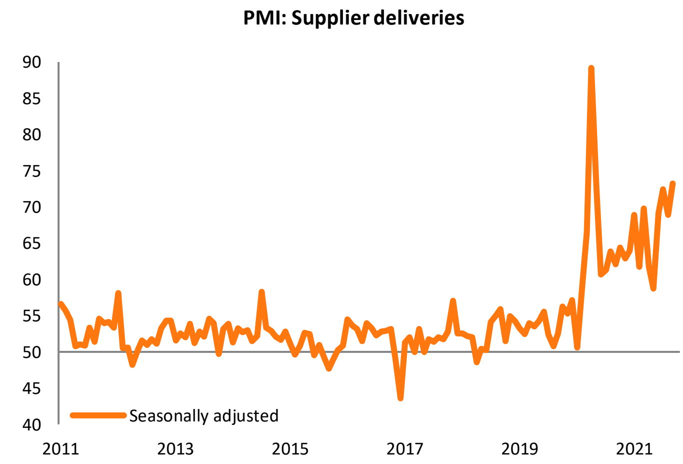
The **employment index** ticked higher in July, but remained below the key 50 dividing line. This continues to suggest a lacklustre factory sector job market. To be sure, the recently released Quarterly Employment Statistics from Stats SA showed that the sector shed 15 000 jobs in 2021Q2. Unfortunately, the looting shock in July may result in more job shedding, especially in KwaZulu-Natal.

	Jul	Aug	Sep
Employment	47.6	47.1	**48.6**



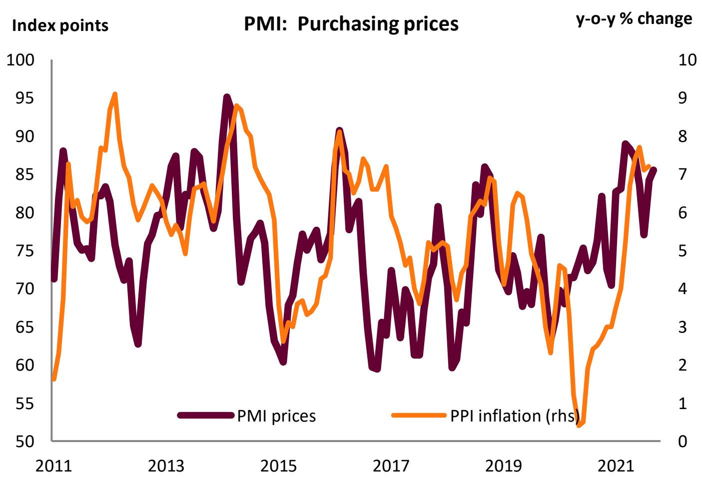
After a brisk recovery in August, the **inventories index** retreated again in September. Driven by the large decline in July, the inventories index averaged less than 50 in the third quarter.

	Jul	Aug	Sep
Inventories	39.1	54.0	**49.2**



In September, the **supplier deliveries index** exceeded the elevated level recorded during July. Given the easing of the new sales orders index in July, the lengthening of delivery lead times is unlikely to have been driven by robust demand conditions. Rather, as also seen in some of the international PMI data already available for September, this probably suggests that bottlenecks continue to clog up supply chains. It may also be the combination of recovering demand and bottleneck pressures that can explain the longer wait for deliveries in September.

	Jul	Aug	Sep
Supplier deliveries	72.5	68.9	**73.2**



The **purchasing price index** rose for a second consecutive month. In the foreseeable future, this suggests that the annual rise in the official producer price index could be sticky between roughly 7 to 8%. If sustained, the recent combination of the rand moving to weaker than R15/$ and the Brent crude oil price reaching $80/barrel will add to manufacturing input cost pressures.

	Jul	Aug	Sep
Purchasing prices	77.0	84.2	**85.5**

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).