

Absa Purchasing Managers' Index

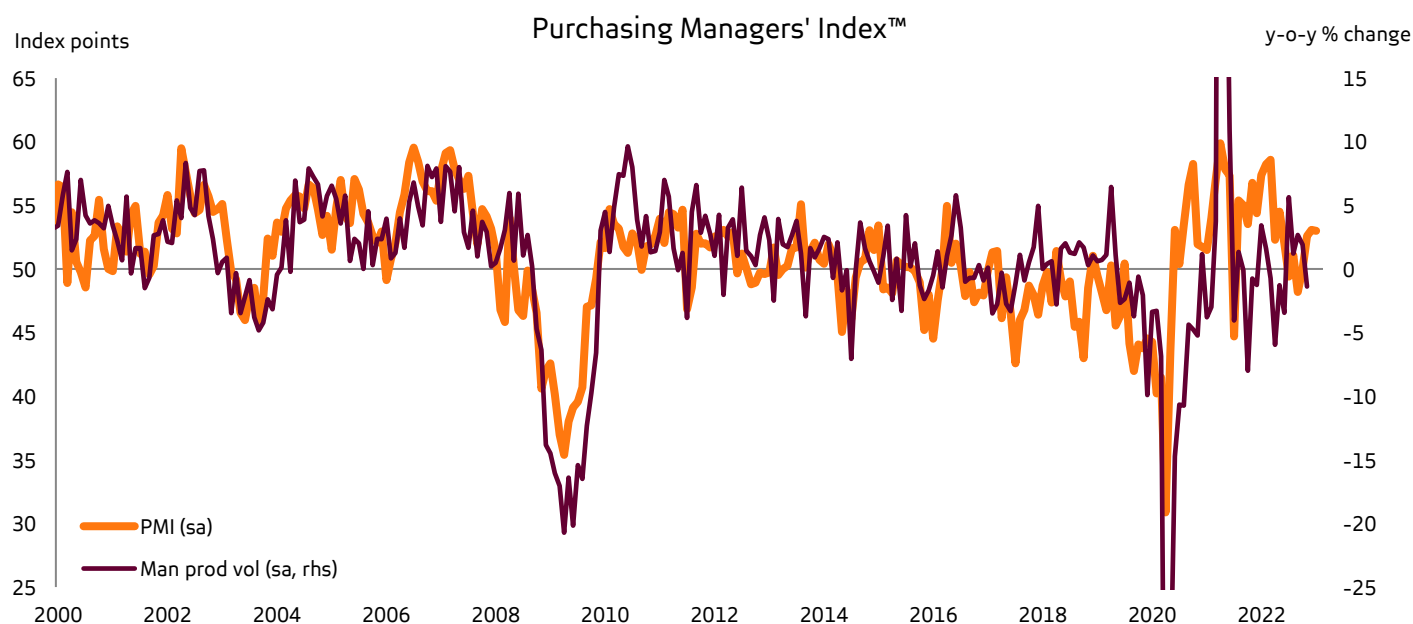
January 2023

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The seasonally adjusted **Absa Purchasing Managers' Index (PMI)** came in at 53.0 index points in January 2023 – virtually unchanged from 53.1 in December. A decline in the **employment** and **new sales orders indices** to levels below 50 were offset by higher activity and **inventories** returning to positive terrain. Most encouraging was the significant, and surprising, improvement in the **business activity index** relative to the previous month. This was despite many respondents still flagging load-shedding as holding back production and **new sales orders** dipping lower in January. Should this translate into actual production growth, it would be a promising start to the year for the struggling sector.

Continued activity growth would require a sustained improvement in demand and most likely a move to less intense stages of load-shedding. In this regard, the increase in the **expected business conditions index** was encouraging. The index tracking expected business conditions in six months' time rose by 8.9 points to 63.8 – the best level since early 2022. Given the poor potential for the domestic economy to accelerate demand growth for factory goods, this was likely driven by better expectations for the global economy. There are more signs of the European economy avoiding a near-term recession and the reopening of the Chinese economy providing a further boost to global demand.

Following a steady decline, the **purchasing price index** booked its biggest increase since March 2022. That said, the index remains low relative to its long-term average – meaning cost pressure remains less intense compared to most of 2022. The uptick in costs could possibly be linked to measures to offset the impact of load-shedding on production.

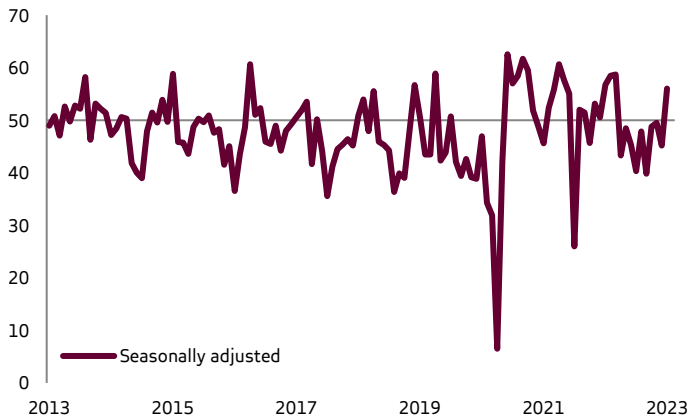


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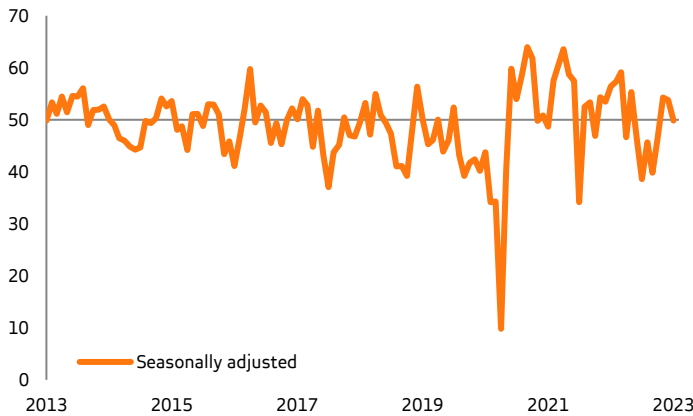
PMI: Business activity



Following a poor ending to a dismal year, the **business activity index** surged higher in January. While encouraging, it remains to be seen whether this can be sustained in coming months. Indeed, many of the respondents flagged load-shedding as a drag on production.

	Nov	Dec	Jan
Business activity	49.5	45.2	56.0

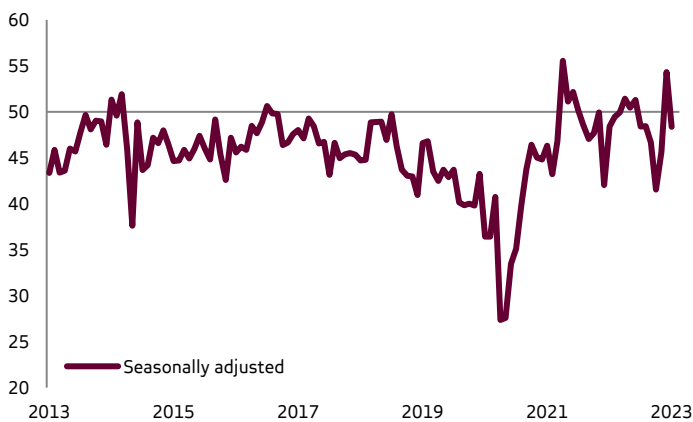
PMI: New sales orders



The **new sales orders index** had proved surprisingly resilient in the final two months of 2022, but the January reading points to no change in demand in the first month of 2023. As export sales remained unchanged at a fairly high level, the deterioration was likely caused by weaker domestic demand.

	Nov	Dec	Jan
New sales orders	54.3	53.8	49.9

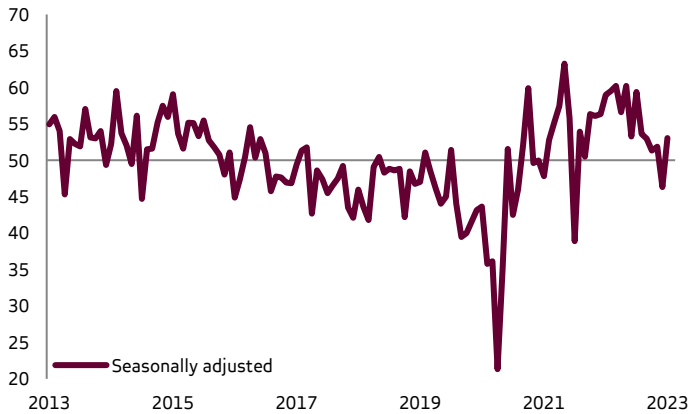
PMI: Employment



Following an unexpected surge to 54.3 in December, the **employment index** dipped back below the neutral 50-point mark in January. This suggests that any improvement in staffing levels at the end of the year was temporary.

	Nov	Dec	Jan
Employment	45.7	54.3	48.4

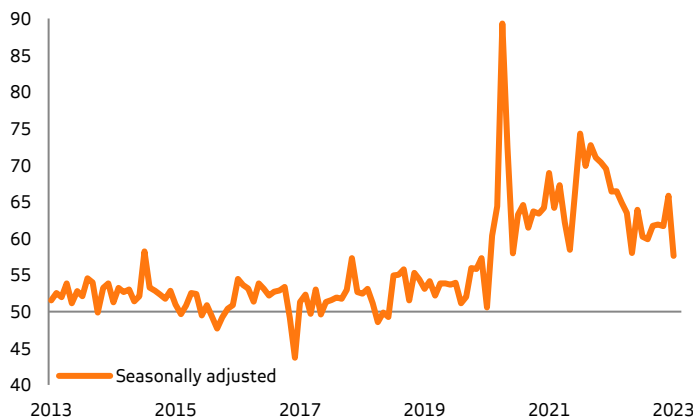
PMI: Inventories



The **inventories index** more than recovered from December's sudden drop to below the neutral 50-point mark. The index rose by 6.8 points to its best level since August 2022.

	Nov	Dec	Jan
Inventories	51.9	46.3	53.1

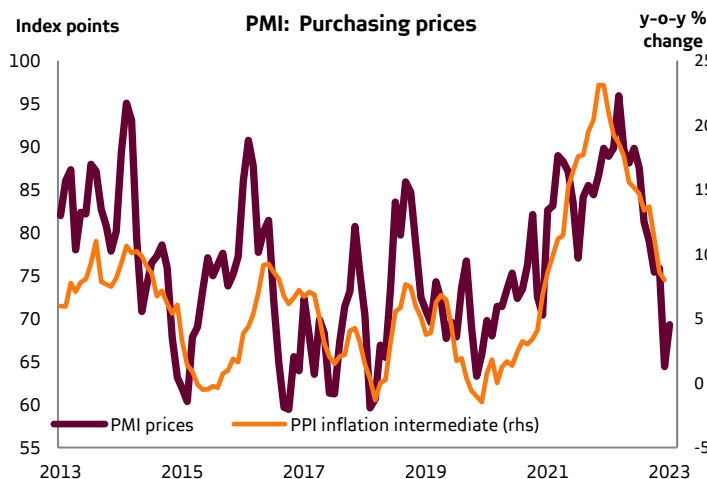
PMI: Supplier deliveries



The **supplier deliveries index** declined to the lowest level in two years – albeit still remaining well above the neutral 50-point mark which was unusual prior to the pandemic. The fall could have been due to more efficient supply chains resulting in faster delivery times (as the index is inverted, so faster delivery times result in a decrease). It could also be linked to the downtick in new sales orders, with less demand for inputs resulting in more responsive deliveries.

	Nov	Dec	Jan
Supplier deliveries	61.7	65.8	57.6

PMI: Purchasing prices



Following a steady decline, the **purchasing price index** booked its biggest increase since March 2022. That said, the index remains low relative to its long-term average. The uptick in costs could possibly be linked to measures to offset the impact of load-shedding on production. The rand exchange rate was (on average) slightly stronger to the dollar compared to December, but the Brent crude oil price was higher. The resulting uptick in the fuel price today will put further pressure on costs, especially for businesses using diesel generators.

	Nov	Dec	Jan
Purchasing prices	75.9	64.4	69.3

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).