

Absa Purchasing Managers' Index

March 2023

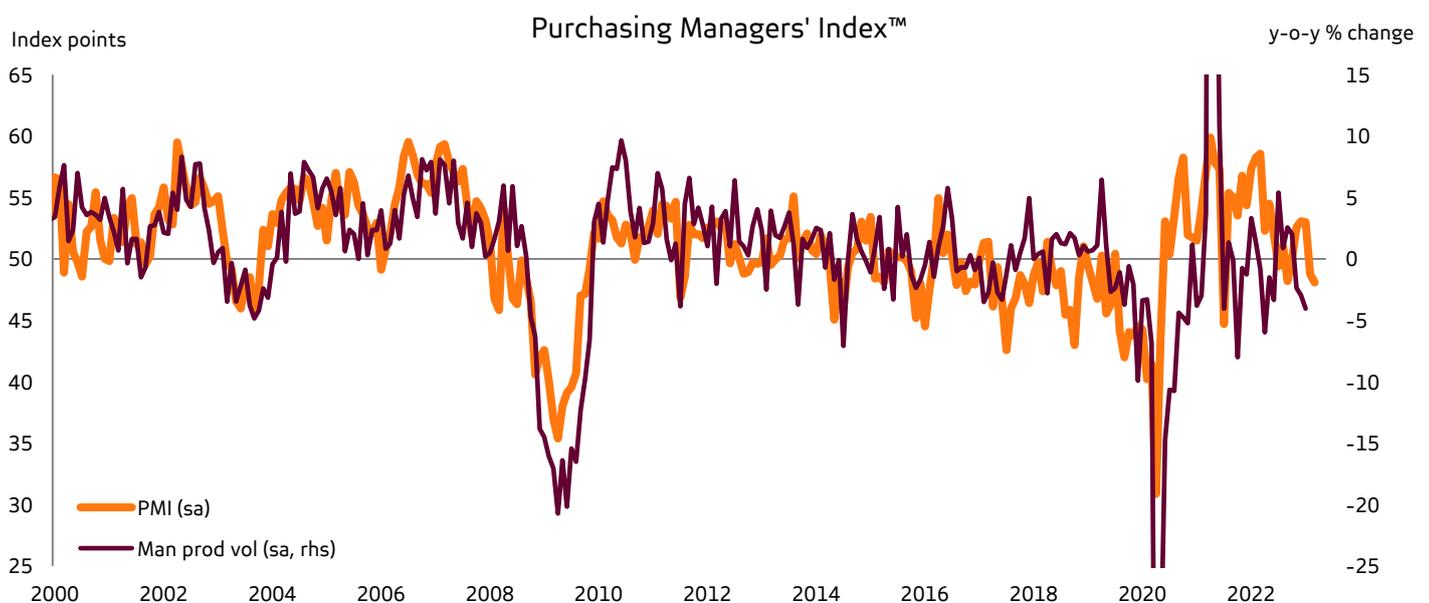
Embargoed until 11:00 3 April 2023

The seasonally adjusted **Absa Purchasing Managers' Index (PMI)** ticked down slightly in March to 48.1 from 48.8 in February. After a solid start to the year, this was the second straight month that the index pointed to a deterioration in business conditions in the manufacturing sector. Still, when considering the performance of the **business activity index** through the entire first quarter, it suggests that output could improve from the quarterly contraction recorded in the fourth quarter of 2022. On the other hand, domestic demand seems to be struggling, with some comments referring to local demand faltering due to load-shedding. Indeed, in contrast to business activity, the **new sales orders index** performed worse relative to the fourth quarter. This was despite the PMI's index tracking export sales performing well through the first quarter and rising to an almost two-year high in March.

In a further sign that delivery times are normalising, the **supplier deliveries index** recorded another steep decline to reach 50.8, the lowest level since the start of the pandemic. This is likely partly due to less constrained global supply chains, a trend also reflected in some international PMI surveys. This is a positive development for the sector. However, on the negative side, sustained weak demand likely also explains some of the recent downward move in South Africa.

Meanwhile, the **purchasing price index** halted its recent upward trend and fell slightly in March. This was despite a slight increase in the diesel price at the start of the month and a weaker rand exchange rate (on average to the US dollar) compared to February. However, less intense load-shedding during the second half of March would have helped lessen the costs of running diesel generators.

Respondents turned more optimistic about business conditions going forward. Following a sharp deterioration in February, the index tracking **expected business conditions in six months' time** rose to 55.5 from 46.8 in February. This means that purchasing managers generally expect conditions to look better later this year. However, the long-term average of this index is well above the current reading, suggesting less optimism than usual.

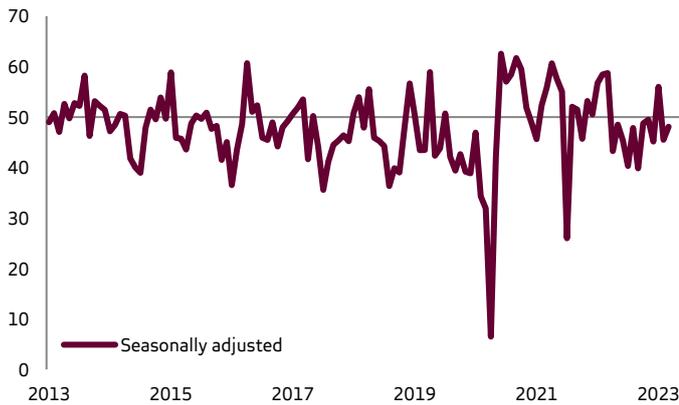


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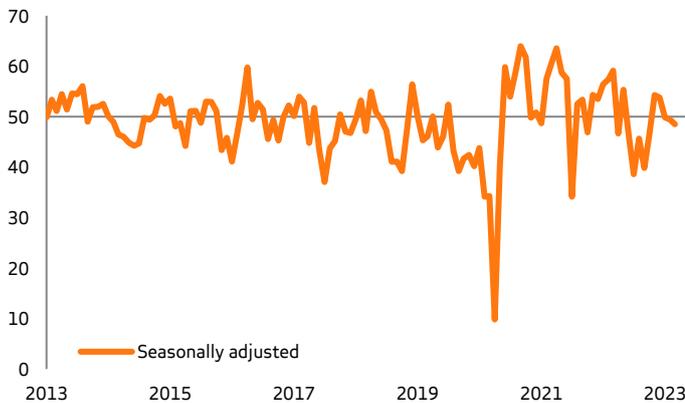
PMI: Business activity



The **business activity index** ticked up somewhat following a sharp decline in February. Due to a strong start to the year (also reflected in a solid monthly uptick in official manufacturing production during January), the average for the business activity index in Q1 is about 2 points above Q4's average. This suggests that manufacturing output may improve in Q1 following the quarterly contraction recorded in Q4.

	Jan	Feb	Mar
Business activity	56.0	45.5	48.1

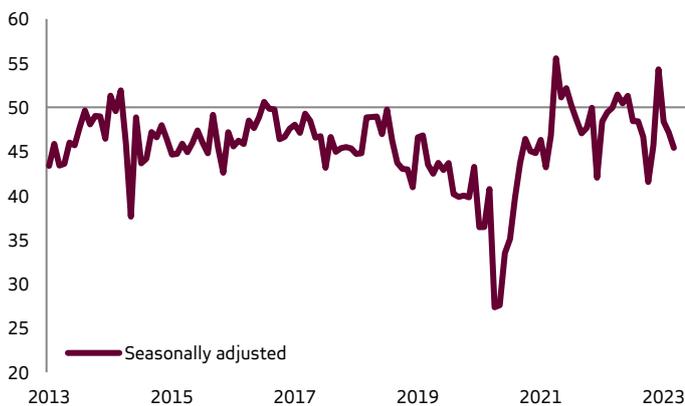
PMI: New sales orders



In contrast to business activity, the **new sales orders index** had a worse quarter compared to Q4. The index pointed to declining demand (although the pace of deterioration was modest) throughout the entire quarter. Some comments refer to local demand struggling due to load-shedding. Encouragingly, the PMI's index tracking export sales performed well through Q1 and rose to an almost 2-year high in March.

	Jan	Feb	Mar
New sales orders	49.9	49.4	48.5

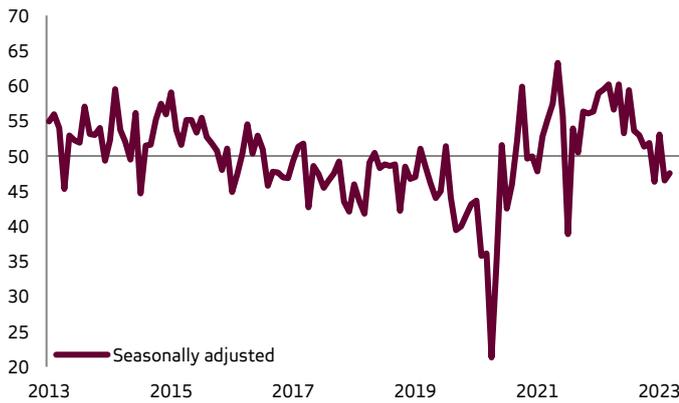
PMI: Employment



The **employment index** fell for a third consecutive month to 45.4 in March. According to the latest jobs data (QES) from Statistics South Africa, the level of formal employment in the sector barely changed through 2022, and the recent PMI data does not indicate an improvement in job growth during 2023.

	Jan	Feb	Mar
Employment	48.4	47.1	45.4

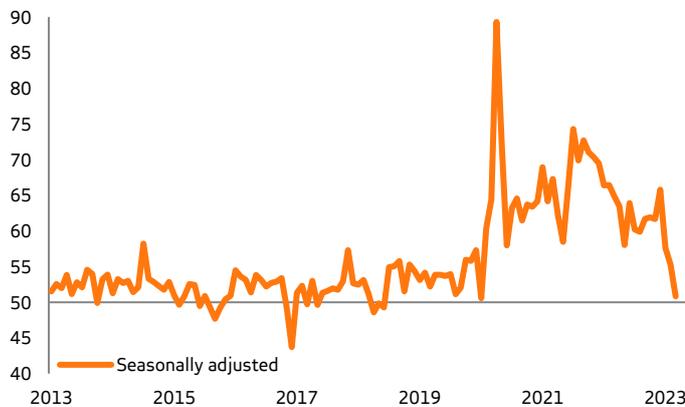
PMI: Inventories



The **inventories index** failed to recover most of February's losses and remained stuck below the neutral 50-point mark for a second month.

	Jan	Feb	Mar
Inventories	53.1	46.5	47.6

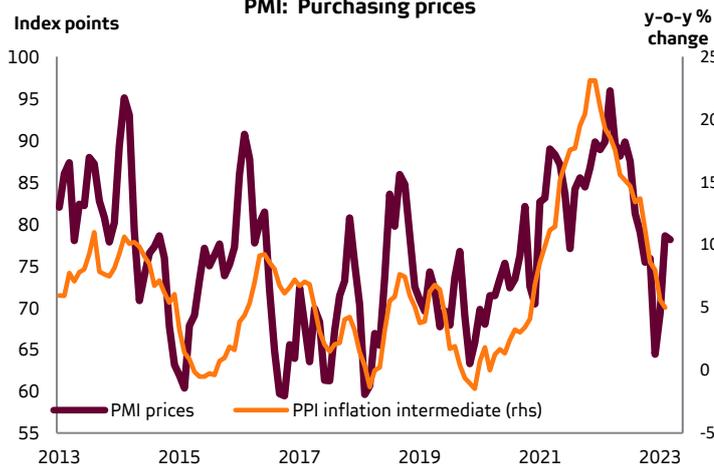
PMI: Supplier deliveries



The **supplier deliveries index** recorded another steep decline to reach 50.8, the lowest level since the start of the pandemic. This is likely partly due to less constrained global supply chains resulting in faster delivery times, a trend also reflected in some international surveys. This is a positive development for the sector. However, on the negative side, sustained weak demand likely also explains some of the recent downward move in SA. This is because the index is inverted. Pre-COVID, when supply chain issues did not have such a bearing on the index, faster deliveries tended to be accompanied by weak demand conditions. To capture this, faster deliveries were seen as an adverse development and reflected in a decline of the index that subtracted from the headline PMI.

	Jan	Feb	Mar
Supplier deliveries	57.6	55.3	50.8

PMI: Purchasing prices



The **purchasing price index** halted its recent upward trend and ticked down slightly in March. This was despite a modest increase in the diesel price at the start of the month and a weaker rand exchange rate (on average to the US dollar) compared to February. However, the lower Brent crude oil price through the month could have alleviated some pressure on petrochemicals costs. Furthermore, less intense load-shedding during the second half of March would have helped lessen the costs of running diesel generators.

	Jan	Feb	Mar
Purchasing prices	69.3	78.6	78.1

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).