Absa Purchasing Managers' Index
April 2023

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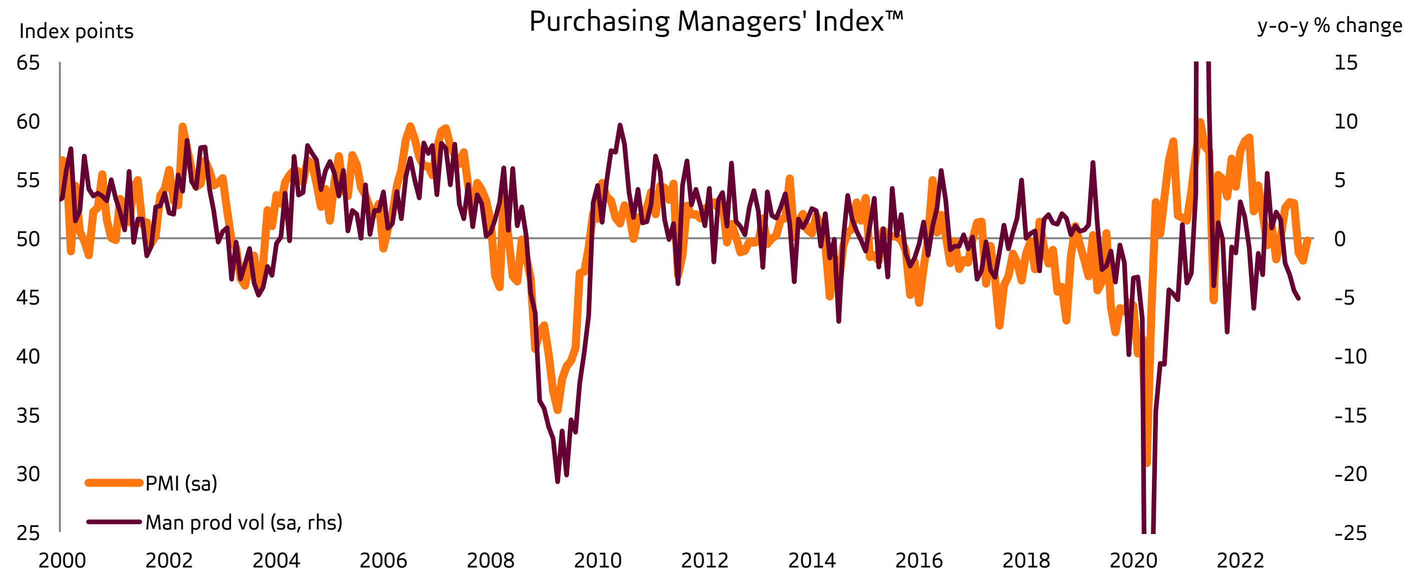
The seasonally adjusted **Absa Purchasing Managers' Index (PMI)** rose to 49.8 index points in April 2023 from 48.1 in March. Despite the improvement, the index failed to edge back above the neutral 50-point mark as **business activity** and **new sales orders** worsened relative to March. Indeed, the headline PMI would have deteriorated further if not for a significant improvement in the **inventories index**. The underlying survey results suggest that the sector experienced another tough month at the start of the second quarter amid intense load-shedding hurting output, and demand remaining under pressure.

The **inventories index** surged to its highest level since mid-2022 in April. While we would caution against reading too much into a single month's movement, the rapid rise in stock levels of materials and goods used in the production process could have been caused by improved deliveries of goods on the back of better working supply chains (which would gel with the recent move in the PMI **supplier deliveries index**). In addition, or perhaps alternatively, weaker demand for final goods or disruptions to the production process (due to load-shedding) could also have resulted in inventories of input products being higher. Indeed, business activity (output) edged lower in April to 47.6 index points. On the demand front, new sales orders moved down more decidedly than output and reached the worst level since September 2022. The index declined to 44.3 from 48.5 in March.

Looking forward, purchasing managers now only see a marginal improvement in future business conditions. The index tracking **expected business conditions in six months' time** declined from 55.5 to 51 in April. The expectation of a harsh winter ahead regarding load-shedding and uncertainty about the strength of global demand, with the manufacturing sector in major European trading partners under pressure, likely depressed expectations. A potential positive for the sector is that reduced pressure on costs can be expected through the remainder of the year. Following a sharp rise in February, the **purchasing price index** moved lower for a second month in April. To be sure, input prices are unlikely to come down, but the rapid pace of annual cost increases producers had to deal with through 2022 is set to become much less intense through the rest of 2023. The notable exception is set to be load-shedding mitigation costs, such as powering diesel generators.



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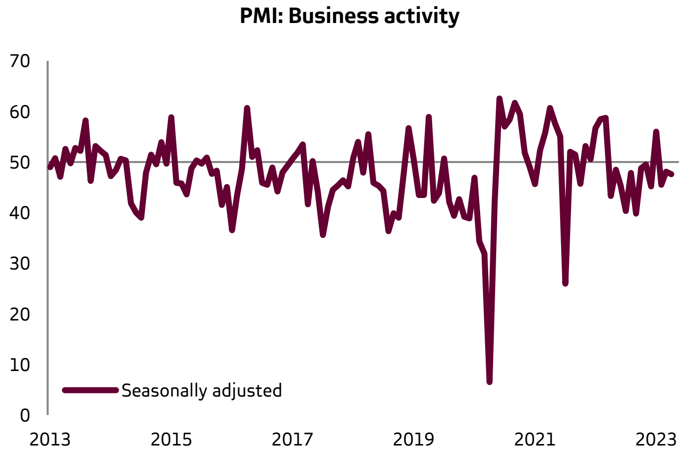
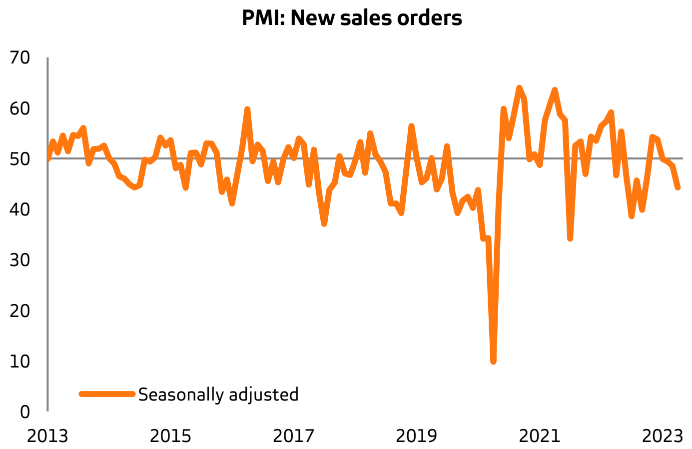


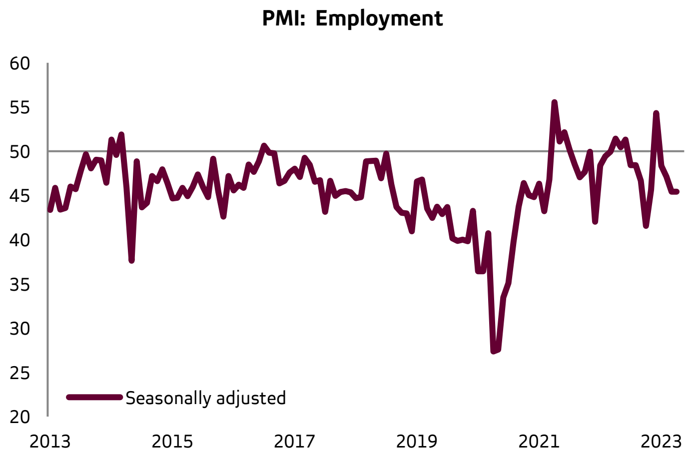
The **business activity index** had a poor start to the second quarter of 2023. The current level is more or less in line with the 2022Q4 average when the sector contracted and deducted from GDP growth. Respondent commentary once again referred to load-shedding hurting production but sustained weaker orders likely also weighed on output.

	Feb	Mar	Apr
Business activity	45.5	48.1	**47.6**



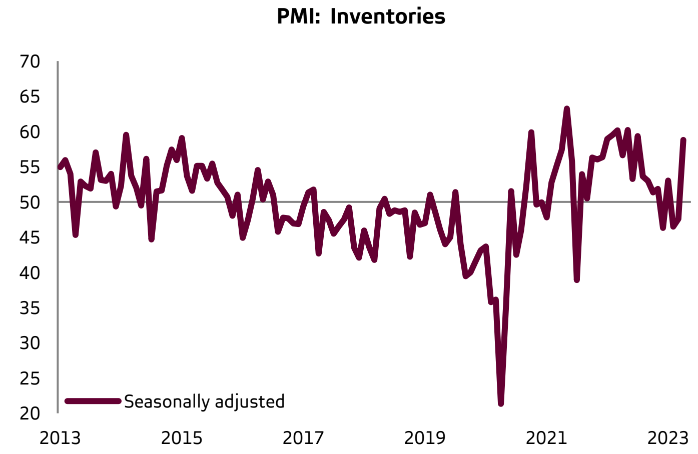
The **new sales orders index** has been just below the neutral 50-point mark since the beginning of the year and moved down even further at the start of the second quarter. Export sales remained in positive terrain but weakened relative to February and March.

	Feb	Mar	Apr
New sales orders	49.4	48.5	**44.3**



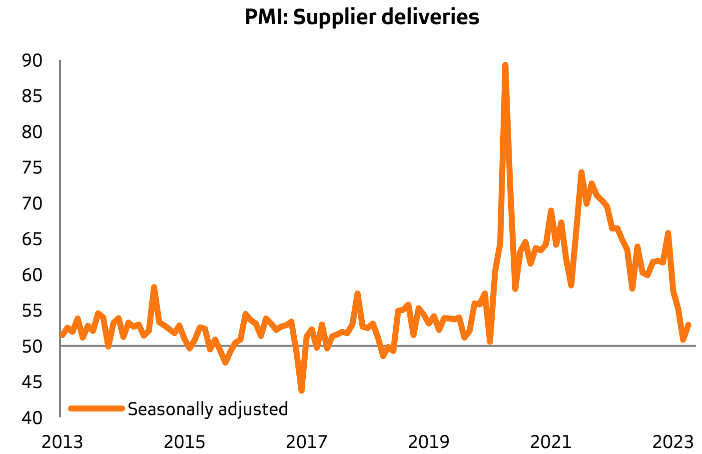
The **employment index** stayed unchanged at 45.4 in April. It is unlikely we will see a marked improvement in staffing levels without a sustained rise in production and demand.

	Feb	Mar	Apr
Employment	47.1	45.4	**45.4**



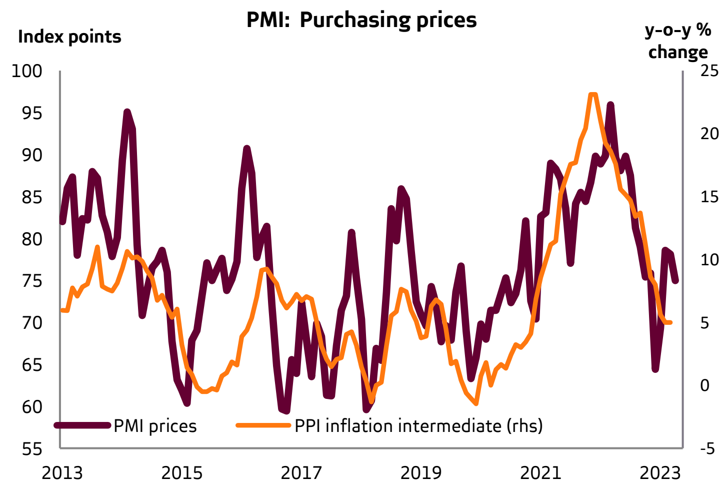
The **inventories index** rose sharply in April and surged to its highest level since mid-2022. While we caution against reading too much into a single month's movement, the rapid rise in stock levels of materials and goods used in the production process could have been caused by improved deliveries of goods (which would gel with the recent move in the supplier deliveries index). In addition, weaker demand for final goods or disruptions in the production process (due to load-shedding) could also result in inventories of inputs being higher.

	Feb	Mar	Apr
Inventories	46.5	47.6	**58.8**



The **supplier deliveries index** edged up slightly in April but stayed at a relatively low level compared to readings since the onset of the pandemic. This is likely due to better-working global supply chains resulting in faster raw materials and intermediate goods deliveries. Faster deliveries result in a decline in the index (and detract from the headline PMI) because pre-COVID, more rapid deliveries were often caused by weaker demand conditions (i.e., a sign of worsening business conditions in the sector). While this likely plays some role in the recent downward trend in the index, freight cost data, anecdotal evidence and similar trends in the international PMI surveys in recent months suggest that global supply chain improvements are the main driver.

	Feb	Mar	Apr
Supplier deliveries	55.3	50.8	**53.0**



Following a sharp rise in February, the **purchasing price index** moved lower for a second month. The decline in the diesel price at the start of the month, with a further drop expected later this week, likely helped to alleviate some of the upward pressure on costs.

	Feb	Mar	Apr
Purchasing prices	78.6	78.1	**75.0**

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).