

# Absa Purchasing Managers' Index

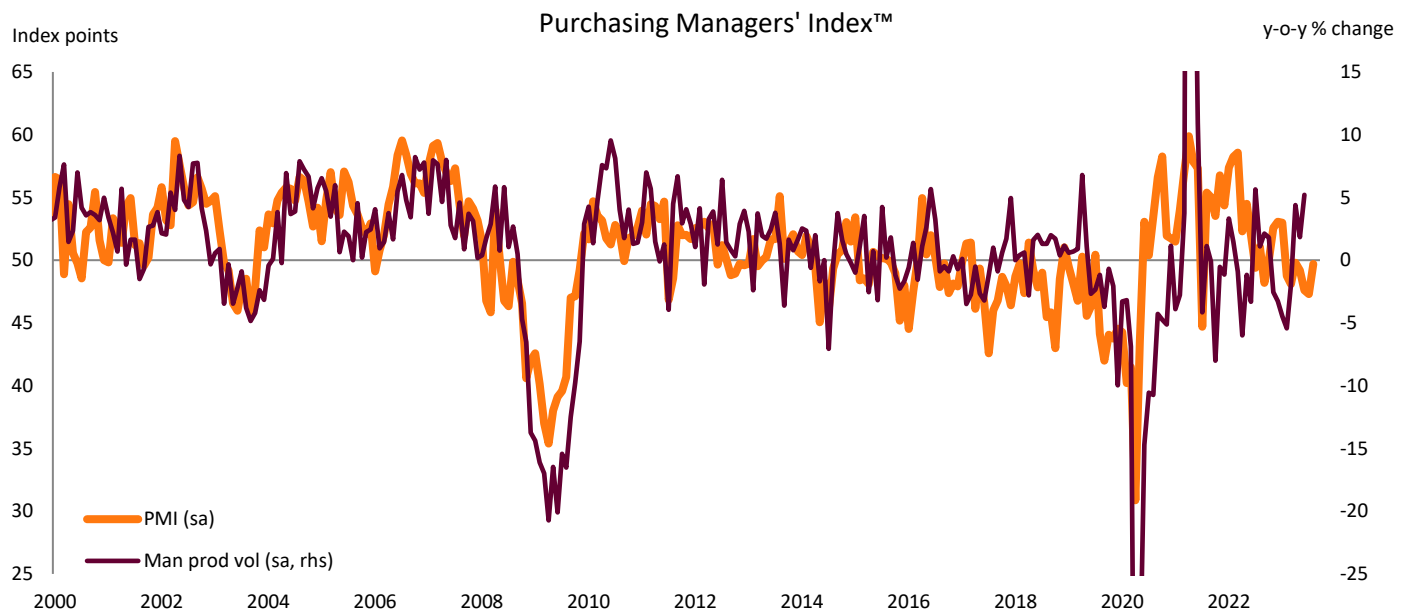
## August 2023

Embargoed until 11:00 1 September 2023

The seasonally adjusted **Absa Purchasing Managers' Index (PMI)** improved somewhat in August, rising by 2.4 points to 49.7, i.e., to just below the key 50-point mark. The increase in the headline PMI was driven by the **business activity index**, which jumped by almost 12 points to 50. This follows a large decline of almost 11 points in July. Although the magnitude of the rise in business activity gives an impression of some strength here, at 50, the index is pointing to flat month-on-month manufacturing output growth in August.

Albeit not nearly to the same extent, the **new sales orders** index was also higher in August. Even so, this index remained well below the level of 50 that separates expansion from decline. This continued to reflect subdued demand for local manufactured goods. Another PMI subcomponent worth highlighting is the **supplier delivery index**. This index, which is inverted to show an increase when delivery lead times are longer, increased further in August to lift the headline PMI. In the pre-COVID environment, longer lead times were normally associated with stronger demand conditions in the factory sector. However, the further lengthening of delivery times in August followed a significant jump during July, when orders probably took longer to arrive amid disruptions linked to the torching of several trucks on the N3 transport corridor. In August, the week-long taxi strike in Cape Town, which led to significant worker absenteeism across sectors, most likely explains the further lengthening of delivery times. Because the most likely reason for longer delivery times in August was a supply-side constraint as opposed to higher demand, the headline PMI was, at least to some degree, again kept afloat artificially.

Another noteworthy development in August was a marginal rise in the PMI **price index** after a large decline in July. With a substantial diesel price hike of more than R2.50/litre looming in early-September, this indicator has some scope to rise further in the near term. After hovering between 47 and 48 in June and July, the PMI **employment index** sagged by around 4.5 points to a lowly 42.8 in August. This does not bode well for the official employment stats in the factory sector.

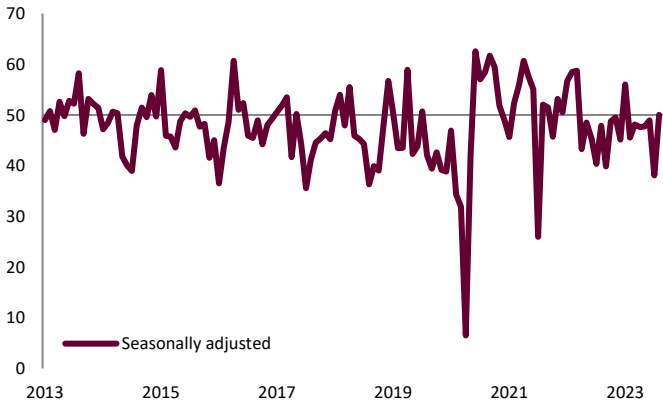


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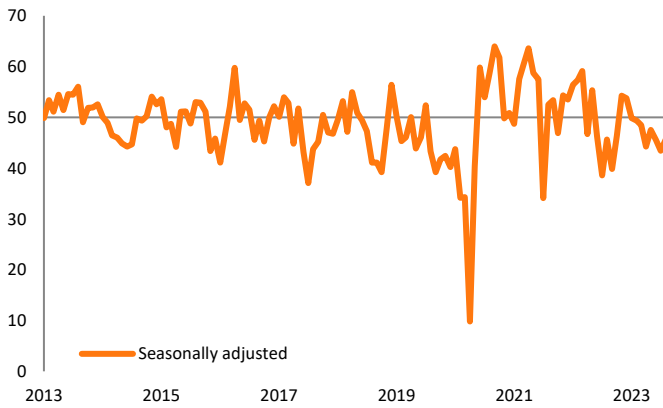
**PMI: Business activity**



Off a low base, the **business activity** index increased notably in August. Even so, at 50, the index is pointing to flat month-on-month growth in manufacturing production. It remains unclear exactly what drove the large decline in this index during July. Besides the ongoing impact of load-shedding, in terms of specific constraints on output in August, the week-long taxi strike in the Western Cape comes to mind. Anecdotal evidence suggests that several manufacturing facilities were impacted by worker absenteeism associated with the strike.

	Jun	Jul	Aug
<b>Business activity</b>	48.9	38.1	<b>50.0</b>

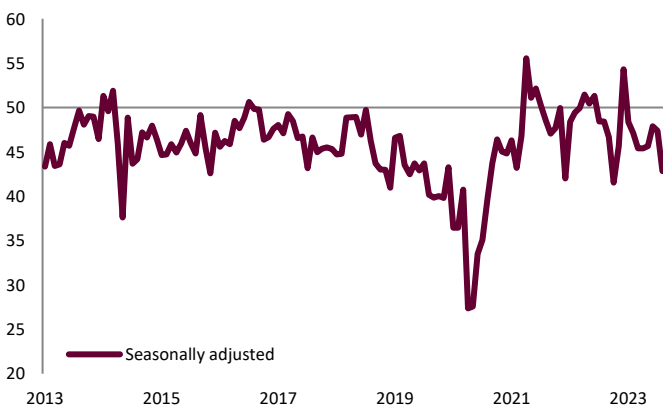
**PMI: New sales orders**



The **new sales orders index** saw a marginal improvement in August but remained well below the key level of 50. This suggests that underlying demand for local manufactured goods was still under pressure. An improvement in export sales during the month helps to explain the modest increase in this index.

	Jun	Jul	Aug
<b>New sales orders</b>	45.6	43.4	<b>45.7</b>

**PMI: Employment**



After hovering between 47 and 49 points of late, the **employment index** took a leg down in August. According to Stats SA's Quarterly Labour Force Survey, formal employment in the manufacturing sector declined by 53 000 quarter-on-quarter in 2023Q2. The PMI figures for July and August do not instill confidence of a recovery in the factory sector job market during the third quarter.

	Jun	Jul	Aug
<b>Employment</b>	47.9	47.4	<b>42.8</b>

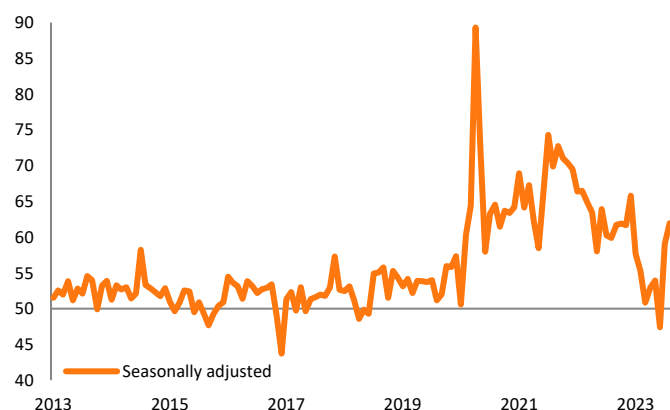
### PMI: Inventories



At 48.3, the **inventories index** remained largely unchanged for a third consecutive month during August.

	Jun	Jul	Aug
<b>Inventories</b>	48.2	48.5	<b>48.3</b>

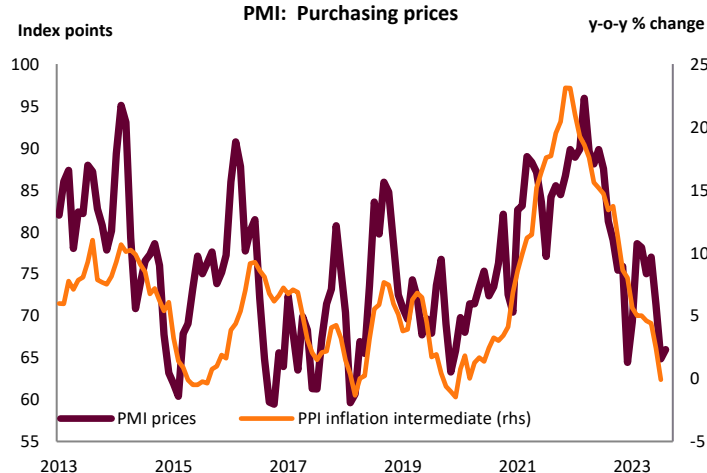
### PMI: Supplier deliveries



Following a notable gain in July, the **supplier deliveries index** rose further in August. This index is inverted in the headline PMI index calculation, implying that longer supplier delivery (lead) times boost the headline PMI. The reasoning behind this is that pre-COVID, longer delivery times were mostly associated with robust demand conditions, i.e., it was seen as reflecting manufacturing sector strength. However, as was the case during the worst of the COVID-19 pandemic, supply disruptions can also lengthen delivery times without any rise in demand. In August, the week-long taxi strike in Cape Town, which led to significant worker absenteeism across sectors, most likely explains the further lengthening of delivery times. Therefore, as in July, longer lead times in August do not reflect strong demand from the manufacturing sector.

	Jun	Jul	Aug
<b>Supplier deliveries</b>	47.4	59.0	<b>61.9</b>

### PMI: Purchasing prices



Following large declines in the previous two months, the **purchasing price index** rose somewhat in August. This may reflect the just more than 70c/litre diesel price increase at the start of the month. With a substantial diesel hike of more than R2.50/litre looming in early-September, the price index, which measures monthly price changes, has some scope to rise further in the near term.

	Jun	Jul	Aug
<b>Purchasing prices</b>	71.3	64.8	<b>65.9</b>

*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](http://www.ber.ac.za)).*