Absa Purchasing Managers' Index
June 2022

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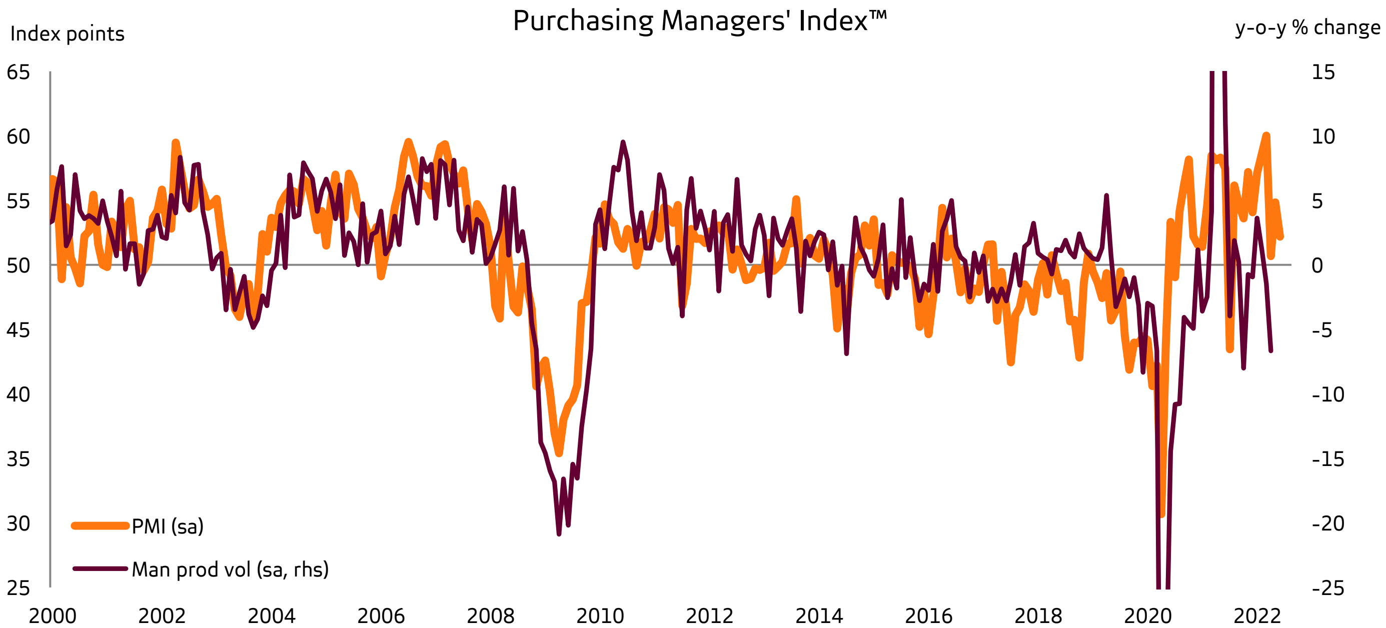
The seasonally adjusted **Absa Purchasing Managers' Index (PMI)** declined to 52.2 index points in June from 54.8 in May. However, the headline PMI masks a worrying deterioration in demand and activity during the month. The **business activity index** signalled a contraction in output for a third consecutive month. Indeed, the average level for the second quarter (45) is much lower than the average recorded in the first quarter (58.9). Along with the stark decline in actual factory output in April, this suggests that after a stellar performance at the start of the year, the sector is likely to be a big drag on GDP in the second quarter. This is as the destructive flooding in KwaZulu-Natal, sustained supply chain friction and significant load-shedding weigh on output.

Following an encouraging recovery in May, the **new sales orders index** moved back into negative terrain in June. Export sales were positive, albeit only just, which means a big drag also came from domestic demand deteriorating. As cautioned last month, the sharp downtick in the **supplier deliveries index** in May was not sustained in June, meaning that delivery times increased once again. As the index tracks month-on-month movements, the improvement in May was relative to April (when South African logistics were hampered by the flooding in KwaZulu-Natal), with conditions normalising (if not worsening) in June. Indeed, a few respondents referred to shortages of raw materials and delays at ports hampering their business. This unfortunately means that the increase in the supplier deliveries index should thus not be seen as a positive sign (i.e. higher demand causing slower deliveries), but rather that deliveries are most likely being slowed down due to disruptions.

A positive takeaway from the latest survey is from the **employment index,** which signalled an uptick in staffing levels. The average for the second quarter (51) suggests that the sector may continue to add jobs after five consecutive quarters of formal job growth (as per the latest Quarterly Employment Statistics).

A worrying, although not unexpected, development was a decline in the index tracking **expected business conditions in six months' time.** The index fell to 53.8 in June, down by almost 10 points from May. This is the least optimistic purchasing managers have been this year. The majority of the responses were received before the recent ramping up of the intensity of load-shedding. Even so, along with growing concern about a sharp growth slowdown, and potentially recession, in some of South Africa's key trading partners, this could have contributed to the depressed sentiment.



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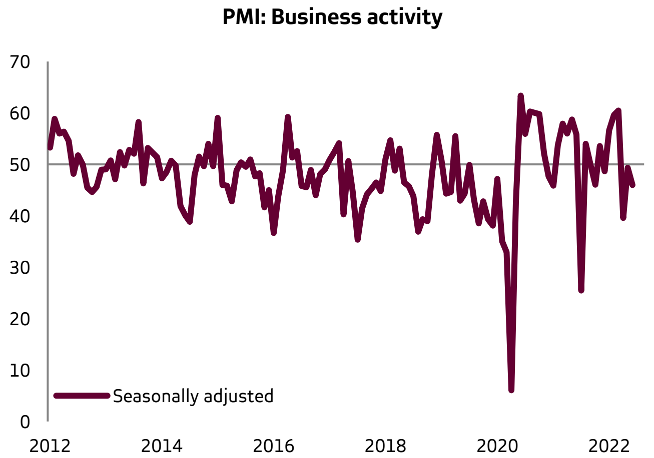
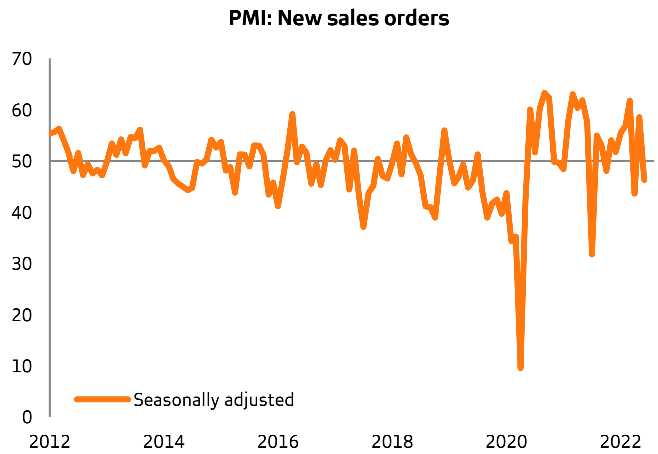


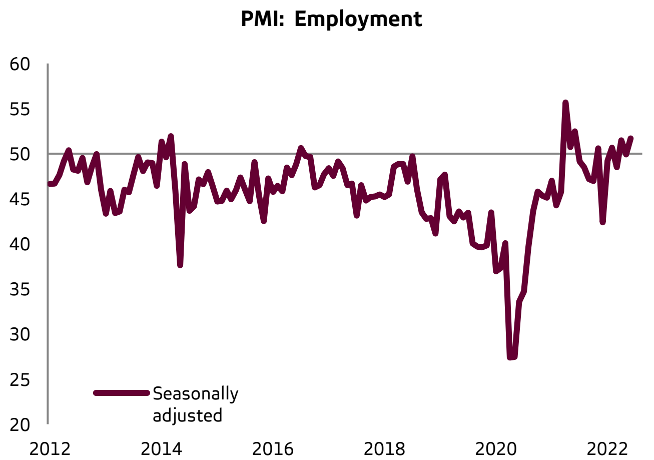
With another move lower in June, the **business activity index** has been stuck in negative terrain since April. Indeed, the average level for the full quarter (45) is much lower than the average recorded in the first quarter (58.9). This suggests that after a stellar performance at the start of the year, the sector could be a big drag on GDP in the second quarter.

	Apr	May	Jun
Business activity	39.6	49.3	**46.0**



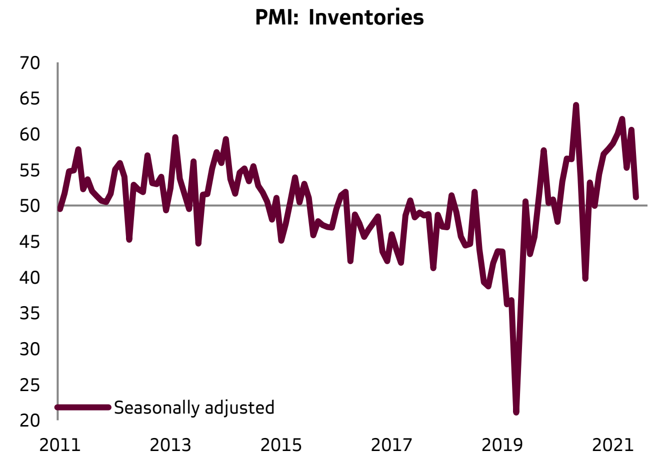
Following an encouraging recovery in May, the **new sales orders index** moved back into negative terrain in June. Export sales were only just positive, which means a big drag likely also came from the deterioration in domestic demand.

	Apr	May	Jun
New sales orders	43.6	58.5	**46.3**



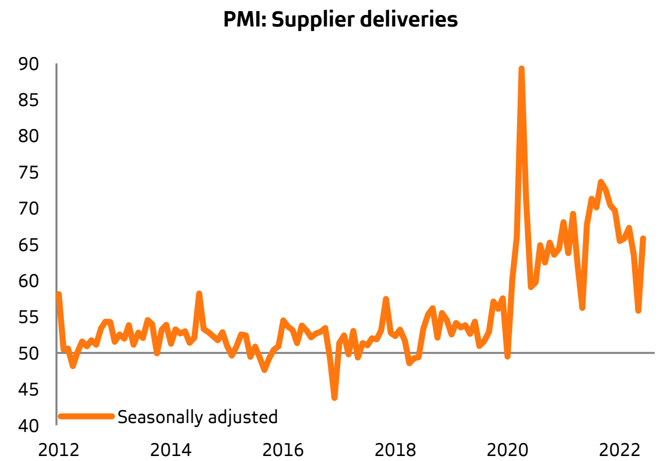
The **employment index** once again ticked up above the neutral 50-point mark. The average for the second quarter (51) suggests that the sector may continue to add jobs after the official data showed five quarters of consecutive job growth. According to the Quarterly Employment Statistics, formal manufacturing employment rose by just under 8 000 jobs in the first quarter of the year and is up about 73 000 relative to the first quarter of 2021.

	Apr	May	Jun
Employment	51.5	49.9	**51.7**



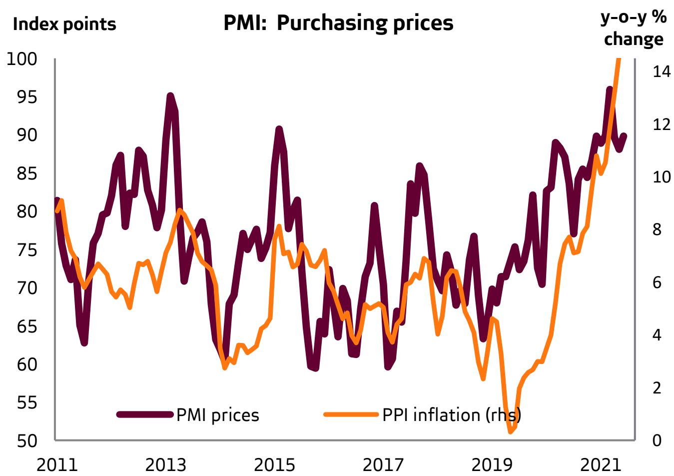
The **inventories index** fell sharply in June, but managed to stay above the neutral 50-point mark. While the index has been volatile of late, the average recorded in the first six months of this year is above 2021's average reading.

	Apr	May	Jun
Inventories	55.3	60.6	**51.7**



As cautioned last month, the sharp downtick in the **supplier deliveries index** in May was not sustained in June, meaning that delivery times increased once again. As the index tracks month-on-month movements, the improvement in May was relative to April (when South African logistics were hampered by the flooding in KwaZulu-Natal), with conditions normalising (if not worsening) in June. Indeed, a few respondents referred to shortages of raw materials and delays at ports hampering their business. This unfortunately means that the increase in the supplier deliveries index should thus not be seen as a positive sign (i.e. higher demand causing slower deliveries), but rather that deliveries are most likely being slowed down due to disruptions

	Apr	May	Jun
Supplier deliveries	63.5	55.8	**65.8**



The **purchasing price index** ticked up following two months of signalling slower cost increases. The index remains below the record-high 95.9 recorded in March this year, meaning that while cost pressure remains significant, it likely peaked earlier in the year. This would still be consistent with producer (which tracks factory gate prices unlike the PMI index which looks at input costs for factories) and consumer price inflation moving higher in the next several months before also likely starting to slow down towards the end of the year.

	Apr	May	Jun
Purchasing prices	89.6	88.1	**89.8**

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).