Absa Purchasing Managers' Index
February 2022

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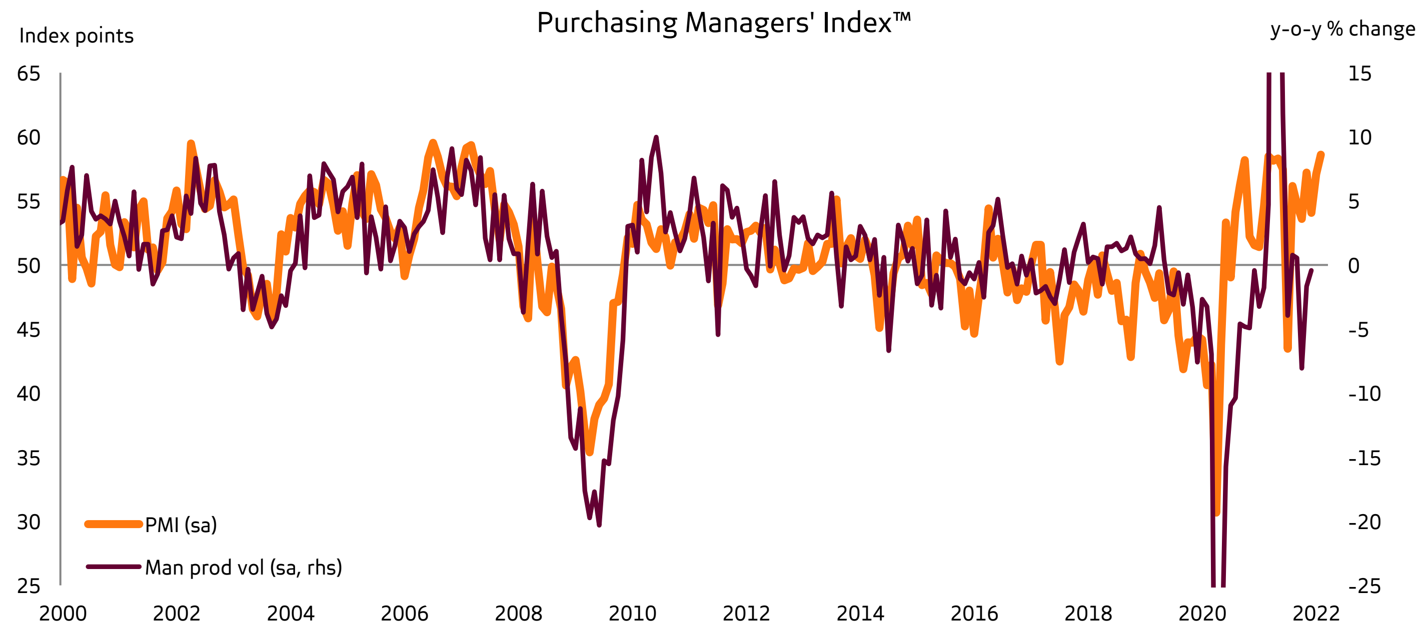
The seasonally adjusted **Absa Purchasing Managers' Index (PMI)** rose to 58.6 index points in February 2022, following a three-point rise to 57.1 in January. The improvement was driven by increases in all five subcomponents making up the headline PMI, suggesting that the manufacturing sector continued to fare well during the second month of the year.

Respondents noted the quickest increase in **new sales orders** since the second quarter of 2021. This was likely, to a large extent, driven by an improvement in exports, which rose further from an already upbeat January reading. Better demand supported a further rise in **production volumes,** with the output index ticking up to a healthy 59.6 points in February. This was despite a bout of load-shedding at the start of the month. The average level for the first two months of the year is well above the final quarter of 2021 which bodes well for a continued recovery in manufacturing output following the slump in 2021Q3. Various shocks in July 2021 had set back the rebound from the 2020 crash, with overall production levels still not back at pre-pandemic levels by the end of last year. An encouraging outcome of the February PMI survey was the **employment index** edging back up above 50 points. Recent relatively better readings for this index suggests that employment levels may be stabilising after the sector has been bleeding jobs for several years (pre-dating the COVID shock).

Purchasing managers remained upbeat about **expected business conditions in six months' time.** The index declined marginally to 69.5 index points from an almost four-year high of 71.3 reached the month before. One factor that has the potential to sour sentiment going forward is a possible further increase in input costs. This is especially the case given an environment where demand is still recovering, which means that not all cost increases can be pushed on to consumers through price increases. In February, the **purchasing price index** climbed by a point to a high 89.8, which is already almost 5 points above the average recorded in 2021. Looking ahead, a surge in the Brent crude oil price means that the fuel price will again increase sharply this week, with inputs from the petrochemicals value chain also more expensive. The risk is that the oil price remains high(er). This, or a sudden weakening of the rand exchange rate, also has the potential to lift freight costs even higher, which some respondents already flag as a key concern. Renewed disruptions in the workings of global supply chains amid an escalation of the Ukrainian conflict will not only have cost implications, but could also negatively impact sentiment.



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For further information: Lisette IJssel de Schepper, Senior Economist, BER (Tel: 021 808 9777)

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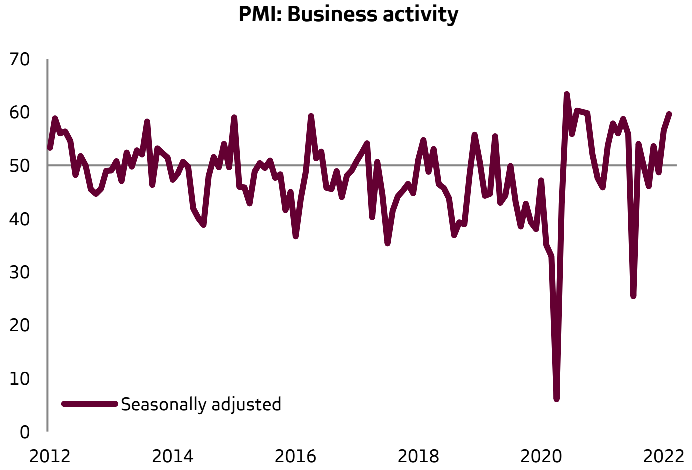
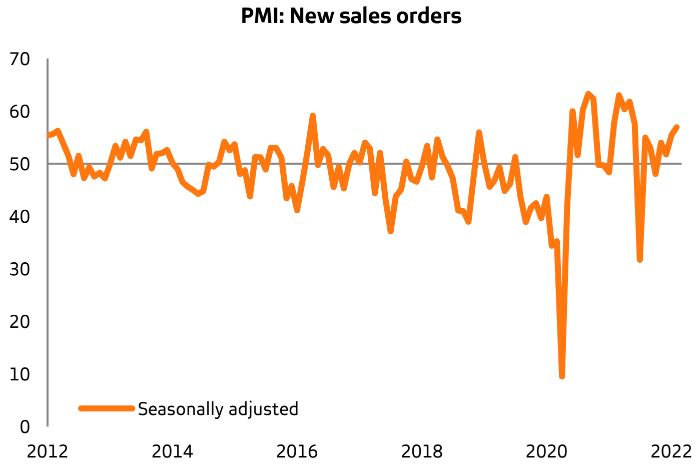


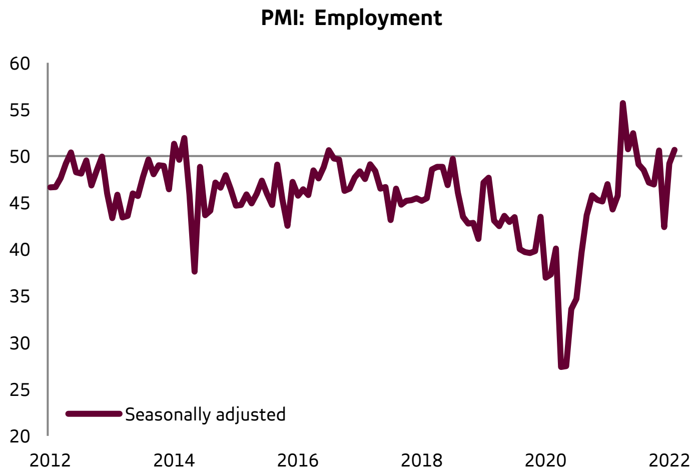
The **business activity index** rose by a further 3 points following a solid 7.9-point increase in January. The average level for the first two months of the year is well above the final quarter reading, which bodes well for a continued recovery in manufacturing output following a slump in 2021Q3. The recovery still has some way to go as production in the sector has not yet returned to pre-COVID levels.

	Dec	Jan	Feb
Business activity	48.7	56.6	**59.6**



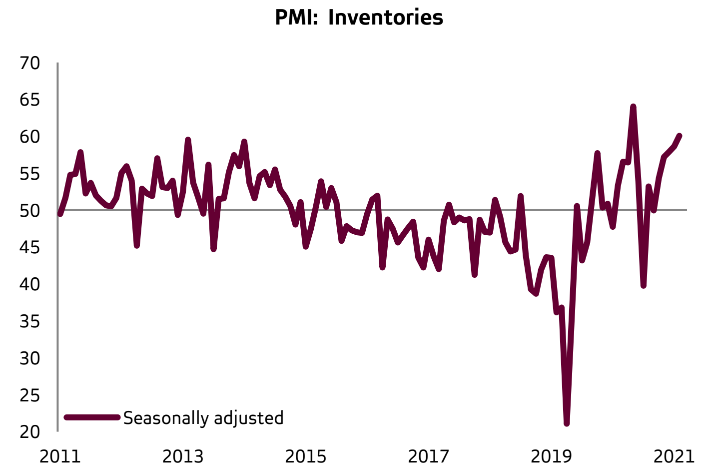
The **new sales orders index** rose to 56.9 index points from 55.5 in January. Respondents were particularly optimistic about export sales, but, for the first time in a long while, domestic demand was likely also relatively undisrupted during February. This could have boosted local orders.

	Dec	Jan	Feb
New sales orders	51.7	55.5	**56.9**



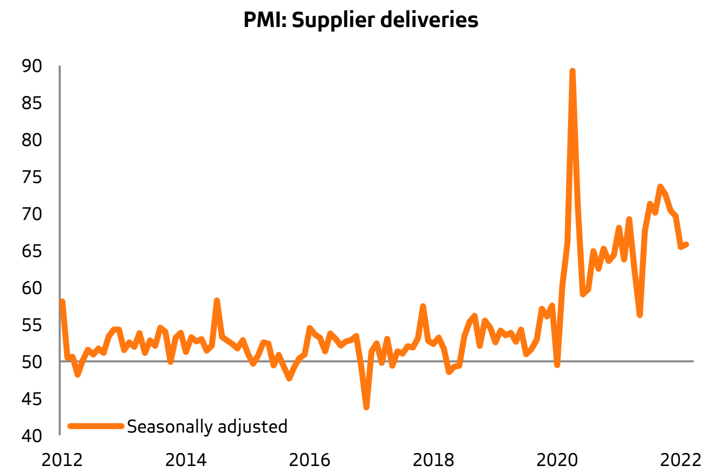
The **employment index** edged above the neutral 50-point mark in February. Barring a dip to 42.4 index points in December, the employment index has now hovered around the 50-level for almost a year. This suggests that employment levels may be stabilising in early 2022 after the sector has been bleeding jobs for several years (pre-dating the COVID shock).

	Dec	Jan	Feb
Employment	42.4	49.2	**50.7**



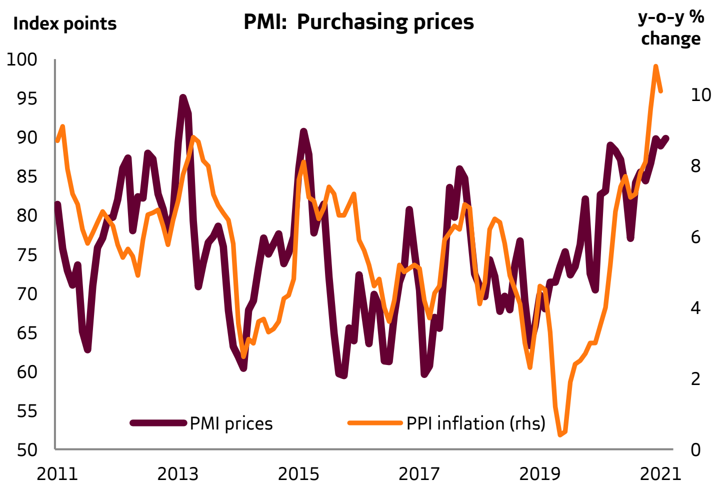
The **inventories index** rose once more to reach the highest level since the second quarter of last year. A possible reason for the sustained uptick could be a change in inventory management to pre-emptively stock up more in case of possible shortages and delays.

	Dec	Jan	Feb
Inventories	57.9	58.7	**60.1**



The **supplier deliveries index** was largely unchanged from January. Depending on how the situation in Ukraine unfolds, it may result in renewed disruptions in global supply chains which may push up the supplier deliveries index again. This is because this index is inverted, so slower delivery times (in normal times a sign of increased demand) result in the index rising.

	Dec	Jan	Feb
Supplier deliveries	69.6	65.5	**65.8**



The **purchasing price index** edged back to a multi-year high in February. Respondents referred to sharply rising freight costs as a contributing factor. The rand strengthened somewhat, which may have mitigated the impact on import cost increases in rand terms. However, a surge in the Brent crude oil price means that the fuel price will again increase sharply this week, with inputs from the petrochemicals value chain also more expensive. The rising oil price (or a sudden weakening of the rand exchange rate) has the potential to turn around the slight moderation also observed in the latest producer price inflation figures.

	Dec	Jan	Feb
Purchasing prices	89.8	88.9	**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).