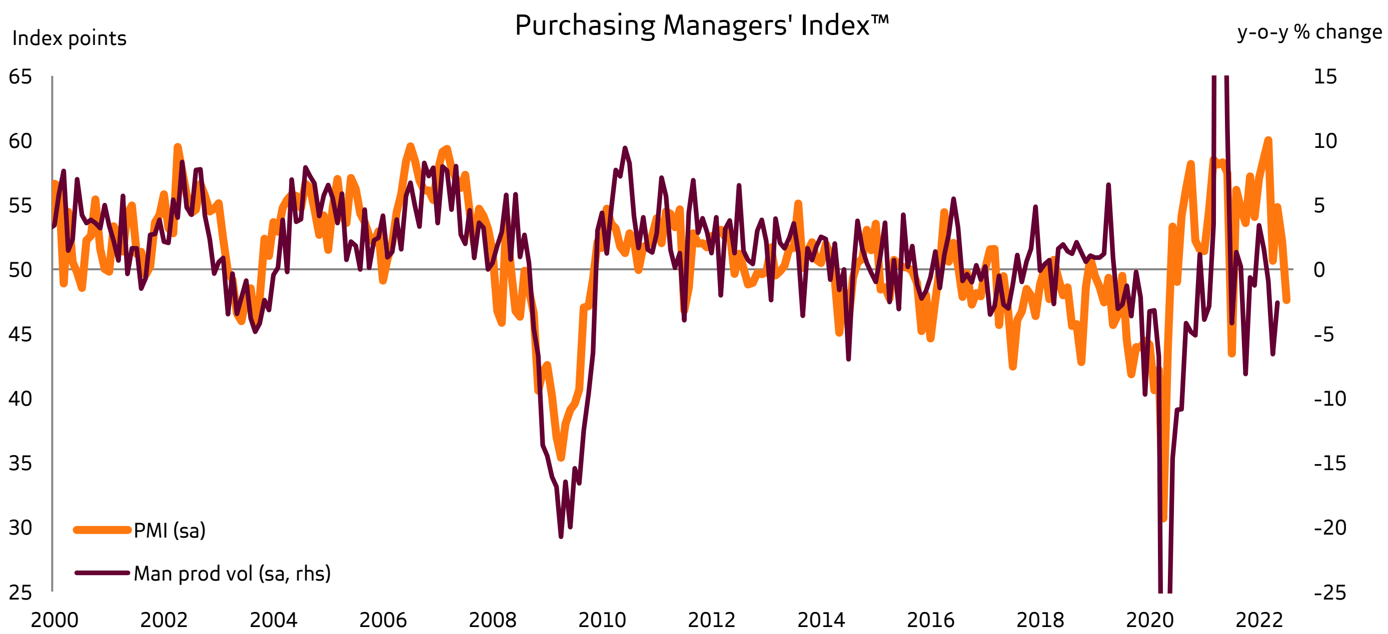
Absa Purchasing Managers' Index July 2022

Embargoed until 11:00 1 August 2022

The further decline in the seasonally adjusted **Absa Purchasing Managers' Index (PMI)** suggests that the manufacturing sector experienced a tough start to the third quarter following a weak second quarter. The headline index fell from 52.2 points in June to 47.6 in July . This is the first reading below the neutral 50-point threshold since July 2021 when the looting and unrest in KwaZulu-Natal and Gauteng hurt output. Electricity supply disruptions were the likely cause of the drop in production last month. At the same time, the international environment was also less supportive with many developed country PMI readings also weakening of late. Indeed, local purchasing managers turned decidedly more downbeat about business conditions going forward amid local electricity woes and concerns about global growth. The index tracking **expected business conditions in six months' time** dipped to 49.4 in July. This was the first time since the second quarter of 2020 (i.e. during the strictest phase of South Africa's COVID-19 lockdown) that respondents expected conditions to worsen going forward. It must be noted that the vast majority of responses were received before President Cyril Ramaphosa announced significant energy market reforms last week, which was generally well received and could have countered some of the pessimism.

Moving back to the survey and what it indicates about conditions in July 2022, the tumble in the **business activity** and **new sales orders** indices were the big drivers of the decline in the headline PMI. Both indices are deep in negative terrain and point towards weak domestic activity and demand. Export sales were also lower, although to a lesser degree. In addition, the **employment index** dipped, albeit less so than activity. The **inventories** and **supplier deliveries** indices stayed above 50, returning to levels in line with those seen in May.

On the cost front, the **purchasing price index** signalled the slowest pace of cost increases since the start of the year. Even so, the index remains high compared to the long-term history of the series, which means cost pressures remain elevated. However, it does show price pressure at the start of the production pipeline likely peaked earlier this year. This would 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 an expected slowdown in the rate of increase towards the end of the year/early-2023.



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

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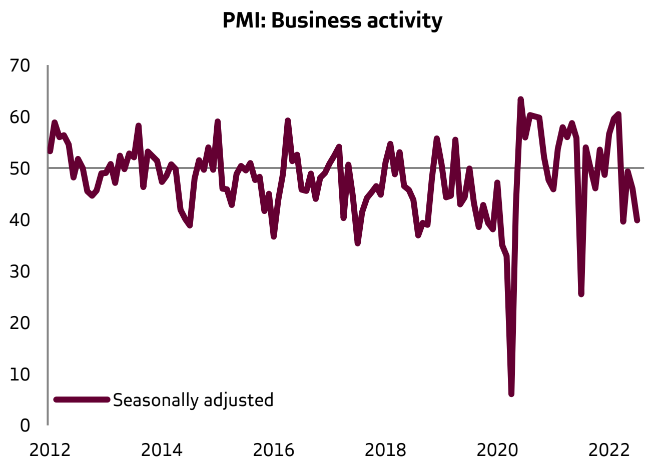
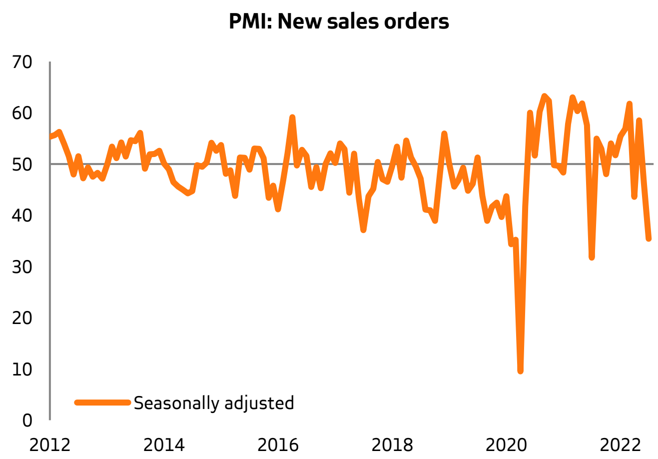


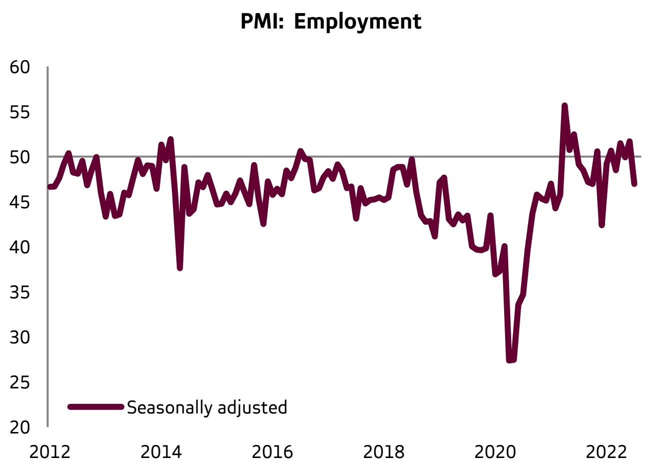
Following a poor performance in Q2, the **business activity index** suggests that the manufacturing sector remained under a lot of pressure at the start of Q3. On an annual basis, production may look better compared to the weak July 2021 reading when production was distorted due to widespread looting and unrest, but the sharp decline in the business activity index argues against a strong quarter-on-quarter rebound following an expected decline in Q2. Electricity supply disruptions amid intense load-shedding at the start of the month was likely a key drag on output, with some respondents also mentioning output losses caused by cable theft.

	May	Jun	Jul
Business activity	49.3	46.0	**39.8**



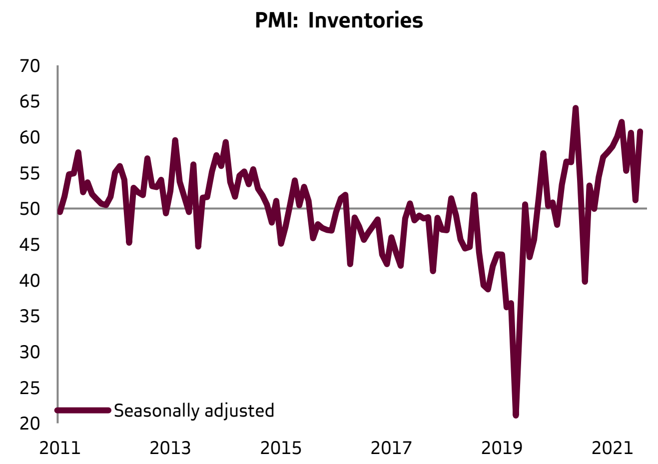
The **new sales orders index** moved deeper into negative terrain in July. Export sales declined, but a big drag likely also came from poor domestic demand. Relatively high stock levels and rising prices could have contributed to lower orders.

	May	Jun	Jul
New sales orders	58.5	46.3	**35.4**



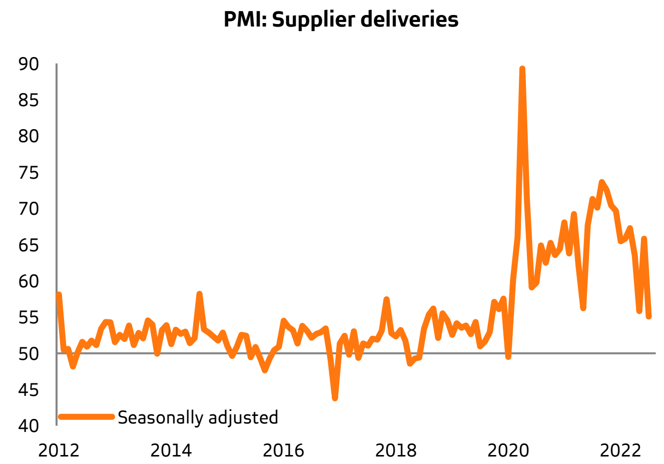
Following a solid Q2, the **employment index** dipped back below the neutral 50-point mark in July. The drop was, however, less pronounced than the sharp decline in activity.

	May	Jun	Jul
Employment	49.9	51.7	**47.0**



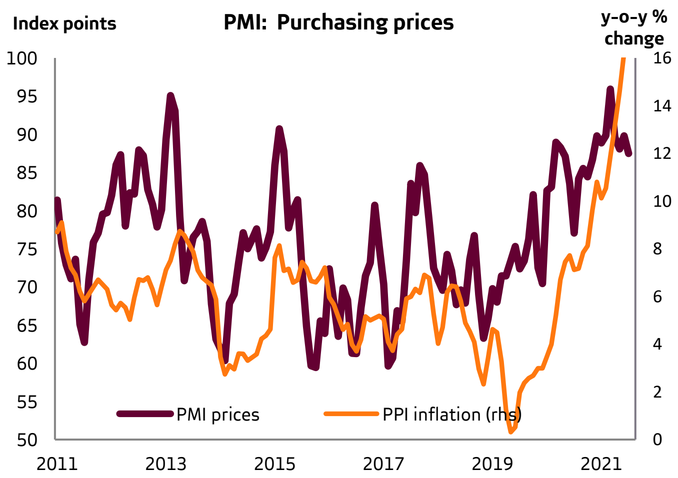
The **inventories index** remained volatile and bounced back to May's level. Despite the recent volatility, the index in general has averaged much higher than in recent years. Sustained supply chain friction may have led manufacturers to stock up on input products in order to alleviate possible production disruptions.

	May	Jun	Jul
Inventories	60.6	51.7	**60.8**



Following a surge higher in June, the **supplier deliveries index** returned to May's level. This suggests that supply chains are working somewhat smoother compared to the previous month (because the index is inverted, quicker deliveries result in a decline in the index). This would be in line with the experience globally. Indeed, while problematic logistics and supply chains were still flagged in the responses, it featured less than in previous months. However, this could also be due to a decline in demand for inputs, which speeds up delivery.

	May	Jun	Jul
Supplier deliveries	55.8	65.8	**55.1**



The **purchasing price index** signals the slowest pace of cost increases since the start of the year. Even so, the index remains high compared to the long-term series history, which means cost pressures remain elevated. However, it does show pressure at the start of the production pipeline likely peaked earlier this year. This would 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 an expected slowdown in the rate of increase towards the end of the year/early-2023.

	May	Jun	Jul
Purchasing prices	88.1	89.8	**87.5**

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).