

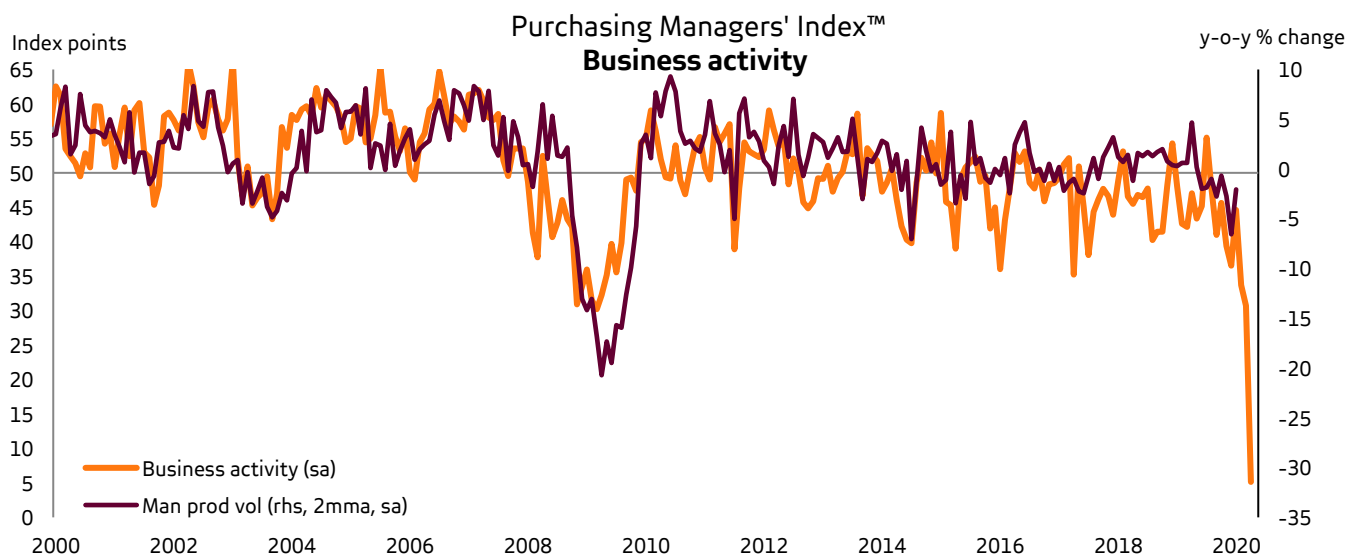
Absa Purchasing Managers' Index April 2020

Embargoed until 11:00 4 May

The **business activity index** of the **Absa PMI survey** crashed to an all-time low of a mere 5.1 index points in April. The decline means that manufacturing output came to a near standstill during the nationwide lockdown, with almost all respondents reporting a decline in activity compared to the previous month. Indeed, many respondents indicated that zero production took place during the lockdown. While some essential goods production continued during April, this was concentrated in specific subsectors. The current reading is about 25 points below the lowest level recorded during the global financial crisis, which suggests that the decline in actual manufacturing output will be well in excess of the drop recorded at the time (a 23% annual fall in April 2009). With no to little activity in the local economy, overall demand for manufactured goods also plummeted. The **new sales orders index** plunged to 8.9 index points in April and, like business activity, reached a record low by some margin (series since September 1999). Export sales also fell sharply in April. The **employment index** tracked activity lower but did not decline by the same margin as the business activity and new sales orders indices. Still, about half of the respondents reported a decline in their staff complement. Formal-sector employment tends to lag activity trends, which means that further job losses are likely going forward.

After already slowing in March, **supplier performance** deteriorated further in April. In normal times, slower lead times point to increased activity and add positively to the headline PMI. However, COVID-19 related production stoppages have disrupted the global and local supply chains to such an extent that delivery times slowed sharply even without increased demand. Due to the inadvertent positive boost from supplier deliveries, the headline PMI only fell to 46.1 index points in April from 48.1 in March. This is despite unprecedented declines in the other four subcomponents and means that the headline reading does not provide a fair reflection of conditions on the factory floor in April. Most global manufacturing PMIs are affected, and in fact lifted, by this unique occurrence and the focus should thus rather be on the subcomponents of the PMI.

The PMI survey shows the immediate, devastating impact the lockdown had on manufacturing output and overall demand. While some easing of restrictions from May should aid a slow recovery in coming months, a lot of manufacturing capacity will remain idle for some time. Indeed, the index tracking **expected business conditions in six months' time** ticked down further from a record-low recorded in March already.

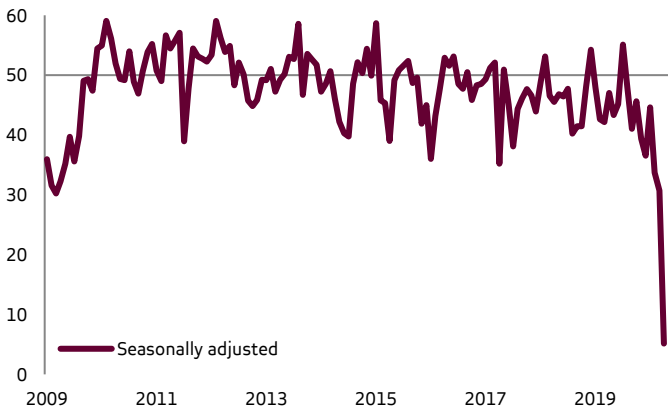


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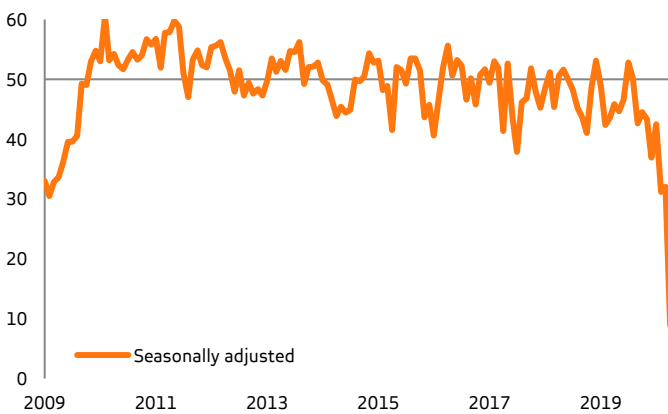
PMI: Business activity



The **business activity index** plunged to a record low in April. The index fell to 5.1 points, which means that almost all of the respondents indicated that production was lower than the previous month. Indeed, many indicated that April saw zero output due to the nationwide lockdown. While some essential services production still took place, activity was concentrated in specific subsectors.

	Feb	Mar	Apr
Business activity	33.7	30.7	5.1

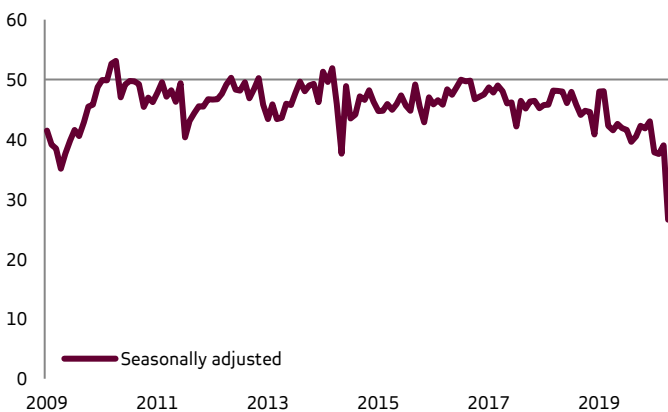
PMI: New sales orders



While the **new sales orders index** has moved steadily lower since mid-2019, the index plummeted to a much lower level in April. The index is now more than 20 points below the lowest level reached in early 2009 during the global financial crisis. As with activity, almost all respondents indicated that demand was lower than the month before. Exports turned out slightly less negative, but nonetheless plunged to record-low levels.

	Feb	Mar	Apr
New sales orders	31.2	32.1	8.9

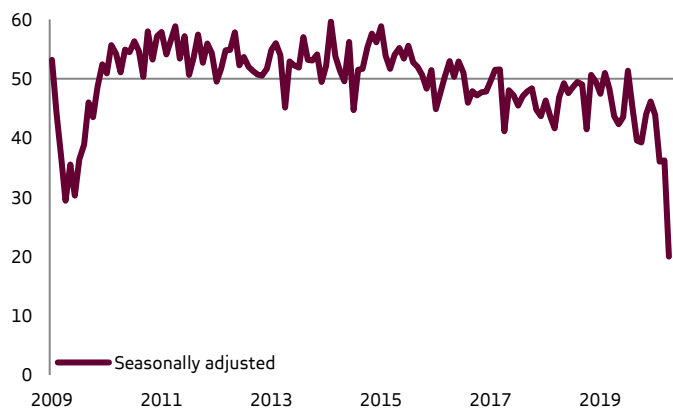
PMI: Employment



The **employment index** tracked activity lower but did not decline by the same margin. About half of the respondents indicated that employment levels were unchanged compared to the prior month. This was despite activity and demand flatlining. Unfortunately, the remainder of the respondents reported a decline in their staff complement. Importantly, formal-sector employment tends to lag activity trends, which means that further job losses are likely going forward.

	Feb	Mar	Apr
Employment	37.5	39.0	26.6

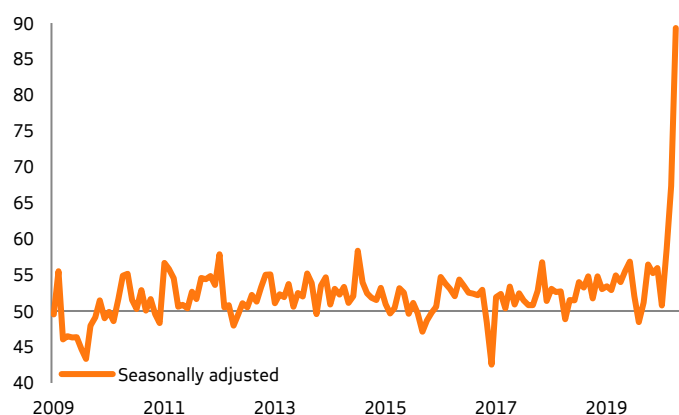
PMI: Inventories



The **inventories index** declined to 20 points in April. This is about 9 points below the lowest level recorded in 2009.

	Feb	Mar	Apr
Inventories	36.0	36.2	20.0

PMI: Supplier deliveries

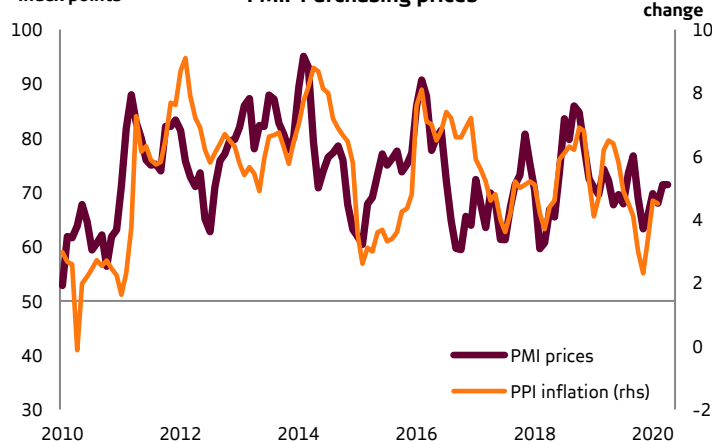


The **supplier deliveries index** shot up in April. While this seems to go against the clear trend observed in the other subcomponents, it is important to note that this index is inverted. This means that slower deliveries actually lift the index. In normal times, slower lead times point to increased activity, but COVID-19-related production stoppages have disrupted the supply chain to such an extent that delivery times have slowed even without increased demand. Most global headline manufacturing PMIs are affected (and in fact lifted) by this unique occurrence.

	Feb	Mar	Apr
Supplier deliveries	58.6	67.4	89.3

Index points

PMI: Purchasing prices



The index tracking **purchasing prices** remained unchanged in April at 71.4 points. This was likely due to movements in the two main drivers of input costs, the rand exchange rate and the Brent crude oil price, cancelling each other out. The rand exchange rate weakened significantly compared to March, but Brent crude oil prices fell sharply. This month, the further decline in the fuel price effective on Wednesday may alleviate some cost pressure for manufacturers reopening their factories. However, the regulatory requirements of COVID-19 screening and other facilities will bring an additional cost.

	Feb	Mar	Apr
Purchasing prices	68.0	71.4	71.4

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 (0.05), New Orders (0.20), Employment (0.20), Supplier Deliveries (0.40) and Inventories (0.15). 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).