

Absa Purchasing Managers' Index

June 2023

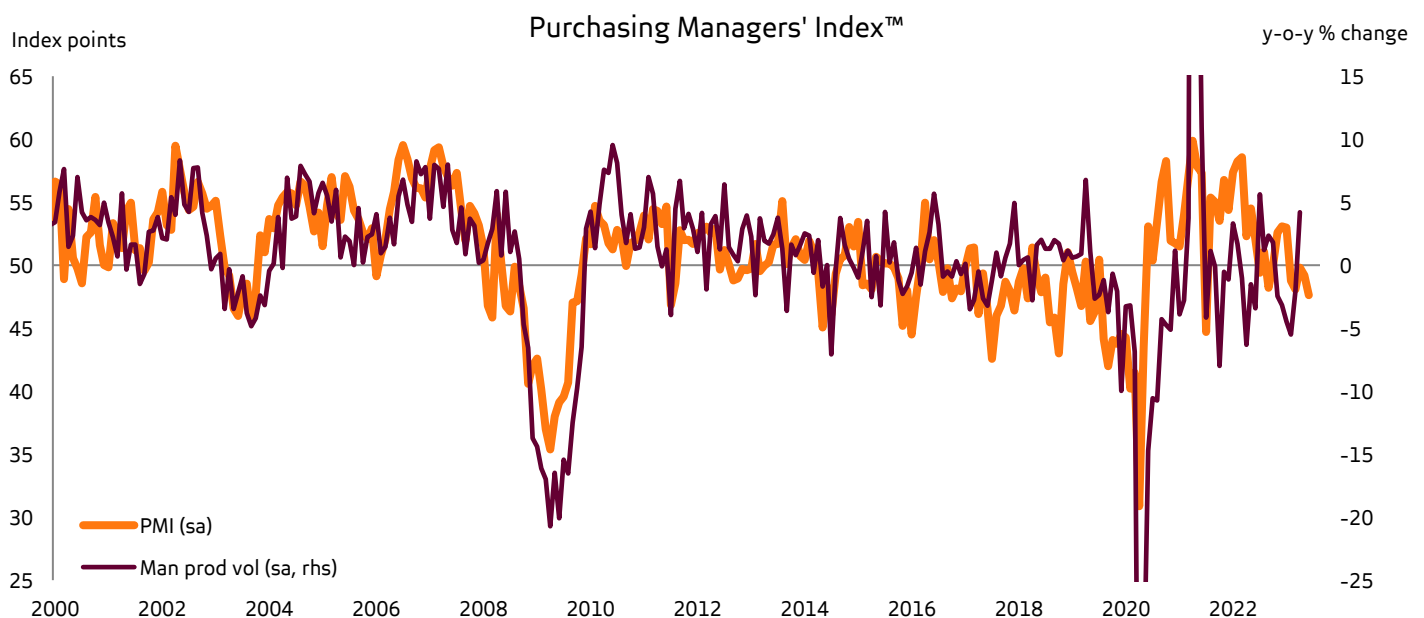
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The seasonally adjusted **Absa Purchasing Managers' Index (PMI)** declined by 1.6 index points to 47.6 in June 2023. This is the lowest level since mid-2021. For the first time since 2018, all five subcomponents used to calculate the headline PMI were below the neutral 50-point level, pointing to a worsening of business conditions in the sector. A key drag on the sector seems to come from weak demand, with the **new sales orders index** edging down once again as the decline in export sales deepened and domestic demand remains under pressure. The index declined from 47.5 in May to 45.6 in June.

On a more positive note, the **business activity index** improved relative to May, although it remained below the neutral 50-point mark for a fifth consecutive month. The index rose from 47.7 to 48.9 in June. The improvement was likely on the back of significantly less (daytime) load-shedding during the month, with weak demand conditions thwarting a bigger recovery. For the full second quarter, the business activity index came in slightly lower than the first-quarter average, but this is solely on account of a high January reading. Broadly speaking, the level of the business activity index suggests that momentum in official production data remained very subdued in the second quarter.

Along with the improvement of business activity in May, there was also somewhat better news on the cost front, as the **purchasing price index** declined to the lowest level since the start of the year. The index declined from 77 to 71.3. A stronger rand exchange rate (relative to the previous month) and a drop in the fuel price at the start of the month likely contributed to the moderation in cost pressures.

Another notable development in the June survey was the turnaround in forward-looking sentiment. The index tracking **expected business conditions in six months' time** rose from an extremely depressed 43.7 to 52.4 in June. To be sure, the current level remains well below the long-term average, but at least signals that purchasing managers expect conditions to look better by the end of the year instead of worse.

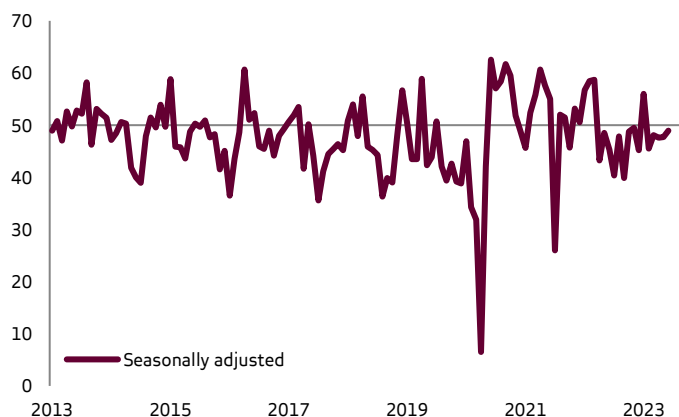


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For further information: Lisette IJssel de Schepper, Senior Economist, BER (lisette@sun.ac.za)

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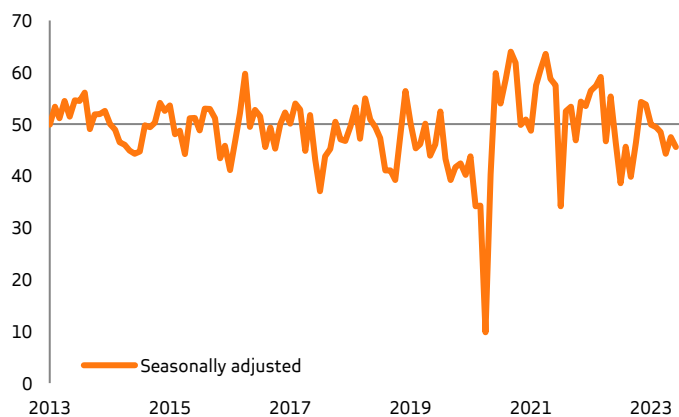
PMI: Business activity



Supported by significantly less (daytime) load-shedding, **business activity** improved in June to its best level since January 2023. Still, amid continued weak demand, production failed to rise back to growth territory.

	Apr	May	Jun
Business activity	47.6	47.7	48.9

PMI: New sales orders



The **new sales orders index** lost some of May's gains and fell back to 45.6 in June. Respondents reported a worsening in export sales, while domestic demand is likely also under pressure amid rising borrowing costs, sticky inflation and other headwinds.

	Apr	May	Jun
New sales orders	44.3	47.5	45.6

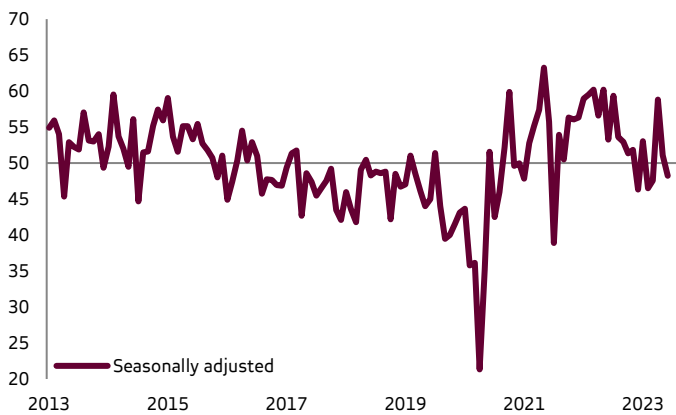
PMI: Employment



Following three months of little change, the **employment index** rose by 2.3 index points to 47.9 in June. The index has been below the neutral 50-point mark through the first half of 2023.

	Apr	May	Jun
Employment	45.4	45.6	47.9

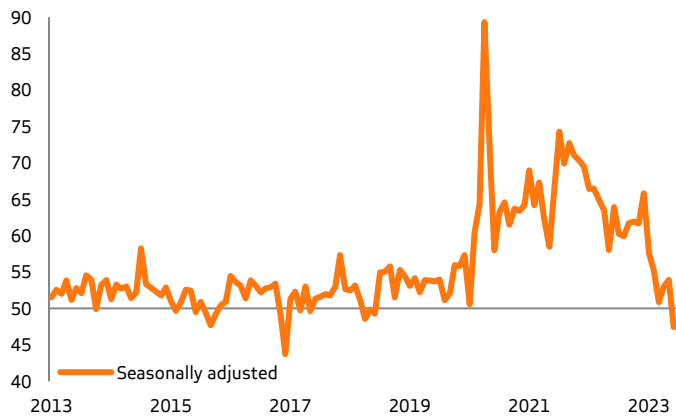
PMI: Inventories



Following a surge in April, the **inventories index** declined for a second month and returned to roughly Q1's average level.

	Apr	May	Jun
Inventories	58.8	51.1	48.2

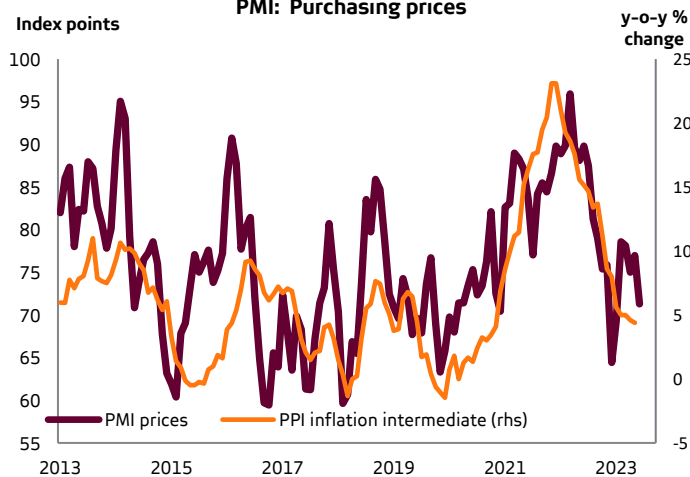
PMI: Supplier deliveries



The **supplier deliveries index** edged below the neutral 50-point mark for the first time since mid-2018. The decline signals faster deliveries of raw materials and intermediate goods, which (in pre-pandemic times) was a sign of weak demand in the sector. During the pandemic, the index surged, and stayed high through 2021 and 2022, as global supply chains and local logistical issues strained delivery performance. However, recent surveys suggest that global supply chains are working much better, which in addition to weaker demand, likely contributed to a decline in this index. Note that this index is inverted, so faster deliveries result in a lower index value and thus detract from the headline PMI.

	Apr	May	Jun
Supplier deliveries	53.0	53.9	47.4

PMI: Purchasing prices



Following an uptick in the **purchasing price index** in May on the back of a significantly weaker rand exchange rate, the index declined to the lowest level since the start of the year in June. A stronger rand exchange rate (relative to the previous month) and a decline in the fuel price at the start of June likely contributed to the moderation in price pressure.

	Apr	May	Jun
Purchasing prices	75.0	77.0	71.3

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).