Absa Purchasing Managers' Index
July 2023

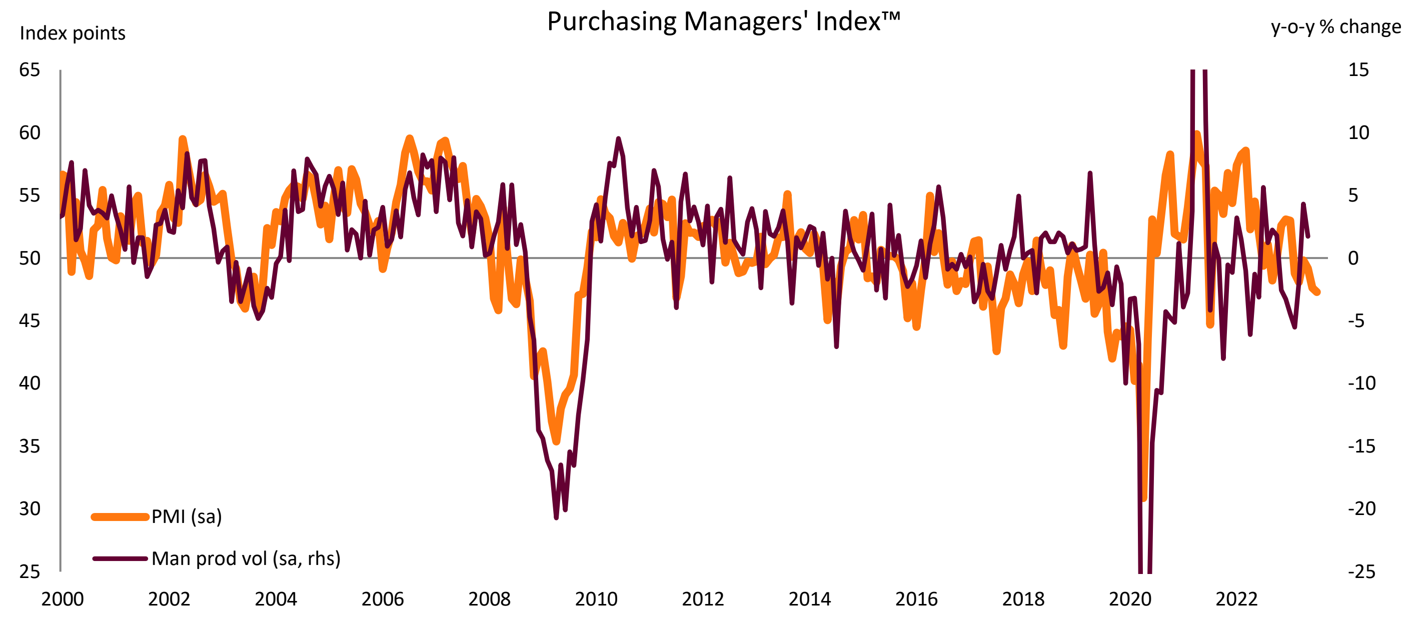
Embargoed until 11:00 1 August 2023

After what looks to have been a decent second quarter, at least in terms of quarterly growth momentum, the manufacturing sector had a setback at the start of the third quarter. This is the message from the latest seasonally adjusted **Absa Purchasing Managers' Index (PMI)**. Although the headline index was only marginally lower in July at 47.3 index points (47.6 in June), this stability masks substantial changes in some of the major PMI subcomponents.

In a particularly stark move, the seasonally adjusted **business activity** index tanked by almost 11 points. Besides a ramp-up of load-shedding intensity in July after the unexpected reprieve in June, it is not immediately clear what drove the large decline. However, a substantial rise in the **supplier deliveries index** to the highest level so far this year may provide some clues. The deliveries index is inverted, implying that longer supplier delivery (lead) times boost the headline PMI. The reasoning behind this is that pre-COVID, longer delivery times were mostly associated with robust demand conditions, i.e., it was seen as reflecting manufacturing sector strength. However, as was the case during the worst of the COVID-19 pandemic, supply chain disruptions can also lengthen delivery times without any rise in demand.

In July, the PMI **new sales orders** index moved lower. Therefore, there is most likely some other explanation for the jump in supplier delivery times, as it was not demand driven. The longer delivery times in July may well reflect delays associated with the torching of multiple trucks on the N3 transport corridor during the month. If this is the case, the headline PMI was kept artificially afloat in July by the meaningful rise in the supplier deliveries index. In the same breath, to the extent that transport delays contributed to the decline in business activity during July, activity should recover in August, at least partially. In sum, the sharp moves in the activity and supplier delivery indices may be due to once-off events. If so, the PMI components highlight the debilitating impact that the kind of disruptions seen in July can have on production processes.

On a more positive note, the **PMI price index** moved down notably in July, signalling that the meaningful moderation in the annual rate of increase for the producer price index (PPI) in recent months still has some legs.



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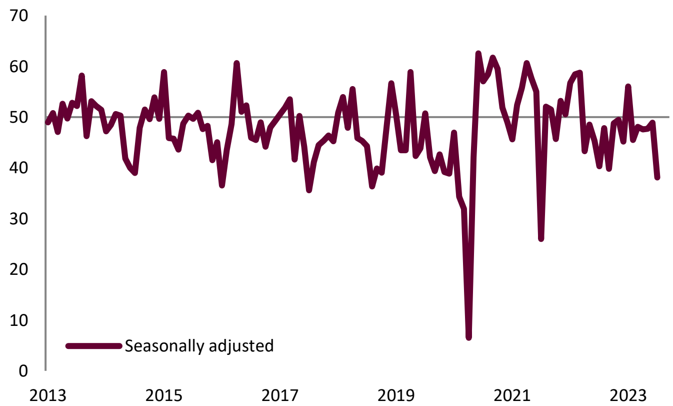
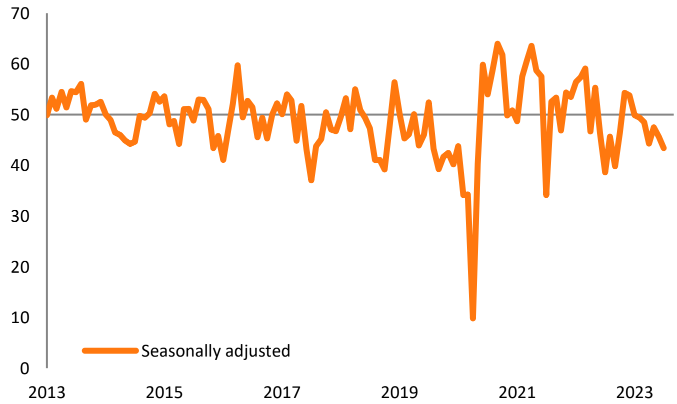
PMI: Business activity



After the **business activity** index only moved up slightly in June despite a reprieve in the intensity of load-shedding, it saw a sharp decline in July. Besides the return of more intensive power cuts, delays in receiving inputs amid the transport disruptions on the N3 corridor through the month of July may explain the large drop. The manufacturing hubs around Johannesburg may have been particularly hard hit by the shipment delays.

	May	Jun	Jul
Business activity	47.7	48.9	**38.1**

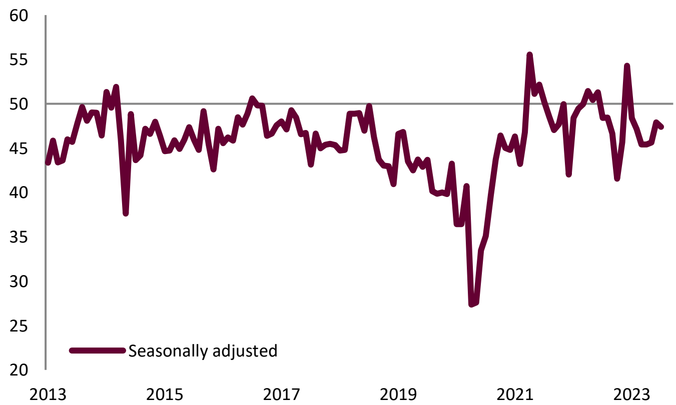
PMI: New sales orders



The **new sales orders index** lost ground for a second consecutive month. While restrictive monetary policy is now most likely weighing on domestic demand, weak activity in major SA export markets, including the Eurozone and the UK, could also be curtailing foreign demand for SA manufactured goods.

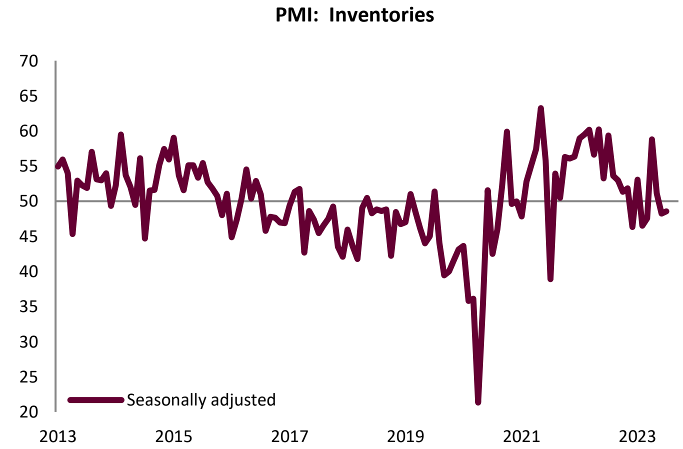
	May	Jun	Jul
New sales orders	47.5	45.6	**43.4**

PMI: Employment



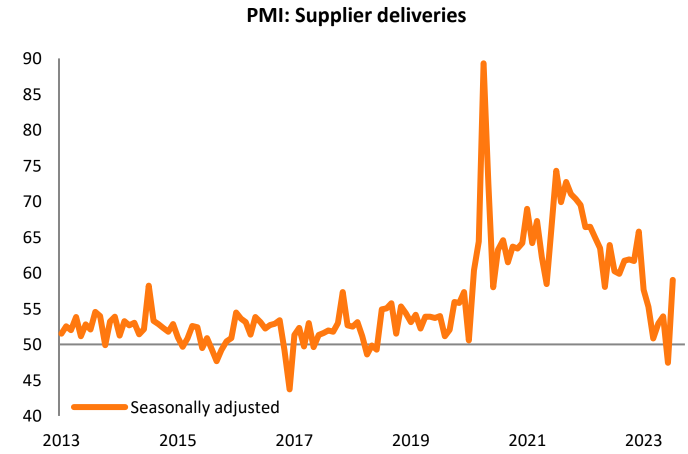
After making some headway in June, the **employment index** stabilised in July. Even so, as was the case in the first half of the year, the index remained below the neutral 50-point mark.

	May	Jun	Jul
Employment	45.6	47.9	**47.4**



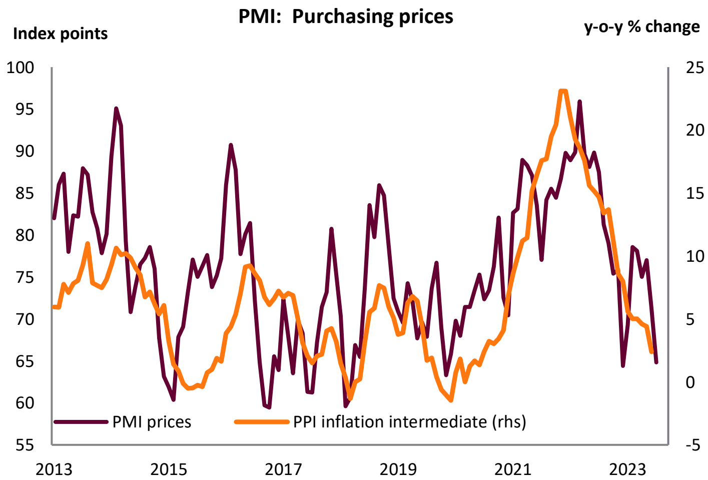
At 48.5, the **inventories index** remained largely unchanged in July.

	May	Jun	Jul
Inventories	51.1	48.2	**48.5**



The **supplier deliveries index** rose to the highest level so far this year. The index is inverted in the headline PMI index calculation, implying that longer supplier delivery (lead) times boost the headline PMI. The reasoning behind this is that pre-COVID, longer delivery times were mostly associated with robust demand conditions, i.e., it was seen as reflecting manufacturing sector strength. However, as was the case during the worst of the COVID-19 pandemic, supply disruptions can also lengthen delivery times without any rise in demand. With the new sales orders index moving lower in July, there is most likely some other explanation for the jump in supplier delivery times. To be sure, it may well reflect delays associated with the torching of multiple trucks on the N3 transport corridor during the month.

	May	Jun	Jul
Supplier deliveries	53.9	47.4	**59.0**



The **purchasing price index** declined by 6.5 points to reach the lowest level so far in 2023. This bodes well for a continuation of the annual moderation in the rate of change for the producer price index (PPI). Stats SA reported that the intermediate PPI increased by only 2.4% y-o-y in June.

	May	Jun	Jul
Purchasing prices	77.0	71.3	**64.8**

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).