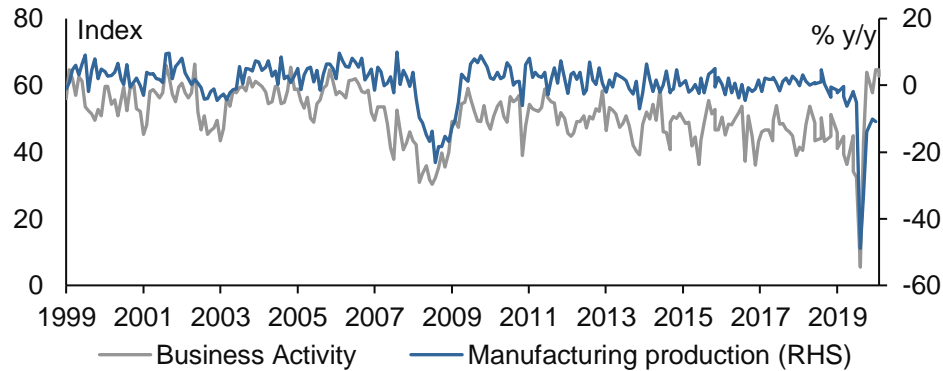




PMI update: SA manufacturing activity continued to strengthen in October with the PMI rising to 60.9

2nd November 2020

Figure 1: Manufacturing PMI output sub-index versus manufacturing production



Source: Stats SA, BER, Investec

- The manufacturing PMI signalled further improvement in activity during October, with the PMI rising to 60.9 from a 58.5 (revised from 58.3) in September.
- The largest changes for the sub-indices occurred in inventories, that rose 10.1 index points, and prices, that increased by 5.8 index points (see figure 2). The rise in inventories could suggest an element of stock rebuilding to support production requirements. The increase in purchasing prices occurred despite a drop in the fuel price and a moderate strengthening in the rand compared to September. The increase in the cost burden could therefore have been related to supplier shortages or suppliers having raised their prices.
- The degree of upturn in production and demand lost some impetus compared to September but the expansion still remained robust. Production and demand have found support in the gradual easing of domestic lockdown restrictions and improved global trade activity.
- In line with the elevated levels of output and new orders buying activity in the manufacturing sector lifted in October, with the purchasing commitments sub-index rising 6.4 index points.
- In October, the supplier deliveries sub-index, which carries the largest weighting of 40% of the headline index, increased and remained elevated, signalling ongoing disruptions in local and global supply chains. This sub-index is inverted, and a high level signals a worsening in performance.
- The overall improvement in business conditions manifested in a stabilisation in the rate of retrenchments, with the employment sub-index rising towards the neutral 50-mark.
- Sentiment regarding the outlook for the next six months remained optimistic but less so than during Q3.20. This could be linked to the surge in Covid-19 cases in Europe and the associated partial lockdowns. With Europe a key export destination for SA, this could dampen the outlook for SA's manufacturing goods exports.

Figure 2: Absa Purchasing Managers Index*

	May 2020	Jun 2020	Jul 2020	Aug 2020	Sep 2020	Oct 2020
Business activity*	43.1	64.0	57.7	64.7	64.7	62.8
New sales orders*	41.2	59.7	51.7	65.7	70.1	67.0
Backlog of sales orders	32.5	34.5	35.5	45.1	49.4	54.6
Inventories*	34.6	49.3	42.5	46.0	51.0	61.1
Purchasing commitments	29.9	37.5	43.0	50.6	59.0	65.4
Expected business conditions	47.5	51.2	51.8	63.4	64.5	56.7
Suppliers' performance*	72.6	60.7	61.3	63.9	62.1	64.4
Prices	73.4	75.3	72.4	73.4	76.3	82.1
Employment*	26.9	33.2	33.7	38.6	44.8	49.1
PMI (not seasonally adjusted)	44.0	50.3	48.5	53.8	58.2	63.4
PMI (seasonally adjusted)	43.7	53.3	49.4	55.8	58.5	60.9

Source: BER, * seasonally adjusted

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