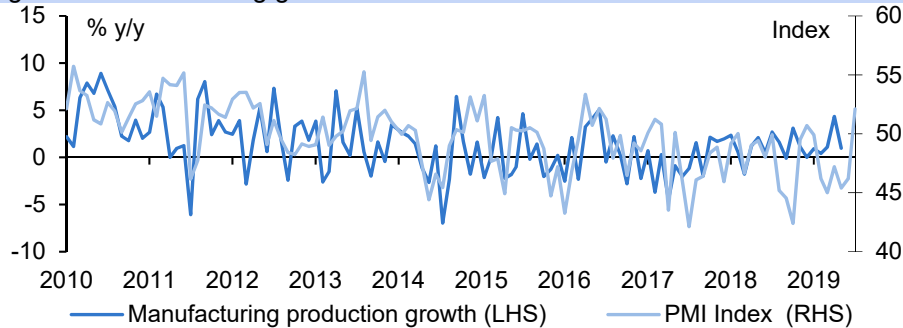




PMI update: The increase in the manufacturing PMI to back above the neutral 50-mark may prove unsustainable in the coming months

1st August 2019

Figure 1: Manufacturing growth vs Absa PMI*



*seasonally adjusted, Source: BER, Stats SA

- In July the manufacturing PMI index rose to 52.1 from 46.2 in June, and from an average of 46.7 for H1.19.
- The business activity and new sales orders sub-indices registered marked increases in July (see figure 2). The survey report suggests that some manufacturing producers “in - or supplying to - sectors that are busy with wage negotiations (automotive and platinum mining, for example) increased output, or saw increased demand for their products, in July to guard against possible strike-related production disruptions. Should this be the case, the notable upward moves in July are unlikely to be repeated.”
- Indeed, forward looking indicators point to challenging operating conditions. Specifically, survey respondents were less optimistic regarding the outlook for production over the next six months. Moreover, input buying (purchasing commitments) and employment continued to fall, albeit at a slightly slower pace than in the prior month.
- In July, inflationary pressures softened on a stronger exchange rate. The appreciated exchange rate will have alleviated cost inflation of imported raw materials and intermediate goods.
- Looking ahead, activity in the manufacturing sector is likely to be restrained by weak export prospects and muted domestic demand.
- On the export side, growth is expected to be constrained by the effects of subdued global economic activity and trade (see figure 4). This should be particularly evident in the performance of manufactured goods exports. The last global manufacturing PMI for June confirmed that global new export orders fell at the fastest rate in six years (see figure 5).
- Against this backdrop, SA’s manufacturing sector can be expected to continue suffering from weak momentum.

Figure 2: Absa Purchasing Managers Index

	Feb 2019	Mar 2019	Apr 2019	May 2019	Jun 2019	Jul 2019
Business activity*	42.3	41.7	49.6	43.5	44.5	56.9
New sales orders*	42.9	42.4	47.3	44.4	46.2	54.5
Backlog of sales orders	43.4	37.3	33.6	35.9	32.8	41.8
Inventories*	52.8	50.1	42.5	41.6	43.4	50.9
Purchasing commitments	50.0	41.5	40.8	45.3	37.8	44.1
Expected business conditions	65.9	59.6	62.3	62.3	55.6	54.5
Suppliers’ performance*	52.5	55.3	53.4	55.7	56.9	51.9
Prices	69.9	74.3	72.1	67.7	69.6	67.9
Employment*	48.1	42.7	41.9	43.2	41.9	43.1
PMI (not seasonally adjusted)	48.2	46.5	45.0	45.7	43.2	48.6
PMI (seasonally adjusted)	46.2	45.0	47.2	45.4	46.2	52.1

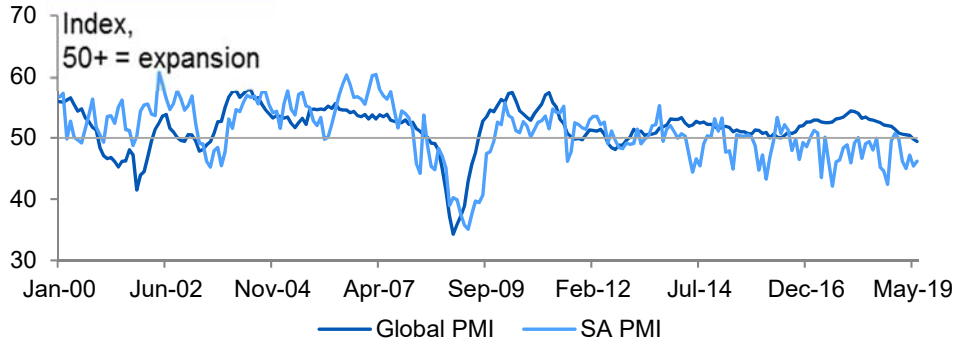
Source: BER, * seasonally adjusted



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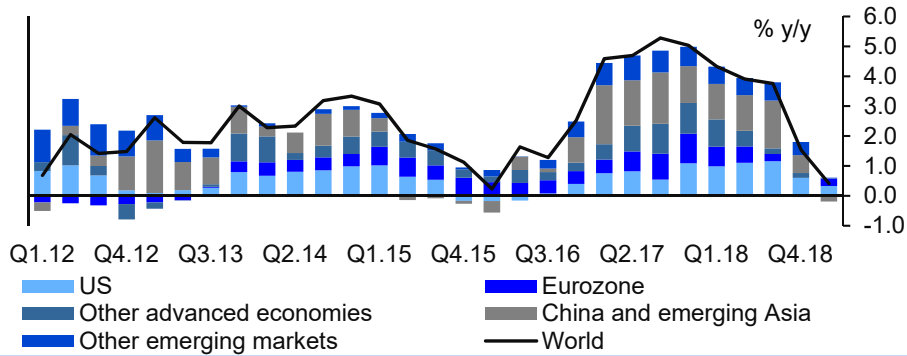
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Figure 3: Global versus SA manufacturing PMI



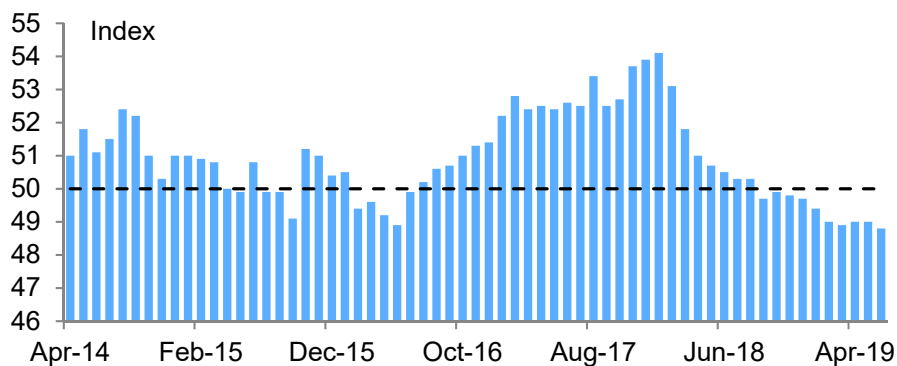
Source: Bloomberg, BER

Figure 4: Global merchandise trade volumes



Source: Netherlands Bureau for Economic Policy Analysis, Investec

Figure 5: Global manufacturing PMI: new export orders



Source: Markit



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