The manufacturing PMI remained below the neutral 50.0 threshold in June, at 46.0 following a reading of 45.4 in May.

In June, the downturns in output and new orders occurred at a more moderate pace, but demand conditions continued to be assessed as lacklustre (see figure 2).

The increase in the headline PMI can mostly be ascribed to the rise in the purchasing price sub-index that exceeded the increases in the output and orders sub-indices. As such, the rise in the headline PMI does not signal a meaningful improvement in manufacturing sector operating conditions in June. Inflationary pressure was ascribed to the effects of a weaker rand exchange rate.

The PMI for the Q2.19 period averaged 46.3 versus 47.0 in Q1.19. The first update for the Q2.19 period of actual manufacturing production data signalled a recovery in the performance of the sector from the contraction in Q1.19. Specifically, seasonally adjusted manufacturing production, the measure used to calculate GDP, increased by 2.8% in April 2019.

Any rebound in manufacturing production would however be mainly a function of low statistical base factors and therefore may not be sustained in subsequent quarters.

Indeed, other PMI indicators signal a deterioration in operating conditions with manufacturing employment and purchasing activity declining. Moreover, sentiment regarding the outlook for the next six month’s dropped in June partly on a decline in export demand.

Manufacturing activity has been suppressed by weaker domestic consumer demand and fixed investment spending. The latest available data showed a contractions of 0.8% quarter on quarter seasonally adjusted annualised (qqsaa) and 9.8% qqsaa in household expenditure and private sector fixed investment (which comprises two-thirds of total investment). Both of these measures are likely to remain relatively weak in line with the persistently low consumer and business confidence levels.
PMI update: PMI signals that the manufacturing sector remained in contraction in Q2.19

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Figure 3: Global manufacturing PMI: new export orders

Source: Markit

Figure 4: World merchandise trade volume momentum, 3 month change

Source: CPB Netherlands Bureau for Economic Policy Analysis
PMI update: PMI signals that the manufacturing sector remained in contraction in Q2.19

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