

Absa Purchasing Managers' Index January 2024

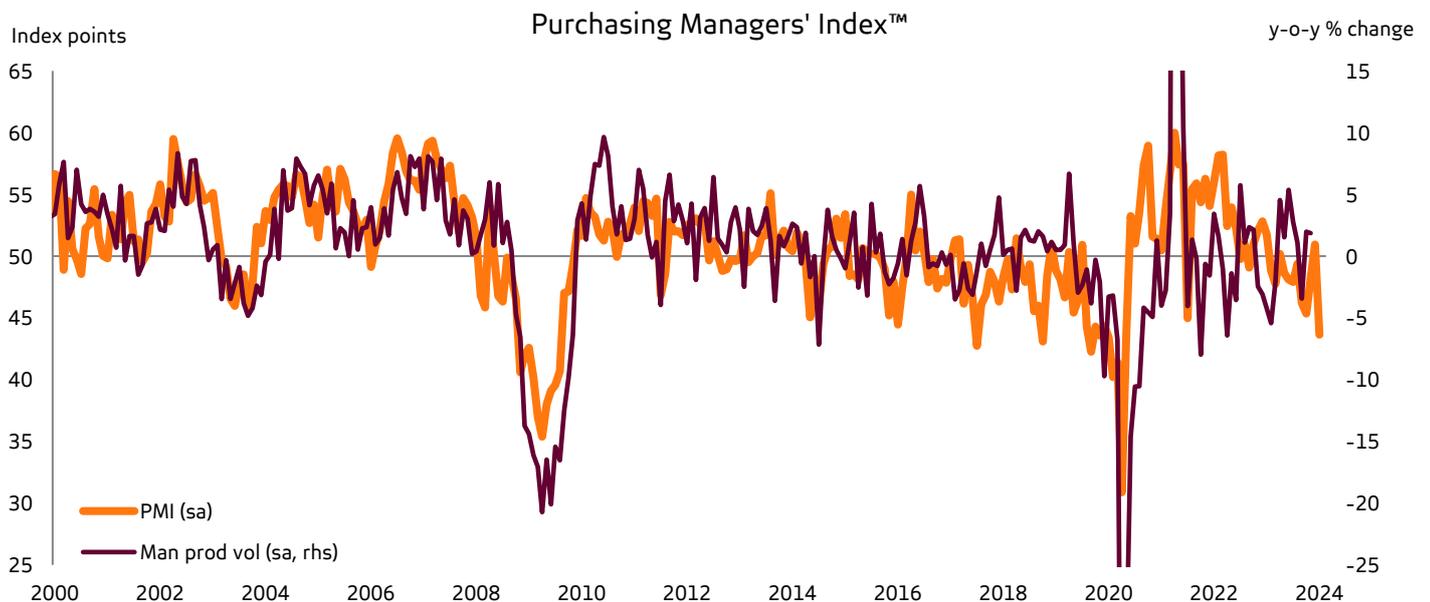
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The **Absa Purchasing Managers' Index (PMI)** reflects a very poor start to the year for the local manufacturing sector. The headline index declined to 43.6 index points in January 2024, down from 50.9 in December. Worryingly, the decline came on the back of a sharp deterioration in demand and activity. Outside of the global financial crisis in 2008/09 and the pandemic-induced lockdown period of 2020, the index has only fallen to this low level a handful of times.

Following an encouraging uptick in December, the **business activity index** plunged to 37.1 index points in January. The deterioration was despite relatively less load-shedding in January compared to most of 2023. The decline in output was likely driven by a sharp decline in demand as the **new sales orders index** fell to 37.2 index points. Some respondents referred to demand being lower than usual. Furthermore, export orders stuck below 50 for a third month, which does not happen often. A lack of materials and goods required in the production process may have also held back output. The **inventories index** declined once more, to 37.7 in January, and reached the lowest level since mid-2020.

Despite current woes, respondents turned more optimistic about business conditions going forward. The index tracking **expected business conditions in six months' time** rose to 58.7, up from 57.9 in December. It is perhaps important to highlight that the survey asks respondents to compare their expectations relative to current conditions. The improvement thus means that conditions are expected to be better than the current dismal environment, not better relative to 'normal' or long-term business conditions.

On the price front, **purchasing prices** ticked up once more. The index rose to 67.5, up from 62.1 in December. This was likely driven by a weaker rand exchange rate and a higher Brent crude oil price relative to December. This is still somewhat below the average recorded in 2023 and well below 2022 – suggesting that upward price pressure remains fairly benign.

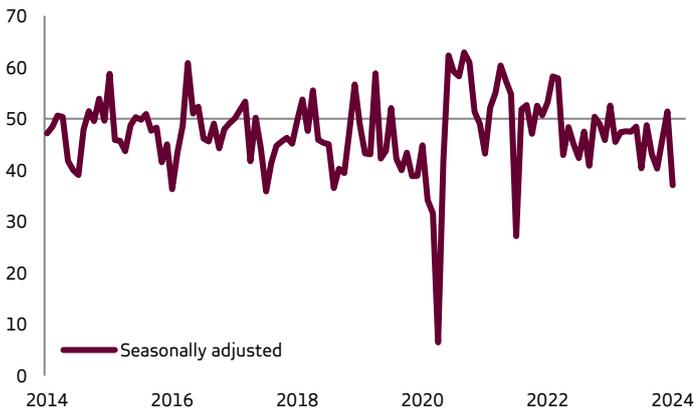


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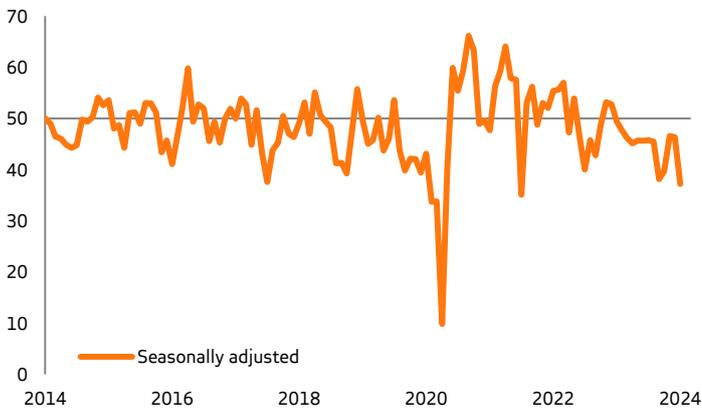
PMI: Business activity



Following an encouraging uptick in December, the **business activity index** plunged in January. The deterioration was despite relatively less load-shedding compared to most of 2023, but likely linked to the sharp decline in demand. A lack of materials and goods required in the production process may have also held back output.

	Nov	Dec	Jan
Business activity	46.0	51.4	37.1

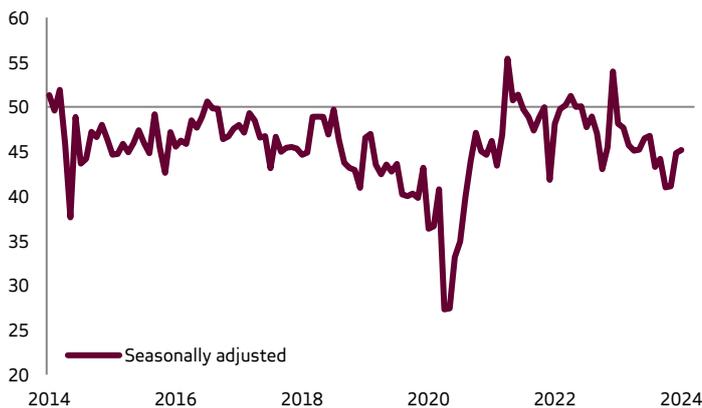
PMI: New sales orders



New sales orders collapsed in January. Many of the respondents referred to demand being lower than usual. Furthermore, export orders stuck below 50 for a third month, this does not happen often.

	Nov	Dec	Jan
New sales orders	46.6	46.3	37.2

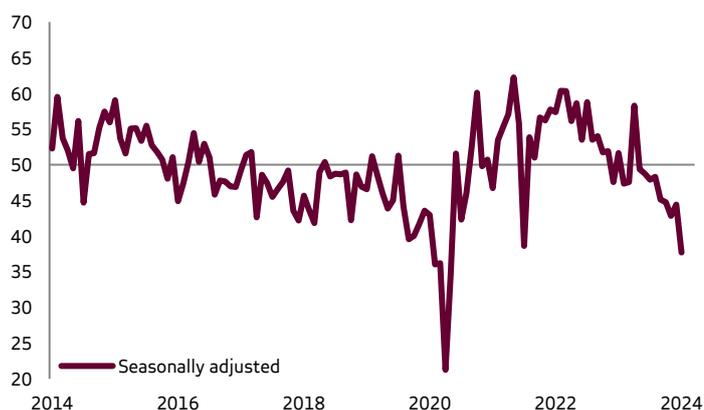
PMI: Employment



Despite the sharp drop in activity, the **employment index** barely moved in January. To be sure, the index does not point to job growth in the sector.

	Nov	Dec	Jan
Employment	41.1	44.8	45.2

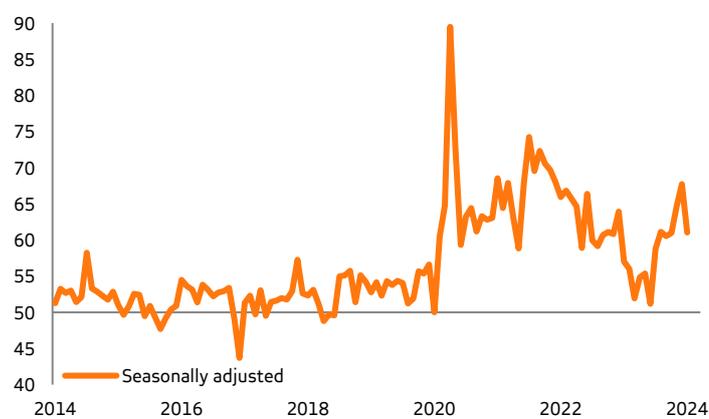
PMI: Inventories



The **inventories index** declined once more in January to reach the lowest level since mid-2020. It could be that local harbour issues prevented imported stocks from reaching manufacturers as the question pertains to purchased stock of materials and goods used in normal business or activities.

	Nov	Dec	Jan
Inventories	42.8	44.4	37.7

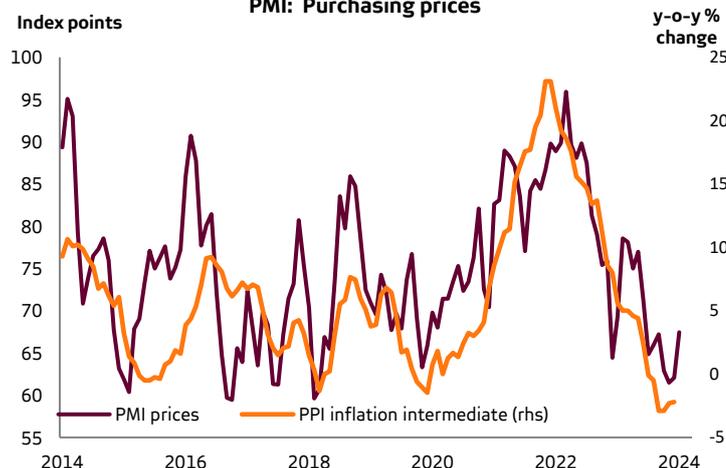
PMI: Supplier deliveries



Following four consecutive increases, the **supplier deliveries index** declined to 61 points in January. This may signal some improvement in the delivery times of supplies, as this index is inverted so an increase in supplier performance results in a decline in the index. This would be a welcome development. Unfortunately, the downtick in the index may also reflect a worsening in demand for supplies – generally seen as a negative for the sector.

	Nov	Dec	Jan
Supplier deliveries	64.6	67.7	61.0

PMI: Purchasing prices



The **purchasing price index** rose for a second consecutive month. This was likely driven by a weaker rand exchange rate and a higher Brent crude oil price relative to December, especially later in the month (when the survey took place). Price pressure is still significantly less intense compared to 2022, but the upward tick suggests that price dynamics remain sensitive to shocks.

	Nov	Dec	Jan
Purchasing prices	61.5	62.1	67.5

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).