



South Africa Morning Sheet

- **Absa PMI data for April show sharply weaker business activity amid load shedding and flooding**
- **Domestic vehicle sales rose further by 1.1% m/m sa in April after rising by a combined 22.9% from January through March**
- **The National Treasury is proposing a unified compensation structure for the public sector**
- **Eskom implements Stage 2 load shedding from 17:00 on 3 May until 05:00 on 9 May**

The manufacturing sector took a heavy blow in April amid intensified rotational power cuts and flooding in KwaZulu-Natal. The seasonally adjusted Absa manufacturing PMI fell 9.3pts in April to 50.7, its lowest level since the unrest in July 2021. But the extent of the weakness in April is better revealed in the component data of the PMI. The business activity sub-index, which is analogous to current output, plunged by 20.9pts to a deeply contractionary level of 39.6 in April, the lowest since July last year. However, manufacturers' expectations of business conditions in six months' time were largely unchanged from March, suggesting that businesses believe the interruptions and the supply side shocks in April are likely to be short-lived.

Vehicle sales were surprisingly strong in April. The Automotive Business Council (ABC) data reveal that domestic vehicle sales rose further by 1.1% m/m sa in April after rising by a combined 22.9% from January through March, beating our forecast of a 4.4% decline. Our pessimistic forecast was mainly informed by the negative effects of the floods in KwaZulu-Natal. Passenger vehicle sales rose 1.9% m/m sa in April after a combined 24.5% increase over the previous three months. Thus, total domestic and passenger car sales in the month just ended were up 1.5% and 4.9%, respectively, compared with their pre-pandemic April averages. The ABC said that passenger vehicle sales did well mainly due to 'ongoing strong purchases by the vehicle rental companies'. Export vehicle sales also did well, rising 17.8% m/m sa in April after contracting by 8.0% in March. Compared with the pre-pandemic period, export vehicle sales were up 13.3% in April.

Business Day today reports that the National Treasury has proposed unifying the compensation structure for senior managers within all spheres of the public sector (national, provincial and municipal governments and certain state-owned entities that rely solely on transfers from government). Speaking in parliament to lawmakers yesterday, Marumo Maake, said that the National Treasury would view such an approach as fairer and an important step forward in containing the public sector wage bill and the upward rise in senior managers' salaries. The number of politicians and public sector workers earning more than R1mn (constant prices) has more than doubled since 2006/07. The government's budget for FY22/23 is founded on an assumption that public sector pay will be frozen this year, but we do not believe this is feasible and instead expect the government to have to award a pay rise of something closer to inflation.

Load shedding returns just after 10 days of respite. Eskom has implemented Stage 2 load shedding from 17:00 on 3 May until 05:00 on 9 May. The power utility stated that it is implementing load shedding due to 'a shortage of generation capacity owing to delays in returning generators to service, as well as breakdowns of nine generators.' Breakdowns amounted to 15067MW (or 32% of the total installed capacity) while 3875MW (or 8%) was out on planned maintenance, implying an energy availability factor of 59% of the total installed capacity. We believe that structural reforms in the energy sector will take time to alleviate power shortages; therefore, load shedding is likely to remain a constraint on growth at least until the end of 2023.

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