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South Africa Manufacturing PMI

Strong recovery momentum sustained into August

South Africa's manufacturing sector maintained strong recovery momentum into August, according to the latest Absa PMI data. The business activity sub-index of the survey increased to 67.0 in August from an already strong reading of 62.9 in July. This was supported by a solid improvement in new sales orders in the month. While the August PMI data offer an encouraging signal about the manufacturing sector, these data do not answer key questions about the remaining gap between current activity levels and the pre-lockdown baseline and how much of the sector's productive capacity has permanently shut down. Therefore, more hard output data from Stats SA will be key for a more detailed assessment of the nature of the recovery in this sector.

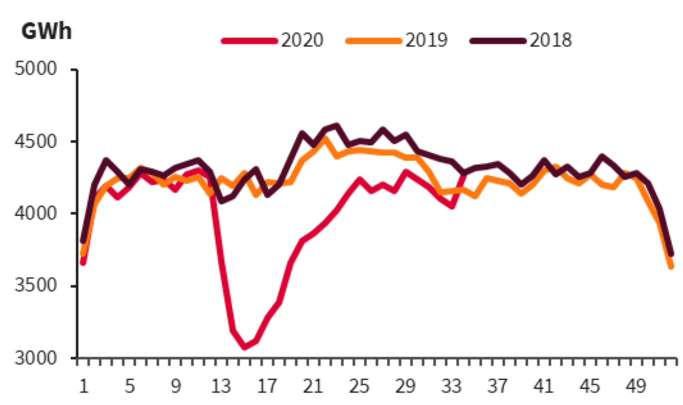
The Absa PMI data strongly signal a continued recovery into August. The seasonally adjusted business activity index, which is broadly consistent with output in this survey, increased to a solid 67.0 in August from already strong readings of 64.6 and 62.9 in June and July, respectively. The survey was conducted last week, roughly one week after the government eased lockdown restrictions further to Level 2 from Level 3. That said, the magnitude of the improvement is much stronger than we might have anticipated, given that the shift to Level 2 restrictions did not 'unlock' a substantial amount of economic activity relative to what was already permitted under Level 3. The new sales orders sub-index also improved sharply in August, coming in at 71.1 from 53.4 in July. The Bureau for Economic Research (BER) noted that this was supported by an improvement in both domestic demand and new export sales orders. We note that the PMI data measure month-on-month changes and that these strong readings currently only signal a big change from the month earlier and not necessarily a return to pre-pandemic levels of activity. We expect the PMI data will likely soften markedly as activity stabilises.

Figure 1: Manufacturing PMI maintains strong momentum in August

	Wgt.	May 20	Jun 20	Jul 20	Aug 20
Manufacturing PMI*		50.2	53.9	51.2	57.3
Business activity*	0.05	43.2	64.6	62.9	67.0
New sales orders*	0.20	41.2	60.3	53.4	71.1
Employment*	0.20	26.8	32.7	33.0	39.0
Suppliers' performance*	0.40	73.5	61.9	61.1	61.9
Inventories*	0.15	33.5	48.8	42.6	47.6
Purchasing commitments	-	29.9	37.5	43.0	50.6
Expected business conditions	-	47.5	51.2	51.8	63.4
Backlog of sales orders	-	32.5	34.5	35.5	45.1
Prices	-	73.4	75.3	72.4	73.4

Seasonally adjusted, Source: BER, Absa Research

Figure 2: Electricity demand suggests big industry is back at work



Source: Eskom, Absa Research

Manufacturers appear to be more optimistic about the near-term outlook. One of the key parts of the monthly survey is the index measuring manufacturers' own assessment of likely business conditions six months into the future. This index also improved strongly to 63.4 in August from 51.8 in July. This stronger level of confidence also translated into higher purchasing commitments by firms, with this sub-index rising to 50.6 in August from 43.0 in July. However, not all aspects of the PMI were as robust. The employment sub-index, in particular, increased to only 39.0 in August from 33.0 in July, a level that still indicates downward pressure on jobs in the sector. Nonetheless, read as a whole, we believe the August manufacturing PMI data offer some encouraging signals about a sector that was under pressure even prior to COVID-19 and that was then significantly hobbled further by pandemic-related disruptions and lockdowns. Of course, even as the formal lockdown restrictions ease, the ongoing hit to demand may constrain the sector's recovery. Still, Eskom's recent data set indicates that electricity demand has fully returned to levels that are normal for this time of the year, implying that big industry is back to work. However, possible further bouts of load shedding would be a further constraint, with the electricity rationing around mid-July and mid-August likely to have curbed some industrial production during that period.

The July output data due out next week will be another key print for the sector. Survey-based measures of activity such as the PMI are useful early pulse-checks of economic activity, but they have their weaknesses and are only weakly correlated with actual production levels even in 'normal' times. Moreover, the monthly PMI data cannot answer some of the key questions about the nature of the recovery right now, including how far activity levels are from pre-pandemic levels and how much of the sector's productive capacity has permanently shut down. We believe more data will be needed for some clarity on these questions. The last hard output data for the sector from Stats SA for June showed output at 83% of its pre-COVID-19 baseline. The July official output data due out on 10 September will be the next key release for the sector. We expect manufacturing output to have risen 5% m/m sa, but still be down 14.9% y/y in July compared with a contraction of 16.3% y/y in June, but possible revisions to historical data that were previously imputed add uncertainty to the final outcome.

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