

Absa PMI shows Q3 manufacturing off to rocky start

The manufacturing sector is suffering a slow start to the third quarter, following a promising second quarter in terms of growth momentum. This is according to the latest seasonally adjusted Absa Purchasing Managers' Index (PMI). Although the headline index was only marginally lower in July at 47.3 index points (47.6 in June), this stability masks substantial changes in some of the major PMI subcomponents.



Image source: kzenon – [123RF.com](https://www.123RF.com)

In a particularly stark move, the seasonally adjusted business activity index tanked by almost 11 points, the index shows. Besides a ramp-up of load shedding intensity in July after the unexpected reprieve in June, it is not immediately clear what drove the large decline. However, a substantial rise in the supplier deliveries index to the highest level so far this year may provide some clues.

The deliveries index is inverted, implying that longer supplier delivery (lead) times boost the headline PMI. The reasoning behind this is that pre-Covid, longer delivery times were mostly associated with robust demand conditions, ie. it was seen as reflecting manufacturing sector strength. However, as was the case during the worst of the Covid-19 pandemic, supply chain disruptions can also lengthen delivery times without any rise in demand.

In July, the PMI new sales orders index moved lower. Therefore, there is most likely some other explanation for the jump in supplier delivery times, as it was not demand driven. The longer delivery times in July may well reflect delays associated with the torching of multiple trucks on the N3 transport corridor during the month. If this is the case, the headline PMI was kept artificially afloat in July by the meaningful rise in the supplier deliveries index. In the same breath, to the extent that transport delays contributed to the decline in business activity during July, activity should recover in August, at least partially.

In sum, the sharp moves in the activity and supplier delivery indices may be due to once-off events. If so, the PMI components highlight the debilitating impact that the kind of disruptions seen in July can have on production processes.

On a more positive note, the PMI price index moved down notably in July, signalling that the meaningful moderation in the annual rate of increase for the producer price index (PPI) in recent months still has some legs.

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