momentum investments

The Macro Research Desk

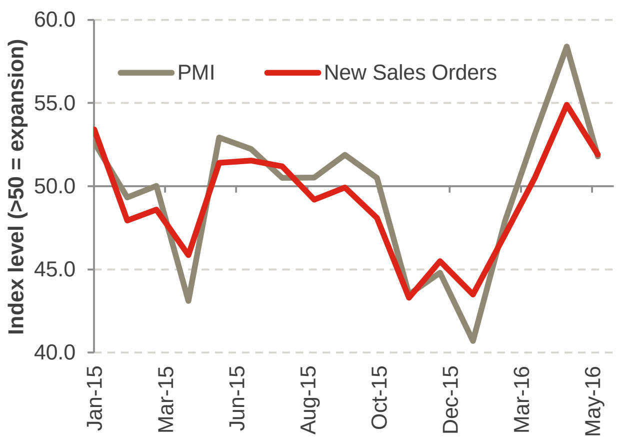
From left to right: Herman van Papendorp (Head of Macro Research and Asset Allocation),
Sanisha Packirisamy (Economist)

SA manufacturing PMI adjusts lower in May

Sharp uptick in April partly reversed in May, but manufacturing sentiment remains in positive territory

After jumping 4.4 index points higher in April, the Barclays/BER Purchasing Managers' Index (PMI) declined by 3.0 index points in May to 51.9. Although the headline index remains in expansionary territory (above 50), manufacturers have flagged soft local demand as a key driver behind the slowdown (-6.6 index points) in new sales orders. Meanwhile, some respondents have indicated an improvement in export demand. This is likely in response to the 21.7% depreciation in the rand (against a basket of currencies) over the past year.

Chart 1: Sharp reversal in new sales orders



Source: Barclays/BER, Momentum Investments

Renewed cost pressures

The price sub-index increased to 80.1 index points in May from 77.7 points in April in line with a weaker exchange rate and an increase in international oil prices. Although a weaker exchange rate should buoy export demand, the BER warns against rising imported input costs adding pressure to the cost base of manufacturers.

Manufacturing sector continues to shed jobs

The employment indicator fell back below the critical 50 mark in May to 48 index points, highlighting the reluctance of manufacturers to hire workers in the current challenging economic climate. According to Stats SA's Quarterly Labour Force survey, 100 000 workers were shed between 4Q15 and 1Q16 (and 141 000 between 1Q15 and 1Q16). Soft domestic demand, labour tensions and sticky increases in nominal wage settlements will continue to deter hiring and investment in the manufacturing sector in upcoming quarters.

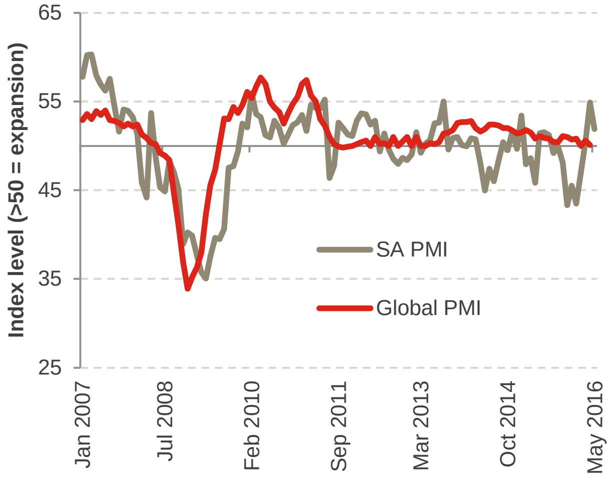
Downward trend in global manufacturing sentiment

The JPMorgan global manufacturing PMI slowed to 50.1 index points in April, slightly lower than the average 50.7-point reading over the past twelve months. In contrast, the services industry (globally) continues to fare well. The JPMorgan global services PMI increased for two consecutive months to 51.9 points in April, averaging 53.2 points over the past twelve months.

Factory activity in the Eurozone remained soft, pointing to weaker second quarter growth. The Eurozone manufacturing PMI dipped to a three-month low of 51.5 index points from 51.7 points in April. Worryingly, the price subcomponent fell again indicative of lingering disinflationary pressures in the region. Low growth and disappointing inflation prints point to the need for easy monetary and fiscal policy in upcoming quarters.

In China, the official manufacturing PMI print remained unchanged at 50.1 index points in May, only marginally higher than the consensus expectation. The Caixin manufacturing PMI (which tracks small and medium-sized enterprises rather than the larger companies or state-owned enterprises) dropped to 49.2 index points, remaining below the 50 mark for fifteen consecutive months. We expect milder growth in China in 2H16 relative to the first half of the year, with Chinese officials responding to the slowdown in traditional growth sectors with targeted stimulus efforts.

Chart 2: Steady decline in global manufacturing PMI



Source: Barclays/BER, Momentum Investments, data up to April 2016 for global PMI

Subdued domestic demand

The PMI continues to signal stress in domestic demand. While export demand appears to have improved in response to a weaker local currency, rising imported input costs and subdued global trade activity are likely to prevent a faster ramp up in manufacturing production.