

## marketplace investment

By Amy Degenhardt

### ECONOMY

# PMI data: An early warning

Do purchasing managers' indices flash a red light for a global growth deceleration?



The purchasing managers' index (PMI) is a valuable leading economic indicator used to identify market conditions based on monthly surveys completed by senior production managers. The value of PMI is that the data comes directly from key managers who understand the dynamics of a firm's activities. To put it simply, the information comes straight from the horse's mouth. Variables measured by the surveys include, but are not limited to, firms' output, new orders, price changes, employment, future output, delivery times, and future activity. The focus here is on the whole economy PMI to better understand overall global growth trends, but the analysis can be broken down into specific areas of construction, services, and manufacturing.

PMI data is straightforward to interpret as it is measured on a scale of zero to 100. A value greater than 50 indicates expansion whereas a figure below 50 indicates contraction. Looking at seasonally adjusted whole economy PMI for SA as an example, July 2021 data of 46.1 index points indicates that the economy is in a contractionary state as it has fallen below 50 (see graph 1). It is interesting to note the April 2021 expansionary high aligns with the end of the second wave and easing of lockdown restrictions in SA, and the subsequent fall aligns with the restrictions imposed due to the emergence of third-wave infections.

### Before the pandemic

Prior to 2020, global PMIs scored in a far tighter range (between 46.9 and 55.5) compared to the more drastic post-pandemic range experienced from 2020 onwards (13.80 to 68.70). Pandemic-linked lockdowns and the subsequent impact on output, production, and

supplies filtered into PMI surveys, as did the subsequent boom in activity as restrictions eased and production restarted when vaccine programmes started (see graph 2).

### What is the latest data telling us?

In May 2021, based on data from IHS Markit and JP Morgan, global expansion peaked at a 15-year high, as many economies reduced restrictions due to vaccination progress and a slowdown in infection rates. Whilst July global growth remains expansionary (manufacturing and services PMI remain above 50), it falls below the recent highs, indicating a deceleration.

The current decrease is linked to the raw material, component supply shortage, and logistical delays which have pushed global supply delivery times to record highs and continue to contribute towards inflationary pressures. The divergence between developed and emerging markets' recoveries continues to deepen as emerging markets, specifically Asian Pacific markets where vaccine programmes have progressed more slowly, have been harder hit by the Delta variant and which continue to constrain the recovery efforts in both manufacturing and service sectors (see graph 3).

Overall, global PMI data from July, with a score above 50, indicates that the global economy continues to recover at a reduced rate due to the resurgence in Covid-19 cases from the more infectious Delta variant and subsequent restrictions. As global vaccine programmes progress, we watch to see if supply-side pressures and Delta variant limitations ease. ■

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