



Herman van Papendorp

Head of Investment Research & Asset Allocation



Sanisha Packirisamy

Economist



Roberta Noise

Economic Analyst

Manufacturing sentiment weakened further below neutral in November 2019

Highlights

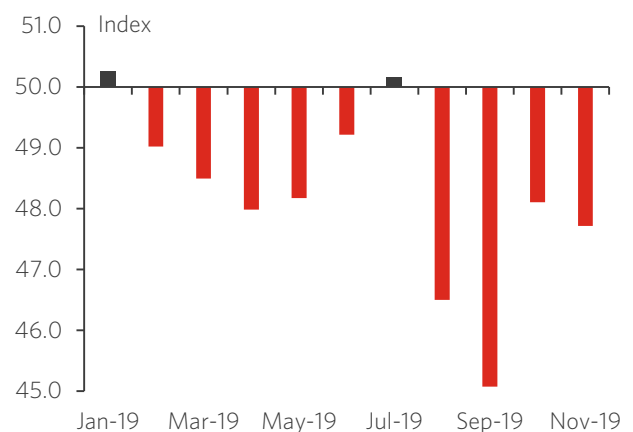
- The Purchasing Managers' Index (PMI) for November 2019 weakened further below the 50 neutral mark to 47.7 index points from 48.1 index points in October 2019.
- The index has only breached the 50 neutral mark twice in 11 out of 12 months for 2019 and not by a significant amount.
- Supplier performance (which contributes 40% to the headline index) remains the only sub-index recording above the 50 neutral mark for the third consecutive month.
- Forward-looking indicators also weakened in November 2019, signalling that the status quo will likely remain.
- The price index dropped to a low of 63.3 index points, signalling improved price conditions.
- The global manufacturing slowdown is still underway given global manufacturing PMI printing below the 50 neutral mark. Global business climate expectations contracted for the sixth consecutive quarter in the fourth quarter of 2019.
- We do not see a quick turnaround in the local manufacturing industry as likely due to domestic and global headwinds.

PMI weakened in November 2019 after a mild recovery

The Bureau of Economic Research (BER) released the (PMI) for November 2019 and the index weakened further below the 50 neutral mark to 47.7 index points from 48.1 index points in October 2019. The index only breached the 50 neutral mark twice in 11 out of 12 months for 2019 and not by a significant amount (see chart 1). The PMI has been volatile throughout 2019 with no clear upward or downward trend.

There was broad-based deterioration in all the contributing indices except for inventories and expected business conditions in November 2019. Business activity fell below 40 index points, a low last seen in July 2017.

Chart 1: PMI weak for most of 2019



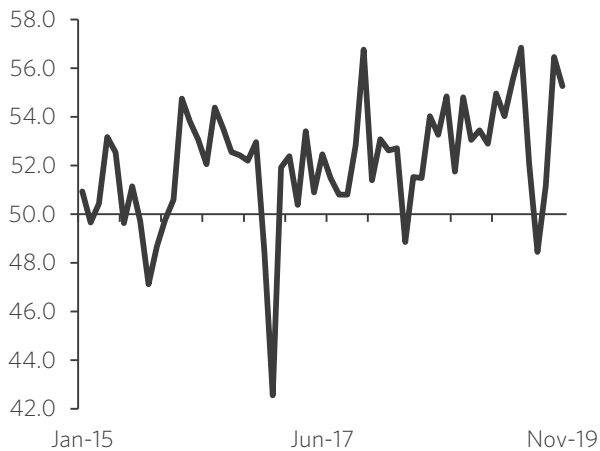
Source: BER, Momentum Investments

Four out of five of the PMI sub-indices contracted in November 2019

The five sub-indices that comprise the headline PMI number have been changed to supplier performance (40%), employment (20%), new sales orders (20%), inventories (15%) and business activity (5%). All these main variables declined in November 2019, except inventories which has weakened for the last two months (39.6 and 39.2 index points) before this rebound to 44.1 index points.

Supplier performance remains the only sub-index recording above the 50 neutral mark for the third consecutive month (see chart 2). Although the index is still in expansionary territory it decelerated to 55.3 index points in November 2019 from 56.5 index points in October 2019.

Chart 2: Supplier performance above the 50 mark (index level)



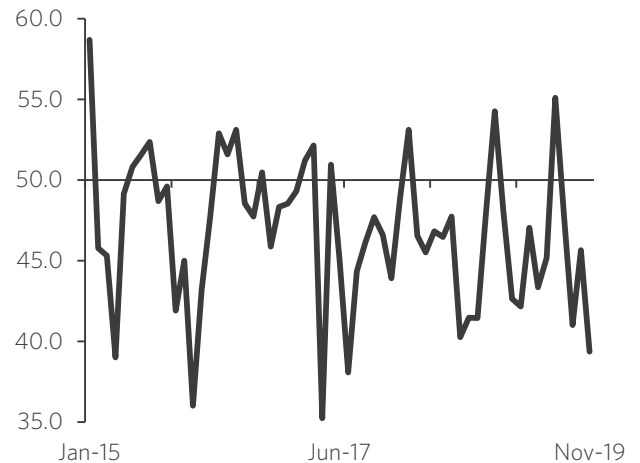
Source: BER, Momentum Investments

Employment retraced to 41.8 index points from 42.3 index points in October 2019. This index continues to trend below its 47.1 index-point long-term average and the neutral mark. New sales orders which give insights into the near term outlook also weakened to 43.3 index points in November 2019 from 44.5 index points in October 2019.

This index managed to go into expansionary territory for two out of 11 months in 2019 so far.

Business activity improved to 45.6 index points in October 2019, rebounding from its second-lowest reading in September 2019, (41.0 index points). However, the index slumped to 39.4 points in November 2019 close to its previous low of 38.1 index points in July 2017 (see chart 3). Interestingly, the July 2019 reading reached a high of 55.1 index points (close to the previous high of 58.7 index points in January 2015), but this index now has the lowest reading amongst all the other sub-indices.

Chart 3: Business activity the weakest since July 2017 (index level)



Source: BER, Momentum Investments

The purchasing commitments index and price index do not have weightings assigned in the overall index, but they give some colour to the general manufacturing picture. The purchasing commitments sub-index, which is a forward-looking indicator, weakened to 44.3 index points in November 2019, previously rebounding to 45.1 index points in October 2019. The price index dropped to a low of 63.3 index points in November 2019, since the 60.7 low in March 2018, signalling improved price conditions.

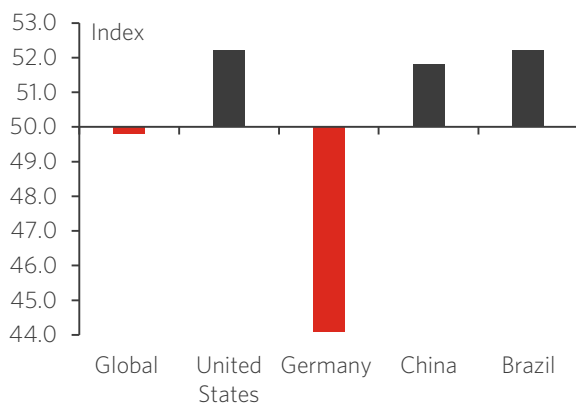
Global PMI still in contraction with tentative signs of an improvement in some countries

The global manufacturing slowdown is still underway shown by the global manufacturing PMI still printing below the 50 neutral mark at October 2019 (see chart 4).

Germany's PMI is still significantly weak at 44.1 index points for November 2019, although it improved from a low of 41.7 index points in September 2019. Italy and Spain have also reported PMIs that are still in contractionary territory for November 2019. The latest Japanese Tankan Survey for October 2019 noted that manufacturers had become the most pessimistic in more than six years.

Markit United States PMI improved to 52.2 index points in November 2019, up from 51.3 index points in October 2019. China's PMI continued to grow to 51.8 in November 2019. It has been above the 50 neutral mark for the last four months. Brazil's PMI has also been in expansionary territory for three consecutive months now, before dipping into contractionary territory for one month in July 2019.

Chart 4: Global PMI still in contractionary territory



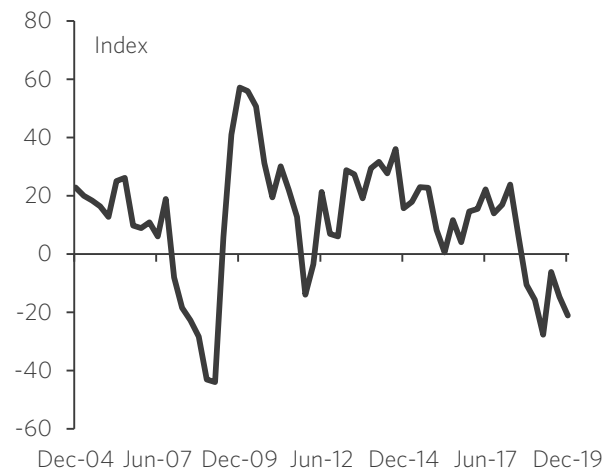
Sources: Bloomberg, Momentum Investments

No immediate reprieve expected for the local manufacturing sector

Domestic variables are still constrained, amid weak domestic demand and a muted growth trajectory. Manufacturers are faced with global headwinds as the global manufacturing slowdown has spilled over into an already constrained local economy. The deterioration in a majority of the PMI sub-indices indicate how weak the economy currently is alongside the sluggishness in forward-looking indicators suggesting that the situation is

The Ifo Global Business Climate expectations contracted for the sixth consecutive quarter in the fourth quarter of 2019 to negative 21.1 index points from negative 14.7 index points in the third quarter of 2019 (see chart 5). The index is a composite index of global sentiment in the construction, manufacturing and trade sectors. There is a strong correlation between manufacturing and trade. Therefore a halt in trade tensions would help the manufacturing sector rebound faster.

Chart 5: Ifo Global Business Climate expectations in decline for six consecutive quarters



Source: Bloomberg, Momentum Investments

Global growth is expected to improve in 2020 underpinned by a shallower slowdown in emerging markets relative to 2019. This will hopefully also show in the global manufacturing sector.

unlikely to change in the near term. The lack of confidence in electricity supply and uncertainty over the plan to restore and provide electricity sustainably in the medium to long term are also contributing to the lack of expansion in manufacturing activities.

We do not see a quick turnaround in the local manufacturing industry as likely due to local and global headwinds.

