

# Standard Bank Mozambique PMI™

## PMI rises to seven-month high in October

### Key findings

Softer reductions in output and new orders

Employment ticks down following rise in September

Business confidence lowest in almost four years

Data were collected 12-27 October 2020.

The start of the fourth quarter of 2020 saw Mozambique's private sector move closer to stabilisation. Both output and new orders decreased at slower rates and firms raised their purchasing activity. That said, business confidence dropped to the lowest in just under four years and the return to growth of employment seen in September was cancelled out.

The headline figure derived from the survey is the Purchasing Managers' Index™ (PMI™). Readings above 50.0 signal an improvement in business conditions on the previous month, while readings below 50.0 show a deterioration.

At 48.1 in October, up from 46.6 in September, the headline PMI posted its highest reading since March, prior to the outbreak of COVID-19 in Mozambique. The index signalled a modest deterioration in the health of the private sector, and the eighth in as many months.

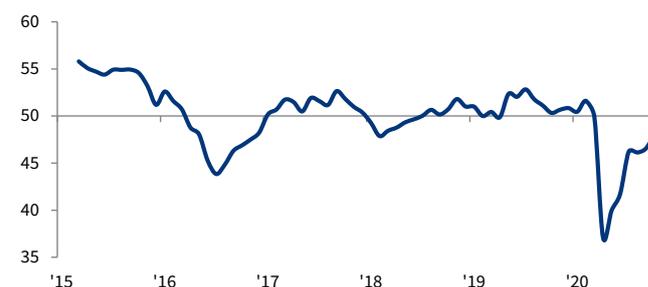
Signs of improving demand conditions as companies recovered from the coronavirus disease 2019 (COVID-19) lockdown helped the private sector move closer to stabilisation in October.

New orders decreased at a solid pace, albeit one that was the slowest in the current seven-month sequence of decline. Where new business decreased, panellists reported that customer numbers remained low.

Meanwhile, the pace of contraction in business activity

PMI

sa, >50 = improvement since previous month



Sources: Standard Bank, IHS Markit.

slowed for the sixth consecutive month from April's record. That said, there were still some reports that the pandemic impacted negatively on output.

After having returned to growth in September, employment decreased fractionally in October amid a continued lack of pressure on capacity.

Purchasing activity increased, however, thereby ending a six-month sequence of decline. Competition among suppliers led them to shorten their delivery times for the second month running, while stocks of purchases were broadly unchanged.

Although purchasing increased marginally in October, overall demand for inputs remained relatively weak. Therefore, suppliers reduced their charges and purchase costs in the private sector decreased for the seventh successive month. In contrast, staff costs increased marginally, and for the first time since March.

Companies in Mozambique raised their own selling prices for the fourth month running in October, albeit at a marginal pace that was the slowest since July.

Despite signs of improving demand conditions during the month, business confidence dropped to the lowest since November 2016. Those panellists that did predict growth of output over the coming year linked this to predictions of stronger demand and business expansion plans.



## Comment

### Fáusio Mussá, Chief Economist - Mozambique at Standard Bank commented:

"Both economic activity and business sentiment in Mozambique remains depressed, negatively impacted by the Covid-19 pandemic, ongoing security challenges and limited scope for both monetary and fiscal policies to stimulate a recovery. As per our base growth scenario, we only see the economy exiting recession during the second quarter of 2021, which should yield an average growth rate of 2% y/y for the year, from an expected contraction of 1.3% y/y this year.

"The pause on interest rate easing cycle from Central Bank reflects increased risks to the inflation outlook, ongoing currency and fiscal pressures. As a result, we see the main policy interest rate, MIMO, being kept on hold at the current level of 10.25% level for a prolonged period, with the prime lending interest rate likely to remain stable at 15.9%. We maintain expectations that inflation will likely increase, from an average slightly above 3% y/y this year to 6.1% y/y in 2021, pressurised by a weaker Metical.

"The USD/MZN pair continues to raise, closing October towards the 73.19 level, up by 19.1% ytd and by 16.5% y/y. Ongoing foreign exchange (FX) liquidity pressures in the market has potential to continue to drive the USD/MZN pair upwards. Our year end expectations remain at the 77 mark, some 5.2% higher than current trading levels. Both peace and structural reforms to foster investment outside the resources sector are required to improve sentiment."

## Methodology

The Standard Bank Mozambique PMI™ is compiled by IHS Markit from responses to questionnaires sent to purchasing managers in a panel of around 400 private sector companies. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP. The sectors covered by the survey include agriculture, mining, manufacturing, construction, wholesale, retail and services.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are then seasonally adjusted.

The headline figure is the Purchasing Managers' Index™ (PMI). The PMI is a weighted average of the following five indices: New Orders (30%), Output (25%), Employment (20%), Suppliers' Delivery Times (15%) and Stocks of Purchases (10%). For the PMI calculation the Suppliers' Delivery Times Index is inverted so that it moves in a comparable direction to the other indices.

Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

October data were collected 12-27 October 2020.

For further information on the PMI survey methodology, please contact [economics@ihsmarkit.com](mailto:economics@ihsmarkit.com).

## About PMI

Purchasing Managers' Index™ (PMI™) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends.

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## About Standard Bank

Standard Bank is established in Mozambique since 1894, actively participating in the development of the country by financing the national economy and placing its vast expertise in the areas of energy, infrastructure and mineral resources available to the national business community and in attracting foreign investment.

Over the past five years, Standard Bank has invested more than US 200 million in credit lines for infrastructure projects for the transport of coal, storage of liquid fuels, expansion and construction of airports and roads, as well as projects in the areas of telecommunications and mineral resources.

Standard Bank is a solid and profitable bank with branches in all of the country's provinces and a wide range of products and services for large, small and medium-sized businesses and individuals. The bank reverts part of its profits to the communities where it is inserted, through the implementation of social projects in the areas of health, education and sports.

Member of the Standard Bank Group, the largest African bank in terms of geographic dispersion, results and assets, with presence in 20 countries on the African continent, as well as 6 global financial centres, Standard Bank Mozambique has the financial and human resources to serve and connect clients throughout world.

[www.standardbank.co.mz](http://www.standardbank.co.mz)

## About IHS Markit

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