Downturn in Zambian private sector intensifies in May

Key findings

- Declines in output, new orders and employment hit new records
- Input costs and output prices decrease
- Business sentiment drops further

The downturn in the Zambian private sector caused by the coronavirus disease 2019 (COVID-19) pandemic intensified during May. Business conditions deteriorated to the greatest extent since the survey began in March 2015 amid a lack of customers, temporary company closures, job cuts and inventory reductions. In fact, all 12 sub-indices covered by the survey hit new lows in the latest period.

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.

The headline PMI dropped to 34.8 in May from the previous record low of 37.3 posted in April. The reading signalled a severe deterioration in the health of the Zambian private sector.

Business activity decreased for the fifteenth successive month in May, with the rate of contraction accelerating to a new survey record. The COVID-19 pandemic was widely blamed for the reduction, with respondents often reporting having been closed during the month. Close to 55% of panellists signalled a drop in output.

The aforementioned company closures and a lack of customers meant that new business also declined rapidly in May. With new orders down sharply, companies were able to reduce backlogs of work for the second month running. Some respondents indicated that most outstanding business had now been completed.

With workloads declining, companies scaled back their staffing levels and purchasing activity, in both cases at rates unprecedented in more than five years of data collection. Firms often looked to run down stocks as opposed to purchasing new inputs. As a result, inventories decreased at a substantial pace.

Delays in the receipt of purchased items were widely reported, often due to restrictions on movements put in place to try to prevent the spread of COVID-19. There were some mentions of delays in receiving goods from South Africa.

Rates of decline in both purchase prices and staff costs accelerated to new records during the month. Purchase costs fell amid a lack of demand for inputs, while job cuts led to a reduction in wages and salaries. Zambian companies meanwhile lowered their output prices for the second month running, linked to falling input costs and discounts offered to try to secure new business.

Concerns around how long the COVID-19 crisis will persist led to a further drop in sentiment. Exactly 41% of respondents predicted a fall in activity over the coming year, with many other respondents highlighting uncertainty over the outlook.
Comment

Victor Chileshe, Head of Global Markets at Stanbic Bank commented:

"Business conditions continued to be affected as a result of Covid-19 lockdowns and restrictions which are now being eased and should therefore help improve conditions going forward."

Methodology
The Stanbic Bank Zambia 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.

May data were collected 12-22 May 2020.

For further information on the PMI survey methodology, please contact 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.

ihsmarkit.com/products/PMI.html

About Stanbic Bank
Stanbic Bank Zambia Limited is part of the Standard Bank Group, Africa’s largest bank by assets. The Standard Bank Group, with strong African roots and leader in emerging markets, has on-the-ground representation in 20 African countries.

Stanbic Bank Zambia Limited is the largest bank in Zambia by balance sheet, offering a full range of banking and related financial services. The Bank is well capitalized and its capital position is above the regulatory minimum.

The Bank which has more than 60 years’ operating experience has a huge network of branches countrywide offering full spectrum of financial services from retail to corporate and investment banking.

Our strategy is to be the leading financial services organisation in, for and across Zambia, delivering exceptional client experiences and superior value. We believe we can achieve this as Zambia is our home, we drive her growth. The Bank has been an integral part of the Zambian economy and is a leading player in the country’s financial services sector.

http://www.stanbicbank.co.zm

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