

IHS Markit South Africa PMI®

Activity declines as lockdown measures tighten

Key findings

Output contracts for first time in 2021 so far

New order growth stalls as restrictions harm sales

Employment and backlogs rise at quickest rates since November 2012

Data were collected 11-28 June 2021.

Business activity and sales were hit by the reintroduction of stricter lockdown measures in South Africa during June, as PMI® survey data indicated the first fall in output in 2021 so far. New business growth largely stalled after two successive months of expansion, while there was a renewed drop in export sales. Raw material shortages led to a solid increase in backlogs, prompting firms to raise employment at the quickest rate since November 2012.

Supply issues and salary increases pushed up input prices at a marked pace in June, although the overall rate of inflation eased slightly from May's recent high. Output charges continued to rise sharply as firms often passed these costs onto their customers.

The headline South Africa PMI® is a composite single-figure indicator of private sector business performance. It is derived from indicators for new orders, output, employment, suppliers' delivery times and stocks of purchases. Any figure greater than 50.0 indicates an overall improvement in the sector.

The headline PMI dropped for the second consecutive month from 53.2 in May to 51.0 in June, signalling a loss of momentum in the rate of improvement in operating conditions across the private sector economy. The expansion was the ninth in as many months, but the weakest since March.

Output decreased for the first time in six months during June, as the tightening of COVID-19 measures hit customer demand. Supply problems were also highlighted by survey panellists, meaning that some firms were unable to fulfil new orders. Though only modest, the fall in output was the fastest since last August.

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South Africa PMI

sa, >50 = improvement since previous month



Source: IHS Markit.

Comment

Commenting on the latest survey results, David Owen, Economist at IHS Markit, said:

"A third wave of the pandemic hit South Africa's economy in June, as business activity fell for the first time in six months amid stricter lockdown measures. The PMI remained above the 50.0 mark, however, largely due to a solid increase in employment that was the fastest seen since November 2012.

"More importantly, the fall in output was modest and softer than those seen throughout much of 2020. This suggests that the economy is becoming more resilient to the pandemic and may not suffer too badly from renewed lockdown restrictions. That said, the move to Level 4 at the end of June will likely lead to a sharper decline in activity over July.

"Supply shortages remained a key concern, with delivery times, backlogs, purchasing and prices all impacted in June. On the positive side, lead times lengthened to least extent since January 2020, while input price inflation eased for the first time in four months, offering some hope that supply-side issues will lessen in the second half of the year."

New business growth stalled in June, following two successive months of solid expansion. Curfew hours and bans on gatherings and alcohol sales were reintroduced, which respondents often related to weaker client demand. Moreover, export orders decreased for the first time in three months.

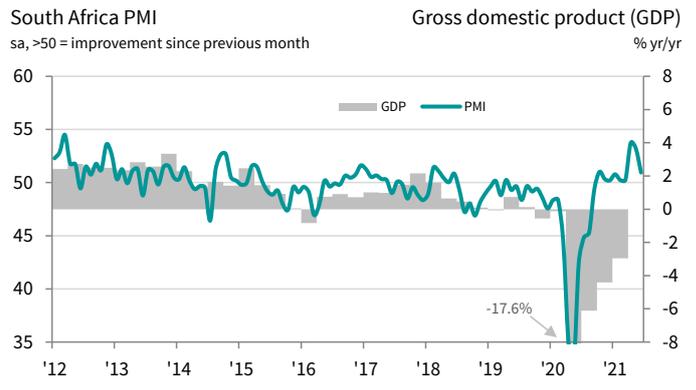
Difficulties procuring inputs due to global shortages meanwhile led to a marked rise in backlogs of work. This contributed to a solid upturn in employment, with both series marking the fastest rates of growth since November 2012.

Material shortages forced some firms to reduce their purchases in June, leading to a marked slowdown in input buying growth. Supplier performance was also affected, although lead times lengthened to the least extent since January 2020.

Supply issues continued to push input costs sharply higher in June, as vendors raised their prices in response to weak availability. Metals, chemicals and fabric were commonly reported as up in price, while increased staff demand led to a solid rise in salaries. Barring those seen in April and May, the rate of overall input price inflation was the quickest since October 2018.

In response to a sharp rise in input prices, firms increased their output charges at a robust pace, although inflation softened to a three-month low.

Finally, business confidence dropped for the second straight month as concerns grew that COVID-19 restrictions would harm economic activity in the near future.



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Survey methodology

The IHS Markit South Africa 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.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

Survey dates and history

June data were collected 11-28 June 2021.

Survey data were first collected in July 2011.

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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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