

Standard Bank Mozambique PMI™

Business conditions improve at strongest rate since November 2015

Key findings

Output growth nears two-year high

Higher customer orders lead to increased hiring activity

Fastest rise in input costs since March 2019

Data were collected 11-25 June 2021.

Growth momentum in the Mozambican private sector accelerated in June, amid sharper increases in output, new orders and employment. In fact, new orders expanded at the fastest rate for nearly four years, as improving client confidence and increased turnout supported a sharp rise in demand. With workloads rising, firms added to their staff numbers at the quickest pace in a year-and-a-half.

However, latest data also signalled a marked rise in input prices amid an increase in raw material demand and a weaker metical value. As a result, output charges rose to the greatest extent for nearly two years.

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 52.9 in June, the headline index was up from 51.2 in May to the highest reading since November 2015. This indicated a solid boost to business conditions across the private sector economy and the third in as many months after a 13-month sequence of decline.

Output continued to grow at the end of the second quarter, with the rate of expansion strengthening to the fastest for nearly two years. Survey panellists that raised output levels often linked this to an upturn in new order inflows.

PMI

sa, >50 = improvement since previous month



Sources: Standard Bank, IHS Markit.

Notably, the latest increase in new orders was the sharpest recorded since September 2017. Firms often highlighted a rise in customer numbers amid improved confidence that the impact of COVID-19 will ease. Despite this, businesses were able to reduce backlogs for the second month in a row.

At the same time, expectations for future output strengthened to the highest recorded for three-and-a-half years. Nearly three-quarters of respondents expect output to rise over the next 12 months, citing efforts to develop new products and services and raise employment levels.

June data signalled a further increase in workforce numbers at Mozambican firms, and one that was notably the quickest for 18 months. Meanwhile, rising new orders prompted firms to sharply expand input purchases and add to total inventories for the third month running.

Higher demand for inputs, as well as reports of currency weakness, were key contributors to a marked increase in input costs in June. The rate of overall input price inflation accelerated to the quickest since March 2019, despite a renewed fall in payroll expenses. Rising price pressures were often passed through to consumers, as shown by a solid increase in output charges that was the strongest for almost two years.



Comment

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

"Mozambique is facing an increase in Covid-19 infections. Towards the end of June, average daily infections rose to 160 positive cases per day, up from an average of 30 in May, which characterizes the "third wave". While restrictions were reinstated to help reduce the infection rates, the government has adopted a more prudent approach, balancing economic needs with health safety requirements. Limited availability of vaccines remains a constraint, however, we may see an acceleration of the vaccination campaign in the second half of the year, as several private sector participants join government efforts to help make vaccines available to employees and their relatives.

"We estimate GDP growth to have remained in positive territory during the second quarter of the year, with growth accelerating towards 2.4% y/y from 0.1% y/y during the first quarter, mainly on base effects. For the full year, we maintain expectations of a slow GDP growth recovery at 1.6% y/y, accelerating to 2.2% y/y next year. Covid-19 restrictions, ongoing security challenges, relatively low foreign direct investment and high real interest rates will likely continue to negatively impact the recovery.

"Despite the challenges, the correction of the Metical remains smooth, not reflecting in full the liquidity pressures the FX market is facing. At the time of writing, the metical maintained a depreciation bias, with the USD/MZN pair trading at 63.3, after appreciating to 55 by mid-April, from the level of 75 at the beginning of the year. We maintain expectations of year end inflation at 6.4% y/y with the MZN/USD pair closing at the 65.4 level."

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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.

June data were collected 11-25 June 2021.

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.

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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.

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About IHS Markit

IHS Markit (NYSE: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions.

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