# News Release

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# IHS MARKIT SOUTH AFRICA PMI®

## Weakest PMI reading in 51 months

### KEY FINDINGS

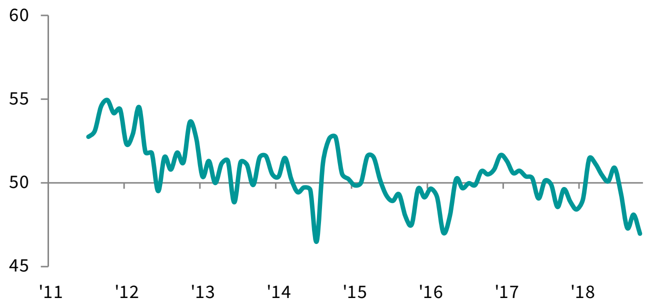
Output declines at steepest pace since July 2014...

...with new orders falling sharply

Selling price inflation at 27-month high

PMI

sa, >50 = improvement since previous month




South Africa's private sector saw a substantial deterioration in operating conditions in October, reflected by the steepest drop in output in over four years. New orders also fell sharply, with export demand continuing to decline. As a result, firms reduced purchasing activity at a solid pace. Employment bucked the trend by growing for the first time in four months. Meanwhile, firms raised selling prices at the fastest rate in over two years. Business confidence improved from September, but remained subdued overall.

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 overall improvement of the sector.

The PMI fell from 48.0 in September to 46.9 in October, signalling the sharpest decline in the health of the private sector since July 2014. Latest survey data indicated that businesses were affected by a number of economic factors leading to weak demand across the sector.

The amount of new business fell at a steep rate in October, with the pace of contraction broadly similar to August's 49-month low. Panellists suffered from weak demand in both domestic and foreign markets, with many citing the current economic downturn as a contributing factor. New export orders were discouraged by currency instability.

Concurrently, business activity at private sector firms fell at the steepest rate in 51 months, extending the current sequence of falling output. Purchasing activity also dropped at the quickest pace across the same period, due to both falling sales and rising prices.

Backlogs of work rose modestly in October, with some firms citing a lack of staff due to strikes. Employment grew at only a fractional pace, although this was the first rise in staffing levels since June.

Delivery times continued to worsen at South African private sector firms in October. That said, the deterioration in performance was the least marked since June.

Output price inflation was at a 27-month high during October. Companies found that current economic conditions have led to a number of cost pressures, including rising fuel prices and the weakening value of the rand. Purchasing cost inflation was the steepest since June 2016. Wages also grew solidly, with firms citing higher tax levels as a key influence.

Finally, business confidence remained subdued compared to the average seen across the series history. That said, the level of optimism was notably stronger than in September. Despite the current downturn, a number of firms hoped that economic conditions would improve in the future, leading to a pick-up in demand for goods and services.



PMI® By IHS Markit

## COMMENT

David Owen, Economist at IHS Markit, which compiles the South Africa PMI survey, commented:

*"A sharp decline in new orders and output in South Africa's private sector led to the weakest PMI reading in 51 months during October. Companies responded with a steep reduction in purchasing activity, raising worries of a decline in GDP in Q4. Employment grew for the first time since June, albeit marginally.*

*"Meanwhile, prices soared at the fastest pace in over two years, as higher fuel prices and the weakness of the rand raised cost burdens. Wages rose, but only to keep real incomes from falling. As a result, whilst confidence levels were stronger than in September, they remained subdued compared to previous years."*

## CONTACT

IHS Markit

David Owen
Economist
T: +44-207-064-6237
david.owen@ihsmarkit.com

Joanna Vickers
Corporate Communications
T: +44-207-260-2234
joanna.vickers@ihsmarkit.com

### 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.

October 2018 data were collected 12-29 October 2018.

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

### About IHS Markit

IHS Markit (Nasdaq: 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.



### 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. To learn more go to ihsmarkit.com/products/pmi.html.