

IHS Markit South Africa PMI™

PMI signals severe fall in economic activity from country-wide lockdown

Key findings

Record declines in output, new orders, exports and employment in April

Businesses face record lengthening of supplier delivery times

Input cost inflation ticks up again as rand weakens

Data were collected 7-30 April 2020.

The South Africa PMI® plunged to a record low in April as business activity suffered greatly from the nationwide lockdown to combat coronavirus disease 2019 (COVID-19). Output levels collapsed due to company closures, with client demand also falling sharply.

Firms responded with a record reduction in workforce numbers, while salary cuts were also widespread. Purchases fell steeply, although input costs rose at an accelerating pace due to a weaker rand.

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.

At 35.1 in April, down from 44.5 in March, the headline index indicated a substantial decline in operating conditions during the month. The index suffered its largest one-month fall and posted its lowest reading ever seen in the survey history (since July 2011).

Output levels decreased at the sharpest rate on record at the start of the second quarter. This was largely linked by firms to the nationwide lockdown implemented in March to curb the spread of COVID-19, leading to widespread temporary business closures. Activity fell at well over half of all surveyed firms, as working-from-home policies also led to weaker output.

New orders meanwhile decreased sharply in April amid the lockdown measures. The downturn was by far the quickest

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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:

"The plunge in the South Africa PMI was testament to the impact that the nationwide lockdown has had on the economy. In fact, at 35.1, the headline index may be an overestimate of business performance in April.

"Firstly, the index was boosted by a rapid lengthening of supplier delivery times, which is normally taken to describe a growing and busy market environment, rather than one hampered by restrictions on daily activities. Thus, the PMI was lifted by this sub-series.

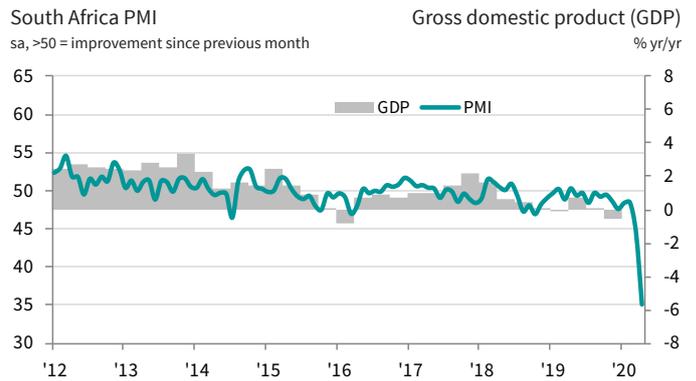
"A better estimate is the Output Index, which posted 23.7 in April. However, even this figure does not illustrate the strain of businesses reporting lower output. With the lockdown in place, many firms simply shut down operations, rather than partially reducing output. As such, the magnitude of the collapse in economic activity could be even more cataclysmic than the index suggests, with jobs and revenues set to suffer greatly as well."

seen in the series, as companies noted that new business with both domestic and foreign clients was restricted. Exports were additionally hampered by a sharp deterioration in supply chains, as vendors were forced to work at much lower capacity. Lead times for input deliveries lengthened at a record pace.

With output falling sharply, many South African firms lowered employment numbers in April. Latest data showed an unprecedented drop in workforces, leading to the first rise in backlogs since last November. In addition, many businesses opted to reduce employee salaries in an effort to ease expenses. Consequently, overall staffing costs declined steeply from March.

Further efforts to cut costs were seen on the purchasing side in April. Input buying dropped at the quickest rate in the survey's history, partly linked to plans to reduce inventories during the lockdown period. Forecasts of weak future output were also a contributing factor, with many companies uncertain that the economy would rebound quickly following a lifting of measures. Notably, the degree of sentiment for activity over the coming year dropped to a series low.

Despite the fall in purchasing activity, firms saw an accelerated rise in cost burdens, mainly due to a broad-based increase in import prices as the rand weakened further against the US dollar. Businesses passed on the uptick in costs to consumers through a solid increase in output charges, albeit the softest for three months.



Sources: IHS Markit, Stats SA

Contact

David Owen
Economist
IHS Markit
T: +44 2070 646 237
david.owen@ihsmarkit.com

Katherine Smith
Public Relations
IHS Markit
T: +1 781 301 9311
katherine.smith@ihsmarkit.com

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

April data were collected 7-30 April 2020.

Survey data were first collected 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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