

# IHS Markit South Africa PMI™

## PMI up to 11-month high in September

### Key findings

Decline in business activity softens considerably as lockdown eases

New orders fall at slowest pace in ten months

Sharper cost inflation leads to renewed rise in charges

Data were collected 11-28 September 2020.

September PMI® survey data signalled a notable softening in the economic decline across South Africa's private sector as coronavirus disease 2019 (COVID-19) restrictions were greatly eased. Output and new business fell at much softer rates, as several surveyed companies highlighted a pick up in demand as businesses returned to work. Future expectations improved to the highest since February, but ongoing spare capacity led companies to further reduce employment.

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 PMI rose to 49.4 in September from 45.3 in August, marking the largest one-month increase in the headline figure since June. Moreover, the reading signalled only a slight deterioration in business conditions that was the weakest recorded for 11 months. The output, new orders, employment and stocks of purchases sub-indices all posted notably higher readings compared with the previous month.

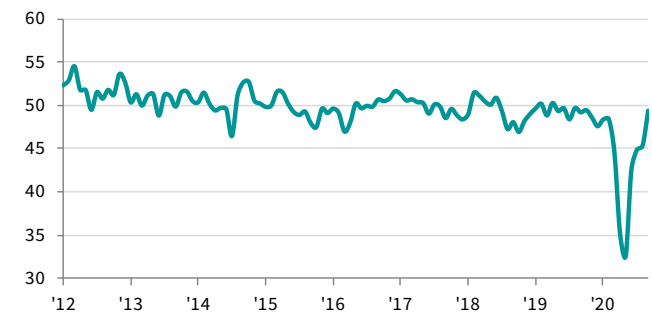
At the end of the third quarter, South African companies registered only a fractional drop in output that was the softest seen in the current 17-month sequence of contraction. While many firms noted a lasting impact of lockdown measures on activity, a number of respondents saw steps to reopen the economy lead to an expansion of output.

Notably, the decline in new orders slowed to the softest pace since last November. Several firms reported a rise in demand

*continued...*

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 significant lifting of COVID-19 lockdown measures in August and September led to a strong improvement in the South Africa PMI at the end of the third quarter, as the headline number rose to 49.4. Despite remaining in negative territory (below 50.0), it was the highest reading since October 2019 and, when comparing with historical growth trends, was indicative of a rise in quarterly GDP.*

*"Furthermore, firms will be encouraged by a reduction in curfew times from 20th September, with other restrictions also being eased including on social gatherings and the sale of alcohol. Confidence of a rise in future activity reflected these changes, as sentiment reached the highest since February, before lockdown restrictions were first announced.*

*"Expansions in output and demand will be needed to help businesses revive job markets though, as employment continued to fall steeply. A rise in jobs will likely appear after an increase in economic activity, as firms will need time to recoup losses from the pandemic."*

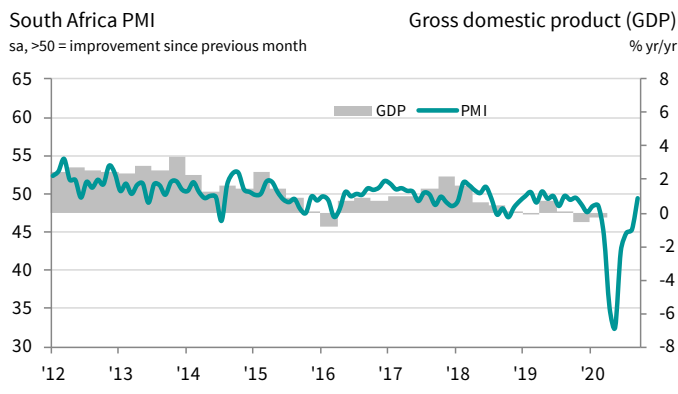
as businesses returned to work. In addition, foreign orders dropped to the least extent since before the COVID-19 outbreak, amid an improvement in global activity.

Businesses were subsequently more confident of a future rise in output, as sentiment improved to the strongest since February. In anticipation of output growth, firms expanded input buying for the first time in 13 months, albeit at only a marginal rate. Nevertheless, this led to a softer and only modest contraction in overall inventories.

There was further evidence of spare capacity in September, as backlogs fell for the fifth month running. As such, companies lowered employment levels sharply again, albeit at the slowest pace since March as some firms increased hiring due to a rise in client orders.

Delivery times continued to lengthen severely in September. Firms often cited weak availability of some inputs, including steel and other metals.

Input price inflation accelerated to a five-month high in the latest survey period. Panellists attributed the rise to a weaker rand, short supply of materials and higher input demand following a pick up in economic activity. At the same time, output charges increased for the first time since April, albeit at only a modest rate. Firms often reported the passing on of higher costs to clients.



## Contact

David Owen  
Economist  
IHS Markit  
T: +44 2070 646 237  
[david.owen@ihsmarkit.com](mailto:david.owen@ihsmarkit.com)

Katherine Smith  
Public Relations  
IHS Markit  
T: +1 781 301 9311  
[katherine.smith@ihsmarkit.com](mailto: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](mailto:economics@ihsmarkit.com).

### Survey dates and history

September data were collected 11-28 September 2020.

Survey data were first collected July 2011.

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### 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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