

IHS Markit South Africa PMI®

Business conditions improve for first time in 18 months

Key findings

PMI at 31-month high amid rises in output and new orders

Rate of job cuts eases to weakest for seven months

Supply shortages contribute to building inflationary pressures

Data were collected 12-28 October 2020.

The South African private sector returned to growth in October as an easing of restrictions around the coronavirus disease 2019 (COVID-19) helped to support an ongoing recovery in demand from the worst of the recent downturn in May. Output, new orders and purchasing activity all expanded during the month, while employment fell at the slowest pace since prior to the virus outbreak.

On a less positive note, inflationary pressures continued to build, with both input costs and output prices rising at sharper rates.

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 rose to 51.0 in October from 49.4 in September, back above the 50.0 no-change mark for the first time since April 2019 and signalling a modest improvement in business conditions across the private sector. In fact, the PMI has now risen in five successive months following the nadir in May.

Central to the improvement in overall business conditions were increases in both new orders and output.

New business expanded for the first time in 28 months as customer demand improved following the easing of COVID-19 restrictions. The pandemic continued to impact new export orders, however, which fell again. That said, the reduction in new business from abroad was the softest since before the

continued...

South Africa PMI

sa, >50 = improvement since previous month



Source: IHS Markit.

Comment

Commenting on the latest survey results, Andrew Harker, Economics Director at IHS Markit, said:

"The economic recovery in the South African private sector gained momentum in October as looser COVID-19 restrictions supported expansions in output and new orders. Employment also appears to be on track to return to growth in the coming months.

"The latest data suggest that GDP could grow again during the final three months of 2020, following an anticipated 'mechanical' rebound in the third quarter.

"That said, caution is provided by the situation in other parts of the world where a second wave of the virus has occurred. South Africa will therefore need to keep COVID-19 suppressed if the current recovery is to be sustained."

pandemic hit.

Business activity increased for the first time in a year-and-a-half, and to the greatest extent since December 2016. As was the case with new orders, anecdotal evidence suggested that looser COVID-19 restrictions supported growth.

Although job cuts continued at the start of the final quarter of the year, the pace of reduction in employment slowed to the weakest for seven months.

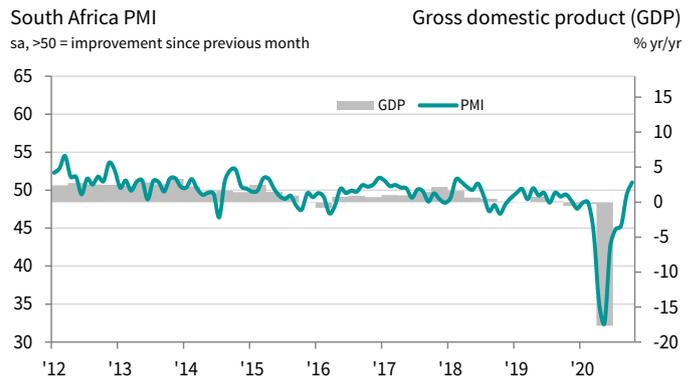
The rate of depletion in backlogs of work also softened. While spare capacity remained evident across the private sector, reports of material shortages reportedly led to delays in the completion of orders at some firms.

Issues with the supply of materials, which were particularly acute for steel, contributed to delays in supply chains and higher purchase costs.

Purchase prices increased at a sharp pace, and one that was the fastest for six months. Panellists reported that currency weakness was also a factor behind higher purchase costs. Companies responded to input price inflation by raising their own selling charges, and to the greatest extent since February.

Improving demand encouraged firms to expand their purchasing activity for the second month running, feeding through to a first rise in inventories since August 2019.

Business confidence remained broadly in line with September's seven-month high, as hopes for an end to the COVID-19 pandemic supported optimism that activity will rise over the coming year.



Contact

Andrew Harker
Economics Director
IHS Markit
T: +44 1491 461 016
andrew.harker@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

October data were collected 12-28 October 2020.

Survey data were first collected in July 2011.

Disclaimer

The intellectual property rights to the data provided herein are owned by or licensed to IHS Markit. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without IHS Markit's prior consent. IHS Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall IHS Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. Purchasing Managers' Index™ and PMI® are either registered trade marks of Markit Economics Limited or licensed to Markit Economics Limited. IHS Markit is a registered trademark of IHS Markit Ltd. and/or its affiliates.

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.

IHS Markit is a registered trademark of IHS Markit Ltd. and/or its affiliates. All other company and product names may be trademarks of their respective owners © 2020 IHS Markit Ltd. All rights reserved.

If you prefer not to receive news releases from IHS Markit, please email katherine.smith@ihsmarkit.com. To read our privacy policy, click here.

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.

ihsmarkit.com/products/pmi.html