Activity and new order growth weaken in April

Key findings

Output increases at softest pace in eight months
New orders rise only marginally
Outlook declines to 29-month low

Business conditions in Mozambique's private sector economy were subdued in April, with output, new orders and employment increasing at slower rates. Input prices rose at a relatively cool pace, while future business sentiment fell sharply to the lowest in nearly two-and-a-half 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.

The headline PMI fell from 50.4 in March to 49.9 in April, signalling a very slight deterioration in business conditions at the start of the second quarter. It was the first time in ten months that the PMI had slipped below the 50.0 no-change mark.

Mozambican firms found that operating conditions were harmed by weaker output growth during April. The rate of expansion slowed to the least marked since August 2018. Anecdotal evidence reflected softer demand pressures across the private sector, while some companies cited a lack of stocks and financing problems leading to lower output.

New order growth was slightly softer in April compared to March. Survey data showed only a marginal rise in new work that was the weakest for ten months. According to panel reports, demand was partly affected by the aftershock from Cyclone Idai. Nevertheless, new orders appeared to outstrip activity, as businesses reported a slight increase in backlogs of work for the first time in 2019 to date.

Employment was another key index which had a negative directional effect on the headline PMI in April. The rate of job creation slowed markedly from March, with firms seeing only a marginal rise in employment. Panellists also reduced purchases for the first time in 13 months, attributing this to an excess supply of inventories in this period of softer demand growth. As such, stock levels dropped, albeit fractionally.

Input price inflation dipped in April, following broadly unchanged rates of inflation in the first quarter of the year. This was partly due to only a modest rise in purchasing costs, although some firms found that a fall in the value of the metical led to higher import prices. In response, some of these firms raised output charges, with overall selling prices increasing slightly from the previous month.

With demand growth sliding and the economy impacted by Cyclone Idai, future business sentiment declined sharply in April. Expectations remained positive overall but were at their weakest since November 2016. Nevertheless, many businesses still hoped that greater hiring, company development and higher sales would lead to improved activity in the future.
Fáusio Mussá, Regional Economist at Standard Bank commented:

"The Mozambican economy has been severely affected by Cyclones Idai and Kenneth recently, prompting economic analysts and institutions to revise downwards their GDP forecasts for the year by up to 2 percentage points lower than initial projections. Latest available data published by the National Statistics Institute shows that the economy grew 3.3% year on year during 2018, the lowest growth rate since 2001.

"Nevertheless, Central Bank seems concerned with potential foreign exchange liquidity pressures, fiscal constraints and inflationary implications. Monetary policy easing has paused, with the main policy rate unchanged at 14.25% since Dec 2018 and an unexpected increase in the foreign exchange reserve requirements ratio to 36%. National inflation closed March at 3.4% y/y, slightly higher than the 3.1% y/y recorded during the same period of 2018. We see the 12-m average inflation increasing going forward, but remaining within Central Bank expectations of 6% to 7%.

"The USD/MZN pair continues to rise, reflecting a combination of factors that continue to pressurize foreign exchange liquidity in the market. Since the end of September last year, the pair increased by 6.5% to 64.6, the highest level in 24 months. We still see the pair heading higher before it reverses the trend in the second half of the year, most likely supported by the natural gas final investment decisions targeted for the year."

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