PMI highest in four months, but still signaling worse conditions in July

Operating conditions at private sector firms in Mozambique continued to deteriorate in July, according to the latest PMI survey data. Output levels slid at a sharp pace, as intakes of new work dropped for the fourth month in a row. However, the rate of decline in the economy eased as some firms began to see an uplift following the coronavirus disease 2019 (COVID-19) pandemic.

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 latest reading of 46.2 in July signalled a further solid deterioration in the health of the Mozambican private sector at the start of the third quarter. However, the index rose from 41.7 in June and was the highest seen for four months, indicating that the decline in economic conditions was much softer than seen earlier in the pandemic.

Indices for output and new orders remained below the 50.0 growth threshold in July, as companies saw further headwinds from government restrictions on activity. Firms reported that customer demand was weak, with intakes of new work decreasing for the fourth consecutive month. However, the latest decline was easily the softest in this period, as some firms highlighted that customers returned during the month.

Output levels also fell at the weakest rate in four months in July, as companies responded to the softer fall in new orders. Purchases of inputs meanwhile dropped at only a modest pace, leading to a smaller reduction in stock levels.

Mozambican firms continued to shed workers at the start of the third quarter, which was mainly linked by survey respondents to weak economic conditions. That said, the rate of job losses was the slowest since April, and modest overall. Companies also noted a further clearing of backlogs during July, albeit at a much weaker pace than that seen in June.

Price pressures softened for the fourth consecutive month in July, as lower demand for inputs led to an additional drop in supplier prices and firms continued to reduce salaries in response to weaker sales. Meanwhile, supply chain pressure started to ease, as lead times lengthened the least in four months.

Selling charges rose for the first time since April, reportedly driven by the slower downturn in sales. However, the overall increase was only fractional.

Lastly, the outlook for future activity at Mozambican firms improved only gradually in July. Positive sentiment was sometimes linked to plans to expand into other regions. Notably, the overall level of optimism was broadly similar to the series average.
Comment

Fáusio Mussá, Regional Economist at Standard Bank commented:

"After four months of State of Emergency in place since April, Mozambique has not yet seen the peak of Covid-19 infections, with around 1500 cases at the time of writing. This helps prepare the health system and society to deal with the negative impacts of the pandemic. A gradual relaxation of social distancing measures into a 'new norm' is widely expected to help reduce the negative impact of the pandemic on economic activity in terms of job losses, low aggregate demand and low disposable income.

"Security challenges in the centre of the country attributed to Renamo ex-fighters and terrorist violence in the northern province of Cabo Delgado with ingredients of ISIS affiliated violence and drug trafficking also remain areas of concern. "Despite these challenges, Mozambique is now the beneficiary of the largest project financing deal on the continent, following last month’s completion of legal agreements for a financing package worth USD15bn to USD16bn, to fund the Mozambique Liquified Natural Gas (LNG) project led by Total. Investment amount for the Mozambique LNG project could add to USD27bn including exploration costs, which combined with Coral South Floating LNG investment worth of USD10bn is more than double the country’s GDP current size of USD15bn."

Methodology

The Standard Bank Mozambique 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. July data were collected 13-28 July 2020.

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

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.

About Standard Bank

Standard Bank is established in Mozambique since 1894, actively participating in the development of the country by financing the national economy and placing its vast expertise in the areas of energy, infrastructure and mineral resources available to the national business community and in attracting foreign investment.

Over the past five years, Standard Bank has invested more than US 200 million in credit lines for infrastructure projects for the transport of coal, storage of liquid fuels, expansion and construction of airports and roads, as well as projects in the areas of telecommunications and mineral resources.

Standard Bank is a solid and profitable bank with branches in all of the country’s provinces and a wide range of products and services for large, small and medium-sized businesses and individuals. The bank reverts part of its profits to the communities where it is inserted, through the implementation of social projects in the areas of health, education and sports.

Member of the Standard Bank Group, the largest African bank in terms of geographic dispersion, results and assets, with presence in 20 countries on the African continent, as well as 6 global financial centres, Standard Bank Mozambique has the financial and human resources to serve and connect clients throughout the world.

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