

IHS Markit South Africa PMI®

Business conditions stabilise in August

Key findings

Output and new orders fall at much softer rates

Employment rises slightly as backlogs continue to grow

Input price and output charge inflation ease for third month running

Data were collected 12-26 August 2021.

The South African private sector largely stabilised midway through the third quarter of the year, following a sharp downturn in July amid unrest and COVID-19 lockdown measures. Whilst demand levels remained weak for some companies, others saw new business recover as lockdown eased and client confidence strengthened.

Raw material shortages remained severe, however, driving backlogs higher and contributing to further supplier delays. As a result, input prices and output charges continued to rise sharply, although rates of inflation eased for the third month running.

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 posted 49.9 in August, up from an 11-month low of 46.1 in July, to signal a broad stabilisation of operating conditions in the private sector economy.

New orders remained in contraction territory for the second straight month in August, but the rate of decline slowed sharply from July and was only marginal. Notably, the easing of restrictions to Level 3 and quelling of unrest helped to partially restore order volumes, although manufacturing was the only monitored sector to see an overall upturn. Export sales also recovered somewhat, falling to the least extent for three months.

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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 latest South Africa PMI data suggested that the economy has recovered somewhat from disruption at the start of the third quarter. The headline index was broadly in line with the 50.0 neutral mark, owing to much softer falls in output, new orders and inventories, and a renewed increase in employment.

"With lockdown restrictions easing to Level 3, and the economy recuperating from social unrest, several firms registered an uptick in sales that helped them to expand output. Overall though, demand and activity fell again in August, suggesting it will take several months for business to fully recover from this particular downturn, one that IHS Markit estimates will reduce GDP growth by 0.3% in 2021.

"A wide variety of input shortages were highlighted again, but particularly metals and electronic items. These continued to hinder supply chains and lead to both reduced output and higher backlogs. With the Delta variant still spreading globally, supply issues are likely to remain a key hindrance to businesses for some time yet."

Subsequently, the rate of reduction in output levels softened in August. Firms were also more confident that activity would increase over the year ahead, marking the first improvement in the business outlook since April.

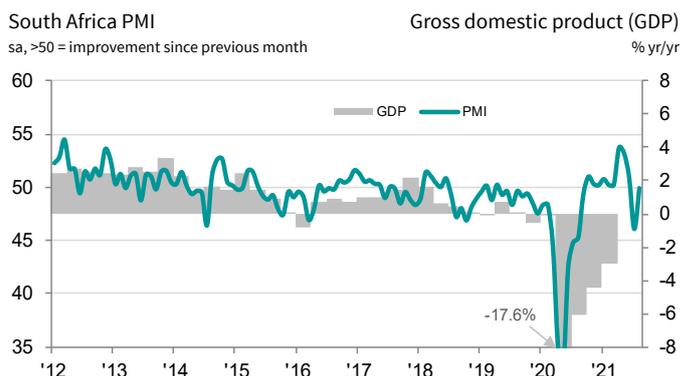
That said, South African firms continued to highlight raw material shortages, with many finding that a lack of supply harmed output and led to a rise in backlogs. Notably, outstanding work has now risen for the longest period since the first quarter of 2012. To ease capacity pressure, firms added to their workforce numbers for the fourth time in five months.

Material shortages also contributed to a further marked lengthening of suppliers' delivery times, albeit one that was slower than July's 12-month record. There were also ongoing reports of shipping issues delaying the arrival of imported goods.

As a result, purchase prices continued to rise sharply in August, with panellists reporting a number of items as up in price, including aluminium, steel, fuel and transport. However, the pace of inflation eased further from May's seven-year high, leading to the softest rise in overall input costs in 2021 so far.

While input costs were commonly passed through to customers, the easing of inflation supported a slightly softer increase in output prices than in July, and one that was the weakest for five months.

With costs rising and demand falling, firms reduced their purchasing activity for the second month running in August. However, as with new orders, the rate of contraction eased sharply from July.



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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

August data were collected 12-26 August 2021.

Survey data were first collected in 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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