

IHS Markit South Africa PMI™

Business conditions weaken again in October

Key findings

Output falls for sixth month running

New orders decline at quickest pace since July

Employment growth strengthens to 18-month high

The fourth quarter started on a subdued note for the South African private sector economy, as PMI data indicated a further decline in business activity amid weaker sales. Companies kept input buying unchanged, but raised job numbers at the fastest rate in one-and-a-half years.

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 recorded a slight rise in October, posting at 49.4, up from 49.2 in September. Nonetheless, it still pointed to a deterioration in business conditions, as has been the case in each month since May. That said, the latest decline was only marginal.

New business received by private sector firms in South Africa fell again in October, extending the current sequence to 16 months. The decrease was moderate and quicker than in September. Where lower sales were reported, this was often related to poor economic conditions and a loss of competitiveness to foreign companies. New export orders fell at the fastest rate since June.

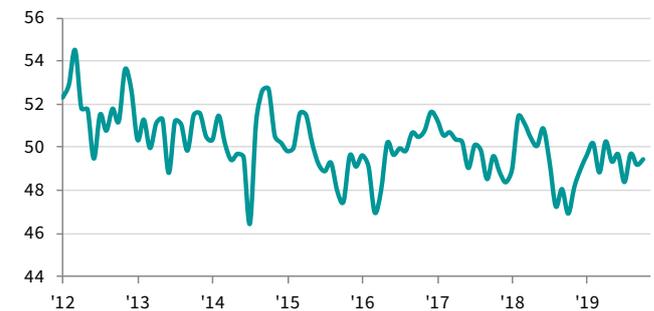
As such, businesses reduced output levels for the sixth successive month, albeit with the rate of decline slowing since the end of the third quarter. Respondents mainly linked this to a fall in sales, although some mentioned that additional load shedding and the unavailability of some raw materials curtailed output.

Shortages of inputs also disrupted supply chains, with companies reporting a lengthening of delivery times for the ninth month running. The rate of deterioration was the quickest since June.

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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:

"South African companies signalled another month of frustration in October, with total new orders falling for the sixteenth month in a row and at a stronger pace than in September. Output and input buying levels thus remained subdued, although employment figures saw a modest boost with the survey showing a greater rate of job creation.

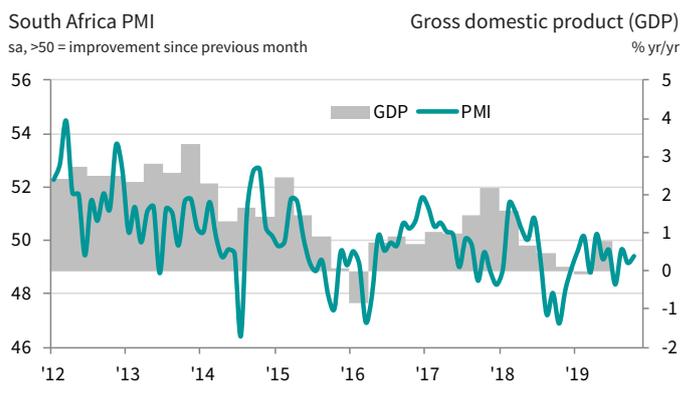
"Sentiment towards future activity improved slightly, yet there were still several firms that emphasised the continuing impact of wider economic conditions on business output. Load shedding also returned during the month, impacting slightly upon sales. There were also mentions of stock shortages hindering firms' activity. Altogether, there are still a number of risks in the South African economy, and a long way to go to counteract them."

Despite this, South African businesses kept input buying broadly unchanged. This was partly due to efforts to limit inventory levels, which fell for the second successive month, albeit only marginally.

More positively, there was a greater need among companies to hire additional labour in October. Employment rose at the strongest rate in one-and-a-half years, albeit modestly overall. Meanwhile, outstanding business was reduced for the third month running.

Cost pressures were again subdued, with input prices rising at a modest, but quicker, pace. Companies notably increased salaries as a result of elevated hiring activity, following a slight reduction during September. Purchase price inflation also accelerated, with a weak exchange rate against the US dollar again leading to increased import costs. This fed through into a moderate uptick in selling charges, which contrasted with an overall drop in the previous survey period.

Despite poor market conditions, there was cause for greater optimism in October, with companies giving the most positive outlook since June. Many firms pinned their hopes to an improvement in the domestic economy and foreign demand. However, a number of panellists remained doubtful of a rebound in business conditions, citing a continued downturn in economic activity.



Sources: IHS Markit, Stats SA

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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

October 2019 data were collected 11-29 October 2019.

Survey data were first collected July 2011.

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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. To learn more go to ihsmarkit.com/products/pmi.html.