

IHS Markit South Africa PMI™

Activity falls sharply amid power cuts and weak demand

Key findings

Output drops at quickest rate in 14 months

Solid decline in new orders as load shedding curtails demand

Employment and purchases decrease further

South Africa's economy endured a dour end to the year, as renewed load shedding led to sharper drops in output and new orders in the private sector. Employment and purchasing activity also fell, albeit only marginally for the former. Cost inflationary pressures grew to a six-month high, causing firms to raise selling prices 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.

At 47.6 in December, the headline reading was down from 48.6 in November and signalled an eighth successive monthly deterioration in business conditions across South Africa's private sector. It also marked the sharpest rate of decline since October 2018.

Businesses widely reported that load shedding had a negative impact on output during December. Activity fell sharply, with the rate of decline the quickest in 14 months. Additionally, firms mentioned that poor weather conditions and lower sales contributed to the downturn.

New orders also fell at the fastest rate in 14 months in December. This decline continued the trend seen since the middle of 2018, with firms linking weaker sales to a subdued economic landscape and the latest round of load shedding. Sales to foreign clients meanwhile declined for the fourth month in a row.

As a result, purchasing activity fell solidly, as firms looked to reduce inventories of inputs. Despite this, supplier lead times deteriorated slightly due to poor weather and power outages.

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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:

"With the country's electricity supplier Eskom implementing Stage 6 load shedding in December, many South African businesses saw activity and trade brought to a standstill. The PMI reflected this disturbance, as well as severe weather conditions, falling to a 14-month low at year-end amid a sharp decline in private sector output and further falls in total new orders and export orders.

"Eskom has warned that further load shedding could occur in January and beyond, placing greater headwinds on domestic firms. Nevertheless, while this dampened some businesses' forecasts for activity in 2020, overall sentiment remained positive and above the trend for the past year.

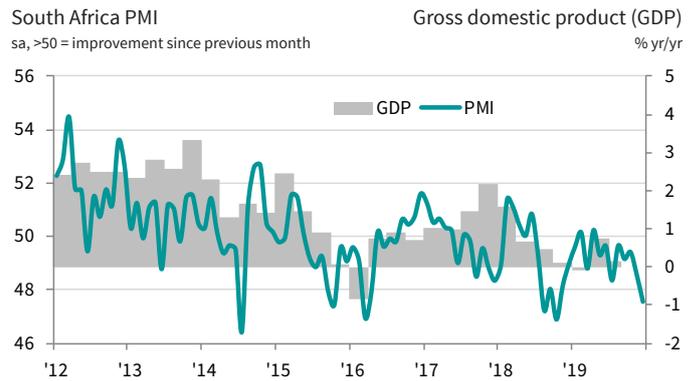
"Output prices rose at only a marginal pace in December though. Should demand weakness persist, firms could be forced to drop prices to maintain a footing in the market."

Hiring activity also decreased, albeit only fractionally. Nevertheless, firms managed to reduce backlogs at the quickest pace since June, in part due to softer demand pressure.

On the price front, South African businesses registered only a marginal increase in selling charges during December, with the rate of inflation slowing further from the previous month. Whilst some panellists raised charges in response to higher cost pressures, other firms reduced theirs amid efforts to boost sales.

Meanwhile, input costs rose at a modest pace that was much softer than the average for the series (since 2011). Inflationary pressures were mainly due to an uptick in supplier prices. Staff costs also increased, but only marginally.

Finally, business expectations remained relatively in line with the rest of the fourth quarter. Firms broadly expect output to rise in the coming 12 months, with the degree of optimism slightly stronger than the average for 2019. That said, there were still concerns among panellists that weakness in economic conditions will persist.



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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

December data were collected 5-19 December 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.