

IHS Markit South Africa PMI®

Strikes lead to sharp fall in activity in October

Key findings

Output and new orders decline amid metalworkers strike

Employment falls for second month running

Cost pressures quicken as input shortages bite

Data were collected 12-27 October 2021.

The South Africa PMI pointed to a strong fall in activity across the private sector in October, largely caused by a two-week metalworkers strike that disrupted output and sales. Shortages of raw materials were also highlighted by surveyed businesses, contributing again to weaker activity, longer lead times and an acceleration of input price inflation.

In response to the downturn in activity, South African companies lowered their employment and purchasing in October. Confidence in future output also faltered, but remained largely optimistic overall.

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 latest figure of 48.6 pointed to a third deterioration in business conditions in the past four months during October. The index fell from 50.7 in September and was the second-lowest in over a year (after July's reading).

After recording the first uplift in four months in September, output at South African businesses fell sharply at the start of the fourth quarter. Manufacturing firms were the most likely to report a decline, largely due to the impact of strikes in the metal industry and raw material shortages. That said, contractions were also registered in the construction, wholesale & retail and services sectors.

Strikes were also reported to have harmed new business levels, which fell at a solid pace that was the quickest since July.

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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 strike by the National Union of Metalworkers during October led to a marked drop in business activity, according to the latest PMI data. Output fell in all monitored sectors, although the decline was most severe in manufacturing. Shortages of raw materials were widely reported again, with steel, chemicals and electrical components the most likely to be in short supply.

"Businesses affected by the strikes were often unable to meet demand, leading to a solid fall in overall sales and a further increase in backlogs. Longer lead times were also recorded, with the deterioration in supply chains the second-sharpest in over a year, following the lockdown-hit period in July.

"Notably, business conditions have now worsened in three of the last four months, and improved only slightly in September. This will likely reflect poorly in third quarter economic data, although it is hoped that a swift recovery in November and December - given the strikes have now ended - should help South Africa to avoid a recession."

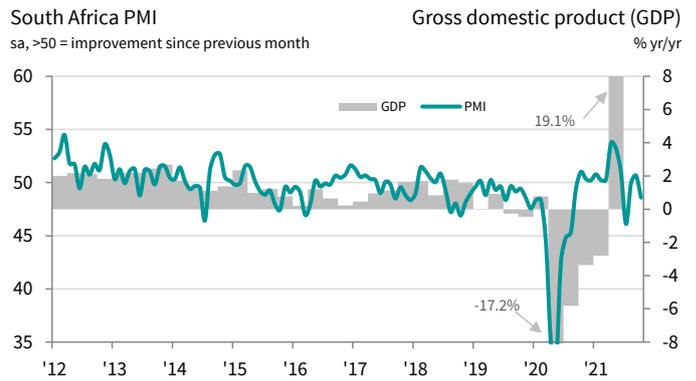
Particular weakness was seen on the exports side, as sales to foreign clients declined to the greatest extent in over a year.

Shortages of raw materials served to disrupt supply chains further in October. Delivery times lengthened sharply, while inventories fell for the fourth month running. Steel, chemicals and electrical component shortages were often highlighted by the survey panel.

Input price inflation accelerated for the second month in a row, driven by rises in the cost of raw materials, fuel and transport, as well as a weaker exchange rate against the US dollar. Whilst output charges rose sharply in response, the pace of increase softened from September as some businesses looked to boost sales through promotional offers.

With activity falling, South African companies reduced their staff numbers and purchasing of new inputs during October. Indeed, both employment and purchasing fell at a quicker rate than in September. This resulted in a stronger, albeit still modest, increase in backlogs of work.

Lastly, expectations for future output fell for the first time in three months in October, but remained strong overall and above the series trend. Close to 42% of respondents gave a positive prediction for the coming year, amid hopes that economic conditions would settle. That said, some warned that supply problems and price pressures could lead to further declines in 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 data were collected 12-27 October 2021.

Survey data were first collected in 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.

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