News Release

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S&P Global South Africa PMI®

Output and new business decline in April as firms face widespread price and supply challenges

Key findings

Output contracts at quickest rate in 2022 so far

Rising prices deter customer sales

Floods and load shedding add to supply-side woes

South African businesses continued to face a myriad of economic challenges in April, as the latest PMI data pointed to a fall in output in response to lower customer new orders and supply constraints. In addition to reports of material shortages due to the war in Ukraine and COVID-19 lockdowns in China, many firms were reportedly hit by load shedding and floods in the KwaZulu-Natal province. Rising fuel prices meanwhile led to a sharp rise in purchasing costs, as well as efforts to compensate staff facing higher living expenses.

The S&P Global South Africa Purchasing Managers' Index™ (PMI®) dropped to a four-month low of 50.3 in April, down from 51.4 in March. The index signalled a marginal improvement in business conditions.

However, the Output and New Orders Indices posted inside contraction territory in April, signalling a decline in both business activity and sales. Stocks of purchases were also reduced, but rising employment and busier supply chains meant that the PMI remained above the 50.0 neutral mark.

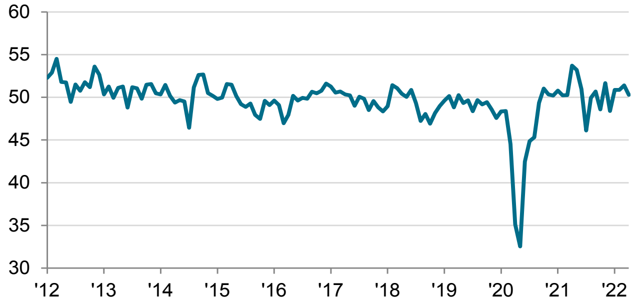
The fall in new orders in April was the first recorded since January, amid reports from panel members that clients had reined in spending as inflationary pressures build. This was particularly true within the industry and wholesale & retail sectors. By contrast, construction and services firms continued to see a rise in demand.

Output levels decreased at a faster rate compared to the previous month. Alongside a fall in demand, activity was negatively impacted by load shedding and floods in the KwaZulu-Natal province. The downturn was the strongest seen in 2022 so far, albeit modest overall.

As well as local supply issues, South African firms faced difficulties acquiring goods from overseas in April, particularly those facing supply shortfalls due to the war in Ukraine and lockdowns in parts of China. These shortages led to another sharp lengthening in delivery times, as well as a drop in inventories for the third month running. Input

S&P Global South Africa PMI

sa, >50 = improvement since previous month



Source: S&P Global.
Data were collected 11-27 April 2022.

Comment

David Owen, Economist at S&P Global, said:

"The South African economy was again held back by worsening supply conditions in April, amid increased disruption both within its borders and abroad. While global supply constraints were exacerbated by COVID-19 lockdown policies in China and the Russia-Ukraine war, severe floods in the KwaZulu-Natal province contributed to a further sharp decline in vendor delivery times. Firms also faced severe rounds of load shedding that led to a stronger fall in output volumes.

"Meanwhile, new orders data showed that clients were increasingly struggling with higher prices and rising living costs in April, which contributed to a decline in sales for the first time in three months. Higher fuel prices were a particular concern for both businesses and households, while a depreciation in the rand added to total import costs.

"With businesses facing the prospect of further load shedding, sharp cost inflation and supply side problems, output growth is expected to be subdued in the near term. Nevertheless, South African businesses continue to forecast a rise in activity over the 12-month period that will likely be driven by a bounce-back in demand from the pandemic."

PMI by S&P Global

buying rose as some firms looked to build buffer stocks in anticipation that supply shortages will continue.

A lack of supply also contributed to a strong degree of input cost inflation, which remained historically high in April despite easing to a six-month low. Fuel prices were a key driver of inflation, according to panellists, as well as increased prices for raw materials such as steel. Firms also commented on efforts to compensate employees facing a higher cost of living.

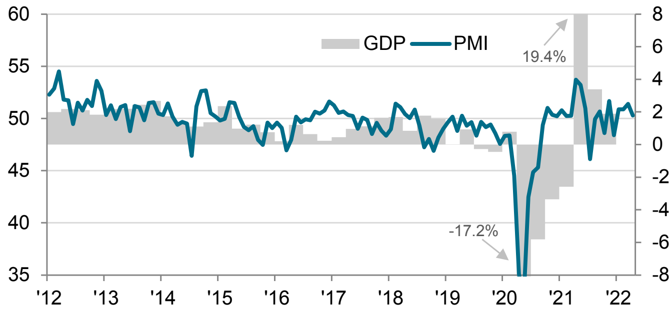
The rise in input costs translated into another marked increase in output charges at the start of the second quarter. Despite softening from March, the rate at which selling prices rose was the second-quickest for nearly a year. Firms in the wholesale & retail sector registered the sharpest upticks in both costs and charges in April.

Output expectations for the forthcoming year ticked up slightly during April, as firms remained broadly confident that activity will improve in line with a post-pandemic recovery. While there was some pessimism linked to concerns over rising fuel prices and supply shortages, these were limited to only a small proportion of businesses.

As such, firms added to their workforce numbers for the second successive month, albeit only slightly and to a lesser degree than in March. Nevertheless, the improvement in capacity and weaker demand meant that companies were able to mitigate supply chain difficulties and keep outstanding work volumes broadly stable.

PMI Output Index
sa, >50 = growth since previous month

Gross domestic product
% yr/yr



Sources: S&P Global, Stats SA.

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Survey methodology

The S&P Global South Africa PMI™ is compiled by S&P Global 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. Data were first collected July 2011.

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.

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We are widely sought after by many of the world's leading organizations to provide credit ratings, benchmarks, analytics and workflow solutions in the global capital, commodity and automotive markets. With every one of our offerings, we help the world's leading organizations plan for tomorrow, today.

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. ihsmarkit.com/products/pmi.html.

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