

Standard Bank Mozambique PMI™

Downturn in business activity accelerates in January

Key findings

Output falls at quickest rate since last September

Decline in new order inflows worsens

Employment growth touches one-year high

Data were collected 12-26 January 2021.

The Mozambique PMI™ signalled a stronger deterioration in the private sector economy during January. Output and new orders both declined sharply, after having neared stabilisation at the end of 2020. Businesses cut spending on input purchases, leading to a softer rate of cost inflation. On the upside, employment increased at the quickest pace for a year.

The headline figure derived from the survey is the Purchasing Managers' Index™ (PMI). Readings above 50.0 signal an improvement in business conditions on the previous month, while readings below 50.0 show a deterioration.

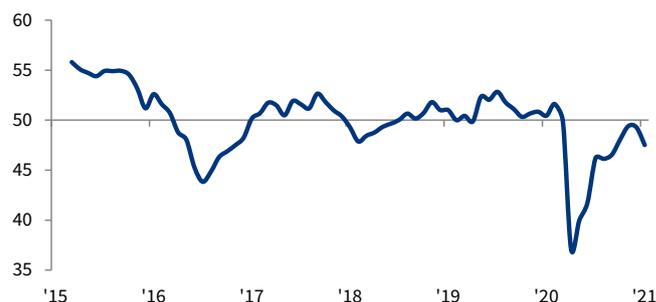
January saw a fall in the PMI to 47.5 from 49.3 in December, indicating a solid deterioration in business conditions and the fastest seen in four months. Moreover, the 1.8-point drop in the index was the largest since April 2020 at the height of the coronavirus disease 2019 (COVID-19) pandemic.

Companies in Mozambique reported a sharp decline in new order inflows at the start of the year, with the contraction accelerating for the second month in a row. Anecdotal evidence indicated that weaker client demand and supply problems for some inputs drove the latest fall in new work.

This led to a marked reduction in output, with the rate of

PMI

sa, >50 = improvement since previous month



Sources: Standard Bank, IHS Markit.

contraction quickening for the first time since last April to the strongest in four months. That said, the downturn was softer than those seen on average during the second and third quarters of 2020.

Mozambican businesses reduced their purchasing activity in January, leading to a modest drop in the volume of input stocks. The fall in demand helped to ease pressure on suppliers, as lead times improved at the strongest pace in ten months. However, some firms noted delays that were related to the pandemic.

More positively, employment rose for the third successive month in January, with growth accelerating to the fastest in a year. Outstanding work volumes continued to fall, but only marginally.

Input prices rose for the second month in a row, following an eight-month run of decline between April and November 2020. However, the rate of inflation softened from December and was marginal, despite reports of a deterioration in local exchange rates. Firms noted the pass-through of higher costs to clients, as output charges also rose slightly.

Businesses expectations for the year ahead were again upbeat in January, as firms often cited plans to expand their operations. Around 43% of respondents expect to output to rise by January 2022.



Comment

Fáusio Mussá, Chief Economist - Mozambique at Standard Bank commented:

"Mozambique is experiencing a rough start to 2021, following a challenging year in 2020. The rapid rise in Covid-19 infections since the beginning of the year forced the government to reintroduce restrictions to help contain the spread of the pandemic, which negatively impacts economic activity.

"Adding to this is the negative impact of Eloise tropical cyclone, and ongoing domestic security challenges that will likely crimp sentiment and economic recovery. Possible delays in the implementation of the USD20bn Mozambique LNG project led by Total, which had a target of first gas exports in 2024, prompted a downward revision of our medium-term GDP growth forecasts. However, it still factors in exports from the USD10bn Coral South LNG project led by ENI starting on time in 2022.

"In the Jan edition of our African Markets Revealed (AMR), we highlighted that the Bank of Mozambique's Monetary Policy Committee (MPC) seemed to be at the end of its easing cycle and a hiking bias persisted for 2021. At the Jan MPC meeting, the committee increased the MIMO policy interest rate by 300 bps to 13.25%, which appears to be motivated by an upward adjustment of its medium-term inflation outlook. This revision captures the continued depreciation of the currency, and possible negative fiscal implications emanating from the response to Covid, security challenges and climate change events."

Methodology

The Standard Bank Mozambique 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.

January data were collected 12-26 January 2021.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

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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About Standard Bank

Standard Bank is established in Mozambique since 1894, actively participating in the development of the country by financing the national economy and placing its vast expertise in the areas of energy, infrastructure and mineral resources available to the national business community and in attracting foreign investment.

Over the past five years, Standard Bank has invested more than US 200 million in credit lines for infrastructure projects for the transport of coal, storage of liquid fuels, expansion and construction of airports and roads, as well as projects in the areas of telecommunications and mineral resources.

Standard Bank is a solid and profitable bank with branches in all of the country's provinces and a wide range of products and services for large, small and medium-sized businesses and individuals. The bank reverts part of its profits to the communities where it is inserted, through the implementation of social projects in the areas of health, education and sports.

Member of the Standard Bank Group, the largest African bank in terms of geographic dispersion, results and assets, with presence in 20 countries on the African continent, as well as 6 global financial centres, Standard Bank Mozambique has the financial and human resources to serve and connect clients throughout world.

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IHS Markit (NYSE: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions.

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