Private sector growth strengthens to six-month high

Key findings

Output increases at quickest pace since last July
Firms see marked rise in new business
Renewed uptick in selling prices amid higher cost burdens

Mozambique's private sector economy recorded stronger growth in February, with new business rising at the fastest rate for six months. Firms responded by increasing output solidly, though employment growth continued to weaken. Meanwhile, higher cost burdens led to the first rise in output prices since last August.

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.

February saw an improvement in the headline reading to 51.6, from 50.4 in January, to signal overall growth in the Mozambique private sector. This was above the long-run average of 50.7 and the highest since last August.

Businesses were supported by a solid increase in new work midway through the first quarter. The rate of growth accelerated quickly from January's 20-month low to the sharpest for six months. According to panellists, the faster upturn was due to greater client demand, new products and increased construction activity.

Output growth quickened accordingly in February, reaching a seven-month high that was above the series trend. The introduction of new products and rising new orders helped activity to expand. Increased output encouraged firms to raise input buying, after weaker activity growth in January led to a reduction in purchases.

At the same time, employment continued to fare poorly, with February data signalling the slowest rate of job creation for four months. Firms that increased workforces linked this to greater sales and efforts to improve company services. Nevertheless, slowing employment growth led to the first rise in backlogs of work since April 2019.

Meanwhile, Mozambican businesses saw a marked rate of input cost inflation in February. This was partly due to higher raw material prices, causing purchase cost inflation to reach an 11-month high. Staff costs also rose at a much quicker pace compared to January, one that was broadly in line with last year's average.

Companies responded to the uptick in cost inflation by raising their output prices for the first time in six months. That said, the rate at which charges rose was only modest. Some firms reportedly increased prices due to a weakening metical value.

Looking ahead, business sentiment for output in 12 months' time was up notably in February, with many panellists buoyant that the latest improvement in demand growth will transfer to higher activity over the coming year. The degree of confidence was the strongest seen since last March.
Comment

Fáusio Mussá, Regional Economist at Standard Bank commented:

“Economic activity is likely to start picking up following a sharp deceleration in 2019 when real GDP growth eased to an historic low of 2.2% y/y, from 3.4% y/y in 2018, mainly attributed to poor performances across the sectors of activity with the few exceptions being transport and communications, real estate and the financial sector. The cyclones that hit the country last year combined with security challenges depressed the tepid overall aggregate demand.

"Foreign direct investment, which eased to an historic low of USD2.0bn in 2019 is likely to start picking up with the expected ramp up of LNG investment. Security concerns and uncertainty regarding the implications of the Corona Virus outbreak in China calls for prudence.

"Still, inflation remains low and stable, at 3.5% y/y as per January reading with the 12-m average also stable at 2.8% y/y. We see the 12-m average inflation accelerating towards 4.9% y/y this year and 5.6% y/y in 2021 as economic recovery allows profit margins to be restored. The likelihood of another LNG final investment decision this year and an IMF program following formal engagements announced this week for the beginning of negotiations is seen as positive.”

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.

February data were collected 12-25 February 2020.

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.

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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