New orders near stabilisation but output falls sharply again

Key findings

Marked reduction in business activity

Slowest fall in new orders for a year

Overall input prices increase at fastest pace since November 2015

The Zambian private sector continued to struggle in the face of money shortages during February, leading to another reduction in output and discouraging the hiring of additional staff. New orders showed signs of stabilising, however, resulting in an accumulation of backlogs of work.

On the price front, currency weakness led to a second successive sharp increase in purchase costs, while companies raised their own selling prices in response.

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.

The headline PMI remained below the 50.0 no-change mark in February, posting 48.5 following a reading of 47.5 in January. Deteriorating business conditions have now been recorded in each month throughout the past year, although the latest decline was the weakest since last November.

There were some signs of new orders stabilising in February. Although continuing to fall, the rate of decline was only marginal and softened to the weakest in the current 12-month sequence of contraction. Low customer numbers were again reported, despite signs of improvement in this regard.

Output, meanwhile, continued to fall sharply in February, with companies again highlighting money shortages as the key factor limiting business activity. Delays to output meant that backlogs of work were accumulated for the second successive month.

Companies also displayed a reluctance to hire additional staff, with the recent broadly stable trend in employment levels continuing in February.

Overall input prices rose at a sharp pace, and one that was the fastest since November 2015. The second consecutive increase in cost burdens was driven by higher purchase prices, with staff costs rising only marginally. In turn, the increase in purchase costs was largely the result of currency weakness, according to respondents.

With input costs rising sharply, companies increased their own selling prices. Charge inflation was recorded for the seventeenth month running, with the latest rise broadly in line with that seen in January.

Reports of current input inventories being sufficient to support output requirements led to modest reductions in both purchasing activity and stock levels.

Companies remained confident that output will increase over the coming 12 months, and sentiment improved slightly from the start of the year. That said, there were continued reports of uncertainty around the future path of the economy.
Comment

Victor Chileshe, Head of Global Markets at Stanbic Bank commented:
"Business conditions continue to deteriorate although the environment seems to have improved slightly in February."

Methodology

The Stanbic Bank Zambia 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 12-24 February 2020.

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

About Stanbic Bank

Stanbic Bank Zambia Limited is part of the Standard Bank Group, Africa’s largest bank by assets. The Standard Bank Group, with strong African roots and leader in emerging markets, has on-the-ground representation in 20 African countries.

Stanbic Bank Zambia Limited is the largest bank in Zambia by balance sheet, offering a full range of banking and related financial services. The Bank is well capitalized and its capital position is above the regulatory minimum.

The Bank which has more than 60 years’ operating experience has a huge network of branches nationwide offering full spectrum of financial services from retail to corporate and investment banking.

Our strategy is to be the leading financial services organisation in, for and across Zambia, delivering exceptional client experiences and superior value. We believe we can achieve this as Zambia is our home, we drive her growth. The Bank has been an integral part of the Zambian economy and is a leading player in the country’s financial services sector.

http://www.stanbicbank.co.zm

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