

Standard Bank Mozambique PMI™

Business conditions deteriorate further in June

Key findings

Output and new orders fall sharply

Modest drop in employment, but salaries fall steeply

Record increase in delivery times amid lockdown

Data were collected 12-25 June 2020.

The latest PMI data showed a further considerable downturn in the Mozambican private sector during June, as lockdown measures designed to stop the spread of coronavirus disease 2019 (COVID-19) remained in place.

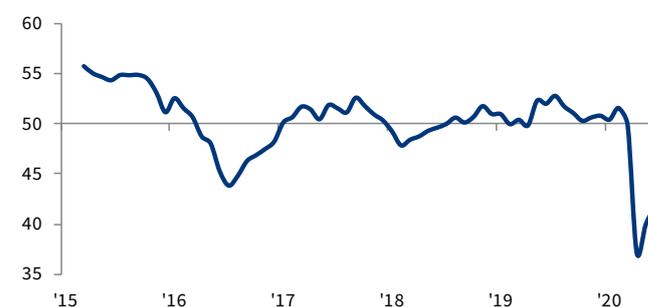
With many businesses closing, and others facing sharp falls in customer demand, activity dropped steeply again in June. Job numbers also declined, albeit modestly. Nevertheless, firms were still confident of an uplift in output over the coming year.

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.

At 41.7 in June, the headline PMI was at its highest in three months, improving further from the record low seen in April. Nevertheless, the reading signalled a steep decline in business conditions, as key indices such as output, new orders and employment all remained below the neutral 50.0 mark.

Business activity fell at a substantial pace at Mozambican firms in June, which was overwhelmingly linked to the coronavirus pandemic and lockdown measures extended throughout the month. The rate of decline was the weakest since March, however.

PMI
sa, >50 = improvement since previous month



Sources: Standard Bank, IHS Markit.

Demand conditions were also subdued, as new orders fell sharply across the private sector. This led businesses to further reduce purchases of inputs and limit inventories. On the positive side, rates of decline for all three indicators were the softest in three months.

Meanwhile, Mozambican firms were able to lower backlogs at a steep pace in June, highlighting excess capacity as client demand continued to fall. Weaker sales also led companies to reduce workforces, though the decline was only modest.

Efforts to cut costs meant salaries in the private sector fell at a record pace in June, with panellists often making sizeable wage cuts in order to cope with subdued revenues during the pandemic. Overall input costs fell for the third consecutive month, helped by a drop in supplier prices. Output charges also decreased, mainly due to offers of discounts to clients.

Vendors continued to face difficulties in supplying businesses amid the countrywide lockdown, leading to a further increase in delivery times. Notably, the deterioration was the strongest seen in the series history (which began in April 2015).

Finally, despite a third successive month of weak activity and demand in Mozambique, business confidence regarding future output remained strong. Most firms noted that they still expect to grow over the next 12 months, provided the lockdown is lifted soon.



Comment

Fáusio Mussá, Regional Economist at Standard Bank commented:

"Mozambique continues to experience an increase in the number of Covid-19 infections, at just below 900 cases, which suggests high uncertainty in terms of when and at what level of daily cases the peak will be reached. Globally, many countries are already past the peak number of daily Covid-19 infections. As a result, most governments started to ease social distancing measures as they prepare their economies to a "new norm".

"In Mozambique, the State of Emergency in place since April was extended to July to help contain the spread of the pandemic. As expected, even with a growing number of cases, the government eased some restriction measures to support economic activity. Schools will be gradually opened, the health system will be strengthened with more personnel, companies will see an increase in number of workers allowed from about 1/3 to around 50% with the opening of international flights also being considered.

"Our updated base case scenario sees GDP growth easing from 1.7% y/y recorded during Q1:20 into negative territory of 3.3% during Q2:20, remaining in recession for the remainder of the year at -1.0% for Q3:20 and -0.9% for Q4:20 with a recovery from 2021 onwards as ongoing LNG investment for the Coral FLNG and Mozambique LNG, which combined is worth more than USD35bn, supports economic activity."

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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.

June data were collected 12-25 June 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.

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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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