News Release

Embargoed until 0915 SAST (0715 UTC) 4 March 2020

IHS Markit South Africa PMI™

Employment cuts reach record level in February

Key findings

Job numbers decrease markedly as demand remains weak

Delivery times lengthen considerably due to coronavirus outbreak

Greater cost burdens pressurise firms to raise selling prices

Latest PMI® survey data showed South African firms cutting huge swathes into employment numbers in February, as ongoing demand weakness and rising input cost inflation intensified efforts to reduce payrolls. Business activity fell at a sharper rate, although the decline in new orders softened since the start of the year. Meanwhile, delivery times lengthened considerably as the outbreak of coronavirus stalled both export and import trade with China.

The headline South Africa PMI® is a composite single-figure indicator of private sector business performance. It is derived from indicators for new orders, output, employment, suppliers’ delivery times and stocks of purchases. Any figure greater than 50.0 indicates an overall improvement in the sector.

The headline index posted 48.4 in February, up fractionally from 48.3 in January, albeit still signalling a decline in business conditions. In addition, the index was elevated by a lengthening of supplier delivery times (with the respective index inverted in the calculation of the headline PMI).

Business activity fell for the tenth successive month in February, as firms continued to struggle with lower order book volumes and load shedding. Demand was again restricted by poor conditions in the domestic market, while some panellists noted a drop in export sales from China following the coronavirus outbreak. That said, the rate of decline in total new orders was the softest in three months.

Nevertheless, firms responded with a marked reduction in job numbers, as latest data showed the fastest decline in private sector employment since data collection began in July 2011.

Comment

Commenting on the latest survey results, David Owen, Economist at IHS Markit, said:

“With new orders falling again and cost inflation accelerating, many South African businesses decided to cut into payroll numbers in February, culminating in the quickest drop in employment in the series history (since July 2011).

“Meanwhile, the coronavirus outbreak last month started to have a notable impact on economic factors. With China being South Africa’s largest trade partner, the shutdown of factories and offices in the world’s second-largest economy led to a steep lengthening of input delivery times. Port congestion at Durban and other locations meant that many businesses were forced to limit activity, with exports to China also decreasing.

“Prices of raw materials subsequently increased at a sharp pace, placing further pressure on selling prices. With demand still weak, the inflation in output prices does not bode well for the economy, although firms remain optimistic that conditions will improve soon.”

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Firms often linked workforce cuts to lower demand and efforts to combat rising cost inflation. Despite this, spare capacity continued to increase, as highlighted by a faster drop in backlogs.

On the price front, the rate of overall input cost inflation climbed to an eight-month high in February, mainly due to a sharper increase in purchase prices. Panellists frequently noted that a weaker rand value and delays in China imports often led to inflated purchasing costs. In response, output charges increased at the quickest rate for 16 months.

Delays to imports from China also had a notable impact on lead times in February. Firms commented that slower freight shipments and rising port congestion meant that inputs often took longer to arrive. As such, vendor performance deteriorated at the sharpest rate in over five-and-a-half years.

Some firms also commented on a restriction in input sources during February, contributing to a further drop in purchasing activity. That said, the decline was mainly due to lower output requirements.

Despite the toll on business activity from ongoing economic weakness, firms were more optimistic for future output growth in February. Confidence for the year ahead reached the highest since March 2018, with respondents often citing hopes of increased new business in the near term.

Survey methodology

The IHS Markit South Africa 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.

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

Survey dates and history

February data were collected 11-26 February 2020.

Survey data were first collected July 2011.

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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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