

IHS Markit South Africa PMI™

PMI reaches new record low in May amid lockdown extension

Key findings

Severe decline in private sector activity as demand collapses

All 13 survey indices fall to record lows

Outlook turns negative for first time

Data were collected 12-27 May 2020.

Businesses in the South African private sector economy saw another substantial impact on activity from the nationwide lockdown in May. Steep falls in output and new business were recorded, leading the headline index to a historic low that surpassed April's previous record.

Firms also saw sharp declines in employment and purchases, while both output and input prices slid at unprecedented rates. In fact, all indices covered by the survey fell to their lowest on record during May.

Most notably, the outlook for future activity turned negative for the first time in the series, signalling that firms now predict a lasting downturn from the lockdown period.

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 fell for the third month in a row to 32.5 in May, indicating an unprecedented collapse in business conditions as lockdown measures to curb the spread of coronavirus disease 2019 (COVID-19) were extended. This compared with a reading of 35.1 in April, the previous record low in the series.

Private sector firms highlighted a further sharp contraction in output levels during May, which was widely linked to temporary business closures and a dramatic fall in customer demand amid the pandemic. Incoming new business also dropped at a marked pace, as closures meant that many firms were unable to

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South Africa PMI

sa, >50 = improvement since previous month



Source: IHS Markit.

Comment

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

"The lockdown across South Africa to stop the spread of COVID-19 is likely to massively impact economic growth, according to the South Africa PMI. The headline index has posted record lows for the past three months, with the latest figure at 32.5, way below the 50.0 threshold that separates growth and contraction. It is now expected that the economy will suffer an unprecedented fall in GDP during the second quarter."

"It is likely with this in mind that the government has sought to reopen large parts of the economy in June, which may lead to a strong bounce-back in PMI readings if businesses are able to restart quickly. However, the large drop in employment seen in May is worrying, as firms may struggle to operate at capacity levels seen pre-COVID-19."

"Most notably from the latest survey results, business sentiment regarding the 12-month outlook for activity turned negative for the first time in the series. As such, firms are increasingly concerned that the extended lockdown period may hurt business activity for some time."

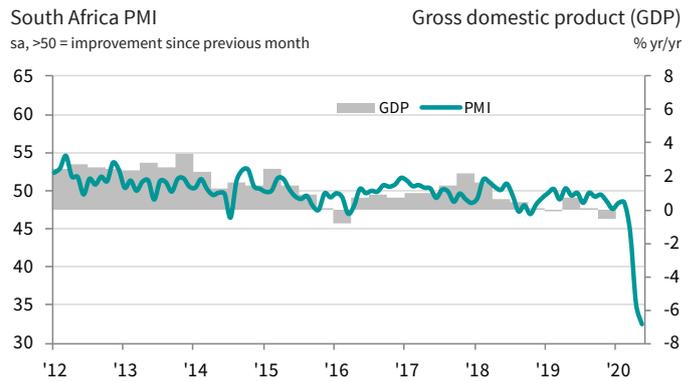
receive orders, including new work from abroad.

South African businesses that remained open often reported working at much lower capacity than normal, although latest data showed this was sufficient to cover new business and ease backlogs. With workloads still low, employment in the private sector dropped for the seventh successive month, and at by far the quickest pace in the survey history.

Inventories were massively reduced, driven by a sharp reduction in purchasing. Meanwhile, restrictions on movement meant that deliveries from suppliers continued to slow, with the rate of deterioration accelerating notably.

The drop in employment led to a second consecutive fall in staff costs during May, one that was much quicker than seen in April. At the same time, purchase costs fell due to a steep reduction in demand for inputs, which led to a marked decline in overall operating expenses. Firms passed this onto consumers through a dramatic cut to output prices, intended by many respondents to help maintain customer sales.

Finally, the 12-month outlook for business activity turned negative for the first time in May, as more firms now predict output to decline over the coming year than improve. The extension of lockdown measures was largely to blame for the pessimistic outlook, as several companies forecast that the economy will struggle to recover in the near term.



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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

May data were collected 12-27 May 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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