

IHS Markit South Africa PMI®

Growth remains solid in May, as price pressures continue to build

Key findings

Output grows at second-quickest rate since October 2014

New business rises for second month running

Selling charges increase at sharpest pace for almost five years

Data were collected 12-26 May 2021.

The South African economy continued to grow at a solid pace in May, according to the latest PMI® survey data, with output rising strongly despite the rate of expansion slowing from April's recent peak. New orders rose for the second month in a row, supporting a further solid increase in workforce numbers.

However, the headwind of rising cost pressures continued to gather speed, with the latest uptick in input costs the fastest since June 2016. As a result, firms raised their selling charges at the sharpest pace for almost five years.

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.

Despite falling from 53.7 in April to 53.2 in May, the PMI signalled another solid improvement in the health of the private sector economy. The reading was also the second-highest since November 2012.

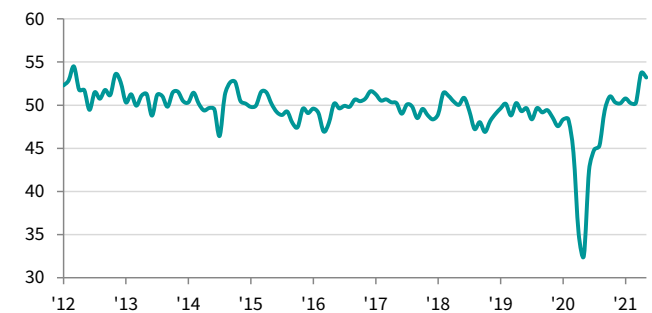
Surveyed businesses reported a solid increase in output in May, with the rate of growth one of the quickest recorded since data collection began in 2011. Rising activity levels were often linked to an increase in new business inflows, which rose for the second month in a row and markedly overall. New orders from foreign clients grew only modestly, as firms noted that demand improvements were largely due to domestic sales.

Confidence towards future output remained robust in May, and was the second-highest in over three years. Firms were

continued...

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:

"South Africa's economic performance in the second quarter remained strong, with the PMI posting at 53.2 in May, down only slightly from 53.7 in April. This signalled that businesses are continuing to recover from the impact of the pandemic.

"Job numbers rose at a quicker rate in May, as firms looked to rehire staff following severe losses over the past year. In fact, the rate of job creation was the fastest since November 2012. This was often linked to strong optimism that business activity will continue to expand as domestic and global vaccination efforts continue.

"Supply shortages were evident, however, with firms mentioning a lack of availability of raw materials such as metals and timber. As a result, input costs rose at the quickest pace since June 2016. Output charges increased sharply and to the greatest extent in almost five years, giving additional evidence of inflationary pressures that could harm the economic recovery."

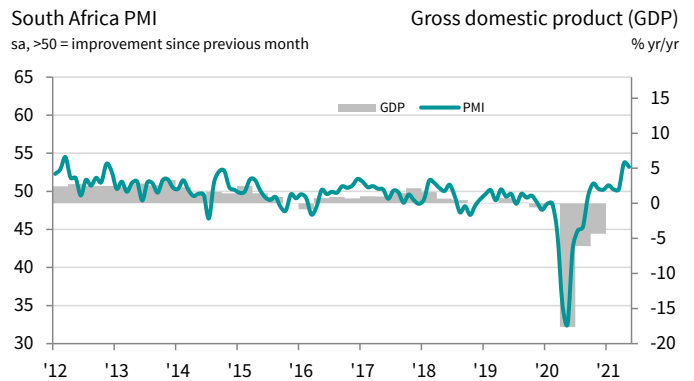
largely expectant of a recovery in economic conditions over the coming year as the vaccine roll-out continues. With this in mind, workforce numbers increased at the fastest rate since November 2012.

Despite expanding capacity, backlogs of work rose for the third straight month in May as a number of panellists cited that raw material shortages held up output. Inputs commonly reported in short supply included timber and metals such as steel. These shortages contributed to a lengthening of suppliers' delivery times during the month, and one that was more marked than in April.

In order to secure inputs in short supply and meet demand, firms raised their purchasing activity sharply in the latest survey period. In fact, the rate of growth was little-changed from April's 101-month high. Inventories grew for the first time in six months, but this was partly weighed on by delivery delays.

Supply-side problems led to a marked rise in purchase costs in May, as nearly one-third of respondents saw an increase in prices over the month. Staff costs also increased sharply due to a rise in hiring activity. As such, the overall rate of input price inflation accelerated to the quickest for almost five years.

With demand rising, around 15% of firms were confident of passing input costs onto clients in May, just over half the proportion that saw an increase in input prices (27%). As a result, output charges rose to the greatest extent since June 2016.



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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 12-26 May 2021.

Survey data were first collected in 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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