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Stanbic Bank Zambia PMI™

Output continues to fall amid challenging business conditions

Key findings

Sharp reduction in output amid currency weakness and money shortages

Purchase prices increase at fastest pace since June 2019

Firms cut inventories amid cash flow issues

Zambian companies continued to face a challenging economic environment in January. Business conditions deteriorated again amid further reductions in output and new orders. Meanwhile, employment levels were left broadly unchanged. On the price front, input costs increased at a sharp pace amid currency weakness, leading to an acceleration in the rate of output price inflation.

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.

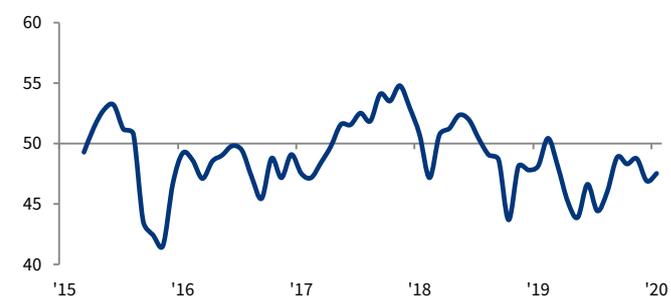
The headline PMI remained below the 50.0 mark in January, posting 47.5. This signalled a solid deterioration in business conditions in the private sector, and the eleventh in as many months. That said, the reading was up from December's 46.9, signalling a softer decline than at the end of 2019.

Output continued to fall sharply at the start of the year, albeit at a slower pace than in December. Deteriorating economic conditions, money shortages and exchange rate fluctuations were all mentioned as factors leading business activity to decline.

Falling customer numbers, meanwhile, contributed to another reduction in new orders. New business has now decreased in 11 consecutive months, although the rate of

PMI

sa, >50 = improvement since previous month



Sources: Stanbic Bank, IHS Markit.

contraction in new work was much weaker than that seen for output.

Reflecting the steep drop in activity, backlogs of work increased in January for the first time in 19 months. Employment was little-changed, meanwhile, following stable staffing levels in the previous month.

Weakness of the Zambian kwacha against the US dollar created inflationary pressure during January. Overall input costs were up sharply, due to the fastest rise in purchase prices since last June. Meanwhile, staff costs were up only fractionally.

Companies responded to higher input prices by raising their output prices. Charges were up at a steep pace, with the rate of inflation the sharpest for six months.

Purchasing activity was reduced, while cash flow issues meant that firms were reluctant to hold inventories and depleted them at a solid pace that was the most marked since May 2019. Weak demand for inputs and improved processes at some suppliers enabled vendors to reduce delivery times.

Hopes that demand conditions will improve over the course of 2020 led to confidence in the 12-month outlook for business activity. Sentiment was stronger than in the previous month, with two-fifths of respondents predicting growth. That said, a number of panellists highlighted uncertainty regarding the outlook.

Comment

Victor Chileshe, Head of Global Markets at Stanbic Bank commented:

"Business conditions remained subdued with push-through effects of rising inflation and a weak Kwacha leading to reduced output and an increase in purchase prices."

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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.

January 2020 data were collected 13-27 January 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. To learn more go to ihsmarkit.com/products/pmi.html.

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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 countrywide 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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