

IHS Markit South Africa PMI®

Output rises in January, but sales remain weak

Key findings

Business activity grows at quickest rate in over four years

New orders remain broadly flat

Purchase price inflation reaches 27-month high

Data were collected 12-27 January 2021.

South Africa's private sector economy strengthened at the beginning of 2021, as the latest PMI® data signalled the sharpest increase in output for over four years. However, the rise in activity mainly supported the completion of outstanding business, as firms struggled to find new work due to the coronavirus disease 2019 (COVID-19) pandemic.

Retrenchment efforts, meanwhile, led to a further decline in employment and a stronger reduction in purchasing activity. Despite this, inflationary pressures picked up as supply problems drove a marked uptick in raw material prices.

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.

Rising to 50.8 in January, from 50.2 in December, the latest headline reading signalled a fourth successive monthly improvement in overall business conditions. Moreover, the rate of growth was the second-quickest in over two-and-a-half years, weaker only than that seen last October.

The latest expansion was mostly driven by an increase in private sector output that was notably the fastest since December 2016. While some businesses linked this to a rise in new orders, the upturn also supported efforts to fulfil outstanding work.

However, overall sales remained broadly flat for the second month in a row in January, as a number of companies highlighted that the pandemic continued to disrupt new business inflows.

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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:

"South African businesses started 2021 with an focus on expanding output, which grew at the sharpest rate since December 2016. Nevertheless, the pandemic continued to take its toll on client demand, as new sales were broadly unchanged from the end of last year, meaning business activity was often directed to completing work-in-hand.

"Cost-cutting efforts were widespread, particularly as input shortages and global supply problems led to a marked increase in raw material prices. Consequently, both employment and purchasing activity were cut at a faster rate than in December.

"Despite output expanding for only the second time in 21 months, businesses hope that growth will be more consistent over 2021, amid optimism that the COVID-19 pandemic will recede as vaccines are more widely distributed. That said, some firms highlighted the risks of load shedding and higher consumer prices in the near future."

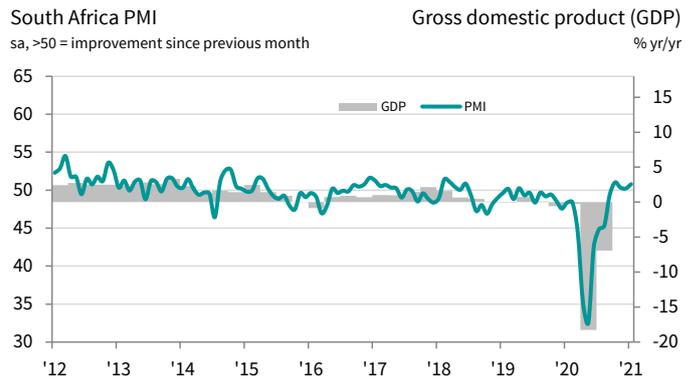
The effect on foreign sales was even more pronounced, as new export orders fell at the sharpest rate in four months.

Job numbers continued to decline in the new year, amid efforts by some companies to lower wage costs. The rate of reduction accelerated for the first time since May 2020, but remained only modest. Meanwhile, the rise in output supported a solid drop in backlog volumes, and the quickest since last September.

Purchasing activity fell for the second consecutive month in January, in turn leading to a slight decrease in inventories. Inputs took longer to arrive again, as firms cited shortages of a number of raw materials, notably steel, as well as a drop in freight container supply and delays at local ports.

These factors also drove a sharp increase in purchasing costs, with inflation accelerating to the fastest since October 2018. Higher raw material prices led firms to mark up selling charges for the fifth month running, albeit at a slower rate than for input costs.

The outlook for the forthcoming year of business activity picked up from December, as firms remained hopeful of an easing in COVID-19 restrictions over the course of 2021. That said, concerns surrounding high case numbers, load shedding and inflationary pressures led to pessimism at some firms, keeping overall expectations below the long-run average.



Sources: IHS Markit, Stats SA

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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

January data were collected 12-27 January 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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