

Standard Bank Mozambique PMI™

Businesses enjoy solid improvement to operating conditions in May

Key findings

Headline PMI up to 20-month high

Solid expansions of output and new orders

Firms see minimal costs increase

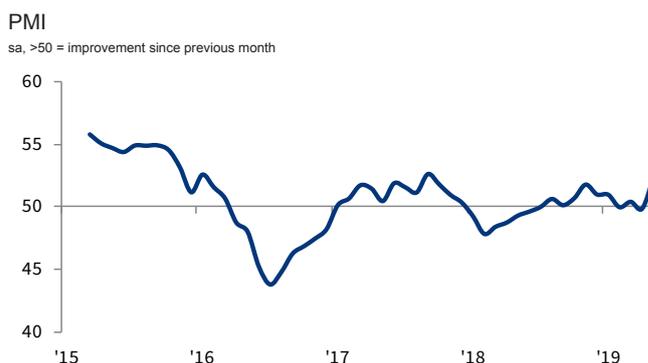
Private sector firms in Mozambique were buoyed by a notable uplift in new business in May, driving activity growth to the strongest for six months. Employment grew at a moderate rate whilst input buying also expanded. In addition, businesses faced the softest rise in overall input costs in the survey's history (since April 2015).

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.

At 52.3 in May, the headline PMI was up markedly on April's reading of 49.9 and signalled a solid improvement to business conditions that was also the quickest since September 2017. This followed a relatively settled picture since the start of the year.

Contributing to the heightened index reading was a solid increase in new orders at Mozambican firms in May. The rate of growth was the joint-strongest in 19 months and reportedly driven by higher demand from new and existing clients.

As such, firms expanded their output levels in May, with the rate of increase the sharpest in six months. In fact, businesses raised activity at such a pace that stock levels were depleted for the second month running, despite greater input buying. However, this meant that firms were able to keep on top of backlogs, with the level



Sources: Standard Bank, IHS Markit.

of outstanding business dropping fractionally from the previous month.

Supply chains were hampered slightly in May. Panellists reported a marginal rise in lead times after notable reductions during the opening four months of 2019. Anecdotal evidence found that issues at suppliers led to multiple delays of input deliveries.

Meanwhile, hiring activity increased at Mozambican firms, as stronger demand led companies to raise job numbers at a modest but quicker pace. Despite this, salary costs ticked up at a softer rate than that seen in April.

Furthermore, overall input costs faced by panellists rose at only a fractional rate in May. This marked the softest increase of input prices seen throughout the survey history, as firms noted an easing of inflationary pressure on purchase prices. Nonetheless, businesses raised their selling charges at the fastest pace in four months, partly due to an unfavourable exchange rate.

The recent improvement in demand growth boosted future sentiment in May, which climbed up from the 29-month low during April. Overall, businesses were strongly optimistic that output will increase in the future. A number of respondents stated plans to open new businesses over the coming year, while others were focused on expanding their client bases.



Comment

Fáusio Mussá, Regional Economist at Standard Bank commented:

"Foreign exchange (FX) liquidity in the market improved in May, supported by inflows related to aid and external borrowings to alleviate the impact of the two tropical cyclones that hit the country recently. Also, the approval of development (POD) for the Rovuma Basin Area 4 liquefied natural gas (LNG) project, and the announcement of an expected final investment decision for the Area 1 LNG project by mid-June seems to have contributed to lift business activity and sentiment. However, we still see GDP growing lower this year at 2.7% y/y.

"The USD/MZN started to reverse the past 7 month upward trend, with the pair falling on a daily basis since the beginning of May, currently trading below 62.0. The USD/MZN rose by 6.3%, from 60.6 at the end of Sep 18 to 64.4 at the end of Apr 19.

"We believe that a sustained recovery remains dependent on further monetary policy easing and regularity of FX inflows. Despite subdued economic activity and low aggregate demand, the Central Bank seems concerned with potential foreign exchange liquidity pressures, fiscal constraints and inflationary implications. We noticed a pause on monetary policy easing, with the main policy rate unchanged at 14.25% since Dec 2018 and an unexpected increase in the foreign exchange reserve requirements ratio by 900 basis points to the current level of 36%."

Contact

Standard Bank

Regional Economist
Fáusio Mussá
T: +258 215 01 012
fausio.mussa@standardbank.co.mz

Public Relations & Communication
Inercio Pene
T: +258 843 124 994
inercio.pene@standardbank.co.mz

IHS Markit

David Owen
Economist
T: +44-2070-646-237
david.owen@ihsmarkit.com

Joanna Vickers
Corporate Communications
T: +44-207-260-2234
joanna.vickers@ihsmarkit.com

Methodology

The Standard Bank Mozambique 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.

May 2019 data were collected 13-28 May 2019.

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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Over the past five years, Standard Bank has invested more than US 200 million in credit lines for infrastructure projects for the transport of coal, storage of liquid fuels, expansion and construction of airports and roads, as well as projects in the areas of telecommunications and mineral resources.

Standard Bank is a solid and profitable bank with branches in all of the country's provinces and a wide range of products and services for large, small and medium-sized businesses and individuals. The bank reverts part of its profits to the communities where it is inserted, through the implementation of social projects in the areas of health, education and sports.

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