Downturn in South African economy softens again in July

Key findings

Decline in new work eases as some companies see a pick-up in demand

Job shedding weakens as output expectations improve

Higher purchase prices drive first increase in input costs since April

The South African economy saw a slower decline in July, latest PMI® data signalled, as output levels fell at a weaker rate compared to June. Nevertheless, business activity and demand remained depressed, with jobs also decreasing.

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.

At 44.9 in July, the latest reading signalled that business conditions at South African companies declined at a softer pace compared to June, which posted 42.5, and the slowest in five months. Nonetheless, the downturn was still strong and driven by further contractions in output, new orders and employment.

Businesses continued to report an overall decline in activity at the start of the third quarter of the year. However, the rate at which output fell was the slowest since before the government imposed lockdown measures to stop the spread of coronavirus disease 2019 (COVID-19) in March. As restrictions were eased, some companies were able to return to work while others highlighted a pick-up in new business.

Volumes of new work also decreased at a softer pace in July, with the rate of decline easing for the second successive month. Nevertheless, the fall in demand remained sharp, partly due to a steep drop in new export orders. Companies found that consumer spending was still much lower than pre-COVID levels, although some panellists did mention a rise in new work with clients in other African markets.

Comment

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

"The South Africa PMI rose for the second month in a row in July, suggesting that the downturn in the economy continued to steady itself as the government made further changes to lockdown rules. That said, the recovery in the PMI has lost some momentum, with the index rising only 2.4 points in the latest month compared with a 10-point rise in June.

"Businesses that remained closed or under working-from-home policies continued to report a weak level of sales, with exports also falling steeply. This led to a further cut-back to output, as well as additional job losses and reduced purchases.

"However, some firms are beginning to operate closer to normal capacity and are seeing an increase in demand. As lockdown restrictions are loosened, we expect more firms to move towards a recovery.

"That said, the recent rise in daily virus cases remains concerning and could lead the government to enact stricter rules."

Data were collected 13–29 July 2020.
Meanwhile, job shedding continued at a substantial rate amid lockdown measures and the temporary closure of some businesses. That said, as seen for output and new order volumes, the rate of contraction softened for the second month running.

Firms signalled that they were still able to operate with existing capacity in July, as backlogs of work decreased for the third consecutive month. Purchasing activity also continued to fall as new orders remained weak, leading to an eleventh successive monthly reduction in stock levels.

Lead times lengthened again in the latest survey period, as suppliers faced ongoing restrictions due to COVID-19. However, the rate of deterioration was the least marked in four months.

Rising raw material prices, higher fuel costs and currency weakness all drove an uptick in overall input costs during July, the first seen since April. At the same time, output charges were lowered for the third month in a row, as firms cited efforts to entice consumers to increase spending.

Looking ahead, the 12-month outlook for business activity among South African firms improved to a four-month high during July. Optimism was linked to hopes of a swift end to the pandemic and an increase in new projects. That said, overall positivity was still much weaker than the historical trend.

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 economist@ihsmarkit.com.

Survey dates and history
July data were collected 13-29 July 2020.
Survey data were first collected July 2011.

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