News Release

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Standard Bank

Standard Bank Mozambique PMI™

PMI falls to five-month low in September amid output growth slowdown

Key findings

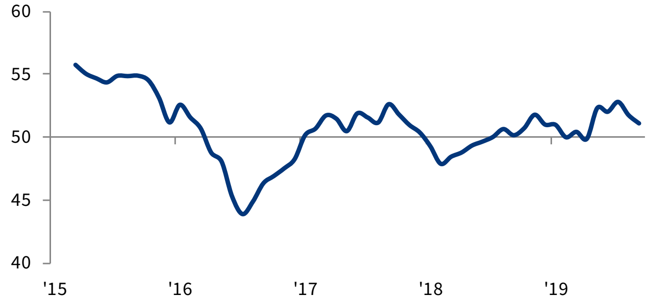
Output rises fractionally...

... despite solid growth in new orders

Selling prices unchanged

PMI

sa, >50 = improvement since previous month



Sources: Standard Bank, IHS Markit.

Business conditions improved again in Mozambique over the course of September, albeit with the rate of improvement slowing amid only a fractional rise in business activity. Firms simultaneously kept selling charges unchanged in order to drive up new orders, which grew solidly over the month. Hiring activity increased modestly, while greater demand for inputs led to higher overall cost burdens. Meanwhile, future sentiment improved to a six-month high.

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 51.1 in September, down from 51.8 in August, the headline reading signalled a second consecutive slowdown in the rate of growth across the Mozambique private sector. It was the lowest reading in five months, and pointed to only a marginal improvement in operating conditions at the end of the third quarter.

This was in part down to a fractional increase in business activity, marking the weakest upturn since output began to rise just over a year ago. While firms continued to see new orders increase, a few halted activity due to problems with machinery. The ongoing election campaign also led to some cut-backs, according to anecdotal evidence.

At the same time, new order growth was solid and broadly in line with that seen in August. New branches and projects reportedly contributed to the expansion, while firms also saw an increase in sales to foreign clients.

However, the latest upturn in new orders came amid a halting of output price inflation, with September data recording no change in selling prices at Mozambican firms. At the same time, there was a slight acceleration in overall cost pressures due to higher demand for raw materials.

Firms meanwhile maintained a moderate rate of job creation at the end of the third quarter. Panellists found that this led to greater pressure on staff salaries, with the rate of inflation climbing to an eight-month high.

Despite weaker output growth, companies were again able to reduce backlogs in September. This marked the third monthly contraction in work-in-hand in a row, although the latest reduction was marginal. Firms also retained a strong programme of purchasing activity, leading to the sharpest increase in stock levels since March 2018.

Lastly, sentiment towards the one-year outlook improved notably in September. Panellists were optimistic that business development and economic growth would spur further activity over the next 12 months, despite the recent slowdown.

Comment

Fáusio Mussá, Regional Economist at Standard Bank commented:

"We remain cautiously optimistic about the possibility of a robust recovery of the economy next year. While our GDP growth forecast of 3.7% y/y for 2020 published at the Standard Bank latest edition of the African Markets Revealed reflects the positive impact of LNG sector investments, it still translates into a subdued performance in the rest of the economy. The October 15th general elections will likely result in a slow start to 2020 as a new government takes time to be formed with the general government budget typically approved in December of the previous year, possibly going for parliamentary discussion towards the end of the first quarter of 2020.

"With fiscal pressures still likely to characterize the economy, it seems reasonable to expect that the reliance on the private sector to revive the economy has increased. Even if interest rates were to be lowered at a fastest pace, it will take some time before it generates a meaningful positive impact in the overall aggregate demand. Heavy reliance on subsistence agricultural output for the incomes of nearly 70% of the Mozambican households makes monetary easing less effective to shift GDP in the short-term."

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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.

September 2019 data were collected 12-25 September 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.

About Standard Bank

Standard Bank is established in Mozambique since 1894, actively participating in the development of the country by financing the national economy and placing its vast expertise in the areas of energy, infrastructure and mineral resources available to the national business community and in attracting foreign investment.

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.

Member of the Standard Bank Group, the largest African bank in terms of geographic dispersion, results and assets, with presence in 20 countries on the African continent, as well as 6 global financial centres, Standard Bank Mozambique has the financial and human resources to serve and connect clients throughout world.

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About IHS Markit

IHS Markit (NYSE: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions.