

IHS MARKIT SOUTH AFRICA PMI®

PMI signals marginal decline in business conditions in August

KEY FINDINGS

New orders fall at softened rate

Employment levels stabilise

Cost inflation slows further

South African private sector operating conditions deteriorated for the fourth month running in August, according to latest PMI results, but the decline was marginal with output and new orders falling at weaker rates. Workforce numbers stabilised while input buying increased slightly. The rate of overall cost inflation slowed to a four-month low, whereas output prices were raised at a quicker pace. Meanwhile, optimism for future activity remained subdued.

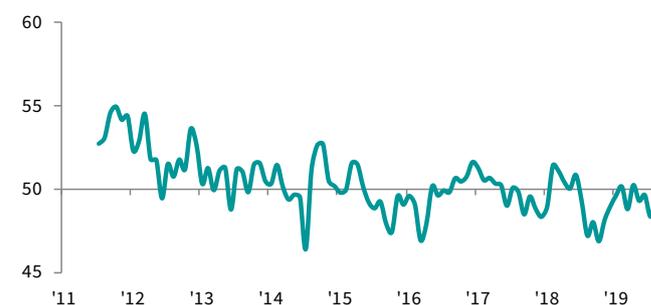
The headline South Africa PMI® is a composite single-figure indicator of private sector business performance. It is derived from indicators for new orders, output, employment, suppliers' delivery times and stocks of purchases. Any figure greater than 50.0 indicates an overall improvement of the sector.

Rising from 48.4 in July to 49.7 in August, the headline PMI reading signalled a fourth successive month of declining business conditions in the South African private sector. However, the overall deterioration was weaker than in July and in line with that seen in June. This was due in part to softer drops in output and new orders, as well as stabilised employment numbers.

New orders placed at South African firms fell for the fourteenth consecutive month during August. That said, the rate of decline was marginal and the slowest since April. Firms were notably helped by a slight increase in foreign orders. Nevertheless, reports of poor economic conditions in the private sector remained prevalent.

PMI

sa, >50 = improvement since previous month



Consequently, businesses reduced their output slightly over the month, with the pace of decline softening from July. On the flipside, input buying rose at the fastest rate since June 2018, allowing firms to broadly maintain the same level of stocks as seen at the start of the third quarter. Furthermore, after six months of deteriorating performance, supplier delivery times were largely unchanged in August.

Employment numbers also stabilised, after a slight drop was recorded in July. Despite weaker demand leading to some job losses, a few panellists expanded their workforces, linking this to plans to increase output in the near future.

On the price front, selling charges rose at a moderate and quicker pace in August. Firms found that higher input costs amid weak demand conditions led them to raise their fees. That said, the rate of input price inflation weakened to a four-month low, with companies seeing only marginal upticks in both purchase prices and staff costs. In particular, higher fuel prices and a deteriorating exchange rate were mentioned.

Lastly, the outlook for future activity remained only mildly positive. Despite optimistic forecasts from a sizeable proportion of firms, due to hopes of increased client numbers, the recent period of poorer economic conditions dampened the overall projection for output.

COMMENT

David Owen, Economist at IHS Markit, which compiles the South Africa PMI survey, commented:

"Weak economic sentiment weighed on the private sector again in August. Companies noted a further drop in customer turnout, as the disappointment of the first quarter economic growth results continued to dampen spending.

"That said, the headline PMI rose to 49.7, while the rate of decline in new business slowed to the weakest for four months. Some firms even noted a rebound in sales. The trend for output improved in a similar fashion, and hopes of a prompt upturn in new orders led businesses to raise input buying at the strongest rate for 14 months.

"Input cost inflation meanwhile softened, helping firms to further negate the loss in profits from declining demand. Moreover, companies were encouraged to seek a larger increase in output prices. This suggests that the offset from the decline in GDP is beginning to subside, with business confidence edging up, and indicates a possible return to expansionary territory for the PMI in the near future."

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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.

August 2019 data were collected 12-28 August 2019.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

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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.