

IHS Markit South Africa PMI™

Sustained decline in sales prompts marked fall in employment

Key findings

New orders fall for nineteenth month running

Job numbers drop at quickest rate since September 2017

Solid increase in input costs drives up selling charges

South African businesses endured a further downturn at the start of 2020, according to latest PMI data, as output and new orders recorded solid declines. However, rates of contraction softened from December. Weak capacity pressures led firms to lower employment at the fastest rate in nearly two-and-a-half years. Cost inflationary pressures accelerated, leading to a solid mark-up in selling charges. Concurrently, business optimism climbed to a seven-month high.

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.

The headline PMI improved to 48.3 in January, from 47.6 in December, to signal a softer and only moderate deterioration in South African private sector business conditions. The sector has remained in decline since May 2019, with the latest downturn stronger than the average for this period.

That said, softer contractions in both output and new orders helped lift the headline index at the start of the year. The rate at which output fell was the weakest for three months, albeit still solid overall. Companies cited falling demand, a lack of investment and partial load shedding for the decline in activity.

Meanwhile, firms registered a marked drop in new business, as domestic demand remained subdued amid poor economic conditions. However, the rate of decline softened since December. One positive factor for businesses was a slight rise in new export orders, the first upturn since last August.

Nevertheless, weaker new orders and stronger cost pressures led businesses to reduce staff numbers in January. Furthermore,

continued...

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:

"Following the disruption from severe load shedding in December, South Africa's private sector continued to deteriorate at the start of the year, with output and new orders falling further. That said, rates of decline eased, signalling that the downturn may have bottomed out.

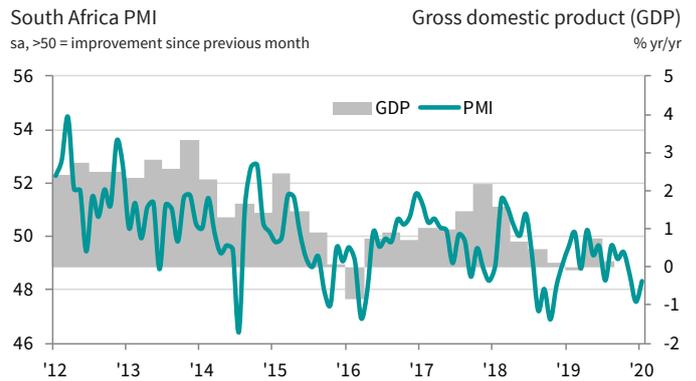
"Companies continued to report falling demand in January, while reduced business investment curtailed output levels. More positively, export orders increased for the first time in five months, pointing to a stabilisation in some international markets.

"Entering the new year, businesses were noticeably more upbeat toward the year-ahead outlook for activity. The level of sentiment was at its strongest since last June, as firms hope for improving market conditions as government plans for Eskom and infrastructure spending begin to take shape. Nonetheless, it will likely take some time before long-term government policy positively affects markets."

the rate of job losses was the quickest seen since September 2017. Input buying also decreased, with the rate of contraction unchanged from December and solid.

By contrast, the outlook for business activity improved to a seven-month high in January. This was often due to plans to introduce new products and services. Companies also hoped for a more stable political environment in 2020, as well as increased spending on infrastructure and fewer disruptions from power cuts.

Meanwhile, cost pressures faced by South African businesses were elevated, with input prices rising at the fastest pace since last June. Latest data showed a sharp increase in purchase costs, mainly linked to a higher general inflation rate and rand depreciation. Staff cost inflation was also the sharpest for a year. As a result, firms raised output prices at a stronger rate, extending the current run of inflation to four months.



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 13-29 January 2020.

Survey data were first collected 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. To learn more go to ihsmarkit.com/products/pmi.html.