

## IHS MARKIT SOUTH AFRICA PMI®

### Business conditions deteriorate at faster pace in July

#### KEY FINDINGS

New orders fall at sharpest rate in nine months

Output and employment levels decline

Input price inflation softens

July saw a further decline in the health of the South African private sector, with output and new orders falling at faster rates and employment slipping into contraction territory. Future sentiment dropped markedly as negative growth data weighed on firms' outlooks. More positively, input cost inflation eased as many suppliers reduced their prices.

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.

The headline PMI was down to 48.4 in July, from 49.7 in June, signalling a third successive month of deterioration in business conditions that was also the sharpest since last November. That said, the overall rate of decline was only modest.

The largest negative influence on the headline PMI came from the new orders component. It signalled the most marked fall in demand at South African firms in nine months. Client sales reportedly eased due in part to negative GDP growth figures released in June, while some firms mentioned a lack of liquidity in the market leading to reduced buying power. Furthermore, the fall in demand appeared mostly domestic, as new export orders recorded only a fractional decline over the month.

As a result, output at South African companies contracted for the third month running and at a faster rate than in June.

#### PMI

sa, >50 = improvement since previous month



Adding to the downturn, some panellists highlighted that worker strikes and increased cost inflation in the previous month led to lower output.

A drop in new work also restrained hiring activity in July. Job numbers decreased at a marginal rate that was nonetheless the joint-fastest in almost two years. This succeeded three consecutive months of expansion.

Similarly, input purchases were down during the month, leading to reduced stock levels in line with falling output requirements. Nevertheless, delivery times continued to lengthen as vendors reportedly relaxed their delivery schedules. The increase in lead times was only marginal though.

On a positive note, cost inflation faced by South African businesses eased from June's eight-month high. The overall rise in input costs was modest and driven by higher steel prices, electricity costs and salaries. However, this was partly countered by falling input demand leading to reduced prices at many suppliers. Accordingly, output charges rose at a softer rate than in the previous month.

Expectations for future output meanwhile dropped to a four-month low in July, mostly on the back of fewer sales and falling economic sentiment. However, new projects and store openings contributed to a still positive outlook on average.

## COMMENT

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

*"With a surprisingly sharp downturn in South Africa GDP in the first quarter weighing on sentiment, businesses have continued to report a challenging environment across the private sector economy in July. New orders dropped at an even quicker pace, despite the decline in export sales easing to a fractional rate. Output was also down, while employment was cut for the first time since March and at one of the fastest rates in nearly two years.*

*"One positive seen in July was that the rand was more settled, following the initial shock from the latest GDP figures, which helped to ease import cost pressures. Weaker demand for input goods meanwhile led many suppliers to drop their prices, contributing to a weaker mark-up in overall cost burdens.*

*"Unfortunately, this appears the only good news from the latest PMI survey. While second-quarter results point to a slower decline or even modest recovery in the economy, July data suggest that businesses are struggling to achieve further growth at the start of the second half of 2019."*

## CONTACT

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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.

July 2019 data were collected 12-29 July 2019.

For further information on the PMI survey methodology, please contact [economics@ihsmarkit.com](mailto: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](http://ihsmarkit.com/products/pmi.html).