News Release

Purchasing Managers' Index™
MARKET SENSITIVE INFORMATION
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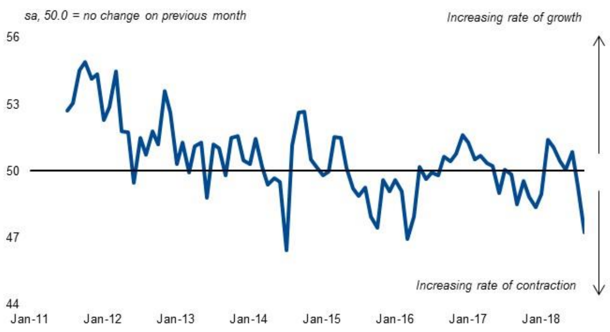
Standard Bank South Africa PMI®

Output falls at sharpest pace since March 2016 amid quicker drop in new work

Data collected August 13-29

- Sharp and accelerated decline in business activity
- New work decreases at second-fastest pace in survey history
- Companies scale down input purchasing due partly to sharp increases in costs

Standard Bank South Africa PMI



Sources: Standard Bank, IHS Markit

Operating conditions in South Africa's private sector economy deteriorated for the second straight month in August, as business activity and input purchasing decreased in line with an accelerated drop in new orders. Political as well as economic issues, affordability constraints, inflationary pressures and strikes were among the factors cited by panellists for the latest downturn.

Overall input costs increased at the sharpest pace in over two years, largely due to rand weakness, leading firms to raise their selling prices to the greatest extent since July 2016.

Falling from 49.3 in July to a 29-month low of 47.2 during August, the headline Standard Bank South Africa PMI pointed to a second consecutive deterioration in the health of the private sector. The downturn was marked, reflecting quicker declines in new business inflows, output and stocks of purchases.

Commenting on August's survey findings, Thanda Sithole, Economist at Standard Bank said:

"Domestic business conditions deteriorated further in August as the economy-wide PMI slipped to 47.2 index points from 49.3 in July. This is the lowest reading since April 2016. Year-to-date, the PMI has underperformed, at only 49.9, compared to 50.2 in the same period in 2017. The PMI decline was broad-based as new orders, output, employment and inventories fell further. This bodes ill for the SA economy in the latter half of this year.

"The poorly performing PMI reflects economic policy uncertainty, increased cost pressures from elevated oil prices, rand weakness and labour strikes. Even our below-consensus real GDP growth of 1.2% for 2018 might now disappoint. Nevertheless, the SARB leading indicator rose further in June, which is hopeful for medium-term growth prospects. We expect real GDP growth of 2.0% for 2019."

The main findings of the August survey were as follows:

Amid reports of political and economic crises, inflationary pressures and deteriorating consumer purchasing power, new work received by private sector firms declined at the second-quickest rate in the survey history during August. Contributing to the fall in total new work was another reduction in export sales, the eleventh in as many months.

Fading demand coupled with nationwide protests led to the steepest contraction in private sector activity since March 2016.

According to panellists, rand depreciation exerted mounting pressure on overall cost burdens in August. The rate of increase was sharp and hit at 25-month peak. Purchase prices continued to rise at a much stronger pace than staff costs, and in both cases rates of inflation accelerated from July.

Part of the additional cost burden was passed on to clients via upward adjustments to selling prices for goods and services. The rate of charge inflation climbed to its highest mark since July 2016.

Anecdotal evidence indicated that strong cost inflationary pressures, high lending rates and destocking efforts encouraged firms to postpone purchases in August. Input buying decreased at a moderate pace, but one that was the quickest in the year-to-date. In turn, this led to a faster reduction in overall stock levels.

August data pointed to back-to-back declines in private sector employment, with firms citing dowsizing policies, financial difficulties and shortages of new work. That said, the contraction in payroll numbers was mild and softened from July.

Meanwhile, suppliers' delivery times lengthened midway through the third quarter on the back of disruptions caused by strikes and low stock levels at vendors. Outstanding workloads were broadly unchanged from one month previously.

-Ends-

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Note to Editors:

The Standard Bank South Africa Purchasing Managers' Index™ is based on data compiled from monthly replies to questionnaires sent to purchasing executives in approximately 400 private sector companies, which have been carefully selected to accurately represent the true structure of the South African economy, including mining, manufacturing, services, construction and retail. The panel is stratified by GDP and company workforce size. Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'.

The Purchasing Managers' Index (PMI®) is a composite index based on five of the individual indexes with the following weights: New Orders - 0.3, Output - 0.25, Employment - 0.2, Suppliers' Delivery Times - 0.15, Stock of Items Purchased - 0.1, with the Delivery Times index inverted so that it moves in a comparable direction.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

IHS Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from IHS Markit. 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 https://ihsmarkit.com/products/pmi.html.