Downturn in business activity remains strong in August

Key findings

Upward momentum in the PMI stalls

New orders and output fall sharply

Job numbers decrease at softest rate since April

Mozambican companies reported a further solid deterioration in the health of the private sector economy in August, as output and new business continued to fall at sharp rates. However, employment was reduced more slowly, while delivery times moved closer to stabilisation.
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.
The headline PMI dipped fractionally from 46.2 in July to 46.1 in August, to signal a sixth successive monthly deterioration in business conditions at Mozambican private sector firms. It was also the first time in four months where the headline reading decreased on the month, although it remained nine points higher than in April.
The solid downturn reflected a further sharp decline in business activity in August, as firms moderated output again due to the impact of the coronavirus disease 2019 (COVID-19) pandemic. The rate of contraction was the slowest since March, but only fractionally weaker than in July.
Receipts of new work also fell at a sharp pace midway through the third quarter, as firms noted weak demand due to the pandemic. After slowing for three successive months up to July, the rate of decline was unchanged in August.
Subsequently, further cuts to employment were recorded at Mozambican firms in an effort to reduce capacity. More positively though, the rate of job shedding was the softest in four months, and only slight. Meanwhile, backlogs fell at the slowest rate in the current five-month run of depletion.
Businesses saw further delays to the delivery of raw materials in August, amid continued supply disruption. However, as demand for inputs fell further, some vendors were able to speed up, leading to the smallest increase in lead times for five months.
At the same time, input costs decreased again in the private sector, but the rate of decline slowed markedly to just a marginal pace. Notably, some firms cited that the redirection of supply chains led to higher purchasing costs, as well as new equipment purchases, which partly offset supplier price reductions. Output charges were meanwhile raised for the second month running, albeit only slightly.
The outlook for the Mozambican economy weakened to a four-month low in August. Whilst many firms were hopeful of an uplift in activity amid new branch openings, some voiced concerns about the longevity of the COVID-19 pandemic. The impact of the pandemic on demand led firms to reduce inventories further, with the rate of contraction accelerating for the first time since stocks began decreasing in April.

Sources: Standard Bank, IHS Markit.

Data were collected 12-25 August 2020.
Fáusio Mussá, Regional Economist at Standard Bank commented:

"Mozambique continues to see an increase in Covid-19 infections, with 3,821 cases being confirmed at the end of August, after 96,386 tests being made since March, which denotes that the curve has not peaked yet. In a context of a low mortality rate of 0.8% and low infections to testing ratio of 3.96%, the government continued to make progress on gradual relaxation of social distancing measures to establish a "new norm" and help reduce the negative impact of the pandemic on economic activity.

"The economy contracted by 3.3% y/y during Q2:20, in line with our expectations, from a GDP growth of 1.7% y/y during Q1:20. This contraction reflects the negative impact of Covid-19 and aggravated security challenges.

"Terrorism related threats in the northern province of Cabo Delgado could now have material negative implications for public finances and further aggravate Balance of Payment pressures. This could also have inflationary implications as the Metical continues to depreciate. As a result, we see Central Bank maintaining their main policy interest rate, MIMO, on hold at 10.25% for the remainder of the year, with the market's prime lending interest rate at around 15.9% still elevated in real terms, when compared to July inflation of 2.8% y/y."

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.

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