

Standard Bank Mozambique PMI™

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

Data were collected 12-25 August 2020.

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.

PMI

sa, >50 = improvement since previous month



Sources: Standard Bank, IHS Markit.

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.



Comment

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 0.6% 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."

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Methodology

The Standard Bank Mozambique 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 data were collected 12-25 August 2020.

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

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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Standard Bank is established in Mozambique since 1894, actively participating in the development of the country by financing the national economy and placing its vast expertise in the areas of energy, infrastructure and mineral resources available to the national business community and in attracting foreign investment.

Over the past five years, Standard Bank has invested more than US 200 million in credit lines for infrastructure projects for the transport of coal, storage of liquid fuels, expansion and construction of airports and roads, as well as projects in the areas of telecommunications and mineral resources.

Standard Bank is a solid and profitable bank with branches in all of the country's provinces and a wide range of products and services for large, small and medium-sized businesses and individuals. The bank reverts part of its profits to the communities where it is inserted, through the implementation of social projects in the areas of health, education and sports.

Member of the Standard Bank Group, the largest African bank in terms of geographic dispersion, results and assets, with presence in 20 countries on the African continent, as well as 6 global financial centres, Standard Bank Mozambique has the financial and human resources to serve and connect clients throughout world.

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