

Standard Bank Mozambique PMI™

Business output falls steeply due to COVID-19 pandemic

Key findings

Activity contracts sharply amid government measures

New work declines at record pace

Job numbers fall as outlook for business activity worsens

Data were collected 7-27 April 2020.

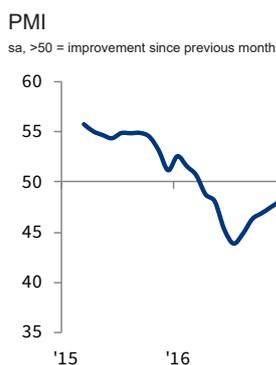
Mozambican firms observed a steep decline in output during April, latest survey data showed, as the escalation of the coronavirus disease 2019 (COVID-19) pandemic led to a severe reduction in new business. Measures to ease the virus spread, including travel restrictions and bans on gatherings, had a massive impact on demand, as job numbers and purchasing activity contracted in light of a worsening outlook for activity.

Cuts to employment, workers' salaries and purchase prices meanwhile led to the first drop in input costs in the survey's history. Selling charges continued to rise, but only marginally.

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 fell to a record low of 37.1 in April to indicate a sharp deterioration in the health of the private sector in Mozambique. This compared with a reading of 49.9 in March, consistent with broadly stable business conditions.

Three of the headline index's sub-components also fell to record lows in April: output, new orders and stock of purchases. The former signalled a severe reduction in activity, with firms linking this to COVID-19 and government restrictions on movement. Businesses were



Sources: Standard Bank, IHS Markit.

also hit by a sharp fall in new work, reportedly due to weaker customer demand during the pandemic.

The fall in new business was the quickest in the series history (since April 2015) and prompted massive reductions in purchases and inventories at Mozambican firms. Some companies noted that border closures – in particular with South Africa – made it more difficult to source inputs, with delivery times lengthening as a result.

Employment fell for the first time in a year-and-a-half as businesses made adjustments to workforce numbers in light of the pandemic. That said, the reduction was only modest. Backlogs meanwhile declined for the first time since January, linked to weaker incoming orders.

Mozambican firms made stark efforts to reduce input costs during the month as sales dried up. With purchases falling, suppliers steeply reduced prices of raw materials, while staffing costs also dropped due to lower salaries. Output prices rose for the third month in a row, albeit at a marginal pace.

Expectations for output in a year's time worsened for the second month running in April. Sentiment was weaker than the series average, with firms relating pessimism to the virus pandemic and downturn in new business. That said, the overall outlook was still positive.



Comment

Fáusio Mussá, Regional Economist at Standard Bank commented:

“Towards the end of the first month of the State of Emergency, declared from 1st of April to help contain the spread of Covid-19, Mozambique recorded 76 positive cases of Covid-19 after testing 1688 suspects with 9 recovered and 67 active cases. The Northern province of Cabo Delgado recorded 54 cases, followed by 17 in the City of Matola and 5 in the City of Maputo. Despite the low Covid-19 curve when compared with other countries in the region, the Mozambican Covid-19 Scientific - Technical Commission remains unhappy with the level of adherence to the social distancing measures. Still, we do not expect restrictions on businesses and circulation to evolve to a full lockdown.

“Even at a lighter level of social distancing, Mozambique is likely to experience a sharp decline in economic activity from expected poor performances across the sectors of economic activity, including the services economy which represents more than 50% of GDP. To help Mozambique meet urgent balance of payment and fiscal needs stemming from the COVID-19 pandemic, the International Monetary Fund approved a disbursement under the Rapid Credit Facility (RCF) of SDR227.2 million which corresponds to US\$309 million. This will likely improve the foreign exchange liquidity in the market, at least temporarily.”

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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.

April data were collected 7-27 April 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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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.

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