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Stanbic Bank Zambia PMI™

Business activity falls at sharper pace in August

Key findings

Steeper reductions in output and new orders

Falling profits result in further job cuts

Output prices rise for first time in five months

Data were collected 12-24 August 2020

The coronavirus disease 2019 (COVID-19) pandemic continued to have a negative impact on the Zambian private sector during August. Customer demand remained weak, leading to a further reduction in business activity. Companies continued to scale back employment amid reports of falling profits. On the price front, currency weakness was largely responsible for a pick-up in input cost inflation. Meanwhile, higher cost burdens led to a first increase in output prices for five months.

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 43.4 in August from 44.6 in July, thereby signalling a more pronounced deterioration in business conditions in the private sector than had been the case at the start of the third quarter. Operating conditions have now moderated in each month throughout the past year-and-a-half.

Falling new orders remained central to the overall decline in business conditions, with COVID-19 disruption leading to an ongoing lack of demand.

Similarly, output decreased sharply again during August, with the rate of contraction quickening from that seen in July.

August saw a seventh successive reduction in

PMI

sa, >50 = improvement since previous month



Sources: Stanbic Bank, IHS Markit.

employment, with the rate of job cuts remaining marked despite easing. Where staffing levels decreased, panellists often linked this to pressure on profits.

Weakness of the Zambian kwacha against the US dollar led to a rise in purchase costs. As a result, overall input prices increased for the second month running, despite another reduction in staff costs.

With overall input cost inflation accelerating, companies raised their own selling prices for the first time in five months. That said, the rate of inflation was only slight amid efforts to secure new business.

Falling new orders meant a lack of pressure on operating capacity and a further reduction in purchasing activity at Zambian firms. Some respondents also reportedly faced difficulties importing items. Issues with border crossings also hampered supplier deliveries midway through the third quarter, contributing to another sharp lengthening of lead times. Weak client demand and problems securing inputs led to a further reduction in inventories.

Recent tentative improvements in business sentiment continued in August, with confidence strengthening for the third month running following May's record low. Optimism was centred on hopes that improvements in economic conditions and new orders would result in higher business activity.

Comment

Victor Chileshe, Head of Global Markets at Stanbic Bank commented:

"Continued weak customer demand and an increase in input price inflation due to currency weakness, has contributed to falling profits. Businesses continue to cut jobs in a bid to keep their heads above water."

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Methodology

The Stanbic Bank Zambia 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 12-24 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.

ihsmarkit.com/products/pmi.html

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Stanbic Bank Zambia Limited is part of the Standard Bank Group, Africa's largest bank by assets. The Standard Bank Group, with strong African roots and leader in emerging markets, has on-the-ground representation in 20 African countries

Stanbic Bank Zambia Limited is the largest bank in Zambia by balance sheet, offering a full range of banking and related financial services. The Bank is well capitalized and its capital position is above the regulatory minimum.

The Bank which has more than 60 years' operating experience has a huge network of branches countrywide offering full spectrum of financial services from retail to corporate and investment banking

Our strategy is to be the leading financial services organisation in, for and across Zambia, delivering exceptional client experiences and superior value. We believe we can achieve this as Zambia is our home, we drive her growth. The Bank has been an integral part of the Zambian economy and is a leading player in the country's financial services sector.

<http://www.stanbicbank.co.zm>

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