

IHS Markit South Africa PMI®

Business conditions remain subdued in December

Key findings

Output and new business broadly stable

Input shortages remain widespread

Employment moves closer to stabilising

Data were collected 4-21 December 2020.

Business output across South Africa was largely stable at the end of the year, as demand stalled and input shortages led to renewed falls in purchases and inventories. Meanwhile, expectations for future activity dipped to a four-month low. Employment fell only modestly, however, while delivery times lengthened at the slowest pace since January.

The headline South Africa PMI® is a composite single-figure indicator of private sector business performance. It is derived from indicators for new orders, output, employment, suppliers' delivery times and stocks of purchases. Any figure greater than 50.0 indicates an overall improvement in the sector.

The headline PMI registered 50.2 in December, down from 50.3 in November and its lowest reading for three months.

The largest component of the PMI, the new orders index, revealed broadly unchanged sales volumes in the final month of 2020, as some firms reported an expansion but others indicated a decline. However, this result marked an improvement from November's survey, which had signalled a slight fall in new orders.

Notably, the volume of new business was weighed on by a moderate decrease in export sales in December. The rate of decline slowed from the month before, however.

As demand conditions remained stable, firms likewise kept output levels broadly unchanged during December. That said, there were reports that firms were hindered by shortages of a range of raw materials, largely due to coronavirus disease 2019 (COVID-19) and its impact on global supply chains.

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South Africa PMI

sa, >50 = improvement since previous month



Source: IHS Markit.

Comment

Commenting on the latest survey results, David Owen, Economist at IHS Markit, said:

"South African businesses struggled to make gains in December, as weak demand and issues sourcing raw materials meant total output was broadly stable since November. Notably, business confidence was hit by firms' concerns that a sharp rise in COVID-19 cases could lead to a second wave of restrictions.

"While PMI data over the fourth quarter of 2020 points to an easing to the downturn, demand indicators suggest that the economy has far to go to recover from the pandemic. Moreover, should restrictions be reimposed, the country could face a second decline in activity over the first quarter of 2021."

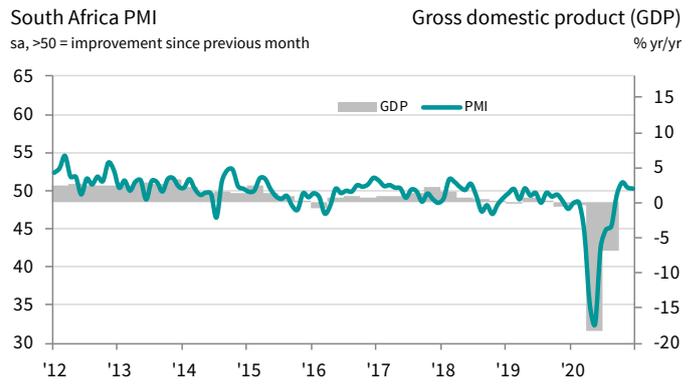
Shortages of inputs also impacted firms' buying decisions in December, as purchasing activity declined for the first time since August. This led to a renewed drop in stocks of purchases. Notably, some companies held fewer inputs in anticipation of stricter lockdown measures amid a sharp rise in COVID-19 cases.

On the positive side, employment moved closer to stabilising in December, as latest data indicated just a slight fall in workforce numbers that was the weakest for nine months. At the same time, backlogs rose for the first time since April.

Despite difficulties acquiring goods in short supply, suppliers' delivery times deteriorated at the slowest rate since January. Firms noted that some vendors had added to their capacity, allowing them to deliver more quickly.

Input cost inflation eased to the slowest in four months in December, but remained solid overall. Metals and other inputs in short supply were reported as up in price. Furthermore, wage costs increased for the first time since March.

Lastly, business expectations for the next 12 months dropped to the lowest since August, albeit remaining positive overall. Hopes of an end to the pandemic drove business confidence, although there were worries that a second wave of COVID-19 and problems with input supply could derail the economic recovery.



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Survey methodology

The IHS Markit South Africa 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.

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

Survey dates and history

December data were collected 4-21 December 2020.

Survey data were first collected in July 2011.

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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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