News Release

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IHS MARKIT SOUTH AFRICA PMI®

Growth short-lived as business conditions deteriorate in May

KEY FINDINGS

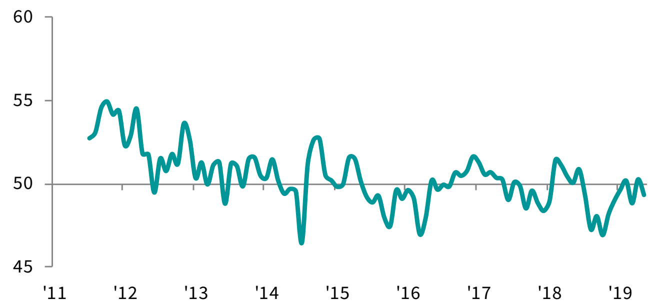
New orders fall at quickest pace in six months

Output sees modest drop

Higher input costs drive up selling prices

PMI

sa, >50 = improvement since previous month



South Africa's private sector slid back into contraction territory in May, following a slight expansion in April. Businesses were hampered by a faster drop in new orders and a fourth successive fall in export sales, leading them to reduce output and cut back on purchases. Also, rising input prices prompted firms to increase selling charges for the first time in three months. Despite this, future sentiment improved amid hopes of post-election stability.

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 of the sector.

At 49.3 in May, the headline PMI was down from 50.3 in April and below the crucial 50.0 no-change mark. Overall, this signalled a slight deterioration in the health of the private sector. As such, the sector has now failed to post consecutive monthly improvements in operating conditions for over a year.

A key factor influencing the deterioration was the quickest decline in new orders since last November. Firms continued to report weak economic conditions, although the recent elections were also to blame for the fall in demand. Export sales meanwhile dropped at a marginal rate.

South African businesses responded with a moderate cut to output in May, following broadly stable levels during April. This partly caused a build-up of stocks, which led firms to reduce their purchases over the course of the month. Nevertheless, delivery times increased further amid shortages at some suppliers.

In addition, businesses saw a renewed increase in overall costs during May after the first drop in input prices in the survey's history was recorded in April. Higher oil prices partly affected the rise in purchasing costs, while average wages also ticked up in May due to greater hiring activity.

While the rate of input cost inflation was slight, South African firms were still driven to raise their output prices for the first time in three months. Recently, panellists have sought to lower charges to attract new customers. However, the renewed rise in costs forced some firms to increase prices to avoid a weaker balance sheet.

More positively, panellists were able to maintain employment growth which, although slight, rose to the fastest in 11 months. Despite falling output, few firms cut workforce numbers, partly because of growing sentiment that sales will rebound.

In fact, the overall level of optimism for future output improved to a 13-month high. Several businesses attributed their positive outlook to hopes that the newly-elected government will bring greater stability. Additionally, firms noted that planned new contracts and orders from new clients should boost activity over the coming year.

PMI® By IHS Markit

COMMENT

David Owen, Economist at IHS Markit, which compiles the South Africa PMI survey, commented:

"The South African PMI was back into contraction territory in May, unable to record successive months of growth as new orders declined at a faster rate. Demand was partly affected by the election, although panel members also reported difficult economic conditions across the private sector.

"The run of weak demand has pushed some firms to lower prices in recent months. However, rising costs in the latest survey period led to the first overall increase in output prices since February. Whilst slight, it does pressurise businesses to seek alternative methods to boost sales.

"Nevertheless, firms are hopeful that the new government will bring some much-needed stability to the markets. Future sentiment rose to the highest for 13 months, showing that there is still confidence in the South African economy. Nevertheless, recent PMI readings show that the government faces a difficult struggle to reignite growth this year."

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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.

May 2019 data were collected 13-29 May 2019.

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

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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. To learn more go to ihsmarkit.com/products/pmi.html.