

Standard Bank Mozambique PMI™

Business conditions continue to worsen in March

Key findings

Output, new orders and employment all decline

Input shortages and supply delays limit vendor performance

Output prices rise at quickest rate for 13 months

Data were collected 12-26 March 2021.

The latest PMI™ survey data continued to show a marginal decline in operating conditions across Mozambique in March, led by reductions in output, new orders and employment. Meanwhile, a shortage of raw materials and shipping delays led to a slower improvement in delivery times and a modest increase in input prices. Notably, firms passed these costs on to customers, as output prices rose at the quickest rate in over a year.

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.

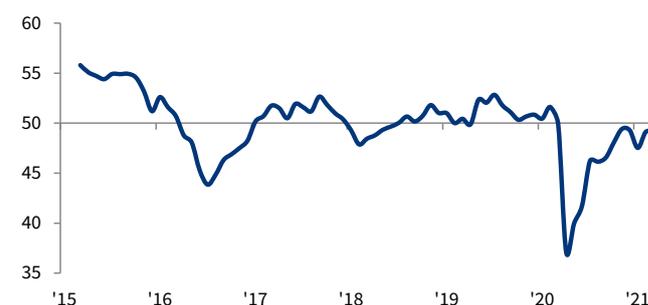
At 49.1 in March, the headline PMI was unchanged from February and signalling a slight deterioration in business conditions during the latest survey period. The decline was the thirteenth in as many months, although the trend has improved markedly since the second quarter of 2020.

Mozambican firms reduced their output at a modest pace at the end of the first quarter. Survey panellists linked the fall to a drop in new order inflows, raw material shortages and some business closures as a result of the coronavirus disease 2019 (COVID-19) pandemic. New business also fell, although the rate of decline was only marginal as some respondents saw an increase in client demand.

Nevertheless, the overall fall in activity led to a further

PMI

sa, >50 = improvement since previous month



Sources: Standard Bank, IHS Markit.

drop in purchasing activity in March. In addition, reports suggested that a decrease in raw material supply restricted the level of buying at some companies. However, stocks of purchases were little-affected and fell only fractionally.

Input shortages also led some vendors to make slower deliveries, with the rate of improvement in supplier performance easing to a seven-month low. Firms also found that COVID-19 restrictions sometimes delayed the arrival of purchased items.

Output capacity remained strong, however, as firms were able to drive down backlogs for a twelfth month running. Weaker client demand, meanwhile, led companies to reduce staff numbers further and at the quickest pace since August 2020.

Cost pressures continued to rise in March, with Mozambican firms citing that currency weakness and input shortages were key factors. Firms largely passed these costs on to their clients, as output prices increased at the fastest rate for just over a year.

Finally, businesses gave another optimistic view of future activity growth in March, although the degree of sentiment weakened from February's nine-month high. Plans to expand market reach often underpinned confidence, with roughly 43% of the survey panel predicting an increase in output.



Comment

Fáusio Mussá, Chief Economist - Mozambique at Standard Bank commented:

"Mozambique remains in shock, following a sequence of deadly terrorist attacks to Palma, a district in the northern province of Cabo Delgado, which started on 24 Mar. At the time of writing, nearly a week following the first attack, the army was still working towards restoring security and escorting civilians that were being transported, mainly by boat to Pemba, the capital of the province. With more than 2,000 people being killed since the first terrorist attack in Oct 17 and more than 700,000 displaced, a humanitarian situation has developed in Cabo Delgado.

"With the eyes on the humanitarian response, Total announced the evacuation of its personal from the Afungi construction site. The company also announced that construction works for the USD20bn Mozambique LNG project are being put on hold. This follows an early announcement, immediately prior to the attacks, where Total indicated they would start mobilizing resources to resume construction, which would imply disbursement on the USD15.5bn project financing. Recall that the first suspension of construction occurred last Dec, following terrorist attacks closer to the Afungi site.

"Security challenges combined with the response to Covid-19 will likely continue to pressurise public finances, subdue GDP growth and investor sentiment. While the economy is likely to exit recession during Q2:21, mainly on base effects, the risks to the outlook have increased, with growth recovery and job creation expected to remain subdued."

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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.

March data were collected 12-26 March 2021.

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.

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