News Release

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IHS MARKIT SOUTH AFRICA PMI®

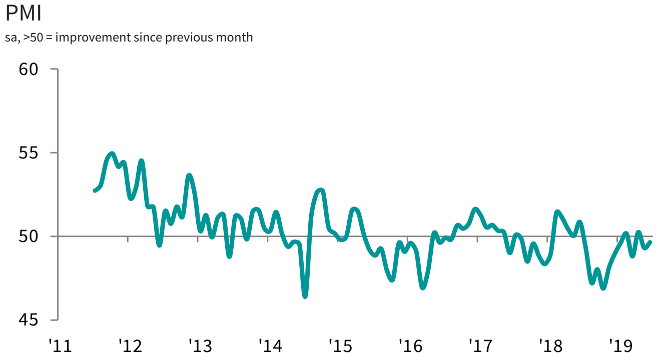
Business conditions remain muted in June, but outlook strengthens

KEY FINDINGS

Output and new orders dip slightly

Future expectations reach 15-month high

Fuel surcharge helps raise cost pressures



Private sector firms in South Africa saw a further decline in new business during June, leading to a slight reduction in output and only a minimal rise in employment. Firms also faced a sharp increase in cost pressures due to a fuel surcharge and a deteriorating rand value in the wake of poor economic data. More positively, sentiment regarding future outlook reached the highest in 15 months.

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.

The headline index reading posted 49.7 in June, up slightly from 49.3 in May but still marginally below the 50.0 neutral threshold. Altogether, this pointed to a mild deterioration in operating conditions at South African companies, marking the first back-to-back monthly decline since January.

Firms reported another contraction in output during June, although the reduction was softer than in May and marginal overall. Panellists generally linked lower output to a fall in new orders, with the rate at which new business decreased also less marked than in the previous month. Notably, this extended the current demand slowdown to a full year.

According to anecdotal evidence, customers often lacked purchasing power during the month, as weakening economic conditions led to a downturn in market activity. Foreign sales also deteriorated, and to the greatest extent in three months.

As such, a number of firms actively reduced their workforce during June. Employment increased overall, albeit marginally, as other businesses continued to hire additional staff. Softer demand pressures also helped firms to work through backlogs during the month.

Delivery times lengthened for the fifth month running in June. Notably, some respondents saw delays due to a lack of stocks at suppliers, while others highlighted depot strikes as a contributing factor.

South African businesses meanwhile saw a marked rise in input prices, contrasting notably with the recent trend of historically weak cost pressures. Key to the rise was a statutory increase in fuel prices across the country, while firms also faced inflationary effects from electricity bills and a weaker exchange rate at the start of the month. In addition, staff costs increased at the quickest rate since January. Some of the extra cost burden was passed onto consumers, with selling charges rising at a moderate pace overall.

Nevertheless, firms were broadly positive when predicting future output. In fact, the level of optimism was the highest recorded since March 2018, due to a number of respondents improving their outlook as the new government term began. Many also remained hopeful that new orders will pick up throughout the year, leading to greater activity.

COMMENT

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

"Business conditions remained challenging in June, according to the latest South Africa PMI data. Firms reflected a continuing period of difficulty in the domestic economy, as first quarter growth results showed a 3.2% annualised contraction. The offshoot impact on the rand, along with a steep rise in fuel prices, also led to a sharp mark-up in overall costs. With demand remaining weak, and businesses lacking the incentive to raise output, the PMI suggests that any second quarter rebound may be modest at best.

"However, long-term optimism was still elevated. The 12-month outlook for activity rose even higher in June and reached the strongest since March 2018. Some of this optimism was directed at the new term for the ANC government, as many hope that President Ramaphosa will quickly address concerns around Eskom, as well as implementing other wide-reaching reforms. Yet it may be that greater short-term stimulus is needed to lift businesses out of a difficult economic environment."

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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.

June 2019 data were collected 12-26 June 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.