

Standard Bank Mozambique PMI™

New order growth slows to 20-month low

Key findings

Softer rise in new orders moderates output growth

Input purchases fall at strongest rate in over three years

Business confidence weakens markedly

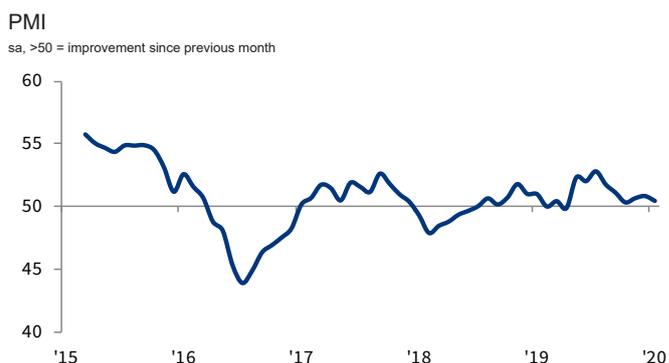
Mozambique's private sector economy saw a subdued improvement in business conditions in January. New order growth slowed, leading to softer rises in output and employment, as well as a relatively strong drop in input buying. Selling prices fell further, despite higher cost pressures.

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 figure dropped for the first time in three months during January, posting 50.4, down from 50.8 in December. The latest reading signalled only a marginal improvement in business conditions that was the second-slowest in the current nine-month sequence of growth.

Weighing on business conditions were softer increases in output, new orders and employment at the start of the year, with the latter showing the greatest slowdown in growth. The other two components of the headline index, suppliers' delivery times and stocks of purchases, slightly offset the PMI's downwards trend.

Notably, new orders at Mozambican firms rose at the softest rate in 20 months in January. Firms commented that weaker demand growth tempered overall sales volumes. Total new business increased only marginally since the end of 2019.



Sources: Standard Bank, IHS Markit.

In response, companies raised output levels at a subdued pace, with the rate of expansion slowing from December to one that was weaker than the series trend. As a result, demand for inputs weakened, leading to the strongest drop in purchasing activity since November 2016. Consequently, suppliers were able to lower delivery times for the eighth month in a row.

Employment growth also softened in January. Despite firms adding new hires, the rate of job creation slowed to a modest pace that was the weakest since October. Companies managed to reduce backlogs, however, and at a quicker rate.

Meanwhile, Mozambican firms continued to face soft cost pressures, though the rate of inflation ticked up to a three-month high. The mark-up was mostly driven by higher purchase prices, as staff wages increased only fractionally at the start of the year.

At the same time, output charges were lowered for the fourth month running as firms looked to strengthened sales growth. That said, the rate of decline was the softest in this period, and fractional.

Business expectations fell markedly in January, having reached a two-year high at the end of 2019. Despite this, sentiment remained positive overall, with panellists mentioning plans for expanding capacity and services over the coming year.



Comment

Fáusio Mussá, Regional Economist at Standard Bank commented:

"As per the Standard Bank African Markets Revealed January edition, we lower our GDP growth forecast for 2020 by 0.3 percentage points (ppts), to 3.4% y/y, to reflect the negative impact of security challenges in certain districts of the central and northern regions of Mozambique. Then, as investment in natural gas projects gains momentum likely in the second half of 2020, we forecast GDP growth accelerating to 4.1% y/y by 2021.

"Over the past few years, substantial progress has been made to help restore confidence, with an IMF program likely to be considered this year. We believe that GDP growth bottomed out in 2019 after the cyclones and various security challenges. Last year's Area1 LNG final investment decision and Area4 LNG investment commitment materially improves the growth outlook, but we still foresee only a slow recovery.

"Improvements in agricultural output remain critical to sustain the restoration of disposable incomes this year, especially from the negative impact of last year cyclones. Still, poverty cannot materially decline if peace remains out of reach and if structural reforms fail to uplift the agricultural sector and its value chain, thereby lifting the income of nearly 70% of the population living off subsistence agriculture."

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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. January data were collected 13-28 January 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. To learn more go to ihsmarkit.com/products/pmi.html.

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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.

Member of the Standard Bank Group, the largest African bank in terms of geographic dispersion, results and assets, with presence in 20 countries on the African continent, as well as 6 global financial centres, Standard Bank Mozambique has the financial and human resources to serve and connect clients throughout world.

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IHS Markit (NYSE: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions.

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