News Release

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IHS Markit South Africa PMI™

Lockdown extension slows economic recovery in August

Key findings

Downturn in business activity softens, but only gradually

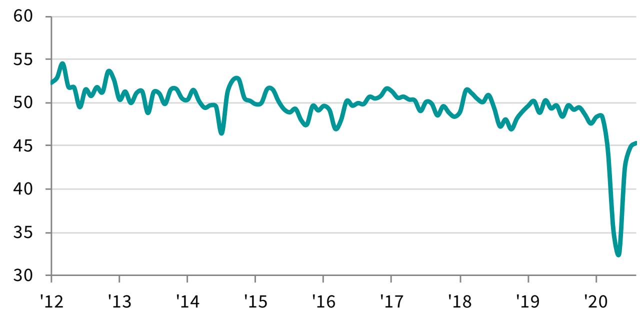
New orders fall at weakest rate in six months

Job cuts continue as spare capacity remains high

Data were collected 12-26 August 2020.

South Africa PMI

sa, >50 = improvement since previous month



Source: IHS Markit.

Latest PMI® data signalled a strong decline in South African economic activity in August, as demand fell further amid extended restrictions to curb the coronavirus disease 2019 (COVID-19) pandemic. The rate of contraction slowed to the least marked since February, although recovery momentum somewhat weakened as the PMI ticked up only slightly.

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 rose for the third month running from 44.9 in July to 45.3 in August, to indicate a slower deterioration in business conditions across the South African private sector. The index was at its highest in six months but, having gained only 0.4 points since July, suggested the pace of recovery from May's nadir has weakened.

A key reason was the continued use of stricter COVID-19 measures until midway through August, which firms stated led to a fall in new business as consumer confidence faded and new orders were put on-hold. However, the decline in overall sales was the softest recorded since February. Export demand also continued to decrease, and notably at a stronger pace than seen in July.

The restrictions had a similarly adverse impact on output in August. Though the fall in activity was the slowest for six months, it remained steep and was only fractionally softer than in July.

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Comment

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

"The imposition of stricter COVID-19 measures across South Africa in July and August, after having eased in June, mean we are increasingly seeing a long-tailed recovery in the economy according to the PMI. The headline index ticked up only slightly in August, with the output and new orders components remaining firmly in negative territory albeit to a much lesser extent than May's nadir. Employment and inventories were also reduced further.

"At the same time, firms remain hopeful of an upturn in business activity over the coming 12 months, particularly as the government lifted most restrictions midway through August as case numbers appear to have peaked. Businesses hope that this will restore consumer confidence and lead to a pick-up in sales. That said, sentiment was unchanged from July and still relatively subdued."

PMI® By IHS Markit

There was also a further reduction in backlogs of work midway through the third quarter, suggesting that spare capacity at South African companies remained high. As a result, firms trimmed employee numbers sharply, albeit at the slowest pace since April.

At the same time, businesses continued to reduce stocks of purchases by delaying input buying and using up current inventories in August. Some firms noted that raw material shortages and delivery delays meant they were unable to acquire new inputs. Lead times lengthened sharply, although the extent of the deterioration was the least marked for six months as some vendors improved their services.

Input prices were driven higher in August after a renewed increase was seen in July. Inflation was mainly attributed to weakness in the rand against the US dollar. Meanwhile, wages and salaries were reduced for the fifth straight month, albeit at the softest pace since April.

Weak demand led to a further cut in output prices during August. However, with cost pressures rising, the reduction in charges was the softest in four months.

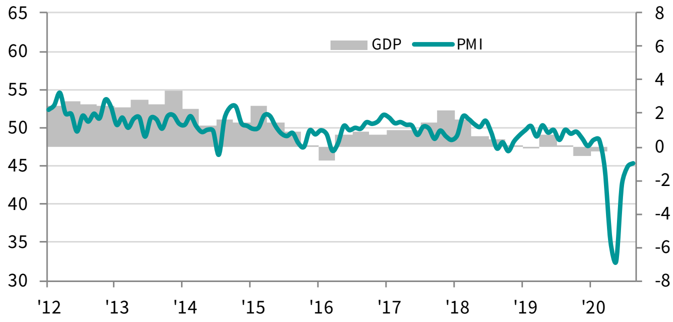
The degree of business optimism was unchanged from July as firms predicted a rise in output in the coming year, albeit much less confidently than the series trend. Hopes of stronger activity were largely related to the easing of COVID-19 related measures and greater opportunities for growth in the months ahead.

South Africa PMI

sa, >50 = improvement since previous month

Gross domestic product (GDP)

% yr/yr



Sources: IHS Markit, Stats SA

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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

August data were collected 12-26 August 2020.

Survey data were first collected July 2011.

About IHS Markit

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.

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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