

IHS Markit South Africa PMI™

Private sector downturn eases in June

Key findings

All PMI indicators rise from record lows in May

Output levels fall at softest pace in four months

Employment numbers decline at weaker, but still severe, rate

Data were collected 12-26 June 2020.

Companies in the South African private sector saw an easing in the economic downturn in June, with all PMI® indices rising from May's record lows but broadly remaining in contraction territory.

Government efforts to release parts of the economy from lockdown measures helped some businesses to receive new work, although demand still fell overall. Output meanwhile dropped at the softest pace since February, while employment also decreased at a weaker, albeit sharp, rate.

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 index rose to a three-month high of 42.5 in June, up from May's record low of 32.5. The reading pointed to a steep deterioration in business conditions, but nonetheless marked an important change in momentum for the South African private sector economy.

While output and new business continued to fall, rates of decline were considerably weaker than in the previous month. This was largely due to more companies seeing an uplift in market activity as nationwide lockdown measures were relaxed and several companies reopened. Demand fell at the slowest rate since March, helped by a much softer drop in new export orders as many other countries relaxed coronavirus-related measures. That said, the downturn in new business was still marked by historical standards.

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South Africa PMI

sa, >50 = improvement since previous month



Source: IHS Markit.

Comment

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

"The reversal of government lockdown measures led to a significant easing in the economic decline in June, latest PMI data suggested. The headline index recovered somewhat to 42.5, the highest since March, while indices for output, new orders and employment (amid others) signalled much slower downturns than the records set in May's survey."

"This relaxation of COVID-19-related measures came despite the continued rise in case numbers, as President Ramaphosa reportedly opted to preserve economic livelihoods and boost the ailing South African economy. Sentiment has since crept back into positive territory, as firms were upbeat that markets will start returning to normal. However, demand levels still remain weak, and the growing surge of COVID-19 cases will likely worry consumers going forward."

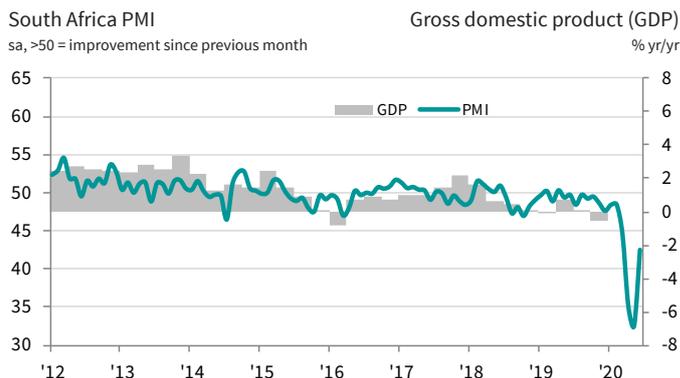
"Employment also remains a difficult area, having fallen for eight months in a row. Job shedding did ease in June, but was still marked, with firms suffering from a squeeze on margins and subdued sales."

In addition, employment in the private sector continued to decline in June as a result of weak demand, lower outstanding work and shorter operating hours at several businesses. Input purchases and stock levels were also curbed as firms looked to ease cost pressures.

In fact, the only index to rise into positive territory in June was the Future Output Index, which indicated that firms are now confident that activity will grow in the next 12 months. This optimism was mild though as, despite the lifting of lockdown measures and the return to work, many firms raised concerns of a lasting impact from coronavirus disease 2019 (COVID-19) pandemic.

Meanwhile, supplier delivery times lengthened for the seventeenth month in a row during June, as vendors continued to face challenges in delivering goods. In particular, increased border checks and lower staffing led to a decline in supplier performance. However, the rate of deterioration was much softer than in May.

Average input costs ticked down for the second consecutive month, though the fall was only slight due to a much softer reduction in purchase prices. According to panellists, currency weakness, higher fuel prices and shortages of some materials largely offset falls in supplier prices. Staff costs again dropped as companies reduced salaries and payroll numbers. Consequently, firms were able to lower output charges sharply for the second month in a row.



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

June data were collected 12-26 June 2020.

Survey data were first collected July 2011.

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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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