Output decreases at sharpest pace in nine months

Key findings

- Sharper declines in output and new orders
- Currency weakness leads to price rises
- Employment falls for fourth month running

Business conditions continued to deteriorate in Zambia during July, with the private sector moving deeper into contraction territory during the month. Sharp and accelerated declines were seen in both output and new orders amid a lack of money in the economy and falling customer numbers. As a result, firms continued to pare back their employment and purchasing activity.

Weakness of the Zambian kwacha again impacted the economy at the start of the third quarter, with both input costs and output prices rising sharply.

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 PMI dropped to 44.4 in July, from 46.6 in June. The reading was below the 50.0 no-change mark for the fifth month running, and signalled a sharp decline in business conditions.

Companies in Zambia continued to report a lack of money in the economy in July. This impacted on customer numbers and contributed to a steep reduction in new business. Consequently, business activity continued to fall. Moreover, the rate of decline in output accelerated to the fastest since October 2018.

Falling new work fed through to a thirteenth successive reduction in backlogs. That said, the latest decrease was only slight and the weakest for a year.

The relatively weak fall in outstanding business partly reflected a scaling back of workforce numbers in July. Employment decreased for the fourth month running, and to a greater extent than in June.

Purchasing activity also declined, and at a solid pace as companies were reluctant to hold excess stock in a weak demand environment. In fact, inventories decreased for the fifth month in a row.

Purchase prices continued to rise sharply in July, the third successive month in which the pace of inflation has been elevated. According to respondents, currency weakness was the main factor pushing up purchase costs, while higher fuel prices were also mentioned. Staff costs, meanwhile, rose only marginally.

The passing on of higher input costs to customers resulted in a similarly sharp increase in output prices. Although the rate of inflation softened from June’s 43-month high, it remained above the series average.

Hopes that economic conditions will recover over the coming year supported optimism among companies in July. More than half of all respondents predicted a rise in output, helping sentiment reach a four-month high. That said, confidence was still below the series average.
Comment

Victor Chileshe, Head of Global Markets at Stanbic Bank commented:

"The current business conditions should be helped by push through effects of the reversal in kwacha weakness experienced in the prior months."

Methodology

The Stanbic Bank Zambia 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.

July 2019 data were collected 12-25 July 2019.

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.

About Stanbic Bank

Stanbic Bank Zambia Limited is part of the Standard Bank Group, Africa’s largest bank by assets. The Standard Bank Group, with strong African roots and leader in emerging markets, has on-the-ground representation in 20 African countries.

Stanbic Bank Zambia Limited is the largest bank in Zambia by balance sheet, offering a full range of banking and related financial services. The Bank is well capitalised and its capital position is above the regulatory minimum.

The Bank which has more than 60 years’ operating experience has a huge network of branches countrywide offering full spectrum of financial services from retail to corporate and investment banking.

Our strategy is to be the leading financial services organisation in, for and across Zambia, delivering exceptional client experiences and superior value. We believe we can achieve this as Zambia is our home, we drive her growth. The Bank has been an integral part of the Zambian economy and is a leading player in the country’s financial services sector.

http://www.stanbicbank.co.zm

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.

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