Decline in new orders softens, but remains marked

Further reductions in output and new orders
Sixth successive fall in employment
Input costs rise for first time in four months

Business conditions continued to deteriorate in Zambia over the course of July, despite rates of decline in output and new orders softening further from the nadirs seen in May. A weak demand environment led companies to scale back employment and purchasing activity again. Meanwhile, overall input prices ticked up, but output prices were lowered as part of efforts to attract customers.

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.

At 44.6 in July, the headline PMI was up from 42.3 in June and posted its highest reading since March. However, the figure still represented a marked decline in business conditions across the Zambian private sector. Operating conditions have now deteriorated in 17 successive months.

Anecdotal evidence suggested that the main factor affecting business conditions in July remained the coronavirus disease 2019 (COVID-19) pandemic. The virus outbreak has led to an ongoing lack of demand, while there were continued reports that some companies remained closed temporarily. As a result, new orders decreased sharply, albeit at the slowest pace in four months. A similar trend was recorded for business activity, which decreased at a marked but softer pace.

Difficulties in securing new orders meant a lack of pressure on operating capacity. Companies were therefore able to work through backlogs of work again and scaled back employment for the sixth month running. Moreover, the rate of job cuts quickened from that seen in June.

Purchasing activity and inventories were also reduced amid a reluctance to hold excess stocks at a time of weak demand and pressure on cash flow.

COVID-19 continued to impact suppliers’ delivery times, with delays on the delivery of inputs from abroad due to border closures widely mentioned.

Total input costs ticked up in July, the first rise in four months. The overall increase was centred on higher purchase prices, which rose due to currency weakness. In contrast, staff costs continued to fall amid reductions in employment and wage cuts.

Companies in Zambia lowered their output prices for the fourth month running in a bid to attract customers. That said, the marginal reduction was the slowest in the current sequence of decline.

July saw a slight improvement in confidence regarding the 12-month outlook for business activity, though concerns around the impact of COVID-19 meant that sentiment remained well below the series average.
Comment

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

"Despite the business conditions continuing to deteriorate, there are signs that the worst of the downturn may have passed with the PMI reading posting its highest reading since March 2020."

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 data were collected 13-27 July 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.

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 is a registered trademark of IHS Markit Ltd. and/or its affiliates. All other company and product names may be trademarks of their respective owners © 2020 IHS Markit Ltd. All rights reserved.

If you prefer not to receive news releases from IHS Markit, please email katherine.smith@ihsmarkit.com. To read our privacy policy, click here.

© 2020 IHS Markit