

# Standard Bank Mozambique PMI™

## Output and new orders fall sharply as lockdown continues

### Key findings

Severe fall in business activity in May

Job losses near survey record

Cost pressures drop at sharp pace again

Data were collected 12-26 May 2020.

The extension of quarantine measures to curb the spread of coronavirus disease 2019 (COVID-19) had another severe impact on Mozambique's private sector economy in May. Latest PMI survey data showed further sharp declines in output and new business levels, leading to a near-record drop in employment. Deliveries lengthened again, while efforts to lower purchases and staff costs led to a steep fall in expenses.

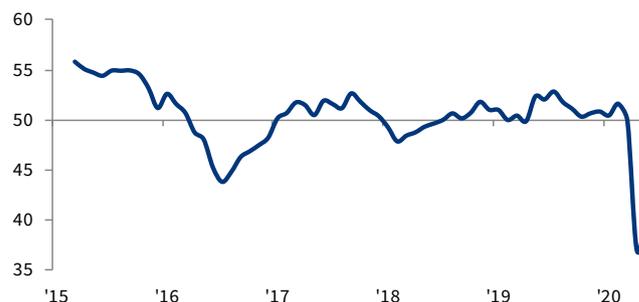
The headline figure derived from the survey is the Purchasing Managers' Index™ (PMI™). Readings above 50.0 signal an improvement in business conditions on the previous month, while readings below 50.0 show a deterioration.

At 40.0 in May, the headline PMI was up from 37.1 in April, but still indicated a substantial deterioration in business conditions across the Mozambican private sector economy. In fact, the latest reading was the second-lowest seen in the survey history (since April 2015).

This was primarily driven by sharp contractions in output and new orders at Mozambican businesses, of which several temporarily closed due to nationwide lockdown restrictions to stop the COVID-19 pandemic. Firms that remained open saw a dramatic fall in client demand, albeit one that was slightly softer than April's unprecedented decline.

With sales falling rapidly, companies made further reductions to workforces in May, leading to a solid drop

PMI  
sa, >50 = improvement since previous month



Sources: Standard Bank, IHS Markit.

in employment that was close to the survey record (in August 2016). Despite this, capacity remained strong as backlogs fell for the second month running.

Purchasing activity also decreased at a sharp pace in May, with firms widely noting that lower sales prompted them to make large adjustments to spending and inventories. Weaker demand for inputs meanwhile led to a steep drop in purchase prices, while staff costs fell at a record pace as many firms reduced salaries.

On the charges side, businesses reported the first drop in output prices since January, which was mainly linked to weak demand. Several firms commented that they offered discounts to try to maintain client sales during the lockdown.

At the same time, quarantine measures meant that deliveries were slower to arrive, highlighted by a second successive monthly increase in lead times. The rate of lengthening was the second-quickest seen in the series history, albeit only modest.

Despite ongoing problems from COVID-19 with activity falling sharply, businesses noted restored confidence towards future output in May. Firms broadly expect activity to rise in 12 months' time, attributed to efforts to grow their own company and improve market share, alongside hopes of a relaxation of emergency measures in the near future.



## Comment

Fáusio Mussá, Regional Economist at Standard Bank commented:

*"The relatively low number of Covid-19 infections in Mozambique towards the end of May does not necessarily mean that economic impact is also likely to be low. There is high uncertainty in terms of what level of daily cases will see the curve flatten in Mozambique.*

*"Medium-term growth economic scenarios published in the May edition of Standard Bank African Markets Revealed shows further deceleration of real GDP growth in 2020. The Bull scenario sees real GDP growth easing from 2.2% in 2019 to 1.1% this year. It gets into recessions of 0.9% and 2.5% for the Base and Bear scenarios in 2020, with the recovery from 2021 onwards supported by LNG investment. Discussions towards an IMF program are likely to progress by year end, which brings hope for the much-needed progress on governance and structural reforms.*

*"Globally, many countries are already past the peak number of daily Covid-19 infections, even if the number of daily infections remain elevated. As a result, most governments started to ease social distancing measures as they prepare their economies to go back to business. In this scenario it's possible that Mozambique moves towards a lighter level of social distancing. Still, the country is likely to experience a sharp decline in economic activity."*

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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.

May data were collected 12-26 May 2020.

For further information on the PMI survey methodology, please contact [economics@ihsmarkit.com](mailto: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.

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### About IHS Markit

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