

Standard Bank Mozambique PMI™

New order growth subdued but output expectations strengthen

Key findings

New orders rise at joint-softest rate for 19 months

Employment growth at 30-month high

Sentiment improves to strongest in two years

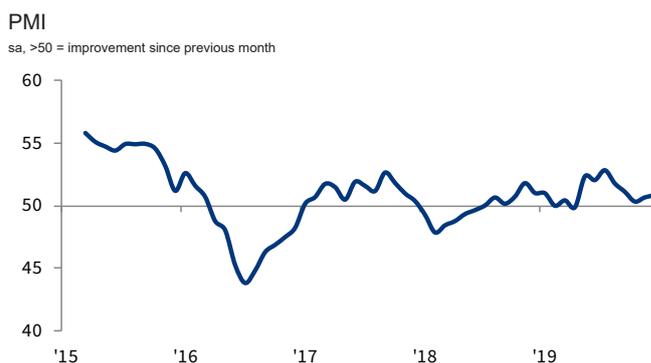
Mozambican private sector firms recorded another mild improvement to business conditions in December, mainly due to a subdued increase in new orders. However, employment growth strengthened to a 30-month high as hopes for greater business activity in the coming year were the most upbeat since the end of 2017.

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.

Posting at 50.8 in December, the headline index was little-changed from 50.7 in November and indicated another marginal improvement in the health of the Mozambican private sector. The reading was the highest recorded for three months, and in line with the series average.

Slightly stronger gains in business activity and jobs in December were mostly offset by weaker new business and inventory growth, as well as faster supplier delivery times.

New business received by Mozambican firms rose at the joint-slowest rate in the current 19-month run of expansion. This was mainly linked to lower client turnout, though new projects at some surveyed companies helped sales to grow overall.



Sources: Standard Bank, IHS Markit.

Despite the relatively weak uplift in new orders, output expectations over the coming year were at their highest since December 2017. More than two-thirds of respondents expect activity to increase, relating this to new projects and company investment.

As such, employment continued to rise at a solid rate in December, as businesses prepared for expected sales growth. The pace at which workforces expanded was the sharpest for two-and-a-half years. Subsequently, outstanding work dropped for the sixth month in a row.

Meanwhile, purchasing activity increased only modestly, with panellists commenting on efforts to limit inventory growth. Stocks of inputs thus grew to the least extent since June. This also helped vendors to shorten delivery times at the quickest pace for eight months.

Greater hiring activity led to a sharp mark-up in staff costs at the end of the year. Nevertheless, relatively subdued demand for inputs meant that purchase prices rose only modestly. Overall input cost inflation was broadly unchanged.

At the same time, selling prices were reduced for the third consecutive month, and at the fastest rate on record. Firms related the price drop to efforts to boost client demand.



Comment

Fáusio Mussá, Regional Economist at Standard Bank commented:

"Subdued economic activity characterized the Mozambican economy during 2019. Our forecasts published in the September 2019 edition of the African Markets Revealed (AMR) sees Gross Domestic Product (GDP) bottoming at 2.5% y/y, well below the population growth estimated at around 3% y/y, before accelerating to 3.7% y/y in 2020, boosted by the expected ramp up in liquified natural gas (LNG) investment.

"Security challenges in certain locations of the Centre and Northern regions of Mozambique remain a risk to the 2020 growth forecasts that should not be ignored. It also brings additional fiscal challenges that could ease the pace of monetary policy rate cuts. At last December MPC meeting, Central Bank kept the MIMO policy rate on hold at 12.75%, after the June and August cuts totalling 150 basis points (bps) for the year. Commercial banks average prime lending rate fell by 220 bps during 2019 to 18%, still elevated in real terms. Price pressures remained muted in 2019 with latest inflation data reported to November printing at 2.6% y/y, close to our year end forecast of 2.7% y/y with our year end forecast for 2020 at 5.8% y/y.

"The USD/MZN closed 2019 at 61.5, similar to the year end figure for 2018, with the 12-month average at 62.5, reverting the upward pressure experienced since mid-September when the pair was heading towards the 65.0 mark. Subdued export performance created liquidity pressures in the foreign exchange (FX) market which seem to have eased by a combination of FX inflows and intense regulatory changes."

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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.

December data were collected 5-18 December 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.

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Standard Bank is established in Mozambique since 1894, actively participating in the development of the country by financing the national economy and placing its vast expertise in the areas of energy, infrastructure and mineral resources available to the national business community and in attracting foreign investment.

Over the past five years, Standard Bank has invested more than US 200 million in credit lines for infrastructure projects for the transport of coal, storage of liquid fuels, expansion and construction of airports and roads, as well as projects in the areas of telecommunications and mineral resources.

Standard Bank is a solid and profitable bank with branches in all of the country's provinces and a wide range of products and services for large, small and medium-sized businesses and individuals. The bank reverts part of its profits to the communities where it is inserted, through the implementation of social projects in the areas of health, education and sports.

Member of the Standard Bank Group, the largest African bank in terms of geographic dispersion, results and assets, with presence in 20 countries on the African continent, as well as 6 global financial centres, Standard Bank Mozambique has the financial and human resources to serve and connect clients throughout world.

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