

Standard Bank Mozambique PMI™

Growth strengthens to highest since November 2015 in July

Key findings

Output and new order growth at 21-month highs

Selling prices driven up at solid pace

Future sentiment weakens to near three-year low

The start of the third quarter of the year saw output growth accelerate at Mozambican businesses, driven by the sharpest rise in new orders since October 2017. Employment also increased, albeit modestly. Despite the improvement, businesses were relatively downbeat around future output.

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 latest reading suggested a solid improvement in the private sector economy, following two similarly strong months of growth in May and June. Moreover, July saw the PMI reach its highest since November 2015, as growth of both output and new orders sharpened.

The rise in new business was the fastest for 21 months, as Mozambican companies noted higher sales arising from new contracts and shop openings. An improvement in weather conditions also helped to raise demand at the start of the third quarter.

With new business rising markedly, private sector firms grew output at an accelerated pace in July, with the respective seasonally adjusted index posting the highest reading since October 2017. In addition, activity has now risen in each of the past 12 months.

PMI

sa, >50 = improvement since previous month



Sources: Standard Bank, IHS Markit.

Employment also increased, albeit at a modest pace that was slightly softer than in the previous two months. With faster demand growth, firms reportedly looked to expand capacity levels through greater hiring activity. That said, some respondents reduced staff during the month, citing low productivity. As with recent months, backlogs were little-changed.

Purchasing activity was also up sharply in July, with firms raising input buying at the strongest rate in the year-to-date. This allowed them to grow inventories modestly. Despite greater strain on vendors, lead times shortened for the second month running and at a faster rate than in June.

Relief from a brief drop in purchase prices in June ended in July, as higher input demand and a slight deterioration in local exchange rates led to a modest increase in purchasing costs. Staff costs also rose, albeit slightly.

Coupled with stronger demand in the private sector, inflated input costs led companies to raise selling prices at a solid rate. Moreover, the rate of inflation was the quickest recorded since March 2018.

Despite the strong improvement in business conditions, panellists displayed relatively subdued expectations for future activity. The level of optimism was the least marked for 32 months, albeit still giving an overall positive outlook due to plans for new branch openings and advertising strategies.



Comment

Fáusio Mussá, Regional Economist at Standard Bank commented:

"Following a sub-optimal performance during the first half of 2019, negatively marked by the two cyclones that hit Mozambique, a number of positive events point to an improvement in sentiment that could lead to a marginal improvement in business activity in the second half of the year. Having said that, we only expect the GDP growth to reverse the deceleration trend from 2020 onwards. We refer to the positive impacts of the Area-1 liquified natural gas (LNG) project USD25bn final investment decision (FID) recently announced and the demilitarization, demobilization and reintegration (DDR) process launched this week with the registration of the first 50 out of a total of 5221 Renamo ex-fighters. The parliament's recent approval of an amnesty Law should also facilitate the signature of a final peace agreement with Renamo and promote national reconciliation, ahead of the next general elections planned for October.

"Consistent with subdued aggregate demand and a relatively stable foreign exchange (FX) rate, we have seen inflation posting well below projected levels. June headline inflation at 2.3% y/y and the 12-m average of 3.8% y/y suggests that there is enough room for another policy rate cut at next Monetary Policy Committee (MPC) meeting scheduled for the 14th August. At the last MPC meeting held in June, policy reference interest rates were cut by 100bps, lowering the main policy rate, MIMO, to 13.25%."

Contact

Standard Bank

Regional Economist
Fáusio Mussá
T: +258 215 01 012
fausio.mussa@standardbank.co.mz

Public Relations & Communication
Inercio Pene
T: +258 843 124 994
inercio.pene@standardbank.co.mz

IHS Markit

David Owen
Economist
T: +44-2070-646-237
david.owen@ihsmarkit.com

Joanna Vickers
Corporate Communications
T: +44-207-260-2234
joanna.vickers@ihsmarkit.com

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.

July 2019 data were collected 12-26 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.

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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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