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Stanbic Bank Zambia PMI™

Sharpest fall in new orders for three-and-a-half years

Key findings

Output and new orders decline at faster rates

Currency weakness leads to strongest cost inflation for 29 months

Modest reduction in employment

Recent currency weakness added to already fragile demand in the Zambian private sector, resulting in a marked deterioration in business conditions in May. Output and new orders declined sharply, while employment was also reduced. The rate of input cost inflation quickened to the fastest in almost two-and-a-half years, with output prices up sharply as a result.

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 PMI dropped for the third month running in May, posting 43.9 from 45.2 in April. The latest reading signalled a marked deterioration in business conditions in the Zambian private sector, and one that was the steepest since October last year.

The Zambian private sector faced twin headwinds in May. Firstly, ongoing demand weakness, customer shortages and a lack of money resulted in a further sharp decline in new orders. The reduction was the fastest in three-and-a-half years.

Exacerbating already fragile demand, the weakness of the Zambian kwacha against the US dollar acted to push up inflation across the private sector. The rate of purchase price inflation quickened to a 28-month high on the back of currency weakness, with panellists often

PMI

sa, >50 = improvement since previous month



Sources: Stanbic Bank, IHS Markit.

passing on higher input prices to customers in the form of increased selling prices. The rate of output price inflation also accelerated sharply, reaching a 42-month high.

A lack of new business and currency weakness led to a third successive monthly fall in business activity in May. Moreover, the rate of contraction was the most marked since October 2018.

Zambian companies lowered their employment levels for the fourth time in the past five months, responding to reduced workloads. The rate of job cuts was modest, but the strongest since January 2017.

Purchasing activity was also scaled back midway through the second quarter of the year. Input buying decreased at a steep pace, and one that was the sharpest since September 2016. Linked to this, inventories fell in May.

Supplier performance was broadly unchanged in May, with the latest improvement in delivery times the weakest in 18 months. While some panellists reported that suppliers continued to deliver promptly, others mentioned issues with transportation and price rises.

Business confidence ticked up from April's six-month low, but remained below the series average. Optimism regarding the 12-month outlook was often built on hopes that the exchange rate will stabilise.

Comment

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

"With the rate of output price inflation accelerating sharply to reach a 42-month high, it is no surprise that YoY inflation in May also rose to 8.1%, the highest rate in seven months."

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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.

May 2019 data were collected 13-24 May 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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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 capitalized 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>

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