News Release

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IHS MARKIT SOUTH AFRICA PMI®

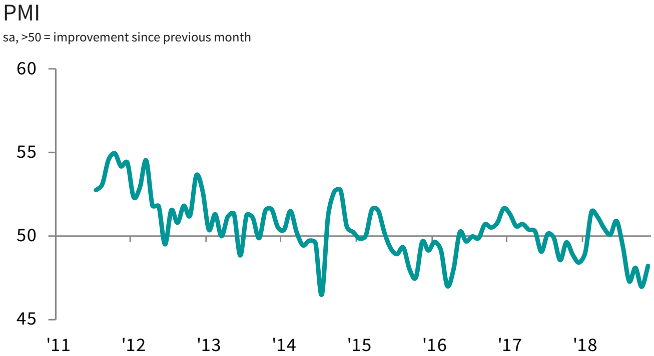
Softer deterioration in business conditions in November

KEY FINDINGS

Weaker drops in output and new orders

Input cost inflation softens

Inventories decline at quickest rate in 52 months



South Africa's private sector saw another decline in operating conditions in November, albeit one that was the softest in four months. New orders contracted at a modest pace, while the decrease in output was weaker than in October. Firms strongly curtailed purchases, leading to the greatest drop in inventories in 52 months. Input costs grew at a much softer pace, allowing firms to pull back on selling price inflation.

The headline South Africa PMI® is a composite single-figure indicator of private sector business performance. It is derived from indicators for new orders, output, employment, suppliers' delivery times and stocks of purchases. Any figure greater than 50.0 indicates overall improvement of the sector.

The PMI rose from 46.9 in October to 48.2 in November, signalling a slower deterioration in the health of South Africa's private sector. The latest reading was the highest in four months, albeit still in contractionary territory as has been the case since July.

New business at private sector firms fell modestly in November, indicating the softest decline in sales in four months. Firms found that challenging economic conditions continued to weigh on demand. In particular, the downturn accelerated the decline in export orders to the joint-fastest rate in 18 months.

Output dropped solidly in November, albeit at a weaker rate than in October. However, considering October marked a 51-month low, the latest survey data represented another substantive deterioration in the private sector economy.

Input purchases continued to fall sharply in November, in line with the slowdown in sales. Consequently, stock levels declined at the strongest rate since July 2014.

Employment was held steady at South African firms in November. The jobs market has seen little change in the last few months. Meanwhile, backlogs of work fell as companies found they were able to clear any outstanding business during the current downturn in sales.

Softer mark-ups in input and output prices were seen in November. Following a three-month trend of sharper input price inflation, overall costs rose at a markedly reduced pace in the latest survey period. While some firms were still affected by the increase in fuel prices and the weaker value of the rand, this was less impactful than in previous months. As a result, selling charges grew at only a moderate rate.

Looking ahead, the level of confidence at South African private sector firms towards future output dipped slightly in November. The latest survey data continued the trend of weakened sentiment seen over the past few years. Overall though, companies were positive about the future, with many expecting business activity to expand in the new year through a return to wider economic growth.

COMMENT

David Owen, Economist at IHS Markit, which compiles the South Africa PMI survey, commented:

"South African firms will be glad to see the recent decline in activity soften in November, even if this was the fifth successive month where the PMI was below 50.0. Nevertheless, the current trend still suggests flat annual GDP growth in Q4.

"Importantly, input prices rose at a far slower pace in November. This will ease worries of stronger inflation and hence a further up-tick in interest rates.

"Lastly, firms remained hopeful that the economy will pick up in the New Year. Although, with stock levels falling at the fastest rate in over four years, they may find themselves unable to fulfil any upsurge in orders."

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Methodology

The IHS Markit South Africa 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.

November 2018 data were collected 12-28 November 2018.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

About IHS Markit

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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.