

IHS Markit South Africa PMI™

PMI slips to four-month low

Key findings

Output declines at quickest pace in a year

New orders fall at slower rate

Cost pressures rise to strongest since June

The latest PMI data signalled a further deterioration in private sector business conditions in South Africa, as output fell solidly amid a further, albeit softer, decline in new orders. Companies subsequently reduced labour requirements and stocks, as input cost inflation accelerated to a five-month high. This was passed onto consumers through a modest uptick in selling prices.

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 an overall improvement in the sector.

At 48.6, down from 49.4 in October, the headline PMI signalled a deterioration in the health of the private sector for the seventh successive month in November. In addition, the rate of decline was the sharpest since July.

South African firms highlighted continued downwards pressure on business activity during the month, as the volume of incoming orders dropped slightly from October. Businesses commonly linked the downturn to softer demand amid poor economic and political sentiment. On the other hand, new orders from foreign customers fell only marginally.

With demand remaining weak, companies initiated a solid cut-back in output levels in November, which followed only a modest reduction at the start of the fourth quarter. In fact, the rate of decline was the fastest seen for a year, partly due to some respondents reporting a lack of money and raw materials.

The solid contraction in output led several businesses to reduce staffing numbers and lower stock levels. Notably, input holdings contracted at the joint-fastest pace since March. However, the reduction was only marginal overall.

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South Africa PMI

sa, >50 = improvement since previous month



Source: IHS Markit.

Comment

Commenting on the latest survey results, David Owen, Economist at IHS Markit, said:

"The South Africa PMI slid further into contraction territory in November, posting 48.6, the second-lowest reading in 12 months. Most notably, firms cut output at the quickest rate in a year, despite demand slowing only marginally. As a result, both employment and input stocks decreased, with companies signalling little expectation of an immediate boost to the domestic economy."

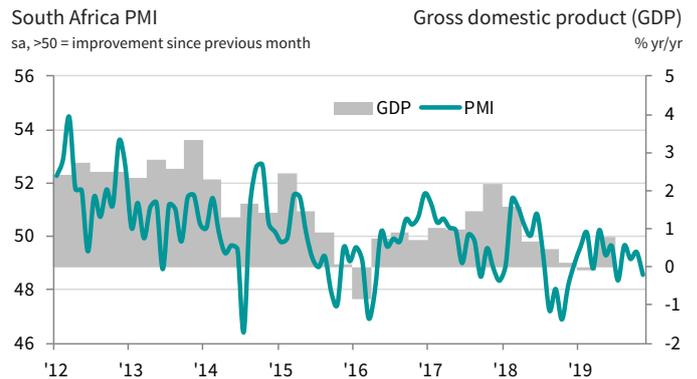
"That said, overall sentiment for the coming 12 months remained positive and above the average for 2019. With a number of issues facing the country, firms generally placed their optimism upon company-led investment rather than stronger national growth."

Despite lower demand for inputs, delivery times were broadly unchanged. This was due to some businesses finding that shortages of raw materials led to delayed deliveries.

On the price front, a stronger rise in purchasing costs meant that overall input price inflation accelerated to a five-month high in November. Increased prices for fuel and metals, as well as a weaker rand value, were all mentioned as factors leading to the uptick. Staffing costs meanwhile rose marginally.

As such, output charges were raised again during the month. However, the rate of inflation was modest and slightly softer than in October.

Finally, the outlook among South African companies was broadly unchanged in November, posting a degree of optimism that was stronger than the average for 2019-to-date but weaker than the series average (since April 2012). Despite activity falling in each of the past seven months, many firms were hopeful that the trend would improve in the coming year. Larger projects, new products and increased marketing were all noted as key factors by panellists with a positive outlook.



Sources: IHS Markit, Stats SA

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Survey 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.

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

Survey dates and history

November data were collected 12-27 November 2019.

Survey data were first collected July 2011.

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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.