Solid output growth continues in June

Key findings

- Activity rises at solid rate
- New order growth strong, but weakens slightly
- Purchase prices lower for first time in over a year

Business conditions improved again in June, as Mozambican firms reported another solid rise in new business. Output and employment also increased at relatively marked rates.

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 headline index dropped from 52.3 in May to 52.0 in June, signalling a moderate improvement in operating conditions in Mozambique’s private sector economy. Despite weakening slightly, the PMI pointed to the second-strongest expansion for 21 months.

Activity levels continued to increase at the end of the second quarter. The rate of growth was solid, and broadly in line with May’s six-month high. Firms often reported raising output due to further sales activity and improving weather conditions.

Similarly, total new orders at Mozambican firms increased solidly during June. While the pace of expansion was below May’s recent peak, it was still historically strong. Panellists partly attributed the rise in new work to improvements in their client base.

In addition, firms mentioned that hiring activity helped them to boost their sales during the month. Overall, employment in the private sector increased modestly, with the rate of expansion unchanged from May. This extended the current run of growth to six months.

Increasing workforce numbers allowed companies to keep on top of their backlogs. The level of outstanding business was unchanged over the course of the month, which was broadly in line with the trend seen throughout the second quarter.

Mozambican firms meanwhile raised their input purchases at an accelerated pace. Following a drop in stock levels in April and May, panellists looked to maintain their inventories whilst new order growth remained solid.

Companies also looked to take advantage of falling purchasing costs by raising input buying. Pricing data signalled that suppliers reduced their fees for the first time in 13 months, following only a marginal increase during May.

Overall input prices rose in June, despite the drop in purchasing costs. Data signalled that higher overall cost burdens reflected a mark-up in salaries. That said, staff costs increased at the softest rate in eight months.

Expectations for future output were broadly in line with those seen in May, and below the series average. However, no respondents held a negative outlook for activity, while around 46% predict output to rise over the coming year.
Comment

Fáusio Mussá, Regional Economist at Standard Bank commented:

"As expected, the Area-1 natural gas project final investment decision (FID) announced on the 19 June by Anadarko considerably improved the medium-term outlook for the Mozambican economy. We see the local currency shifting into an appreciating bias, which may persist in 2020. This also takes into account the current overall subdued aggregate demand, evidenced by a dip in GDP growth which reached a low of 2.5% y/y during Q1:19 as published by the National Statistics Institute, from an upward revised annual GDP growth rate of 3.4% y/y during 2018.

"With the post cyclone inflation behavior, and the improved foreign exchange outlook, we have updated our inflation forecasts to 6.2% y/y for 2019 and 5.8% y/y for 2020. As a result, we have also lowered the 12-month moving average inflation forecasts to 3.7% y/y this year and 6.7% y/y next year.

"Following a 6 month pause, Banco de Moçambique (BOM) Monetary Policy Committee (MPC) resumed policy rate cuts at their last MPC meeting held last 19 June when they decided to bring down policy reference interest rates by 100bps, lowering the main policy rate, MIMO, to the level of 13.25%. We see more interest rate cuts to follow to bring down real interest rates, which remain elevated."

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.

June 2019 data were collected 12-25 June 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.

About Standard Bank

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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