

IHS MARKIT SOUTH AFRICA PMI®

PMI edges closer to stabilisation at start of 2019

KEY FINDINGS

Softest falls in output and new orders in seven months

Export orders grow for first time in 16 months

Selling prices rise modestly

Business conditions in South Africa's private sector economy deteriorated only slightly at the beginning of 2019. The rate of decline was the weakest in the current seven-month period of contraction, as output and new orders fell marginally. Meanwhile, new export orders increased for the first time since September 2017, and employment rose for the second month running. Output price inflation remained relatively cool, while sentiment ticked up to the highest in nine months.

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 of the sector.

The headline PMI rose to 49.6 in January, from 49.0 in December, to record its highest reading since June 2018 when business conditions last improved. Nevertheless, this still indicated a slight deterioration in conditions, driven by falls in output and new orders.

Activity at South African firms declined marginally in January, with firms pointing to weak demand at the start of the year. That said, along with the PMI, the Output Index was at its highest in seven months, and signalled the third consecutive softening in the recent deterioration.

New orders also fell at a weakened rate in January. This was partly due to the first increase in foreign demand in 16 months, albeit marginal overall. Agricultural products were

PMI

sa, >50 = improvement since previous month



among those attracting higher export orders.

This led South African businesses to raise employment for the second month in a row, although the rate of expansion was fractional. Backlogs were reduced after a slight rise in December. In fact, the rate of decrease was the most marked in 13 months. In addition, vendor performance improved for the second successive month.

Output prices charged by South African private sector firms increased modestly in January. The rate at which prices rose was quicker than in December but softer than on average during 2018.

This came amid a similarly soft rate of input price inflation in January, compared to the survey history. Of the companies that reported higher costs, some mentioned increased taxes and raw material prices as key factors. At the same time, wages rose solidly and at a much faster rate than in December.

Looking ahead, firms remained upbeat when predicting future output levels. The degree of optimism edged up to the highest in nine months. Anecdotal evidence pointed to a host of factors, including the expectation that sales will rebound quickly in the coming months. Firms also highlighted that political and economic reforms should impact positively on output in the future.

COMMENT

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

"There were positive signals for South African businesses at the start of the year, with the PMI edging close to stabilisation and export orders growing for the first time since late-2017. With price inflation also remaining cool, the survey reflected a more settled economy than last year. This points towards a modest recovery in the private sector during 2019, as indicated by IHS Markit's forecast of 1.4% annual GDP growth."

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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.

January 2019 data were collected 11-29 January 2019.

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

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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.