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IHS Markit South Africa PMI®

Output slumps amid Omicron wave, but companies remain upbeat

Key findings

Output and new orders fall sharply as COVID-19 cases spike

Input price inflation remains marked

Firms predict recovery in output over 2022

Data were collected 6-21 December 2021.

South African companies saw a renewed downturn in activity during December, latest PMI data showed, as concerns about the rapid increase in COVID-19 cases from the Omicron variant and tightened travel measures hit overall demand. Supply chains were also affected, while higher prices for a number of inputs continued to drive costs up sharply.

Nevertheless, firms were largely optimistic that the economy would recover from the latest wave, contributing to a strong 12-month outlook and fairly stable job numbers.

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.

The headline PMI returned to sub-50.0 territory in December, registering 48.4 from 51.7 in November. The index signalled a modest decline in business conditions that was broadly comparable with the strike-hit period in October.

Activity levels fell at a sharp pace at the end of the year, which businesses largely attributed to a renewed decline in sales. In the wake of a sharp rise in COVID-19 cases linked to the Omicron variant, firms noted that clients were less willing to spend and that international travel restrictions had weakened tourism.

That said, whilst the overall fall in output was the fastest in five months, it was notably much softer than those recorded in July and the middle of 2020 when strict domestic COVID-19 measures were applied. Similarly, new orders fell sharply but at a slower rate than in those periods.

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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:

"Despite the government's decision to keep COVID-19 measures at Level 1, business activity in South Africa fell sharply in response to the Omicron wave during December. Firms were hit by a loss of consumer confidence and renewed travel restrictions from around the world to try and contain the virus's spread.

"However, in comparison to previous waves in South Africa, the latest downturn in activity was relatively subdued, showing that looser measures had helped the economy to grow more resilient to the pandemic. Moreover, confidence regarding future output remained strong and above the series trend, as firms stated that they expect activity to recover quickly as case numbers decrease and vaccine uptake rises.

"That said, high inflationary pressures will continue to impact businesses at the start of 2022. Supply disruptions also remain, including at local ports and on shipping routes, which is stopping some firms from restocking their inventories."

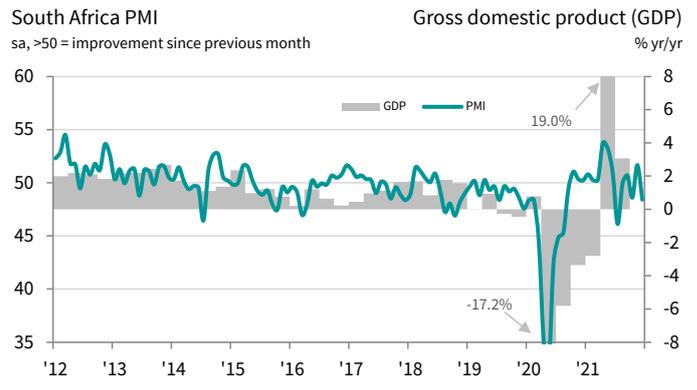
Moreover, a number of panellists stated that they expect disruption from the Omicron wave to be short-lived. As a result, despite slipping to a four-month low, the outlook for future activity remained strong and above the series trend. Job numbers were also largely unaffected, with survey data signalling only a fractional drop in employment that was often linked to retirements and people leaving for other jobs.

With staff numbers fairly stable, South African firms were able to lower their outstanding business in December. Backlogs fell for the first time in ten months and at the quickest rate since September 2020.

There was however a much stronger decrease in purchasing activity, as companies looked to reduce their spending in the face of steep inflationary pressures. With purchasing down, and delivery times continuing to lengthen sharply due to shipping delays and disruption at ports, input inventories contracted for the sixth month running.

Prices for a number of inputs continued to rise, including steel, aluminium, fuel and transport, which led to another marked increase in overall costs. Notably though, the pace of inflation softened from November's recent peak in part due to a weaker rise in workers' salaries.

Higher purchasing costs were largely passed through to customers as latest data signalled a sharp uptick in selling charges. The rate of inflation also slowed from the previous month, but was still quicker than the 2021 average.



Contact

David Owen
Economist
IHS Markit
T: +44 1491 461 002
david.owen@ihsmarkit.com

Joanna Vickers
Corporate Communications
IHS Markit
T: +44 2072 602 234
joanna.vickers@ihsmarkit.com

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

December data were collected 6-21 December 2021.

Survey data were first collected in 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.

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