HSBC Purchasing Managers' Index™ Press Release

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compiled by markit

HSBC South Africa PMI™

PMI drops to three-month low as output declines

Summary

South Africa's private sector edged closer to stagnation in May, as highlighted by the seasonally adjusted HSBC PMI falling from April's 51.5 to 50.1. The latest index reading was the lowest in three months.

The PMI is a composite index, calculated as a weighted average of five individual sub-components: New Orders (30%), Output (25%), Employment (20%), Suppliers' Delivery Times (15%) and Stocks of Purchases (10%). Readings above 50.0 signal an improvement in business conditions on the previous month, while readings below 50.0 show a deterioration.

The main downward contribution to the headline PMI came from a decline in output. Companies reported the first fall in activity since January and commented on power outages and a lack of demand. The overall rate of contraction was only slight overall.

In contrast to falling output, South African private sector companies signalled a third successive monthly rise in new business in May. The pace of expansion slowed marginally since April and was modest overall. The rise in new orders was driven by stronger domestic demand, as new export work declined at the strongest rate in ten months. Some panellists linked the drop in foreign demand to increased prices.

With output falling in May, there was little appetite for companies to add to their payrolls. Consequently, employment levels in the sector fell for the first time in three months. However, the rate of job shedding was only marginal. Meanwhile, backlogs of work fell further during the month, signalling some spare capacity at companies.

Input prices continued to increase in May, with the rate of cost inflation the strongest since March 2014. Higher purchase prices were linked by panellists to exchange rate factors and increased fuel costs, while salary adjustments accounted for much of the latest rise in staff costs. In response to higher input costs, companies raised their charges in May.

With new orders rising further, firms increased their purchasing activity in May. The pace of expansion slowed slightly since April. However, stocks of purchases declined during the month as companies deliberately tried to reduce inventory holdings.

Finally, suppliers' delivery times lengthened for the first time in three months, albeit only marginally overall.

Comment

Commenting on the South Africa PMI™ survey, Oliver Kolodseike, Economist at Markit, said:

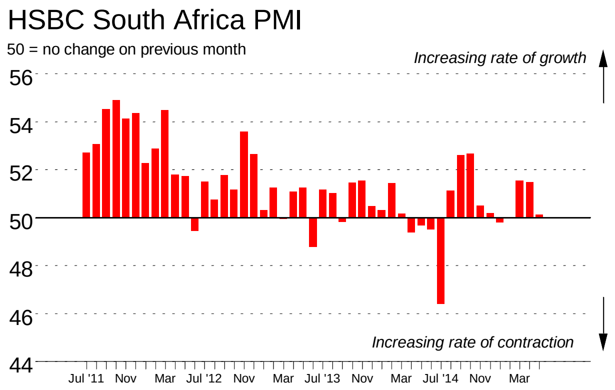
"May's survey results paint a worrying picture of the health of South Africa's private sector economy. While the headline PMI remained fractionally above the important 50.0 mark, companies reported the first decline in output since the beginning of the year. Survey respondents partly blamed ongoing power outages for the drop in activity. Another worry is the substantial decline in new export orders, which decreased at the second-strongest rate in the survey's history despite the relatively weak rand.

"On a more positive note, total new business placed with South African private sector firms rose further in May, despite the sharpest increase in input prices in over a year. Companies reported that exchange rate factors and rising fuel prices had pushed cost inflation higher."

Key points

- New orders rise further but output falls
- Employment levels decline for first time in three months
- Rate of cost inflation hits 14-month high

Historical Overview



Sources: Markit, HSBC.

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Notes to Editors:

The HSBC South Africa PMI is based on data compiled from monthly replies to questionnaires sent to purchasing executives in approximately 400 private sector companies, which have been carefully selected to accurately represent the true structure of the South African economy, including manufacturing, mining, services, construction and retail. The panel is stratified by Standard Industrial Classification (SIC) group, based on industry contribution to GDP. Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'.

The *Purchasing Managers' Index™ (PMI™)* is a composite index based on five of the individual indexes with the following weights: New Orders - 0.3, Output - 0.25, Employment - 0.2, Suppliers' Delivery Times - 0.15, Stock of Items Purchased - 0.1, with the Delivery Times index inverted so that it moves in a comparable direction.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from Markit. Please contact economics@markit.com.

HSBC:

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Listed on the London, Hong Kong, New York, Paris and Bermuda stock exchanges, shares in HSBC Holdings plc are held by about 216,000 in 129 countries and territories.

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About PMI:

Purchasing Managers' Index™ (PMI™) surveys are now available for over 30 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 www.markit.com/economics