

News Release

Purchasing Managers' Index[™]
MARKET SENSITIVE INFORMATION
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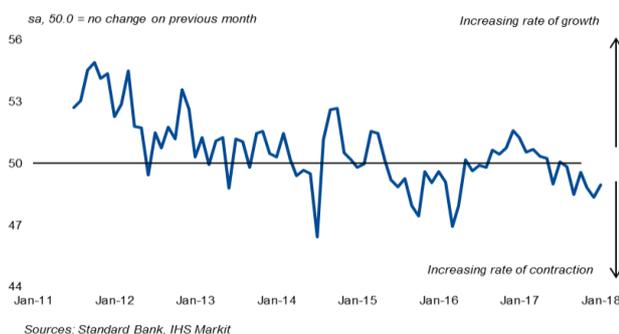
Standard Bank South Africa PMI[®]

South African private sector remains in contraction territory

Data collected January 12-29

- PMI registers 49.0 in January
- Output, new orders and exports all continue to fall
- Employment increases for the first time in three months

Standard Bank South Africa PMI



The latest PMI data from Standard Bank and IHS Markit indicated a continuation of the recent spell of deteriorating business conditions in South Africa. Business activity in the private sector decreased further amid lower client demand. Firms also continued to struggle to win new business, with new orders falling from domestic as well as foreign clients. As a result, purchasing activity contracted. However, employment rose for the first time in three months as companies enrolled more people into training schemes. On the price front, inflationary pressures eased compared to the end of 2017.

The headline Standard Bank PMI is a composite single-figure indicator of changes in private sector business conditions. It is derived from indicators for new orders, output, employment, suppliers' delivery times and stocks of purchases. Any figure greater than 50.0 indicates overall improvement in conditions.

The seasonally adjusted headline PMI rose to 49.0 in January, up from 48.4 at the end of 2017, signalling a further (albeit slower) deterioration in the health of the private sector. The headline PMI has now recorded below the 50.0 no-change mark for six successive months.

Commenting on January's survey findings, Thanda Sithole Economist at Standard Bank said:

"The private sector PMI for January 2018 indicated that domestic business conditions continued to deteriorate albeit at a slower rate posting a reading of 49.0 from 48.4 in December. This is still lower than both the 51.3 posted in January 2017 (which was a fall from an expansionary territory whereas the latest print is an uptick from a contractionary territory) and the 49.8 average for 2017.

In our view, the uptick in the private sector PMI toward the 50-point mark is in itself a positive signal and we expect continued uptick over the coming months premised on improved economic optimism following the improving domestic political backdrop and some government intervention to restoring good governance in State Owned Entities (SOEs). This combined with pent-up demand should underpin a reasonable economic recovery, although the upside is constrained by structural impediments.

The January PMI data indicated that most sub-indices remained below the 50-point mark separating expansion from contraction with the exception of the employment sub-index which edged to 50.7 after remaining below 50 for three successive months. This was partly on the back of more people being enrolled into training schemes."

The main findings of the January survey were as follows:

Output fell for the tenth month in succession, contributing to the deterioration in business conditions. Although the rate of contraction softened from the previous month, it remained solid. The fall was linked to lower underlying demand amid fragile economic conditions.

Amid reports of weak client demand, new business declined for the sixth month running. Furthermore, the rate at which new orders reduced quickened from December. This led purchasing activity to contract as firms waited for new projects and work.

Work-in-hand began to accumulate in January, as backlogs increased for the first time in eight months.

The beginning of the year saw employment rise for the first time in three months. According to panel members,

part of the reason for the increase was the expansion of people brought onto certain training schemes.

Cost inflationary pressures continued in January, with purchase prices and staff pay increasing. However, the rate of total input price inflation was modest, having eased from the previous survey period.

Higher cost burdens led firms to increase their average selling prices again in January. That said, the rate of growth was only marginal, with data suggesting that firms partially absorbed higher input costs.

.-Ends-

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Note to Editors:

The Standard Bank South Africa Purchasing Managers' Index™ 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 mining, manufacturing, services, construction and retail. The panel is stratified by GDP and company workforce size. 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.

IHS 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 IHS Markit. Please contact economics@ihsmarkit.com.

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