HSBC South Africa PMI™

Fractional improvement of operating conditions recorded in January

Summary

The seasonally adjusted HSBC South Africa Purchasing Managers' Index™ (PMI) fell from 50.5 in December, to 50.3 in January, signalling a further improvement in operating conditions at private sector firms. However, the pace of expansion was only marginal and the weakest in the current four-month sequence of growth.

South African private sector firms' output was unchanged in January. A similar pattern was evident in new orders, which rose only fractionally and at a pace that was considerably weaker than the series average.

Weak growth of new orders was in part a result of a deterioration in demand from abroad, as new export orders declined for a second consecutive month in January.

Employment at South African private sector companies also contracted at a marginal pace in January, following a three-month sequence of expansion. Panellists cited increased efforts to control costs and natural turnover in the form of retirements as contributory factors behind the January fall in workforce numbers.

In line with the contraction in employment, backlogs of work also declined slightly in January, following a period of stabilisation in December. A number of firms attributed the latest increase in outstanding business to improvements in efficiency at their units.

January saw prices charged at South African private sector firms rise at the sharpest pace since March 2013, continuing the charge inflation that has been evident in each survey period covered since data collection began in July 2011.

Input cost inflation also rose at the fastest pace in six months in January. At a more detailed level, purchase prices at South African companies rose at a sharper pace than in December, whereas staff cost inflation eased from the previous month.

Comment

Commenting on the South Africa PMI™ survey, David Faulkner, Economist at HSBC, said:

"The HSBC South Africa PMI remained marginally above 50.0 in January, signalling on-going expansion in the economy, albeit at a pedestrian pace. This month's readings illustrate that the economy faces an uncomfortable combination of weak growth and upside price pressures.

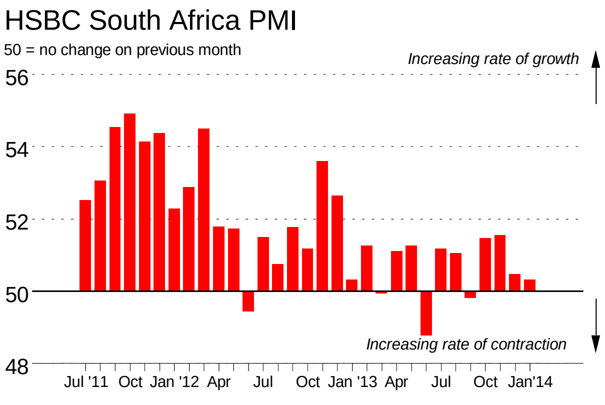
"The decline in the headline PMI to 50.3 highlights the fragility of economic activity at the beginning of 2014. Output and new orders were little changed, in part because external demand remains weak. New export orders contracted for a second consecutive month, tempering expectations that the weakening currency will immediately support higher export demand. Private sector job creation prospects are bleak with the employment sub-index contracting for the only the third time since July 2011. This is unsurprising in an environment of subdued output growth and new orders, and where labour and other input costs have been rising at a robust pace.

"Inflation risks were more apparent in January with input and output prices rising at a faster pace. The marked pick-up in the output price sub-index to a 10-month high provides an early indication of resurgent CPI inflation concerns, while renewed rand weakness and its impact on fuel prices is feeding into accelerating input prices."

Key points

- PMI remains only just above the 50.0 no-change threshold
- Output stagnates
- Employment contracts slightly

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.

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About PMI:

Purchasing Managers' Index™ (PMI™) surveys are now available for 32 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