

HSBC South Africa PMI™

Downturn in South Africa's private sector intensifies as PMI slumps to record low

Summary

This report contains the tenth public release of data collected from the new monthly survey of business conditions in the South African private sector. The survey, produced by Markit on behalf of HSBC, has been conducted since July 2011 and provides an early indication of operating conditions in South Africa. The headline figure derived from the survey is the Purchasing Managers' Index™ (PMI™).

South Africa's private sector fell deeper into contraction at the start of the third quarter, as highlighted by the seasonally adjusted headline PMI dropping from 49.5 in June to a record low of 46.4. Operating conditions have now deteriorated for four consecutive months.

The recent strikes in South Africa weighed heavily on demand in July, resulting in marked declines in both output and new orders. The respective rates of contraction accelerated to the sharpest in the 37-month series history. Consequently, firms lowered their purchasing activity, with nearly one-in-three survey participants indicating a decline in buying.

In line with the trend for total new orders, client demand from foreign markets also fell substantially on the month, with nearly one-third of the survey panel reporting a contraction.

With output and new orders falling sharply, companies lowered their workforce numbers in July, thereby ending a five-month sequence of employment growth. The rate of job shedding was the sharpest since data collection began in July 2011. Meanwhile, backlogs of work were depleted for a fifth successive month, albeit in July at the slowest pace in that sequence, with companies commenting on lower order intakes.

Overall input prices continued to increase during the month, but the rate of cost inflation eased to the weakest in one-and-a-half years. Purchase costs rose at the slowest pace since December 2013 while staff costs increased to the weakest degree on record. Nevertheless, companies continued to raise their charges in July, albeit to the weakest extent since November last year.

Concurrently, stocks of purchases held at South African private sector companies fell for a second month running in July and at the quickest pace in the series history.

As has been the case throughout most of the survey history, suppliers' delivery times lengthened during July.

Comment

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

"Following a period of stagnation in the preceding months, private sector economic activity in South Africa slumped during July, with the HSBC South Africa PMI falling to its lowest on record. This highlights the debilitating impact of the four-week metals and engineering strike, the hangover from the five-month platinum strike, and the indirect effects of labour unrest on other sectors in the economy."

"Demand indicators - output, new orders and new export orders - contracted at their fastest pace on record with at least 30% of surveyed companies identifying lower volumes in July. In an environment of falling demand, it is hardly surprising that employment contracted in July, which could place additional pressure on South Africa's current unemployment rate of 25.5%."

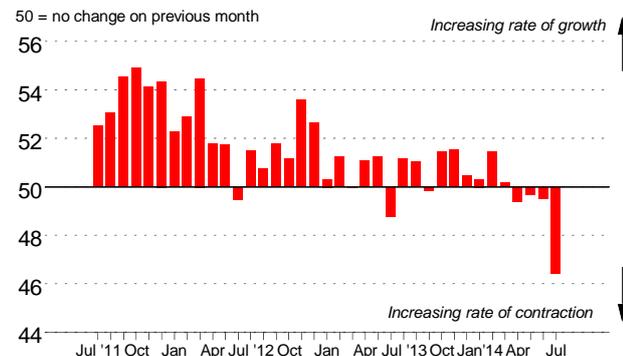
"The moderation in the pace of input and output price inflation suggests that price pressures in the economy, while elevated, are likely to ease slightly in the near-term, in line with the deceleration of PPI inflation over the past two months and CPI inflation stabilising at 6.6% in June."

Key points

- Metals strike weighs on demand, resulting in sharpest declines in output and new orders on record
- Companies reduce their workforce numbers to the greatest extent in series history
- Cost inflation eases slightly but remains elevated

Historical Overview

HSBC South Africa PMI



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

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