

Standard Bank South Africa PMI™ compiled by markit

South African business conditions improve further, but at weaker rate

Key findings:

- PMI remains above 50.0 for sixth month running, longest sequence in nearly three years
- Weaker growth of both output and new orders
- Output price inflation slows to survey-record low

This report contains the latest release of data collected from the monthly survey of business conditions in the South African private sector. The survey, sponsored by Standard Bank and produced by Markit, 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™).

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 Standard Bank South Africa PMI remained above 50.0 for the sixth month running in February, the longest sequence of positive readings in nearly three years and signalling an ongoing improvement in private sector operating conditions. That said, the PMI fell further from December's 21-month high of 51.6 to 50.5, indicative of only a slight improvement. The latest figure was below the long-run survey average of 50.8.

South African private sector output increased for the sixth successive month in February, the longest sequence of growth in nearly five years. That said, the rate of expansion eased and

was the slowest registered over the aforementioned period. In a sign of a lack of pressure on operating capacity, the volume of outstanding business was broadly unchanged since January.

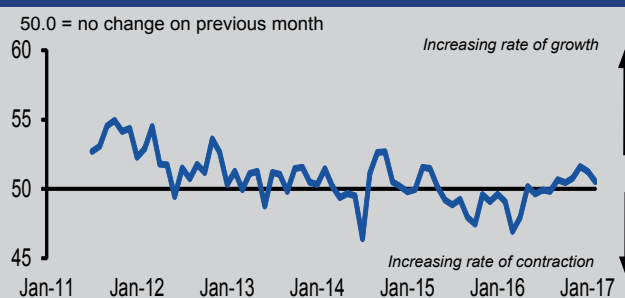
The volume of new business increased for the fourth month running in February. That said, the rate of growth slowed further from December's 21-month high, and was only marginal. New business volumes were weighed down to some extent by a further reduction in new export orders, which was partly linked to the recent strength of the rand.

Although growth of new business slowed during February, firms continued to expand their purchasing activity. Input stocks also increased, albeit at a marginal pace.

Private sector employment rose for the eighth month running in February, the longest period of job creation in nearly four years. The rate of workforce growth was modest, and broadly in line with the long-run survey average.

February data indicated a weakening in cost pressures. Overall input prices rose at a rate that almost matched the survey-record low set in February 2015. This reflected a series-record low rate of purchase price inflation linked to the strong rand, and a slower increase in labour costs. With muted cost pressures, firms raised their own prices at the weakest rate in the five-and-a-half-year survey history.

Standard Bank South Africa Purchasing Managers' Index™ (PMI™)



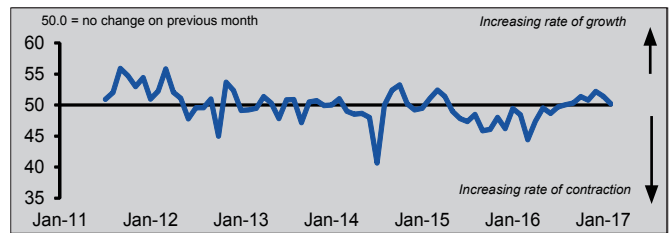
Purchasing Managers' Index			
		Unadj.	Seas. Adj.
2016	Dec	53.9	51.6
2017	Jan	46.7	51.3
	Feb	50.9	50.5

The Standard Bank South Africa Purchasing Managers' Index™ (PMI™) is a composite indicator designed to provide an overall view of activity in the South African economy. The indicator is derived from individual diffusion indices which measure changes in output, new orders, employment, suppliers' delivery times and stocks of goods purchased. A reading of the PMI below 50.0 indicates that the economy is generally declining; above 50.0, that it is generally expanding. A reading of 50.0 signals no change. The greater the divergence from 50.0, the greater the rate of change signalled by the index. Purchasing Managers' Index™ and PMI™ are either registered trade marks of Markit Economics Limited or licensed to Markit Economics Limited. Standard Bank use the above marks under licence. IHS Markit is a registered trade mark of IHS Markit Ltd.

Output Index

Q. Please compare your production/output this month with the situation one month ago.

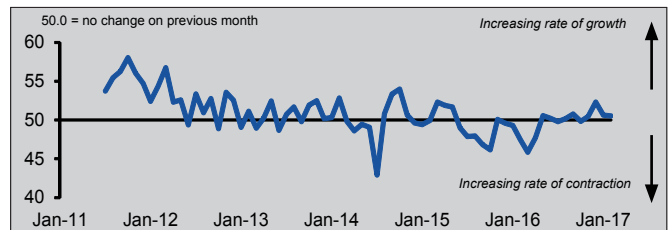
Private sector output in South Africa rose for the sixth consecutive month in February. This marked the longest sequence of growth in nearly five years. Higher activity was mainly linked to new orders. That said, the overall rate of expansion was only fractional and the slowest in the current sequence of growth, with only one-in-ten respondents reporting increases in output.



New Orders Index

Q. Please compare the level of new orders received this month with the situation of one month ago.

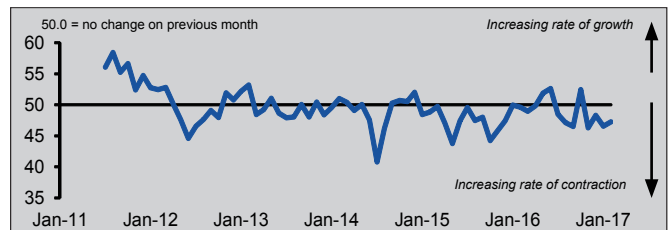
The volume of new business received by private sector firms in South Africa rose for the fourth month running in February. This was the longest period of continuous growth in over two years. A number of firms reported a pick-up in new business since the start of the year. The rate of expansion eased further from December's 21-month record, however, and was only fractional.



New Export Orders Index

Q. Please compare the level of new export orders received this month with the situation of one month ago.

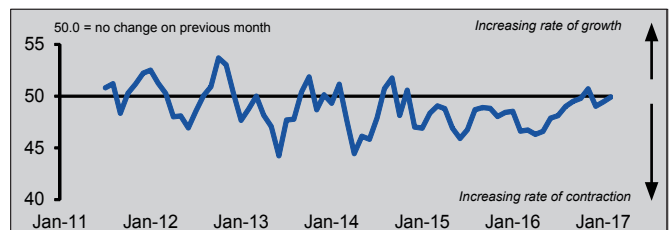
The seasonally adjusted New Export Orders Index remained below the no-change threshold of 50.0 in February, indicating a further decline in export demand in the South African private sector. A number of survey respondents reported that the stronger rand against the US dollar had reduced their competitiveness in export markets. That said, the rate of contraction in new export business eased since January.



Backlogs of Work Index

Q. Please compare the level of outstanding business in your company this month with the situation one month ago.

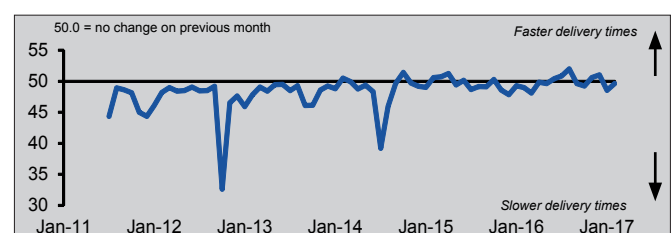
The volume of outstanding business in the South African private sector economy was broadly unchanged from one month previously in February. Around 93% of survey respondents reported no change in backlogs since January. Where outstanding business rose, this was mainly linked to new orders, whereas lower backlogs were partly attributed to better availability of materials.



Suppliers' Delivery Times Index

Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.

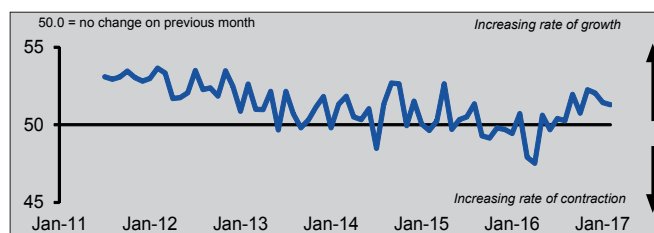
The performance of suppliers to South African private sector companies continued to deteriorate in February. Delivery times for inputs lengthened for the second month running, but to only a marginal degree. Delays were linked to stock shortages, transport infrastructure and suppliers going out of business.



Employment Index

Q. Please compare the level of employment at your unit with the situation one month ago.

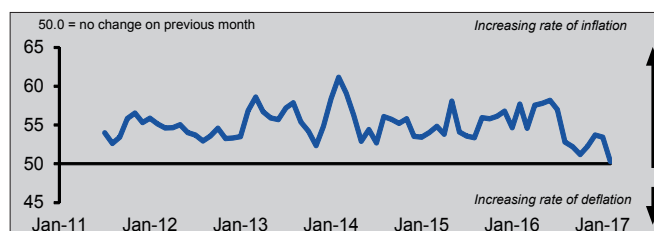
Private sector employment in South Africa rose for the eighth consecutive month in February. This was the longest sequence of uninterrupted job creation for nearly four years. The rate of workforce growth eased slightly since January to a four-month low, and was broadly in line with the long-run survey average. Recruitment was linked to new projects and higher sales.



Output Prices Index

Q. Please compare the average prices you charged this month with the situation one month ago.

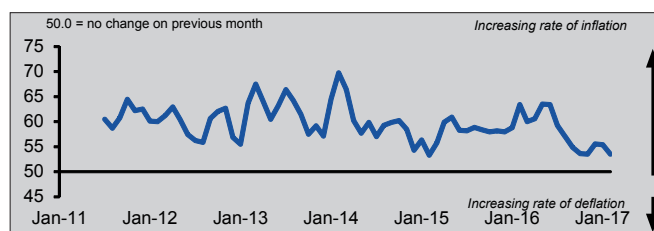
Prices charged for goods and services by South African companies continued to rise in February, in line with the trend shown since the survey began in July 2011. Higher prices were linked to increased input costs. That said, the rate of inflation slowed to a series-record low. A number of firms reported that they had either held or cut their prices in order to protect competitiveness in light of the strength of the rand.



Overall Input Prices Index

Q. Please compare your overall average input prices this month with the situation one month ago.

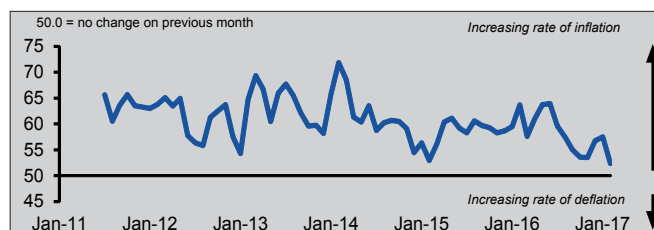
South African private sector companies reported another round of increased input prices in February. Anecdotal evidence linked inflationary pressures to raw materials such as metals, fuel and salaries. That said, the overall rate of inflation eased to match November's 21-month low and was only marginally above the survey-record low set in February 2015.



Input Costs: Purchase Prices Index

Q. Please compare the price of your purchases (volume-weighted) this month with the situation one month ago.

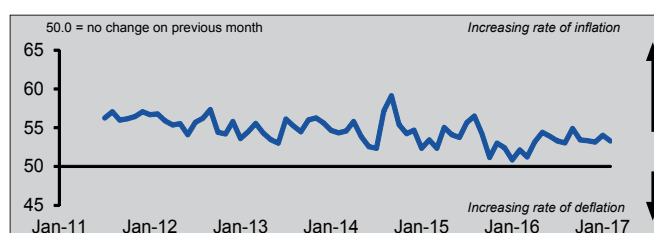
Average purchase prices continued to rise in February, in line with the trend shown throughout the survey history. Higher purchase prices were linked to fuel and metals. The rate of inflation slowed sharply from January's five-month high, however, and was the slowest since the series started in July 2011.



Input Costs: Staff Costs Index

Q. Please compare the average prices you paid for salaries/wages this month with the situation one month ago.

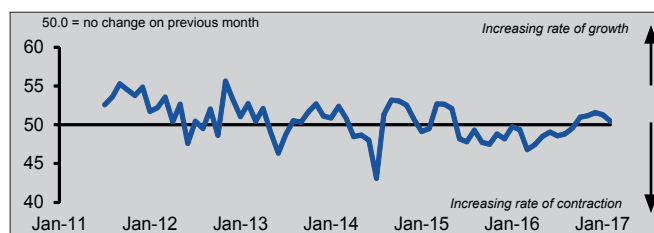
In line with the trend shown throughout the survey history, average labour costs in the South African private sector economy increased in February. The rate of pay inflation was robust overall, but eased since January and was below the long-run series average. The seasonally adjusted Staff Costs Index was in line with its average level over the past 12 months.



Quantity of Purchases Index

Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.

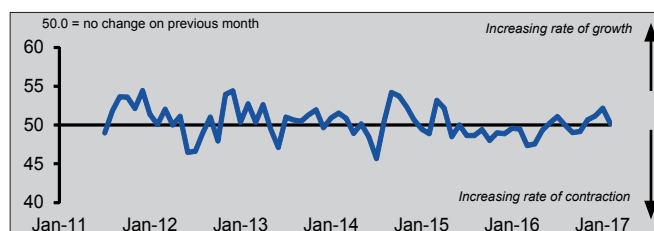
Purchasing activity by private sector companies in South Africa rose further in February. The current sequence of expansion now stretches to five months. Inputs were linked to both current workloads and stockbuilding in anticipation of future demand. The rate of growth slowed for the second month running, however, and was the weakest in the current period of expansion.



Stocks of Purchases Index

Q. Please compare your stocks of purchases (in units) with the situation one month ago.

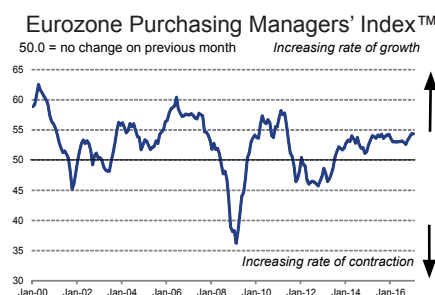
The seasonally adjusted Stocks of Purchases Index remained above 50.0 for the fourth successive month in February, signalling ongoing growth of inventories at South African private sector companies. Firms reported a pick-up in business inflows and expected new work. The rate of expansion slowed from January's 21-month high, however, and was only marginal.



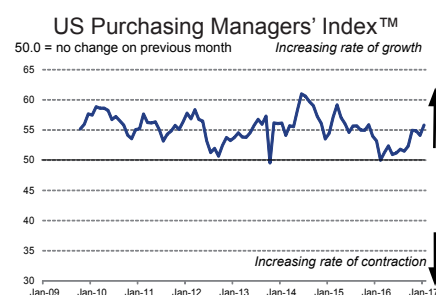
International PMI summary



Sources: IHS Markit, Caixin.



Source: IHS Markit



Source: IHS Markit

The Caixin China Composite PMI data (which covers both manufacturing and services) signalled a slight softening of growth momentum across China at the start of 2017. At 52.2 in January, the Composite Output Index fell from December's 45-month high of 53.5 to indicate a moderate rate of expansion that was the slowest since September 2016.

The Markit Eurozone Composite PMI Output Index posted 54.4 in January, unchanged from December. The headline index has signalled expansion in each of the past 43 months. Growth of manufacturing production and service sector business activity both steadied at the solid rates achieved at the end of last year.

At 55.8 in January, up from 54.1 in December, the Markit US Composite PMI Output Index signalled the strongest rise in private sector business activity since November 2015. This reflected positive contributions to growth from both the manufacturing and service sectors at the start of 2017.

Notes on the Data and Method of Presentation

The 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 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.

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