

Standard Bank South Africa PMI™ compiled by markit

Downturn in South Africa's private sector continues at start of second quarter

Key findings:

- Business conditions deteriorate at slightly slower pace
- Ongoing declines in output, new business and employment
- Average staff costs rise at strongest rate in seven months

This report contains the latest release of data collected from the new 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.

Latest survey results highlighted a slight slowing in the pace at which South Africa's private sector contracted at the start of the second quarter. Nevertheless, output and new orders fell further and companies cut employment to the greatest extent in the survey's history.

The seasonally adjusted Standard Bank South Africa PMI rose slightly from March's 20-month low of 47.0 to 47.9 in April. Despite ticking higher since the previous month, the PMI was indicative of one of the most marked deteriorations in business conditions in the survey's history. Moreover, it was the eleventh

consecutive reading below the 50.0 no-change mark.

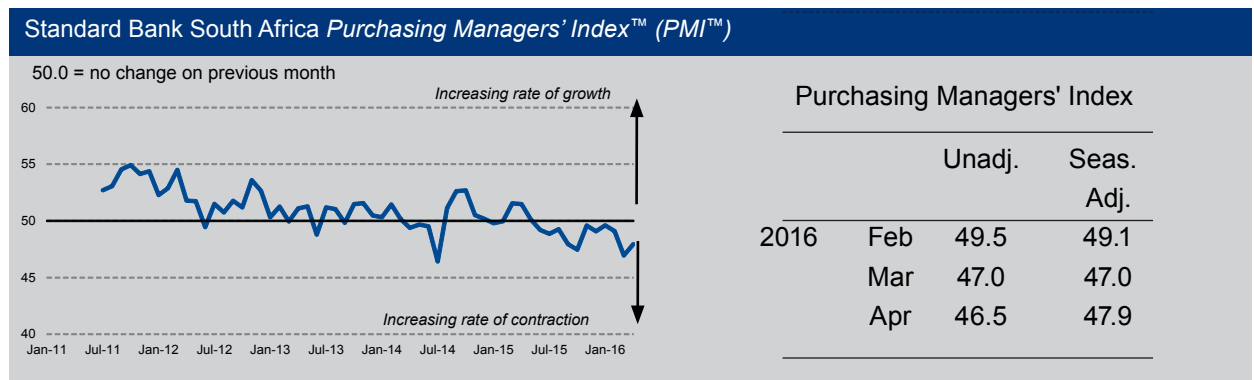
A lack of new business continued to be a major drag on the headline PMI, with falling demand reported for a fifth month running. Exchange rate factors and an unfavourable economic environment were some of the reasons given behind the latest decline in new work. New export orders also fell during the month, although only fractionally overall.

The fall in new business alleviated pressure on operating capacity and contributed to another decline in activity at South African private sector firms. The rate at which output decreased was marked, although weaker than that seen in March.

With workloads falling, companies continued to cut workforce numbers. The rate of job shedding accelerated slightly and was the most marked in the survey's history.

There was a slight acceleration of input cost inflation in April, as both purchase prices and staff costs rose at stronger rates. The rate of wage inflation was in fact the most marked in seven months. Output prices also rose at a faster pace, as some companies passed higher costs on to their clients.

Companies remained cautious about their stock policies, as highlighted by further declines in purchasing activity and pre-production inventories. Meanwhile, suppliers' delivery times broadly stabilised during the month.

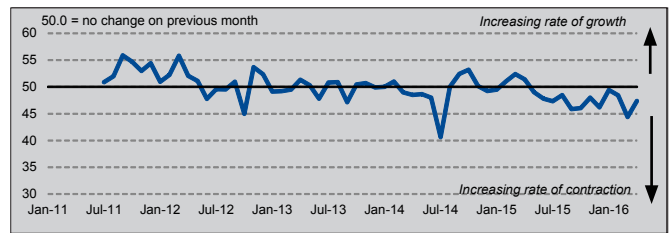


The Standard Bank South Africa Purchasing Managers' Index™ (PMI™) is a composite indicator designed to provide an overall view of activity in the South African economy. The indicator is derived from individual diffusion indices which measure changes in output, new orders, employment, suppliers' delivery 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. Markit is a registered trade mark of Markit Group Limited.

Output Index

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

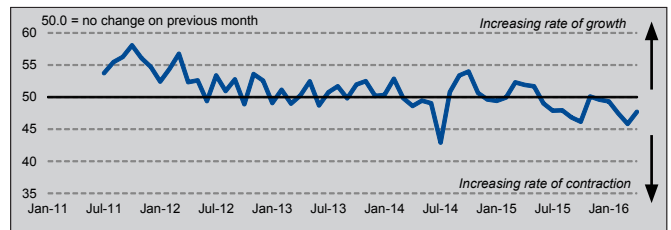
South African private sector companies reported a further decline in output during April, thereby stretching the current sequence of contraction to a year. The rate of decrease slowed since March and was in line with the average over the aforementioned period. Panel members commented that a weak economic environment and a lack of demand continued to weigh on activity.



New Orders Index

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

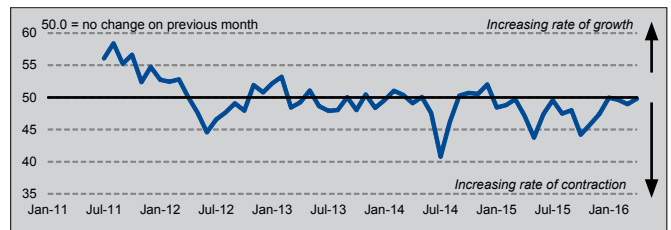
April data signalled a fifth successive monthly decline in new business placed with South African private sector companies, which some linked to exchange rate factors and a poor economic climate. That said, the rate at which new order intakes fell moderated since March and was the weakest in three months.



New Export Orders Index

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

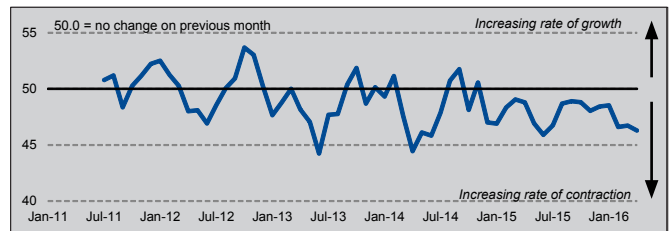
The amount of new export orders received by private sector firms in South Africa fell for the third month running during April. This was highlighted by the seasonally adjusted index remaining below the 50.0 no-change mark. However, the rate of decline in new export business slowed since March and was only fractional overall.



Backlogs of Work Index

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

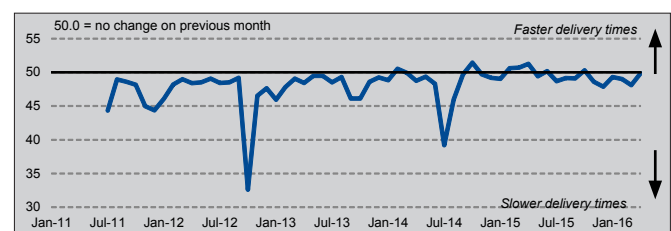
As has been the case since December 2014, backlogs of work fell during April, thereby signalling ongoing spare capacity at South African private sector companies. Moreover, the rate at which business outstanding was depleted was the most marked in ten months. Survey participants generally linked lower backlogs to a lack of new orders.



Suppliers' Delivery Times Index

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

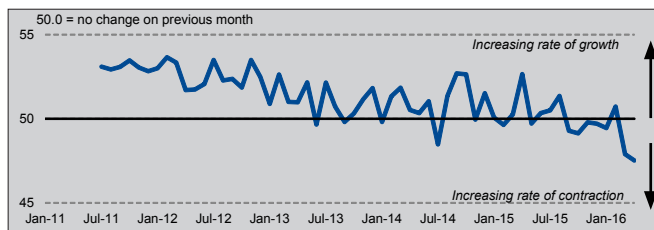
Suppliers' delivery times in South Africa's private sector lengthened for the sixth month running in April. However, the rate at which average lead times increased was the least marked in this sequence and marginal overall. There was some anecdotal evidence that attributed slower delivery times to a lack of liquidity in the market.



Employment Index

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

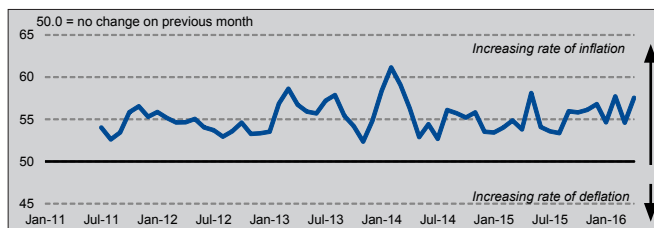
Private sector employment in South Africa fell for the second consecutive month in April, partly as a result of declining workloads. Moreover, the rate of job shedding accelerated slightly since March and was the strongest in the survey's near five-year history. Over 12% of businesses recorded job cuts, while only 5% indicated a rise.



Output Prices Index

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

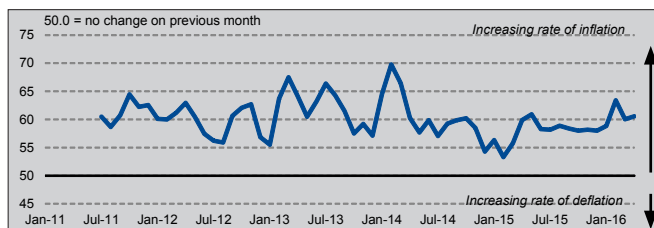
Latest survey data pointed to a further rise in selling prices at South African private sector companies at the start of the second quarter. The rate of charge inflation accelerated since one month previously and was above the long-run series average. Much of the increase in output prices was attributed by panel members to rising input costs.



Overall Input Prices Index

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

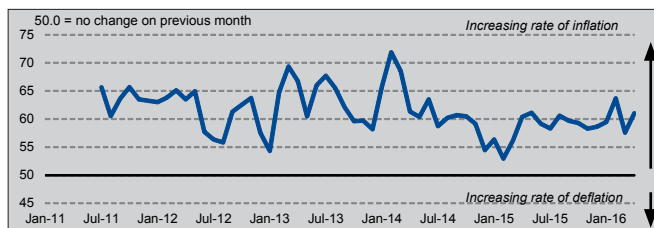
Continuing the trend that started when data collection began in July 2011, input costs in South Africa's private sector rose in April. The rate of inflation ticked higher, with just under 28% of the survey panel reporting a rise. Purchase prices and staff costs both increased at stronger rates during the month.



Input Costs: Purchase Prices Index

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

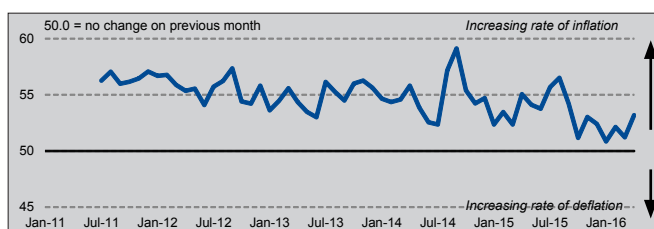
Purchase prices rose further during April, with the rate of inflation picking up since the previous month. While around 31% of survey participants reported an increase in purchase costs, only 3% indicated a decline. Much of the rise was linked by panellists to exchange rate factors, although some companies also noted higher fuel prices.



Input Costs: Staff Costs Index

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

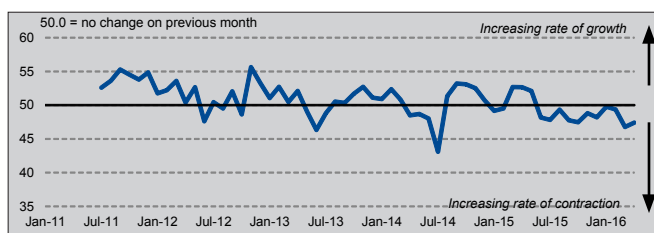
Average staff costs continued to rise during the month, according to latest survey results. Moreover, the rate of wage inflation recovered some of the ground it had lost in previous months and was the sharpest since last September. Survey respondents largely attributed higher staff costs to increased salaries.



Quantity of Purchases Index

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

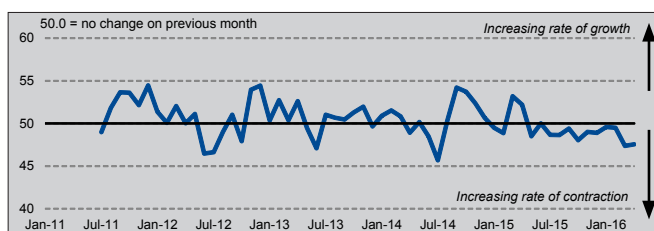
South African private sector companies scaled back their purchasing activity in April. Although the rate of decline eased marginally since March, it remained strong in the context of historical data, with nearly one-in-five panellists reporting a fall. A lack of new orders was one of the reasons given by companies that lowered their input buying activity.



Stocks of Purchases Index

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

Stocks of raw materials and other pre-production inventories fell for the tenth month running in April, with 13% of the survey panel noting a reduction. The rate of decline was little-changed from that seen in the prior month and modest overall. Some companies commented that weaker demand had led to a more careful approach to stock policies.



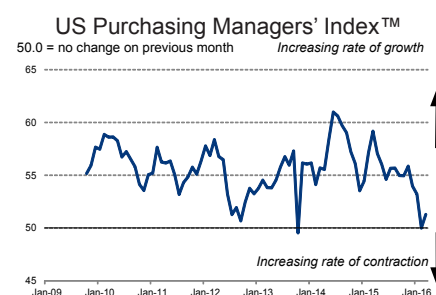
International PMI summary



Sources: Markit, Caixin.



Source: Markit



Source: Markit

Latest Caixin China Composite PMI data (which covers both manufacturing and services) signalled a renewed increase in overall Chinese business activity in March, following a slight reduction in February. The composite index posted above the neutral 50.0 mark at 51.3, up from 49.4, and the highest reading in 11 months.

The Markit Eurozone PMI Composite Output Index posted 53.1 in March, up from 53.0 in February. The average of the output index over the opening quarter as a whole (53.2) was the weakest registered since the fourth quarter of 2014.

Adjusted for seasonal influences, the Markit U.S. Composite PMI Output Index registered 51.3 in March, up from 50.0 in February, to signal a return to growth for overall U.S. private sector activity. However, the average index reading in Q1 2016 (51.5) was the weakest seen for any quarter since Q3 2012 (51.3).

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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