

Standard Bank South Africa PMI™ compiled by markit

Downturn in South Africa's private sector extends to seven months

Key findings:

- Private sector output falls at sharper rate amid renewed decline in new business
- Marginal drop in employment
- Output prices increase at fastest pace since May

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.

The downturn in South Africa's private sector continued in December, with output declining at an accelerated pace and new business falling for the sixth time in seven months. Further job shedding was reported and companies lowered their buying activity again. Meanwhile, average selling prices rose at a faster pace despite input cost inflation slowing fractionally.

December data highlighted a continuation of the downturn in South Africa's private sector that started in June. Moreover, the rate at which business conditions deteriorated was slightly stronger than that seen in November. This was highlighted by

the seasonally adjusted Standard Bank South Africa PMI falling from 49.6 to 49.1.

Poor market conditions and a lack of demand were the main drivers behind the latest drop in output, according to anecdotal evidence. Activity fell at a sharper rate than in November, with around 15% of panellists noting a decrease.

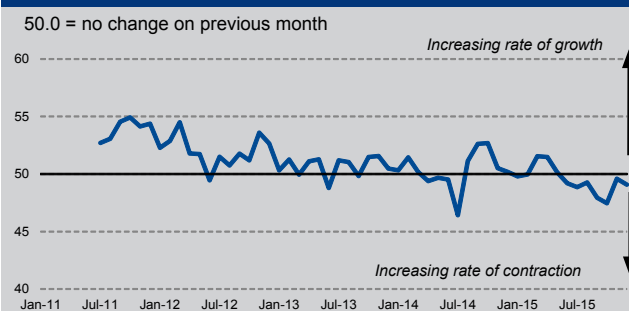
Meanwhile, companies reported a renewed decline in new business, following a stabilisation in the previous month. The decline was only marginal, however. New orders from foreign markets also decreased during the month.

As has been the case since September, employment in South Africa's private sector fell marginally in December. Meanwhile, spare capacity was evident in the sector, as backlogs of work declined for the thirteenth successive month.

Input costs rose further in December. The rate of inflation was little-changed since the previous month, as a weaker increase in average staff costs offset a sharper rise in purchase prices. Companies continued to pass on higher costs to their clients, as highlighted by a rise in output prices.

Subdued demand remained one of the main reasons for companies to reduce their buying activity in December. Lower input buying in turn contributed to a further reduction in pre-production inventories.

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



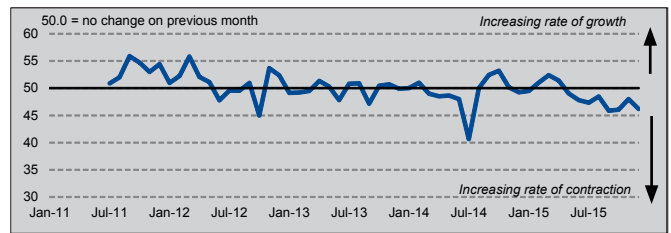
		Unadj.	Seas. Adj.
2015	Oct	49.1	47.5
	Nov	53.0	49.6
	Dec	50.9	49.1

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.

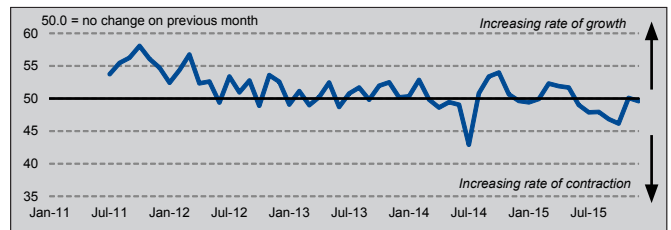
Following the trend that started in May, private sector output in South Africa fell in December, with companies commenting on poor market conditions and a lack of demand. Moreover, the pace of contraction accelerated since the previous month and was stronger than the average for the current period of decline.



New Orders Index

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

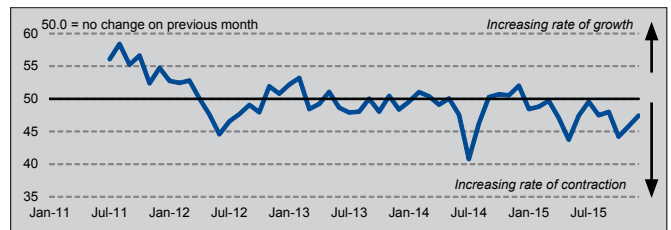
A renewed decrease in new business was reported by South African private sector firms in December. This was highlighted by the seasonally adjusted New Orders Index falling below the neutral 50.0 threshold. That said, the rate of contraction was marginal and weaker than those seen over the summer months.



New Export Orders Index

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

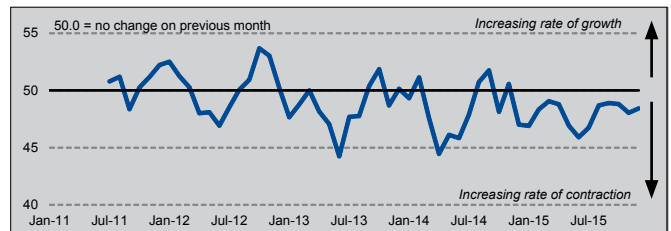
December data signalled a twelfth successive monthly decline in new work from foreign markets. However, the rate of decrease eased since November and was the weakest in three months. Just over 7% of panel members noted a decline in new export orders, while the vast majority of the survey penal (88%) reported no change.



Backlogs of Work Index

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

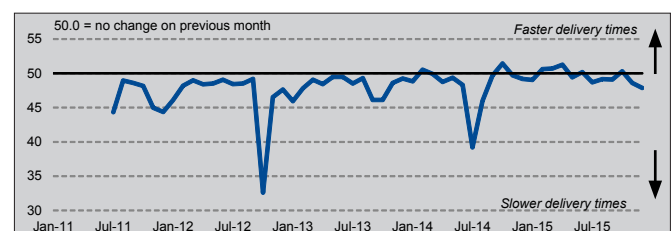
The seasonally adjusted Backlogs of Work Index remained below the no-change mark of 50.0 in December, thereby signalling ongoing spare capacity at South African private sector firms. The rate at which backlogs were depleted was little-changed since November and modest overall. Anecdotal evidence linked lower levels of work outstanding to subdued demand.



Suppliers' Delivery Times Index

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

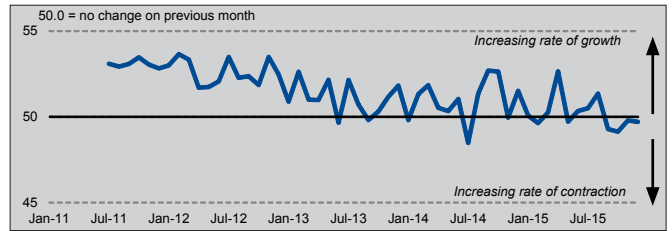
After adjusting for seasonal factors, suppliers' delivery times in South Africa's private sector lengthened for the second month running in December. The rate at which vendor performance deteriorated was slightly stronger than that seen in November, with around 10% of survey participants recording a rise in average lead times.



Employment Index

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

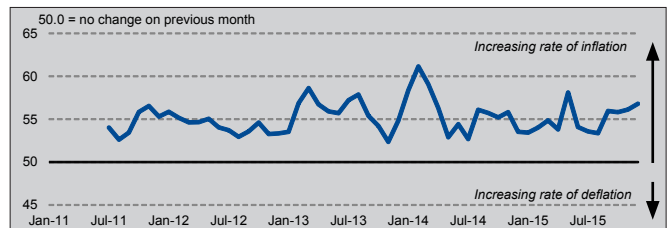
Private sector employment in South Africa fell fractionally in December, according to latest survey data, thereby continuing the trend observed over the previous three months. Companies that shed staff commented on financial constraints, poor market conditions, and a lack of new business as factors contributing to the retrenchment of employee numbers.



Output Prices Index

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

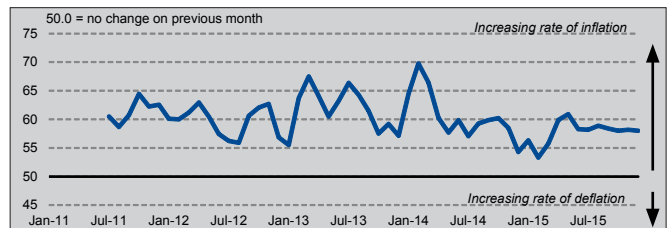
Private sector companies operating in South Africa raised their average selling prices in December. The rate of inflation accelerated since one month previously and was the most marked since May, with around 11% of the survey panel recording a rise. Companies generally linked higher charges to the passing-on of increased input costs.



Overall Input Prices Index

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

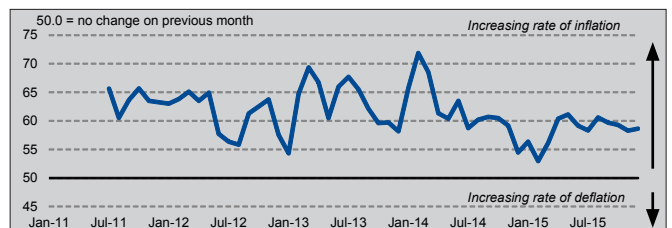
As has been the case since the introduction of the survey four-and-a-half years ago, input costs faced by South African private sector companies increased in December. Moreover, the rate of inflation was broadly in line with the trend observed since June. Purchase prices rose at a marginally faster pace, while staff costs increased to a slightly lesser extent.



Input Costs: Purchase Prices Index

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

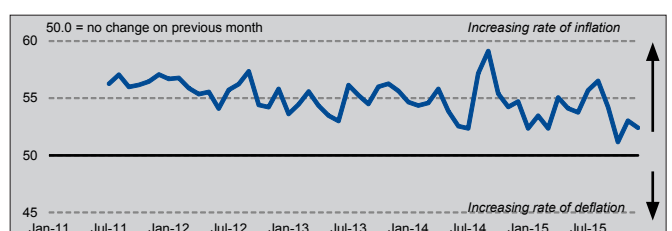
The seasonally adjusted Purchase Prices Index registered well above the crucial 50.0 threshold in December, thereby signalling a further sharp increase in purchase costs in South Africa's private sector. Unfavourable exchange rates remained the main reason behind higher costs, according to anecdotal evidence.



Input Costs: Staff Costs Index

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

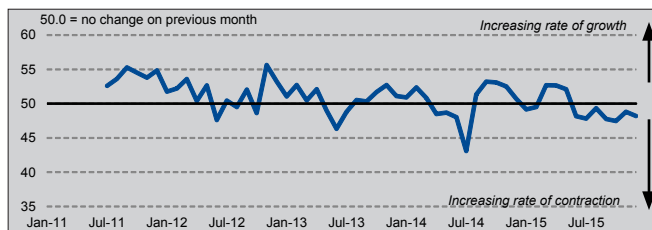
Average staff costs at South African private sector firms continued to rise during the month, although the rate of inflation slowed marginally since November. Around 9% of firms recorded higher average wages, while only 1% reported a decline. Companies generally linked higher staff costs to increased salaries.



Quantity of Purchases Index

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

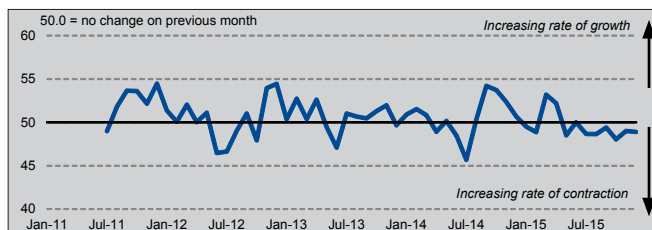
The latest survey results highlighted a further decline in buying activity at South African private sector companies. The pace of contraction accelerated slightly since one month previously, but remained modest overall. Weak demand remained one of the main reasons cited by panel members that lowered their purchasing activity.



Stocks of Purchases Index

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

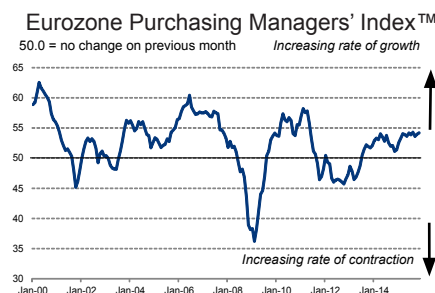
The seasonally adjusted Stocks of Purchases Index posted below the 50.0 no-change mark for the sixth month running in December. That said, the rate of decline was little-changed from that seen in November. Some panellists attributed the reduction in pre-production inventories to subdued demand.



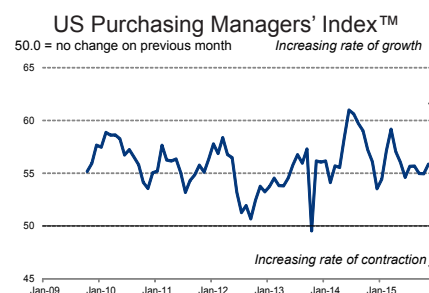
International PMI summary



Sources: Markit, Caixin.



Source: Markit



Source: Markit

Caixin China Composite PMI data (which covers both manufacturing and services) indicated that business activity in China increased for the first time in four months in November. That said, the rate of expansion was only marginal, as signalled by the Caixin Composite Output Index posting 50.5 in November, up from 49.9 in October.

The Markit Eurozone PMI Composite Output Index rose to 54.2 in November, up from 53.9 in October, to stay above the no-change mark of 50.0 for the twenty-ninth successive month. The average reading so far during the final quarter (54.1) is slightly above that for the prior quarter (53.9).

At 55.9 in November, up from 55.0 in October, the seasonally adjusted Markit U.S. Composite PMI Output Index signalled the strongest expansion of private sector activity since May. Faster service sector growth helped to offset a slowdown in manufacturing production during November (index down from 55.6 to 54.8).

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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