

Standard Bank South Africa PMI™ compiled by markit

Slight deterioration in business conditions at the end of the second quarter

Key findings:

- **Headline PMI falls from May's 13-month high of 50.2 to 49.6**
- **Output and employment both decline, while new order growth slows**
- **Purchase prices rise at fastest pace in over two years**

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.

Challenging economic conditions in South Africa led to declines in output and employment at the end of the second quarter. Although growth of new business was maintained, the underlying pace of expansion was only fractional. Meanwhile, input costs rose sharply, which in turn led to a marked rise in selling prices.

June data signalled a slight deterioration in operating conditions at South African private sector firms, following the first improvement in a year during May. This was highlighted by the seasonally adjusted Standard Bank South Africa PMI falling

from 50.2 to 49.6. The rate of deterioration was only fractional, however.

One of the main drags on the headline PMI in June came from an accelerated decline in output, which companies attributed to slow market conditions. In response to falling activity and declining backlogs of work, some firms lowered their workforce numbers marginally.

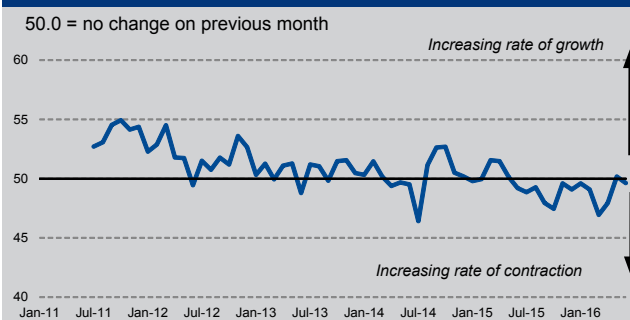
Meanwhile, new business growth slowed to only a fractional pace. The overall rise in total new business was largely driven by the strongest increase in new export orders since February 2013.

Purchasing activity decreased for the thirteenth month running in June, although the pace of decline was only marginal overall. Nonetheless, pre-production inventories rose for the first time in a year.

On the price front, overall input costs continued to rise markedly at the end of the second quarter, with purchasing price inflation reaching a 27-month high. Panellists commented on exchange rate factors and higher prices for some raw materials. Some companies passed higher costs on to their clients, resulting in a further rise in selling prices.

Finally, average lead times improved for the first time since last October in June, albeit only marginally.

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



Purchasing Managers' Index

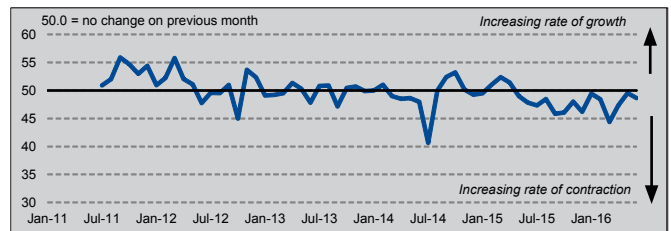
		Unadj.	Seas. Adj.
2016	Apr	46.5	47.9
	May	49.9	50.2
	Jun	47.4	49.6

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.

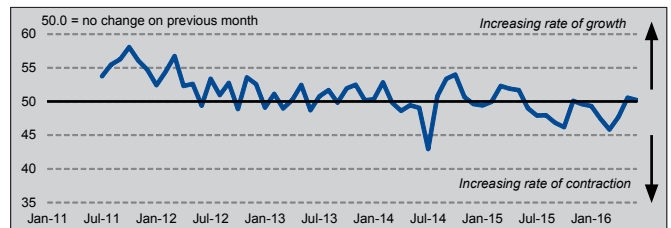
Private sector output in South Africa fell for the fourteenth month running in June. This was highlighted by the seasonally adjusted index remaining below the crucial 50.0 threshold. The pace of contraction accelerated slightly since May, but was mild overall. Anecdotal evidence generally attributed lower activity to slow market conditions.



New Orders Index

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

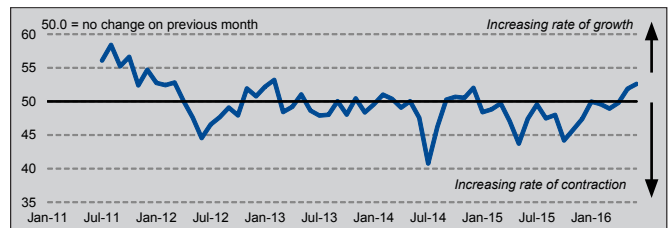
June data highlighted a second successive monthly rise in new business at the end of the second quarter. However, the rate of growth was only fractional overall, with companies commenting that unfavourable economic conditions acted as a drag on stronger demand. Nonetheless, some companies were able to secure new projects, thereby supporting an overall rise in new business.



New Export Orders Index

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

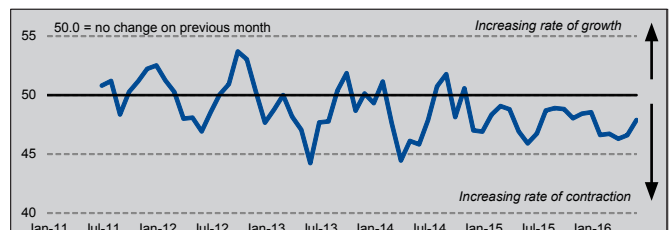
Despite only a fractional rise in total new business, companies reported the strongest rise in demand from foreign markets since February 2013 in June. Moreover, the data highlighted the first back-to-back increase in new export orders in one-and-a-half years. Roughly 13% of panellists noted higher new export business, versus 9% that signalled a decline.



Backlogs of Work Index

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

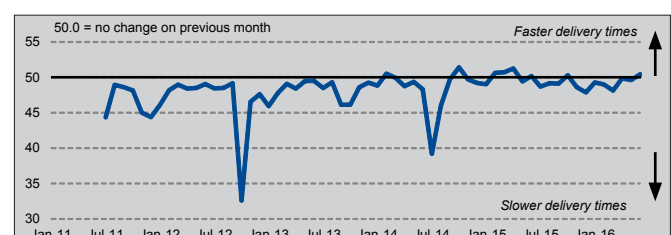
South African private sector firms reported a further decline in business outstanding in June. However, the seasonally adjusted Backlogs of Work Index rose slightly since May to signal a weaker rate of backlog depletion. A lack of pressure on operating capacity has now been reported in each of the past 19 months.



Suppliers' Delivery Times Index

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

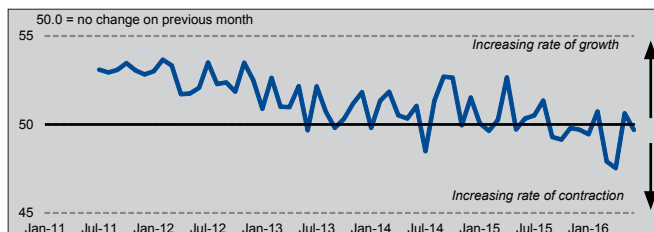
Suppliers' delivery times improved for the first time in eight months during June, thereby signalling a lack of pressure on supply chains in South Africa's private sector. However, the rate at which average lead times shortened was only fractional overall, with the vast majority of the survey panel (90%) reporting no change since the previous month.



Employment Index

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

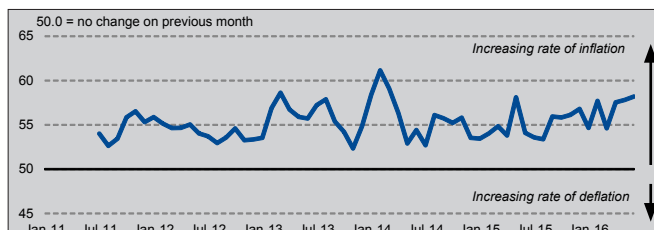
Following a slight rise in May, private sector employment in South Africa fell again during June. However, the seasonally adjusted Employment Index posted only fractionally below the neutral 50.0 threshold, thereby signalling that the rate of job shedding was marginal. Subdued demand was one of the reasons mentioned by panellists that reported declining workforce numbers.



Output Prices Index

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

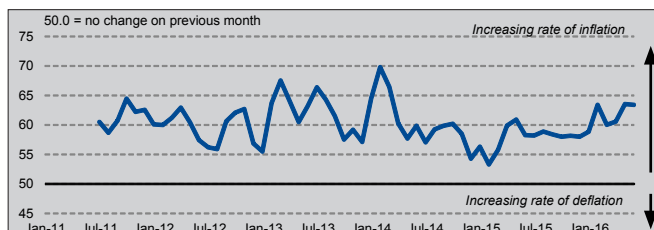
Companies in South Africa's private sector raised their selling prices further during June, thereby continuing a trend that has so far defined this series. The rate of charge inflation accelerated to a 27-month high as companies passed higher input costs on to their clients. Just over 17% of the survey panel noted higher output prices, while only 2% signalled a decline.



Overall Input Prices Index

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

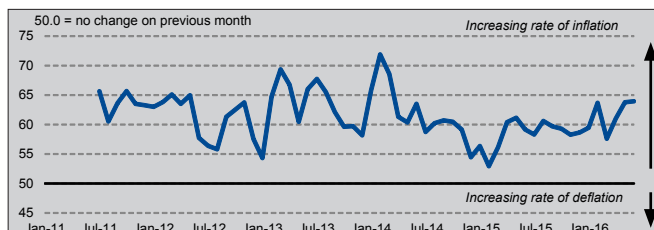
Latest survey data pointed to ongoing cost pressures in South Africa's private sector, with the respective seasonally adjusted index little-changed since May and indicative of a sharp rise in input prices. Underlying data showed that purchase prices rose at a faster pace, while average staff costs increased 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.

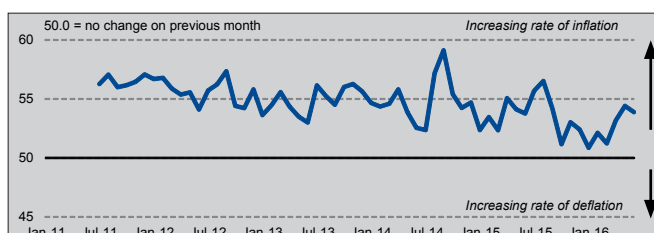
As has been the case since the survey started five years ago, purchase prices in South Africa's private sector rose in June. Moreover, the latest increase was the sharpest since March 2014, with roughly 28% of the survey panel recording a rise. Panel members linked inflation to exchange rate factors and higher prices for some raw materials (notably fuel and steel).



Input Costs: Staff Costs Index

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

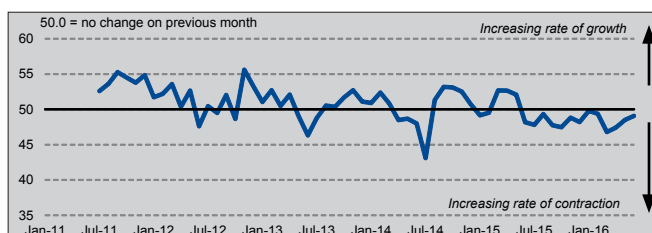
The seasonally adjusted Staff Costs Index registered above the 50.0 no-change mark in June, thereby signalling a further rise in average salaries in South Africa's private sector. The rate of wage inflation slowed marginally since the previous month and was below the long-run series average. Staff costs have risen in every month of data collection so far.



Quantity of Purchases Index

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

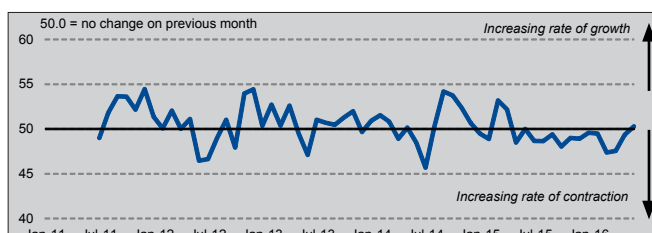
South African private sector firms lowered their buying activity for the thirteenth consecutive month in June, partly as a result of subdued new order growth and difficult market conditions. However, the rate of decline slowed for the third month running and was marginal overall. This was highlighted by the seasonally adjusted index edging closer to the neutral 50.0 threshold.



Stocks of Purchases Index

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

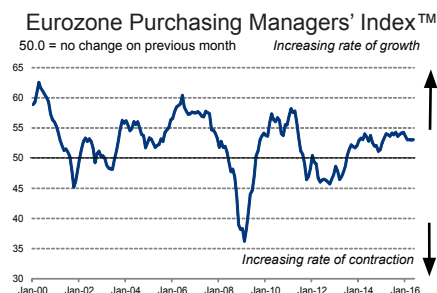
After adjusting for seasonal factors, latest survey data highlighted that pre-production inventories accumulated for the first time in a year during June. Where companies noted higher inventories, some commented on increased new business. That said, the rate at which stocks of purchases rose was only fractional overall.



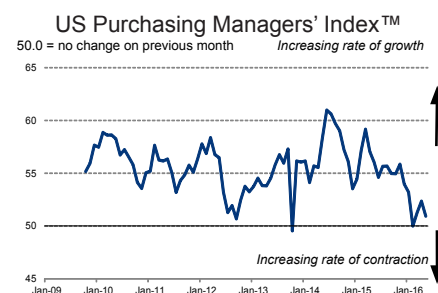
International PMI summary



Sources: Markit, Caixin.



Source: Markit



Source: Markit

Caixin China Composite PMI data (which covers both manufacturing and services) pointed to a further increase in total Chinese business activity during May. However, the Composite Output Index posted 50.5, down from 50.8 in April, to signal the slowest rate of expansion in the current three-month sequence of growth.

The Markit Eurozone PMI Composite Output Index ticked higher to 53.1, up from 53.0 in April. The upturn was again led by the service sector, which saw a modest growth acceleration. Manufacturing production also continued to rise, albeit at a slightly lesser pace than in April.

The seasonally adjusted Markit U.S. Composite PMI Output Index dropped from 52.4 in April to 50.9 in May, to signal the slowest expansion of private sector output since February. Higher levels of service sector activity (index at 51.3) contrasted with a slight reduction in manufacturing production during May (index at 49.4).

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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