

# Standard Bank South Africa PMI™ compiled by markit

## Standard Bank South Africa PMI edges closer to stabilisation in November

### Key findings:

- **Headline PMI rises to six-month high of 49.6 as new orders stabilise**
- **Activity declines at weaker rate**
- **Companies raise charges to greatest extent for six 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.

November data signalled an easing in South Africa's private sector downturn, with new orders and employment levels stabilising and output declining at a weaker rate. However, new export business continued to fall sharply and companies continued to reduce their buying activity.

The Standard Bank South Africa PMI edged closer to stabilisation in November. This was signalled by the index rising from October's 15-month low of 47.5 to 49.6. Despite still signalling deteriorating operating conditions, the PMI reached a six-month high. Upwards contributions to the headline index

came from all five sub-components.

The main driver of an improved PMI reading came from a stabilisation in new business in November, following a five-month period of contraction. Some companies commented on successful contract wins. However, the rise was domestically driven, as new export orders fell further.

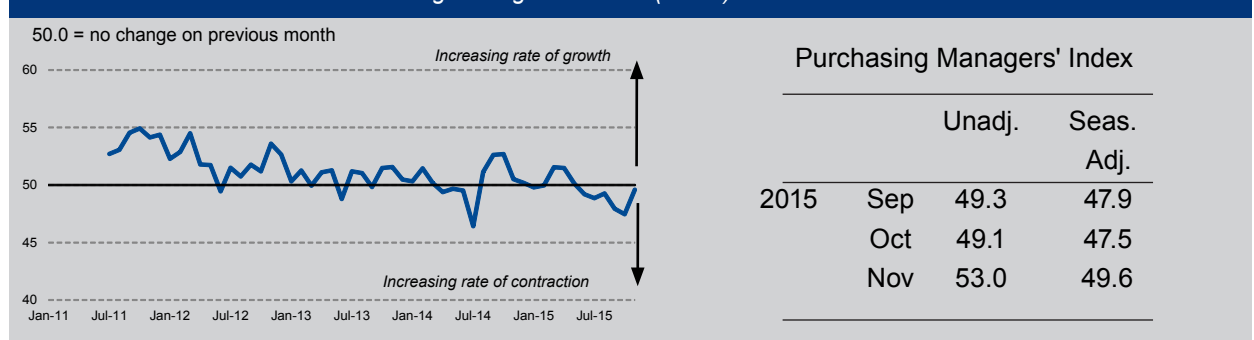
Latest survey data highlighted that difficult economic conditions continued to weigh on private sector output in South Africa. Activity fell for a seventh month running, although at a slower pace than in October.

Employment broadly stabilised during November, with the latest round of job cuts only marginal. Meanwhile, panellists reported ongoing spare capacity, as signalled by a further reduction in business outstanding.

Companies remained cautious about their stock policies in November, with both pre-production inventories and purchasing activity falling further. The rates of decline eased in both cases, however. Meanwhile, suppliers delivery times lengthened, following a marginal improvement in October.

Input costs continued to rise amid reports of higher purchase prices and increased average wages. Consequently, companies raised their charges again. The rate of charge inflation was the most marked in six months.

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

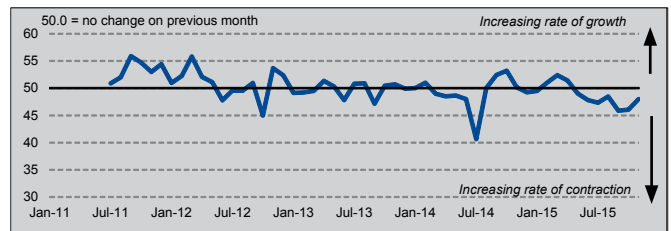


The Standard Bank South Africa Purchasing Managers' Index™ (PMI™) is a composite indicator designed to provide an overall view of activity in the South African economy. The indicator is derived from individual diffusion indices which measure changes in output, new orders, employment, suppliers' delivery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

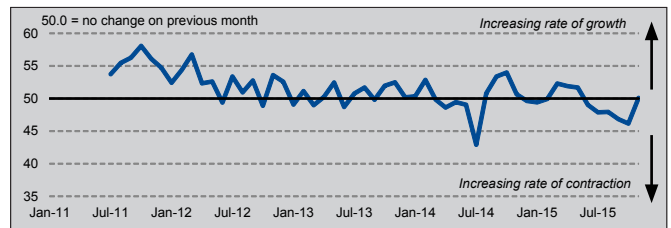
Private sector output in South Africa contracted for the seventh month running in November. However, the rate of decline eased since October and was the weakest in three months. While companies partly attributed the overall decrease in activity to poor economic conditions, some panellists commented that a pick-up in new business led to higher output at their units.



## New Orders Index

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

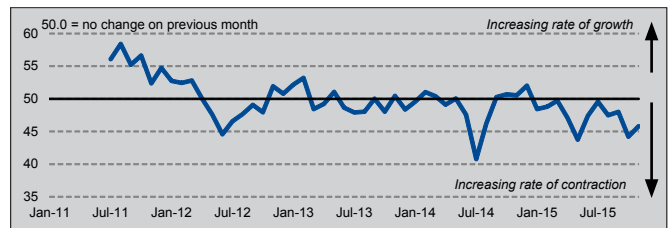
November data signalled a stabilisation in new business placed with South African private sector companies, thereby ending a five-month period of contraction. This was highlighted by the seasonally adjusted New Orders Index edging back into expansion territory. Panel members linked higher new work to successful contract wins and improved demand.



## New Export Orders Index

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

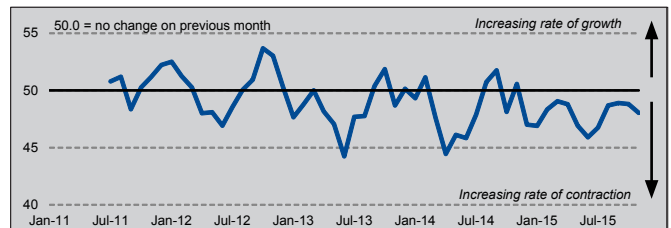
In contrast to the trend seen for total new business, client demand from foreign markets continued to fall during November. New export orders have now declined for 11 months in succession and the rate of contraction remained sharp overall, despite easing slightly since October. Some panellists linked weaker new export orders to a difficult economic environment.



## Backlogs of Work Index

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

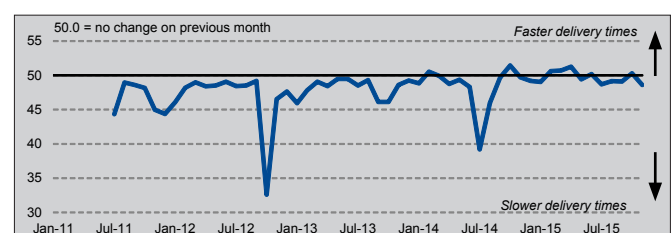
Following the trend that started in December 2014, South African private sector firms reported spare capacity at their units in November. Moreover, the rate at which business outstanding was depleted accelerated since one month previously and was the most marked since July. Anecdotal evidence partly attributed the latest drop in unfinished work to subdued demand.



## Suppliers' Delivery Times Index

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

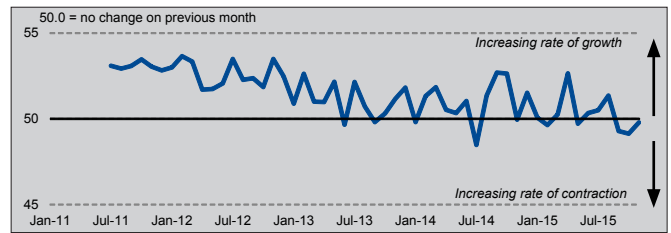
The seasonally adjusted Suppliers' Delivery Times Index fell back below the neutral 50.0 threshold in November, thereby signalling a deterioration in vendor performance in South Africa's private sector. The rate at which average lead times lengthened was the most marked since August 2014, although moderate overall.



### Employment Index

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

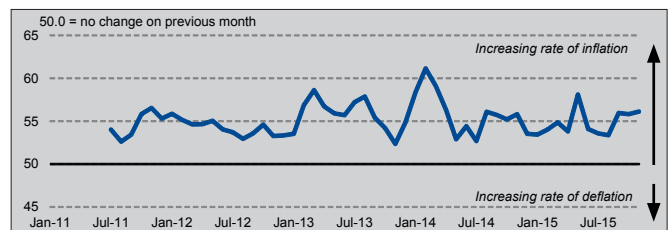
After adjusting for seasonal influences, workforce numbers in South Africa's private sector fell for a third month running in November. However, the rate of job shedding was the weakest in this sequence and only fractional overall. Survey participants linked lower headcounts partly to the non-replacements of voluntary leavers.



### Output Prices Index

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

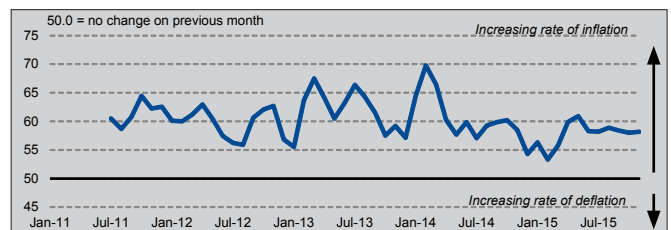
As has been the case throughout the survey history to date, South African private sector companies raised their selling prices further during the month. The rate of charge inflation accelerated marginally and was the most marked since May. A combination of exchange rate factors and increased input costs accounted for most of the rise in output prices, according to panel evidence.



### Overall Input Prices Index

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

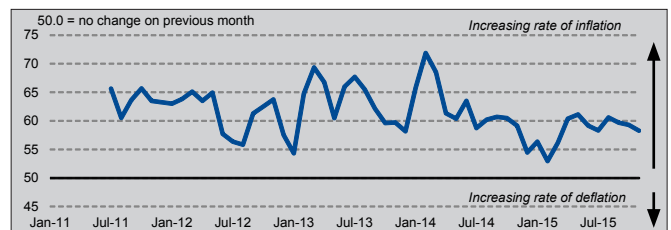
Input costs faced by South African private sector companies increased further in November, thereby continuing the trend that started when data collection began in July 2011. That said, the rate of inflation was little-changed since October. Purchase prices rose at a weaker rate, while staff costs increased to a greater degree.



### Input Costs: Purchase Prices Index

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

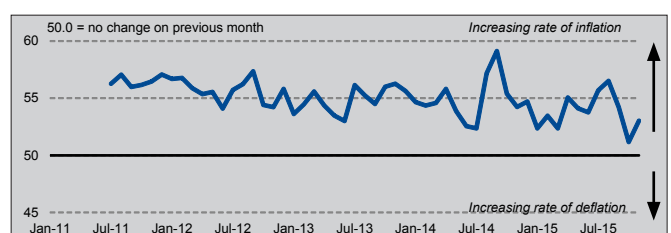
Average purchase prices increased at a slower pace in November, according to latest survey results. The rate of inflation was the weakest since July, but remained sharp overall. More than one-in-five panellists noted higher input costs, versus only 4% that recorded a decline. Panel evidence suggested that unfavourable exchange rates remained one of the main reasons for higher purchase costs.



### Input Costs: Staff Costs Index

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

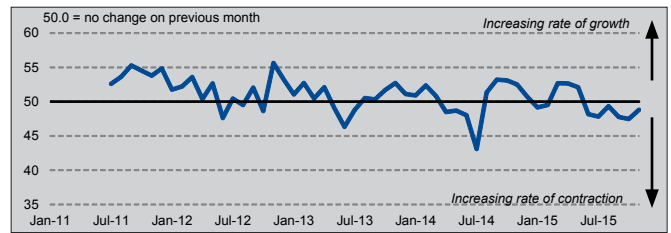
Latest survey results signalled a further rise in average staff costs paid by South African private sector companies. The rate of wage inflation accelerated from October's record low, but remained muted in the context of historical data comparisons. The majority of the survey panel (around 89%) reported no change in average staff costs.



## Quantity of Purchases Index

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

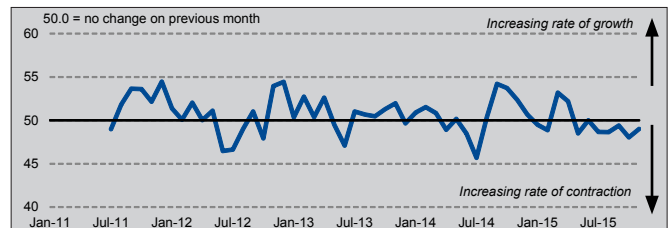
The seasonally adjusted Quantity of Purchases Index registered below the neutral 50.0 threshold in November, thereby signalling a further drop in input buying at South African private sector companies. According to anecdotal evidence, a lack of new business was one of the reasons for the reduction in buying activity.



## Stocks of Purchases Index

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

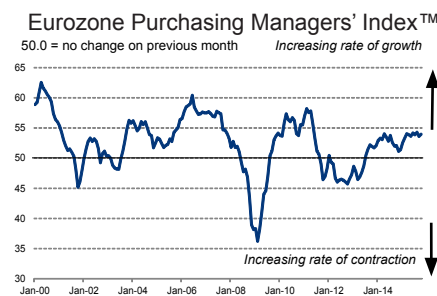
Stocks of pre-production goods and other raw materials held at South African private sector companies fell for a fifth month running in November. However, the rate of stock reduction eased since October and was marginal overall. There was some panel evidence that linked lower inventories to weaker demand.



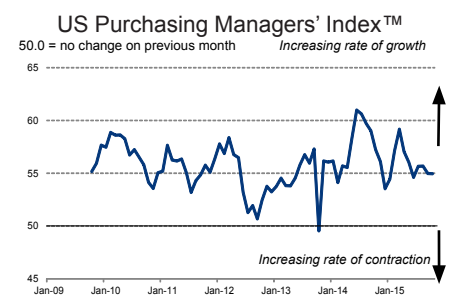
## International PMI summary



Sources: Markit, Caixin.



Source: Markit



Source: Markit

Caixin China Composite PMI data (which covers both manufacturing and services) pointed to a broad stabilisation of Chinese business activity in October. This was highlighted by the Caixin Composite Output Index posting only fractionally below the neutral 50.0 value at 49.9, up from September's 80-month low of 48.0.

The eurozone economy registered a mild growth acceleration at the start of the final quarter, with the rate expansion edging up from September's four-month low. At 53.9, the Markit Eurozone PMI Composite Output Index signalled growth for the twenty-eighth successive month.

The seasonally adjusted Markit U.S. Composite PMI Output Index posted 55.0 in October, unchanged from September's three-month low, but still pointing to a robust rate of growth. Sector data indicated that a stronger expansion of manufacturing output was offset by slower service sector growth.

## 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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