

# Standard Bank South Africa PMI™ compiled by markit

PMI drops to 15-month low as new orders decline at sharper rate

**Key findings:**

- **Headline PMI falls from 47.9 to 47.5, signalling further deterioration in business conditions**
- **Output falls further amid sharper decline in new business**
- **Staff costs rise at weakest rate in survey history**

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.

October data highlighted a continuation of the downturn in South Africa's private sector that started in June. Output fell sharply amid an accelerated decline in new business. Moreover, companies continued to shed staff and lowered their purchasing activity further. Input and output prices both rose sharply despite average staff costs increasing at the slowest pace in the survey history.

Operating conditions at South African private sector companies deteriorated at the strongest rate in 15 months during October. This was highlighted by the Standard Bank South Africa PMI

falling from September's 47.9 to 47.5. The PMI has now posted below the crucial 50.0 mark for five months in a row.

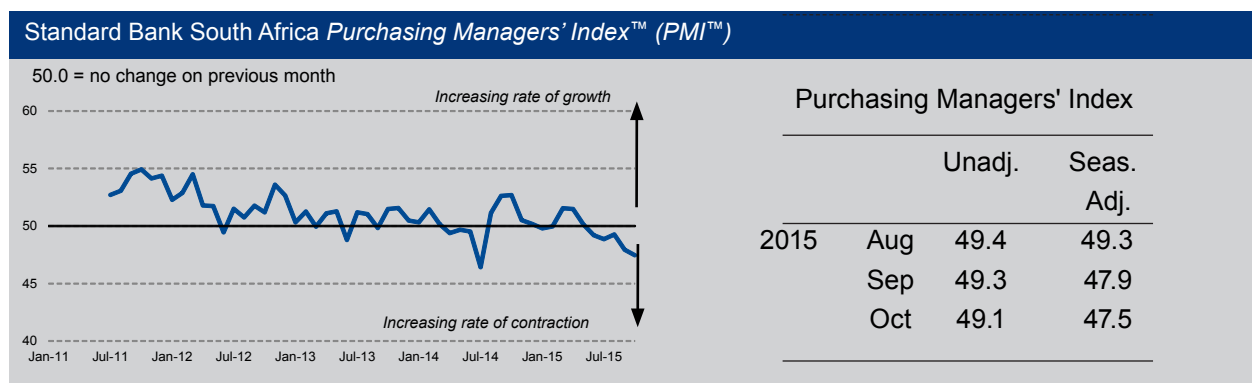
A sharper decline in new business was the main reason behind the lower headline PMI. Surveyed companies linked weaker demand to market uncertainties and exchange rate factors. Moreover, the data showed that new export business also fell at a marked rate.

A lack of demand and poor economic conditions meanwhile led to lower levels of activity in South Africa's private sector. Output fell for the sixth month running.

There was little appetite for companies to recruit new employees during month. Consequently, staffing levels fell further. The rate of job shedding was the most marked in 15 months, although slight overall. Meanwhile, backlogs of work fell modestly and average lead times improved fractionally.

Buying activity also continued to fall during October, which in turn led to a further reduction in pre-production inventories. The rates of decline accelerated in both cases.

As has been the case throughout the survey history to date, input costs increased in October. The rate of inflation eased slightly since September, largely a result of the weakest increase in staff costs in the survey history. Meanwhile, companies raised their charges further.

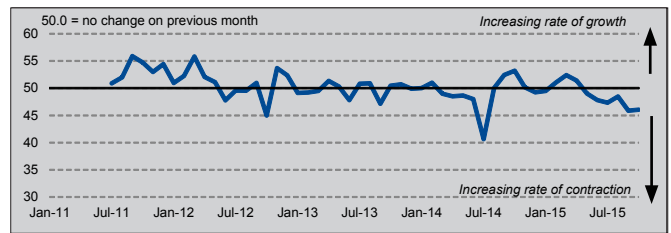


The Standard Bank South Africa Purchasing Managers' Index™ (PMI™) is a composite indicator designed to provide an overall view of activity in the South African economy. The indicator is derived from individual diffusion indices which measure changes in output, new orders, employment, suppliers' delivery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

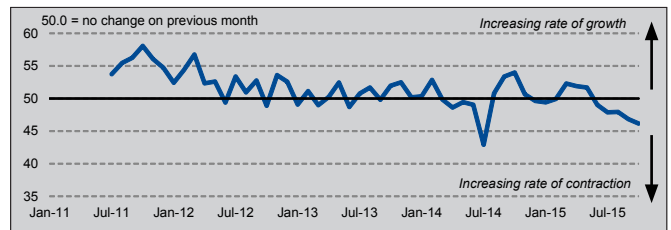
Following the trend that started in May, South African private sector companies reported a decline in output in October. The rate of contraction was little-changed since September and marked overall. Anecdotal evidence attributed the decrease in activity to lower new order intakes, raw material and staff shortages and poor economic conditions.



### New Orders Index

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

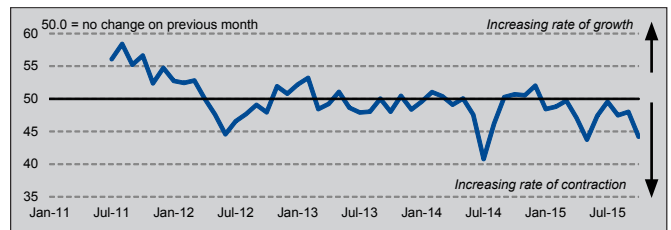
October data signalled a further drop in new business placed with private sector companies in South Africa. Moreover, the rate of decline accelerated for the second month running and was the sharpest since July 2014. Survey participants partly attributed the lack of demand to market uncertainty and exchange rate factors.



### New Export Orders Index

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

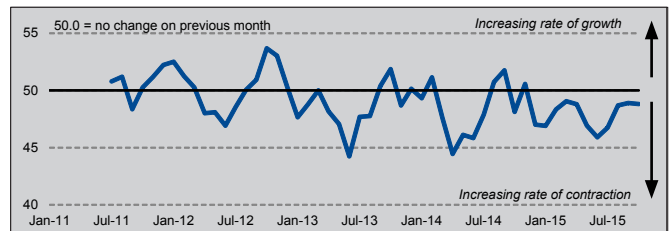
New export business placed with South African private sector firms decreased for the tenth month running in October, with 19% of the survey panel reporting a decline. The October drop in new export orders was the sharpest since May and among the strongest in the series history. Currency fluctuations and poor economic conditions were reasons behind the fall in export demand, according to panel evidence.



### Backlogs of Work Index

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

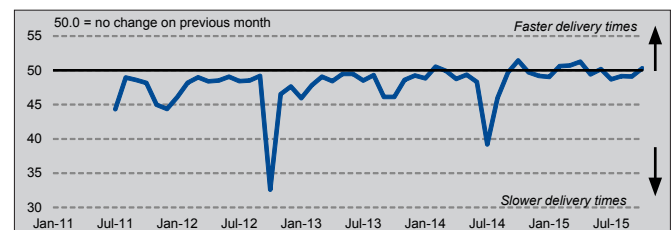
Latest survey data signalled an eleventh successive monthly decline in business outstanding at South African private sector companies, thereby highlighting ongoing spare capacity in the sector. This was highlighted by the seasonally adjusted Backlogs of Work Index remaining below the neutral 50.0 threshold. The rate at which backlogs were depleted was little-changed from the previous two months.



### Suppliers' Delivery Times Index

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

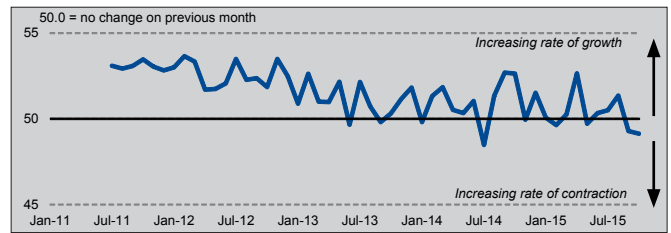
Quicker delivery times were reported by South African private sector companies during October. The improvement in vendor performance ended a three-month period of deterioration, although the rate at which average lead times shortened was only fractional overall. Some panellists mentioned that delivery times improved as a result of subdued demand for inputs.



### Employment Index

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

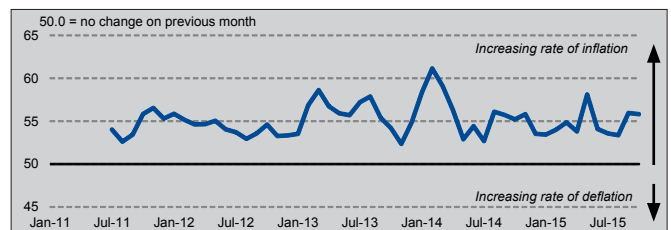
Employment in South Africa's private sector fell for a second consecutive month during October, with 9% of surveyed companies reporting job shedding. Despite accelerating to the strongest in 15 months, the rate of job cuts was only slight overall. Some panel members linked lower staffing levels to a lack of new work.



### Output Prices Index

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

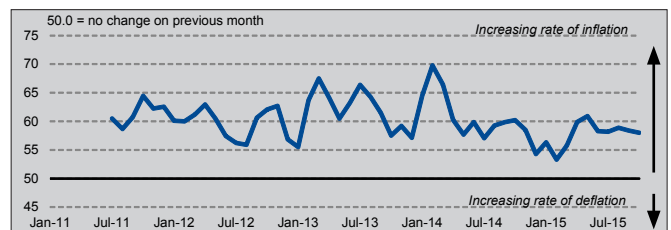
Private sector firms in South Africa raised their charges further during the month, thereby continuing a trend that started when data collection began in July 2011. Exactly 15% of surveyed companies reported higher selling prices versus only 4% that signalled a reduction. Anecdotal evidence generally attributed higher output prices to increased input costs and exchange rate factors.



### Overall Input Prices Index

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

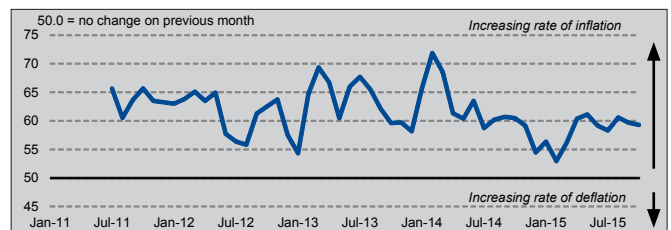
The seasonally adjusted Overall Input Prices Index remained above the no-change mark of 50.0 in October, thereby signalling a further increase in companies' cost pressures. However, the rate of inflation slowed for the second month running and was below the long-run series average. Purchase prices and staff costs both rose at weaker rates.



### Input Costs: Purchase Prices Index

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

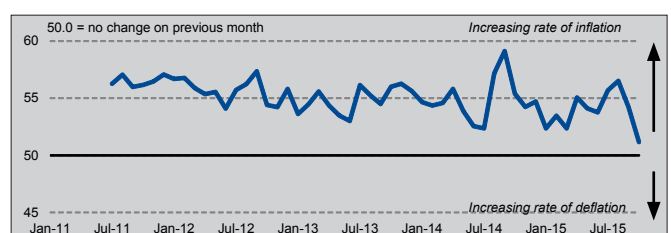
As has been the case since the inception of the survey in July 2011, average purchase prices faced by South African private sector firms rose in October. The rate of inflation eased to a three-month low, but was nonetheless marked overall. Survey respondents overwhelmingly attributed higher purchase costs to exchange rate factors.



### Input Costs: Staff Costs Index

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

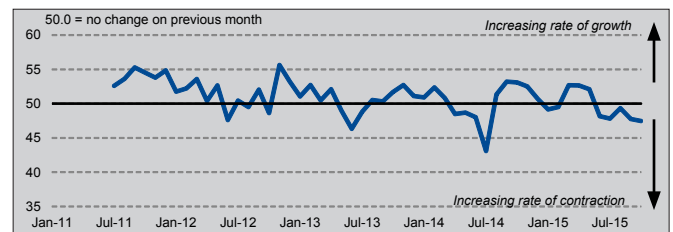
Average staff costs at South African private sector companies rose further during the month. However, the rate of wage inflation slowed to the weakest on record, with the vast majority of the survey panel reporting no change. While salary increases accounted for much of the overall rise in staff costs, the reduction in headcounts was a reason for the overall slower increase.



## Quantity of Purchases Index

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

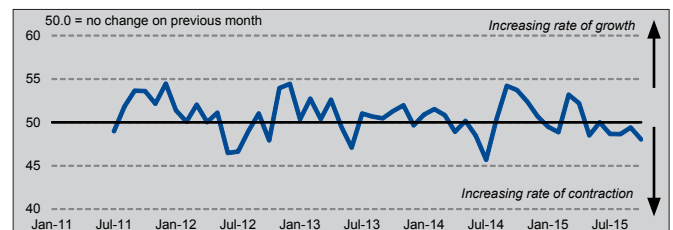
The quantity of items purchased by South African private sector firms declined for the fifth month running in October. Moreover, the latest reduction was the strongest in 15 months. According to anecdotal evidence, a lack of new work and poor economic conditions led to the latest fall in buying activity.



## Stocks of Purchases Index

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

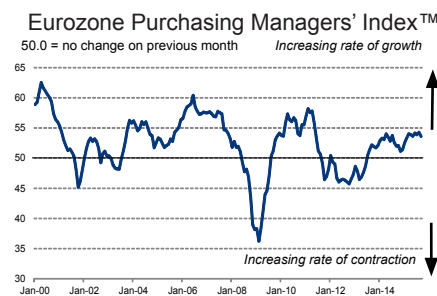
The seasonally adjusted Stocks of Purchases Index remained below the crucial 50.0 threshold for the fourth month running in October, thereby signalling a further reduction in pre-production inventories held at South African private sector companies. The rate of decline accelerated since September and was the most marked since July 2014.



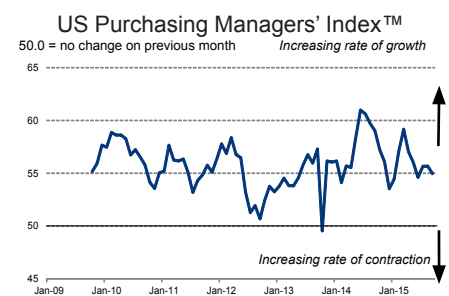
## International PMI summary



Sources: Markit, Caixin.



Source: Markit



Source: Markit

The latest Caixin China Composite PMI data signalled a second successive monthly decline in total Chinese business activity during September. Furthermore, the Caixin Composite Output Index posted at 48.0, down from 48.8 in August, and signalled the fastest rate of contraction since January 2009.

The Markit Eurozone PMI Composite Output Index posted 53.6, down from 54.3 in August. Following the dip in September, the average rate of expansion over the third quarter failed to accelerate and instead equalled the second quarter's four-year high.

The seasonally adjusted Markit U.S. Composite PMI Output Index posted 55.0 in September, down from 55.7 in August. Slower U.S. private sector output growth mainly reflected a weaker contribution from services (index at 55.1 in September, down from 56.1 during August), while manufacturing production growth picked up slightly (54.5, up from 53.8 in August).

## 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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