

Standard Bank South Africa PMI™ compiled by markit

Operating conditions deteriorate for third month running

Key findings:

- New orders decline at joint-strongest rate in just over a year
- Rising employment helps companies to further reduce their backlogs
- Input cost inflation ticks higher

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.

August's survey data highlighted a continuation of the downturn in South Africa's private sector that started in June. Output and new orders declined further and companies continued to scale back their purchasing activity. While input costs rose at a slightly faster pace, companies raised their charges to a lesser extent. Meanwhile, the labour market was generally unaffected by the downturn, with employment rising for the third straight month.

The Standard Bank South Africa PMI rose from July's 48.9 to 49.3 in August, thereby signalling a further, albeit weaker, deterioration in operating conditions. Nevertheless, the

downturn in South Africa's private sector now extends to three months.

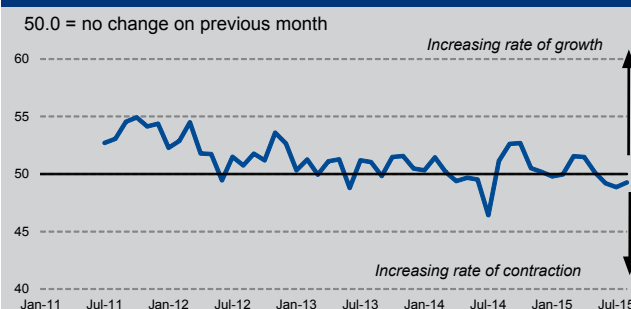
The main downward contribution to the headline PMI came from a further decline in new business, with the pace of contraction unchanged from July's one-year record. New export orders also fell further, which some panellists linked to economic uncertainties. While output also continued to decline, the rate of contraction was the weakest since May.

With output and new orders falling further, companies scaled back their buying activity in August. The rate of contraction eased since July, however. Lower purchasing activity and a lack of new work meanwhile resulted in a further reduction in pre-production inventories.

The labour market showed some resilience to the contractions in output and new orders, with employment rising for the third month running. Meanwhile, companies reported ongoing spare capacity at their units.

The rate of cost inflation reached a three-month high in August, with purchases prices and staff costs both rising at sharper rates. In response to higher input costs, companies raised their charges. The latest increase was the weakest since January, however. Finally, suppliers' delivery times lengthened at a slightly weaker rate than in July.

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



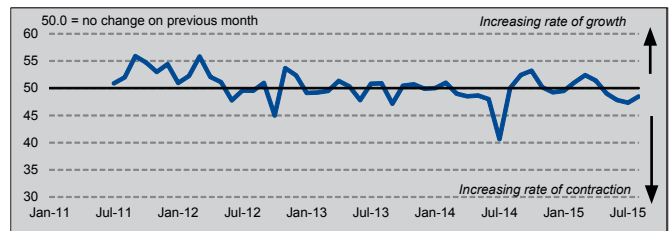
		Purchasing Managers' Index	
		Unadj.	Seas. Adj.
2015	Jun	47.9	49.2
	Jul	47.7	48.9
	Aug	49.4	49.3

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.

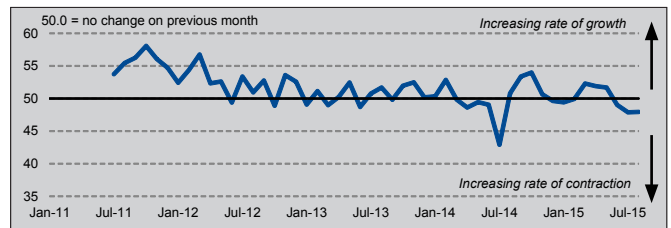
The seasonally adjusted Output Index posted below the neutral 50.0 threshold for the fourth month running, signalling a continuation of contraction in South African private sector output in August. However, the rate of decline eased since the previous month and was the weakest since May. Panel members attributed weaker activity to low demand and a slowing economy.



New Orders Index

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

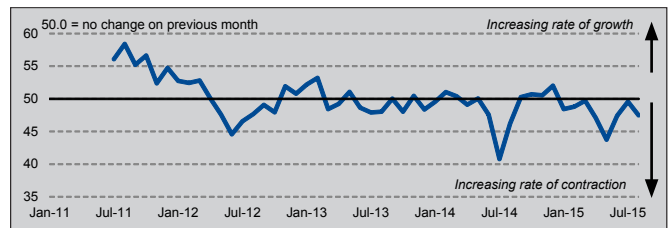
South African private sector companies signalled a third successive monthly fall in new business in August. Moreover, the pace of contraction was unchanged from July's one-year record. While around 16% of the survey panel noted an increase in new order intakes, 19% reported a decrease. Anecdotal evidence attributed the lack of new orders to a deteriorating economic environment.



New Export Orders Index

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

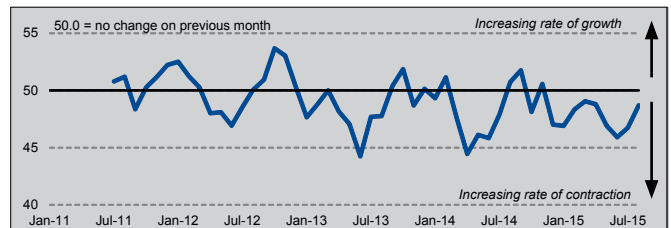
New business from abroad also fell further in August, thereby stretching the current sequence of contraction to eight months. The pace of decline accelerated since July, but was weaker than levels seen throughout the second quarter. Some survey participants linked weaker foreign demand to economic uncertainty.



Backlogs of Work Index

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

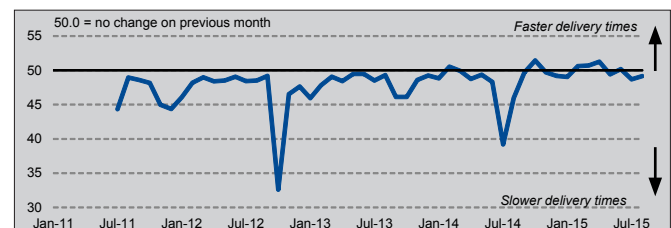
Private sector companies in South Africa signalled ongoing spare capacity at their units in August. This was highlighted by the seasonally adjusted Backlogs of Work Index remaining below the 50.0 no-change mark. However, the rate at which business outstanding was depleted was the least marked in four months.



Suppliers' Delivery Times Index

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

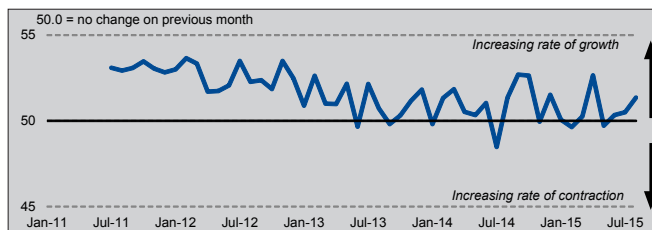
August data signalled a second consecutive rise in suppliers' delivery times in South Africa's private sector. However, the rate at which vendor performance deteriorated was only marginal overall, with the vast majority of the survey panel (88%) reporting no change. Some panellists linked longer lead times to raw material shortages.



Employment Index

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

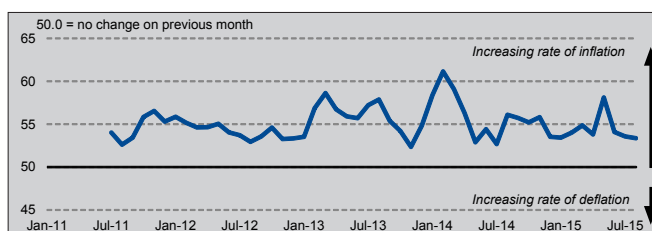
Private sector employment in South Africa rose for the third straight month in August. Moreover, the rate of job creation reached a four-month high and was broadly in line with the long-run series average. The data highlighted that 9% of surveyed companies added to their payrolls, while 7% reduced their workforce numbers.



Output Prices Index

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

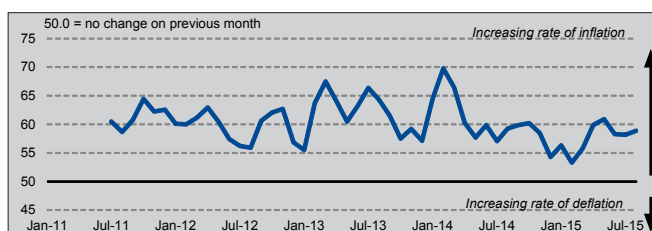
As has been the case throughout the survey history, South African private sector firms raised their charges in August. However, the rate of charge inflation slowed to the weakest since January and was below the survey's average. Where survey respondents noted higher tariffs, they generally linked this to increased input costs.



Overall Input Prices Index

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

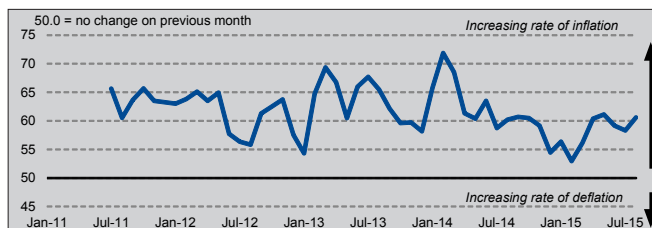
Overall input prices rose further in August, with the rate of inflation accelerating slightly. Around 20% of surveyed companies signalled higher input prices, versus 4% that noted a decline. Moreover, stronger inflation was attributed by panel members to sharper increases in both purchase prices and staff costs.



Input Costs: Purchase Prices Index

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

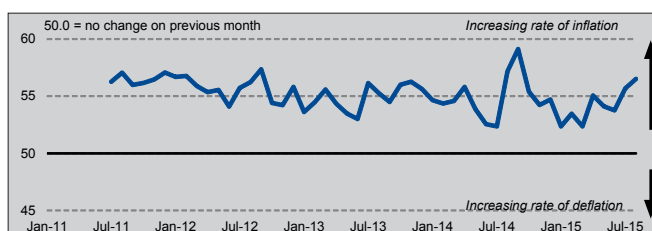
The latest survey results highlighted a further rise in purchase costs faced by South African private sector companies. The rate of inflation was the strongest in three months, but remained slightly below the long-run series trend. Anecdotal evidence attributed the latest rise in purchase costs to increased raw material prices and 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.

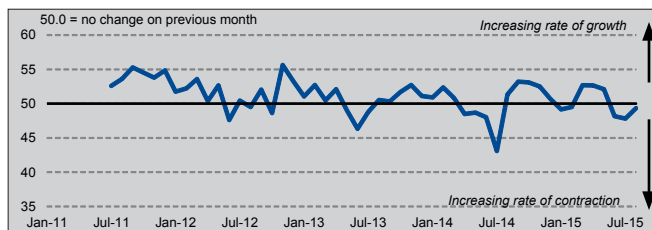
Following the trend observed since data collection began in July 2011, staff costs in South Africa's private sector increased in August. The rate of wage inflation accelerated since July and was the strongest in nearly a year. Some survey participants attributed higher staff costs to increased employment.



Quantity of Purchases Index

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

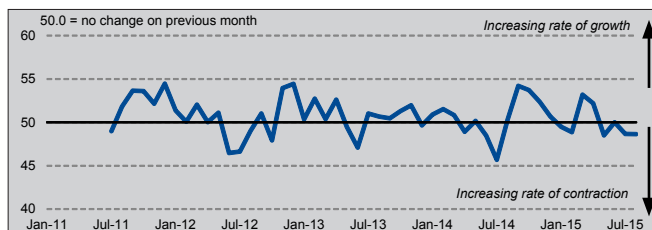
Purchasing activity in South Africa's private sector fell for the third month running in August. This was highlighted by the seasonally adjusted Quantity of Purchases Index remaining below the crucial 50.0 threshold. However, the latest decline was the least marked in this sequence and only marginal overall.



Stocks of Purchases Index

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

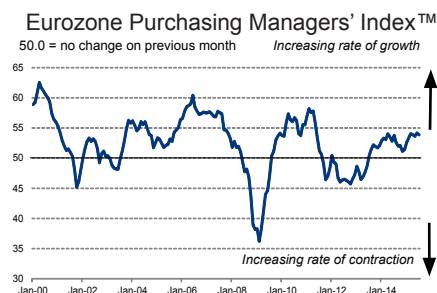
With buying activity declining further, companies were able to reduce their stock holdings for a second month running in August. The rate at which inventories fell was little-changed from July and modest overall. A lack of incoming new business was highlighted by firms as one of the reasons for lower stocks.



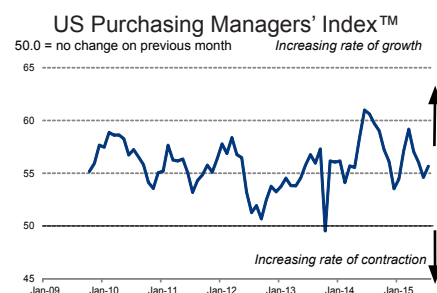
International PMI summary



Sources: Markit, Caixin.



Source: Markit



Source: Markit

Caixin China Composite PMI data pointed to a renewed fall in overall Chinese business activity in August. This was highlighted by the Caixin Composite Output Index posting below the neutral 50.0 value at 48.8, down from 50.2 in July. Though only modest, it was the fastest contraction of output seen since February 2009.

The Markit Eurozone PMI Composite Output Index posted 53.9 in July, down from 54.2 in June and above the earlier flash estimate of 53.7. Solid expansions of output were signalled in both the manufacturing and service sectors, with the slightly faster rate of growth at service providers.

The seasonally adjusted Markit U.S. Composite PMI Output Index registered 55.7 in July, up from June's five-month low of 54.6. Although the latest reading pointed to a relatively strong increase in U.S. private sector output, the rate of expansion was fractionally weaker than that recorded on average in the second quarter of 2015.

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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