

Standard Bank South Africa PMI™ compiled by markit

Headline PMI rises to 17-month high and signals marginal growth in South Africa

Key findings:

- Output expands for first time since April 2015
- Stronger rise in new orders encourages firms to hire additional staff
- Rate of charge inflation slows to record low

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.

Latest PMI results pointed to an upturn in South Africa's private sector, with output expanding for the first time in nearly one-and-a-half years and new business and employment growing at stronger rates. On the price front, both input costs and output charges rose more slowly during the month.

The seasonally adjusted Standard Bank South Africa PMI rose from August's 49.8 to 50.7 in September, thereby signalling an improvement in companies' operating conditions. Although the pace of expansion was only slight overall, the index reached its highest level in 17 months.

September data signalled an increase in activity at South African private sector companies for the first time since April 2015. However, the rate of output growth was only marginal overall.

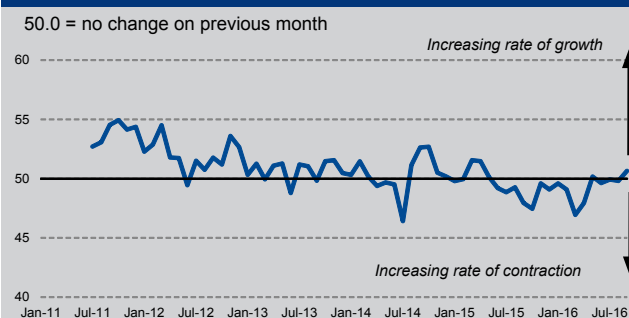
Part of the rise in activity was attributed by firms to increased new order intakes, which grew for the second month running. The pace of expansion accelerated since August, but remained relatively subdued. Survey data suggested that the increase in overall new business was driven by the domestic market, as new export orders fell at the fastest pace in ten months.

Rising demand encouraged companies to hire additional staff in September, with the rate of job creation reaching a 17-month high. Higher workforce numbers in turn helped alleviate pressure on operating capacity. Meanwhile, suppliers' delivery times lengthened slightly.

Input costs rose at a slower pace at the end of the third quarter, largely as a result of weaker inflation of purchase prices. Staff costs meanwhile grew at the fastest pace in just over a year. Output prices rose to the smallest extent in the survey's history as some firms lowered their charges amid competitive pricing.

Companies were cautious about their stock policies in September, with purchasing activity and pre-production inventories both falling slightly.

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



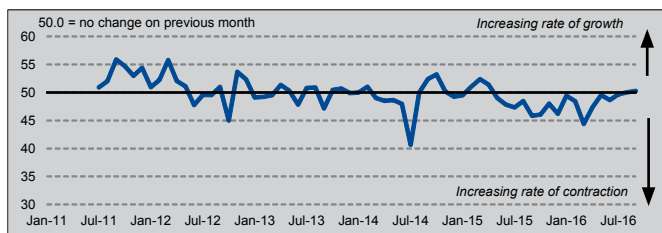
		Purchasing Managers' Index	
		Unadj.	Seas. Adj.
2016	Jul	49.4	49.9
	Aug	50.1	49.8
	Sep	52.2	50.7

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. IHS Markit is a registered trade mark of IHS Markit Ltd.

Output Index

Q. Please compare your production/output this month with the situation one month ago.

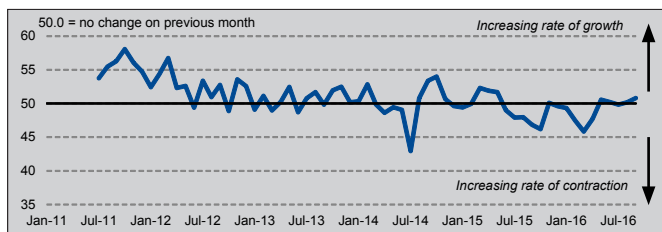
South African private sector companies reported a return to output growth in September, as highlighted by the seasonally adjusted index rising above the 50.0 no-change mark. Although the pace of expansion was only marginal overall, it was the first time in nearly one-and-a-half years that activity rose. Survey participants generally attributed the increase to new contract wins.



New Orders Index

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

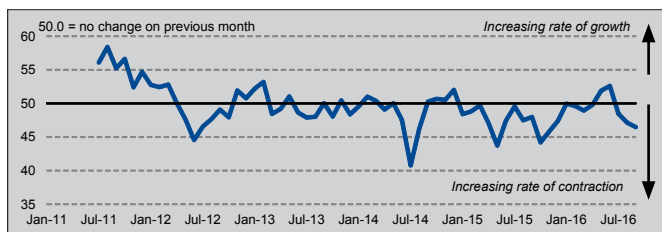
September data signalled a second successive monthly rise in new business placed with South African private sector firms. The increase in new work was slight, but nonetheless the most marked since May 2015. That said, the expansion was largely driven by higher demand from the domestic market as new export orders fell further.



New Export Orders Index

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

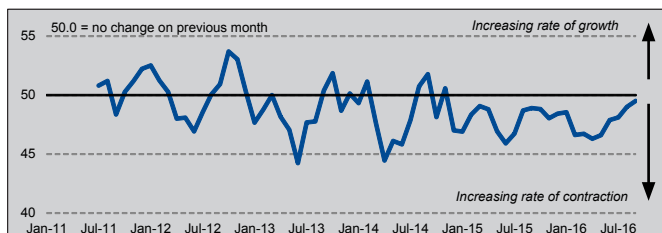
Latest survey data pointed to a further decline in new export business, the third in as many months. Moreover, the pace of contraction accelerated and was the fastest since last November. Just over 12% of the survey panel recorded lower new export orders, versus 8% that signalled a rise. Some panellists attributed weaker demand from foreign clients to difficult economic conditions.



Backlogs of Work Index

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

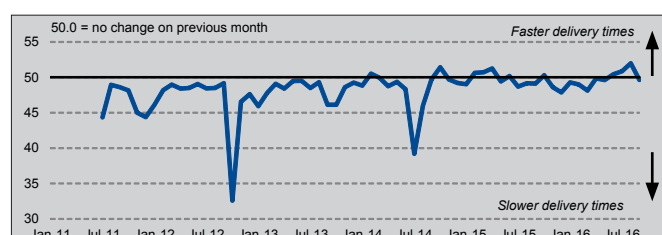
Following the trend that started at the end of 2014, backlogs of work held at South African private sector companies fell during September. However, the rate of decline was only fractional and the least marked in this sequence. Although overall volumes of business outstanding in the sector fell, some companies commented that higher new order intakes exerted some pressure on operating capacity.



Suppliers' Delivery Times Index

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

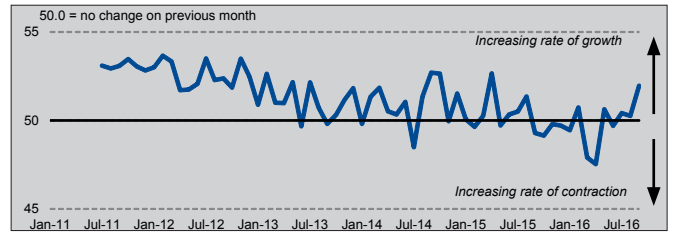
Suppliers' delivery times in South Africa's private sector lengthened for the first time in four months during September, with the seasonally adjusted index falling below the crucial 50.0 mark. That said, the rate at which average lead times lengthened was marginal overall, as the vast majority of the survey panel (95%) reported no change.



Employment Index

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

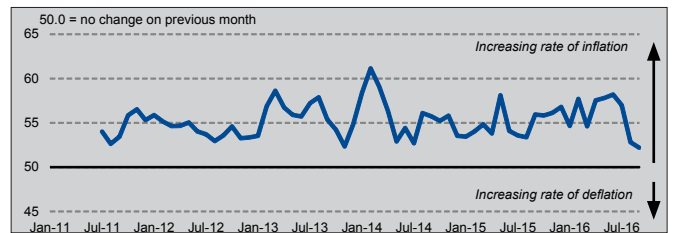
Private sector employment in South Africa rose for the third successive month in September, with one-in-ten companies adding to their workforce numbers. Moreover, the rate of job creation reached a 17-month high and was above the survey's long-run average. Some panel members attributed employment growth to increased new order intakes.



Output Prices Index

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

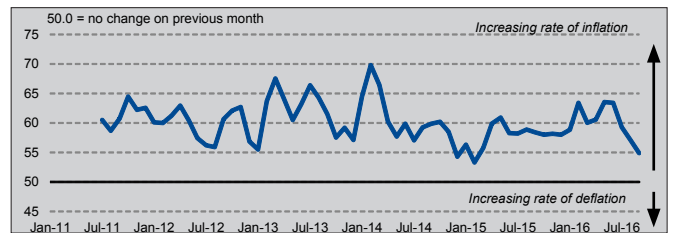
South African private sector companies raised their selling prices in September, thereby continuing a trend that started when data collection began in 2011. However, the rate of charge inflation slowed further and was the weakest in the survey's history. Some companies lowered their charges amid competitive pricing, while the overall increase in output prices was attributed to rising input costs.



Overall Input Prices Index

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

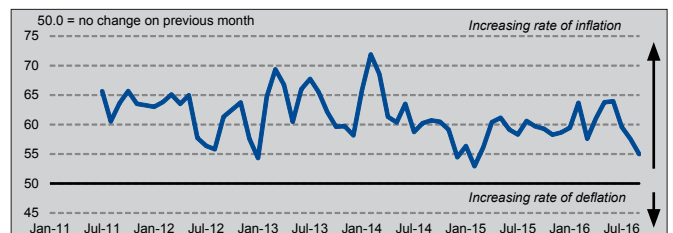
Overall input costs in South Africa's private sector rose again during September, with 14% of the survey panel reporting an increase. However, the rate of cost inflation eased since the prior month and was the weakest in just over one-and-a-half years. The slowdown was largely attributed to a weaker rise in purchase prices, while staff costs increased at a faster pace.



Input Costs: Purchase Prices Index

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

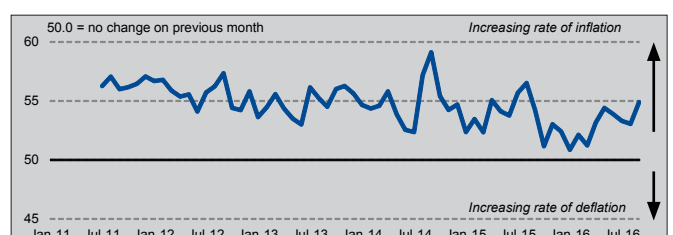
As has been the case throughout the survey history to date, purchase prices in South Africa's private sector rose during September. However, the seasonally adjusted index fell to a 19-month low and thereby signalled a weaker rate of inflation. Anecdotal evidence largely attributed the increase to exchange 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.

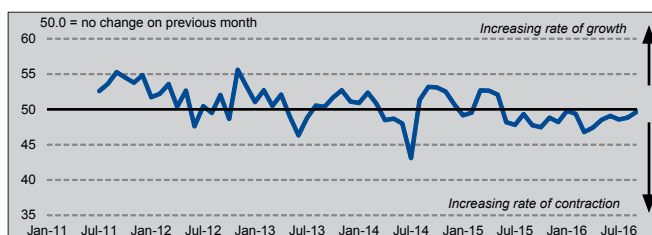
Average staff costs rose further at the end of the third quarter, with the rate of wage inflation reaching a 13-month high. Survey participants attributed the overall rise to a combination of higher payroll numbers and salary increases. Around 11% of panellists recorded higher staff costs, while the majority reported no change (89%).



Quantity of Purchases Index

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

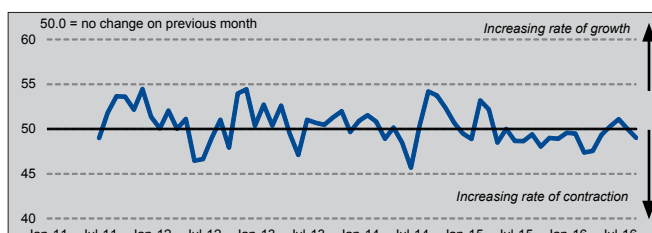
Purchasing activity fell slightly during the month, thereby continuing a trend that started in June 2015. This was highlighted by the seasonally adjusted Quantity of Purchases Index remaining below the neutral 50.0 threshold. However, the latest decline was the least marked since January and only fractional overall.



Stocks of Purchases Index

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

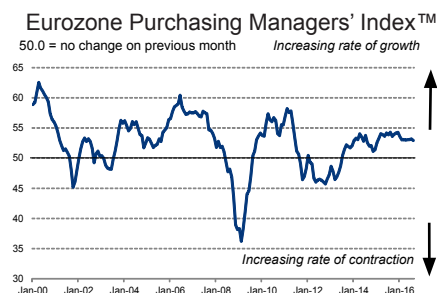
Pre-production inventories fell for the first time in four months during September. Although the rate of stock reduction was only mild, it was nonetheless the strongest since April. Some panel members commented that lower buying activity amid relatively subdued demand led to the decline in inventories.



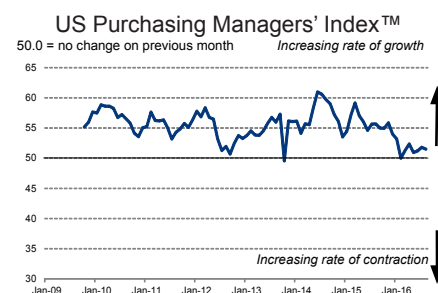
International PMI summary



Sources: IHS Markit, Caixin.



Source: IHS Markit



Source: IHS Markit

The latest set of Caixin China Composite PMI data (which covers both manufacturing and services) pointed to a further rise in Chinese business activity during August, with the rate of expansion little-changed from that seen in July. This was shown by the Composite Output Index falling only fractionally from July's 22-month high of 51.9 to 51.8 in August.

The eurozone economy continued to expand at a broadly steady pace in August. The rate of increase edged down to a 19-month low, however, mainly due to a weaker rate of expansion in Germany. This was signalled by the Markit Eurozone PMI Composite Output Index posting 52.9, down from 53.2 in July.

Adjusted for seasonal influences, the Markit U.S. Composite PMI Output Index registered 51.5 in August, down slightly from 51.8 in July. The latest reading signalled a marginal expansion of private sector activity and was in line with the average recorded in 2016 so far.

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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