

Standard Bank South Africa PMI®

South African private sector stagnates in August

Key findings:

- PMI falls to 49.8, signalling broad stagnation in business climate
- Output and new business both decline
- First drop in wages in six-year survey history

This report contains the latest release of data collected from the monthly survey of business conditions in the South African private sector. The survey, sponsored by Standard Bank and produced by IHS 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.

The Standard Bank South Africa PMI fell to 49.8 in August, from 50.1 in July, signalling a broad stagnation in overall private sector operating conditions midway through the third quarter of 2017. The latest figure is the second-lowest in the past 12 months and below the six-year long-run survey average of 50.7.

The fall in the PMI in August reflected declines in output and new business. The impact of these was partly offset by stronger growth of employment, lengthening suppliers' delivery times and higher input stocks.

Private sector business activity in South Africa declined for the

fifth successive month in August. The rate of contraction quickened slightly since July, and was the second-fastest registered since April 2016.

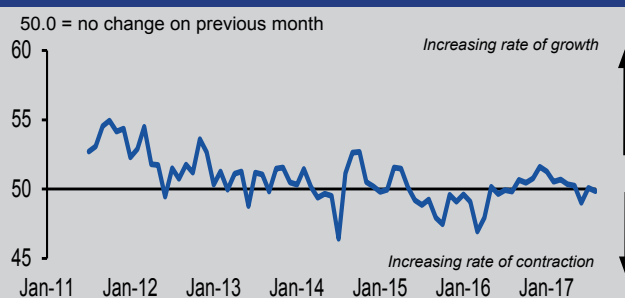
Lower output was linked to declining intakes of new work. New business fell for the second time in three months, and at the fastest rate since April 2016. This was despite a rise in new export sales for the first time in ten months.

More positively, private sector employment in South Africa continued to expand in August. The rate of job creation strengthened to the fastest since January, and contributed to a third successive decline in outstanding business.

Purchasing operations were cut back in August as the volume of incoming new business fell. Input buying in the private sector declined for the third time in four months, albeit at a marginal rate. Stocks of purchases also expanded further, and suppliers' delivery times lengthened.

Input price inflation in the South African private sector sharpened to a seven-month high in August. This mainly reflected a faster rate of purchase price inflation, linked to higher steel and fuel costs. In contrast, average staff costs fell for the first time since the survey began in July 2011. Prices charged for goods and services rose at the fastest rate since January.

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



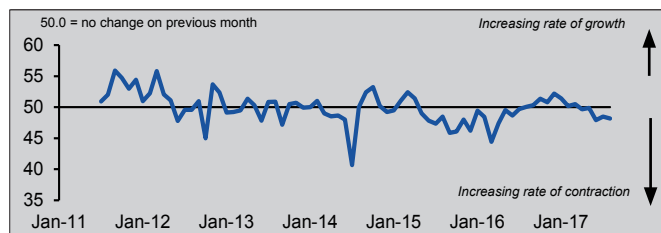
Purchasing Managers' Index			
		Unadj.	Seas. Adj.
2017	Jun	47.1	49.0
	Jul	49.7	50.1
	Aug	50.1	49.8

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.

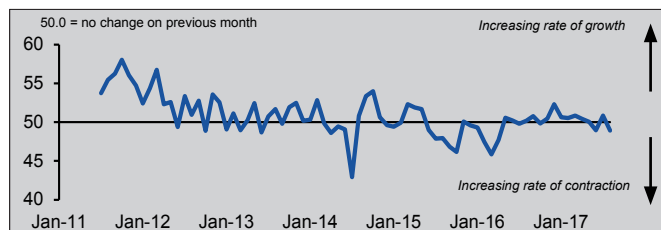
Private sector output in South Africa declined for the fifth successive month in August. The rate of reduction accelerated slightly since July, and was only fractionally slower than June's 14-month record. Survey respondents linked lower activity to a weaker economy. Around 13% of surveyed firms reported decreases in output during the month.



New Orders Index

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

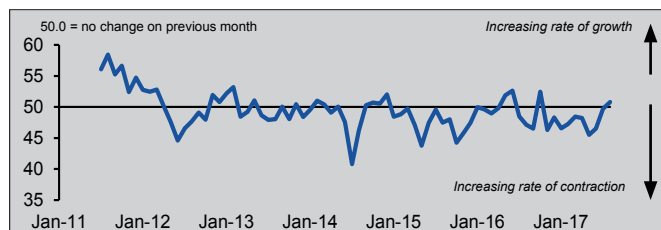
Intakes of new work at South African private sector companies fell in August, following a marginal increase in July. New business has fallen two times in the past three months. A number of firms reported slow economic conditions. Though modest, the rate of contraction in the latest survey period was the strongest since April 2016.



New Export Orders Index

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

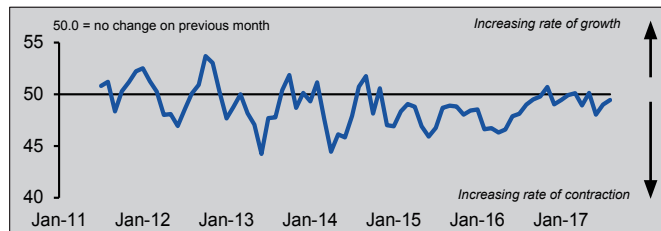
The volume of new export business in the South African private sector increased in August. This followed a nine-month sequence of contraction. That said, the rate of expansion was only marginal, with the majority of survey respondents (84%) reporting no change in new export business since July.



Backlogs of Work Index

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

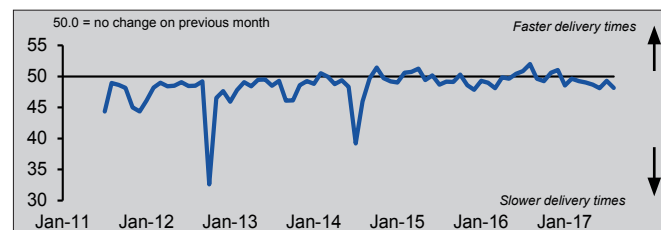
The seasonally adjusted Backlogs of Work Index remained below the no-change mark of 50.0 for the third month running in August, signalling a further drop in outstanding business at South African private sector firms. That said, the rate of depletion eased further from June's 12-month record to a marginal pace.



Suppliers' Delivery Times Index

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

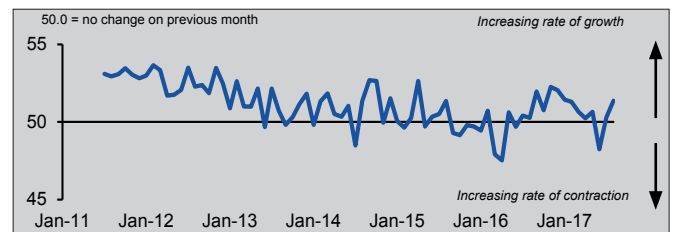
August survey data signalled another deterioration in supplier performance in the South African private sector economy. Average lead times for inputs lengthened for the eighth successive month. Survey respondents linked delays to stock shortages at vendors. The seasonally adjusted Suppliers' Delivery Times Index fell to its joint-lowest level in 20 months.



Employment Index

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

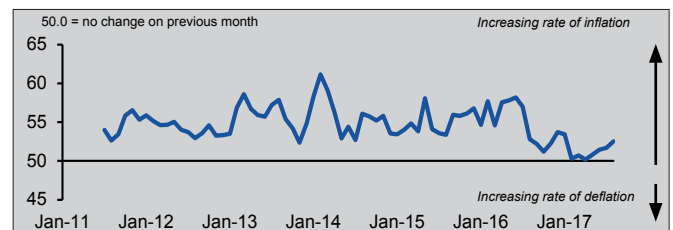
Private sector employment in South Africa rose for the second month running in August, as signalled by the seasonally adjusted Index remaining above the 50.0 no-change mark. This followed a decline at the end of the second quarter, the first contraction since June 2016. Firms linked recruitment to the expansion of capacity. Moreover, the rate of job creation was the fastest since January.



Output Prices Index

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

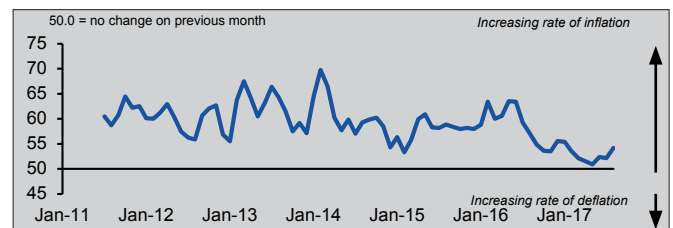
Prices charged for private sector goods and services in South Africa continued to increase in August, in line with the trend shown throughout the six-year survey history. The rate of inflation accelerated for the fourth consecutive month, to the fastest since January. That said, the seasonally adjusted Output Prices Index remained below its long-run trend level of 54.7.



Overall Input Prices Index

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

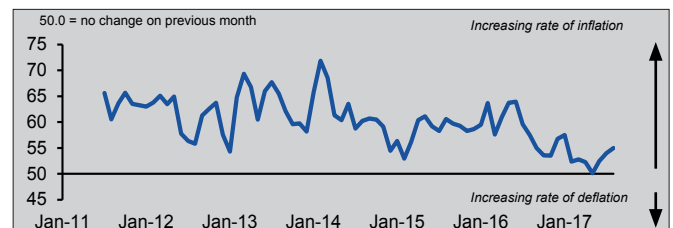
Overall cost pressures in the South African private sector economy strengthened in August. The seasonally adjusted Overall Input Prices Index rose to a seven-month high, having previously hit a record low in May. That said, input price inflation remained weak in the context of the six-year survey history in August.



Input Costs: Purchase Prices Index

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

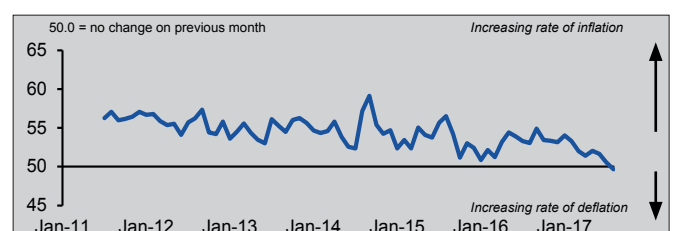
Average purchase prices paid by South African private sector firms increased at a faster pace in August. Around 12% of respondents reported higher purchase prices, highlighting steel and fuel. The seasonally adjusted Purchase Prices Index rose to a seven-month high, but remained well below its long-run average of 60.1.



Input Costs: Staff Costs Index

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

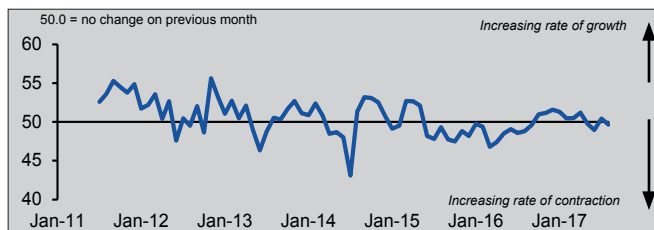
The seasonally adjusted Staff Costs Index fell below 50.0 in August, signalling a decline in wage costs for South African private sector companies for the first time in the survey history. That said, the rate of reduction was only fractional. The Index has trended at 54.3 since its inception in July 2011.



Quantity of Purchases Index

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

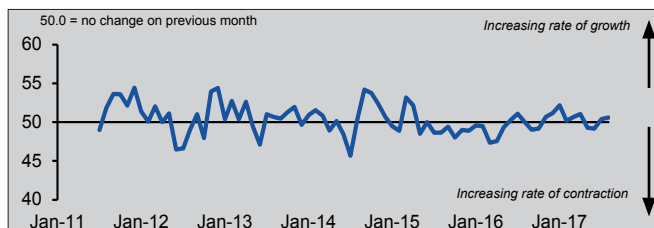
The volume of inputs purchased by South African private sector firms declined for the third time in four months during August. Anecdotal evidence provided by survey respondents linked lower purchasing activity to a lack of incoming new orders. That said, the rate of decline was only marginal.



Stocks of Purchases Index

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

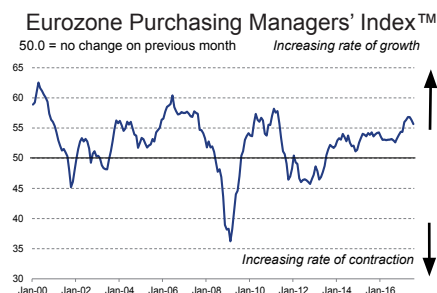
Inventories of inputs in the South African private sector economy expanded, on average, for the second consecutive month in August. Firms linked higher stock levels to new projects and efforts to replenish inventories. That said, the seasonally adjusted index signalled that the rate of growth was only marginal, and broadly in line with the series long-run average.



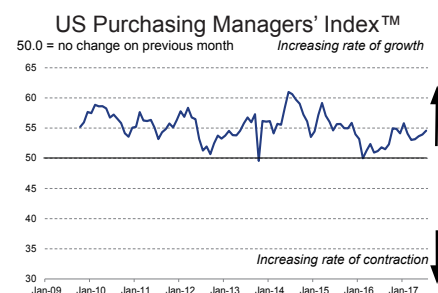
International PMI summary



Sources: IHS Markit, Caixin.



Source: IHS Markit



Source: IHS Markit

The Caixin China Composite PMI™ data (which covers both manufacturing and services) signalled an improvement in the rate of Chinese business activity growth at the start of the third quarter. This was shown by the Composite Output Index rising from June's recent low of 51.1 to a four-month high of 51.9 in July.

The IHS Markit Eurozone PMI Composite Output Index posted a six-month low of 55.7 in July, down from 56.3 in June. The expansion was once again broad-based by both sector and nation. July was the second successive month that all of the national manufacturing and service sector surveys covered registered higher levels of output.

The IHS Markit U.S. Composite PMI Output Index rose to 54.6 in July, up from 53.9 in the previous month. The latest composite figure signalled a pick up in momentum supported by stronger output growth in both the manufacturing and service sectors. Manufacturers and service providers saw rates of expansion improve to four- and six-month highs, respectively.

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. IHS 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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