

# Standard Bank South Africa PMI™ compiled by markit

## Business conditions improve for fifth straight month

### Key findings:

- PMI remains above neutral 50.0 mark but signals only modest expansion
- Slight rises in output and new work
- Rate of job creation eases

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 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.

Although dipping slightly from December's 21-month high of 51.6, the seasonally adjusted Standard Bank South Africa PMI remained in growth territory at 51.3 in January. The latest reading was above the fourth quarter average of 50.9 (the best for two years), despite pointing to only a modest improvement in business conditions overall.

New business in South Africa's private sector rose only slightly in January. Growth had quickened to its highest since March 2015 during December, but eased in the latest period amid a sharper fall in exports. Some firms blamed the loss of major

international contracts.

Likewise, private sector output increased at a weaker pace. That said, the rise marked a five-month expansionary sequence – the longest since the early part of 2012. Anecdotal evidence indicated that higher budgets and incoming new work had helped bolster activity.

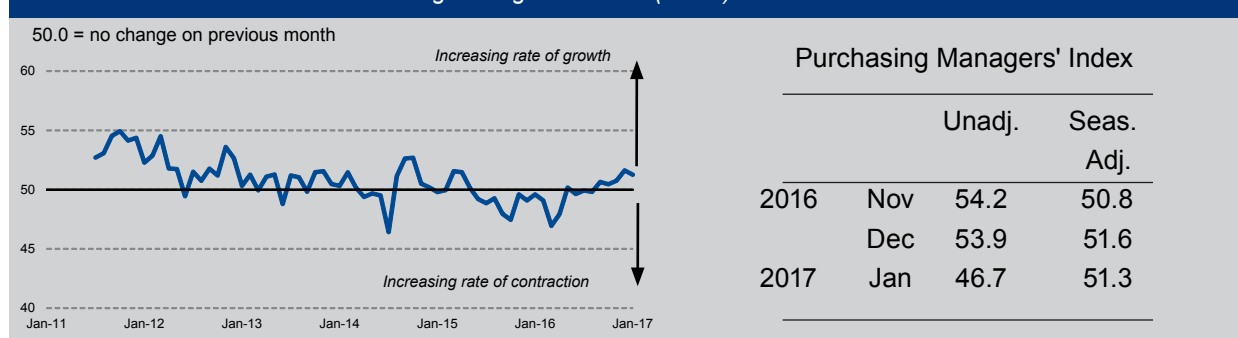
With client demand remaining on an upward trajectory, job creation was sustained in January. The latest rise in employment was the seventh in as many months, albeit modest overall. A larger workforce enabled firms to clear some outstanding business for the second successive month.

Purchasing activity showed a similar trend to output and new orders, rising at a slightly reduced rate in January. Growth of input buying was nevertheless in line with the average over the current four-month period. Stocks of purchases also rose, with the rate of inventory building hitting a 21-month peak.

Meanwhile, suppliers' delivery times lengthened for the first time in three months. Customs delays and inadequate stocks were the main causes, according to panellists.

On the price front, cost pressures remained solid but historically muted. Both salaries and purchase costs increased, driven in part by bonus payments and a weak rand respectively. Charges continued to rise as a result.

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

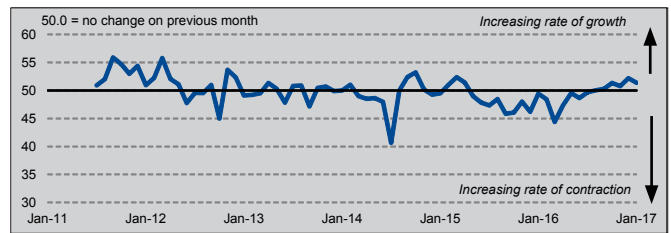


The Standard Bank South Africa Purchasing Managers' Index™ (PMI™) is a composite indicator designed to provide an overall view of activity in the South African economy. The indicator is derived from individual diffusion indices which measure changes in output, new orders, employment, suppliers' delivery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

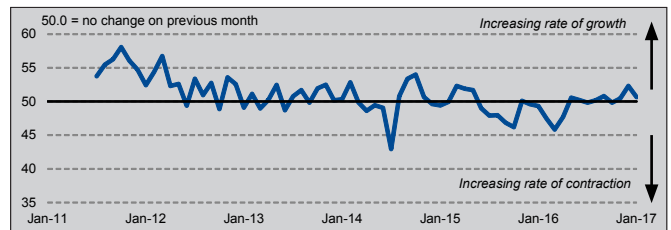
South African private sector output increased only modestly in the first month of 2017, after having risen at the fastest rate in 21 months during December. Nevertheless, the latest expansion extended the current sequence of growth to five months – the longest since early 2012. Panellists commented on incoming new orders and higher budgets as factors contributing to greater activity.



### New Orders Index

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

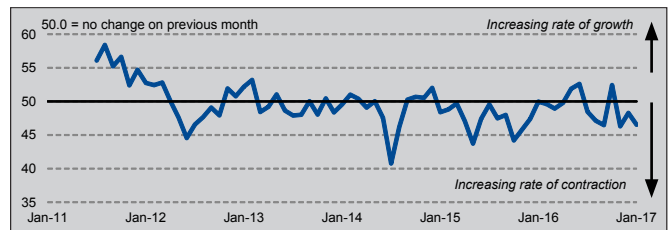
New business rose for the third month in a row during January, as shown by the seasonally adjusted index posting above the crucial 50.0 threshold. That said, the respective index was only just above neutrality, thereby pointing to marginal growth of new work. Some firms noted a general improvement in sales, whereas others reported a lack of client demand.



### New Export Orders Index

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

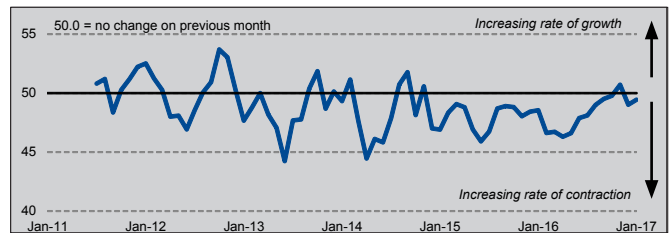
The rise in total new orders was hampered by falling exports in January. The amount of new work from abroad fell for the third straight month, with the rate of contraction accelerating since December to a solid pace. Some survey participants blamed the loss of foreign contracts for the drop in international sales.



### Backlogs of Work Index

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

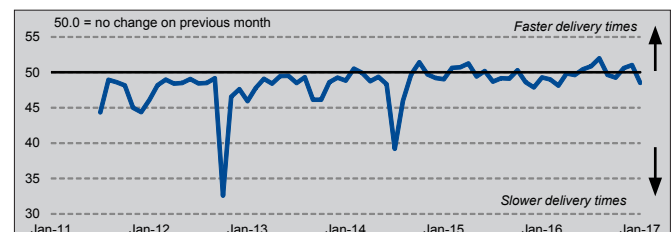
The level of unfinished work in South Africa's private sector decreased for the second month running at the start of 2017. Some companies indicated that current workloads had failed to stretch their capacity. However, the overall rate of backlog depletion was only modest, and slower than the average over the survey's history.



### Suppliers' Delivery Times Index

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

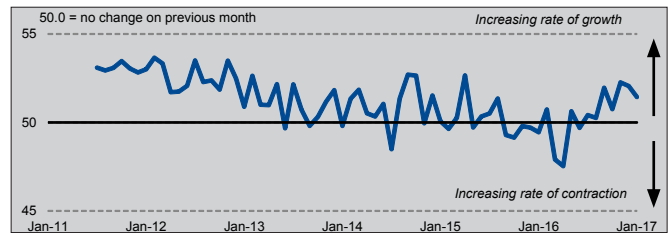
Average lead times lengthened for the first time since last October during January. There were reports of low stock levels at vendors' units as well as delays at customs, both of which contributed to slower deliveries. That said, the degree to which supplier performance worsened was only slight, with the vast majority of respondents (89%) signalling no change.



### Employment Index

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

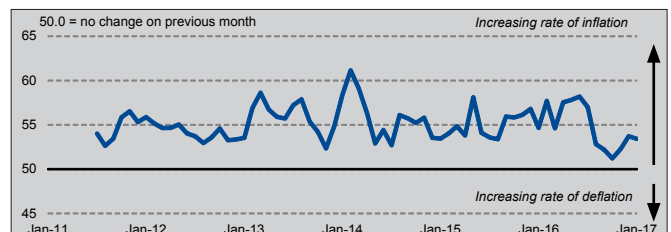
January data highlighted another round of job creation at South African private sector businesses, marking a seven-month sequence of growth. The rate of hiring eased since December, but remained broadly in line with the average over the survey's history. Anecdotal evidence suggested that employment had been raised both in response to current new work and expectations of further growth in demand.



### Output Prices Index

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

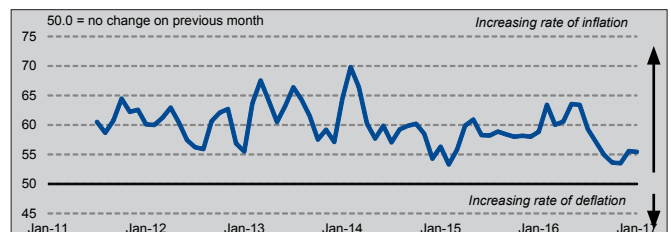
As has been the case throughout more than five-and-half years of data collection, output prices rose in January. The rate at which charges increased slowed since December, and was muted relative to the long-run trend. Out of those companies that raised their tariffs (9%), a number commented on the pass-through of higher purchase costs.



### Overall Input Prices Index

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

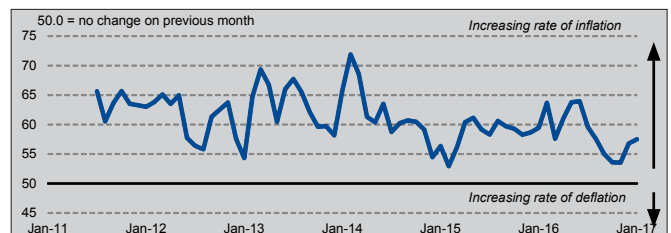
Total input costs faced by South African private sector firms increased solidly during January. The latest rise was only fractionally slower than in December, and remained the second-quickest in five months. Both salaries and purchasing costs rose at the start of the year. That said, the overall increase was subdued relative to the series trend.



### Input Costs: Purchase Prices Index

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

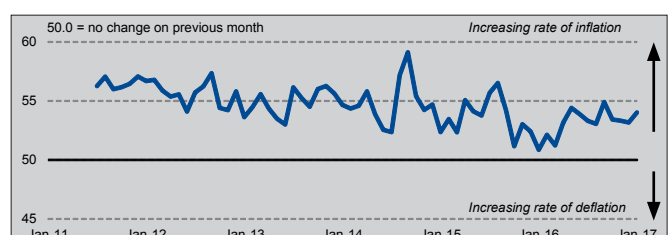
The seasonally adjusted Purchase Prices Index posted comfortably above the 50.0 no-change value in January, continuing the trend seen throughout the survey's history. Moreover, it pointed to the steepest rise since last August, albeit one that was slower than the series average. A number of panellists indicated that a weak rand had raised the price of imports, while others commented on generally higher raw material 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.

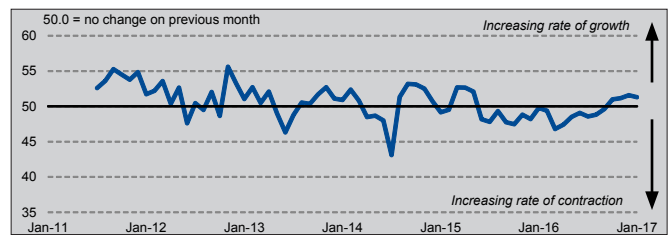
The rate of salary growth in South Africa's private sector economy quickened to a four-month high during January. Around three times as many respondents saw a rise in staff costs (9%) than a fall (3%). Anecdotal evidence suggested that bonus payments had contributed to the increase in wage costs.



## Quantity of Purchases Index

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

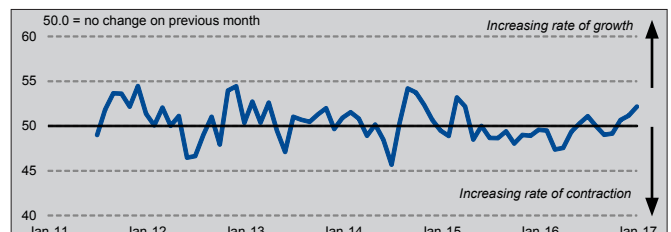
Purchasing activity rose for the fourth straight month in January. However, the rate of expansion was little-changed from the modest pace seen throughout the final quarter of 2016. Where growth of input buying was registered, this was often attributed to an improvement in order book volumes.



## Stocks of Purchases Index

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

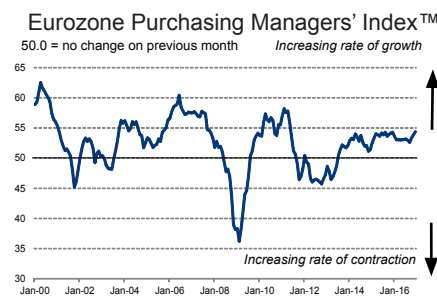
South African private sector firms reported another rise in stocks of purchases during January, the third in as many months. Furthermore, the pace of inventory building accelerated to the quickest since April 2015. A number of respondents associated greater stock levels with growth of incoming new work.



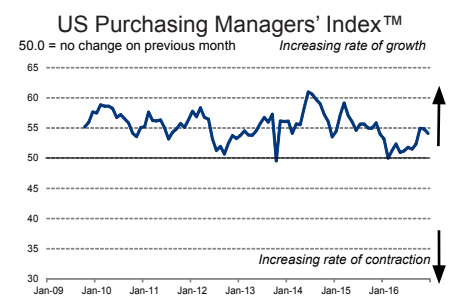
## International PMI summary



Sources: IHS Markit, Caixin.



Source: IHS Markit



Source: IHS Markit

The Caixin China Composite PMI data (which covers both manufacturing and services) pointed to a further marked rise in business activity across China in December, with the rate of expansion picking up since the previous month. Moreover, the Composite Output Index was up from 52.9 in November to a 45-month high of 53.5 at the end of 2016.

At 54.4 in December, up from November's 53.9, the Markit Eurozone PMI Composite Output Index signalled a solid and quicker rate of expansion. Manufacturing led the growth acceleration, with production increasing at the quickest pace since April 2014. Service sector activity also rose solidly, with the rate of increase staying close to November's 11-month high.

The seasonally adjusted Markit U.S. Composite PMI Output Index registered 54.1 in December, down slightly from 54.9 in November but above the 50.0 no-change mark for the tenth consecutive month. Moreover, the average reading for the final quarter of 2016 (54.6) was the strongest since Q4 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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